



IDB

**Social Protection and Labor
Markets in Latin America and
the Caribbean**

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Vision of Social Security & Labor Markets

- We strive for universal coverage of
 - Pensions
 - Support for job search in times of unemployment
 - Access to health care
- Link between labor market and social security
 - Access often depends on working in formal sector
 - Financing from labor taxes or contributions
- Current state of affairs in LAC
 - Low coverage and inefficient labor markets
- Enormous Challenge
 - Universal coverage in a fiscally sustainable way
 - Improved labor productivity



Can Social Security Coverage be Extended without Distorting Labor Markets?

- Answer depends on how coverage is extended
- Parallel contributory and noncontributory systems may incentivize informality
 - Example: health care in Colombia and Mexico
- Universal noncontributory social security?
 - Beveridge pension or single health system for all
 - Financed from general taxation (fiscal reforms!)
 - When benefits and financing are delinked from labor market, social security doesn't distort labor market
 - But can social security be delinked completely from labor market?

When Social Security and Labor Market Cannot be Delinked

- Universal basic pension won't guarantee sufficient replacement rate for middle class
 - Need to link contributions and benefits to wages
 - Complementary contributory pension in addition to universal basic pension?
- Try to reduce distortions in contributory systems
 - Make sure benefits are valued by workers (financial education, matching, better design)
 - More contributions should generate higher benefits
 - Chile: pension contributions always generate higher benefits despite parallel noncontributory pillar
- Improved enforcement



When thinking about labor reforms ...

- Consider the impact on social protection



- High productivity is great, but what happens if the worker falls?
- Needs a safety net!

When thinking about social protection ...

- Consider the impact on the labor market



And always maintain fiscal responsibility



- We need projections of costs going forward
- Actuaries are our best friends!

Ongoing Research Collaborations

- Is Universal Pension Coverage a Real Possibility for LAC? (with BBVA)
- Protecting the Unemployed: Evaluations of Policies in Latin America using Administrative & Survey Data (with several academics)
- Pensions at a Glance: Latin America and the Caribbean (with OECD and World Bank)
- Social Security, Informal Sector, and Employment in Middle Income Countries: How to Protect Workers While Creating Good Jobs (with IZA and World Bank)
- Investment Choice Schemes: A Strategy to Improve Pensions in LAC (with several pension authorities)
- Possibilities with IMF and International Actuarial Association



Important Data-Gathering Project

- Longitudinal Social Protection Survey
 - Based on successful experience in Chile that helped build consensus prior to 2008 pension reform
 - Colombia, Costa Rica, Ecuador, El Salvador, Honduras, Paraguay, & Uruguay
 - We hope to add more countries in next wave
 - Panel data on labor market behavior and participation in social protection programs
 - Set of common questions in each questionnaire
 - Plus administrative data for each individual from social protection programs



Thank you!



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**Inter-American Development Bank
Labor Markets and Social Security Unit
<http://www.iadb.org/en/topics/labor>**