ESS – Extension of Social Security

Pension Privatization and Reversal of Pension Reforms in Argentina

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INTERNATIONAL LABOUR OFFICE, GENEVA
Abstract

This paper documents the reversal of pension privatization and the reforms that took place in the 1990s and 2000s in Argentina. The report analyses the political economy of different reform proposals, and the characteristics of the new pension system, including laws enacted, coverage, benefit adequacy, financing and contribution rates, governance and social security administration, social dialogue, positive impacts and other key issues of Argentina's pension system.

JEL Classification: I3, H53, H55, J14, J26

Keywords: pension privatization, pension reform, social security policy
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## Acronyms

<table>
<thead>
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<th>Acronym</th>
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<tr>
<td>AFJP</td>
<td>Administradores de Fondos de Jubilaciones y Pensiones (Argentinian Pension Fund Administrators)</td>
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<td>AIPS</td>
<td>Argentinian Integrated Pension System</td>
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<tr>
<td>ANSES</td>
<td>Administración Nacional de la Seguridad Social (Argentinian Social Security Administration)</td>
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<tr>
<td>DB</td>
<td>Defined benefit</td>
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<tr>
<td>DC</td>
<td>Defined contribution</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>PAYG</td>
<td>Pay-as-you-go</td>
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<tr>
<td>PBU</td>
<td>Pension Básica Universal (Argentinian Universal Basic Benefit)</td>
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<tr>
<td>SGF</td>
<td>Sustainability Guarantee Fund</td>
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<tr>
<td>VAT</td>
<td>Value-added tax</td>
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<tr>
<td>AFJP</td>
<td>Administradores de Fondos de Jubilaciones y Pensiones (Argentinian Pension Fund Administrators)</td>
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Summary of Reforms related to Pension Privatization and its Reversal

<table>
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<th>Year</th>
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| 1993 | The pension system following the 1993 privatization:  
1st pillar: defined benefit (DB) pay-as-you-go (PAYG) scheme  
2nd pillar: defined contribution (DC), fully funded scheme, private administration |
| 2007 | Law 26.222 introduced partial reforms towards a public pension system:  
1. Cap on commissions charged by AFJP  
2. Raising of the accrual factor of the PAYG scheme from 0.85 per cent to 1.5 per cent for every contribution year; allowing workers to opt out of the private second pillar and return to the PAYG; establishing the PAYG pillar as the default scheme; shifting some contributors from special schemes to the PAYG scheme. |
| Oct – Dec 2008 | Reversal of the privatization, re-nationalization of the pension system:  
Law on Pension Mobility - Law 26.425  
The new model: The system consists of a public PAYG DB scheme and a non-contributory Universal Basic Pension (PBU).  
Rights and entitlements: PAYG pension at age 65 (men) and 60 (women) with a replacement rate of approximately 74.5 per cent (35 years of contribution). Pension-tested non-contributory pension (~US$ 233) from age 70.  
Administration: By ANSES, the public entity (pre-existing) in charge of administering Argentina’s public pension system.  
Transfer of entitlements: All members and their respective accumulated pension rights were transferred to the public Argentinian Integrated Pension System (AIPS) administered by ANSES. Benefit calculations follow the DB formula.  
Contributions: The Federal Public Revenue Administration (centralized tax collection authority) is responsible for collecting contributions. Workers contribute 11 per cent and employers 10.17 per cent respectively.  
Supervision: By a National Congressional Commission and an advisory board consisting of representatives from trade unions, the pensioners’ association, employers, the government and banks. The Commission may give non-binding recommendations. With the elimination of the individual accounts, the Superintendence of the AFJP (individual account funds) was closed.  
Solidarity, gender and social impacts: Accrual rates increased from 0.85 to 1.5 percent, which in combination with the Universal Basic Pension led to increased benefit and coverage levels. Gender equity improved, as did the benefits for low-income groups. The government also invested the pension fund in infrastructure projects.  
Fiscal impact: US$ 25.5 billion were transferred from private funds to the public fund, eliminating the public system’s deficit and decreasing the government debt from 53 to 38 per cent between 2009 and 2011 |
1. Introduction

Argentina has been one of the pioneering countries regarding pension system development in Latin America, beginning at the turn of the 20th century. After achieving considerable coverage in the 1950s and accumulating high reserves in the 1960s, Argentina had a maturing pension system, with decreasing reserves. Among the many changes to the regulatory framework, the 1968 reform was noteworthy given that it introduced parametric changes and made substantial progress in unifying the system. During the 1980s, the pension system experienced large deficits (Ministerio de Trabajo, Empleo y Seguridad Social, 2003). At the same time, there was growing social discontent with system outcomes given that pensions did not meet the levels promised.

In addition to the parametric changes, the 1993 reform implemented a structural reform by introducing an individual capitalization component, the DB, fully-funded scheme, thereby creating a mixed system. Despite the optimistic expectations generated by the new system, its poor performance within a context of deteriorating economic, labour market and public finance indicators placed heavy pressure to reform it again following the serious economic crisis of 2001-2002. By this time, the low coverage rates and the lack of redistributive elements of the DC individual accounts made it clear that the scheme would be unable to ensure adequate levels of pension benefits following the crisis.

Under these circumstances, it was not surprising that the main reforms of the past decade have aimed to: (a) improve coverage by expanding the contributory financing sources and the contributory and semi-contributory components of the system, and (b) introduce changes in benefit financing and calculation by restoring a DB, PAYG scheme supplemented by tax revenues.

Throughout history, pension policies have followed many paths, with varying priorities linked to the political economy of each period. In the 1990s, the priority was to rescue the system from the perceived long-term financial crisis, an overly-generous design and the consequences of a labour market characterized by informality. By contrast, during the years after the crisis (2001-2002), the macroeconomic environment showed encouraging results regarding growth and employment, enabling priorities to shift toward improving benefit coverage, unfortunately with insufficient attention to benefit adequacy.

This paper explores the circumstances behind the counteracting reforms of the Argentinian pension system during the past two decades. It reviews the main institutional changes in the pension system (from a historical perspective) in relation to their outcomes in terms of coverage, benefits and financing, as well as with regard to the special, changing features of the macroeconomic environment. In view of the considerable advances made in terms of coverage, this paper discusses the challenges of maintaining high coverage and other challenges the system will face over the next few years.

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1 See Figure 1 for more details.
2. The variable path of pension reforms in Argentina

2.1. The evolution of the pension system prior to the 1993 structural reform: from collective capitalization funds to a PAYG scheme

Argentina has a long history of social protection, and it is a pioneer in developing social security in the region (Mesa-Lago, 1978; Arza, 2010). Initially, the pension system was highly fragmented since each pension plan was essentially a private employer-type arrangement that had its own eligibility requirements, contribution rates and benefit rules. These pension plans were collective capitalization schemes. It was not until the late 1960s that an overall reform was carried out, effectively reducing the number of pension funds to two schemes: one for self-employed workers and the other for employees. This reform eventually became a PAYG approach (introduced in 1954) and nationalized, government-managed pension funds (Isuani and San Martino, 1995; Feldman et al., 1986).

The coverage of the elderly grew steadily until the early 1980s, when the increase in the number of beneficiaries kept pace with the growth of the prospective beneficiary population (Isuani and San Martino, 1995).

The financial position of the public pension system began to deteriorate in the early 1960s, when it struggled to cover accumulated pension liabilities (Dieguez and Petrecolla, 1974; 1977), and as a consequence, the pension funds faced legal claims. When pension reserves were exhausted, pension fund resources were legally declared unseizable in 1966 (Feldman, Golbert, and Isuani, 1986). Later, in the early 1970s, the system was well-balanced (Cetrángolo and Grushka, 2008). By the end of the decade, however, it began to accumulate a financial deficit, which increased during the 1980s (Figure 1) and triggered «the pension system crisis». This justified a structural reform of the public pension system (Ministerio de Trabajo, Empleo y Seguridad Social, 2003).

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2 The standardization of the system only partially affected the system because: (i) some special schemes remained (judiciary and foreign service, among others); (ii) members of the provincial and municipal public administrations were excluded from the employees’ scheme; (iii) following this reform, in 1973, professional associations were authorized to implement supplementary schemes that were self-financed by their insured members (Feldman et al., 1986).
The pension system crisis resulted from several factors:

- The exhaustion of the pension surplus, which had accumulated during the early years of the system before it gradually moved towards maturity;

- The growing rate of informal workers and the non-payment of pension contributions, which contributed to the deterioration of the system’s dependency ratio;

- The ageing of the overall population (falling fertility and increased lifespans);

- Institutional weaknesses (for example, the granting of considerable disability benefits and allowing the proliferation of special regimes); and

- A volatile macroeconomic environment (high inflation) and the misuse of pension policy instruments to support macroeconomic fiscal policy (for example, «fiscal devaluations» through a reduction in employers’ contributions to strengthen the international competitiveness of companies) 3.

Additionally, the pension system was losing credibility among the public due to the (relatively) low level of pension benefits (compared with the legal replacement rate, which varied between 70 and 82 per cent).

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3 This policy was introduced as part of the anti-inflationary programme based on a fixed exchange rate during the late 1970s. A similar policy was followed during the 1990s “convertibility” programme (currency board).
2.2. The structural reform of the 1990s: the mixed scheme

In the early 1990s, the pension system had several problematic characteristics: poor transparency for contributors regarding the level of pension benefits, high evasion (lack of compliance with contribution payments), high annual deficit, non-compliance with the regulatory framework in that pension benefits were below the level determined by law, which resulted in considerable debt with beneficiaries (Cetrángolo and Grushka, 2004; 2008). In this context, there was growing consensus on the need for deeper reforms, albeit with differences regarding their specific nature.

By mid-1993, influenced by the reform context prevailing in the region and particularly by Chile’s 1981 pension reform, a paradigmatic reform bill for a new pension scheme was approved (with amendments) by the Congress after a lengthy legislative debate. The new pension scheme, the Integrated Pension System (AIPS), went into effect in July 1994.

The AIPS consisted of a two-pillar system. The first pillar was a contributory DB pension with 30 years of contributions as the entitlement condition. In the second pillar, the insured could choose between a DB scheme (a reformed PAYG scheme with stricter entitlement conditions) and a DC individual account scheme. If they did not choose, workers were automatically enrolled in the DB scheme (which was the case for most new entrants to the labour market).

Figure 2. Members of the defined benefit (DB) scheme and the defined contribution (DC) scheme, under the second pillar of the Integrated Pension System, 1994-2007.


Mesa-Lago (2008) classifies the pension system reforms implemented in Latin America during the 1990s and defines “mixed schemes” as those whose structure combines a DB component with a DC component. The other two types of reform are substitute and parallel models. The substitute models replaced the PAYG scheme with a DB scheme with individual pension savings accounts, while the parallel models created an individual-account capitalization pension scheme operating simultaneously with a DB scheme.
It was claimed that this reform would contribute to: (a) ensuring the sustainable financing of the pension system (in the long term); (b) reducing evasion through individual accounts that create compliance incentives by linking benefits directly to contributions; (c) resolving the benefit dilemma (adequacy versus fiscal pressures); and (d) developing and strengthening the capital and insurance market. The reform also modified the main parameters to be eligible for pension benefits and increased the statutory retirement age and the number of contribution years needed to qualify for a full pension.

The transition costs of this reform (greatly underestimated when it was designed) and the fiscal cost of some economic policy measures, such as the absorption of deficits accumulated by the provincial pension funds and the reduction in the level of employers’ contributions, put growing pressure on Argentina’s fiscal accounts (Bertranou et al., 2003; Cetrángolo and Grushka, 2008). Under these circumstances, an important proportion of Argentinian Pension Fund Administrators’ (AFJP) funds were destined to buy public debt bonds. At the same time, growing unemployment and labour informality, together with the changes in pension system parameters, which strengthened its contributory approach, undermined the desired objective of increasing the coverage of contributors and beneficiaries.

2.3. The re-reform of the 2000s: the new role of government

In 2002, the change in the macroeconomic context arising from the elimination of the «convertibility» programme (currency board) system 5 caused the real value of benefits to plummet. Likewise, the individual-capitalization pension component was strongly criticized due to the high commissions charged on workers’ contributions and the high contribution rates related to the mandatory disability and survivors’ insurance.

The public considered the financial sector one of the culprits of the country’s socioeconomic debacle at the turn of this century. Public confidence in the banking system and in the DC, fully-funded pension declined. During the crisis, people had witnessed a widespread failure to respect contracts and property rights, accompanied by a political crisis and a weakening of the «social contract».

Thus, at the beginning of the 21st century, the pension system had considerable deficiencies in three key areas that define its performance: financial sustainability, coverage and benefit adequacy. In this context, following the 2001-2002 socioeconomic crisis, improved macroeconomic, fiscal and labour market indicators provided the justifications for the government to once again reform the social security system (Bertranou et al., 2013) 6.

Following the economic crisis, there was a reversal in the negative trends in economic activity and employment. Real annual GDP growth approached 9 per cent between 2003 and 2005. At the same time, the larger pool of workers in formal employment automatically increased the payroll taxation base, but real wages showed an important decline in the first year after the crisis. In 2002-2003, accumulated inflation reached 43 per cent while nominal wages were stagnant. Similar reductions in real benefits led to a better

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5 The macroeconomic currency board was in force from 1991 until 2001. Its main action was to establish a fixed exchange rate, which pegged the peso to the US dollar.

6 Between 2003 and 2008, the annual GDP growth rate was 8.5 per cent and formal wage employment in the private sector grew 70 per cent. The ratio of tax revenue to GDP also rose almost 10 percentage points between 2004 and 2013.
financial position of the social security system. The positive effect on the government budget was also the result of other fiscal measures, including the introduction of new taxes (export duties), the higher tax-collection rates (value-added tax (VAT) and income tax) and measures to limit fiscal expenditure in real terms, attributable to the public debt restructuring and the freezing of some disbursements in a context of higher inflation (particularly between 2002 and 2007). This generated fiscal space, which leveraged economic recovery and growth between 2003 and 2007.

Despite a major debate promoted by the government in 2002-2003 on the future of the pension system, which involved different actors, experts and institutions (national and international), it was not until 2007 that the first significant changes were incorporated into the pension system. Regarding the individual capitalization accounts, in that year (prior to the re-reform), the government implemented measures with the aim of increasing the weight of the PAYG, DB pension scheme. These measures included:

(i) Allowing workers to choose between being covered under the new PAYG, DB scheme (with a higher benefit, see below) or under the individual capitalization DC scheme. Before this reform, contributors in the individual capitalization scheme were not allowed to subsequently switch to the PAYG scheme;

(ii) Making the PAYG, DB pension scheme the default scheme for all new labour market entrants who did articulate their choice («undecided») as well as for soon-to-be-retired persons with limited accumulated funds in the individual account system. Before this reform, the «undecided» new entrants were assigned directly to the individual fully-funded scheme.

(iii) The transfer of contributors of some special schemes to the PAYG scheme 7.

This amendment to the 1994 Pension Act included a cap on AFJP commissions, which were considered the highest in Latin America (Ministerio de Trabajo, Empleo y Seguridad Social, 2003).

The 2007 reform also changed the parameters that determine the benefits to be received at the legal retirement age. Initial benefits for those who were covered by the PAYG scheme grew as a result of the increase in the accrual factor from 0.85 per cent to 1.5 per cent for every year of contribution (with a minimum of 30 years and a maximum of 35 years). Additionally, a Universal Basic Benefit (PBU) for all new pensioners was introduced.

In December 2008, in the middle of the international financial crisis, the individual capitalization scheme was eliminated when its members and beneficiaries were all transferred to the PAYG scheme, and the AIPS was established 8.

The main reasons for abolishing the fully-funded scheme were: (a) the financial losses of the pension funds in the context of the 2008 international financial crisis; (b) the desire to avoid the future value of benefits from being affected by fluctuations in the financial

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7 These schemes provide preferential retirement conditions for those affected, including fewer contribution years required for a full pension, lower retirement age and more generous benefits than those granted under the general scheme. Some of these schemes were reinstated beginning in 2005.

8 When it eliminated the individual capitalization pension scheme component, the government committed itself to guaranteeing that all members would receive equal or better benefits than those they were entitled to prior to the reform; however, this was nearly impossible to define, since the individual capitalization scheme did not guarantee any defined benefit (Mesa-Lago, 2009).
markets; and (c) the high percentage of pensioners in the individual capitalization accounts system who did not qualify for a minimum pension, meaning that the government would be responsible for paying a large share of the benefits (Danani and Beccaria, 2011).

Moreover, the fully-funded scheme was not «mature» by the time of the reform. By 2004, the pensions paid by the AFJP represented 3.8 per cent of the total benefits paid by the whole system. These pensions from the funded scheme thus represented only a small fraction of the total pension benefits of those enrolled in the fully-funded scheme. The main components of the total pension benefit were the basic pension (PBU) and the «compensatory» benefit (the accrued benefits under the former PAYG).

How was the pension reform reversal possible? It is important to keep in mind the specific political climate of the country following the crisis. The deep discontent of citizens with the pro-market reforms of the previous decade also extended to the individual-capitalization accounts component of the pension system. In addition, there was growing awareness that this component would be unable to achieve the benefits promised to future pensioners.

From another perspective, the financial sector (closely linked to the AFJP) was viewed as the major party responsible for the crisis, for which reason it had little leeway to oppose the reform. It is also possible that many of these financial institutions felt relieved that they would no longer have to justify low levels of future benefits to contributors. The government also had a large majority in Congress, enabling the rapid adoption of the reform.

Like other reforms (such as the moratoriums and the 2007 reform), this pension bill was discussed, passed by Congress and implemented within a short period. The government project to re-nationalize the pension system was announced at the end of October 2008 and the new Pension Act was passed without major changes and approved by both houses of Congress only a month later (Hujo and Rulli, 2014).

The main actors affected by the reform –such as the AFJP and trade unions– had no time to react because they did not expect the measure and there was no opportunity for formal participation in the process (Hujo and Rulli, 2014). On the one hand, the reform was supported by trade unions. Both the General Labour Confederation and the Argentinian Workers’ Central Union –the two leading trade union federations in Argentina– expressed their full support for this policy initiative. Furthermore, the reform initially had overwhelming public approval –Latinobarómetro reported that there was 89.5 per cent support for government control of pensions in late 2008 (Carnes and Mares, 2013). On the other hand, the AFJP association 9, which was against the reform, prepared a counterproposal to the nationalization of the AFJP bill. The main points of this proposal were: (a) it allowed members to enrol in either of the two systems: the PAYG or the fully-funded schemes; (b) it agreed to pay a minimum pension after five years of contributions instead of the original 30 years; (c) it created a second AFJP fund to lower risks; (d) it eliminated commissions when funds generate negative returns; (e) it increased contributions to 11 per cent of gross wages; and (f) it created a voluntary savings scheme.

9 The president of this institution learned about the reform from the newspapers (Hujo and Rulli, 2014).
3. **Impact of the re-reform on coverage, pension adequacy and sustainability**

The re-reform implied a strengthening of government management of the system (through the elimination of the privately-managed individual account DC scheme). The new Pension Act did not include any provisions regarding coverage and benefit adequacy, however. These two issues were addressed by other legal instruments (laws and decrees) implemented beginning in 2005 to: (a) solve the problem of low population coverage of the pension system, and (b) restore the real value of benefits by ensuring their automatic, flexible adjustment, in accordance with the financial performance of the overall pension system.

The re-reform did have an impact in terms of improving short-term funding, yet the impact on the long-term sustainability is unclear. Section 3.3 discusses some of the factors unrelated to the re-reform that may influence the financial sustainability of the new system (AIPS).

3.1. **Coverage extension through wide-ranging but short-term policies: the moratoriums**

From 1992 through 2004, coverage rates of the population had fallen by more than 10 per cent. In response to this decline, the government introduced several ad hoc measures to increase coverage. The figure below illustrates coverage rates of contributors and the share of the population over age 65 receiving a pension, disaggregated by sex.

**Figure 3. Declining population coverage, 1992-2004**

![Percentage male/female population coverage](image)

Source: Based on data in Basualdo et al., 2009.

Due to the employment difficulties encountered by adults approaching the legal retirement age, a benefit called Early Retirement was created through Law 25865 in 2004, aimed at benefitting individuals who had completed the number of contribution years required to access a pension benefit (30 years) but had not yet reached legal retirement age (60 for women; 65 for men). Few old-age pensions were granted under this scheme:
between 2005 and 2010 (when it was discontinued), only 47,184 people in this category received pensions.

In early 2005, the eligibility requirements for benefits were temporarily eased (until April 2007) thanks to the creation of a «pension moratorium,» which allowed workers and their beneficiaries to become eligible for pension benefits despite not having accumulated the minimum number of contribution years. The pension moratorium, later named the Pension Inclusion Plan (Plan de Inclusión Previsional), was based on amendments to a law that had been enacted in 1993 and which made it easier for workers to enrol in a voluntary scheme for debt regularization through contributions for self-employed workers. This special scheme enabled workers with incomplete or non-existent employment records to become eligible to receive a pension benefit (Arza, 2012a). Once this benefit has been granted, beneficiaries may request their outstanding monthly payments of the debt regularization scheme to be discounted. This moratorium serves as a transitional measure: it helps only the current cohorts of people born before 1945, those with no employment history, and those born between the 1950s and mid-1970s (with incomplete employment records). In the future, younger cohorts will not be able to declare contribution years through a plan designed to recognize the debt generated prior to September 1993.

Through these special moratorium programmes, the number of pensions paid grew by 2.6 million from 2005 to 2012, representing over 44 per cent of the current total of pension-related benefits. This increase in the number of benefits increased the system’s pension coverage performance to over 90 per cent. Coverage rates had been deteriorating steadily between 1994 and 2004. Pension coverage in Argentina is among the highest in Latin America (Rofman and Oliveri, 2012).

**Figure 4.** Pension coverage and composition of total pension benefits for three groups: contributory, moratorium and non-contributory benefits

The provisions effectively contributed to extending coverage, especially to the most vulnerable adult population: women and people with limited education, who are more likely to have precarious jobs and periods of unemployment (Bertranou et al., 2011). The redistribution function of social protection had thus been significantly strengthened (Trujillo and Villafañe, 2012; ILO, 2012; Gasparini and Cruces, 2008). In 2012, payments associated with the new benefits of the moratorium represented 2.1 per cent of GDP while the moratorium payments collected amounted to around 0.1 per cent of GDP, resulting in a net cost of 2 per cent of GDP. In addition to the moratorium plans, coverage of non-contributory pensions rose significantly beginning in 2004. The number of beneficiaries increased from 0.3 million in 2003 to 1.4 million in 2013, mainly due to the increase in non-contributory disability pensions (from 82,000 to 900,000) and non-contributory benefits for mothers of 7 or more children (from 59,000 to 330,000).

In August 2014, Congress passed a new Moratorium Law. This law enables the recognition of unpaid contributions from 1993 to 2003. This new measure includes a means test to prevent those who already have a survivors’ pension from receiving another benefit 10.

In contrast to other experiences in the region, the expansion of pension coverage was mainly based on ad-hoc and transitory measures as well as a positive economic context. This allowed these measures to have an immediate impact.

Today (in 2017), with the entitlement conditions in force, the 30 contribution years needed for benefit eligibility can be reduced by registering in the pension moratorium. Thanks to this policy, individuals who have reached legal retirement age but have not contributed to the system may be eligible for the minimum pension benefit. However, this is a temporary measure. In less than 10 years’ time, people who are close to retirement will need to have made contributions for approximately 10 years; in 20 years, only 10 contribution years will be recognized in this moratorium; and in 30 years’ time, this measure will concede no benefit 11.

If no further ad-hoc measures are implemented (such as the moratorium) and no substantial changes are made to the regulatory provisions, it is unlikely that the pension coverage level can be sustained in the current labour market environment, characterized by high informality. To resolve this structural problem, a permanent solidarity component must be incorporated to guarantee pension coverage, not only for the sake of equity and predictability, but also to ensure universal coverage in the future. The benefits of this component should be financed with general government revenues (Bertranou, et al., 2011).

### 3.2. Restoring the benefit replacement rate: from discretionary to institutional benefit adjustments

Beginning in 2002, measures were implemented to restore the purchasing power of pension benefits, which had been affected by the devaluation of the peso. This policy was carried out in steps until 2008, prioritizing the increase in the real value of the minimum pension benefit. During this period, benefits above the minimum were not automatically

10 Around 30 per cent of the new beneficiaries under the 2005 moratorium were already receiving another pension benefit. Initially, the legislation governing the moratorium plans did not restrict eligibility only to the elderly without pension benefits.

11 There are gender differences with respect to retirement age requirements (65 for men, 60 for women).
indexed to inflation but rather increased ad hoc on two occasions, which caused them to lose their purchasing power.

These discretionary benefit adjustments led to a flattening of the benefit pyramid. While the minimum increased and largely recovered from the shock of the 2002 crisis, the mean benefit did not (Arza, 2012; Bertranou et al., 2011).

The 2008 Law on Pension Mobility stipulated that all benefits should be adjusted every six months based on a predetermined formula using parameters linked to the change in the wages of all active workers and in the contributory and tax resources allocated to the pension system.

In 2007, the accrual rate of the PAYG scheme that recognized contributions made after 1994 was increased from 0.85 per cent to 1.5 per cent. This provision was included in the 2007 Reform Act to create incentives for workers to transfer from the fully-funded scheme to the PAYG scheme.

As per the reforms introduced in 1994 and 2007, the replacement rate of the initial benefit is equal to the PBU plus the additional benefit linked to wages and contribution years, equal to 45 per cent of the average wage of the last 10 years for a worker who has completed 30 contribution years (up to 52.5 per cent with 35 contribution years). Both components of the benefit are indexed in accordance with the Law on Pension Mobility; however, the PBU has lagged behind compared with the minimum pension increases granted during 2002-2006. Thus, the PBU has lost ground in terms of the average wage, which has affected replacement rates of medium- and high-income workers more than those of low-income workers, who stand a better chance of being included in the minimum benefit.

The table below summarizes the benefit formula under the different schemes discussed above.

Table 1. Pension benefit formula under the different schemes of 1994, 2007 and 2008

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<td>Both schemes</td>
<td>Universal Basic Benefit (PBU) + 1.5 per cent<em>N1</em>wage</td>
<td>PBU</td>
<td></td>
</tr>
<tr>
<td>Pay as You Go</td>
<td>0.85 per cent*N2 * wage</td>
<td>1.5 per cent * N2* wage</td>
<td>1.5 per cent * wage * N</td>
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<td>Individual Capitalization Accounts</td>
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Notes: N: years of contribution (30 to 35 years), N1: years of contribution to the old system (before 1994) (30 years <= N1+N2 <= 35 years), N2: years of contribution to the PAYG scheme after 1994 (30 years <= N1+N2 <= 35 years). Wage: average salary of the last 10 years of contributions.

12 Between mid-2002 and mid-2008, the minimum benefit increased by 360 per cent, while the highest level of pensions grew between 63 per cent and 79 per cent.

13 Originally, in 1994, the value of the PBU was approximately 25 per cent of the mean wage of formal workers. By December 2011, this figure had dropped to 13 per cent.

14 Prior to the re-reform, there was a compensatory benefit for the contribution made before 1994. This benefit was equal to 1.5 per cent of the average wage of the last 10 years of employment for every year of contribution for a worker who had completed 30 contribution years (with a maximum of 35 years).
3.3. Financial sustainability: improvements in the short-term financial position, but long-term sustainability remains a challenge

The elimination of the individual capitalization component implied the transfer of accrued funds from the individual accounts to the Social Security Administration (ANSES).

The Capitalization Pension Fund (the stock of resources accrued in all individual accounts of the AFJP) was also transferred and incorporated, together with ANSES financial surpluses, to a reserve fund known as the Sustainability Guarantee Fund (SGF). The SGF has the explicit mandate to help preserve the financial stability of the AIPS and to foster economic development. In 2013, the SGF portfolio represented 10 per cent of GDP and its net annual investment return represented around 8 per cent of ANSES’ total income.

The personal contribution flows that were formerly destined to the individual capitalization accounts increased the contributory resources managed by the ANSES to around 1.2 per cent of GDP. Nevertheless, the main factors behind the increase in resources from contributions were employment formalization and a real wage increase (Bertranou et al., 2015).

The financial strengthening of ANSES also heavily depended on the allocation of a significant proportion of general taxes (mainly VAT, corporate and personal income taxes) during the 1990s to finance the introduction of individual capitalization accounts. A large share of these resources (over 50 per cent) should have been transferred to the provinces. After reversal of this reform, the central government kept those resources. This, together with the increased taxes on wages, has improved the current financial situation of ANSES. As the figure below shows, this continued even in 2010, after pension system coverage and non-contributory pensions had been extended and a Universal Child Allowance had been implemented.\(^{15}\)

Figure 5. Expenditures and funding composition of the National Social Security Administration (ANSES), 1995-2013

Note: (1) In 2013, Argentina changed the base year for its GDP calculation from 1993 to 2004. It is not possible to merge the two GDP series.

Source: Bertranou et al. (2015).

\(^{15}\) For further information on the characteristics of this social protection policy, see Bertranou and Maurizio (2012).
However, new future social protection spending entitlements have been granted. Their fiscal cost is unclear as no actuarial study has been conducted to assess their long-term financial sustainability. Some projections made before and after the 2008 reform (Cetrángolo and Grushka, 2008; Auditoría General de la Nación, 2010; Grushka, 2014; Rofman and Apella, 2015) reveal the persistence of a «pure» deficit when counting contributions from wages and salaries as the only source of income. This excludes the other sources from investment of contributions and tax allocations. These projections underscore the critical importance of maintaining tax allocations to finance the AIPS.

The high litigation rate is another aspect hindering the assessment of the system’s financial sustainability. While this litigation is not new (Schulthess and Demarco, 1993), it has recently become a key issue. Legal actions have focused on the mobility (adjustment) of current benefits, particularly regarding benefit indexation during 2002-2006, when only the minimum benefit part of each payable pension was adjusted due to severe fiscal constraints at the time. Another pension calculation formula was based on the determination of the initial benefit at the time of retirement and the indexation of past insured wages.

In 2011, there were over 400,000 outstanding legal actions (Bertranou et al., 2011). According to Bossio (2012), the application of the Supreme Court rulings to update benefits and determine initial benefits would represent an annual expenditure of 2.0 per cent of GDP 16.

Finally, another consideration when assessing the financial sustainability of the system is the demographic transition of the population. Argentina is currently undergoing a transition process, also known as a demographic window, where the proportion of the working-age population is growing relative to the population of children, adolescents and elderly adults. Argentina is estimated to be at an intermediate stage with respect to the ageing of the population. In 2010, the percentage of the overall population ages 65 and over was 11 per cent, which is expected to reach 19 per cent by 2050. This increase will be matched by the rate of adult dependency 17, which is expected to rise from 19 per cent to 34 per cent in the same period (Grushka, 2015).

Policymakers should consider social protection needs given that the country is inevitably becoming an ageing society. In addition to income security in old age, social health protection, public social services and long-term care need to be assessed and factored into government plans. At the same time, actual years of employment in relation to the statutory retirement age(s) should be closely monitored to ensure a balance between the duration of employment and the duration of retirement. Future employment protection laws could encourage older workers to remain active in the labour market. Employment and social protection policies need to be carefully integrated (ILO, 2013).

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16 The breakdown for this figure is 0.8 per cent for the updating of benefits exceeding the minimum amount in 2002-2008, and 1.2 per cent for the determination of the initial benefit.

17 Ratio between the population ages 65 and over and the population between the ages of 20 and 64.
4. Final remarks on the politics of recent reforms and challenges ahead

The reversal of the privatization had created an overall positive effect, with increased coverage, improved adequacy and financial sustainability. As a whole, income protection in old-age has been improved and meaningfully contributed to the well-being of people in old-age, including spill over effects to the rest of the population. Yet, the continuous reforms of the pension system have not yet achieved a stable design that would ensure the long term sustainability of the scheme with regards to benefit adequacy, coverage and financial balance. Based on the discussion above, some conclusions can be drawn regarding the performance of the current system in terms of financing and coverage. The rise in formal employment has succeeded in increasing pension system resources. At the same time, the favourable performance of the economy since the 2001-2002 crisis and the additional income from general taxation specifically allocated to the pension system have provided the necessary fiscal space for the government to improve the social protection of citizens. Old-age coverage has expanded to over 90 per cent, an unprecedented achievement.

This paper discussed the circumstances behind the reforms of the Argentinian pension system during the past two decades and how these reforms have affected the three main areas crucial for the performance of any pension system: coverage, benefit adequacy and financial sustainability. The magnitude of these changes in such a short period (especially considering that these reforms are designed to have long-term impact) and the lack of solutions for many existing problems require explanations that go beyond the arguments of the current literature on pensions.

Certainly, the shift in prevailing views regarding the role of government in the economy, the participation of multilateral credit organizations, the magnitude of the macroeconomic crisis (hyperinflation, economic stagnation and recession) and the political power the government had gained before reforming the pension system in the early 1990s and in 2008, are key factors explaining the reforms. Only by considering these circumstances can the agreement of trade unions and provincial governments to finance the transition with tax revenues, or the absence of strong opposition from the financial system and AFJP contributors regarding the return to the PAYG, be understood.

Although the re-reform did not include policy definitions regarding coverage and benefit adequacy, other policy measures significantly increased coverage and restored the real value of benefits. Nevertheless, the re-reform improved the short-term financial position of the social security system, which recorded a surplus despite an increase in expenditures of 3.6 per cent of GDP between 2008 and 2013 due to the extension of social protection coverage (pension benefits, non-contributory disability benefits and non-contributory child allowances). However, neither the re-reform nor other policy measures implemented since 2005 have resolved the sustainability and coverage issues that the system will face in the future.

As in every pension system, there are still numerous pending challenges: (a) to preserve the system’s sustainability by adopting predictable parameters for administrators and insured parties to reduce litigation rates (lawsuits brought against the ANSES by beneficiaries); (b) to attain universal coverage without the need for emergency measures; and (c) to improve equity in both its horizontal dimension, by closing coverage gaps (mainly in terms of contributions during employment), and in its vertical dimension, by improving replacement rates (benefit adequacy). Equity across groups (system fragmentation) and across genders (Arza, 2012b; Bertranou et al., 2011; Mesa-Lago, 2009) must also be improved.
In conclusion, while measures to secure the long-term sustainability of the pension system are still required, the fundamental changes that have been introduced with the return to the public PAYG pension system, put Argentina back on track, generating an overall positive effect, with increased coverage, improved benefit adequacy and providing the basis for achieving sustainable financing.
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