



"Analysis of the sustainability of the pension systems worldwide".

Round Table

Geneva, Switzerland / 13 June 2024

International Organisation of Employers (**IOE**) and the Federation of Pension Fund Administrators (**FIAP**) are inviting the employer group attending the International Labour Conference to a Round Table to jointly analyze the sustainability of the systems worldwide.

Pay-as-you-go pension systems have been losing sustainability at the same pace as the dependency ratio has been deteriorating, due to the demographic changes the world is facing. In fact, in Europe, the number of people between 25 and 64 years of age for every person aged 65 and over was 6.1 in 1950, 2.9 in 2020 and will reach 1.7 in 2050¹. In other words, in the next 30 years the pension would have to fall by 41% if this were the only adjustment variable to balance the pay-as-you-go system. Although population aging is occurring worldwide, it is even more accelerated in Latin America and Asia. In Latin America, demographic changes will be equivalent to a 52% drop in the amount of pensions over the next 30 years. In any case, in individually funded systems the demographic impact is significantly lower, since they do not depend on the fertility rate (number of births per woman of childbearing age), but only on the increase in life expectancy at retirement.

To mitigate this effect, for several decades, countries with PAYG systems have been introducing parametric changes, such as increasing the retirement age (66 countries), decreasing the amount of benefits (66 countries) or increasing the contribution rate (82 countries); decreasing the amount of benefits (66 countries) or increasing the contribution rate (82 countries)², all of which have been insufficient considering the levels of public debt that have been incurred to finance pensions (the implicit debt³ is 2.5 times the GDP in Spain, almost 4 times the GDP in Italy and almost 9 times the GDP in Greece).

For this reason, the best way to deal with the unsustainability of pension systems is to base part of their financing on individual capitalization, which has the advantage that while pay-as-you-go systems are financed only through contributions, in funded systems the resources come mainly from investment returns. In Chile, Mexico and Peru, more than two thirds of pension savings correspond to returns while only one third corresponds to workers' contributions.

Given that the individually funded systems increase savings levels, they have had positive macroeconomic effects, which have generated greater growth in GDP, employment and wages, thereby increasing the resources available to finance pensions. In other words, the individual

¹ Source: World population prospects 2022, United Nations Population Division. Population Dependency Ratios - Both sexes¹ is used, the variable used is "Annual potential support ratio [25-64/65+]". Medium Variant" is used for estimates. Information available [here](#).

² <https://www.fiapinternacional.org/publicaciones/reformas-parametricas-en-los-programas-publicos-de-reparto/>

³ The implicit debt corresponds to the present value of the long-term cost of the pension obligations promised in the future by the pay-as-you-go system.



accounts system has generated a virtuous circle. According to various studies⁴, the individually funded system has contributed to 12.9% of annual growth in Mexico, 12.8% in Colombia and 8.1% in Chile.

They also implied substantive improvements in management transparency. The OECD concluded⁵ that the individually funded systems have corporate governance legislations that contribute to promoting transparency, independence and competition, because they establish the requirements and responsibilities of the directors and managers of the administrators, compliance with rules to control potential conflicts of interest, and require the administrators to act in the best interest of the system's members.

During the time they have operated as a (total or partial) replacement of the PAYGO systems, as is the case in Latin American countries, they have had a very positive effect on the financing of pensions, since the return on investments has been, on average, around 6.7% per year in real terms (as of December 2022).

In addition, by resolving the situation of workers who contribute regularly and can finance their pensions, the individual savings system has generated the necessary slack to help the neediest sectors, through the creation of non-contributory pension pillars,

To meet the demographic challenge and make pension systems sustainable, some countries, including most Latin American countries, replaced all or part of their pay-as-you-go systems with funded systems, while others have gradually incorporated funded mechanisms that are helping to finance a significant part of pensions.

In 1999, 17 countries had incorporated individual savings, in 2009 there were 41 and in 2022 there were 51⁶, either as a single system, in competition with the pay-as-you-go system or as a complement to it. This shows a trend that cannot be reversed in the world. In other words, beyond ideological conditions, the world is moving towards the capitalization of savings.

However, the pension system based on individual capitalization has traditionally been criticized by the ILO. This situation worsened after the study⁷ by a group of professionals of that organization on the reversion of the individually funded systems to pay-as-you-go systems, due to the alleged failure of the former.

This round table will be an opportunity to exchange views around the sustainability of the pension systems, and experiences at global level regarding individual capitalization, and the draw backs of reversion.

⁴ SURA study "Contribution of the private pension system to the economic development of Latin America" (2013).

⁵ Organisation for Economic Co-operation and Development - OECD (2019). "OECD Reviews of Pension systems: Peru".

⁶ Source: <https://www.fiapinternacional.org/reformas-a-los-sistemas-de-pensiones/>

⁷ <https://www.social-protection.org/gimi/Media.action;jsessionid=xBD1f6XITkMF9PWdpZ16DI99A8GwXPZjxNl6pM84zopgFe23fM-g1L534231366?id=16776>