original article

Individual funded pension accounts and the World Bank: evolving views[1]

Authors contribution:
A – Research project
B – Data collection
C – Statistical analysis
D – Data interpretation
E – Manuscript preparation
F – Literature analysis
G – Fundraising

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Introduction: This paper sets out a brief history of World Bank involvement in pensions. Section 1 considers the period 1980–2000, and in particular a major pension reform in Chile in 1981 and the World Bank's support for that approach, discussing the reforms and how well, or otherwise, they performed. Section 2 explains increasing diversity of views within the World Bank, and section 3 the more balanced view of recent years.
Objective: The main goal of the presented article is to provide a comprehensive analysis of the evolution and controversies surrounding individual funded pension accounts, with a primary focus on the Chilean model and its global impact. The article aims to critically examine the historical context, the World Bank's role, internal and external debates, and recent developments in pension policy. Ultimately, it seeks to foster a more balanced understanding of pension systems, acknowledging their complexities, objectives beyond consumption smoothing, and the need for responsive policy adjustments in the face of real-world challenges.
Materials and methods: The analysis is based on historical and policy documents, literature review, comparative analysis, qualitative assessments, and policy evaluation.
Results: The main conclusion of the article is that the widespread adoption of individual funded pension accounts, as championed by the World Bank and initially implemented in Chile, has faced significant challenges and limitations. While these accounts were promoted as a panacea for pension reform challenges, the article argues that they have not lived up to their promises. Issues such as incomplete coverage, inadequate pensions, high administrative charges, gender inequality, and fiscal transition costs have raised concerns. The article also highlights a shift in recent years toward a more balanced and comprehensive approach to pension policy, emphasizing the importance of addressing poverty relief and broader social protection objectives.
Key words: funded pensions, pension reform in Chile, pension schemes, the old age crisis, World Bank

Indywidualne kapitałowe konta emerytalne a Bank Światowy: ewolucja perspektywy

Wprowadzenie: W artykule przedstawiono krótką historię zaangażowania Banku Światowego w kwestię emerytur. W pierwszej części przedstawiono działania w latach 1980–2000, w szczególności poważną reformę emerytalną w Chile w 1981 r. oraz wsparcie jej założeń przez Bank Światowy. Przy omówieniu reform wskazano na ich skuteczność lub jej brak. Druga część artykułu wyjaśnia rosnącą różnorodność poglądów przedstawianych przez Bank Światowym, a trzecia część prezentuje jego bardziej zrównoważone podejście z ostatnich lat do omawianych zagadnień.
Cel: Głównym celem artykułu jest przedstawienie wszechstronnej analizy ewolucji indywidualnych kapitałowych kont emerytalnych i kontrowersji z nimi związanych, ze szczególnym uwzględnieniem modelu chilijskiego i jego globalnego wpływu. Artykuł ma także za zadanie krytycznie zbadać kontekst historyczny roli Banku Światowego, jego debat wewnętrznych i zewnętrznych oraz ostatnie wydarzenia w polityce emerytalnej. Ostatecznie tekst ma promować bardziej wyważone podejście do systemów emerytalnych, uznając ich złożoność, dążenia wykraczające poza wygładzanie konsumpcji oraz potrzebę reaktywnego dostosowania polityki w obliczu realnych wyzwań.
Materiały i metody: Przeprowadzono analizę dokumentów historycznych i politycznych, dokonano przeglądu literatury, analizy porównawczej, ocen jakościowych i oceny polityki.
Wyniki: Głównym wnioskiem płynącym z artykułu jest to, że powszechne przyjęcie indywidualnych kapitałowych kont emerytalnych, za którym opowiadał się Bank Światowy, napotkało poważne wyzwania i ograniczenia. Chociaż konta te były promowane jako panaceum na wyzwania emerytalne, w artykule dowodzi się, że nie spełniły one pokładanych w nich obietnic. Zaniepokojenie budzą takie kwestie, jak niepełne ubezpieczenie, nieodpowiednie emerytury, wysokie opłaty administracyjne, nierówność płci i koszty transformacji fiskalnej. W niniejszym tekście zwrócono uwagę także na zmianę, jaka nastąpiła w ostatnich latach, w kierunku bardziej zrównoważonego i kompleksowego podejścia do polityki emerytalnej, podkreślono przy tym znaczenie zajęcia się kwestiami ograniczania ubóstwa i szerszymi celami ochrony socjalnej.
Słowa kluczowe: emerytury kapitałowe, reforma emerytalna w Chile, systemy emerytalne, kryzys emerytalny, Bank Światowy

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1 This chapter draws on N. Barr, *The Economics of the Welfare State*, 6th edition, Oxford and New York 2020 (in Polish: *Ekonomia polityki społecznej*, Poznań 2016, 5th edition), and N. Barr and P. Diamond, *Pension Reform: A Short Guide*, New York and Oxford 2010; *eidem*, *Better pension design*, OUP, forthcoming). I am grateful to Michał Rutkowski for helpful comments. The views expressed and remaining errors are my responsibility.

Chile and the World Bank in the 1980s and 90s

Reform in Chile and other countries[2]

In the years around 1980 the Pinochet dictatorship in Chile introduced a series of market-oriented reforms under the influence of the "Chicago Boys", a group of Chilean economists trained at the University of Chicago under the tutelage of the influential pro-market economist Milton Friedman.

As part of those reforms, in 1981 Chile replaced its previous complex system of pay-as-you-go (PAYG)[3] plans with mandatory membership of fully-funded individual accounts chosen from competing private providers (called *administradoras de fondos de pensiones* – AFPs), together with a guaranteed minimum pension for workers with 20 or more years of contributions. Workers were required to contribute 10% of earnings, with no employer contribution. Retirement age was 65 for men and 60 for women, with provision for early retirement for someone with a large enough accumulation.

To limit conflicts of interest, accounts were managed by single-purpose firms independent of other providers of financial services. Firms were able to set their own fees. The only role of employers was to collect contributions and pass them on to each worker's chosen fund, and the only role of government was to regulate the system, i.e. government had no role in investing funds.

In short, the design was based on a model of choice and competition (what economists call a "first-best" model), which assumes that consumers are well-informed and act rationally, hence competition would have its textbook advantages of responding to consumer choice and driving down costs.

Great claims were made for the reforms. In the words of the Minister of Labour and Social Security at the time, the new arrangements,

> […] will bring about real competition in favour of taxpayers, who will give the final verdict in favour of the most efficient and secure, as they will be free to choose, on a permanent and individual basis, the institution where their savings will be capitalised. Competition will reinforce the efficiency, stability and security of the new system, while ensuring that no undue powers are created, as all will be equally subject to strict and objective rules.[4]

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2 For fuller discussion, see N. Barr and P. Diamond, *Pension Reform*…, op. cit., chapters 9 and 10.

3 PAYG pensions are paid out of current revenue. Funded pensions are paid from an accumulated fund built up over a period of years out of contributions by or on behalf of plan members.

4 "Con esto se logrará una competencia real que favorecerá a los imponentes, quienes darán el veredicto final en favor de las más eficientes y seguras, pues tendrán libertad para elegir, en forma permanente e individual, la institución donde se capitalizarán sus ahorros. La competencia reforzará la eficiencia, estabilidad y seguridad del nuevo sistema, a la vez que garantizará que no se generen poderes indebidos, pues todas estarán sometidas por igual a reglas estrictas y objetivas" (quoted in J. Piñera, *Discurso del Ministro del Trabajo y Previsión Social, con motivo de la Aprobación de la Reforma Previsional* (Speech by the Minister of Labour and Social Security after the approval of the Chilean Pension Reform) [in:] *Análisis de la Previsión en Chile*, ed. S. Baeza, Santiago de Chile 1986, pp. 193–206).

In a widely-read book written 10 years after the reform, its main architect José Piñera[5] wrote that,

> If everything went reasonably well, our calculations indicated that a contribution rate of 10% of monthly income would generate a benefit equivalent to 70% of their income at the end of their working life, which estimates suggest would offer a standard of living similar to final pay because a retiree has fewer expenses than the active labor force (workwear, transportation, education of children, and so on) assuming the presence of good health insurance.[6]

As section 1.3 describes, events did not bear out those claims.

The Chile reforms were widely influential.

> Beginning in the 1990s, Peru (1993), Argentina (1994), Colombia (1994), Uruguay (1996), Bolivia (1997), Mexico (1997), El Salvador (1998), Ecuador (2001), Costa Rica (2001), the Dominican Republic (2003–05), and Panama (2005–07) introduced structural reforms. These reforms had distinct aspects and characteristics, but they all shared a common objective: to make their social protection systems viable […], or in other words to ensure that they are funded in the medium and long term.[7]

In Central and Eastern Europe, funded individual accounts were introduced in Hungary (1998), Poland (1999), Latvia (2001), Bulgaria (2002), Estonia (2002), Lithuania (2004), Slovakia (2005) and Romania (2008). Funded individual accounts were also introduced in China (1998), Hong Kong (2000), Nigeria (2004) and Ghana (2010).

The early role of the World Bank

The Chile reforms were widely promoted by the World Bank, notably in the 1994 volume Averting the Old Age Crisis and in a later World Bank publication.[8] According to Orenstein[9],

> To a large extent, pension privatization was fostered by a transnational advocacy campaign that started with Chilean consultants and multinational companies in Latin America and later took hold of the Social Protection and Labour sector of the World

5 J. Piñera, *El cascabel al gato: la batalla por la reforma previsional*, 1991, p. 18, http://www.josepinera.org/zrespaldo/el_cascabel_al_gato.pdf (13.5.2023).

6 "Si todo iba razonablemente bien, nuestros cálculos indicaban que ahorrando mensualmente un 10% de la remuneración, las pensiones podrían alcanzar montos equivalentes al 70% de ella al final de la vida de trabajo. Se estima que una pensión de este orden permite al trabajador un nivel de la vida similar al de antes, ya que el pensionado tiene menos gastos que el trabajador activo (ropa de trabajo, locomoción, hijos en el colegio, etc.) siempre que exista un buen seguro de salud."

7 R. Rofman, I. Apella, *Argentina* [in:] *Beyond Contributory Pensions: Fourteen Experiences with Coverage Expansion in Latin America*, eds. R. Rofman, I. Apella, E. Vezza, Washington, D.C. 2015, p. 16, https://openknowledge.worldbank.org/handle/10986/20602 (13.5.2023).

8 R. Holzmann, R. Hinz, *Old Age Income Support in the 21st century: An International Perspective on Pension Systems and Reform*, World Bank, Washington, D.C. 2005.

9 M. Orenstein, *Pension Privatization in Crisis: Death or Rebirth of a Global Policy Trend?*, "International Social Security Review" July 2011, Vol. 64, Issue 3, p. 66.

> Bank. The World Bank, after the 1994 publication of its landmark volume *Averting the old age crisis*, played an enormous role in advocating mandatory funded pensions in Central and Eastern Europe in the 1990s and 2000s'.

Though the international influence of the World Bank was considerable, views within the Bank were not monolithic. Even in the 1990s there was some diversity of internal views and country recommendations, explored in more detail in section 2. In contrast, the Bank's external publication were considerably more monolithic.

How well did the reforms work?

The Chile Bravo Commission[10] documented a series of continuing concerns with individual accounts:

- Incomplete coverage, mainly because of continued informality.
- Inadequate pensions, mainly because of incomplete contribution records.
- Continued high administrative charges, despite attempts to improve the system, because many people did not move to AFPs with lower charges.
- Gender inequality, given women's multiple disadvantage: lower hourly pay on average, more part-time work and more career breaks all lead to smaller pension accumulations. In addition, a lower retirement age for women and separate life tables for calculating annuities lead to a lower pension for a given accumulation.
- Hostility towards the AFP system, though with lack of clarity about whether the discontent was with the system itself (in particular its origin under the dictatorship) or because pensions fell short of what people had been led to expect.

An additional problem is that a move from PAYG to funding has a significant fiscal cost: if workers' contributions go into their individual accounts they cannot be used to finance the pensions of workers who have already retired, whose cost has to be met from government sources. These are referred to as "transition costs", which sounds fairly small and short-lived. Neither is true: between 1981–2004 annual public pension spending in Chile, though not all attributable to transition costs, averaged 5.7% of GDP. Though Chile was able to cope, in many other countries the fiscal system was not robust enough to meet those costs, particularly after the 2008 economic crisis.

Responses took different forms[11]:

- An orderly retreat from funding: Estonia, Latvia, Lithuania, Poland and Romania retained individual accounts but changed the balance of contributions, so that less went to individual accounts and more to finance PAYG benefits.
- Non-implementation of reform: China introduced funded individual accounts in 1998, but in practice the reforms for the most part did not get off the ground.

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10 Chile Presidential Advisory Commission on the Pension System (the Bravo Commission), *Final Report*, 2015, http://www.comision-pensiones.cl/report.html (13.5.2023).

11 For fuller discussion, see M. Orenstein, op. cit.

- Appropriation of pension funds: in 2008, the government of Argentina nationalized the private pension system, putting assets worth about 10 per cent of GDP at the government's disposal. In Hungary,

> In 2010, the [...] government *de facto* "nationalized" the second pillar, and it is to use part of the accumulated pension capital to reduce Hungary's excessive public debt and annual budget deficit and to compensate for income tax reductions.[12]

Why those outcomes were no accident

Nicholas Barr and Peter Diamond[13] set out a series of analytical errors in the World Bank's pension analysis, of which three are particularly relevant for the purposes of this paper.

1) Inappropriate use of the simple model of choice and competition.

   A large literature explains why basing the 1981 reforms on first-best analysis was mistaken.

   > Most branches of science have special and limiting cases. In physics, there is zero gravity and a perfect vacuum; in engineering, zero friction. These cases provide benchmarks from which to judge what happens when these conditions are relaxed. But it would be useless to build machines or set up experiments by relying on an understanding of what happens only in these special states.[14]

   Pensions display multiple deviations from the assumptions of the simple model.

   Imperfect information (Nobel Prize 2001): many workers do not understand basic financial concepts such as the difference between stocks and bonds; many do not understand the need to move from stocks to bonds as they approach retirement; and many do not understand the importance of administrative charges (over a full career, a 1% annual management charge results in a an accumulation at retirement about 20% smaller because of the charge than it would be without, and hence a pension about 20% smaller).

   Lessons from behavioural economics (Nobel Prize 2002 and 2017): simple theory predicts that workers will voluntarily save the right amount and retire at the right time. The practice is very different: given the complexity of many financial products, workers may not know what is the right thing to do (known as bounded rationality); or they may know what they should do (e.g. save more), but do not do so (bounded will power). As a result, people often do not save enough, retire too soon, delay choice or make no choice, choose an unsuitable adviser, and/or choose an unsuitable portfolio.

12 A. Simonovits, *The mandatory private pension pillar in Hungary: An obituary*, "International Social Security Review" July–September 2011, Vol. 64, No. 3, Abstract.

13 N. Barr, P. Diamond, *Reforming pensions: Principles, analytical errors and policy directions*, "International Social Security Review" 2009, Vol. 62, No. 2, pp. 13–17, and more fully *eidem, Pension Reform*…, op. cit., chapter 11.

14 P. Woolley, *The Fallibility of the Efficient Market Theory: A New Paradigm*, "CFA Institute Conference Proceedings Quarterly" 2014, Second Quarter, p. 1.

Firms can exploit limited consumer information: they may levy high charges often with little relation to fund performance; they may give biased advice; and there are examples of outright fraud.

2) Failure to view the pension system as a whole.

Pensions have multiple objectives: consumption smoothing (i.e. redistributing from one's younger to one's older self); insurance (e.g. buying an annuity to insure against outliving one's life expectancy), and poverty relief. Individual funded accounts are an instrument for consumption smoothing but by their very construction, do not provide poverty relief for workers with low incomes and/or with few or no contributions. It is mistaken to give undue focus to consumption smoothing while ignoring or understating the parts of the pension system that address the other objectives.

3) Misplaced claims that funding is generally superior.

World Bank publications wrote as though the Chile design was superior to other designs. To explain why the assertion of innate superiority is mistaken, consider a country with no pension. If the country introduces a PAYG plan, the contributions of today's workers pay the pensions of today's elderly; thus the first generation of elderly receives a pension. But if the country introduces a funded plan, the contributions of today's workers go into their own pension funds, so the first generation of elderly does not receive a pension. Thus the choice between PAYG and funding is inescapably also a choice about the intergenerational distribution of income.

Economists define an increase in efficiency (known as a Pareto gain) as a situation where a change makes at least one person better off and nobody worse off. The choice of funding above or, more generally, an increase in the degree of funding in a pension plan, does not comply with that definition. Thus the claim that individual funded accounts are inherently superior to PAYG is mistaken.

Doubts within the World Bank grow in prominence

World Bank analysis

As noted, the World Bank's flagship presentation on pensions, *Averting the Old Age Crisis*, published in 1994 with a large dissemination budget, recommended a move to individual accounts from competing private providers, of the sort pioneered in Chile. Many of the reforms in Latin America in the 1990s and early 2000s took this approach.

A less radical strand of thinking saw the introduction of smaller individual funded accounts as a complement to PAYG state pensions rather than a substitute, the view being that a funded element would diversify risk, exemplified by *Security through Diversity* in the title of Agnieszka Chłoń, Marek Góra and Marek Rutkowski.[15] Most of the reforms in Central and Eastern Europe in the 1990s took this less radical approach.

Even in the 1990s, however, there was some scepticism. A World Bank book which I edited, *Labor markets and social policy in Central and Eastern Europe: The transition and beyond*,[16] was widely read, both because of its scope (labour markets and social policy broadly defined) and because it argued that individual accounts were not the only option, and not an easy one. The 1996 *World Development Report: From Plan to Market*[17] took a similar line.[18]

Disagreement within the World Bank widened in the early 2000s. One line of criticism, set out in *Keeping the Promise of Social Security in Latin America*[19] was that – at least in Latin America – the push to funding diverted attention from other important objectives of the pension system, in particular poverty relief. The inside story illustrates the debate within the Bank: the book was published only because the Vice-President of the Bank's Latin America and Caribbean region fought off internal opposition; and, as a result of that opposition, the book was never translated into Spanish.

A different critique came from a hard-hitting report by the Bank's Independent Evaluation Group, i.e. a World Bank critique of its own work. The study identified a number of policy errors. The list of figures in the report's table of contents[20] tells a powerful story of reforms that were implemented when one or more important preconditions were absent. Examples included:

- insufficient emphasis on public administration;
- many countries had high inflation at the time of reform;
- several countries had high budget deficits at the time of reform;
- several countries had poor financial sectors;
- many reformers had poor corruption indexes;
- despite predictions to the contrary, participation rates did not rise in Latin America.

Another strand in World Bank work was the exploration of notional-defined contribution (NDC) pensions.[21] In an NDC plan individual accounts are based not on an accumulation of financial assets but on a notional accumulation made of up a record of a worker's contributions over the years, each year attributing to the accumulation

15 A. Chłoń, M. Góra, M. Rutkowski, *Shaping pension reform in Poland: Security through Diversity*, Pension Reform Primer series, Social Protection Discussion Paper No. 9923, Washington, D.C, 1999.

16 *Labor Markets and Social Policy in Central and Eastern Europe: The Transition and Beyond*, ed. N. Barr, World Bank, 1994.

17 World Bank, *World Development Report: From Plan to Market*, New York 1996.

18 Full disclosure: I was one of the authors.

19 I. Gill, T. Packard, J. Yermo, *Keeping the Promise of Social Security in Latin America*, Stanford 2005.

20 World Bank, *Pension Reform and the Development of Pension Systems: An Evaluation of World Bank Assistance*, Washington, D.C. 2006, p. v, https://openknowledge.worldbank.org/handle/10986/6956 (13.5.2023).

21 *Pension Reform: Issues and Prospects for Non-Financial Defined Contribution (NDC) Schemes*, eds. R. Holzmann, E. Palmer, Washington, D.C. 2006; *Nonfinancial Defined Contribution Pension Schemes in a Changing Pension World*, eds. R. Holzmann, E. Palmer, D. Robalino, Vol. 1 and 2, Washington, D.C. 2012; *Progress and Challenges of Nonfinancial Defined Pension Schemes*, eds. R. Holzmann, E. Palmer et al., Vol. 1 and 2, Washington, D.C. 2019.

a notional interest rate, typically linked to the growth either of average wages (hence linked to living standards) or to the total wage bill, hence taking account also of labour market developments. The arrangement, developed in Sweden, was introduced in Latvia in 1996, Poland in 1999 and Norway in 2011.

Other actors

The World Bank's position was both controversial and contested. The International Monetary Fund's approach was more sceptical since its emphasis on sound fiscal policy made it acutely aware of the transition costs of a move towards funding. Successive editions of the OECD's *Pensions at a Glance* were more broad ranging in their policy analysis. The International Labour Office (ILO), with its remit to ensure good jobs, including good pensions, was a steadfast opponent of the World Bank's position.[22]

My early writing[23] criticised what I regarded as the over-selling of the Chile model and its one-size-fits all nature, a view shared by P. Diamond.[24] Both themes were picked up and amplified in our later writing.[25] On a personal note, given the tortured publication history of *Keeping the Promise*, I was pleased when P. Diamond's and my 2010 book, which stressed the importance of looking at pension systems holistically, was translated into Spanish.

The view from outside

Notwithstanding some diversity of internal views, in the 1990s the World Bank's external communications were much more monolithic. Partly for that reason, and partly because it can take a long time for perceptions to catch up with reality, the widespread view in the outside world was that the World Bank regarded individual accounts as the central element in a pension system. To a significant extent that view remains widespread, particularly among politicians and civil servants. And, whether or not that view is accurate, its persistence is a major reason for this paper.

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22 R. Beattie, W. McGillivray, *A risky strategy: Reflections on the World Bank Report Averting the old age crisis*, "International Social Security Review" 1995, Vol. 48, Issue 3.

23 *Labor Markets and Social Policy in Central and Eastern Europe…*, op. cit., chapter 9, N. Barr, *Comment on "Government Provision and Regulation of Economic Support in Old Age," by Peter Diamond* [in:] *Annual World Bank Conference on Development Economics 1995*, eds. M. Bruno, B. Pleskovic, Washington, D.C. 1996, *idem*, *Pensions: How much choice?*, CENIE International Centre on Aging, 21 April 2022, https://cenie.eu/en/pensions-how-much-choice (13.5.2023).

24 P. Diamond, *Government Provision and Regulation of Economic Support in Old Age* [in:] *Annual World Bank Conference on Development Economics 1995*, eds. M. Bruno, B. Pleskovic, Washington, D.C. 1996.

25 N. Barr, P. Diamond, *The Economics of Pensions*, "Oxford Review of Economic Policy" 2006, Spring, Vol. 22, No. 1, pp. 15–39, https://doi.org/10.1093/oxrep/grj002 (13.5.2023); *eidem*, *Reforming pensions: Principles, analytical errors and policy directions*, "International Social Security Review" 2009, Vol. 62, No. 2, pp. 5–29; *eidem*, *Pension Reform...*, op. cit.

Recent years: A more balanced view

World Bank analysis

In the years since 2015 the centre of gravity of the World Bank's work on pensions has shifted to a more broadly based view, both of pension design per se and of the place of pensions in wider systems of social protection. The approach is exemplified by an ambitious study[26] which considers social protection in the context of the changing nature of work.[27] The analysis is based explicitly round multiple objectives, including poverty relief and consumption smoothing, and with a particular emphasis on risk sharing indicated in the book's title, *Protecting All: Risk Sharing for a Diverse and Diversifying World of Work*. The analysis fits well with earlier analysis by Santiago Levy[28] which argued that the finance of benefits aimed mainly at poverty relief and insurance should be largely decoupled from employment-related contributions.

A second piece of work[29] broadens the canvas further by considering a range of options for a universal basic income.

More recently, responding to the crisis caused by the COVID-19 pandemic absorbed considerable bandwidth at the World Bank, notably what the Bank called a *Living paper* on social protection and job responses to the pandemic[30] i.e. a document published online and regularly updated.

Chile update

A sign of good government is that it adjusts policy to address design flaws as they become apparent. To a significant extent that has been the story in Chile.

One line of evolution related to attempts to improve regulation as it became apparent that workers do not act like well-informed active consumers. Such regulation concerned the risk profile of funds and attempts to reduce charges. A notable reform in 2008, a recommendation of the 2006 Marcel Commission, introduced a competitive auction mechanism under which AFPs bid for all new entrants to the labour force, who have to stay with the winning bidder for at least 18 months. The AFP had to offer the same low

26 T. Packard, U. Gentilini et al., *Protecting All: Risk Sharing for a Diverse and Diversifying World of Work*, Washington, D.C. 2019, http://documents1.worldbank.org/curated/en/997741568048792164/pdf/Protecting-All-Risk-Sharing-for-a-Diverse-and-Diversifying-World-of-Work.pdf (13.5.2023); M. Rutkowski, *Reimagining Social Protection, Finance and Development*, 2018.

27 Full disclosure: I was an adviser to the project.

28 S. Levy, *Good Intentions, Bad Outcomes: Social Policy, Informality, and Economic Growth in Mexico*, Washington, D.C. 2008; for a recent summary, see *idem*, *The great failure: Retirement pensions in Latin America*, 27 January 2017, https://www.brookings.edu/articles/the-great-failure-retirement-pensions-in-latin-america/ (13.5.2023).

29 *Exploring Universal Basic Income: A Guide to Navigate Concepts, Evidence, and Practices*, eds. U. Gentilini, M. Grosh et al., Washington, D.C. 2019.

30 *Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures,* eds. U. Gentilini, M. Almenfi et al., World Bank, Washington, D.C. 2020, https://openknowledge.worldbank.org/handle/10986/33635 (13.5.2023).

commission for at least 18 months to its existing members and to any new members. Though bringing about some improvement, the effect was limited (Table 9).[31]

A second, hugely important reform emerging from the Marcel Commission was the introduction in 2008 of a solidarity pension for the lowest 60% of pensioners – a non-contributory pension as a complement to individual accounts. As noted, a well-designed pension system addresses consumption smoothing, insurance and poverty relief. The AFP system, with only limited poverty relief, mainly provided consumption smoothing – thus, it can be argued, the 1981 arrangements were not a pension system but only part of a pension system. The 2008 reforms created a more rounded structure. The advantage of the solidarity pension is its wide coverage, including people in the informal sector and workers with incomplete contribution records. Since women are over-represented in both groups, the solidarity pension also makes a major contribution to gender equity.

Notwithstanding these improvements, persistent discontents with the AFP system remained, listed in section 1.3, above. The 2015 Bravo Commission made a number of recommendations, including enlarging the solidarity pension, but failed to reach agreement on reforms, if any, to the AFP system.[32]

Events have moved on since then. First, in June 2020, in response to the COVID-19 pandemic, Chileans were allowed to withdraw 10 per cent of their pension accumulation, and on each of two further occasions allowed a similar withdrawal. In total, about 25 per cent of total pension savings were withdrawn. Policies of this sort can be criticised because they reduce future pensions; and since early withdrawal is likely to be most acute for lower earners, are likely to have the greatest impact on people with smaller accumulations.

Separately, in November 2022 a new government outlined a set of structural reform proposals.[33] One strand is an additional contribution to reinforce the PAYG element provided by the non-contributory pension. Second, AFPs would no longer provide both account administration (i.e. record keeping, etc.) and fund management (i.e. deciding which financial assets to hold). Instead, account administration and fund management would be separated, with a central clearing house for record keeping (as, for example, in Sweden), and with fund management on a wholesale basis by the AFPs and by a new, government-organised fund manager.

Although at the time of writing details remain a work in progress, the proposals have features in common with N. Barr and P. Diamond's[34] evidence to an Australian inquiry which emphasised the potential role of simple, cheaply-managed individual accounts with a well-designed default and very limited choice, along the lines of the National

31 Chile Presidential Advisory Commission on the Pension System (the Bravo Commission), *Final Report*, 2015, http://www.comision-pensiones.cl/report.html (13.5.2023).

32 For a summary of the controversy see N. Barr, P. Diamond, *Reforming pensions in Chile*, "Polityka Społeczna" 2016, No. 1, http://econ.lse.ac.uk/staff/nb/Barr_and_Diamond_2016_Chile.pdf (13.5.2023).

33 Government of Chile, *Find out more about the pension reform and how it will substantially increase pensions in Chile*, 3 November 2022, https://www.gob.cl/en/news/find-out-more-about-pension-reform-and-how-it-will-substantially-increase-pensions-chile/ (13.5.2023).

34 N. Barr, P. Diamond, *Designing a default structure: Submission to the Inquiry into Superannuation: Assessing Efficiency and Competitiveness*, Australia Productivity Commission, 2017, https://www.pc.gov.au/__data/assets/pdf_file/0015/221703/sub074-superannuation-assessment.pdf (13.5.2023).

Employment Savings Trust (NEST pensions) pioneered in the UK (www.nestpensions.org.uk). The same evidence suggested two principles of good design: that where someone wants to make choices about pensions and retirement, the system should assist them; but the system should be designed to work well also for someone who makes no choice – and making no choice should be an entirely acceptable option.

In Chile, much detail has yet to be determined, with particular concern that government should not be involved in fund management (in the UK NEST arrangement all fund management is outsourced to private fund managers). Viewed from the outside, a move to an arrangement more like NEST would combine the principles of individual accounts (i.e. private property) with design that respects the findings of information and behavioural economics, in particular the limitations of individual choice in the face of complexity[35]. To that extent there is the possibility of having the best of both worlds.

To end on a personal note, I have made many trips to Chile, to spend time with the Marcel Commission and as a member of the Bravo Commission. One of the great strengths of the country is that laws are passed, and are then implemented and adhered to. Thus, in sharp contrast with many other countries and despite intense debate, individual accounts remain intact (albeit subject to higher administrative charges than are necessary or desirable and with the withdrawals outlined above). The contrast with Argentina is stark. However, the fact that in that sense the 1981 reforms broadly succeeded is double--edged. Introducing and maintaining individual accounts is administratively, fiscally and politically demanding – more so than was fully appreciated in 1981. Thus many countries followed Chile's lead, and most were unable to carry the reform through successfully. To that extent (as I have said to friends in Chile), Chile did not do the world a favour.

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35 For fuller discussion, see N. Barr, Pensions: *How much choice?*, CENIE International Centre on Aging, 21 April 2022, https://cenie.eu/en/pensions-how-much-choice (13.5.2023).

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