

Universal Pensions and Universal Minimum Pensions: Mexico City, Chile and Norway

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Pension design

Illustrated by three cases:

Mexico City

Chile

Norway

Types of pensions

1. Contributory schemes

- financed from workers' contributions, often (not always) with help from employers & government

2. Non-contributory schemes

- financed by government (taxpayers)

Non-contributory pensions

- Assistance pensions (welfare)
- Universal minimum pensions
- Universal pensions

People respond to incentives

- Universal pensions - best
- Universal minimum pensions - next best
- Assistance pensions - worst

Focus on individual or on household?

- **Universal pensions** – individual (sometimes a marriage penalty)
- **Universal minimum pensions** – individual (sometimes a marriage penalty)
- **Assistance pensions** – household

Universal pensions

1. **New Zealand** - 1940
2. Mauritius – 1958
3. Cook Islands - 1966
4. Brunei - 1984
5. Namibia – 1990
6. Samoa – 1990
7. Nepal - 1995
8. Botswana – 1996
9. Bolivia - 1996
10. **Mexico City** – 2001
11. Kosovo – 2002
12. Kiribati - 2003

Mexico City



Ciudad México
Capital en Movimiento

PENSIÓN ALIMENTARIA
Para Adultos Mayores de 68 Años
Residentes en el Distrito Federal

0000 0000 0000 23 5
MARIA A SANCHEZ M
00-000-1

Ahora **68** años
Desde *¡Vivir por Más!*

Ciudad de México
SEGURIDAD SOCIAL

The card features a background image of two hands shaking. It includes the City of Mexico logo, the title 'PENSIÓN ALIMENTARIA' for adults over 68, the beneficiary's name 'MARIA A SANCHEZ M', a card number '0000 0000 0000 23 5', and the slogan '¡Vivir por Más!'.

Mexico City's universal pension

- Requirement: 3 years residence, age 68+
- Almost 500,000 receive monthly pension
- MX\$897.30 (US\$72) = 62% of minimum wage (no marriage penalty)

A Mexico City-sized pension

- $[(\text{HK}\$28 \times 8) / \text{MX}\$57.46] \times \text{MX}\$897.30 = \text{HK}\3498
- This is about HK\$3500 (US\$450)
- Total cost (for 900,00 65+) = HK\$37.8 billion
- This is 50% of government surplus, 10% of revenue, 2.2% of GDP

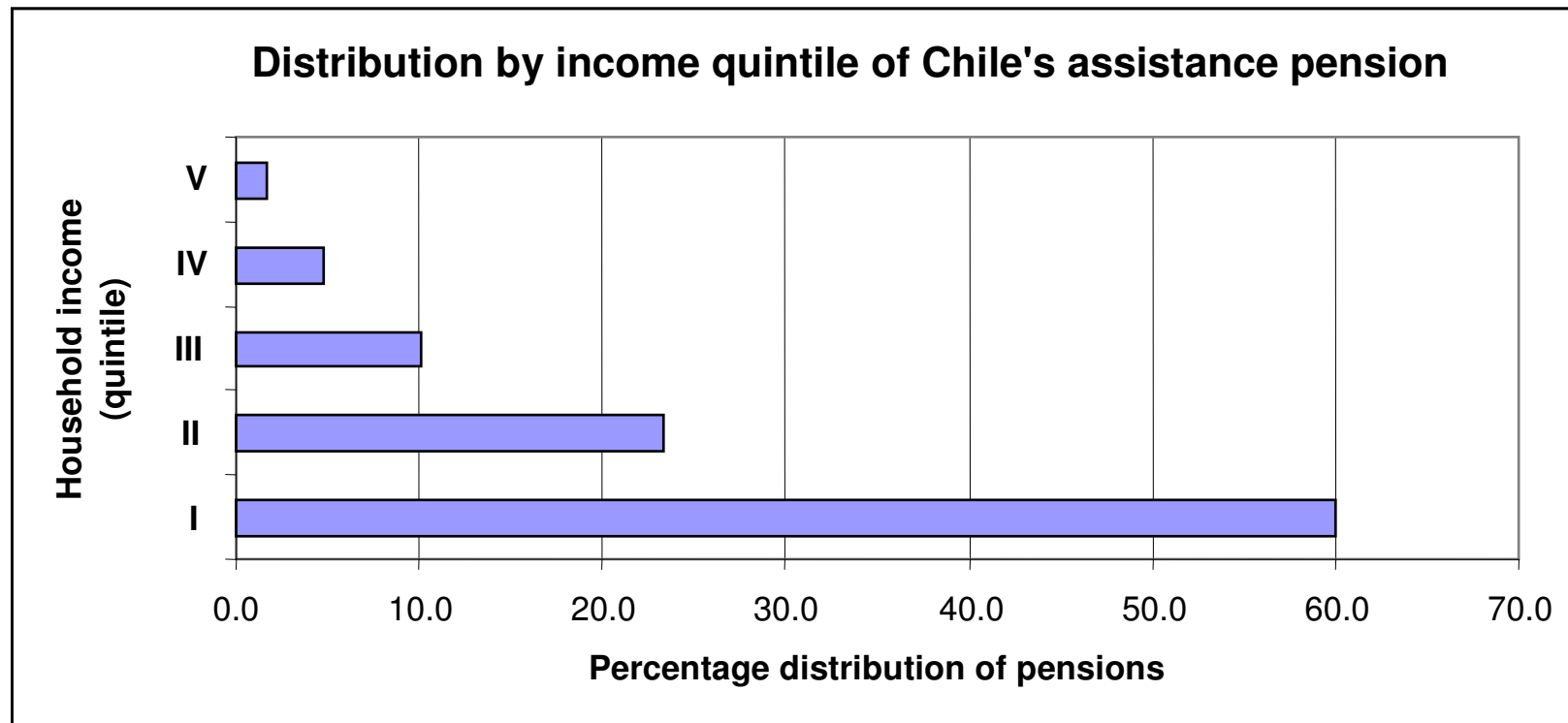
is feasible in Hong Kong!

Chile's three reforms

- 1975: assistance pension
- 1981: individual accounts + minimum pension
- 2008: Solidarity Pension (hybrid assistance pension/minimum pension)

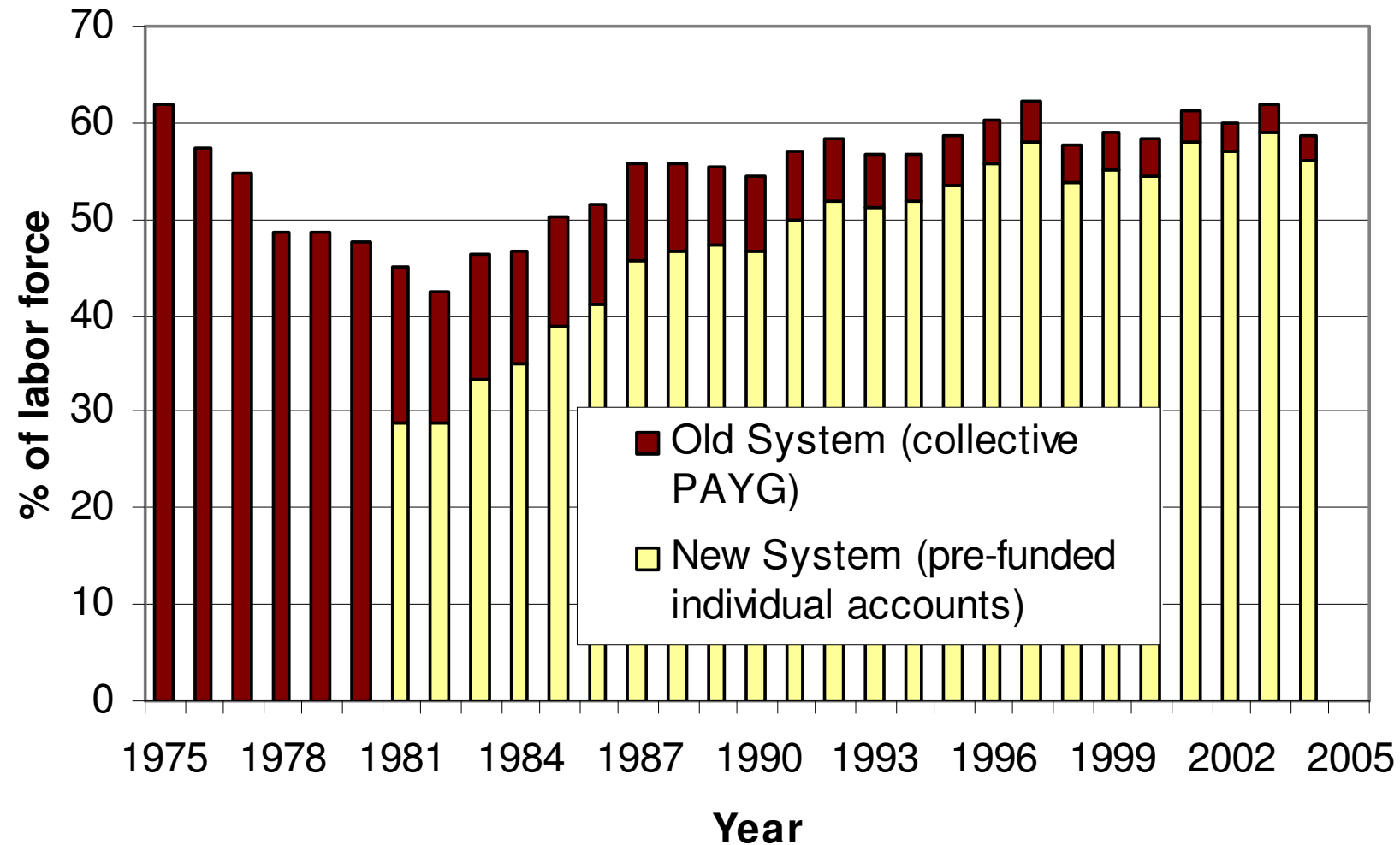
State Pension Age = 65 years

Chile 1975 – assistance pension



Assistance pension targeted the poorest 15% of households.
 Actual distribution is from a Chilean household survey.
 Source: Willmore & Kidd (2008).

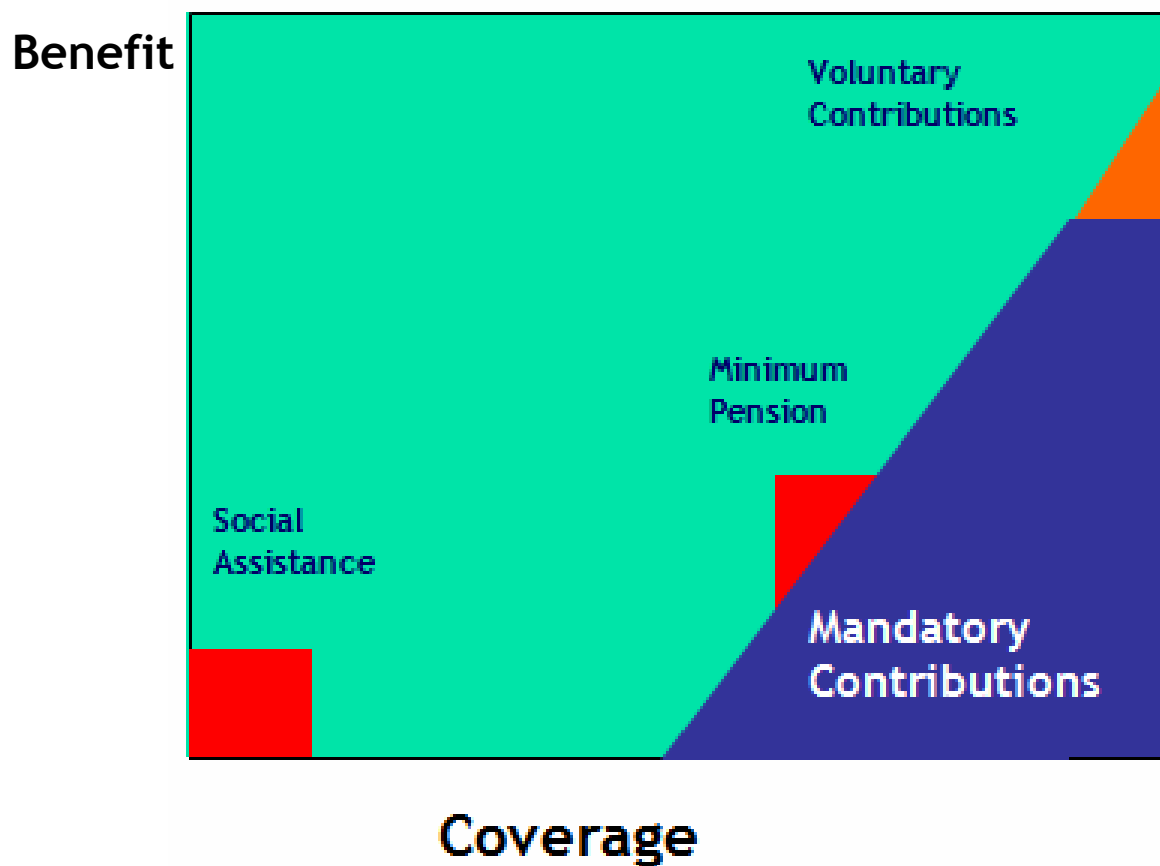
Chile 1981 – individual accounts



Chile 1981 – minimum pension

- 2.4 x the size of the assistance pension
- Guaranteed minimum for those with at least 240 months of contributions

Chile 1981 - 2007

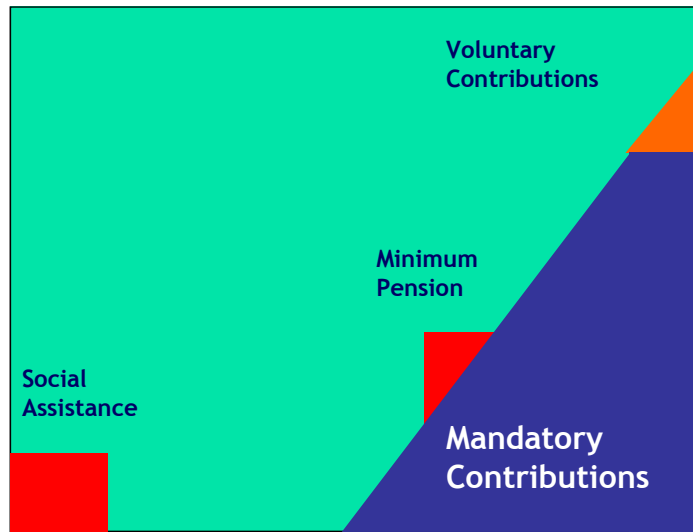


Chile 2008 – Solidarity Pension

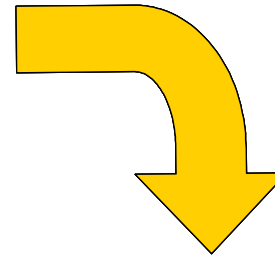
- Combines old Assistance Pension + Minimum Pension in a single pillar
- Ch\$78,449 (US\$160) a month = 43.1% of the minimum wage
- Recovered from contributory pension income at rate of 50% (37.5% in 2012)
- Taper, now 50%, will become 62.5%

Chile's 2008 reform (idealised view)

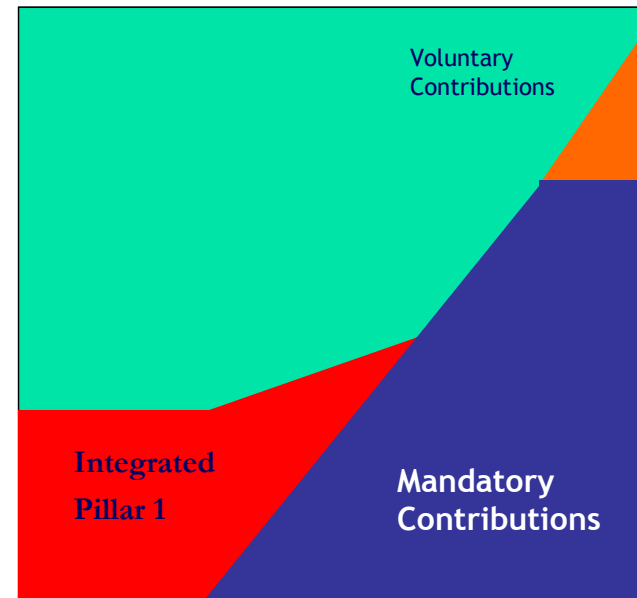
OLD PENSION SCHEME



Old Coverage



NEW PENSION SCHEME



Coverage of the New Pension Scheme

Chile 2008 – Solidarity Pension

- Subject to a test of pension income **and** household income
- Not a **universal** minimum pension
- The Solidarity Pension excludes (by design) members of high-income households
- Targets poorest 60% of households (instead of the poorest 15% of households)

Norway's assistance pension

- 1937-1958
- From age 70
- Light means-test
- Portion given regardless of income
- Income of adult children disregarded
- Two groups excluded:
 - those who had lived abroad
 - Those convicted of vagrancy, begging, drunkenness, etc.

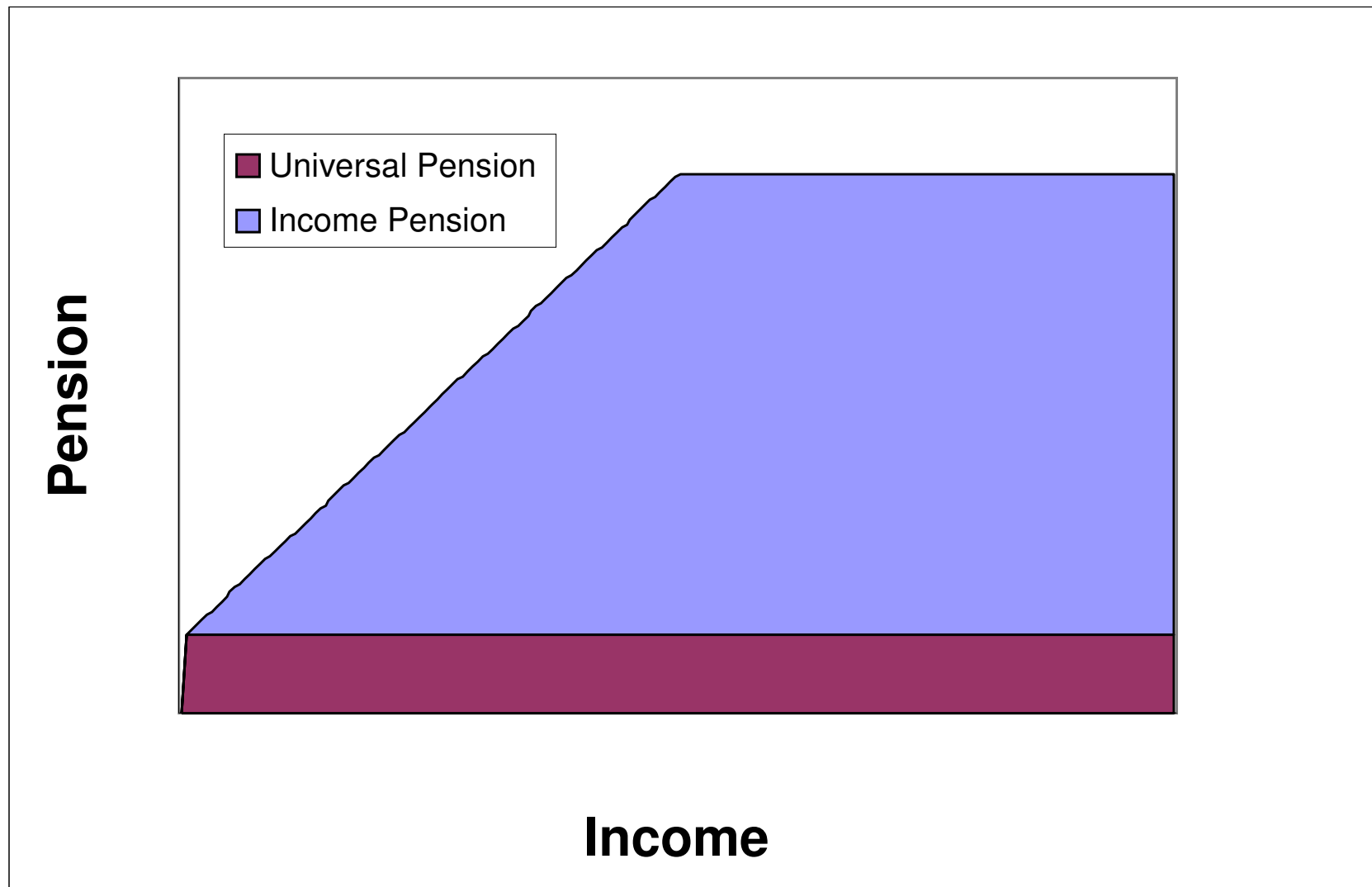
Norway's 1959 universal pension



Norway's residence requirement

- Full pension with 40 years residence between ages 16 and 66
- Partial pensions (3/40, 4/40, 5/40, etc.)

Norway's 1967 income pension



Norway today

- End of universality in 1969
- Reintroduction of means tests & retirement tests for a basic pension
- System is now a “universal minimum pension”
- Retirement no longer necessary (pensioners allowed to work from 2011)

Norway's 2011 universal minimum pension

- (1973-2010) State Retirement Age: 67
- Average retirement age in 2010: 63 (including disability pensioners)
- Flexible pension age from 2011: 62-75
- Monthly pension NOK13200 (US\$2225) is 36% of average gross wage, 45% of average net wage
- Recovered from other pension income at the rate of 80% (previously 100%)

Norway's 2011 universal minimum pension



References

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- L. Willmore & Stephen Kidd, **Tackling Poverty in Old Age: A Universal Pension for Sri Lanka** (HelpAge International, London, 2008).
- A. M. Christensen, D. Fredriksen, O. C. Lien and N. M. Stølen, "Pension Reform in Norway", chapter for **Non-Financial Defined Contribution (NDC) Schemes**, edited by R. Holzmann, E. Palmer and D. Robalino (World Bank, in print, 2011).

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