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
3. Cook Islands - 1966
4. Brunei - 1984
5. Namibia – 1990
10. **Mexico City** – 2001
11. Kosovo – 2002
12. Kiribati - 2003
Mexico City
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

- \[\frac{(HK\$28 \times 8)}{MX\$57.46}] \times MX\$897.30 = HK\$3498\]
- This is about HK$3500 (US$450)
- Total cost (for 900,000 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

Chile 1981 – individual accounts

The chart illustrates the percentage of the labor force covered by the Old System (collective PAYG) and the New System (pre-funded individual accounts) from 1975 to 2005. The Old System is represented by dark red bars, while the New System is shown in yellow. The percentage for each year is indicated on the y-axis, ranging from 0 to 70%.
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

Benefit

Coverage

Voluntary
Contributions

Minimum
Pension

Mandatory
Contributions

Social
Assistance
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

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

- Universal Pension
- 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

![Graph showing the relationship between taxable income and pension as a percentage of average wage. The graph illustrates two pension levels: Minimum Pension and Income Pension. The x-axis represents taxable income (% of average wage), while the y-axis represents pension (% of average wage). The graph shows that as taxable income increases, the pension increases as well, with the Income Pension line consistently higher than the Minimum Pension line.]
References


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