

*Old-Age Pension Reform in a Traditional
Culture and Low-Income Economy:
Lessons for China from Latin America*

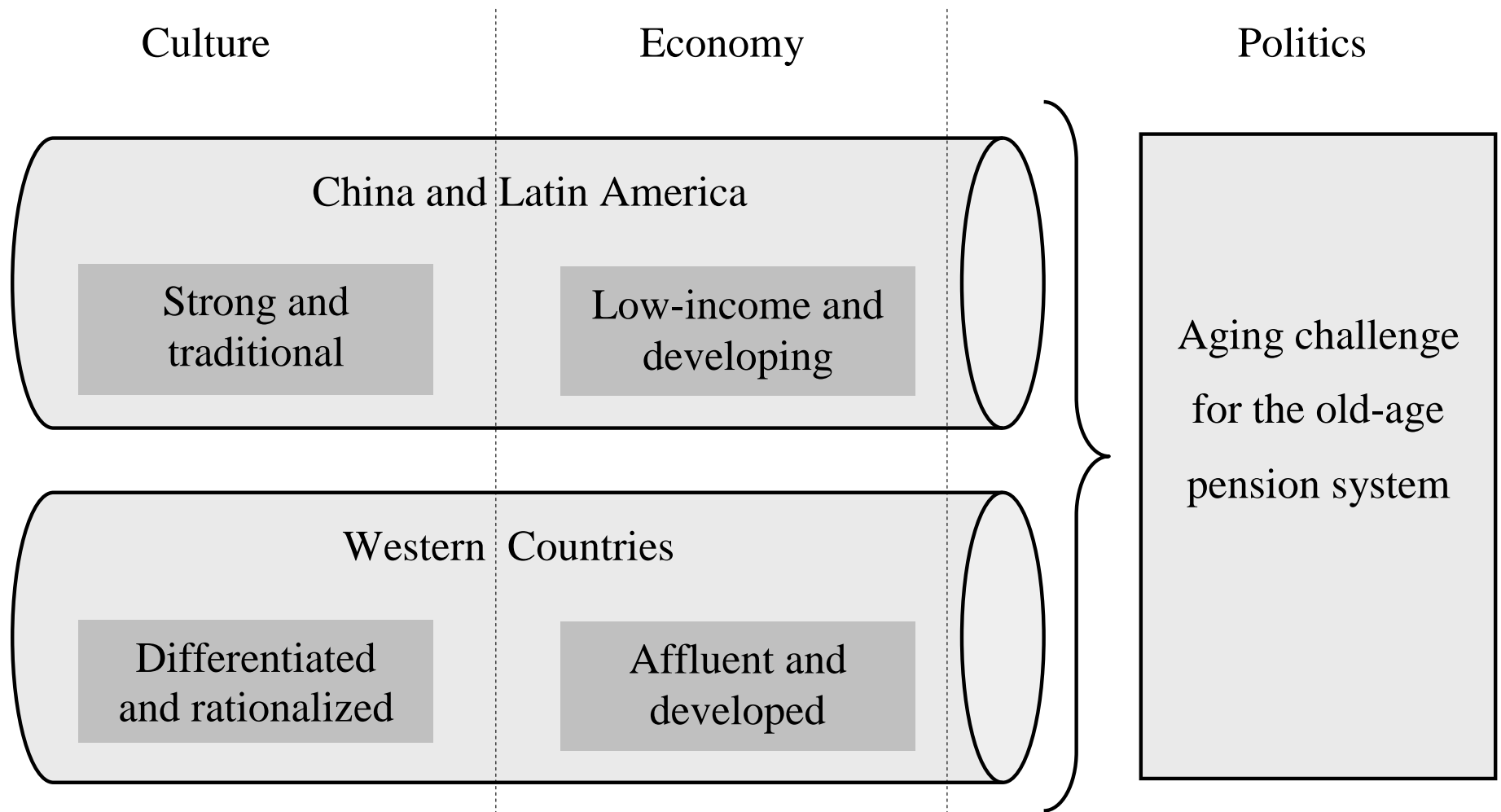
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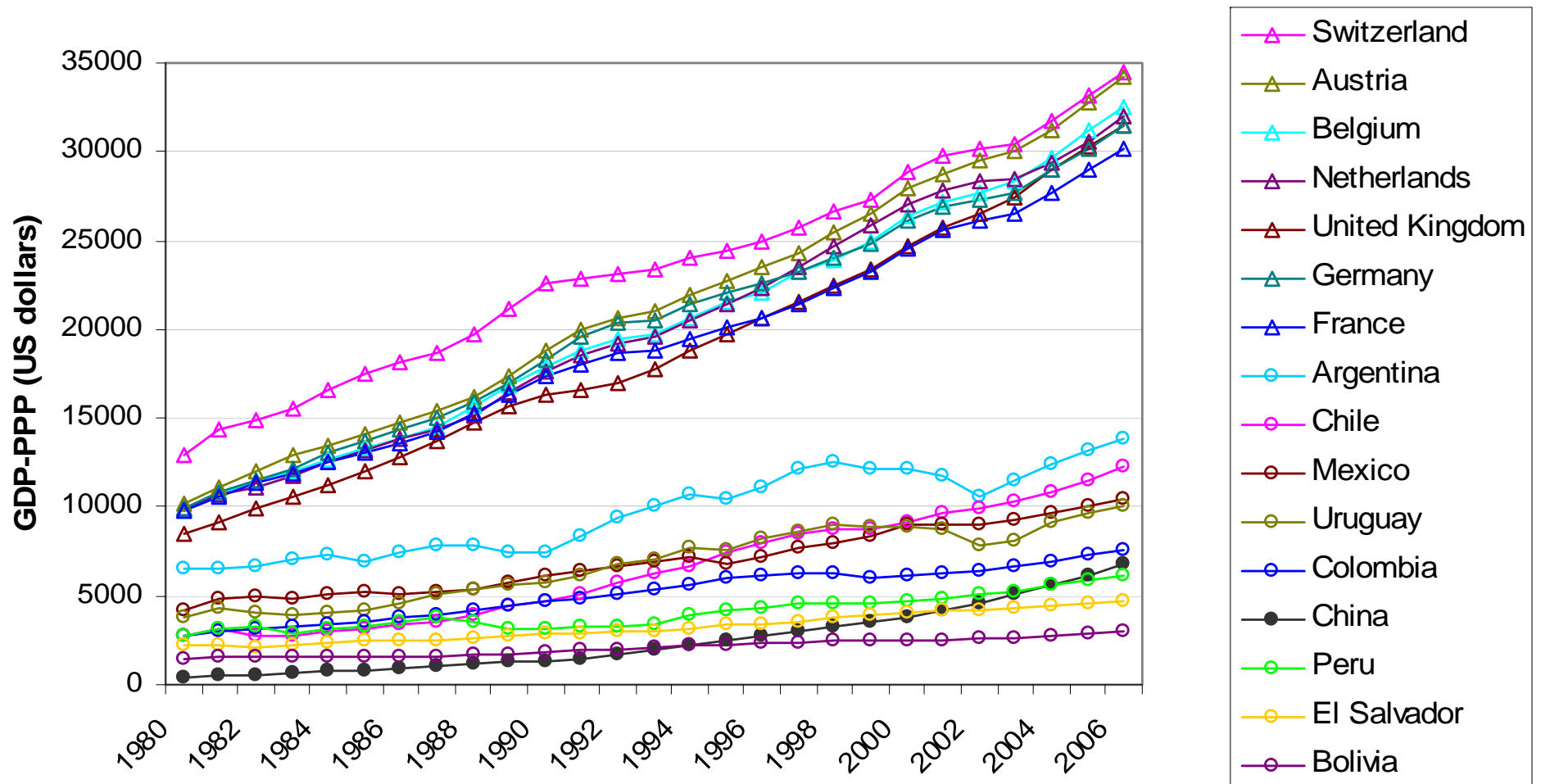
Focus.

- Historical and cultural factors shaping the pension reforms in Latin America and China.
- Potential consequences of reforms in China.

The aging challenge for the pension system has come through dissimilar modernization pathways.



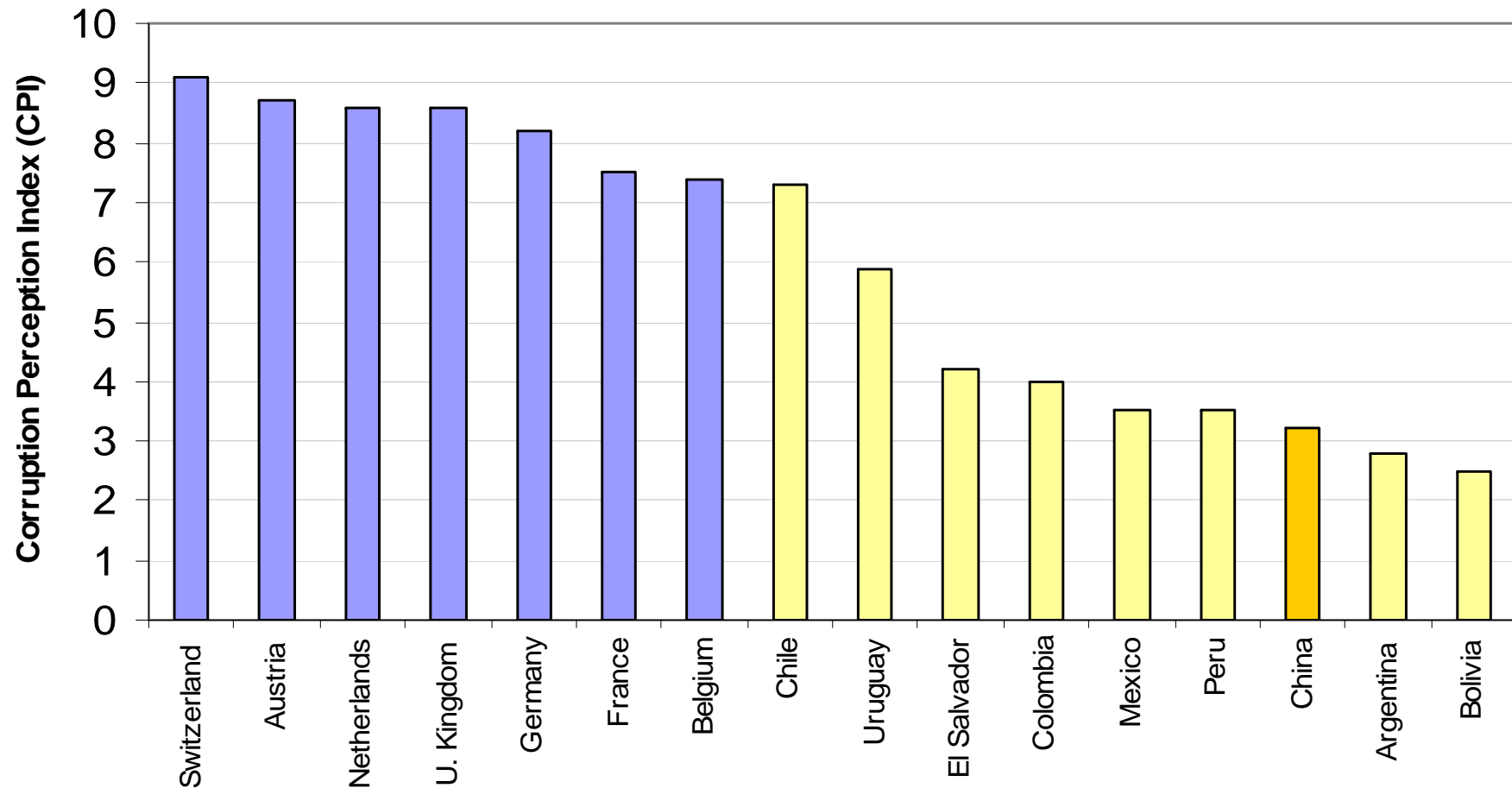
The western pathway is characterized by wealth.



Note: China excluding Taiw an Province and Hong-Kong SAR.

Source: International Monetary Fund, World Economic Outlook Database, September 2005.

Western countries have a stronger and cleaner legal system than China and Latin America.



Note: CPI Score ranks countries according to experts' perception of corruption, and ranges between 0 (highly corrupt) and 10 (highly clean). China excluding Hong-Kong SAR.

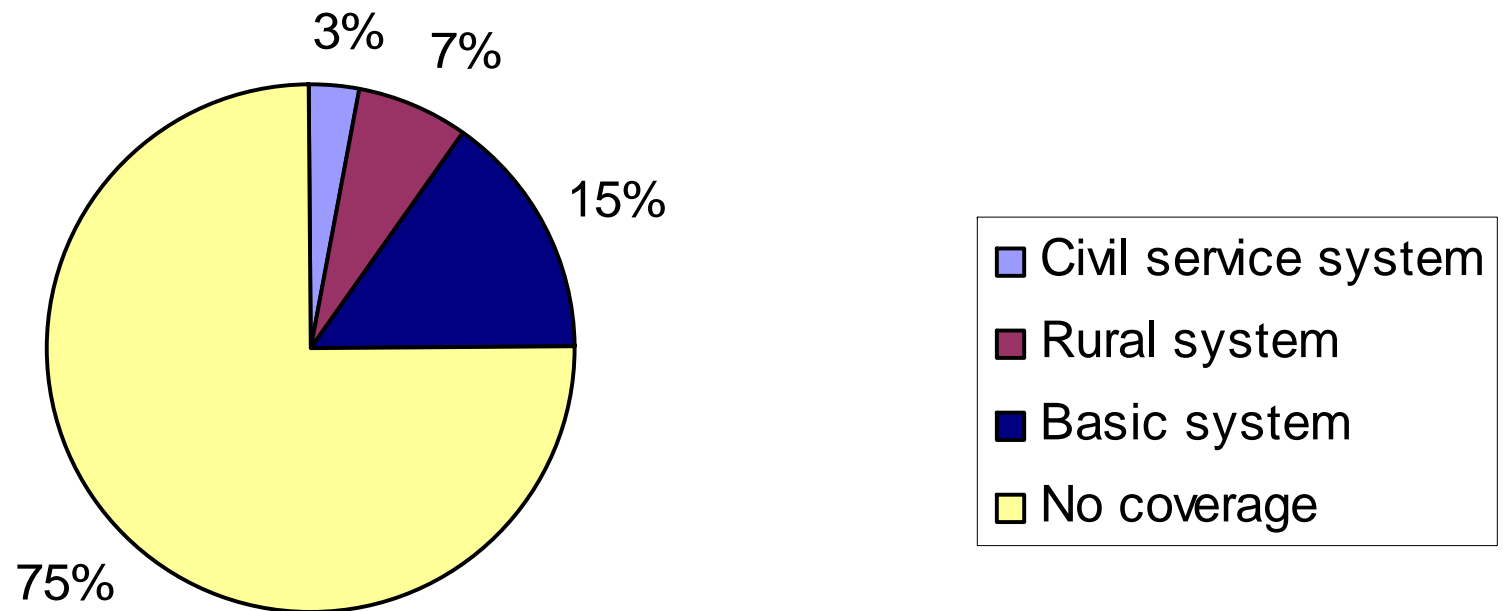
Source: Transparency International 2005.

Challenging areas of the old-age pension system reform and modernization pathways.

Old-Age Pension Reform	China and Latin America ¹	Western Countries
Coverage	Family (<i>xiao</i>)	Institutions
Compliance	Reciprocity (<i>chung</i>)	Individual Planning
Transparency	Loyalty (<i>zhong</i>)	Legality
Fiscal stability	Poverty	Wealth

¹ The *pinyin* system of Romanization has been used for Chinese terms for Confucian virtues.

Three-quarters of the Chinese workforce has no pension provision.



Note: Percent of total Chinese workforce covered by pension systems in 2002.

Source: Jackson and Howe 2004.

In Latin America the pension system reform had little if any effect on coverage.¹

Country	Coverage before the reform	Coverage after the reform	Other indicators of coverage after the reform		
	Contributors/ Economically Active Population (year)	Contributors/ Economically Active Population (2002)	Contributors/ Employed Persons (2000-2003)	Contributors/ Wage-Earners (2000-2003)	Beneficiaries/ Population Age 65+ (2000-2003)
Chile	64 (1980)	58	63	77	64
Argentina	50 (1994)	26	40 ²	55 ²	68 ²
Mexico	37 (1997)	33	39	62	19
Uruguay	32 (1997)	45	65 ²	79 ²	87 ²
Colombia	32 (1993)	18	-	-	19
Peru	31 (1993)	12	14	31	24
El Salvador	26 (1996)	22	32	53	15
Bolivia	12 (1996)	11	11	29	15

¹ Adapted from AIOS 2005; Mesa-Lago 2005; and Rofman 2005.

² Information for urban areas.

The majority of Chinese elders live with their children.¹

	Rural	Urban	Rural-urban combined
<i>Males</i>			
Living alone	8.7	7.7	8.4
With spouse only	26.3	33.7	28.8
With spouse & other, not with children	0.7	0.8	0.7
With spouse and children	36.5	39.0	37.4
With children, not with spouse	25.6	16.8	22.6
With others, not with spouse and children	1.9	1.3	1.7
Institution	0.3	0.7	0.4
Grand total	100.0	100.0	100.0
Subtotal of living with spouse	63.5	73.5	66.9
Subtotal of living with children	62.1	55.8	59.9
<i>Females</i>			
Living alone	9.8	12.4	10.7
With spouse only	17.9	21.3	19.1
With spouse & other, not with children	0.3	0.6	0.4
With spouse and children	22.8	21.7	22.4
With children, not with spouse	48.1	42.6	46.2
With others, not with spouse and children	0.9	1.0	0.9
Institution	0.2	0.4	0.3
Grand total	100.0	100.0	100.0
Subtotal of living with spouse	41.0	43.6	41.9
Subtotal of living with children	70.9	64.4	68.7

¹ Living arrangements for Chinese population aged 65 and over, rural urban comparison, year 2000. Adapted from Zeng and Wang 2003.

Compliance rates have declined in Latin America.¹

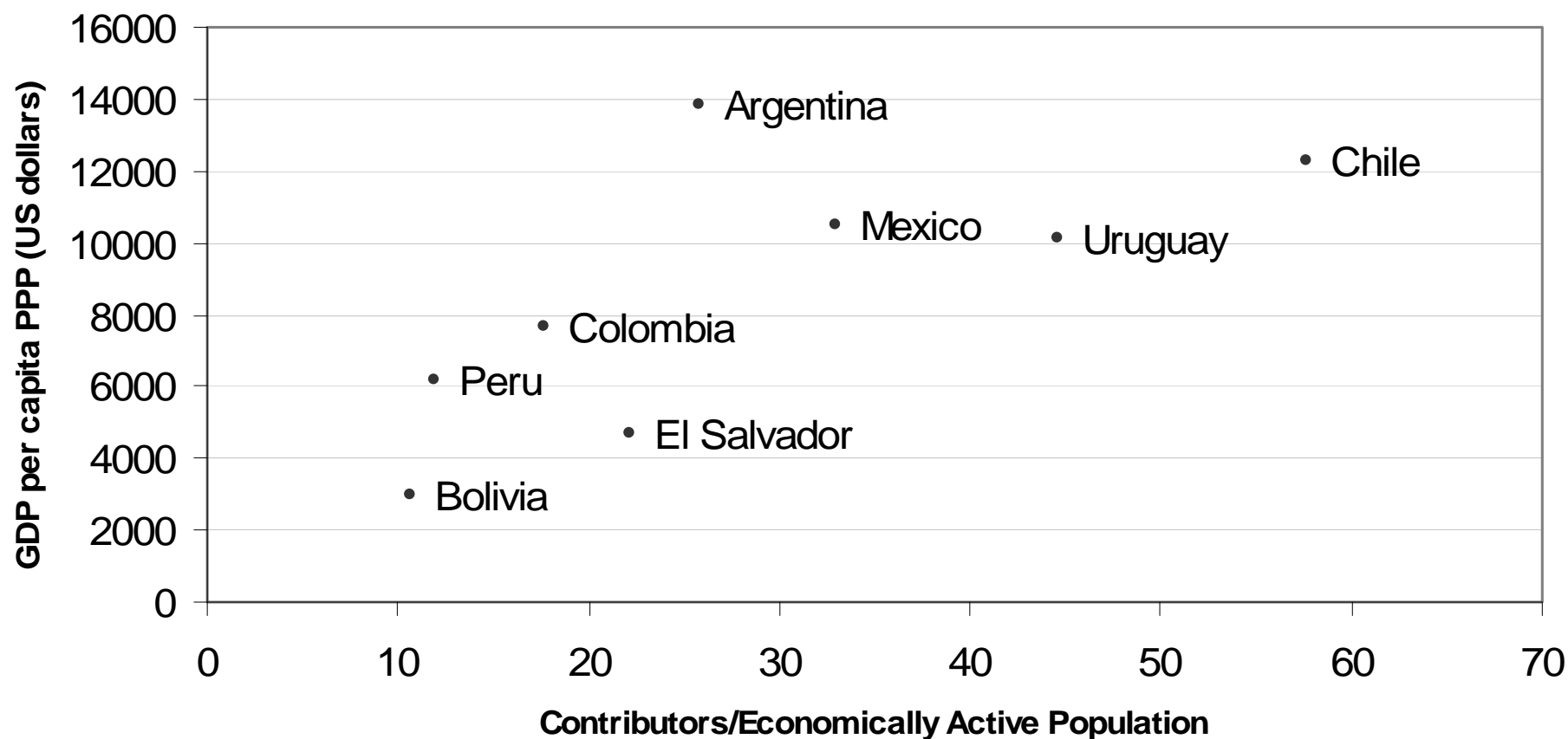
Country	1998	1999	2000	2001	2002	2003	2004	2005
Argentina	48.9	44.3	39.1	29.0	33.2	35.2	35.4	40.3
Bolivia	-	-	-	47.0	46.9	39.0	44.9	47.5
Chile	52.8	53.4	50.9	53.7	51.0	51.9	50.4	51.2
Colombia ²	-	51.6	48.5	48.7	47.6	48.7	49.5	50.6
El Salvador	67.2	63.8	53.5	53.2	47.6	46.3	41.9	39.5
Mexico ³	63.4	60.2	57.9	44.7	41.7	39.3	38.8	37.6
Peru	45.6	45.7	41.7	41.2	39.4	41.9	39.9	36.2
Uruguay	67.4	58.7	53.9	53.2	45.1	52.7	52.5	55.7

¹ Percentage of affiliates who contributed in the past month to IRAs, December 1998-2005. Source: Mesa-Lago 2005 and AIOS 2005.

² In 1993-2003 contributor was an affiliate who had at least one contribution in the last six months.

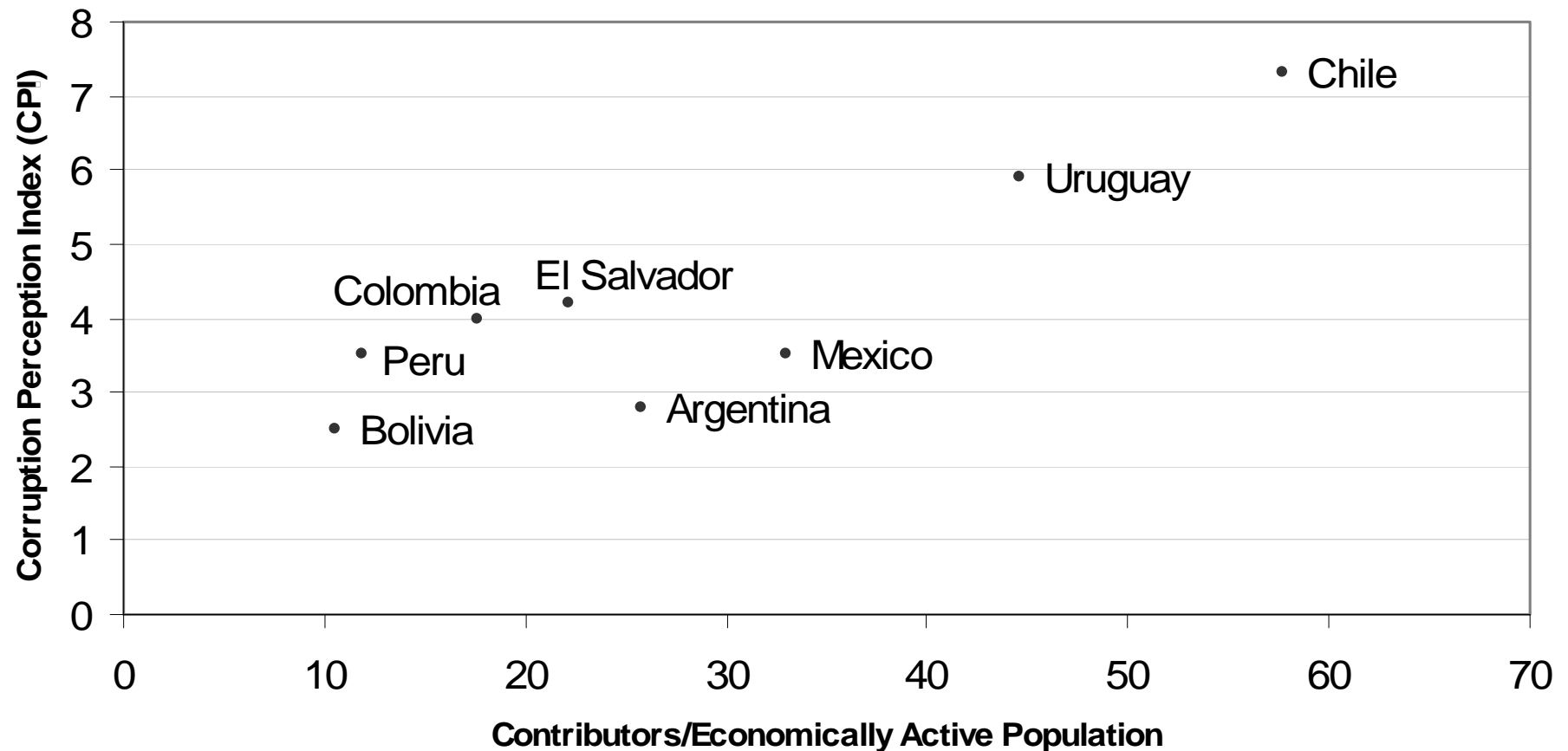
³ In 1999-2003 contributor was an affiliate who had at least one contribution in the past two months.

Coverage is larger in wealthier countries.



Source: Author's calculations based on AIOS 2005; IMF 2005; Mesa-Lago 2005, Rofman 2005, and Transparency International 2005.

Coverage is larger in countries with better CPI score.



Source: Author's calculations based on AIOS 2005; IMF 2005; Mesa-Lago 2005, Rofman 2005, and Transparency International 2005.

The fiscal strength prior to the reform is key to overstep its costs.



Source: Author's calculations using WDI (WB 2003), based on Gill et al 2005.

Major challenges for China.

- Low coverage: promote family support in rural areas.
- Low compliance: adjust incentives to the culture.
- Corruption: strengthen regulation and supervision.
- Fiscal burden: formalize notional accounts.