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The expansion of economic protection for older adults in Latin America

Key design features of non-contributory pensions

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Abstract: Over the past two decades, many Latin American countries have expanded the economic protection of older adults by developing non-contributory pensions or making eligibility rules more flexible. These policies have addressed long-standing coverage gaps in Latin American pension systems and contributed to incorporating a large number of older adults in the social protection system. The paper examines the main design features of non-contributory pensions and how they interact with pre-existing contributory systems. It identifies the different types of coverage expansion strategies across Latin America and discusses three different country experiences—Argentina, Bolivia, and Colombia—in greater detail.

Keywords: coverage, equality, old age, non-contributory pensions, social pensions, social security
JEL classification: I31, I38, J14, J46

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1 Introduction

Latin American pension systems were designed following a social insurance model that offers pension benefits to formal workers who pay contributions. From the 1980s, several countries implemented structural pension reforms that replaced existing public pay-as-you-go pension systems with privately administered individual accounts (Mesa-Lago 2004). While specific design features varied, the direction of reform was similar across countries: benefits were more closely linked to past contributions and a privately administered system of individual savings for old age was developed. Redistribution was limited and generally confined to social assistance for the elderly poor. In several countries, the contribution records required for a minimum pension were too long for most workers to meet. As a result, the reformed pension systems suffered from persistently low levels of coverage and left a large share of older adults unprotected.

In more recent years, several Latin American countries implemented policies to extend economic protection to older adults who could not get a pension through the contributory system. It was a moment in which Latin American social policy acquired a new dynamism in a context of economic growth and changing ideas and political balances (Huber and Stephens 2012; Pribble 2013). Some countries reformed the pension systems that had been privatized in the past (including cases of reform reversals, like the Argentinian one—see section 4.1) and many also promoted the expansion of non-contributory pensions (also called 'social pensions') for older adults and people with disability, or made access to contributory benefits more flexible for some types of workers (Arza 2013; Bosch et al. 2013; Palacios and Knox-Vydmanov 2014; Rofman et al. 2013). These policies were part of a wider trend of welfare expansion in other areas of social protection, which involved more resources and benefits for social assistance (Barrientos 2011).

The aim of this paper is to analyse and compare the key design features of non-contributory pensions, which have benefited many previously unprotected older adults in Latin America. It is based on the systematic study of the design features of non-contributory pension schemes and related policies oriented to the expansion of benefits to older adults with no pensions. It relies on various sources of data, including quantitative data (both administrative and household survey data, mainly from the Inter-American Development Bank [IDB] and the Comisión Económica para América Latina y el Caribe [CEPAL]), and comparative databases of the design features of social pensions (mainly CEPAL's [2016a] Non-contributory Social Protection Programmes in Latin America and the Caribbean database and HelpAge International's [2015] Social Pension Database), and complements this information with existing studies and official sources in each country.

In terms of content and structure, the paper first discusses the need and opportunities for coverage expansion in Latin American, referring to pension coverage deficits and the window of opportunity for dealing with them in the past two decades. Second, it documents the policies that have recently expanded the protection of older adults and identifies three different strategies in the region. It then analyses in greater detail the experiences of three countries (Argentina, Bolivia, and Colombia) that have achieved substantial coverage expansion through different instruments and policy strategies. Finally, the paper closes with some remarks on the progress made and the challenges that remain for adequate old age protection in Latin America.

2 The need and opportunity for pension coverage expansion

Latin American countries have some of the highest levels of income inequality in the world. Socioeconomic inequalities are reflected not only in income distribution but also in differential access to formal employment and social security, as well as to housing, infrastructure, and social services. In most countries, the majority of workers in the lowest income quintile work in the informal labour market with no access to social security. What scholars have called the 'double incorporation' (Martínez Franzoni and Sánchez-Ancochea 2012), in other words, incorporation both in the formal labour market and in the social protection system, is lacking for a very large share of the population of Latin America.

Since the right to a pension in traditional contributory pension systems requires a past of formal work, inequalities in the labour market are reflected in the unequal distribution of pension rights. In fully earnings-related and savings-based pension systems, where the amounts contributed or the level of earnings determine (to various degrees) the benefit level, earnings inequalities also produce pension benefit inequalities. In some pension systems, specific rules are put in place to compensate for this (for instance, minimum and maximum pensions).[1] But many informal workers do not benefit from these redistributive features, because they do not even meet the eligibility conditions to obtain a (minimum) pension.

As has been widely documented, the unequal distribution of formal work and the high prevalence of informality have left many older adults in Latin America with no right to a contributory pension. Structural pension reforms implemented in several Latin American countries from the 1980s onwards have not solved the problem. These reforms established privately administered individual accounts as a key component of the mandatory pension system to substitute for, or operate jointly with the public earnings-related system, and were implemented first Chile in 1981, and later Peru, Argentina, Colombia, Uruguay, Bolivia, Mexico, El Salvador, Costa Rica, Dominican Republic, and Panama (Madrid 2002; Mesa-Lago 2004, 2006, 2012).[2] To various degrees, they produced a shift in pension policy towards a new model based on individual savings, which linked benefits to contributions more strictly and involved substantial fiscal costs to pay for the transition from pay-as-you-go to funding.

There were several problems with the new pension systems, including serious difficulties in offering adequate protection for all in a context of widespread informal labour markets. Coverage remained low and there were concerns in some countries that benefits for many covered workers—especially those with interrupted work histories or low earnings—would be too low. In Chile, for instance, it became increasingly clear that benefits for many workers would be lower than expected due to low contribution densities (Chile 2006). This encouraged governments to take action to improve the outcomes of the system, and countries like Argentina, Bolivia, and Chile implemented so-called pension 're-reforms' (Becker et al. 2012; Kritzer et al. 2011; Mesa-Lago 2014). Many others started a process of pension coverage expansion, developing new social pension programmes or extending existing ones to provide economic support to older adults not covered by the contributory pension system.

International advocacy for pension coverage expansion (with the International Labour Organization [ILO] Social Protection Floor as a key initiative; ILO 2011, 2012) was also growing, influencing policy agendas and cross-country policy learning. Non-contributory pensions started to be widely promoted. Just as happened with conditional cash transfer (CCT) programmes, it became clear that non-contributory pensions could reach many people, involve relatively limited

[1] As a result, in countries like Argentina, where most pensioners receive the minimum benefit, the Gini coefficient for the distribution of pension benefits is lower than that of earnings, reflecting lower levels of inequality among pensioners than among workers (Arza 2012b).

[2] A reform measure was passed in Ecuador but it was not implemented.

budgets, and enjoy popular support. International agencies like the IDB, the World Bank, and the ILO now seemed to share this advocacy for expanding basic pension coverage.

A positive macroeconomic and fiscal context, in an international environment of high commodity prices, also facilitated the expansion of public social spending in all areas, and on social assistance programmes in particular. On average, per capita gross domestic product (GDP) growth was between 2.5 and 4.7 per cent per year in the period 2004 to 2011 (except for 2009, when the rate was negative). Social expenditures grew in most countries in the main areas of social protection, and on average rose from 14.7 to 18.8 per cent of GDP between 1998/9 and 2012/13. The proportion of social spending in total spending also increased from 53.8 to 64.8 per cent on average over the same period (CEPAL 2014: Statistical Appendix, Table 1 and Tables 32 and 34, weighted average).

The political and ideological shift from market-based orthodoxy towards greater emphasis on state intervention and redistribution also provided the political context for expanding social policy. The number of governments situated to the left of centre on the political spectrum (notwithstanding their differences) increased, and most managed to get re-elected (Huber and Stephens 2012; Pribble 2013). Since, by and large, these programmes were popular, for incumbents non-contributory benefits (both pensions and CCTs) could provide political credit. The expansionary trend was not confined to left-of-centre governments, however, but, as the Mexican case shows, initiatives from progressive forces, from local governments (or even from the opposition), can also be relevant in placing these policies within the political debate and eventually encouraging their implementation (see Willmore 2014).

Overall, the expansion of non-contributory pension coverage occurred in the context of these shared needs and opportunities for pension reform. However, it should also be noted that this trend was not shared by *all* countries in the region and that the degree of progress that each one has achieved varies. As we will see, in countries that have implemented policies to expand coverage, a variety of specific policy instruments were used, with differences in aims, designs, and outcomes.

3 Policy design and policy instruments across countries

The process of coverage expansion took place in countries with different pension systems: some had public pay-as-you-go systems (e.g. Paraguay and Brazil), others had private individual accounts (e.g. Chile and Bolivia), and others had mixed or parallel systems where individual accounts coexisted with public pensions (e.g. Argentina, Colombia, and Uruguay). There were coverage gaps in all countries, but in some of them these gaps were larger. Argentina, Chile, Brazil, and Uruguay, 'pioneer' countries in social security development (Mesa-Lago 1991), had relatively high rates of pension coverage and high levels of public pension expenditures. In contrast, countries like Bolivia, El Salvador, Paraguay, Peru, and Mexico had low coverage rates and lower levels of pension spending (Rofman and Oliveri 2012; Rofman et al. 2013). Their coverage expansion strategies were based on a range of different instruments, but all of them shared a key feature: the creation or expansion of programmes which offered benefits that did not require a record of past contributions as a condition for access.

Tables 1 and 2 summarize the most important of these policies in Latin America.[3] Table 1 describes their main design features and Table 2 compares performance indicators (such as coverage, benefit

[3] The study includes 15 Latin American countries with relevant non-contributory pension schemes, as detailed in Tables 1 and 2.

amounts, and expenditures). Non-contributory pensions, also referred to as social pensions, are 'regular government provided cash transfers to older people' (Palacios and Knox-Vydmanov 2014: 251) that are not linked to past contributions. For that reason, they are labelled 'non-contributory', and we take that common usage here, although some of these programmes may be partly financed through contributions, or be part of the contributory pension system (such as the Rural Pension in Brazil or the moratorium in Argentina). In most other cases, these programmes are designed as social assistance schemes, based on a means-tested model, which already existed in some countries before the recent expansion but had a more limited scope. In others, they are much wider in scope and aim to cover, on their own or in combination with contributory schemes, the entire population of older adults. Some benefits are integrated with contributory pensions but others are completely separate programmes that work more as poor relief for old age than as retirement benefits.

Based on this diversity, Rofman et al. (2013: 10) identify two strategies that Latin American countries have adopted to expand coverage: first, the expansion of traditional contributory pension systems and, second, the development of poverty reduction programmes targeted on older adults. The authors also compare the design of these policies over five aspects: (1) whether pension programmes are universal, targeted for universality, or means-tested; (2) whether they are integrated with or independent from the contributory systems; (3) whether they are permanent or temporary; (4) whether their implementation is gradual or immediate, and (5) whether they are managed by existing or new institutions (Rofman et al. 2013: 38–43). In line with that approach, this paper examines the main design features of non-contributory pensions and coverage expansion programmes presented in Table 1 (including the eligibility conditions and the degree of integration with the contributory system), but also combines them with outcomes (coverage rates of both contributory and non-contributory systems) and with benefit levels. As a result, three main types of coverage expansion are identified (Figure 1).[4]

The first type of coverage expansion is one that characterizes countries with comparatively high coverage rates in the contributory pension system (a key feature of countries in this group). Using a variety of instruments, recent policies in these countries have facilitated the incorporation of the majority of older adults and have managed to reach very high coverage rates (above 80 per cent of the elderly population), with higher benefits than most other Latin American non-contributory schemes. While specific policy instruments are not the same across countries in this group, all of them depart from the strictly contributory rule. Argentina, Brazil, Chile, and Uruguay are part of this group. Benefit levels for these programmes vary among them (lower in Chile and higher in Brazil), but are higher than benefits for similar programmes in most other countries in region.

A range of different instruments for coverage expansion were used by countries in this group, but all managed to achieve close to full coverage of older adults. In Argentina, coverage rates increased from 69 to 90 per cent of the population aged 65 and over between 2005 and 2014 (IDB 2016). This was the outcome of a 'pension moratorium', which introduced a temporary flexibility in contributory requirements to get a pension (see section 4.1; see also Arza 2012a; Arza and Chahbenderian 2014a). The strategy was to expand coverage within the contributory system.

[4] As explained below, countries in each group share key features, but that does not imply that pension policies, or non-contributory benefits, in these countries are equal in every aspect, which they are not.

Box 1: Types of coverage expansion in Latin America

I: Countries with high contributory pension coverage: Expansion within or complementing a contributory system with already large coverage rates using various types of instruments, including means-tested benefits, programmes for rural workers, or greater flexibility of access for informal workers. The result is high total coverage (e.g. Argentina, Brazil, Chile, Uruguay).

II: Countries with low contributory pension coverage and **universal or pension-tested modest benefits**: Expansion through the implementation of new non-contributory benefits for all (universal) or for all older adults without a pension (pension-tested). Non-contributory pension coverage becomes higher than contributory pension coverage and total coverage reaches high levels. Benefit amounts are small and far below contributory pensions (e.g. Bolivia, Mexico).

III: Countries with low contributory pension coverage and **social assistance benefits for the most economically vulnerable older adults**: Expansion through means-tested benefits with poverty relief as the main purpose. The reach of non-contributory coverage varies widely across countries in this group. Benefit amounts are small and the non-contributory system tends to be completely separate from the contributory pension system (e.g. Colombia, Ecuador, El Salvador, Guatemala, Paraguay, Peru).

Source: Author's elaboration based on Tables 1 and 2.

In Brazil, the expansion of pension rights started earlier, as a result of democratization and the new Constitution of 1988. Two benefits were important for achieving high coverage: first, a social assistance pension (*Benefício de Prestação Continuada*—BPC) for older adults and people with disability, or who have low incomes and no other pension; and, second, a Rural Pension (*Previdência Rural*), based on a special regulation for rural workers in small family production, subsistence fishermen, and gold miners, who do not need to have a record of contributions to obtain a pension (Arza and Chahbenderian 2014a; Schwarzer and Querino 2002).[5] In 2014, 84 per cent of older adults aged 65 and over received a pension (Table 2). Based on administrative data it was estimated that, in 2013, the number of social assistance pensions for old age was equivalent to around 12 per cent of older people above the eligibility age, and the number of rural pensions to around 22 per cent (Arza and Chahbenderian 2014a).[6] Following the 1988 Constitution, both of these benefits were set at the value of a minimum wage, improving benefit adequacy.

In Uruguay, coverage rates of older adults have long been high and a non-contributory pension programme was created long time ago, in 1919 (Amarante and Vigorito 2012; Bertranou et al. 2002). In 1991, 88 per cent of older people had a pension. Coverage fell slightly in the years that followed as a result of the introduction of stronger eligibility conditions, but later recovered, standing at 87 per cent in 2014 (IDB 2016). From 2005, the government has expanded benefits for older adults in two ways: first, through the *Plan de Equidad Social* and the creation of a new non-contributory pension programme for old age, and, second, through a reform of the contributory pension system that made access more flexible. In 2007 a subsidy for disadvantaged people aged 65–70 who have no pension was created, and a pension reform of 2008 made access to contributory pensions more flexible, reducing the minimum number of contribution years required, creating facilities for women with children and for those of advanced age, among other

[5] The *Previdência Rural* is, however, part of the contributory pension system. Eligible rural workers do not pay a contribution on earned income; instead, the purchaser of the rural product must pay a contribution of 2.2 per cent of the sales price (Schwarzer and Querino 2002: 10).

[6] Age of eligibility is 65 in the case of social assistance (BPC for old age), and 60 (men) and 55 (women) in the case of rural pensions. Estimation for social assistance includes old age benefits only (both BPC and the remaining benefits from a previous programme—RMV—that are still paid).

measures (Papadópulos 2013: 478–80). The change was most visible in the growing number of non-contributory pensions, which had remained stagnant between 1997 and 2005, and rose by 8 per cent between 2005 and 2007, and by another 20 per cent between 2007 and 2011 (Papadópulos 2013: 484).

Another country achieving high coverage rates was Chile, where a re-reform was specifically oriented to offer better benefit guarantees for the population not covered by the social insurance system (Arenas de Mesa 2010; Berstein et al. 2009; Rofman et al. 2009). The contributory pension in Chile benefits just over 60 per cent of older adults. This is complemented by the Basic Solidarity Pension, created in 2008 for older adults and people with disabilities, who have no other pensions and belong to the lowest 60 per cent of households in terms of income. The new benefit replaces a previously existing (and more limited) social assistance pension (PASIS) (Arza and Chahbenderian 2014a). In 2013 the Basic Solidarity Pension for old age covered about 26 per cent of the population aged 65 and over (IDB 2016 and Table 2). Another benefit created in 2008 was the Solidarity Pension Contribution, which supplements the self-financed pension for older adults with some pension savings but low benefits. It is estimated that, contributory and non-contributory pensions jointly reached more than 86 per cent of older adults in 2013. The new non-contributory pensions were established as rights for all those meeting eligibility conditions, with no quotas or waiting lists.

In most other Latin American countries, contributory pension coverage rates are significantly lower. So these countries have relied more heavily on non-contributory pensions of various types (universal or means-tested) to provide older adults with a benefit. A second type of coverage expansion is that of countries that have implemented non-contributory benefits to reach the entire population of older adults (universal systems), or all those who have no other pension (pension-tested systems), without focusing on the poor or extremely poor only (Figure 1).[7] Unlike countries in the first group, countries included in this second group have very low contributory pension coverage and non-contributory programmes provide the majority of benefits. Non-contributory benefit amounts are very low, however, well below contributory pensions and also below the US$4 (PPP) per person per day poverty line (Table 2). Two countries fit within this description: Bolivia and Mexico. Both are paradigmatic cases of coverage expansion in the region. The most important feature they share, and which distinguishes them from countries in the third group, is the more universalistic (or otherwise pension-tested) and non-means-tested design of their non-contributory pensions.

The case of Bolivia is discussed in greater detail in section 4.2. The country now has the highest old age pension coverage rate in the region (96 per cent of the population aged 65 and over) thanks to the universal pension *Renta Dignidad*. In Mexico, current coverage rates are the outcome of a process that started with the creation of a universal pension for residents of Mexico City in 2001. This policy was followed by another non-contributory and non-means-tested benefit (‘*70 y más*’), which was established in 2007, first for older adults in rural areas and small towns, and later expanded to urban areas (Flores-Castillo 2013). From 2013, the Older Adults’ Pension was established as a non-contributory benefit for Mexican people aged 65 and over who have no other pension. By 2014, non-contributory pensions covered 52 per cent of older adults, well above the 26 per cent coverage rate for contributory benefits (IDB 2016; Table 2). In 2015 the system granted benefits to over 5.7 million people (CEPAL 2016a).

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[7] Palacios and Knox-Vydmanov (2014) also suggest that, for some purposes, universal and pension-tested benefits can be analysed together as part of a similar family of non-means-tested benefits aiming at full coverage.

The third type of coverage expansion is based on social assistance benefits for older adults in conditions of poverty, extreme poverty, or socioeconomic vulnerability. As in the second group, countries in the third group also have low contributory pension coverage, but have expanded coverage with programmes that remain targeted on the poorest. Non-contributory pension coverage increases as new benefits are created and more resources oriented to them, but the aim remains to focus on the most economically vulnerable population (which is large in most of these countries). Countries in this group are more heterogeneous (e.g. Colombia, Ecuador, El Salvador, Guatemala, Paraguay, and Peru, among others). In some of them (Ecuador and Colombia) non-contributory benefit coverage rates now exceed coverage rates of contributory pensions. The most important features these countries share are means-tested eligibility and low benefits in programmes that are normally separated from contributory pension systems.

On the other hand, in countries in this third group, non-contributory pensions tend to be part of poverty relief strategies, sometimes connected to other social assistance programmes for families (CCT programmes). For instance, in Ecuador, Colombia, and Peru, non-contributory benefits for older adults were initially introduced as part of wider social assistance programmes for families (*Bono de Desarrollo Humano* in Ecuador and *Juntos* in Colombia and Peru) (Albornoz and Oleas 2013; Lavigne 2013; Mina Rosero 2013: 15; on Colombia see section 4.3). Benefit amounts are also low (as in the second group of countries), well below contributory pensions and, in some cases (Peru, Ecuador, and Colombia), also below the US$4 (PPP) per person per day poverty line (Table 2). In other countries, like Guatemala and El Salvador, non-contributory pensions have limited scope in terms of both coverage and the resources involved, and are targeted solely at extremely poor older adults without pensions (Mesa-Lago 2012).

Each group of countries reflects a different strategy for the incorporation of 'outsiders', in other words, of older adults who have worked in the informal labour market or in other non-covered types of work (including unpaid household work) and do not have a sufficient contributory history to obtain a contributory pension on reaching retirement age. The strategy tends to be more comprehensive in the first group, extensive but minimalist in the second, and more residual in the third. Belonging to one group or the other is a question of degree, and there are some countries that are in between. Most important, since coverage expansion is a dynamic process, countries may shift from one group to another as policies evolve. That makes this characterization particularly useful. As it typifies distinct strategies that countries in Latin America have undertaken to incorporate unprotected older adults, it contributes to our understanding of similarities and differences in policies across countries, as well as contrasting pathways of change in policy design and implementation, which may move countries from one group to the next, or eventually create new groups with other particular characteristics.

4 The experiences of three countries: Argentina, Bolivia, and Colombia

This section offers a more in-depth study of recent pension policies in three countries, Argentina, Bolivia, and Colombia. The three have achieved substantial coverage expansion with different specific policies. The analysis looks at the design features of pension programmes oriented to extend coverage to older adults with no pensions in each country, and discusses the policy processes and the critical factors that have guided their design, and facilitated or constrained their implementation.

4.1 Argentina: a 'pension moratorium' to extend access to pensions

The expansion of coverage in Argentina has been remarkable. Coverage rates rose from 69 to 90 per cent of the elderly population between 2003 and 2013 (IDB 2016). By 2015 it is estimated that about 2.7 million people received benefits through the 'pension moratorium', a temporary flexibilization of the conditions for getting a pension in the contributory system. In a nutshell, under the pension moratorium older adults who do not have the 30 years of contributions required by the general pension system are also eligible for a pension as long as they join a plan to pay the contribution years they are missing, under very favourable conditions. Beneficiaries do not need to pay these debts in advance; they are instead discounted in instalments every month from the pension benefits they start to receive (see Arza 2012a; Danani and Hintze 2011; Rofman 2013a; Rofman et al. 2010). The pension moratorium is open to all, and produced a massive increase in coverage rates, especially among women (IDB 2016). It also changed the structure of the pension system: by 2015, the number of pensions paid to older adults who joined the moratorium represented about 47 per cent of all pensions paid,[8] which illustrates the relevance of this programme.

In practice, older adults who joined the moratorium obtained a benefit that was, on average, close to the minimum pension;[9] they also obtained access to health insurance for pensioners (PAMI) and the right to regular benefit indexation twice a year. One of the problems of the pension moratorium was that it was a temporary facility. It recognized periods of informal work performed until 1993 only, so it became less effective in compensating for lack of contribution records as time passed. In order to overcome this limitation, in 2014 a new pension moratorium was sanctioned, which extended that period up to 2003.[10] The new facilities will be in force for only two years and the new law includes the possibility of targeting benefits at older adults based on their socioeconomic profile (see Danani and Beccaria 2015). At the time of writing, pension reform is again being discussed in Argentina: whether to extend these facilities once again, or to create a 'universal pension', or both—so the process is clearly still ongoing.

The Argentine strategy for coverage expansion has two key features. First, non-covered older adults were incorporated in the general pension system (Integrated Pension System of Argentina or SIPA), the same system as formal workers. They also enjoyed equal related rights, such as regular benefit indexation and health insurance. This contrasts with the most common strategy in other countries, which is to create a separate non-contributory pension programme to incorporate the 'outsiders'. In fact, a separate non-contributory social assistance pension programme has also existed in Argentina for a long time (Bertranou et al. 2002) but was not the preferred option for older adults, most of whom joined the pension moratorium instead because the conditions were better.[11] A second key feature is that the moratorium is conceived a a short-term measure.[12]

Pension coverage was pushed high up the policy agenda as a result of multiple factors. The economic crisis in 2001–2 was a context for reconsidering the pension system and its limitations:

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[8] Own calculation based on the National Budget, including old age and survivors' pensions (see Argentina 2015).

[9] The net benefit can be lower after the payments for the contribution debts are deducted.

[10] Law 26,970 passed in September 2014.

[11] For many years, coverage by the social assistance pensions was limited by budget restrictions. This changed after 2003 and the number of benefits increased markedly. However, new benefits were largely oriented to other components of the system (people with disabilities and mothers of seven or more children) and not to old age.

[12] Indeed, among all pension coverage expansion programmes surveyed by Rofman et al. (2013), the only temporary one is the Argentinian one.

the mixed system of private individual accounts was put under greater scrutiny.[13] Low coverage was one among several problems discussed. It was not until early 2007, however, that the pension system was first reformed. Shortly after, in late 2008, a second more structural reform closed down individual accounts, transferred all pension savings to the public social security administration and returned to a fully public, pay-as-you-go and earnings-related pension system (see Arza 2012c; Bertranou et al. 2009).

After these reforms, the pension moratorium continued to operate, but was not integrated in the new pension system legislation. In fact the legislation that introduced the pension moratorium was passed before those reforms. Initially, the programme was little known and not very much publicized by the government or the media (Rofman et al. 2010). But by 2007, as the programme started to offer new benefits to hundreds of thousands of older adults with no pensions, it became widely known and turned into one of the main social policies of the period and an important source of political credit for the government. This was also reflected in the wide support for the new pension moratorium in Parliament in 2014.

In terms of financing, the pension moratorium involved a relatively high share of the budget. This was also because, unlike non-contributory social assistance pensions, this programme includes people with some contributions as well—in practice, it may include anyone with fewer than 30 years of contributions. It was feasible in a context of fiscal space produced by a combination of higher fiscal pressure, rising formal employment, and the pension reforms in 2007 and 2008, all of which contributed to increase social security revenues. Between 1999 and 2013, contributory revenues in the social security system increased from 3.5 to 7.1 per cent of GDP (Cetrángolo et al. 2015: 26). A key element explaining this rise in revenues was the 2008 pension reform, which closed down the private system, redirected all workers' contributions back to the state, and also transferred the accumulated pension funds to the national social security administration (Arza 2012c). This simultaneously eliminated the transition costs that the pension privatization of 1993 had imposed.

In short, the Argentine strategy to expand pension coverage was to incorporate older adults within the contributory system. The pension moratorium made it possible to reach close to full coverage of older adults, a success that was directly related to the flexibilization of contributory rules for obtaining a benefit. The programme had massive impact, but was temporary and did not establish rights for older adults retiring in the future. It became quite popular as time passed and more people could obtain a benefit. This popularity was also reflected in the legislation for a new moratorium in 2014, with wide support in the Parliament, as well as in the currently ongoing debate over the possibility of extending the programme once again.

4.2 Bolivia: privatization and universal pensions

Bolivia followed a particular path in the expansion of pension coverage of older adults. A first universal pension, *Bonosol*, was established in 1996 as part of the structural reform of the contributory pension system. It consisted of an annual benefit for older adults from age 65. The benefit was linked to the capitalization (partial privatization) of public firms that took place between 1994 and 1996. A Collective Capitalization Fund (CCF), managed by private pension fund administrators, was created with the public shares of capitalized firms to pay for *Bonosol*. The benefit was originally conceived as a way to distribute those public shares among *all* Bolivians

[13] That system was in operation from 1994, following a structural pension reform passed in 1993, which shifted from a public pay-as-you-go pension system to a mixed public–private system, including mandatory individual savings accounts administered by private pension funds (Arenas de Mesa and Bertranou 1997; Arza 2008).

(Aponte 2006; Molina 2006; Müller 2009a). That justifies the cohort restriction that the benefit initially had, to the population aged 21 or over by 1995 (when firms were privatized). Thus, the origins of *Bonosol* were more linked to the privatization of public companies rather than to universal social policy, but its creation was in practice a fundamental step towards a universal pension in Bolivia.

The programme was politically contested. It was created by President Sánchez de Lozada (1993–7 and 2002–3) and started to be paid shortly before the general election of 1997, which made it part of the electoral debates. One of the issues discussed was the problems of financing the benefit, due to lack of liquidity in the CCF. In the end, the benefit was only paid for one year (1997) after being created. The new government of President Hugo Banzer (1997–2001) suspended *Bonosol* and replaced it with a more limited benefit called *Bolivida*. *Bonosol* was finally re-established by Sánchez de Lozada shortly after he returned to office in 2002 (Molina 2006).

The nationalization of the oil company (Yacimientos Petroliferos Fiscales Bolivianos—YPFB) and the electoral victory of President Evo Morales (2005 to present) of the left-wing MAS party, were two important events with regard to the universal pension. In October 2007 President Morales announced the abolition of *Bonosol* and submitted a bill to Congress to create a new benefit: *Renta Dignidad*. The bill was approved soon after and *Renta Dignidad* started to pay benefits in 2008 (Anria and Niedzwiecki 2015; Müller 2009a). The new programme maintains several key features of *Bonosol* but is also different in a number of ways. It is a monthly transfer, largely financed by hydrocarbons tax revenues, and less dependent on returns to assets of privatized firms. The eligibility age was reduced to 60 (previously it was 65) and the benefit adopted two different values, one for older adults already receiving a contributory pension and another slightly higher amount for those with no pensions. Finally, *Renta Dignidad* dropped the cohort restriction and made benefits a right for all Bolivians independently of year of birth (Arza and Chahbenderian 2014a; Müller 2009).

The approval of *Renta Dignidad* also generated political tensions. The main issue at stake was the redirection of resources from the hydrocarbon tax to finance the new benefit. The *Renta Dignidad* law was passed in a highly contentious context, with demonstrations by social movements for and against the programme, and confrontation between regions in the country. Social movements influenced the process in alliance with the MAS, and their support and mobilization were considered essential for the government to pass the reform (Anria and Niedzwiecki 2015). The universal design followed that of *Bonosol*. A similar universal design was chosen for other cash transfers created during Morales's government: *Juancito Pinto* (for every school-age child in public schools) and *Juana Azurduy* (for every pregnant woman and child under the age of two with no access to health insurance) (Arza and Chahbenderian 2014b).

Renta Dignidad maintained and improved both coverage and benefit amounts. Coverage increased from 78 per cent of older adults in 2003 to 96 per cent in 2013 and the yearly benefit amount rose from Bs1,800 in 2003 (approximately US$237 at the time), to the current annual amount of Bs3,250 (US$473, full benefit, including a 13th month payment). Despite that increase, the benefit value remains low, at around US$39 per month (approximately 39 per cent of the poverty line, as defined in Table 2). A subsequent pension reform in 2010 recognized *Renta Dignidad* as a non-contributory pillar of the pension system. All these transformations helped to consolidate the universal pension as a stable part of the old age protection strategy in Bolivia. The main drawbacks that remain are about benefit adequacy and the distance between benefit levels in the extensive non-contributory system on the one hand, and the much narrower contributory pension system, on the other.

Overall, this process made it possible for Bolivia, one of the lowest income countries in the region, to have the highest non-contributory pension coverage rate. The first step in the creation of a universal pension was made in a context of privatization of public companies and of structural pension reform. The new political context gave them further impetus, with the transformation of *Bonosol* into *Renta Dignidad* and new sources of financing in a context of expanding cash transfers (new cash benefits for students, young children, and pregnant women) with similar universalistic scope.

4.3 Colombia: means-tested subsidies for old age with growing coverage

The contributory pension system in Colombia has long had limited coverage. It is estimated that in 1995 only 13 per cent of older adults received a contributory pension and 38 per cent of salaried workers were affiliated to the pension system (IDB 2016). A structural pension reform in 1993 introduced a system of individual accounts operating in parallel to a reformed public system (*Sistema de Prima Media*—SPM). Workers had to choose to join one or the other. Individual accounts are managed by private pension funds and the public system is managed by the state (currently by Colpensiones). Coverage continued to be low after this reform, and by 2014 about 74 per cent of older adults lacked a contributory pension (IDB 2016: Table 2).

Policies to expand the coverage of economic protection for older adults in Colombia included both contribution subsidies and social assistance. The Pension Solidarity Fund (*Fondo de Solidaridad Pensional*—FSP) was first created to subsidize the pension contributions of workers with low earnings. Strict rules requiring regularity in contributions by workers benefiting from this programme resulted in low coverage and reduced the programme's reach and impact. A reform in 2003 divided the FSP into two accounts, one for 'solidarity' and another for 'subsistence'. The former was oriented to finance contribution subsidies and the latter to pay for social pensions, which gained importance in the years that followed (Rofman 2013b).

The Programme for Social Protection of Older Adults (*Programa de Protección Social al Adulto Mayor*—PPSAM) was created shortly after, in 2004, starting a steady expansion of non-contributory benefits that is still ongoing. The PPSAM was a means-tested programme with a low benefit collected bi-monthly (Rofman 2013b; Villar et al. 2015a). The low value of the benefit may explain the high labour market participation rate among beneficiaries: in effect, it was estimated that around 40 per cent of older adults living in a household receiving this benefit continued to participate in the labour market (a percentage similar to that for older adults in households not receiving it) (Rofman 2013b: 215, based on 2010–12 data). The PPSAM brought substantial expansion of coverage: the number of older adults receiving non-contributory benefits rose from 35,182 to 593,448 (equivalent to about 15 per cent of the population aged 60 and over) between 2003 and 2010 (CEPAL 2016a).

In 2012 a new programme called *Colombia Mayor* was created to replace the PPSAM. The new benefit is also targeted on lower-income households,[14] and produced a substantial increase in coverage. By 2015 it was estimated that about 1.5 million people (equivalent to about 37 per cent of the population aged 60 and over) received a benefit (CEPAL 2016a: Table 2). However, as coverage expanded, benefit amounts reduced, falling from about US$65 in 2010 to US$30 in 2015

[14] Socioeconomic conditions include: (1) belong to SISBEN I or II and (2) have income not above half a minimum monthly wage if living alone (or not above one minimum monthly wage if living with family). Other requirements include age (54 and over for women and 59 and over for men) and Colombian citizenship and residence (for the previous 10 years) (Ministerio de Trabajo 2015b). SISBEN (*Sistema de Identificación de Potenciales Beneficiarios de Programas Sociales*) is a targeting scheme based on quantitative measurement of living conditions (multi-dimensional) that classifies the population into five levels of vulnerability (Rofman 2013b).

(Villar et al. 2015b; Table 2). Benefit quotas are distributed by municipality and the benefit currently ranges from COP40,000–75,000 per month (about US$16–30; see Table 2). The mechanism for selection of new beneficiaries prioritizes those who are oldest and those with greater vulnerability. Most beneficiaries are women (reflecting the larger number of women among older adults and their lower eligibility age), and most are also among the oldest age groups (41 per cent are aged 71–80 and 21 per cent are aged 80 and over) (Villar et al. 2015a: 49), who are prioritized among all eligible candidates.

Besides non-contributory benefits, another component of the coverage expansion strategy is the Periodic Economic Benefits (*Beneficios Económicos Periódicos*—BEPs). The programme was first included in the legislation in 2005 and 2009, as an alternative to expanding coverage of older adults, but was implemented only recently (Ministerio de Trabajo 2015c).[15] BEPs are a voluntary savings programme oriented to low-income workers who cannot make contributions to the pension system, and to older adults who have made some contributions but not enough to receive a pension at retirement age.[16] They are targeted on the most vulnerable population socioeconomically (SISBEN I, II, or III [see note 15]) who receive a state subsidy of 20 per cent of the amounts saved (ISSA 2016; Rofman 2013b; Villar et al. 2015b; see also Colpensiones 2016). The expectation is that the BEPs will expand coverage by making it possible for older adults with some savings but not enough to get a pension in the general system to obtain a (lower) benefit (Villar et al. 2015b: 202).

Overall, the aim of these policies is to increase coverage with a system of multiple layers (mainly public and private contributory pensions, BEPs and *Colombia Mayor*). The official expectation for 2030 is for a total coverage rate of around 80 per cent of people over the retirement age, with over 10 per cent of them receiving a BEP of some type, and 30 per cent receiving *Colombia Mayor* (Ministerio de Trabajo 2015a). But for the moment the coverage gap remains large, with many older adults receiving no pension and beneficiaries of *Colombia Mayor* receiving a very modest amount. There is a policy choice for expanding coverage in a way that is more extensive than most of the residual schemes of the past, but this expansion is done by dividing formal workers, entitled to a pension from the rest, who receive instead a state subsidy targeted on the most vulnerable population, with a modest value and more selective eligibility criteria, in a separate system.

5 Final remarks

Over the past two decades, many Latin American countries have adopted policies to extend economic protection to older adults without contributory pensions. Coverage expansion was achieved using a variety of policy instruments and strategies. Based on the main design features of non-contributory pension programmes and their outcomes, three groups of countries can be identified. The first group has relatively high contributory pension coverage and develops new programmes and reforms, either to expand contributory coverage (through more flexible eligibility requirements) or to expand non-contributory benefits, with the aim of reaching full coverage. The second group is made up of countries with low contributory pension coverage which establish universal or pension-tested systems with low benefits. And the third group includes countries that implement or expand separate social assistance programmes for the elderly poor with means-tested and low benefits.

[15] Legislative Act 01 of 2005, Law 1328 of 2009 and Decree 604 of 2013.

[16] In Colombia, the pension benefit cannot be below the minimum legal wage (Rofman 2013a: 204).

Many of these countries have taken decisive steps to increase coverage. Countries in the first group have achieved close to universal coverage by complementing contributory pension schemes with benefits from programmes that do not require a contribution record for access, and offer higher benefit amounts than other non-contributory (social) pensions in the region. A universal model is instead adopted in one of the countries in the second group (Bolivia), for the pension benefit *Renta Dignidad*, and for other cash transfers as well, with modest benefits. The other country in this group (Mexico) opts for a pension-tested design aiming to reach all older adults without pensions, but with modest benefit amounts as well. Most other countries follow the more typical route of means-tested benefits targeted on extremely poor, poor, or vulnerable populations (depending on how strict the means-testing tool is), and clearly separate social assistance from social insurance.

Even in these cases, coverage has increased substantially and many more older people now receive a cash benefit from the state than one or two decades ago. Furthermore, by and large, the expansion of pension benefits has improved equality in access to old age protection. Since coverage gaps were initially larger among lower-income groups most new benefits tended to go to people in lower-income groups both in countries where benefits were means-tested (such as Chile and Peru) and in countries where they were not (such as Argentina and Mexico) (IDB 2016).

In most countries, however, much remains to be done in terms of benefit levels of non-contributory pensions. Many programmes still offer very modest benefit amounts. Furthermore, a more structural transformation will require making the pension system as a whole more progressive, incorporating those who are excluded, but also integrating non-contributory programmes with other pensions as a constitutive part of pension policy, and reducing persisting inequalities over the life course as well as in later life.

Table 1: Non-contributory benefits (or similar programmes) for older adults in Latin America [a]

	Programme	Current system established	Pension age	Targeting
Argentina	Non-contributory Pension Programme (*Pensiones no contributivas*) (social assistance)	1948	70	Means-tested
	Pension Moratorium (social insurance system)[a]	2005	60–65	Non-means-tested, semi-contributory
Bolivia	*Renta Universal de Vejez—'Renta Dignidad'*	2008	60	Non-means-tested, universal
Brazil	Continuous Cash Benefit (*Benefício de Prestação Continuada—BPC*) (social assistance)	1996	65	Means-tested (per capita income below one-quarter of the minimum wage)
	Rural Pension (*Previdência Rural*) (social insurance system)[a]	1993	55W 60M	Non-means-tested; targeted at rural workers in small family production, etc.
Chile	Basic Solidarity Pension for Old Age (*Pensión Básica Solidaria de Vejez*)	2008	65	Means-tested
Colombia	'*Colombia Mayor*' (ex-PPSAM)	2003 (PPSAM) 2013 (*Colombia Mayor*)	54W 59M	Means-tested (SISBEN I and II)
Costa Rica	Non-contributory Pension Regime (*Régimen No Contributivo de Pensiones por Monto Básico*)	1974	65	Means-tested
Ecuador	Pension for Older Adults and People with Disability (*Pensión para Adultos Mayores y Pensión personas con Discapacidad*) (*Bono de Desarrollo Humano*)	2003	65	Means-tested (*Registro Social* 1 and 2)
El Salvador	Basic Universal Pension (*Nuestros Mayores Derechos*)	2011	70	Means-tested and regional (shanty towns)
Guatemala	Programme of economic contribution for older adults(*Programa de Aporte Economico del Adulto Mayor*)	2005	65	Means-tested
Mexico	Pension for Older Adults (*Pensión para Adultos Mayores*)	2007, extended in 2013	65	Pension-tested (older adults with no pension)
	Alimentary Pension for Older Adults (*Programa de Apoyo Alimentario, Atención Médica y Medicamentos Gratuitos para Adultos Mayores*)	2001	68	Universal (only Mexico City residents)
Panama	Special Programme for Economic Assistance of Older Adults '120 at 65'	2009 ('100 at 70')	65	Means-tested
Paraguay	Alimentary Pension for Older Adults (*Pensiones Alimentarias Para Adultos Mayores*)	2011	65	Means-tested
Peru	National Program of Solidarity Assistance 'Pension 65' (*Programa Nacional de Asistencia Solidaria 'Pensión 65'*)	2011	65	Means-tested
Uruguay	Non-contributory Pension *(Pensión no Contributiva)*	1919	70	Means-tested
Venezuela	*Gran Misión en Amor Mayor*	2011	55W 60M	Means-tested

[a] The Argentine Pension Moratorium and the Brazilian Rural Pension are part of the contributory system, but do not require a full contribution record for people to start receiving a benefit. Some of the programmes included in Table 1 also cover people with disabilities.

Source: Author's elaboration based on CEPAL (2016a).

Table 2: Coverage, expenditures and benefit level in contributory and non-contributory pensions in Latin America, most recent year available

	Coverage rates[h]		Public expenditures		Benefit level of non-contributory pension or similar programme			
	% 65 + covered		% GDP		Per month			
	Contributory pension	Non-contributory pension (or similar programme)	Total social security[i]	Non-contributory pension or similar programme[j]	US$[k]	% of contributory pension	% of poverty line of US$4 PPP per person per day[l]	% GDP per capita
Sources	*(1)*	*(1)*	*(2)*	*(3)*	*(4)*	*(3)*	*(3)*	*(3)*
Argentina[a]	90.0	42.0	12.9	2.50	236–337	77.0%	351.0%	39.6%
Bolivia	21.4	96.3	4.7	1.00	30–9	8.0%	39.0%	12.6%
Brazil[b]	83.9	…	13.8	1.90	236	…	…	…
Chile[c]	60.7	25.8	6.1	0.20	131	40.0%	126.0%	12.0%
Colombia[d]	25.7	37.0	7.4	0.10	16–30	4.0%	26.0%	4.3%
Costa Rica	48.3	16.9	6.7	0.20	143	67.0%	124.0%	17.8%
Ecuador	22.9	43.8	1.4	0.40	50	6.0%	43.0%	7.7%
El Salvador	13.2	6.6	4.8	0.0	50	15.0%	46.0%	12.2%
Guatemala[e]	15.2	16.0	1.5	0.13	51	…	…	18.0%
Mexico[f]	25.9	52.5	3.1	0.10	31–61 76 (Mex. City)	16.0% …	43.0% …	4.9% …
Panama	43.7	26.7	1.6	0.30	120	25.0%	104.0%	12.6%
Paraguay	16.9	21.6	7.3	0.20	101	27.0%	103.0%	29.3%
Peru	28.5	16.5	2.9	0.10	37–75	14.0%	52.0%	8.6%
Uruguay	86.7	…	11.1	…	259	…	…	…
Venezuela[g]	46.8	17.8	9.2	0.24	…	…	…	…

Sources: Elaborated by the author based on the following sources: (1) IDB (2016); (2) CEPAL (2016b); (3) Rofman et al. (2013: 59); (4) CEPAL (2016a), unless otherwise indicated in the notes below.

Notes

[a] Argentina: Coverage reported under the 'non-contributory pension' column is own estimation for coverage of pension moratorium based on the coverage goal in the national budget for 2015 (Argentina 2015). Coverage reported in the "contributory pension" coverage is total coverage by all pensions. Benefit amount in US$ as of March 2016 calculated by the author based on Resolution ANSES 28/2016. The higher value is the minimum legal pension (a proxy for the moratorium pensions) and the lower value is the social assistance pension.

[b] Brazil: Contributory pension coverage includes Rural Pension. Benefit amount in US$ as of March 2016 estimated by the author based on the Brazilian legal monthly minimum wage.

[c] Chile: Benefit amount in US$ as of March 2016 estimated by the author based on official data (Superintendencia de Pensiones 2016).

[d] Colombia: Coverage under non-contributory pension *Colombia Mayor* is based on administrative data and calculated as benefits paid over population aged 60 and over (year 2015) taken from CEPAL (2016a). Note the eligibility age is 54 for women and 59 for men, but the selection process prioritizes older persons.

[e] Guatemala: Coverage under non-contributory pension reports coverage of *Programa de Aporte Economico o del Adulto Mayor*, estimated by HelpAge International (2015) from administrative data (benefits over population aged 65 and over). Non-contributory pension expenditure and benefit levels in US$ and as percentage of GDP per capita from HelpAge International (2015).

[f] Mexico: Benefit amount in US$ is own calculation based on CEPAL (2016a) and official exchange rates.

[g] Venezuela: Coverage of non-contributory pension corresponds to the programme *Gran Misión en Amor Mayor* for year 2014, from administrative records, as benefits over population aged 60 and over, from CEPAL (2016a). Expenditures in non-contributory pensions also from CEPAL (2016a) and correspond to year 2012.

[h] Coverage rates for 2014, except for Bolivia, Chile, and Venezuela (2013), unless otherwise indicated.

[i] Total social security public spending for 2012, except for Chile, Colombia, and Guatemala (2013), Uruguay (2011), Argentina and Brazil (2009), and Panama (2008).

[j] Refers to programmes cited in Table 1, except for: Argentina (refers to Pension Moratorium only), Brazil (refers to Rural Pension only), and Mexico (refers to Pension for Older Adults '65 and over' only).

[k] Benefits as of 2015 except for Costa Rica, Paraguay, Peru, and Mexico City (2014), and Uruguay (2012).

[l] Benefit level as per cent of poverty line: poverty line defined at US$4 PPP per person per day (see Rofman et al. 2013).

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