Abstract

In this paper we analyze the short and medium term fiscal costs stemming from structural pension reform, taking Chile as workhorse. The Chilean pension system, based on individual capital accounts managed by the private sector, has been in operation for almost 30 years, providing a rich evidence of the impact of pension systems on public accounts. Besides, a recent reform that crucially changes the solidarity pillar is being implemented now. In the paper we argue that although much lower than its benefits, fiscal transition costs tend to be high and persistent, so a fiscal consolidation prior to the reform is advisable. This also allows filling the coverage holes that labour market informality generates, as illustrated for Chile, Colombia, Mexico and Peru. Finally, in more general terms, the exportability of this type of pension reform depends not only on its specific design, but on the quality of market and public institutions.

***Keywords*:** pension reform, implicit debt, fiscal costs, solidarity pillar, minimum pension, Chile.

***JEL classification*:** E62, H55, H68.