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Pension Highlights

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Reflections on the Pension Systems after the Crisis

- According to the OECD report *"Pension Markets in Focus"*, Pension Systems in most countries in the Organization have already seen major advances in recovering the market value of their assets after the losses seen in 2008.
- Specifically, evidence shows a clear recovery in the value of Latin American portfolios. Further, the World Bank and the OECD share the opinion that all Pension Systems in the region were strengthened after the economic and financial crisis.
- For example, within the framework of the last *Global Forum on Private Pensions* in Rio de Janeiro on October 14 and 15, OECD specialist Pablo Antolin stated that "*Latin American Pension Systems have emerged stronger after the crisis*. *The "multi-fondos" approach to investment adopted in many of these countries has offered some protection to vulnerable investors close to retirement. Governments and pension regulators (are) continuing to press ahead with reforms of their private pension systems. For example, important measures like introducing a safety net to strengthen minimum pensions have been introduced in Chile."* In this same vein, another major Pension System reform took place in Mexico in 2009, when State contributions through the so-called Cuota Social or Social Fee were strengthened in individual accounts for those on low incomes.
- At the Private Pensions Global Forum, a key topic for the future was discussed in terms of directing a more integral strengthening of Pension Systems in the region which is related to the performance of pension fund investments in joint research between the World Bank and the OECD.
- Although the research is underway, preliminary results show that the "multi-fondos" or multi-fund model strengthening with a life cycle scheme (retirement funds moving towards more conservative portfolios as per the member's age) in most cases offers better results than other alternatives such as "multi-fondos" models without a life cycle scheme or portfolios concentrated only on government bonds and/or shares. In this regard, it is very positive that in many Latin American countries, advances in their investment system have been seen with moves towards life cycle models, for example in Chile, Peru and Mexico.
- In turn, the new research lines also make it clear that pension fund investments must be assessed in the future on the performance of their long-term investment strategy with regard to previously set certain references, indices or benchmarks and not to short-term yield measures. Nonetheless, specialists believe that a more integral assessment must also take into account the ultimate aim of providing income for retirement and allow for consumption smoothing. At present, these indicators do not exist, but Nicodano set out some ideas as to how move towards this type of indicators, for example in the form of a wealth ratio.
- In conclusion, the Pensions Systems are gradually and consistently recovering from the losses in 2008, but they need to be strengthened to better comply with their objective of retirement income. An initial response to strengthen them would be to introduce life cycle schemes in their investment systems. New research also states that it will be necessary to have a more integral approach taking into account the depletion stage and many other variables in the accumulation stage such as: contribution rates and densities, the possible correlation between employment income and asset yields within the pension fund, as well as the possible existence of other retirement income.