

Matching Contributions for Pensions in Colombia, Mexico, and Peru: Experiences and Prospects*

Luis Carranza^a, Ángel Melguizo^b and David Tuesta^c

December 2012

Abstract

Although Colombia, Mexico, and Peru introduced major structural reforms in the mid-1990s, they still exhibit very limited levels of social protection coverage (28 percent of the labor force in Colombia, 27 percent in Mexico, and 22 percent in Peru). These figures reflect the limited effectiveness of basing a pension scheme on employer withholding of contributions in environments in which most employment relations are informal. Better design of matching defined contribution schemes could increase the level of pension savings by the nearly 20 million middle-income workers in the informal sector in the three countries. Such an approach is preferable to ex post solutions to the growing problem of old age as the region ages rapidly, which are not sustainable and strengthen incentives for informality.

Keywords: pensions, defined contributions, matching contributions, pension coverage.

JEL: G23, H55, J32.

* This paper has been previously published as the Chapter 10 of the book titled "Matching Defined Contributions for Pensions: A Review of International Experience" edited by Richard Hinz, Robert Holzmann, David Tuesta and Noriyuki Takayama, World Bank 2012. The authors would like to thank Consuelo del Carmen Hoyo (BBVA Research) and Christian Daude and Juan de Laiglesia (Organisation for Economic Co-operation and Development Development Centre) for their helpful comments and suggestions, as well as Maria Claudia Llanes and Rosario Sanchez (BBVA Research) for their assistance in the empirical analysis for Colombia and Peru. The views expressed herein are the sole responsibility of the authors and do not necessarily reflect the opinions of their institutions.

a: Universidad San Martín de Porres

b: Inter-American Development Bank

c: BBVA Research