



The experience with defined contribution schemes in Latin America

David Tuesta

International Seminar on Pension System of China and Latin America

CASS - BBVA

Beijing

July 13th 2010

Index

The experience with defined contribution schemes in Latin America

Section I
The introduction of social policies in Latin America

Section II
Defined contribution schemes in Latin America

International Seminar on Pension System of China and Latin America
CASS - BVA
Beijing
July 13th 2010

Section III
Goals and outcomes

Section IV
Lessons from the Latin American experience

I. The introduction of social policies in Latin America

Public PAYG pension schemes were introduced very early in the 20th century in Latam.

Demographic changes, actuarial unbalances, unrealistic social outcomes, political interests, inadequate management, lack of transparency and economic crises (especially in the 70s and 80s) shaped a very weak system at the end.

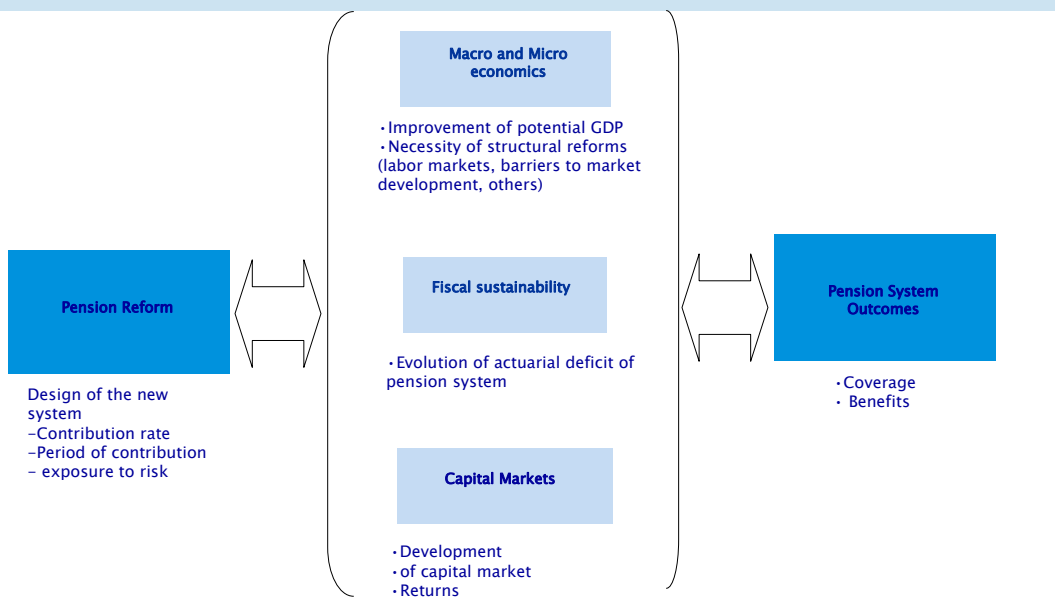
- Many benefits with generous payments
- No relation between contributions and pensions
- Unpaid contributions by private and government employers
- Pensions were given in generous amounts without taking into account fiscal sustainability
- Pension parameters such as retirement age, years of contribution, contribution rate and others were not adjusted on time for economic and demographic changes
- Low and negative returns
- Pension funds were used for other activities such as infrastructure, health programs and current government expenses.
- High administrative costs
- Fiscal and political pressure
- Actuarial and financial imbalance

II. Defined Contribution schemes in Latin America

Pension Reform in Latam = Parametric Changes + Structural Changes (Introduction of DC)

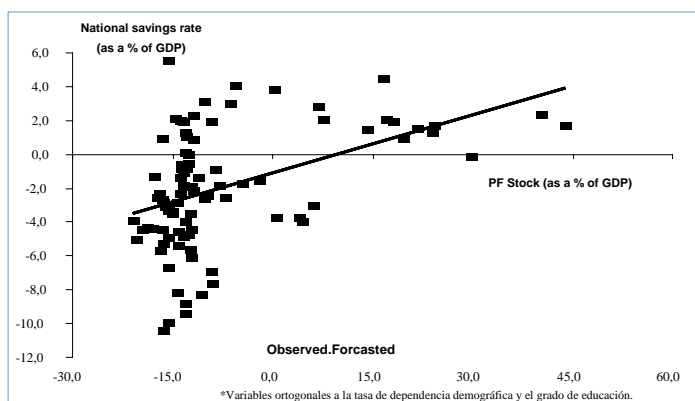
	Social component	Mandatory DB	Mandatory DC	Voluntary DC
Objectives	Social	Redistribution + insurance	Saving + insurance	Saving + insurance
Administration	Government	Government	Private sector	Private sector
Financing regime	National Budget	PAYG	Individual capitalization	Individual capitalization
Benefit	Basic pension	Minimum pension	Pension as a function of saving	Pension as a function of saving
Financing	Government	Contributions + Government	Fully-funded	Fully-funded

III. Goals and outcomes: a new pension system and the interaction with other factors



III. Goals and outcomes: a new pension system and the interaction with other factors

Macro and microeconomics



A 10 percent increase in the size of the pension funds has an impact of one tenth in aggregated savings.

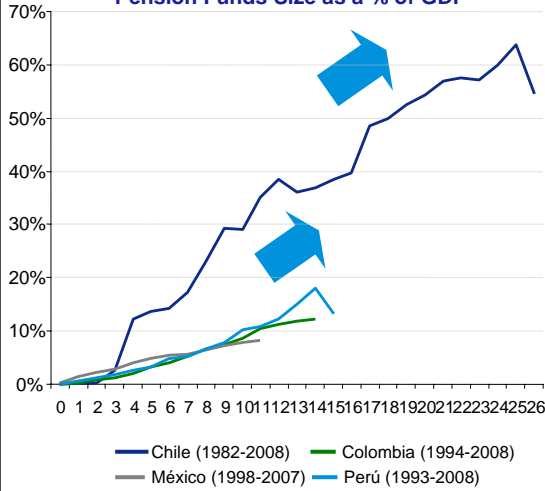
Corbo y Schmidt-Hebbel (2003) found that a one percent point increase in pension funds, relative to GDP, has an impact between 1 and 5 points of GDP in savings.

Growth is a fundamental factor behind savings and financial market development

III. Goals and outcomes: a new pension system and the interaction with other factors

Capital Markets

Pension Funds Size as a % of GDP

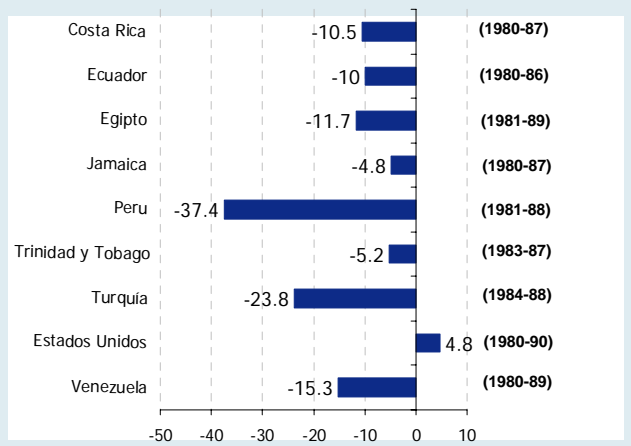


Country	Average return %		
	The first 10 years	From the beginning of the system	2009
Chile (1986)	10,4	9,1	13,4
Colombia (1994)	11,5	10,1	9,3
México (1998)	7,2	7,2	2,5
Perú (1993)	7,2	9,0	12,7

III. Social policies in Latin America: the introduction of PAYG schemes

Capital Markets

Real return of PAYG schemes in the 80s

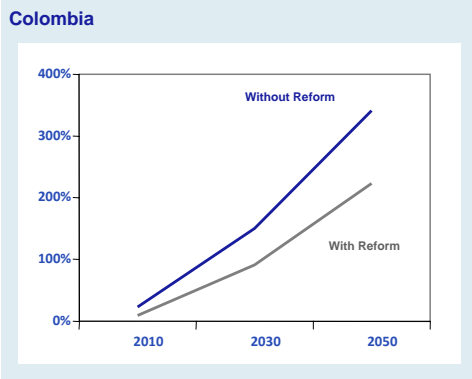


Source: World Bank, 1994: "Envejecimiento sin Crisis"

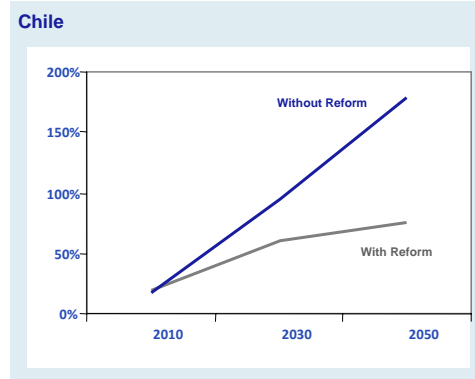
III. Goals and outcomes: a new pension system and the interaction with other factors

Fiscal sustainability

Estimated pension deficit with and without reform, as a % of GDP



Source: Zviniene & Packard 2004

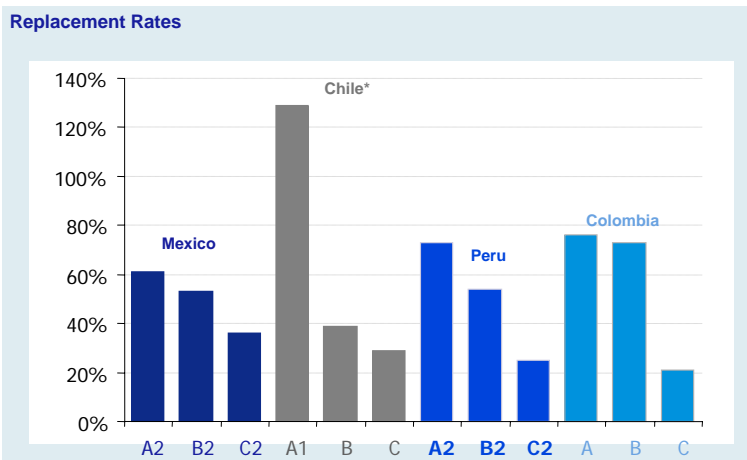


Source: Zviniene & Packard 2004

The reforms significantly reduced the pension deficit in several countries. The amount depends on the models used and on other reforms.

III. Goals and outcomes: a new pension system and the interaction with other factors

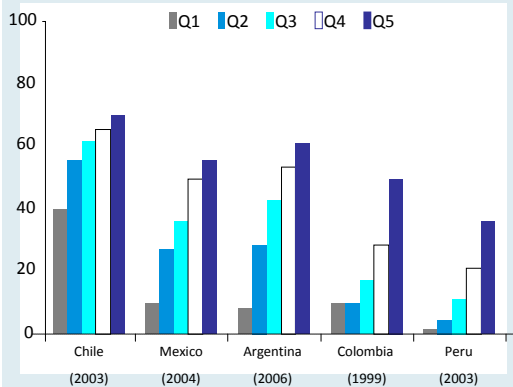
Replacement Rates



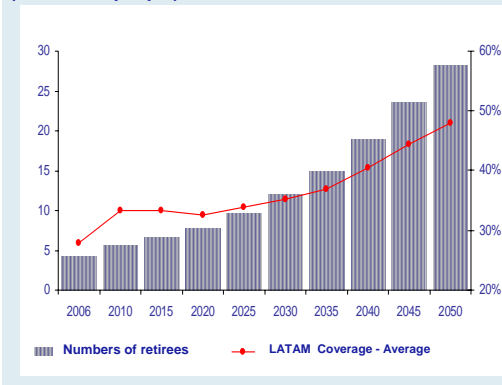
* Men

Pension Coverage

EPA coverage by quintiles (Q1=poorest, Q5=richest)



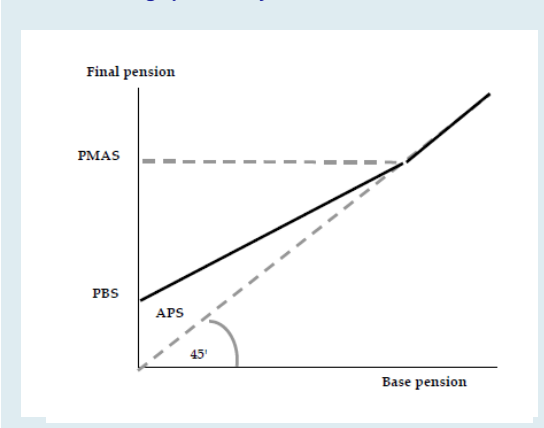
Latam Average (millions of people)



The problem of informality in Latin America

The pursuit of a universal scheme

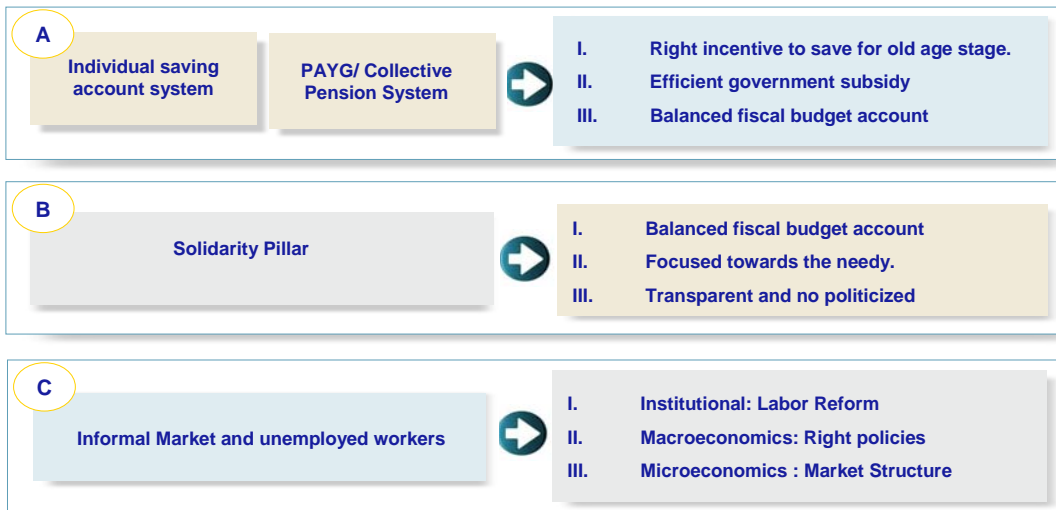
Reformed old age pension system in Chile 2008



Fiscal sustainability is a pre requisite for success

IV. Lessons from the Latin American experience

Important aspects to take into account



Disclaimer

-DISCLAIMER

"This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

"This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

"Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

"The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

"BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

"BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

"This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

"The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

"BBVA and the rest of entities in the BBVA Group which are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc., are not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".