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BACK TO THE STATE: Pension fund nationalization in Argentina

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SUMMARY

In the past few years, Argentine pension policy has gone through a new structural reform process. The limitations of the privately-managed system of individual accounts to guarantee universal and adequate benefits led to growing criticism among both policy analysts and the population at large. The adoption of a financial "defined-contribution" system has deepened the individualization of benefits which started to more closely depend on the contributory history of each worker and on the performance of the contributions made over the working life. Another problem of the system established in the nineties was the fiscal costs it generated. As contributions were diverted to individual accounts, social security revenues plummeted and more public transfers were needed to cover the gap. This damaged public finances and affected the social security budget available to pay for benefits. Coverage was another problem of the Argentine pension system which has worsened over the '90s. Although some expected that the closer benefit-to-contribution link introduced with privatization would encourage workers to contribute and increase coverage, this did not happen. Coverage rates remained very low and even fell after the 1993 pension reform. The significant costs and risks affecting private pensions (including financial market risks and administrative costs) further limited the capacities of the system to provide old-age income security.

Since 2005 a number of policy measures have modified the public-private mix in pension policy, up to the nationalization of private pension schemes at the end of 2008. The *Pension Moratorium* launched in 2005 was the first of such measures. It generated a large expansion of coverage by giving benefits to workers with insufficient contribution records which would otherwise be ineligible for normal retirement. It however did not establish a long-term solution to overcome the limitations of the contributory system to provide universal coverage in a context of labour market informality, and hence the problem is likely to reappear. At the beginning of 2007, a new pension reform has increased public participation in pension policy by rising future benefits, encouraging worker affiliation to the public pay-as-you-go system and establishing the automatic transfer of some categories of workers into this system. In 2008, the *Indexation Act* re-established the automatic indexation of benefits, responding to a long standing demand since 2001. The calculation formula was however unnecessarily complex and controversial and covered only the period after the Act was passed, with no provision to compensate for the loss of purchasing power suffered by many pensioners in previous years.

In November 2008, after 14 years of operation of private individual accounts, the entire system was nationalized and pension policy shifted back to a public pay-as-you-go model. Workers affiliated to the private system were transferred to the state and the funds in their pension accounts started to be collectively managed by the National Social Security Administration (ANSES). Individual pension fund accumulation however no longer mattered for the calculation of benefit entitlements, which started to follow a "defined-benefit" formula based on earnings and years of contributions only. The resources accumulated in individual accounts over 14 years (worth about 9.5% of GDP in December 2008) was transferred to ANSES and put under public administration. The management of these funds became a key public policy issue and the centre of most current debates on pension policy.

After this wide-ranging reform process a number of issues remain unresolved. On the one hand, there are some uncertainties regarding the future financial balance of the system given the absence of long term actuarial estimations which could guide both the management of existing resources (stocks and flows) and the planning of future financing demands, especially now that the number of workers holding public pension rights has so

widely expanded. Adequate long-term planning is not only a fiscal issue but is also important for intergenerational equity as well as to reconstruct the social trust that the pension system has been losing over the past decades. Low coverage also remains a serious problem of the pension system even after nationalization because (beyond the *Moratorim)* eligibility rules have not changed. In a large informal labour market it is likely that the number of elderly with no pension will grow in the future as soon as the effects of the *Moratorium* water down. Another remaining problem is gender inequality. Although women have benefited from greater risk-pooling of mortality differentials under the newly established "defined-benefit" formula, the contributory and earnings-related system still penalises women who typically spend fewer years in paid work and tend to earn less than men, and are thus likely to get lower benefits. This gap will persist as long as no mechanisms, such as maternity contributory credits and/or flat universal benefits, are put into place to compensate for the gender differences in labour market participation.

RESUMEN

En los últimos años se abrió un nuevo proceso de reforma estructural de la previsión social argentina. Las limitaciones del sistema de capitalización individual privada para garantizar beneficios adecuados y universales generaron cada vez más críticas tanto entre los analistas de la política social como entre la población en general. La adopción del sistema de "contribución-definida" financiera profundizó la individualización de los beneficios previsionales que comenzaron a depender más directamente de la historia contributiva de cada trabajador y de los resultados de los aportes que hubiera realizado a lo largo de su vida. Otro problema central del sistema implantado en los años noventa fue su costo fiscal. A medida que las contribuciones de los trabajadores comenzaron a acumularse en las cuentas individuales, se redujeron los recursos de la seguridad social pública y fueron necesarias cada vez más transferencias fiscales para cubrir la diferencia. Esto afectó las finanzas públicas y el presupuesto disponible para pagar los beneficios previsionales corrientes. La baja cobertura fue otra deficiencia del sistema previsional argentino que se agravó durante los años '90s. Si bien algunos esperaban que la mayor conexión entre beneficios y contribuciones individuales que introdujo la privatización generara más incentivos para contribuir y aumentara así la cobertura, esto no sucedió. Las tasas de cobertura se mantuvieron muy bajas e incluso se redujeron luego de la reforma de 1993. Los costos y riesgos que debió enfrentar el sistema de capitalización individual (incluyendo los riesgos del mercado financiero y los costos administrativos de las AFJP) limitaron aún más sus capacidades para ofrecer seguridad de ingresos en la tercera edad.

Desde el año 2005 un número de medidas modificaron el mix "público-privado" de la política previsional argentina, hasta la nacionalización de las cuentas individuales a finales del 2008. La *Moratoria* previsional, lanzada en 2005, fue la primera de estas medidas. Generó una gran expansión de la cobertura otorgando beneficios a los trabajadores con pocos años de contribuciones que de otro modo no hubieran podido acceder a la jubilación contributiva. Sin embargo, no se estableció una solución de largo plazo que permitiera superar las limitaciones del sistema contributivo para ofrecer cobertura universal en un contexto de informalidad laboral, y por lo tanto es probable que el problema reaparezca en el futuro. A inicios del 2007, una nueva reforma previsional incrementó la participación pública en previsión social, aumentando los beneficios futuros, incentivando la afiliación al sistema público de reparto y estableciendo el pasaje automático de algunos trabajadores a este sistema. En 2008, la *Ley de Movilidad Previsional* reestableció la indexación automática de los beneficios, respondiendo a una demanda social reiterada desde 2001. La fórmula de cálculo fue sin embargo compleja y controvertida, y su aplicación cubrió sólo el período posterior a la sanción de la ley, sin revertir la pérdida de poder adquisitivo que sufrieron muchos beneficiarios en años anteriores.

En noviembre de 2008, luego de catorce años de funcionamiento de las cuentas de capitalización individual, el sistema fue estatizado y la política previsional readoptó el modelo de reparto. Los trabajadores que estaban afiliados al sistema privado fueron transferidos al Estado y los fondos de sus cuentas pasaron a ser gestionados colectivamente por la ANSES. La acumulación individual dejó de ser relevante para el cálculo de la jubilación futura, que adoptó una fórmula de "beneficio-definido" considerando únicamente los ingresos y los años de contribuciones de cada uno. Los recursos acumulados en las cuentas individuales durante los catorce años de operación del sistema privado (equivalentes a alrededor del 9,5% del PBI en valores de diciembre de 2008) fueron transferidos a la ANSES bajo administración pública. El manejo de estos fondos se convirtió en un elemento central de la política pública y es el eje de gran parte de los debates sobre previsión social actuales.

Luego de este amplio proceso de reforma muchos problemas persisten. Por un lado, hay cierta incertidumbre acerca del equilibrio financiero futuro del sistema dada la falta de cálculos actuariales de largo plazo que puedan guiar tanto la administración de los recursos existentes (stocks y flujos) como el planeamiento de las demandas de financiamiento futuras, especialmente cuando el número de trabajadores con derechos previsionales públicos ha crecido tanto. El equilibrio financiero de largo plazo no es sólo una cuestión fiscal sino que es también importante para la equidad intergeneracional y para la reconstrucción de la confianza social que el sistema previsional ha ido perdiendo en las últimas décadas. Por otro lado, la baja cobertura sigue siendo un problema serio de la previsión social argentina incluso luego de la estatización porque (más allá de la *Moratoria*) las reglas de acceso a los beneficios no se modificaron. En un mercado de trabajo ampliamente informal es probable que se produzca un aumento de los adultos mayores sin beneficio en el futuro, tan pronto como se comiencen a diluir los impactos de la *Moratoria* previsional. Otro problema persistente es la desigualdad de género. Aunque las mujeres se beneficiaron por la mayor cobertura de los riesgos de mortalidad diferencial que se produjo con el reestablecimiento de la fórmula de “beneficio-definido”, el sistema contributivo y proporcional penaliza a las mujeres que pasan menos años en el empleo remunerado, reciben menores salarios, y suelen obtener así beneficios previsionales más bajos. Esta brecha se mantendrá en tanto no se desarrollen mecanismos de compensación de las diferencias de género en la participación en el mercado de trabajo, tales como créditos contributivos por maternidad y/o beneficios planos y universales.

Back to state: pension fund nationalization in Argentina

Camila Arza*

I. INTRODUCTION

Argentina was among the first Latin American countries to adopt the three-pillar model of pension policy. With a pension reform sanctioned by the National Parliament in 1993 and implemented in 1994, Argentina abandoned the pay-as-you-go (PAYG) system[1] established many decades before and shifted pension policy to the market. Private pension funds were set up to administer worker contributions accumulated in individual accounts and invested in a portfolio of instruments including state bonds, equities and bank deposits. A defined-contribution (DC) system replaced the existing defined-benefit (DB) model, and future benefits no longer depended on final salary but were instead linked to the value of contributions accumulated in individual accounts. The performance of this new pension system was not without problems. Low coverage rates, volatile investment returns and high administrative costs raised doubts on the structural capacity of the system to provide affordable benefits, universal coverage and secure retirement (Mesa-Lago 2006; OIT 2002; Goldberg and Lo Vuolo 2006; Arza 2008).

In 2008, the financial crisis hit pension funds in Argentina as elsewhere in the world (OECD 2008). Short after the crisis unfolded, the national government announced the nationalization of pension funds and the reestablishment of the public PAYG pension system. All private pension assets were transferred to the National Social Security Administration (ANSES) and accumulated in the Guarantee and Sustainability Fund (FGS), created one year before as a reserve fund to manage the surpluses of the pension system.[2] With the transference of private pension assets the size of the FGS grew exponentially.

The nationalization of pension funds in Argentina reversed the privatizing trend that had spread over the 1990s. The state (through the ANSES) started to manage a massive

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[1] For definitions on technical terms refer to Box 1 at the end of this document.

[2] Decree 897/2007.

amount of resources and increased its benefit commitments with future generations of pensioners. This contributed to eliminate some of the costs and risks typical of private pension management (e.g. administrative costs). However, some of the long-standing problems of the pension system remained. Political risks acquired central importance[3] and concerns emerged on the prospects for future financial sustainability of the social security system.

The problem of sustainability has always affected pension policy in Argentina. A combination of inadequate (at times inexistent) actuarial estimations for the future balance of the system, generous eligibility conditions, repeated recourse to contribution cuts as an instrument to boost employment and activity and high levels of informality and tax evasion, has contributed to the fragile situation of pension finances for a long time. In 1986 the state had to declare the "Pension Emergency" and started to pay benefits at lower than legislated levels. Transition costs emerging from pension privatisation in 1993 further deepened financial imbalance. By the mid 1990s, 35% of pension expenditures had to be covered with resources from general taxes and government transfers.

Pension system nationalization renewed the debates on financial sustainability, which are now connected to the way in which the pension fund assets transferred to the state will be managed. They are also connected to the likely increase in public pension expenses in the forthcoming years as a result of growing commitments with workers coming from the private system and a more generous benefit calculation formula. In the absence of long-term financial projections of the evolution of resources and expenses in the public pension system, however, it is difficult to know how this may affect public finances and whether the system will be sustainable in the medium and long-term.

The adequacy of benefits has been another issue of concern. In the previous system, there were three interlinked problems hampering benefit adequacy: undefined benefits (in funded accounts), coverage limitations, and insufficient (and discretional) indexation mechanisms. In the DC model on which the private pension system was based, benefits were undefined because they depended on contributions, on pension fund performance and on future life expectancy. Nationalization re-established a DB system with public administration and broader risk-sharing. However, a close link between benefits and contributions remained in the public system, making future entitlements dependent on working careers. Given the absence of compensating mechanisms, the public system

[3] Political risks were also important under the private pension system, see Kay 2009.

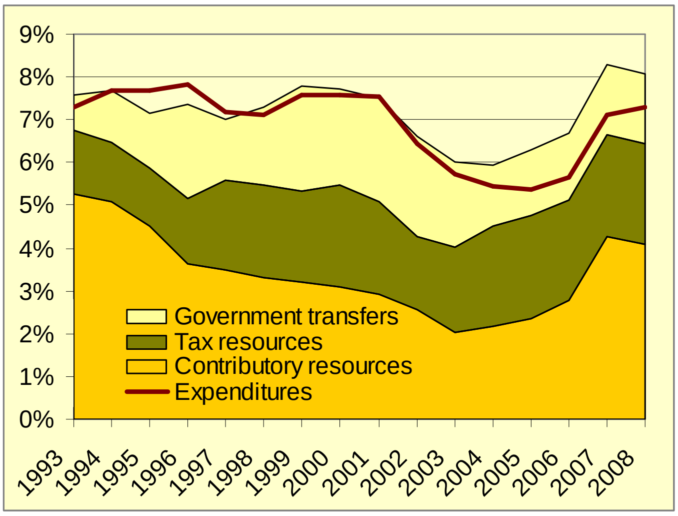
continues to penalise certain "risks" such as maternity, unemployment and precarious or informal employment. On the other hand, despite the significant expansion of pension coverage in the past two years, limited and segmented access to pension rights remains a key weakness of the pension system even after nationalization. With formal employment currently at about 53% of the labour force, exclusion from social security will continue to be a problem in the years to come.

This paper investigates the recent process of reform in the Argentine pension system, evaluating both the institutional changes and their likely effects on pension system performance and outcomes. The paper is made of four parts. After this introduction, the second part briefly studies the operation of the mixed public-private funded system that has been recently abandoned. A third part turns into the recent reform process, starting in 2007 with the introduction of a number of regulatory changes that have expanded the state role for social security up to the nationalization of pension funds in November 2008. This part is made of five sections which address the key elements of the reform process: (1) the expansion of coverage; (2) the new public-private balance; (3) automatic indexation; (4) pension system nationalization; and (5) the new buffer fund. The concluding part deals with the remaining challenges of pension policy in Argentina after deep restructuring over the past two years. It centres on issues of coverage, gender equality, benefit adequacy and financial sustainability, as the main areas of concern for future policy towards sustainable, equitable, adequate and affordable pensions.

II. THE PERFORMANCE OF INDIVIDUAL PRIVATE PENSION ACCOUNTS

After the deep crisis of the 1980s, pension system privatisation in 1993 was presented as the solution to the problems of financial sustainability, benefit adequacy, equity and administrative efficiency in a system shattered by years of mismanagement and lack of strategic planning. Short after the reform was implemented, however, academic and policy-oriented studies alike started to indicate the weaknesses of the new model to achieve some of the key objectives of pension policy (Lo Vuolo 1996; Goldberg and Lo Vuolo 2006; Arza 2008; OIT 2002; Mesa-Lago 2004 and Mesa-Lago 2006). This feeble performance later combined with economic recession, fiscal crisis, public debt default (2001-2) and the international financial crisis (2008), to raise further doubts on the suitability of the private pension system to guarantee old-age security for coming generations of workers and pensioners.[4]

Figure 1. Financial balance of the pension system. 1993-2008 (% GDP)



Source: see Table 1.

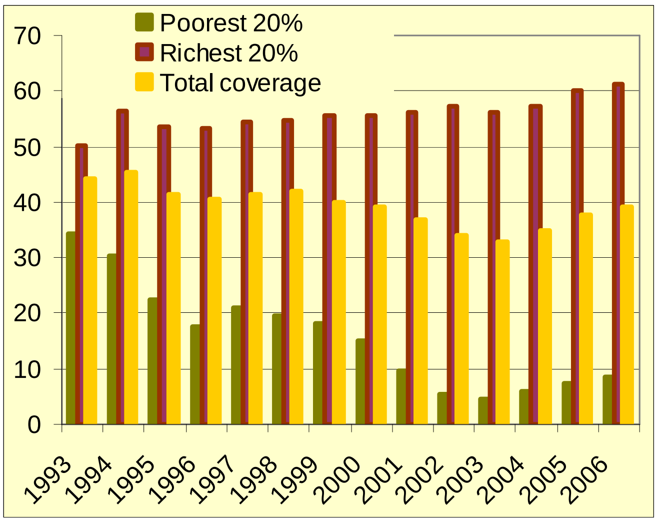
One the most problematic aspects of privatization was financial sustainability. With the creation of individual pension accounts, part of the resources previously allocated to pay for current benefits were no longer available. The transition from PAYG to funding brought further short and medium-term pressures on pension finances. From 1994 to 2005, non-contributory resources allocated to finance the social security system (i.e. taxes and public

[4] This section draws partly from Arza 2008.

transfers) increased from 31.7% up to 62.4% of total revenues. In the same period, the primary result (contributions minus benefits) fell from -27.4% to -50% of expenditures, after touching a minimum of -59.3% in 2003. The financial gap had to be covered with resources from general revenues (see Figure 1 and Table 1 at the end of this document).

A second problematic aspect was coverage. The combination of large informal labour markets with harsher contributory requirements to be eligible for pensions constrained universal access to benefits. Under the rules established in 1993, workers needed to accumulate 30 years of contributions to claim for benefits. This was only feasible for long-term formal workers. As a result, coverage remained low and even fell after the reform. As figures in Table 2 show, about 45.5% of the economic active population was covered when pension privatization was implemented (in 1994). This low figure reduced further in the next year falling to a minimum of 33% in 2003, to later recover a few percentage points in the context of economic growth. Inequality in the distribution of coverage was also large and growing. While between 1994 and 2006 coverage increased in the top income quintile, it fell dramatically in the lowest: in 1994 the coverage rate of the poorest was 3.5 times higher than in 2006 (see Figure 2). The segmentation of the population in "insiders" and "outsiders" in relation to the social security system has deepened, and became increasingly explained by income (see also Arza 2008).

Figure 2. Coverage in the contributory pension system. 1993-2006 (% EAP)



Source: see Table 2.

Coverage gaps have been a problem of Latin American social security systems for a long time (Isuani 1985). During the process of pension privatization it was thought that coverage gaps emerged from the disincentives to contribute embedded in defined-benefit (DB) systems (e.g. the fact that benefit levels did not exactly reflect contribution efforts). Some expected that if these disincentives were abolished, for instance, by creating a closer connection between individual contributions and benefits (as in the private system), coverage would rise. This was not observed in practice. In fact, only in a few Latin American countries did coverage rates increase after reforms were implemented (Gill, Packard et al. 2005; Rofman, Lucchetti et al. 2009). In Argentina, the percentage of workers contributing to social security actually fell after the reform, from 50.9% of the employed population in 1994, to 39.5% ten years later.

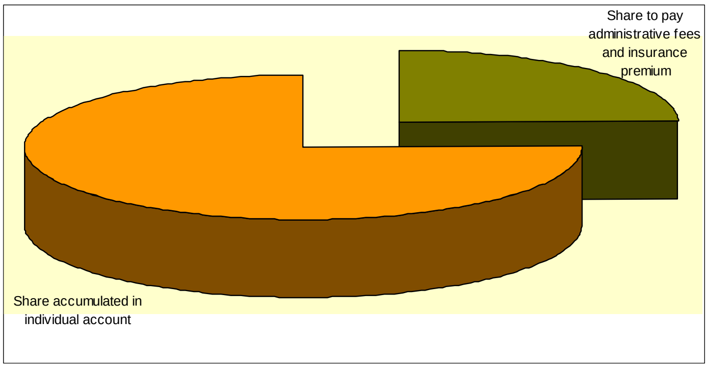
Workers who could actually meet the contributory conditions were not without problems. In the funded system new risks (notably investment risks) emerged, while others (like political risks) did not disappear. The incidence of both these risks has proved to be important. In a country prone to fiscal crises and state debt default, investing in public bonds has not been any more secure. The 2001 crisis showed the magnitude of the risks involved in individual accounts. When negotiations over defaulted state bonds initiated a few years later, and the government made it clear that there would be no special provisions for local pension funds, serious concerns arose on the impacts this could have on pension fund accumulation and on future benefit levels. In practice, debt default made it necessary for the regulator to intervene to spread the costs across generations in order to reduce the impacts on workers close to retirement.[5] Inter-generational risk-pooling had to be reintroduced *ad hoc* to manage the impact of debt default on pension adequacy.

Individual accounts were also highly costly. Between 1995 and 2001, workers affiliated to private pension funds had to allocate about 3.5% of their wages to pay administrative costs (including death insurance premium, and about 2.6% without) (Table 3). Costs fell in 2002 as a result of new public regulations, and then again, significantly, in 2008 following the 1% cap introduced by the 2007 Pension Act. If compared to administrative costs in the public sector the difference is wide. While over the post-reform period, operation costs represented between 15.6% and 37.8% of revenues in private pension funds, they were only between 1.4% and 2.4% of revenues in the public branch (Arza 2008). Part of the

[5] By the time debt default was declared, pension funds had about 64% of their portfolio in state bonds (SAFJP 2002). As the market value of these bonds plummeted, the regulator established that, for the purposes of the calculating the value of pension fund assets and returns, state bonds would be taken at a ‘technical value’, which was higher than the market value but was expected to converge with it over time. On debt default and private pension funds see FIEL 2005.

difference may be explained by the hidden costs in public administration (e.g. the amortization of public buildings or services provided by other agencies), but this is unlikely to explain it wholly. There are two other reasons why administration costs are so much higher in private personal schemes: the first one is reduced economies of scale, the second is high expenses in advertising and promotion by private pension funds to gain new clients.

Figure 3. Administrative costs of private pension.
Average 1994-2008
(fee as % of monthly contribution)



Source: see Table 3.

On the other hand, pension privatization was unable to eliminate political risks. Even after the system was under private administration, governments repeatedly redefined pension rules, forced pension fund administrators to make hazardous investment and put pension funds at risk of dramatic failure as a result of debt default (see Kay 2009). The recurrent modification of the parameters of the system has also made pension policy rather unstable.[6] Pension system parameters continued to be dependent on the political and economic cycle. The manipulation of pension policy for purposes other than old-age security remained a risky policy practice even after the system was privatized. In a weak and fragmented institutional setting, the pension system become subject to pendular economic and political decisions. This has weakened its capacity to plan for the long-term, precisely what it ought to be doing. Past PAYG systems also suffered from political risks, which are well documented. But while in the old PAYG DB system pensioners could (at least in theory) claim their benefit entitlements to the state, in the new system there is no ex-ante benefit to claim: political risks had to be fully borne by workers and pensioners.

[6] The Pension Act has been modified by at least 34 Laws and Decrees. Overall, there have been about 851 legal instruments which have either modified or complemented the Pension Act between 1993 and 2008 (Source Infoleg at http://www.infoleg.gov.ar/).

Finally, in the new market created by private pension funds, choice and competition did not work as expected. Workers were found to exercise quite poorly their right to "buy" the best pension fund in the market (Arza 2008). This was partly due to regulatory restrictions (for instance the prohibition for workers to shift back to the public branch up until 2007) and partly due to lack of information on complex financial performance issues. Most workers actually made no choice of system or pension fund company. Up until 2007 these "silent" workers were automatically allocated to a pension fund. After they had been allocated, they could no longer return to the state branch of the system. In 2006, 81% of new affiliates to private pension funds joined the private system in that way (i.e. without making an explicit choice). Competition between pension funds was also limited as market concentration deepened. Out of the 26 pension funds established when the system was created only 11 existed in 2008. The concentration of affiliates in a few 'top' pension funds (AFJP) was also remarkable: by 2008 the 'top' three AFJP had half of the entire pension market, and the top five had three quarters (ANSES 2008).

III. EXPANDING THE STATE: PENSION REFORM AND THE NATIONALIZATION OF INDIVIDUAL ACCOUNTS

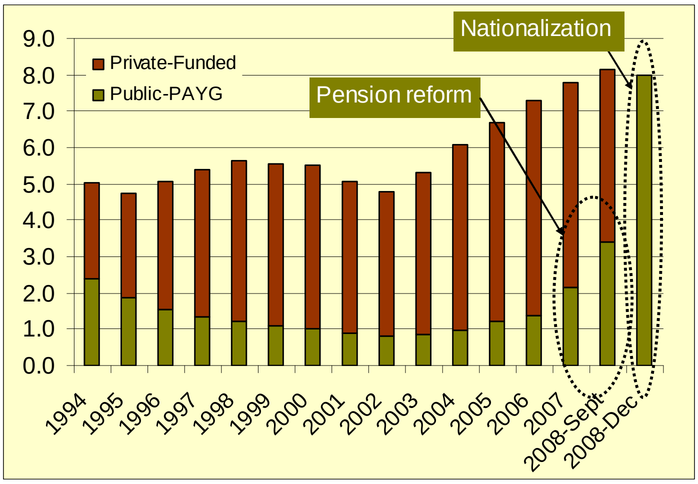
The weaknesses of the private pension system and the shock of the economic and fiscal crisis of 2001 opened up a window of opportunity for reform. Most changes however were adopted many years after the crisis had passed and the economy had recovered. From 2006 onwards a number of policy measures increased state participation in old-age pension policy up until the complete nationalization of individual accounts and the elimination of the private pension system in November 2008.

1. The expansion of coverage:

The 2001 crisis left a large informal labour market, high unemployment rates, low wages and falling real pension benefits as a result of poor indexation in an inflationary period. With economic recovery, informal employment fell from 48.0% to 41.6% between 2003 and 2007 and unemployment rates from 20.4% to 9.8% (MTESS 2008). As more workers were employed and contributing, the financial balance of the public pension system, which had been very much affected by transition cost, employer contribution cuts and economic recession, finally improved. After a long period of stagnation, the number of workers contributing to the pension system (both public and private) rose steadily from about 4.8 million in 2002 up to 7.3 million in 2006 (Table 4). This had a clear positive effect on public pension finances. Social security revenues increased from 4.3% of GDP in 2002 up to 5.1% in 2006 (Table 1).

Economic recovery and falling informality contributed to improve coverage among the working population, which increased from 33% in 2003 to 39.2% in 2008 (Table 2). Coverage also expanded among the old as a result of a number of measures adopted from 2005, which allowed workers to either retire earlier or retire with previously insufficient contributory records. (A summary list of the legislative changes applied from 2005 onwards is presented in Box 2).

Figure 4. Distribution of workers between public and private pension schemes, 1994-2008 (million workers)



Source: see Table 4.

The first measure, approved by Law 25,994 (art. 2), opened up a route to early retirement for unemployed workers who were 5 years short of retirement age, but had already met the contributory requirement (30 years of contributions). Unemployed workers joining this early-retirement program could get a benefit equal to half their normal retirement benefit up until they reached the retirement age of 65 for men and 60 for women, when they could receive the full pension.

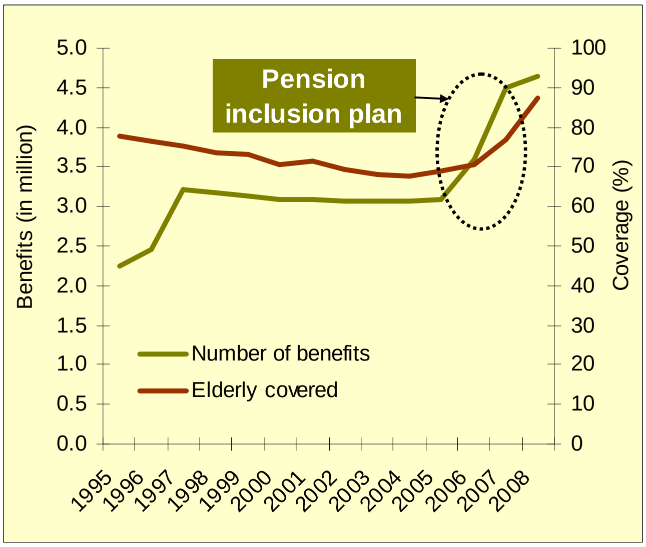
The second measure was the so-called "*Moratorium*", approved by Law 25,994 (art. 6) and Decree 1454/2005 (modifying Law 24.476). It was much more wide-ranging in scope and implications. It extended the possibility to apply for pension benefits to all uncovered workers who had already reached the normal retirement age but could not meet the contributory requirements. Workers had to recognise their unpaid contributions and join a payment plan. This allowed them to immediately start receiving benefits without having to pay anything in advance: their "debt" with ANSES would be paid in 60 monthly instalments discounted directly from the new benefit received. By getting social security benefits, previously uncovered elderly were also automatically included in the health insurance program for pensioners (PAMI).

Both measures were part of the so-called "*Pension Inclusion Plan*", which remained open for two years since 2005,[7] leading to a significant expansion of pension coverage among

[7] The *Plan* ended on 30th April 2007. However, an option to cancel unpaid contributions for the period before 1994 remains the open, although with a much more limited effect.

the elderly (Table 5). Up until 2005, the number of pension benefits was stagnant as a result of the stringent eligibility conditions introduced with the 1993 pension reform. From 1998 onwards, a reduction in the number of beneficiaries could actually be observed, an unprecedented fact in Argentine social security history.

Figure 5. Coverage rates and number pension benefits. 1995-2008 (millions and percentages)



Source: see Table 5.

The number of benefits paid by the system recovered and expanded as the *Pension Inclusion Plan* was put into practice. About 47,456 new workers retired under the early retirement program and many more joined the *Moratorium*. Over the period from June 2005 to December 2008 there were about 2 million new benefits thanks to these facilities (MTESS 2008) (see Table 6). Estimations from ANSES suggest that pension system coverage, which had fallen from 77.7% of the elderly population in 1995 to 67.8% in 2004, started to grow again in 2005, reaching 76.7% in 2007 (Table 5). The benefit levels were however very low. They were typically close to the minimum pension, from which contribution debts were discounted for an average of about 40% of the benefit. Given longer life expectancies, and lower coverage from the contributory systems, most of these benefits (about 87% of the total) were assigned to women, which has also helped to close the gender gap in pension coverage.

In July 2007, some figures indicated that benefits paid as a result of the *Pension Inclusion Plan* represented about 30% of the total expenditures of the system, with a fiscal cost of about 1% of GDP (Boudou, D'Elia et al. 2007). Other authors have estimated that the cost were about 1,3% of GDP in 2007 and 1,5% in 2008 (Castiñeira 2007). Although data from ANSES is not sufficiently disaggregated to assess the specific cost of this Plan, the evolution of total pension expenditures is telling: resources directed to pay pension benefits, which had been falling since privatization, started to grow again, from 4% of GDP in 2006 up to 5.4% in 2008, after new benefits from the *Pension Inclusion Plan* were fully allocated.

2. A new public/private balance:

The most significant change in pension system rules up until nationalization took place in 2007 (Law 26,222) (see details in Box 3). This wide-ranging reform expanded the role of the state in pension provision at the expense of the private sector, increasing state coverage and benefits, but without yet eliminating the mixed public private system established in 1993. As more workers affiliated to the public pension system, revenues rose, reducing the deep primary deficit left by privatization.

Before nationalization, the Argentine pension system was not fully private. Instead, it was a “mixed” and “parallel” system in which public and private pensions coexisted. This policy option was part of a political strategy to ease the approval of the reform in 1993. In practice, however, all rules were designed to favour the expansion of the private system. One of such rules was the automatic enrolment of all new workers into the private branch unless they explicitly made a choice for the public system within a limited period of time. Another instrument to boost private pension coverage was the closure of the public branch for all workers already affiliated to the private one, who could no longer return to the public system. These two measures introduced a pro-private bias with which the system had operated since 1994.

The 2007 Pension Act modified both aspects. It allowed workers in private pension funds to voluntarily shift back to the state every five years. It thus reintroduced some competition between public and private pensions, which had been virtually ruled out since privatization. The most important element of the reform, in terms of the public/private balance, was the change in the “default” system for new workers who made no explicit choice. From 2007 onwards, these workers started to be allocated in the public, rather than the private, pension system. As indeed most workers choose no system when entering the labour market, the effect of the "default" option was important. Together with other measures mentioned below, it contributed to the significant increase in the number of affiliates to the public pension branch that can be observed in Table 4. Between December 2006 (before the 2007 Pension Act) and September 2008 (before nationalization), the number of affiliates to the public pension branch grew by 144%. In the same period, affiliates to the private system fell by 19%.[8]

Another measure that shifted the public-private mix back to the public sector was the mandatory transference to the public branch of a number of workers close to retirement. Workers aged up to ten years less than the normal retirement age (of 60-65 years for women and men, respectively), who had individual accounts worth less than 20,000 AR$ (about 6,370 USD), were automatically transferred to the public branch of the system. Upon retirement their benefits would be calculated on the basis of the rules of the public sector, that is, under DB formulas. On the other hand, "special regimes" for teachers, scientist, diplomats and judges were reactivated, also reassigning workers in these regimes to the public system.[9]

Voluntary and mandatory shifts to the public branch increased resources for the pension system in the short run but also generated growing commitments for the future. Public resources in the ANSES grew due to five main reasons: (1) the "default" affiliation of new workers to the public branch, (2) the voluntary shift to the public branch of about 900,000 workers previously in the private system, (3) the compulsory reallocation in the state system of about 400,000 old workers with limited assets in private funds, (4) the activation of the "special regimes" for about 170,000 teachers, scientist, diplomats and judges, (5) the transference of the "stock" of assets in the individual accounts of all workers who shifted to the public system (about 9 million AR$, or 1.2% of GDP) (Cetrangolo and Grushka 2008).

Overall, approximately 1.5 million workers shifted from the private to the public system. The resources obtained from this new flow of contributions became the main source of financing for the expansion of coverage. In addition, worker contributions to pension funds were raised from 7% to 11% and harmonised with those in the public system. As a result, surpluses in the public social security system, already existing since economic recovery,

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[8] The same is observable when looking at new affiliates. In 2006 there were 627,403 new affiliates to private pension funds (79% of which were sent "by default"), and 359,600 in the public branch. The balance reversed in 2007 with 227,750 new affiliates going to the private system and 791,561 to the public.
[9] Resolution SSS 135/2007.

increased even further, reaching 9 billion AR$ in 2007, about 1.2% of GDP (see Table 1). These surpluses were one of the key sources for government financing over the period (Lo Vuolo and Seppi 2009).[10]

Two other measures introduced with the 2007 pension reform regarded benefit adequacy. First, replacement rates in the public branch of the system were raised from 0.85% to 1.5% per year of contributions. Second, the right to the minimum benefit was extended to workers in the private pension funds. For workers who retired from the private pension system with benefits below the minimum threshold, the state would pay the amount required to cover the gap.

Overall, the new regulations introduced with the 2007 Pension Act tended to reverse the trend initiated in 1994 towards the expansion of the private sector in pension provision. Since 2007, the public-private mix started to change towards the public pension system, which became more generous and widespread. The distribution of workers between the two systems started to favour the state branch, where benefits had also become significantly higher. This shift preceded pension system nationalization, which would take place only one and a half years after.

3. Indexation and benefit adequacy

Given the history of recurrent periods of high inflation in Argentina, benefit indexation has always been a sensitive issue for pension benefit adequacy. The first piece of legislation regulating benefit indexation dates back to 1948.[11] It established an annual supplement to compensate for inflation following the evolution of the general wage index. Ten years later, another mechanism of benefit indexation was instituted.[12] It established that the benefits would be calculated on the basis of the past wage level of each worker, adjusted with the evolution of wages in his or her occupation and position. Indexation thus followed wage

[10] In fact, part of the surplus in ANSES accounts for year 2007 can be explained by the way in which the private pension assets of workers transferring to the public branch were accounted. Decree 313/2007 established that these stocks would be transferred under the item “social security contributions” (which as Table 1 shows, rises sharply from 18.1 billion AR$ in 2006 to 34.5 billion AR$ in 2007), that is, as *current resources*, when in fact they should have been considered a financial stock (Lo Vuolo and Seppi 2009). From 2007 onwards, surpluses would be transferred to the *Fund to Guarantee Indexation* first, and to the *Guarantee and Sustainability Fund* (FGS) afterwards (see section 4 below), also managed by the ANSES and the Executive Power.

[11] Law 13,478 (1948).

[12] Law 14,499 (1958), art. 2. The law was first applied in 1960, when it was regulated by Decree 11,732/1960.

levels resulting from collective agreements in each occupational group.[13] These indexation rules were very difficult to apply because of the number of collective agreements that existed, leading to delays and errors in application (Alvarez 1980). The 1968 Pension Act created an easy-to-apply indexation norm based on a single wage coefficient for all. The decline of real wages after the military coup in 1976, however, meant that pension benefits also lost purchasing power over the period (see Arza 2010).

In the 1980s, hyperinflation and the pension crisis have generated significant losses for pensioners despite the rather simple indexation rule. Benefit uprates were either not applied (when resources were scarce), or applied not frequently enough for the inflation rates of the period.[14] The time-lag between wage rises and benefit rises produced a continuous reduction in the real value of benefits in high-inflation times. In some cases, when inflation was too high, benefit rises were applied before the due date as 'advances on account for future indexation'.[15] Sometimes differential rates of adjustment were used, favouring pensioners on minimum benefits, thus leading to a flattening in benefit pyramid, and increasing the share of pensioners on the minimum (see Arza 2004; Arza 2010). The same has occurred more recently in the period following economic recovery from the 2001 crisis, although in a very different context of economic growth and fiscal surplus.

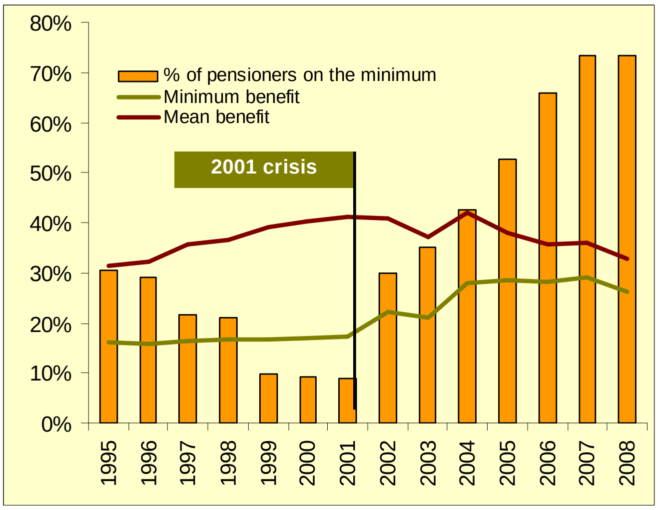
Indexation after privatization

Pension benefit indexation was eliminated by the Convertibility Plan adopted in 1991, together with all types of indexation. The new pension system legislated in 1993 established that benefits would be indexed following the evolution of an indicator of the revenues per contributor to the system[16]. A few years later, the unit of reference for benefit indexation, was replaced by another unit, decided by the government, with no link to any

[13] It established that 'ordinary pension benefit will be equivalent to 82% adjustable of the monthly wage of the position, trade or function of the beneficiary at the time of retirement or at the moment the benefit was granted' (Law 14,499 (1958), art. 2, own translation).
[14] Annual inflation rates by December 1986 were 82%; 175% in 1987, 388% in 1988, up to the hyper inflation peak of 4924% in December 1989 (data from INDEC).
[15] This was very common throughout the 1970s. See for example: Decree 1840/1975, Decree 2272/1975, Decree 843/1977, Decree 1422/1977, Decree 2013/77, Decree 3,132/1977, Decree 666/1978, Decree 1143/1978, Decree 1942/1978 and Decree 2900/1978, all establishing benefit rises 'on account' of future increases.
[16] The unit of reference was called AMPO (Mean Compulsory Social Security Contribution), and legislated by Law 24,241 (1993), art. 21.

'objective' variable of the system.[17] This allowed governments to control the evolution of real benefits (and the resources allocated to them) while trying to comply, at lest formally, with the right to 'movable' benefits established in the National Constitution.[18] Up to the 2001 crisis, however, inflation was very low and the mean pension benefit grew in real values. However, the minimum benefit remained low (monthly 150 USD) and represented a decreasing share of the mean benefit.

Figure 6. Pension benefits as % of the mean wage. 1995-2008 (percentages)



Source: see Table 7.

With the return of inflation after the 2001 crisis benefit levels were left unprotected. Up until late 2002 the minimum pension benefit was frozen. From 2002 to 2008, the government started to give discretional benefit rises which for the most part concentrated on the minimum benefit. From a value of 150 AR$/USD in 2001, that is 17% of the mean wage, the minimum was raised up to 690 AR$ (about 200 USD) in 2008, 26% of the mean wage (Table 7). However, benefits above the minimum lacked any automatic indexation, and apart from a couple of increases *ad hoc,* remained unchanged throughout the period and rapidly lost purchasing power. This produced, once again, a flattening of the benefit pyramid. While the minimum increased and largely recovered from the shock of the crisis, the mean benefit did not. By 2008 the mean benefit was worth only 33% of the mean

[17] Decree 833/1997, art. 1, states that the value of the MOPRE (the new unit of reference) 'will be established annually by the application authority according to the possibilities emerging from the General Budget of the National Administration', own translation.
[18] Art. 14 bis.

wage, still significantly below the pre-crisis level of 47%. This contributed to a deterioration of the living conditions of the mean pensioner in the post-crisis period which was not compensated nor reversed with economic recovery.

The role of the National Courts of Justice

After 2002 most of the government effort was concentrated on the lower strata of pensioners, but the rest were unprotected from inflation, leading to the pseudo abandonment of benefit proportionality. The relative position of pensioners in a context of economic growth deteriorated. As inflation eroded previous benefit levels, pensions lost track with earnings and a massive number of legal processes followed. In 2007, the ruling by the Supreme Court of Justice on the “Badaro case” boosted the presentation of thousands of demands by pensioners. The ruling consisted in the recognition of Mr Badaro’s right for benefit indexation. The Courts argued that his pension should be adjusted following wage growth over the period 2002-2006, leading to a benefit increase of 88.6%, much higher than the 11% he had obtained.

After “Badaro case”, the government did not regulate the application of a similar benefit increase for every pensioner in a similar situation. Thus, in order to receive adequate benefit adjustment, each pensioner had to initiate an individual claim. This made social security courts collapse. In 2008, about 4,782 new cases were initiated per month, as compared to 3,430 in 2007. In 2009 the number of cases almost doubled reaching in average to 9,132 per month. There was no administrative capacity to process this massive number of claims in due course. Judicial processes take a long time, and after a definitive sentence is pronounced, effective payments depend on resources available. Although resources allocated to cancel judicial sentences increased in 2006 (representing 4.6% of total social security expenditures), the problem persists as new sentences accumulate. In 2008, 31,471 sentences were paid, for about 1.2 billion AR$ and the budget allocated for 2009 was 2.2 billion AR$. (ANSES 2008).

Litigiousness has long been a problem in Argentine social security. A couple of decades before, the number of judicial sentences favouring similar pensioners’ demands, but in a context of much more stringent public finances, led to the declaration of the Pension Emergency in 1986 when all judicial processes were suspended in the name of “national interests”, and benefits were paid at lower than legislated levels. Although some of the debts with pensioners during this period started to be slowly paid in the following years, the

Pension Emergency has shattered workers' and pensioners' trust on the social security system.

The new Pension Indexation Act

In 2008 the National Congress finally approved a Pension Indexation Act. The new law established a mechanism to adjust pension benefits applicable from March 2009 onwards. This was a significant improvement over the previous situation. However, the first adjustment considered variations in the previous six months only and no provision was made to compensate for the loss of purchasing power over the period 2002-2008, of crucial importance especially for middle and high benefits. The indexation formula considered in equal parts the evolution of two variables: (1) wage levels and (2) fiscal (non-contributory) resources in the social security budget per pensioner. There was also a threshold for indexation, equivalent to 103% the variation of total social security resources (fiscal and contributory) per pensioner.

The indexation formula was somewhat controversial. The maximum threshold for indexation meant that benefits may not follow wages if resources fall. There were also some concerns about considering the evolution of fiscal revenues (from taxes on cigarettes, oil, income and value added taxes allocated to the social security system) rather than contributory resources (from worker and employer social security contributions), or total resources, as the basis for indexation. In fact, fiscal (non-contributory) resources have been used since the 1980s to cover the financing gaps of the contributory system but may eventually reduce if no longer needed (for instance due to improvements in tax collection). It is not clear how an eventual modification in the taxes allocated to social security (for instance, now that contributory resources have increased following nationalization) will affect the calculation of benefit indexation.

Despite these limitations the Indexation Act was a significant improvement of institutional guarantees for benefit adequacy against the practice of discretional indexation depending on resource availability and political will. Since it was put in operation, two benefit increases were applied, a first one of 16.69% in March 2009 and a second one of 7.34% in September 2009. The benefit pyramid remains flat as it will take time for this proportional indexation to have an effect in the distribution of benefits. Benefits are not yet "adequate" in terms of the replacement rates offered to workers and the reduced purchasing power of most benefits. But one of the pillars for future adequacy has been built. Two other important elements will be the benefit calculation rules and the financial sustainability of pension promises. Both have been radically affected by recent pension reform and nationalization.

4. Pension fund nationalization

After the 2007 Pension Act it was not expected that another structural reform would follow. Indeed, despite official criticisms to the private system and pro-public sector reforms, nothing indicated plans for nationalization until the announcement was made in October 2008. The decision was taken promptly and the new Pension Act was approved after a very short debate in the National Parliament.

The pension reform was a very simple piece of legislation, made of only 22 articles, as compared to the 194 in the previous Pension Act. In fact, it did not regulate the entire system (the previous Act continued to rule). It simply established the elimination of private pension funds and reassigned all workers to the pubic system administered by ANSES. Private pension assets for a value of 9% of GDP (94.5 billion AR$, 30.2 billion USD) were transferred back to state administration (see Table 3). Individual saving accounts, created about 15 years before, were no longer part of the mandatory pension system, which returned to a Bismarckian model based on public, PAYG, and earnings-related benefits, similar to the one existing before 1993.

From a policymaking point of view this indicates the institutional and political fragility of the private pension systems established in the region (Lo Vuolo 2009). The negative feedbacks from the poor operation of individual accounts combined with a change in ideas and discourse, opening up a window of opportunity for policy change (Arza 2009). Path-breaking reform was probably easier due to the tradition of public pensions which remained well-rooted in the minds of the population. In fact, even after privatization many pensioner organisations continued to demand the “82% indexable benefit” (a long-standing claim for a benefit right established in 1958), although the very conception of a “defined” replacement rate had ceased to exist in 1993.

The elimination of the AFJP was a return to a past idea of state pensions. This eased reform treatment and approval. In only three weeks the project proposed by the Executive was passed without much change in both Chambers of Parliament. No technical study on the financial and actuarial balance of the new system was made public and probably none existed.[19] On the basis of the traumatic experience of recession and default left by the decade of structural adjustment in the 1990s, the justification of reform was not centred on the advantages of the new public system, but on the negative aspects of the private pension system which was being eliminated (Lo Vuolo 2009). The old system, identified with the frustrating experience of public policies of the nineties, had mis-performed in many aspects. But the single-pillar public system that existed before privatization also had important shortcomings, many of which expressed over the Pension Emergency in the 1980s. There was however limited attention on the way in which the new system emerging from nationalization would be equipped to avoid and overcome those problems of the past.

In practical terms, the transition back to the public system was relatively easy because a public PAYG scheme already existed. The strategy was to give all workers in the private pension funds the same rights they would have got if they had been affiliated to the public system from the start. The actual accumulation of funds in their accounts no longer mattered. The Pension Act established that “the state guarantees affiliates and pensioners in the funded system the receipt of equal or better benefits than they have on the date of implementation of this Law.”[20] For workers who had made voluntary contributions to private pension funds the situation is more complicated. The Pension Act established that voluntary contributions will be recognised but it is still unclear how this will be done.

For current beneficiaries of the private system, the Pension Act established two types of treatment. On the one hand, pensioners receiving life annuities would continue to get these benefits as stipulated in their contract with insurance companies. On the other, pensioners receiving either “programmed” or “fractioned” benefits[21], paid by the AFJP, would start to have their benefits paid directly by the state. The funds in their pension accounts were transferred to the ANSES. It is however unclear how their benefits would be calculated. However, given the low value of most benefits paid by pension funds, it is likely that the ANSES will pay the minimum benefit without need for further calculation.

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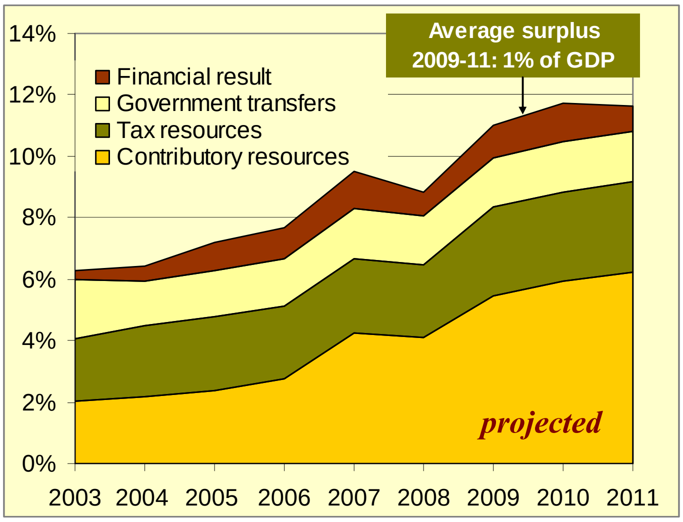
[19] In a presentation to the National Congress in August 2009 (that is, 9 months after the reform!), the Executive Director of ANSES said that “some actuarial studies of consistency, and of the Argentine labour market, the number of contributors, and the sustainability of the pension system, are being prepared” (Diego Bossio at the Meeting of the Parliamentary Commission for the Control of Social Security Funds, 25th August 2009). In October 2009, one year after nationalization, the ANSES published a “Strategic Plan” including some financial projections but only for the short-term (years 2009-2011) (see ANSES 2009).

[20] Art. 2, Law 26,425 (2008).

[21] These were two different mechanisms for calculating benefits in private pension funds. Both consisted in withdrawing a monthly benefit from pension funds with no insurance for longevity. A third option was the life annuity, which was provided by an insurance company on the basis of a life-long benefit contract (with longevity protection).

One of the first immediate impacts of nationalization was the massive rise in the resources managed by ANSES. Resources increased both in terms of the "stock" of individual pension accounts (transferred to the FGS) and the "flow" of the contributions paid by workers previously affiliated to private pension funds, which were now transferred to the public system. By September 2008, soon before nationalization was implemented, there were about 4.8 million workers contributing to the private pension, as compared to 3.4 million in the public system. As private pension affiliates were transferred to the state, ANSES could receive more than double the amount of personal contributions (of about 11% of wages) it received before. The projections recently presented estimate that revenues from contributions will increase by 44% between 2008 and 2009 (in nominal terms) (ANSES 2009). The stock of resources managed by ANSES also increased exponentially with the transference of worker assets in individual pension funds to the FGS, the new buffer fund for the public pension system.

Figure 7. Financial balance of the pension system. 2003-2011 (% GDP)



Source: Years 2003-2008 from Table 1, years 2009-2011 projected data based on ANSES (2009).

5. The FGS: a buffer fund for collective funding

In mature pension systems buffer funds typically have the purpose to maintain financial sustainability in the long-term avoiding that benefit payments may be affected by changes in the demographic structure of the population. The adequate functioning of this "buffer" can simultaneously contribute to intergenerational equity, benefit adequacy and long-term financial sustainability. In a PAYG system, the financial balance depends on the relationship between contributors and beneficiaries, wages and benefits. Hence, economic performance as well as demographic structure may alter the equilibrium between revenues and outlays. Buffer funds allow the accumulation of resources in periods when economic or the demographic contexts permit, to use them when these contexts become less favourable. Around the world they have become a key element in the inter-temporal calculus of financial balance to guarantee that pension promises can be met in the future.

In most countries, buffer funds have been constructed setting aside part of the social security revenues to save for the long term. In contrast, in Argentina the FGS originated without a calculation of future pension commitments and was initially thought more for the short term (to guarantee indexation in a particular year, see below), grew with financial surpluses in 2007 and 2008, and massively expanded with the transference of all assets that individual pension accounts had accumulated over 14 years. Instead of being slowly built over time, the FGS was born large. It is not a “free lunch”. It reflects the saving efforts of the previous decades and the transition costs paid by current generations. The proper management of these funds is an enormous challenge for governments and can be crucial for the success (or otherwise) of the new pension system for current and future generations.

The regulatory framework of the FGS

The FGS was created in 2007 as a reserve fund for the national pension system.[22] Initially, the FGS received the surpluses and financial assets from ANSES as well as the assets in individual pension funds, which were transferred to the state following the 2007 Pension Reform. With the nationalization of individual accounts in 2008, the FGS also received the assets accumulated in all private pension funds. The regulations for investment and the accountability of management decisions became at this point a central aspect for the future pension system.

The early legislation established that the FGS would be administered by ANSES with assistance of the *Committee for the Administration of Investment*, conformed by three

[22] Decree 897/2007. Previously, the 2007 Budget Act (Law 26,198) had created the Fund to Guarantee the Indexation of the pension system (FGM), made with the financial surpluses of ANSES at the end of 2006. The FGM was later eliminated by the 2008 Budget Law and the funds transferred to the FGS (Law 26,337 (2007), art. 47).

members: the Executive Director of ANSES, the Secretary of the State for Public Finance and the Secretary of State for Public Income. The *Committee* was to make investment decisions as well as decisions regarding the use of the funds to cover contingencies. A *Reviewing Commission,* with members representing the government, trade unions, employer corporations, municipalities and the Parliament, was also created to inform the public on issues related to the management of resources in the FGS, but with no effective role in the management of funds.

The 2008 Pension Act added more complexity to the administration of the FGS. It established that ANSES would have financial and economic autonomy for the management of assets in the FGS. It also creates a *Parliamentary Commission of Control* of the FGS, formed by members of the National Parliament, to make ex-post evaluations of asset management. This *Commission* can control and make observations and proposals but has no capacity to intervene in the investment strategy of FGS. Finally new regulations also create the *Council of the FGS* within the structure of ANSES, to replace the *Reviewing Commission* created only a year before. It is formed with 13 members representing different sectors of society, and is aimed to monitor the evolution of the funds of the system, again with no effective power on investment decisions.

According to the latest regulation (Decree 2103/2008) the administration of investment of resources in the FGS will be made by ANSES, assisted by an *Executive Committee*. This *Committee* will be formed by the Executive Director of ANSES, the Secretary of State for Finance, the Secretary of State for Public Income and the Secretary of State for Economic Policy. This is basically the same as the *Committee for the Administration of Investment*, with the only addition of one other Secretary in the Board.

This institutional complexity should not hide the fact that the real management functions remain within the ANSES and the Secretaries of State. The *Executive Committee* is the only one that manages resources and makes investment options. The other two institutions, the *Parliamentary Commission of Control* and the *Council of the FGS* can evaluate and make suggestions, but cannot modify nor decide investment choices. However, in order to enhance accountability, effective control that these and other institutions (from the public sector or from civil society) could make of the management of the FGS will be crucial. As incentives typically exist to use assets in the short-term, societal control from a multiplicity of sectors may be key to promote sound investment decisions with adequate care both for current and future generations of pensioners.

The regulations of investment and administration

The Pension Act establishes that the funds in the FGS will be under the same investment restrictions as those previously applied to private pension funds. Some broad limits are set on possible investment. For instance up to 50% of assets in bonds from National State, up to 30% in bonds from provincial or autonomous public institutions, up to 50% in equities, etc. Foreign investment is now explicitly prohibited. A minimum of 5% of funds has to be dedicated to finance productive or infrastructure projects for the middle or long-term. Despite the fact that investment regulations are rather loose (for instance, there is no restriction on minimum interest rates or other guarantees), the legislation establishes that resources in the FGS can only be used (i.e. “spent”) to pay for pension benefits.

In the debates surrounding pension nationalization the management of the assets coming from individual pension funds was one of the main issues of concern. Given the short-term incentives for governments to use these funds for several purposes, including investment but also government expenditure, the controls built in the management of the system need to be strong. Over the history of pension policy in Argentina pension system resources have been used in a number of opportunities as a source for financing government programmes. From the 1940s to the 1960s, when pension systems had just expanded, there was some collective funding to manage the surpluses of the “young” pension system. These assets were depleted in very short period due to the rapid maturation of the system, but also due to their investment in public bonds yielding negative real interest (Arza 2010).

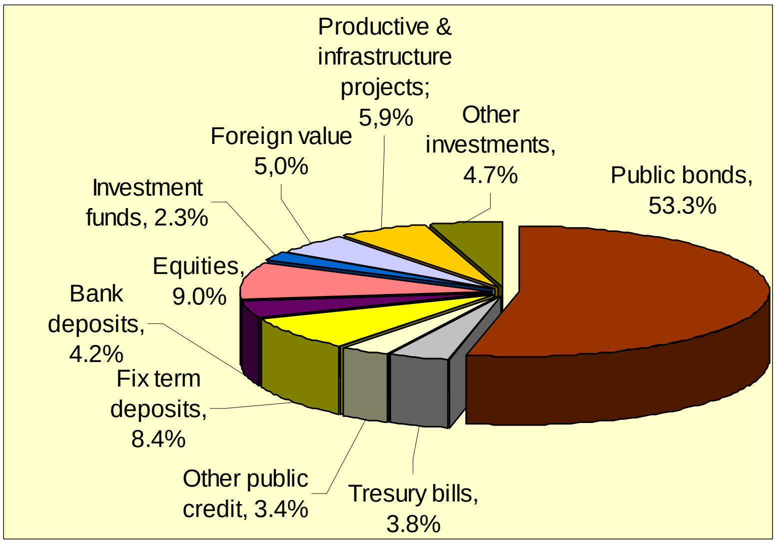
The construction of a regulatory framework that could reduce incentives to mis-use or mis-invest these resources, in a context of limited accountability, is complex. The prohibition to use (i.e. “spend”) the funds in anything but pension benefits (as established in current legislation) may not solve these problems in practice, because as history shows the key issue with buffer funds is the way in which resources are invested (rather than “spent”). The government can use the funds to finance current expenditure or government projects issuing state bonds or other instruments for the FGS.[23] Effective controls, accountability and transparency in investment decisions are key for the future sustainability and effectiveness of the pension system.

[23] In fact, before nationalization, part of the surpluses of ANSES has been invested as loans to the state with negative real interest rates (Treasury Bonds and Central Bank Bonds) (Cetrangolo and Grushka 2008).

__The operation of the FGS__

The FGS accumulated social security funds coming from two sources. The "first" FGS was made of with the surpluses of ANSES for 2006 and 2007 and the stock transferred from the individual accounts of older workers and workers in some special regimes who were reallocated into the public system as a result of the 2007 Pension Act and other legislation. By December 2008 this "first" FGS was worth 18.0 billion AR$. The "second" FGS, made of the stock transferred from all individual accounts in December 2008, was worth 80.2 billion AR$. Overall, by December 2008 the FGS had an accumulated total of 98.2 billion AR$ (about 29.1 billion USD). As a result of the improvement of the market price of investment, by August 2009, the assets in the FGS had increased to 120.1 billion AR$ (about 31.4 billion USD) (Table 8).

Figure 8. Distribution of investment of the FGS
August 2009



Source: seeTable 8.

As assets from AFJP were transferred in kind, much of the initial distribution of investment did not change. Most of the resources (about 60% of the total) are allocated in public credit instruments, including public bonds (53.3%), guaranteed loans to the national government (2.8%) and treasury bills (3.8%). Other two significant investments are equities, which concentrate about 9%, followed by fix-term deposits with 8.4%.

One of the novelties introduced by the FGS is a significant growth in investment in infrastructure and productive projects, which now represents 5.9% of the fund value. This entails an increase of 224% over the funds invested in this item at the beginning of December 2008, when private pension assets were transferred. Most investment in infrastructure and productive projects was allocated to the energy sector (Table 9). About 43% of these funds were assigned to finance public energy projects, including Central Térmica (17%), Atucha II (21%) and others. Private energy companies also received funds for about 6% of the allocations made between January and July 2009. The second most important item was public works (28%), with 5% for water and about 23% for public roads. The third important recipient was the *Banco Hipotecario* (13%), which has recently launched a new mortgage plan with favourable conditions and loans for family home building, also aided by fixed-term deposits made by the FGS. Finally some funding of private firms includes General Motors and Mercedes Benz, with 4% and 1% of funds invested respectively.

According to official information, about 83% of fixed-term deposits of the FGS are fixed-rate, with a mean interest rate of 15.1%. The maturation periods of these deposits extended from an average of 99 days when deposits were invested by private pension funds, to an average of 319 days now. The idea is to encourage banks to give credit on the basis of these fixed-term deposits made by the FGS. Half of fixed-term deposits are currently concentrated in four banks: *Banco de la Provincia de Buenos Aires* (10%), *Banco Hipotecario* (12%), *Banco Macro* (17%) and *Banco Galicia* (12%). The remaining half is distributed among a large number of banking institutions.

IV. REMAINING ISSUES FOR AN ADEQUATE, EQUITABLE AND SUSTAINABLE PENSION SYSTEM

Recent years have been a period of major changes in pension policymaking in Argentina. Despite the significance of reforms taking place some important problems remain unsolved and will be the pending issues for future public policy. These problems refer to both benefit adequacy and long-term financial sustainability. Four elements are probably the most important: (1) coverage in the contributory system; (2) gender equality; (3) benefit adequacy for income smoothing; and (4) medium and long term financial sustainability.

a. Coverage:

Despite the recent period of economic growth and falling informality, there is still a large share of the Argentine population that works in the informal economy. Under a fully contributory pension system the main issue is how to provide adequate protection for old-age for the entire population when not everybody contributes. In 2008, about 36% of wage-earners were not making social security contributions. Informality is even larger among own-account workers. In addition some workers make contributions at a particular point in their working lives but not every year, which increases the chances that some formal workers may also fail to reach the requirement of 30 years of contribution established in the social security legislation. As shown in Table 2, workers without coverage are more likely to be among the poorest income groups.

The *Pension Inclusion Plan* launched in 2005 had important impacts on pension coverage. Over 2 million workers joined this plan and obtained a pension benefit. Coverage rates increased from 68% in 2004 to 77% in 2007 and probably further in the following years, as more benefits were given out. This program however has not solved the structural problems of the contributory system. The wide ranging *moratorium* ended in mid 2007. A more restrictive option remains only available for workers who can claim unregistered own-account work in the period up to September 1993.[24] As time passes the impact of this norm will reduce. For current workers reaching the retirement age with insufficient contributory records in the future, the options for retirement will be more limited.

[24] Decree 1454/2005 and Law 24,476 (1995).

Workers who are not eligible for retirement pensions can get non-contributory pensions under very restrictive conditions, including 70 years of age, no other pension benefit in the household, and absence of goods, income or resources of any kind which could afford economic subsistence. In other words, not only is there a higher age requirement (normal retirement age is 60 and 65 for women and men respectively), but also a means-test including the potential beneficiary and the partner. Effective selection under these conditions obviously depends administrative capacity. In practice, it has strongly depended on resource availability.

In recent years, there has been an expansion of non-contributory pension and more resources were allocated to them. Up until 2003, the number of non-contributory pensions was limited, covering about 7% of the population over 70 years of age. In 2004 the number of benefits increased by 41% and continued growing in the following years by about 20% per year. Non-contributory pension coverage reached up to 20% of the elderly (aged 70 years or more) in 2008. The value of benefits also increased, from 118 AR$ per month in 1999 (13.3% of the mean wage) up to 564 AR$ (21.5% of the mean wage) by December 2008.

This helped to close the gap between "insiders" and "outsiders" of the social security system. In practice, however, the expansion of non-contributory pensions depended on the political will to dedicate resources to this program, and on the availability of those resources in a context of economic growth and growing social security surpluses in ANSES. The program existed before but in the absence of budget allocations, it had no capacity to expand to meet the demand. In both the expansion of contributory pensions (through the *Pension Inclusion Plan*), and the expansion of non-contributory pensions (through more benefit assignments), both political will and resource availability were crucial. The problem with this type of strategy for pension coverage is that it leads to weakly institutionalized entitlements, which are easy target for a retrenchment process as soon as resources become more limited or government priorities change.

This is at odds with an approach based on social rights in which entitlements do not depend on anything but the objective characteristics of the claimant (age or income, for instance). A rights-based approach to old-age pensions, once established, could be much more resistant to budget cuts, and certainly more effective for poverty-prevention and redistribution. When labour markets are largely informal the only effective way to increase coverage and reduce old-age poverty in the medium term is to expand universal non-contributory pensions. The greater attention that this issue has recently received in policy discussions, and in the policy decisions in some countries as well, may be auspicious for further developments in this direction (Goldberg and Lo Vuolo 2006; Arza 2008; Molina 2006; Holzmann, Robalino et al. 2009).

b. Gender equality

In Argentina, as in other countries, the gender gap in both labour market participation and earnings is wide. Only 63% of women in working ages (as compared to 92.8% of men) are in the labour force. The labour income of men is 36% higher than that of women, partly because women work fewer hours and take more part-time jobs. Women are also more likely to be unemployed, and less likely to have own pension rights than men.[25] The gender gap is even wider for high positions (mangers, legislators, senior officials) where there are only 30 women for each 100 men (Hausmann, Tyson et al. 2008). This difference in the labour market often traduces in different pension entitlements for men and women. Although many women can obtain widow benefits if they were married to (or cohabiting with) a pensioner (or to a worker with pension rights), unmarried or divorced women, as well as those married to an informal worker, may be at a particularly frail situation in old-age.

Gender inequality in the Argentine pension system results from this gendered labour market, in interaction with a fully-contributory pension system. Women are simply less likely to gain their own contributory pensions. This (and longer life expectancies) are the reasons why the entry options opened with *Pension Inclusion Plan* were mostly used by women. In 2008 after the broad expansion of benefits, the coverage rate (number of old-age pension benefit as percent of the population above the retirement age) became for the first time higher for women than for men (81% for men and 83% for women). This shows a substantial improvement in the gender balance, which allowed closing a gender coverage gap in own pension entitlements that reached 14 percentage points in 2005 and 16 points in 2000.[26] The absence of a permanent mechanism to reduce the gender effects of contributory pension policy in the long run, however, may lead to a widening of the gender gap in the future.

The gender wage gap is another factor leading to differences in pension levels between men and women. In earnings-related systems lower earnings generate lower pensions in

[25] Data for 2006 from SEDLAC.
[26] Coverage rates of old-age pension benefits were 69.2% for men and 55.6% for women in 2005 and 79.2% for men and 62.2% for women in 2000 (own calculation based on data from MTESS 2008 and CELADE-CEPAL population database). Women can also obtain widow pensions derived from their husband's contributory entitlement.

old-age. In Argentina, there is a flat-rate component of the pension benefit (PBU), which favours women and low-income workers in particular. However, this component has lost purchasing power in the past few years due to insufficient indexation. Another problem for women's benefits is longevity. As they retire early and live longer, women receive benefits for more years. However, for the same reason, their real benefit, depends more closely on the indexation mechanisms functioning properly as well as on the value of the minimum pension. Precisely because they live longer the deterioration of the real value of pensions affects them more. In recent years there has been a substantial increase in minimum benefit levels, but indexation for pension above the minimum has been limited. The application of the recently sanctioned Indexation Act may improve this for the future, which is particularly important for women.

Incomplete contributory histories for women affect both their chances to get benefits and the value of the benefits they may get. Career breaks, unemployment and lack of participation in the labour market are more common among women than men. This is partly explained by maternity, childrearing and other household duties, which typically form the non-remunerated work of women. By strengthening the contribution to benefit link, the 1993 reform has increased the gender gap in pension protection. The 2007 and 2008 reforms have tackled this problem. Benefits remained strongly attached to contributions and although the minimum increased significantly, the flat-rate element in the pension formula (PBU) did not. Reforms have also left untouched the contributory requirement of 30 years of contributions for benefits, particularly harmful for women who often spend more time outside the labour market than men. No provisions were included to address the problem of childbearing and career breaks due to maternity. In a country where public availability of public childcare services is very limited, career breaks due to maternity are rather common. These may reduce the benefit entitlements for women in the future.

The *Pension Inclusion Plan* and the Indexation Act have improved the situation of women and helped close the gender gap. But women continue to be in a disadvantaged position as compared to men. One of the key challenges for the future is to introduce instruments that may compensate women's interrupted careers (for instance adopting contribution credits for childbearing as Chile has recently done) and wage gaps (for instance by guaranteeing a larger flat-rate benefit for all as part of the total benefit). A universal non-contributory pension can also contribute to gender equality.

c. Benefit adequacy

The Argentine pension system has historically been designed as an earnings-related scheme whose main purpose was income-smoothing. This was to be achieved through intergenerational transfers in the PAYG system. With the creation of individual funded accounts in 1993, a DC model replaced intergenerational transfers with savings, as the mechanism to facilitate income-smoothing. Nationalization returned to the DB system and re-established the idea of a “defined” replacement rate, which would no longer be a fixed percentage of the salary, as it was before 1993, but calculated *per year of contribution*. This will associate benefits to individual payments into the system.

Under the current system, a mean-wage worker with a full contributory history, flat-earnings profile and full indexation will obtain a replacement rate of 60% of final salary.[27] For a number of reasons including insufficient indexation and incomplete contributory histories the mean pension benefit represents in practice a much lower percentage of the mean-wage (see Table 7). In 2000, that is, before the last local economic crisis, the mean pension was worth 46% of the mean-wage. As wages started to grow in the period of economic recovery, but benefits did not due to insufficient indexation, the average replacement rate fell to 33% of the mean-wage in 2008. The value is clearly below what could be considered adequate for proper income smoothing.

Benefit adequacy is therefore one of the pending problems for future policy. In the private system, the main constrain for benefit adequacy was the “undefined” nature of benefit calculation, which was subject to rather wide variations following investment risk, labour market risks and macroeconomic risks, among others. Benefits were undefined because it was impossible to know in advance the future benefit level, or the future replacement rate, which depended on pension fund performance and future life expectancies. This has been eliminated with the nationalization of pension assets and the return to the “defined-benefit” system under public administration. But the return to DB system does not by itself guarantee adequate income-smoothing.

On the one hand, the closer link between benefits and contribution history makes future benefits more dependent on working careers and, in the absence of compensating

[27] The monthly mean wage for formal workers was 2,625 AR$ in December 2008. The pension benefit is made of a basic flat-rate benefit (PBU) worth 390.8 AR$, plus 1.5% of wages per year of contributions. Assuming 30 years of contribution the total benefit will be 1,181 AR$, or 59.9% of the mean wage. In practice it may be lower if the earnings profile is steep or if past earnings are not adequately indexed.

mechanisms, can harm certain “risks” such as maternity, unemployment and precarious employment. On the other hand, insufficient indexation is a major risk facing pension benefits. The high degree of litigiousness resulting from the inadequate application of indexation has not only meant massive public costs for the judiciary processes, but also growing inequalities for those who have access to legal help and those who do not –and juicy profits for law firms.

A policy aimed at benefit adequacy needs to guarantee the application of full indexation of both base-earnings and benefits, but it also needs to adopt a benefit calculation formula which is consistent with the labour market context in which it will be applied (for instance, in terms of the “normal” working careers and earnings profiles). One way to do this in an earnings-related system is to compensate “high risks” (women, informal workers, etc.) for their incomplete contributory records. If this is applied on the basis of a technically backed long-term policy plan with sufficient political consensus, litigiousness and the inequalities it introduces may also be overcome.

d. Financial sustainability

The problem of financial sustainability has always surrounded pension policy in Argentina. Privatisation in the 1990s deepened the financial imbalances as a result of the high transition costs it generated, while contribution cuts both over and before the 1990s also had important negative effects on social security finances. After pension fund nationalization in 2008, the financial situation improved in the short-term because new contributions and assets were transferred to the state.

With economic growth since 2003, and pension fund nationalization, social security resources increased. Public expenditures have also increased as a result of the *Pension Inclusion Plan* and are likely to continue growing in the medium and long term due to the transfer of workers previously affiliated to private pension funds, who will now claim benefits to the state and the more generous benefit calculation formula resulting from the 2007 Pension Act. However, the medium and long-term balance of the new system remains uncertain.

One of the problems to make long-term estimations of the financial balance of the system is that this analysis requires a certain degree of normative stability, which is currently lacking in the Argentine context (Cetrangolo and Grushka 2008). Repeated modifications in pension system rules over the past few years, and high chances that more changes will follow in the close future, make it complicated to construct meaningful long-term projections.[28] ANSES has recently published a study for years 2009 to 2011 (ANSES 2009), which predicts that social security surpluses will continue to be large. Another estimation produced by economists from FIEL instead, suggests that nationalization will lead to deep social security deficits in the period after 2012 (Urbiztondo and Susmel 2009).

In practice, as a result of both normative instability and lack of official studies the long-term financial balance of the system remains unknown. Indeed, a central aspect for future policymaking after recent series of pension reform in Argentina is the construction of a long-term pension strategy which could combine concerns about financial sustainability, benefit adequacy and coverage expansion for the future. This has been a deficit of Argentine pension policy for a long time. Many policy decisions taken in the past (whatever their intentions and impacts) have tended to privilege the short-term. For these reasons, the capacity of the new pension system to provide secure retirement in the future is likely to be connected to the extent to which recent reforms can consolidate a process of institutional building and long-term planning, over and beyond short-term urgencies. There is still a long way to go to get there.

[28] In a study written before nationalization, Cetrangolo and Grushka offer a very clear account of the reasons why constructing long-term projections is problematic. Among these, the following uncertainties stand out: (1) uncertainties on future contribution compliance and the contribution base of own-account workers; (2) uncertainties on how judiciary processes will affect spending; (3) uncertainties on whether further "moratorium" will be opened if coverage rates worsen; (4) uncertainties on the returns of investments in the FGS; and (5) uncertainties on the evolution of benefits in special regimes and provincial pension schemes (see Cetrangolo and Grushka 2008).

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BOX 1. DEFINITIONS

Defined-contribution (DC) pension: A pension in which the benefit is determined by the value of assets accumulated in the worker's name over his or her career. The benefit may take the form of a lump sum, or a series of payments, or an annuity, but in all cases is determined by the size of the worker's lifetime pension accumulation.

Defined-benefit (DB) pension: A pension in which the benefit is determined as a function of the worker's history of pensionable earnings. The formula may be based on the worker's final wage and length of service, or on wages over a longer period, for example the worker's full career.

Dependency ratio: The age dependency ratio is the ratio of people beyond some specified age (for example, 65) to people of working age (for example, 16 to 64). The system dependency ratio is the ratio of people receiving pensions to the number of active contributors.

Earnings-related pension: A pension whose benefits are positively related to the worker's earnings.

Formal sector: All those types of employment that offer regular wages and hours, which carry with them employment rights, and on which income tax is paid.

Funded pension: A pension paid from an accumulated fund built up over a period of years out of contributions and the returns on the assets purchased with those contributions.

Informal sector: Employment that is not formally recognised; workers in the informal economy generally have no contracts, no fixed hours, and no employment benefits such as sick pay or maternity leave.

Means test: A measure of benefit eligibility that includes individuals whose income and wealth from all sources are both (or in combination) below a given amount. The term thus embraces both an income test and a wealth test.

Notional defined contribution (NDC) pension: A pension financed through social insurance contributions, where benefits bear a quasi-actuarial relationship to lifetime pension contributions.

Pay as you go (PAYG) pension: A pension paid (usually by the government) out of current tax revenue rather than out of an accumulated fund.

Primary deficit (or surplus): In a contributory PAYG pension system, the primary deficit is an indicator of the balance between contributions and benefits. It is calculated as the difference between revenues from contributions and benefit expenditures.

Replacement rate: The ratio of pension benefits to earnings. Defined as the average pension benefit as a percent of the average wage, the replacement rate is a measure of the living standards of the elderly relative to those of the working population. Defined as an individual pensioner's benefit as a percent of his or her previous wage, the replacement rate is a measure of the effectiveness of consumption smoothing.

Source: Own elaboration, partly extracted from Barr & Diamond (2009).

BOX 2. SUMMARY OF RECENT PENSION LEGISLATION

Law 25,944 (2005), art. 2: EARLY RETIREMENT. Unemployed workers aged up to 5 years below the normal retirement age can retire with half their due benefit if they have already made the 30 years of contribution required (47,456 workers retired under this system between June 2005 and December 2008)

Law 25,944 (2005), art. 6 and **Decree 1454/2005**: "MORATORIUM". Workers who have reached the retirement age but have limited or no contributions records can join a payment plan to pay past contributions while receiving benefits (over 2 million workers retired under this system between June 2005 and December 2008).

Law 26,063 (2005): DOMESTIC SERVICE. New pension system for workers in the domestic service.

Law 26,222 (2007): PENSION REFORM. It establishes that (1) workers aged 50 (women) and 55 (men), with low accumulation in their private accounts, were automatically transferred to the public system (about 0,4 million); (2) new workers were sent to the public branch unless they choose otherwise (about 700,000 per year); (3) workers could choose to return to shift to the public branch every five years (about 900,000 did); (4) increases benefit entitlements; (5) reduces administrative costs in private pension funds; (6) creates a new system for death insurance policies, and (7) extends the minimum benefit to the private branch of the system.

Decree 22/2007: CONTRIBUTIONS. Worker contributions for workers affiliated to private pension funds increase from 7% to 11% of wages from January 2008 to reach the same value as for workers in the state system.

Decree 897/2007: SUSTAINABILITY AND GUARANTEE FUND. The SGF is created to accumulate and manage the surpluses from ANSES and the stocks transferred from individual accounts of workers who rejoin the state system under Law 26,222.

Resolution SSS 135/2007: SPECIAL REGIMES. The stocks of workers in special regimes for diplomats (Law 22.731), the judiciary (Law 24.018), teachers (Law 24.016 and Decree 137/05), scientific and technological researchers (Law 22.929 and Decree 160/05) are transferred to the GSF.

Law 26,417 (2008): INDEXATION. Benefit levels become subject to periodic indexation twice a year following a formula that combines the evolution of wages and revenues from taxes allocated to finance the social security system.

Law 26,425 (2008): NATIONALIZATION. Private pension funds are eliminated and all workers are transferred to the public branch of the system which becomes the single pillar of pension policy. Stocks in individual accounts are transferred to the GSF and managed collectively by ANSES.

Law 26,494 (2008): CONSTRUCTION WORKERS. Earlier retirement from 55 years of age for workers in the construction sector.

Source: Own elaboration based on national legislation.

BOX 3. SUMMARY OF 2007 PENSION REFORM

1. **Choice of system**: All workers affiliated to private pension funds were allowed to shift back to the state once every five years.
2. **Older workers:** Workers above 55 years (men) and 50 years (women) who had accumulated limited amounts in their private pension accounts would be automatically transferred to the public system. The threshold was 20,000 pesos (about 5,000 USD), or any sum below the amount required to obtain a benefit equivalent to the minimum benefit provided by the state.
3. **Automatic affiliation:** Workers first entering the labour market who did not make a choice of the system (public or private) would be directly allocated to the public system rather than the private.
4. **Benefit level:** Benefit entitlements for future pensioners affiliated to the public branch of the system increased from 0.085% to 1.5% of wages per year of contribution.
5. **Minimum benefit:** A minimum benefit guarantee was extended to pensioners receiving benefits from private pension funds. If those were below the minimum the state would contribute to make up for the difference.
6. **Administration cost:** Administration charges in pension funds were capped at 1% of wages.
7. **Death insurance:** Life insurance companies were eliminated. Widow pensions would start to be paid directly from a collective pool made with resources from pension funds.

Source: Own elaboration based on Law 26,222 (2007).

TABLE 1. Resources and expenditures of the National Social Security system, 1994-2008
(million current AR$)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 (*)
Current resources	16,628.7	15,159.0	14,026.2	16,360.5	16,372.4	15,118.7	15,598.8	13,652.7	13,328.0	15,156.9	20,159.4	25,322.8	33,560.8	54,042.2	66,985.5
Contributions	13,089.6	11,681.6	9,902.1	10,237.8	9,915.7	9,026.9	8,816.5	7,885.2	7,976.3	7,687.4	9,635.7	12,527.3	18,082.0	34,538.0	42,365.4
Taxes	3,106.1	3,121.1	3,987.4	5,879.0	6,351.3	6,059.7	6,689.7	5,721.2	5,330.3	7,436.9	10,482.8	12,752.5	15,177.4	18,775.4	23,470.6
Other	433.0	356.3	136.7	243.7	105.4	32.0	92.6	46.3	21.3	32.7	40.9	42.9	301.3	728.8	1,149.5
Current and capital expenditures	18,039.4	18,013.8	19,028.3	18,777.9	18,838.0	18,979.2	19,123.5	18,003.5	17,969.7	18,896.6	21,401.3	25,065.2	32,624.5	51,451.7	67,206.4
Benefits[1]	14,398.2	13,842.0	14,468.1	14,662.3	14,705.3	14,672.2	14,736.0	14,112.4	13,764.0	15,568.5	17,821.3	20,131.7	26,375.3	43,934.9	55,615.8
Transferences[2]	3,339.5	3,861.0	4,087.4	3,774.3	3,813.0	4,058.4	4,165.2	3,701.9	3,993.3	3,066.0	3,269.7	4,474.4	5,634.9	6,636.6	10,272.1
Administrative costs	300.4	300.0	338.3	254.9	245.0	244.6	220.6	189.3	212.3	262.1	310.2	459.0	614.3	880.3	1,318.5
Interest	1.3	10.7	134.6	86.5	74.7	4.0	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers from other public sources	3,173.5	3,299.5	6,027.8	4,171.1	5,469.3	6,959.0	6,365.0	6,475.5	7,315.5	7,415.9	6,463.8	8,132.9	10,116.6	13,371.1	16,758.3
Transfers to other public programs	1,744.2	1,800.8	2,301.2	2,268.8	2,445.6	2,461.4	2,394.1	2,286.9	2,125.1	2,597.2	3,029.5	3,478.5	4,484.2	6,229.2	8,685.3
Total resources	19,802.2	18,458.5	20,054.0	20,531.6	21,841.7	22,077.6	21,963.8	20,128.3	20,643.4	22,572.9	26,623.1	33,455.7	43,677.4	67,413.3	83,743.8
Total expenditures	19,783.7	19,814.6	21,329.5	21,046.7	21,283.7	21,440.6	21,517.6	20,290.4	20,094.9	21,493.8	24,430.8	28,543.7	37,108.7	57,680.9	75,891.7
Financial result	18.5	-1,356.1	-1,275.6	-515.1	558.1	637.0	446.3	-162.2	548.6	1,079.0	2,192.3	4,912.0	6,568.7	9,732.4	7,852.1
Public transfers[3]	31.7%	34.8%	49.9%	48.9%	54.1%	59.0%	59.4%	60.6%	61.3%	65.8%	63.7%	62.4%	57.9%	47.7%	48.0%
Primary result[4]	-27.4%	-35.2%	-48.0%	-45.5%	-47.4%	-52.4%	-53.9%	-56.2%	-55.6%	-59.3%	-55.0%	-50.0%	-44.6%	-32.9%	-37.0%
Current resources (% GDP)	6.5%	5.9%	5.2%	5.6%	5.5%	5.3%	5.5%	5.1%	4.3%	4.0%	4.5%	4.8%	5.1%	6.7%	6.5%
Current expenditures (% GDP)	7.0%	7.0%	7.0%	6.4%	6.3%	6.7%	6.7%	6.7%	5.7%	5.0%	4.8%	4.7%	5.0%	6.3%	6.5%
Pension benefit expenditures (% GDP)	5.6%	5.4%	5.3%	5.0%	4.9%	5.2%	5.2%	5.3%	4.4%	4.1%	4.0%	3.8%	4.0%	5.4%	5.4%

* Provisional data.
1 Benefits include old age and widow pensions, pensions for the judiciary and other special regimes transferred to the National Social Security System.
2 Transferences include subsidies (e.g. for public utilities for pensioners), family allowances, unemployment benefits, old age health insurance and transferences for social security abroad, etc.
3 Pubic transfers = (taxes + transfers from other public sources) / total resources
4 Primary result = (contribution revenues - current and capital expenditures) / total expenditures

Source: Own elaboration based on ANSES.

TABLE 2: Coverage rates of the Economic Active Population by quintile of income
(percentages)

	Quintile 1 (poorest)	Quintile 2	Quintile 3	Quintile 4	Quintile 5 (richest)	Total
1992	39.5	48.3	50.3	57.7	52.7	46.8
1993	34.4	43.3	50.9	50.3	50.1	44.2
1994	30.2	43.9	50.8	51.9	56.4	45.5
1995	22.3	39.6	44.4	52.5	53.5	41.4
1996	17.6	41.3	44.1	50.6	53.4	40.5
1997	21.0	38.1	45.2	52.0	54.4	41.3
1998	19.5	36.4	44.9	53.4	54.6	41.9
1999	18.1	35.1	44.6	50.5	55.4	40.0
2000	15.0	32.5	43.9	51.2	55.6	39.0
2001	9.5	29.8	41.0	50.2	56.2	36.9
2002	5.4	24.6	36.5	45.6	57.2	34.1
2003	4.5	21.3	35.3	46.9	56.0	33.0
2004	6.1	23.3	36.5	48.7	57.4	35.0
2005	7.4	26.0	41.4	51.9	60.1	37.7
2006	8.6	28.4	42.5	53.3	61.2	39.2

Source: Rofman & Lucchetti (2006) and Rofman, Lucchetti and Ourens (2009).

TABLE 3. Indicator of private pension system performance, 1994-2008 (1)

	Administrative costs and death insurance premium			Returns		Total assets		
	% of revenues	% of earnings	% of earnings for death insurance only	Real anual	Real historical	Million current AR$	% GDP	Current AR$ Per affiliate
1995	30.6	3.5	0.7			1,365	0.5%	355
1996	31.4	3.5	0.6	23.0	16.2	3,839	1.5%	732
1997	31.0	3.5	0.8	22.4	18.2	7,345	2.6%	1,262
1998	30.7	3.4	0.9	-0.1	13.2	10,102	3.4%	1,509
1999	30.2	3.4	0.9	5.9	11.7	13,861	4.9%	1,854
2000	30.0	3.4	1.0	12.5	11.8	18,714	6.6%	2,309
2001	29.2	3.4	1.2	5.2	10.9	22,166	8.0%	2,570
2002	34.4	2.3	0.4	9.5	10.7	35,142	10.5%	3,914
2003	39.5	2.3	0.8	10.5	10.7	42,918	11.7%	4,627
2004	35.1	2.5	1.2	1.0	9.6	47,660	10.7%	4,908
2005	34.9	2.5	1.3	5.4	9.2	58,447	11.4%	5,665
2006	36.2	2.6	1.4	8.7	9.2	74,874	11.8%	6,832
2007	35.6	2.4	1.4	18.5	9.9	95,871	12.9%	8,215
2008 (2)	NA	1.0	0.0	NA	NA	94,527	9.1%	9,936

(1) Values by the end of June each year
(2) Values by end of September

Source: SAFJP (2008), except for year 2008 from FIAP.

TABLE 4: Number of workers contributing to the public and private pension system, 1994-2008
(December each year)

	Public-PAYG	Private-Funded
1994	2.4	2.6
1995	1.9	2.9
1996	1.6	3.5
1997	1.3	4.1
1998	1.2	4.4
1999	1.1	4.5
2000	1.0	4.5
2001	0.9	4.2
2002	0.8	4.0
2003	0.9	4.5
2004	1.0	5.1
2005	1.2	5.5
2006	1.4	5.9
2007	2.2	5.6
2008-Sept	3.4	4.8
2008-Dec	8.0	0.0
	2.005	-1.129

Source: MTESS (2008).

Table 5: Pension coverage among the elderly, 1995-2008
Number of pension benefits and percentage of the elderly (65+) receiving pensions

	Benefits paid (1)			Elderly covered
	Public system	Private system	Total	ciaries / Population ag
1995	2,239,894	512	2,240,406	77.7
1996	2,460,379	3,243	2,463,622	76.3
1997	3,213,069	9,540	3,222,609	75.2
1998	3,151,345	16,977	3,168,322	73.4
1999	3,092,666	29,594	3,122,260	73.3
2000	3,048,367	45,633	3,094,000	70.7
2001	3,019,990	66,070	3,086,060	71.6
2002	2,976,605	95,278	3,071,883	69.4
2003	2,933,262	139,427	3,072,689	68.3
2004	2,881,458	178,203	3,059,661	67.8
2005	2,880,177	217,307	3,097,484	68.9
2006	3,312,942	271,628	3,584,570	70.5
2007	4,106,924	388,953	4,495,877	76.7
2008-Sept (2)	4,236,790	406,260	4,643,050	na
2008-Dec	4,974,505	0	4,974,505	na

(1) December each year except when otherwise stated
(2) Data corresponds to August for the private pension system

Source: MTESS (2008) for number of benefits, and Rofman, Lucchetti and Ourens (2009) for coverag
except for the figure for year 2007, taken from Cetrangolo (2008).

Table 6 - Pension Inclusion Plan - New benefits and mean benefits, 2005-2008

	New beneficiaries under the Pension Inclusion Plan				Benefits levels for new beneficiaries each month			
	Early retirement (1)	"Moratorium" for old-age (2)	"Moratorium" for widow (2)	"Moratorium" total (2)	Early retirement (1)	"Moratorium" for old-age (2)	"Moratorium" for widow (2)	"Moratorium" total (2)
	Number of new beneficiaries				Monthly benefit in AR$			
Jun 2005	922	165		165	415.9	338.2	-	338.2
Jul 2005 to Dec 2005	12,250	22,474	0	22,474	464.1	377.3	-	377.3
Jan 2006 to Jun 2006	9,839	74,574	32	74,606	475.6	406.7	436.1	406.7
Jul 2006 to Dec 2006	6,070	568,109	1,240	569,349	532.6	472.6	477.2	472.6
Jan 2007 to Jun 2007	4,805	710,456	3,832	714,288	583.2	534.8	533.7	534.7
Jul 2007 to Dec 2007	8,663	335,096	7,499	342,595	630.0	586.1	582.1	586.0
Jan 2008 to Jun 2008	3,346	139,085	7,273	146,358	698.6	653.6	642.1	653.0
Jul 2008 to Dec 2008	1,561	133,692	12,252	145,944	728.3	710.2	698.7	709.2
Total Jun 2005 to Dec 2008	47,456	1,983,651	32,128	2,015,779				

(1) Law 25,994 art. 2. The benefit is equal to 50% the entitlement upon reaching the retirement age, but cannot be below the minimum.
(2) Law 25,994 art. 6. The benefit represents the entitlement without the discount for due payments.

Source: MTESS (2008).

Table 7: Mean and minimum pension benefit, 1995-2008 (1)
Monthly AR$ and percentages

	Minimum benefit		Mean old-age benefit		Mean widow benefit		Mean total	
	Current AR$	% Mean wage	Current AR$	% Mean wage	Current AR$	% Mean wage	Current AR$	% Mean wage
1995	150.0	16%	326.0	35%	242.3	26%	294.6	31%
1996	150.0	16%	337.4	36%	246.4	26%	302.8	32%
1997	150.0	16%	369.1	40%	257.9	28%	326.9	36%
1998	150.0	17%	375.9	42%	260.4	29%	331.2	37%
1999	150.0	17%	398.3	45%	276.4	31%	350.4	39%
2000	150.0	17%	405.9	46%	279.0	32%	355.2	40%
2001	150.0	17%	411.7	47%	280.8	32%	359.0	41%
2002	200.0	22%	421.3	47%	292.9	33%	369.1	41%
2003	220.0	21%	438.5	42%	313.0	30%	387.0	37%
2004	308.0	28%	511.7	46%	395.5	36%	463.6	42%
2005	390.0	28%	562.3	41%	465.2	34%	522.4	38%
2006	470.0	28%	613.3	37%	560.6	34%	595.3	36%
2007	596.2	29%	741.3	36%	713.3	35%	733.7	36%
2008-Sept	690.0	27%	864.7	33%	838.5	32%	857.8	33%
2008-Dec	690.0	26%	867.6	33%	840.0	32%	860.4	33%

(1) December each year except when otherwise stated

Source: MTESS (2008).

TABLE 8: Investment of assets in FGS
By 12/08/2009

	Million AR$	%
Public credit	72,097.0	60.0%
Public bonds	63,986.6	53.3%
Guaranteed loans to the National Government	3,367.4	2.8%
Tresury bills	4,604.9	3.8%
Operations with the Central Bank	137.7	0.1%
Bonds by public entities	614.0	0.5%
Provincial governments	327.8	0.3%
Municipalities	286.0	0.2%
Corporate bonds	2,288.0	1.9%
Fix term deposits	10,113.0	8.4%
Bank deposits	5,051.0	4.2%
Equities	10,816.0	9.0%
Investment funds	2,759.0	2.3%
Foreign value instruments	5,957.0	5.0%
Financial structured trust	2,618.0	2.2%
Other financial trusts	555.0	0.5%
Productive and infrastructure projects	7,077.0	5.9%
Other productive and infrastructure projects	6,824.8	5.7%
Automobile industry	252.0	0.2%
Other investments	171.0	0.1%
Total	120,116.0	100.0%

Source: ANSES.

TABLE 9: Investment of assets in FGS: Productive and infrastructure projects
By 12/08/2009

Period	Type of Firm	Firm	Sector	Amount in million AR$	Currency	Maturity	Interest rate
March	public	Central Termoeléctrica M. Belgrano y Timbúes	Energy	251.0	USD	2019	LIBOR+5%
April	public	AYSA	Public works	265.0	AR$	2019	9.77%
January	private	Syngenta	Other	3.5	USD	2009	10.50%
January	private	Juan Minetti	Other	40.0	AR$	2012	BADLAR+6,5%
February	private	Emgasud	Energy	68.0	USD	2011	14.00%
April	private	Emgasud II	Energy	9.0	USD	2011	14.00%
May	public	Atucha II Nasa	Energy	650.0	AR$	2021	LIBOR+5%
June	public	Sisvial II	Public works	1350.0	AR$	2021	BADLAR+4%
May	private	Edenor	Energy	37.5	AR$	2013	BADLAR+6,75%
May	private	Mercedes Benz	Other	30.0	AR$	2010	BADLAR+5,5%
May	private	Ovoprot	Other	1.2	USD	2012	17%
June	private	Grimoldi	Other	13.3	AR$	2012	BADLAR+6,5%
June	private	Aluar	Other	35.0	USD	2015	LIBOR 180 days +3%
June	private	IMPSA II	Other	120.0	AR$	2012	BADLAR+6,75%
May	other	Banco Hipotecario	Other	100.0	USD	2011	2%
June	other	GM	Other	259.0	AR$	2013	BADLAR+6%
July	public	Atucha II Nasa	Energy	300.0	AR$	2021	LIBOR+5%
July	public	Brigadier López	Energy	125.0	AR$	2021	LIBOR+5%
July	public	Barragán	Energy	185.0	AR$	2021	LIBOR+5%
August	public	Atucha II Nasa	Energy	300.0	AR$	2021	LIBOR+5%
July	other	Banco Hipotecario	Other	76.0	AR$	2010	Dólar+2%
July	other	Banco Hipotecario	Other	133.0	AR$	2009	10%
July	other	Banco Hipotecario	Other	171.0	AR$	2009	BADLAR+2,914%

Source: ANSES.