WHO GETS WHAT? DISTRIBUTIVE PRINCIPLES AND IMPACTS OF THE ARGENTINE PENSION SYSTEM

Camila Arza*

This article discusses the distributive principles and impacts of the Argentine pension system. On the one hand, it presents the evolution of pension policy from its origins, including two recent structural reforms (privatization in 1993-1994, and its reversal in 2008), and the way in which each of them defined the distributive principles of the system. On the other hand, the paper studies the most recent measures that have been loosening the actual distribution of benefits from the traditional Bismarckian model. These and other measures have jointly defined the distribution of benefits and coverage in the current Argentine pension system, which is presented at the end of the paper.

Keywords: distribution; equity; social security benefits; coverage social security.

1 INTRODUCTION

Pension systems are powerful distributive mechanisms. The combination of forced saving, wage contributions and fiscal transfers reallocate resources over the lifecourse and among people, structure social stratification and influence levels of inequality in society. Over time, the construction and development of social security systems around the world gave rise to political battles for the distribution of rights and benefits. As pension systems expanded, they redefined the market, State and families’ roles in social protection, and the coverage of risks in society. The expansion of social security was particularly important for people who faced high social risks and lacked resources to obtain economic protection by other

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means. However, its impacts were not always progressive. In Latin America, for example, the development of stratified social security systems also generated new inequalities (Mesa-Lago, 1978). In practice, each pension system defines the subjects of public attention and has its own distributive effects, intentional or not, both intra and inter-generational. In its design, it defines what many regard as the essence of politics: “who gets what, when and how”.

This paper deals with the analysis of the Argentinian pension system from the above mentioned perspective. The distributive principles and impacts of the system have fluctuated over time. After a period characterized by occupational stratification, the pension system was expanded to include the entire formally working population, under more homogeneous conditions. However, its contributory design segmented the population between those who were inside and those who were outside the system based on their work patterns. The population working in the informal labor market and their families, the long-term unemployed and unpaid workers (particularly, women engaged in domestic work) found themselves increasingly unprotected. The reform of the 1990s, which replaced the pay-as-you-go (PAYG) system by a mixed system with fully-funded individual accounts, consolidated the system’s contributory aspect. The benefits became increasingly associated with each one’s pension savings capacity (and along with it, wages and contributive history). In 2008, a new reform eliminated the capitalization system, keeping the public contributory and earnings-related subsystem as the only pillar of the pension system. These and other measures (linked to mechanisms of assignment, calculation and indexation of benefits), influenced the distribution of pension rights and benefits that currently prevails.

The article is organized as follows. After this introduction, the second section presents the basic conceptual aspects of the pension system’s design and its distributive principles. The third section presents the evolution of the Argentinian pension policy from a historical perspective, with special attention to two recent structural reforms (privatization in 1993-1994 and nationalization in 2008) and the way in which each of these reforms has defined the distributive principles of the pension system. The fourth section orients to the quantitative analysis of the distributive impacts of the current pension system: the distribution of benefits and the distribution of coverage among older adults. At the end of the paper, some final thoughts about the prospects for a long term redistributive pension policy are presented.

2 SOCIAL SECURITY DESIGN AND DISTRIBUTION OF RIGHTS, BENEFITS, AND RISKS

Social security systems can be classified based on their distributive principles, i.e. according to the manner they distribute rights, resources, and risks. The distribution of rights defines who is eligible for a benefit and under what conditions. The distribution of resources tells us which benefits each one has access to and how
those benefits are financed. And the distribution of risks takes into consideration the contingencies (labor market, demographic, political, etc.) that may affect the rights, benefits and costs in each pension system, and how they are distributed – who bears their costs – (Arza, 2006a).

The literature identifies three models of distribution of rights: i) universal systems, which grant benefits to the whole population with the only requirement of reaching the retirement age and, in some cases, residing in a country or district, ii) means-tested systems, which allocate benefits only to people with family or individual income below a pre-defined threshold, and iii) contributory systems based on employment, which grant benefits only to those who worked and contributed for a certain period of time (International Social Security Association, 2008). Additionally, within each of these three models there can be major differences, e.g. in relation to the number of years of contribution required to obtain the benefits (in employment-based systems), to the value of (individual or family) income above which they begin to receive benefits (in means-tested systems), and to the specific requirement of residence/citizenship (in universal systems).

On the other hand, the distribution of pension system’s resources depends on both the financing mechanism and the formula for calculating benefits. Jointly they define how much each one contributes (directly or indirectly) and how much each one receives throughout his/her life. Financing can be based on several combinations of worker and employer contributions, public transfers (with resources coming from a variety of tax sources), interests, etc. The distribution of benefits also varies among alternative pension systems. The most common designs are i) flat-rate benefits, administratively set to a single value for all, ii) earnings-related benefits, calculated on the basis of a wage replacement rate established in social security legislation, and iii) actuarial benefits, associated to individual savings, which simply transfer resources intra-personally, over each person’s life.

Finally, social security systems also cover risks in different ways depending on their design (see Barr and Diamond, 2009). For example, contributive pension systems tend to offer less coverage for labor market risks (e.g. the risks of unemployment or informality) than universal systems, in which the benefit does not depend on each one’s working history. Similarly, fully-funded pension systems are more affected by financial market risks than PAYG systems, while political risks (poor management or regulation, or management decisions guided by political interests) affect both private fully-funded and public PAYG pension systems (Barr, 2002; Kay, 2009). Each system also offers different levels of coverage against these risks, which can be transferred to the individual (as often happens with individual pension accounts) or shared between generations (as in PAYG systems).
Based on these design elements, social security systems affect the intra- and inter-generational distribution of social protection. In some cases, these effects are not intentional but rather arise from the implementation of the pension system in specific contexts. A classic inter-generational impact of PAYG systems typically occurs in the early stages of its development. When a new pension system grants benefits to the first cohorts of older adults under a PAYG mechanism and finances those benefits through wage contributions from the active population, it effectively generates a net transfer of resources to the first generations of pensioners.

Similarly, a reform that replaces a PAYG by a fully-funded system creates at the same time a double financing burden for the generations that have to pay the transition cost, i.e. the implicit debt of the PAYG system with current and future pensioners. In general, the maturation of pension systems\(^1\), population aging, and changes in social security rules or their implementation, are some of the mechanisms that can cause inter-generational transfers of costs and benefits, and variations in the levels of protection across generations (Arza, 2006b).

On the other hand, social security systems can have important impacts on the intra-generational distribution of rights and benefits. Virtually all social security systems generate some kind of intra-generational transfer, either vertical (between income groups) or horizontal (among other social groups, such as gender, occupational groups, etc.). Most social security systems have some type of mechanism for transferring resources to the poorest people (for example, through minimum pensions), and many also produce transfers between men and women and between occupational groups according to the relative risks of each one (for example, as a result of the differences in mortality or the typical earnings trajectories of each group). When there are special systems for certain groups of workers, funded from a general resource pool, there can also be horizontal transfers towards them. Pension systems that finance part of their benefits with general tax resources but grant them only to a portion of the population (for example, only to formal workers), transfer resources from the population that pay taxes toward pension system beneficiaries. Since retirement and pensions are lifetime benefits, people with higher life expectancies usually get a higher aggregate benefit over the lifecourse than the rest.

In short, each pension design defines and promotes a specific distributive pattern. By organizing the allocation of rights and resources, and the coverage of risks, between individuals and over the lifecourse of each one, the pension system

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1. The "maturation" of a social security system is associated with the elapsed time from the moment in which a system is created, on the one hand, and to the contributory requirements established to get benefits, on the other. A "young" system is one that has many contributors and few beneficiaries because there are few individuals with a right to a pension who have reached the retirement age. As time elapses and more affiliated workers reach the retirement age, the system "matures".
has an impact on the intra- and inter-generational distribution of social protection. “Winners” and “losers” will depend both on the design and implementation of the pension system, and on its interaction with the socio-economic context. The design is not neutral. Its analysis allows evaluating its political outcomes: who gets what, when and how from pension policy. Next, the experience of the Argentinean case is analyzed from this perspective.

3 ARGENTINE PENSION POLICY: DISTRIBUTIVE STRATEGIES OVER TIME

3.1 Origins and development

The Argentinian social security system was born in the early 20th century with the creation of the first pension schemes aimed at a few occupational groups that had close ties with the State apparatus or were located in strategic economic activities (Mesa-Lago, 1978). Until the beginning of the 1940s, Argentinian social security was reduced to these relatively privileged sectors, and included only a small fraction of the active population (Feldman, Golbert et al., 1986, p. 31). The system was organized in “pension plans”, each corresponding to a specific occupational group, constituting a segmented system in which differences in access conditions and in benefits among workers in different occupational sectors prevailed. With the creation of a pension plan for commerce workers in 1944 and for industrial workers in 1946, there was a significant increase in coverage. When towards mid-1950s, the last three pension plans were created for hitherto excluded sectors (rural workers, independent, professional workers and entrepreneurs, and, finally, workers in domestic service), the legal coverage of all formal workers was completed. However, effective levels of membership and contribution compliance varied across pension plans, and were particularly low in some of them. In 1961, for example, only 5% of active self-employed workers contributed to the system (Feldman, Golbert et al., 1986, p. 36). In all cases, pension plans were contributory, financed with worker and employer contributions, and granted earnings-related benefits to eligible workers and their families.

In spite of attempts to centralize the system through the National Social Security Institute, the fragmentation was maintained until the late 1960s (see Feldman, Golbert, et al., 1986; Lloyd-Sherlock, 1992). In 1968, the government issued a reform that centralized the administration, definitely eliminated the occupational segmentation and homogenized the access conditions and benefits. The new rules consolidated the contributory model, establishing a minimum vesting period of ten years of contributions to obtain a retirement benefit upon reaching the legal age of retirement. The distribution of benefits approached an income re-
placement model, by removing previously existing reduction scales (that generated higher replacement rates for lower-income workers). The system directed protection towards the formal worker and his/her family, in a classic Bismarckian scheme. Thus, its distributive impacts were associated with the distribution of labor income and formal employment, and with the structure of families, partially offset by components such as minimum and maximum benefits.

After the full legal incorporation of all occupational groups, and the standardization of pre-existing pension plans, the most important mechanism that segmented the population in terms of pension protection was associated to the participation in the formal labor market. Under a contributory design, informal workers (who were not contributors during their working life) tended to remain outside the system. As the number of contribution years required to obtain benefits were increasing (particularly, after pension reform in the 1990s), the segmentation of the population between formal workers “with pension rights” and informal workers “without rights” became more pronounced. In 1980, coverage among males of sixty years of age or older was estimated to be between 62% and 72% (Feldman, Golbert et al., 1986, p. 74). In the following decade, with the increase of labor market informality and the establishment of increasingly stringent conditions for access, the segmentation deepened. Between 1992 and 2003, coverage dropped from 78% to 68% of the population aged 65 or older (Rofman, Lucchetti et al., 2009).

Another relevant aspect in terms of the distribution of resources is the system’s financing. Until the 1980s, financing was mainly based on worker and employer contributions. This meant that – apart from the possible transfer of employer contributions to prices – resources circulated from formal workers to pensioners. A shift in financing occurs in 1980, during the dictatorship, when employer contributions were removed and replaced by fiscal resources. This measure modified the structure of social security financing, which began to include a broad tax portion, reconfiguring the distribution of resources of the pension system. In a system oriented to formal workers and their families, funding with general tax resources generates questionable income transfers in as much as informal workers finance through taxes a pension system from which they obtain no benefits. The elimination of self-financing affected both the system’s equity principles of and its financial balance in the medium term.

With the return of democracy, the employer contributions that had been removed some years earlier were re-established, but given pension system’s maturation, high labor market informality and tax evasion, the system continued requiring fiscal resources to pay for benefits.3 In the context of the external debt

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3. In 1980, there were 2.54 contributors for each beneficiary. This ratio dropped to 2.05 contributors per beneficiary in 1983, 1.9 in 1985, and 1.8 in 1990 (Jáuregui, 1993, p. 26).
crisis that hit Latin American economies at the beginning of the 1980s, fiscal constraints were particularly strong. The gradual aging of the population added greater difficulties to the financial balance of the system, both because the benefit payment periods expanded (increase of life expectancy) and because the working age population (potential contributors) represented a declining percentage of the total population. The population over 65 years old, which in 1950 represented 4.2% of the total, increased to 8.9% in 1990. In addition, there was a proliferation of court rulings favorable to pensioners’ demands for a recalculation of their pensions that would lead to higher benefits and expenditures.

In this context, in 1986, the government declared the “pension emergency”, in order to freeze all the lawsuits and the enforcement of rulings, establishing a new mechanism to calculate benefits. Between 1983 and 1987, average retirement benefits fell by 36% in real terms (MTSS, 2001, table 2.4). In a context of high inflation and fiscal austerity, benefit indexation was segmented by benefit level, giving higher increases to the minimum pension than to mid-range or higher pensions. This resulted in greater uniformity in the distribution of pension benefits and a rise in the number of pensioners receiving the minimum pension. The pension crisis affected pensioners’ social position and the inter-generational distribution of social protection: some cohorts were more affected than others, depending on the specific year in which they retired. The crisis also had political effects, undermining confidence in the public pension system and expanding the possibilities for structural reform which would take place a few years later.

3.2 Structural reform and private individual capitalization

In 1993, as part of the state retrenchment policy promoted by Carlos Menem administration, the National Congress approved Law 24,241, which comprehensively restructured the Argentinian pension system (Goldberg and Lo Vuolo, 2006; Arza, 2008; Bertranou, Rofman et al., 2003; Alonso, 2000). The reform replaced the old PAYG model by a “mixed” system that included mandatory individual fully-funded pension accounts and private administration.

The new pension regime was divided into two subsystems: on the one hand, a public PAYG subsystem with a new mechanism to calculate benefits in order to make them more strictly associated to each worker’s contributory history; on the other hand, a private fully-funded subsystem, based on the capitalization of workers’ contributions in individual accounts managed by private firms (so-called Pension Fund Administrators, or “AFJP”).

The reform was a fundamental shift from a “defined benefit” model, in which the pension benefit is determined by a replacement rate known *ex-ante*, to a model called “defined-contribution” in which the benefit is only known at the time of retirement and depends on the funds actually accumulated by each worker. The change also generated a redefinition of the system’s risks and their distribution. With individual accounts came the risks typically affecting private pension systems (such as investment risk) (Barr, 2002). Although capitalization systems may allow for different levels of risk-sharing after retirement (e.g., whether longevity risks are shared or not), labor market and investment risks during the period of accumulation (i.e. before retirement), tend to be individualized. Thus, the benefit that each one gets reflects, among other things, each one’s individual accumulation capacity, which in turn depends on individual labor and salary history and on the investment results of individual accounts.

In the new system, the benefit calculation became more complex, and began to partially depend on the subsystem to which each one belonged (public or private) (see figure A.1). All workers who met the conditions for retirement (retirement ages and vesting periods) would obtain the Basic Universal Benefit (PBU), a flat benefit paid by the State, with a potential for progressive redistribution among the covered population. During the transition period from the old PAYG to the new mixed system, all pensioners would also get the Compensatory Benefit (PC) equivalent to 1.5% of the reference wage for each year of contributions prior to the reform (i.e. up until 1993). Workers affiliated to the public subsystem would also get the Additional Benefit for Permanence (PAP), worth 0.85% of the reference wage for each contributory year after the reform (i.e. after 1993) (the PAP was increased to 1.5% in 2007 - see below). Workers affiliated to the private subsystem would instead get a retirement benefit calculated on the basis of the resources they accumulated in their individual accounts and estimated life expectancy at the time of retirement.

Under this new social security design, in both subsystems, the right to a benefit is built over the working life and depends more closely on the characteristics of that working trajectory, particularly in terms of job formality and wages. In the private subsystem, individual accounts spurred the idea of the “right of ownership” on labor contributions: each individual could build a fund, which profitability and risks belonged to him/her. Thus, the reform transferred part of the systems’ risks (e.g. financial, managerial, political and labor market risks) to the private realm (to the individual), introduced mechanisms of explicit insurance for specific risks (e.g., mortality and disability insurance), and turned social security into a regulated mechanism of individual savings for retirement.
In the public subsystem, there were stricter conditions to obtain benefits. The reform established a minimum contributory requirement of thirty years and reduced facilities to justify past working and contributory periods. In this context pension coverage among older people began to fall. While in 1992 approximately 84% of men aged 65 or older received a pension benefit, the percentage dropped to 73% in 2005 (with lower initial coverage, women also underwent similar reductions) (Rofman, Lucchetti et al., 2009).

Furthermore, financing became increasingly dependent on tax resources (rather than wage contributions). The transition from the PAYG to the capitalization system, combined with the reduction of wage contributions and the transfer (during successive years) of the deficits from some provincial pension plans to the national social security system (Bertranou, Rofman et al., 2003), deepened the dependence of the pension system on fiscal transfers (rather than contributions). This expanded the intra-generational transfers of resources involved in the pension system's financing (from the population in general, towards people with pension rights).

The deep economic crisis in late 2001 affected both the PAYG and the capitalization systems. In the former, pensioners suffered a cut of 13% in payments in a context of tight fiscal constraints. In the latter, affiliates were affected simultaneously by political and investment risks, in as much as the government forced the AFJPs to increase the tenure of government bonds – which reached over 70% of the investment portfolio in early 2002 (SAFJP, 2002) – just before the cessation of payments. The crisis demonstrated not only the political risks faced by both (public and private) systems (Kay, 2009) but also how these risks can affect the intra-generational distribution of resources. It also showed the importance of State intervention to help mitigate the inter-generational inequalities that this process can generate.

In summary, the pension system established in 1993 adopted a contributory model for the distribution of pension rights oriented to formal workers and their families. The distribution of benefits combined a flat benefit (the PBU), with earnings-related benefits in the public subsystem, and actuarial benefits in the private subsystem. In the latter, virtually all mechanisms of intra-generational income transfers were eliminated and each worker's benefit was more closely connected to his/her contributory history and individual savings capacity. The redistributive function was confined instead to the benefit granted by the public subsystem that, given the stringent contributory requirements, can only cover the formally working population. The uncovered population, however, potentially contributes to finance part of the transition costs and to pay for the pension system's deficit (through general and specific taxes oriented to finance the system).
3.3 The post-2001 social security policy

With economic recovery after the crisis of late 2001, started a process of expansion of the State role in the Argentinian pension system, which changed the trend of the 1990s. Shortly after the crisis unfolded the new government promoted social dialogue to assess and eventually reform the pension system (Mesa-Lago, 2009; MTSS, 2003), but the most important changes took place years later.

3.3.1 Coverage expansion

One of the most important measures of the post-crisis period was the expansion of the social security coverage, which was carried out in two ways. On the one hand, there was a substantial expansion in the number of benefits offered by a non-contributory pension program (for old age and disability, among other risks) that existed before but up until 2003 was limited by budgetary restrictions (see CELS, 2004; Bertranou, 2002). By lifting these restrictions, the number of benefits increased, particularly those oriented to disabled individuals and mothers with seven or more children. Non-contributory pensions specifically oriented to elderly people increased from 43,272 to 92,517 between December 2003 and December 2007, and thereafter began to fall, until 57,059 benefits in June 2010 (MTESS, 2010, p. 37).

On the other hand, the expansion of the coverage was carried out through a program that had much broader impacts. This program, called “pension moratorium”5 (that soon was named “Pension Inclusion Plan”), allowed access to social security benefit to almost 2.5 million older adults who did not meet the contributory requirements for a standard retirement pension (see Rofman, Fajnzylber et al., 2009; Cetrangolo and Grushka, 2008; Arza, 2011;2012; ANSES, 2011a). This program tackled one of the main causes of social security exclusion of this period: the difficulties to comply with the thirty years of registered contributions needed to obtain a pension benefit in the contributive system.

The program works as follows: once reached the retirement age, people can request the National Social Security Administration (ANSES) to calculate their “pension debt” (the contributions that they should have paid during the alleged years of unregistered work), and join a plan of payment facilities (see Boudou, D’Elia et al., 2007). Once the first installment was paid, they could start receiving a pension benefit and pay the remaining contributory debt in monthly installments, usually discounted directly from their pension. Although the regulation assumes that those who join the system have worked on non-registered (informal) jobs over a specified period, in practice, many women who had dedicated to household unpaid work could also be incorporated in the pension system and obtain a benefit.

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5. A “moratorium” is a payment plan for overdue tax debts that is normally offered on an exceptional basis and for a limited period of time. While tax moratoriums are not new in Argentina, the recent pension moratorium made it possible for uncovered individuals at retirement age who adhered the program to start receiving pension benefits immediately, thus rapidly expanding pension coverage.
The initiative allowed to extend coverage and to reduce existing coverage gaps, including informal and unpaid home workers, and redirecting part of the social security resources to this population group. Nevertheless, as the expansion was carried out through a short-term measure it did not set the bases for ensuring access to protection in old age for the informal and unpaid workers of future generations.

3.3.2 The 2007 reform
A second important measure was the social security reform of February 2007 (Law 26,222) through which the State expanded its participation in the pension system, before the elimination of the private subsystem that would take place less than two years later. This reform aimed at modifying the public/private balance in the system, expanding the public subsystem and introducing new regulations applicable to the private subsystem.

On the one hand, the reform introduced the “free choice” of membership between the public and private subsystems (by which workers affiliated to the private subsystem could choose to move to the public subsystem). It also established that workers first joining the pension system who did not exercise a membership option between the public or private subsystems (the so-called “undecided” workers) would be assigned by default to the public subsystem (and not to the private one as was the case since 1994). Additionally, the reform established the automatic transfer of a set of workers close to retirement with limited social security funds in their individual accounts to the public subsystem.

Thus, as the “pension moratorium” expanded the number of beneficiaries of the public subsystem, the 2007 reform expanded the number of affiliates and contributors to this subsystem. Consequently, since 2007, the public-private mix of the Argentine pension system was modified, with a substantially increase in the number of affiliates and contributors in the public subsystem (ANSES, 2008).

Finally, this reform also established an increase of the PAP (the replacement rate for each year of contributions made since 1994 to the public subsystem), from 0.85% to 1.5% of labor income for each year of contribution, thus increasing the benefit expected by the generations who will begin to retire in the public subsystem thereafter.

3.3.3 The automatic indexation
The third important measure was the establishment of a legal mechanism for automatic indexation of benefits. This was one of the main problems of the system after the 2001-2002 crisis as inflation rates increased.

Although discretionary increases in benefits during the period 2002-2008 were applied, most of them concentrated in the minimum pension, and there
was no regular indexation mechanism which could give predictability to these adjustments and could effectively comply with the right to indexable pensions established in the National Constitution. This gave rise to countless legal claims by pensioners for the recalculation of their benefits following price and wage increases. In 2007, a Supreme Court ruling favorable to one of these demands set a legal precedent that gave rise to massive presentation of more lawsuits by thousands of affected pensioners. According to journalistic sources, around 4,782 cases would have been presented on a monthly basis in 2008.6

Finally, in 2008, the National Congress approved the bill of benefit indexation (Law 26,417), establishing an automatic mechanism to update benefits, based on a formula that considers the evolution of wages and of resources of the social security system. Although it was a substantial improvement over the previous situation, the bill included no measures to compensate for losses eventually suffered during years prior to the enactment of the law, and hence the lawsuits continued.7

3.3.4 The elimination of the individual capitalization system

Less than two years after the 2007 reform, the government announced its plan to eliminate individual capitalization accounts, transferring resources and affiliates from the private to the public subsystem. The formal proposal was sent to the National Congress by the end of October 2008 and approved in both Houses within a very short period (Mesa-Lago, 2009; Arza, 2009; Lo Vuolo, 2009). It was a fairly simple law that did not regulate the whole pension regime or modified the pre-existing public subsystem (the previous rules continued in force). It generated, however, a structural change with the elimination of the individual private capitalization system created in 1993.

The transition from the mixed system to the fully public system was relatively simple because there was already a public subsystem in the previous design. Indeed, all members of the private subsystem that was being eliminated were transferred to the public subsystem, which was made the single pension system. Thereafter the benefits of these workers at the time of retirement would be calculated based on their reference wages and the number of years contributed, under the same rules that had been applied to members of the public subsystem, regardless of the funds they may have previously accumulated in their individual capitalization accounts (see figure A.1).

Funds previously accumulated in individual accounts were transferred collectively to the Guarantee of Sustainability Fund (FGS), managed by ANSES, 6. Every day, more than 400 retirees initiate legal proceedings against Anses (Stang, 2009).
7. See, for example (Stang, 2011).
which reached an approximate value of 98 billion pesos. The reform thus produced a substantial increase in ANSES resources, both in terms of flow (workers’ personal contributions that went from the private subsystem to the public system) and stock (funds accumulated in individual capitalization accounts of those same workers). In addition to resources, the reform also naturally increased the implicit pension debt, in other words, the amount of benefits that the State must pay in the future as generations of new affiliates to the public system begin to retire.

4 WHO GETS WHAT, HOW AND WHEN IN THE CURRENT SOCIAL SECURITY SYSTEM?

This brief review of the recent pension history allows identifying some of the crucial elements which define, either directly or indirectly, the distributional principles and impacts of the pension system. The changes in benefit calculation formulas, the redefinition of the sources of financing and the public transfers involved, the incidence and distribution of the risks affecting each pension system, the inclusions and exclusions from the contributory regime, have all contributed to shape the distributive impacts of the Argentinian pension system over time. The outcomes arose from a combination of design, implementation and context, decisions and omissions, institutionalized and circumstantial measures.

4.1 The distributive principles of the current pension system design

Under the current design, the pension regime established in the main social security legislation in force is based on:

1. a contributory right: the right to a pension benefit is based on contributions made and/or family position, under a classic contributory and familial design. Workers (male or female) get coverage on the basis of their participation in the formal labor market, and their family (spouse or children) get “derived” benefits in case of death;

2. an earnings-related benefit per year of contributions (PC and PAP), complemented with a flat benefit (PBU) and a minimum benefit, that favor lower income individuals (see figure A.1);

3. mixed financing, mainly through worker and employer contributions and fiscal transfers.  

Hence, the current design of the pension system combines a model that tends to reproduce part of the inequalities in the labor market, with specific

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9. Although the rise of employment, on the one hand, and the elimination of individual fully-funded accounts, on the other, reduced the relative incidence of fiscal resources in total financing, these remained important. State transfers also continue to include 15% of fiscal revenues that should be distributed among the provinces (something established in the 1990s as a way to finance the transition from the PAYG to the fully-funded system) (see Graph 2 in ANSES, 2011b).
mechanisms that partially compensate for them. Thus, on the one hand, con-
tributory requirements and proportional benefits characterize a system that aims
to replace the formal worker’s wage, generating a distribution of benefits that
accompanies the distribution of income and formal employment. On the other
hand, the flat (PBU) and minimum benefits tend to raise the floor of pension
income, generating a more homogeneous distribution. The greater increase of
the minimum pension (in relation to the average benefit) in recent years has
deepened this trend. Finally, two compensatory mechanisms were used recently
to reduce the social security exclusion: i) the social security “moratorium” and ii)
the targeted non-contributory pension benefits. Together, these elements con-
tributed to generate a distribution pattern of pension benefits which, in practice,
diverges from the pure Bismarckian system.

4.2 The current distribution of social security rights and benefits

4.2.1 The distribution of coverage
The coverage expansion that occurred during recent years as a result of the flexi-
bilization of the access conditions to the pension system reconfigured the dis-
tribution of pension benefits. With the assignment of almost 2.5 million of new
benefits, coverage expanded significantly, reversing the downward trend that had
followed the 1993-1994 pension reform.

The coverage rate increased from 61% to 84% of the population in retire-
ment age (men of 65 years or older, women of 60 years or older) between 2005
and 2010 (second quarter, see table A.1). This also helped reduce gap in access
to benefits among people with different socio-economic characteristics. Coverage
expanded particularly among women who previously had lower levels of protec-
tion, which reduced the gender gap, typical of contributory systems.

Coverage expansion also narrowed the distances between people by mar-
tal status: widowed people are still more likely to be covered than the rest, but
access to benefits also substantially increased among married individuals, from
50% to 81%. These figures include a large proportion of women who, until
then, did not receive benefits of their own, but benefits “derived” from their
husbands’ entitlement (i.e. widow’s pensions) and therefore closely linked to
marital status (widowhood).

The reduction of the stratification of access is particularly observable in the
distribution of coverage by educational level. The expansion of benefits has been

10. In practice, the role of the PBU is currently weakened because its value is well below the minimum pension (in
2011, the PBU was AR$ 580 and the minimum pension AR$ 1,227 monthly (ANSES Resolution 58/2011); in 2000 the
PBU was AR$ 200 and the minimum pension AR$ 150 monthly.)
concentrated among the population with lower educational levels, reversing the previous pattern. Among people with low levels of education (up to primary education) coverage increased from 60% to 87%. In contrast, the group of older adults with higher education (university level) showed the most limited increase in coverage rates (from 69% to 74%). This may be the outcome, among other things, of the higher activity rate of above-retirement-age individuals with higher educational attainment.

In short, even though the expansion of pension coverage was carried out based on a short-term strategy, at the same time, by tackling the existing restrictions of access in the traditional contributory system, it allowed for an extension of social protection towards previously excluded individuals and for a more even distribution of access to benefits among social groups. Women, less educated workers, and married and divorced individuals who previously had coverage levels below the rest were particularly favored. However, given the design features of the program that led to this outcome, and the nature of the labor market in the country, the full inclusion of future generations of workers in the pension system is not guaranteed.

4.2.2 The distribution of benefits

The distribution of pension benefits currently tends to be “flatter” than the distribution of labor income. Again, this is an outcome of the combination of features of the social security system design (especially, the minimum pension), and of implementation. In particular, the limited indexation of benefits and of reference earnings used as a basis for benefit calculation for several years in the post-convertibility period, combined with the faster increase in the minimum pension (as compared to pensions above the minimum) and the expansion of the number of pensioners through the moratorium (with benefits often close -or even below- the minimum pension),11 tended to flatten the distribution of benefits, making it increasingly depart from the distribution of labor income.12 Indeed, the percentage of pensioners who receive the minimum pension increased from around 20% in the 1990s, up to 70% in 2007 (Rofman and Oliveri, 2011).

Chart A.1 presents comparative Gini coefficients for the distribution of per capita family income, labor income, total individual income, and pension income. In general, data show a lower dispersion in income among people above the retirement age in comparison to the rest. The Gini coefficient for per capita family income is lower for population above the retirement age than for the total

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11. The net benefit may be below the minimum pension during the period while pensioners pay their moratorium dues, which are deducted from their benefits (see Rofman and Oliveri, 2011, p. 26).

12. Although the enactment of the Pension Indexation law in 2008 is expected to stop this trend, it only established indexation forward (without a recalculation of existing benefits).
population (0.389 and 0.443, respectively). The difference reduces considerably when comparing the distribution of total individual income of people at retirement and working ages (including income from all sources, such as work, interest, state transfers, etc.). In this case, the Gini coefficient is 0.428 for the working age population and 0.415 for the population above the retirement age. The Gini coefficient for labor income among the working age population (only labor income, excluding other sources) is somewhat lower.

Finally, the distribution of pension benefits among people above the retirement age (the last four bars in chart A.1) tends to be more equitable than the distribution of labor income (0.327 for the distribution of individual pension income and 0.326 for per capita pension income in the household). The coefficient varies, however, according to whether only people with pension income or the entire population above the retirement age is considered (in this case, considering pension income equal to zero for those who do not receive retirement or pension). In the latter case, the Gini coefficient is 0.432 for individual pension income and 0.390 for per capita pension income in the household. The more equitable distribution of pension benefits as compared to labor income, total individual income and per capita family income, reflects the impact of the design and implementation of the current and past social security system (under whose rules many current pensioners have retired).

Nevertheless, pension income is, on average, lower than average labor income. Indeed, pensioners tend to be placed in the middle-low income deciles of the distribution of total individual income (though they are better placed in the distribution of per capita household income). In general, people above the retirement age with higher individual incomes complement pension benefits with income from other sources (work, interest, etc). As mentioned above, the majority of current pension benefits are at the level of the minimum pension. As a result, the pension system tends to offer a basic benefit rather than a proportional benefit, thus separating in practice from the pure Bismarckian model, and offering instead benefits that are often unlinked to people’s contributory and wage histories.

5 FINAL THOUGHTS: PROSPECTS FOR CONSOLIDATING A DISTRIBUTIVE STRATEGY

More than an incremental process towards the consolidation of a single pension regime, the history of pension policy in Argentina is a history of successive breakdowns and critical junctures both in the system’s design and in its implementation and outcomes. The current pension regime arises not from a

13. A similar difference can be observed if equivalent family income is considered.
gradual process of expansion, but from progresses, setbacks and redefinitions of design, combined with also changing socio-economic contexts of implementation. The priorities of pension policy and the strategies to achieve them, the relative roles of State and market, the effective distribution of rights and benefits are some of the system’s fundamental features that have been changing, sometimes in a structural way, over time.

In recent years, pension policy combined a basic institutional design oriented towards income replacement for formal workers and their families, with a set of ad hoc policies which, in general, untied the system’s outcomes from this basic institutional design. In other words, the current distribution of coverage and benefits does not arise only from the distribution of rights and benefits established in the main social security laws (Law 24,241 of 1993, Law 26,425 of 2008, among others) but also from less institutionalized decisions (such as the “moratorium” and the differentiated indexation of benefits) and from specific contexts of implementation (including for example, varying levels of inflation and labor market informality), which have influenced the system’s outcomes.

All these features explain an important part of the current distribution of benefits. Their very nature makes it difficult, however, to predict future impacts. Indeed, some analysts mention the “normative volatility” as one of the reasons why it is difficult to make predictions of the Argentinian social security system for the medium and long term (see Rofman and Oliveri, 2011; Cetrangolo and Grushka 2008). Although these ad hoc measures can solve short-term problems and quickly reorient pension policy towards new priorities, they can also bring along other problems, such as financial weakness (when the system cannot finance the benefits it has promised), inter-generational inequality (when rights, benefits or costs, change abruptly between generations), social vulnerability (when there are no stable guarantees of protection) and judicialization (when rights are not fulfilled).

How could then a progressive pension policy be consolidated and maintained? Several analyses of welfare reforms in Europe show the resilience of social security systems in the age of “permanent austerity” (see, for example, Pierson, 2001). One of the reasons why pension systems are particularly resistance to change and reform cutbacks is the strong public support these systems have, a support that goes beyond pure self-interest, and is also based on moral support, on the conception of what is “fair”, and on ideas regarding what are the legitimate rights and duties of citizens and the State (see Schmidts, 2000). This suggests that a politically sustainable social security policy not only needs to be feasible (in administrative and financial terms, for instance) but it also needs to generate a legitimate distribution of rights and benefits, and enjoy a social base that could support and defend it,
and an adequate level of institutionalization. In the absence of these elements, the policy becomes more vulnerable to change in a context of changing policy priorities or specific political junctures.

A universalist model of social security inclusion could favor the construction of broad class coalitions that allow sustaining a distributive strategy in the medium and long term. Several analysts have argued that the social bases are often broader in universal systems than in targeted systems, which tend to separate the poor from the rest (see Martínez Franzoni and Voorend, 2009; Korpi and Palme, 1998; Huber, Pribble et al., 2008). Indeed, the international experience shows that in countries with universalistic Welfare States, citizens’ support for public intervention in social welfare policies is greater. On the other hand, in liberal regimes (where targeting is more common), the level of support tends to be lower (see Mehrtens, 2004; Svallfors, 1997).

In industrialized countries, universalistic social policy usually exists where there are extensive inter-class alliances, particularly among the middle and working classes. In Argentina, in a context of high labor market informality, the consolidation of broad alliances in defense of redistributive policies may be more feasible on the basis of a strategy that does not segment formal and informal workers. A properly institutionalized universal benefit, which offers basic protection for all regardless of each one’s family or employment history, can be the starting point to give long-term political strength to an inclusive pension policy.

REFERENCES


APPENDIX

APPENDIX A

FIGURE A.1

1994 System (SIJP) (Law 24,241)
- Worker affiliated to public PAYG subsystem
  - PBU
  - PC
  - PAP
  - Flat benefit
  - 1.5% of labor income per year of contribution prior to 1994
  - 0.85% of labor income (1.5% from 2007) per year of contribution after 1994

2008 System (SIPA) (Law 26,425)
- Worker affiliated to private fully-funded subsystem
  - PBU
  - PC
  - PAP
  - Flat benefit (ARS $80 since March 2011)
  - 1.5% of labor income per year of contribution prior to 1994
  - 1.5% of labor income per year of contribution after 1994

- Annuity, programmed or fractioned retirement
- Benefit calculated on basis of individual savings and life expectancy

In all cases, also

- Disability pension (temporary or transitory for workers, in the case of disability)
- Survivor pension (for surviving spouse and dependent children, in case of worker’s death)

Obs.: PAP: Additional Benefit for Permanence; PC: Compensatory Benefit; PBU: Basic Universal Benefit.
### TABLE A.1

Social security coverage distribution in Argentina (second quarter of 2005 and 2010)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2010</th>
<th>2010-2005 Difference</th>
<th>Reduction of the coverage gap</th>
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<tr>
<td></td>
<td>[a] (%)</td>
<td>[b] (%)</td>
<td>[b]-[a] (%)</td>
<td>([b]-[a])/(1-[a]) (%)</td>
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<td>Total coverage</td>
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<td>By gender</td>
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<td>By age</td>
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<td>By marital status</td>
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<td>By educational level</td>
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<td>University education</td>
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CHART A.1
Income distribution – Gini coefficient (second quarter 2010)

Per capita family income

Total labor income

Total individual income

Total pension income

Per capita pension income

Source: own elaboration based on INDEC, Permanent Continuous Household Survey, Available at: <www.indec.gov.ar>.
Obs.: PA = Pension age (at or above 60 years old for women and 65 years old for men); WA = Working age (from 18 years old to the pension age); Weighted sample. Estimates on the total number of urban agglomerates included in the Permanent Continuous Household Survey; the estimates presented in bars [1] [2] [3] [8] [10] include zero (people without income).
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