

# Pension reform primer

Issues, challenges, options and arguments in pension reform

The World Bank Pension Reform Primer aims to provide a comprehensive toolkit for policy makers on designing and implementing pension reform. It is based on continuously updated information from countries that have introduced reforms emphasizing the role of privately-managed individual retirement accounts. Their experience offers a number of useful lessons for policy makers elsewhere.

The World Bank set out a conceptual framework for fundamental pension reform in *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*. This study, published in 1994, helped shape the global debate about the impact of population ageing on pension systems. The Pension Reform Primer builds on this pioneering work and on the experience of the World Bank and other international institutions. It focuses on practical questions.

## Country and regional studies

Recent pension reforms in Eastern Europe—Hungary (introduced in 1997), and Poland (1999) Latvia and Croatia — and in Latin America—Argentina (1994), Bolivia (1997), Colombia (1994), El Salvador (1998), Mexico (1997) and Uruguay (1996)—provide a body of experience on which we can draw. The first part of the Primer is a series of 13 country and three regional studies and others in preparation.

## Issues in pension reform

The second part of the Primer consists of notes and background papers assessing the options and the arguments in different areas of pension policy.

The first set of issues are about fostering a climate for change: public information and the public's financial acumen, the political economy of reform and necessary initial conditions for reform, such as the state of capital markets. They also cover analysis of the macroeconomics of the transition to a funded pension system, and the drafting of pension reform legislation.

Pension system design is the topic of the second set of papers. This includes the coverage of the reform and whether it should be voluntary or mandatory. Other papers look at the structure and design of disability benefits, taxation of funded pensions and the role of notional defined-contribution plans. Finally, we look at guarantees of the value of funded pensions, and different options for withdrawing pension benefits and the structure of the annuities market.

The third set of papers looks at administrative, regulatory and supervisory issues. These include options for the collection of contributions and their transfer to individuals' accounts, how to avoid evasion of pension contributions and promote compliance and structures of supervision to protect people's contributions. We also look at the arguments for and against restricting the portfolio options of pension funds and options in managing public-sector funds.

Finally, an assortment of miscellaneous issues, which arise in the reform context but relate to a broader category of study, such as the question of retirement behavior and household savings or special issues such as sub-national public schemes

and ways to provide incentives for lower-income workers to participate are considered.

### The Pension Reform Primer team

Contributors to the primer are drawn from the World Bank, other international organisations, governments and regulators, academe and consulting firms. The project was supervised by a Steering Committee, chaired by Robert Holzmann, Director of Social Protection at the World Bank. Robert Palacios of the Social Protection division and Edward Whitehouse of Axia Economics acted as editors.

### Getting hold of the Primer

Primer papers and notes can be obtained from:  
 Social Protection Advisory Service  
 World Bank, 1818 H Street NW  
 Washington DC 20433  
 Telephone +1 202 458 5267  
 Fax +1 202 614 0471  
 E-mail: [socialprotection@worldbank.org](mailto:socialprotection@worldbank.org)  
 Web: [www.worldbank.org/pensions](http://www.worldbank.org/pensions)

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## Country studies

Argentina	Rafael Rofman
Bolivia	Herman Von Gersdorff
Georgia	Robert Palacios
Hungary	<i>The Hungarian pension system in transition</i> Robert Palacios and Roberto Rocha Social Protection Discussion Paper no.9805
Italy	Patrizia Tumbarello
Kazakhstan	Emily Andrews
Latvia	Louise Fox
Mexico	<i>The 1997 Mexican pension reform</i> Gloria Grandolini and Luis Cerda Policy Research Working Paper no. 1933
Poland	<i>The quest for pension reform: Poland's Security through Diversity</i> Marek Góra and Michal Rutkowski Social Protection Discussion Paper no. 9816
Sweden	<i>The Swedish Pension Reform</i> Annika Sunden Social Protection Discussion Paper, forthcoming
United Kingdom	<i>Pension reform in Britain</i> Edward Whitehouse Social Protection Discussion Paper no. 9810

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## Regional studies

Eastern Europe/Central Asia	<i>Pension Systems in Transition</i> Robert Palacios and Michal Rutkowski
Latin America	<i>Second-Generation Pension Reforms in Latin America</i> Monika Queisser Social Protection Discussion Paper, forthcoming
Middle East/North Africa	<i>Formal pension systems in low and lower-middle-income countries in the Middle East and North Africa</i> Axel Börsch-Supan and Patrizia Tumbarello

## Issues notes

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| <ul style="list-style-type: none"> <li>1. <b>Implementing reform</b> <ul style="list-style-type: none"> <li>1.1 <b>Overview of reform</b></li> <li>1.2 <b>Transition</b></li> <li>1.3 <b>Political economy</b></li> <li>1.4 <b>Legislation</b></li> <li>1.5 <b>Initial conditions</b></li> <li>1.6 <b>Public information</b></li> <li>1.7 <b>Consumer financial acumen</b></li> </ul> </li> <li>2. <b>Pension system design</b> <ul style="list-style-type: none"> <li>2.1 <b>Notional accounts:</b> the role of notional defined-contribution plans in pension reform</li> <li>2.2 <b>Switching:</b> the role of choice in the transition to a funded pension system</li> <li>2.3 <b>Taxation:</b> the tax treatment of funded pensions</li> <li>2.4 <b>Disability benefits</b></li> <li>2.5 <b>Guarantees:</b> costs and consequences of guaranteeing funded pension benefits</li> <li>2.6 <b>Annuities</b></li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>3. <b>Administration and regulation</b> <ul style="list-style-type: none"> <li>3.1 <b>Collection</b></li> <li>3.2 <b>Administrative costs</b></li> <li>3.3 <b>Supervision:</b> building public confidence in mandatory public pensions</li> <li>3.4 <b>Public funds</b></li> <li>3.5 <b>Portfolio limits:</b> pension investment restrictions compromise fund performance</li> <li>3.6 <b>Compliance</b></li> <li>3.7 <b>Administration</b></li> </ul> </li> <li>4. <b>Other issues</b> <ul style="list-style-type: none"> <li>4.1 <b>Retirement</b></li> <li>4.2 <b>Household savings</b></li> <li>4.3 <b>Reforming pay-as-you-go pensions</b></li> <li>4.4 <b>Covering low-income workers</b></li> </ul> </li> </ul> |
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## Issues papers

### Implementing reform

Overview	<i>A World Bank perspective on pension reform</i> Robert Holzmann Social Protection Discussion Paper no. 9807
Transition	<i>Financing the transition to multi-pillar</i> Robert Holzmann Social Protection Discussion Paper no. 9809
Financial issues	<i>Reporting the implicit pension debt</i> C. Kane and Robert Palacios
Initial conditions	<i>Building and environment for pension reform in developing countries</i> Olivia Mitchell Social Protection Discussion Paper no. 9803
Public information	

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### Pension system design

Notional accounts	<i>Notional accounts: microeconomic and macroeconomic aspects</i> Richard Disney and Anita Schwarz
Switching	<i>The role of choice in the transition to a funded pension system</i> Robert Palacios and Edward Whitehouse Social Protection Discussion Paper no. 9812
Taxation	<i>The tax treatment of funded pensions</i> Edward Whitehouse
Disability	Emily Andrews  <i>Disability pensions and social security reform: a comparative analysis based on the Argentine experience</i> Carlos Gruska and Gustavo Demarco Social Protection Discussion Paper, forthcoming
Annuity markets	<i>Annuitising mandated retirement accumulations</i> John Piggott and Suzanne Doyle
Guarantees	<i>Government guarantees on funded pension returns</i> George Pennachi Social Protection Discussion Paper no. 9806

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## Administration and regulation

Collection	<i>Collecting and transferring contributions in multi-pillar pension schemes</i> Rafael Rofman and Gustavo Demarco
Supervision	<i>Supervising mandatory pension funds: issues and challenges</i> Gustavo Demarco and Rafael Rofman with contributions from Edward Whitehouse Social Protection Discussion Paper no. 9815  <i>Institutional arrangements for mandatory funded pension schemes</i> Donald Duval
Managing public funds	Augusto Iglesias and Robert Palacios
Portfolio limits	<i>Does ‘Draconian’ pension regulation compromise funds performance?</i> P.S. Srinivas, Edward Whitehouse and Juan Yermo
Evasion and compliance	Michelle Riboud

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## Other issues

Retirement	Richard Disney and Edward Whitehouse
Pay-as-you-go reform	<i>Reforming pay-as-you-go pension systems</i> Sheetal Chand and Albert Jaeger

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