RESEARCH Brief

University of Michigan Retirement Research Center

Evaluating Early Impacts of the Recent Chilean Pension System Reform[1]

Jere R. Behrman, Maria Cecilia Calderon, Olivia S. Mitchell, Javiera Vasquez and David Bravo*

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To understand how alternative pension systems affect economic behavior, careful policy analysis is needed. We undertake analysis of older households covered by the Chilean pension system to examine whether and how older households were affected by the 2008 reforms seeking to strengthen the national safety net. In particular, we evaluate how one key element of the 2008 reform, the Basic Solidarity Pension (PBS, Pension Básica Solidaria), influenced economic outcomes for targeted poor households with at least one member age 65 or older. We use the 2006 and 2009 Chilean Social Protection Surveys (EPS, Encuesta de Proteccion Social), a panel collected by the Microdata Center of the Universidad de Chile with our guidance, including linked information from administrative data about the respondents to investigate resulting changes in knowledge of and receipt of these new transfers and changes in outcomes such as household work and health status and expenditures on alcohol and cigarette consumption, health insurance, and ownership of consumer durables. We address a wide range of outcomes because we posit that, as in standard economic household models, the reforms may have influenced behaviors in ways unanticipated by policy makers. Results indicate that targeted households with elderly individuals received about 2.4 percent more household annual income,. They also suggest that recipient household welfare probably increased due to slightly higher expenditures on basic consumption including health care, more leisure hours, and improved self-reported health. But measured short-run effects are small. Follow-ups will be essential to gauge longer-run behaviors.

Background

Since 1981, the Chilean national pension system has had mandatory individual retirement accounts managed by private-sector providers. Formal-sector workers are required to save 10 percent of their pay in their accounts, which offer some investment choice, and wherein they must preserve the funds until they reach retirement age. Though the Chilean system has numerous strengths, it has also been criticized for low benefit levels and for low rates of worker contributions. Accordingly, in July 2008, the government of President Michelle Bachelet initiated several system-wide reforms intended to strengthen the national safety net. The PBS provides a minimum means-tested benefit for the elderly poor who do not satisfy minimum contribution requirements. The PBS was initially targeted at the poorest 40 percent of the population as determined by the government's "Ficha de Proteccion Social" (FPS). This benefit, rolled out gradually since July 2008, represents a large boost in poverty payments. In 2008, the PBS was set at US$118/month or about one-third of the minimum monthly wage of US$333, and nearly 50% higher than the Minimum Pension Guarantee. The PBS benefit withdrawal rate is 100 percent for households with income above the governmental poverty threshold.

* ***Jere R. Behrman*** *is the W. R. Kenan Professor of Economics and Director of the Population Studies Center at the University of Pennsylvania.* ***Maria Cecelia Calderon*** *is a Bixby Fellow at the Population Council.* ***Olivia S. Mitchell*** *is the International Foundation of Employee Benefit Plans Professor of Insurance and Risk Management and the Executive Director of the Pension Research Council at the Wharton School of the University of Pennsylvania.* ***Javiera Vasquez*** *is an Economist at the Universidad de Chile.* ***David Bravo*** *is Director of the Centro de Microdatos and Professor at the Department of Economics of the Universidad de Chile. This Research Brief is based on MRRC Working Paper WP 2011-245.*

Methodology and Data

We examine the short-run impacts of the PBS targeted towards poor households with at least one member age 65+ using EPS data. We focus on 10,394 individuals for whom all key variables are available from both the 2006 and 2009 EPSs to ensure that the multiple outcomes traced over time actually track response changes (rather than sample changes). In our dataset, over half of the households had scores below eligibility cutoff. Three sets of outcomes are of special interest: respondents' knowledge of the reform and reports of benefit receipt in 2009; household transfers received; and behaviors such as hours worked, household expenditures, alcohol and cigarette consumption, health insurance, self-reported health status, and consumer durable ownership.

We find that a quarter of the respondents indicated that they had heard of the pension reform, and one-third had heard of the PBS for the elderly; very few said they received PBS support as of 2009. Only 13 percent knew that the new benefits covered the poorest 40–60 percent of the population (with the percentage increasing over time). Turning to transfers received, we found that public transfers rose considerably from 2006 to 2009, but private transfers declined somewhat, with some suggestion of private transfers being crowded-out. Regarding economic and social behaviors, the picture is mixed. Ownership increased significantly for 9 of the 12 consumer durables considered, yet mean household per capita food expenditure declined significantly by 4 percent; cigarette consumption held steady; reported alcohol consumption fell by 15 percent; household per capita clothing expenditures increased significantly by 18 percent; and household per capita educational and medicine expenditures remained constant. Respondents' mean participation in private health insurance decreased significantly by 7 percent and self-reported health status declined significantly by 2 percent. For those employed, mean hours worked remained at about 45 hours per week.

Conclusions

The poor seemed less-well informed in 2009 about the reform than the non-poor, yet respondents living in a poor household with someone age 65+ were more likely to have heard of the PBS. We found a significant positive impact of the reform among the targeted poor having an older household member where respondents indicated receiving an annual US$105 from PASIS/ PBS transfers. There was also some suggestion that the targeted transfers led households to boost expenditures on health, increase leisure, and improve self-reported health, with mixed effects on cigarette and alcohol intake and on the composition of consumer durables. This pattern might seem to be somewhat welfare-enhancing for poor households with at least one older member in 2009. Nevertheless, such a conclusion must be heavily qualified, because, with the exception of the reduction in work hours of 1.6 hours per week, the estimated effects were small and none of the underlying coefficient estimates were significantly nonzero at the standard 5 percent level.

These generally small effects raise questions about what happened to the reported increased income from the increased old-age benefit and about how future impact patterns might evolve. We anticipate that larger adjustments might occur over time. For this reason, it will be very important to monitor and evaluate time patterns of a broad array of responses to the components of the 2008 Reform , as well as to the Reform components being phased in over time.

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[1] This paper draws on the authors' related working paper (Behrman, Jere R., Maria Cecilia Calderon, Olivia S. Mitchell, Javiera Vasquez, and David Bravo. 2011. "First-Round Impacts of the 2008 Chilean Pension System Reform." Wharton School, Pension Research Council Working Paper.). We acknowledge support from the Social Security Administration via a grant from the Michigan Retirement Research Center, the Pension Research Council and Boettner Center at the Wharton School of the University of Pennsylvania, and the National Institutes of Health/National Institute of Aging (NIA) grant AG023774-01(P.I. Petra Todd) on "Lifecycle health, work, aging, insurance and pensions in Chile." Opinions and errors are solely those of the authors and not of the institutions providing funding for this study or with which the authors are affiliated. © 2011 Behrman, Calderon, Mitchell, Vasquez and Bravo.

University of Michigan Retirement Research Center
Institute for Social Research   426 Thompson Street Room 3026
Ann Arbor, MI 48104-2321   Phone: (734) 615-0422   Fax: (734) 615-2180
mrrc@isr.umich.edu   www.mrrc.isr.umich.edu
