International Experience with Private Retirement Accounts

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Growing Trend Toward Private Retirement Accounts
Why Move Toward Private Retirement Accounts?

- Prefunding helps prepare for costs of an aging society
- Experience with publicly managed funds has been disastrous
- More equitable if mandatory since higher income workers already supplement social security
Demographic Change in OECD countries

2000:
- 15-59: 63%
- 0-14: 18%
- 60+: 19%

2040:
- 15-59: 51%
- 0-14: 17%
- 60+: 32%
Why Mandatory Rather than Voluntary?

- Higher income workers already supplement social security
- Lower income workers often don’t have the same access
- Can only reduce main system benefits if assured that all people have supplemental pension
Characteristics of Private Retirement Accounts

- Mandatory – an integral part of the social security package
- Often an add-on – where contribution rates are relatively low
- Where contribution rates are high, often social security contributions reduced
Contribution Rates to Social Security, OECD
Overall experience has been successful

- In developing countries, small issues have arisen:
  - Financial market depth
  - Strict regulation of funds reduces choices to workers
  - Size of market resulted in little competition
  - Administrative costs

- Would not expect these issues in the US case
Popular Despite Political Rhetoric

- Before introducing private retirement accounts, politicians endlessly debate political feasibility.
- In country after country, when people have been given the choice of whether to join the new system or not, they overwhelmingly choose the new system.