

## **Evaluating the Impact of COVID-19 on Pension Systems in Latin America and the Caribbean**

**RG-K1198**

### **1. Background and Justification**

The COVID-19 crisis has compounded the challenges faced by pension systems in Latin America and the Caribbean. The economic recession caused by the coronavirus has implied a decrease in labor demand that, despite the efforts of governments to preserve employment, is translating not only into lower employment rates, but also into lower contribution densities to pension systems and probably into future lower rates of pension coverage. Additionally, many countries in the region suffered significant withdrawals of the retirement funds used to finance future pensions. This measure, intended to provide relief in the short-term, may have a large negative impact in the long-term, especially on retirement income adequacy.

The current crisis affects pension schemes through several channels. First, unemployment will obviously generate pension gaps in the savings of several workers, and this lack of contributions will undoubtedly harm the pension savings of millions of contributors. Second, the crisis also affects the financial position of pension systems, regardless of whether they are defined benefit or defined contribution. In the case of defined contribution systems, the most immediate effect is the reduction of the income from contributions, due to the reduction of formal employment. This causes a deterioration of the financial balance of the system and an increase in the implicit debt. Third, asset-price shocks and falling financial markets impacted the investment rate of return of pension funds. In defined benefit systems, the value of pension reserves is reduced, negatively impacting its financial sustainability. In defined contribution systems, the lower rates of return mainly affect those who are reaching the legal retirement age, because those who are younger still have a long investment horizon for their savings to recover.

Aiming to support regional efforts for improving the institutional and technical capacity of pension entities, in 2015 the Inter-American Development Bank (IDB) created the Network for Pensions in Latin America and the Caribbean (PLAC Network).<sup>1</sup> Currently, the Network is supporting the countries of the region in the construction of a standard pension projection model to collaborate with the process of evaluating the financial and social sustainability of their pension systems.

To date, there is very little research in the region that explores the possible impact of COVID-19 on pension systems, through reduction on pension savings, lower replacement rates (retirement income adequacy), changes in the intergenerational equity, problems in financial sustainability and higher fiscal costs. Based on the standard pension projection model built by the PLAC Network that

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<sup>1</sup> <https://www.iadb.org/es/sectores/inversion-social/red-plac/documentos>

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allows researchers to implement standardized analyses across countries, the objective of this research project is to analyze the impacts of the recent crisis on pension systems, both in public pay-as-you-go and individual accounts systems.

### 2. Objectives

The main objective of this research project is to understand the impact of COVID-19 on pension systems. Each study should analyze the extent to which COVID-19 impacts key aspects of pension systems, such as participation, replacement rates, contribution density, intergenerational equity, financial sustainability, pension fiscal expenditure, retirement age, beneficiaries, contribution rates, among others. Each study is also expected to analyze both the short and long-term fiscal costs stemming from the crisis. Studies should estimate both funding shortages in the years ahead based on conditions prevailing before COVID-19, and the additional impact of COVID-19 on these shortages.

To carry out these studies and guarantee the homogeneity of the analysis methodologies for the different countries, the standard pension projection model developed by the PLAC Network will be provided. That said, in addition to the results generated by the standardized pension projection model, additional statistical analyses (impact evaluations, for example), would be useful.

The project intends to draw cross-country comparisons and policy recommendations from the collection of case studies. Studies can be focused indistinctively on defined benefit or defined contribution pension systems.

The specific objectives are:

- (1) Generate country-specific evidence on the impact of COVID-19 on pension systems, addressing the effect on key indicators (density of contributions, pension coverage rates, replacement rates, changes in the intergenerational equity, financial and fiscal sustainability, among others).
- (2) Calculate the pre-COVID-19 and the short and long-term fiscal pressures stemming from the crisis.
- (3) Evaluate political implications and policy recommendations for the region.

It is important to mention that each of the country case studies must include an analysis of the demographic trends for the country.

### 3. Scope, Methodology, and Data

This is an eminently empirical project that seeks to compare data from pension systems, possibly but not necessarily, taking advantage of one or more policy decisions of some countries, i.e., reforms

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that allowed the withdrawal of pension funds to face the immediate problems of the crisis. The definition of the methodologies will depend on data availability, although they should be based at least partially on the standard pension projection model developed by the PLAC Network.

In terms of data, this project seeks to contribute by providing new information on the post-crisis functioning of the pension systems of the region. The studies should include at least the following analyses:

- The impact of the COVID-19 crisis on the short and long-term financial viability of the pension systems, as well as its effect on coverage and replacement rates. The studies **must use the pensions model** developed by the PLAC Network. The excel files and proper documentation will be provided by the IDB.
- The impact on key pension indicators of labor market and/or social security policies implemented during the crisis to provide relief in the short-term.
- The impact of the crisis on equity of the pension systems (including gender considerations).

### 4. Content of the Studies

1. Brief analysis/diagnosis of the evolution of the topic in the region and/or in the specific setting to the study. What is the motivation of the study?
2. Brief literature review of the research topic and the methodology that is going to be implemented. Describe the novelty and contribution of the proposed study.
3. Description of the research plan and design:
  - a) Diagnosis of the problem.
  - b) Description of the data.
  - c) Methodology.
4. Results:
  - d) Assessment and interpretation.
  - e) Exposition of potential heterogeneous results.
5. Conclusions:
  - a) Expected policy lessons.
  - b) Limitations of the study.

**Note: Proposals must be submitted in English.**

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### 5. Selection Criteria

**Only research institutions** (including think tanks) may present research proposals. The IDB seeks to support up to five (5) studies. The research proposals will be selected based on the following criteria:

- a) Quality and feasibility of the proposed case.
- b) Clarity in the description of the research question(s) and methodology.
- c) Comprehensiveness of the proposed study.
- d) Previous relevant experience of the research team.
- e) Studies that involve a close coordination with pensions institutions will be given preference.
- f) Studies that include additional statistical analyses (impact evaluations, for example) in addition to the results from the IDB-provided pension projection model will be given preference.

To be considered for the project, the research proposal should include the following:

- a) A brief review of previous studies on this topic conducted on the selected country or countries.
- b) Data templates for the description and analysis; and assessment of data availability.
- c) A description of the strategy that is going to be used for collecting relevant data.
- d) A detailed description of the research question(s) and methodologies to be used in the quantitative exercises.
- e) The proposed case studies should identify carefully which hypothesis would be tested and which not, considering data availability.

In addition, proposals must include:

- The name of the research leader as well as a list with the names of the whole researchers' team involved. The institution should present a research team whose makeup is justified by its capacity to meet the objectives of the project, with prior relevant experience. Curriculum vitae of all researchers involved must be included in a separate annex. In case of having to substitute initial researchers, the changes must be priorly approved by the coordinators of the project. However, the research leader (of each subject) should lead the entire project until its full completion.
- A budget (in a separate annex) indicating the time and resources that will be used within the context of the research work plan. The budget proposed by the research center should disaggregate items financed by their own and those financed by the IDB contribution. The budget should distinguish among amounts assigned to professional honoraria, "overhead"

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and other major categories of research expenditures. **The proposal and corresponding budget must be sent in separate files.**

- Institutions must provide the name and contact information of their legal representative, with authority to sign contracts with the IDB, if selected to conduct the study. **Please note that the contract must be signed before the end of 2021.**

Final papers will be considered for dissemination as IDB *working papers* or technical notes depending on quality. Other forms of dissemination or publication should be explicitly approved by the coordinators until the end of the contract.

In all cases, the final dataset employed in the analysis will be delivered to the IDB along with the research paper (an exception may be made in the case of proprietary data, in which case the team should provide the appropriate documentation; still in those cases, providing the data at some level of aggregation may be required). Additionally, the excel files and all statistical programs used to generate the results should be delivered to the IDB.

### 6. Proposal Registration

Proposing research institutions should be registered as Research Network members (contact Elton Mancilla at [eltonma@iadb.org](mailto:eltonma@iadb.org)) and should be based in the Latin American and the Caribbean region. Institutions from other parts of the world do not qualify as members of the Research Network. However, researchers not based in Latin America and the Caribbean can participate with research teams from qualified proposing institutions.

Proposals should be submitted using the Web Submission Form that is provided in the Call for Proposals announcement. Proposals are due **November 28, 2021**. Please note that there are two options within the submission form: one for institutions and another for individual researchers. Please make sure to choose the institutions option.

### 7. Coordination

The project will be coordinated by Alejandro Izquierdo (IDB/RES), Mariano Bosch (IDB/SCL), Carola Pessino (IDB/FMM), David Kaplan (IDB/LMK) and Waldo Tapia (IDB/LMK).

The tentative schedule of activities is as follows:

- **November 28, 2021:** Due date for **receiving proposals**. Institutions should ensure that the complete documentation is submitted to the evaluation committee. Complete documentation includes registration form with all the information requested, the research

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proposal, budget, and curriculum vitae of the members of the research team (CVs up to three pages long).

- **December 8, 2021:** Announcement of **selected research proposals**.
- **January 28, 2022: First Discussion Seminar** via *Zoom*, with the Technical Directors of the project for the purposes of presenting the proposal and the methodology to be used in the study, as well as brief preliminary discussions.
- **April 29, 2022:** Due date for receiving a **first draft** of research papers (drafts should include lines for missing sections, detailing data and methodology that will be used).
- **June 10, 2022:** Due date for receiving a **second draft** of the research papers, incorporating the changes associated with the feedback received from the evaluation committee.
- **July 15, 2022: Second Discussion Seminar** in Washington, D.C. (travel restrictions permitting) or via ZOOM, with the Technical Directors of the project to discuss the second draft of the research papers.
- **August 19, 2022:** Deadline for a **final edited version** of the research papers, including a summary that discusses policy lessons. Data should be submitted by this date. Research papers must follow the **IDB Manual of Style** for *working papers*. Studies that are of good quality at this stage will be considered for publication in the IDB Working Papers series.

### 8. Financial Contribution and Payment Schedule

The IDB will contribute up to **US\$30,000** or its equivalent in local currency as a contribution to the total budget of each study. The payment schedule is as follows:

- **30 percent** within 30 calendar days of signing the formal agreement between the IDB and the respective research institution. **Please note that the contract must be signed by December 26, 2021.**
- **20 percent** within 30 calendar days of presenting and approving the first draft of the research paper.
- **30 percent** within 30 calendar days of presenting and approving the second draft of the research paper.
- **20 percent** within 30 calendar days of presenting and approval by the IDB of the final research paper, delivery of the datasets used in the study, and completion of the conditions of the terms of reference.

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### **9. References**

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- Izquierdo, A., C. Pessino, and G. Vuletin (editors). 2018. *Better Spending for Better Lives: How Latin America and the Caribbean Can Do More with Less*. Washington, DC: Inter-American Development Bank.
- Melguizo, A., M. Bosch, and C. Pages. 2013. *Mejores pensiones, mejores trabajos. Hacia la cobertura universal en America Latina y el Caribe*. Washington, DC: Inter-American Development Bank.
- OECD. 2020. *Pension Markets in Focus*.
- OECD. 2020. *Retirement Savings in the time of COVID-19*, OECD Publishing, Paris.
- OECD. 2020. *Pensions Outlook 2020*.