Vice Presidency of Sectors and Knowledge
Research Department
Labor Market Unit

Non-Contributory Pensions, Social Assistance Programs and Household Savings in Latin America and the Caribbean

A Project of the Latin American and Caribbean Research Network

Over the last decade, there has been a rapid expansion of non-contributory pension programs in the Latin American and the Caribbean region as part of a wider wave of social assistance programs. Several of these programs were introduced in order to mitigate the social costs of informality and/or to support the poor. More than two-thirds of all countries in the region have developed a form of non-contributory pension for their elderly. This has managed to practically eradicate old age poverty in countries like Uruguay, Brazil, Argentina or Chile. There are, however, concerns that these programs could have unintended outcomes on various dimensions because they change the incentives that economic agents face.

One of the possible dimensions in which non-contributory pensions programs (and complementary social assistance programs) could have unintended consequences is households' long-term saving decisions. This may happen through several channels. First, beneficiaries may reduce labor supply and hence potential savings. Second, future beneficiaries could either reduce labor supply or shift to informal activities in anticipation of future non-contributory pensions. Third, it is possible that the household as a whole may reduce other forms of voluntary savings. Moreover, these programs could pose important structural fiscal challenges to governments as the region's demographic transition progresses. Of course, these issues may be intertwined, because to the extent that the new programs are financed through taxes paid by current workers—as is usually the case—they could mechanically lower household saving. This is because young workers have a lower propensity to consume than retirees, particularly the elderly poor.

To date, there is very little research exploring the possible impact of these programs on domestic saving, whether through labor supply decision, household saving or implicit long-term fiscal costs to public finances.

Technical Coordinators:

Eduardo Cavallo, IDB/RES

Mariano Bosch, IDB/SCL

David Kaplan, IDB/SCL