

Retirement-income systems are diverse and often involve a number of different programmes. Classifying pension systems and different retirement-income schemes is consequently difficult. The taxonomy of pensions used here consists of two mandatory “tiers”: a redistributive part and a savings part. Voluntary provision, be it individual or employer-provided, makes up a third tier.

Programmes aimed to prevent poverty in old age – first-tier, redistributive schemes – are provided by the public sector and are of three main types.

Resource-tested or targeted plans pay a higher benefit to poorer pensioners and reduced benefits to better-off retirees. In these plans, the value of benefits depend either on income from other sources or on both income and assets. All countries have general social safety-nets of this type, but in some cases they only cover a few older people who had many career interruptions. Nine LAC countries are marked in this column. Full-career workers with low earnings would be entitled to resource-tested benefits in these countries.

Basic schemes pay either flat rate benefits (the same amount to every retiree) or their value depends only on years of work, not on past earnings. Additional retirement income does not change the entitlement. Some five LAC countries have a basic pension scheme or other provisions with a similar effect.

Minimum pensions, which share many features with resource-tested plans, are found in two LAC countries. The value of entitlements takes account only of pension income.

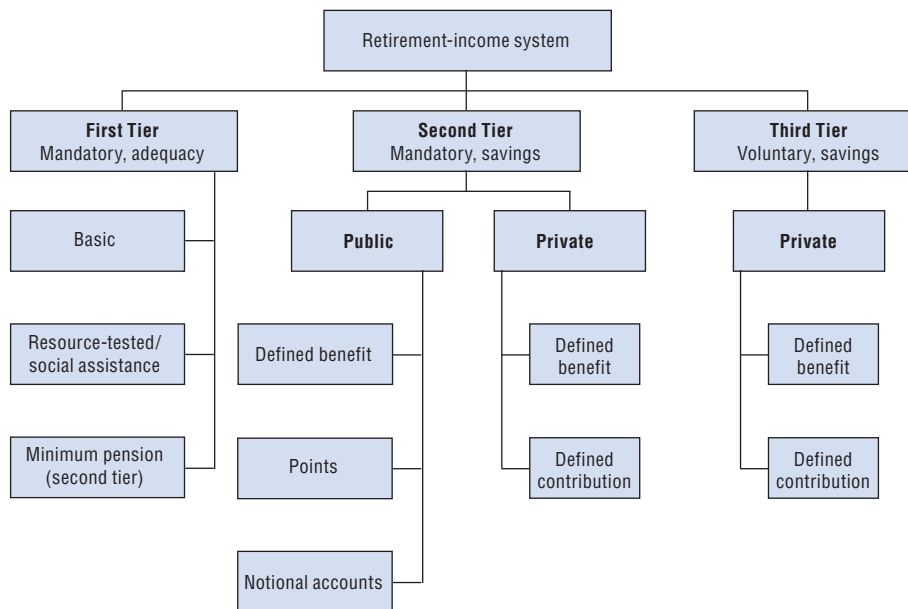
Among the LAC countries, only Suriname does not have mandatory, second-tier provision. In the other 25 countries, there are two kinds of scheme.

Defined-benefit (DB) plans are provided by the public sector in 21 LAC countries. Retirement income depends on the number of years of contributions and individual earnings.

Defined-contribution (DC) plans are compulsory in six LAC countries (in two additional countries, Colombia and Peru, it is possible to choose either a DB or a DC scheme). In these schemes, contributions flow into an individual account. The accumulation of contributions and investment returns is usually converted into a pension-income stream at retirement.

Notional-accounts schemes record contributions in an individual account and apply a rate of return to the balances. This return is typically based on the growth of the covered wage bill or average wage. The accounts are “notional” in that the balances exist only on the books of the managing institution. At retirement, the accumulated notional capital is converted into a stream of pension payments using a formula based on life expectancy. Designed to mimic DC schemes, they are often called notional defined-contribution plans (NDC). These are not presently found in the LAC region.

3.1. Taxonomy: Different types of retirement-income provision




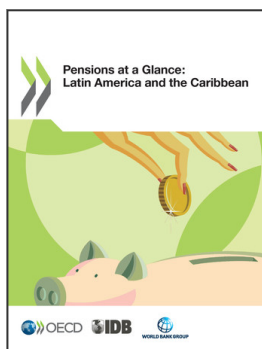
3.2. Structure of retirement-income provision

	Public			Public	Private
	Resource-tested	Basic	Minimum	Type	Type
OECD members					
Argentina		✓		DB	
Bahamas	✓			DB	
Barbados	✓			DB	
Belize	✓			DB	
Bolivia		✓		DB	
Brazil				DB	
Chile	✓		✓		DC
Colombia				DB/DC	
Costa Rica	✓			DB	DC
Dominican Republic	✓			DC	
Ecuador	✓			DB	
El Salvador				DC	
Guatemala				DB	
Guyana	✓			DB	
Haiti	✓			DB	
Honduras				DB	
Jamaica		✓		DB	
Mexico		✓	✓		DC
Nicaragua				DB	
Panama				DB	
Paraguay				DB	
Peru				DB/DC	
Suriname		✓			
Trinidad and Tobago				DB	
Uruguay				DB	DC
Venezuela				DB	
OECD countries					
Canada	✓	✓		DB	
France			✓	DB + points	
Germany	✓			Points	
Portugal			✓	DB	
Spain			✓	DB	
United Kingdom	✓	✓	✓	DB	
United States				DB	

DB = Defined benefit; DC = Defined contribution; NDC = Notional accounts.

Source: See country profiles in Chapter 4 of this report.

StatLink  <http://dx.doi.org/10.1787/888933161899>



From:
Pensions at a Glance
Latin America and the Caribbean

Access the complete publication at:
https://doi.org/10.1787/pension_glance-2014-en

Please cite this chapter as:

OECD/Inter-American Development Bank/The World Bank (2014), “Architecture of national pensions systems”, in *Pensions at a Glance: Latin America and the Caribbean*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264224964-9-en>

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