

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

RG-K1198

### 1. Background and Justification

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.

### 2. Objective

The main objective of this research project is to understand how emerging non-contributory pensions and other social assistance programs may be impacting the saving rates of households in the region. Each study should provide a case study to assess the extent to which such programs may be having an impact on savings in the country under analysis. Each study is additionally expected to analyze the present and future fiscal costs of these programs (i.e., impacts on public saving).

The project intends to draw cross-country comparisons and policy recommendations from the collection of case studies. Studies in countries with substantial coverage by non-contributory pensions and other social assistance programs such as Chile, Mexico, Peru, Brazil, Ecuador, Colombia, Uruguay, Argentina, several countries in Central America, and the Caribbean region, would be prioritized.

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The specific objectives of this project are the following:

- (1) To generate country-specific evidence on savings patterns of households in the presence on non-contributory pensions or other social programs; this variation in savings might come from changes in the labor supply of individuals, changes in the portfolio of households or changes in remittances, among other factors;
- (2) To study the impacts on the labor supply of individuals who are relatively far from the eligibility age of the non-contributory pension;
- (3) To examine changes in the composition of savings (voluntary, mandatory, asset, etc.) due to non-contributory pension programs or social assistance policies;
- (4) To assess the extent to which non-contributory pension programs or social assistance policies may affect savings decisions in the selected country through all channels;
- (5) To calculate the long-term fiscal cost (and therefore, the impacts on public saving) of non-contributory pension schemes.

In addition to the descriptive and econometric work, each country case study should describe the relevant demographic trends in the countries under study, including the actual and expected impacts of non-contributory pensions and other social programs on savings, labor supply and other labor market outcomes.

### 3. Scope, Methodology, and Data

This is a primarily empirical project that seeks to combine microeconomic evidence at the household level, possibly but not necessarily taking advantage of one or more policy innovations in a particular country, i.e., pension reform in Chile in 2008 or the expansion of non-contributory pensions in Argentina since 2007. The exact methodology utilized will depend on data availability.

In terms of data, this project seeks to contribute by providing new measures of saving. In addition to conventional saving measures (i.e., income minus consumption), proposed studies should seek to incorporate additional measures that include, at least:

- a) Voluntary household saving and mandatory household saving (i.e., contributions to pensions).

If data are available, it would be valuable to include extensions such as:

- b) Consumption of durable goods, possibly including real estate; and
- c) Human capital accumulation.

### 4. Selection Criteria

**Research institutions only** may present proposals. The IDB seeks to produce up to eight (8) studies and will contribute up to US\$30,000 for each study. The research proposals will be selected based on the following criteria:

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- 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; studies that propose exploiting *only* macroeconomic or microeconomic datasets will be considered, although availability of both types of datasets will be given higher scores;
- d) Experience of the research team.

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

- a) A brief survey of previous studies on this topic conducted on the country or countries;
- b) Data templates for the description and analysis of domestic saving by economic sectors and assessment of data availability;
- c) A description of strategy for collecting relevant data;
- d) A detailed description of the research question(s) and methodologies to be used in the quantitative exercise;
- e) The proposed case studies should carefully identify which hypotheses can and cannot be tested considering data availability.

In addition, proposals must include:

- The name of the research leader and a list of other researchers involved. The center should present a research team whose makeup is justified by its capacity to meet the objectives of the project, including relevance of prior experience. Curricula vitae of all researchers involved in the whole project may appear in a separate annex. Subsequent substitutions for researchers originally specified in the proposal may be made with prior approval from project coordinators, but the research leader (of each subject) must 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 the IDB contribution and those financed by the research center. The budget should distinguish among amounts assigned to professional honoraria, "overhead" 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.

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

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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 must provide the appropriate documentation. Nonetheless, in those cases providing the data at some level of aggregation may be required).

### 5. Proposal Registration

Proposing **research institutions** should be registered as Research Network members (contact Elton Mancilla at [red@iadb.org](mailto:red@iadb.org)) and should be based in the Latin American and Caribbean region. U.S. and European institutions do not qualify as members of the Research Network. However, researchers from the United States and Europe can participate with research teams from proposing institutions.

### 6. Coordination

The project will be coordinated by Mariano Bosch (IDB/SCL), David Kaplan (IDB/SCL), and Eduardo Cavallo (IDB/RES).

The tentative schedule of activities is as follows:

- **May 26, 2014:** Due date for **receiving proposals**. Institutions should assure that the complete documentation is submitted to the evaluation committee. Complete documentation includes the following components: registration form with all information requested; the research proposal, budget, and curriculum vitae (CVs up to three pages long).
- **June 2, 2014:** Announcement of **selected research proposals**.
- **June 23, 2014:** **First Discussion Seminar** in Washington, D.C., with the Technical Directors of the project for the purposes of discussing proposals.
- **September 30, 2014:** Due date for receiving a **first draft** of research papers (drafts should include outlines for missing sections, detailing data and methodology that will be used).
- **January 31, 2015:** Due date for receiving a **second draft**.
- **February 28, 2015:** **Second Discussion Seminar** in Washington, D.C. with the Technical Directors of the project to discuss the second draft of the research papers.
- **March 30, 2015:** Deadline for a **final 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.

### 7. Financial Contribution and Payment Schedule

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

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- **20 percent** within 15 days of signing the formal agreement between the IDB and the respective research center.
- **30 percent** within 15 days of presenting and approving the first draft of the research paper.
- **30 percent** within 15 days of presenting and approving the second draft of the research paper.
- **20 percent** within 15 days of presenting and approval by the IDB of the final research paper and delivery of the datasets utilized by the study.