Bolivia: New Pension Law Lowers Retirement Age, Raises Expectations

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On December 10, surrounded by union leaders and foreign dignitaries, President Evo Morales promulgated Bolivia's new pension law at the headquarters of the Bolivian Workers Central (COB), the country's militant national trade union federation. The unprecedented and highly symbolic event culminated a four-year negotiating process, during which the COB agreed to suspend its mobilization for higher wages in exchange for comprehensive pension reform.

The new law nationalizes Bolivia's private pension funds, guarantees universal retirement benefits for participants, and makes it easier for workers to access them. Both the COB and the government have called it "revolutionary" and "historic." "We are fulfilling a promise to the Bolivian people," said Morales at the signing ceremony. "We are creating a pension system that includes everyone."

To be sure, Bolivia's new pension plan defies current neoliberal orthodoxy in important respects—for example, by lowering the pension retirement age when at least 47 countries (including France, Japan, and even Cuba), have moved to increase it. "Unlike other governments," says Morales, "Bolivians are developing our own laws without international 'experts,' for the benefit of the Bolivian people."

Still, some social sectors, together with Bolivia's respected non-profit Center for Labor and Agrarian Development Studies (CEDLA), question just how much the new system departs from the existing market-based pension model, and whether its ambitious promises are achievable and sustainable. The government and the COB are betting on an optimistic scenario.

Since 1996, Bolivia has operated under a pension scheme based on compulsory worker savings with no guaranteed benefits—-a hallmark of the neoliberal structural adjustment policies imposed by the World Bank and International Monetary Fund. Funded entirely by individual worker contributions (at 12.2% of earnings), the system has featured low benefits with long and stable working lives required to achieve even the most minimal pension.

While some 1.3 million of Bolivia's 4 million workers have established pension accounts, only 600,000 (15% of the workforce) have sufficient job stability to contribute on a regular basis. Fewer than 30,000 workers have succeeded in retiring with a pension over the past 13 years.

Informal sector workers—a broad category encompassing merchants, domestic workers, taxi drivers, and other independents, who constitute 60% of Bolivia's economically active population—are largely excluded from the present system. With their irregular and typically low earnings, and private fund managers' avoidance of unprofitable small accounts, few have managed to qualify.

The new pension law will provide guaranteed benefits and allow workers to retire sooner: men at 58 (instead of 60), and most women (those who have three or more living children) at 55. Miners will be able to retire at 56, or as early as 51 with longevity. With an average life expectancy of 62 for Bolivian men and 65 for women, the government notes, the current age criterion virtually guarantees no retirement, especially for workers performing arduous manual labor.

Retirement benefits will increase in most cases, based on the average of a worker's last two years of monthly salaries. After 20 years of contributions, the average worker will receive 60% of this amount, increasing to 70% after 30 years. Anyone who has made contributions for at least ten years is entitled to a pension.

The new system seeks to extend pension benefits to all workers, including those working in the informal sector. Independent workers can contribute on a voluntary basis, with a minimum monthly payment of $14 (around 14.4% of the $97 minimum monthly wage). After 10 years, a worker contributing at this rate would be guaranteed a monthly pension of $68, equal to 70% of the minimum wage. With pension offices slated to open in cities and rural areas throughout each department, the government hopes to enroll 100,000 informal sector workers in 2011.

The key to expanding coverage to workers with no prior savings is the Solidarity Fund, to be financed largely by a 0.5% contribution paid by workers on their earnings and a 3% payroll tax paid by employers. Higher income workers, along with mine operators, will pay an extra surcharge.

For workers already contributing to the system, the Solidarity Fund payment is in addition to the 12.2% required for their individual pension accounts, which will be left intact. The new system will transfer some $5.3 billion in these personal accounts, currently managed by two transnational corporations, to the Bolivian state, which will invest and administer them on workers' behalf under terms established by the new pension law.

The Solidarity Fund will also be used to augment the meager benefits available from the individual pension system for most salaried workers. For example, a 58-year-old worker with 25 years worth of contributions and current earnings of $430 per month is entitled to a monthly pension of $107 under the old system, equal to just 25% of current income. Under the new system, the pension will increase to $265, or 62% of current income. The difference of $158 will be paid by the Solidarity Fund.

The government anticipates that some 43,000 workers will be able to retire with pensions in the first quarter of 2011, including 30,000 who will benefit from the Solidarity Fund. For those over 60 who are still unable to achieve a pension under the new law, the government will continue to provide the Renta Dignidad income supplement ($340 per year, funded from a tax on gas and oil revenues).

Some sectors, including urban teachers, factory workers, and health workers, have criticized the new pension law for not going far enough. They note that the average pension benefit their members can expect after 30 years, at $230 per month, is less than half the amount required to cover the basic needs of a typical Bolivian family (estimated by Bolivian economists at $511 per month). Further, says Teachers Union leader Daniel Ordoñoz, "The vast majority of workers who don't have job stability will be marginalized from our retirement rights, since in the last 25 years we haven't been able to accumulate 10 years of contributions."

According to CEDLA, the new pension system is unlikely to capture the growing numbers of independent workers with low and irregular earnings. While certain salaried sectors do stand to benefit—such as state miners, who have been contributing for decades without the ability to secure their pension rights—the vast majority of marginalized and informal workers, whose expectations have been raised, will not.

Further, says CEDLA's Carlos Arze, the new pension law is far from "revolutionary" because it maintains the logic of the existing neoliberal model, preserving the principle of individual pension savings accounts. Despite the Solidarity Fund, those who earn and save more will still retire with higher pensions; impoverished workers will still be hard put to achieve a decent living standard. The pension plan as a whole still relies disproportionately on worker contributions, relative to employers and the state.

In perhaps ten years, Arze predicts, the system will become unsustainable, especially when a residual state subsidy provided to workers who contributed under the pre-1996 pension plan phases out as these workers retire. Future retirees with low earnings will need more support from the Solidarity Fund, creating pressure to increase worker contributions, reduce benefits and access, or both.

The government projects that the system will be viable for at least 35 years. It emphasizes that Bolivia's economy is continuing to expand, with declining unemployment and poverty, and a growing "middle class." Politically, 44 of 47 trade unions in the COB voted in favor of the pension reform, including the powerful Transportation Workers Union which rejoined the COB to solidify its support. This union alone could potentially deliver 200,000 informal sector workers to the new program.

In the government's view, the mixed private/social pension model is strength, not a weakness, of the program. Such ideological pragmatism, perhaps born of political and economic necessity, has become a hallmark of the MAS (Movement Towards Socialism) project, exemplified by the 2006 hydrocarbons "nationalization."

Whether the new pension system can achieve its stated goals of universality, solidarity, sustainability, and self sufficiency remains to be seen. In the meantime, even the most skeptical observers are watching Bolivia with interest. As one financial blogger commented, "I know a lot of you are thinking, 'what's President Morales sniffing?'—but maybe he's onto something."

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P.S.

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