Pension System in Argentina

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Abstract: This article presents the historical development and the present state of the pension system in Argentina. The two basic Argentina’s pension reforms, taking place in 1994 and 2008, had opposite directions. While the first of them introduced the country to the group of world leaders in introducing capital solutions in pension systems, the second reform had a character of a surprising U-turn towards the repartition solutions and directed the country towards the Bismarckian pay-as-you-go formula. The solution currently adopted by the country is totally rid of any obligatory individual capital funding. A question remains whether Argentina will once again become a world leader in pension system changes, although this time in reversing from capital-based solutions, and whether repartition will ensure a long-term stability of the system.

JEL Classifications: G23, H55, J32
Keywords: Pension system, Pension, Argentina

1. Introduction

This article is a part of an elaborated by the author series of publications about pension systems in selected countries on American continents. Globalization, the development in communication and information technology, as well as global freedom of movement of people, induces growing interest in earning in countries different than the country of birth. This may lead to participation in foreign pension systems. These systems constantly evolve, mostly due to demographic and economic changes. American countries, some of which were the first ones to follow the innovative solutions originally introduced by Chile in its pension system, have a great variety of pension solutions. Therefore the overall understanding of those systems is often limited, even among experts. The monograph currently prepared by the author intends to broaden this knowledge and stimulate discussions leading to finding the best possible old-age pension solutions. The author’s research goal is therefore to bring closer both historic and current solutions in order to find those worthwhile of use in benchmark comparisons. The article about Argentine pension solutions is presented in the following order: 1. General information about the country; 2. The historical development of the pension system; 3. The present state of the pension system; and 4. Challenges and anticipated changes to the system.

2. Methodology

The paper on the pension system in Argentina is based on literature study of English, Spanish, and Polish language reference books. Besides the printed texts, the Internet resources were used to find relevant data and publications of government and supervisory institutions in Argentina. In addition, the legal regulations pertaining to pension insurance have been used.
3. General Information about the Country

The Republic of Argentina (Spanish: República Argentina) (Wielka ..., 2001:266 and following) is a federal country located in South America, on the Atlantic Ocean, comprising the federal district (ciudad autónoma de Buenos Aires) and 23 provinces (provincias) – the subjects of the federation. The currency is Argentine Peso\(^1\) (ARS\(^2\), peso convertible). The official language is Spanish, and locally in use are Mapudungun, Quechua, Guaraní, Italian and French. In July 2011, the population of Argentina was 41,769,726 (Central ... 2011), with the following age structure: 0-14 years old – 25.4%, 15-64 – 63.6%, 65 years of age and older – 11.0%. The average expected lifespan at birth was 76.95 years on average for both sexes, 73.71 years for men and 80.36 for women. The white were the largest ethnic group, mostly of Spanish or Italian descent, and constituted 97% of the population. Namely, 92% of the population is of Catholic persuasion, although real churchgoers account for only 20% of the population. The Argentine Constitution of 1853 mandates the president as the head both of the state and the government (since December 10, 2007 it is Cristina Fernández de Kirchner). The largest political parties are Frente para la Victoria (FV), which includes the Peronist Partido Justicialista (PJ), Unión Cívica Radical (UCR) and Afirmación para una República Igualeitarina (ARI). The Gross Domestic Product per capita (PPP) in 2010 was estimated at US $14,700, and its growth rate at 7.5%. The unemployment rate was 7.9%. The public debt equaled to 50.3% of the GDP. The country’s trade balance at the end of 2010 showed a surplus of US $6,976 million.

Prior to the Spanish colonization, the lands of the present-day Argentina (Central ..., 2011) and (Wielka ..., 2001: 272-274) were inhabited by around 330 thousand Indians of Pampa, Chaco and Patagonia. The land of Argentina was discovered for the Crown of Spain by Juan Díaz de Solís in 1516. In 1536, the city of Buenos Aires was established on the shore of the Río de la Plata estuary. Spanish conquistadores in search for silver gradually inhabited the northern part of Argentina and the areas neighboring on of Buenos Aires. In 1617, the Governorship of Paraguay was divided into two provinces – La Plata with the capital in Buenos Aires, and Paraguay, having its capital in Asunción. In 1776, from the viceroyalty with the capital in Lima, Viceroyalty of the Río de la Plata was separated, which covered the area of the present-time Argentina, Paraguay, Uruguay, and south Bolivia. In 1806-07, the British, at that time at war with France and Spain, unsuccessfully attacked Buenos Aires. The unassisted fending off of the British invasion and the loosening of the ties with the France-invaded Spain sparkled the thrive for independence. After the setup of the pro-French authorities in Spain by Napoleon Bonaparte on May 25, 1810, the Creole from the Río de la Plata viceroyalty decided to rule independently until a legitimate king is reinstated on the Spanish throne. In 1814, Paraguay set up an independent government. A short time later, on July 9, 1816, the Creoles, who were disappointed with the rule of the Spanish king, declared independence of the country named the United Provinces of South America. In 1825, Bolivia set up an independent government. As a result of the defeat of the United Provinces in the war against Brazil of 1825-27, Uruguay was created in 1828 as an independent country. In the following years, border wars took place with the Peru-Bolivian confederation and British and French forces supporting Uruguay. As a result, in 1833 the British took over the Malvinas islands and named them the Falklands. In 1843, a dispute with Chile started over the Beagle Canal. In 1852, the Entre Ríos province

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\(^1\) The name \textit{peso} is the traditional name of the Argentine currency, but its meaning is different for different monies in different periods. Until 1826, the so called \textit{colonial Peso} was in circulation, which equaled 8 \textit{reals}. In 1826-1881, \textit{peso fuerte} and \textit{peso moneda corriente} were simultaneously in circulation, and were both replaced by \textit{peso moneda nacional} in 1881, which existed until 1970. In the period 1970-1983 the Argentine currency was \textit{peso ley}, and in years 1983-1985 there was \textit{peso argentino}, eventually replaced by \textit{austral}. In January 1992, \textit{austral} was replaced by \textit{peso convertible}.

\(^2\) Designator according to ISO 4217 standard. On 10 August 2011, CAN $1 could buy ARS4.23248, and 1 Euro equalled to ARS5.95088 (The World’s ..., 2011).
separated itself from the United Provinces, and a year later, in 1853, at a conference of all provincial governors, the Argentine Confederation was created, and the constitution of the federal country, modeled on the constitution of the U.S.A., was formed. As a result of the victorious war on Paraguay in 1865-1870, Argentina regained Chaco province and annexed Misiones. In 1880, Buenos Aires was made the capital of the confederation. During the World War I the country remained neutral. In 1920 Argentina ratified the League of Nations, but quit this organization a year later. In 1930, in consequence of the economic crisis in the country, a coup took place which moved the governance of the country to the military. After that, in years 1938-1945, a period of democratic rule ensued, although it also was interrupted by short-time military dictatorships. Argentina, which remained neutral during the most part of the World War II, in March of 1945 declared war on Germany and Japan. The year 1945 was remarkable in Argentina in the sense that Juan Domingo Peron won the presidential election, starting the era of ‘Peronism’. It was a movement characterized with pampering to the wishes of the laborers, nationalist propaganda and the swing towards economic independence from the United States of America. The rule of Peron was interrupted by a military coup in 1957. Although two years later the democratic rule was reinstated in the country, in the period of 1966-1973 the control of the country once again was in the hands of the army. In 1973, Peron was again elected president, but after his death in 1974 democracy in Argentina survived only until 1976, when the military once again decided to take command over the country. The beginning of the 1980s brought a deep economic crisis in Argentina, which resulted in the country’s default on its debt, hyperinflation, and the drop in real incomes and the GDP. In 1982 Argentina took over the Falkland Islands, thus starting the unsuccessful war with the United Kingdom. To the internal relationships in the country, it brought the return of the democratic rule. In 1985 the dispute with Chile over the borderline on the Beagle Canal was resolved, as was in 1991 another borderline dispute with the same country, this time over the Antarctic. The GDP growth was 6% on average in the years 1991-1998. The inflation dropped from 4000% to 0%. The next crisis in Argentina took place in years 2001-2002; at that time the unemployment soared and domestic deposits were frozen. The country’s insolvency was declared and the tie of Argentine peso to the U.S. dollar was dismantled; as a result, a very deep depreciation of the Argentinian currency followed. In years 2003-2005 the crisis has been taken under control, the deposits released, and after the GDP falling by 11% in 2002, the following years brought the average yearly GDP growth of 8-9%.

4. Historic Development of the Pension System in Argentina

Pension arrangements pioneered in Argentina in 1904, together with the enactment of the federal law on pensions for civil servants (Rofman 2005b: 278). Next, after a pension program for railway workers was set in 1915 (Rofman 2008: 379), a large number of various schemes for different occupational groups followed (Social Security ..., 2010: 30). Accident insurance was first introduced in Argentina in 1915 (Social Security ..., 2010: 34). In 1934 a mandatory maternity insurance was introduced, which was followed by the also mandatory health insurance of 1944 (Social Security ... 2010: 33). In the same year the pension system was extended over tradesmen, and two years later, in 1946, over industrial workers.

Another eight years later, in 1954, a pension system was created for those working in agriculture (Social Security ... 2010: 30). The pension contribution was 8% of the remuneration (Rofman 2005b: 279). In 1954 the system of collective capitalization was replaced by a pay-as-you-go solution (Müller 2003: 25). The pension eligibility age was 55 for men and 50 for women (Müller 2003: 25). In 1957 the first regulation on family benefits was issued (Social Security ... 2010: 33). In 1990, Argentina and Great Britain resumed diplomatic relations, but the dispute over the Falklands (Malvinas) remained open.

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3 Argentina and Great Britain resumed diplomatic relations in 1990, but the dispute over the Falklands (Malvinas) remained open.
By the regulation of 1958, the pension income was guaranteed at 82% of the employee’s earnings (Bertranou, Rofman, Grushka 2003). In 1967, the first unemployment insurance was introduced (Social Security ... 2010: 35). In the same year, all existing pension funds were compounded into three groups (cajas) (Isuani, San Martino 1998): 1. For state civil servants, 2. For the self-employed, 3. For those employed in industry, commerce, and other sectors (Rofman 2005b: 279). However, a separate solution was left for uniformed servicemen, judges, MPs, former ministers, local government civil servants, and professionals. In 23 provinces and 20 cities remained their own cajas, as well as there remained in operation 74 independent pension organizations on the provincial level (San Martino 2007). The eligibility age was risen, to 60 years of age for men and 55 for women, the pension contribution was risen to 20% of the remuneration, out of which 5% was paid by the employee and 15% by the employer and (Rofman 2005b: 279); the pension based on the earnings in the last 10 years of employment (Cottani, Demarco 1998). In 1980-1984, the employers were released from paying employee’s retirement contributions (Müller 2003: 27).

In 1987 the first private, voluntary pension fund was set up (Lloyd-Sherlock 1997: 91). In the same year, the market-oriented research institute Fundación de Investigaciones Económicas Latinoamericanas (FIEL) advised the creation of a two-tier system, consisting of a base, minimum pension, financed by employers, and a tier of private pension funds, financed by individual contributions of the insured. In 1990 the Asociacion of Argentinian Banks (Asociación de Bancos Argentinos, ADEBA) presented a plan of full transition to a mandatory system of compulsory savings (Müller 2003: 27). In the beginning of the 1990s, the special pension systems grouped 0.7% of the total number of the pension recipients, but accounted for 3.5% of its expenditure (Isuani, San Martino 1998: 135-136). In September 1991, the minimum pension contribution period was risen from 15 to 20 years (Müller 2003: 31). In 1992, the number of retirees was 2.1 million, and the percentage of the elderly (65 years of age and more) that received pension equaled 79.09% (Zukowski 2009: 154), 72.5% of all employees paid their pension contributions Rofman 2005a), and there were 26 private companies offering voluntary pension plans (Masci, Pettinato, Dowers 2005: 321). At that time, the three cajas that absorbed previous pension institutions, merged into the National Administration of Social Security (Instituto Nacional de Previsión Social, INPS) (San Martino 2007). In 1993, not only did the payroll tax rate reach 26% (Congressional ... 1999), but also the public pension system generated a deficit of 1.7% of the GDP (Rofman 2005b: 279).

The pension system reform, enacted in 1993⁴, started to operate in July 1994, and the new system was named the Integrated System of Retirement and Pensions (Sistema Integrado de Jubilaciones y Pensiones, SIIJP). Although the initial project was to implement a system based on that in Chile, replacing the old, public-funded pay-as-you-go model by a new, funded and capital-base type, the legislative process⁵ produced in effect a mixed, public-private variety, incorporating both pay-as-you-go and capital account solutions (Arza 2006: 81). The new system consisted of two mandatory tiers (Zukowski 2009: 149). The first tier was the employer-financed pension, of equal amount for all who met the requirements on the pension age and number of contribution years. The second tier, financed by the contributions of the insured, offered a choice between personal retirement accounts managed by private companies (Administradoras de Fondos de Jubilaciones y Pensiones, AFJP)⁶, and an another one (Nación AFJP), being indirectly, through Banco de la Nación, a property of the central bank (Banco Central de la República Argentina), and a pay-as-you-go system managed by a national institution for social security (Administración Nacional de la Seguridad Social, ANSES) (administración ... 2011c), which replaced INSP (San Martino 2007). The supervision over the privately managed pension funds was performed by a government agency called Superintendencia de Administradoras de Fondos Jubilaciones y Pensiones (SAFJP). The

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⁵ The new pension system was enacted in 1993 after 18 months of hot parliamentary debate (Isuani, San Martino 1998: 138).

⁶ Initially 24 were created, but in effect of consolidations there were 11 AFJP left (Rofman 2008: 392).
insured had a choice between the public insurance and a system of individual pension accounts, managed by private institutions (Social Security ... 2010: 30). The employees’ payroll tax rate rose from 10% to 11% (Rofman 2005b: 280). The pension eligibility age was ultimately set at 65 years of age for men and 60 for women, and the total contribution equaled 27% of payroll, of which 16% was paid by the employer to the public scheme and 11% by the employee to the second tier (Rofman 2008: 380). The period of mandatory contribution to the system was extended from 20 to 30 years (Müller 2003: 31). Those who selected the pay-as-you-go system could shift to the capital system at any moment, but the reverse from the private accounts to the pay-as-you-go option was not possible (Żukowski 2009: 149–150). Also, within the capital accounts it was possible to change the pension rights from before the reform, and a choice from 3a) additional pension resulting from the payment of contributions in the period before the reform and retiring (for those who selected the pay-as-you-go method) or 3b) ordinary pension (for those who chose to participate in AFJP). All seniors over 70 years of age who were not eligible for pension due to lack or insufficient contribution period and without adequate subsistence means were covered by welfare regulations (Żukowski 2009: 150). Provincial cajas were given the possibility to join SIJP. In 1994, 50.86% of all working people were included in the pension system (Rofman, Lucchetti 2006: 32). Pensions were indexed with the use of the average mandatory provisional contribution (Aporte Medio Previsional Obligatorio, AMPO) (Rofman 2000: 22). Retirees could withdraw their accumulated accounts from AFJP in three ways (Argentina: Pension System 2006): 1) as a permanent annuity (Renta Vitalicia Previsional), 2) as programmed pension payments (Retiro Programado) and 3) as “fractional” retirement payment (Retiro Fraccionario). The received pension payments were taxable as ordinary income (Whitehouse 2007: 159). Besides the obligatory pension contributions, all workers had the possibility to determine by themselves the height of their voluntary contribution (Imposiciones Voluntarias) and pay them into their individual accounts in AFJP as jubilación ordinaria (JO).

In 1996, the pension contribution paid by employers was reduced to around 12% of the payroll and varied in different regions (Social Security ... 1999: 75). In June 1996, 67% of those entitled to select either the pay-as-you-go system or funded system in the second tier opted for the latter and had an account in an AFJP (Vittas 1997: 4). At the end of 1997, indexing of pensions was started to be calculated with the use of a new, government-determined, index, named “module of social provision” (Módulo Previsional, MOPRE), which replaced AMPO (Rofman 2000: 22). In 1998, 5,693 persons had the voluntary pension, and only 83 individual policies were issued (Masci, Pettinato, Dowers 2005: 321). At the end of 1999, the gradual decrease of the pension contribution paid by employers from 16% to around 7.5% was finished, although significant regional variance was observed.

The pension eligibility age was increased in 2001, to 65 years of age for men and 60 for women (Congressional ... 1999). In July 2001, all pensions exceeding US $500 were reduced by 13% (Rofman 2002: 10). In November 2001, due to the growing crisis of the state, a new institution responsible for collection of pension contributions named Instituto Nacional de los Recursos de la

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7 The changes were introduced gradually and the pension age for men and women was as follows: 1994 – 62/57, 1996 – 63/58, 1998 – 64/59 and since 2001 – 65/60 (Argentina: Pension System 2006).
8 This opportunity was particularly attractive to cajas from poor provinces. This transformation was financed with a loan (Provincial Pension Reform Adjustment Loan, PPRAL) from the World Bank and Inter-American Development Bank (San Martino 2007).
9 The aim of this differentiation was to promote manufacturers producing goods for exports and those from less developed provinces (Rofman 2000: 21).
Seguridad Social (INARSS)\(^{10}\) was appointed, and the payroll tax paid by workers was reduced from 11% to 5% (Rofman 2005b: 293). At the same time, AFJPs were forced to buy low-interest government bonds of the value of US $2.3 billion (International Update, November 2004, 2004). The debt of the public pension system at the end of 2001 equaled 3.5% of the GDP (Titelman, Vera, Perez Caldentey 2008: 13). In February 2002, the employees’ contribution was increased to 7% (International Update, July 2005 2005). In 2003, mostly due to high unemployment, the pension system covered only 38.29% of the work force, and the proportion of seniors (65 and older) entitled to pension payments was only 68.26% (Rofman, Lucchetti 2006: 32). According to another source, in 2003 only 56% of employees paid pension contributions (Rofman 2005a). In the same year, the 12 existing at that time AFJPs\(^{11}\) paid pension income to 112 thousand persons (San Martino 2007). In October 2004 the top limit on monthly wage up to which the employer was obliged to pay pension contribution was set at ARS4,800 (International Update, January 2006 2006). On October 7, 2004, the government obligations of the value equivalent to US $16billion, which were then transferred to the public system (Rofman, Fajnzylber, Herrera 2008: 18). In June 2007, the value of the GDP (Titelman, Vera, Perez Caldentey 2008: 13). At the end of 2006, the deficit of the public pension system equaled 1.6% of the GDP (Titelman, Vera, Perez Caldentey 2008: 13).

On March 8, 2007 a law came into force which made it possible for the contribution payers to reverse from the capital to the pay-as-you-go system (Modificar) and (International Update, April 2007 2007). Simultaneously, the fees charged by AFJPs were reduced to 1% of the remuneration (Tuesta 2009: 6). As from April 1, 2007, all new employees are by default put in the pay-as-you-go system, unless they actively selected the capital solution (Rofman 2008: 400). All those retired who were too old to accumulate on their capital accounts a minimum amount were administratively transferred to the public system (Rofman, Fajnzylber, Herrera 2008: 18). In June 2007, the value of

\(^{10}\) INARSS was dissolved in July 2003 and the collection of contributions became again the responsibility of tax authorities (Administración Federal de Ingresos Públicos, AFIP) (Rofman 2005b: 293).

\(^{11}\) They were: Arauca Bit, Consolidar, Futura, Máxima, Met, Nación, Orígenes, Previsol, Profesión+Auge, Prorenta, Siembra and Unidos.
the lowest pension equaled 90% of the mean pension (Rofman, Fajnzylber, Herrera 2008: 13). On September 15, 2007, a stabilization pension fund was established (El Fondo de Garantía de Sustentabilidad del Régimen Público de Reparto), which was later managed by Banco de la Nación, which received from ANSES assets of US $6.45 billion (International Update, September 2007 2007). At that time, the yearly index for the calculation of the pension payment under the pay-as-you-go system was risen from 0.85% to 1.5% of the base remuneration (Rofman, Fajnzylber, Herrera 2008: 18). In October 2007 a regulation was issued that ordered to gradually withdraw (by the end of 2008) the AFJPs’ assets located in other countries belonging to Mercosur (Brazil, Paraguay and Uruguay) and invest them in home capital market. The transferred amount was ARS8 billion, i.e. around US$2.5 billion (International Update, November 2007 2007). In 2007, the aggregate pension spending, including non-contributory pensions and benefits paid to servicemen, amounted to 8% of the GDP (Rofman, Fajnzylber, Herrera 2008: 15). Since January 1, 2008, the employee-paid payroll tax for the participants in both pay-as-you-go and capital systems was set on the same value of 11%. At the same time the ceiling on the monthly income taxable for pension was risen from ARS4,800 to ARS6,000 (International Update, April 2007, 2007). In the following months, it was further elevated to ARS6,750, ARS7,256 and has been ARS7,800 since July 2008. On the other end, the minimum remuneration from which pension contribution was deducted was ARS240 (International Update, July 2008 2008). On July 29, 2008, it was decided that pensions will be indexed twice a year, in March and September. This regulation was due to come into force at the beginning of 2009. In September 2008, the pension contributions sufficed only to pay for 48% of the expenses of the system, and the remaining 52% had to be financed from a public subsidy (International Update, September 2008 2008).

On October 21, 2008, President Cristina Fernández announced her intention to nationalize pension funds (Porter 2008). On November 7 the Argentine Congress, and on November 20, 2008 the Senate, passed the bill on nationalization of private pension funds, which was signed by President Cristina Fernández on December 4, 2008. The assets equal to circa US$23 billion, which were accumulated by around 9.5 million of persons, were on December 15, 2008 transferred to a national social security management institution ANSES. The activity of the companies managing AFJPs was truncated to payments of already granted old-age benefits. Also, the method of calculation of the pension payments was changed: It was decided that the size of the payments will be based on the earnings of the last 10 years. The only eligibility precondition, it was decided, was 30 years of contribution to the system (Potter 2008: 8). In fact, on January 1, 2009 the system of individual pension accounts managed by private institutions was dismantled, and the balances from individual pension accounts were transferred to public social security system (Social Security ... 2010: 30). The regulation of January 14, 2010 made it possible for private institutions – Pension Provision Societies (Compañías de Seguro de Retiro, CSR) – to manage voluntary pension funds (Jubilación ordinaria, JO). Licenses for this type of financial activity were to be issued by ANSES (International Update, February 2010 2010). As of March 1, 2010, the old-age pension payments rose by 8.2% on average, and the minimum benefit was set at ARS895.15 (Legorano 2010). In July 2010 another rise of 16.9% was announced, setting the minimum pension at ARS1,091.50, to be effective from September 2010 (Pichardo-Allison 2010). On August 19, 2010, the Congress decided on fixing the minimum old-age pension payment to the minimum wage at the level of 82%. This bill was accepted by the Senate, but voted by president Cristina Fernández (Raszewski 2010b). On March 1, 2011, the levels of minimum and maximum income taxable for pension were changed, and set at ARS427.06 and ARS13,879.25, respectively. In 2011, the amount of minimum old-age pension payment was set at ARS1,227.78 on March 1, and on 1 September risen to ARS1,434.29 (Las jubilaciones ... 2011).

12 Ley 26.425, Sistema Integrado Previsional Argentino (SIPA) (Información... 2011b). This law came into power on December 9, 2008 (Argentina: Major ... 2009).
13 Private management companies were compensated for lost business with government bonds (International Update, December 2008 2008).
14 The Resolution (ANSeS) No. 58/2011.
5. Current State of the Old-age Pension System in Argentina

— as of August 1st, 2011

The Argentine old-age pension system consists of two tiers: 1) obligatory public social security system (*Regimen Previsional Público*) and 2) system of voluntary private pension accounts. The first, obligatory public tier includes all workers and those in self employment older than 18 (*Employee Benefits ... 2011: 5*), and, on special rules, household and seasonal workers that have declared income up not in excess of ARS12,000 in the previous year. It is also open for wishing to join employees of co-operatives, employees of trade unions, persons under provincial occupational schemes and housewives. The system is unavailable to the military, employees of the security service, policemen, and technical employees from abroad that had worked in Argentina for less than 2 years and are insured in another country. Special arrangements have been made for the uniformed forces, civil servants in certain provinces and municipalities, and for selected occupational groups like teachers, employees of the Foreign Office, scientists and judges.

In the **obligatory public system of social insurance** the old-age pension contribution is partly paid by workers (11% of the payroll) and partly by employers (*Social Security ... 2010: 30 and further*). Workers pay contribution on earnings equal to and higher than ARS427.06, but do not pay any contribution over that part of earnings that exceeds ARS13,879.25 (*Dubberly, Rovira 2011*). The contributions are paid at the reception of the monthly earnings, which also applies to the thirteen salaries, paid in two installments – in June and December. Household employees pay monthly contributions varying from ARS20 to ARS81, depending on the number of working hours in the period. The employer’s part of the contribution varies depending on the industry and type of the company: private employers pay from 10.17% to 12.71% of the payroll, depending on the industry, and the public companies pay 16%. Surcharges apply when work takes place in hazardous conditions. The employers’ part of the contribution starts at earnings equal to ARS427.06 of income, and there is no ceiling value. Employers pay contributions monthly, and on the thirteenth salary in two halves – in June and December. Employers of household workers pay premiums varying between ARS20 and ARS81 per month per person, depending on the number of worked hours. In the case of the self-employed, the contributions vary depending on the type of activity and size of earnings. Small payers, like street vendors, tradesmen, and employees of co-operatives of up to 3 employees, pay a monthly contribution of ARS114 and ARS648, depending on declared earnings. Deficits in the system’s budget are financed by the state.

There are several benefits provided by the system (*Administración ... 2011a*): a basic pension (*Prestación Básica Universal, PBU*), a compensatory pension (*Prestación Compensatoria, PC*), an additional pension (*Prestación Adicional por Permanencia, PAP*), a pension for the elderly (*Prestación por Edad Avanzada, PEA*), and a non-contributory pension (*pensiones graciables or Pensiones No Contributivas, PNC*).

In the case of the **basic pension**, the eligibility age is 65 years for men and 60 for women, with at least 30 and at most 45 contributory years. As a rule, each two years of work over the eligibility age equal 1 contributory year. The required contributory period can be reduced by even 10 years for those working in hazardous conditions. The basic pension monthly benefit equals ARS326.

The **compensatory pension** is paid to at least 65 years old men and at least 60 years old women who paid contributions for at least 30 years, and refers to contributions paid in before June 1994. Their monthly benefit equals 1.5% of the indexed average monthly earnings of the last 10 years in employment for each year of paying contributions before July 1994.

The **additional pension** is paid to at least 65 years old men and at least 60 years old women who paid contributions for at least 30 years, and refers to contributions paid in starting from June
1994. Their monthly benefit equals 1.5% of the indexed average monthly earnings of the last 10 years in employment for each year of paying contributions starting from July 1994.

The **pension for the elderly** is paid to persons who are at least 70 years of age and who as employees or self-employed paid their contributions for at least 10 years, out of which at least 5 belonged to the last 8 years of employment. In the case of those who were self-employed for all their working life, the requirement is that contributions were paid for at least 5 years. The monthly benefit equals 70% of the basic pension, plus compensatory pension and additional pension. The minimal pension for the elderly equals ARS1,227.78 (Administración … 2011b).

As for contributory pensions, their minimum height is also ARS1,227.78. The maximum payment from a contributory pension was set at ARS5,646 (Pensions At A Glance … 2011).

The **non-contributory pension** is due to all Argentine residents who are at least 70 years of age and live in poverty. The monthly benefit is ARS860 per month, which equals 70% of the minimum pension (ARS1,227.78).

Old-age pension benefits are paid for 13 months each year; 12 monthly benefits are paid in full in each consecutive month, and the 13th is split in two and paid in June and December. The benefits are indexed twice a year, in March and September, and the indexation factor depends on the changes in state tax revenues, increase in average remunerations, and the revenues of the Federal Social Security Administration. Non-contributory benefits track the changes in basic old-age pensions. Payments are taxable as other revenues (Employee Benefits ... 2011: 11). Old-age pensioners do not pay social security contributions (Pensions At A Glance ... 2011).

The **system of voluntary pension accounts** (jubilación ordinaria) works in such a way that both individuals and their employers may make voluntary payments into personal retirement accounts in Societies of Old-Age Pension Provision (Compañías de Seguro de Retiro, CSR), but with no possibility for the beneficiary of withdrawing that money before retirement. From the taxation point of view, funds in such accounts are treated equally to those in the obligatory system (Gill, Packard, Yermo 2005: 35). At the end of 2009, only 325 thousand persons had voluntary personal retirement accounts, with the total balance of ARS235 million, but balances of most of these accounts showed less than ARS1,000 (International Update, February 2010 2010).

### 6. Challenges and Expected Changes to the Argentina P.S.

The most important challenge for the pension system in Argentina is to reestablish trust in private financial institutions, which was seriously destroyed by the crises of the 1980s and 2001-2002. According to the survey made by Latinobarómetro in October 2008, 90% of respondents said that pension system in Argentina should be managed by the state (Democracy ... 2008). The nationalization of the pension system that took place in 2008 was therefore a consequence of the crisis of trust to private financial institutions. One of the arguments offered at the time of the change was that investors should be protected against adverse consequences of the crisis of financial markets (Moffett 2008). However, the true reason can probably be found in the budgetary problems\(^\text{15}\). Newspapers used expressions like “legalized theft” (Argentina: Cristina's ... 2008) and “confiscation” (Partlow, Byrnes 2008). Argentine has already gained reputation of a country where governmental intervention in the financial system became a norm (Argentina's Property ... 2008).

\(^{15}\) On September 30, 2008 the assets of pension funds equaled ARS94 billion, out of which 55% were government bonds. The nationalization of pension funds meant postponing of payment of current liabilities until the time when pension payments became due (FACTBOX ... 2008).
The recent solution creates a risk in a longer perspective of a deep deficit in the pension system. The budget deficits of 2009 and 2010 seem to exacerbate the situation. The last rises in old-age pension benefits and the declared ones if implemented may additionally increase the deficit of the pension system. According to a prognosis, the deficit of Argentine pension system in 2050 will equal 29% of the present GDP (Tuesta 2009: 20). The good thing is that the nationalization of the pension system will probably rise the efficiency of contribution collection (Legorano 2009). In addition to the already mentioned ones, there are a number of other problems that will require attention (Arza 2009):

- Lack of automatic indexation of benefits in high inflation economy causes degradation of the real value of benefits;
- The most dynamic growth of pensions concerns the lowest-income pensioners – 80% of old-age pensioners receive the minimum pension;
- Financial stability in the long run in an aging society.

7. Summary and Conclusions

The Argentine pension system has been in place for over a century. The most significant changes that molded the system to its present shape took place in 1994 and 2008. The first one introduced Argentina into the premier league in implementing capital solutions to old-age security provision, and made the country’s old age security system a model for other to follow. The second change constituted a reverse from funded solutions, which were described by various top governmental officials as “looting”, “gross mistake” and “failed experiment”. Costs of the transformation turned out to be, in the eyes of the authorities, too heavy to bear for the country’s instable economy. The decisions of the government aimed to meet the expectations of the majority of Argentine people, which had lost confidence in private financial institutions. The system of private pension funds was described as “a risk-bearing system”, instead of, what people wanted, “a social security system”. On the other hand, the return from funded solutions started a wave of criticism, coming mostly from financial institutions which were losing a source of income. In general it may be said that in Argentina the pension system has been unified, meaning a thorough dependence on traditional defined benefit system with pay-as-you-go financing. The opinion that in Argentina a world-wide trend of nationalization of megabanks has started seems, so far, ungrounded. The question whether the departure from funded and return to pay-as-you-go solutions will permanently heal the Argentine pension system remains open.

16 In 2009 the budget deficit was ARS8.3 billion, and already in 2010 it exceeded ARS20 billion. On the other hand, the social insurance expenditure grew as follows: in 2008 – in excess of ARS66 billion, in 2009 – almost ARS95 billion, and in 2010 – almost ARS112 billion. The budget for 2011 allowed for ARS156 billion (Presupuesto de Divisas ... 2011) and (Ministerio ... 2011).
17 Beside the rise of March 2011, another one to 16,82% is due to take place in September 2011, (Las jubilaciones ... 2011).
18 The similar type of solutions, which mean reverse from funded solutions, are nowadays conducted in Chile, Hungary, and Russia.
19 According to Cristina Fernández (Valente 2008).
20 According to Amado Boudou, the top officer in ANSES (Argentina pension grab ... 2008) and (Argentina pushes proposal ... 2008).
21 Compare the statement of Eugenio Semino, activist for Rights in Old Age (Valente 2008).
22 Among those with financial interest in Argentinian pension market there such big players as Spanish BBVA, British HSBC, United States’ MetLife or Dutch ING (Mangiero 2008) and (FACTBOX ... 2008).
References:


