

Moshe Milevsky: "Pension funds have become a source of financing for emergencies and are not meeting their old-age income goal"

The presentation delivered by the academic of the University of York in Canada, Moshe A. Milevsky, analyzed the current context of the individually funded systems in Latin America and proposed a new way for improving old-age savings planning.

The sole purpose of the pension systems was to provide income in old age, but today, due to the health crisis that has affected the entire world, they are considered a source of financing for personal emergencies. And although the urgency of short-term needs is certainly understandable, such concessions can be detrimental in the long term. This decision, as Milevsky argues, is because individuals have responded to detrimental incentives to ease their own bad financial situation.

Among recent developments that have affected Latin American pensions, Milevsky mentions the worldwide drop in interest rates, mortality and longevity volatility in the context of a pandemic, and the aforementioned pension fund withdrawals.

"In the last 5 years there have been many changes worldwide, especially in pensions, old age and retirement planning. Major developments in these three areas have changed the way we calculate funds destined to old age," explained the PhD and CEO of Longevity Extension Corp. in Florida, in his presentation this Thursday. This is why he states that conventional and established means are no longer that effective for calculating future pensions.

Another factor that has affected retirement savings is labor informality, as evidenced throughout Latin America and the Caribbean. The presentation emphasizes not only the need to encourage the inclusion of informal work within the pension system, but also that workers must be made aware of its benefits. According to Milevsky, communication, education and financial literacy are essential for raising awareness.

Furthermore, as Milevsky points out, new financial and economic behavior studies shows that if individuals are left to their own devices and are not forced to save for their retirement, without help or guidance, they are most likely to fail.

Among the main conclusions of Milevsky's presentation is that the sole purpose of pension systems is to provide income when a person **is no longer able to work**, due to which the retirement age should be determined based on personal circumstances and should not be the same for everyone. Furthermore, due to the heterogeneity of longevity and mortality, future retirement ages must be linked to life expectancy through the biological age of individuals, regardless of their chronological age.

Another one of Milevsky's conclusions is that the reduction in the ratio between active and passive workers, as a result of population ageing, is one of the main reasons why pension systems should be individually funded and not designed on a PAYGO basis. According to Milevsky, PAYGO systems are not sustainable when the assets to liabilities ratio is less than 8. The data shows that in countries like Chile, Colombia, Peru, Argentina and Uruguay, that ratio is less than 8.

Finally, he explained that the most economical and efficient way to finance pensions is through periods of collective accumulation and decumulation.

The presentation can be viewed on the seminar's website platform (<https://seminariofiap.strim.cl/>).

