Borradores de Economía - The pension system in Colombia: long-run fiscal outlook and risks based on current regulation

Download Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Ospina-Tejeiro, Juan José Ramos-Forero, Jorge Enrique López-Valenzuela, David Camilo Hernández-Turca, Yurany Herrera-Pinto, Nicolle Valentina
This document presents projections on the fiscal expenditure associated with Colpensiones and the special regimes that make up Colombia's pension system under the rules in force in 2024. Under conventional assumptions about longevity, formality, and a long-run economic growth rate of 3.3%, public spending on pensions would remain at levels below 3.6% of GDP for most of the 21st century, and then fall to 2.8% of GDP by 2100.

Publication Date: Tuesday, 4 of June 2024 **Abstract**
This document presents projections on the fiscal expenditure associated with Colpensiones and the special regimes that make up Colombia's pension system under the rules in force in 2024. Under conventional assumptions about longevity, formality, and a long-run economic growth rate of 3.3%, public spending on pensions would remain at levels below 3.6% of GDP for most of the 21st century, and then fall to 2.8% of GDP by 2100. However, the projections change significantly when considering some risks around these key assumptions. First, by modifying the assumption of economic growth in light of demographic projections and historical productivity growth, public spending on pensions as a percentage of GDP could increase to 8% by the end of the century. Second, an increase in the longevity of the population would exert additional fiscal pressure during the second half of the century, increasing by approximately 0.3% of GDP annually, solely due to its impact on Colpensiones. Third, paradoxically, an increase in labor formality could also raise spending on Colpensiones by approximately 0.3% of GDP annually due to the subsidies implicit in the system. It is important to consider theses risks in any system reform, since the demographic transition is an ongoing phenomenon whose fiscal impact can be exacerbated or reduced depending on the amount and coverage of the implicit subsidies in the pension system.

Fuente: https://www.banrep.gov.co/en/borradores-economia-pension-system-colombia-long-run-fiscal-outlook-and-risks-based-current