In 1889, at the age of 74, German Chancellor Otto von Bismark, created the pay-as-you-go pension system

Thus, Bismark destroyed the key human link between effort and reward.

Today, workers citizens support the heavy weight of unfunded state obligations

...A State sponsored Ponzi scheme

In Bismark’s times, life expectancy was 48 years and retirement age 70, set arbitrarily by Bismark himself
EU 25: LIFE EXPECTANCY INCREASES & FERTILITY RATE DROPS

European trends are similar to the rest of the World

* 2.1 is the replacement rate just to maintain population constant

Source: European Commission, Oct 11, 2011
In 60 years, active workers to pensioner ratio fell dramatically.

And it will continue to fall...

...adding still more state unfunded obligations on workers of the world

Source: 2010 OASDI (Old Age Survivors & Disability Insurance) Trustee Report, Social Security administration, USA
CURRENT GOVERNMENT DEBT OVER GDP IS UNSUSTAINABLE

Government Debt to GDP is above 60% agreed on the Maastricht Treaty

Source: European Commission, May 17, 2011
Real Debt of Europe

The average EU country needs to have over 4 times (434%) its current GDP in the bank today, earning interest, to fund current policies indefinitely.

*Difference between the projected cost of continuing current government programs (official + pensions + health + welfare) and net expected tax revenues

Source: Measuring the Unfunded Obligations of European Countries, Jagadeesh Gokhale, National Center for Policy Analysis, 2009
The Power of Compound Interest

In 30 years (1981-2010), the results are:

Annual *real* return for Chilean workers retirement accounts was 9.2%

Assets reached $150 Billion, 70% of GDP

*Source: Central Bank of Chile; S&P; Superintendency of Pension Fund Management*
CHILE 1980: CHANGE THE PARADIGM!

- Every worker has a mandatory personal retirement account
- Saves 10% (substituted a payroll tax) of his monthly wage and
- Benefit from the extraordinary power of compound interest

- At retirement: annuity for life, programmed withdrawal, or mix
- “Retirement” is redefined to enhance personal choices (age, benefit level, inheritance)

- System managed by competitive private companies
- Workers choose among 5 mutual funds, with highly diversified portfolios

- Role of government: market-friendly regulation, technical supervision, and safety net paid with general tax revenues
- Zero payroll tax
THE TRANSITION: IT CAN BE DONE!

**Fairness:** Guarantee current retirees benefits (“protect your grandmother’s check”)

**Choice:** Voluntary opt out, with “recognition bond”

**Responsibility:** Close door of bankrupt system to new entrants

**Fiscal challenge:** No “economic cost” and need to devise a long term plan to finance transition

**Leadership:** Moral courage and use of social media (facebook, twitter) and traditional channels to speak the truth to citizens and explain this ‘common sense’ solution
CHILE 1980-2010: KEY RESULTS

• **Empowered workers**: 9.2% annual average real return for 30 years, multiple choices (incl. retirement age), ownership of capital, inheritance

• **Strengthen the economy**: capital pool (US$ 208 billion; 70% of GDP), less unemployment, fiscal responsibility, and faster growth

• **Stabilize society**: workers turned into small capitalists; political/cultural change and stability

• **Increase freedom**: Chile ranks No. 7 in 2011 Economic Freedom of the World Report

• **Amazing result**: Workers capital saved in their own PRAs for the enjoyment of future retirement, enjoy TODAY benefits for those same workers: PRAs invest in telecommunications, power, public works, health, education that increases economic development and social inclusion
• **Latin America:** 10 (largest: Mexico)

• **CEE:** 14 (largest: Poland)

• **Developed:** Australia & Sweden

• **Asia:** Hong Kong & India (only gov)

• **Africa:** Nigeria

• **Middle East:** Egypt (2012)

• **W. Europe:** Only parametric reforms

• **The Race:** USA or China first?
World Economic Freedom

Source: Economic Freedom of the World, 2011 Report, Fraser Institute, 141 countries measured
CHILE TOP 7 IN WORLD ECONOMIC FREEDOM

Source: Economic Freedom of the World, 2011 Report, Fraser Institute, 141 countries measured
WORKERS FREED!