The Growth in Global Uncertainty and Reforms of Social Security Systems: Moving from Defined Benefits to Defined Contributions in Chile and Sweden

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In contemporary society, the individual and the family are subject to a substantial increase in uncertainty in the economic environment. This is a consequence of globalization, the integration of capital markets, rapid technological change, the dramatic effect of China and India on world markets, the fact that work is no longer a source of stability, significant changes in the structure of the family – such as more single-parent families, more divorces and more same-gender parents – and that in both work and family, mobility is associated with more uncertainty and risk.

While one would have expected that social safety nets provided by the state would be improved to meet the increased risk, in fact the reverse has happened in most countries. This phenomenon is particularly marked in the field of pensions. The movement from DB (Defined Benefits) to DC (Defined Contributions) has shifted risk bearing from the government to the participant. In many countries, with Chile setting the example, the universal pension coverage of pay-as-you-go has been replaced by privatized funded plans. Privatization is always accompanied by a movement from DB to DC. In the United States the employer's pension was commuted from DB to DC, shifting once again the risk from employer and state to employee. In Sweden, the DB social security system was replaced by a NDC system – Notional Defined Contribution – and a smaller privatized DC system. While the NDC is not privatized, it does shift most of the risk from the government to the participant.

Typically, a pension reform follows a financial crisis that requires major budget cuts. That is what happened in Chile and Sweden. An analysis of the specifics of two opposing reforms, the Chilean and the Swedish, indicates that to have a viable

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