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Abstract

In this paper we extend the economic model used in Parra et al. (2020) to incorporate two significant groups that were not included in the original analysis: people who are retired with pension equivalent to the minimum wage and those who do not fulfill pension requirements and therefore get a refund of their contributions (in either of the two main retirement schemes). Our results show a similar outlook to that described by Parra et al. (2020): if the Colombian pension system remains in its current state, it will face a substantial increase in the tax burden in the next decades, mainly due to the large subsidies granted in the pay-as-you-go scheme and the deterioration of the payment capacity of this scheme due to population aging. In the absence of other modifications in the pension system, two socially desirable changes would generate an important increment of its fiscal burden: i) an increase of pension coverage (for instance as a result of an increase of formal employment) and ii) the recognition of real returns to those who do not meet pension requirements in the pay-as-you-go scheme.