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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.

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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.