Pensions in Brazil and the Limits of Parametric Reform in Latin America

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Public Pension System

- **The General Social Security Regime, for private sector workers; managed by the National Social Security Institute (INSS)**
- **The Special Social Security Regimes, for public servants, administered in conjunction with payroll**

Social Security and 1988 Constitution

The 1988 Constitution principles were:

- **Universal rights**
- **Concept of social security - “Seguridade”- pensions, health, and social assistance**
- **Diversification of financing**
- **Decentralized administration** (except for pensions)

1998 Reforms- Cardoso Administration

- Years of *contribution*, not years worked
- Early retirement ended for new insured
- Minimum age for civil servant retirement;
- Total contributions and age linked for INSS benefit calculation ("social security factor" akin to Notional Accounts);
- Pension benefits contingent upon mathematical reserves
- Maximum of 50% share by employers in funding the pension funds of the state-owned companies, introducing guarantees of portability and vesting

President Lula's Reform -2003

- Reduce civil servant pensions – based **on all contributions after 1994** rather than salary upon retirement, reduces early retirement benefit (5% per year), and raises the minimum time of contribution;
- For future civil servants, fixes a ceiling for defined benefit pensions equivalent to the ceiling in the govt. (US$ 1,273) plan for private sector workers;
- Creates individual private accounts to cover pensions above the new INSS ceiling
- Reduces value of survivorship pensions by 30% and imposes an 11% contribution on benefits over INSS ceiling

Debate: Deficits vs. Surplus

- Focus on Pension Deficits - Revenues below expenditures, thus causing an INSS deficit of 1.7% of GDP, with a 3.6% of GDP deficit in 2004 for civil servants system. This justifies need for reforms.
- Seguridade-centric - Seguridade should be treated as a whole and that its revenue sources – taxes on payroll, company profits, revenues, and financial transactions should be compared to expenses on health, welfare and pension. This leads to a seguridade surplus of 2.9% of GDP in 2004 (i.e. cutbacks not needed).

Reforming the Brazilian social security system

Elements for a new agenda

Revenue Losses – % of GDP

Category	**1997**	**2003**
Nonpayment	0.2	0.4
Fraud	2.0	2.1
Evasion	2.2	2.5
Exempt	0.8	0.8
Revenue Collection (1)	5.0	4.8
Potential Collection (2)	8.0	7.9
Estimated Losses (2-1)	3.0	3.2

Heavy losses occur due to evasion, and fraud. Revenue collection enhanced through increased compliance.

End questionable, widespread exemptions.

Source: INSS

Occupational Structure and Effects on Social Security

Country	Wages + payroll/ GDP - 2002	*Occupational structure* 2002			Average Wage - Euros 2001
		Employers or self-employed	*Salaried*	*Domestic*	
Brazil	36.1	30.0	61.3	8.7	5,138
Eurozone	64.4	14.8	83.2	1.9	29,627

Sources: Eurostat and IBGE

Low levels of coverage remain a basic problem. Without higher salary levels and benefits that provide a basic standard of living, it isn't possible to have a classic universal social security system functioning with actuarial equilibrium

Impact of health conditions – 2003 data

Country	Losses of healthy life expectancy - %		Mortality until 65 years old - %	
	Men	Women	Men	Women
Argentina	13.6	15.5	28	15
Brazil	20.2	15.2	**41**	**24**
Colombia	17.1	16.9	29	20
Mexico	9.2	11.1	29	18
Portugal	11.7	13.4	23	11
Italy	9.2	11.3	18	10
USA	10.8	13.5	22	14
Sweden	9.2	11.1	14	9

Source: WHO – World Health Organization

Revisiting the key issues

- Duration of benefits does not in itself appear to be the key problem for private sector workers. Although 2004 government mortality tables show benefits ceasing at age 77.6 for men and 80.6 for women the INSS data show benefits ceasing at ages 71 and 66 – a 6.5/ 14.2 year disparity. Data in deplorable condition.
- Public expenditures on survivorship benefits (2.6%/GDP) are overly generous. Rapid rise in spending on disability benefits and family income supports in a population where fewer workers are making contributions is also cause for concern

Alternative Reform Approaches

- Don’t focus only on constitutional reform:
  - Administrative reform to reduce fraud
  - Reform via ordinary Legislation
- Adults capable of working shouldn’t receive lifetime survivorship benefits
- Classifying workers who are partially disabled appropriately would encourage them to find suitable employment
- Eliminate duplicate benefits and cut benefits for workers receiving full public benefits who continue to work