A PATH IN CONTRADICTION: BRAZILIAN SOCIAL SECURITY IN THE 1990S

CADERNO DE PESQUISA
Nº 50

UNIVERSIDADE ESTADUAL DE CAMPINAS – UNICAMP

NÚCLEO DE ESTUDOS DE POLÍTICAS PÚBLICAS – NEPP

2000

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1 - INTRODUCTION

The perception of the great disparities which exist between the very rich and the very poor is cause for considerable ill feeling in society. When the Constitution of 1988 was being drawn up, the legislators responsible for the chapter on The Social Order intended to introduce provisions aimed at alleviating this situation of social disparity. One of the mechanisms put into effect was the introduction of the concept of Social Security [called *Seguridade Social* in the Constitution], intended to integrate governmental actions in the areas of health care, retirement and welfare under a unified budget, distinct from the tax system, with multiple sources of funds which were then to be used in the areas which were most in need. The rights of urban and rural workers were also placed on equal footing and the minimum pension benefit (the lowest benefit paid) was raised.

However, these resistances to the provisions of the 1988 Constitution (which already existed before that time) gained strength as strategies were adopted to modernize the country and increase the economy's capacity to compete. The costs of the social security system were considered among the main aspects responsible for the difficulties in exportations and the high public debt. As a consequence, a number of proposals were put forth to reduce this cost. In addition, many benefits granted were considered overly generous, and some claimed that it would be impossible to maintain any actuarial balance in the future. The best path to be taken seemed to be the introduction of reforms similar to those implemented in other Latin-American countries. However, this has not occurred until the present moment. The contradiction between economic and social problems were reflected with greatest clarity in the pension system, and the path taken during the 1990s in terms of the policies adopted and the results obtained from the constitutional provisions was marked by this dichotomy.

In order to describe and analyze this path, the present article is divided into two sections: the evolution of pension system [*previdência social*], and the financial crisis and proposals for reform.

2 - SOCIAL SECURITY: GENERAL DESCRIPTION AND EVOLUTION IN THE 1990S

The objective of this section is to show how the Brazilian Social Security System is structured, how it evolved until 1988, and the most significant changes introduced since then.

2.1 - General Dimensions and the Financial Crisis of the Brazilian Social Security System

The Brazilian social-security institutions can be grouped into two segments, the public, referred to as the *Brazilian Social Security System* [*Sistema de Previdência Social Brasileira*], and the private segment, called *Private and Supplementary Social Security* [*Previdência Privada and Complementar*].

The federally controlled *Social Security System* is compulsory for all salaried workers and optional for the self-employed. It consists of two types of regimes:

1. *The General Social Security Regime*, encompassing all self employed, urban and rural employees in the private sector and in government-owned companies; it is managed by the National Social Security Institute (*Instituto Nacional de Seguro Social - INSS*);
2. The *Special Social Security Regimes for Civil Servants,* which applies to federal government employees (referred to as federal civil servants) serving in the executive, judicial and legislative branches. The other two levels of government administration - the states, and the municipalities - have their own, very heterogeneous, social security regimes, which are not subject to INSS rules and management.

Chart 1 describes the main rules for eligibility and the replacement rates for the general and special regimes. **The ceiling for contributions and benefits in the general regime** is currently equivalent to approximately 8.8 times the minimum monthly wage. In the **special regimes, it is equivalent to the last monthly wage received, with no predefined ceiling.** The **floor benefit** in both situations is **one minimum monthly wage** (approximately US$ 84.00). Unemployment insurance is managed by the Labor Ministry, and has no relation to social security system (INSS).

Chart 1
Eligibility for the Principal Benefits in the General and Special Regimes

Benefit	Eligibility	Years of contribution	Replacement rate
Full retirement for length of contribution	Age 53 for men and 48 for women in the civil service sector and without limit in the general regime	35 years for men and 30 for women	100% of the total of 80% of the highest contributions since July, 1994 in the general regime and 100% of the last wage in the civil service sector
Retirement based on the number of years of proportional contribution	Age 53 for men and 48 for women	30-34 years for men and 25-30 for women	Between 70% and 94% of the total of retirement for full period of contribution
Retirement based on age	Age 65 for men and 60 for women , with five-year reduction for rural workers	114 months (none for rural workers)	70% plus 1% for each year of contribution (one minimum monthly wage for rural insured)
Retirement consequent to permanent disability	Medical examination	12 months	70% plus 1% for each year of contribution
Survivor's pension upon death	Death of the insured	12 months	Between 80% and 100% of the pension received by the deceased
Sick leave allowance	Medical examination	12 months	50% plus 1% for each year of contribution
Maternity aid	Birth of child	10 months	100% of last wage for 120 days
Aid to the aged	Age 65 and older	None	One monthly minimum wage until death
Benefits consequent to labor accidents	Medical examination	None	100% of last contribution wage

Source: Laws 8112/90 and 8213/91.

In the general regime, the employees' contribution corresponds to an average of nine percent up to the ceiling. The employers' portion is equivalent to 22 percent of the total payroll. Self-employed insured workers contribute with 20 percent based on a scale ranging from 1 to 8.8 minimum monthly wages. If there are deficits, the National Treasury must replenish the INSS budget to guarantee benefit payments.

Currently the rules the **special regimes** require contributions varying between 6% and 25% percent of the total wages of currently active civil servants. The federal government must pay the difference between the contributions collected and expenditures on benefits.

Private and Supplementary Pension Funds, which are optional for employees, are also comprised of two modalities:

1. *Closed Private Pension Fund Entities* (*Entidades Fechadas de Previdência Privada - EFPPs*), which are set up for employees of a given company (or group of

companies). The objective of these funds is to supplement benefits by filling in for the difference between the amount paid by the INSS and the last wage received (in most case).[2]

2. *Open Private Pension Fund Entities* (*Entidades Abertas de Previdência Privada - EAPPs*) are set up for those who wish to pay into supplementary funds in order to receive higher pension benefits upon retirement. The amounts paid into such benefit plans have no relation to those administered by the INSS.

Financing for the EFPPs is pro-rated between employees and employers, currently at the approximate proportion of 2-to-1. The costs of the EAPPs are fully covered by the insured, but companies may also contribute according to new schemes now being set up. In both cases these benefit plans are similar to that applied under the general regime, but the replacement rate[3] depends on the length of time the insured has contributed to the plan. In addition, minimum age is often required to apply for benefits.

The public regimes operate according to a pay-as-you-go system, whereas private pension funds are based on an individual capitalization regime in the case of the EAPPs and individual or collective capitalization in the EFPPs. Chart 2 shows the main aspects of the public segment. It should be noted that the deficit between income and expenses in the general and special regimes are the main justification for implanting the reforms, in view of their considerable increased costs since 1995.

2 Many plans currently adopt a defined contribution system.

3 Replacement rates may range from 100% to 125% of the last wage, less what is paid by INSS to the EFPPs in the defined benefit plans. The EAPPs have no relationship with the amounts paid by INSS. This is also true of the EFPPs with defined contribution plans.

Chart 2
Brazil: Dimensions of Social Security – Public Segment

Dimensions	General Regime	Special Regimes in Public Service			TOTAL
		Federal Government	States and Municipalities	Sub-total	
Contributors (1996) (thousands)	28,278	953	2,837	3,790	32,068
Beneficiaries (1996) (thousands)	16,912	892	2,000 (estimation)	2,892	19,804
Revenue (1999) (US$ billion)	27.8	2.7	2.9	5.6	33.4
Expenditures (1999) (US$ billion)	34.1	13.3	10.2	23.5	57.6
Déficit (1999) (US$ billion)	6.3	10.6	7.3	17.9	24.2
Costs as % of GNP (1999)	6,0	1,9	1,5.	3,4	9,4

Sources: Ministry of Social Security and Welfare, and Ministry of Planning, Budget and Administration

The private and supplementary segment, whose data, in the case of the EAPPs, are no more than mere estimates, have the characteristics shown in Chart 3.

Chart 3
Brazil: Dimensions of Private and Supplementary Social Security - 1996

Modalities	Insured (millions)		Financial Situation (US$ million)		
	Contributors	Beneficiaries	Revenues	Expenditures	Assets
EFPP (closed)	1.8	0.25	3.6	2.4	65.0
EAPP (open)	2.5	N.A.	0.8	N.A.	4.8

Source: Oliveira, Beltrão and Ferreira (1997)

To summarize, the Brazilian Social Security System shows major differences between the general and the special regimes, although both have been considered significant factors in the country's public debt. The high replacement rates of the public schemes have inhibited sustained expansion of private pension funds.

2.2. - Notes on the historical evolution of social pension funds between 1923 and 1988

Laws related to coverage for labor accidents date back to 1919, but the Eloy Chaves Act, of 1923, effectively regulated retirement, pensions and health services for the first time, paid for by funds managed by companies. Most analysts consider these regulations as the first step in social protection in Brazil. As of 1930, a process began by which the role of the state became central in the social security system. According to Draibe, Azeredo and Guimarães (1991:18):

> "There is no doubt that the organization of the social welfare system in the 1930s was an essential element of the [President Getúlio] Vargas era, and it operated as a decisive source of power in structuring the political system which characterized that populist period. This conception was structured to classify the working classes into specific sectors (*IAPs*) articulated into corporatist structures controlled by the federal government. At the same time that it kept social categories not recognized by the state out of the political arena, it also determined which were to be the legitimate claimants for other social policies (education, public health, and housing)."

The IAPs were financed by contributions levied on payrolls, paid partly by employers and partly by employees. The law determined that state would also contribute, but its participation was usually irregular and in amounts less than those legally specified. The IAPs were based on different contribution rates, due to the distinctions among the benefit plans, especially in relation to the replacement rates. This was the reason why Brazil failed to adopt a structure similar to that described in the Beveridge Report, after 1945. According to Cohn (1995), those categories of workers which were entitled to more generous benefits were fearful of suffering losses if the plans for unifying the IAPs were put into practice. Another indication of resistance was the slow processing through Congress of the Organic Social Security Act, which was first discussed in 1947 and regulated only in 1960, and which finally maintained the differences among the IAPs.

In 1966 the Social Security System was reorganized as part of the reforms put into effect as of 1964. The system was no longer based on the regime of collective capitalization (fullfunded), which had existed since 1923, and was placed under pay-as-you-go.

Draibe, Guimarães and Azeredo (1991: 18-19) defined those changes as follows:

> "The restructuring of the mode of social intervention under the federal regime set up in 1964 accentuated the aspects of inequity of the Brazilian social policy system, in spite of the progressive incorporation of new social groups, the extension of benefits, and the trend toward universalization in some sectors of intervention. Decisions regarding social policy were subordinated to the demands of economic policy and, as a result, were theretofore formulated and implemented as decisions made exclusively by the technocracy encrusted within the power structure. Such decisions were based on exclusion from political participation of all popular sectors, extinguishment of political parties, repression of the labor union movement and social movements in general, marginalization of Parliament, and centralization of decisions. In a certain sense, the expansion of social policies - despite their distorted and iniquitous character - led some analysts to see this process as an attempt at 'legitimating' the regime, in view of the suspension of political citizenship."

The changes that took place between 1966 and 1967 led to the centralization of the IAPs under the National Social Security Institute (*Instituto Nacional de Previdência Social –*

INSS), which then assumed social security services to all urban workers except civil servants. Debts prior to 1966 were to be covered by the Federal Government. It should be noted that the status of the system improved as of 1964 as the new Ministry of Labor and Social Security replaced the former Labor Ministry.

Further changes were carried out in 1974, including the establishment of a specific ministry for social security and welfare. The new policy formally privileged intervention in social protection, that was better coordinated. This was reflected in the creation of the National Social Security and Welfare System [*Sistema Nacional de Previdência e Assistência Social - SINPAS*) in 1977, which included the following institutions:

- ✓ INPS – Administrator of the benefits granted by the system;
- ✓ INAMPS – Responsible for health care to insured and registered participants;
- ✓ FUNABEM – To address needs of poor minors;
- ✓ LBA – To administer welfare benefits to poor families;
- ✓ IAPAS – responsible for administration and personnel management of the SINPAS;
- ✓ DATAPREV – Company responsible for data processing of the SINPAS.

According to Draibe, Guimarães and Azeredo (1991), despite the above restructuring, the components in the new system operated autonomously with minimal integration among the bureaucracies and policies implemented.

Law 6435/77 comprised a further essential measure dealing with supplementary social security. This law, based on United States legislation of 1974 (ERISA), regulated the management, composition of portfolios, actuarial plans, benefit plans, funding, and financial regimes that were to be adopted.

The end of the period of general accelerated economic growth in the 1980s caused a fall in the ratio between contributors and beneficiaries. Many of those who had joined the system during the prior 15 years became inactive, thus causing financial difficulties. To get around the problem, contribution rates on payrolls were increased all during the 1980s. In addition, the Social Contribution Tax on Company Revenues was created, and the real values of benefits were gradually reduced. These measures succeeded in mitigating the problems.

In general, all analysts have considered that the 1988 Constitution was a major landmark in social protection in Brazil. The following quote from Azeredo's analysis (1990:1) might be useful to provide the reader with an idea of the importance of this new Constitution:

> "Efforts in the Constitutional Assembly were concentrated on drawing up proposals aimed at correcting the notorious distortions in the public sector in terms of the social area. The new constitutional text resulting from this process represented considerable advances, the most noteworthy of which was the adoption of the concept of security [*seguridade*], encompassing the areas of health, social security and welfare. The meaning of these advances can be evaluated when one considers their underlying principles, which include universal coverage and service; uniformity and equivalence of benefits and services granted to urban and rural populations; selectivity and distributivity in providing benefits and services; irreducibility of the value of benefits; equality in the form of participation in costs; diversity of the bases of financing; the democratic and decentralized character of administration, including the participation of the community, especially workers, the business community, and retired persons."

According to Azeredo (1990), the most important measures regarding benefits were the uniformization of criteria for urban and rural populations, and new rules for calculating replacement rates, and readjustments. It thus became impossible to manipulate the value of benefits in order to balance the system from the financial point of view. In addition, social protection was consolidated as a universal right.

To sum up, the history of the Brazilian Social Security System until 1988 was marked by progressive universalization of rights, in spite of the difficulties involved in incorporating ever larger numbers of contributors in order to guarantee social rights and the system's actuarial sustainability on long term. The deterioration of the value of the benefits was a constant over the years.

2.3 - Metamorphoses of the system between 1988 and 2000

The events that occurred in the 1990s failed to respect the ideals implanted in the 1988 Constitution. In spite of the introduction of the concept of Social Security, the organic laws of health, retirement and welfare were sent to Congress separately in 1989, as a forecast of things to come during the decade.

From the **institutional point of view**, *SINPAS* was dismantled in 1990 and INPS and IAPAS were merged to comprise the *National Social Security Institute* (*Instituto Nacional de Seguro Social - INSS)*. In addition, FUNABEM and LBA were extinguished. Later, in 1993, INSS ceased transferring funds for health-care, interrupting a practice dating from 1923. Nevertheless, the reforms carried out between March of 1995 and December of 1998 didn’t change the system's institutional profile.

From the **financial point of view**, the Law on Funding was classified under the heading of social security in compliance with the Constitution. Funds collected from payrolls, rural production, revenues (the FINSOCIAL Tax) and, later, the COFINS Tax and the Tax on Net Profits (CSLL) were to be proportioned to the three areas. With the revision of the Constitution in 1993/94, a provisional mechanism was instituted which allowed 20% of all federal revenue from taxes and contributions to be reallocated by the administration according to the government's financial needs. This system is still in effect. Finally, measures have been discussed in the last three years for reducing tax advantages to companies (*renúncia fiscal*) and increasing the tax load. In the former case, the measures contemplated include stricter rules for granting tax exemptions to philanthropic organizations. To increase tax revenues, rural beneficiaries, who pay 2% over production sold, will probably have to begin paying higher rates.

We will now summarize and comment on the main changes effected during the 1990s in the **area of benefits**. When the Law on Social Security Benefits (Law 8213/91) was regulated in July of 1991, the following infra-constitutional revisions were consolidated:

- Equivalence of benefit plans for urban and rural workers;
- Rural workers would retire based on age, five years before urban workers;
- Greater efforts to maintain the real value of benefits.

In March of 1995, the increase in social security costs and the perspective of deficits on medium- and long-term were the main factors which led the administration to suggest the introduction of reforms, since actuarial principles must determine replacement rates. The main changes proposed in this respect were the following:

- Replacement of years worked by years of contribution as the criterion for retirement eligibility;
- Establishment of age 60 as the minimum for retirement;
- Elimination of the differences between genders and between urban and rural workers;
- Elimination of all special retirements granted at earlier ages, except in cases of unhealthy working conditions; and
- Introduction of a maximum of 50% share by employers in the funding the EFPPs of state-owned companies, and guarantees of portability and vesting of funds.

Although the administration itself admitted that the initial objectives were not attained, the changes introduced by Constitutional Amendment 20 of December, 1998, deserve mention:

- The criterion of years worked was replaced by years of contribution;
- Minimum age was introduced for civil servants and for anyone applying for proportional retirement benefits;
- Proportional retirement was extinguished for new insured;
- Special retirements were extinguished except those for primary and secondary school teachers and in cases of unhealthy working conditions;
- Replacement rates of benefits were changed for the general regime - total contributions and the age of the insured began to be taken into consideration (social security factor);
- Legislation on benefits became the exclusive jurisdiction of the federal level; and
- Pension funds readapted the value of benefits promised to mathematical reserves, which were to be periodically reassessed. Introduction of a maximum of 50% share by employers in the funding the EFPPs of state-owned companies, and guarantees of portability and vesting.

In short, the changes carried out during the 1990s failed to implement fully the new constitutional requirements, and it was not possible to eliminate the distortions decried by adversaries of the new regulations. The issue of reform and the nature of the crisis are still open questions.

3 - CRISIS AND THE REFORM OF SOCIAL SECURITY IN BRAZIL: AN OPEN AGENDA

One of the most heated controversies in Brazilian political and academic spheres during the 1990s, as well as in public opinion in general, was the confrontation between points of view regarding the crisis, different approaches toward pension reform, and the range of the proposals in terms of their financial, economic and social effects. These topics will be analyzed in this section.

3.1 - Views on the crisis: areas of convergence and divergence

Although the social security crisis has been intensely debated in political and academic circles and in the media, it cannot be said that there is consensus among the various diagnoses.

However, there is one line of diagnosis that seems to predominate, either because of its stronger presence in the media, or due to the number of studies that have been published in its regard. This position is characterized by direct criticism of the structuring of the system. Among the various studies that have been published, those by Stephanes (1998), and Oliveira, Beltrão and Ferreira (1997) deserve special consideration.

The central problem according to this line of thinking is the generosity of the benefit plans. No minimum age is required for granting retirement and, in the modalities that do call for such a minimum, a reduction in the number of years of contribution is allowed. In addition, there is the possibility of anticipating eligibility for women, rural workers, and teachers. In view of the above factors, there are unjustified intra- and inter-generational benefits being granted. According to the authors mentioned, proof of this is that the expected length of benefit of men in OECD countries is 15.2 years while that for Brazilian men is 17.5 years. For Brazilian women, benefits are granted for an average of 20.0 years, against 18.6 years in the OECD. Since the system is based on equivalency between revenues and expenditures, these obstacles must be overcome.

According to the above-mentioned authors, the contribution rates are not responsible for these discrepancies, since they are among the highest in the world, representing approximately 31%, against 19.5% in Germany and 12.4% in the United States, as per SSA data (1999). Very high rates might encourage tax evasion and discourage new applicants from entering the system.

This set of problems is likely to worsen, considering the rapid aging rates and reduced fertility, which imply a higher number of retired persons than at present, considering the proportion between the aged population and those still working. According to Oliveira, Beltrão e Ferreira (1997), Brazil is likely to have 1.2 contributors per beneficiary in the year 2030.

There are criticisms in relation to this predominant view of the social security crisis, but they fail to represent a broad-ranging diagnosis. Studies by several authors summarize and organize some of the criticisms that have been brought up regarding the studies analyzed above.

The focus of the debate is the role attributed to the 1998 Constitution. Contrary to the positions described above, Feghali (1999), Bernardo (1998), and ANFIP (1999), as well as others, consider the constitutional provisions sufficient to guarantee balanced financing of the system. Their first major argument refers to the role of the Social Security Budget. According to Feghali (1999), the overall federal budget for 2000 presupposes a surplus of US$ 8 billion. It is therefore incorrect to consider only those funds collected by INSS by comparing the total paid in from payrolls and rural production with benefit expenditures, as was done in the analyses drawn up by the first group of diagnoses mentioned.

Another problem is the appropriation of social security funds by the National Treasury, which was carried out in two ways:

- **Benefits paid to inactive civil servants** were financed from funds received from the

Tax on Revenues and the Tax on Net Profits,[4] representing approximately 55% of such expenditures. The general opinion of analysts is that this procedure is inadequate, since these benefits are not part of social security.

- The constitutional revision of 1993-94 set up the Social Emergency Fund (FSE), which allows the federal administration to reallocate 20% of all revenues from the federal budget to needs determined by the Treasury.[5] According to Bernardo (1998), US$ 8.2 billion were taken from funds collected by INSS in 1997, whereas only US$ 3,8 were returned. The Treasury retained a total of US$ 4.4 billion. Since, according to the Finance Ministry, the deficit in 1997 was US$ 2.8 billion, the reversion of this regulation would have resulted in a surplus of US$ 1.8 billion.

Another criticism was raised by ANFIP (1999), based on losses in collection. On the one hand, there is what is known as fiscal waiver (*renúncia fiscal*), which is a legal expedient that fully or partially exempts employers from paying contributions on their payrolls. This cost the public US$7.2 billion in 1997. On the other hand, **various types of tax evasion** also occasion heavy losses, estimated at about US$10,2 billion in 1997. When these two figures are added, the total comes to US$ 17.4 billion, indicating that it would be possible to collect sufficient revenue to reverse the deficit. Although expenditures have risen since then, there is still room for increased collection because, according to the General Federal Financial Statement of 1999, approximately US$ 33.3 billion in funds are receivable from debtors to the INSS (see Folha de S. Paulo Newspaper, 3/12/2000).

The problems related to benefits in general are not considered important for this group of analysts since Brazilians have a low average life expectancy, meaning that benefits are paid for relatively short periods. Demographic problems are also considered secondary, since the profile of the Brazilian population is quite young in comparison with the central countries. In addition, there are great numbers of unemployed and informal workers who could be incorporated into the system. The main problem is the elimination of losses in collection and the inclusion of a greater number of contributors into the Social Security System, since only 43% of the working population contributed in 1997. According to Munhoz (1995), the inclusion of greater numbers of insured could increase collection by approximately 25%.

In summary, viewpoints regarding the crisis place those who defend the need to reduce benefits against those who consider it necessary to increase revenues. This dilemma, which was reflected in the recent process of amending the Constitution, has impeded a broader restructuring which would guarantee actuarial feasibility for the system and adapt it to the country's social needs, especially when one considers the generosity of the special regimes.

3.2 - Systemic and parametric approaches to reform: principal formulations

Numerous proposals for reform have been brought forward to face the Brazilian social security crisis. Although such proposals have varying characteristics and unequal technical

4 The COFINS and CSLL Taxes are collected by the National Treasury. Contributions based on payroll and rural production are collected directly by the INSS.

5 The FSE is still in effect, currently under the name of Separation of Funds of the Republic (DRU). Between 1995 and 1999 it was called the Fiscal Stabilization Fund (FEF).

consistency, two types of approach can be discerned: those of the systemic type and those of the parametric type.[6] It should be noted, however, **that there is no direct relationship between the different kinds of diagnoses and proposals for reform.**

In the case of the systemic type of approach, defended by financial institutions of private pension plans and by insurance companies, the restructuring of the system should be based on the reinforcement of the role of the contributors. Those who are unable to contribute should receive lower subsidies or benefits, that is, approximately one-half the minimum monthly wage. The State should be responsible for administering the general regime up to the ceiling of three or five minimum wages.[7] Amounts above this level should be administered by capitalized funds in individual accounts, each person receiving benefits proportionally to the total accumulated funds and the income received. Partially government-owned companies could compete with private companies according to the logic of the market. The State would have the role of regulating the sector and enforcing the regulations. All those who opted for the transition would be assured of the portability of funds guaranteed by the State in the total amount of their contributions, plus actuarial interest of 3% to 4% per year. Those who remain in the former system should raise the amount of their contributions to maintain original expectations.

Management of the benefits is characterized by dissociating programmable benefits; that is, retirements based on age or on years of contribution, from non-programmable benefits, such as disability or disease. The programmable benefits would be managed according to the system described above, whereas funds to cover non-programmable benefits would be transferred to insurance companies, the rate being determined on the basis of actuarial risks. The rules of eligibility for rural workers and for women would be equivalent to those for men in the urban segment.

Financing would be changed. It would retain the current characteristics in the general regime, but with the passage of time the employer's rates could be eliminated when the individual transferred from one regime to the other. Only the workers contribute to the new capitalized funds. The general regime consists of defined benefits, although the replacement rate should consider all contributions made by the insured, whereas in supplementary social security, the regime would consist of defined contributions made into individual accounts.

In the case of the **approaches of a parametric nature,** defended by labor confederations, managers of the public social security system, and opposition parties, the changes to the present system would be more modest. The current structure would be retained in its general configuration, but a number of provisions now in effect would be modified to guarantee actuarial balance, such as the replacement rate, the introduction of a minimum age for retirement based on years of contribution, and the rules regarding tax immunity. The ceiling for fixed benefits would be 10 minimum monthly wages.

Supplementary social security would continue to receive contributions from both employees and employers and the regime of defined benefits could be maintained without changing the present system. There would be no dissociation in the management of programmable and non-programmable benefits. Most of the proposals suggest rigorous actuarial control

6 As Chand and Jaeger (1996) predicted, the stylized models of reform that they described could be applied in other countries, and not only in those considered in their study. Thompson (1998) also used the same kind of approach.

7 Or between six and ten welfare baskets, according to many of the proposals, since that value represents approximately one-half of the minimum wage.

and adjustment of the replacement rate to reserves.

There would be no transition from the old to the reformed system. The most delicate problem is in relation to the inclusion or not of civil servants now under special regimes into the INSS. There is no current consensus among the various proposals, since many fear that the State will fail to pay its employers' share, thus making the system unfeasible from the actuarial point of view.

The conflict between the parametric and the systemic approaches in Brazil is similar to that seen in all other countries. The effects on the public debt and on society in general are aspects that should be analyzed to evaluate the scope and limits of each proposal.

3.3 - Financial, economic and social effects of the approaches to reform

The actuarial projections presented below are derived from the analyses and proposals indicated, and some of their probable effects will be mentioned[8]. The Social Security Ministry sought to project scenarios, drawn up on the basis of the following premises: introduction of a minimum age; reduction of the floor benefit to one-half of the minimum wage; elimination of anticipated retirement for women and rural workers; and lowering of the ceiling for both contributions and benefits (see Oliveira, Beltrão and Pasinato, 1996).[9] Some variables are established in the projections which are exogenous to the system, such as the evolution of the GNP, revenues, retained profits, per capita income, and average wages.

Considering the premises described in Table 1, below, the best scenario is that of the solution, which emphasizes privatization of companies, because it is there that greatest growth can be seen. The public solution scenario, which calls for predominance of State initiative and the success of the State in solving the fiscal problem by reducing the public debt, the projected growth is positive, but lower. The third scenario is that of economic crisis, supposing zero variation of the GNP and low or negative variation of other items.

Table 1
Brazilian Social Security: Projections with the Multisector Model - Annual Growth (1995-2030)

Scenario	Public Solution (1)	Private Solution (2)	Crisis (3)
GNP, Revenues and Retained Profits	4.00%	4.50%	0.00%
Average Wage	3.47%	4.08%	2.07%
Minimum Wage	2.10%	5.20%	0.70%
Per Capita Income	2.50%	3.00%	-1.50%

Source and drawn up by: Oliveira, Beltrão and Pasinato (1996)

8 The content of the present topic summarizes the conclusions of Silva, Melo, Pochmann and Matijascic (1998).

9 In the ministry's projections, the reduction in ceilings does not involve eliminating the share paid by companies nor any changes in the current replacement rates of beneficiaries.

According to the results shown in Table 2, the introduction of a **minimum age** without changing the floor and ceiling benefits, following patterns similar to those seen in most OECD countries, that is, between 60 and 65 years of age, reduces the projected deficit. If such a change were to be accompanied by the elimination of the differences between genders, the reducing effects on expenses would be greater yet.

The **mere lowering of the ceiling for benefits**, as has been adopted by some Latin-American countries, would have only a limited effect on the reduction of expenditures, and should be associated with changes in the replacement rate or the introduction of a minimum age. The reduction from ten to three minimum monthly wages shows no significant results. On short-term, for the year 2005, for example, such a change would in fact aggravate the situation of public finances and raise the debt. Only in 2030 might this alternative have positive, but sparse, effects, with a slight reduction in the debt. The major differences would seem to occur in the crisis scenario, but such a situation would make the social security system, and the economy in general, impossible to be administered under any circumstances. In the case of private solution, the maintenance of the ceiling of ten minimum wages would be the best situation whereas, in the case of public solution, the results would be very similar. Finally, in no case would a ceiling of five minimum wages reduce the deficit, and would therefore not be a feasible alternative.

The **reduction of floor benefits** to one-half the minimum wage would bring about better results in finances in any of the scenarios, and also reduce expenditures to approximately 1% of the GNP (Scenarios 1 and 3), and to 2.2% (Scenario 2) for the year 2030, regardless of the ceiling which is fixed. Table 2 shows these impacts in the three scenarios considered, without reducing floor benefits to one-half of the minimum wage.

Table 2
Needs for financing of the INSS in different scenarios - floor: one minimum wage (in % of GNP)

Scenarios in 2005 and 2030		No minimum age (current situation)			Age 60 for women and 65 for men			Age 65 for men and women		
		3 min. wages	5 min. wages	10 min. wages	3 min. wages	5 min. Wages	10 min. Wages	3 min. wages	5 min. wages	10 min. wages
1	2005	1.04	1.36	1.06	0.56	0.56	0.23	0.46	0.45	0.12
	2030	5.05	6.46	6.21	2.70	3.30	2.96	2.25	2.08	2.44
2	2005	0.77	1.19	0.80	0.43	0.37	+0.04	0.31	0.24	+0.18
	2030	5.30	6.63	6.27	2.86	3.38	2.93	2.30	2.77	2.30
3	2005	1.62	1.98	1.58	0.81	0.83	0.40	0.67	0.68	0.24
	2030	7.43	9.59	9.25	3.95	4.88	4.43	3.33	4.18	3.71

Source: Oliveira, Beltrão and Pasinato (1996)

The results presented show that the systemic-type proposals fail to improve the financial profile of the system in a sustained manner and could possibly jeopardize benefits to the insured, since all those who receive wages above the established ceiling would probably invest the money in capitalized funds, which depend on the behavior of portfolios for establishing the replacement rate.[10] The recent experience in Chile leaves no room for doubt regarding this problem. Although the performance of the funds has been positive, providing earnings of approximately 9.5% per year between 1982 and 1992, the replacement rate represented approximately 38% of wages in 1993, according to Ruiz-Tagle (1996). Those which showed higher earnings and transferred more money to the funds ended up obtaining better profit rates, since the administrative costs of managing their portfolios was lower than for the insured earning lower incomes. In other words, the new system was a concentrator of income. Management costs have in fact been quite high, representing about 22% of the total contributions, as compared with a total of 6.2% in Brazil in 1999, including expenses on retired civil servants receiving from INSS and approximately 0.5% in the case of the SSA. of the United States (Thompson, 1998). **These factors taken together show why Brazil has not yet followed the example of its neighbors and adopted a parametric approach.** The risks are greater than the possible fiscal advantages to be obtained from a strategy similar to that carried out in other Latin-American countries.

The reduction of the floor benefit to approximately one-half the minimum wage would have reduced the funds transferred to retired workers in the rural sector and to the poorest sectors of the population. According to Delgado (1997), such a step could increase the internal migration toward the large cities, thus increasing the situation of metropolitan poverty, which is one of the most serious aspects of the Brazilian social situation, since 50% of the beneficiaries live in municipalities with under 25,000 inhabitants, and 90% in municipalities with less than 100,000.

Gomes and MacDowell (1998) have also shown that the benefits paid by the INSS redistribute income to municipalities with fewer than 100,000 inhabitants. Another indication for the need to maintain the real value of the floor benefits was analyzed by França (1999), who showed that most of the municipalities receive higher benefits from the INSS than from funds transferred by the Municipality Participation Fund (FPM), which transfers taxes collected by the federal government. Since approximately 70% of the benefits paid are equivalent to one minimum wage, and since this total represents approximately half of all expenditures, it is not hard to see what the social cost of reducing the floor benefits would be.

10 The limited dimensions of the Brazilian capital market could also be a risk factor for carrying out reforms similar to those implanted in other Latin American countries, because there would be the possibility of losses to the insured in a context of limited supply of securities.

The situation of women also requires careful analysis. Although, from the formal point of view, they have the right to retire earlier than the men and their life expectancy is three to four years longer, the difficulties they face in the labor market prevents them from contributing for 25 years or more before applying for retirement based on years of contribution.[11] Therefore, setting up obstacles to women's eligibility has the result of making their condition as insured even more unstable.

The most adequate solution would seem to be to exert efforts at increasing the number of contributors to the system. Besides stimulating the participation of those not currently registered, there is need for increased enforcement and better integration among the actions carried out by the different areas and spheres of government in eliminating losses in collection, which are very high in Brazil.

The proposals based on parametric approaches seem to be more effective than those of the systemic type. In addition, fiscal and social costs make systemic options very risky.

4. - SUMMARIZED CONCLUSION AND CONTRIBUTIONS TO THE DEBATE

Serious problems can be seen from an analysis of the history of social security in the 1990s. The most important of these problems has been the conflict between the determinations set forth in the chapter on social order in the 1988 Constitution and the economic strategies related to the needs of fiscal policy, which have largely undermined the goal to reduce the social debt. There have been three contradictions in the debate over the last decade:

1. **Diagnosing the crisis on the basis of the deficit between collection in the general regime and expenditures on benefits**. Since rural retirement and welfare, as well as urban benefits, have had virtually no equivalent in terms of contribution and became more costly with the introduction of the floor of one minimum wage, it was necessary to use the taxes on revenues and net profits to finance the system. These funds are transferred according to the Constitution and there is therefore no deficit. In addition, the use of social security funds for other purposes has prejudiced the system’s finances and made it impossible, for example, to accumulate funds which could soften the impacts of demographic changes or problems with revenues of the INSS consequent to the increase in structural unemployment.

2. **Holding to the position that social security redistributes income from the poorest to the richest.** The positive fiscal impacts of the INSS on the poorest regions of the country show that this is not the case. As Ornélas (2000) showed, the payment of rural and welfare benefits has possibly created the broadest minimum income program in existence in the world for the aged and invalid poor. Its effects on the rural world have been considerable. As a result, there is a contradiction between

11 In 1998 women represented only 18.3% of those retired for years of contribution and the average length of their benefits was 10.9 years, as compared with 13.3 years for the men. In contrast, the women constituted 63.3% of those retired on the basis of age, and duration was 9.8 years, against 9.6 years for men, according to data for 1994 published by DATAPREV. Since retirements for years of contribution are higher on the average than those based on age, it is not difficult to perceive how the problems that affect women in the labor market also influence their condition as retired persons under the general regime.

the discourse which denies the social impact of expenditures and the positive effects on the income of retired beneficiaries, whose importance has grown in their social context, as they are frequently the only persons in their family to receive a regular and stable source of income.

3. **Holding to the position that the duration of benefits paid in the OECD is shorter than that of pensions based on years of contribution in Brazil.** This position does not stand up when confronted with information published by DATAPREV. Although retirements do in fact begin at early ages, the total time of benefits are not longer than those seen in richer countries. In view of this contradiction, which may be based on errors in technical evaluation and on imprecise information, it is important to insist on the process of modernizing the current administrative procedures in order to obtain more accurate information regarding the actuarial situation. Otherwise it will not be possible to state with certainty that the longer duration of benefits paid for years of contribution is the main cause of the financial instability of the social security system.[12]

The above statements do not mean that there is no need for further change. The following suggestions by will no means solve all the current problems, but they are the most urgent for guaranteeing a feasible system from both the financial point of view and the perspective of social equality:

1. In Brazil it is the better paid personnel who retire earliest, especially among civil servants. In a country with scarce resources, it would be better to spend the funds in social budgets in other ways. However, most low-income workers in the general regime of the social security system do not live as long as their counterparts in the central countries. Since the labor market fails to absorb a considerable portion of the population over age 50, **a minimum age between 55 and 60 should be introduced, rather than 65**, in order to avoid endangering the survival of the insured at a period in life when their general conditions of life are extremely unstable.

2. **Another measure that should be considered is the lowering of the replacement rates in the general and special regimes.** To promise an amount which oscillates between 80% and 100% of the last wage is hazardous for finances and unfeasible on the long-term. A longer period of contribution for calculating pension benefits should be instated, and the total promised must be reduced. But real guarantees must also be presented, as provided in ILO conventions. An increase in the current ceiling of contributions, plus a decrease in the replacement rates for higher incomes will positively affect finances by raising revenues and lowering expenditures. Such a move is also morally indicated in a country like Brazil. This might also stimulate the supplementary pension fund market, which is very incipient in Brazil. The adoption of a social-security factor will not solve all the problems involved, and is based on a potentially erroneous point of view, considering the unreliability of the indicators employed.

3. **The minimum ages for urban and rural workers and for men and women should be equated in order to guarantee retirement to those who are unable to**

12 The doubts raised by this type of incorrect interpretation may have been the main cause for the failures of the reforms in this decade. Although there are many doubts in this respect, most congressmen believe that Brazilians have low life expectancy and should not retire at advanced ages.

contribute for 30 or 40 years. This is a correct strategy. Partial benefits could be paid to rural workers as of a given age, considering the loss of part of the working capacity of these workers, as has been analyzed in several studies published by the ISSA. This measure might be correct and feasible for urban workers as well.

4. **The rules regarding years of contribution should not be overly strict in a country that is unable to guarantee the social rights of its workers under a system of effective inspection and enforcement.** The establishment of alternative sources of funds besides payrolls to get around this problem may be useful for covering less costly benefits, but it would be ineffective for higher income levels, where there should be a close relationship between contribution and benefits. The most consistent solution is to reverse losses in collection, which have always existed in Brazil, besides continued efforts at eliminating frauds in applications for benefits, as has in fact been done by the authorities.

5. Finally, **accumulation of more than one pension and concurrent earnings from wages or other occupations should be barred.** However, this would be feasible only if the system were able to pay benefits that assure adequate living conditions to retired persons. All countries with solidly set up systems grant benefits only to those persons who are unable to survive by selling their labor. In fact, the main justification for maintaining a social security system is based on this principal. Such a policy should be put into practice in Brazil as well, where unemployment rates, especially among youth, have reached alarming proportions, the consequences of which are reflected in increased urban violence and inadequate levels of citizenship.

The greatest challenge faced by Brazilian social security today consists in adapting its structure to the country's real social needs, respecting the technical realities necessary to guarantee its actuarial sustainability. It is obviously ineffective to adopt strategies which will cause imbalances in the economic system. To avoid this risk, a system of social protection must be consolidated which redistributes income and creates the possibility for sustainable economic development. A model that eliminated mechanisms for redistributing wealth would condemn the country to stagnation. The reform of social security should take these realities into consideration.

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