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Working paper

A new social protection matrix for Uruguay

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Summary

The paper describes and analyses the social protection reforms implemented in Uruguay since 2005. In 2005 Uruguay embarked on a series of reforms to redesign its social protection system when, for the first time in its history, a progressive government came to power. Social insurance systems were first introduced in Uruguay in the nineteenth century and these developed throughout the course of the twentieth century. However, following structural changes to the economy, labour market, family unit and demographics of the country, it became apparent that the social security system was unable to provide effective levels of protection to a large proportion of the population.

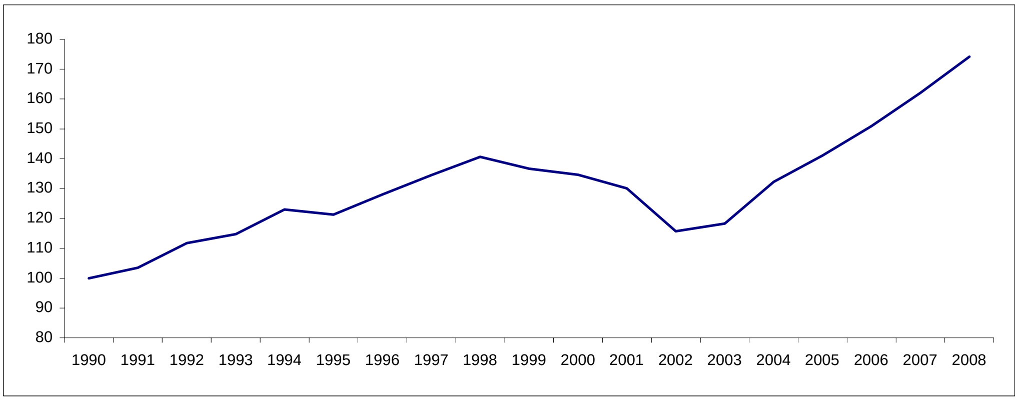
The strategy adopted by the Government since 2005 has led, on the one hand, to the creation of new measures targeting the most vulnerable sectors of society to increase social inclusion and, on the other hand, to the modification of traditional social insurance to expand coverage. The strategy is designed with the aim of creating a National Social Protection System capable of achieving the goal of universal coverage. In keeping with this strategy, the income transfer system to low-income families has been strengthened, primarily through the introduction of new family allowance schemes. To increase the levels of social security coverage, changes have also been made to retirement schemes, unemployment insurance, health insurance and to taxation. The results show a sharp increase in the population covered in terms of contributors to, and of beneficiaries of, social security.

1. Overview of the Uruguayan social security system

1.1 Context: Several socio-economic indicators

The Oriental Republic of Uruguay is situated in South America's southern cone and shares contiguous borders with the Argentine Republic and the Federal Republic of Brazil. Its territory extends over 176,215 km^2 and its population numbers 3.3 million inhabitants, whose average life expectancy is 75.8 years.

Figure 5.1 ***Growth in GDP in real terms in the decade to 2008 (based on 100 in 1990)***



As can be seen from figure 5.1, GDP grew steadily throughout the 1990s, fell sharply at the start of the new century, recovered slightly in 2004 and increased considerably between 2005 and 2008, during which time the economy grew on average more than 7 per cent per annum.

The economically active population (Población Económicamente Activa (PEA)) numbers 1.627 million and, according to the Extended Household Survey (Encuesta Continua de

Hogares (ECH)) undertaken by the National Institute of Statistics (Instituto Nacional de Estadística (INE)) is distributed as shown in table 5.1. Table 5.2 categorizes the classification of the economically active population.

Table 5.1 ***Distribution of the active population by sector of activity for 2007***

Sector of activity	Total	Men	Women
Industrial manufacturing	13.9	15.8	11.6
Construction	6.7	11.6	0.5
Sale and repair of personal goods	18.9	19.2	18.5
Transport, food and communications	5.6	8.0	2.5
Financial mediation	1.6	1.5	1.7
Public administration and civil defence, social security plans	6.3	7.3	5.1
Agriculture, livestock breeding and forestry	10.4	14.9	4.8
Provision of electricity, gas and water	0.8	1.1	0.6
Hospitality: hotels and restaurants	2.7	2.3	3.1
Commercial construction activities and rentals	6.1	6.4	5.7
Education	5.8	2.3	10.2
Social and health services	6.7	3.0	11.4
Other activities relating to community, social and personal services	5.0	4.5	5.7
International organizations and entities	0.1	0.1	0.1
Domestic service in private households	8.9	1.4	18.5
Fisheries	0.3	0.4	
Mines and quarries	0.2	0.3	
Total	100.0	100.0	100.0

Source: National Institute of Statistics' Extended Household Survey (INE ECH) (www.ine.gub.uy).

Table 5.2 ***Total active population by occupational category for 2006***

Occupational category	Per thousand persons	%
Private sector	707.2	54.2
Public sector	203.9	15.6
Member of a production cooperative	2.3	0.2
Employer	61.8	4.7
Self-employed	300.3	23.0
of which without premises	85.2	6.5
of which with premises	215.1	16.5
Non-remunerated household member	26.8	2.1
Public employment programme	1.9	0.1
	1304.2	**100.0**

Source: National Institute of Statistics' Extended Household Survey (INE ECH).

Table 5.3 ***Labour market indicators in rates and per thousand of the urban population***

Year	Employment rate	Active population	Unemployment rate	Number of unemployed people
1990	53.5	1,110.6	8.5	102.1
1991	52.3	1,125.4	8.9	109.9
1992	52.2	1,142.9	9.0	113.2
1993	52.0	1,156.0	8.3	105.4
1994	52.8	1,186.9	9.2	121.1
1995	53.0	1,206.0	10.3	137.5

1996	51.3	1,174.8	11.9	159.1
1997	51.0	1,172.4	11.4	151.5
1998	54.3	1,103.7	10.1	123.8
1999	52.6	1,082.1	11.3	137.7
2000	51.5	1,067.6	13.6	167.7
2001	51.4	1,076.2	15.3	193.2
2002	49.1	1,038.3	17.0	211.3
2003	48.3	1,032.0	16.9	208.5
2004	50.8	1,098.9	13.1	165.3
2005	51.4	1,114.5	12.2	154.9
2006	53.9	1,413.5	11.4	167.0
2007	56.7	1,482.6	9.6	149.2
2008	57.7	1,508.7	7.9	122.8

Source: National Institute of Statistics' Extended Household Survey (INE ECH).

Table 5.3 shows the labour market indicators over the past two decades. As can be seen, the rate of unemployment has been structurally high in Uruguay, exceeding double figures between 1995 and 2006. In 2007, unemployment rates fell, reaching an historic low of less than 10 per cent in 2008. It should be noted that between 2004 and 2008 employment grew significantly, resulting in a 37 per cent increase in the total number of employed.

The National Institute of Statistics' Extended Household Survey (ECH) revealed that in 2006 approximately one-third of all workers had not contributed to the State social security funds and that there were less female contributors than male contributors (see table 5.4).

Table 5.4 ***Percentage of workers who do not contribute to social security by occupational category***

	2001	2002	2003	2004	2005	2006
Men	*35.4*	*37.3*	*39.8*	*39.2*	*38.5*	*34.3*
Private sector	26.4	27.8	31.0	33.0	30.4	25.6
Public sector	0.9	1.2	1.2	1.0	1.6	1.5
Member of a cooperative	30.5	29.9	29.8	33.3	52.8	12.4
Employer	16.1	15.3	16.5	2.1	16.5	14.8
Self-employed worker without own premises	92.9	92.4	94.7	93.8	94.9	93.7
Self-employed worker with own premises	63.9	63.7	67.4	66.9	67.7	69.5
Non-remunerated	95.3	90.0	91.6	94.6	96.7	90.8
Women	*36.8*	*37.0*	*39.0*	*41.5*	*39.1*	*35.4*
Private sector	33.7	35.5	37.4	40.3	37.6	31.1
Public sector	2.3	0.9	2.4	1.9	1.3	1.6
Member of a cooperative	42.3	49.6	51.9	43.2	38.5	21.0
Employer	10.8	9.7	15.5	20.6	13.4	15.6
Self-employed worker without own premises	88.6	88.6	90.1	94.1	94.3	94.0
Self-employed worker with own premises	67.3	67.3	71.5	72.9	70.9	68.9
Non-remunerated	83.3	80.2	79.7	78.4	79.2	68.9

Source: National Institute of Statistics' Extended Household Survey (INE ECH).

The more complicated categories of workers are those who receive no remuneration, those who are self-employed and, in particular, those who do not have their own premises. Table 5.4 also demonstrates that the total number of contributors (men and women) employed in the informal sector grew until 2003–04 and then started to decline.

The 2002 crisis in Uruguay had a major impact on welfare levels in Uruguayan society. This was reflected in the unprecedented levels of poverty recorded in 2004, affecting approximately one in three of the population (table 5.5).

Table 5.5 ***Percentage of people living in poverty by age group***

Age	2004	2007	Difference (%)
Less than 6 years	56.5	46.0	–18.6
6 years to 12 years	54.0	46.3	–14.3
13 years to 17 years	44.8	39.4	–12.1
18 years to 64 years	28.4	20.9	–26.4
65 years and older	10.7	6.9	–35.5
Total	31.9	25.5	–20.1

Source: National Institute of Statistics' Extended Household Survey (INE ECH). Report on Poverty, 2005 and 2008.

Table 5.5 demonstrates that poverty levels fell significantly in the first three years of the new administration to 20.1 per cent of the total population, and across each age group. This reduction in poverty levels reflected an upturn in the economy and the positive impact of poverty alleviation policies, some of which are addressed in this paper.

Table 5.5 compares poverty levels across age groups for 2004 and 2007. As can be seen, the incidence of poverty is higher amongst the younger age groups in both 2004 and 2007. This phenomenon is known as the "juvenilization of poverty" and this is one of the main characteristics of the new Uruguayan risk structure that has emerged over recent decades.

Table 5.5 also demonstrates that those aged 65 years and older experience relatively low levels of poverty overall, which can be attributed to the higher levels of social security coverage enjoyed by this age group: 95 per cent of Uruguayans aged 65 years or over receive a retirement income or pension.

1.2 Institutional overview of social security

Social security systems have evolved considerably throughout the course of Uruguayan history. The first social insurance schemes were created in the latter half of the nineteenth century and evolved during the first half of the twentieth century to cover specific sectors of activity and short- and long-term risks. This was an accumulative and decentralized process.

In 1967, the Social Insurance Bank (Banco de Previsión Social (BPS)) was created as an autonomous entity and granted constitutional status. It was charged with centralizing the diverse retirement and pensions funds in existence in Uruguay into the BPS, coordinating state social insurance services and organizing the country's social security. The centralization process, however, did not include semi-state funds such as the Military Fund and the Police Fund.

Following the re-emergence of institutional democracy in 1985,[2] the social security system was consolidated into an organic structure. This process was underpinned by the significant step of centralizing funds into the BPS, with the exception of a number of institutional funds covering specific groups. As a result of the centralizing of funds, the BPS became responsible not only for implementing the Old-Age, Disability and Survivor's Programmes (Invalidez, Vejez y Sobrevivencia (IVS)), but also for managing employment-related benefits.[3]

BPS members include public sector employees and private sector workers and employers in almost all sectors of activity: rural, domestic service, industry, commerce and services.

Table 5.6 ***Number of beneficiaries in the principal BPS programmes for 2008, in thousands***

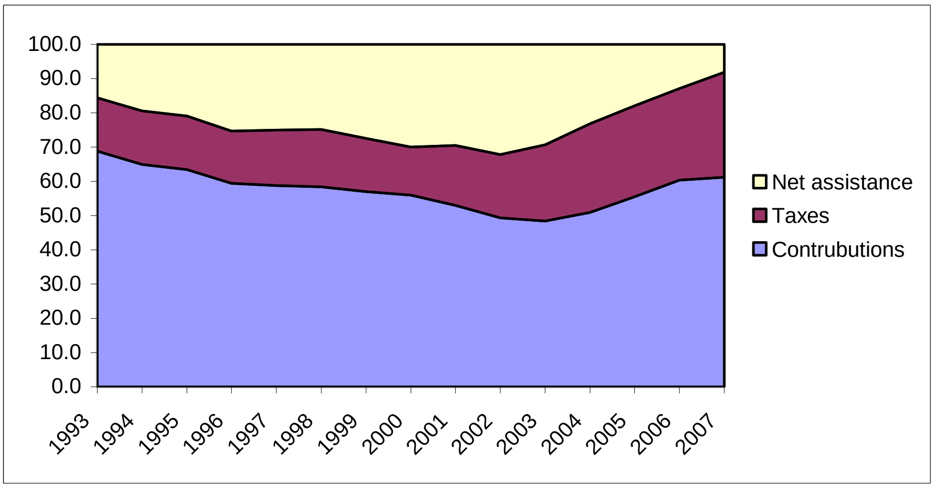
Type of beneficiary	Number of persons
Retirement pensioner	345.6
Survivor	140,6
Old-age or disability pensioner	73.8
Unemployment insurance	19.9
Family allowances	568.6
Health insurance	1,264,3

Source: BPS Economic and Actuarial Advisory Office (Asesoría Económica y Actuarial).

The retirement and survivor's pension's programmes and the health insurance scheme are contributory schemes and financed through employer and employee contributions. Old-age and disability pensions are non-contributory, means-tested and conditional upon age or disability, according to whichever benefit is being claimed. Unemployment insurance, on the other hand, is not financed through the nominal salary but is conditional upon participation in the formal labour market (and social security contributions). Family allowances, however, are conditional upon two criteria: firstly, formal employment, and secondly, the household's socio-economic conditions, which will be discussed further below. The programmes are also financed through taxation and state subsidies, when necessary.

In 2007, BPS benefits represented 10.8 per cent of GDP, 69 per cent of which were benefits relating to IVS.

Figure 5.2 ***Sources of BPS funding by concept, year and relative participation***



Employer and employee contributions to the programme fell between 1993 (when contributions represented 60 per cent of the total) and 2003 to 48.4 per cent. However, since 2003, the volume of contributions has grown significantly and now represents 61.3 per cent of all BPS funding (figure 5.2).

The military and the police force contribute to specific funds for their particular sectors. Professionals, bank employees and writers are affiliated to their respective semi-state funds which are autonomous private entities with public funds and regulated by the Executive Power.

It is important to include the Ministry of Labour and Social Security (Ministerio de Trabajo y Seguridad Social (MTSS)) in this overview. The MTSS falls under the Executive Power and is responsible for developing general national social security policy guidelines. Table 5.7 shows the distribution of active social security members by organization providing coverage. As can be seen, approximately 90 per cent of all contributors are affiliated to the BPS.

Table 5.7 ***Number of contributors to the IVS schemes, by institution, for 2007***

	Number of contributors	Percentage
BPS	1,166,715	89.3
Fund for the military	30,411	3.0
Fund for the police force	27,205	2.6
Fund for bankers	12,652	1.2
Fund for professionals	41,498	3.3
Fund for notaries	7,819	0.6
Total	1,286,300	100.0

Source: BPS Economic and Actuarial Advisory Office (Asesoría Económica y Actuarial).

Two important dates stand out between 1985 and 2004: 1992, when representatives from the social sector became members of the BPS Board of Directors; and 1995, when structural reforms transformed membership of the BPS' IVS scheme from an intergenerational solidarity scheme to a mixed scheme (Law 16-713 of 1995).

The inclusion of social sector representatives on the BPS Board of Directors was constitutionally mandated in 1967 when the BPS was created, but interrupted until 1992 due to the period of dictatorship. The Board of Directors is composed of seven members: four representatives from the Executive Power and a representative from each of the following groups: workers, employers and pensioners.

The BPS' IVS reform (Law 16-713 of 1995) formed part of the World Bank reforms which were implemented mainly in Latin America, replacing the public solidarity intergenerational schemes with individual savings or capital accumulation schemes managed by private enterprises under government supervision. In Uruguay, these reforms were only partially implemented, resulting in the mixed scheme, which is the name used to describe these reforms in Latin American literature.

In addition to introducing an individual savings component, the 1995 reform also modified the parameters of the intergenerational solidarity scheme and the strict eligibility criteria governing benefits. The 1995 reform further accentuated the contributory nature of the scheme, at a time of decreasing social security contributors as a result of rising unemployment and informal employment.[4]

2. A new social protection system

Over the past two decades, significant changes have been observed in household units, the labour market and the poverty profile in Uruguay. However, the social security system and employer contributions to the system have not kept pace with this new reality but have, on the other hand, reinforced the link between benefits and the formal labour market, with the exception of family allowance schemes.

The new government which came to power in 2005 made it a priority to develop a new social inclusion policy. This led to the design of a number of short-term programmes known as the National Plan for Emergency Social Care (Plan de Atención Nacional a la Emergencia Social (PANES)), comprising conditional cash transfers and social programmes tailored to poor or extremely poor citizens.

The PANES beneficiary population are mainly young people under the age of 18 years, who represent 56.8 per cent of all beneficiaries, and adults with below-average levels of education, who are employed in the informal labour market (approximately 90 per cent), have the highest rates of unemployment (approximately 25 per cent) and are generally excluded from the traditional social protection system.

The PANES was intended as an immediate and short-term response to the social situation in the country and achieved its objective. Despite the fact that the PANES was a temporary instrument, several of its programmes have been absorbed into the "Equity Plan" (Plan de Equalidad) which was conceptualized during the implementation of the PANES and introduced in 2007.

The implementation of the PANES resulted in the creation, in 2005, of a new ministry: the Ministry for Social Development (Ministerio de Desarrollo Social (MIDES)). The BPS played an active role in implementing the PANES, developing databases that were updated on a daily basis as well as providing an editing infrastructure, human resources and equipment across the country to manage citizens' income applications and payments (the PANES cash transfers).

The Equity Plan is seen as a major step in the redesign of the Uruguayan social protection system, the aim of which is to extend coverage to the new social risk structure, and its programmes are of a long-term nature. It is considered innovative because it introduces new social benefits and also reforms traditional social security instruments. It is intended that the plan's programmes will be absorbed into existing programmes to form a national social protection system and that jointly they will achieve the principle of universality, which is the fundamental goal of social protection.

As a social security institute, the BPS has actively participated in the social protection reforms elaborated during this period and encapsulated in the Equity Plan, implementing reforms to the programmes it manages and contributing to the development of new programmes.

2.1 Poverty alleviation instruments: Income transfer systems

The family allowances programme was introduced in 1943 under Law 10-449, which also created the Wage Councils, diverse labour remuneration provisions and family allowances. Family allowance schemes were originally intended as an additional benefit for non-salaried workers with families to stimulate higher birth rates and improve children's living conditions. With the passage of time, the role of family allowance schemes has changed although they continue to be paid to children whose parents or guardians contribute to social security.

In 1999, family allowances were granted to children whose fathers were not in formal employment; they also prioritized certain households. In 2004, the General Assembly enacted Law 17-758 which took effect on 1 June of the same year. This law extended family allowances to all families with formal or informal incomes of less than three times the national minimum wage, who had previously been excluded from legislation governing family allowances. The law fixed family allowances at 16 per cent of the national minimum wage, and 32 per cent of the national minimum wage for disabled children.

As the amount of benefit is relatively small, it has made little impact on improving welfare despite more focused targeting of family allowances through the enactment of new legislation, and, in particular, the 2004 Law. In fact, De Melo and Vigorito (2006) have found that the impact of family allowances on poverty has been minimal but that they have had a greater impact on the intensity and severity of poverty and, consequently, have had relatively little impact on income redistribution.

In light of this situation, and the fact that family allowances are a culturally established benefit receiving a broad national and social consensus, the Uruguayan government tabled a bill before Parliament to extend the positive effect of family allowances to low-income families, which was unanimously adopted (Law 18-227) and took effect in January 2008.

The New Family Allowances Scheme (Nuevo Régimen de Asignaciones Familiares (NRAF)) replaces the previous scheme for low-income families (Law 17-139 of 1999 as amended by Law 17-758 of 2004). It targets vulnerable socio-economic households and allows for the assessment of households regardless of whether the head of household or guardian is in formal or informal employment. To qualify for family allowances households must satisfy a number of technical and statistical criteria developed with the support of the University of the Republic of Uruguay: household income (the single determining factor in earlier legislation governing low-income families), living conditions, characteristics and health situation. In practice, eligibility is assessed using an algorithm which estimates the household's probability of falling into the target population. Children and adolescents are required to receive a formal education and undertake health checks.

The NRAF reform has substantially increased the amount of benefits paid (generally, by 80 per cent and, in certain sectors, by up to 300 per cent). Benefits[5] vary according to the number of children per household and are calculated using a scale of equivalence. An additional benefit is paid for each child who satisfies the educational criteria (US$35 per month for the first child in primary education and US$50 per month for the first child in secondary education), the objective of which is to reduce the number of children who fail to complete primary and secondary education.

Another innovation is that family allowances are now paid to mothers, which is considered positive gender discrimination. Gender equality is a cross-cutting principle of the Equity Plan.

The desired objective is that the new programme will provide coverage to 500,000 children, approximately 50 per cent more Uruguayan children than previously covered. In 2008, the objective was set at 330,000 children and was largely achieved in December of that year.

It should be noted that the NRAF is financed through central government transfers. This reflects one of the characteristics of the new social protection matrix, which is to fund social protection through a combination of contributions and general taxation, dependent upon the programme.

The NRAF entitles eligible households to a monthly income which is accessed using a magnetic card.

In 2006, an additional benefit was introduced. This new benefit takes the form of a Food Card and entitles low-income households with children and adolescents to purchase food from a network of designated stores (currently, approximately 450 stores).

This benefit is conditional upon the number of children and pregnant women per household: US$20 for one child or pregnant woman; US$30 for two; US$38 for three and US$52 for four children or pregnant women. Eight thousand households received this additional benefit at the close of 2008, which is the equivalent of approximately 300,000 people or 10 per cent of the population.

As demonstrated below, these public transfers, the core component of which are family allowances, follow a sliding scale:

1. Children whose fathers work in the formal sector, who are not from socially vulnerable households and whose household income is more than ten times the Benefits and Contributions Base (Bases de Prestaciones y Contribuciones[6] (BPC)) receive the traditional family allowance.
2. Children from socially vulnerable households receive the new family allowance which is significantly more than the traditional family allowance.
3. Children from socially vulnerable households which are classed as extremely vulnerable receive the new family allowance and an additional income through Food Cards.

Ultimately, family allowances, and supplementary benefits in the form of Food Cards, act as a system of social income transfers, which increase in intensity as the levels of household poverty increases. They are an income distribution instrument and were designed not only to be culturally acceptable to Uruguayan society but also to address the new social risks structure in the country, the main characteristic of which is the "juvenilization of poverty".

As regards institutional management, the BPS manages both the traditional and the new family allowances and the MIDES administers the Food Cards.

2.2 Flexible retirement and old-age pensions schemes

The design of the retirement scheme in existence before the introduction of reforms referred to in this paper, made entitlement to a public retirement pension conditional upon the completion of 35 years of service, which, from April 1996, also had to be registered in the labour history register, and reaching the mandatory retirement age. Workers who were not retiring due to advanced age (who could retire at 70 years of age with 15 years of service) and who had not accumulated 35 years of service were not entitled to non-contributory benefits. For example, a 68-year-old person with 33 years of recognized service was not entitled to benefits.

This design, which made pensions conditional upon the formal labour market and the completion of strict eligibility criteria regarding service, raised serious doubts as to whether many workers would meet the qualifying conditions for a retirement pension in the short term.

A number of academic studies, including those based on data gathered by the INE's extended household survey and employment history data registered with the BPS, have concluded that a large proportion of workers will experience difficulties in securing a retirement pension in the future. Poorly educated workers on relatively low incomes and women will be most affected.

To address this situation, and given that social security is a government policy which involves the whole of society, the Government, through the Social Security Sectoral Commission

(Comisión Sectorial de Seguridad Social),[7] launched a National Dialogue on Social Security which began in 2007 and ended in 2008. The National Dialogue received the support of the University of the Republic of Uruguay, the United Nations in Uruguay and the Spanish International Cooperation Agency. Its objective was to promote an extensive dialogue on social security in Uruguay, involving stakeholders from the relevant sectors of society, in order to generate ideas for further reforms and to strengthen democracy.

Listed below are the principal reforms which define a more flexible retirement scheme:

1. A reduction in the retirement age for a public retirement pension from the previous age of 35 years to the current 30 years of formal employment. This, in turn, has amended the eligibility requirements for retirement at an advanced age. Under earlier legislation eligibility was conditional upon 15 years of employment at 70 years of age. Workers are now eligible for a retirement pension for advanced age if they have acquired one of the following combinations of years/age group:

   - 25 years of employment at 65 years of age;
   - 23 years of employment at 66 years of age;
   - 21 years of employment at 67 years of age;
   - 19 years of employment at 68 years of age; and
   - 17 years of employment at 69 years of age.

2. The legislation governing eligibility for retirement benefits due to disability has also been amended as regards the mandatory contributory period for such benefits and the requirement to produce proof of disability immediately following the start of the disability.

3. A special subsidy is paid to unemployed workers who are over 57 years of age and who have accumulated 28 years of employment history. This subsidy is paid until the worker qualifies for a retirement pension. The motivation behind this reform and the principles arising out of the law to promote equal rights and opportunities for men and women is to create positive gender discrimination. Women receive an additional year's service towards their retirement pension for every surviving child, including for adopted children.

4. Old age assistance: the objective of this new non-contributory benefit is to increase assistance to all adults over the age of 65 years who are living in extreme poverty and who are without social security cover until they reach 70 years of age when they automatically qualify for an old-age pension. At the close of 2008, this programme had assisted 2,721 socially vulnerable adults who had no form of social security cover or protection. The MIDES is responsible for assessing eligibility for old-age assistance and the BPS for making payments to beneficiaries of old-age assistance.

2.3 Health insurance reform

One of the programmes traditionally managed by the BPS is the health insurance programme. Health insurance covers private sector workers who contribute to social security and is financed through employer and employee contributions (5 per cent by the employer and 3 per cent by the employee). Only workers who contribute to health insurance are entitled to claim benefits; families of contributing workers and workers on low incomes do not qualify for health insurance. The contributing worker nominates an institution which provides group health care (Institución de Asistencia Médica Colectiva (IAMC)) and the BPS transfers the contributions it collects from contributing workers, which are determined by the State based on the contributor's age and gender, to the nominated institution.

Prior to 2005, the Uruguayan health system was divided into a public and a private subsector. The main provider for the private sector was the IAMC whereas the main provider for the public sector was the State Health Administration Services (Administración de Servicios de Salud del Estado (ASSE)), a decentralized department of the Ministry of Public Health (Ministerio de Salud Pública (MSP)). This public/private split meant that low-income workers who did not contribute to social security were concentrated in the state sector whereas workers who contributed to BPS private health insurance (private sector) or individuals with a private income were covered by IAMC health insurance.

Table 5.8 ***Health cover by institution as a percentage of the total urban population for 2007***

	Without cover	MSP	IAMC	Other	Total
Total	2.1	41.6	44.0	12.2	100
Under 14 years of age	0.9	60.9	21.4	16.8	100
Inactive	1.8	44.3	41.1	12.8	100
Employed	2.5	28.0	59.6	9.8	100
Unemployed	5.5	64.7	19.2	10.7	100

Source: National Institute of Statistics' Extended Household Survey (INE ECH).

Across the total population, health care is provided in almost equal parts through the decentralized MSP and IAMC services. Forty-five per cent of all individuals who access IAMC health care do so via the BPS health insurance scheme. Young people under the age of 14 years and the unemployed access health care via the public health services; workers, on the other hand, receive health care primarily through the IAMC.

The new government has proposed creating an Integrated National Health System (Sistema Nacional Integrado de Salud (SNIS)). Its main objective is to guarantee universal access to comprehensive health care for all sectors of the population, equality of access and quality of services. Its objective is also to spread the financial burden of health-care expenditure more equitably across society.

To achieve this objective, reforms have been implemented across the three levels which define the health-care system: the funding model, the care model and the model of governance.

Changes to the funding model have resulted in the introduction of National Health Insurance (Seguro Nacional de Salud (SNS)). The operating mechanism is based on deductions from service-users' income and the payment of health contributions to institutions. The contributions comprise a per capita adjustment for risk and a supplementary payment to reflect the desired levels of health care using the following variables: age, gender and expected health-care expenditure.

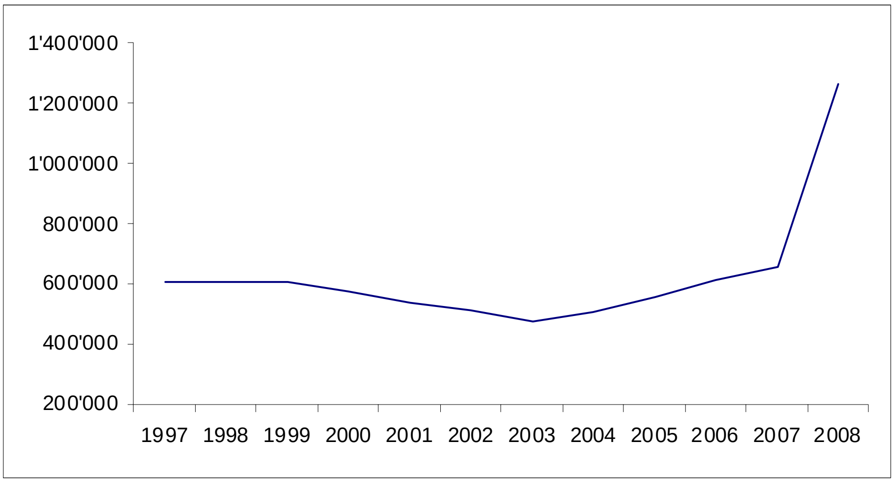
The National Health Board (Junta Nacional de Salud (JUNASA)) was created to manage the new SNS and is composed of representatives from the following groups: IAMC, SNS affiliates, workers, national government and the BPS. The BPS' role is to monitor contributions and provide IT support to SNS administrators.

SNS coverage has been extended to young people under the age of 18 years, the disabled dependants of contributors, all civil servants with several exceptions,[8] bank workers and all workers who retired after January 2008. In the future, SNS will be extended to other groups, such as contributors' spouses and professionals. Contributions to the SNS have increased to

4.5 per cent for contributors with no dependents and 6 per cent for contributors with dependants.

As a consequence of the reform, health insurance coverage has almost tripled between 2004 and 2009, increasing from 560,600 people in 2004 to 1.4 million in March 2009. Approximately 42 per cent of the total population, estimated to be 3.3 million, are now covered, 450,000 of whom are young people who were ineligible for health insurance before 2008 (figure 5.3).

Figure 5.3 ***Growth in BPS social security coverage***



Source: BPS Economic and Actuarial Advisory Office (Asesoría Económica y Actuarial).

As can be seen, reforms to the family allowances scheme and the health service, mentioned above, have increased or strengthened social security benefits for young people and sought to address the new social risks structure in Uruguay, the main characteristic of which is the "juvenilization of poverty". It is hoped that these reforms will reduce poverty and improve income distribution.

2.4 Adequacy of unemployment insurance

A reform of the unemployment insurance scheme was undertaken to address the shortcomings identified in the Uruguayan unemployment insurance programme. It should be noted that the essential elements of this reform, following some earlier non-substantive reforms, were first introduced in the 1980s.

Although no specific funding has been set aside for unemployment insurance since the 1970s, the right to unemployment insurance is conditional upon employee contributions. To claim unemployment benefit, workers must have contributed to social security for a minimum of six of the previous 12 months, a good conduct record, and no periods of temporary suspension of the enterprise's activity or reduction in working time.

The aim of unemployment insurance is to extend coverage of the programme. The major changes implemented under Law 18-399 of 24 October 2008 are as follows.

The reform targeted unemployed workers who were over 50 years of age and significantly improved their coverage. It increased the period for claiming unemployment insurance from six to 12 months. Workers aged 50 years or older represent approximately 15 per cent of the total number of workers covered by the programme. The modifications proposed addressed the major difficulties faced by these workers when seeking employment.

Under the previous scheme, beneficiaries who were eligible for and claimed unemployment insurance received the same rate of benefit throughout the unemployment period which was equal to 50 per cent of their last six months' remuneration; workers with dependent families received an additional 20 per cent. The new legislation introduced a digressive sliding scale for workers who have been dismissed, redistributing the total amount of benefits paid over the maximum period of coverage. This means that significantly higher benefits are paid during the first months of unemployment and then gradually reduced until the maximum eligibility period for unemployment benefits has been exhausted.

The new legislation also includes a policy rule which enables the Executive Power to prolong the payment of unemployment benefit to dismissed workers during an economic recession. It is hoped that this measure will improve the counter-cyclical profile of unemployment insurance and, in particular, reinforce social protection networks during a general recession.

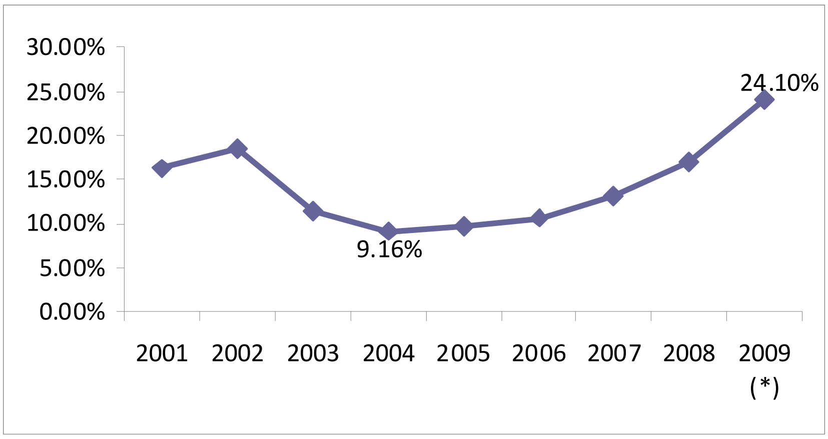
There is consensus amongst the different analyses on the functioning of Uruguayan unemployment insurance that there has been a lack of communication between this programme and the active employment policies which, in the main, entail upskilling and vocational training. Consequently, the payment of unemployment benefits to dismissed workers has been made conditional upon their attendance at training courses which form part of the MTSS framework of programmes, unless there is a valid reason for them not to attend. This measure is implemented during the latter half of the service period for benefits in order to prioritize the upskilling and reintegration into the labour market of unemployed workers who have dedicated a considerable period of amount of time to seeking employment and who have failed to find it.

This measure is intended to complement the reform currently underway and forms part of the active employment policy which seeks to strengthen the agreements made between employers and workers under the new legislation which created the National Employment Institute.

Previously, if workers held two jobs which were protected by unemployment insurance and lost one of these jobs, they would not be entitled to receive benefits. Under the current programme, if workers lose their main employment, they are now eligible for unemployment benefits.

Figure 5.4 indicates the number of workers who have received unemployed benefits during the past decade.

Figure 5.4 ***Unemployment insurance beneficiaries as a percentage of the total number of unemployed (annual average)***



Source: BPS Economic and Actuarial Advisory Office (Asesoría Económica y Actuarial).
(*) Average for Jan.–Feb.

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The figure also demonstrates that the highest levels of coverage for the decade were recorded in early 2009 following reforms to unemployment insurance, thereby consolidating the increased formalization of the labour market since 2005.

2.5 Tax reforms: Improved equity and extension of the Monotributo

Tax reforms, enacted under Law 18-083 which came into force in July 2007, also form part of the structural reforms carried out during this period. Their objective has been threefold: to provide greater equity, to increase efficiency and to stimulate investment and employment.

The Uruguayan tax system has a strong bias to indirect taxation with consumption taxes representing 65 per cent of central government resources and direct taxation only 20 per cent of central government resources. Approximately 50 per cent of direct taxation comes from corporation tax and 50 per cent from income tax and tax on retirement pensions; capital income, on the other hand, is tax-exempt.

The tax reform increased the burden of direct taxes collected globally following the introduction of the Physical Person's Income Tax (Impuesto a la Renta de la Personas Físicas (IRPF)), the reduction in Value Added Tax (Impuesto al Valor Agregado (IVA)) and the abolition of other indirect taxes. The IRPF is designed as a dual system which taxes employment income and additional income at progressively higher rates, and, more importantly, capital income (excluding exonerations) at a unified rate.

Estimates following the reform indicate the equity of changes implemented has had a positive effect. The impact of the tax burden on household income is measured according to income deciles, the sum of consumption tax plus income tax and retirement pensions tax, pre- and post- the tax reform (table 5.9).

Table 5.9 ***Tax burden based on income deciles pre- and post- the tax reform***

Income deciles	Pre-reform	Post-reform	Variation
1	13.5	10.1	–25.2
2	13.8	10.3	–25.4
3	13.8	10.3	–25.4
4	13.7	10.3	–24.8
5	13.3	10.3	–22.6
6	13.1	10.5	–19.8
7	13.7	11.7	–14.6
8	13.8	12.5	–9.4
9	13.9	14.3	2.9
10	12.8	17.8	39.1
Total	13.4	13.3	–0.7

Source: Ministry of Economy and Finance.

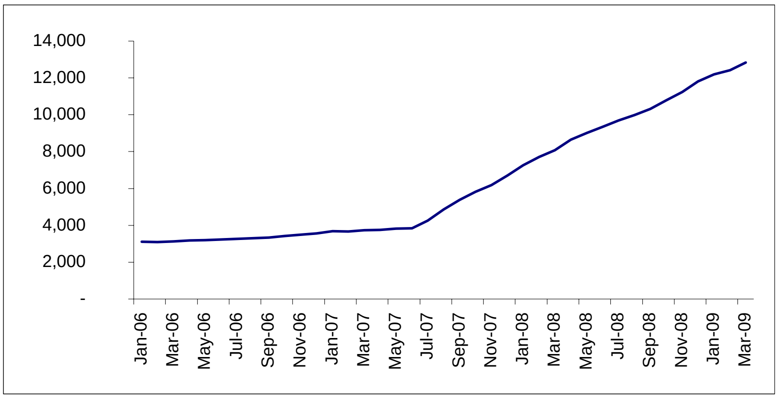
The estimates demonstrate that the impact of the reform has increased the tax burden for household in the ninth and tenth deciles, with households in the tenth deciles facing a significantly higher tax burden than households in the lower deciles, whose tax burden has fallen by 25 per cent.

Another result of the tax reform which is linked to the social protection aspect of the reform is an increase in the number of Monotributors (figure 5.5). This particular tax category was created in 2001 for self-employed workers with a limited turnover and whose commercial activities are in public communities and environments. Monotributors can opt to pay a single tax on the income generated from their activities instead of special social security contributions and the national taxes in force, with the exception of income earned from exports.

The tax reforms have led to the withdrawal of restrictions on business development activities for Monotributors and changes in the types of activities they are able to undertake (including several production activities), the types of companies classed as Monotributors (which now includes legally constituted companies as well as self-employed workers running family businesses), the conditions regulating sales (application of credit facilities), the ceiling placed on invoices and, for several types of activities, an opportunity to sell not only to consumers but also to enterprises and state enterprises.

This new legislation recognized that for a sector of self-employed workers with limited economic activity, the general norms were inadequate, resulting in their marginalization from social protection systems. Surveys undertaken have clearly demonstrated that a significant proportion of this sector of the population were without social security cover (see self-employed workers in table 5.4).

Figure 5.5 ***Growth in the number of Monotributor enterprises***



Source: BPS Economic and Actuarial Advisory Office (Asesoría Económica y Actuarial).

In March 2009, the number of enterprises governed by this legislation (Law 12-843) resulted in a tripling of the number of people receiving social security coverage since June 2007, when the current reform package was presented as a progressive measure for Monotributors. It demonstrated that legislation which is more flexible in targeting diverse socio-economic profiles and sectors can be a valuable instrument in achieving social inclusion.

Another modification to the tax system which has had a direct impact on social security has been the introduction of a unified employer contribution rate to retirement schemes in several sectors of activity.[9] This modification upholds the principle of horizontal equity and shares the principle that promoting economic activity requires other instruments that will not diminish social security resources. Prior to the tax reform, there was significant inequity in employer contribution rates in Uruguay ranging from 0 per cent for the manufacturing industries to 12.5 per cent for services and commerce and 24 per cent for State enterprises.

Finally, the role of the BPS in the tax reforms should also be emphasized, both in the elaboration of the proposed reforms, involving the collaboration of BPS technical officers, and in their implementation, since it is responsible for collecting income tax from its members on behalf of the General Tax Directorate.

2.6 Further actions to increase inclusion and extension of coverage

Due to the limitations of space, only a brief overview of these actions can be given here.

Numerous draft laws were proposed to encourage the formalization of enterprises and workers who are excluded from the social security system. These measures were designed to encourage the inclusion of workers who were frequently employed in sectors of activity historically excluded from social security and consequently without protection. The following are some of the initiatives that have become law:

1. Law No. 17-963 of 19 May 2006 establishing mechanisms regulating late contributions to the BPS, thereby facilitating inclusion, and bonuses to good payers. This legislation has resulted in the signing of 64,378 agreements and the regularization of 245,351 contributors.

2. Law No. 18-065 of 27 November 2006 governing domestic work and the application of labour norms and social security to domestic workers. This is a consensual initiative within the framework of the Tripartite Committee for Equal Opportunities and Treatment at Work (Comisión Tripartita de Igualdad de Oportunidades y Trato en el Empleo). Its most salient characteristics are: the recognition of a reduced working day, intermediate, weekly and nightly breaks, the inclusion of a scheme to determine salaries and categories through the Wage Councils and the right to unemployment and sickness benefits.

3. Law No. 18-246 of 27 December 2007 (on non-formalized relationships) granted the right to social security to cohabiting couples (including same-sex couples) who are in long-term relationships. It also granted cohabiting couples the same rights to a survivor's pension as married couples.

4. Law No. 18-099 of 24 January 2007 and Law No. 18-215 of 6 January 2008 establishing responsibilities in respect of subcontracted work, mediation and the supply of labour to ensure compliance with social security obligations.

5. Law No. 18-384 of 17 October 2008 governing the statute of artists and workers in related occupations and the extension of social security coverage to specific artistic activities. In this regard, a Register has been created which enables individuals to register their details and contracts. A Certifying Commission has also been set up to regulate the different procedures for calculating services to ensure that artists and related workers receive the social security cover to which they are entitled.

6. Finally, it is also worth noting the significant increase in training opportunities following the reintroduction of the Wage Councils and the Law on Trade Union Rights (Law 17-940 of 2 January 2006).

Table 5.10 demonstrates the substantial growth in training levels during this period, contributing to economic growth, government policies regulating working conditions and the more specific social security polices discussed in this paper. In 2008, there were, on average, 36.3 per cent more contributors than in 2004.

Table 5.10 *BPS contributors per thousand persons, year and membership sector*

	Public	Industry and commerce	Rural	Domestic service	Construction	Total
Year						
1997	183.9	540.0	159.5	27.8	35.7	946.9
1998	182.9	549.6	166.9	29.5	37.6	966.5
1999	188.9	535.0	159.2	30.5	43.0	956.6
2000	189.0	522.1	150.3	30.8	35.5	927.7
2001	189.1	505.3	144.5	31.2	30.9	901.0
2002	188.0	461.3	146.7	35.0	21.9	852.9
2003	183.4	465.0	161.9	36.9	18.7	865.9
2004	184.5	500.2	168.9	38.6	24.0	916.1
2005	187.2	567.9	178.8	40.7	30.6	1,005.1
2006	188.9	621.2	190.8	43.3	39.6	1,083.8
2007	195.5	684.8	192.1	47.4	47.0	1,166.7
2008	197.7	750.1	196.2	51.1	53.6	1,248.6
Variation 2008–2004	7.1%	50.0%	16.2%	32.5%	123.5%	36.3%

Source: BPS Economic and Actuarial Advisory Office (Asesoría Económica y Actuarial).

3. Conclusions

The period between 2005 and the present can be defined as the period which consolidated the formulation of the Uruguayan social protection system. Its design has adapted the traditional pillars in existence in Uruguay to advance the country within the region and incorporated new instruments to fill the gaps in coverage presented by the old system.

In past decades, the country has experienced a significant number of structural changes resulting in the definition of a new social risk structure which was not covered by existing social protection programmes. These changes have affected the labour market, household composition and demographics and led to the creation of a less equal society and the marginalization of large sectors of the population and their exclusion from social security coverage.

The principal social security reform of the mid-1990s failed to address this new social reality and further accentuated the relationship between the right to benefits and the formal labour market, despite the increased precariousness resulting from the growth in informal employment and unemployment. This situation, which had developed over a period of time, was further exacerbated at the end of the last century and the beginning of the current century when Uruguay experienced a severe economic recession resulting in an 18 per cent drop in GDP over a four-year period. Poverty levels reached unprecedented levels in 2004, with 32 per cent of the population and 60 per cent of children living in poverty.

The new government which came to power in 2005 immediately implemented a social emergency plan (PANES), which sought to incorporate social assistance and social promotion programmes, including cash transfers to people living in extreme poverty, i.e. approximately 10 per cent of the population. The PANES was a temporary instrument which achieved its specific objective and created the opportunity to begin the task of redesigning the social protection system.

A strategy was developed to articulate essential reforms which were introduced via the plan known as the Equity Plan, the aim of which was to adapt social protection to the new social risk structure.

The country's institutions were also reformed. Prior to the reforms, social intervention took the form of traditional social security programmes, implemented by the BPS, and specific programmes, which were generally funded by international organizations and targeted the most vulnerable sectors of society. These programmes generally acted independently of each other and of the traditional social security programmes, resulting in a lack of coordination between the institutions implementing social policies, duplication, fragmentation and gaps in coverage of the population.

The current government created the Ministry for Social Development, which was responsible for implementing the PANES; however, its permanent function is to coordinate social policies. Other institutions which coordinate long-term policies are the Social Cabinet, the National Council for the Coordination of Social Policies and the Social Security Sectoral Commission. In addition, the setting of inter-institutional objectives in all departments has resulted in the creation of a national framework for local governments and national public institutions to articulate and exchange information in Uruguay.

The main objective of the Social Cabinet, which comprises ministerial departments with a social remit, is to evaluate and propose social plans, programmes and projects. The National Council for the Coordination of Social Policies is charged with formulating and implementing agreements and resolutions on behalf of the Social Cabinet and is composed of Social Cabinet members and members from institutions, such as the BPS, which are charged with implementing social policy. The role of the Social Security Sectoral Commission, on the other hand, is to specifically coordinate topics relating to social security.

The BPS, the principal social security institute in the country, has played a leading role in this process. The strategic plan for 2006–10 stipulates that its role is to actively participate in the reforms processes, which in practice means conceptualizing and implementing reforms. The BPS Board of Directors is composed of representatives from government and the social sectors; it is intended that this particular combination of representatives will increase the legitimacy of the major reforms implemented during this period.

Social participation is one of the strategic pillars of the current policy and is considered a vital channel for strengthening democracy, increasing society's influence on the State and exploiting society's knowledge bank. The National Dialogue on Social Security therefore marked a milestone in the history of Uruguay. It generated programme guidelines which received a broad social consensus and which laid the foundations for the enactment of social protection reforms.

The government's Equity Plan set out the government's priorities as:

1. The construction of a social security system, capable of protecting citizens and households employed in the formal labour market, which is contributory in nature, i.e. financed by workers, employers and the State.

2. The regulation of the private and public provision of social assets by the appropriate state agencies to ensure quality of services and to prevent their manipulation by corporate or financial groups.

3. The construction of a non-contributory Social Assistance and Integration Network (Red de Asistencia e Integración Social (RAIS)) to provide coverage to the most

vulnerable sectors of society, who are least able to enter the labour market. This also forms part of the objectives for the social security system and the body of basic universal policies.

The new social protection system has, therefore, been conceived as an integrated system with two basic pillars: the first pillar is contributory in nature and financed through employer and employee contributions whereas the second pillar is non-contributory and financed through general taxation.

These criteria have guided the reforms processes discussed in this paper. For example, the new RAIS will include the following income transfer programmes: the New Family Allowances System, the Food Cards and Old-Age Assistance. Currently, over 30 per cent of all Uruguayan children receive the new family allowances and 10 per cent of all households receive the new Food Cards.

Other reforms implemented during this period and governed by the first priority of the government's Equity Plan above, are the reforms to the retirement system, health insurance, unemployment insurance and the tax system for Monotributors, the objective of which is to increase coverage.

The retirement system had to be made more flexible because of the dichotomy between the extremely stringent criteria governing the number of contribution years for a retirement pension and the established fact that a large percentage of workers are employed mainly in the informal labour market, which, in the short term, could jeopardize the high levels of senior citizens social security coverage in the country.

Reforms to the National Health System include extending health insurance to all sectors of society. Extending coverage will mean that all young people, the majority of public sector employers, bank employees and anyone who retires after January 2008 will be required to contribute to social security. Social security coverage has more than doubled in recent years and currently covers slightly less than half of the country's population. The government's objective is to extend social security coverage to more groups in the future. Other fundamental innovations relate to the payments made, based on risk assessments and health-care assistance objectives, to enterprises providing health care to their affiliates in order to increase efficiency in the sector and include social sectors in health insurance governance.

The unemployment insurance reform falls within the concept of greater flexibility of social security norms to reflect the new labour market realities and linkages to active employment policies. Coverage of unemployed workers is increasing and currently the highest in a decade.

These structural reforms are just some of the actions taken to increase coverage; others include the enactment of legislation governing the refinancing of debts, the rights of domestic workers, the statute of artists and their inclusion in social security, expansion of the Monotributor categories, and the right of cohabiting partners to a survivor's pension. As part of this new strategy, the State has recovered its role in labour relations through the Wage Councils, the enactment of legislation governing trade union rights and the raising of the national minimum wage to a more realistic level.

The country now faces the challenge of consolidating the extensive reforms that have been implemented in recent years. It has significantly increased the percentage of decent and protected work; it has extended coverage and the impact of coverage on sectors of society previously excluded from social security coverage or with relatively little coverage. These reforms should be completed within the framework of the new social protection system that has emerged in recent years, and in so doing, extend the system's universal coverage.

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Notes

[1] Economist and Adviser to the President of the Social Insurance Bank (Banco de Previsión Social (BPS), the Social Security Institute of Uruguay (Instituto de Seguridad Social del Uruguay). The author would like to thank Wouter van Ginneken, Anna Caristo and Ernesto Murro for their comments. Any errors or opinions expressed in this paper are the sole responsibility of the author.

[2] Uruguay was governed by a dictatorship between 1973 and 1984.

[3] Health insurance, unemployment insurance, family allowances, maternity benefits.

[4] Participating individuals are able to place half of their income in an intergenerational solidarity scheme and the remaining half in an individual capitalization fund.

[5] Periodically adjusted to reflect changes in the Consumer Price Index.

[6] 1 BPC = US$80.

[7] The Social Security Sectoral Commission is a government body coordinating and integrating the Ministries of Labour and Social Security, Economy and Finance (Ministerios de Trabajo y Seguridad Social, Salud Pública, Economía y Finanzas), the President's Office for Planning and Budgets (La Oficina de Planeamiento y Presupuesto de la Presidencia) and the BPS.

[8] With the exception of civil servants in the military, police force and municipalities who have their own schemes.

[9] A different scheme has been maintained for the rural sector where employer contributions are calculated using a formula based on the number of hectares farmed and not on the nominal salary.

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