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INTERNATIONAL SOCIAL SECURITY ASSOCIATION
ASSOCIATION INTERNATIONALE DE LA SÉCURITÉ SOCIALE
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INTERNATIONALE VEREINIGUNG FÜR SOZIALE SICHERHEIT

Regional Social Security Forum for the Americas

Brasilia, Brazil, 24-27 May 2010

Effective and dynamic coverage extension of social security

Extending Social security in Latin America and the Caribbean:
integration of schemes and solidarity in financing

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Summary

The report surveys current practices on coverage extension in Latin America and the Caribbean, and proposes new goals and strategies. It recognizes that inequalities and budget constraints restrict the possibility of achieving the normative goal of social security for all. Inequalities are implicit in segmented labour markets where a large share of citizens cannot comply with the obligations of a contributory social security system. Budget constraints are the result of contributory and tax-collection bases that are insufficient to finance adequate benefits for all. Recent experience shows that countries are integrating different mechanisms of social protection into a single social security system, thus integrating contributory and tax funding, increasing competition in the provision of benefits, and improving overall regulation and surveillance.

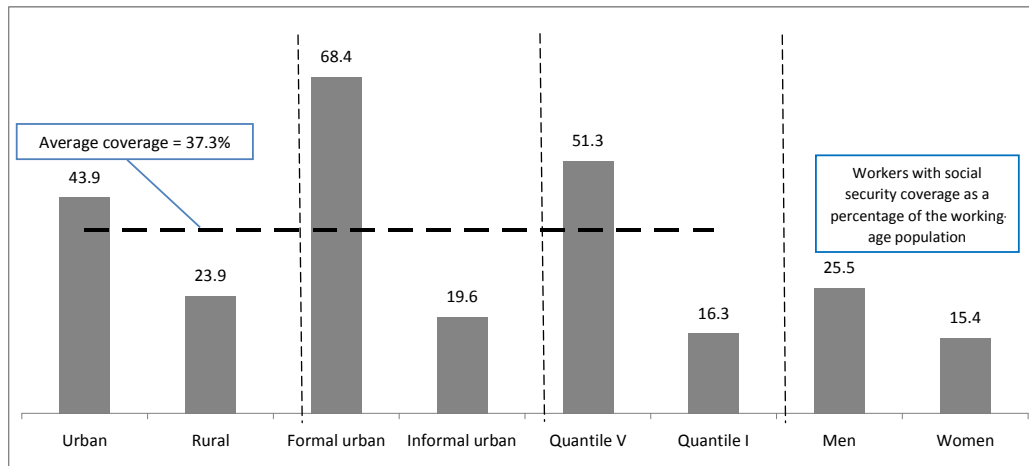
Introduction

Despite the reforms experienced in the region, there has been slow progress in improving coverage in social protection programmes (ECLAC, 2006; ILO 2008; ISSA, 2009; World Bank, 2009). It is crucial to understand, and respond to, the realities of Latin American and Caribbean countries' (LAC) labour markets. All countries in the region rely to a lesser or larger degree on the role of subsistence labour opportunities in the informal labour market, and their societies differ in terms of its relative importance as an important welfare provider compared to: the State, the market, employers and the family. Late demographic transition, persistent informality and relatively low tax burdens have limited the capacity of the State. The market reproduces inequality, employers are absent in large part of the labour market and family structures have substantially changed from the traditional nuclear one. At last, countries have failed to meet the fiscal and contributory resources needed to face the costs of protection against social risks.

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Figure 1 shows that overall coverage is not only low but also varies significantly across rural-urban contexts, formal and informal labour markets, income strata and gender. In short, contributory schemes reproduce the underlying inequality in labour contracts.

Figure 1. Latin America (16 countries): Employed persons registered with social security, around 2006^a, percentages



^a Employed workers aged 15 and above who declared labour income. In Argentina and the Bolivarian Republic of Venezuela refers to wage-earners in general. Simple average.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of household surveys conducted in the respective countries.

Household data shows three general patterns that need to be overcome (ECLAC, 2006; ILO, 2008; and Rofman et al., 2008):

- Overall, coverage varies by type of risk, it is low throughout the region, and falls well short of the goal of universal coverage.
- Current outreach is highly unequal, with the poorest having the lowest levels of coverage.
- Poverty-reduction strategies are used to respond to stagnant coverage among low-income groups, sticky poverty rates and persistently skewed income distribution.

This report provides a comprehensive look at alternative coverage policies that are in use in the region, and reveals the need to follow a normative horizon based on social rights.

1. Coverage extension potential in occupational contributory, universal tax-funded and hybrid forms of social security

Labour based contributory social insurance contracts fails to provide social security for all. There is a need to place social rights as the normative horizon, and recognize inequality and budget constraints as the limits that should be diagnose and overcome (ECLAC, 2006, p. 12). In the future, social security administrations need to understand this dilemma and look for solutions combining both contributory and non-contributory funding in an integrated manner.

1.1. Contributory social security

Coverage under labour based contributory schemes is determined by the nature of the labour contract. Formal employers and employees enjoy coverage of a relatively generous and multi-dimensional package of social benefits. Informal sector workers have a much more limited access to formal and comprehensive social protection

1.1.1. Pensions

Pension systems coverage standards are poor. This characteristic arises because the contributory systems committed the "capital sin" of assuming that all workers can decide between saving and consumption along their life cycle, even though a large proportion of them live close to the poverty line and under uncertain conditions due to labour informality and vulnerability. As a result, coverage patterns display the following four characteristics (World Bank, 2009):

- It is low ranging from a low of 12.7 per cent to somewhat around half of the economically active population.
- Despite significant reforms and improvements on the fiscal front, coverage showed limited progress and still remains remarkably low.
- It is particularly low for people at the bottom end of the income distribution.
- Past reforms have not addressed the issue of inequity in coverage either.

1.1.2. Health insurance

The coverage patterns can be characterized in three ways (World Bank, 2009):

- Overall, levels of health coverage through contributory arrangements are low in the LAC when measured at the household level. It reaches 50 per cent of the population or less in 11 of the 15 countries analysed; it is widely dispersed (e.g. 4 per cent in Honduras and 92 per cent in Costa Rica); it remains low even when considering the variety of health financing models deployed in the region, which includes national health systems and contributory and non-contributory health insurance arrangements; only a few countries — mainly those in the southern cone (i.e. Argentina, Uruguay, Chile) and Costa Rica — stand out well above the regional average.
- There are important inequalities in contributory health insurance coverage across socio-economic groups. It increases monotonically with income levels with some exceptions (Costa Rica, a country that operates an integrated social insurance system with a single risk pool and where coverage is fairly flat between groups across the income distribution).
- Inequalities in health coverage reflect two underlying design aspects of health systems in the region: (a) they are built upon relatively small and fragmented risk pools and, thus, run with low levels of pre-paid health expenditures but high and regressive out-of-pocket expenditures; and (b) their insurance schemes have explicit benefits packages built upon contributions linked to salaries, and can be highly redistributive when contributions are linked to income and health benefits are linked to needs. However, the contributory nature of the systems limits the real insurance component of the system to formal sector workers and their dependants.

1.2. Non-contributory and subsidized programmes in pensions and health

In the light of the stagnant social security coverage, particularly among poor and informal sector workers, a number of countries in the region have implemented non-contributory schemes in pensions and in health.

1.2.1. Pensions

Initiatives based on non-contributory and subsidized programmes aimed at extending coverage levels in a more equitable way have three main characteristics (World Bank, 2009):

- They vary in size (more focused in Argentina and Uruguay; wider scope in Bolivia, Brazil and Mexico).
- They have a substantial impact on the level and equality of coverage among the elderly and poor (Bolivia, Chile and Costa Rica).
- Their impact is relatively higher in countries that integrate contributory, non-contributory and subsidized schemes (Argentina, Brazil, Chile, Mexico and Uruguay).

1.2.2. Health insurance

Public health care is being increasingly complemented by non-contributory and subsidized health insurance. Non-contributory and subsidized health insurance systems have two main characteristics:

- They increase coverage and make it more equal (Chile, Colombia, Mexico and Peru).
- They rely on hybrid forms of health financing to increase the amount of resources spent on health services and the effective protection of the poor, informal and unemployed.

1.2.3. Social safety nets: Income support to the poor

In response to concerns about high and persistent poverty and inequality in a context of rising national incomes, several countries in the region launched other non-contributory programmes that focus on providing assistance to, and/or strengthening of human capabilities of, poor households. On average, between 30 and 40 per cent of the population in the first income quintile receive direct cash support and other benefits from the conditional cash transfer (CCT) programmes in the region. These programmes complement the social insurance. The model combines consumption-smoothing and risk-pooling functions with an explicit commitment to redistribution through social assistance programmes. The system of social safety nets displays the following characteristics:

- They are very heterogeneous and are widely spread across the region with a cost often lower than 0.5 per cent of GNP and positive impact on vulnerable groups.
- They raise four key issues: (a) the permanence of their impact; (b) appropriateness of benefits and conditions; (c) targeting criteria for vulnerable population groups; (d) their contribution to serious poverty traps.

2. Policies for extending coverage

The extension of coverage requires an integration of public finance and social insurance policies and an integration of solidarity funding into contributory insurance schemes. Some

countries are trying to increase coverage by allocating the scarce public resources to the most needy, or by subsidizing demand and supply behaviours of specific groups that are in need of insurance but have no capacity to pay the contributions. Three policies are considered in this section:

- integrating non-contributory solidarity funding;
- facilitating the affiliation of the uninsured; and
- targeting benefits and affiliation.

2.1. Integrating non-contributory solidarity funding

2.1.1. The integration of public health systems and social insurance

Social assistance and health insurance systems have been merged in three alternative ways:

A totally integrated system. Brazil's Unified Health Care System (*Sistema Unico de Saude* (SUS)) includes funding from general revenue and specific taxes for social security to integrate all health-care schemes except that for the armed forces and police. It provides an integral service for the poorest 40 per cent, and is only complementary for the rest. Services are offered at three governmental levels (Federal, State and Municipal) and by private providers. Public employees may pay for private insurance without losing their rights within the SUS. These schemes are regulated by the State. Big firms may offer complementary Corporate Health Plans to their workforce.

An integration within the Social Security Fund. Costa Rica integrated the public health and health insurance systems without having the affiliates drop their contributions to the Social Security Fund. Additional tax financing provides for the needy and complements in a scaled manner the contributions that employers and employees make. Services are similar for all participants, with the voluntary option to look for complementary alternative private insurance schemes without stopping contributing to the Social Security Fund.

Integration in a public insurance scheme. Health insurance in Chile involves a mandatory premium of 7 per cent of earnings to a national public health fund or to a private one. It is in the former (*Fondo Nacional de Salud* (FONASA)), where solidarity takes place as a result of a pooled funding and benefits provided independently of contributions. There is no complete integration of funding sources. To avoid risk selection by private insurers and leaving the poor and sick without protection, premium regulations have been put in place to consider risk factors such as age, gender and income in order to strengthen solidarity.

2.1.2. Improving health-care market regulations

Health care packages and solidarity funding. The Colombian system is composed of a contributory regime and a subsidized regime. This last scheme is funded from the contributory scheme (intra-system solidarity) and state, department and municipal resources (tax financing). Targeting is set upon living and socio-demographic conditions. The Subsidiary Regime Management Companies (*Administradoras del Régimen Subsidiado* (ARS)) receive a unit of payment per each subsidized capita (UPCS), for the provision of benefits under the Obligatory Plan of Subsidized Health Care (POSS). Services not covered in the POSS are to be provided by the public hospitals. Coverage of the poor population is achieved through an addition and redistribution of sources, the introduction of new subsidy claims, the establishment of a new collective health plan, and the creation of a new subsidized health scheme.

A health guarantee regime works in Chile. A sanitary regulatory instrument that considers universal access to integrated benefits and explicit guarantees associated with sanitary priorities (AUGE). These incorporate additional health services as more resources are made available. Both (FONASA) and the private insurers (ISAPRES) are obliged to cover the guarantees under the superintendence surveillance.

Supply and demand subsidies for health insurance. The Mexican Social Security Institute (*Instituto Mexicano del Seguro Social*) introduced supply subsidies in the country's conditional cash transfer programme for poverty alleviation (*Oportunidades*) including mandatory access to health care and primary health services. The Popular Health Insurance (*Seguro Popular de Salud* (SPS)) is interesting because of its financing mechanism and its use of demand subsidies. This insurance targets the poorest population, and includes the provision of a free-of-charge health package, which gradually increases the number of services included. The SPS does not discriminate by risks, or by prevalence. It reduces out-of-pocket expenditures to the lower income families, as it is free of charge for the two lowest quintiles. For other persons the SPS charges a fee directly proportional to their socio-economic background. Approximately 65 per cent of its funding comes from federal resources, 29 per cent from the states and 4 per cent from the beneficiaries.

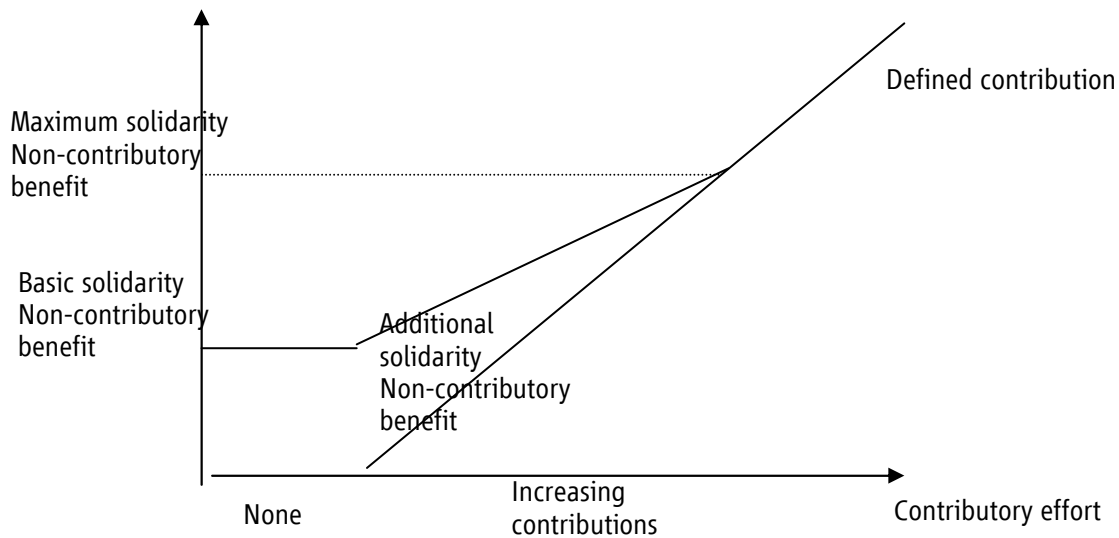
2.1.3. Non-contributory benefits and appropriate incentives to contribute

Non-conditional pensions. Brazil developed rural universal pension schemes financed out of agricultural trade taxes. Targeted to those with 12 years or more in agriculture; partly financed out of a specific tax on agricultural trade. A non-contributory pension targeted by geographical area, reduced poverty among the aged in rural areas of north-east Brazil. Mexico launched a Programme for the Provision of Care for Old People aged 70 or older living in rural communities of less than 2,500 people. For persons who are not receiving benefits from other federal programmes. Payment may be made every four months. It is financed out of general revenues.

Complementary pensions. A complementary pension scheme was created in Peru for low-income earners insured under the Private Pension System (*Sistema Privado de Pensiones* (SPP)). Targeted to those who joined the SPP at an age that could not accumulate for a pension comparable to the one they would have received under the National Pension System (*Sistema Nacional de Pensiones*). It also benefits pensioners who were granted early retirement due to a work-related health risk.

Basic solidarity pensions. A Solidarity Pension Scheme for the poorest 60 per cent of the population 65 and above was set in Chile. It provides a tax-financed non-contributory basic solidarity pension benefit for those without contributions and an additional contributory solidarity to supplement the affiliate's saving efforts. The complement is a minimum pension that increases gradually until reaching the maximum subsidized benefit.

Figure 2. The Chilean structure of pension benefits



Economic support for old people. A pension is paid monthly in Guatemala to those older than 65 with insufficient economic resources, who are living in extreme poverty and without social security cover, including those with a physical, mental or sensory disability. It is actuarially assessed and financed out of compulsory contributions from individuals and enterprises and an annual State budget allocation.

2.2. Facilitating the affiliation of the uninsured

2.2.1. Single tax form

Under this option and with a single payment an independent worker updates his or her record with the Social Insurance Fund in Uruguay (BPS, 2008) and the Internal Revenue Service (*Dirección General de Impuestos*). It secures access to: subsidies for sickness and retirement purposes; New Family Allowances System (*Sistema de Asignaciones Familiares*); and, with additional contributions, to the Integrated Health Care System (family members included). Affiliation takes place with a single and unique form.

In 2005 Argentina changed the Simplified Scheme for Small Contributors (*Monotributo*), establishing an amnesty plus a payment plan for small contributors who are unable to meet their obligations towards the general scheme, as well as towards the tax and health-care systems. It created categories for small contributors.

2.2.2. Selective subsidies for encouraging affiliation

Argentina introduced an early unemployment benefit for those affiliated with sufficient length of service, but who did not meet the age requirement. The benefit is paid until the recipient reached the age of eligibility for old-age retirement benefit. Eligible could not perform economic activity, nor be a beneficiary of other social contributory or non-contributory programme and needed to choose the most advantageous for them.

Argentina's included a Family Support Allowance for beneficiaries who cannot cover funeral costs from their normal income. Brazil developed a special welfare inclusion scheme

amending important elements of the general pension scheme and of the scheme for public servants, including: the disabled persons covered by the general scheme; household workers in low-income families; those in hazardous work. Mexico incentivized the self-employed workers to voluntarily join a Retirement Fund Administration (*Administradoras de Fondos para el Retiro* (AFORE)). Voluntary contributions, withdrawn at specified intervals, or long-term savings deposits that may be withdrawn by agreement with the AFORE. Special accountings were set for self-employed workers.

2.2.3. Improving affiliation through better governance

Argentina, improved governance and reliability with a free choice of retirement scheme; an automatic membership of the pay-as-you-go (PAYG) scheme for new entrants in the labour market; an automatic transfer to the PAYG scheme. In an ultimate attempt, the government abolished the individual capitalization scheme and absorbed the schemes into the public pay-as-you-go scheme. Capital reserves maintain now the non-contributory and social welfare pensions. Mexico introduced new regulations on commissions charged by the industry; simpler information to make educated choices; incentives to the pension fund managers to charge smaller fees, and to provide higher return rates and better services.

2.3. Targeting benefits and affiliation

2.3.1. Universal coverage

Bolivia moved from *Bonosol* to *Renta Dignidad* promoting universal access to previously defined minimum benefit packages. *Bonosol* provided a pension benefit from a State Privatization Fund to all aged 65 and above born before the reform, but independently from contributory records or socio-economic background. Oil taxes now finance a new benefit called *Renta Dignidad* for over 640,000 people older than age 65 who did not qualify for *Bonosol*.

Brazil conditional cash transfers social assistance programmes *Bolsa Família* reaches over 60 per cent of the households in the four poorest income deciles in Brazil. It provides income support, subject to child school attendance, participation in vaccinations, nutritional monitoring, prenatal and postnatal tests. Its coverage has expanded rapidly. It has extended social protection at an affordable cost. It contributed to mainstream gender; "financial inclusion"; employment and skills development, and piloting of microcredit initiatives and business development services for micro enterprises; providing an exit door via unemployment benefits and CCTs. It has also been used as an anti-crisis package.

2.3.2. Extending coverage to special groups of workers and people

Health Insurance for Old People (*Seguro de Salud para el Adulto Mayor*), is a comprehensive scheme free of charge programme throughout Bolivia. It provides health services under the National Health System to those over 60 years of age, permanent residents and that have no health coverage. Administered by municipal governments, and funded out of their own funds and taxes on hydrocarbons.

Belize insurance for work-related injuries targets employers who generate the most injuries, to implement stronger health and safety practices at work, less occupational injuries and a more productive work-force. Ecuador implemented a social security scheme for rural workers. The rural health and security programme *Seguro Social Campesino* is funded by 25 per cent out of the State to ensure rural people the same type of health services that are available to those covered by the compulsory insurance system. It covers all the family

members of rural workers and empowers its users and their active participation in the co-management of health dispensaries.

Dominican Republic Family Health Insurance (*Seguro Familiar de Salud* (SFS)) provides comprehensive physical and mental health protection for the most vulnerable members and their families and to provide universal coverage without exclusion based on age, sex or social, employment and territorial status. It has developed a basic health package and grants subsidies for temporary disability, non-work-related illnesses, maternity and breast-feeding. SFS members can purchase supplementary insurance. Regulations include prices for the provision of certain services and user co-payment for medication amounting to 30 per cent of the public sales price. El Salvador has implemented pensions for those living abroad by having them pay an administration fee of a maximum 1.5 per cent of their declared income, without disability and survivors' insurance, and an eventual refund to the country of residence in which their pensions will be paid.

2.3.3. Coverage for the self-employed and informal workers

Self-employed workers affiliated to the Social Insurance Fund of Costa Rica (*Caja Costarricense de Seguridad Social*) benefit from: a differentiated insurance premium according to socio-economic and income conditions; a demand subsidy for those facing hard conditions; portability throughout their working lifetime and work status. The coverage among the self-employed has increased in a pro-cyclical manner. Ecuador provides loans based on the level of earnings declared to the Ecuadorian Social Security Institute (*Instituto Ecuatoriano de Seguridad Social* (IESS)): it has helped reduce under-reporting of contributions and the perverse pact between employers and workers to evade the system of registration with the IESS.

El Salvador Social Security Institute extended health care to the children of affiliates and contributing pensioners and grants cash sickness and maternity and medical benefits to self-employed in industry and commerce and to pensioners. The Social Security Fund of Panama has established a compulsory membership for self-employed workers. They contribute 11 per cent of their gross annual income until 2009, and this will be raised to 13 per cent in 2010. They can choose the mixed pension system to participate in a defined contribution subsystem. Otherwise they remain as members of the defined-benefit subsystem.

Saint Kitts and Nevis established a new public service pension plan based on defined contributions for non-established workers ("government auxiliary workers"). The Government pays the full 6 per cent contribution until a salary scale review is completed and a salary increase is granted, after which auxiliary employees will begin paying their 3 per cent contribution to the pension fund. In case these employees have not contributed enough to receive a satisfactory minimum pension, they also receive a compassionate gratuity. Retirement benefits will be a combined pay-out of the Government and auxiliary workers' contributions plus any interest.

3. Conclusions

The low coverage of social security in Latin America results from the implementation of contributory insurance schemes for workers employed in underdeveloped labour markets. Demographic and epidemiological pressures, costly technological innovations, and badly designed systems further aggravate the situation. The time has come to adapt the social security systems to the new reality. A new generation of reforms is emerging but with a set of different outcomes. In the particular case of pensions: in Argentina, the authorities merged all affiliates back into defined benefit pay-as-you-go schemes to reinforce intra-solidarity in the

national system; in Chile, the authorities reinforced the defined contribution fully funded pillar, but complemented it with a defined benefit solidarity pillar.

Three strategies seem to be used by the authorities to identify and to overcome the limitations to higher contribution. One is reinforcing solidarity by means of integrating financing sources of alternative schemes of social protection. Total integration can be found in the health insurance system of Brazil, integration in the Social Security Fund is found in Costa Rica, and partial integration of public health care and insurance is found in Chile. With some minor exceptions, all other countries continue to provide protection with alternative segmented schemes.

Another strategy is to reinforce solidarity by means of regulation and surveillance of the insurance and pension fund administration industries. Such solutions involve designing an explicit, credible and guaranteed social benefit package, and a solidarity fund to secure access to the package to all. Such solutions can be partially found in Chile, Colombia and most recently in Uruguay. An extreme solution is to restructure the funding that is available to integrate social security benefits into the social assistance and income support programmes originally created for emergency situations and for the neediest. In fact these programmes are being transformed into permanent conditional cash transfer programmes, with the aim of conditioning cash transfers to human capital development of the poor. These programmes are found not only in the poorest countries of the Americas, but also in the middle-and upper-income countries.

Finally, a third strategy is that of experimenting with alternative demand and supply subsidies within the social security system. Non-contributory pension schemes have been established in Chile, Ecuador and in rural Brazil. Mexico and Peru have such schemes for the neediest and eldest people while Bolivia for all citizens born before a certain date linked to the fully funded reform in Bolivia. Health insurance demand subsidies are implemented in Costa Rica, Colombia and Dominican Republic.

The poor have traditionally relied on intra-household care and public provision of benefits. The formal workers have relied on contributory social security schemes; and corporate workers and the richest have relied on the market. Under such segmented social protection systems, social security schemes are vehicles that reproduce inequality.

The experiences described in this report show that the American nations are attempting to break away from such segmented systems of social protection, and to advance towards a single integrated system providing access to all, and benefits that can be graduated according to contributory capacity. This requires two things: firstly, advancing towards a unified system characterized by functions (finance, provision, regulation and surveillance) and not by institutions (state, social insurance, market); secondly, overcoming inequality and resource constraints by way of integrating all finance sources, promoting competition among providers and securing overall regulation and surveillance.

3.1. A "new deal on social protection", a context-specific integrated system with solidarity built in

The Americas need a rethinking of social security, along the lines of the ISSA Dynamic Social Security approach. This rethink involves designing an integrated solidarity framework, one where contributory and non-contributory social security funding efforts are combined under a "new deal on social protection". The deal must place social rights as the normative horizon and socio-economic inequality and budget restrictions as limitations that social security policy needs to recognize and overcome (CEPAL, 2006; ISSA, 2009).

It involves rethinking two strong assumptions of formal contributory social security systems. In fact:

- Many workers do not have stable and long-term employment with earnings above the poverty line. Therefore they do not experience life-cycle income profiles that would enable them to save for old age and ill health during their productive ages.
- The state does not have sufficient resources to act as an insurer of last resort to all those who cannot provide insurance for themselves.

Waiting for the labour market to develop and to allow all workers to participate in contributory systems may take too long to be politically viable. The time has come to design flexible systems that follow the ISSA Dynamic Social Security approach.

Based on the efforts that the Americas have been making, flexibility is taking the following forms:

- There is no one model that fits all circumstances. Solutions differ according to demography, labour market developments, tax burdens, institutional development and other context-specific factors.
- Multiple-pillar systems are being extended to include a non-contributory solidarity pillar, combining different sources of finance to build a unified integrated system.
- Solidarity benefits are needed, but the conditions providing access to them have to differ from country to country, in proportion to the resources available from within the system and from tax revenues.
- Actuarial studies are becoming fundamental to assuring the meeting of fiscal responsibility goals.
- The structure of contributory and non-contributory benefits should be designed so that basic benefits can be guaranteed for all. Defined contribution benefits should be complementary, and designed in a way that prevents perverse incentives for affiliation, and where contribution is mandatory.
- Basic solidarity health insurance and pension benefit packages are becoming very common, replacing universal benefits, and responding to public budget constraints and distributional as well as anti-poverty goals.
- Solidarity among affiliates is more suitable for health insurance than for contributory pension systems, but both require additional non-contributory funding.
- Regulation of social security system components that are privately managed is essential to improve efficiency, efficacy and equity.
- Political risks of handling large amounts of resources allocated to social protection should be avoided.
- Conditional cash transfer programmes should be integrated into formal social protection systems.

3.2. Extending coverage through a combination of contributory and tax-financed benefits

In response to the challenging trends of coverage deterioration across all countries of the Americas, solutions are diverse. They need to be context-specific and respond to the real causes and consequences. The proper design of the system's financing will always be essential.

Coverage cannot be extended simply by improving the contribution incentives. It also requires addressing the structural limitations. Improving social security design for coverage extension involves:

- reaching a new deal for social protection, supported by the highest political will to address all causes of coverage failure;
- undertaking integrated, preventive and long-term actions;
- executing inter-sector coordination when needed;
- using policy-oriented, context- and culture-specific targeting criteria to universalize explicit, credible and guaranteed social protection benefits to the neediest;
- understanding the nature of the problem and timing and sequencing improvements in a gradual way that is consistent with the long-term financial and political conditions of the nation, rather than driven by the short life spans of individual governments;
- understanding that there is no one model that fits all, because employment is sensitive to life and economic cycles; because demography, labour market developments and public finance are context-specific; and also because social security systems take time to mature;
- complementary labour policies towards the non-structured sectors of employment, by way of flexible normative frameworks, adapting requirements to the nature and characteristics of informal work, and scaling down eligibility conditions.

Most importantly, coverage extension requires the integration of contributory and non-contributory schemes into one single system to promote solidarity financing and to improve access; and to provide targeted basic solidarity benefits. Market solutions without regulation can worsen the operation of the social security system. Tax collection needs to be adapted to specific contexts, to reduce distortions in the system incentives, and to reconcile the way the principles of solidarity and efficiency are guaranteed in the system.

Finally, the goal of social security for all can be achieved, but only by complementing contributory schemes with large, non-contributory, tax-financed programmes. Such programmes can be affordable for all countries of the Americas, but their implementation will require — and constitute — a New Social Contract and a commitment to make it possible either by changing the structure of government spending or by increasing the country's tax collection. As part of such a New Social Contract, the major goal of public finance policies has to balance the requirements of macroeconomic stability and the stable financing of social security. But a New Deal does not obligate the government only: the task of the people — as individuals, as communities and as a nation — is to create a culture where citizens recognize that they do not only have rights but also obligations as taxpayers.

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