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Regional Social Security Forum for the Americas Developments and Trends of Social Security in the Americas Mr Hans-Horst Konkolewsky, ISSA Secretary General Brasilia, Brazil, 25 May 2009

Honourable Ministers,
Distinguished guests,
Ladies and Gentlemen,

Welcome to the Developments and Trends Session of the First ISSA Regional Social Security Forum for the Americas, which is being hosted by the Ministry of Social Insurance of Brazil.

Development and Trends (or DT) sessions have traditionally been organized exclusively at ISSA General Assemblies and more recently at the First World Social Security Forum in 2007. This is the first time for the ISSA to organize an occasion to specifically discuss developments and trends in social security in the Americas. It is also the first time that the ISSA has prepared a DT report specifically on this region, namely “Dynamic Social Security for the Americas: Social Cohesion and Institutional Diversity”, which will set the stage for our debates and deliberations for this session and more generally during the three-day forum.

This DT session, together with similar events already held in Africa, Asia and the Pacific as well as Europe, will contribute to the forthcoming World Social Security Forum to be held in late November this year in Cape Town, South Africa.

Ladies and Gentlemen,

This region is special both for the ISSA and for global social security development. It has some of the oldest social security schemes in the world, such as the Argentine pension system established in 1904. The National Insurance Fund of Peru became the first Non-European member of the ISSA as early as in the 1930s. Furthermore, this region is the first in the world to adopt the term of “social security”, which was used in the 1935 Social Security Act during US President Roosevelt’s New Deal. It is also where diverse and often innovative social security reforms have been launched across different schemes in recent decades, especially in the Spanish-speaking countries of Latin America.

Among such reforms is the introduction of defined-contribution fully-funded individual pension accounts, which, after being implemented in Chile in the 1980’s inspired many countries in Latin America as well as other regions. Other reforms include the development of conditional cash transfer programmes in countries such as Mexico and Jamaica; the implementation of non-contributory old-age pension in Bolivia and Brazil, individual severance accounts for unemployment in Chile as well as recent developments towards universal child benefits in Uruguay.

Although social security is a human right enshrined in the Universal Declaration of Human rights, it is important to remember that for most people it remains a luxury or a dream, as it is estimated that only one in five people worldwide has adequate social security coverage, and more than half lack any coverage at all. In the Americas, even though all countries provide some pensions for old age,

disability and survivors for the formal sector and nearly all countries provide coverage for work injury as well as sickness and maternity, the development of family allowances and unemployment benefits is rather incomplete. Moreover, the majority of social security programmes are contributory and thus confined to the formal sector and urban areas. In Canada and the United States, the retirement pension coverage is considered universal or nearly universal. In Latin America and the Caribbean, however, developments in pension coverage are highly unequal, with the percentage of employed persons who are affiliated to social insurance schemes ranging from less than 30 per cent in the lowest income countries, to about 50 per cent in the middle-income countries and 60 per cent in the relatively high-income countries.

In terms of health care, the coverage rates vary considerably across the regions, and the average figure for Latin America is close to 40 per cent. Regardless of the success of universal health coverage in Argentina, Brazil, Canada, Chile, Costa Rica, Cuba and Uruguay, and in spite of a milestone 2010 health-care development in the United States in extending coverage to most citizens, a significant proportion of the total population of the Americas has limited coverage for health protection, and out-of-pocket health care costs represent around 35 per cent of total health care expenditure in the region.

Ladies and Gentlemen,

In my presentation, I will point out some key observations on the recent trends, summarize the common challenges faced by social security schemes in this region including the impacts of the crisis, discuss some of the innovative responses developed in this region to cope with such challenges and which improve coverage as well as governance and administration, and conclude with some lessons or insights from the recent developments in the region.

Let me share with you three introductory key observations:

1. Many countries in the region have, in a context of growing informality and inequality, enhanced minimum social protection, targeted both informal and formal-sector employees and their dependants for coverage extension, and witnessed the restoration and improvement of fundamental principles of social security in the reforms.
2. The whole region is moving positively towards the promotion of a social security culture, and progressing from segmented towards a more coordinated and integrated approach in social security development. Where most successful, the strengthening of social security schemes has been supported by an informed and open social dialogue as well as strong political will.
3. The economic and financial crisis has highlighted the crucial importance of social security in enhancing social cohesion and stability by meeting the essential social and economic needs of individuals and families. It also accelerated a number of emerging trends in social security in the region towards more dynamic approaches. Such trends include linking cash transfer with expected cultural changes, adopting a broad-based participatory process and mixed financing mechanisms, and introducing innovative practices in improving compliance and collection of contributions. In short, social security institutions are expected to achieve more, and in many cases with less resources.

Like other regions of the world, social security in the Americas has to tackle some common challenges:

- Ageing is becoming an issue of growing concern for the region, albeit to a lesser degree than Europe. Nearly 17 per cent of the population of Northern America and 10 per cent of the population of the Caribbean and Latin America are aged 60 or older.

- The region is confronted with increasing migration both within and across the borders. More than 20 million people from Latin America and the Caribbean are immigrants, of which only around 15 percent are covered by social security agreements between origin and destination countries.
- Countries in the region have come under greater competitive stress brought by globalization, which has heightened the risk of both informality and underpayment of social contributions in some countries, hence posing a risk of declining coverage and benefit adequacy. On average, informal employment in Latin America represents 47 per cent of the urban labour force. The growing trend in informality has seriously challenged the earlier expectations with regard to the gradual extension of social protection in tandem with industrialization and formalization.
- The financial and economic crisis has undoubtedly impacted all social security schemes in the region, although the degree of impacts and response measures vary markedly among developed and developing countries, and among the latter group between the South American countries and some of the Central American and Caribbean countries due to different national circumstances. The crisis has highlighted the centrality and strengths of social security schemes as automatic stabilizers, but also their potential weaknesses. In the short run, a challenge facing many systems has been one of maintaining financial equilibrium, as many national pension systems have experienced substantial losses on their asset portfolio. Rising unemployment rates, reduced contributions, and surges in new claims for benefits have placed and continue to place social security systems under considerable strain.

Many countries in the region, which have learned from previous crises and achieved wider protection coverage, have proven more resilient and better prepared to respond to the crisis. Among the effectively implemented measures are creation of an unemployment fund to support dismissed workers such as in Antigua and Barbuda, subsidies and flexibility for the payment of social security contributions like in Argentina, the improvements in the programmes of support to households with low income in Argentina, Brazil and Uruguay, incentives for the promotion of worker formalization like in Peru, subsidies to promote retention and training of workers like in Chile, as well as increases in the minimum wage and more public expenditure aimed at promoting public employment in several countries.

The mid-term risks involve not only the financial burden of certain stimulus measures such as freezing or reducing contribution rates, increasing cash benefits or introducing new ones, but also the high probability of a prolonged labour market difficulties. Historical evidence shows that labour markets tend to recover only four to five years after an economic recovery has begun. In the long run, there is a need to reflect on how social security systems can be improved to protect the well-being of the population during good as well as bad times. The crisis may lead to a reassessment of the roles and scope of many national social security systems in the region.

Ladies and Gentlemen,

The ISSA would like to applaud the social security institutions in this region for their unremitting efforts and success in social security reforms. Please allow me to elaborate on some of the main priorities and trends in the recent efforts to develop social security systems in the Americas:

In terms of Old-age pensions, there has been an increasingly strengthened role of public finance, a growing importance attached to an appropriate interaction between contributory and tax-financed benefits, and a development towards an integrated multi-pillared system, with due consideration

given to gender equality and social cohesion. The most noteworthy development is the recent “re-reforms” of individual account systems due to factors such as lack of solidarity, high administration costs as well as low-income replacement rates and low coverage rates. In Chile, where more than half of all pensioners are estimated to be in need of publicly-financed social assistance, the government added in 2008 a basic solidarity pillar alongside its individual account system. In December 2008, in a radical turn, the Argentine government switched back from the private pension funds to an integrated Pay-As-You-Go pension system.

In countries where Pay-As-You-Go defined benefit schemes remained in place, various parametric reforms to the social insurance schemes have been introduced, such as changes to contribution rates, retirement ages, and benefit formulas and their indexation. One prime example is Uruguay, which has not only improved the flexibility of the retirement system, but also reformed its health insurance and unemployment insurance system. It has also introduced, as in Argentina and Brazil, the so-called “monotributo” (single tax payment), which allows the self-employed to pay a single amount as both their social insurance contribution and tax payment. As a result, the number of workers contributing to the Social Insurance Bank has grown substantially over the past few years.

Aside from the basic solidarity pillar in Chile, quite a few other countries have also extended coverage under their publicly-financed non-contributory old age pension schemes. For instance, Belize extended coverage to men aged 67 or older under its tax-financed scheme which used to cover only women aged 65 or older. Bolivia introduced in 2008 a new benefit called Dignity (Dignidad) for people above 65 who do not qualify for a pension. Peru has paid a complementary pension to persons insured under the Private Pension System whose pension income is less than the monthly minimum pension.

In spite of a great diversity in health care provision and financing among various schemes in the region, many countries are moving from segmented health protection systems towards coordinated and integrated models, which seek to not only expand universal coverage of risks but also strengthen public health care provisions. Full integration has been achieved through exclusively public systems as found in most English-speaking Caribbean countries plus Cuba, or by integrating social insurance and subsidized and tax-financed health care, as done in Costa Rica, Columbia and Chile. One important recent development is the health scheme established throughout the country in Bolivia for persons aged 65 and above, who are provided with health care free of charge. Uruguay has implemented a ten-step reform in recent years to move from a segmented to a universal National Integrated Health System by adopting mixed financing mechanisms and giving full play to both public and private providers.

Perhaps the most encouraging development in the region is the hard-won March 2010 passage of the health care reform bill in the United States, which, among other proposals, provides for free preventative care under Medicare and new private plans, increase in funding for community health centres, tax credits to small businesses and premium subsidies for uncovered low-income people. The reform is expected to expand coverage to 32 million uninsured Americans.

Ladies and Gentlemen,

Aside from encouraging advancement in contributory social insurance schemes, the region has also made a big stride in extending social protection through social assistance schemes. Besides the afore-mentioned provision of tax-financed old-age pensions in some countries, over a dozen countries in Latin America and the Caribbean have implemented conditional cash transfer schemes, such as the Bolsa Familia Programme in Brazil, the Programa Solidaridad (Solidarity Programme) in Dominican Republic and the Plan de Equidad (the Equity Plan) of Uruguay. These schemes not only provide cash incomes to the most vulnerable groups, but also seek cultural changes with respect to labour market participation and the utilization of health services and schools, thus having

a positive impact on the well-being of vulnerable groups, including children, especially in times of crisis.

One important and visible social security trend in the Americas has been the increased social dialogue and the development of a social security culture. In Brazil, a national social security forum promoted debate among various stakeholders and produced a National Consensus on social security development. In Uruguay, a national social security dialogue was launched in 2007 by the President, and resulted in a document containing an evaluation and reform proposals that set the tone for an integrated approach to social protection. Similar processes based on dialogue and social consensus, which help shape and legitimize the reforms, also exists in countries like Argentina, Barbados, Chile, Costa Rica, Nicaragua, Panama, Peru and the United States.

Realizing governance improvements in the effective and efficient administration and delivery of benefits sits high on the agenda of social security institutions in the region. Well-governed social security institutions are crucial to sustaining the public trust needed to confront future challenges. Significantly, social security institutions in the Americas have adopted various initiatives to improve their administrative and operational efficiency and when applicable, to focus their fund investment. Such measures include but are not limited to international cooperation through bilateral and multilateral social security agreements, financial risks control mechanisms, proactive and preventative approaches as well as the use of the latest information technology in programme management and service delivery.

One encouraging development is the 2008 implementation of an information and communication technology system called SIACI (the International Agreements System on Social Security) among the MERCOSUR countries (Argentina, Brazil, Paraguay and Uruguay). Such a transnational data exchange system effectively manages, in times of increased mobility, the pension requests of individuals who have worked in these countries. Similarly, the Social Security Institute of Guatemala has carried out a financial modernization project, which includes innovation and automation of processes with regard to registration and collection of contributions. New measures have been adopted in Peru to promote a prevention-based approach to occupational hazards, which substantially increases employers' responsibilities to apply prevention measures and comply with regulations. There is a long list of such good practices, which I can not enumerate here but which are featured in the ISSA good practice database and reflected the crucial role social security institutions play in this region. Later today, in relation with the Good Practice Award, some of these innovations will be recognized.

Ladies and Gentlemen,

In times of crisis, social security systems are increasingly at the core of the social, economic and political development throughout the world. The extension of social security coverage and adequacy of existing benefits are increasingly important for many countries in this region.

For ISSA, Dynamic Social Security is the way forward to extending coverage and improving various aspects of the administration of social security schemes. It calls for sustainable and accessible social security systems that are based on innovative, integrated and preventative responses. We are currently in a process of developing an explicit ISSA strategy, which aims to help members work towards the extension of coverage in the respective countries. This strategy will be launched at the forthcoming World Social Security Forum, and we expect to have many countries in the Americas to actively participate in the implementation of the strategy at national level.

I wish here to highlight two remarkable events which have enhanced ISSA's role and partnership in the region: First, in November 2009, during the 25th General Assembly of Inter-American

Conference on Social Security (CISS), a Guatemala Declaration was jointly signed by the ISSA, OISS, and CISS. This declaration supports our concept of Dynamic Social Security, and it encourages the relevant international and regional organizations to collaborate in education, training and skill development. It also invites all States in the region to declare the last week of April as a “Social Security Week” in an effort to promote the cultivation of a social security culture on the continent.

Second, in December 2008, the Santiago de Chile Declaration was signed at the Joint ISSA-CISS-OISS High-Level Interregional Meeting on Pension reforms held in Chile, where valuable Latin American experience was exchanged with ISSA members from Central and Eastern Europe and CIS countries which are facing similar challenges. The declaration focused on four priority areas of cooperation (including social protection strategies, social protection for migrant workers, promotion of ILO’s social security Conventions and Recommendations, and enhancement of national cultures of prevention) as an expression of the ISSA’s commitment to cooperate and to develop synergies with the main regional social security bodies in the region.

The recent experience in the region is quite instructive. It tells us that privately managed individual retirement schemes do have their limits, and that the design of some social security systems needs to be reviewed. It tells us that the State has to maintain its role as supervisor and design a set of sound regulations to guarantee the minimum protection and promote multiple and integrated approaches to social security development. It also tells us that what matters are solidarity, social dialogue, mixed financing mechanisms as well as social, political and financial sustainability. Looking at some key challenges ahead for the countries of the Americas, national social security systems need to further integrate diverse social protection institutional and financing mechanisms, which should offer the correct incentives to covered individuals, and be governed by fair and reliable regulation.

The many examples I mentioned above have clearly demonstrated that there is a growing awareness of the contribution that dynamic social security can make to building inclusive societies and productive economies, and that social security institutions have played an increasingly proactive role in social security development and reforms in this region. The discussions on good governance, pension reforms and coverage extension at this Forum will provide us all with a prime occasion to share with colleagues and peers about our innovations and lessons, and to reflect on the way forward. Our discussions leading to the forthcoming first Regional Summit for the Americas will certainly confirm and send the message that social security institutions are major contributors to the well-being of the people and social and economic development in the Americas, and they are willing and ready to extend and improve social security coverage in the Americas.

Thank you very much for your attention!