

# **4<sup>th</sup> International Research Conference on Social Security**

Antwerp, 5-7 May 2003



**"Social security in a long life society"**

---

## **Social security in the long life society: Brazilian experience in the Latin American context**

***Milko MATIJASCIC, Rogério P. CALSAVARA  
Campinas State University (UNICAMP)  
Brazil***

---

**International Social Security Association**

**Research Programme**

Case postale 1, CH-1211 Geneva 22

Fax: +41 22 799 8509

e-mail: [issarc@ilo.org](mailto:issarc@ilo.org)

Web: [www.issa.int](http://www.issa.int)

# **Social security in a long living society: Brazilian experience in the Latin American context**

Milko Matijascic<sup>1</sup>

Rogério P. Calsavara<sup>2</sup>

## **ABSTRACT**

In contrast to statements made in the mainstream debate during the 1990s, Brazilian social security had positive effects on the economy and reduced poverty. The measures contained in the 1988 Constitution, although severely criticized, can be considered an example to be analyzed by other developing countries to build socially stable long living societies.

The effects of the redistribution leaded by social security's system were positive, increasing the revenues of the poorest and reducing the pressures on the metropolitan area.

However, the level of coverage is falling and the social situation in the country is likely to deteriorate even further due to the effects of the economic reforms. The insistence on maintaining a debate that stimulates full and individual capitalization is highly questionable, in view of the poor results obtained by Latin American countries, and is a source of great concern.

---

<sup>1</sup> Milko Matijascic is a researcher at the the Campinas State University (UNICAMP), Brazil and Research Associate Director at Salesian Catholic University of São Paulo- UNISAL.

<sup>2</sup> Rogério Pereira Calsavara is a researcher at the the Campinas State, Brazil and Assistant Professor at Salesian Catholic University of São Paulo The authors wishes to thank Terence Edward Hill for the english version of this paper.

## INTRODUCTION

All during the 1990s, the critics held that the public social security systems in Latin-American countries were unprepared to cope with the perspective of long-living citizens. These systems were judged as:

- badly conceived, not encouraging workers to enroll;
- administratively expensive; and
- regressive, because they transferred resources to segments of society that were already financially better off.

In addition, it was held that these systems did not encourage savings and created distortions in the labor market by encouraging early retirement.

A number of countries undertook widespread reforms, replacing the former traditional public systems with full and individual capitalization systems, as pointed out by Mesa-Lago (2000). Other countries chose to introduce mechanisms that, side by side with the public system, would encourage this same kind of protection. With these measures, the authorities imagined that the problems could be gotten around and economic performance could be reinforced.

After a number of years, the results of the reforms such as those put in place in Chile and Argentina were disappointing. Brazil, which chose to modify the legislation but also to maintain the public system, obtained better results. By preserving the solidarity between generations and incorporating new groups into social security, the country was able to distribute income to the poorest regions, thus increasing the level of local wealth and reducing the internal migrations which have been so damaging for the management of public policies in the large cities. Based on Merrien's analysis (2001), it can be said that the application of the theses of the Consensus of Philadelphia showed better results than those propounded by the Consensus of Washington.

But a number of serious problems still exist that demand concrete measures by the Brazilian authorities. Coverage for the older population is still not universal, and is expected to fall with the introduction of reforms that give priority the concession of individual benefits proportional to the amount of the contributions made. In addition, the economic crisis undergone by Latin America has reduced the proportion of jobs that respect social rights. Therefore, there is need to improve the quality of the diagnoses in order to expand social rights and provide the excluded populations with the basic conditions of citizenship. The purpose of the present discussion, which is only beginning, is aimed at analyzing the arguments used in the debates over the last twenty years.

### ***1 - Social security reforms in Brazil and Latin-American countries: Preliminary results<sup>3</sup>***

Based on the results seen in Brazil and its neighboring countries, it is now possible to draw up a preliminary balance sheet to appraise both the extent and the limitations of the options for reform and to ascertain to what extent the obstacles existing in the social security systems have been overcome.

#### **1.1- Difficulties faced by the public social security systems**

The reform of the social security system has been under discussion in Brazil and throughout Latin America in general since the late 1970s. According to the critics of the public social security systems, the following problems warranted the adoption of broad reforms:

---

<sup>3</sup> This section sums up the conclusions of Matijascic (2002a).

- Benefits were disproportional to the contributions paid in, and the groups with the strongest voices in the political arena obtained the greatest advantages;
- Revenue was insufficient to guarantee long-term actuarial balances;
- The systems' management was of doubtful quality, since expenses were exceedingly high;
- The population was aging at a relatively fast rate and the countries were not setting up financial reserves to bear with the costs that would arise in the future;
- Public defined benefit plans prevented the labor market from operating effectively; and
- Public defined benefit plans was considered an obstacle to the promotion of economic growth.

The perception presented above clearly shows singularities for each country, but an analysis of the specialized literature shows that the aspects indicated summarize the critical points of view regarding the public social security systems until the mid-1990s. (Matijascic, 2000, 2001; Uthoff, 2001; and Mesa-Lago, 2000).

The reforms that were put up for debate in Latin-American countries, including Brazil, were based on very similar diagnoses. In Brazil, however, the public deficit and the resistance of actors in the political arena prevented the adoption of structural reforms, as defined by Mesa-Lago and Mueller (2001). Thus, a parametric-type reform was carried out.

An evaluation of the Brazilian experience therefore allows one to understand how effective the structural and the parametric social security reform strategies are, and might enable a reversal of the problems that exist in these systems.

## **1.2- Preliminary results of the reforms in Brazil and other Latin-American countries**

After expounding the reasoning of the critics of Latin-American public social security systems and the main characteristics of the reforms, especially in the Brazilian case, which are still uncertain, the preliminary results of the changes must also be described. As will be shown below, neither the structural nor the parametric reforms did away with the pre-existing distortions. To analyze this question, results will be presented referring not only to aspects that are endogenous to social security, that is, benefit regulation, management data, and financing. Exogenous aspects related to demography, the labor market, and the economy will also be discussed.

The results obtained thus far do not warrant confirmation of the positions of the Latin-American critics, since competition failed to reduce costs and the system did not become efficient. Data published by CONSAR (Comisión Nacional del Sistema de Ahorro para el Retiro de México) show that the costs have been very high in 1997, oscillating between 19.2 percent over total contributions in Mexico and 24.1 percent in Argentina.

In view of this data, the results of the National Social Security Institute (INSS) in Brazil are exemplary, since administrative costs are 6.2 percent of total revenue for 2001. Since such costs in OECD countries come to less than 1 percent, however, Brazil still has room for evolution in this matter of cost reduction.

The high administrative costs in countries that carried out structural reforms can be partially explained by the high degree of oligopolization of management systems. According to Mesa-Lago (2000: 26), the three largest pension funds cover 58 percent of the system's affiliates in Colombia, 73 percent in Peru, 40 percent in Argentina, 72 percent in Uruguay, and 60 percent in Chile (no data was available for Mexico). Therefore, the idea suggested by reformers, asserting that one of the advantages of the structural reforms would be the

reduction in costs due to the competition among different fund managers is unwarranted. In addition, the number of contributors failed to rise. According to Mesa-Lago (2000):

"Contrary to the supposition that a private social security system results in regular transfer of contributions and lower dropout rates (based on the allegation that the insured are the owners of the accounts and, the higher the contributions, the higher the benefits), the evidence shows that there are discrepancies between the number of affiliates and the number of regular contributors on the rolls of the system: only 48 percent- 53 percent in Argentina, Colombia and Chile, 67 percent in El Salvador, and 82 percent in Mexico and Uruguay. In Chile the percentage fell continually from 76 percent-53 percent between 1981 and 1998." (Mesa-Lago, 2000: 25 Retranslated.)

The number of contributors is also low in Brazil and a downward trend can be discerned despite efforts to incorporate new contributors into the system. Data published by the Brazilian Census Office (IBGE) show that in 1989, 48.6 percent of the working population was contributing, while this number fell to 43.5 percent in 1999. This is one of the results of the process of opening up of the economy adopted in Latin America, which, in general, has been showing ever lower employment rates and less social security coverage.

The results presented till the present would seem to indicate that the structural reforms implanted not only failed to improve the financial profile of the system, they jeopardized the benefits of the insured as well, since all those who receive wages above a determined ceiling are forced to channel their resources to social security funds that depend on the behavior of the capital market to establish the value of the corresponding benefits. The recent experience in Chile leaves no room for doubt. Although the gross performance of the funds was 10.9 percent per year between 1982 and 1998, the replacement rate represented approximately 38 percent to 50 percent of wages, according to Mesa-Lago and Arenas de Mesa (1998). Kay and Kritzer (2001) state that this can be partly explained by the rates and commissions paid for the management of the social security portfolios, thus reducing earnings, since the return rate thus falls to 5.4 percent per year. According to Uthoff (2001) with the recent fall in profits seen in countries such as Chile, the problem is getting worse.

In Brazil the amount of the benefits increased by 25.6 percent between December, 1994 and 2001. But the average value of the benefits paid by the National Social Security Institute was US\$ 147 in December, 2001, whereas the lowest was US\$ 74, which, in most cases, fails to cover basic consumption needs.

To sum up, even after the reforms, the social security benefits for employees in the private sector are unstable throughout Latin America and the groups with the strongest voice are those which receive the highest retirement benefits.

When confronting structural with parametric reforms, one must carefully analyze the fiscal aspects involved. The importance of this issue can be confirmed in the deposition of Raul Velloso, a well-known Brazilian specialist in tax matters, who has been consultant to the Federal Government since 1993 and to the O Estado de S. Paulo newspaper since January 20, 2002. According to him, one of the central aspects of the crisis in Argentina was the social security reform. This economist holds that the Argentinean fiscal results fell from a surplus of US\$ 2.2 billion in 1993 to a deficit of US\$ 6.9 billion. The current social security deficit rose approximately US\$ 900 million to US\$ 6.7 billion in the same period. According to Velloso, Brazil had considered implanting some similar scheme during the Fernando Henrique Cardoso administration but, at the last minute, the then president of the Central Bank, Francisco Lopes, vetoed the project, since the country had no way of obtaining a sufficient fiscal surplus to bear with the transition costs. In Chile, the reform also represented a high cost, according to Uthoff (2001):

"Ever since the implementation of the reform, the total social security deficit represented an average of 5.7 percent of the GNP, and its flow is higher than that of the net savings that the pillar of capitalization had channeled to the financial sector." Uthoff (2001: 19)

As pointed out by Matijascic and Draibe (2001) regarding Brazil, the options to carry out structural-type reforms, with a reduction in the ceiling of benefits and an increase in the value of the retirements to be paid on the basis of a model similar to that presented by the World Bank (1994), would raise the deficit until 2015, because social security revenues would be lower while the expenses for vested rights would be maintained. Only in 2030 would it be possible to reverse the situation. In any case, however, without imposing more restrictive rules of eligibility and with no improvement in macroeconomic indicators, the situation is unfeasible from the fiscal point of view in any context of reform.

The question of financing is controversial in Brazil and the disagreements are of such magnitude that the choice of any one of the interpretations could result in a surplus or a deficit, as described by Matijascic (2000, 2002).

According to Feghali (1999) and ANFIP (2001), the 1988 Constitution in Brazil determined that social security contributions, specifically, the COFINS Tax on Sales and Net Profit, and those made by employees and employers over the payroll should be allocated exclusively for financing social security, which includes health care, social welfare, and social security. Social security does not include the benefits afforded to public employees hired under specific statutes. Considering this definition, Brazil would have a social security surplus of US\$ 10.3 billion in 2002, and there would therefore be no discussion of a social security deficit. In other words, according to these authors, the provisions of the 1988 Constitution would be necessary to guarantee actuarial balance and the citizen's rights of the population.

The alternative formula compares the revenue from employers and employees and expenses on benefits. In this case, both the National Social Security Institute and the regimes of public employees showed a deficit and, according to Velloso (1999), these are the factors most responsible for the unbalanced public accounts in Brazil. Data from the Ministry of Social Security for 2002 show that the Social Security Institute's deficit was 1.6 percent of the GNP, while the social security of public employees represented a deficit of 3.8 percent of the GNP.

Both formulations clearly have difficulties. The proposal which defends the provisions of the 1988 Constitution fails to highlight the fact that social security contributions are responsible for an increasing part of the population's tax load, and that there are limits to raising labor obligations. Social policies cannot replace employment policies to sustain the population. On the other hand, in a country with vast numbers of agricultural and urban workers with low earnings and unstable occupational situations, it is impossible to conceive of a support system for their needs in old age, death and disability based exclusively on regular contributions from the workers themselves. The precariousness of the labor market is a factor that limits the possibilities of implanting a policy based on the principle of contributions. In Brazil greater numbers of workers would have to be incorporated if the social insurance model. If Mesa-Lago's (2000) arguments are taken seriously, this reasoning also holds for other Latin-American countries, since the number of taxpayers and the contributions of each insured are both low when compared to those of the OECD countries.

Not only have the problems related to the institutional order or to the decisions of policies hindered the management of social security finances. Questions related to the aging of the population and the consequences of the oscillations of economic activity on the labor market have also contributed to the deterioration of the situation experienced in the 1990s.

The Latin-American population has been showing accelerated aging. This problem is significant, but relative, if one considers that, in 2030, the Active Age Population (PAA) should reach a higher proportion of the total population than at present. By 2030, in Brazil, a reduction in the total dependence rate is expected, since it is likely to fall from 54 percent in 2000 to 47 percent in 2030, even though, according to Beltrão (1999), the population of older persons is expected also to increase from 6 percent to 12 percent. Chackiel (2000) has shown that there are countries where the demographic transition is advanced, such as in

Chile and Uruguay, whereas Brazil shows a slower aging process. But the trend toward aging is general and demands the adoption of preventive measures.

It is also essential to underscore, however, that the fall in the relationship between the number of contributors and the number of beneficiaries is directly related not only to the demographic variables in Brazil and the rest of Latin America, but also to the structure of the labor market, which has been employing fewer persons on the basis of contracts which guarantee social rights. This is due in large measure to the reduced dynamism of these economies during the 1980s and 1990s, with the exception of Chile. The low growth rates in the GNP have resulted in fewer jobs and a marked reduction in the total number of salaried workers. According to Cano (1999), even in the years with higher growths of the GNP, there was no substantial fall in the unemployment rate. In fact, fewer jobs became available during the same period and there was an increase in both the Economically Active Population (EAP) and the Active Age Population (AAP). In other words, in order for social security to be a factor that could affect the labor markets in Latin America, all would have to contribute regularly to the system. The rules on access to benefits would then have an effect on this cycle, which, as we have seen, is not the case at present.

The data on Brazil, to be presented below, shows many of the difficulties faced by the country and can, in some measure, serve as inspiration for an analysis of other countries in Latin America, although the economic performances of these countries do not fully coincide.

The reduction in the potential total revenue of social security in Brazil, considering the revenue obtained from the payrolls, was due in large measure to the country's very inadequate economic performance. The GNP in the 1990s, the worst recorded in its entire history, grew 19.6 percent between 1990 and 1999, according to data of the Brazilian Census Office (IBGE), whereas, according to data from the Social Security and Welfare Ministry (MPAS), the revenue fell by 2 percent during the same period, even considering that the figures were corrected by the price indexes. Had the growth in the revenue of the Social Security Institute been the same as that of the GNP, there would have been no deficit.<sup>4</sup>

One major difficulty in the economy of the 1990s was the increase in unemployment. Average levels in 1989 were 3.4 percent per year and 4.3 percent in 1990, whereas, in 1999, the total rate reached 7.6 percent. That is, there was an increase in unemployment of over 100 percent between 1989 and 1999. This increase reduced the number of contributors to social security, thus lowering revenue.

The most serious problem, however, was the considerable reduction in total wages, which retreated from 45 percent of the GNP in 1990 to 37 percent in 1999, losing out to the operational surplus that had risen from 33 percent to 41 percent, according to national accounting data on the occupational distribution of the GNP, published by the Census Office (IBGE). The remaining items, namely, the income of self-employed workers and taxation, underwent less drastic changes, falling from 7 percent to 5 percent, while the net tax load rose from 15 percent to 16 percent during the same period.

Therefore, considering the situation of variables that are exogenous to the social security system, aging can be seen as an important aspect, but its most drastic changes are only likely to take place after 2030, and cannot be considered the reason why the relationship

---

<sup>3</sup> Contrary to concerns expressed by the critics of the public social security systems, the relationship between structural reforms and economic growth was not verified. According to Uthoff (2001: 31). "By the end of 2000, 14 percent of the fund had been converted into guaranteed securities and another 4 percent into company bonuses, resulting in only 18 percent with direct impact on real conversion. Most of the rest was converted into financial instruments, whose impact on the real conversion is uncertain and indirect. In 2000, 13 percent of the fund was converted into secondary market stocks and an additional 21 percent, approximately, into savings deposits (which are adjusted for inflation in Chile). Over 36 percent is in public debts (especially due to the accumulation of Central Bank Reserves). Approximately 12 percent was in foreign instruments." Matijascic (1994) came to similar conclusions for Brazil, although he recognized, as did Uthoff, that pensions could exercise a significant role if the resources were channeled to the accumulation of capital.

between contributors and beneficiaries has fallen. This problem can only be understood by looking at the indicators related to the number of contributors compared with the total population, which, in Brazil, is very low, because of the high numbers of workers who do not contribute to the system. This is partially due to unemployment and, even more so, to the limited number of situations where social rights are respected. But the most serious economic difficulties are due to the fall in total wages paid and to the rise in the operational surplus of companies. It therefore becomes ever more urgent to find sources of financing other than payrolls, because their share has fallen in comparison to relation the GNP. This confirms the importance of social security budget, as determined in the Federal Constitution in 1988, as a mechanism for covering costs in Brazil.

## **2 - Effects of the changes introduced by Brazil's 1988 Constitution**

In contrast to statements made in the mainstream debate during the 1990s, Brazilian social security had positive effects on the economy and reduced poverty (Matijascic, 2002). The measures contained in the 1988 Constitution, although severely criticized, can, according to Merrien (2003), be considered an example to be analyzed by other developing countries to build socially stable long living societies. This section of the paper is aimed at analyzing how the system operated in the various regions of the country, considering its enormous heterogeneity.

### **2.1 - Redistributive effects of income in Brazil<sup>5</sup>**

Social Security had a decisive redistributive impact on the economy, as it favored the less economically dynamic municipalities. Pacheco et al. (1999) developed a classification for grouping Brazilian municipalities where, besides the demographic size of the municipality in each state, other factors were applied which indirectly measure the level of economic development of the municipalities, such as the degree of urbanization, the level of economic activity, etc. In this classification, municipalities with similar characteristics were grouped into clusters numbered from 1 to 5. For the purpose of analysis, these clusters comprise, respectively, the small, the medium-sized, and the large municipalities, the central municipalities of the metropolitan regions, and those closely surrounding the metropolitan regions. Table 1 shows this distribution by clusters and regions of the country's 4,429 municipalities, based on Brazilian information available in 1997. With data produced by Dataprev and compiled by França (1999), it is possible to determine how many municipalities in each cluster receive payments from the general regime of social security (INSS) that are greater than the funds from the Municipality Participation Fund (*Fundo de Participação dos Municípios - FPM*), which transfers resources from federal and state taxes to the municipal sphere.

**Table 1**  
Distribution of Brazilian municipalities according to large regions, by cluster units in 1997

Region	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Total
North	240	45	6	1	2	294
Northeast	1287	157	6	4	30	1484
Southeast	868	341	118	6	95	1428
South	552	217	42	2	37	850
Central-West	263	69	25	2	14	373
Brazil	3210	829	197	15	178	4429

Source: DATAPREV, Apud. França (1999).

<sup>5</sup> This section sums up the main conclusions of Calsavara (2001).



According to Schwarzer (2000), the municipalities where the volume of payments of benefits received from the INSS is greater than the funds received from the FPM will be called Social Security Municipalities, while the municipalities where the transfers from the participation fund are higher will be called Fiscal Municipalities. Table 2 shows a distribution of the municipalities according to this classification by large geographical region.

**Table 2**  
Predominance in transfers of social security funds over fiscal transfers to the municipalities, by region and cluster - Amounts in %:

Region	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Total
North	38	91	67	100	100	47
Northeast	66	98	100	100	77	70
Southeast	58	98	100	100	96	73
South	76	100	100	100	95	84
Central-West	24	84	100	100	86	42
Brazil	60	97	99	100	92	70

Source: DATAPREV, Apud. França (1999).

As can be seen in Table 2, the majority of the municipalities in Cluster 1 are classed as social security, but with a small difference, only 60 percent of the total. In Clusters 2, 3, 4 and 5, the number of municipalities with primarily social security transfers is notably higher. It is important to note that the cities in Cluster 1, the smaller and less developed, are not those which most profit from the payment of benefits. This is because the poorer cities receive more federal transfers because they themselves do not collect much in taxes, and are greatly dependent on higher spheres of government.

When the analysis considers the large regions, the data is confirmed. The Northern Region, corresponding basically to the Amazon, has a much less solid infrastructure, and many of its municipalities in Cluster 1 are quite isolated. This region is therefore more dependent on the higher spheres of government, since its economic activities are limited and its social situation is unstable. This same reasoning applies to the Central-Western Region. For the remaining clusters and in the other regions, social security transfers surpass fiscal transfers.

To calculate whether there has been transfer of income by social security to the smaller municipalities, according to cluster, and in the poorer regions, such as the North, the Northeast and the Central-West, one must know how much the municipalities pay in to social security and how much they receive in benefits from social security. More precisely, one must know whether a municipality collects less than it receives in benefits. Table 3 presents the results of the sample.

**Table 3**  
Municipalities that are net receivers from social security, by cluster and large region - %

Region	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Total
North	94	89	33	0	0	92
Northeast	94	98	83	0	53	94
Southeast	89	89	83	33	53	86
South	90	93	76	0	62	88
Central-West	83	81	72	0	86	82
Brazil	91	91	79	47	58	89

Source: DATAPREV, Apud. França (1999).

According to Table 3, the proportion of municipalities that are net receivers of social security resources falls to the extent that the cities are more dynamic. Whereas in Clusters 1 and 2, over 90percent of the municipalities receive more resources from social security than they contribute to it, this proportion falls to 78.7 percent in Cluster 3. In Cluster 4, which consists of the larger and more dynamic cities, the net receiving municipalities from social security are a minority,

consisting of only 46.7 percent of the total. The most interesting comparison is between Clusters 3 and 5. These clusters are similar in the number of inhabitants in the municipalities, but those in Cluster 5 are more dynamic economically than those in Cluster 3, due to the influence of the main city in the metropolitan region. Table 5 shows that although, in both clusters, the municipalities that are net receivers from INSS are in the majority, they are 58.4 percent of the total of Cluster 5 and 78.7 percent of Cluster 3. In other words, the number of municipalities in Cluster 3 that are net receivers is 3.5 times the number that are net payers, whereas in Cluster 5 this relationship is 1.4.

The same reasoning is confirmed from a regional analysis. The Northern and Northeastern regions are the greatest receivers of social security resources, whereas these funds are less in the Southeast and the South, although the differences are not significant between the regions; the size of the municipalities is a more significant variable. The situation of the Central-Western region is unusual, since its rate is the lowest in Brazil, especially in the smaller municipalities, although the region itself can be considered less developed than the South and Southeast. This is explained by the fact that central West has a younger population.

Table 4 shows the total transfer or receipt of sums per capita in regard to social security, according to the type of municipality (net receiver from or net payer to social security), for each cluster.

**Table 4**  
Municipal per capita transfer of social security funds by large region and by cluster (in R\$ of 1997)

Region	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Total
North	64	78	-23	59	55	64
Northeast	157	187	60	85	-6	156
Southeast	117	142	120	-78	-41	112
South	166	175	71	-138	-8	155
Central-West	62	88	53	-193	76	65
Brazil	133	151	95	-49	-18	128

Source: DATAPREV, Apud. França (1999).

Table 4 shows whether each cluster as a whole is a net receiver or a net payer of social security funds. According to the table, whereas Clusters 1, 2 and 3 are net receivers, showing positive amounts, Clusters 4 and 5, whose amounts tend to be negative, are net contributors. The amounts show that Cluster 4 contributes more than Cluster 5, whereas Cluster 3 receives less than Cluster 1. The exception is Cluster 2, which receives more than Cluster 1.

This fact questions the importance of social security as a factor for income redistribution. Although there is some redistribution, because the more dynamic cities transfer more funds to social security than they receive, the average benefits are higher in Cluster 2 than in Cluster 1.

One possible hypothesis for this phenomenon would seem to be that the age distribution in the cities in Cluster 1 is different from that in other cities. This fact could generate the difference in the average benefits because this sum is calculated on the basis of total retirements divided by the total population, and not by the population of beneficiaries. For this reason, an age distribution with fewer older citizens in the municipalities of Cluster 1 would lower the average value of the benefits.

**Table 5**  
Age distribution by cluster (%)

Age brackets	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5
0 – 14	34.4	32.5	29.7	27.1	31.6
15 – 64	59.1	61.6	64.7	67.0	63.8
65 or over	6.2	5.7	5.4	5.6	4.4

Source: IBGE

Table 5 shows that, in comparison with the total population, the older population is larger in Cluster 1 than in the other clusters. This fact indicates exactly the opposite from what was seen in the average value of the benefits. With more older citizens than the municipalities in Cluster 2, the average of the benefits in Cluster 1 could be higher, because there is a larger target public. This situation has two explanations:

- There is less access to benefits by older citizens in the municipalities in Cluster 1, because many seem to be unaware of their rights.
- The profile of retirees in the Cluster 2 municipalities is higher, and entails a higher average value and greater participation of urban pensions based on years worked or on age, whereas the Cluster 1 municipalities have more rural or welfare pensions per age, which are lower.

In any case, the data proves the importance of social security because, besides its original function of guaranteeing income to those unable to work, it also indirectly favors the development of the more economically backward municipalities by transferring more income to them than they pay out for social security.

## 2.2 - Social effects in the reforms in the 1988 Constitution

Authors representing varying ideological positions have been insisting that without rural and welfare benefit payments, a great percentage of the population would fall into a situation of dire poverty and destitution.

In an interesting case study, Schwarzer (2000) describes the reality of a municipality which could serve as an example for the rest of the country:

" (...) In Igarapé-Açu the rural benefit system that stimulates the municipal economy is of great importance, when one compares the mass of formal monthly income of 815.5 times the minimum wage in December, 1995, with the number of rural benefits paid out by INSS. In 1995, rural social security was responsible for injecting the total equivalent of over three times the formal wage into the municipal economy.

(...)

"The amount transferred to Igarapé-Açu in rural benefits corresponds to 21.5 percent of the value of the municipality's agricultural production. On the one hand, this data backs up the monetary economic importance of the rural retirement system in the municipality. On the other, it underlines that, if the receipt of rural benefits were closely related to the contribution of each person enrolled in the system, as planned for the urban subsystem, the rate of coverage of the social security system would fall dramatically." (Schwarzer 2000: 34).

Barros, Mendonça and Santos (1999), shows that 30.6 percent of the population between the ages of 25 and 59 are poor, while this proportion is significantly lower (22.9 percent), among the population age 60 or over. According to Barros, Mendonça and Santos (1999), whereas the average gap income of older citizens was 8.1 percent in 1997, this percentage rises to 13.6 percent among the non-older citizens.

According to Camarano, Tascom and Carneiro (1999), families with retired persons or pensioners as members took in an average income of R\$ 311.52 in 1996, whereas those who had no retired person among their members obtained an average monthly income of only R\$ 236.78, based, once again, on data published by IBGE. The duplication of the minimum level of benefits by the 1988 Constitution was therefore of major importance for the earnings of families who have older persons among their members.

Based on data from the Brazilian Census Office (IBGE) for 1999, Delgado and Cardoso (2000) assert that without the influence of social security, the total number of poor in Brazil would be 45.3 percent, rather than the current 34 percent. It should be recalled that, in December, 2001, 73 percent of all benefits paid were equivalent to one minimum monthly

wage. Although this is very low, it represents the only income paid regularly to 14 million Brazilians.

The lower poverty rate among older citizens in comparison with the rest of the population is a direct consequence of social security benefits, which provides broader protection to this segment of the population. To sum up, the effects of the redistribution were positive for the economy, increasing the revenues of the poorest regions and reducing the pressures on the metropolitan area. The effects of redistribution were positive, as drawn up by those who defended the Consensus of Philadelphia.

### **3 - Social security coverage in Brazil: an unsolved problem<sup>6</sup>**

In Brazil as well as in other Latin-American countries, the economic crisis and the reduction in the level of activities constituted the main problem which limited the growth of revenue and impeded the inclusion of greater numbers of contributors into the social security system. On the basis of the literature on the theme, it can be said that the reforms failed to solve the pre-existing problems, while the challenges continued unaffected.

To overcome the difficulties imposed by the requirements of a long living society, reforms that tightens the link between contribution and replacement rate of benefits are not effective in a context dominated by the reduction of the rate of contribution compared to the EAP and by an increasing rate of unemployment. The situation requires some redistribution policies to overcome the problems caused by the negative impacts of the economic liberalization, as showed by Brazil's model of social security, and government incentives to increase the amount of jobs that respect the social legislation.

#### **3.1 - Retirement and pension coverages in comparison with the older population**

Considering the changes brought about by the 1988 Constitution, as described by Matijascic (2000, 2002), the level of coverage of retirements and pensions rose consistently between 1992, when the new rules went into effect, and 1999. It should be recalled that the main effects resulting from the most important rules placed in the Constitution were:

- The equivalence of the benefit plans for urban and rural workers. This doubled the bottom wage paid to the populations that received rural and welfare retirements;
- The reduction from the age of 70 to 67 for the payment of benefits to those who did not contribute regularly to the social security system, available to those with per capita family income of 0,5 minimum wages; and
- Reduction by five years of the requirement of a minimum age for purposes of retirement by age for rural workers; that is, it fell to 55 for women and to 60 for men.

The data presented in Table 6 show that, between 1992 and 1999, there was significant improvement in the coverage from retirements and pensions, rising from 69 percent to 77 percent for Brazil as a whole. The improvements were most pronounced for women, reducing the gap which, nevertheless, still favors the men. Although this situation represents an unquestioned improvement for the women, it still shows that their condition is more unstable. This is partly due to the difficulties they face in finding regular jobs on the labor market, and also to the significant presence of low-income single-parent families, which reduces the possibility of such parents of having the right to a pension upon the death of the spouse.

---

<sup>6</sup> This section sums up the some of the conclusions of Matijascic (2003).

**Table 6**  
Coverage from retirements and pensions from INSS and from public service  
For the population age 60 or over - %

<i>Population</i>	<b>1992</b>	<b>1993</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<i>Brazil</i>	68.8	73.7	76.0	76.3	76.1	76.7	77.3
<i>Men</i>	73.7	77.3	79.4	78.1	77.7	78.4	79.1
<i>Women</i>	64.8	70.7	73.2	74.8	74.9	75.3	75.8
<i>North</i>	62.9	68.7	74.9	70.1	76.2	69.3	75.3
<i>Northeast</i>	70.6	78.6	81.0	80.8	80.6	81.8	81.6
<i>Southeast</i>	67.9	70.1	72.3	73.2	72.9	73.5	74.4
<i>South</i>	70.8	78.3	80.2	80.9	81.2	81.3	81.8
<i>Central-West</i>	63.3	66.3	69.8	68.1	67.7	69.3	69.7

Source: PNAD. Drawn up by Ipea- Instituto de Pesquisa Econômica Aplicada

When the analysis goes on to consider the large regions in Brazil, the situation of changes shows equally interesting characteristics. The evolution was more pronounced in the poorest regions, such as the North and the Northeast. Therefore, the changes in the 1988 Constitution referred to above had a greater impact on the regions with larger rural populations, such as those just mentioned. Although the Southern Region is considered rich, the effects there were similar to those in the North and Northeast, a fact that can be explained by the great amount of rural activity in the South.

The evolution was more modest in the Southeastern Region, surpassing only the levels seen in the Central-West, which has a lower proportion than the other regions. This is explained:

- on the one hand, by a lower degree of rural populations, which implies later access to benefits by the men, which takes place only at age 65;
- on the other hand, by the higher incomes, a fact that reduces the number of recipients of benefits for persons above age 67, since these benefits are provided only to those persons whose per capita family income is less than 0.5 minimum wage.

However, the recent social security reforms, which have been raising the requirements in terms of years of contribution, and determine that, in 2006, the rural benefits are to be calculated according to the same criteria of contribution as the urban, will limit access to retirement and reduce potential coverage.

Therefore, the percentage of population over age 60 who are not covered is expected to increase, and this will raise the degree of poverty of the older populations, and is likely to constitute one more negative aspect in Brazil's social reality.

### **3.2 - Contributors and non-contributors to social security according to position in occupation and large regions**

Brazil has always shown high regional inequalities, and this fact is reflected in the occupational structure of the regions and in their condition as contributors to social security. In general, the richer regions (Southeast and South) have a higher proportion of contributors working in private enterprise, in comparison with the poorer regions (Northeast, North, and Central-West). In addition, the poorest regions have higher proportions of non-contributors, self-employed, and domestic workers in general than the richer regions, a factor which raises their level of social instability and limits the enrollment of such workers as contributors to social security. (Table 7)

**Table 7**  
 Situation of contribution to social security according to position in occupation and large regions in 1990  
 and 1999  
 Amounts in percentages

Contributor or non-contributor according to position in occupation	North		Northeast		Southeast		South		Central-West	
	1990	1999	1990	1999	1990	1999	1990	1999	1990	1999
<i>Employed non-contributor</i>	21.4	21.0	26.1	19.4	16.5	16.5	12.8	12.7	25.4	22.5
<i>Self-employed non-contributor</i>	21.4	26.7	27.7	29.7	11.9	15.8	18.5	17.8	17.6	18.8
<i>Employer non-contributor</i>	2.6	2.7	2.0	1.8	1.3	1.5	1.1	1.4	3.1	2.9
<i>Domestic serv.non-contributor</i>	5.3	7.8	4.2	5.1	4.7	5.9	3.6	5.0	6.1	8.2
<i>Other non-contributors</i>	4.2	9.1	12.6	19.8	3.6	4.6	15.6	12.7	6.0	6.7
<i>Federal employee contributor</i>	0.5	4.5	0.3	1.9	0.3	1.5	0.2	1.7	0.8	4.4
<i>State employee contributor</i>	4.6	5.4	2.1	2.7	3.2	3.1	2.2	2.4	3.1	3.1
<i>/municipal contributor employee</i>	0.5	1.8	0.2	1.2	0.7	1.8	0.2	1.3	0.1	1.6
<i>Employee contributor INSS</i>	33.2	17.6	20.2	15.2	45.4	37.2	35.4	33.3	29.4	25.4
<i>Individual contributor – self-employed</i>	3.2	1.5	2.6	1.3	6.5	5.4	5.4	5.4	3.5	2.2
<i>Individual contributor – employer</i>	2.5	1.3	1.4	1.0	3.9	3.4	3.5	3.6	3.9	2.4
<i>Individual contributor – domestic empl.</i>	0.5	0.6	0.6	0.9	1.9	3.2	1.5	2.2	0.9	1.7
<i>Individual contributor – others</i>	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.4	0.1	0.1
<i>Total</i>	100	100	100	100	100	100	100	100	100	100

Source: PNAD/Brazilian Census Office (IBGE)

Table 7 shows that:

- The Southeast and the South are the regions with the highest proportion of contributors employed in private enterprise, whereas the North and Northeast show lower proportions. The Central-West is in an intermediary position in relation to the others.
- In contrast, the North, Northeast, and Central-West have the highest proportion of non-contributors employed in private initiative.
- Non-contributing self-employed workers constitute a high proportion of the occupied population in the North and the Northeast, a lower proportion in the Southeast and South. The Central-West, in this case, is more similar to the richer regions.
- The data show that the richer regions have an occupational structure with a higher proportion of better-quality jobs, that is, which respect workers' social rights, whereas the opposite is found in the poorer regions. This reality has a direct reflection on the inequalities in income among the regions and on the amounts contributed to the social security system.
- The category of other non-contributing workers represents the highest proportion of the occupied population in the Northeast and the South. This is due to the significant proportion of persons who work in family economy-regimes, especially in rural areas.
- When one compares the years 1990 and 1999, the proportion of employed contributors in the private sector fell in all the regions, but this phenomenon was most notable in the North, Northeast and Southeast.

Table 8 shows the proportion of contributors and non-contributors to social security in each occupational category, reinforcing the arguments above and adding further information for 1990 and 1999.

It can be seen in Table 8 that: the proportion of contributors in all occupational categories is higher in the Southeast and the South, and lower in the North, Northeast, and Central-West, confirming that the richest regions are better able to incorporate the occupied population as contributors to social security. It should be noted that the South was the only region that

increased its proportion of contributors among employees of the private sector between 1990 and 1999.

**Table 8**  
Proportion of contributors in each position in occupation and large regions  
Amounts in percentages

Proportion of contributors in the occupied population according to position in the occupation	North		Northeast		Southeast		South		Central-West	
	1990	1999	1990	1999	1990	1999	1990	1999	1990	1999
<i>Employee contributor INSS</i>	60.8	45.6	43.6	44.0	73.4	69.3	53.7	72.5	64.6	53.1
<i>Individual contributor – self-employed</i>	12.8	5.3	8.6	4.2	35.4	25.4	16.6	23.4	21.4	10.6
<i>Contributor – employer</i>	49.5	32.7	40.3	36.5	75.1	68.9	55.9	71.5	65.5	45.5
<i>Contributor – domestic empl.</i>	9.0	7.2	13.2	14.6	29.2	34.8	13.1	30.3	23.5	17.4
<i>Individual contributor – others</i>	2.4	0.7	0.4	0.3	3.7	2.7	1.5	3.2	1.2	1.1

Source: PNAD/IBGE

There is a higher proportion of contributors among the self-employed workers in the Southeast and the South, almost 400 percent above that seen in the North and Northeast, reflecting the higher income of those occupied in the richer regions. Nevertheless, this type of occupation is always the most unstable in all the regions in Brazil. Unfortunately situation is getting worse, and requires major concerns of those who care about the development of the poorest areas as well as elaborating programs to increase the number of jobs that respect the social legislation and, above all, create mechanisms to reduce poverty.

#### **4 - Conclusive Synthesis**

The provisions in the Brazilian 1988 Constitution showed better results for a long-living society than those adopted in the structural reforms in other Latin-American countries. A long-living society must have a suitable actuarial horizon, it is true, but it must be able to maintain the status of those enrolled in the social security system to cover the risks of loss of income. This objective was attained in Brazil and not in the other countries. It should also be recalled that the parametric strategy employed by Brazil did not deteriorate its public finances, as shown by Matijascic (2000).

The success of the Brazilian program is related to the transfer of funds to the poorer regions and municipalities. This has stimulated the local economies and prevented worsening of the metropolization of poverty, which is at the root of the social problems the country faces. It can therefore be said that the social security put in place by the 1988 Constitution is the most successful social program in the country in terms of financing and impacts, and should be considered a reference for scholars and authorities.

However, even though the theses of the Consensus of Washington were not consolidated in the social sphere, this does not mean that their adoption in the economic sphere have not had a negative impact on social security. The level of coverage is falling and the social situation in the country is likely to deteriorate even further. The insistence on maintaining on the order of the day a debate that stimulates full and individual capitalization is highly questionable, in view of the results obtained, and is a source of great concern.

The problems that distort the success of social security as a social policy must be solved. In addition, a capitalization regime and the management of portfolios by the market could make a decisive contribution to the refinement of the system and the establishment of adequate conditions for a long-living society. But the steps taken must be based on respect for social

rights. This challenge is long-standing, and has not yet been adequately faced. It should therefore be of major concern to Brazilian scholars.

To maintain a system aimed at inclusion is a necessary condition for the country to resume its possibilities for sustainable development in a long living society, which is still the main problem plaguing Brazilian society. In this regard, the mistakes of the past, which sought to promote the concentration of income to guarantee higher growth of the GNP, must be avoided.

## References

- ANFIP - Associação dos Fiscais de Contribuições Previdenciárias. (2001) *Economia, seguridade e previdência em enfoque não ortodoxo*. Brasília: ANFIP.
- Barros, Ricardo Paes, MENDONÇA, Rosane & SANTOS, Daniel (1999). Incidência e Natureza da Pobreza entre Idosos no Brasil. Rio de Janeiro: Texto para Discussão n° 686.
- Beltrão, Kaizo. (1999). Dependência da população idosa: uma visão previdenciária In *Como vai a população brasileira* v4 n1. Brasília: IPEA.
- Camarano, Ana Amelia. Patti, Ana Roberta. R. Carneiro, Isabella. G. (1999). Idoso brasileiro: dependente da família? In *Como vai a população brasileira* v4 n1. Brasília: IPEA.
- Cano, Wilson (1999). Soberania e política econômica na América Latina. São Paulo Editora Unesp.
- Chackiel, Juan. El envejecimiento de la población latinoamericana: ¿hacia una relación de dependencia favorable? Santiago de Chile, CEPAL (Serie Population y Desarrollo).
- Delgado, Guilherme and Cardoso, José Celso (2000). Universalização de direitos sociais mínimos no Brasil: o caso da previdência rural nos anos 90 In *Previdência assistência social e combate à pobreza*. Brasília: MPAS.
- Feghali, Jandira. (1999). Parecer do Relator relativo ao Projeto de Lei N° 1527. Brasília: Câmara dos Deputados – Comissão de Seguridade Social e Família.
- França, Alvaro Sólón. A Previdência Social e a Economia dos Municípios. Brasília:ANFIP, 1999.
- Kay, Stephen. J. (2001). *Brazil's Social Security Reforms in Comparative Perspective*. Washington: LASA Latin American Studies Association Congress.
- Kay, Stephen. J. and Kritzker, Barbara. E. (2001). Social security in Latin America: recent reforms and challenges. In Federal Reserve Bank of Atlanta Economic Review n 1. Atlanta: Fed. Reserve Bank.
- Madrid, Raul. (1999). The politics of social security privatization. Berkeley: PhD dissertation.
- Matijascic, Milko. (1994). *Fundos de Pensão e Rearticulação da Economia Brasileira*. Campinas, Instituto de Economia/Unicamp - Texto para Discussão 40.
- Matijascic, Milko. (2000). A Path in Contradiction: Brazilian Social Security in the 1990s. Helsinki: International Research Conference on Social Security-ISSA, September 25-27, 2000.
- Matijascic, Milko. (2002). Crise e Reforma do Complexo Previdenciário no Brasil. Campinas: Instituto de Economia-UNICAMP. PhD Dissertation.
- Matijascic, Milko. (2002a) Brazilian social security and Latin-American structural reforms. In Einar Overbye and Peter Kemp (eds): *Pensions: Challenges and Reform*. Aldershot, Ashgate. (Forthcoming)
- Matijascic, Milko. (2003) Globalization et protection sociale: les cas du Brésil. In Merrien, François-Xavier: *Globalization et protection sociale*. Lausanne: Université de Lausanne- Rapport préliminaire.
- Matijascic, Milko and Draibe, Sonia. (2001). "The Market Orientation of Social Security: The Brazilian Case." In Dixon, J. and Hyde, M. *The Marketization of Social Security*. Westport. Greenwood Publishers.
- Matijascic, Milko; Melo, Marcus; Barros Silva, Pedro and.; Pochmann, Marcio (1998). *Reforma da Seguridade Social no Brasil*. Washington, IRDC. Research Report.
- Matijascic, Milko. and Ribeiro, José Olavo Leite (2003). Seguridade e Desenvolvimento: um projeto para o Brasil. Brasília: ANFIP



- Merrien, François-Xavier (2001). Las nuevas políticas sociales del Banco Mundial: el caso de las pensiones de jubilación. Paris: UNESCO, *Revue Internationale des Sciences Sociales*, december
- Merrien, François-Xavier (2003) *Globalization et protection sociale*. Lausanne: Université de Lausanne- Rapport de Recherche. Version Préliminaire.
- Mesa-Lago, Carmelo and Mesa, Alberto. (1998). Fifteen years after the privatization of the Chilean pension system: evaluation, lessons and challenges.. In Mesa-Lago, Carmelo. e Cruz-Saco, Maria. A. (1998). *Do options exist?*. Pittsburg: University of Pittsburg Press, 1998.
- Mesa-Lago, Carmelo. (2000). *Desarrollo social, reforma del Estado y de la seguridad social, al umbral del siglo XXI*. Santiago de Chile, CEPAL (Série Políticas Sociales).
- Mesa-Lago, Carmelo. and Mueller, Katharina. (2001). The politics of pension reform in Latin America. *In Journal of Latin America Studies*. Cambridge University Press.
- Pacheco, Carlos Américo et al. (1999) Caracterização e tendências da rede urbana do Brasil: Apêndice/Organizado por IPEA/UNICAMP.IE.NESUR/IBGE. – Campinas, SP: UNICAMP.IE. (Coleção Pesquisas,3). v.2
- Schwarzer, Helmut. (2000) Impactos socioeconômicos do sistema de aposentadorias rurais no Brasil ww — evidências empíricas de um estudo de caso no Estado do Pará. Rio de Janeiro, RJ: IPEA. Texto para discussão, nº 729, junho 2000.
- Uthoff, Andras. (2001). La reforma del sistema de pensiones en Chile: desafíos pendientes. In Revista de la Cepal, 56. Santiago de Chile: CEPAL.
- Velloso, Raul. (1999). *Balanço da Situação das Contas Públicas*. Rio de Janeiro: Estudo Apresentado ao Fórum Nacional INAE/BNDES, maio/1999.
- World Bank (2001). *Brazil: Critical Issues in Social Security*. Washington: Worldbank (Country Report).