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INTERNATIONAL SOCIAL SECURITY ASSOCIATION

# Highlight 03



## The Americas show how innovation in social security administration is a driver of positive societal change

**A new ISSA regional Developments and Trends report – *The Americas: Strategic approaches to improve social security* – looks closely at the core themes of the extension of coverage, excellence in administration, and the positive socio-economic impacts of social security. A major conclusion is that excellence in administration in the region is a prerequisite for the success of coverage extension efforts in support of socio-economic development.**

Drafted to accompany the Regional Social Security Forum for the Americas, to be held in Mexico City, 11–13 April 2016, the report looks both at the advances achieved and the challenges remaining across the region as regards the design, financing and delivery of adequate and sustainable social security programmes.

Despite the region's diversity in terms of levels of economic, social, cultural and demographic development, there are a number of trends which are common to the majority of its countries. The responses to the underlying challenges pushing these trends by many of the region's national social security administrations and policy-makers offer important lessons for the countries of the Americas and beyond. In many important respects, and a well-defined characteristic of the region, the countries of the Americas continue to lead the way as innovators in social security.

Looking at the recent regional evidence, the report examines a number of interlinked policy challenges for the sustainable extension of social security. A key finding is that the stable and equitable financing of continuing coverage extension measures requires political support that, in large part, depends on the demonstrable and quantifiable positive social and economic impacts of social security programmes. Above all, the report asserts that excellence in administration and management is a driver of successful coverage extension efforts.

### Developments in coverage extension in the Americas

In the last years, impressive results in the extension of coverage in the Americas have been achieved by many social security institutions, despite an increasingly challenging external policy environment. Coverage levels of above 50 per cent in respect of both pension and health care coverage for formal economy workers are found in many countries in the region. Argentina, Brazil and Uruguay have seen the number of private-sector workers covered increase by between 60 per cent and 80 per cent between 2003 and 2013. Encouragingly, efforts to

increase the numbers of those covered have often gone hand in hand with recognition of the importance of adequacy and associated measures to improve the quality of benefits.

By going beyond the regional averages, the ISSA report identifies success stories as well as future challenges that national social security administrations need to address to ensure that the advances made in the recent period are consolidated and built upon.

Advances in access to coverage for pension and health care benefits for formal economy workers, for instance, have been accompanied by the significant development of non-contributory retirement and child allowance schemes and cash benefits for targeted groups. Over 15 countries in the region have non-contributory social pensions, including Costa Rica, Ecuador, El Salvador, Mexico and Panama. Peru is an example of a country that has consolidated its non-contributory pension scheme, extending coverage and raising benefit levels while the Plurinational State of Bolivia and Trinidad and Tobago have also increased the benefit levels of their non-contributory schemes. In addition, tailored responses to improve coverage for certain difficult-to-cover groups, such as domestic workers in Brazil, have had encouraging results.

To extend coverage further, the debate in the Americas has shifted decisively to one of how to create the right incentives to optimally combine contributory and tax-financed systems in a financial sustainable manner. Underpinned by strong political support, successful design factors to coverage extension include:

- better enforcement of contribution collection through better governed institutions;
- greater flexibility as regards the enrolment of informal and vulnerable population groups;
- broader coverage of salaried workers through contributory systems, supported by a healthier formal labour market;
- wider coverage of informal workers and other vulnerable groups through non-contributory or subsidized programmes.

Countries have focused not only on extending horizontal coverage to greater numbers of citizens as part of the roll out of national floors of social protection, but on improving adequacy by increasing benefit levels (vertical coverage extension). Critically, many reforms have been enshrined in Law, in Decrees or backed by Supreme Court decisions, as in Colombia. Despite advances, important coverage gaps persist. Even for countries that have successfully extended coverage to some groups of informal economy workers, the most vulnerable and poorest workers commonly remain excluded.

As one response, a number of regimes for self-employed workers and informal small businesses have been set up in the region, for instance in Uruguay. These not only facilitate affiliation and the payment of social security contributions but, importantly, also offer incentives to continue to do so.

Aside from the specific evidence of how countries are tailoring policy and administrative responses to the characteristics and contributory capacities of their populations, the report identifies five wider factors that have strengthened the role of social security in the Americas:

- Increasing political will in many countries leading to greater support for social security. Important laws and regulations have been passed, for example in the United States in respect of universal health coverage, to improve health and pension coverage.
- The search for stable financing mechanisms which are robust to changing external environments. For example, the Colombia Mayor scheme established in Colombia in 2013 is funded by the contributions of high-earning employees and taxes and extended coverage to 1.25 million people in its first year of operation.
- Rethinking and improving the design of contributory systems, for example in Chile, Mexico and Peru. Reforms include improving the redistributive impact of pensions as well as reducing administration costs.
- Innovative and inclusive communication efforts to promote knowledge about social security entitlements, encourage greater financial literacy, and support the development of a culture of social security.
- Excellence in administration and management to realise improvements in service quality, not least in support of adequate and sustainable coverage.

### Key facts: The Americas

- Countries have sustained coverage extension, especially among salaried workers. In Latin America and the Caribbean, enrolment of salaried workers to contributory pensions systems increased from 46.1 per cent to 55.4 per cent between 2002 and 2011.
- For cash benefits, those countries that had already achieved higher coverage levels in the early 2000s – Argentina, Brazil, Chile, Costa Rica and Uruguay – have continued to extend coverage more effectively.
- Enrolment to health insurance increased from 54.4 per cent to 66.4 per cent between 2002 and 2011. Nevertheless, quality of access varies considerably across the Americas.
- Universal Health Care is a common goal in the region. However, in Haiti and Honduras more than 80 per cent of the population are without access to health care coverage.
- In Latin America and the Caribbean, on average, nearly 50 per cent of household expenditure on health comes from out-of-pocket payments.

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Despite overall positive results, a number of current and future challenges remain to be addressed. Among others, these include an ageing population leading to sustainability concerns, a change in the nature of the population to be covered – for example, owing to increased migration and urbanization – and labour market developments characterized by a substantial informal economy and the economic importance of small businesses. Uncertainty in the global economy is another challenge, especially for those countries that rely heavily on exports markets and income from primary commodities. Lower fiscal receipts impact public finance and the support that can be offered to non-contributory and subsidized social security and health care programmes.

## Excellence in administration and management

Improvements in administration, management and governance are increasingly necessary and directly linked to extension efforts. The report underscores that excellence in administration has always been of central importance – but the reasons for this have multiplied and now encompass multiple aims.

In this regard, four priorities for action are identified:

- A more efficient use of resources, which is particularly important for countries facing financial constraints. Of note, the global fall in commodity prices has directly impacted the finances of many exporting nations in the region. As part of wider responses to economize on resources, the better coordination amongst agencies and stakeholders (e.g. in Ecuador) and standardizing and sharing information (e.g. in the Dominican Republic) have had positive impacts.
- Improving service quality, including the “client” experience of the covered population, to ensure political and public support for social security programmes. For example in Canada and the United States, new health insurance cards can be ordered online. In El Salvador, employers can track contribution payments online, while in Saint Vincent and the Grenadines contribution payments have been moved online, reducing costs while improving the quality of data submitted.
- Facilitating reforms – for example, rethinking and redesigning retirement systems requires excellent administration and management tools to ensure effective regulation and in-depth analysis of costs and performance (for instance, in Costa Rica where the maximum admissible administration charge for pension funds has been reduced).
- A closer relationship with beneficiaries, affiliated members and potential members through the use of social media and other tailored communication channels. This has a range of added benefits to institutions – it allows feedback to be provided quickly and effectively, improves the “brand” image and reputation of social security institutions and is often a more efficient way of communicating than other traditional media. Examples include the Bolivarian Republic of Venezuela, which has increased the availability of online services, Panama’s virtual tool which enables companies to self-assess the level of occupational risk of their employees and thereby take preventive action, and Costa Rica, which has facilitated the registration of occupational accidents and improved the quality of information.

The innovative approaches adopted – and successfully carried out – demonstrate that responses to a complex external environment need to be tailored and locally relevant but also coordinated with public policy measures in other areas, such as education. Indeed some of the measures – such as initiatives to improve access to banking and financial services through the use of mobile technology (e.g. via “mobile wallets” in Colombia) – have much wider implications than improved access to social security alone.

Weighing up both internal and external constraints regarding the scope and objectives of reform initiatives is increasingly seen as a factor for success. For instance, ensuring both data privacy and the security of information are increasingly important. And streamlining management practices on efficiency grounds should not be detrimental to effective frontline services. One particular theme highlighted is the increasing use of analytical data by social security institutions to better understand and map the profiles of their populations, but also to more accurately assess the impacts of interventions. This is particularly important for institutions and policy-makers to ensure social security systems meet their objectives – of having positive social and economic impacts.

The need to develop institutional mechanisms whose role will be to evaluate the effectiveness of coordinated national social security system in attaining coherent policy goals is another emerging issue. This is especially the case with national systems sometimes incorporating social policy actors in a segmented policy environment, suggesting that the mandate for evaluation should be accorded to national social security agencies.

## Positive social and economic impacts of social security

The report highlights a paradox. While social security is increasingly recognised as a positive actor, its precise macro and micro impacts are often difficult to quantify. This is often due to a lack of data, but also because of the multiple and complex interaction of other elements at play when factors such as poverty, health outputs and return to work are measured. However, progress has been achieved, with more sophisticated assessment models and a better understanding of the interdependency of factors.

A key message of recent years is that the traditional view that a country needs a certain level of economic development before social security can be developed has been overturned and replaced by an evidence-based reality: a well-designed social security system is an essential ingredient in a country’s progressive social and economic development. At a micro level, greater income security and the improved management of life-cycle risk provided by cash benefits and health care systems is

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a first step. At a macro level, social security programmes, especially those designed to support redistribution, are an efficient lever in reducing inequalities, not least by improving the income security of vulnerable difficult-to-cover groups.

Where affordable access to health coverage has been extended this has supported improved well-being and helped prevent catastrophic health expenditures and thus reduced the risk of poverty. It has also reduced the potential for social conflict by ensuring that the vulnerable have the services they require and the working-age population can remain economically active or return to work as soon as possible. Recent pension reforms in the region moving systems away from a full contribution-linked benefit outcome to a more redistributive approach are also having positive impacts, in some cases with an important gender dimension.

Other impacts cited in the report include: supporting local economic activity through cash transfers, improving choices for women by extending family allocation coverage, providing households with counter-cyclical income injections (e.g. unemployment benefits), supporting human capital development across the life course, and better realising the potential for social security reserve funds to invest in strategic sectors of the economy.

The report identifies a number of areas for future priority action. Generally, there is a need for more robust policy evidence to be collected and analysed. As key concerns, levels of inequality in the region often remain high and present a challenge to the important advances made, while a potential fracture between generations needs to be taken seriously, with the young in many cases of more vulnerable than the old – youth unemployment is particularly high and a source of discontent. At the same time, for some countries, the high levels of labour market informality, low tax-to-GDP ratios, and fiscal constraints mean that financing efforts will be increasingly difficult in the future.

The global and regional economic environment is a major contextual challenge for the region. After many years of growth based on increased demand for commodities, many of the region's countries are being seriously affected by a drop in exports and the falling prices of commodities such as oil and copper, for example, as the global rate of economic growth has slowed. A concern is the extent to which this may impact negatively on public finance and thus the ability to further develop social security coverage and the adequacy of benefits.

Taking all of these elements into consideration, the report lists five conditions to be met to ensure the positive social and economic impacts of social security for societies in the Americas:

- Innovative efforts to increase social security coverage should be a priority, particularly those aimed at the informal economy and which facilitate the formalization of work.
- Administration is an essential tool to ensure that benefits and services reach those that need them, and part of that process should entail a closer partnership between the social security institution and the beneficiary.
- Intelligent policy design and reforms – the recent pension reforms highlighted in the report offer important good practice examples.
- An efficient and clear bridge between non-contributory and contributory social security provision. Linked to this is the centrality of stable and robust financing mechanisms.
- Social security interventions need to be undertaken in conjunction and collaboration with other policy adaptations and stakeholders, and should incorporate mechanisms to evaluate outcomes across the entire system. Enabling the working-age population to enter and stay in the regulated labour market is a key condition to social cohesion and economic development and social security institutions are increasingly working with employers to ensure this.

## A positive outlook

On the basis of the progress achieved to date, there are reasons to be optimistic. Significantly, strong political will and improved collaboration with other actors, especially those in the labour market, are two factors showing the way forward. An additional supporting factor is the role played by the practical tools provided through the ISSA Centre for Excellence, such as the ISSA Guidelines on social security administration.

## Source

ISSA. 2016. *The Americas: Strategic approaches to improve social security*. Geneva, International Social Security Association.

For more information: [www.issa.int/americas/introduction](http://www.issa.int/americas/introduction)

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The **International Social Security Association (ISSA)** is the world's leading international organization for social security institutions, government departments and agencies. The ISSA promotes excellence in social security administration through professional guidelines, expert knowledge, services and support to enable its members to develop dynamic social security systems and policy throughout the world.

4 route des Morillons  
Case postale 1  
CH-1211 Geneva 22

T: +41 22 799 66 17  
F: +41 22 799 85 09  
E: [issacomm@ilo.org](mailto:issacomm@ilo.org) | [www.issa.int](http://www.issa.int)