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Social Policy Highlight 13



Dynamic social security for the Americas: Strength through diversity

Notwithstanding the role of social security programmes in responding to the crisis, the countries of the Americas are building more extensive and better-performing social security systems. Using the strengths of the region's existing institutional diversity, the recent period has borne witness to forward-looking efforts to extend social security protection and to improve social cohesion. As this *Highlight* discusses, the growing priority accorded to social dialogue and social solidarity in the Americas augers well for the realization of improved social security for all.

Hans-Horst Konkolewsky, ISSA Secretary General

Common challenges and diverse responses

Over the last decades the Americas have experimented with diverse and often ground-breaking social security reforms. The most radical amongst these have even challenged conventional international norms about the nature and role of social security. Two important examples are the introduction of defined-contribution individual pension accounts and conditional cash transfer programmes.

In recent years increased attention has been given to the parametric reform of social security programmes, especially with regard to changes to contribution rates, retirement ages, and benefit formulas and their indexation. Parallel reforms have sought improvements in administration and governance, in staff skills or through the introduction of cutting-edge information technology. All of this underlines that significant efforts in the Americas are being directed at improving the efficiency and effectiveness of social security institutions – and appropriately this is being done according to national

This issue

- Summarizes recent developments and trends in social security in the Americas
- Critically evaluates the social policy outcomes of individual accounts pension systems and cash transfer programmes
- Highlights a growing role for social dialogue in policy-making
- Discusses the financial and economic crisis and its implications for social security financing in the Americas

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circumstances and priorities. Despite this, a major common challenge for the region remains one of improving and maintaining coverage levels.

Social security coverage

Differences in levels of social security and heath-care coverage among countries are often understood as a function of levels of economic development and the structure of national labour markets. Therefore in most countries we expect to see a positive relationship between coverage levels and higher per capita income and lower rates of unemployment and underemployment.

As the ISSA report *Dynamic Social Security for the Americas*[1] affirms, coverage levels for cash benefits among countries vary from 11 per cent in Bolivia to universality under national programmes in Canada, Cuba and the United States. But this is not the whole story. In some countries previous achievements in extending coverage have actually been reversed: across Latin America coverage has decreased, and is now estimated at around 40 per cent of all employees.

The majority of social security programmes in the Americas are contributory. That such programmes are premised on stable and formal patterns of employment directly impacts their capacity to provide and extend coverage. Consequently, lower levels of coverage are generally to be found in rural areas; in the informal sector; among self-employed workers; and among women, because they participate less in remunerated economic activity despite shouldering the lion's share of unpaid household work.

Key statistics

- Composed of 35 sovereign states and 19 overseas regions and dependencies, the Americas have a combined population of around 900 million people.
- While the United States and Canada are high-income OECD members, nearly all other countries of the Americas are classed as middle income. The exception is Haiti, which is classed among the world's 49 low-income countries.
- Nearly 17 per cent of the population of Northern America and 10 per cent of that of the Caribbean and Latin America are aged 60 or older.
- Twenty per cent of the population of Northern America and 30 percent for the Caribbean and Latin America are aged 14 or younger.
- Some of the highest emigration rates in the world are found within countries of the Caribbean.
- On average, informal employment in Latin America represents 47 per cent of the urban labour force.
- Social security cash benefit coverage rates in the Americas vary vastly: ranging from 11 per cent to universal.
- Health care coverage rates vary considerably across the region. While universal coverage is found in a number of countries, the average coverage figure for Latin America is close to 40 per cent.[2]
- In the Americas, out-of-pocket health-care costs represent around 35 per cent of total health-care expenditure.

Measuring levels of health-care coverage presents a different set of problems. A number of substantive elements must be taken into account, including levels of affiliation to a health insurance system, levels of access to necessary health benefits and services, and the adequacy of these once delivered. Regardless of the successes of universal health coverage in Argentina, Brazil, Canada, Chile, Costa Rica, and Cuba, and despite the historic 2010 health-care development in the United States geared to extend coverage to most citizens, a significant proportion of the total population of the Americas has limited coverage for health protection.

Integrated approaches to extending coverage

Efforts in the Americas to extend social security and health-care coverage on a universal basis have been influential in shaping international support for rights-based approaches to social protection: in Brazil, it has been defined as a Constitutional right since 1988. More generally, and as the Developments and Trends report *Dynamic Social Security for the Americas* draws attention to, the ongoing search for creative solutions to the challenge of extending access to benefits and services has led policy-makers to address the issue of finance, including the more coherent integration of contributory and tax financing approaches. In the Americas, creative solutions of this kind are to be found particularly in the health-care sector.

Brazil, for example, has created a Unitary Health Care System (*Sistema Único de Salud*) which uses tax financing. Costa Rica integrates public tax-financed health and social health insurance systems that requires all affiliates to contribute to social security. Colombia's health system retains contributions as the main funding mechanism, but adds funding from general taxes, and integrates both through an explicit solidarity mechanism. This mechanism is funded out of transfers from the contributory scheme, plus central and local government sources.

Health care in Chile is provided through parallel systems of public or private contributory insurance. Within the Chilean public insurance system only, tax financing is used to subsidize

Finance matters

Realizing coverage extension requires a role for tax financing since structural factors in the economy exclude the possibility of bridging the coverage gap using contributory methods alone.
Consensus on the finance model to be used should be reached on the basis of national consultation, and should seek to encompass:
- the highest level of political will;
- tailor-made policy approaches that avoid one-size-fits-all templates;
- a role for complementary labour market policies;
- the coherent integration of contributions-financed and tax-financed schemes;
- an understanding that good governance is key and that market solutions require appropriate regulation;
- guaranteed and sustainable general tax finance sources.

insurance cover, subject to the insured's socioeconomic standing. A free health-care package is also provided for the poorest.

Tackling poverty

The continuing absence in many countries of adequate levels of social protection leaves many people at risk from the multiple impacts of poverty. Most often this affects families with children and the elderly. In the Americas there are many national responses aimed at tackling poverty – many of which predate multilateral commitments to the Millennium Development Goals. One common response is the provision of cash transfers on a universal or conditional basis.

Conditional cash transfers have been implemented in over a dozen countries in Latin America and the Caribbean. Evaluations suggest they have an important positive impact on the well-being of vulnerable groups, including children, especially in times of crisis. What is more, the cost of these programmes never exceed, and is often much lower than, 0.5 per cent of GNP. Nonetheless, doubts remain as to whether cash transfers permit families to rise – and then stay – above the poverty line. As stand-alone programmes, those who harbour doubts may have a point. Therefore a solution for some families may be for cash transfer programmes to be coupled with complementary labour market policies. Another concern is ensuring that the target population receives the full package of benefits to which it is entitled. To this end, improvements in governance and administration may be required. If not already doing so, social security administration should consider lending their know-how to help improve the operation of these programmes.

Overall, cash transfer programmes do have a positive impact on reducing the incidence and severity of poverty. And it is partly because of this that calls for cash transfers provided on a universal basis have become more forceful.

Certainly the Americas already have working models of universal social security provision. Some examples are the universal first-pillar old-age pension programmes in the United States and Canada; guaranteed health packages in Chile, Colombia, and Costa Rica; and basic solidarity pensions provided in rural Brazil, to the aged poor in Bolivia, and to the uninsured elderly poor in Chile. In the longer term, however, and in line with the ISSA's Dynamic Social Security framework, the challenge still remains to provide, at the very least, access to basic social security and health care for all.

Individual responsibility and social solidarity

The 1981 structural reform of the Chilean social security pension system led to the substitution of a public pay-as-you-go (PAYG) system by a private defined-contribution system. For some, this presented a welcome opportunity to increase individual responsibility. For others, it represented a weakening of the principles of social solidarity.

From the early 1990s onwards, several Latin America countries adopted elements of the "Chilean model". Mexico, Bolivia, El Salvador and Dominican Republic undertook a complete substitution of their pension systems, as happened in Chile. Other countries (Colombia and Peru) undertook a partial substitution of their pension systems by introducing a system of individual accounts to compete with social insurance. Another group of countries (Argentina, Uruguay, Costa Rica and Panama) integrated the two approaches within a mixed system.

Now that the Chilean model has matured, the evidence reveals that the individual accounts system has not significantly improved the social security of the population. Neither has it overcome the structural problems of the previous system, especially low coverage rates.

1981 Chilean reform outcomes

Analysis of the 1981 Chilean reform outcomes reveals that:
- Coverage remains low.
- Replacement rates are very low.
- Transition costs remain very high.
- Individual account management fees have remained too high.
- The expected enhanced economic outcomes of pension system reform have proven inconclusive.

As a result, it is estimated that publicly-financed social assistance is needed by more than half of all Chilean pensioners. Such challenges are not specific to Chile, however – they are similar in all other countries in the Americas that have introduced systems of individual accounts. In response, two different national "re-reforms" have been enacted.

In 2008, Chile added a basic solidarity pillar alongside its individual accounts system. Funded out of general taxes the solidarity pillar aims to provide: a tax-financed basic solidarity benefit to the poorest 40 per cent of persons of pensionable age (to cover the poorest 60 per cent by around 2012); and a solidarity complement payable to those that have contributed but whose individual savings are insufficient to finance a minimum pension.

Since 1 January 2009 Argentina has transferred affiliates retirement savings managed by the *Administradoras de Fondos de Jubilaciones y Pensiones* (*AFJPs*), to the country's integrated PAYG pension system (*Sistema Integrado Previsional Argentino*).

These two examples are being scrutinized by countries in the Americas and beyond. In particular, two major policy conclusions can be taken from the Chilean experience:
- there is a broad requirement to improve the design of the finance mechanisms and regulatory framework of pension systems. Finance mechanisms must integrate contributory and tax financing in a way that satisfies the need for social solidarity while avoiding perverse incentives that undermine the payment of contributions;
- in societies that are increasingly informal, ageing and ever more reliant on the global economy, a national process of social dialogue helps legitimize the social security policy-making process.

Social security in a context of crisis… and beyond

In addition to meeting essential needs, the evidence of recent developments and trends reinforces the view that social security supports social cohesion and political stability, not least by minimizing social unrest and helping countries adjust more easily to demographic, social and political change.

Social security also contributes to the economy, as it enables businesses to restructure and improve efficiency levels, while supporting workers through periods of transition.

It is likely that the impacts of the financial and economic crisis will place added medium-term budgetary pressure on social security bodies and government-managed programmes. This will be especially so with regard to ensuring the adequacy of benefits in relation to rising costs, a deteriorating tax base, and volatile investment returns. Regardless, and looking forwards, what the countries of the Americas require is for national social security systems to further integrate different social protection institutional and financing mechanisms. These mechanisms must offer the correct incentives to covered individuals, and be governed by fair and reliable regulation.

Together, these factors will better enable the efficient and timely allocation of resources to those in need. In the Americas as elsewhere, and tied to the wider goal of strengthening national social cohesion, the coherent use of these diverse elements should advance efforts to better realize social security and health care for all.

Sources

[1] ISSA. 2010. *Dynamic social security for the Americas: Social cohesion and institutional diversity*. Geneva, International Social Security Association.

[2] Mesa-Lago, C. 2008. *Reassembling social security: A survey of pension and health care reforms in Latin America*. Oxford, Oxford University Press.

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