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Pensions in Brazil: Reaching the Limits of Parametric Reform in Latin America

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Chapter 11

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Brazil is an outlier with respect to pension reform in Latin America. Countries throughout the region, including Southern Cone neighbors Chile, Argentina, and Uruguay, have introduced structural reforms that include private individual investment accounts designed to complement or replace state-run PAYGO systems (see Matijascic and Kay 2006). Brazil has instead engaged in parametric reforms. Inspired by the Swedish and Italian reforms, Brazil has instituted DCs without the funded accounts seen in the rest of the region.

The history of social security in Brazil is also distinct from that of its neighbors. Among other factors, social security is codified in the 1988 Constitution, its broad coverage and benefits structure make it the single largest national antipoverty program in the region, and a significant private pension fund sector had already developed even in the absence of mandated individual accounts. Although a few political leaders have favored private accounts (most notably ex-President Cardoso), individual accounts never received much political traction in Brazil, in part because moving to a private-funded system while still honoring commitments in the public system would entail prohibitively high transition costs, equal to 201 percent of GDP (ECLAC 2006: 127).

Brazil's 1988 Constitution includes several measures that universalized and raised social security benefits. It doubled rural pensions, recalculated pension levels to make up for value eroded by inflation, introduced indexing against inflation, and made the minimum wage the minimum pension level. It also permitted social security to be financed through taxes on gross revenues, financial transactions, and net profit. While codifying benefit levels in the Constitution provides greater legal protection for beneficiaries, these benefits have proven difficult to finance, especially because funds earmarked for social security have been used to fund a range of nonsocial-security-related public expenditures. Furthermore, because benefit levels

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are defined in the Constitution, revisions require a constitutional amendment, which in turn requires a three-fifths majority in the Chamber of Deputies.

This chapter describes Brazil's social security system and the highly contentious process of reform, and concludes with an assessment of current policy dilemmas.

From Social Insurance to Social Security

Retirement coverage in Brazil harks back to the colonial period, when in 1554 the Santa Casa de Misericórdia in Santos first provided pensions. After the installation of the Portuguese Court in Rio de Janeiro in 1808, coverage was provided to select civil servants. This pattern of segmented coverage endured until the early twentieth century. In 1919, after the formation of the International Labor Bureau, accident insurance was provided via mandatory contributions. These developments mirrored those in neighboring countries and represented the beginnings of what eventually became identified as social security.

Later milestones include the 1923 creation of the Caixas de Aposentadorias e Pensões (CAPs, or Pension and Retirement Funds), which were DB programs funded with contributions from employees, employers, and the state that provided coverage for disability, illness, premature death, and time of service. In 1933 CAPs began to be replaced by the Institutos de Aposentadorias e Pensões (IAPs, or Retirement Pension Institutes), which ceased to exist in 1966, when they were centralized. The basic institutional characteristics of Brazilian pension programs since 1923 are outlined in Table 11-1.

Social security legislation since 1919, summarized in Table 11-2, reflects increasing state intervention, centralization, and universalization of coverage for workers in more precarious occupations—all of which was foreseen in 1945 but not enacted until the early 1970s. Initial regulations were tightly linked to Brazil's labor code, but over time most elements began to be seen as social rights and took on their own juridical identity.

The impact of the 1988 Constitution, which specified the parameters of social protection, is critical to understanding how events unfolded in subsequent years. There was considerable controversy over specific language in the Constitution that critics viewed as inefficient and financially onerous but that supporters viewed as necessary to reduce Brazil's perennial inequality. For the first time, universal coverage guaranteeing equal treatment of all workers was enacted. In addition, rural workers were given the right to retire five years before urban workers, and women have the right to retire five years before men or with five fewer years of service. A

TABLE 11-1 Institutional Structure of Social Security (1923–2006)

Structure	*CAPs 1923–31*	*IAPs 1931–67*	*RGPS since 1967*
Financing	Collective capitalization and DB	—	PAYGO and DB
Benefits	Uniform	By labor category	Uniform
Management	Sponsoring firms	State	—
Coverage	Authorized firms	Select occupations	Universal (after 1974)
Civil servants	By institution	IPASE	IPASE (until 1978) and by statute
Regulation	Finance Ministry	Labor Ministry	Social Security Ministry

Source: MPAS (2002).
Notes: RGPS = Regime Geral de Previdência Social, or General Social Security Regime; IPASE = Instituto de Previdencia e Assistencia dos Servidores do Estado, or State Employees Social Security Institute.

critical feature of the pension system since the Constitution was enacted is the 1991 linkage of pensions and the minimum wage.

To confer credibility on these new reforms, the government created the Social Security Budget (Orçamento de Seguridade Social, or OSS) and funded it from multiple sources—including payroll taxes, taxes on earnings and profits, and, beginning in 1993, a tax on financial transactions. The purpose of the OSS was to fund pensions, health care, and social assistance. This lumping together of all these issues under a new legal definition of security (*seguridade*, in Portuguese) could presumably insulate social spending from political interference by the Finance Ministry and provide policymakers with resources to better address social issues.

During the 1990s, Brazil instituted a number of parametric reforms while its neighbors largely engaged in structural reform. The process is by no means complete, and it is difficult to forecast what reforms will look like a generation from now, or even when current impasses in the reform process will be overcome.

A Process of Continuing Reform

Legislation since 1989 reflects a search for the means to improve revenue collection and achieve greater fiscal balance, while at the same time extending coverage, especially for those segments of the population in the greatest need (recent legislation is summarized in Table 11-3). Higher revenue was achieved through new taxes and higher tax rates.

TABLE 11-2 Principal Social Security Legislation (1919–88)

Year	*Legislation*	*Status*
1919	Signature of ILO Convention on accident insurance (insurance contracts)	Until 1967
1923	Eloy Chaves Law ratified, creating CAPs	Until 1966
1931	Labor Ministry created (responsible for social security)	Until 1974
1940	Minimum wage created—the basis for social security benefits	Current
1943	Labor laws consolidated, guaranteeing right to a pension	Current
1945	ISSB created—unified and universalized social security	Not in effect
1947	Unification of IAPs proposed	Not in effect
1952	First statute enacted consolidating civil service pensions	Current
1953	CAPs incorporated into IAPs	Until 1967
1960	LOPS enacted	Current
1962	Minimum age for time of service pensions eliminated	Current
1963	Pensions for rural workers created (PRORURAL)	Not in effect
1966	IAPs consolidated into INPS	Current via INSS
1967	Ministry of Labor and Social Security created	Until 1974
1967	Incorporated worker accident insurance into the INPS, ending insurance contracts	Current via INSS
1971	Pensions for rural workers created (FUNRURAL)	Until 1988
1974	Created Ministry of Social Security and Social Assistance	Current
1977	Closed and open pension funds legislated	Current
1978	Ended IPASE; distinguished between civil servants with and without INSS coverage	Until 1988
1982	Created FINSOCIAL, currently COFINS	Current
1988	Constitutional guarantee of social security rights	Current (in part)

Source: MPAS (2002).
Notes: ISSB = Instituto de Serviços Sociais do Brasil, or Brazilian Social Service Institute; IAP = Institutos de Aposentadorias e Pensões, or Retirement Pension Institutes; LOPS = Lei Orgânica da Previdência Social, or Organic Law of Social Security; PRORURAL = Previdência do Trabalhador Rural; INPS = Instituto Nacional de Previdência Social, or National Social Security Institute; FUNRURAL = Fundo de Assistência ao Trabalhador Rural; INSS = Instituto Nacional do Seguro Social, or National Institute of Social Insurance; FINSOCIAL = Fundo de Investimento Social, or Social Investment Fund; COFINS = Contribuição para o Financiamento da Seguridade Social, or Social Security Finance Contribution.

TABLE 11-3 Evolution of Social Security Legislation (1989–2005)

Year	*Legislation*	*Status*
1989	Created CSLL	Current
1990	Approved special pension regimes (RPP) for all public-sector employees	Current
1991	Approved new financing and benefit laws	Current (in part)
1993	Ended transfer of payroll tax resources for health	Current
1993	Created financial transactions tax (CPMF) to finance health expenditures	Current
1994	Created constitutional revision authorizing transfer of social security funds	Until 2007
1996	Created a special tax regime for small- and medium-sized businesses (SIMPLES)	Current
1998	Approved Constitutional Amendment 20	Current (in part)
1999	Created Social Security Factor (notional defined accounts)	Current
1999	Created contribution for retired civil servants (rejected by Supreme Court in 1999)	Current
2003	Approved Constitutional Amendment 41 (civil servant pensions)	Current (in part)
2003	Lowered age for receiving old-age benefit via LOAS from 67 years to 65 years	Current
2005	Social security revenue collected by the Treasury	In transition

Source: MPAS (2000–5 editions).
Notes: CSLL = Contribuições sobre o Lucro Líquido, or Contribution over Liquid Profits; RPP = Regime Próprio de Previdência; CPMF = Contribuição Provisória sobre Movimentações Financeiras; LOAS = Lei Orgânica da Assistência Social, or social security law; SIMPLES = Sistema Integrado de Pagamento de Impostos e Contribuições das Microempresas e Empresas de Pequeno Porte.

These legislative changes reflect a process of retrenchment of social protection that is best understood within the context of the constitutional reforms undertaken by the Fernando Henrique Cardoso administration presented in Table 11-4. As in the rest of Latin America, Brazil was moving toward a greater role for the market, cost containment, and what Pierson (2001: 425) refers to as ‘recalibration’ (adapting rules to new constraints).

In the wake of Constitutional Amendment 20, which was passed in 1998 during the Cardoso administration and which some critics considered too timid a reform, President Lula’s administration sought to reduce the differences in civil service pensions and pensions for private-sector workers covered by the Instituto Nacional de Seguro Social (INSS) (Berzoini 2003).

TABLE 11-4 Principal Reforms of the Cardoso Administration (1995–8)

Parameters	*Situation in 1995*	*Proposals (PEC 33-A)*	*Approved by Congress (EC-20)*
Ordinary—35 years service men, 30 women	Time of service	Time of contribution	Time of contribution
Proportional—30 years of service men; 25, women	Available	Eliminate	Eliminate for new workers
Special for professionals	Normal (after 15 years of service)	For occupations deemed hazardous	For hazardous occupations and primary/secondary teachers
Minimum age	None	60	Civil servants: 60 men, 55 women. None for INSS
Old-age retirement	65 men, 60 women	65	65 men, 60 women
Rural old-age retirement	60 men, 55 women	65	60 men, 55 women
Benefit floor	Minimum wage	Delink from minimum wage	Minimum wage
Benefit ceiling	10 CWs	Reduce value	10 CWs
Basis of benefit calculation	Final 36 months	Entire career	Wages earned after July 1994 (Plano Real, or Real Plan)
Calculation formula	100% of contributions, price-indexed	Time of contribution	Notional defined accounts; age and time of contribution (social security factor)
Financing via payroll	All social security programs	No mention	Tied exclusively to the general regime
Special regimes (RPP)	Last salary	Match with INSS	Last salary
Complementary pension funds for RPP	None	Would create	Expected, not yet implemented
Employer participation in state-owned firms	No limit	Up to 50%	Up to 50%
Complementary pension fund portability	None	Not included	Implemented in 2001: Laws 108 and 109
Vesting in complementary pension funds	None	Not included	Implemented in 2001: Laws 108 and 109

Sources: Laws 108/2001 and 109/2001, Law 8.213/91, Proposed Constitutional Amendment 33-A, and Constitutional Amendment 20.
Notes: PEC = Projeto de Emenda Constitucional (proposed constitutional amendment); EC = Emenda Constitucional (constitutional amendment); CW = contribution wage.

Table 11-5 outlines these reforms and compares the situation before the 1998 Cardoso reforms and the changes proposed by President Lula in 2003.

Table 11-5 shows that the most important change was the possibility of creating DC pension funds for new civil servants, which introduced an important change with respect to pension funds in Brazil. Formal guarantees for these new workers would be limited to no more than the INSS benefit ceiling. The new rules would eliminate parity between pensions and active civil servants' salaries for new workers, while maintaining parity for those already receiving benefits,[1] and would require current civil servants to stay on the job until aged 60 years to avoid any reduction in pensions. It is important to note that these new rules exempt military and police pensions.

The creation of DC individual accounts was delayed. The regulations for EC-41 were postponed in part due to the difficulty of financing the transition costs in a climate of urgent fiscal adjustment. Disagreement over how such a system would be organized was also politically contentious, since contributions on retirement benefits would mean reduced pensions. The process remains incomplete, and pension reform will no doubt continue to be a significant policy challenge in the decades to come.

Structure and Coverage

In the section below, we describe the current state of Brazil's pension systems as well as key issues from current debates over reform.

Institutions and Benefits

The federal social security system, compulsory for all salaried workers and optional for the self-employed, has two regimes:

- The *General Social Security Regime*, managed by the INSS and encompassing all urban and rural private-sector employees, employees in government-owned firms, and the self-employed.
- The S*tatutory Social Security Regimes for Civil Servants*, covering all federal employees serving in the executive, judicial, and legislative branches. (State and municipal employees have their own pension systems.)

Table 11-6 describes the main rules for eligibility and benefits in the special pension regimes for civil servants. The ceiling for contributions and benefits in the main system in 2007 was 2,802 *reais* equivalent to 7.6 times the minimum monthly wage (US$1,381.50 in 2007). In other special programs, the pension is equal to the worker's final monthly wage, with no predefined

TABLE 11-5 Special Civil Servant Retirement Regimes (1998–2003)

Parameters for Age and Value of Benefits	*Until 1998*	*1999–2003 EC-20*	*PEC-40 Sent by Lula Administration*	*EC-41 Approved in the National Congress*
Time of contribution in public service for integral retirement	None	10 years in the office, 5 on the job	35 years in public service, 20 in the office, 10 on the job	20 years in public service, 10 in the office
Minimum age for integral retirement	None	53 year for current workers, 60 for new	Unchanged	Unchanged
Time of contribution to social security	35 years of service	35 years of contribution	Unchanged	Unchanged
Access to benefits for women	5 years less service	5 years younger, 5 fewer years of contribution	Unchanged	Unchanged
Value of integral benefits	Equal to final salary	Equivalent to final salary	Average of all contributions	Average of all contributions since July 1994 (start of Real Plan)
Value of benefits at age 53	Equal to final salary	Equal to final salary	Reduced by 5% per year since 2006	Reduced by 3.5% per year
Value of public-sector survivor pensions	Equal to final salary	Equal to final salary	Minimum reduction of 30% for values above 1,058 *reais*	70% of values, benefits, or salaries above 2,802 *reais* (2006 INSS ceiling)
Benefit ceiling for civil servants	None	Close to 11,000 *reais*, never implemented	Approximately 12,700 *reais*	Undefined (around 20,000 *reais)*
Contributions by retired and survivor Pensioners	None	None	11% for all	11% for pensions over 1,200 *reais* (states and municipalities); 1,440 *reais* (federal); and 2,400 *reais* (survivor pensions)
Complementary benefits for civil servants	None	Integral pensions included	For new contracts and earnings over 2,400 *reais*	New contracts and earnings above 2,400 *reais*. DC plans under public management

Sources: Law 8.112/90, Constitutional Amendments 20 and 41, Proposed Amendment 40a.

TABLE 11-6 Eligibility for Primary Benefits (Special Regimes)

Benefit	*Eligibility*	*Length of Contribution*	*Replacement Rate*
Full retirement for time of contribution (ATC)	Age 60 for men and 55 for women in the civil service. No minimum age in the general regime	35 years for men and 30 for women	Average of 80% of the highest contributions for INSS[a] since July 1994 and 100% of all civil servants' salaries
Retirement based on the proportional number of years of contribution	Age 53 for men and 48 for women. Not available for new contributors since December 1998	30–34 years for men and 25–29 for women	Between 70 and 94% of the total retirement pension for the full contribution period
Retirement based on age	Age 65 for men and 60 for women, with 5-year reduction for rural workers	15 years (regular occupation for rural insured)	Same as ATC requirements (1 minimum monthly wage for rural insured)
Retirement due to permanent disability	Medical examination	12 months	Same as ATC without the social security factor
Survivor's pension on death	Death of the insured		91% of the formula adopted for permanent disability
Sick leave allowance	Medical examination	12 months	50% plus 1% for each year of contribution
Maternity aid	Birth of child	10 months	100% of the last wage for 120 days
Aid to the aged	Age 65 and older living in families with per capita income less than 25% of the minimum wage	None	1 monthly minimum wage
Benefits due to labor accidents	Medical examination	None	100% of last contribution wage

Sources: Laws 8112/90 and 8213/91.

[a]Multiplied by the social security factor (only for the INSS insured), which includes the record of contributions, the age of the insured and the expected longevity (without gender discrimination) at the retirement age, a similar formula as that used in Sweden and Italy. The formula adopted for Brazil is:

$$f = \frac{T_c \times a}{E_s} \times \left[1 + \frac{(I_d + T_c \times a)}{100}\right]$$

where f = social security factor; E_s = life expectancy at retirement; T_c = time of contribution at retirement; I_d = age at retirement; and a = contribution quotient of 0.31.

ceiling. The floor benefit in both programs is 1 minimum monthly wage (approximately US$181 in 2007).

The system also includes two supplemental regimes:

- *Closed* private pension programs (Entidades Fechadas de Previdência Complementar, or EFPC) are for workers (or a category of workers) in a given firm. The majority of these programs are DC. Supervision is the responsibility of the Secretary of Supplemental Pensions of the Ministry of Social Security (Secretaria de Previdência Complementar, or SPC).
- *Open* complementary private pension programs (EAPC, or Entidades Abertas de Previdência Complementar), also generally DC, are open to any worker seeking supplemental retirement savings. Benefit levels vary by plan and are under the supervision of the Superintendency of Private Insurance (Superintendência de Seguros Privados, or SUSEP) at the Ministry of Finance.

Table 11-7 summarizes these supplemental systems. Despite a relatively low rate of worker participation, the capital invested in these funds is a significant percentage of GDP given the relative concentration of income in Brazil.

With the passage of Constitutional Amendment 20 in 1998, firms began to contribute increasingly to open over closed pension funds. In 2005 open

TABLE 11-7 Indicators and Coverage of the EFPC and EAPC (December 2005)

Financial Indicators	*Closed (EFPC)*	*Open (EAPC)*
Funds as a percentage of GDP[a]	13.8	3.8
Contributors (millions)	1.73	6.08
Designated beneficiaries (thousands)	3.984	NA
Beneficiaries (thousands)	560	248
Contributors as a percentage of the economically active population (EAP)	2.72	6.33
Designated beneficiaries as a percentage of the EAP (IBGE)	4.73	NA
Beneficiaries as a percentage of total INSS beneficiaries	2.65	1.18
Market share as percentage	69	31
Fund with highest market share (percentage)	25.9	41.7
Market share of largest 5 funds (percentage)	49.0	79.2

Sources: SPC (2006), SUSEP (2006), and IBGE (2007).

Note: IBGE = Instituto Brasileiro de Geografia e Estatística, or Brazilian Institute of Geography and Statistics.

[a]GDP data are from the 2007 GDP data-set revision (see IBGE 2007).

TABLE 11-8 Principal Benefits Offered by Closed Pension Funds (2005)

Ordinary retirement	99%
Early retirement	43%
Disability	86%
Spousal pension	72%
Pensions for dependents	55%
Death benefit	41%
Vesting	67%

Source: Towers Perrin (2005).

funds received 31 percent of total employer contributions compared to 18 percent in 1994. Changes in income tax laws in 2002 provided an additional stimulus for firms to contribute to open funds. However, despite the influx of funds, the system continues to be characterized by a low density of contributions, with very few workers drawing benefits.

Table 11-8 shows that closed pension funds offer a range of benefits accessible after a vesting period, including the withdrawal of funds, that somewhat resemble a traditional life insurance policy. Table 11-9 demonstrates that replacement rates tend to be higher in closed funds for employees of state-owned firms and lower for other employees (especially in foreign firms).

In this respect, the coverage of the public systems and the closed complementary funds for workers in state-owned enterprises tend to offer better guarantees than do other programs because they offer higher replacement rates and are usually DB.

Financing Pensions

The question of how to finance the PAYGO pension programs has been a major policy challenge. Some workers contribute regularly, but about

TABLE 11-9 Replacement Rate of Closed Pension Funds (2005)

Replacement Rate	*Private Firms (National)*	*Private Firms (Foreign Owned)*	*State-Owned Firms*
80–100%	20%	1%	38%
60–80%	26%	24%	26%
40–60%	24%	8%	12%
Up to 40%	2%	1%	—

Source: Towers Perrin (2005).

50 percent of the working population, including rural workers, domestic employees, and workers in the informal urban economy, generally do not. The financing arrangements established in the 1988 Constitution are intended to compensate for workers' differing abilities to contribute by redistributing funds collected by levies on a broader revenue base. It classified the heterogeneous conditions of each benefit as:

- conditions of a contributive character, such as retirement based on time of contribution, which does not tend to involve transferring funds between generations;
- conditions of a partially contributive character, such as retirement by age, which requires a certain degree of redistribution of funds between generations; and
- conditions of a universal nature, such as welfare benefits, which do not call for contributions and have an explicitly redistributive character.

The system for funding health, welfare, and social security benefits reflects this mix of contribution-based and universal benefits.[2] The sources of funds for social security are captive, and based on four principal sources (see Table 11-10). The Constitution requires that a specific budget be drawn up, distinct from the federal fiscal budget, with exclusive sources of funds to finance social security.[3] Over time, the social security budget has also begun to receive revenue collected on financial transactions.[4]

In the civil servants' systems, employees must contribute a minimum of 11 percent of their wages. Their employers (federal, state, and municipal governments) contribute up to 11 percent or more, depending on the region, and must cover the difference between what is collected and spent on benefits.

Closed pension plans are increasingly moving from DB to DC systems. In 1994 43 percent of the closed plans were either DC or mixed systems with both DC and DB. By 2004, 89 percent of the funds were straight DC or mixed. Employers were beginning to shoulder less of the administrative costs. In 2000, 8 percent of affiliated employees paid administrative fees on closed pension funds, while by 2004 that figure had risen to 17 percent.

Coverage and Contributors: The Origin of the Problem

The principal source of the financial disequilibrium in Brazil is that benefit coverage for senior citizens is nearly universal, while the total number of workers contributing to the system is quite limited. This trend becomes clear in Table 11-11, which compares coverage levels among persons aged 60 years or older with the economically active population and

TABLE 11-10 Sources of Financing for Social Security Expenditures

Contribution	*Levying Base*	*Rate*
Contributions from employees	Gross wages up to a ceiling of approximately 10 CWs	7.65% to 1 CW, 8.65% from 1 CW to 3 CWs, 9% from 3 to 5 CWs, 11% from 5 to 10 CWs
Contributions by employers	Payroll	20% over the total, 1–3% to cover labor accidents, 15% when contracting self-employed workers
Contributions by self-employed workers	Income up to the ceiling of 10 CWs	20% over the class of income, subdivided into multiples of the CW, limited by the INSS floor and ceiling (11% for 1 CW)
Contributions by special rural, fishing and mining contributors (family economies)	Revenue from sales	2% plus 0.1% to cover labor accidents
Contribution for financing social security (COFINS)	Companies' monthly sales	7.6% for companies in general (financial institutions are exempted)
Contribution on companies' net profits (CSLL)	Companies' net profit	8% for companies in general and 18% for financial institutions
Funding from the federal government (National Treasury)	Fiscal budget	Depending on the need for financing
Income from lotteries	Net income	60% of all weekly revenue
Provisional contribution on financial transactions (CPMF)	Bank operations (with some exemptions)	0.38% on each transaction, 0.2% for health care, 0.1% to the INSS, and 0.08% to antipoverty programs
Integrated system for paying taxes and labor obligations by very small and small companies (SIMPLES)[a]	Sales by very small companies (minimum 5%) and small companies (up to 10%)	2–2.7% (depending on sales) as contribution of employers on payroll, 2% as COFINS, and 1% as CSLL
Other income	Income from bonds and securities or real estate	Depends on the earnings of each security, bond, or rental or sale of real estate

Sources: Law 8.212/91, updated by Constitutional Amendment 20/98 and Law 9.876/99.
Note: CW = contribution wages.
[a]The SIMPLES (tax) system replaces the COFINS.

TABLE 11-11 Benefit Coverage via Social Security Income Transfers (as % of Total Population)

Population Coverage	*1981–4*	*1985–9*	*1990–3*	*1995–8*	*1999–2002*	*2003–4*
Economically active	39.2	38.4	36.3	32.6	32.7	34.1
Family dependents	65.0	63.5	61.2	56.3	54.7	54.6
Old age (60 years+)	50.1	56.3	67.6	76.7	77.5	77.7

Source: IBGE.
Notes: Table does not include *Bolsa Família* (family allowance benefit). No data for 1991, 1994, and 2000.

their dependents. Direct coverage for individuals aged 60 years and older has tended to increase in recent years, while coverage for the other 2 groups has stagnated.

The coverage of those aged 60 years or older is high and increases with age. For instance, in 2001 70 percent of the population aged 65–69 years received a benefit, and an additional 20.8 percent of the population was covered through a family member. For those aged 70–74 years, those figures were 75.9 and 20 percent, respectively, according to Cordero (2005).

At older ages, coverage reaches very high levels—although not universal, it is nearly so. In recent studies, both the ILO and the World Bank have pointed to Brazil as an exemplary case with respect to coverage. However, the same cannot be said about the risks that affect current workers and their dependents; less than two-thirds of this population is covered and coverage rates remain low. As more workers enter the informal sector, the number of families with at least one member contributing to social security continues to decline. If this trend is not reversed, the system will experience growing costs and greater inequality.

Differing Diagnoses: Financing and Social Conditions

There is a wide-ranging debate over what actions are necessary to achieve pension reform in Brazil, a debate complicated by the lack of consensus about the reliability of basic social indicators. Issues in the debate range from the effectiveness of income transfers to the degree to which deficits or surpluses justify reform measures.

Social Conditions, Targeting, and Seguridade

Pension payments play an increasingly important role in reducing poverty for families with income below 50 percent of the per capita minimum salary. In 1992 49 percent of all Brazilian families would have had income below the poverty line if not for INSS payments that reduced the figure to 42 percent. There was a dramatic improvement by 2003, when 43 percent of families were below the poverty line without INSS payments and 32 percent were below after receiving benefits (according to Paiva, Passos, and Ansiliero 2005, based on IBGE data).

Despite the effectiveness of the INSS as an antipoverty program, if its purpose is to reduce poverty, then its benefits could be targeted more effectively. INSS benefit levels are linked to the minimum wage, but since only 30 percent of beneficiaries are below the poverty line, raising the minimum wage is not the most efficient way to target the poor. A 40-*real* increase in the *Bolsa Família* (family allowance), which benefits families in both the formal and informal sectors, would have the same poverty-reducing impact as a 10 percent hike in the minimum wage at two-thirds of the cost according to Barros and Carvalho (2005). Raising the minimum wage is not an effective way to combat poverty, they say, because the retired already receive an elevated level of income transfers, making it more effective to (*a*) transfer income to the poorest segments of the population, reducing retirement payments to the minimum level, and (*b*) raise *Bolsa Família* benefits for families with children up to 14 years old.

One element often overlooked in Brazil's social debate is the link between the 1988 Constitution and poverty reduction. The Constitution preserves (in part) the value of benefits, which has reduced the incidence of indigence and poverty among the elderly. Dain and Lavinas (2005) report that indigence among those older than 65 years fell from 3 percent in 1981 to 1 percent in 2003, while the absolute number of those older than 60 years living in extreme poverty fell by half. As Lavinas (2006) notes, when a benefit is not considered a 'right', the poor and indigent are not always identified because, beyond meeting the necessary requirements, they often lack information or voice (many of the poor lack required documents or even a postal address).

Targeted income transfer programs can generate inefficiencies, and not all of those eligible ultimately receive benefits. The recently launched Pesquisa Nacional por Amostra de Domicilios (PNAD, a national household survey) reveals that food security assistance reached only 18 million of 45 million households facing food insecurity. The PNAD survey also demonstrates that among indigent families with an income of 25 percent of the minimum wage or less, half have not applied for assistance. In other words, the coverage deficit is the largest in the most vulnerable groups. It is apparent that in Brazil, with its weak state capacity, profound social inequality, and large numbers of poor individuals with low education levels, targeting does not reach the most needy.[5]

Financing, Spending, and Long-Term Equilibrium

Many analysts suggest that reform efforts since 1993, while significant, have been insufficient, given projected actuarial shortfalls that could have grave macroeconomic implications in the future. Furthermore, the growing INSS deficits and rising expenditures on public servant pensions have brought on a fiscal crisis that has led to public spending being increasingly directed toward benefits rather than investment.

Giambiagi et al. (2004) demonstrate that the differences between revenue collection and expenditures are growing. Even though the deficit has grown faster for civil servants (because there is no specific contribution for the employer), INSS expenditures have expanded at an even faster rate (see Table 11-12).

Generous rules guiding benefits also contribute to financial shortfalls. According to the World Bank (2001) and Giambiagi et al. (2004), the relatively high value and long duration of pensions granted based on time of contribution are especially costly. Giambiagi et al. argue further that noncontributory pensions are relatively ineffective social policies that create a vicious cycle due to their high cost, which leads to high payroll taxes that in turn provide an incentive for joining the informal sector.

From this perspective, the solution is to adopt new constitutional reforms to guarantee benefits proportional to contributions and to avoid unrestricted spending on noncontributory benefits. Table 11-13 presents potential financial scenarios according to differing reforms, GDP growth, and minimum wages.

Giambiagi et al. (2004) say that reforms are necessary to contain costs, which could reach 10 percent of GDP, assuming moderate economic growth and a continued rise in the real value of the minimum wage. The authors point to acceleration in growth in assistance and time-of-contribution benefits, which will lead to worsening deficits unless a reform is enacted. The proposed reforms project that expenditures would fall to 6.9 percent of GDP assuming 3 percent annual GDP growth, and 5.6 percent of GDP with an annual GDP growth of 4 percent.

There are different perspectives on the link between the financial crisis and the reform process. According to Dain (2003) and ANFIP (2005), the 1988 Constitution requires that taxes on corporate earnings (COFINS, or Contribuição Social para Financiamento da Seguridade Social), profits (CSLL, or Contribuições sobre o Lucro Líquido), and payroll taxes were intended to finance pensions, health, and social assistance. Since the constitutional reform of 1993–4, the government has diverted more than 20 percent of COFINS, CSLL, and CPMF (Contribuição Provisória sobre Movimentação Financeira, literally 'temporary contribution on financial transactions') to other expenditures (see Table 11-14), and was authorized to do so through 2007. Critics argue that this practice deviates from the

TABLE 11-12 Pension System Operating Results (as a % of GDP)[a]

	1995	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*[b]
Operational imbalance	—	(0.1)	(0.3)	(0.7)	(0.9)	(0.8)	(1.0)	(1.1)	(1.6)	(1.6)	(1.7)	(1.8)
INSS revenue	4.6	4.8	4.7	4.8	4.6	4.8	4.8	4.8	4.8	4.8	5.1	5.3
Expenditure	4.6	4.9	5.0	5.4	5.5	5.6	5.8	5.9	6.3	6.5	6.8	7.1
Civil servants	(2.6)	(3.4)	(3.2)	(3.5)	(3.4)	(3.6)	(3.9)	(3.6)	(3.1)	(3.1)	(2.9)	(2.8)
Revenue	0.9	0.6	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.9	1.1
Expenditure	3.5	4.1	3.8	4.1	4.0	4.2	4.4	4.2	3.8	3.7	3.8	3.8
Total	(2.6)	(3.5)	(3.4)	(4.1)	(4.3)	(4.5)	(4.9)	(4.7)	(4.9)	(4.7)	(4.6)	(4.6)
Revenue	5.5	5.4	5.4	5.4	5.2	5.3	5.3	5.4	5.2	5.5	6.0	6.4
Expenditure	8.1	9.0	8.8	9.5	9.5	9.8	10.2	10.1	10.2	10.2	10.6	10.9

Sources: Giambiagi et al. (2004: 6), based on data from the Ministries of Plan and Social Security; IBGE (2007).
[a]GDP data are from the 2007 GDP data-set revision (see IBGE 2007).
[b]Preliminary data and authors' estimate.

TABLE 11-13 INSS Expenditure Projections Measured (as a % of GDP)

	Scenario without Reform				*Scenario with Reform*[a]	
	Minimum Wage Indexed to Inflation		*Minimum Wage Grows at Same Rate as Growth in Per Capita GDP*			
GDP	3.0	4.0	3.0	4.0	3.0	4.0
2005	7.8	7.7	7.8	7.8	7.8	7.7
2030	9.2	7.4	10.0	8.4	6.9	5.6

Source: Giambiagi et al. (2004: 34), based on data from the IBGE and Ministry of Social Security.
[a]Giambiagi et al. (2004) assume a minimum retirement age 55 years in 2010 and 65 years in 2025. During this period, the retirement age difference between men and women would be gradually reduced. In 2025, women would have a retirement age of 63 years with 33 years of required contributions. In addition, special benefits for preschool through middle-school teachers would be eliminated. Finally, the minimum benefit would be adjusted only for inflation. Old-age social assistance benefits would be set at 80% of the minimum pension and unlinked from the minimum wage, and granted at age 70 rather than at age 65, as is currently the case.

original 1988 Constitution, arguing that if all revenues had been spent on social security, revenues would have exceeded benefits, generating a huge surplus. In short, from this perspective, the INSS was not the source of the growing deficit.[6]

Others argue that these revenue losses occurred due to nonpayment of taxes, evasion, and fraud (see Table 11-15), facilitated by weak enforcement (ANFIP 2005). Revenue collection could be dramatically improved

TABLE 11-14 Annual Social Security Budget (as a % of GDP)[a]

	1995	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
Revenue	7.6	7.7	8.3	8.3	9.1	10.1	10.4	10.7	10.4	11.4	11.6	11.9
INSS	4.6	4.8	4.6	4.8	4.6	4.7	4.8	4.8	4.8	5.1	5.1	5.5
COFINS	2.2	2.1	2.0	1.9	3.0	3.4	3.6	3.6	3.4	4.0	4.1	3.9
CPMF	—	—	0.7	0.8	0.7	1.2	1.3	1.4	1.4	1.4	1.4	1.3
CSLL	0.8	0.7	0.8	0.7	0.6	0.7	0.7	0.9	0.9	1.0	1.2	1.2
Expenditures	7.1	6.9	7.0	7.5	7.7	7.8	8.2	8.2	8.5	8.9	9.4	9.9
Pension (INSS)	4.9	5.2	5.1	5.6	5.7	5.9	6.2	6.2	6.6	6.7	6.9	7.2
Health (SUS)	1.9	1.7	1.7	1.6	1.6	1.7	1.8	1.7	1.6	1.6	1.6	1.7
Social assistance	0.1	0.2	0.2	0.3	0.4	0.3	0.3	0.4	0.4	0.5	0.8	1.0
Surplus	0.6	0.7	1.3	0.8	1.4	2.2	2.2	2.5	1.8	2.5	2.3	2.0

Sources: ANFIP (2007), based on data from the Ministries of Finance and Planning; IBGE (2007).
Note: SUS = Sistema Único de Saúde.
[a]GDP data are from the 2007 GDP data-set revision (IBGE 2007).

TABLE 11-15 Potential Social Security Revenue Collection (as a % of GDP, Rev. 2007 Data)

	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
Nonpayment (*a*)	0.2	0.3	0.2	0.2	0.4	0.3	0.4	0.4	0.4
Fraud (*b*)	1.8	1.9	1.9	1.9	2.1	2.1	1.9	1.8	1.8
Evasion total ($c = a + b$)	2.1	2.2	2.1	2.0	2.5	2.4	2.3	2.2	2.2
Exempt (*d*)	0.8	0.7	0.8	0.8	0.7	0.7	0.7	0.8	0.6
Revenue collection (*e*)	4.7	4.7	4.6	4.7	4.8	4.8	4.7	5.0	5.0
Potential revenue collection ($f = b + d + e$)	7.3	7.4	7.3	7.4	7.6	7.6	7.4	7.7	7.4
Estimated losses ($g = f - e$)	2.6	2.6	2.7	2.6	2.8	2.8	2.6	2.6	2.4

Source: ANFIP (2007).
Note: Deflator: National Consumer Price Index (INPC—Indice nacional dos preços ao consumidor).

through increased compliance. Critics also argue that the granting of contribution exemptions, such as those given to philanthropic organizations and exporters, is questionable, given the fact that benefits are linked to contributions.

Note that policy assessments described in this section need to be viewed with caution, given the fact that they often rely on contradictory and erroneous data. Meanwhile, spending continues to rise, while average benefits do not satisfy basic needs. Policymakers face a clear agenda of improving the efficiency and equity of benefits while at the same time creating better conditions for business, investors, and labor.

Conclusions and Suggestions for an Alternative Agenda

Since the regional trend toward individual accounts took off in the 1990s, Brazil's path toward social security reform has differed significantly from that of its neighbors, focusing on universalizing benefit coverage and parametric reforms in the PAYGO public system rather than structural reform. As described above, policies in recent years have been shaped by the range of social protection codified in the 1988 Constitution, and the process of social security reform has required investments of tremendous political capital in order to amend the Constitution.

One conclusion that can be drawn from examining current debates in Brazil is that the immediate policy challenges of improving equity and efficiency can be met not only via constitutional reform, but, in the shorter

TABLE 11-16 Occupations as Proportion of the Workforce and Salaries in Selected Countries

Country	*Wages and Payroll/ GDP—2002*	*Occupational Structure 2002*			*Average Wage in Euros (2001)*[a]
		Employers and Self-Employed	*Salaried Workers*	*Domestic Household Workers*	
Brazil	36.1	30.0	61.3	8.7	5,138
Portugal	60.4	25.4	72.7	1.8	13,338
Spain	65.5	17.5	80.6	1.8	17,432
France	66.9	9.7	89.2	1.1	27,319
Germany	68.9	10.0	88.9	1.1	38,204
United Kingdom	65.2	11.4	88.1	0.3	37,677
Sweden	74.8	10.2	89.3	0.5	31,620
Eurozone	64.4	14.8	83.2	1.9	29,627

Sources: IBGE (2003), OECD (2003), and Eurostat (2003).
[a]Ten and more employees.

term through administrative reform, and improved regulatory and managerial performance.

Low levels of coverage for affiliates remain a basic problem in Brazil and the rest of Latin America (Gill, Packard, and Yermo 2004: 273–5).[7] Without higher salary levels, a largely formal and salaried labor sector, and a high density of contributions, social security benefits cannot provide a basic standard of living, nor is it possible to have a classic universal social security system functioning with an actuarial equilibrium based on a social insurance model (see Table 11-16).

With respect to current laws, changing survivorship rules and regulations would reap clear savings. In Brazil, lifetime survivorship benefits are given indiscriminately without regard to the age of the spouse, number of children in the family, or length of the marriage.[8] Such permissive benefits would be considered quite generous in the industrialized world, but seem altogether out of place in a developing country like Brazil (Coutinho and Ribeiro 2006).[9] In Sweden, for example, able-bodied workers are eligible for a universal survivor pension payable for 6 months after 5 years of marriage, or for as long as the survivor is caring for a child younger than 12 years. Sweden's six-month survivor pension stands in sharp contrast to the situation in Brazil, where even a young adult capable of working automatically receives lifetime benefits (see Table 11-17).

A similar principle exists with respect to disability: those capable of working should be expected to do so. However, in Brazil, nearly all of those classified as temporarily or permanently disabled are considered

TABLE 11-17 Comparison of Survivor Benefits in Select Countries

Country	*Requirements*	*Benefit*	*Termination*
Mexico	150 weeks of contribution	Private: 90% of the value of the disability pension Public: 90% of insured's pension (both for widow or dependent disabled widower)	Remarriage: 3-year lump sum
USA	6 of 13 quarters coverage prior to death	100% at retirement age, payable to widow(er) after minimum 10 years of marriage, 75% if disabled or caring for a child under aged 16	Age 18 for orphan children in school. Survivor retains pension if remarries after 60
Sweden	3-year residence	Maximum is 90% reduced base amount, 40% of earnings related pension (both for 6 months). Special survivor benefit if survivor ill or unemployed	Until dependent child is aged 12
Italy	5 years contributions, 3 in 5 prior to death	60% of insured's pension, 100% for spouse + 2 children, Income test if granted after September 1995	New marriage or age of majority
Portugal	Deceased met pension requirements	60% of insured's pension	5 years unless surviving spouse over 35 years of age, disabled, or caring for a child
Brazil	12 months of contribution	100% for spouses or dependents and up to 20% for orphans through age 16 (or 24 if in school). The pension is for life, regardless of age	Remarriage

Sources: Social Security Administration (2002, 2004).

totally disabled. Appropriately classifying partially disabled workers would encourage those who are capable of work to find suitable employment.

Another indicator that Brazil's disability pensions are alarmingly and disproportionately high is that expenditures associated with risk (disability and survival pensions) have remained steady for twenty-five years, despite the fact that the aged population has grown—and, since the constitutional amendment of 1988, has enjoyed more generous benefits. Under these circumstances, we would expect old-age pensions to increase as a proportion of overall pension expenditures. Nevertheless, disability and survival pensions only fell from 38.2 percent of expenditures from 1980 through 1984 to 34.8 percent of expenditures between 2000 and 2004.

Furthermore, many workers continue to be formally employed even while drawing pensions, a situation commonly justified by low benefits. Seniors are thought to have no choice but to return to work. Since 1981 the number of beneficiaries of retirement and survivorship pensions who are employed has increased, due not only to Brazil's rapid population growth (from 110 million in 1981 to approximately 180 million in 2004) and economic crises, but also because of the large number of people who sought early retirement ahead of the Cardoso administration's pension reforms. A growing number of these beneficiaries found employment in the informal sector, as the percentage of employed pensioners not contributing to the pension system expanded (see Table 11-18). Retired persons with lower benefits are less likely to be employed, while retirees receiving higher average benefits are more likely to be employed and to contribute to social security.

The general argument for permitting individuals to have multiple benefits is this: because benefit levels are so low to begin with, people should justifiably be able to accumulate more than one pension. However, that

Table 11-18 Retired and Survivor Pensioners' Work Status (% for Selected Years)

Beneficiaries	*Retirement Benefit*				*Survivorship Benefit*			
	1981	*1990*	*1995*	*2004*	*1981*	*1990*	*1995*	*2004*
Retired (not seeking employment)	80.9	76.9	65.2	67.0	73.5	72.4	66.5	70.7
Retired and unemployed	0.2	0.2	0.6	0.8	1.4	0.8	1.6	2.0
Employed and a contributor to pension system	6.4	6.2	6.4	6.0	14.0	13.0	11.2	8.9
Employed and a noncontributor	12.6	16.7	27.8	26.2	11.0	13.8	20.8	18.4

Source: IBGE (PNAD) (2004).

individuals receiving higher benefits tend to have multiple sources of income while those with lower benefits do not suggest that permitting multiple benefits leads to a higher concentration of income.

Although the population that retires relatively young and enjoys multiple benefits is significant, the vast majority receive only the minimum pension. The existence of this enormous population living in poverty raises the question of the effectiveness of targeting or lowering the benefit floor. Faced with a somewhat similar situation in Chile, the 2006 presidential advisory commission took a different approach to addressing the role of pensions in addressing poverty when it recommended a 'solidarity' pillar that would reach the bottom 60 percent of earners (Consejo 2006).

Policymaking is clearly hampered by the absence of accurate data, which is exemplified by conflicting data on worker mortality for those receiving benefits based on thirty years of contributions (these conditions are more typically met by workers in better remunerated jobs). Mortality is, of course, a key indicator for determining the duration of benefits and for projecting program costs. However, although workers tend to retire at relatively young ages in Brazil, the duration of benefits does not in itself appear to be the key problem for the private-sector workers pension system. Using Social Security Ministry data (from the DATAPREV database; see MPAS 2005), Table 11-19 shows that the average age when benefits are granted rose from 50 years for men and 48 years for women in 1997 to 54.8 years and 51.7 years in 2005, while the average age of cessation of benefits (i.e. death of beneficiaries) was 71.3/66.3 years.

The age at which benefits cease due to death is actually lower than overall average life expectancy, according to the 2004 government mortality tables, which show benefits ceasing at age 77.7 years for men and 80.8 years for women (after being granted at ages 55 and 52 years, respectively) (IBGE 2004). Comparing these numbers to the Ministry of Social Security numbers reveals a 6.6-year disparity for men and a 14.4-year disparity for women. This discrepancy exemplifies the lack of reliable indicators in Brazil, an especially serious problem for forecasting the long-term financing needs of the pension system.[10]

Some analysts emphasize the critical importance of raising the retirement age (Giambiagi et al. 2004), although retirement systems throughout the world permit early retirement in return for reduced benefits. However, as Table 11-20 shows, the issue in Brazil has more to do with high replacement rates relative to overall worker contributions. Furthermore, it has been possible since 1998 to alter how benefit formulas are calculated via ordinary law. This is not the case with raising the retirement age, which requires the very cumbersome process of constitutional reform. At the same time, 68 percent of the EAP and 44 percent of the working-age labor force work in occupations where social rights and legal protections are

TABLE 11-19 Average Age for Time of Contribution Retirement

Gender	*Benefit Status*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
Men	First granted	53.6	53.4	53.1	51.8	50.2	49.7	50.7	52.9	53.1	53.3	54.3	54.8	54.8	54.8
	Average beneficiary	62.4	62.1	62.0	61.6	60.9	60.2	60.1	60.6	61.3	61.9	62.4	63.0	63.5	64.1
	Benefit ceases	69.2	68.8	68.3	68.0	68.0	66.6	67.9	68.8	69.4	69.9	70.5	70.7	71.0	71.3
Women	First granted	51.5	51.2	50.9	49.9	48.8	48.3	49.0	50.6	50.9	51.1	51.7	51.7	51.8	51.7
	Average beneficiary	60.3	59.5	59.3	58.7	58.2	57.4	57.3	57.6	58.2	58.8	59.2	59.6	60.1	60.5
	Benefit ceases	68.6	66.2	65.2	64.4	64.0	60.7	62.3	64.9	67.0	67.2	67.4	66.5	65.9	66.3

Source: MPAS (2005).

TABLE 11-20 Average Age, Legal Age, and Replacement Rates for Retirement Pensions in 2001

Retirement Pensions by Country and Type	*Average Retirement Age (Years)*	*Legal Retirement Age (Years)*		*Benefit as a Percentage of Salary*
		Men	*Women*	
Brazil (TC)	53.7	65	60	88/92[a]
France	58.7	60	60	75
Italy	60.4	65	60	65
Brazil (TC + urban, by age)	60.8	65	60	91/74[b]
Spain	61.4	65	65	65
Germany	61.6	65	65	75
Sweden	63.2	65	65	NA
United Kingdom	63.2	65	65	48
Portugal	64.5	65	65	54

Sources: MPAS (2001), IBGE (2001*b*), and Eurostat (2003); 2004 figures for Brazil INSS (excluding the special regimes).
Note: TC = time of contribution.
[a] Compared to salaried contributors. Figures come from two different sources (MPAS 2001 cites 92%; IBGE 2001*b* cites 88%).
[b] Compared to the employed workforce. Figures come from two different sources (MPAS 2001 cites 91% and IBGE 2001*b* cites 74%).

not respected (IBGE 2001*b*). The cost of the generous pensions enjoyed by a small percentage of retired workers is borne by that relatively small portion of the labor force that contributes at very high rates, which in turn encourages increased evasion.

The evasion problem could be solved with the adoption of a zero pillar/tier that pays a basic benefit to all workers, regardless of total contributions for old age. This kind of minimum income benefit could be complemented with a pension based on a classical social insurance scheme with DB and calculated strictly according to the effective contributions. For workers preferring higher income during retirement, market solutions including DC plans and voluntary saving could be encouraged. Such a scheme would be feasible with much lower contribution rates and an actuarially accurate formula that fixes replacement rates according to international standards. This solution would cover the needs of the retired without encouraging early retirement and the accumulation of multiple pensions by middle-class workers.

In coping with these challenges, it is important to emphasize that the lengthy process of constitutional reform is not the only nor necessarily the most effective method to reform social security and bring financial stability. Parametric reforms, including administrative measures, play an important role and could bring faster and more immediate results. Administrative reforms can present an effective financial solution without the political challenges of amending the Constitution.

Administrative measures could include:

- Eliminating risk-based benefits for those who do not need them. Partially disabled workers can continue to work in some capacity.
- Verifying more diligently disability status and ceasing total disability status for those capable of working.
- Preventing disability through better monitoring of workplace safety.

The following measures could be taken via ordinary legislative reforms:

- Imposing restrictions on receiving one or more pension benefits while still receiving wages from employment.
- In granting death benefits, considering the presence or absence of minor children and the capacity of survivors to be employed.
- Granting partial disability status when appropriate.

Arguments that Brazil's social expenditures are elevated given its stage of development (see Giambiagi et al. 2004) should be viewed with caution. Although Brazil's population is relatively young compared to European countries, its population is aging at a faster rate (UN 2004). As the rate of economic growth has slowed, income transfers have increased fiscal pressure. Table 11-21 suggests that Brazilian spending on old-age pensions could be considered relatively low compared to that in Mexico, which has a higher rate of growth, and the USA, which has a social protection system that assigns a greater role to the market and individual initiative.

As Gillion et al. (2000) point out, any analysis of social spending must consider total spending and not just public-sector expenditures. Spending should be viewed according to the age profile of the population to assess the level of spending with respect to the covered population. Such an exercise suggests that public expenditures on survivorship benefits in Brazil (3.1% of GDP) are overly generous (see Table 11-21). The rapid rise in spending on disability benefits and family income support in a population where fewer workers are contributing is also cause for concern.[11] Policymakers may wish to devote greater attention toward reforming rules over survivorship benefits.

Furthermore, the lack of integration among health, welfare, and pension policies creates duplication and waste, as does weak administration, which results in fraud. Operational costs (including personnel expenditures) in Brazil represent a relatively high 3.7 percent of total benefits.[12] Furthermore, up to 20 percent of benefits contain 'irregularities', and it is projected that annual losses are equivalent to 15 percent of total revenue

TABLE 11-21 Public Social Expenditures (as a % of GDP)[a]

	Germany		*Italy*		*Mexico*		*Poland*		*Portugal*		*Sweden*		*USA*		*Brazil*		
	1995	*2003*	*1995*	*2003*	*1995*	*2003*	*1995*	*2003*	*1995*	*2003*	*1995*	*2003*	*1995*	*2003*	*1995*	*2003*	*2006*
Old age[b]	10.3	11.3	9.4	11.3	0.6	1.0	6.5	8.8	6.5	7.0	9.9	10.1	5.4	5.5	4.2	4.9	5.4
Survivor[c]	0.5	0.4	2.2	2.5	0.2	0.3	1.9	1.0	1.3	1.6	0.7	0.7	1.0	0.8	2.0	2.5	3.1
Disability[d]	1.9	2.0	1.8	1.8	0.1	0,1	5.8	3.4	2.5	2.6	5.1	6.0	1.2	1.3	1.0	1.4	1.9
Family[e]	1.9	1.9	0.6	1.2	0.1	1.0	1.1	1.5	0.8	1.6	3.8	3.5	0.6	0.7	0.5	0.6	1.1
Total	15.8	16.3	16.5	17.0	3.9	8.1	17.1	17.0	11.2	13.1	19.4	17.9	8.2	7.6	7.7	9.4	11.5

Sources: IBGE (2007) and OECD (2007).

[a]GDP data are from the 2007 GDP data-set revision (see IBGE 2007).

[b]Old-age benefits include INSS old age and time of service pensions, and civil service pensions from the three branches of government for urban and rural workers. Some analysts view rural benefits as social assistance better categorized as family benefits, but according to Law 8.213/91 they are required to be integrated into Social Security (*Previdência Social*). In 1995 rural benefits were equal to 1.18% of GDP, and in 2005 they had risen to 1.24% of GDP.

[c]Survivor benefits include all INSS and civil service survivorship benefits.

[d]Disability includes INSS and civil service disability and sickness benefits.

[e]Family benefits include benefits for the aged who live in families considered poor, and also incorporates targeted assistance and income transfer programs like *Bolsa Família* and *Bolsa Escola*. Maternity and small child benefits are also included. Family benefits for workers with income below three contribution salaries are also included.

due to improper revenue collection and benefit payments. Because of these inefficiencies, elevated tax rates place an onerous burden on families and firms, stifling potential economic growth.[13]

Resolving these administrative and legislative challenges could facilitate political support for new constitutional reforms. Brazil's 1988 Constitution raised the benefit floor and facilitated access to benefits for the needy. Social security pensions were the primary government social program and played a key role in reducing poverty. As discussed above, significant steps can be taken to reduce overall pension expenditures in Brazil, primarily through addressing the benefits that are exceptionally generous by international standards without reducing basic benefits, which play a critical antipoverty role.

It is clear that the process of administrative and legislative reform at the subconstitutional level should be accelerated. It is also apparent, given the current distribution of benefits, that the pension system cannot be sustained by payroll taxes alone and that a strong basic antipoverty benefit is necessary given the significant number of workers earning wages at or close to the minimum wage. The creation of reserves or a system of partial capitalization could contribute to easing demographic transitions and stimulate market-led investment—which could also broaden the market for complementary pension funds geared toward professionals. However, any such reforms require transparency and must be done in such a way to minimize both risks and administrative costs.

Notes

[1] In July 2004 the Supreme Court ruled that retired civil servants have to contribute 11% of their pensions on the amount exceeding the INSS ceiling and that survivor benefits be reduced by 30% below the covered worker's retirement benefit only for pensions above the ceiling. Otherwise, civil servants would receive benefits lower than those of workers in the INSS even though contribution rates would be the same.

[2] Law 8.213 provides that civil and military federal, state, and municipal employees covered by specific statutes are exempt from paying into social security. Expenditures on these pensions were are not part of the OSS seguridade budget that encompasses all the federal government's expenditures on health care, social assistance, and pension coverage, but were later added. OSS coverage of non-pension related expenditures was originally an interim measure, but will likely be extended.

[3] As mentioned above, the constitutional reform of 1994 allowed the administration to reallocate 20% of revenue to other areas.

[4] The provisional financial transactions tax (the CPMF) was introduced to help fund health-care expenditures when the resources that had been provided by payroll taxes or collected by the INSS were no longer directed toward health care.

[5] According to Lavinas (2006), among the poorest 10% of the population, 37% are single heads of households with children, with a median monthly family income of

12 *reais*, compared to 24 *reais* for 2-parent families (comprising 48% of the poorest 10%). Of these single-parent families, two-thirds are not covered by any type of income transfer compared to 50% of 2-parent families.

[6] The economic difficulties of the 1990s led to higher unemployment and informality, which led to a reduction in payroll tax revenue for financing social security. This ultimately led to a rise in taxes on profits, earnings, and financial transactions.

[7] Gill et al. (2005) see a positive correlation between higher income levels, the number of regular contributors, and contribution density. The authors point out, however, that coverage rates vary widely among countries with similar levels of income. This suggests that other factors, such as confidence in institutions or market incentives, can play an important role. The authors foresee an active role for government in reducing poverty levels among senior citizens.

[8] Benefits end upon remarriage.

[9] A court decision even permitted a woman to receive two state-funded survivorship pensions: one from her son and the other from her husband (Diário de São Paulo 2005).

[10] Furthermore, note that survivorship pension benefits are not taken into consideration when calculating the social security factor (described above). Because there is no minimum age to qualify for a benefit, the payout period can last for several decades. In fact, DATAPREV data does not include information on the duration of benefits or even the average age of the beneficiary. The lack of an INSS mortality table and the failure to include survivor pensions leads to gross errors and erroneous diagnoses based on inadequate data. Consequently, any financial projections using these assumptions are questionable, if not useless.

[11] Assembling crossnational indicators is complicated given differences in coverage, income supports, and the mix between private and public provision. These indicators serve as a reference to evaluate spending levels, which in turn can affect public finance and international competitiveness.

[12] Administrative costs of 3.7% of benefits are higher than in other countries. In the USA, administrative costs in 1992 were 0.7%; in Switzerland, 0.8%; in Japan, 0.3%; and in Italy, 3.4% (WB 1994: 312).

[13] Upon his resignation in March 2005, Social Security Minister Amir Lando argued that current benefits needed to be audited and that social security records should be compared with income tax and health records. Finance Minister Antônio Palocci later stated that reducing social security fraud and evasion would enable the government to increase the primary fiscal surplus without resorting to a constitutional reform of the pension system (see Agencia O Globo 2005).

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