Universal Social Protection

Universal old-age pensions in

Brazil

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Old Age Pension within Brazil's social protection system

1. What does the system look like?

Structure of the overall system

The Brazilian social protection system integrates different contributory and non-contributory strategies to achieve relatively high coverage in terms of people covered at old age (see Table 1). This policy brief is particularly interested in old-age pension coverage in the country, which is supported by two large contributory regimes and a (non-contributory) social assistance scheme. Civil servants and workers from the private sector (including the self-employed) have independent regimes—the Special Regime of Social Security and the General Regime of Social Security, respectively. Although mainly contributory, the General Regime also features a semi-contributory component targeted at smallholder farmers and rural workers.

These regimes are supplemented by a social assistance scheme that grants means-tested benefits (*Benefício de Prestação Continuada – BPC*) to older people (men and women aged 65 or over) and to people with disabilities (irrespective of age).

Lessons learned

Coverage	The expectation that increasing coverage of social insurance would eventually lead to universal old-age coverage proved to be too optimistic. Almost universal old-age coverage in Brazil relies on a combination of contributory, semi-contributory and non-contributory benefits.
Adequacy of benefits	The adequacy of benefits is an important element to prevent older people from continuing to live in extreme poverty. In Brazil, both semi- and non-contributory schemes pay relatively high benefits, whose value is one minimum wage. This means that unskilled workers tend to have a replacement rate close to 100 per cent. Extreme poverty among older people is negligible (0.4 per cent).
Sustainability of the system	The rising costs of the system—much higher in Brazil than one would expect based on its demographic structure—is cause for concern, especially regarding benefits paid to people under 60 years of age. Rapid ageing has put more pressure towards a pension reform—the third one of its kind since the country's re-democratisation in 1984.

Source: Author's elaboration.

Coverage

Taking into account both social security and social assistance benefits, the country has nearly universal old-age coverage: as of 2014, 89.2 per cent of those aged 65 and over have received a social security or social assistance pension, according to the National Household Sample Survey (PNAD/IBGE, 2014).

Benefits

Both contributory regimes provide coverage for old age from ages of 65 (men) and 60 (women). Smallholder farmers and rural workers in the semi-contributory scheme are also covered from ages of 60 (men) and 55 (women). *BPC* covers for old age from the age of 65 for both men and women.

Benefit levels are earnings-related for contributory regimes and the minimum benefit level is equivalent to one minimum wage.

Smallholder farmers and rural workers are entitled to a flat-rate benefit, equivalent to one minimum wage.

Social assistance benefits are also flat-rate, corresponding to one minimum wage.

Table 1. Main aspects of the old age social protection coverage in Brazil

	Contributory Social Protection		Non-contributory social protection
Regime/ programme	Special Regime of Social Security	General Regime of Social Security	Traditional social assistance
Potential beneficiaries	Civil servants	Private sectors workers	Poor older people and the disabled
Old age coverage (65+)	89.2 per cent		
Benefits – age of entitlement	At the ages of 65 (men) and 60 (women)	**Urban workers** at the ages of 65 (men) and 60 (women). **Smallholder farmers and rural workers** at the age of 60 (men) and 55 (women)	At the age of 65
Benefit level	**General rule**: earnings related. Basic value: minimum wage (R$ 880) **Rural pensions**: one minimum wage (R$880)		One minimum wage (R$ 880)
Financing	PAYG. Payroll contributions and social contributions (corporate income tax and tax on goods and services). Rural pensions: tax on sales of agricultural produce.		Social contributions (corporate income tax and tax on goods and services)
Legal reference	Fed. Constitution, Art. 40. Law n° 8.112	Fed. Constitution, Art. 201. Laws n° 8.212 and n° 8.213	Fed. Constitution Art. 203 Law n° 8.742
Institutions responsible for the operation	Central, State and local administrations	National Social Security Institute – INSS	National Social Security Institute – INSS

Source: Author's elaboration.

Financing

Contributory benefits are financed by the employed and employers on a pay-as-you-go basis. Payroll contributions cover most of the expenditures, but since both regimes are faced with deficits, social contributions (mainly composed of consumption and corporate income taxes) also finance the system. Social contributions also finance the social assistance scheme.

Smallholder farmers and rural workers pay a tax on sales of agricultural produce (if any).

Legal aspects

Both contributory and non-contributory schemes are defined in the Federal Constitution and in specific Laws (cf. Table 1).

Institutional arrangements

Social security and social assistance benefits are managed by the National Institute of Social Security (INSS), a Central Government institution. The INSS has offices in 1,500 municipalities (out of the country's total of 5,570).

2. How was this achieved?

Political economy

Up until the early 1970s, the Brazilian social protection system continued to rely fundamentally on social insurance schemes, which were introduced in the 1920s for railroad workers and were expanded since then, gradually covering the entire formal labour market and a small portion of the self-employed. In the 1970s, the first semi-contributory schemes emerged, covering poor older people and disabled people, on the one hand, and smallholder farmers, on the other. These schemes used to pay benefits at a lower level compared to contributory social insurance benefits and limited women's access to rural pensions: (i) both schemes used to pay a flat-rate benefit equivalent to half a minimum wage; and (ii) only one benefit could be paid to each family of smallholder farmers and rural workers. Since it was usually men who applied for the benefit, women remained largely uncovered. Benefits paid to poor older people and the disabled required at least one year of contribution to social insurance (or a single contribution, if paid after the age of 65). Due to these light contribution requirements, these benefits did not fit precisely into the category of social assistance.

The expansion of old-age coverage in the 1970s (with the emergence of the first semi-contributory pensions) occurred amid a period of fast economic growth and lack of democracy. The country was in the middle of a long period of military dictatorship (1964-1984), and experiencing double-digit yearly GDP growth rates. The emergence of these schemes may be interpreted as an act by a non-democratic regime to seek legitimacy.

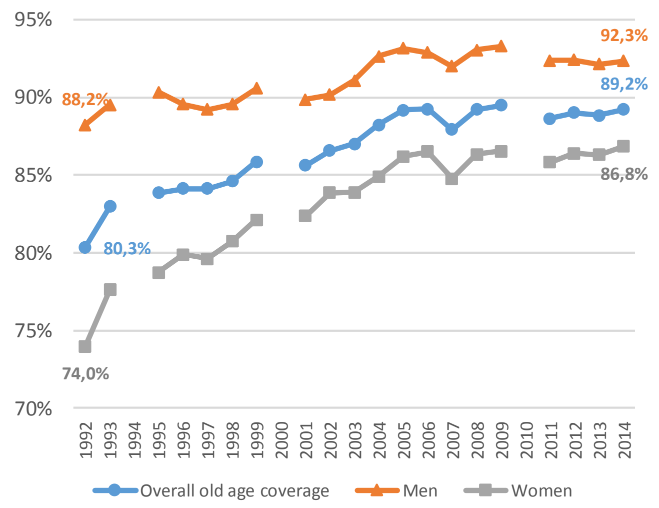
In the second half of the 1980s, the political and economic context was substantially different. The country was going through a very difficult economic period, deeply affected by hyperinflation, but the end of 20 years of dictatorship allowed for the construction of a new social contract, established in the Constitution of 1988, where poverty and inequality reduction was considered one of the main objectives of the nation. It was in such a context that the almost strictly contributory nature of social protection in Brazil was changed by the enhancement of non-fully-contributory schemes (Barrientos, 2013).

As a consequence of the new Constitution, in the first half of the 1990s the existing semi-contributory schemes saw improvements in both their coverage and benefit levels. Poor older people and disabled people were finally eligible for a proper non-contributory social assistance benefit. By the same token, access to rural pensions became strictly the same for men and women. Contributions for rural pensions continued to be based on sales of agricultural produce (if any). Both semi- and non-contributory schemes started to pay a flat-rate benefit equivalent to one minimum wage.

Old-age coverage (the percentage of people aged 65 or over receiving a pension) was just above 80 per cent in the early 1990s (see Figure 1) and rapidly increased in the first years of the 1990s, reaching almost 90 per cent. This increase was predominantly driven by women's access to old-age pensions. While old-age coverage for men increased only 4.1 percentage points between 1992 and 2014, old-age coverage for women increased more than threefold (by impressive 12.8 percentage points) over the same period. The difference between coverages of men and women, which used to be of 14.2 percentage points in 1992, decreased to only 5.5 percentage points in 2014; however, coverage remained higher for men.

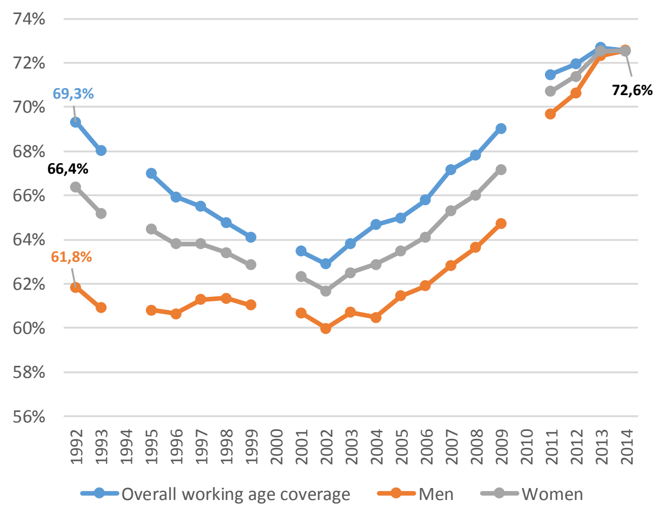
What to expect from differences in old age social protection coverage for men and women in the future? The difference tends to be even smaller than today's, simply because social security coverage rates for working-age men and women have become very similar in recent years, until they became the same in 2014 (see Figure 2).

Figure 1. Old-age social protection coverage: percentage of population aged 65 or over that receives a pension (1992-2014)



Source: National Household Sample Survey—Brazilian Institute of Geography and Statistics (IBGE), several years.

Figure 2. Working age social security coverage—percentage of population aged 16 to 59 covered by a contributory or semi-contributory scheme (1992-2014)



Source: National Household Sample Survey—Brazilian Institute of Geography and Statistics (IBGE), several years.

3. What are the main results?

Impact on people's lives

The system has been effective in reducing extreme poverty among older people. Considering the World Bank's extreme poverty line of USD1.90 PPP a day, poverty among people aged 65 and over in 2014 was negligible (0.4 per cent), even more when compared to the 7.2 per cent extreme poverty rate found for children 15 years old or younger.

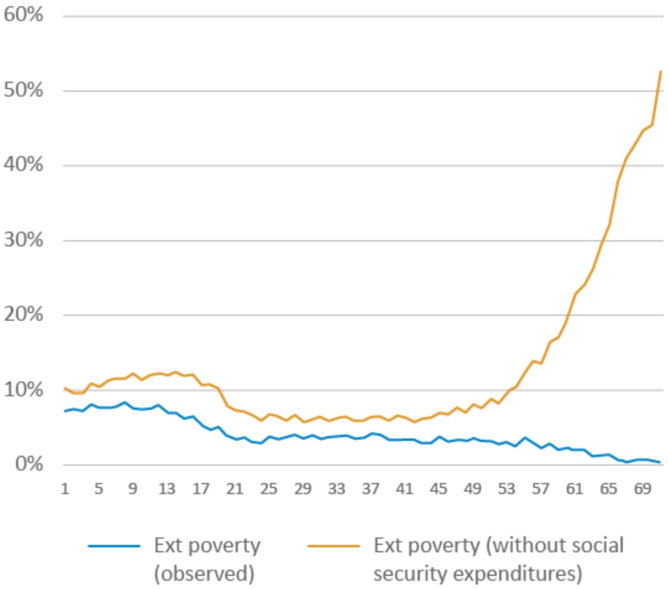
Despite efforts made in the last decade (including the implementation of *Bolsa Família*, a social assistance programme which targets families with children), poverty rates for those aged 15 years or under continue to be almost twice as high as the average and almost 20 times higher than for older people (see Figure 3).

Figure 3 also suggests what could happen in Brazil if social security and social assistance benefits were extinguished: the extremely poor would comprise 13.2 per cent of population (rather than the observed 3.9 per cent) and extreme poverty would dramatically affect older people during a period when they are no longer able to generate income.

Impact on the economy

These transfers also have an impact on the economy as a whole. The multiplier effect of expenditures in government transfers on GDP computed by Mostafa *et al*. (2010) are above 1 for: social assistance benefits paid to older people and the disabled (1.38); and benefits paid by the General Regime of Social Security (1.23). This means that a marginal increase of 1 per cent of GDP in expenditures for these benefits would produce an increase higher than 1 per cent in GDP.

Figure 3. Extreme poverty in Brazil (USD1.90 PPP/day) with and without social security and social assistance benefits, by age—2014



Source: National Household Sample Survey—Brazilian Institute of Geography and Statistics (IBGE). 2014.

Overcoming constraints

Although the Brazilian social protection system has produced remarkable results in terms of high coverage and very low extreme poverty for older people, and taking into account the fact that social benefits tend to have a relevant effect on the overall economy, the costs of the system have become an increasing concern. As of 2013, expenditures with social security and traditional social assistance benefits (excluding *Bolsa Família*) represented 12.3 per cent of GDP (see Table 2), an unexpected cost for a country with a relatively young demographic structure.

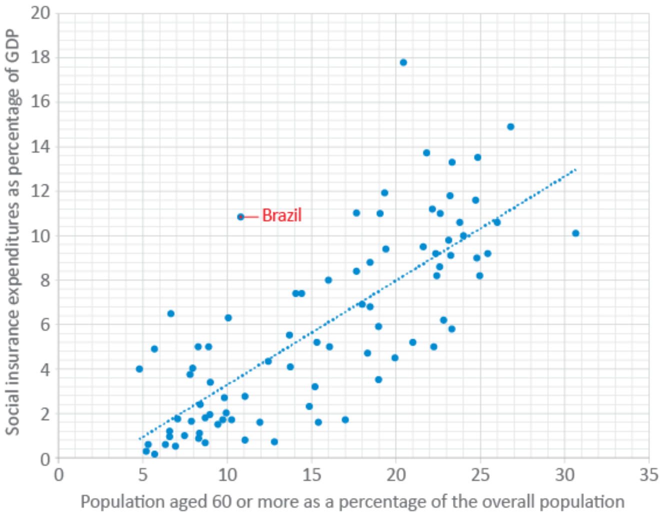
Table 2. Expenditure with social protection benefits—Brazil, 2013

Social security benefits – civil servants (A)	209.5	4.0%
Social security benefits – private sector (B)	357.0	7.4%
Social assistance benefits (C)	31.8	0.7%
Unemployment insurance (D)	31.3	0.6%
Abono Salarial (E) (salary bonus – passive employment policy)	13.5	0.3%
Bolsa Família (F)	24.0	0.5%
Total (A+B+C+D+E+F)	667.1	13.8%
Social insurance + social assistance benefits (A+B+C)	598.3	12.3%
GDP	4,844.8	100%

Source: Brazilian Ministry of Planning and the Brazilian Institute of Geography and Statistics (IBGE).

Brazil is a clear outlier when compared to other 86 countries in Latin America and the Caribbean, North America, Europe, Oceania and Asia. Slightly over 10 per cent of Brazil's population is aged 60 or over, yet the country's expenditures with pensions is similar to countries with 25 per cent of their population belonging to this age group (see Figure 4).

Figure 4. Social pension expenditures as a percentage of GDP and as a proportion of people aged 60 or over (Brazil as of 2010)



Source: for Brazil: Ministry of Social Security (expenditures of the General Regime of Social Security and old-age social assistance pensions), Ministry of Finance (expenditures of the Special Regime of Social Security) and the Brazilian Institute of Geography and Statistics (demographic data). Other countries: World Bank and the United Nations.

Expenditures with social insurance have been increasing relatively quickly. For benefits paid by the General Regime alone, expenditures increased an additional 2.5 per cent of GDP since the first half of the 1990s. The forecast for the next 45 years suggests an increasing burden for society, since Brazil (as most countries in Latin America and the Caribbean) is experiencing a process of ageing that is expected to be twice as fast as the one that was experienced by developed countries. The percentage of the population aged 60 or over is expected to increase from 10 percent to 20 per cent over only 25 years in countries of Latin America and the Caribbean—compared to an average period of 50 years for member countries of the Organisation for Economic Co-Operation and Development (OECD).

All the evidence suggests that a pension reform is necessary to keep the system financially sustainable. This reform would be the third one of its kind after the re-democratisation of the country: pension reforms were conducted in 1994-1998 (General Regime) and in 2003 (Special Regime) (Caetano *et. al.*, forthcoming).

Table 3. Key Indicators

Number of persons covered	16.8 million people aged 65 or over (as of 2014). Source: National Household Sample Survey, 2014.
Adequacy of benefits	Low-paid beneficiaries have 100 per cent replacement rate, since the basic level of social security benefits and the level of social assistance benefits is equivalent to one minimum wage.
Sustainability of the system	The overall expenditure with social security and social assistance benefits was over 12 per cent of GDP as of 2013, which is substantially higher than expected for a demographically young country.

Source: Author's elaboration.

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