



DEVELOPMENTS & TRENDS

# The Americas

Strategic approaches to  
improve social security

2016





# The Americas: Strategic approaches to improve social security

## Developments and Trends 2016

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## Preface

This *Developments and Trends* report has been prepared to mark the occasion of the third Regional Social Security Forum for the Americas, organized by the International Social Security Association (ISSA) and held in Mexico City, Mexico, from 11 to 13 April 2016. This regional report for the Americas supports continuing endeavours to better understand and address the key challenges facing ISSA member organizations in the different regions of the world.

The report identifies three main issues for discussion: continuing progress on the extension of social security coverage; the embracing of administrative improvements for social security programmes and systems; and the value-added of social security interventions for national social and economic development agendas.

The purpose of this report is twofold: first, to synthesize and interpret the most important recent developments and trends in the region and, second, to provide the key background document for the Developments and Trends Session of the Regional Social Security Forum for the Americas. The discussions during the Regional Forum will provide an opportunity for all of us to build on the findings of this report and to debate its messages.

I hope that this report will serve as an inspiring stimulus for our discussions and encourage you all to contribute actively, before, during and after the Regional Social Security Forum for the Americas in Mexico City. The outcome of these discussions will be carried forward to the World Social Security Forum to be held in Panama.

*Hans-Horst Konkolewsky*  
Secretary General

## Executive summary

This *Developments and Trends* report looks at the advances in, and the challenges of designing, financing and delivering, adequate social security in the Americas. The Americas region is very diverse in economic, social, cultural and demographic development. Despite this, there are a number of trends which are common to the majority of countries in the region. Lessons learnt from the experiences and challenges faced by different countries are not only relevant for others in the region, but provide useful examples of innovative approaches adopted by social security administrations in response to the different challenges that are likely to confront a growing number of administrations in the decades ahead.

The three themes covered in this report – the extension of coverage, excellence in management and administration, and the positive social and economic impacts of social security – are interlinked and interdependent. Indeed the report highlights that excellence in administration and management is a prerequisite for the success of coverage extension efforts. The sustainable financing of extension measures requires political support that, in turn, depends on the clear, demonstrable and quantifiable positive social and economic impacts of social security programmes.

### **Key coverage extension developments**

The key take away from the last few years is that impressive results in the extension of coverage have been achieved by many social security institutions despite an increasingly challenging external environment. Coverage of above 50 per cent has been achieved in respect of both pension and health care coverage for formal economy workers in many countries in the region. Argentina, Brazil and Uruguay have seen the number of private-sector workers covered increase by between 60 per cent and 80 per cent between 2003 and 2013. At the same time and encouragingly so, efforts to increase the numbers of those covered have often gone hand in hand with recognition of the importance of adequacy and associated measures to improve the level of benefits.

Chapter 1 of the report however looks beyond the averages and identifies both encouraging trends as well as future challenges that social security administrations need to address to ensure that the advances made in the recent period are consolidated and built upon. Advances in access to coverage for pension and health care benefits for formal economy workers have been accompanied by a significant development of non-contributory retirement and child allowance schemes and targeted cash benefit schemes for special

groups. Over 15 countries in the region have non-contributory social pensions, including Costa Rica, Ecuador, El Salvador, Mexico and Panama. Peru is an example of a country that has consolidated its non-contributory pension scheme, extending coverage and raising benefit levels while the Plurinational State of Bolivia (hereafter, Bolivia) and Trinidad and Tobago have also increased the benefit levels of their non-contributory schemes. In addition, tailored responses to improve coverage for certain difficult-to-cover groups, such as domestic workers in Brazil, have had encouraging results.

Despite these positive developments, there are a number of current and future challenges identified in the report which need to be addressed. These include an ageing population leading to sustainability concerns, a change in the nature of the population to be covered – for example, owing to increased migration and urbanization – and a rapidly changing labour market characterized by a substantial informal economy and the economic importance of small businesses. In such a context, the advances referred to above are impressive and reflect the fact that the responses taken by social security institutions specifically address these realities. For example, a number of schemes for self-employed workers and informal small businesses have been set up in the region, for instance in Uruguay, which not only facilitate affiliation with the social security system but also increase the incentives to do so. Aside from countries tailoring both policy and administrative responses to the characteristics of their populations, the report identifies five key factors that have contributed towards extension effort success:

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

Looking ahead, the key challenges are likely to be linked with continuing efforts to better reach out to vulnerable groups effectively and efficiently, addressing the sustainability issues concerned with financing benefits and, in this context, ensuring clear paths and the correct incentives as regards the roles and objectives of non-contributory tax financed benefits and contributory social security. This will require innovative solutions given the levels of inequality in the region and the already high levels of out-of-pocket spending on health care in many countries.

### **Excellence in administration and management**

It is underlined that improvements in governance, administration and management (Chapter 2) are increasingly necessary and directly linked to extension efforts. The report notes that, while excellence in administration has always been important, over recent years the reasons for this importance have multiplied and now encompass multiple aims. These include:

- A more efficient use of resources, particularly important for countries facing financial constraints. The fall in commodity prices has directly impacted the finances of many exporting nations in the region, requiring a better utilization of existing finances. Better coordination amongst agencies and stakeholders (e.g. in Ecuador) and standardizing and sharing information (e.g. in the Dominican Republic) have had positive impacts.
- Improving service quality and, in more general terms, the “client” experience of the covered population to ensure public and political support for social security. For example in Canada and the United States, new health insurance cards can be ordered online. In El Salvador, employers can track contribution payments online, while in Saint Vincent and the Grenadines contribution payments have been moved online, reducing paper work and administrative costs while improving the quality of data submitted.
- Facilitating reforms – for example, rethinking and redesigning retirement systems requires excellent administration and management tools to ensure effective regulation and in-depth analysis of costs and performance (for instance, in Costa Rica, where following evaluation, the maximum admissible administration charge for pension funds has been reduced, inciting continuing reflection among funds on how to improve performance).
- A closer relationship with beneficiaries, affiliated members and potential members through the use of social media and other tailored communication channels. This has a range of added benefits to institutions – it allows feedback to be provided quickly and effectively, improves the reputation of social security institutions and is often a more efficient way of communicating than other traditional media. Examples include Panama

that uses a virtual tool to enable companies to self-assess the level of occupational risk of their employees, thereby facilitating preventive action, and Costa Rica, which has facilitated the registration of occupational accidents and improved the quality of information.

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

Successful initiatives have also needed to consider both internal and external constraints regarding their scope and objectives: ensuring data privacy and the security of information are increasingly important; streamlining management practices on efficiency grounds should not be detrimental to effective frontline services. One particular theme highlighted is the increasing use of data analytics by social security institutions to better understand their populations, but also to more accurately assess the impacts of interventions. This is particularly important for institutions and policy-makers to ensure social security systems meet their objectives – of having positive social and economic impacts.

### **Positive social and economic impacts of social security**

The report highlights a paradox. While social security is increasingly recognized as a positive actor, its precise macro and micro impacts are often difficult to quantify. This is often due to a lack of data, but also because of the multiple and complex interaction of other elements at play when factors such as poverty, health outputs and return to work are measured. However, the situation is improving with more sophisticated assessment models and a better understanding of the interdependency of factors. Examples are highlighted in Chapter 3 of the report.

The key message arising from Chapter 3 is that the traditional view that a country needs a certain level of economic development before social security can be developed has been overturned and replaced by an evidence-based reality: a well-designed social security system is an essential ingredient in a country’s social and economic development. At a micro level, greater income security and the improved management of life-cycle risk provided by cash benefits and health care systems is a first step towards social and economic development. At a macro level, social security programmes, especially those designed to support redistribution, are an efficient lever in reducing inequalities, not least by improving the income security of vulnerable difficult-to-cover groups. Finally,



the increasing integration of proactive and preventive measures in support of health, employment and citizen-empowerment policy objectives are strengthening the realisation of social investment objectives.

Where affordable access to health coverage has been extended this has supported improved well-being and helped prevent catastrophic health expenditures and thus reduced the risk of poverty, as well as lowering the potential for social conflict by ensuring that the vulnerable have the services they require and the working-age population can remain economically active or return to work as soon as possible. Recent pension reforms in the region moving systems away from a full contribution-linked benefit outcome to a more redistributive approach are also having positive impacts, in some cases with an important gender dimension. Other impacts cited in this report include: supporting local economic activity through cash transfers, improving choices for women by extending family allowance coverage, providing households with counter-cyclical benefits (e.g. unemployment benefits), supporting human capital development across the life course, and better realising the potential for social security reserve funds to invest in certain sectors of the economy.

While the message is positive, a number of challenges lie ahead. Evidence still needs to be collected and analysed and must be robust. Levels of inequality in the region often remain high and present a challenge to the important advances made, while a potential fracture between generations needs to be taken seriously, with the young in many cases more vulnerable than the old – youth unemployment is particularly high. At the same time, for many, the high levels of labour market informality, low tax-to-GDP ratios, and fiscal constraints mean that financing efforts will be increasingly difficult in the future.

The following conditions therefore should be met to ensure that the positive social and economic impacts for societies in the Americas continue:

- Innovative efforts to increase social security coverage should be a priority, particularly those aimed at the informal economy.
- Administration is an essential tool to ensure that benefits and services reach those that need them, and part of that process should entail a closer relationship between the social security institution and the beneficiary.
- Intelligent policy design and reforms – the recent pension reforms highlighted in the report offer important good practice examples.
- An efficient and clear bridge between non-contributory and contributory social security provision. Linked to this is the centrality of stable and robust financing mechanisms.

- Finally, social security interventions need to be undertaken in conjunction and collaboration with other stakeholders and, importantly, other policies. Enabling the working-age population to enter and stay in the regulated labour market is a key condition to social cohesion and economic development and social security institutions are increasingly working with employers to ensure this.

On the basis of the progress achieved to date, there are reasons to be optimistic. Significantly, strong political will and improved collaboration with other policy actors, especially those in the labour market, are two factors showing the way forward. The three themes covered in this report – the extension of coverage, excellence in administration, and the positive social and economic impacts of social security – are interlinked and interdependent, thus underlining the essential link between policy and administration.

## Continuing extension of social security coverage in the Americas

*The previous ISSA regional report on developments and trends in the Americas (ISSA, 2012) identified encouraging developments in coverage extension across the region. The recent period confirms continuing progress on this front. In many countries, important steps forward have been made across the last decade in extending coverage against a wider array of risks for a greater number of people, including for population groups previously typically excluded from social security coverage (self-employed workers, rural workers, domestic workers, housewives, families with children and other dependants). Nonetheless, these advances present policy-makers and administrators with emerging challenges as regards the integration, sustainability and adequacy of national social security systems.*

Discussions concerning developments and trends in coverage extension in the Americas are currently characterized by common elements which reveal that although progress in coverage extension is tangible and measurable, important challenges remain to be more fully addressed:

- Countries have sustained coverage extension providing access to pensions and health care, especially among salaried workers. In Latin America and the Caribbean, enrolment of salaried workers to contributory pensions systems increased from 46.1 per cent to 55.4 per cent between 2002 and 2011 (ECLAC, 2013). Enrolment to health insurance increased from 54.4 per cent to 66.4 per cent in the same period. Nevertheless, national differences remain and health care coverage and quality of access varies considerably across the Americas. While Universal Health Care is a common goal across the region, in Haiti and Honduras more than 80 per cent of the population are without access to health care coverage. In Latin America and the Caribbean, on average, nearly half of household expenditure on health comes from out-of-pocket payments (ILO, 2014). For cash benefits, those countries with already higher coverage levels in the early 2000s – Argentina, Brazil, Chile, Costa Rica and Uruguay – have continued to extend pension coverage more effectively.
- The most successful approaches to coverage extension have combined strong political support, better enforcement of contribution collection through better governed institutions, greater flexibility as regards the enrolment of informal and vulnerable population groups, wider coverage of salaried workers through contributory systems, and wider coverage of informal workers and other vulnerable groups through non-

contributory or subsidized programmes. Therefore, to extend coverage, the debate has shifted to one of how to optimally combine contributory and tax-financed systems.

- Countries have focused not only on extending horizontal coverage to greater numbers of people as part of national floors of social protection, but on improving adequacy by increasing benefit levels (vertical extension). Critically, many reforms have been enshrined in Law, in Decrees or backed by Supreme Court decisions, as in Colombia.
- Despite advances, important coverage gaps persist. Even for countries that have successfully extended coverage to some groups of informal economy workers, the most vulnerable and poorest informal economy workers commonly remain excluded. An important policy question remains one of identifying the most effective ways of linking non-contributory beneficiaries with contributory social security systems.
- Concerns about the longer-term sustainability of coverage strategies are discernible. Reforms aimed at extending coverage typically include explicit or implicit government subsidies. Therefore, countries have to balance carefully the need for financial sustainability with the possibility of creating disincentives for informal workers (for instance, if contribution rates are set too high).

### **Extending coverage to workers in the formal and informal economies**

Healthier formal labour markets and higher compliance due to strengthened institutions in the last decade have helped Argentina, Brazil and Uruguay to extend access to social security coverage. In Brazil, in 2003, there were 22.7 million salaried workers contributing to social security; by 2013, the figure had almost doubled to 41.7 million (Table 1.1). Whereas in the early 2000s Brazil could only enrol 72.9 per cent salaried workers in enterprises with five or more employees, by 2011 84 per cent were actively contributing (ECLAC, 2013). In Uruguay, in 2003 there were 522,365 private-sector workers contributing to the Social Insurance Bank (*Banco de Previsión Social* – BPS); in 2013, the figure had increased to more than a million. Compliance also increased (Table 1.2). Similarly, in Argentina, in 2003 there were 3.8 million private-sector employees contributing to social security; by 2013, there were 6.4 million. In the last decade, compliance rates among Argentinean civil servants jumped from 70 per cent to 92.6 per cent while among private-sector employees it rose from 67.5 per cent to 77.2 per cent.

Alongside efforts to realize coverage extension among salaried workers, Argentina, Brazil and, more recently, Uruguay are aiming at better covering informal businesses and workers. In the late 1990s, Brazil and Argentina introduced SIMPLES and *Monotributo*, respectively. These are regimes to simplify and reduce taxes and social security contributions for self-employed workers and informal businesses. Uruguay passed its own *Monotributo* Law in 2001.

**Table 1.1. Brazil: Social security coverage**

	Contributing workers/ Economically active population (per cent)	Number of salaried workers	Independent workers	Domestic workers	Vulnerable groups ( <i>Facultativo</i> programme)
2003	41.85	22,721,877	5,011,060	1,681,741	623,237
2007	46.60	29,050,535	5,410,787	1,449,423	506,287
2009	49.08	33,024,579	6,170,102	1,467,843	675,775
2011	54.56	38,205,283	7,417,188	1,476,968	805,927
2013	57.06	41,683,908	8,478,413	1,457,874	1,345,127

*Source:* Boletins Estatísticos da Previdência Social <[www.previdencia.gov.br/estatisticas](http://www.previdencia.gov.br/estatisticas)>.

**Table 1.2. Uruguay: Social security coverage**

	Contributing workers/ Economically active population (per cent)	Total Contributors	Number of salaried workers	Domestic workers
2007	71.53	1,166,716	983,166	47,393
2010	81.09	1,350,196	1,155,494	57,403
2013	85.67	1,482,933	1,281,389	66,531

*Source:* Banco de Previsión Social <[www.bps.gub.uy](http://www.bps.gub.uy)>.

The *Monotributo* system in Argentina establishes 11 categories of annual turnover for informal businesses for tax payments and a flat-rate contribution system for social security (USD 157 per month) and voluntary health insurance enrolment (an additional USD 146 per month). *Monotributistas* contributing to health insurance have access to the Compulsory Medical Programme – general medical benefits, including hospitalization, maternity, immunization, dental treatment, HIV/AIDS treatment, drug addiction treatment, and other health services. After retirement, *monotributistas* are entitled to a minimum pension. In 2003, there were 379,630 contributors; in 2013, there were 1,723,815 contributors.

Brazil has a successful framework to attract small enterprises and micro-enterprises into the social security and tax systems. In 2006, different regional arrangements were merged into the national SIMPLES system. Additionally, the Government managed to define clearer responsibilities and to achieve better integration among institutions – contribution collection, oversight, and a property register. A new regime implemented from July 2009 allows Individual Micro-entrepreneurs (MEI) to contribute 5 per cent of the minimum wage to the National Institute of Social Security, while being exempted from income

taxes. In June 2015, more than 5 million MEIs were actively contributing and more than 10 million small enterprises and micro-enterprises are expected to be enrolled by the end of 2015.

Uruguay has also developed a *Monotributo* system. However, recent research suggests that while almost 80 per cent of independent workers in the top decile contributed to the social security system as a result of *Monotributo*, less than 5 per cent of independent workers of the bottom two deciles did so. In response, in 2011 the Government established *Monotributo Social MIDES*, a separate scheme targeting vulnerable and poor households with individual businesses without employees beyond the family. The system allows beneficiaries to schedule contributions flexibly. Furthermore, new contributors to *Monotributo Social MIDES* do not need to pay their full contributions until the fourth year of coverage. In Brazil, analyses show a similar pattern regarding poor informal workers: 63.9 per cent of MEIs belong to upper-middle and high classes; 16.9 per cent of MEIs to the middle class; and only 19.2 per cent to middle-low or low classes. In effect, only 1.4 per cent of all MEIs are poor.

Therefore, despite the success of these approaches, enrolling poorer micro-entrepreneurs has proved challenging for many Latin American countries. Accordingly, reaching out better to poorer workers remains a challenge to the ambitions of the region's social security systems to extend effective coverage to hard-to-cover groups.

Argentina, Brazil, Chile, Costa Rica and Uruguay show that a combination of strong institutions, political will, and a balanced mix of contributory, subsidized and non-contributory schemes can help to close the coverage gap (see Box 1.1). They also show that two major challenges remain. First, even though they have succeeded in bringing informal businesses to the social security and tax systems through schemes such as SIMPLES and *Monotributo*, generally, very few poor informal workers are actively participating. More widely, there is a growing concern in Latin America about how to address informal labour markets and create the correct incentives to move beneficiaries of social assistance schemes into the formal economy and the contributory social security system. Second, in the long term, countries may need to adjust the parameters of the special systems for informal workers and other targeted policies to safeguard financial sustainability without discouraging contributions.

In the light of international coverage extension agendas, the countries of Latin America and the Caribbean are at different stages as regards the putting into place of national floors of social protection. While some are more advanced than others in this regard, the common challenge is to progressively extend coverage that is not only adequate and sustainable but which does not create disincentives for formal labour market activity.

**Box 1.1. Brazil: Extending social security to domestic workers and housewives and househusbands with low income**

Brazil passed Law No. 8.212 in 1991 which established a system for people without income to contribute to the social security system. Recently, in 2011, an amendment was passed to create a special subsystem for housewives and househusbands with low income. Beneficiaries should be without any income, their households should have an overall income below twice the minimum wage and they must be in the Registry of Social Programs (*Cadastro Unico para Programas Sociais*). In order to receive social security benefits, housewives/househusbands must contribute 5 per cent of the monthly minimum wage. By the end of 2013, 592,090 housewives/househusbands were active contributors, of which 93 per cent were women.

In an effort to extend coverage of domestic workers, the Brazilian Government passed Law No. 50 in June 2015. The main reform is the reduction of the contribution rate from 12 per cent to 8 per cent.

**Expanding coverage under non-contributory benefits**

The wider adoption of non-contributory pensions in the Americas seeks to address poverty in old age as well as to contribute towards building national floors of social protection. For instance, Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, United States, Uruguay and the Bolivarian Republic of Venezuela (hereafter, Venezuela) have non-contributory pension programmes. Across the region, important differences remain in terms of these programmes' coverage and benefit levels. For example, Bolivia and Trinidad and Tobago rely on non-contributory pensions to protect the majority of elderly adults. Argentina, Brazil and Panama cover between 30 and 50 per cent of the elderly population, closing most of the coverage gap. El Salvador and Paraguay cover less than 15 per cent of the elderly population. Nevertheless, most countries are progressively targeting new groups, relaxing qualifying conditions, and effectively removing fiscal limits to cover all eligible beneficiaries. Benefit levels also differ. Whereas the universal pension in Trinidad and Tobago is equal to 30 per cent of the per capita GDP, in Bolivia it is equivalent to less than 15 per cent of the per capita GDP. Many countries have gradually increased their pension benefits.

Colombia recently fine-tuned its non-contributory pension programme, Programa de Protección Social al Adulto Mayor (PPSAM). The programme used to provide additional income to 700,000 beneficiaries – to men aged 57 or older and women aged 52 or older – whose income was below the regional extreme poverty line. The programme's coverage had been effectively limited by available fiscal resources. By establishing *Colombia Mayor* in 2013, which is funded by the contributions of high-earning employees and taxes, the Government ceased applying the annual quotas which previously dictated coverage

extension to new pensioners and began to aim at extending coverage to every old-age person registered according to certain socio-economic categories. As a consequence, in December 2013, there were 1.25 million beneficiaries of *Colombia Mayor*.

Peru has consolidated its non-contributory pension scheme, extending coverage and raising benefit levels. A pilot programme, *Bono Gratiud*, was implemented in October 2010 providing the equivalent of USD 36 per month to people aged 75 or older. This was replaced by a new programme, Pension 65, in November 2011. This provides the equivalent of USD 125 per month to extremely poor people aged 65 or older who are not entitled to contributory pensions or other benefits. In 2014, there were 450,000 beneficiaries, a 46 per cent year-to-year increase. The Government of Peru estimates that the number of beneficiaries will reach half a million in 2015.

Bolivia and Trinidad and Tobago have improved the adequacy of their non-contributory pension systems. Bolivia raised its non-contributory pension, *Renta Dignidad*, in 2013 and 2014, benefiting more than 900,000 pensioners. Meanwhile, Trinidad and Tobago increased the Senior Citizen's Pension in 2014, benefiting almost 85,000 pensioners.

— 6 Importantly, the institutional design of national non-contributory pension programmes in the Americas is influenced greatly by two key considerations (Rofman, Apella and Veza, 2015):

- whether the goal is to extend coverage on a targeted basis only, to move progressively towards universality, or is universal in design;
- whether the choice is to use existing social security institutions to administer and deliver the programme, or to do so through either new social security bodies or new institutions not related to the conventional social security system.

The choice of whether to use an existing social security institution or not is in large part determined by the administrative capacities of the existing administration as well as the design of its infrastructure and the resources available to adequately meet the new delivery challenges.

The variety in possible institutional designs for extending coverage to vulnerable and difficult-to-cover groups that is evidenced by experience in the Americas offers important lessons. Significantly, such programmes are not restricted to extending coverage to the elderly. Bolivia's *Bono Madre Niño* and *Bono Juana Azurduy de Padilla*, for instance, are conditional benefits targeted on poor women who are pregnant or caring for infants. Similarly, Argentina has successfully extended coverage to mothers and children (see Box 1.2).



**Box 1.2. Argentina: Universal Child Allowance**

Argentina has progressed in extending coverage under maternity and children's schemes, such as the Universal Child Allowance for Social Protection. Currently, 3.5 million families are benefiting from the allowance and the Government has raised the benefit level in 2014 and 2015, to the equivalent of USD 99 per month.

Efforts to extend coverage to women in the region are important, and especially so in Latin America and the Caribbean, because structural inequalities in labour market commonly act to exclude women from social insurance protection provided for working-age populations. For instance, given that women are proportionately more likely to be active in informal work, unpaid family work or self-employment than are men, there is a greater tendency for women to be excluded from contributory programmes, such as for unemployment, employment injury or social health insurance.

Many people of working age have limited social insurance coverage in the region. In this regard, Mexico is considering a reform to the Social Insurance Law to establish an unemployment insurance scheme. Formal employees would be entitled to up to 60 per cent of their previous salary and the maximum duration of the benefit would be six months.

### **Rethinking social security system design to improve coverage extension**

In parallel with the different efforts to extend coverage through targeting informal workers and businesses, as is the case in Argentina, Brazil or Uruguay, or by means of non-contributory benefit programmes, other countries in the Americas are pursuing systemic reforms of their contributory pension systems as a means to extend coverage. In many countries of Latin America, less than 40 per cent of the economically active population is covered by contributory social security (Table 1.3). Against this background, parametric reforms are equally on the table.

In 2012, Peru reformed its pension legislation in order to boost competition among private fund managers and to extend social security coverage. The extension of coverage was to be supported by making independent workers younger than age 40 now contribute to private or public pension funds. In turn, a matching defined contribution system was established to encourage contributions from employees of small and medium enterprises. While the reform proved to be successful in reducing management fees, progress in the extension of coverage has been less marked. Significantly, in August 2014, the Congress revoked the compulsory contribution of independent workers.

**Table 1.3** *Social security coverage: Share of active contributors to economically active population*

< 25 per cent	25–40 per cent	41–60 per cent	> 60 per cent
Guatemala	Bolivia	Argentina	Chile
Honduras	Columbia	Brazil	Costa Rica
Peru	Dominican Republic		Panama
	Ecuador		Uruguay
	El Salvador		
	Mexico		
	Nicaragua		

*Source:* Derived from World Bank Economically Active Population estimates and active contribution estimates from national social security agencies.

Systemic reform processes are underway in Mexico and Chile. The Mexican Congress passed the Law on Universal Pensions in 2014, which is now with the Senate. The current text would close the pension gap – 43.5 per cent of old-age people do not receive either contributory or non-contributory pensions – by targeting with a monthly pension all old-age Mexican citizens and non-citizens having lived for at least 25 years in Mexico.

In Chile, President Bachelet set up a Pensions Commission through a Presidential Decree in April 2014 to study and review the Chilean pension system and to propose reforms aimed at improving its redistributive effect and to investigate the possibility of introducing a mixed system. A final report was scheduled for the second half of 2015.

As part of wider national social protection strategies, El Salvador and Honduras passed laws to reorganize their social security systems in 2014 and 2015, respectively. El Salvador passed the Law on development and social protection which has the objective of strengthening a life-cycle approach to social protection. An important feature of the system is the close coordination across numerous government ministries, with governance measures put in place to ensure its smooth and effective delivery (Miranda Baires, 2015). Similarly, Honduras passed the Law on social protection in May 2015, rearranging the social protection system into five branches: Social Protection Floor, Social Security Pension, Health Insurance, Work Injury and Employment, and Severance Pay.

### **Towards “Universal Health Coverage”**

In the recent period, a number of countries have made positive steps in extending access to health care protection. For instance, in the United States continuing progress has been made under the Patient Protection and Affordable Care Act, which covered over 16.4 million people in 2015 either through select private health care plans or through the

renewal of existing coverage (ASPE, 2015). Despite progress, challenges remain: estimates suggest that 31 million United States' residents will remain without health insurance in 2016 (Rice et al., 2014).

Typically, progress towards universal coverage is slow and incremental. For instance, in Colombia, the health insurance system has seen the rate of affiliation grow slowly from 25 per cent in the early 1990s. Important legal reforms and government financial support have paved the way. Following a ruling by the Constitutional Court, the Government included children younger than age 18 from 2010. It then decided to provide the same entitlements to insured people under the contributory and the subsidized systems, under the Compulsory Health Plan, raising health insurance coverage to 90.8 per cent by 2012. The new statutory law on health, signed in February 2015, has since made health insurance coverage universal. The Government will have to provide subsidies to ensure that all citizens are covered. The Law also abolished the administrative barriers to emergency health care.

In general terms, the Universal Health Coverage agenda appears less controversial in the Americas than the pensions' reform debate. There is a growing regional consensus on the right to health care. As a consequence, several countries have taken important steps to reduce the segmentation of their health care system, including Colombia. A common trend is to separate health sector financing and service provision. According to the World Bank and World Health Organization, total health expenditure per capita almost doubled between 2001 and 2012 in Latin America while the out-of-pocket expenditure was down 7 percentage points (Dmytraczenko and Almeida, 2015).

## **Conclusions**

The countries of the Americas continue to extend coverage. Health insurance programmes have extended coverage more rapidly owing to strong support from national governments and a clearer policy roadmap: countries have more eagerly put in place partial or total health insurance subsidies for uncovered citizens and integrated contributory and subsidized health schemes. The regional consensus for pensions is less clear. While the most advanced economies in Latin America – including Argentina, Brazil and Uruguay – have managed to extend coverage for cash benefits through a combination of contributory, non-contributory and targeted schemes for special groups (informal workers, informal businesses, housewives, rural workers, etc.), other countries are lagging behind. Non-contributory pensions have been used to partially or totally close the coverage gap, but significant challenges remain. Even in those countries where coverage has extended significantly, poor and vulnerable informal workers often remain excluded from contributory social security systems and are particularly exposed to life cycle and labour market risks. For cash benefits, the process

of integration between contributory and non-contributory schemes remains weaker than is the case for health insurance systems. Overall, and despite the obstacles, the region is actively aiming at strengthening social security systems, in many cases making progress towards the realization of national floors of social protection, and more generally to extend coverage and improve adequacy across the life cycle and across all branches.

## Excellence in administration: A key condition for the social security of populations in the Americas

*Developments in social security systems in all countries and regions, including across the Americas, are presently marked by a strong commitment to enhance the management dimension of benefit and service delivery mechanisms. On the one hand, this is due to greater demands being made of available resources, with identifiable constraints in many areas of public administration. On the other hand, it is due to the recognition that robust, well-governed social security systems are essential if the trust and compliance of all stakeholders is to be ensured. Generally, the efficient use of resources and the anchoring of robust organizations on the principles of “good governance” are seen to be crucial elements for the successful delivery of policy, not only in countries with more comprehensive social security systems, but also for those seeking to further develop and strengthen national provisions. The capacity to deliver social security benefits and services, irrespective of political will, is increasingly viewed as being linked strongly to the capacity of management and the quality of administration. This is why the aim of “excellence in administration” is no longer viewed as an option but as an obligation. Meeting this obligation is thus even more important for those social security systems in the Americas where contribution compliance and public trust may require strengthening. In this vein, the evidence of recent developments and trends shows that many countries that have made a commitment to extend and improve social security coverage are investing heavily in human resources, in ICT solutions, in communication efforts and, above all, in building solid management solutions based on transparency and participation, underlying principles for sustainable social security systems.*

The ISSA defines excellence in social security administration in relation to the achievement of good governance, high performance and improved service quality. Put alternatively, the pursuit of excellence in administration is thought to be compromised in contexts of weak governance, inefficient and ineffective organizational performance and poor service quality delivered to stakeholders. In the Americas, as elsewhere, two key sets of factors influence the framing of endeavours to improve the administration of social security programmes and systems:

- national and regional context;
- the operational mandate and capacities of the social security administration.

In turn, there is a widening trend for all social security administrations to adopt a similar value orientation, wherein:

- “Excellence” is increasingly seen as a guiding mind-set, and not as a constraining framework to be complied with.
- “Excellence” is understood as an administrative “end” in the management of resources, and also as a “means” to engender citizen-centred service delivery and to achieve societal-level policy goals.

Irrespective of these commonalities, caution is necessary regarding any attempts to compare the relative achievement of “excellence” across organizations and national jurisdictions. Above all, the achievement of excellence in administration, in spite of being a goal common to all social security administrations, is dependent on national and regional contexts, which in the Americas can vary significantly. Moreover, the respective operational mandate of each and every social security organization should be, in all circumstances, the main point of reference for assessing administrative excellence. A clear and strongly focused operational mandate is therefore the departure point for improvement, which permit all operations to develop in a coherent manner with respect to a common set of principles and objectives.

In turn, within social security administrations, the pursuit of administrative excellence has to be seen as a global mind-set and a permanent driver to enable action, rather than a constraining framework with rules and procedures to enforce compliance. The fostering of a culture of excellence within organizations is a keystone for improvement and success. This demands the involvement of all actors in the organization, as it does all other legitimate stakeholders, but above all it means that all processes should undergo a quality assessment process with regard to the appropriate and efficient and effective use of methods and tools.

Ultimately, excellence in administration has to remain permanently focused not only on resource management but on defending and promoting the general interests of citizens and the broader policy goals of society in terms of social security provisions.

### **Core issues for social security administrations in the Americas**

From the design of social security programmes to the final delivery of benefits and services, there are a number of objectives that have to be addressed on the “journey to excellence”. To name but a few, these include:

- safeguarding the quality of information;
- ensuring contribution collection systems focused on the interests of beneficiaries and contributors;

- fostering education in support of compliance;
- delivering accessible services and information.

Such objectives give concrete form to the concept and principles of “good governance”. Good governance is essential for the effective development of public administration, and assumes a particular importance when addressing social security administration, a major point of interaction between States and their citizens. As defined by the *ISSA Guidelines on Good Governance*, principles such as transparency, accountability, participation, predictability, and dynamism should lie at the core of social security administration, being essential drivers for realizing the respect and trust of stakeholders and, more generally, the social, political and financial sustainability of social security systems.

These principles have increasingly been adopted by, and now underpin the strategic choices being made by, decision-makers and senior managers of a growing number of social security administrations in the Americas.

### **Working to achieve administrative excellence in the Americas**

Systematic improvement to the governance, strategic planning and performance management of social security administrations has been at the centre of recent reforms across the region. In this regard, a key role is being played by information and communications technology (ICT). Interestingly, the evidence shows that the positive impacts of ICT are many.

#### *ICT: More than a delivery tool*

Recent years have seen significant efforts on the part of social security administrations to increase the number and type of services provided online while also upgrading the software on which their ICT programmes run.

Online services enable efficiency gains. On the one hand, they reduce administrative costs as the workload of social security field offices is reduced, while going “paperless” creates significant economies and may even support environmental policy objectives. On the other hand, they enable greater autonomy and simplicity for social security beneficiaries.

As regards examples, the Venezuelan Institute of Social Security (*Instituto Venezolano de Seguro Social – IVSS*) has undertaken reforms to increase the availability of online services, with access to pension records and information concerning contributions paid now available. In the field of health protection, Peru’s Social Health Insurance Institute (*Seguro Social de Salud – EsSalud*) technological improvements have facilitated administrative and

registration procedures, such as the *Registro de Información Laboral* (T-Registro) and the *Planilla Mensual de Pagos* (PLAME). Of note, these changes have further supported the significant increases in contributions collected as a result of improvements in coverage.

Panama's Social Insurance Fund (*Caja de Seguro Social* – CSS) has launched the Occupational Health and Safety System (SISSO), a virtual tool which enables companies to self-assess the level of occupational risk of their employees and thereby take preventive action. The tool also enables employers to notify the CSS of workplace accidents. In Costa Rica, ICT processes are being implemented to facilitate the registration of occupational accidents and ameliorate government responses through better information, while also creating efficiencies by reducing the use of paper. The Chilean Safety Association (*Asociación Chilena de Seguridad* – ACHS) has recently upgraded its ICT oversight by introducing new software to improve the management of its technology platform. The Superintendence of Occupational Risks (*Superintendencia de Riesgos del Trabajo* – SRT) of Argentina, with the vast majority of claims now processed electronically, has achieved significant reductions in the processing times for claims relating to occupational disease or work injury.

14 Accessing information relating to contributions, payments and ordering documents and social security cards online has also been widely expanded throughout the region. In Canada and the United States, covered persons may request a new health insurance card online, while the U.S. Social Security Administration's individual online accounts (*my Social Security*) platform has expanded the information provided, including benefit verification letters and payment history.

Argentina's National Social Security Administration (*Administración Nacional de la Seguridad Social* – ANSES) has sought to raise each individual's budgeting capacity and promote the greater autonomy of social security beneficiaries by enabling them to follow online their expenditures from their social security benefit card, while making online banking available to pensioners and beneficiaries via its website.

El Salvador implemented in 2015 a polyvalent Virtual Office for the Salvadoran Social Security Institute (*Instituto Salvadoreño del Seguro Social* – ISSS), through which employers can plan and make payroll contributions to the health insurance regime while beneficiaries may check when consultations are available in their local health centres.

Relatedly, Uruguay's Social Insurance Bank (*Banco de Previsión Social* – BPS) has also made significant advances in the number of online services provided and has extended the number of procedures and regions which are served by Agenda Web, an online system which provides users with the ability to schedule appointments at their regional BPS office.



Beneficiaries may now also consult the status of their medical assessment for permanent incapacity online. Similarly, insured persons in the Bahamas now review their contribution statements from the National Insurance Board online.

ICT-based integrated platforms have enabled the implementation of large multi-organizational programmes through the sharing of data and processing capabilities. This has been seen in Argentina, Brazil, Mexico and Uruguay, for example. Significantly for social security system design, this approach does not necessitate changing institutional jurisdictions that would imply merging separate institutions to build integrated programmes.

### *Mobile technology*

The use of mobile technology is also being adopted as a means of improving the efficiency of benefit payments. Indeed, there are currently two movements occurring in the field of pension and other cash benefit payments. One involves new strategies to use social security payments as a means of including citizens of all ages into the banking system. Such efforts enable recipients to have access (via formal institutions) to financial services such as credit, savings, and electronic transactions that are adapted to the needs of low-income households and which help consumption smoothing.

Using mobile technology to support financial inclusion has important implications for social security; not only does it help reduce administrative costs of disbursement for social security institutions and increase transparency, it cuts service delivery times, thus benefiting recipients.

The second movement is related to the fact that paying benefits into bank accounts may not be optimal for some households: many banks do not have branches in rural areas, implying long journeys to access financial services. For example, the Peruvian government programme *Juntos* provides payments through savings accounts, yet only 18 per cent of beneficiaries have bank branches in their district. Accordingly, there are many initiatives to make financial services more readily available to all citizens – most notably with the use of mobile technology.

At the legislative level, there have been many reforms (e.g. Bolivia, Colombia and Peru) to enhance access to financial services via non-banking institutions, such as telecommunication operators or retail outlets. Colombia's *Más Familias en Acción* and *Jovenes en Acción* programmes have also been innovators, partnering with a bank in order for social security payments to be made to the bank's "mobile wallet" service. Currently, 30 per cent of social security beneficiaries receive cash payments in this manner.

Improving the payment process has equally been a core focus of the Honduran government within the context of their cash transfer programme *Bono 10.000* (also known as *Bono Vida Mejor*). The government piloted three alternative processes for the disbursement of benefits, including payments to bank branches of the National Bank of Agricultural Development (*Banco Nacional de Desarrollo Agrícola – Banadesa*), to rural savings and credit cooperatives, or in cooperation with a telecommunications company, notifying beneficiaries where and when to collect their transfer by text message. Following the pilot, the government announced in 2015 that payments of *Bono 10.000* will be made to basic saving accounts with two banks.

Finally, pensioners receiving payments from the IVSS in Venezuela have been given the option of receiving new debit cards (*DébitoClave*), which eases the manner in which they may collect their pensions and offers new mobile and online facilities. Card users will be able to sign up to various services offered by the Bank of Venezuela, including notification via text messages of transfers to and from their accounts, an online banking service, and a telephone line through which many banking activities may be ordered.

16 Within the realm of mobile telephony, Uruguay's BPS has also recently launched its new smartphone and tablet application *BPS Trabajo Doméstico*, enabling employers of domestic workers to access billing information and to update their employees' status. The BPS aims also to improve communication with pensioners and workers via text messages. The U.S. SSA has set up a mobile version of their website, permitting beneficiaries to access important information and to request a replacement Social Security number card.

Mobile technology also has important uses for administrators. In Peru, citizens eligible for the new non-contributory disability pension (*Pensión 65*) will be assessed by a "mobile disability assessment brigade" that will identify and provide coverage to individuals in remote areas previously excluded. It is estimated that around 87,000 people are eligible for the programme. Innovative technology simplifying the insertion of information collected during home visits into the computerized system will be used, and will enable the programme managers, the Ministry of Development and Social Inclusion, to follow in real time the work undertaken by field staff.

### *Improving the performance of pension systems*

Pension systems are key elements of social security systems and ensuring their longer-term sustainability and effectiveness is essential. Replacing the former *Instituto de Seguro Sociales*, Colombia's *Colpensiones* was created in 2012 to manage and administer the state

pension system. Among the aims of the reform is to streamline the approval process for applications and to improve the speed and agility of service delivery by automating over 118 processes.

Recent years have also seen the so-called “re-reform” of some privatized defined contribution pension systems in Latin America. Regardless, defined contribution pension pillars remain important in a number of countries. In this regard, a recent focus is to seek to increase the returns of pension fund investments, reduce costs and improve benefit levels.

In Bolivia, the Public Management Body for Long-Term Social Security (*Gestora*), a new public entity formed to take charge of – and improve the efficiency of – the administration of privately-managed individual retirement accounts was set up by decree in 2015 to be functional within 18 months. The *Gestora* was established to improve returns on invested assets as a means to raise benefit levels. The 5–8 per cent rate of return achieved by the private pension system was considered insufficient, and the new public body will have a broader investment portfolio than its predecessor.

Social security funds when effectively invested can also have wider positive socio-economic roles to play. Argentina’s ANSES *Fondo de Garantía de Sustentabilidad* is a reserve fund that makes investments including in different sectors such as infrastructure (energy and roads) and also offers mortgages and loans. Of interest, this fund was created with the accumulated funds of the individual account scheme following the nationalization of the private pension system.

A number of countries are currently considering significant reforms to their pension systems based on the assessment that the administrative costs of existing structures are too high and that the systems have been ineffective in expanding coverage. Chile is considering a significant reform of the current private pension system. To improve overall administrative performance, as well as to lower administrative fees and extend coverage, it is proposed to introduce a state-run pension fund management administration alongside the existing private ones. Again in Chile, as part of its efforts to lower costs for account holders, the bidding process to identify a new pension fund management company to cover all new entrants to the labour force concluded with the Superintendent of Pensions selecting the AFP offering the lowest administrative fees.

Similarly to improve administrative performance and to support pension levels, the National Council for the Supervision of the Financial System of Costa Rica has lowered the value of the maximum administrative fees to be charged by pension fund management companies.

*Coordination, transparency and accessibility*

Improvement in administrative performance can be achieved through better coordination between social security programmes and other agencies, not least labour policy departments. Key goals of collaboration are to seek to avoid the duplication of work among departments and to improve statistical data collection through the increased exchange of information. For example, coordination amongst the different social protection branches in Ecuador will be improved by instating a centralized Government Platform for Social Development comprising 3,000 civil servants that previously worked in separate ministries. The expectation is that this will lead to greater efficiency and effectiveness in decision-making and higher productivity in public management.

In Uruguay, an “Integrated social information system” monitors and coordinates information between the different social protection programmes. Similar experiences are found in other countries, including Argentina, Brazil, Chile, Costa Rica and Mexico (see Box 2.1).

More broadly, improving the availability of information is crucial to build confidence in public-sector administration, including social security administration. For instance, improved information flows can be an important way of raising participation rates in pension schemes and expanding coverage, while also contributing to better compliance. Indeed, the principle of “Open Government” (*Gobierno Abierto*), to create greater information flows between governments and their citizens, has been adopted by many social security administrations which have set up transparency tools on their websites to disclose details pertaining to fiscal or statistical information concerning the administration of social security programmes.

**Box 2.1. *Inter-institutional coordination in Argentina***

Progress in the development of online and automated services has often gone hand in hand with the efforts towards inter-institutional coordination. For example, the Federal Administration of Public Resources (AFIP) in Argentina, in collaboration with the Ministry of Labour, Employment and Social Security and all other actors in the social security services, have established a global, unified and consolidated system for the secure registration and dissemination of information for all contributing employer organizations and bodies providing social security benefits. This portal is the sole window through which employers now interact with a variety of social security institutions. Most notably, the system seeks to simplify the registration of workers covered by the special regulations governing contracts for domestic workers, and to give employers a tool to make the payment of contributions and occupational risk insurances.

In the Dominican Republic, a Technical Committee on Social Security (regrouping, among others, the National Board of Social Security, the Ministry of Health, and the Superintendence of Pensions) standardizes the production of statistical data and makes this available to citizens to enable broader participation in decision-making processes. In Mexico, the State's Employees' Social Security and Social Services Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado* – ISSSTE) has deepened ties with the Federal Institute on Access to Information and Transparency for the same purpose. To improve transparency and the availability of information and to raise awareness among the population of their entitlements, the Ministry of Social Development of Chile has made accessible all information regarding the services provided by the social protection system.

In addition to disclosing more information about the internal management of social security administrations, improved data permits better analysis of the impacts of social security on issues such as poverty rates, employment capacities and social investment outcomes. The collection of such data and its subsequent analysis is fundamental in the elaboration of social policy tailored to the needs of population groups and in the future planning of, and resource allocation for, social security administrations.

Generally, the visible trend towards the more integrated coordination of actors within national social security systems in the Americas creates a new need for the overall performance of the national system to be evaluated. This is a priority that deserves to be given greater weight in the Americas. A first challenge is to determine which body will be given the mandate to undertake such evaluations. National social security agencies are clearly strong contenders for such a role.

### *Supporting local and tailored service delivery*

Beyond efforts to improve communication between social security administrations and beneficiaries, there is equally a trend towards enhancing the quality of services at different levels and for different services.

Within this framework, the Ministry of Health in Mexico has recently convened a partnership with the *Fundación Carlos Slim Salud* (CASALUD) to improve early diagnosis of people at risk of noncommunicable diseases through household and community outreach. CASALUD offers a model of prevention which uses information technology to assess risk, but also provides follow-up in the form of advice on healthy living to prevent the onset of diabetes or hypertension. Patients identified as at risk can use a mobile app, which enables them to track their behaviour and transmits live information to their general practitioners.

Also in the context of health, El Salvador's ISSS has recently extended its *Programa de Medicamento Domiciliar* to new regions in the country. Established in 2011, the programme enables beneficiaries with a physical incapacity which prevents them from collecting prescribed medication at local pharmacies to have them delivered to their homes. In Costa Rica, the Ministry of Labour and Social Security along with the Directorate of National Pensions has, for example, decentralized the registration procedure of pensions to local authorities, in order to make access easier for pensioners who are without Internet access. Importantly, ICT driven developments to cover hard-to-reach populations support broader efforts to expand the availability of social protection to people living in geographically remote areas. For health care, for instance, this is much needed given the disparity between the levels of effective access to services provided in rural zones as compared to urban areas.

### *Improving the quality of services*

Many social security administrations have been implementing reforms to enhance the manner in which they assess and monitor the quality of services. Special attention is being paid to enhancing and strengthening communication channels and the interaction between institutions and their beneficiaries, not least to gauge user satisfaction concerning service quality.

As one example, the Quebec Pensions Board (*Régie des rentes du Québec*) in Canada has updated its client satisfaction measurement mechanism to increase sectorial specialization and provide a clearer picture of client service improvement requirements. The development of online contribution payment systems has been another essential tool that has been widely adopted throughout the region. For example, the Bank Employees' Pension Fund (*Caja de Jubilaciones y Pensiones Bancarias – CJPB*) of Uruguay wholly restructured the contribution collection mechanism, and set up a distance telecommunication system to enable employers and employees to submit contributions online, thus eliminating cash transfers, increasing the security of sensitive information and improving service quality. The National Insurance Services of Saint Vincent and the Grenadines moved contribution payments online with their flagship service *eSubmit+*, reducing paper work and administrative costs while improving the quality of data submitted.

No less important for quality assurance objectives, improving the effectiveness of benefit delivery and contribution collection, including by promoting voluntary compliance, has also enabled social security administrations to reduce levels of error, evasion and fraud.

## Conclusions

The Americas are playing a leading role in the adoption of innovative methods and practices. This mirrors a strong commitment among social security administrations to improve management and to lead their organizations towards “excellence”, not least to support the development of sustainable and more comprehensive national systems of social protection. Without doubt, a major factor in the success of policies implemented in the Americas in the last years has been the efforts of social security administrations to improve the effectiveness and efficiency of their resource management.

This commitment of social security administrations in the Americas to work towards “excellence” in administration responds to the need to innovate and develop good practices that are tailored to the specific and varying challenges facing social security systems and populations. With the developing support of practical tools provided through the ISSA Centre for Excellence, such as the ISSA Guidelines for Social Security Administration, the effectiveness and efficiency of resource management and the general capacities of social security administrations can be expected to improve further.

## Enhancing the positive social and economic impacts of social security systems in the Americas

*Social security systems have positive social and economic impacts for individuals, families, communities, enterprises and societies. This fact, which is increasingly politically accepted, applies regardless of a country's level of economic development. While effective social security coverage can be improved in many states, the majority of countries can afford to sustainably provide at least some forms of basic social security to all their populations. With the understanding that a number of intervening factors (political, demographic, labour market, economic structures and production processes, institutional structures, environment, etc.) will continue to present policy hurdles for social security systems, including for tax revenue generation and public redistribution objectives, the core challenges facing many countries in the Americas is how to sustainably maintain and extend effective social security coverage and to more fully realize the inherent positive social and economic potential of their national social security systems to the benefit of all.*

One of the key challenges for analysts in identifying the positive social and economic impacts of social security systems is the lack of data offering precise measures of this and the difficulty of isolating the impact of one variable (social security programmes) on levels of poverty, inequality and economic growth when a number of other variables (external environment and public policies) are also influential.

Regardless, it is recognized that social security systems do have positive social and economic impacts for individuals, families, communities, enterprises and societies. To cite but a few examples, social security systems:

- Support daily household consumption of goods and services, and thus support local economic activity and employment, by means of cash benefits.
- Support families with younger children through cash benefits and services, offering the possibility of greater choice in the work-life balance for women and men and facilitating access to education and health care.
- Provide preventive, curative and rehabilitative health care which supports the health status of the population, the employability of the working-age population, and the more effective uses of health expenditures.



- Provide income replacement in times of unemployment or inactivity, often in a counter-cyclical manner, and in response to “natural disasters”, to support household consumption, thus supporting local and national economic activity and employment.
- Support the return to active employment/work through subsidies and cash benefits and rehabilitative health care, thus increasing the activity rate and reducing the risk of longer-term use of benefits and increasing programmes’ contribution income.
- Support employers and workers, through subsidies and cash benefits and services, thus preventing unemployment, reducing (re)training costs, supporting job matching, facilitating structural economic transitions, and supporting “market confidence”.
- Support human capital development and well-being and empower people, including through increased employability and improved access to education, training, rehabilitation, health services and nutrition.
- Enable, through the build-up of social security programme financial contributions and reserves, access to funds for investments in infrastructure, subsidized housing and social services and other public goods. The domestic investment of social security funds also supports the development of national financial services and markets.
- Contribute to political and economic stability by reducing inequalities and people’s dissatisfaction with their economic status through income redistribution.

For too long, however, it was often assumed that many of these positive outcomes were not readily applicable to developing economies, where population coverage under social security programmes is low (in many Latin American countries effective coverage for old-age cash benefits is less than 50 per cent of the population).

Commonly, it was argued that in order to reap the wider social and economic benefits to be derived from social security systems, countries were obliged, first, to attain a certain level of economic development. On the basis of this development, countries could then – and only then – afford to progressively develop systems of comprehensive social security protection.

This argument has been turned around. Observation and study of developments and trends in many countries of the Americas reveals that all countries can realize the positive social and economic benefits of social security systems.

It is argued that for Latin America and the Caribbean specifically, the region is “progressively building social citizenship, both in terms of protection as well as promoting human development and social investment” (Cecchini, Filgueira and Robles, 2015). In turn, developments in North America, such as the Affordable Care Act in the United States, with

the multiple aims to improve access to affordable health insurance, improve the quality of health care and health insurance, regulate the health insurance industry, and reduce health care spending, show that the pursuit of social and economic progress also applies to the region's richest economy.

### **Greater income security: A first step towards social and economic development**

Much has been written in previous ISSA *Developments and Trends* reports concerning pension reforms and the development of conditional cash transfer programmes in the Americas. Overall, the many reform initiatives undertaken across Latin America and the Caribbean to extend effective coverage for cash benefits during the 1990s and the first years of the new millennium present a mixed legacy.

Policy efforts to reform existing old-age pension systems in recent years have sought to improve their financial sustainability, improve the governance of the systems, adjust the design of contributory programmes, and to extend coverage to difficult-to-cover groups, not least in rural and informal economies. More recently, in a number of countries there has been a shift away from traditional contributory models of coverage to mixed models wherein non-contributory elements now occupy a place of importance not seen previously in Latin America (Rofman, Apella and Vezza, 2015).

One factor driving this recent shift has been an assessment of the impact of the earlier pension system reforms. While the reforms of pension systems in the late twentieth century may have improved the mid-term sustainability of national systems, they have not had a major positive impact on levels of coverage or the adequacy of benefits (Rofman, Apella and Vezza, 2015). Neither have fully-funded benefits systems introduced to replace social insurance programmes increased national savings rates as expected: low levels of coverage translate into low numbers of workers making limited savings (Levy and Schady, 2013). Together, these are recognized widely as being major shortcomings of the reforms, in that they have been unsuccessful in better ensuring the social and economic security of populations.

Moreover, despite significant reductions in levels of poverty and inequalities across much of the Americas in the first decade of the millennium (Levy and Schady, 2013), further reducing poverty and inequality remain big challenges: Latin America remains the world region with the highest level of income equality (Ortiz and Cummins, 2011). There is a common concern that the further expansion of contributory models of social security remains constrained by high levels of informal economic activity, affecting 48 per cent of the region's employed population (ILO, 2015). In this context, the international political

agenda to realize universal access to social protection across the life course has helped push policy-makers in Latin America especially, and in some respects more so than in other regions, to seek innovative, alternative approaches to improve access to social security.

Taking into consideration the capacities of social security institutions and administrations, countries have either sought to accord responsibility for the delivery of new benefits programmes to existing social security bodies or, where appropriate, and in the absence of a suitable host organization, to create new administrative agencies. The decision in this regard has typically been based on developing a holistic national system perspective, which the aim of avoiding duplication and inefficiency while promoting greater effectiveness and efficiency. Ultimately, the goal is to strategically integrate and coordinate all the component parts of national social protection systems.

Looking at social security systems holistically, recent trends suggest that recent regional efforts have sought improvements in access to coverage and the scope and quality of that coverage for not only older adults but for families with children and people of working age. At the same time, improved access for all to health care has equally been sought (Cecchini, Filgueira and Robles, 2014). While in most countries in the region the proportion of the population affiliated to national health services or social, private or micro-insurance health protection schemes is 50 per cent or higher, in some countries (for example, Haiti and Honduras) the figure is less than 20 per cent (ILO, 2014) which is equivalent to the very low levels of coverage found in some countries in sub-Saharan Africa and South Asia.

The challenge of improving health care coverage is equally a question of the quality of the care and services provided. Once more, low-income Haiti offers a lesson about how difficult this service quality challenge can be for under-resourced health care systems: on average, there are five or less health workers per 10,000 people in Haiti. The ILO suggests that 41.1 health workers per 10,000 people is the minimum number necessary to provide essential services (ILO, 2014).

### **Political trends in support of social and economic development**

As a key factor influencing trends and developments in social protection, the political context in Latin America deserves comment. In the light of the changes seen in recent decades, important mention can be made about not only the democratization of Latin American societies but to the durability and stability of these democracies (Filgueira, 2014). This stability has proven conducive to the development of social policies, particularly to the expansion of non-contributory benefit cash transfers for the elderly and families (with a common focus on younger children), the extension of access to health care and health

insurance, improved access to education and the pursuit of the goal of universality in social protection. These sectoral trends also exhibit the cross-cutting importance of promoting proactive and preventive measures in the region's social security systems.

Of great significance, the decades at the end of the last century are often characterized as a period marked by a reduced role for State intervention in social policy, with social spending frozen or cut back, with social services privatized, and the policy emphasis placed on targeting limited support to the very poor only. In contrast, the current juncture is defined by the State coming back into social policy, with the trend to private provision being reversed in some cases, coverage being extended and the goal of universality increasingly prioritized, and public social spending increasing (Cecchini, Filgueira and Robles, 2014).

As one outcome, the recent period has witnessed greater political support enabling a movement away from the provision of what has been typically the ad hoc, time-limited provision of cash transfers for poverty alleviation to the establishment of financially stable, rights-based programmes geared to the longer-term realization of wider social and economic development goals.

### **Extending the social and economic benefits of social security to more people**

Canada may be considered one regional exemplar concerning comprehensive and universal access to cash benefits and health care protection. Regardless, elsewhere in the region where coverage may be less comprehensive according to “branch”, the challenge of extending coverage is high on the political agenda. As discussed, a concern is that conventional contributory approaches to social security may have reached their full potential in Latin America and the Caribbean. In response, non-contributory and modified contributory approaches have been developed, with some countries (for example, Brazil and Uruguay) in Latin American often regarded as global leaders in this regard.

The value of such approaches as a means of addressing exclusion and poverty is widely accepted. However, policy design and programme implementation factors remain paramount. There is a growing realization that elements of the design of innovative non-contributory schemes in particular may present disincentives for workers to transit to, or remain in, the formal labour market. In many countries, there is a developing discussion on the appropriate design of non-contributory benefits programmes and how these interface with contributory programmes.

This design challenge goes beyond suitably differentiating contributory and non-contributory benefit levels. It also involves related issues concerning the income tax system, including the role of negative income tax. For instance, in the absence of design features,

such as a negative income tax, which de facto is only payable in respect of earnings from formal economic activity, it is likely to be more difficult to encourage workers to remain “visible” in the regulated formal economy and to affiliate to contributory social security.

Also necessary is the development of integrated national databases or the institution of a single national register, such as Brazil’s *Cadastro Único*, Chile’s SIIS and RIS, Colombia’s SISBEN, Costa Rica’s SIPO-SABEN, and Uruguay’s SIIAS. Supported by state-of-the-art ICT, such databases should be capable of being updated in real time to enable the accurate identification of all eligible beneficiaries and the timely and correct payment of benefits. The effective coordination of social security and tax collection agencies is especially important for non-contributory benefits which use income tests or means tests to discern individual or household eligibility.

Therefore, in the search for innovative social security schemes that can contribute positively to wider social and economic policy objectives, including strengthening the formal labour market, developing the optimal integrated design of the entire national social security system presents a number of challenges. However, policy responses based on a growing number of practical national experiences in the region do exist. In contrast to the more consistent findings of published studies from North America, the research results from Latin America with regards to how benefit system design can encourage the formalization of economic activity do not offer a steady picture about what should be considered “good practice”.

A study of Uruguay’s PANES (*Plan de Atención Nacional a la Emergencia Social*) programme (Amarante et al., 2011) offers results suggesting that there was a decline among beneficiaries as regards participation in formal employment and also as regards earnings levels, mostly so for men. However, other studies offer no significant evidence (Alzúa, Cruces and Ripani, 2013) of non-contributory programmes creating disincentives for formal labour market activity or of influencing declared earnings levels downwards. In contrast with North American cases, it is suggested that the targeting of Latin American programmes on “very poor” populations, combined with the use of conditionalities for children’s school attendance and for access to preventive health care may be influencing factors (Amarante et al., 2011).

A challenge is that cultural and labour market factors appear to influence outcomes differently according to the national setting. Furthermore, positive evidence of the gender impacts of social policy interventions varies, with some studies suggesting that women in urban settings tend to benefit more in terms of empowerment than do women in rural economies (De Brauw et al., 2014).

## Policy outlook to enhance social and economic outcomes

As discussed, underlying the development of regional innovations in non-contributory or modified contributory provision, great emphasis in the region is being placed on the issues of improving coverage, adequacy and sustainability in social security provision. These are key objectives for policy-makers, social security administrations and the covered population alike. However, and regardless of some evidence of measureable improvements with regards to achieving these goals, there is an emerging realization that deeper, continuing challenges across the region in terms of reducing high levels of poverty and inequalities cannot be addressed by social security systems alone. Public policy interventions to enhance social and economic outcomes certainly require social security programmes, but impact evaluation suggests that these are not sufficient in themselves.

Realizing improvements in the region's national education systems is often singled out as a major priority (Levy and Schady, 2013). While some conditional cash transfer programmes that have aligned entitlements with school attendance may have helped to greatly improve access to basic education, such programmes are not capable of addressing the challenge of the quality of education provided. Without improvements in the quality of education, including the quality of teaching, and lasting improvements in levels of educational attainment that heighten capabilities and offer greater opportunities to lift families and children permanently out of poverty, the longer-term goal of social and economic investment in populations will be difficult to achieve. Without better educated populations, it is difficult to foresee significant structural changes in national labour markets including sustained growth in levels of formal employment.

The centrality of this observation lies with the belief that “employment is the most important link between economic and social development” (Sojo, 2011). The difficulties encountered in addressing high levels of precarious employment do not auger well for the achievement of higher levels of productivity or for more inclusive and equitable social and economic development. Moreover, projections for 2015 suggest that general short-term trends in Latin American labour markets will not be conducive to higher required rates of job creation, with unemployment to grow slightly to 6.2 per cent, which will impact efforts to reduce inequality and poverty (ECLAC and ILO, 2015).

In this regard, and similar to other global regions, youth unemployment is a dominant concern. Of those aged 15–24 in Latin America and the Caribbean, half are unemployed and more than 55 per cent of those that are employed work in informal jobs (ILO, 2015). In some parts of North America the problem may be less severe, but no less daunting.

In Ontario, Canada, for example, youth unemployment sits at around 20 per cent (Shum, 2015); which is higher than the Canadian national youth unemployment rate of 13.6 per cent in April 2015.

The demographic transition in the Americas is predicted to impact differently across the region. While the global trend towards population ageing (i.e. when a population's median age rises because of rising life expectancy and/or declining birth rates) is impacting the Americas, by 2030 North America is nonetheless projected to experience growth of around 10 per cent in the number of children of school-age. In contrast, the countries of Latin America and the Caribbean are expected to see an average decline of the school-age population by 6 per cent. These differences have implications for the future stock of human capital and for budget choices concerning the relative allocation of public finance towards younger and older generations. A positive demographic factor for "ageing" North America and the renewal of its stock of human capital is that immigrants to North America are more likely to come from other regions. In contrast, in Latin America and the Caribbean, most international migrants come from the region itself.

— 29 Again to support social and economic development, also required is a re-examination of the respective interplay of the redistributive roles played by social security programmes and public subsidies provided to support recurrent household consumption. Public subsidies can represent a greater share of national redistributive effort than non-contributory benefit programmes, as measured by GDP. Paradoxically, because these subsidies are given to households, those households who consume more gain more from them. Energy subsidies, for example, tend to benefit more those households that are better-off. For example, in 2013 in Mexico the subsidy provided for domestic electricity consumption was greater than the value of the cost of the government's anti-poverty social assistance *Oportunidades* programme, yet over half the subsidy went to the richest 40 per cent of households (Levy and Schady, 2013). Concerns about the capture by the middle classes of public finance also overlap with the sensitive political issue in some countries of the reform of relatively generous public-sector pensions.

To promote the objectives of social and economic development, and the important role therein played by social security systems, a first step may have to be to create the necessary policy space to permit a closer look at choices concerning public revenue collection and allocation. The health of public finances has improved in many countries in the region in recent years. However, until recently across Latin America and the Caribbean specifically, the overall tax burden in most countries has been a third lower on average that it should be given per capita income levels (Sojo, 2011). To be borne in mind, inefficient revenue collection, especially if coupled with an absence of fiscal responsibility, will have implications

for the sustainable financing of all public policy including social policy. Clearly, the issue of sustainability will become more important as public expectations regarding the increasing role played by non-contributory programmes in social protection systems become more deeply engrained, and especially so in cases where there is wide access to non-contributory old-age benefit programmes in ageing societies.

Although there is strong recent evidence of improved monetary policy, lower fiscal deficits, and improved management of debt in Latin America, all of which have facilitated a number of governments to introduce countercyclical macroeconomic policies (Levy and Schady, 2013), a number of English-speaking Caribbean economies have been left more vulnerable as a consequence of the global crisis that began in 2008. Hard hit in particular were key domestic economic sectors, including tourism and construction (Perez Montas, 2013). Given that many of these same countries also have maturing public social insurance pension systems and ageing populations, pressures on public finance are likely to mount that will require choices about the allocation of funds. Therefore, despite progress, macroeconomic uncertainty associated with the future evolution of the global economy remains an issue.

## **Conclusion**

The ISSA strategic concept of Dynamic Social Security promotes the vision of realizing improvements in social security coverage and administrative performance with the higher-level goal of contributing to socially inclusive and economically productive societies. Based on international experience, improvements undertaken in the design and delivery of social security systems in the Americas already translate into greater positive social and economic outcomes.

To push this agenda forward further, there is a strong case to be made for social security administrations to proactively advocate in accordance with their mandates in support of social security policy measures that contribute coherently to enhancing social and economic outcomes. Practical tools in this regard, which not only strengthen the hand of social security authorities' advocacy efforts but support related efforts to build trust and confidence in social security systems, are the ISSA Guidelines for social security administration.

To conclude this chapter, for social security systems in the Americas to contribute actively to enhanced positive social and economic outcomes, social security policy goals cannot be pursued in isolation: they must be promoted alongside a broad range of coherently applied actions, including macroeconomic, labour market, social and education policies.



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