Dynamic Social Security for the Americas: Social Cohesion and Institutional Diversity

DEVELOPMENTS AND TRENDS

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Preface

This Developments and Trends report – *Dynamic Social Security for the Americas: Social Cohesion and Institutional Diversity* – has been prepared for the Regional Social Security Forum for the Americas, organized by the International Social Security Association (ISSA), and hosted by the Ministry of Social Insurance of Brazil, 24–27 May 2010, in Brasilia, Brazil. This is the fourth in a four-volume set of regional Developments and Trends reports designed to accompany and inform ISSA Regional Forums during the 2008–10 triennium. The reports and the Regional Forums represent a new approach to better understand and address the key challenges ISSA member organizations are facing in the different regions of the world.

The contribution of the Americas to the development of social security internationally has been significant. Take for instance, the conceptual and concrete impacts of President Roosevelt's New Deal, the lasting influence of the International Labour Organization's 1944 Declaration of Philadelphia, the global influence of Latin America-inspired defined-contribution fully-funded pension reforms, the more recent development and expansion of conditional cash transfer programmes and basic solidarity health packages, and the current phase of pension re-reforms. It is also worth remembering that during the 1930s the National Insurance Fund of Peru became the first non-European member of the ISSA. And lest we forget, the United States Social Security Administration has been publishing its unrivalled global research survey *Social Security Programs Throughout the World* since 1937.

What these examples reveal is a long-standing tradition of dynamism in social security in the Americas. This tradition gives inspiration to much of what the ISSA refers to as Dynamic Social Security – a framework to improve the efficiency and effectiveness of social security systems that also supports efforts to build more socially inclusive and economically productive societies.

On this basis, it is not surprising that the Americas should be seeking to build more extensive and better performing social security systems. Building on the strengths of existing institutional diversity and innovative capacities, the countries of the Americas are engaged in efforts not simply to extend social security protection to all, but also to better realize social cohesion and more equitable economic growth. To this end, the better integration of social security within broader social protection systems is vital. The economic crisis highlights why this must be so, while also underlining the scale of the challenges to be addressed. Promisingly, the observed importance accorded to the role of social dialogue augers well for the healthy development and improved governance of social security in the region. In addition to the major role accorded to social security systems in responding to the crisis' impacts this should act to further reinforce the legitimacy of social security institutions as indispensable social actors.

The purpose of this report is threefold: first, to synthesize and interpret the most important recent developments and trends in the Americas; second, to provide the key background document for the Developments and Trends Session of the Regional Social Security Forum for the Americas; and, third, to provide the context for the Regional Social Security Summit for the Americas. The discussion during the Regional Forum will provide an opportunity for all of us to complement this report and to debate its messages. I hope that this report will serve as an inspiring stimulus for our discussions and welcome you all to contribute actively before, during and after the Regional Social Security Forum for the Americas in Brasilia. The outcome of these discussions will be carried forward to the World Social Security Forum to be held in Cape Town, South Africa, 29 November to 4 December 2010.

Hans-Horst Konkolewsky
Secretary General

CHAPTER 1

Common challenges and diverse responses

This regional report focuses on the Americas.[1] Over recent decades, social security systems in the Americas – in the Caribbean region, North America and, particularly, the Spanish-speaking countries of Latin America[2] – have experimented with diverse and often innovative reforms. During this period, and across the different branches of social security, the choices of programme reform introduced in these countries have often challenged conventional international norms about the nature and role of social security and health care.

The introduction of defined-contribution fully-funded individual pension accounts as part of structural pension system reforms in a number of Latin American countries remains the most widely reported of these. However, to cite only a small number of examples, these innovative choices also relate to the development of conditional cash transfer programmes in Mexico, Jamaica and elsewhere; to non-contributory old-age pensions in lower-middle-income Bolivia and upper-middle-income rural Brazil; to individual severance accounts for unemployment in Chile; to recent developments towards universal child benefits in Uruguay; or to the cutting-edge use of information technology to process disability claims in the United States of America (United States).

Many Caribbean countries, including British Virgin Islands in 2005, Barbados in 2006, Grenada in 2007, and Cuba in 2009, have undertaken parametric reform of their integrated national insurance systems. These parametric reforms have included changes to contribution rates, retirement ages, and benefit formulas and their indexation. Several Central American and lower-income South American countries are either performing intense parametric reforms to their insurance systems and/or trying to improve the performance of pension systems that during the last recent decades changed from being pay-as-you-go (PAYG) defined-benefit systems into totally or partially funded defined-contribution systems.

With regard to the Americas over the recent period (2005 to 2009), there were about 100 important social security reforms reported in the ISSA Social Security Worldwide information service. Analysis reveals that reform efforts have mainly targeted the improvement of existing pension and health care programmes. Additionally, other complementary areas of reform follow.

Improving governance and administration

At all levels, governance improvements help shape social security planning and design, legislation, institutional arrangements, and day-to-day administrative operations. A further governance issue is tackling the management challenges presented by unclear lines of responsibility vis-à-vis the responsible Minister, the Social Security Board and the Chief Executive Officer. This issue is addressed by the institutional arrangements of the 2006–2008 Chilean pension

1. According to the United Nations <http://unstats.un.org/unsd/methods/m49/m49regin.htm> (accessed on 18.02.2009), the Americas comprise: the Caribbean, Central America, South America and Northern America.

2. Latin America includes Mexico, which is part of North America.

reform. No less challenging for all countries are governance issues of weak administration; inadequate record-keeping and high administration costs; contribution evasion, benefits fraud, and arbitrary decision-making; and the inadequate participation of social partners.

With multi-pillared (or multi-layered or tiered) pension systems increasingly commonplace, governance is no less important for private pension systems. In Jamaica, new regulations introduced in 2006 require that all pension funds, retirement schemes and investment managers be registered. In Canada and the United States, a strategy of proactive engagement in pension fund management is being pursued – innovating ways for public-service occupational pension schemes to take an active role in the companies in which they invest.

As regards administration issues, new measures were implemented in Peru in 2005 to promote a prevention-based approach to occupational hazards that substantially increases employers' responsibilities to apply prevention measures and comply with regulations. In Central America, the Belize Social Security Board has recruited Occupational Safety and Health (OSH) officers for its branch offices to strengthen technical competence in the prevention of work-related injuries.

In the United States, ongoing changes to the disability determination process have been undertaken, not least to more speedily process claims, better address errors and ensure consistent adjudication. Importantly, Panama's 2005 reform to address the financial deficit facing its Social Insurance Fund (*Caja de Seguro Social – CSS*) also tackled a large number of identified problems in the administration and operation of the system's pension programmes.

Coverage extension

For many countries of the Americas, a testing challenge is to accurately calculate national coverage figures. A lack of time-series data, problems of data comparability, as well as institutionally diverse and often fragmented systems partly explain this difficulty. Nevertheless, unsatisfactory coverage under contributory cash benefit programmes is a long-standing feature of many countries in the region, regardless of whether the financing approach be PAYG or defined contributions. By way of comparison, at one extreme, coverage under Bolivia's contributory programme is estimated to be 11 per cent (Mesa-Lago, 2008, p. 40) while, at the other extreme, in Canada, Cuba and the United States coverage under cash benefit programmes is generally considered "universal". The coverage estimates for other countries in the region range widely. Measuring levels of health-care coverage presents a different set of difficulties: one must distinguish between levels of affiliation to a health insurance system and actual access to necessary health benefits and services and, also, the adequacy of these once delivered. As with contributory cash benefit programmes, estimates of coverage vary widely. Regardless of universal health coverage in Argentina, Brazil, Canada, Chile, Costa Rica, and Cuba, and despite the historic 2010 development in health-care legislation in the United States, a significant proportion of the total population of the Americas has limited coverage for health protection.

Over recent years, social security coverage levels in many countries of the Americas have been characterized as stagnant. Accordingly, in addition to improving the performance of social security administrations and agencies, a growing number of countries in the region are seeking to extend social security coverage. In particular, these measures have targeted groups in the informal economy and other individuals not covered by existing schemes.

Implemented in 2005, Argentina introduced the concept of "irregular small contributors" (*monotributo*) into law, establishing a payment and amnesty plan for those who are unable to meet their obligations towards social security, tax and health-care systems. A similar scheme has operated in Uruguay since 2000. Again in Uruguay, the New Family Allowance Scheme (*Nuevo Régimen de Asignaciones Familiares – NRAF*), implemented in 2008, provides cash benefits to vulnerable socio-economic households. In this instance, households are assessed independently of the formal or informal employment of the household head.

Since January 2005, self-employed workers in Mexico may voluntarily join a retirement fund administered by a pension fund management company (*Administradoras de Fondos para el Retiro – AFORE*). This reform extends coverage to all Mexicans under the Retirement Savings System (*Sistema de Ahorro para el Retiro - SAR*) established in 1997. Still in Mexico, since May 2005, the coverage of casual agricultural labourers has been substantially improved by an agreement on the division of obligations between employers and Mexico's Social Security Institute (*Instituto Mexicano del Seguro Social – IMSS*).

In 2007, Saint Kitts and Nevis established a new public-service pension plan that refers to "non-established workers" as "Government Auxiliary Workers", providing them with a pension similar to that of civil servants. Trinidad and Tobago has recently decided to extend coverage to self-employed persons. Again to extend coverage, since 2007, Grenada requires all self-employed persons aged 16 to 59 to register and pay contributions to the Grenada National Insurance Scheme. Self-employed persons are now eligible for the same benefits received by employees. In Chile, self-employed workers now have the same rights and obligations as other workers under the law on occupational accidents and diseases.

The provision of tax-financed old-age pensions

In 2007, Belize extended coverage under its tax-financed old-age pension to men aged 67 or older; previously only women aged 65 or older were eligible. Since 2007, a monthly pension has been paid in Guatemala to those older than age 65, and to disabled persons, who are living in extreme poverty and without social security cover. This solidarity benefit will be financed through compulsory contributions from workers and enterprises and an annual State budget allocation. In Bolivia, the oil tax finances a new benefit called Dignity (*Dignidad*) for over 640,000 people older than age 65 who do not qualify for a retirement pension. Introduced in 2008, *Dignidad* replaces the previous, less generous, *Bonosol* benefit. In 2008, Chile introduced a Solidarity Pension System that will provide a tax-financed basic solidarity pension as a minimum benefit and solidarity pension contributions to supplement contributory efforts. This development followed in the path of Peru, which since 2007 pays a complementary pension for persons insured under the Private Pension System (*Sistema Privado de Pensiones – SPP*) whose pension income is less than the monthly minimum pension.

Protecting children

In many countries, the importance of investing in children is increasingly a priority. Two such developments include the Jamaican decision in 2005 to eliminate the requirement that orphan children's parents must have been married for the child to receive an orphan's benefit and the decision by Canada's Human Resources and Social Development Minister in 2006 to introduce an additional universal child benefit to offset the cost of childcare under Canada's Universal Child Care Plan.

Elsewhere, legislation was presented to Parliament in Peru in 2005 to extend parental leave to working fathers, offering a 5-day leave period during the child's first month. And the aforementioned Uruguayan New Family Allowance Scheme (*Nuevo Régimen de Asignaciones Familiares – NRAF*) is a further example. Other endeavours to improve the social protection of children relate to cash transfer programmes.

Cash transfer programmes

The general socio-economic context of the Americas and the current global crisis highlight the challenges of expanding the role of public solidarity in social protection. A particular example is that of cash transfer programmes.

Conditional cash transfers have been implemented in over a dozen countries in Latin America and the Caribbean. These programmes not only provide cash incomes to the most vulnerable groups, including low-income families and children, but also seek cultural changes with respect to labour market participation and the utilization of health services and schools. Research shows that the cost of cash transfer programmes in countries of the Caribbean and Latin America never exceed, and are often much lower than, 0.5 per cent of GNP (Leon, 2008). Further, they have an important positive impact on the well-being of vulnerable groups, including children, especially in times of crisis. For example, Brazil plans to mitigate the effect of the current crisis by adding 1.3 million more poor families to its cash transfer programme *Bolsa Familia*.

It is sometimes questioned whether cash transfer programmes enable beneficiaries to rise, and then remain, above the poverty line. Also, important problems remain in defining the appropriate value of cash transfers and the conditions attached to receiving them. Limited fiscal resources may constrain these programmes to target one vulnerable population group, such as children and mothers, at the expense of others, such as individuals with disabilities or the elderly. However, and although cash transfer programmes may not be capable of addressing all aspects of poverty, it is accepted that they do have a positive impact on reducing the incidence and severity of poverty. It is on this basis that calls for more universal cash transfer mechanisms lie. As a necessary first step, such calls are fully in line with the vision to provide, at the very least, access to basic social security and health care to all.

Mitigating evolving social and economic risks

Social risks evolve, and may cover a wide set of circumstances; for example, family make up and size, age structure, urban/rural balance, the nature of employment, and social values. In the immediate future, the evolving economic context in all regions of the Americas is likely to be shaped by the global crisis and characterized by rising unemployment and labour market informality, increasing numbers of female-headed households, and higher poverty rates. Greater individual mobility and migration are also major policy issues for many countries.[3] For instance, this helps explain why, since 2006, El Salvador has enabled Salvadorians living abroad to make voluntary contributions to the individual account old-age benefit scheme.

It is to be expected that all the above factors will combine with evolving expectations as to the role of social security protection systems in societies that are increasingly informal, ageing and ever more reliant on globalized economies. But despite this evolution, it is equally to be expected that institutional social security will continue to provide a necessary degree of continuity and social stability: social security systems soften the adverse impacts of often unpredictable market forces, prevent and reduce poverty, protect levels of household income, and ensure more adequate access to medical care and services.

Yet, in addition to meeting human needs, social security can bolster social cohesion and political stability, by minimizing social unrest and helping countries adjust more easily to social and political change. Social security also contributes to the economy; it enables businesses to restructure and improve efficiency levels, while supporting workers through periods of transition. With all these aims in mind, countries are adapting their social security systems to their particular contexts and needs through a rich array of innovative and evolving policies, programmes and processes. These are geared to better ensure accessible and sustainable social protection systems that not only provide protection, encourage prevention, and support rehabilitation and (re)integration but also contribute to realizing more socially inclusive and economically productive societies for all. In other words they are striving towards what the ISSA calls Dynamic Social Security.[4]

It is not possible here to examine in equal detail each and every one of the many developments identified across all the branches of social security in a geographic region as large and diverse as the Americas. Neither is it possible to summarize all aspects of all countries' social security programmes (for a selected overview, see Box 1.1.). Nonetheless, for all countries of the Americas, the evidence and experience of recent years makes it possible to draw out six broad lessons (see Box 1.2.). In the chapters that follow, the empirical country evidence underpinning these six lessons is presented.

3. The Caribbean countries of Suriname, Guyana, Haiti, Jamaica and Trinidad and Tobago have the world's highest emigration rates. See Paddison (2005).

4. See McKinnon (2007) for the seminal work on the conceptual framework, and Sigg (2007) and McKinnon (2009) for more global analyses of Dynamic Social Security.

1.1. Similarities, differences and gaps:
A selected overview of social security in 12 countries of the Americas

Country	Old age, disability and survivors	Sickness and maternity		Work injury	Unemployment	Family allowances
		Cash benefits for both	Cash benefits plus medical care[a]			
Antigua and Barbuda	●	●	b	b	b	b
Argentina	●	●	●	●	●	●
Bermuda	●	b	c	●	b	b
Brazil	●	●	●	●	●	●
British Virgin Islands	●	●	b	●	b	b
Canada	●	●	●	●	●	●
Cuba	●	●	●	●	b	●
Haiti	●	b	b	●	b	b
Jamaica	●	d	●	●	b	●
Mexico	●	●	●	●	●	●
United States	●	●	●	●	●	●
Uruguay	●	e	e	●	●	●

a. Coverage is provided for medical care, hospitalization, or both.

b. Has no programme or information is not available.

c. Medical benefits only.

d. Maternity benefits only.

e. Coverage is provided under other programmes.

Source: SSA and ISSA (2007).

1.2. Lessons from the Americas

1. Institutionally-diverse social security systems must be context specific in the manner in which they respond to national issues of demography, the role of the informal economy, migration, the funding base, and institutional and macroeconomic frameworks. And all these elements are related to each country's level of economic development.
2. Informality and inequality are permanent features in many countries. Coverage extension must reach out to those in the informal economy excluded from contributory schemes, and improving coverage for those in the formal sector is also necessary.
3. Moving towards a coordinated multi-pillared (or multi-layered or tiered) social security system is a trend that satisfies the "good practice"[5] need to coordinate different sources of financing (contribution-based approaches with tax-financed approaches) and adapt benefit packages to beneficiaries' characteristics.
4. To strengthen social cohesion, the principle of solidarity must be maintained to address inequality and high rates of poverty incidence. This involves risk pooling among contributors and combining contributory and tax financing approaches.
5. Social dialogue is legitimizing for policy choices and for social security institutions.
6. Notwithstanding the role of social security programmes in responding to the crisis, the long-term financing of social security has become an important component of public finance. Ensuring its sustainability will require making transparent future commitments to anticipated public expenditures.

5. See the ISSA Web portal for Good Practices in Social Security <http://www.issa.int/aiss/Observatory/Good-Practices>.

CHAPTER 2

Coordinating health protection

In the Americas, health systems and the care they provide are, in general, segmented across three institutional mechanisms:

- public tax-financed health care systems;
- social health insurance systems; and
- private health care systems.

Across these systems there is little coordination with respect to their regulatory, financing and delivery functions, which often results in limiting access to health care. Moreover, segmented health systems reproduce structural inequalities: public services are allocated mainly for the poor and informal-economy workers, contributory social insurance provides protection to formal workers, and the private sector caters to the rich. Consequently, for many countries, inappropriately designed health-protection systems, combined with an endemic lack of resources, can be blamed for overall low levels of health-care coverage.[6]

As a percentage of gross domestic product (GDP), health expenditures are relatively high in the Americas. Of this, social insurance financing covers a very low share of total health expenditures in a number of countries. In contrast, out-of-pocket health expenditures are often very high. Specifically, in the poorest Latin American countries, out-of-pocket health expenditure is by far the largest source of health financing – twice as large as public expenditure. In the absence of a greater role played by risk pooling or public expenditures, existing inequalities in society are reinforced: poorer families have to spend a relatively larger share of their income on health care.

The quality of, and access to, public health-care coverage varies between countries. Several countries have special solidarity programmes, including a free package of benefits, to address the needs of the poor. Funding may come from central and local government budgets, with a small share from contributions paid by the beneficiaries. Such solidarity programmes substantially reduce out-of-pocket health expenditures by the poor. One important recent development is the health scheme established in Bolivia for persons older than age 60 (*Seguro de Salud para el Adulto Mayor – SSPAM*). Implemented in 2006, the comprehensive scheme is provided free of charge throughout the country. Another is found in Peru, which instituted two health plans to maintain the provision of health services to individuals previously covered by special schemes that have ceased operating.

As these examples show, such programmes need to be context- and culture-specific. But they must also address infrastructural deficits and confront the financial demands that arise from ageing populations,

6. In contrast, coverage is very high under child-maternal-care programmes in the Americas. For instance, average vaccination rates are higher than 90 per cent and births delivered by specialists represent 82 per cent of total births. Primary health-care coverage is increasing in Guatemala, Peru, Bolivia, Nicaragua, Colombia and Dominican Republic (World Bank, 2005; ECLAC, 2006).

epidemiological transitions and the need for more services.

For all countries, there is a degree of diversity in health-care provision and financing. Typically, the Caribbean countries have unified systems funded from general taxes and public budget allocations. One exception is the Bahamas, which reformed the financing mechanism of its National Health Insurance (NHI) system in December 2006. Instead of Treasury resources, health insurance is now financed by contributions levied on payroll. In most Caribbean countries, there is no

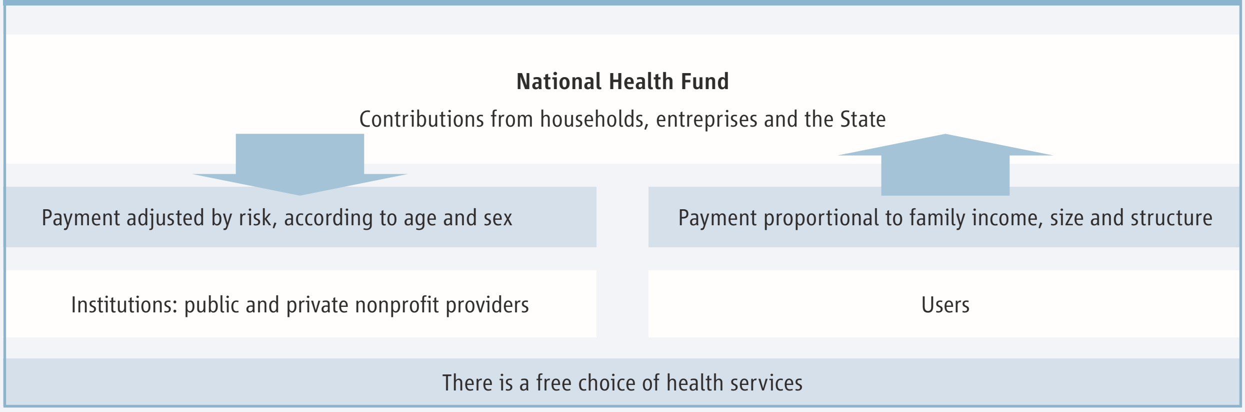
2.1. From a segmented to an integrated public health system: Uruguay (2005–2008)

To move from a segmented to a unified National Integrated Health System, the Uruguayan government implemented a ten-step reform:

1. From an inequitable fragmented system to a universal National Integrated Health System (*Sistema Nacional Integrado de Salud – SNIS*).
2. From a system for private-sector workers only to a national health insurance system where all the population is included.
3. From a system covering only the insured worker to one where coverage is extended to the insured's family.
4. From a system of private provider only to a mixed system that makes private and public providers compete.
5. From a system in which providers were paid a lump sum per capita to a system in which providers will be paid by the risk profile of their covered population, risk being determined by age and sex.
6. From a system with no incentives to change the service provision model or the health expenditure structure to one in which the provision of primary health services is promoted on the basis of norms and a bonus.
7. From a system that did not cover retired persons to a system that provides lifetime insurance and does not permit insurers to exclude retired persons.
8. From a poorly-regulated system to a well-regulated and supervised system where prioritized quality commitments are defined in management contracts.
9. From a non-guaranteed health service to a health service regulated by the National Health Plan.
10. From a non-participatory model to one that incorporates social participation as a key element both at the macro and micro level.

The financing model uses a pooling method that collects contributions according to the insured's income level and family make up and size. These are complemented by contributions from both the government and all enterprises.

Financing model



explicit separation of purchasing, insurance and the provision of health-service functions. In all cases, the private sector plays a subsidiary and complementary role. Public and social insurance expenditures are high with the exceptions of Barbados and Jamaica, where a private insurance industry is emerging, and Belize, Haiti and Trinidad and Tobago where public expenditures are low and social insurance is weakly rooted.

Colombia, Panama and Costa Rica have developed strong public and social insurance sub-systems, whereas out-of-pocket expenditures represent an important source of health-care financing in Mexico, Dominican Republic and Venezuela. A number of other countries, including the United States, are heavily reliant on private health insurance. In the United States, recent developments geared to extend coverage to most citizens do not alter this fact. In Canada, most provinces finance health-care benefits through general taxation, with some requiring the payment of a health premium. In 2005, the Supreme Court of Canada struck down a Province of Quebec prohibition on private medical insurance for basic services, which are also offered by the public health-care system. The Court argued that bans on complementary private health care jeopardized the health and well-being of Canadians.

Moving from segmented towards coordinated and integrated models

Many countries are moving from segmented health-protection systems towards alternative forms that seek to balance two solidarity-enhancing strategies: expanding universal coverage of risks and strengthening public-health care provisions (see Box 2.1.). One major objective is to reduce the importance of out-of-pocket payments. No less important is the need to more efficiently use resources for medical care. Underlying and chronic factors such as low coverage rates, HIV/AIDS and non-transmissible diseases, population ageing, and technological changes in medicine imply that additional and more efficiently-used resources are needed – especially to cover more expensive pathologies and procedures, as well as to include more people in the system.

One approach to improve efficiencies nationally is through the integration of health provisions, and various models are used in the Americas (ECLAC, 2006). Most evidently, full integration may be achieved through exclusively public systems, as found in most English-speaking Caribbean countries plus Cuba. Brazil also moved in this direction in 1988, when a universal right to health services was set in the national Constitution: a unified health system (*Sistema Único de Saúde – SUS*) was created, which is completely tax-funded (excluding the systems for the police and armed forces).

Costa Rica integrates public and social insurance sub-systems, retaining contributions from insured persons. The system's two main characteristics are *i*) universal coverage to all members irrespective of contributions and *ii*) funding from the government to subsidize contributions, especially from self-employed persons, family workers, and the destitute. All those who, in the demand for better services, leave and purchase private alternatives are obliged to continue contributing to the

2.2. Colombia's health-care system

Colombia's health-care system combines three programmes:

- *Contributory* – for all categories of workers with earnings greater than twice the minimum wage.
- *Subsidized* – for informal and self-employed workers with earnings less than twice the minimum wage.
- *Transitory* – for individuals not registered in either the contributory or subsidized system.

Separate health plans are defined for contributors and non-contributors, but both cover all family members of insured workers. There are two obligatory plans (the costs of which are estimated by risk-adjusted capitation rates), and a universal state-financed basic plan of public health promotion and prevention. One role of the Solidarity Fund, which is partly financed by oil industry taxes, is to provide solidarity payments. This combined approach demands strong institutional mechanisms.

Social Insurance Fund. In another example, since 2007, the Dominican Republic Family Health Insurance (*Seguro Familiar de Salud – SFS*) provides coverage for physical and mental health needs to all affiliates of the social security system (*Sistema Dominicano de la Seguridad Social – SDSS*) and their families.

Colombia's health system retains contributions as the main funding mechanism, but adds funding from general taxes, and integrates both through an explicit solidarity mechanism (see Box 2.2.). In Chile there is partial integration of the public and private health-care systems. Individuals have to choose between affiliating either to the National Health Fund (*Fondo Nacional de Salud – FONASA*), which operates public health insurance, or private health-insurance plans (*Instituciones de Salud Previsional – ISAPREs*). In the Chilean approach, the integration between contributions and general taxes takes place only in the public system.

On the basis of all of the above, important lessons can be taken from recent developments to improve the coordination and integration of different health-system financing mechanisms (see Box 2.3.).

2.3. Health system reform lessons

1. Pluralistic health systems have a high potential to achieve the extension of access to health care through taking into account the specific needs and contributory capacities of different population groups.
2. In order to achieve universal access under health-protection systems, subsidized and tax-financed health care are necessary.
3. The effective coordination of different systems within pluralistic approaches is necessary, not least to avoid perverse incentives for health-care users, medical practitioners, and institutional service providers.

CHAPTER 3

Pension system reform

In the 1980s and 1990s a wave of pension system reforms was implemented in the Americas, in some instances as a condition of the structural adjustment programmes imposed on deeply-indebted governments. These reforms led to the trend towards fully-funded defined-contribution pension systems. Three main trends are associated with these reforms and countries can be classified according to the extent to which they have transited:

i. from defined benefits to defined contributions;
ii. from pay-as-you-go (PAYG) to fully funded financing systems;
iii. from non-integrated to fully-integrated funding sources.

Previous ISSA reports have comprehensively covered these pension reform debates (Schremmer, 2005; Pino and Karasyov, 2007). The purpose of this chapter is to discuss very recent events in the region.

Moving towards an integrated multi-pillared system

Multi-pillared (or multi-layered or tiered) systems mix contributory financing mechanisms (PAYG and fully funded) and mix the way they set benefits (defined benefits and defined contributions). More importantly, they also integrate contributory and subsidized-contributory pension systems with tax-financed elements. Regardless of the financing mechanisms used, very few individuals spend their entire working career in stable formal employment. As a result, many individuals, to one degree or another, rely on alternative coping mechanisms to provide income security in retirement.

Intra-system solidarity is not a feature of defined-contribution individual account schemes. For this reason, tax-financed mechanisms are also likely to be required. This can explain why a supplementary basic solidarity pillar was added alongside Chile's defined-contribution individual account system in 2008. The pension is payable to those individuals aged 65 or older who are among the poorest 40 per cent of the population. Coverage, however, will widen gradually: it is anticipated to reach the poorest 60 per cent of the elderly population by around 2012. Another example is Peru's supplementary solidarity top-up pension – paid to persons covered by the private pension system (*Sistema Privado de Pensiones – SPP*) but with pension income less than the monthly minimum pension. Explicit solidarity subsidies are also provided for poorer affiliates of the individual account system in Colombia (*Fondo de Solidaridad Pensional*) and for all affiliates in Mexico (*Cuota Social*).

In Brazil, which operates a social insurance system for private-sector workers, universal rural pensions are provided to small farmers. The benefits are financed from revenues derived from the agricultural sector. Maintaining a sustainable and coherent multi-layered system, like that of Brazil, requires giving due consideration to all elements of pension system design. For instance, amendments to Brazil's Constitution in 2005 not only modified elements of the main social insurance pension scheme (*Regime Geral de Previdência Social*) but also that of the scheme for public servants. A similarly broad approach will now be necessary in Panama, following the introduction in 2008 of an individual accounts pension scheme alongside the PAYG scheme. Of course, there are exceptions to the trend towards multi-pillar pension systems, as is singularly underlined by unprecedented recent events in Argentina (see Box 3.1.).

Strengthening the role of public finance in social security

Albeit different, the above examples underline a rebalancing trend towards a strengthened role for public-finance commitments in pensions financing. With regard to solidarity pensions, as the cost of tax-financed pensions grow, anticipated future costs must be carefully assessed. Social protection promises must be affordable – actuarial studies will therefore be in higher demand. And all must be achieved without damaging macroeconomic stability. With regard to the introduction of Chile's solidarity pillar in 2008, the enlarged need to tap into resources from the fiscal budget now widens government responsibilities in ensuring both a stable macroeconomic environment and also, more overtly, the sustainable financing of this specific social security programme.

Improving financial education

The development of multiple funds among which affiliates can choose is sometimes presented as a positive step forward in fully-funded sub-systems. Chile (in 2002), Peru (in 2003) and Mexico (in 2005) gave affiliates of their defined-contribution schemes the choice between funds with different risk-return ratios. In the latter two cases, the rationale was to help those approaching retirement to move their savings to less-risky alternatives. Regardless of the underlying rationale, the education of affiliates to improve decision-making should be a specific component of such reforms.

The decision by Uruguay in 2005, which permitted individuals older than age 40 on 1 April 1996 to apply to leave their individual account schemes (*Administradoras de Fondos de Ahorro Provisional – AFAPs*) and return to the public PAYG insurance scheme, also implies a requirement for making an educated choice. And the same observation holds for Argentina's short-lived 2007 reform.

However, as recent global financial market events demonstrate, the challenges for individuals and professional fund managers alike to make educated choices with regard to managing financial risk are great.

Improving incentives through an appropriate interaction between contributory and tax-financed benefits

In multi-pillar pension systems, the provision of universal tax-financed benefits must not encourage contribution evasion in the contributory benefits system. One way to minimize this temptation is to provide a graduated minimum defined benefit that is financed by general taxes, which supplements contributory benefits.[7]

This general idea was adapted to the 2006–2008 pension system reform in Chile, by implementing a solidarity pillar that supplements the defined-contribution benefit provided under the individual accounts pillar. In Chile, the pillars are designed to create the correct incentives for contributions by: (*a*) eliminating the

3.1. Argentina's integrated pension system reform

The 2008 pension reform in Argentina runs counter to many recent multi-pillar developments. In light of the initial impacts of the financial and economic crisis, and the positive results of Argentina's 2007 reform of its mixed pension system (which, for the first time, permitted covered individuals to contribute either to the country's public PAYG scheme or the defined-contribution individual account scheme), the Argentinean government introduced a more radical reform. On 1 January 2009, Argentina's defined-contribution pension funds (managed by the *Administradora de Fondos de Jubilaciones y Pensiones – AFJP*) were absorbed into the country's "integrated" PAYG pension system (*SIPA – Sistema Integrado Previsional Argentino*).

7. For example, the minimum universal benefit can be set, and gradually diminished, as contributive efforts rise, adding to a total that increases the benefit financed by contributions.

minimum years of contributions required to be entitled to the contributory benefit, and (*b*) making additional contributions equate with higher benefits, up to a ceiling set by regulations and public finance restrictions (see Box 3.2.).

A growing interest in the principles of Notional Defined Contributions

Notional Defined Contribution (NDC) schemes use individual accounts to keep record of contributions and define the value of the rate of capital accumulation across time according to an agreed formula, but finance current benefits on a PAYG basis (Holzmann, Palmer and Uthoff, 2008).

In 1999, Brazil designed an actuarial criterion (*Factor Previdenciario*) for its social insurance pension scheme (*Regime Geral de Previdência Social*). The method for calculating benefits now includes insured income, the length of the contribution period, age, and life expectancy at retirement. Such an approach requires significant data collection efforts to register all individual contributions from private-sector workers (Diniz Cotta, 2005); an observation that illustrates that NDC schemes – like all contributory approaches – offer no magic-bullet solution to the challenge of coverage extension, especially for countries with large informal labour markets.

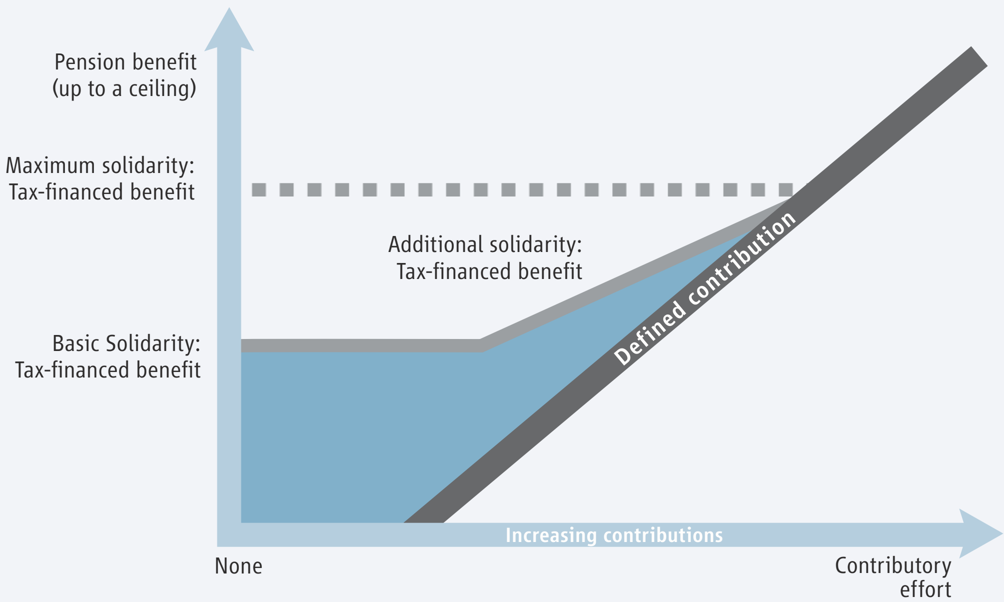
Nonetheless, there is an expectation that NDC approaches can reduce incentives for the under-reporting of contributions. For this reason, criteria similar to that of Brazil for calculating benefits have since been applied in Costa Rica and Panama in their respective reforms of 2005 and 2008. Additionally, the mechanism may be used to correct certain inequalities in pension provision by favouring those who see their real incomes fall when elderly and by fixing replacement rates inversely proportional to income. Benefits under these schemes could also favour those who have shorter contribution periods, by implementing solidarity-enhancing and adjustable replacement rates for individuals with different contributory records.

Promoting gender equality

The design of many national pension systems have gender-specific impacts that are often more favourable to men than women. In recognition of this, gender solidarity is incorporated within the Canada Pension Plan. When computing women's contributory periods,

3.2. Interaction between tax-financed and defined-contribution benefits

In order to avoid an "exclusion trap", tax-financed benefits should never be greater than contributory benefits.



the Canadian scheme includes the years spent raising children younger than age 7. Chile's recent pension reform includes a similar approach, wherein an additional supplement is paid to women at age 65 for every child conceived or adopted in their lifetime. The use of sex-specific life tables to compute benefits are also under revision in several countries. From a different gender angle, Belize's extension of eligibility to the tax-financed old-age pension to men aged 67 or older is no less relevant.

On the basis of recent pension reform developments it is possible to conclude with a number of common lessons (see Box 3.3.).

3.3. Pension reform lessons

1. In building a multi-pillared pension system, the chosen mix of pension elements must be practicable for the country concerned.
2. To better ensure adequate benefits for all, the respective roles of each pillar must be complementary and coherent and the disincentives to contribute to partially-funded or fully-funded pillars minimized.
3. Better integrating contributions-financed and tax-financed pension systems is important.
4. Government must ensure sustainable public financing, especially for tax-financed pillars, and create the appropriate regulatory environment for non-public (individual and occupational) pension providers.
5. For all pension systems, there is a need to better satisfy the twin expectations of greater individual choice and the realization of universal individual rights.
6. For all pension reform scenarios, political and financial risks (both domestic and international) must always be taken into account.

CHAPTER 4

Social dialogue in the Americas

The active inclusion of all social partners and stakeholders in a process of social dialogue, with the aim of building national consensus on social security reform, is often considered the exception rather than the rule. The experiences of recent pension reforms in Latin America have changed this outlook. As a mechanism to extend and improve governance and help legitimize not only government policy but also social security systems, a visible trend in recent years has been the increased importance accorded to public consultations and debate. This has been evident with regards to pension system re-reform proposals in particular.

The policy context

The implementation of defined-contribution pension systems in a number of countries made clear that an affiliate's retirement benefit was not only sensitive to returns from the investment of pension funds but, more significantly, to the time he or she contributed to the system. However, and against initial expectations that defined-contribution pension systems would increase incentives for individuals to contribute (and would support coverage extension), defined-contribution schemes have been plagued by high levels of unpaid contributions or, what is called, a low density of contributions.

As an example, the Chilean pension system (which pioneered this type of reform in 1981) reported that only 40 per cent of affiliates would be able to self-finance their benefits, 10 per cent would be eligible for minimum pension guarantees, and 50 per cent would be left insecure (Berstein, Larrain and Pino, 2005). After more than two decades of operation, the Chilean reform has been criticized for having resulted in low average coverage rates, unsatisfactory expected benefit levels, and a need for public social assistance among more than half of all pensioners.

As shown in Box 4.1. the gaps between active (essentially, formal-sector) contributors and total affiliates in countries operating defined-contribution pension schemes range between approximately 36 per cent and 69 per cent.[8] This low density of contributions, combined with an important level of uncertainty linked with fluctuating investment returns, implies that the levels of future contributory benefits may be very low in all these countries.

The participatory processes for (re-)reforms

In response to the observed challenges associated with defined-contribution pension schemes, reform arguments are now centred on coverage extension, the adequacy and scope of benefits and public finance effects. Although economic factors continue to be considered too, they are no longer the main reform objectives. As stated, rising importance is now accorded to the participatory process in shaping reforms.

Prior to the tumultuous re-reform of Argentina's pension system at the end of 2008, the country's previous government had initiated a reform debate involving

8. There are acknowledged difficulties in accurately estimating the coverage rates of affiliates and active contributors: the numbers are often overestimated for the former and might be underestimated for the latter (Mesa-Lago, 2008, p. 37).

4.1. Proportion of affiliates to individual account schemes actively contributing (percentage)

Country	December 2002	December 2003	December 2004	December 2005	December 2006	December 2007
Argentina	33.2	35.2	35.4	40.3	40.4	40.6
Bolivia	46.9	39.0	44.9	47.5	50.1	47.3
Chile	51.0	51.9	50.4	51.2	51.5	53.8
Colombia	47.6	48.7	39.0	38.6	42.0	45.1
Costa Rica	75.2	73.1	68.1	65.3	65.6	68.4
El Salvador	47.6	46.3	41.9	39.5	37.5	35.9
Mexico	41.7	39.3	38.8	37.6	36.8	38.2
Peru	39.4	41.9	39.9	36.2	34.8	41.4
Dominican Republic[1]		65.5	53.5	47.2	52.6	51.8
Uruguay	45.1	52.7	52.5	55.7	57.5	58.6
Total	42.7	42.3	40.7	40.6	40.6	42.3

1. In the Dominican Republic, the individual account scheme was implemented in 2003.
2. Active contributors are defined as affiliates that contributed in the last month, with the exception of Mexico where it refers to the last six months.

Source: AIOS (2008).

citizen's participation and consensus building. The conclusions of this national policy dialogue did raise the political priority accorded to social security. Ultimately, however, it proved to be an increasingly difficult financial context that opened the political window that triggered the re-reform of 2008. Argentina has not been alone in encouraging national dialogue. Another important example is Chile, which engaged in a national dialogue before adopting the 2006–2008 reform (see Box 4.2.).

In Brazil, a national social security forum (*Fórum Nacional da Previdência Social – FNPS*) promoted debate among representatives of workers, pensioners, employers and the Federal Government on ways to improve and guarantee the sustainability of the new pension system and social assistance policy. This dialogue produced a National Consensus (*Sintese das Atividades Desenvolvidas*) with regard to the labour market, demographic transition, disability pensions, survivor pensions, rural pensions, gender issues, the management and financing of the system, and coordination between pensions and assistance benefits.

In Uruguay, a national social security dialogue was launched in 2007 by the President, the National Social Security Commission and the National University, (*Universidad de la República*). The Commission prepared a document containing an evaluation and reform proposals that set priorities on the basis of an integrated approach to social protection.

In Panama, a national dialogue on the reform of the Social Insurance Fund (*Caja de Seguro Social – CSS*) involved all formal-sector groups in the country. A consensus was reached on the need to improve social security and the reform proposals address the retirement age, contributory histories, and the issue of contribution evasion resulting from the under-reporting of wages.

Nicaragua provides an example of the importance of research and data in creating consensus. The Nicaraguan Social Security Institute (*Instituto Nicaragüense de Seguridad Social – INSS*), together with the Ministry of Finance and the Central Bank, and with expert advice from the International Labour Organization,

4.2. National dialogue in the Chilean pension reform (2006–2008)

The pension system reform in Chile was rooted in a participatory process, including international experts. President Bachelet designated a multidisciplinary and politically-diverse Advisory Council to respond to the concerns and queries of citizens. The purpose was to anticipate the likely problems that the system might present, and to suggest changes or redesign the current system.

The Council organized public hearings twice a week with as many representatives of citizens as possible. On this basis, the Council elaborated:

i. a diagnosis of the weaknesses and strengths of the current pension system;
ii. the main challenges that could not be solved by the current system;
iii. proposals to improve the current system.

The report generated greater awareness about:

i. the risks of an ageing society;
ii. the need to protect savings;
iii. the need to value all types of work (remunerated and non-remunerated);
iv. the need to regain confidence in all existing private and public institutions that invest and manage savings.

The report contained a set of reform proposals that aimed at promoting the following principles: universalizing social protection, reducing old-age poverty incidence, and recognizing all ways of contributing to society.

The proposal addressed four important topics:

i. To achieve universal coverage, a strong and integrated tax-funded solidarity pillar was needed to raise the density of contributions in the contributory system, and to guarantee income for the poorest 60 per cent of the elderly;
ii. To improve efficiency, price competition had to be intensified in the pension fund management industry;
iii. To protect individual savings, the management of financial risks had to be improved;
iv. To reduce the burden on public financing, surpluses generated by the earlier reform had to be used.

The new pension system in Chile creates an integrated and gender-differentiated Solidarity Pension System that strengthens the role of the State in guaranteeing social security. It integrates contributory and tax funding in a single system. It also increases coverage for the most vulnerable, providing special benefits for women, young workers and self-employed workers. Furthemore, it improves the fully-funded system by promoting measures to increase competition and returns to investments, reducing administrative costs and strengthening voluntary retirement savings.

undertook valuations and economic projections that demonstrated that the proposed pension reform (Law No. 340 of 2000) would create an actuarial deficit and an unsustainable level of public indebtedness (mainly because of the financing of minimum benefits). The Parliament accepted that, if implemented, the proposed reform would jeopardize the macroeconomic stability of Nicaragua, and repealed the law.

Most recently, in Peru, a Congressional Commission (*Comision de Seguridad Social del Congreso*) proposed an integrated reform of the private and public pension systems, aimed at protecting affiliates' savings and contributions from the international financial crisis. The Commission discussed institutional improvements of the supervisory agents and recommended a better way to control and sanction fund managers.

Clearly, social dialogue is not a process unique to the current round of pension re-reform nor is it specific to the countries of Latin America. Other examples in recent years include the United States. As part of the process in 2003–2005 to develop proposals to improve the disability determination process, the Commissioner of Social Security not only established an Internet site to receive and consider a wide range of perspectives on proposals but also conducted hundreds of public meetings prior to publishing the proposed regulation. Yet further examples are the consultative processes in 2005 in support of pension system reforms in Barbados and Costa Rica. By taking all these diverse country experiences on social dialogue together, five important conclusions emerge for pension reform processes (see Box 4.3.).

4.3. Policy conclusions: Social dialogue and pension reform

1. The fundamentals of social security outcomes have regained priority. Pension reforms must simultaneously address issues of coverage, adequacy of benefits and the capacity of public finance to integrate contributory and tax-financed approaches.
2. Reform should be envisaged as a participatory and socially-consensual process.
3. The highest level of political leadership is vital.
4. Interaction between actuaries, economists, empirical research, lawyers, policy-makers and the policy-implementing administrative agencies is necessary.
5. Education about social security to inform public understanding about how society manages social risk is necessary.

CHAPTER 5

Conclusions: Social security, the global crisis, and opportunities for change

In the Americas, institutional social protection is particularly diverse: social security systems coexist alongside multiple complementary social protection mechanisms, such as markets, employers, the family and other social networks. Appropriately integrated, this institutional diversity should be seen as a strength of the region, presenting pathways, choices and solutions that can be borrowed and tailored to meet national and sub-national needs. Nonetheless, and as the tenets of Dynamic Social Security advance, such institutional diversity must be married to policy efforts to better ensure improved and adequate social security and health-care coverage for all (see Box 5.1.). Such endeavours should also help strengthen social cohesion.

A number of middle-income American economies are developing formal mechanisms to extend social security to excluded and vulnerable groups and are integrating these mechanisms into pluralistic national frameworks of universal social protection. For their part, high-income American economies are actively seeking to improve the efficiency and effectiveness of their social security systems. Throughout the Americas, the issues of system coverage and access, benefit adequacy and scope, and financial sustainability are under close examination. And all of this is being done to better enable national social security systems to respond to growing informality as well as increasingly flexible and decentralized labour markets and to changing family and household structures.

The global crisis has impacted heavily on the Americas in general, as elsewhere. Rising informality and unemployment has affected the contributory base of social security while simultaneously increasing demands for unemployment support and/or social welfare assistance. The crisis may also lead to further, increased demands for health-care services.

But the current crisis also provides opportunities for change – not least in policy thinking. The notions that the market knows best and that self-regulation is the best form of financial regulation no longer seem to hold. The world's major economic powers recognize that social security is needed, not least, as a springboard that will help people back to work and productivity – and do so sooner rather than later. What was unconceivable for leading economies not so long ago, is suddenly considered feasible today: a return to public intervention and counter-cyclical macroeconomic policies. This change of stance could work in the interest of economies that have pressing needs for greater action on poverty-relief, for extending social security, for promoting decent work, and for reducing inequalities.

For some, the current global crisis might provide a catalyst to create a "Global New Deal", to provide social protection for all. For other elements of public opinion, the current juncture has provided a timely reminder about the social and economic importance of, and permanent need for, effective and efficient social security

5.1. Realizing more and improved social security in the Americas

1. In the call for more and improved social protection, the Americas are actively looking for better performing social security systems.
2. It is increasingly accepted that all individuals deserve, at least, a minimum level of social security regardless of work status, place of residence, ethnicity, family situation, or gender.
3. In recognizing that coverage is the greatest social security challenge for developing countries in the Americas, coverage extension must target both informal-sector and formal-sector employees and their dependants.
4. Successful pluralistic approaches to social protection hinge on close cooperation between mandatory social security systems and all other legitimate actors.
5. In a market economy, individual responsibility goes hand in hand with institutional social security; the one reinforces the other.
6. National social protection strategies need to adjust to the evolving nature of social risks, including changes to family and household structures, demography, the nature of employment, and social values.
7. On the basis of social dialogue, the growth and scale of social security programmes must be reconciled with the triple requirements of political (legitimacy), social (equity), and financial sustainability.
8. Governance challenges and administrative weaknesses remain to be addressed, not least to facilitate reform design and implementation.
9. Ensuring coordination, supervision, and service quality across diverse institutions and programmes within a broad national social protection framework is complex, but addressing these challenges appropriately is essential.
10. At all times, social security's role is to meet the essential social and economic needs of individuals, families, and households. In this manner, and regardless of economic boom or bust, social security can help better realize social cohesion and stability.

systems. More generally, that social dialogue is playing an important legitimizing role in helping define the parameters of social security reform in a number of countries is encouraging, as it signals a willingness to improve social cohesion.

In many countries of the Americas, coverage under labour-market oriented contributory systems has proven to be exclusive, as a result of high rates of underemployment and unemployment. To improve coverage, many countries are now broadening the role of tax financing and prioritizing human rights as complementary pathways.

Regardless of these developments, many countries are struggling to reconcile the imperative of creating rights-based and integrated systems of social security in a broad context of deep inequality and real and often severe financial constraints. Herein lies the paradox of the goal of social security for all.

Looking to the future, the countries of the Americas require national systems that integrate different institutional and financing mechanisms, which offer the correct incentives to covered individuals, and which are governed by fair and reliable regulation to enable the efficient and timely allocation of resources to effectively address social risks (Machinea, 2006). In the Americas as elsewhere, and tied to the wider goal of strengthening national social cohesion, these diverse elements offer multiple routes to the better realization of adequate social security for all.

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Dynamic Social Security for the Americas: Social Cohesion and Institutional Diversity

Dynamic Social Security for the Americas: Social Cohesion and Institutional Diversity identifies, synthesizes and interprets the most important recent developments and trends in the Americas in social security. The report observes that the Americas are seeking to construct more extensive and better performing social security systems. In pursuing these objectives, the institutional diversity of social security found in the Americas offers great potential for all countries to better achieve social cohesion and more equitable economic growth. Noting that much of the institutional basis for enhancing the adequacy and scope of coverage already exists – a remaining requirement is for further improvements in the coordination and governance of social security institutions. To this end, a healthy inclusive culture of social dialogue in the region augers well.

This is the fourth in a four-volume set of regional Developments and Trends reports designed to accompany and inform the ISSA's Regional Social Security Forums during the triennium 2008–2010. In combination with reports on Africa, Asia and the Pacific and Europe, the regional format of this series presents a new approach to better documenting, understanding, and learning from the key challenges facing ISSA member organizations in the different regions of the world.

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