Current Pension Systems Evolution

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American Legal Social Commission

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INTRODUCTION

The Interamerican Conference on Social Security, established in 1942, is a specialized, permanent, international agency whose main goal is to promote cooperation and the exchange of knowledge and experience among its member institutions. Its objective is to achieve progress on the subject of social security for the benefit of all the people in the American Continent.

Part of this task is to carry out intensive activities that will make it easier to publish the progress that has been made on social security in different parts of the hemisphere and to ease the flow of information on the topic.

In accordance to that purpose, the President of the Interamerican Conference on Social Security (CISS), Mr. Genaro Borrego Estrada, has given instructions to the General Secretariat so it will strive to comply with the activities that the By-laws have assigned it as the agency responsible for the American Social Security Information System. The task referred to is that of developing an editorial program that will respond to the requirements of the agencies that are in charge of managing social security in America. The program will be useful in getting acquainted with the result of the research and studies that the American Social Security Commissions perform and with the technical events organized by these bodies.

In connection with the above, during December, 1993, the American Legal Social Commission (CAJS), which was aware of the discussions that came up at social security events regarding pension-related problems, decided to hold a Round Table during its Technical Meeting entitled "*Current Pension Systems Evolution*". Distinguished specialists on the subject were invited to participate.

Upon a suggestion made by CAJS, the Conference's General Secretariat decided to publish the work that was submitted during that event, and to include it in the series entitled *Estudios* (Studies) for the benefit of all its members and any other institutions interested on the subject.

ROBERTO RIOS FERRER
CISS Secretary General

PROLOGUE

The background of the evolution on current pension systems may be found at the end of World War One, when several countries adopted the 19th century German solution that established social security systems, in an attempt to relieve the population's problems due to lack of coverage. Nevertheless, not all legal provisions speak about equality, but rather about imposing specific characteristics. For example, the United Kingdom used the "Beveridge Plan" as a foundation which, by the way, would have a deep influence upon the systems adopted by a large amount of countries. It was created based on the trends that are outlined in the welfare state, whereby the state is responsible of carrying out programs to eliminate poverty, disease, and different situations based on social needs. According to the author himself, they were the result of unemployment, working hazards, and the lack of safety that the population experienced after the Second World War.

In Latin America, social security began growing in Chile in 1925, followed by Brazil in 1933 and Peru in 1936. The systems in the rest of the countries of the Continent began to develop at that time. The movement reached its peak when Honduras implemented its system in 1959.

Currently, political and social problems are more acute, and that has taken a toll on social security systems. This situation is even worse in weak countries where unemployment, lower income levels, and fleeing capitals prevent social security programs from growing in a healthy environment. The fact that the welfare state has been questioned and has disappeared, as well as social uprisings, have turned into a Utopia the notion that the government can be responsible for the population's welfare on its own.

The above is reflected, first of all, in economic benefits, specially in pensions. Their cost-related problems are observed with greater acuteness; they are rejected because the amounts are very low; and the basic principles that justify social security have weakened.Immersed in this problems, within the framework of its annual activities, and in response to the concerns that its members expressed about giving special attention to analyzing topics relevant to quality and to providing services on a timely basis by the social security institutions that belong to the Interamerican Conference on Social Security (CISS), the American Legal Social Commission (CAJS) agreed to carry out a round table on the subject of

"Current Pension Evolution" during the Technical Meeting it held in August, 1993.

Consequently, this event was held in December of that same year with participation from outstanding specialists on the subject from international agencies, special guests from CISS and CAJS, and officials from the Interamerican Center for Social Security Studies (CIESS). All of them expressed the problems that social security is facing in several countries from different points of view. The quality of the work that was submitted encouraged the Commission to have it published, since it represents a valuable tool for people who are interested in studying different branches of social security. That is the specific objective of the publication hereby.

The work compiled in this book was structured in such a way that the reader will have a first-hand idea of what the problems surrounding social security represent in Latin America, as well as an international overview about pension systems. The latter is expressed magnificently by Dr. Alvaro Castro Gutierrez and Ms. Olga Palmero Zilvetti in their respective papers.

After submitting a global view of the topic, we proceeded to analyze specific cases and national experiences that would enable us to identify, in the first place, the status of the different systems; and in the second place, to state the different answers that some governments have found to face problems in this field, and whose experiences are mostly shared.

The basis for choosing each presentation was made upon how representative each one of the countries is in the region, regardless of the variety of options -some of them antagonistic- that each one of them adopted according to their historical development. That was the reason why the countries included are Cuba, the United States of America, Spain, Chile, and Mexico whose analysis were explained clearly and fully by specialists such as Dr. Orlando Peñate Rivero, Mr. Lawrence H. Thompson, Mr. Pablo Lopez Blanco, Mr. Nicolas Starck Aguilera, Mr. Sergio Valls Hernandez, and Dr. Miguel Angel Cuadra Palafox, respectively.

It is worthwhile to point out that additionally and, by invitation issued by Cuba and Chile, which are two countries that, by the way, represent two of the systems in the Continent that have awakened the most interest among social security scholars, CAJS' Board of Directors visited both countries in order to find out about the way that social security systems are organized and operated there in order to identify clearly the alternatives they have designed to provide financial security to their human resources. When the time comes, this will allow the Commission to make a proposal for all the countries in the hemisphere.

We feel that with this publication, the American Legal Social Commission complies with the task that the Conference has given it, as a technical branch to promote the development of social security among America's people through analysis, information, and by exchanging experiences.

Juan Manuel Carreras Lopez
CAJS Chairman

CHAPTER 1

TRENDS AND FUTURE DEVELOPMENTS IN LATIN AMERICA

Alvaro Castro Gutierrez

1. General context of social protection and causes of the problems

The problems faced today by social security systems are not simply statements linked to the needs of the sectors of the population covered and to the improvement of financial and management systems.

Especially in Latin American countries, it is a matter of concern the joint action of the difficult financial conditions in which the 105 schemes managed by social security systems operate. The political and institutional structures that influence heavily the operation of the schemes, and of the managerial and administrative procedures applied which, in general, do not satisfy the current needs of their populations. This situation is found today, when social security schemes have reached a level of advanced maturity in most of the countries within the region.

Other problems, larger in scale, have added to the above mentioned, and they are related directly to the economies of the countries, to the damaged financial and social situation of their populations, and to the population aging.

First, the process of structural adjustment faced by many countries in the region has worsened the financial situation of many social security systems. This situation results largely from the reduction of formal employment subject to social security, from the stagnated dynamics in real salaries, and of benefits which do not meet the demands of the population covered.

Second, the unfavorable economic situation has led many employers to reveal against the high cost of the systems, the excessive and endemic bureaucracy, and the inefficient, and sometimes inaccurate, management of some schemes with high administrative costs.

The previous situation has led to an increased demand of protection, both by the population covered and by the population until now excluded from social protection. The consequence has been the increased frustration of the interested parties and the lack of confidence in the institutions responsible of the operation of the social security programs.

Another feature is the population aging which, present or accelerated in some countries, less evident, but unavoidable in others, contributes directly to decapitalize the schemes, as a logical consequence of the relationship assets/liabilities.

Also, in other parts of the world, the evolution of social protection faces severe troubles. In developed countries, governments have faced great problems, such as: the restructured labor market, the changing family structures and, of course, the population aging. The unfavorable economic moment has forced, those responsible of decision making, to prioritize cost controls and systems efficiency.

2. Recent evolution of pension schemes

Before mentioning the current situation of pension schemes in Latin America, it is important to consider their evolution in developed countries, and in other parts of the world, in order to have references to show what has been made and what can be considered as useful experiences, so that, eventually have in mind the statements that contribute to the debate on the future of pensions[1].

In the last ten years, the general concern of public authorities in developed countries has dealt mainly with the ability of the pension schemes to face the financial engagements acquired or in process of being acquired. Population aging, together with the difficult and slow growth of the national economies, the new conditions of labor structures and of labor market, the changing family environment, and the need of minimizing expenditures, are a challenge to the capability of the current systems to satisfy the needs of the future generations regarding income security.

1 The preparation of this section is based on the publication entitled *"Nuevos desafíos, nuevas respuestas: evolución y tendencias en la seguridad social en el mundo, 1990-1992"* ISSA, Geneva, 1993.

Consequently, the trend is that governments provide for basic sound levels of social protection, while the private sector shall supply other forms of protection, independently or aided by the employers.

Today the trend has change, while pension schemes tended in the past to provide relatively high benefits and promoted early retirement of aged workers, today the trend is to increase the age for retirement, to restrict the conditions of eligibility and to decrease cash benefits[2].

The changes that the European Union will bring, regarding social security, must be considered separately. Though freedom of transit of workers through the countries and the possible financial integration will cause relevant changes in all the social security programs, up to date, only minimum standards and general guidelines have been established in the matter of social security policies, even regarding the Maastricht Protocol on Social Security.

On the other hand, private pensions progressed significantly when the draft of the guidelines on the coordination of the law in the matter of freedom of administration and investment of pension funds was published.

In Central and Eastern Europe, the changes implied in the transition of a market economy have led to difficult situations in the field of social protection. When price control was removed, the real value of pensions was reduced significantly and social security institutions faced a severe shortage of funds. Moreover, aged people were unable to complement their retirement income with other income, due to their exclusion from the labor market and to the excessive increase in the cost of housing, as a result of the privatization of this market. The present challenges are very impressive and the reforms are coming slower than expected, however, quite a number of steps have been taken, and the bases of the reforms are starting to appear.

2 The only exception is France where the basic pension has increased with the inclusion of other sources of income.

The prospects for developed countries in the matter of social protection through pension systems must be considered within the complex context of their economic, juridical and international structures. It would not be appropriate to draw conclusions on the subject, since it is only being mentioned here[3].

The problems related to guarantee the income of old age people have reached critical levels in developing countries. To the already known problems of low coverage and benefits, factors such as those mentioned in the first part of this paper must be added.

Some African and Asian countries have recorded a few relevant breakthroughs that have changed their provident funds, or saving banks, into pension schemes. It must be remembered that the difference between both types of schemes is that, while the provident fund is a saving system financed through a fixed contribution and provides a lump sum payment that amounts the accrued fund plus the interest, the pension scheme is financed through contributions which vary in amount through the time, and provides periodical cash benefits, in general adjustable to the economic evolution.

To conclude this brief summary, in Latin America the problems roughly have been stated in the first part of this paper. Financial problems have become so huge that the usual arrangements of increased contributions, enlarged qualifying conditions or changes in the retirement age, are not valid alternatives.

3 There are a number of papers and publication on the situation and prospects of social protection in developed countries. A summary on the matter is entitled: Informe del coloquio tripartito sobre el futuro de la seguridad social en los páises industrializados. ILO, Geneva, 1992.

3. Future developments of pensions in Latin America

Recent trends dealing with pensions in Latin America reflect the need for adaptation and reform in pension systems. The reasons above mentioned have been decisive for change. Consequently, radical changes have been made in pension schemes of some countries, while other nations analyze the actual possibilities of change, according to their economies and considering the best ways in which they can provide social protection.

However, in one way or another, all the countries in the region have taken measures to make more bearable the critical situation that social security is facing nowadays. Attached to this paper, some cases are presented that show the main and more relevant changes occurred in the recent past[4].

To start with, it must be emphasized that, while searching solutions to the above mentioned problems, the main sectors involved must agree on the need to adopt a pragmatic and flexible, rather than dogmatic and ideological approach. If this agreement is not taken, it is a risk to fall again in partial or partisan solutions that will never lead to the so needed social protection. Particularly, concerning pensions, where financial factors are decisive, such consensus is strictly necessary.

The guidelines to identify solutions and arrange the most suitable tools have been stated recently by ILO[5]. Therefore, it is convenient to recall some basic technical and political aspects of the discussion on pensions in the Americas.

First, regarding the essential principles: social security policies must be supported by the principles of solidarity, universality, integrity, obligatory nature, unity and participation. In fact, it would seem, sometimes it is

4 See: Tendencias en la seguridad social, Numbers 2, 3 and 4, ISSA, Geneva, 1992 and 1993.

5 See: Seguridad social en las Américas: cuestiones y opciones; working documents, ILO, Geneva, 1993 and Informe de la reunion regional tripartita de expertos en seguridad social de las Américas; ILO, Geneva.

forgotten that if pension schemes try to be efficient, they must comply with those principles that are guided by criteria that take in account the economic relevance in relation to social requirements. If these criteria are not met, the approaches adopted would not devalue the very nature of social protection.

However, this does not mean that the technical formulas designed do not consider flexible instruments of action that take into account specific situations. On the contrary, it is necessary to identify and adapt the formulas according to the needs of any national economy or the society in particular.

A given reform can be implemented through the unification of basic schemes and the establishment of complementary forms which, as a whole, provide:

a) Minimum income in old age, for all the population, having in mind the different features of the basic welfare contributory and non-contributory schemes.

b) A pension income related to the activity income, due to the rights acquired in a contributory program, either in public schemes or through public or private complementary schemes.

Considering recent trends and current issues already stated, some concerns are perceived constantly dealing with the reformation of previsional programs. Among these, the following can be mentioned:

a) The need for administrative efficiency, transparent finance management and cost rationalization of the schemes.

b) the participation of those concerned in the debate with the amendments, and its function.

c) to guarantee the participants, the insured and potential beneficiaries, that the benefits to be rendered in the long form, are protected against the uncertainty of events of the uncertainty of the economy;

d) the need that welfare schemes be supported by sound financial and actuarial foundations.

e) an equitable distribution of the cost of the schemes that is not a burden nor a penalty to the productive sectors and which, at the same time releases the State from the liabilities due to difficult political reasons.

The responsibilities of the so-called social partners are outlined in this process, in which both, public parties, through systems of public management, and private authorities participate. The role of the latter, in rendering supplementary protection, opens new dimensions to the future of the American Social Security.

ENCLOSURE

MOST IMPORTANT AND SIGNIFICANT CHANGES THAT HAVE TAKEN PLACE DURING THE LAST TWO YEARS IN:

ARGENTINA
COLOMBIA
MEXICO
PERU
URUGUAY

ARGENTINA

Old age, Disability and Survivors

Establishment of a new pension regime

New regime

Within the framework of the new unified social security system, the structure of the pension regime has been considerably modified. The regime is based from now onwards on basic universal benefits in charge of the State (public regime) and on complementary benefits financed with an individual capitalization account, being the insured the holder.

The new compulsory regime applies to all workers, whether they are salaried or not, of the public or private sector, born after 31st. December 1946, with the exception of the armed forces and the people under 18. Those born before 1st. January 1947 have the option to choose, under certain conditions, between the new system and the current one.

Universal basic benefit (public regime)

The universal basic benefit is granted to insured people above 65 that have at least contributed during thirty years. This benefit includes old age and death risk in the ordinary retirement and the derived pensions. If an affiliate receives a disability pension paid by the capitalization regime will not be able to use the universal basic benefit before he has reached the legal retirement age. The same is applied to the spouse of the survivor who receives a pension paid by the capitalization regime.

The benefit rate is one and a half time the average amount per insured of the compulsory social security contributions for the affiliates that have contributed during 30 years. For those who have contributed for more than thirty years, the pension increases 2 per cent for each year of complementary contribution up to at least 45 years.

This basic benefit is complemented with a basic complementary universal benefit paid twice a year that corresponds to 50 per cent of the basic benefit amount.

Even if the public regime is a pure distribution regime, the universal basic benefit is financed with the unified social security contributions.

Complementary benefit paid by the capitalization regime

This universal basic benefit paid by the public regime is complemented with a benefit granted by the capitalization regime.

The affiliation to the new retirement and pension regime involves payments by the insured according to his capacity of contribution to a personal account in favor of a retirement and pension regime. The unified social security system assures the collection of the amounts paid. The affiliate is free of selecting the pension organization (stock companies) he will join and of changing it later on under certain conditions. Besides the compulsory payments, the affiliate can make voluntary payments to his personal account. Such organizations are compelled to sign with insurance companies a unique collective insurance contract for the risks of disability and death in order to be able to fulfil their obligations.

Once the affiliate meets the required conditions to get the ordinary retirement pension paid by the public regime, he has the right to use the funds accumulated in his personal account plus the interests generated by the investments. Then he has the right to choose between two formulas: the life annuity or the deferred retirement. In the first case he would have to sign a contract with an insurance company that will guarantee him the payment of a life retirement annuity as a counterpart to his capital.

The capitalization regime includes the payment of advanced retirement pensions to the insured who have accumulated a certain number of retirement points. However, these insured can not make use of the basic benefit of the public regime before they are 65 and have contributed for at least 30 years.

Disability pensions are granted to those who have not reached the legal retirement age but who have a permanent disability causing a 66 per cent decrease on their working capacity and who do not receive an advanced pension. The disability rate is established by a medical commission.

In case the worker or the pensioner dies, his beneficiaries receive a survivors pension. Widows, widowers, concubines, children under 18 or, if they are disabled, with no age limit, are considered beneficiaries by the regime.

The amount of the benefits paid by the capitalization regime is determined by the personal contributions made by the affiliates.

The new regime came into force on 1st. January 1992.

COLOMBIA

Old age, Disability and Survivors — *Establishment of a regime for saving and retirement*

New regime — A law proposed on September 1992 suggested the establishment of a regime for savings and retirement to cover the risks of old age, disability and survivors.

This regime will be compulsory applied to the workers subjects to a labor contract as well as to independent workers and to public officers who took over after the enforcement of the new legislation. Those who receive social assistance will not be able to join the system neither those over 55 for men and 50 for women, unless they decide to continue contributing until they are 65. The affiliates to this regime for savings and retirement can not belong to other social welfare system. However, they can join complementary or voluntary retirement plans.

The system will consist of the creation o individual savings accounts and retirement in the name of each worker. It will be financed with compulsory contributions fixed on 13.5% of the monthly salary. 10 cent of this contribution will be paid by the employed and will be credited to the savings and retirement account of each worker while the remaining 3.5 per cent will be paid by the employee and will serve to finance the insurance premiums that cover the risks of disability and survivors and to pay the administrative expenditures. The affiliates will be able to credit additional contributions. On the other hand, those who had contributed to a social welfare system previous to the enforcement of the new system of were public officers, or employees of an enterprise that took care independently of the retirement pensions of its employees, will have the right to a retirement bonus corresponding to their previous activities. These will be credited to their individual savings and retirement accounts.

The individual savings and retirement accounts will be constituted in pension funds administered by management organizations recognized by the State and freely selected by the affiliates. The activities of these private enterprises are controlled by a public body and will invest the accumulated capital in the individual savings and retirement accounts under certain guidelines with the purpose of guaranteeing both, the security of the investments and a minimum profitability rate. The administration bodies must regularly inform their affiliates about the situation of their accounts and of the deductions for administrative services. The State guarantees the savings of the affiliates as well as the payment of the agreed retirement pensions.

The plan includes old age, disability and survivors pensions.

Those affiliated to the savings and retirement plan can obtain an old age pension when the capital accumulated in their accounts allow them to have a monthly pension of 110 per cent the minimum wage. The effective payment of the pension will depend on the amount accumulated in their individual savings account.

The persons that by the time they are 65 have not accumulated a pension equivalent to 110 per cent the minimum wage and that have contributed at least during 1500 weeks, will have the right to a complementary contribution paid by the State that helps them to reach this minimum percentage. The persons above 65 who do not meet the necessary conditions can receive a pension derived from the capital accumulated in their individual accounts.

In case an affiliate looses at least two thirds of his working capacity he can request a disability pension provided he has contributed to the plan and, in case he stopped contributing, he must have contributed for at least 26 weeks during the year immediately before his disability occurred. The pension granted will account for 75 per cent of a monthly reference wage. If an affiliate does not meet the requirements, the total capital accumulated in his account will be credited to him.

In case the affiliate dies, the members of his family will be granted a survivor's pension provided that the death affiliate met the same requirements of the disability pension. The pension amount will account for 100 per cent the affiliate pension if he was retired and for 70 per cent the monthly wage if he was still working.

The State guarantees the payment of a minimum pension equivalent to the minimum wage for the disability pension and to 70 per cent the minimum wage for the survivor s pension.

The affiliates are free to use the capital accumulated with their voluntary contributions.

The payment of pensions can be done in three different ways: an immediate life annuity paid with an insurance policy that the affiliate would have signed with an insurance company selected by him, a programmed retirement or a programmed retirement with deferred life annuity.

MEXICO

Old age, Disability and Survivors

Creation of a savings regime for retirement

New regime

With the purpose of increasing the retired income, the Government of Mexico has established through the decrees of 24th. February 1992 and 25th. March 1992 a savings regime for retirement that has the purpose of complementing the benefits offered by the general pension regime.

This regulation, applied for public and private sector workers, is based on a complementary contribution paid by the employers besides the current contribution paid to the Institute of Social Security and Services for State Workers for the public sector and to the Mexican Institute of Social Security for the private sector. The amount of this contribution, monthly calculated, will account for 2 per cent the worker's wage considering as the maximum income 25 times the general minimum monthly wage. The employers must pay the amounts that correspond to these contributions to a credit organization, to be credited to the individual accounts of the retirement savings of each worker. For this purpose the employers give the credit organization the necessary information about their salaried. One worker can only have one savings account for retirement.

The amount shown in the individual accounts will be readjusted every month according to the variations on the prices index and will have a profitability of at least 2 per cent per year. These interests will be paid monthly as reinvestments in the account of each worker. The worker can make complementary payments to his individual account and he can request to sign a life insurance contract from the capital accumulated in his individual account under the conditions established by the technical committee in charge of the savings system for retirement. When the worker is 65 or is entitled to a retirement or disability pension, he can request the credit organization where his personal savings account for retirement is, to give him the accumulated funds. Then he will be able to give them to a financial institution that will pay him a life annuity or use them at his convenience.

When a worker opens an account, he must determine who his beneficiaries are. In case the holder of the account dies, the amounts credited in the account will be paid to his beneficiaries. The decrees that establish the savings regime for retirement came into force on 1st. May 1992.

PERU

Old age, Disability and Survivors

New regime

Creation of a private regime

The legislative decree No. 724 of 8th. November 1991 created a private pension system. Even if the law considers it complementary, this system does not have the purpose of granting complementary benefits to the pensions paid by the public regime administered by the Peruvian Social Security Institute (IPSS). The insured can not be member of two regimes at a time.

Coverage and financing

This system protects the active workers and their beneficiaries against old age, disability and survivor's risks. The insured have the possibility of continuing in the public regime administered by the IPSS with all the rights included or voluntarily joining the new system. In this case they must become affiliated with one of the pension funds (AFP).

The pension funds are private organizations that administer the contributions of the insured with individual capitalization accounts. The moment they become affiliated with a pension fund, the insured receives a register that includes the number and amount of the contributions he has paid. The fund collects the compulsory contributions of the insured and invest them respecting the norms established by the control body of the pension funds created by law (Superintendence).

On the other hand, the pension funds deduct the administrative expenditures from the total amount or charge a commission according to the contribution paid by the insured. The IPSS gives the insured who decides to abandon the public pension regime a certificate that indicates their contribution periods in the public system.

The new private system is exclusively financed with the contributions paid by the insured and the employer only has to pay a solidarity contribution in favor of the IPSS that accounts for 1 per cent of the wages.

The insured must pay a contribution that represents 8 per cent of the wage subject to contribution (compared with the 3 per cent paid in the public regime). From this 8 per cent a solidarity contribution in favor of the IPSS is deduced. The percentage is established with an actuarial study.

The employer declares, withholds and pays the contributions to the pension fund selected by the insured.

65 is the age established to be entitled to the retirement pension payment for men and 60 for women, i.e. 5 years later than the regime administered by the IPSS determines. Since the regime is based on an individual capitalization principle, the amount of pension depends on the sums accumulated by each insured in his account, increased by the investments interests.

The payment of pensions can be done in three different ways: programmed retirement, life annuity (with an insurance company) or temporal annuity with life deferred annuity.

URUGUAY

Old age, Disability and Survivors

New regime

Project of creation of a new system

The Uruguayan Parliament is about to pass a law proposed in April 1992 that presents a new social security system for old age, disability and survivors.

Enforcement Scope

The new regime, called semi-public, will be compulsory applied to all salaried or independent workers of the public and private sectors (with the exception of teachers, banking, notary and university personnel) under 58 years for men and 53 for women. People already retired, as well as those whose age is between 58 and 60 for men and 53 and 55 for women will continue in the current system. Other reform projects are being created for the armed forces and police regimes.

Regime financing

The new regime will be financed with the workers and employers contributions registered in personal accounts, administered by the Social Prevision Bank. These contributions will be as in the current system, 13 per cent of the workers wage. The employers of the private sector will pay contributions equivalent to 16.5 per cent of the salary.

On the other hand, since 1st. January 1993, the right to fiscal exemptions applied to the employers contributions paid to the Social Security Bank were suppressed. For the next years it will be necessary to present a request to the Ministry of Economy, that will decide whether a fiscal exemption should be granted or not.

Benefits

The new regime will pay old age, disability and death benefits. Regarding old age and disability pensions, the proposed !aw includes a normal retirement regime, advanced retirement regimes for certain activities and for teachers, a retirement regime in case of total disability, a temporal allowance in case of partial disability, partial and progressive retirement regimes as well as non contributive old age and disability benefits.

In order to get the normal old age pension, the insured must be 60 for man and 55 for women and have contributed for at least 10 years. However, the main innovation of the system consists on the establishment of a progressive retirement regulation. This regime will allow the insured to meet the necessary conditions to get a normal old age pension, reduce 50 per cent their daily work time and get 50 per cent of their retirement pension.

Non contributive pensions will be paid to people who do not have any resource and are 60 years old; or who do not have any resource and are completely incompetent for any remunerated activity. If these persons receive an income or a benefit lower to the non contributive allowance, only the difference between the two will be paid to them.

Regarding survivors benefits the proposed law considers that widows and widowers, children under 21, children above 21 incompetent for any remunerated activity and divorced people are entitled to benefits. When compared to the current system, the project eliminates the sex distinction for widow or divorced people. Until now the widowers were only entitled to a survivors benefit if they were disabled.

The new system, besides keeping the allowance for burial expenditures that accounts for four times the minimum national wage as in the preceding system. establishes a death allowance that accounts for two times the basic pension paid to the beneficiaries for survivors pension. The right to funerary benefits prescribes 180 days after the decease.

Amount of the benefits

The new regime does not determine a priori percentages for death pensions; however, it establishes minimum and maximum limits. In this way the minimum initial amount of the retirement benefit can not be lower than 60 per cent the average amount on retirement points, of the remunerations and incomes registered in the personal account plus 0.5 per cent for year of contribution after 30 years up to a 65 per cent. The minimum absolute contribution was fixed on 230,000N$ on 1st. January 1992.

The amount of survivors pension is fixed according to the last wage or to the pension received by the deceased and to the personal situation.

CHAPTER 2

CUBA'S EXPERIENCE

Dr. Orlando Peñate Rivero

BACKGROUND

The first Social Security Law in Cuba was issued in 1913 to provide coverage for army personnel. Other laws followed which were addressed to specific working sectors. This type of insurance was managed through institutions called "Retirement Funds", and by 1959, there were 52 of these funds.

The situation that prevailed at that time may be summarized as follows: inequality in the rights of insured workers and inequality in the obligations of the workers and the employers. What made it worse was that considerable working sectors (from 40% to 50% of paid employees) were not covered by social security.

In 1959, several steps were taken in an attempt to solve problems in the field of social security that were considered urgent, and the process to unify all retirement funds came to an end when Act 1100 dated March 27, 1963, was issued. The Act's contents fulfill all the concepts on social policies that derive from the Socialist Revolution proclaimed in 1961.

The Revolution's social principles were acknowledged in the Act's articles. The following are outstanding aspects: the government's responsibility for the Social Security System was reasserted along with the principle that workers and retirees were exempt from paying fees and other contributions; protection was extended to cover 100% of all paid workers, including agricultural workers and their families; a coherent system of benefits was established which is organized in such a way that benefits may be enjoyed without interruption; among the emergencies covered are working accidents and professional illnesses. It left behind the old theory of "professional hazard" and adopted a social criteria regarding prevention, assistance, and rehabilitation; also, it included maternity; common illnesses and accidents were included as benefits which were not previously covered as such by Cuban social security; and it acknowledged among social security's objectives, the length of service in any kind of working activity.

In February 1976, the Constitution of the Republic was issued and it is now in force. It was the first Cuban Socialist Constitution that embraces among basic rights, duties, and responsibilities job security without discrimination; social security for every worker unable to work due to age or disability and for dependents in case of death; social assistance for the elderly who lack resources or shelter and for anyone who cannot work and does not have any relatives who can provide help. At the same time, the Constitution includes protection, safety and hygiene at the working place by adopting proper measures to provide free medical and hospital assistance; stomatological assistance is also free; as well as developing plans for sanitation information and health education, periodic medical exams, vaccination programs, and other preventive measures.

The foundations of these basic standards rest on the idea that human beings are of the highest value and their welfare is the most important objective. This is expressed in the content of the laws that make up the Social Security System. The core of this system is represented by the general system as established in Act 24 issued August 29, 1979, which has been in force since January, 1980. When we compare this law with Act 1100 1963, we see that we have gone from social security for workers to social security for the whole population due to the extended field of application and its structure. The articles include proper protection for the worker and his/her family, and in general, for anyone whose basic needs are not assured or whose standard-of-living or health require protection and their problems cannot be solved without social assistance. This objective embraces standards relating to two systems. One is social security for paid workers, and the social assistance program for the whole population, as outlined in the titles of both systems.

The social security system regulates the following emergencies: common illnesses, professional illnesses, common accidents, working accidents, maternity, total and partial disability, old-age, and death.

The amount of cash benefits are based on the workers' salaries. The formula for making estimates tend to maintain approximately the same level of income for the worker once his active life comes to an end. This enables a pension to reach up to 90% of the base salary.

Cash benefits for illness and accidents are granted without a qualifying period or term of duration. The Law establishes payment until the physician signs a release or a pension for total or partial disability is granted. Regarding the elderly, in order to obtain an ordinary pension, men must be 60-years-old and women 55, while extraordinary pensions are granted to 65-year-old men and 60-year-old women. The minimum amount of service time is 15 years for the first type of pension and 15 for the latter.

The three stages of disability (partial, total, and largely disabled) are classified in the same way. They are based on a quantitative criteria and on a medical exam in a case by case basis, while taking into consideration how many social and economic elements are answered regardless of tables or books of tables.

In case of death or presumed death of the person insured, the pension is granted to the relatives appointed by law: widow, widower, children, father, mother.

Act 1263, issued in 1974, regulates maternity benefits for female workers. It stipulates that the minimum amount of time to grant cash benefits during maternity leave is a total of 75 days worked in the previous year. It is mandatory for the worker to stop working when she reaches 34 weeks of pregnancy or 32 if it is a multiple pregnancy. As of that moment, she is granted leave with pay for a period of 19 weeks, 6 before giving birth and 12 after the birth. The amount of leave with pay is equal to the weekly average income that she has received during the 52 weeks previous to the beginning of her leave.

Once leave with pay comes to an end, if the worker is not able to return to her job because she must care for the child, she has a right to a social benefit equal to 60% of the income she earned during the six months before leave began until the child is six months old. If this period expires and she is still unable to return to work, then she may enjoy maternity leave without pay until the child reaches one year old. During that period, she keeps her right to the position occupied in her working unit.

Act 24 issued 1979, defines the social assistance system and regulates the field where it applies and the benefits. It insures that there is coherence in the Social Security System by gathering all the provisions within a single legal body and linking them properly to safeguard the objective of providing coverage for the whole population.

The social assistance system guarantees benefits in services, in kind, and in cash to individuals insured. The Law's Regulations standardize the procedure to grant different benefits, and a Decree issued by the Ministers' Council sets the scale for cash benefits.

In addition to the benefits that are granted by the social assistance system, there are social programs addressed to different social groups that receive coverage and whose objective is to fulfill and care for the financial and social requirements of those who require them. These programs are the result of social, psychological, and economic research that has been made on every social group. These services are strengthened within the framework of specific activities addressed to the most vulnerable social groups.

Therefore, among others, the following programs are put into effect:

* Program to provide new services to the elderly who lack family support.
* Social work programs for the elderly who receive benefits from social assistance.
* Social work programs for single mothers who have minor children with social problems.
* Overall care program for the disabled.

Financing for Social Security

Financing for social security in Cuba has been modified several times since 1959. Social security institutions that existed at that time applied the basic social security scheme: fees paid by the employer and the person insured, and at times, some institutions were granted government subsidies.

In 1962, the workers' obligation to pay fees was cancelled, and a principle was introduced, so that only the employer would pay them.

This fee is the equivalent of 12% of the total amount of the salary that is paid to the workers and represents one of the main procedures to obtain funds for the government's budget. Therefore, the government takes over the responsibility to pay cash benefits to social security, as it does with the rest of the social services: health, education, etc.

The fees that are paid by the employer do not specify the amount of financial resources available for social security, nor the amounts of the pensions. The single plan for economic-social development is the only one responsible for fixing the amount obtained from the nation's income. This is understood as a new value created by the national economy that will be applied to social policies within the limits outlined by the financial situation.

When we apply the criteria that social security represents an obligation which the government cannot reject, and therefore, it must be financed from the government budget, we make the following assumptions:

1) Financing for social security systems based on the fees paid by workers and subsidized by the government, does not correspond to the desires and requirements of the population who wants social security to provide total coverage to everyone, not just to paid workers.

2) Social security systems who receive payment of fees represent an obstacle to social security's development, because whenever an attempt is made to extend its benefits to people with little or no ability to pay, the rights that people have achieved are affected. This is due to the fact that more people are cared for with the same resources, which originates a relative decrease in the amount and quality of benefits.

3) Based on the increase in the cost of health services by introducing highly complex techniques if an attempt is made to extend these services to all of the people that require them, it would be necessary to increase the amount of the fees to such high levels that the people insured would not be able to pay them.

4) The equation to balance the system depends on an adequate relationship between income and expenses. Therefore, the limit for the system's development is fixed by the amount of resources that are originate on the fees.

5) When the workers' salary is taken as the basis for fees, the system becomes very vulnerable. That is because during times of crisis, when employment falls down, income decreases and expenses increase because there is a greater demand for benefits that derive from the status of the individuals insured.

The government's budget represents a basic financial plan to create and use a centralized fund of financial resources. This fund is employed to distribute and redistribute an important part of the national income geared at stimulating the national economy and to increase society's physical and cultural welfare. When resources are allocated to the different activities that are included in the economic-social plan, in global terms we try to guarantee the balance between the requirements of the national economy and the possibilities.

A system of financing based on the government's budget has made it possible to designate the figures that are necessary to pay pensions on time and to comply with all the responsibilities that derive from the social security system, in spite of the serious problems that the Cuban economy is going through.

In order to evaluate perspectives for the Cuban social security system, we must take into consideration two important elements:

1) The Extent of Coverage

The Cuban population as a whole is guaranteed free care through the national health system, and all of the working population has a right to be paid cash benefits when all the requirements are met, as established by the Pension Act that is in force in our country.

At the end of 1992, the pension system had one million two hundred and eighteen thousand (1,218,000) valid pension recipients. Of this amount, 589,198 were divided by age as follows: 280,501 disabled and 346,336 deceased. Seventy one percent were men and 29% were women.

Persons who received pensions due to their age represent 48.4% of the total and 7,4% of them are men and 26.6% are women. The amount of pensions granted for disability (23% of the total) are 52.2% men and 47.8% women.

In 1980, the amount of social security pension recipients was 672,283. Therefore, the amount for 1992 represent a mass growth of 81.2%. During that period, around one million workers exercised their right to retire.

The average amount of pensions granted in 1992 grew by 46% when compared to 1980. The main reason for that is an increase in the salary that is used as the basis to estimate pensions and to a better control of the period of time worked.

In 1968, pensions were reassessed, and the minimum amount was increased to 60 pesos. Later on, there were increases in 1981, 1987, and 1992. The increases that were made by this reassessment are of about 80 million pesos per year for each of the increases applied.

In 1992, the total amount for retirement and pensions was of 1,528,600 pesos, which represents a growth of 2.3 in comparison to 1980. The average yearly increase was of 8.6%. In 1993, 60% of the funds geared at general expenses were used for health, education, and social security.

Actuarial projections point out that for 2010, the expense will be close to 3,500 million pesos, that is if social security laws are not changed and if everyone who complies with the requirements retires.

In spite of the severe problems that the Cuban economy is facing, the Social Security System has been fully maintained.

2) Aging Population

Currently, an aging process can be seen in the Cuban population. The following chart shows information about our country's population by functional age groups, and how they were relatively structured at four different periods for the past 30 years:

Population and Structure by Functional Age Groups
Years: 1960, 1970, 1980, and 1990 (by thousands)

FUNCTIONAL AGE GROUPS

Years	Total	Less than 15 years	15-59	60 and over
1960	6985	2393	4036	556
1970	8520	3150	4572	798
1980	9679	3070	5562	1047
1990	10608	2412	6940	1256
Structure (%)				
1960	100,0	34,2	57,9	7,9
1970	100,0	37,0	56,6	9,4
1980	100,0	31,7	57,5	19,8
1990	100,0	22,7	65,5	11,8

Source: *United Nations 1991*

A decision was made regarding the need to perform an overall analysis in order to pinpoint the focus and importance of the population's demographic changes and the possible impact they could have on the Social Security System, since an older population not only implies a larger amount of pension recipients, but also a certain influence on the cost to provide health services.

One of the components of this analysis was an evaluation of the economic situation and its perspectives in the short and medium term; since as it was mentioned, the Social Security System is part of the economic-social development plan. Therefore, it is logical that it must be included in the projections that are made on the subject.

These projections are based on a political desire to maintain a strong investment in the economic-social development plan that will enable us to protect human resources that have originated throughout 30 years of revolution. Hence, this human capital has provided the necessary scientific and technical potential to originate essential resources for us to endure and to continue developing austerely. However, it has been done keeping in mind an ample sense of social justice that guarantees employment and social protection, education, health, and social security for the whole population.

ATTACHMENT
EVOLUTION OF PENSION SYSTEMS

Year	Amount of Beneficiaries (thousands)	Expenses (BP)
1959	154,4	114,3
1970	368,1	440,7
1980	672,3	868,8
1990	1133,2	1313,1
1991	1174,2	1399,9
1992	1218,3	1528,6

CHAPTER 3

INTERNATIONAL PANORAMA OF PENSION SYSTEMS

Olga Palmero Zilvetti

1.- CURRENT DEBATE ON THE FIELD OF PENSIONS

Both, in the developed countries and in the developing countries there is an important debate regarding pensions, whose central topics are, among others: the need to face the aging process of the population, analyze other factors result of the change on the employment situation and the reduced economic growth of the countries and to face the growing financial burdens, factors that have determined new situations and priorities.

In the American countries, this topic is essential in the evolution of social security itself, since looking for new financing alternatives is as important as considering the low pension levels, the reduced measures introduced as readjustments to the value of the benefits and other economic and financial concepts.

Some elements are also defined in this discussion with the purpose of establishing a national basic level, conceived within an universalization goal specifying the basic characteristic of the compulsory insurances and reinforcing the complementary character of pensions.

These arguments are always present in discussions; therefore we could ask: What are the components recently introduced in this debate that mean another important view in social security evolution? In this respect it could be mentioned that in America pensions are widely discussed, since some countries have introduced differential systems of private participation that lead to introduce changes aimed towards modifying the social security model in view of universality and/or solidarity principles, that are their goals.

For this reason, in this work experiences of some countries that belong to subregions are analyzed. These experiences show coincidences and allow to study the problem considering other factors as: obsolescence or modernity of systems, establishment of social security systems at a national level and convergent aspects that give the topic a wider scope of reference.

For this purpose, we make some deliberations on pensions in the area of the Andean countries, Central America, Panama and the South Cone and in the English-speaking countries of the Caribbean.

When identifying common elements other valid arguments can be introduced in the new continental social security concept.

Among other aspects, it is endeavored to study the efforts done towards establishing the collective and individual responsibility, redefining the pensions policy and other measures currently taken in this field.

2.1 Countries of the Andean Group

Common elements of this analysis consider social security systems of Bolivia, Peru, Colombia and Venezuela as coincident, because they are undergoing a thorough revision of their pension systems, having an impact on the integral view of social security models.

When compared to South Cone and Central American countries, they present a medium development on pensions, since the first group of countries is characterized by an outstanding development and by being the first initial regimes essentially based on a pension system, while the Central American countries are less developed in this field.

The pension system of Peru is more developed and its main problems are structural and not a result of the situation[1].

It would be useful to recall that pension systems basis is having the same destiny as social security system itself, established in 1936. The system had a long consolidation process, reaching its peak in 1973, when Social Security of Peru was created. 1980, when the Peruvian Institute of Social Security was structured, is also an important year. The National System of

1 Rueda Eduardo Marcos. El Sistema de Pensiones en Perú (The Pension System in Peru). AISS. Documents of the American Social Security, Minutes series No. 14/1991.

Social Security Pensions was established in 1973 to substitute the employee and employer systems, when both regimes were combined and workers were incorporated regardless of their economic activity or labor regime.

The unifying aspect of the National Pension System allowed to consolidate the social security system itself, but presented important restrictions in its application and the decrease on the pension allowance could not fit the changes of the life standards.

Based on these arguments the Legislative Decree No. 724 was enacted on November 1991 and the Private Pension System was created to complement the National System and the Peruvian Institute of Social Security itself. The AFP were established as administrators and the worker was free to select among these administrations. A pension Fund constituted by compulsory and additional contributions of the affiliates was also created.

In the case of **Bolivia**, proposals of private participation have been recently made under the universalization argument. A project to create several National Directions has also been defined. One of these National Directions would be in charge of pensions, but the Complementary funds would keep their current financing system and the Basic Pension Funds regarding Disability, Old Age and Survivors pensions would voluntarily adopt the financial model of individual capitalization[2].

In this debate several revisions to the social security system have been made, defining the outstanding elements of both, short and long-term benefits. In the support studies it is specified that pensions include a Basic Fund, 23 Complementary Funds and 7 Integrated Insurances. The remarkable argument of the new proposal for pension regimes is that the developments on solidarity and universality are limited[3].

2 Carranza, A. y Palmero. Nuevas Tendencias de la Seguridad Social en América Latina (New Tendencies of Social Security in Latin America) Edition CIESS, 1993.

3 Idem

For this reason a change on the structure is projected towards an individual capitalization system. In this system, the State would have a regulating, investigating, compensatory and subsidiary role.

In this wide discussion on the social security system of Bolivia the importance of revising the pension systems in the development of social security itself is again pointed out, as a cornerstone towards which all the proposals of a rearrangement of the system itself and the universalization project are aimed. This project turns into a sustained argument in the revision of the public-private unification.

On the other hand **Venezuela** endeavours to arrange the system with an integral character through a Commission responsible of creating a new law submitted to discussion in March 1993. Even if in the field of health it is endeavored to make an unprecedented transformation in the institutional organization, the duties and responsibilities of the National Health System and other two systems, the reform is also aimed towards the pension system.

The establishment of a portable pension law is foreseen, as a guarantee of the benefits offered to workers with special and general regimes, based on an individual account. The social security regime is aimed both, towards an ordinary pension and a special pension, with the right to select in the generational rest a unique amount, a temporal pension or a life pension.

Regarding old age, the project suggest a minimum life pension of at least the minimum legal salary and introduces an element of needfulness certification.

On the other hand, it is endeavored to substitute the distribution system with a solidarity individual capitalization system through a General Pensions Fund including benefits in money with normative options of a unique payment or guaranteed pension including bonus.

In all, this strategic plan of Venezuela includes various collateral measures that determine the new duties of the Venezuelan Institute of Social Security in the use of infrastructure and technological developments and the interconnection with external agents[4].

It is important to point out that this change is originated by critical elements of pensions granting and that the new modalities offered for the private participation would support the extension project at a national level[5].

Colombia is also proposing a new pension system based on the individual selection of the Funds Administrations and delimitation of age for people with a higher saving capacity, in view of the reduced coverage.

It is clear that the debate of social security policy itself is controversial and is aimed towards the creation of a national system, in which the current negotiating institutions would be rearranged according to the socio-economical conditions.

In **Ecuador** the Pension System is regulated by the administration of the Ecuadoran Institute of Social Security with the general control of the Ministry of Social Welfare and with 1988 Law that has undergone several modification projects. An application field for the salaried worker is established with tripartite contributions.

However, it is important to mention that the State finances a program to give pensions to marginal populations.

In the reforms and projects proposed for the pension regimes in the Andean Group of Countries it can be observed that the regimes are being thoroughly studied, considering the wide variety of national situations that emphasize relevant aspects in the development of social security itself.

Summarizing the concomitant factors shown in the difficulties towards universalization, it is considered that a greater participation of private initiative would overcome the current limitations and would be accepted as

[4-5] Venezuelan Institute of Social Security PROYECTO DE LEY (PROPOSED LAW). March 1993

an alternative to the free option of the beneficiary. It would also rearrange financing, presenting other possible formulas and mixed solutions.

However, in all these proposals it is always suggested that the State should undertake subsidiary duties and that the private regimes should have a substitutive and not a complementary character.

It is also pointed out that the creation of Basic and General Funds seems to support the establishment of minimum standards at a national level.

2.2. Countries of the South Cone

This second group studies the cases of **Argentina**, **Brazil**, **Uruguay** and **Chile**, that presented as an outstanding feature a pension development since its origins.

As Chile will receive a special treatment in this Round Table, it is briefly mentioned that it was the first country that introduced in 1924 a system for the salaried workers and underwent a restructuration process based on 1980 privatization. Nowadays both systems coexist in the functioning of Social Security Normalization Institute, that harmonizes them.

The characteristics of the Chilean model in the field of health, pensions and the general socio-economical conditions consider, among other elements, the subsidiary role of the State and the common characteristics of the private participation that have made of this case a special topic of study in the American region, raising favorable and controversial interpretations of its long-term impact.

This concept should also refer other insurances and face the developments on the universality and solidarity that were the basic arguments of its reform in an integral social security concept.

In **Argentina** the recent reform is established within a general revision that includes, among other factors, an increase on the passive group as a result of the aging process of the population and the higher life expectancy as well as from the several alternatives used to solve the problem of low pensions, increase on the contribution years and others.

The Integrated Social Security System establishes a contribution from the workers and the employers and an administration in charge of the State. At the same time, the administration of personal contributions would be in charge of the Retirement and Pension Funds Administrations AFJP and the worker will be able to decide between these and the State.

One of the most characteristic aspects of the reform is that three retirement pensions are established: the Basic Universal Benefit, the Complementary and the Capitalization.

In the Social Security Integrated System it is also established that each worker will have an individual account.

It is valid to mention that the reform is based on an integrated system, as it combines a distribution regime of public nature with a collective individual capitalization regime. Other element is the universalization of **workers** since in other interpretations the universal concept is applied for all residents. Moreover the insertion of solidarity and freedom of option principles, as well as the protection procedures, characterize the reform in Argentina[6].

It is important to mention that the AFJP include private and State participation through a unified collection of the contributions deducted from the wages and it is established that the retirees will receive their compensations through these administrations and that the State will guarantee them a minimum amount. Finally, it is established that retirements will be authorized 5 years later than the regulations of the previous law establish[7].

Other system that has recently experienced transformation is the one of **Brazil** where the Pension System is administered by the National Social Security Institute within the National System created in 1978, under the general control of the Ministry of Social Welfare.

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6 Paillás, Carlos. REFORMA PREVISIONAL (SOCIAL SECURITY REFORM) Argentina, 1993.

7 Idem

1988 Constitution is also mentioned, in which important modifications to the system are made with equity, integrity, universality and social participation.

The general pension regime was reformed in 1991, introducing modifications to financing and the benefits level itself.

The new model includes, among other characteristics, universal benefits, elimination of certain retirements and pensions and other measures aimed towards achieving a financial equilibrium. These actions consider the creation of funds sponsored by enterprises and trade unions.

The proposed system includes benefit systems for the urban and rural population.

However, it has been estimated that the pensions rearrangement that affects important social security aspects, still has several critical elements[8].

Uruguay is also undergoing a detailed arrangement of the Old Age, Disability and Survivors system within the framework of a National Social Security System, with assistance duties of general compulsory and complementary coverage in the field of pensions.

It would be useful to recall that as an antecedent to this proposal there are certain regulations that define the Social Security System constituted by the Ministry of Labor and Social Security, the Social Security Bank and the Retirement and Pension Boards and different retirement and pension services.

Likewise, on first January 1993 a partial reform to the coverage of disability, old age and survivors risks was established. This reform adjusts several

8 New Tendencies... Carranza, Palmero ...Idem

procedures to the application scope. A new reform project created by the Executive Power is in the Parliament[9].

The case of **Paraguay** presents other features. That is why it is mentioned that, in the field of pensions, there are certain regulations of the system in force and a law project that have not been approved so far. In the regulations it is established that deferred pensions will be granted by the Social Prevision Institute that regulates the contributions and embraces the constitutive capitals of the retirements and pensions as a consequence of accidents and work.

The basic regulation of the unified retirements and pensions regime is Law 98 of 1992, that establishes the resources and financing system of the ordinary pensions of disability and common disease as well as disabilities for work accidents or occupational diseases.

These benefits are financed by the monthly fees of the workers, employers and the State. Different contribution procedures are established for teachers and professors, as well as for domestic employees, independent workers and other economic activities.

The unified character of the Retirements and Pensions Regime, in charge of the Social Prevision Institute presents, as a result, a tripartite financing equal to social security systems in other countries.

In the study of the South Cone countries in the field of pensions, it is clear that the discussion embraces critical features as the efficiency of pensions in face of the particular demographic aspects of the region and the wide scope of procedures and alternatives being developed, that involve a more detailed debate when compared with other regions of the continent.

9 Murro, Ernesto. Uruguay, REVISION DE LOS SISTEMAS DE SEGURIDAD SOCIAL EN AMERICA LATINA, PARTICIPACION DEL ESTADO Y ROL DEL SECTOR PRIVADO. (REVISION OF SOCIAL SECURITY SYSTEMS IN LATIN AMERICA. PARTICIPATION OF THE STATE AND THE ROLE OF THE PRIVATE SECTOR). Santiago de Chile:BPS, 1993.

2.3 Central American Countries

Regarding the pension systems of the Central American countries, an special mention is made to **Costa Rica, Nicaragua and Honduras** whose social security systems have undergone important reforms during the last years.

In this way in **Costa Rica** the general pension system is administered by the Costa Rican Social Security Board, under a benefit scheme defined in the disability, old age and death insurance with a tripartite participation, without considering the work risks in charge of the National Insurance Institute.

This system has certain characteristics different from the analyzed problems of the Subregion. The financial regime turned in 1980 into a partial capitalization regime with graded premiums and a distribution regime is foreseen for 1992, with a reserve for contingencies conformed by graded premiums[10].

Likewise, there was an important modification to the pensions system when, in 1991, the retirement age increased 5 years with the corresponding increase on the number of contributions. The transition rules for men and women of a certain age up to December 1990 were established with the same resolution.

This analysis thoroughly studies the socio-economical conditions of social security, and determines the existence of a contributive and a non-contributive regime in the field of health that support the universalization process. An outstanding development is also observed in pensions, when compared to the region.

On the other hand **Honduras** as in other American countries is having a new approach through the reform to the organic law that includes an

[10] Aguilar Roger. Financiamiento de la Seguridad Social en Costa Rica, 1993 (Financing of Social Security in Costa Rica, 1993).

increase of the coverage, an administrative restructuration and modification to the financial structure as well as an increase on the scope of pensions through measures that mean an extension on the quotation base and a decrease on the delay of the State.

It is important to mention that the pension regime is financed with contributions made by the insured person, the Employer and the State, that also include the benefits derived from the work risks.

In **Nicaragua** a new social security model is being established as well as reforms with the purpose of establishing a short and long-term economic benefits model.

The new model establishes that there should not be salary limits for the quotations and that after making a financial and actuarial analysis of the Social Security, a law project should be created that establishes that the beneficiary should be in control of his own social security savings through a personal card.

Likewise, it is projected an specific distribution of the capital risks of the institution and that the beneficiary is free to program the pension he wants to receive when he retires, giving voluntary and complementary contributions.

The new model endeavors to use the compulsory savings of the workers to support the economic development of the country.

The disability, old age and death programs of **Panama** are included in the social security pension coverage. There also exists a complementary fund for State workers supported by the State itself.

There are other taxes in which the Board functions as trustee and 1991 social security law has recently included the revision of contributions as well as minimum and maximum pensions.

Another feature is the controversial anticipated pension and the proposal foreseen for 1995 to increase the retirement age.

There have been several characteristic elements of the current reforms in the Central American region that present in the last decade some important modifications to pension systems. However, when compared with other subregions, it can be seen that the topic of the debate is the need to face the financial burdens, the reduced amount of benefits and the adjustment measures to be established.

2.4. English-speaking Countries of the Caribbean

The old age, disability and survivors insurances in the Caribbean countries are generally managed by the central social security regimes, with several control bodies -normally ministries- constituting one characteristic feature, as well as the fact that the medical assistance is in charge of the respective ministries.

It should be considered that these systems were introduced during the 60's and 70's, being the most recent systems of America. The analysis includes **Antigua & Barbuda, Bahamas, Barbados, Belize, British Virgin Islands, Dominica, Grenada, Guyana, Saint Kitts and Trinidad & Tobago.**

The social security system of **Trinidad & Tobago** was established in 1970 and includes, almost as in all the region, the salaried workers between 16 and 64 years in a tripartite regime, in charge of the National Insurance Board. The administration of the regime is controlled by the Ministry of Social Development and Family Services.

It is important to mention that in this country there are voluntary insurances for pensions and survivors. The cost of these benefits is completely financed by the State in pensions submitted to income studies. Bahamas also has this system.

It is also important to point out that in Trinidad & Tobago the benefits for work risks are paid by the employer and administered by the respective ministry.

In **Saint Lucia, Antigua and Barbuda, Barbados** and others, only the insured worker and the employer contribute for the disability, old age and death systems. In the first two countries the Ministry of Health and Housing and the Ministry of Finance control the program.

In **Bermuda** there is a non-contributive pension granted at the age of 65 years with 10 years of residence while in Jamaica limited old age, disability and survivors pensions are given.

In almost all the cases minimum incomes are fixed for quotation purposes as in **Saint Lucia, Saint Vincent and Saint Christopher & Nevis.**

In the English-speaking countries of the Caribbean it is observed that the main topic of the pension debate is the cost. It is recommended to establish measures in the field of administration, pension indexation, reduction of contribution limits and increase on basic pensions. Examples of this are Trinidad & Tobago and Bahamas.

Likewise, other pensions are being thoroughly revised based on comparative studies of the countries that support the current proposals.

3. FINAL CONSIDERATIONS

Taking into consideration that social security is an institution that can not be easily interpreted in the course of its development itself and that a transformation project that includes structural spaces can not be appreciated but in its evolution process, whose impact should be evaluated in a time continuity, the options presented in the field of pensions would have to consider the following elements:

1. The universalization of the coverage, a social security premise, means the argument which most of the reforms have taken as a basis. For this reason, besides continuously searching health attention models, this modification would have to be aimed towards the common critical points of the pension coverage, as independent workers and others of the structured sector.

2. Likewise, in a comprehensive approach of all the necessary facts to establish the new social security models, it is important to point out that the creation of more independent schemes is one of the viable alternatives to go forward in this process that should include the solidarity and the participation of other sectors with no contributing capacity.

3. When accepting the inspiration character of some social security models being established in America, it could be interpreted that several recent reforms to the pension systems especially refer the structure and financing that support the new proposals. This determines that its modification should consider the different social, political and economic realities of each country.

4. Among the foreseeable aspects, it would be advisable to rescue the social security minimum standards so that the pension insurances have a certain relation with health insurances and to study other insurances that seem to be less consolidated in the American social security practice.

5. There is no doubt that any universalization project in the field of pensions would have as a goal to establish minimum pensions for all the population. Certain countries of the region register certain developments in this field.

6. Other aspect is the complementary character considered as one of the pension alternatives, that should consider the current coverage and superpositions.

7. The social security system in America is undergoing a deep reflection of its objectives and the presence of its proposals in the government programs and the national decisions of the countries is becoming more important. This will certainly constitute an element that could rescue the social security project we hope to have.

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CHAPTER 4

CURRENT DEVELOPMENTS IN SOCIAL SECURITY PROGRAM IN THE UNITED STATES

Lawrence H. Thompson

INTRODUCTION

In the United States, the Social Security Administration is reponsible for the administration of the Old-Age and Survivors Insurance and Disability Insurance programs. The financing for both programs requires almost all workers and their employers and self-employed persons to pay taxes on annual earnings up to a maximum amount.

The tax rate paid by employees and employers, each, is 6.2 percent, and for the self employed, the rate is 12.4 percent.

The maximum amount of earnings taxable is $57,600 in 1993. In 1994, the maximum taxable amount will rise to $60,000, in accordance with the annual increase in average wages. These taxes (which currently constitute about 90 percent of program income) are automatically deposited in separate trust funds from which benefits are paid on a monthly basis.

Our Social Security program has an outstanding record of providing benefits without fail for over a half-century. But over this half-century, it has had to be adapted from time to time to reflect changes in the social, philosophical and economic enviroment. We now find ourselves confronting several short-term administrative and programmatic issues as well as a long-term financing issue. We also find confidence is lacking. The current financing and administrative issues provide us with both a challenge and an opportunity. And dealing with the financing issue should prove to be a key factor in strengthening confidence among the younger generations that Social Security will be there for them when they retire.

DISABILITY INSURANCE PROGRAM FINANCING

One major short-term issue we are facing derives from an increase of 36 percent in the number of claims for disabled worker benefits we have received over the past 3 years. We are not sure of the reasons for the sharp increase in the number of claims. The showdown in the economy, increased outreach efforts to those potentially eligible to claim benefits, and expanded eligibility criteria probably all have contributed. As the number of persons applying for and receiving benefits has increased. The procedures used to process new claims have become overloaded and the financing of the benefits through the Disability Insurance Trust Fund has become strained.

At the beginning of 1993, the assets of the Disability Insurance Trust Fund represented only about 35 percent of annual disability expenditures. In the absence of corrective legislation, we now project that the assets of the disability trust fund will be insufficient to meet benefit payments sometime in 1995.

A short term solution to this problem is fairly simple and has not been controversial. We simply had to change the way the current Social Security tax is allocated between the different trust funds. The Administration has proposed that the amount of the payroll tax allocated to the Disability Insurance Trust Fund should increase from the current level of 1.20 percent to 1.75 percent. This reallocation, in turn, would reduce the amount paid into the Old-Age and Survivors Insurance Trust Fund, but that fund is, and will continue to be, well financed in the short-and intermediate-term.

This reallocation will give us time to complete additional research designed to determine more conclusively the reason for the recent rapid growth in the Disability Insurance program, and whether this growth is temporary or long-term. This research will be useful in formulating longer-range adjustment in the structure of the disability program.

DISABILITY INSURANCE PROGRAM ADMINISTRATION

An increase of 36 percent in the number of disabled-worker claims also poses an administrative challenge. In the past, an agency experiencing such growth in demand would likely react by hiring additional employees. However, there is a government-wide initiative underway in the United States under President Clinton's leadership to restrain the federal deficit and to reduce the number of federal employees by about 12 percent over the next 5 years. Thus we must meet this challenge of increasing workloads with a workforce that is not likely to expand.

We believe, however, that we can meet this challenge successfully through major changes in the way we operate our program. These changes are the type that many private sector firms are introducing in the United States -they have become known as "reegineering".

We have analyzed our current process for determining disability and found it to be cumbersome. time-consuming and resulting in poor service to the public. For example, we found that the typical claim takes approximately 128 days from start to initial decision. Yet, there are only about 13 hours of actual work done on the claim. The rest of the time the claim is in transit among the 6 different sites where the work is done or is awaiting an action by the 26 different employeeswho will handle it at some point.

Sould that claim be denied, and then appealed, and eventually awarded after a hearing, then that process would take an average of 490 days but would involve only 33 hours of actual labor. The problem, again, is that work is done at 1 0 different sites and involves the effort of 45 different employees.

This is not the type of service that the people contributing to the program want or deserve. The disability determination process requires radical restructuring, and we have made a commitment to make the process more customer -and service- oriented. We will find ways to greatly increase productivity and speed. We will make a major investment in the technology required to support the new process. And, we expect the new process will bring greater empowerment and professional enrichment to the employees who administer the process.

PHILOSOPHICAL ISSUE OF DISABILITY

In addition to the financing and administrative issues related to disability, more fundamental philosophical issues relating to society's changing attitudes toward disability are beginning to emerge. In 1990, the U.S.Congress passed a law called the Americans with Disabilities Act which, among other protections, was intended to eliminate the barriers persons with disabilities encounter which have prevented them from participating fully in society, including joining the work force. Some are concerned, however, that as currently structured, the disability program itself may be one such barrier.

Our Disability Insurance program was introduced approximately 4 decades ago and it was based on essentially the same concepts as the Old-Age Insurance program. Initially, Social Security Disability Insurance functioned primarily as a retirement program for persons whose health had deteriorated to the point where they were considered incapable of working. Altough rehabilitation and training programs were encouraged, where appropriate, they were not a central part of the operation of the Disability Insurance program.

Currently our Disability Insurance program requires that the person applying for benefits have a sufficiently severe medical condition that is expected to last at least 12 months and that he or she cannot be expectc to work anywhere in the national economy. Evidence that the person has worked regularly, even if for less than the full-time minimum wage, is grounds for disqualification from receiving benefits. Once the person has met the requirements and becomes eligible for benefits, we refer them to other agencies to receive rehabilitative services, and we encourage the person to go back to work by offering them a period of time during which they can both work and draw full benefits. If they continue to work, however, eventually all their Social Security benefits are lost. Under these circunstamces, it is not surprising that fewer than 1 percent of our disability beneficiaries return to work permanently.

Our current Disability Insurance program is designed to offer income replacement to those who do not work at all rather than encouragement to those who are trying to work, despite having a serious medical impairment. Increasingly we are concerned that the disability program may have to be modified somewhat if it is both to serve as a source of adequate income support and meet the goals of the recent Americans with Disabilities Act. the U.S. Social Security Administration is helping, to sponsor an expert panel assembled by the National Academy of Social Insurance, which is examining the extent of any conflicts between the current national philosophy and the current programs. Beginning in early 1995, we will review the work of this panel closely to see what implications it has for reforming, our disability benefit program.

LONG-TERM FINANCING

Largely because the economy performed more poorly than had been projected, the Social Security system experienced financial problems in the late 1970's and early 1980's. Legislation was adopted in 1977 and again in 1993 to address these problems. In each case, Social Security payroll taxes were increased and benefit reductions of one form or another were instituted.

One result is that the overall Social Security program is now quite well financed for at least the next twenty-five years. During 1993 we expect the total income to the Old-Age and Survivors Insurance and Disability Insurance programs to exceed total spending, by $47 billion and, under the current benefit and tax provisions, we expect large annual surpluses to continue into the second decade of the twenty-first century. The combined Old- Age and Survivors Insurance and Disability Insurance Trust Funds should reach $378 billion by the end of 1993, an amount equal to about 117% of the projected 1994 spending. According to our current projections, the balance in the combined funds will continue to grow more rapidly than annual program spending through about 2015, by which time it will have reached a level 3.0 times the annual outlays.

After 2015, however, the situation changes dramatically. We currently project that by 2025, the annual surpluses will have turned into annual deficits and, without additional changes in taxes or benefits, by the end of' 2036 the combined trust funds will be exhausted.

The major reason for this sudden reversal in Social Security's financial situation is demographic developments. The United States experienced relatively high birth rates in the twenty years immediately following World War II. This so-called "baby boom" generation will be reaching retirement age beginning about 2010. Over the following 25 years, from 2010 to 2035, the number of retired workers drawing Social Security pensions will rise dramatically; we are currently projecting an 85 percent increase, from 33.2 to 61.6 million.

In addition, the birth rate in the United States fell dramatically after the mid 1960's. (From a peak of 3.7 children per woman in 1957 and a rate of 2.9 in 1965, total U.S. fertility fell to only 1.7 children per woman in 1976, and stayed at a level of about 1.8 children per woman in the period from 1977 through 1986.) The "baby boom" generation was followed by a "baby bust" generation. Just at the time when the largest generation in the U.S. history enters retirement, Social Security tax revenues must come from a smaller generation of workers. One comparison, the ratio of workers to beneficiaries, clearly illustrates the situation. In 1990, each Social Security beneficiary could be supported through the tax receipts from 3.4 workers. By 2035, only 2.0 workers will support each beneficiary.

Moreover, we currently believe that the demographic situation will not improve even after the baby boom generation passes through the system. That is because we expect that continued increases in life expectancy combined with relatively low levels of fertility will keep the ratio of beneficiaries to workers at or under two thereafter through the rest of the twenty-first century. We must, therefore, adjust to an environment where the Social Security Program is relatively more expensive than it has been here-to-fore.

As illustrated by the experience in the 1970's, the financial status of the Social Security Program is also influenced by the state of the economy. The projections I have quoted are based on "intermediate" economic and demographic assumptions. Actual experience could be, of course, more, or less, favorable than these estimates.

The demographic trends are also creating two related challenges for U.S. society, one involving public confidence in the Social Security Program and the other involving adjustments that may be necessary in the private pension system. The current projections that Social Security will eventually run out of money are often cited as one of the factors contributing to the belief among many young people that Social Security will not be there for them when they retire. Indeed, most respondents to a recent survey expect that the Social Security Program will become less generous in the future, that is, they expect either a cut in benefits or an increase in the degree to which Social Security benefits are subject to tax. Thus, it is important to begin to address the longer-range financing question as one of the steps necessary to restore public confidence in Social Security.

By design, the United States relies on a mixed public/private retirement income system. Ever since Social Security was first established, the program has operated on the assumption that, while the lowest wage workers would receive benefits that came fairly close to reproducing their preretirement earnings, middle income and upper income workers would have to supplement their Social Security if they wanted a retirement income that was anything close to their preretirement earnings. The premise has been that the middle and upper income individuals were more likely to be covered by private pension plans and were in a better position to save for their own retirement than were lower wage individuals. Thus, Social Security has always been structured to encourage supplementation by middle and higher income workers, and such supplementation has most often taken the form of employer-provided pension programs.

Many of the same forces that will lead to increases in Social Security costs early in the twenty-first century will also increase the costs of private pensions. In particular, to the extent that increases in the average life expectancy of those entering retirement are causing pension costs to rise, they are causing the costs of private pensions to rise just as rapidly as those of Social Security . The impacts of other demographic changes on private pensions costs are less visible but are likely to be just as important as the impacts on Social Security costs. However, to the extent that private pensions are fully funded, or have more advance funding, the lower ratio of workers to beneficiaries in the future will be of less concern for private pensions.

We expect that an independent citizen Advisory Council will soon be appointed by the Secretary of Health and Human Services and will be asked to examine the issue of national retirement income security policy. The group will be asked to review the full range of adjustments that might be necessary to deal with the projected increase in Social Security costs and to consider the adjustments in private pension and saving programs that might also be desirable. We assume that the options they will want to consider will include major increases in Social Security revenues as well as major reductions in scheduled benefits. The former might well be achieved through increases in scheduled payroll taxes and the latter through increases in the age at which people are allowed to draw retirement benefits. The normal retirement age, i.e., the age at which full-rate benefits are first payable, is already scheduled to increase from 65 to 67 under Social Security. The Council may believe that further increases in the Social Security retirement age are desirable and that similar increases in private pension retirement ages should also be encouraged. We would expect the Council to complete its report late in 1994 or early in 1995.

CONCLUSION

In conclusion, I have described the current administrative problems in our disability Insurance program and the steps we are taking to address it. Moreover, we have recognized the need for a thorough review and open discussion of the role and structure of disability insurance in our modern society.

We have also reached a point where the long-term financial soundness of our elderly's retirement system, both Social Security and private pensions, is being challenged by economic, demographic and social changes. Mature and stable pension systems have successfully responded to these challenges in the past. As experience has shown, adjustments are best undertaken when the longer term trends are anticipated, options are considered carefully and decisions are implemented after serious consideration and deliberation, and the changes are phased in gradually.

Moreover, it is essential that the public be educated about our Social Security programs. Since workers can hardly be expected to support what they do not understand, one of our highest priorities as program administrators is to make sure that workers, especially young workers, understand the Social Security Program and the value of Social Security protection.

It is also essential that they understand the role that their own savings and the retirement programs of their employers are supposed to play in supplementing Social Security. Young workers need to feel secure that Social Security will be there for them when they reach retirement age. They also need to understand their own responsibilities if they are to have adequate incomes in retirement.

I have every confidence that our program will continue to adapt successfully to this new environment as we move ahead into the twenty-first century.

CHAPTER 5

MEXICO'S EXPERIENCE

Sergio Valls Hernandez

The evolution of our pension system is taking place during a period when deep and basic political, economic, and social changes are affecting our history. Consequently, in order to make an analysis, it is necessary to have a broad understanding of the elements that have an impact on production, labor, and salaries.

Undoubtedly, Mexican social security has always been specially interested in the fact that pensions should represent a substitute of an employee's salary, whenever he/she is no longer receiving It as a result of any of the emergencies that are covered by social security. They should receive essential financial means to survive along with their families. With this premise, social security also complies with one of its goals, which is redistributing the wealth needed to maintain social balance.

On the other hand, the social security system has applied advanced tools, so that pensions will be dynamic and to prevent them from losing their value whenever they have to face the economic problems that prevail in our contemporary world.

Finally, our Institute, which represents a protective shield for the family structure regarding the risks posed by health, lack of employment, and advanced age, has increased pensions by supplementary amounts called family allocations and assistance that are geared at helping the workers to bear family loads with greater solvency.

We will point out briefly how the pensions that are granted by the Mexican Social Security Institute to workers and their beneficiaries have developed since fifty years ago when it was founded.

Regarding insurance against working hazards, whenever an employee has suffered an accident or contracted a work-related illness that temporarily prevents him/her from working and from getting paid, he/she is granted a subsidy during medical treatment and until fully recovered and rehabilitated that currently is equal to 100% of his/her base salary fee. If the accident or illness originate partial or total permanent disability, which prevent the employee from working, then a pension for life is granted in accordance to the disability. This way he/she is able to compensate for the income that said disability prevents him/her from obtaining. In case of total disability, at the present time the employee is granted a pension of 75% of the salary scale.

On the subject of insurance for disability, old-age, retirement, and death, the worker or his/her beneficiaries are granted cash benefits that enables them to solve financial problems that originated due to their lack of ability to work because of having reached the age of 65, or having suffered a non-professional accident or illness, or being terminated from a paying job at 60-years-old or because of the worker's death.

Due to the short time allowed for this presentation, I will only refer to the way that pensions for disability, old-age, termination for advanced age and death have developed.

The first Social Security Act that was put in effect in January, 1943, established the following:

> "Annual disability and old age pensions will be made up of a basic amount and of increases estimated in accordance to the number of weeks that the person insured has paid after the first 200 weeks of paying fees. The basic amount and the increases will be estimated in accordance to the following table, taking into consideration the average for the last sixty months before the pension is granted as the daily wage."

Immediately afterwards, the Act identified nine groups with Roman numerals. However, this Act established a minimum amount of $30.00 per month. This basic amount meant that even if the worker had received a low salary or had paid the minimum amount of weeks and, therefore, the pension was not enough to survive, the law granted him/her a pension for a favorable amount. Throughout the Institute's history, this minimum amount has changed as can be seen in the following items.

Based on these legal bases, pensions were increased gradually at a stable rate of economic growth and with a minimum amount of inflation.

This way, during 1949, 1956, 1959, and 1979, the annual basic amounts and the minimum monthly amounts of the pensions were modified. By 1971, the minimum amount was of $450.00. Allocations for children and assistance in case the pension recipient required permanent care from another person were added to pensions.

Pensions for beneficiaries are also increased at the rate outlined in the above-mentioned reforms.

The new Social Security Act that has been in force since 1973, granted pensions a larger scope and energy, so they could comply with their main objective: redistributing income and social- economic balance.

In fact, pensions for disability, old-age, and retirement increased along with family allocations for the wife and parents, and with assistance for pension recipients. Also, pension increases will be made based on five-year reviews.

Later changes to the Social Security Act in 1974, 1976, and 1982, establish increases in annual basic amounts and minimum monthly amounts; as well as yearly reviews in accordance to the parameters that are issued by the Institute's Technical Council.

As it may be obvious, at this stage of inflation, salaries and prices were in strong competition. However, in spite of the Institute's efforts, pensions could not reach the same level of financial capability even with the annual reviews established in the 1982 reforms.

That was why around 1988 the first agreement between employees, employers, and the government was made to put a stop to inflationary increases. The minimum salary was subject to specific parameters and prices were frozen, beginning an inflation countdown. This government policy is reinforced by the current government administration that began in December, 1988.

In 1989, the Social Security Act was changed to index the amount of the pensions to the general minimum wage that is in force in the Federal District. In the first place, the minimum amount for disability, old age, and retirement pensions were fixed at 75% of the minimum wage. In the second place, all of the pensions will be increased at the same percentage rate that corresponds to the general minimum wage in the Federal District, regardless of how many times the latter is modified. Derived pensions will be for a global amount of 90% of the disability, old age, or retirement pension that any given pension recipient has enjoyed or what corresponded to disability. As it may be observed, with these changes all pensions are more dynamic because in the future they will grow in accordance to the general minimum wage.

In order to improve the lowest pensions, in 1990 the percentage was raised to 80% of the minimum wage. Finally, in July, 1992, article 168 of the Social Security Act fixed the amount of pensions at 90% of the general minimum wage that is in force in the Federal District. Due to actuarial reasons, this increase was granted in two parts. One beginning on June 1, 1992, which provided coverage to pension holders at a minimum rate of 85% of the general minimum wage. The other one went into effect in January, 1993, and it supplemented the 90% increase that is outlined in the changes made in article 168.

Briefly, this has been an explanation of how pensions for old age, disability, retirement, and death have developed, and that the Mexican Social Security System has implemented to provide for emergencies that could bring about serious problems to an employee's working life and his/her family.

As it can be observed, the main problem for our social security system has been the impact of the inflation that all developing countries are going through, as well as the recession that has occurred in industrialized countries. This necessarily has an influence on the economy of the rest of the countries.

However, we also find that different alternatives have been found that could strengthen benefits for the workers. Undoubtedly, this lessens the economic impact of these phenomena.

The perspectives that have been outlined for beneficiaries are highly promising. Since there is an assumption that inflation has been controlled, the pensions have recovered their purchasing power gradually.

Additionally, this recovery will be strengthened by the new individual capitalization program originated by retirement insurance that has enhanced social security.

Within the context of social security in Latin American countries, the development of our system's pensions has been similar and has found the same obstacles: inflation and recession. As a matter of fact, in the 1991 in a report of the Interamerican Development Bank on the subject of social security, it may be observed that the different legislations are carrying out a continuous and permanent effort to improve pensions and break the inflationary circle that is stifling and depressing social security.

In most of our countries, pensions are based on the amount of time that someone has paid fees and on the salary average of recent years; however, some countries, such as Chile, have adapted the individual capitalization system so that employees are able to have a capital and an income available after they retire. As I mentioned before, our social security system at the present time is protecting workers with both types of insurance.

CHAPTER 6

CHANGES IN THE SYSTEM FOR GOVERNMENT EMPLOYEES

Miguel Angel Cuadra

Introduction

In the first part of this presentation reference is made to economic policies and to changes in the Mexican government, as well as to the way they have influenced the pension system. Following, there is an analysis of the scheme and the development of ISSSTE's pension system and the trends for its future process to modernize.

1. Economic Policy and Government Changes

The economic crisis that could be observed very acutely in 1982 and that brought about severe macro-economic imbalance, such as hyperinflation, excessive foreign debt, and decreased productive activity made it quite clear that protectionist policies and excessive government intervention were no longer capable of promoting stable economic growth.

Therefore, a new economic development strategy was adopted based on social agreements to stabilize prices, renegotiate the foreign debt, financial opening, public finance clean up, and delegating activities that did not represent a government priority. This way the government has acquired a new perspective and become less of an owner and better prepared to care for its basic objectives. These objectives are to respond to the population's basic needs and to increase well-being.

Some of the most important results that were achieved with these reforms were as follows:

* Transfers from foreign sources to pay for servicing the foreign debt have been reduced from 6% to 3.1% of the GNP between 1989 and 1993.

* The financial deficit went from 11.78% of the GNP in 1989 to a fiscal surplus in 1993.

* Between 1988 and 1993, inflation went from 160% to around 8%.

* Participation in social expenses (education, health, and the fight against severe poverty) within programmed expenses has been increased from 33.2% in 1988 to 53.9% in 1993.

* The GNP has grown an approximate annual average rate of 3% between 1989 and 1992.

All of these economic changes have had great influence both on social security institutions and on beneficiaries.

In order to guarantee a financially healthy pension system, it is necessary, although not enough, to have an economic policy that guarantees minimum macro-economic balance. This must be translated into proper control of price levels, in efficient financial markets that allow true yields, in administrative schemes that tend to reduce operational costs, such as providing income and balanced public finances. The main restriction that these systems frequently face is a difficulty to move enough financial resources to carry on necessary actions and to pay for transaction costs.

Therefore, the process to introduce changes into pension systems must consider and move ahead gradually along with the economic policies that are adopted.

2. Scheme and Evolution of Pension Systems for Government Employees

The Social Security and Social Services Institute for Government Employees (ISSSTE) was established in 1959. It covers the whole country and provides services in different areas, such as illness; maternity; personal and housing loans; day-care centers for children; sale of basic and general products; tourist and funeral services; cultural and sports enhancement; insurance for retirement, disability, age and time of service, termination due to advanced age, death, and working hazards.

At the beginning of President Salinas de Gortari's administration (1989), the institutional and legal framework that regulated ISSSTE was an Act issued in 1984, which was in force until the reforms of January, 1993 were made.

Based on this legal provision, the Institute is organized around two main areas: cash benefits and medical services.

Retirement pensions are granted to male employees with 30 years of service and to female employees with a minimum of 28 years and an equal period of payment fees made to the Institute. In this case, they have a right to be paid for an equivalent amount of 100% of the average salary that the employee paid fees during the last year of his/her working activities. It must be pointed out that this benefit does not establish any age limit to enjoy this right.

Retirement pensions based on age and time of service are granted to employees that are at least 55-years-old. The amount of the pension is based on the years of service within a range that goes from 50% of the regulating salary, if the employee has 15 years of service, to 95% of the salary if the employee has accumulated 29 years of service.

Pensions for disability are granted to employees that are physically or mentally unable to work due to reasons that are not linked to their position or job, as long as they have paid their fees to the Institute for at least 15 years.

Termination for advanced age was added to current insurance, which allows to provide protection to civil servants who have reached 60-years-old and 15 years of paying fees to the Institute whenever they are prevented from having a paid job.

Regarding global compensation, it consists of giving back a percentage of the fees that the employees paid whenever they definitely retire from public service in case they are not entitled to a pension. In accordance to the 1984 Act, an additional amount was added to the previous one which is equivalent to 45 or 90 days of the last salary that was paid to civil servants who have accumulated 5 to 9 years of paid fees or 10 to 14, respectively. The intention here is that the compensation that is paid will be fair and equal.

On the subject of pensions for widowhood, the annual 10% reduction in benefits was eliminated. They have been fixed at 100% of the amount that the person insured enjoyed. This same benefit was extended to the rest of the beneficiaries (children or parents.) Another benefit that is also granted to the family is for funeral expenses whenever a retired person or a pension holder dies.

Accident or illness pensions are granted to employees that are temporarily or permanently disabled to work as a result or for reasons relating to their jobs.

From the standpoint of the quantitative importance of the different types of pensions that ISSSTE grants, retirement pensions stand out, which represent around 50% of the total beneficiaries. In the second place we have retirement pensions due to age and time of service, that includes 22% of pension holders. These two types of coverage, along with termination for advanced age that represents 2% and disability with 1%, are options for voluntary retirement from public service and include 75% of the pensions paid. Pensions for widowhood, orphans, and parents that are granted to the family of a deceased worker or pension holder, represent the other 25%.

Within the reforms that have been introduced by the current government administration, it is worthwhile to point out that a Savings System for Retirement (SAR) has been introduced for employees, as an additional benefit aside from current pensions and retirement systems. Up until now, this system's resources represent a little over 12 billion New Pesos, which correspond to retirement and housing insurance accounts.

SAR went in effect on May 4, 1992, and its main features are as follows:

* It is managed on the basis of individual accounts on behalf of the employees. The fees that are paid to the retirement insurance and national housing fund are deposited there.

* Government branches and entities deposit allocations in financial institutions chosen by the employee.

In the specific case of retirement insurance, it has the following features:

* Allocations are estimated on a monthly basis for an amount that is equivalent to the salary schedule in accordance to each employee's position and level. They are charged to the budgets of the branches or

entities with a ceiling for said salary of 25 times the daily general minimum wage that prevails in the Federal District (currently it is N$14.27.)

* The credit balance is adjusted at the end of every month based on the monthly average and taking the national consumer price index published by Banco de Mexico for the month that immediately precedes the month when the adjustment is made.

* The interests applied to the credits will be at a rate not lower than 2% per annum, payable on a monthly basis by reinvestment in the respective accounts.

* The interest rate is fixed, no less than every quarter, by the Federal Government or by issuers of the highest credit quality in accordance to the actual yield of long term securities that prevail in the markets.

* Any employee who is 65-years-old or that acquires a right to enjoy a retirement pension, retirement due to age or time of service, termination due to advanced age, total or permanent disability or permanent partial disability of fifty percent or more under the terms of the Institute's laws or of a pension plan established by a branch or entity, will be entitled to receive from the institution that manages his/her individual account and on behalf of the Institute, the funds of the savings account for retirement. The funds may be deposited in any financial institution designated by the employee in order to cover a life pension, or they can be delivered to the employee in a lump sum.

At the beginning of President Salinas de Gortari's government administration (1989-1994), as it may be seen by comparing the pension systems in force in ISSSTE's Act of 1984 with the 1974 Act, pension benefits were significantly increased although the financing premium for coverage was not. It was kept at 5% of the salary fee payment made by employees (fee in force since the Institute was established in 1959.)

At the beginning of the 1980's, an important effort was made to level off lower pensions. In 1985, they were finally comparable to the amount represented by the general minimum wages that prevailed in the Federal District. Ninety six percent of pension holders were included in this process, however, the average monthly income was of 1.2 minimum salaries.

Currently, the minimum pension in force since January 1, 1993, is N$428.10. Therefore, all pensions are above the minimum wages that prevail in the Federal District, and the minimum income that pension holders are given is estimated at N$524.00. Additionally, multiple social security and food coupons are taken into consideration. Only 0.6% of pension holders get this minimum income, while the average monthly pension is N$926.10, which is the equivalent of 2.16 times the general minimum wages used as reference.

However, as a result of the 80's financial crisis, an important decrease was seen in the level of income for retirees and pension recipients. At the present stage of the stabilization program this trend is beginning to reverse.

Due to the above-mentioned reasons and considering that the Institute's pension system is based on a system of layered premiums, we began evaluating the standards for financing premiums and of financial reserves. It was done in order to modernize and strengthen the pension system. As a result of this, certain changes were made to ISSSTE's law, which were published in January, 1993, in order to raise the amount of the lowest pensions. This represents a significant effort regarding the budget, taking into consideration that the amount of retirees is growing continuously. Also, the fees and allocations of the different insurance and benefit branches that are managed by the Institute were increased, so that it would have enough resources to provide more and better services to the population it covers. In general terms, we could say that the spirit of the Institute's new law issued in January, 1993, is to strengthen the pension fund by redistributing fees and allocations to increase the availability of said fund by 2 percentage points.

Within this process to modernize the system, the government employee's pension system is growing towards a mixed structure that may include several options.

1. A social security system that has correlation between the amount of fees paid and the benefits that are provided to members, as well as redistributing expenses among generations and keeping a balance by accumulating enough reserves that will make it possible to maintain a non-decreasing fund.

2. Alternative supplementary schemes, such as SAR, that follows the same characteristics as safety funds with fixed fees, benefits that are in accordance to personal resources accumulated by each employee insured, and the possibility that the person who pays fees will be able to turn the balance available in his/her account into a life pension or other financial options.

The progress of both options is closely linked to maintaining a favorable economic environment at the short and medium term that allows to turn around the loss of purchasing power of the salaries, as it has already been observed. Also, to improve the financial and operational efficiency of the institutions that participate in the process, as well as increasing the returns of the resources in the funds and generating necessary resources to face the increasing cost of pensions.

CHAPTER 7

THE SOCIAL SECURITY SYSTEM IN SPAIN

Pablo López Blanco

1. HISTORICAL DEVELOPMENT

Social security can only be understood from a historical perspective. From that point of view, social security systems joined history very recently as the result of long and continuous labor struggles.

Currently, no one understands existence without social security. However, for many centuries, workers and the general population lacked any type of social and health coverage, no matter how small.

For example, in the 9th Century poverty was considered as something unavoidable and normal, which only some charity work performed by the Church could mitigate.

During the 12th and 13th centuries, in the middle of a rebirth of urban life, cities begin to question poverty and to face destitution.

Associations of craftsmen and small burghers originated, as well as unions and fraternities that, throughout the years, acquired different organizational structures: charitable coffers, cooperatives, fraternities... The latter, which are still in existence in Spain for other purposes, lived through an age of splendor under the reign of the Catholic kings and the House of Austria. By the 17th Century, there were over 20,000. Their objectives were simple: to give assistance to their members during difficult times of life, such as illness, death, and burial.

In the 18th century, the government began to have its say. It established public assistance, municipal cooperatives, government pawn shops, and homes for foundlings. However, the outline was still the same as in the cooperatives: charity.

At the end of the 19th century, charity began to be legally regulated. The laws issued on February 6, 1882, and June, 1849, attempted to organize charity work into municipal and parish funds and to enumerate assistance benefits. As a matter of fact, the first definition appeared: "Charity represents the benefits that the government and private citizens must provide those who are unable to obtain them on their own."

Charity's balance, and we must not forget that it has kept itself standing for almost four hundred years, is a positive one, since it has responded to situations of extreme poverty that would otherwise have remained unheeded. The balance is negative in reference to parceling, lack of systems, fragmented orientation, and at times, religious fanatism.

2. THE BIRTH OF SOCIAL SECURITY

The Treaty of Versailles, the founding of the International Labor Organization, and the Russian Revolution, along with Bismarck's social measures in Germany, were the driving forces for government intervention in social security for its workers.

Spain also merged into this European trend. To begin with, it issued laws that eliminated unbearable situations such as, child labor (1900), protection against working hazards (1900), Sunday rest (1904), improved working conditions (1912 Silla Act, etc.). Different types of insurance came up later on which were responsible for providing protection for specific risks:

* In 1919, Mandatory Workers' Retirement was established that went through several changes. In 1939, its name was changed to Old- Age Subsidy, and in 1947, it also included protection against disability under a new title: Mandatory Insurance for Old-Age and Disability (SOVI).
* Maternity Insurance, 1929.
* The Family Subsidy, 1938.
* The Mandatory Insurance Against Disease, 1942.
* The National Unemployment Insurance, in 1961.

The National Insurance Institute that was founded on February 27, 1908, took over the role of managing all of the above-mentioned insurance schemes.

Since social security schemes were not sufficient, supplementary coverage appeared and grew. For example: Labor Mutuality and Plus Familiar.

A series of full professional insurance coverage merged into the above, such as the School Insurance, Household Pawn Shop, Funds for Entities and Companies, as well as managing agencies that are independent from each other. Among them are the National Safety Institute, Labor Mutualities, Safety Mutualities, and the Navy Social Security Institute.

This way a highly complex social security system came into being. Partial coverage systems, different managing agencies for identical situations, different financial basis for each system, and complicated legislation regarding estimated concepts of retribution found a way to coexist.

3. THE SPANISH SOCIAL SECURITY SYSTEM

Due to the above, it was unavoidable to implement a social security system that would respond to the following principles: standard application, clear financial systems, joint consideration for contingencies that are covered, incorporating individuals concerned into management, and government participation in finalizing the system.

Even though it is not at all as ambitious as the famous Beveridge Report on Social Security and Similar Services, our system intends to include some of the basic principles that the English politician upheld, such as unity and universal social coverage.

The Spanish Social Security System originated from the Bases for the Social Security Act in 1963, which was applied when the Social Security Act came into effect by Decree 907/1966 of April 21.

As of that date, the Social Security System took the shape of a financial organization devoted to protect its beneficiaries against certain contingencies with resources originating from employees, entrepreneurs, and government.

The system developed significantly in 1972 when Act 24/1972 of June 21 was issued to cover financing and to achieve perfection when coverage was provided under the Social Security General System, whose main objective is to up-date social benefits in accordance to the cost of living. A final provision in that Act urged merging it with the 1966 Act. This was done by Decree 2065/1974, which is still substantially in force, although it has gone through significant changes. Among them, it is worthwhile to point out Act 26/1985 of July 31st on Urgent Steps to Rationalize the Structure and Protective Activities in Social Security, which reduces the multiple amount of systems that existed at that time, and Act 26/1990 of December 20th which implemented, for the first time in our social history, benefits without payment of fees. The constitutional ordinance outlined in Art. 41 is complied with by doing this. Said ordinance provides that "public authorities will maintain a public social security system for all citizens that will guarantee enough assistance and social benefits in case of need."

4. CURRENT SYSTEM'S STRUCTURE

Spanish social security is integrated by different regulations which are jointly referred to as a system.

The general system protects free-lance workers in industry and services that are not included in special systems. They are divided as follows in groups of professional activities that due to their nature and peculiar situation make it necessary:

* Special Agrarian System
* Special System for Free-Lance Workers
* Special System for Carbon Mining
* Special System for Household Employees
* Special System for Seafaring Workers

Anyhow, the general system is the model that all special systems must follow eventually to achieve the highest degree of homogeneity possible.

5. SOCIAL SECURITY COVERAGE ACTIVITIES

Social Security coverage in Spain comprises three well-defined issues:

1. HEALTH BENEFITS which include health assistance in case of maternity, common or professional illness, and accident, whether or not it is related to the job, and professional recovery. The agency that is in charge of managing and processing health services is the

National Health Institute that is subject to the Ministry of Health and Consumption.

2. FINANCIAL BENEFITS in case of temporary working disability; disability; retirement; unemployment; death and survival; and family protection. The agency responsible for managing it is the National Social Security Institute of the Labor and Social Security Ministry.

3. SOCIAL SERVICES which are geared mainly to the elderly (overall lodging assistance and geriatric care; rehabilitation; social and medical assistance given by residents) fostering living in homes and clubs (grants given to non-profit organizations and cultural trips based on social tourism,) and to the disabled (reeducation and rehabilitation; transportation subsidies; out of the ordinary financial benefits, etc.) The National Social Services Institute (Ministry of Social Affairs) is in charge of managing these services.

6. STATUS OF FOREIGN WORKERS

In the beginning, only Spanish free-lance workers are included in social security's field of application.

However, the following individuals could also be benefited:

a) Iberoamericans, Portuguese, Andorrans, Philipinos, and Guineans that currently have legal residence in Spanish territory and that are equal to Spaniards.

b) Immigrants, whatever their nationality, in compliance with ILO's Agreement 97 that was ratified by Spain in 1967 and that commits the signataries to apply to immigrants "a treatment that is not less favorable than what they give to their own citizens" regarding social security.

c) European Community workers must comply with provisions of the By-laws of the European Community Council 1408/1991, 574/1972, and 1666/1985, which provide for equal treatment, paying full periods of fees in different countries, and to transfer benefits.

7. COVERAGE FOR SPANISH CITIZENS IN FOREIGN COUNTRIES

Article 42 of the 1978 Constitution clearly states that "The State will give special attention to safeguarding economic and social rights of Spanish workers in foreign countries," and the General Social Security Act of 1974, in the first additional provision, outlines that "The Government will adopt any necessary measures, so that social security coverage is given to Spaniards that travel to a foreign country for working reasons and to any members of their family that they are responsible for or who are dependent upon them."

In compliance with the above, the following steps have been taken:

a) Regarding health assistance, emigrant workers and their family who are temporarily deployed to Spain, have a right to health assistance by making a specific agreement with the Social Security System. These provisions also apply to sailors, Swiss Social Security pension holders that move to Spain and to returning emigrant workers.

   The above will apply as long as they are not covered by international treaties that Spain has subscribed regarding Social Security matters.

   Additionally, all emigrants who lack funds and reside in the country where they emigrated may benefit from the agreements subscribed by labor counselorships with hospitals, such as Mexico with the Spanish Hospital and the Iberoamerican Federation of Spanish Charitable Institutions.

b) In the field of economic social security benefits, first we must refer to international agreements subscribed by Spain based on the principle of obtaining the total amount of fee-paying periods. In the case of countries that have not subscribed international agreements, there is a possibility of entering into a special social security agreement that provides coverage for retirement, disability, and death and survival.

   Recently, due to Royal Decree 728/1993 published in May, the most important step in the history of Spanish emigration has been adopted by extending benefits without the payment of fees to Spaniards who reside in foreign countries. Therefore, Spanish emigrants over 65-years-old who lack sufficient resources may benefit from an assistance pension, if they fulfill certain requirements.

c) In reference to social services, the General Immigration Direction was incorporated to the organizational chart of the Ministry for Social Affairs. With this action, it is expected that coverage for Spanish emigrants will be expanded within the programs that this Ministry carries out. At the present time, there is special assistance in case of need; help for disabled emigrants or who want to return; assistance for travel to Spain, etc. In Mexico, steps are being taken to refurbish a residence for the elderly in Pachuca, social tourism to Cancun, emotional support entitled "Solidarity Between Generations," etc.

All of the above leads us to the conclusion that the level of coverage for Spaniards is very similar, regardless of their place of residence.

8. INTERNATIONAL AGREEMENTS

In order to extend social security coverage to emigrants, Spain has carried out an intensive conventional policy that has spread all over the countries with a large community of Spaniards.

In the European area, agreements have been signed with Germany, Andorra, Austria, Belgium, Finland, France, Italy, Luxembourg, The Netherlands, Portugal, the United Kingdom, Sweden, and Switzerland. In the Pacific area, there are agreements with Australia and the Philippines; in Africa, with Morocco; and in North America with the United States and Canada.

In Iberoamerica, activities have been reinforced significantly. On the one hand, social security agreements have been signed with Brazil, Chile, Ecuador, Panama, Paraguay, Peru, Uruguay, and Venezuela. On the other hand, last June 17 and 18, 1992, a very important Social Security Agreement with Iberoamerica was approved in Madrid, which has submitted to the Iberoamerican Conference for Chiefs of State. The purpose of this agreement is to foster and promote development for social security systems and to give support to activities that will lead to bilateral or multilateral programs of cooperation on this subject.

9. FINANCING THE SYSTEM

In 1992, Spain had 6,509,765 pension recipients. Almost half of them (3,009,050) were retired and the rest were divided into pensions for widowhood (1,678,159), disability (1,628,659), orphans (166,388) and benefits for other family members (27,509.)

In fifteen years the amount of pension recipients has gone from 3,592,005 in 1976 to six million and a half registered in 1992. In other words, 55.18% more in such a short time. We must add that the average pension was 23.617 Pesetas in 1982. It has increased to 66.797 in 1992, and during the past year the average pension for a retiree is 80.310 Pesetas. That is to say that there has been a gain in the purchasing power of 40.71%, which speaks very favorably of the budgetary efforts that have been made to bring pensions up to date in accordance to the actual cost of living.

Economic benefits, along with health assistance and social services, represent social security's global expense. In 1993, it has reached the surprising amount of 9.098.592 million Pesetas or 14.47% of the gross national product. In 1994, the net consolidated budget for social security will increase by 7.7% or 9,96 billion Pesetas.

Consequently, what are the available sources to finance the social security system? Mainly, there are two:

* payment of social security fees, and

* direct government allocations.

The first one refers to the payments that entrepreneurs and workers will make, and that will represent 64.3% of the 1994 budget of the system; four points less than in 1993 and based on 6.40 billion Pesetas.

Government allocations to social security will reach 2.56 billion, which represents an increase of 10.2% from the previous year.

On the other hand, on the subject of expenses, 66.7% is destined to pay for economic benefits to its members, which will reach 6.65 billion that will represent an increase of 9.75 compared to 1993. Health benefits are the second in importance taking 29.2% of the system's resources. This represents 2,91 billion and an increase of 6.5% from the previous year.

Finally, social services represent 2.6% of the total and represent 254.800 million Pesetas.

In summary and in order to provide an overview of the effort that keeping a public social security system represents in Spain, we can say that for every 100 Pesetas that the Spanish government spends, 22.60 is used for paying pensions; 10,80 for health expenses; and 13,40 for unemployment insurance. In total, 46.80 pesetas out of every hundred end up paying social expenses. This represents the status of well-being that we enjoy in our country at the present time.

10. CONSOLIDATING THE PENSION SYSTEM

The World Economic Outlook (1993) published by the IMF has warned industrialized countries to reduce their public deficit and review their social security systems, otherwise, according to the report, they run the risk of being unable to pay for pensions and other social benefits.

The document includes a series of estimates about the seven most developed countries. According to those estimates, before 20 years go by, pension recipients will represent over 53%. As an example, Canada would need 250% of its GNP; Italy, 233%; France, 216%; and Japan, 200% to face all their social responsibilities.

In view of this situation that would also affect Spain, it is necessary to adopt a series of measures to consolidate the pension system. A modernization process was begun by issuing Act 26/1985 for urgent measures to rationalize protective activities; Act 26/1990 for non-paying benefits, and Act 8/1987 for pension plans and funds that make up a public model (paying and non- paying) and another supplementary and free model (pension plans.)

Consequently, the stability of the public pension system currently demands that we consolidate the model for payments while respecting financial-economic balance and in accordance to proportional, contribution, and professional records.

The objectives that will be based on keeping the present levels of annual increase for the amount of pension recipients (2.2%) will be, among others, the basis for a systematical and proportional relationship in the contributions by adapting the content of coverage to the system's financial development; changing disability by treating the benefits in a more coherent and rational manner; separating the different cases that must be covered into paying and non-paying schemes; increase the struggle against fraud and homogenize the system's structure so that government employees are included in the social security pension system.

At the present time, a special system applies to career government employees, which is outlined in Royal Legislative Decree 670/1987 of April 30th, whereby approval is granted to what was included in Act and applicable to the Passive Government Class.

EVOLUTION OF WORKERS BELONGING TO SOCIAL SECURITY SYSTEM

(thousands)

SYSTEMS	1982	1985	1992	1992/1982	1992/1985
GENERAL	6.724,6	6.473,6	8.790,7	2.066,1	2.317,1
FREE-LANCE	1.657,7	1.876,2	2.157,9	500,2	281,71
AGRARIAN	1,715,7	1.677,2	1.256,8	-458,9	-420,4
HOUSEHOLD	372,5	331,1	172,5	-200,0	-158,6
COAL	49,9	50,7	37,5	-12,4	-13,2
SEAFARING	136,7	138,0	120,0	-16,7	-18,0
TOTAL SYSTEM	10,657,1	10,546,8	12,535,4	1.878,3	1.988,6

BALANC22

ANNUAL AVERAGE

Source: BEL num. 100 March 1993 AND S.S. GEN. TREASURY

VARIATIONS 1992/1988

GENERAL	1.078,6
FREE-LANCE	30,5
AGRARIAN	-265,1
HOUSEHOLD	53,5
COAL	10,1
SEAFARING	-21,9
TOTAL SYSTEM	758,5

RELATIONSHIP BETWEEN SOCIAL SECURITY EXPENSES AND GNP
(millions of current Pesetas)

	ECONOMIC BENEFIT		HEALTH ASSISTANCE					
	Amount	GNP%	Amount	GNP%	Amount	GNP%	Amount	GNP%
1982	1.614,578	8,25	787,515	4,02	31.422	0,16	2.459,056	12.57
1986	2.745,094	8,56	1.197,201	3,73	59.473	0,19	4.042,851	12,61
1989	3.766,432	8,43	1.851,135	4,14	143.716	0,32	5.865,758	13,13
1992	5.446,o1	9,20	2.466,534	4,17	201.908	0,341	8.270,670	13,97
1993	5.946,213	9,45	2.715,257	4,32	183.280	0,45	9.098,592	14,47

BALANC23

Source: S.S. ACCOUNTS AND BALANCES 1982-1991 FOR INITIAL EXPENSES AND BUDGET 1992-1993 GNP MINISTRY OF ECONOMY AND FINANCES

NOTE: EXPENSES ON THESE ASPECTS INCLUDE CHAPTER IV PLUS INVESTMENTS AND GENERAL EXPENSES.

EVOLUTION THE AMOUNT OF SOCIAL SECURITY PENSIONS

CLASS	1976	1982	1986	1992
RETIREMENT	1.959,012	2,307,016	2.535,699	3.009,0501
DISABILITY	713.107	1.215,367	1.490,439	1.628,6591
WIDOWHOOD	787.766	1.145,028	1.338,290	1.678,1591
ORPHANS	109.380	149.104	157.598	166.388 1
FAMILY FAVOR	14.476	20.971	23.466	27.509 1
OTHERS	8.264	157		
TOTAL	3.592,005	4.837,643	5.545,492	6.509,765

Data to December 31

VARIATIONS

CLASS	1982/1976		1992/1982	
	Absolute	%	Absolute	%
RETIREMENT	348.004	17,76	702.034	30,43
DISABILITY	502.260	70,43	413.292	34,01
WIDOWHOOD	357.262	45,35	533.131	46,56
ORPHANS	39,724	36,32	17.284	11.59
FAMILY FAVOR	6,495	44,87	6.538	31,181
TOTAL	1.245,638	34,68	1.672,122	34,56

BALANC24

SOURCE: INSS

EVOLUTION OF AVERAGE SOCIAL SECURITY PENSIONS

Amount in pesetas

	1982		1986		1992*		PURCHASING POWER GAIN	
GENERAL SYSTEM								
	Amount	Ratio s/1982	Amount	Ratio s/1982	Amount	Ratio s/1982	1992/1982	1992/1986
ALL DISABILITY	23.617	100	38.336	162,32	66.797	282,83	40,71	24,37
PENSIONS	27.453	100	42.406	154,47	72.340	263,50	31,10	21,76
RETIREMENT	28.773	100	47.601	165,44	80.310	279,12	38,86	20,42
TOTAL SYSTEM								
ALL DISABILITY	19.857	100	31.571	158,99	55.205	278,01	38,31	24,81
PENSIONS	21.781	100	34.070	156,42	58.619	269,13	33,90	22,81
RETIREMENT	22.232	100	36.499	164,17	63.248	284,49	41,54	23,69
I.P.C.		100		143,40		201,00		

*Data up to December 31

I.P.C. to December

Source: Monthly Evolution of Social Security Pensions

It is estimated comparing the ration obtained based on the amount of the pension and the result of the ratio from I.P.C.

EVOLUTION OF MINIMUM PENSIONS AND "I P C"
PENSION HOLDERS RESPONSIBLE FOR SPOUSE

MINIMUM PENSIONS	1982		1986		1992*		PURCHASING POWER GAIN	
	Amount	Ratio s/1982	Amount	Ratio s/1982	Amount	Ratio s/1982	1992/1982	1992/1986
RETIREMENT >65 YEARS & DISABILITY	20.315	100	32.560	160,28	55.725	274,30	30,62	16,90
RETIREMENT >65 YEARS	17.760	100	28.500	160,47	48.765	274,58	30,75	16,88
LARGELY DISABLED	30,470	100	48.660	159,70	83,590	274,34	30,64	17,34
I.P.C.		100		143,40	(*)	210,00		

BANAN26

(*) BASED ON AN EXPECTED INFLATION OF 4,5 FOR 1993

(1)ESTIMATED BY COMPARING THE RATIO OBTAINED BASED ON THE PENSION AMOUNT AND THE RATIO THAT COMES AS THE RESULT OF I P C EVOLUTION.

CHAPTER 8

THE CHILEAN PROPOSAL

Nicolas Starck Aguilera

1. INTRODUCTION

Chile is a country located at the South East end of South America. Its population amounts to 13,500,000 people, 5,000,000 of which belong to the labor force; while the unemployment rate has been maintained at roughly 5 per cent during the last years. The Gross Geographic Product, on the other hand, has reached some US$ 35,000 million, thus making a per capita product slightly above US$3,000; if the last parameter is adjusted, however, according to the parity observed in the purchasing power, following the estimates by the World Bank, a figure of US$7,060 is reached. The growth rate of the product was 10.4 per cent in the last year, and it is expected that the figure exceeds 6 per cent in 1993.

In the matter of social security, Chile was one of the first Latin American countries which introduced a general and compulsory social security system structured on the principles and concepts prevailing in the beginning of the century. Due to this circumstance, it is also the first to suffer the impact of the unbalances derived from the inorganic and expensive structure of the institutions and benefits, as a consequence of the model which favored the social rights of persons rather than obligations.

If we look back at the ideas which formed the social benefits and their managing institutions, we distinguish well defined periods in the evolution of the social protection systems in the country: the first, in which aid programs appear based on the public welfare, specially for the health and hospital care of the poorest and which, by extension, presented rudimentary forms of social assistance with limited participation of the State; later, as the country is industrialized, a second period arises in which the social insurances launched in more developed nations are introduced, in a process characterized by superposed institutional and legal institutions and their detachment from the national economic reality; subsequently, as a consequence of the crisis which affected the social security system, a period of diagnosis and discussion on the causes was started, the programs were reformulated and the management was rationalized; finally, the stage arrives in which the country adopts its own model supported by the free choice and the saving effort of persons, the administration being delegated to the private company.

Having developed an advanced social security system from the beginning of the century, at the end of the 70's, in the matter of social security 2.45 million active workers and 800 thousand pensioners are covered, thus making a total of 7.45 million persons if the family loads are added. In this way, 70 per cent of the population was protected.

Diagnosis of the social security situation before the modernization

In 1960, by special order of President Jorge Alessandri Rodriguez, the Commission on Social Security Studies is formed directed by Jorge Prat Echaurren, and a diagnosis on the different schemes and institutions is carried out. The conclusions, issued in 1964, were determinant when noting that the welfare system, in that moment, was "condemned to collapse because it was unfair, oligarchic, discriminatory and inefficiently onerous, both for salary and wage earners and for the national production". In spite of this somber outlook, the system managed to survive until the end of the 70's, the resource being to increase the financing of the State -which amounted to the third of the total social security expense- and to increase also the contribution rates.

The right to retirement, for instance, was different depending on the union sector to which the worker belonged. The workers affiliated to the Social Insurance Service were required 65 years and minimum contributions in the years previous to retirement. Employees, on the contrary, were required service years whose amount depended on the pressure capacity or the influence of the respective union. Thus, while the particular employee was retired having 35 years of service, the public employee was retired having 30, and other sectors only needed 25 years, as the banking personnel, or 15, in the case of the parliamentary personnel.

The administration of social benefits was charged to more than 30 Welfare Funds, seven Compensation Funds of Family Allocation, three Work Accident Mutual Organizations and diverse Health Services, a fact that -if not a defect- seems unjustified considering the covered population by each one of the agencies. As a whole, indeed, 90 per cent the total population affiliated to social welfare institutions belonged to the Social Insurance Service, the Particular Employees Fund and the Public Employees Fund.

With regard to regulation, the diversity of schemes determined a complex institutionality in which the making of the welfare policy corresponded to the Work and Social Welfare Ministry and other seven ministries: Health, Defense, Finance, Public Works, Interior, Education and Justice.

As to the social contingencies, the system managed to cover all those acknowledged by the doctrine and international organizations, awarding sickness, maternity, disability, old age, seniority, death, survivors, unemployment, work accidents and occupational diseases benefits, as well as family allocations, welfare pensions and housing programs financing. Even if the list of benefits was quite extensive, the system in general and the benefits in particular, presented many schemes established in a rich and complex legislation, and the contingencies were treated differently to the detriment of the less favored social layers, a situation specially evident in the case of pensions.

At last, with regard to financing, we must remark that the income of social welfare came not only from the contributions of the affiliated, employers and the State, but also from the very community through specific taxes. This situation —as a consequence of multiple schemes—gave rise to more than 50 combinations of rates and taxable limits which didn't provide an equitable distribution of the tax burden.

One of the aspects of the system which reflects clearly the situation attained in financial matters was the level of the contribution rates which the workers and employers should bear. As a whole, it reached 5 0 per cent the remunerations, thus affecting directly the cost of the human resource.

The latter situation is reinforced by the fact that in the decade 1956-1966, the real growth rate of the system's collections amounted to 170 per cent, while the national product only grew 66 per cent in the same period. During 1968 and 1972 the ratio was 79 per cent and 23 per cent, respectively.

Notwithstanding the reforms proposed by the report of the Prat Commission, appointed by the president Alessandri in 1960, in 1974 a process started which aimed, in the first phase, at rationalizing some schemes, making the benefits uniform and financing minimize the negative social seeking and economic effects.

2. MODERNIZATION OF SOCIAL SECURITY IN CHILE

Thus, among the action taken in 1974, the following can be mentioned: the creation of a Single Fund for the administration of family allocations, since the value of this benefits is standardized to all workers; the establishment of a common system of unemployment benefits; the setting of a general readjustment mechanism for pensions; the application of uniform requirements to get the old age retirement; and, the extension of the welfare pensions system to the poorest people, thus favoring the people above 65 without means and the disabled older than 18. With regard to the contribution rates, these were gradually reduced from 1975, in order to raise the employment index, and to diminish the hiring costs.

This modernizing process starts with the diffusion of a renewed social security model in the labor and employer sectors through the document entitled "Fundamental Bylaw on Principles and Bases of the New Social Security System". Such document forms a system which makes compatible the obligation of the State when offering the inhabitants an integral social security with the need for attaining high economic growth rates and suitable employment levels.

The Bylaw described the contingencies to be covered by the system, the basic schemes being; social medicine, pensions, family allocations, benefits for temporary unemployment, retirement indemnities, social credit, social welfare, welfare benefits and voluntary ascription benefits. Though the proposals included in this Bylaw didn't become legal norm, their merit made aware the need for the changes later introduced.

At the same time, substantial reforms were introduced designed to promote the development of a competitive and efficient financial market, compatible with the market economy, and later basic for the investment of the resources stemming from the Pension Funds.

With regard to this subject, it must be emphasized that most of our countries have been submitted to a process of adjustments whose main characteristic has been the transformation of the economies, formerly overnationalized, into economic structures with more active participation of the private sector and in which the market plays an important role in the allocation of resources.

In order to perform this change, it was unavoidable to face two basic challenges in our country:

a) To reorganize the State's finance in order to stop the inflationary, processes; and,

b) To strengthen, right away, the competitive capacity of the society as a whole, in order to face both, the internal and the external markets, in the best conditions.

To attain such objectives, the specialists agreed that it was necessary to advance simultaneously at least by six ways which would involve:

* To perform a monetary reform, aimed at restraining the inflationary processes, so that the economic system has liquidity and price stability, necessary for a suitable marketing of goods and services,

* A fiscal reform which allowed to decrease the fiscal deficits, which led to rationalize the government spending and to increase the fiscal income to the maximum;

* A price and salary deregulation, in order that goods and services transactions are more competitive;

* A transfer of public companies to the private sector, so that they recover the impetus of the sector, the income of the State is increased, and the resources so obtained are devoted to social investment rather than to government spending;

* To establish an exchange and customs policy designed to reinforce the exchange with other economies; and,

* To promote the establishment of a wide social network, able to mitigate the negative effects which, for most of the population, the above mentioned reforms would entail in the short term.

The development of the country, in the last two decades, can be described as a three-phase process. The first one ranges from 1974 to 1978, and is oriented to "economic reactivation"; the second one ranges from 1978 to 1985, and corresponds to "modernization of the economy"; and the third, started in 1986, is called "projection to the future". The areas on which the modernization of the country was focused were as follows:

* Labor plan;
* Welfare reform;
* Education reform;
* Health reform;
* Justice reform;
* Agriculture reform;
* Administration reform.

The State, on its part, adjusts its action in the social matters, so that its efforts are concentrated in the less favored sectors and activities are delegated to those which can perform them efficiently. Social welfare stops being considered as an instrument for income redistribution, a function which is carried out by a tax system which favors investments rather than consumption and assesses proportionally with higher taxes the higher income. The production apparatus starts to adopt decisions depending on an emergent market in which the decisions are increasingly concentrated.

Reform of the pension scheme

In the general framework previously described, the reforms to the pension and health schemes were introduced in 1980, in whose construction some changes are included which should innovate dramatically the approach to the role traditionally assigned to social security.

So, in November 1980, by the enactment of Law No. 3.500, the new pension system is born, based on the individual capitalization scheme which empowers the private societies to participate in the administration of the Pension Funds on a free competition plan. The funds must be invested in the institutions and the instruments of the capital market expressly indicated by law.

The decree No. 3 is published on May 1981, setting norms for the private institutions which administer the Preventive and curative medicine scheme.

Basic foundations of these reforms are the freedom of workers to choose the alternatives which best meet their level of satisfaction and the participation of the private sector in the administration of the pension and health schemes in conditions of competitions.

2.1 Foundations

One aspect considered in this modernization was that the functioning of the model- given the strategy of development chosen by the country - should assume the principles of the market economy, that is private administration, free choice, decentralization of programs and subsidiary role of the State.

2.1.1 Private administration

In the new model it was determined to delegate a substantial part of the social security administration to the private sector, thus creating the conditions of competition and responsibility to improve the quality of services and enlarge the coverage of benefits.

2.1.2 Free choice

The new model acknowledges the formation acquired by the worker with regard to rights and welfare obligations, and awards him/her the responsibility for deciding the most favorable options in the matter of institutions and benefits. This particularity, in addition to the benefits which in terms of personal satisfaction the worker receives, implies to raise the efficiency of programs through the competition provoked by the free choice among the institutions which offer the service.

2.1.3 Decentralization of programs

In the social security systems where programs of different nature are administered by the same institution, in most of the cases, troubles arise which obstruct the efficacy of each one of them. Among them, it must be emphasized the possible concealment of deficits through the transfer of resources among the programs; the troubles in control and supervision; and the political or sector pressures to direct funds in favor of a given power group.

In the new model, the trend is the specialization of programs, thus being created, in the necessary cases, institutional structures of their own, in order to avoid the mentioned negative aspects. Therefore, stock companies and non profit private law corporations coexist in the system to administer the different benefit schemes.

2.1.4 Subsidiary role of the State

This role implies that the State assumes only those functions that the particulars are not able to undertake and that are necessary from the social standpoint. In the range of social security, its duties are to regulate and supervise.

The financing of the system based on compulsory contributions and the social impact of the latter on the population compel the authority to be specially concerned with its functioning. With regard to this, the subsidiary nature of the State is made effective through the different bodies designed to guarantee the fulfillment of the legal and regulatory standards in force.

3. SOCIAL SECURITY STRUCTURE

The modernization of the Chilean social security, started in the seventies, implied a substantial change in the way the social security is approached and gave rise to a set of benefits and institutions which are presented as follows. In the last part of this section the sources of financing of each benefit with the respective amounts of spending for 1991 are included.

3.1 Benefits and allowances

The current social security system features social insurance programs for all those persons whose level of payment or income is sufficient to be entitled to, and welfare programs for those who are in such a poverty situation that can not opt for the former. Each one of these programs has a contingency and development nature, depending if the corresponding benefits are designed to cover certain facts or events related to health, the end or temporary break in the capacity to work and the family responsibilities, or if they tend to the training and development of persons.

The global structure of the system is presented in Table 1, and the programs designed to cover the social contingencies are identified as disability, old age and survivors pensions; health benefits, including preventive and curative medicine, work accidents and occupational disease care and work disability indemnities; family allowances, which consider the family and maternity allocations, and other benefits aimed at the family; the unemployment indemnities; and other welfare benefits like the feeding programs and the care for minors in irregular situation. Development programs, on other hand, in general include education, training, credit. housing, sport and recreation.

Regarding the type of coverage, the social insurance and welfare programs are identified in the same table. The former are aimed at persons who are paid regularly, thus being able to engage insurances against the risks of sickness, disability, old age, death and other; while the latter are designed to the poorest sectors, in order that they have minimum conditions of income, education, health, feeding and housing, mainly through welfare pensions, unemployment benefits, labor training, free preschool and basic education, free health care, school feeding and housing subsidies and care for minors in irregular situation.

Table 1

	PROGRAMS	ALLOWANCES AND BENEFITS	TYPE OF COVERAGE
CONTINGENCIES	PENSIONS	-DISABILITY -OLD AGE -SURVIVORS	SOCIAL INSURANCE AND WELFARE BENEFITS
	HEALTH	-PREVENTION AND CURE	
		-WORK ACCIDENTS	SOCIAL INSURANCES
	FAMILY ALLOWANCES	-FAMILY ALLOCATION -MATERNITY BENEFITS -REST MINOR CHILD	WELFARE BENEFITS
		-OTHER BENEFITS	SOCIAL INSURANCES
	UNEMPLOYMENT	-UNEMPLOYMENT BENEFITS	WELFARE BENEFITS
	OTHER WELFARE BENEFITS	-FEEDING PROGRAMS -CHILDREN IRREGULAR SITUATION	
DEVELOPMENT	EDUCATION	-BASIC -MIDDLE -SPECIAL -ADULTS	SOCIAL INSURANCES AND WELFARE BENEFITS
	CREDIT	-SOCIAL CREDIT	
	TRAINING-PROGRAM	SOCIAL INSURANCE COMPANIES	
		-PROG. SCHOLARSHIPS -SPECIFIC PROGRAMS	WELFARE BENEFITS
	HOUSING	-HOUSING BENEFITS	
	SPORT AND RECREATION	-SCHOOL -POPULAR	

Source: *12 years of Social Security Modernization in Chile,* CIEDESS, 1992

3.2 Managing Agencies

As previously mentioned, the new model envisages the participation of the private sector in the administration of pension programs, preventive and curative medicine, work accidents and occupational diseases, and family allocations. Thus, the pension scheme is managed by Administrators of Pension Funds (AFP) and Life Insurance Companies, organized legally as corporations; the preventive and curative medicine scheme is administered by Welfare Health Institutions (ISAPRE), which can be established indistinctly as companies or non profit private law corporations; and finally, the work accident and occupational disease and family allocations schemes, where the Mutual Organizations of Employers and the Compensation Funds participate both, respectively, as non profit private law corporations.

The participation of the State in pension programs corresponds to a transitional situation, and only designed to attend the workers affiliated to the previous system who opted for subsisting in it and the pensioners who receive old age, disability and survivors income in the old Welfare Funds. The corresponding functions are fulfilled by the Welfare Standardization Institute, which will decrease gradually the beneficiary population due to the fact that the new affiliated can not join legally the institution. The National Health Fund, on the other hand, assists the population whose income does not allow to join the plans of the private health institutions.

The welfare programs are administered by the Health Services, the National Board of Kindergarten, the National Board of School Aid and Scholarships, the National Service of Minors, the Municipalities and the Housing and Urban Development Service, among others.

The list of organizations involved in the administration of social security is presented in Table 2, classified according to the programs in which they participate and the public or private nature of the corresponding institution.

Table 2

ALLOWANCES AND BENEFITS		MANAGING AGENCIES PRIVATE	PUBLIC
PENSIONS	-DISABILITY -OLD AGE -SURVIVORS	-AFP[1] -LIFE INSURANCE COMPANIES	-INP[2]
HEALTH	-PREVENTION AND CURE	-ISAPRE[3]	-HEALTH SERV. -FONASA[4]
	-LABOR INCID. BENEFITS	-ISAPRE[3] -CCAF[5]	-HEALTH SERVICES
	-WORKS ACCIDENTS	MUTUALITIES	-INP
FAMILY ALLOWANCES	-FAMILY ALLOWANCE	-CCAF	
	-MATERNITY BENEFITS -REST CHILD MINOR	-ISAPRE -CCAF	-HEALTH SERVICES
	-OTHER BENEFITS	-CCAF	
UNEMPLOYMENT	-UNEMPLOY BENEFITS		-INP
OTHER WELFARE BENEFITS	-FEEDING PROGRAMS		-JUNJI[6] -JUNAEB[7]
	-CHILDREN IRREGULAR SITUATION		-SENAME[8]
EDUCATION	-BASIC -MIDDLE -SPECIAL -ADULTS	SUBSIDIZED EDUCATIONAL ESTABLISHMENTS	MUNICIPAL EDUCATIONAL ESTABLISHMENTS
TRAINING	-COMPANIES PROGRAM	-OTE[9] -OTIR[10]	-SENCE[11]
	-PROG.:SCHOLARSH. -SPECIFIC PROGRAMS		
CREDIT	-SOCIAL CREDIT	-CCAF	
HOUSING	-HOUSING SUBS.	-PRIVATE CORP.	-SERVIU[12]
SPORTS AND	-SCHOOL		-DIGEDER[13]
RECREATION	-POPULAR		

1 Pension Funds Administration
2 Welfare Standardization Institute
3 Welfare Health Institutes
4 National Health Fund
5 Family Allowance Compensation Fund
6 National Kindergarten Board
7 National School Aid and Scholarships Board
8 National Minors Service
9 Technical Training Implementation Bodies
10 Technical Intermediate Training Bodies
11 National Training and Employment Service
12 Housing and Urbanization
13 General Sports and Recreation Office

Source: *12 years of Social Security Modernization in Chile,* CIEDESS, 1992.

4. PENSION SYSTEM

4.1 The welfare pension program

In an economic system organized on free competition, inequalities with regard to abilities and opportunities of the individuals by necessity provoke differences in the income distribution. This fact, jointly with low relative income in the country, means that some people do not reach the minimum standard of living, which can be defined as the poverty line.

The Chilean social security has developed, on the matter, diverse welfare programs aimed at replacing, among others, deficiencies in feeding, education, health and income of the most needy and unprotected population. Such programs are financed by resources coming from the tax system which assesses higher the revenues of those persons with higher income.

The resources budgeted for those programs in 1992 amount to US$ 340 million, a figure equal to 1.18 percent the GGP, as presented in Table 2.8.1.

The efficient application of a focused social spending policy requires mechanisms that allow to identify the poorest sectors which must enjoy welfare programs.

To this end, the Social Information System was created. It provides, in addition, with information on the variations on the poverty level and the new needs of the individuals.

Table 2.8.1
Welfare Benefits

Program	Amount US$	GGP %
Supplementary Feeding	64.000.000	0.22
Preschool Care	12.000.000	0.04
School Feeding	81.000.000	0.28
Attention to Minors Irreg. Sit.	29.000.000	0.10
Single Family Benefit[1]	34.000.000	0.12
Welfare pensions	120.000.000	0.42
Total	340.000.000	1.18

[1] Budgetary period 1991.

Sources: *Budget Law of the Public Sector,* 1992.
Provisional data, Social Security Superintendency
Monthly Bulletins, Central Bank of Chile.

Source: CIEDESS.

4.1.1 Social Information System

To develop this system, it is basic to define the concept of poverty, since such definition allows to establish the indicators which will measure the level.

In general, a family is considered poor when unable to cover by itself its basic needs in feeding, clothing, health, housing and education. From this point of view, the best indicator of the poverty level is the relationship between the income available to the family and the cost of such basic needs.

Even if this indicator is suitable, others must be added to define, more precisely, the shortage areas of the poorest sector. This is how the methodologies and instruments are defined to stratify and privilege the needs of the latter, thus identifying the degree and area of poverty, as well as to analyze and control the efficiency of the social plans.

In order to attain the above mentioned, three instruments have been defined and used: the Extreme Poverty Map, the Card of the Social

Assistance Committees (CAS) and the National Socioeconomic Characterization Survey (CASEN).

a) Map of Extreme Poverty

Its main purpose is to identify the population settlements which present the highest ratio of families under the poverty line and their characteristics. It is made with information obtained from the Population and Housing Census carried out by the National Statistics Institute. The maps were prepared with data of the census held in 1970 and 1982, and the next one will be based on the results of the 1992 census.

b) Card of the Social Assistance Committees

This instrument (CAS), known also as social stratification card, consists of a questionnaire for the socioeconomic characterization of families in extreme poverty, which allows to concentrate the benefits of the welfare programs in the most needy population.

c) National Socioeconomic Characterization Survey

This survey (CASEN) is applied in order to diagnose the redistribution effects of the focused social spending policies in the poorest sectors and their return to the labor market.

The survey is conducted through systematic data collection, based on stratified population samples in the zones identified as poor in the Extreme Poverty Map. Of course, techniques of psychology, anthropology, sociology, statistics and others are applied, through interviews, measurement methods and information analysis.

4.1.2 Description of the welfare pension program

The welfare pension program (PASIS) was established in 1975 by Law 869 and is aimed at awarding pensions to persons older than 65 years and the disabled older than 18 lacking resources. The last requirement means to have no income of any source or, if any, lower than 50 per cent the minimum pension.

It must be remarked that the value of the minimum pension is equal to US$ 79.52 for those persons under 70 and US$ 83.90 for those above the mentioned age.

4.1.3 Requirements

The selection of beneficiaries is made through the data provided by the CAS Card, and the pension is renewed on a three-year basis provided that the conditions are met.

4.1.4 Financing

Welfare pensions are given by the National Welfare Fund, with resources assigned by the Welfare Standardization Institute, the Welfare Fund of the National Defense, the Welfare Department of the Police and fiscal contributions.

The fund is administered by the INP, the budget being, for 1992, US$ 120 million, equal to 0.42 per cent the GGP.

4.1.5 Managing and supervising agencies

The administration of the program is under the responsibility of the Regional headquarters and the payment corresponds to the Welfare Standardization Institute.

It is the responsibility of the Social Security Superintendency to administrate the program, and that of the Regional Development Under- Secretariats, through the municipalities, to coordinate and supervise the award of benefits in each municipality. On the other hand, the control of values involved falls into the responsibility of the Republic's General Controllership.

4.1.6 Evaluation and projections

The program benefits 300 thousand people, a figure not substantially changed in the last years. On the contrary, the demand not covered by this benefit is reduced, since only 21 thousand persons were in the waiting list at the end of 1991.

The results of the survey CASEN 1987 reported that this program covered roughly 10 per cent the persons above 65 years. 82 per cent the beneficiaries was not incorporated in any welfare system, corresponding the remaining percentage to cases in which the regulatory years for retirement were not completed.

In general, this program has been well aimed, since 62 per cent the total spending was concentrated in the poorest 30 per cent, and an effort was noted —just like in the Single Family Benefit—directed to actually improve the amount of benefits, rather than increase their coverage.

4.2 The old pension system

4.2.1 Description

In the seven years before the implementation of the model for the AFP - 1974 - 1980- the welfare system experienced a series of reforms designed to simplify and uniform the scheme of the Welfare Funds; to minimize the most discriminatory and unfair differences existing in the system; to detach the financing from some benefits which are not pensions of the welfare contributions; and to prepare the road to make the welfare change in 1980.

Among the main modifications, the following can be mentioned: the minimum pensions of the different Welfare Funds were unified in 1974; most of the institutions of the old scheme started to lower the contribution rates of their affiliates between 1973 and 1975; the Law 2,448 standardized the requirements of service years and age to obtain seniority and old age pensions in 1979 . In addition, 65 years for men and 60 years for women were set as the minimum age to obtain the benefit, in spite that those who had contributed long time could enjoy the pensions with younger ages. The same law established a mechanism of automatic pension adjustment to recover the purchasing power lost by inflation; in I981, contributions were left completely to the charge of the worker, though—as compensation—the gross earnings were increased; and finally, from March 1988, upon the enactment of the Law 18,689, the different Welfare Funds, except those of the Police and the Armed Forces, were merged in the Welfare Standardization Institute (INP).

In spite of these modifications, some basic characteristics of the old scheme were not corrected, namely the affiliation by type of work and the financing "right away", known as pay-as-you-go system, and some differences were maintained in the Welfare Funds merged in the Welfare Standardization Institute, since such merge didn't involve unification in terms of the corresponding benefits.

The system of Welfare Funds will reduce gradually its participation in the pension benefits, since—as previously mentioned—the new dependent workers are compelled to join the AFP . As of December 1991, however, this system had yet 340 thousand affiliated and more than one million pensioners. Given the diversity of schemes in the INP, it is impossible to mention each one of them. We will present, however, a general description of the three main systems: the Social Insurance Service, the Private Employees Fund and the Public Employees Fund, which join over 90 per cent the total contributors of the old system.

4.2.2. Financing

The Welfare Fund Act, as previously mentioned, based on a system of financing pay-as-you-go, that is, the pension benefits are paid with the contributions of the active workers. Considering that such contributions are not sufficient for the payment of pensions, however, the State must contribute to complete the required financing.

4.3. The new pension system

With the enactment of Law 3,500 dated November 1980, a compulsory scheme comes into force in Chile based on the individual capitalization of the contributions defined, with competitive private administration and free choice for the affiliated. Such scheme -the first known with these characteristics in the social security systems- replaces the old pension system with distribution financing, government administration and benefits defined.

The workers affiliated to the old scheme and those who started their work up to December 1982, could choose between both pension systems, but the remaining workers are compelled to be incorporated in the scheme established by the mentioned law. Therefore, with regard to pensions both systems will coexist for a while, and their benefits, financing and managing institutions will be dealt as follows.

4.3.1. Description

The individual capitalization system compels the dependent workers to save in a personal account open in a Pension Funds Administrator of their choice, in order to finance their old age and disability pensions, as well as those of survivors for their beneficiaries. The independent workers can be incorporated voluntarily in the system.

The State, in its subsidiary role, guarantees a level of minimum pensions for those workers who, meeting the requirements later indicated, haven't accumulated the funds sufficient to reach the mentioned level. The amount of the minimum pensions is detailed in Table 2.1.1.

The old age, disability and survivors pensions awarded by the system have, each one, their own financing and can be paid in the form of programmed retirement, immediate life annuity or temporary income with deferred life annuity.

The old age pensions are designed to maintain the continuity of cash income for those workers who, as a consequence of age, have lost the capacity of earning. The law establishes 65 years for men and 60 for women the age to be entitled to this benefit. Some provisions allow, however, to be pensioned before such ages are reached.

The disability pensions are directed to replace the remunerations of those workers who, during their active life, were affected by a sickness or common accident which makes them disabled.

Disability, in this matter, can be total or partial. It is total when the lost capacity to work is, at least, two thirds; and partial when such lost capacity is above the 50 per cent and below two thirds. The disability caused by work accidents or occupational diseases gives rise to the benefits ruled by the Law 16,744.

The survivors pensions are generated when the active affiliated or pensioner is deceased and are awarded to the spouse, disabled spouse and the children who meet the requirements defined by the Law. In given cases, the mother of natural children of the contributor and the parents of the affiliated are also entitled.

Table 2.1.1
Amount of minimum pensions

Benefit	Monthly Amount US$
Old age and disability	
Pensioners under 70	73
Pensioners above 70	77
Survivors	
Pensioners under 70	
- Widow without children	44
- Widow with children, mother widow and disabled parent	37
- Orphans and other survivors	11
Pensioners above 70	
- Widow without children	55
- Widow with children	47

Source: CIEDESS based on applicable laws.

4.3.2 Requirements

To be entitled to the system benefits the requirement is to be incorporated, as affiliated, to a Pension Funds Administrator (AFP). Such affiliation is: compulsory for all the dependent workers who have started to work after December 31,1982; voluntary for the independent workers and those who started their labor activity before January 1, 1983, including the affiliated to the old pension system; and permanent, when subsisting during all the life of the worker, be he in activity or not.

The specific requirements to be entitled to the old age, disability or survivors pensions established by the new system, are detailed as follows:

Old age Pension

Those affiliated who are 65 years old, in the case of men, and 60, in the case of women, are entitled to this benefit.

If the balance accumulated in the individual account, however, allows them to finance a pension equal or higher than 50 per cent the average updated taxable remunerations, corresponding to the last 10 years, and equal or higher than 110 per cent the minimum pension, they can exercise their right to obtain earlier the old age pension.

If the balance accumulated in the individual account is not enough to finance a pension equal to the minimum, the funds of the affiliated are supplemented by a state contribution, provided that the following requirements are met: to be 65 or older, if man, and 60 or older, if woman; to record at least 20 years of contributions or computable services in any of the welfare systems, which are completed with the periods in which the affiliated received unemployment benefits, but for a maximum of three years; and not to receive any income equal or higher than the minimum old age pension.

Disability pension

Those affiliated who are not pensioners and are below 65, if men, and 60, if women, and who, as a consequence of sickness or common disease, are permanently damaged in their capacity to work are entitled to the disability pension.

The requirements to request this benefit are: if dependent worker with contract in force, to be contributor in an AFP; if independent worker, to have contributed in an AFP in the calendar month previous to the disability statement; and, if dependent worker unemployed for a period no longer than 12 months, to record at least six months of contributions in the previous year counted from the last day of the month in which he/she stopped rendering services. In the case of workers who start their labor activity -if the event occurs before the affiliation- they are considered incorporated in the AFP in which the employer, at the date of the accident, has the larger number of affiliated workers.

Survivors pension

The requirements for the beneficiaries of a deceased worker to choose the survivors pension, correspond to those indicated for the disability pensions as of the conditions to be met the affiliated in the moment of the contingency. Such requirements are: if the worker was dependent with contract in force, to have contributed in an AFP; if the worker was independent, to have contributed in an AFP in the calendar month previous to the decease; and if the worker was dependent unemployed for a period no longer than 12 months, to record at least six months of contributions in the previous year counted from the last day of the month in which stopped rendering services. In the case of workers who start their labor activity -if the event occurs before the affiliation- they are considered incorporated in the AFP in which the employer, at the date of the accident, has the larger number of affiliated workers

4.3.3 Financing

The pensions established by Law 3,500 are financed by the balance accumulated in the individual account of each affiliated. If such balance, however, is not sufficient to finance a pension equal to the minimum, the funds of the affiliated are completed by a government contribution, provided that the worker meets given legal requirements. Such contribution is made once the resources of the individual account are depleted or when the amount of the life annuity—in the case of persons covered by this type of pension—is lower than the minimum pension.

The balance accumulated in the individual account by each affiliated is formed by the capital accumulated all the time the account is outstanding, plus the Acknowledgment Bonus, plus the additional contribution the Administrator must give in the cases of disability and survivors, plus the transfers the affiliated does from his/her account of voluntary saving.

Capital accumulated by the affiliated

This capital is formed by the compulsory and voluntary contributions of the worker and the revenues obtained by the investment of the fund, deducted from these resources the commissions collected by the Administrators as service fees.

The compulsory contributions are on the account of the affiliated and constitute a percentage of his/her monthly earnings or taxable income, with a ceiling of 60 Promotion Units, equal to US$ 1,308. The contributions are formed by a basic amount of 10 per cent and an additional variable percentage, depending on the Administrator, devoted to finance and to underwrite a disability and survivors insurance.

The voluntary contributions correspond to the contributions the affiliated freely—and without limits in the quantity—wishes to enter in the capitalization account, in order to increase the balance and so to increase the amount of the future pension or anticipate the retirement age. These contributions, up to a maximum 60 Promotion Units, are not considered as income for tax purposes.

The revenue of the individual capitalization accounts corresponds to the capital gains produced by the investment in the financial market of the resources accumulated in the Pension Fund. The legal norms set different mechanisms to protect these resources, which are aimed at limiting the risk, encouraging the transparency of operations and facilitating the supervision of the investment process. In addition, the law protects the worker against the risks derived from an inefficient performance of the Administrator in the fund investment, since the latter is required a minimum revenue with regard to the average total funds handled by the AFP.

Acknowledgment Bonus

The Acknowledgment Bonus is an instrument issued by the Welfare Standardization Institute which represents the estimated value of the capital necessary to pay the pension that, in theory, the affiliated had paid in the old welfare scheme at the moment it was transferred to the Administrator. Such Bonus -which is issued to the account of the worker- is stated in money and its value is adjusted to the variations in the Price Consumer Index, plus a real annual interest of 4 per cent, up to the date in which the affiliated reaches the age of pension, or if disabled or deceased. In this opportunity,the value of the Bonus is transferred to the capitalization account of the worker, and it is included in the balance accumulated used to finance the pension. The law authorizes the assignment of rights of the Bonus by simple endorsement, in order that, if this instrument can be negotiated in the formal secondary market, its price and liquidity improves, thus facilitating the option of anticipated pension.

Additional contribution

The additional contribution is incorporated into the system as a source of financing of the disability and survivors pensions and its amount results from the difference between the capital necessary to pay these pensions and the funds accumulated by the affiliated in the individual account, as of the date in which the affiliated dies or is declared disabled.

The Administrator is responsible for making this contribution, and -to guarantee the payment- must underwrite a contract with any life insurance company, whose premium is financed by the AFP with own resources.

Necessary capital is understood as the amount required to pay the affiliated a life pension and, once deceased, to his/her beneficiaries entitled to pension, in the corresponding rates as shown in Table 2.1.3. The necessary capital depends, therefore, on the life expectations of the family group and on a discount rate determined by the Administrators based on the revenues of the Pension Fund and the interest rate implied in the life annuities awarded pursuant to the Law 3,500.

Voluntary savings account

The worker is able to deposit voluntarily, in the Administrator where he/she is affiliated, the values he/she wishes and in the frequency considered suitable, which will be credited in an individual capitalization account, named voluntary savings account.

Such deposits are not welfare contributions for the purposes of the income tax law, and the Administrators are empowered to charge the affiliated holder of the account some fixed commissions for the withdrawals, designed to finance the management.

The affiliated can transfer all or part of the funds in the voluntary savings account to the individual capitalization account in order to increase the amount of pension or to collect the capital required to be pensioned in advance.

4.3.4 Modalities of pension

Those affiliated who meet the requirements to be entitled to the old age pension and those declared disabled -once the second opinion is issued- will be able to dispose of the balance in the individual capitalization account in order to form a pension.

In order to make effective the pension, each affiliated can choose freely among the following modalities: Programmed Retirement, Immediate Life Annuity and Temporary Income with Deferred Life Annuity.

Programmed retirement

In this modality the worker, when pensioned, maintains the individual account in the Administrator to which he/she is affiliated and on a yearly basis—in monthly payments—he/she withdraws the amount resulting from dividing the balance accumulated by the capital necessary to pay one pension unit and, when deceased, the amount is paid to the entitled beneficiaries. Such annuity is expressed in Promotion Units, is recalculated every 12 months and the Administrator is responsible for the payment.

The worker, when this modality is chosen, maintains the ownership of the funds, so that—if deceased—they are dealt as inheritance if no pension beneficiaries exist.

In any moment, the affiliated can revoke the decision in favor of the programmed retirement and opt for the alternatives of immediate life annuity or temporary income with deferred life annuity.

Immediate life annuity

Those affiliated are entitled to underwrite the payment of the pension with the Life Insurance Company they freely choose, which engages to pay a monthly income expressed in Promotion Units—until they die and, later, survivor pensions to their beneficiaries. In this pension modality, the worker loses the ownership of the funds accumulated in the individual account, which are transferred to the Insurance Company.

Temporary income with deferred life annuity

In this modality, the worker underwrites with a Life Insurance Company the payment of a monthly life annuity expressed in Promotion Units—from a future date later than the time in which is pensioned. In the period between the date in which this alternative is chosen and the date in which the payment of such income begins, the affiliated receives from the Administrator a temporary monthly income estimated similarly to the programmed retirement, which is financed by the funds withheld in his/her individual capitalization account for that purpose.

4.3.5 Managing Agencies

The pension system is administered by private institutions, named Pension Fund Administrators (AFP), which must be formed by companies whose only object is to administer a Pension Fund and award the allowances and benefits established by the bill 3500.

The Life Insurance Companies participate also in the administration of this new scheme through the sale of life annuity insurances; the payment of the agreed pensions; and the financing of the difference—in the case of death or total disability—produced between the current value of pensions and the balance accumulated by the affiliated in the individual capitalization account.

4.3.6 Supervising Bodies

In order to facilitate the control and supervision of the system and to avoid conflict of interests, it was established that the Pension Funds Administrators were one-business companies, and a specialized supervising agency was created —the Superintendency of the AFP—which is an autonomous body related to the Government through the Work and Social Welfare Ministry. Such agency is responsible for the supervision and control of the Administrators as welfare institutions, thus guaranteeing their efficient and transparent operation and protecting the wealth accumulated by the workers.

Table 2.1.6
Estimated amount of old age pension[1]
(percentage of the taxable income)[2]

Taxable Income (US$)	Annual real revenue 5%[3]		Annual real revenue 6%[3]	
	Man %	Woman %	Man %	Woman %
Alternative A: 7 per cent of the non contributed period				
66	81,8	53,7	115,4	73,3
105	83,5	54,8	117,8	74,8
263	85,2	55,9	120,3	76,4
526	85,8	56,3	121,1	76,9
947	86,0	56,5	121,5	77,1
Alternative B: 10 per cent of the non contributed period				
66	80,7	52,6	114,2	71,9
105	82,4	53,7	116,6	73,4
263	84,1	54,8	119,0	74,9
526	84,6	55,1	119,8	75,5
947	84,9	55,3	120,2	75,7

[1] Assumptions: a) Fixed commission of the system: US$0,44; b) Growth of taxable salaries: 2 per cent real annual up to 50 years; c) Age work begins: 22 years; d) Affiliated man supposes 60 year spouse, and e) Affiliated woman does not suppose any beneficiary.
[2] Average last 10 years.
[3] Revenue of the Pension Fund.

Source: CIEDESS

Table 2.1.7.
Amount of pensions paid by the system and pursuant Law 3500

	Old system			New system		
Years	Old age US$	Disab. US$	Surviv. US$	Old age US$	Disab. US$	Surviv. US$
1981	68	92	49	–	N/A	N/A
1982	63	94	47	–	290	107
1983	64	98	47	64	257	100
1984	69	103	49	70	213	86
1985	64	97	47	68	197	83
1986	66	100	49	80	195	83
1987	62	94	47	83	193	81
1988	68	99	51	101	202	85
1989	68	99	52	116	202	88
1990	73	92	56	122	198	86
1991	84	106	66	149	206	92

N/A.: not available

Sources:
Annual Bulletins, Social Security Superintendency.
10 Years of History of the AFP system, 1981-1990, edited by AFP Habitat, 1991.
Statistical Bulletin, Pension Fund Administrators Superintendency, No. 102 and 108.

Source: CIEDESS.

Table 2.1.8
Population covered by the Chilean pension system

Year	Labor force	Old scheme[1]		AFP System	
		Contributors	Labor force %	Contributors	Labor force %
1980	3.636.000	2.227.000	61,2	0	0,0
1981	3.688.000	1.013.000	17,5	N/A.	N/A.
1982	3.661.000	648.000	17,7	907.000	24,8
1983	3.768.000	602.000	16,0	1.055.000	28,0
1984	3.891.000	557.000	14,3	1.139.000	29,3
1985	4.019.000	454.000	11,3	1.322.000	32,9
1986	4.270.000	442.000	10,4	1.494.000	35,0
1987	4.354.000	435.000	10,0	1.676.000	38,5
1988	4.552.000	423.000	9,3	1.772.000	38,9
1989	4.675.000	348.000	7,4	1.918.000	41,0
1990	4.729.000	330.000	7,0	1.962.000	41,5
1991	4.794.000	320.000	6,7	2.118.000	44,2

N/A.: not available

[1] The contributing population in the old scheme for 1990 and 1991 has been estimated based on historic data.

Sources:

Population 15 Years and More by Situation in the Labor Force, according to periods, INE.

Annual Bulletins, Social security Superintendency.

Statistical Bulletin, Pension Fund Administrators Superintendency, No. 108.

Source: CIEDESS.

5. ADMINISTRATORS OF PENSION FUNDS

5.1 Juridical Nature

The Pension Funds Administrators (AFP) are companies whose only aim is to administer a Pension Fund and award the allowances and the benefits established by the Law 3500 of 1980.

In order to form an Administrator a minimum capital of five thousand Promotion Units is required, which must be subscribed and paid at the time in which the respective incorporation charter is issued. Furthermore, these agencies must maintain a wealth equal to the minimum capital required, which must grow in relation to the number of the affiliated, as described in Table 3.1.1.

Table 3.1.1
Minimum capital required for the AFP

Number of affiliated from	Number of affiliated up to	FU	Minimum capital US$
0	4.999	5.000	109.030
5.000	7.499	10.000	218.060
7.500	9.999	15.000	327.090
10.000	or more	20.000	436.120

Source: CIEDESS based on the applicable legislation.

The Superintendency of Pension Funds Administrators is the body responsible for issuing the resolutions which authorize the AFP and for approving their Bylaws. The Administrators -once their operations start- are engaged to maintain, at least, an agency or bureau nationwide, and to inform the public on the address, directory, capital, Pension Fund, investments, value of the rate, commissions, agencies and branch offices, according to the general norms set by the Superintendency.

The only and unique object of the AFP allows, on one hand, the most direct and effective supervision of the system and, on the other, that the decisions taken by the worker when choosing Administrator are based on considerations peculiar to a given pension scheme—profitability, security and quality of services—, not on aspects which favor "other benefits" outside the system.

The Administrators are subject to strict regulation and control mechanisms in order to guarantee the attainment of their objectives, which is justified since pensions represent a basic social need whose financing is based on the compulsory saving of the persons. In this matter, the law and a set of regulatory provisions supervise their functioning and define the characteristics of operation, the affiliation procedures, the benefits scheme, the requirements to entitlement, the way of awarding and the commitment to inform the public. Furthermore, in order to protect the workers' saving, norms are considered on the evaluation and composition of the investment portfolio, the separation of the Pension Fund from the managing AFP, the acquisition of titles issued by companies related to the Administrator and the operation of investments through the formal secondary markets.

5.2 Role in the social security modernization

Elapsed 12 years since the first operation of the AFP system in Chile, the results reflect, of course, a significant breakthrough in the modernization of social security and a relevant contribution to the national development. The reforms involved in the new model not only have implied increased benefits and less costs for the affiliated, but also have favored the economy as a whole through the important accumulation of the welfare saving originated by the individual capitalization system.

With regard to pensions, the benefits awarded to the affiliated by the Administrators exceed, in most of the cases, those which could be attained in the old scheme, a fact that reinforces one of the main characteristics of the model: the amount of the benefits are determined by the very affiliated with his/her effort in saving.

In the new welfare system, indeed, the value of pensions is directly related to the resources accumulated in the account of the affiliated, which clearly encourages the individual to increase the resources. Therefore, the personal effort involved in the periodical payment of contributions is directly compensated by the amount of the future pension, compared to the distribution scheme of the old Welfare Funds where this ratio was inexistent since the contributions were entered in a common fund. The new system, then, acknowledges the individual ownership of the accumulated funds, and the affiliated, of course, is more concerned with an efficient use of the resources.

The automatic readjustment of pensions, expressed in Promotion Units, is another advantage of the new system. In the old scheme, the value of pensions could only change according to a discretional handling on the matter by the authorities, a situation which meant spoiled pensions in real terms for many years.

The system envisages, furthermore, a minimum level in the old age, disability and survivors pensions, applied generally and uniformly, whose financing stems from the general tax resources of the country. This warrant acts when the individual saving is insufficient to attain the minimum level. Then the State gives the necessary supplement, thus the effect of solidarity and security being reached in the base. The previous welfare scheme considered also a minimum pension; in the current system, however, the situation is more clear, since the State enters only the difference between the required and the accumulated by the affiliated.

The new system gives the worker a wide margin of participation, which is shown in the many decisions to be taken in diverse matters. Thus, the affiliated is free to choose the AFP and to be transferred to another in any time; to make additional contributions and deposits in a voluntary saving account; to be pensioned in advance; to decide on the type of pension and the amount; and to choose the Life Insurance Company, to opt for a life annuity, or the AFP, as well as to select the modality of programmed retirement.

This freedom allows the worker to watch over the way in which the funds are administered. It means also to be concerned both with the profitability of the investment and the costs involved when contributing to the Administrator. The free choice has introduced the element of competition in the market of the AFP, which has reinforced the efficiency, stability and security of the new system, and the Administrators are induced to a constant effort which reduces the welfare costs implied by fixed and variable commissions. In Table 3.1.2 the dramatic fall of these commissions since 1984 is presented.

Table 3.1.2.
Cost for the affiliated in the AFP system

Years	Average monthly cost[1] US$	percent Variation %
1981	8,3	---
1982	9,2	10,8
1983	12,3	33,7
1984	11,9	(3,3)
1985	11,5	(3,4)
1986	11,1	(3,5)
1987	10,7	(3,6)
1988	10,3	(3,7)
1989	9,4	(8,7)
1990	9,1	(3,2)
1991	9,0	(1,1)

[1] Cost for the contributor who earns US$262, similar to the average in the system. It includes fixed commissions, percentage on the balance and percentage on the taxable remuneration.

Source: CIEDESS based on information from the Pension Funds Administrators Superintendency.

Regarding economics, the funds accumulated in the individual accounts have contributed relevantly to finance the national development, thus allowing a wide participation of the labor force in the ownership of the production goods. The investment of the welfare saving in sectors and activities productive and profitable for the country has impacted favorably, through the increased growth rates of the economy, the improved employment levels and real remunerations.

On the other hand, the resources of the Pension Funds have influenced significantly the development of the financial intermediary market. The increased demand for financial instruments, the introduction in the market of new opportunities of investment, plus the strict control and the utmost information required by the administration of the welfare resources, are some factors which have affected the modernization of the financial sector, in addition to the rapid introduction of state-of-the-art technology.

At last, in the institutional and administrative field, the new system has exploited the advantages offered by the private enterprise, which—as it acts in competition—must constantly make the most to decrease costs and improve services, through the incorporation of new technologies, updated operative procedures and efficient use of the resources. On the other hand, being the state agencies replaced by private companies, responsible for the results and submitted to the competitive discipline, the independent decision centers have been increased and the risk that -due to political, union or sector pressures- the welfare funds are devoted differently from the original object of the system, has been minimized.

A good operative development of the Administrators is reflected in the different services the affiliated and pensioners are receiving. Thus, for instance, the public is served and informed in over 400 branch offices along the country, and some services even are provided in the work place of the affiliated; preliminary and provisional pensions are awarded, which allow to obtain the benefit from the tenth day of application; the pensioners are offered diverse payment alternatives for the programmed retirements and temporary income, such as deposits in current accounts, use of bank tellers, payments at home and direct delivery at the offices of the Administrator; telephone and mail services are provided for consultation and information; and every four months, a standardized report is sent to the address of the affiliated with the contributions entered, the commissions charged, the profit in the period and the balance accumulated in the individual account.

Table 3.1.6.
Development of the Pension Fund of the AFP system

Years	Pension Fund		Accumulated Growth	GGP	Accumulated Fund
	Annual Growth	Accumulated			
	MUS$	MUS$	%	MUS$	%
1981	210.000	210.000		21.686.000	1,0
1982	540.000	660.000	214	18.630.000	3,5
1983	540.000	1.200.000	417	18.499.000	6,5
1984	364.000	1.564.000	645	19.672.000	8,0
1985	621.000	2.185.000	941	20.153.000	10,8
1986	678.000	2.863.000	1.263	21.516.000	13,4
1987	644.000	3.507.000	1.570	22.516.000	15,6
1988	769.000	4.276.000	1.936	24.172.000	17,7
1989	1.009.000	5.285.000	2.417	26.587.000	19,9
1990	1.723.000	7.008.000	3.237	27.157.000	25,8
1991	2.911.000	9.919.000	4.623	28.787.000	34,5

Sources:
Annual Bulletins, Central Bank of Chile.
Statistical Bulletin, Pension Funds Administrators Superintendency, No. 108.

Source: CIEDESS.

In Table 3.1.7 the composition of the fund investments is presented for the period 1981-1991, whose items must be maintained—at least 90 per cent of them—in the care of the Central Bank. To this end, the institution has developed and implemented a system specially designed for these funds, where all the input/output information on titles is handled by computers.

It must be emphasized that the wealth of the Pension Funds is independent from the wealth of the Administrators. Consequently, the possible bankruptcy of such societies does not cause capital loss for the affiliated, who must, in the event of such situation, transfer the resources to other Administrator.

According to the law, it is the Administrators' responsibility that the real profitability in the last 12 months of the Pension Fund be not lower than the lowest resulting between the real profitability in the average last 12 months of all the funds, less two percent points, and the 50 per cent of the real profitability in the average last 12 months of the same funds.

This minimum profitability is guaranteed with the actual reserve, which corresponds -as previously indicated- to the assets of the Administrator, and with a reserve of profitability fluctuation, which is formed by the average profitability surpluses of all the funds plus two points or plus the 50 per cent the latter.

Table 3.1.7.
Investments of the Pension Fund of the AFP system

Years	Deposits and bank bonds		Mortgage bonds		Central Bank		Treasury		Company bonds		Shares	
	MUS$	%[1]	MUS$	%	MUS$	%	MUS$	%	MUS$	%	MUS$	%
1981	130.000	62	20.000	10	58.000	28	1.000	0	1.000	0	0	0
1982	178.000	27	312.000	47	29.000	4	145.000	22	4.000	0	0	0
1983	33.000	3	605.000	51	168.000	14	363.000	30	26.000	2	0	0
1984	205.000	13	682.000	43	262.000	17	406.000	26	29.000	1	0	0
1985	457.000	21	771.000	35	444.000	20	485.000	22	24.000	1	1.000	1
1986	665.000	23	732.000	25	746.000	25	593.000	20	24.000	1	175.000	6
1987	982.000	27	744.000	21	1.036.000	29	406.000	11	91.000	3	353.000	9
1988	1.278.000	27	894.000	19	1.302.000	28	233.000	5	278.000	6	702.000	15
1989	1.153.000	20	948.000	17	2.042.000	36	186.000	3	487.000	9	907.000	15
1990	1.206.000	17	1.120.000	16	2.961.000	43	107.000	2	776.000	11	787.000	11
1991	1.321.000	13	1.329.000	13	3.717.000	37	88.000	1	1.107.000	11	2.367.000	25

1 Participation in the total investments of the Pension Fund of the respective year.

Sources:

10 Years of History of the AFP System, 1981-1990, edited by AFP Habitat, 1991.
Monthly Statistical Bulletins, Pension Funds Administrators Superintendency, No. 102 and 108.

Source: CIEDESS.

5.3 Supervising bodies

The supervision and control of the system corresponds to the Pension Funds Administrators Superintendency, an autonomous agency, with juridical status and own capital, which is ruled by special organic Bylaws and is related to the Government through the Work and Social Welfare Ministry.

The Central Bank of Chile, empowered to set the maximum investment levels in the instruments which form the portfolio of Pension Funds and to assume the custody of the titles representative of investments, in some way takes part in the actions to control the system. The Value and Insurance Superintendency acts also as supervisor of the Administrators, only in the sense that the latter are issuers of public offering values.

At last, the Risk Rating Commission, an autonomous agency, is the responsible for designing the compulsory rating methodology for the investment instruments of the Pension Funds and for approving the respective projects presented by Administrators each month.

6. SOCIAL SECURITY MODERNIZATION AND DEVELOPMENT

In the search for welfare, people aspire—from the economic standpoint—to dispose of the most goods and services as possible, and to develop the actions by which the resources can be obtained. The result of this search is measured, for the overall population, by the Gross Geographic Product (GGP).

The production of goods and services is obtained by the use of production factors and the application of technology, whose quantity and quality will determine the capacity of the country to attain a given GGP.

The economic efficiency is achieved in the optimum combination of factors, but, from this point, the possibilities of growth, through an improved allocation of resources, are exhausted. In this case, the only chance of growth is by increasing the quantity of factors, increasing the quality of factors and/or improving the technology.

These three possibilities of growth involve the need for increased investment in capital assets -which requires that part of the available resources are saved- and for increased investment in human capital via education and training.

Development is carried out, thus, as a result of the continuous and sustained growth, based on the efficiency and creativity in the use of the production and technology factors. The benefits produced by the economic growth, on the other hand, must improve the welfare of the community members in terms of their efforts, though an economic and social framework is essential to favor equal opportunities rather than equal welfare of persons.

In this sense, social security modernization based on the free choice of persons and on the participation of the private sector, has impacted relevantly the development of the country. Indeed, both in its conception and in the administration of resources, modernization has influenced the efficient use of factors in the different areas of economy, mainly the labor and capital markets, and the health and education sectors, as well as the spending in social security benefits.

6.1. Labor market

Being compulsory the welfare contributions, they represent for the worker a tax equal to the difference between the amount he/she willingly had contributed voluntarily in terms of the expected benefits and what in fact must be taxed compulsorily.

If we add to the above stated, that contributions are calculated in relation to payments, the conclusion is that a labor tax is implied in the welfare financing which, since it rises the price of the work force, means lower employment rates.

In the moment that the worker is acknowledged as owner of the welfare contributions—basic aspect of the modernization—, the nature of the latter is perceived dramatically different, since they are considered a resource of restrained availability rather than a tax.

The most clear example is the pension scheme financed on the basis of the individual capitalization, where the worker owns the funds, which will be reimbursed when the requirements are met to be entitled to pension.

In the new system, the amount of the pension is related to the balance accumulated in the individual account. Thus, a direct link is established between the contributions of the affiliated and the benefits to be received, a situation never existing in the old scheme where the value of pension was independent of the contributions. In the last case, the nature of tax inherent in the contributions is even more evident, since the worker does not receive benefits related directly to the contributed funds.

Thus, the changed approach to the financing of the welfare system meant to remove the occupational tax, with the resulting positive effects on the employment. On this matter, the constant decrease in the unemployment rates from 1982 is shown in Table 4.1.1, and the GGP variables and inflation and contribution rates are added in the same table.

On the other hand, the retirement decisions taken by elderly people affect the labor supply, depending their impact on the conditions and requirements established for retirement. Easier procedures to be pensioned earlier involve, in a distribution scheme, to subsidize the advanced retirement, while in the individual capitalization scheme it is the worker who must finance such alternative. Since the latter reduces the value of pension, the worker is persuaded to remain active, a positive measure to the extent that full employment exists.

Table 4.1.1.
Unemployment rates and other variables

Years	Occupied labor force	Unemploy. rate %	Contrib. rate, pensions and health[1] %	Gross geographic product MUS$	Annual inflation rate %
1980	3.257.000	10,4	25,2	20.549.000	31,2
1981	3.271.000	11,3	18,6	21.686.000	9,5
1982	2.943.000	19,6	17,7	18.630.000	20,7
1983	3.216.000	14,6	19,0	18.499.000	23,1
1984	3.349.000	13,9	20,0	19.672.000	23,0
1985	3.537.000	12,0	19,9	20.153.000	26,4
1986	3.896.000	8,8	20,8	21.294.000	17,4
1987	4.011.000	7,9	20,7	22.516.000	21,5
1988	4.266.000	6,3	20,8	24.172.000	12,7
1989	4.425.000	5,3	20,7	26.587.000	21,4
1990	4.460.000	5,7	20,6	27.157.000	27,3
1991	4.540.000	5,3	20,5	28.787.000	18,7

[1] Estimated by CIEDESS based on the weighted average of the contribution rate of the old and new system.

Sources:

Population 15 Years and More by Situation in the Labor Force, INE.
Monthly Bulletins, Central Bank of Chile.

Source: CIEDESS.

6.2. Expenses in social security allocations and benefits

The economic financial aspects of social security are very relevant for the functioning of the economy. Their importance stem from the amount and use of the resources handled and their impact on some economic relationships and/or decisions like the fiscal budget, saving and investment, the decision of being retired or continuing at work, and even working or not working, among others.

To assess the value of the benefits paid by the different programs is, therefore, relevant to measure their impact on the economy. Having this in mind, the valuation of the contingent and development benefits are presented in Table 4.1.2, and the financing sources of each one and the amount of expenditures is indicated, be it charged to the public or private sector.

According to the figures in this table, the total amount paid by the different programs in 1991 amounted to US$ 3,165 million, out of which US$ 2,208 million, namely 69.8 per cent, corresponded to expenditures made by public institutions and US$ 957 million, that is 30.2 per cent, to private agencies. Out of the last figure US$ 68 million correspond to benefits which, in spite that they were paid by private institutions, were financed by government resources.

Contingent benefit expenditures, social insurances and welfare benefits amounted, on the other hand, to US$ 2,532 million, that is 80 per cent the total, while those corresponding to development were US$ 634 million, equal to 20 per cent the mentioned total.

Table 4.1.2.
Expenses in allocations and benefits of the Chilean social security in 1991
(thousand dollars)

ALLOWANCES AND BENEFITS	FINANCED BY:	EXPENSES			GGB %
		PUBLIC	PRIVATE	TOTAL	
-CONTINGENT-					
PENSIONS[1]	WORKER	167.897	38.754	206.651	0,72
-DISABILITY	WORKER	256.222	82.041	338.263	1,18
-OLD AGE	WORKER	132.236	33.063	165.299	0,57
-SURVIVORS					
HEALTH					
-PREVENT, AND CURAT.[1]	WORKER	623.000	476.000	1.099.000	3,82
-WORK ACCID.[1]	EMPLOYER	19.882	114.000	133.882	0,47
-WORK DISABILITY BENEFITS[2]	WORKER	19.605	118.580	138.185	0,48
FAMILY ALLOW.					
-FAMILY ALLOWANCE	STATE	53.497	64.103	117.600	0,41
-OTHER BENEFITS	AGENCIES		3.810	3.810	0,01
UNEMPLOYMENT					
-UNEMPLOY. BENEFITS	STATE	2.000	4.000	6.000	0,02
WELFARE					
-SUPPL. FEEDING.[3]	STATE	66.000		66.000	0,23
-PRE-SCHOOL ATTENTION[3]	STATE	12.000		12.000	0,04
-SCHOOL FEEDING[3]	STATE	63.000		63.000	0,22
-CHILDREN IRREGULAR SITUAT.[2]	STATE	30.000		30.000	0,10
-SINGLE FAMILY BENEFIT	STATE	34.000		34.000	0,12
-WELFARE PENSIONS	STATE	118.000		118.000	0,41
DEVELOPMENT					
EDUCATION[3]	STATE	528.000		528.000	1,83
TRAINING	STATE	843	22.999	23.842	0,08
HOUSING	STATE	71.758		71.758	0,25
SPORTS AND RECREA.[3]	STATE	10.000		10.000	0,03
TOTAL		2.207.940	957.350	3.165.290	11,00

1 Public spending includes the state financing.
2 It includes maternity leave and sickness of child under one year.
3 1991 budgetary figures.

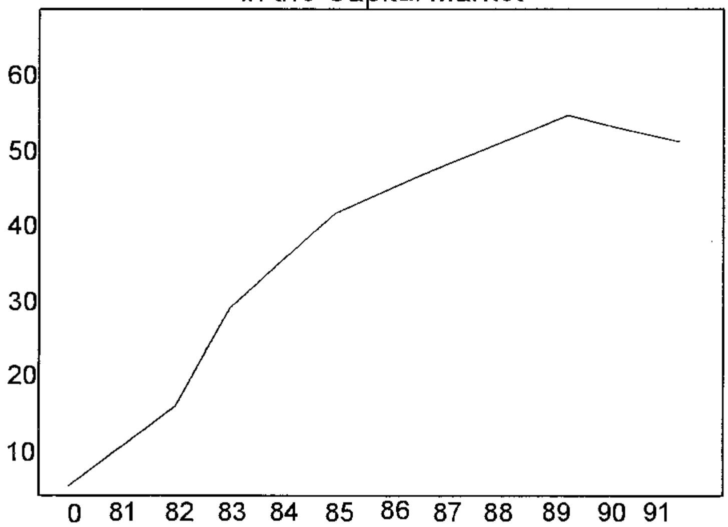
Source: CIEDESS.

6.3. Capital markets

Efficient capital markets favor economic development since they encourage the affluence of resources from those persons willing to save to those who need them to invest. The change of the distribution system to the capitalization one has affected dramatically this market, and an increasingly sustained supply of resources has been observed since 1981 up to date. The incidence of the funds provided by the pension system to the capital market can be checked in Chart 4.1.2

Chart

4.1.2
Participation of the Pension Fund
in the Capital Market



This impact on the financial market provoked a significant demand for investment instruments, which forced to issue norms with which the Administrators and beneficiaries would handle transparently the funds, specially in the case of a new system which should gain the credibility and the trust of the agents involved. This transparency was attained by limiting the investment alternatives of the Pension Funds only as public supply instruments, thus avoiding to favor the interests of agents related to the Administrators.

Eventually, this situation led to soften gradually the restraints regarding the instruments feasible to be acquired by the Pension Funds -by enlarging the possibilities present in the market- and to issue norms aimed at improving some instruments and at introducing some new, which should be homogeneous and easily comparable, in order to have a wide and transparent secondary market which would favor their liquidity. These changes contributed to improve the economic efficiency, being the growth rate of the country increased.

Table 4.1.3.
Amounts invested in enterprise bonds and shares by the Pension Funds and their participation in the market

	Investments in:		Participation in the market	
Year	Bonds MUS$	Shares MUS$	Bonds %	Shares %
1981	1.239	0	1,9	0,0
1982	4.035	0	1,3	0,0
1983	25.870	0	9,3	0,0
1984	28.699	0	10,2	0,0
1985	24.031	743	7,7	0,0
1986	24.029	174.764	11,1	3,2
1987	90.664	353.348	27,1	5,3
1988	277.935	702.420	48,1	8,4
1989	486.918	906.699	47,8	8,0
1990	776.187	787.178	59,3	5,5
1991	1.106.882	2.367.189	62,7	8,6
	82	89		

Sources: *10 years of History of the AFP, 1981-1990,* Edited by AFP Habitat, 1991.

Monthly Bulletins, Central Bank of Chile, N° 769 Source: CIEDESS.

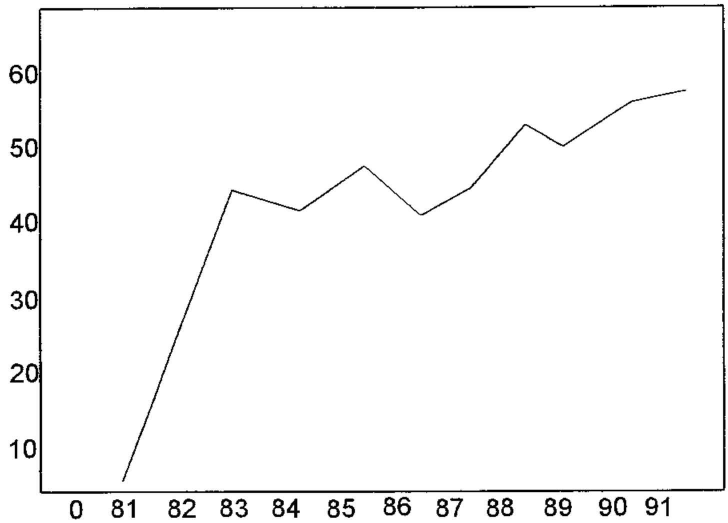
Among the diversification provisions, it must be mentioned the authorization to invest in shares of real estate companies -which will impact significantly the development of this market- and in short term negotiable debt instruments issued by companies.

The investments of Pension Funds in company bonds and shares, with their respective percentages of market participation, are shown in Table 4.1.3.

It is also interesting to note the evolution of short-term mortgage bonds due to their relevance in the financing of housing. As of December 1991, the Pension Funds had acquired 58.6 per cent such instruments, which is presented in Chart 4.1.3.

Chart

4.1.3.
Participation of the Pension Fund in short-term mortage bonds



7. CONCLUSIONS

All the above stated on this occasion allows to infer that the adoption of a new scheme in pension administration, under the individual capitalization scheme where increased grówth rates and improved employment rates are encouraged, has proved to be very suitable to the society in general, while the new affiliated to the system have obtained benefits more appealing than those awarded by the previous scheme.

The discussion on the individual capitalization scheme and the distribution scheme is not new in Chile, since -in the particular case of the National Public Employees and Journalists Fund- the Austrian notaries Karl Mumelter and Hans Volgsang recommended, in 1927, this scheme as the most suitable "to enliven a Fund whose organization is scientific and well financed, a security that the personnel will always receive the benefits as promised and a true warrant for the State that no subsidies will be demanded in the future"

The foundations of the above mentioned actuaries were based on the fact that no true mutuality existed in the Fund, since the benefits were provided by the last wage. This statement implied that an employee who rendered services during all the time as contributor with constant wage or few promotions, contributed a lot more than the one who had more promotions in his/her administrative career.

The above mentioned confirms the statement by Kant who, in one of his forewords, states: ".. .because, as human mind has dreamed of many objects during many centuries, it is not difficult that, for any new thing, an old one can be found which bears some similarity with it" .

In the light of the data presented and elapsed more than 11 years since the reforms to the pension scheme were introduced, the analysis of their social impact appraises their contribution to the stability and economic progress of the country, aspects which, at last, benefit all the population.

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