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II High Level Conferences Cycle

Social Security in America towards the End of the XX Century

María del Carmen Alvarez García
Octavio Jiménez Durán
Antonio Ruezga Barba

Interamerican Conference on Social Security

Studies Series

36

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Presentation

The Interamerican Conference on Social Security, in a permanent effort to offer the continental forum indicated to deal with current and trascendental themes referring to insurance and social policies, has undertaken the task to convoke yearly to a High-Level Conference Cycle, looking for a major exchange of ideas, proposals and experiences on the most diverse points of interest.

In this ocassion, this book compiles the papers presented during the Second High-Level Conference Cycle, titled: Social Security in America towards the End of the XX Century, which has as its main theme Social Security Reforms and Economic and Social Policies.

Such event was held at the seat of the CISS, on September 2, 3, and 4, 1996, and its main objectives were to promote the scientific and multidisciplinary analysis of social security reforms, as well as the definition of the role that economic and social policies are playing in the American countries, where there had been carried out modifications to social security systems. All this, through the debate, the dialogue, the honest exchange of criteria and experiences, and the reflection on the recent trends on the matter.

With this purpose, there were invited lecturers from Argentina, Canada, Colombia, Chile, Mexico, United States of America, and Uruguay. Besides, the Second Cycle was enriched with the attendance of especialist from the International Labor Organization (ILO), and the Economic Comission for Latin America and the Caribbean (ECLAC).

Now, the lectures are gathered in this book that, undoubtedly, will prolong in the distance and in the time, its discussion and analysis, and will serve so that a greater number of interested people in the matter may have first hand information on such an important and current theme for present society. What it is written here will serve, undoubtedly, to extent the objective of the Second High-Level Conference Cycle: value the diversity of reformed systems, think over the economic feasibility of alternative models, and re-define the role that the State assumes for the administration of contemporary social security.

MARIA ELVIRA CONTRERAS SAUCEDO
CISS Secretary General

Introduction

Society is dynamic par excellence, the world transforms itself day by day, the knowledge moves forward lighting zones where before there were shadows and imagination. The institutions, human creations that work as complex mechanisms, are not unaware of changes, since these are a live part of society.

America has begining to mark the rules in what refers to social security reforms; in the whole region there is breathed an atmosphere of proposal, with the spirit of achieving a better management, to look for new administrative forms based on the very particular realities faced by each one of the institutions.

The Second High-Level Conference Cycle on "Social Security Reforms and Economic and Social Policies", was the perfect framework so that 146 participants from more than fifty institutions of 19 countries, representing universities, social security administrators, health and labor ministries, congressmen, international bodies such as the World Bank, the Interamerican Development Bank (IDB), the Panamerican Health Organization (PAHO), labor unions, workers and employers corporations, especialized research centers, etc., could listened, participated, dialogued, perceived, and reflected on the lectures delivered by especialists and authorities from the International Social Security Asociation (ISSA), the International Labor Organization (ILO), the Economic Commission for Latin America and the Caribbean (ECLAC), as well as representatives from countries stated below:

In Argentina, the shortage of resources to face the old age and ageing problem, among other aspects, supported the proposal to reform the retirement and pensions system, which iniciated on July 1994, with the creation of the integrated retirement and pensions system. From that date on, in Argentina co-exists two systems: the distributive one, managed and regulated by the State, which grants a universal benefit determined according to the years of contribution, plus a permanence benefit, and the covered risks are invalidity and death; the other scheme is the capitalization one, which is managed by the private sector and grants a benefit according to the interests and contributions capitalized, gives awards for the individual savings, and equally covers the invalidity and death risks.

At the begining of 1996, the federal and provincial ministers of Canada gathered to analyze the possible changes to the Canada's Pension Plan; as a result of this, the government commited itself to ellaborate a document on the matter, which will be distributed and will be the point of departure for the begining of a wide public discussion over diverse aspects on the matter of pensions.

The Law 100, of December 23, 1993, from Colombia, gives the alternative that pensions, health, and work risks insurances may be granted by public and private sectors alike, observing the solidarity, efficiency, and universality principles, combined with the integrity, uniformity, participation, compulsory, free election, and equity ones. Eventhough the State guarantees to all the inhabitants of the national territory the unresignable right to integral social security, this is developed in a progressive way to get a better coverage. This coverage will be given with a greater and more efficient action of state services, according to the law, complemented with the participation of the private sector, through the creation of pension funds administrative societies.

In Chile, there co-exist two social welfare systems: the previous one to the Reform of 1980, which included a numerous group of welfare funds under the distribution system, and the one established since that year, under the scheme of individual capitalization. The new system is compulsive for dependent workers. The individual capitalization is carried out through private entities, named Pension Funds Administrators (AFP). The State regulates and supervises the setting up and operation of the Administrators, as well as the investment of resources.

In the United States of America it is considered that demographic changes will even cause very important problems in social security. It is a worry repeatedly expressed by workers, who are begining to believe that maybe they will not have the protection schemes when they need them. In this sense, measures are taken to assure that those programs will fully respond to the needs of future generations.

The Mexican Institute of Social Security (IMSS) has modified its legal framework, through the Social Security Law, published in the *Federation Official Journal*, on December 21, 1995; during the whole year of 1996 the IMSS was immerse in a legal, administrative re-organization process, in order to establish the change towards a new model.

The New Law, which came into force on July 1, 1997, strenghthens the State responsibility to give social security through the Institute, by widening the government's participation in its financement, and reducing contributions to employers and workers.

In Uruguay, the welfare system, created by Law 16,713 of September 3, 1995, is based in a retirement scheme by inter-generational solidarity, in which there are established defined benefits, and by which active workers, with their contributions, finance the benefits of the non-working population, together with the employers' contributions, and the State financial assistance.

The master lectures stated below, are a valuable contribution for the study and analysis of the Social Security models and systems of the American Continent.

SOCIAL SECURITY REFORMS AND ECONOMIC AND SOCIAL POLICIES

MARIA ELVIRA CONTRERAS SAUCEDO

SECRETARY GENERAL OF THE INTERAMERICAN CONFERENCE ON SOCIAL SECURITY

The Interamerican Conference on Social Security, born 53 years ago, with the main purpose of impelling social security in America and of favoring the exchange of experiences among social security institutions and administrations, as well as its related organizations, confirms its reason of existence with this Cycle of Conferences as well as its firm will to continue representating an open, democratic, suggestive, and plural forum, in which the respectful and sincere dialogue may favour the exposition of ideas to help the social security strengthening, in such a way that the principles of dignity, equity and social justice may continue to lead the way among our people during the next century.

The development of social security, affected by political, economic and social factors and circumstances, will achieve important progress if its main actors are willing to develop an effort to imagine, to honestly analyze, and to operate with responsibility and commitment.

Today, more than ever, social security is a key player in the progress of our societies, and today, more than ever, we who have the privilege of participating in the historical happening of our nations, must fully assume our role in the transformation of our reality, facing the 21st. century.

The members of this great family, which is the social security, cannot comfortably ignore our responsibility, our commitment towards the future. Our moment is this one, and in this moment, we have to carry out the transformation our nations demand, with realism, deep knowledge, and real decision. Our nations are immersed in problems, which due to their novelty in recent times, are difficult to overcome.

The elevated rates of unemployment, the increase of the informal economy, the demographic changes, and the increase of the poverty levels, are only part of the challenges, we have to overcome. The human race has lived through its history, stages of happiness and sadness, and it is precisely in these last stages when the greatness of the human being reveals and exceeds itself, leading to times of greater performance.

Today, social security is living, moments of meditation and self-evaluation. We can feel winds of transformation all throughout the world, and it is now when, pledged to its intrinsic and unwithering values, we have the best opportunity to change the systems and improve the paths to strengthen the instrument of unquestionable value, of social justice and peace, which is the social security, according to our own cultures, our own idiosyncrasy, our special way of being.

Mr. Jerome Dejardin, in those days President of ISSA, in 1989 expressed during the celebration of the Fifteenth General Assembly of the Interamerican Conference on Social Security: ...that it is not necessarily to imagine which will be the kind of Social Security that will help as a model or objective for the future century, as it is true is not an ideal system of social security, on the contrary, each country, each region must elaborate a system to fit the conditions of its economy, to the peculiarities of its history, its culture, its traditions, as well as its specific needs. A system which may be ideal for a determined region, may not necessary be convenient for another one, nor it will be transferred to it without producing some inconveniences... As Mr. Dejardin said, the good wines, do not always tolerate traveling, and get an impact from the changes of climate.

Such statements, pronounced almost seven years ago, remain valid, as the fact that whichever the programme the institutions choose to overcome their crisis and perform their transformations, it must count with a sound support on behalf of all social agents.

Based on our consent with the abovementioned statements, we have summoned you to participate, to contribute with your knowledge and experiences, to express your fears and doubts in a clear and sincere manner in this Cycle of Conferences, which intends to motivate deliberations over the reforms to social security which have been taking place in some countries of America, and over the reform projects which are in process of implementation. We will have comments on this matter from, Dr. Karl Gustaf Scherman, who as we have mentioned is President of ISSA; and Dr. Pablo Serrano Calvo, Head of the Social Development Unit of ECLA.

We will as well, listen to the lectures in reference to national experiences held by Mr. Armando Gonzalez from the United States of America; Javier Slodky from Argentina; Renato de la Cerda and Eduardo Miranda Salas from Chile; Carlos Wolft Isaza from Colombia; Edward Tamagno from Canada; Renan Rodriguez from Uruguay; and Sergio Valls Hernandez from Mexico; counting with the invaluable support, as moderator of this Cycle of Conferences of Mr. Jaime Latapi, also from Mexico. To all of them we present our sincere gratitude.

To come to the end, I wish to reiterate our gratitude for your presence and interest in this Cycle of Conferences which we start today, and I invite you to review one last thought: "it is the human being the objective and motive of social security. Our efforts and eagerness are directed to him. What we may achieve at the end of the 20th. Century will be reflected in the years to come, in the following century, in the following millennium. Let us not disappoint the future generations of the American countries. The response we must give to their demands and needs is in our hands. There are many things we must do, and we must do them well".

INAUGURATION SPEECH

KARL GUSTAF SCHERMAN

PRESIDENT OF THE INTERNATIONAL
SOCIAL SECURITY ASSOCIATION

I am most honoured to come before you here today. It is a privilege for me personally, as well as for the organizations I represent, to be given the opportunity to speak to this high level meeting, with participation of representatives from the whole American Continent, and to speak on such a topical, and for the world of today so vital and critical an issue as "Social Security Reforms and Economic and Social Policy". As a matter of fact, this is, to my mind, one of the most crucial issues for our contemporary society. The way in which we handle this challenge will have great impact on the future of humanity, and on the future function of our societies. It is one of the greatest challenges that democracy has ever met!

Today I would like to present what I think are the most vital areas of concern when it comes to the future of social security. Let me begin with some words about what is going on in the field of social security in the world today. I will then elaborate a bit on the positive contributions from social security to a well functioning economy and to society as a whole. Thereafter the main part of what I am going to say will deal with important features of the debate, including the impact of new economic theories, the options to social protection and the often neglected significance of basic values in society on the decisions on how to arrange social security. I will also mention the obvious lack of public understanding for the basic ideas underpinning social security. This part of what I intend to say will end up with a presentation of what I consider to be two basic pillars for every reform of social security systems. After that I would like to introduce some vital ISSA efforts in the area of Social Security Reform and Economic and Social Policy, acquaintance you with the so called Stockholm Initiative and invite you all to take an active part in that project .

Social security reform today

What is, in fact, the situation for social security throughout the world today? What are the threats and what are the opportunities? We are all aware that important changes are underway - new economic theories and changed economic circumstances affect social security programmes. New ideas of the division of responsibilities between the state, the private sector and the individual have also emerged. These new conditions seem to influence even deeper values; what do people really desire and what are the ethics of a society?

From the privileged observation point that we have in the International Social Security Association (the ISSA) for the analysis of recent development, we can see that, following a number of years of "wait and see", social security schemes are shaken up by feverish action which raises question marks over matters, previously considered as solid acquisitions. Radical changes are instituted.

There is scarcely any country that is not either planning to fundamentally reform its retirement scheme, to privatize whole parts of its social security schemes, or again to make access to benefits much more selective. On many occasions, these upheavals affecting social security represent a major challenge to the country itself. In the recent past, several governments have fallen, following proposals for reform in this field.

A striking observation is that the positive values of social security seem to have got lost, both in the public debate and as a basis for reforms. And yet, there is so much to be said!! Let me say some words on this!

Positive contributions from social security to the development of society

It is truly surprising how easily we forget how far we have come in a great number of countries in providing more security to the population, and what that means for the way in which society performs its functions.

Beginning over a hundred years ago, insurance against accidents at the workplace was gradually extended to greater numbers of workers around the world. Old-age insurance gradually developed, so that we find today that the vast majority of countries in the world provide some form of income security for old-aged, survivors and disabled. The independence that these social security benefits have helped to ensure the elderly has, no doubt, essentially changed the relations between generations. But, contrary to certain doubts and criticisms, empirical research has repeatedly proven that the dignity and independence that social security brings to the elderly and disabled has served to strengthen rather than to weaken family ties.

After old-age income security, the basic right of access to medical care has become one of the most widely accepted principles of the 20th century. In the more comprehensive systems of social security, protection against unemployment and support to families were added over the course of the decades.

Social security benefits, which were viewed at their inception as being primarily "income replacement" mechanisms, have become over time a means of "smoothing" and spreading income over the course of the lifetime, during periods when there is income from employment and when there is none. These various forms of cash benefits have, alongside with their function to support individuals, become increasingly important as a means of sustaining consumer demand, particularly during periods of economic recession, when consumption tends to fall in the active population. A well designed social security system also has direct positive effects on the functioning of the economy and the labour market. Greater mobility on the labour market, a more positive attitude towards change, more recognition of the need to rationalize industry in order to keep it effective and competetive, these are all examples of such positive effects. Moreover, social security constitutes one of the most effective means of fostering social peace and social cohesion in modern societies.

As a matter of fact, the recognition of such positive effects of social security programmes on society as a whole and on the efficiency of the economy once played a major role in motivating public responsibility in this field!

Important features of the debate

Let us now take a closer look on various factors underlying the debate; factors that to a high degree influence the reforms carried out; factors that illustrate the close interrelation between economic policy and social policy, characterizing the current situation.

Economy dominates

Let me begin with the economy and the strain on the public sector. Issues concerning the structure and the financing of the major social security systems have politically become increasingly more integrated with economic policy as the economic conditions in society have changed and as the social security systems have grown. The political handling of these issues is also affected by a more and more restrictive attitude to the ability of society to take on responsibility for the welfare of the population.

Among issues attracting the greatest attention, the following deserve to be singled out:

- the endeavour to solve budgetary and economic problems through reducing social security costs.
- the discussion on income-related contra basic protection systems, with or without means-testing.
- the opinion that social security might make people dependent; the question about incentives in the system and about rehabilitation.
- the discussion on distribution of responsibility between state, private sector and individual, as well as the discussion on redistribution of resourses through social security systems.
- the problems concerning long term financial stability in the social security systems.
- the link between savings and social insurance.
- efforts to render the administration more effective and more service-minded.

Economists used to be convinced that depressions were out of the question, due to the size of the public sector and to the design of the social security systems. That social security systems contribute to labour market mobility, facilitate rationalization and promote harmonious social progress, that was previously also stressed by economists.

Now, on the other hand, social security has come into conflict with new ideas economic, dominating the economic policy. What has happened? What is the ground for social security systems being regarded as a threat to sound economy, when they used to be seen as supporting economic policy? I do not have the answer to that question, but I am sure that we must help each other finding it! It is only natural that social security in some respects might cause disturbances on the functioning of an economic system. But is it appropriate, or even possible, now to solve the economic problems currently existing in most parts of the world by drastically reducing the social security systems? Personally, I do not think so!

A crucial question for the future is how to tackle this debate. Every social security reform ought to consider the demands of the economy as well as welfare requirements. Only then will there be a chance to achieve the stability that is a prerequisite for social security systems to contribute to human welfare!

Options to social protection

The discussion on how social security can best be designed and implemented must take a broad spectrum of options into account. Some of these options are alternatives to each other, many of them can preferably be combined into a set of measures that together offer the individuals the security they need.

The most important options to study are: (a) the family, (b) voluntary arrangements of different kinds, (c) private insurance, (d) social assistance, (e) mandatory savings plans, and (f) social insurance.

Let me now briefly discuss these various options. Which should be chosen?

First the *family* and various *voluntary arrangements*. Given the complexity of evolving family structures in various countries, a great deal of caution is required in stating what the family can and should do in support of the needy.

The major problem with the family for sharing the burden of its members is that the number of people involved is relatively small. History recalls over and over again the inability of families to deal with the current social welfare problems arising from regional food shortages, pestilence, forced migration, war, rampant inflation, recessions and depressions, ethnic conflicts, political instability, and so forth. Fortunately, despite all the problems, evidence indicates that many families continue to function well, providing economic and social support to various family members at appropriate times.

Since the beginning of times, people have attempted to mitigate or eliminate economic insecurity by banding together in groups on a more or less voluntary basis. As there is a fundamental limitation to the role that the family can play, and as charity from the individuals point of view is quite a random phenomenon, people have sought for bigger groups to rely upon. The village, the profession, the general neighborhood are examples of such groups, which to a certain degree can provide an effective basis for the protection of its members. Still, even such groups are often too small to cope with major problems that might affect the group as a whole.

Private savings systems, often guaranteed and supported by the state, exist in many countries. They emphasize the responsibility of the individual, but they entail certain problems, one of them being the fact that the individual normally tends to underestimate his future needs, resulting in savings too limited to be enough for a living after retirement. Furthermore, it is not the easiest thing for an individual to choose the best among different objects of investment. Consequently, it is too risky to rely solely on this kind of arrangements.

Hence, as the various options for people to take the full responsibility for the support for themselves all have their limitations, at least some responsibility must rest with the state. A combination of family support and various voluntary arrangements, local community assistance, and government action can be complementary and desirable. The employers can take a greater or a smaller part, either voluntarily or through mandatory arrangements.

When it comes to the mix of these various options into a comprehensive set of measures to meet the individuals needs, the debate is intense.

Those who espouse the approach of social assistance advance a number of arguments, including the following:

- Means-testing has the advantage of better targeting benefits to those most in need; in other words the eligibility tests can be modulated to allow only the most deserving, presumably the poorest members of society, to actually receive benefits.
- Means-tested benefits can be financed from the state budget, thereby ensuring more progressive fiscal mechanisms for financing than earnings-related contributions.
- Means-tested programmes do a better job of separating the income redistribution function of social security from the saving function.

Opponents to social assistance, selective programmes as they are, argue that they have proven to be individually stigmatizing, socially divisive, and politically vulnerable in most countries.

Mandatory Savings plans: is a quite frequent solution to meet the need for the state to guarantee that people save for their old age. Such plans can be found in various parts of the world in the form of Provident Funds. In other parts of the world we can find more elaborated schemes with apparent elements of mandatory savings. That is the case in many Latin American countries. I am sure that we will get interesting insights into these solutions during the next couple of days!

Universal programmes, among those social insurance schemes, are seen by their proponents as generating widespread political support, and as promoting social cohesion and national solidarity; their broad economic and political base provides the potential to be effective antipoverty programmes. Another major argument made for universal programmes, relates to the universal nature of many problems. Problems of old age support, disability, and unemployment, for example, are not problems that just confront people with low incomes. They are problems that cut across the broad spectrum of society - supporting the notion that universal programmes are appropriate.

As a consequence, a comprehensive universal system can, on the other hand, reduce savings ratios and promote a tendency to prefer benefits before work.

It is obvious, that the extent to which the state intervenes in these matters, and the combination of welfare arrangements that it chooses, greatly affects *the relationship between the state and its citizens.* This is another matter to take into account when the final mix of options is to be designed.

A comprehensive, universal system that takes care of a great deal of the support people can need in various phases of their lives, gives on the one hand a more even distribution of consumption opportunities between people in various types of need, frees people of fear and insecurity, and - that might be a controversial view - creates a population that is more open to change and development. On the other hand, the population gets more dependent on the state and a crucial question arises: How much can the state provide? And can it be trusted?

A means-tested programme gives the population the message that they have firstly to rely on themselves. Only secondly can they rely on the state.

This of course gives more emphasis to the family and various voluntary arrangements.

So, the relations between the state and the citizens - and the citizen's view of himself - is greatly affected by how the welfare order is arranged, how the choice between the various options is made.

The choice between different options is to be made by the individual country, based on its own conditions and with respect to prevailing traditions and values.

On values

How do people want their society organized?

- *Solidarity* is an emotion, a desire. It is also economically efficient.
- *Flexibility* is a necessity, as is the ability to listen to others.
- *Stability* is a question of honour.

These statements represent a set of values! Some of them can be founded by facts and analyses. It is, however, important to realize that several of these opinions are independent of facts. This fundamental circumstance is often disregarded, as is the insight that values have a great impact on how different people form their opinions on various actual situations.

The scope of the public social security arrangements differs substantially between countries. There are those who think that the very wide range of percentage figures concerning expenditures in the public welfare area could be interpreted as reflecting various sets of values in the states concerned.

I think that there is a fairly broad consensus throughout the world about the need for some public intervention in the welfare area. The proof of this might be the fact that most religious faiths, like Christianity, reflect the idea that people in need should be supported. When it comes to details, and talking about details in this context you must be very broad-minded, the views differ. But still, there are some basic values that most people share.

Given this common base of basic values as a starting point, it is possible that the existence of a state intervention in the field, and the ensuing public debate, might influence the development of the same set of basic values. This might be the case. Still, it remains to be explored how far and how deep such a process can reach. How much can the basic values be affected and how fast can they be changed? My own opinion is that the basic values in a given culture are fairly stable. They might look flexible and very changeable on the surface, for instance in the public debate, but this is, to my mind, an illusion. As a matter of fact, I think that this illusion is one of the reasons for the crises for the welfare concept in many of the industrialized countries. The expansion of the public welfare order has in many countries been very dramatic and very fast indeed, being based to a high degree on how politicians have interpreted the public debate. The deeper flows of change in the basic set of values in a society might very well have been exaggerated in this process, causing at a certain point in time and under certain circumstances a sudden collapse in public support.

Whatever the proper answers are to the questions I have just put before you - and I do not want to pretend I have them - those questions highlight a very vital area of concern for those who want to understand the interrelationship between the welfare order, on the one hand, and the relationship between the state and its citizens on the other!

Further elements in the debate

I have mentioned the economy and economic theories, as well as alternative elements in the structure of social protection and basic values. All these are - and should be - important elements in the guidance of social security systems. It is, to my mind, unfortunate that one of these factors, the economy and economic theories, currently has been allowed to dominate decisions on how to reform social security.

Several other factors than those already mentioned ought to be observed when working out the reforms! Among them, we find the *distribution of income* between various sectors of the population, the way in which people react to *economic incentives*, the need to strike a balance between people's wish to *decide for themselves*, on one hand, and their wish to be *supported by the state* on the other. The comparative advantages and disadvantages of *privatization* is a topic of discussion that causes much concern. All the same, it is not possible for me to deal with those matters here today.

Lack of public understanding

One major problem for the reform process is the immense lack of public understanding about the philosophical underpinnings of social security. Perhaps, this lack of clarity about the basic objectives and principles underlying social security systems was politically expedient in the past, but this lack of basic understanding is now proving to be a major obstacle to making the necessary changes in the programmes for the future.

In most national social security systems, there is a mixture of public policy objectives:

- Insurance is provided against specific contingencies by sharing the burden of risks both within and across generations;
- There is also a "welfare" or assistance objective to help those most in need, by structuring eligibility requirements and by providing minimum benefits to persons who may not have been able to make substantial contributions to the system; and
- There is inevitably an income redistribution objective, which serves to transfer funds from the active to the inactive, from the better paid to the lower paid workers, etc. So far so good, but what happens to these objectives when social security systems must introduce changes to ensure their short and long-term financial viability?

If the insurance function is given priority, the poor and the inactive members of the population may be penalized. If the "welfare" and assistance objective is given higher priority, then the vast majority of the insured population - the middle class - may doubt whether it is to their advantage to participate since they are unlikely ever to benefit from the system. These questions are politically sensitive but, nevertheless, fundamental whenever circumstances oblige social security systems to make changes regarding their future orientation. Unless consensus can be reached on these basic questions, how can there be any agreement on the technical content of the reforms? This dilemma holds true for the developing countries and those in transition, as much as for the industrialized countries, and it is extremely difficult for a democratic society to cope with. Is it really possible for a democracy to make the necessary re-orientation in an orderly manner? That is a question put forward with great anxiety by many observers of the current reform process.

Will democracy succeed in restructuring welfare?

The question whether a democratic society is really capable of reshaping the welfare system is a crucial one. Modern parliamentary democracy is a fairly young phenomenon. In my part of the world - Western Europe - it became predominant by the end of World War I. Since then, the economy has been distinguished by a constant growth, enabling the political system to make decisions trusting that tomorrow's resources always would be larger than those of today. We do not yet know whether the democratic system has the ability to build up new models, independent of this falsely presumed eternal growth. We can, however, establish that the present situation is critical, and what is demanded from the democratic system is more extensive than ever before during the short history of democracy. These demands emanate from the need for taking up standpoints on those difficult questions of judgement and weighing I have just mentioned.

Two basic pillars for reform

Let me now, before adressing an important ISSA initiative in the field of Social Security Reform and Economic and Social Policy, highlight what I consider to be two basic pillars for every reform.

The first concerns: Trust

The need for social protection is growing, not diminishing, around the world - in both developed and developing countries. In fact, the rising tide of market solutions to economic development issues promises an accelerating need for mechanisms that assist individuals in dealing with the risks and social disruptions arising out of social, demographic, political, and economic change.

The provision of economic security through the social security system relies very heavily on trust. When people talk about social "solidarity", "actuarial soundness", and so forth - they are in large part talking about the trust people place in the future promises of the social security system.

A big job remains in almost every country to improve and adjust its social order. When doing so, the question of trust must always be kept in mind. That is the cornerstone of every reform.

The second is the need to reconcile economic and social policy

It is a striking observation, that the debate on welfare issues throughout the world contain the same basic questions:

- Can we afford welfare and social security?
- What is happening in the national economy?
- What is the interconnection between the economy and the welfare order?

The questions are the same in different parts of the world, in spite of the fact that different countries have so widely differing systems in place, both in the economic and the social field. This observation brings me to the conclusion that what is going on is a worldwide discussion between economists and social policy people, caused by the fact that the theories of economy and the welfare ambitions are no more in harmony with each other.

I am convinced that a reconciliation of economic and social policy is necessary to meet the basic right of every man on earth to lead a decent life.

ISSA takes an active part in the debate

I would now like to turn to an important ISSA activity within this area. ISSA members throughout the world have urged the Association to bring the question of reconciliation of economic and social policy on its agenda, and I fully agree that this is a most urgent task in our continuous work to protect, promote and develop social security throughout the world. We are, that is only natural, eager to meet these requests in a positive and constructive way. One part of that response is the *Stockholm Initiative*, an extrabudgetary effort to bring together people from all parts of the world, from different professions, and representing all major languages and cultures to discuss, to listen to each other, to exchange views and to see if a new consensus can be reached. I am sure that such a consensus can be achieved, since a well-functioning social order is, in fact, a prerequisite for changing the economic structure and for enhancing the functioning of the economy in a country. The economy undoubtedly conditions social policy, but social policy, being a major factor of justice, social cohesion and peace, makes an essential contribution to the development and smooth functioning of the economy.

Now, a few more words on this initiative.

First step: The Divonne Meeting

In January 1995, in Divonne, France, the ISSA General Secretariat assembled a small group of experts selected from among leading scholars, observers and administrators of social protection and social security. These experts were asked to assess the current situation and to suggest an appropriate course of action. The expert group came up with a set of valuable recommendations on how to proceed.

Second step: The design of a concrete strategy

The recommendations given by the Divonne meeting have guided the design of the seccond step, that is now underway, following discussions in November 1995 at the 25th General Assembly of the ISSA. Delegates voiced general agreement with the assessment made at Divonne and urged the ISSA to facilitate and further the debate. Therefore, we are now in the process of developing a strategy for furthering the dialogue with the objective of making substantial progress in advance of the 1998 General Assembly of the ISSA. In a first phase of the work we concetrate on pensions. The planning is carried through with the help of a well-known research institute. The second step has been financed by voluntary contributions of ISSA member organizations in Finland, Germany and Sweden.

Objectives of the Initiative and current plan

As noted, the objective of the initiative is to facilitate a dialogue on these important issues and to promote a new consensus about acceptable approaches to social security arrangements. The current plan is to achieve this objective in several ways. I only mention the headlines. We intend to:

- Carefully and impartially explore the issues.
- Effectively communicate the results.
- Encourage broad dialogue over the issues.
- Assure broad international applicability.

An analytical challenge

When it comes to the analytical challenge, the group of experts who assembled in Divonne concluded that a successful dialogue needed to address simultaneously three important and interrelated topics. Those are:

- Examining the evidence about the economic and social impacts of different approaches.
- Balancing the impact of competing objectives and the implications of alternative social guarantees.
- Exploring the role played by institutional environments.

The next steps

Over the next several months, a more detailed plan for this initiative will be drawn up. This plan will include:

1. An agenda of the important analytical issues which will serve to frame and illuminate the debate and determine which issues might profit from additional research efforts in the ensuing two years. In addition to that, an inventory of analytical resources throughout the world that are potential participants in the effort.
2. A strategy for an international dialogue over the issues outlined here. The strategy will have to assure, to the extent possible, that the dialogue builds on the full analytical base available.
3. Strategies for securing the broadest possible participation by social security institutions and, as appropriate, other government institutions.
4. Consulting and coordinating with the major international agencies whose work will be important to this initiative, including the ILO, OECD, European Commission, World Bank, IMF, and the regional development banks.

In order to achive good results, it is most urgent to get a broad co-operation from all parts of the world in the effort to find out what the relationship between Economic Policy and Social Policy really is.

Invitation to take part in the Stockholm Initiative; a debate in search of a new consensus

I have now accounted for what I find important when it comes to make decisions on the future of social security. My basic opinion is that the debate currently carried on in many countries is too narrow, and that the decisive importance that social security has to the functioning and development of societies has been taken into account to a too minor extent.

Therefore I would like to invite all of you to take part in this major initiative, the Stockholm Initiative, to see if a new consensus can be reached. As a matter of fact, I find it especially vital to obtain co-operation on the initiative from Latin American countries, as many of you right now are experimenting with new answers to the question on how social security could best meet the future. Some of these solutions create anxieties in other parts of the word. I know that you are very well aware of that. It is then all the more vital to meet and exchange views and ideas. No one has the definitive answers to these difficult questions, we all share the basic dilemma that we really do not know how to come to grips with current problems, and how social security should be reformed in order to survive in the world of tomorrow!

So, I conclude by saying: I hope to see you soon again, I hope that we shall be able to pool our resources in search for a reconciliation of economic and social policy, and in so doing contributing to a better future for humanity.

OPENING STATEMENT

GENARO BORREGO ESTRADA

PRESIDENT OF THE INTERAMERICAN CONFERENCE ON SOCIAL SECURITY

It is with great pleasure that I welcome you all to this 2nd. Cycle of High Level Conferences of Social Security in America at the end of the 20th. Century, which will provide us with an opportunity to exchange experiences concerning theSocial Security Reforms and Economic and Social Policies, for the benefit of our people. The presence of leaders, exhibitors, theoreticians, researchers, technicians and officials will undoubtedly enrich the Conference. To all of them, I hereby wish to thank their invaluable collaboration through their lectures and papers, which major objective will be, I am sure, to build a social security according to our times. I wish to specially thank the presence of Mr. Karl Gustaf Scherman, Swedish citizen, and President of the International Association of Social Security, which Headquarters are located in Geneva, Switzerland. His presence at these main premises of the Interamerican Conference is a real honor. Welcome, receive our acknowledgment and the sympathy of all your friends in the boundary of the social security in the American continent. No doubt that all of us present, and particularly, those representatives of the organizations and institutions in charge of the social security in the continent will obtain great benefit from this exchange of experiences. Most of all, from those experiences obtained by the countries which have implemented changes and reforms, the main objective has been to exchange and improve the social security, as well as to turn it into a sound long term policy, but most of all financially sustainable and efficient in complying with its unavoidable social commitment.

The exact enforcement of right in the social security is an indication of the dignified development of our people. It is also a guarantee of fair life conditions and essential for their performance; at the same time, the social security is characterized by its solid nature and permanent integration to society. This is the reason why, as representatives of social security agencies, this occasion provides us with the opportunity to meditate, to argue, and to jointly think about the bases to be fully and honorably provided in favour of the national individuals, households and communities.

The social and solidary bases which created this noble task, force our institutions to guide their efforts towards the search of methods and options to help individuals to incorporate themselves into the benefits and rights of the social security.

It is also an obligation to look for solutions to the unemployment problems, to the growth of the economic informal sector, to the inflation effects and financial problems, amongst others. This is why, in order to face the challenge represented by the problems suffered by our society, we must join our strengths, through an open and plural dialogue, as well as through a constructive debate which allow us to appreciate the profoundness of the reforms made on systems, and which also help us to consider the social security as an unavoidable part of a social policy in all our nations, meditating on the economic or social benefits of any of the models, and the analysis derived from this exercise will cooperate in the strengthening of the social security in our region.

The very different structural problems pertaining to each nation, have created projects of change, of reforms in respect to the social security, each one of them, according to the needs present in each country, in order to guarantee the fact that the social security remains as a vital column of the social policy and consequently, of the overall development of societies.

The social security systems in America were facing serious difficulties to comply with their obligations. These difficulties, jeopardized the feasibility of these systems to meet the increasing needs of social protection with limited resources. A unique chanllege for those of us who have undertaken the path to strengthen our social security systems by facing the structural problems of our economy, has included the following: to expand the protection by guaranteeing financial feasibility, to offer more generous benefits, to build up technical reserves capable of rendering outputs, to contribute to the regimes financing and to provide resources for future expenditures, to carry out efforts to guarantee the efficiency in the social security provision, to establish the corresponding standardization which would provide fair systems, through a clear and transparent legislation.

It is clear that, even though there exists and agreement among the countries gathered here relative to the need to undertake concrete and important reforms, such necessity of change is not always based on the same reasons; there are different proposals for solutions. This is the reason why our intention to open ourselves to dialogue and debate in this Conference is so fruitful, as these channels will let us learn about diversity in order to implement changes with certainty and eagerness.

The changes and reforms on these systems are not undisputed facts; new proposals for alternatives will keep on emerging, the society is always changing, the institutions will definitely have to understand this.

The 2nd. Cycle of High Level Conferences will have to promote the study and a better understanding of the reforms undertaken in this social security as well as in the social and economic policies developed in the American Continent, at the same time of finding the mechanisms which may strengthen the social security in the following millennium, through the adoption of new methods and strategies which meet the corresponding demands. This is a task for all of us who are gathered here.

Please be welcome to this Forum. Many thanks and, today, September the 2nd. 1996, I am glad to inaugurate the 2nd. Cycle of Conferences on Social Security in America at the End of the 20th. Century. May the knowledge exposed herein, be of benefit to all people throughout America.

SOCIAL SECURITY TODAY AND TOMORROW

ARMANDO GONZALEZ

DEPUTY REGIONAL COMMISSIONER OF
SOCIAL SECURITY ADMINISTRATION
U.S.A.

Introduction

Social Security is critical to the economic well-being of virtually every American. Therefore, it is essential that we have useful, accurate information about the state and future of Social Security -- so they can more effectively plan their individual financial futures and also be empowered to participate in the national debate over Social Security's future.

The Social Security Administration's (SSA) central office is located in Baltimore, Maryland, and has a staff of about 22,000 fulltime employees, including staff offices, data processing centers, disability operations, central records maintenance, and foreing claims operations.

HIstorical Highlights

Social Security was created during our country's Great Depression, and the Depression certainly can be seen as the catalyst that launched Social Security, but Social Security was designed to address challenges in our country that transcend the Depression.

Social Security was created to address the age-old problem of economic security, and that is a problem that existed during the Depression, exists today, and will continue to exist tomorrow.

Social Security was created to ensure that working American families had a measure of economic security.

Today, as we will see, nearly 1 in 5 Americans receives Social Security benefits and 95 percent of Americans have the benefit protection provided by our programs.

Old-Age, Survivors, and Disability Insurance

Old-Age, Survivors, and Disability Insurance is the basic national social insurance program-commonly referred to as OASDI.

Basic Purposes of OASDI

Since OASDI replaces only part of lost income, workers should plan on other sources of future income such as investments, private pensions and annuities.

Social Security strikes a balance between two complementary goals - individual equity and social adequacy.

Individual Equity

The individual equity side of Social Security ties benefits to work and contributions. Social Security is designed to reward work which earn the right to benefits.

Social Security has always provided benefits that are related to a worker's contributions.
As a general rule, the higher your earnings, the higher your benefit will be.

Social Adequacy

The social adequacy side of Social Security ensures that the nation as a whole achieves larger social goals, than simply making sure we all get a fair return on our contributions.

One major social objective is the reduction of poverty among the elderly, 42 percent of our senior citizens are kept from living in poverty by their Social Security payment.

Another objective is to raise the standard of living among lower income workers. Social Security utilizes a weighted benefit formula that gives low-income workers higher rates of return than their high-income counterparts.

And still another objective is to keep families together through the use of disability and survivors benefits. These benefits are currently helping almost 13 million wives, husbands, widows, widowers and children who have lost a major source of family income.

And I should also add that retirement benefits ensure that young families will not have to deplete their own savings to provide for parents and elderly relatives.

Social Security is the major source of income for 63 percent of our 65-and-older beneficiaries. It contributes 90 percent of income for about one-quarter of that age group.

Major Characteristics of OASDI

OASDI is the largest income-maintenance program in the United States. This program has a greater effect on the lives of more people than any other program the government has ever created. It is based on social insurance principles - universal, related to earnings, compulsory - for the general benefit of workers and their dependents.

Social Security is a form of contributory social insurance. It makes our society stronger by giving us a mechanism in which we all contribute, we all work together to support and protect each other during the times in which we are most vulnerable.

Social Security works on much the same concept as a successful insurance program, on the idea of pooled resources. By bringing individual Social Security resources together into a central pool, we have the financial ability to compensate, in part, households experiencing loss of wages due to retirement, death or disability.

Extent of the OASDI Program

Nearly every type of work activity providing wages or earnings from self-employment is covered under OASDI. Also, federal workers hired on or after January 1, 1984. State and local government employees not under a retirement system are included in the program.

The Retirement Program

We now have more than 30 million Americans who are 65 and older, and more than 9 out 10 older Americans receive Social Security benefits.

Social Security is the major source of income for 63 percent of our 65-and-older beneficiaries. It contributes 90 percent of income for about one-quarter of that age group.

If Social Security did not exist, the poverty rate among older Americans would today be over 50 percent.

And Social Security gives the elderly of our nation much more than financial independence. It gives them the comfort of knowing that they will not be a burden to their children and their grandchildren. It allows them to live on their own, and to enjoy the independence that they deserve.

Social Security is a Family Program

Throughout its history, Social Security has become much, much more than a retirement program. A lot of people do not realize that Social Security provides help to more than 5 million disabled workers and their families, and to more than 7 million family members of deceased workers.

Most of us like to believe that nothing so tragic as a disability will happen to us in our lifetime. However, 42 percent of men and 28 percent of women will die or become disabled before they reach retirement age. That translates to one out of every three people.

If the unthinkable should occur, Social Security is there. For a 27-year-old worker with a spouse and two children and a $25,000 annual income, Social Security disability benefits are equivalent in value to a $205,000 private disability policy.

One in five Americans will die before they reach retirement age.

For that same 27-year-old worker with a spouse and two children and $25,000 annual income, Social Security survivors benefits are comparable to a $295,000 life insurance policy.

Throughout its history, the Social Security program has served Americans of all ages well. As we move into the future, our challenge is to safeguard the program to ensure that it will be there for generations to come.

Qualifying for Benefits

To qualify for disability insurance benefits, a worker must be fully insured and have 20 quarters of coverage in the 40 quarters ending with the quarter of disability onset. For young workers disabled before age 31, fewer quarters of coverage are required.

Program Financing

Employers withhold Social Security taxes from their employees' paychecks and forward these amounts, along with an equal employer tax, to the Internal Revenue Service on a regular schedule. By the end of February, employers file wage reports (Form W-2) with the Social Security Administration (SSA) showing the wages paid each employee during the preceding year. In turn, SSA shares the information with the Internal Revenue Service (IRS).

Self-employed persons report their earnings for Social Security purposes and pay their Social Security contributions in connection with their income tax return. Information from these self-employment income reports is sent by IRS to SSA.

Financing of Social Security

In the next century, Social Security will begin to feel the effects of the baby boom generation phasing into retirement.

In 2019, interest and tax revenues will not meet benefit demands. We will have to begin drawing on trust fund principal, which is expected to be in excess of $3.3 trillion in 2019.

And in 2029, the trust fund principal will finally be exhausted. The $2.2 trillion in revenues received that year will only be able to fund about 77 percent of all expected benefits.

This timetable tells us that, yes, we do have to take action to bring long-range solvency to Social Security but, no, we do not have an immediate crisis on our hands.

The key is to begin a dialogue of Americans of all generations about the future of Social Security. And we are doing this.

By law, Social Security reserves are invested in U.S. Treasury bonds. The government uses the money it BORROWS from Social Security to help pay for current programs and services. The government has always repaid Social Security, with interest, when trust fund holdings mature or are redeemed. In 1995, Social Security's trust funds earned $36 billion in interest alone.

The basic Social Security structure that was erected over 60 years ago remains strong. While we may need to do some refinements on it, we cannot lose sight of the fact that it continues to be critical to our nation's well-being -- keeping people out of poverty, keeping families together. By working together, we can ensure that this structure will remain sound for years to come.

Benefit Amounts

OASDI benefits are increased automatically each year whenever there is an increase in the cost of living, as measured by the Consumer Price Index (CPI). A general cost-of-living benefit increase of 2.6 percent became effective in December 1995.

Who Is Eligible For OASDI Benefits

A worker who is fully insured is eligible for retirement benefits at age 62, but at a reduced rate (20% reduction). If such a worker waits until he or she is age 65 to claim benefits, then the amount would not be reduced. Spouses and children of the worker could also receive benefits, as well as dependent parents at least age 62 and receiving one-half support from the worker at the time of the worker's death.

Social Security Beneficiaries

There are over 43 million people receiving OASDI cash benefits every month. Social Security benefits are paid to over 366,000 beneficiaries living abroad.

1996 Earning Limits - For People Getting Benefits

The law provides that a beneficiary who is not entitled on the basis of disability and who has substantial earnings from work will have some or all benefits withheld, depending on the amount of his or her annual earnings. Benefits will also generally be withheld from a person receiving benefits as a family member, if the worker on whose account he or she is eligible for benefits has substantial income from work.

This provision, which is called the earnings test, is included in the law to assure that monthly benefits will be paid to a worker and to his or her family members and survivors only when they do not have substantial earnings from work.

- Age 70 and over... No Limit
- Age 65-69... For every $3 over $12,500, $1 is withheld from benefits.
- Under Age 65... For every $2 over $8,280, $1 is withheld form benefits.

Delayed Retirement Credits

Workers who delay their retirement beyond the full retirement age (currently age 65) or have benefits withheld under the Retirement Earnings Test, can earn a special increment of 5 percent per year for those reaching full retirement age in 1996 and 1997, resulting in a larger benefit amount upon retirement. This percentage gradually increases until it reaches 8 percent per year for those reaching full retirement age in 2008 and later.

Taxation of Benefits

OASDI benefits are subject to income tax if a beneficiary's total income, including half the Social Security benefits, exceeds specified limits. The limits generally are $25,000 for a single taxpayer, and $32,000 for a married couple filing a joint tax return. Up to 50 percent of the benefit is taxable for single taxpayers with income from $25,000 to $34,000, and for married taxpayers filing jointly with incomes from $32,000 to $44,000. Revenues generated by this portion of the tax are deposited to the OASDI trust funds.

Beginning in 1994, up to 85 percent of Social Security benefits may be subject to income taxes for single taxpayers with incomes over $34,000, and for married taxpayers filing jointly with incomes over $44,000. Revenues generated by this portion of the tax are deposited to the HI trust fund.

Appeals Process

Social Security applicants and beneficiaries have the right to question decisions made on their claims. Generally, a decision must be appealed in writing within 60 days of receipt of notice. There are three levels of appeals before the Social Security Administration: reconsideration; a hearing before an administrative law judge; then review by the Appeals Council. If a claimant remains dissatisfied, the case may be taken to the federal court system, where appeals all the way to the Supreme Court are possible.

Enhancements at the Social Security Administration

Service Delivery:

Goals and Objectives

- Reduce waiting periods for social security numbers - a job might be at stake;
- Maintain highly accurate earnings records - otherwise, benefits can be lost or delayed;
- Make entitlement decisions quickly - to prevent economic and emotional hardships;
- Pay right amount - sometimes this is all a person has in income; and
- Serve people promptly and with compassion.

Technology:

Use latest technological advances for more efficient administration of the social security and SSI programs and better service to the public (Intelligent workstation; decentralized computer system).

Human Resources:

Provide a better place to work - Career development programs: training; supporting disabled employees; child care facilities; referrals and office automation.

Quality Management:

TQM - Management and employees effect changes as a team; Participative management style and human relations.

Facilities and Organization:

Positive work environment - Employees will have a safe and hospitable work environment that permits them to conduct SSA business efficiently and professionally.

The Future of Social Security

An independent Advisory Council on Social Security will issue a report outlining options for resolving the future solvency problems of Social Security.

The Advisory Council is a bipartisan, congressionally mandated panel that meets every four years to review the well-being of the Social Security program and to make recommendations about its future. This Council is representative of America in that its members have a broad mix of ages, backgrounds and philosophies.

Although the report has not yet been released, one thing is clear - the report will highlight the fact that we CAN preserve Social Security and make it even stronger in the future.

There will be proposals, for example, to keep the program essentially as it is today.

There will also be proposals to partially privatize Social Security - either by investing the program's trust fund in private sector investments like the stock market; or enabling people to invest some of their Social Security contributions themselves, treating it like an IRA.

Although the Advisory Council is not expected to reach a consensus, its work demonstrates that there are a number of options available for consideration.

Concepts brought forward for discussion will include, among others, raising the retirement age, limiting cost of living increases, altering the formula used for calculating benefits, changing the way in which benefits are taxes, and bringing state and local government workers not currently covered by Social Security into the program.

By assembling a menu of options and carefully analyzing the effects of these options, we can put together a reasonable plan that will make Social Security solvent well into the 21st century.

By acting well ahead of time, it is possible to assemble a Social Security reform plan that achieves long-term solvency through relatively modest changes. It is only if we wait until Social Security is on the verge of financial crisis, that the nation would have to resort to dramatic or revolutionary measures that would alter the fundamental principles of the program.

The Need to Work Together

The key then is to begin the process now. Today, we need to begin talking about Social Security, replacing alarmist rhetoric with reasonable discussion.

Over 60 years ago, America was faced with a difficult choice. It made the right choice. Our nation believed Social Security was worthwhile and could work. It was and it has.

Today, we are again faced with difficult choices. We could be pessimists and doubt our ability as a nation to keep a strong Social Security program that protects people of all ages.

But I have no doubt about our ability to keep Social Security strong and solvent. We need to understand that the program can be made solvent for future generations without creating economic turmoil. Then, just as we did over 60 years ago, we need to work together to get the job done.

SOCIAL REFORMS, SOCIAL SECURITY AND EQUITY IN THE CENTRAL-AMERICAN ISTHMUS

PABLO SERRANO CALVO

CHIEF OF THE UNIT OF SOCIAL DEVELOPMENT
OF THE ECONOMIC COMMISSION FOR
LATIN AMERICA AND THE CARIBBEAN

1. Introduction

The purpose of this lecture is to settle the reforms to the **social security** systems -both, in the medical services and pensions- within a wider **social security** framework that also includes a great variety of policies -mostly welfare policies- aimed towards offering at least a minimum welfare level to the most needful population. In the Central American Isthmus, the basis of these considerations, most of the population is poor and is not protected by the social security institutes that, on their side, demand urgent reforms to recover their efficiency and credibility.

The reforms to the **social security** systems have gained priority in the social agendas of the countries, more than the **social security** policies themselves, and have become as important as the policies aimed towards fighting poverty. Moreover, the reforms in both fields are part of the changes made within the process for the creation and execution of social policies -at world scale-, in compliance with the replacement of the import substitution economic model for another model, aimed towards the external sector, within the framework of the growing globalization process.

The economic and social costs for Latin America -and especially for the Central American Isthmus- of this long transition period, characterized by severe programs for structural adjustment, will be discussed first. The characteristics of the new social policy, with a neo-liberal approach, will be summarized along with the implicit withdrawal of the State, the increased presence of other private social agents -lucrative and non-lucrative- and the enhanced participation of the beneficiaries themselves.

Later on, the urgent needs of reform to the social security systems and, within them, to the social security institutes, will be explained. The policies to fight poverty are the cornerstone for an effective social security network, complemented by informal social security systems created by the excluded population for its own survival.

The main guidelines of the reform to the health systems will be emphasized, since their contributions -a basic health minimum with universal character- are essential in all the strategies to fight poverty.

Finally, I will submit some considerations concerning the reform options presented to the population -mainly urban- protected by social security institutes both, in the health and retirement fields, in which public and private systems can coexist with the sophistication demanded by the different social strata.

All these considerations are included in the ECLAC's proposal for the economic reactivation for this decade, known as *Productive transformation with equity,* that, as you will see, puts special stress on the investment on human capital.

2. The economic and social remainders

During the last years, starting from the 70's, the Latin American countries have adopted, after undertaking several structural adjustment programs, a new economic development model in accordance with the changes occurred in the world economy, such as the globalization with all its connotations and the introduction of accelerated technological innovations. Gradually, several postulates of this new model are becoming popular in the countries. These postulates, such as the external opening and the new role of the State, are being translated into concrete measures that will undoubtedly produce changes in the economic and social standards of their peoples, especially during the transition period.

One of these changes was the drastic 7.5% drop on the per capita income of Latin America and the Caribbean during the 80's, so called the "lost decade". Due to the war in four Central American countries and the structural adjustment programs recently introduced, the per capita income of this subregion dropped 16%, with remarkable differences among the six countries that belong to this region that go from 6% in Costa Rica to 33% in Nicaragua.

On the other hand, a strong recovery in the economic activity was registered during the 90's, following the general trend existing in Latin America and the Caribbean: in Costa Rica and Panama a total recovery was registered, and in El Salvador, Guatemala and Honduras there has been a partial recovery only; the only exception being Nicaragua that has just started to revert the depressive trends registered during the last years (See Table No. 1).

This drop in the economic activity during the last decade included strong reductions on the employment, contractions on the real salaries and, consequently, an increase on the poverty and indigence levels, especially in the urban areas. It is important to mention that no recovery has been observed in the main macro-economic variables.

The "new poor people", especially from the cities, joined the ancestral poverty of the field. The last information available for the Latin American and the Caribbean region corresponds to 1990. These figures, based on the income-expenditure surveys of the countries and following the "poverty lines" methodology of the ECLAC, show that 30% of the families lived under poverty conditions. Out of these, 18% were under indigence conditions, i.e. they did not even covered their basic nutrition needs. In the Table No. 2 you can observe the sharpening of the poverty incidence in the rural zones -53% of the families-, out of which more than 30% are indigent. It is likely that the relative prosperity that seems to have started this decade, along with the policies to fight poverty, have attenuated to a certain extent, these alarming figures.

Among the Central American countries, with the exception of Costa Rica and Panama to a lesser extent, the incidence of poverty in Guatemala and Honduras turned out to be the highest percentages in the Latin American countries included in this table, in around 70% of the families. Other estimates include El Salvador and Nicaragua within this same level (74% and 70% in 1990). In the western hemisphere, the poverty of these countries is surpassed by Haiti only. Estimates from other sources are available for this country.

The unequal income distribution -worsened during the last decade- is another determining factor in the poverty levels. Brazil and Chile, followed by the Central American countries, are characterized by their inequalities. with the exception of Costa Rica, that shares the better figures with Uruguay (See table No. 3).

3. The changes in the economic model and in the social policy

The proportion of the social government spending within the GDP was kept without variations in most of the countries; however, as I have just mentioned, the GDP per inhabitant was strongly reduced. In this way, the substantial drop in the government spending per inhabitant experienced by several countries had as a result a strong decrease in the quality of the social services, generally of universal scope. The change on the policy for the generalized subsidies -that benefited the medium class mainly- contributed to increase the number of poor people, as a result of the unemployment and the low payments. In any case, in face of the unusual growth of poverty, we have been witness of the limitations of the compensatory policies, introduced in most of the countries, that, during the first year, had no functional design deficiencies but that now seem to have been rectified through the transformation of the emergency funds into social investment funds.

This slow transition experienced in the social policy of a state that used to be benefactor -clearly insufficient- into kind of a new neo-liberal paradigm -still uncertain- is the result of the shift from one economic model to another.

Generally, the economic reforms that have accompanied the globalization process and the adjustment programs, introduced in most of the countries, endeavor to transfer the growth source from the domestic to the external market with the purpose of strengthening the market economy. The withdrawal of the State from the national life is an intrinsic consequence of this process. In this way, the economic policies such as the external opening, the de-regulations and the privatization and the flexibilization of the labor markets demand equivalent changes in the social field that could be summarized in the partial or total replacement of the State by other social agents through several decentralization processes and with the participation of the benefited population both, in the creation and execution of social programs and in their financing.[1] (See Table No. 4)

The weakening of the state participation in the economic and social life of the countries has always been accompanied, almost all over the world, by changes in the functioning of the civil society institutions, with a generalized decline of two of them -the political parties and the trade unions- and, on the contrary, the growing importance of the other two institutions -the non-government organizations (NGOs) and the communities- that undertake new roles. Among the latter, the potential role of the informal sector -composed of the individuals and the families- is outstanding. It is expected that several social obligations, previously borne by the public institutions created for these purposes, are undertaken by this sector.

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[1] See, Rolando Franco, "Los paradigmas de la política social en América Latina" **(The paradigms of the social policy in Latin America)**, *Magazine of the ECLAC*, Santiago, No. 58, April, 1996.

Concerning the institutions in charge of creating and executing the social policy, in the import substitution model, the State was characterized by having a central, leading and prominent role. On the other hand, in the new gradually-shaped model, the potential of other social agents with outstanding roles in the creation and development of their own projects, is remarkable: the private sector with lucrative purposes -with a growing participation in the health, education and social security services-, the philanthropic sector -in which many NGOs participate- more committed to the fight to poverty and the individuals, families and communities, that have always had a momentous role in the family life, especially in the education to children. More contributions from the families are demanded, especially from women who had already borne the worst part of the crisis.

New shared and decentralized functions are proposed in view of the centralized State, transferring in this way decision power to regional, provincial and municipal bodies since the local environment is the most suitable to take decisions, in consultation with the community.

The active participation of several social agents leads to a co-financing need of by the private lucrative sector and the humanitarian sector, and even by the beneficiaries of the social programs and projects, at least with their own effort and mutual help. This would not only provide complementary resources, but strengthen the commitment of the receiving community to the program. Another co-financing way of growing importance is the partial -or total-recuperation of cost expenses, charging fees for social public services -such as the health services-, especially in the programs that were not created for poor people.

The replacement of the traditional subsidy to the supply by the subsidy to the demand demands a greater participation of the receiving population in the selection of the social service supplier. Indeed, the universal benefits, that have usually benefited the better protected groups, tend to be replaced by subsidies to the demand, such as coupons to buy in the market the required goods and services. This, besides strengthening the free enterprise, supposedly puts them in the position to choose, if they really had available information.

With all this, it is endeavored that the social policy redirects its benefits to the most needful groups and not to the middle classes or to the organized groups with greater political representation since these sectors will bear most the effects of these changes in their welfare levels.

It is clear that it that the effectiveness of many of these policy changes, that seem to be pioneering several fields, has not been proved. Due to the fact that many of these changes have accompanied the strict adjustment programs, distortions and discontinuities in the rendering of social services have been generated, and the population of most of these countries has felt the corresponding effects. Moreover, many of the institutions that traditionally bore the human welfare responsibility are weakened, and the new institutions to which the social obligations are being transferred are not ready to meet these obligations so far.

In any case, for the Central American countries the search of a new social model, emphasizing the fight to poverty, coincides with the new support given to the weakened subregional integration in order to face the globalization requirements in a better way. For this reason, the social issues have been included in the Presidential Summits of the Central American Isthmus, an Agreement for the Central American Social Integration has been signed and an Alliance for the Sustainable Development has been established. The performance of this alliance is supervised by the Central American Social Integration Secretariat, located at Panama City.

4. The role of the social securityin the new social context

It is important to recall that the social security, in its broad sense, is made up of several policies and welfare and social assistance procedures for the general population, with special emphasis on the most needful population. Many of the policies aimed towards ameliorating poverty -but generally not the causes- are part of it. However, the reforms demanded by the social security systems have become more important. The health and pension benefits are only for the affiliates, generally at the top of the income pyramid.

At the beginning of the decade, the ECLAC proposed an integrating scheme to the countries of the region, with the purpose of overcoming the remainders of the lost decade. The so called *productive transformation with equity* and the *integrated approach* of the economic and social policy is based on three main guidelines, i.e. the generalized inclusion of the technological developments, the creation of productive employment and the investment in human capital. These three guidelines constitute a synergy that lead all the sectors of the economy and the society.

In this scheme, the worry for equity is permanent in such a way that it represents an integral strategy for the eradication of poverty. The social security -in its broad sense- is a result of the generalized improvement in the life standards, consequence of the creation of more productive jobs and of the investment policies in human capital that include universal nutrition, sanity and health policies, as well as education policies. The public assistance is justified only for the population that can not join the resulting synergy, especially through food reinforcements and temporary jobs.

The social security systems -in their restricted sense- also have a strategic place and not a cost or a "burden" as they are generally considered in the current globalization context. Their great potential is based on the social equity they would provide if they were extended to more social strata. Their potential is also important to settle the basis for an effective investment in the human capital, as well as in the simultaenous modernizing and dynamizing effects on the enlargement economy of the sectors in which it operates, especially in the fields related to the health sector -such as medicines, materials and medical equipment- and even in the promotion to the capital and insurance markets that would be expected from a series of reforms to be introduced in the current social security systems, based on an individual capitalization.

Concerning the equity considerations, it has been seen that the poor and indigent sectors do not have any protection in some countries more than in others. For this reason, if no actions are taken, the survival of these groups in the face of any disaster would continue depending on the traditional solidarity links of the extended family that promote the procreation as the main welfare insurance for the old age and accentuate the vicious circle of poverty.

The societies of the Central American Isthmus, as we have just seen, live under a strong distribution inequity that has increased during the last ten or fifteen years. Consequently, the social security systems are not sufficient to ameliorate the growing social remainders, even despite the redoubled compensatory efforts of the investment or social emergency funds, already mentioned.

Within this context, the social security institutes, while protecting the urban workers of the formal sector excluding the rest, have contributed to increase the socio-economic gaps and the developed subsystems have favored certain groups even more: the public employees -such as the teachers and the army, especially, and the bank employees.

The document drafted in 1994 by the ECLAC, Mexico, *Social Security and equity in the Central American Isthmus*, includes a double concern, since it studies the main reform alternatives urgently demanded by the social security institutes to recover their efficiency and credibility and, at the same time, it expresses a concern for the situation of most of the population in the Central American Isthmus that does not take advantage of the benefits, neither from the social, public or private agencies, undoubtedly insufficient.

Indeed, the social security institutes protect only 25% of the population, i.e. less than 8 million people with their medical-hospital facilities. Around 40% are protected by the Health Ministries and very few people can afford private health services. Around one third of the inhabitants of the Central American Isthmus -11 million approximately- are completely excluded from the health systems of their respective countries.

The working population, protected by the working risks, disability, old age and death insurances, constitutes 30% of the working population -concentrated in urban areas- but these economic benefits, highly eroded by the inflation, do not take many beneficiaries out of poverty. This panorama varies from one country to another (See Table No. 5).

This trend is extremely important if we consider that the programs of the social security institutes are financed with tripartite sources. The government contributes -yet in a minority way- with the general resources. The best organized groups of the modern sector of the economy are the ones who take more advantage of these programs, to the detriment of the transfers that the government could make to the most vulnerable groups, resulting in a greater social benefit. (See Table No. 6)

5. The main social security reforms for the majority groups

The social security systems -in their broad sense- demand substantial reforms, many of which are being discussed or established in the countries of the Isthmus. These reforms affect both, to the social welfare policies for the most vulnerable sectors of the population and to the reforms to the social security institutes that protect the formal workers and their families. However these institutes could extend their coverage to the informal sectors of the city and the field, as well as to other needful groups. The experiences in Costa Rica concerning the universalization of the health services and the non-contributory regime administered by the Costa Rican Social Security Board, show some of the potentials in this field, as well as the experience of Mexico in the *IMSS-Solidaridad* Agreement, that made possible the extension of the health services to several Mexican rural sectors.

It is clear that all poverty concerns must be part of the macro-economic policies of a country. This essential element in normally not included or against the international schemes that involve other priorities, despite the agreements reached by the governments of the countries that participated in the World Summit on Social Development, summoned by the United Nations in Copenhagen, in March 1995.

If the sustained economic growth is essential to reduce the poverty level - now based on an efficient entrance into the world economy- so are the consequent policies for the creation of remunerated job. The great technological developments are double-edged in this field because, on one hand, they increase the productivity of the modern sector but, on the other, they replace or exclude majority sectors, generally unable to cope with the new technologies. For this reason the employment policies must be tightly coordinated with the education and training policies. Profound reforms are urgently required in this field.

The investment in human capital is really made up of several links of a chain started with the health of the mother and the child, their education, training and, finally, their entrance into the productive world. If this chain is not observed and supported, the vicious circle of poverty shall continue.

a) The reform to the health systems

In any case, if it is considered that the universal health, with a minimum of nutrition and sanity, is the main element of the basic social conditions required to alleviate poverty, and that the social security institutes can have a substantial participation in it, the reforms to these institutes should be part of the reforms to the national health systems processed in several countries.

In this field, the State is urged to have a central and irreplaceable role, not only in the execution of an expense in accordance with the needs, but also as a leading, coordinating, regulative and decentralizing agent. Simultaneously, the active and efficient participation of the private sector -that has normally met the needs of the groups with higher income-, of the non-govemment organizations, the communities and the family itself is also required, since health is a basic responsibility of the individuals and the family.

In the Central American Isthmus, imaginative responses are being studied for a more efficient supply of the public services, including the participation of the private lucrative sector -especially in Nicaragua and Costa Rica- and the communities in an unprecedented effort towards a greater decentralization and participation of the civil society.

With the reform to the national health systems it is endeavored to ensure the access to a basic package of services, socially acceptable and financially viable for *all the population*, -with more or less success depending on the country- that matches the specific technical and economic capability and the changing needs of the countries. The wider and more complete the health services package is, beyond the basic attention with special stress on the mother-child health, the more equity and social solidarity, exerted through the re-distributive role of the State, there would be.

Among the widely accepted reforms to the health sector, the universal sanitary, vaccination, information and prevention campaigns are outstanding, especially for the high-risk diseases such as cholera and AIDS. The sanitary education for women has proved to comprise several social benefits. That is why it is being strengthened in many countries, as a part of a slow process of cultural changes. Other measures that have been considered are the better use of hospital beds, the use of generic medicines, the adequate training to human resources, as well as ways to neutralize the increase on the prices, result of the new technologies. The use of the alternative medicine, such as the traditional medicine, should be intensified due to its low cost as an option for poor people and since this tradition is highly respected among the cultural minorities.

The drop on the government spending on health per inhabitant experienced during the last decade in certain countries, should be compensated and the financial efforts in this field should be redoubled, since it is required that this spending accounts for 5% of the GDP, as recommended by the WHO. In the Central American context, this percentage is reached in Panama and Costa Rica, with a higher per capita income than in the rest of the countries. The challenge for this countries is to increase the efficiency and rationality of the services. Despite Nicaragua allocates this percentage to the health spending, its per capita income is so meager that the spending on health is extremely insufficient. In Guatemala, El Salvador and Honduras efforts should be made towards increasing this percentage. At the moment only 1 to 2% of the GDP is allocated to this spending, one of the lowest percentages in the world (See Table No. 7)

This complementary effort in the field of government spending would be viable if the tiny tax burden was increased, the fiscal evasion was corrected and the army spending was reallocated to the social sector, once the zone is pacified. The possibilities of reaching this goal also depend on the recovery of the economic growth; nowadays some perspectives are being opened for the countries of the Isthmus. The budgetary resources allocated to sophisticated hospitals that only increase the life expectancy of the patients some months, should be reallocated to preventive, sanity and primary attention campaigns. In this way, the scarce spending would be used in a more efficient way. The enhanced contribution of the social private and philanthropic agents, the external cooperation and the beneficiaries themselves, according to their possibilities, also opens new horizons in this field.

Equally important actions should be undertaken for a more rational administration of the limited funds and for the decentralization and co-participation of the civil society. The recent developments on the reforms to the State and the support to the municipal development in the Central American countries are starting to be fruitful, as it has already been mentioned, especially within the framework of the local health systems - the SILOS or SILAIS of Nicaragua with their headquarters, with an unparalleled participation of the community.

An important part of the financing of a universal health package could come from the government subsidies that currently allocated to the medium and high levels of the population. Moreover, the savings result of the decrease on the oversupply of services, the inadequate use of facilities and the introduction of high-tech medicines and medical equipment with a high cost and little use, could be reallocated in a wiser way.

Giving an efficient health assistance requires political will and to overcome financial limitations and resistance by the affected groups. Another obstacle would be the disagreements between the central authorities and the local autonomy, an essential requirement for the participation of the community in a modern medical system accepted by everyone, especially in the field, among the cultural minorities.

b) The support to the informal social security systems

One of the less explored fields is the wide potential of the informal social security networks. Most of the poor population, not protected by the formal social security systems, relies on these networks.

The inability to save through formal procedures due to the lack of resources or access to the banking system, have led people to create community survival practices to face the frequent misfortunes. The purchase of commodities -a radio, a bicycle or a cow- is made in onerous conditions -on installments- while its sale, in emergency cases, involves substantial losses.

The family solidarity and community links, the informal saving and credit systems of the poor people -that have proved to be more reliable and solvent than the ones of the rich people- should be thoroughly studied with the purpose of developing their full potential and linking them with the formal systems.[2]

In this field, the social security institutes could offer voluntary affiliation procedures, with reasonable contribution rates, both, for the informal urban

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[2] The work by Larissa A. de Lomnitz, *Cómo sobreviven los marginados* **(How poor people survive)**, Siglo XXI Editores, Mexico, 1975 continues being valid not only in Mexico but also in other countries of the region. The recently published study by Catherine Mansell Carstens, **The popular finances of Mexico, the rediscovery of a forgotten financial system**, Mexico, CEMLA, ITAM, Editorial Milenio, 1995, is equaly relevant.

sector and for the rural sector. Likewise, the pension funds administrations should study new affiliation procedures for the popular sectors that offer them the possibility of having access to their meager savings, normally not accepted by the banking system. The existing banks, on their side, could create procedures for the promotion of savings and credit for the low income sectors, or try successful experiences from other countries.

6. Some reform guidelines for the social security institutes

The aging of the population, the changes to the epidemiological profile, the insufficient creation of formal jobs and the decrease on the average income are generally the main causes of the financial and organizational crisis faced by most of the social security institutes in the world. They could be summarized in a greater demand of benefits with less contributions, with the resultant financial disaster and greater non viability probabilities if urgent reforms are not introduced.

In Central America, it has been proved that, during the last years, these institutes meet less and less the purposes for which they were created, with their consequent disrepute. This situation has had as a result the deterioration of the medical and hospital services and a drop on the real value of pensions and retirements, that do not ensure at least a basic support for their beneficiaries.

However, it must be emphasized that, almost all over the Isthmus, the immense remainder on the fees and government contribution, the "untimely payment" is more powerful than the other causes, as well as the frequent embezzlements, the untimely payment of fees by the employers and the contribution evasion by the affiliates in certain countries.

Another factor that affects the development of these institutions is the growing flexibility of the labor markets, with the consequent decrease on the creation of formal jobs and increase on the informal jobs, since this situation coerces the institutes to change their basis and functioning. On this respect I will only quote the estimate of the ILO: out of 100 jobs created in Latin America and the Caribbean 84 belong to the informal sector.

Giving the national social security institutes efficiency, flexibility and financial viability, i.e. recovering their credibility with good services at reasonable contribution fees, constitutes the cornerstone of the proposed reforms, aimed towards offering benefits proportional to the contributions.

Amending this situation would mean introducing profound reforms to the functioning of these social security institutes. The extension and seriousness of these reforms depend on the real possibilities of each institution, their economic and social environment and the political will. Indeed, the marked differences among the socio-economic structures of the Central American countries have an impact on the development and maturity of their social security systems. This diversity makes difficult to propose common reform guidelines for all the countries, even if this task would be easier if the countries were grouped in three categories, in accordance with their maturity level.[3] Costa Rica belongs to the first category, Panama to the second one and El Salvador, Guatemala, Honduras and Nicaragua to the third one, of incipient development.

It is generally agreed that the different benefits should be separated to consider their reforms, since their financing has been the cause of frequent unbalances in the past.

a) Medical and hospital insurance

In this way, for the medical and hospital insurance beyond the proposed basic universal package financed by the government, there are several options, either public, private or mixed, in accordance with the contribution capacity of the worker and the employer. For example, in Nicaragua important developments have been made with the Welfare Medical Enterprises -of the public and private sector-, supervised by the Nicaraguan Social Security Institute. Likewise, in Costa Rica, equalitarian systems with credited private physicians -company doctors- have been created. These systems seem to be successful.

For the lower income sectors, the extension of the social security coverage beyond the minimum should be based on an adequate contribution rate and

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[3] According to the classification made by Don Carmelo Mesa-Lago in the 80's. See CEPAL, *La equidad en los sistemas de seguridad social* **(Equity in the social security systems) (LC/T.-1233)**, Santiago de Chile, 23rd November, 1992, p. 2-6. This document is a summary of Carmelo Mesa-Lago, *Economic and financial aspects of the social security in latin America and the Caribbean: Trends, problems and alternatives for the year 2000*, made for the World Bank.

on a sufficient supply of services, so that the voluntary affiliation becomes attractive to the formal entrepreneurs -owners of small enterprises-, the free lance workers and even to the members of the informal sector. Several procedures could be studied through associative and cooperative ways of urban and rural workers, possibly with the support of the government -that could be justified for equity reasons- as well as through programs financed with the international cooperation, important in the Central American context.

The voluntary access to private health insurances could be promoted among the population with certain purchasing power, disappointed by the quality of the health services provided by the social security. A wide range of private or public medical insurances is available for them, with different complexity levels, in which their contribution -exclusively by the beneficiary and the employer- is established in accordance with the variety and sophistication of services required. The free election of medical services suppliers is part of this scheme. In this field, there are many possibilities to use the complementary facilities of the social security institutes, the health ministry and the private hospitals in a more rational and profitable way, as well as the hiring of services in order to increase the efficiency. The practices that give rise to the abuse of clinical analysis and expensive and unnecessary treatments should be fought. Experiences on this issue from other countries are already available.

b) The sickness, maternity and working risks insurance

The sickness and maternity insurance -economic compensation for absence- should be separated from the medical-hospital attention due to their nature. Likewise, its financing should be borne by the workers and employers only. The premium of the working risks and accidents insurance should be considered within the production costs of the enterprises and financed exclusively with employers' contributions, since its incidence depends on the type of activity.

c) The pension systems

Finally, concerning the different pension schemes, there are three main reform options: the modification to the current distribution systems, their replacement by an individual capitalization regime, or the establishment of a mixed regime in which the universal minimum insurance, based on distribution, coexist along with complementary insurances of individual capitalization.

Unlike other countries, in the Central American Isthmus, there still is a satisfactory ratio between the contributors and the pensioners. For this reason, the distribution systems still have the possibility of functioning satisfactorily, naturally introducing important improvements to its efficiency and administration, avoiding the bureaucracy and centralization, as well as the delays on the payments. In any case, there is a wide scope within the distribution regime to introduce attractive affiliation procedures for the non-salaried and free lance workers both, from the formal and informal sector, and among the part time workers.

The extension of the pension scheme to the vulnerable population -as in the non-contributory regime of Costa Rica- demands to think about the financial possibilities of each country and should be linked to the strategies to fight poverty -as it is done in this country- so that the Insurance Board only administers public funds for social assistance. In any case, an insurance of this type would have to be financed with general taxes.

More flexible and realistic criteria in the calculation of contributions and benefits, the postponement of the retirement age and its equality between sexes -as it has already happened in some countries- are elements that will contribute to a better financial situation of the security institutes. Following the rational policies for the allocation of reserves is equally important.

The macro-economic stability and the capital market with a certain level of development and maturity are necessary conditions to change towards an individual capitalization regime. However these conditions are not met in most of the Central American countries. Another essential requirement for a pension regime of individual capitalization is the political will of the government to bear the transition costs, while taking over the pensions of the previous regime. In the Central American case, even if the ratio of pensioners is not very high in relative terms, the governments would face important financial limitations, especially those who had not been able to cover the unpaid debts. A third requirement is the support that the State should give to this scheme, ensuring a minimum pension for the affiliates in the face of any eventuality.

This support is decisive for the establishment and extension of this pension scheme. In Chile, where this regime has been so successful, it is estimated that 5% of the GDP has been allocated during the last years. Such a government subsidy would be justified in terms of an active internal savings policy.[4] But due to the financial restrictions of these countries to establish at least a universal policy for basic health attention, it would go against the equity since the financing would come from the general resources that would be allocated to meet the needs of the groups with higher income. It corresponds to the governments and to the civil society to chose this disjunctive option in a democratic way.

One of the advantages of such a system, in which the intra-generational solidarity operates, is that it requires the greater possible coverage for its functioning. In this way the saving among the people or families not used to it would be promoted, on a compulsory basis. But this potential could be reduced with the limitations, result of a low ratio of contributors in several countries of the region, and with little expansion possibilities. Moreover, some of the main criticisms made to this option are the irrationalities in the functioning of the system as a whole, that would favor the excessive earnings of the funds' administration agencies -that go beyond the international social security regulations- besides the disproportionate publicity expenses to compete with the others. It is essential to consider the success possibilities of a pension regime of individual capitalization in each specific case, as well as being careful while taking decisions.

In short, studying the mixed solutions would be, in principle, the most advisable option for the Central American context.

Such a scheme could ensure a minimum welfare for the most needful sectors, based on an integral social security system supported by solidarity and would also reward the higher income groups, in accordance with their contributions, that expect the protection that an efficient and properly-administered benefit system should offer. However, an individual capitalization system seems to be more adequate for these countries.

Any reform that meets this double need, emerging from different social strata with divergent interests, involves a complicated institutional transformation and

[4] This promotion is not always effective, since the savings accumulated in the individual pension accounts would be the ones the families would have stopped accumulating privately. The enormous reserves accumulated in Chile come from the government subsidies more than from a greater propensity to save. See Andras Uthoff, *Promotion to saving and the pension systems* LC/R.1608, ECLAC, November, 1995.

a new establishment of tasks and activity areas of the social security, public assistance and fight to poverty agencies. It also involves superlative budgetary efforts both, in terms of amount and allocation, that demand a special agreement between the governments and the civil society.

7. Conclusions

In short the enormous social remainders of the Central American countries demand redoubled actions during the transition moments in the creation and establishment of the social policies. The decline of the policies and institutions that worked in the past has not been accompanied by the replacement by others, with highly-proved results. The reforms to the social security institutes in the health and pension fields are a clear example of this situation.

TABLE 1
LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF THE GROSS DOMESTIC PRODUCT PER INHABITANT
(Accumulated percentage variation)

	1981 - 1990	1991 - 1995[a]
Latin America and the Caribbean	-7.5	5.1
South American Countries	-9.1	10.4
Argentina	-21.1	23.6
Bolivia	-17.4	6.1
Brazil	-4.6	4.8
Chile	12.4	29.7
Colombia	17.9	13.2
Ecuador	-6.6	6.0
Guyana	-27.7	30.0
Paraguay	-0.8	0.9
Peru	-28.9	19.3
Surinam	-6.8	-0.8
Uruguay	-1.4	14.8
Venezuela	-19.4	2.5
Mexico	-4.3	-5.8
Central American Countries	-16.1	7.1
Costa Rica	-5.8	10.1
El Salvador	-18.8	16.0
Guatemala	-18.2	5.8
Honduras	-8.2	1.6
Nicaragua	-33.5	-11.1
Panama	-2.4	14.6
Caribbean Countries		
Bahamas	7.7	-5.7
Barbados	6.1	-4.9
Belize	20.5	8.7[b]
Cuba	27.8	-33.4
Dominican Repuplic	2.1	9.2
Haiti	-20.6	-33.7
Jamaica	18.9	4.3
Trinidaddand Tobago	-29.9	-0.6
Countries of the OECO[c]	70.2	11.2

Source: ECLAC, based on the official figures turned into dollars at 1980 constant prices.
Note: The total and subtotals, when applicable, exclude those countries for which no information is available.
a Preliminary estimates subject to be revised.
b For 1991-1994 period.
b OECO = Organization of Eastern Caribbean States.

TABLE 2
LATIN AMERICA (14 COUNTRIES):
INDIGENCE AND POVERTY SCALE
(Percentage)

Countries	Years	Families under the poverty line					Families under the indigence line				
			Urban					Urban			
		Total	Total	Metro-politan zone	Urban rest	Rural	Total	Total	Metro-politan zone	Urban rest	Rural
Argentina	1986	13	1	9	15	17	4	3	3	4	6
Bolivia	1992	...	46	...	...	...	...	18	...	...	...
Brazil	1990	43	39	...	...	56	...	22	...	...	...
Chile	1994	24	24	18	27	26	7	6	4	7	8
Colombia	1986	38	36	31	37	42	17	15	11	16	22
Costa Rica	1992	25	25	22	29	25	10	8	7	9	12
Guatemala	1986	68	54	45	59	75	43	28	20	31	53
Honduras	1992	73	66	...	...	79	50	38	...	...	59
Mexico	1992	36	30	...	...	46	12	7	...	...	20
Panama	1991	36	34	32	40	43	16	14	14	15	21
Paraguay	1992	...	...	36	...	...	...	...	13	...	...
Peru	1986	52	45	37	53	64	25	16	11	22	39
Uruguay	1986	15	14	9	19	23	3	3	2	4	8
Venezuela	1992	33	32	21	35	36	11	10	6	12	10
Latin America	1990	39	34	...	...	53	18	13	...	...	30

Source: ECLAC, based on the special tabulations of the home surveys of the countries.

TABLE 3
LATIN AMERICA (13 COUNTRIES):
CHANGES IN THE LEVEL AND DISTRIBUTION OF THE INCOME OF THE HOMES

Countries	**Years**	**Gini Coefficiente**		**Participation in the income of the poorest 40%**		**Participation in the income of the richest 10%**		**Quotient between the income of the richest 10% and the poorest 40%**	
		Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Argentina	1992	0.408	...	15.2	...	31.6	...	8.3	...
Bolivia	1992	0.478	...	13.0	...	40.0	...	12.3	...
Brazil	1990	0.535	0.458	9.6	14.4	41.7	38.0	17.3	10.5
Chile	1994	0.479	0.414	13.3	17.1	40.3	38.4	12.1	9.0
Colombia	1992	0.454	...	12.9	...	34.5	...	10.7	...
Costa Rica	1992	0.362	0.358	17.0	17.3	26.9	25.2	6.4	5.8
Guatemala	1989	0.479	0.432	12.1	14.4	37.9	35.1	12.5	9.7
Mexico	1992	0.414	0.341	16.6	19.4	34.8	28.9	8.4	6.0
Panama	1991	0.448	0.431	13.3	15.0	34.2	35.6	10.3	9.5
Paraguay	1992	0.391	...	16.2	...	29.2	...	7.2	...
Uruguay	1992	0.301	...	21.9	...	25.9	...	4.7	...
Venezuela	1992	0.380	0.331	16.4	19.2	28.1	25.0	6.8	5.2

TABLE 4
CHARACTERISTICS OF THE SOCIAL POLICY

	Current	Emergente
Institutionality	State monopoly Centralism	Plurality of sectors
Financing	by the State Subsidy to the supply	Co-financing Subsidy to the demand
Benefited population	Middle class Organized groups	Poor people (Focalization)

Source: Based on Rolando Franco, "Los paradigmas de la política social en América Latina" **(The paradigms of the social policy in Latin America)**, *Magazine of the ECLAC*, No. 58, April, 1996.

TABLE 5
CENTRAL AMERICAN ISTHMUS: POPULATION PROTECTED BY THE SOCIAL SECURITY INSTITUTES, 1994

		Health			Economic benefits	
	Total population (100 inhab.)	Covered %	Covered population (1000)	Working population (1000 inhab.)	Covered % of the working population	Covered population (1000)
Central American Isthmus	31,630	25	7,982	31,630	25	7,982
Costa Rica	3,347	100	3,347	3,347	100	3,347
El Salvador a/	5,611	20	1,122	5,611	20	1,122
Guatemala	10,321	17	1,755	10,321	17	1,755
Honduras	5,496	8	440	5,496	8	440
Nicaragua	4,269	b/	b/	4,269	b/	b/
Panama	2,586	51	1,319	2,586	51	1,319

Source: ECLAC, estimates based on official figures
a/ Includes the ISSS and the INPEP
b/ In Nicaragua the Health Ministry and not the National Social Security Institute provides the health coverage

TABLE 6
CENTRAL AMERICAN ISTHMUS: FINANCING OF THE SOCIAL SECURITY INSTITUTES, 1994

	Total	Worker	Employer	Government
Costa Rica	27.20	8.00	17.70	1.50
El Salvador	14.00 +a/	4.00	9.50	0.50 +a/
Guatemala	18.62	4.50	10.00	4.12
Honduras	14.00	3.50	7.00	3.50
Nicaragua	17.00	4.00	12.50	0.50
Panama	28.70 +b	10.00	18.70	b/

Source: ECLAC, based on the information provided by the social security institutes of the Central American Isthmus.
a/ The contribution of the Salvadoran government is fixed: according to the last information it accounted for 500,000 million dollars.
b/ The government contributes with the income obtained for the alcohol taxes.

TABLE 7
SELECTED COUNTRIES: GOVERNMENT SPENDING ON HEALTH AND SOCIAL SECURITY, 1990
(Percentages of the GDP)

	Total	Health	Social security
France	25.5	6.8	18.7
Austria	22.5	5.0	17.5
Sweden	21.4	0.4	21.0
Germany a/	19.6	5.3	14.3
Japan	17.8	6.8	18.7
Spain	15.4	2.4	13.0
Romania	13.8	3.0	10.8
Panama	11.7	5.9	5.8
Kuwait	11.2	4.2	7.0
Brazil	10.8	2.3	8.5
Cuba	10.5	3.4	7.1
Costa Rica	10.2	6.7	3.5
Chile	10.0	2.1	7.9
United States	9.4	3.4	6.0
Canada	9.2	1.2	8.0
Nicaragua b/	6.6	...	...
Zimbabwe c/	4.3	2.9	1.4
Venezuela b/	3.6	2.1	1.5
Honduras	3.3	2.8	0.5
Bolivia	2.9	0.3	2.6
Zambia d/	2.5	2.1	0.4
Belize	2.5	2.3	0.2
Mexico	2.4	0.3 e/	2.1
Dominican Republic	2.1	1.6	0.5
Cameroon a/	2.0	0.7	1.3
Guatemala a/	1.8	1.2	0.6
Turkey	1.4	0.9	0.5
Kenya	1.4	1.4	...
Haiti	1.3	1.3	...
El Salvador	1.1	0.8	0.3

Source: ECLAC, based on official figures and figures provided by the International Monetary Fund.
a/ 1989 figures.
b/ 1986 figures.
c/ 1987 figures.
d/ 1988 figures.
e/ Does not include the health expenses of the social security institutions.

THE REFORM TO SOCIAL SECURITY IN ARGENTINA

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Introduction

There are two objective causes of almost universal scope, external to the administration and functioning of the pension regimes, that have a strong impact on them and constitute, with several manifestations, the origins of the crisis experienced by these systems both, in the industrial and in the developing countries.

One of these causes is the demographic one: the ratio of active pensioner workers. A generalized diagnosis in this respect, shows an important alteration on the demographic composition of the population covered by the insurance. This change has a negative impact on the financial balance of the system, since the number of pensioners that finance the benefited active workers, measured in relative figures, continues growing. This phenomenon, in which the unavoidable maturation of the system and the generalized tendency for life expectancy to increase progressively converge, is translated into a steady progress on the aging process of the population that also affects the countries of the region, and especially our country.

Concerning the economic conditions, their negative incidence in our country becomes even worse as a result of the following double contradiction: on one hand, we have a social security system with highly developed benefits, similar to the developed countries despite the inflationary crisis and the economic recession intensified by a long economic crisis; and, on the other, this situation increases the minimum needs to be met by the State through the social security systems, that do not have the necessary resources as a result of the unemployment and under-employment, as well as of the increase on the property of accounts.

The demographic evolution, the maturity of the system and the world economic situation are the structural factors that characterized the Argentinean pension system, accompanied by other functional or administration problems. For this reason, several reform proposals to the financial and administrative basis of the system were made.

Brief historical account

1. At the beginning of the century, the need and usefulness of creating social welfare policies were considered. Originally, the social welfare was fragmented and was a result of the actions undertaken by some groups of workers interested in getting resources, for the time they abandoned the labor market, or in case they had impediments to work. For this reason, it was organized through autonomous bodies, established by law.

Later on, the institutes for the national State officers were created. Likewise, the provinces created retirement regimes for the public employees financed with contributions with no other solidarity features.

The allocation of resources was made using distribution criteria, based on the market logic and its distribution law: the commutative justice.

By the 30's, the retirement regimes experienced an intense crisis that put them on the brink of collapse. The profound depression, that also affected Argentina, combined with the permissiveness and extreme generosity of the regimes, forced the State to restructure them and limit the benefits (up to 30%).

The decision provoked conflicts solved through judicial procedures. The Supreme Court declared that the action of the State was reasonable and legitimate. Several judgments from the highest tribunals, complied with by the judges of lower rank, contributed to solve the crisis in a definitive way.

2. At the beginning of the 40's, in compliance with the development of the Welfare State in the Central countries, the system was spread and universalized, including almost all the workers. The universalization improved the ratio between the assets and liabilities in the system. In this way, the revenue became higher than the expenditures. The system worked with collective capitalization criteria, since the retirement benefits represented a balancing entry to the contributions.

The industrial development was accompanied by the full employment and a reasonable consistency on the monetary sign, favoring the normal operation of the welfare system. An important development in this process was the sanction, in 1954, to the Law 14.370 that marks the shift from the capitalization to the distribution system. The credit was calculated in accordance with a scale, independently to the accumulated sum, result of the contributions.

3. By the end of the 50's, the rationality that characterized the functioning of the system was seriously eroded, straight after the sanction to the Law 14.449. This juridical provision, that introduced some concepts of the distribution system though keeping important capitalization aspects, altered the basic premises applied by the legislation substituted to determine the amount of the retirement benefit, giving the beneficiaries the right to choose their best marginal productivity to determine the quantity of the retirement credit, and ensuring them a pension for 82% of their wage, updated in accordance with the increase on the active wage of reference, with maximum limits.

The concept of the automatic updating, known as "percentage mobility", was introduced with this legal provision. This is almost the direct basis of one of the determining causes of the recurrent crisis of the Argentinean welfare system.

4.-The Law 18.037 restructured the system by the end of the 60's, with the purpose of solving its structural crisis. However, it was not profound enough and, therefore, did not eliminate the updating criteria based on the allocation rules that regulate the distribution based on market principles: the commutative justice.

Even if the law was aimed towards the distribution, it kept worthy values with mercantilist criteria, maintaining the rights result of the marginal productivity of the beneficiary, though fixing maximum limits for the benefits.

The Social Security system was partially reformed during two decades. Most of these reforms were aimed towards making the conditions to have access to the benefits more flexible, without considering the genuine and autonomous financing of the welfare agents.

In this way, there was a momentous increase on the number of beneficiaries. Between 1973 and 1982, the amount of beneficiaries increased 64% approximately.

5.-With all these negative factors, accompanied by the complex procedures established to enjoy the benefits, when the last military government concluded, the system suffered an intense social conflict, part of which was transferred to the judicial power.

Between 1983 and 1989, there were thousands of legal actions against the social security agencies, that almost put them on the brink of implosion. The judicial sentences and the growing inflationary process, that eliminated the hyperinflation declared in July 1989, forced the national authorities to adopt unusual measures aimed towards regularizing the situation and restructuring social security institutions.

Between 1991 and 1993, the national State canceled welfare debts for around 12,000,000 dollars and recomposed the credits deteriorated by the inflation, coping with the new reality settled by the Convertibility Law.

The collapse of the old system and the profound reform process of the State, motivated the political powers of the Argentinean State -Executive and Legislative- to make a radical transformation to the social security system, aimed towards eliminating the distortions that provoked its collapse, such as:

a. Commutative justice criteria based on the market
b. Recognition of the better marginal productivity of the beneficiary
c. Linking of the benefit amount with the marginal productivity of the active worker, considered individual or collectively.
d. Mobility based on active salaries or predetermined abstract guidelines.
e. Lassitude in the age, contribution and remuneration requirements to have acces to the benefits.
f. Proliferation of preferential regimes.

The consequences of the structural factors, already mentioned, and of other functional factors, result of the internal administration of the system, created several problems that affected both, the coverage and the financing, the administrative organization and the benefits of a regime that has stirred up several reform initiatives during the last years.

The welfare model result of this historic evolution, showed a remarkable degrading tendency in the observance of the doctrinal social security principles. These principles go from an early massification, almost universalization, of its coverage, the considerable increase on its benefits or the adoption of relative distributive measures and schemes (that turned it into one of the pioneer systems of Latin America) to a conflicting, and even antagonist, relation with such principles that culminated in a generalized critical perception of our welfare regime, described in the official speeches as a "presumptuous system", that promised a mobile 82% of the remuneration and did not give at least 40% of such credit.

This serious crisis undeniably discredited the welfare system. As a result, there was an increase on the complementary pension and retirement boards established through collective agreements, and by-laws of several lines of activity, with the purpose of covering the growing lag between the credit and the legal 82% (generally temporarily established, but that tended to become permanent, with the consequent negative impact on the labor cost and the equality principle of the retirement benefits, since the real credit did not depend on the legal regime but on the existence and scope of these conventional compensations); the accumulation of legal actions by retired workers. When these demands were positively received, determined a questionable welfare emergency declaration, and the official support to the private retirement plans through the Resolution 19.106, issued by the Insurance Superintendence of the Nation, on 24th March, 1987.

Concerning the aspiration to universality, that constitutes one of the main characteristics of the contemporary social security, the Argentinean welfare system observed a distance between the doctrine and the reality, shorter than the one perceived in most Latin American countries.

But, these accomplishments in the field of the coverage universalization were affected by the endurance of old phenomena, such as the nominal coverage of some sectors and the over-coverage of others, or by the regional differences as well as by the incidence of other phenomena such as the impact of the different precarious jobs, or the property of accounts on the welfare and social security structures.

Another basic doctrinal social security principle, the integrity and sufficiency of the benefits, was seriously affected by an unbalance created by factors such as: the deterioration of the demographic burden as result of the maturity of the system; the increase on the welfare benefits without the corresponding increase on the revenue; the inflationary process; the disappearance of the surplus collected during the accumulating stage, the high evasion or the lack of autonomy on the administration of the welfare funds. All these problems were continuously identified by representative associations of the sector, and were the basis of various projects of reform to the system created during this period. The adjustment variable of all this deficit panorama was the depreciation of the welfare credits, expressed in the progressive degradation of the average benefits, measured on terms of the cost of living and the active wage, and on the constant widening of the minimum credits fringe, main financial "vindication" of a system extremely generous, for a long time, on facilitating the access to the benefits and establishing privileged regimes.

The panorama, result of examining the evolution of our welfare system and, in general, of the social security benefits based on the solidarity principle - one of its main components, was not auspicious either; especially if we consider that the Argentinean system did not show consistent indicators of regressive impacts of the social security on the revenue distribution, such as the low coverage percentage, the limits to contributions -eliminated in 1973- or the progressive giving up of the capitalization system starting on the 40's, crystallized into the law 14.370 of 1954, that prescribed the shift from the capitalization to the distribution regime.

The almost 70,000 non-contributory pensions granted by the system had to operate in the same way, according to the figures included in the Presidential Message to the Legislative Assembly on 1st May, 1986.

However, the few studies and research done on this subject comprised figures that showed that Argentinean welfare system was barely progressive.

Moreover, far from being a re-distributing agent in a social and solidary sense, the Argentinean welfare system was based on a tripod of inequities represented by the evasion, the generalization or universalization of the minimum credits, and the existence of privileged retirement regimes.

Undoubtedly, some determining factors of these meager re-distributive effects of the welfare system, despite the positive elements previously mentioned, were the existence of independent groups such as the Army with a high state subsidy; the creation, starting in the 60's, of the special regimes for certain public officers, also subsidized, or the positive co-relation between the revenue and the coverage in the different regions of the country.

Concerning the unity principle, we just have to mention that the different attempts to unify the system that homogenized the burden and the benefits, did not eradicate the bad habits of its original stratification, neither could it prevent the emergence of regimes privileged by the retirement age or amount of benefits, that accentuated this stratification to the detriment of the financial balance of the system, the integrity of its average benefits and its contribution to the common welfare.

In our case, the total violation of the social participation principle, not present in the administration and control of the Argentinean welfare system for the last twenty years, when the trade-union presence was eliminated from the administration of the Boards, was particularly harmful to the social security doctrine.

An institutional pluralism, frequently considered as a rejection to any coordination effort among the agents that went beyond the subsidy of deficit regimes by those who, like the private workers, presented a surplus; a State that frequently misunderstood its subsidiary role and operated with interventionist paternalism but, at the same time, did not fulfill its limited role as contributor and supervisor conferred to it by the professional insurances, and the weak presence of the welfare and social security in the national development plans created during the last decades, were part of this critical panorama of the historic evolution of our welfare system, in view of its own doctrinal principles and transcendent social goals.

The reform to the argentinean welfare system

Within this critical context and preceded by several frustrated or limited modification projects, a profound reform to the system was started in 1990 with the creation, in 1991, of the ANSeS and the parallel dissolution of the Retirement Boards; the incorporation, in 1992, of the Unique Social Security Contribution (CUSS); and the transfer, in 1993, of the collecting role of the system to the DGI.

In 1993, at the request of the National Executive power, the Congress of the Nation sanctioned the law 24.241 that establishes a system constituted of retirements and pensions, later on modified by the Law 24.463 that contained the following items:

1. A mixed system made up by a public distribution solidary regime and an individual capitalization regime was established. These regimes are administrated and controlled by public decision agents: the National Social Security Administration and the Superintendence of Pension Funds Administrations.
2. Elimination of market criteria for the determination of the retirement credit, including the own or third party marginal productivity.
3. Strictness in the fulfillment of the requirements to grant benefits.
4. Progressive increase on the age requirement to have access to the retirement benefits.
5. Mobility of the credits by the legislator with the purpose of sanctioning the Budget Law.
6. Establishment of ceilings (maximum limits) for the retirement credits.
7. Establishment of maximum limits for the remuneration subject to contributions.
8. Annulment of preferential regimes resulting from distribution systems based on the rank, economic power, pressure capability, exercise of power or the combination of these factors.
9. Strict procedures to grant disability retirements.

Under this new principles, the Argentinean State endeavored to establish a new design project of the Welfare State, linking directly the social policies with the public ones as a whole; not as a residual aspect, neither as an aspect subject to the economic or productive goals, but in coordination with the latter, particularly in the aspect more tightly linked to the promotion of the productive employment, cornerstone of the social policies in the years to come. This process should be free of particular or sectorial features that characterized its evolution in the previous stage, enervating, especially during the last decades, its original solidary approaches as well as the proclaimed re-distributive effects.

Concerning the welfare and social security policies, the reforms approved after the sanction to Law 24.241, were aimed towards establishing a public regime of joint action between the State and certain particular agents.

It is important to emphasize the new role of the State in this system, that undoubtedly differs from the previous one but that, at the same time, does not endeavor a definitive and unconditional withdrawal to make a way for the private regime in the field of retirement. On the contrary, the new structure of the

Argentinean welfare system confers to the State important roles as a constituent of the same (since the regime is created in compliance with the will of the State expressed through the guidelines of its public policies, the laws and decrees promulgated thereafter), in its capacity as direct agent of the public sector, comptroller and supervisor of the private individual capitalization regime, and warrantor of the functioning of the system as a whole.

This duty of the State is part of a group of guarantees that the new legal regimes confers to it, though freed of the sense that these had in the previous conception of the State as a powerful and permanent benefactor, responsible of the successful functioning of the system. Such a concept of "guarantees" devaluated itself progressively, as the gap between the legality and the reality of a "presumptuous" system increased. This "conceited" system promised credits and benefits considerably inferior to those that it finally granted.

The true guarantee of the State in this field should be reflected in its capacity to design the system, for its right control, and for the responsible administration of the area under its jurisdiction.

Concerning the design of the system, the law is clear enough in mentioning that the role of the State in the distribution regime is to collect the funds, allocate them, fight fraud, evasion and privileges and, of course, with a substantial improvement to its administration capacity.

In the capitalization system, the main guarantee of the State is to control the design of the system.

The second important guarantee is to separate the patrimonies.

The capital of the Retirement and Pension Funds Administrations (AFJP) is made up by the risk investments of partners. This capital is subject to the risks to which all the mercantile or commercial operations in our country are subject.

But the funds administered by the AFJP to obtain a determined income return, should not be mixed with the patrimony of the AFJP. This is a substantial guarantee that the future pensioners have since, on the event of bankruptcy of the administration, their contributions will not be at stake, since the patrimonies are not mixed.

The third guarantee is that, in accordance with law, the State ensures a minimum income return. This means that, in case an administration does not reach the minimum income -calculated on the average of the system- due to an inadequate administration, it should undertake different internal adjustment procedures with the patrimony of the company until the minimum return income, that corresponds to the period, is obtained.

In short, the guarantees of the State in the individual capitalization regime are the minimum return income, the separation of the patrimony on the event of bankruptcy of the administration or insurance company, and the general comptroller system by the Superintendence of the AFJP, the Central Bank, the National Securities Commission and the Insurance Superintendence.

The institutional pluralism among the administration or controlling agents, such as the National Social Security Administration (ANSeS) in the public system, or the Superintendence of Retirement and Pension Funds Administrations (SAFJP) is logical and advisable in the capitalization regime. However, it does not affect the fundamental unity and convergence of objectives and criteria of social security policies that should characterize the public and private administration systems, with its specific implementation modalities.

This harmonious integration of guiding principles in the design, conception, and institutional pluralism in the administration, implementation and application, could be compared to the best doctrinal wealth and the developed international law trends in the field of social security.

The main component of the strategic leading role of the social security policy is the global and prospective analysis of the social security system, agents and variables, as well as the development of information and analysis on the issues that have a greater impact on the development of the social security as a whole (economic and demographic trends, national, regional and international economic contexts, etc.).

In our country, the State exerts this role of direction, integration and coordination of social security through the Ministry of Labor and its specific competent agency, the Social Security Secretariat.

Welfare balance

The Argentinean welfare system is being transformed. Its impact on the society, as well as its regulating institutions and benefits, have entered a change and adaptation process. After the enactment of Law 24.241, a complex legal and prescribed structure has been implemented.

Two of the most evident expressions of this renovating effort of the structures, instruments and philosophy of the Argentinean welfare system are the successive transfers of the provincial welfare systems to the Nation, and their consequent integration into the Integrated Retirement and Pension System (SIJP), already adopted by 10 provinces and the Welfare Solidarity Law that, basically focused to the existing liabilities, comprises the following clauses:

- A regime for the mobility of credits to be established by the Congress of the Nation, through an annual budget law that will allocate the budgetary items (along with their corresponding functioning) that will indicate the amounts to be paid by welfare benefits during all the year.
- The establishment of maximum limits in the welfare credits, and the correlative prevalence in the increases assigned to those who receive lower amounts at the moment.
- The ratification of the suppression of the privileged regimes, due to the age, access conditions to the benefit, calculation of the credit or amount of the benefits, not justified by the nature of the activity
- The modification to the welfare procedure aimed towards moderating the high welfare litigiousness index, without affecting the genuine rights and their adequate jurisdictional recognition and protection.
- The increase on the financing sources to the current passive class through the modification of the Income Tax, in order to make it more equitable, and the incorporation of important labor categories, currently beyond the SIJP such as the university professionals, into the field of the welfare solidarity.

From this perspective, and since the roles assigned to the public and private agents are complemented with the administrative, negotiator and comptroller practices, it is possible to foresee an evolution of the new system that contributes to recover doctrinal social security principles that the crisis and depletion of the previous model had steadily degraded or forgotten, such as:

- The establishment of a more homogenous contribution and benefit system, that restores the equality and uniformity criteria of the social welfare for all the workers of the country, regardless their activity or territorial jurisdiction.
- A greater integration of objectives and responsibilities between the Nation and provinces in the field of social security.
- The adequate conjunction of respect to the rights and benefits already acquired, with the entrance of new contributors to a system that offers the possibility of choosing freely between the individual capitalization of the contributors, or the permanence in a solidary distribution regime free of the particular schemes, and exceptional regimes that atomized and perverted the previous system.

The challenges of social security

The model in force does not involve, as we have already mentioned, the withdrawal of the State from its fundamental role to protect social security. With the arrival of Law No. 24.241, the main characteristic is the coexistence of a group of private and public institutions in the welfare administration.

The solidarity principle is based on the need to support, especially during old-age, to those who have the lowest income and that, therefore, had not been able to save enough money for this stage of their lives, aspiration of any modern and ethically acceptable welfare regime.

The solidarity principle, the economic and technical-financial budgets, through the Budget Law, the guarantee of the State, the financing of the Distribution System, the nature of the regime, the mobility are included in the Articles No. 1, 2, 4, 5, 7, 8, 9 and 11 of Law No. 24.463.

The recuperation and effectiveness challenges of these traditional and essential objectives of Social Security, distorted by the crisis and the depletion of the previous welfare model, are complement by the new challenge introduced by the new system: the capability to accumulate richness and savings that could be translated into an enhanced protection, and more welfare for all the population.

Social Security systems have to face several challenges. The situation experienced today in Argentina is not the one that prevailed in the 80's, or in the 50's, since Social Security Systems have to be able to cope with the changes in the economy. The globalization process represents a new challenge: make our economies competitive and more open, and Social Security must not be an obstacle to the economic development.

One of the challenges to be faced by the Social Security system is to keep the social cohesion. For this reason, we have to reinforce their solidary and equitable basis as a central element, within a permanent balance framework that prevents the mistakes and avoids the temptation of going back to the past.

The new Social Security system must overcome a structural evasion, result of the income inefficiency of important sectors of the population, and the discredit of the Social Security System that discourages the timely payment of contributions during the active working life, in view of the precariousness and exiguousness of the future protection offered as a counterpart.

One of the challenges of the welfare system is the ideological problems. On one hand, there are people who think that public systems are inefficient and try to eliminate them, reducing the access of people to the benefits with a merely economic criterion. On the other, there are trends that support that the State has an intrinsic obligation to administer the resources efficiently. Unfortunately, within this struggle the ideological problems end up destroying the solidary systems of Social Security.

The public distribution system has to be efficient and prestigious in society. Regardless the performance of the systems, 60% of the beneficiaries is in the capitalization system, and 40% in the public system. Ultimately, it must be the individual the one who decides to join one system or another, relying on the necessary information and based on personal convenience, age, income, etc.

Another central challenge to be faced by Social Security is the regional integration process. The framework of this process has been recently analyzed: Argentina already belongs to a regional grouping -i.e. Mercosur- that also has to face important challenges. A Bilateral Agreement on Social Security was recently agreed with the Government of Chile, and efforts are being made towards signing a multilateral agreement with the member countries of

Mercosur that integrate the different systems, beyond the public or private administration, allowing the people to move from one place to another without loosing rights in his/her native country.

In short, the essential challenge is to keep a balance between security and solidarity in the Social Security systems. However, this will not be possible if it is not grasped that solidarity within the system is incompatible with privileges, welfare and evasion frauds and lack of commitment of people with higher income to the less favored sectors of the community.

- STATISTICAL ENCLOSURE -

SOCIAL SECURITY INVOLVES MORE THAN 10 MILLION PEOPLE

AT THE MOMENT, 65% OF THE TOTAL POPULATION OF THE COUNTRY OF MORE THAN 60 YEARS OF AGE RECEIVES WELFARE BENEFITS

TOTAL SPENDING ACCOUNTS FOR 20 THOUSAND MILLION PESOS, i.e. BIT LESS THAN HALF OF THE ARGENTINEAN GOVERNMENT SPENDING

THE ROLE OF THE SOCIAL SECURITY SECRETARIAT IS TO ACHIEVE THE STRATEGIC ARTICULATION OF THE WHOLE SYSTEM

GOVERNMENT SPENDING ON SOCIAL SECURITY

The Welfare Sub-system only

YEAR	PERCENTAGE
1989	4,0
1991	5,9
1995	6,9
1997	7,0
1999	7,1

MTSS

INTEGRATED RETIREMENT AND PENSION SYSTEM

NUMBER OF BENEFICIARIES OF ORDINARY RETIREMENTS, RETIREMENTS FOR DISABILITY AND PENSIONS FOR DEATH

- REGIME -

CAPITALIZATION REGIME UP TO 31/03/96

Ordinary retirement	Retirement for disability	Pension for death
14	163	2,577

MIXED OR PUBLIC WELFARE REGIME UP TO 31/03/96

Ordinary retirement	Retirement for disability	Pension for death
53	805	587

REGIME:

Capitalization: The Beneficiary receives a benefit granted by the Capitalization Regime

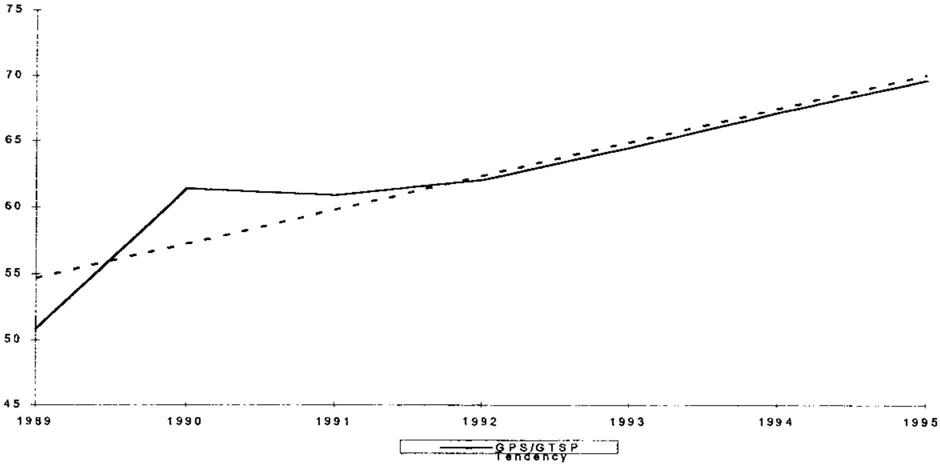
Mixed: The Beneficiary receives more than one benefit, one granted by the Capitalization Regime and the rest by the Public Welfare Regime

SOURCE: Superintendence, AFJP - Three-month memories No. 7

MTSS

PARTICIPATION OF SOCIAL GOVERNMENT SPENDING ON TOTAL GOVERNMENT SPENDING OF THE PUBLIC ARGENTINEAN SECTOR

YEAR	PERCENTAGE
1989	50,82
1990	61,40
1991	60,91
1992	62,08
1993	64,54
1994	67,21
1995 *	69,68



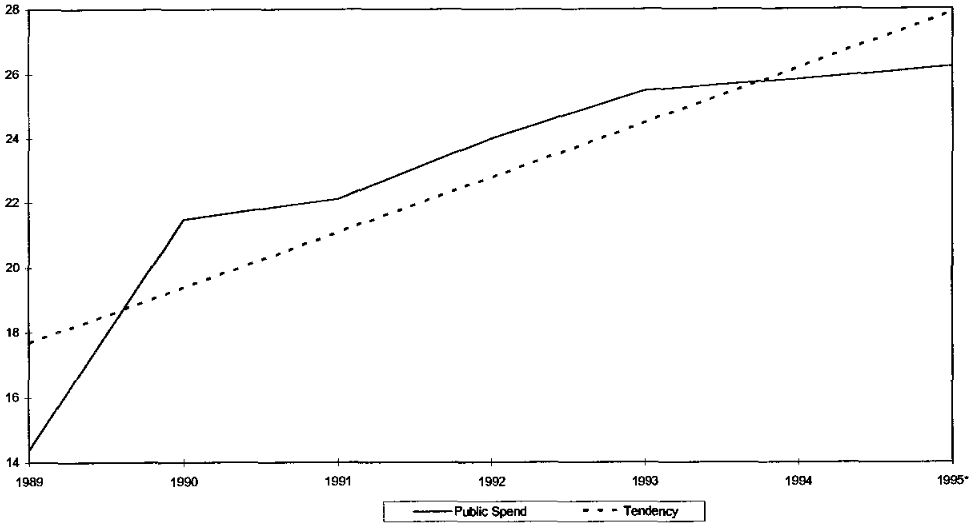
NOTE: The Public Government Spending is made up by Culture, Education, Science and Technology, Health, Environmental Care, Housing, Social Welfare, Social Security, Labor, Other Urban Services

SOURCE: Year 89.93, The Social Government Spending and its re-distributive impact (1/6/1994) M.E. and O.S.P., p. 26
Year 94: Growing Argentina (1995-1999), Macro-economic projections
Year 95: (*) : Growing Argentina (1995-1999). Macro-economic projections
Table No. 3.3 Government Spending funded by purpose and function

MTSS

PARTICIPATION OF GOVERNMENT SPENDING IN SOCIAL SECURITY IN THE TOTAL GOVERNMENT SPENDING

YEAR	PERCENTAGE
1989	14,37
1990	21,48
1991	22,12
1992	24,00
1993	25,49
1994	25,85
1995 *	26,22



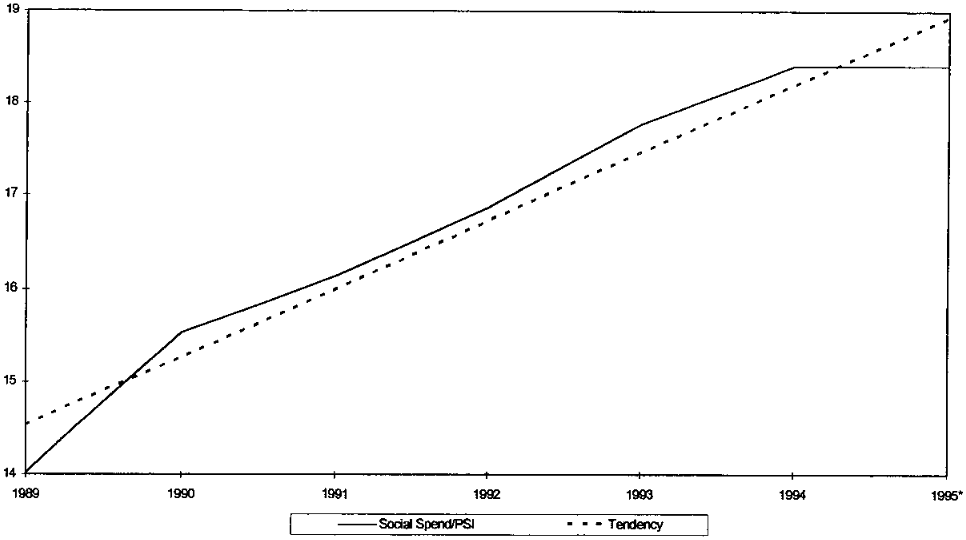
NOTE: The Spending on Social Security is included in the social Government Spending.

SOURCE: Year 89.94, The Social Government Spending and its re-distributive impact (1/6/ 1994) M.E. and O.S.P., p. 26
Year 1994: Growing Argentina (1995-1999), Macro-economic projections
Year 1995: (*) : Growing Argentina (1995-1999). Macro-economic projections

MTSS

SOCIAL GOVERNMENT SPENDING - % OF THE GDP

YEAR	PERCENTAGE
1989	14,02
1990	15,53
1991	16,14
1992	16,87
1993	17,77
1994	18,41
1995 *	18,41



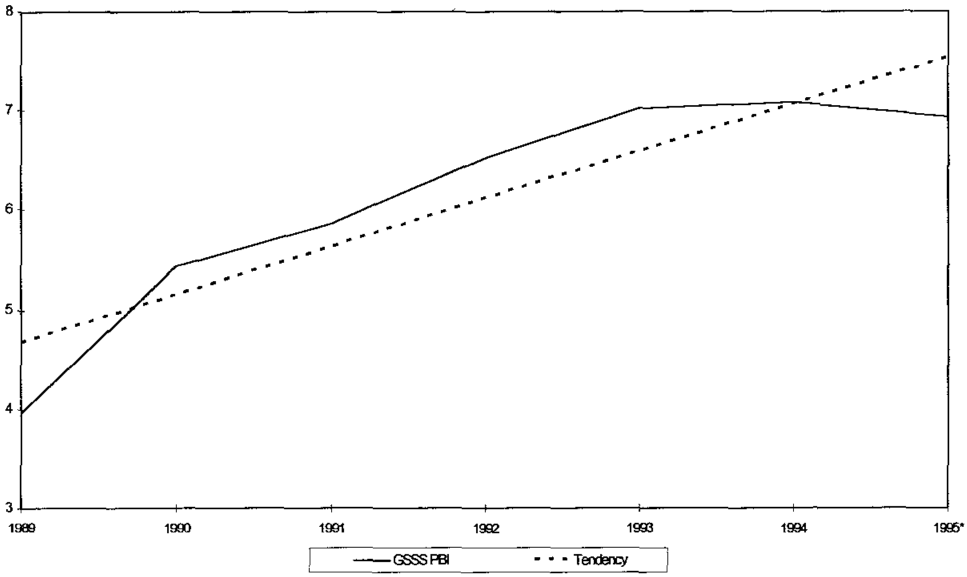
NOTE: The Social Govemment Spending is made up by: Culture, Education, Science and Technology, Health, Environmental Care, Housing, Social Welfare, Social Security, Labor, Other Urban Services.

SOURCE: Year 89.93, The Social Government Spending and its re-distributive impact (1/6/1994) M.E. and O.S.P., p. 25
Year 94: Growing Argentina (1995-1999), Macro-economic projections
Year 95: (*): Growing Argentina (1995-1999). Macro-economic projections

MTSS

GOVERNMENT SPENDING ON SOCIAL SECURITY % OF THE GDP

YEAR	PERCENTAGE
1989	3,96
1990	5,44
1991	5,86
1992	6,52
1993	7,02
1994	7,08
1995 *	6,93



NOTE: The Spending on Social Security is included within the Social Government Spending

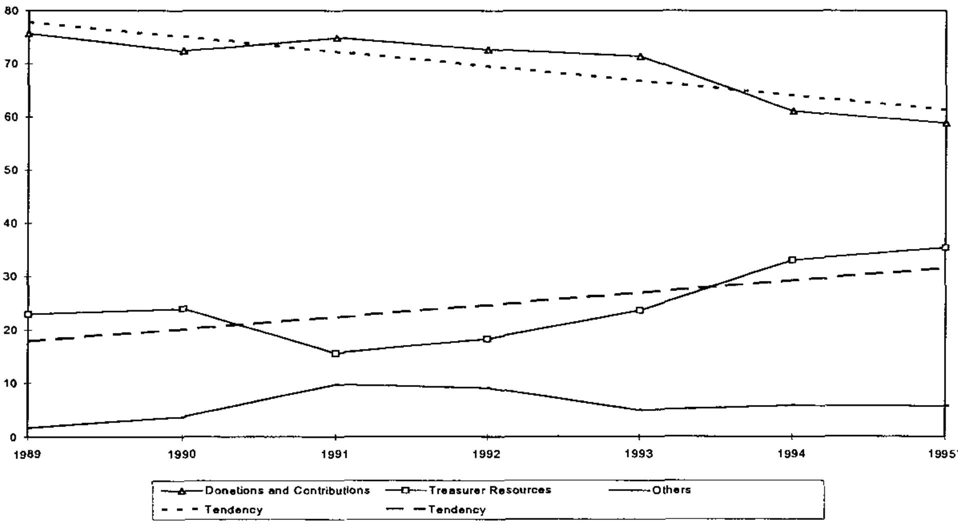
SOURCE: Year 89.93, The Social Government Spending and its re-distributive impact (1/6/ 1994) M.E. and O.S.P., p. 25
Year 94: Growing Argentina (1995-1999), Macro-economic projections
Year 95: (*) : Growing Argentina (1995-1999). Macro-economic projections

MTSS

FINANCING OF THE WELFARE SUB-SYSTEM

IN PERCENTAGES

YEAR	CONTRIBUTIONS	FISCAL RESOURCES	OTHERS
1989	75,60	22,90	1,60
1990	72,40	24,00	3,70
1991	74,80	15,60	9,70
1992	72,70	18,30	9,00
1993	71,40	23,70	4,90
1994	61,10	33,10	5,80
1995 (*)	58,81	35,50	5,70

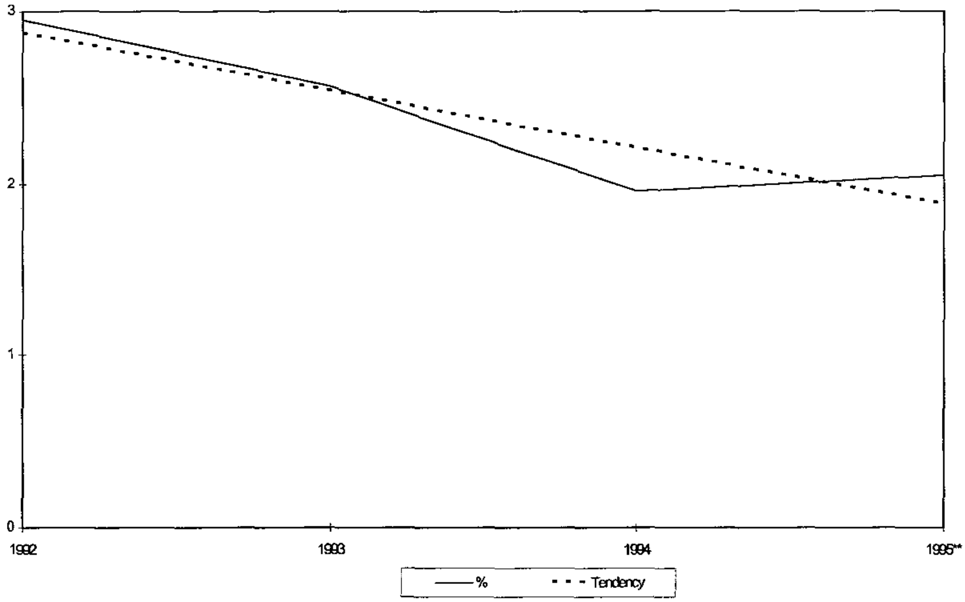


SOURCE: Series *Divulgacion* No. 7, "Financial Series of the National Social Welfare System, Period 1962-1994"
(the information does not include the financial flows corresponding to the regimes of Allocations, and of the National Employment Fund)
(*) 1995 board execution, done by the General Deputy Economic Financial Administration of the ANSeS
(the information does not include the regimes of Allocations and of the National Employment Fund)

MTSS

EVOLUTION OF THE ADMINISTRATIVE SPENDING COMPARED TO THE ORDINARY INCOME OF THE WELFARE SUB-SYSTEM

	I	II	III
DATE	ORD. INC. in mill. $	ADM. SPEND. (ANSeS) in mill $	ADM. SPEND. ANSeS ORD. INC. (in %)
1992	11.482,3	338,7	2,95
1993	12.525,8	322,0	2,57
1994	12.867,7	251,7	1,96
1995(**)	14.634,4	300,2	2,05

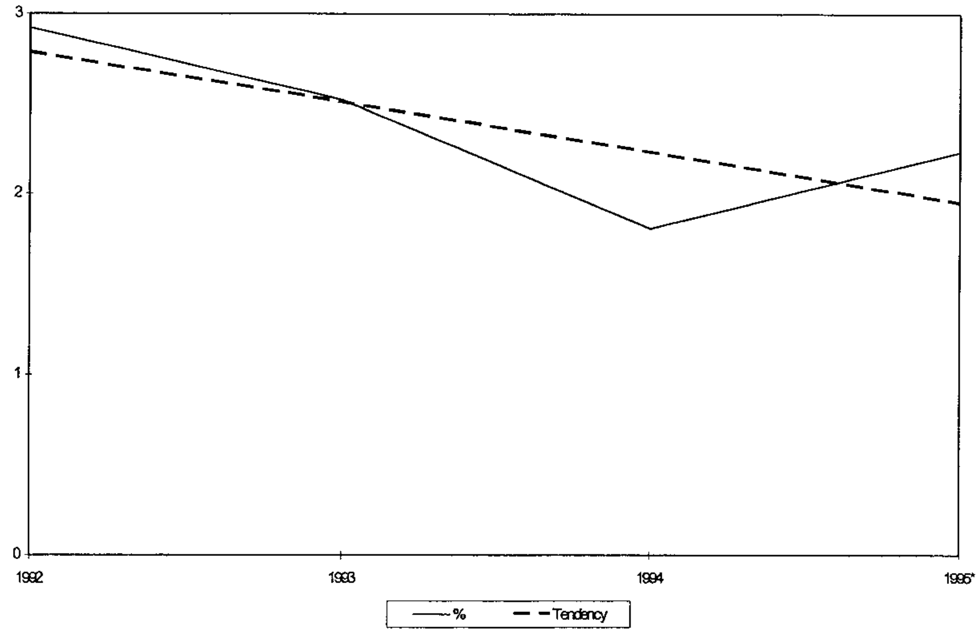


SOURCE: Series *Divulgacion* No. 7, Financial Series of the National Social Welfare System, Period 1962-1994
(**) For the year 1995, Execution to 31/12 of 1995 was used N.G.E.F. Accrued basis
In 1994 constant pesos taking the annual average of the C.P.I.
(*) Ordinary income: Contributions and Taxes. Without considering the Employment Fund or the Family Allowances

MTSS

EVOLUTION OF ADMINISTRATIVE SPENDING COMPARED TO THE BENEFITS OF THE WELFARE SUB-SYSTEM

	I	II	III
DATE	BENEFITS in mill. $	ADM. SPEND. (ANSeS) in mill $	ADM. SPEND. (II) BENEFITS. (in %)
1992	11.616,1	338,7	2,92
1993	12.759,6	322,0	2,52
1994	13.924,2	251,7	1,81
1995(**)	13.487,5	300,2	2,23



SOURCE: Series *Divulgacion* No. 7, "Financial Series of the National Social Welfare System, Period 1962-1994"
(the information does not include the financial flows corresponding to the regimes of Allocations and of the National Employment Fund)
(*) Execution to 31/12, 1995 S.G.F.F. ANSeS. Accrued basis.
To 1994 constant pesos considering the annual average of the CPI

MTSS

EVOLUTION OF ADMINISTRATIVE SPENDING COMPARED TO THE TRANSFERS OF THE DGI

DATE	DGI TRANSF. in million $	ADM. SPENDING in mill $	ADM. SPENDING DGI TRANSF. (in %)
1994	(*) 184.91	(**) 251.67	1,36
1995	184,70	300,20	1,63

SOURCE:
Year 1994: (*) Execution of the 1994 Board - General Deputy Economic Financial Administration - ANSeS
(**) Series Divulgation No. 7, Execution January - September
Year 1995: Execution to 31/12, 1995 S.G.E.F. ANSeS, Accrued Basis

CRITICAL ASPECTS OF THE PENSION FUNDS SYSTEM IN CHILE

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A. Main targets of the Chilean Social Security

Basic concepts of the former system

1.- In the middle twenties an organic social movement that leads to the announcement of three fundamental laws about social security, intended to protect all the workers, emerged in Chile.

From these three laws, the most important was that establishing the compulsory social security for disease, invalidity and old age for all manual workers population. At the same time, social security regulations for public and private employees were incorporated.

This universal concept for social security regarding the coverage of protected population and of the attended social-demographic risks was affected since the 30's as a consequence of a socio-political dynamic that was a conspiracy against the original principle. Some small groups of workers could released themselves from the central prevision systems and were benefited with special laws, that followed a general actuarial scheme, but incorporated less requirements in regard to the demands for reaching the fringe benefits and mechanisms that allowed the achievement of higher securities than these. Withing these framework the so-called Funds for Social Security associated with some specific economic activities, financed by the highest income base of their members, with extraordinary managerial contributions and even legal measures that granted sources created by the application of specific taxes.

2.- The early 50's constituted another period of great activity for the Chilean social security.

The social security scheme for manual workers was improved, concerning both allowances and benefits for health, family allowances and other benefits, and the retirement fund system for private employees was changed for a pension insurance for invalidity, old age and survivorship. Both laws were studied for a long time, and for that reason, they resulted well structured in actuarial, financial and operational aspects.

3.- Later on, there was a period that can be qualified as a true socio-political outburst that in some other aspects combined the social security with a concept that was similar to the social assistance. Through fictitious financial mechanisms empty impositive periods were recognized (Continuity of Social Security Law), the retiring age for women was reduced, and some other laws that were eroding the financial balance that supported the social security.

Financial/actuarial basis of the former legislation

4.- The actuarial schemes of the Chilean social security regarding the pension systems, were based in the Collective Capitalization, they were not shares as it has been constantly mentioned without any information by several technical and political sectors.

The accumulated capitals were invested, most of them, in mortgage loans granted to the same depositors, either for private construction of houses or for the purchase of dwellings.

Two economic situations conspired against the investment made by the social security. In the firts place, the concept of readjustment related to the change in market prices was introduced to Chilean economy at the beginning of the 60's in such a way that, even existing before an overwhelming inflation, the loss of the real value of capitals was very high. To this negative effect it was added the fact that the mortgage and other loans, were granted based on a social criteria, this is to say, low rate interests and long amortization terms, and even limitations that avoid the amount of the debt service to fall upon certain average over the income that could be imposed to the debtor.

Besides of the economic-financial factor that was affecting the capitals and the existing differentiated schemes of benefits for some groups, extremely generous compared with the majority, the National Government took part in the social security using indirectly its financial resources, through the creation of the "unique fiscal account", and thus originating serious debit situations against the institutions of the social security system.

Initiatives of changes

5.- Along with the evolution of the social security, the governments that followed since the end of the 40's, encouraged by the different political and economic sectors, impelled initiatives of changes in the social security system. Commissions for reforms were constituted, some of them achieved great acknowledgement -such is the case of the so-called Klein Sack Mission (1958) whose advisory environment was extended to all national economy and the so-called Prat Report (1962)-, but all of them could not defeat the complex legislative/financial frame and the existing group interests.

Since 1974, in the Militar Government, social security reformative anxieties in which the new economic points of view were stronger than the social ones reborn, in 1979, the economy imposed its criteria, influencing in the emerging provisional model.

It is important to remember that for the late 70's Chile, as some other Latin American countries, was experiencing an economic "boom", based on the opening of new international credits, that led to increase the external debt from 4.5 billion dollars in 1973, up to more than 20 billion in 1979. In that atmosphere of economic internationalization, it was not strange that the cause of the reform were strongly oriented towards the financial sector.

B. Principles Implicit in the Social Security Model of the Pension Fund System of Pension Fund Administration System (P.F.A.S.)

1.- The economic-financial emphasis that predominated in the drafting of the new model for social prevision, is shown through different circumstances:

- There is no background that a financial-actuarial study of the system was made, but a model design, where the main concern was, as it has been pointed out, in the financial sector. This emptyness will rest around the PFAS System at the time it gets closer to the regular situation.

- The socio-economy of the benefactor State was drastically substituted by the subsidiary State, in which it rests apart from the social and economic responsibilities and transfers all its responsibility to privates. The State, led by the principle of the minimum cost, is only the part that guarantees the functioning system.

- Substitution of the social solidarity behaviour by the influence of individuality, in which each person must face by himself the socio-demographic risks that could affect him.

- Institutionalization incorporated to market mechanisms, in which the creating efficiency of the return of capitals must guide the institutional election of incorporation and movement of the workers that are members of the system.

- Elimination of causals that affect the production costs of the companies, so they can compete with their products in the external market. The social security, due to its higher total imposed rates, was considered one of the factors that affected most the enterprise expenditure.

- Strong criticism to the social security institutionalization, because it is considered as very complex and of higher managerial cost, despite of the fact that from the 32 social security funds, three of them - Social Security Service for manual workers and the Social Security Funds for public and private employees- covered more than 90% of the insured.

- Minimization of the State contribution to the social security, because it was estimated than the gravitation of this in the national budget constituted an impulsive force of deficit and as a result, a factor of money inflation.

2.- The economic orientation with which the new system was designed placed the problem of social benefits in a second level. As a consequence, it seems that there was no deep dialogue about the main goal of the social security, which is, the social risks frame that affects the workers and their families during their lives.

3.- About the individualism foundation and the presence of the State only to help the most needed and to guarantee the functioning of the System, the adopted financial model was structured with operational mechanisms that reflected the above mentioned philosophical principles of the hystoric moment Chile was living.

Some of them:

- Administration of the whole system through the participation of private companies, supervised only by a public institution.

- Creation of individual accounts for those affiliated to the system, in which personal contribution and savings depend on the interested party and are accumulated.

- Financial treatment of individual capitalization of the funds registered on the individual accounts.

- Investment of the accumulated funds in the individual account in the financial market, so they have profitability added to the contributions, to be used when the fringe benefits were required.

- Assumption in the sense that the affiliated party has the capacity and knowledge to decide, in different moments of his social security life, what is most convenient for his interests. This "financial homo sapiens", corresponds to a dogma of the economic model adopted in Chile.

4.- These principles led to the structuration of a model that, in general terms, offers the following contradictions, even with the inspiring economic model.

- The affiliated insured has no intervention in the administration of his own capital, but these are managed in accordance with operational strategies of the market, by some company in charge of the funds administration. The affiliated party has few or non information about which is or which are the financial groups that manage their administrative company and of the changes in the board that happen.

- Existence of a great variety of private profitable administration institutions, and whose number depends on the interest that the private corporations have for assuming that field of the activity, in the legal and normative regulations frame stablished by the supervisory organization.

- Institutionality totally detached from workers and employers, where in any moment, and without knowledge neither decision from both, appears new owners of their PFA, they associate with organizations different to the environment of the social security, in an external image of total arbitrariness.

- Free election for the worker in order to affiliate to an administrative institution which is offered in the market, and to change of institution in accordance with his interests, but without the certainty that the change will be convenient for him in a near future.

5.- It is difficult, but essential, to understand that the Chilean Pension Fund System is based only on the financial aspect and not on the social prevision nor even on the social security. This principle accounts for the treatment of the individual capitalization account as a real bank saving account, where his owner, the affiliated party, can operate it according to his particular financial interests, even with the risk to endanger his future living standard.

From social prevision, the P.F.A.S. system only keeps its duty to affiliate while the person is carrying out a dependent and profitable activity, and voluntarily if the labor activity is independent.

The impositive rate (quotation) was fixed in practically half of the rate that the regulations for social security has for pensions. The contribution, which is now of 10% of the payments and incomes plus the fee for managing their funds, becomes total responsability of the worker.

6.- There was another aspect suffered by the Chilean social security and that, until now, has not originated comments from the analysts of the system. The concept of economic modemity has broken the integrated structures, generating atomizations of the component parties. The social security did escape from the application of this concept. Previously, there was an integration of risks and benefits, which searched to protect globally the person in anything that could affect his life.

The prevision regulations included and interrelated the pension systems (invalidity, years of service, old age and survivors pensions), sickness insurance, family allowances, unemployment pension and compensations, evictions. The reform of the Militar Government broke that scheme, practically it eliminated some benefits, and to the ones that kept, -pensions and health- gave them an institutionality completely independent. Thus, the whole integrating coordination in the risks protection that affected the individual, disappeared.

C. Contradictions of the Pension Fund System

Pension Fund System and market economy

1.- The Pension Fund System has a contradiction within itself.

The labor structure of the Chilean society, like in other parts of the world, changes with great speed due to the effect of the intensification of the market model. The enterprises want to decrease costs through the technological and organizational modernization, which is translated in a tendency to the reduction of the manual work factor and its substitution for the so-called temporary services (the labor externalization). The short term services contract tends to substitute, increasingly, the direct and permanent contract. The market economy imposes over the working economy. This change affects strongly to the workers younger than 35, which are more than half of all the affiliated parties to the PFA.

This observation is confirmed with the statistics of the affiliates of ages under 35 who quoted in March, 1996: 17.2% made it upon incomes below the minimum income.

The mechanism of temporary freelance hiring, not compulsorily imposed, constitutes, each day more, a regular form of payment. Even when the hiring of the temporary work is compulsory imposed, the collection of the contributions in charge of the PFA, surely below the amount of the corresponding comision, is made in a limited way. This fact can constitute another causal of the higher rate of social security emptiness that is registered today. We will disscuse the same subject below.

The financial mechanism of the Pension Fund System is based in the constant accrued capitals, constituting the most important element of the model, the contribution of quotes in the individual account since the first years of activity, and the positive profitability of the investment. Then, the low volume of the accrued quotations in the affiliation period, especially in the early ages, causes an evident structure disadjustment between the System, the form of collection of incomes of an important sector of the covered population and the quoting frequence both financial and actuarily.

The consequences are clear. According to official information, up to March 1996, there was a record of 5.4 million affiliated people, meanwhile, the contributors only reached 2.5 million workers; that is to say, no more than 47% of the total. A similar fact has been present for several years, a situation that was getting worse since 1985.

This negative scene for the social security future of large sectors of workers, is clearly outlined in their individual accounts: 1.56 millions of affiliated do not register movements for quotations more than a year ago, and, 662 thousand of them made their last social security contribution more than five years ago.

2.- Another effect of the labor discontinuity, maybe the worst, is clearly shown on the accrued capitals on the Individual Capitalization accounts.

Based on the statistic information of the PFA Superintendence, it is inferred that the arithmetical average effective balance for the affiliated population does not exceeds 4.750 dollars, even excluding 171 thousand affiliates with accounts that have a zero balance (values up to March 31, 1996).

A more disintegrated estimation of the same statistic background, allows to show a worrying reality. In fact, 50% of the affiliated population only records a mean total capital which does not exceed 400 dollars, an extraordinarily low amount. The workers older than forty are likely to increase their balances through the value of the Acknowledgement Bonus of the former Social Security System. The lack of public statistics about bonus values, does not allow to carry out projective studies in this issue.

In contrast, 9% of the affiliated persons of the higher income imposed sector, owns an arithmetical average balance of approximately U.S.D. $20,000. However, even if this amount seems to be really high, the potential capital does not have yet, actuarially, a significant relevance for the future pension of affiliates with such income levels (the maximum monthly income imposed is 60 UF, that is to say, approximately U.S.D. $1,900).

Importance of the quotation opportunity

3.- Frequently, analysts who look for presenting favorable social security amounts about the Pension Fund System, make their estimations upon the averages of imposed incomes, as well as continuity, without interruptions, of rythm and time of the quotings. These suppositions are far from reality, if we take into account what happens 15 years after the social security scheme was stablished.

Last March, the monthly imposed income of all quoters was equivalent to U.S.D.$ 512, while the average imposed income of half of the 2.52 million of affiliates who quoted and were located in the lowest wage sector, was of only of U.S.D.$210; that is why the general average is equivalent to 2.44 times half the quoters earning lower wages.

4.- As it can be seen, if the current Social Security System appears in its conception legally based in an universal principle, within itself, due to the consequence of the economic reality in which it functions, a wide range of social security variability is forming, with a strong asymmetry towards extreme situations, that allows to foresee a potential source of evident differences, which demand a deep and timely analitical reflection, and the adoption of amendments.

It could not be assured that all elements are just a consequence of the economic model in which the PFA Systems is supported, but, overall, we would have to examine if the scheme, by itself, produces adverse factors or does not encourage the fulfillment of the social security legislation.

D. Investment of Funds

1.- The Pension Fund System focuses its tasks on the strategy with which each Administrative Institution manages the accrued funds of the affiliates.

Existing total freedom for the worker to choose the PFA in which he desires to be affiliated, the advertising effort of the competitive market in which these institutions move, leads advertising to show its profitability results, obtained in a fiscal period, month, year or other.

At the same time, the supervisory organization - the PFA Superintendence- spreads the excelencies of the global system, presenting the profitability results achieved in its 15 working years (anual average between 12 and 13 per cent).

This form of advertising profitability involves a true statistic distortion, since it takes as reference just the contingent of affiliates that was incorporated since the beginning of the D.L. 3.550 (May, 1981) y does not measure the situation of the incorporated later on. Diffusing a general indicator that can reflect the average situation of all the affiliated population requires, at least, of the weighing of the profitability rates of every annual period for the correspondant mean annual affiliated population. It is not useful, for instance, to report in 1996, a worker who was affiliated in 1991, that the system grew with a real rate of 12.7%, if the reality shows that his individual capital just raises to real annual rates of 3.0; 16.2; 18.2; -2.5.

For instance, during 1995, there was a public concern for the negative return of the resources of the system, explained basically because of the decrease of the price of the stocks of the suitable companies ("the aefepeables"), especially the electric sector, in which the PFA had invested higher percentages of their funds. This tendency to lower the levels of profitability rates that those profusely outlined and spread by the PFA still remains. Just as the PFA Superintendence has reported, in the first half of 1996, the average profitability of the system was 2.5%, but in last June, the profitability was 0.0%, reached thanks to a positive profitability of the instruments of fixed income and financial intermediation, since it was produced a considerable negative profitability in the shares. Despite this fact in the same month, five Administrators recorded negative retums.

Since the profitability decreases caused a concern, Chilean government announced that it will send during August 1996 a reform that should allow the PFA, voluntarily, to place a second pension fund, that would be entirely invested in fixed income instruments. The affiliated to the pension system could choose between the unexpected greater profitability fund, but with greater risk or the one which handle a less fluctuating investment portfolio.

2.- Economically, the volume reached by the Pension Funds is very important to the country, although actuarially it must be greater if the problem of tax evasion due to labor circumstances, infringements or lack of interest for quotation did not exist. The decrease in the value of those capitals, caused by the stock market effects already mentioned, has also encouraged the authorities to look for new alternatives in order to modify the investment policy. Up to March, 1996, the total assets of the Pension Fund reached U.S.D.$25.648 million.

Since its beginning, the Qualifying Commision of Risk, in charge of qualifying and classifying the companies in which the PFA can invest, designed strategies in order to guarantee the security and profitability of the investments, stablishing a quick selection of organizations and types of instruments, policy that partially explains the concentration of capitals in a limited number of enterprises. Currently, the PFA Superintendency has modified this policy, and encourages the diversification of the portfolios, to decrease the gravitation that some selected instruments may have. In the same way, it has payed more attention to the investments in foreign countries (Up to March, 1996, U.S.D. $50 millions were invested abroad) and the posibility of investing in Chilean State projects is studied, especially in public investments. These proposals show the need for the Pension Fund System to foresee critical situations, incorporating in due time new guidelines when it is required by the circumstances.

3.- An important dialogue about social security investments that so far has not obtained the necessary depth and conceptual clearness that the social stratum requires, is related to the basic question: must the system invest its resources only in assets that guarantee a known profitability or these should extend towards areas related to production and services, what leads to the incorporation of variables of natural profits or losses of the stock markets? Accepting the second alternative, the additional question would be: What optimal proportion allows a development of the System which should not interfere significantly the profitability as a consequence of the disadjustments that from time to time provoke the increases and decreases without control of the chosen shares?.

Currently, the second alternative has been chosen, but it seems that the consequences of these disadjustments have not been considered accurately. In fact the current distribution of capital shares (almost a third of the total Fund), in several opportunities, has affected the positive rates of “fixed income” assets (that represents more than two thirds of the total).

It is necessary to establish periodically and with the maximum severity, the proportion of capitals that can be alloted to variable incomes and to define the way these assets should be handle, so they do not produce serious distortions in stocks markets. In practice, the magnitude of resources that the PFA have placed in enterprises shares has caused an important financial lack of elasticity, limiting the decision of prompt payment, in the collection of stock market decreases, given the important effects that could be produced and the unavoidable and resulting participation of the economic state authority, in such case.

4.- The current investment policy is like the Mutual Funds (M.F.) for their combined portfolio, both in the mechanism of estimation of the values of the "quotes" and in the form to select them. In their structure, the PFA have similar features as the M.F., but the difference is related with the "participants" of these organizations: while the investors of the M.F. enter in an occasional and voluntarily way, accepting the pertinent risks, the affiliated to the PFA are baund to participate. The first ones can retire off the process of investment whenever they decide, assuming the profit (or the loss), pursuant their interests of that moment. On the contrary, the affiliated to the PFA are captives in the System, and their retirement is conditioned to the accomplishment of the pre-established requirements.

In periods of low profitability, their best options consist in differing for some time the demand of benefits and choose to change to other PFA, with the limited posibilities that both mechanisms offer to them, and the eventual negative effects for their condition of life.

Another aspect that has not been examined in public in the whole dimension of its social security implications, refers to the valuation of the assets invested by the System, especially those ones of the stock market, since the procedure that is going to be adopted has a fundamental connotation in the determination of the "value of the quote", and for that reason, over the social security capital of each affiliated. As the PFA Superintendence has reported, the procedure for valuation of assets is being reviewed.

E. The affiliated and their Social Security System

1.- As it has been pointed out, the account of individual capitalization is considered as a personal and compulsory savings account, that each affiliate can administrate pursuant their immediate and future interests, in the frame that the O.L. 3500 establishes. This scope affects in some way the basic concept of in the social security,that is to say, guarantee the economic level of life in old age, through the achievement of a permanent pension when the ability for earning incomes is lost).

The immediate atitude of the affiliate of old age affected by the transitory or definitive labor suspension, is to obtain a prompt income that substitutes the loss or reduction of his income. If he fulfills the requirements, it is likely that he chooses the pension in advance for the old age, preferently in the "Programmed Retirement" variety.

The so-called Programmed Retirement variety consists in determine actuarially a maximum annual amount ("annuity"), that corresponds to him pursuant their demographic features and his family group with the right to social security. It must be taken into account, that all beneficiary can always request an inferior amount to that determined maximum. The amount of the benefit is reestimated every twelve months. Generally, what does not matter is if there is a "Proficient financial managing" of the benefit, the actuarial process of estimation of the "programmed retirement" can lead to the extintion of the "residual capital" of the individual account before he dies, having as the only option the minimum pension (although transitorily, in the initial periods, the annuity value can increase). The critical situation is explained, in general terms, by the way of fixing the programmed retirement rates and the direct correlation that exists between those programmed retirement rates used, the real profitability obtained in the periods and the actuarial corresponding mechanic of the estimation of the maximum annuity amount.

In a strict social security concept, the Programmed Retirement does not constitute a pension, but it is a way of retiring resources from an individual account with determined prestablished rules.

The authority has pointed out that the affiliated worker is always protected, since he can request the minimum pension in charge of the state. The offered solution results paradoxical, if it is remembered that the new System was justified mainly for considering onerous the charge that the pensions of the Social Security System represented for the State.

The Government has recognized the social security risk that this fringe benefit involves and promotes the legal authorization of a financial mechanism whose effect is to limit the demand of Programmed Retirement pensions.

2.- A severe problem for the workers in regard to the new Social Security System is the lack of real and practical orientation that help them to watch for their present and future interests. The whole System is supported in the permanent making of financial and economic decisions, most of them, complex. The authority invites the affiliated to be previously informed, forgetting, in a certain way, the relatively low levels of education and knowledges of the workers. So, for instance, it promotes:

- to be informed about the profitabilities of each PFA, in order to choose their entrance or permanence in some of them, this, worsen by the fact that any PFA can assure future profitabilities

- to be informed in order to select the type of pension that can be more convenient for to him (in advance or old age).

- to be informed about the choice of the variety that can be better for his interests

- to be informed about the institution which will administrate his old age pension (or life insurance company)

- to be informed about the opportunity in which they can request benefits, taking into account the changes in financial markets.

Summarizing, these and other options require affiliated parties with basic knowledge of financial and actuarial estimations, expectations from the economy; even when the affiliate dies, many of those alternatives must be handle by the family (spouse, children, parents). The majority of the working population cannot act efficiently and is forced to make bad decisions or appeal to pseudo-advisors, consultants or intermediaries, whose knowledge is frequently limited or is encouraged by personal interests.

Then it is necessity that the authority, taking care of the affiliated interests, looks for establishing a formal structure that allows any worker to access an adequate professional orientation. The PFA Superintendence, supported in computerized mechanisms, has wanted to progress in the solution of these problems, but the great it remains lacles information to reach the optimization in the decisions.

3.- Associated with the just previously mentioned situations, which is not seen by the workers, especially the youngest no matter what is their educational level, is the consciousness that the Pension Funds System is based on a financial scheme of capitalization, in which the time of permanence of their funds and the level of quotable incomes are the decisive variables in order to reach satisfactory levels of social security benefits.

The current reality of the Pension Fund System, either because of a lack of consciouness from the worker and/or his employer or because of the creation of the prevailing economic model, particularly in what is related with the techno-professional modernization, is that an important part of the population covered by the System is not quoting regularly, especially during their young working years.

With a simple example the serious negative effect for all workers can be shown, it is the fact that he does not quote to the System in the first working years. Supose that a male worker that begins his working life when he is 20 years old and quotes, in a continuos way, during the first 5 years, and stops quoting for the rest of his working life. When he is 65 years old, with an average interest rate of 5.4%, monthly capitalized, he reaches a C capital. If the same worker had not quoted, and just begin his social security life when he is 50 years old, he needs to quote for a contribution for more than the double than the one he had when he was 20 years old, in order to reach the same capital, with the same mechanism of capitalization. That is to say, this person must work a triple schedule (15 years) and quote for more than the double of the contribution (2.15 times), in order to reach the same C capital when he is 65 years old.

The PFA in Chile, in spite of the legal provisions of compulsory affiliation of the workers and the penalties that the evasion originates, it seems that they do not give the adequate attention to the unfulfillment of the social security, posibly due to the operational/legal cost that the collection reports, even more, as a consequence of the features that the temporary services work acquires; with this, the atomized recovering of collection is not profitable. Here we have, then, a problem that has both financial/social security implications.

4.- An aspect of the Chilean model of social security whose criticism regarding operational mechanisms are emerging, is the participation in the System of the private insurance companies. This circumstance of reflexive absence, is posibly explained by the very low number of old age pensions that those entities are having.

According to the law, every affiliated that has reached the age of 60 years if is a woman and 65 in the case of men, has the right to request an old age pension, depending of the value of his accumulated capital balance. With this capital he must go to a private insurance company in order to contract the pension policy he is going to receive definetely and in a life annuity. Now, the System leaves the decision to the affiliate in order to select the private insurance life Company he wishes to contract his policy. Up to March, 1996, a total of 22 insurance companies attend insurance contracts from which they apply implicit rates that fluctuate between 4.9% and 5.72%, with a general average of 5.25%.

Then, it is not strange that the affiliated, person of old age at the moment he is going to apply for the pension, and an considerable part of them with a low educational level, must appeal for the advice of salesmen/commission agents that guide to decisions taken towards the perspective of their own benefit in the operation.

Besides, the insurances companies are ruled referring the financial by a State organization, but their strength and efficiency in social security have not been studied enough since at the moment, after fifteen years of functioning of the system, provide among them a very inferior number of pensions, if an actuarial projection at the regulation state is made.

5.- Currently in Chile, a public discussion that was outlined two years ago is been reactivated, it is about the excessive transfers of affiliates between PFA. Undouhtedly, this problem originates from the insertion of the social security system in the present economic model.

According to these principles, the PFA must offer their services in the market, in order to gain affiliates. In the frame of this mechanism, each PFA has salesmen whose function is to attract affiliates for their institution. These salesmen, whose total amount is not completely stablished -according to different sources they fluctuate between 14,000 and 17,000 and they are called "workers of the system"- they receive a commission for each new affiliated or transferred from other PFA. The commission is fixed, generally, as a percentage of the imposed income of the attracted affiliated.

What has been the result of such mechanism? That the collectors/salesmen encourage through different procedures, the change of affiliates from one PFA to another, generating considerable flows of affiliates towards those PFA that count with more collectors/salesmen or pay the higher commissions. It has been reported that more than half of the affiliates that change from PFA has less than a year of permanence in the PFA from where they go out.

The Government has proposed the Parliament a legal regulation, in which it compels the affiliate to remain at least a year in the PFA, on the contrary, he must assume the cost for the change. This proposal has been objected for some sectors, even for some PFA, based on the market freedom principle, even when previously, in 1994, they propitiate the application of restrictive measures for the transfer.

F. Additional notes

If the Pension Fund System has the advantage of being based in a basic statute of universal character that rules the types and varieties of the fringe benefits, it has not got to overcome or eliminate many of the severe critics that were made to the Social Security System. Between them:

- The universality of the PFA system was not total, since it left out, mantaining its same social security law, the National Defense and Customs Officers (Policemen) Social Security Funds.

- Three of the institutions of the former System concentrated 90% of the insured, and just one of them- the Social Security Services- 72%.

In the PFA System, three of the Administrators attend the 69% of the total active affiliates and from them- the Provida PFA - records 31%.

- For the creation or elimination of a social security institution in the Social Security system, a law was required, generally long/discussed in Govemment and in Parliament. During the 15 years of functioning of the PFA System, some Administrators had to be paid off mainly for the unfulfillment of the legal requirements, and other have merged, diminishing, as it has been pointed, out to just 15 (at the beginning of 1995 they were 21).

  All this process has been made through administrative resolutions. That means that an affiliated worker changes of Administrator from one day to another without his knowledgement or understanding to this fact.

- It was criticized with emphasis that the social security laws for employees and, in some cases manual workers in the social security included fringe benefits different from the social concept. That was the case, it was said, of the antiquity which allowed to pension for years of service- 30 years or less. However, in the PFA System the "anticipated pension" incorporated, particulary, the Programmed Retirement, that does not condition the age for pensioning but just to the surplus of his capitalization account as long as it accomplishes determined financial quotes.

- It was strongly critized the financial management of the capital that the Social Security made, because for being invested in dwelling loans with social character, they were erodiing. The APF System, inspite of the short time of its validity, if it is compared with the fifty years that the former system ruled, has yet suffered the negative effects of the investment of its funds. So, for example, in 1995 the real annual profitability of the pension funds was, as an average, - 2.5%, what means that the profitability of the investment in stock instruments was negative in near 20%, since 70% of the funds invested in fixed income reached taxes of 5%.

- It was stated that the social security system was made highly dependent of the State financing. Nevertheless, the PFA system is legally dependent of the State, as it is responsible for the cost of the minimum pensions, expenses flow that in the future can be foreseen, to have a strong gravitation due to the unfulfillment or low level of quoting of a wide young affiliation sector, as well as, in the case of bankruptcy of a PFA.

- It has been pointed out that the pensions created in the PFA system are kept from the loss of real value by the effects of the monetary inflation, due to the fact that they express in Promotion Units, indicator that automatically changes in function to the variations of the Prices to the Consumer Index, and that such defense of the heritage of the beneficiaries did not exist in the Social Security system. Such statement is not totally precise, due to the fact that, since January 1964, the regulations for minimum pensions and the system of "revaluation of pensions" was stablished, which was based upon technical universal basis, since the revaluation consisted on updating the initial acquiring value of all pensions. The mechanic of revaluation was effected amplifying the value of the pension by the quotient between the Prices to the Consumer Index of the year before the readjustment and the one that exists in the year of granting of the pension. The annual readjustment of the pensions since that moment, was accomplished in all social security regulations, process that was just altered since 1974.

Final comment

The review of the situation of the individual accounts balance of the insured incorporated to the new system, shows a different and adverse reality to that one which, from the global financial point of view appears as favorable for the affiliated, when it is pointed out that the system handle total resources of U.S.D.$ 25 billion and real annual profitability average rates of 12.6% have been obtained.

As it has been seen, even not having all the necessary information, it can be estimated that the expectatives of the levels of benefits that adjust to favorable conditions for the pensioner are being now difficult to reach.

The amounts of required premiums so that an affiliated can choose a life pension of a similar level to his imposed income, are of a very superior magnitude in most of the cases to the individual accrued balances up to date. Everything leads to conclude that the applied financial model is more favorable for those who have high incomes, stable occupations, a severe accomplishment of the imposed duty and, besides, they can dispose or obtain additional resources in order to compensate the lack of capitals, which allow them to obtain a benefit of an acceptable level for their future life.

These reflexions derived from the financial-statistics analysis, reinforce the proposal that has been formulated in several parts of my exposition, about the need for the Chilean Pension Fund System to carrys out, as soon as possible, an actuarial study that contributes to improve the system, to quantify the implications that it could have for the State in its character of guarantor, and to evaluate the negative consequences that could have for the working population.

STATISTICS CONTRIBUTIONS REFERENCE
QUOTATIONS TO THE PENSION FUND SYSTEM

a) Contribution rates in charge of the worker	**% (Wage up to 60 U.F.)**
Pension Fund - PFA Administration (Aver March 1996) - Invalidity/survivor insurance of asset (Average March 1996) Voluntary	10,00 2,23 0,68 x %
b) Contribution rate in charge of employer (only for particular cases)	
Savings Account of indemnification: Workers in private houses	4,11% of imposed income 60UF, during 11 years
Other private workers	4,11 (or more) of imposed income during 11 years
c) Extraordinary deposits Agreed with the employer	Income percentage or unique fixed amount

INSURED POPULATION IN THE PENSION FUND SYSTEM

a) Affiliated and insured population

Year	Number of Affiliated	Number of Contribution	% Cont/Afil
1982	1.400.000	1.060.000	73,6
1985	2.283.830	1.558.194	68,2
1990	3.739.542	2.642.757	70,7
1996 (March)	5.404.375	2.516.284	46,6

b) Labor force in the population from 15 years and more-Chile

	Labor Force[1]	
	Employed	**Unemployed**
5.204.290	4.923.810	280.480

c) Affiliated's ages March 1996

Ages (years)	Number	%
Less than 35	3.175.277	58,8
35-50	1.714.222	31,7
50 and more (*)	514.876	9,5
Total	5.404.375	100,0

d) Composition of the insured population - March 1996

Labor Situation	Total	%	Men	Women
Affiliated	5.253.981	97,2	3.169.581	2.084.400
Dependent	150.394	2,8	87.031	63.363
Independent	5.404.375		3.256.612	2.147.763
Contribution	2.457.412	46,8		
Dependent	58.872	39,1		
Independent	2.516.284	46,6		

[1] Inquiry corresponding to the August / October 1995 quarter.

INDIVIDUAL ACCOUNTS OF CAPITALIZATION

a) Balances in the account of capitalization of 5.184,102 affiliated up to September 30th, 1995

Thousands of US$	% of Affiliated	% Accumulated
0	3,5[2]	3,5
Less than 1.200	48,9	52,4
1.200-2.500	14,3	66,7
2.500-4.900	13,1	79,8
4.900-7.300	6,2	86,0
7.300-9.800	3,6	89,6
9.800-12.000	2,3	91,9
12.200 and more	8,1	100,0
	100,0	

b) 50% of the affiliated population (except those who have 0 in their balance) have an average of US$ 420 in their accounts of individual capitalization.

c) Number of transfers of affiliated from one AFP to another (between accounts of individual capitalization).
Monthly Average (January/October 1995) 107.000

IMPOSED INCOME - Average up to October 31st, 1995

a) Average income of quoters		
Dependent contributors		US$ 523
Men		US$ 559
Women		US$ 451
Independent contributors		US$ 296
Men		US$ 325
Women		US$ 249

b) Imposed average income of 50% of quoters of less income
CH$ 85.400 US$ 210

c) Relation between general average imposed income and 50% of the quoters of the lowest incomes.

[2] Corresponds to 184,446 affiliated of the total of 5.184,102 recorded by the statistics of the PFA Superintendency.

US$ 517 / US$ 210 practically 2,5 times
FRINGE BENEFITS - up to September 30th, 1995

a) Pensioned for old age		**94.877**
b) Pensioned for anticipated old age		**80.313**[3]
c) Affiliated declared invalid		**37.771**[4]
d) Dead affiliated		
Affiliated not pensioned		63.889
Pensioned affiliated[5]		12.406
Old age	4.546	
Invalidity	7.860	
e) Life pension (September 1995)		
Insurance Company	21	
Old Age		
Unique premium-average number of policies	147	
Unique average premium		1.056,39 UF
Implied average rate	4,92	
Anticipated old age		
Number of policies	1.429	
Unique average premium		1.373,32 UF
Implied average rate	4,78	
f) Invalidity pensions. Income pensions (September 1995)		
Total invalidity		
Number of policies	42	
Unique premium-average		1.404,29 UF
Implied average rate	4,91	
Partial invalidity		
Number of policies	3	
Unique average premium		760,48 UF
Implied average rate	5,06	
Survival		
Number of policies	77	
Unique average premium		1.553,64 UF
Implied rate	4,67	

3 Include 4,546 dead pensioned affiliated.
4 Include 7,860 dead invalid affiliated.
5 Does not include those who contracted Life Pensions.

ASSETS OF THE PENSION FUNDS
up to March 29th 1996 - In US$ millions

1.- State Institutions (National Government)			**10.236,63**
1.1. Central Bank of Chile (B.C.CH.)		**9.711,03**	
-Deductable Promissory Notes	86,34		
-Readjustable Promissory Notes (B.C.CH.)	8.986,71		
-Floating Rate Promissory Notes	637,98		
1.2. General Treasury of the Republic (GTR)		**13,34**	
-Readjustable Promissory Notes G.T.R.	5,78		
-Agrarian Reform Bonds	7,06		
-Others	0,50		
1.3. Ministry for Housing and Urbanism (MINVIU) -Letter of Credit MINVIU		--	
1.4. Institute for Previsional Normalization (INP)	--		
-Recognition Bonds issued by the INP and other of social security		**512,26**	
2. Financial Institutions (I.F.) -Fixed Deposits and Promissory Notes I.F.	512,26		
-Letters of Credit I.F.			**6.312,39**
-Bank Bonds I.F.	1.573,16		
-Subordinate Bonds I.F.	4.183,84		
-Shares I.F.	238,19		
3. Companies (E)	87,26		
-Shares of Open Corporations	229,94		
-Shares that do not need approval from The Risk			**9.042,21**
Qualifying Commission	7.076,77		
-Shares of Real State Corporation			
-Public and Private Co. bonds	1,37		
-Bonds Exchangeable for Shares	--		
-Quotes of Property Investment Funds	1.260,10		
-Quotes of Development of Companies Investment	35,31		
Funds	311,54		
-Quotes of household goods Investment Funds -Quotes of Secured Credit Investment Funds	156,88		
-Commercial Effects	200,24		
4. Foreing Investment (I.E.)	--		
-Foreing Instruments	--		
5. Available Assets			**49,85**
-Current Accounts (Type 2)	49,85		
-Others (including Current Accounts (Type 1)			**7,41**
Total Assets (Millions US$)	0,21		
	7,20		
			25.648,49

b) Concentration of the Assets-Corporation Sector

The 10% of the 114 corporations (October 1995) in which there is investment of funds, concentrates almost the fourth part of the invested capitals.

Of the companies sector, the greater concentration is in:

	Million US$	**% of the Total Value of Funds**
Electric	4.070,5	16,9
Communications/ Telephone	1.366,4	5,6
Petroleum	276,6	1,2
Paper and Cardboard	226,5	0,9

THE COLOMBIAN EXPERIENCE IN THE NEW SOCIAL SECURITY

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Introduction

The social security, understood as a group of actions and resources allocated to create the conditions to meet the needs of the human being through welfare, economic and social benefits, is an intrinsic part of his life conditions. For this reason all the nations, with different models and scopes, have created their own social security systems to ensure the supplying of services, particularly in three specific areas: health, pensions and occupational hazards.

In Colombia, since the beginning of the last century, the social security development was started with the adoption of different pension systems, initially for special groups and later on for all the workers. They were ambiguously administered, since no accuracy was required. This was just considered part of the activities of the benefactor State to guarantee some rights of the individuals.

Since then, significant progress has been registered. This progress determined the constitution of a dual model that combines the resources and interests of the State with the ones of the private enterprises, achieving the establishment of a social security system.

This document has the purpose of presenting the social security scheme in force in Colombia. For this purpose, three issues are analyzed: firstly, the efforts of the public and private sectors towards the development of social security are described, up to the scheme that operated in 1990; then, the reform that introduces the adaptation of the system and the definition of the integral social security model is presented; finally some important results two years after the reform was introduced are presented, as well as the future projection of the social security adjusted to the current model.

1. Social security model in force before the Law 100 of 1993

The social security in Colombia was not regulated by an integral policy and there were no unified guidelines. The norms and agencies that emerged from its enforcement were the result of isolated efforts and initiatives aimed towards achieving similar goals to improve the life standard of the affiliates.

The nation, the departments and municipalities were undertaking actions aimed towards offering social security services, with different scopes and capabilities. The private enterprises allocated significant resources and undertook actions to give welfare to their workers.

Consequently, the social security system of Colombia, understood as the group of actions aimed towards protecting citizens, was the result of the joint initiative of the State, the enterprises and the individuals themselves to meet the need of offering basic services to the population.

On the other side, the variety of regimes and institutions specialized in the different services were the result of the influence of external models and of the isolated actions of each government that, either in a direct way or for the motivation to private enterprise, had a direct impact on the decision of fulfilling different priorities of the community.

However, this does not mean that a social security system was not established in Colombia. On the contrary, an analysis of the different components of the current system before being reformed is presented next.

1.1 The compulsory social insurance

The Social Security is the protection sub-system for the workers of the private and formal sector and of the urban zones.

The workers of the private enterprises, the social security officers and the pensioners of the regime itself have been affiliated to this regime.

Persons with "specific family links" to the worker, who live with him and who economically depend on him, also have the right to use the services offered by this insurance.

At first, the Social Security was structured based on a tripartite financing: contributions from the State, the employers and the workers. The occupational hazards were financed by the employers only; the health services for the pensioners with 5% of their pension.

Right from the beginning, the system has been administered by the Social Insurance Institute. This Institute was a national public agency, under the jurisdiction Ministry of Labor and Social Security.

Its network was made up by 235 ambulatory attention centers and 34 clinics. In order to increase the coverage of the heath insurance services, other public and private agencies were hired. Besides the general health and maternity services, it includes occupational accidents and diseases, as well as the insurance for the disability, old-age and survival pensions.

The National Health Superintendence is also part of this system. The duty of this agency was to examine and supervise the activities of the compulsory social insurance.

1.2 The social welfare

The social welfare sub-system has the purpose of protecting the State workers at national, departmental and municipal level. It includes the occupational and non-occupational diseases, occupational accidents, maternity allowance, holidays, death insurance, funerary allowance, disability, old-age and retirement pension.

It is financed with contributions from the public agencies and workers; the pensions are financed with contributions from the public treasury, coming from the three state scopes.

The social welfare was administered by public decentralized institutions of national, departmental and municipal level called social welfare boards; they supplied services directly and complemented them by hiring third parties.

1.3 The family subsidy

The family subsidy sub-system protects the permanent public and private workers and their families. Emerged upon the initiative of the private enterprise, it was established as a legal obligation of the private and public employers. The services were supplied through the family compensation boards, non-lucrative organizations that operated in different regions of the country supervised by the State through the Family Subsidy Superintendence.

Their coverage includes payment of subsidies in cash, health, housing, recreation, cultural activities and product marketing. It has been financed with the contributions of the employers, that account for 4% of the monthly payroll of the enterprise. Their coverage is limited and complementary to the social insurance and welfare.

1.4 The public assistance

The public assistance is the sub-system that meets the basic health needs, such as the prevention of illnesses and the conservation, recuperation and rehabilitation programs.

The State has offered it to the general population, but its coverage has been limited to some groups of the population, not protected by any other system such as the indigents and the low-income population.

For this purpose, the State has created a network made up by hospitals, orphanages, old people's homes and other institutions known as charity organizations, financed with the contributions from the lotto and some other taxes. This network is made up by more than 2,600 health centers and more than 600 hospitals, administered and financed with State resources and the support of some private institutions.

1.5 The social assistance

Is the group of protection procedures that complement the above mentioned systems.

It supplies specialized recreation and housing services to public workers and provides the basic services to the most vulnerable groups of the population. It comprises the following fields of action:

1.5.1 The family welfare

It includes the supplying of services such as the juridical and social protection to children and to the family in general. Right from the beginning, it has allocated resources and efforts to prevent and fight the malnutrition of the mother and the children and protected old people. It has been financed with 2% of the monthly payroll of the private and public enterprises and administered by the Colombian

Family Welfare Institute (ICBF), public institution under the jurisdiction of the Ministry of Health.

1.5.2 The protection to old people

There are regulations for the protection of pensioners for retirement or old age of the public and private sector that include solutions to the family abandonment, poverty, unemployment, family disintegration and indigence.

Different agencies and strategies have been used, such as private old people's homes, religious community and department charity institutions, administered as non-lucrative agencies financed with the resources of the State and private agencies.

1.6 Other social services

Other social assistance activities, complementary to the previous ones, have been the subsidized financing of housing programs, training of human resources for the labor market and programs for recreation and enjoyment of holidays.

The National Savings Fund, public national institution, administers the severances of the State workers for the subsidized financing of the housing programs for their affiliates. Moreover, there have been other agencies that promote and finance housing programs for public employees and low-income population.

The National Teaching Service (SENA), public national agency under the jurisdiction of the Ministry of Labor and Social Security, has the purpose of training human resources for the development of the country. It meets the need of technically skilled human resources for the different production sectors. It has been financed with 21% of the monthly payroll of the public and private enterprises.

The Promoter of Holidays and Recreation (PROSOCIAL), industrial and commercial enterprise of the State, has administered recreational and vacation centers for State employees.

Moreover, there have been other agencies for specific sectors of the population such as the Social Welfare Fund of Santafé, Bogota and the Military Hospital, under the jurisdiction of the Ministry for National Defense.

1.7 Private Social Security

The social security has always had a considerable participation of the private sector, especially for the supplying of health services. Insurance companies, universities, institutions and several enterprises have participated in these activities.

They have been financed with resources obtained from special fees, contributions or labor premiums with which the health services, pension and occupational hazards have been covered. It protects public and private workers and their families.

2. The Reform to Social Security

In 1991, with the approval of the new Constitution, Colombia undertook a profound change process to its political, administrative and financial structure. During the second half of the year, the country started the adaptation of its institutions to the new organizational scheme.

The Article 48 of the Constitution describes the nature of the social security, its coverage and its guiding principles as follows: *"The social security is a public compulsory service to be supplied under the direction, coordination and control of the State, subject to the efficiency, universality and solidarity principles in compliance with law. The intrinsic right to social security is guaranteed to all the inhabitants. The State, with the participation of the individuals, will progressively increase the social security coverage that will include the supplying of services in compliance with law.*

The social security can be provided by public or private agencies in compliance with law. The resources of the social security institutions can not be allocated for any other purpose different to it. The law will establish the procedures to preserve the purchasing power of the resources allocated to pensions".

2.1 Background of the reform

Even if, in the beginning, only the reform to the pension regime was proposed, the conditions led to propose an integral reform to social security, with the purpose of correcting important structural problems such as the coverage of services, the inequity on the benefits and the negative financing conditions.

In 1990, the social security institutions covered 18% of the Colombians. Moreover, only 50% of the salaried workers were affiliated to these agencies, contrary to the 60% of average coverage registered in the Latin American social security.

This situation confirmed a delicate inefficiency since one fifth of the population covered by the social security were employees of the official sectors, attended by more than one thousand social welfare institutions with different affiliation, quotation and benefit regimes. These conditions and characteristics increased the protection costs in a remarkable way.

Besides, 17% of those workers who earned a minimum wage were affiliated to the social security system; 46% of those who earned between one and two minimum wages and 66% of those who earned more than two minimum wages were affiliated to the social security sytem. On the top, the lowest-income population was excluded from the system, showing a lack of solidarity.

It is important to emphasize that the lack of financial viability of the system in general was one of the main reasons to implement the reform. Within this context, the debate on the situation of the pension regime was more critical.

In 1992, the government presented to the Congress of the Republic a bill to establish a new social security system in pensions, that included the creation of an individual pension system.

Likewise, this project included the possibility of hiring disability and survival insurances, stipulated procedures to protect the savings of the affiliates to the system, guaranteed a minimum income return and determined an increase on the contriburions made by the employers and workers only.

During its legislative transit, the project underwent modifications such as the incorporation of all the norms concerning the social security system on health, the adoption of two pension regimes (solidarity regime of medium premium with defined benefit and individual savings with solidarity), the creation of the pension solidarity fund and the opening to the competition of all the social security services, including the administration of occupational hazards.

On 23rd December 1993 the Law 100 was promulgated. This law describes the social security system that entered into force in Colombia on 1st April 1994.

2.2 New integral social security model

The new model, *called integral social security system*, is made up by the public and private agencies, norms and procedures that regulate the supplying of pension, health and occupational hazards services as well as the complementary services.

The general purpose of this model is to offer to all the people and families the security of achieving a determined life standard, regardless the contingencies. The specific objectives of the new model are to ensure economic and health benefits to those who have a work relation or the capability to join the system; ensuring the inclusion of all the population and ratifying the financing of the system with the contribution of everyone, in accordance with their capacities.

Likewise, the new model has the specific purpose of turning the system into the development source of the country, due to its incidence on the capital market, the enterprises' growth and the competition in the market for the supplying of the services included in the system.

2.2.1 General principles

A fundamental aspect of the reform is the elimination of the State monopoly from the social security. The Law 100 of 1993 founded a competitive system in which all the citizens can select the agency that will provide them the service they require.

It is ruled by the following principles:

Efficiency: using the administrative, technical and financial resources in a better way, so that the social security benefits are granted in and adequate, timely and sufficient way.

Universality: protect all the inhabitants of the national territory, with no discriminations during all the life stages. The contributory and subsidized regimes are established in order to achieve a universal coverage.

Solidarity: support the unprotected people with a system in which the individual contributes in accordance with his capabilities and receives services according to his needs, under the guarantee, control and direction of the State. The affiliates to the contributory regime have access to the services included in the Compulsory Health Plan, regardless their contributions; the affiliates to the subsidized regime also have a minimum plan that meets their basic needs and the services must be increased until they become equal to the contributory regime plan.

Integrity: covering all the contingencies that affect the life conditions of the population on health, pensions and occupational hazards. The integrity is also applied to all the insurances: the health services include everything, from their promotion to the rehabilitation in the following components: basic attention plan, compulsory health plan, compulsory health plan of the subsidized regime, complementary attention plan, attention of occupational accidents and diseases, attention of traffic accidents and catastrophic events.

Unity: coordinate policies, institutions, regimes and procedures for the accomplishment of the social security purposes.

Participation: establish the participation of the social security beneficiaries in the organization, control, administration and supervision of the institutions and the system.

2.2.2 Pensions sub-system

The general pensions sub-system guarantees the old-age, disability and death insurances. The recognition of pensions in a direct way or through substitution, and the payment of benefits, is established for this purpose.

Besides the general principles of the system, it is regulated by the compulsory affiliation and the voluntary election. All the workers must choose a regime, even if the affiliation is voluntary for the independent workers, the foreigners who live in the country and for the Colombians who live abroad. There is freedom to choose the administration and to shift from one regime to another:

the affiliate can change the regime every three years and the administration - within the same regime - every six months.

Likewise a minimum pension is determined for both regimes: the amount of the pension can not be lower than a monthly legal minimum wage.

The pensions sub-system is made up by two regimes: the solidarity régime of medium premium with defined benefit (administered by the Social Insurance Institute) and the individual savings regime with solidarity (administered by the private pension funds).

In the medium premium regime with defined benefits, the contributions and the income return constitute a common fund with which the payment of the pensions is guaranteed. In the individual savings regime with solidarity, the contributions and the income return constitute a fund for each affiliate allocated to cover the individual payment of the pension. Both regimes have the following common elements:

a) benefits covered: old-age, disability, survival and funerary allowance

b) accumulation of time: the amount of weeks of contribution previous to the reform and the contributions done after the approval of the law in any of the regimes

c) contributions: 75% by the employer and 25% by the worker

d) contribution basis: the monthly wage of the worker; if it is an integral wage it is calculated on 70% of the remuneration; the basic contribution income can not exceed 20 legal monthly minimum wages.

e) contribution amount: 13.5%, distributed as follows: 10% for old age and 3.5% for disability, survival and administration expenses; if the wage is equal or higher than four minimum monthly wages, an additional 1% is given for the pension solidarity fund.

f) benefits: the pensions and other benefits are not attachable (except the food pensions and the payment of credits to co-operatives); free of income tax. The contributions to the system are not part of the basis for the tax withholding in the source and are not considered as occasional income.

g) disability pension for common risk: the individual must have contributed for at least 26 weeks and have lost at least 50% of the working capacity; the amount of the pension is 45% the basic contribution income if he lost between 50 and 65% of the working capacity and he has right to an additional 1.5% for every 50 weeks of contribution after the first 500 weeks; the amount of the pension accounts for 54% the basic contribution income if he lost more than 66% of the working capacity or more; in this case he has right to an additional 2% for every 50 weeks after the first 800 weeks.

h) survival pension: the pensioner has to die, or, if the affiliate passes away, he should have contributed for at least 26 weeks by the time he died or in the previous year.

If the pensioner dies, 100% of the benefit is transferred, and if the affiliate passes away, 45% of the basic contribution income and an additional 2% for every 50 weeks after the first 500 weeks, without exceeding 75% is given. The beneficiaries can be the spouse or the permanent mate, the children under 18, the children of more than 18 years of age but with less than 25 economically dependent, or who can not work, the disabled children economically dependent or the parents economically dependent if there is no spouse or children.

The differences presented in the old age pension are as follows:

	MEDIUM PREMIUM DEFINED BENEFIT	INDIVIDUAL SAVINGS
Contributions	Common fund	Individual account
Age	Men: 60 years; Women: 55 years - two years will be added starting from the year 2014	
Weeks of contribution	1.000	
Amount of the pension	- 65% of the basic contribution income - 2% for every 50 weeks after 1,000 and up to 1,200 weeks - 3% for every 50 weeks after 1,200 and up to 1,400 weeks - maximum pension equivalent to 20 minimum wages	- depending on the age and the accumulated amount in the individual savings account - therefore there is no maximum pension

	MEDIUM PREMIUM DEFINED BENEFIT	INDIVIDUAL SAVINGS
Additional benefits	December	non-existent
Modality	Single: average of the contributed income during the last 10 years	- immediate life annuity - a combination of the previous two
Age in contributed weeks	Substitutive indemnification to pension	Devolution of the amount accumulated in the individual account

Anyway this sub-system establishes a transition regime applicable between 1st April 1994 and 31st December 1996 for those who, by the time of the reform, already had attained the age (40 years for men and 35 years for women) or had contributed or worked during 15 years.

2.2.3 Health sub-system

The reform to the health sub-system has the purpose of increasing the coverage of the service and improving the financing sources. For this purpose it opens the insurance benefit with the creation of Health Promoting Agencies (EPS) and increases the health services to the families of the affiliates; then, it increases the amount of contributions.

Apart from the general principles of the system, the health sub-system is ruled by the principles of equity, compulsoriness, integral protection, freedom of choice, institutional autonomy, administrative decentralization, social participation and quality of the services.

To improve the efficiency, the open competition in the insurance and supplying of health services is opened, contrary to the monopoly held by the State. All the public and private institutions promote health and administer the affiliation of workers, the collection of contributions and guarantee the supplying of services.

Likewise, the workers are free to choose both, the health promoting agency and the institution that will supply the services to them.

The general health sub-system has the contributory regime, applicable to the working population and their families, and the subsidized regime, for the people who do not have a work relation or do not have enough resources to pay the affiliation to the system. This sub-system is made up by direction and control bodies (Ministry of Health, National Health Superintendence, National Council for Social Security in Health), administration and financing bodies (agencies to promote health, sectional, district and local health directions and the solidarity and guarantee fund) and institutions that provide health services (clinics, health centers, hospitals and offices).

The health insurance comprises the following services:

a) All the affiliates have right to an integral health plan called Compulsory Health Plan (POS), that includes preventive, medical, surgical attention and supply of medicines. This plan must have a family coverage. In the subsidized regime, this plan has less components, without skipping the fundamental services and must have a gradual increase until it equals the contributory regime plan.

b) Those registered in the contributory regime have right to *sickness* and *maternity leaves.*

c) The institutions must give *emergency* attention to all people paid by the respective insurance enterprise EPS.

d) The payment of specialized medical services is done jointly, in accordance with the economic capacity of the user.

In the contributory regime, the health social security system is financed like any other insurance. The employee joins a Health Promoting Agency (EPS) and pays a contribution that accounts for 12% his wage; one point is allocated to the solidarity fund and the other 11 points are distributed as follows: 0.5 points to finance the health promotion and prevention programs; 0.3 points to pay the recognized leaves and 10.2 points are entered into the compensation sub-account to pay the maternity leaves and the payment unities for training; if there is a surplus of resources on the total amount of the latter, it must be allocated to the compensation fund, or, if the sub-account presents a deficit, the resources must be recovered from this fund.

From the total amount of the contribution, 8 points are contributed by the employer and 4 by the worker. Regardless the amount contributed, the system recognizes to the EPS the cost of a "health policy" for the worker and for each members of his family; this "health policy" is called payment unity for training (UPC) and its value is periodically fixed by the National Council for Social Security on health.

The EPS must hire the health services with the value received for this "policy", in compliance with the regulations established by the compulsory health plan, the different hospitals and clinics called Service Supplying Institutions (IPS).

The pensioners, during their working life, must contribute with four points to guarantee the health services required.

Moreover, a generalized payment procedure called moderating fee is established. The purpose of this fee is to rationalize the use of the services of the system.

In the subsidized regime the financing scheme is similar; the "health policy" has a lower value and it is paid by the State. This "policy" is called subsidized training unity.

2.2.4 Occupational hazards sub-system

The Law Decree 1295, enacted in 1994, determines the organization and administration of the general occupational risks sub-system, as a part of the Integral Social Security System established in Law 11 of 1993.

The opening had as a result the creation of Occupational Hazards Administrations and determined the obligation of the enterprises within the national territory to affiliate the workers to the occupational hazards system.

Besides the principles of the entire Social Security System, it is established that the occupational disease must be calculated starting from the exposure to the risk; the disability must not be determined in terms of the activity of the worker, but on the loose of the working capacity in accordance with the parameters described in the "disability assessment manual", according to the deficiency, disability and incapacity level. Any worker who losses 50% or more of his working capacity is considered disabled.

The characteristics of the coverage are as follows:

a) The leaves for occupational diseases and accidents must by paid by the health promoting agencies with the resources allocated to the payment of these contingencies in the respective regime.

b) The supplying of health services derived from occupational hazards and diseases must be organized by the health promoting agency and financed with the contribution of the occupational accidents and diseases regime.

c) In the individual savings pension regime, the invalidity insurance for common risk and occupational accidents or diseases can be hired jointly with a same company.

2.2.5 Complementary services

The reform endeavored to increase the scope of the social security system to two important aspects in the life standard of the population.

a) An economic allowance program for indigent old people of more than 65 years of age was created. This allowance can account for up to 50% of the monthly minimum wage.

b) The territorial agencies are authorized to establish subsidies to unemployment in their respective jurisdictions.

3. Results

The reform is giving results by extending the services provided by the system to more people, especially for the totally unprotected population. Since the reform was recently established, many results have not been noticed.

3.1 Pensions

At the moment there are 9 administration societies of Pension and Severance Funds, all private. Besides, the Social Insurance Institute has its own Pensions Fund.

In these 9 administrations, the number of affiliates to the individual saving regime, by the third trimester of 1995, accounted for 1.5 millions; 91% of these affiliates are salaried workers and the rest are independent workers. Moreover, 79% of these affiliates earn less than two monthly minimum wages and 7% more than four minimum wages.

By the end of 1995, in the medium premium system with defined benefit, administered by the Social Insurance Institute, there were 2.8 million affiliates, out of which 340 thousand were pensioners.

3.2 Health

The results of the reform are encouraging; this is a profound change that will take time to be applied by all the agents involved in the process and evaluate, in this way, its accomplishments.

The main dynamizing factor is the knowledge of the population of their rights and obligations in the system. This has had as a result an increase on the coverage, one year and a half after the reform was started. The number of affiliates to the Social Insurance Institute increased 3.4%; but its beneficiaries account for 12 million people, as a result of the family coverage.

Considering the figures of the new Health Promoting Enterprises, that have an insured population of 3 million people, it can be determined that the system covers 30% of the population.

At the moment, there are 25 Health Promoting Agencies, out of which 23 are private and 2 are public; these two are the EPS of the Social Insurance Institute and the EPS of the National Social Welfare Board and cover 25 and 31 departments respectively.

Considering all the EPS, there is a capacity to supply services for 17 million people; the Social Insurance Institute has a capacity for 10 million.

For the supplying of services, the Social Insurance Institute has a network made up by 234 ambulatory attention centers lc :ated at 186 municipalities and 37 clinics, located at 36 municipalities. The participation of the private sector has also increaseg, particularly concerning the supplying of basic services; 149 health co-operatives have been created, out of which 80 supply services for 1 million people in rural areas and minor towns.

The administrative and technical development of the promoting enterprises and the institutions must also be considered; the information system, the communication with the users and, in general, the customer service strategies and the supplying of services are up to the standard of the modern enterprises.

3.3 Occupational hazards

18 enterprises have been established, out of which 15 are occupational hazards administrations (ARP)) and 3 re-insurers. The only public administration is the one of the Social Insurance Institute. 3.6 million affiliates and 25 thousand pensioners are registered to this administration.

4. Conclusions and perspectives

The main characteristic of the integral social security system of Colombia is to combine resources, technology and efforts of the State and the private sector; that is why it is know as a mixed or dual system. For this reason, more than emphasizing the opening to the competition in the social security market, this system keeps the responsibility of the State to guarantee the social security of the population, with the support and direct participation of the private enterprises.

The social security coverage, especially on health, has experienced a significant increase, especially for the effect it has caused on the family coverage and also for the creation of some private insurance companies.

The financing resources have also been enlarged due to the increase on the number of contributors and on the amount of contributions. These resources have been allocated to protect the poorest population.

However, this increase is the result of two more important limitations. First of all, it has grown faster than demand of health services when compared to the increase on the financing resources. Second, the accelerated growth of the demand of services has surpassed the existing supply, since the capacity of the facilities has not registered significant increases.

Besides, one of the objectives of the reform was to unify the functional structure in a coherent social security system. However, in the same legislative process and later on in the basic law of the reform, several special regimes (army, police corps, Congress of the Republic, teachers, civil pilots, oil sector) were kept beyond the general system.

Within this same context, it was endeavored to simplify and unify the regulations in a single law that included all the aspects of the system. As a result, the Law 100 of 1993, considered "the reform to the social security in Colombia", was enacted. But the regulations of this law have been extremely fruitful in normativity.

Nowadays around 160 prescribed decrees have been enacted, with decisions or interpretations that could be contradictory.

Moreover, the regulation of the health services has become very precise, with well defined plans in their different components. However, this advantage could be an element that limits the endeavored competition in the opening to the social security market. Only the quality of the services provided by all the institutions can be competed.

The Health Promoting Agencies have been mainly developed in the highly-populated regions, in which 70% of the Colombian population lives.

The State keeps its responsibility towards social security, that can not be administered by the market. However, adjustments are required in two specific issues: the financing scheme of the pension regime and the need to establish a procedure that regulates the growth of the supply and demand.

For this reason it has been thought to introduce some adjustments to the Law 100. However, there are people who think that we should wait for a longer time to prove the real results of the system.

Within this process, it was thought that the opening of the market would weaken the Social Insurance Institute. However, it was not so: the Institute was strengthened through competition with an enhanced coverage and capacity to improve its services in a substantial way.

SOCIAL SECURITY SYSTEMS IN COLOMBIA 1990

	ADMINISTRATION	INCLUDED CONTINGENCIES	FINANCING	BENEFICIARIES
COMPULSORY SOCIAL INSURANCE	-Social Insurance Institute	General disease - Maternity - Occupational accidents - Occupational disease - Disability - Old Age - Death Family Allowances	GDM - DOD Employer 67% Worker 33% OAOD Employer 100%	Affiliates to the regime and Beneficiaries — Linked to an affiliate
SOCIAL WELFARE	Welfare Boards -National -Departmental -Municipal	Medical - Obstetric - Pharmaceutical - Hospital - Dental Attention - Disease Allowance - Indemnization for OAOD - Maternity Allowance - Retirement and Disability Pensions - Funerary Allowance Death Insurance	Contributions from the public agencies and the employees	Employee Official Employees — Public / Official Workers
FAMILY SUBSIDY	-Family Compensation Board	Health - Education - Social Recreation	Contributions	Official Employees Private Sector Workers
PUBLIC ASSISTANCE	-National Health System -Sectional Health Services -Promoter of Holidays and Social Recreation	Health and social needs	Taxes Charity institutions	Indigents Population not protected by other systems
SOCIAL ASSISTANCE	-Colombian Family Welfare Institute -Did People's Homes	Nutrition Protection Rehabilitation	Special contributions	Pregnant women and nursing children Children of school-age Children and old people abandoned or at stake Infringer children
OTHER SOCIAL SERVICES	-National Savings Fund -National Teaching Service -Promoter of Holidays and Social Recreation -National Social Welfare Fund	Payment of Severances - Housing Financing - Teaching and Training of Human Resources Recreation - Financing and Development of Vacation Plans	Special contributions	Official Employees Private Sector Workers
PRIVATE SOCIAL PROTECTION	-Insurance companies -Private institutions -Universities	Health - Pensions	Premiums Fees Contributions	Official Employees Private Employees

CONTRIBUTIONS OF THE INTEGRAL SOCIAL SECURITY SYSTEM

System / *Concept*	*Pensions*	*Health*	*Occupational Hazards*
Basis	Monthly accrued wage Min: L.M.W. Max: 20 L.M.W. 70% Integral Wage No transportation allowance	Idem Pensions	Idem Pensions
Amount	1996 13.5% Pension Solidarity Fund Employee with income = o > a 4 L.M.W. contributes an additional 1% to its debit	1996 12%	Min: 0.348% Max: 8.7%
Distribution - Employee - Enterprise	25% 75%	1/3 2/3	No 100% according to the economic activity (risk classification and level)

Min = Minimum
Max = Maximum
L.M.W. = Legal Minimum Wage

AGENCIES OF THE SOCIAL SECURITY SYSTEM

Health Promotion Agencies	*Pensions Fund*	*Occupational Hazards Administrations*
1. E.P.S. ISS	1. Pensiones Seguro	1. Proteccion Laboral Seguro
2. Salud Colmena E.P.S.	2. Colfondos	2. Compañia Agricola De Seguros De Vida S.A.
3. Salud Total S.A. E.P.S.	3. Colpatria	3. Seguros De Vida Alfa S.A.
4. Cafésalud E.P.S. S.A.	4. Proteccion	4. Compañia De Seguros Atlas De Vida S.A.
5. Bonsalud S.A. E.P.S.	5. Porvenir	5. Compañia De Seguros De Vida Aurora S.A.
6. Sanitas S.A.	6. Colmena	6. Compañia De Seguros Bolivar S.A.
7. Unimec E.P.S. S.A.	7. Horizonte	7. Compañia De Seguros De Vida Colmena S.A.
8. Compensar E.P.S.	8. Davivir	8. Seguros De Vida Colpatria S.A. PREVER
9. E.P.S. Progr. Comfenalco Antioquia	9. Pensionar	9. Aseguradora De Vida Colseguros S.A.
10. SuSalud E.P.S. - Southaamerican	10. Invertir	10. Seguros De Vida Del Estado S.A.
11. Colseguros E.P.S.		11. Seguros De Vida La Fénix De Colombia S.A. GRANAVIDA
12. Comfenalco Valle E.P.S.		12. Compañia Granadera De Seguros De Vida S.A. GRAN ARP
13. E.P.S. Salucoop		13. Aseguradora Grancolombiana De Vida S.A.
14. Humana Vivir S.A. E.P.S.		14. Seguros La Equidad O.C.
15. Servicios Medicos Colpatria S.A. E.P.S.		15. Latinoamericana De Seguros De Vida S.A.
16. Coomeva E.P.S. S.A.		16. La Nacional Compañia De Seguros De Vida S.A. SURATEP
17. E.P.S. Famisanar Ltda CAFAM-COLSUBSIDIO		17. La Previsora S.A. Compañia De Seguros
18. E.P.S. Servicio Occidental de Salud S.A.		18. Compañia Suramericana De Seguros De Vida S.A.
19. E.P.S. Risaralda Ltda.		
20. Caprecom E.P.S.		
21. Corporanonimas E.P.S.		
22. E.P.S. Convida		
23. Cruz Blanca E.P.S. S.A.		
24. Cajanal E.P.S.		
25. Capresoca E.P.S.		
26. Solsalud E.P.S. S.A.		

PREPARING FOR AN AGEING SOCIETY: PRESERVING CANADA'S PENSION SYSTEM

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Canada, like many other countries in the Americas and around the world, is engaged in a debate about the future shape of our pension system. The debate is one that touches every Canadian, whether we are still of working age or already retired. After all, each of us expects that, one day, we will receive benefits from the pension system. And we hope that those benefits will be sufficient to allow us to have a comfortable standard of living in our retirement.

Ensuring that the pension system will be able to deliver on those hopes and expectations is the responsibility of *both* governments *and* individuals. This has always been a fundamental premise of Canadian pension policy.

Governments must put in place the laws, programs and policies on which the pension system is built. They must legislate and directly administer programs that ensure a basic income for all the elderly. They also have to legislate and manage the regulatory framework that safeguards the fair and effective operation of the privately-administered parts of the system. Equally important, governments have a key role in creating the stable economic climate which is essential for the entire pension system to function.

But individuals have a role which is just as important as that of governments. We should not, and cannot, assume that the public pension programs will provide *all* our retirement income. Those programs provide a *foundation* for retirement income. They are especially important in ensuring a minimum income for all those who, for whatever legitimate reasons, cannot save for retirement; this includes low-income workers whose wages are just sufficient to provide for the *current* needs of their families, but who have little or no reasonable possibility of putting aside savings for their *future* needs in their old age. However, for the majority of us in the Canadian work force, it is possible to save for retirement. To a considerable extent, the choice is ours whether we will have a comfortable retirement or not.

What I would like to do today is three-fold. First, I will describe Canada's pension system. Second, I will discuss the demographic and economic factors that prompt the need to adjust that system to ensure its long-term viability. And third, I will briefly outline some of the changes that have been proposed.

The Canadian pension system, as I have already alluded, has two objectives. The first is to ensure a basic level of income for all of Canada's elderly. This is accomplished through a national program, administered by the federal government, known as Old Age Security.

The second objective of the Canadian pension system is to enable individuals and families to have an income in retirement that avoids serious disruption in their standard of living. In order to meet this goal, Canada has established three mechanisms. One is the contributory, compulsory Canada Pension Plan — and its counterpart in Quebec, the Quebec Pension Plan — that covers all employed and self-employed persons in Canada. The second are registered pension plans (sometimes called "employer-sponsored" pension plans), for which there is tax assistance. And the third are individual, voluntary, tax-assisted mechanisms known as registered retirement savings plans.

The Old Age Security program is the first pillar of Canada's pension system. The antecedents of today's program go back to 1927, when the federal government began to share the costs of provincially administered, means-tested benefits for the elderly. In the late 1940s and early 1950s, inspired by the famous report of Lord Beveridge that is the basis of the United Kingdom's social security system, there was mounting pressure for the Government of Canada to establish a uniform, nation-wide pension program. Such a program came into being in 1952, with the start of the universal Old Age Security pension. For the first time, all of Canada's elderly who met a residence requirement were entitled to a pension from the federal government, irrespective of their other income or their previous participation in the labour force.

For its first 25 years, the Old Age Security program consisted only of the basic pension — a fixed amount that was paid to all the elderly in Canada who met the age and residence requirements. However, high rates of poverty among the elderly created growing demands for the government to raise the amount of the benefit. But to raise the basic pension for everyone — rich and poor alike — meant very high costs. Therefore, in 1967, the Government of Canada enacted the second part of the Old Age Security program. It took the form of an income-tested benefit, the Guaranteed Income Supplement, which was added to the basic pension but only paid to those among the elderly who have little or no income other than the basic pension.

Today, the basic Old Age Security pension and the Guaranteed Income Supplement together ensure a minimum income of some CAN$ 10,500 a year for a single pensioner, and CAN$ 17,000 a year to a pensioner couple. The equivalents in US dollars are about US$ 7,600 and US$ 12,400 respectively. As I am sure you realize, with the cost of living in Canada, and with the expenses related to our sometimes-less-than-ideal climate, these amounts are by no means extravagant. However, they ensure that 80% of the elderly have incomes above the "low-income cut-offs" established by Statistics Canada. (The "low-income cut-offs" are a measure of relative poverty.)

The basic Old Age Security pension has long been considered as taxable income for purposes of income tax. Through provisions in the Canadian income tax system, such as the income-tested tax credit for persons aged 65 and over, low-income pensioners do not, in fact, pay tax on their pensions. However, those with higher incomes do. Combined with the increasing marginal tax rates of our income tax system, this ensures that as incomes rise, the net amount of pension — that is, the amount of pension after the payment of tax—declines.

Since 1989, the benefits paid to pensioners with high incomes have been reduced even further. Once a pensioner's total annual income exceeds a prescribed annual amount, he or she is required to repay part or all of the basic Old Age Security pension received during the year. For 1996, the prescribed amount at which the repayment takes effect is CAN$ 53,215. At current exchange rates, that is about US$ 39,000. For every dollar of income above this amount, the person has to repay 15¢ of his/her pension. This repayment provision affects about 5% of Canada's elderly.

Almost 3.5 million persons aged 65 and over receive the basic Old Age Security pension. Of these, about 1.4 million also receive the Guaranteed Income Supplement. On an annual basis, the Government of Canada pays about CAN$ 21.4 billion (close to US$ 16 billion) in benefits under the Old Age Security program. Of this, about CAN$ 2.2 billion are recovered through the income tax system, including through the operation of the repayment provision I just described. This still leaves the net costs of the program at over CAN$ 19 billion a year. All of this money comes from the general tax revenues of the federal govemment.

As I mentioned a few minutes ago, this first pillar of the Canadian pension system, the Old Age Security program, ensures a basic income to all of Canada's elderly who meet certain minimum residence requirements.

The other two pillars of the Canadian pension system, on the other hand, are designed to assist individuals and their families to avoid a sharp drop in standard of living in retirement. Of these two pillars, only one is compulsory — the Canada and Quebec Pension Plans.

These two plans cover all employed and self-employed persons in Canada. The Quebec Pension Plan, which is administered by an agency of the provincial government, operates in the province of Quebec, and the Canada Pension Plan, which is administered by the Government of Canada, operates throughout the rest of the country. The two plans are identical in terms of contributions and the types of benefits paid; there are some differences in the way some benefits are calculated but, to this time, the differences are relatively small. The two plans are closely co-ordinated through a series of agreements between the Government of Canada and the Government of Quebec.

The Canada and Quebec Pension Plans began operation in 1966. They are similar to the social insurance programs found in many countries around the world, in the sense that they are contributory and the amount of benefit paid is linked to a person's previous income on which contributions have been made. Benefits include:

- a retirement pension, payable as early as age 60 (but subject to an actuarial reduction if the person is less than age 65 when the benefit starts to be paid);
- a disability pension, payable to contributors who have suffered a disability that is "severe" and "prolonged"; in practical terms, this means a disability that both renders them unable to do work which brings any appreciable income and a disability that is likely to be of long duration or result in death;
- a survivor's pension, payable to the widow or widower of a deceased contributor, as well as a lump-sum (one-time) death benefit paid to the estate of a deceased contributor; and
- children's benefits paid to the dependent children of disabled contributors and orphans of deceased contributors.

The Canada and Quebec Pension Plans are funded entirely from contributions paid by employees, employers and the self-employed. Governments provide no subsidies to the plans from general tax revenues. However, in their capacity as employers, the federal and provincial governments must make the same contributions as employers in the private sector. Similarly, federal and provincial civil servants must contribute just like employees in the private sector.

The contribution rate to the Canada and Quebec Pension Plans is adjusted annually. Both plans have accumulated "reserve funds" which consist of the excess of contributions over benefit payments and administrative costs in previous years. For the Canada Pension Plan, the goal has been to maintain this reserve fund at a level equivalent to the total cost of benefit payments and administrative expenses over a two-year period. [As I will discuss shortly, there are proposals under discussion which could significantly increase the reserve fund.] In principle, the combined total of investment income from the reserve fund and current contributions should, each year, be sufficient to pay for all benefits and administrative expenses in that year.

For 1996, the contribution rate for the Canada and Quebec Pension Plans is 5.6% of covered earnings. The employer pays half of the contribution (in other words, 2.8% of covered earnings) and the employee pays the other half. Self-employed persons must pay the entire 5.6%.

Covered earnings under the plans include all income from employment and self-employment, beyond a basic exemption and up to an annual ceiling. The annual ceiling, which is approximately equal to the average Canadian industrial wage, is CAN$35,400 for 1996 (about US$26,000). No contributions are paid on the portion of annual earnings above the ceiling.

For income tax purposes, contributions to the Canada and Quebec Pension Plans are allowed as a deductible business expense for employers. Employees and self-employed persons are given a tax credit, which is calculated as a percentage of the contributions they have paid during the year. Benefits from the plans must be included in an individual's total taxable income when he or she files the annual income tax return.

An individual's retirement pension at age 65 is equal to 25% of his or her average lifetime earnings on which contributions have been paid. In calculating the average, the actual (nominal) earnings from previous years are adjusted to reflect current values. As well, certain periods of low or no income are disregarded. Of particular importance to parents who leave the labour force or reduce their working hours to care for young children, periods with below-average earnings, when a parent was caring for a child under age 7, are disregarded in the calculation of average earnings. This provision is of special benefit to mothers.

Some 4.7 million persons receive benefits from the Canada and Quebec Pension Plans. Of these, about 3.1 million receive retirement pensions, and one million receive survivor's pensions. The total amount of benefits paid under the two plans exceeds CAN$ 20 billion a year.

When planning for retirement, many pension experts believe that an individual's goal should be to have an income from pensions and savings that is about 70% of pre-retirement income. They argue that a retired person does not have the same level of expenses as someone still working — for example, there are no costs for travelling to work, special work clothes and other such things. In addition, retired persons, generally speaking, no longer have children to support. As a result, with a retirement income of 70% of pre-retirement income, most persons can have roughly the same standard of living after they retire as they had before.

For a one-earner couple (of which there are fewer and fewer in Canada) whose pre-retirement earnings are around the average Canadian wage, the first two pillars of Canada's pension system — the Canada and Quebec Pension Plans, along with the basic Old Age Security pension and the Guaranteed Income Supplement — ensure an income that is about two-thirds of previous earnings. This is very close to the 70% target advocated by many pension experts. But, let me stress, this is only the case for a one-earner couple, and only if their pre-retirement income is around the average Canadian wage.

For a single person with pre-retirement income near the average wage, the first two pillars ensure a pension income that is a little less than half of pre-retirement income. In most instances, this would translate into a significant reduction in living standard. And as incomes go above the average, the replacement rate from the first two pillars becomes lower. For this reason, Canada has established the other pillar of its pension system — tax-assisted savings through registered pensions plans and registered retirement savings plans.

Registered pension plans—sometimes called "employer-sponsored", "private" or "occupational" pension plans—cover about 45% of the paid Canadian labour force. They are voluntary arrangements, in the sense that the decision to have such a plan is up to each individual employer. This decision is often linked to the collective bargaining process, through which overall compensation is negotiated between an employer and his or her employees. However, once an employer has such a scheme, the participation of employees is usually mandatory.

The coverage of the Canadian work force by registered pension plans varies greatly from one sector to the other. In the public sector, for example, coverage is close to 85% (and even considerably higher if only full-time, "permanent" employees are taken into account). Coverage is equally high, or even higher, in some parts of the private sector. This is especially the case for large-scale manufacturing, such as the automobile industry, which is heavily unionized. Other parts of the private sector, however, have low coverage by registered pension plans. Examples include agriculture and many service industries. There are also differences in the overall coverage of male workers in comparison with female workers, and in the overall coverage of higher-paid employees in comparison with lower-paid employees.

Most Canadians who are covered by registered pension plans belong to "defined benefit" schemes. These are plans in which the amount of pension is linked to an individual's average wages (often during a prescribed number of years with the highest wages) and the overall length of service with the employer. There are, however, some important "defined contribution" schemes. In a "defined contribution" plan, benefits are based on the accumulated contributions of the employee and/or his/her employer along with the investment earnings on those contributions.

Federal and provincial legislation regulates registered pension plans by, for example, stipulating when rights to a benefit become "vested" in the employee, how pension funds can be invested, and so on. An act of the federal Parliament—the Pension Benefits Standards Act—regulates plans in the sectors of the labour market that fall under the jurisdiction of the federal government (such as banking and interprovincial and international transportation). Each of the provinces of Canada has comparable legislation that regulates pension plans in the sectors of the labour market that are under provincial jurisdiction.

The word "registered" in "registered pension plan" is a very important one. It refers to the fact that these plans must be registered with the federal Department of National Revenue in order to qualify for favourable tax treatment under the Income Tax Act. The Act sets out a variety of conditions that a plan must meet before it can be registered. The conditions are in addition to those set out in the federal and provincial legislation regulating pension plans. They specify, among many other things, the maximum income on which contributions can be based, the maximum contribution that can be made in any given year, and the maximum amount of benefit payable under a defined benefit plan. Maximum contributory earnings, for example, are set at 2½ times the average wage.

Once a pension plan is registered, the tax consequences are significant. Contributions to the plan become tax deductible. The earnings on the accumulated funds in the plan are equally sheltered from taxation. While the money will eventually be taxed — usually when it is paid in the form of a pension — in the intervening period it grows without governments taking a share in the form of taxes.

The cost to the federal government of tax deferral on the contributions and assets of registered pension plans is estimated at more than CAN$ 8 billion a year.

As I have already mentioned, only about half of the employees in the paid labour force in Canada are covered by registered pension plans. For the other half, as well as for self-employed persons, this part of the third pillar is not there. However, virtually everyone in the paid labour force, including all self-employed persons, have access to the other part of the third pillar — registered retirement savings plans, or RRSPs for short.

An RRSP is an individual retirement account which is the personal property of the person who makes contributions to it. In this regard, an RRSP is similar to the individual capitalization accounts that are the basis for the new social security systems in Argentina, Chile, Mexico, Uruguay and other countries. The one difference, of course, is that in Canada contributions to an RRSP are entirely voluntary.

Anyone with income from employment or self-employment can put a part of his or her earnings into an RRSP. Contributions each year cannot exceed 18% of earnings, and they are subject to an annual maximum. For 1996, this maximum is CAN$ 13,500. For persons who are also covered by a registered pension plan of the "defined benefit" type, there is a complex formula for determining the maximum amount of contribution allowed to an RRSP. This formula factors in the estimated value of the benefit which the year's contributions to the defined benefit plan will eventually yield. Fortunately, a computer at the Department of National Revenue does the calculation and sends out a notice to each taxpayer advising how much "RRSP contribution room" he or she has available each year.

The means of investing the funds in an RRSP are about as numerous as there are investment vehicles. Again, the word "registered" in "registered retirement savings plan" is key. "Registered" means that the plan must be registered with the Department of National Revenue, which sets some general conditions such as limits on the percentage of total funds that can be invested in non-Canadian sources. Once these conditions are met, the possibilities for investing funds in an RRSP are legion. Many people prefer to have "self-invested" plans in which, for a relatively low annual administration fee paid to a stock broker or investment institution, they can direct exactly how and when the funds will be used — whether to buy stocks, bonds, treasury bills, commodities, futures or whatever. Many other people prefer to let a bank or investment company do the investing for them, and put their funds in plans consisting of Guaranteed Income Certificates or mutual funds.

The critical element is that the contributions to an RRSP (up to the maximums I have described), as well as all the earnings on the accumulated funds in the plan, are sheltered from taxation until they are withdrawn. And they remain the personal property of the individual.

If someone needs the money in his/her RRSP before retirement, the funds can be withdrawn at any time. However, in this case, they become subject to income tax in the year of withdrawal. If, as is usually the case, the funds are left until retirement, there are a number of means for having access to them without having to pay tax all at one time. The most common is to use the funds to purchase an annuity, in which case the funds are taxed only as benefits are paid.

Registered retirement savings plans are Canada's favourite tax shelter. Among Canadians with annual earnings over CAN$ 15,000, 49% contribute to an RRSP. As income rises, so does participation in RRSPs.

The cost to the federal government from the tax deferral resulting from registered retirement savings plans is estimated at CAN$ 5.5 billion a year.

Taken together, the two parts of the third pillar of Canada's pension system— the two forms of tax-assisted savings for retirement — cover a very large segment of the Canadian labour force. For example, close to 80% of those who earned between CAN$ 25-35,000 in 1991 contributed either to a registered pension plan, or to a registered retirement savings plan, or to both.

A few figures will illustrate clearly the macro-economic impact of tax-assisted savings. In 1992, total contributions under the two parts of the third pillar combined came to CAN$ 34.5 billion. With total benefit payouts in that year of CAN$ 24 billion, it is evident that the two forms of tax-assisted savings make a major contribution to aggregate savings, and investments, in Canada. In 1991, total assets in registered pension plans were just slightly less than 50% of Canada's Gross Domestic Product (GDP). Total assets in registered retirement savings plans that year were almost 20% of GDP.

This, then, is a summary of Canada's pension system. I am sorry that it has taken me so long to give even a general description of our system. However, as I think you will see, it is a complex system consisting of many elements. For a number of historical, social and economic reasons, Canada has chosen not to take the route followed by many other industrialized nations, especially in Western Europe, and have one large public system that provides most of the retirement income for most of the population. We long ago decided to have a diversified system. While our system is not without its faults, it is serving Canadians well.

The issue with which Canada must now grapple is how to ensure that our pension system will continue to serve Canadians well in the future. This issue is particularly relevant for the first two pillars of the system — the Old Age Security program and the Canada and Quebec Pension Plans.

Canadian society is ageing, and ageing rapidly. Today, about 12% of Canada's population is aged 65 years and over. There are 5.6 persons of working age (20-64 years) for every retired person. In 2035, according to demographic projections, the proportion of Canada's population aged 65 and over will nearly double, to 22%. And the ratio of persons of working age in comparison to retirees will fall to 2.7: 1.

The reasons for these changes are well known. Key among them are the ageing of the post-World War II baby boom, the dramatic fall in the birth rate that began in the 1960s and continued in the 1970s, and the increasing longevity of the population due to on-going, dramatic advances in medicine and science. If it were not for our relatively high level of immigration, Canada would be faced with an almost untenable demographic future.

The impact of the ageing of the Canadian population on the first and second pillars of Canada's pension system is clear. The costs of pension programs will grow significantly over the next four decades. The pressures that expenditures on pensions will put on overall public spending will be enormous, leaving aside consideration of all the other costs associated with an ageing society (of which health care, social services and residential care are some of the most obvious). Unless changes are made, it is unlikely that the Canadian economy would be able to afford the existing programs through the coming decades.

Having said this, let me hasten to stress that I am not suggesting that the current programs are fundamentally flawed or that Canada needs to take a radically different approach in its pension policy. While there are some in Canada who argue, for example, that the contributory Canada Pension Plan should be replaced by a system of mandatory individual capitalization accounts, they are a minority. The great mass of evidence shows that the existing programs are firm in their foundation and that they will continue to serve Canadians as well in the future as they have up to now. However, the programs have to be adjusted to take into account today's economic and social realities. Just as the social and economic environment evolves over time, public pension programs also need to evolve over time.

In making changes to pension programs, government must demonstrate great sensitivity to a number of factors. I want to mention three in particular.

First, any change which has an impact on the current elderly must be examined with the greatest care before it is implemented. Most of the elderly have little or no ability to replace one form of income with another. With the exception of a relatively few higher-income individuals and couples, they rely heavily on the income provided by the existing programs. Those programs are a tangible reflection of the inter-generational contract that is part of what binds Canada's society together. The contract must be respected. Changes that would have adverse consequences for elderly persons with low and modest income (who are the vast majority of the aged) must be avoided.

Second, those who are approaching retirement age also have little leeway for maneuvering. For the large majority, their planning for retirement has been based on the existing programs. Except for those with substantial savings or large current incomes, any precipitous change in the eligibility conditions for benefits or in the amount of benefits would present serious problems for which they would have great difficulty finding solutions. Changes that would create difficulties for those approaching retirement age, whose incomes are in the low and middle ranges (one could go as far as to say, whose incomes are not relatively high), must also be avoided.

Third, inter-generational fairness in regard to tomorrow's work force must be taken into account. Inter-generational equity is a complex and multi-dimensioned concept. One element, of which I have just spoken, is equity in the treatment of today's elderly, and those who are close to retirement, by those who are now of working age. But today's people of working age will, at some point in the future, become tomorrow's elderly. What financial burden will the cost of their pensions put on the next generation of working Canadians? Will that burden be reasonable (or fair) in relation to what those future working Canadians will, themselves, receive from the pension system when they retire even further in the future?

Demographic projections show that Canada faces extremely high pension costs during the first four decades of the next century, in large part because of the ageing of the baby-boom generation. However, after the baby-boom generation has passed on, the overall costs of pension, in real terms, will decline and then level off as Canada reaches a new equilibrium between persons of working age and those of retirement age. Some years ago, German pension experts coined the phrase "rentenberg" — the pension mountain — to describe this phenomenon.

Canada is now climbing up the pension mountain. As we ascend, the overall cost of pensions becomes higher and higher. In the absence of savings for retirement—whether in the form of individual savings or collective mechanisms for savings — which can offset some of those increasing costs, the burden has to be assumed by those in the paid labour force. However, after the summit of the pension mountain is reached in the decade of the 2030s, the overall cost of pensions, in real terms, will begin to decline. Therefore, unless appropriate measures are taken well in advance, those who are in the paid labour force during the period when society is near the top of the pension mountain will have to pay far more for the pensions of the generation that preceded them than they themselves will get in the way of pensions from the generation that follows them.

In substantial degree, Canada has already taken this important fact into account, through the third pillar of our pension system. By contributing to registered pension plans and registered retirement savings plans, the generation that will reach retirement age as Canada climbs higher up the pension mountain is already making important provision for its own retirement, thus greatly reducing the eventual burden on the next generation of the paid work force. The focus, therefore, must be on our public programs.

In regard to the Old Age Security program, the Government of Canada announced in March that it will ask Parliament to legislate a new Seniors Benefit that will replace the existing Old Age Security pension and Guaranteed Income Supplement. The new Seniors Benefit will be similar to the existing program in many respects. Its purpose will be to ensure a basic income to all of Canada's elderly. It will be financed out of the general tax revenues of the federal government. It will be income-tested. And benefits will be completely protected against inflation.

But there will also be some important differences.

First, the new Seniors Benefit will be much more clearly targeted to elderly persons with low and modest incomes. The highest-income 9% of Canada's elderly will not qualify for any pension at all under the new program. These will be single persons with annual incomes above CDN$ 52,000, and couples with annual incomes above CDN$ 78,000. Another 16% of seniors whose incomes are relatively high will qualify for pensions, but in a lower amount than under the existing programs. Generally speaking, these will be single persons and couples with incomes above CDN$ 40,000 a year.

Second, for couples, the amount of the new benefit will be based on the combined income of the spouses. You will recall that, earlier in my remarks, I spoke about the repayment provision under which high-income pensioners have to repay some or all of their Old Age Security pension. In applying this provision, only the income of the pensioner him- or herself is taken into account, not the income of the couple. This can lead to a situation in which the spouse of a pensioner who is very wealthy can still keep all of his or her pension if the spouse's personal income is not very high. The new Seniors Benefit will eliminate this unfairness.

Third, the new benefit will be entirely tax-free. Pensioners will know exactly how much assistance they will receive from the government, and will not have to worry about having to repay part of the pension at the end of the year when they file their annual income tax returns. Since the new benefit will be tax-free (unlike the existing Old Age Security pension, which is taxable), two existing provisions in the Canadian income tax system that provide tax relief to the elderly will be eliminated. The first of these will be the income-tested age credit, which is currently available to all taxpayers aged 65 and over. The second is a tax provision that gives persons with income from private pension plans a tax credit on the first CDN$1,000 of their pension income.

Fourth, the new Seniors Benefit which will be paid to elderly persons with low incomes will be $120 a year higher than the pensions they now receive under the existing Old Age Security program. The poorest of pensioners will be better off.

Taken together, these changes will mean that the great majority of Canada's elderly — 75% of single seniors and couples — will receive the same or higher pensions under the new Seniors Benefit than they receive under the existing Old Age Security program. Since women make up about 58% of Canada's seniors population and since elderly women, on average, have lower incomes than elderly men, they will especially benefit under the new program. Nine out of 10 elderly women will be better off under the new program in comparison to the existing program.

A few minutes ago I spoke of the need to ensure that changes to pension programs do not adversely affect the current elderly and those who are soon to start receiving pensions. The Government of Canada has taken this important principle into account in designing the new Seniors Benefit.

The new Seniors Benefit will not come into effect until the year 2001. This will give everyone at least five years to prepare for the new program. When the new program does start operation in 2001, all of today's elderly will be able to choose whether they want to start receiving benefits under the new program or continue to receive benefits under the existing program. This will ensure that none of today's elderly will suffer a financial loss because of the new program. This same right to choose between the new and existing programs will be given to persons who were aged 60 or over on 31 December 1995 and to their spouses (irrespective of the age of the spouse).

The new Seniors Benefit will slow the long-term growth in the cost of the benefits paid under the first pillar of Canada's pension system. This represents a major step forward in making the system more sustainable and affordable and preserving benefits for future generations of seniors.

Savings in the first year of implementation — 2001 — will be small because all seniors who start to receive benefits under the existing program before that year will have the choice of keeping those payments. Clearly each senior will choose the program that provides the highest benefits for him or her. There will be extensive public information and counselling campaigns so that each person and couple can make the best choice for them.

But after the first year of implementation, the annual cost savings to the federal government from the new system will start to build. Persons reaching age 65 after 2001 will only have the new program available to them. As I have already noted, the new program will provide smaller benefits than the existing programs to seniors with higher incomes. Those with very high incomes will be eligible for no benefits at all. Moreover, the average income of seniors is expected to continue to grow faster than the rate of inflation in coming decades. This means seniors will rely less on the new benefit. As a result, savings from the targeting under the new system will rise.

By 2011, when the first "baby boomers" reach age 65, the net cost savings are projected to be 5.7% of the costs of the current system. By 2030, when the cost pressures on public pensions reach their peak, the net savings from the Seniors Benefit are projected to reach about 10.7% of current program costs — more than CDN$ 8 billion a year.

The new Seniors Benefit is a further step in the evolution of the first pillar of Canada's pension system. It builds on the foundation of a program that has worked well, but that now needs to be adapted to changing circumstances. The Seniors Benefit introduces change gradually. It will reduce the increase in costs while providing higher benefits to low-income seniors. And it clearly reflects the fundamental objective of the first pillar of the pension system — to ensure a minimum income to all of the elderly.

Let me turn now to the second pillar of Canada's pension system — the Canada Pension Plan.

As I mentioned earlier in my remarks, the Canada Pension Plan is financed entirely from contributions from employees, employers and the self-employed. Every five years the Chief Actuary of Canada must complete and publish an actuarial evaluation of the plan. On the basis of this evaluation, the federal and provincial ministers of finance must establish a contribution schedule for the following 25-years. The first five years of the 25-year schedule are of particular importance because this is the legal basis for the actual contributions during those five years.

The most recent five-year actuarial evaluation was completed in 1995. It showed that the costs of the Canada Pension Plan are increasing at an even faster rate than had been projected when the previous actuarial evaluation was done. According to the latest report, the 25-year schedule which had been established five years earlier — and which, at that time, was forecast to be sufficient to maintain the long-term solvency of the plan — would no longer do so. Under the most recent projection, the existing 25-year schedule would result in the Canada Pension Plan fund being exhausted by the year 2015. Contribution rates would then have to increase sharply to keep the plan on a pay-as-you-go basis. By 2030, they would have to reach 14.2% of covered earnings. You may recall that current contributions are 5.6%, so I am speaking of a large increase.

A contribution rate of 14.2% would pose major problems. From an economic perspective, such a rate would substantially depress the number of jobs that would otherwise be created in Canada. This, in turn, could result in an even higher contribution rate being required. From a social and political perspective, such a rate, at the top of the "pension mountain" I spoke about earlier, would mean that one generation of workers would have to pay contributions that were far greater than that necessary to pay for their own eventual pensions. The consequences in terms of strains on the social system and pressures in the political system could be serious.

A consensus seems to be developing that the future contribution rate for the Canada and Quebec Pension Plans should not be allowed to exceed 10%. At the same time, there remains a broad consensus that the pensions paid by the plans — in particular, the retirement pension — should not be diminished. To meet these goals, governments will have to take measures both to increase the revenues flowing into the plans and to reduce the overall costs of benefits.

In regard to increasing revenues, there are few options. No consideration has ever been given to providing subsidies from general government revenues to pay for part of the costs of the Canada Pension Plan. One way or the other, the necessary funds *must* come either from the contributions of employers, employees and the self-employed or from the investments earnings of the Canada Pension Plan's reserve fund.

What increasingly more people in Canada are advocating is a relatively fast increase in the contribution rate. The objective would be to move to a rate that, once reached, could be maintained indefinitely in the future without further increases (assuming, of course, no changes to the underlying demographics). This rate has been given the title of "steady-state" contribution rate. It is a rate that would cover the costs of each contributor's own benefits, plus a share of the burden of the unfunded liability that has been built up because both current and past contributors have paid far less than their benefits are worth. Steady-state financing is a form of partial funding.

The steady-state contribution rate would ensure that the Canada Pension Plan reserve fund would remain an approximately constant proportion of the total liabilities of the Plan at any point in time over the next century. It would result in the ratio of the projected fund at the end of a year to projected expenditures in the following year to be the same in the year 2030 as in the year 2100.

A relatively rapid increase to a steady-state contribution rate would mean, in the short and medium term, that contributions would significantly exceed the current costs of benefits and administration. The Canada Pension Plan reserve fund, into which the surplus would be put, would grow rapidly. Instead of a reserve fund equal to about two times the annual costs of benefits and administrative expenses, the Canada Pension Plan fund would reach six times annual costs.

The earnings on a fund of this size would help pay for an increased share of future Canada Pension Plan benefits. These earnings, then, would be an alternate source of funding. Instead of expecting that future contributors will pay the entire cost of paying the pensions of the generation that preceded them, today's Canadians would pay more during their working years so that money can be put aside, and invested, to eventually pay part of their own pensions when they retire.

The precise level of the steady-state contribution rate depends on several factors: the rate of return that a more fully funded plan can earn, the speed at which the steady-state rate is phased in, and the level of future expenditures for benefits.

For example, suppose we put aside for the moment any consideration of changes to the benefit structure. And let's assume a real rate of return on investments of 3.5 to 4% in the long-term (which, on past experience in Canadian investment markets, is not an unreasonable assumption). Then the steady-state rate would be only slightly above 12% if the increases to achieve this rate could be made over the next six to eight years.

As I mentioned earlier, the actuarial projection for the Canada Pension Plan, if no changes are made, show that the contribution rate will reach more than 14%. And the target that most in Canada are advocating is to keep the rate to a maximum of 10%. The steady-state contribution rate of 12% would, by itself, bring us half way to our goal.

In addition to raising the contribution rate, the revenues of the Canada Pension Plan can also be increased by broadening the base of earnings on which contributions are paid. Since the start of the Canada Pension Plan, the first portion of an individual's annual earnings has been exempt from contributions. Known as the "Year's Basic Exemption", this portion is equal to about 10% of the average industrial wage. For 1996, for example, the Year's Basic Exemption is CDN$ 3,500. An individual whose annual earnings do not exceed this amount does not pay contributions to the Canada Pension Plan. Once a person's annual income exceeds this amount, he or she only pays contributions on the amount above the Year's Basic Exemption.

Under the current legislation governing the Canada Pension Plan, the Year's Basic Exemption rises annually in line with the average industrial wage. One possibility for increasing the base of earnings on which Canada Pension Plan contributions are collected would be to freeze the Year's Basic Exemption at its current level. As a result, instead of being a constant 10% of the average industrial wage, it would, over time, become a smaller and smaller percentage of the average wage.

Another option (and not necessarily exclusive from the first one I just mentioned), is to relate the amount of a person's Year's Basic Exemption to his or her annual income. A person with low earnings would have access to the full Year's Basic Exemption, while someone with high earnings would have access to no exemption. And still another option would be to eliminate the Year's Basic Exemption entirely. This could be combined with some kind of income-tested tax credit to ensure that low-wage workers are not adversely affected.

According to the actuarial studies, these kinds of changes to the Year's Basic Exemption would reduce the long-term contribution rate to the Canada Pension Plan by more than 1%. Combined with the steady-state rate I discussed a few minutes ago, this would mean a long-term rate of about 11%. This is close to the target rate of 10%, but not quite there.

To reach the target, some changes have to be made to benefits.

A number of different proposals have been made for reducing the costs of benefits. Some persons, for example, have advocated raising the age of entitlement to a retirement pension by anything from one to five years. Others have suggested lowering the rate of the retirement pension to 22½ % of a contributor's lifetime earnings which have been subject to contributions. (Under the current provisions of the Canada Pension Plan, the retirement pension is 25%.)

These kinds of proposals have, for the most part, generated a negative response across a broad spectrum of Canadian public opinion. Although Canadians have shown serious concern about the long-term financial viability of the Canada Pension Plan, they have also shown that they do not want to see radical changes to the Plan, especially changes that affect the retirement pension.

As a result, attention has focused on what can be done to limit costs related to the non-retirement benefits — this is, disability and survivors' benefits.

In regard to disability benefits, there has been a sharp rise in entitlement to those benefits in recent years. The reasons for this increase are complex and would require an entire presentation on its own. The primary factors include underlying changes in Canadian society and the Canadian economy, high unemployment rates, more generous eligibility rules that were implemented in the late 1980's, and limited efforts to determine whether persons already in receipt of benefits remain eligible.

Measures have already been implemented to stop the increase in the rate of entitlement to disability pensions, and they are showing positive results. These measures include stricter application of the medical guidelines for determining eligibility, improved work incentives, and systematic reassessment of current disability beneficiaries to determine if their conditions have improved to the point that they can resume employment and no longer require benefits.

These types of administrative measures have to be continued and stepped up in the future. Combined with a tighter contribution requirement for eligibility for disability benefits in the first place, they can have an appreciable impact on the contribution rate.

In regard to survivor's benefits, the proposal that is often heard is to eliminate the lump-sum death benefit. When the Canada Pension Plan was stated thirty years ago, the death benefit was thought to be a useful element because it helped families to defray part of funeral costs. To what extent this has actually been the case is difficult to say. In today's society, it is very doubtful whether the death benefit serves any social purpose in the vast majority of cases. Its elimination — perhaps with some alternate form of funeral grant for low-income pensioners — would seem to be in order.

The changes to disability and survivors' benefits I have just described would bring the long-term contribution rate to the Canada Pension Plan down by almost 1%. This would meet the overall target of a rate around 10%.

The final decisions on the changes to the Canada Pension Plan will be made by the federal and provincial govemments in the coming months. Although the legislation governing the Canada Pension Plan is an act of the federal Parliament, and although the federal government is responsible for the administration of the Plan, the Plan itself is a partnership of the federal and provincial governments. Major changes to the Plan, such as those I have described, require the consent of both the federal Parliament and of at least two-thirds of the provinces of Canada with at least two-thirds of the total Canadian population.

Achieving the required level of consensus needed to make changes to the Plan is often a complex process, especially when there is so much at stake. But the process is well advanced, and governments at both the federal and provincial level are committed to arriving at a package of changes that will ensure the financial viability of the Canada Pension Plan for the next century.

Canada has made enormous strides since the end of World War II in building a pension system that guarantees a decent standard of living for most of our elderly. The generations that preceded ours laid the foundation and built the system. Now they benefit from it. The obligation of our generation is to ensure that the system will serve future generations of Canadians and will continue to give them economic security in their retirement. Achieving this goal and safeguarding Canada's pension system are among the highest priorities both of the Government of Canada and of the provincial governments.

A CHALLENGE FOR THE XXI CENTURY: POSSIBLE SOCIAL SECURITY

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1. Philosophical bases of the reform

More than eight years ago, on the occasion of the celebration of the XXV anniversary of the Interamerican Center for Social Security Studies, we had the honor of being invited to participate in a Series of Conferences on what were then called the Contemporary Problems of Social Security.

On that occasion and in the light of such problems, we chose the theme *The Challenges of the Design of Social Security* for the XXI Century as the aim of our dissertation which, more than a technical approach, because we didn't feel we had enough experience, was a political approach because we thought that was the angle from which we could make a more valuable contribution to an analysis of social security in Uruguay to prevent other systems from experiencing the same difficulties my country did.

Today, eight years later, although no longer in a government position but having participated in the Social Security reform of my country, we once again have the honor of being asked to participate in this Series of Conferences organized by the Interamerican Conference for Social Security Studies in order to analyze the reforms being implemented in Social Security Systems.

On this occasion we have chosen to call our dissertation "A Challenge of the XXI Century: Possible Social Security" because we think it is appropriate to take up that focus again not only with technical elements but also political ones in order to put an analysis of the New Social Security Model of Uruguay into context.

In order to explain, understand and interpret a Social Security System and its reforms, we must begin by analyzing the economic, social and cultural context that surrounds it.

Social Security cannot dissasociate itself from the present social and economic reality or its future expectations not just for technical reasons.

Generations today, today's decision-makers, have no right to jeopardize the future of generations to come. Nevertheless, we have frequently done so; we have behaved irresponsibly, especially in those countries that have very developed social security systems.

We forget, or perhaps because we are convinced of something else, we don't realize that the traditional concept of social security is not the creation of wealth and nor does wealth in itself make society happier if it doesn't go hand in hand with social justice, with wealth redistribution policies that are compatible with sustained economic growth and schemes that cover social and health risks to which human beings are exposed.

We hadn't realized that prudence, discipline and responsibility should guide our actions, not only during times of economic crises, which are more frequent than times of economic boom, but here and now.

The application of Social Security, its benefits and coverage should be compatible with economic growth so that social security isn't threatened while ensuring that its greatest benefits don't take the form of a piece of paper that are later cast aside or are only given lip-service and provide insufficient benefits resembling empty or half empty containers because reference parameters or inflation reduce their value.

If we aren't able to set priorities, we won't be able to develop Social Security in a real and lasting way, either in the present or the future.

We will have created an artifice of limited duration but, and here's the paradox, one that can't be changed, because so far, it has been easy to reform Social Security even in democracies since even minimal changes to developed systems come up against social resistance and often the political system too.

If we weren't able to decide on those priorities, if we built a Social Security system that lacked a real and lasting base, despite all the rigidities, resistance and difficulties, the next step is be - or rather was - an inevitable adjustment of the system that doesn't harm the generations that have enjoyed its benefits but will seriously affect future generations who not only will be unable to enjoy them but must also make sacrifices in order to build the foundations of a new Social Security System which perhaps no one can guarantee they will benefit from.

Here we are faced with the problem of the distribution of burdens between different generations and sectors of society, between active ones and between active and inactive ones and of course, we are faced with the problem of the fair distribution of such burdens.

This also forces us to consider the risks related to the credibility of reform without harming other greater risks which excesses and improvisations is this area represent for a country's social and economic life and the consequent stability of the political system.

Proud of those who do what they are convinced is right, Uruguayans and Uruguay as a county can boast one of the most advanced social legislations in the world. During the XIX century, and especially during the early decades of this century, a very important social security system was created which covered practically the entire population.

The Social Security System and in particular, disability, old age and survival risks (retirement and pensions), were priority areas as reflected in an earlier coverage and greater development.

In this way, Uruguay gradually built a Solidarity Social Security System but with the passage of time and due to changes in the country's structure and economic development, the system became less fair and efficient and ceased to truly serve the people.

Without realizing it and in pursuit of solidarity, Uruguayans did everything we shouldn't with our Social Security System.

The system developed and grew over time with a proliferation of laws that didn't take technicalities into account or previously examine their long-term social and economic consequences. The exact amount of contributions, the global financing scheme or level of benefits were not based on economic or actuarial studies.

This was the era of the welfare state that has everything and provides everything and which compensated for society's lack of solidarity.

Based on this concept and as champions of the welfare state, we began to add benefits and beneficiaries without making any economic calculation to support them and most often in order to meet the demands of pressure groups rather than the result of selection, although sometimes it was the result of pure social inspiration which became excessively generous such as retiring a woman for life because she was a mother after ten years of work or an unemployed man at the prime of his life at forty, also after ten years work purely on the basis of testimonies that gave rise to an industry of "invented" retirees.

We Uruguayans have forgotten that the down the line the system pays for the transitory errors and generosities of the Social Security System.

We believe we have learnt the lessons that the recognition of errors committed in the past have taught us but at the same time we are convinced that corrective actions are not only technical decisions but are political decisions, as is the choice of a new social security model, the sharing of burdens by generations who must implement the new model, and the State's role in it.

Faced with the mistakes made in the past by society as a whole, by pressure groups and political actors, we feel the need and duty to be aware of the importance of the actions and decisions made today.

Perspectives can no longer be reduced to narrow horizons as in the past. We should consider the well-being and rights of future generations while being fully aware that it won't be our generation that will enjoy the fruits of the new system, but and what a thought, it will be our children that will enjoy them or that will suffer the consequences of our mistakes.

Let's reflect a little more on what history teaches us. We must design a new system bearing in mind that no social security system lasts forever, which is why even though reform has only just begun, we are convinced of the need to create a collective conscience which in the future will enable us to make timely changes to the system, changes that are needed to improve and perfect it; a conscience that prevents us not only from making the same mistakes as in the past but, and which in our opinion is much more important, corrects the kind of responsibility that results from omission - we didn't know or worse, we couldn't be bothered to take timely action to correct mistakes.

The Social Security crisis in our country therefore had to be solved using strategies of renovation without losing sight of the fact that every country has to have its own model that takes into account those practiced or invented by others and learns from their positive and negative experiences while aware of the fact that the model's design should be adapted to the social, economic, cultural and most definitely, the political characteristics of the country.

Therefore, the difference between aspirations and objectives and means should be borne in mind if they are to be achieved. The objectives differ according to the society and should be more or less permanent but the means don't always have to be the same and should be adapted to the reality in which we live.

The welfare state in Uruguay was exhausted. What Uruguayans had conceived was a Social Security System based on solidarity and redistribution in which the State plays a role while at the same time aspiring to a situation in which the benefits we receive correspond to the contributions we make to the system.

The only way to harmonize objectives and conciliate the adequate means of achieving them was to create a mixed scheme within a single system.

But we would like to warn you at this point that when we speak of a mixed scheme we aren't talking about a public and private one but about distribution and individual capitalization in which all members are automatically covered by the distribution system.

Social Security in Uruguay was reformed with a deep sense of renovation, modifying and discarding the means that while useful at the time were not adequate today in achieving the objectives; the collective aspiration however, was that covering Social Security risks shouldn't be treated as the mere object of commercial or financial traffic and that the State should be the irreplaceable vehicle, even if it isn't the only one, for justice and social security among individuals.

In our opinion, that is the philosophy that inspires and explains the new model that introduced Social Security Reform in Uruguay and whose main ideas we will try to describe for you.

2. Social security reform in Uruguay

2.1. Background

Uruguay is one of the main pioneers of social security in Latin America and the prototype of the Welfare State. Due to lobbying by pressure groups and competition between political parties which was facilitated by a pluralist democratic climate, at the beginning of the sixties, social security in Uruguay had reached the height of its development and was a Latin American leader in the area: it covered all social risks, had achieved universal pensions coverage and in the area of health, the entire population was covered by collective medical care institutions. The series of benefits offered was one of the most generous, access conditions were the most flexible and it stood out for its medical-hospital services and levels of health. This was the healthy side of social security in Uruguay.

The less healthy side of social security in Uruguay was that it was highly stratified and there were notable inequalities between groups and geographical areas. Furthermore, the cost of the current system was 15% of GDP and 62% of the fiscal budget while fees amounted to 65% of a person's wage, establishing historic records in the region with the exception of Chile. In part, such a high cost could be attributed to universal coverage, the maturity of the pension program and the aging population due to high life expectancy. But it could also be attributed to the excessive generosity of benefits and administrative inefficiency. Despite social security's burden on the payroll and a labyrinth of taxes, the system was financially imbalanced which resulted in significant state transfers.

This then, was the situation of social security in Uruguay during the sixties.

Later, with democratic destabilization, the centralization of political power and the demobilization of some pressure groups, in the seventies and beginning of the eighties, a process of unification and uniformity began in social security under the auspices of the State which didn't have the scope achieved in other countries of the region; independent groups with important differences between them coexisted within a relatively unified system that still had some inequalities. At the same time, the tax system was modified and simplified for its financing mainly through Value Added Tax.

With the advent of democracy in the middle of the eighties, part of the unification and uniformity process underway was reverted and at the same time the need to reform the system in the face of a financial crisis which by now was unsustainable and irreversible, was tentatively proposed.

However, and paradoxically, at the end of the eighties a constitutional reform was approved which indexed benefits (retirements and pensions) to wages over a short period of time and a pressure group that until then was not very well organized, suddenly appeared on the scene with political and union allies; it ceased to be a hostage of the political system and instead became an actor on its own initiative: the inactive workers, the retired and pensioners.

The crisis of the system worsened as a consequence of the indexation of benefits to wages, the increase in real wages and demographic changes in Uruguay, a higher life expectancy which meant more years of pension, a fall in the birth rate and the migration of young people, bringing the social security system's total cost to 2.8 billion dollars a year while the rest of the National Budget did not exceed 2.4 billion dollars. Social security expenses have grown more than 80% over the last five years and currently account for more than 17% of the GDP compared to about 10% during the eighties. The economy couldn't keep bearing this burden on the for long (see Annex I).

ANNEX I.

SOCIAL SECURITY BANK SPENDING ON MAIN PROGRAMS AS A PERCENTAGE OF THE GDF

Program	1994	1993	1992	1991	1990	1989
*DOAS Contribution	10,89	10,82	9,98	9,24	8,17	7,29
*DOAS Non Contribution	0,60	0,61	0,58	0,53	0,49	0,45
*Illness Insurance						
- Medical Care	1,54	1,52	1,23	1,32	1,08	1,07
- Subsidies	0,12	0,12	0,121	0,12	0,12	0,12
*Family Allowance	0,41	0,45	0,47	0,48	0,53	0,56
*Unemployment	0,33	0,32	0,27	0,25	0,22	0,19
*Management Costs	0,74	0,79	0,53	0,55	0,50	0,54
*Others	0,30	0,25	0,24	0,21	0,17	0,17
Total	14,95	14,90	13,42	12,71	11,29	10,39

In 1995, total expenses as a percentage of the GDP totaled 17%.

DOAS = Disability, Old Age, Survival.

The most dramatic thing about this is that even with increasing social security expenses and a revaluation index of benefits that grew 53% in real terms (see Annex II) between December 1984 and December 1994, my country's benefits were unsatisfactory and not all active workers were covered by the social security system as a result of a three decade long decline. If by definition social security is a system that tends to cover social and health risks to which workers are exposed as well as illnesses and old age and benefits are a means of making this coverage effective, lack of cover and dissatisfaction are the product of their insufficiency, inadequacy and untimeliness.

This then, is another dimension of the crisis which leads to the setting of benefit limits, which don't evolve in the same way as benefits do, as the only means of containing social security spending which is a rigid expense and by definition cannot be reduced.

ANNEX II.
AVERAGE REVALUATION INDEX IN REAL TERMS TO DECEMBER OF EACH YEAR

(December / 84 Base = 100)

1984	100.00
1985	87.76
1986	103.90
1987	112.73
1988	113.75
1989	106.16
1990	110.51
1991	135.81
1992	146.24
1993	153.60
1994	153.24

2.2. Reform process

When the country became democratic in 1985, there were several attempts to reform social security which ended in frustration and much wasted time and energy.

However, and despite the narrow perspective, as a result of the small amount of time that has passed, it can be said that the ten year period up until the ratification of Act No. 16.713 on September 3rd, 1995 was not in vain but was useful in increasing awareness about the fact that social security, its problems and solutions was a pending subject that the political system and society as a whole had at some point to face and solve for the good of the country and future generations. It is also true that as the years went by and opportunities for reform were lost, the problem became more serious and solutions had to be deeper and more transcendental.

In this state of affairs we arrived at the general elections of November 1994 and the elected government summoned political parties with parliamentary representation to hold a dialogue to discuss the main themes the country had to resolve in the immediate future. One of the most important ones was social security due to its social and economic repercussions.

Within this framework of dialogue and in order to address this theme, representatives of business organizations, workers and liabilities were also summoned. This stage concluded on February 24th, 1995 when representatives of five political parties with parliamentary representation signed a document outlining the most pertinent aspects of future reform.

2.3. Reasons for the reform

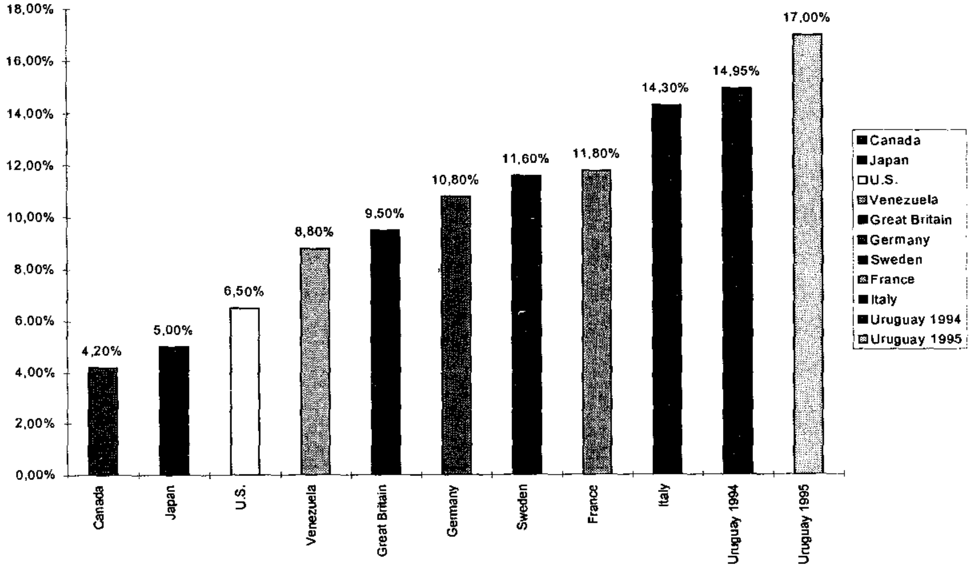
From the above it becomes clear that the reasons for the reform had many different origins including economic, political, social and demographic ones.

2.3.1. Economic reasons

Social security expenditure was and still is excessively high compared to the population's ability to pay for it. In fact, social security expenditure compared to the size of the economy represented by the Gross Domestic Product (GDP), amounted to 14.95% in 1994 and 17% in 1995. This is the highest in the world after Italy that spends 14.3% of its GDP on social security which is facing problems similar to Uruguay's. According to World Bank statistics, the average amount spent by the richest countries in the world is 9,2% of GDP. We spend more than France, Great Britain, Canada, Japan and the United States on social security and significantly more than other Mercosur countries with which we are in direct competition. What is at stake here then is competitivity, the level of production, employment and the economy's rate of growth (see Annex III).

ANNEX III.

SOCIAL SECURITY EXPENDITURE ACCORDING TO COUNTRY
(AS A PERCENTAGE OF GDP)



The high cost of Uruguay's system was reflected in the debt for benefits that would have to be paid in the future to current and future benefits, which in Uruguay is three times the GDP and in Argentina, half the yearly GDP and in countries with an aging population and higher benefits is little more than twice the GDP. In layman's terms, we were spending a lot and in the future we would be spending even more.

A document prepared by the International Development Bank on social security in Uruguay realistically but at the same time dramatically states that exceeding feasible limits can lead to a vicious cycle in which increased spending results in reduced investment, employment and GDP, which in turn places growing pressure on social security systems which become increasingly costly.

The only solution was to cut spending, which sounds simple but is difficult to achieve given the rigid nature of social security expenditure. Therefore, an in-depth reform of the system was required.

2.3.2. Demographic reasons

The characteristics of a country's demographic structure influence social security systems in many ways, be it health benefits such as disability, old age and survival risks coverage. In those countries with a low active-inactive ratio which in extreme cases like Uruguay is one to one - that is, for every inactive person there are 1,4 active persons - in such countries, which have indicators more in common with highly developed societies but don't have the same economic base, the biggest problem is the so-called pension fund. On the other hand, in those social security systems that have a high active-inactive ratio of between 1 and 7 or higher, the biggest problem are health benefits.

The aging of Uruguay's society is of enormous importance because of its magnitude and its rate of growth which is comparable to that of the United States of America.

Since 1963 when the second population census took place - the first took place in 1908 - Uruguayans have become aware of the problem. The figures indicated an aging rate much higher than in other Latin American countries which can be considered aging populations. The 1975 census recorded a notable increase in the rate of aging which was higher than that of the USA. This phenomenon can no longer be explained by a fall in the birth rate but by the migration of young people that occurred during that period.

According to census data for 1985, said rates increased as was expected between 1975 and 1985. People 60 and over accounted for 15,7% of the total population compared to 14,3% in 1975; and people 65 and over accounted for 11,1% compared to 9,8% in 1975; in other words, in 1975, one out of every ten people was over 65 and in 1985 one out of every nine people was over 65.

Between 1975 and 1985, the active population fell from 58,7% to 57,7%, people under the age of 15 fell from 27 to 26,6% and the difference between the sexes was more noticeable. Uruguay's aging population especially affects women while the male population continued to fall.

The aging active population, measured by the amount of people between the ages of 50 and 59, increased from 17,8% to 19,2% in 1985. Of them, those between the ages of 55 and 59 increased from 8,1% to 9,5%. The increase in the relations between older groups and the rest of the population constitutes a very abnormal age structure and births continue to be stagnated or are decreasing as is shown by the fact that the number of children between the ages of 0 and 4 is practically identical to 1975 figures despite the fact that in that period, infant mortality fell significantly.

As regards the exact size of the phenomenon, we can say that in the period between the 1963 and 1975 population censuses, the growth rate of people 60 years and over was 35,3%, for those 65 and over it was 46,1% and for those who were 75 and over it was more than 65,4%. In short, the percentage of inactive people, those who were totally dependent, grew significantly and the phenomenon is more marked among women.

The other factor together with stagnation or the low birth rate and migration of young people that occurred during this period and which determines the aging of Uruguay's population is the increase in life expectancy. In 1908, a 60-year-old man could hope to live 13 years more; this expectancy had increased to 15 years in 1950 and 16,8 years in 1990. For women, life expectancy is greater; in 1908 a 55-year-old woman could expect to live 18,9 years longer, in 1963, 23,5 years longer and in 1990, 25,1 years longer.

In May 1996, a new population census was carried out, the results of which are not available. But everything would seem to suggest that the aging population will have increased.

In no country is social security unaffected by changes in demographic factors. If these factors change, social security inevitably changes also.

The main reason for the high cost of social security is the reduction of the active-inactive ratio. Inactive people are financed through employer and employee contributions. Minimum retirement ages and high replacement rates at that age established by voluntary legislation, influence the amount of people that reach the retirement age and consequently, the amount of active and inactive people, the so-called active-inactive ratio. Such ages were fixed at the beginning of the social security systems according to how long people expected to live after retiring.

As a result, Uruguay is one of the countries in the world where people can expect to enjoy a pension for the longest number of years after retiring. In Uruguay, before the reform, women could expect to receive a pension for 25 years when the average number of years for the world's richest countries is 18, Great Britain having the highest number with 21,3 years. The same goes for men. In the world's richest countries, men can expect to live for at least 15 years after retiring while in Uruguay they can expect to live 16,8 years.

The active-inactive ratio has fallen significantly over the last forty years. As a greater percentage of people reach a given age and live longer after that age, the amount of people that belong to the inactive population compared to the active population is increasingly higher. In turn, as the birth rate falls the active population remains constant while the inactive population increases and the inactive-active ratio decreases. This means that what four people used to pay for during the fifties, is currently paid for by 1,4 people, that is for every inactive person there are 1,4 active people. As a result of this fundamental change that has taken place over the last forty years, contributions have increased and benefits decreased due to ceilings and inflation and an additional source of financing was required via the State.

The reduction in the active-inactive ratio became more marked at the end of the forties and beginning of the fifties. During this period there was a proliferation of "illegitimate" retirees, that is to say, people for whom no contributions had been made, for example, those authorized by the Mothers Act, by positions of particular trust, the Redundancy Act, etc. As an example of this, more than half of all retirees that received payment from the now extinct Industry and Commerce Fund, were not legitimate retirees. The solution was to increase the rate of contributions from 14% at the beginning of the system, to 55% at the end of the fifties. The next step was to reduce benefits through inflation - in 1988, retirement was 25% of the liability it was in 1960 - which brought the system to the constitutional reform of 1989 which modified the system through a constitutional amendment and the cost of social security began to gradually increase, especially pension funds.

It was therefore essential to try to correct this distortion of the low active-inactive ratio.

2.3.3. Social reasons

The system not only represented a huge burden for the active population due to its cost but because it didn't satisfy the legitimate aspirations of those that retire after many years of work. In brief, a decreasing percentage of active people had to support an increasingly inactive population. Uruguay's aging population has different social, psychosocial, political and economic consequences.

This state of affairs tends to mean that people's perception of the social security system is a negative one. In fact, according to former surveys on the reform law, 68% of the population felt that they weren't getting sufficient social security coverage or were getting poor coverage. Only 29% felt the system protected them well or very well.

Among younger members of the population, opinion was more severe; the percentage of young people who feel that the system doesn't cover them very well or poorly varies from 71 to 78%. Only 19 to 23% of the younger population felt very or fairly well protected.

70% thought the system was unfair or very unfair. Among the younger population the percentage was 74 to 77%. Therefore, we can conclude that approximately three quarters of the population felt that the system was unfair or very unfair.

Most of the population (58%) resented the fact that people don't get a pension that reflects their contributions. This perception was even clearer among younger members of the population, 61 to 63% of which felt the same.

All age groups felt that the current system didn't cater to the interests of the old and workers. 75% of the population felt that old people weren't catered for and 72% felt that workers weren't.

As a result of this inconformity with the system, 73% of the population felt that it was reasonable or very reasonable that the country initiated reforms and the number of young people of this opinion was even higher - 76 to 78%.

2.3.4. Political reasons

Alternate political parties in government over the last ten years as well as the increase in social security spending in the last five years, the process of economic integration and the globalization of the world economy that demands greater competitivity, gave rise to the right political conditions so that at the beginning of a new period of government an agreement was reached between different political parties to carry out the deepest social security reform process that Uruguay had ever attempted.

This is what led to the ratification of Act No.16.713 on September 3rd, 1995 which created a new social security system that came into force in April 1996.

2.4. The main shortcomings and defects of the previous system

The aim of the reform is of course to resolve the main shortcomings or defects of the previous system.

As has been pointed out before, the level of spending on retirement and pensions couldn't be sustained by the system and had led to all kinds of injustices. As it had become very difficult to finance the system the need arose for limits that set the retirement pension at seven minimum wages equivalent to between 600 and 700 dollars. The level of spending meant that during the last five years, by decreasing the rise in the minimum national wage set by the administration and on the basis of which limits are determined, the real value of pensions was reduced by half.

Furthermore, the limits gave rise to distortions that undermined the system and encouraged a decrease in contributions. In many cases, those workers affected by the pension limits appeared on the payroll with less salary than they actually earned and were therefore contributing less than they should. This drained the system of resources as well as violating the principle of solidarity.

The high cost of social security had repercussions on the decline in the countries competitivity both within the region and without.

The system encouraged evasion instead of contributions. In fact, the previous system only base the calculation of a worker's pension on the last three years of his or her working life. This led to less earnings being declared than was actually the case during most of a person's working life. Likewise, it was possible to artificially increase earnings during the last three years of work in order to get more pension than one had a right to and receive it for 17 or 25 years depending on one's sex.

With high life expectancy, high fixed replacement rates for minimum retirement ages encouraged early retirement, which meant that women could expect to receive pension for 25 years.

Calculating pension on the basis of income earned during the last three years of one's working life was unjust in those cases in which, due to different circumstances, a person that has worked all his or her life and made contributions, suffers a wage decrease during the last three years of their working life.

In many cases, they contributed less than they should by not declaring the amount of years worked as they were worked and contributions were made on income as it was earned. All this was protected by laws that allowed previous services to be recognized through testimonial proof without actually having had to make any contributions for recognition of years worked.

The level of social security spending prevented resources being channeled into other sectors. A country that doesn't invest in productive activities, in education, health, housing and communications infrastructure loses the ability to create jobs, it simply stops growing.

2.5. Scope of the reform

The social security reform affects more than 90% of the active population and consists of all those activities covered by the Social Security Bank. (SSB)*

The activities of five organizations are not covered by the new system: The Retirement And Pensions Bank, The Notarial Bank, The Retirement And Pensions Bank for University Lecturers and the Retirement And Pensions Services For The Military And Police Force. The new system however is universal to the extent that Act No.16.713 which created it has a mandate for Executive Power which, before the end of January 1997, enables it to submit to Congress the process of adaptation of the these five institutions to the new

* The Social Security Bank is the state institution created by the Constitution of the Republic and is an Autonomous institution which coordinates the state social security services and organizes social security.

social security system taking into account the nature and specifications of each of the activities as well as their means of financing.

2.6. Content of the reform

Act No.16.713 ratified on September 3rd, 1995, and which came into force on April 1st, 1996, creates a new social security system based on the mixed distribution and individual capitalization scheme that the Act respectively calls: pension scheme for intergenerational solidarity and pension scheme for compulsory individual saving. The former is managed by the Social Security Bank and the latter is managed by private companies, even though one of them is owned by state entities called Savings Funds Managers (AFAPs).

The reform also tries to avoid the shortcomings and defects of the previous system.

2.7. Scope of the reform for different generations

The new system covers all those persons that were under the age of forty on April 1st, 1996 and all those that, whatever their age, entered the work market in those activities covered by the Social Security Bank after that date.

Those who were older than forty on that date can opt for the new system within the period that expires on December 20th, 1996. If they opt for the new system, it is fully applied. If they choose not to opt for the new system, for the rest of their working lives they are covered by the so-called transition system which is nothing other than the previous distribution system managed by the Social Security Bank with some modifications made by the new law regarding the minimum retirement age for women and modifications to the new distribution scheme concerning the minimum number of years of service, period on which the basic pension is calculated and its calculation, new replacement rates or benefits and new retirement and pension minimums; furthermore, the transition scheme increases the limits of the previous scheme.

People older than forty on said date which, according to the pension scheme being replaced have the right to retire until December 31st, 1996 even have the right to be covered by the previous scheme and benefit from other alternative settlements according to that set forth in the law based on the provisions of the transition scheme and the new distribution scheme. These same persons can opt for the new system if they make their decision known before the December 20th, 1996, in which case they will get full cover.

The new law does not affect the right to any current benefits.

2.8. The new social security system

2.8.1. Mixed integrated scheme

Act No. 16.713 ratified on September 3rd, 1995 and which came into force last April 1st, creates a new social security system based on a mixed scheme, which is not a public or private scheme but the combination of a distribution and individual capitalization scheme in an integrated scheme with two pillars which are not self-excluding but complementary.

2.8.2. The guiding principals of the new scheme

Before going on to talk about the new social security system, we feel it is appropriate to clarify the two main guiding principals for its interpretation.

The first is that the law creates a two-pronged, a distribution scheme and an individual capitalization scheme or compulsory individual savings scheme, which constitute a single system and are retirement and pension schemes. It's worth clarifying the so-called compulsory individual savings scheme because the retirement and savings scheme is self-explanatory.

According to the system's new schemes for example, the minimum age at which a person has a right to retire, the number of benefactors of survival pensions, the calculation of their allocation based on the basic pension wage, the requirements that have to be met to get the pensions and the period of time for which they can be enjoyed are similar to each other. Once the retirement norms have been configured for the distribution scheme, they are configured for the savings scheme.

The pension savings scheme or retirement benefit is paid monthly and is fixed (with the exception of the general adaptation of the value of total benefits according to the evolution of the average wage index) and is for life as is the case of the distribution scheme pension. In that sense, retirement programs of previous legislations are not anticipated. Retirement or pension benefits corresponding to the savings scheme are adjusted or updated at the same time and using the same procedure used to adjust benefits corresponding to the distribution scheme.

The worker's accumulated savings cannot be withdrawn from the company managing them unless the intention is to transfer them to another company or the insurance company that makes the corresponding pension payments. This is because the savings scheme is also conceived as a retirement and pensions scheme. Therefore any doubt arising from the application of the individual capitalization scheme should be solved on that basis.

The second guiding principal for an interpretation of the social security scheme is that the law structures the two schemes around the concept of individual income. The law takes the individual's total earnings, which constitute computable income, from the activities covered by the Social Security Bank and makes cuts to consider the different tranches of individuals' income which in turn are compared with the two levels governed by the two schemes. For the moment and in order to simplify things, the law stipulates that the individual's income be totaled whether it is the result of one or more activities governed by the Social Security Bank, one or more affiliations or activities carried out as a dependent or independent worker.

When we speak of different affiliations we refer to the fact that in our country, as activities were added to the scheme that today is the Social Security Bank, different groups of activities were grouped into different affiliations or Funds that were to generate a pension for each Fund or activity group. This means that today we have and have had a civil and education affiliation, an industry and commerce affiliation, a rural and domestic service affiliation which enables a worker that is a civil servant or private sector employee to have a civil affiliation and industry and commerce affiliation which is able to generate a pension for each affiliation in the distribution scheme. Multiple affiliation in the distribution system coexists with the concept of individual income that we referred to before, and this co-existence has had to be carefully harmonized in the law's decrees. On the other hand, the individual savings scheme works as if there were no multiple affiliation so that in order to retire by this means, the worker must have ceased all activities covered by the Social Security Bank, except for when the worker is over 65, and qualifies according to the retirement configuration, in which case he or she is allowed to enjoy the benefits of the savings scheme and stop contributing to it without having stopped all of his or her activities.

Having made these clarifications, which while extensive are important, we will try to develop the mixed system on which the new social security system is based.

2.8.3. Development of the new system-scheme mixed-schemes of coverage and income levels

According to the individual's income tanches, the law defines various levels which in turn are identified with the two schemes or pillars. The first level is based on the individual's monthly income or their first tranche up to a value of $5,000 as stated by the law; the second level consists of the tranche of individual monthly income of between $5,000 and $15,000 and a so-called third level that covers the tranche of income over $15,000. **

The first level corresponds to the distribution scheme managed by the Social Security Bank; the second level with the individual capitalization scheme or compulsory individual savings scheme managed by the AFAP and the so-called third level which doesn't in reality have a specific coverage scheme, is simply a ceiling or higher limit of the second level in which the worker has the freedom to make the decision that is most convenient for him or her, that is to save or not to save.

Individual income that is taken into account is computable income, that is, income that is taxed by social security special contributions.

The worker's compulsory saving in the individual capitalization scheme is his personal pension contribution which is 15% of the income tranche covered by the second level or savings scheme.

Given that the law takes all individual income into account, the worker, unlike other systems, doesn't have to opt for one scheme or another but 100% of workers affiliated to the Social Security Bank are covered by the distribution system either because their monthly income is lower than $5.000 nominal pesos or because in this scheme they are covered in the first tranche of

** All the figures mentioned in pesos by the law, are expressed in constant values corresponding to the month of May 1995 and are adjusted like liabilities, by the average wage variation index. Five thousand updated pesos to the month of May 1996 are equivalent to approximately US$ 820.

monthly income for that sum. Workers who earn more than $5.000 are simultaneously covered by the two schemes, the distribution scheme and the individual capitalization scheme according to their income tranche. In this way, the two schemes that are complementary form part of one system.

Should the worker's income vary from one month to another for any reason, it may be the case that in some months, the worker is covered exclusively by the distribution scheme and in others by both schemes, because his or her income exceeds the limit of the first level.

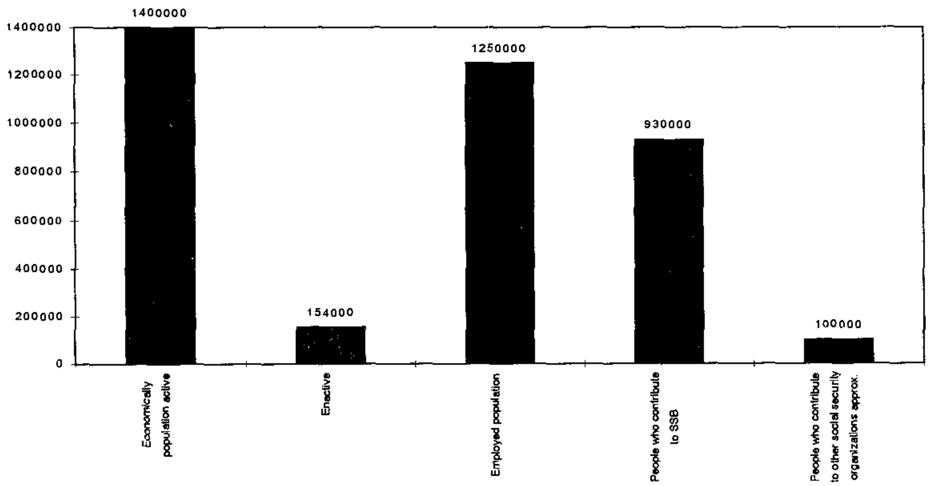
There is also the possibility that workers whose individual income doesn't exceed $5.000 each month, can opt to save half of it, or better said, they opt to save half of their pension contribution and the other 50% forms part of the distribution system. Workers who make use of this option will be benefited by half of their income in the distribution system being multiplied by 1,5 with a $5,000 limit for this multiplication. In this way, instead of reducing their income by half, which they contribute to the scheme, in the best of circumstances they reduce it by only 25%. This produces a redistribution effect within the distribution system.

Workers who make use of this option will be covered for life by the two schemes either because their income is always lower than $5.000 or because exceeding this amount, that is, if their earnings fall into the level two tranche, they are covered by the savings scheme (see Annex IV).

Annex IV

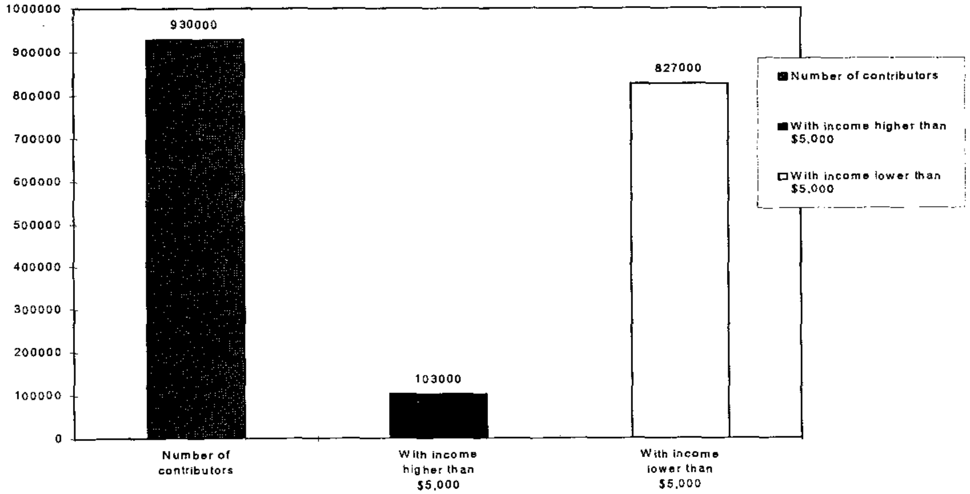
-Economically active population (EAP)	1,400.000 people
-Inactive population	154,000 people
-Employed population	1.250,000 people
-People who contribute to SSB	930,000 people
-People who contribute to other social security organizations approx.	100,000 people

Graph 1



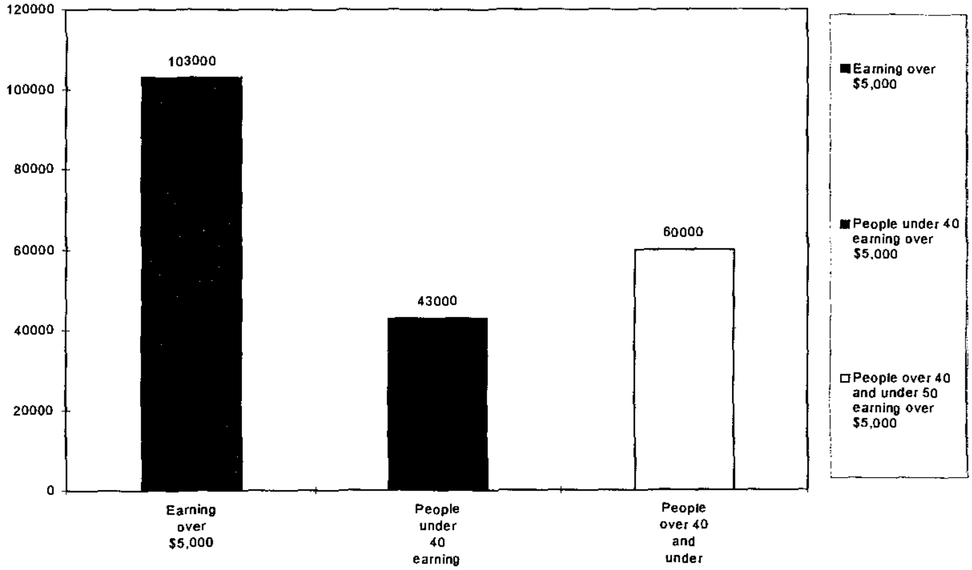
Graph 2

Number of people contributing to the SSB	930.000 (100%)
a- Covered in the Transition Scheme (all income from 40 to 58)	260.000 (27,96%)
b- Under 40 (all income)	537.000 (57,74%)
c- Active people who qualify for retirement or who are about to qualify	133.000 (14,30%)



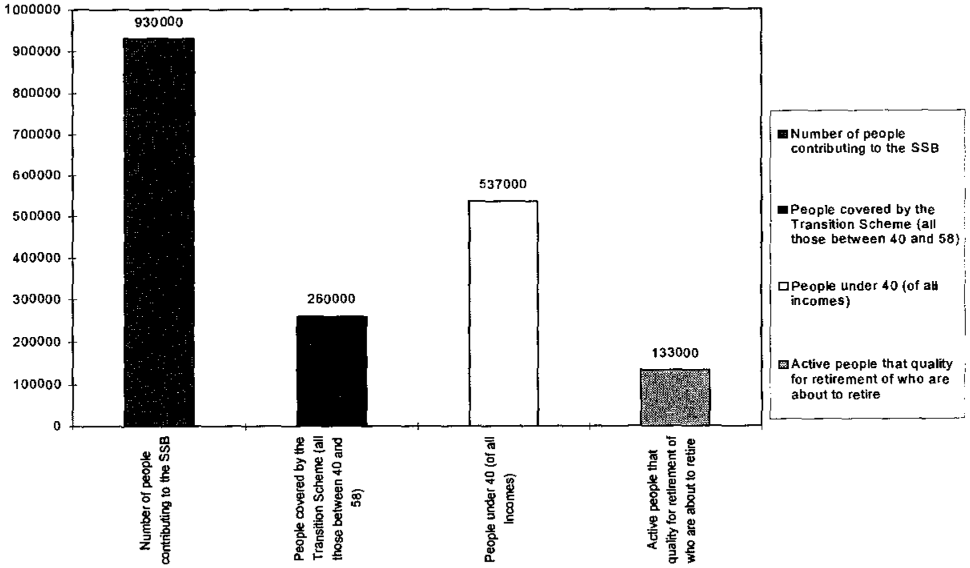
Graph 3

Number of people earning over $5,000 by age



Graph 4

Number of people contributing to the SSB	930.000 (100%)
a- Covered in the Transition Scheme (all income from 40 to 58)	260.000 (27,96%)
b- Under 40 (all income)	537.000 (57,74%)
c- Active people who qualify for retirement or who are about to qualify	133.000 (14,30%)

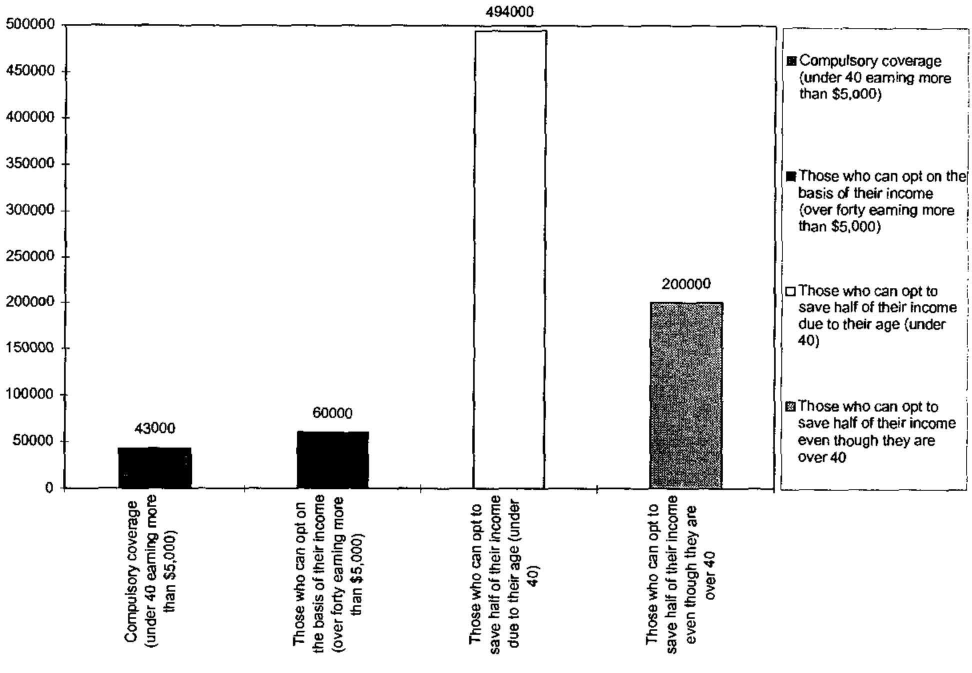


Graph 5

People covered by the savings scheme:

a- Compulsory coverage (under 40 earning more than $5,000)	43.000 (4,62%)
b- Those who can opt on the basis of their income (over forty earning more than $5,000)	60.000 (6,45%)
c- Those who can opt to save half of their income due to their age (under 40)	494.000 (53,12%)
d- Those who can opt to save half of their income even though they are ove 40	200.000 (21,50%)

PEOPLE COUCRED BY THE SANVINGS SCHEME



Those covered by the savings scheme at the beginning of the new system would be about a minimum of 43,000 (this number was surpassed when this work was updated and at the end of August reaching 230,000 affiliations to the savings scheme) and a maximum 797,000 people. It wouldn't be convenient for those mentioned in d (over fifty but earning less than $5,000) to make use of the option and therefore the maximum number of people that could be covered by this scheme would be 597.000 at the beginning of the new system.

So that workers who have made use of said option don't see their savings or ability to save diminish, since by earning more they have moved up to the second level, the law provides for a special scheme according to which even if their income exceeds $5,000 but is less than $7,500 a month, they will save for the maximum amount to which they were entitled because they used the option; that is to say, they made contributions amounting to 50% of their income corresponding to the first level or $2,500 a month. Their contribution to the pension scheme, once $2,500 is subtracted from their total income, will be based on their contributions and income multiplied by 1.5 and applying the above-mentioned $5,000 limit.

Workers who have just begun to pay into the schemes and who earn between $5,000 and $7,500 are also subject to the same scheme.

All the schemes cover disability, old age and survival risks with benefits from the distribution scheme or both schemes even if the worker was only covered by the savings scheme for part of his or her working life.

2.8.4. The Role of the Social Security Bank: a Collecting Organization that Manages the Distribution Scheme and Keeps a Record of the Worker's Job History

As one of the main concepts of the system is individuals income, there a single collecting entity which is the Social Security Bank. This is also the institution which, once the retirement or pension norms have been configured, grants benefits corresponding to the distribution scheme and savings scheme.

A fundamental instrument for working of the whole system which complemented and implemented the social security reform law is the Job History Record. This is precisely a record of the worker's job history containing information about how long he or she has worked as well as each worker's earnings and contributions to which he or she has access and which enables him or her to check whether or not the employer is providing the right information and paying in the contributions that were deducted from the worker's wage. This gives the worker the role of a true auditor and he or she is also entitled to receive similar information about savings and yields from the corresponding fund manager (AFAP).

As regards benefits for total or partial disability, both schemes require that the workers be given a medical examination arranged by the Social Security Bank to determine the disability and the degree of disability which is subsequently analyzed by a board of representatives from all institutions involved in the two schemes prior to the granting of any benefits.

2.9. Main differences between the two schemes

Previously, we referred to some examples of similarities between the schemes which basically consisted of the concept of retirement and pension schemes. Without losing sight of those similarities we will now point out their main differences.

2.9.1. Distribution scheme and individual capitalization scheme

The main difference between the distribution scheme and the individual capitalization scheme, is that the former is a scheme with defined benefits and the latter is a scheme with defined contributions. The distribution scheme takes computable income into account while the capitalization scheme takes contributions or accumulated savings into account and only by exception does income in the case of benefits covered by the collective insurance scheme for disability and death count; for example, the benefit corresponding to total or partial disability, in which case the law determines beforehand a benefit based on income.

2.9.2. Financing the schemes

The financing of both schemes is different. The distribution scheme obtains its resources from workers' retirement contributions up to the income level for which they are covered by the scheme comprising the total contributions of all workers which are subject to Value Added Tax and financial assistance from the State if necessary. In the savings scheme however, the only resources it receives are workers' contributions corresponding to the scheme's income level, voluntary and agreed contributions and only in the case of activities with credited services does an employer's additional contribution provided for in the law corresponding to the worker's income bracket covered by this scheme, constitute part of its resources. ***

Returns on workers' contributions invested by the AFAP, also constitute savings scheme resources as well as sanctions for fiscal infringements which are collected by the Social Security Bank from workers who don't pay their contributions on the date stipulated by the pension fund according to their income bracket covered by the savings scheme.

It is important to point out that Uruguay's system does not contemplate recognition bonuses because the distribution scheme's levels are very similar to those of the previous scheme due to the imposition of limits which are significantly improved for those who remain in the transition scheme or who qualify for retirement but haven't yet done so.

2.9.3. Legal nature of the administrative organisms

The management of the distribution scheme is the responsibility of a state institution called the Social Security Bank which is an autonomous entity; the management of the savings scheme on the other hand is the responsibility of private companies that belong to public or private entities that work like limited companies with a specific line of business called Pension Fund Managers (AFAPs) chosen by each member and whose task is precisely that of managing or investing the savings of member workers.

In the savings scheme, benefits are not granted by the AFAPs but by insurance companies that act as life insurers and are authorized to carry on activities in this area. These companies may be owned by the state, the State Insurance Bank which is an autonomous entity responsible to the State, or be private.

2.9.4. Benefits scheme

Old age, disability and survival benefits managed by the Social Security Bank include: pensions (for common norms, old age or total inability to work),

*** Retirement contributions for the entire system are no more than 15% of the worker's income. Employers generally contribute 12.5% of workers' income. In the manufacturing sector, the employer's contribution is 6.5%. Workers' contributions for sickness is 3% of income and employers pay 5%, although it may be higher if minimum benefits cannot be covered by this amount.

temporal assistance for partial disability, pensions, funeral expenses assistance and the old age and disability pension. The latter is assistance which is paid for by the State and to which every Uruguayan who doesn't have the resources to cover daily needs and is 70 or over or who, whatever his or her age is unable to do paid work, has a right.

Old age, disability and survival benefits paid by the savings scheme are pensions granted for the same reasons as the distribution scheme, temporal assistance for partial disability and survival pensions. The requirements needed to qualify for these benefits are configured in the distribution system.

2.9.5. Determination of main benefits

In the distribution scheme, pension benefits for common norms and old age are determined according to age and the number of years service entered in the job history record. The minimum age for normal retirement is sixty years for men, which is no different to the previous scheme and for women the minimum retirement age is lowered to fifty-five as stipulated in the previous scheme and is a gradual process that will conclude in the year 2003. The minimum age for old age retirement is seventy for both men and women; and is also increased gradually from 65 to 70.

The minimum years service entered in the job history record in order to qualify for retirement was increased from 30 to 35 years and old age retirement was increased from 10 to 15 years.

New replacement rates or retirement allowances encourage workers to retire at an older age and so the common retirement allowance at the age of 60 comprises 50% of the basic retirement wage consisting of updated monthly income over the last ten years of a person's working life or the worker's best twenty years of income with a 5% increase, taking the basic retirement wage as the lesser of the two. In all cases, if it is more favorable for the worker, the average monthly wage of the best twenty years of income entered in the worker's job record will be taken as the basic retirement wage. The best years of work after the minimum 35 years stipulated for common retirement increase the retirement allowance or replacement rate 0.5% for each year of service after the 35 year minimum until a worker qualifies, the maximum being 2.5%. In this way, if the worker qualifies at the age of 60 with 40 years service, the replacement rate base is 52.5%. For every year after the age of 60 in the case of a worker who qualifies, an additional 3% of the basic retirement wage is added up to a maximum 30% until the age of 70. In this way, the basic retirement wage can reach 82.5%.

If at the age of 60 the worker doesn't qualify for retirement, for every year that he or she lives after the age of 60, 2% will be added up to a maximum 20% until the age of 70. The additional percentage for each year between the age of 60 and 70 then, is either 3% or 2% depending on the worker's retirement configuration (see Annex V).

ANNEX V
REPLACEMENT RATES IN THE NEW DISTRIBUTION SCHEME AND TRANSITION SCHEME (COMMON RETIREMENT NORM)

	Ages										
Years Serv.	60	61	62	63	64	65	66	67	68	69	70
35	50	52	54	56	58	60	62	64	66	68	70
36	50.5	53	55	57	59	61	63	65	67	69	71
37	51	53.5	56	58	60	62	64	66	68	70	72
38	51.5	54	56.5	59	61	63	65	67	69	71	73
39	52	54.5	57	59.5	62	64	66	68	70	72	74
40	52.5	55	57.5	60	62.5	65	67	69	71	73	75
41		55.5	58	60.5	63	65.5	68	70	72	74	76
42			58.5	61	63.5	66	68.5	71	73	75	77
43				61.5	64	66.5	69	71.5	74	76	78
44					64.5	67	69.5	72	74.5	77	79
45						67.5	70	72.5	75	77.5	80
46							70.5	73	75.5	78	80.5
47								73.5	76	78.5	81
48									76.5	79	81.5
49										79.5	82
50											82.5

Note: Years of service are reached at the ages mentioned

The retirement norm for old age is 70 and a minimum 15 years of service beginning with a replacement rate of 50% of the basic retirement wage to which 1% for each year of service which exceeds the minimum of 15 years service is added until 64% of the basic retirement wage is reached.

In the savings distribution system, all retirement benefits and pensions are granted not by an AFAP but by an authorized insurance company.

In the savings scheme, the common retirement benefit for old age is determined according to accumulated capital in the respective individual savings account, the technical interest rate the insurance company pays on said capital, and the life expectancy of the worker according to general tables determined by Uruguay's Central Bank for which the only distinction admitted is the worker's age.

In this way, the law encourages retirement age at an older age in both the distribution scheme and the savings scheme. In the savings scheme this is encouraged two ways: through lower life expectancy due to an older retirement age and a longer period of accumulated savings.

For all retirement norms, the common one for old age or total disability to work, must be configured in the distribution scheme managed by the Social Security Bank, the minimum years of service required for each are considered only in relation to this scheme. In other words, to retire through the savings scheme, minimum years of service don't necessarily have to be met be met by contributing to this scheme, it is sufficient for them to have been calculated and registered in the distribution scheme.

In the savings scheme, as has been mentioned before, the worker's compulsory savings consist of his or her personal pension contribution or pension fund corresponding to the income bracket covered by this scheme. If a worker has one or more jobs, he or she is only obliged to save the personal pension contribution corresponding to the savings scheme bracket and up to $15,000; above that amount the worker is not obliged to save even when, for one or more jobs a greater amount has been deducted or retained by the employers. In this case, a worker's "excess" contribution would be returned to him or her by the corresponding AFAP if he or she decides not to designate it as a voluntary saving.

Pension benefits due to total disability to work, temporary assistance due to partial disability and survival pensions due to the death of a working member or person who is receiving the benefits mentioned in this paragraph, are covered in the compulsory individual savings scheme b, a collective disability and death insurance that has to be contracted by the AFAP for all of its affiliated members. If the AFAP doesn't contract his insurance it will be responsible for covering the benefits.

2.10. The role of the State and the system's guarantees

In the solidarity intergenerational pension scheme or distribution scheme, the State plays a key role in their administration and is their guarantor.

In the compulsory individual savings scheme, the scheme combines a series of internal guarantees with state control and in some cases the guarantee of the government itself.

An AFAP's initial minimum capital must be 60,000 Readjustable Units (approximately US$1,000.000) to which a special reserve must be added equivalent to 20% of capital or if it is 2% more than the Pension Fund it is managing, excluding investments in securities issued by the State. Once the Pension Fund is formed, the AFAP's minimum capital, excluding the special reserve, should be equal to the initial capital required as a minimum, or 2% of the value of the Pension Fund if this is higher. When for any reason the AFAP's capital falls below the minimum required, it should be reintegrated over a period of 3 years. Should this fail to happen, the AFAP is dissolved and liquidated by Uruguay's Central Bank. In this case, each member will decide to which other AFAP their accumulated funds should be transferred.

The AFAP's capital is totally independent of the Pension Fund it manages which is owned by the members and cannot be seized by the law. The Fund's accounting should be totally separate to that of the AFAP's.

Investments undertaken by the AFAPs should take place according to the maximum percentages and investment diversification set forth in the law and the securities representing said investments should be in the custody of a single institution authorized by the Central Bank or in the custody of this same official institution. The Special Reserve that AFAPs must create has to be invested in the same instruments authorized for the Pension Fund and have the same limitations, that is, the rights and goods of which they are comprised cannot be seized.

Once the AFAP receives the savings of affiliated members, they become Readjustable Units and their value corresponds to the month in which they were received. *

* The readjustable unit is a measurement value which is updated due to variations.

AFAPs are responsible for ensuring that the real profitability rate of the respective Pension Fund is not lower that the annual minimum profitability of the scheme, which will be determined on a monthly basis. The minimum average annual profitability rate is the lesser of an annual 2% and the scheme's average real profitability rate minus 2 percentile points.

Each AFAP, as part of the Pension Fund, must have a Fluctuating Profitability Fund expressed in readjustable units in order to guarantee the real minimum profitability rate mentioned. The Fluctuating Profitability Fund comprises the positive surplus profitability of the Pension Fund up to certain percentages after which the surplus must be shared among all members.

When the Pension Fund's profitability rate is less than the scheme's real minimum profitability rate in a given month, and if this difference cannot be covered by respective Fluctuating Profitability Fund, the AFAP must use the resources of the Special Reserve for this purpose. If all of the Special Reserve's resources are used and the profitability shortfall still cannot be met, the AFAP must reconstitute the minimum profitability and special reserve. If this is not done within 15 days, the AFAP will be dissolved and liquidated by Uruguay's Central Bank and savers will also decide to which other AFAP the funds should be transferred.

Benefits granted by the individual savings schemes are the exclusive responsibility of the retirement insurance company that has a contract with the worker or the insurance company that has contracted a collective disability and life insurance with the AFAP. Should this insurance company be liquidated, the AFAP that had entered into a contract with it will be in charge of the benefits that corresponded to the former.

Only in the case of entities owned by the state, the AFAP and the Insurance Company, is the State guarantor for the payment of the minimum profitability the AFAP can demand and the payment of benefits by the insurance company.

Uruguay's Central Bank and the Insurance and Reinsurance Inspectorate which is part of the former, control all aspects of the AFAPs and insurance company's workings.

2.11. Shortcomings and defects of the previous system that are overcome and means of overcoming them

The new system will gradually decrease the level of state spending on retirement and pensions which will enable it to attend to the needs of other areas of society or decrease the tax burden and social security spending will correspond to the resources generated by the system itself.

By reducing the replacement rate corresponding to the minimum retirement age and encouraging retirement at an older age, the effect of the aging population is corrected.

By collecting social security contributions from the payroll, implementing the Job History Record that can be controlled by the workers themselves and extending the period considered for the calculation of the basic retirement wage up to the twenty best years of service recorded, the system encourages contributions during the whole of the contributor's working life from real income and evasion or contributing less than the stipulated amount is prevented.

Consequently, the principle of solidarity is reinforced among generations and savings is encouraged besides eliminating the injustice of those cases in which the worker in the last stage of his working life sees his or her income diminish.

Also, be being able to reduce social security costs in the future, the competitivity of domestic production will improve, there'll be more investment due to increased savings and new jobs will be created.

By creating distribution and integrated savings schemes in one system that narrows the gap between contributions and benefits, limits eliminate injustice in the new system.

The new system corrects the stimuli that previously led to evasion or contributing less than was stipulated and benefits workers earning less by improving minimum benefits and encouraging saving.

Services resulting from the Job History Record, should be registered as they are carried out, thereby ruling out the possibility of them being recognized by testimony.

The new system definitely offers better expectations to the young and new generations and guarantees benefits for the current inactive population.

2.12. Final remarks

The conclusion that would correspond to this stage of the work, just four and a half months after the implementation of the new law, is obviously a preliminary one. However, some significant points can be mentioned.

At the end of the month of August 1996, the amount of people who opted for the new system has been higher than expected: affiliations to the savings scheme total 230,000 people while it was expected at the outset that due to their age and income level, contributors to this scheme would total just 43,000.

These voluntary options for the new system on the part of people who weren't obliged to opt for it and for the mixed distribution and savings scheme, reflect people's desire for change and the fact that the new model correctly interprets their needs.

To close it should be said that the mixed scheme on which the new social security system is based is not a metamorphosed distribution scheme that is the product of impotence, a lack of imagination or courage; rather it is a system that Uruguayans wanted and which has matured over time and has been adapted to the culture, sensitivity and idiosyncrasy of the Uruguayan which combines a balanced sense of the need for solidarity and individual saving.

In our opinion this is the challenge of "Possible Social Security".

THE SOCIAL SECURITY REFORM IN MEXICO

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During the last two decades, the State's Theory has involved the crisis of the Welfare State and its dismantling. This academic discussion, at the beginning of the seventies, soon turned into a political subject involving various social powers. The trends of private enterprises are to fight for the State to forsake its leading economic role and to intervene in the economy's guidance. The state's public opinions defend their presence in all the economic boundaries, including the administration of enterprises addressed to the production of goods and services. This ideological struggle was translated into a new order of public finances and new definition of budgetary priorities.

The State's fiscal crisis turned into the primary subject of discussion. The budgetary cuts and the search for new financial sources in the government's activities were priority tasks of those responsible for the economic policy in the States. Nevertheless, any decision on this matter has immediate effects in the population's welfare, and the merely technical solutions, are not always socially nor politically acceptable. Therefore, the problem left the offices of the financial counsellors and arrived to the public palaestra.

In this context, Mexico started to study the need to change the social security, as it represents a substantial part of the public expenditure, and if it was not reformed in a medium term, it would turn into one of the most important financial pressures on the public treasury. But, facing the problem of a chronic lack of resources, there is also a state's commitment to protect the workers' rights and to provide them with the minimal welfare for their and their families' overall development.

Two economic and harsh realities, forced the Mexican State to outline, once more, the means to provide the social security benefits:

1. The salary as in 1943, continues to be the only source for the workers to obtain the primary resources of subsistence for them and their families. Therefore, any fact which involves a loss or diminishment of their salary, represents a transcendent prejudice.

2. The unbalance of the public finances turns into a runaway inflation, and unemployment has a primary impact on the workers' welfare.

Based on the above, the governments basic past or present concerns, are the following:

How to maintain the achievements of the social policy of the Welfare State, through the social security, and how to attack the financial unbalances derived from a runaway inflation and unemployment?

How to support the benefits which are presently provided by the social security, without incurring into a future public deficit which would turn into a minor welfare for the workers in a medium term?

These are some of the discrepancies which arose in the so called crisis of the Welfare State and which turned into a social security curtailment, having its major impact on the retired population in Mexico.

Therein, the act of solving this antinomy was one of the Mexican Government's commitments with the young working generations, and the future pensioned. The solution was not the elevation of fees, as this type of fiscal policies would have negative effects in the employment's growth and in the overall economic productivity. Neither they could delay the radical modification of financing benefits', in the way of payment of pensions, nor in the way of managing savings, and the legal and administrative ways to end services.

This economic context, in a broad outline is subject to the political and legal reality of Mexico. The Article 123 of the Constitution clearly establishes that the State is the protector of the workers rights and their welfare guarantor.

This is more compromising for the Mexican Federal Working Law and the Chilean Working Code, established both in 1931, and which have been social examples and legal works emulated by other legal agents in the same matter.

We wish to underline the fact that the right to social security Laws in Mexico is closely linked to the laborlaw since its beginning.

This link is based on complementary effect of the salary, and the benefits of the social security. It is also based on the fact that the worker is preferential subject of the same and that both share the nature of being conquerors of the worker's movement and the State's instrument to reduce the economical differences among social classes.

Therefore, it is valid to state, as it was in the Forties, that any change on the labour market, and consequently in the knowledge obtained from the worker's rights, has an impact on the legislation applied to the social scheme regime. The new Social Security Law, as in the case of the first one in 1943, is part of a wider movement of legal transformation, which must tend to protect the various types of workers which have emerged from the technical and open economies. The new Law, as it was the case in 1943, is the first changing step.

The technological progress is also found among the causes of the transformation of the Welfare State which have substantially modified the working environments and relationships. In our times, the number of independently specialized workers who work in a space of their own, increases. Likewise the microenterprises which offer their services in a non-working market also increases. Nevertheless, these workers, as well as the owners of microenterprises, are persons who require of a social security protection, similar to the ones demanded by those salaried persons. The same thing happens with the unemployed persons who are incorporating themselves to the so called "informal economy".

The technological process and the economic crisis are the main causes for the increment of the informal employment which must also receive the social security protection through a more simple, attractive and cheaper contribution system, which would not include the intermediation of an employer. Despite of this market profile, a way to structure the social security was maintained, which did not allow the universalization of the coverage with a financial sanity.

Another element to take into account is, that the opening of the economy has forced the enterprises to adopt organized, more competitive structures and the free circulation of goods and services restrain the countries with high direct or indirect costs of manual labour. This diminishes the salaries and forces the governments to diminish the charge imposed on enterprises in relation to social security. A State which introverts itself and ignores what a globalized economy involves, is susceptible to remain behind in relation to the economic development.

This economic reality has substantially modified the relationships between the production factors: the capital and the work, as well as the technological progress of the capitalist societies have created peculiar ways to generate social wealth, which regulation is not satisfactory, specially in relation to its distribution. This situation gets worse during the stages of economic crisis and our belief is that the State must remain as an effective agent in the decrease of the social unevenness through the public expenditure and specially the expenditure devoted to the social security.

In view of the above, next year the federal government will address an important amount of resources to this area, in order to support the transition and strengthen its role of wealth re-distributor, through a fixed social fee in the retirement insurance, retirement, and the fixed fee in the maternity and sick insurance.

If we add to the above situation of increased social unevenness suffered by the latinamerican countries, we add the fact that there is an excess of non-qualified manual labour in the world, an extra -specialization of some workers which contrasts with an underqualified majority, with low school levels, and a low productivity of industries with an intense human resources inputs, in relation to those which have been "automatized", then we have a disadvantaged panorama for the Latinamerican workers who demand at present, more than ever, for a state presence in the maintenance of social welfare.

These three facts: the technological progress, unemployment due to the economic crisis and manual labour specialization, amongst others, has led to an isolation phenomena of the working sectors, as they consider that worries and demands are particular and are not common amongst themselves. One trained worker of an enterprise devoted to services, does not share any value with a person, salaried agricultural or with a non-qualified worker. Each worker receives his/her rights in a different way, and demands a different protection from the State and the unions. Nevertheless, he remains being subject to economic eventualities.

In order to establish minimum parameters of protection and to combine them with the possibility to improve them through the strengthening of the initiative of each individual, are challenges of the social security.

The participation of the State must drastically change in order to be efficient and not to jeopardize the public sector to criticism, consisting in that this is dispensable, as it cannot discriminate among the needs of the different social groups.

The new Social Security Law propose to make the flexible insurance schemes available to the workers. These schemes must cover their own needs, capacities and effort. It increases the benefits for those who work for a larger period and whose saving is higher and, at the same time, keep the minimum of the law it repeals, this means that it opens the possibilities to a substantial pension improvement, in direct proportion to the effort of each individual and it offers a minimum, updated according to the runaway inflation.

At this moment, when a minor political state participation is needed in the economic life, the paradox consists in the fact that the worker has become the centre of the technical, as well as economic moving progress process, continues to be the most vulnerable factor of life contingencies; therefore, the state commitment to protect him against deprivation, cannot be forsaken. Furthermore, any person who obtains an income from his or her effort, being or not, subject to a formal working relation, is detached to the economic struggles involved in accidents, illness and retirement from the working force. Therefore the state obligation of granting social security must continue expanding to those non-salaried groups in various ways.

Another current problem is that social security fees rise the price of the manual labour, and this has an impact in the cost of goods and services produced by enterprises. The fact of increasing these fees, diminishes their capacity of competition and it only causes major levels of tax evasion. The graphic shows how, only a part of the salaried population is covered by social security, despite the fact that the law demands from all employers to register their workers in the compulsory regime of the social security.

Further questions are outlined, as follows:

How to expand the social security to the whole working population? How to support these services?

How to avoid tax evasion without forsaking the compulsory principle which governs the social security regimes?

The Welfare State and its institutions gave solutions to other type of economy which has eventually disappeared. The concrete ways to grant the social security should change in order to fit into the economic reality and present demography. The following graphic shows the evolution of the pension members, compared to the growth of the future quotable members. The pension members population will increase more rapidly than the working population, therefore in less than twenty years we will have a different relation between the passive worker and the active one. We must be ready to face it.

The social security, the most evident of the State's types of achievements, has been theoretically and legally reviewed. Mexico has not escaped from this new process of outlining strategies' to extend the benefits of social security in one stage, with economic pressures to reduce the social expenditure in view of the need to address resources to the productive investment. The dilemma consists in defining which is first, the generation of wealth, or its distribution.

We had to question ourselves as a society, what would happen if the Mexican Institute of Social Security wished to establish again the financial balance of the distribution system. The answer to this question is that the Invalidity Old Age a Death (IVCM) branch fee would have to increase 17% in the next 20 or 30 years. This was not a feasible solution in view of the fact that the demographic structure of this country, which is characterized by an increased percentage of persons in age to enter the working market, would demand the creation of employments at high rates. Any fiscal policy which would not motivate the formation of employments and productivity, meant that the welfare options for new working generations would be canceled. We had to take care of a fundamental indication of social security: there is no social security without an employment.

Furthermore, there were two basic conditions to outline a new initiative of Social Security Law:

- 1. One was the commitment and conviction of the Mexican Government to preserve the original principles of Social Security Law, this means, that the legal forms of financing and lender institutional services, maintaining the social justice guidance, the human, solidary and universal principles, as well as the Mexican social security nature which is to protect the rights of the workers and to distribute the income, had to be modified. The right had to be modified with the law right.

- 2.The decision of the Mexican State to continue keeping on guaranteeing the social security, through the Mexican Institute of Social Security. The public nature of this was not subject to arguments, nor was the leading role which the Mexican government had to perform. But there was a need to conciliate them with the need to exploit other elements which gave a legal certainty to the insured person in respect to the way of financing a pension in the future. Such is the case of the right of property which is granted to the worker over the accumulated resources in his/her individual account.

Under these circumstances, it was elaborated the initiative of the Law of Social Security which modified the structure of insurances, includes new legal figures, has technical and complex aspects, and it becomes attached to the principles of the constitutional article 123, mentioned before.

At present, the structure of fees paid at the Mexican Institute of Social Security is as follows:

Insurance Branch	**Fee%**	**Contribution**
I.V.C.M.	8.5%	Tripartite
Sickness and Maternity	12.5%	Tripartite
Working Risks	2.5%	Patronal
Day Care Centres	1.0%	Patronal
S.A.R.	2.0%	Patronal
Total	**26.5%**	

The 5% of Housing has to be added to these fees.

The tripartite contribution is disbursed as follows: 70% employer, 25% worker and 5% Government.

The legal more relevant modifications to the new Law are the following:

- A new pensions system.
  The Disability, Old Age, and Death, are the four branches which are separated to create two new insurances:

  Disability and Life (I.V.), replacing the previous one, of Disability and Death as well as the medical expenses of pension members.

Retirement, and old age (R.C.V) integrating the SAR (Retirement Savings Insurance) and Housing contributions.

- The financial system of the new system of pensions.
  The present system of the disability, old age, and death insurances, are covered with a tripartite fee of 8.5% of the basic quotation salary and in the proposed system, in which the two insurances are created: 4.5% of such fee, corresponds to retirement, and old age, and 4% to disability and life. As we may see, there is no increase on fees.

- Description of the new pensions system.
  By dividing the disability, old age, and death insurance in two, a 4.% of the tripartite fee will be deposited into the individual account of the workers, 2% for retirement which is the employer responsiblity, 5% for INFONAVIT which is also exclusive of the employer's responsibility, and the additional social fee, which represents a 5.5% of the minimum wage of Mexico City ($1.24 at present). The resources accumulated in the individual account, will be operated by a retirement funds administration (AFORE).

- AFORE.
  The AFORE (Retirement Funds Administration) is created to generate profits in the individual account of workers. Those who comply with the established norms of a radical reform may build up an AFORE in this respect, under the supervision of the authorities from the Ministry of Finance. Each worker will be capable of choosing the AFORE he/she may wish, based on the benefits and profits offered to their individual accounts.

- SIEFORE (Specialized Investment Society of Retirement Funds).
  This is a specialized investment society of retirement funds in which the AFORES will invest the accumulated resources into the individual account of workers with the purpose of generating profits.

- The new structure of fees for benefits in kind, of the sickness and maternity insurance.
  The government has a fixed contribution for all workers which is updated according to the Consumer Prices National Index.
  The employers have a fixed fee for all the workers which will rise according to the increase on the minimum wage.

The workers which earn up to three minimum salaries in Mexico City, are released from the payment of this insurance which becomes bipartite.

- The modification in working risks.
  The classification based on risks types and degrees, disappears.
  Each enterprise will pay its fees according to its own level of risk, regardless of the industrial branch it belongs to.
  The fees on enterprises will be reviewed in a yearly basis, in order to confirm, reduce or increase it.

- The creation of a new insurance for day care centres and social benefits.
  Further resources will be available in order to expand the covering of the present service.
  A wider geographic covering will be available at a minor cost, in order to reach, in a medium term, at least a 50% of the current demands from the working insured mothers.
  The level of social benefits is increased and there is a guarantee that the social benefits will remain. This is coherent to an overall and wide perception of social security.

- Description of transition.

  Present Pensioneers:
  The Mexican Institute of Social Security will continue paying the present pensions, with resources provided by the government, increasing them according to the minimum wage. The complayment of pensioners will be released from the payment of disability and life, as well as medical expenses fees.

  Active workers:
  Every active worker will enter the new system, but at the end of his/her working career, he/she will have the right to choose the most convenient pension, calculated according to the Laws of 1973 and the one of 1997.
  The new contributors starting July 1st, 1997 will begin their individual account in the new pensions system.

- The family health insurance, has the purpose of favouring an access to medical care for the economically active population which lack of a formal working relationship, and therefore are not getting benefit from the compulsory regime. Its monthly cost is a 22.4% of the minimum wage in Mexico City ($1.54 at present).

The modification of social security in Mexico has just started. A deep administrative reform in the Mexican Institute of Social Security started in July 1993. The primary axis of this reform was to de-centralize. In 1995, a radical reform took place. We Mexicans are aware of the fact that the social security will need a great collective effort in order to fit the pieces of a new system which could still be out of place.

I briefly exposed the way to finance the various insurances of the New Social Security Law, but we have to underline the fact that the innovation is the payment form of social security benefits and the way of administering the resources addressed to it.

On one hand, the procedures established by law which will be enforced on July 1st, 1997, link two types of rights, with a different view: the social right and the private one. This hybrid feature has the advantage of incorporating creativity generated by competence in one market, but demands of the authority's control on this activity in order to avoid deviations. Incentives have to be generated to favour the acquisition of utilities but, at the same time, a balance must be obtained so that this legitimate objective does not diminish the benefits the system may grant to the workers.

The creation of life income "markets" and administration of retirement funds has beneficial consequences on the internal saving and employment. This affirmation can be sustained if the experiences on similar reforms such as the South Cone's are analyzed in a medium and long terms.

Nevertheless, these attractive macroeconomies have a secondary importance, if they are compared with the state's commitment of guaranteeing the workers and their families' welfare, when their salary is being threatened.

The concrete ways to grant social security in the new Law, guarantee that the contributor will receive at least what he/she received with the previous legislation and his/her personal effort will be the element to establish a substantial difference between what he/she will receive and what he/she should have received in the event the legislative change had not occurred. The protective nature of the social security is maintained and it is strengthened with the concept of the State the society and the individual's co-responsibility in these activities' funding. It is also maintained in the surveillance of the participants to fulfill their obligations, and in the election of the best agents for the administration of resources.

On the other hand, the presence of the Mexican Institute of Social Security in the national boundary and its firm establishment in Mexico, allowed it to preserve a leading participation in the social security system, as the authority in charge of the fees collection in relation to the insurance of retirement, early retirement and old age. It also allowed it to be the main guarantor of existence, persistence or modification of the condition of disability, but also as participant in the "new markets" with its administrator of retirement funds and safeguarding of state's propriety.

With this, the hybrid nature strengthens the new system, even more, in the event that the Mexican Institute of Social Security maintains the management of the reserves of working risks, disability and life insurances, which preserves the principle of solidarity of the distribution system, in which the young and healthy people provide resources to fund the pensions of those disabled, widowers, and orphans pensions, as well as the sickness and maternity insurances of the pension members.

At the same time, the federal government increases its participation in the social security funding, and strengthens its leading capacity in this subject. The problem outlined with the reform was not how to reduce the social security expenditure, but how to increase it, in such a way that it may approach a higher number of Mexicans; this means, how to spend more, without letting this action turn into a regressive solidarity, in which a fewer number of low income sectors were benefitted, as it happens in the present disability, old age and advanced years suspension and death. (IVCM)

In view of the above, social security must renounce to the ideologic patterns and the rigid trench warfare in which the good ones are found on one side, and the evil ones on the other; in which the positions of those who want to privatize and those the who favored state are extreme, and in which there are unique formulas of granting the social security benefits to all of them.

The fact is that the governments in the so called crisis of the Welfare State, are facing the political commitment to remain as workers welfare's guarantor, and it also faces the imminent lack of resources. What it is true, is that each State has a history of political idiosyncracies and that the national solutions and not the imported ones, are acceptable. We live in an inter-dependent and communicated world which allows and impels us to analyze the experiences from other countries. We have a commitment with workers to maintain and enhance social security. In the future the young generations will demand, a social protection similar or better to the one their parents or grandparents received, and we must be financially prepared for that.

It is evident that the discussion about the social security is ideological. Therefore, the Mexican state, with the promulgation of the new Social Security Law, must be coherent with its historical origins and alliances with the working movement; this means, that it must confirm its nationalist ideology and its conviction of defense of the working class; it must acknowledge that the capitalist production manner leads to social disparity, and therefore, it has to intervene in promoting social justice and permanently pretend to increase the population's welfare and to promote the complete application of resources and policies of income's distribution. But this discussion cannot be petrified. There are not unique formulas to make this commitments of the Mexican state to come true.

In this sense, the new Social Security Law confirms the original principles of social security and adopts legal and financial manners to comply with the basic principles of Article 123. It has its attention addressed towards the young generations' future and welfare.

The change will open the discussion about the feasibility of the new pensions system. This system does not yet include a definition of some operational and control matters of the participants, not it includes some legal reforms which are being analyzed among the various institutes involved. We know that the model included in the new Law is not definitive, and it will need reforms and modifications along with new emerging situations. What it is true, is that the Mexican State will surely not forsake its basic principles which legitimate and foster it; and these basic principles are confirmed in the social security system which we will implement in the next decade. The change has just begun.

The new Social Security Law responds to the Mexico of tomorrow. It establishes the economic and legal pillars of the social security for the generations to come.

1996 was a complex year for the Mexican Institute of Social Security, and at the same time, it is a year to strengthen its structures.

We, who belong to the Mexican Institute of Social Security, are proud to know that 1997 will represent a new stage which will be of benefit for many decades more.

We live in a changing Mexico. The reform is a challenge. The challenges demand courage and determination. The Mexican Institute of Social Security gets reinforced from each challenge, with a renovated spirit and with the certainty of the social mission it performs.

COMMENTS AND CONCLUSIONS

JAIME LATAPI LOPEZ

DIRECTOR GENERAL OF THE
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In a world of constant and accelerated changes such as the world where we live in, remaining static and stagnant means lagging behind in the development process and tragically to solve the problems too late.

However, the speed with which we live should not justify leaving fundamental values aside, such as the human feeling of solidarity, the integration and integrity of the family and, above all, we should not forget that the guiding principle of any change in Social Security schemes must guarantee better life standards for the individuals and their families, better circumstances for the full expression of their capabilities and potentials and, finally, must establish procedures that reduce the inequalities and eliminate the gap existing **between those who have in excess and those who lack the basic items.**

Unfortunately, the movements and trends to develop Social Security have not been solid, neither they have had a single direction, though it seems to be, and especially in the speech, that we are going back to the origin and starting point: the man and woman and their needs.

This high-level meeting, summoned and organized by the Interamerican Conference on Social Security, has been attended by well-known, experienced experts, who expressed their points of view on the international situation of the reforms to Social Security. The ultimate purpose of this effort is to contribute to define with precision the course that the successful reforms have taken in order to be used as a reference by the countries that are giving the first steps on the road to reform their Social Security systems, or to adjust the reforms already in process or about to take place.

Mrs. María Elvira Contreras Saucedo, Secretary of the Interamerican Conference on Social Security and excellent hostess, emphasized in her welcome speech to the participants the momentous role of the Conference in the promotion of the exchange of experiences among the different Social Security institutions and administrations and other related organizations. Likewise she stressed the commitment of the CISS to continue being an open, democratic and plural forum in which ideas for the strengthening of social security are proposed.

The meeting was inaugurated on 2nd September 1996 by Mr. Genaro Borrego Estrada, President of the Interamerican Conference on Social Security and General Director of the Mexican Institute of Social Security.

In his speech, the President urged the participants to establish "a Social Security according to our times" to increase, improve, and turn it into a solid long-term policy with a sound and efficient financial support in order to ensure the fulfillment of its inescapable social commitment.

The following experts participated as lecturers:

- Karl Gustaf Scherman, Chairman of the International Social Security Association, who delivered the inaugural lecture.

- Armando Gonzalez, Deputy Commissioner for the Region of Dallas, Texas, US Social Security Administration.

- Pablo Serrano Calvo, Chief of the Social Development Unit, Economic Commission for Latin America and the Caribbean.

- Javier Slodky, Advisor, Social Security Board, Ministry of Labor and Social Security of Argentina.

- Eduardo Miranda Salas, International Advisor on Social Security and Economy of the Education of Chile.

- Carlos Wolff Isaza, Chairman of the Social Insurance Institute of Colombia.

- Edward Tamagno, Director General of International Benefits and Development of Human Resources of Canada.

- Renan Rodriguez, Social Security Consultant of the Executive Power of Uruguay.

- Sergio Valls Hernandez, Juridical Director of the Mexican Social Security Institute.

The main topic of this meeting was to revise the pension systems in force or being reformed, starting with the participation of the Chairman of the AISS, **Karl Gustaf Scherman**, who made an interesting dissertation on several issues for the future development of Social Security and urged the participants, several times, to join the initiatives of the AISS, especially the initiatives of Stockholm.

Mr. Scherman emphasized that the current situation is mainly characterized by the willingness of most (of the) countries to redefine and redistribute responsibilities among the State, the public and the private sector, as well as to face the challenge that the modification to their retirement and pension systems means, in accordance with the new redefinition and redistribution of responsibilities. Likewise, he pointed out the important contribution of social security systems to peace, social coherence and economy.

The lecturer noted that, according to him, too much importance has been wrongly conferred to the solution of the economic problems to the detriment of social security systems, and suggested that in the future, it is important to consider the economic problems and the welfare problems at the same level.

After this, he analyzed the different options for the design and modernization of social security systems, emphasizing on the one hand, that depending totally on individual saving systems involves certain risk and, on the other, the possibility that universal systems could reduce the saving rates.

The creation of new models must be based on two basic aspects: the trust and harmonization between the economic and social policies.

The lack of clearness on social security objectives and principles has as a result the incomprehension of the public opinion.

The capability of the society to choose an objective depends on the capability of the democratic society to create new models.

Finally, the Chairman of the AISS described in detail the different stages and action programs aimed towards complying with the initiative of Stockholm, and urged the participants to join this effort and contribute in this way to achieve a better future for humankind.

Armando Gonzalez described the National Basic Security Program (OASDI) that includes almost all the private activities, aimed towards achieving an individual equity and a social sufficiency, fighting poverty among the elderly and serving as a family integration instrument.

The OASDI is the main source of revenue of 63% of the beneficiaries over the age of 65, even if just part of the lost income is replaced. Therefore the workers must have other sources of revenue.

The current structure will be affected by the retirement of the Baby Boom generation. However, it is considered that the basic structure adopted 60 years ago is solvent.

For the short and medium term, there is an improvement program to the OASDI administration that includes the supply of services, technology, human resources, qualified administration, facilities and re-organization.

For **Pablo Serrano**, representative of ECLAC, the decade of the 80's (lost decade) had as a result a serious economic and social crisis in the Central American countries that increased the average population that lives under extreme poverty and even indigence conditions. The drops on the government spending were reflected on the decrease on the quality of services, the withdrawal of the State from many of its obligations, and on the success of the privatizing policies. The social policy was redirected towards giving support to the most vulnerable sectors of the population. Within this social context, the ECLAC proposed three guidelines to achieve a productive transformation with equity and an integral approach: the generalized incorporation of technological developments, the generation of productive employment and the investment on human capital. These proposals were made because it was known that Social Security schemes were not enough to palliate the growing social backwardness.

Finally, he noted that the main reforms to health systems include basic health attention packages, decentralization, efficiency in the use of resources and allocation of funds from the civil society to finance health activities.

The advisor of the Social Security Board of the Ministry of Labor and Social Security of Argentina, **Javier Slodky**, described the historical evolution of the pension system during its different stages of crisis, discredit and collapse. Likewise, he pointed out that some of the factors that originated the debacle of the old system are:

- Recognition of the lower marginal productivity of the beneficiary.
- Mobility based on active salaries.

- Laxity in the requirements to give benefits.
- Proliferation of preferential regimes.

The characteristics of the new Argentinean welfare system are:

- Establishment of a mixed system made up by a public solidary distribution regime and an individual capitalization regime, administered and controlled by public agencies.
- Elimination of market criteria for the determination of the retirement credit.
- Strictness in the fulfillment of requirements to obtain benefits.
- Progressive increase on the age required to retire.
- Maximum contribution and pension limits.
- Rigorous procedures to obtain disability pensions.

The new structure of the welfare system allocates important duties to the State as part of it. In the individual capitalization regime, the State guarantees: a minimum income return, the separation of capitals in the event of bankruptcy of the administration or insurance company, and the general comptroller system by the AFJP superintendence, the Central Bank, the National Securities and Exchange Commission and the Insurance Superintendence.

The basic challenge of this system is to include the equity and solidarity principles in the Social Security system in an adequate way.

Eduardo Miranda Salas explained that, before the reform to the Chilean social security, the system was based on the collective capitalization system and not on the principle of solidarity among generations, as in the distribution systems. However, the capitalization of the accumulated amounts had negative effects due to the inflation and the low interest rates of the mortgage loans, with the social criteria under which they were made.

With the reforms to the Chilean social security system, the Pension Fund System based its operation on financial aspects only, and the problem of the social benefits was not a priority any more.

The current Pension Fund System presents other deficiencies: the universality of the system was not total; three administrations attend 69% of all active affiliates; there is no guaranty of positive real income return of the funds - since, in 1995, the annual real income return of the pension fund was 2.5%

approximately- and the State is responsible for the minimum pensions. Therefore, the AFP system is legally dependent.

One of the most worthy contributions of his exposition was his comment that the reforms must be executed in a systematic way, without leaving aside any of the basic components of Social Security, social welfare and the pension system.

Carlos Wolff Isaza pointed out that after the 1993 reform, the Colombian Social Security became an integral system in its structure and operation. In this system the efforts of the State are closely coordinated with the efforts of the private sector, giving rise to an enhanced competition, but keeping the unavoidable responsibility of the State to guarantee Social Security as a public compulsory service, and as an intrinsic right of all Colombians.

He mentioned that the following principles have been strengthened with the reform: extension of the coverage; integrity and equity of the medical services and pension schemes; better financial balance; administered competition and, above all, the users are again free to decide who is going to take care of their health and the health of their family, turning them into external and permanent evaluators of the quality of services.

He mentioned that since the reform was recently executed, it is not a finalized process and it must:

- Adjust the unbalances between supply and demand of services, because the latter have increased faster than the installed capacity.
- Avoid the over-regulation, so that no straitjackets are put to the free competition.
- Make the regulations congruent and compatible so that no opposing collisions or interpretations emerge.

Edward Tamagno described the situation of the Canadian multipillar pension system. The first universal pillar has given minimum protection to the low-income population. However, the foreseen impact of the Baby Boom generation retirement on the cost, makes necessary to review the system. The second pillar is based on a collective system that covers the salaried population and the self-employed workers. This system will be affected by the same situation in the medium run.

Besides, the following considerations have been made:

- Any change must be evaluated from the perspective of the current pensioners as well.
- The present active workers have planned their retirement based on the existing programs.
- The inter-generation justice of present and future workers must be also taken into consideration.

In this way, Canada proposes a reform to the first protection pillar that increases the benefits for the most needy, and reduces the benefits for people with more resources. The system should be in force by the year 2001.

The second pillar must be strengthened by increasing the contribution beyond the current expenses, with the purpose of keeping the surplus on the reserves invested in order to compensante future expenses. Several measures aimed towards reducing the costs of this pillar, approximately by two points of the contribution, will accompany this reform.

The Canadians are convinced of the strength of their system and of the need to make some changes, in order to continue receiving the same benefits.

Renan Rodriguez, from Uruguay, talked about the technical and political components that framed the analysis and reform to the Uruguayan Social Welfare Model. He affirmed that the coverage of risks by social security should not be considered a simple commercial or financial traffic object, and that the State must withhold its irreplaceable role of ensuring justice and social security among the individuals.

He emphasized the importance of the burden distribution among the different generations and sectors of the society, among active generations, among active and passive workers and, therefore, the equity problem in the distribution of these burdens.

The Uruguayan welfare system shifted from a distribution system to a mixed one based on the distribution system but, after a certain income, some contributions are made to the saving system. The distribution system (first pillar) is merely of the State, and the saving system (second pillar) is administered by the private Saving Welfare Fund Administrations (AFAP) selected by the individuals. As a control measure, the State established a AFAP ruled by the private industry regulations, even if it is owned by public agencies.

In this system, the retirement causal is configured in the distribution regime, while the saving regime is of retirement and pension.

Mr. Rodríguez pointed out that social security systems must adjust themselves to the demographic variables, otherwise reforms become deficient after some years.

Sergio Valls emphasized that the Mexican Institute of Social Security, as part of its effort to search better options for the covered population, started a thorough study on its current situation that culminated in a diagnosis submitted to the public opinion. In this way, it was possible to identify the vulnerabilities of the system, as well as the challenges to be faced in a future.

The three sectors institution's had a basic role in the debate. This debate culminated in a proposal made to the Federal Executive Power, that became a bill passed by both Chambers in December 1995.

The spirit of the new Law respects the principles of the original Social Security law, changing the juridical ways to finance and supply the institutional services. Likewise, the Mexican State reaffirmed its determination to continue acting as guarantor of Social Security through the Mexican Institute of Social Security.

The most important changes in the New Law are:

- Existence of five insurance lines.
- Give more suitable pensions by the time of retirement.
- Creation of specialized agencies for the administration and investment of funds (AFORE and SIEFORE).
- Introduction of a fixed contribution.
- Disappearance of the classification based on levels of occupational hazards.
- Each enterprise will pay their contributions, in accordance with their own loss.
- Social Benefits are elevated to the rank of insurance, in accordance with a wide and integral Social Security conception.
- Health Insurance for the Family.

Conclusions

The reform to a pension sytem must consider os priorities the central objectives of social security: tendency towards universality and equity, translated into adequate pensions for more people on retirement age.

All reforms must enjoy consensus and the workers, the entrepreneurs, the government, the social security institutions and other related actors, such as the unprotected population, the non-government institutions and the academic institutions must participate in them.

The reform proposal must be based on a serious and realistic diagnosis of the problems faced by the system of each country, in order to adapt itself to its own economic, political and social realities.

The Society must recognize and discuss the central aspects of the reform, such as costs, their distribution among the different actors involved, and the feasibility of benefits expected as a result of the change.

The reform to the pension system must be linked to health and to all the other social security aspects.

The trends in the labor market, especially the incorporation of women into the labor market and the transformation of the family structures, involve challenges that the pension systems must not evade.

The dimensions of the reforms must be carefully considered since they represent an effort and commitment to all society, but we have to be aware that despite their great importance, they can not solve all the problems and challenges that most of the countries face.

Final Considerations

Having the honour and the difficult task of summarizing all these worthy contributions, and making the conclusions of this important cycle of conferences I could not help, in my capacity as moderator and narrator, to make some personal reflections on the axiomatic and methodological implications of the topics presented during these days,

I would like to share with you some ideas on what I consider the fundamental values to execute the reforms to the social security systems of our countries in a successful way, as well as some experiences on the methodology to materialize these values in specific designs.

I start from the conclusion that the reforms to the social secuirty sytem must be designed in accordance with the specific conditions and historical context of each country.

Indeed, I think that no model or valid system in a country can be established in another country without adequations and critical appraisals.

Therefore, this thesis emphasizes the importance of having an adequate methodological framework, in order to execute or redirect the reforms to social security systems in America successfully.

The central topic of the II High-level Conferences Cycle that concludes today: **"Social Security in America towards the End of the 20th Centurty, Reforms to Social Security and Economic and Social Policies"**, despite drawing our attention to the past and analyzing the current situation, hints the imminent proximity of the next century.

Russell Ackoff, brilliant planning theoretician said that our orientation to the future based on the past, but situated at the present, would mean driving in the road looking at the rear-view mirror only. Therefore, I postulate that our reform must have, at least, four main characteristics: prospective, systematic, strategic and dyamic.

Prospective because the nature of our system compels us to think in the long run. The logics of the prospective design make us discriminate in the search of possible solutions, within the imaginable world, as **Renan Rodríguez** affirmed.

However, it is also true that, within the scope of possible solutions, not everything is desirable, and within this not everything is viable or feasible.

Therefore, I suggest to go further and postulate not only **"the possible Social Security, but also the desirable or feasible Social Security".**

This conclusion necessarily leads us to the second characteristic of the reform methodology: it must be **systematic.**

Indeed, social security is a complex system of the society, and means much more than a group of insurances that cover certain risks. Social security must become an attribute of the society, part of it.

The systematic conceptualization shows that social security has complex interacting subsystems: to supply health service, to guarantee the income during the retirement stage, and to support the working mothers with day-care centers; outside it is conditioned by political, economic, social, demographic, sociocultural and technological conditions.

This leads us to the third characteristic of the reform: **it must be strategic**, i.e. it must analyze the opportunities and threatens of its current and future situation but, at the same time, its internal strongest cards and weaknessess.

Oportunities must be harmonized with the strong cards, strategies must be designed in such a way that full advantage is taken of the improvement possibilites, and defense strategies must be established in order to face the threatens and weaknesses.

Finally, it is obvious that it must be **dynamic** because both, the environment and the system are dynamic. Therefore, no reform is definitive. It is a permanent process that has a continuos impact on the results of the environment tracking and it must renew and adapt itself to a changing world.

It is evident that the above mentioned concepts would remain as simple theorical statements if they are not actually used in thorough studies and research for a succesful reform. It is clear that its methodological formulation goes beyond the level of the categories explained in this document. However, I consider that specialists in demography, actuary, economy, finance, medicine, administration, political sciences, sociology, computer science, engineering and architecture, among others, must participate in the process.

Karl Gustaf Schermann stated in his bright lecture: "...there is a tremendous lack of social comprehension on the philosophical basis of Social Security".

This postulate moved me to conclude my speech with brief personal reflections on what I consider the main axiomatical basis of what social security for the next century should be.

Firstly: the value of the human being's person and life, that we have always considered and will continue considering the reason and aim of our efforts, but I think that, **in a new axiomatical conception**, we should consider the human being an active subject more than a passive subject.

This approach would promote the participation of the citizens in the establishment of a new system.

Second: the value of freedom. The individuals must be free to take their own decisions, such as selecting the phyisician and the attention they will receive; selecting freely who will administer their resources and who will take care of their children, among other transcendent decisions.

Finally, the value of humanism, not as a detailed knowledge on men but as an attitude towards men that leads him to postulate the value of serving, not in his own interest but based on the human value of solidarity, especially towards the most needy who are not protected by social security. Along with them -and not for them- communitary and self-help participation schemes must be designed.

These concepts can determine the difference between a rigid group of unconnected social insurances and an integral social security system.

The value of solidarity also includes the inter-generational, inter-institutional, inter-regional and international scopes.

It has been extremely gratifying to verify this situation during the last three days.

In his inaugural speech **Mr. Genaro Borrego Estrada** that he was sure that this Second Cycle of High-level Conferences would contribute to understand better the reforms executed to social security and to the economic and to social policies in the American Continent, and to find procedures aimed towards strengthening social security in the next century.

I am sure that all of you will agree if I say that we achieved our goal.

I would like to conclude my speech quoting a thought of a renowned philosopher and writer, **Marcel Proust**, that I think can contribute to shape our attitude towards the social security reforms for the next century: "The true discoveries are not done searching new lands, but looking with new eyes".

The Reproductive Health in the Social Security

The Editorial Program of the Interamerican Conference on Social Security (CISS) is formed by different publications of the Studies Series, the Monographic Series, the Social Security Journal and the Newsletter. These are the means that the Conference is using to achieve one of its goals: to compile and disseminate social security's breakthroughs.

The *Studies Series* in which this publication is included will be formed by several books that show the development and current situation of Social Security in every member country in the Americas, and their publication is subject to the yearly program presented by the Permanent Interamerican Committee on Social Security (CPISS).

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