Multi-pillared social insurance systems: The post-reform picture in Chile, Uruguay and Brazil

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Abstract. This article focuses on an analysis of social insurance models and reforms in Chile, Uruguay and Brazil. Noting that these three countries are following different reform trajectories, the article explores trends in the restructuring of each of these insurance systems across the course of successive reforms. In the systems, different trends are supporting a closer link between contributions and benefits, according growing importance to private individual accounts and favouring the expansion of the role played by social assistance. These trends all suggest a move towards various forms of multi-pillared social insurance, but with uncertain results in terms of redistribution and the dynamics of the fundamental objectives of social insurance.

Introduction

Over the past three decades, social security systems in Latin America have gone through various reform processes. The mainstream literature that has addressed the wide variety of social insurance forms undertaken in the region has underestimated the impact of these reforms in terms of the long-term restructuring of the systems. The view presented here is that current interpretations of social insurance reforms in Latin America neglect the possible longer-term impact of the introduction of a “pillar” that functions in a different manner to the dominant legal and financial structures that govern the wider insurance system. The fact that reforms in different countries may have taken different paths does not prevent these systems from displaying common elements in subsequent transformations. How and why these systems are becoming increasingly similar in spite of reform, are questions that remain to be answered.

In this article, three models of social insurance reform are compared: structural, mixed and parametric (Mesa-Lago, 2004). As examples, such models of reforms have been introduced in the three

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Latin American countries of Chile (in 1981), Uruguay (in 1995) and Brazil (in 1998 and 2003), respectively. Although each is differentiated by its own experience and contingent upon its own context, analysis of the post-reform scenario reveals a converging trend in these countries towards a multi-pillared provision of social insurance benefits.

The logic that underlies the transformation of the respective countries’ social insurance systems across a 30-year period of reform and adaptation seems to be producing far-reaching changes in their operational structures. As a result, a greater degree of similarity in the social assistance, risk-pooling social insurance and individual pre-funded components of these systems can be discerned. This leads to the conjecture that the, ostensibly more limited, impact of measures introduced as part of public pay-as-you-go (PAYG) reforms may be recalibrating these systems towards actuarial structures that more closely link contributions to individual benefits. At the same time, systems that introduced a dominant role for a private pillar seem to be moving in the opposite direction, i.e. the private pillar is being adapted through the inclusion of a public social assistance pillar based on the PAYG principle.

Looking to the social insurance amendments introduced in the three countries, it is possible to suggest a process of “contingent convergence”. This process is increasingly affecting the social assistance and private individual account pillars, leading to the restructuring of the respective systems and to the consequent total or partial undermining of the forms and functions of public contributory pillars.

As regards Chile, Uruguay and Brazil, this article highlights the endogenous transformation trends and processes by which the policies that underlie the restructuring of different benefit pillars are disseminated. It also highlights the varying impacts of these trends and processes on the dynamics of the covered populations involved and on the income distribution role of social insurance policies.

Institutional change, policy diffusion and multi-pillared insurance systems

In spite of an often long history of involvement in occupational social protection, social insurance schemes in many countries only developed into large-scale structures as a result of what Castel has called “wage-earning society” (Castel, 1995). In various societies, over time, the growth in the number of salaried workers has contributed to the extension of risk-pooling public insurance schemes to collectivize risks, developments which workers identify with as institutional “social security”. Here, risk-pooling is important as a collective frame of reference, the expression of which is integral to, and cannot be
divorced from, the notion of “public” social insurance.

However, the changes to social insurance that have emerged as part of often neoliberal-inspired reforms have conspired directly to undermine this collective frame of reference, thus weakening the risk-pooling component of public social insurance. The implementation of such reform has often required political windows of opportunity and strong governments, leading to a new legal framework which social actors have been obliged to respect, perhaps unwillingly. This was the case for Chile’s structural reform (i.e. the replacement of a system of public social insurance by a system of private, defined contribution, individual savings accounts), which was undertaken in an authoritarian decision-making context. This helps to explain the contested nature, both, of the implemented reform and its immediate impact: the “privatization” of social protection and regression in terms of income redistribution.

In contrast, the transformation processes of social insurance schemes undertaken during longer periods of “liberalization” are commonly introduced without explicit political manoeuvres; they merely support or tolerate a kind of “self-seeking subversion of collective institutions” (Streeck and Thelen, 2005, p. 33) and introduce measures that restrict access to benefits and/or encourage the proliferation of private voluntary agreements to compete with public provisions. This category of reform also includes what is known as parametric adjustments which, even though they do not alter the main redistributive features of the system, introduce a certain number of modifications that affect their long-term development.

In the literature, the differences in social insurance reform processes are frequently conceptualized, either, in terms of radical change or continuity. This explains the rigid separation between systems that adopted either structural or parametric reform models. For instance, the literature that emphasizes elements of path dependence in reformed public redistribution schemes (Myles and Pierson, 2001) tends to ignore the trend, which is present in almost all countries, towards the increased privatization of risk through the introduction of insurance pillars that lean towards, on one hand, more closely linking benefits to contributions and, on the other hand, the private administration of benefits (Taylor-Gooby, 1999; Hacker, 2005; Ebbinghaus, 2005).

Thus, depending on the environment that guides the formulation of social policies —which may act as a constraint for the expansion of welfare— parametric changes, which were intended to streamline PAYG social insurance systems, may open the door to further gradual changes in the long term. For instance, following the parametric reform of a social insurance system, the introduction and subsequent expansion of a complementary private pillar may eventually have a bearing on future parametric changes to the former. These
transformations are rooted in the gradual decline of the scale and scope of the benefits provided by the public PAYG social insurance pillar, which becomes less able to provide adequate coverage to the workforce, and is thus rendered “less attractive”. Consequently, the incremental introduction of private, individual and occupational benefits tends to stimulate the trend towards systemic change because of the competitive and exclusive nature of such benefits.

Incremental and limited changes may thus lead to “long-term systemic recalibration” in social insurance systems (Ebbinghaus, 2005, p. 19). Such changes are politically more acceptable in so far as they are less visible and their technical complexity makes it difficult to distinguish, in the first instance, between the groups directly affected by them.

Streeck and Thelen (2005) call attention to the different gradual, though transformative, processes of endogenous change in institutions that have a major impact on social insurance systems: i) Displacement occurs through the reactivation of individual and private insurance strategies that were prevented from developing fully in the past; ii) Layering appears as a result of differential growth in private alternatives, which compete directly with public systems to attract members; iii) Drift (no decision) occurs when public systems lose their ability to attract their traditional membership groups or fail to guarantee effective protection against newly-identified social risks.

These arguments suggest that different insurance systems co-exist, albeit with persistent endogenous doubts concerning their organizational structures and roles. However, the endogenous nature of the transformation of these systems also remains closely related to more general processes of learning and policy diffusion.

A fertile ground for observing how these processes combine is the interrelationship between theories of insurance models promoted by multilateral agencies, such as the World Bank, and the recent experiences of reform in various countries. It must be noted here that national policy-makers are under no obligation to follow these theories. On the contrary, the international diffusion of “idea packages” in the reform processes of social security is subject to interpretation and adaptation to specific contexts, which in turn influence the exogenous processes of policy diffusion (Djelic, 2008).

In an international approach, the replacement of public PAYG systems by individual account schemes emerged as a functional measure to adapt social insurance systems to the processes of economic liberalization. Incidentally, this functionality also appeared to be a corrective measure to address challenges stemming from the demographic transition, evolving family structures and chronic poverty.

The influential World Bank report *Averting the Old Age Crisis* (1994), and its subsequent updates (James, 1998; Holzmann and Hinz,
suggested that the traditional social policy objective of income security and the overriding need for economic competitiveness could be pursued together if, and only if, the social insurance systems in various countries adopted a model based on three pillars for the provision of benefits, i.e. i) a compulsory public pillar: with the objective of redistribution via contributory insurance, which would finance pensions subject to means-testing to provide a guaranteed minimum for the needy; ii) a compulsory private pillar: with the objective of promoting savings under appropriately regulated plans to provide defined contribution benefits through individual and occupational individual accounts; iii) a voluntary pillar: intended to complement the old-age benefits provided by the other pillars through the accumulation of savings in individual and occupational funds (World Bank, 1994).

The 1994 report thus recommended setting defined objectives for each of the pillars, which also separated their methods of financing and their redistributive and savings roles within the system. These multiple pillars were to be combined, thus offering a new approach to mitigating risk based on the capacities of insured persons to contribute.

The Bank’s recommendations indicated that these pillars would lead to a non-arbitrary combination of alternatives, in so far as they would establish various soft alternative paths of exit from public PAYG schemes. Thus, for example, the less generous nature of new regulations for the allocation of benefits under public contributory schemes, which arises as a result of the closer link between contributions and benefits, will be offset by the opportunities offered to members with higher incomes to obtain additional benefits through more attractive private pillars. It is precisely this variation in attraction that jeopardizes the stability and continuity of public PAYG schemes.

This multi-pillared “model” was able to offer policy-designers a mechanism to reduce the social and political costs associated with more unpopular social security reform measures. In this sense, the dominance of the “public” and “private”, as it corresponds to each pillar, depends increasingly on the way in which policy-makers perceive the overall wider objectives of the multi-pillared system.

Objectively, the development of multi-pillared systems may be viewed as a sort of step-by-step structural reform that establishes criteria for the allocation of particular benefits to specific population groups, in so far as different reforms of social insurance systems in different countries lead to different gaps in the forms and functions of their contributory public pillars.

In countries such as Chile, Uruguay and Brazil, the development of multi-pillared systems of social insurance is presented as a vector for the complete reorganization and institutional
compartmentalization of insurance benefits in the long term: a measure that would give full play to the endogenous trends for institutional change in social security (Streeck and Thelen, 2005).

To use Hirschman’s terminology (1970), the multi-pillared model in insurance systems seems to be operating as a mechanism that subverts “loyalty” by reducing the importance of public social insurance, with a concomitant increase in alternative “routes of exit” for higher-income groups from the public to the private systems. In other words, the existence of alternatives (i.e. competing and parallel private schemes) contributes to undermining the loyalty of individuals to public social insurance, which thus reduces the viability of the latter.

Public social insurance measures remain compulsory in many systems, such as in Uruguay and Brazil. However, even in these two cases, the private alternatives introduced through reforms, which up to now have taken the form of complementary or residual schemes, are becoming more attractive to those with income higher than the value of the average benefits paid by the public PAYG schemes.

In the next section, case studies of multi-pillared systems in Chile, Uruguay and Brazil analyse the characteristics of the different reforms at the time of their implementation and the current configuration of the three social insurance systems.

Structural, mixed and parametric reforms

The 1981 Chilean pension reform process is viewed as emblematic of social security reform in Latin America, arising in an authoritarian context inspired by neoliberal principles. In that country, a pension system comprising a defined benefit social insurance programme was replaced by one of defined contribution individual saving accounts, with membership compulsory for salaried workers. The system aimed to be financed solely through workers’ contributions, without contributions from employers or the State.

The main innovation of this system was that its management was placed with private for-profit corporations, the Pension Fund Administrators (Administradoras de Fondos de Pensiones — AFPs). Members may choose to switch their funds among the licensed AFPs that manage individual savings accounts. The AFPs charge fees to cover administrative costs and the insured must also pay premiums to finance the cost of disability and survivors’ insurance. The amount of the pension depends on the value of the fund accumulated in each individual’s account (contributions plus investment returns minus

1 The armed forces and the police were excluded and remained within the defined benefit social insurance system
administrative fees). Members may also make voluntary contributions to a third pillar in order to increase income in retirement or to help finance early retirement.

With benefits linked directly to contributions made, the redistributive function of the system created by the 1981 reform was to be marginal. Within the AFP system, the State’s role was to be largely subsidiary, focusing mainly on the supervision of the AFPs. However, the State has also been responsible for financing ongoing expenditure needs for the “old” social insurance system and financing protection for those with savings below a required minimum, in the form of assistance pensions to eligible needy persons aged 65 or older, and guaranteeing a minimum pension for members of the new system who have contributed for at least 20 years.

The Chilean experience of “privatization” of social security has provided an important example for other countries. One of its most important legacies is that it removed all substantive content from social policy measures, transforming the previous system, which although it was institutionally segmented, from one providing collective defined benefits into one providing individual private benefits that are not defined.

The reform processes in Uruguay and Brazil, both of which were introduced in democratic environments and with full political participation, show certain similarities while providing a sharp contrast with the Chilean experience. The reforms adopted in these countries did not change the basic legal status of the public social insurance system, although they did change the actuarial parameters.

In Uruguay, the reform of the social insurance system is linked to two main events. The first was the approval given in 1989, by means of a constitutional vote, to tie pension increases to the growth of civil service salaries. The result of this measure was to increase the value of benefits and increase public social expenditure, which aggravated the problem of how to adequately finance the system.

The second event was the 1995 reform that introduced a mixed insurance system through the creation of a new pillar of defined contribution individual savings accounts. The primary motivation was to address the financing problem that confronted the public system; it was not to address problems of how to adapt the system to new types of social risk. The system was split into two pillars: i) a compulsory PAYG public pillar for all workers, financed on a tripartite basis by contributions from workers, employers and the State and administered by the Social Insurance Bank; ii) a pillar of defined contribution individual savings accounts, managed by the Social Insurance Savings Fund Administrators (Administradoras de Fondos de Ahorro Previsional — AFAPs). Coverage by this pillar was made compulsory for all workers in income brackets above a certain minimum level, and voluntary for those in lower income brackets. The individual accounts
pillar was designed to be financed by contributions paid on monthly earnings above a certain threshold by the insured person only. Finally, a social assistance pillar and a pillar for voluntary savings were added also.

In addition to reducing the dominance of the PAYG pillar, the reform introduced more stringent eligibility conditions for entitlement to pensions, by raising the retirement age and the minimum required number of years of contributions to receive a pension. In turn, for pension calculation purposes, only registered years of work were recognized as part of an individual’s working life. Finally, replacement rates were reduced.

In Brazil, the introduction of universal insurance was formally consolidated with the adoption of the 1988 Constitution, which enabled important segments of the population to meet the requirements for access to benefits. Benefits continued to expand throughout the 1990s. However, this same period saw a movement towards a reduction in social expenditures, which led to a succession of parametric reforms designed to contain costs within the insurance system.

The first round of reforms under the government led by Fernando Henrique Cardoso concentrated on a strictly actuarial approach, in order to achieve financial equilibrium, and made no attempt to make the system more inclusive. The requirements for access to benefits were increased, particularly for workers in the private sector covered by the General Social Insurance Scheme (Regime Geral de Previdência Social — RGPS) and the value of the pension was reduced through constitutional changes in the method of calculation, with the introduction of the Insurance Factor Act (Lei do Fator Previdenciário). Under this legislation, lower replacement rates are applied to the pensions of those who take early retirement, thus reducing the value of the pension payable.

Reform introduced by the government under Lula da Silva continued along the actuarial lines of the previous reform, although it prioritized certain measures designed to make the RGPS more inclusive. This reform introduced greater standardization in the social insurance regulations covering all workers in the country, focusing on reforming civil service pensions provided under the special schemes for civil servants (Regimes Próprios de Previdência Social - RPPS). Similarly, a wage ceiling was introduced for civil service old-age benefits, equivalent to that of the RGPS, and the statutory retirement age was raised.

The insurance reforms in Brazil also created a favourable environment for the development of private insurance and pension funds. Although there is a long tradition of pre-funded insurance plans

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in Brazil, the process of reform acted to institutionalize these “in practice”.\footnote{Promoted to the level of a “basic pillar” within the Brazilian social insurance system, the private structure was regulated in 2001.}

Accordingly, the reform processes in these three countries took on different forms. However, the differences between these processes provide no guarantee that more far-reaching reforms will not occur in future. All the reforms created new operational bases for the social insurance systems. Even though, on the one hand, these new foundations have distanced themselves from their original models of insurance, they have also, on the other hand, moved closer to the multi-pillar model proposed by the multilateral agencies, albeit while retaining specific institutional features.

The following section will provide a brief summary of the problems concerning the reorganization of these systems in the post-reform period, highlighting the dynamics of the covered populations involved and the distributive profile of social insurance policies in the countries concerned.

The post-reform period and multi-pillared insurance systems: Convergent contingencies?

A global analysis of the reforms introduced by the respective countries over the past decades reveals that, to varying degrees, an important proportion of the social insurance system is now governed by the market (Table 1). Cost containment strategies have contributed to limiting the generosity of benefits, especially as a result of the introduction of actuarial mechanisms for benefit calculation, and there has been a substantial reduction in the role of mechanisms for the mutualisation of risks.

In the paradigmatic case of the Chilean reform, the implementation of the new social insurance model led to fairly negative results. It led to inequities in coverage, with respect to gender and income, which were particularly prejudicial for women, self-employed workers and low-income workers more generally (Arenas de Mesa, Llanes and Bravo, 2006).

One problem area lies in the adequacy of the coverage provided: 60 per cent of the active population has been provided with coverage since 1990, a level similar to that registered prior to the reform, in 1975 (Consejo Asesor Presidencial para la Reforma Previsional, 2006, p. 29). Even though Chile has one of the highest rates of coverage in the region, problems remain which seriously challenge arguments claiming that by more closely linking contributions and benefits this will lead to higher levels of contribution payment. Structural characteristics of the Chilean labour market, and not least precarious employment, constitute factors that prevent the conversion
of a vast number of workers into regular contributors to social security.

Table 1. Configuration of the insurance systems based on resources

<table>
<thead>
<tr>
<th></th>
<th>Public expenditure on social insurance and welfare, % GDP</th>
<th>Pension funds, % GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>7.7</td>
<td>5.8</td>
</tr>
<tr>
<td>Brasil *</td>
<td>8.5</td>
<td>13.0</td>
</tr>
<tr>
<td>Uruguay</td>
<td>11.2</td>
<td>12.0</td>
</tr>
</tbody>
</table>

* Open and closed complementary insurance.

Sources: Calculation based on CEPAL (2009), AIOS (2008a), World Bank (2007), and MPS (2009).

Official estimates indicate that pensions would be very low, with replacement rates that are insufficient and below those forecast by the reformers (equivalent to 51 per cent (men) and 28 per cent (women) of that forecast). The gaps in coverage that accompany precarious employment patterns, combined with the negative effects of a fixed commission for administrative fees to the individual account system, act to exacerbate the inequalities observed in the labour market for workers when they retire. Thus, based on an average contribution density of 53 per cent, projections published in 2006 indicated that between the years 2020 and 2025, 46 per cent of the population of retirement age would have earned entitlement to a contributory pension that was less than the guaranteed minimum (Consejo Asesor Presidencial para la Reforma Previsional, 2006, pp. 62-63).

As a result of this diagnosis, President Michele Bachelet launched an initiative to reform certain aspects of the system in 2006. The most innovative change was the creation of a Solidarity Pensions System to provide a basic pension for all those older than age 65 who are among the poorest 60 per cent of the population, independent of their contribution history. The Solidarity Pension, which replaces the previous assistance pension, is subject to means testing. In addition, the State now pays a Solidarity Insurance Contribution to supplement the value of low pensions that are based on contributions paid during a person’s working life, regardless of the length of the contribution period.

As such, the reform has various measures designed to increase coverage for vulnerable groups, including special measures aimed at young people, women and self-employed workers. The latter group will gradually been incorporated into the compulsory defined contribution individual account pillar. Furthermore, in order to
improve the performance of the individual account system, incentives were put in place to encourage voluntary savings among the middle classes as well as to promote other voluntary collective saving, while also promoting a higher level of competence among the AFPs and making their investment strategies more flexible.

These modifications have changed the relative weight of the different pillars, promoting the expansion of the solidarity pillar and that of the individual accounts. Of course, the previous public PAYG system, which still provides most of the benefits, will disappear with the natural attrition of current pensioners. The solidarity pillar, however, which expanded under the 2006-2008 reform and extended its scope, is expected to provide coverage for 60 per cent of the poorest elderly citizens by 2012 (See Table 2).

### Table 2. The Chilean insurance system
**(November 2009)**

<table>
<thead>
<tr>
<th></th>
<th>Contributors</th>
<th>Pensioners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual capitalization pillar</td>
<td>4,359,846</td>
<td>727,051</td>
</tr>
<tr>
<td><strong>State guaranteed pensions</strong></td>
<td></td>
<td>106,389</td>
</tr>
<tr>
<td>Pay-as-you-go pillar</td>
<td>95,225</td>
<td>775,997</td>
</tr>
<tr>
<td>Uniformed(^a)</td>
<td>162,899</td>
<td></td>
</tr>
<tr>
<td><strong>Solidarity Pillar</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic solidarity pension</td>
<td>603,496</td>
<td></td>
</tr>
<tr>
<td>Solidarity insurance provision</td>
<td>211,291</td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) 2008.

*Sources: Based on information provided by the SAPF (2009, Table 4), SAPF (2010) and SUSESO (2008, Table 7).*

The aim of the major recent changes was to attenuate the negative results of the private individual accounts system in terms of its low levels of population coverage and inequitable access to adequate pensions. As a result, the solidarity function and the role of the State have become more important in the pillar for poverty alleviation, although this pillar has a complementary function that does not affect the individual accounts system. To a large extent, one constraint that affects these transformations is that the solidarity pillar is primarily financed from taxes, which are mainly of a regressive nature and which do not take into account the specific contributions of employers or of high-income earners.

Currently, the private individual accounts pillar remains the hub of the insurance system. Notably, reform has strengthened the competitive role of the AFPs to the extent that the State now assumes part of the responsibility for those with insufficient contributory capacity and without adequate coverage in the AFP system.
The Chilean case demonstrates that while it is difficult to maintain a system entirely based on individual accounts, it is still possible to support its dominant role in the system with the introduction of a solidarity pillar that has a vast capacity to provide protection to low-income earners.

In Uruguay, the 1995 reform also weakened the role of collective social insurance by tightening the conditions for access to insurance benefits (Alegre and Filgueira, 2009). An average of 62 per cent of the economically-active population was covered in the post-reform period, although this later rose in line with economic growth to cover 71 per cent in 2008 (Lazo and Pereira, 2009, p. 115). Nevertheless, the coverage profile has been inequitable: in 2006, for the segment of the active population in the first quintile income bracket (i.e. lowest income level), the coverage figure was only 27 per cent (Rofman, Lucchetti and Ourens, 2008, p. 118).

Thus the nature of the social protection that Uruguay’s “mixed” system will be able to provide in the near future is already seen as a real problem, not least since large sections of the population find it difficult to meet the requirement for employment under a formal labour contract—a necessary requirement that is frequently difficult to meet in the Uruguayan labour market. In this context, recent estimates indicate that only about 24 per cent of those contributing to the public pillar would have acquired the required minimum number of years of service (prior to 2009, 35 years) to be eligible for a retirement pension at age 60; a figure that rises to approximately 42 per cent at age 65 (Bucheli et al., 2006, p. 20).

From 2005, the government led by President Tabaré Vázquez began to implement a series of measures aimed at improving coverage, although these were not notably successful in countering the adverse effects of the mixed system. The most important changes have been greater flexibility in defining the eligibility requirements for old-age pensions through the award of one year-of-service per child (live birth or adoption) for working women and lowering the required number of years of service to qualify for an old-age pension to 30 years. Nevertheless, these changes were accompanied by a reduction in the replacement rate, which stems from more closely linking contributions paid to the value of the benefit received. A variety of tools were also used to extend coverage to make social insurance more inclusive, such as incentives to encourage the formalization of employment and through the extension of the “monotributo” tax scheme, which facilitates access to social security benefits for workers in the informal sector.

However, despite these reforms, the insurance system remains highly segmented for two main reasons. The first is that the mixed system did not encompass certain categories of high-income workers, including professionals and bank employees. The second is that the
insurance system provides a variety of forms of protection for old age and, as such, has taken on the characteristics of a multi-pillar scheme in that it includes a number of schemes of differing importance: i) the public PAYG pillar, which remains the most important element, although its role has contracted with the creation of the private subsystem. In practice the PAYG pillar became less attractive with the introduction of stricter requirements for eligibility, lower replacement rates and the maintenance of a low pensions ceiling; ii) the individual accounts pillar, which has expanded as a result of certain incentives that made it more attractive to those insured. In particular, the new system encouraged lower-income workers to contribute voluntarily through the use of incentives. Specifically, lower-income voluntary contributors who split their contributions between the public and private pillars receive an incentive bonus equal to 50 per cent of the contributions made to the PAYG pillar. As a result, the vast majority of members of the AFAPs (89 per cent) remain voluntarily within the scheme. In practice, because of these incentives and as a reflection of the low salaries prevailing in Uruguay, the majority of the those contributing to the individual accounts pillar have low salaries (72 per cent); iii) the tax-financed pillar provided coverage to little over 10 per cent of the beneficiaries of the public subsystem, with a slight increase during the last decade.

**Table 3. Uruguayan insurance system (2007)**

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Contributors</th>
<th>Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay-as-you-go pillar</td>
<td>1,166,716</td>
<td>634,470</td>
</tr>
<tr>
<td><strong>Contributing only to the pay-as-you-go pillar</strong></td>
<td>713,444</td>
<td></td>
</tr>
<tr>
<td>Capitalization pillar</td>
<td>453,272</td>
<td>10,532</td>
</tr>
<tr>
<td>Para-state funds</td>
<td>61,969</td>
<td>29,777</td>
</tr>
<tr>
<td>Uniformed</td>
<td>57,616</td>
<td>74,695</td>
</tr>
<tr>
<td>Welfare pillar</td>
<td>--</td>
<td>70,535</td>
</tr>
</tbody>
</table>

Sources: Based on Banco de Previsión Social (2009), Lagomarsino (2009), AIOS (2008b), and Instituto Nacional de Estadística (2010).

The reconfiguration of the insurance system involved diversification of the protection offered to various social groups, however the Achilles’ heel of this approach lies in the difficulty of

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5 In 2007, 61 per cent of those insured contributed exclusively to the public pillar and 39 per cent contributed to the mixed system (see Table 3).
6 See Banco Central del Uruguay (2008, p. 27).
extending access, which probably most affects those in the most vulnerable and insecure forms of employment. Thus, the Uruguayan system faces the risk of reducing the level of coverage for its elderly population (which, previously, had been almost universal) and of excluding a large proportion of workers while providing better retirement conditions for those in steady, formal employment with medium or high incomes.

In Brazil, the dynamics of institutional change that guided the reforms culminated in the institutionalization of a hybrid insurance model comprising four pillars: i) general social insurance scheme (RGPS); ii) special insurance schemes for civil servants (RPPS); iii) private closed complementary insurance; and iv) social assistance.

The deterioration of conditions in the Brazilian labour market over recent decades has been consistently underestimated as a factor in the process of social insurance reform. This deterioration is reflected in the sharp decline in the number of active insurance contributors, particularly during the 1990s (IPEA, 2007). Recent indicators reveal that approximately 49 per cent of the economically-active population is excluded from the insurance system (IPEA and PNAD, 2008), underlining that increased precarity and the instability of labour relations caused by high employment turnover constitute major factors in the declining coverage of the insurance system.

Even in the case of Brazil where the public component of the insurance system was not challenged, the reforms nonetheless introduced changes in the regulations concerning the allocation of benefits, which then created difficulties for a large section of those insured under the system. This was particularly so because of the instability and precarity of the working environment. Following the introduction of the Insurance Factor Act (Lei do Fator Previdenciário), for instance, the regulations concerning the minimum number of years required to qualify for a pension became too strict for certain groups of workers (Matijascic, Kay and Ribeiro, 2007).

The Brazilian insurance system constitutes an important instrument for redistribution through income transfers and poverty relief. Specifically, levels of inequality in the distribution of income, as conveyed by the GINI index, have been reduced by social insurance transfers (IPEA and PNAD, 2008). The coverage level of the elderly population is close to universal, as is coverage under social assistance benefits. The latter provides the equivalent of a minimum salary for most urban workers and almost all rural workers, and accounts for almost 66 per cent of the total value of insurance benefits disbursed (MPS, 2009).

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7 Particularly for the poorest workers who, in order to guarantee their full rights, are forced to work longer.
However, it has become clear that the increase in policy activities in Brazil focused on poverty alleviation is leading to tensions as regards the redistributive elements of insurance programmes that are intended for the most vulnerable population groups, particularly under certain programmes where benefits are guaranteed as Constitutional citizen’s rights.

These tensions are reflected in the residual and temporary nature of poverty alleviation activities, but which, nonetheless, have come to rival the basic benefits linked to the insurance system on the grounds of their supposed efficiency and effectiveness in the fight against social exclusion. This has produced a dilemma in the Brazilian system between the need to reduce the minimum benefit and to maximize coverage but which, by so doing, threatens to undermine the link between the value of minimum basic insurance payments and the basic minimum salary.

Bearing in mind that the insurance system has been recently reorganized, it is possible to suggest that there is a problem. This problem is revealed by the fact that there has been a significant increase in the number of members contributing, and the volume of the resources attributed, to complementary insurance of an open or closed type — the latter in the form of pension funds (see Tables 1 and 4).8

Although Brazil does not officially have a second pillar (i.e. a private component that functions on a compulsory basis), the third pillar, which is private and voluntary, is attracting considerable interest among occupational groups with higher incomes.

Table 4. Brazilian social insurance system (2008)

<table>
<thead>
<tr>
<th></th>
<th>Contributors</th>
<th>Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>RGPS</td>
<td>53,741,233</td>
<td>20,728,131</td>
</tr>
<tr>
<td>RPPS</td>
<td>4,974,814</td>
<td>2,192,930</td>
</tr>
<tr>
<td>Private closed complementary insurance</td>
<td>2,060,518</td>
<td>631,761</td>
</tr>
<tr>
<td>Social assistance</td>
<td>—</td>
<td>3,311,827</td>
</tr>
</tbody>
</table>


It is worth noting that complementary insurance is becoming more widespread, not least as a result of the influence of various

8The complementary insurance supplements RGPS and RPSP benefits. It is based on what is known as the “Closed complementary insurance bodies” (Entidades Fechadas de Previdência Complementar), which represent the pension funds based on the pre-funding principle (MPS, 2009).
corporate sponsors, trade union associations and occupational groups involved in the process of establishing their own pension funds. This process, self-legitimizing under the banner of “good corporate management”, is progressively reintroducing a financing logic based on collective pre-funding — characteristic of earlier Brazilian insurance history — for professional categories of employees. This seems to represent a turning point in the nature of risk-pooling among some members of the social insurance scheme — the organized labour force — with a move towards individual responses to the management of risk.

The reform process has revealed that while the Constitutional protection provided by Brazilian public insurance prevents change of a structural nature, it does not guarantee immunity in the long term from more surreptitious transformational trends. There is a considerable institutional gap allowing the introduction of a private and, as yet, “complementary” insurance subsystem, which has enormous potential to attract those in the middle and higher income brackets. This system is expanding as a result of the reduced value of the benefits provided under the RGPS, the public contributory pillar.

Other rounds of reform will surely follow, and the changes introduced under the most recent insurance reforms, such as the Factor Act and the de facto institutionalization of the private pillar, may become the important vectors of an expanded competitive multi-pillar model.

Conclusions

The multiple facets of recent changes in social insurance systems should be reassessed in order to better understand the ways in which mutually exclusive pillars operate. This article has suggested that a convergent trend in the reorganization of social insurance systems in Chile, Uruguay and Brazil is leading to the creation of multiple pillars for the organization, financing and provision of benefits. This has led, to a greater or lesser extent, to the institutionalization of relatively hybrid and compartmentalized social protection measures.

Considering also that, in countries such as Uruguay and Brazil, privatization was unlikely ever to be an acceptable alternative because of its social and political costs, policy-makers rejected solutions involving unilateral action in the direction of introducing individual savings accounts. Nevertheless, they have adopted a gradual and progressive process of adaptation, with a negotiated strategy for the role of the public PAYG scheme to be replaced in part by a role for compensation provided through complementary (private) and residual benefits (in the form of means-tested or universal basic benefits) for beneficiaries with different profiles. This has been used to attenuate the disruptive effects of complete “privatization”, but has included
reforms to more closely link individual benefits to contributions paid. Taking into account differences between the countries in terms of the importance of their public insurance systems, the impact of “privatization” has thus become more varied and diffuse over time. This is not to say, however, that private pillar alternatives are no longer attractive, either on a compulsory (as in the case of Uruguay) or voluntary (as in the case of Brazil) basis.

Benefit measures delivered through pillars with different social objectives have also been introduced in countries that have chosen solutions based dominantly on individual accounts, as for example in Chile. The most recent reforms highlight the difficulties that Chile faced to maintain a system based purely on individual accounts without, for example, creating a state-guaranteed basic pillar for the poorest within a predominantly private system.

The different dynamics of the development of multi-pillared systems in Chile, Uruguay and Brazil underline a degree of uncertainty about the respective roles of different pillars in addressing social risks. Doubts remain, for example, concerning the role of the first pillar. It is not clear whether this should provide a sustainable foundation upon which to build adequate benefits for all or whether its role should focus on specific social groups. Or might it simply constitute a guaranteed minimum to alleviate poverty? Neither can we foresee with any great precision the consequences for public insurance programmes of the existence of private alternatives, whether these be compulsory or voluntary, in the second and third pillars. Are the latter merely residual and complementary alternatives to public measures? Or are private alternatives attractive options that fill a gap left by the reduced provisions of public PAYG systems, and might the latter eventually become redundant as a worthwhile form of insurance for certain social groups as a result of the former offering a means through which to “exit”?

Overall, on the basis of this analysis, we consider the most potentially damaging trend to be the different levels of attractiveness of the public and private pillars in terms of their ability to retain coverage of the most important groups within the labour force i.e. those with steady and higher levels of income. The concern is that the development of mandatory as well as voluntary private pillars might lead to the weakening of the traditional risk-pooling role of public social insurance.

Without such risk-pooling, insurance would become disconnected from the fundamental collective values that sustain social security policies. Ultimately, this would lead social insurance systems to be driven, on the one hand, by the economic requirement for reduced costs and increased savings — via pension funds — and, on the other hand, by the residual social policy goal of alleviating poverty. In this manner, public social insurance would thus become a
programme designed almost exclusively to cover the social assistance
needs of the poorest of the poor.

What lies in the balance here, as a result of the multi-pillared
reorganization of insurance systems, is the undermining of public
insurance as the basic pillar of social insurance. Even though the
coverage provided in Chile, Uruguay and Brazil by the public pillar has
been extended in recent years, this does not mean that the “public”
nature of their insurance systems has been reinforced. This is so, given
that the extension of coverage has gone hand in hand with reforms to
contain costs and to provide possible exit routes through the
introduction of private competitive pillars, especially for higher-
income social groups.

Thus, in contrast to the process of “controlled inclusion”, which
historically characterized the limited nature of coverage provided
under insurance systems in these countries, we are now facing a
gradual process of the universalization of public insurance benefits but
wherein higher-income professional groups may choose to opt out.
Therefore, in Chile, Uruguay and Brazil, it may be concluded that the
type of “universalization” of coverage that may develop in future is one
of an “exclusive universalization”.

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