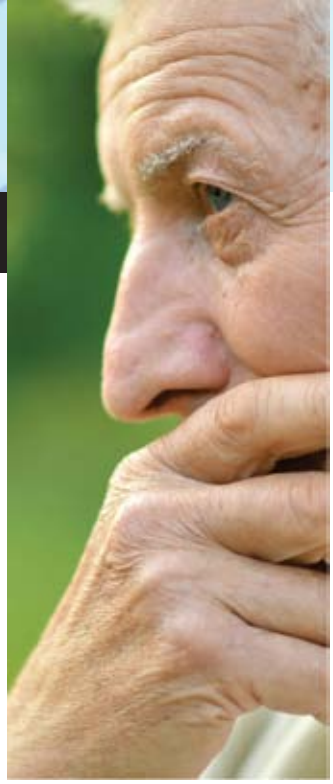
*Social Security*



# The uncertain future of social security

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WHEN IT COMES TO SOCIAL SECURITY, Brazil and China have something serious in common: they need to find ways to ensure the financial survival of their people in old age that is financially sustainable and at the same time takes into account social and budget realities. In Brazil, despite some problems, social security covers virtually everyone with few exceptions, such as people who have never contributed to the welfare system. In China, despite progress in the last 60 years, there is a wide gap between beneficiaries in urban and in rural areas. Regardless of the problems, in both countries there is consensus that resolving social security questions is a key to maintaining sustainable growth.

"Social security in Brazil will affect future growth because of its increasing burden on the public budget. The country has committed an increasing share of its resources to pay social security benefits, which drains resources that could be used to invest and create conditions for future growth," Fabio Giambiagi, head of the Department of Market Risk Management of the National Bank for Economic and Social Development (BNDES), stated.

## Brazilian demographic fear

The Brazilian demographic bonus—as a result of lower fertility rates and the extension in average life expectancy, which increase the working age population—will be over soon, and the elderly population will grow much faster than those of working age. Census data from the Brazilian Institute of Economics and Statistics (IBGE) shows that in 1991 only 4.8% of the population was over 65; in 2010 the proportion was 7.4%; and this progression will continue.

"In future, there will be a growing proportion of workers with less purchasing power. Together [with growing numbers of old people], these trends will act as a brake on consumer spending, limiting the potential growth of the economy in the long run," Rodrigo Dora, deputy-head of the Chamber of Economic Development and Promotion of the BRICS, said. He recognizes that adjusting social security by reducing pensions and benefits is not easy, as well as being politically unpopular, but it is necessary to balance social security accounts and make government budgets sustainable.

Brazil's social security spending (11% of GDP) is already comparable to that of countries with higher proportions of the elderly. "In the last 25 years, social security spending has tripled as a share of GDP. There is no more eloquent indicator of the deterioration of social security," Giambiagi warned, adding that "as the number of elderly increases 4% per year and the economy grows less than this, social security spending will increase as a share of GDP. In addition the government is pushing benefits above inflation for two-thirds of the beneficiaries."

Giambiagi advocates such changes as stricter rules for workers entering the labor market in the future, reduction of the difference in retirement age between genders, stricter standards for granting pension, and adjusting pensions to the National Consumer Price Index.

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***Rodrigo Dora***

## Savings

China has also a large and growing aging population: 185 million elderly, many of whom live in poverty. According to Zheng Bingwen, head of the ILA-CASS World Center of Social Security Studies, Gao Qingbo, ILA-CASS researcher, and Yu Huan, a researcher and PhD from the School of Labor and Human Resources of the People's University of China, several factors have contributed to China's current social security problems: in the 1990s, social security reform served to expand the economy. The Chinese government reduced its role in the social security system and expanded individual responsibility for future pensions—individuals could no longer rely on government protection but needed to save for old-age needs. As a result, China's domestic savings has increased steadily, helping to finance investment and sustain growth.

The authors also highlight what they call "system fragmentation": Since the 1980s, the social security system has been divided into three parts: public institutions, workers in urban enterprises, and workers in rural areas. The differences between them in terms of benefits are huge. Rural social security exists in name only: because of shortcomings in the design of the new system, retirement benefits offered in rural areas are very low and cover only a limited number of people.