Social security: "A tragedy foretold"



Garibaldi Alves Filho

Social Security Minister

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In a speech in the House of Representatives in December 2011, Social Security Minister Garibaldi Alves Filho, who has four decades of public experience, said that the Brazilian social security system was "a tragedy foretold," "a real hot potato." Fixing the system, he said, begins with the Supplementary Pension Fund for Federal Public Employees, Funpresp. Alves Filho here points out that social security pensions are today the main cause of the public deficit. He also emphasizes two other factors: the need for a minimum retirement age for new pensions and for a policy for adjusting pension benefits that are higher than the minimum wage.

***The Brazilian Economy* — The variations in the social security numbers always raise controversy. How can the different pension regimes that make up social security be reconciled?**

Garibaldi Alves Filho — Some of the social security regimes are financially healthy and others run deficits. The Rousseff administration is addressing the one that produces the largest public deficit; as we speak, they are discussing Funpresp. Last year the public employees' social security account recorded a deficit of R$51 billion, and that deficit is projected to grow 10% a year. To solve the problem, the Supplementary Pension Fund of the Federal Public Employees is being established so public employees — whose pension ceiling is R$3,691 — will be able to complement their pensions by contributing to the fund 8.5% of their own salaries.

Photo: Nicolas Gomes

How would the government participate in the supplementary fund?

Today, the government contributes 22% to everything. The government will contribute 8.5% of what would be the pension ceiling and the public employees will contribute 8.5%, and the 17%, capitalized over 35 years, will allow public employees to retire with pension benefits equal to or greater than they have now. The major change is that the government abandons the pay-as-you-go system, which every month collects taxes from those who are working to pay for retiree pensions. In this system there is no accumulation of capital to pay for future pensions. The pay-as-you-go system is only viable when you have four workers for one retiree, but the ratio is now almost one to one. So the project will change the current exhausted system for federal public employees to a funded system.

The vote for the Funpresp project was postponed to this year. The impetus to approve the project is the number of public employees who will retire in 2012. How many are ready to retire?

Over the next five years 40% of the 1.1 million public employees will be eligible for retirement. The government will have to hire new public employees [to replace them] and wants them to start working under the new pension regime. Because capitalization of pensions will take a long time, this is essential... The current pay-as-you-go system is feasible when we have three or four public employees working per one retiree. The ratio is currently 1.17 workers to one retiree; hence the deficit.

What will be the financial impact of this new policy?

In 2011 the pension funds for public employees recorded a deficit of R$57 billion — this is the size of the budget of the Ministry of Education. Of this amount, 40% is for the military, who are not included in the proposed bill because the Constitution does not consider them to be civil employees. With Funpresp, in the medium and long term, the 60% of the deficit related to public employees would be gradually reduced to zero. We are talking here of a saving of nearly R$30 billion a year forever. That is a real structural reform.

Politically, do you think the government will face a lot of resistance in passing Funpresp?

No. Last year there was resistance, including some from members of the governing coalition, but the bigger problem was the scramble for votes at the end of the year. What happens now is that Funpresp is a matter of urgency under the Constitution, so it has priority. Until it is voted on, other laws, except provisional measures, cannot be. In my view there was a strategic retreat to defer voting to February,

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when the environment will be much better. But I believe Funpresp will be approved.

By both the House and Senate?

Yes. I think that in the Senate, speaking from the voice of experience we will conduct a more tranquil process. After all, this matter has been in the House since 2007. The Senate tends to be more agile because of the dynamics, and the number of parliamentarians.

In 2011, what was the situation for social security, the general (urban and rural) and the public sector regimes?

The public sector has 1.1 million active employees and 960,000 pensioners. General social security pays benefits to 29 million pensioners. From January to November 2011, the general social security fund had net revenue of R$215.4 billion and spent R$256.6 billion, that is, there was a funding gap of R$41.2 billion. The urban social security fund had a surplus of R$10.7 billion, but by November the rural sector had already recorded a deficit of R$ 5.8 billion.

General social security expenses are almost 7% of GDP; adding the public sector regime, which is about 3%–4% of GDP, total social security expenses are close to 10%–11%.

On one hand, some say that our welfare program is generous and comprehensive; on the other hand, there is the reality of thousands of retirees. Is our social security model ideal?

Too generous social security is not ideal; just look at other countries. — In Europe the welfare state went bankrupt because they were very generous, but it was unsustainable. In my opinion, good social security should be sustainable because it gives a guarantee. You give your future, your home, your rest to social security. So it has to be sustainable. Now it is running deficits and marching to bankruptcy.

Brazil must find a way — this is the great debate — to have a minimum retirement age.

Recently you said on the floor of the House of Representatives that the current situation of Social Security is "a tragedy foretold," and we should begin to reform the system. What reform bill would you like to see adopted during your administration? What do you consider essential to ensure that the system is sustainable?

We have our proposals, but they must pass through the sieve of the ministries of Finance and Planning and the Chief of Staff. Only then they are presented to the president. Our proposals include the pension reform for public employees. In general social security, I believe we must change especially pensions, which are very laxly regulated. We now pay 6.7 million pensions that total R$31 million a year. Brazil must find a way — this is

the great debate — to have a minimum retirement age.

A minimum retirement age would be an alternative to the social security factor, which you were against.

People speak badly of the social security factor, but it was created in 1999 precisely because there is no minimum retirement age. But — the factor has become unbearable and much more pernicious to the pensioner than a minimum age would be.

How would a minimum retirement age be implemented?

We do not yet have anything consolidated. The proposal being designed by the Department of Social Security has transition rules because any change in pension rules must be gradual. You should not introduce reforms without transition rules because you hurt people who are expecting to retire soon. You cannot say to someone, "Go back to work five or six more years."

Adjustments for retirees' pensions above the minimum wage are lagging as a result of past economic stabilization plans and higher adjustment for the minimum wage. What is your assessment of the situation? Should we have another index for adjustments to retirement benefits?

To resolve this problem there is need for a specific policy, like today's policy for adjusting minimum wages. One cannot just give an increase that has a huge impact. For now the question is: 32% of pensioners earn pensions above the minimum wage. We are not able to increase their pensions as they are asking. During preparation of the budget, it was argued that there should be an increase for pensions above the minimum wage without a government policy, which incidentally would have to be proposed in the legislature. This is not a desirable solution for either the government or retirees. The Social Security Ministry has created a group with representatives from trade unions, retirees, and the ministry, and they have given recommendations on the issue. ... I support a policy to solve the problem, but it must be much more gradual.

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If the markets understand that social security is unsustainable because of our political situation, could our economic credibility be harmed? What measures could be taken to ensure that what we see happening today in European countries does not happen here?

This is the key question. Market participants have a very critical view of our social security arrangements today. That's why we are making this effort to signal that things will change. It is not enough

to make speeches; we have to do something. I think we're really taking a big step, and without cutting any pensions. ... No one will have their rights affected. Those retiring now will retire under the current regime. We will change the pension regime for those entering the system now. This will signal to the market that social security will change.

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Social security for urban beneficiaries is in surplus but for rural beneficiaries it is in deficit. Is the government thinking of a reform to separate these beneficiaries, creating a policy of assistance for those who live in the countryside?

You cannot, at this point, change the benefits of rural beneficiaries. In the field we have a minimum contribution. Rural pensions are paid for with a specific tax, but this revenue is very small. To change this is very difficult. Now, a possibility for the future [might be to tax] agribusiness, is growing at about 4%, and the industry only managed to grow 1.5%.

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