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Social Security reforms in Chile: lessons for Brazil

Reformas da Previdência Social no Chile: lições para o Brasil

Reformas de la Seguridad Social en Chile: lecciones para Brasil

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Chile was the first country in Latin America to implement neoliberal structural reforms, under the Pinochet dictatorship (1973-1990). Such reforms were oriented by the affirmation of the state's subsidiary nature and the market's expansion in various areas, with a pullback by industry and weakening of labor union organization and workers' rights [1]. The country's social security and health systems suffered radical privatizing reforms that influenced other Latin American countries in the subsequent decades [2].

Brazil took the opposite direction during re-democratization, and the country's 1988 *Federal Constitution* adopted a comprehensive definition of social security, encompassing health, social security, and social assistance policies. Brazil's social security model emphasizes the social rights guaranteed by a universal public system through contributive and non-contributive social benefits [3]. The model is also based on a shared scheme in which active workers contribute to a fund that pays benefits to inactive workers in each period, establishing an intergenerational pact. The inclusion in social security was important for the defense of other sources of financing and the expansion of non-contributive benefits. Despite the difficulties, the public nature of social security with solidarity was maintained in subsequent decades in the face of reform proposals oriented towards cost containment and reinforcement of capitalization mechanisms, under the logic of individual insurance.

In the current Brazilian context, the Chilean system based on individual capitalization has inspired the Bolsonaro government's social security reform proposal, defended by Minister of the Economy Paulo Guedes [4] and submitted to the National Congress in February 2019. It is thus relevant to examine the Chilean reform experience in order to draw lessons and reflect on the potential consequences of adopting a similar model in Brazil.

Chile built its social protection system starting in the early 20th century, based on the occupational social security model [5]. Alongside Argentina, Brazil, and Uruguay, the country was a pioneer in developing a legal and institutional system and achieving progressive coverage of formal workers until the 1980s [2]. However, the system founded on the European model, in which the majority of the population had access to stable jobs and which allowed coverage of family members, was not successful in Latin America [6], where the high informal labor rates prevented broad coverage and protection against health and work-related risks for citizens excluded from the formal market.

Social protection in Chile was structured starting in 1924 with the enactment of laws on labor and workers' protection. *Law n. 4,054*, on Mandatory Workers' Insurance (*Seguro Obrero Obligatorio*),

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allowed the creation of a fund with tripartite financing between employees, employers, and government, which would later constitute the country's Social Security Service. In the following decades, the country progressively expanded the tripartite financing that marked the institutionalization of the system's solidarity until the reform implanted by the military dictatorship [5].

In 1981, in the scope of economic and social reforms, dictator August Pinochet adopted a new social security regime based on individual capitalization. Under this scheme, beneficiaries were responsible for financing their own pensions through mandatory and voluntary individual quotas (for those with savings capacity), channeled to a fund administered by the Pension Funds Administrations (AFP – *Administradoras de Fondos de Pensiones*), private institutions that were allowed to invest these funds on the financial market [7]. Thus, retirees' pensions would come from the earnings from their individual accounts.

The state was in charge of overseeing, assisting, and underwriting the system. The AFPs were granted the management of new fund members, leading to de-financing of the public sector, which continued to administer the pensions of the old beneficiaries without receiving the contributions from the system's new entrants. Incentives were created to accelerate workers' migration from the public system to the private system [8]. The private sector's rapid growth did not produce a decrease in the contribution by the state, which shouldered various burdens from the privatization process.

In addition to the expenses due to the transition from the shared system to individual capitalization, the state was responsible for oversight through the Superintendency of Pensions (*Superintendencia de Pensiones*), for financial compensation in case of AFP bankruptcy, and for complementing pensions for beneficiaries who contributed through the Guaranteed Minimum Pension (*Pensión Mínima Garantizada*) [9].

The constitutional apparatus established for the reform created an institutional structure for social protection based on the rights to individual freedom and security, to the detriment of collective sharing and provision of mostly public services. Although the individual capitalization system was consolidated for the majority of the Chilean population, members of the military remained under the social security system administered by the state.

Law n. 3,500 of 1980, which established the new pension system, determined that all workers under the system, 65 years or older for men and 60 or older for women, should pay 10% of their wages into their individual capitalization account, plus the administration fee for the AFPs. However, the system was increasingly considered unfair, insufficient, and incapable of protecting the beneficiaries from social risks [7].

According to data from the Organization for Economic Cooperation and Development (OECD), Chileans retire later and survive less after leaving the labor market than citizens from most of the other OECD countries. On average, Chileans postpone retirement at least a year after the minimum retirement age. In 2016, in the OECD countries, mean age at leaving the labor market was 64.3 years, while it was more than 66 years in Chile, one of the countries with the highest mean retirement ages [10]. Life expectancy after leaving the labor market in Chile is shorter than in the OECD countries as a whole: in these countries it was 18.1 years for men and 22.6 for women, while in Chile it was 13.1 years for men and 19.5 for women [10].

According to the *Casen Survey* by the Chilean Ministry of Social Development, from 2009 to 2017 there was an increase in the pension system membership rate in the workforce from 73.1% to 86.1%. However, if the analysis focuses on workforce members that actually made the last month's payment into the social security system, the figures are only 62.8% and 68.1%, respectively [11]. In other words, there is an important difference between the system's members and those that actually contribute to the system.

As for the pension system's flexibility, of the OECD countries in Latin America, Chile and Mexico have the most flexible social security systems, allowing bonuses for postponing retirement after reaching the minimum age and association between work and receiving pensions, with no cap on earnings [10]. These flexibilities may be consistent with the low pension replacement rates in Chile. According to the OECD [10], the net pension replacement rates for members with lower earnings have a projection of less than 50%, resulting in very low pensions, meaning that the lower-income population has to seek other ways of supplementing their income either through work or turning to the state for complementary pensions. Considering purchasing power parity, Chile ranks next-to-last among the OECD countries, after Mexico: mean wages in the OECD countries in 2016 were USD 42,682 compared to USD 20,538 in Chile.

In the Chilean case, in 2008, the first Bachelet government (2006-2010) created the Solidarity Pensions System (*Sistema de Pensiones Solidarias*), proposing an incremental reform aimed at diminishing the perverse effects of the pro-privatization system and improving the three pillars (public pillar with solidarity, mandatory private pillar, and voluntary pillar) in the Chilean system, especially the solidarity pillar [12]. In addition, the reform of 2008 included two benefits targeted to poor families. The first was the Basic Solidarity Pension (*Pensión Básica Solidaria*), targeted to the risks of old age and disability among non-contributors. The second was the Forward Solidarity Contribution (*Aporte Previsional Solidario*), replacing the Minimum Pension, targeted to members of the private system with the objective of improving retirement and disability pensions that were insufficient for subsistence [7]. However, the changes produced by the reform of the Chilean reform proved incapable of modifying the system's logic and design [13].

The second Bachelet government (2014-2018) established a Presidential Advisory Commission on the Pensions Systems, which published a sweeping diagnosis in 2015 on Social Security in Chile [14]. The 24-member expert Commission did not reach a consensus on a unified proposal for implementation, but three possibilities were presented: (i) continuation of the reform of 2008, supported by half of the Commission's members; (ii) creation of a social security component based on solidarity between beneficiaries and generations, defended by eleven experts; or (iii) radical reform for a shared solidarity system, defended by one expert.

In 2017, various organizations and grassroots movements held a plebiscite (which was non-binding), coordinated by the workers' organization called No + AFP, with the aim of verifying whether the Chilean people wanted to continue with the prevailing individual capitalization system or preferred to return to the shared solidarity system. Nearly one million Chileans voted in the plebiscite, and 96.76% favored changing the pension system.

Recent years have witnessed growing de-nationalization of funds in the pension system. Most of the AFPs have come under the shareholding control of international financial conglomerates like Metlife (USA), Principal Financial Group (USA), Citigroup (USA), BTG Pactual (Brazil), and Grupo Sura (Colombia), making the sector an important interest group with huge economic and political power in the country [15].

In late 2018, President Sebastian Piñera submitted a reform bill for the Chilean Social Security System, under review in Congress. The bill provides for strengthening the system's solidarity pillar and a 4% contribution by employers to workers' savings accounts [16]. Workers would be able to choose, as the administrators of their benefits, institutions like clearinghouse funds, insurance companies, and others, eliminating the exclusive administration by the AFPs and expanding the pensions market. However, the adoption of radical changes in the Chilean Social Security System is unlikely under the current Administration, considering President Piñera's pro-market policies and his family ties to one of the creators of the AFP, José Piñera, Minister of Labor and Social Security under Pinochet.

In short, although governments of different political and ideological stripes have proposed changes to the system since re-democratization in Chile, none of them has achieved significant changes that would reclaim the system's solidarity and reduce the weight of private institutions, due to the market dynamics and the vested interests involved.

The Chilean experience shows that the attempt to correct the system's distortions by the incremental reform of 2008 was important, but insufficient to deal with the problems that accumulated in more than two decades of privatization, such as the persistence of low coverage in some groups, gender and generational inequalities, and low replacement rates [17].

The state also continues to bear an important share of the social expenditures, despite the promise of the Pinochet reform. Chile is still one of the Latin American countries with the highest social expenditures. The share of public social spending for retirement and disability pensions is approximately 40%, ahead of the spending on education and health [18].

It is also crucial to examine the negative social consequences of the Chilean reform. In 2017, 22.1% of the population 60 years or older were living in multidimensional poverty [11]. After the reform of 2008, despite the increase in retirees (contributive or non-contributive) that received some form of benefit, there was an increase in the number of retirees or pensioners that continued to work (from

8.5% in 2009 to 14% in 2017). Mental health problems in the elderly population are worrisome, and Chile reports high suicide rates in the elderly. In 2016, the mortality rate from suicide in the Chilean population was 10.2 per 100,000 inhabitants; in the age bracket from 60 to 64 years, the rate was 12.0, while in Chileans 80 years or older it was 16.2 [19]. The contradictions spawned by social unprotection of the elderly and the growing need for state intervention to protect the poor require rethinking the premises of a system that transfers social risks to the workers, all the more so in scenarios marked by labor instability and growing structural unemployment.

In the 1990s, other Latin American countries like Argentina, Bolivia, Colombia, Mexico, and Peru adopted pension system reforms similar to that of Chile, with a pro-privatization approach based on individual capitalization [20,21]. Such reforms were encouraged by international agencies like the World Bank, whose document entitled *Averting the Old-Age Crisis* in 1994 recommended the creation of systems with multiple pillars, like the Chilean system [22].

Nevertheless, the low coverage of private pension funds and the persistence of imbalances led some of these countries to opt for a "reform of the reform", whether incremental or radical, depending on the country [21]. For example, Argentina launched a return to public control of the system in 2008, given the failed results of partial privatization undertaken in the previous decades [23].

As a lesson for Latin America, the premises of social security reforms oriented towards privatization failed to find backing in the analysis of real-life experiences in the region. Such reforms do not necessarily increase the system's coverage or the national savings rates, nor do they reduce the system's vulnerability to demographic changes [24].

Brazil, compared to Chile, is characterized by higher informal labor rates, harsher socioeconomic inequalities, and lower overall life expectancy (heterogeneous across the country's territory and between social groups). The effects of a reform oriented by austerity and fallacious accounting arguments can be tragic for future generations. A social security reform should be oriented towards consolidating a system that offers effective protection in old age, which requires considering the country's social context to design integrated policies for economic and social development, generation of employment, labor rights, opportunities for children and youth, and strategies of solidarity between generations and social groups. A break with the Constitution of 1988 represents a march in the opposite direction, as warned by Vianna [25], pushing Brazil into the gutter of social backwardness.

Contributors

S. C. Oliveira participated in the study's conception, literature review, and writing and final approval of the article. C. V. Machado participated in the study's conception and writing, critical revision, and final approval of the article. A. A. Hein participated in the critical revision and approval of the final version.

Additional informations

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