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Non-contributory pensions in Brazil: The impact on poverty reduction

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Summary [1]

Despite labour market informality, Brazil has reached a remarkable benefit coverage among the elderly over the last decades. This coverage extension is, to a large extent, due to two basic pension programmes financed by tax revenues and some social security contributions. The rural scheme, with nearly seven million beneficiaries, comprises old-age, widow and invalidity pensions, as well as maternity and labour accident benefits, all equivalent to the official minimum wage level. People are entitled to their benefits, if they belong to the rural family economy and if they can document length-of-service in agriculture, fisheries, or similar activity instead of length-of-contribution, thus breaking away from the Bismarckian contributive link. The financing of this programme is structurally dependent from either Treasury or an urban-rural cross-subsidisation. A second programme includes by 2.1 million people entitled to social assistance pensions, targeted at the indigent aged 67 or more and the disabled. On the basis of the 1999 PNAD Household Survey, the paper draws up a profile of the aged poor in Brazil, and finds that the impact of both programmes on poverty alleviation is large. Other positive effects, based on their research, are also reviewed. Finally, the study examines some key policy questions, such as the steps required to safeguard the rural programme's mid-term legal and financial continuity, targeting aspects, further legal improvements, and the differentiation between social insurance and social assistance.

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Acronyms

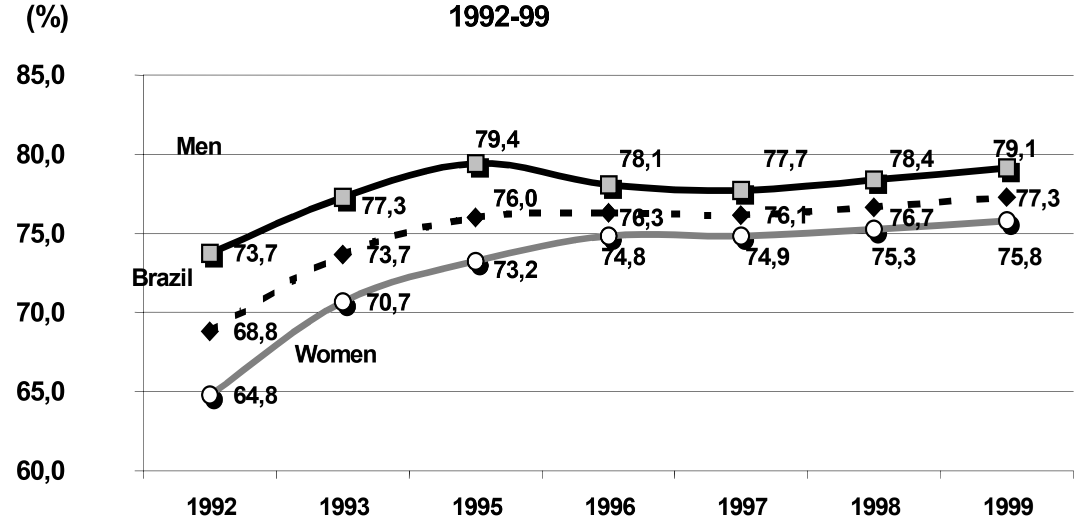
	Portuguese	English translation/explanation
ARENA	Aliança Renovadora Nacional	Official political party of the military government (1964-84)
ANS	Agência Nacional de Saúde Suplementar	Private Health Insurance Authority
BPC	Benefício de Prestação Continuada	Social assistance pensions
CLT	Consolidação das Leis do Trabalho	Consolidated Labour Law
COFINS	Contribuição para o Financiamento da Seguridade Social	Social Security Financing Contribution (tax on gross turnover of the private firms)
CONTAG	Confederação Nacional dos Trabalhadores na Agricultura	National Confederation of Workers in Agriculture
CNIS	Cadastro Nacional de Informações Sociais	National Social Information Database
CPMF	Contribuição Provisória sobre Movimentações Financeiras	Temporary Tax on Financial Transactions
CSLL	Contribuição Social sobre o Lucro Líquido	Social Contribution on the Net Income (tax on firms)
CUT	Central Única dos Trabalhadores	Trade Union's National Central
CVM	Comissão de Valores Mobiliários	Stock Market Authority
EFPP	Entidade Fechada de Previdência Privada	Employer-based pension funds
FETAGRI	Federação Estadual dos Trabalhadores na Agricultura	Regional (State-level) rural worker trade unions
FF	Fully funded	Social Security financing mechanism
FNAS	Fundo Nacional de Assistência Social	National Social Assistance Fund
FUNRURAL	Fundo de Assistência e Previdência do Trabalhador Rural	Social Security Fund for rural workers (allowed implementation of rural pensions in 1971)
INSS	Instituto Nacional do Seguro Social	National Social Security Institute
IPEA	Instituto de Pesquisa Econômica Aplicada	Applied Economic Research Institute
LBA	Legião Brasileira de Assistência	Former offical Social Assistance institution
LOAS	Lei Orgânica de Assistência Social	Social Assistance Act (1993)
MPAS	Ministério da Previdência e Assistência Social	Social Security and Social Assistance Ministry
NOB	Norma Operacional Básica	Basic Operational Norm (Health and Social Assistance Sectors)
OASDI	Old-Age, Survivor and Disability	Three classical social insurance areas
PCFI		Per capita family income

PETI	Programa de Erradicação do Trabalho Infantil	Child Labour Eradication Programme
PNAD	Pesquisa Nacional por Amostra de Domicílios	National Household Survey
RAIS	Relação Anual de Informações Sociais	Annual information on workers stated by the employers to the Labour Ministry
RGPS	Regime Geral de Previdência Social	General Social Security Scheme
RJU	Regime Jurídicio Único	Civil Service Law
RMV	Renda Mensal Vitalícia	Lifelong monthly income (former social assistance pensions, till 1995)
SAC	Serviço de Assistência Continuada	Continued Assistance Services (Federal Government supports financially decentralized assistance services on a permanent basis)
SEAS	Secretaria de Estado da Assistência Social	Social Assistance State Secretary (Federal Government, has the status of a Ministry)
SENAR	Serviço Nacional de Aprendizagem Rural	National rural education programme
STR	Sindicato de Trabalhadores Rurais	Rural trade unions
SUSEP	Superintendência dos Seguros Privados	Private Insurance Superintendency

Introduction

It is now widely known that, despite their importance and merits, traditional social security schemes—based upon the Bismarckian contributive principle—have not been able to universalize coverage of social security in Latin America. Apart from the problem of a high incidence of illegal informal work relations in Latin American labour markets, these contributive schemes are faced with stumbling blocks, such as poverty, in their efforts to include the urban and rural family economy sectors. Poverty is an obstacle to the enhancement of social security in Latin America. It is either structural or results from the increase in economic and social instability over the past two decades. Henceforth, prosecuting low compliance among those able to contribute, a policy aimed at increasing coverage of social security among groups not capable of keeping a regular contribution record demands approaches that are not based upon an individual monetary contribution to social security.

Figure 1: Persons aged 60+ who collect a benefit from any social security scheme, 1992-99



Source: Microdata PNAD/ IPEA.

Over the 1990s, Brazil quite unexpectedly reached a comparatively high coverage rate of benefits for the elderly (see figure 1). According to the Household Survey PNAD 1999, 77.3 per cent of those aged 60 or over received a benefit from a social security institution, including social assistance pensions and public servants' funds. This figure is a result of different factors. One of them is the maturation of the contributive pension programme during the 1990s with the retirement of several-age cohorts, whose contribution records had been accumulated over decades of rapid growth (1950s to the 1970s). Although the bulk of social security efforts—legislation, expenditure, services, and benefits—continues to focus on the contribution-based programme and on public servants' special schemes, there are two further social programmes responsible for the high coverage rates: the social assistance pensions and the Rural Social Security programme. Both programmes extend coverage to social groups unable to fulfill the usual contribution criteria, which topic will be dealt with in this paper. The increase in the benefit coverage rate among the elderly in Brazil from 68.6 per cent in 1992 to 76.0 per cent in 1995 is the consequence of the coverage expansion of the Rural Pension Scheme as demanded by the Constitution of 1988.

This study will provide a concise description of the Brazilian social security and social assistance schemes, and offer a historical overview of the role of Non-contributory benefits' evolution within social security and social assistance. Thereafter the focus of this paper will change to the impact of non-contributory benefits on poverty alleviation. First, a few aspects of the experts' general debate on poverty in Brazil will be presented. Then, a profile of the elderly currently benefiting from the two main non-contributory benefit programmes will be drawn up on the basis of PNAD household data and on previous field research. Finally, the paper will present a preliminary estimate of the impact on poverty of the non-contributory pension schemes in the country.

1. Social security, social assistance, and non-contributory benefits in Brazil: Origins, setting, and current structures

1.1 Evolution of social assistance and social security

From colonial times to the 19th century, authentic social assistance and care for the poor were considered basically a matter of Christian charity in Brazil, especially by way of the expansion of charitable hospitals known as "*Santas Casas de Misericórdia*". Official concern with assisting the poor was not considered important during the painful transition from forced labour—slavery was abolished in 1888—to a salary-based society. Throughout the twentieth century, official social assistance has frequently been reduced to a scheme of local poverty management with patronising characteristics. Policies lacking continuity, and often not based on civil rights, come and go depending on the political climate. Even in the late twentieth or twenty-first centuries, social assistance was treated as mainly a First Lady's concern by several public administrators.

This approach was started by President Getúlio Vargas (1930-1945 and 1951-1954) in the 1930s, when industrialisation was transforming Brazilian society. New urban working classes—blue and white collar—joined trade unions and pressed the Federal Government throughout the 1920s, 1930s and 1940s for social security programmes. These programmes were based on the Bismarckian contributive principle and co-financed by the employer and the State. The concentric expansion of social security coverage under the populist governments of those decades had much to do with the political power enjoyed by a particular social/professional group or with the potential threat it may have represented. Thus, a "stratified welfare state" tended to be the outcome, which reproduced and even increased the social gap. Replicating the experience of Hispanic Latin America, the weakest social groups—urban informal and domestic workers, rural workers, and indigenous population—who lacked political power were effectively not considered for social security coverage until the late 1960s.[2]

The 1988 Constitution was written in the aftermath of the military regime (1964-84) so as to change this scenario. The prevalent "spirit" during the elaboration of the "social chapters" aimed at reverting regressiveness and exclusion in Brazilian social policy by adopting a universalised approach. That meant a priori the introduction of a broader concept of social security in Brazil—social security would henceforth be understood as a combination of social insurance, social assistance and Health care.

Since the specific evolution of social assistance and social insurance will be seen in detail below, it might be useful to take a short look at the Brazilian health care system and at the recent evolution of the social security concept and its financing. The current public health care system (SUS) has actually been built in a step-by-step process since the mid-1980s. The responsibility for health care services was transferred from social insurance to the Health Ministry and eventually decentralised in the 1990s to states and municipalities. The services were transformed into a universal basic health care system, which offers primary, secondary and tertiary health care, in principle for any person without charge. The SUS law was passed in 1990 and important complementary rules have been issued since, with special emphasis on the basic operational statutes (NOB) of 1993, 1996, and 2001, which paved the road for the decentralisation of services and organised the participation of states and municipalities in financing the scheme. Throughout the 1990s, with a very heterogeneous coverage both in quality and quantity throughout the country, the great majority of the Brazilian middle class started to purchase private supplementary health care services. From the second half of the

[2] Those groups were subject to co-optation attempts, by politicians who offered—in exchange for votes—social benefit coverage expansion in Brazil and elsewhere in Latin America. See Malloy (1979) for the case of Brazil and Mesa-Lago (1978) referring to six Hispano-American cases.

1990s, the Federal government decided that the booming private market needed regulating, and therefore instituted the Federal regulation agency, ANS ("*Agência Nacional de Saúde Suplementar*"). A rough estimate, based on data stemming from private health organisations and on the PNAD household survey of 1998, suggests that among the 165 million residents (2000), approximately 40 million persons buy private health care services, 90 million use the SUS, and 35 million seem to have no health care coverage at all.

Health care, social assistance, and social insurance were to be financed out of a unified social security budget, funded by traditional social security revenue collected from payrolls, as well as taxes on the gross turnover (COFINS) and the net profit (CSLL) of enterprises, besides other minor sources. It is worth mentioning that the diversification of the financing of contributions and taxes was one of the guiding social policy principles of the Constitution and had the goals of increasing the stability of social policy funding and reducing its regressiveness.

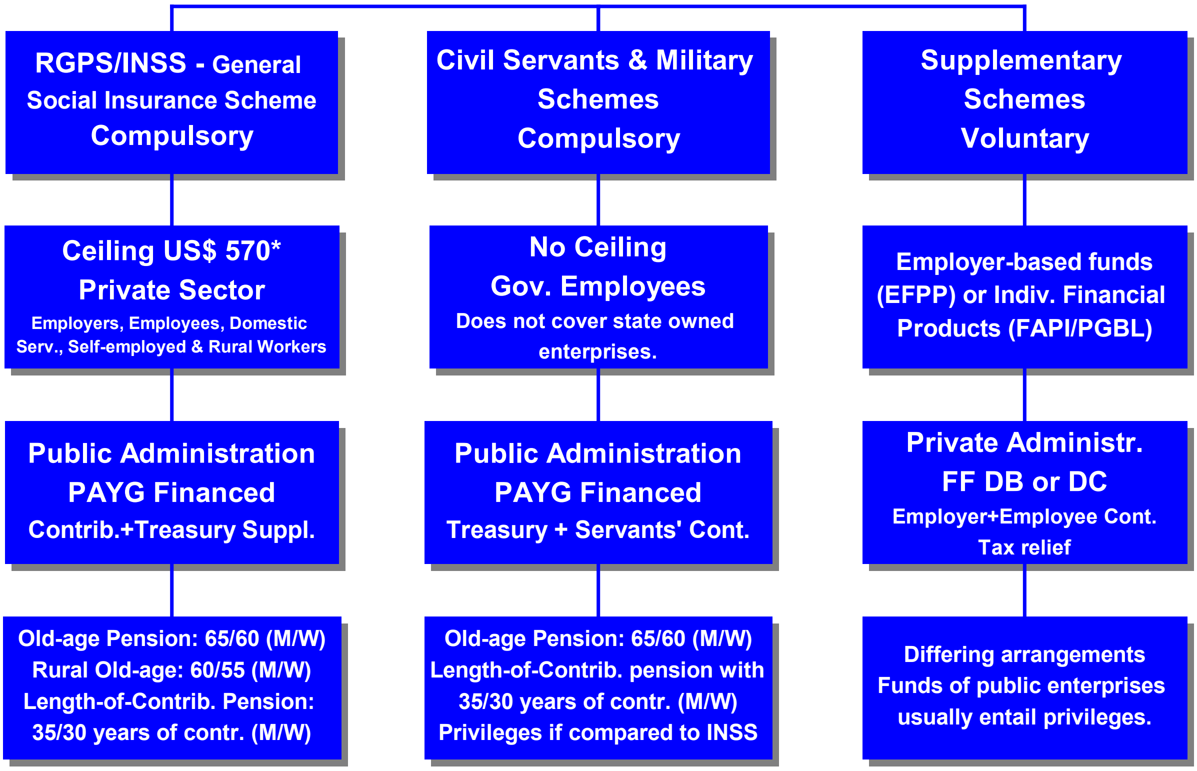
The Constitution had just been adopted when in the late 1980s, due to fiscal restraints, the Federal government started to fund civil servant pension expenditure from the social security budget. That period of financial restriction enhanced the conflict among policy areas in the Federal government over the 1990s. Government and beneficiary representatives aimed at ensuring an exclusive financial source for their own area. By the end of the 1990s, the Unemployment Benefit Scheme, Social Insurance, the Education Ministry, and the Health Ministry had accomplished that goal. Social insurance has gained exclusivity de facto since 1993 and de jure since 1998 on the revenue from contributions based on labour income. The Health Ministry persuaded Parliament in 1996 to create a tax on financial transactions (CPMF), but in fact the Ministry's budget was larger than the CPMF revenue and possible gains were reversed by the loss of income from other sources. Therefore, the Ministry managed to approve in the year 2000 a second Constitutional amendment in order to eliminate fiscal vulnerability, determining a nominal level of resources indexed to GDP growth, regardless of a specific tax or contribution source. The concept of a social security budget, as proposed by the Constitution of 1988, was actually jeopardised by the inclusion of civil servants' benefits, Social Insurance's exclusive hold on payroll contributions, and the indexation of the Health Ministry's budget to GDP growth.

In the cases of social insurance and social assistance, new regulating laws were passed in 1991 and 1993, respectively. In the sections below both areas will be described in their current configuration, with special attention to the flat-rate benefit of rural social security and the social assistance pensions for the elderly and the disabled.

1.2 Social security after the 1988 Constitution

Figure 2 shows the current structure of the contributive Social Security System in Brazil, as designed in the Constitution of 1988 and the recent 1998 Constitutional Amendment No. 20 (the “Pension Reform”). Legally the system is supposed to cover almost all residents, except for employees of international institutions with social security coverage of their own. The “General Scheme” RGPS, managed by the “*Instituto Nacional do Seguro Social*” (INSS), compulsorily covers all those working under the CLT Labour Law which is the one valid for the private sector, including employees of state-owned enterprises and a growing number of civil servants since the recent administrative reform (1998) restricted the access of newly-hired servants to special pension schemes. The RGPS is a traditional social security programme, administered by the State, financed by payroll contributions and Federal Treasury supplements, run on a pay-as-you-go basis, and built on the defined-benefit principle. The Social Insurance National Council has a tripartite co-administration, including representatives of the trade unions, employers and beneficiaries. Almost 30 million people are currently contributing to INSS, which pays out each month more than 20 million benefits. The RGPS contribution and benefit ceiling of R$1.483 (about US$570 in Nov. 2001) equalled 8.2 times the official minimum wages. That means that all the income from labour of approximately three-quarters of the formally-employed population is compulsorily covered, as shown by the Labour Ministry’s RAIS statistics. According to PNAD, this proportion (the “catching factor”) would be around 90 per cent of the formal and informal employed population. The RGPS has been in the red since 1996, when macroeconomic stability eliminated the INSS’ recourse to inflation in order to devalue real benefits while earning additional interest revenue on the short-term public debt market. The RGPS/INSS had a deficit of 0.9 per cent of GDP in 2000, which meant that for roughly each five Real paid into the scheme by the contributors, the Federal Treasury had to supplement with another Real.

Figure 2 – Structure of Contributive social security in Brazil, 2001



* R$ 1.483 at R$ 2,60/US$ (in Nov. 2001). Ceiling valid for contributions and benefits.

Table 1 shows the distribution of benefits paid out at INSS in August 2001, by urban and rural programmes, as well as beneficiaries from social insurance and social assistance. It is important to highlight the high number of benefits that are paid each month that equal the minimum wage[3]—almost two thirds (64.9 per cent). These benefits, however, correspond to little more than one-third (37.7 per cent) of total expenditure. It is important to emphasise this bracket of one minimum wage (one [or 1] mw) because both the social assistance pensions (whose payment is operated by the INSS) and the Rural Pensions pay out flat-rate benefits of this value. Since August 2001, 6.5 million minimum wage benefits belonged to the Rural Programme and 2.1 million were social assistance pensions; another 4.4 million benefits pertain to the urban scheme, mostly old-age pensions benefiting from the minimum-pension guarantee. This feature of the INSS/RGPS has had important redistributive impacts, which will not be dealt with in depth in this report.[4]

[3] One minimum wage is, by Constitution, the minimum value a social insurance or social assistance benefit replacing income is supposed to equal.

[4] The rural benefits and the minimum pension guarantee are two progressive elements within the RGPS. A third important redistributive device is a differentiated employee contribution rate, ranging from 7.65 per cent to 11.0 per cent of the contribution basis according to the income bracket the insured belongs to. However, the Length-of-Service-Pension, due after 35/30 years of

Table 1: Social Insurance benefits and social assistance pensions BPC-administered by the RGPS/INSS: Number and expenditure by value brackets, Aug. 2001

	No. of benefits ('000)	%	Expenditure (R$) ('000)	%
All benefits:				
Social assistance (1 mw)	13,024	64.9	2,344,315	37.7
Social insurance	7,053	35.1	3,868,534	62.3
Total	20,077	100.0	6,212,848	100.0
Urban benefits:				
Social assistance (1 mw)	6,489	48.3	1,167,945	23.3
Social insurance	6,950	51.7	3,838,701	76.7
Total	13,439	100.0	5,006,646	100.0
Rural benefits:				
Social assistance (1 mw)	6,535	98.4	1,176,370	97.5
Social insurance	103	1.6	29,833	2.5
Total	6,639	100.0	1,206,203	100.0

Source: MPAS.

Besides the General Social Insurance Scheme in the second column of Figure 2 there are also special regimes for civil and military public servants on the Federal, regional, and local levels. Such regimes follow the RJU-Civil Service Law, except for the military pension scheme, which is run under a specific legislation with little operational data transparency. The RJU grants privileged benefits if compared to what is offered by the RGPS. One of the differences is that public servants' benefits do not have a ceiling. According to PNAD, there are about four million public servants on the Federal, Regional and Municipal levels in Brazil. In the case of the Federal civil servants' scheme, which pays out about 900,000 benefits each month, the financial imbalance is larger than the one recorded at the INSS/RGPS. The proportion between the employees' contributions and those of the Treasury to the Civil Servants' scheme is opposite to that of the INSS: For each Real contributed by civil servants, the Federal Treasury had to inject five Real in the year 2000.

Finally, a third pillar of the Brazilian system is the private pension funds and other instruments of the private financial sector, which can be purchased on a voluntary basis. The 361 employer-based EFPP pension funds covered 6.5 million persons (2.3 million direct participants and 4.2 million dependants) in June 2001. These funds do not compete with the public social insurance scheme, but supplement the INSS benefits. The funds present either

contribution regardless of age, was (and still is) one of the most regressive elements of the Social Security System in Brazil.

defined-benefit or defined-contribution approaches. The financing mechanism is fully funding (FF). The EFPP funds are regulated by the Social Security Ministry, the Central Bank and the Stock Market Authority (CVM). Financial market products are regulated by the private insurance superintendency, SUSEP. Only the top 20 per cent of the economically-active population can be considered as a realistic target for private supplementary pension schemes since the Brazilian income is extremely concentrated.

1.3 The origin and recent development of rural social security in Brazil

It was paradoxically during the Military Regime (1964-84) when regular monetary benefits were expanded to the relatively voiceless and politically weaker groups in the urban informal and rural sectors. However, several factors combined to explain such paradox (Malloy 1979, Delgado/Cardoso Jr. 2000, Schwarzer 2000a): First, regarding the expansion of social security to the farm workers, the rural sector had actually gained political strength in the late 1950s and early 1960s, when the mobilisation of national rural workers resulted in the creation of several unions (i.e. the national representation of rural workers, CONTAG, was founded in 1963) and land reform became one of their main demands. Second, the military regime was based on a political alliance that included State officials—among whom were the Social Insurance officials who were guided by the ILO-inspired and then prevailing paradigm of universalising Social security coverage. Despite opposition from certain quarters of the political alliance, these technocrats managed to implement an expansion package in different stages between 1965 and 1975. Likewise, also crucial to the success of this gradual implementation, was the interest of the political party "ARENA", the civilian supporters of the military regime, whose members saw in a benefit distribution scheme the possibility of increasing control over a large section of the population. Third, the military doctrine of state security regarded social stability—and therefore social security—as an important precondition for economic development and the likely rise of Brazil as a superpower. Thus the military welcomed social policy proposals that could contribute to enhance "national grandeur".

In 1971 the military regime passed a law effectively institutionalising pensions for rural and family-economy workers under the administration of FUNRURAL ("*Fundo de Assistência e Previdência do Trabalhador Rural*"). These pensions were extended over the following years to goldwashers and fishermen, if they were working within a family-economy setting without employees of their own. The innovative FUNRURAL scheme ruptured completely with the Bismarckian contribution principle by instituting a flat-rate, old-age benefit at age 65, disability or widowhood, with no relation to the previous income of the insured and a contribution of 2.1

per cent on the primary value of commercial output. The FUNRURAL financing has never actually depended on the revenue of this contribution on commercialisation, which was by and large insufficient. The bulk of resources came from a three per cent additional contribution on the urban payroll, paid by employers. Hence the FUNRURAL instituted an urban-rural cross-subsidisation in Brazilian Social security. The rural benefits expanded rapidly throughout the 1970s and by the end of the decade about 800,000 benefits had been paid out every month. Despite the programme name change in 1977 and the abandonment of the brand FUNRURAL, more than two decades later rural pensions in Brazil are still colloquially called by its first abbreviated title. This is an indication of the enormous popularity of the FUNRURAL programme in those times.

Nevertheless, the FUNRURAL programme had limited scope and a patronising approach. The benefit was due only to the "head of the household", which meant that women were largely excluded from collecting old-age benefits except when they lived alone. Furthermore, the value of the flat-rate, old-age pension was half a minimum wage; the widow’s pension was even lower: one third of an official minimum wage. It is widely known that during election times in the late 1970s and early 1980s, the issuance of personal documents required for applying for a benefit at FUNRURAL was often sponsored by local ARENA politicians in exchange for votes in rural areas throughout the country. Holding a position as the local FUNRURAL director in small villages was one of the most promising starting points for a political career at those times.

With the issuance of the new Constitution of 1988, the Rural Social Security Scheme has gone through profound expansion and improvement. A new Social Security law was enacted providing the legal basis for the changes prescribed in the Social Chapter of the Constitution. One of the principles was special protection for peasant family-economy arrangements by social security. The Constitution decreed a reduction of five years in the age limit for rural, old-age pensions and the continuation of specific rural contribution principles. Another requirement was the implementation of equal gender treatment, as well as the increase of the minimum benefit to the level of the official minimum wage. The corresponding legal text was eventually approved in Congress and issued in July 1991 (Laws 8.212 and 8.213). The decree needed for its implementation took another year to be issued by the Ministry, owing to widespread fears of the fiscal charge that the new benefit extensions in social insurance and social assistance would generate within the Government.

For the rural insured at INSS[5], the new legislation brought several profound improvements:

- First, the right to an old-age pension was extended to the spouse (that means in practice: the woman) regardless of the fact that the "head of the household" might already be collecting a social security benefit. This change in rules implied a coverage expansion among aged rural women, and a change in their social roles, and it represented a special victory for rural women's social movements.

- Second, the age limit for old-age retirement was reduced by five years to 60/55 for men/women among the rural insured in comparison to urban ages (65/60). The justification for the relatively low retirement age is the hardship of agricultural work in rural family economy in Brazil.

- Third, the minimum benefit guarantee of one official minimum wage was also considered applicable in the case of rural benefits, thus doubling the old-age benefit and tripling the widow's pension. The Brazilian Courts decided in the early 1990s that the minimum benefit guarantee had to be applied from October 1988, when the new Constitution was issued, and the State was obliged to pay higher benefits to urban and rural pensioners.

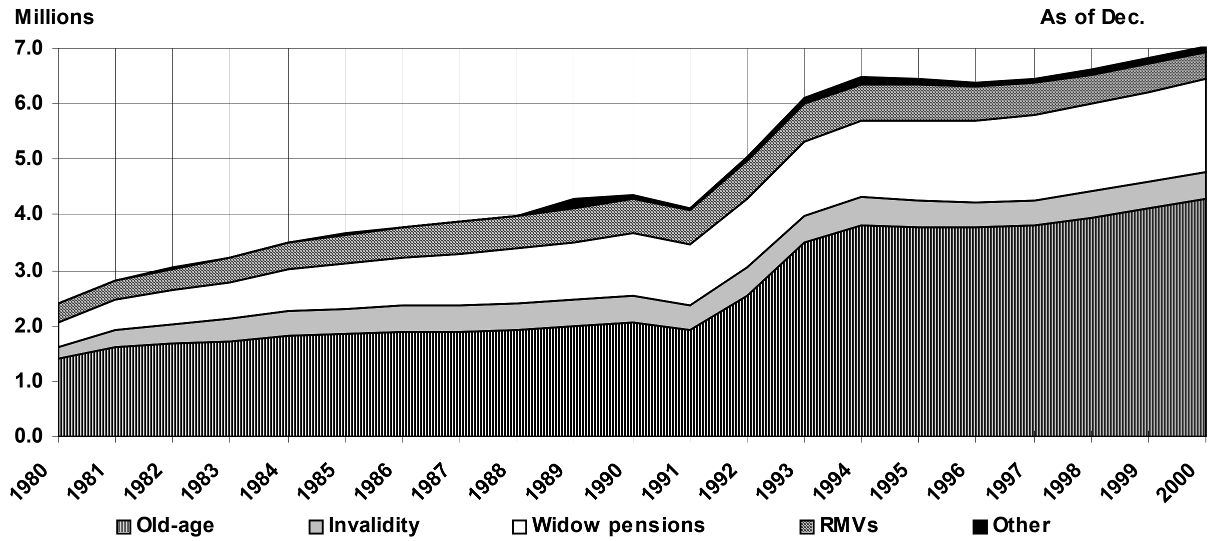
- Finally, the new legislation preserved several special treatments for the rural scheme in order to prevent the rural insured from being burdened by social insurance rules that did not deal adequately with the rural reality because they were originally designed to urban wage earners. The most important of them is a specific-contribution rule, which does not require an individual monetary contribution on earned income but requests the first purchaser of rural production to pay the INSS a contribution of 2.2 per cent of the commercialisation price (2.0 per cent are due to the OASDI insurance, 0.1 per cent to labour accident insurance and 0.1 per cent to the rural education programme SENAR). The second exemption is that rural insured have to document years of rural work instead of years of contribution to fulfil the minimum insurance period to qualify for a pension. The number of years of rural service required equals the minimum contribution period for the urban insured. Since the implementation of the central contribution/length-of-service database (the CNIS – "*Cadastro Nacional de Informações Sociais*") is in progress and is not applicable to the rural insured, the latter have to document their service period in rural activities. In the absence of

[5] In 1990 the former INPS and IAPAS Institutes were merged and formed the INSS ("*Instituto Nacional do Seguro Social*" – National Social Insurance Institute).

the traditional urban papers, rural work proves the period of insurance by the documentation of the land used in agriculture, agricultural products' commercialisation receipts, or a declaration of a rural workers' trade union.

The new legislation caused a sharp increase in the number of rural benefits. The coverage extension started in 1992 as shown in Figure 3. By the end of 1994 the inclusion of new beneficiaries came to an end and the trend of the rural pension benefits was again determined mainly by demographic factors. The increased coverage in the period 1992-1994 was about 2.4 million benefits, from 4.11 million in 1992 to 6.48 million in December 1994. The increase was due to the expansion of old-age pensions, given the reduction of the minimum age by five years and the universalisation of coverage to women.

Figure 3: Trends in rural pension benefits, 1980-2000 (in millions)



Source: AEPS and MPAS/CGEA. Other: Includes Length-of-Service Pensions, Labour Accidents, Supports.

This quantitative and qualitative enhancement of the rural scheme has had a deep social impact since the 1990s. Table 2 shows that a large part of the employed population, which does not contribute to the official social security, earns an extremely small income in Brazilian agriculture. More than half of those employed and not paying contributions had an income of one-half of one mw or less. Such low income has been the reason for pushing rural households towards increasingly diversified economic strategies, with the participation of household members in the urban labour market (especially in the construction, service and commerce sectors) and the maintenance of rural production for sale and self-consumption. Apart from these sources, the households have had a greater access to social benefits, especially from rural social security, which has been playing an increasingly important role in the composition of rural household income throughout the 1990s. (Delgado/Cardoso Jr. 2000)

Table 2: Income of non-contributors to social security working in agriculture, aged 14-64, by employment status, 1997 (in ,000)

Minimum wage	Wage earners		Self-employed workers		Employers		Subsistence farmers		Unpaid family work		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
0 - 1/2	392.4	5.9	816.2	12.2	6.4	0.1	2,163.0	32.4	3,339.7	50.0	6,678.9	53.6
1/2 - 1	973.3	47.4	1,032.2	50.3	17.7	0.9	16.7	0.8	60.4	2.9	2,050.2	16.5
1 - 2	1,188.8	53.8	1,011.3	45.8	39.4	1.8	5.7	0.3	12.7	0.6	2,206.3	17.7
2 - 3	254.6	37.5	397.4	58.7	40.8	6.0	.5	0.1	3.3	0.5	676.6	5.4
3 - 5	80.9	20.8	272.0	69.9	46.6	12.0	.5	0.1	2.1	0.5	389.1	3.1
5 - 10	17.4	10.1	109.1	63.5	51.3	29.9	-	-	-	-	171.7	1.4
10 - 20	1.8	2.6	34.9	48.8	37.4	52.3	-	-	-	-	71.6	0.6
Over 20	1.5	4.8	5.8	18.9	24.5	79.6	-	-	-	-	30.8	0.2
'Total	2,906.8	23.3	3,685.4	29.6	264.4	2.1	2,186.4	17.5	3,418.2	27.4	12,462.3	100.0

Source: PNAD. MW: Official minimum wage.

Two independent studies, carried out in 1998 (Schwarzer 2000a, in the state of Pará, Delgado; and Cardoso, Jr. 2000, in the Brazilian Northeast and South) showed that for 80 to 90 per cent of rural beneficiaries' households, social security benefits were responsible for at least 50 per cent of the monetary household income, regardless of being in the "poor" Northeast and Amazon region (Pará) or in the "rich" South. This leverage effect on the monetary household income has numerous consequences, some as follows:

1) *Poverty alleviation.* The rural pension scheme significantly contributes to poverty prevention and reduction as is demonstrated when households with access to rural benefits are compared with those without. In the three southern states, for example, only 14.3 per cent of the households of rural social security beneficiaries is below the exogenous (natural) poverty line of one-half of an official minimum wage per capita family income[6]. If an endogenous poverty line is applied (i.e. adjusted for local prices), then only 0.4 per cent of the households of rural

[6] This value corresponds to the poverty line according to the LOAS Act, as will be seen further on in this paper.

beneficiaries suffer from extreme poverty, 8.8 per cent are in poverty, and 2.7 per cent are just able to meet the very basic needs for all household members with the available income. The remaining 88.1 per cent of households have an income surplus, which is spent on agricultural production and on the improvement of living standards within the household (Delgado/Cardoso Jr. 2000).

2) *Access to and substitution of social services.* The social security benefit partly replaces or improves access to further social services. The monetary income allows the aged and the disabled to afford private, less precarious medical services in urban areas, which very often are not available in quantity or quality in the substandard public health care facilities in rural areas and small municipalities. The income also enables the beneficiaries to buy medicine, normally lacking in the public free health care service. It is noteworthy that expenditure for medical services and pharmaceutical products is an important part of the beneficiaries' household budgets. In the case study in the state of Pará, it was observed that benefits could also take the role of unemployment insurance, not available in rural areas. The rural unemployed very often receive the support from older generations. In the Northeast region and in the state of Pará it is quite common to find that up to three generations of the same family share the income from social security pensions. In all surveyed regions of the country, the average number of persons living in households with access to rural social security was close to four (Delgado/Cardoso Jr. 2000, Schwarzer 2000a).

3) *Quality of life.* Receiving social security benefits dramatically improves the quality of life of the household members. The income allows the acquisition of household appliances such as refrigerators, televisions, dish antennas, and the like. Moreover, households with monetary income are able to afford the installation of electricity cables in their land, the payment of an electricity bill, and may even have access to telephone services. (Schwarzer 2000a)

4) *Housing improvement.* The monetary income also allows the improvement of the beneficiaries' residences since the needed materials—bricks, tiles, sanitary facilities, etc.—are now affordable. The rural pensioners' residences are usually among the best houses in the village. (Schwarzer 2000a)

5) *Agricultural development.* As Brazil moved away from agricultural development policy instruments during the 1990s, the importance of pensions as a safety net for the peasant economy increased. Regular income, independent of the weather—unlike the income from agricultural production—allowed the acquisition of working instruments, seeds, and the

capitalisation of the family production units, offering a basis on which the rural peasant economy subsisted throughout the decade.

6) *Reduced rural-urban migration.* All the aforementioned positive consequences prevented further migration to large cities. During the field research in the state of Pará, stories were often told about persons who were eager to leave major crisis-prone urban centres and return to rural areas, where they frequently found support from relatives who receive a social security benefit.

7) *Changes in social roles.* The fact of receiving a social security benefit redefines the role of the aged within the household and the rural communities in Brazil. The redefinition is particularly evident in the case of women, who now have an income source of their own. Although aged women continue living with their children, the relationship is qualitatively different. It is also important to stress that instead of an erosion of family ties, the family solidarity has usually been strengthened under this non-contributory pension scheme. (Rocha 2000 in Delgado/Cardoso Jr. 2000)

8) *Trade unions financing.* While active rural workers almost always lack the monetary income for "superfluous expenditure", the pension benefit allows retired rural workers to pay regular trade union contributions. The local rural trade unions, known as "*Sindicato de Trabalhadores Rurais*" (STR), as well as their regional and national associations (the regional FETAGRI and the national CONTAG[7]), fund their activities in part with the revenue of a "Solidarity Contribution" of 2 per cent of the pension, paid in exchange for the services provided by the trade union at retirement (declaration of recorded activity as a member of an agricultural establishment). (Schwarzer 2000a)

9) *Regional income redistribution.* For a large number of municipalities and even states in Brazil, the rural pension scheme has a strong regional income redistribution function. In approximately 40 per cent of Pará's municipalities, for example, the volume of income transfers to families via social security is larger than the fiscal equalisation transfers received by the

[7] CONTAG contributes financially to the trade unions' national organisation CUT. The association of CONTAG and CUT provides for the inclusion, in principle, of the agricultural workers' interests among the interests defended by CUT. However, the relationship between the rural workers' demands, as represented by CONTAG, and the urban trade unions' interests, which are the majority within CUT, is not without problems, given that the financing of the rural pension system includes the cross-subsidisation of rural pensions by urban contributors. Trade union members from the industrial and urban service sector very often have little knowledge about the exact circumstances of labour in agriculture and defend mainly the interests of urban associates when negotiating social security issues. A unified position would be especially required when trade union members take part at the National Social Security Council.

respective municipal administrations from the official Federal and regional funds (the "*Fundo de Participação de Municípios*" and the "*Cota-Parte do ICMS*") (Schwarzer 2000a).

10) *Support of the local economy.* The pension income transfers support the local economy. The beneficiaries receive their monthly pension on schedule at a commercial bank or at the post office, in accordance with a payment scale. On pay day the beneficiaries purchase the goods needed for the month and pay back the granted loans. The electronic banking card that each beneficiary receives is often used as a proof of creditworthiness, since retired workers are among the few persons in small villages that can count on a regular income. Therefore, pension payday is when the wheel of the local economy goes round in rural Brazil. Several firms are viable only because of the income transferred by social security. The commercial banks are a special case. Banks are remunerated for the payment service by social Security. Their branches in small towns quite frequently depend on this remuneration to be profitable and keep open. Without banking infrastructure, local economic development would face great difficulties in accessing rural credit and development programmes sponsored by the Government. (Schwarzer 2000a)

The financing of the rural pension scheme remains unresolved. The Constitution and the Laws of 1991 defined the "family economy regime" as the target group for rural pensions. That means that these persons have low if any contribution capability and that the financing of rural pensions cannot be designed based upon the traditional Bismarckian principles. In fact, over the last decade, the INSS had been unable to collect enough contributions in the rural area. The revenue covers no more than about 10 per cent of rural benefit expenditure. Hence, there is a structural financial deficit of approximately 90 per cent of total expenditure on rural pensions. In the past, before the 1991 legislation came into force, three percentage points had been added to the urban payroll tax to fund rural benefits, thus generating an urban-rural income transfer. After 1991, this specific portion of the urban contribution rate was integrated within an increased overall social security contribution rate. The rural pension scheme lacked R$ 9 billion in 2000, corresponding to a major part of the R$ 10.2 billion total INSS deficit.

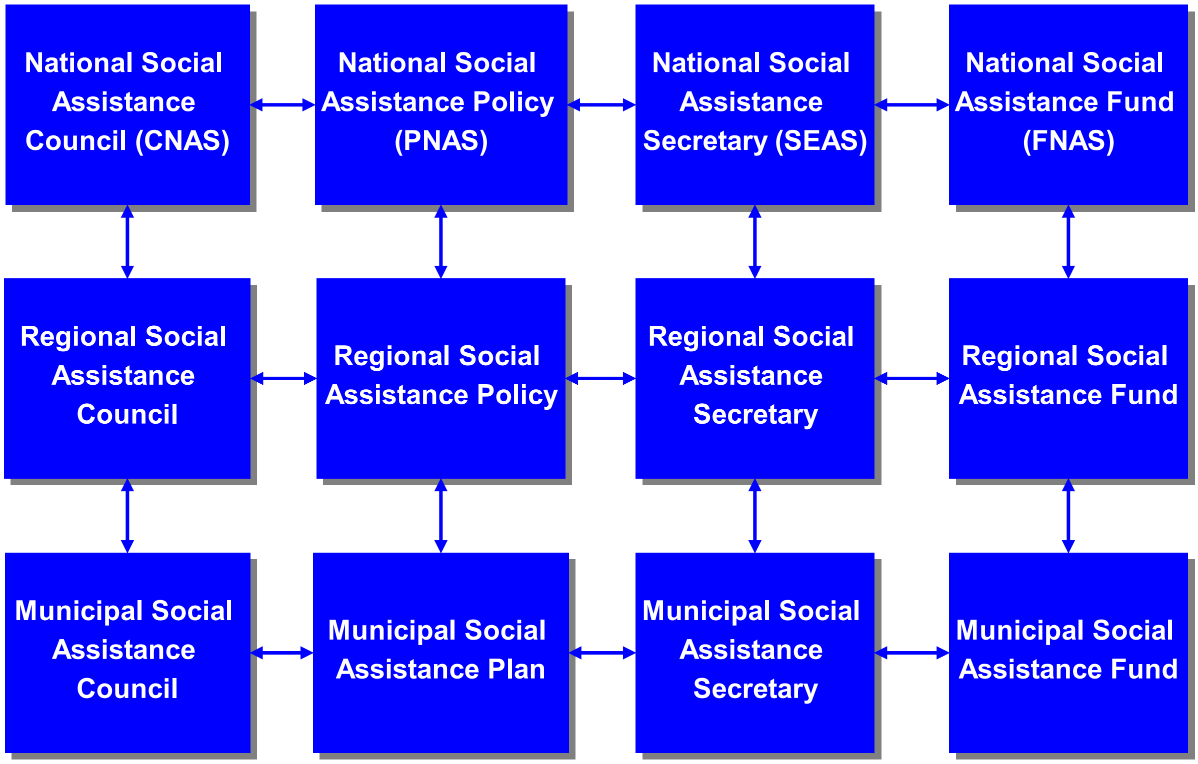
In practice the Treasury transfers to the INSS to cover the overall deficit could be seen as covering the rural scheme's deficit. The effective INSS deficit would then refer to the urban contributive scheme and amount to R$ 1.2 billion in the year 2000. However, recent practice and lack of transparency with regard to the sources used leaves the impression that the urban contributor continues to fund, at least partially, the rural scheme. This lack of transparency generates conflict between urban trade unions and their rural counterparts, which in turn reduces the efficiency of workers representation at the quadripartite National Social Insurance Council, itself composed of representatives from the Government, the trade unions, the employers and the retirees. Defining a permanent source for the financing of the highly redistributive rural benefit is a crucial item to be solved in order to safeguard the future of the scheme. Tax specialists agree that this source should ideally be a tributary one instead of a payroll contribution.

1.4 The structure of social assistance under the LOAS Act

In 1989, after the promulgation of the new Constitution (Oct. 5th. 1988), Brazil voted for a President for the first time since the early 1960s. During the elaboration of the Constitution (1987-88), the historically strong conservative wing in Parliament had focused on economic and financial issues. Eventually, various profound social policy changes proposed by centre-left interest groups were implemented, the principles of which were to guide social policy. The Constitution required specific laws to regulate and implement these steps. With the election of President Fernando Collor in 1989, however, whose political alliances favoured conservative interests, the hoped-for leftist changes were stopped. A first draft of the proposed social assistance law was vetoed by the President during his term. The new Social Assistance Act ("LOAS" – Law 8742) was passed only in 1993, after President Collor had been impeached in late 1992. The LOAS Act was fully implemented only in 1995.

The LOAS Act deeply changed the institutional structures of social assistance in Brazil. The former *Legião Brasileira de Assistência* (LBA) and other scattered government foundations were closed down in 1995 and a Social Assistance Secretary was created at the Federal Social Security Ministry with the responsibility of co-ordinating the formulation and execution of policies. Social assistance was to be decentralised, where the Federal, Regional, and local levels would take part in a joint design of policies and co-financing, as well as the participation of different groups of civil society by means of the social assistance councils on the three Federal levels. On each level a basic document would be prepared to define social assistance policy, based upon a comprehensive diagnosis of local problems and needs. Between 1995 and 1998, several instruments were introduced, such as the creation of a National Social Assistance Policy; and the issuance of Basic Operational Norms (NOBs) to institute bipartite and tripartite administrative commissions, which were to promote dialogue between the three government levels, determine the scope of action of each level, settle financial issues, and implement the participative council scheme at the three levels.

Figure 4: Matrix structure of social assistance in Brazil since 1995



Source: LOAS Social Assistance Law.

The Social Assistance System supplements the Social Insurance Scheme at the bottom end of the income scale. Unlike the RGPS, which is centralised at the Federal level, the social assistance network is based on the decentralisation principle and therefore has a matrix design, as shown in Figure 4. This network is mandated by the Social Assistance Act (LOAS), which also instituted a functional separation of the institutions at each administrative level: a social assistance council (participation in decisions regarding principles of policy), a document *Social Assistance Policy* stating the main objectives and principles at each administrative level, a social assistance fund to centralise the financial resources and increase transparency of social assistance spending, and finally an executing agency (the Social Assistance Secretary) at each government level. The participation of the three government levels in designing policies and funding the programmes requires intensive negotiations, which are managed by bipartite and tripartite commissions (in this case "bi" and "tri" referring to the number of government levels included in each commission).

Table 3: Evolution of the decentralization process in social assistance, 1998-2000

	Municipalities	Municipal councils	Municipal funds	Municipal plans	Municipalities with administrative autonomy in social assistance
1998	5,506	3,927	3,359	2,165	–
1999	5,507	4,840	4,701	4,482	2,498
2000	5,507	4,878	4,747	4,543	3,802

Source: AEPS/MPAS.

Table 3 shows the recent advances in the policy matrix implementation process. It is necessary to bear in mind that social assistance, as seen in the historical chapter, was never a systematic, civil rights based public policy in Brazil before LOAS. Therefore, the process of implementing the LOAS matrix is actually a difficult social learning process. The figures in Table 3 strongly testify in favour of recent efforts, showing that 88.6 per cent of all Brazilian municipalities have a Social Assistance Council, 86.2 per cent instituted a Social Assistance Fund, 82.5 per cent issued a Municipal Social Assistance Policy (at least on paper) and 69.0 per cent enjoy administrative autonomy in the provision of social assistance.

Table 4: Families covered by official social assistance programmes and projects, 1998-2000

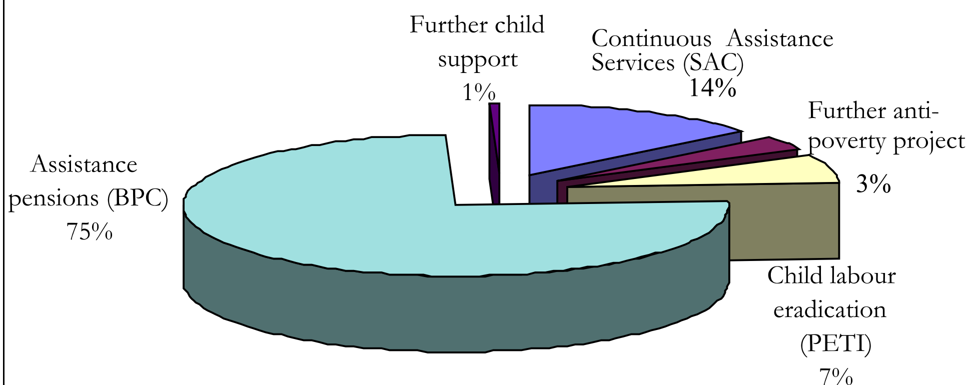
	Continuous assistance services			Further anti-poverty projects*	Child labour eradication	Social assistance pensions (BPC)	Further child-support projects*
	Children	Aged	Disabled				
1998	1,309,985	235,878	112,520	569,428	117,200	844,632	423,416
1999	1,434,700	265,352	120,418	15,483	145,864	1,032,563	222,259
2000	1,620,831	290,532	128,823	36,290	394,969	1,209,927	24,154

Source: MPAS/AEPS.

* Several poverty-fighting projects and child-support projects had been phased out in favour of the institutionalised assistance services, the Child Labour Eradication Programme (PETI) and the social assistance pensions.

LOAS demands that local and regional levels be the main executors of the policy in accordance with the decentralisation principle. Nevertheless, the Federal Government, through the Social Assistance State Secretary (SEAS), has an important role in coordinating on a national level and in funding several social assistance programmes listed in Table 4. Among the most important programmes are the “Continued Assistance Services” SAC, which include different types of support (home care, day care, nutrition, social services, etc.) for children, aged, and disabled persons, whose per capita family income is below one-half an official minimum wage. Also very important is the Child Labour Eradication Programme (PETI), which aims at fighting the worst forms of child labour, in response to ILO Conventions 138 and 182. This programme consists of an income transfer to families with children aged 7 to 14 that were previously working in one of the activities/sectors included among the worst forms of child labour. The income transfer is only carried out if all children in each participating family regularly go to school. The programme has been in an expansion phase since 1996 and is expected to cover 866,000 children by the end of 2002. Finally, since 1996, the fastest growing programmes have been the social assistance pensions, three of which (SAC, PETI, and BPC) were responsible for almost 96 per cent of Federal expenditure channelled through SEAS in 2000, as shown in Figure 5. The BPC alone were responsible for three-quarters of Federal social assistance expenditure concentrated at SEAS.[8]

Figure 5: Social Assistance Secretariat (SEAS): Expenditure structure, 2000



Source: MPAS/AEPS.

1.5 Social assistance pensions: Origin and reform

The origin of the Brazilian social assistance pension programme dates back to the early 1970s. The Military Regime had created a social assistance pension programme in 1974-75, the "*Renda Mensal Vitalícia*" (RMV – " Lifelong Monthly Income"). The implementation of the RMV programme must be seen as part of the same coverage expansion package, which also included the rural programme.

[8] There is further Federal expenditure on social assistance not effected through the Social Assistance Fund (FNAS).

The RMV was a basic flat-rate pension owed to those invalid or aged 70 and more, who "were not able to provide for themselves or be provided for by their family". Candidates were required to document at least 12 months of contribution to social security throughout their working lives, which meant that only persons who had previously worked entered the beneficiary group. Hence, a large part of the disabled population that had never had any formal work was left out of this social assistance programme. The RMV benefit equalled half a minimum wage. This benefit was granted and paid out by the Federal social insurance institution to "urban" beneficiaries and by the FUNRURAL (during its existence) to "rural" candidates. The financing of this benefit drew on the revenue stemming from social security payroll contributions.[9]

One of the relevant advances achieved with the LOAS Act was the replacement of the social assistance pension scheme with modern social assistance pensions, known as "*Benefício de Prestação Continuada*" (BPC). The BPC replaced RMVs starting from 1 January 1996. It consists of a monthly transfer of one mw. The BPC has two target groups:

- people aged 67 or more; and
- disabled people, including those with genetic disability.

In both cases it is required that the per capita family income of the benefit applicant does not surpass one-quarter of the legal minimum wage. Unlike the rules of the RMV, no previous contribution to social security is needed to qualify for the BPC. Also, the new disability definition includes a broader range of disabled persons, who had never been previously a target of specific public policies in Brazil. Hence, the LOAS Act encompassed a significant coverage extension among the handicapped poor.[10] However, a BPC is only accorded to a person if in his/her family no further member receives another social security benefit or is enrolled among the unemployment insurance beneficiaries.

[9] It is worth noting that since the 1920s and especially under the military regime, a logic of "self-financing" of social policy was implemented in Brazil -- that is to say: social programme funding came basically from payroll contributions, thus loading the burden of redistribution on the shoulders of the formal salaried workers and their employers. The latter were mostly able to pass the burden over to their costumers by increasing prices in an inflationary environment. Although it probably has never been measured exactly, it seems plausible to say that historically a large part of social policy funding – with special emphasis on redistributive expenditure -- has been carried by the less wealthy members of Brazilian society via consumer prices, high payroll contributions and consequently lower levels of employment and real wages.

[10] Despite the fact that the new benefit undoubtedly entailed a strong coverage extension, the exact definition of "disabled" given by the LOAS and the BPC implementation decree has actually been a source of misunderstanding, since it states that a disabled person should be understood to be the person "not capable for work and an independent life" (Decree 1744/1995). Therefore the Federal Social Assistance Secretary is currently proposing to work out more precise standard definitions of disability and its gradations.

The BPC is paid out by the INSS at the same dates and using the same payment channels (commercial banks and post offices) as for normal pensions. Including administrative costs incurred at INSS, the social assistance pension programme is totally funded by transfers from the Federal treasury via FNAS. The most important source used since 1996 for the BPC is the "*Contribuição para o Financiamento da Seguridade Social*" (COFINS), one of the taxes earmarked by the 1988 Constitution to finance the social security budget. The logic behind this financing arrangement, where the Federal government assumes the costs and the administration of the payment procedures, is the fact that the poorest municipalities and states, which also have the largest contingent of potential beneficiaries, are not obliged to demonstrate a fiscal position capable of funding a universalised social assistance pensions programme.

The municipalities and local authorities frequently take part in the BPC programme at the qualification stage of applicants. Due to the extreme difficulty in documenting the applicants' income—which is informal or very irregular—the law requires that the BPC benefit candidate presents a declaration signed by an authority (e.g. a judge, the local police chief, an authority of the municipal administration) containing the information that the per capita family income of the candidate is within the allowed range and that all other requirements foreseen in the LOAS Act are met. By using administrative data of the INSS or the Labour Ministry, there is currently no secure way to crosscheck whether a family member of the applicant is already receiving a social insurance pension or an unemployment benefit. Therefore, in most cases the checking of all that information depends upon the municipal social worker, who sometimes prepares the requirement (especially for illiterate applicants) and sends the documentation to the INSS, as well as upon the regional INSS office, which is the authorising instance for the benefit concession after analysing the documents and submitting the candidates for the BPC disability benefits to medical examination. However, the candidate is not obliged to submit his/her application through any institutional channel. Currently, the application can be made directly to the INSS, by using the standard benefit application forms available at any INSS agency or post office. This procedure has advantages and disadvantages: the municipality, which in principle should co-ordinate social assistance programmes at local level, has no accurate information on social benefits being paid locally and therefore the local administration can not adjust the BPC benefit to other supplementary programmes. On the other hand, a positive aspect is that the citizen may directly apply for the benefit in order to avoid possibly patronising patterns of the local administration.

The eligibility process also raises the issue of mistargeting, of which there are two types: i) when people who should not receive the benefit are included and ii) when people who should receive one are left out. In the first instance, one might encounter situations where persons overdeclare age, underdeclare income or not fulfil the disability criterion. The LOAS law requires a bi-annual re-examination of each beneficiary's case to see if the benefit is still due. In the BPC programme, this eligibility process was started in 1999, co-ordinated by the Federal Social Security Ministry and supported by local social assistance boards. With regard to age overdeclaration, there are no solid data to permit estimations. Referring to underdeclaration of income, however, first results of the re-evaluation of 210,000 BPC benefits (comprising social assistance pensions granted in 1997 and 1998) have shown that 7 per cent of the disability beneficiaries and 6 per cent of old-age pensioners present a per capita family income over the threshold. This does not necessarily mean, however, that at the moment of granting there had been a misleading declaration as family income might have changed since the benefits were granted. The re-examination report also recommended that, in the case of 20 per cent of the disability beneficiaries, a new medical examination be made to confirm whether the disability criterion is still met.

Table 5: Coverage estimates for old-age social assistance pensions, 1992 and 1999

		1992	1999
Men 67+ (PCFI below ¼ mw)	(A)	111,800	53,253
Women 67+ (PCFI below ¼ mw)	(B)	117,340	62,446
Total 67+ (PCFI below ¼ mw)	C=(A+B)	229,140	115,699
Social assistance pensions (September)	(D)	653,661	730,079
Coverage (per cent)	E=D/(C+D)	74.0	86.3

Source: MPAS; PNAD 1992 and 1999.

Social assistance pensions include RMV and BPC.

PCFI: Per capita family income (after benefits).

Regarding the second type of mistargeting, i.e. the lack of coverage of those who would qualify for a pension, Table 5 offers a very preliminary coverage estimate for the poor population aged 67 or more. Based on PNAD microdata, the aged population below the poverty line and without pension income was selected. An indicator of coverage would then be the percentage resulting from the division of the number of aged people below the threshold by the sum of uncovered and covered persons. This obviously implies the hypothesis that there was no mistargeting of age and income among the current benefits. The calculation also ignores whether the family members of the uncovered had been receiving benefits from other pension programmes or from unemployment insurance. What is important to note is that, besides the reduction of poverty among the aged since 1992 (certainly a consequence of the expansion of rural benefits between 1992 and 1995), coverage also was improved with the creation of the BPC. Between one-sixth and one-quarter per cent of the aged indigent population remained uncovered in the 1990s, probably to a certain extent due to a lack of information on the part of the elderly regarding their rights.

Table 6: Social assistance pension beneficiaries, December 1995 to August 2001

	Dec. 95	Dec. 96	Dec. 97	Dec. 98	Dec. 99	Dec. 00	Aug 01
BPC Old-age	-	41,992	88,806	207,031	312,299	403,207	461,490
BPC Disability	-	304,227	557,088	641,268	720,274	806,720	863,956
RMV Old-age	501,944	459,446	416,120	374,301	338,031	303,138	283,165
RMV Invalidity	701,341	667,281	626,497	585,197	547,693	509,643	486,992
Total Social assistance pensions	1,203,285	1,472,946	1,688,511	1,807,797	1,918,297	2,022,708	2,095,603

Source: MPAS.

Once the reform of the social assistance pension came into force in 1996, a significant coverage extension was achieved as shown in Tables 6 and 7. It is worth noting the sharp increase in disability-invalidity coverage in the years 1996 and 1997, when the disabled poor, who had never contributed to social insurance, were absorbed by the new BPC-disability rules. Both years total a net increase in the stock of social assistance pensions for the disabled/invalid of nearly half a million beneficiaries. This increase is also evident by the high average growth rates of the total pension stock between Dec 1995 and Dec 1997.

The quantitative coverage of the elderly also increased sharply. An exceptional jump in the number of benefits was recorded in the period from 1997 to 1999, when an age reduction from the former 70 years (valid for the RMV and used in the first two years of the BPC) to 67 came into force. This age reduction had been programmed by the LOAS Act and can be seen as responsible for a coverage extension of almost one-quarter million beneficiaries of old-age assistance pensions between 1995 and 2001.

Table 7: Monthly average growth rates of the social assistance pension beneficiaries, 1994-2001 (as percentage)

	1995/1994	1996/1995	1997/1996	1998/1997	1999/1998	2000/1999	2001/2000
BPC old-age	-	-	9.29	11.09	4.24	2.43	2.02
BPC disability	-	-	6.93	1.26	1.03	1.00	0.96
RMV old-age	(0.54)	(0.71)	(0.79)	(0.84)	(0.81)	(0.86)	(0.84)
RMV invalidity	(0.30)	(0.40)	(0.51)	(0.55)	(0.53)	(0.58)	(0.57)
Total social assistance pensions	(0.30)	1.86	1.22	0.59	0.50	0.45	0.47

Source: IPEA, Políticas Sociais: Acompanhamento e Análise, Nr. 4 (forthcoming).

Note: Mean-arithmetic-average growth rates calculated from December to December, except for 2001/2000 (from August to August).

The gradual reduction of the growth rates of the social assistance pension stock from 1996 to 2001 suggests that the coverage extension effect resulting from the legal reform is about to be concluded. It is expected that the oscillation of poverty rates and demography will start to play a major role in determining the pension stock. Nonetheless, other forces will unsteadily continue to influence the evolution of the assistance pensions' concession. One of these forces is the fact that social insurance rules are gradually becoming tougher with the increase of the minimum contribution periods required for access to a pension from five to 15 years from 1992 to 2007. Thus, given that the actual contribution fidelity rate has been dropping over the last two decades, it is very likely that the number of social assistance pension candidates will increase significantly within the foreseeable future. Another variable which will influence the number of applicants is the real value of the official minimum wage, which has been increasing over the last five years, e.g. from R$151,00 to R$180,00 in April 2001.

2. Pension income and poverty in Brazil

This second chapter of the study proposes to measure the impact non-contributive pensions have had on poverty in Brazil. Given some methodological limitations discussed below, the most important figures to be considered are the proportions instead of the absolute numbers. The chapter will start with an overview of the recent debate on poverty and some recently published figures from public discussion. Secondly, it will draw a profile of the elderly below the poverty line on one-half an official minimum wage, as defined by the Social Assistance Act LOAS. Given the lack of a specific social beneficiary survey, this profile will be extracted from the PNAD household survey. A third part of the chapter simulates the poverty rates among the elderly in the absence of pension income. The simulation will be based on the same PNAD microdata used for the profile of the elderly poor. The methodological aspects of using PNAD data for the purpose of this paper will be described later in the chapter.

2.1 The recent debate on poverty

This part briefly presents some elements of the recent debate on the size and origins of poverty in Brazil. Since the figures are an extremely sensitive subject in Brazilian politics, this paper does not seek to confirm or refute any of the values brought to public attention recently.

Poverty can be studied from absolute or relative concepts. The relative approach requires a comparison between poverty and wealth within a country or society. The absolute approach, the most heard about one in debate, focuses on situations where individuals are not able to sustain a given consumption level. In other words, it requires the measurement of an income gap, i.e. the part of income still needed to cover basic human needs.

Neri (2000) and Barros (2000) identify inequality in income distribution as the most important cause of poverty in Brazil. Other causes are unemployment, precarious employment, and low labour remuneration. In the Brazilian public debate, however, some difficulties have arisen from the large variation of results offered by different analysts; this variation of same periods actually being due to the methodologies employed.

Two approaches, both based on income, have been dominating the recent studies on poverty in Brazil. The first defines a national poverty/indigence line, where the most common procedure is to fix a proportion of the national minimum wage. This approach has the advantage of being easy to operate and transparent, but the minimum-wage value is not necessarily an adequate parameter to define the basic needs of citizens. Furthermore, a national average hides important regional aspects of the problem. Hence, a second approach deals with regional poverty and indigence lines, based on different consumption structures of the families in various regions of the country. The poor are then those who do not have enough income to purchase the basic food basket and further non-nutritional basic goods (housing, clothing, transportation). Indigents are those who are not able to buy even the basic food basket.

In 2001, according to an estimate of the *Instituto de Cidadania* (2001), responsible for the publication of "*Projeto Fome Zero*", 27.8 per cent (44 million) of the population were indigent[11]. The *Fundação Getúlio Vargas* considered as indigent those earning less than R$

[11] Result obtained according to the World Bank methodology, which considers as poor those who live with less than US$ 1.00 a day (R$ 86,82 in May 2001).

80.00/month and found that 29.3 per cent (50 million of a total of 169 million inhabitants) were indigent.[12]. For the year 1999—the last year for which a PNAD household survey was available—the results may also be chosen among a wide array of figures. The official government data, produced for the Federal Social Assistance Secretary by IPEA (Barros 2000), state that the country had 22 million indigents and 53 million poor (respectively 14 per cent and 34 per cent of the total population). Sônia Rocha, another IPEA staff researcher, has found 8.7 per cent indigence under divergent assumptions; the PUC-Rio de Janeiro professors Camargo and Ferreira's study informs that indigence equals 29 per cent and the USP professor Hoffman's result is 18.1 per cent. The latter considers indigent those who earn less than one-quarter of the minimum wage[13].

Barros (2000) analyses the evolution of poverty in the last two decades, based on PNAD data. He concludes that poverty in Brazil was remarkably stabile and fluctuated only with macroeconomic shocks. The percentage of poor persons started at 40 per cent in 1977, dropping sharply only after the two major stabilisation plans with redistributive characteristics—the *Plano Cruzado* in 1986, which collapsed after a year, and the *Plano Real* in 1994. Since macroeconomic stability has been maintained for the last six years, the poverty rate stabilised at about 34 per cent in the second half of the 1990s. The main argument is that lower inflation rates reduce real income losses among the poor, who are less capable of defending themselves. After the *Plano Real*, according to Barros, ten million persons left the poverty range. Other authors identified a similar evolution (Ferreira and Litchfield 2000).

2.2 A profile of the aged poor in Brazil

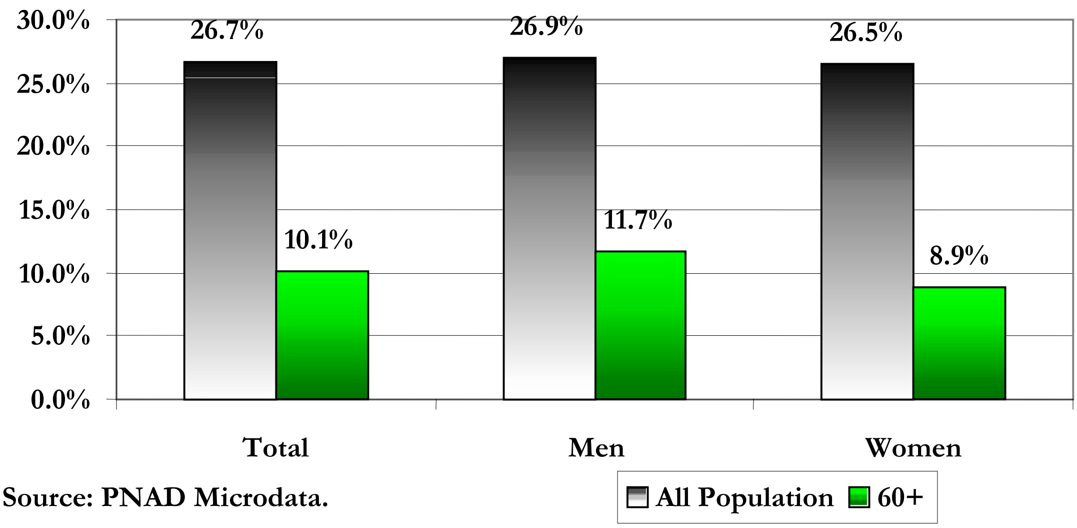
The purpose of this section is to draw an initial picture of the incidence of poverty among the aged. Brazilian law defines the aged as being those having completed the 60th year of life, the basic concept to be used in this section. It might be of interest to subdivide the aged into two groups – those aged 60 to 66 and those aged 67 and more – for a better understanding of some aspects of the profile, as those aged over 67 may be entitled to a social assistance pension. Poverty and indigence will be used according to the Social Assistance Act LOAS, which defines the poverty line as being equal to a per capita family income of one-half of the official minimum wage. The indigence line is usually set at half the poverty line, i.e. at a per capita family income

[12] FGV/Centro de Política Social (2001).*O Mapa do Fim da Fome: Metas Sociais contra a Miséria nos Municípios Fluminenses*. Rio de Janeiro: CPS/FGV, July.

[13] Data from the last three authors quoted in the "*Projeto Fome Zero*".

of one-quarter of the official minimum wage. The main findings are presented in the form of numbered topics below.

Figure 6: Poverty rates among the aged population (60+), 1999



Source: PNAD Microdata.

1) *Lower indigence and poverty rates among the elderly.* When discussing old-age poverty in Brazil, it is widely known that poverty incidence among the elderly is substantially lower than among the general population. The poverty rate is on average 2.6 times lower for all aged than in the general population, the indigence rate being even lower. The probability of an aged person being indigent (2.0 per cent) is 5.2 times lower than for the total population (10.1 per cent). The indigence rate is 3.1 per cent for the 60-66 age group, and falls to 1.4 per cent for those aged 67.

2) *Coverage with social security benefits reduces indigence and poverty rates.* The above-mentioned lower poverty incidence among the aged is most certainly due to the relatively high social security coverage rate within these age brackets. Table 8 shows that it is specifically among the aged who do not collect a pension where the poverty rate rises from 10.1 per cent to 17.0 per cent and the indigence rate almost triples from 2.0 per cent to 5.7 per cent. The table shows in a comprehensive way that the probability of being indigent falls dramatically to 1.4 per cent with the receipt of a flat-rate benefit and the probability of being poor plummets to 1.5 per cent among those who collect a benefit from contributory social security.

Table 8: Poverty and indigence rates among the population aged 60 or more with access to social security, 1999 (as percentage)

		Total	No benefit	Flat-rate benefit	Contributive benefit
Population aged 60+:					
Below indigence line	(A)	2.0	5.7	1.4	0.1
Between poverty and indigence lines	(B)	8.1	11.3	10.7	1.5
Below poverty line	(A+B)	10.1	17.0	12.2	1.6
Total population:					
♦ Below indigence line	(C)	10.4	11.5	2.0	0.8
♦ Between poverty and indigence lines	(D)	16.3	17.5	12.3	2.9
♦ Below poverty line	(C+D)	26.7	29.0	14.2	3.7

Source: PNAD Microdata.

Notes:

1. Indigence and poverty lines according to LOAS Social Assistance Act.
2. Flat-rate benefit: Pension income of one mw (includes Rural benefits, social assistance pensions and Urban pensions with minimum-benefit guarantee).
3. Contributive Benefit: Pension income positive and different from one mw.

3) *Indigence and poverty strike aged men harder than aged women.* This is a second interesting aspect extracted from PNAD, confirming empirical observation. In Table 9 there is no remarkable difference in indigence and poverty rates when comparing men and women in the general population, except for the fact that women earning a contributive pension are twice as much more likely to be poor than men. However when considering the elderly, women present lower poverty and indigence rates than men. Poverty rates among aged women are on average almost one-third (31 per cent) lower than among men. With regard to indigence, the gap between men and women is even larger: female rate is 53 per cent lower than the male rate. This can partly be attributed to the fact that women represent the majority of social security beneficiaries in Brazil. However, since the female-male gap is very large among those aged who do not collect a pension, another part of the explanation should probably be sought in the prevailing family arrangements.

Table 9: Poverty and indigence rates among the population aged 60 or more by gender and access to social security, 1999 (as percentage)

		Total	No benefit	Flat-rate benefit	Contributive benefit
• Aged 60+, Men					
Below indigence line	(A)	2.5	7.6	2.0	0.1
Between poverty and indigence lines	(B)	9.2	14.7	12.5	1.7
Below poverty line	(A+B)	11.7	22.3	14.5	1.8
• Aged 60+, Women					
Below indigence line	(C)	1.6	4.4	1.1	0.1
Between poverty and indigence lines	(D)	7.3	9.0	9.4	1.3
Below poverty line	(C+D)	8.9	13.4	10.5	1.4
• Total Male Population					
Below indigence line	(E)	10.5	11.5	2.6	0.3
Between poverty and indigence lines	(F)	16.4	17.4	13.7	2.0
Below poverty line	(E+F)	26.9	28.9	16.3	2.2
• Total Female Population					
Below indigence line	(G)	10.2	11.6	1.6	1.3
Between poverty and indigence lines	(H)	16.2	17.5	11.4	3.8
Below poverty line	(G+H)	26.5	29.0	13.0	5.1

Source: PNAD Microdata.

Notes: Same as previous table.

Table 10 compares the average Brazilian population aged 60 or more, as represented in the household survey PNAD, with the group aged 60 or more situated below the LOAS poverty line. The following conclusions are based on this table.

4) *Old-age poverty is concentrated in the Northeast and North of Brazil.* As shown in Table 10, 62.4 per cent of the poor elderly live in the Northeast and North in relation to only 31.4 per cent of all persons aged 60+. This is certainly a consequence of using the income criterion to establish a poverty line, given a large presence of rural population in the Northeast.

Table 10: Comparison between the population aged 60 or more and the population aged 60 or more below the poverty line, 1999 (in percentage)

	All 60+	60+ below ½ mw		All 60+	60+ below ½ mw
1. Geographical region			**5. Occupational status**		
North	3.4	6.0	Employed	33.1	41.9
Northeast	28.0	56.4	Unemployed	0.8	1.2
Southeast	47.8	22.6	Non applicable	66.1	56.8
South	15.2	9.1	Total	100.0	100.0
Middle-West	4.4	4.3			
Not informed	1.0	1.7	**6. Position in occupation**		
Total	100.0	100.0	Employee	7.4	9.0
			Domestic servant	1.5	1.7
2. Number of household members			Self employed	13.6	19.2
1 person	11.8	2.2	Employer	2.0	0.6
2 persons	30.3	4.6	Self subsistence	8.5	11.5
3 or 4 persons	34.5	34.8	Non applicable	66.9	58.1
5 or more	23.4	58.3	Total	100.0	100.0
Total	100.0	100.0			
			7. Years of schooling		
3. Ethnical origin			Less than 1 +unknown.	40.8	68.3
White	60.4	32.9	1 to 3	21.7	19.4
Afrobrazilian	38.6	66.4	4 to 7	24.4	10.9
Other	1.0	0.7	8 to 10	4.6	1.0
Total	100.0	100.0	11 to 14	5.5	0.3
			More than 14	3.1	0.0
4. Economic activity status			Total	100.0	100.0
Economically active	33.9	43.1			
Economically non active	66.1	56.8			
Total	100.0	100.0			

Source: PNAD/IPEA.

Self subsistence: Production for own consumption.

MW: Minimum wage.

5) *The poor aged live in larger families.* While the average elderly usually tend to live in small and medium households, a great part of those aged 60 and more below the poverty line of one-half a minimum wage live in large households. This may be due to two reasons. First, poor elderly are forced to demand family support and live in multigenerational households.

Second, contrary to the first alternative, in some cases the family may be the one in want of support and the elderly may share their income with children and grandchildren. The latter is very usual in Brazilian rural areas. If the size of the family demanding support outgrows the benefit, the elderly may fall below the poverty line.

6) *Old-age poverty is black.* Two-thirds of the aged poor are coloured, as shown in Table 10. Despite constituting three-fifths of the 60+ group, the white aged population presents a poverty rate of less than one-third (32.9 per cent). This distribution reproduces the strong economic discrimination against coloured persons regarding access to property, education, and, especially, to the Brazilian labour market.

7) *The aged poor work more than the average aged.* Table 10 also shows the activity rates for the population aged 60+. It is important to note that the receipt of a social security benefit does not oblige one to retire from the labour force in Brazil. Among the elderly as a whole, slightly more than one-third (33.9 per cent) is economically active. Whereas, 43.1 per cent of the poor aged 60 or above still work. Among the latter, 1.2 per cent are unemployed. Of the 9.2 percentage points difference between the general population aged 60+ and the poor 60+, 7.6 percentage points are explained by higher activity rates among self-employed and workers producing for their own consumption, mostly in rural areas.

8) *The aged poor have lower educational attainments.* The 60+ poor are characteristically of the lowest schooling level: 68.3 per cent did not successfully complete one year of schooling.

2.3 Other results completing the profile of the elderly

The results of the previous section refer to the incidence of poverty among the elderly and a profile of those below the poverty line. This section will provide additional information on the main characteristics of the elderly in general according to PNAD. For the purposes of this report, it is informative to divide the elderly into three groups: i) those who do not collect a benefit from any social security or social assistance scheme, ii) those receiving a benefit worth exactly one official minimum wage (including most certainly all rural benefits, social assistance pensions and urban beneficiaries protected by the minimum pension guarantee), and iii) persons with a pension income different from one minimum wage (the benefit probably being paid out by a contributive scheme). This subsection will use the tables of the Statistical Appendix. The main findings can be summarised as follows:

1) *The elderly in general tend to live in smaller families.* This trend is not unusual, due to the pattern of the human life cycle. The older the person, the more likely he/she is to live alone. Women, especially if widowed, are most likely to live in a single person household. These facts are explained by women's longer life expectancy, presenting a difference in Brazil with regard to men of approximately five years. According to PNAD data, the trend of elderly living in smaller households is stronger among those earning a social security benefit from a contributive scheme and who tend to live in urban areas. A reason for this different behaviour may be related to the impact of rural benefits within the flat-rate one-MW benefit. In rural areas, especially in the Northeast and North of Brazil, it is very usual that two or more generations live together in the beneficiaries' household, sharing the social security pension. Given that flat-rate benefits usually cover the poor population, it should be expected that the family would share the pension income earned by the elder members.

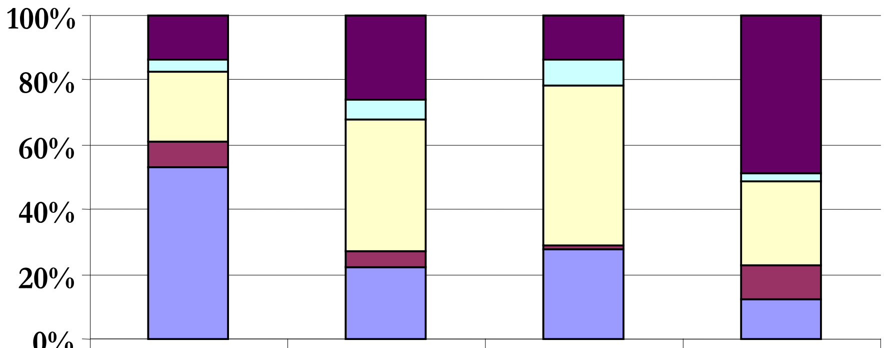
2) *Social security replicates discrimination against coloured persons in Brazil.* PNAD also sheds light on the fact that Afro-Brazilian individuals enjoy lower social security coverage in quantity and quality in Brazil. The proportion of coloured aged persons is approximately three percentage points lower in relation to the white aged population. Table 2 of the Appendix also shows that the aged black are overrepresented among the earners of flat-rate benefits and widely underrepresented among the beneficiaries of contributive schemes. This fact is certainly a consequence of the widespread economic discrimination practised against coloured people in Brazil, as mentioned above. It is possible to distinguish clearly that the white—male or female—collect proportionally more pensions of contributive schemes and less flat-rate pensions than their participation in the total population. It is curious to note that the inequality of coverage is higher among men than women. This may be due to the fact that white women also suffer from discrimination on the Brazilian labour market.

3) *The aged continue to work hard.* Despite the positive quantitative coverage rates of social security, the aged in Brazil continue sustaining a high activity rate as they age. Table 3 in the Appendix shows that although the perception of social security benefits significantly reduces the activity rate (a drop in a range of 10 to 30 percentage points), the proportion of the aged who continue to work remains high. While in the whole population almost two-thirds (64.7 per cent) are economically active, among the persons aged 60 or more still one-third (33.9 per cent) declare to be working or searching for a job. This figure is strongly influenced by the result among the male population, where almost one-half (49.9 per cent) remain economically active after age 60. In Table 3 (Appendix), the activity rate among the aged 60+ declared by beneficiaries of a contributive scheme is significantly lower than in the case of persons receiving

a flat-rate benefit. These latter pensioners are more economically active because they tend to live in poor households and wish to contribute to household income. Their higher economic activity may also be explained by the fact that they live in rural areas, where the culture is different. Men in rural areas wouldn't easily admit that they have actually retired.

4) *Aged beneficiaries tend to suffer from a lower unemployment rate.* In Table 3 of the Appendix, the aged population present significantly lower unemployment rates than the one valid for the general economy (7.1 per cent) in 1999. The low unemployment figures for the aged are in contrast to the 8.9 per cent unemployment rate among the beneficiaries of contributive pensions. However, these figures are not contradictory. Firstly, the elderly have the choice to retire from active labour force if they do not find employment and if they earn a social security benefit. Secondly, among the flat-rate beneficiaries the rates are especially low because of their rural origins where the beneficiary remains active within a small farm, producing for his/her own consumption, either as a self-employed worker or as an unsalaried family worker. Thirdly, those collecting contributive pensions and working usually belong to the urban labour market, which does not welcome the elderly or disabled.

Figure 7: Aged active population by employment status, 1999



	Whole populatio	Aged	Men	Women
Self	13.4	25.7	13.5	49.0
Employ	3.7	6.2	8.2	2.4
Self	22.0	41.1	49.2	25.8
Domestic	7.9	4.6	1.6	10.2
Wage	52.9	22.4	27.5	12.5

Source: PNAD

5) *Categories of self-employment typify the economically-active aged in Brazil.* Categories of self-employment—for example, the declarations "self-employed" and "self-subsistence" (meaning production for own consumption)—stand out the other employment

categories among the aged who declare themselves active and employed. In Figure 7 such employment categories prevail, increasing even more among aged women and flat-rate beneficiaries. While in the population as a whole the proportion of self-employed and workers for their own consumption is slightly above one-third (35.4 per cent) and the vast majority are wage earners (52.4 per cent) among the employed aged two-thirds (66.9 per cent) are self-employed. A possible explanation is that, as already mentioned, the labour market is unfriendly to the aged and as employment contracts are terminated with advancing age, the person does not find a further opportunity in urban areas. In rural areas, in contrast, self-employment gains strength because the elderly continue to work on the family farm. This also explains the curious fact that aged men tend to declare they are "self-employed" (49.2 per cent) whereas women say they work for their own subsistence (49.0 per cent). Again, there is a cultural background to those answers, i.e. women very often underestimate their housework in relations to the men's activities.

6) *Flat-rate benefits are concentrated in the Northeast.* As opposed to the Northeast, which comprises the largest part of the Brazilian rural population and thus concentrates a significant part of the rural pensions, the major part of the benefits stemming from contributive schemes are concentrated in the urban Southeast and South of Brazil (see Table 4 in the Appendix). Such trend grows stronger as the analysed age groups increase in age. Another interesting aspect is that the regional specialisation is higher among men than women. This is certainly indicated by past female participation in labour markets, male-female discrimination, higher female unemployment rates, and consequent female pattern of access to social security: Women usually have access to an "old-age pension" at age 60, while men constitute the majority of the "length-of-service pensions" at earlier ages because they are able to document their time of employment. Hence, men usually earn a pension above the minimum wage, while women just fulfil the criteria for a basic benefit and are protected by the urban minimum-pension guarantee.

7) *Younger women have better educational records than men, as opposed to aged women and men.* The deep changes in social roles over the last decades and the recent universal access to basic education in Brazil have changed the female academic performance in relation to men's records. In Table 5 in the Appendix it is possible to establish that aged women have a lower educational level than men in the same age groups. The low records in terms of years of schooling are especially frequent among the men and women earning flat-rate benefits. However, over the last two decades young women have been outperforming men regarding academic attainment.

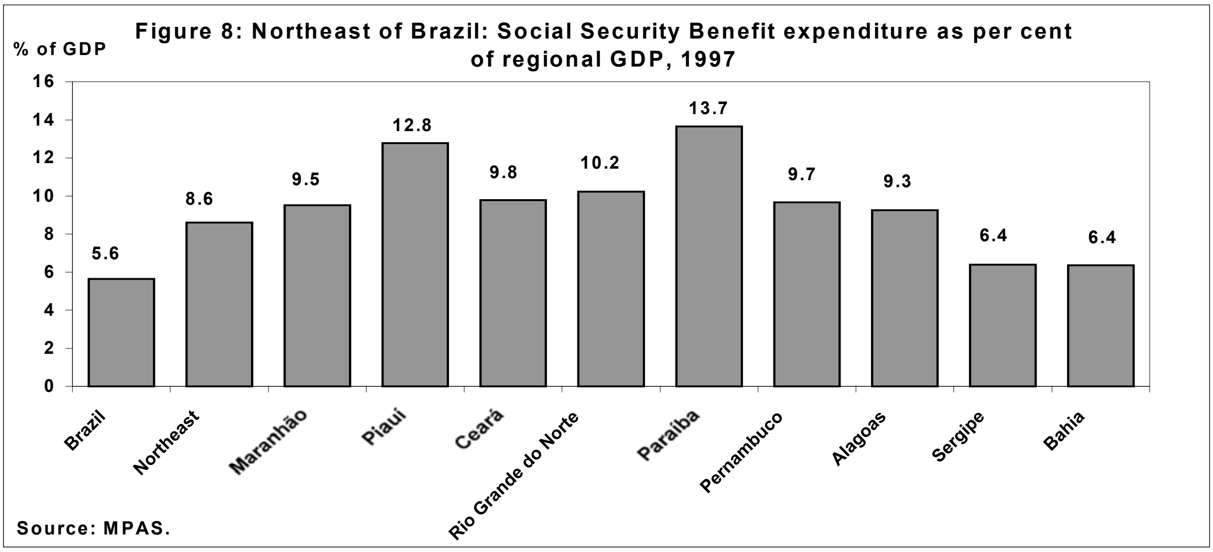
2.4. Measuring the impact of social assistance and categorical benefits on the elderly

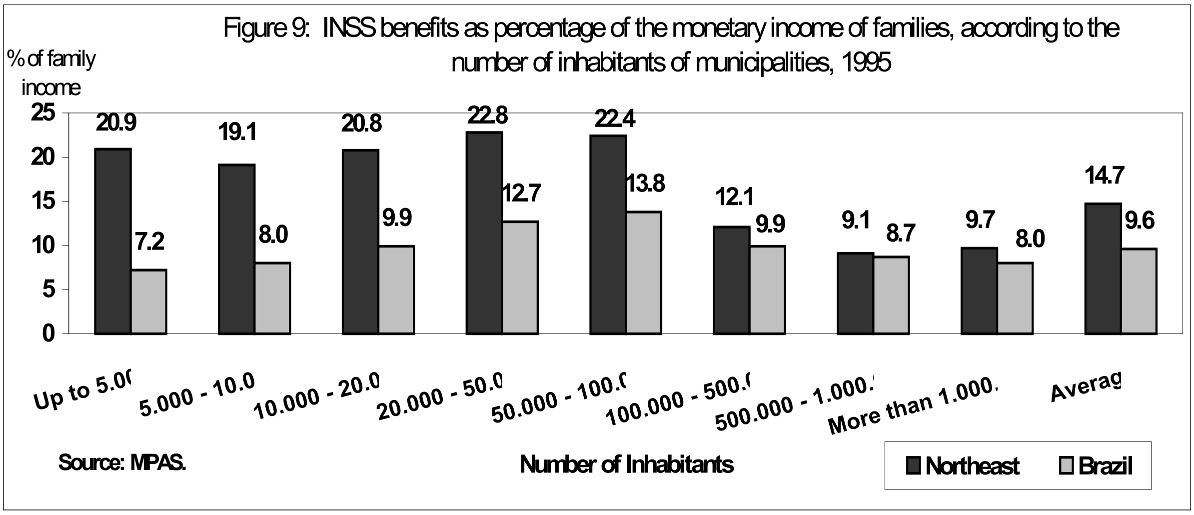
If there were no social security, Brazil would suffer from higher levels of poverty, a conclusion easily drawn from the evidence presented in this paper. Despite the regressive income distribution effects of the differentiated schemes for the private and public sectors, several programmes within social security have had a substantial positive income redistribution effect in a country with one of the highest income concentration rates in the world.

Figure 8 shows, for example, how the states in the northeast of Brazil benefit from social security expenditure (INSS). While for all of Brazil INSS expenditure represents on average 5.6 per cent of GDP, benefits paid out in the poorest states of the northeast—which is itself the poorest region in the country—represent up to 12.8 per cent in the case of state of Piauí and 13.7 per cent of the respective regional GDP in Paraíba. Figure 9 presents supplementary evidence of this redistribution effect towards the northeast, documenting that mainly small- and medium-sized cities benefit from INSS expenditure.

Specific evidence of a positive anti-poverty impact of social security expenditure can be found by means of an exercise based upon the data already extracted from PNAD. This exercise also allows some rough estimates of the impact of rural benefits and social assistance pensions on poverty alleviation. However, these estimates require some methodological steps to be sorted out, because unfortunately there is no perfect method on how to distinguish social assistance and rural pensions from the other social security contributive benefits in the PNAD database.

Given these methodological aspects, and other concerns mentioned further on, to select beneficiaries of social assistance and categorical benefits one has to look at all beneficiaries earning exactly the official minimum wage at the moment of PNAD data collection. The selection will certainly comprise almost all social assistance as well as rural benefits. However, this set of beneficiaries will also include urban pensions at the minimum level. That is due to the fact that the Brazilian social security and social assistance laws establish that any pension should be equivalent to at least one official minimum wage (exceptionally, if a survivorship pension is divided among the heirs, each of them may receive less than one mw). Hence, according to official data, besides the 2.1 million social assistance pensions and the 6.5 million rural pensions that were all equivalent to one minimum wage, there have actually been another 4.5 million "urban" pensions paid out which benefit from the aforementioned minimum pension guarantee. Since these "urban" pensions impact on the beneficiaries as if they were categorical benefits, despite the methodological inaccuracy, the results of the exercise are valid to demonstrate the feasibility and effectiveness of fighting poverty among the elderly by employing flat-rate pensions.





The very simple idea of the exercise consists of eliminating all income stemming from pensions from the PNAD database, thus simulating the country without social security. Afterwards a comparison of the figures with the actual values, which include pension income, gives an idea of the overall impact of social security. Moreover, the separation of beneficiaries receiving one mw (the flat-rate benefit) isolates a group whose characteristics will be regarded as a standard profile of the flat-rate programme (social assistance and rural pension) beneficiaries as opposed to the likely beneficiaries of the contributive scheme. It is important to highlight once again that all these results do not provide high accuracy due to a misconception in the PNAD questionnaire regarding social security benefits.

Table 11 presents the results of the exercise for the population as whole. The elimination of pension income would represent a sharp increase in poverty in Brazil. The total number of persons below the social assistance indigence line (per capita household income below one-quarter of the Minimum Wage) would suddenly grow by 14.6 million persons, from 10.4 per cent of total population to 19.8 per cent (columns A and E). The population in the income range of one-quarter to one-half of a Minimum Wage would grow less noticeably by another 1.8 million, increasing the total poverty rate from 26.7 per cent to 37.2 per cent.

Among those beneficiaries who are the target of this investigation, i.e. those receiving exactly one mw (columns C and G), the impact of losing all pension income would be even greater. Of a total of 9.5 million persons in the benefit bracket, 4.4 million would fall below the poverty line of one-half MW. Thus, by eliminating flat-rate pensions the poverty rate among current flat-rate beneficiaries would rocket from 14.3 per cent with pension income to 62.7 per cent without pension income. The exercise demonstrates that major poverty incidence is avoided in Brazil by the ensemble of social assistance pensions, rural benefits and the minimum-benefit guarantee in the urban area within the INSS and the basic social security schemes for public servants.

2.5 Further methodological considerations

Given the mentioned debate on the extent of poverty in Brazil and the sometimes confusing methodological discussion, a careful approach to defining the object of the research would be to zero in on those below and close to the poverty/indigence lines foreseen for social assistance pensions in the LOAS (1993). The line establishes a per capita family income of one-quarter of the official minimum wage as a condition to qualify for a social assistance pension. For the other social assistance services and benefits included in LOAS, the threshold is one-half minimum wage. Usually, the latter is considered a “social assistance poverty line” and the former an “indigence line”.

Table 11: Persons according to social security benefit group and per capita household income (included pension income), 1999 (,000)

In minimum wages	Total including pension income				Total excluding pension income			
	Total (A)	No benefit (B)	Flat-rate benefit (C)	Contrib. benefit (D)	Total (E)	No benefit (F)	Flat-rate benefit (G)	Contrib. benefit (H)
Less than 1/4	16,140.8	15,884.0	188.7	68.0	30,784.3	23,615.6	4,285.8	2,882.9
1/4 to less than 1/2	25,455.3	24,042.3	1,161.1	251.8	27,135.7	24,708.3	1,659.2	768.2
1/2 to less than 1	38,659.6	34,707.9	2,998.4	953.4	35,939.9	32,864.7	1,744.0	1,331.3
1 to less than 2	37,664.7	31,550.9	3,914.4	2,199.5	31,574.2	28,943.2	1,153.4	1,477.5
2 to less than 3	14,867.4	12,679.1	653.2	1,535.2	12,265.0	11,231.2	320.3	713.5
3 to less than 5	11,289.0	9,425.0	373.1	1,490.9	9,011.6	8,202.3	201.8	607.4
5 to less than 10	7,893.4	6,459.2	148.7	1,285.5	6,146.7	5,564.0	86.0	496.7
10 to less than 20	2,931.2	2,339.1	32.0	560.0	2,251.1	2,024.4	22.4	204.3
20 or more	827.4	602.4	8.0	217.0	620.4	536.1	4.6	79.6
Total	155,728.8	137,689.9	9,477.5	8,561.4	155,728.8	137,689.9	9,477.5	8,561.4
Less than 1/4	10.4%	11.5%	2.0%	0.8%	19.8%	17.2%	45.2%	33.7%
1/4 to less than 1/2	16.3%	17.5%	12.3%	2.9%	17.4%	17.9%	17.5%	9.0%
1/2 to less than 1	24.8%	25.2%	31.6%	11.1%	23.1%	23.9%	18.4%	15.5%
1 to less than 2	24.2%	22.9%	41.3%	25.7%	20.3%	21.0%	12.2%	17.3%
2 to less than 3	9.5%	9.2%	6.9%	17.9%	7.9%	8.2%	3.4%	8.3%
3 to less than 5	7.2%	6.8%	3.9%	17.4%	5.8%	6.0%	2.1%	7.1%
5 to less than 10	5.1%	4.7%	1.6%	15.0%	3.9%	4.0%	0.9%	5.8%
10 to less than 20	1.9%	1.7%	0.3%	6.5%	1.4%	1.5%	0.2%	2.4%
20 or more	0.5%	0.4%	0.1%	2.5%	0.4%	0.4%	0.0%	0.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: PNAD Microdata.

There are very well known methodological weaknesses in defining an indigence/poverty line on the basis of the per capita family income and establishing a fraction of the official minimum wage as the cutting line. For instance, the trade unions' research institution, DIEESE, calculates on a regular basis the absolute value the official minimum wage is supposed to have were it actually to cover the needs of a four-person-household in large urban areas. Over the last decade, estimates have proven that the minimum wage needed to be at least four times higher than the official one. The use of monetary income has also been largely questioned as a proxy for the capability of poor families to meet their needs, especially regarding those living in rural areas. Furthermore, recent IPEA research for the Federal Social Assistance Secretary has found that due to recent demographic evolution, the use of "per capita family income" foreseen in LOAS may be misleading. The reason is that in the official statistics, multigenerational households have been regarded as consisting of different families living under the same roof. In Brazil, according to the household survey PNAD, there are over three million persons living in families with no income at all. Such families, however, share the household income provided by other members of the extended family, perhaps grandparents. Despite those inconveniences, at least the choice of referring to the line fixed in the LOAS Act is compensated by the fact that it allows us to evaluate if the social assistance policy in a stricter sense (and social security institutions in a wider spectrum) has been able to cover the population legally entitled to the benefits. The choice also allows the evaluation of whether these benefits have been able to improve the beneficiaries' living conditions, since income is a relevant precondition to access goods required to satisfy basic needs.

Given this logic and since no specific database on the beneficiaries of social assistance benefits for the aged is available, this paper uses the Brazilian household survey PNAD, last conducted in September 1999, to analyse the poverty and indigence distribution among the elderly aged 60 or more. However, instead of the per capita family income, as proposed by LOAS, the exercise under item 2.5 uses the per capita household income to overcome one of the problems mentioned above.

3. Conclusions and recommendations

The non-contributive pension programmes, comprising the social assistance pensions and the rural benefits, have been extremely important tools in extending coverage to sectors of the Brazilian society that would not qualify for a traditional contributive social security pension. It has been even more so under the current strengthening of the contribution-benefit link under way since 1991. These benefits have had a very important effect on reducing poverty among beneficiaries. Despite these positive factors, several questions remain unresolved and improvements should be suggested. Some of them are listed below.

3.1 Legal uncertainty on the future of rural pensions

The Social security Acts of 1991 have brought a sharp increase in coverage and quality of benefits to the Rural Pension Scheme, as indicated above. The Acts, however, are a source of legal uncertainty on the future of rural pensions in Brazil. Access to the programme is currently based on years of service in agriculture and in rural activities, instead of years of individual monetary contribution as foreseen for the urban insured. This alternative procedure is guaranteed under the social security acts only for the period between 1992 and 2007. At the same time, the minimum contribution period for urban insured has had a gradual increase from five to 15 years until 2011. After the completion of these transition periods, there is no specific law foreseen for the rural insured. The Constitution, on the other hand, still demands a "special treatment" for the rural family economy, but there is no guarantee that an individual contribution will not be charged. Hence, from 2007 on, the legal interpretation that an individual monetary contribution is required as a previous effort will be a possibility.

Since the recognition of length-of-service instead of individual contribution is the central element that allows the coverage extension, *it is absolutely necessary to avoid individual monetary contributions in the rural scheme*. This is due to the absolute lack of monetary income of the rural family economy, which almost by definition has no or just a small surplus. The core innovation of the FUNRURAL scheme, installed by the Military Regime in the 1970s, was to break away from the Bismarckian contributive link in the rural area, thus migrating to a Beveridge-inspired, universalising flat-rate paradigm (Schwarzer 2000b). Reintroducing an individual contribution would mean to undo the special innovative procedure that allows an effective coverage extension to the rural poor as one of the last segments of Brazilian society to be included fifty years after the start of the formal official social security for urban sectors.

3.2 Updating of rural pension legislation

Discussions needed to update some aspects of rural benefit legislation have taken place over the last three years between the Social Security Ministry, rural worker representatives and rural employers. One aspect refers to the fact that agricultural activity is subject to cycles throughout the year and that in harvesting periods family economy farmers usually hire additional temporary labour. The current pension legislation, however, forbids a rural worker to hire remunerated labour, as he would then permanently lose his status as a "special insured" and would become an "employer" subject to urban contributive rules. Therefore, one of the proposals resulting from past negotiations was to allow the hiring of some limited short-term labour for a maximum of three months a year. Another aspect ignored by the current legislation is the fact that in downturns of the agricultural cycle small farmers seek remunerated employment outside their farms, usually in domestic work or construction in a nearby city. In order to avoid losing their "rural" pension status, the employment has to be informal, without contribution to urban social security. If the rural worker had the "misfortune" that his/her short-term employer pays contributions on behalf of the worker to social security, the peasant would lose the rural status for ever and not be able to fulfil the contribution time criteria for urban pensions, therefore becoming a case for a social assistance pension at age 67 if the family income is below the threshold. Hence a proposal stemming from the tripartite conversations was to allow a maximum of three months of formal employment each year. A final improvement in the legislation concerning the rural insured would be maintain the small farmer as a "special insured" in the case of the loss of agricultural production due to a weather-related disaster (drought, flood, etc.). Such protection would last a period of one year, enough to allow the production recovery. All these advances in legislation were part of a reform package, which was stopped in Parliament because it also contained the introduction of an individual monetary contribution. A recommendation would then be to split the reform project and let the advances pass through both Houses of the Congress instead of dumping them altogether with the doubtful individual contribution proposal.

3.3 Financing rural pensions

In principal, there could be a need to introduce an individual monetary contribution, since that would provide additional financial resources to finance the scheme. From a strictly fiscal perspective, there is in fact no gain from such contribution. The effort to collect the individual contribution and fight evasion would be very high, given the fact that the contributors are spread across the country, in regions difficult to access. A taxable basis would produce small revenue because the income to be considered is extremely low and, from the perspective of social equity, such measures would imply a rise of fiscal revenue at the expense of the rural poor. Improving the monitoring and the collection of the current 2.2 per cent contribution on the first trading of agricultural production is feasible and would not endanger the basic principles of the rural scheme. However, such initiative would need support from the regional ICMS (commercialisation tax) schemes' facilities, and so would depend on political negotiation with the States.

Even with the possibility of raising funds by improving the collection of the contribution on sold production, these revenues would not suffice to cover the current 90 per cent programme financial deficit. In fact, an estimate—calculated on the primary gross production values according to the IBGE Agricultural Census of 1996—shows that the value collected could at best double, and means that an 80 per cent deficit would still remain. In other words, the simple truth is that a basic flat-rate pension programme focused at one of the poorest groups of society could only be structurally deficitary and would always require funding from general taxation. The use of general taxation is also justified by the theory of public goods, since the large-scale poverty alleviation, income redistribution, and economic dynamization—as a consequence of the rural pension programme—constitute benefits for society as a whole. Hence, Brazilian society and special segments of government officials should finally accept the fact that a deficit in the neighbourhood of 1.0 per cent of GDP has to be permanently foreseen by the Treasury for the Rural Pensions Scheme, since it improves life conditions for more than 12 per cent of the population and thus represents a low price for good results. Coming to an agreement is not so difficult, since Brazilian society knows it has one of the worst income distribution patterns in the world and an extremely large part of the population is poor and even indigent. That means that society is receptive, at least in principle, to anti-poverty programmes. Hence, the more it is documented and shown to the middle- and upper-classes that non-contributory pension schemes such as the social assistance pensions and rural benefits strongly help reduce indigence, the greater the chances these programmes have to survive and to keep away from fiscal restraints. The institutional liaison with the INSS also helps strengthen the political position of the non-contributory pension schemes. It is important to relate the fate of the programmes targeted at the poor to the future of those pension schemes designed for the middle classes, since these have a stronger political influence. Which source should be chosen to finance the benefits of the poor is not the crucial point, provided it is a fiscal source and the use of the revenue collected on the payroll of urban enterprises is avoided. The technically incorrect diversion of urban employer and employee contributions towards covering financial needs of rural benefits has been generating misunderstanding between employers and rural workers. It has also been dividing urban and rural trade unions on the subject of social security policy.

3.4 Extension of the rural pension principle to the urban family economy

Given the very positive effects of the Rural Pension Scheme, and the fact that very little is known about the urban family economy among pension experts, a suggestion has been made to begin investigation on whether the principles of rural social security, which is focused on the rural family economy, could be effectively applied to the urban family economic structures. Such debate would face strong opposition from the very beginning due to the argument that extending pension coverage to the urban informal sector would be extremely costly. However, such proposal could become feasible if the goal of testing whether the existing different schemes could be merged, rationalised, and improved over time is taken into account. Thus, in the long run a minimum income guarantee for the elderly and disabled in rural and urban areas could become a reality.

3.5 Strengthening co-ordination of social assistance and the universal health system at municipal level

Since the beneficiaries usually spend a large part of their household budgets on health care related aspects, there seems to be a need for strengthening the co-ordination between social assistance and the universal health system. One measure that might somehow increase the co-ordination of both policies on the local level is to allow the merger of the local social assistance and health councils (as well as other councils of social policy areas) into a local “social policy council”. This suggestion would be meaningful also in that criticisms have been heard about the creation of too many councils to the point where at the local level they overlap causing frustration.

3.6 Avoiding mistargeting of social assistance pensions by augmenting role of municipalities in financing

There is a potential danger in social assistance pensions of “the third party pays” syndrome. This stems from the fact that the programme is fully funded by the Federal government, which also operates the scheme through the INSS. Regional and local government levels support candidates for the benefit by providing documents and income declarations. The benefits have economic impact for small municipalities and political “revenue” for authorities that help to approve the largest amount of pensions. On the other hand, it is the Federal government who pays for the programme and is the level that vetoes the applicants who do not fulfil the requirements for the benefits. Therefore, an incentive might result from such programme design for local administrations to propose as many social assistance pensions as possible.

A way to reduce this incentive for mistargeting benefits could consist of regional and local authorities taking part in funding social assistance pensions. The current funding structure, as defined by the LOAS law, has logic—the poorer the state and the municipality, the greater its potential number of social assistance beneficiaries and the smaller its financial and administrative capacity to cope with those numbers. Hence there will have to be rules to allow a certain degree of coparticipation in funding social assistance pensions in accordance with the fiscal capacity of small and poor municipalities. Some co-participation in financing will probably increase the interest of local administration and local social assistance councils on the correct use of resources. A potential danger, however, would be to set the coparticipation rate too high so as to generate restrictions to the concession of new social assistance pensions. It is also important not to eliminate the positive regional income redistribution effect these pensions have by fixing the coparticipation rate too high. However, such a proposal is bound to face strong opposition from all representatives the Federal Congress and will have to be included in a larger reform package of social assistance and municipal finances in the long run.

3.7 Disability examination

Although it would mean maintaining a centralised structure, in order to avoid mistargeting, it is recommended that the INSS continue to perform the medical examinations instead of transferring them to a physician of the municipal health system. This recommendation is due to the local interest in raising the income transfer received by the municipality and avoiding the political toll of refusing a benefit to a local citizen if he/she does not comply with all prerequisites. The latter alternative of local physician examinations in place of the INSS exams was tested during the first three years of the BPC programme and produced very unsatisfactory results.

3.8 Difference between contributive social insurance and non-contributive social assistance pensions

A final aspect refers to a problem arising from the fact that social assistance and social insurance pensions both enjoy the same minimum-value guarantee, which means that the lowest benefit in the contributive social insurance scheme equals the flat-rate one-minimum-wage value of the social assistance pensions. As usual in such situations, the incentive for the low-income groups to contribute is reduced. In Brazil, such a negative incentive might be at work. Before mentioning the use of the minimum wage as the reference for the minimum pension guarantee, it is important to stress that there is a two-year gap between the old-age pension in social insurance, accorded at age 65, and the old-age social assistance BPC benefit, requiring at least the age of 67. As a matter of fact, there was another reduction to age 65 foreseen for the BPC in 1999. This age reduction, however, was discarded in 1998 by means of the fiscal package following the Russian financial crisis. Despite the circumstances of the decision banning the age limit reduction, when a "*Medida Provisória*" (Decree) reversed a law long discussed in the Congress, the age reduction would have presented technical problems given the above-mentioned incentive against social insurance. Therefore, a recommendation might be that the current difference regarding the age rules should be preserved in future reforms of social assistance.

Regarding the use of the official minimum wage as an index to define the lowest single pension value, this aspect is much more sophisticated and delicate than the age-difference issue. There has been ample debate on the minimum wage and its effects on the Brazilian labour market and fiscal accounts. Proposals to regionalise the minimum wage had been made in the past and were eventually transformed in the year 2000 into a law allowing states to fix a regional minimum wage above the national level. The fiscal dimension of the minimum wage is strongly related to the role of the minimum wage as minimum-benefit guarantee in social security and social assistance, where more than 13 million pensions equalling one minimum wage are paid out each month. The Constitution itself determines that the minimum wage should be the minimum-pension level and that its real value should be permanently safeguarded against inflation. Dissociating the minimum wage from the minimum pension guarantee would have a high visibility and political price to be paid by the Government because in the past inflation had relentlessly eroded real benefits and benefit ceilings. Recent IPEA work has demonstrated that the minimum wage has helped fight poverty and protect the most vulnerable workers in the labour market. Therefore, the minimum wage has had a strong political appeal since the 1940s and using it for pension purposes generates a strong political constituency by linking the future real value of pensions to the demands of active workers. This constituency was intentionally planned within the inflationary environment of the late 1980s. So far, the Constitutional strategy has been working quite well, curiously best after the macroeconomic stabilisation in 1994 when the minimum wage stopped losing real value.

The issue is also related to the fact that decades of inflation, arbitrary ceilings and inflation adjustment policies in Brazilian social security have created a climate of fear of abuse in the future. An indexation scheme of pensions to the real or nominal wage evolution, as existing in other countries with long-term macroeconomic stability, has not yet evolved in Brazil. Indeed the instruments needed for such indexation formula were not yet available. Only in January 1999 did the Brazilian social insurance start to collect accurate data on all contributions (the so-called "GFIP" database) and since then it has been possible to measure the evolution of the contributors' real remuneration. The database has to gain acceptance before it can be used as an alternative source for a wage-based index rate for pension, besides which such link would be technically more consistent. Hence a solution to the problem caused by the use of the minimum wage as a pension index requires the elaboration of a reliable alternative. Beneficiaries of and contributors to social security will only want to exchange the minimum wage for another indicator with a similar level of reliability and stability. Once an alternative and non-arbitrary definition for the minimum pension guarantee (such as e.g. a share of the average contributing wage) is created on a consensual basis, the social assistance pension value can be fixed as a percentage of the minimum social insurance pension guarantee, establishing a clear difference between social insurance and social assistance benefits. However, the elaboration and approval of such a framework will require an ample debate in Congress and therefore should be seen as a mid- or long-term goal.

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Appendix tables