Contributory social security in Brazil is structured in two regimes, one addressed to public servants (RPPS) and another addressed to workers from the private sector (the General Regime – RGPS). Civil servants have a minimum age to claim old age pension. But workers in the private sector still can claim a pension after 35 (men) or 30 (women) years of contribution, irrespective of age.

After the Congress refused to pass a Constitutional Amendment in 1998 aimed to set a minimum age for retirement in RGPS, the Government adopted the fator previdenciario, a mechanism that takes into account age, years of contribution and life expectancy to adjust benefit levels at the time benefit is granted. Ceteris paribus, younger beneficiaries receive benefits at a lower level, to compensate for the longer time they will receive benefits.

However in November 2015, the Brazilian Congress passed Law 13.183, which makes possible for beneficiaries to avoid fator previdenciario when the sum of age and years of contribution equals 95 (men) or 85 (women). By the end of 2026, the sum of age and years of contribution will have to equal 100 (men) or 90 (women).

The international experience

Brazil is one of a few countries in the world (more specifically, 14) where people can retire independently of age. Even in this small group of countries, it is common to require longer periods of contribution (for instance, 40 years in Ecuador and more than 40 years in Italy).

Legislation recently passed by the Congress deviates the country even more from the international good practice in social security. The adjustment that fator previdenciario used to promote on benefit levels will largely lose its effect. Social security expenditures will increase.

The effects of fator previdenciario

There is little evidence that fator previdenciario contributed for workers to significantly defer their retirement. At the time fator previdenciario was adopted (1999), the mean ages of retirement in RGPS were 52 (men) and 50 (women). In 2014, these ages went up to 55 and 52 respectively. But as life expectancy at birth increased 5,4 years, these changes were per se ineffective to reduce expenditures in the long run.

On the other hand, fator previdenciario imposes a relevant reduction on benefit levels for early retirees. Between 2000 and 2013, the federal Government saved R$ 57 billion (above 1 percent of the 2013 GDP) in social security expenditures because of fator previdenciario. In the long run (2060), fator previdenciario was expected to reduce expenditures by around 2 percent per year.

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Redistributive impacts of the new legislation

The new legislation will increase social security expenditures. However, our estimates suggest that this increase in expenditures will be regressive: (i) 63% of the early retirees are among the richest 40%; (ii) In 2013, the concentration coefficient of benefits typically affected by fator previdenciario was 0.630 (above the Gini coefficient of per capita income of 0.525); (iii) The increase in social security expenditures will reach the affluent Southeast region of the country six times more than will reach the poorer Northeast region.

In other words, the new legislation will worsen both household per capita income and regional inequalities.

Social security expenditures and demography

Social security expenditures in Brazil are too high for its demographic structure. In 2010, expenditure with social security benefits (including contributory and non-contributory old age benefits) reached 10.8 percent of GDP. Based on a comparison with other 86 countries, we can state that Brazil, with a proportion of those aged 60 years or more close to 11 percent, should be spending something around 4 percent of GDP. Alternatively, taking into account our expenditures, one should expect for a much older society (with a proportion of those aged 60 years or more of 25 percent).

Ageing will be fast in the next decades. The proportion of those aged 60 or more will reach 20 percent of the population in 2033 and 33 percent in 2060. The old age dependency ratio will go up from 10 in 2010 to 44 in 2060. Ageing is expected to put a lot of pressure on pension expenditures.

Long term projections for social security expenditures (RGPS)

Projections elaborated for this paper suggest that expenditures of the General Regime of Social Security (RGPS) would go from 7.1 percent of GDP in 2015 to 15.3 percent in 2060 before Law 13.183 (basic scenario). After Law 13.183, these expenditures will reach 17.2 percent of GDP. The difference between these two scenarios (of almost 2 percent of GDP per year in the long term) demonstrates how effective fator previdenciario is to reduce expenditures in the long term. Setting a minimum age of 60 (men) and 55 (women) as eligibility criterion would be ineffective in the long run: expenditures would reach almost 16 percent. Setting a minimum age of 65 (men) and 60 (women) would result in a marginally lower level of expenditures (14.6 percent of GDP) in 2060 when compared to the basic scenario.

Conclusion

Brazil is among a few countries in the world where workers can retire irrespective of age, after 35 (men) or 30 (women) years of contribution to the General Regime of Social Security. Fator previdenciario was enacted in 1999 as an imperfect substitute for the minimum age criterion. This mechanism adjusts benefit levels by age, life expectancy and years of contribution, but its use was made optional by Law 13.183, recently passed by the Congress.

There seems to be no significant impact of fator previdenciario on the mean age of retirement. But fator previdenciario was very effective in reducing long term social security expenditures, because it imposed reductions on benefit levels of early retirees.
Law 13.183 will increase social security expenditures in a regressive way. Early retirees, whose benefit levels were affected by *fator previdenciario*, are concentrated in the richest 40 percent of population and live, in general, in the richest regions of the country. Law 13.183 will increase income and regional inequalities in Brazil.

Increases in social security expenditures are also a source of concern, since Brazil has already a disproportionately high level of expenditures for a demographically young country. Population ageing will be fast in the next decades and will put a lot of pressure on social security expenditures.

Long term expenditures projections suggest that Law 13.183 will cost almost 2 percent per year in 2060. Setting a minimum age of 60 (men) and 55 (women) as eligibility criteria would not be as effective as *fator previdenciario*. Setting a minimum age of 65 (men) and 60 (women) will marginally reduce long term social security expenditures (0.6 percent of GDP per year in 2060).

Setting a minimum age for old age pensions is necessary, but insufficient to keep social security expenditures in the General Regime in a sustainable trajectory in the long run. Other measures will have to be considered.