

BPC: from security advances to the risk of social security reform

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Abstract *This paper analyzes the proposed changes in the Continuous Cash Benefit (BPC) discussed within the Social Security Reform, both with regard to the Federal Government's original proposal in 2016 and the proposal by the rapporteur's project submitted to Congress in 2017. The proposed changes focus on two aspects: increased minimum age of access and unlinking the BPC amount from the minimum wage amount. The document discusses the justifications for the BPC reform, regarding both disincentives to social security contributions and demographic changes, as well as estimated possible impacts of proposed changes. The study concludes that measures, if approved, tend to reduce coverage and increase income vulnerability of the elderly and the disabled in the country.*

Key words *Social security, Brazilian pension system reform, Continuous Cash Benefit (BPC)*

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Introduction

In December 2016, the government submitted to the National Congress a constitutional amendment proposal (PEC) that aims to change the current rules on social security and welfare benefits. PEC N° 287 was justified on the one hand by the demographic changes resulting from the accelerated process of population aging, and, on the other, by the need to face “distortions and inconsistencies” of the current model, among which are those referring to rules that organize the Continuous Cash Benefit (BPC).

According to the Explanatory Memorandum of the PEC, equality between the minimum age required for access to BPC and old age retirement (in the case of men) would encourage the *migration of the social security system, which requires contribution, to the welfare system, unbalancing the social security*¹. Thus, PEC 287/2016 proposed two changes in the BPC: i) to increase to the minimum age of access from 65 years to 70 years, and ii) unlinking the welfare benefit amount from the minimum wage amount in order to allow future reduction.

In its proceedings in the National Congress, PEC No. 287/2016 was examined by a Special Committee that, on May 4, 2017, approved a report providing a rewording to those proposals: i) to increase to the minimum age of access from 65 years to 68 years; ii) extinction of the BPC and its replacement by two differentiated incomes, one for the elderly and the other for disabled persons, both linked to the minimum wage, but whose rules of access and maintenance would later be regulated by law. This paper aims to analyze the current reform proposal considering its justification and probable impacts.

Assessment of the proposed BPC reform

The Explanatory Memorandum of PEC 287/2016 identified the following distortions: the minimum age required for BPC is equal to that of the retirement age in the case of men; and the amount of the BPC is equal to the minimum retirement benefit. These two factors would discourage the contribution to Social Security. However, this is a rather weak assumption, as will be discussed below. In fact, the proposed elevation of the minimum age from 65 to 70 years and unlinking the benefit amount from the minimum wage seem to focus mainly on future, but easily predicted impacts of falling social security coverage. It should also be considered that the pro-

posal by the Special Committee of the Chamber of Deputies to raise the minimum age from 65 to 68 years would also have a direct impact on the access of the elderly to the benefit. As for the fact that the reworded version of the draft maintains the amount of the benefit at one minimum wage, it is important to remember that this proposal will still be evaluated by the Chamber of Deputies plenary and later processed by the Federal Senate, where the original unlinking proposal may be resumed. On the other hand, the wording approved by the Special Committee proposes to abolish BPC and replace it with two different benefits: i) the transfer of monthly income to the disabled person, in the amount of one minimum wage, when the total monthly household income per capita is lower than the limit established by law; ii) the transfer of monthly income to the elderly person aged sixty-eight or over, in the amount of one minimum wage, when the total monthly household income per capita is lower than the limit established by law. Under this alternative, the criterion of access to new benefits is pending of future regulation, opening the perspective of a differentiated treatment of the two audiences and hardened entrance rules. However, also in this case, the PEC process in the National Congress may also bring about surprises, such as upholding linkage to the minimum wage for the transfer of income to the disabled, and unlinking that related to the elderly.

On disincentive to the social security contribution

The government’s hypothesis that BPC discourages social security contribution starts from the assumption that workers, especially the less skilled and with pay close to minimum wage, would no longer contribute to the General Social Security Scheme (RGPS) due to the existence of a welfare benefit equal to the minimum amount of social security. However, there are significant differences between the social security protection and that provided by the BPC. Social Security ensures protection against a wide range of risks, such as disease, disability and maternity. In addition, unlike BPC, the social security benefit pays the Christmas bonus salary and generates pensions, in case of death of the beneficiary. Thus, it does not seem rational for the worker to refuse social security protection for himself and his family throughout his life by the possibility of being protected only in old age by the BPC, whose access will still depend on a level of household in-

come at misery-ridden levels (household income per capita $< \frac{1}{4}$ of minimum wage).

A second weak point in the argument about the supposed disincentive to the social security contribution attributed to the BPC refers to the fact that it disregards the important role of the structure and functioning of the labor market in determining the level of social inclusion of the employed. It should be recalled that, from 2003 to 2012 (with increased elderly access to BPC), the percentage of the working population with social security coverage grew by around 12 percentage points². The positive dynamics of the economy and the labor market contributed to this performance, with a significant increase in formal employment and its expansion into the informal sector, leading to an improved contributory capacity of informal and self-employed workers³.

In addition to the performance in the labor market, the downswing trend of the level of social security affiliation of low-income workers express their low contributory capacity. Poorer workers have greater difficulty in entering and remaining in the formal labor market⁴.

Thus, the labor market is the main key to understanding the lack of social security protection for the low-income workers. To analyze the possibilities and limits of the expanded social security inclusion by the contributory route, it is important to consider the low income earned by a good portion of the unprotected workers. In 2014, 43.1% of workers without social security affiliation had income below the minimum wage, so *they would hardly be able to contribute regularly to Social Security*⁵. However, it is worth reminding that even among workers whose monthly labor income is equal to minimum wage, one cannot disregard that their per capita household income is often very close to the eligibility limits for low-income welfare programs³.

Therefore, the argument of the disincentive represented by the BPC to the social security contribution of the employed workers proves to be ineffective, since a significant part of the unprotected (non-contributing) workers has insufficient per capita household income to be linked to the contributory (or even semi-contributory) policies, of Social Security³.

If the empirical foundations regarding the voluntary migration from the social security system to the welfare system are weak due to similarity between the amount and the age of contributory retirement and BPC, the same cannot be said of this migration because of the hardening of rules of access to Social Security benefits.

If approved, PEC N° 287/2016 could possibly result in reduced social security coverage, given that it is impossible for the poorest workers to reach the minimum contribution time proposed in the original wording of the reform and maintained in the report approved by the Special Committee, that is, 25 years. The social security exclusion of low-income workers who will not be able to meet the 25-year grace period to access retirement is estimated at around 35.5-40.6%⁶, which is expected to increase future demand for welfare benefits⁷. Studies on previous reforms in social security systems in Chile and Argentina point to reduced coverage after the reforms. In Chile, coverage of the population aged 65 and over “for all pensions declined from 73% to 60.7% in 1990-2006.”⁸ In Argentina, the structural reform occurred in 1993 and coverage of the population aged 65 and over declined from 78% to 68% between 1992 and 2003⁹.

On social vulnerability of beneficiaries

The BPC covers the elderly whose work trajectory was marked by strong precariousness and people with disabilities (PwD), with limited working capacity. However, apart from individual constraints, the experience of disability is a family experience, because it imposes the need to reorganize family arrangements to meet the demands of PwD care¹⁰. A member with limited autonomy affects both income and expenditure, increasing the family’s vulnerability to poverty, if not exacerbating poverty contexts. On the one hand, there is a reduced work supply, since the demands of elderly or PwD care can remove an adult from the labor market. On the other hand, spending may also be affected by specific demands associated with aging or type of disability, whose effect on the household budget will depend on the public provision of services, care and medicines. The direct impact on the household budget, generating what the specialized literature labels as “*catastrophic expenditure*”, has the potential to lead or worsen the household’s poverty context¹¹.

Besides disability, aging has also implications on the loss of autonomy. With aging, the limitation of physical capacity and, often, intellectual capacity tends to lead to situations of dependence of varying degrees, with various consequences to individuals and their family. These impacts are accentuated by the fact that the progressive aging of the population is occurring in parallel with family structure changes, which implies limiting

the household provision of such care. All these processes are aggravated in the extreme poverty experience.

Therefore, discussion on the amount of BPC cannot disregard the peculiar vulnerability situation of households with PwD and/or elderly, whose already minimal income is affected by both increased expenditure and lower capacity to obtain income from the labor market. The poor socioeconomic situation of these households can be evaluated by research carried out among the BPC beneficiaries that showed the great relevance of the amount of this benefit for effective protection against poverty: on average, income from BPC accounts for 79% of the budget of these households; and in 47% of cases, it is the only household income¹². These data suggest the relevance of income from BPC to the household budget of the elderly and beneficiary PwD and, thus, their imminent return to poverty in the face of the proposed reduced benefit value.

On impact of increasing age of access to the benefit

Regarding the minimum age for granting BPC, PEC no. 287/2016 proposes to increase age from 65 to 70 years. According to data from the Ministry of Social Development¹³, among the elderly beneficiaries in 2015, 27% were between 65 and 69 years old. That is, if the minimum eligibility age were 70 years that year, more than 520,000 elderly and their families would probably be displaced into extreme poverty.

Seeking to estimate the impact of this change over time, a prospective analysis exercise was carried out on the change from the minimum age of 65 to 70 years indicated in the original text of the reform¹⁴. Assuming that this will take effect from 2018, and considering the transition rule set forth in Art. 19 of PEC 287, we can observe that between 2026 and 2036, considering only demographic changes, on average, 28% of the number of beneficiaries projected to receive BPC for the Elderly, observing the current rules, would be unprotected by reason of being within the 65-69 years age bracket. This means that by 2036, 1.1 million elderly people aged 65-69 years will be excluded from this important mechanism of protection against extreme social vulnerability. It should be noted that this projection is conservative, since the number of BPC beneficiaries depends not only on demographic dynamics, but also on income distribution movements. For example, if poverty increases, the demand for BPC

will be even greater than that indicated here only as an effect of population aging.

The reworded text approved in the Special Committee of the Chamber of Deputies proposes a less marked increase in the access age, from 65 to 68 years. Although such a change may result in a slightly lower exclusion than the one indicated above, it should not be neglected, especially in a setting where access to social security benefits should be restricted, as previously noted. In addition, any proposals to increase the age of access to BPC should consider the expected differentiated survival of BPC beneficiaries in relation to that estimated for the whole population by IBGE. An exercise with information from the Social Security administrative records indicates, roughly, that the expected survival of BPC beneficiaries is lower than that considered by the proposed reform¹⁴. According to data from the 2014 Statistical Yearbook of Social Security, the average duration of this benefit is 7.9 years, the mean benefit granting age was 66.5 years and about 80% of BPC for the Elderly grants were caused by death. Thus, data suggest a much lower survival expectancy (7.9 years) among the poorest elderly than the estimated 66-year survival rate estimated by IBGE: 17.6 years in 2014. It does not seem reasonable, therefore, that, when proposing to raise BPC-minimum age, the proposed reform considers only the expected survival of the elderly in general, without weighing their relatively lower value among the poorest, due to their socioeconomic conditions.

Conclusion

As we have tried to argue throughout the text, the proposed Social Security Reform – PEC N° 287/2016 – suggests changes in the BPC from questionable assumptions. The supposed disincentive of the social security contribution does not find empirical evidence. In fact, evidence suggests that the low social security affiliation of low-income workers – potential future BPC claimants – far from being a choice, results from their very low contributory capacity, given their employment conditions. It is also foolhardy to assume as presupposition for changes in the BPC the expected survival calculated for the general population. More vulnerable population groups, such as the public served by BPC, have a much lower survival expectancy.

In view of the foregoing, we conclude that the government's proposed Social Security Reform weakens social security resulting from the

social pact established in the 1988 Constitution. The distortions and inconsistencies that explain the reform are, in fact, the pillars of security that allowed the expanded level of social protection in a country still marked by strong inequalities. One of these pillars is BPC, which ensures a replacement income for a public that is extremely poor and admittedly incapable of guaranteeing its own survival through paid labor. The recent expanded coverage, effectively reaching the poorest¹⁵, has had an undeniable impact on improved well-being of these two particularly vulnerable groups and has contributed significantly to reduced poverty and inequality in the country in recent decades¹⁶.

However, the proposed reform threatens this important tool against poverty and misery, whether signaling a possible unlinking of the BPC from the minimum wage, restricting access or raising the age for the elderly. In parallel, the proposed extended minimum contribution period to 25 years, clearly incompatible with the characteristics of the Brazilian labor market, should reduce the contribution coverage of active workers, projecting a future increased demand for welfare benefits. With these effects in perspective, the reform compromises elements and equitable principles of social security, bringing some concern with the reinforcement of inequities in a country still marked by unacceptable levels of inequality.

Collaborations

LB Jaccoud, ACS Mesquita and AB Paiva contributed to the structuring, data collection and writing of the text.

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