

DISTRIBUTIVE IMPACTS OF SOCIAL SECURITY FINANCING IN BRAZIL

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It is hard to overstate the importance of Social Security in Brazil. It amounts to 13.5% of GDP and pays benefits to 29 million people in the General Regime and another four in the various public employee regimes. Four-fifths of the Brazilian population lives in households in some way affiliated to or benefitting from the various social security systems.

Income from Social Security, however, is much less relevant from the distributive point of view. Social Security taken as a whole does little more than reproduce the inequality of the income distribution from which its contributions are drawn. The concentration coefficient for Social Security benefits (0.544) is slightly above the Gini Coefficient for per capita household income (0.540). This is old news, but given the immense inequality in Brazil, remains a disgrace.

The distributional impact of a given public policy depends not only upon who is receiving benefits but also on who is paying for them. The objective of this text is to make the best estimate possible of the fiscal incidence of the taxes that finance Social Security, using estimates for fiscal incidence found in the literature using the 2008/2009 POF consumption survey.

The formula for calculating the Concentration Coefficient for Social Security financing is the following:

$$CC_{ss} = \frac{502 CC_{individual} + 89.6 \sum_{state\ tax\ s} + CC_s Weight_s + 227 \sum_{federal\ tax\ f} CC_f Weight_f}{818.6}$$

In which R\$ 502 billion is total revenues from the Individual Social Security Contribution, R\$ 89.6 billion is the deficit of the state pension systems, and R\$ 227 billion is the deficit of the Federal systems, including the General Regime. The $weight_s$ and $weight_f$ represent revenue from each individual state and federal tax minus whatever revenue sharing goes to other federative levels. After all calculations and hypotheses, the result is: 0.592.

In other words, Social Security financing is slightly progressive; its Concentration Coefficient (0.592) is slightly superior to the Gini Coefficient (0.540) as well as somewhat superior to the Concentration Coefficient of Social Security benefits (0.544). Given the size of Brazilian inequality and the fact that in most OCDE countries retirement benefits are quite progressive, reducing inequality by several Gini points, this is a poor result.