Social Security Abroad

Recent Developments in Argentine Pension Program*

In 1967, Argentina initiated a reform of its old-age, survivor, and disability insurance (OASDI) program by enacting legislation designed to: (a) ensure compliance with the law on payment of OASDI payroll contributions; (b) tighten qualifying conditions; and (c) consolidate the numerous pension funds. A general reform of the social security system had been called for by representatives of labor, management, and pensioners to correct the financial disequilibrium that had prevented the OASDI program from fulfilling its objectives.

BACKGROUND OF NEW LEGISLATION

In terms of the amount of benefits paid, OASDI is the largest component of the country's social security system, which also includes workmen's compensation, family allowances, and maternity benefits. Legislation makes coverage under the system mandatory for virtually everyone aged 18 and over who works, regardless of the nature of his work. A system of national pension funds is designed to cover about 85 percent of the nation's labor force; the remainder come under separate pension funds for employees of provinces and municipalities and members of the police and armed services. The system of national funds provided under previous legislation has been composed of 12 semi-autonomous funds, each covering a broad occupational category. All wage and salary earners in commerce, for example, were covered by the National Insurance Fund for the Personnel of Commerce and Civil Activity; those in industrial occupations came under the National Insurance Fund for the Personnel of Industry.

Increasing government and public concern stemmed from the financial problems experienced by the pension funds. The number of pensioners had increased at a greater rate than the number of insured for whom contributions had been collected. As a result, many of the funds were unable to pay current benefits. When benefits could not be paid by a particular fund, it was necessary to use revenue provided by the Compensation Fund of Investments and Saving, whose primary function was to transfer revenue from surplus funds to deficit funds.

In addition, most funds had been unable to adjust pensions annually, as required by law, for increases in wages and salaries. The new legislation aimed to correct those conditions considered to be the main causes of the financial problems—liberal qualifying conditions for pension entitlement, a gap between payroll contributions actually collected and the amount legally obligated, and high administrative costs.

PAYMENT OF CONTRIBUTIONS

In early 1967, the government announced two legislative acts spelling out strict registration and reporting requirements intended to ensure the payment of current and outstanding OASDI contributions. Law No. 17122 (January 20, 1967) dealt with the problem of noncompliance in the payment of contributions; law No. 17250 (April 25, 1967) instituted controls designed to keep employers up to date in their payments.

The country's OASDI program is financed by employer and employee contributions. Although the contribution rates vary somewhat among pension funds, in the larger funds the employer contributes an amount equivalent to 15 percent of his total payroll and the employee contributes 11 percent of his wage or salary. The employer is responsible for transmitting both contributions to the proper fund. In the past, according to authorities, there has been widespread neglect of this responsibility. The Technical Secretariat of the Ministry of Labor and Social Security estimated that in 1961 contributions had not been collected from as many as one-fourth of those covered by the program.[1] The high rate of infla-

* Prepared by Robert Lucas, International Staff, Office of Research and Statistics.

[1] Comisión Asesora Permanente de Seguridad Social, *Analisis Economica Financiero de las Cajas Nacionales de Previsión Social* (CESS/ST/1/2), November 1963, pages 64–65.

tion has been regarded as a principal factor responsible for this situation.[2] It was frequently advantageous for employers to permit their contributions to fall into arrears and use the money as working capital, rather than borrow. The rate of interest that employers had to pay on borrowed working capital was relatively high compared to the small fines and penalty interest on delinquent contributions.

Law No. 17122 required all employers, whether or not they were up to date in their contributions, to register with pension fund authorities. Those found to be in violation of the registration requirement were made subject to fines ranging up to 500,000 pesos.[3] Employers with delinquent contributions for the period January 1, 1965, through August 31, 1966, were required to submit a sworn declaration of the amount owed to the pension funds. Five payment plans were made available that offered employers up to 6 years to schedule the repayment of their debts. Payment schedules called for equal monthly quotas plus interest, with the rate of interest charged dependent on the length of the repayment period.

Law 17250 provided strict reporting requirements to prevent lapses in contribution payments. Employers and the self-employed are required to indicate the account numbers and names of the pension funds in which they are enrolled on all forms used in transacting business activity (including sales receipts, contracts, and invoices). Also, to get public utility services, to export or import, to do business with government agencies, or to take part in stock-market transactions they must present a sworn declaration showing that they are not behind in paying their contributions. Noncompliance with these reporting requirements results in the imposition of heavy financial penalties.

QUALIFYING CONDITIONS

Law 17310 (June 1967) raised the minimum retirement age for the ordinary pension and eliminated special retirement provisions.

Before the new law came into force, the OASDI program included provisions that enabled the insured to retire with either the ordinary pension or a reduced pension. The ordinary retirement pension was paid to men at age 55 who had worked in covered employment for at least 30 years. For women the minimum retirement age and required length of covered employment varied among the funds, but in the largest funds the requirements were age 50 and 27 years of covered work. The minimum age for entitlement to the reduced retirement pension was 50 for men and 45 for women, with 30 and 27 years, respectively, of covered employment. Upon early retirement the benefit amount was reduced 5 percent (4 percent for federal employees) for each year short of the minimum retirement age stipulated for the ordinary pension.

Before the new legislation, there was also a provision enabling most covered employees to retire at an earlier age than the stipulated "minimum" with an ordinary pension. Workers with long records of covered employment could substitute 2 years of work above the minimum for each year of age they lacked for entitlement to the ordinary pension—an insured male with 36 years of covered employment, for example, would be entitled to the ordinary retirement pension at age 52. Under the old law he could substitute 6 years of covered employment above the minimum (30 years) for the 3 years he needed to satisfy the minimum age requirement.

The existence of the provision enabling substitution of years of employment for years of age, and the reduced pension for early retirement, were factors that led to an increasing number of retirements at a relatively early age. This trend is partly reflected in figures showing the rising proportion of pensioners in the total population. In 1947, the total number of pensioners on the rolls of the national pension funds represented 0.8 percent of the nation's population. In 1960 this proportion had risen to 3.6 percent, and by 1964 it had grown to 4.5 percent. On the basis of demographic trends and pension-qualifying conditions in the old law, the proportion of pensioners to total population was projected to be 5.6 percent in 1970.[4] Although life expectancy

[2] For 1955–60, the average annual rate of increase in the cost of living was 37.2 percent (*International Financial Statistics*, International Monetary Fund, March 1965).

[3] 350 pesos equal $1.

[4] *Modificaciones al Regimen Jubilatorio Vigente: Analisis Financiero y Demografico*, 1965, table No. 16.

in Argentina had increased to a level approaching that of many of the advanced countries,[5] the typical age for retirement was quite low. Of the total number of retirement pensioners on the rolls of the national funds on February 28, 1966, 16.3 percent had retired before age 50, and 24.6 percent had retired from age 50 to age 54, inclusive.[6]

The growth in the proportion of pensioners in the total population added significantly to the other factors responsible for the financial disequilibrium and led to the enactment of law 17310. This law made a number of important changes in qualifying conditions: (1) The minimum age for entitlement to the ordinary pension was raised from 55 to 60 for men, and from 50 to 55 for women; (2) 30 years of covered employment was made a requirement for all wage earners and salaried employees except teachers; (3) the reduced pension for early retirement was abolished along with the right to substitute years of employment for years needed to attain minimum pensionable age.

The changes were expected to result in a sounder financial balance between the number of covered workers and the number of pensioners and to produce a retirement age that was more reasonable in relation to the current life expectancy. They were also intended to reduce the strain on fund resources that stemmed from the fact that early retirement pensions were not reduced in proportion to the extra number of years pensions would have to be paid.

CONSOLIDATION OF PENSION FUNDS

The government decision to consolidate the national system of pension funds by merging the 12 funds into three was announced in late December 1967. Law No. 17575, effective January 1, 1968, provides for consolidation of the pension funds and for basic changes in the administrative structure of the OASDI program. The consolidation, which is now in the process of being introduced, was expected to bring about a greater degree of efficiency in the collection of contributions, disbursement of benefits, and processing of claims.

The three national funds that are to emerge from the consolidation are: (1) the National Insurance Fund for Autonomous Workers; (2) the National Insurance Fund for the Personnel of State and Public Services; and (3) the National Insurance Fund for Industry, Commerce, and Civil Activities. The first includes the self-employed, independent, and professional workers. The second covers all employees of the federal government and state-operated enterprises. The third embraces all wage earners and salaried personnel in the private sector including agricultural workers and domestic servants. According to the law, the new funds will be administratively and financially autonomous, as were the 12 funds under the old system, but a significant improvement was anticipated with respect to the uniform application of pension law and regulations. Since each fund is to cover a much larger segment of the labor force, more efficient administrative techniques, including the use of automatic data processing, were anticipated. Each segment of the covered labor force will retain a degree of occupational homogeneity, and a sharp reduction of the complicated problem of handling claims and records of workers transferring from one occupation to another was thus expected.

Law 17575 also provided for the creation of three new administrative bodies: the National Office of Social Insurance, the Advisory Council on Social Insurance; and the General Directorate of Uniform Insurance. The primary function of the National Office of Social Insurance is to establish directives that will ensure the uniform application of national social security legislation by each of the national funds. The Advisory Council on Social Insurance (which consists of representatives of labor, employers, and pensioners) is to be responsible for reviewing new legislation and administrative proposals that are submitted by the National Office of Social Insurance. The General Directorate of Uniform Insurance will be primarily responsible for assisting and coordinating the funds with respect to the collection of contributions and the entitlement to and payment of benefits. All judicial action in connection with OASDI provisions and obligations is to be handled by this administrative body.

---

[5] In 1962, life expectancy at birth for men was 63.99 years and for women, 70.10. In the same year, remaining life expectancy at age 55 was 19.11 years for men and 23.18 years for women. *Ibid*, pages 4–5.

[6] *Censo de Beneficiarios de los Organismos Nacionales de Previsión Social*, page 11.

IMPACT OF OASDI CHANGES

The steps taken in 1967 to reform the OASDI program not only were important for their expected beneficial impact upon the program's efficiency and effectiveness but also in the context of overall economic policy. The stricter measures taken to ensure the collection of current and overdue contributions have already resulted in a sharp rise in pension savings. In 1966, total expenditures slightly exceeded total receipts for all funds. And in the first 6 months of 1967, pension savings amounted to 25.8 billion pesos, or 22 percent of total expenditure for the same period.[7] For the shorter term the pension program is expected to generate an increased rate of savings. It is anticipated that the number of pensions in force will increase only slightly in the next 4–5 years because the pensionable age has been raised, and real gross domestic product per capita and the labor force is expected to grow. As a result, OASDI revenue will grow at a faster rate than expenditure, producing an increase in the rate of saving. Of course, an implicit assumption is being made that contribution rates will not be reduced and that real benefit payments per pensioner will not grow at an appreciably faster rate than wages and salaries.

[7] *Boletín del Instituto Nacional de Previsión Social*, February 1967 and June 1967.

The higher rate of anticipated pension savings in the next 4–5 years represents a potential means for strengthening the country's stabilization program. As in the past, pension savings are expected to be predominantly invested in government securities. In 1957–61, for all funds, more than 90 percent of invested reserves were in "social insurance obligations"—that is, bonds issued by the federal government.[8]

Data for the 4 years 1960–63 indicate in rough terms the potential importance of pension savings for stabilization policy. In that period, average annual pension savings equaled 7.4 percent of the country's total federal government receipts (including pension savings invested in government securities) and 25.3 percent of the average annual budget deficit.[9]

To the extent that the 1967 changes in the OASDI program result in an increase in the rate of pension savings, the stabilization potential would be greater than the figures above suggest, since pension savings as a proportion of national consumption spending would tend to be greater, as would pension savings in relation to federal government receipts and budget deficit.

[8] Comisión Asesora Permanente de Seguridad Social, *op. cit.*, pages 111–225.

[9] *Pension Savings, IBRD-IDA Economic Position and Prospects of Argentina, Annex II: Public Finance*, May 5, 1965. "Budget Deficits and Federal Government Receipts," *Statistical Yearbook, 1966*, United Nations, page 629.

AFDC CASELOADS

(Continued from page 2)

cent growth. Declines in 48 States brought a sizable drop in the number of old-age assistance recipients, reflecting no doubt the rise in death rates among the aged in the winter months. The increases in cash benefits in the OASDHI program, effective for February, undoubtedly played some part in the decline. Nationally, the caseload for aid to the permanently and totally disabled showed a small rise, and in aid to the blind the number of recipients was slightly lower.

Total expenditures for assistance, including vendor payments for medical care, were $742.4 million—$17.1 million less than the January total. A decline of $25.5 million in bills paid under New York's medical assistance program was largely responsible for the drop in total expenditures. For money payments, the largest change was the increase of $1.8 million in aid to families with dependent children; higher totals also occurred in all the other money-payment programs.