

***SOCIAL SECURITY REFORM:
GOALS AND ECONOMIC IMPACTS***

SP/JUNE, 2017.

Reform Today to Ensure Tomorrow - Goals:

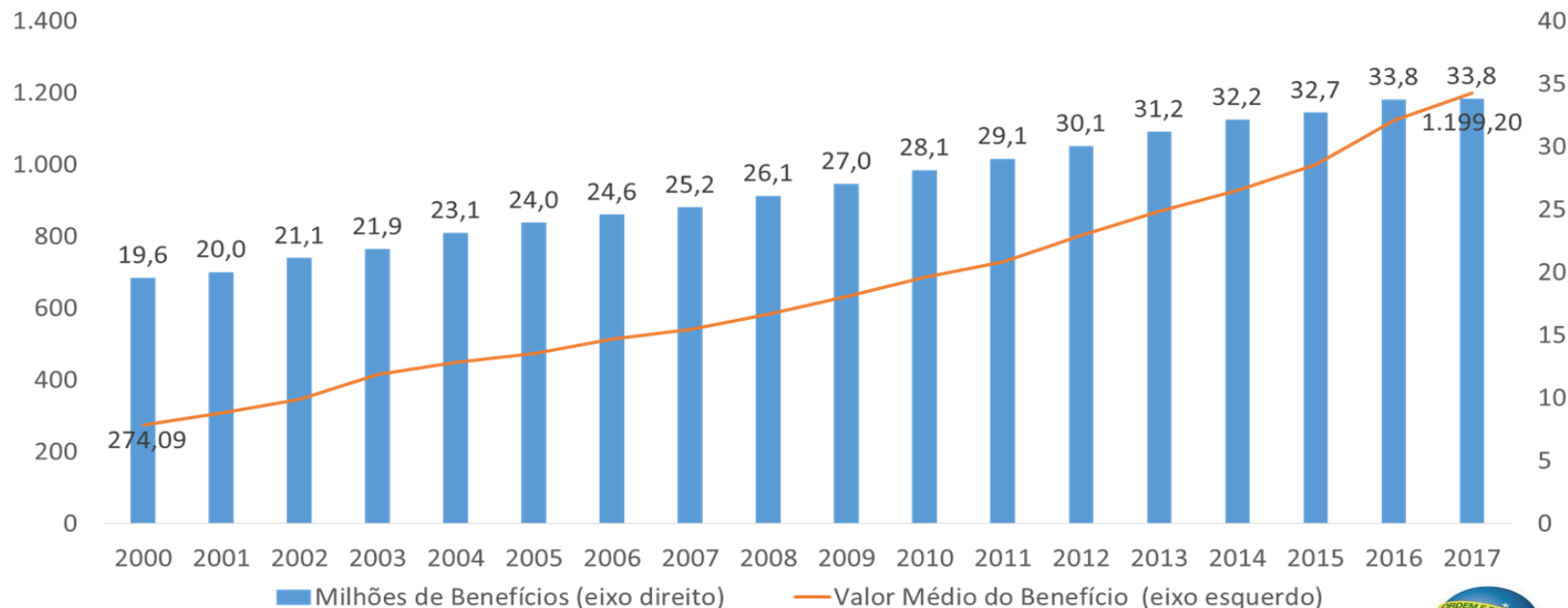
- Guarantee present and future sustainability of social security
 - Prepare the system for the Brazilian demographic transition end (i.e. a higher dependency rate).
 - Promote contributions to the system;
- Respect acquired rights;
- Establish fair transition rules;
- Move towards harmonization of social security systems
 - Private sector workers and civil servants
 - Urban and rural workers

Reform Today to Ensure Tomorrow - Goals:

- Converge to the international best practices;
- Strengthen the distributive pillar of social security
 - Preserve the linkage between retirement income floor and minimum wage;
- Intergenerational justice: protect future generations from: high inflation, high tax burden, and high interest rates

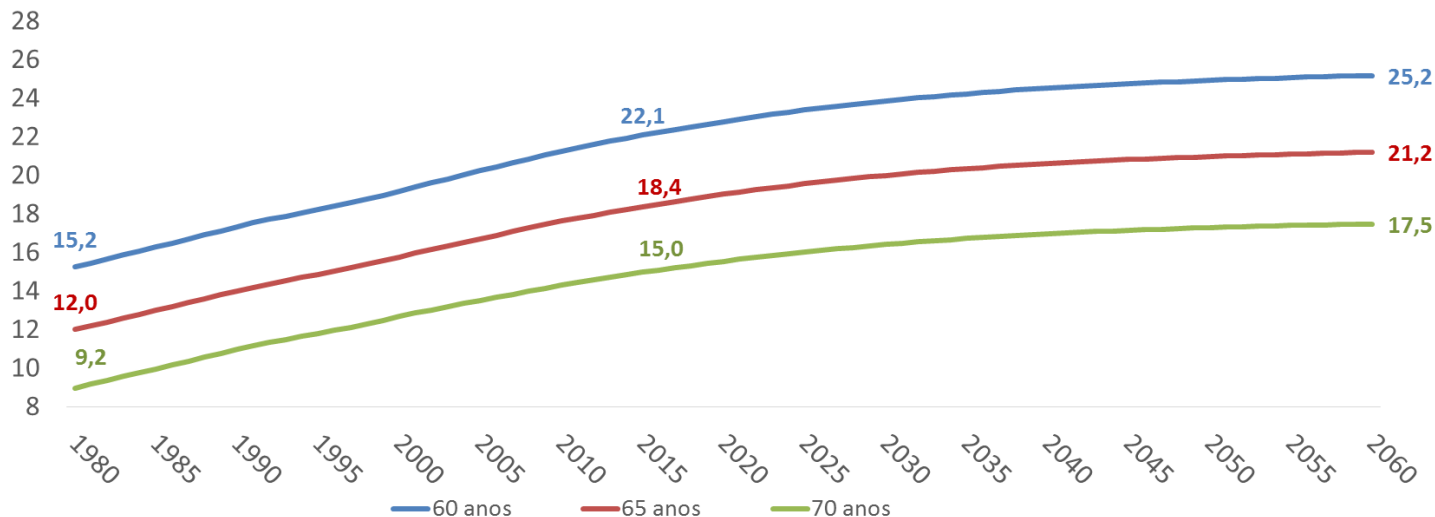
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Social Security Reform will result in 3 Positive Factors - We are including more people in our social protection network, for longer and with a greater value.



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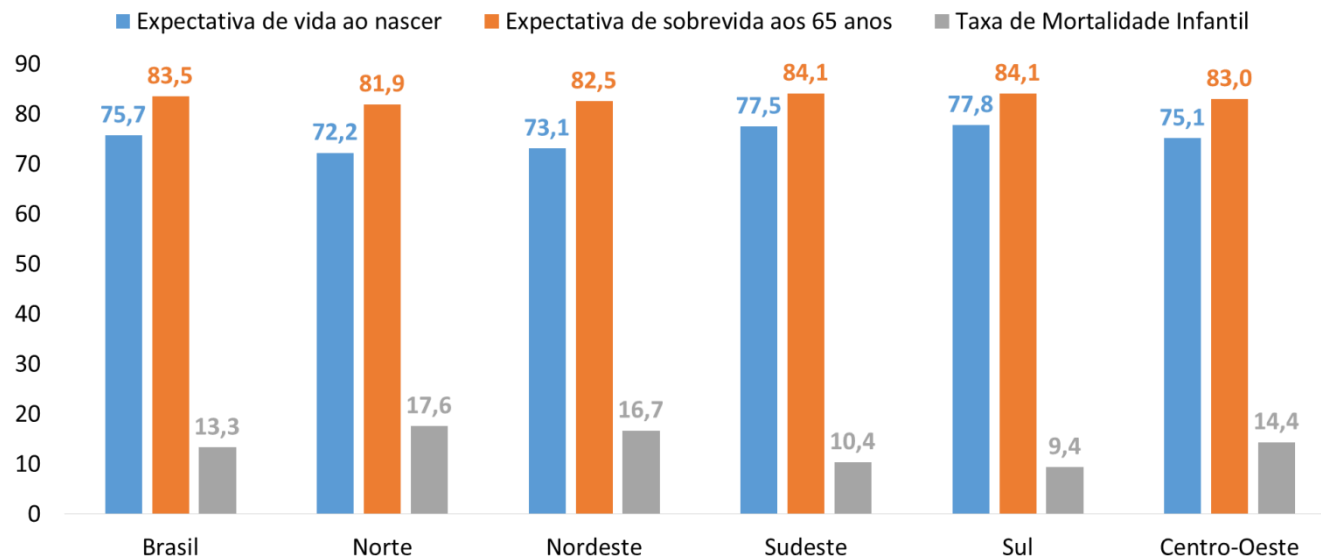
Elevation of Life Expectancy at Retirement Age (in years)



Fonte: IBGE/ Projeção da População de 2013.

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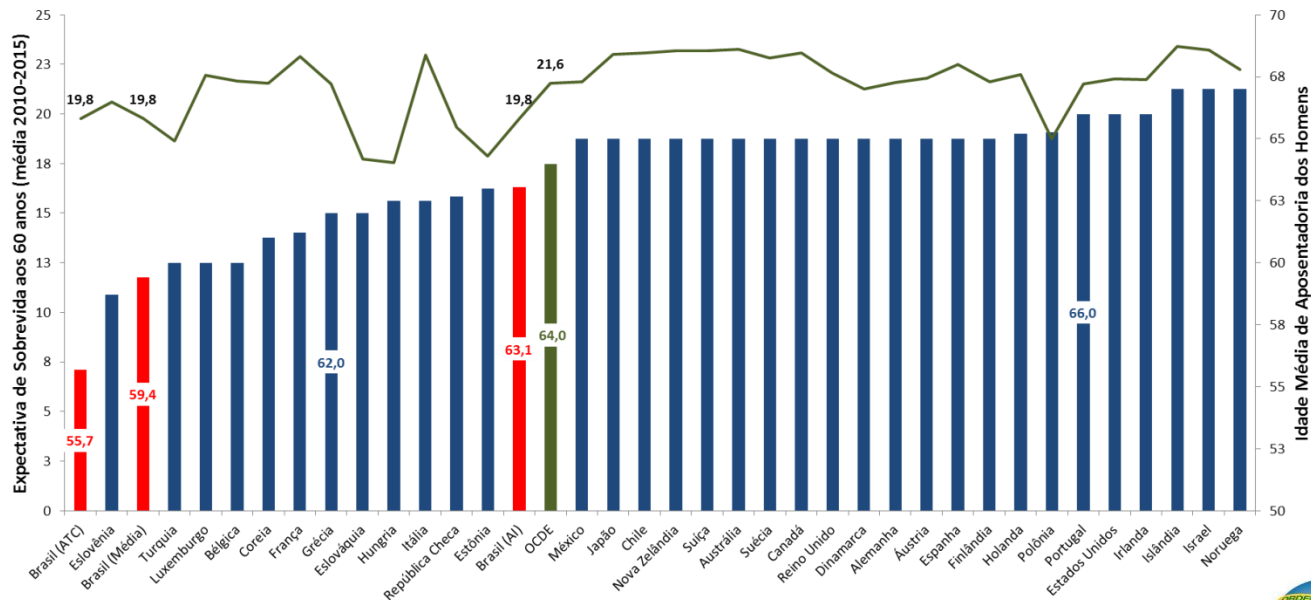
Expectation of life at age 65 in Northeast (poorest region) is 17.5 years, very close to the national average.



Fonte: IBGE em 2016

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Brazilian men live 1.8 years less than the OECD average and retire 4.6 years earlier



Fonte: ONU, OCDE, IBGE e Sec. Previdência

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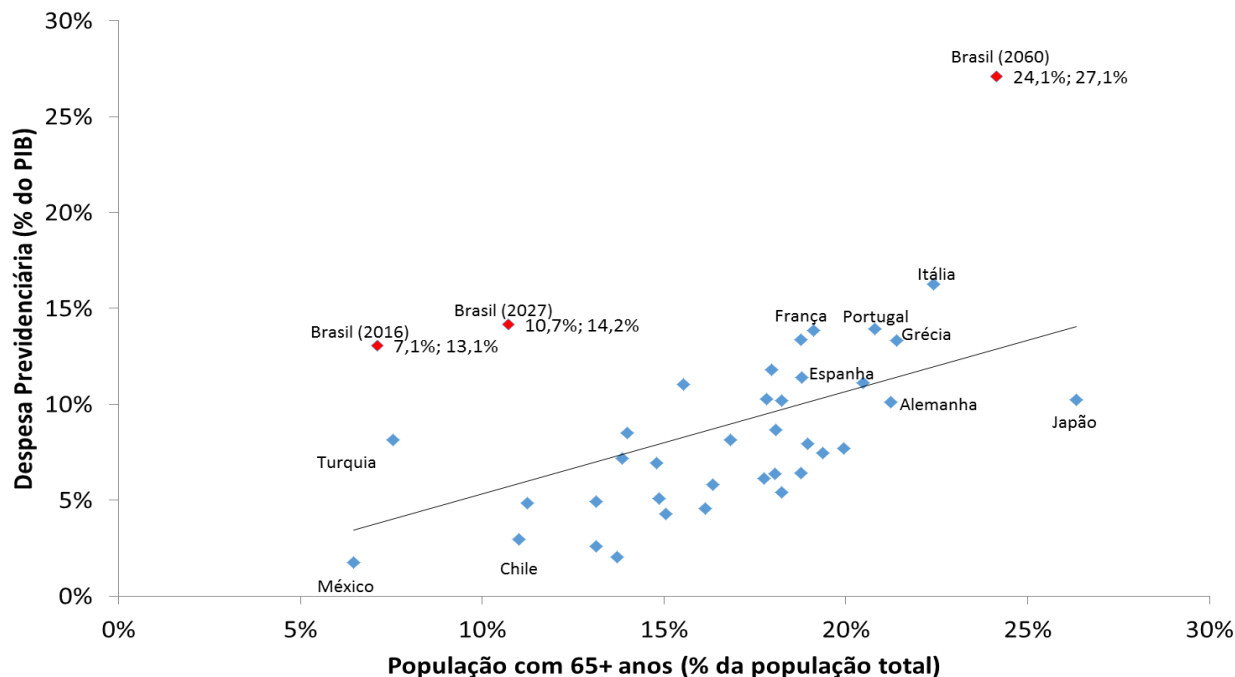
Budget Balance of social security is a national challenge

Entes	Arrecadação		Despesa		Superávit/Déficit	
	(R\$ Bilhões)	% do PIB	(R\$ Bilhões)	% do PIB	(R\$ Bilhões)	% do PIB
Municípios	53,2	0,8%	42,1	0,7%	11,1	0,2%
Estados/DF	68,2	1,1%	157,8	2,5%	-89,6	-1,4%
União - RPPS	33,6	0,5%	110,8	1,8%	-77,2	-1,2%
União - RGPS	358,1	5,7%	507,9	8,1%	-149,7	-2,4%
Total	513,2	8,2%	818,6	13,1%	-305,4	-4,9%

Source: MF e MPDG

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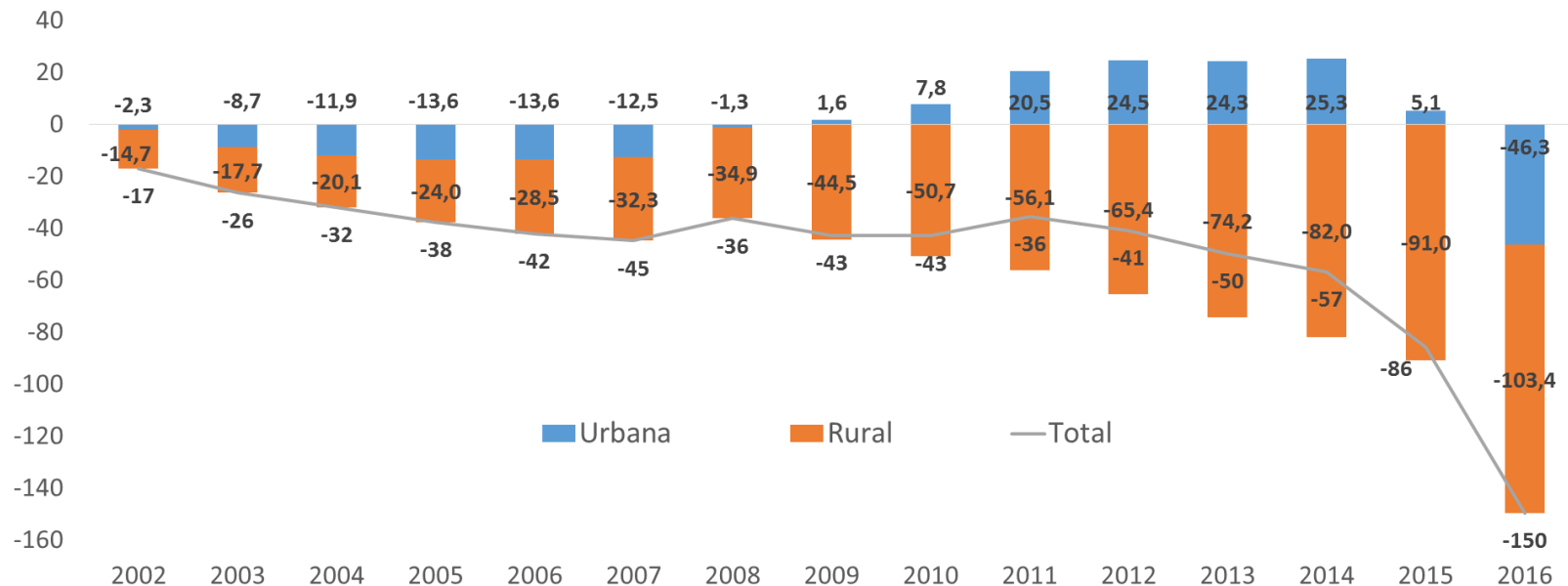
Social security expenditures in Brazil are close to those of Greece and Portugal



Source: OCDE, ONU, RGPS, RPPS, Estados e Municípios

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Social Security System Deficit



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Examples of reforms to insolvent regimes

Greece:

- Reductions from 5% to 15% in the value of pensions greater than 1 thousand euros;
- Taxation from 5% to 10% of pensions above 1.4 thousand euros;
- Freezing of retirements between 2011 and 2015;
- Increase in the retirement age of women from 60 to 65 years between 2011 and 2013, without transition rule.

Portugal:

- Extinction of the 13th and 14th payments for retirees with income superior to 1,1 thousand euros;
- Freezing of pensions in 2011;
- Collection of an additional contribution of 3.5% for retirees with income of 1 thousand euros up to 40% for those with income above 7.1 thousand euros;
- Suspension of early retirements (57 years) between 2012 and 2014.

Rio de Janeiro e Rio Grande do Sul states:

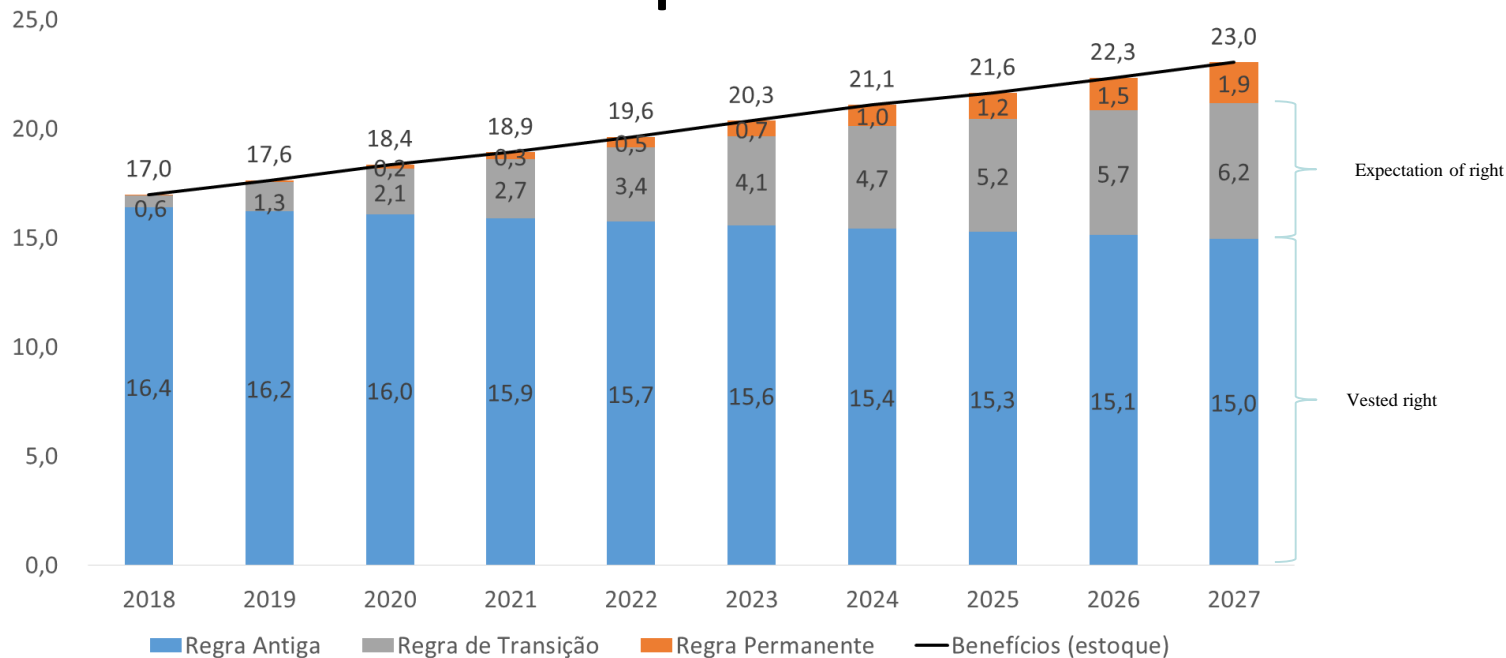
- Wage and pension arrears: civil servants and retired civil servants.

The Reform Proposal

1. It does not increase or create taxes;
2. It preserves the rights of:
 - Retirees (19,1 milions);
 - Pensioners [survival benefit holders] (7,6 milions);
 - Those who are already eligible to retirement (630 thousand).
3. Lengthy transition rules (20 years).
4. Benefit calculation rules: no changes for those earning minimum wage (63,7 %);
5. The same rules will apply for: politicians, civil servants and private sector workers.

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The Proposed

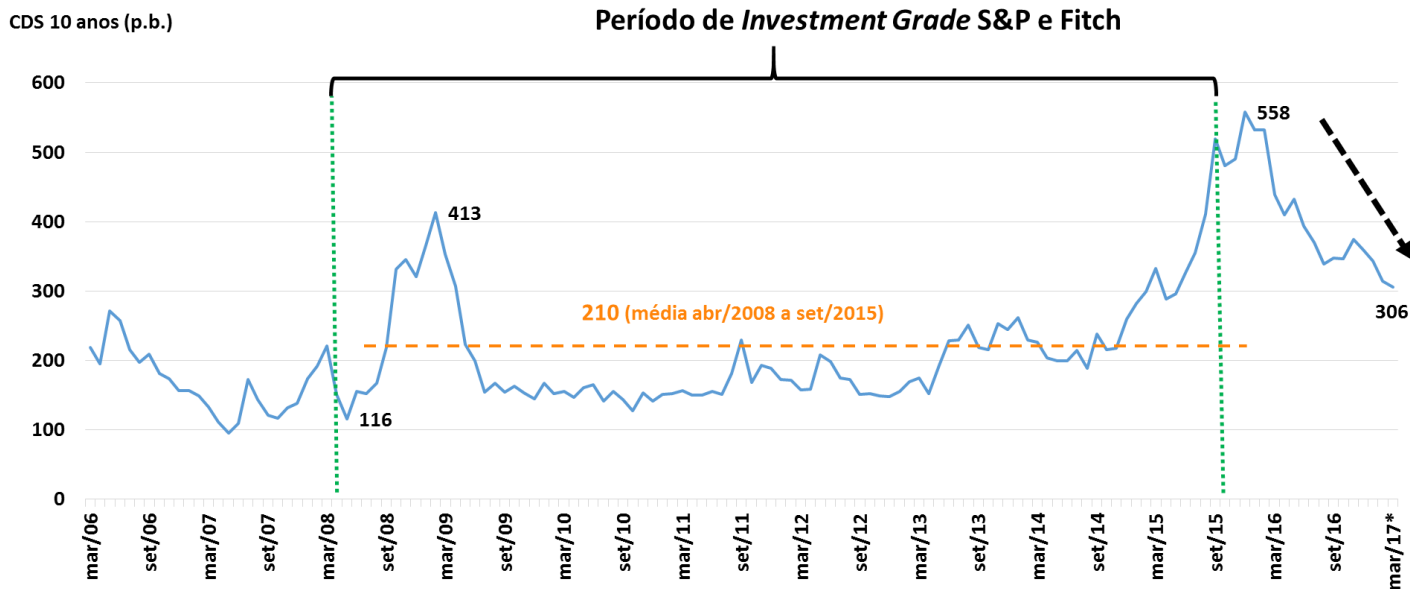


Economic Impacts

1. Short term impacts:
 - Reduces government financial expenses due to the fall in the long-term interest rate; and
 - It allows greater allocative efficiency, especially after the approval of the New Fiscal Regime (EC nº. 95).
2. Long term impacts:
 - Extension of the demographic bonus;
 - Increased productivity and capital accumulation.
3. The pension reform and the new fiscal regime will bring back the trust in Brazil.

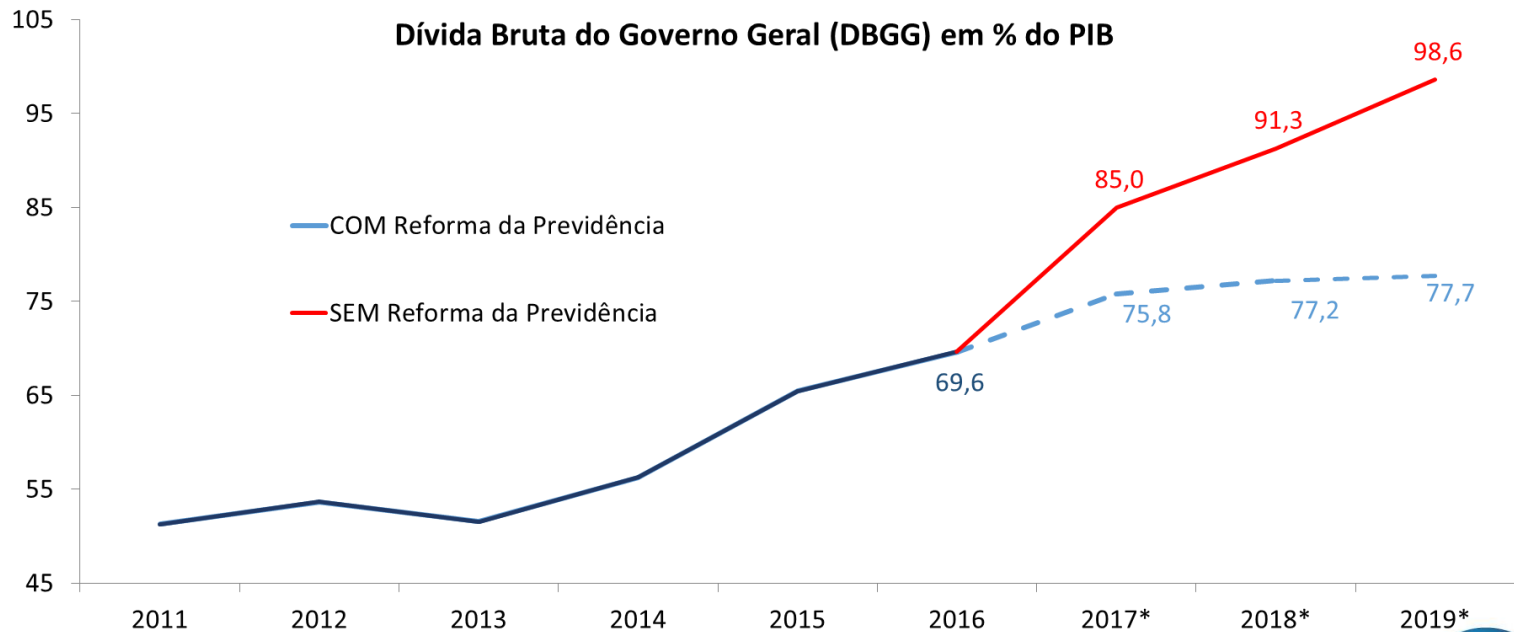
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Reduction in the Country Risk – Market Perception



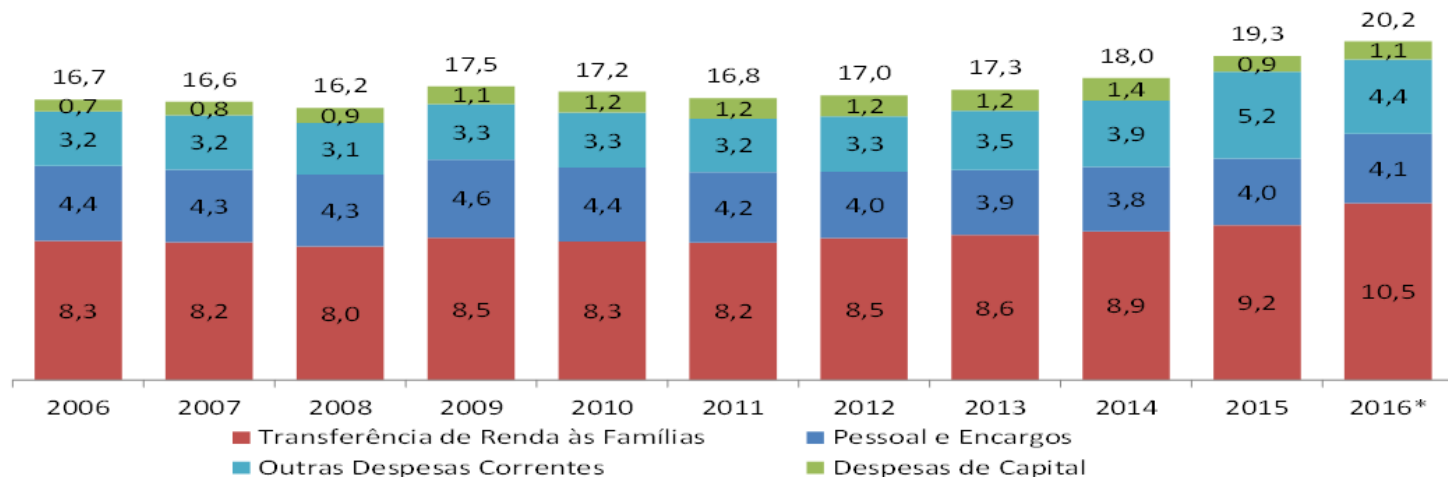
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Reduction of Financial Expenses – Public Debt



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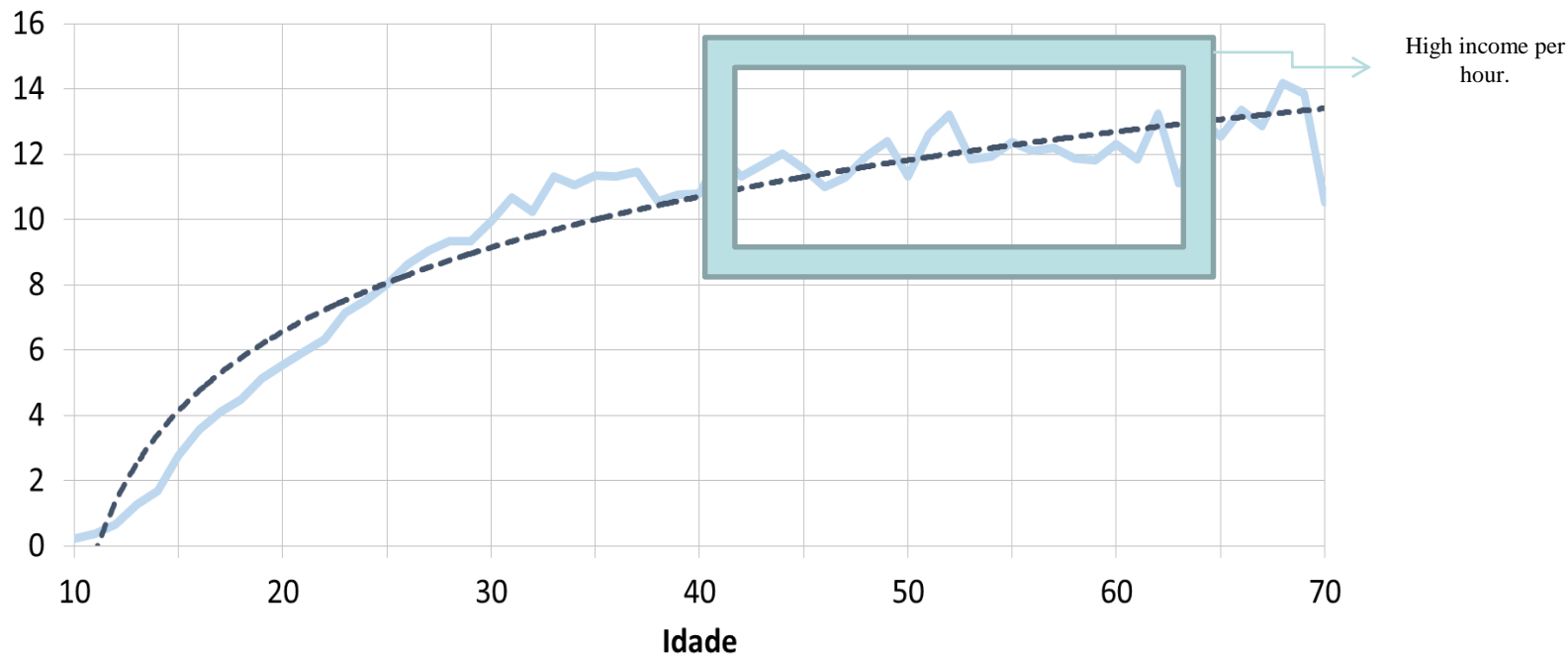
Public Budget Composition



Fonte: SIAFI

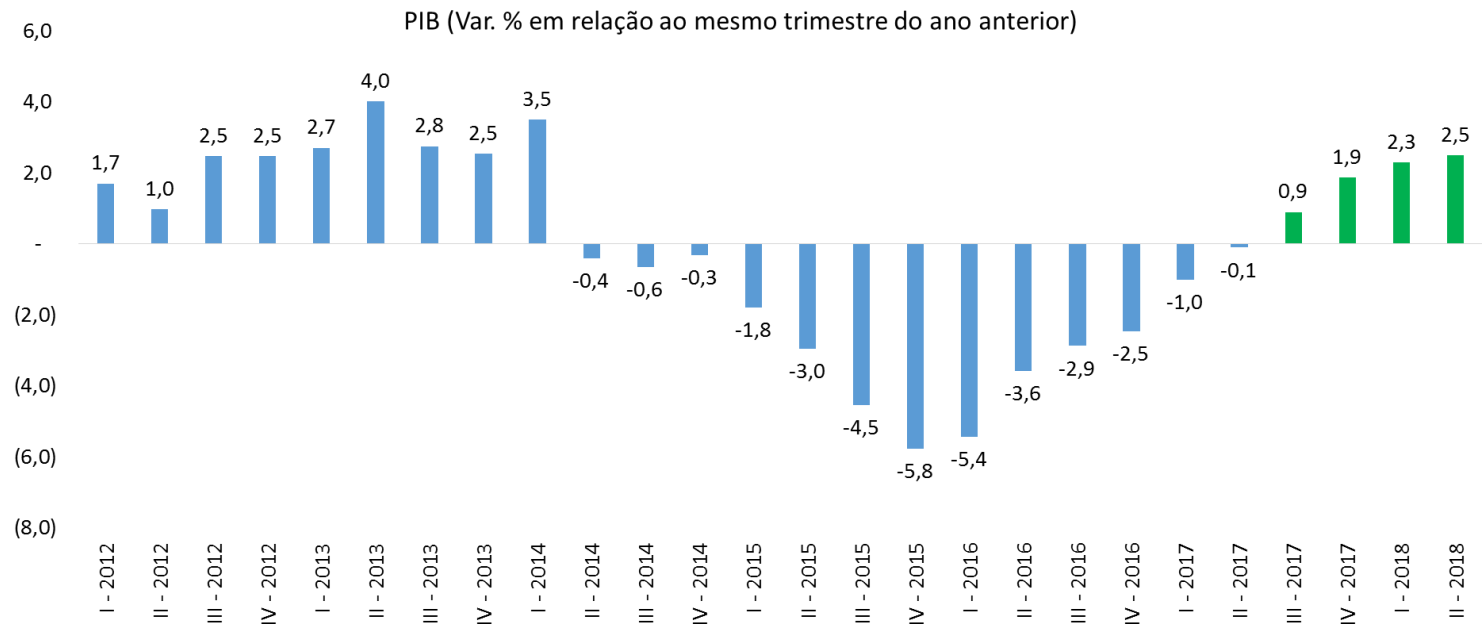
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Workers Productivity



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Restored Economic Growth



An Agenda for Economic Growth

- Long term reforms are essential to resume economic growth in the short term;
- The sustainability of social security improves public accounts, which has an immediate impact on the economy;
- The improvement in fiscal expectations makes it possible to reduce long term interest rates.
- With interest falling, there will be more investments.
- The approval of the pension reform will enable job creation and income increase, improving the socioeconomic conditions.

THANK YOU!

BRUNO BIANCO LEAL

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BRAZIL*