

# INDIANATECH

## INTRODUCTION

The current social security system in Brazil is starting to collapse. The public system is on a deficit because it pays out more than it collects. The system's model is unsustainable because it is funded with active workers' contributions that are used to pay current retirees benefits.

- The system is funded with security contributions from employees (8% to 11%) and employers (26.8% to 28%) of the employees' income. The revenue from contributions is divided between the current beneficiaries without any savings.
- Currently, the SS system has a deficit of R\$ 182.4 billion, which rounds to U\$ 48.6 billion. The projections of deficit are significantly higher for the upcoming years.

## OBJECTIVE

The main goal is for the social security system to be financially sustainable and make personal savings for future retirees instead of spending the money right away.

- The current model relies on government to manage funds that don't make any savings.
- The new model should be able to accumulate wealth for the future for each beneficiary instead of sharing payouts to the whole system.

## SOLUTION

Brazil should change its SS system to a capitalization model that sets individual accounts that accumulate money that is invested into companies and retains interest over time.

- Chile has adopted a capitalization model in the 80's and had an average return rate of individual retirement accounts of approximately 8.4% per year after inflation.
- That change made older people have the lowest poverty rate between all groups in Chile, 3.9% compared to 10.3% for the rest of the population.

## CONCLUSION

Brazil's pension scheme is not sustainable because the model does not save capital and in fact makes the social security system pay out more than it receives from active workers. A capitalization model needs to be implemented in order to make actual savings for the retirees of the future.

# INDIANA TECH

## References

El Club de Los Viernes. (2016). *Why is it More Efficient a Capitalization Pension System?* Retrieved on February 23, 2019, from <https://www.elclubdelosviernes.org/efficient-capitalization-pension-system/>

Deloitte. (2017). *Social Security and Pensions*. Retrieved on January 23, 2019, from <https://www2.deloitte.com/br/en/pages/living-and-working/articles/social-security-pensions-brazil.html>

IEA. (2017). *In Defense of Chile's Privatized Pension System*. Retrieved on February 23, 2019, from <https://iea.org.uk/in-defence-of-chiles-privatised-pension-system/>

G1 Globo. (2019). *Previdência: Países Misturam Repartição e Capitalização; Saiba Como Funciona*. Retrieved on February 23, 2019, from <https://g1.globo.com/economia/noticia/2019/01/12/previdencia-paises-misturam-reparticao-e-capitalizacao-saiba-como-funciona.ghtml>

Economia Sem Segredos. (2017). *Previdência Social: Estados Unidos*. Retrieved on February 23, 2019, from <http://economiasemsegredos.com/previdencia-social-estados-unidos/>

Investopedia. (2017). *How Do Pay-As-You-Go Pension Works*. Retrieved on February 23, 2019, from <https://www.investopedia.com/ask/answers/102714/how-do-payasyougo-pension-plans-work.asp>