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INTRODUCTION:

Social Welfare has never been discussed so much until recently years, and Social Welfare has never been linked so much with the public deficit, as in recent times. Such concern has a foundation, and we will seek in that work to approach the aspects that do with that the theme is in the calendar of the day of the Country. The intention is to, starting from a historical approach, rescue concepts that explain the model of Social Welfare adopted in the Country and its consequences, through a contextual analysis of the Federal, State and Municipal level; and finally to analyze the unpublished and pioneer model adopted by the State of Bahia in the search of solutions for the subject in the State, with the implementation in April of 1998 of FUNPREV - Fund of Financing of the Social Welfare of the Public Servers of the State of Bahia.

The government positions were considered donations, of the sovereign's free choice, in general lifelong, and the remuneration of the activity was extended for retirement, maintaining all the privileges. In fact, the denomination " public servants " in Brazil elapses of that subservience relationship between the employees and the sovereign. The " public servant ", in the "*Estado Patrimonialista's*" conception is that who dedicates its life to the State, therefore to the sovereign, should be rewarded when of the retirement.

In order to extend the benefits to the dependents, because the retirement was exclusive to public servants, the Widow's Funds were created. These were the basis of the States' social welfare structure up until today. The Treasury (as in the old patrimonial model) financed retirement, and the Institutes financed pension.

THE XVIII CENTURY:

In the XVIII century, with the Republic, we witness the appearance of assistance plans in the basic sections of the State. Chronologically we can mention the following systems:

- 1888 - The Decree # 9.912-A regulated retirement of postal employees. Law # 3.397 created the Widow's Fund of the Railroads of the Empire.
- 1889 - The Decree # 10.269 created the Fund of Pensions of the Personnel of the Shops of Press.

- 1890 - The Decree # 221 created the retirement fund for employees in railroads. In that same year Decree # 942-A created the Widow's Fund of the Employees of the Ministry of Finance.
- 1892 - The Law # 217 instituted the retirement for disability to the workers' of the Arsenal of the Navy of Rio de Janeiro and pension for death to the dependents.

We can notice that in that period of our history the concern is with the workers' welfare linked to the development area and safety. The context of the time justifies that tendency, because the country recently created the Republic, whose concern was the internal security and the maintenance of the social order and law, the protection against external aggression with the creation of an army to guarantee the sovereignty of the country, the development of diplomatic relationships seeking recognition of the country in the international arena; and Finance seeking to collect tributes and to execute the expenses, in addition taking care of monetary policy. As it is noticed they are areas that look for the invigoration of the State. Interesting also to notice at that time was the consecration of some benefits, such as retirement for disability, and pension for death.

THE XIX CENTURY:

Infrastructure sections, such as Mint, customs, port, employees in mining and others, began to incorporate mechanisms of social protection. In that period the proliferation of the Widow's Fund, named - CAP's was created. These systems

however were mounted in fragile frameworks that didn't guarantee the survival of many of them. The systems didn't include a minimum number of people that guaranteed its financial balance. The actuarial calculations were also neglectful, with adoption of arbitrary mortality boards that rebounded negatively in the formation of the patrimony. Furthermore, the administrative inability in the administration of financial resources that had increased as the taxpayers' universe had increased as well. In the decades of 20 and 30, several categories of federal public servants already had own systems of welfare, moreover in States and Municipal Districts, contributing to the fragmentation of the system.

Although the administrative paradigm of that decade has developed from the patrimony system to the bureaucratic one, the treatment of the welfare issue was not altered, staying as an extension of the personnel's of the State policy, maintaining therefore the entails previously existent.

THE LAW ELOY CHAVES:

This law was a landmark on the social security legislation in the country. In 1923, it created the Retirement and Pension Offices at that time in the existent rail companies. That system guaranteed to the beneficiaries the right to retirement, pension for death, medical attendance and medicines to special prices. Although the deficiencies that characterized the Social Security Systems at that time, we noticed the introduction of two elements that compose the fundamental beginnings

of the systems nowadays: the contributive character and the limit of age for retirement.

THE FIRST REFORMS:

In 1930, in the middle of process of transition from “*Estado Patrimonialista*” to Bureaucratic State, President Getúlio Vargas suspended for six months all the retirements.

Motivated by the lack of control and the financial inefficiency of the system, the former-president promoted the first great reform. Initially almost all the urban workers were included in the system. Later on, six great National Institutes were created in substitution of the retirement boxes. Those institutes became organized by group of professional categories of national ambit, contrarily to the previous ones (the CAP), that were organized for the company.

In that period the Institutes of Pension of States and Municipal Districts appear, in the way as they still are today, to leave also of the coalition of State and Municipal CAP.

In 1938 IPASE was created - Institute of Welfare and Attendance of the Servants of the State, of this done through the unification of several Widow's Fund of different categories from the federal public servers. IPASE was financed by collective capitalization. The contributions were 5% on the wages for pension payment. The retirement and the medical attendance continued to be financed by

the Treasury. That contribution lasted long up to 1952, when the Statute of the Federal Civil Public Server released the statutory servers of that contribution.

In 1966 the six great Institutes of Retirements and Pensions became unified forming an only institute, INPS - National Institute of Assistance and Social Welfare. In 1977 IPASE was abolished. In its place the law created SIMPAS - Integrated System of Welfare, Health and Social Assistance, also managed by INPS.

The Federal Constitution of 1988 created the Only Juridical Regime – RJU. Through this rule the federal public employees passed for a retirement and pension system managed by the Union, simultaneously that the employees governed by CLT (of the private initiative or in disposition of the public administration) went for the system managed by INSS - National Institute of Social Welfare, which substituted old INPS.

THE XIX CENTURY - MAIN EVENTS:

We are going to discuss below, in annual chronological order, some important facts of the social security legislation of that century, until the present:

- · 1911 - Instituted the social welfare for the Mint's workers.
- · 1912 - The Decree # 9.517 created the system of retirement and pension to the personnel of customs of Rio de Janeiro.

- · 1923 - The Decree # 4.682 created the system of retirements and pensions for the employees of each rail company. That Ordinance was well known as “Law Eloy Chaves”, the author of the bill, and it represents a milestone for the social security legislation in the country.
- · 1926 - The Law # 5.109 extended the rules of the Law Eloy Chaves to the workers on ports and sailors.
- · 1928 - The Law # 5.485 extended the rules of the Law Eloy Chaves to the workers of the telegraphs.
- · 1930 - The Ministry of the Work was created by the Decree # 19.497. Among its attributions were the orientation and supervision of the Social Welfare.
- · 1931 - The Decree # 20.465 extended the rules of the Law Eloy Chaves to the employees of the other public services, and it consolidated the pertinent legislation to several retirements and pensions systems.
- · 1933 - The Decree # 22.872 created the Institute of Retirement and Pensions of the Sailors. This Institute was considered as the first institution of social welfare of national ambit with base in the generic activity of the company.
- · 1934 – The Act # 32 of the National Council of the Work created the Institute of Retirement and Pensions of Personnel in the Air Service. For that year, several categories of employees had its institutes implemented, such as commercial employee, workers in warehouses, and banks.
- · 1936 – The Law # 367 created the Institute of Retirement and Pension of Industries’ employee.

- · 1938 – The Ordinance-law # 288 created IPASE - Institute of Welfare and Attendance of the Servants of the State.
- · 1939 – The Ordinance-law # 1.713 regulated the public employees' retirement.
- · 1941 – The Ordinance-law # 3.084 instituted the Statute of the Military, ones that consolidated the system of retirement of the military officers.
- · 1950 – The Ordinance # 35.448 created the General Regulation of the Institutes of Retirements and Pensions.
- · 1960 – The Law # 3.807 created the Organic Act of the Social Welfare -LOPS, that consolidated the legislation regarding the Institutes of Retirements and Pensions. On that same year the General Regulation of the Social Welfare was approved by the Law # 48.959 - A, and the reciprocal count of time of service for effects of retirement of the services rendered to the Union, autarchies and societies of mixed economy was instituted by the Law # 3.841.
- · 1963 – FUNRURAL was created - Fund of Attendance to the Rural Worker, for the Law # 4.214.
- · 1966 – The Ordinance-law # 72 gathered the six Institutes of Retirements and Pensions in the National Institute of Social Welfare - INPS.
- · 1969 – The Ordinance-law # 564 extended the Social Welfare to the rural workers.
- · 1971 – The Decree # 69.014 structured the Ministry of Work and Social Welfare - MTPS.
- · 1972 – The Law # 5.859 included the domestic servants in the Social Welfare.

- · 1974 – In this year the Ministry of Welfare and Social Attendance – MPAS was created, starting from the separation of the Ministry of the Work and Social Welfare for the Law # 6.036, on May 1°. The first Minister of State of the Social Welfare of Brazil was Arnaldo da Costa Pietro who assumed both Ministries at the same time. The basic structure of MPAS was established by the Ordinance # 74.254. In July the Minister Arnaldo da Costa Pietro was discharged. Luiz Gonzaga do Nascimento Silva assumed his position. In November, through the Law # 6.125 the Company of Processing of Data of the Social Welfare was constituted.
- · 1975 – The Law # 6.226 authorized the reciprocal count of time of service for effects of retirement of the federal public service and the private initiative. Among many other actions, we could highlight consolidation of the social security laws and the extension of the social security benefits to the rural workers' dependents. Furthermore, the Ordinance # 76.719 approved the new basic structure of the Ministry of the Welfare and Social Attendance - MPAS.
- · 1977 – The Law # 6.435 disposed of the private system of complement welfare, open and shut. In September the Law # 6.439 instituted SINPAS - National System of Welfare and Social Attendance, controlled by the Ministry of the Welfare and Social Attendance, which ran the welfare, medical, pharmaceutical and social attendance policy.
- · 1978 – The Decree # 81.240 regulated the Law # 6.435/77 regarding complementary welfare.

- · 1979 – The Decree # 83.080 approved the regulation of benefits of the social welfare. Still in January, the Ordinance # 83.081 approved the regulation of financing of the social welfare. In March, the Ordinance # 83.266 approved the regulation of administrative, financial and patrimonial administration of the social welfare. That same month Minister Luiz Gonzaga do Silva Nascimento was discharged, assuming in his place Jair de Oliveira Soares.
- · 1981 – The Decree # 1.910 disposed the contributions for the financing of the social welfare.
- · 1982 - Minister Jair de Oliveira Soares was discharged and Hélio Marcos de Oliveira Beltrão assumed his position.
- · 1983 – Hélio Marcos de Oliveira Beltrão was discharged in November. Jarbas Gonzaga Passarinho assumed his place.
- · 1984 – New consolidation of the social security laws was approved by the Decree # 89.312.
- · 1985 – In March, the Minister Jarbas Passarinho was discharged, and Francisco Waldir Pires de Souza assumed his place. In July, the Center of Medications - CEME, which was part of the structure of the Ministry of the Welfare and Social Attendance was transferred for the Ministry of the Health.
- · 1986 – Minister Waldir Pires was discharged in February and Raphael de Almeida Magalhães assumed his position. The Ordinance-law # 2.283 instituted the insurance unemployment. In March Decree # 92.654 instituted the work group to restructure the bases of financing of the Social Security System and to reformulate the plans of benefits.

- · 1987 – In October, Minister Raphael de Almeida Magalhães was discharged and Renato Archer assumed his position.
- · 1988 – Minister Renato Archer was discharged and Jarder Barbalho assumed his place.
- · 1990 – In March, Jarder Barbalho was discharged and Antônio Rogério Magri assumed his position. In April the Ministry of the Welfare and Social Attendance was eliminated by Law # 8.029, that reestablished the Ministry of the Work and Social Welfare. In June, the Decree # 99.350 created INSS - National Institute of Social Security, starting from the coalition of IAPAS and INPS.
- · 1991 – The Law # 8.212 disposed of the social security and its financing plan. In December, Decree # 357 approved the Regulation of the Plan of Benefits.
- · 1992 – Minister Antônio Rogério Magri was discharged in January and Reinholds Stephanes assumed his position. In October Reinholds Stephanes was discharged and Antônio Brito Filho assumed his place. In November, the Law # 8.490, among other measures, reestablished the Ministry of the Social Welfare, and extinguished the Ministry of the Work and Social Welfare.
- · 1993 – That was a rich year with regards to social security legislation. Rules were published on the concession of Certificate of Philanthropic Entities, contribution of the soccer clubs, linking the civilian public servants in commission position to the General System of Social Welfare, contribution, and so on. In December Antônio Brito Filho was discharged and Sérgio Cutolo dos Santos assumed his place.

- · 1994 – The Decree # 1.097 disposed of philanthropic entities (that are immune to the contributions to the Welfare System). The Decree # 1.317 instituted norms of inspection on the entities of private welfare, which was exercised by the auditors of INSS.
- · 1995 – The Minister Sérgio Cutolo was discharged in January and Reinholds Stephanes assumed his place. The Bill # 813 once again altered the Government's structure, transforming the Ministry of the Social Welfare - MPS, in Ministry of the Welfare and Social Attendance - MPAS. The Decree # 1.644 approved the new Regiment of the Ministry of the Welfare and Social Attendance. They were also promulgated agreements of social security with Portugal and Spain. The Decree # 1.744 extinguished some benefits, such as funeral aid, Christmas aid and monthly lifelong income, moreover regulating the concession of benefits to people with disabilities and old-aged.
- · 1996 – Complemental Law established the creation of COFINS - Contribution for Financing of Social Security. In April the Bill # 1.415 disposed of readjustments to the benefits of the social welfare. It also altered the contribution and instituted the contribution of the inactive of the Union.
- · 1997 - The Decree # 2.115 approved the statute of "DATAPREV" - Company of Processing of Data of the Welfare and Social Attendance. In March the Decree # 2.171 modernized the Regulation of the Benefits of the Social Welfare. IPC - Institute of Welfare of the Congress members was closed down in October for the Law # 9.506.

- · 1998 – In April Reinhold Stephanes was discharged of Minister's position and Waldeck Vieira Ornélas assumed his place. In April the Law # 9.630 disposed of contribution for the social security system of the active and inactive civil public servants of the powers of the Union, its autarchies and public foundations. In November the Law # 9.717 disposed of general rules for the organization and operation of the Own Systems of Social Welfare of the Public Servants of the Union, States, Federal District and the Municipal Districts, of the Military of States and Federal District. In December the Constitutional Amendment # 20 was approved and it changed the system of social welfare and established transition norms.
- · 1999 – The Ministerial Act # 4.992 disciplined the general norms of operation of the own regimes of social welfare of the public servants. In May, the Law # 9.796 disposed of the financial compensation between the General System of Social Welfare and the Systems of Welfare of the Servants of the Union, States, Federal District and Municipal Districts, in the cases of reciprocal count of time of contribution for effects of retirements.

MINISTERS:

The schedule below presents in a synthetic and comparative way the period of duration of all the Ministers of Welfare in the position, starting from 1974, when the Ministry of the Welfare and Social Attendance was created, starting from a separation from the Ministry of the Work and Social Welfare.

MINISTER	START OF THE MANDATE	DISCHARGE	(MONTHS)
ARNALDO DA COSTA PIETRO	MAY/74	JULY/74	2
LUIZ GONZAGA DO NASCIMENTO E SILVA	JULY/74	MARCH/79	56
JAIR DE OLIVEIRA SOARES	MARCH/79	MAY/82	38
HÉLIO MARCOS PENA BELTRÃO	MAY/92	NOVEMBER/83	18
JARBAS GONZAGA PASSARINHO	NOVEMBER/83	MARCH/85	16
FRANCISCO WALDIR PERES DE SOUZA	MARCH/85	FEBRUARY/86	11
RAPHAEL DE ALMEIDA MAGALHÃES	FEBRUARY/86	OUTOBER/87	20
RENATO ARCHER	OCTOBER/87	JULY/88	9
JADER BARBALHO	JULY/88	MARCH/90	17
ANTÔNIO ROGÉRIO MAGRI	MARCH/90	JANUARY/92	22
REINHOLD STEPHANES	JANUARY/92	OCTOBER/92	9
ANTÔNIO BRITO FILHO	OCTOBER/92	DECEMBER/93	14
SÉRGIO CUTOLO DOS SANTOS	DECEMBER/93	JANUARY/95	13
REINHOLD STEPHANES	JANUARY/95	APRIL/98	27
WALDECK VIEIRA ORNÉLAS	APRIL/98	PRESENT	19

Source: MPAS - Ministry of Welfare and Social Attendance

The analysis of the picture above shows us the high volatility of Ministers. In 24 years of Ministry of the Welfare we had 15 mandates and 14 ministers. In order to not distort our analysis, we will exclude the first mandate, for being an accumulation of positions, already approached previously. The only superior mandates to 2 years (24 months) are the one of Luiz Gonzaga do Nascimento e Silva and Jair de Oliveira Soares (still in the military regime), and Reinhold Stephanes in the decade of 90. The lack of continuity certainly effects the quality of the administration, with negative repercussions for the system as a whole and revealing the lack of political consistency for a long term

CHAPTER - II

UNIVERSAL POLICIES:

The approach of that chapter had delineated some theoretical aspects of universal application to the welfare systems, correlating them with the Brazilian reality. Like this being, we identified four basic beginnings, which guide the welfare systems: age limit, financial and actuarial balance, justness and contribution, and universality.

AGE LIMIT:

Social Security Systems all over the world exist to give security to the worker, that will aid the individual in old-age by a net of attendance that allows his/her survival and of his/her family. That attendance therefore, is related to the loss of the individual's capacity of producing, and it presupposes a minimum age for that condition. Furthermore this social security foresees protection mechanisms against the loss of the capacity of producing in case of accident or disease; and pension to the dependents in the case of death. Retirement should be understood as insurance destined to those that arrive at old age and lose the capacity to work, being therefore strictly related to the old age. The limit of age is then basic and universal condition of that system. The retirement concession also presupposes the non-return of the person to the labor market. Just seven countries in the world don't adopt the beginning of the limit of age in its retirement systems: Brazil, Benin, Egypt, Ecuador, Iran, Iraq and Kuwait. From among these countries Brazil is the

only one which doesn't just condition retirement to the return to the labor market. The discussion about the low value of the retirement's wages and those are used as a complementation of income, as far as we concern doesn't make sense. We cannot try to resolve, or to justify a problem, creating another.

FINANCIAL AND ACTUARIAL BALANCE:

All young Social Security System are in surplus, which can take us to mistaken conclusions about its real financial and actuarial situation. That fact is justified because in that period the contributions surpass the obligations, because the people didn't have time to retire and begin to receive the benefits. That takes us to the concept of financial balance, which is nothing else than the positive result between revenues and expenses in the short period. The concept of actuarial balance is a little more complex. That concept considers the balance of the system in the long period, and it depends on variables of difficult measurement such as life expectancy, level of the economic activity of the country, salary conjuncture, and many other. A specific professional, the actuary, calculates it. That calculation tries to determine in the long term, as of reservations the system needs to possess, and the rates of financial remuneration that preserve the value of the capital to cover not only the benefit already granted as well as the benefits to grant in the considered time. This policy has extreme importance for the survival of the retirement plans, and when neglectful, unavoidably results in insolvency of the system.

JUSTNESS AND CONTRIBUTION:

For every expense, undoubtedly should have revenue that finances it. The payments of benefits by the Social Security Systems request a financing source. Participants contribute with a portion of their incomes to maintain the system, this is called contributive character. Otherwise somebody will be paying the bill, because the resources will have to be retired of some other source. Another concept that we intended to present is it of the justness. The received benefit should also be proportional to the contribution. If somebody receives more than he/she contributed does, somebody else will be receiving less. To those that defend the system of social welfare as a mechanism of distribution of income, we answered saying that that is not the objective of the system, and such positioning can be seen as an injustice by those that contributed with certain portion of their earnings when still in activity, and that, to those retired they didn't receive the compensation in the same proportion.

UNIVERSATILITY:

The presupposition of that beginning is that everybody is subject to social risks, therefore it doesn't make sense that just some categories are protected. According to that perspective the State imposes the whole ones, the adhesion to the system. The discussion about the enforced adhesion to the public system, managed by the State, or the citizen's free choice in sticking some system, public or private, as in the Chilean model, is too complex, and it is not constituted in the focus of this work. Interesting just to stand out that in Brazil the position is that it should have an

obligatory basic system, administered by the State, with views to offer to the less privileged members of the population the guarantee of a minimum retirement wage in the inactivity. The universality of rules is another presupposition, not admitting special rules that favor specific categories. As we will see ahead, the Brazilian system is prodigal in the creation of " special " rules.

SOME " SPECIAL " RULES:

The Brazilian legislation is prodigal in exceptions in what it plays to the concession of special advantages to certain categories, distorting what would be a compensation to those careers that present life risk or threats to the health. In that way, a series of " differentiated "classes has been appeared during the time, as we will see below, without a financial and actuarial planning, contributing to the unbalance of the systems.

- · Retirement for age - granted to the men with 65 and to the women with 60 years old, with just five years of contribution for the system.
- · Tailors - That category, for having participated of the effort of war in II World War got to compare their benefits to the former-combatants, even without having left the Country.
- · Personnel Employed in the Air Force - It follows the same example above, with benefits comparable to former-combatants.
- · Amnestied and former-combatants - These two classes are considered as a very special ones, because the beneficiaries earn values much above the average, arriving even to 100 minimum wages. Studies from Ministry of Welfare

and Social Attendance show that approximately 200 benefits paid to former-combatants and amnestied persons meet at the house of the 100 minimum wages, while 70% of the benefits pages for INSS meet at the house of the two minimum wages. In 1997 the Ordinance # 2.172 imposed limits to the payment of retirements for amnestied persons and former-combatants, establishing roofs, even so judicial measures impeded the full application of the measures of the Ordinance.

- · Reciprocal count of time in rural service – Through this rule it is possible to consider as time for retirement the period of the smallest's rural learning between the 12 and the 14 years of age. It can also be considered, as time of rural activity the period understood between the 14 and the 18 years of the smallest's age. That period, for legal distortions could be counted as time for retirement.
- · Distortions on the public section - The distortions here presented occur in all spheres of power, Federal, State and Municipal. From among, we can mention firstly that the value of retirement doesn't keep any relationship with the accumulated balance of the contributions. Due to diversity of systems, it is possible the accumulation of retirements and still the return of the public servant to occupy public position. The retirement wages are larger than the worker's earnings. Fictitious time of retirement, are also some of the distortions. We can also verify the disparity verified among the benefits of retirement expended by the public system and for the General Regime - INSS. Inside of the own public system absurd differences exist among the spheres of Executive Power, Legislative and Judiciary. Below we see a comparison in terms of

minimum wages paid for INSS and for the federal public system in the year of 1996.

INSS	1,9
CIVIL EXECUTIVE	14
LEGISLATIVE	41,5
JUDICIARY	32,8

Source: Ministry of Budget and Administration -MARE, and Ministry of the Welfare and Social Attendance - MPAS

As we will see further on, the Welfares reform treats those matters, and adapts them to a balance condition.

CHAPTER - III

LABOR MARKET AND POPULATION:

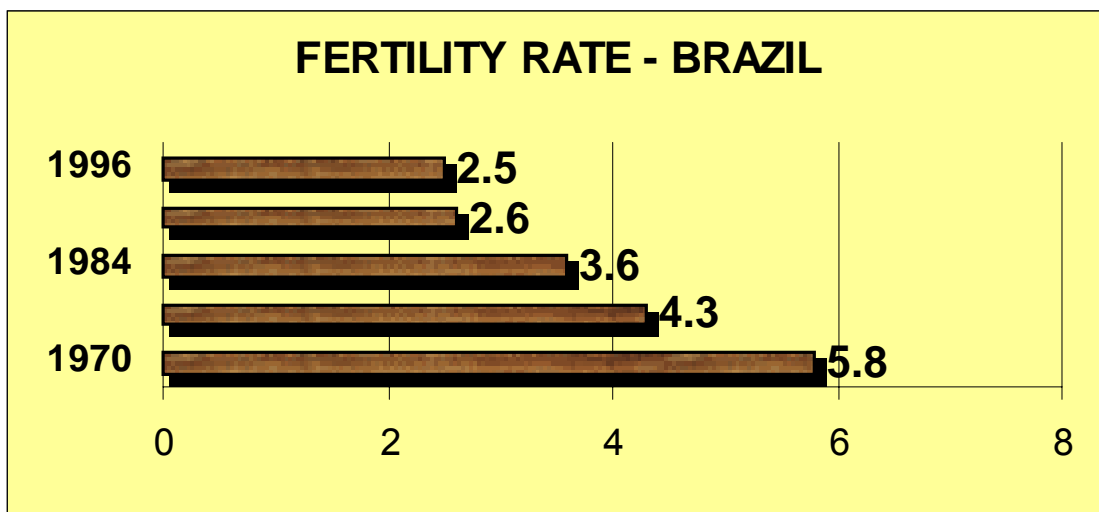
It is not possible, or it would be incomplete, to analyze social welfare without regarding demographic and economic factors. Those two contexts affect directly in the system, mainly when this system has been based on simple partition, without reservations, which the active workers finance the benefits of the inactive ones. Like this being, factors as life expectancy, age distribution, growth of the population, fertility rate and other concepts are important not only for the diagnosis of the current context, but mainly to identify future trends.

The economic aspects for its time are treated mainly as source of information in the configuration of the work relationships, because as the active works of the formal labour market finances social welfare, changes in the relationship imply alterations in the collection of the system.

CHANGES IN THE PROFILE OF THE POPULATION:

Brazil is not a Country of young people as before. The age profile of the Brazilian population has been rapidly transforming in the last decades. The population has been aging quickly, and in a Social Security System based on the simple partition that information is important. This fact indicates the need of a strategic change in the Government's investments, moving resources from one area to another, for example, from construction of schools to attendance to the seniors.

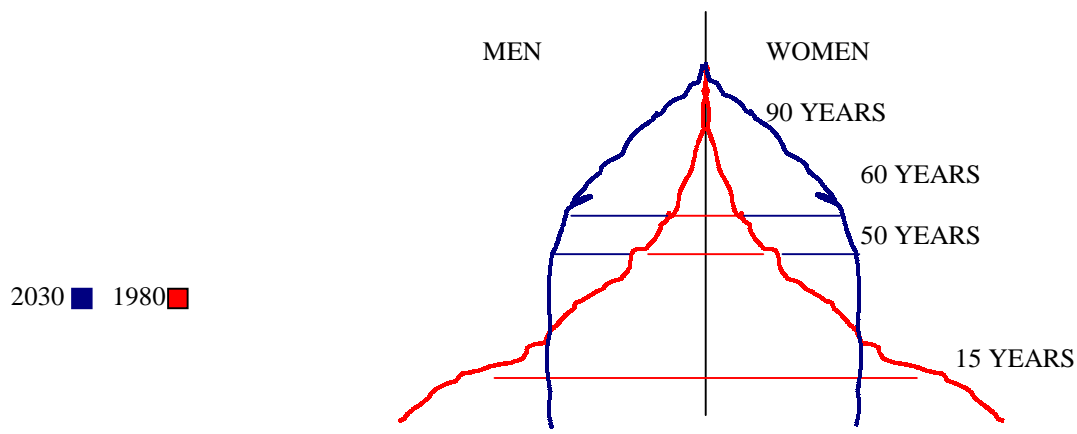
The accelerated fall in the fertility level associated with an increase in the life expectancy of the population explains the change in the age profile of the Brazilian population. The fertility rate, that represents the number of children for woman in reproductive age, began its decline in the sixties. Initially restricted to the informed classes of the developed urban areas, soon it expanded for all the social, urban and rural classes. The progress and popularization of the contraceptive methods allied to a change in the economic and social conditions of the country indicate to us the continuity of that tendency. The graph below shows us the decline of the fertility rate in Brazil among the years from 1970 to 1996.



Source: IBGE - Brazilian Institute of Geography and Statistics

Data from IBGE of 1991 show that the rate of growth of the population is 1,9% per year and that maintained this tendency, 30 years from now the Brazilian population will stop growing. That behavior rebounds in the rate of growth of the population and in its age composition. In 1980 the age pyramid demonstrated a predominance

of youths less than 15 years old. That composition comes presenting an accentuated displacement with the narrowing of the base and the enlargement of the top of the pyramid. The age pyramids below show the age composition of the population in 1980 and its probable composition in 2030.



Source: IBGE – Brazilian Institute of Geography and Statistics.

The perspective for next decades is that the number of seniors increases plenty, increasing the relationship among the number of seniors (people with more than 65 years) and people in active age (between 15 and 64 years). Among demographers that relationship is known with "rate of dependence of the senior population". In 1970 the population with less than 15 years of age represented 42,5%. In 1991 that percentile dropped to 34,6% and in 1995 to 32,2%. The senior population represented by just 1970 3,1%; increased to 5,7% in 1995, and the forecasts of IBGE indicate that in 2020 that percentile will be in 7,7%.

Another indicator to be economically analyzed is the rate of the seniors' dependence in relation to the economically active population. Without entering in

the details of calculation of that indicator, it is important to verify the tendency. Data of IPEA - Institute of Applied Economic Researches, indicates that that rate will pass from 8% in 1990 to 11% in 2020. In Brazil this rate is loaded by a high number of no seniors that retire still in productive age.

LIFE EXPECTANCY:

The life expectancy of the Brazilian, although influenced by the discharge rate of infant mortality, has been increasing significantly. Nowadays the life expectancy is of 66 years, having increased 3,5 years in the last decade. In order that we obtain a better " indicator", not influenced by the infant mortality, we work with an indicator named "life hope". For that method, statistical calculations determine a person that arrived at the 10 years of life still has of life expectancy, adding the ages and determining the outlive in each one of them. The schedule below indicates the life hope for age in Brazil.

AGE	MEN	WOMEN
0	61,1	69,8
1	63,6	71,7
5	60,1	68,3
10	55,3	63,4
15	50,5	58,5
20	46,0	53,7
25	41,7	49,0
30	37,5	44,3
35	33,5	39,6
40	29,5	35,0
45	25,6	30,6
50	21,9	26,2
55	18,4	22,1
60	15,2	18,2
65	12,3	14,5

> 70	9,6	10,9
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Source: IBGE.- Brazilian Institute of Geography and Statistics

The schedule above suggests to us some considerations. Firstly, the life expectancy doesn't vary a lot among social classes. Women live longer than men. The increase in life expectancy, especially in the old-ages indicatives improvement in the quality of the people's life. For the social welfare however, those indicators should be seen with caution, because it represents an increase in the time of payment of benefits.

LABOR MARKET AND WELFARE:

The revenues of social welfare have been linked to the payroll of the companies, and to the regular workers' wages. Therefore, any change in the structure of the labor market also reaches the welfare. These transformations have been happening in a very fast way. The level of self employed among the workers has been increasing considerably in the last years, and we are seeing a decline in the number of regular workers and an increase in the number of self employed workers . This is a process that not just happens in Brazil. For the less qualified sections the non-formalization of the work represents loss of rights and degradation of the employment, even for the highly qualified sections free lance work is an option. We can notice that in the areas of services and adviser among others. For analysis purposes we can divide the labor market in three types:

1. Regular Workers
2. Irregular Workers

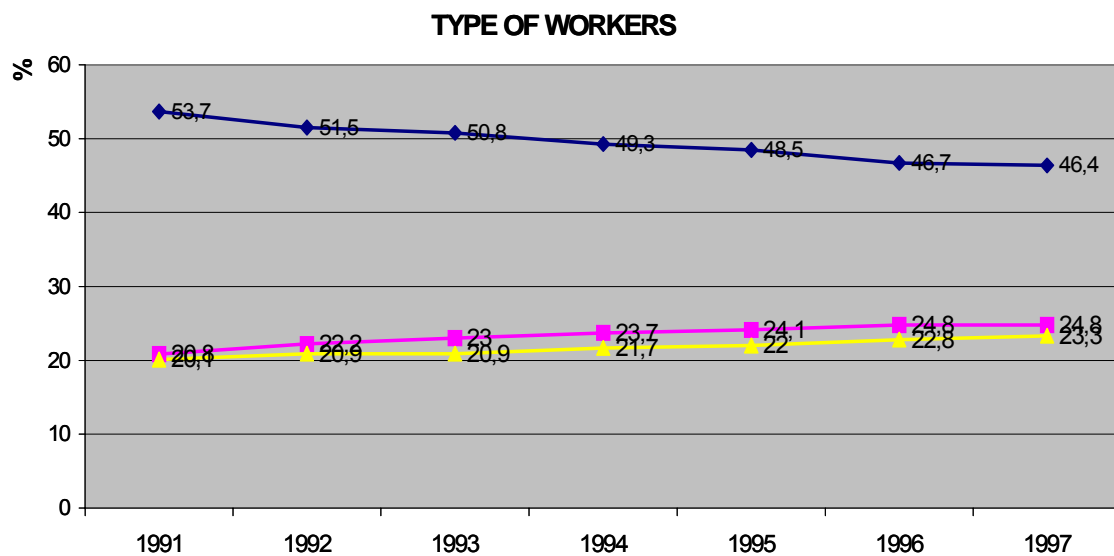
3. Self Employed

Data from IBGE give us the profile of each class. The regular workers meet in the modal class of the 30 to the 39 years, declining with the increase of the age. This is an important factor for the welfare system, because since its revenues are indexed to the formal work, that decline is not a good indicator, especially when we make that relationship with the tendency of aging of the population seen above in the age pyramids.

Most of the irregular workers are mainly young people 15 to the 24 years. The free lancer ones meet in its majority between the 35 and 50 years. They are usually persons that left the formal labor market to set up their own business. For social welfare that migration represents a collection loss, especially when it is looked at for the sections of larger specialization.

The productive restructuring can be justified by two factors: the general crisis in the economy, resulting in a reduction of work positions. This situation is worsened by the high taxes on the payroll of the companies. The second one is the technological innovations associated with the new administration forms, that also have led to diminishing employment and an increase of the productivity per worker.

The graph below illustrate the behavior of the labor market in the period understood between 1991 and 1997, indicating the percentile participation of each worker class (regular, irregular, and free lance) in the Economically Active Population - PEA.



Source: IBGE – Brazilian Institute of Geography and statistics

- REGULAR WORKERS ●
- IRREGULAR WORKERS ●
- SELF EMPLOYED ●

CHAPTER - IV

DÉFICT OF THE SOCIAL SECURITY SYSTEM:

A lot has been said about the deficit of the system and its repercussion on the Government's budget. We will focus this chapter on the several existent Social Security Systems, showing the participation of each one of them in the net deficit. The forecasts consider that for the year of 1999 the consolidated deficit of the system will be R\$44,8 Billion, what represents 5% of Brazilian GDP approximately. From this amount, R\$35,3 Billion refers to the systems of the public sphere (Federal, State, and Municipal), financed by the Treasury. In other words, society is subsidizing the public welfare system.

THE BUDGETARY SUBJECT:

The budget for social security is one that we can designate as "budget in open ". In other words, it has created obligations without the respective financing source. The budgetary subject in Brazil started to just win prominence in the end of the decade of 80, due to the oil crisis. At that time Brazil needed to appeal to the IMF - International Monetary Fund.

The need to execute the goals promised to IMF imposed the budgetary organization as form as know what was collected and what wears out. The basic beginning of expenses of every Government, the budget, was a fiction, beginning for the fragmentation and existence of several budgets, without a final piece that

consolidated them. *"... the historical primordial of the bills of a Government, the budget, was a confusion, to begin for the existence of several budgets, none of them contemplating in an only piece the revenues and expenses of the Union..."*

(Manoel Félix Cintra Neto - Magazine BM&F, Edition # 130, February/99).

THE SEVERAL SOCIAL SECURITY SYSTEMS:

The Brazilian Social Security System can be divided in four great sub-systems:

1. General Social Welfare System - RGPS, where embrace the workers governed by CLT - Consolidation of the Laws of Labour, of the private sphere.
2. System of the Federal Public Employees, managed by the Union.
3. System of the States, Federal District and Municipal employees
4. The Private, open or shut, Complement Systems.

Of those four categories of systems, we will exclude of the analyses the complement ones, because as we will see, the origins of the deficits are in the first three systems, especially in the Federal and State Public Systems. That fragmentation in several systems led to the weakness of the system as a whole, because rise the operational costs of maintenance and opens several possibilities for the accumulation of benefits, and worse, it is an invitation to the concession of privileges and illicit practices. That fragmentation is verified even inside the same sphere of government. In the public spheres for example, sub-systems exist for functional categories, for parliamentarians, magistrates and so on.

THE FEDERAL CONSTITUTION OF 1988:

Influenced by the enormous social debt, the Constitution of 1988 granted a series of benefits, without the necessary concern with the financing source. Although socially just, such benefits contributed significantly to the unbalance of the system. During the period of high inflation rates, the governments' revenues were indexed positively, to the step that the expenses were corroded, and artificially camouflaged. Until then the system presented positive results. The results were generated by the inflationary gain, not for the financial balance. Starting from 1994, with the current stabilization, the inflationary revenue had not resolved the deficiency of financing of the system, and the measures taken by the Constitution of 1988, whose enlargement in conceding benefits began to expose the unbalances.

The amplification of the rural workers' benefits was a classic case. The Constitution of 1988 equaled the retirement benefits of the rural workers to the urban workers' benefits, it reduced the retirement age of 65 year-old to 60 in the men's case, and to 60 for 55 in the women's case (although the tables of life expectancy show that the urban and rural workers' outlive is practically the same), and it instituted the a minimum wage. Such measures, although socially just we stressed again, brought the immediately triplication of the expenditures in the rural section. With relationship to the financing of that expense, based on the contribution of 2% on the net revenue of the marketed production and in the payroll, it was shown

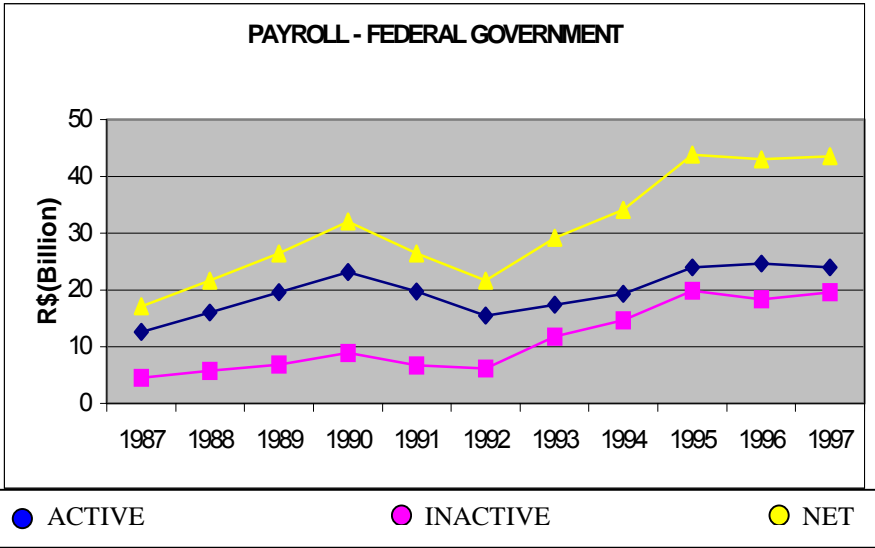
thoroughly unsatisfactory. Only 13,9% of the expenses are financed just with that contribution.

The institution of the Only Juridical Regime - RJU (Regime Jurídico Único) deserves special prominence. For that norm, all the public employees of all the government spheres would belong to the same statutory rule. Thus, the employees of autarchies and foundations mainly, that were governed by CLT and they contributed to INSS became statutory employees. If on one side States and Municipal districts didn't need to pay those contributions for INSS, on the other hand they had its welfare systems swollen for that mass of employees. In other words, those employees contributed to the General System but are retiring for the State, Municipal and Federal District systems. Such overload accelerated the process of collapse of the welfare systems. In order to lessen those effects the financial compensation among the welfare systems is being discussed. The Law # 9.796 of May 05, 1999 and the Ordinance # 3.112 of July 05, 1999 discipline that compensation, where basically States have to check Union close to the amount to be reimbursed, for transferring the employee of a system for the other, starting from 1988.

UNION, STATES AND MUNICIPAL DISTRICTS:

The retirement's system of the federal public employees, as described previously, is managed by the Union, and embraces the statutory federal public employees. We can still differentiate among civil and military employees. The military ones possess their own system, with some additional advantages, such as, contribution of just

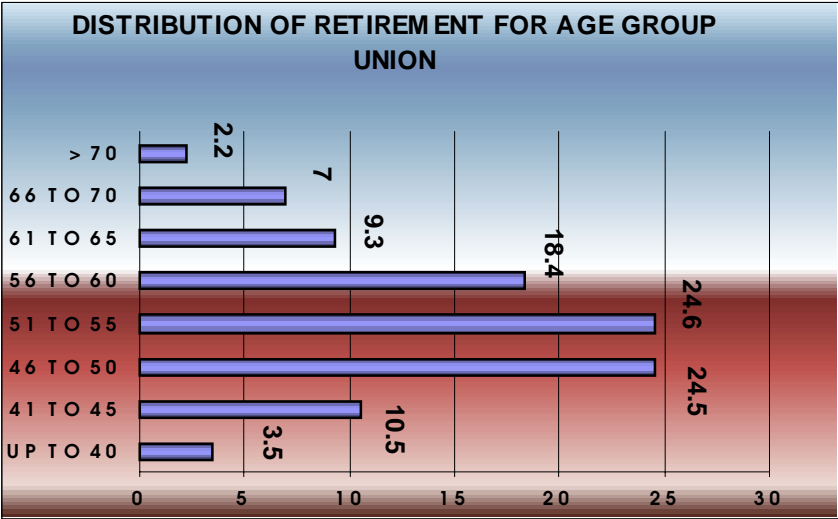
6,67% of the salary (it doesn't include the bonuses), to the wages of the retirement they incorporate some extra advantages, bonuses, compensations are not subject to limits (remuneration of Minister of State). The main problem is in the payrolls and in the high growth in the number of retirements. To worsen the problem, the uncertainty of the last years took to a race for precocious retirements. Nowadays the contribution relationship is of 7:1, what means to say that the servants just finance 13,4% of the expenses of the system . The total expense with personnel rose of R\$19,7 Billion in 1987 for R\$45,7 Billion in 1997. The graph below shows us the evolution of the expense with personnel of the Union with public actives and retired employee, and the accumulated.



Source – Ministry of Budget and administration - MARE.

The age distribution of retirements for age groups is another analysis that we can do. The great concentration locates between 46 and 55 years. The precocious

retirement allied to the possibilities of returning to the public service through a commissioned position supplies us with an explanation for that concentration of retirements in such a low age group. For the social security system it represents an expense overload. In the graph below we show the distribution of retirement concession for age group in the Union.



Source: Ministry of the Budget and Administration.

The financing of the deficit of R\$19,5 Billion regarding retired and pensioners payroll have been covered with the resources of the Fund of Fiscal Stabilization - FEF, with clear damages for the areas of the health and social attendance.

The situation of States and Municipal Districts are similar, and the previous observations are valid. The institution of own social welfare starting from 1988,

mainly in the Municipal districts, and the coming of the Only Juridical Regime, already discussed previously, were shown initially advantageous because it released States and Municipal districts of contributing to INSS and FGTS, that rise in 30% the payroll. Such a fact brought an immediate readiness of resources for the new beneficiaries' of the system contribution and it generated the expectation that resources of INSS will be transferred due to the financial compensation among regimes, also already approached. In the medium term however, we verified that it went to general insolvency of the institutes or funds of the Municipal Districts and the worsening of the institutes of States.

We can mention some decisive factors for the unbalance of the State and Municipal systems of welfare, in addition to the previous ones:

- · Fragmentation of systems - Already mentioned previously, the fragmentation of retirement plans inside the same sphere of power, for example, legislative, judiciary, military policeman, teachers, etc.
- 2. · Budgetary separation between retirements and pensions - The tradition of the country is the one of treating the retirement as an extension of the payroll. In that way, the retirements continue being financed by the Treasury, and the institutes finance the pensions and the attendance to health. That separation overloads the States' Treasures, and the pension institutes deviate its area of interest from the financial administration to the assistance administration . That administration deviation brings as consequences the prodigality in the benefit plans, without the necessary concern with the financing sources, the invigoration of the corporatism, taking the plans of benefits differentiated for

certain professional categories, elevation of the administrative costs, default of the States and Municipal Treasury close to the institutes, and deviation of resources for activities that don't represent the purpose of the Institute.

- · Budget of payment of benefits together with health assistance. The welfare institute is responsible for both, collecting an only contribution. In practice we don't know how much goes to health assistance and how much goes to the payment of benefits .
- · Inefficient administration - The focus of those institutes become the social attendance, and the area of financial administration doesn't usually count on qualified personnel.
- · Absences of actuarial studies - The contributions are fastened arbitrarily. In many cases this contribution is insufficient to cover the actuarial passive .
- · Increase on salary - As the retirements and pensions' payroll are indexed to the active personnel's payroll, all the advantages and increases to the active personnel are automatically incorporated by inactives and pensioners without study of the financial and actuarial impact.

The relationship among expense with personnel's payroll and Liquid Current Revenue - RLC has been the great reference among States as a measurement of performance in the administration of the expenses with personnel. In 1997, the medium percentile of obligation of the Liquid Current Revenue with payment of personnel (activate and inactive) was 62,6%. The schedule below shows us the position of each State in relation to that indicator.

	AC	AP	AM	AL	BA	CE	DF	ES	GO	MA	MG	MT	MS
1995	73,0	83,2	34,8	114,4	57,0	53,0	79,5	68,6	78,0	55,0	75,3	82,5	61,4
1996	69,0	58,8	49,3	105,6	56,0	51,0	82,1	67,3	71,0	59,0	75,1	79,4	55,4
1997	66,1	75,3	42,5	74,3	52,5	61,2	77,3	65,4	61,7	66,5	80,0	60,7	65,2
1998	71,0	53,0	57,0	80,0	54,0	55,0	74,0	62,0	65,0	64,0	78,0	57,0	73,0
Feb/99	70,0	51,0	58,0	81,0	53,0	56,0	75,6	97,0	80,0	58,0	78,0	60,0	65,0

	PA	PR	PB	PE	PI	RO	RR	RJ	RN	RS	SP	SC	SE	TO
1995	61,5	74,9	63,0	84,0	87,0	72,0	12,5	92,6	80,0	86,4	63,3	76,6	80,0	46,1
1996	67,7	76,8	59,0	79,0	69,0	65,0	33,1	87,5	73,0	86,8	65,8	72,0	68,0	48,7
1997	69,5	68,8	45,6	70,9	69,7	83,0	23,2	79,7	66,6	84,9	62,3	67,0	65,3	43,8
1998	54,0	79,0	44,0	71,0	64,0	77,0	33,0	84,0	52,0	82,0	66,0	66,0	58,0	49,0
Feb/99	61,0	71,0	60,0	71,0	71,0	85,0	30,0	80,0	60,0	80,0	65,0	87,4	61,1	47,0

Source: Ministry of the Budget and Administration - Bulletin Statistical # 37.

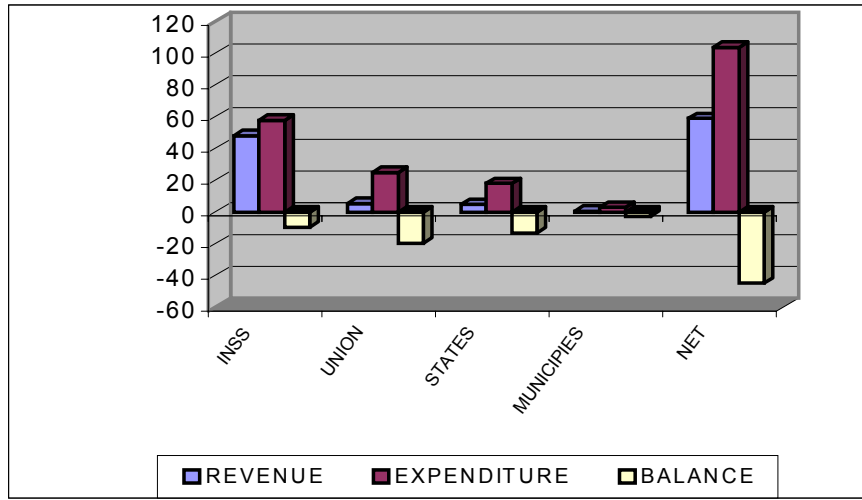
The analysis of the schedule above shows us an exciting scenario. Amazonas, Bahia and Tocantins just got to stay below the percentile of 60% in the analyzed period. There is also to the absurdity of verifying that Alagoas got to consume 114,4% of its Liquid Current Revenue with payment of personal. As we can see also, the richest States of the Federation such as São Paulo, Rio de Janeiro, Minas Gerais and Rio Grande do Sul that have their finances highly committed.

From the States' deficit foreseen to 1999, São Paulo restores for about 34%, Minas Gerais 11,5%, Rio de Janeiro 11% and Rio Grande do Sul 10%. Those four States represent 56,5% of the deficit of the state system. Another important element of analysis is the percentile of benefits on the net payroll. The larger the indicator, the more problematic is the situation of the State. The schedule below shows us that relationship in the year of 1997.

ESTADO	%
ACRE	9,5
AMAPÁ	0,8
AMAZONAS	29,3
ALAGOAS	29,3
BAHIA	19,0
CEARÁ	18,0
FEDERAL DISTRICT	28,0
ESPÍRITO SANTO	21,4
GOIÁS	38,1
MARANHÃO	25,5
MINAS GERAIS	34,6
MATO GROSSO	23,1
MATO GROSSO DO SUL	10,5
PARÁ	19,7
PARANÁ	36,4
PARAÍBA	24,0
PERNAMBUCO	30,5
PIAUÍ	22,7
RONDÔNIA	6,9
RORAIMA	0,1
RIO DE JANEIRO	37,4
RIO GRANDE DO NORTE	24,6
RIO GRANDE DO SUL	38,9
SÃO PAULO	34,8
SANTA CATARINA	32,0
SERGIPE	20,2
TOCANTINS	5,5

Source: Ministry of the Budget and Administration.

States like Acre, Amapá, Rondônia, Roraima and Tocantins present low percentiles because they are new and there is not enough time to begin the processes of employees' retirement. They should therefore be analyzed by other parameter. We can summarize the current situation of the Social Security System for the graph below, where the revenues and expenses of the several plans (Federal, State, Municipal, General System - INSS) are exposed. Values foreseen for the year of 1999 in billion of Real.



Source: Ministry of the Welfare and Social Attendance.

CHAPTER - V

THE REFORM OF SOCIAL WELFARE IN BRAZIL

SCENARIOS:

Several countries in Europe, Latin America and the Caribbean have embarked on pension-fund reform with the aim of increasing the financial sustainability of their systems. In the case of Brazil, this process is taking a long time, as a lot of pressures have weakened the government's proposal.

According to macroeconomic projections, the administration of the current system predicted different rates of growth for the year 2030. The projections reveal a pattern of expenditures that increases faster than income, indicating the necessity of financial ranging from 3 percent to X percent of gross domestic product (GDP), respectively in the best and the worst scenarios. (1)

Regarding to these projections, immediate reform of the social insurance system needs no further to be questioned. This reform's goals should be greater social justice and the maintenance of long-term economic and financial equilibrium of the new system, while at the same time preserving the rights of those covered by the previous system.

The government's proposal was presented within a theoretical framework that includes basic and supplementary social insurance, health care and social welfare.

Economic and financial projections for the performance of the proposed system along the same period were also presented, using the same macroeconomic hypotheses.

The Brazilian government has adopted a reform strategy that is different than Argentine and Chilean ones, in the form of a gradual transition that preserves acquired rights and emphasises the universal principles that rule the social security systems of most developed countries. The Brazilian Social insurance system has grown considerably as a result both of political success in the democratic arena and of the paternalistic and authoritarian actions of the State. The recent crisis in the social insurance and welfare system, although a source of public concern, has also had the very beneficial effect of encouraging an open debate about certain aspects formerly restricted to the state bureaucracy.

As part of President Fernando Henrique Cardoso administrative reform, the National Congress approved, in December 1998, the Constitutional Amendment no. 20, bringing about significant modifications in the public and private pension system. Within the same effort, several infra-constitutional provisions imposed a series of restrictions in pensions and other benefits.

Among other controverted aspects, the reform established the collection of social security taxes from retired workers and the increase in contribution for employees in activity, through retention in the source of revenue. Another point under discussion is the applicability of the new rules to people already retired, to those

about to retire and to those who do not still fulfill the requisites for the retirement, though already participants in the system.

In an atmosphere of intransigent discussions in Congress, the Supreme Court decided to accept, in a preliminary instance, a Direct Action of Unconstitutionality moved against the reform and suspend the effects of some of its aspects, including the collection of taxes from the inactive participants and the increase in contributions of the active participants. This decision is expected to be confirmed in the eventual judgement of the Action's merit by the Supreme Court.

Currently, the government faces the difficult task of getting a majority quorum in Congress to approve another amendment to the Constitution, thus allowing the challenged aspects of the reform to be implemented. Although an arduous political task, it is extremely necessary for the solution of the enormous problem posed by social security system in Brazil.

It must be recognized that changes affecting the interest of the entire population of a country are always hard to achieve. If the government really wishes to initiate the solution of the social security dramatic problem as a whole, these measures have to be approved. On the other hand, extreme care must be taken in order not to acquire another problem, and increase state debt as a means to obtain majority in Congress.

TRANSITION

Acknowledgement of rights acquired under the previous system is a necessary condition for adherence to the new system through the assurance of each individual's free and unconditional right to choose. The proposal described here considers the necessity of issuing to each insured individual who chooses the new system an acknowledgment bond equal to the current capitalized value of the contributions made to the previous system before exercise of the option for amounts above a new ceiling established for the maximum contribution salary. To provide an incentive for saving and avoid immediate demands for funds, these bonds could be credited to institutions that provide supplementary social insurance, whether open or closed, as in accordance with the needs and preferences of each insured individual.

The most important changes are:

TRANSITION RULES

Applicable to those participants currently working and who do not meet retiring requisites:

LIMIT OF AGE - retirement will only be granted for those who have already reached 53 (men) or 48 (women) years of age.

TIME OF CONTRIBUTION

- Integral retirement: 35 years for men and 30 years for women, plus an extra period, commonly known as “toll”, equivalent to 20% of the difference between current time of contribution and the 35-year and 30-year limits.

- Proportional retirement: 30 years for men and 25 for women, plus a 40% “toll” of the difference between current time of contribution and the 30-year and 25-year limits.

TIME IN THE POSITION

- A minimum five year period of effective exercise in the position is required.

PREMIUM LEAVE

- Non-used premium leave will not be double counted. On the last leave, there is controversy about the application of the acquired rights principle for those who did not yet complete the required period for retirement.

EXEMPTION

- The servant that continues working after completing the retirement requisites will be exempt of contributions after 60 (men) or 55 (women) years of age.

CALCULATION OF THE RETIREMENT

- The value of integral retirement will equal the wage of the active servant. It is not clear if bonuses for time of service will be incorporated.

- The proportional retirement will be equivalent to 70% of the integral retirement when the servant completes the demanded time of contribution (men: 30 years

plus “toll”, women: 25 years plus “toll”). For each year beyond that time, an additional of 5% will be granted.

CURRENT RULES

Those who already meet retirement requisites today will maintain their rights after the promulgation of the reform.

TIME OF SERVICE

- Men: 35 years of service for integral retirement and 30 years for proportional.
- Women: 30 years of service for integral retirement and 25 years for proportional.

EXEMPTION

- Those who already meet requisites for integral retirement but continue working will be exempt of contributions after completing 60 (men) or 55 (women) years of age.

CALCULATION OF THE RETIREMENT

- Should the participant opt for the current rules, the value of the integral retirement benefit will equal the current wage (value of the previous day of the promulgation of the reform), even if the solicitation happens later.
- In the proportional retirement, the value of the benefit will be equivalent to the proportion between the time of service completed in the date of publication of the amendment and the required time for integral retirement: 35 (men) and 30 (women) years.

READJUSTMENTS

- The retirement benefit will be reviewed in the same proportion and in the same date, whenever the remuneration of the employees in activity is modified.

SPECIAL RULES

- Apply to the areas of public service entitled to different criteria of retirement requisites.

UNHEALTHY ACTIVITIES

- The possibility of reduction of the time of contribution for public employees that work exclusively in unhealthy activities depends on ordinary law provision. In the States, some categories of employees already benefit of existing legislation, which should be adapted to the new constitutional text. From the reform promulgation onwards, increment in counting of the time of service will no longer be allowed.
- Civil policemen will be entitled to a smaller time required for retirement, provided that threat to physical integrity in the exercise of activities can be proved. Currently, civil policemen in Rio Grande do Sul are entitled a full retirement benefit after 30 years of public service, of which at least 20 in police activity. Those already fulfilling present requirements will be entitled full retirement benefits.

ARMED FORCES

- The reform will not change the pension system of the Armed Forces, a subject to be regulated by ordinary law. Currently, servicemen are entitled retirement with a benefit that corresponds to the wage of the immediate superior rank at the time

retirement is granted. Pensions retain the value of the retirement benefit. The same rule also applies to military policemen.

JUDGES, PROSECUTORS AND STATE ATTORNEYS

- Judges and members of the Courts of Accounts, as well as the Public Prosecution Service will no longer benefit from a different regulation than the applicable to other public employees, that is, 35 years of contribution will be required for retirement. Judges currently in activity will be allowed to count their time of magistracy with an increment of 17%.

LEGISLATIVE MEMBERS

- The reform does not change the rules for Legislative Members' retirement. In the federal level, from 1999 onwards, House members and senators no longer have special retirement privileges, as a result of a law passed in 1997. State legislative members and city counsellors regulation depend on state and municipal laws, respectively.

NEW RULES

- Apply to those already in activity who made an explicit adherence option and for those entering the work force.

LIMIT OF AGE AND CONTRIBUTION

- Integral retirement will be conditioned to at least 60 years of age and 35 of contribution, for men, and to 55 years of age and 30 of contribution, for women.

- Proportional retirement is extinguished, except in the case of retirement due to age: 65 years for men and 60 for women.

TIME IN THE POSITION

- As a condition for public retirement benefits, public employees must have at least 10 years of public service time and five years in the position.

COMPLEMENTARY PUBLIC PENSION

CALCULATION AND READJUSTMENT OF RETIREMENT BENEFITS

- Benefit value will be linked to the wage of the position at the moment of retirement. Readjustments will take place in the same proportion and schedule of the employees in activity.

ACCUMULATION OF RETIREMENT BENEFITS

- No more than one retirement benefit per person will be allowed, except for teachers and physicians.

LEGISLATION

The Constitutional Amendment no. 20 and the Act no. 9.717, of 1998 (General Law of Social Security), have introduced great changes in the public pension system in all levels of the public administration, including the Union, States, the Federal District and Municipalities.

The General Law of Social Security is the landmark of reform in the Brazilian social security system and the basis of the new structure of Social welfare. Its crucial innovations will be mentioned further on.

One of the main points of the law is that pension funds, whose sources of funds are contributions of its participants and of their respective employers, are obliged to balance their accounts, both in financial and actuarial aspects, therefore ensuring that assets will be sufficient to fund current and future liabilities, as well as contingent expenses.

Another point of prominence of the law is that pension funds are not allowed to seek financial support from any other sphere of government than its own. Therefore, in case of imbalance of a state fund or a municipal fund, once resources cannot be sought with the federal or state government, respectively, the fund will be destined to extinction.

The law also sets limits to expenses with personnel as a proportion of revenues: 60% for states, the Federal District and municipalities, and 50% for the Union, making possible the execution of the limitations imposed to the funds. Nowadays,

personnel limit is established in 60% for all levels of the administration, as provided by the Law no. 82, of 1995.

The law does not allow the formation of consortiums, thus avoiding the transfer of resources collected by one state or municipality fund to any other. This provision is based in the argument that such a structure could generate a series of litigations among states and municipalities that would further overload the Supreme Court.

Accounting control and administrative mechanisms are present in the law, aiming at financial and actuarial balance, as well as projections of future expenses and investments.

As for surveillance, the law mandates inspections and audits to gauge the enforcement of its provisions regarding the operation of pension funds, such as limits on expenses, requirements for revision of benefits, pensions and increase of expenses, and also the imposition of the sanctions present in its 7th article.

Employees contribute with 8% of their salary and the contribution of the federal, state and municipal administrations cannot exceed 16% of payroll. In any case, besides this individual calculation, overall transfers to funds may not exceed the double value of collected contributions of participants.

Disclosure of information is another fundamental point in the law. Information about the accounts is an instrument to be used in the gauging of the prohibition foreseen in this law and, consequently, to authorize the imposition of sanctions to the transgressors.

To address an irregular situation of funds with regards to percentuals of application in payments of inactive and pensioners exceeding the limits established in the art. 2nd. of this law, expenses must be adapted to the legal limits. In other words, once configured an unbalance in the fund and the limit of 12% is exceeded, the values of the benefits paid are frozen until expenses fall below the legal limit and normality is reestablished.

The law establishes norms that guarantee the autonomy of the fund by means of avoiding mingling between its activities and those practiced by its sponsor.

The law defines as a responsibility of the National Monetary Council (CMN) the establishment of criteria for the application of pension funds' resources, including additional limitations to those already contained in its provisions. Among them figures the prohibition of destination of resources to loans of any nature.

The evaluation of funds' assets of any nature must follow the same rules of updating public goods by occasion of the presentation of general accounts, adopted by the Law 4.320, of 1964 (Law of the Budget).

THE PUBLIC SYSTEM

The unbalance in the social security system of states and municipalities may be considered as one of the principal obstacles to the adjustment of the public accounts in Brazil. The consolidated financing need of the three government spheres was of R\$ 33,3 billions in 1998, while the projection for 1999, even with the approval of the reform, is of R\$ 35,3 billion, if the ascending tendency persists.

The Constitutional Amendment no. 20 and the General Law of Social Security have introduced structural changes on the pension system of the Union, States, the Federal District Federal and municipalities. The first one consolidated the social security model emphasizing contributive aspects while the second established general norms for the organization and the operation of the system of social insurance.

The new model aims at disclosure of Social Security information to the society, including the quantification of the relationship between contributions and benefits that leads to financial and actuarial balance.

Until the eighties, public administration was composed by two groups of employees: the statutory ones and those whose employment relationship was governed by the Consolidation of Labor Regulation (CLT). While the former group did not make contributions to the pension system, the latter's contribution was not sufficient to cover the pensions due to insufficient aliquots.

After the promulgation of the Constitution of 1988, most of the group covered by the CLT had their employment status converted to statutory, with the institution of a system that also foresaw the possibility of creation of separate systems in the different levels of the administration. States and great part of the municipalities adopted this policy, taking the responsibility for the social security insurance liability of their employees who had previously contributed to the general pension system of Social welfare and were submitted to the contribution ceiling and benefits.

In 1998, the social security global deficits of states and municipalities were respectively of R\$ 12,8 and R\$ 2,5 billion. Maintained the current tendency, the expenses with inactive servants tend to surpass the payroll of active ones, affecting the readiness of resources for other public expenses. Nowadays, most of states commits to personnel expenses an amount superior to 60% of their current revenues.

In the federal level, the proportion between the contribution of the Treasury and the one of those held was of the order of 7/1. In 1998, contributions of the federal servants financed only 12,6% of the total expenditure with inactive participants. Starting from the promulgation of the reform, the federal government has to limit its expenses with inactive servants to 12% of its current revenue and to observe the proportion of 2/1 in its contribution as related to the total contribution of servants.

Effective contribution to the pension system from federal servants started only in November 1993, with a variable aliquot from 9% to 12% of total remuneration. In July 1997, a single aliquot of 11% was adopted. In January 1999, new legislation was approved, already based in the General Law of Social Security, temporarily

increasing contribution aliquots for active servants and establishing contribution for inactive servants and pensioners, effective until December 2002. The additional contribution corresponds to 9% on the part of wage ranging from R\$ 1,200.00 to R\$ 2,500.00, and to 14% on the excess to the superior limit. Exemption limits were also established for inactive participants, conditioned to aspects such as age, benefit range and retirement category.

The new constitutional rules imposed a mixed model for social security, composed of public retirement benefit up to a basic constitutional ceiling and a private complementary one, funded by a capitalization regime. Adherence to the new model will be voluntary for those participants already in service and mandatory for those entering the civil service after the institution of the pension fund, whose regulation has already been approved by the National Congress.

The new system incorporates the proportional contribution of the public employer and that of the participant, as of 2/1, limited to the value of the ceiling benefit of public pension. Calculation of contribution will be processed actuarially and in an individualized basis, in order to insure that, at the moment of retirement, the present value of the cash flow of benefits is equal to the contributions one.

In 1998, financial need of the federal social security system was R\$ 18 billion. Despite an increase in participants' contributions value of 25%, expenses also increase by 36% between 1995 and 1998, as a result of unexpected increase in retirement applications which affected the proportion between active and inactive servants.

It is worth observing that, even with the collection of additional contribution from active servants, nevertheless the social security deficit of the Union continues to ascend. Without the increment in contributions, a forecasted deficit of R\$ 19,5 billion in 1999 would rise to R\$ 23,6 billion, reaching the R\$ 27,2 billion in 2001. These figures elapse the recent growth in social security expenses, which were duplicated for active personnel and quadruplicated for inactive one. As a result, proportion of inactive benefits expenses in the total amount of federal personnel expenses increased from 23,2% in 1987 to 43,6% in march/1999.

Provisions in the previous system such as, among others, a retirement benefit higher than the last wage of activity, the parity of values of benefits and wages, and the automatic incorporation in retirement benefits of any advantages granted to active servants, resulted in an incentive to precocious retirement of public servants. In 1998, 14,2% and 65,4% of retired servants were under 45 and 55 years of age, respectively. The new legislation aims at stimulating the permanence in active service after the achievement of retirement requisites, by means of exemption of contributions from the servant in such condition.

On the other hand, states and municipalities will have the possibility of balancing their accounts, as new legislation allows the offsetting of outstanding debt between those entities and the social security system, starting from the institution of the Public Pension System.

A major problem of the Social Security System after the reform is effective, concerns the administration of the liability associated to heavy costs that

accumulated along the years. The problem addresses servants currently in activity, as entering servants are expected to join a balanced system.

Initially, the distribution of costs must be clearly defined. In this sense, the General Law of the Social Security establishes that the funding of the public system must rely on public contributions, as well as of active servants, retired participants and pensioners. The immediate consequence of the application of this provision has been the increase of the contribution of the servants in federal, state and municipal levels, besides the institution of collection by inactive participants.

The changes in the social security aimed at standardizing rules and eliminating distortions in the system's cash flow by imposing limits of age for retirement, elimination of special retirement benefits, enforcement of actuarial balance and the institution of a complementary security system. Another fundamental objective of the reform is the segregation between the social security accounting and the state Treasury.

A final point to be stressed is that the legislation concerning the states' employees, including the civil service, the fire department and the military police, is soon to be directed to the National Congress, thus covering the entire universe of public employees.

THE NEW CONFIGURATION – THE PUBLIC FUNDS

The constitutional reform authorizes the creation of social security funds by the states, funded by contributions of participants and sponsor and destined to the payment of retirement and pension benefits of servers and their dependants. The Law no. 9717, of 1998, established norms for the organization and operation of those funds, including aspects such as creation and extinction, criteria for application of resources, incorporation of goods, initial contribution of capital, actuarial parameters, asset composition and surveillance.

Funding of the new pension system will be obtained from privatization of state companies, concessions of public services and non operational assets destined to assure the maintenance of the payment of the social benefits. Resulting funds can be used as an alternative to finance the transition between the previous and the newly adopted model for social security.

On the other hand, the funds will be an important instrument for the adaptation of the system of public pension to the criteria established by the Law no. 9717, of 1998, and for the legislation no. 4992, of 1999, with reference to the limitation in the contribution of state government its own public system and in the net expenditure with social security (12% of the current revenue in each fiscal year). Some difficulty in adaptation to the legal parameters is expected as, for instance, in many states public contribution is now the triple of the employees' contribution, or net expenditure with benefits is above 20% of current revenue.

However, the institution of such funds will allow the state government to direct them part of the resources deriving from the privatization of a public company, in

order to assure the payment of benefits, that is, these funds have the purpose of linking revenues of any nature to the expenses with social welfare of public workers. Those resources and revenues will allow the state government to accomplish the requirements foreseen by the legislation without increasing contribution aliquots or reducing benefits.

Besides the mentioned aspects, some additional points must be pointed, concerning criteria established for the institution of public pensions funds by the three levels of government:

- evaluation of the assets to be incorporated, according to the provisions of Law no. 4320, of 1964, and subsequent alterations, thus ensuring that the assets transferred by the State to capitalize the financial funds should be appraised for an independent entity, so that their prices are compatible with market value.

- application of reserves according to the guidelines of the National Monetary Council (CMN), similar to those applied to private entities of social security, as a means to guarantee the best combination of risk, profitability and liquidity strategies for the application of the resources and to insert these funds in the wider context of the national financial environment.

- complete administrative and financial independence of the fund, as a way to avoid interference imposed by political cycles in the administration of the funds' patrimony.

- limitation on administration fees, corresponding to a maximum of 2% of payroll.

- strict regulation concerning the constitution and extinction of a fund, aiming at the creation of mechanisms that impede the liquidation of a healthy fund and the use of resources for ends other than social security.
- establishment of an initial contribution by the federal administration equivalent to 7% of annual payroll, as a prevention against risky situations and a guaranty of maintenance of the benefit payments.
- creation of control, surveillance and supervision instances, endowed with mechanisms and instruments that allow the elimination of distortions and abuses through clearly defined and enforced punishment.
- prohibition of loans by the fund to federal, state or municipal level of government, as well as to any public organ or entity, and to any of its participants.
- prohibition of purchase of public securities, except federal ones.

PARSEP

With the objective of supporting states and municipalities in the institution of their own pension funds, the Brazilian federal government created the Program of Support to the Reform of State Social Security (PARSEP), whose operative regulation was published jointly in May 1999 by the Ministry of Social Welfare and the Federal Treasury.

The program, whose sources of financing are the federal government and the World Bank, is deemed as a crucial point in the reform of Brazilian social system and aims at the promotion of the basic conditions to ensure the financial viability and actuarial stability of the state and municipalities' social security systems by means of:

I - strengthening the institutional capacity of the states, in managerial and technical aspects of social security systems, including the use of modelling technology for projections and simulations of system reforms;

II – improving the social security data bases of states;

III – developing a diagnosis of the social security systems of the states, with prospective analyses and simulation of different alternatives of reforms;

IV – elaborating reform proposals that ensure financial balance and actuarial stability of the systems;

V – elaborating institutional, legal and normative framework of the proposed system;

VI – accomplishing theoretical subsidies to the elaboration of complementary legislation to the constitutional reform;

VII – offering alternatives for the resolution of the dispute among the federal and state levels of government concernig social security matters;

VIII – elaborating study on the administration of pension funds;

IX - developing and implementing federal and state systems of information with acces to a linked data basis;

X – organizing seminars and technical encounters, on a national and international scale, as well as editing publications for discussion and dissemination of experiences and obtained results.

The development of the program is expected to occur in 3 stages: adaptation of the data base and personnel training; elaboration of propositions for the reform of the system and discussion with the society about the implementation the funds; and effective implementation of the institutional reformed systems.

As the program is implemented, states are expected to have technical units with full capacity of administration of their funds, requiring highly specialized personnel.

A preliminary and necessary step is a correct diagnosis of the current situation, so that a consistent proposal of reform may be elaborated, all this with the indispensable participation of the population through public debates on the subject.

On the other hand, the country as a whole is expected to profit from the narrowing of the relationship between states and the federal level so that a system of efficient accompaniment of the implemented reforms is achieved.

CHAPTER – VI

THE UNITED STATES SOCIAL WELFARE SYSTEM

The problem of the social security in the United States is not different from other industrialized democracies, as a result of the enormous fiscal pressure due to demographic changes of the social security regimes. Recent research foresees that, in the countries of the OECD by the year 2040, the proportion of persons older than 65 years will be equivalent to 22%, on average, of their populations. This figure represents more than the double of that registered in 1960. Projections regarding the United States indicate that the proportion of persons older than 55 year will have risen from of 9% of the population in 1960 to 20% in 2040. This tendency results of the pronounced decline in birth rate, from 3,58 in 1959 to about 2,00 in 1993, combined with increased life expectancy.

In the United States, demographic change and the fact that retirement occurs earlier than when the system of Social welfare was implanted are the cause of the increase of the costs of social welfare, to the point that an imminent fiscal unbalance of the system comes as a serious problem. More than one decade ago, the amendments introduced in social welfare had the purpose of correcting the fiscal unbalance already foreseen at that time. Although those amendments have generated a temporary surplus, recent projections indicate that in a future not too distant the reform will prove inadequate to finance the increase in the costs of benefits. Facing these tendencies, the course of action for the government may be

an increase in contribution aliquotes or a reduction of benefits, or a combination of both procedures. The longer it takes to address the issue, more drastic the changes to be accomplished.

However clear the urgency of the reform of social welfare in the United States, as demographic tendencies predict a drainage of resources in three or four decades, the problem cannot be solved simply with accounting fittings. Policy makers should dedicate attention to other outstanding tendencies that affect the financing of the benefits paid to senior people.

The degree of the seniors' dependence, belonging to several categories of income in relation to Social welfare, it is modifying if, as well as the alternative sources of retirement income that dispose. The combination among private and public benefits, as well as the fall of the rates of replacement of wages offered by the benefits that turn those evident tendencies. According to data based on aleatory samplings from 13.000 to 15.000 units composed of people of age, retired of the population census of the United States, between the years of 1976 and 1992, the benefits of retirement of Social welfare, represent 40% of the total of the income in these age units, arising from 13% to 19,5%.

Along 17 years, between 1975 and 1992, the dependence with relationship to Social welfare in the search for retirement benefits was very high (81% of joined incomes) and he/she stayed ascendancy in the located age units in the smaller of the distribution of income 20%. It was also high and stable (78% of joined incomes) and stable in what he/she concerns the members to the members of the category of income average-inferior, already in the groups of medium income and superior

medium income the dependence of the installments previdenciárias was smaller and in those 20% of the population with superior income the dependence in relation to Social welfare was low, because it represented only 20% of your joined incomes.

Those data demonstrate the appearance of classes differentiated in relation to dependence of the public system of precaution and that that depends progressively in the private system of precaution in the period of the retirement. He/she also meets in decline the financial aids granted by Social welfare.

Under those circumstances, growing financial difficulties are evident not only for the United States but for other industrialized nations as well. Among the options destined to the invigoration of the fiscal integrity of these nations, the extension of activity years stands out, with the objective of reducing the period during which social security benefits are received.

In the United States, the amendments of 1993 approved an increase of the age of retirement of 65 for 67 years, to be implemented gradually between 2002 and 2006. The increase of retirement age will be accompanied of an incentive for later retirement, on the part of the manpower, once the credit for differed retirement will increase annually from 3% to 8%.

Other tentative of resolution of the problem to finance the system is in the plan announced by President Clinton: "Some things do not improve with age". In his most recent State of the Union address, President Clinton announced a plan to "save" Social Security and fund a new type of retirement savings account. The response, even among unbiased observers, was almost uniformly negative.

Federal Reserve Board Chairman Alan Greenspan sharply condemned the President's proposal to invest part of Social Security's trust fund in stocks. U.S. Comptroller General David Walker said the proposal "does not represent a Social Security reform plan." Now, almost a year later, the President has announced a new plan that is at least as controversial as the first one.

The press in Washington use to say that the government routinely uses excess Social Security revenues to pay for other programs. Social Security tax dollars that are not used immediately to pay benefits are sent to the U.S. Treasury, which then gives the Social Security trust fund an IOU in the form of a government bond. The new Clinton plan retains most of the first plan's proposes spending another \$544 billion from general revenues to prop up the Social Security system a little longer.

Under the President's new plan, Social Security tax dollars in excess of benefits paid each year would still go to the Treasury in return for an IOU. Those same tax dollars would be used to buy back government bonds owned by the public. But these bonds (unlike, for example, a paid-off mortgage) would not then be retired; instead, they would be added to other IOUs in the Social Security trust fund. This unusual practice would allow the same \$1 of excess taxes collected to generate \$2 worth of government bonds (IOUs) in the trust fund.

The President claims that this accounting technique would lower the amount the government would have to pay in interest on the federal debt. The taxes that normally would go to pay this interest--an estimated \$544 billion between 2011 and 2015 alone--would be spent to buy back still more of the public debt in the form of government bonds, which would be placed in the Social Security trust fund. But

actual Social Security tax dollars collected from workers would still be spent and would never reach the trust fund.

However this is a tentative to solve Social Security's problems some arguments have to point out. For example. The Social Security Administration's numbers show that the program would still run a cash flow deficit of \$252 billion (in 1999 dollars) in 2030 and \$516 billion in 2070. President Clinton must certainly take hard decisions needed to preserve the program for future generations, as Social Security has always been self-funded through an explicit tax. However, the IOUs added to the trust fund under the President's plan would have to be repaid with general tax revenues. Funding the system with other tax dollars would break down what little fiscal discipline remains and open the door to more irresponsible spending.

Another point is that Social Security is a bad deal for the average worker, whether the trust fund is solvent for 15 years or 115 years. If an average income, 30-year-old, two-earner couple were allowed to invest the Social Security retirement taxes they both pay over their working lifetime, they could save \$525,000 more for retirement than they would receive from the Social Security system in benefits. Starting in 2011, this average couple would pay an additional \$1,150 in income taxes just to fund his proposed general revenue transfers; they would still receive the same low Social Security benefits, but they would be paying more in taxes for them.

In fact, what the government explains is that there has never been a single dollar "raided" from the Social Security trust fund, nor has Congress ever improperly spent money collected for Social Security on other programs. The Social Security

trust fund has been building up a large surplus over the last 15 years in order to help defray the cost of the baby boom generation's retirement. According to the law, this surplus is lent to the federal government. In exchange the Social Security fund receives interest bearing government bonds.

It is true that the government has financed part of its deficits with the money lent by the Social Security trust fund, but this is exactly what the law provides for. This deficit spending has absolutely no impact on the financing of Social Security. If the government had run surpluses every year since Social Security had been in existence, so that it never had to borrow money from Social Security (or anyone else) to meet its annual outlays, the program's finances would be in exactly the same condition as they are at present.

CHAPTER - VII

THE SOCIAL WELFARE IN THE STATE OF BAHIA:

The configuration of the public employees' profile of the State of Bahia, as in other States, presents the same characteristics of the Federal functionalism, thus, all the previous considerations in what refers to retirement age group, fertility rate, and changes in the labor market are applied at State level. We intended in this chapter to count a little of the social welfare's history of the State of Bahia up to today, and to notice more in the new paradigm: the assets funds, or retirement and pension funds. In the case of Bahia, the central theme will be the creation and operation of FUNPREV - Fund of Financing of the Social Welfare of the Public Servants of the State of Bahia, the first public retirement and pension fund, which indeed has been working in Brazil so far.

BRIEF HISTORY:

The social welfare in the State of Bahia began in the XVIII century. In 1895 through the Law # 116 the Plan of Retirement and Pension of the Civil Servants of the State was created. The foreseen benefits were the pension for death for the dependents and the funeral aid. The beneficiaries were the active, retired and reformed employees. Starting from there the system was successively altered, most of the time the alterations were about benefits and beneficiaries, seeking the financial balance for the system of simple partition.

In 1928 the first great reform of the system was made. Plan of Retirement and Pension of the Civil Servants of the State started to call Plan of Retirement and Pension of the Civil Servants. It was already added to the financing sources existent, the interests of loans, and besides the concession of benefits and the contributions were limited for a maximum roof, new modalities of loans were created to the employees. The registration of people older than 50 years of age was prohibited.

In 1932, the Ordinance # 11.371 promoted new organization in the system, fastening the destination of the resources of the plan for payment of pensions, funeral aid, current expenses of the institution, loans to the beneficiaries, acquisition of titles of the public debts of the state and of the Union. The organization of a habitation's program and the installation of a first-aid clinic were also authorized.

In 1956, the institute associated with PAMESE - Plane of Doctor-educational Attendance of the State Servants. That association was responsible for wide concession of benefits. It readjusted the benefits paid by the institute, extended it to all the servants, it instituted the doctor-social attendance, aids for recreation and vacations, and means for the improvement of the habitation conditions.

Until that phase we noticed that the institute, in agreement with the welfare configuration adopted in the whole country run for payment of benefits and social attendance's, moreover the payment of pensions and some aids. The diversity of

such activities as habitation's plan , loans, and assistance activities concentrated on a same organization contributes to financial inefficiency. The financial administration was not the " business " of the institute. The retirements were financed integrally by the State Treasury.

On April 11, 1966 through the Law # 2.321 it was abolished the Plan of Retirement and Pension of the Civil Servants, and created the IAPSEB - Institute of Attendance and Welfare of the Servant of the State of Bahia. IAPSEB was an autarchy, with juridical personality of public right, whose objectives were to execute the assistance and welfare policies of the servants of the State, to absorb the functions of the old plan (habitation's plan, loans, etc.), to absorb PAMESE (assistance activities) and to incorporate the patrimony and the personnel of the old plan and of PAMESE.

THE INSTITUTE OF ATTENDANCE AND WELFARE OF THE SERVANTS OF THE STATE OF BAHIA - IAPSEB:

The IAPSEB was already born big. To incorporate the functions and the employees' of two other institutes was not easy task. The IAPSEB was also born loaded with assistance benefits . Attendance doctor-hospitalar, dental care, pharmaceutical, alimentary, financial, social and educational are some of them. Furthermore that, still paid the pensions, funeral aid, Christmas aid and peculium.

" The evolutionary analysis of the actions of IAPSEB, in the period of 1966 to present days, demonstrates substantial gains and losses, with a clear prevalence of the losses, always placing the organ in a dangerous strip of financial inconsistency and of fragility of reservations, forcing him to operate under cash regime..." (Report of IAPSEB, 1997).

The excessive concession of assistance benefits was not supported by the new Institute, what took to its get off :

In 1966 the Educational Insurance was disabled, that was a loan destined for the purchase of school material.

In 1978 the plan of Fast Loan was disabled, loans of up to three months.

In 1986 the net of Loan was disabled.

In 1988 the Christmas Payment was eliminated.

The pharmacies were disabled , being the process ended in 1995.

According to the civil servant's perspective those measurement represent right losses, and in fact they are, even so the maintenance of benefits without the due financing source is unsustainable, and the big question is: is the society willing to pay this bill ? The contribution for IAPSEB, on average was of 8,5% on the employees' earnings. The State contributed with equal percentile. However, it was not clear how much was destined for payment of benefits and how much was destined for assistance. The adoption of the Only Juridical Regime – RJU, starting from 1995 turned the situation of the Institute critic. An already faulty financial situation was worsened by the new 347.418 beneficiaries' incorporation. The

clientele passed from 180.000 to 527.418. Apart from that, the payment of the pensions for the integral value started at that time, as arranged in the Constitution of 1988. The expenses of the Institute had an increment of 293%, to the step that the revenues just increased 123%, with the new contributions.

Already in 1997 IAPSEB presented a budgetary deficit of R\$30.700.000,00. The projections indicated that, maintained that tendency, the Institute would arrive in 2001 with a budgetary deficit of R\$227.885.000,00.

In 1998, the Government promoted a new great reform in the Social Security System of the State. The Law # 7.249 of January 07, created a new configuration in the system. IAPSEB was eliminated, and in its place two new structures different and independent to each other were created. On one side, to treat retirement and pensions, FUNPREV was created. On the other hand to treat the attendance and health assistance to the servants, PLANSERV - Plane of Health of the Servant was created. The administration of PLANSERV is in charge of Secretariat of the Administration of the State. It is a plan of health of optional adhesion, whose services are made contracted private companies. FUNPREV, for its time, possesses an administration shared between the Secretariat of Administration and Finance. The Secretariat of Administration, through the Management of Welfare, deals with the administrative matters, as concession of retirements, pension concession, elaboration of the payroll, analysis of processes, etc. The financial administration of FUNPREV is in charge of the Management of the Fund, linked to the Secretariat of Finance, with a strictly financial focus.

FUNPREV - THE NEW PARADIGM:

The State of Bahia, in spite of every financial crisis that reaches the country, has stayed in a relatively comfortable financial situation. While the medium relationship between Liquid Current Revenue and personnel's of Brazilian States payment is in the order of 67,11%, Bahia presents an index of 53% (data of February of 1999), much below the limit established by Camata Law (60%). The medium participation of retirement and pensions benefits on the net payroll of Brazilian States met in the year of 1997 in 27,21%; while in Bahia that index was of 19%. Such situation in a certain way to have been privileged would not be maintained in the long term, because as well as the rest of the country, the age of concession of retirements in the State concentrates on the strip of the 46 to the 55 years of age (49,1%). This tendency represents a strong demand for retirements in the medium term, overloading the State Treasury, and harming or even making unfeasible the financing of the State and the investments.

Already in 1997, the studies for the implementation of a fund of assets destined to absorb the responsibilities of pension payment and aids of the old pension institute (IAPSEB), and the payment of the retirements of the State Treasury began.

THE STUDIES FOR IMPLEMENTATION:

The studies for implementation of the Fund, denominated "*Planejamento Previdenciario Personalizado*"- PPP, under the technical and actuarial consultantship of a known company, indicated a need of resources in the amount

of R\$2,4 Billion to honor the last commitments. As the State didn't have that sum, it opted for another alternative. The Government of the State destined R\$400 million in cash, resources those coming of the privatization of the State Company of Energy - COELBA. The Fund instead of absorbing the whole stock of retirements immediately already existent, started to do it by degree, to a reason of 5% per year. Immediately the payments of pensions and aids of the old pension institute, and the payments of the retirements granted after the creation of the Fund were assumed. A progressive contribution was also adopted. Those and other operation aspects will be detailed further on.

Four basic beginnings were defined as bases of the new Fund:

1. Reduction by degree of the responsibilities of the State Treasury, for the absorption of the retirements.
2. Deprived administration of the resources by means of the managers' of assets recruiting.
3. Independence of the Fund in relation to the State Treasury in what plays the financial administration of the resources. The current account of the Fund is maintained out of the current account of the State.
4. Plan of simple partition, starting from the beginning that those resources are already destined to the payment of the retirements and pensions existent, and of the current employees still in activity and that come retiring under that regime.

JURIDICAL NATURE OF FUNPREV:

FUNPREV is a special fund linked to the Secretariat of Finance, constituted through the terms of article 71 of the Federal Law # 4.320/64, and article 140 of the State Law # 2.322/66. Such condition enables FUNPREV to enjoy of the benefit of the reciprocal tributary immunity consecrated in article 150 of the Federal Constitution, increasing the finance performance of the Fund.

ADMINISTRATION:

The administrative composition of FUNPREV can be understood in three spheres:

- Welfare Council - CONPREV
- Deliberative Committee
- Direction of FUNPREV

The Welfare Council - CONPREV is the deliberative, advisory and superior organism of supervision, linked at Secretariat of Administration . It establishes the norms and guidelines of the Social Security System of the Public Servants of the State. The following members compose it:

- · Secretary of Administration, that will preside it
- · A representative of the Legislative Power
- · A representative of the Judiciary Power
- · A representative of the Public Ministry
- · A representative of Government's Secretariat
- · A representative of the Secretariat of Finance

- · A representative of the Secretariat of Planning, Science and Technology
- · A representative of the General Attorney's Office of the State
- The Director of FUNPREV
- The Director of the Department of human resources of the Secretariat of Administration
- · A representative of the public servants.

The Deliberative Committee is an organ composed by the Secretary of Finance, that had presided it, by the Secretary of the administration, for Government's Secretary, for the Secretary of Planning and for the Director of FUNPREV. Its function is to accompany the operational administration of the Fund, and to deliberate, "*ad referendum*" of the CONPREV, matters that extrapolate the competencies of the management and that need immediate decision.

The management of FUNPREV is the organ executioner of the welfare policies in what it plays to its financial aspect.

PURPOSE:

FUNPREV possesses two clear and defined objectives:

1. Provide resources for the payment of retirements, reserves ,reform, pension, peculium, funeral aid and reclusion aid to those beneficiaries in the whole Powers of the State. (with the edition of the Federal Law # 9.717/98 the funeral aid and the peculium stopped being paid for FUNPREV)

2. Apply the resources of the contributions and transfers of the State, and of the contributions of those beneficiaries.

THE PATRIMONY OF FUNPREV:

With the reformulation of the Social Security System and the elimination of the old pension institute, the patrimony of that institute was incorporated to the new Fund.

The resources for the implementation of FUNPREV had the following origin:

- · Contribution of those beneficiaries
- · Contribution of the State of Bahia, for its Powers through the direct administration, its autarchies and public foundations.
- · Resources received in the financial compensation among the welfare systems
- · Revenues and profits of the administration of the capital
- · Mobile and immobile goods, values, incomes and rights of IAPSEB
- · Amount of R\$400.000.000,00 in cash
- · Value up to R\$40.000.000,00 in stocks of the state in the capital of the Company of Water of Bahia - EMBASA. (that company meets in privatization process).

Some considerations should be made about the constitution of that patrimony.

Contribution of those beneficiaries: The beneficiaries of FUNPREV are subdivided in two categories: optional and obligatory. The optional taxpayers are constituted

by the State Deputies while the mandates, and the beneficiaries of the State Law # 3.373/75. That second group of optional taxpayers is constituted of a small group of 53 people.

The obligatory taxpayers are constituted by all the active public employees of the direct and indirect administration of all Powers of the State, subjects to the statutory juridical regime, the active military, the Governor, Vice-governor, Secretary of State; the civil and military public servants that if they retire for the statutory regime, military of the reservation or reformed and the pensioners. The contribution is just one, independent of the remuneration, incident on the total wage, independently of the career or of the Power of State to which the servant is linked, as in the schedule below:

CONTRIBUTION %	YEAR
5,0	1998
5,0	1999
6,5	2000
8,0	2001
9,5	2002
11,0	2003
12,0	2004

Source: Law 7.249/98 - enclosed II

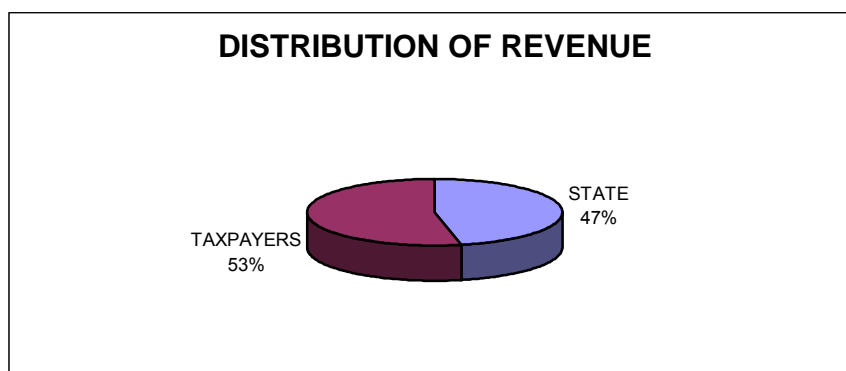
Contribution of the State: The State of Bahia also contributes to the system, with a progressive contribution during the time up to the maximum of 21% on the amount of the payroll. All Powers, Executive, Legislative and Judiciary, the Account Tribunals of the State and of the Municipal Districts, the Public Ministry, the

Autarchies and Foundations are considered here. The table below shows us the contributions.

CONTRIBUTION %	YEAR
5,0	1998
5,0	1999
5,0	2000
5,0	2001
6,5	2002
8,0	2003
9,5	2004
11,0	2005
12,5	2006
14,0	2007
15,5	2008
17,0	2009
18,5	2010
20,0	2011
21,0	2012

Source: Law 7.249/98 - enclosed II

In July of 1999 the distribution among the collected revenues, excluded the financial ones was like this distributed:



Source: Report of Activities of FUNPREV - july/99

The Financial Compensation: The expectation is that the payment on the part of INSS will be done in Bonds of long and medium term linked to the payment of benefits.

Mobile goods, properties and values of abolished IAPSEB: The properties are constituted for twenty one units among buildings (besides public) and lands spread by the State. They are 13 units in the capital and 9 in the countryside of the State with accounting value of R\$52.911.000,00. The great subject is the liquidity of those properties. The observations done by the Management of FUNPREV, with the aid of the General Audit of the State -AGE, indicate a low liquidity degree, and per times units completely without liquidity. In addition, the physical and juridical situation of that patrimony doesn't motivate the implementation of an administration on the part of FUNPREV. Being considered that the focus of FUNPREV is the generation of resources and not the administration of landed properties, a proposal was already elaborated on the part of the Management of the Fund with the intention of giving another destination to that patrimony.

From among the assets incorporated also meet a habitation's plan. That habitation's plan still had origin in old Institute, when it was common the financing of properties to the partners. The researches of FUNPREV still indicated the existence of 3.000 inactive contracts of old Institute, awaiting the proprietors' presence to regularize the situation of the properties; 500 originated contracts of extinct IAPSEB to the emission of the definitive writings, and 350 active contracts. The financial value of that patrimony is doubtful, and the action had to be

administrative. A specialized adviser in administration of habitation's plans to clean it up was contracted. The final objective, already reached, was after cleaning up the wallet transfer its administration, centering the actions of FUNPREV in the administration of financial resources.

THE POLICY OF INVESTMENTS:

The resources initially contributed to the Fund by the Government of the State, in 1998, were used in the acquisition of Federal Public Bonds -LBC 3 - especially emitted to assist the negotiation of the debt of the State of Bahia with the Union. Those titles were of short term, with ten successive and weekly expirations. Simultaneously, a special current account called "*Deposit Under Ordering*" (Depósito Sob Aviso) was opened in the Bank of the State of Bahia - BANEBA. This is a paid checking account, based on Federal Public Bonds, with daily liquidity, and close remuneration to CDI - Certificate of Banking Deposit (Certificado de Depósito Interbancário). By the expirations of the bonds above mentioned, the resources were being transferred to the current account, and accumulated to the revenues of contributions. That situation, even so, could not be permanent, because in order to increase the revenues and to look for a larger safety against unexpected, it became necessary to diversify the investments.

Thus, in June of 1998, the policy of investments of FUNPREV was proposed to the Welfare Council, based on the Resolution # 2.324 of the Central Bank of Brazil - BACEN, according to the schedule below:

TYPE OF INVESTMENT	LIMIT RES. 2.324 - BACEN	LIMIT FUNPREV
1. Federal Public Bond	100%	100%
2. Fixed Income	80%	80%
2.1. State and Municipal Public Bond	50%	50%
2.2. CDB/RDB, Fund of Investment, Public Debentures, Mortgage Titles	80%	80%
2.3. Saving Account, Physical Gold, Gold's Future Contracts	10%	10%
2.4. Fund of Investment Abroad	10%	10%
3. Variable Income	50%	10% up to Dec. 98 20% up to Dec. 99 30% up to Dec. 00 40% up to Dec. 01 50% starting from Jan. 03
3.1. Stocks from Open Companies	50%	10% up to Dec. 98 20% up to Dec. 99 30% up to Dec. 00 40% up to Dec. 01 50% starting from Jan. 03
3.2. Quotes from Funds of Stocks		
3.3. Stocks from Shut Companies acquired in the ambit of PNB		
4. Bills of Rural Credit, Rural Promissory Notes, Bills of Rural Product, Certificates of Merchandise	3%	Zero
5. Quota of Real Estate Fund	10%	5%
6. Fund of Emergent Companies	5%	5%
7. Real Estate (from own use, commercial, lands, shopping)	15%	Limited to the received properties of IAPSEB. Up to Dec. 98 – 15% Up to Dec. 99 – 10% Starting from Jan. 00 – 7,5%
8. Loans to the Participants	3%	Zero up to Dez 98 3% starting from Jan. 99
9. Real Estate financing to the participants	7%	5%
10. Operations with sponsor	10%	zero

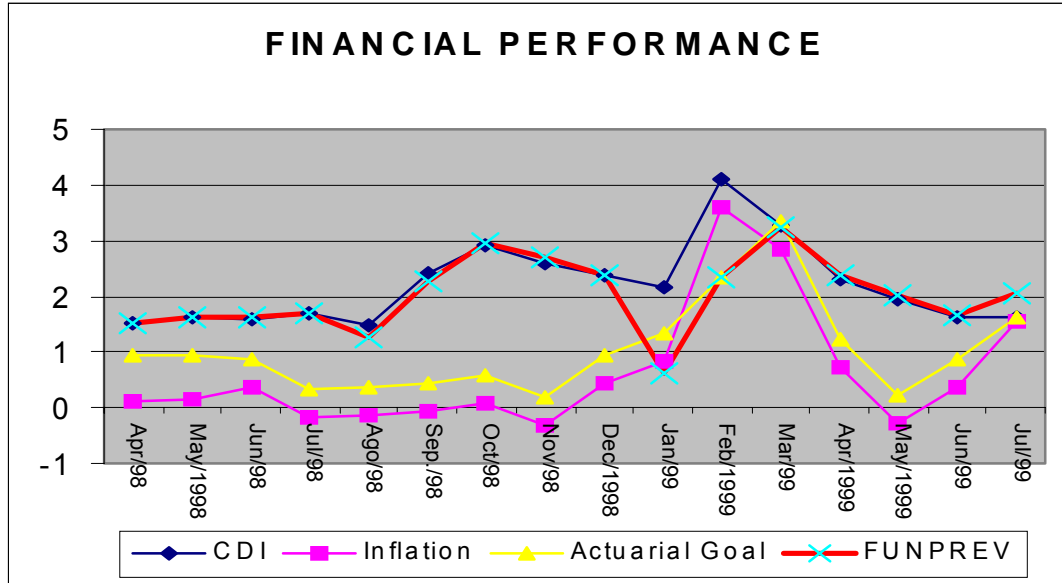
Source: Report of Activities of FUNPREV June/98.

The table above suggests to us some observations. Firstly, always the maximum prudence was looked for in the investments, with returns that facilitate reaching the actuarial goal (6% per year add to TR - Referential Index). The fact of there being limits authorized for each application modality doesn't necessarily indicate that the

same ones will be used. The applications in variable income for example, they should be studied carefully, and while the interest rates are high it doesn't justify to leave of the applications in fixed income. During the year of 1999, although there is authorization of CONPREV to apply up to 20% of the resources of the Fund in variable income, the resources continue invested in fixed income.

Other modalities of investments, although authorized, were forbidden to be done by posterior legislation, especially the Federal Law # 9.717/98. We see in that category the applications in State and Municipal Public Bonds and loans to the participants.

The objective of the FUNPREV has always been the maximum profit of the resources, with safety and liquidity. Certainly one of the great difference of FUNPREV to the traditional welfare institutes is the financial vision of the welfare subject. As we will see further on, the Fund has been working with an extremely dried structure, just gone back to the area of strategic administration, contracting all the other areas that are not attribution of the State, and that find much qualified and specialized professionals in the private market. Below we will expose a comparison among the acting of CDI, measured inflation for IGP-M, the Actuarial Goal, and the performance of the investments of FUNPREV.



Source: Monthly Reports of FUNPREV.

The graph above suggests to us some comments on the investment strategies adopted by FUNPREV. We can say that those strategies possess two objectives. One of long-term with views to maintain the profitability of the capital with low risk, and another one, operational of short-term, adapting the actions to the economic conjunctures and of internal administration of the Fund. In that way the investments in Federal Public Bonds of short-term began. With the expirations of those Bonds the resources were transferred for the "current account under ordering", as already described. Soon after a set investment structure was set up in quotas of another investment funds (FACs of FIFs), each one of them with different objectives. Three families of funds were created. A conservative, with technical objective of 100% of

CDI, with 63% of the capital. Another moderated with technical objective of 105% of CDI with 30% of the capital and a third aggressive, with technical objective of 115% of CDI with 7% of the capital. The strategies above were used being adopted the administration by contract through managers of assets of the finance market in funds existent in the market. That modality was used during the year of 1998.

The instability of the finance market didn't allow that the revenues were larger than they were, even so, being compared the performance of FUNPREV with the average of the market we can say that the results were quite favorable.

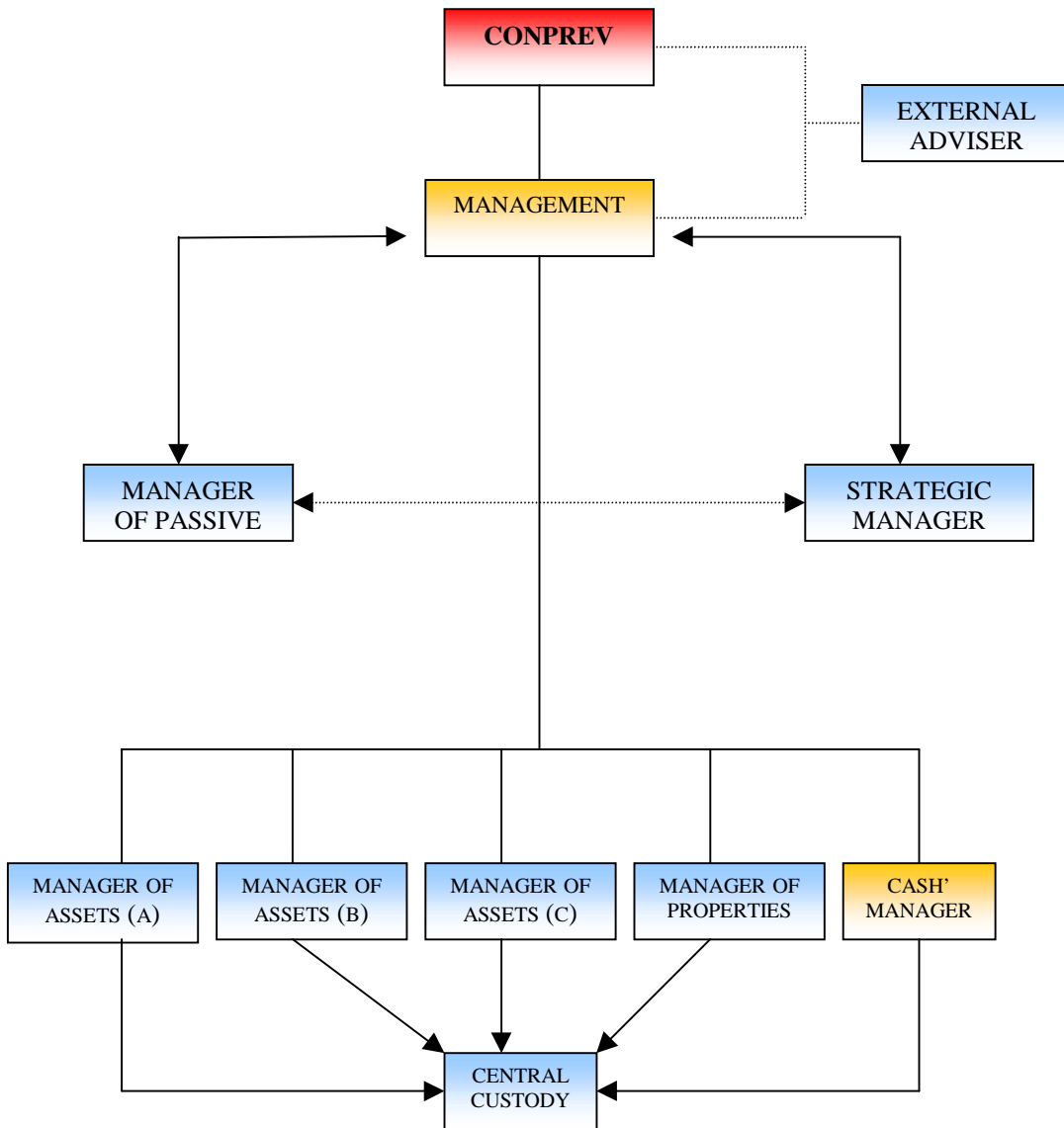
The year of 1999 began quite shaken for the finance market. The Government from Minas Gerais decreed the moratorium of its debt with the Union, and it threatened not to honor the EUROBONUS that were expiring. That fact, with several ones others of economic nature contributed to the crisis of the investors' reliability in the Brazilian market, accelerating the exit of reservations, and arriving at its apex on January 12, when the country lost more than US\$1 Billion transforming the pessimism into panic. As a consequence the basic interest rate of the economy rose from 36% to 41% per year. Nevertheless the international reservations didn't stop falling, until it new system in exchange with its total liberation was introduced, and a devaluation of the currency in 65% in the end of the month. In that period spacing from the revenues of the Fund to its benchmark, CDI, was verified taking to a reform on the strategy. Starting from the month of February of 1999 FUNPREV still became more conservative in its investments,

fastening the goal in 100% of CDI and interfering directly in the portfolio of the investment funds through direct mandate. In that way, it is verified starting from March of 1999 (February still carried reflexes of the changes of the previous month), the turn of the FUNPREV's profitability close to CDI. The economic instability and the flotation of the market took to that measure of extreme conservatism, seeking to protect the patrimony of the Fund of new surprises.

THE OPERATIONAL MODEL :

The Operational Model is understood as the definitive structure of FUNPREV's operation, whose focus is the financial administration. Its implementation is to be done on the medium-term, because it depends on several factors, and innovation of the concept of financial administration for the welfare section demands time to be absorbed by the state organisms. Apart from that, there is a strong appeal to contract private enterprises, as we will see ahead.

The organization chart below illustrates the intended Operational Model:



In order to understand that organization chart, we will consider the yellow boxes as activities executed by the Management of FUNPREV, and the blue boxes as

contracted activities. To proceed we will describe the role to be carried out by each one of the components of the organization chart.

CONPREV is the maximum organ of decision, composed of consultants that conform to the model previously described.

To the Management of FUNPREV - DIREF, composed of the Management of Investments and Management of Patrimony the task fits of implementing the model above, through recruiting (bidding) of the executioners of the contracted activities, parallelly, to administer the financial resources and to make the payments of the benefits. DIREF will be the connection link between CONPREV and the managers, as well as the executioner of the traced investment policies, through managers of assets.

External Adviser is the consultant, who will act close to CONPREV, tracing scenarios, defining goals and indicating the macroeconomic tendencies of the market.

The Manager of Passive, is already hired, after a long bidding process. From among its activities, in elaboration beginning, the rising of the actuarial structure of the Fund is waited, showing the passive reality and the need of resources; to maintain informed DIREF on the deficiencies or surplus of the Mathematical Reservations, to esteem the period of outlive of the Fund in case of negative and successive Mathematical Reservations; to calculate the impacts in the reservations of the fund in function of changes in the economic politic scenery, such as interest

rate, salary increases, demands for retirements and another; to correlate the cash flow of the investments with the needs of payments; to assign the accounting demonstrations of the Fund, among other attributions.

A specialized adviser constitutes the Strategic Manager, individual or juridical, to act side by side with DIREF, supporting the decisions of operational control, asset allocation, and analysis of risk of the investments. Some specific attributions as it consists in the work entitled " Proposal of Establishment of a Management Model to FUNPREV ":

- · Permanent accompaniment of the risk level of the investments
- · Advice in the choice of the institutions to be contracted as managers of resources.
- · Advice in the remuneration proposal to the managers of assets
- · Attendance of the performance of each one of the managers of assets.
- · Analyses of the liquidity of the assets, and risks incurred in function of the intended return.

The Managers of Assets are the financial institutions selected to administrate the long-term resources of the Fund. The function is to look for the best market alternatives inside the parameter plans for the Management of the Fund, being always considered the relationship risk, return, and liquidity.

Manager of Properties appeared for the need of administering the incorporated real estate patrimony of the old pension institute. As previously described, the intention of FUNPREV is not to maintain the administration of that properties. As a matter of fact, the maintenance of the Manager of Properties depends on the superior decision of CONPREV. This structure can be done internally, externally contracted or eliminated, it depends on the size of the patrimony to be administered.

Cash' Manager exercises the financial administration of short-term, accompanying the cash flow and giving liquidity to the payments through administration of the applications and daily withdraws.

The Central Custody exercises the control of consolidated risk of the Fund, through centralization in an only financial institution all assets administered by the managers of assets.

CONCLUSIONS:

The Social Security System is in the national agenda, and it seems there is conscience of the magnitude of the problem for the solution of the public deficits. We have been seeing in a couple of years the Federal Government's attempt to approve the measures that will implement the reforms. Recently the reform was approved for the private sector (General Regime), however in the public sector, especially federal, the resistance has been larger. At state level we are observing located initiatives for the solution of the problem. We have to praise the initiative of States as Bahia, for the courage to face the problem and to try to solve it. Paraná

with its PARANAPREVIDÊNCIA also deserves prominence, mainly for the institutional juridical innovation that it intends to implement, and Espírito Santo, that looks for to remodel its old pension institute incorporating the new concepts. The fact is that, by one way or another, with different models, the vision of the subject assumes another dimension. The financial dimension, with concerns before nonexistent such as financial and actuarial balance, concession of benefits adapted to the financing sources and assembly of structures of professional financial administration.

Those are just the first steps to solve the payment of the existent stock of retirements that end up making unfeasible the public administrations. The following step is to treat the new retirements, with the creation of the individual current accounts and the passage of the regime of defined benefit for the one of defined contribution.

The means towards the solution of the social welfare can be different, but the final objective, through change of paradigms, is the same:

Social welfare is before everything a financial subject.

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