Concerns regarding the future of the social security system in Ecuador

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The Constitution of Ecuador recognises the unalienable right to social security, producing a primordial duty and responsibility on the State, to allow all persons access to the social security system. This system is governed by the principles of solidarity, enforceability, universality, fairness, subsidiarity, sufficiency, transparency and participation, for the interest and the needs of individuals and groups.

These broad principles define and determine the performance of the system. However, some principles, such as "universality", create a serious concern in the country, because of the negative consequences that an indiscriminate or poorly planned implementation could cause on the social security system.

In accordance with constitutional law, the State must guarantee and enforce the full exercise of the right to social security for those who carry out unpaid work in the home, self sustainable fieldwork, are self-employed or unemployed.

Concern surges in two premises: i) the incorporation of a large number of people who do not contribute to the system, and ii) the demographic distribution of the population actively enrolled in the current social security system.

The social security system in Ecuador is currently structured around the Social Security Institute of Ecuador (*Instituto Ecuatoriano de Seguridad Social* – IESS). According to recent statistics, about 2.4 million people are enrolled in the system.

IESS is not only responsible for collecting employee and employer contributions needed to maintain the system, but is also responsible for implementing related benefits and services. For example health, life, maternity, unemployment and death benefits, including employee retirement benefits such as pensions and reserve funds and certain financial benefits for workers, such as unsecured loans and mortgages.

According to data obtained through December 2010, the largest numbers of active enrolees in the social security system are between the ages of 25 and 40 and representing 47% of the contributors. In addition, there is a noticeable increase in enrolees age 50 and older, reflecting the aging population. In the same period, the number of retirement pensioners, based on age and disability, reaches 194,537. This corresponds to a significant increase in life expectancy in Ecuador, from the age of 69 to the age of 73.

If the trends observed in the statistic above continue, a reduction in the number of enrolees for each pensioner can be expected. This will bring about a future burden on the system and may cause an imbalance in payments to pensioners. This will likely cause pressure to modify the requirements for retirement, possibly by adjusting the minimum retirement age (currently 60 years of age) to adapt to the increase in the life expectancy in the country, by increasing the minimum contribution requirements to collect retirement benefits (currently at 30 years of contribution), or by including a regime with varying pension increases.

Additionally, the increase in the number of enrolees that do not contribute and do not have sufficient salary to make contributions, such as homemakers and volunteers, will cause a future burden on the system that may unbalance its operation. It is important to note that in principle, the State should assume this new burden. However, taking into consideration that the State currently has the obligation to cover 40% of the pensions, which currently totals about $65 million for approximately 550,000 contributing enrolees; it does not seem practicable that the public entity assume such an increase, nor will it be able to do so exclusively or in its entirety.

These two premises of analysis are the basis of concern for the future of the social security system. Except in the event that the State decides to actually intervene in the disbursement of permanent and significant funds to cover the additional number of non-contributors, or to modify the requirements for retirement or to create other sources of financing; it will be necessary to finance the coverage of services and benefits through an increase in the current contribution rates, to allow for actuarial solidity and balance.

Therefore, to avoid a collapse of the social security system, it is necessary to provide alternatives such as a decrease in benefits, placement of high value loans by IEES or even an increase in taxes as a way to generate resources and channel them into the system.

Another alternative, from a more pragmatic standpoint, would be maintaining a system based on "three pillars": support from the State, savings from the worker and the voluntary contribution of the employee. The pillars would be administered separately, founded on private management and based on capitalisation. In such a scheme, depending on the determination of the State or the market, it would be a choice whether the pension would be administered by the state, by the market, or by both.

Notwithstanding, social pressure and political viability for reform should be considered again, because the idea of "privatising" social security through the creation of pension funds, despite the possibility of lowering the risk of a system collapse; may on the other hand, cause important social repercussions that blight any intent of system reform.