

Brazil

Brazil: Pension system in 2016

The Regime Geral de Previdência Social (RGPS), covers the private sector workforce. It is financed through payroll taxes, shared by the employer and the employee, revenues from sales taxes and federal transfers that cover shortfalls of the system. It is a mandatory, pay-as-you-go financed single-pillar scheme, which is operated by the National Social Security Institute.

Key indicators: Brazil

		Brazil	OECD
Average worker earnings (AW)	BRL	25 248	119 212
	USD	7 756	36 622
Public pension spending	% of GDP		8.2
Life expectancy	at birth	75.8	80.9
	at age 65	18.4	19.7
Population over age 65	% of working- age population	13.0	27.9

StatLink  <http://dx.doi.org/10.1787/888933634990>

Qualifying conditions

Private-sector employees are entitled to retire with a full pension if they meet one of two conditions, retirement on the basis of length of contributions or on basis of age. Retirement on the basis of length of contribution, at any age, is possible after having contributed to social security for 35 years for men and 30 years for women. This option is the most common pathway to retirement for private-sector employees. Retirement on the basis of age is 65 for men and 60 for women with a minimum contribution record of at least 15 years.

Contributions vary by earnings level at 8% for monthly earnings up to BRL 1 317.07, 9% for earnings from BRL 1 317.08 to BRL 2 195.12 and 11% for earnings from BRL 2 195.13 to BRL 4 390.24.

Benefit calculation

Retirement on the basis of length of contribution

The benefit is the average of 80% of the best monthly earnings from July 1994 up to the date of retirement. This average is multiplied by the “Fator Previdenciário”. The “Fator Previdenciário” is an actuarial coefficient based on the insured’s contribution rate, contribution period, age, and life expectancy. For a man retiring on the basis of length of contribution, considering the minimum of 35 years, this multiplication will reduce the benefit level when retiring before the age of 64, while increasing it thereafter. The “Fator Previdenciário” is not applied to arduous work with 15, 20 or 25 years of contributions.

$$f = \frac{T_C \times a}{E_S} \times \left[1 + \frac{(I_d + T_C \times a)}{100} \right]$$

f = Fator Previdenciário

T_C = worker contribution period

a = contribution rate 31%

E_S = worker's life expectancy upon retirement

I_d = worker's age at time of retirement

The minimum monthly earnings for benefit calculation purposes are equal to the legal monthly minimum wage (BRL 880). The maximum monthly earnings for benefit calculation purposes are BRL 5 189.82. The minimum pension for minimum monthly contributions is equal to the legal monthly minimum wage.

Retirement on the basis of age

The benefit is the average of 80% of the best monthly earnings from July 1994 up to the date of retirement. This average is multiplied by 70% plus 1 percentage point for each set of twelve months of contribution and limited to 100%. This result is multiplied by the “Fator Previdenciário” only if this factor is higher than 1.0. The minimum and maximum monthly earnings for benefit calculation purposes are the same as in retirement based on length of contribution.

There are 13 payments a year with benefits adjusted annually. For the two-thirds of private-sector pensioners who receive the minimum pension amount, annual adjustments are equivalent to those of the minimum wage, which has been rising significantly faster than consumer prices over the past decade. Pensions that exceed the minimum level are adjusted according to changes in the consumer price index.

Social assistance programmes for old-age population

Pension-like assistance benefits are also available to those who do not qualify for a retirement benefit on the basis of the two conditions mentioned above. The BPC-LOAS was created to assist old-age people (65 years old and more, both male and female) or disabled people whose household income per capita is under one-quarter of the minimum wage (floor). They receive an amount equal to the minimum wage and their conditions are revised every two years. Beneficiaries cannot receive any other non-contributory benefit from the government, but social assistance received by another member of the household is not taken into account. However, regular pension benefits received by another member of the household are taken into account. The logistics is made by the INSS (medical certification and means-test), but the responsibility for the benefit is given to the Ministry of Social Development and Fight Against Hunger – MDS.

There is another benefit called *Previdencia Rural* (Rural Pension) for those males aged 60 and females aged 55 or older, who have completed at least 180 months of work in rural areas. The benefit is equal to the minimum wage.

Variant careers

Early retirement

Early retirement is allowed at age 53 with at least 30 years of contributions (men) or age 48 with at least 25 years of contributions (women). Pension deductions are applied in this case through the “Fator previdenciário”. This rule applies only to worker who were contributing before 1998. The value of early retirement is proportional to its integral value and they must contribute during an additional length of period of at least five more years. This rule is about to be naturally extinct.

Late retirement

Pensions can be claimed along with employment, and there is therefore no incentive to delay payment.

Personal income tax and social security contributions

Taxation of pension income

Pensions are not taxed.

Taxation of pensioners

In 2014, individuals with monthly income above BRL 1 787.77 pay taxes according to the following:

Monthly earning From	To	Tax
BRL 1 787.78	BRL 2 679.29	7.5%
BRL 2 679.30	BRL 3 572.43	15%
BRL 3 572.44	BRL 4 463.81	22.5%
BRL 4 463.82	or more	27.5%

Social security contributions paid by insured people

There is no difference of contribution between the benefits. The contribution is valid for all benefits that the category of contributor qualifies the insured to receive.

Insured people	2014	
	Contribution base (BRL)	Rate (%)
Employee, Household Employee and Detached Worker	up to 1 317.07	8.0
	from 1 317.08 to 2 195.12	9.0
	from 2 195.13 to 4 390.24	11.0
	Above 4 390.25	11.0 on the ceiling (4 390.24)

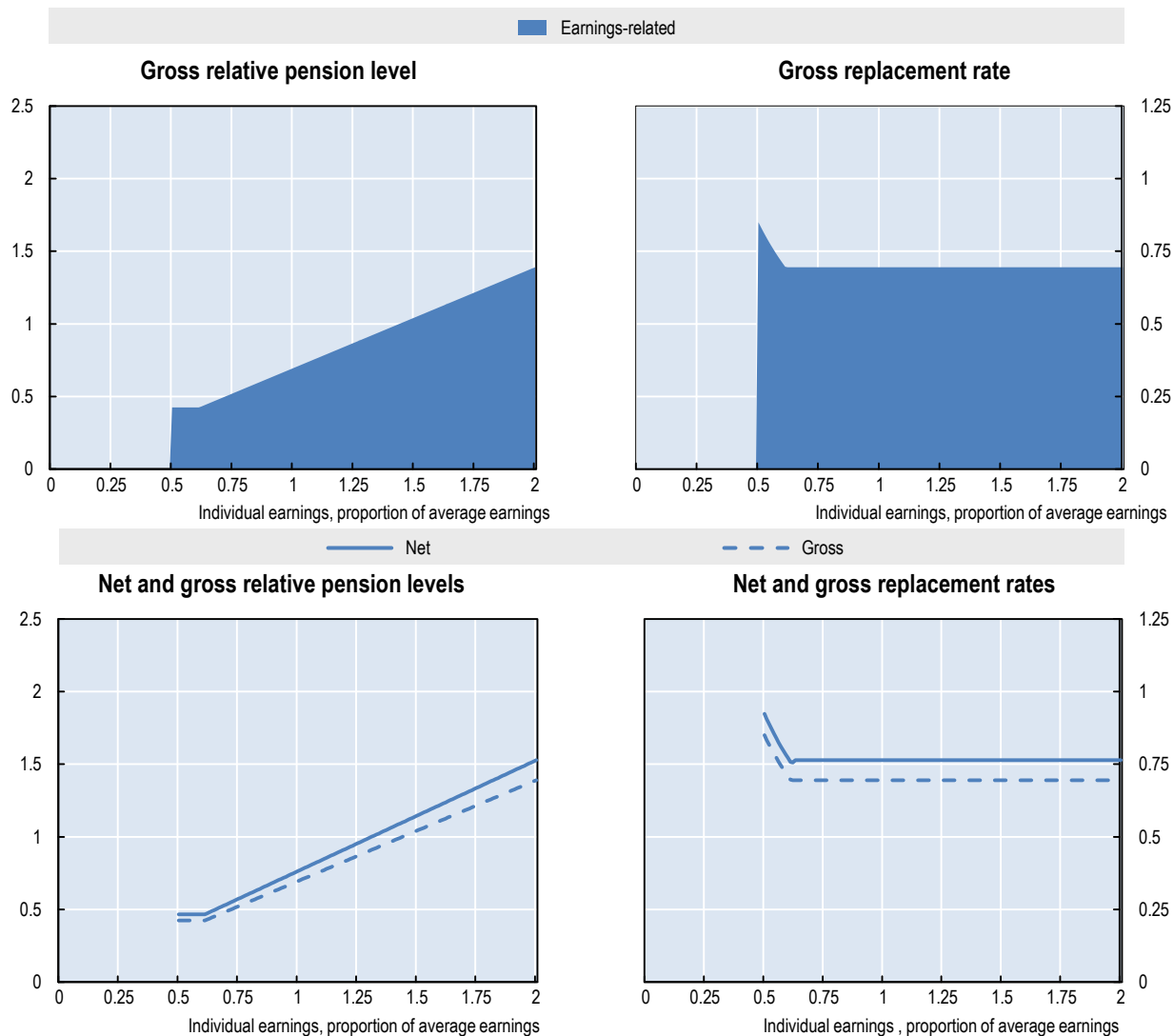
Taxation of pension income

Pensions are not taxed.

Social security contributions paid by pensioners

The beneficiaries do not pay social security contributions on their benefits, but if they work, social security contributions must be paid on their earnings.

Pension modelling results: Brazil in 2051 retirement at age 55 (men)



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	42.5	52.1	69.5	104.2	139.0	154.7
Net relative pension level (% net average earnings)	46.7	57.3	76.4	114.6	152.7	170.0
Gross replacement rate (% individual gross earnings)	85.0	69.5	69.5	69.5	69.5	51.6
Net replacement rate (% individual net earnings)	92.4	76.4	76.4	76.4	76.4	57.1
Gross pension wealth (multiple of individual gross earnings)	22.4	18.3	18.3	18.3	18.3	13.6
Net pension wealth (multiple of individual net earnings)	24.4	20.1	20.1	20.1	20.1	15.0

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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