PERU

Meagre pensions, a precarious health care system

The government's neoliberal policies in the 1990s promoted the privatization of social security. Workers who opt for a private scheme cannot return to the state pension fund, and there are no guarantees for the sums contributed if the private insurance company goes bankrupt. Retirement pensions are miserly, there is no unemployment insurance and the informal sector has no protection. There is no unified health system and public medical care is plagued by serious financial problems.

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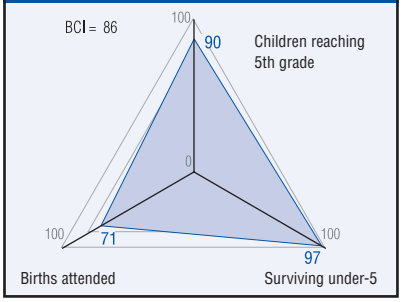
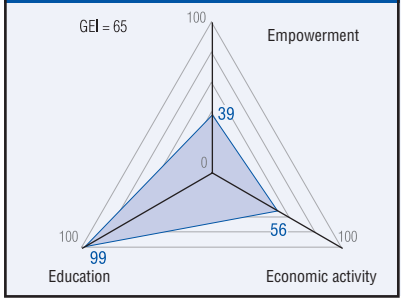
Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



In Peru, pension funds and health system funds operate separately. The former are organized into a national pensions system and a private system made up of pension fund administration enterprises that were set up in the 1990s under the government's neoliberal programme.

Very limited coverage

The social security system consists of three regimes: the National Pension System (SNP), the Pensions and Benefits Regime for Civil Services to the State (known as the "Cédula Viva") and the Private Pension System (SPP).

The SNP is a benefits assurance system with a common accounting fund run on the principle of solidarity. Workers contribute 13% of their monthly income, and the state sets limits on the amounts paid out in pensions, which can vary from a minimum of PEN 415 (USD 130) for disability and retirement pensions after 20 years or more of contributions, to a maximum of PEN 857 (USD 267) for all pensioners.

In 2005, taking all the kinds of benefits into account, the average monthly pension was PEN 461.81 (USD 144), which was 93% higher than the 1997 figure (ONP, 2006). In this regime there are 1,154,000 active workers and 448,413 pensioners, which makes a total of 1,602,000 affiliated members.

In the 1990s pension funds were privatized and this swelled SPP membership and meant that new workers joined the individual capitalization system. The Public Treasury finances 72.5% of SNP disbursements, representing an expenditure of PEN 2.785 billion (USD 899.9 million). State social security expenditure as a whole is approximately PEN 8.47 billion (USD 2.737 billion), equivalent to 13.7% of the 2007 budget.

The number of active workers affiliated to the SNP has increased very slowly because a high proportion of people in the informal economy are self-employed or are family members whose work in micro-enterprises is not paid. According to a recent World Bank (2004) study, SNP coverage has fallen from 15% of the work force to 13%.

In the formal economy there are high rates of evasion and non-registration in the modern agricultural sector and financial services, and even in the public sector, where workers often do not receive the coverage they should.

Privatization and the weakening public system

The public system was reformed in the 1970s, and in subsequent years the government made arbitrary and illegal use of funds from the pension and social security systems to pay public employees and even to carry out public works. This bankrupted the state pension fund.

When the SNP was reformed in the 1990s, contributors had to choose: they could either remain with the SNP public system or join the recently created SPP individual capitalization system. The state implemented policies and legislation designed to weaken the public system and promote privatization, and as a consequence it is much easier to join the SPP than the SNP and, while people can switch from the SNP to the SPP, it is not possible to move the other way (except in a few very special cases).

Workers who changed from the public system to the private sector received a series of benefits: SNP contributions were raised while the rates for SPP members were lowered, and the age threshold for retirement in the public system was increased to bring it into line with the private system.

Recently, amid increasing protests and pressure from people affiliated to the Pension Fund Administrators (AFP) demanding the right to leave the private system, the government passed a law establishing that only those who had joined before 31 December 1995 were permitted to switch from an AFP to the SNP, and at the time of leaving the AFP they would be entitled to a retirement pension in the SNP.

In Peru, before privatization, the state social security system was managed by the Peruvian Social Security Institute (IPSS). The 1990s reform process involved setting up two bodies, Social Security for Health (ESSALUD) to administer the health care area, and the so-called Social Security Standardization Office (ONP), to take charge of the public pension regime. This new structure meant that the system was no longer unified and had less autonomy.

When the Alberto Fujimori government came to power, one of its first official acts was to transfer the pension fund that was controlled by the IPSS to the AFPs while the state took responsibility for the pensioners. In December 1992, the government issued legislative decree No. 25897, and the system went into operation in 1993 after an intense publicity campaign paid for by the state. The government openly promoted the new model with a series of legal and administrative measures. It was established that the responsibility for pensions of people who stayed with the public system would be taken over by the state using funds from the national treasury. The AFPs that were created were owned by the country's most powerful banking groups.

Funds without guarantees

Under the current system, workers must opt for either the state pension fund or an AFP. Once this choice is made, they may change to a different AFP, but cannot return to the state system. Workers are legally obliged to pay a percentage of their income in contributions to the AFP, and this money is used to buy shares in one of the monopoly enterprises in the country. Contributors are kept informed every month about where their money is going, but they do not participate in any way in decisions on how the

money is invested or the ownership of the administrating company.

The state arbitrarily set a maximum of PEN 40,000 (USD 15,000) as the value in bond certificates equivalent to the amount of money workers can contribute to the state pension system before they retire. When workers are with the state fund, this sum is handed over by the state to the AFP, which goes on receiving members' contributions until they retire. Once workers choose a private pension company they can never switch to another system. The company offers no guarantee as to how the workers' contributions are managed, and although it is legally obliged to maintain a certain level of reserves, this does not necessarily constitute a guarantee that members will be reimbursed for their contributions if the company goes bankrupt.

In April 2007 the AFPs had 3,957,743 members and their total holdings amounted to some PEN 58 billion (USD 18.5 million).[1]

Another worrying trend is that in December 2005 fewer than 50% of SPP members actually paid their contributions, which means there was a fall in the proportion of people contributing. In 2003 some 1,336,383 out of a total of 3,192,503 members paid their contributions, while in 2006 only 1,396,534 of the 3,882,185 members did so (SBS, 2006).

To make matters worse, the payment of contributions is often interrupted. There are a variety of reasons for this, including financial difficulties in enterprises and evasion and improper retention of funds by employers.

The lack of an integrated health system

The Ministry of Health (MINSA) is the public governing body in the health sector, but strictly speaking there is no health care system in the sense of a group of institutions working in a coordinated way in pursuit of pre-established objectives. There are various different institutions that operate under the auspices of the public sector or the social security system, including MINSA itself, which has a network of health centres, ESSALUD (health care services for the armed forces and the police), the Integrated Health Insurance (SIS) system, and local government health services, which include the Municipality of Lima Solidarity Hospitals.

These institutions are financed by a combination of the state, people who have health insurance and the patients themselves. In 2000, households financed 37.3% of health care, employers 35% and the state 24% (MINSA/OPS, 2006).

In Peru, only 20% of the population has social security for health. For another 17%, those living in extreme poverty, there is a rather flimsy system run by the SIS, which was set up recently.

Social insecurity

No unemployment insurance

In 1991, the government issued a decree setting up a system called Compensation for Time of Service (CTS) whereby working people were obliged to periodically deposit a sum of money stipulated by this legislation into an open savings account at a bank of their choice. The CTS was designed to operate as an unemployment insurance system, but the amounts deposited were very small. A short time later, as part of a package of measures to reactivate the economy, it was decided that workers would be given access to one half of the funds deposited. The claim that this savings fund was meant to cover unemployment benefits lost even more credibility.

Childhood and youth without public support

In this area there are three initiatives in operation, the 2002-2010 National Action Plan for Children and Adolescents, the 2006-2011 National Youth Plan and the National Youth Policy, but they all lack funding.

The unprotected informal sector

People who work in the informal economy have no protection, which means that more than 70% of the population does not have social security. The government tried to tackle this situation in 2000 by setting up the SIS, to provide some support for children aged four and under, children between the ages of five and seventeen, pregnant women, and adults in emergency situations and other specific categories. Although this is not explicitly targeted at the informal economy, workers and micro-enterprises that have no insurance can take advantage of it if their place of residence is in one of the geographical areas that the SIS has classified as extremely poor, using data from the National Institute of Statistics and Information. In practice, most SIS benefits go to children and pregnant women.

In 2006 the SIS provided assistance for some 4,620,000 people, mostly children under 17 years old and pregnant women, but it ran into serious financial difficulties as it operates through a system of reimbursement for consultations that take place in state hospitals that are affiliated with the programme, and it is funded from the public treasury.

Financial assistance for extreme poverty

There is a state system for distributing free milk and food that reaches about six million families in the country, out of a total population of around 28 million. Since 1990 there have been many social programmes aimed at people living below the poverty line. The most far-reaching include the "glass of milk for children under seven" programme and a contribution to public kitchens from the National Food Aid Programme, which provide food rather than financial support.

According to the government there are 80 social programmes of different kinds, but these will soon be reorganized into 20 programmes as part of a decentralization process.

The government has also set a target of reducing chronic malnutrition in children under five years old from 25%, the current national average, to 20% by 2011.[2]

In 2005 the government set up a National Programme of Direct Assistance to the Very Poor – more commonly known as the Juntos ("Together") Programme – which was based on the Opportunities Programme in Mexico. It involves giving an incentive payment of PEN 100 per month (USD 1 per day) to the poorest women and families in the country, to be used as they wish. In exchange, the programme ensures that the women themselves and their children have or obtain a national identity card; that they receive pre-and post-natal medical checks, vaccinations, and growth and development checks for children; that they receive a nutrition supplement supplied by the Ministry of Health; that children attend and remain in school; and that they have access to safe water (potable or boiled). That is to say, it provides "health, education, nutrition and identity."

Juntos operates in 638 rural districts where there is extreme poverty, and it also assists families that have been affected by violence, in line with a list drawn up by the Ministry of Economy and Finance. The programme reaches some 250,000 'benefit units'.

A 'benefit unit' is a family group that lives in a permanent home and includes children 14 years old or younger and/or pregnant women. In 2007 the government announced that it would change the focus of the programme to children under five. The benefit unit's representative is the eldest mother or pregnant woman in the family group with children in the required age range. The programme makes a four-year commitment which may be extended to another four through renewable annual agreements for decreasing amounts. In 2007 the programme assisted around 250,000 families with an operating budget of some PEN 400 million (USD 125 million). ■

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1 <www.sbs.gob.pe/PortalSbs/estadistica/index.htm>

2 <www.minsa.gob.pe/estadisticas/estadisticas/indicadoresNac/download/estadodesalud339.htm>