

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	BRAZIL/CSC - Southern Cone
▪ TC Name:	Monitoring and Evaluation of Public Employee Retirement System (PERS)
▪ TC Number:	BR-T1357
▪ Team Leader/Members:	Tulio Cravo (LMK/CBR) Team Leader; Mariano Bosch (SCL/LMK) Alternate Team Leader; Ethel Muhlstein (SCL/LMK); Tania Gaona (SCL/LMK); and Krysia Avila (LEG/SGO)
▪ Taxonomy:	Client Support (CS)
▪ Date of TC Abstract:	02 Jun 2017
▪ Beneficiary:	Secretariat of Pensions, Federative Republic of Brazil
▪ Executing Agency:	Inter-American Development Bank (IDB), Social Department, Labor Markets Division (SCL/LMK)
▪ IDB funding requested:	\$ 120,000
▪ Local counterpart funding:	\$ 0
▪ Disbursement period:	18 months
▪ Types of consultants:	Individual consultants
▪ Prepared by Unit:	Labor Markets Division (SCL/LMK)
▪ Unit of Disbursement Responsibility:	SCL/LMK
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objective and Justification

- 2.1 The objective of the technical cooperation is to contribute to a larger effort of building a system to monitor and evaluate the Public Employee Retirement System (PERS) in Brazil. The technical cooperation will contribute to the organization and construction of the data necessary to design and conduct pilot studies needed to develop the monitoring and evaluation system of Public Employee Retirement System (PERS) of Brazilian state and local governments (SLGs) based on administrative data produced by various entities of the federation. The technical cooperation contributes to the construction of a centralized system at the Secretary of Pensions that will provide actuarial evaluations for about 2100 PERS and compare the numbers with the actuarial evaluations sent by SLGs to the numbers produced by the federal government. This technical cooperation will provide the Secretariat of Pensions with the tool it needs to ensure that it can effectively evaluate the actuarial situation of the pension funds and ensure the sustainability of the pension system that has more than 2100 funds. Importantly, this role of the Secretariat of Pensions regarding the sustainability of the system is fundamental as it affects directly the fiscal situation of states and municipalities. Furthermore, the technical cooperation will prepare a detailed guideline for PERS with technical instructions for the preparation of annual actuarial evaluations according to the requirements of the federal governments.
- 2.2 All 27 federal units and more than 2000 municipalities have their own Public Employee Retirement System (PERS). These systems can differ considerably but are more generous than the general pension system available for private sector workers. This has played an important role in the current subnational fiscal crisis. It is the estimated deficit in the PERS of Brazilian states was close to 1,3% of the GDP in 2015. States and

municipalities with PERS are forced by law to provide the federal government with annual evaluations of the actuarial sustainability of these plans (Law No 9.717/1998). However, it is difficult for the federal government to gauge the accuracy of these evaluations as the actuarial valuations differ with respect to the financial and demographic hypotheses as well as the cost methods used. Thus, the federal government currently does not have the proper means to monitor the PERS of Brazilian State and Local Governments (SLGs).

- 2.3 However, a system to monitor PERS can be built without state or local governments records. The federal government can estimate the information contained in SLGs records using administrative data to gauge the accuracy of the actuarial evaluations provided by SLGs. For retired workers, the project will use the history of retirements from RAIS (Relação Anual de Informações Sociais), adding up to the mass of retirees; the national registry of deaths will be used to remove individuals from the situation of retirement. For the beneficiaries of survivors' pensions, actuarial estimates will be based on a combination of: (a) retirements or active work from RAIS; (b) deaths according the national System of Mortality; (c) projections on the family constitution, according to data from the National Institute of Statistics (IBGE). These projections will be based on demographic models of population cohorts similar to the mass of SLGs employees. The construction of a similar tool has not been done before using this data and the Secretary of Pensions does not have personnel available to develop this database.
- 2.4 The technical cooperation contributes to the construction of the data that will lay the foundations to conduct pilot studies to structure the monitoring system of PERS. The data provides information that allow the federal government to produce estimates about PERS in a centralized manner; this will be an instrument to monitor social security but also fiscal issues that are heavily influenced by pension spending. This will allow the Secretariat of Pensions to effectively evaluate the actuarial situation of the pension funds and ensure the sustainability of a system that has more than 2100 funds. The role of the Secretariat of Pensions for the sustainability of the system is vital as it affects directly the fiscal situation of SLGs.
- 2.5 The construction of the dataset is the first step to design two pilot studies where actuarial evaluations based on administrative data will be compared to the actual actuarial evaluations sent to the federal government. The studies will be the base to build the system that will allow the Federal Government to continuously monitor PERS. In addition, the technical cooperation includes the preparation of a technical guideline on how PERS should carry out and report the annual actuarial evaluations to the federal government.

III. Description of Activities and Outputs

- 3.1 **Component I: Component 1 - Analysis of RAIS and other administrative data and data consolidation.** Component 1 will finance the analysis of the quality of RAIS data on active public servants of SLGs with PERS for the construction of a database. Also, this component will finance the analysis of the quality of RAIS exclusion records due to retirement and the analysis of consistency of deaths according the SIM – MS. The data will be used to evaluate the pension funds in a continuous basis. The Secretary of Pension will update the data every year after the end of technical cooperation.
- 3.2 **Component II: Component 2 - Preparation of a technical actuarial guideline.** Component 2 will finance the preparation of a technical guideline indicating how SLGs should carry out and report their annual actuarial evaluations to the federal government in order to provide accurate information and fulfill the requirements of the Federal Law No. 9.717/1998.
- 3.3 **Component III: Component 3 - Dissemination of findings.** Component 3 will finance the engagement with the research community and policy makers in order to disseminate

the findings and discuss possibilities of improving the design of actuarial exercises on PERS in workshops.

IV. Budget

Indicative Budget (US\$)

Activity/Component	IDB Funding	Counterpart Funding	Total Funding
Component 1 - Analysis of RAIS and other administrative data and data consolidation	\$ 80,000	\$ 0	\$ 80,000
Component 2 - Preparation of a technical actuarial guideline	\$ 30,000	\$ 0	\$ 30,000
Component 3 - Dissemination of findings	\$ 10,000	\$ 0	\$ 10,000

V. Executing Agency and Execution Structure

- 5.1 The technical cooperation will be executed by the IDB.
- 5.2 The IDB will be the executing agency due to larger experience accumulated on projects that are similar to this TC, which will allow the achievement of expected results. Furthermore, the IDB provides an independent and transparent execution of studies and assessments developed in this TC.

VI. Project Risks and Issues

- 6.1 There are no expected major difficulties in the execution of the TC.

VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is C.