

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**MONITORING AND EVALUATION OF PUBLIC EMPLOYEE
RETIREMENT SYSTEM (PERS)**

(BR-T1357)

TC DOCUMENT

This document was prepared by the Project team consisting of: Tulio Cravo, Team Leader (LMK/CBR); Mariano Bosch, Alternate Team Leader (SCL/LMK); Ethel Muhlstein, Operational Analyst (SCL/LMK); Tania Gaona, Project Assistant (SCL/LMK); and Krysia Avila, Attorney (LEG/SGO).

MONITORING AND EVALUATION OF PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)

BR-T1357

CERTIFICATION

I hereby certify that this operation was approved for financing under **Ordinary Capital Strategic Development Program for Institutions (INS)** through a communication dated July 28, 2017 and signed by Dimas Tejero (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$120,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, represent a risk that will not be absorbed by the Fund.

CERTIFIED BY:

Sonia M. Rivera
Division Chief
Grants and Co-Financing Management Unit
ORP/GCM

Date

APPROVED BY:

Carmen Pages-Serra
Division Chief
Labor Markets Division
SCL/LMK

Date

Technical Cooperation (TC) Document

I. Basic Information for TC

▪ 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, Team Leader (LMK/CBR); Mariano Bosch, Alternate Team Leader (SCL/LMK); Ethel Muhlstein, Operational Analyst (SCL/LMK); Tania Gaona Project Assistant (SCL/LMK); and Krysia Avila, Attorney (LEG/SGO).
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination	Client Support (CS)
▪ Date of TC Abstract authorization:	27 Jul 2017
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Federative Republic of Brazil
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program)	Inter-American Development Bank (IDB), Social Sector, Labor Markets Division (SCL/LMK). Tulio Cravo, LMK/CBR, tcravo@iadb.org.
▪ Donors providing funding (amount and Fund's name):	Ordinary Capital Strategic Development Program for Institutions (INS)
▪ IDB Funding Requested:	US\$120,000
▪ Local counterpart funding, if any:	0
▪ Disbursement period and execution period	18 months
▪ Required start date:	November 30, 2017
▪ Types of consultants (firm or individual consultants):	Firms and/or individual consultants
▪ Prepared by Unit:	SCL/LMK
▪ Unit of Disbursement Responsibility:	SCL/LMK
▪ TC Included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law see comments on par 2.6

II. Objectives and Justification of the TC

- 2.1 The objective of the technical cooperation is to contribute to a larger effort of building a system architecture 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 as input to develop the monitoring and evaluation system of PERS of Brazilian state and local governments (SLGs) based on administrative data produced by various entities of the federation. The technical cooperation will provide the necessary inputs to construct a centralized system at the Secretary of Pensions that will allow them to contrast actuarial evaluations developed by the federal government with the actuarial evaluations sent by SLGs. This is important, as pensions are a crucial component of fiscal spending and better monitoring instruments for the pension system can have a significant positive fiscal impact for the country. Furthermore, the technical cooperation will prepare a detailed guideline for PERS with technical instructions for carrying out

annual actuarial evaluations according to the requirements of the federal governments.

- 2.2 All 26 states, the federal district, and more than 2000 Brazilian municipalities have their own PERS. The PERS are more generous than the general public pension system available for workers in the private sector. This has played an important role in the current Brazilian subnational fiscal crisis. It is the estimated deficit in the PERS of Brazilian states was close to 1,3% of the Gross Domestic Product (GDP) in 2015.
- 2.3 All states and municipalities with PERS are forced by law to provide the federal government with annual evaluations of the actuarial sustainability of these plans (Federal Law N° 9.717/1998). However, it is difficult for the federal government to gauge the accuracy of these evaluations. Despite the federal efforts to harmonize the evaluations, the actuarial valuations differ with respect to the financial and demographic hypotheses, as well as the cost methods currently used. Thus, the federal government currently does not have the proper means to monitor the PERS of Brazilian SLGs.
- 2.4 A system to monitor PERS can be built without any reference to state or local governments records. The federal government can estimate the information contained in SLGs records using administrative data and use these estimates to gauge the accuracy of the actuarial evaluations provided annually by SLGs. For retired workers, the project will use the annual 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. Other sources of secondary data will be used, to improve information on retirement payments. 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 the national population surveys from the Instituto Brasileiro de Geografia e Estatísticas (IBGE), the national statistical institute. These projections will be built, based on demographic models, considering population cohorts similar to the mass of SLGs employees. The construction of any similar tool has not been done before using this data.
- 2.5 This technical cooperation contributes to the construction of the dataset that will lay the foundations to structure the monitoring system of PERS based on administrative data. The administrative data provide information that allow the federal government to produce estimates about PERS in a centralized manner, this will be a valuable instrument to monitor social security but also fiscal issues, which are heavily influenced by pension spending. The construction of the dataset by the technical cooperation 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 pilot studies will be the base to build the system to continuously monitor PERS. The technical cooperation includes the preparation of a technical guideline about how PERSs should carry out and report their annual actuarial evaluations to the federal government. This instrument might assist SLGs in the fulfillment of the Federal Law N° 9.717/1998 and can be used as an instrument for the establishment of conditionality in an IDB operation. Also, the TC is in line with the fiscal efforts that the country is undertaking and the expansion of the instrument to monitor the social security system in the whole country might be object of future support from the IDB.

- 2.6 The TC is aligned with the Institutional Strategy (UIS) 2010-2020 (AB-3008) and the development challenge that aims at improving the institutional capacity and rule of law and reducing Social Exclusion and Inequality by improving and securing the sustainability of the pensions systems. This will prevent social exclusion of the old-age adults which also contributes to a less unequal society. Furthermore, one of the principles of the Strategy on Social Policy for Equity and Productivity (GN-2588-4) is to promote interventions based on evidence. The TC will contribute to reduce knowledge gaps in the area of public pensions in Brazil and will contribute to Bank's effective engagement in operations with the country. This TC is also in line with the third priority of IDB Country Strategy with Brazil (2016-2018) (GN-2850-1), which is strengthen institutions at the three levels of government. These challenges are aligned with the Corporate Results Framework (2016-2019) (GN-2727-4) through the indicator Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery. The TC is also aligned to the Labor Market Sector Framework Document (GN-2741-8) which seeks to develop the capacity of government officials to conduct actuarial studies and support information systems on the state of social security. Finally, this TC is also consistent with the objectives of the Ordinary Capital Strategic Development Program for Institutional Development (GN-2819-1), in particular with its objectives: contribute to public policies and institutions that are more effective, efficient, open and citizen-centered. In this line, the intervention priority concerning quality of institutions and policies as well as the eligible activities regarding institutional strengthening activities of the INS, is met by the Project. The TC seeks to strengthen the capacity of federal and state social security institutions to assess the sustainability of their Public Employee Retirement System (PERS) given the potential social security reform in Brazil.

III. Description of activities/components and budget

- 3.1. The TC will include the following components:
- 3.2. **Component 1. Analysis of administrative data for social security estimates (US\$75.000).** This component will finance quality checks to better understand how administrative data should be used to develop instruments to monitor PERS. 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 national System of Mortality Information from Ministry of Health (SIM – MS). The activities financed by this component are described as follows.
- 3.3. **Sub-component 1.1. Analysis of the quality of Registro Anual em Relação de Informações Sociais (RAIS) data.** This activity will finance the analysis of the quality of RAIS data on active public servants of states and municipalities with PERS. The number of studies on Brazilian PERS is relatively small and are based on data from the Brazilian Annual National Household Survey (PNAD), which uses sampling procedures where estimates for specific municipalities or states are not possible or precise. RAIS contains information on all active public servants, as well as on the precise composition of the annual flow of public servants' retirements and the deaths of active public servants in all states and municipalities.
- a. **Sub-component 1.2. Analysis of deaths according the national System of Mortality Information from Ministry of Health (SIM-MS).** This activity will finance the use of SIM-MS administrative data to consolidate information on deaths of retired individuals. This data is paramount to provide more precise actuarial

estimates for PERS. A typology of errors will be proposed based on the fact that different problems can occur with mortality **records**. Probability tables of death of retired public servants will then be estimated for specific states and municipalities with very good data.

- b. **Sub-component 1.3. Analysis of the flow of the formal labor market for social security.** This activity will finance the analysis of the labor market database to quantify and describe the patterns of the exit from the formal labor market and entry into social security of PERS beneficiaries.
- 3.4. **Component 2. Technical guideline for the reporting of SLGs annual actuarial evaluations to the federal government (US\$30.000).** This component will list the best practices indicating how SLGs should elaborate and report their actuarial evaluations to the federal government. The activity financed by this TC is described as follows.
- a. **Sub-component 2.1. Development of guidelines to undertake annual evaluations of PERS for specific target groups considering state/municipal legislation and existing and additional local data.** This activity will finance the preparation of a technical guideline with the technical instructions about 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 N° 9.717/1998. Development of items in the guidelines to undertake annual evaluations of PERS of specific groups and state/municipal legislation (e.g. the PERS of military personnel and teachers) will be included.
- 3.5. **Component 3. Dissemination of findings and trainings (US\$10.000).** This component will finance the dissemination and trainings of the knowledge generated in the TC. This activity is described as follows.
- a. **Sub-component 3.1. Workshop to present findings to the research community and train policy makers.** This activity will finance seminars with the research community to disseminate the findings and train policy makers on how to improve the design of actuarial exercises o PERS.
 - b. **Incidentals (US\$ 5,000).** Incidentals may arise along the development of the TC given the political instability that the country may go through with presidential elections approaching. Incidentals may consist of, but not exclude, trips of new state government staff to participate in workshops and meetings.
- 3.6. This TC will be financed with US\$120,000 in non-reimbursable resources from the Ordinary Capital Strategic Development Program for Institutions (INS). The TC disbursement and execution period will be 18 months. The budget needed to deliver the products outlined above and achieve the expected output is provided by component and activities.

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding (INS)	Total Funding
Component 1 - Analysis of administrative data for social security estimates.	Activity 1.1 Analysis of the quality of Registro Anual em Relação de Informações Sociais (RAIS) data to quantify and treat inconsistencies in order to improve the headcount estimate of public servants entering into Public Employee Retirement Systems (PERS).	25,000	25,000
Component 1 - Analysis of administrative data for social security estimates.	Activity 1.2 - Analysis of the quality of the national System of Mortality Information from Ministry of Health (SIM-MS) to quantify and treat inconsistencies in order to improve the headcount estimate of public servants leaving the PERS.	25,000	25,000
Component 1 - Analysis of administrative data for social security estimates.	Activity 1.2 – Analysis of the labor market database to quantify and describe the patterns of the exit from the formal labor market and entry into social security of PERS beneficiaries.	25,000	25,000
Component 2 - Technical guideline for the reporting of SLGs annual actuarial evaluations to the federal government.	Activity 2.1 - Development of guidelines to undertake annual evaluations of PERS for specific target groups considering state/municipal legislation and existing and additional local data.	30,000	30,000
Component 3 - Dissemination of findings and trainings.	Activity 3.1 - Workshop to present findings to the research community and train policy makers.	10,000	10,000
Incidentals		5,000	5,000
Total		120,000	120,000

- 3.7. This technical cooperation will be led by Túlio Cravo (Specialist, SCL/LMK), who will be in charge of supervising the development of the analysis and all TC activities to achieve the planned results.
- 3.8. Annual progress reports and a final report will be prepared, in accordance with the current Donor and the Grants Unit requirements.

IV. Executing agency and execution structure

- 4.1. As requested by the Federal Republic of Brazil, through the Secretary of Social Security of the Ministry of Finance and approved by the Brazilian Agency of Cooperation (see Annexes), the executing agency of this cooperation will be the Interamerican Development Bank (IDB). The IDB has developed a strong relationship with the Secretariat of Social Security, in part, through the loan operation BR-L1269 to improve the financial sustainability, management and policy reform of the Regimes Próprios de Previdência Social (RPPSs). Moreover, the technical assistance offered through the Network for Pensions in Latin American and the Caribbean, RG-T2609, ATN/OC-15231-RG (Red PLAC I) and by IDB specialists to provide inputs for the pension reform

discussion, particularly on the financial sustainability front, has helped set the stage for this technical cooperation.

- 4.2. The Labor Markets Division will have the responsibility of the strategy, coordination, technical, and supervision work of this TC and the disbursement of its resources. The IDB will act as the executing agency due to its vast experience executing similar projects to this TC in Brazil and in the Region, which will enable the government to reach the expected results of this operation. "The use of the Bank-executed modality established in paragraph 2.23, in section G of chapter II of the Proposal for a New Bank Policy on Technical Cooperation (GN-2470-2) is justified. On one hand, the beneficiary country directly requested the execution of the TC by the Bank. On the other hand, the proposed activities are consistent with the priority area of the Bank's country program regarding strengthen institutions at the three levels of government, an area where the Bank has developed expertise through the BR-L1269 to support RPPSs."
- 4.3. The Bank will oversee the independence and transparency related to the actuarial studies, analysis of administrative data and spending guidelines to be conducted as part of the activities of this TC. The Bank will maintain a close and constant dialogue with the Secretary of Social Security, especially with the Subsecretary of PERS. These institutions are responsible for the support of the social security studies, and of activities described in this TC. The Office of Social Security Statistics will facilitate the access to social security data as needed through remote access
- 4.4. **Procurement.** The Bank will contract individual consultants, consulting firms and other services in accordance with current Bank procurement policies and procedures. Specifically, Section AM-650 of the Administrative Manual "Complementary Workforce" will be applied in the case of individual consultants, the Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-1) and its Operational Guidelines (OP-1155-4) for hiring consulting services of intellectual nature and the Corporate Procurement Policy (GN-2303-20) for other services.
- 4.5. **Execution and disbursement period.** The TC execution will start as of November 30. The execution and disbursement periods will be 18 months.

V. Major issues

- 5.1. The risks to executing the TC and achieving its objectives are unforeseen changes in the Directors of the Secretary of Social Pensions. To mitigate such risks, the Bank will ensure that the design and monitoring of the preparation of the activities foreseen will be coordinated with the permanent technical staff of the Secretary of Social Security, to ensure continuity in the delivery of the products. Also, to improve its sustainability, during and after the execution of the TC, the team will propose potential financial instruments and work plans through which states can execute and finance the recommendations put forward. The proposals will be in line with plans of the social security secretariat to develop pilot studies to contribute to the construction of the centralized system to continuously monitor and evaluate PERS.

VI. Exceptions to Bank policy

- 6.1. None.

VII. Environmental and Social Strategy

- 7.1. Classification C – Due to the nature of this project, it is estimated that this TC will not have a significant negative environmental or social impact. See safeguards [SPF](#) and [SSF](#).

Required Annexes:

- [Request from the client](#) & [Request from the client 2](#)
- [Results Matrix](#)
- [Terms of Reference for activities/components to be procured](#)
- [Procurement Plan](#)