

DRAFT PAPER

INTERNATIONAL SEMINAR ON PRIORITY CHALLENGES IN PENSION ADMINISTRATION

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Uruguay}

1. Introduction

Uruguay is a small country in South America that has a smaller surface to 200,000 square km and one population of 3:500.000 of inhabitants.

It is a developing country.

In spite of being nailed in a zone where most of the countries have a high rate of population increase and a population nonaged, the Uruguayan reality is resembled, in that sense, much more to the one of many European countries since its rate of natality at least does not reach to replace the one of deaths. Also the process of aging of its population comes increasingly.

As a result of this reality, our country has many challenges from the point of view of the social security.

Despite it, it has a system of social protection that has allowed it to stay historically within the countries with greater coverage rate of social security, particularly for its elders, and with a low level of poverty between that sector of the population.

In Uruguay the social security is obligatory. The activity of all worker, employers or employees, must be registered in their labor history like essential condition so that they and their families receive the benefits that correspond to them.

The present system is a mixed system, with a pillar of solidarity and another one of individual saving.

From our point of view, the strength of any social security system of a country is not only in its legal design but fundamentally its implementation and its management.

The Banco de Previsión Social (from now on BPS) implemented from year 1996, the labor history of its workers and went in a process of modernization

of its systems so that such they allowed to support the requirements of the introduced reform.

In the last years has taken place a constant increase of the amount of registered companies, workers declared and collection of contributions. Evidently it obeys to diverse causes, between which they stand out: agreements over wage improvements between employers and workers, improvement of the economy, legal reforms and improvement of the management of the collection.

The strength of its systems and the efficiency in the collection, took to the Government to choose the BPS to do the implementation of the individual income tax, from his affiliated, that was introduced for the first time in our country in 2007 July with the fiscal reform.

This is an unpublished fact at world-wide level, considering that the National Tax Agency (Dirección General Impositiva, from now on DGI) and the BPS, are independent organizations. It is the only case in which the one that compiles and processes the basic information for this tax, as well as collect it altogether with the DGI, is the social security organization.

2. Brief description of the macro contribution collecting process

Considering that stops to obtain any present or future benefit, the worker must have registered the totality of the information corresponding to his person as well as his labor life. This is necessary to feed on information systems and contribute to handle reliable information respect to these substantial aspects.

- **Enrol of companies.** As in all tax collecting process the initial and obligatory stage of all company is its recording, contributing the basic information with respect to the characteristics of its activity.
- **Enrol of personal activities.** Once the company is registered it must declare who are the workers who are going to employ, in previous form at the beginning of activity itself. Also it will declare all modification that will take place respect to that activity.
- **Presentation of lists.** Later, monthly it will declare its payroll with the information respect to the worked days and the remunerations of those workers.

All the referred information previously is put under strong rules of validation, previous to its registry in our data bases.

- **Calculation of contributions.** Once registered the payroll information, the system calculates to the company the amount of the obligations to pay.
- **Recording in the account of the company.** The amount of the obligations is registered, with the corresponding detail, in the account of the company.
- **Invoicing.** The system gives back to him, on line, the invoice with the amount of the obligations it must pay based on the declared information.
- **Payment.** The contributor can pay those obligations by Internet or in anyone of the integral agents of the extensive network of cash agents that BPS has. This is also registered in the account of the company.
- **Distribution.** As much the information at level of the people like the information at level of the companies, is registered in the respective data bases and it is used for the subsequent stages as the tax collecting process as to be the monthly remission to the Administrators Previsional Saving Funds, as the data corresponding to each individual and the provisional individual contributions collected, contributions that correspond to be spilled to the individual accounts.

Also, similar process is fulfilled with respect to the DGI relation to the individual income tax.

- **Controlling.** As part of the process of own control of all tributary administration, different processes are made to avoid and to detect the evasion as well as the subreporting declarations. The data thus obtained is processed in a similar way such as the declared by the employers and it is registered in the same bases, properly identified.
- **Debts management.** Due to the importance that the collection has for all contributing system of social security, the management of collection on the defaulter contributors is mandatory.

Also the companies that have omitted the presentation of the list or have not paid or presented/displayed the declaration of nonpayment, are managed and specially contacted in order to lead them to accomplish their obligations.

3. Main characteristics of the Uruguayan model of management

The model of BPS management has matured based on some particular characteristics:

- Obligatory social security, as much for dependent workers as for employers and self employed workers.
- Benefits only granted on the information registered in BPS.
- Contribution on real remuneration for the employees and on fictious wages for the selfemployed and employers themselves.
- Information provided by the employers. Monthly the contributors must send the payroll information and pay the obligations that BPS calculates to him.
- Declaration in electronic support. The process of elimination of declarations in paper support is being finalized. By may 2010, no contributor will be able to present/display its declarations by this route and we have a significant advance in the obligation, for all the companies, of declaration by Internet. At the moment all employer who occupies more than 20 people is forced to declare by Internet.
- Systems of support provided by BPS. As a way to facilitate the fulfillment of the obligations by the contributors, they are provided free, if the contributor wishes it, with the systems of support to make its declarations.
- Quality of the information. Special preoccupation to maintain a good level in the quality of the registered information, has been one of the keys of our development.
- Processes of control. Diverse processes of control are made. They try to diminish the deflections in each one of the stages: declaration, payment, etc. Due to it is counted on several processes that accomplish our controlling requirements.
- Collection of contributions of social security and individual income tax. BPS as much collects the totality of the social security contributions (corresponding to both pillars) like of health, as well as the individual income tax (in this last case also it can be collect by the DGI). The organization is aware of the importance of the roll as manager of the collection and the strength we have developed, thou we are continuously given, by the Government, very important tasks based on the way we have accomplished the planned goals.
- Preoccupation by the rights and duties of the workers. The management model takes in consideration for its development, the fact to belong to a social security organization and that their beneficiaries single are going to have plenary session use of their rights, in the measurement in which we are an effective and efficient organization.

- Preoccupation by the rights and duties of the companies. Also, the management model must be permanently worried about its effectiveness and efficiency, of way to grant certainty and fairness to the contributors.

4. Corporative registries

Our system tells on four important corporative registries, that they are the base of all the process and in which has been developed particularly the generation of rules. These registries are those that all the systems of the organization are going to consult to obtain the best data at the time of collecting and to grant benefits.

The implantation of the corporative registries has collaborated in improving the consistency of the information and avoiding the redundancy of data, thus like the efficiency and effectiveness in the processing of the same one.

All the collection and benefits processes have validation rules that check data upon these registries.

They are:

- **Registry of People.** In Uruguay all the inhabitants count on a unique number of identification that is used like identifier of the people in practically all type of activity, as much related to the Government as in the private activity. At the moment, this number of identification is granted in opportunity of the birth.

Since this unique number exists for a long time, the system of identification of people is totally consolidated and it is used by the BPS.

To the basic information provided by the organization who administers the unique number of identification (name, date of birth, etc.) BPS adds to it other data of their interest and so it constitutes one of the fundamental pillars of the system that is the Registry of People.

This registry also contains the information on the death of the people. It is with this identification number that the contributors inform the activity and remunerations into their workers, as well as these last ones ask for its benefits.

- **Registry of Companies.** BPS has developed their registry of contributors, the one that is taken care of jointly with the one of the DGI. This registry counts on excellent information of the life of the

companies as: denomination, address, legal nature, main economic activities, members, representatives, provisional options of the employers, etc.

When working with the DGI in regime of unique window for the registry of the companies, one works permanently improving the quality of the information contained in the respective registries.

- **Registry of Activities.** All contributor must declare to this registry, the workers who have associated as employees as well as certain information basic on this activity. This information is required by the time of granting the benefits, as well as at the time of collecting the contributions. Some of the most important data are: date of entrance, labor relation, stability of the contract, etc.

The discharge of the activity must be made in previous form at the beginning of activities, since all the workers have right to certain benefits from the first day of work. It constitutes an element more than collaborates to diminish the fraud in the collection as in the granting of benefits.

- **Registry of Remunerations.** This registry contains the remuneration (wages) obtained by each person in each job, related to every month of activity.

In order of the characteristics of the Uruguayan social security system, this registry is basic as much for the collection of the contributions, since over its data are calculated the contributors' obligations, as well as the granting of the benefits.

With the information contained in these registries the labor history of the workers is constructed.

The optimal quality of the information has allowed to develop a model of efficient management and as well as to be evolving in the implantation of the social security system, for benefit of our users.

5. Keys of the success in the management of the collection

- **Reliable and well performance information systems.** The management model makes an intensive use of diverse technological tools and, due to it, it requires that their systems are reliable and their performance adapted to a customer every time more demanding over the service levels that we offer.

Also, like important component that it helps to the trustworthiness in the information systems, it is the availability of the data. In order to assure the same one, contingency mechanisms have been developed that are periodically audited.

- **Quality of the information.** The quality of the information has been a priority from the beginning of the use of this model of management. It is particularly important, considering that the totality of the benefits of the workers and its families are going away to offer, if and single if, the information corresponding to their activity and lists are registered properly, being also important the information from payment of the obligations.

Due to it a set of rules for the validation of the information, really strong, has been developed for each system. The information is validated in the entrance, reason why it diminishes the later work of detection of errors, doing more efficient the management.

The experience indicates that the process of validation of the information is an important point for the development of the management models. The initial effort in identifying and developing the validation rules, totally will be compensated at the time of being able to use the information, obtaining valid results.

In this sense, BPS identifies fundamental element in the efficiency of our model, the fact that the contributors must pay their obligations with the invoice emitted by our systems. It makes unnecessary the processes of comparison and claim of differences, so developed in some organizations of collection around the world.

- **Facilities adapted to the users.** This characteristic is related to the development of tools for the selmanagement of contributors, aspect in which we have been working very strongly in the last years.

If we try that the employers offer us suitable information, in time and quality, is necessary to offer the corresponding tools in order to facilitate their task.

All administrator of taxes or social security contributions, knows very well that it is fundamental to try to obtain that the fulfillment of the obligations to be easy, beyond the own complexity of the legal system (particularly in Uruguay, it is extremely complex).

It implies to have different instruments to be used by contributors of different characteristics.

It is necessary to remember that in our country most of the companies are really small and the organization does not have to

generate an additional cost to them for the fulfillment of her obligations.

- **Gradualism.** It is known, at list in Latin America, that the Uruguayan do everything in gradual form. In this case, we understand that this has been important part of the success of the collection management. We give a prudencial time to the contributors so that they adapt to the changes in the management processes, before returning them obligatory.

6. Some particular situations

The existence of some groups of employers with special characteristics faces to us diverse challenges.

One of those characteristics is the social vulnerability of the workers of these sectors.

It is so in Uruguay the following groups identify themselves so as the need to consider at the time of adapting different aspects from the management model, or by the fulfillment risk which they have associated or by the greater difficulties to interact with the bureaucracy of the organization.

These groups thus are identified in most of the countries, beyond the own characteristics of each social security system.

The groups that we identified are:

- A. Self employed
- B. Workers of the domestic service (housekeeping)
- C. Workers of the construction
- D. Workers of the rural sector

A. Self employed.

In Uruguay the social security is not an option and, of as much, to work legally, it is due to be affiliated so much with the DGI as well as with the BPS.

In order of the characteristics of our economy, a small one, the majority of our contributors are companies of a single person.

In our regime, the self employed workers as well as the employers for themselfest contribute on fictious amounts, being able to decide on an

ample scale of values of quotation, although normally they contribute on the required minimums.

Not always these workers become aware of the benefits that reports for themselves and their families, the affiliation to the social security.

Often they value negatively its cost, without considering the economic value of the present and future benefits.

Since these people must support the financing of their own affiliation, the risk of non declaration is more important in those economic activities with low income levels.

Despite it, in the last years important reforms have taken place that have taken to an increase in the quotation of this group.

- a. Monotribute. The creation and later extension of the reach of the monotribute, have had a significant impact for contributors of low income
 - i. They can only decide on this certain tribute contributors whose economic income and equity are reduced.
 - II. Also the type of activities they can develop is limited, admitting mainly commercial activities in the public thoroughfare or locations of reduced dimension, including by exception some type of services.
 - III. This tribute amount, collected by the BPS, is really low. To the being a substitute tribute of all the obligations with BPS and DGI, is really advisable for activities from reduced economic dimension.
 - IV. This tribute not only includes companies with only one owner but also it admits some restricted type of society.
 - v. The implanted Fiscal Reformation in July 2007, introduced important changes in this tribute, extending its reach. From it, the affiliation was increased considerably of contributors by this regime.

In conclusion it has been an important toolt of formalization of the group that occupies to us.

- b. The Reformation of Health. The reform of the system of health coverage introduced in January of 2008, granted medical cover to the workers' children, and also acted to orchestrate formalization.

It is understood that this it has been another factor that it took to this group to improve its affiliation to the system.

In the case of unipersonal companies and societies without employees, given their special characteristics and lack of administrative infrastructure, BPS has understood essential to facilitate the payment of the contributions of social security, for which from many years back it maintains a system by means of which the list is generated automatically and afterwards the invoices are printed.

This invoice is sent monthly to the address declared by the contributor, reason why he himself does not have to make any specific contact with the organization, unless it is necessary to modify some of the data that he has registered.

The payment of the invoice can be made by Internet or through anyone of the cash agents.

This instrument particularly is valued by our contributors, for those who this invoice, in addition, operates like reminder of the due date of the obligations.

B. Workers of the domestic service

In our country this activity is identified like dependent work, reason why all person who occupies workers to her service for accomplishment of domestic tasks (maids, nannies, etc.), is forced to declare it and to contribute to the BPS.

Although in the last years the number of registered employers and workers has improved significantly, we identify it as a vulnerable sector and with particular difficulties for its identification.

It is not easy to control the fulfillment of the obligations of this group, unless the involved workers exert their right to denounce an irregular situation, since our laws, like those of many countries, protect the enter to any particular home unless a judge order exists that qualifies it.

Also for the employers of these workers we facilitate to the maximum their contributions tasks before BPS, being sent the invoice to address (being able always to obtain it by Internet) as well as different facilities for all modification of the registered information.

A fluid communication by means of specific warnings, or through the invoice or by postal mail stays, in attention to the lack of experience and bureaucracy knowledge that these contributors have.

C. Workers of the construction

The declaration of the workers of the construction sector who carry out work tasks great, visible from the public thoroughfare, etc., does not present/display greater difficulties.

However, there are many situations of works of maintenance that take place inside doors and are very difficult to detect.

The amount of the contributions of this sector are significant since our laws force to pay to BPS some wage benefits as semestral gifts and vacacional wage, being BPS later that pays the benefits to the worker.

It is to emphasize that the work in the construction always is considered done by an employee and is responsible by its contribution the holder for the building.

The entailment to a holder usually is by a limited time, by which it is fundamental for the due protection of these workers, the declaration of its services in time.

As it is a mixed social security system, the nonversion of the contributions to the individual accounts of the workers, will affect its future retirements unfailingly.

D. Workers of the rural sector

Although we included it within special groups, given to the particular design of the contribution system in this case, where employers always must pay upon the extension of land they have, does not identify themselves like a group of greater fiscal risk.

Despite it, as they live far away from town, they are identified to have special considerations at the time of the management the contributions collection, being the main one that they must declare and pay their contributions every four months.

7. Pending challenges

Although we considered that we have advanced significantly to the hour of the improvement of the management of social security contributions collection, still there is a lot of work to be done.

From our point of view we must deepen the actions that take to also generate the corresponding cultural changes, so that the fulfillment with the social security is a value appreciated by each individual, not only by the own benefits (present or future) but by which it means for the whole society. The

social security was added to elementary and secondary schools, as an obligatory subject, and average education has already been gotten up, but this very important tasks will give us results in the medium and long term.

We must continue with greater actions of diffusion of rights and obligations of the different actors from the system, specially pointing at employers and workers of the most vulnerable groups and than, by as much, require more of the social protection.

A pending important step is the notification of labor history, with the formalities that the law requires.

It is understood that this step will help to improve the voluntary fulfillment still more, anticipating the actions of control corresponding to the irregular situations detected by the own workers.

At the moment we are working in incorporating systems of support to the management of the control and management of default collection, essential to improve our effectiveness and efficiency in those areas.

We look forward to incorporate of a system of selection of cases, to allow us, more accurately, to identify situations in which exists a risk of significant breach, adding greater fiscal intelligence to this task.

Nowadays we work with datawarehouse systems, that it qualifies to us to execute an operative plan of control, with an important level of analysis and definitions on the operative actions to be held. Although we considered that the development observed on the elaboration, execution and evaluation of the control plans in the last years, have allowed to reach a significant change in the management of the tributary control, with benefits for the contributors an BPS itself, for it diminished significantly the time that takes to finish a control operation and, in order to that fact, it also diminished the amounts of monetary obligations determined as a result of those operations. The perception of the risk detected by the contributors, is also understood to help the improvement of its conduct.

Despite it, in this subject the activity must be constant and to adapt itself quickly to the modifications as much of the economic reality as of the conduct of the contributors.

As far as the coercive collection, we must work impelling new laws that allows to tell us to have more tools in administrative level and to be able to adopt stronger actions respect to the bad consequently contributors.

In this way we will have completed our management cycle.

Montevideo, January, 2010.