

## **The Public Transfers Flows between generations: Uruguay (1994)**

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# INTRODUCTION

- The aim of this study is to present the estimations of the National Transfers (NT) flow accounts focusing on public transfers.
- Because lacks of information, we used data of 1994

## Uruguay: Summary

- Small and low densely populated country: 3.4 million people in 176 thousand km<sup>2</sup>.
- 92% live in urban areas, 50% reside in the capital
- Economy relies on agriculture and agri-industry (66% of exports).
- Services are 60% of GDP.
- Long tradition of public services and benefits: education, health, pension system.
- Social public expenditure was on average 25% of GDP between 1999 and 2003. Spending in pensions was around 17% of GDP.
- Some deterioration in living standards of children

## Uruguay: Demographic background

- Low and decreasing trend of fecundity rate: 2.04 per thousand in 2005 (3 per thousand for LA during 1990-1995).
- High and rise trend of life expectancy: 76 years old in 2005 (69 for LA during 1990-1995).
- Advanced demographic transition stage.
- Important emigration of working age people during the last four decades
- Low population growth rate: 7.1 per thousand during 1995-2000 (15.6 for LA)
- One of the most elderly population in LA.
- In 1996, the weight of elder than 60 years old was 17% of the population whereas children less than 14 years old was 24%

## 2) The tax-benefit public system in 1994

- *BPS* collects contributions and administers the social security system
- Composition of revenues:
  - 67% taxes
  - 33% contributions to the social security system.
- Taxes:
  - 48% indirect taxes (Value Added Tax (VAT) is 31%)
  - 19% direct taxes
- Contributions: in 1994 were 65% of *BPS* resources and other public resources covered the deficit.

- Contributive programs:
- *IVS Program:* covers the risks of retirement, death, unemployment, maternity and disability. The old age and survivors pension is the most important component of the program
- *DISSE Program:* to support private workers during sickness and to financing contributor's provision of health care in a private institution.
- Assistance programs:
- Low share in social spending. The main one is the (non-contributory) pension to needy elderly and disabled. In 1994, contributory pensions were 95% of total pension and assistance ones were only 5%. These figures have been quite stable.
- However, in the middle of the 1990's, 23% of the spending on contributory pensions was not supported by past contributions

## Educational system

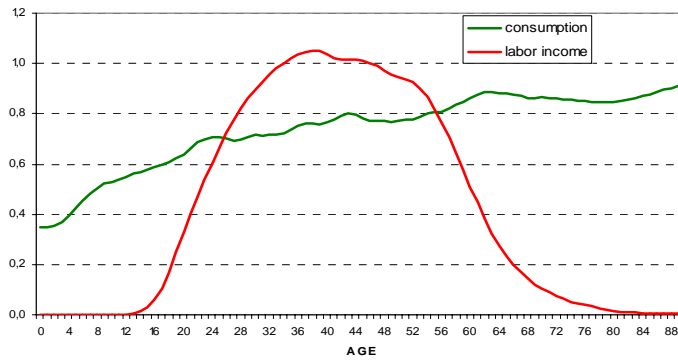
- Four cycles: elementary school (six years), junior high school (three years), senior high school (three years) and tertiary level.
- Attendance rate: 98% for children, 70% for teenager and 34% for youth. However, only 16% of 18-22 youth were attending tertiary education.
- The public sector share: 78% of the students in the elementary level, 86% of high school level and 96% of university students.
- The minimum working age is 14 years old and child labor under this age is almost inexistent. Special labor norms regulate work between 14 and 17 years old for which the participation rate was 20% in 1994.

## Health system

- In 1994, 94% of population had some kind of coverage. Around 40% was entitled in public health care institutions and 54% in private ones.
- Attendance in public sector is free only for the poor. Around 46% of the beneficiaries were below the 20-percentil of the income distribution.
- Almost all of the private provision is offered by a mutual insurance system (IAMC) which requires the payment of a monthly fee. The social security system finances the monthly fee of contributors.
- In 1994, 30% of the IAMC affiliates were supported by the social security system. (In the NTA accounts, we treat them as public beneficiaries).

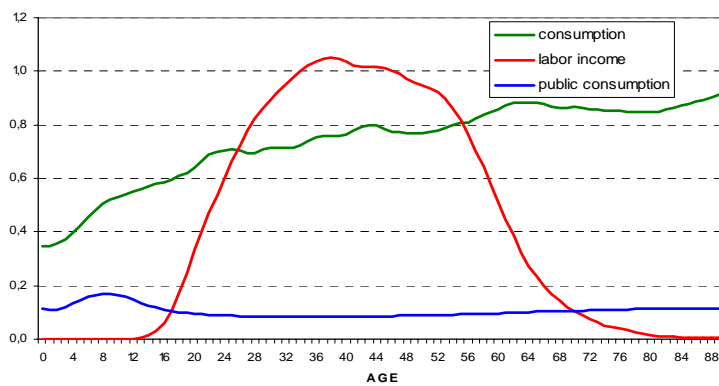
## 3) Results

Figure 1: Age profile of labor income and consumption. Values related to the 30-49 years old mean labor income



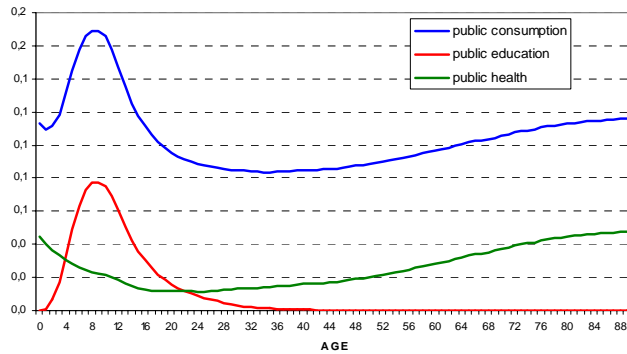
Span of 30 years of life-cycle surplus, between 26 and 55 years old  
 Labor income has a peak in the late thirties while consumption has an increase trend through ages.

Figure 2: Age profile of labor income, consumption and public consumption. Values related to the 30-49 years old mean labor income.



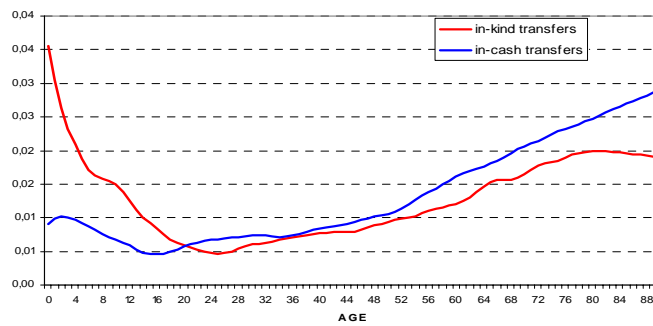
Public consumption is lower than private consumption for all ages  
 Public consumption is quite more important in childhood

Figure 3: Age profile of public consumption. Values related to 30-49 years old mean labor income.



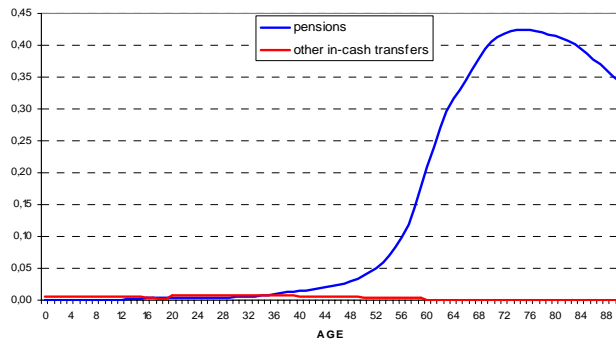
Responds to public education profile until 30 years old: increase during childhood with a peak at 9 years old, and then declines  
 Responds to public health profile in middle and older ages: it grows from 35 years old

Figure 4: Age profile of public health transfers. Values related to 30-49 years old mean labor income



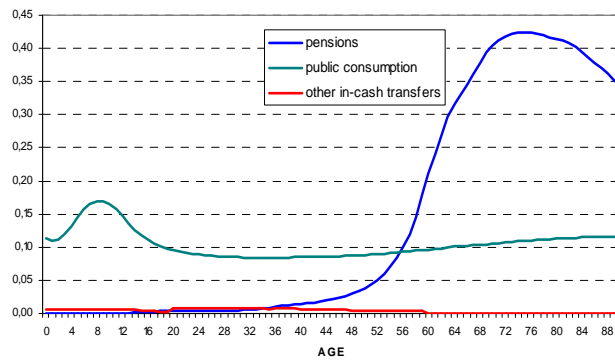
In kind transfers: more important for early ages, especially in the first stages of childhood.  
 In cash transfers: especially high for people older than 50 years old.

Figure 5: Age profile of benefits from social security system. Values related to the 30-49 years old mean labor income



Pensions (contributive and assistance) are the most important transfers. Between 70 and 80 years old, exceeding 40% of the average 30-49 labor income.

Figure 6: Age profile of benefits from social security system and the public consumption. Values related to the 30-49 years old mean labor income



Top values of per capita pensions are quite higher than top values of per capita public consumption.



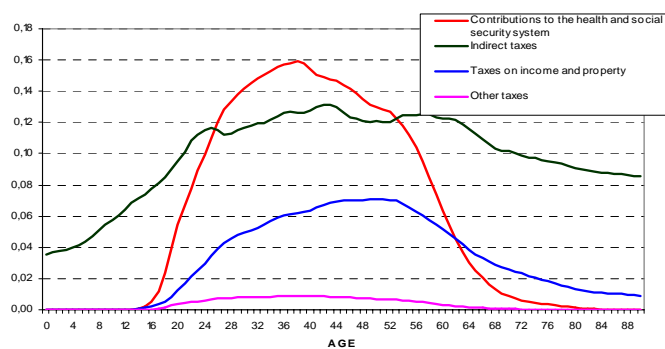
Table 1: Share of different inflow public transfers in NTA aggregate total by age groups. In percentage.

	0-17	18-25	26-55	56-69	70+	Total
Public education	31	13	1	0	0	8
Public Health Care	17	11	14	8	8	12
Public Pensions	0	3	18	72	79	40
Other Social Protection	4	6	6	0	0	3
Collective Goods and Services	48	66	61	19	13	37
Total	100	100	100	100	100	100

Pensions are 40% of total public inflows, and more than 70% for older than 56 years old

Public education is 31% of public inflow for less than 18 years

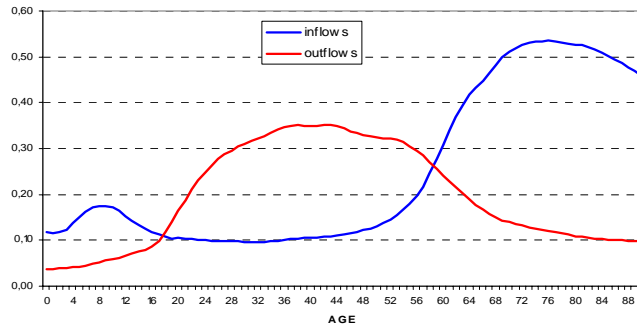
Figure 7: Age profile of taxes and contributions. Values related to the 30-49 years old mean labor income.



Taxes and contributions are mainly paid by ages ranged between 26 and 65 years old.

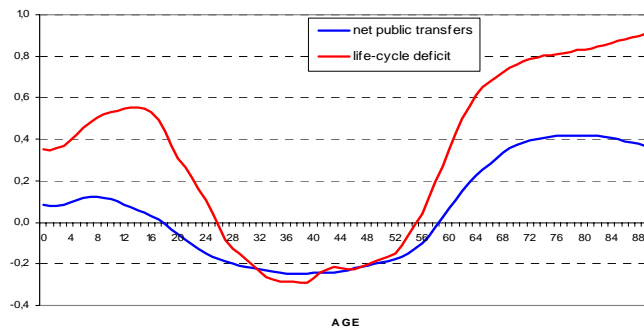
Unlike contributions, taxes on income and property are paid also by elderly. Indirect taxes show lower values for ages less than 25 and more than 65, due mainly to VAT exemptions of education and health

Figure 8: Age profile of public transfers inflows and outflows. Values related to the 30-49 years old mean labor income



Childhood ages: highest values equivalent to 17% of the 30-49 years old labor income  
 Ages greater than 70: highest values equivalent to 53%

Figure 9. Age profile of the life-cycle deficit and net public transfers. Values related to the 30-49 years old mean labor income



When considering net transfers:  
 Childhood ages: highest values equivalent to 12% of the 30-49 years old labor income  
 Ages greater than 70: highest values equivalent to 42%

Table 2. National Transfer Flow Accounts for Uruguay in 1994 (mean per capita pesos)

	0-17	18-25	26-55	56-69	70+
<b>Lifecycle deficit</b>	<b>16075</b>	<b>8137</b>	<b>-6965</b>	<b>16401</b>	<b>28200</b>
Consumption	16392	22669	25422	29398	29054
<i>Public</i>	4622	3142	2913	3352	3810
<i>Private</i>	11769	19527	22509	26047	25244
Less: Labor income	317	14532	32387	12998	854
<b>Age reallocations</b>	<b>16075</b>	<b>8137</b>	<b>-6965</b>	<b>16401</b>	<b>28200</b>
<b>Asset-based reallocations</b>	<b>-4365</b>	<b>-5658</b>	<b>16105</b>	<b>21258</b>	<b>18574</b>
Public	144	489	-72	-473	-313
<i>Income on assets</i>	-92	-240	39	273	161
<i>Less: saving</i>	-236	-729	111	745	473
Private	-4509	-6147	16177	21731	18887
<i>Income on assets</i>	18	1994	16171	17510	9233
<i>Less: saving</i>	4527	8140	-6	-4221	-9653
<b>Transfers</b>	<b>20440</b>	<b>13795</b>	<b>-23070</b>	<b>-4858</b>	<b>9626</b>
Public	2900	-3188	-7290	5079	13778
Private	17541	16983	-15780	-9936	-4152

Financing sources of life-cycle deficit vary among age groups  
 Less than 18: private transfers.  
 More than 55: income on assets  
     56-69: net transfers outflow via private transfers  
     more than 69: net transfers inflows via public transfers

## 4) Conclusions

- Consumption is higher than labor income for younger than 26 years old and older than 55.
- One of the main features is that dissaving plays an important role in elderly. In turn, deficit in childhood is mainly supported by private transfers whereas elder are net receivers of public transfers but net givers through private channels.
- More specifically, elderly receive in-cash public transfers through the social security system and contribute to the support of younger generations through intra and inter-household transfers.
- Childhood is highly dependent of family support.

## 5) Discussion

- Estimations for a recent year: expenditure survey in 2005-2006.
- The comparison of 1994 and 2006 is relevant:

social security system reform in 1996  
recent pro-poor programs in 2005.