

No. 30, April 2014

Private Pension Plans in Brazil as an Alternative for Funding of Medical Expenses

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Introduction

Greater longevity coupled with declining rate births is a path of no return. All countries thus need to adopt policies to protect and care for the elderly population.

In Brazil, as in the rest of the world, we have been facing a number of challenges in offering protection to the elderly population. Various studies show that the Brazilian population, which was predominantly young 20 or 30 years ago, has been ageing quickly. It is estimated that in 2040 life expectancy at birth will be 80 years.

There is no doubt that financial education and capitalisation of funds, associated with other measures, may significantly help to provide welfare to this population.

This article aims at demonstrating that full access to health for the elderly people, at the time they need it the most, depends on a set of factors and the participation of all players involved:

- (i) the state, by making more investments, granting tax benefits, better regulating the market, and also offering minimum conditions for the provision of health care in the public system;
- (ii) health insurance companies/providers, by offering quality health care and a wider range of products, especially to the elderly population;
- (iii) companies, by promoting awareness among its employees about the need for adoption of preventive measures and capitalisation of funds, and also helping pay for the health-care expenses of its employees; and
- (iv) beneficiaries, of either public or private health care, by having more proactive attitude towards the problem, not only demanding the state and the carriers to do their part, but also adopting preventive measures to ensure access to health in old age.

Financial planning and capitalisation: how to combine private pension plans and health-care plans?

The main feature of a pension plan is the accrual of funds so as to make it possible to achieve a certain long-term goal. This goal may be, for example, to continue funding a benefit to supplement benefits provided by social security, but it may also be to fund education expenses for a child, a nephew or niece or a grandchild, to undertake a personal future project or even to finance health-care expenses.

Therefore, what defines a private pension plan as such is not the allocation of funds accrued by the participant. The real allocation does not matter to distinguish a private pension plan from the other forms of capitalisation. What differs between a private pension plan and a mere investment or accumulation of funds is the purpose given, since the beginning, to the funds that will be accrued in the long term.

In view of the scenario above, there is no doubt that long-term savings to pay for medical expenses, combined with other measures such as financial education, prevention, improvement in the quality of life and public policies, etc., is an excellent alternative. And the private pension plan can be a way to make these savings.

In Brazil, considering that there are many companies that offer health care as a benefit to their employees—which, due to Law No. 9656/1998, raises the possibility of extending the benefit to the employees after retirement, should the legal requirements be observed—capitalisation is currently an excellent solution for financial planning.

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For companies, to implement a private pension plan to face health care costs may be a powerful tool for efficient planning. Although nowadays the cost of corporate health plans are rapidly increasing, such plans are still an important benefit that otherwise will be excluded from the benefits package usually offered by the companies given the scenario already described.

Depending on the case, the private pension plan can be especially designed and combined with the corporate health plan. Thus, the company and individuals can reduce the costs taking advantages of the existing tax benefits.

Capitalisation does not reduce medical expenses per se, but it can be, depending on the plan structure, an incentive for financial planning, especially at the stage the use of medical services will become even more necessary, that is, in old age.

Health care is also an element that may reinforce the use of pension plans as an element of attractiveness and retention of employees. For example, health-care and health plan expenses may be associated with vesting rules that may be based on the perspective of a very long-term relationship (longer than usually adopted at this moment).

In this context, the development of new products, and even solutions, especially structured and built to suit the needs of the recipients may contribute to:

- (i) cost spreading, so that funds are accumulated during the productive phase of individuals and used to provide welfare to the elderly population;
- (ii) awareness-building among individuals and companies with regard to the need to save up for the old age;
- (iii) market development, with the creation of more flexible and fitting products that can associate capitalisation with other measures to help reduce costs and/or provide protection/welfare to the elderly people, especially those highly dependent; and
- (iv) reinforcement of the use of pension plans as an element of attractiveness and retention of employees, over the long term.

Conclusions

It seems clear that it is no longer affordable to wait for the approach of the inactivity period to start thinking about how to make a living after retirement and how to support the health-care costs that will be higher than in the activity period, especially when the elderly population is expected to exceed 60 million people in less than 40 years.

In view of the whole scenario, there is no doubt that saving up to pay for medical expenses is an excellent alternative if combined with other measures. And the private pension plan is a good and proper way to do it.

Naturally, the capitalisation does not reduce medical expenses per se, nor the need for market adjustments, but it enables individuals to better plan, especially for the old age, when medical services are needed the most.