Chapter 14
The Pension System in the Ecuadorian Social Security Institute (IESS): Analysis and Perspectives in the Economic and Legal Fields

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ABSTRACT

The financial stability of millions of older adults around the world rests on the shoulders of well-functioning pension systems. For this reason, the sustainability of such systems is one of the most important challenges facing states, especially in the face of low birth rates and increased life expectancy. Hence the growing importance of the debate over taxation and economic policy. This study presents the historical backgrounds of the pension system in Ecuador to give an all-encompassing view of its present configuration, and examines the relevant data of the factors that affect the pension system with the purpose of evaluating the sustainability of the Ecuadorian pension system in the long term. Both the historical and evaluative aspects of the study lead to an analysis of fiscal policies, the political relationships of the system and numerous exogenous processes that reveal aspects of the system that lack the expected solidarity.

INTRODUCTION

The pension system has become an indispensable worldwide institution due to its catalytic function as a guarantor of a dignified future for older people who have completed their working life in active

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employment (Tuesta, 2017). Currently, this system is facing great challenges at the global level, despite the fact that pension systems differ considerably from country to country; the systems in the Nordic countries are generally considered the most advanced and secure (Aidukaite, Hort & Ainsaar, 2022). The differences are caused by various circumstances, such as varying social and cultural developments faced by contemporary society, together with policies of privatizations and unequal levels of spending (Development Bank of Latin America, 2020). Ecuador is no exception and is one of the countries in which this problem can be most clearly seen (Knell, 2018; Barrientos & Malerba, 2019). In fact, the current pension system in Ecuador harbors dysfunctions that compromise financial stability (Hyde & Shand, 2017). Therefore, there is a clear need to carry out an economic and legal analysis of the Ecuadorian Social Security Institute with special emphasis on pension insurance.

It is first necessary to define what this institute is and what function it has. The Ecuadorian Institute of Social Security, better known by its acronym as IESS, is an independent public body that is responsible for offering services and managing economic resources. These are mostly derived from contributing taxpayers, but also, in exceptional cases, from public financing from the state coffers in order to maintain the services it offers to the population (Durán Valverde, 2013). The main function of the IESS is to manage mandatory national insurance, which in turn is part of the national social security system. Its mission is to provide the public with health coverage in case of maternity, disability, illness and death. Nonetheless, it should be noted that not all members of the public who receive pensions are necessarily affiliated, as in the cases of the national police and the armed forces, which are part of the national social security system but not of the IESS (Casalí, et al., 2021). Pension insurance aims to ensure a dignified future for retired contributors through a scheme of monthly remunerations in proportion to the contributions that the pensioner has made throughout their working life (Actuarial Directorate, Research and Statistics of the IESS, 2020). In fact, in Ecuador "the average amount paid for retirement is $590 dollars, which represents a high pension with respect to the wage contribution, and which currently does not correspond to the demographic evolution that the country is experiencing" (Ibarra, 2021). In other words, Pension insurance is a process for providing a regular monetary payout for retirees (International Labour Organization, 2020). Most commonly this pension is administered and provided by the state, but private, non-governmental institution can also be commissioned (Coordinating Ministry of Social Development, 2016). Consequently, pension insurance can be regulated by three classes of entities—public, private and mixed—which can be administered in four different ways: capitalization pensions, national accounts pensions, self-enrollment pensions and pay-as-you-earn pensions. (Central Bank of Ecuador, 2004) This last case is the most common way to pay and administer pensions worldwide as it requires workers, from the beginning of their working life, to contribute monthly to the pension system (all deducted directly from the employee salary) (Contreras-Jaramillo, 2018).

It should be noted that the pension distribution system managed by the Ecuadorian Social Security Institute is raising doubts as to its stability due to numerous exogenous factors, chief of which is the increase in the life expectancy beyond retirement age (Economic Commission for Latin America and the Caribbean, 2009). In light of this, there is a clear need to propose certain corrections to the current system in order to secure the financial sustainability of retirees (Marotta, 2019). This study undertakes to: 1) make a critical and proactive analysis of the Ecuadorian pension system; 2) identify the risks to which the pension system is subjected in the current economic climate and the context of globalization; 3) compile a syllabus of the various inconsistencies of the contemporary pension system that will serve as a preamble to the understanding of public policies that affect the sustainability of pensions.