Compensation for Length of Service: The Case of Latin America Based on the Release of Intangible Social Benefits Promoting Economic Reactivation Post COVID-19

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Abstract

Reactivating the economy during a health crisis involves initiatives to enhance market activities both domestically and internationally. Various governments around the world have strategically decided to act, taking into consideration employment benefits. This research aimed to determine economic satisfaction in the Latin American population as a result of the release of Severance for Time of Service (Compensación por Tiempo de Servicio - CTS), an indicator of intangible labor performance. This study employed a descriptive-analytical methodology with a quantitative, non-experimental transactional design, focusing on various countries in Latin America with emphasis on Costa Rica, Colombia, Chile, Peru, and Ecuador. The study applied a survey through a virtual form and concluded that 13% lacked or were unaware of the benefit of their time of work, 54% agreed with the measures of their government, and 14% showed disinterest in the calculation of the CTS. It was concluded that strategic economic reactivation, in tandem with employment benefits during a crisis, had a positive effect on the economy of active workers during the pandemic.

Keywords: Reactivation, labor benefits, satisfaction, compensation, services
1. Introduction

Once again, the world is submerged in an economic recession, often referred to as a crisis. However, this differs from global financial impacts, as employment decreased more significantly during the pandemic crisis, while telework was less prevalent. Low-income workers have suffered more than higher-income workers, suggesting that these two recessions had significant distributive impacts (Shibata, 2021). The labor sector is a key factor to consider when the economy is affected by an economic crisis. Ryder (2020) asserts that international labor standards provide an efficient foundation for politically oriented responses aimed at sustainable and equitable recovery. In this context, promoting a policy based on the promotion of full and productive employment must include measures that achieve economic stability and possess various types of resources.

On the other hand, Sjoquist & Wheeler (2021) noted that the reduction in employment was primarily a global response to COVID-19 cases. The decrease in work capacity is not a recent issue. However, the number of unemployed people reached truly astonishing levels, representing one of the most severe economic issues with long-term consequences, including a sense of hopelessness and adverse reactions. Therefore, the lack of work has made seeking employment more significant and useful for workers, as the problems generated by the COVID-19 virus have forced a thorough examination of the possibility of recovery (Venkatesh, 2020).

With respect to the public policies that countries have proposed to overcome the economic crisis, there are assistance strategies based on the labor benefits granted by governments of various nations. One of the countries that adopted this initiative, through its Legislative Decree No. 488 of 2020 (articles 3 and 6), is Colombia. In its measures to counteract the economic crisis, according to Legislative Decree No. 488 of 2020 (articles 3 and 6), workers, whether dependent or independent, who have had their income reduced, can withdraw monthly, an amount that compensates for the reduction made so that it is maintained and is not affected. In the event that workers become unemployed, they can access a protection mechanism granted by family compensation funds, according to the expectations of affiliation time and minimum contribution, corresponding to two minimum wages ($475 USD), which will be distributed in three monthly payments. This will allow the continuity of their economy and the financial security of the population (Ministry of Labor, Colombia 2020).

In the same context, Chile, with the purpose of recovering and reactivating its economy, provided financial aid to Mypes businesses, establishing certain measures in accordance with labor benefits. However, the pandemic has prevented the performance of labor activities, which has spurred the stock of labor contracts based on the measures of the authorities, allowing workers affiliated with unemployment insurance to pay according to the funds that each employee maintains in the Administration of Unemployment Funds (AFC). This will replace the payment of employee remuneration; the benefit amount will be calculated considering the percentage of the contribution earned in the last quarter of the year in which contributions are recorded and financed with the individual account in the AFC of each worker. Based on the employer’s and employee’s contributions according to percentages established by law, in the event that the amount disbursed is insufficient, the payment will proceed to finance over the Solidarity Unemployment Fund, which is made up of contributions from the Chilean state and the employer (International Labor Organization, 2020).

With the aim of reducing the negative economic effects as a consequence of COVID-19, Costa Rica implemented various measures that will enable the reduction of demand and production, which means an increase in demand and production, as it is fundamental to safeguarding economic activity. Among them are the approval of projects for people most affected by the emergency, such as the delivery of up to €200,000 monthly to 375 thousand families and the release of a fund of €900,000. Monge (2020) suggested that the government of Costa Rica, on March 31, promulgated the Executive Decree N° 2272, stating that employees who have been dismissed or are part of the suspension of the work contract will be able to count on their Labor Capitalization Fund; a fund constituted by companies obliged by law, corresponding to a salary for the year worked, which will be credited in
the pension operator that the worker chooses; otherwise, the country's financial institution will be managing their fund, being this available to the worker when their labor relationship ends for any reason, employee's death and every five years if the worker remains in the same labor relationship.

In the case of Peru, regarding policies related to labor benefits, the government established the partial withdrawal of S/. 2000 under certain conditions from the AFP fund established in the Emergency Decree 038-2020; likewise, it was confirmed that 25% of said funds could be withdrawn, up to S/.12,900. Compared to other Latin American countries, Peru has also experienced an impulse for economic recovery through labor rights, as indicated by the Ministry of Labor and Employment Promotion (MTPE), except for the regime in which it is found. The implementation of new economic policies was considered imperative, among which the delivery of bonuses to independent workers stood out for benefiting 780 thousand households, a subsidy that does not exceed 35% of the monthly salary. Similarly, there was the initiative to compensate for service, where the Government of the Republic presented a strategy to reactivate economic activity.

In relation to the previous paragraph, Sánchez (2020) suggested that, through emergency decree N° 033-2020, compensation actions that benefit workers are determined based on labor benefits, specifically in the Compensation for Time of Service (El peruano, 2020), authorizing workers to freely dispose of the funds of the intangible amount for CTS deposits provided in Law N° 30334, up to the sum of S/. 2,400.00; therefore, financial system entities must disburse the corresponding amount, belonging to the worker through the format, consequently achieving in Peru that, with the application of said measure, the economy to a certain degree follows its course, under factors such as consumption, saving production and investment, stabilizing the finances of the Peruvian population (Talledo, 2020).

This research is significant from a social aspect because it provides information on economic reactivation. Based on the measures taken by the state in consideration of labor benefits and anticipating society in terms of using their funds to achieve better economic stability in times of crisis, it is also practical since, through this research, it will be shown how the degree of satisfaction of citizens with the measures indicated by the state can be determined. Taking into account labor benefits is also vital for the methodological aspect because it will help in the development of subsequent research and, in turn, will generate more focused knowledge on the withdrawal of their labor benefits. Likewise, an instrument will be applied that contributes to collecting and analyzing data for the development of the investigation, obtaining results and possible solutions.

During the execution of the research, the following general problem was established: What is the degree of economic satisfaction of the Latin American population as a result of the release of the Compensation for Time of Service (CTS), an intangible labor benefit?

For the reasons stated above, the objective is to determine the economic satisfaction of the Latin American population as a result of the release of the Compensation for Time of Service (CTS), an intangible labor benefit.

Labor benefits are the benefits that companies offer, voluntarily or by legal decision, that seek to solve workers in conflict situations, which makes it possible to assist the work center and the success of its objectives in the labor field. Companies grant certain rewards to their collaborators to achieve the fulfillment of their objectives as additional payments to their salaries. In agreement with the law, based on the policies of each organization that hire people according to the required profile to cover their job positions, it is through a contract where responsibilities are assumed by both parties, such as the employer and employee. These benefits are stimuli that, by law, the employer must pay their employees the assigned salary for extra activities that have been carried out for the benefit of the organization (Torres, Arce, & Ibargüen, 2020).

Social benefit systems are framed in the security of the population of a country, where the benefits that will be had in the minimum way are not neglected; it is justified that there will be no lack of work, that is, that economic advantages and disadvantages will not be assumed to provide the service or pay for it in such a way that through a social policy responds to the expectations of the social development of people, seeking social equity between collaborator and company (Insaurralde, Castro, & Silva, 2020).
In the same context, Estupinan et al. (2020) examine the role of Sarcov disease in the labor supply in India and assess the impact of first-order supply due to a decrease in job offerings associated with protection and social distancing criteria adopted by the State of India. To assess the broad impact of the Sarcov disease in the labor field in India, a thorough study was carried out on the changes in the different job offers by type of work area, industry and occupation. It was found that the remunerations of the collaborators were reduced on certain occasions from the appointed to the contracted, estimated at 338 billion rupees.

On the other hand, Romero, Lora, and Morelos (2020) assert that every organization requires its executives to make decisions based on salaries, social benefits, hygiene and safety at work, among other actions considered important. The study underscores the significance of establishing a variable compensation system that, in the current postpandemic era, fosters attraction, retention, and motivation of workers to commit to the company's objectives. The authors conclude that, for a long period, salary compensation methods have been regarded solely as a means to remunerate employees for their contribution to the company's work.

Compensation for time of service has various denominations in different Latin American countries. For example, in Chile, the Labor Code of 1931 titles it "Indemnification for Time or Years Served". This insurance includes two funds: the Individual Unemployment Account (Cuenta Individual de Cesantía - CIC) and the Solidarity Unemployment Fund (Fondo de Cesantía Solidario - FCS). It functions as unemployment insurance and is accessible to citizens until they secure new employment (if they reject a job offer, they lose the bonus). The CIC is similar to the CTS, and for Chileans under a fixed-term or task-based contract, contributions are matched by the employer, amounting to 2.8% of the remuneration.

Similarly, in Ecuador, it is known as the "Reserve Fund", a benefit aimed exclusively at Ecuadorians under 40 years old. In Colombia, it is called "Auxilio de Cesantía", which is slightly superior to the other regions, with a monthly rate of 8.33%. This fund allows partial withdrawals for expenses related to education, housing, or guarantees for mortgage loans. In Costa Rica, it is referred to as the "Labor Capitalization Fund", involving a contribution of 1.5% of the salaries.

In Peru, defining compensation for the duration of service (Compensación por Tiempo de Servicio - CTS) involves comprehensive economic indemnity, paid by the employer to the worker for the duration of their service and upon contract termination. The employer deposits this compensation semiannually, specifically in the fifth and eleventh months, into a financial institution chosen by the employee.

Table 1. Compensation for Service Time in Latin American countries obligation

<table>
<thead>
<tr>
<th>Countries</th>
<th>Name of benefits benefits</th>
<th>Deposit term</th>
<th>Employer’s tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERU</td>
<td>Compensation for service time (CTS)</td>
<td>Twice a year (May and November)</td>
<td>50% of a remuneration plus 1/6 of a bonus</td>
</tr>
<tr>
<td>CHILE</td>
<td>Individual Unemployment Account (CIC)</td>
<td>Monthly contribution</td>
<td>CIC 2.8% of monthly compensation</td>
</tr>
<tr>
<td></td>
<td>Solidarity Severance Fund (FCS)</td>
<td></td>
<td>FCS 0.2% of monthly compensation</td>
</tr>
<tr>
<td>ECUADOR</td>
<td>Reserve Fund</td>
<td>Monthly contribution</td>
<td>8.33% of remuneration</td>
</tr>
<tr>
<td>COLOMBIA</td>
<td>Severance Pay</td>
<td>Annual</td>
<td>One remuneration per year</td>
</tr>
<tr>
<td>COSTA RICA</td>
<td>Labor Capitalization Fund</td>
<td>Monthly contribution</td>
<td>1.5% of monthly remuneration</td>
</tr>
</tbody>
</table>

Note: Own elaboration

2. Methodology

This research adopted a quantitative, descriptive approach with a nonexperimental, transactional design. This methodological choice is characterized by its ability to provide a precise and objective
representation of the variables under study without any intervention or manipulation by the researcher. The descriptive scope enables the capture and presentation of an accurate portrait of the characteristics and relationships between variables at a specific point in time, which is crucial for addressing the complexity of the investigated phenomenon.

The nonexperimental design ensures that observations are made under natural conditions, adding a level of authenticity and credibility to the findings. Additionally, the cross-sectional nature of the design facilitates data collection at a single time point, optimizing the study’s efficiency and providing a valuable snapshot of the current circumstances. This methodological approach was explicitly selected to explore and understand the degree of economic satisfaction among the Latin American population.

The instrument used was a 20-item Likert scale questionnaire divided into 7 dimensions: knowledge about labor benefits (3 items), satisfaction with implemented measures (4 items), knowledge about the CTS calculation (2 items), understanding of requirements for CTS release (3 items), economic improvement due to fund withdrawal (3 items), consumption of the withdrawn amount (2 items), and implications of the measures for economic reactivation (3 items). Response options ranged from 1 = Strongly Disagree to 5 = Strongly Agree.

The questionnaire was validated through the judgment of 5 experts, who evaluated criteria such as clarity, coherence, and relevance. The instrument achieved an Aiken’s V value of 0.89, indicating adequate validity. A psychometric analysis was also conducted, calculating reliability with Cronbach’s alpha (0.78), suggesting good internal consistency.

The questionnaire was administered virtually using a Google form. The link was shared through social media and focus groups. Participants responded anonymously and voluntarily, with an average time of 15 minutes per survey. The responses were stored in a spreadsheet for subsequent processing.

2.1 Population and Sample

The study population consisted of economically active individuals from 5 Latin American countries: Costa Rica, Colombia, Chile, Peru, and Ecuador.

The sample included 71 participants selected through nonprobabilistic convenience sampling, aiming for representativeness of the following demographic characteristics:

Costa Rica (n=15): 53% female, 47% male; average age 38 years; 68% public sector employees, 32% private sector.

In Colombia (n=14), 64% were female, 36% were male, the average age was 35 years, 60% were public sector employees, and 40% were private sector employees.

Chile (n=13): 62% female, 38% male; average age, 36 years; 77% public sector employees; 23% private sector employees.

Peru (n=16): 50% female, 50% male; average age 33 years; 75% private sector employees, 25% self-employed.

Ecuador (n=13): 61% female, 39% male; average age 40 years; 70% public sector employees, 30% private sector.

3. Results

Regarding the fulfillment of the objective: To determine the economic satisfaction of the Latin American population as a consequence of the release of the Compensation for Time of Service (CTS), an intangible labor benefit.
Table 2. Economic Reactivation: strategically hand in hand with labor benefits in times of crisis

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Scales of Alternatives</th>
<th>Σ</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Totally agree (TA)</td>
<td>Agreed (DA)</td>
</tr>
<tr>
<td>Level of knowledge of employee benefits</td>
<td>N % N %</td>
<td>N % N %</td>
</tr>
<tr>
<td>Degree of satisfaction with established measures</td>
<td>17 24%</td>
<td>27 30%</td>
</tr>
<tr>
<td>Knowledge of CTS calculation</td>
<td>8 11%</td>
<td>26 37%</td>
</tr>
<tr>
<td>Level of knowledge about CTS release requirements</td>
<td>10 14%</td>
<td>31 44%</td>
</tr>
<tr>
<td>Level of improvement based on withdrawal of funds</td>
<td>7 10%</td>
<td>33 47%</td>
</tr>
<tr>
<td>Level of consumption of the amount received</td>
<td>4 6%</td>
<td>31 44%</td>
</tr>
<tr>
<td>Degree of implications of the measures for economic recovery</td>
<td>13 19%</td>
<td>25 36%</td>
</tr>
</tbody>
</table>

Note: Survey applied to economically active people in Latin America (Costa Rica, Colombia, Chile, Peru, Ecuador).

Regarding the indicator of knowledge level about labor benefits, of the 100% of Latin American respondents, 63% (representing 44 individuals) were knowledgeable about labor benefits, while 13% (belonging to the ED and TD groups) lacked or were unaware of the benefits for their time of work. In terms of satisfaction with established measures, 54% (representing 38 individuals) who benefitted from the CTS agreed with their government’s measures for the free disposal of their benefit, 11% found it irrelevant, and 34% did not disagree with the established measures.

Concerning knowledge about the calculation of the CTS, 49% have knowledge about the calculation of their labor benefit, 14% are disinterested in this calculation, and 37% are unaware of how their labor benefit is calculated. Thus, regarding the level of knowledge about requirements for the release of CTS, 59% (representing 41 beneficiaries) were aware of the requirements for releasing their funds, while 31% (belonging to the ED and TD groups) of 22 individuals were unaware of the requirements for releasing their funds. On the other hand, in terms of the level of improvement based on fund withdrawal, 57% of the beneficiaries, representing 40 individuals, considered that withdrawing their funds contributed to the improvement of their physical and material well-being during the pandemic, while 21% of the 15 beneficiaries found that their withdrawal has not contributed to improving their well-being.

Regarding the consumption level of the received amount, among economically active people in Latin America, 50% (belonging to the TA and DA groups) allocated more than 50% to consumption, while the other 50% (belonging to the NN, ED, and TD groups) did not allocate more than half of their funds to consumption. Finally, concerning the degree of implications of the measures for economic reactivation, 54% of Latin Americans who benefited from their funds considered the measure taken by their government to contribute to the reactivation of their economy, while 46% believed that the established measure on the withdrawal of their funds would not contribute to economic reactivation.

4. Discussion

Companies support their employees with certain labor benefits, such as compensation for time of service (CTS), as mentioned by Castillo et al. (2020). Employees can show inflexibility to changes because of the possibility that their efforts are not considered in enhancing work actions, human relations, or labor benefits or in the growth of their personal and professional objectives. The COVID-19 pandemic has had negative effects on employment, as companies ceased their operations, affecting the quality of life and overall well-being of employees. It is important to note that trends in the
The measures decreed by the governments of Latin American countries such as Costa Rica, Colombia, Chile, Ecuador, and Peru in accordance with economic reactivation, strategically aligned with labor benefits during times of crisis, had a positive effect on the economy of active workers during the reorganization of the international division of labor have increased in both the short and long term, considering various measures of protection against unemployment (Weller, 2020).

In Peru, key economic measures were identified and implemented, as shown by Gamero (2020). These were classified according to the main pillars of the ILO to manage the COVID-19 crisis in accordance with International Labor Standards. Among the measures taken by Peruvian State to guarantee economic stability was the release of the CTS, which supported the economically active population, achieving optimal conditions for social protection. Notably, workers under a perfect suspension of work were authorized to freely dispose of their CTS funds up to 1 gross monthly salary for each month during which the suspension lasted (International Labor Organization, 2020).

However, Peru was not the only Latin American country that addressed this measure. In Colombia, the measure known as unemployment aid was established; it is considered one of the most significant benefits for workers and their families. This economic assistance provides financial support for access to services, which can improve the quality of life of salaried citizens (Gómez, 2022). Thus, this support was provided to workers to meet their economic needs during periods of unemployment, given the risk of unemployment (Londoño & Mejía, 2019). During the pandemic, the Colombian government granted authorization for workers reporting a lack of income to withdraw from the amount of their severance pay, which was beneficial for many people; in some cases, workers, in order not to lose their job, accepted the assignment of lower incomes (Tuiran, 2022).

In Costa Rica, it was shown that, in the case of the formal working population due to the pandemic, normal social protection procedures were suspended, such as the Labor Capitalization Fund, which is part of their unemployment aid with their employer, for the termination of the employment relationship (Martínez & González, 2021). However, the government effectively delivered the Labor Capitalization Fund (FCL) in advance for those employees affected by the pandemic, only if their schedule was legally reduced or if their employment contracts were canceled (Briones, 2020).

Another country that adopted this measure during the pandemic was Chile; as of March 31, 2020, the Employment Protection Law Project was approved by its Congress, which involved workers collecting exceptional unemployment insurance within the framework of the health emergency caused by COVID-19 (Library of the National Congress of Chile, 2020). The Law allowed for obtaining exceptional unemployment insurance income in two cases: if companies and workers agreed to suspend work contracts and if the employer paid the corresponding part of the work salary, the unemployment insurance covered the other part of what was not worked. A year and a half after the decision of Congress, Lorena Flores, director of the Microdata Center of the University of Chile, stated that the exit from Congress was successful because unemployment was lower, and it benefited from social benefits such as unemployment insurance. (Ramírez, 2021)

Finally, in Ecuador, this was a different case since despite having a reserve fund for those workers with more than a year of employment at their workplace, the release and use of this benefit as a measure against the pandemic was not addressed; only the withdrawal of the unemployment fund of the Ecuadorian Institute of Social Security (IESS) was considered, which is the contribution made by each worker individually, but this is not considered a social benefit. The implementation of this measure has consequences, as there has been a recorded decrease of 8.6% in the number of affiliated individuals due to the crisis being faced (International Labor Organization, 2022). However, as Barrero et al. (2020) noted, in the most critical moments of the health crisis, one should not wait for responses to the creation of the reallocation shock caused by the pandemic, as this generated an increase in the level of unemployment that affected the income of many workers.

5. Conclusion

The measures decreed by the governments of Latin American countries such as Costa Rica, Colombia, Chile, Ecuador, and Peru in accordance with economic reactivation, strategically aligned with labor benefits during times of crisis, had a positive effect on the economy of active workers during the
pandemic. The government measures benefitted both the economy and the workers, as they directed part of their money toward economic aspects.

It is necessary to strengthen integrated social security schemes in Latin America to close gaps in response to future crises. Specific policies are required to inform and financially educate workers about their labor rights. Compared to other countries in the region, the amount authorized for the withdrawal of labor compensation funds in Peru was small, leaving the population dissatisfied.

6. Limitations

The study was based on a convenience sample, which limits the ability to generalize the results to the entire Latin American population. As a cross-sectional study at a specific point in time, this approach does not allow for the evaluation of the medium- and long-term impacts of the implemented measures. Other contextual variables of the countries that could influence the results were not considered, and a more in-depth comparative analysis between the different countries of the region regarding the management of the crisis was not possible. Future research through longitudinal studies, broader probabilistic samples, and a comparative approach between countries is recommended to address these limitations.

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