

# Challenges of Meeting Social Security Expectations: Worldwide Experiences

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## The International Social Security Association

- The ISSA is the principal international institution bringing together social security agencies and organizations.
- Aim is to promote dynamic social security as the social dimension in a globalizing world by supporting excellence in social security administration.
- Founded in 1927, the ISSA has its headquarters at the International Labour Office, in Geneva.
- Activities
  - *Database and knowledge exchange*
  - *Expert advice*
  - *Good Governance Guidelines*
  - *Platforms for members to build and promote dynamic social security systems worldwide.*
  - *Research and Policy Analysis*

335 members in 157  
countries

## ISSA Priority Areas 2011-2013

- Extension of Coverage
  - *Numbers covered*
  - *Benefits provided*
- Administrative Excellence
  - *For example, use of ICT*
- Preventive and Proactive Measures
  - *Anticipating events – e.g. health and safety at work*
  - *Return to Work Programmes*
- Improving the adequacy of social security benefits
  - *Level and quality of benefit important*
- **Research Activities:**
  - *Work on emerging trends and their impact on social security*
  - *Discussing developments and trends at global as well as at regional level*

## Social security and its role

- **Providing benefits which respond to an event created need**
  - Old Age
  - Illness
  - Family changes (parenting)
- **But transformation of social security from a reactive to a proactive instrument**
- **From long term and static systems**
  - For example, providing retirement benefit after a long career
- **to a proactive and dynamic actor working with others**
  - Responding to natural disasters and economic shocks
- **Social security has to evolve because:**
  - Finances under pressure and increasing scrutiny
  - Demographic changes
  - Labour market changes
  - Population expectations !



## Meeting expectations !

### ■ Society:

- Meeting the needs of the population
- Shock absorber for crises
- Facilitation of economic development
- Promoting social cohesion and reducing risk of conflict

### ■ Individuals:

- Protection on old age, illness and family changes
- Interruptions to livelihood, assistance back to work and employment support
- Long term protection and short term help reflecting needs and situations
- Increasing expectations of populations – what do they want ?  
And what do they need ?



## Challenges

- **Traditionally social security assumed:**
  - You were in the formal economy
  - You worked all your career at the same employer
  - Your family structure was 'normal'
  - You didn't live too long and did not have long term illnesses
- **But realities today:**
  - Significant rural populations, self-employed and informal sectors
  - Fragmentation of labour market and increasing migration
  - Rapid demographic changes in Asia – less children, more elderly and changes in extended family structures
  - Increase in long term illnesses

How do we provide adequate benefits under these constraints ?

## Priorities for Social security

- Extension of Coverage
- Good Governance
- **Improving levels of benefits provided**
- Improving delivery and information provided
- Reducing fragmentation in administration and management of systems
- **Interaction with other benefits & sources of income**
- Proactive and preventive measures
- Supporting other policy objectives
  - Employment Objectives
  - Health Promotion



## Evolution of social security to meet expectations

- Approaches chosen depend on culture, economic, demographic and social environment
- Administrative capacity building pre-requisite to meeting objectives:
  - Effective use of ICT
  - System of ID cards
  - Tailoring to certain population groups
  - Management of offices and personnel
  - Improved Governance
- Innovative responses:
  - Policy Measures
  - Administration and Management



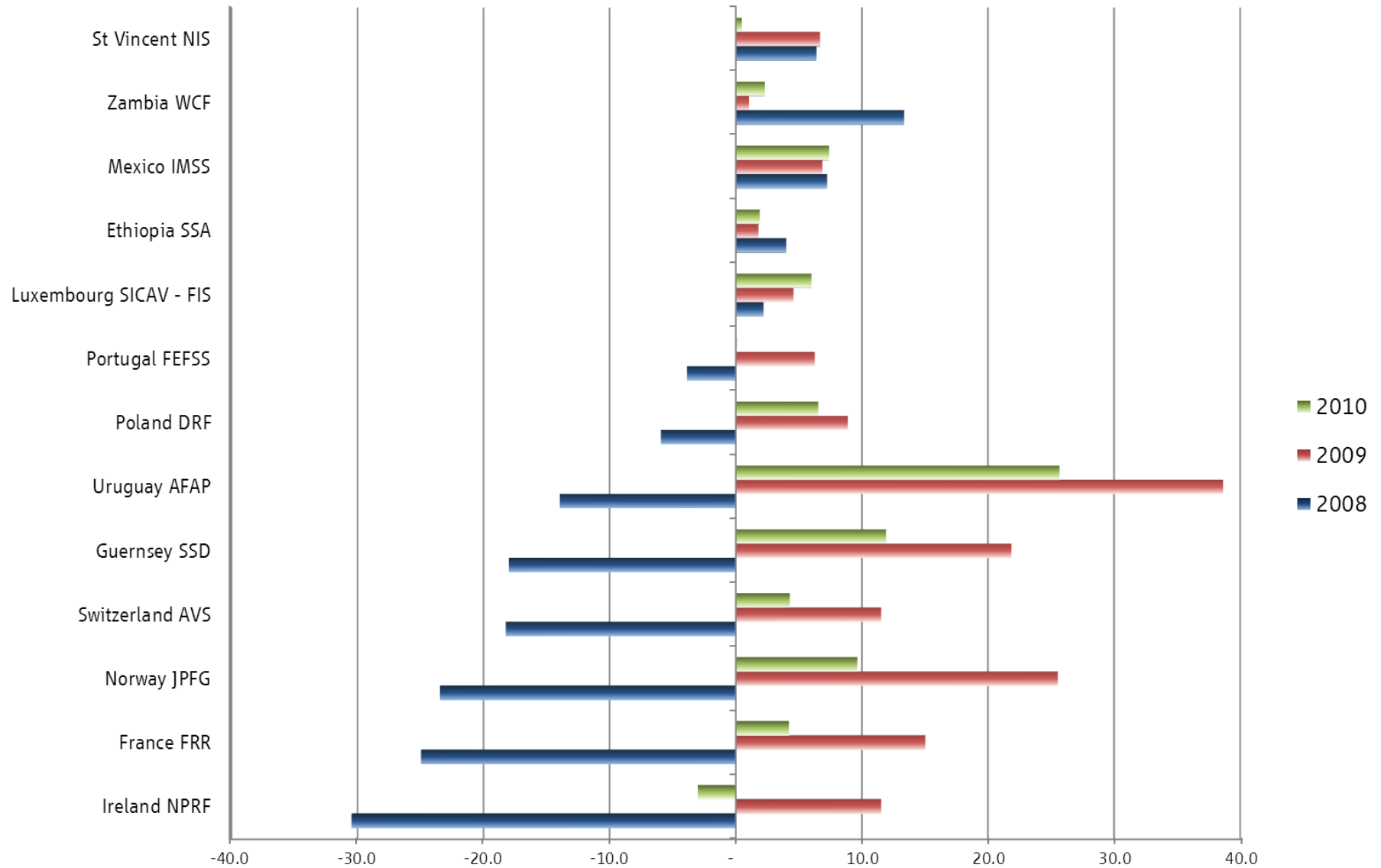


## Short term expectations – the crisis

- **What impact has the crisis had on social security ?**
  - Increase in demand for benefits
  - Reduction in contribution income
  - Reduction in government financing
  - Impact on reserve funds
- **What role has social security played in the crisis ?**
  - Shock absorber (unemployment, health etc)
  - Helping employment objectives
- **Changes to social security**
  - Doing more with less
  - Management of Reserve Funds
  - Targeting benefits
  - Working with others



## Reserve Fund performance: Nominal return (%)



## Policy Responses to current crisis

### Example of unemployment benefits

- **Symptomatic of the different points of view**
  - Fiscal constraints on Government spending coupled with increased unemployment -> **increased pressure on UI budgets**
  - But growing realisation of the important 'shock absorber' role of UI -> **increased need for UI benefits**
  
- **Some countries introduced coverage for the first time...**
  - Jordan benefit for 1 to 6 months (minimum 36 months contributions)
- **Or extended duration of coverage**
  - Brazil and Canada extended the period of payment
- **Or increased categories of workers covered**
  - An additional 1 million temporary workers covered in Japan



## Policy Responses to current crisis

- **Some countries have reduced benefit payments**
  - Duration of benefit payment reduced
  - Level of Benefit reduced (e.g. capping total amount paid)
- **Or imposed more stringent conditions**
  - Increased period of contribution required
  - Benefit contingent on undertaking training or acceptance of job offers
- **Increasing financing contributions**
  - Estonia raised contribution rate for employer and employee
- **Debates often revolve around incentives and needs**
  - Between 'Longer and lower' or 'shorter and higher'
  - Incentives to get back to work (e.g. individual accounts)



## Preventive and Proactive Measures Employment Policy Responses

- **Pro-active support of the ‘at risk’ employed**
  - Wage subsidies, social security tax reduction for employed
  - *Korea*: Job retention subsidy
- **Redistribution of working hours**
  - *Hungary*: 80% contribution of lost salary by state
- **Supporting job creation**
  - Wage subsidies, internships, business tax reduction
  - *Japan*: Grants for hiring of temporary workers
- **Improving skills through training**
- **Improve job matching**
  - Mobility allowance (eg *Russia*) for geographical mismatches
- **Maintain ‘human capital’**
  - Education levels (eg reducing fees)
  - Health (ensure affordable access to health care)
  - Help to rehabilitate sick who lose jobs

## Pressures on retirement benefits

**Short term** pressure on all social security benefits

- Reduction in contributions and reserve fund values
- Reduction in second pillar pensions and employment income

Pension systems facing **longer term** strains due to:

- Increased life expectancy
- Reduced fertility rates

Other changes include:

- Migration
- Family structure changes
- Gender equality
- Labour market changes

- In **Africa** the old age dependency ratio will double from 10% to 20% between 2010 and 2050
- In **Europe**, it will increase from 28% to 55%
- Globally, **birth rates are in decline** almost everywhere
- **World's** population expected to reach 10 billion by 2083 with 2 out of the extra 3 billion coming from Africa
- **China** – working age population to decline this decade
- **Asia's** over 60s from 10% to 27% of the population in just 50 years
- **EU** population aged 55 and over rose from 25% in 1990 to 30% in 2010, and 40% by 2060

## Worldwide Experiences: Selected responses

- **Retirement age changes**
  - Later retirement ages
  - Windows of retirement ages
  - Less generous early retirement
  - Integration with employment policies and disability management
- **Flexibility of retirement age and pension**
  - Partial retirement possible
  - Working and retiring
- **Reduction in benefits**
  - Salary averaging
  - Pension increases
  - Accrual rates
- **More focus on Multipillar approach**

“You must work longer “->  
negative

“Possibility to work longer  
on your terms” -> positive

## Worldwide Experiences

- **Financing changes**
  - Pension increases no longer automatic
  - Longer Contribution periods
  - Higher contribution rates being paid
- **Longer Term and Structural Changes:**
  - Independence of spouse's entitlements
  - Multilateral agreements
  - Measures to address fragmentation of service and migrants
  - Interaction with other sources of income (eg second pillar pension)
  - Automatic adjustment mechanisms
  - Removing privileged pensions
  - Structural pension reform





## Reform of Multipillar Systems

- Social Security reform needs to be considered in the broader context of total pension provision
- Supplementary pension provision plays a key role
- Individual wants an adequate benefit
- In most countries, significant reforms to other pillars have taken place

**“Multipillar approach required; each country will have its own view on importance and design of each pillar”**

### Pillar III

- Supplementary and voluntary provision
- Often individually focused and encouraged by tax incentives

### Pillar II

- Supplementary provision
- Sometimes voluntary, sometimes compulsory
- Employers normally expected to play a role

### Pillar I

- Social Security provision
- May have different elements (eg flat rate and earnings related)

## What should supplementary provision look like?

- **Consistent with and complements social security**
  - Eg Normal and early retirement ages
- **Question of risk and design ?**
  - ❖ DB vs DC (vs Mixed vs NDC) ?
  - ❖ Individual vs Grouped?
  - ❖ Role for employers ?
- **What about coverage of self employed / informal sector / those who change job frequently ?**
  - Flexible contributions and relevant benefits
  - Improving information and access to the population
  - Tripartite approach
  - Other policies – health, disability and employment policies
  - Low cost / mutuals etc

## Multipillar Approach Country Experiences

- Switzerland
- Australia
- Chile
- China
- France
- Sweden
- Poland
- Brazil
- Russia



## Financial Sustainability and Affordability of Health Care Systems

- Health spending increasing much quicker than gdp increases
- Increases are fiscally unsustainable particularly with an increasingly ageing population
- Measures required on both supply and demand side
- Money spent on prevention better value than pure health spending but current under spending in this area
- Future impacts of NCDs and Long Term Care plus increasing consumer demand will raise financing challenges in the future
  - Particularly rapid changes in emerging economies and regions

## Pressures on disability and medical benefits

Significant cost increases of health benefits and changing nature of disability benefits

### Factors to address:

- *Unhealthy life expectancy*
- *NCDs*
- *Medical technology*
- *Back to work rates*
- *Mental Health cases*
- *Long Term Care costs*
- *Preventive and Proactive measures*

- Health expenditure in Japan - 6.9% of gdp (1990) to 8.6% of gdp (2008)
- In China, inpatient visits 4 times higher for 41-50 years olds vs under 30s
- Incidence of NCDs exploding in Asia

### Impacts on social security

- Different skills to manage
- Partial mental disability
- Return to Work
- Female and younger
- Incentives and interactions
- Working with others



## Responses to disability challenges

- **Social security playing a more proactive role**
- **Return to Work programmes**
- **Coordination with employers**
  - Health and Safety at Work
  - Incentives for employers
- **The role of other stakeholders**
  - Private Sector
  - Health providers
  - Individuals

LTC- difficult questions concerning:

- Who pays ?
- What is provided ?
- What are the expectations?
- Role of the family ?
- Who takes the risks ?

## Challenges ahead

- Demographics changing quickly - some countries aware of current “demographic window” and are reforming radically
  - Inequalities large and growing
  - Other trends such as migration, climate change, increase in NCDs and changes in family structures need to be addressed
  - Shorter term role responding to more frequent extreme events
  - Breakdown in extended family support
  - Continued reduction in returns on assets...
    - Implications for Provident Funds (and Reserve Funds)
    - Also for second pillar pensions
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- **Social security needs to anticipate and respond to these future Megatrends**



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## The Future

Promoting and Developing  
Social Security Worldwide.

- Social security must reflect a country's future economic, social and demographic environment & population needs
- Changes required to ensure systems provide **adequate** benefits whilst remaining **sustainable**
- Working with **other stakeholders** essential
- **Reform is a value judgement** on distribution and intergenerational equity
- Responding to **expectations**





## Summary

- **Social security will play an important role as it transforms itself**
- **Challenges already being met through innovative policy and administrative measures**
- **Significant achievements in extension of coverage**
- **But...**
  - Social security needs to be dynamic so as to be robust
  - Will need to continue administrative transformation
  - Excellence in administration and use of ICT
  - Working with other stakeholders so that ...
- **Managing uncertainty .. together is a reality !**



# Q & A

