

DRAFT REPORT

Social Security Observatory

Project on Compliance and Contribution Collection Louis D. Enoff, Consultant

Background

Social Security systems worldwide are facing issues of increased longevity, changing demographics, and economic downturns. All of these issues create risks for the ongoing fiscal health of social security programs. Executive and legislative bodies are at various stages of considering policy options based on country specific political, economic, and cultural factors.

One of the existing core functions of all contributory social security schemes which directly impacts fiscal health is the process of collecting contributions to the scheme. The collection process and compliance with that process not only impact the flow of current revenues but also may affect the potential for extending coverage of the social security program to individuals or groups who do not currently enjoy such protection.

The relative merits of the various systems for collecting contributions and the degree of compliance with these systems has been a topic of discussion for many years. The many differences in design of social security programs, the percent of the population covered by social security protection in each country, and the differences in collection methods make a comparison of the efficacy of the various collection methods very difficult to say the least.

However, recognizing the importance of collection systems to the fiscal health and growth of coverage of contributory social security schemes, the Social Security Observatory of the International Social Security Association decided to embark on an effort to elicit a description of various systems used for contribution collection in selected countries. This effort was started in order to provide a basis for a comparative analysis with a view to improving the knowledge and experience for the design of programs that are efficient and effective. This effort should also contribute to promoting a contribution compliance culture among contributors to compulsory schemes.

With this background, Terms of Reference for such a collection of information were developed and published in May 2008. These Terms of Reference¹ called for a survey of selected ISSA member social security organizations to include a description of the various systems in use for the collection of social security contributions with both quantitative and qualitative parameters. These parameters were to elicit information in particular about growth in coverage, changes in collection rules and regulations, utilization of new technologies, educational and public relations campaigns, data exchange, and any other information useful to the effort.

¹ See Attachment 1 for a copy of the Terms of Reference

The Survey

Selection of a contractor for this effort was made in June 2008 and the contractor designed a survey instrument² in collaboration with the ISSA. This survey instrument was approved in August 2008 and translated and distributed on October 1, 2008 to thirty one member organizations selected by the ISSA Secretariat. These thirty one organizations were chosen on the basis of a diversity of geographic, economic, and technical factors as well as voluntary offers of participation.³ Member organizations were requested to complete the survey and return the information to ISSA by November 7, 2008. By May 18, 2009, a total of twenty six survey forms had been returned to the ISSA. These forms represented responses from twenty three countries.⁴

The Social Security Observatory recognized from the outset that this survey would reveal a very complex set of interactive factors in the collection process incorporated into already complex social security programs. It was also recognized that this survey would only be a first step in gathering information. Therefore the original Terms of Reference anticipated that this initial survey would be followed by a more in-depth look at ten to fifteen of the responding organizations to gain further insight into successful practices..

Based on the initial survey responses the ISSA Secretariat in collaboration with the contractor has chosen fifteen organizations⁵ for a more in-depth review. These organizations were chosen with a view to geographic diversity as well as diversity in size and method of collection. In this review we hope to highlight practices that individually or when combined with other factors, seem to yield examples to be considered in developing or altering a collection system. We will also attempt to elicit helpful information about the extension of coverage due to the strategy of compliance and the efficient collection of contributions.

The Draft of this report was presented and discussed at an ISSA conference in Montevideo, Uruguay in September 2009. The conference involved over 150 delegates from over 30 countries. Presentations were made by several countries, including seven of the surveyed countries, about contribution collection systems, problems, and improvements. Additionally, representatives of the International Labor Organization and the World Bank presented reports and views on effective contribution collection schemes. As a result of this meeting and discussions, the draft report was revised to include additional insight gathered from these discussions. This report includes those revisions.

The Results

These surveys and the Montevideo Conference provided some significant insights into the form and substance of collection systems and efforts to improve efficiency and curb evasion and under reporting. As might be anticipated there was no “silver bullet” or one

² See Attachment 2 for a copy of the Survey

³ See Attachment 3 for a list of organizations receiving the survey.

⁴ Two separate organizations completed forms from three of the countries surveyed.

⁵ See Attachment 4 for a list of the 15 organizations.

best way to collect contributions but a complex interactive set of factors which seem to affect the efficiency and effectiveness of contribution collections. It should be clearly noted that this survey does not purport to be a valid scientific sample. Therefore any conclusions or relationships drawn from this survey should be seen as the beginning of some basis for comparative analysis and/or useful information to be considered when developing or amending a collection process. In the following sections of this report we have summarized some general findings and then made some further elaboration regarding particular characteristics of the contribution collection process. At the end of the report we have summarized the reports submitted by the fifteen organizations reviewed.

General Summary

As noted at the outset, the process for collection of contributions is as varied as the program design of the various social security schemes existent throughout the world. Policy design and complexity, degree of coverage and variation of the makeup of the workforce, organizational location of the collections entity, degree of automation, cultural and political factors, as well as history, all contribute to the overall design and effectiveness of the collection process.

A previous study by the International Monetary Fund (IMF) contains a very thoughtful analysis of factors involved in successful contribution collection processes in Central and Eastern Europe.¹ The IMF paper outlines and reviews various success factors and principles involved in creating or modifying contribution collection systems. We agree with the principles outlined in that paper. However, our survey and subsequent discussion have provided additional factors to be considered. We cannot say that any one factor is overriding in determining effectiveness. Rather it is a combination of several interactive elements which seems to produce the best results. Obviously, the knowledge and dedication of the staff of the organization can play a key role in performance. This survey did not attempt to measure that factor.

In the next section we have described the various elements and characteristics of the collection processes examined and offered some hypotheses about the effect of those elements singularly and/or in combination with other factors.

The Most Important Common Characteristics of Collection Contribution Schemes

1. Organizational Location of the Collection Function.

Of the fifteen organizations reviewed for this report, six were responsible for collecting only the social security contributions for the programs administered by them. Five organizations collected contributions for their own programs as well as other social programs such as health insurance, vocational training, housing, etc. In three of the countries the tax authority was responsible for collecting social contributions as well as taxes and the tax authority completed the survey. The situation in France is unique where a central agency (ACOSS) has been formed to collect all social contributions and also collects some taxes. While there appears to be some economy of scale from combining

collection schemes for taxes and social contributions making the data available for both tax and social contributions within one entity, we could not see any clear advantage in the effectiveness of collections in these three instances. There were still problems of evasion and under reporting at about the same level as in similar situated countries where the social security agency was the collection agent. By similar situated countries we mean where the percent of employees covered, the age of the program, and the degree of automated support seem to be similar. There is certainly some economy to be gained by combining collection efforts but it is important that the collection of data in the process is designed to meet the needs of the program administrator. There also seems to be a more effective collection effort where the program has operated over a period of time and the collection agency has had time to refine the collection and audit processes and the program administrators can amend program policies that assist with efficient collection. The size and diversity of the labor force is also a factor. Where the work force is geographically dispersed and less formal, collection of both taxes and social contributions become more difficult. From the information gathered the central collection agency in France, ACOSS, stands out as having a very efficient and effective program that has matured over the many years of the program's existence. The processes are highly automated and continually revised to meet new challenges and to maximize the effectiveness of automated and manual audits. Areas of difficulty are studied and new procedures tested. Likewise Her Majesty's Revenue and Customs agency in the United Kingdom has a very effective and streamlined operation to detect and prevent evasion and under reporting even though the collection of social security contributions is a relatively recent responsibility. We have to conclude that the maturity of the agency, degree of automation, and the universality of coverage all contribute to the effectiveness of these operations and that organizational location is not the most critical factor. It is a factor but only as it interrelates with the other factors mentioned.

Contracting out of some of the functions of the collection organizations was cited as being helpful in achieving success. However, the existence or non-existence of contracting out of work did not show a discernible difference in the overall effectiveness of the agency.

2. The Age (or maturity) of the Social Insurance Program

The date of origination of the social security programs reviewed for this study varied widely ranging from the earliest program initiated in 1933 to the most recent program started just in 1995. It was evident that the first years of a program generally require a period of development and adjustment. While more recently initiated programs may enjoy more up front automation and benefit from the experience of older programs, there is an initial period of adjustment and it affects the collection process. Once again this factor cannot be isolated because the newness of the program generally means that coverage is less dense than in older programs and that public information about the program may not be as well known. However, the age or maturity of the program is an important factor. We use the term maturity to indicate a program which has been smoothed over time and not simply the number of years from the inception of the program. Radical changes to a program can have the same impact on collection processes

as the start up issues of a completely new program. Of course this is a factor which is usually totally outside the control of the organization, but nevertheless has an impact.

3. Degree of Coverage and Size and Diversity of the Labor Force

Once again the diversity among the participating organizations is seen in the wide variance of the overall size of the labor force and the percentage of workers covered by the scheme. The smallest labor force of the fifteen participating countries was just over one million while the largest work force surpassed sixty seven million. Coverage within the group ranged from 17% of the labor force to total or universal coverage for several countries. The spread between rural and urban workers, number of self employed, the split between formal and informal sector workers, percent of workers in agriculture, and especially the size of the “gray economy” all factor into the complexity of the collections process. In general universal coverage offers the best opportunity for detecting evasion since any non-paying worker is more easily identified. While the size of the labor force may add to the amount of work in collecting contributions, these other factors affect complexity in identifying and isolating non-complying employers.

4. Degree of Automation

In this factor we include the broad definition of automation to include use of the internet, electronic data matching, electronic wage reporting, on-line management information, electronic payment of contributions, and the use of sophisticated logarithms to detect anomalies in payment patterns which may lead to changes in the audit process, the use of automated customer relationship management programs, and other modern technology employed. Almost all of the organizations matching data with other entities testified of the advantage of electronic exchange of data. Likewise the management information collected through automated processes was cited as a significant aid in developing new procedures for designing and conducting audits and for making other positive changes in the contribution process. Several of the organizations are presently designing or implementing new automated processes to improve their collection efforts.

5. Coordination with Outside Organizations

Another factor often mentioned as significant to successful contribution of collections is the degree of cooperation between the collecting entity and organizations (government and private) outside of their organization. The cooperation included data matching as noted above as well as combined audit and review activities, and collaboration around common problems. The organizations mentioned included: tax authorities; other social programs such as health insurance, unemployment, and work injury; social partners; licensing authorities, statistics agencies; local government agencies; and NGOs working with various vocational, geographic, or ethnic groups.

In addition to information exchange and joint work efforts, collaboration on public information efforts are more helpful and efficient when inter organization collaboration occurs.

6. Constant Evaluation and Adjustment of Collection Policies and Practices

The most successful collection organizations shared how they constantly monitor their processes and practices. We have previously discussed the increasing impact of automation on the collection process. This automation and the changing financial and business processes universally require that collection agency leaders continue to seek input from their employees and keep current with the changing dynamics of agencies or private companies with similar responsibilities. It is not sufficient just to learn of these changes, collection agencies must also apply this knowledge to their current policies and practices. Careful and timely changes to the work processes of the collection agencies is another key success element

7. The Social Security Culture in the Country

As noted in the introduction this seventh critical factor to successful contribution collection was added to the first six factors as a result of discussions of the draft of this report at an ISSA conference of over 150 delegates from over 30 countries. This factor includes several possible elements which lead to a positive or negative view of the social security program and agency in a particular country.

Positive factors include credibility of the social security agency, an effective and timely eligibility process, timely and accurate payment of benefits, and positive public knowledge of the benefits of the social security program.

Negative factors include fraudulent use of social security funds, low benefits, low returns on investment funds, slow and/or inefficient eligibility processes, and lack of knowledge about the benefits of social security programs.

The conclusion is that one or more of these factors can cause a general culture in a country that either favors or has a dim view of the value of the social security program. This culture can either assist in collecting contributions or become a detriment when the citizens and employers see no value in or misuse of the funds collected. Several countries in different regions were cited as suffering from a poor “culture of social security.”

While there are many other common factors and unique initiatives employed by contribution collection organizations, the seven listed above seem to have the most impact on the comparative effectiveness of the collection effort. As mentioned previously, no one factor by itself stands out as determining effectiveness. Rather it is the combination of these factors together with custom designed factors that seem to have the greatest impact on collection efforts.

In the following sections we will briefly describe some other common practices reported by the fifteen organizations, some of the unique efforts reported, and a summary of some issues that were hindrances or challenges for some of the participants.

Other Common Factors

Financing and Contribution Levels

Only one of the organizations surveyed, the Employee Provident Fund in Malaysia, operated a Fully Funded scheme. The majority, eight, administer programs that are Pay As You Go, four administer Partially Funded schemes and one organization, the Social Insurance Bank in Uruguay administers a scheme that is now one part defined benefit and one part defined contribution. There seems to be an inherent advantage to collecting for a defined contribution scheme since benefits are so closely linked to contributions. The Employee Provident Fund in Malaysia certainly describes a well developed and efficient contribution collection process. However, there is not a sufficient number of fully funded schemes in this survey to warrant a general conclusion on this factor.

Reported contribution levels were split between employers and employees in all cases but the range of distribution of contributions between employers and employees varied widely. In several instances the share was equally split between employer and employee but in some cases the employer share was several times higher than the employee share. In only a very few instances was there a government contribution although there were several instances where the government funded shortfalls in funds or subsidized the programs through in kind assistance. No clear pattern of relationship could be determined between the size of the contribution and evasion level. Neither could a direct relationship be found between the employer/employee contribution level and the estimated level of evasion.

Contracting Out of Portions of the Collection Process

About one third of the responding organizations reported contracting out of some substantive aspect of the collection process. These contractors included banks, collection agents, public relations firms, and some more service oriented functions. No relationship could be seen between the presence or amount of contracting and the evasion level. Rather the decision to contract out for services seems to be more a matter of available contractors, past practices, and the general government practice on this issue in the country as a whole.

Changes in Law

Almost two thirds of the responding organizations reported changes in law in the past five years having a significant effect on the collections process. No direct comparison could be drawn from these changes in law and the level of evasion. However, it should be noted that some of the changes in law were so recent that there was not a reasonable amount of time for the impact to be seen. This is an area that would likely benefit from follow-up analysis

Economic Factors

Only one third of the respondents reported economic factors in the past five years which significantly affected the collections process. Mainly the recent world economic downturn caused agencies to initiate special procedures to recognize the need to assist employers struggling with financial burdens to meet their contribution obligations. Several of the respondents mentioned innovative approaches to meeting this seemingly temporary issue. The timing of this study did not permit an evaluation of these activities since the results will not be known for some time. While no direct comparison could be found between these economic changes and the reported level of evasion, an evaluation a few years in the future might provide interesting insight into practices to be employed in any future economic downturns.

Percentage of Self Employed

The percentage of self-employed workers covered by these responding programs ranged from less than 1% to over 60%. Since many of the programs allow self-employed individuals to elect coverage on an optional basis it is very difficult to draw any conclusions from the relationship between the percentage of self-employed workers and the estimated amount of evasion. Several of the respondents reported particular problems with collections from the self-employed and this may be another area for further study in its own right.

Interest Rates and Penalties

Charging of interest for overdue contributions varied widely in scope and frequency. A few countries calculated interest on a daily basis although most calculated the interest on a monthly or annual rate. The rate charged ranged from .001% per day to 10% per month. No relationship could be drawn from the amount or frequency of the interest rate on late payments and the estimated rate of evasion. However, reduction of or amnesty from interest charges and penalties were frequently cited as helpful in special campaigns. There were also several organizations reporting that obtaining and using garnishment powers was more effective in obtaining overdue payments than the normal method of obtaining court orders.

Some Unique Contribution Collection Techniques

Based on the information submitted by the fifteen surveyed organizations there were some unique efforts reported which may be of particular interest to certain social security organizations. These efforts are listed and briefly described below:

1. Seeking simplification and frequency of amendments to the social security program.
The ACOSS in France has been able to develop rapport with the policy and legislative bodies that allows them to have input to proposed and pending policy and legislative changes to determine possible impacts on the collection process.
2. Obtaining specialized outside help in debt collection.
The National Social Security Fund (CNSS) in Morocco is in the process of contracting for specialized help to conduct debt analysis and developing a debt collection initiative.
3. Awareness Campaign for Employers of Home Workers
The National Social Insurance Fund (CNPS) of Cameroon was in the process of conducting an awareness campaign aimed especially at home workers, a group of workers where accurate reporting can be especially difficult. The survey timeframe was not sufficient to capture the results of this effort.
4. Publicly Identifying Indebted Establishments
The Social Security and National Social Insurance Trust (SSNIT) in Ghana has periodically publicized the names of indebted employers in the news media.
5. Moving the Payment Remittance Date to Earlier in the Month
The Employee Provident Fund (EPF) in Malaysia was able to improve collections by moving the date for required employer remittances to an earlier date in the month.
6. Special Coordination with Chamber of Commerce
The National Social Insurance Institute (INPS) in Italy developed special coordination efforts with the Chamber of Commerce to detect the presence of workers without social security numbers particularly in the tourism, agriculture, and food service industries.
7. Establishing Specialized Collection Units
The State Social Protection Fund in Azerbaijan has established specialized collection units to focus on particular problem areas.

8. Establishing a Special Day or Month to Publicize Pensions
The Social Insurance Agency (SIA) in Japan has established one month each year to recognize the importance of and publicize information about pension programs. They have also established the practice of mailing a Pension Handbook to all citizens when they attain age 20.
9. Requiring Certificate of Proof for Contribution Payments
The Social Security Corporation (SSC) in Jordan has established bi-lateral agreements with licensing authorities which requires business establishments to show proof of contribution payment before renewing their business license.
10. Stationing Collection Agents Abroad
The Social Security System in the Philippines has decided to post more collection agents abroad to improve collections from members working overseas.
11. Establish and Publish a Strategic Plan
The National Social Security Fund in Uganda has developed and published a five year Strategic Plan which emphasizes collection improvement activities.

Summary

About one fourth of the twenty six respondents to the original survey estimated evasion to be “Minimal” while one fifth of those responding estimated evasion in a range of 10 to 25%. One organization estimated evasion to be “High” while another estimated evasion at about 40%. The rest of the respondents either did not render an estimate or estimated evasion for only a segment of the covered workers ie. self-employed. The information provided above describes successful experiences reported by fifteen of the reporting organizations. Time did not permit further exploration from other organizations, but we believe this effort provides a base for further study. Along those lines we would mention a few issues that were reported as hindering further progress. In addition to the nagging problem of insufficient budgets for improving collection efforts several agencies reported the inability to match data with other organizations due to confidentiality restrictions, poor public or employer history of compliance, the lack of a national identifier, and ageing of the agency workforce as hindrances.

In summary, we repeat that the number of factors involved in collection systems and the style of operation vary widely. As stated earlier the various factors explored in this survey do not individually appear to have a direct relationship to the degree of evasion experienced. However, based on the supplemental narrative information supplied by the fifteen respondents we believe that there is a core of seven factors that combine to form the basis of success in contribution collection. We would also note that these seven factors bear close resemblance to the factors identified in a recent draft report of factors deemed to identify High Performing Social Security Organizations. That draft report is being prepared by the Management and Innovation Committee of the ISSA in conjunction with Accenture.

This document is a draft report prepared specifically for discussion in the International Conference on Compliance in Montevideo, Uruguay, at the end of September 2009. The final report will include summary descriptions of each of the reports submitted by the fifteen participating organizations and any additional input gathered from several conferences where this report will be discussed. We will collaborate with the members of the Management and Innovation Committee and the authors of the aforementioned draft report prior to preparing this report in final.

The final report will be reviewed and translated in time to be presented in the Social Security World Forum in South Africa in 2010.

ⁱ See IMF Working Paper (WP/04/237), Integrating a Unified Revenue Administration for Taxes and Social Contribution Collections: Experiences of Central and Eastern European Countries; Peter Barrant, Stanford Ross, and Graham Harrison

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