

The Challenges of Targeting Ex-ante and Ex-post Matching Defined Contributions (MDC)

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Outline

- **What is the program and target group**—The design of targeting instrument depends on both program design and target population
- **What determines good targeting outcomes**
 - Intake approaches (on-demand vs. outreach)
 - Assessment approaches (means test, proxy means, otter)
- **Common approaches for Ex-post** (social pensions) in Middle and low income countries
- **Ex-ante MDC**—possible approaches
- **Concluding remarks**

What is the program –Ex–post/Ex-ante MDC ?

- **Old age (social pension)?**. Typically non-contributory whose benefits are determined on basis of **need**—person/family or household—or able/not able to work, no other benefits, etc---
Deals with current poverty
- **Contributory** (matching/non-matching) during working life. If matching when to start? (during working life, complement pension)? On what basis?—**Deals with ensuring savings/pension for pension when time comes**

Who are the Targets: poor/what categories/age groups

Defining target groups involves making trade offs when allocating limited budgets:

- **Universal** coverage (poor/non-poor) with low benefit levels versus targeted with more significant benefits
- All older than say 65 or other older age, rural/urban, informal/certain occupations, etc
- Financing current non-contrib. vs. matching for future contributory pensions

Decision depends on political/social preferences/attitudes towards old age, work

Because of trade offs and costs targeting is always controversial

- **Targeting always involves costs**---the issue is what are most cost-effective methods for particular program and country capacity
- **Targeting never perfect --always involves errors—inclusion and exclusion—the issue is** chose the error type that concerns policy makers and reduce it at reasonable cost (of increasing the other error and of implementation)

What determines good targeting outcomes/results?

- **Intake strategy**---self-targeting or on-demand approach (people would apply to participate in program) has been shown to have important exclusion errors. Only good when people are educated and informed about the program
- **Assessment method**—means how people are assessed to determine eligibility –means/asset tests, proxy means, other

Intake strategy: how potential beneficiaries enter the program

- **Self-targeting**—program announced and everyone meeting criteria can apply and program makes assessment

Generally misses lot of eligible people that do not apply—lack of information, no money for transfer, disability, other

- **Outreach method**—program sets the criteria and officials find candidates for assessment—using census, local information, communities, other
- Generally better to reach eligible people**

Assessment method: Criteria to qualify—poor/working or not, other

- **Unverified means testing**—self-reported income, assets not verified with other information
- **Verified means testing**—usually done by social workers—verification done with documents, other data bases
- **Proxy means testing**—estimations of income/ consumption or poverty scores
- **Combined methods**---first filter using a PMT—then verifying means to the few candidates
- **Validation with local officials, communities**
- **Community targeting**

Frequent targeting methods for ex-post/non-contributory

- **OECD Self-targeted and means tested**
(income and assets) verified with documents (pay stubs, other matched with databases—taxes, property, other)
- **Middle income with high informal sector use several methods—self-targeting** win verified means (or pension) test, outreach and Proxy means test plus verified income and family group (for instance, Chile's Pension Solidaria),

Some issues with PMT use for social pensions or SA to elderly

- **Design:** Errors are known (estimated) ex-ante and politicians/public opinion find it hard to understand/accept them
- **Most models use household surveys—HH** all people living in one place share cooking budget—while social pension defines nuclear family and or other group
- **Implementation is hard to do**, requires good technical capacity and up-front budget—most other targeting methods' costs are hidden or incurred by applicants

But, there are important advantages of PMT for ex-post social pension, SA

- **When PMT database** available it facilitates identification and **outreach** of eligible people increasing coverage. Frequently used for SA (social pension) for elderly (examples, Chile's old PASIS, Colombia's SA for elderly, Philippines' social pension, etc)
- **Since PMT criteria is uniform** nationwide facilitates portability of benefits across jurisdictions
- PMT formula generally complex and unknown **probably reduces adverse incentives** of means testing

Ex-ante MDC for the poor (or informal sector?)--

- **What is the target---**informal, rural , urban informal? For instance, China new program financed by local govts.
- **What is target group—Chronic** poor with high probability of needing ex-post social pension?— possible candidates people head/spouse of households with low education (illiterate or incomplete primary, in agriculture work, since early 30s—need to define profiles and do some probability analysis.
- **What is target—people in cont. with low pension?— supplement low pensions in contributory system?— for the poor, what definition of poor?—Chile's 60%?**

Possible targeting method

- **Generally ex-ante MDC programs are voluntary and so usually self-targeted.** Has to have strong incentives for target population
- **Assessment method will depend on eligibility for target group—e.g. if informal, issue of defining informal, basis for contrib./matching,**
- **PMT database can be used to identify chronic poor and elderly dependents** –and or provide social pension to elderly or HH poor heads or both?. For instance, China bonding idea?

Concluding remarks (1)

- **Target group and targeting instrument**
“defined” in program Law/Decree—generally poorly defined and creates huge problems for implementation—So, critical need to watch for clarity in program design from start in Congress proposals
- **Success in coverage is greatly influenced by intake strategy** (probably as much or even more than by assessment method)

Concluding remarks (2)

- **For ex-post** (social pension) there are a variety of intake strategies and assessment methods used in Middle and Lower income countries.
- **Most support has been in SA** rather than the concept of pension. SA concept is based on Need, so targeting criteria is to assess “need”.
- **Pension is more on the rights approach** and there are fewer experiences with this. Recent case is Chile with Solidarity Pension and has key eligibility req. to qualify (means of family group, other, etc. PMT can be used as first filter.

Concluding remarks (3)

- **Ex-ante MDC can be much more complex** to target (depending on target group and qualification req.). Define informal, cut off levels for contribution/matching
- **PMT databases with uniform criteria across jurisdictions can facilitate portability** of pensions across areas and even across pension systems
- **PMT databases and HH surveys can be used to identify specific profiles** (risk profiles, chronic poor, etc) and simulate the consequences of certain parameters and figure out ways to target.

MANY THANKS