Schemes for Special Groups in Central and Eastern Europe

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What we know

- In post-socialist economies, coverage has been exceptionally high
- Post-transition drop in coverage is part of back to normal
  - Greater number & smaller average size of businesses & limited enforcement capacity of the state
  - Affected: number of actives, covered income, frequency of contributions
- Coverage has been generally higher where special regimes operated
  - Type 1. Schemes for agriculture workers, self-employed
  - Type 2. Subsidized maternity, unemployment, higher education
  - Type 3. Myriads of privilege provisions for various professions *(class of its own)*
- Regimes financed by (implicit) cross-subsidies becoming a burden
- Social pensions exist and provide minimum income for some
  - Pension/work tested
  - Small number of old age beneficiaries

What is less clear

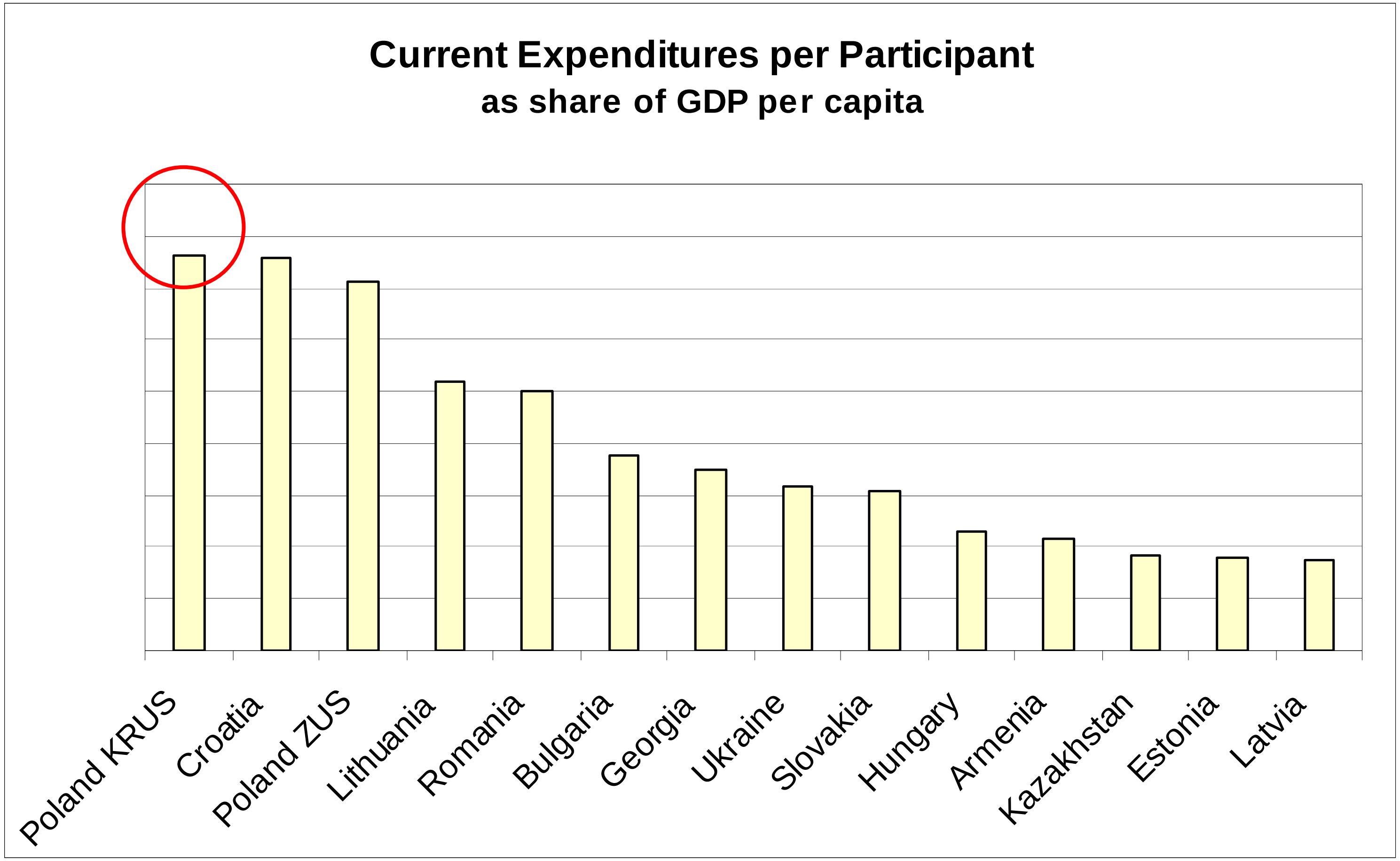
- Are existing (legacy) special schemes efficient?
- Are subsidies – both direct and administrative – justifiable?
- If subsidies desirable, what are the best mechanisms?
- What are the best practices in tailoring schemes for special categories?
- Should such programs be part of main scheme or have a separate administration?
- What to do with those contributing but irregularly?
- Do those programs provide well differentiated benefits?
- Are there better policy alternatives?
- What can the (new) role of social pensions be? Are they adequate in their present design?

Special Schemes for Agriculture Workers

Typical cases…

Country	Poland	Ukraine
Type	Flat contribution / flat benefit scheme with separate administration	Special regime, part of main scheme
Eligibility	Mandatory for farmers with >1ha of land. Voluntary for others	Agriculture employees
Financing	Quarterly flat-rate contributions (Euro 40, in 2003). Plus budget subsidy	Reduced contribution from covered employees (40% of normative rate). Plus budget subsidy.
Coverage	Around 10% of all insured	Around 7% of all insured
Issues	Significant budget subsidy (over 90% of expenditure); high administrative costs per insured	Explicit budget subsidy around 60% of revenues. Total implicit subsidy around 85% of expenditure.
Status	Operating	Preferential rate is being raised from 40% to 60% of the normative

KRUS: Low Coverage – High Admin Cost



Special Schemes for Agriculture Workers *(cont'd)*

On the way out…

Country	Albania	Croatia
Type	Special regime, part of main scheme	Special regime, part of main scheme
Eligibility	Farmers and rural self-employed	Farmers and household members
Financing	Reduced contribution based on residence. Difference to national minimum comes from the budget	Contribution is half of the normative total rate. The other half paid from budget
Coverage	Around 32% of all insured	5 % of all insured
Issues	Significant budget subsidies: contributions are only 1% of total revenues; monthly benefit to contribution ratio is over 9:1	Low compliance with payment requirements. Government paid its share on time, while less than quarter of farmers did.
Status	Phase-out considered	Special regime abandoned in 2002. Full contribution rate required.

Special Schemes for Self-employed

Operational alternatives…

Country	Ukraine	Kosovo
Type	Simplified taxation of Self-employed (SE) and Small Businesses (SB)	SE provisions integrated with the main DC scheme
Eligibility	Self-employed with <10 hires; Small Businesses with <50 employees; capped revenues	All self-employed required to participate
Financing	- SE: activity type related flat pay (+50% supplement per hire). SB: 10% of revenues. - Tax Admin collects and transfers 42% of the total to the Pension Fund	Quarterly contributions linked to profit tax or presumptive tax liability, collected by Tax Admin
Coverage	Around 8% of all insured	13% of all members
Issues	Legal gap in definition of credited period. Payments are below the legal minimum.	Over half of all contributions at or below the equivalent min wage contribution. But there is a universal flat pension.
Status	Operating. Pending elaboration of legal status. Some propose abolishing the regime.	Operating.

Observations

- In the sample, special schemes cover around 10% of all the insured

  - Experiments with reduced contribution frequencies and definitions of liability

  - But is the collection cost justifiable with small revenues and/or limited benefit differentiation?

- Considerable subsidies from the budget and/or from other groups

  - Poorly designed subsidies may be disincentive

  - Proper matching subsidy needs to be cash based. This requires reliable MIS

- Quest for synergies with tax mechanisms *but* involving Tax Administration may be both a solution and a problem

  - May be a cost saver on admin side

  - If fiscal system otherwise is weak/narrow, may be not a good idea

  - TA operational focus and record-keeping practices are different

  - Money and/or records may never reach the final destination

- Policy alternatives to special regimes need to be thought through