www.issa.int

issa | INTERNATIONAL SOCIAL SECURITY ASSOCIATION

Working paper

Extending social security coverage in Asia-Pacific: A review of good practices and lessons learnt

Mukul G. Asher[1]
ISSA Consultant

This paper is one of the studies produced under the ISSA Project on
"Examining the Existing Knowledge on Social Security Coverage Extension"

Working Paper No. 6

International Social Security Association, Geneva, 2009

The International Social Security Association (ISSA) is the world's leading international organization bringing together national social security administrations and agencies. The ISSA provides information, research, expert advice and platforms for members to build and promote dynamic social security systems and policy worldwide. An important part of ISSA's activities in promoting good practice are carried out by its Technical Commissions, which comprise and are managed by committed member organizations with support from the ISSA Secretariat.

This document is available on http://www.issa.int/Resources. For terms and conditions, please consult the ISSA website. The view and opinions expressed do not necessarily reflect those of the publisher.

First published 2009.

Contents

Summary

This paper reviews the current status of the coverage provided under social security programmes in the countries of Asia and the Pacific. The review includes selected country case studies and examines national policies and approaches in extending coverage. The paper identifies the barriers to coverage extension in the region and suggests measures that countries could adapt to suit their specific context and objectives. Such adaptation is seen as essential, not least because the region's countries are heterogeneous in terms of their development, fiscal capacities, social security systems, and institutional capabilities in delivering social security services.

1. Context

For several reasons, there is considerable urgency in non-Organisation for Economic Co-operation and Development (OECD) Asia-Pacific countries to extend coverage of social security systems.[2]

Firstly, policy-makers realize that extending social security programmes to a greater proportion of the population and maintaining real value of the benefits could have a positive impact on managing the current phase of globalization and on social cohesion.

Secondly, rapid ageing in many Asia-Pacific countries (ISSA, 2009) implies that the proportion of the elderly in the total population will increase rapidly, and each individual will be living longer. Without developing capabilities to extend coverage, their needs will not be met adequately. Longer life spans will especially require greater resources for health care, as the need for health care increases sharply with age.

Third, universal social security has been an important aspirational goal of most societies. Rising incomes and awareness of social protection practices elsewhere have raised expectations of the populations of low- and middle-income countries for adequate social security.

The social security taxes and contributions, however, act as a statutory cost for employing labour. The cost of hiring (and retrenching) labour needs to be calibrated with affordability by businesses, and with liquidity constraints which the members may face as a result of mandatory contributions. In pursuing extended coverage, this cost needs to be taken into account as in many Asia-Pacific countries, and creation of jobs will be even more essential than preserving some of the existing jobs which are not viable. Globalization has increased locational elasticities for both capital and labour.

The scope of social security benefit programmes varies considerably across the Asia-Pacific region (table 6.1) (ISSA, 2009). Although nearly all countries provide pensions for old age, disability and survivorship and most countries provide cover for work injury, the development of programmes for sickness and maternity benefits, unemployment benefits and family allowance is more patchy. Access to health care also varies considerably. The Republic of Korea and Japan stand out in also providing insurance programmes for long-term care. Singapore has also introduced an insurance scheme for long-term care. It has opting-out provision under which a potential member must explicitly choose not to participate, failing which automatic enrolment is undertaken.

Table 6.1 ***Similarities, differences and gaps: A selected overview of social security in 12 countries of Asia and the Pacific***

Country	Old age, disability and survivors	Sickness and maternity		Work injury	Unemployment	Family allowances
		Cash benefits for both	Cash benefits plus medical care[a]			
Australia	X	X	X	X	X	X
Bahrain	X	b	b	X	X	b
Bangladesh	c	X	X	X	b	b
China	X	X	X	X	X	X
Fiji	X	b	b	X	b	b
India	X	X	X	X	X	b
Indonesia	X	b	d	X	b	b
Palau	X	b	b	b	b	b
Philippines	X	X	X	X	b	b
Sri Lanka	X	b	d	X	e	X
Thailand	X	X	X	X	X	X
Viet Nam	X	X	X	X	X	b

Source: SSA and ISSA (2009).
a. Coverage is provided for medical care, hospitalization, or both.
b. Has no programme or information is not available.
c. Old-age benefits only.
d. Medical benefits only.
e. Coverage is provided under other programmes or through social assistance.

This paper reviews the current status of the coverage of social security programmes in Asia-Pacific countries. The review includes selected case studies of countries, examining their policies and approaches in extending the coverage. The paper identifies the barriers to coverage extension in the region, and suggests measures which the countries could adapt to suit their specific context and objectives. The adaptation is essential as the region is quite heterogeneous in levels of development, social security systems, fiscal capacities and institutional capabilities in delivering social security services.

2. The current status of coverage

A recent study of pensions in Asia-Pacific (OECD, 2009) identified the following four characteristics, all of which are likely to impact on at least one of the dimensions of coverage identified in endnote 2:

1. Coverage of formal pension systems is relatively low. In non-OECD Asia-Pacific, the coverage of mandatory pension schemes with respect to population aged between 16 and 65 years ranges from a low of 4 per cent in Pakistan to 22.2 per cent in Sri Lanka (table 6.2). The coverage with respect to the labour force is also low. It is 20.5 per cent in China, 15.5 per cent in Indonesia and 9.1 per cent in India.
2. Withdrawal of mandatory savings before retirement is very common, particularly in Singapore, Malaysia, Philippines, India and Sri Lanka. This reduces the period over which retirement savings can earn compound interest, adversely impacting the level of accumulated balances at retirement.
3. Pension savings are often taken as lump sums with the risk that people outlive their resources. The withdrawal of retirement savings as a lump sum negates the rationale of mandating (or providing generous tax benefits) such savings because given strong pressure of social obligations, and difficulties of self-control, such a practice is unlikely

to result in prudent use for retirement purposes by a substantial proportion of the elderly.

4. Pensions in payment are not automatically adjusted to reflect changes in the cost of living. A pension amount, which may be adequate at the time of retirement, reduces in real value due to inflation over time.

Table 6.2 *Coverage of mandatory pension schemes by population and labour force, 2006 (OECD countries) and 2005 (non-OECD countries)*

Country	Members	Percentage of population aged 15 to 65	Percentage of labour force
East Asia/Pacific			
China	159,000,000	17.2%	20.5%
Hong Kong, China			
Indonesia	15,683,000	11.3%	15.5%
Malaysia			
Philippines	8,336,946	18.7%	27.1%
Singapore			
Chinese Taipei			
Thailand	7,822,013	18.0%	22.5%
Vietnam	5,805,000	10.8%	13.2%
South Asia			
India	38,650,000	5.7%	9.1%
Pakistan	3,465,400	4.0%	6.4%
Sri Lanka	2,945,000	22.2%	35.6%
OECD Asia-Pacific			
Australia	9,578,000	69.6%	92.6%
Canada	15,950,000	71.4%	90.5%
Japan	63,560,000	75.0%	95.3%
Korea	18,994,604	54.6%	77.9%
Mexico	14,133,200	22.7%	34.5%
New Zealand			
United States	141,100,000	72.5%	92.5%
Other OECD			
France	24,319,400	61.4%	89.9%
Germany	36,156,000	65.5%	88.2%
Italy	22,146,000	58.4%	92.4%
United Kingdom	28,402,200	71.4%	92.7%
OECD (30)	463,879,410	60.4%	83.3%

Source: OECD (2009).

The coverage gap, however, has two other dimensions: scope and benefit levels (van Ginneken, 2008a). These also vary considerably among the Asia-Pacific countries. The regional, occupational and gender variations in coverage of both pension and health-care systems are large in Asia-Pacific countries, requiring policy attention. For the formal systems, the civil service pensions in Asia-Pacific exhibit high replacement rates (OECD, 2009), though indexation provisions are applied unevenly. Some countries, such as India, have regular price indexation, and periodic wage indexation. In other countries, such as Malaysia, indexation is ad hoc, implemented periodically. Fiscal sustainability of the current level of civil service benefits will be a major challenge in several Asia-Pacific countries, particularly for the civil servants in the provinces or states and local governments.

In general, pensions for the private sector workers are less generous and have relatively low replacement rates. Given the need to sustain business competitiveness, it is unlikely that the contribution rates and/or wage ceilings for private sector workers in the formal sector can be increased. Indeed, in some countries, such as Thailand, Malaysia and Singapore, the effective contribution rates, representing a combination of contribution rate and a wage ceiling, have been reduced. The official explanation for the reduction is the need to ensure that domestically based businesses remain competitive.

There is room to expand the scope of health-care provision, particularly for those who are currently not covered or inadequately covered. For pensions, the scope for coverage in terms of contingencies covered is limited. The global crisis will complicate the task of policy-makers in expanding scope and benefit levels for workers covered under the formal systems. Considerable attention and resources will need to be devoted to providing non-contributory social assistance and pensions, and towards increasing government share of the cost of health care if the social security needs are to be met. The current global crisis, which is expected to lower medium-term economic growth globally, as well as in Asia-Pacific, will, however, constrain the fiscal capacities of many countries in the region.

One of the major constraints in extending coverage of social security programmes in Asia-Pacific concerns the structure of the labour force, which makes extension of coverage through traditional employer–employee systems less effective.

3. Most of the labour force increase will be in the informal sector

Global demographic trends suggest that more than three-fifths of the potential livelihoods generation between 2005 and 2020 will be in the Asia-Pacific region (table 6.3). India alone would need to generate a quarter of the potential global livelihoods, while China and Indonesia's share will be 8.5 and 3.8 per cent respectively (table 6.3). In sharp contrast, Europe's working-age population will exhibit a decline, while the share of North America in potential livelihoods generation will be only 2.8 per cent. Africa, with a share of 27.5 per cent, will also face significant challenges in livelihoods generation.

Table 6.3 ***Potential livelihoods generation* by region (2005–2020)***

		No. (millions)	% of world total
World		846.6	100.0
Asia-Pacific		526.7	62.2
of which	India	211.7	25.0
	China	71.8	8.5
	Indonesia	32.0	3.8
Africa		232.6	27.5
Europe		–17.8	–2.1
Latin America and Caribbean		79.3	9.4
North America		23.6	2.8

Note: *This is defined as the number of economically active persons, defined as those between 15 and 64 years of age in a given region, for whom livelihoods will need to be generated in the formal or the informal sectors.

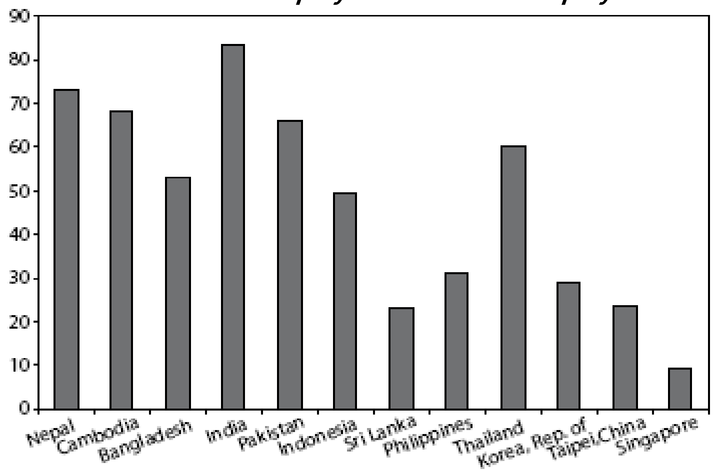
Source: Calculated from Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision, http://esa.un.org/unpp, Tuesday, 7 July 2009; 10:07:58 p.m.

The above analysis suggests that the Asia-Pacific region, particularly its developing countries, will need to create a better balance between creation of new jobs and livelihoods on the one hand, and preserving existing but unsustainable jobs on the other. These acquire greater urgency as the current global economic crisis portends slower jobs creation.

In Asia-Pacific, the share of informal sector employment even in urban areas ranges from a low of less than 10 per cent in Singapore to a high of more than 80 per cent in India (figure 6.1). Moreover, much of the increase in jobs creation will be in the informal sector where formal employer–employee relationships on which traditional social security systems have been built do not exist.

A significant proportion of the informal sector workers will be women. Consistent with the rest of the world, women in Asia-Pacific live longer than men but as a group have lower exposure to the labour force. They also earn less than men on the average as a group. Thus, extending coverage to address this gender issue will need to be an integral part of any strategy to close the coverage gap.

Figure 6.1 ***Share of informal sector employment in urban employment***



Source: Park (2009).

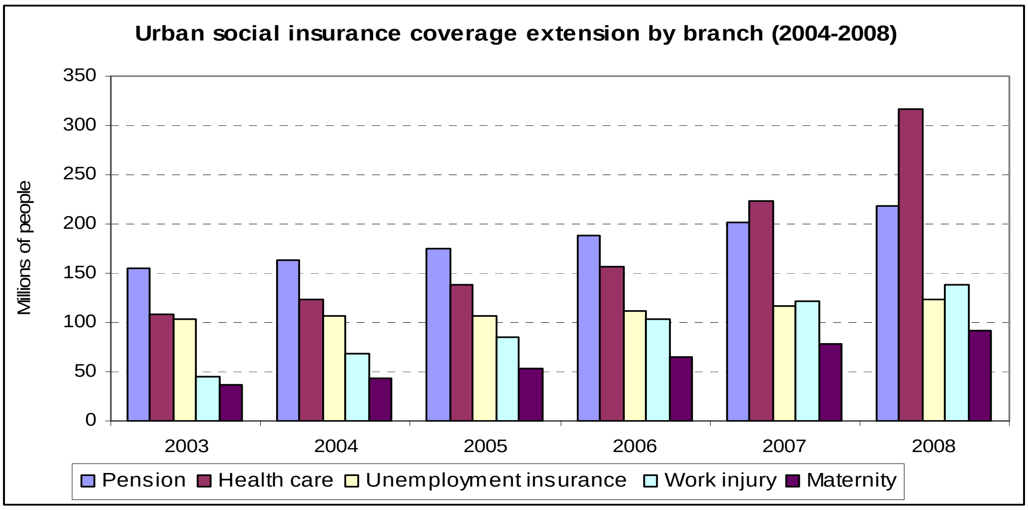
We now turn to select case studies on coverage extension. Except for India, where the initiatives to extend coverage are too recent to have had a meaningful impact, the other countries have exhibited success in extending pension and/or health coverage.

4. Select case studies on coverage extension in Asia-Pacific region

4.1 China

China has managed to establish a comprehensive system ranging from pensions and medical care to unemployment, employment injury and maternity (figure 6.2). In recent years China has witnessed unprecedented extension in social security protection. This section summarizes key developments in extension of social security protection in various programmes: health, pension, unemployment, maternity, and work injury benefits. It also identifies challenges in addressing coverage issues.

Figure 6.2 *Urban social insurance coverage in China*



Source: Zhu (2009).

China established its social security system in 1951, and has since witnessed considerable evolution. The 1951 Regulations on Labour Insurance provided comprehensive benefits to urban workers, an overwhelming proportion of whom were state workers. It was a pay-as-you-go (PAYG) system, and was funded by a 3 per cent contribution of total payroll by firms.

The All-China Federation of Trade Unions (ACFTU) set up in 1954 administered the system, pooling risks across diverse regions. This system was abandoned when the Cultural Revolution began in 1966 and lasted for a decade. During this period social security responsibility shifted from the ACFTU to individual enterprises. The resulting system was quite generous as benefits included pensions, health care, children's education and housing, while no contribution from employees was required.

4.1.1 Health-care reform in China

Until the 1980s, health care in China was explicitly provided by the State. Most of the population was covered by one of three social insurance schemes: the Government Insurance Scheme (GIS), the Labour Insurance Scheme (LIS) and the Cooperative Medical System (CMS). The CMS covered 90 per cent of the rural population and covered 50–70 per cent of their total medical expenditure (Ramesh and Wu, 2009).

Health-care status improved significantly between 1952 and 1982: the Chinese population registered remarkable advances in life expectancy from 35 to 68 years; and a decline in the infant mortality rate from 200 to 34. Total health-care expenditures in this period formed less than 3 per cent of GDP.

China's economic reforms in the 1970s significantly weakened its health system. Public health provision declined as government subsidies were reduced; many state enterprises were dismantled or were unable to afford health-care protection for their employees. The CMS was discontinued as collective farming ceased and, by the mid-1980s covered less than 5 per cent of the population (Ramesh and Wu, 2009).

Following pilot projects in Jiujiang and Zhenjiang the Government announced the Basic Health Insurance Scheme (BHIS) in 1998 for urban employees. The BHIS is funded by contributions from employees (2 per cent) and employers (6 per cent). In 2006, the BHIS covered approximately 28 per cent of the urban Chinese population (Ramesh and Wu, 2009).

In 2003, the Government launched a New Rural Cooperative Medical Scheme (NRCMS) funded from a government subsidy of US$2.50 a year and a member contribution of US$1.25. Recently, the government increased the subsidy from US$2.50 to US$6.00. Coverage under the NRCMS increased rapidly from 11.6 per cent in 2004 to 50.7 per cent in 2006 and the scheme currently covers 91.5 per cent of the rural population.

4.1.2 Pension reform in China

During the 1960–70 period the responsibility for providing social security shifted from the ACFTU to individual firms. In 1986, employees were required to contribute 3 per cent of wages, while enterprises contributed 15 per cent of their payroll. A new agency, the Social Insurance Agency (SIA) was also set up to supervise pensions. The system was similar to a defined benefit (DB) scheme run at an enterprise level. If the firm was unable to pay, the SIA covered the pension liability.

In 1991, the No. 33 State Council Resolution on Pension Reform for Enterprise Employees was promulgated. For the first time, it envisaged a three-tier system, with contributions from employer and employees (as Tier 2), and a savings account, with contributions from only employees (as Tier 3). However, only a negligible number of enterprises set up Tier 2 and Tier 3 in this period.

In 1995, the Circular No. 6 State Council Resolution on Deepening Pension Reform for Enterprises made another attempt at setting up a multi-pillar pension system combining social risk pooling and individual retirement accounts. The implementation regularities led to the creation of many incompatible schemes across China.

China's modern milestone pension regulation was adopted in 1997. It is known as the State Council Development No. 26 Establishment of a Unified Basic Pension System for Enterprise Employees.[3] It mandates three-tier systems for all employees working in cities and towns, whether in public or private sectors. The intention was to broaden the coverage beyond state agencies. The mandatory pillar had a combined contribution rate of 28 per cent, and the potential replacement rate is 58 per cent.

While the first pillar is mandatory, the other two are voluntary. For the mandatory pillar, there were 116.5 million urban participants in 2003, equivalent to about 40 per cent of urban workers (Hu, 2006, table 9). As the pensioners numbered 38.6 million, the dependency ratio was 33.

The voluntary pillars 2 and 3 have been receiving increasing attention from China's policy-makers. In 2004, the Ministry of Labour and Social Security (MOLSS) issued a provisional regulation on occupational pensions. This was followed by another regulation focusing on pension fund management and regulation. The second pillar has individual accounts and must be fully funded. The scheme, however, can be defined contribution (DC) or DB depending on the choice by employer.

Under the provisions, employers can receive tax deduction of up to 4 per cent of the total wage bill for pillar 2, but employees' contributions are not tax-advantaged. The investment regime specifies quantitative restrictions on the investments, with maximum investment in equities of 20 per cent (Hu, 2006, p. 17).

Separately, China has a voluntary rural pension scheme implemented since 1991. It is financed by voluntary contributions and a collective subsidy. The coverage rate has been steadily increasing from 8.3 per cent in 2003. At end-2008, a total of 55.95 million rural Chinese were covered under the scheme. Benefits amounting to Chinese Yuan Renminbi (CNY) 5.8 billion were distributed to around 5 million pensioners in 2008. Accumulated contributions amounted to CNY 50 billion over three years, approximately 11 per cent of which was paid out to pensioners in 2008.

As the rural working population is much larger than the urban working population, the overall coverage rate for China in 2003 was 20.7 per cent.

The age for pension eligibility is relatively low in China. The central Government guidelines are age 60 (for men and professional women), age 55 (non-professional salaried women), or age 50 (women in all other occupations). Those employed in arduous or unhealthy work are eligible for pension benefits when 55 (for men) and 45 (for women) respectively. Each retiree in China will thus be eligible to receive a pension for a fairly long period, particularly as longevity is expected to increase.

China first piloted corporate annuities as a second pillar in its social security system in 1990, and implemented it in 2004. A Corporate Annuities scheme covers 10.38 million people, over 30,000 enterprises and has accumulated contributions exceeding CNY 190 billion as of end 2008 (Zhu, 2009).

4.1.3 Unemployment benefits

Initially, unemployment benefits were limited to those working in state-owned enterprises (SOEs). However, the unemployment insurance scheme is now compulsory for all working in urban China. The scheme requires a 2 per cent contribution from the employer and is matched by a 1 per cent contribution from the employee. Benefits range from 60 per cent to 75 per cent of the minimum wage, and are linked to the number of years a member has contributed to the scheme. Unemployment benefits paid range from one year for members who have contributed for less than five years, to two years for members who have contributed to the scheme in excess of ten years.

The scheme covered 124 million workers or 41 per cent in 2008, an increase in coverage from 104 million workers or 40 per cent in 2003.

4.1.4 Work injury benefits

The work injury benefits scheme covers employees in all urban areas. It requires a 1 per cent contribution from employers. Contributions vary with occupational profiles of enterprises, and the risk associated with hazardous jobs. The scheme provides for medical treatment, and temporary or a permanent disability pension. Coverage under this scheme has increased rapidly. In 2008, it covered 137 million workers or 45 per cent, an increase from 46 million workers or 18 per cent of urban workers in 2003.

4.1.5 Maternity benefits

The Maternity Insurance Programme requires a contribution rate of 1 per cent by employers. The social insurance fund pays out the member's average monthly salary from the previous year for 90 days for the birth of a child. In 2008, the scheme covered 93 million urban women or a coverage rate of 31 per cent, an increase from 37 million urban women or a coverage rate of 14 per cent in 2003. In 2008, 1.4 million women received benefits of approximately CNY 7.1 billion or 62 per cent of contributions or 42 per cent of accumulated balances over three years.

Two broad themes emerge from China's social security reform experiences. First, there has been rapid expansion in coverage of all five realms of social security protection (table 6.4). Rapid increase in coverage rests on unified planning for both rural and urban areas, and a committed effort to enhance social security protection and achieve universal coverage by 2020. There have been remarkable advances in coverage: a five times increase in health-care protection for both the urban and rural Chinese population has key implications for other Asia-Pacific countries. Zhu (2009) mentions several special characteristics of China's approach: the involvement of academics and social partners; piloting and gradual expansion; political will; inclusion of extension in national socio-economic development plans; special campaigns for targeted groups; employment-promotion measures for less privileged groups; and several other proactive policies that merit attention and adaptation by other Asia-Pacific countries.

Table 6.4 ***Increase in social security coverage in China***

Social security branch	Coverage in 2003 (m.)	Coverage in 2008 (m.)	Increase in coverage from 2003 – 2008
Pension benefits	155	218	41%
Health-care benefits	189	1,123	494%
Unemployment benefits	103	124	20%
Work injury benefits	46	138	200%
Maternity benefits	37	93	151%

Source: Adapted from Zhu (2009).

The second broad theme that emerges is the increasing role of the State in delivering social security protection in China. Advances in health status social indicators were achieved in the three-decade period (1950–80) when social security was largely a public provision. China's social security system was substantially weakened by the economic reforms in the last few decades of the twentieth century. Recent experiences with China's social security reform have underscored the State's ability to provide social security protection to an increasing number of people.

However, there are key challenges and policy options that the Chinese social security system must contend with.

Firstly, the pension system is urban and state-sector oriented. As a result, the majority of the population in rural areas, where only voluntary pension schemes are in operation, have very low coverage. In addition, urban–rural migration has resulted in a significant proportion of migrants losing part or all of their pension benefits.

Low fertility rates and rapid ageing will limit the extent to which traditional family (or community) support can be relied upon in financing old age in China.[4]

Secondly, in urban areas, high contribution rates, an unrealistically low retirement age, and continuation of rules favoring the state sector are hampering increased coverage and provision of adequate pensions.

The third challenge is to improve investment policies and performance of urban, rural and National Social Security funds (NSSF). A substantial proportion of the pension assets are in bank deposits and government bonds. Thus, in 2004, 82 per cent of NSSF assets and 56 per cent of rural pension fund assets in 2003 were in these two asset classes (Hu, 2006, p. 105, tables 19 and 20). The average real return for the 1993–2004 period on deposits was –0.6 per cent and on government bonds 1.0 per cent, and on equities 4.5 per cent (Hu, 2006, p. 104). This suggests that there is scope for improving investment policies and performance of pension assets in China. Addressing this will require substantive capital and financial market reforms.

China historically has adopted different social security systems for its rural and urban population. Recent rural-to-urban migration in China has caused major social security compliance challenges. While the urban system has a mandatory component the rural pension system is on a voluntary basis. The rural pension system is covered under the Provisional Rural Pension System regulations of 1992, the details of which, such as the levels of contributions, are left to local governments.

Finally, the Chinese system exhibits considerable variation and fragmentation between regions, sectors and classes of employees. Pensions for civil servants are entirely funded from the budget.

Such a variation is partially due to differing demographic structures in various provinces. There is a need to consider passage of a national law on social security.

4.2 Thailand

Thailand has accepted the principle of social risk pooling for both public and private sector employees. It has also made some progress towards developing a multi-tier social security system. Until 1990, when the Social Security Act came into force, except for the employment injury benefits there was no other social security provision for private formal economy workers. The Social Security Act provides for the phased introduction of a comprehensive social security programme for private sector employees.

Social insurance and health insurance are the two types of social security mechanisms prevalent in Thailand. The Comptroller-General's Office administers social security programmes for government employees, while the Social Security Office (SSO), under the Ministry of Labour, administers the same for private employees in the non-agricultural sectors. The Private School Teachers' Welfare Fund (PSTWF), under the Ministry of Education, administers social security programmes for private teachers. The Ministry of Public Health administers universal health care for the general population, excluding government and private employees in the non-agricultural sector.

The SSO provides fairly comprehensive benefits from health care to short-term cash benefits (sickness, maternity) to long-term cash benefits (old-age, invalidity, death). In addition, employment injury benefits are also provided through the Workmen's Compensation Fund (WCF).

The contributions of old-age pension began in 1998, but the first benefits will not be paid out until 2014. The pension equals the minimum of 15 per cent of the average wage of the member who has contributed for at least 180 months. The pension increases by one percentage point for every 12 months of additional contribution. The contribution rate, however, is lower (currently 6 per cent) than the rates required to meet the promised benefits. This suggests that a combination of increase in contribution rates and parametric reforms in benefits will need to be considered for financial sustainability. In addition, accumulated pension balances will need to be invested to generate reasonable returns.

Health care in Thailand is provided by the SSO for private sector employees, by the Civil Servants' Medical Benefit Scheme (CSMBS) for civil servants or by the Universal Health-care Scheme (UC Scheme, also known as the 30-baht Health-care Scheme).

The Social Security Act was revised in 2002 to broaden coverage under the Scheme from only private enterprises employing ten or more workers to include the smallest of enterprises. The Scheme originally applied to workers in establishments employing 20 or more workers. By 2004, 70 per cent of the eligible private sector employees were covered; though regions in north-east, north and south of Thailand had coverage of less than 50 per cent (Chandoevwit, 2006). The regional dimensions of coverage therefore constitute an important public policy challenge in Thailand.

Since 1995, the SSO has also added more benefits in accordance with the Act. In 1995, for example, the maternity allowance was extended from 60 days to 90 days, invalidity pensions became payable for life, and survivors' grants were introduced. In 1998, the old-age pension and child allowance were introduced.

In 2004, the SSO introduced unemployment insurance. The benefits under the unemployment insurance scheme are also provided to those employees who quit their jobs voluntarily. In December 2005, 68 per cent of those receiving unemployment insurance had left their jobs voluntarily (Chandoevwit, 2006). This may impact on the scheme's financial sustainability.

In 2009, the Government of Thailand integrated a mandatory second-tier defined benefits scheme into its existing social security system. The scheme will initially cover firms employing more than 100 people, and will gradually extend coverage to firms employing one employee by 2018. The contribution rate is set at 6 per cent, to be paid equally by the employer and employee. The contribution rate will be adjusted to achieve a replacement rate of 50 per cent. The current retirement age of 60 will be gradually raised.

Thailand also provides a positive example for increasing coverage in health-care protection while providing access to good quality and affordable health care (Damrongplasit and Melnick, 2009). Thailand implemented government-funded universal health care in 2001. Previously, most citizens were covered by the Workers' Compensation Scheme (WCS) (1974), Civil Service Medical Benefits (CSMB) (1980) and Social Health Insurance (SHI) (1991); however, with the launch of the Universal Coverage Scheme (UCS) in 2001 all Thais have access to government-financed health care. Residents are required to register with one provider network, and have a choice if there are competing networks within their geographic area. Providers are reimbursed on mixture of capitation and Diagnostic Related Groups. Until 2006, members of the UCS had to co-pay 30 baht as a user fee, but since then all user fees have been removed. The WCS is an employer liability scheme that covers workers against work-related illnesses, disabilities and injuries. The CSMB is a non-contributory programme funded entirely by the Government. Damrongplasit and Melnick (2009) analysed the UCS using Thailand's official National Health and Welfare Survey for 2001 and 2005. They found that the number of uninsured persons declined drastically from 16.5 million in 2001 to only 2.9 million in 2005; and 71 per cent of the population (45.3 million persons) were enrolled in the 30-baht health scheme in 2005. They also found low incidence of informal or side payments.

While they found that the Universal Coverage Scheme has vastly expanded access, they cautioned that the programme's overall costs, financing, benefits and long-term financial sustainability need to be studied in more detail.

4.2.1 Lessons from health sector coverage in Thailand

Firstly, the political conviction and support of the reforms within the Ministry of Public Health combined to create a favourable political and bureaucratic environment for the Universal Coverage Scheme.

Secondly, the low cost to the users meant that it was affordable to informal sector workers, and therefore there was little resistance from the beneficiaries. Hence, level and design of contribution played an important role in the smooth implementation of the Scheme, and in extending coverage.

Thirdly, there was good quality health infrastructure in place to meet increased demand for health care when the UCS was introduced. Often, supply-side constraints are major obstacles to meeting sudden increases in health-care coverage and demand. The efficiency of the administrative systems ensured speedy registry of about 45 million people for the Scheme in four months.

Fourthly, the funding of the Scheme constituted direct payment of capitation to clinics and hospitals that registered to treat patients. It ensured that public funds went directly to the facilities that had the most patients.

Fifthly, in spite of changes of governments since then, the political support for the Universal Coverage Scheme, particularly from the beneficiaries, has remained strong.

In adapting these lessons, other countries should guard against the emergence of informal or side payments , whether in kind or cash, to the suppliers of health care; the tendency to lower quality (including longer waiting-times), and limiting of benefits by the subsidized health-care providers.

4.3 Republic of Korea (ROK), (henceforth, Korea or South Korea)

The South Korean pension system comprises four main schemes: the National Pension Scheme (NPS), introduced in 1988; the Government Employees Pension Scheme (GEPS) introduced in early 1960s; the Military Personnel Pension Scheme (MPPS); and the Private School Teachers' Pension Scheme, introduced in 1973.

The coverage of the main Korean old-age pension scheme, the NPS, has been progressively extended since its inception. The NPS initially covered workers in companies with ten employees or more. The compulsory coverage was extended to companies with at least five employees in 1992. The self-employed in the rural areas and urban areas were also brought under the ambit of the NPS in 1995 and 1999 respectively. The rapid extension of old-age insurance in a decade led to a concomitant increase in the number of contributors, from about 4.5 million in 1988 to 16 million in 2000, and over 18 million in 2007. However, 5 million of these members are exempted from mandatory contributions. Unemployment has been the primary reason for such exemption, accounting for approximately three-quarters of the cases. The other reasons are related to economic hardships of the contributors, lack of permanent residence, or people postponing their work for educational purposes (Annycke, 2009).

Under the NPS, the proportion of elderly persons receiving a pension is much lower than the proportion of workers covered by a pension scheme. However, the number of workers receiving a pension has increased significantly from 27.5 per cent in 2000 to 33.5 per cent in 2004 (Annycke, 2009). But in spite of the moderate success of the NPS, there are still two-thirds of the elderly without any old-age social insurance benefit, and almost half of the working-age population does not contribute to any scheme.

The GEPS covers about 1 million civil servants, and the MPPS covers about 150,000 military officers. The Private School Teachers' Pension Scheme covers about 200,000 persons. These three separate old-age insurance schemes cover less than 1.5 million contributors, and hence play only a marginal role in terms of coverage and in terms of extension in comparison to the NPS.

Another additional scheme, the Retirement Allowance Scheme (RAS) is a severance payment system implemented in 1953. It mandates that "workers with more than one continuous year of service are entitled to receive, upon retirement, a lump sum payment equivalent to one month of base salary for each year of service". Since the base salary is an average of the employee's wage in the last three months prior to retirement, the scheme implicitly favours high-wage earners and does not provide adequate income maintenance to finance retirement expenditure. In 1997, the Labour Standards Act allowed employers to convert the severance pay into corporate pensions. The RAS is not very popular, covering only 30 per cent of the economically active population.

In the area of health care, Korea provides an instructive social insurance extension example. In 1977, an initial compulsory health insurance programme called the National Health Insurance (NHI) was introduced which covered employees of large companies with more than 500 employees. In 1979, it encompassed other groups such as government employees, private school teachers and employees in firms with more than 300 employees. The NHI was gradually extended over the years, and in 1988, it was extended to those companies with at least five employees. The NHI was also extended to all rural and urban self-employed categories between 1988 and 1989. The NHI also covers dependants of members. Only daily wage earners with less than one month of continuous employment and the unemployed continue to be excluded from any insurance scheme.

In 2000, the health-care reform extension was completed, with the merger of the other health insurance schemes into a national scheme. In 2007, the NHIC covered 96.3 per cent of the population while the remaining 3.7 per cent, constituting mostly people with very low incomes, were covered by the public social assistance programme (Medical Aid). Medical Aid is a means-tested public assistance scheme that pays for 33–100 per cent of the individual's medical care costs depending on the claimant's degree of poverty. NHI and Medical Aid together cover the entire ROK population. Health-care provision is largely by the private sector and providers are reimbursed on a regulated fee-for-service schedule. There are significant user fees (25–35 per cent) that are borne out-of-pocket by patients.

4.4 Viet Nam[5]

Viet Nam's Social Security System (SSS) was established on 1 October 1995. Participants of compulsory social security include those in the private sector, semi-private sector and the cooperative sector. The SSS provides various benefits in case of old age, maternity and other contingencies.

In Viet Nam, the Social Security Law came into effect on 1 January 2007. The Social Security Law incorporated (i) unemployment insurance comprising unemployment benefit and vocational training benefit, and (ii) jobseeking supports and voluntary social insurance comprising old-age benefit and survivors' benefit. The provisions of the new Law on voluntary social insurance came into effect on 1 January 2008, while those of unemployment insurance came into effect on 1 January 2009. Preliminary estimates suggest that 6,200 people had participated in voluntary social insurance by the end of 2008, 80 per cent of whom were also affiliated to compulsory social insurance.

The participation in the compulsory pension programme in Viet Nam has increased steadily, from 4.2 million in 2000 to 6.2 million in 2005 and 7.4 million in 2007 (18 per cent of the labour force). The number of beneficiaries has increased from 1.8 million in 2003 to 2.1 million in 2007. However, the social security coverage in Viet Nam has been largely limited to a small portion of the population, primarily covering the civil servants, and private sector workers in the formal sector.

The Government of Viet Nam enacted an unemployment insurance scheme in 2009 that is expected to provide unemployment benefits to 5–6 million Vietnamese. Contributions (1 per cent of the salary) are shared between the worker, employer and government. Unemployment benefits vary with the number of months the worker has contributed to the scheme, and will correspond to 60 per cent of the average salary in the past six months of employment.

There are three main health insurance schemes in Viet Nam, namely, Compulsory Health Insurance (CHI), Voluntary Health Insurance (VHI) and Health Insurance for the Poor (HIP). The CHI, based on social insurance principles, covers current and retired civil servants, employees of state enterprises and private enterprises with more than ten employees. Its provisions are laid out in Law No. 71 of 2006. Members are required to pay a co-insurance of between 20 and 50 per cent. Initially, only enterprises with ten or more workers were obliged to participate, but the threshold was eliminated in 2005. Protection by this scheme does not extend to family members. But people of merit and pensioners are covered at the Government's expense.

The benefit package is quite generous, and covers out-patient and in-patient services at all levels of health care, including high-tech services like MRI, and open-heart surgery. Insured patients are eligible for health care provided not only at public health facilities, but also at private units that have contracts with the health insurance agency. However, despite the low contribution rate, and generous benefits, compliance with the compulsory scheme is only partial.

By 2005, most SOEs participated in the programme, but only a fraction of private enterprises did so. Although the number of participants in the compulsory scheme increased over time, their average compliance rate was still low in comparison with the eligible population. While the compliance rate of the public sector was almost 100 per cent in 2005, the private sector had a compliance rate of only 20 per cent. Even the salaried workers, who were obviously administered in the formal labour markets, had a compliance rate of only 50 per cent (about 5.75 million active participants out of 11 million eligible people) in 2005. The main reason for such low compliance rates includes weak labour registration and enforcement measures, and limited institutional capacities (Long, 2008).

The VHI scheme covers the self-employed and others who are ineligible for protection under CHI. The regulations of the voluntary scheme were not changed significantly until 2006. Circular 22/2005/TTLT–BYT–BTC dated 24 August 2006 provided crucial requirements on coverage, i.e. the minimum rate of participation. For instance, a household can participate in the scheme only when at least 10 per cent of the number of households in their community have participated in the scheme. This is also the required minimum rate in the voluntary scheme for association-based members, as well as pupils and students. Premiums vary from US$1.60 to US$9.30 (in 2006) per annum and increase for members who seek comprehensive protection. Benefits of both the VHI and CHI are similar.

In the voluntary scheme, pupils and students have been dominant (more than 80 per cent) since the establishment of the scheme, followed by the household-based and association-based participants. Although the number of participants in this scheme also increased over time, the coverage for pupils and students was still low, at only 41 per cent of all pupils and students in Viet Nam in 2005. The total number of household-based and association-based participants was limited (only at about 1.3 million people). The regulation on the minimum rate of participation limits coverage. A household is allowed to participate in the scheme only when at least 10 per cent of households from the community have participated in the scheme. Such regulation may result in adverse selection, in which most participants may be people who have high demand for health-care services, such as the disabled or those aged 65 and above. The regulation may also be a disincentive for healthy people to participate in the scheme, as they might have to pay more heavily to cover costs for other people under a risk-pooled basis (Long, 2008).

The HIP (for the indigent) is funded by the Government, and contributions from donor and charitable organizations. Providers for all schemes are reimbursed on a fee-for-service schedule. However, reimbursements have a cap and benefits must be accessed at a public hospital.

At the end of 2004, about 18 million people were covered by the above three schemes. After the issuance of Decree 63/2005 and supplementary regulations, the number of participants in the schemes substantially increased to 23.4 million (or equivalently the coverage rate increased from 22 per cent to 28 per cent of the whole population). In 2006, the total number of members reached 30.5 million, of which 11.2 million (or about 37 per cent) were poor people.

Viet Nam has seen increasing coverage and an increase in benefits provided under the various social security schemes. However, this has added to the burgeoning financial stress faced by the government. Long (2008) mentions a report (but without providing a reference) which estimates that total health expenditure in 2005 was about triple that of 2003; however, the number of participants only increased by 40 per cent. The excess expenditure was estimated to be Vietnamese dong (VND) 1,800 billion in 2006, and is expected to increase in the coming years if the current contribution rates and benefits received by members are not revised (Long, 2008).

Another complicating factor is the significant increase in the number of elderly people (aged 65 and above) in Viet Nam. The number of people aged 65 and above is around 8 per cent of the population in 2009, and is expected to increase to 26 per cent by 2050. As life expectancy increases, the expenditure for providing adequate retirement and health-care protection to the elderly will also increase.

Long (2008) recommends that for Viet Nam to achieve universal coverage, it must further extend coverage, improve financial and investment performance of accumulated contributions, and strengthen institutional capacities.

Viet Nam's one-party political system provides opportunities for more effective use of mass party organizations that have a nationwide presence and could help in further extending coverage to socially prioritized groups. Specifically the farmers' and women's unions affiliated with the ruling party could help to increasing enrolment, and thereby extend coverage to a section of the informal sector.

4.5 Iran

In Iran, though the process of developing social insurances can be traced back to the early 1930s, it was only in 1975 that the Social Security Law was approved, and the Social Security Organization (SSO) formed. According to the Law, the SSO covered employees who receive salary or wage in any case; the self-employed; foreigners who work in Iran; rural people; pensioners (retired, disabled and survivors); and the employees of ministries, institutions and public companies who are not covered by any other protective system.

In 1990, the Unemployment Insurance Law was ratified, covering persons who are subject to the Social Security Law, excluding the retired and totally disabled; the self-employed and the voluntary insured; and foreigners residing in Iran. In 2004, the Law on Structure of Comprehensive Welfare and Social Security System was approved, on the basis on which the social security system in Iran comprised three domains – insurance, protection and rehabilitation. The passage of the 2004 Law has led to the formation of the Ministry of Welfare and Social Security.

In the insurance domain, the SSO is the largest social insurance organization in the country, and is responsible for expanding social insurance coverage. Under the SSO, the benefits to the insured and their dependants cover sickness, accidents and work injuries; maternity and confinement; wage compensation; disability pension; retirement pension; death grant; and marriage grant and family allowances. In accordance with the Unemployment Insurance Law, unemployment benefit is payable to qualified insured persons.

In 2007, there were 8.4 million insured (equivalent to 34.4 per cent of the labour force of 24.4 million), and 1.2 million pensioners. The support ratio, i.e. the number of insured per pensioner, has declined from 8.7 in 1996 to 6.8 in 2007 (SSO IR Iran, 2008). There are plans to increase the number of insured persons to 10 million by the end of 2009 (SSO IR Iran, 2008). The SSO has been under financial pressure because its receipts, 88 per cent of which were derived from contributions in 2007, are insufficient for the benefits distributed (SSO IR Iran, 2008). Early retirement provisions and a relatively low wage ceiling for contributions have contributed to the financial pressures on the SSO (*Iran Daily*, 24 July 2006).

Under Iran's Construction Workers Social Security Law, construction workers are currently covered for various contingencies, including work-related accidents, health care and retirement (SSO IR Iran, 2008). A percentage of the minimum wage at the time of issuing a construction licence is paid by the insured and by the Government (co-contribution principle) according to the size of the construction project and the population of the region. This has helped extend coverage among construction workers, although precise data are not available.

Iran has also made compliance with voluntary benefit schemes easier by reducing the required contribution payment, and waiving the requirement of a business licence for receiving self-employed insurance benefits.

4.6 India

India has developed a fairly complex system of social security since the 1950s (Asher, 2008). It has a defined benefit (DB) pension system for the civil servants. For the private sector workers, a mandatory defined contribution (DC) scheme has existed since 1952, but the coverage is confined to firms employing 20 or more workers. This has remained unchanged since then. In 1995, a DB scheme was implemented for the private sector workers. Its coverage, however, is somewhat lower than for the DC scheme, but the membership in the two schemes exhibits substantial overlap.

As the formal sector employment in India has remained fairly static at around 50 million (and this includes about 20 million civil servants), the mandatory schemes currently cover less than 10 per cent of the labour force of 475 million. Improving the administrative, technological and managerial capabilities and capacities of the Employees' Provident Fund Organization (EPFO) is essential for extending coverage of formal sector workers.

A small proportion of workers in the informal economy are also covered by social security schemes, with the result that only 10 per cent of the Indian population enjoy some level of social protection (van Ginneken, 2008b).

India's health-care system exhibits a high share of out-of-pocket expenditure, which constitutes around four-fifths of the total national health expenditure. The health insurance coverage is fairly low, and the government health facilities leave considerable scope for improvement in terms of quality and reach. As van Ginneken (2008b) has noted, the Employees' State Insurance Scheme (ESIS), established in 1948 to provide medical care and benefits in the event of sickness and disability, has a membership of only 7.1 million workers; and its current network of health-care facilities is assessed to be understaffed, not equipped with modern technologies and under-used.

In 2005, the Indian Government launched the National Rural Health Mission (NRHM) programme. It focuses on establishing community-owned, decentralized health delivery systems, while improving public amenities involving water, sanitation and health-care services (http://www.mohfw.nic.in/NRHM.htm). While the foundations for village-level health care have been laid, progress will depend on the extent to which governments at all levels are able to translate budgetary outlays into outcomes.

The low quality of public health-care services impacts particularly adversely on the health-care security of low- and middle-income households. Thus, improving the quality of publicly provided health-care services is essential for better coverage.

As noted in table 6.3, between 2005 and 2020, India will need to provide livelihoods to an additional 212 million people or a quarter of the global total, or 40 per cent of the potential livelihoods in the Asia-Pacific. Much of the increase in the labour force is expected to be in the informal sector. This suggests that expanding coverage of social security, particularly for the workers in the informal sector, is an urgent need for which a public policy response is needed.

In recent years, India has undertaken several initiatives for expanding coverage and improving administrative and financial sustainability of various schemes. In particular, the following initiatives may be highlighted.

Firstly, to reform its civil service pension system, India introduced the New Pension Scheme (NPS), a defined contribution scheme with distinct mandatory and voluntary components. An interim pension regulatory authority, the Pension Fund Regulatory and Development Authority (PFRDA), was set up in 2005. The PFRDA Bill is expected to be introduced in the winter session of the Parliament in December 2009.

The mandatory component was made operational from 1 April 2008. Mandatory membership covers central Government employees (except armed forces personnel), who first commenced employment on or after 1 January 2004. The total contribution rate for the mandatory NPS is 20 per cent of monthly earnings, split equally between the employee and the Government (as employer). The mandatory NPS is paid at age 60 and does not permit pre-retirement withdrawals. At present, 22 States/Union Territories in India have introduced NPS-type schemes. The scheme has the potential to cover 20 million civil servants in India.

The voluntary component of the NPS is open to all citizens between the ages of 18 and 55, and became operational on 1 May 2009. The voluntary NPS has limited pre-retirement withdrawal provisions and flexible contributions.

The NPS architecture incorporates insights from pension research and reform experiences globally. Consistent with insights from behavioural finance, the NPS offers well-considered investment choices, including a default option which automatically varies asset class exposure with age. The equity exposure in all cases is only through indexed funds. The members are therefore not permitted to have exposure to individual stocks.

To minimize administrative and distributional costs, the NPS has established a Central Record-keeping Agency (CRA), which will not only undertake the record-keeping functions, but also forward the amounts under each investment option to a limited number of asset management companies who have secured the mandate through competitive bidding. The investment management costs are 0.0084 per cent of the assets under management for the NPS, as compared to the mutual fund cost, which in India average 2 per cent, and unit-linked insurance policies (ULIP), which cost 1.5 per cent (Halan, 2009).

As there are no pre-retirement withdrawals, the power of compound interest will be fully realized. At the pay-out phase at age 60, a combination of a lump sum and a mandatory annuity is currently required. However, given increasing uncertainty about mortality trends and limited instruments to equate long-term liabilities and assets of annuity funds, the annuity markets will require innovations in risk pooling and other arrangements. A programmed withdrawal, under which principal plus interest can be withdrawn at periodic intervals in an actuarially sound manner, without being pooled in an insurance fund, merits consideration. This can be combined with substantial expansion of social assistance or social pensions to the elderly (currently only about 10–15 per cent of the eligible elderly receive old-age pension benefits). As longevity increases, deferred annuities at the time of retirement can be purchased for the last stage of life (e.g. benefits to be provided after age 80).

Once the PFRDA, 2009 Bill is passed, and as more and more states join the NPS, in about three decades the membership will extend to the entire civil service and to certain organizations receiving state funding, such as universities and institutions. Assuming a family size of four, the NPS when it matures will provide direct and indirect coverage to nearly 90 million people.

The voluntary component of the NPS has had a slow start, as is common internationally. The membership, however, is expected to grow significantly over time.

Secondly, there have been several state-level initiatives for providing pensions and health-care services, with a combination of risk pooling between the different stakeholders, including the state. Thus, in July 2009, an ambitious pension scheme for women belonging to the Self-Help Groups (SHGs), called Abhayahastham, in the Indian State of Andhra Pradesh was launched (Janyala, 2009). It aims to cover nearly 10 million women belonging to SHGs in the State. It provides for a minimum pension of Indian rupees (INR) 500 per month (about 15 per cent of per capita GDP) from age 60 till death. The pension amount varies positively with contribution density. The scheme also provides death and disability insurance, and scholarship for up to two children for secondary education. The SHG women must contribute, but the amount is matched by the Government and deposited in the individual pension account. This scheme will address gender issues, and help enhance the status of older women in the society.

The State of Rajasthan has launched the Rajasthan Vishwakarma Unorganized Sector Co-Contributory Pension Scheme under which low-income unorganized workers receive into their individual retirement accounts (IRAs) a conditional cash transfer (subject to a maximum limit) annually. As of June 2009, about 30,000 individuals have been covered. Providing direct cash transfers to the bank accounts of individuals has several additional benefits, including advancing the goal of financial education and minimizing administrative costs and possible undesired leakages. Co-contributions also help in advancing the principle of shared responsibility. The Government of Madhya Pradesh has also announced a co-contribution pension scheme for unorganized sector workers in selected occupations on a means-tested basis.

Thirdly, India has been emphasizing employment generation programmes, as part of a broader social safety net for very low-income households, primarily in the rural areas. The National Rural Employment Guarantee Scheme (NREGS), which began in 2005, has been progressively extended nationwide. It provides for a minimum employment of 100 days per year at minimum wage for various public works programmes in rural areas. As India is rapidly urbanizing, there are plans to extend it to the urban areas as well. The official estimates indicate that about 22 million households, or nearly 100 million persons, have been directly or indirectly impacted by this scheme. There is, however, considerable scope for refining the scheme to enhance the creation of human capital, and productive infrastructure, while minimizing leakages. This will be a major challenge. Uneven progress among the States in meeting this challenge is expected.

Fourthly, the Unorganized Workers Social Security Bill, 2008 has been passed by the Parliament. It provides for contingencies including pensions, maternity insurance, welfare schemes for artisans and weavers, general insurance and health insurance. It is a co-contributory, fully funded scheme, to which the Government is also a contributor. The scheme is awaiting implementation. When implemented, its coverage will depend on the take-up rate, and on the effectiveness with which the promised benefits are delivered. The scheme will require close coordination between the centre and the individual States.

Mukul G. Asher

The above initiatives strongly suggest that India is exhibiting political commitment to expand social security coverage, through both centralized and decentralized schemes, with co-contribution as an integral feature. Care, however, will need to be taken to ensure that the variety of initiatives are consistent with each other, and give due emphasis to administrative, financial and economic sustainability.

To summarize, the Indian Government is undertaking several initiatives to extend social security coverage. There is recognition that the relatively static nature of formal sector employment means that the scope for expanding coverage in this area is limited. The EPFO management's current priority is to improve its record-keeping and management information systems through extensive computerization and use of information technology (IT). This may give EPFO capabilities to cover firms employing less than 20 workers. If this is realized, than some modest expansion of coverage can be expected.

The second avenue through which extension of coverage is attempted is by providing a professional and relatively low-cost environment in which individuals can undertake long-term voluntary savings with high degree of confidence. The passing of the PFRDA Bill, 2009 will be essential if this avenue for expanding coverage is to be effective. The third avenue is the co-contributory approach to cover informal workers as has been happening in several States. The fourth avenue is the expansion of social assistance or social pensions: for example, the age for receipt of the old-age pension has been reduced to 65, making more individuals eligible.

The fifth avenue has been employment generation through the NREGS. There has been some emphasis on expanding the supply side of health-care services. Much progress, however, needs to be made in strengthening the public sector health-care services, in delivery of other government services, particularly pensions, and in improving fiscal affordability to sustainably expand coverage.

5. Policy lessons and strategies

ISSA (2009) argued that the following broad policy lessons are relevant in extending coverage in the Asia-Pacific region:

1. Recent developments underline the importance of the state in successfully extending coverage.
2. On the basis of political will, sufficient fiscal space, coherent policy and administrative capacity, large-scale coverage extension can be achieved relatively quickly.
3. For all countries, national specificities should dictate policy priorities.
4. Contributory benefit programmes can be tailored to the evolving socio-economic and demographic context, such as including atypical workers, ensuring social security for ever-increasing numbers of migrants, or designing sustainable old-age pension systems or introducing long-term care insurance for ageing populations.
5. Either as stand-alone programmes or to complement contributory programmes, basic tax-financed programmes are fiscally and administratively feasible even for low-income countries on a nationwide basis.

The challenge, however, is to integrate the above broad policy lessons in the policy design and actual implementation of measures to extend coverage in a specific country or region. Based on the analysis in this paper, the following factors would be helpful when policy packages and measures for extending coverage in Asia-Pacific are formulated. It is useful to begin by reemphasizing that there is a positive correlation between the coverage ratio and per capita income (OECD, 2009). Thus, among the major macroeconomic priorities of non-high-income Asia-Pacific countries should be to sustain as high a rate of inclusive growth as feasible under the current challenging global economic environment. A sudden spurt in inflation, which some analysts fear may occur due to excessively stimulative policies in many countries, or due to adverse supply shocks in agricultural production or a spurt in commodity prices, could adversely impact on the real value of pensions and accumulated balances from mandatory savings or voluntary savings schemes. The interest rate environment at the time of retirement will also impact the annuity amounts which can be obtained from a given capital sum. In general, interest rate environment and annuity payments from a given capital sum are positively correlated. A high interest rate environment, however, is usually not conducive to investments and economic growth. Skilful and prudent management of the macroeconomic environment as a factor in economic and social security provision should therefore be not ignored.

- The concept of social security will need to be broadened considerably to include social safety nets such as employment guarantee schemes, assistance for food by various stakeholders, etc. In some countries, such as India, employment guarantee schemes such as the National Rural Employment Guarantee Act (NREGA) have been expanded considerably.[6] The primary emphasis for a significant proportion of the population will be on poverty mitigation and basic health-care provision. The importance of the state is evident in extending coverage through such schemes.
- More efficient delivery of basic public services, such as primary health care, public health and sanitation facilities, and in providing pensions; and minimizing leakages in benefits arising from excessive administrative costs, or benefits going to the wrong people, including the deceased, or benefits going to those who are not eligible, etc. will be important in many developing Asia-Pacific countries. The fiscal and governance reforms will therefore be indispensable elements of extending social security coverage. Fiscal reforms on both the tax and expenditure side will be needed because in many developing Asia-Pacific countries, such as India and Sri Lanka, routine expenditures such as for salaries and repayment of debt account for a disproportionate share of revenue, leaving little for the expansion of or introduction of new social sector programmes. Mismatch between resources and expenditure responsibilities at lower levels of government in many Asia-Pacific countries, such as Indonesia, Viet Nam and Papua New Guinea, also require the reform of current fiscal arrangements.
- A multi-tiered system, involving a mixture of contribution by employers and employees, non-contributory schemes, schemes by the voluntary not-for-profit sector, both domestic and international, family and community support, and continuing to meet a small but not insignificant proportion of retirement needs through paid economic activity (including household production) is essential in Asia-Pacific countries. The labour market practices should support such activities by reducing the statutory levy on engaging in economic activities.
- In many countries, ownership or user-rights of assets, such as for land and housing, can help sustain consumption during retirement. Thus, in some countries (such as the Republic of Korea)[7] a reverse mortgage scheme that enables conversion of housing assets into a retirement consumption stream, is being attempted and could be a possible instrument for some individuals. More traditionally, however, the expectation of inheritance of land and property by the children has functioned as an implicit family contract for supporting the elderly. For example, in India, there have been only 500 reverse mortgages so far. Key constraints are the tradition of leaving property to children over generations; and unclear laws and regulations surrounding reverse mortgage transactions, particularly surrounding possession by the bank or an

insurance company at the end of the reverse mortgage contract (*The Economic Times*, 26 July 2009).

- Differing risk-sharing schemes, such as social insurance, private insurance schemes, DC schemes with primary investment and other risks on the individual, non-contributory schemes (such as social assistance and social pensions) financed through the budget, and not-for profit sector schemes will need to be integrated to provide social security, particularly pensions and health care. Each country, however, must structure the details and the relative weights according to its own needs and capacities. The international and regional organizations must assist in building capacities for such integrated approaches. The current global economic crisis has complicated this task even further. Sustaining high growth in output and in employment in the short and even in the medium term will be more difficult. Uneven progress in extending social security coverage in Asia-Pacific (and indeed globally) is therefore likely. However, it is important to realize that the pension and health benefits are not only intrinsic to the individuals covered, but they also have the potential to make positive contributions to productivity and economic growth (van Ginneken, 2008a).[8]

Greater professionalism with which provident and pension funds perform their core functions will be essential in extending coverage in terms of numbers, improving returns in funded systems, and in minimizing administrative and compliance costs (including side-payments) which directly impact on the pension benefits.

- Innovative ways of delivering pension and health-care services which minimize transaction costs will be especially needed to make them accessible to large numbers of people in the informal sector, many of whom will have fairly low purchasing power. What may be an acceptable level of cost for higher value transactions and in urban areas may not be so for reaching the informal sector.
- The use of microfinance institutions and community-based organizations to deliver pension and health-care services with low transaction costs will be essential; for example, an identifiable, large group of people whether in the same occupation or not, could be organized for provision of group-specific pension and health-care services, albeit within the broad national policy and regulatory framework. The public–private partnerships involving both for-profit and not-for-profit sector organizations will be essential.
- While extending coverage, sustainability involving financial and fiscal capacities as well as institutional and organizational capabilities should be considered. Thus, Indonesia passed the National Social Security Law (SJSN) in 2004. It involves use of social insurance principles for providing comprehensive social security coverage including old-age, health-care and unemployment insurance. However, the Law did not give due consideration to existing limited technological and organizational capacities of the state social security institutions which were entrusted with the implementation task, nor did it consider the actuarially sound methods of sustainably financing the promised coverage of risks.[9] As a result, as of July 2009 the Law has still not been implemented.
- In some countries (for example, Nepal) fiscal constraints limit the proportion of elderly covered under demo-grants, i.e. universal, means-tested benefits for the elderly.[10]
- In introducing new schemes to extend coverage, it is essential that the tax treatment among different providers and among different retirement products provides a level playing field. As an example, India introduced the voluntary defined contribution National Pension Scheme in May 2009. However, while the voluntary NPS is taxed at the withdrawal stage, other existing mandatory schemes of the Employees' Provident

Fund Organization (EPFO) which apply to private sector formal workers, and the Public Provident Fund (PPF) which is voluntary, are not taxed at any stage.[11] This is disadvantageous to the NPS, though its design and operations are compatible with good international practices. The level playing field can be achieved either by taxing other schemes at the withdrawal stage or by exempting NPS from taxation at all stages. The fiscal and equity implications are of course different depending on the option chosen.

- The social security needs of foreign workers will need to be addressed by Asia-Pacific countries. There are many countries in the region, such as Singapore, Malaysia, UAE, Saudi Arabia and Kuwait, which are large and persistent recipients of foreign labour, much of which is supplied from countries from within the region, such as Philippines, Thailand, Bangladesh, Myanmar, Sri Lanka and India. Many of the Gulf countries, with excess demand for labour, also rely on foreign workers, primarily from Asia-Pacific, to sustain growth. Totalization agreements[12] and agreements involving working and living conditions of foreign workers, involving Asia-Pacific countries, will need to be encouraged. Some initiatives are already being undertaken in the ASEAN region with respect to an international social security agreement involving migrant workers (Tamagno, 2008).
- Schemes for extending coverage could also involve capturing overseas migrant workers as has been attempted by some Asia-Pacific countries. For example, in 2007, the Sri Lanka Bureau of Foreign Employment (SLBFE) and the Social Security Board (SSB) introduced a contributory pension scheme for Sri Lanka's 2 million overseas migrant workers. Members are required to make a minimum monthly contribution of Sri Lanka rupees (LKR) 5 or a lump-sum payment of LKR 600. Members will receive a minimum monthly pension of LKR 600 from age 60. The scheme has survivors' benefits and is subsidized by the Government (60 per cent of costs are borne by the Government).
- Recent agreements by Japan with Philippines and with Indonesia for special arrangements for workers from these two countries to be employed in Japan on a temporary basis represents an example of taking advantage of demographic complementarities, as well as drawing attention to the social security needs of foreign workers.
- Some countries, such as Malaysia, are exploring ways to encourage setting up voluntary savings schemes for retirement along the lines of the 401-K. Malaysia's security commission has set up a task force to provide recommendations to the Government for implementing such an initiative. This may help improve coverage not necessarily in terms of number of workers or types of contingencies, but in providing higher replacement rate to certain groups of middle- to high-income workers.
- The absence of robust databases for actuarially fair pricing of health insurance and retirement products is a limiting factor in many Asia-Pacific countries. The availability and quality of civil records regarding births, deaths and other records are essential for effective social pension programmes. Many provident and pension fund organizations have not coordinated with other government and non-government third parties to keep track of potential new members, for example when a new enterprise is registered. This must be addressed, particularly in countries with large and heterogeneous populations with significantly differing morbidity and mortality patterns such as China, India, Indonesia and Viet Nam. Measures to enhance indigenous research capacity in social security are also urgently needed.[13]

6. Concluding remarks

The analysis in this paper strongly suggests that the importance of rapidly progressing towards universal coverage of social security has been recognized by Asia-Pacific countries. Rapid ageing and a large proportion of the work-force employed in the informal sector in many developing Asia-Pacific countries are necessitating multiple approaches in extending coverage.

These include: modernizing and professionalizing existing formal social security organizations to enable them to improve the quality of services and cover a greater number of workers; structuring programmes based on co-contributions from the state and the beneficiaries to provide basic social security, including health care; greater use of social assistance, social pensions and safety nets; employment generation programmes to provide livelihoods to the indigent; supply-side measures to increase health-care resources; and strengthening government service delivery capabilities in health care and pensions.

The role of the state in the provision of social security has increased. There is greater awareness of the need to maximize the use of existing infrastructure systems by the state and to cooperate with other stakeholders. Political consensus on providing higher priority to extending social security coverage is essential, and when it exists, as in China, Thailand and South Korea, rapid progress becomes feasible.

The paper discusses successes in relatively rapidly extending coverage of pensions and health care in several countries, particularly China, Thailand, Korea and Iran. It also discusses several initiatives taken by India in extending social security coverage. It is, however, too early to measure their outcomes.

There is greater acceptance of a rights-based approach to social security. However, such acceptance need not automatically or rapidly result in actual extension of coverage. In many countries, fiscal or financial, institutional and administrative constraints remain formidable particularly in relation to the magnitude of the needs.

The paper does demonstrate, however, the possibilities of rapid extension in coverage. The challenge is to ensure that such rapid extension is sustainable, both financially and administratively.

Robust, disaggregated data on morbidity and mortality patterns are necessary for setting sustainable contribution rates and benefit levels in insurance programmes for health and pensions. Greater attention to this area is needed. The ultimate contingent liability is on the state, so any mismatch between receipts and liabilities will need to be borne by the state, or ad hoc reductions in promised benefits will need to be made.

The Dynamic Social Security framework advocated by ISSA (2009), which emphasizes greater professionalism and technocratic orientation of social security organizations, the need to evolve political consensus and experimentation with new and appropriate models of delivering social security programmes, provides an appropriate backdrop to develop country-specific policies and measures to extend social security coverage in the Asia-Pacific.

Notes

[1] The author would like to thank Wouter van Ginneken and Timo Voipio for their constructive comments and support.

[2] There are three dimensions of coverage extension (van Ginneken, 2008a). The first concerns increasing the proportion of those who are potentially eligible for various social security schemes. The second concerns increasing the scope or the type of contingencies (such as unemployment, sickness, maternity, old age and health care) which are covered by the social security system. The third concerns increasing the level of benefits provided by various schemes. Increased coverage can occur through existing systems, whether contributory or non-contributory, or through new schemes. The schemes, however, should be affordable, equitable and sustainable, as well as within the current and realistic future administrative capabilities of the social security institutions. While the extension of social security coverage can be expected to have positive benefits for productive consumption and socio-economic development, these outcomes are not automatic. They depend on the quality of the schemes designed to extend coverage, and their effective implementation.

[3] China does not yet have national security legislation. Provincial and city/county social insurance agencies and employers adapt central Government guidelines to local conditions (US Social Security Administration, 2006: Available at http://www.ssa.gov/policy/docs/progdesc/ssptw/2006-2007/asia/china.html).

[4] Shanghai is reportedly considering relaxing the one-child policy. The positive impact on reducing the pace and level of ageing will, however, be very gradual.

[5] Much of the discussion in this session is from Long (2008).

[6] See http://indiabudget.nic.in/ub2009-10/bs/speecha.htm.

[7] The Financial Services Commission (FSC) in Korea has recently announced intentions to ease conditions for the reverse mortgage subscription. Currently, those aged 65 or older with only one home worth 900 million won or less can provide their home as collateral to the Korean Housing Finance Corporation (KHFC) or local banks for lifetime monthly payments. The FSC is considering expanding the programme to people aged 60 or 55 (*Korean Times*, 27 January 2009).

[8] Van Ginneken (2008a) outlines the direct and indirect impacts of illness on productivity. The author argues that illness not only leads to direct economic costs like financial and time costs, but also indirect economic costs such as sale of livestock and other assets, as well as reduction in labour supply. The non-economic costs, such as low leisure time, exclusion from social activities, and the risk of being handicapped or of death are also substantial (van Ginneken, 2008a).

[9] For example, Arifianto (2006) has estimated that a total contribution rate of between 22.54 and 23.75 per cent of wages will be required to achieve the objectives of the new Law; but the Law has identified contribution rates equivalent to 6.24–7.75 per cent of wages. It is not clear where the balance is likely to be obtained.

[10] Nepal has been operating the Old Age Allowance (OAA) scheme, a non-contributory social pension scheme, which is of a Demo-grant rather than means-tested type, since 1995. Recently, the eligibility age was lowered from 75 to 70 years, and the monthly pension amount increased. In 2006–07, 76 per cent of the eligible elderly received the OAA pension, with expenditure equivalent to 0.23 per cent of GDP. The effectiveness across districts is uneven as Village Development Committees (VDCs) administer it. Nevertheless, its economic impact has been particularly significant in rural areas, while its universal nature signals the importance of older people the Nepali society (HelpAge International, 2009). There is also a means-tested pension for widows for those aged over 60.

[11] However, periodical pensions and pensions based on annuities would be subject to income tax, unless they are receiving pensions from the EPFO or the civil service schemes. In 2008, the EPFO amended its pension scheme, eliminating a lump sum commutation of pensions. Thus, EPFO's pension payments will henceforth be only on a periodic basis. As the number of income tax payers is only about 25 million out of a population of 1.1 billion, this would still leave a vast majority of individuals untaxed.

[12] Totalization agreements are designed to ensure that individuals and employers do not end up paying social security taxes or contributions in more than one jurisdiction, or alternatively avoid paying them in any jurisdiction.

[13] The Philippines, through its SSSNet services provides a positive example of how IT systems can be utilized for better coverage of the workers, including overseas workers; 779 large employers with over 420,000 employees are registered users of the SSSNet. Payments remitted through the SSSNet comprise almost 11 per cent of SSS's monthly bank collections. Prior to the use of the SSSNet, it took an average of three to six months to post the monthly contributions to the individual accounts of members. The process is now hastened to just two to three days. This, in turn, has resulted in a shorter processing time for benefit and loan applications, as well as a reduction in the number of rejected claims due to insufficient contributions.

References

Annycke, P. 2009. *Extension of social insurance coverage: A review of statistics and some country experiences* (Geneva, International Social Security Organization (ISSA)).

Arifianto, A. 2006. "The new Indonesian social security law: A blessing or curse for Indonesians?" in ASEAN *Economic Bulletin*, Vol. 23, No. 1, pp. 57–74.

Asher, M.G. 2008. "Pension reform in India", in J. Raghbendra (ed.): *The Indian economy sixty years after independence* (New York: Palgrave Macmillan), pp. 69–92.

Chandoevwit, W. 2006. "Policy challenges for the social security for private employees", in *TDRI Quarterly Review* (Dec.), pp. 11–19.

Damrongplasit, K.; Melnick, G.A. 2009. "Early results from Thailand's 30-baht health reform: Something to smile about", *Health Affairs*, Vol. 28, No. 3, pp. 457–466.

van Ginneken, W. 2008a. *Extending social security coverage: Concepts, approaches and knowledge gaps*, Technical Seminar on the Extension of Social Security Coverage (Geneva, International Social Security Association (ISSA)), 16 Oct.

—. 2008b. "India: Inclusive development through extension of social security", in J. Midgley and K. Tang (eds): *Social security and economic development* (Basingstoke, Palgrave Macmillan), pp. 287–304.

Halan, M. 2009. "Is the new pension system really that cheap?" *MINT*, 6 May. Available at http://www.livemint.com/2009/05/05212415/Is-the-new-pension-system-real.html [accessed 6 Nov. 2009].

HelpAge International. 2009. *Universal social pension in Nepal*. Available at http://www.helpage.org/Resources/Researchreports/main…/SPreportinNepal.pdf [accessed 15 Oct. 2009].

Hu, Yu Wei. 2006. *Pension reform in China – A case study*, Economics and Finance Discussion Paper No. 06-05, Brunel University.

International Social Security Association (ISSA). 2009. *Dynamic social security for Asia and the Pacific: Integrated responses for more equitable growth*, Developments and Trends report for the Regional Social Security Forum for Asia and the Pacific, 21–23 Oct.

Janyala, S. 2009. "SHG women to get pension in Andhra", in *Indian Express*, 13 July.

Jones, G.W. 2008. "Population ageing in Asia and its implications for mobility", in *Population Ageing*, Vol. 1, pp. 31–49.

Long, G.T. 2008. *Social health insurance in Vietnam: Current issues and policy recommendations*, Social Security Extension Initiatives in East Asia Series (International Labour Organization (ILO) Subregional Office for East Asia). Available at: http://www.ilo.org/public/english/region/asro/bangkok/events/sis/download/paper33.pdf.

Organisation for Economic Co-operation and Development (OECD). 2009. *Pensions at a Glance 2009: Retirement-income systems in OECD countries*. Available at http://www.oecd.org/dataoecd/33/53/41966940.pdf [accessed 26 Oct. 2009].

Palacios, R.; Sluchynsky, O. 2006. *Social pensions part I: Their role in the overall pension system*, Pension Reform Primer (Washington, DC, World Bank).

Park, D. 2009. *Ageing Asia's looming pension crisis*, ADB Economics Working Paper Series No. 165, July. Available at http://www.adb.org/Documents/Working-Papers/2009/Economics-WP165.pdf [accessed 6 Nov. 2009].

Ramesh, M.; Wu, X. 2009. "Health policy reform in China: Lessons from Asia", in *Social Science and Medicine*, Vol. 68, No. 12, pp. 2256–2262.

Robalini, D.A. et al. 2005. *Pensions in the Middle East and North Africa: Time for change* (Washington, DC, World Bank).

Social Security Administration (SSA) of the United States; International Social Security Association (ISSA). 2009. *Social Security Programs Throughout the World: Asia and the Pacific, 2008* (Geneva).

Social Security Organization Islamic Republic of Iran (SSO IR Iran). 2008. *The measures of the Social Security Organization to extend insurance coverage*, ISSA Seminar on the Extension of Coverage, Geneva, Switzerland, 16–17 Oct.

Tamagno, E. 2008. *Strengthening social protection for ASEAN migrant workers through social security agreements*, ILO Asian Regional Programme on Governance of Labour Migration, Working Paper No. 10 (Bangkok, ILO).

World Bank. 2007. *Vietnam Development Report 2008: Social protection*, Available at *http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/06/04/000333038_20080604015001/Rendered/PDF/436530WP0REVIS1ction1final01PUBLIC1.pdf.*

Zhu, Y .2009. *Case study on social security coverage extension in China* (Geneva, International Social Security Association (ISSA)).