

The Potential for Matching Defined Contributions (MDC) Design Features in Pension Systems to Increase Coverage in Low and Middle Income Countries

Draft Agenda, as of May 18, 2011

Background and Motivation: Expanding the coverage of social insurance and savings programs to lower income and informal sector workers remains a critical and as yet unresolved challenge in nearly all settings. Achieving high rates of coverage among nearly all groups has proven to be difficult in most low and middle income countries. The traditional methods of mandating participation and providing tax incentives has thus far proven to be ineffective in attaining high participation rates and the introduction of non-contributory tax-financed arrangements is constrained by political and fiscal limitations in most countries. This challenge of coverage expansion applies to essentially all social insurance benefits but in particular to long-term benefits such as old-age pensions and health care that require intergenerational risk sharing or the build-up of reserves to allow stable funding flows to accommodate demographic transitions. The challenges in coverage expansion apply both to increasing the share of covered individuals as well as achieving adequate benefit levels.

Policies and strategies for closing the coverage gap were reviewed and analyzed in a conference in a jointly sponsored World Bank – Hitotsubashi University conference held in Tokyo in February 2008. The proceedings of the conference were published in 2009 in the volume “Closing the Coverage gap: The Role of Social Pensions and Other Retirement Income Transfers” edited by Holzmann-Robalino-Takayama, This volume provides an overall review of the main types of programs that have been implemented across the range of low, middle and high income countries and analyzed in depth contributory provisions with ex-post transfers to the needy (such as social pensions and social assistance type provisions).

Included in the conference proceedings is an initial analysis of approaches that involve ex-ante transfers in the form of matching defined contributions (MDC) in which participation in retirement savings schemes are sought to be increased through the provision of contributions from government or employers that are conditional on a proscribed level of contribution by members. The description and preliminary analysis of these emerging arrangements by Robalino & Palacios contained in the volume was very useful in capturing the attention of researchers and policy makers. However, it raises more questions than answers at conceptual, empirical and operational level. This early evaluation illustrates that the MDC approach may have different objectives and hence requires different design and implementation depending on the setting in which it is implemented, suggesting that a very different design will be effective in countries where only 10 percent of the population is currently covered (10/90 country) in contrast to a 90 percent coverage (90/10 country) or 50/50 coverage setting.

Despite the uncertainty about the choice and effectiveness of design parameters a rich set of experience has begun to emerge as countries with very diverse environments and objectives continue experimenting with MDC-type schemes. Matching contribution arrangements have become the dominant form of occupational coverage within the

401(k) plan system in the United States and other OECD countries including Germany, the UK, New Zealand and Japan have begun to introduce various approaches derived from this concept. While the objective of these MDC schemes is primarily focused on increase in benefit level as most people are already covered under public provisions, their lessons may be helpful for design issues. In order to provide benefit coverage for an otherwise uncovered set of population, a variety of middle and low income countries have also begun to experiment with the design including Sri Lanka, India and Tunisia. China has introduced a pilot MDC-type scheme in 2009 with the longer term objective, if it is successful, of expanding this to all rural areas. This rapidly expanding trend suggests a need and high value to be derived from an effort to bring together the experience on the MDC design to develop a knowledge base that can be disseminated in a World Bank publication; this will facilitate the understanding of the conceptual, analytical and operational issues related with this promising approach to extending coverage among hard to reach populations.

Objectives:

The objectives of the proposed conference and publication are:

- (i) To develop a conceptual framework for objectives, design and implementation of the MDC approach.
- (ii) To identify and address key design questions of the MDC approach as an instrument for achieving coverage expansion in low and middle income settings
- (iii) To review through a range of representative country studies the empirical evidence and lessons that can be derived from countries that have implemented an MDC-type approach.
- (iv) To assess the evidence and formulate some initial guidance for policy makers who may seek to implement the approach in low and middle income settings
- (v) To identify key issues for further research to extend the knowledge base on effective design and implementation of MDC type systems.

Structure of the Program:

The program has been organized to provide a more discussion oriented workshop type of format. To this end, it is organized with the objective of bringing together 50 or so well informed and interested individuals to review the evidence and share ideas rather than being organized as a research conference in which nearly final papers are presented and the implicit intent is the transmission of knowledge. The concept is to provide a forum for discussion of the relevant issues to help to guide the later development of papers for publication.

Presenters will be requested to provide well developed power-point slides outlining key issues to stimulate discussion of ideas and concepts. They will subsequently prepare papers for the conference proceedings that are hopefully derived from and reflective of the discussion. Beside presenters, knowledgeable discussants will be invited for each topic from among the anticipated participants and other invited guests.

The workshop will be organized in three main parts. The first will provide an overview of the conceptual issues and impetus for the emerging consideration of MDC designs..

This is intended to be a relatively brief session that will crystallize the relevant issues to frame the discussions that follow.

The second part will review the experience in countries that have implemented MDC approaches. These sessions are organized by country' income levels as this determines the differences in focus between benefit increase and coverage expansion. This part of the agenda begins with a review of the experience with MDC approaches in three OECD countries from several countries that have the most lengthy and extensive experience with the design. Although the objectives (increasing benefit levels in an environment where basic pension coverage is already nearly universal) and the setting are quite different from World Bank client countries this experience helps to identify key principles as well as issues and problems that may arise in other settings

This is followed by three sessions each for middle and for low income countries. These provide some evidence of the emerging, although to date relatively more limited experience with the use of MDC approaches to expand coverage among otherwise difficult to reach groups such as informal sector workers or low income and rural populations.

The third part will seek to synthesize the evidence by identifying and considering the cross cutting design issues that emerge from the experience, starting out with lessons from behavioral economics for MDC design and the role of the enabling environment on determining the design and success of a system. A second set of papers deals with issues of parameter selection in MDC design (e.g. level and type of matching) and the selection of targeting mechanism for MDC design.

Publication of Proceedings

The workshop and publication of the proceedings will have broadly the same but not fully identical structure. For the conference the presenters are expected to have a fully fledged but focused PPT to guide the plenary discussion; available papers serve as background documents. After the workshop and the feedback from the discussion, most presenters are expected to be encouraged for submitting a full paper. In addition, some papers may be commissioned or included after the workshop and for the publication. It is anticipated that the conference volume will be edited and sent for publication by March of 2012 to be released in June of 2012.

Staging and Timeline:

The conference will start in the morning of June 6 and finish in the afternoon of June 7.

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| Workshop: | June 6-7, 2011 |
| First Chapters: | September 2011 |
| Reviewers: | End-October 2011 |
| Revised Chapters: | December 2011 |
| To publisher: | March 2012 |
| Book published: | June 2012 |

