

# CHAPTER 3: THE POTENTIAL CONTRIBUTION OF CONTRIBUTORY SOCIAL PROTECTION (PENSIONS AND OTHER SOCIAL INSURANCE CASH BENEFITS SCHEMES) TO THE CLOSURE OF THE PROTECTION GAP IN ASIA

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# Background: Providing income security with social insurance

- Nature and scope of social insurance coverage
- The scope of social insurance in national social protection extension strategies
- Comparative advantages and disadvantages of social insurance



# Nature and scope of social insurance coverage (1)

- Purpose of social insurance cash benefits is to provide income security and replace income from work lost due to various specific life contingencies and social risks:
  - temporary sickness (employment related or not),
  - longer-term disability (employment related or not),
  - incapacity to work and longevity risk in the old-age,
  - loss of breadwinner (employment related or not),
  - unemployment,
  - maternity and family obligations.



# Nature and scope of social insurance coverage (2)

- Minimum period of contribution payment one of entitlements to receive benefits
- Contributions are charged according to ability to pay
- Benefits in certain way linked to previous earnings but redistribution possible
- Benefits paid throughout contingency as periodical payments (pension = life annuity)
- Usually mandatory coverage
- Provident funds, individual savings accounts, benefits provided as employers liability – imperfect substitutes of social insurance

# The scope of social insurance in national social protection extension strategies

- ILO Social Protection Floors Recommendation no 202 recognizes contributory schemes, and social insurance in particular, as one of the possible ways to build and expand floors of social protection
- Social insurance thus should be seen as one of the instruments to achieve all the SDG which are dependent on increased access to social protection coverage
- In particular, target 8.5 of SDGs, that by 2030, full and productive employment and decent work should be achieved for all women and men, should mean that by 2030 at least all those who have labour market status as employees should be covered by key social insurance provisions (others can be covered by non-contributory provisions)
- In many countries social insurance is important part of social protection floors, providing basic income security to employees/all those in the formal employment

# Comparative advantages and disadvantages of social insurance

- Advantages:
  - (1) benefits entitlements are linked to payment of contributions and thus design of social insurance schemes may (under good governance) ensure adequate and sustainable financing,
  - (2) participation of both employers and employees in financing may ensure participative governance through tripartite supervision structures
- Disadvantages:
  - (1) limited to formal employment
  - (2) impacts on labour costs may lead to undesired consequences at the labour market
  - (3) financing structures and limited redistribution may result in increased inequality
- Has to be supplemented with non-contributory provisions



# METHODOLOGY/ APPROACH (1)

- Focus on old-age pensions but coverage for other policy areas also analyzed
- Limits to coverage by contributory schemes: formal employment
- Estimating legal and effective coverage by social insurance schemes
- Establishing existing coverage gap
  - Minimum: proportion of employees covered
  - Maximum: proportion of employed covered



# RESULTS

- Scope of coverage by social insurance
- Old-age effective coverage by contributory schemes
- Percentage of elderly receiving any pension
- ?Who can be covered with social insurance: Employment by employment status (wage and salary earners, paid versus unpaid employment)
- Estimates of social insurance coverage gaps
- Estimates of reduction of poverty incidence and protection gap thanks to expanding social insurance - to be completed

# Scope of coverage by social insurance – policy areas covered

Country	Policy areas covered		Existence of a statutory programme							
	Number of policy areas covered by at least one programme	Assessment of the scope of coverage	Sickness (cash)	Maternity (cash)	Old age	Employment injury	Invalidity	Survivors	Family allowances	Unemployment
Azerbaijan	8	Comprehensive scope of legal coverage	●	●	●	●	●	●	●	●
Cambodia	...	Very limited scope of legal coverage	...	▲	...	...	...	...	...	▲
China	8	Comprehensive scope of legal coverage	●	●	●	●	●	●	●	●
India	7	Semi-comprehensive scope	●	●	●	●	●	●	None	●
Indonesia	4	Very limited scope of legal coverage	△	▲	●	●	●	●	None	▲
Kazakhstan	8	Comprehensive scope of legal coverage	●	●	●	●	●	●	●	●
Lao People's Dem. Rep.	6	Limited scope of legal coverage	●	●	●	●	●	●	None	None
Malaysia	4	Very limited scope of legal coverage	△	▲	●	●	●	●	None	▲
Mongolia	8	Comprehensive scope of legal coverage	●	●	●	●	●	●	●	●
Myanmar	3	Very limited scope of legal coverage	●	●	▲	●	▲	▲	Not yet	Not yet
Nepal	4	Very limited scope of legal coverage	▲	▲	●	●	●	●	None	▲
Philippines	6	Limited scope of legal coverage	●	●	●	●	●	●	None	▲
Sri Lanka	5	Limited scope of legal coverage	△	▲	●	●	●	●	●	▲
Thailand	8	Comprehensive scope of legal coverage	●	●	●	●	●	●	●	●
Timor-Leste	...	Very limited scope of legal coverage	...	▲	●	...	...	...	None	None
Viet Nam	7	Semi-comprehensive scope	●	●	●	●	●	●	None	●

## Symbols

●	At least one programme anchored in national legislation	▲	Limited provision (e.g. labour code only).	△	Only benefit in kind (e.g. medical benefit).
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# Old-age contributory pensions - effective coverage: Active contributors as percentage of working-age population

Region	% of working age population	% of labour force
Africa	10,5	18,4
Sub-Saharan Africa	5,9	8,4
North Africa	23,9	47,4
Middle East	18,6	37,1
Latin America and the Caribbean	27,9	38,0
Asia and the Pacific	26,5	34,0
Central and Eastern Europe	48,9	69,7
North America	77,5	98,5
Western Europe	66,7	89,2
<b>World</b>	<b>30,9</b>	<b>41,4</b>
Developing economies	22,0	29,5
Transition economies	45,7	63,8
Developed economies	71,5	92,9



Source: ILO World Social protection report 2014-2015



# Proportion of older women and men (above statutory pensionable age) receiving an old-age pension - World

Africa	21,5
Middle East	29,5
Latin America and the Caribbean	56,1
Asia and the Pacific	47,0
Central and Eastern Europe	94,3
North America	93,0
Western Europe	92,4
<b>World</b>	<b>51,5</b>
Developing economies	44,3
Least developed countries <sup>1</sup>	16,8
Low- and medium-income countries <sup>2</sup>	24,6
Emerging economies <sup>3</sup>	71,5
Developed economies	89,1

Source: ILO World Social protection report 2014-2015



# Proportion of older women and men (above statutory pensionable age) receiving an old-age pension - Asia

	Total	Contributory	Non-contributory	Year	Statutory pensionable age (basis for reference population)
Azerbaijan	81,7	40,8	40,9	2012	62.5 Men   57,5 Women
Cambodia	5,0	...	...	2010	55+
China	74,4	32,2	42,1	2011	60+ Men   55+ Women
India	24,1	9,9	14,2	2011	58+
Indonesia	8,1	...	...	2010	55+
Kazakhstan	95,9	...	...	2011	63+ Men   58+ Women
Lao People's Dem. Rep.	5,6	...	...	2010	60+
Malaysia	19,8	16,2	3,6	2010	55+
Mongolia	100,0	62,6	37,4	2011	60+
Nepal	62,5	9,2	53,3	2010	58+
Philippines	28,5	24,3	4,2	2011	60+
Sri Lanka	17,1	...	...	2010	55+ Men   50+ Women
Thailand	81,7	13,1	68,6	2010	60+
Timor-Leste	100,0	0,0	100,0	2011	60+
Viet Nam	34,5	25,8	8,7	2010	60+ Men   55+ Women

Source: ILO World Social protection report 2014-2015



# Share of employees (wage and salary earners in total employment (2015)

Countries	Employees (wage and salary earners) as percentage of total employment
Azerbaijan	34,7
Cambodia	37,3
China	53,3
India	21,2
Indonesia	36,1
Kazakhstan	69,2
Lao People's Democratic Republic	15,5
Malaysia	75,5
Mongolia	53,9
Myanmar	11,9
Nepal	26,6
Philippines	54,8
Sri Lanka	57,9
Thailand	46,0
Timor-Leste	32,8
Viet Nam	36,2

*Source: own estimates based on ILO Employment outlook data base*



# Estimates of social insurance coverage gaps; 16 countries (2015 or latest available)

Countries	Maximum potential coverage by contributory schemes (thousands)			Estimate number of actual contributors (thousands)	Coverage gap (percentage not contributing)	
	All employed	All paid employed	Employees		Maximum (% of paid employed)	Minimum (% of employees)
Azerbaijan	4 714	4 351	1 508	1 773	59	0
Cambodia	8 606	7 941	2 964	43	99	99
China	769 919	676 346	360 382	270 995	60	25
India	484 550	419 227	88 748	51 887	88	42
Indonesia	118 260	101 055	36 499	13 838	86	62
Kazakhstan	8 679	8 645	5 979	5 750	33	4
Lao People's Democratic Republic	3 407	2 184	339	48	98	86
Malaysia	13 057	12 484	9 431	7 761	38	18
Mongolia	1 234	952	513	611	36	0
Myanmar	29 678	16 698	1 979	0	100	100
Nepal	15 051	14 031	3 735	468	97	87
Philippines	41 254	37 004	20 291	11 711	68	42
Sri Lanka	8 156	7 541	4 363	2 057	73	53
Thailand	39 873	32 063	14 760	9 049	72	39
Timor-Leste	189	145	47	18	87	61
Viet Nam	54 622	46 133	16 713	11 555	75	31

# Assessment of the potential reduction of poverty and the protection gap due to extending social insurance Coverage

- If we assume that as of implementation of SDG (that is achieving decent work) countries will make efforts to cover with social insurance all those with employee status at the labour market, which in some countries, experiencing currently low coverage rates of employees such objective may be challenging... mainly due to governance problems.
- Then in the long-run the potential contribution of social insurance to the closure of the protection gaps in the total population is at least equal to the identified present poverty gaps in the salaried workforce (assuming that all dependent are covered by social insurance)
- However, due to long maturation processes and minimum vesting periods in social insurance the effect may be small in 2030



# RECOMMENDATIONS

- Achieving SDGs by 2030 (eliminating poverty among working poor and temporarily unemployed and securing decent work to all) requires – among others – extending coverage with employment injury social insurance schemes and with social insurance schemes providing short-term income security in case of maternity, sickness and unemployment
- For pensions contributory schemes have limited impact on eliminating poverty among elderly and disabled (can effectively cover only those with longer working careers in formal employment and bring effects with significant time lag) and while expanding social insurance coverage wherever feasible should be part of national strategies to achieve SDGs by 2030, important role has to be played by the expansion of non-contributory pensions

