issa INTERNATIONAL SOCIAL SECURITY ASSOCIATION

Survey Report

Survey on social security in times of crisis
Summary of findings and conclusions

International Social Security Association
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Survey on social security in times of crisis: Summary of findings and conclusions

General Secretariat
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1. Introduction and scope of the survey

The International Social Security Association (ISSA) surveyed its member institutions between February and April 2009 to collect information and data on how social security schemes are affected by, and responding to, the global financial and economic crisis.

Responses to the survey were received from 47 social security institutions[1], the majority of which are ISSA members. The institutions, from all regions of the world, are responsible for public social security systems covering tens of millions of people in one or more of the following branches: Old age pensions; Disability; Survivorship; Family benefits; Work injury and compensation; Unemployment; Sickness and Maternity insurance.

The questionnaire sought information about the overall impact of the crisis, the policy responses that have been adopted to reduce the social impacts of the crisis and restore confidence in public social security programmes, the management of social security funds and the impact on pension and unemployment programmes.

This document provides a summary of the preliminary findings of the survey as provided by the respondents. The results represent the responses of individual social security institutions in 43 countries. Due to the specific mandates and coverage of these institutions, the results should not be viewed as national results. The full responses of individual institutions will not be published due to the confidential nature of some data.

The overall results brush a broad picture of the impact, the challenges and the responses of diverse social security institutions in all parts of the world and point to several main conclusions. The survey also provides insight into the effects of the current situation, policy approaches and lessons learned, and invaluable knowledge for social security administrators and policy-makers.

The data collected through this survey, together with the results of the international seminar on *Social Security in Time of Crisis: Impact, Challenges and Responses (24-25 April 2009)* organized by the ISSA in collaboration with the Social Security Department of the International Labour Organization (ILO), will be further analysed in the coming period. Attention will be given to identifying good practices, lessons learned and measures planned by social security institutions in response to the crisis.

2. Summary of findings

2.1. Impact of the crisis on social security financing

1. Social security revenue and reserves have reduced significantly as a result of the crisis. The majority of respondents (27/47) confirmed a loss of revenues, mainly due to a decline in contributions and investment income, government subsidies and cross subsidies between

[1] See Annex 1

schemes, and through an increase in non-compliance. Social security reserves have also diminished.

2. Social security expenditure is growing considerably. Respondents attribute this growth to the increase in demand in the number of unemployment, housing and social assistance benefits (for the most vulnerable and those who now are under the threshold of the income test for receiving social assistance benefits because of income reduction). There are also indications that health costs are increasing as an additional effect of the crisis.

3. Social security programmes may incur liquidity problems in the short- and medium-term as a consequence of the crisis. Respondents pointed out that programmes with reserve funds or ring-fenced social security assets would be in a better position. However, respondents were also aware that important losses would occur if part of their devalued assets had to be liquidated.

2.2. Increased demand on social security systems

4. Increased pressures have obliged social security institutions to take measures to increase efficiency and accountability, not only in the investment of social security funds but also in the daily administration of social security programmes, including delivery of benefits and legal enforcement.

5. Improving benefits in the short-term could lead to serious financial imbalances among social security programmes and institutions. Respondents indicate that they are mainly reacting to the impact of the crisis on people through the provision of additional social security and social assistance benefits to protect the most vulnerable. However, social security institutions recognize that equivalent effort is needed to address the financial difficulties they are, or will be, experiencing. Measures such as stopping the scheduled increase in rates of contributions, or reducing current rates, may in the short-term increase the disposable income or alleviate a company's burden, but they can also contribute to financial imbalances.

2.3. Policy measures for social protection

6. Governments that have provided assistance to financial institutions and/or adopted economic recovery measures, have included social security, according to the majority of respondents.

7. The enhancement of unemployment programmes has been the main public intervention in the social security field. Critical parameters of social security programmes, such as contribution rates and benefit calculation, have not been modified.

8. Measures adopted to replace the loss of income generated by the crisis and to stimulate spending include: New social security benefits, increase of benefits, an easing of the qualifying conditions of benefits, greater training and re-skilling for unemployed persons, tax

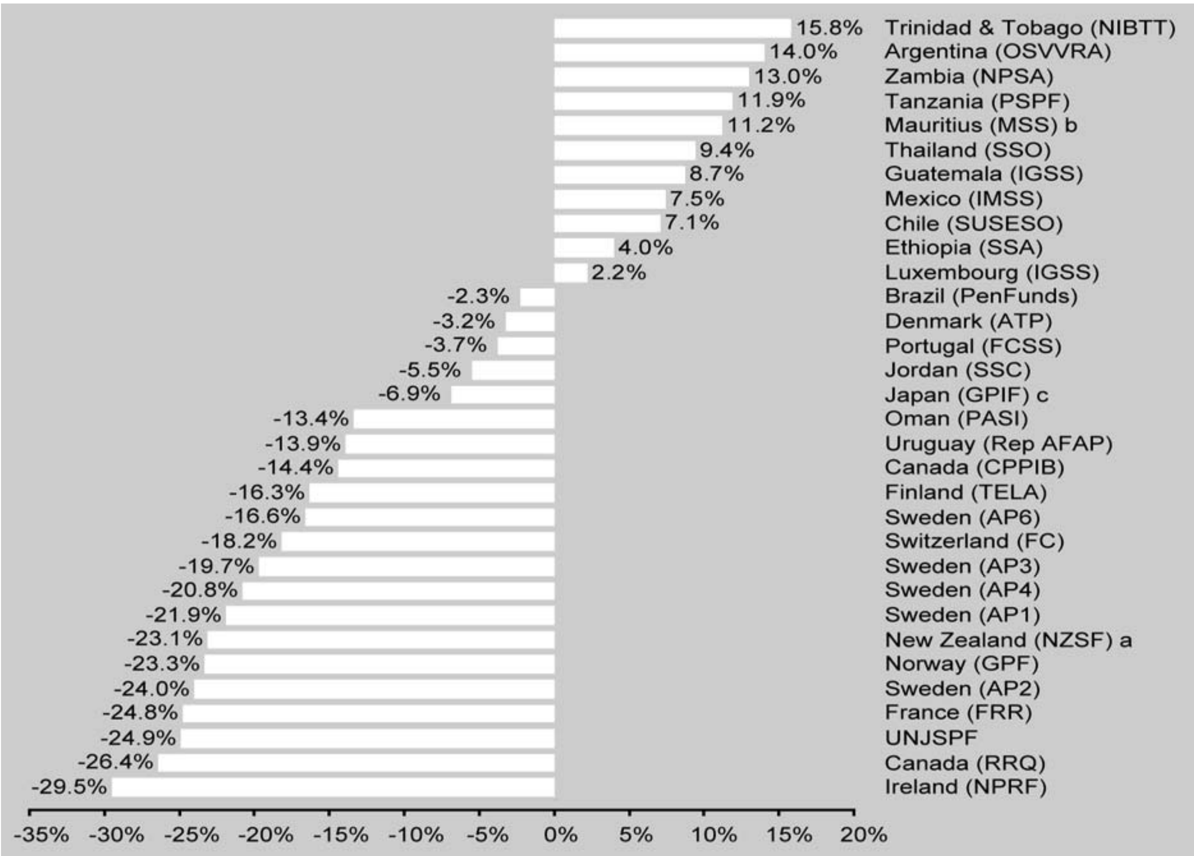
reductions, investment in infrastructure, financial assistance to enterprises and relaxation of state borrowing limits.

2.4. Performance of social security funds

9. Major social security funds guaranteeing PAYGO[2] schemes that have experienced a negative investment performance report overall combined losses estimated at USD 225 billion in 2008. For some social security funds, the loss represents as much as five years of investment income and around 25 per cent of the net asset value of the fund. For information, the OECD reports estimated losses of around USD 5 trillion in private pension funds during 2008[3].

10. The responses indicate that the funds of social security institutions in developing countries generally show a better investment performance than those in industrialized countries. This performance may be attributed to the following reasons: National funds cannot invest abroad, are mainly investing in fixed income assets, or their markets have not been seriously impacted by the crisis. The chart below (Fig. 1) gives a picture of the investment performance of a range of social security funds in 2008.

Figure 1. ***Investment performance of selected social security schemes (calendar year 2008)***



Source: ISSA; Fund reports.
Notes: a) Jun-Dec 08; b) Year ended 30.06.08; c) Apr-Dec 08.

[2] Pay As You Go schemes.
[3] *OECD global pensions statistics* (January-October 2008)

11. Most social security institutions have confirmed the fact that assets under management or supervision are being affected by the crisis and will continue to be affected in the medium-term. The majority of those who are not being affected in the short-term expect some impact in the medium- term.

12. Respondents indicated that the crisis may also create opportunities for reserve funds that are not using funds to finance current benefits (therefore not selling assets in adverse market conditions) and receiving capital inflows. They are well-positioned to acquire assets at discounted prices.

2.5. Impact of the crisis on pension schemes

13. Defined benefit[4] (DB) pension schemes, as opposite to defined contribution[5] (DC) schemes, attenuate the effects of the crisis shielding pension benefits from adverse financial returns. However, respondents noted that there is an indirect impact arising from the fact that the economic slowdown and weakened labour markets will reduce the contributory capacity.

14. Second pillar pensions, mainly DC arrangements, are being hard-hit by the crisis. In countries where they represent an important part of the overall retirement income, and where second-pillar pensions will be lower, respondents indicate that there is a likelihood that social security, through basic old-age pensions or social welfare measures, will be called upon to replace part of the income loss incurred by second pillar pensions in the future.

2.6. Impact of the crisis on labour markets

15. The immediate effect of the economic crisis has been the sharp increase in unemployment rates. Governments and social security have reacted rapidly with the overall objective of avoiding lay-offs and protecting the unemployed.

16. Respondents reported a range of specific measures that have been adopted: To increase unemployment benefits; extend benefit duration; grant exceptional unemployment allocations; adapt qualifying conditions to the situation; establish new, and extend existing, work-sharing agreements; provide training and re-skilling; stimulate employment through reduction in contributions or financial compensation; promote labour-intensive sectors; and, extend health coverage to the unemployed.

[4] Defined benefit: pension schemes under which benefits are typically based on a formula including accrual rate, pensionable salary and length of employment.
[5] Defined contribution: pension schemes under which benefits are solely based on the amount contributed to the scheme plus the investment return thereon.

17. Some administrations have experienced unprecedented increases in demand in unemployment insurance claims. This upsurge in demand has necessitated administrative improvements in providing benefits and employments services (e.g. case management), and in some cases, recruitment of additional staff to cope with the demand.

18. In general, developing countries appear to have been less impacted by the crisis than industrialized countries. However, the situation could deteriorate because many developing countries do not have unemployment insurance schemes. As the number of unemployed people increases in countries with no specific schemes, there will be a greater social impact, as there is no income replacement.

2.7. Impact of the crisis on asset management and/or supervision

19. Half of the surveyed institutions are implementing or considering modifications in their investment strategy. Moving away from equities towards less risky assets (e.g. fixed income and alternative assets) is the most common trend. Managers are also redefining and rebalancing portfolios to take advantage of the recovery when it comes.

20. Respondents have drawn the following lessons: Incorporation of adverse outcomes in the evaluation of social security programmes (e.g. uncertainty of results in actuarial reports); revision of risk management and tolerances; staying away from derivatives, complicated financial structures and very high risk investments; a stronger assessment of investment opportunities; rethinking investment regulations; better regulation in the private sector provision of social security; more attention to macro-economic indicators.

3. Conclusions

ISSA member social security institutions confirm that the current financial crisis is affecting social security schemes primarily in two ways. Firstly, the crisis has caused significant losses in investments of social security funds, and therefore challenges the financial viability of all schemes that rely on funding. Secondly, the financial crisis has evolved into an economic crisis, the consequence for social security being less income – through fewer contributors – and higher expenses – through additional beneficiaries. In the ISSA’s view, the combination of these factors will have significant policy implications for many social security institutions.

The survey demonstrates that social security institutions are responding to the immediate crisis in dynamic and often innovative ways. Social security programmes can play an important role in restoring public confidence that has been undermined by the current crisis, providing a counter-cyclical economic buffer and supporting social cohesion and the protection of the most vulnerable groups in society.

To enhance the efficiency of such provisions, the ISSA calls for coordinated policy measures in the financial, economic and social sectors. Due to the fact that social security is a social cushion with a high capacity for improving socio-economic stability, governments have a responsibility to guarantee the sustainability of schemes and the level of benefits, in particular of defined benefit pension schemes.

Pension funds are particularly affected by the financial crisis, depending on their investment strategies. The scale of the impact will also depend on the nature of the pension income that individuals expect to receive: whether the major source of income comes from (often private) pension funds or a public social security old-age pension. In countries that have opted for mainly defined contribution private individual accounts, beneficiaries are likely to experience a significant reduction in their pensions.

The current economic environment may also create particular problems for countries with large non-contributory pension schemes financed from government revenue, because governments' measures to mitigate the crisis may utilise economic resources that otherwise would have been assigned to such programmes.

Faced with these challenges, the survey confirms that social security institutions are adopting a proactive approach and including social security as a core element of public policies aimed at supporting economic recovery and employment and reducing the social impacts of the economic downturn.

Annex 1. Respondents to the ISSA survey on social security in times of crisis

Argentina	Obra Social de Viajantes Vendedores de la República Argentina
Austria	Bundesministerium für Arbeit, Soziales und Konsumentenschutz
Belgium	Office national de l'emploi
Brazil	Social Security Schemes for Civil Servants
Brazil	Secretariat for Pension Funds
Brazil	Secretariat for Social Insurance
British Virgin Islands	Social Security Board
Bulgaria	National Social Security Institute
Canada	Office of the Chief Actuary, Office of the Superintendent of Financial Institutions
Canada	Régie des rentes du Québec
Chile	Superintendencia de Seguridad Social
Côte d'Ivoire	Mutuelle générale des fonctionnaires et agents de l'Etat de Côte d'Ivoire
Ethiopia	Social Security Agency
Finland	Finnish Centre for Pensions
Finland	Social Insurance Institution
Finland	Ministry of Social Affairs and Health
France	Caisse nationale des allocations familiales
France	Caisse nationale d'assurance vieillesse des travailleurs salariés
Germany	Deutsche Rentenversicherung Bund
Guatemala	Instituto Guatemalteco de Seguridad Social
Guernsey	Social Security Department
Guinea	Caisse nationale de sécurité sociale
Islamic Republic of Iran	Social Security Organization
Italy	National Insurance Institute for Employees of the Public Administration
Japan	Government Pension Investment Fund
Japan	Ministry of Health Labour and Welfare
Jordan	Social Security Corporation
Korea	National Health Insurance Corporation
Lithuania	State Social Insurance Fund Board
Luxembourg	Inspection générale de la sécurité sociale
Mauritius	Ministry of Social Security, National Solidarity & Senior Citizen Welfare and Reform Institutions
Mexico	Instituo Méxicano de Seguridad Social
Moldova	National Office of Social Insurance
Nigeria	National Pension Commission
Oman	Public Authority for Social Insurance
Philippines	Philippine Health Insurance Corporation
Portugal	General Directorate for Social Security
Seychelles	Seychelles Pension Fund
Sudan	National Pensions Fund
Sweden	Swedish Public Employment Service
Switzerland	Office fédéral des assurances sociales
Switzerland	Staatssekretariat für Wirtschaft
Tanzania	Public Service Pensions Fund
Thailand	Social Security Office
Trinidad & Tobago	National Insurance Board of Trinidad and Tobago
Uruguay	República AFAP
Zambia	National Pension Scheme Authority