Dynamic Social Security for Asia and the Pacific: Integrated Responses for More Equitable Growth

DEVELOPMENTS AND TRENDS

issa INTERNATIONAL SOCIAL SECURITY ASSOCIATION

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Preface

This Developments and Trends report – *Dynamic Social Security for Asia and the Pacific: Integrated Responses for More Equitable Growth* – has been prepared for the Regional Social Security Forum for Asia and the Pacific, organized by the International Social Security Association (ISSA), and hosted by the member institutions of the Philippines Social Security Association, 21-23 October 2009, in Manila, Philippines. This is the second in a four-volume set of regional Developments and Trends reports designed to accompany and inform ISSA Regional Forums during the 2008-2010 triennium. The reports and the Regional Forums represent a new approach to better understand and address the key challenges ISSA member organizations are facing in the different regions of the world.

With an old-age pension law dating from 1898, New Zealand has the distinction of the earliest social security legislation in Asia and the Pacific. However, over a century later, a great deal remains to be done to extend adequate and sustainable social security and health-care coverage to all in the most heavily populated region of the world. The heterogeneous nature of the region underlines that the design of innovative policy responses with the goal of rapidly extending coverage must be context specific for the economic environment and tailored to the diverse needs of different population groups. That the domestic make-up of countries in the region are often no less culturally, socially, and economically heterogeneous leads inevitably towards a requirement for pluralistic institutional responses to meet the social security and health-care needs of all.

As this volume reports, the countries of Asia and the Pacific acknowledge social security's integral role for achieving sustainable and more equitable development. It is significant that the current economic crisis has acted to anchor this belief more solidly than ever. This crisis, like all economic downturns, has shown to be a double-edged sword for social security: the crisis reaffirms the timeless need for social security but also increases the demands placed on social security while weakening its financial base and thus its capacity to respond. One key observation from the recent period is that successful social security systems require heavy commitment from the state. But heavy state involvement places greater onus on often limited fiscal and administrative resources. Therefore, in better managing existing resources to support improvements in social security, there is an analogous requirement for coherent, integrated public policy responses that are capable of promoting more equitable economic growth and cementing social cohesion. This very broad objective is one key element of what the ISSA refers to as Dynamic Social Security.

The purpose of this report is threefold: first, to synthesize and interpret the most important recent developments and trends in Asia and the Pacific; second, to provide the key background document for the Developments and Trends Session of the Regional Social Security Forum for Asia and the Pacific; and, third, to provide the context for the Regional Social Security Summit for Asia and the Pacific. The discussion during the Regional Forum will provide an opportunity for all of us to complement this report and to debate its messages. I hope that this report will serve as an inspiring stimulus for our discussions and welcome you all to contribute actively before, during and after the Regional Social Security Forum for Asia and the Pacific in Manila. The outcome of these discussions will be carried forward to the World Social Security Forum to be held in Cape Town, South Africa, 29 November to 4 December 2010.

Hans-Horst Konkolewsky
Secretary General

CHAPTER 1

Regional issues and national responses

Asia and the Pacific is characterized by considerable heterogeneity in the institutional nature of its social security systems.[1] These differences reflect a host of factors, including political history, levels of economic development, the structure and size of national economies, social values, and social policy objectives.

Reflecting global patterns, the majority of this vast region's social security programmes, from the Gulf States to East Asia, are social insurance programmes. Often, these social insurance programmes are complemented by social assistance benefits. A number of countries (Brunei, Fiji, India, Indonesia, Kiribati, Malaysia, Nepal, Singapore, the Solomon Islands, Sri Lanka, Vanuatu and Samoa) operate national provident funds. New Zealand operates a tax-financed social security system. So does Australia, albeit twinned with an employer-funded privately-managed superannuation mandatory occupational pension system. Systems of mandatory occupational pensions are also found in Hong Kong (China) and Papua New Guinea, while the urban pension system of the People's Republic of China (hereafter, China) has social insurance and mandatory individual account tiers.

Across the region, social security benefit programmes vary in scope (see Box 1.1.). Although nearly all countries provide pensions for old age, disability and survivorship and most countries provide coverage for work injury, the development of programmes for sickness and maternity benefits, family allowances, and unemployment benefits is more patchy. For instance, in 2006, Bahrain became the first Gulf state to introduce an unemployment insurance programme. Access to health care also varies considerably. The Republic of Korea and Japan stand out for providing insurance programmes for long-term care.

There is increasing recognition among the countries of Asia and the Pacific of the need for robust, professionally-managed, well-regulated, and adequately financed programmes. In addition to social security's traditional role in the management of life-cycle and labour market risks, this broadening recognition acknowledges its essential role for the effective management of new and emerging risks. The most prominent among these are the potentially destabilizing processes and impacts of globalization and demographic ageing, which are widely perceived to pose threats to patterns of economic development and social cohesion.

For individuals of all ages, as well as for their households and families, social security can mitigate the social impacts of adverse risk events. Effective social security programmes can help support arguments for, and cushion the impacts of, necessary but often difficult economic restructuring. And in many countries, social security is used explicitly as a means of redistribution. In order to improve health, to combat communicable and non-communicable disease, objectives

1. The social security programmes of the countries of Israel, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan and are not covered in this report. The social security organizations of these countries are categorized as European members of the International Social Security Association.

that are vital to promote livelihoods and support economic development, access to affordable and sustainable health care is no less important.

As a result of the current global economic crisis, the realization of all these roles has become more urgent and complex.

The negative impact of the crisis varies among countries in the region. Although economic forecasts for the developing regions of Asia are better than for the region as a whole, with projected growth of 4.8 per cent for 2009 and 6.1 per cent for 2010, nevertheless, these growth rates are much lower than those achieved in recent years. For instance, aggregated growth rates of 10.6 per cent and 7.7 per cent were achieved by the developing regions of Asia in 2007 and 2008, respectively (IMF, 2009).

It is assumed that higher, and more rapid, levels of economic growth more readily lead to improved levels of social security protection for an ever increasing share of the population. However, and regardless of growth rates, this expected outcome must be presented with a caveat: unless the benefits of growth are distributed equitably across all population groups and access to social security programmes extended, improvements in income and social security will be limited. Significantly, this caveat underlines the vital role of state intervention in extending income and social security.

With many countries now faced with an urgent requirement to rebalance their economies, the need for social security has increased while the potential for the growth-driven expansion of greater income security has reduced. Among the export-dependent economies of the region, such as China, Malaysia, Singapore, Thailand, and Viet Nam, efforts at bolstering the rate of economic growth may require increasing the relative contribution of domestic demand. One response is to reduce social security contributions to encourage higher consumer spending and lessen statutory costs for enterprises. In view of the current economic crisis, Thailand's Social Security Office has reduced contribution rates for employers and employees, with reductions for government contributions also planned. Boosting consumer demand through maintaining or increasing expenditures on social security benefits, health care, and wider social policy interventions presents another set of possibilities.

The general nature of the downturn is adversely impacting countries in a number of important ways, including lowering the pace and quality of job creation. Before the crisis in many low- and middle-income countries in the region, the informal labour force already accounted for between 40 to 80 per cent of the total workforce. It is important to highlight the gender dimension here, since women are more likely to be engaged in informal employment and also less likely to have adequate or, indeed, any social security coverage. Globally, the recent period has witnessed a rise in poverty and informal employment levels, with temporary workers and workers with either non-standard or no contracts of work often being the first to suffer while also being among those who are the most vulnerable. For example, between October 2008 and April 2009, 95 per cent of the recorded 158,000 layoffs in Japan "involved non-regular workers who often do not qualify for either company-paid severance or for unemployment insurance" (OECD, 2009, p. 2).

Based on the evidence of the 1997 Asian financial crisis, the expectation is that employment will not return to pre-crisis levels for four to five years, at least. The scale of expansion of social security in response to the current crisis will be determined by the severity and duration of the downturn: rapid recovery from the 1997 crisis, and a subsequent favourable macroeconomic environment, resulted in only limited progress in extending social security coverage (Howell, 2001). Already, however, one result of the crisis has been to see the poverty alleviation role of social security programmes rise in prominence.

In practice, a greater role for poverty alleviation measures implies that a greater share of necessary resources will have to be provided by tax financing. Finding more budgetary resources, particularly when medium-term growth rates are likely to be moderate, will require much greater efficiency in delivering cash benefits and health-care services. It will also require governments to further develop mind-sets and capacities in partnership with a variety of domestic and international stakeholders in the design, financing, and delivery of services. For example, in Bangladesh and India, micro-pension products, involving periodic savings invested in financial and capital markets, are becoming increasingly available to relatively low-income workers. Such initiatives may be encouraged, perhaps through public-private partnerships, particularly in those countries with strong micro-finance institutions where financial inclusion is a major national objective.

Aggressive fiscal stimulus packages introduced by some countries to sustain growth during the current global crisis (through a variety of measures, including tax breaks for businesses and consumers, infrastructure

1.1. 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	●	●	●	●	●	●
Bahrain	●	b	b	●	●	b
Bangladesh	c	●	●	●	b	b
China	●	●	●	●	●	●
Fiji	●	b	b	●	b	b
India	●	●	●	●	●	b
Indonesia	●	b	d	●	b	b
Palau	●	b	b	b	b	b
Philippines	●	●	●	●	b	b
Sri Lanka	●	b	d	●	e	●
Thailand	●	●	●	●	●	●
Viet Nam	●	●	●	●	●	b

Source: SSA and ISSA (2008).

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.

development, subsidized employment promotion and job retention, and the provision of cash and in-kind social benefits) may constrain future fiscal flexibility.

Although a few countries, including China (Economist, 2009) and Singapore (Singapore. Ministry of Finance, 2009), have considerable fiscal leeway to expand government expenditure, including on social security and broader social policy measures, this is not the case for many others. For instance, Japan will experience a deepening of its budget deficit until 2010 at least. And having maintained a budget surplus for the previous 5-year period, Australia is predicted to record a deficit in 2009 and 2010 (IMF, 2009). If the slump in global economic growth continues, the fiscal situation in most countries of the region will become even more constrained. Furthermore, looking to the longer term, labour market and demographic trends also suggest that fiscal pressure will intensify.

Population ageing signified by worsening old-age dependency ratios[2] and increasing life expectancy at age 60, will lead to an unprecedented number of elderly in the region. In China, the number of persons older than age 60 is expected to increase from about 166 million in 2008 to 342 million by around 2030. In India, the number of persons older than age 60 by 2030 is expected to have passed 180 million (UNPD, 2008). For all countries, greater resources will have to be devoted to the elderly and a substantial share of the increase in resources will be provided through the government budget.

Administering social security benefit programmes and health care for such large numbers, including large numbers of the very old (aged 80 or older), represents a huge challenge. The task at hand is one of rapidly developing coherent and integrated public policy responses that are inclusive of social security administrations and which are capable of managing tiered (or pillared) and pluralistic social protection systems offering universal coverage. Positively, this public policy challenge is duly recognized and there is evidence in the region of political will and determination to address it.

In this task, a necessary first step is to further improve the management and governance of social security and health-care organizations. Enhanced capacity building in the design, administration, and delivery of programmes is essential. No less important is the need to undertake reforms to first ensure the medium-term financial sustainability of schemes. The challenge for countries in Asia and the Pacific is to make programmes effective and sustainable while progressively extending coverage under existing or new cash benefit and health-care programmes.

To facilitate, on the one hand, identifying and defining the more immediate and longer-term policy challenges facing social security administrations and the programmes they deliver and, on the other hand, to frame policy responses to these, the ISSA has developed and documented a "Dynamic Social Security" framework.[3] The key developments presented in this report are identified and interpreted using this framework (see Box 1.2.).

The shorter-term aim of the Dynamic Social Security (DSS) framework is to support the development of high-performing, sustainable, and accessible social security

1.2. Dynamic Social Security

As an analytical tool for observing change and mapping the potential future path of social security, including for a region as heterogeneous as that of Asia and the Pacific, Dynamic Social Security may be defined as:
Policies and processes geared to better ensure accessible and sustainable social protection systems that not only provide protection, encourage prevention, and support rehabilitation and (re)integration but also contribute to better achieving socially inclusive and economically productive societies.

2. The old-age dependency ratio is defined as the ratio of the population aged 65 or older to the population aged 15 to 64 (UNPD, 2008).

3. See McKinnon (2007) for the seminal work on the conceptual framework, and Sigg (2007) and McKinnon (2009) for more global analyses of Dynamic Social Security.

administrations and programmes. In the longer term, the objective of DSS is to advance, at the very least, basic income security and access to health care for all.

On an ongoing basis, social security organizations have a duty to identify and implement good practice improvements to the processes and programmes that operate under their responsibility. With regard to the longer term, attaining significant progress towards social security for all often lies beyond the institutional capacities and mandates for independent action of social security organizations. More commonly, these decisions lie with national executive authorities. Accordingly, achieving significantly extended social security and health-care coverage is first dependent on sustained political will.

For all countries in the region seeking to improve the delivery of, and extend coverage under, social security and health-care programmes, a number of important challenges remain. These challenges are presented in Box 1.3.

1.3. Challenges for social security in Asia and the Pacific

Coverage
Although high-income countries in the region have near-universal coverage for cash benefits and health care, there is substantial scope for increasing coverage in low- and middle-income countries. In a context of globalization and demographic ageing, achieving sustainable improvements in coverage that are inclusive of all population groups will require the coordinated development of coherent and integrated tiered (or pillared) and pluralistic social protection systems.

Adequacy and quality of benefits and services
The adequacy and quality of benefits relates not only to the monetary value of cash payments but also to the timeliness, periodicity, and relevance of the benefits and services provided. On the basis of actuarial valuations or decisions regarding available fiscal space, efforts to improve benefits and services should address all these issues.

Investment policies and performance
With many countries in the region operating fully- or partially-funded programmes, the protection of fund assets and their effective investment to adequately finance future benefits is crucial. Regardless of whether funds are managed by the public or private sector, the putting in place and the regular reappraisal of appropriate governance and regulatory structures is paramount.

Governance and management
To ensure the continuing legitimacy of administrations and programmes, social security and health-care organizations must seek continually to improve all aspects of their operational performance and communication methods vis-à-vis all stakeholders and partners, and do so competently and efficiently.

CHAPTER 2

Extending coverage

Producing aggregated coverage figures for all countries of Asia and the Pacific presents a real challenge, not least because of the frequent absence of integrated social security ID systems. As a result, coverage figures for mandatory old-age benefit systems, when available, are commonly used as proxies for national coverage rates. Generally speaking, old-age benefit coverage rates are positively correlated with per capita income. In high-income countries, including the Gulf States, mandatory retirement systems cover a very high proportion of the eligible population. In many low- and middle-income countries however, coverage levels are relatively low. For example, aggregated figures for Pakistan, Bangladesh, Nepal, Viet Nam, Indonesia, and Mongolia suggest percentage coverage rates of 6.5, 10.2, 10.5, 21.7, 34.6, and 53.6, respectively (Baulch, Wood, and Weber, 2006, p. 15).

Care must always be taken when considering coverage figures. In Sri Lanka, the Employees' Provident Fund has 11.3 million members, but only 2 million active contributors (EPF, 2006). When governance structures and administrative capacity are weak, registered fund members with interrupted work histories or who move in and out of formal employment may register more than once or may have little difficulty in evading contribution payment. With regard to the latter, this will lead to a low density of contributions and, ultimately, will result in lower, and possibly wholly inadequate, contributory benefit entitlements.

Across Asia and the Pacific the weight of evidence of recent efforts to extend coverage for social security cash benefits suggests three common, and frequently overlapping, policy priorities: extending coverage under contributory programmes; extending coverage under tax-financed programmes; and extending coverage to migrant and expatriate workers.

Extending coverage under contributory programmes

In the Islamic Republic of Iran efforts are underway to improve coverage for self-employed persons, who have until now been covered on a voluntary basis. Measures to reach this objective include compulsory coverage for certain groups of self-employed persons and additional state support for others through state-subsidized contributions. As one example, construction workers who have been covered only for work accidents are to acquire coverage under all programmes. Legislation on voluntary insurance has also been simplified in order to extend coverage, not least to street vendors. In 2008, the Jordanian Social Security Corporation approved an initiative to extend coverage to small firms employing at least one worker. In addition, under the new Social Security Law, coverage will be extended to self-employed persons and housewives.

Viet Nam's social insurance legislation provides unemployment insurance to approximately six million formal economy workers. Mirroring proactive labour-market policies common to many OECD countries, the programme also seeks to facilitate unemployed persons returning to work, and provides support in the form of professional training and job-seeking assistance. Significantly, unemployed persons are provided with health-care cover when receiving benefits.

China is exemplary as one of the few developing countries that has managed to establish, and increase coverage under, a comprehensive social security system ranging across all branches of social security. China's success in achieving rapid extension in coverage rests on unified planning for both rural and urban populations and executive-level political commitment to attaining the goal of universal coverage (see Box. 2.1.). Between 2003 and 2008, for example, China achieved a 200 per cent increase in coverage for work injury benefits and a 151 per cent increase in coverage for maternity benefits (see Box 2.2.).

In contrast to China's experience, Indonesia has been confronted by considerable difficulties in introducing a planned comprehensive national social security system for both formal and informal economy workers. Despite legislation having been passed in 2004, bottlenecks in the implementation process have prevented significant progress.

Tax-financed pensions

A number of countries in the region have introduced tax-financed pension programmes that are designed to alleviate poverty, especially among the elderly. Provided on either a targeted mean-tested or universal basis, they have shown to be administratively feasible and fiscally affordable, even for lower-income countries. Importantly, they have positive measurable impacts on the health, well-being, and status of recipients and their family and household members as well as on the development of local economies.

Since 1995, Nepal has operated the Old Age Allowance (OAA) scheme, a universal tax-financed pension programme that is paid to all citizens aged 70 or older. In 2006-2007, 76 per cent of the eligible elderly received the OAA, with expenditure equivalent to 0.23 per cent of GDP. Its economic impact has been particularly significant in rural areas (HelpAge International, 2009). Two further universal tax-financed pension programmes in low-income countries in the region are those of Samoa and Kiribati. In Samoa the pension is paid at age 65, while in Kiribati the pensionable age is 70.

Like Nepal, India has operated a tax-financed pension programme since 1995, as part of the National Social Assistance Programme. Paid to destitute individuals older than age 65, the Indian programme is means-tested and financed by central and state governments. A further means-tested example is Bangladesh that provides an old-age benefit from age 57.

A measure provided at the municipal level that is noteworthy relates to provisions adopted by the Beijing Municipal Government in 2007 to extend old-age benefits to all elderly urban and rural citizens under its jurisdiction. All Beijing residents aged 60 or older, regardless of whether they are domiciled in a rural or urban area, who are not covered by another old-age protection scheme are entitled to receive a monthly pension.

2.1. Reaffirming the role of state provision in social security

China's recent social security reform experiences underscore the importance of the state's role in significantly and rapidly extending social security coverage. Previously, in the three-decade period from 1950 to 1980 when social security was largely publicly provided, China achieved major advances in health status and social indicators. However, China's social security system was substantially weakened by the market-oriented economic reforms introduced in the last two decades of the twentieth century. Since 2000, the Chinese state, supported by increasing fiscal space and improved capacity at all levels, has reasserted itself as the lead figure in China's social security and health-care reforms, resulting in a broader scope of programmes, a singularly massive increase in coverage, and more affordable benefits.

2.2. Social security coverage in China

Social security branch	Coverage in 2003 (millions)	Coverage in 2008 (millions)	Increase in coverage from 2003–2008 (per cent)
Pensions	116	165	42
Health care	189	1,123	494
Unemployment	103	124	20
Work injury	46	138	200
Maternity	37	93	151

Source: Adapted from Zhu (2009).

In 2008, the Republic of Korea introduced a tax-financed old-age pension supplement that will operate alongside the country's social insurance programme. The programme aims to cover 70 per cent of all senior citizens older than age 65. A similar two-tier approach operates in Brunei where a universal pension for all residents aged 60 or older supplements provident fund benefits. More recently, in May 2009, the Maldives passed a Pension Act (primarily to reform civil service pensions) that introduced a tax-financed old-age basic pension for all citizens older than age 65.

Extending coverage to migrant and expatriate workers

Demographic trends suggest that more than three-fifths of the potential global livelihoods generation[4] between 2005 and 2020 will be in Asia and the Pacific. India alone would need to generate a quarter of the potential global livelihoods, while the contribution of China and Indonesia would be 8.5 and 3.8 per cent, respectively. 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 (Calculated from UNPD, 2008).

The challenge of creating new livelihoods has acquired greater urgency as a result of the current economic crisis. If sufficient opportunities are not forthcoming as required, the expectation is that migration will increase.

Global forecasts for the period 2010-2050 suggest that Australia will be one of the highest net receivers of international migrants. The major countries of net emigration are projected to be predominantly Asian, and include China (–309,000 annually), India (–253,000), Philippines (–175,000), Pakistan (–161,000), Indonesia (–156,000), and Bangladesh (–148,000) (UNPD, 2009). To protect the social security rights of workers, these movements underscore the necessity of developing totalization agreements between labour-sending and labour-receiving countries.

Totalization agreements are designed to ensure that workers, self-employed persons and employers do not end up paying social security contributions in more than one jurisdiction, or alternatively avoid paying them in any jurisdiction. They act to protect the right to benefits of all workers, as well as for their dependants and survivors, and are used to calculate aggregated benefit entitlements earned in different jurisdictions. In this broader process, no less important will be the drafting of effective agreements to protect the working and living conditions of migrant workers. There are many countries in the region, including United Arab Emirates, Saudi Arabia, Kuwait, Malaysia, and Singapore, which are large and constant recipients of foreign labour, much of which is supplied from countries from within the region, such as the Philippines, Thailand, Bangladesh, Myanmar, Sri Lanka, and India. Importantly, there is evidence that the social security needs of foreign workers are starting to be taken more seriously.

4. Potential livelihood generation is defined as the number of economically active persons (between ages 15 and 64) in a given region, for whom livelihoods will need to be generated in the formal or the informal economy.

In 2007, the Sri Lanka Bureau of Foreign Employment and the Social Security Board introduced a contributory pension scheme for Sri Lanka's two million overseas migrant workers. Subsidized by the government (60 per cent of costs), contributions may be paid monthly or as a lump sum. The scheme provides an old-age pension at age 60 and survivor benefits. In the Republic of Korea, a 2007 amendment to the legislation for the National Pension allows foreign workers who pay into the pension system to receive a lump-sum refund of their contributions when they return to their home country.

From a different angle, China has an ongoing challenge in developing unified social security programmes that are capable of meeting the needs of internal migrant labour within its own national frontiers and doing so in an equitable manner. With China's economy having been severely affected by the current crisis, more than 20 million farmer-turned domestic migrant workers had lost their urban jobs by the end of 2008 (Zhu, 2009).

Despite the negative impact of the current recession on employment opportunities for many migrant workers, another factor driving migration is the demographic transition. The populations of high-income economies, such as Japan, Australia, New Zealand, or the Republic of Korea, are generally much older than those of less-developed economies. With a foreseen reduction in the size of their respective working-age populations, these countries will need to find ways to maintain national productivity levels. Responses are likely to include the use of more capital intensive technology, a more extensive use of off-shoring activities, and the increasing employment of migrant workers. Accordingly, ageing high-income economies may look increasingly to countries such as India, the Philippines, and Viet Nam, which are currently in a demographically younger phase. For instance, Japan has agreed with the Philippines and Indonesia on special arrangements for workers employed in Japan on a temporary basis, mainly to look after elderly Japanese citizens (Naïto, 2009).

As Box 2.3. summarizes, recent developments in the region point to a series of policy lessons for extending access to benefits for different population groups.

2.3. Policy lessons for extending access to benefits

- Recent developments underline the importance of the state in successfully extending coverage.
- On the basis of political will, sufficient fiscal space, coherent policy, and administrative capacity to deliver, large-scale coverage extension can be achieved relatively quickly.
- For all countries, national specificities should dictate policy priorities.
- 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.
- Either as stand-alone programmes or to complement contributory programmes, tax-financed programmes are fiscally and administratively feasible even for low-income countries on a nationwide basis. Successful implementation will remain dependent on a number of additional elements, including political will and consensus.

CHAPTER 3

Health care challenges

The challenges of providing health care in the countries of Asia and the Pacific often differ according to levels of national development. For less-developed economies, the principal challenge remains one of extending coverage in an affordable and sustainable manner to all population groups. Only one in five has adequate access to health care in Asia and the Pacific (UN, 2009). Especially for the poorest, there is an urgent need to reduce the region's high level of out-of-pocket spending on health care and to institute sustainable risk-pooling mechanisms. Linked to this is a need in some countries to address the weak capacities of, and limited provision under, public health institutions. In turn, a lack of robust disaggregated databases on morbidity and mortality patterns inhibits appropriate pricing for health-insurance services and products in many low- and middle-income countries.

With a noticeable trend in many countries towards the use of mixed financing models involving public tax-financed health care (mainly for the poor), social health-insurance systems (mainly for formal sector workers) and private health care (for higher-income groups), there is a heightened need for greater public policy coordination. Through enhanced public policy oversight, the aim is to satisfactorily deliver quality and sustainable health care to different population groups using pluralistic institutional structures and to do so in a coherent and integrated manner.

Pluralistic but integrated health systems are viewed positively. This is because health-care needs and service expectations regarding the type and quality of services offered vary considerably among different income groups. As such, no single approach to health-care financing can satisfy all groups, especially on a long-term financially sustainable basis. Accordingly, it is only on the basis of pluralistic approaches that differing needs and expectations, and the associated administrative and medical services and the financial costs that these implicitly involve, can be met.

With the aim of realizing universal coverage, four case studies in extending health-care coverage to different population groups are presented in Box 3.1.

For the region's more-developed economies, coverage is more or less universal. Universal coverage may be provided, as in the Republic of Korea, under social health insurance and tax-financed provisions or, as in New Zealand, financed exclusively by general tax revenue. The relative use of cost-sharing for certain services also varies across countries. Financing health-care coverage for foreign workers is also becoming a more important policy issue, especially in the Gulf States. In this regard, a new health insurance law was introduced in Abu Dhabi in 2007 in the United Arab Emirates (UAE). All employers must now provide health-care coverage to expatriate professional staff and their dependants, including the spouse and up to three children younger than age 18. Dubai and the Northern Emirates are expected to follow suit.

The key challenges for the more-developed economies relate to cost containment and improving the efficient delivery and quality of health-care provisions.

3.1. Case studies in extending health-care coverage

People's Republic of China

Until the early 1980s, health care in China was provided solely 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 provided coverage to 90 per cent of the rural population and covered 50 to 70 per cent of their total medical expenditure. As a result of broader structural reforms instituted in the 1980s and 1990s, the public health system weakened and subsidies were reduced. The CMS was discontinued as collective farming ceased. By the mid-1980s it covered less than 5 per cent of the rural population (Ramesh and Wu, 2009). In 2003, China launched a New Rural Cooperative Medical Scheme (NRCMS), co-funded by a government subsidy. The NRCMS has been instrumental in the recent rapid extension of coverage to the rural population, from 11.6 per cent in 2004 to 50.7 per cent in 2006 and to 91.5 per cent in 2009. Under all health-care programmes, between 2003 and 2008, China has achieved nearly a five-fold increase in health-care coverage. The Chinese government is attaching greater importance to building linkages and increasing coordination among different health-care schemes (Zhu, 2009).

Republic of Korea

The Republic of Korea's National Health Insurance (NHI) system has gradually extended coverage since 1977, and now covers the entire population, except for daily wage earners with less than one month of continuous employment and the unemployed. Those not covered by the NHI are eligible for Medical Aid, which is a means-tested public assistance scheme that pays from 33 to 100 per cent of individual medical-care costs. Together, NHI and Medical Aid cover the entire population. Health-care provision is predominantly delivered through the private sector and providers are reimbursed on a regulated fee-for-service schedule. However, significant co-payments (25 to 35 per cent) are borne by patients.

The Philippines

With the aim of achieving universal coverage by 2010, the Philippines Health Insurance Corporation (PhilHealth) was created in 1995. It currently has four membership plans that cover: i) formally employed workers (both the employers and the employees contribute 1.25 per cent of monthly wages); ii) indigent individuals (jointly funded by the central and local government); iii) retirees (for members who have paid a minimum of 120 monthly premiums); and iv) self-insured individuals (covers self-employed professionals and those who are not covered by the other three schemes). For each of these plans, PhilHealth reimburses the cost of care according to a plan-specific and hospital-specific schedule. It also reimburses certain pharmaceutical expenses. As of 2006, 70 per cent of the population was covered by one of the four plans. To extend coverage further, community-based and micro-health insurance schemes are gradually increasing coverage and access to health care for the poor.

Thailand

Thailand established a publicly-funded universal health-care system in 2002, with the launch of the Universal Coverage Scheme (UCS). Previously, most citizens were covered by the Workers' Compensation Scheme (WCS), an employer-liability scheme covering workers for work-related illnesses, disabilities and injuries; the tax-funded Civil Service Medical Benefits (CSMB); and Social Health Insurance (SHI). 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 according to a capitation payment and Diagnostic Related Groups. Until 2006, members of the UCS had to co-pay 30 Baht as a user fee – but all user fees have since been removed. Recent developments in Thailand are consistent with greater efforts to increase health-care coverage and access. The UCS has achieved increases in affordable health-care coverage for both the rural and urban populations.

Evolving epidemiological patterns and advances in life expectancy also have to be taken into account. The development of long-term care insurance in Japan and the Republic of Korea is noteworthy in this regard as is the introduction of new health checks for persons aged 65 or older in Australia. In a number of countries, including Japan and China, greater emphasis is also being placed on the role of preventative measures. Ultimately, for all countries and regardless of their level of development, the goals of a building an effective health-care system should include providing affordable, equitable, accessible, sustainable, and quality care.

Based on a broad reading of current and emerging developments and trends, common themes in health-care provision in the countries of Asia and the Pacific are presented in Box 3.2.

3.2. Common themes in health-care provision

- Extending health-care coverage is being achieved on the basis of pluralistic health systems.
- Reform experiences suggest i) a relative rebalancing of the public-private mix in the financing of health care towards the state; and ii) a relatively greater role for the state in health-care service delivery.
- Reforms have sought to strengthen governance, contain costs, increase accountability, and improve professionalism in health-care systems.
- As health expenditures grow, greater emphasis is being placed on preventative measures. The effectiveness of such measures is dependent on coordinated multi-institutional responses.

CHAPTER 4

Financing retirement

For a majority of countries in Asia and the Pacific, less than 5 per cent of the population is aged 65 or older. However, among the more-developed economies of Australia, Hong Kong (China), Japan, the Republic of Korea, New Zealand, Singapore, and Taiwan (China), the percentage of persons aged 65 or older is in double digits. Among these, the figure for Japan is globally significant: 22.5 per cent. For all countries in the region, retirement ages range from age 55 to 65 (men) or from age 50 to 65 (women). Importantly, some of the high-income countries, which have longer average life expectancy, have increased or will increase the retirement age or the age at which full pension rights accrue.

Increasing the retirement age or the age at which full old-age benefits can be received may encourage extended labour market activity among older workers. In this vein, for instance, since 2005, Australia permits its citizens to access a portion of their superannuation benefits on reaching entitlement age without having to retire permanently from the workforce. Australia also allows the receipt of its tax-financed social security pension to be deferred for up to five years, whereupon a pension bonus is paid subject to certain conditions of employment having been met. Singapore has increased the retirement age and is also promoting active ageing and the redesign of jobs to proactively prolong the labour market activity of older workers. Japan has also increased the official retirement age, and many Japanese continue to work after formal retirement.

In Asia and the Pacific, as in other regions, the average length of time that individuals spend in retirement is growing. Hence, a policy concern for many countries is the need to provide adequate benefits to respond to increased longevity. Confronted with a rising incidence of early retirement, the Social Security Corporation of Jordan is engaged in national discussions to find a better way of guaranteeing the sustained delivery of adequate pensions.

Conventionally, adequacy is framed in terms of the replacement rate, defined as the ratio of retirement income to pre-retirement income. However, it is essential to consider retirement income from all sources as well as to also consider all likely expenditures including health-care costs.

Many current developments underline the importance of taking into account the functioning of, and the complementarities between, all old-age benefit systems, including public and private mandatory contributory schemes, tax-financed pensions, mandatory occupational arrangements, and civil service pension systems. When looking to reform existing old-age benefit arrangements, such reform must include an appreciation of the likely impact this may have on the financing and functioning of all retirement programmes.

Improving the investment of social security funds

The financing of old-age benefits using full and partial funding is commonplace in the region. For funded schemes to more adequately finance future benefits there is an increased requirement for appropriate investment skills, infrastructure and regulation, and access to suitable (domestic and international) investment opportunities wherein fund assets and liabilities can be matched according to the accepted risk profile.

The experiences of some long-established social security schemes in the region show how the accumulated assets of social security funds can grow significantly. In Malaysia and Singapore, for example, provident fund assets equate to around 60 per cent of GDP, while in other countries these assets are about 25 per cent of GDP. In instances where a social security fund becomes the dominant domestic institutional investor, the financial health of the fund can be crucial for the planned development of the national economy as well as for paying benefits.

The current economic crisis has severely eroded the value of many pension funds, particularly those who invested a significant proportion of their assets in equities. This has further complicated the task of managing investments. As for all regions, there is scope to improve investment policies and performance. However, as the following examples show, efforts were already underway to realize such improvement prior to the 2008 crisis.

India's Employees' Provident Fund Organisation (EPFO), with assets equating to around 6.3 per cent of India's GDP in 2008, has introduced competition to its fund management. The EPFO currently uses four fund managers, who have provided returns ranging from 8.7 to 9.1 per cent in 2008-2009. This is the first time in seven years that the EPFO will not need to use its reserves to pay interest to its members.

Japan is attempting to increase the real rate of return earned on the assets of its pension systems through better professional management and greater portfolio diversification. Thailand's Government Pension Fund and Malaysia's Employees' Provident Fund (EPF) have diversified their portfolio allocations to include international investments and have also contracted asset and financial management expertise from other countries. In seeking improvements in fund investment returns, the Republic of Korea announced in 2007 that the fund of the National Pension programme would henceforth be managed independently; the fund was previously managed by the Ministry of Health and Welfare. It is now managed by an independent National Pension Reserve Fund Management Corporation, which seeks the counsel of specialists in the private sector for investment and portfolio allocations. In Taiwan (China), the Labour Pension Fund Supervisory Committee was inaugurated in 2007 to supervise and manage the investment of social security pension funds, with the aim of improving financial returns.

Investment policies and performance are also relevant at the benefit payment stage, especially in countries operating defined-contribution schemes. Some countries operating defined-contribution schemes offer a possibility of purchasing an annuity at retirement, as is now the case in Malaysia. However, in many countries, annuity markets remain underdeveloped. Moreover, many national provident funds do not provide annuities; instead, they provide lump-sum payments. Lump-sum payments are often criticized for not being able to guarantee income security during the entire retirement period. And as longevity increases, lump-sum benefits become increasingly risky for individuals and for government; the latter having to find the fiscal means to finance social assistance once lump sums have been exhausted.

Even for many national old-age programmes providing periodic benefits, the protection provided against inflation and longevity risks may be limited. In the Gulf States of Bahrain, Kuwait, Oman, and Saudi Arabia, for example, the importance of the role of actuarial analysis has long been recognized, inter alia to avoid asset-liability mismatches when investing pension funds and to better ensure financial sustainability and the future adequacy of benefits.

Although national provident funds provide long-term benefits for old age, disability and survivorship, many offer members the possibility of drawing down portions of their individual savings to meet consumption requirements. While this may be welcomed by fund members as a way to manage short-term fluctuations in household incomes or expenditures, it is likely to result in lower benefits in the longer term. Excessive pre-retirement withdrawals are thought to have adversely impacted benefit adequacy in Fiji, Malaysia, Singapore, and Sri Lanka. In 2007, pre-retirement withdrawals equated to 86 per cent of total contributions in Fiji. In response, the Fiji National Provident Fund has considerably tightened the rules for access to such withdrawals.

Tiered responses to ageing

Countries in Asia and the Pacific that rely on single-tier pension systems are finding it increasingly difficult to ensure adequate benefits in a context of demographic ageing. For instance, there is increasing pressure on Malaysia and Singapore, who operate national provident funds, to adopt a tiered (or pillared) approach to old-age social security. The recent introduction in the Republic of Korea of a complementary tax-financed tier is indicative of efforts to address this challenge.

Several national initiatives in the region have strengthened the complementary role of mandatory and voluntary retirement savings. Some have developed occupational-based provisions while others are seeking to encourage self-employed persons and those without formal employment contracts to voluntarily take up regulated retirement savings instruments.

New Zealand introduced the KiwiSaver scheme in 2007. All employers are required to automatically enrol new employees in KiwiSaver, unless the employer provides access to an alternative superannuation scheme. The benefits provided are portable, but the savings are preserved (no withdrawals are permitted) until age 65 when a lump sum is provided.

Malaysia has amended its EPF Act to encourage elderly members to remain active and increase savings for retirement. Previously, contributions to the EPF ceased at age 55. Since 2008, the EPF permits members aged 55 to 75 to continue to contribute, albeit at a lower rate. At retirement, members now have the option to purchase an EPF-approved annuity, private pension, or insurance policy, as an alternative to receiving benefits accrued in a lump sum or as phased withdrawals.

In 2008, the Philippines established a personal provident fund plan: the Personal Equity and Retirement Account. The scheme hopes to attract eight million individuals, especially those not covered by the Social Security System or the Government Service Insurance System. Benefits, either as a lump sum or a pension, will be paid from age 55 with at least 5 years of contributions. Also with the aim of increasing voluntary coverage, India introduced in 2009 a voluntary component open to all citizens as part of its reformed civil service New Pension Scheme.

In 2009, the Thai government integrated a mandatory second-tier defined-contribution scheme into its existing social security system. The scheme will initially cover firms employing more than 100 workers, and will be gradually extended to firms employing at least one worker.

More broadly, there is increasing recognition among policy-makers in the region that occupational retirement plans, particularly for employees of large public- and private-sector enterprises, could have beneficial effects for individual well-being and national development objectives. In addition to improving income replacement levels, appropriately-governed occupational plans could provide a steady flow of long-term contractual savings for investment and help develop national financial and capital markets.

Another development in the region that seeks to provide additional, but less conventional, sources of retirement income is the use of reverse mortgage schemes. In 2007, the Republic of Korea introduced a reverse mortgage scheme that enables housing equity to be used to finance retirement consumption. Also in 2007, the Chinese government awarded its first commercial licence to initiate a market for reverse mortgages. To date, the take up of these scheme has been limited in both countries. Singapore also has a reverse mortgage scheme. The development of micro-pensions in some South Asian countries is another innovative mechanism for financing retirement income.

Civil service pension reform

As part of wider reform initiatives to better calibrate old-age benefit systems to the evolving demographic and economic context, the pension arrangements of

4.1. India's civil service pension reform

To reform its civil service pension system, India introduced the New Pension Scheme (NPS) – a defined-contribution scheme with distinct mandatory and voluntary components.

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 ages 18 and 55, and became operational on 1 May 2009. The voluntary NPS has limited pre-retirement withdrawal provisions and flexible contributions.

The NPS offers different investment choices, including a default option that automatically varies asset class exposure with age. The equity exposure in all cases is only through indexed funds.

civil servants are now under greater scrutiny (Asher, 2000). The reform of civil service pension systems has the potential not only to substantially improve their financial sustainability but to improve equity between civil servants and other segments of the population. Nonetheless, such reform is difficult, both politically and technically. Countries such as Sri Lanka, India, and the Republic of Korea have made attempts to reform civil service programmes. The main reform measures have included increasing funding through higher contributions and setting aside funds to be professionally invested in capital markets.

In 2006, the Republic of Korea announced that the Government Employee Pension System would undergo reform because of a growing deficit. Sri Lanka introduced legislation to reform its civil service pension scheme by requiring members to pay contributions, but strong political opposition has since forced a policy reversal. India has reformed civil service pensions, moving from a non-contributory defined-benefit scheme, with generous longevity- and inflation-risk protection provisions, to a defined-contribution scheme for new civil servants (see Box 4.1.). Aspects of this reform trend are also evident in Malaysia, Maldives, and Thailand. On the basis of all of the above, Box 4.2. presents policy conclusions for the financing of retirement.

4.2. Policy conclusions

- Increasing average longevity in all countries in Asia and the Pacific demands greater financial resources to ensure the payment of adequate old-age benefits for longer periods.
- The need for greater financial resources for existing programmes has to be balanced carefully with calls for extended coverage and more adequate benefits.
- There is a growing role for tax-financed benefits in many countries, the costs of which reduce the fiscal space for other spending. In allocating limited resources, the design of equitable provisions for old-age benefits must take into account all old-age benefit systems, including those of public servants.
- Financing longer periods of retirement and extending coverage implies a number of possible responses, including delaying access to benefits and savings, prolonging the period of active contribution, improving the efficiency of investments and administration, limiting the generosity of defined benefits, identifying priorities for fiscal expenditure, and complementing retirement income with innovative and voluntary income sources.

CHAPTER 5

Conclusions: The integral role of social security

Despite the region's considerable heterogeneity, four key messages for social security systems in Asia and the Pacific can be identified.

First, social security systems are increasingly regarded as integral to the overall social, economic, and political management of the country, rather than being a secondary concern. The current global economic crisis has reinforced and perhaps accelerated this trend. The role of the state in social security financing, management, and supervision is also expected to increase in the region.

The OECD-member countries of the region (Australia, Japan, New Zealand, and the Republic of Korea) have comprehensive social security systems and a longer-standing appreciation that such systems are essential to the functioning of their economies. China, India, Indonesia, and Viet Nam are examples of countries that, relatively recently, have begun the task of integrating social security reform initiatives – involving contributory and tax-financed cash benefit programmes, health-care systems, and social assistance – into their development strategies.

These initiatives are designed to help rebalance these national economies, to make them less vulnerable to external shocks, and to achieve more inclusive and broader development. They do recognize, however, the importance of sustaining a high trend rate of economic growth, as without larger national incomes the task of managing competing objectives, including adequately providing for the young and the old, may become more difficult. There are many countries in the region where such integration has been relatively limited, and much more progress is feasible. A greater development orientation in policies may be helpful in this regard.

Second, there is increasing recognition that effective reform of social security systems requires complementary reforms in other areas. For example, the expanding role of tax-financed pensions or the adoption of more widespread social assistance should be aligned with reforms in public-service delivery systems and measures to develop a more sustainable fiscal base.

Policies to support income generation from labour market participation even after reaching the "normal" retirement age will be imperative as life expectancy (at birth and at age 65) continues to rise. As illustrated by Australia, countries should consider greater flexibility with regard to rules about continuing working and deferring or receiving old-age benefits.

Increasing use of pre-funding in financing old-age benefits, as in China, India, the Philippines, Malaysia, and Thailand, requires concomitant reforms in financial and capital markets, greater investment management expertise among provident and pension fund organizations, and enhanced financial literacy and inclusion.

In health-care provision, it is recognized that mere legislative enactment of more comprehensive provision is unlikely to translate into better coverage or quality of health care, unless supply-side constraints such as the availability of health-care facilities, sufficient numbers of trained personnel, and stronger public health systems are also addressed. In addition, all of this must be achieved while better managing growing demand and rising costs and promoting preventative care strategies and "healthy ageing" policies.

Third, to ensure better performing social security organizations, there is a heightened need for stronger governance and management, backed by increasing professionalism, with decisions based on robust databases and policy-relevant analysis. In some countries, including Australia, the Islamic Republic of Iran, Malaysia, Oman, the Philippines, and Saudi Arabia, the use of information and communications technology (ICT) platforms is contributing to improved administrative efficiency. For many other countries, considerable improvement in administration should be achievable, which in turn has the potential to benefit significant numbers of individuals. In India, the Employees' State Insurance Corporation's Panchdeep project on data sharing and the inter-connecting of services has the potential to impact on over 50 million individuals.

initial set up of ICT and enterprise resource management systems requires social security and health services management staff to effectively work with outside actors, enterprises, and agencies. If such restructuring is not handled effectively, member services (including e-services), may not improve measurably.

The mind-set required for effective partnerships, into which each partner brings something of social and economic value over a considerable period, is different from the traditional bureaucratic mind-set and procedures. This intangible aspect may have, nevertheless, a considerable impact on the extent to which countries in Asia and the Pacific are able to achieve social security objectives. It is to be expected that an internally-driven and appropriate change of mind-set among social security and health service professionals should improve the benefits and services of covered populations in many countries considerably, while increasing the scope for, and efficiency of, government expenditure on health care, tax-financed pensions, social assistance, and food as well as other subsidies.

5.1. Key messages for social security reform strategies

- Social security systems are integral to the country management of the social, economic, and political dimensions.
- Effective social security reform requires complementary reforms in other areas and should be integrated with broader national development goals.
- Building better performing, dynamic social security organizations implies stronger governance and management, increasing professionalism, and policy-relevant analysis and decision-making.

Fourth, integrating social security system reform initiatives with broader national development goals, including macroeconomic sustainability, more equitable growth and poverty alleviation, means that the public, private, and private-not-for-profit sectors should be more systematically treated as complementary mechanisms among which a balance must be achieved to obtain results.

This calls for competency in structuring and managing partnerships between the public, private, and the private-not-for-profit sectors, often involving both domestic and international organizations. Thus, the

In conclusion, the debate on the appropriate role of social security systems and their reform strategies has widened greatly in recent years. The social security system is increasingly seen as integral to national development (see Box 5.1.). Overall, recent developments and trends in Asia and the Pacific are broadly in the direction of the conceptual framework of Dynamic Social Security advocated by the ISSA.

To make further progress towards Dynamic Social Security in Asia and the Pacific will require all stakeholders to cooperate in a constructive and coherent manner. What is sorely required, therefore, is to construct and nurture the necessary capacities, including an appropriate mind-set, to implement context-specific and sustainable policies and programmes that are tailor-made for the social security needs of populations. In the context of the current crisis – and beyond – this is the challenge.

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Dynamic Social Security for Asia and the Pacific: Integrated Responses for More Equitable Growth

Dynamic Social Security for Asia and the Pacific: Integrated Responses for More Equitable Growth identifies synthesis and interprets the most important recent developments and trends in Asia and the Pacific in social security. A key observation from the recent period is that successful social security and health-care systems require heavy commitment from the state, but this involvement places greater pressure on limited fiscal resources. In a broader context of globalization and demographic ageing, the better management of resources to support improvements in benefits and services is therefore vital. Despite the challenges, the report underscores social security's integral role for sustainable social, economic and political development. As the report concludes, one outcome of the current economic crisis has been to anchor this belief more solidly than ever.

This is the second in a four-volume set of regional Developments and Trends reports designed to accompany and inform the ISSA's Regional Social Security Forums during the triennium 2008-10. In combination with reports on Africa, the Americas, and Europe, the regional format of this series presents a new approach to better documenting, understanding, and learning from the key challenges facing ISSA member organizations in the different regions of the world.

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