Social Security

Toward Newfound Confidence

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Foreword

This publication mirrors the ambitions of the International Social Security Association (ISSA) to speak with a bolder international voice in the defence and promotion of social security. In turn, this publication echoes the wishes of the ISSA member organizations to have access to comparative information that is not only concise and easily accessible but also reflective of today's major policy issues and challenges.

The aim is to furnish policy makers, social security managers and administrators, as well as researchers, academics and students alike, with a tool permitting the development of a more informed international debate regarding social security policies. In the challenging context of demographic ageing and "globalization", the growing consensus is that social security is essential to sustaining social and economic development. The worldwide growth of inequality and insecurity, with an attendant heightened perceived risk of civil unrest, demands that social security administrations think afresh about how to provide universal and adequate protection. For too long social security has been the privilege of far too few. Social security coverage must be extended and secured, especially for the billions of people who remain without.

Positively, the evidence demonstrates that social security is adjusting. Efforts are being made to extend coverage and to better tailor benefits to contemporary labour market and lifecycle realities. These efforts give credence to a "newfound confidence". However, much more remains to be done. And it is to help address these challenges that the major focus here within is directed.

The main body of this volume comprises the report drafted for the "Developments and trends" plenary session of the ISSA 28th General Assembly, Beijing, 2004. The appendix contains abridged versions of the interventions presented to that plenary from the podium.

The ISSA Secretariat under the direction of Yannick D'Haene prepared the publication. Richard Levinsky was responsible for project management. Birgit Rochet-Jäger provided technical and administrative support.

Dalmer D. Hoskins
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Preface

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It never hurts to remind ourselves that the purpose of social security is to offer people security over the course of their lives.

The pursuit of that objective poses a series of questions for policy makers:

- Are benefits large enough to provide security (the issue of adequacy)?
- Are benefits available to the population at large (the issue of coverage)?
  How complete is coverage in urban areas; and does the system extend to rural areas?
- Does the system deliver, in the sense that the administrative structure is in place to deliver the security that people are promised (the issue of governance)?
- Is the system robust enough to offer security in the future (the issues of sustainability and public confidence)?

Administrators are professionally required to focus on the third of these questions. One aspect of this, the development of e-government/e-administration, is dealt with in Chapter 6. But it is important to have all four in mind together. As Chapters 4 and 7 make clear, benefits are often inadequate to support living standards. Coverage (Chapters 1 and 2) is seriously deficient in many countries – and not only in rural areas. Robustness over time is also essential: the purpose of old age security, for example, is to provide security not only in old age, but also to give some certainty to younger people that the institutions on which they are relying will still be in place when they reach old age. This is far from the case in many countries, a point that emerges from Chapter 9, which stresses the importance of sustainable pension and health care systems.

Thus – a key message – policy makers need the capacity for coherent, strategic thinking. They need to think about old-age pensions, health care, and disability, family and unemployment benefits as elements in a system in which each of the elements reinforces the other elements. As illustrated in relation to family policy (Chapter 3), they need to be able to devise and maintain a system, which can keep these various balls in the air simultaneously. And as part of that process it is essential that ministries of finance and ministries responsible in particular for social security and health start to talk to each other – an area which receives lip service, but almost invariably only lip service. This requires officials in the relevant Ministries to have a shared understanding of the economics of social security, and of macroeconomic theory and realities.

A second key message – the centrality of labour force participation – is a good illustration of the need for strategic thinking. The age-dependency ratio is rising in many countries. To refer to "the ageing problem", however, is grotesque. People are living longer; that is a wonderful thing. Rising life expectancy, it can be argued, was the great triumph of the twentieth century. But the fact that people are living longer has consequences: if people continue to retire at a given age, the cost of providing a given pension will rise. It can be argued that this is right: as countries become richer, people may prefer to take some of the increased standard of living as leisure, through a shorter working week, longer holidays, and earlier retirement. But the process cannot be completely unconstrained: there is an inescapable connection between the adequacy of pensions, their cost, and the age at which a person is entitled to a full pension. Rising labour force participation of men and women is an essential element in any solution, for reasons that far transcend the finance of social security – participation, it can be argued, is one of the core elements of economic development.

Holding the cost of pensions constant, there are two ways forward: the average pension can fall, or the duration of retirement can fall by increasing the labour-force participation of older people – the major topic of Chapter 8. Such a policy, however, has ramifications far beyond the pension system – it requires parallel policies to encourage flexible labour markets, discussed in Chapter 7. For example, it should be possible for an older worker to move from a demanding full-time job to less-demanding and/or part-time work; and such a move should be supported by a pension system that does not penalise people whose earnings fall in their later earning years. These issues – immensely salient in the advanced countries – may sound far-fetched to poorer countries. But the issue applies equally, though in a different way, in those countries: the issue there is how to design labour market institutions and social security arrangements which reinforce each other rather than being two entirely separate empires.

A third message, which emerges throughout the book, is that a variety of instruments can cover the various risks facing individuals and families during the life course. Thus policy makers when developing and reforming their systems have considerable choice, and the range of choice widens as fiscal and institutional capacity increase. Very poor countries should generally concentrate on low-spending, administratively simple poverty relief and basic universal health care. This could be through locally based, discretionary institutions, or means-tested social assistance, or universal benefits, or a tax-funded pension for the elderly, or some combination of these. Growing fiscal and public administrative capacity make possible national systems of income-tested social assistance, and simple contributory pensions run on a pay-as-you-go (PAYG) basis. Pensions provide an example of this continuum. The pension can be financed in a range of ways: from dedicated social insurance contributions or from a mix of taxation and contributions. With increased institutional capacity, government acquires the ability to administer more complex PAYG arrangements, for example notional defined-contribution pensions. Government also acquires the ability to regulate and supervise financial markets and to develop the necessary financial instruments for those markets. At that stage, voluntary private funded pensions are a sensible development. Since private savings instruments will be offered in any case, early regulation of savings, insurance and annuity markets is essential. Once fiscal capacity plus public and private institutional capacity are strong, mandatory private funded pensions become an option.

In sum, there is no single, dominant model, so that it is no accident that institutions vary widely (though the most effective systems, even in the most advanced countries, are fairly simple). Policy makers should ponder the policy mix that works in their own country, given its history, the political economy of reform, and fiscal and administrative constraints.

The fourth message, as the previous discussion makes clear, is that government is central in any social security system. Government cannot do everything, but no social security system can function without government – that is as true of private schemes as of public schemes (Chapters 4 and 5). For public pensions, for example, government must be able to collect taxes or contributions effectively, to maintain records over the years, and to pay pensions in an accurate and timely way. For private pensions, governments need the capacity to maintain a low-inflation regime, since rapid, unanticipated inflation erodes the assets of pension funds. A single burst of rapid inflation at any time during a person’s working life will cause a major decline in the person’s pension; separately, unless benefits are indexed, even moderate inflation in retirement has a considerable impact on a person’s standard of living. In addition to such macroeconomic capacity, government needs regulatory and supervisory capacity over firms which run pension schemes, and over insurance markets and financial markets. Such regulation is vital to protect consumers in areas too complex for them to protect themselves. This requires tightly drawn up procedures and a body of people with the capacity and will to enforce those procedures.

Finally, though policy design is important, implementation – the ability to ensure that things work on the grounds as policy makers intended – is equally important. Administrators need little reminder, but others do. One of the great strengths of this book, with its wide and rich diet, is that the writers are not only deeply versed in the analytical literature but also have considerable experience of how systems operate in practice.

Contents

Introduction

Toward newfound confidence

Roddy McKinnon

The aim of this publication is to present a selective overview of developments and trends in social security during the course of the triennium 2001-2004. In relation to the longer time-span that encompasses the varied development of social security around the world, from earlier and essentially European "regional" developments to the gradual international and ultimately global diffusion of social security systems as well as the parallel emergence of national "home grown" policies, three years is a very short time-frame indeed. Consequently, it is only natural that many of the developments and trends reported here have a pedigree that predates the past triennium. As studies of the institutional history and political economy of social security underscore, effecting significant change in social security policy and practice is in many instances a gradual and slow, and sometimes trial-and-error process, rather than being, ideally, the immediate product of deliberate policy planning. Characteristically, therefore, social security policy reform is often best viewed as a case of what "can be done" rather than being one of what "ought to be done".

As such, the task underlying the drafting of the main body of this volume is particularly challenging. First, it is challenging because it entails analysing recent legislative reforms and reported data from around the world in order to identify and separate out, albeit selectively, international developments and trends in social security practice with perceived meaningful longer-term ramifications from what may be perceived to be, at best, less meaningful developments and trends and, at worst, short-lived fads and evolutionary policy dead-ends.

Second, from the perspective of identifying and sharing meaningful international developments and trends, the task is challenging because one hard learnt lesson over the years is that there is no one-size-fits-all approach to social security. If anything, and even in the context of the perceived pressures arising from the current phase of globalization, national conditions and specificities continue to foster a continuing degree of diversity in social security practices. It is notable that this degree of diversity remains true despite the fact that, increasingly, technical progress in information and communications technologies is acting as an independent driver pushing a trend towards a greater degree of institutional convergence at the national level. All things considered, however, it is important to acknowledge that specific national experiences can still provide useful pointers for other countries with similar underlying socio-economic conditions and shared policy challenges. Consequently, each chapter presents boxed-text examples to highlight specific national case studies and comparative international empirical evidence.

The production of this book has been made possible through the collective efforts of ISSA staff. The contribution made by external international experts is also acknowledged, as is the contribution of the many expert referees who reviewed early drafts of the chapters. Recognition is also due to the ISSA's very many correspondents who furnish the core national legislative material and without whom the task of producing this publication would have been far more onerous to complete. The contents of chapters 1 to 9 have been largely determined by a detailed analysis of the considerable weight of national legislative reforms reported in the ISSA's "Social Security Worldwide (SSW)" information system over the course of the past triennium. Readers who wish to deepen their knowledge of specific examples cited in this report are invited to consult the ISSA's online information system at www.issa.int/ssw. A further important source of information is the ISSA Documentation Centre, which holds an unparalleled number of publications focused on social security matters.

In developing the structure of the volume, it was decided that the chapters should provide an analytic overview of topics deemed to be representative of current major international developments and trends in social security. Accordingly, it was decided not to designate specific chapters to particular branches of social security and neither was it thought appropriate to designate individual chapters to issues that were pertinent to only one region or another. While every effort has been made to report policy developments across each branch and region, information gaps and editorial selectivity will inevitably mean that certain topics receive more attention than others.

Although the chapters address a variety of topics pertinent to the administration of social security in the current international context of an evolving labour market, and technological and demographic change, it is possible to identify three key cross-cutting themes that bridge, and which in one form or another are present within, all the chapters. By outlining the three cross-cutting themes, the desired intention is to provide a guide to be used in conjunction with the respective chapter summaries that will direct the reader to the topics and policy issues that are most relevant to him or her. It is important to underline that the cross-cutting themes will not be addressed directly in the book.

Cross-cutting themes

Better tailoring social security benefits to societal demands

One cross-cutting theme exhibited by many recent reforms relates to attempts to tailor the design and delivery of benefits provided by social security administrations to better meet current and evolving societal demands, often in an environment of insufficient resources. On the one hand, some developments may be understood as being indicative of practical endeavours to improve the day-to-day technical operation of social security administrations. On the other hand, other developments suggest a growing willingness on the part of national policy-makers to search for alternative policy solutions to better remedy the perceived unsuitability of existing policies and practices.

In this vein, as McKinnon illustrates in Chapter 1 "Extending coverage and increasing security", long-standing policy debates regarding how best to improve the design of social security to advance the policy goals of extending coverage and increasing compliance levels, especially in less developed economies, have evolved. While recent developments provide evidence of contribution conditions and cash benefits being better tailored to the needs of workers, for example in "atypical" employment, other developments suggest that questions are increasingly being asked regarding to what degree conventional approaches to contributory social security will ever be appropriate for the most marginalized, including those engaged in the least formal and often most precarious forms of work. For countries, which are not members of the Organisation for Economic Co-operation and Development (OECD), this is one policy debate that is likely to come even more to the fore over the coming triennium. More typically for OECD countries, as Schremmer and James note in Chapter 2 "Recent policies in health service provision: A broader path towards sustainable health care systems?", a trend shaping the supply of social security to meet demand is readily identifiable in the field of health care. As the authors state, the expansion of client-centred approaches in health care provision is representative of this trend to better tailor social security supply to "customer" demand.

Especially in countries with rapidly ageing populations, a difficult question is how to render social security practices more amenable to emerging political demands for older cohorts to remain economically active. As addressed by Sigg in Chapter 8 "Extending working life: Policy challenges and responses", in the light of labour force ageing but also of improved levels of health and longevity, a key question in OECD countries in particular is to what degree, and under what circumstances, current social security practices may act as a disincentive to the continuing economic activity of older workers. The chapter draws attention to the need to identify policy options that will remove unnecessary disincentives to remaining in work on reaching the statutory pensionable age but which, and importantly, do not also have a punitive impact on those individuals who, for whatever reason, are unable to remain active in the labour market.

Moving beyond older working cohorts to look at the working population more generally, in Chapter 7 "Social security and labour market developments: Facilitating flexibility by strengthening security", Levinsky draws attention to recent reforms designed to inject a greater degree of flexibility into social security benefits structures. The evidence presented, taken predominantly from OECD countries, suggests that evolving labour market patterns and evolving expectations regarding the timing and duration of study, work and leisure time over the working life-course, combined with the emerging social and economic impacts of demographic ageing, are acting as drivers for change in the design and delivery of social security benefits. Ideally, however, any moves towards facilitating increased flexibility should be anchored on, and provide a continuing guarantee of, an appropriate degree of social "security".

The direction of these developments and trends would suggest that, henceforth, social security policies must take into account the fact that the traditional linear life-course pattern of "education to life-long full-time work to full retirement" is less and less representative of the life experiences of many people. However, as Levinsky rightly concludes, although the process of injecting a greater degree of flexibility into social security systems is already under-way, at least in a number of OECD countries, and although demographic ageing is increasingly a global phenomenon, differing labour market realities across the globe make it difficult to generalize about the wider impact of these developments outside of a number of core OECD countries.

Strengthening the responsiveness of social security to the individual

It is somewhat paradoxical to note with regard to some of the above-mentioned developments and trends that emerging policy reforms that seek, first and foremost, to guarantee the sustainability of the principles of "social" security would appear to be also leading many social security systems to be more responsive to the purported needs of individuals. While this observed development dovetails nicely with aspects of the currently fashionable concept of social sustainability, nonetheless, what remains to be more fully assessed is to what extent and in which ways this suggested increased responsiveness to individuals may have an impact on the widely shared redistributive goal of social security, not least in the traditional pursuit of social justice. It is worth repeating that a cornerstone of social security remains a fundamental belief in the importance of mutual support. Moreover, in the final instance, there is no escaping the fact that the outcomes of any such developments must be measurable in terms of a quantifiable improvement in the adequacy of social security.

One example of the increasing responsiveness of social security to the needs of individuals relates to measures to better ensure the protection and adequacy of individual savings accumulated under fully or partially privatized modes of mandatory social security. Although debates about privatized modes of "social security" still remain somewhat controversial in some circles, the policy reality is that workers and citizens in a growing number of countries are obliged to purchase savings and insurance products from financial services providers to complement, or to substitute for, benefits that in other countries remain the sole responsibility of public social security administrations.

As discussed by Schremmer in Chapter 4 “Recent policy trends in privately managed retirement provisions: What protection for individuals?” – and mirroring a development to provide greater personal accessibility to information about accumulated social insurance pension rights – governments now more readily recognize that they have a responsibility to better protect, as well as provide education and information about, the rights of affiliates or “customers” in “privatized” social security systems. This development aside, the chapter also underlines that the acceptable burden of risk borne by individuals in privatized systems still remains contentious. On a further cautious note, extending rights or “consumer choice” in the welfare market-place may prove to be meaningless, and even counter-productive, unless consumers have the time to shop around and have access to the appropriate knowledge in order, finally, to make a considered choice. As McKinnon discusses in Chapter 5 “Governing the investment of social security funds”, the salience of this last point is reinforced by the fact that, in some countries, a trend towards the liberalization of the investment of social security funds now involves the award of investor rights to individual affiliates.

In the context of the ongoing penetration of Information and Communications Technologies (ICT) within social security administrations, the protection of individual civic rights is one of the issues addressed by Kientzler in Chapter 6 “E-government/e-administration: The quest for efficiency and a new relationship with clients”. Kientzler underlines how ICTs are affecting not only administrative practices but also inter-personal relations between social security administrators and clients. One issue of concern is that, with the expansion of personal data held in electronic databases, social security administrations must assume greater responsibility and set in place the necessary control mechanisms to protect personal data from being accessed and used inappropriately by third parties. More positively, there is a general expectation that ICT will engender administrative improvements in the delivery of services and benefits to all individuals.

Especially in the normative surrounding of the family, one group increasingly prioritized by social security policies are children. As Fathallah discusses in Chapter 3 “Rethinking the place of children within family policy”, recent social security legislation in a number of countries shows that social security family-oriented policies are increasingly designed with the aim of promoting the well-being of children directly as well as indirectly by facilitating the ability of one or both parents or guardians to better balance the pressures of work and parenthood. These latter policies also often bear witness to developments promoting a greater degree of gender equality and/or neutrality between individuals. In the longer term, one policy expectation is that these family-oriented enabling policies will improve the future stock of human capital. This is a policy issue of major relevance to countries, not least in sub-Saharan Africa, with high mortality rates among the current working-age population because of AIDS.

Fostering integrated policy approaches

In previous years, a question that was frequently asked was whether social security had a future. Today, it is probably fair to say that in most people's minds this question has been answered in the affirmative. Globally, there is nothing to suggest that popular opinion is anything other than strongly in favour of retaining social security. Nonetheless, a second and more pressing question is: whither social security? In other words, if it is accepted that social security has a future, what will be the nature of its institutional structure as well as the nature and scope of the benefits provided? Encouragingly, while recognizing that a number of serious policy challenges remain to be addressed, Sigg's findings in the final chapter "Social security and change: The case for confidence", present an overall positive evaluation of the likelihood that social security will be able to adapt to the emerging and future needs of workers and citizens in what is an unprecedented international environment of demographic, social and economic change, and continuing technological advancement.

In practice, this suggests that social security administrations are increasingly cognisant of the need to deliver benefits that are not only financially sustainable but also socially sustainable too. To this end, as shown most clearly in chapters 1, 3, 4, 8 and 9 in relation to examples from more developed and less developed countries alike, social security is more overtly acting as an integrated element within public policy generally. Integrated policy approaches imply the construction of a regional or national policy framework wherein the realization of defined public policy goals is dependent on the orchestrated actions of a number of agents, normally involving, in the first instance, government ministries. Designing, implementing and delivering a strategy to tackle child poverty, for instance, through better orchestrating the ministries responsible for social security policy, labour-market policy, education policy, housing policy, and personal taxation would be one possible example of this approach in practice.

At present, the manner in which such examples of policy integration manifest themselves tend to vary, with some policy programmes being more conceptually coherent in terms of design, implementation and expected outcomes than others. Regardless, and even if this identified cross-cutting theme remains somewhat nascent in practice, the importance of fostering integrated policy approaches is increasingly recognized at the national and international level. Yet, even for the most coherent strategies, the simple fact remains that for an integrated policy approach to succeed, the respective ministries and departments, as well as all other statutory bodies and acknowledged actors, must make the necessary effort to talk to one another. Typically, this is often not the case. Accordingly, in countries where integrated policy approaches are under serious consideration, social security administrations must adopt a more engaged stance in order to better guarantee the success of their own future role in policy development and delivery.

Progressing social security

To conclude, and in contrast with the overly skewed perspective focusing predominantly on financial matters that dominated much of the debate during a large part of the 1990s, when taken together the above developments would appear to signal an important change in outlook. While some major challenges will continue to confront social security, the overall message of this volume is one of a perception of a move in the direction of newfound confidence. Accordingly, and based on the wealth of empirical evidence of recent developments and trends presented in the following chapters, the intention is that this book will provide readers with a greater degree of insight into the current policy challenges that confront social security globally, as well as providing an empirical knowledge base on which to draw when seeking to design and implement national social security policies that can contribute positively to sustainable social and economic growth and development.

Chapter

1

Extending coverage and increasing security

Roddy McKinnon[1]

Addressing recent policy trends and legislative developments geared toward promoting the extension of social security coverage, this chapter is presented in five sections. The first section provides background information to place the coverage debate in the wider international context. The second section presents recent empirical evidence relating to changes geared toward the incremental extension of social security coverage to already covered as well as uncovered populations. The third section presents recent empirical evidence relating to more significant policy examples of endeavours to extend coverage. This section focuses on the introduction of new programmes where none previously existed, or on existing programmes with previously limited coverage being made more or less universal. The fourth section focuses on recent empirical evidence of trends and developments in administrative practice, the result of which should have positive implications for coverage and, no less important, the enforcement of compliance in the payment of contributions by, and on behalf of, covered populations. The fifth section presents some concluding remarks regarding future prospects of achieving a significant extension of social security coverage globally, and the possible organizational ramifications for social security of such developments.

1. The author would like to thank Wouter van Ginneken for his comments.

The coverage gap

At the start of the twenty-first century less than 25 per cent of the world's population has access to adequate social security coverage (van Ginneken, 2003). Although, at one extreme, OECD countries have "universal" coverage of around 90 per cent of the population, at the other extreme, in sub-Saharan Africa and South Asia coverage commonly extends to only around 10 per cent of the population. This comparative observation has contributed to a general air of pessimism regarding the positive contribution that social security can make to address growing levels of global insecurity and poverty, especially in developing countries. In developed and developing countries, most social security programmes are financed predominantly on the basis of contributions levied on earnings. Characteristically, stable patterns of formal (substantially or fully state-regulated) employment are normally necessary *a priori* for social security coverage. Yet in many countries, especially developing countries, employment in the formal economy has declined. A factor of this observed trend in developing countries has been the impact of policies of structural adjustment, which have provoked retrenchment and have largely failed to encourage employment creation in the formal economy. As witnessed most dramatically by the case of Africa, 90 per cent of all new urban jobs created in the 1990s were in the informal economy (ILO, 1999). Here, informal economy employment refers to income generating and remunerated activities that are, at best, only partially regulated by the state. At the end of the twentieth century, the International Labour Organization (ILO) estimated that around one billion workers, or one-third of the world's labour force, were either "unemployed or underemployed" – the vast majority of whom being thought to be engaged in informal economy employment (ILO, 2000).

This somewhat morose perspective regarding the perceived potential of large-scale social security to adequately address the insecurity experienced by the vast majority of the world's population is mirrored by changing international fashions in conceptual terminology, with the term "social security" being increasingly eclipsed by the growing use of "social protection". Reinforcing this last point, the growing international policy interest accorded to the perceived social protection enhancing capacities of smaller-scale voluntary mechanisms such as "micro" health insurance schemes is no less significant. In addition, one justification presented in advance of the partial privatization of old-age social security pension provision in a number of countries during the 1990s, for instance in Uruguay, was that "privatized" provision would encourage improved coverage levels. The irony of which for the increasing number of informal economy workers cannot be ignored. The assumption was that, if given the opportunity, workers would have a more positive disposition towards the individual ownership of retirement savings than is often perceived to be the case for the collective nature of public social insurance.

More positively, in the sense that it underlines that there is room for a degree of optimism, the empirical evidence of this past triennium demonstrates that legislative change can be made with the aim of improving social security coverage for men and women. Ultimately, and to inject a necessary dose of realism, the degree of optimism that can be accorded to these developments, especially for developing countries, remains heavily dependent not only on enacted legislation being put into practice but also, and crucially, on the legislation being appropriate, in terms of the benefits provided and the contributions mandated, for prevailing national conditions.

Accepting this necessary caveat, recent legislative endeavours to extend coverage to previously uncovered populations have focused in large part on building on the existing potential of contributory and non-contributory approaches, as well as seeking possibilities to build creative linkages between smaller-scale voluntary social protection schemes and larger-scale mandatory social security programmes. In relation to improving the social security accorded to already covered populations, and in addition to efforts designed to widen the scope of benefits provided, a key policy concern in developing and more developed countries alike is improving the enforcement of contribution collection (a point underlined by the creation of an ISSA working group dedicated to the issue of compliance). Although the focus of this chapter is placed on presenting, albeit selectively, recent observed policy trends and legislative developments that collectively are deemed to be contributing positively to reducing the coverage gap and extending social security globally, a parallel challenge remains one of guaranteeing that those persons who are covered by social security receive the benefits to which they are entitled by law.

Incremental coverage expansion

By far the most commonly applied method of widening coverage, especially for contributory social security, is the incremental inclusion under existing benefit provisions of previously excluded groups. Exclusion from mandatory coverage is often based on one or more factors, including legislative-administrative considerations, historical or cultural factors, geographic place of domicile, sex,[2] age, income level and, more commonly, an individual's attributed category of employment or work. To a large degree, however, the success or otherwise of policy endeavours to widen coverage is reliant not only on the administrative capacities of social security administrations to supply the programme but also, and perhaps more importantly, on there being suitable demand for the proposed benefits as well as necessary agreement about how the benefits should be financed.

In practice, administrative realities often dictate that social security coverage is first provided to workers employed in enterprises that are larger scale and better regulated. Commonly, only as administrative capacity improves and existing legislative constraints are removed can coverage be extended to smaller scale and less well regulated enterprises. This approach is demonstrated by recent developments in Thailand and Saudi Arabia. As part of national efforts to extend coverage to all private-sector employees, Thai enterprises with less than ten employees became eligible for

2. For a detailed overview of the policy debates on extending social security coverage to women, see Sabates-Wheeler and Kabeer, 2003.

coverage in April 2002. Similarly, in Saudi Arabia, since 2002 coverage has been extended to establishments employing less than ten workers. A further example is Pakistan where, since July 2001, coverage under the Employees' Old Age Benefits Act has been widened to cover establishments employing less than ten workers. Less positively, however, the impact of this development in Pakistan may prove to be negligible since coverage remains voluntary.

Although often dictated by underlying, and sometimes regionally variable, administrative constraints, geographic location can also determine the scale and scope of social security coverage. According to circumstances, this influence can be either positive or negative. For instance, until the end of 2002, the Maternity and General Diseases Programme of Guatemala, which provides full coverage for sickness, maternity, injury and disability, old age and survivorship, operated in just 11 of the country's 22 provinces. As of January 2003, geographic coverage under the Programme has now been extended to 15 provinces. In another example, during 2002, the Philippine Health Insurance Corporation (PhilHealth) extended coverage to the poorest 25 per cent of the population in South Central Mindanao and Manila. Significantly, it is hoped that the goal of the extension of health insurance to lower income families will be achieved through partnership between local government and PhilHealth, who share the cost of the insurance premium on behalf of the covered poor families. At present, the policy impact of this partnership remains to be fully evaluated. Under programmes with a national scope, geographic location can be used to determine individual qualifying conditions and benefit entitlements. In Kyrgyzstan, some categories of citizens living at high altitude are entitled to higher levels of social assistance, while in the Russian Federation the qualifying conditions for the old-age pension are reduced for insured persons who have worked in the far-north region.

The promotion of gender equity, as well as gender neutrality, under social security continues to contribute to the incremental expansion of coverage. For instance, legislative change in 2001 in the Syrian Arab Republic provides working women with the right to apply for an old-age pension, while in Italy a maternity allowance for freelance female contract workers was introduced in 2002. Although engendering the expansion of adequate social security coverage for women, and especially for women in less formal modes of employment, is a major policy concern for many countries, effecting gender neutrality can also involve improving coverage for men in order to promote a greater degree of equity with women. For instance, since 2000, widowers in Ethiopia have been accorded the same benefit rights as widows. Another example is the 2000 reform to Mexico's State Employees' Social Security and Social Services that has accorded similar rights for medical care to the spouses and companions of insured women as is accorded to the spouses and companions of insured men.

Another way to incrementally expand coverage is to adjust the qualifying condition for age. Examples of coverage being extended to already ostensibly covered populations on the basis of a change being made to the qualifying condition for age can be found in Singapore where the maximum coverage age under the MediShield Plans that help meet medical expenses for prolonged illnesses has been extended from age 75 to age 80 and in the Lao People's Democratic Republic where the number of years of health care cover accorded to insured persons' dependent children has been extended by 4 years from the age limit of age 6 up to age 10.

In tandem with the observed trend toward increasing informalization of employment across developing regions of the world, there has been an increase in the growth in the number of self-employed persons. As will be discussed below, more effort is now being directed at developing administrative mechanisms, including the design of benefits, contribution structures and qualifying conditions, to better permit the incremental coverage of workers, including the self-employed, engaged in relatively more informal forms of employment.

The problem of extending social security coverage to self-employed men and women is not restricted to those engaged in the informal economy. Historically, under all social security systems, and not least because of the problems regarding how best to measure income, determine contribution rates, and then enforce compliance for this type of worker, the self-employed are commonly excluded from coverage. A first, albeit somewhat symbolic, step in addressing this particular coverage gap is the establishment of a legal right to voluntary coverage. In practice, however, it is fair to say that there remain serious reservations regarding the effectiveness of voluntary measures to extend coverage. Nonetheless, since January 2003, the Central American country of Belize has permitted registered self-employed persons to make voluntary contributions for all social security benefits. Likewise, since the start of 2000, Mali has introduced the possibility of at least partial coverage to some categories of self-employed workers in the formal as well as informal economy on a voluntary basis.

Whereas a general factor driving endeavours to expand coverage is commonly a desire to attain greater equity in treatment across as wide a section of society as possible, sometimes shorter-term factors come into play that prompt the introduction of more particular, and often politically expedient, policy responses. Macroeconomic downturn and malaise in agriculture in South America, for instance, prompted specific measures in 2001 to widen coverage against the risk of unemployment for certain categories of agricultural workers in Uruguay and meat-packing workers in Argentina. Again in South America, and again against a background of macroeconomic downturn, in 2000 Bolivia extended coverage for some short-term benefits to self-employed miners. Elsewhere, Viet Nam announced in 2000 that health care would be provided to victims of Agent Orange (dioxin), with all contributions being paid by the Ministry of Labour, Invalids and Social Affairs. In response to increasing international human trafficking, the United States of America now provides coverage under Federal and State benefits for the victims of the most severe forms of trafficking, placing these non-citizens on the same legal footing as recognized refugees.

Extending social security coverage is not only about improving the levels of social security provided to the most marginalized groups but can also have positive impacts for more privileged groups. For example, with effect from January 2000, coverage under the Ethiopian social security systems has been extended to include members of the Ethiopian parliament.

New social security programmes

Recent empirical examples of coverage extension resulting from the introduction of new programmes where none previously existed or the widening of coverage under existing programmes on a more or less universal basis are less numerous than those pertaining to the incremental expansion of existing coverage. However, some important examples can be highlighted. Until 2001 Sierra Leone was one of only a handful of African countries that had not established a mandatory benefits system for old age, disability and survivorship. The National Social Security and Insurance Trust Act (2001) now provides the legislative basis for mandatory social insurance coverage for all employers and employees, with voluntary coverage for the self-employed.

Box 1 *Non-contributory pensions in developing countries*

One longer-term trend that has had a significant impact on coverage rates, especially in middle-income developing countries, is universal non-contributory pensions. Despite a number of these schemes having been in operation from the early and mid-1990s (Namibia, 1990; Samoa, 1990; and Botswana, 1996) and in one case for considerably longer (Mauritius, 1958), wider international interest in these schemes as mechanisms for rapidly providing significant levels of extended coverage has only recently emerged. Moreover, it is also more readily acknowledged that these schemes not only provide social security benefits, especially to older people and in some cases also to the disabled, but that the cash benefits have wide poverty alleviating impacts for recipients' family members and dependents. India, South Africa, and a number of Latin American countries including Brazil, also operate non-contributory pension schemes, but these differ from the universal schemes in relation to one important point; they are means-tested. For universal and means-tested non-contributory schemes, two key issues that remain to be better understood, especially for low-income countries, are how best to deliver and finance such schemes on a sustainable basis.

Moving away from pensions, a number of developing country examples demonstrate the policy importance being accorded to the establishment of better health care coverage. In 2002, Côte d'Ivoire introduced the legal base upon which to build a universal sickness insurance scheme to cover the risks associated with sickness and maternity. Similarly, Nigeria is in the process of introducing a National Health Insurance Scheme, with separate programmes designed to meet the varying needs of different population groups across the country.

Contributing toward Viet Nam's goal to attain universal health care coverage by 2010, coverage has been extended under a new scheme designed for people with limited financial means, and voluntary coverage is being extended to school and university students as part of the school health insurance system.

Box 2 *Thailand's "30 Baht scheme"*

With the objective of providing universal health care coverage, Thailand expanded its "30 Bath scheme" to all the country's provinces in 2002 (in July 2002, USD 1 was equal to THB 43.32 [Baht]). Under the scheme, all persons who are not entitled to coverage under either the social security scheme for employees or the civil servant medical benefit scheme, as well as those who are not already in receipt of welfare medical benefits, are covered. Recognizing that all health insurance schemes work best with an element of cost sharing, the Thai scheme operates on the basis that the covered person will provide a co-payment of THB 30 for every visit made to a doctor. Under the rules of the scheme, each covered person is registered with an accredited hospital and must use the services provided by this hospital. In return, the hospital receives an annual capitation payment for each registered covered person to the value of THB 1,202. Recent estimates suggest that the "30 Baht scheme"' provides coverage to 40 per cent of the Thai population.

The Lao People's Democratic Republic, a low-income country, is currently engaged in an ambitious project to create an extensive social insurance system to cover all public and private sector enterprises with ten or more employees. Workers of small enterprises will be covered on a voluntary basis. Established in 2001, the new national system aims to provide old age, disability, and survivor pensions, sickness and maternity benefits, and benefits for work injury and occupational diseases.

Improving coverage and compliance: The role of administration

Legislative reform that seeks to extend coverage, increase compliance and reduce social insecurity is crucial. However, as the case of the People's Republic of China has shown, to better ensure compliance, the design of legislation must be sensitive to national circumstances and constraints, including variations in labour market conditions and local administrative capacities. All too often, legislation that is poorly designed, or not fully implemented and not appropriately enforced, does a disservice to those workers and citizens for whom the legislation is meant.

Perhaps more than any other measure, it is the unacceptably large scale of the coverage gap, especially in developing countries, that has contributed towards the relative weakening of the perceived value accorded to mandatory social security in principle as well as in practice. It can be no accident that the expanding active involvement of a number of international organizations in the social policy arena has come at a time when it is more readily acknowledged internationally that a large majority of the world's population has no access to mandatory social security. Accordingly, when addressing the problems of coverage and compliance it is important to underline that administration matters. To this end, current efforts in the Philippines to improve the administration of contributions and benefits cannot be separated from wider attempts to improve the public image of social security. In turn, and if successful, these efforts should have a positive effect on compliance rates. For low- and middle-income countries especially, if legislative endeavours designed to improve coverage and compliance are to be effective, social security must adapt and be made more relevant to individuals' life experiences than has often been the case to date.

The most direct way to improve compliance is the threat of financial penalties for non-compliance for individuals or employers alike. Legislation in Sierra Leone (2001) and Nigeria (2002), for example, underlines that non-compliance as regards the Social Security and Insurance Trust and the National Health Scheme, respectively, will be met by financial penalties. However, the use of financial penalties assumes that those who do not comply can not only be identified but also brought to account. This may not be the case in every instance. Cognisant of these problems, and with the objectives of identification and enforcement in mind, a single social tax has been implemented in the Russian Federation (2001) with the stated goal of reducing tax evasion, including contribution evasion.

In contrast to approaches prioritizing the active policing of contributions compliance, another administrative approach to improving coverage and compliance is to relax the contribution and qualifying conditions for certain categories of worker who often find it difficult to satisfy these conditions in full. In the light of current labour market trends and developments, moves to relax contribution and qualifying conditions for targeted categories of worker may provide a genuine opportunity for improving social security coverage. In recent years, Tunisia has established a number of measures designed to extend coverage but which recognize the low contributory capacity of certain groups of workers, including small farmers, fishermen and craftsmen. As a result, in certain cases, contribution rates are set at lower rates and qualifying conditions are relaxed. These measures have contributed to Tunisia's internationally recognized success in extended social security coverage.

Clearly, the growth of informal economy employment across developing countries presents specific problems for social security administrations. Nonetheless, the Philippines (Box 3) provides another interesting case study of how coverage under contributory social security can be adapted to better meet the low contributory capacity of informal sector workers. The case also highlights how administrative innovation is likely to be necessary to better achieve desired social policy outcomes.

Box 3 *Informal economy workers in the Philippines*

In collaboration with the Department of Labour and Employment, the Philippine Savings Bank (PSBank) and the Development Bank of the Philippines (DBP), the Social Security System (SSS) launched a programme in 2002 designed to improve coverage of informal economy workers. In the programme, which is still at the pilot stage, informal economy workers, who typically have irregular income patterns as well as insufficient income to pay the monthly contribution for coverage under the SSS, are able to make daily cash deposits, either to the PSBank or the DBP. Once the accumulated daily deposits equal the value of a monthly contribution, the sum is remitted to the SSS as a paid monthly contribution on behalf of the worker. The underlying logic for this innovative approach to improving social security coverage is supported by research conducted into the use of financial services by the poor. Such research demonstrates that, if given the opportunity, low-income households will divert a small level of disposable income away from immediate consumption to meet likely future expenditure needs and mitigate longer-term disparities in income flows that arise especially as a result of being unable to work because of illness.

The lessons to be learnt from this example from the Philippines, in terms of improving social security coverage for informal economy workers and contributing to poverty alleviation, as well as developing a better understanding of the organizational and administrative difficulties likely to be encountered, may yet provide valuable pointers for similar future projects elsewhere in the developing world.

In a number of high-income countries, including Australia, Canada, and the United Kingdom, evolving administrative practice is changing the way in which coverage is attained. A trend toward the use of tax-credit "benefits", especially for family allowances, effectively means that fiscal authorities now determine coverage for some elements of social security provision. The accession to the European Union (EU) of a number of countries, including some with mandatory privatized old-age pension schemes, suggests that the coordination and determination of reciprocal coverage rights for EU citizens who are resident in a EU country other than that of their birthplace may increasingly come to preoccupy European social security administrators.

Concluding comments

It is now acknowledged that contributory social security provides coverage only to a small percentage of the world's population. It is also accepted that the provision of at least a minimum basket of social security benefits under non-contributory social security, despite its potential as a full or partial policy solution to poor coverage rates in developing countries, remains the exception rather than the rule. Two factors acting to check the wider expansion of developing country non-contributory social security are fiscal constraint and limited administrative capacity. From a normative perspective, there is also the added concern that, typically, the nature of benefits provided under non-contributory schemes are more limited in scope and more weakly established in law than contributory benefits. Encouragingly, despite the frequent absence of satisfactory social security policy solutions in many developing countries, and especially in low-income sub-Saharan Africa and South Asia, smaller-scale voluntary mechanisms, such as micro-insurance health care schemes, continue to develop as a demand-driven alternative. As a further positive development, there is evidence that universal access to primary health care, usually demanding at least a token co-payment, is being prioritized by many developing countries.

Overall, in the general and likely continuing absence of universal solutions, especially in lower-income developing countries, the short- to medium-term task at hand appears to be one of examining all possible avenues for building creative organizational linkages between existing contributory and non-contributory social security programmes and other forms of voluntary social protection to increasingly provide at least a basic degree of security. In the longer-term, and labour market conditions permitting, the policy objective must remain one of significantly increasing the numbers of people covered by, and guaranteeing the right to benefits under, mandatory social security. To this end, all efforts that aim to promote more stable and more secure patterns of employment globally should be encouraged. Labour market realities dictate, however, that the immediate and continuing social security needs of many people will not be fully addressed in this manner.

Several important messages are presented by these combined observations. Clearly, there are no magic bullet solutions to the coverage gap problem. Moreover, trends towards a greater degree of informalization of employment present continuing challenges to social security administrations, both in terms of extending coverage to uncovered populations and enhancing the existing coverage of registered covered populations. Although progress has occurred in a number of middle-income developing countries, such as the cited example of the targeted relaxation of qualifying and contribution conditions in Tunisia, progress in lower-income developing countries is less easily identified. For all developing country social security administrations, typically hard-to-cover populations, including marginalized older and disabled people but also many categories of informal economy and rural workers, will continue to present particular challenges.

For richer, more developed economies the coverage question is different. Prevailing perceptions of both labour market and life-cycle risk, as well as perceptions regarding the appropriate respective roles for the state and the market, have dictated to a large extent the nature of currently dominant social security practices. In the context of demographic ageing, one emerging perceived risk relates to long-term health care. To date, only a few high-income countries, including Israel (1980), Germany (1994), Luxembourg (1998) and Japan (2000) have established long-term health care social insurance schemes. Positively, these developments illustrate that, even in high-income countries that are already typified by "universality" in coverage, the extension of social security to cover "new" risks is possible.

What the above perspective regarding the evolving nature of risk perception underscores is that providing social security coverage is a process. As highlighted by specific concerns about the rationing of health care provision in some developed countries (see Chapter 2), or by the decreased levels contributing to social security programmes in some countries of the post-Soviet bloc as a negative outcome of the transition towards a market economy, social security coverage levels will always be likely to fluctuate, to a lesser or greater degree, not least in response to evolving macroeconomic conditions and changing political fashions. As a minimum, the challenge is to extend adequate social security coverage to the large majority of the world's population who are currently without.

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Chapter

2

Recent policies in health service provision: A broader path towards sustainable health care systems?

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Recent policy initiatives in health care have addressed important inefficiencies in health care systems. Efficiency gains have been sought in particular through better organization of health care provision, building on evidence to promote the provision of appropriate and cost-effective care and measures to ensure high quality of care. This broader focus of recent reforms is in contrast to policies narrowly focusing on cost containment and financial sustainability that dominated health care reform debates during the 1990s. While cost containment remains a major policy objective, a consensus that both financial and social sustainability are essential building blocks for sustainable health care systems in the future is increasingly observable. Recent reforms therefore point to a broadening of the path towards sustainable health care systems, by focusing on improved service provision in terms of good health outcomes, quality and consumer responsiveness, whilst also exploiting potentials for cost savings.

1. World Health Organization (WHO). The authors would like to thank Reinhard Busse and Guy Carrin for their comments.

Introduction

While cost-shifting, cost-sharing and the financing of health care dominated health policy debates during the 1990s, measures to improve the efficiency of health care systems in terms of making better use of limited resources have recently attracted the attention of policy-makers and social security scheme managers. Addressing inefficiencies has been an attractive means of controlling spending and reaching overall health policy goals, particularly improved service provision with respect to health outcomes, quality and consumer satisfaction.

Globally, inefficiencies in health care systems have been identified in several dimensions, particularly with regard to:

- the organization of health care provision (including, for instance, a lack of transparency on providers' responsibilities, insufficient reward for good performance, and limited coordination of different health sectors and actors);
- the provision of inappropriate and cost-ineffective services (including, for instance, variations in treatment methods for the same condition, the adoption of expensive new technical equipment and drugs which result in only minor or no improvements in health outcomes as compared to existing care, and a lack of explicit priority setting between different interventions);
- insufficient quality of care despite high resource input (including, for instance, the absence of consistent quality standards, the fact that clinical excellence has not been universal amongst all health care providers, and insufficient consumer responsiveness of health care systems).

This chapter illustrates recent efforts of health policy-makers throughout the world to remove these inefficiencies. It is structured along the main measures through which efficiency gains have been sought, in particular through better organization of health care provision (Section 2); building on evidence to promote the provision of appropriate and cost-effective services (Section 3); and various policies to improve the quality of services (Section 4). Section 5 describes e-health applications that have recently been introduced at different levels of health care systems to facilitate the achievement of these goals. The approach of disease management is finally presented in Section 6 as a particularly interesting example of a combination of different measures to increase efficiency in a single policy tool.

National policy-makers and social security scheme managers as well as international bodies such as ISSA and WHO are concerned with the future sustainability of health care systems. Both financial and social sustainability are essential building blocks for sustainable health care systems in the future. A health care system that is financially sustainable yet does not deliver good value for money and adequate quality care, and that is not responsive to the needs and expectations of those who pay for it, is likely to lack the legitimacy that is indispensable for its social sustainability and therefore its long-term existence. Previous reforms during the 1990s were often dominated by narrow concerns of cost containment with a view to achieving financial sustainability, often at the expense of good value for money, adequate quality care and consumer responsiveness. This chapter explores whether recent reforms addressing inefficiencies in health care systems can be interpreted as first steps to a broader path towards sustainable health care systems.

Removing inefficiencies in the organization of service provision

Increasing the efficiency of system organization through a re-evaluation of roles and, particularly, contracting has been on the agenda of policy-makers in many high-income and some middle-income countries for quite some time, but has only become prominent in low-income and some other middle-income countries recently. While the former have continued efforts to balance market orientation, regulation and the roles of different institutions, a new focus on performance incentives and better coordination of care sectors is evident.

A re-evaluation of roles

In low-income and some middle-income countries, a considerable re-evaluation of the roles of different institutions involved in health service provision has begun in recent years. In particular, a greater role in provision by private institutions and increased autonomy of public providers has been explored. This has typically involved some form of contractual arrangement between the purchaser (typically the government) and the provider (either public or private) of health services. High-income countries, where similar changes were introduced at the beginning of the 1990s, continue to re-evaluate roles in order to find the best balance of market orientation and regulation for their health systems.

Towards a contractual approach

A key reform on the agenda in recent years in developing countries has been a greater emphasis on market mechanisms, as a response to inefficiencies identified in pure public systems. In particular, legal contracts have been increasingly introduced between purchaser and provider, specifying the services to be provided, for which payments are made to the provider by the purchaser. Not least, the move to social health insurance and micro-insurance schemes in some countries has increased the need for contracting. This contractual approach has been central to the re-evaluation of roles of different health service providers. All forms of contracting aim to improve efficiency through greater transparency of providers' responsibilities and, by relating payment to the contract, encourage greater responsiveness to market mechanisms. An important caveat though, is that along with these potential efficiency gains, there are also increases in costs associated with setting up and maintaining contracts.

Contracting has been explored in many developed countries for a number of years. But it is only in recent years that the contractual approach has become more widespread in developing countries. This is not to say that contracting has only recently emerged in developing countries. Examples abound that have been in place for some time (typically, contracts between the government and non-profit mission hospitals, as is the case in Ghana, Malawi, Nepal, Rwanda, the United Republic of Tanzania and Zambia among others). However, these arrangements have been more implicit agreements than explicit and strictly specified contracts. Examples of more explicit contracts have become prominent only more recently, and are discussed below in relation to both private and public providers.

A greater role for private providers

Private providers have always played a role in health service provision, but in recent years their role has become both more pronounced and often formalized through some form of contract. In the extreme, the state has entirely delegated management of a service to a private provider, often as a response to a lack of efficiency of public providers. This has been the policy in South Africa, for example, where a greater role for contracting with commercial companies in the provision of primary care services has been explored (Palmer et al., 2003). Similarly, in Cambodia, health care management in five districts was sub-contracted to private providers who were given a clear mandate on what should be provided, and results were compared with three control districts (Soeters and Griffiths, 2003). Defining clear mandates helps ensure that health care provision by private providers is still coherent with health system objectives rather than being driven by profit alone.

New roles for public providers

Public providers that are legally autonomous, but still generally financially dependent on the government, have been given an increased role in health service provision. These providers have more freedom in deciding how to allocate their resources, although they are generally expected to adhere closely to the government's objectives. This approach is based on the belief that increased responsibility will induce public providers to be more responsive to clients' needs and expectations in their particular locality. Examples of this development include management responsibility for health centres being given to community health associations in Mali, preparation of formal contracts between legally autonomous hospitals and the Ministries of Health in Morocco and Tunisia, and the contracting out of the management of the Bardot maternity ward in Côte d'Ivoire. At the same time, other public providers that do not have a specific status of legal autonomy have nevertheless been accorded increased autonomy in how they allocate their resources. This is the case, for example, in Burkina Faso, where the central government has established performance contracts with health districts (Perrot, 2003).

What about decentralization?

Decentralization is not new. There has been an increased emphasis on decentralization for more than 20 years because of its potential to improve both the equity and efficiency of health care provision. However, it has become increasingly apparent in recent years that such improvements are not automatic. Indeed, a number of developing countries have experienced worsening performance of localized health facilities following decentralization, especially when local capacity has been inadequate.

The *World Health Report 2000* argues that for decentralization to be successful, decentralized units need to have an adequate degree of autonomy (decision rights), should be clearly accountable, have market exposure with a corresponding degree of financial responsibility, and have well specified, funded and regulated mandates. The above examples of new roles for public providers indicate that the importance of these factors is increasingly being taken into account.

Market orientation and regulation: Finding the right balance

Contracting, decentralization and new roles of public and private actors are not new trends in developed countries; the relevant reforms started to be introduced at the beginning of the 1990s and have continued in recent years. A greater role for private providers and an increase in private contracted ambulatory doctors can for instance be observed in Sweden. The creation of local health enterprises in Italy and the transformation of hospitals into health enterprises in Norway in 2002 (i.e. the transformation of institutions from being an integral part of the government administration into publicly owned separate legal entities with managerial independence) are recent examples of introducing autonomy of public providers. Despite bringing about important changes in such countries, such measures do not embody a new trend (Saltman, Busse and Mossialos, 2002). Countries nevertheless still differ considerably in the degree to which the roles of public and private providers have changed. It is perhaps only with regard to decentralization that a specific model of regional governance with a strong central standard setter has recently emerged. Several countries, for instance New Zealand, have pursued decentralization of health resources allocations while at the same time increasing the accountability of the regional bodies, e.g. through the obligation to set up predefined benchmarks such as service plans. A strong standard setting strategic leader and standardization control in order to frame increased regional decision-making, keep down transaction costs, and ensure a degree of consistency and equity in access has often been put in place to offset the disadvantages of decentralization. This model of decentralization is in line with the recommendations of the *World Health Report 2000*.

Numerous recently implemented or proposed reforms in almost all countries of the Organisation for Economic Co-operation and Development (OECD) are concerned with correcting perceived negative effects of recent market oriented organizational reforms and finding the right balance between regulation and competition. This is the case both in countries with national health systems and those with social health insurance schemes. Although efficiency gains have been achieved in some countries, this desired reform outcome has not been realized in other countries where inadequate regulation of competing actors has had negative results in terms of equity, efficiency and safety, or where over-regulation has prevented efficiency gains. Finding the right mix between regulation and competition therefore continues to be a high priority of health policy-makers.

Increased reliance on performance-related provider payment mechanisms

Governments have identified inefficiencies in the organization of care where provider payment mechanisms do not include sufficient incentives for productive behaviour.

Newly established contracts in developing countries therefore often include performance-related elements. For example, in Cambodia a "performance bonus" and "punctuality incentive" together made up 45 per cent of the remuneration of health workers of contracted facilities (Soeters and Griffiths, 2003). In Nicaragua, increased autonomy to decentralized health facilities through a contractual approach has included bonuses related to adherence to clearly stipulated performance agreements. These bonuses account for about 17 per cent of hospital funds, on average (Jack, 2003). A 10 per cent performance-related bonus implemented since 1999 in addition to the regular budget has had a positive effect on providers' performance in Haiti (Eichler, Auxila and Pollock, 2001).

The most notable attempt to increase productive efficiency through performance-related provider payment in many middle- and high-income countries is the recent proliferation of case mix-adjusted hospital financing to replace or supplement hospital budgets that do not reward activity and productivity. Case-mix systems such as diagnosis related groups have been used in a few countries (e.g. Australia and the United States) for quite some time but have only recently spread to a larger number of countries, for instance Austria, Denmark France, Germany, Greece, Japan, Poland and the Netherlands. In the United Kingdom, a reform of payment systems towards payment by results is currently gradually being introduced to establish clear links between the resources available, the mix of services and the quantity being provided. Performance-related provider payment has not been restricted to the hospital sector. Where general practitioners are paid according to prospective payment methods such as capitation or salary, a performance-related element has sometimes been added to provide incentives for micro-efficiency, i.e. productive behaviour.

Whilst performance-related provider payment mechanisms are expected to improve the performance of health care providers, these efficiency gains must be balanced against potentially increased costs where performance-related payments are (partially) additive rather than (strictly) substitutive to existing payment mechanisms.

Better coordination between different health sectors and actors

A lack of coordination between different sectors and actors in health systems has been identified as a source of inefficiencies and low quality. In particular, opportunities to control spending for, and offer better care to, people with chronic and complex diseases through enhanced coordination in service delivery and making better use of existing resources have recently been explored in a number of countries in the light of the increasing prevalence of such diseases. The aim is to increase efficiency and quality through, for instance, avoiding incompatibilities and double-treatments, achieving lower hospital admission rates and earlier hospital discharge, strengthening the role of cost-effective primary care and improving data transfer between different providers. The changing role of hospitals and the increased emphasis on day-surgery also highlight the importance of improved coordination. Efforts to improve coordination between, and integration of, different care sectors can be observed in a number of countries, such as Australia (coordinated care trials), Germany (integrated care contracts) or the Netherlands (transmural care). A particularly interesting example of these efforts is the recent adoption of disease management programmes, which are described in more detail below.

Building on evidence to promote the provision of appropriate and cost-effective care

Producing evidence

Variations in treatment methods for the same conditions, over-use of technology and inappropriate prescribing have often been attributable to uncertainty, as evidence on the clinical and cost-effectiveness of different interventions has been lacking. Expensive new technologies were sometimes adopted without evidence that they are significant innovations. The lack of knowledge on the appropriateness, cost-effectiveness and outcomes of different procedures has been identified as a key problem. Policy-makers have therefore in recent years promoted health technology assessment as a means of informing health care providers, purchasers and policy-makers of how the right care can be delivered to the right persons in a cost-effective way.

Health technology assessment describes the systematic review of available scientific evidence on the safety, clinical effectiveness and cost-effectiveness of a health technology. Health technology is hereby defined not only as technical equipment in the narrow sense, but as all procedures and methods for examinations, treatment, nursing and rehabilitation of patients, including equipment and drugs. The recent focus on evidence is reflected in the proliferation of health technology assessment bodies throughout the developed world (Box 1).

Box 1 *Recent establishment of health technology assessment bodies*

A Centre for Evaluation and Health Technology Assessment was established in Denmark in 2001 with the aim of improving efficiency, quality, standards and value for money and of integrating health technology assessment principles into the management and planning of the public health service at all levels. The National Institute for Clinical Excellence (NICE) was established in the United Kingdom in 1999 to remove regional variations in the quality of care resulting from different patterns in the adoption of new technologies and treatment methods. NICE is charged with implementing high standards of treatments by providing national guidance, based on reliable evidence, for patients and professionals on which treatments work best for which patients. Similar institutions have been established in other countries, including Australia (Medical Services Advisory Committee, established in 1998), Norway (Centre for Health Technology Assessment, established in 1998), Switzerland (Network for Health Technology Assessment, established in 1999), and Germany (Germany Agency for Health Technology Assessment, established in 2000) and (Institute for Quality and Cost-effective Service Provision, established in 2004). In Ireland, the Health Information and Quality Authority will be established in the near future. Moreover, the activities of existing institutions have recently been strengthened, e.g. through a more than two-fold increase in funding, in 1999, of the Canadian Coordinating Office for Health Technology Assessment.

There is considerable potential and interest in international collaboration in the area of health technology assessment. While the results of such assessment have to be considered in the social, ethical and cultural environment in which it is carried out, waste through duplication in the production of evidence can be avoided through international cooperation. Accordingly, the International Network of Agencies for Health Technology Assessment was founded in 1993 and has since then grown to 40 member agencies. A new international society for the promotion of health technology assessment (Health Technology Assessment International) was launched in 2003. The International Guidelines Network, founded in November 2002 by organizations from around the world, seeks to improve the quality of health care by promoting the systematic development of evidence-based medical practice guidelines (see below) and their application.

Efforts should also be made to ensure that evidence is produced for, or transferred to, low- and middle-income countries. An important recent tool on cost-effectiveness that has been developed to aid policy-makers in these countries is the "WHO-CHOICE" project, which started in 1998. "WHO-CHOICE" provides evidence-based cost-effectiveness estimates for an increasing number of health interventions for 17 sub-regions of the world, chosen on the basis of similar epidemiological profiles and health systems. It can be seen as a response to context-specific (and resource-intense) country analyses on the one hand (which cannot be generalized), and global sectoral cost-effectiveness studies, such as the *World Development Report 1993* on the other hand (which can give only very general guidelines on the cost-effectiveness of different interventions).

Producing scientific evidence on the clinical effectiveness and cost-effectiveness of different health technologies is clearly not sufficient. The aim is to remove inefficiencies through establishing evidence-based standards for clinical practice and enabling purchasers and policy-makers to make informed decisions.

Using evidence to set standards for clinical practice

Efforts have recently been made to develop evidence-based medical practice guidelines to assist physicians in the provision of health care. Medical practice guidelines can be defined as systematically developed statements to assist practitioner and patient decisions about appropriate health care for specific conditions. They usually offer concise instructions on which diagnostic and screening test to order, drugs to prescribe, what medical and surgical services to provide under which conditions, how long patients should stay in hospital etc.

Medical practice guidelines have been developed by medical professions in the past, but often in an unsystematic way based on anecdotal evidence and experience. These guidelines have been considered to be of inadequate and indeterminate quality. Countries have recently tried to improve this situation by developing evidence-based national guidelines that are to be applied consistently throughout a country. Evidence-based guidelines have mainly been developed for diseases that affect a large number of people and/or have large cost implications, e.g. chronic diseases or cancer.

Many of the recently established health technology assessment bodies are also charged with developing guidelines based on the evidence produced, e.g. the newly established Institute for Quality and Cost-effective Service Provision in Germany or NICE in the United Kingdom. Practice guidelines have also begun to play a more important role in developing countries, with a specific focus on appropriate drug use. For instance, in Uganda, guidelines for malaria and diarrhoea have been used to remove inefficiencies and improve health outcomes. In 2002, WHO has announced the first guidelines for HIV/AIDS in poor settings.

Using evidence to inform health policy decision-making

Evidence on clinical effectiveness and cost-effectiveness has increasingly been used to inform decisions about what should and what should not be provided in the basket of services of health care schemes, i.e. to set priorities. However, priority-setting based only on clinical and cost-effectiveness criteria has important equity implications that need to be considered.

Setting priorities in resource allocation: Pharmaco-economic assessment and reimbursement decisions

Most countries have traditionally required that new drugs satisfy the criteria of efficacy and safety to gain access to health care markets and pharmaceutical benefit schedules. Because of a lack of evidence on their cost-effectiveness, however, expensive new drugs which result in only minor or no improvements in health outcomes and that are not significant product innovations have sometimes been included in the benefit schedule. The increasing role of expensive new bio-technology drugs for which generic formulations will often not be available even in the long-term because of technical difficulties and safety concerns, also highlights the importance of evidence of value for money. The question of reimbursement and/or pricing has therefore been made subject to pharmaco-economic assessment, i.e. a type of health technology assessment for which the value for money of new drugs is assessed, particularly in comparison to existing drugs (Box 2). Pharmaco-economic assessment has also highlighted the cost-effectiveness of generic drugs and their use has been encouraged in almost all countries.

In developing countries, evidence has been used to formulate essential drug lists, commonly based on lists of the most frequent health conditions, and building on the medical practice guidelines associated with such conditions. The purpose of such lists is to focus drug usage on those drugs that are not only efficacious, but also targeted at the most pressing national health needs, and that are cost-effective for the conditions they help treat. The capacity of essential drug lists to help remove inefficiencies in drug use and thereby contain costs is illustrated by the experience in Shanghai, the People's Republic of China, where growth rates of drug expenditures dramatically and continually declined following the introduction of a drug list policy (Shanlian Hu et al., 2001).

Evidence on both clinical effectiveness and cost-effectiveness has also increasingly been used in reimbursement decisions for other medical services. With the aim of improving efficiency and health outcomes, Australia introduced a formal requirement in 1998 that medical procedures attracting Medicare benefits be supported by scientific evidence as being safe, clinically effective and cost-effective, in order to move away from a situation in which new procedures were being used simply on the basis of anecdotal evidence or because of aggressive marketing. The Medical Services Advisory Committee (see Box 1) advises the government on which technologies and procedures should be publicly funded. In Germany, the Federal Commission of Physicians and Sickness Funds (Common Federal Committee from 2004) provides another example of decision-making on the inclusion of new technologies being explicitly based on scientific evidence. In developing countries, cost-effectiveness studies and WHO-CHOICE have been used in the framework of so-called basic or essential packages of health services. Given often very limited resources, the aim is to identify the most essential services, which are generally cost-effective interventions that deal with major threats to health at the population level. Country-specific basic packages have been seen in a number of countries, for instance Bangladesh, Botswana, Colombia, Mexico and Zambia focusing on rural populations.

Box 2 *Recent pharmaco-economic assessment efforts*

Australia was in 1993 the first country to require pharmaceutical companies to produce economic data to be submitted together with applications for listing of new pharmaceutical products on the pharmaceutical benefits schedule. According to a recent OECD survey (Dickson, Hurst and Jacobzone, 2003), requirements for pharmaco-economic assessment have since then been adopted in at least ten OECD countries, e.g. Finland in 1999, as a basis for reimbursement and pricing decisions and/or for improving the efficiency of service provision through the inclusion of cost-effective prescription patterns in medical practice guidelines. In order to remove inefficiencies it is, however, not only important to assess new drugs, but to also focus on existing ones. In France, a systematic re-assessment of drugs has been implemented since 1999 and 1,600 have seen their estimated efficiency downgraded with the consequence that 800 drugs have been taken off the benefit schedule.

Balancing equity and efficiency

It is indispensable under all health care schemes to define what should be provided for the available resources, that is, to set priorities. Evidence of clinical effectiveness and cost-effectiveness is paramount to ensure good health outcomes and value for money, respectively, thus enabling efficient choices to be made. However, if only these two criteria are used, important equity issues may be raised. One striking example of this is in the comparison of Viagra and lung transplantation. Viagra is much more cost-effective, yet to give it a higher priority than lung transplantation may well conflict with the preferences of society, as society is concerned with equity as well as efficiency (Rutten et al., 2001). In particular, a lung transplant may be preferred to Viagra because, although much less cost-effective, it has a much greater positive impact on an individual's health (an equity effect). The Medicaid plan in Oregon, United States, was famously initially based entirely on the cost-effectiveness of interventions, but the prioritized list of interventions was not socially sustainable, being met with consternation and severe criticism precisely because it resulted in interventions with high equity effects being given a low priority (Ham, 1997).

These examples highlight the importance of balancing equity and efficiency concerns. However, analysing equity involves greater value judgments. Consequently, there has been less explicit and quantifiable analysis of the equity effects of health interventions than of efficiency effects in developing and developed countries. Still, some studies have highlighted important equity criteria, and how they can be combined with cost-effectiveness concerns. These criteria include vertical equity criteria, such as whether the intervention has a significant positive impact on an individual's health (as used in the above comparison of Viagra and lung transplantation), whether the intervention particularly targets the poor, and whether the intervention particularly benefits the young. Another criterion is horizontal equity, measured for instance, by whether all individuals with the same health need to have the same access to the intervention. Further, whether the individual should be held responsible for purchase of the intervention (as may be the case for cancers caused by smoking) is another important criterion (James et al., 2003).

A number of developed countries, including Denmark, Finland, Netherlands, Spain, and Sweden, addressed the issue of priority setting in the early 1990s by establishing explicit criteria for what should and what should not be provided under the health care scheme. The impact of these activities has generally been low (Mossialos and Le Grand, 1999), except in the Netherlands. The "Dunning filter" that has been used to make reimbursement decisions in the Netherlands since 1992 identifies four criteria for assessing whether or not a procedure is to be covered by the statutorily insured package: whether a procedure is essential from the point of view of health; whether its effectiveness has been sufficiently demonstrated; whether the procedure is cost-effective; and whether the insured person can reasonably be asked to pay for it. Cost-effectiveness thus plays a role, but is not the decisive criterion. Equity as well as individual responsibility issues can be considered within such a framework. Most countries, however, do not have an explicit framework for assessing what should be included in the basket of services and recent priority setting has been based rather on complicated technical decisions than on an open public debate grounded in the democratic processes. The increasing importance of evidence, treatment standardization and cost-effectiveness studies points to the need for explicit priority setting frameworks, and interest has been growing in some OECD countries in line with a trend to democratization of health systems (see below). For instance, a National Centre for Priority Setting in Health Care was established in Sweden in 2001, and the creation of universal health coverage in France in 1999 was accompanied by an explicit definition of a basket of services.

Improving the quality of care

Quality is a multi-dimensional concept the definition of which differs between countries and persons. Particularly in developed countries, it has in recent years increasingly been defined with regard to consumer satisfaction, responsiveness and good health outcomes. Lack of quality with regard to these dimensions, despite high resource input, was discernible throughout the 1990s and improving quality has become one of the key concerns of policy-makers in recent years. Recent policy documents in a number of countries highlight these concerns, e.g. Ireland in 2001 (Quality and Fairness: A Health System for You) and New Zealand in 2003 (IQ Action Plan: Supporting the Improving Quality Approach). Insufficient quality points directly to costly inefficiencies, e.g. the social and economic costs caused by medical errors, and to low value for money.

The broad range of policies that have in recent years been pursued to improve quality cannot be described here, however a number of key measures that have attracted particular attention can be identified.

Defining national standard measurements of quality

Recent measures have focused on removing regional variations in service provision and achieving high quality throughout the respective countries. Local quality initiatives, while still important, have therefore been replaced or supplemented by national quality standards. For instance, a national quality indicators initiative was launched in Denmark in 2000 with the aim of developing indicators that can be used to measure the quality level of 11 selected clinical areas across the country. The measures are to contain information on the results of treatment and the ability to meet the needs and expectations of patients. Other countries that have identified the need to establish national quality standards include Ireland, New Zealand, the United Kingdom, and Kenya where the Ministry of Health has recently drawn up a "Kenya Quality Model" that specifies precisely what is expected of health facilities to ensure adequate quality (Mboya et al., 2003).

Ensuring clinical excellence

Increasing attention has been paid to clinical excellence in service provision as a basis for good health outcomes. Recent regulatory measures attempt to ensure that highly educated health professionals provide care that is consistent with the latest professional knowledge in a safe manner. Ensuring clinical excellence is an ongoing process consisting of evidence-based standard setting, dissemination, outcome monitoring and evaluation, and improving standards. As clinical excellence depends on behavioural changes of health professionals, economic incentives to reward compliant behaviour or penalize non-compliant behaviour have sometimes been implemented. A recent trend has been for provider payment to be related to wider quality indicators, such as measures of prevention, chronic care and patient satisfaction used in the six largest health plans in California, United States. Economic incentives are therefore not only used to achieve productive efficiency but increasingly also to reward high quality service provision in terms of good health outcomes and consumer satisfaction.

Integrate evidence-based guidelines in care provision

The rationale for evidence-based medical practice guidelines has been outlined above. The production of guidelines itself does not necessarily engender behavioural changes of professionals. Recent measures have therefore aimed at ensuring that the guidelines enter clinical practice. Guidelines can have an impact if they are included in continued education (see below) and if compliance is monitored and sanctioned. For instance, in Uganda, provision of medical practice guidelines alone was compared with facilities that also received training or both training and supervision. Results showed better compliance with guidelines for malaria and diarrhoea, and significant improvements in reduced drug prescription, injection use and increased generic drug use (Laing et al., 2001). Rewards and sanctions for compliant and non-compliant professionals, respectively, are being discussed in a number of countries. The lack of the effective adoption of such incentives has been associated with the decreased impact of guidelines in France (Grignon, Joel and Levy, forthcoming).

Continued education

Continued education of health professionals is the basis for safe service provision consistent with the latest professional knowledge. Formal requirements for participation in continued training programmes have recently been introduced or strengthened in a number of developed countries. The increased availability of continued training programmes has been the aim in developing countries in recent years, although not as a formal requirement. Considerable efforts have particularly been made to ensure that education programmes are of high quality and unbiased, e.g. through certification systems and especially the rejection of training programmes sponsored by pharmaceutical companies. Recent reforms, for instance in Finland, France, Germany, and the United Kingdom have emphasized life-long learning of health professionals. Any doctor in France must, since 2002, provide evidence of his or her training effort, either by attending 150 hours of continued education over a 5-year period, given by approved entities, or by submitting a file or an appraisal of his or her knowledge (Grignon, Joel and Levy, forthcoming). Different institutions are responsible for monitoring the physicians' files. Physicians not complying with continued medical education requirements in Germany are penalized through lower payments or even withdrawal of their licence.

External monitoring of quality and accreditation

Whereas internal quality assurance programmes for health care providers and professional self-regulation have played an important role for quite some time in many countries and for instance in Germany, have recently been extended, systematic external monitoring of quality according to national standards has only recently been introduced in a number of countries. Examples illustrating this trend include the Commission for Health Improvement that was established in 1999 in the United Kingdom to carry out external quality reviews of providers and to establish a national framework for assessing performance. It is to be replaced by the Commission for Healthcare Audit and Inspection in 2004, which will independently assess standards of services, whether provided by the National Health Service or privately. A systematic external assessment of health care centres of the Social Security Organization in the Islamic Republic of Iran started in October 1999, with the aims of improving quality and efficiency, and standardizing the provision of health care in the centres.

Accreditation has recently become an important quality assurance tool in a number of countries and has often been transformed from a voluntary market-based initiative to a formal requirement. In Bulgaria, hospitals and medical centres have been subject to mandatory accreditation by the Ministry of Health since 1998. Other countries that have recently implemented, or are planning to implement, accreditation programmes include Bosnia and Herzegovina, Italy, Lithuania, the Netherlands (Shaw, 2001), Portugal, Slovakia and the United Republic of Tanzania (Newbrander, 1999). Even where accreditation is still a voluntary exercise, increased transparency, publicity and also economic incentives often create a pressure for providers to undergo accreditation. For instance, such pressure has been created in Japan through a recent change that permits hospitals to advertise the result of the medical service evaluation. In addition, successful accreditation and ISO certification have since 2002 constituted a condition for hospitals to receive additional fees for certain types of care (e.g. palliative care).

Achieving safety: Active management of medical errors

Systematic efforts for detecting, reporting and reducing medical errors have not been made in most countries. The report of the Institute of Medicine in the United States "To Err is Human: Building a Safer Health System" of 1999 announced that medical error constitutes the fifth leading cause of death in the United States. As a consequence, a major Federal initiative has been launched to reduce medical errors and improve patient safety in federally funded health care programmes and the private sector. Measures taken include the establishment of a coordinated reporting system for medical errors, a common vocabulary, analysis of errors to identify areas where action is needed, and information dissemination. Similar efforts are observable in Australia where the Council for Safety and Quality in Health Care was established in January 2000. The Council promotes the active management of adverse effects, open communication, and timely and appropriate information flows as a basis for improving safety. Similar strategies are likely to be implemented in an increasing number of countries, as concerns about medical errors and safe service provision have grown.

A focus on patient rights

The explicit aim of policy-makers in a number of countries has recently been to make health systems more responsive and patient-centred. This highlights an important dimension of quality as a function of the extent to which the needs and expectations of patients are met. The strengthening of the rights and participation of patients and the transformation of the hierarchical doctor-patient relationship into a partnership between responsive professionals and informed consumers of health care have been the subject of many policy initiatives. This trend embodies a paradigm change in the way services are provided that has only started. Policies to empower consumers and increase responsiveness have covered several areas:

- increased survey activity to accumulate knowledge of patients' views, satisfaction with services and needs;
- strengthening the legal rights of patients, including the right to:
  - timely access to care;
  - access to personal health information;
  - participate in decisions regarding their own treatment;
  - make complaints (along with the establishment of bodies to receive);
  - access to high quality health information generally;
  - access to compensation in the case of medical errors.
- democratization of health systems through participation of patients in health policy decision-making;
- increased individual choice, particularly between health insurance funds and/or providers.

Numerous recent reforms illustrate this trend. For instance, legislation in France considerably strengthened individual and collective rights of patients in 2002 in order to democratize the health care system. A special focus is shared medical decision-making by doctors and patients. The German health reform in 2003 strengthened the representation of patients in health policy decision-making and created a body to receive patients' complaints. In the Netherlands, the recent policy document entitled "A question of demand" sets out the change in the Netherlands from a supply-driven to a demand-driven health care system built on responsiveness to patients' needs.

Particular emphasis has also been placed on the right to timely access to care, and the issue of waiting times has been a priority policy concern. Waiting times are at the core of patients' rights, as they constitute the denial of access to services to which patients are legally entitled. Denmark introduced a waiting time guarantee for critical illnesses in 2000. It guarantees a maximum waiting time of two weeks for investigation plus two weeks for treatment plus two weeks for follow-up treatment. If counties are unable to provide treatment within the maximum time allowed, they must find alternative options in other counties or through the private sector. A general waiting time guarantee of two months for all types of non-acute treatment was introduced in July 2002. If treatment cannot be provided within two months, patients have the right to seek treatment at private providers or abroad. Treatment guarantees after certain limited waiting times have also been introduced in Sweden, and their introduction is planned in Finland.

E-health as a tool for reaching reform goals

The rapid development and increased availability of information and communication technologies in health care (e-health) provide tools for facilitating the attainment of many of the above-mentioned health reform aims:

- better communication, coordination and monitoring of patient information and treatments throughout the entire health system to avoid duplicative and unnecessary interventions;
- improving quality of services, e.g. by facilitating the effective monitoring of health care providers' performance, gathering of up-to-date evidence on clinical excellence, linking different sources of evidence, better communication between health professionals, and life-long learning;
- empowering consumers and patient-oriented care, e.g. by allowing access to one's own personal electronic health records, better education through access to health information sources, and increased choice through dissemination of information on the performance of different providers.

Despite its potential, e-health has often remained at the project stage. Only recently have several countries established strategies to gradually introduce standardized e-health applications on a wider scale. For instance, the Malaysian Telemedicine 2000 strategy aims at supporting the overall goals of the health care system, such as cost control, good health outcomes, consumer involvement and quality. Similar strategies can be found in a wide range of countries, including Brazil, Denmark, the Republic of Korea, Turkey and the United Kingdom. However, it is evident that significant start-up investments are needed, whereas efficiency gains may be evident only in the long term.

While e-health covers an extremely broad set of information and communication technology applications in health care provision, some applications have gained particular attention in recent health system reform strategies:

- standardized electronic medical records allowing efficient communication and data transfer between different providers (e.g. in Brazil, Finland, Sweden and the United Kingdom);
- electronic health cards storing a person's medical records, and their counterpart, the electronic health profession card with security infrastructure, and the closely related facility for electronic prescriptions (e.g. in Brazil, France and Germany);
- access of consumers to high quality health information (e.g. in the European Union (EU) and Switzerland).

E-health applications have also recently been introduced in developing countries, with a specific focus on improving access to, and quality of, health care services through enabling health professionals in remote and isolated areas to access and share knowledge and technologies otherwise not available. E-health makes distance-education strategies possible for these professionals who otherwise do not have the opportunity to learn about new developments in the health field. Recent projects in India, Kenya and Swaziland emphasize the importance of wireless data transfer technologies for areas where telephone lines are not available.

E-health is sometimes presented as a panacea; however, it also raises serious issues that need to be addressed, including:

- doubtful quality of consumer health information sources on the Internet;
- digital divide and widening inequities in population health, as people with access to information technologies belong to the richer and better educated part of the population who on average already enjoy better health;
- serious privacy concerns that in some countries recently have only been addressed by legislation (e.g. in the United States).

Disease management programmes

Disease management programmes have recently attracted the attention of policy-makers and social security scheme managers as a means of controlling expenditure and improving service provision for patients with chronic or complex conditions. These patients account for a large part of health care spending, e.g. about 10 per cent of patients account for about 70 per cent of overall health spending in the United States (Berk and Mohnheit, 2001), and are often treated in an inefficient manner. Disease management programs provide an excellent example of the recent trends in health care systems outlined in this chapter as a coherent approach to removing inefficiencies through improving both the organization and content of care. They typically identify a population of patients with a specific chronic condition (e.g. diabetes or asthma) and are based on:

- prevention and early detection;
- coordination between, and integration of, different health care sectors, and coordination between health care, rehabilitation, community care etc.;
- evidence-based practice guidelines and education of providers;
- empowerment and active participation of patients through education and self-care;
- process and outcome measurement with regard to clinical, humanistic, and economic outcomes;
- evaluation and feedback loop.

E-health applications facilitate goal achievement under disease management programmes. Disease management programmes have in recent years been implemented in a number of countries. Examples can be found in the United States, where such programmes have been spreading rapidly. The legal basis for the introduction of disease management programmes has recently been laid in Germany and the first programmes started in 2003. Similar initiatives can also be found in Australia and Canada.

Conclusion

While health care financing mechanisms, budgeting tools and cost-sharing have continued to be important during recent years, health policy-makers and social security scheme managers have paid increasing attention to improving the efficiency of health care systems. Reforms to remove inefficiencies have been introduced, with the goal of improving service provision in terms of health outcomes, quality and consumer satisfaction, whilst at the same time exploiting potentials for cost savings. In particular, contracting and performance-related provider payment systems, better coordination of different health sectors and actors, building on evidence for clinical and health policy decisions, and measures to improve quality, consumer responsiveness and patient's rights have figured high on the agenda of health policy-makers throughout the world.

Recent reform tendencies point to a broadening of the strategies towards sustainable health care systems and a redefinition of sustainability beyond mere financial sustainability. Efforts to control costs have increasingly been complemented by measures to ensure high quality, good health outcomes and consumer satisfaction, and to democratize health systems. Recent policies to improve efficiency in health care systems therefore indicate the first steps towards ensuring financially and socially sustainable health systems in the twenty-first century.

Whereas the increased weight accorded to social sustainability can be observed in recent policy trends, numerous challenges still need to be addressed. Most importantly, the goals of social and financial sustainability may sometimes be difficult to reconcile where measures to achieve the former in the long term are associated with higher costs, at least in the short term. This may, for instance, be the case where increased patient's rights trigger increased demand or where e-health applications that are generally associated with significant start-up investments are introduced. Additional important challenges include for instance:

- finding the right degree of regulation, market orientation and individual choice;
- identifying the appropriate relative weight of cost-effectiveness and equity considerations through explicit and democratic priority setting frameworks, instead of short-term technocratic decisions;
- developing tools to make a partnership between providers and informed consumers possible in practice;
- balancing the needs for communication and privacy of personal health information.

The recent awareness of the importance of both financial and social sustainability should help ensure that such challenges remain at the forefront of new agendas. Indeed, as ISSA has recently observed (*ISSA Initiative* 2003):

> "Health care systems cannot be sustained without addressing the trade off between restricted financial resources and reaching overall health policy goals. It seems to be crucial to generate new strategies controlling the complex mechanisms that

affect expenditure and performance of health care schemes and striving for the achievement of core objectives of health care policies, such as universal access, high quality standards, efficiency and effectiveness of schemes, adequate funding and satisfaction of patients."

This chapter has sought to underline that some recent policies indeed embody the attempt to develop and implement these new strategies, even if important challenges remain.

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Chapter 3

Rethinking the place of children within family policy

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The major transformations which have affected modern societies have engendered new social risks, which family policies, through social protection systems, must confront. These transformations have also brought to light the limitations of current systems and their need to adapt. The aim of this chapter is to analyse the repercussions of these changes on family policies, particularly with respect to children.

Section 2 provides a description of the context in which contemporary family policies operate and reveals an increasing similarity in changes and constraints everywhere. Exclusion, particularly affecting children, is becoming a universal social phenomenon. The implications of these changes are analysed in Section 3. Their primary effect will be on the role of the State, whose activities will focus more on groups at risk. The next question to be tackled will be inter-generational equilibrium. The uneven distribution of the cost of social protection systems between generations, and the increasing acceptance of the idea that the education of children is an investment in human capital, are leading to wider recognition of the social value of the work involved in child-raising. Through social protection systems the higher status of childcare is gaining concrete support.

The second factor which necessitates the adjustment of family policies is the increasing access of women to the labour market and the resulting changes in the distribution of roles between men and women. Obstacles, which prevent fathers playing a direct part in childcare must be removed, and flexible and fair opportunities must be offered to both parents to divide their time between work and

1. The author would like to thank Julien Damon and Valérie Meftah for their comments.

childcare. The main instruments of family policy which are deployed here are parental leave and care facilities for small children. However, surveys reveal that the scope and degree of coherence of these policies vary enormously from one country to another.

Section 4 is devoted to the special problems facing developing countries. It highlights the incapacity of existing formal social protection systems to cope with the effects of the innumerable disasters affecting certain of these countries. These systems are unable, in addition, to adapt to atypical or informal employment. The solution lies in better coordination between formal social protection systems and the different forms of family and community solidarity.

Introduction

The organization of family life, the division of parents' time between childcare and paid work, and the choice of child-rearing are all aspects of private life which the family unit must be able to organize freely and without State intervention except, as a palliative measure, when there is a problem resulting from a family split or poverty. Looking at it from another point of view, based on the fact that children are fully-fledged citizens with individual rights, the community, as well as the family, is responsible for children's development and self-fulfilment. Contemporary family policies swing between two models based on these underlying philosophies. Nevertheless, whether they are liberal or conservative, developed or underdeveloped, all societies have undergone and continue to undergo the same transformations, and are faced with demographic, economic, social, cultural and international problems which have much in common.[2] These transformations, even if their degree and origin vary from one country to another, weigh on family policies and affect the directions they take. The similarity of the constraints has certainly not changed the ideological and institutional frameworks of family policies, but has nevertheless brought about a certain convergence or has at least brought the objectives of these policies, in particular with respect to childhood, closer together. The present chapter describes the context in which current family policies operate, as well as the constraints and implications which arise out of them, by highlighting the elements of convergence of these policies, based on the analysis of recent or current developments in social protection systems. The last part of this chapter will deal with specific problems affecting developing countries.

The context

Major changes, mainly in the areas of population structure, family models, the status of women and structural unemployment, continue to build up and to influence family policies in particular. Populations continue to age throughout the world. The percentage of those over 65 years of age increased from 10.1 per cent in 1960 to 16.4 per

2. B. Schulte, "A new family solidarity", European Series, No. 27, ISSA.

cent in 2000 among member countries of the European Union (EU), and from 8.5 per cent in 1960 to 13.2 per cent in 2000 on average for the countries of the Organisation for Economic Co-operation and Development (OECD) as a whole.[3] At the moment, this ratio remains highest in industrialized countries, but the same trend is affecting developing countries, where the rate of ageing is also tending to accelerate. The size of the average household continues to fall. Divided families are becoming increasingly common and are more the result of divorce than widowhood. The divorce rate has increased from 1.4 per thousand inhabitants in 1980 to 1.9 per thousand in the year 2000 in the EU-15, and the proportion of single-parent families compared with the total number of households with dependent children lies between 18 and 29 per cent for OECD countries, apart from certain countries, such as those in Southern Europe or Japan, where it is relatively low. The number of women entering the labour market continues to increase: the percentage of actively employed women is above 50 per cent in most of the OECD countries, and reaches very high levels in countries such as Denmark and Sweden. This figure is increasing steadily; overall, it has risen from 55.4 per cent in 1990 to 60.2 per cent in 2000 in the EU-15 and has also increased rapidly in the developing countries. In 1998, according to the World Bank (2002), the percentage of women in developing countries who were actively employed compared with the actively employed population as a whole, was 40.1 per cent for the low-income brackets and 42.9 per cent for the high income brackets. Part-time work varies considerably from one country to another, but in all the countries it affects many more women than men. Thus, part-time employment rates stood at 6 per cent for men compared with 30 per cent for women in the EU-15.

Constraints and implications of current changes

The implications of current changes concern mainly the role of the State, the issue of inter-generational equilibrium, and the division of roles between men and women.

The role of the state

Changes in family models imply, first of all, a transformation of the safety net which the traditional family provides its members. The inevitable consequence is the development of groups at risk and a growing share of responsibility delegated to the State. Single-parent families, young couples, families with handicapped or sick children or with a dependent relative, among others, face the risk of poverty and insecurity. However, children constitute the most vulnerable group in terms of social exclusion. A total of 21 per cent of the children in the European Union lived in a low-income household in 1996, compared with 16 per cent for adults; almost half (46 per cent) of the children living in single-parent families suffered from poverty.

3. All statistics concerning the EU and the OECD have been taken from the Eurostat Internet site.

Table 1 *Poverty among children in single-parent families compared with other families in December 2000**

	Percentage of children living in single-parent families	*Poverty rates among children in:*		*Risk of poverty among children in single-parent families compared with other children (ratio)*
		Single-parent families (%)	*Other families (%)*	
Australia	14.1	35.6	8.8	4.0
Belgium	8.2	13.5	3.6	3.8
Canada	12.2	51.6	10.4	5.0
Czech Rep.	8.3	30.9	3.6	8.6
Denmark	15.2	13.8	3.6	3.8
Finland	11.8	7.1	3.9	1.8
France	7.7	26.1	6.4	4.1
Germany	9.8	51.2	6.2	8.3
Greece	3.7	24.9	11.8	2.1
Hungary	7.4	10.4	10.3	1.0
Ireland	8.0	46.4	14.2	3.3
Italy	2.8	22.2	20.4	1.1
Luxemburg	5.8	30.4	2.9	10.5
Mexico	4.3	27.6	26.1	1.1
Netherlands	7.4	23.6	6.5	3.6
Norway	15.0	13.1	2.2	6.0
Poland	5.6	19.9	15.1	1.3
Spain	2.3	31.6	11.8	2.7
Sweden	21.3	6.7	1.5	4.5
Turkey	0.7	29.2	19.6	1.5
United Kingdom	20.0	45.6	13.3	3.4
United States	16.6	55.4	15.8	3.5

* Families are considered poor when their income is less than 50 per cent of the median income.

Source: Innocenti Report Card, No. 1, UNICEF Innocenti Research Centre, Florence, Italy, June 2000.

Box 1 *Case studies of activities targeting vulnerable social groups made up mainly of single-parent families with one income or a handicapped or seriously ill child*[4]

Australia. As from July 2000, a two-part Family Tax Benefit has replaced the previous benefits for families with children. The main objective of this new programme was to respond to the specific needs of each type of family. The second stage of the programme provides additional help for single income and sole parent families. The very strict eligibility requirements which previously applied to single parents with babies applying for parenting allowances, were abolished in September 1999.

Austria. The parental leave benefit has been replaced by a childcare allowance, for a period of up to 36 months, for babies born from 1 January 2002 onwards. This measure is designed to increase the number of beneficiaries and to make work and family life more easily compatible for mothers and fathers. Eligibility for the parental leave benefit which existed previously, depended on the prior existence of employment or compulsory insurance, but the right to a childcare allowance, which is a family benefit, is not subject to these conditions. This will allow more categories to claim financial assistance for childcare in future, including women at home, students, the self-employed and those in very low-paid jobs. The amount of the allowance for childcare at home is higher for single-parent and low-income families and beneficiaries of this allowance are covered by health insurance.

In addition, since July 2002, employees have the right to reduce their working hours or to take leave in order to care for a seriously ill child for a period of up to six months. There are a number of measures which provide a guaranteed level of income during periods of interrupted employment or reduced working hours, particularly under the health insurance scheme and the Family Hardship Equalization Fund.

Liechtenstein. Allowances for single parents raising one or more children have been introduced since July 1999 in addition to normal child benefits.

Russian Federation. In April 2003, the Moscow Government put forward draft legislation for the payment of an allowance to young parents. In all, the bill will affect almost 1.5 million Muscovites, and will

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4. All the case studies presented in this chapter are taken from the "Reforms" database of the ISSA information service *Social Security Worldwide* (SSW).

provide benefit of varying amounts, between 10 and 20 times the minimum requirements for subsistence, per child. The stated aim of the Government was to prevent a serious drop in the population in the Russian Federation, where certain demographic forecasts for the coming 50 years are giving rise to considerable anxiety.

United Kingdom. The "Integrated Child Credit" was introduced in 2001 to replace four other measures providing family assistance. It extends the allocation of financial aid to certain population groups which until that time were not eligible for assistance, apart from child benefits, because they were not employed or had no taxable income. In addition, a new maternity benefit entitled the "Sure Start Maternity Grant" has been introduced for 200,000 future mothers and young mothers living in low-income families. This benefit supplements the "Sure Start" programme to provide assistance for families and children in deprived areas. This action continues and the British government has recently adopted the objective of halving poverty among children between now and 2010 and eradicating it completely by the year 2020.

The State has reacted to these challenges in a number of different ways, either making use of social security benefits or through the tax system. All these policies have one element in common, which during recent years has underpinned the evolution of social security systems, or welfare states, and that is the multiplication of activities focusing on groups at risk. As the following case studies show, there is one main difference between the policies introduced in the so-called "liberal" welfare states (mainly in Anglo-Saxon countries) and those in countries with institutional tripartism or so-called "corporatist" welfare states: the preference of the former for using taxation, and the use of social security benefit systems by the latter.

Inter-generational equilibrium and rethinking the place of children

The combined effects of population ageing and unemployment and, to a lesser extent, the transformation of family models, on the financial equilibrium of pension schemes and the future of social security systems in general, constitutes the second determining factor for family policies, or at least their future orientation. This effect has, in fact, revived the debate on the distribution of the cost of these systems, between generations. Most countries are investing, proportionally, progressively less of their budgets on the family/children and more on the elderly. Those who spend most on the elderly, generally devote least resources to children.

Table 2 *Social security expenditure by function in 2000 (as a percentage of total social benefits)*

	Old age and survivors	*Sickness/ Health Care*	*Disability*	*Unemployment*	*Family/ Children*	*Housing and social exclusion*
Austria	48.3	26.0	8.2	4.7	10.6	2.1
Belgium	43.8	25.1	8.7	11.9	9.1	1.4
Denmark	38.1	20.2	12.0	10.5	13.1	6.1
European Union – 15	46.4	27.3	8.1	6.3	8.2	3.7
Finland	35.8	23.8	13.9	10.4	12.5	3.5
France	44.1	29.1	5.8	6.9	9.6	4.5
Germany	42.2	28.3	7.8	8.4	10.6	2.6
Greece	49.4	26.6	5.1	6.2	7.4	5.4
Iceland	31.1	39.2	13.9	1.3	11.7	2.8
Ireland	25.4	41.2	5.3	9.7	13.0	5.5
Italy	63.4	25.0	6.0	1.7	3.8	0.2
Luxembourg	40.0	25.2	13.7	3.3	16.6	1.2
Netherlands	42.4	29.3	11.8	5.1	4.6	6.8
Norway	30.7	34.2	16.4	2.7	12.8	3.3
Portugal	45.6	30.6	13.0	3.8	5.5	1.5
Spain	46.3	29.6	7.6	12.2	2.7	1.6
Sweden	39.1	27.1	12.0	6.5	10.8	4.5
Switzerland	51.6	24.4	12.5	2.8	5.1	3.6
United Kingdom	47.7	25.9	9.5	3.2	7.1	6.8

Source: Eurostat (2002). "Statistics in focus: Population and social conditions".

N.B. Social expenditure on families and children includes family allowances, family support benefits, benefits for other dependents, cash benefits for single-parent families, parental and maternity leave, expenditure on health services for children, personal assistance, and domestic help, as well as other benefits in kind.

Box 2 *Examples of inclusion of periods of time devoted to childcare for the accumulation of pension rights*

Austria. As a result of measures adopted in 2002, which gave workers the right to suspend their employment in order to care for seriously ill children, old-age insurance contributions are guaranteed through unemployment insurance, during periods of interrupted activity.

France. Parents who choose to interrupt their employment in order to care for a sick child may include the periods of interrupted employment when claiming their pension rights, in accordance with measures for the provision of parental care benefits introduced in 2001.

Germany. Since 1999, better coverage has been provided for periods devoted to child raising for the calculation of pension rights. The newly-introduced measure applies to current pensions as well as those newly allocated. The assimilated salary for periods devoted to child raising has been increased from 75 per cent of the average salary up to July 1998, to 100 per cent from July 2000 onwards.

Iceland. New provisions for maternity and parental leave adopted as from 2001 guarantee that parents who interrupt their employment in order to care for their children, will be able to include their periods of absence for the purposes of the pensions scheme, through the payment of contributions, with employer participation, to a pensions fund.

Jersey. A new system was introduced in April 2002 to protect parents and guardians who interrupt their employment in order to look after a child under 5 years of age. Under this system, contributions for long-term benefits are credited to them for a period of up to ten years.

Luxembourg. Measures exist for the Luxembourg Government to cover pension insurance contributions for parents who interrupt their employment in order to take care of their children. A period of up to four years, known as "baby-years", may be covered. However, in order to be eligible, a parent must have contributed to statutory insurance for a period of at least 12 months during the 36-month period prior to the birth or adoption of the child. More extensive cover has been provided since 2002 through the introduction of a flat-rate benefit, based on the number of children raised, for women without a significant pension insurance career, who have been unable to benefit from other measures to support childcare.

The link between education for children and the long-term financial equilibrium of social security systems is now becoming more widely accepted (Esping-Andersen, 2003; Schmähl, 2003). Education is no longer considered as an item of unproductive expenditure. It is increasingly seen as an investment in human capital, which has an overriding influence on children's careers, once they reach the age of employment. In the long term, the survival of social security systems and of pension schemes in particular, will depend on it. Thus, childcare is becoming widely recognized as a socially productive activity. This recognition may take several forms: the right of a parent to a replacement income during a period devoted to childcare; the inclusion of periods devoted to childcare in the cumulated total of pension rights (certain bodies of legislation even give bonuses for these periods, as in France, for example) and a guarantee that jobs will be held open for parents who stop work temporarily in order to look after their children. These three forms of support for childcare continue to gain ground and wider acceptance in countries where they were introduced relatively early; even more important, they are becoming increasingly common in other countries.

Who should take care of children?

The changed status of women, their struggle for equal treatment and their greater access to the labour market, raises two major observations:

- There is a need to remove the obstacles which prevent men taking a more active role in childcare, through the provision of equal benefits for men and women. This often involves the harmonization of benefits allocated to men, with those allocated to women. In this way, the benefits designed to cover childcare and education are becoming increasingly gender neutral. The practice of allowing paternity leave for the father following the birth or adoption of a child, usually under the same conditions and with the same effects as maternity leave, is becoming more widespread (being extended to Luxembourg in 1999, France in 2001 and Belgium and the Cayman Islands in 2002). However, the rate of earnings replacement, the duration of payment and its real use by fathers vary enormously with this type of benefit. Parental or childcare leave is another instrument of family policy which has been introduced as an alternative to the care of very small children in structures outside the family. In most cases, the benefit may be allocated individually to each of the two parents. This increasingly popular benefit was the subject of a European Union directive issued in 1998; however, up to now women have made most use of this opportunity. In order to encourage fathers to make more frequent use of parental leave, certain countries – e.g. Denmark, Italy, Norway and Sweden – have recently extended the duration of parental leave while introducing a clause that part of this extension will be lost if not taken as leave by the father. In Austria, parental leave may be extended up to a maximum of three years, provided that the father takes at least six months of it before the child reaches 3 years of age.

Box 3 *Examples of the harmonization of benefits for men and women*

Canada. Parental leave, for a period of up to 50 weeks, was introduced in the Province of Quebec in 2001 under the unemployment insurance scheme. Either parent (employee or self-employed) may claim this right, on a personal basis, following the birth or adoption of a child.

Denmark. In 2001, the Government introduced a new proposal to provide greater flexibility for families with young children. Under certain conditions, each parent has a separate, individual entitlement to 32 weeks of paid leave, which may be taken simultaneously or one after the other beyond the 14th week of maternity/birth leave. Between 8 and 13 weeks of this leave may, in addition, be postponed until later. This "maternity/paternity" leave is intended to replace childcare leave and paternity leave, and may be spread over a longer period in return for a reduction in monthly benefits.

Germany. Since 2001, parents looking after a small child have been able to benefit from an increase in the education allowance and may also take the whole of the parental leave together. In addition, for the first time, the right to part-time work is guaranteed by law.

Iceland. Since 2001, parents have had equal rights to parental leave. Each parent can claim an individual leave entitlement of up to three months, and one of the two parents (the choice is open), may take additional leave of up to three months. Until this new measure was introduced, the father had the right to only two weeks' of leave.

Luxembourg. Parental leave, with guaranteed re-employment, was introduced in 1999. The duration of this leave is six months and it may be extended up to 12 months in the event of part-time work. Each working parent has an individual right to this leave.

Norway. Since 2000, fathers may claim birth benefits in their own right. Previously, both the father and the mother of the newborn child had to be in paid employment before the birth in order to claim these benefits. If the mother did not work, the father could not claim birth benefits either.

Slovakia. The Government has adopted several changes in family benefits including the possibility, from 2002, for both parents to receive parental allowances simultaneously, for a certain period of time. This follows the implementation of the European Community Council directives concerning the framework agreement and parental leave.

- There is a need to develop a policy for the benefit of small children to help parents to reconcile their work activities and childcare. This is the component of family policy which has led to most debate and development in recent years, i.e. the Early Childhood Education and Care (ECEC) policy concerning childcare and children's education,[5] with particular reference to two mechanisms: parental leave and childcare structures for infants.

The development of childcare structures is clearly the result of the increasing participation of women in the labour force. There has been a rapid increase in these structures during periods when there was a large influx of women into the labour market (in particular in post-war periods). However, this was not the sole factor. Two important aspects are worth underlining: on the one hand, changes in the gender-based division of labour within the family are not a recent phenomenon; they date back, as Haddad underlines,[6] to the cultural revolution of the late 1960s. The specific demand for childcare facilities was, and continues to be, among the most determining factors which led to the development of ECEC policies. On the other hand, a number of research projects have revealed the intrinsic value, if well organized and wellrun, of infant care structures for the human and social development of children, as well as the positive effects of this form of childcare on academic achievement,[7] regardless of whether or not the mother goes out to work.

The validity of ECEC programmes, therefore, can no longer be open to doubt. As Kamerman *(op. cit.)* underlines, both the philosophies and the objectives of these programmes everywhere now emphasize – at least on a theoretical level – the education, the care and human and social development of children. Policy decisions in this area, however, such as the eligibility criteria (universal or selective programmes), sources of finance (respective shares of the State and parents) and the nature of the providers (public or private) are often influenced by which administrative bodies govern these structures (Education, Health, Social Affairs or a joint administration). These decisions sometimes reflect on the quality of the services provided, and they often reflect on the extent of coverage for children whose parents wish to send them to care centres. In developed countries, sufficient places are generally available for children aged 3 and over. The figure lies between 70 and 100 per cent in OECD countries; those countries which do not yet have sufficient places available have already included this component in their programme targets, according to a survey carried out by

5. The definition and objectives of the concept of Early Childhood Education and Care (ECEC) led to a certain amount of controversy (see UNESCO Notes on policy with respect to small children, No. 1/March 2002) that we cannot address in this chapter because of the lack of space. Nevertheless, we note the definition of ECEC policy provided by Kamerman (2000) which includes all the activities undertaken by the State which affect the supply and demand for care structures for small children and the quality of the services provided. These activities range from the direct creation of facilities, subsidies and assistance for private suppliers, to replacement incomes for parents who interrupt their working activities in order to look after their children themselves.

6. L. Haddad, "An Integrated Approach to Early Childhood Education and Care" p. 21ff. *Early Childhood and Family Policy Series,* No. 3, UNESCO.

7. S. B. Kamerman, "An overview of developments in the OECD countries", *Early Childhood Education and Care* (ECEC), p. 23.

Box 4 *Examples of efforts to increase the availability of childcare structures*

Belgium. Child-minders who formerly were covered only through the activities of their spouse, have since 2003 been provided with their own social cover under legislation concerning the social status of child-minders.

France. A plan for the creation of 20,000 additional nursery places was adopted in 2003. Tax relief will also be made available to enterprises to finance nursery facilities. The tax relief will cover 60 per cent of the financial support provided by an enterprise. Furthermore, changes in the status of assistant child-minders, estimated to cost EUR 50 million, will bring their status in line with common law, modify their conditions of registration and provide them with the opportunity to validate the experience they have acquired.

Republic of Korea. In 2003, the Government decided to increase its support for the national development of nursery and child-minding facilities, through the implementation of new regulations. The aim is to increase the number of services of this type available in enterprises and to provide good quality care for children. Increased financial support for nurseries and child-minding has been allocated to enterprises through an increase in the ceiling for loans for the creation of these services, together with a reduction in applicable interest rates. In addition, help will be given to enterprises which modify certain installations in order to take in children, with coverage of up to 80 per cent of the costs up to a given ceiling. The maximum cover is allocated for activities designed to take in babies and handicapped children.

Spain. "Certificates for enterprises which take on family responsibility" were created, in 2003, by the Ministry of Labour and supported by a foundation comprised of several large companies. This honorary certificate is intended to compensate enterprises, which help their employees to reconcile their work and family lives. Social benefits including the availability of nursery places, are among the evaluation criteria.

Switzerland. An initial sum of CHF 200 million has been allocated for the first four years of an 8-year programme, starting from 2003, designed to provide help for collective child care centres, whether nurseries, child-minding centres or parents' associations, that wish to increase their capacity. In addition, one-third of the training and further training costs for providers of day care and coordinators may be covered for a period of three years. One-third of the cost of projects for the improvement of coordination or the quality of the care provided, may also be reimbursed.

Kamerman.[8] However, according to the same survey, the figure remains well below expectations for children under 3 years of age, except in the Scandinavian countries (approximately 50 per cent) and to a lesser extent in France and Belgium (approximately 30 per cent).

These low levels of access for children under 3 years of age may be the result of a lack of places, of the dissatisfaction of parents with the quality of care provided, of the high cost of places, or a combination of these various factors. The number of places available must be increased. This may be done directly through an increase in the number of places made available, or by providing indirect support in the form of tax relief or other incentives for employers who undertake activities for the benefit of their employees. Steps may also be taken to improve the quality of care through participation in training costs for childcare personnel or improvements in their statutory conditions of employment and social cover.

Problems specific to developing countries

Developing countries, in particular the poorest of them, have to cope with their own specific problems as well as with the effects on their social protection systems of the universal problems of lower birth rates, ageing populations and the disintegration of traditional family structures. These difficulties are attributable mainly to the inability of their systems to extend their cover to a large proportion of the population; this applies particularly to people in insecure jobs in the informal sector. These systems, which are linked by definition to employment, are equally unable to provide social cover for the thousands of children left without a guardian following the death of the parent who previously supplied the household income, or the loss of his or her job as a result of one of the many disasters affecting some of these countries. Such catastrophes include war, anti-personnel mines, the displacement of certain populations, flooding, drought and the AIDS pandemic. In the African countries alone, the number of orphans under 15 years of age has now reached more than 34 million; almost a third of them have lost their parents through AIDS (UNAIDS, 2002).

These catastrophes also weigh heavily upon the informal social protection systems based on family and community solidarity, which endure in spite of all these changes. These systems threaten to fall apart unless something can be done to organize this form of social protection and above all to find a way coordinating it with the formal social security systems which already exist. This seems to be the direction of current thinking (Olivier et al., 2003).

Increased interest in family and community solidarity as an additional form of social protection which could complement formal social security systems is even more pertinent in developing countries where local attitudes and socio-cultural structures still favour this type of solidarity. The programme “Living Together”, initially launched in

8. S. B. Kamerman (2001), “International perspectives”, *Early Childhood Education and Care* (ECEC), pp. 9-10.

the Province of Tete in Mozambique at the end of 2002 by "HelpAge" International in collaboration with UNICEF, provides an edifying example of how family and community solidarity can be used to best effect in an African context. This programme is designed to assist old people who are looking after school-age orphans in an area which has been hit by successive waves of flooding and drought, as well as being one of those most badly affected by AIDS.

Conclusion

Even though countries are faced with similar social changes and are subject to the same socio-economic pressures, they develop widely differing family policies. In all probability, the explanation lies in differences in socio-cultural values, family and religious traditions, ideological convictions and socio-political and economic choices.

Nevertheless, certain factors seem to point in the direction, or at least indicate the importance, of integrated family policies, which focus more on the child and on reconciling the roles of the family and the community in childcare on the one hand, and on reconciling child and parental interests, on the other.

These factors include:

- an increasing awareness of the repercussions of inadequate or unequal treatment of children on their future lives;
- a tendency to consider childcare as a productive activity and an investment in human capital;
- changes in the division of labour between men and women within the family;
- realization of continuing inequalities based on gender and of exclusions which primarily affect children;
- an intensification of activities focused on children on the part of international organizations, towards increasing standardization;
- considerable developments in scientific research on the subject.

It is hoped that, a catalyst will be found among these elements to bring about possible future convergence on the social status that children merit.

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Chapter

4

Recent policy trends in privately managed retirement provisions: What protection for individuals?

Jens Schremmer[1]

Pension system reforms over the past decade have increased the role of privately managed retirement schemes. By focusing on recent policy trends, this chapter explores the degree of retirement income protection provided under privately managed retirement schemes in the light of different risks that these schemes carry for individuals. Various types of privately managed retirement schemes differ in the degree to which individuals are exposed to these risks. Recent policy initiatives have aimed at providing individuals with more opportunities and incentives to make privately managed retirement provision and at better protecting their rights. In contrast, the trends to defined contribution schemes and increased individual choice have generally exposed individuals to greater risks arising from economic, financial and demographic developments and poor choices. The current risks borne by individuals under privately managed retirement schemes reaffirm the continuing value of well-designed publicly managed social security schemes in providing stable, predictable and adequate income security throughout retirement.

1. The author would like to thank Juan Yermo for his comments.

Introduction

Pension system reforms over the past decade have directly or indirectly increased the role of privately managed retirement schemes. Parametric reforms of social insurance schemes reducing average replacement rates have created or increased the need for complementary privately managed protection in order to secure adequate retirement income security. Structural reforms building multi-tier retirement systems have introduced mandatory privately managed schemes as part of the social security system to complement reduced publicly managed schemes, with voluntary privately managed schemes as a third tier.

The aim of retirement schemes is to provide stable, predictable and adequate income security throughout retirement. Privately managed schemes, however, carry a number of risks that endanger the achievement of this aim. These risks can be classified into three groups, namely risks that can be addressed by the regulatory and supervisory framework of privately managed schemes, risks arising from wider economic, financial and demographic developments, and the risk of making poor choices where individual choice is permitted. Various privately managed retirement schemes differ in the degree to which individuals have to bear these risks.

This chapter focuses on recent trends in privately managed retirement schemes and their impact on the retirement income security of individuals. The analysis reflects mixed experience. While governments have made considerable efforts to give more opportunities and incentives to individuals to make privately managed complementary provision and to shield individuals against the institutional risk of failing private institutions, a trend towards defined contribution schemes and increased individual choice has generally exposed individuals to greater risks arising from wider economic, financial and demographic developments and poor choices. Individuals have been given more responsibility for retirement planning. While some persons might interpret this as an opportunity, many individuals may consider increased risk and choice as a burden with which they are not equipped to cope.

Somewhat paradoxically, recent trends in privately managed schemes therefore reinforce rather than undermine the importance of well-designed publicly managed social security schemes. It is now widely accepted that publicly managed social security schemes are essential as a solid foundation balancing the increasing exposure of individuals to various risks under privately managed schemes. A strong public tier providing not just basic “safety-net” provision but adequate benefits remains indispensable for achieving the aim of stable, predictable and adequate income security in multi-tier retirement income systems.

Risks and the different nature of privately managed schemes

An important fact often neglected in discussions about pension system reform and privatization is that there are different types of privately managed retirement schemes with differing impacts on retirement income security.

Occupational or personal schemes

Occupational schemes are established (sponsored) by single, or a group of, employers that under the scheme rules are generally required to make contributions. Membership in such schemes is linked to an employment relationship with the sponsoring employer. Personal schemes are established and offered to individuals by financial institutions or specialist single purpose entities. Membership is independent of an employment relationship and individuals choose between different providers, generally without intervention of their employers.

Mandatory or voluntary schemes

Both occupational and personal schemes can be mandatory or voluntary. Under mandatory occupational schemes, legislation (or in some countries industry-wide collective agreements) requires each employer to sponsor an occupational scheme itself or co-sponsor or participate in a scheme established by a group of employers, and to affiliate covered employees to the scheme. The mandate to provide for membership of covered employees falls on the employer. Under mandatory personal schemes, the mandate falls on covered individuals who are legally required to choose, and become members of, a scheme without intervention of their employers. If not mandatory, the establishment of occupational schemes, or membership in personal schemes, is based on voluntary private initiative.

Defined benefit or defined contribution schemes

Under defined benefit schemes, the benefit payable to scheme members from retirement age is defined when contributions are made. In the case of defined contribution schemes (also known as retirement savings schemes), the contribution to be made is defined, and the benefit depends on contributions, investment income and administrative costs. Personal schemes are generally defined contribution, whereas occupational schemes are either defined benefit or defined contribution. In some countries, defined contribution schemes with minimum guarantees exist. In this case members are guaranteed a minimum rate of return on contributions.

Privately managed retirement provision carries different risks that can be classified as follows:

Risks that can be addressed through the regulatory and supervisory framework

- risk of insufficient participation or non-participation in voluntary complementary schemes;

- risk of insufficient protection of accrued rights or accumulated assets in the case of failures of private institutions (e.g. insolvency, mismanagement or misappropriation of funds) or upon changing employers or providers.

Risks arising from wider economic, financial and demographic developments

- financial market risk of low asset values and/or low interest rates at retirement (also known as timing risk);
- risk of devaluation of assets or accrued rights attributable to inflation;
- longevity risk of outliving the life expectancy on which retirement planning was based;
- risk of underdeveloped annuity markets and excessive costs of insuring against longevity.

Risk of making poor choices

Individuals might be required to make several choices and are therefore exposed to the risk of making poor choices:

- decide whether to join (if voluntary), which type of scheme and which provider;
- decide on retirement income objectives and on the contributions necessary to reach these objectives given investment return expectations;
- identify optimal age-related investment risk preferences over the life course and choose a corresponding investment portfolio;
- choose the appropriate type of benefit at retirement, e.g. lump sum, phased withdrawals or annuity;
- if annuity option is chosen, select the right product at an appropriate price and the most reliable provider.

Various types of privately managed retirement schemes differ in the degree to which individuals have to bear these risks and are required to make choices. For instance, under occupational defined benefit schemes, the employer bears the financial and longevity risk as individuals accrue the right to a certain benefit. In addition, most parameters such as contributions and types of benefits will be defined in the scheme rules. In contrast, under defined contribution schemes with member investment choice, members bear financial and longevity risks and the risk of making bad investment choices. Most parameters will be flexible and subject to the choice of the individual. Under defined contribution schemes with guarantees and without investment choice, however, individuals will usually only bear the longevity risk. The risk of not participating in complementary protection can theoretically be removed if schemes are mandatory (although non-compliance has been a major problem under mandatory personal defined contribution schemes), while schemes organized through the workplace have more potential for achieving higher rates of coverage than personal schemes in the case of voluntary systems.

Recent policy efforts to address the risk of insufficient participation or non-participation in voluntary complementary schemes

Where replacement rates under public schemes have been reduced and complementary privately managed provision is voluntary, individuals face the risk of insufficient participation or non-participation in complementary schemes. The need for complementary provision contrasts with generally low coverage rates[2] under complementary schemes throughout the world. Deficiencies have been identified with regard to both opportunities and incentives.

Lack of opportunities

- generally only larger employers sponsor occupational schemes;
- individuals belonging to a group of employees such as part-time or temporary workers have often been excluded from membership in occupational schemes;
- a system of complementary personal retirement schemes does not exist.

Lack of incentives

- absence of information on the need for retirement planning;
- no financial capacity to save, e.g. in the case of low-income workers, and/or insufficient financial incentives (e.g. tax incentives);
- high transaction costs for individuals to participate in schemes (e.g. select type of schemes, select and contact provider, pay contributions etc.);
- low trust in private institutions because of insufficient regulatory and supervisory protection of rights.

Consequently, policy-makers have attempted to encourage membership in voluntary privately managed schemes through creating new opportunities and incentives for individuals to make complementary retirement provision.

2. It is very difficult to assess coverage by complementary privately managed retirement schemes across countries. Recent efforts of the OECD to collect statistics, however, reveal coverage rates under 10 per cent of the labour force in countries such as Austria, Italy, Portugal or Spain (OECD, 2003). Even in countries where complementary schemes have traditionally played an important role in retirement income provision, these schemes cover only around 50 per cent of employed persons, for instance, in Ireland in 2002. Moreover, coverage is often limited to those in stable full-time employment, e.g. coverage by occupational schemes in Ireland is 4.7 per cent for employees who usually work between 1 and 9 hours per week while it is 54.4 per cent for employees who usually work between 35 and 39 hours per week (Pensions Board, 2003). In the United States, coverage rates were 44 per cent in 1999, including 47 per cent for men and 40 per cent for women. Low coverage rates were especially pronounced among part-time, temporary, and low-wage employees, e.g. 14 per cent for part-time employees (51 per cent for full-time employees) or 6 per cent for workers earning less than USD 200 a week (76 per cent for workers earning USD 1,000 or more a week) (EBSA 2004).

Opportunities

Establishment of new systems

A number of countries have created new regulatory frameworks for complementary privately managed retirement schemes. Most of these new systems provide for the establishment of personal defined contribution schemes. Recent examples include Turkey, where a law in 2001 created a system of individual retirement savings schemes to provide supplementary retirement income. In Singapore, a system of supplementary retirement schemes was introduced in 2001 in order to encourage employees to save more for retirement. Other countries that have created new systems include Latvia and the Republic of Moldova in 1998, Germany, Japan, and Thailand in 2001 and the Ukraine in 2003. The establishment of complementary schemes has been considered important irrespective of the type of mandatory social security scheme; for example, Mexico created an additional system of voluntary long-term savings known as Retirement Complementary Contributions for members of the mandatory privately managed social security system.

Permit employers to sponsor occupational defined contribution schemes

Defined benefit occupational schemes have generally been sponsored by larger employers. Where the defined contribution option has not existed, the employees of those small and medium employers not willing to establish defined benefit schemes because of the administrative requirements and risks involved have therefore often been left unprotected. In order to increase coverage through occupational schemes among small and medium employers, several countries that had traditionally not allowed occupational defined contribution schemes recently introduced this option. Norway took this step in 2000 and Germany and Japan in 2001. An unintended side-effect of these policies has been, however, that some employers used the new option to switch from sponsoring defined benefit to defined contribution schemes.

Introduction of retirement savings schemes financed through payroll deductions

A number of countries have recently created personal retirement savings schemes organized through the workplace to ensure that all employees not covered by occupational schemes have easier access to complementary provision. Transaction costs are low because of employer involvement in selecting providers and making payroll deductions. Stakeholder pensions introduced in 2001 in the United Kingdom, Personal Retirement Savings Accounts (PRSAs) introduced in 2003 in Ireland and "Riester" pensions introduced in 2002 in Germany reflect this approach to increasing coverage by complementary retirement schemes. For instance, a PRSA is a personal pension scheme based on a contract between the individual and the PRSA provider and participation is voluntary for employees. Although employers are not required to contribute, they must contract with a PRSA provider to give employees who do not have access to an occupational scheme the opportunity to make savings towards their retirement through payroll deductions. Employers are also obliged to inform employees of their right to contribute, grant reasonable paid leave of absence to set up a PRSA and allow the PRSA provider or intermediary reasonable access to employees at the workplace.

Strengthen the role of multi-employer and industry-wide schemes

Strengthening multi-employer and/or industry-wide schemes is an effective mechanism for increasing coverage, particularly if participation for covered employers and employees can be made compulsory under the collective bargaining agreements. Even if not compulsory, employers might be more willing to participate in multi-employer schemes than sponsoring a single-employer scheme, as the former implies lower organizational and administrative burdens and reduced costs resulting from economies of scale. Recognizing these advantages, Belgium overhauled its occupational pension legislation in 2003 to strengthen industry-wide schemes. Once established under a sector collective bargaining agreement, these schemes become compulsory for all employers and employees in the relevant sector. In order to provide an incentive to small employers to co-sponsor occupational schemes, Brazil introduced the possibility of multi-sponsorship in 2001 (only single-sponsorship had been permitted before). These efforts depend, however, on the existence of developed collective bargaining mechanisms.

Strengthen the rights of typically excluded groups

Employees in atypical work as defined by Levinsky in Chapter 7, i.e. part-time or temporary workers, have often been excluded from membership in employer-sponsored arrangements. Recent legislation strengthened the rights of these groups. In Ireland, if an employer provides a pension scheme for its full-time workers, then access to the scheme or a no less favourable alternative must, from October 2001, also be possible for comparable part-time workers unless they work less than 20 per cent of full-time hours. Kenya recently extended tax incentives in order to provide workers in the informal, agricultural and professional sectors with a vehicle for retirement savings. In the United Kingdom, the government has published its intention to help people with short-term jobs to build up their pension rights by changing a rule according to which pension rights are protected only after two years of employment. These people will have the right to a transfer payment (including employer contributions) to another scheme after only three months of scheme membership.

Incentives

The opportunity to participate in a scheme has by itself generally not been sufficient. Short-sightedness, transaction costs, lack of financial literacy and retirement planning, and insufficient financial means have generally resulted in a low propensity of individuals to make complementary provision. In addition, low trust in private institutions has become widespread and recent scandals which involved the loss of retirement assets of employees of major corporations in the United States have further eroded trust in the protection of benefit rights. Recent policies have attempted to tackle these reasons for insufficient or non-participation in complementary retirement schemes.

Financial incentives

Financial incentives, in particular favourable tax treatment of contributions, investment income and/or benefits, are important tools to encourage employees and employers to establish, and contribute to, complementary retirement schemes. Financial incentives have generally been strengthened in recent years.

- The introduction of new systems mentioned above has invariably been accompanied by financial incentives, e.g. tax-deductibility of contributions in Singapore, Turkey and the United Kingdom, or government co-contributions in Germany.
- Tax incentives for existing schemes have been increased, for instance in Canada, Italy and the United States.
- Specific incentives have been introduced for groups perceived to have a particular need for retirement provision. For instance, legislation of 2001 in the United States has created the possibility for employees aged 50 and older to make tax-deductible "catch-up" contributions to 401(k) schemes. These persons could contribute an additional USD 1,000 in 2002, increasing incrementally to USD 5,000 by 2006. In Australia, government co-contributions for low-income earners' contributions to retirement schemes have recently been introduced.

Building trust: Effective regulation and supervision

Individuals are unlikely to participate in privately managed schemes if they suspect that their accrued rights or accumulated assets are not well protected. The establishment of effective regulatory and supervisory frameworks is therefore a basis for the willingness of individuals to confide their assets to private institutions and, as outlined below, much attention has been paid to this point in recent years. It is important to note, however, that not only the regulation and supervision of privately managed retirement schemes, but also the quality and reliability of the wider financial and economic regulation (accounting standards, security trading regulation, the protection of property rights etc.) play a major role. However, building trust in private institutions and markets may take time, particularly when failures of these institutions are frequent. The recent example of the Russian Federation, where only 2 per cent of the eligible population decided to transfer the management of their savings from the public pension fund to private managers, illustrates this problem.

It cannot yet be said whether these recent efforts to increase opportunities and incentives have achieved their aim of higher coverage under voluntary complementary privately managed retirement schemes. For different reasons, the initial experience especially under personal schemes has been disappointing in some countries,[3] mostly because financial incentives have been considered too low, and individuals have not been sufficiently aware of the need for them to make complementary provision. More positively, however, in many countries, individuals willing to make complementary provision will now have both easier access to schemes and enjoy better incentives than five years ago.

Recent policy efforts to address insufficient protection of rights under privately managed schemes

Whether schemes are complementary or basic, mandatory or voluntary, private management entails the risk that failing private institutions or markets endanger the rights and assets of scheme members. Such failure can occur in several ways, such as insolvency of sponsoring employers in the case of occupational schemes, loss of assets as a result of illegal or improper investments (e.g. in related companies), misappropriation of funds or exceedingly high administrative charges.

Governments have increasingly recognized the need to strictly regulate and supervise privately managed retirement schemes in order to protect the rights and income security of participants and to establish the legitimacy of private provision that is indispensable to encourage (individuals' participation in voluntary schemes) and ensure participation (in mandatory schemes). In addition, governments have little interest in providing fiscal incentives to schemes offering only low retirement income security or in being pressured to compensate members who lose their rights because of the failure of private institutions.

The following discussion explores recent trends to better protect rights under privately managed schemes, separately for occupational and personal schemes. First, recent measures to improve the protection of rights under existing occupational schemes are identified. However, as will be illustrated, if provision through employers is voluntary, a balance between protection and overregulation must be found in order to avoid the unintended consequence of discouraging private initiative. Second, with regard to personal schemes, it can be observed that countries which have recently introduced these schemes also focused on establishing effective institutional safeguards for scheme members. Moreover, the impact of high administrative costs, unsatisfactory investment performance and imperfect competition on savings has been a major concern of policy-makers in the case of personal schemes.

3. In Germany, only 15-20 per cent of all eligible persons purchased "Riester" pension contracts during the first year of their existence compared to expectations of about 80 per cent (FAZ, 2003). Research in the United Kingdom has shown that by the end of 2002, 82 per cent of the stakeholder schemes set up by companies had no members and that many payments into stakeholder pension schemes are transfers from other pension arrangements and do not represent additional retirement provision (Association of British Insurers, 2003).

Occupational schemes

The introduction of comprehensive regulatory and supervisory frameworks

A number of countries where occupational schemes had been largely unregulated have recently introduced or substantially strengthened regulatory and supervisory frameworks for these schemes. For instance, after having identified insufficient benefit levels under the public pension scheme for certain groups and an absence of adequate protection of rights for members of existing occupational schemes, Luxembourg introduced a legal framework for the operation of these schemes for the first time in 1999. The law regulates key issues such as registration, transparency of administration, vesting, insolvency insurance and supervision. Similarly, the Retirement Benefits Act and its accompanying regulations introduced in Kenya between 1997 and 2000 established a comprehensive regulatory and supervisory framework for retirement schemes. All retirement benefit schemes and managers are required to register with the Retirement Benefits Authority that wields considerable powers to sanction misconduct.

The improvement of existing regulatory and supervisory frameworks

Acquisition and maintenance of rights

Membership in occupational schemes is based on a person's employment relationship. In order to improve the acquisition and maintenance of rights and to facilitate labour mobility, it is vital that employees rapidly obtain a right to their benefits and are able to change jobs without losing future pension entitlements.

The rights arising from employer contributions are usually subject to the completion of a certain period of scheme membership after which they are "vested", i.e. cannot be lost upon termination of employment before retirement. In order to ensure the rapid acquisition of rights, a number of countries have in recent years regulated and shortened the period after which employer contributions must be vested. For instance, in 2001, Germany shortened the minimum vesting period for employer contributions from 35 years of age or ten years of scheme membership to 30 years of age or five years of scheme membership, and Ireland shortened the period from five to two years in 2002. In the United States, accelerated vesting of employer matching contributions to retirement savings schemes was introduced in 2001.

Policies to facilitate portability, the possibility of transferring rights from the scheme of the former employer to the scheme of the new employer upon changing jobs, have also attracted much attention. A law of 2001 on complementary pensions in Brazil, for instance, introduced the right for members of complementary schemes to transfer their accrued rights to another scheme at the end of their employment relationship with the sponsoring employer. Portability rights were also improved in the United States and the United Kingdom. Establishing cross-border portability of pension rights has recently been a concern of the European Union (EU) as part of ongoing efforts to remove obstacles to labour mobility between member states.

Benefit security throughout retirement

Since, in the absence of government intervention (mainly through the provision of price indexed government bonds), private institutions are not able to insure against inflation, employers have generally been reluctant to promise automatic benefit adjustments to retirees. The risk of inflation has therefore often been entirely on the shoulders of retirees. A number of countries, while not prescribing regular adjustments at a certain rate, have introduced provisions requiring employers and scheme managers to analyse the possibility of adjustments and to justify non-adjustments. Recent legislation in Ireland, for instance, requires that the possibility of indexation of pensions in payment be examined in defined benefit schemes that do not require annual increases of pensions of at least a certain amount. The intention of the provisions is to require that the possibility of indexation be examined, not necessarily that it be made. However, scheme managers will be required to set out in their annual report the details of the process of examination including a report prepared by them on indexation and the sponsoring employer’s response to it. A similar arrangement has recently been implemented in Germany.

Funding method

Occupational schemes can be financed through internal or external funding methods. Under internal funding methods (e.g. the book reserve method whereby employers internally account for pension liabilities), the employer does not make actual cash payments before the benefits are due. External funding methods (e.g. pension funds or insurance contracts) require that contributions be paid to an entity established separately from the sponsoring employer. While internal methods can be advantageous for the sponsoring employer from a financial perspective, the insolvency risk lowers the protection of rights of members. Most countries that have traditionally allowed internal funding methods have been encouraging or forcing employers to move to external ones. An example is Spain where book reserves had been the most common funding method before a Royal Decree of 1999 made it compulsory for scheme sponsors (with some exceptions for certain financial service providers) to switch to group life insurance policies or pension funds by November 2002.

Governance

Governance of pension schemes and pension funds covers a number of safeguards related to the structure and processes of administration. Good governance structures are to ensure the appropriate division of operational and oversight responsibilities and the accountability and suitability of those with such responsibilities. Good governance processes prescribe that institutions have appropriate control, communication and incentive mechanisms encouraging good decision-making, proper and timely execution, transparency, and regular review and assessment (OECD, 2001). In recent years, policy-makers have made efforts to improve different dimensions of pension scheme governance, in particular with regard to the suitability and integrity of persons involved in scheme administration, conflicts of interest, improvement of member representation in decision-making, disclosure of information and members' rights to redress (see Box 1).

Box 1 *Recent measures to improve governance of pension schemes*

New legislation in Australia requires all superannuation fund trustees to hold a trustee licence. To obtain a licence, trustees must meet certain requirements concerning fitness and propriety and have adequate risk management plans (including a fraud control plan) in place for themselves and the fund under their trusteeship. No licence had been required before.

In order to prevent conflicts of interest and to ensure a clear separation of roles, retirement benefit schemes in Kenya have recently been prohibited from appointing related firms to carry out the tasks of manager and custodian of assets.

The 2001 reform of the regulatory framework for occupational schemes in Brazil includes a new requirement that members and beneficiaries be represented on the decision-making councils of pension funds. Members therefore have both information and voting rights enabling them to better control the protection of their rights. The law also provides for extensive disclosure of information to members.

Several countries have improved redress mechanisms available to scheme members. The office of the Pension Funds Adjudicator was established in South Africa in 1998 to investigate and decide complaints lodged by members of retirement schemes. Spain introduced "defenders" of the consumers of financial services, including pension scheme members, in 2002. Ireland established the office of a Pensions Ombudsman that has powers to investigate and determine complaints in relation to privately managed retirement schemes.

The danger of over-regulation, financial markets and the trend to occupational defined contribution schemes

Occupational schemes are in most countries based on the voluntary initiative of employers. Increased regulatory requirements introduced with the best of intentions to protect the rights of members create compliance costs for sponsoring employers. This has recently been particularly pronounced in the case of defined benefit schemes, for example as a result of more governance and reporting rules or tighter funding standards. Given that employers offer schemes as part of their remuneration packages to attract and retain high quality employees, regulators have to take into account the risk that the compliance costs might exceed the utility derived by employers from sponsoring a defined benefit scheme, in which case employers either switch to defined contribution schemes or decide to not sponsor a scheme at all. In both cases, employees have lower protection as a result of the intention to better protect them. Recognition of the dangers of over-regulation has led to efforts to simplify regulatory requirements without lowering protection of rights in a number of countries, e.g. in Italy and the United Kingdom.

A recent illustration of the difficulties of balancing the aims of protecting rights and encouraging voluntary initiative has been the regulation of funding levels of defined benefit schemes. Poor returns on equity investments since 1999 decreased the market value of scheme assets and historically low interest rates increased pension liabilities, with the consequence that many defined benefit schemes have fallen into deficit. In addition, application of new accounting rules (e.g. IAS 19) requires unfunded pension liabilities to be recorded as liabilities in the balance sheets of sponsoring employers, thereby introducing a high degree of volatility in the annual balance sheets. To comply with funding requirements that had often been introduced or tightened during the favourable financial market conditions of the late 1990s to better protect scheme members, employers have been required to make up funding gaps at times when they were least able to do so.

Under such circumstances, regulators have been faced with the task of balancing the aim of reducing the risk for members through enforcing funding standards immediately and the need to respond to employers' calls for more flexibility in making up funding gaps. Pension regulators have reacted in different ways to this challenge. Anglo-Saxon countries have very recently relaxed funding requirements to give employers flexibility to correct funding deficits. For instance, Ireland introduced legislation in 2003 that extends the former period of three and a half years during which funding shortfalls must be corrected to as long as ten years if certain conditions are met, among which that the shortfall was the result of an unexpected fall in the value of financial markets. In contrast, funding requirements were tightened in the Netherlands in 1999 and in 2003. In Switzerland, the approach was to reduce the rights of scheme members through lowering the minimum guaranteed rate of return to be provided by retirement schemes from 4 per cent to 2.25 per cent.

It cannot yet be said what impact these recent changes will have on whether, employers will sponsor occupational schemes in the future and, if so, which type of schemes they will sponsor. General economic and financial conditions creating unfavourable incentive structures for employers to sponsor defined benefit schemes have, however, strongly accelerated a long-standing trend from occupational defined benefit to defined contribution schemes. This has been evident in almost all countries throughout the world, for example in the United States where defined benefit schemes have decreased by 20 per cent over the last three years (OECD, 2002). Under these circumstances avoiding, unnecessarily high compliance costs is of vital importance to slow a trend which often deprives members of the type of scheme under which they are generally best protected.

Personal schemes

Efforts to build effective regulatory and supervisory frameworks

Mandatory personal privately-managed defined contribution schemes have been a central element of recent pension reforms building multi-tier retirement systems, particularly in Latin America and several central and eastern European countries. In addition, almost all of the newly introduced voluntary schemes are of the personal defined contribution type. Considerable efforts have generally been made to establish effective regulatory and supervisory systems in order to avoid, and to protect members in the case of, failures of private institutions (e.g. rules concerning licensing, conflicts of interest, investment, reporting, guarantee funds etc.), and regulation is stricter in the case of mandatory systems. Because of the relatively recent start of operation of these regulatory regimes, it cannot yet be said whether regulators have been successful. Where systems have existed for a longer time, recent reforms have addressed perceived imperfections, e.g. in Chile where in 2003 the external custody of pension fund assets managed by pension fund administrators was increased from 90 per cent to 100 per cent and the powers of the supervisory authority have been strengthened, e.g. through the right to name a provisional manager for a pension fund administrator.

Administrative costs, investment performance and the appropriate degree of competition under mandatory savings systems

After having more or less overcome the political and administrative difficulties of implementing mandatory privately managed savings systems, regulators have recently focused on enhancing accumulations through lowering administrative costs and improving investment performance, and on finding the appropriate degree of competition in the market.

Administrative costs under these systems have generally been regarded as exceedingly high, especially compared to those under publicly managed or occupational schemes, and have therefore been subject to ongoing regulatory concern. For instance, a recent reform in Mexico authorized the supervisory authority to issue recommendations to pension fund managers regarding the level of their administrative charges and to reject proposed increases in charges. In addition, covered individuals who do not comply with the requirement to choose a fund manager have since April 2003 been assigned by the supervisory authority to the one with the lowest charges in the market. Legal upper limits on charges have also been considered, for instance in Poland where tighter maximum limits have recently been announced. Despite these measures, however, high administrative costs remain a major problem under personal defined contribution schemes throughout the world.

Recent policies to improve investment performance are described in the next section. However, it is worth noting at this point that despite the perceived advantages of private markets, additional incentives for fund managers to perform well have been considered necessary. A bonus for the managing company that produces the highest average rate of return on investments in a certain period is for example under consideration in Poland. It is also envisaged that covered persons who do not comply with the requirement to choose a fund manager will be affiliated to managers that achieve higher than average rates of return.

Negative experiences with the unfavourable impact of both exceedingly harsh competition and overly concentrated markets on member's accumulations have fuelled efforts to regulate competition. Overly competitive markets lead to aggressive and expensive marketing campaigns at the expense of members who ultimately pay for them, and sometimes to exceedingly risky investment strategies. Low competition because of market concentration and what has been referred to as "herd behaviour" in investment (i.e. all fund managers have similar investment portfolios) lead, respectively, to high administrative charges and mediocre performance. Reforms to encourage the appropriate level of competition have been high on the policy agenda, and some of the central and eastern European countries introducing new systems have benefited from Latin American experience. Some countries have for instance introduced measures to limit competition by restricting the frequency at which individuals may change their fund manager *(switching)* through legal restrictions and/or transfer fees, e.g. Bulgaria and Croatia. On the other hand, limiting the power of big market players has been an important element of efforts to avoid market concentration and "herd behaviour", e.g. in Argentina where the market share of pension fund managers was restricted and institutional obstacles to autonomous investment decisions of smaller fund managers were removed.

The trend to relaxing investment restrictions and increasing individual investment choice

Investment returns are of paramount importance under all types of privately managed retirement schemes and recent major swings in financial markets have made investment a key policy issue. Investment regulation and supervision have the twin goals of assuring the safety and security of pension assets and permitting the best risk-adjusted rate of return to be obtained. In order to achieve these goals, some countries have opted for setting quantitative investment limits, and a number of other, mainly Anglo-Saxon, countries have adopted the so-called prudent person rule under which the persons responsible for investment must exercise their powers with the care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.

A trend to relaxation of quantitative investment limits, particularly with regard to limits on investment in foreign securities and variable-income assets (e.g. equities) can be observed in countries with less developed financial markets. The question of foreign investment has been subject to much debate in the light of the difficulty of balancing economic aims of pension reform such as domestic savings levels and financial market development with the aim of providing retirement income security through better diversification and higher risk-adjusted rates of return. In many countries it has taken considerable time to give even minimum weight to the latter aim in the light of thin domestic capital markets with few securities available at acceptable risk. The reality of heavy investment in government securities and large cash deposit holdings has induced several governments to permit pension fund investments in foreign securities or relax existing limits on foreign investment. In Mexico, for instance, legislation in 2002 stipulates that of total assets, 10 per cent may be invested in foreign securities, and it is intended to increase this limit to 20 per cent in the future. Similar changes have been implemented or are under consideration in Chile (where the limit is 20 per cent of assets and will be raised), Colombia, the Czech Republic, and Peru.

In countries with more developed financial markets, a general trend towards a relaxation of quantitative restrictions and a move towards the prudent person standard underpinned by quantitative limits can be observed. The EU directive on institutions for occupational pension provision, which aims at encouraging a common approach to pension fund investments across the EU, adopts the prudent person standard as a basic investment principle. Deviating from its traditional reliance on quantitative restrictions, Germany introduced pension funds as a new vehicle for implementing occupational schemes to which no quantitative investment restrictions apply except a limit on investment in the sponsoring employer. Brazil is another example of a country that has been moving from a quantitative limitation approach towards the prudent person rule in recent years.

The second important trend with regard to investment is the increasing role of individual choice under defined contribution schemes. For instance, members of the newly introduced voluntary personal defined contribution schemes in Japan must choose among at least three investment options. Members of the new Swedish mandatory premium pension system are required to choose, among a considerable number of options, up to five investment funds for their mandatory savings. Under occupational schemes, employee choice regarding the investment policy appertaining to their savings was recently implemented in Thailand. In addition, the general trend from occupational defined benefit to defined contribution schemes outlined above has increased the degree of individual choice where these schemes are member directed, i.e. where members influence investment decisions, such as under 401(k) schemes in the United States. It is important to note that increased investment choice requires individuals not only to choose an optimal investment strategy once, but also to monitor performance and adjust their choices in line with changing age-related risk preferences throughout their life course.

The recent introduction of multiple-funds systems in Latin America combines the trends towards increased individual investment choice and relaxation of investment limits (Box 2).

Box 2 *Multiple-fund systems in Latin America*

Under the mandatory private savings systems that exist in a number of countries in Latin America, pension fund managers were usually authorized to establish and manage only one pension fund. Recent reforms in a number of countries have authorized or required managers to establish several funds, among which members must choose one. The reasons for these changes are to take account of different age-related risk profiles and preferences of members, and to increase the extent of individual choice. At the same time, the reforms have included considerable relaxation of investment limits for higher-risk funds.

In Chile, for instance, pension fund managers have since 2002 been required to establish and offer four different types of funds (called types B, C, D and E) and, optionally, one additional fund (type A). Different investment restrictions apply to the different types of funds and they must have different investment portfolios with different risk levels. Type A funds carry the highest risk, and type E funds the lowest risk (e.g. the maximum limit of funds invested in variable-income instruments is 80 per cent in type A funds and 0 per cent in type E funds). Members must choose one of the funds offered by their fund manager and capital from mandatory contributions must not be distributed over several funds. To reduce risk, men aged 56 (women aged 51) or older must not choose type A funds (but may still choose type B funds with up to 60 per cent invested in variable-income instruments). Other countries that have recently started multiple-fund systems include Mexico and Peru. In Peru, fund managers will be required to offer three different funds.

Conclusion

Two important trends can be identified in the area of privately managed retirement schemes in recent years. First, countries throughout the world have attempted to ensure that reduced benefit levels under publicly managed schemes are more or less compensated for through private provision. While some countries have made privately managed provision mandatory, most countries have created opportunities and incentives for voluntary provision. Considerable efforts have been made to enhance regulation and supervision to improve and ensure the protection of rights under privately managed schemes and prevent losses of assets arising from failures of private institutions or markets.

The second important trend is the increasing role of defined contribution schemes and individual choice. With regard to occupational schemes, a shift from defined benefit to defined contribution schemes has been evident over a longer period but has rapidly accelerated in recent years. In addition, the many newly implemented systems of privately managed provision have almost exclusively provided for the establishment of personal schemes that are generally defined contribution. This increasing individualization of risk bearing has therefore exposed individuals to a greater degree to risks arising from wider economic, financial and demographic developments. Wide financial market swings throughout the world and economic crises in some countries have recently, and often painfully, made policy-makers and individuals aware that these risks are not theoretical or abstract but that under defined contribution schemes retirement income is often unpredictable and its adequacy a question of good timing and a measure of good luck.

In addition, individuals have been required to make more and more choices in retirement planning and have therefore been exposed to the risk of making poor choices. Individuals are increasingly not only asked to decide how much to save, but choice extends also to technical fields such as investment. Where individuals make poor choices, retirement income security will be lower. While a default option usually exists for individuals who do not make a choice, this option is likely to be suboptimal for the average scheme member. Some will claim that this trend is positive, because individuals might know best what is good for them and risks also imply increased opportunities. The question is, however, whether individuals are aware of the various risks and are capable, prepared and willing to manage them effectively and make good choices over their entire life courses. Low financial literacy, the well-known problem of underestimated utility of future consumption, uncertainty about one’s life course and life span etc. suggest that the answer to this question is negative for most individuals.

These recent trends in privately managed schemes, therefore, imply a mixed result for individuals’ level of retirement income security. While regulatory and supervisory frameworks have usually improved, individuals have become more exposed to risks arising from wider economic, financial and demographic developments, and from making poor choices. In the light of the benchmark for any retirement system to provide a stable, predictable and adequate income security throughout retirement, measures to better protect individuals in the future would therefore have to move away from a situation where each individual bears these risks alone to an environment where risks can be effectively managed and pooled at an acceptable price. In addition, taking a realistic image of individual behaviour when making policy decisions would result in better protection, i.e. not all individuals are, nor want to be, investment specialists. More practically, measures that might be considered are to:

- strengthen occupational defined benefit schemes or defined contribution schemes with guarantees under which risk pooling plays an important role, and establish an environment under which different risks can be pooled at an acceptable price (e.g. assist schemes and annuity providers to offer insurance against longevity and possibly inflation through the issuance of long-term government and/or indexed bonds);

- honestly inform individuals about the risks they face under different schemes (there has been a tendency to exaggerate benefits under personal defined contribution schemes through assumptions of unrealistic rates of return for the "average" member, without mentioning the risk of actual results being far below the average);
- improve education regarding retirement planning, investment and financial matters and encourage the provision of simple, transparent, structured (and possibly limited) options;
- make coverage in complementary privately managed protection mandatory where experience shows that individuals do not make sufficient voluntary provision.

Ultimately, stable, predictable and adequate income security throughout retirement can still best be achieved by risk pooling in well-designed publicly managed social security schemes. A strong publicly managed social security scheme providing not just basic but adequate income security is therefore vital to balance the increased risk borne by individuals under privately managed schemes.

Chapter

5

Governing the investment of social security funds

Roddy McKinnon

Decisions regarding the governance of the investment of social security funds are vitally important, as much for the administration and delivery of social security benefits as for the healthy functioning and development of social security organizations. A social security organization that is consistently unable to match income – including contributions, tax revenue, operational cash surplus as well as investment income – with administration costs and benefits expenditure cannot be expected to remain legitimately operational for any length of time. Although the elemental importance attached to the governance of the investment of social security funds is undiminished, nonetheless, emerging international evidence indicates that the manner in which social security funds are often invested is evolving. Focusing on the greater emphasis now placed on the importance of organizational transparency and accountability, this chapter presents evidence of a wider developing trend toward the liberalization of the management and investment of social security funds, including the more systematic placing of funds in financial markets. Ultimately, however, increasing liberalization reinforces the view that social security organizations cannot afford to lose sight of any one of the three core investment objectives of safety, yield and liquidity. To better guarantee the sustainable provision of social security benefits, the combined objective must always be one of finding the appropriate balance between portfolio risk and investment returns.

Introduction

In many countries, the management and investment of public social security funds is undergoing a process of liberalization, including the outsourcing of investments to private fund managers. A number of factors can be identified as helping to drive this process. Among others, these factors include evolving assumptions about the extent and nature of the respective roles to be played in the administration of social security by the state and the private sector; evolving political assumptions about what should be deemed as an acceptable level of individual responsibility *vis-à-vis* state paternalism; the growing sophistication of, and widening accessibility to, increasingly-global financial markets; and the mounting cost implications for national social security programmes of global demographic ageing, involving the perceived political infeasibility on the part of many social security organizations of adequately meeting these costs either through larger fiscal transfers or by demanding significantly increased rates of contribution.

Transparency and accountability

A key development associated with the emerging liberalization of social security funds is for the investment function to be conducted in a more transparent manner. Here, the concept of transparency refers to the process whereby, in an increasingly systematic manner, the fiduciary responsibilities and constraints that legally define the investment strategy to be applied to the social security fund, in terms of the level of risk in the portfolio, and the asset classes chosen and the respective weighting to be accorded therein, is publicly disclosed.

The growing international appreciation of the need for greater transparency derives from a number of factors. Albeit that the relative influence of these factors varies from country to country, these factors include the often mounting cost of social security, and pensions and health care in particular; the spread of the values of what is commonly referred to as "good governance"; the growing primacy accorded to individual political as well as consumer rights; heightened levels of public awareness which, among other things, can manifest itself through demands for investments to be made on a more social responsible or ethical basis; the expanding possibilities for the rapid and frequent communication of information presented by continuing progress in the development of communications and information technologies; and a wider acceptance of the perceived financial benefits to be gleaned from increasing the placement of social security funds in commercial financial instruments, including equity and corporate bonds.

Until very recently, with social security investment in most countries typically dominated by public-sector debt and government securities, the governance of the investment of social security funds was generally considered a technical task of little wider public interest. This is a perspective that is changing, not least because of the growing importance for social security investments of the role played by sometimes volatile and increasingly global financial markets. In addition, and although it is widely acknowledged that the need for a degree of discretion surrounding the timing and choice of investments remains expedient, as well as often being a prerequisite to avoid influencing the trading behaviour of financial markets given the possibly large volume of investments to be placed, the need for greater transparency regarding the choice of asset classes and the weighting of investments, involving what are increasingly recognized as *individual* contributions, is now also more widely accepted.

Going hand in hand with the trend towards greater transparency in the design of social security investment strategies, a growing emphasis is now also being placed on accountability with regard to their implementation. In practice, and in addition to formal regulatory oversight of the sector more generally, this has lead to increasing emphasis being placed on the periodic assessment and disclosure of the professional performance of the often privately contracted fund manager responsible for pursuing the investment strategy adopted. In common with most forms of market liberalization, it is assumed that the effective implementation and oversight of the liberalization of investment practices will present new and additional costs to social security administrations, which will need to be weighed against the perceived benefits.

Nonetheless, when viewed in the light of the infrequent but not unknown occurrence of the political misappropriation of social security funds, and taking into consideration moves to promote a greater degree of organizational transparency and accountability, these developments may be seen as positive, both for social security administrations and for scheme members. Yet, as the recent case of Argentina has highlighted, with the funds of the private *Administradoras de Fondos de Jubilaciones y Pensiones* (AFJP) being directed to purchase government “guaranteed notes” of uncertain financial value in the wake of the Argentine financial crisis, political risk can never be fully avoided. Moreover, political risk – or to put it in a less pejorative manner, public policy – is but one of many risks that confront the investment of social security funds.

Another risk, and one that is heightened by the increased outsourcing of funds to the private sector, is malpractice, including the misappropriation of funds by unscrupulous or incompetent private fund managers. For countries that have chosen to outsource a portion of social security funds to private investment managers, the continuing importance of strong regulatory oversight cannot be overstated.

One important argument that is nearly always presented to support outsourcing to private sector fund managers is higher investment returns. Although many public social security organizations are seeking to improve their in-house investment capacities, the general sentiment remains that private-sector professional fund managers, in most instances, will out-perform civil service management. In the current international context of mounting social security costs and worsening system dependency ratios, it is not surprising that such arguments are increasingly more vigorously put.

It is noteworthy that, globally, only a few mandatory fully funded schemes provide guaranteed minimum investment returns (GMIR). In most instances these are public schemes, such as the provident funds of Kiribati, Malaysia, and Singapore. However, it is not uncommon for the GMIR to be set unrealistically low. In the Malaysian case, for example, the rate is 2.5 per cent. This is an idiosyncrasy that the more vocal and increasingly longer-lived middle-classes, in particular, are increasingly less willing to accept. For non-public mandatory provision, one example of the provision of a GMIR is found in the Swiss second pillar occupational pension schemes. Of note, and notwithstanding the skills of private fund managers, the longstanding GMIR in Switzerland of 4 per cent was lowered in 2003 to 3.25 per cent as a consequence of poor investment performance and the related reduction in financial reserves of pension institutions that this has engendered.

Fund growth

A further factor contributing to demands for greater transparency and accountability in the governance of the investment of social security funds is that the value of the funds held "in trust" on behalf of covered individuals in a number of countries now equates to a significant proportion of GDP. Although that the significant size of some funds has long been recognized, estimates from the late 1990s suggest that the value of the funds held by Singapore's Central Provident Fund (CPF) and Malaysia's Employees' Provident Fund (EPF) equate, respectively, to over 50 per cent of GDP and 40 per cent of GDP while the combined assets of Chile's seven A*dministradoras de Fondos de Pensiones* (AFPs) are similarly estimated at over 40 per cent of GDP.

For all countries, the build-up of funds is the consequence of a number of different factors. On the one hand, demographic and macroeconomic factors, such as population growth and economic expansion, can be influential. On the other hand, social security technical and operational design factors can be important. For instance, the development of fully funded, mandatory individual account, defined contribution schemes or, as in the cases of France and Portugal, the establishment of a reserve or buffer fund to help counteract the emerging negative cost implications of imminent demographic ageing on the financing of largely un-funded pay-as-you-go (PAYG) social security programmes, have contributed to the growth in funds in a number of countries. A further development is that the build-up of more significant reserve funds is also increasingly deemed necessary for schemes that are, by design, partially funded. Perhaps the most widely known national example of this kind of approach relates to the Canada Pension Plan (CPP) (see Box 1).

The emergence of large, and sometimes very large, social security funds has important implications for the functioning of national economies. With regard to the issue of investment, that these funds are, in many instances, public funds is often viewed as problematic. For example, warnings were given in the late 1990s following proposals that the United States Government should consider investing part of the United States social security trust fund surplus on Wall Street. Although this proposal was never implemented, the perceived negative implications for bond and equity prices and, no less important, market liquidity that could result from very large funds saturating

Box 1 *Canada Pension Plan*

In 1998, Canada reformed the manner in which its social security pensions were financed. Under the new Canada Pension Plan (CPP), contributions are set at a level that is higher than is needed for current expenditure costs, thus creating an operational surplus. Significantly, and in order to strengthen this reserve, funds not needed for current pension payments are invested by the CPP Investment Board using private sector fund managers on the Toronto stock exchange. Representing 95 per cent of its portfolio in mid-2003, the vast majority of the investments made by the CPP Investment Board are placed in equities. Of note, a vast majority of the surplus is invested in domestic equities.

national financial markets should not be underestimated. In addition, for some observers the implicit threat of the possibility of the part-ownership of American private blue-chip companies by the United States public social security trust fund was unacceptable.

At present, the heavy bias toward equities that characterizes the investment strategy applied by the Canadian CPP Investment Board avoids many of the concerns voiced by its neighbour, the United States. Moreover, the potential for CPP Investment Board investments to influence the price of Canadian blue chip stocks is limited by the fact that the funds are invested through pooled funds created and managed by contracted private sector fund management companies.

Another way to control the influence of large social security funds on the price of blue chip stocks would be for investments to be placed according to an index based on equities. Crucially, these equity investments are passive and the returns earned are based on the composite market average performance of all the companies that comprise the index. Importantly, passive fund management is likely to imply lower fund management costs, not least as it removes the temptation of fund managers to engage in short-term portfolio trading in an effort to earn higher short-term returns. Although the achievement of higher short-term returns may benefit the fund manager, the downside is likely to be transaction costs that are higher than usual, and reduced returns for the fund. Furthermore, as actuaries are commonly at pains to remind us, it is sometimes too easily forgotten that social security is a long-term investor.

Ideally, the relationship between the investment of social security funds and the development of national financial institutions and markets should be a positive one, with investment opportunities matching the acceptable level of risk and fund liabilities. Yet, even when market investment opportunities are less than optimal, some countries elect to invest social security funds in national financial markets with the stated objective of furthering the development of national equity and bond markets. Underpinning the decisions in 2002 permitting Malaysia's EPF to increase the capital volume and liberalize the management of its investments placed through the Kuala Lumpur stock exchange is the goal of helping to develop the local fund management industry as well as to boost the local bond market. This decision ties in with longer-standing ambitions to develop the Malaysian capital as a regional financial centre. Similarly, since the late 1990s, Oman has required that a portion of social security surplus funds be invested on the local financial market to act as a driver for the development of this sector.

One related argument, and an argument lying behind recent debates in favour of the partial privatization of old-age pensions, is that the un-funded PAYG-financed nature of many public social security schemes acts as a hindrance to the necessary development of financial institutions and markets. While the issue of the tax treatment of all contractual savings instruments is important, it is sometimes more selectively argued that by moving away from PAYG-financed social insurance pensions and promoting a role for mandatory, and especially privately managed, defined contribution retirement savings schemes, not only can the quantity of national savings be increased but also the quality of these savings can be improved too. Consequently, and following this line of argument, this new stable source of institutional investment capital, which under mandatory retirement savings schemes is usually expected to grow at the steady rate of 2 per cent of GDP per year, can then be more efficiently directed to deficit areas of the national economy via developing financial institutions and markets.

As the cited example of the investment ambitions of the publicly run Malaysian EPF underscores, simplistic arguments suggesting the positive causal circularity for national development engendered by privatized pension systems and financial markets can be contested. Nonetheless, in certain circles, this perspective has developed into conventional wisdom. This outlook underpins some of the arguments presented to support the development of private, mandatory individual account, defined contribution pension schemes in recent years. Recent government pronouncements from Uganda, which highlight the perceived constraining impact on national savings and financial market development resulting from the monopoly position of the public National Social Security Fund, are partly indicative of this outlook. Neither has this perspective been unimportant in Papua New Guinea with the transformation in 2002 of the public national provident fund into a private superannuation fund. Clearly, however, a more balanced perspective would underline that positive development outcomes can be achieved by using selected elements of public and private approaches alike.

A greater degree of international agreement can be found that financial markets and their regulatory authorities must have attained, a minimal level of development in order to be able to adequately and safely meet the investment needs of large institutional investors, including national social security funds. For instance, the second phase of Mongolia's pension reform to move toward partial funding remains provisional on the adequate development of the local financial markets. Despite pressure for more rapid liberalization, the measured pace of current developments regarding the investment in financial markets of the National Social Security Fund of the People's Republic of China provides another example to demonstrate the importance of waiting until the level of financial market capitalization is considered sufficient. Similarly, but only after a period of initial hesitancy, in early 2002 the Russian Federation presented the legal framework regarding the foreign and domestic investment instruments that are to be used to place the funds accumulated under the funded part of the Russian Labour Pension. Over time, as the more recent example of Poland underlines, as financial markets become more sophisticated so too can the investment strategies to be followed. In the Polish case, the now-permitted use of mortgage bond and derivatives markets is to hedge against the possibility of lower interest rates.

International investment of social security funds

Under certain conditions, consideration may be given to the possibility of the international investment of social security funds. This may occur when social security funds are deemed to be comparatively too large to be absorbed easily by the national market. In other instances, the decision to move towards the international investment of national social security funds, if statutorily permitted, may be driven less by the comparative size of the fund and more by the relative lack of investment and hedging opportunities and, by inference, liquidity in the national market. Regardless of the comparative size of the fund, if the investment opportunities presented by national financial markets, in terms of possible placements as well as potential returns, are less than optimal, and where the possibility of investing in more sophisticated international markets is statutorily feasible as well as potentially more profitable, then it is increasingly likely that consideration will be given to this investment opportunity.

Evidence from around the world shows that the international investment of social security funds is now increasingly seen as an option. For example, since 1999, the Trinidad and Tobago National Insurance Board can invest 10 per cent of its investment portfolio in international securities. Similarly, since 2001, the Korean National Pension Fund has diversified it investments to include international securities, futures and options. The decision of the Republic of Korea is driven by the explicit desire to maximize investment returns to address concerns over the longer–term financial stability of the scheme. In Europe, the establishment in 2001 of the Irish National Pensions Reserve Fund (NPRF) (see Box 2) had the singular goal of providing partial funding to meet future social security and public service pension liabilities. The NPRF has an investment strategy weighted very heavily towards international equities. The bearish nature of international equity markets during the period 2000-2003, resulting in what some observers would consider as the worst three-year market performance since 1929-1931, has not proven fortuitous to the NPRF; however, the longer-term investment objective remains one of optimizing returns. This Irish development has influ-

Box 2 *Irish National Pensions Reserve Fund*

The Irish National Pensions Reserve Fund (NPRF) was established in 2001. The current value of the fund stands at around EUR 8 billion, with funds locked in until at least 2025. Thereafter, the fund will begin to be drawn down. Significantly, the fund is modelled on private sector occupational pension fund arrangements. Furthermore, and in addition to fund oversight being managed by independent commissioners, the investment strategy is designed to follow a commercial investment mandate. The aim of the investment strategy is to secure optimal return over the long term, subject to prudent risk management. The investment strategy also conveys an explicit intent to invest heavily internationally. Moreover, with an 80/20 equity/bond split, the investment strategy is skewed heavily toward equity. Of note, the NPRF is not permitted to invest in Irish government bonds. Following a tendering process, the management of the majority of the fund's assets have been outsourced. As is to be expected, transparency and accountability are deemed basic requirements for all aspects of the fund's operation.

enced similarly motivated pension policy decisions, most notably the decision in 2001 permitting the investment of part of the New Zealand Superannuation Fund overseas.

In general, evidence suggests that the decision to invest internationally is never taken lightly. For instance, and although Chile has more experience of the international investment of mandatory pension funds than most countries, the volume of Chilean AFP investments placed abroad has grown only very slowly. In Chile, the current ceiling of 20 per cent of investment permitted in foreign investments is to be raised to 25 per cent by 2004, with a further increase to 30 per cent mooted for 2005. Moreover, to date, Chilean fund managers have usually chosen not to make the fullest use of this right to invest abroad. In 2003, and despite a possible ceiling of 20 per cent, less than 18 per cent of investments were in non-Chilean assets. Peru has doubled the permitted volume of investments in foreign assets from 10 per cent to 20 per cent. To date, as in the case of Chile, Peruvian fund managers have exhibited a degree of home-bias and not made maximum use of foreign investments.

In other instances, especially for often cash-strapped developing countries with unsatisfied needs for readily available and relatively cheap long-term investment capital, the question of international investment raises a different set of issues. The question that often has to be addressed by statutory bodies responsible for social security funds as well as by central banks, especially in developing countries with "soft" currencies, is how to balance the fiduciary responsibilities of fund management while also remaining sensitive to national development priorities. Although this question is far from novel, the increasingly transparent environment, both domestic as well as international, in which all social security bodies must operate, and the heightened emphasis placed on public accountability, suggests that the uses to which social security funds are put is now more likely to be increasingly defined by fiduciary responsibility rather than by wider, and often politically-defined, national socio-economic development priorities.

As already suggested, from the perspective of protecting social security funds from sometimes being placed in what may be considered as less than optimal investments, this can be presented as being a healthy development. However, in countries with nascent, developing domestic financial markets and with little or no access to international financial markets, the choices for the placement of investments will always be limited. Moreover, for those countries with poor credit ratings and low and often unstable levels of foreign direct investment, but with an unsatisfied need for development finance, the use of social security funds, for example, to finance infrastructure development or to purchase government debt may be among the safest as well as the most developmentally productive investment opportunities available.

Individual choice and the investment of social security funds

Promoting individual choice is often presented as a key aspect of social security privatization agendas. For instance, that many privatized pension schemes permit individuals to choose and, if they so wish, periodically switch between private fund management companies presents an example of this in practice. Elsewhere, where the process of enhancing individual choice is better characterized in the context of liberalization than that of privatization, developments have reached a stage where insured individuals are now accorded the right to choose the investments for a portion of their own contributions. For instance, this choice is available in Singapore and Sweden. In the Swedish case, insured persons are allowed to choose an investment manager to invest the 2.5 per cent contribution made to the Premium Pension Fund. In Singapore, since the early 1990s, members of the Central Provident Fund have had the right to invest a portion of their retirement savings in selected investment products. In 2001, these statutory rights were expanded to include other investment products. Importantly, these placements are classified according to three risk categories. The classification for investments according to risk is important as it acknowledges the need for scheme members to be better informed regarding the nature of investment decisions. Chilean private pension funds also provide investment options classified by risk.

If more countries follow suit and liberalize investment strategies to the extent that individuals have a statutory right to select investments, the appropriate authorities will be expected to provide suitable investment education for scheme members. Ultimately, however, as recurrent international financial crises remind us, even the best-informed individual investors – as well as institutional investors – are likely to lose money when markets sharply fall. To this end, the government "health warning" that accompanies all United Kingdom financial services products presents a salutary message for all who look to the market as a money-making machine: "Past performance is not necessarily a guide to future performance. Both capital and income values may go down as well as up and you may not get back the amount you invested". With this message in mind, it is often useful to recall the core role of social protection played by national social security.

Concluding thought

By way of a brief concluding thought, and to reiterate the point made in the introduction, social security administrations should strive not to lose sight of the fact that although increasingly liberal investment strategies may offer the promise of greater yield and liquidity, these features represent only two of the three core objectives of social security investment; the other core objective being safety.

Chapter
6

E-government/e-administration: The quest for efficiency and a new relationship with clients

François Kientzler[1]

Increasingly powerful computer applications and technology enable social security organizations to take on new challenges. To work efficiently, a social security institution must at some point use new technology and adapt to the changes it brings. Such technology provides the impetus for sweeping changes in social security systems and can improve the quality of contacts with clients. This applies to current Internet-based technology, which makes it possible to develop electronic services as well as e-government/ e-administration. Activities using Internet technology are more generally termed e-business.

In the field of social protection, expectations are high regarding local services, since every citizen is or may be concerned at different stages of their life: health, sickness, maternity, family, unemployment, disability, retirement, etc. For public authorities, the development of e-government/e-administration is a means of reorganizing administrative services in order to make savings and improve efficiency.

Nevertheless, major obstacles and constraints limit possibilities for the development and growth of e-services in social security. The number of personal computers among the population is rising less quickly than foreseen, and this is impeding the use of electronic services and e-government/e-administration. The protection of data and information – security and confidentiality – has not yet

1. The author would like to thank Claude Friconneau, Daniel Lefebvre and Francisco Delgado for their comments.

been adequately addressed in many countries. Public authorities and social security organizations are, however, seeking to move rapidly towards the exchange and transmission of paperless information. The World Summit on the Information Society (Geneva, December 2003) showed that, in view of the complexity of the problems involved, e-commerce remains a fledgling open market that is difficult to organize or regulate.

Information and communication technologies (ICT): Essential tools

For more than two decades, information and communication technologies (ICTs) have continuously remodelled social security organizations. The most common type of relations between administrations and those they administer nevertheless still involves traditional methods of information and communication: mail, contacts at a counter, personal interviews in an office, telephone calls, fax, etc. Social security information is still transferred on paper and on magnetic diskettes and tapes. Nevertheless, electronic methods are gaining ground, especially for the transfer of information from enterprises to social security organizations.

ICTs and the Internet

The current stage of expansion linked to the Internet offers fresh opportunities, and forces administrations to reorganize their operations by looking to the Internet for solutions to their problems. The factors favouring uptake of the Internet would seem to be linked to the needs of administrations and the public: the need for public information, fascination with technical progress, the interest aroused by electronic commerce, the desire for more efficient services, acceptance of self-service systems, etc. (Gutiérrez Calle, 2002). The general feeling that prevails is that the Internet should be able to answer these needs.

In the field of social security, expectations are high regarding local services, since every citizen is or may be concerned frequently in the course of their life: health, sickness, maternity, family, unemployment, disability, retirement, etc. However, for public authorities the development of e-government/e-administration is also a means of reorganizing administrative services in order to make savings and improve efficiency. The public are increasingly consulted to clarify preferences and take appropriate decisions (Coleman, 2002). The Internet offers faster, but not necessarily better services, whereas better services are what the public wants (Gutiérrez Calle, 2002). Greater efficiency must hence be matched by better services.

Development of e-government/e-administration

In their studies of 2002, Accenture (2002a) (www.accenture.com) and Cap Gemini & Ernst and Young (www.cbi.cgey.com) define the maturity of administrations in terms of the extent of Internet integration at different levels (Maté, 2002).

Initially, the aim of administrations is to set up a website to inform potential users. The latter do not at this stage communicate electronically with the administration.

Secondly, applications are developed enabling users to communicate electronically with the administration: they can then interact passively, for example by downloading forms, or interactively, by actually filling in forms on line and authenticating data.

In the final stage, users can communicate electronically with the administration, and the latter reply to them electronically. At this stage one can refer to e-government and e-administration. This stage of development is now implemented in various social security organizations, and should become generalized during the period 2004-2008 through the radical transformation of services with such measures as electronic management of client relations, e-Customer Relationship Management (e-CRM), personalized services, wireless access, and so on (Gutiérrez Calle, 2002; Accenture, 2002b).

The Internet in social security

In Europe: Studies by IBM's Global Social Segment and the European Institute of Social Security (EISS) provide information on the use of the Internet in social security institutions.[2]

The findings of their studies published in 1999 and 2002, give a general idea of the current status of social security web sites in countries within the European Economic Area. The studies covered 249 organizations in 16 countries, from which various types of information were gathered. Gutiérrez Calle describes the findings in a report that he presented to the international conference held in Valencia (Gutiérrez Calle, 2002). The methodology used was to assign a score for the complexity of the objectives attained (for details, see the questionnaire included in IBM, 2002).

IBM and EISS divided social security organizations into three groups according to the stage of development of their web sites. This classification is close to that described in the general studies mentioned above (Accenture, 2002; Cap Gemini & Ernst and Young, 2002):

- Group 1: score below 20: organizations providing general information on the services they offer and, in some cases, a small number of very limited applications;
- Group 2: score from 21 to 35: organizations with very comprehensive web sites and use of electronic applications, though with some patchy areas;
- Group 3: score 36 and above: organizations with broad electronic applications, that have begun the ultimate integration of the electronic services provided by the organization.

2. The latest findings of these studies were published on the occasion of the International Conference on "Information Technology on e-government/e-administration in social security", organized by ISSA in collaboration with the National Social Security Institute of Spain, Valencia, October 2002.

Organizations	*1999 (%)*	*2000 (%)*	*2001 (%)*
Group 1	80	61	20
Group 2	18	32	62
Group 3	2	7	18

Some examples: on-line enrolment of insured persons, including declarations of employment by enterprises, was available in 2001 in 31 per cent of social security organizations (as against 20 per cent in 1999). As regards the collection of contributions, on-line services were less developed: only 25 per cent of social security organizations used on-line services for this function. The biggest development occurred with the on-line calculation of enterprise contributions, rising from 2 per cent of applications in 1999 to 20 per cent in 2001.

As regards eligibility for pensions, more than 90 per cent of the organizations provide information on entitlements. Some 31 per cent of these allow potential beneficiaries to download forms from websites, but the forms have to be sent by post. However, no organization in 2001 reported on-line calculation of benefits.

On the whole, e-administration can be said to be developing in social security, but less quickly than hoped. While 20 per cent of the organizations examined are still at a low level, 18 per cent of them are working to integrate electronic services into their procedures, but this is mainly for electronic exchanges with enterprises and other administrations (business to business) and not primarily for insured persons or clients.

IBM has also catalogued the extent of web site integration for a number of institutions and countries outside Europe (IBM, 2002).

In Africa, Burkina Faso scored 25, Tunisia 22, Nigeria 21, Ghana 17, Zimbabwe 15 and the United Republic of Tanzania 13. According to IBM, these scores correspond to 85 per cent of the average for European sites in 1999 – a relatively good performance.

In Latin America, various web sites of social security institutions were examined, with the following scores: the Uruguay Social Insurance Bank scored 36; the Ministry of Labour of Argentina scored 19; the Social Insurance Fund of Costa Rica and the Ecuadorian Social Security Institute both scored 14. These scores are equivalent to those for European countries in 1999, but only 70 per cent of the average score for 2001.

In Asia and the Pacific, IBM provides information on two countries: the Employees' State Insurance Corporation of India scored 31 and the Fiji National Provident Fund earned a score of 16.

More general information on Internet access (2002) is available in United Nations statistics (www.unstats.un.org). For example: the proportion of the population connected to the Internet is 17 per cent in Malaysia and 52 per cent in Australia. The highest rate of connection is in the United States (62 per cent). In Canada, 55 per cent of the population have access to public services via the Internet.

E-government in social security: Some examples[3]

Convergence of applications needed for the development of e-commerce in social security

In the initial stages of the development of computers, information platforms and systems were numerous. Similarly, for several years now, applications have been converging. In France, the full unification of unemployment insurance information systems around two major applications was one of the conditions for the development of new technologies. Internet technology has been deployed both internally (20,000 workstations), and externally, to facilitate access to multimedia services for jobseekers and enterprises. The information system enables employers to enter directly the declarations for workers who have lost their jobs (Dailhé and Urbani, 2002). Such convergence is also occurring with computer applications in France for complementary retirement schemes.

Such convergence may go beyond the field of computer applications and embrace telecommunications, thereby giving birth to a new generation of telematic services, which are personalized and based on a wide range of access devices: fixed and mobile telephones, the Internet, and ordinary and electronic mail. The information gathered improves on quality by requiring less and less human involvement in the transfer and interpretation of data. Electronic transfer makes information more reliable, since it does not have to be transcribed or input, which limits errors. Information goes direct from source to destination electronically.

The National Social Insurance Institute of Italy (INPS*)* has made major improvements in virtual access to its services by strengthening partnerships and using the new possibilities offered by technology. The Internet has made it possible to begin the relocation of services by relaxing their ties to central offices and improving their accessibility (Spadaccio, 2002).

Canada: Employment services

In Canada, many public electronic services based on Internet technology have been developed, mainly in the field of employment. Databases bring together job offers placed by enterprises, and anyone seeking a job can access the site through the Internet.

3. Various experiences of Internet integration were presented at the International Conference on "Information Technology on e-government/e-administration in social security" in Valencia (2002).

Human Resources Development Canada **(HRDC)**[4]

The Federal Government of Canada has identified 20 clusters of services or information offered to Canadians, grouped together from the perspective of citizens and presented through web portals (Milne, 2002).

The Jobs, Workers, Training and Careers Cluster established by HRDC provides jobseekers with "single-window" access to employment, skills, training, and work-related information, tools (including on-line learning and an interactive training inventory), and services for Canadians who are managing transitions in their lives. It also provides employers with the ability to post job openings directly onto the web.

Belgium: Direct employment declarations

The direct electronic employment declaration indicates to the National Office of Social Security (ONSS) of Belgium the beginning or end of an unemployment relationship, as soon as it occurs. This application (termed DIMONA) is part of a set of measures intended to simplify the administrative burden on employers being applied in social security in Belgium (Snyders, 2002).

Impacts on operations noted by the ONSS

- No more paper declarations. *Result:* No more manual processing.
- New automated direct control system. *Result:* Greater reliability and speed.
- Employer controls the form and the data entered. *Result:* Greater accuracy, less handling.
- All functions integrated in a single declaration. *Result:* Handling reduced to a single process.

Chile: PreviRed.com

PreviRed is an Internet site enabling all enterprises in Chile, whatever their legal status, to declare and pay, in a single site through a single process, the social security contributions for employees covered by schemes, in particular those of the Pension

4. The former department Human Resources Development Canada (HRDC) was split into two separate departments, "Social Development Canada" and "Human Resources and Skills Development".

Fund Administrators (AFP), mutual benefit societies and the Institute for Welfare Standardization (INP). To use the services on the site, enterprises must register and obtain a secret access code identifying them to PreviRed; they can then enter the data on their enterprise and employees (*Source:* www.previred.com).

Malaysia: Payment of contributions via the Internet

The Employees' Provident Fund (EPF) has established a partnership with a number of banks to facilitate the payment of contributions via an Internet service, to make it more rapid, easy and effective. The service can only be used by enterprises that open Internet accounts with the banks concerned (*Source:* www.kwsp.gov.my).

Morocco: Declaration and payment of contributions

Taking advantage of new technology, the National Social Security Fund (CNSS) has set up an Internet portal for the declaration and payment of social security contributions. Termed DAMANCOM, the portal will serve enterprises affiliated to the CNSS or their agents. This free service, which does not require any particular technical competence to use, offers two services (*Source:* www.ebds.cnss.ma).

National Social Security Fund (CNSS)

Tele-declaration: This allows enterprises affiliated to the scheme to make declarations electronically.

Tele-payment: With this new service offered by the CNSS, members can pay their contributions via the Internet using a simple and extremely safe system.

United States: Social security benefit queries via the Internet Social Security Benefits Application (ISBA)

In the United States, in January 2000, the decision was taken in the United States to begin developing on-line services for retirement benefit claims received by the Social Security Administration (SSA). Initially, the Internet Retirement Insurance Benefit (IRIB) application was a simple conversion of paper forms and of the related processes. Use of the Internet has brought about the rapid transformation of government services. Since the launch of the project in summer 2002, more than 175,000 benefit claims have been handled via the Internet, and the number is growing each month (Gray, 2002).

Internet Social Security Benefits Application (ISBA)

With the implementation of the on-line process (IRIB/ISBA), a claimant could go to the social security web site at almost any time and, following a specific set of questions and instructions, independently complete a retirement benefits application. When the session is completed, data are transmitted electronically to the Social Security Administration (SSA). The claimant must then print, sign and mail a copy of the application form – along with the proper original documentation – either to a local social security office or to a processing centre.

Germany: Electronic file processing

The processing of documents using electronic workflow systems calls for the adaptation of operational processes. In January 2002, Germany introduced a supplementary funded pension scheme. The task of calculating the subsidies has been entrusted to the Federal Insurance Institute for Salaried Employees (BfA). In order to be eligible for the subsidies, the pension scheme member must prepare a claim and send it to a private provider, who enters in the data and transmits them electronically to the BfA (Meurer, 2002).

Federal Insurance Institute for Salaried Employees (BfA)

The BfA will perform the new task once it has introduced administrative processes based on Internet technology for the 1,000 jobs foreseen. The processing system is intended to perform the following:

- largely paperless processing;
- creation of an exclusively electronic archive;
- electronic processing of claims and queries in a workflow system;
- exchange of data with other relevant offices using various media, including the Internet.

ICT applied to sickness insurance

A great many ICT applications have been developed in the health sector.

These include telemedicine, which is causing a radical change in medical practices and in the practitioner/patient relationship by making remote medical consultations possible. Beyond the highly publicized advances made in telesurgery, we should also note the development of many other applications that are employed within health networks: remote diagnosis, remote supervision, remote monitoring or even remote medical training (Delaveau and Corvez, 2003).

Members of health and sickness insurance schemes in certain countries have a social security card. The card gives them access to personal social security information in databases by means of an access code. It can also provide authenticated data to support claims, and hence has to be updated regularly. Information concerning patients with such cards can in many cases be transferred electronically from doctors' offices, pharmacies or even hospitals to the social security funds. In the long term, it is planned to turn such cards into health cards holding data on the patient's medical history or codes giving access to such information in databases.

Thailand Social Security Office **(SSO)**

The Thailand Social Security Office has appreciated the advantages of networking by using the web, and has made moves to use it to develop available services. Information on insured persons can be transmitted to hospitals electronically.

Access to the system is provided by a web server and an applications server hosted by the Internet service provider, thereby preventing direct access to the administrative database of the Thailand Social Security Office (Chayasriwong and Sriyudhsak, 1999).

European Union (EU): European health insurance card

The Administrative Commission of the EU has adopted a decision (Decision No. 190 of 18 June 2003) to replace by a European health insurance card the forms needed to apply regulations governing access to health care during a temporary stay in a Member State other than the competent State or the State of residence.

All these developments mean progress for the health-care systems and the quality of service provided to patients. However, they are being widely questioned by health system users and health-care professionals as regards respect for medical ethics and the rights of the person (in particular the confidentiality of personal medical information), the transformation of medical practices and of the relationship of trust between the patient and the practitioner, the quality of information and of the services offered on the Internet, and even the very purpose of such services (Delaveau and Corvez, 2003).

Some challenges

Multiplicity of web sites

The introduction of new technologies for electronic services has also brought a multiplication of web sites. This is particularly true of sites set up by public organizations and administrations. Members of the public encounter increasing difficulties in finding the information they seek. The current trend is towards the creation of single-entry portals to guide public searches. *The Economist* (2003) notes that the British are better equipped with on-line connections (44 per cent) than the French (23 per cent), but that they use e-government services less than the latter: 10 per cent, compared to 18 per cent in France. The explanation given is that in the United Kingdom 800 public structures have set up more than 3,000 web sites. To carry out certain transactions, several web sites must be visited. The public's response is to abandon on-line searches. Canada is more advanced in this field: 43 per cent of Canadians use e-government, with 55 per cent of the public linked to the Internet (figures for 2002).

The digital divide

Other factors limiting public electronic communications with social security concern the need to have a telecommunications network, since not all categories of the population can afford the equipment – a personal computer. This so-called digital divide, although different in nature, has been noted in both industrialized and developing countries alike. Other reasons concern education and the training necessary to keep the infrastructure and ICT equipment functional.

To reduce the digital divide, some countries are planning to launch voluntary policies aimed at raising the general level of education and training. The distribution of computers to certain sectors of the population and the reduction of their cost will help bridge the divide. India and Malaysia are often quoted as examples to illustrate governmental determination to bridge the digital divide (Karim, 2003). India has become the champion of IT subcontracting, according to *Le Monde* (16 January 2004). In France, 40,000 computers were distributed to pupils (aged 13) by departmental authorities (*Départements* of Bouches-du-Rhône) on their return to school in September 2003 in order to reduce the digital divide (*Source:* French television station, France 2, 25 August 2003).

Organizations and the on-line processing of operations

According to an analysis by eiStream, administrations should stop using paper when they adopt Internet communications technology. It was found that the continued use of paper makes it impossible to achieve the full integration of the processing units. While paper, such as forms, plays an important role in handling claims, information provided on line is in many cases still converted to a paper document, or processed in a hybrid environment incorporating both paper elements and electronic documents. Unless administrations migrate as quickly as possible to a paperless environment, e-government risks making the process somewhat less efficient in the medium term (www.eistream.com and eiStream, 2002).

The legal framework for the protection of data and privacy

The lack of a legal framework governing the security and confidentiality of data is another obstacle to the extension of electronic business services in social security. The cost of access is another issue. As regards security, public key infrastructures (PKI) should meet the main concerns. "Smart" identity cards developed in certain countries may also prove useful in this respect.

In 1978 France adopted specific legislation on the protection of data and liberties (Act No. 78-17 of 6 January 1978 respecting computer processing, files and freedoms). Section 1 states that computer processing must serve each citizen. It must be developed in the framework of international cooperation. It must not detract either from human identity, or from human rights, privacy, or individual and public freedoms. Section 6 established a national commission on computer processing and freedoms (*Commission nationale de l'informatique et des libertés,* CNIL) responsible for ensuring respect for the provisions of the Act, in particular by informing all those concerned of their rights and obligations, by cooperating with them and by controlling the application of computer processing to the handling of individual data. For this purpose the commission has power to issue regulations on matters covered by the Act (Source: www.cnil.fr). The commission still plays a very important role in protecting privacy and individual freedoms.

Canada's new policy on Privacy Impact Assessments (PIAs) came into effect on 2 May 2002. This policy makes PIAs a requirement for all new, substantially redesigned, or electronically driven programmes and services that collect, use, or disclose personal information. Canada is the first country in the world to make these assessments mandatory for all departments and agencies (Milne, 2002).

While the public understands that progress in information technology and in data management brings about improvements in government services and greater efficiency, there is also concern at the threat that this may pose for privacy.

***Confidentiality: A Canadian approach* (HRDC)**

Informed client consent to share and use information is a key component of Canadian privacy legislation, yet it is an issue where Canadians experience conflicting emotions. When asked if they think citizens should be able to change their address at one department and have that new address modified across the government, Canadians overwhelmingly approve of information sharing. But, at the same time, Canadians tend to be quite uncomfortable with two departments using a common information database (Milne, 2002).

New transmission media

New experiments are being conducted in the electronic transmission of data over electricity supply grids (Power Line Communications, PLC). This solution has been successfully used for ADSL broadband Internet connections, and attempts have been made to market it in such countries as Germany and Switzerland. All power sockets in buildings then become a true data hub, since the electrical line can be used for communications with the outside world and to set up local area networks on the inside. Mention can also be made of optical laser transmission technology (Free-Space Optics, FSO), a sophisticated and cheap method that does not require transmission lines or cable networks (Gutiérrez Calle, 2002).

Electronic services rely on highly vulnerable means of transmission, since they use telecommunication media requiring electrical resources (consider, for example, the power failure of summer 2003 which affected 50 million people in the United States and Canada, and that which occurred in Italy in September 2003).

Summary: Obstacles to the development and use of the Internet

The Gartner Group (www.gartner.com) cites several factors inhibiting technological evolution (Gutiérrez Calle, 2002).

First, it refers to social inhibitors: the scarcity of qualified personnel (in certain countries), the digital divide (possibility of access to the Internet and ability to use the services – a question of age and training), and the protection of privacy (the need to adopt special legislation).

Second, there are technical inhibitors linked to the heterogeneous nature of the data (systems that have been developed independently need to communicate), and the lack of infrastructure.

Third, as regards policy inhibitors, the Gartner Group cites the timidity of human resource policies, legal restrictions (administrative procedures tend to flow from legal provisions which need to be amended and adapted to the e-Government environment), limitations of outlook to short-term results, etc.

Finally, cost-benefit or return on investment analyses are difficult in public administrations, given the idiosyncrasies of their clients and of the services they offer. This is more so in the case of services that have never been provided before, be it a new service or a new means of providing a service.

Concluding remarks

All these challenges illustrate the limits to the possible evolution and growth of electronic services based on Internet technology. The number of personal computers in the population is growing less quickly than expected, and as a result is slowing the possibilities for connecting to and using electronic services. The protection of data and of freedoms – security and confidentiality – has not yet been adequately addressed in many countries. Despite these obstacles, it can be noted that public authorities and social security organizations wish to advance towards the exchange and transmission of paperless information. However, does handling data in this form really meet clients' expectations? The World Summit on the Information Society (Geneva, December 2003) showed that, in view of the complexity of these problems, e-business (e-government/e-administration) remains a fledgling open market that is still difficult to organize and to regulate.

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Chapter
7

Social security and labour market developments: Facilitating flexibility by strengthening security

Richard Levinsky[1]

Making labour markets more flexible has been on the agenda for quite some time. While full-time and continuous work arrangements are still dominant, a recent increase in atypical employment may indeed be observed, despite the fact that national differences remain important. While atypical employment has grown in response to demand from both employers and workers, many workers are also obliged to accept such work given the unavailability of suitable full-time employment. This chapter begins by examining the growth and characteristics of three main forms of atypical employment, namely part-time employment, temporary employment and self-employment, each of which is multi-dimensional.

The continued growth of atypical employment means that for an increasing number of persons, working life is evolving from being typically full-time and continuous to one that is part-time and discontinuous. At the same time, earnings-related contributory social security schemes have largely been designed to serve a conventional career pattern of full-time and continuous lifelong employment followed by full retirement. The often lower earnings associated with atypical employment may have implications for the access to social security, as well as for the adequacy of future benefit entitlements.

1. The author would like to thank Hedva Sarfati for her comments.

While it may be observed that the reform of pension schemes in countries of the Organisation for Economic Co-operation and Development (OECD) in recent years has not always been positive for atypical workers, this chapter provides some evidence that social security is better taking into account situations of atypical employment through a variety of policy measures including, for example, providing easier access to coverage, the provision of credits for periods of lower earnings, and allowing the opportunity to buy back contributions.

Such policy changes demonstrate that social security is responding to changing social and economic conditions, while at the same time addressing the ongoing need for greater income security. Indeed, strengthening social security through the provision of an adequate and continuing level of income security may provide persons with greater choice, and hence may facilitate flexibility over the working life-course. A strong foundation of social security may therefore better serve workers regardless of the nature of their employment status, and in turn, better address individual, social and economic needs. However, social security policies will be most effective, both for conventional and atypical work arrangements, if they are based on a comprehensive and integrated approach to social protection and the life-course.

Introduction

Labour markets are undergoing fundamental change. At the same time, expectations about, and behaviour within and towards, our working and leisure (non-working) lives are changing. In practice, these changes have implications not only for working careers but will also have an impact on how social security policy should be designed and delivered. In particular, and although national differences in labour markets remain important, it is possible to identify a global trend towards what may be called "atypical" employment. While "standard" employment (herein defined as full-time employment with a sole employer in a regulated environment) continues to be the predominant form of employment in developed countries, atypical work has made serious inroads into many of these labour markets as its extent has clearly been growing, as demonstrated below.

As it is usually defined, atypical employment includes part-time employment, temporary employment and self-employment. Each of these three types of atypical employment is multi-dimensional. Such employment may be involuntary or voluntary, stable or precarious, regulated or non-regulated, and so on. Some of this work may be involuntary in response to employer needs and therefore may not meet individual preferences among some workers for longer-term stable employment. On the other hand, some workers in atypical employment, such as those with more education or in more skilled occupations, receive similar treatment to that of permanent full-time workers. The nature and treatment of this work, even within each specific type, may therefore vary greatly within a particular country depending, for example, on the sector or occupation examined.

Whatever the nature and type of atypical employment, however, its growth in recent years implies that for many people working life is evolving from being typically full-time, continuous and lifelong to one that is increasingly part-time, discontinuous, and often periodic. In contrast, the conventional model of earnings-related or contributory social security typically has evolved to serve the career pattern of continuous full-time lifelong employment followed by full retirement. Consequently, the variable, discontinuous or lower average earnings that are often associated with atypical employment may have implications for access to social security, as well as the adequacy of later benefit entitlements. From the perspective of conventional contributory social security, the increased labour market "flexibility" associated with atypical employment may be considered a negative development given the differences in employment conditions, pay and benefits that many workers in atypical employment receive in contrast with more standard employment. If social security is to fulfil its protective roles for these workers, there is a need to develop social security beyond the conventional contributory model. In other words, there is a need to ensure that workers, regardless of their employment status, are provided with a strong level of basic income security, but also that living standards are preserved. It may be worth noting that old age protection based on private arrangements can be as problematic for atypical workers as schemes based on pay-as-you-go social insurance arrangements.

The challenge for social security is threefold. The first challenge is to increase the flexibility of social security and to strike a balance in neither excluding atypical employment nor "punishing" those who are in such employment, whether voluntarily or involuntarily. Indeed, as will be shown in this chapter, the emerging evidence suggests that social security is better taking into account situations of atypical employment. The second challenge is to respond to changes to the standard linear life-course pattern (education, followed by life-long full-time work, then full retirement), and through policy innovation, provide persons with a greater degree of choice in pursuing a particular pattern where appropriate. As opposed to simply reacting to social and economic change, social security can also be proactive through policy measures designed not least to provide adequate income security. Appropriately designed policy measures, including the removal of disincentives, may better enable workers to undertake changes in employment status if desired, such as moving between full-time and part-time work and vice versa, or moving between employment and self-employment, as well as combining statuses such as combining education and partial work or combining partial work and partial retirement. Furthermore, such choices need to be integrated in the context of a person's working life career. In effect, the provision by social security of greater income security may facilitate transitions between different statuses or allow for multiple statuses according to individual needs, all in keeping with a life-course approach. With this level of protection, workers may be more sympathetic to various work arrangements: it is common knowledge that most atypical workers nowadays would rather have more stable careers. The third challenge for social security is for the policy responses to the challenges of atypical work and the changing life course to be designed and delivered in an integrated fashion. The key goal is that while social security practices need to become more flexible, this must be accomplished in a manner that guarantees an adequate and continuing level of income security.

Although debates surrounding the need for greater flexibility in social security are multifaceted and "global", the focus of this chapter is necessarily narrower. This chapter will focus on three main forms of atypical work (part-time, temporary and self-employment), and does not examine more limited forms of partial work, such as that undertaken through vocational rehabilitation or return-to-work policies. Similarly, other forms of paid work such as employment in the informal sector (defined by the International Labour Organization ILO, as workers without written accounts and labour contracts), which may be considered to be the standard form of employment for a large part of the labour force in developing countries (see Chapter 1 in this volume), differs considerably in the level of social protection provided from that of atypical employment in more developed economies, and is not considered to be "atypical" for the purposes of this chapter. Furthermore, given the restricted availability of internationally comparable data, this chapter will also tend to focus more on OECD countries.

Atypical employment

While "standard" (typically 38 hours per week in OECD countries) full-time employment in a regulated environment continues to be the predominant form of employment in developed countries, atypical work has made serious inroads in many national labour markets. In large part, it can be argued that this development towards atypical employment reflects demands, mostly from employers, for greater flexibility. However, it should also be recognized that there is considerable demand for part-time work and other atypical forms of employment from workers as well. To some extent, social security and employment policies have played a role in the development of atypical work.

Atypical work arrangements have shown steady growth in the past few decades. Across developed countries, atypical jobs involve about a third of the active population, in particular women, but also younger and older working cohorts (Sarfati, 2003). Arguably, atypical work in developed countries appears to be becoming more common. The following sections will provide a brief overview of the nature and growth of the more common types of atypical employment: part-time employment, temporary employment, and self-employment.

Part-time work

Part-time work (defined here as usual working hours under 30 hours per week in their main job) has generally increased as a proportion of total employment throughout OECD countries over the past two decades. It accounted for close to half of job growth in Europe and Japan between the 1980s and late 1990s, though there are large differences between countries (Evans, 2001). There is considerable country variation in the proportion of total employment that part-time employment represents, ranging from a low of about 2 per cent in Slovakia to 33 per cent in the Netherlands (OECD, 2003).[2]

On average, the majority of part-time workers are female. For example, overall 26 per cent of employed women work part-time, as compared with 7 per cent of men[3] (OECD, 2002). Furthermore, while some part-time workers are well paid, most are concentrated in low paid occupations. Significantly, there is a considerable degree of discrepancy in income between part-time and full-time workers, even after taking into account occupation and sector. Median hourly earnings for part-time workers are estimated at between 54 per cent and 89 per cent of those of full-time workers (Evans, 2001).

Part-time workers also receive less training. Part-time male and female workers receive 70 per cent and 60 per cent, respectively, of the employer-provided training that full-time workers receive, and such differences largely remain even after taking into account education, job tenure, age, employer size and sector (OECD, 1999). Lower training levels are likely to reduce promotion possibilities as well as flexibility over the life-course, including the ability to move between different employment statuses. Part-time workers also tend to have lower average levels of tenure. However, in a number of European countries, women in part-time jobs enjoy greater employment stability (job tenure with the same employer) than women working in full-time jobs (Sarfati, 2002). Moreover, in some cases, part-time work is used as a stepping-stone into full-time employment, although this is more likely for younger, more highly educated and more highly skilled workers (OECD, 1999).

Temporary employment

While its growth has been less significant than that of part-time employment, temporary employment, which includes fixed-term employment (short or fixed-term contracts) and agency work, has been on the increase in many countries. Part of this observed growth is related to amendments to labour legislation that are designed to provide employers with greater flexibility so they may hire workers for fixed periods of time (ILO, 2000).

Between 1991 and 2001, temporary employment accounted for at least 25 per cent of job gains in ten of the 24 OECD countries registering increases in total employment (OECD, 2003). However, while temporary employment's share of total employment increased in some countries, in others it either showed no clear trend or tended to be on the decline. In 2001, temporary employment as a share of total employment in 29 OECD countries varied from 4 per cent to 31.5 per cent, with Mexico, Portugal and

2. The OECD data are for the year 2001, or where data not available, 2000. Differing definitions of part-time work, as well as the particular year of inquiry, provide different figures. For example, European Union (EU) data, which do not use a fixed-hour cut-off to make a distinction between full and part-time work, shows that part-time employment was 44 per cent of total employment in the Netherlands in 2002, and the EU average was 18 per cent (European Commission, 2003).

3. European Union data for 2002 reveals that 33.5 per cent of women and 6.5 per cent of men are employed part-time (European Commission, 2003).

Spain having 20 per cent or more of the total work force in temporary employment. In contrast, in Australia, Ireland, Luxembourg, Slovakia and the United States the total was less than 6 per cent (OECD, 2003). Nevertheless, these lower rates do not necessarily mean that workers in the latter countries have a greater degree of employment stability or protection, or better conditions of employment.

This form of employment involves some 13.5 per cent of women and 12 per cent of men in the European Union (EU), and generally these workers tend to be younger, have lower levels of educational attainment, and are concentrated in elementary occupations (including sales and services, agriculture and construction) (Sarfati, 2002). While women are somewhat over-represented, gender differences are reportedly large in only a handful of countries (OECD, 2002). Comparisons of wages after controlling for worker and job characteristics in 13 European countries show significant wage "penalties" for temporary workers, compared with permanent workers, in all the countries examined (OECD, 2002).

Self-employment

Self-employment has increased its share of total employment in many countries, though in others it has remained relatively stable or has actually declined. Self-employment increased between 1976 and 1996 in 14 OECD countries (Blanchflower, 2000). In most countries, the growth rate of self-employment during the 1990s exceeded that of civilian (excluding the armed forces) employment. Its growth was concentrated in the fastest growing sectors of the economy, and in the higher-skilled occupational groups (OECD, 2000).

In the EU, in 2000, a total of 17 per cent of the working population were self-employed, although there is considerable variation between countries (Bodin, 2002). Of note, the probability of being self-employed increases with age. The least educated also have the highest probabilities of being self-employed, however the most highly educated have quite a high probability too (Blanchflower, 2000). While self-employed workers are generally male, women's share of self-employment has increased in the majority of countries since the 1980s. For the period 1990 to 1997, their share of total self-employment across a sample of 17 OECD countries ranged from about 20 per cent to 37 per cent (OECD, 2000).

Atypical employment, the changing life-course and social security

Working life is evolving from being continuous and lifelong to one that is reduced, discontinuous, part-time or interrupted. The conventional contributory model of social security is generally designed for an environment based on continuous full-time employment. As a result, increased labour market "flexibility" is likely to have negative implications given the differences in employment conditions, pay and benefits that many workers in atypical employment receive in comparison with full-time permanent workers. However, it should be kept in mind that such differences do not apply to all atypical employment. For example, those in relatively longer-term employment or in more highly skilled occupations may receive similar treatment to that of permanent full-time workers. The issue to be considered is that the development of certain irregular and lower-paid forms of atypical employment may have implications for social security access and benefit adequacy.

In an analogous development, evidence suggests that the traditional linear life-course path, (education/training to employment to full retirement) is changing and also becoming more flexible. The patterns of entry to and exit from work are changing. For instance, there is a trend towards delayed entry into the labour market for younger cohorts, while there has been a trend towards early exit among older cohorts. Moreover, people are more likely to enter into these transitions at various times and for various durations often in a non-linear way during the life-course. While this development has implications for people's ability to build up entitlements to social security, social security policy may in turn play an important role in facilitating work, learning, leisure and care-giving choices through its particular design. Promoting a greater degree of flexibility in life-course choices may serve to meet individual, as well as social and economic needs, over the long term. Ultimately, this will depend, in part at least, on how such periods are dealt with under contributory social security systems.

Building up entitlements to social security

In general, the more developed countries are usually perceived as having extended universal social security coverage to most employees. However, even in these countries social security for the self-employed varies a great deal. While some self-employed are covered under universal schemes, others are covered by general schemes or by specific systems for different professional categories of self-employed persons. In some cases, self-employed persons are specifically excluded from coverage under general schemes. In a number of countries unemployment insurance or assistance is also offered to self-employed persons. Temporary workers, however, are much less likely to have access to social security than regular employees. Specifically, while temporary workers are generally not excluded by law from public pension schemes, voluntary occupational pension schemes or unemployment insurance in principle, eligibility criteria such as minimum earnings and hours thresholds or minimum employment periods may result in their exclusion in practice. In Japan, for example, temporary staff with labour contracts under two months, seasonal employees working no more than four continuous months and those engaged in contract work for no more than six months are not covered for earnings-related pension benefits (Takayama, 1999). Workers with relatively low earnings, more often women, tend to be excluded from occupational pension coverage. This exclusion may increase the risk that retirement income falls below poverty thresholds particularly when benefits under statutory pay-as-you-go schemes are a relatively low flat-rate amount, such as in the United Kingdom (Ginn, 2002).

Similarly, access to social security is more limited among part-time workers. While in many countries the legal rights of part-time workers are generally equal to those of full-time workers, it is also the case that part-time workers are less able to contribute to state and non-state pension schemes. For example, while the exclusion of part-time workers from occupational pension schemes is generally illegal in many countries, many small employers, who are an important source of jobs for part-timers, simply do not operate a pension scheme for their employees.

Part-time work, in a positive sense, may enable workers to find an appropriate balance between work and family responsibilities, to facilitate their integration into the labour market or to allow for a gradual transition from full-time employment to retirement. In some cases, part-time work is sought so as to increase family income, as some of these workers may have social protection from some other source. While voluntary part-time workers may have made a conscious decision to work part-time, a fairly large proportion of part-time workers are obliged to accept such work given the unavailability of suitable full-time employment.

There is evidence to suggest that there are differences in treatment between voluntary and involuntary part-time workers under social and labour laws. One international comparative study found that in some cases involuntary part-time workers enjoy levels of employment law and social protection that are equivalent or higher than that provided to voluntary part-time workers (Kennedy and Dillon, 2003). For example, in Ireland, involuntary part-time workers may receive unemployment benefits in respect of the balance of the unworked week as long as they are still seeking full-time work, while in Spain, involuntary part-time workers enjoy the same or pro rata benefits as full-time workers when they become unemployed. This distinction in entitlements would appear to recognize that part-time work in certain circumstances is not a personal choice or preference, but rather a temporary substitute for full-time employment, and that social security policies should reflect this difference.

However, even among part-timers with access to pension schemes, part-time employment, whether voluntary or involuntary, may often lead to low benefits in old age because lifetime earnings, which are the basis for pension calculations in the schemes of many countries, are reduced. Part-time workers often have less access to training, fewer opportunities for promotion, and are often in sectors and occupations where pay is relatively low, even for full-time workers. The extent to which part-time work leads to low pension income will depend on a variety of factors including the structure of state pension schemes, the balance between public and private pensions, and the nature, duration and timing of part-time employment (Ginn and Arber, 1998).

To some extent, part-time workers, whether voluntary or involuntary, have lower access to social security because of the existence of hours or earnings thresholds that apply to the requirement for contributions to statutory schemes, and that can apply to the eligibility for benefits under old-age pensions and unemployment benefits. While this is not widespread across OECD countries, a considerable number of countries apply thresholds, which may affect access to social security and occupational benefits, as well as the adequacy of future benefit income. For example, minimum earnings, minimum hours or minimum employment periods apply to statutory pension schemes in Austria, Canada, Finland, Germany, Ireland, Japan, the Republic of Korea, Mexico, Poland, Portugal, Switzerland and the United Kingdom. Similarly, minimum work earnings or hours thresholds determine entitlement to basic unemployment insurance in Austria, Finland, Germany, Japan, the Republic of Korea, Norway, Poland, the United Kingdom and the United States (OECD, 2002; 1998). Furthermore, this may be exacerbated by policies that increase the period of earnings taken into account in calculating retirement benefits. Generally, policies designed to strengthen the link between contributions and benefits enhance the importance of each year of contributions and earnings. This may lead to lower eventual benefits for those with significant periods of reduced or intermittent earnings during the working career.

Perversely, the existence of such thresholds also provides incentives for employers to create jobs with working hours or paid earnings below these levels so as to avoid having to make social security contributions. Employers are also responding to regulatory structures by changing the nature of the employment relationship. Growth in self-employment is being spurred by relatively high and persistent levels of unemployment and by employers' interest in outsourcing or sub-contracting work previously done by employees to what may be called the "pseudo self-employed". These workers are essentially persons similar to employees in that many are highly dependent economically on a single client and they do not employ staff. Employer costs are markedly reduced since such workers are not considered to be employees, and therefore employers may avoid paying social contributions as well as providing other employment-based pay and benefits. Germany and Italy have used legislation to clarify the status of such workers, and thereby determine the corresponding contributory insurance obligations for this form of work.

Also of some concern is the reported trend in the growth of part-time work of under 10 hours a week. Between 1995 and 2000, the increase in part-time work in Europe primarily occurred in the lower hour band of less than 10 hours a week, where employment and pay conditions are less favourable (Bodin, 2002).

The duration of atypical employment is an important factor in the ability to build up entitlements to social security. One international survey of ongoing tenure in a current job found that 58 per cent of temporary workers had been in their job for less than one year, compared with 13 per cent of permanent workers (OECD 2002). While employers may eventually convert a proportion of such temporary workers into permanent workers, a significant number remain temporary for an extended period of time. Between 25 per cent and 50 per cent of such workers continue to hold a temporary job after two years of temporary employment (OECD, 2002). In some cases, however, longer duration contracts (more likely to be found among higher-educated temporary workers and among those employed in the public sector) or contract renewals, where allowed, may enable some workers to build up pension entitlements. However, if workers are temporary, they may be less likely to "voluntarily" join occupational schemes since they do not expect to remain with the same employer for an extended period of time.

As highlighted above, the duration of atypical employment is important. A further important factor is the timing. The distribution of working time over the life-course, which suggests that people may be working more intensely in the peak years of earnings, may have greater repercussions on current and future earnings for those who may be out of the labour force during this period (Standing, 2000). Women are at a greater disadvantage since they are more likely to work part-time in the prime earning years as a result of caring responsibilities, whereas men are more likely to work part-time at the beginning and the end of their work life (Ginn, 2002).

Although OECD countries are perceived to have universal coverage, the numbers excluded from social insurance schemes can be quite substantial. In the United Kingdom, approximately 2.5 million women are excluded from National Insurance because their earnings are below the contribution threshold (Ginn, 2002). Some part-time workers are also unable to participate in occupational pension schemes even when those schemes are mandatory, as in Switzerland, because of the existence of earnings thresholds. In Japan, as a result of the hours and earnings thresholds, only about one-third of part-time workers are covered by the government-mandated pension plan, unemployment insurance and employer-provided health insurance (Houseman and Osawa, 1998). Over the past decade there has been a trend towards modifying these contribution thresholds in a number of countries, including Canada, Finland, Japan and the United Kingdom (OECD, 1998). In Japan, the Employees Pension Insurance programme does not cover those who work less than three-fourths (33 hours) of the normal working hours a week. The Government is considering changing the qualification rule to provide coverage if they work an average of 20 hours a week.

As discussed below, in addition to removing or reducing thresholds, social security schemes have introduced a variety of changes that increase access to social security by workers in atypical employment (Box 1).[4]

Social security schemes are taking into account atypical employment in other ways. Portugal and Spain (Box 2), for example, have also recently introduced changes in their social security systems to provide partial benefits to partially unemployed persons.

While such measures are generally intended to encourage unemployed persons to take part-time work when it is available, this flexibility also tends to legitimize dual statuses under social security. A considerable added benefit in the Spanish example in Box 2 is that the employer will also pay the employee’s share of contributions to social security, thereby protecting future entitlements.

It should be noted that over the past decade, efforts have been made across a number of countries to tighten eligibility for, and reduce the duration of, unemployment benefits, for example, in an effort to increase incentives to return to work. Consequently, significant numbers of unemployed persons are not eligible for benefits because of insufficient contributory periods or earnings, or because they have exhausted their entitlement.

4. As discussed by McKinnon (see Chapter 1 in this volume) some developing countries have introduced voluntary coverage for the self-employed. However, doubts remain regarding the take-up of such voluntary coverage. Furthermore, the new unemployment scheme in South Africa recognizes both full and partial unemployment.

Box 1 *Improving access to social security for those in atypical work*

Austria. Since 1998, persons who are marginally employed may insure themselves on a voluntary basis under the statutory pension and sickness insurance schemes. The assessment basis for contributions is dependent on the income threshold for insignificant employment. However, for individuals with more than one job, the sum of all earnings is used to make this determination, and should the total exceed the threshold, the individual is then required to belong to the statutory insurance schemes.

Germany. Since 1999, Germany has increased the pension coverage of some 4 million "small" jobs (monthly earnings below EUR 325) by requiring employer pension contributions at a flat rate of 12 per cent of the wage. Persons may top-up the employer contributions.

Italy. Since 1999, persons engaged solely in domestic work and who are not employees are required to belong to the national employment accident insurance system. The contribution will be fully paid by the state for those whose earnings fall below a statutory threshold.

Republic of Korea. An expansion of pension coverage for temporary workers has been proposed for those employed less than one year and who work in companies with four or fewer employees. The system would provide a choice between a defined benefit and defined contribution system.

Box 2 *Partial unemployment*

Portugal. As of 2000, partial unemployment benefits are now available to persons engaged in part-time employment of between 20 and 75 per cent of the normal full-time working hours. The amount of the benefit is equal to the difference between the unemployment benefit plus 25 per cent (increased to 35 per cent in 2003) and the remuneration paid for their part-time work.

Spain. Under the reforms in 2002, persons older than 52 years of age will be able to receive one-half of the unemployment benefits to which they are entitled and receive employment earnings at the same time.

In Canada, formerly all weeks of work in the preceding 26 weeks were included in calculating employment insurance benefits; however, a policy change in 2001 allows for the exclusion of certain low-earning weeks so that they would no longer lower benefits. Nevertheless, these weeks are still taken into account in establishing entitlement. This policy makes an important distinction between entitlement and benefits, which is of considerable importance to those in temporary employment where earnings may fluctuate.

One may also observe changes that facilitate the mobility between the employment statuses of being an employee and being independent, while providing greater income protection, which is in line with a more flexible life-cycle approach. In Luxembourg, eligibility conditions for unemployment benefit have been eased for self-employed persons. Periods of membership in a pension insurance scheme as an employee are now taken into account in meeting the eligibility conditions requiring five years of compulsory insurance as self-employed workers, as long as the worker was self-employed for at least six months prior to applying for the benefit.

Compensation for periods of low earnings during gradual retirement

Many countries have introduced measures during the past two decades to facilitate a longer working life through phased, partial or gradual retirement measures (see Chapter 8). Of interest here are schemes (hereinafter referred to as gradual retirement measures), which involve reduced hours of work and the receipt of income benefits to make up for part of the reduction in earnings during the transition to retirement. One important difference between gradual retirement and part-time work is that the majority of older workers who work part-time choose to do so. This flexibility in design allows social security to recognize the dual status of work and retirement, thereby serving individual and societal needs. Despite the continued growth of such measures, the participation rate among older workers has generally been much lower than expected (European Foundation for the Improvement of Living and Working Conditions, EFILWC, 2003). One impediment to growth, apart from severe competition from other early exit measures including employer retrenchment and reorganization policies, is the impact that any reduction in hours, and hence earnings, may have on future pension entitlements.

Some persons switching from full-time to part-time work may see a reduction in their pension benefits, or perhaps not see any additional entitlements accrue in spite of additional contributions, where permitted. Several years of reduced earnings may result in lower pensions than would have been the case if the worker had continued working full-time. When the pension calculation is largely based on the earning years immediately prior to retirement, low earning years near the end of one's career may reduce average earnings for calculation purposes and may therefore lead to a smaller retirement benefit.

A positive development would be for policies to be designed to incorporate features that minimized the pension penalty that participants might incur through partial work and lower average earnings. For example, credits or contributions could be made as though the person were working full-time or close to full-time (see Box 3).

Box 3 *Compensatory contributions to social security*

Austria. Since 2000, older employees may reduce their working time by 40 per cent to 80 per cent for a period for up to 6.5 years. Wage compensation of at least 50 per cent is paid for the income lost as a result of reduced working time, and there are no consequences for the level of pensions.

Denmark. A flexible early retirement scheme introduced in 1998 for persons over 60 years of age allows participants to work and receive a portion of their retirement benefits. In the public sector, pension contributions are made as though they were working full-time.

Other national schemes, including those of Finland, France and Germany contain similar measures to reduce potential penalties under future pensions. Such measures may ensure appropriate income protection to participants in such schemes; however, with the continued growth of supplementary and private pensions, social security policy needs to take into account other elements of the social protection system. Incorporating such thinking in the design can better ensure the effectiveness of policies. An example of a more comprehensive approach is found in Canada (Box 4).

Box 4 *Integration between social security and supplementary pensions*

Canada (Quebec). Reforms in 1998 encourage workers who are members of a supplementary pension plan and within ten years of the normal retirement age to reduce their work hours in exchange for a portion of their supplementary pension to make up the difference in salary. These "advance" payments would reduce the amounts paid after age 65 years in the supplementary pension. However, to minimize the effect of lower earnings, workers would be able to continue to contribute to the mandatory earnings-related Quebec Pension Plan based on their former full salary, thereby reducing the effects of lower earnings on their social security pension when they fully retire.

The opportunity to buy back contribution periods

Among the many pension reforms undertaken in the past decade, one common measure has been to increase the link between contributions paid and benefits received. Typically, contributory pension schemes have been based on contributions made during the working life. While many countries used, either average earnings during the last years of employment or the average of a number of "best" years in the calculation of earnings-related pensions, the trend in statutory pension systems has been to move towards calculating social security pensions based on average earnings over virtually the entire working life.[5]

While this policy may prolong labour market attachment, it may also have a particularly negative effect on workers who have spent considerable time in atypical employment. Where average lifetime earnings are used, periods of low or zero earnings will reduce the average earnings upon which the eventual pension is based. For many women, the use of best years as opposed to final salary is more advantageous since their earnings are generally not highest at the end of working life (Ginn, 2002). The use of best years formulae in pension calculation appears better suited to the situation of intermittent and low-paid workers than final years, or lifetime average earnings, since such low earning years could be excluded in the calculation of a retirement pension.

This policy would appear to be at cross-purposes with the development of increasing atypical work; however, other measures such as the provision of pension credits may reduce the potential pension penalty on many workers in atypical employment. In many countries, pension credits to compensate for periods of low or zero earning years have been a standard feature in social insurance schemes. There has been a clear trend to extend the use of pension credits in many earnings-related or contribution-based schemes. Examples of credits for unpaid periods include crediting periods of child care leave, sickness, disability or rehabilitation, for care of a disabled family member and for military service (Tuominen and Laitinen-Kuikka, 2003).

On the one hand, the continued extension of credited periods is clearly a positive development. Such compensatory measures may reduce the penalty of unpaid periods in the calculation of pension entitlements. With the inclusion of sufficiently long periods of compensated leave, as well as flexibility in when they may be used, they may serve to facilitate a more flexible life-cycle approach better tailored to individual (and societal) needs for learning and caring, among other things.

On the other hand, the above examples mostly focus on periods when people leave the labour force, and therefore are of more limited use (with the exception of crediting periods of unemployment) for persons with periods of low or below-average earnings while in atypical employment. One important design option is for social security to

5. One exception to this more general trend is Greece where, under the reform approved in 2002, the retirement pension will be based on the five best years of the last ten years of contributions. In France, under the 1993 reform, the calculation basis for a benefit changed from the best 10 years to the best 25 years of contributions, suggesting an incomplete move towards earnings over the work life.

provide contributors with the opportunity to purchase pension credits at some later date so as to improve pension entitlements.[6] This may be of valuable assistance to atypical workers, and generally facilitate more flexible life-course patterns among regular workers as well. Nevertheless, it also requires sufficient income later on to make the necessary contributions. This would be of great difficulty for many self-employed persons, given the frequent need to make double contributions, as well as for members of social insurance schemes with higher earnings-replacement rates.

The case in Box 5 exemplifies a more flexible buy-back measure that may serve either to cover periods of low earnings or to facilitate continued education at any point during the life-course. Generally, measures compensating for periods of education are only allowed in the early stages of the life-course, often below a certain age, such as 25 years.

Box 5 *A flexible buy-back of contribution periods*

France. As part of the retirement pension reform adopted in 2003, which increased the qualifying period required to benefit from a full pension for state employees, a new measure enables affiliates to buy back contributions to cover three years of study or three years of partial contributions. Three types of buy back are possible: payment to purchase years of salary, periods of contribution, or both.

Minimum benefits

While the policy to increase the link between contributions paid and benefits received is increasingly presented as positive, this development would appear to be negative in respect of the growth of atypical work over the life-course. To compensate, however, other policy features such as the provision of minimum benefits may reduce the potential pension penalty on workers in atypical employment.

Sweden, among other countries (Italy, Latvia, Poland) introduced a lifetime earnings-based notional defined contribution (NDC) scheme. The Swedish reform included the provision of a supplement in order to guarantee a minimum income. The guaranteed minimum income would be expected to reduce the impact of such a scheme on workers with substantial periods of low or irregular earnings. The new system also includes credits for certain unpaid periods. While multi-tier systems generally have a basic level of means-tested support for low-income pensioners, another mechanism is to supplement the earnings-related pension systems with a basic benefit.

6. It is also worth noting that the opportunity to buy back contribution periods is increasingly being made available in the social insurance systems of some countries outside of the OECD, for example, in Côte d'Ivoire and Oman.

Box 6 *Guaranteeing basic income support*

Recent reforms to Germany's retirement pension system included a gradual reduction in the replacement rate of the statutory retirement pension along with the introduction of a tax-financed minimum benefit for old age pensioners and persons with disabilities having low income. The means-tested minimum benefit equals 115 per cent of social assistance benefits. In addition, the basic benefit includes payment of appropriate housing costs and payment of health and long-term care contributions. Contrary to social assistance, the presumption that persons living with relatives are supported by them is not applied.

Similarly, in Greece, the 2002 pension reforms included the provision of a national minimum pension equal to 70 per cent of the minimum wage rate for unskilled workers to be provided to all those who have completed at least 15 years of contributions on reaching retirement age.

The provision of minimum benefits either within pension schemes, or as an additional element of income security, for example, may better ensure adequate protection for those with atypical periods of employment or for those who follow different career paths. Generally, the continued growth of atypical employment, particularly when it is associated with significant periods of relatively low or intermittent earnings during the working career, tends to increase the importance of policies providing for a strong basic level of coverage. In effect, an appropriate degree of guaranteed income security, either on a universal or contributory risk-pooling basis, provides cover for alternate forms of employment, whether conventional or atypical. Moreover, this fundamental security may, depending upon its level, increase the degree of individual choice in deciding upon a particular life-course pattern. Of course, such decisions will depend, among other things, upon the nature and availability of any complementary protection compensating atypical workers for the loss of earnings, as well as upon the relative shares of basic and supplementary elements in the overall system of social protection. It is essential that minimum benefits be of an adequate amount otherwise they would not be expected to provide the necessary security, nor facilitate flexibility. Furthermore, the means-testing of benefits may act as a disincentive for atypical workers to contribute to voluntary complementary schemes where these may exist.

Conclusion

Atypical employment has been on the increase in many countries, although, national differences remain very significant. While the general reform of pension schemes such as the increased link between contributions and pensions and the greater role of private pension funds has not necessarily been positive for atypical workers, the available evidence suggests that social security is better taking into account, and adjusting itself to, situations of atypical employment. There are differences in how countries have responded to the development of atypical employment. In practice, these responses include providing easier access to coverage, the provision of credits for periods of lower earnings, and allowing the opportunity to buy back contributions. Such examples would suggest that social security is taking into account the greater importance of atypical work, while also addressing the continuing need for greater income security. However, while there is reason to believe that patterns of atypical employment will continue to develop, it must be recognized that there are limits to the degree of flexibility that social security should, and can, embrace.

For instance, the development of private pensions, especially defined contribution plans, cannot be disassociated from calls for greater labour market flexibility and a more mobile workforce. This greater flexibility is sometimes used as a means of contributing less to social security, and consequently there is a need to ensure that employers are not pursuing greater employment flexibility for the wrong reasons. Moreover, efforts to develop mandatory private pensions at the expense of risk-pooling social security schemes may not be a development welcomed by all, particularly by those who have spent considerable time in atypical employment, and more generally by workers with low incomes. This observation leads us to reiterate that in a world of often increasing labour market uncertainty, the role of social security to provide income security remains unchallenged as the best-placed public policy response to guarantee such security at different stages of life.

Simply put, while adaptation to new social and economic realities may necessarily demand a greater degree of labour market flexibility, this greater flexibility can only be achieved successfully if it is anchored on the adequate and sustainable provision of social security. The provision of a guaranteed and appropriate level of social security that effectively protects living standards can increase both security and individual choice, and thereby facilitate flexibility over the life-course regardless of whether employment is conventional or atypical. Clearly, the provision of an appropriate level of security must be based on a comprehensive approach to social protection and the life-course, while respecting national traditions, capacities and culture. This is also necessary for the ongoing purposes of building social cohesion and contributing to future economic growth in the developing context of greater labour market flexibility.

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Chapter 8

Extending working life: Policy challenges and responses

Roland Sigg[1]

Social security schemes are often accused of failing to anticipate the major changes ahead and not tackling the issues of our time. One of the greatest challenges facing post-industrial societies and, on a growing scale, developing countries is how to manage population ageing. In the industrialized countries, the main repercussions are longer retirements and an older workforce. The cost implications for pension and health-care schemes are frequently described as substantial, if not unsustainable (see Chapter 9). One of the options to tackle this looming crisis is to encourage older people to remain in employment longer, working through to, and indeed past, the statutory retirement age. The difficulties besetting developing countries are different, in that pensions there are a luxury enjoyed by few. Regardless of age, work is often the only alternative.

A study of recent social security developments reveals a host of new reforms designed to encourage people to work longer, underscoring the willingness of social security institutions to reverse a firmly established trend. Over the past few years, many countries have restructured their retirement systems, ultimately with a view to making pensions less generous and lengthening contributory periods. Other measures have sought to restrict early retirement schemes. Similar objectives have been pursued through employment policy initiatives: incentives to hire and retain employees aged 55 and above, and campaigns publicizing the need to adapt working conditions in line with age and to change employers' attitudes. Some countries, such as Finland, have implemented nationwide programmes to highlight the advantages of employing older workers.

1. The author would like to thank Geneviève Reday-Mulvey for her comments.

While myriad reforms have been adopted to encourage people to work longer, there is no denying that these measures often lack consistency and have not yet met with overall consensus. It is difficult to gauge their impact on employment rates, with only slight shifts recorded in many countries. Consequently, it is vital to assess the changes made in recent years, with a view to proposing sustainable reforms to help people work through to and past retirement. It should also be borne in mind that even with job promotion measures, a sizeable portion of ageing workers will face unemployment and need to be provided with an adequate replacement income.

Background to reforms designed to keep people in work longer

The age, at which people stop working fell significantly across the industrialized world in the 1980s and 1990s, as early retirement became more widespread, disability pensions were provided and long-term unemployment grew. Over the same period, life expectancy continued to rise by roughly two years per decade. These developments jeopardized the future of pension funding, prompting many governments to reform their retirement systems. Governments also began to take a closer look at the situation of workers over 55 years of age, seeking to counter the strong early retirement trend that had marked the end of the twentieth century, but which conflicts with the future needs of a labour market whose numbers are set to dwindle over the next few years.

The facts on population ageing

One-fifth of the population in OECD countries is now over 60 years of age, and that figure is forecast to rise to 30 per cent over the next 20 years. One in five workers is currently already over 50 years of age. Population ageing is set to accelerate for a number of interlinked reasons: baby boomers reaching retirement age, fewer young people entering the labour market and the continued rise in life expectancy. The next 20-30 years will unquestionably represent a major challenge for social policies, required to maintain living conditions for an increasingly ageing population, but supported by a shrinking workforce. Irrespective of the resources used (see Chapter 9), the fact is that keeping people in work longer will considerably help in managing this demographic transition.

The study of demographic factors is not all doom and gloom. First and foremost, it highlights that, as a result of increased life expectancy, people can now generally expect to reach retirement age in sound health and live for almost another 20 years (roughly as long as the life expectancy of a 35 year old a century ago). The very definition of old age is changing. It is no longer tied to retirement as such, but rather is perceived as the point at which an individual first experiences genuine incapacity. As stated in a 2001 report published by France’s Economic and Social Council:

> "the threshold for old age has steadily risen, from roughly 60 for men and 65 for women in 1930, to 71 for men and 77 for women in the early 1990s. According to this definition, the proportion of "elderly people" in the overall population has actually declined from 10 per cent in 1980 to 7 per cent in the 1990s" (quoted in Reday-Mulvey, 2002).

In so far as it exists, the crisis triggered by population ageing is therefore mainly due to society's current inability to adapt its social and economic structures to reflect these changes, rather than to the admittedly sizeable increase in the number of older people.

Retirement and the labour market

The defining feature of labour markets over the past 25 years has been people starting to work later and retiring earlier, resulting in a much shorter working-life span. In Europe, the number of years during which people draw pensions has almost doubled, while the length of time they pay contributions has shrunk by almost 25 per cent. As illustrated in Figure 1, the employment rate for men aged 15-24 in industrialized countries plummeted from over 70 per cent in 1960 to almost 50 per cent in 2000. Similarly, the rate for men aged 60-65 plunged from 75 per cent to 40 per cent during the same period (the drop is less striking for women owing to a surge in employment rates across all age brackets).

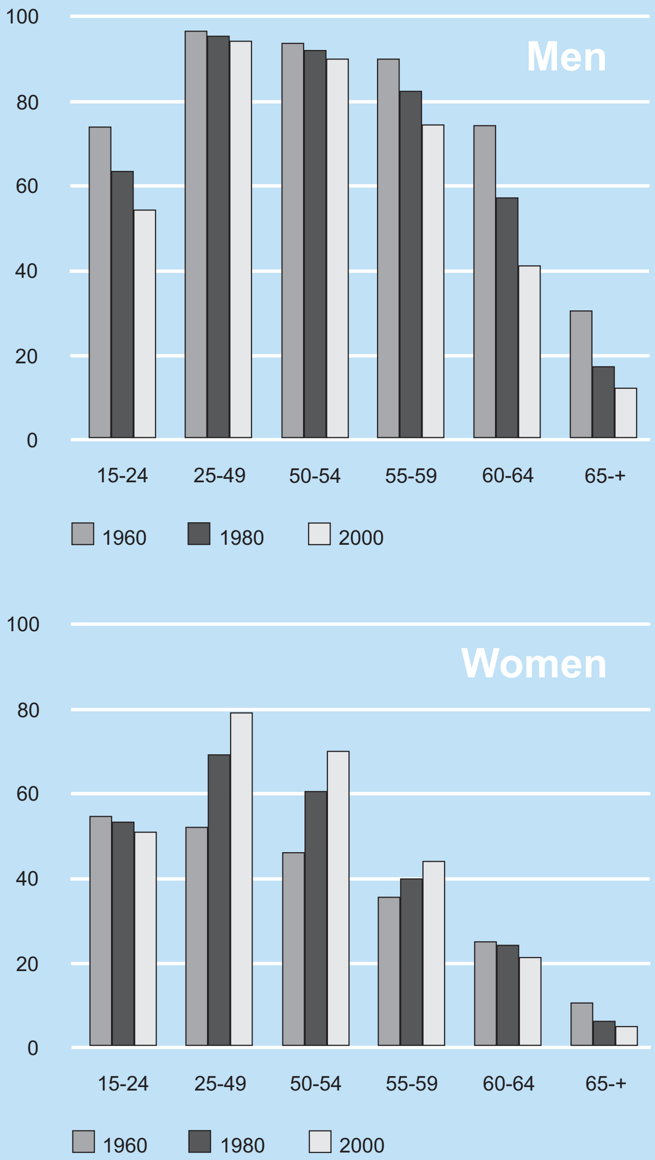
These trends nevertheless conceal major disparities between countries. Figure 2 shows a marked divergence between countries such as Belgium, Hungary, and Italy, with employment rates of under 30 per cent for 55-64 year olds, and countries such as the United States, the Scandinavian states, Japan and Switzerland, where the rate is above 60 per cent. Iceland stands out on account of its very high employment rate across all age brackets.

Transition from work to retirement

As we have seen, the effective retirement age (defined as a permanent end to all professional activity) has fallen in all OECD countries. Bar a few exceptions such as Japan, Table 1 shows that 25 per cent of people stop working between the ages of 55 and 60, i.e. over five years before the official threshold, with less than a quarter remaining in employment through to the statutory retirement age, which is 65 years in the countries listed (the corresponding ages for women are one year lower on average). So it is clear that a sizeable majority of workers retire long before the official age for full pension entitlements, in most cases over five years earlier.

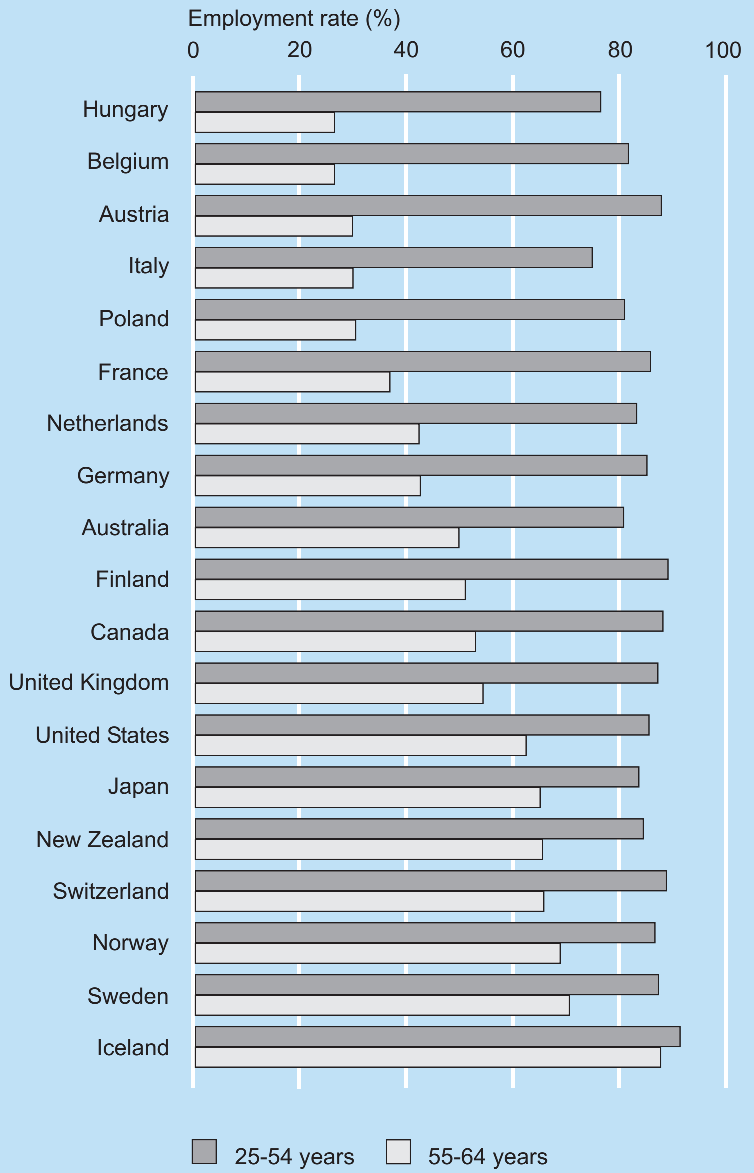
These young pensioners are sometimes dubbed seniors and form a new, steadily expanding category of the population. They are often fully capable of working, yet have irrevocably withdrawn from the labour market. Research (mentioned in Phillipson, 2002) has shown that a mere 50 per cent of these individuals have taken early retirement for health or disability reasons, although 70 per cent (men and

Figure 1 *Employment rates per age group in 1960, 1980 and 2000*



Source: OECD, 2002.

Figure 2 *Employment rates for the 25-54 and 55-64 age groups (men and women), 2002*



Source: OECD Employment Outlook, 2003.

Table 1 *Retirement age and duration (men, 1999)*

	25% retire before the age of	*Median age*	*25% retire after the age of*	*Duration of retirement*
Italy	54.5	58.8	63.4	20.7
Finland	56.0	59.6	63.0	18.9
Germany	57.4	60.3	63.9	18.8
Netherlands	57.8	60.4	64.1	18.2
Canada	57.8	62.4	66.5	18.2
United States	59.4	64.6	71.4	16.3
Japan	62.7	68.5	77.7	14.9

Source: Adapted from OECD, 2002.

women) no longer classify themselves as jobseekers. Another key feature is a growing acceptance of early retirement. A poll taken by the Employers Forum on Age shows that a majority of adults in the United Kingdom wish to retire before age of 60 at the latest, with 25 per cent opting for under 50.

A major cultural change has taken place, one that will hamper any attempt to reverse the trend towards early retirement. Strategies will need to take account of the broader changes affecting the generation now approaching 50 years.

Snapshot of developing countries

The above description of population ageing and its implications for employment applies primarily to industrialized countries. The situation is naturally very different in the developing world. As underscored in Chapter 1, the number of workers drawing or entitled to a pension is often very low. Moreover, the benefits paid are frequently meagre and insufficient to meet needs. Many older workers and elderly people are left with no choice but to work for as long as possible.

Retirement is a luxury open to few, with most people continuing to work in the informal sector to make ends meet. The International Labour Office (ILO) estimates the employment rate amongst the over-64s to be approximately 40 per cent in Africa and 25 per cent in Asia, with the majority working in the agricultural sector.

Aside from paid employment, older people in developing countries, particularly women, also make a significant contribution which is difficult to measure in economic terms, by looking after children and helping out with housework. In doing so, they often free other family members to pursue economically "visible" employment. In some cases, the help provided by older people is vital for the very survival of the society, not least when grandmothers raise AIDS orphans, a common occurrence in several African countries.

Wide range of reforms adopted to keep people in work longer

Over the past five to ten years, pension reforms have continued to focus on adapting retirement schemes to the current demographic situation and budgetary resources. Reform packages are now increasingly designed also to counteract the move towards early withdrawal from the labour market and foster employment amongst the over-55s. Some countries, primarily those most proactive in the field, have opted for a multi-faceted, cumulative approach (Box 1 provides an overview of one such country, Finland). Table 2 illustrates the wide diversity of initiatives taken in almost all industrialized countries.

The overriding objective of these initiatives is to adapt pension schemes. Let us first look at measures which are primarily geared towards curbing the "generosity" of public pensions. Restrictive measures such as raising the retirement age, increasing the number of years for which contributions are to be paid or altering the formula used to calculate pensions have lightened the financial load on pension schemes and adjusted them to reflect demographic pressures and budgetary resources. Governments introducing such reforms also hope that they will delay retirement by making pensions less attractive. There are risks attached to this strategy. Some workers will undoubtedly be able to work an extra year or two to boost their pensions. Many others, however, will not have that option, and their pensions will fall irrevocably. They are likely to be in an increasingly vulnerable position, placing greater demands on social assistance.

More rarely, "carrot" approaches have also been adopted which enable pensions to be combined with income from employment. The idea is that workers who wish to reduce their work hours are not obliged to completely exit the workforce to receive a pension. The spread of personal and occupational pension plans is often depicted as a further incentive. While these plans frequently allow for greater flexibility and in theory-phased retirement, in practice they are widely used by both companies (who support them) and individuals as a "bridge" between the end of paid employment and the statutory retirement age. Instead of fostering flexibility, lucrative personal pension plans can actually bolster the level of early retirement, unless age criteria are stipulated, as is the case in Australia. Conversely, the recent stock-market crisis in the United States has demonstrated that a decline in the value of these pension schemes can force countless older people to remain in employment to preserve their standard of living.

Table 2 *Examples of recent measures to encourage older workers to remain in employment longer*

1 Adjusting pension schemes	
Higher statutory retirement age	*Hungary.* Retirement age increased from 60 to 62 between 2003 and 2007. *Japan.* Gradual increase in retirement age from 60 to 65, between 2013 and 2025 for men, and 2018 and 2030 for women.
Longer contributory period	*France.* In 2003, the mandatory insurance period for full pension entitlements in private sector pension schemes reached the 40-year mark, following an incremental rise of one quarter per annum since 1994. The same requirement is to be introduced in the public sector.
Increase in the period used to calculate pensions	*Austria.* The contributory period will rise from the best 15 years to the best 40 years, with 12 months being added each year from 2004 onwards (through to 2028).
Changes in pension indexation	*Japan.* The 2000 pension reform stipulated that pensions would be linked to price rather than salary in future.
Restricted access to complementary pensions prior to statutory retirement	*Australia.* The new 2002 law on occupational pensions specifies that the sums amassed must remain in a fund until statutory retirement.
Possibility of combining pensions with employment income	*Spain.* In 2002, the option was introduced of combining a full or partial pension with full- or part-time employment.
Bonus for years worked past retirement	*Portugal.* Annual 10 per cent pension bonus for workers between 65 and 70 who have paid contributions for 40 years and opt to remain in the workforce.
2 Measures curbing early departure from the workforce	
Tougher access to early retirement	*Finland.* From 1994 to 1999, the threshold for early retirement was increased from 58 to 60, and an employment premium or tax credit introduced for employees or jobless people who refuse early retirement.
Phased, flexible retirement	*Austria.* Since 2003, it has been possible to opt for phased rather than early retirement, with a cut of at least 30 per cent in working hours. Partial pension to offset lower salary.
Stricter conditions for awarding disability and unemployment benefits, and back-to-work scheme	*Denmark.* 1999 saw the end of a special scheme enabling 50-59 year olds in long-term unemployment to retire on a pension equivalent to their unemployment benefit.

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Table 2 *(Continued)*

3 Measures to bolster employment rates amongst older workers	
Working conditions better adapted to older employees	*Finland.* Following the National Programme for Older Workers, run between 1998 and 2002, 60 per cent of companies adopted a policy on managing older employees (see Box 1).
Investment in end-of-career training, and mobility enhancement	*United Kingdom.* In 1999, older workers were included in further training schemes, and higher education loans were extended to people over 50.
4 Job protection and back-to-work schemes for older workers	
Restrictions on laying off older workers	*Belgium.* Since 2002, companies are required to fund job placement and search services for any workers over 55 that have been laid off.
Setting up a recruitment service	*Australia, the Netherlands.* Recent creation of a job agency specialized in finding work for unemployed people over 55.
Lower social security contributions for older workers	*Italy.* Since 2000, companies hiring employees over 55 are exempt from social security contributions for one year.
Subsidies for the employment of older workers	*Sweden.* Since 2000, a subsidy corresponding to 75 per cent of the salary is paid for two years to a company hiring someone over 57 and unemployed for two years.
Company quotas for older workers and other incentives	*Republic of Korea.* Over-55s must account for at least 6 per cent of a company's workforce; a subsidy corresponding to 2 per cent of the average wage is paid to companies that respect the quota.
5 Anti-ageism measures and good practice in the employment of older workers	
Anti-discrimination legislation	*The Netherlands.* The 2003 law prohibiting age discrimination during recruitment bans any reference to age limits in job offers. All European Union (EU) member states are obliged to adopt corresponding legislation by 2006.
Voluntary action and ageing awareness campaign	*United Kingdom.* 1999 saw the government publish a Code of Practice, in conjunction with the social partners. The aim of the code is to encourage employers to combat age discrimination, and it lists areas where this might happen.
Efforts to foster lifelong employment	*Finland.* In 2002, a one-stop-shop was set up to underpin the labour market. Its purpose is to reduce long-term unemployment, ensure that people across all age categories maintain requisite employment skills, and foster the re-integration of the unemployed.

Note: The measures listed have been taken in a wide range of countries. The national examples mentioned are merely recent illustrations of these measures.

A second series of measures directly targets the workforce exodus, in a bid to reverse the downward trend in the effective retirement age and encourage people to work longer. Restrictive measures have been adopted, with many countries curtailing or even cutting off access to early retirement schemes. Tighter access to disability annuities and unemployment benefits (in particular for workers aged 50 and above, who often enjoy special conditions) is geared towards the same goal, that of keeping people in the labour force longer. Other more innovative measures foster a more flexible end to working life, including phased retirement, an adjustable retirement age or part-time work in the run-up to retirement. Many countries, such as Italy, have followed in the footsteps of Sweden, whose pension reform is well known, and moved away from a mandatory retirement age. This has been replaced by a period of roughly ten years, usually between 60 and 70 years, during which various options are possible, ranging from a retirement age of the individual's choosing to phased retirement.

Finally, a third set of measures focuses on employment, in order to integrate older workers better into the labour market rather than sidelining them. Myriad provisions are designed to persuade employers to adapt end-of-career working conditions and extend further training to older employees. Codes of good practice have been drawn up, outlining the measures required to keep mature workers in jobs. On a broader note, a number of countries in North America and Europe have ratified legislation banning all forms of age discrimination.

Box 1 *Finland: Comprehensive policy to keep people in work longer*

Finland has the highest early retirement rate of all Nordic countries. In 1990, the employment rate amongst men aged 55-65 was a mere 47 per cent, dropping to less than 45 per cent in subsequent years.

In response, the Ministries of Health, Employment and Social Affairs, and Education galvanised the social partners in 1997, and the following year launched a five-year National Programme for Older Workers. The initiative covers 40 measures, including an employers' seminar, the dissemination of strategies to motivate older employees, better occupational health regulations and active support for the jobless over 50 years of age. Its aim is to make population ageing an asset for society, stem early retirement and prevent a reduction in working capacity.

The programme has three pillars: information; education and training; and research and development. Its main goals are to improve the work environment, get older unemployed people back to work, and promote partial retirement through employment subsidies.

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Considerable effort went into devising instruments to maintain work capacity and professional skills, foster in-house mobility and reduce absenteeism. Shorter working hours and partial retirement were introduced. Mature workers were encouraged to attend job-related further training and, if made redundant, urged to approach a career guidance service to receive back-to-work assistance.

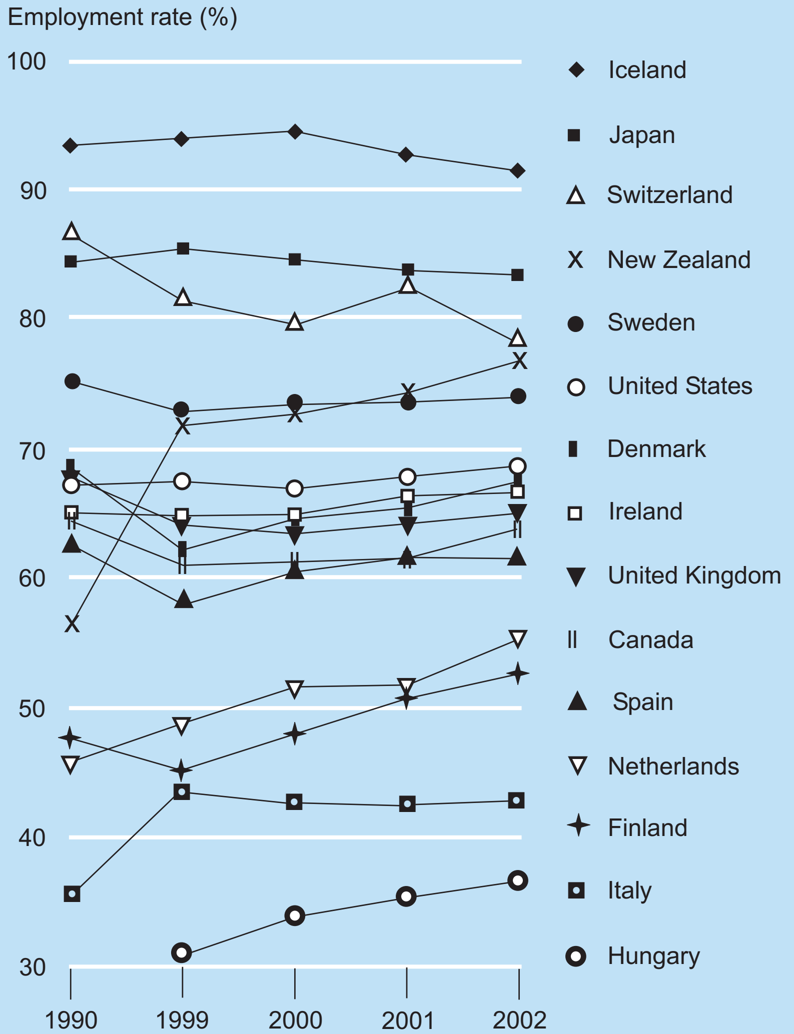
At the same time, the government and social partners agreed on a reform of the pension system designed to keep people in work longer. In February 2003, the Parliament endorsed a raft of measures introducing a more flexible retirement age, rewarding those that remain in employment and restricting early retirement options. 2005 will see higher pension accumulation rates offered to those who work longer (up to 4.5 per cent per annum after 63 years, compared to 1.5 per cent before the age of 52).

The results achieved by the National Programme for Older Workers are promising. The impact of the programme can be seen first and foremost in the significant cultural shift in Finland, where employers now regard older workers as competent and efficient. The trend towards early labour-market withdrawal has been reversed, with the effective retirement age having increased by a year and a half during implementation of the programme. Since 1999, the employment rate amongst 55-65 year olds has risen each year, with the figure for men increasing from 45 per cent to 53 per cent between 1999 and 2002. Nevertheless, this rate is still much lower than in other OECD countries (see Figure 3), which shows that sustained efforts are required to meet the challenge of population ageing.

Success of measures: Long-term outlook

A study of recent employment rates for older workers (55-65 year olds) reveals increases in more than half of OECD countries over the past four to five years. Countries that recorded a decline include those states where the employment rate for older workers is currently highest, e.g. Iceland, Japan, Norway and Switzerland. In other countries, the level is relatively stable, with only a very slight drop (although the rate is less than 40 per cent in some states, such as Belgium and France). With a few exceptions, Figure 3 depicts a clear trend reversal. The labour-market participation of older workers has unquestionably risen since 1999. It is, however, difficult to pinpoint the exact reasons for this shift. It may be driven by demand (job creation and an upbeat economic climate) or supply (fewer incentives to take early retirement).

Figure 3 *Employment rates for a range of OECD countries (men between 55 and 65 years), 1990-2002*



Source: OECD Employment Outlook, 2003.

Be that as it may, economic performance has been modest over the past few years, and the countries recording higher employment rates are those that recently adopted proactive policies to help people work longer, pointing to a positive correlation between such policies and effective retirement age.

One of the few evaluation studies available (HRDC,[2] 2000) concludes that although the bulk of older people who lose their jobs wish to return to full-time employment, pension eligibility is a key factor in deciding when to retire. While most people still experience an abrupt transition from work to retirement, practice shows that work-to-retirement initiatives such as job-sharing, part-time employment and phased retirement can help keep people in work longer. Moreover, such initiatives enable those approaching retirement to maintain a link with the labour market and top up their income, thus mitigating the financial and psychological shock associated with full retirement.

The study also shows that the success of programmes to keep people in work longer is largely contingent upon the social environment and labour market. General adjustment services using traditional methods such as skills enhancement and career guidance are not effective for older workers. Successful back-to-work or retention programmes for mature workers are those with specific features such as: "goals clearly defined in consultation with older workers; partnerships among service providers; alternative work environments; peer counselling; and a community-based approach" (HRDC, 2000). The effectiveness of such programmes is attributed to the considerable support and guidance provided to participants and the emphasis placed on the self-esteem and motivation of those involved.

An OECD study (2002) recently examined the role of later retirement in increasing employment. It states as well that

> "… employment of older workers has fallen everywhere over the past few decades, although this trend appears to have come to a halt in many countries in the second half of the 1990s".

The study argues similarly that this turnaround is partly due to a shift in policies, which no longer discourage the employment of older workers, though considerable

> "… incentives for an early withdrawal from the labour market are still in place, particularly in continental Europe".

New strategies to keep older people in the workforce

Broadly speaking, adjustment policies targeting older workers have had some success, rewarding countries that have adopted a proactive stance. However, the results are still modest when measured against the resources deployed and goals set

2. The former department Human Resources Development Canada (HRDC) was split into two separate departments, "Social Development Canada" and "Human Resources and Skills Development".

(the market share of 55-65 year olds in Finland was boosted by 8 per cent in three years, but is still over 20 per cent lower than in Sweden). As with any innovative policy, the early years are always the toughest, requiring considerable effort for few results. Staying firmly on this course should therefore yield more visible results in future. Notwithstanding this, experts believe that fresh ideas are now needed to achieve a real boost in the number of older workers in employment. Restrictive, sometimes "punitive" action, such as raising the retirement age, tightening access to early retirement and disability schemes, or lowering pensions, will at best secure a modest increase in employment while stigmatizing the individuals targeted and leaving many pensioners in a precarious position. Moreover, there are costs attached to deferring retirement, which is the focus of most reforms. Bringing older workers back to employment is a costly exercise, often requiring workplaces to be adapted to their needs and abilities. An increase of the retirement age also automatically entails more disability pensions and greater demand for unemployment benefit.

New strategies are called for and should, in particular, take account of the entire life cycle, draw on employer incentives, and promote lifelong training and access to information. Box 2 describes a number of initiatives along these lines.

Old-age pension schemes have a key role to play, not least in lending structure and support to such initiatives. One of the challenges faced is to make pension systems much more flexible, to enable a more gradual withdrawal from the workforce. It should, however, be borne in mind that the primary purpose of such schemes is to provide an adequate replacement income to those that have bowed out of the labour market.

Maintaining adequate pensions in the future

Throughout this chapter, attention has been drawn to the risk of reducing pensions in an (admittedly laudable) effort to encourage older people to work longer. As the OECD points out (2002), "supply factors (i.e. employers) are the driving force for employment". Those countries with high employment rates across the board also have the greatest level of labour-market participation amongst older workers. There is basically no contradiction between policies designed to maintain the living standards of all categories of the unemployed and policies aimed at encouraging people to work longer. The important thing is to improve the framework conditions governing job creation in general and, more specifically, provide a better occupational environment for older workers. Pension schemes need to be as neutral as possible and not provide any incentive for early retirement. Measures to keep people in work for longer do not necessarily lead to a more precarious existence for some older categories of the population or undermine one of the twentieth century's greatest achievements in social security: breaking the link between old age and poverty for the vast majority of the population.

Box 2 *Work-to-retirement policies*

Career breaks. A number of EU member states have adopted measures providing for a one to five year career break, usually subject to conditions (training, family, etc.) An unemployment allowance is paid during the break.

Free-time credits. Based on training leave and/or sabbatical programmes, workers would be credited with a certain amount of free time at the start of their career and could draw on it in accordance with criteria to be defined. The allocated time could be used for training, looking after children or relatives, extended leave or early retirement. Details could be negotiated in collective agreements.

Phased retirement. Several countries, most recently Germany and Spain, have tested various phased or partial retirement schemes, which generally enable older people to work part-time and draw a partial pension.

Better working conditions. Linked to the OECD's lifelong work strategy, most strikingly implemented in the United Kingdom under its Code of Practice on Age Diversity. Employers are offered guidelines to foster policies combating age discrimination.

Further training for older workers. Recent studies show that older workers often fail to take up the training options available to them. The aim, therefore, is not merely to expand such options, but also to tailor them to the needs of older workers.

Planning for retirement. Although pension regulations are becoming increasingly complex, very few workers receive assistance in planning for retirement. The shift towards privatized schemes makes it all the more pressing to provide formal support, thereby fostering phased retirement and, more generally, active ageing.

Redefining human development in later life. Training policies and other initiatives to enhance the employment potential of older workers must be part of a broader programme which addresses the whole issue of the goals and values of life after 50. It is more than a matter of just work and consumption, and an effort must be made to pursue a more comprehensive vision of life.

Source: Adapted from Phillipson (2002).

References

The references listed below will enable readers to take a more in-depth look at the issues addressed in this chapter.

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Chapter

9

Social security and change: The case for confidence

Roland Sigg

One of the key challenges confronting countries with an ageing population over the coming years is to guarantee future pensioners an adequate level of income without placing excessive demands on younger generations. This dilemma has direct implications for social security systems and their ability to achieve their goals.

A large number of countries are affected by population ageing, which has triggered increasing concern over the future of social security. Debate on pension reform and controlling health-care expenditure centres mainly on the financial viability of retirement and health-care plans in ageing societies. Our ability to gauge the future of such societies is inextricably linked to the sustainability of their social protection programmes over the next few decades. There is a need to consider not only the economic dimension, but also the social dynamics of an ageing population. Can free choice and individual responsibility be promoted in a way that avoids social segmentation and instability? It remains to be seen what path social security systems can take to meet the challenges and opportunities of population ageing. How can social protection be secured in a way that is efficient and fair? The future of ageing societies depends on their governments' ability to adopt a comprehensive approach to social security which is both economically and socially viable.

Despite the vast number of issues yet to be tackled by social policies, this chapter argues that social security systems will adjust to the emerging needs of workers and citizens in the unprecedented demographic, social and economic environment that constitutes ageing societies (or to use a more positive term, "long-life societies").

Introduction

Since the mid-1990s, there has been much talk of the threat that population ageing poses for social security programmes, more specifically pension and health-care schemes. The statistics are quite striking. Demographic forecasts show that, in roughly 50 years' time, the percentage of over-60s in industrialized countries will have virtually doubled, from 20 per cent to 35 per cent of the overall population. The increase will be even more staggering in the developing world, from 8 per cent to 20 per cent, representing a fourfold rise in the number of older people. By 2030, the number of over-60s living in the People's Republic of China is expected to have reached 350 million, which corresponds to the total population of the European Union (EU) before its expansion.

Another indicator frequently highlighted is the ratio of pensioners to people of working age (or economically active). In industrialized countries, current forecasts see that ratio shifting from today's level of 4 or 5 potential workers for every pensioner to just 2 potential workers for every pensioner by 2050.

Drawing on linear estimates of population growth and changes in social expenditure, a number of international financial institutions have concluded that, if current trends hold, public spending on pensions will increase dramatically in all parts of the world over the next 50 years. The outlay in countries of the Organisation for Economic Co-operation and Development (OECD) is now 10 per cent of GDP, but is forecast to stabilize at 17 per cent within 30 years, amounting to a 70 per cent increase. It is hard to see how these costs could be met. A United Nations Population Division report published in 2000 calculated that today's ratio of 4-5 workers to every non-worker could only be sustained through to 2050 if mass immigration were fostered (e.g. 12.7 million workers per annum to the EU, over 30 times the current net migratory flow) or the retirement age were increased to over 75 years. Both options are clearly unrealistic. Is the only alternative urgent and rapid reform, or indeed the disbanding of pension and health-care schemes? Is that, ironically, the only way to salvage an income for future pensioners and follow World Bank advice to safeguard future economic growth, which is threatened by the ageing crisis?

The facts appear merciless. Today, population ageing and an attendant social security crisis seem inevitable. To make matters worse, there is doubt in political, media and other influential circles about the State's ability to tackle this problem effectively.

On a less pessimistic note, other experts contend that population ageing is not the foremost threat facing social security systems, despite the worrying shift in dependency ratios (Economic Policy Committee, 2000; and Mullan, 2000). The past 50 years have seen efficient old-age protection schemes introduced which have slashed poverty rates amongst older people without jeopardizing economic growth. Experts argue that the same truth still holds today: the bottom line is the capacity of a society – and its economy – to provide all its citizens, irrespective of age, with a decent standard of living by ensuring steady production levels. In other words, population ageing is only a cause for concern if a society's lifeblood, not least its productive activity, fails to expand.

Beyond the myths of population ageing

Before examining possible ways of easing the pressure caused by population ageing, we first need to look at the facts. There is no denying that the number of older people is increasing. However, the ensuing impact on society, the economy and, of course, social security expenditure is by no means as clear-cut. Box 1 lists a number of myths that frequently feature in debate on population ageing, as reported by Mullan (2000). The negative connotations that tend to permeate such debate are striking. While it is generally recognized that longer life expectancy is one of the greatest achievements of the twentieth century, emphasis tends to be placed on the looming pension crisis and sustainability of economic growth. Whereas increased life expectancy is highly valued at an individual level, the prospect of an ageing society and the associated social and economic implications engender nothing but doom and gloom.

Box 1 *A fresh look at the myths surrounding population ageing*

Myth 1. Population ageing is caused by increased life expectancy (implying that improved life expectancy is not actually a good thing as it leads to population ageing).

Fact: Population ageing is primarily the result of falling birth rates.

Myth 2. Population ageing is a natural phenomenon (implying that population ageing is a relentless, intractable fact that cannot be altered through human intervention).

Fact: Population ageing stems from social change; the very definition of "old" is socially determined.

Myth 3. Population ageing is a growing trend (implying that the problems have only just begun and are bound to get worse).

Fact: Current population ageing is linked to the post-war, baby-boom generation. By 2050, demographic balance will have been restored in industrialized countries, with the percentage of over-60s settling at around 30 per cent.

Myth 4. Population ageing threatens economic growth (implying that we can expect a lower standard of living in an ageing society).

Fact: Economic growth is driven by a host of factors that are barely affected by demographic trends.

Myth 5. Population ageing is a considerable burden on society, not least social security systems (implying that benefits should be reduced to offset the rising number of pensioners).

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Fact: Industrial societies are sufficiently productive to generate the wealth required to cater for an older population. A low level of economic growth will be enough to cover the projected rise in pension and health-care spending. The question is how the benefits of economic growth are to be shared out amongst generations.

Myth 6. Population ageing will ruin existing pension plans (implying that public pay-as-you-go schemes must be converted to private pension funds).

Fact: Pay-as-you-go and funded schemes require the same economic conditions to ensure sustainability: economic growth and wealth creation. From an economic point of view, it has been clearly proven that demographic change is not a strong argument for a shift towards funding (Barr, 2002). Indeed, private pension schemes may turn out to be less efficient owing to higher administrative costs.

Myth 7. More older people means spiralling health-care costs and greater dependency (exaggerating the cost of caring and catering for older people and strengthening the belief that ageing is a burden on society).

Fact: Ageing is not an illness. Most older people are neither sick nor dependent. Increases in life expectancy are partly a result of better living conditions. Further improvements will mean older people enjoying better fitness and health than previous generations. While health-care costs will climb, the increase will most likely be limited and will owe more to longer lifespan than a more sizeable older population. There will undoubtedly be a rise in the number of very old dependent people, but it may be lower than the increase in the number of the oldest people (for example, the number of frail elderly requiring long term care fell in the United States in 2000 and 2001).

Source: Adapted from Mullan, 2000.

Most of the above scenarios are based on the projected impact that population ageing will have on pension and health-care schemes over the next 40-50 years. These projections are often rooted in misconceptions and underestimate the social and economic changes that the next 50 years might bring. Recall the 1950 forecasts for 2000. There is no reason to suppose that we will not continue to witness the same degree of change as over the past half a century. It is probably just as difficult for us now as it was then to foresee what our world will be like in another 50 years' time. Moreover, many of today's forecasts assume that social security systems will remain virtually unchanged in future. However, it has been adequately demonstrated elsewhere in this publication that pension and health-care systems have been overhauled recently, and these changes will make their mark over the next 20-30 years. More reforms can be expected, and this should be taken into account.

Important as it is, population ageing is but one of many factors that will shape tomorrow's society. At the "4th ISSA International Research Conference on Social Security" in Antwerp in May 2003, debate centred on how to craft a suitable framework for what might be termed a "long-life society". An ageing population alters the inter-generational balance; the implications for family, the labour market and social security systems are considerable. Box 2 seeks to define the main social changes to be expected, drawing on Esping-Andersen (2002). The life-cycle adjustments that population ageing is set to trigger will often magnify other changes affecting the family and society, creating the need for a new inter-generational contract.

Strengthening the sustainability of social security systems

The aim of this section is to dispel some of the myths about the implications of ageing populations. The intention is not to dismiss the real difficulties that social security schemes may face in future, but to put into perspective the doomsday scenarios that permeate debate in this area. The factors outlined all revolve, in one way or another, around employment. Contrary to popular belief (World Bank, 1994), it is argued that savings (for example, in the form of pension funds) are not necessarily a growth factor. The links between funded pension schemes and savings, savings and productive investment, and investment and growth are theoretically and empirically questionable and the subject of much debate (Barr, 2002).

Job promotion

Job promotion is just as crucial as economic growth to the future of social protection systems. A wide range of recent studies has shown that the drop in labour supply triggered by population ageing could be partially offset by higher labour-market participation, at least over the next 25 years. This type of corrective measure is chiefly needed in European countries. Each country's starting point – that is, its potential for increasing employment – varies according to its rate of unemployment, the number of working women, the average retirement age, its birth rate and the number of immigrant workers. According to recent OECD forecasts for annual GDP growth in 2030, member states could record strong economic growth provided that older workers do not retire too early and more women enter the workforce.

Box 2 *Main changes accompanying population ageing*

While the forthcoming social changes are potentially endless, the following five are worth particular consideration since they have a sizeable impact on new social risks and needs and will shape the emerging "long-life society".

Life-cycle changes. The transition towards adulthood takes longer and culminates later. During this period, people spend more time in education, start families later and face instability in their professional lives. They have children later in life. Their lives are less linear and therefore less stable and more complicated. At the other end of the continuum, the transition towards retirement has been brought forward, thus extending the period during which individuals fully capable of work are out of paid employment (see Chapter 8).

Families and households. Single-parent families are increasingly commonplace, and the recent trend towards families with two working parents has been consolidated. As a result, new types of vulnerability have crept in. Two-parent families enjoy a higher average income, since, increasingly, both parents work, but a new gap has emerged between these two predominant types of household.

Tougher labour market. Skills are increasingly sought-after, indeed necessary, to secure a good job. Unqualified workers are increasingly less likely to find stable, well-paid employment and more prone to a precarious existence. The services sector favours qualified workers, but a deregulated labour market generates a high level of unskilled jobs.

Growing income disparities. After years of income convergence, the 1980s marked the start of a trend reversal, with income disparities rising in virtually all countries of the OECD. To date, higher social transfers have held such disparities in check, moderating their impact on available household income. This gap, coupled with the difficulty countries face in increasing social transfers, will undoubtedly generate new social inequalities.

An inter-generational contract facing potential conflict. Full employment, real wage growth and fewer older people enabled the implementation of a policy that improved senior citizens' living standards. Today, the inter-generational contract is under pressure because there are more pensioners, and their living standards compare more than favourably to those enjoyed by younger households, who face a whole host of new risks. Moreover, the growing number of older people is likely to carry greater political weight, which may conflict with demands for much-needed investment in children and young people. That is the real essence of the sustainability challenge.

Source: Adapted from Esping-Andersen, 2002.

Hence job promotion is a vital instrument in reducing the economic cost of population ageing and in fostering overall prosperity. The problem is that, for years, many countries have been grappling with acute unemployment and underemployment, and the policies implemented to tackle these issues have failed, leaving little hope of higher employment rates. Some experts believe that the dismal results of employment policies implemented in most European countries, and their relatively low employment levels, have exacerbated the implications of population ageing. If a substantial proportion of the working-age population is jobless, those in employment are called upon to support a larger number of dependent citizens. More optimistic specialists argue that this trend might ultimately prove to be an asset, as the resulting labour-market reserve could be used to boost job rates, whereas high-employment countries would find it hard to increase their workforce further.

In most European countries, high unemployment is combined with a shortage of skilled workers in some sectors, with the situation set to worsen once the sizeable ranks of the baby boom generation retire. The effectiveness of job creation policies in these countries will therefore depend on their ability to bring the jobless (back) into the labour market. To that end, greater investment must be channelled into the education and vocational training of jobseekers, to align their qualifications and skills more closely with companies' needs.

Greater female participation in the labour market is often perceived as one of the key answers to population ageing. As can be seen in Nordic countries, relatively high fertility rates do not necessarily rule out an increased female presence in the workforce, although the state must provide families with benefits and social services, and employers must offer both parents working conditions that enable them to reconcile professional and family lives (see Chapter 3). It should be noted that the impact of higher female employment is contingent not only on the actual number of women in paid work, but also on the type of jobs they hold. If most women entering the workforce are in part-time, unstable jobs, the benefits could be limited, despite a nominal rise in overall employment.

Increased female participation in the workforce is not only an effective way of safeguarding families, particularly single-parent families, against poverty. It also fosters greater financial security for retired women, most of whom will live much longer than men. Low wages, career breaks and the skewed division of unpaid work mean that older women are not always entitled to a pension, and if they do receive one, it is generally lower than that accruing to men. Bolstering the number of women in the labour market will therefore have the dual advantage of restoring balance to the ratio between workers and dependents and securing women a higher income during retirement.

Other categories of "non-workers" could be tapped to boost labour supply, subject to the right policies being implemented. Cases in point are the long-term unemployed and the considerable number of people drawing disability pensions, many of whom could return to employment through reintegration policies (workplace adjustments, change in attitudes, legislative incentives, etc.).

Together with economic growth, job creation is vital in safeguarding the future of an ageing population. The viability of social protection systems and personal retirement savings schemes is largely contingent on society's ability to right the balance between workers and dependents in a fair and effective manner.

Reversing the trend towards early retirement and combating ageism

Reversing the trend towards early retirement (see Chapter 8) is another cornerstone for any strategy designed to make social security systems viable. Measures to this end would correct a paradoxical situation, in which older people live longer and enjoy better health, yet the effective retirement age has fallen drastically over the past 30 years. Despite a reversal in many countries, the effective retirement age is still, on average, significantly lower than the statutory threshold. Harnessing older workers' productive capacity for longer would strengthen the viability of pension schemes in three ways: (i) goods and services produced by a larger workforce would bolster economic growth; (ii) payment of pensions, unemployment and disability benefits would be postponed for those remaining in employment; and (iii) increased tax revenue and social security contributions would help fund pensions and other benefits. In other words, it would be in the interests of government authorities to take measures to align the effective retirement age much more closely with the legal pension age rather than raising the latter.

In addition to strengthening the viability of pension plans, reversing the early retirement trend might offer further advantages. Most people see work not only as a source of income, but also as a useful means of social integration. A large number of early retirees would prefer to remain in employment, including those opting for retirement to avoid unemployment. Many companies use early retirement as a relatively inexpensive and socially acceptable way of downsizing. That policy, however, carries a hefty price tag for society in general, which is called upon to fund the social benefits accruing to those taking early retirement and to shoulder the related loss of human capital and productive capacity.

A move away from early retirement would require a major change in socio-cultural models and attitudes. In many societies, early withdrawal from the labour market is currently seen as both desirable and acceptable, even for people in full possession of their faculties and in sound health. This view is linked to workplace dissatisfaction, the negative image associated with older workers and the labour-market discrimination they suffer.

In other words, reversing early retirement means taking steps to combat age discrimination in the workplace. It is often claimed that older workers are less productive than their younger colleagues. However, there should also be due recognition of their extensive professional experience, built up throughout their careers. Companies shedding older workers are squandering human resources. In a few years' time, when skilled workers are in short supply, such an attitude will seem incomprehensible. A growing number of companies and governments have now acknowledged the advantages to be gained from hiring and retaining older workers, and have acted accordingly to foster employment in that age bracket. Further training policies should enable workers, in particular older workers, to adjust continuously to the labour market by updating their skills and qualifications.

Employing older workers is not just an economic imperative. It is also a good way of enhancing their well-being. Work is still one of the best means of social integration. In the best cases, it can enable older workers to integrate with new social groups, feel more confident and fulfilled, and maintain their physical and mental skills. However, it should be borne in mind that jobs can also sap an individual's well-being and health, often through poor working conditions and stress. Hence there is a direct link to better working conditions for all, one of the chief goals pursued by the International Labour Organization (ILO).

Future generations of older workers in the major industrialized countries are likely be better suited to working longer than their predecessors. Better qualified and healthier than their parents, they will have the potential to extend their working lives by a few more years.

Tackling the challenge of atypical employment

Employment is not just essential in enabling social security schemes to meet the challenges of population ageing. It also has a direct bearing on the level of social protection afforded to individuals (see Chapter 7). Unstable employment, part-time and temporary work, career breaks, unemployment and low wages all increase the risk of not receiving an adequate pension, ultimately perpetuating insecurity of income post-retirement. This trend has been exacerbated by recent reforms to contributory pension schemes, which have strengthened the link between contributions and benefits and, by extension, between people's careers and the income they receive upon retirement.

Securing a stable income during retirement is a particular concern for people in atypical employment and those working in subsistence farming or the informal sector, even more so in developing countries and, increasingly, in middle-income countries. People employed in the informal economy are generally excluded from all public social security schemes and therefore have little coverage for illness, disability, pregnancy, unemployment and old age. Similarly, "new" freelances, that is employees passed off as freelances to reduce social security charges, will see their entitlements to benefits drastically reduced. Giving these workers full access to public social protection schemes would significantly benefit society as a whole. Individual workers and their families would enjoy better protection against life's risks, and increasing the number of people covered by and therefore contributing to social insurance would ensure that the financing of social expenditure was more evenly shared within society. Given the rapid expansion of informal economies in so many countries over the past few years, there is a need to extend social security cover to the workers affected.

If social protection systems are to offer pensioners a sustainable and stable income, they must provide an adequate level of protection to those in atypical employment and the informal economy. A key step in this connection would be to award a basic pension to all people unable to pay in sufficient contributions during their working lives, as recommended in the International Plan of Action on Ageing adopted at the Madrid "World Assembly on Ageing". Whether it is part of the general pension scheme or separate, universal pension cover would have to be carefully planned. Clearly, the sums paid out would have to be high enough to enable beneficiaries to avoid the poverty trap and enjoy a decent standard of living.

Lessons for the future

A whole host of studies have recently been published exploring the ramifications of population ageing, generally looking at 2050. Each has come up with theories on growth rates, the evolution of productivity, the potential for increasing the workforce and labour-market participation, and prospects for higher immigration flows, albeit with vastly different social security implications (Sigg, 2002).

A recent study of the International Labour Office (ILO) (Cichon et al., 2003) suggested that industrialized countries could only achieve a real increase in per capita growth over and above productivity growth by boosting labour-market participation and fostering immigration. If growth forecasts are substantially higher than productivity rates, the number of immigrant workers required will rise dramatically. That would not bode well for host countries, where integration issues might have disastrous social and political consequences, or for home countries, where the brain drain would hamper economic growth. More specifically, econometric forecasts made for the countries of the European Union before its expansion show that, other things being equal, if growth is 0.5 per cent higher than productivity, and labour-market participation increases by 15 per cent, new immigrants would need to account for roughly 20 per cent of the population by 2050.

In summary, the policy implications are that there is no panacea. Immigration alone cannot fill the population gap. Similarly, a massive rise in labour-market participation will help increase employment rates, but will not offset the fall in the number of workers. Higher birth rates are also an option, albeit a long-term one. Ultimately, these and other factors will have to be combined to attain growth levels on a par with those recorded over the past 20 years (in the region of 2-2.5 per cent per annum in OECD countries) and provide young and old alike with a decent standard of living. The measures set out below should at least be considered in countries with a particularly poor demographic structure (for example, in mainland Europe):

- Bolster labour-market participation by at least 15 per cent, by integrating more non-workers and encouraging people to work longer.
- Agree to share wealth with a significantly higher number of immigrants, who could account for up to 25 per cent of the population by 2050.

- Maintain a high level of productivity increases (roughly 1.5 per cent, which has been the average in industrialized countries over the past 20 years), and if possible maintain economic growth of no less than 0.5 per cent, to be achieved through technological improvements and more efficient work structures.
- Examine family policy options, in particular those that reconcile work and family life, enabling women to have as many children as they want (between 1995 and 2000, France increased its birth rate from 1.6 to nearly 2 children, thus proving that higher rates can be achieved).
- Revise purchasing power expectations, which cannot measure up to levels recorded over the past few decades. Real income growth of 1-2 per cent might, however, be possible.

Although the outlook is not as bleak as it seems, a radical change of attitude will be required. That is the challenge that population ageing presents over coming years.

Population ageing in developing countries

Population ageing is often portrayed as an issue relevant only to industrialized countries, where the ranks of older people are already considerable. Received wisdom dictates that most developing countries are shielded from this problem or, at least, will not be confronted with it for many years to come. However, many developing countries will face huge social and demographic pressures over the next few years. Whereas the proportion of older people in OECD countries doubled from 7.5 per cent to 15 per cent over 150 to 200 years, the same leap is forecast to take less than 50 years in some developing countries. That would severely test the adaptability of societies affected, particularly in countries where birth rates are in decline.

Some of these countries are ravaged by pandemics such as AIDS or malaria, which further undermine their capacity to tackle the problems associated with ageing. In some states, particularly those in sub-Saharan Africa, the workforce has been cut down, production capacity is slipping and the public authorities do not know what to do with the growing number of children and older people who have no-one to care for them.

As noted in Chapter 1, social security schemes in many developing countries cover a minority of the population, chiefly civil servants and formal sector workers. The vast majority, however, are employed in the informal sector and often receive no social protection whatsoever, making them vulnerable to the poverty trap if they can no longer work on a temporary or permanent basis. If their lot is to be improved, not least in terms of health-care and pension cover, they must be given access to public social security schemes. A comprehensive social protection network would effectively safeguard the poorest in society against destitution.

Developing countries, however, have key assets in the shape of staunch family and community ties and a deep-rooted sense of solidarity. Such assets are vital in coping with population ageing, not least in countries with minimum social security cover. Support networks within families and communities enable resources in cash and in kind to be transferred from workers to non-workers. As solidarity underpins these networks, transfers are not one-way but, insofar as possible, constitute an exchange. Older citizens receive money, food and other goods, and in return they play a key role in family and community life.

Be that as it may, the strength of family and community bonds should not be overestimated. Support networks have been weakened by a series of factors, including increased mobility as a result of urbanization and migration, new family structures, illness, natural disasters, underemployment, poverty and destitution. It is reasonable to assume that families and communities will not be able to continue caring for all members of society, which means that large swathes of the population will no longer receive this type of support. In any case, family and community networks are not supposed to replace public social security schemes, but rather supplement them as part of a comprehensive social protection strategy. Public and private support mechanisms can be complementary. Public aid could intervene when a family or community no longer has the resources to cope, which in turn would strengthen support networks. In other words, a strategy that builds on public schemes and private assets will yield a social protection system that takes into account a population's needs and resources. An equitable approach would be to provide social security benefits and services to those in need, without dismantling existing support networks. For example, if the state introduced public childcare facilities, it would have to be careful not to deprive older people of the role they play in looking after young children, but rather incorporate them into the initiative. The approach would be economically and socially viable and an innovative way of developing social protection in low- and middle-income countries.

Debate on the sustainability of pension and health-care systems in the industrialized world should not deter developing countries from adopting similar schemes. They should, however, assess experience gained in other countries, bearing in mind their respective social and economic circumstances. Governments in some developing countries, particularly in south-east Asia, are increasingly aware of the need to introduce viable social security systems, in order to achieve genuine economic development, and have taken steps to this end over the past few years.

Towards a global strategy

Population ageing will unquestionably be one of the key factors shaping social and economic development across the world over the next few years. Each society will need to find a viable adjustment strategy. The "Second World Assembly on Ageing", held in Madrid in 2002, underscored the active role that older people can play in society. Active ageing is increasingly portrayed as a promising model for the future. The idea, which has been popular for some time now, acknowledges the contribution that senior citizens make to society and promotes their active involvement in all areas.

The World Health Organization (WHO) defines active ageing as:

> "The process of optimizing opportunities for physical, social and mental well-being throughout the life course, in order to extend healthy life expectancy, productivity and quality of life in older age."

One of the cornerstones of active ageing is employment, in the broadest sense of the term, in other words including unpaid activities, community work, involvement in charities and hobbies. Active ageing has a direct impact on an individual's health and physical and mental well-being. The strategy is mainly geared towards social integration, but also seeks to foster autonomy, dignity and freedom. It is worth noting that active ageing is relevant for all age brackets, not just older citizens.

Increased life expectancy will become the hallmark of our societies in coming years. In "long-life societies", people will switch between paid employment and voluntary work throughout their lives and will be more active in old age than previous generations.

Social security should be an integral component of any active ageing strategy, to ensure an adequate standard of living for all those unable to earn an income, owing to age, disability, poor health or other constraints. Pension levels should be ample and stable enough to enable older people to live out their final years free from financial worries. That is a pre-requisite if they are to remain in employment. However, it is equally important that they be fully integrated into society, enjoy the same rights as other citizens and have access to health services and high quality, long-term care. In this connection, there is some doubt as to whether the current trend towards greater individual responsibility, in particular shifting cost to the individual, will guarantee a sufficient degree of social protection to provide the standard of living required for a full, active and socially useful old age.

A long-life society must cater for young and old alike. Population ageing makes it more important than ever to provide families with decent conditions in which to raise and educate their children. More specifically, families should be guaranteed the financial resources needed to shield them from poverty and give them access to education, health-care, and childcare facilities. Although there is no proof that a comprehensive family-friendly policy triggers a rise in birth rates, there will clearly be no increase in the absence of such an initiative. Economic globalization makes spending on education an even more crucial investment for a country's competitiveness and productivity over coming years.

Education should increasingly be perceived as an investment, in both a country's economy, since it improves workforce qualifications, and its citizens, who earn a decent wage and are ultimately able to secure better social protection. Education should be a permanent feature of a long-life society, enabling people of all ages to remain fully fit for work and, in due course, be more active and autonomous in old age.

The real quest over the next few years will be to devise a global strategy to tackle impending social and demographic changes. The strategy needs to be based on a realistic assessment of the situation. Population ageing affects a wide range of policy areas, including the labour market, economy, education, social security and health.

These areas are generally managed by a variety of stakeholders reporting to different ministries, guided by their own specific rationale. For example, many countries have introduced policies enabling employers to encourage early retirement as a way of reducing staff levels. However, early retirement undermines efforts to curb pension spending. A global strategy would seek to avoid such inconsistencies and foster a coherent, efficient approach in future.

Social security institutions might find it even more difficult to achieve an integrated approach. A range of different funds and government divisions are often involved in areas such as old age, disability, unemployment and family, making it hard to ensure a coordinated or coherent attitude towards the people concerned. A number of trials involving one-stop-shops and using current information technology resources prove that some degree of integration is possible and very much in the interests of both scheme members and other social security beneficiaries.

Time and again, societies have proven their remarkable ability to adjust to change, and there is no reason why they should not do likewise in respect of population ageing. Adjustment will be facilitated by the fact that it will be based on policies to bolster employment and productivity, with due regard for the needs of all population groups. Only in this way can we guarantee citizens of all ages a just and fair society.

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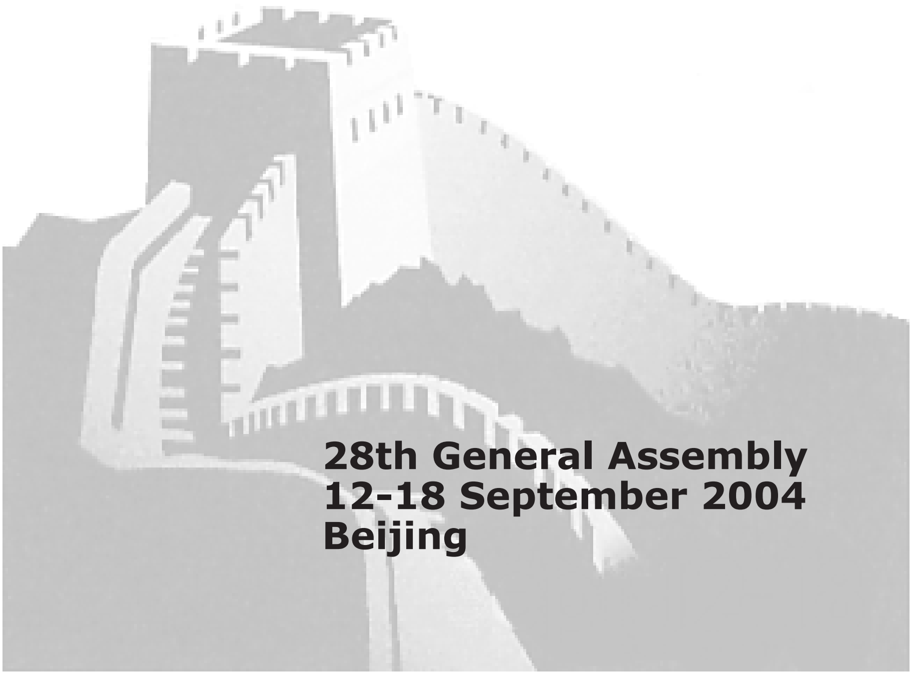
Appendixes

Development and Trends Plenary session

Overview and panellists' interventions



Appendix 1

Overview

The “Developments and Trends” plenary session of the 28th General Assembly of the ISSA was devoted to reporting global developments in trends in social security. As identified in the report accompanying the session, *Developments and trends in social security 2001-2004*, three crosscutting themes were highlighted as currently pertinent to the administration and delivery of social security globally:

- better tailoring social security benefits to societal demands;
- strengthening the responsiveness of social security to the individual; and
- fostering integrated policy approaches.

The duration of the morning plenary was dedicated to addressing the wider national and international implications of these identified themes.

The chairperson, Mr. Zheng Silin, Minister of Labour and Social Security, the People’s Republic of China, invited Dalmer D. Hoskins, Secretary General of the ISSA, to address the plenary. Using the three identified themes as a starting point to develop upon some wider and possible future implications for national social security programmes, the Secretary General first drew attention to the fact that social security debates have matured and moved beyond acrimonious disagreements about public versus private management and delivery. In turn, the previous emphasis on financial sustainability has been replaced by an awareness of the need for programmes that are not only financially sustainable but also adequate in terms of benefits and the number of people covered as well as administratively practical for the country in which they operate. For instance, in some countries the increased prevalence of privately managed schemes has not provided a panacea for coverage or benefit adequacy as anticipated by some. In short, and regardless of the public-private mix, social security must be effective, affordable and administratively feasible.

Yet, social security must also adapt to the new global environment. But adaptation depends on political "will" to implement reform. Henceforth, social security mustn't be viewed only as reactive but as an active element for economic growth and a force for change. It must be proactive and take into account the entire life course. As one example, a healthy, educated and committed workforce is vital for national competitiveness in the global economy. It is beyond question that social security is essential to social and economic development. However important challenges remain. How do we measure the success of social policy, including social security, in improving the lives of citizens; in other words, how do we measure the "social rate of return"? Globally, and regardless of the measure used, coverage under formal social security programmes is unsatisfactory. Social security administrators must move beyond existing models in search of new and creative solutions involving all actors and stakeholders. From the perspective of enhancing the effectiveness of administrative procedures, the development of improved and integrated social security systems demand better communication among all actors playing a role in social security administration.

The purpose of social security is to help create a more stable and socially inclusive world. In all countries, the goal for this new century must be a safety net of social security for all citizens. In pursuit of this objective, and regardless of the acknowledged challenges, current developments and trends suggest a newfound confidence in the future direction of social security.

The moderator, Nicholas Barr, Professor at the London School of Economics and Political Science in the United Kingdom, invited the panellists to take the floor. Jo Anne B. Barnhart, Commissioner of Social Security in the United States, discussed the geopolitical implications of demographic change and the emerging need to seek global solutions to global problems. Internationally and nationally, increased labour force mobility demands the greater portability of pension and health care rights from employer to employer (from private sector employment to public sector employment and vice-versa or from one country to another). In the coming years, countries must focus on a variety of methods to prepare for the "greying of society". The developed and developing worlds must work together to engage this challenge constructively. This presents an opportunity to forge new bonds between nations.

The Argentinean case focussed on the dangers of moving too far and too quickly away from social security's traditional principles of solidarity and risk pooling. Specifically, Alfredo H. Conte-Grand, Deputy Minister of Social Security in Argentina, suggested that Argentina provided a clear example of some of the problems associated with economic and social liberalisation. Argentina was referred to as having suffered an "overdose of liberalism". Underlining the limited capacities of the poor to manage a heightened degree of individual risk, Alfredo H. Conte-Grand cautioned other countries about the wisdom of pursuing a similar agenda. Recent Argentinean experience also underlined the importance of universal approaches, which at a minimum must have state regulatory guarantees. An issue common to all developing economies, extending coverage under contributory schemes for atypical workers was also an issue to be examined. It was conceded that the market may complement state schemes, however, the emphasis must be placed on attaining adequacy for all through public schemes.

The case of the Côte d'Ivoire was made by Clotilde Ohouochi, Minister of Solidarity, Social Security and the Disabled, and provided an opportunity to consider lower-income country issues, as well as issues specific to Africa. The priorities and constraints in developing countries are different. For instance, the problems relating to retirement were less relevant than health care. In this vein, the development of universal healthcare financed through variable income-related contributions was a tailored response appropriate to the needs and capacities of the country. There was a progressive approach to extending coverage.

In contrast with Africa, Germany provided a different set of lessons with regard to how we should interpret the key themes, as noted by Bert Rürup, Chairperson of the German Government Social Policy Advisory Council. How social security systems are designed and financed is a political decision. There is no one correct approach. However, it is desirable to have a mixed system, including supplementary personal and occupational systems. In relation to the latter, if voluntary membership fails to provide adequate coverage, consideration should be given to mandatory coverage. If taken, this decision implies a stronger regulatory role for the state. As such, the active welfare state will increasingly be an activating and regulating welfare state. Evolving welfare states present costs and consequences. Effort should be directed at spreading the real costs of reform as evenly as possible across all generations and in a manner that favours growth and employment.

The moderator concluded the first part of the plenary by drawing attention to four themes common to the interventions:

- the need for benefit adequacy;
- the universality of coverage;
- the administrative capacity to deliver benefits and services as expected; and
- the need to ensure a sustainable social security system providing security into the future.

Question and answer session

A shared concern among participants from Saudi Arabia and Jordan was whether policy responses to the ageing of the population would place a disproportionate burden on future generations in terms of cost and jobs. The view was reiterated that the burden of the costs of reform must be shared as equally as possible. In addition, there was no conclusive evidence that increasing the retirement age would result in fewer job opportunities for younger workers. A delegate from Belgium drew attention to developments documented in the accompanying report focussed on the traditional branches of social security and wondered whether it was relevant to now also consider new types of social "rights", for example, the provision of universal access to decent housing or legal services. Airing doubts about a more global approach to the investment of retirement scheme funds, a French delegate queried whether this strategy was too risky and whether sufficient and uninterrupted economic growth necessary for the healthy expansion of defined contribution plans could be guaranteed.

In relation to domestic concerns, an Australian delegate observed that while a certain level of state regulation was necessary to protect capital, it is essential that good governance, the provision of adequate information and a choice of investment opportunities accompany this.

In the context of international labour migration, in many countries there is a need to consider the issue of how we accord rights to migrant workers. To what degree should emphasis be given to the worker's country of residence (work) or his or her country of origin? Focusing on the gender dimension of social security reform involving the creation of private mandatory accounts, the Kazak delegate highlighted that many women, as well as low income workers in general, cannot build adequate funds in their individual accounts for retirement purposes.

Providing a synthesis of the issues and questions that arose in the plenary, Dalmer D. Hoskins concluded by focussing on the challenge of building a broader approach to social security. Social security must be more than poverty alleviation. It must also provide opportunities to help individuals prosper and develop in society. Social security institutions must all help in communicating this message.

To conclude the session, Minister Zheng Silin congratulated the panellists for a successful plenary and, on a personal note, remarked that the scale of the challenges confronting China were very large. The strong relationship between the Ministry of Labour and Social Security, the People's Republic of China, and the ISSA was important to helping meet these challenges, and not least for the issue of providing adequate social security to the Chinese people.

Appendix 2

Toward newfound confidence

Dalmer D. Hoskins

Secretary General
International Social Security Association (ISSA)

As the evolution of social security discourse illustrates, today's key policy questions are no longer centred on polarised "public verus private" debates. Current concerns are now centred on an awareness of the need for programmes that are not only financially sustainable but also adequate in terms of benefits and the number of people covered. No less important, programmes must be administratively feasible for the country in which they operate. These are today's challenges. Positively, and premised on the existence of political "will", there is evidence of a newfound confidence in the role played by social security in promoting social and economic development. However for this newfound confidence to be realised more fully social security must become more proactive, the administration of social security must be enhanced, coverage must be extended and secured, and policy design must take into account the entire life course.

Since the last General Assembly was held in Stockholm in 2001, we celebrated in Brussels in 2002 the 75th anniversary of the founding of the ISSA. It was a moment for celebration and for recalling the past. But today I want to challenge you to focus on the future with the same intensity of effort and the same wisdom on the issues that will determine whether we continue to enjoy success in our mission.

After well over a decade of heated public debate about the future of social security, this ISSA General Assembly takes place in Beijing at a decidedly more positive moment.

The debate has moved away from acrimonious and frequently ill-informed exchanges about public versus private solutions and about government responsibility versus individual responsibility.

The emerging consensus around the world is that social security is in fact essential to economic and social development.

> Durable economic development cannot occur unless attention is paid to providing adequate social protection against the risks of sickness, disability, work injury and old-age.

What is behind this new-found confidence in the future direction of social security?

The answer is complex and difficult to see, particularly when we – as elected officials, policy-makers, and social security administrators – are so close to the unfolding events.

What is clear is that we have moved well beyond the post-war era, well beyond the era of the "Cold War", and that we now have entered the era of the global economy.

Each nation is now struggling to adapt to competition in international markets; jobs are lost or created as the result of decisions taken by corporate managers working on the other side of the world; workers respond by migrating across borders to wherever they can find better employment, and they are forced to return home when the labour market of the host country falters in the face of global competition.

Gradually the lesson is being learned that international competitiveness and economic progress fundamentally depend on fostering healthy, educated and dependable workers. Relying solely on market solutions to achieve this goal means running a great risk.

> Social security is thus an integral part of any strategy to ensure that economic development does not result in ever-widening income gaps, growing inequalities in health care, social instability and even civil unrest.

Optimism about the current and future role of social security also stems from the evidence that social security systems are indeed adjusting to the economic and social realities of their societies. The report on *Developments and Trends* presented at this General Assembly documents a vast number of significant reforms that have been made in every branch of social security.

Certainly, reform is never easy and in many countries reforms are incomplete, but progress *is* being made.

These changes demonstrate that in many countries social security has moved from being essentially reactive – providing medical care and paying benefits in the event of sickness, injury or old-age – to being proactive, to becoming a force for long-term social well-being.

This is an important and necessary change for the world in which we now do our work.

This approach takes into account the entire life course. This approach creates incentives and imposes obligations on beneficiaries to change their lives for the better through education, re-training, and job experimentation; by seeking preventive health care; by changing their life-style habits, and by making it easier for families to combine work and caring responsibilities so that they will have the optimism to have children and the means of taking care of their older family members.

For all of this – for the successful outcome of the debate about the very future of social security, and for the beginning of a forward-looking culture in social security systems – each of you can take satisfaction in a job well done.

It is not, however, a job completed. Indeed, we have challenges – very great challenges – before us.

The issue of coverage

Complicating this challenge is the fact that the very changing historical conditions that have produced a positive outcome of the debate about social security also make continuing success more difficult.

Let us look first at the issue of social security coverage – the portion of the population protected by formal social security programs.

With the changes taking place due to globalization, the portion of the labour force in the informal sector has become an increasing phenomenon, particularly in developing countries.

Indeed, the International Labour Organization (ILO) estimates that approximately 80 per cent of the world's population are not adequately covered by formal social security. Even in the OECD countries, it appears that there is a growing number of workers who are uncounted and unprotected.

As we look ahead, then, one of the biggest challenges facing ISSA members and therefore your Association is how to expand the scope of social security coverage. This has been the principal theme of the *ISSA Initiative* and will be a topic of our deliberations when the results of the *ISSA Initiative* will be presented. Moreover, the plenary session led by the ILO will focus on social security protection of rural populations.

There are many questions to discuss:

- Will the social security models that worked well in Europe, North America and elsewhere, where coverage gradually expanded over decades, be successful in other parts of the world? Will community-based approaches, micro-insurance or non-contributory universal benefits financed by the state be part of the solution?

Social security administrators must contribute to the debate over how to extend coverage, and they will be expected to propose new and creative solutions for protecting those persons who until now are outside the systems they administer.

Toward more integrated social security protection

To complicate our task, the answers to these questions must be forged at a time of great change in the role of governments worldwide. Governments in many parts of the world seem to be increasingly hampered by revenue problems and diminishing public confidence in their capacity to govern. There has moreover been a marked shift toward more individual responsibility and multi-tiered models of social protection.

Just few years ago it was fashionable to pronounce the death of the welfare state. However, today we realize that a shrinking government can spell great trouble for society in the long run. We realize that only governments can take the initiative to foster an environment in which rights to both private and public forms of social protection can be regulated and protected.

At the same time, we now understand that government cannot do everything and that the stakeholders – employers, trade unions, non-governmental organizations, community-based organizations and individuals – each have important roles to play in providing social protection to members of society.

Pointing to demographic changes and rising health care expenditures, the response of many governments has been to scale back promises of old-age pensions and health care. According to the *Developments and Trends* Report, in many countries steps have been taken to encourage greater individual responsibility for retirement income and health care while at the same time better regulating the privately administered schemes providing these benefits.

However, we are still very far from reaching the goal of creating coherent, efficient and effective systems of protection which are composed of layers of public and private protection.

Workers in many industrialized countries, for example, already contribute to supplementary privately managed pension schemes. And many families in developing countries try to set aside savings to finance future health care and old-age needs. However, the experience of social protection shows that voluntary coverage usually leaves about half of the population uncovered. Better off workers may be induced by tax advantages available for voluntary retirement or health insurance schemes, but lower-paid workers have other urgent priorities.

There is a growing recognition that finding the right mix of public, private and individual provision of social security protection is a complicated question and one of the most pressing priorities for the future.

In many countries, the much touted shifting of the burden of retirement pensions from the public sector to the private sector has not been the success that was anticipated. In fact, it is now clear that few significant efficiency gains have been realized from increased private provision.

Further, greater reliance on private provision has exacerbated the problem of coverage and adequacy of benefits, as many workers have found it both tempting and relatively easy to opt out of participating in any scheme. The potential of increased poverty in the future among the elderly in these countries is a cause of growing concern.

No one would dispute the need for both public and private provision of social security protection, but what is the appropriate mix? How can participants' rights be protected when promises are made by privately managed schemes? How can under- or over-regulation of privately managed schemes be avoided? How can inequality of access to privately provided benefits be overcome?

These are complex issues and will require all our experience and all our energy if we are to find successful solutions. My instinct, based on many years of experience of observing and helping to shape social security programmes, is that our mission will be best served by seeking solutions within the broader context of an integrated social security policy.

The well over 100-year history of social security is marked by strict demarcations among risks – work accident insurance, unemployment insurance, old-age and invalidity insurance, sickness insurance. This, in turn, has contributed to the institutional independence of the agencies, administrations and ministries which deliver social security benefits to their clients.

This independence has generally served social security well. It has led to innovative solutions to better serve participants and helped to ensure the financial stability of the different social security branches.

Does this mean that the future will be equally as well served? – Perhaps not.

Without questioning the autonomy of the branches and the administering institutions, we now realize that there must be greater integration of social security policies across these traditional boundaries.

Why is this so?

Put simply, social security is not only about paying benefits in the event of certain risks. It is also about preventing poverty and creating a more stable and socially inclusive society. In fact, social security is all about creating a more stable and socially inclusive world.

And if we are to help create this more stable and inclusive world, we must recognize it is also a profoundly changing world.

Men and women no longer live their lives within strictly defined gender roles, or proceed smoothly through the different stages of the life cycle – education, employment and retirement. If the principal role of social security is to provide "security" to individuals, then social security is not only about making cash payments and providing medical care, but also about preventing insecurity, about preventing people from falling into poverty, and this necessarily requires greater coordination among the branches of social security.

Social security should encourage and enable citizens to stay healthy and economically active. Social security protection was never intended to encourage persons of working age to permanently withdraw from the labour force due to unemployment, disability or early retirement. Large numbers of premature withdrawals from the labour force create not only higher social security costs but also result in a significant loss to society of persons who no longer contribute economically to their communities.

Clearly, the steadily rising numbers in many countries of persons benefiting from cash sickness benefits and disability pensions, numbers which now often exceed those receiving unemployment benefits, is the sign of a serious dysfunction in society.

In addition, demographic ageing will undoubtedly be a powerful driving force obliging us to better integrate social security policy. Demographic ageing will in fact be a driving force in both industrialized and developing countries. The People's Republic of China is one of the world's premier examples of a rapidly ageing population. In 2000, ten per cent of the population of the People's Republic was aged 60 or over. In 2025, the proportion will be 20 per cent and in 2050 it will be 30 per cent.

Better integration of social security policy would entail, for example, promoting healthy life styles at younger ages so that people can avoid or at least delay the onset of disability and frailty at older ages. In order to increase people's working years, experience has demonstrated that raising the statutory age of retirement is only part of the solution; integrating benefits to make social security more "work friendly" would be far more effective.

Another example of integrated policies involves children and working parents. Combining maternity leave, childcare services, flexible working schedules and a family friendly work environment would help parents to retain their attachment to the labour market and thereby help to avoid the risk of poverty when one parent is left both to work and care for offspring. As the OECD has observed: "If societies fail to support both parenthood and work, too many children will be exposed to the risk of poverty, and there is little chance that fertility rates will recover."

This new outlook will require all of us to not only do well what we do today as we serve the public and as we administer and shape our social security programs. It also will require us to think more broadly as well as more boldly about the future.

No matter how solid the research and analysis on which more forward-looking policies are based, implementing them today frequently poses problems for social security administrators. Investment today in such programs will not usually result in short-term cost savings. The benefits are long-term, and a more stable and inclusive society can take decades or even generations to materialize.

We must find a new way to measure our success. We must broaden our horizon. We are used to developing actuarial tables that tells us how much money we will need to respond to the health and retirement demands of our populations. That is relatively easy. We can also look at our rate of return on investments and know, according to our current view of the world, if we are properly serving those who need to be served and if adequate funds are available to continue to do so.

What we need now is a new tool – a better tool – a tool to measure the social rate of return. In other words, we need to be able to measure the return derived from our social investment that takes into account, for example, how an investment today in the health and education of children will mean less reliance in the future on compensating for ill health and disability. If children are healthier and better educated, for example, they will be more employable when they join the labour force and will thus be better able to finance more adequate social security benefits for themselves and future generations.

This broader view of social security places great emphasis on prevention and on linking social security policies across different branches – from medical care to family allowances to work safety and on to old-age pensions. It embraces the entire life cycle, from birth to death. Clearly only governments and publicly administered social security institutions can take the initiative to achieve the goal of better integrated social security protection.

The mission of the ISSA

Our goal for this new century, then, is a very big one indeed.

What is needed in the 21st century is a safety net of social security protection to help workers and their families participate in the new global economy. Each country has a particular cultural heritage, political system and set of economic circumstances, but at a minimum, every country needs to provide to its citizens:

- access to affordable health care;
- financial and other support to prevent poverty among children;
- continuing education and training throughout the life course;
- protection against dangerous and unhealthy work places;
- unemployment protection for temporary out of work periods;
- retirement income arrangements that are portable from one job to another and even from one country to another.

Our world today is one of great contradictions.

In countries, such as the People's Republic of China, our host for this 28th General Assembly, there is abundant evidence that millions of people are moving out of poverty into a more economically secure existence. Our very presence in this city and in this magnificent hall bears ample witness to this change.

Yet, United Nations statistics show that there has been no improvement in poverty rates in the 50 poorest countries of the world.

As many workers enter the global economy, they find that the very underpinnings of their security today and for the future are being placed into question.

While there is renewed optimism about the future of social security in the new world of globalization, our mission remains unchanged, and that mission is no less than increasing the lifetime security of individuals.

Sixty years ago, the ILO adopted a very important document at a time when the world was wracked by war and suffering. That document, known as the *Declaration of Philadelphia*, stated simply and clearly that "poverty anywhere constitutes a danger to prosperity everywhere."

Times have changed. The world in which we live is vastly more prosperous. But that statement in the *Declaration of Philadelphia* is no less true today than when it was made 60 years ago.

Our task is as great as ever and I challenge you to begin today to define the path to our future.

By the end of this 28th ISSA General Assembly I am confident that we will have reached a better understanding how we can build on the new confidence in social security protection, on how we can reach a better understanding of how social security protection can be extended to the billions of our fellow human beings and how it can be ensured for those who already have it. Their futures – and ours – depend upon it.

Appendix 3

The challenge of global ageing

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Greater emphasis must be accorded to seeking global solutions to global social policy problems, not least with regard to the geopolitical implications of demographic change. Internationally as well as nationally, increased labour force mobility has heightened demands for greater portability of pension and health care rights from employer to employer and from private sector employment to public sector employment and vice-versa. No less important, all countries must increasingly focus on a variety of methods to prepare for the "graying of society". To address these issues, the developed and developing worlds must work together to engage these challenges constructively. Far from being problematic, it is argued that engagement with these challenges presents an opportunity to forge new bonds between nations.

Thank you for this opportunity to speak on a topic that, I imagine, many of the participants in this meeting are interested in – the challenge of global ageing. Social security policy invariably is a national undertaking; its contours are determined almost exclusively by domestic political and economic circumstances. Yet because retirement programs have long-term policy horizons, and their implementation will take place in an increasingly globalized world, it is important that policy-makers have an appreciation of the trends that will be shaping the global economic and social environment in the years ahead. I believe that global ageing will play an enormous role in shaping the social and economic future of the world.

One of the valuable roles this organization plays is to serve as an information resource on ageing policy. Through meetings like this one we are able to share ideas and experiences on how we can meet this challenge.

As many of you know, developed countries are not only the first to experience the challenges of population ageing, but together they account for two-thirds of global output and an even larger share of global trade and investment. Their collective success or failure in meeting this challenge, therefore, will do much to shape the international environment in which issues concerning ageing will occur for developing countries.

Global ageing will place new burdens on budgets. It will affect labour availability, global financial markets, and could affect geopolitical order.

The whole world is ageing – and today's developed countries are leading the way. By mid-century, 27 per cent of the developed world's population will be aged 65 or older. And that's just the average. In Japan and some European countries, the elder share will be shooting past 35 per cent. The People's Republic of China is also ageing very rapidly. By 2017, the People's Republic of China will have an older median age than the United States, and by 2050, the typical Chinese will be 44 years old, compared to 39 for the typical American.

There are two forces behind global ageing. The first is falling birth-rates. Worldwide, the average number of lifetime births per woman has fallen from 5.0 to 2.8 since the mid-1960s. In developed countries, the birth rate has fallen even further. Today, every developed country is below the 2.1 replacement rate needed to maintain a stable population over time.

The second force behind global ageing is rising life expectancy. Worldwide, life expectancy has increased about 20 years since World War II – a greater gain over the past 50 years than over the previous 5,000. In the developed world, life expectancy has increased by an average of two months a year for the last 150 years. Few demographers expect this trend to slow, and a growing number believe that it may accelerate as breakthroughs in biomedicine unlock the secrets of the ageing process itself.

Global ageing poses four fundamental challenges for today's developed countries:

- the fiscal challenge of rising retirement costs;
- the labour challenge of a graying and shrinking workforce;
- the financial challenge of asset devaluations and capital flow swings;
- the growth challenge of static or declining markets.

However you look at it, developed countries face a daunting economic challenge – a challenge that could engulf developing economies as well.

Global ageing may also usher in an era of greater instability in world financial markets. Some economists predict that the markets will experience a "great depreciation" as large segments of the population begin cashing out assets. At the same time, government borrowing to finance retirement could strain financial markets. Widening pension deficits may put intense pressure on regional economic and monetary entities. And they could also trigger swings in global capital flows – not just among developed countries but between the developed and developing worlds.

Global ageing is pushing the entire world into uncharted waters. Fifty years ago, six of the world's 12 most populous nations were developed countries. Today, just 3 are developed countries. Fifty years from now, only one developed country will remain on the list: the United States.

There is a window of opportunity to prepare for the ageing challenge, but it is narrow and about to close. Over the next decade, developed countries must focus on a variety of methods to prepare for the graying of society. Raising productivity, encouraging later retirement, increased immigration, rewards for families raising children, a scaled back reliance on pay-as-you-go benefits, and putting into place funded alternatives are some of the methods that could be employed to counteract the global ageing phenomenon.

At the same time, developed countries need to recognize that global ageing is a global problem requiring global solutions. While the divergent demographic trajectory of the developed and the developing worlds poses a challenge in the 21st century, it also offers an historic opportunity to forge new bonds between the developed and developing worlds. By working together we can ensure *Guo Tai Ming Ang* (secure country secure people).

The potential advantages of the globalization strategy are significant. Immigration and creative employment strategies can match jobs and workers, helping to ease labour shortages and boost economic growth. Cross-border investment can match savings activity and investment opportunities, allowing savers in older and more slowly growing economies to enjoy the high returns available in younger and faster growing economies around the world. In this win-win scenario, young people can help support older people across international borders. Even as developed world pension funds supply the capital, emerging markets need to become engines of global growth.

Developing economies can realize other advantages from these kinds of global solutions. Foreign employees can be encouraged to invest in local communities. Meanwhile, immigrants usually send money home, raising the living standards of those who stay behind. For example, the Inter-American Development Bank estimates that Latin America and the Caribbean will receive more than USD 400 billion in remittances this decade, three quarters of which will be from the United States.

Yet to be fully successful, the globalization strategy must overcome real obstacles in the developing world as well. In order to absorb the industrial world's retirement savings, developing countries will need to take steps to ensure transparency and security in capital markets. They should invest in human capital and public infrastructure. And they will want to avoid designing overly generous retirement systems that cannot withstand financial pressures of their rapidly ageing societies.

We live in an era defined by many challenges. Global ageing will have a large and enduring effect on the shape of national economics and the world order. And we cannot avoid it.

The developed and developing worlds must work together to engage this challenge constructively.

Appendix 4

Social security in Côte d'Ivoire

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Stressing that the policy priorities and constraints in developing countries are often different from more developed economies, the example of the Côte d'Ivoire is highlighted to consider lower-income country issues as well as issues specific to Africa. In contrast with the recent emphasis of debates in more developed countries, in the developing world the challenges relating to retirement provision remain less a priority than providing access to primary health care. Importantly, policy design must be tailored to and appropriate for the needs and capacities of the country concerned. Citing the development of universal healthcare financed through variable income-related contributions, evidence is presented of how coverage in developing countries can be feasibly extended through such a tailored response.

My contribution presents a global picture of our social security system as it now stands and above all provides information on the major reforms currently under way to improve the social protection of the population.

The current status of social security in Côte d'Ivoire

Existing systems

The social security system in the Côte d'Ivoire is currently based on a three-tier structure:

- Social insurance schemes;
- Mutual benefit funds;
- Private insurance schemes.

Social insurance schemes

This is based on a general scheme and a number of special or specific schemes, which are as follows:

- the general scheme for salaried and assimilated workers in the private sector;
- the pension scheme for civil servants and state employees;
- the supplementary scheme for retirement and disability pensions for parliamentary deputies and employees of the National Assembly;
- the supplementary scheme for retirement and disability for members of the Economic and Social Council.

The mutual benefit funds

These generally consist of mutual health funds. The most widely known are the General Mutual Benefit Fund for Civil Servants of the Côte d'Ivoire *(Mutuelle générale des fonctionnaires de Côte d'Ivoire* – MUGEFCI*)*, the Mutual Benefit Fund for the Armed Forces *(Fonds de prévoyance militaire* – FPM*)*, the Mutual Benefit Fund for the National Police *(Fonds de prévoyance de la police nationale* – FPPN*)*, company mutual benefit funds and the community-based Urban Health Centres.

Private insurance schemes

Private insurance schemes play a minor but certainly not negligible role in the Côte d'Ivoire; they provide cover for certain social risks, particularly sickness and old age.

The level of protection provided by existing schemes

The coverage provided by existing schemes is easily understandable in terms of the populations and the risks which are covered.

The population covered

The existing systems cover only a very small sector of the population, i.e.:

- employees;
- civil servants and the armed forces;
- national assembly deputies and staff;
- members of the Economic and Social Council.

Statistics show that the national social security system covers little more than 10 per cent of the total population. In other words, 90 per cent of our citizens are without social cover; particularly:

- rural populations;
- employees of the informal sector;
- the self-employed;
- the poor.

The risks covered

The existing schemes cover only a very limited number of risks, and in certain cases only partially. This is particularly true in the following instances:

- family expenditure;
- maternity;
- work accidents and occupational diseases;
- old age and disability;
- sickness (partial cover through mutual provident funds).

All things taken into account, the national social security system in the Côte d'Ivoire, although it provides assistance for part of the population against the harmful consequences of certain social risks, has major lacunae that need to be filled.

These weaknesses can be expressed as follows:

- a limited field of protection;
- modest amounts of benefits;
- difficult access to benefits for those eligible for benefits;
- inadequate information for users.

Current reforms

In order to improve the level of social protection provided for the population, the government has taken action since January 2001 to reform the social security system, in order to provide more comprehensive social cover and extend it to the whole of the population.

The Government has defined the main aims of its social policy as follows:

The main aims of the reform

The main aims will be to:

- encourage the extension of social protection to populations which are currently excluded;
- improve the level of social cover through the creation of new insurance branches (sickness, unemployment …) and improve existing benefits;
- harmonize the legal and institutional framework of the administrative organs;
- promote social security.

The development of the social security system along the desired lines is among the priorities included in the global strategy of the fight against poverty, and should lead to:

- an improvement in the living conditions of households;
- the provision of a retirement pension for everybody;
- the provision of financial access to health care for the population as a whole;
- the development of the medical sector, and therefore of the health cover provided for the population as a whole;
- a reduction of the effects of poverty and to combat social exclusion;
- the provision of assistance for the unemployed.

The introduction of a universal system of sickness insurance

The major reform within the social security system in the Côte d'Ivoire in the period 2001-2005, will be the introduction of the universal sickness insurance system.

The regular deterioration in the state of health of the population since 1988, provides ample justification for this option; the results of the "Poverty in 2002" survey *(enquête sur la pauvreté en 2002)* clearly indicate that there is support for this innovative project throughout the population.

Description of the project

Objective

The project to introduce a universal sickness insurance system *(Assurance maladie universelle* – AMU*)* is mainly intended to improve the state of health of the population, by ensuring that access to health care is financially available to all, without exception.

Organization and functioning of the system

(A) The principles of functioning

The universal sickness insurance system will be founded on the following basic principles:

- national solidarity;
- compulsory membership;
- the extension of cover to all residents (Côte d'Ivoire nationals as well as foreign residents);
- the introduction of two separate schemes (the sickness insurance scheme for agricultural workers and the sickness insurance scheme for other sectors);
- the decentralisation of the activities of the organisms.

(B) The administrative organisms

Three social mutual benefit institutions (IPS) will be responsible for the administrative, technical and financial administration of the system.

- The Agricultural Social Fund *(Caisse sociale agricole* – CSA*)*
- The National Sickness Insurance Fund *(Caisse nationale d'assurance maladie* – CNAM*)*
- The National Universal Sickness Insurance Fund *(Fonds national de l'assurance maladie universelle* – FN/AMU*)*

(C) Benefits provided

Under the basic compulsory scheme the AMU funds, while respecting the health pyramid, provide cover for the following medical acts: consultations, laboratory tests, surgery, hospitalization, medication, dental care.

The medical services guaranteed at each level of the health pyramid are listed under the Minimum Package *(Paquet Minimum d'Activités* – PMA*)*, described under the Act.

(D) The financing of the system

The system will be financed mainly from members' contributions, with the possible addition of exceptional contributions from the Government, included in the general budget.

Creation of the AMU: Current status

(A) Legal and institutional framework

The legal and institutional framework of the AMU is defined under an Act, as well as by the decrees creating the three administrative organizations.

(B) The work of the Steering Committee

As laid down in their respective terms of reference, the working groups set up under each of the above-mentioned technical areas have all completed their work, with the exception of the information technology sector, where studies concerning the structure of the computer design are on-going.

The proposals that were put forward were examined by the National Social Security Commission in July 2004 and are now on hold pending the final step in the process, their adoption by the Council of Ministers.

The instruments for social dialogue are defined and the actors responsible for increasing the awareness of the population and providing information on the AMU system have been placed in certain areas.

(C) The experimental phase

An experimental phase, which will last for a period of twelve months, from October 2004 to September 2005, will precede the general introduction of the universal sickness insurance system.

This experimental phase, which exemplifies our plan in terms of the progressive introduction of the AMU, is designed to test all the various instruments designed by the technical sectors of the Steering Committee and in particular, within the organizational framework, those concerning identification, registration, collection of contributions and administration of health care.

Appendix 5

Reforming social security: Lessons from Argentina

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Citing the Argentinean case, evidence is presented of the dangers of moving too far and too quickly away from social security's traditional principles of solidarity and risk pooling. Specifically, and by underlining the limited capacities of the poor to manage a heightened degree of individual risk exposure, other countries are cautioned about the wisdom of pursuing a similar reform trajectory to that of Argentina. In contrast, what recent Argentinean experience also underlines is the importance of universal approaches, which at a minimum must have state regulatory guarantees. In turn, extending coverage under contributory schemes for atypical workers remains an issue to be more fully examined. In concluding that the market may complement state schemes, it is argued that policy-makers must first place the emphasis on attaining universal adequacy through public schemes.

Argentina is a country characterized by notable levels of social integration, reasonable satisfaction of the basic needs of the population and expectations of upward social mobility; we are proud of these achievements, which have attracted attention abroad and thus generated major migratory movements.

This makes it difficult to find an explanation for a level of unemployment which affects a quarter of the economically active population and for the fact that half the population is living below the poverty line; it is even more difficult to explain why large groups are suffering from famine in the "granary of the world" as it has sometimes been called, and to understand the decline of a country which was considered their best student by leading socio-economic policy-makers in the 1990s.

The simplest explanation is the one given by someone who said that the country was suffering from an "overdose of liberalism"; in addition, from the second half of the 1970s onwards, policies were implemented which led to the breakdown of existing structures and included a long-term policy of monetary adjustment and over-evaluation of the currency combined with drastic measures of deregulation, liberalization and privatization, leaving the market as sole authority in terms of the distribution of resources.

Competitiveness became an obsession and experiments in flexibility, as in most cases, led to reduced domestic demand and created social unrest instead of generating employment. At the same time, the capacity of the State to play the role of regulator, arbitrator and redistributor, in order to avoid abuse and minimize the negative effects of the market economy, was reduced.

The above-described situation led to an economic, social and political crisis, the serious consequences of which are being overcome, but without solving the principal problems that generated the crisis.

The social protection schemes could not remain untouched by these criteria or by the inequalities generated by a system of globalization implemented without transparency and without recognition of the social effects that each measure unleashed. The safety net recommended by international experts and organizations failed to materialize and social contingencies had to be resolved in the marketplace or not at all.

Today's challenge is to reverse this trend in order to achieve a process of durable, sustainable and integrated development, based on the generation of employment as a central element of growth and on social protection programmes which cover the entire population. Measures which have been introduced in order to achieve this, include increases in salaries and pensions, support for collective bargaining, labour legislation reforms to provide more equitable and effective protection, and a move towards the reform of schemes providing cover for old age, unemployment benefits, occupational risks and occupational training.

The agenda of the International Labour Organization (ILO) for decent working conditions lies at the heart of the government action, given that the other option, that of reducing labour costs, deregulation and the dismantling of state intervention has already been tried out, with obvious results. We are not promoting state intervention as a replacement for the free play of the social partners, which would be a step backwards, but a state that guarantees solidarity and the safeguard of general interests.

We have a mixed pension scheme, reformed in 1993/94, which provides a basic state-administered component alongside a supplementary scheme which, at the choice of the member, may be provided as part of the state scheme or take the form of individual capitalization administered by private profit-making bodies. In other words, the existing scheme is similar to the one created in Chile in 1980 and which was promoted and encouraged in a series of countries by the international financial bodies – the World Bank and the International Monetary Fund (IMF).

As was to be expected in our scheme that depended on income from taxation and capital income, which had to be appropriately invested, the global retirements and pensions system suffered at the time of the crisis.

From the time when the crisis triggered off in 2001/2002 onwards, a major effort was made to move away from the ideological discussions which characterized the period from 1993/94 up to that point, in favour of an objective evaluation based on information gleaned from the effects of the crisis and actuarial assessments and projections to define the best options for the near future.

The principles and perspectives applied at the time of the reform were thus based on the reality of the situation as it stood at the time. This led to a number of conclusions that can be summarized as follows:

- During the discussions on the reform, the inadequacy of benefits was criticized, and the fact that many beneficiaries received small amounts close to subsistence levels. The situation remained unchanged in spite of the reform.
- It was considered doubtful whether the system provided support for beneficiaries; the reform was expected to solve the problem; 10 years further on legal demands remain.
- The need to eliminate special or privileged schemes through the reform was underlined; however, the most exceptional were removed only a few months ago.
- The high level of evasion was seen as "a natural product of the redistribution system", given the absence of a link between contributions and the amount of benefits received; the level of evasion was then steadily increasing, and this trend has not been reversed.
- Transparency and confidence in the scheme was low at the time when plans were being made for the 1993/94 reform; confidence has certainly improved very little as indicated by the indifference and lack of interest in getting information shown by new entrants into the system, few of whom exercise their right to choose between the redistribution and capitalization schemes.
- The oft-repeated argument that demographic factors cause an imbalance in the case of redistribution requires no further comment, because it is widely accepted that this phenomenon has a similar influence on both redistribution and capitalization schemes.
- The written comments made at the time concerning informal employment and outsourcing, indicate that the logic adopted was designed to provide cover for workers in the formal sector, no proposals were made concerning the changes required to provide cover for those working in the informal sector. The only solution envisaged for groups unable to generate savings or cumulate the necessary periods of employment (30 years of contributions), seems to have been assistance-type benefits, which implies a clear distinction between the two groups.

- One of the central arguments used to justify the introduction a capitalization element, was that the accumulation of capital would have a positive impact on the economy and the subsequent improvements would be reflected on the financial sector. From the early eighties up to the present, researchers and academics have amply demonstrated the lack of empirical evidence to confirm that the introduction of schemes based on individual capitalization leads to an increased rate of savings within the economy; there is no need to fall into the trap of repeating the obvious, by taking this argument any further. The expected improvements in the financial sector did not materialize during the short period that this component functioned normally and expectations as regards the possibilities of channelling this institutionalized form of saving towards productive activities have been considerably reduced.
- The calculated cost of transition and the amount of government backing that would be needed to cover the changes, were estimated as a maximum of 40 per cent of the funds accumulated in the capitalization system. A ceiling of 50 per cent of the funds that could be invested in government bonds was included in legislation, but successive measures based on tax requirements raised this percentage to over 70 per cent, with the aggravating factor that the bonds that made up these investments would be included in a process of "default".
- One of the most important requirements of social protection systems is to enforce the principle of "universality" upon which the overall equity of the system depends, ensuring that the entire population contributes financially, whether directly or indirectly. The results in terms of cover are obvious; since 1994 there has been a persistent decrease, and the picture is expected to become even worse according to the projections available for the coming 20 years.

These elements of the diagnostic analysis are enough to demonstrate that the principles and proposals behind the 1993/94 reform were only partly implemented. In many instances they are far from becoming a reality and the priority that was given to financial and market considerations, which underpinned the model, had serious consequences as regards the present situation.

The major challenge facing the current administration, relates to one of the questions raised by the ISSA Secretary General in his speech, concerning the need to include social security in political decision-making. It is worth underlining, yet again, that the crisis enabled us to integrate social protection in the political agenda inasmuch as it was necessary to break through the vicious circle of a general lack of confidence on the part of the population in the government and all its programmes which led to anarchy, work in the shadow economy, and all manner of devices to bypass the state.

It must be recognized that this is no easy task because it means overturning a deep-rooted conviction that "to limit the Government is to expand the Nation". To counter it, the decision to undertake a process of reform, to increase benefits in the middle of a crisis and to use the system to palliate its effects and to impact on global demand while implementing a programme to reduce undeclared employment, is part of a well-defined and clear government policy.

In order to reach policy decisions which take the principles of social security into account as well as the factors which have led to the crisis, the only option is to give priority to individuals and their families and to demonstrate that providing decent conditions of work based on security and well-being, is worthwhile in terms of productivity and quality, which are the basic requirements for being competitive in a global economy.

As regards other issues raised by the Secretary General, our experiences as described above, indicate that in developing countries, increasing individual responsibility to cover social contingencies has produced less than optimal results; while the fiscal cost is very high because of the transfer from redistribution to capitalization, the need to introduce assistance mechanisms and to provide guarantees for private operators, the end result is less comprehensive cover.

The extension of individual responsibility can be implemented progressively among certain groups of workers or of the population able to generate savings, without excluding these groups from the protection of well-planned government-run programmes which provide universal cover and a sufficient level of benefits not just to constitute a safety net but also to guarantee the right to a decent income for all.

Increasing individual responsibility or recourse to systems based on capitalization or savings implies a guaranteed link between contributions and benefits i.e. between the level of income during beneficiaries' working lives and their pensions. This issue constitutes a serious problem given the changes from stable and almost permanent employment to precarious employment, partial or temporary employment, with frequent interruptions in career, periods of unemployment and reduced salaries, now affecting the labour market.

As a result, contributory schemes must also provide cover for workers with atypical jobs or who are part of the informal labour market, as the only way of distributing risks and ensuring their inclusion in the contributory systems, even if this means carrying out transfers to complement the contributions that they are unable to make during their working lives and thus avoiding the division of the population into two groups: the poor and those included in contributory social security.

Experience in our country has shown that the risks which must be assumed by individuals under private schemes are extremely high, and also that when crisis comes, the government still has the responsibility of facing up to its consequences, even more so because one of its main objectives is to increase the proportion of the population covered by compulsory social security, with guaranteed benefit rights.

The effects of the crisis also showed that the risks facing schemes based on capitalization are not matters for theoretical or academic discussion, but a concrete reality which led, in our case, to the need for state intervention, to an extent that might be considered problematic, and came close to the legal limits.

In addition, I would like to emphasize that the various ISSA programmes which enable us to exchange our experiences must continue at full strength because of the information they provide concerning ways of reaching stable and sustainable levels of income based on the principles of accumulated risks in well-designed government schemes; such schemes must not only provide basic universal cover, but also an adequate income, to avoid the individual risks involved in privately administered systems. The latter may, however, be used as a complement to meet the expectations of certain groups with the capacity to generate savings.

Finally, I would like to briefly list a number of points which we consider ought to be taken into account in order to reinstate the social protection and security system, as follows:

- the system must be structured in such a way as to include employees in atypical sectors, which in our country account for 50 per cent of GNP, in addition to those of the formal sector;
- this inclusion should be feasible based on flexible schemes which take into account both the specific situations and characteristics of the various economic activities and geographical diversities;
- this will be achieved through the creation of well-founded basic schemes supplemented by state aid, which will provide cover for all members whatever their status, taking fully into account the history of their contributions;
- methods must be devised for the calculation of specific benefits that will act as an incentive for a positive attitude towards contributions, from an early age;
- forecasts concerning demographic evolution must be taken into account in the design without creating an imbalance in intergenerational transfers;
- formulae must be introduced for those leaving the labour market which will take into account the social integration of adults, the coordination of schemes to which they may have contributed and their expectations and desires as regards their working lives;
- reasonable options for supplementary schemes must be made available, under public or private administration, with adequate controls and guarantees to provide protection against the risk of inflation as regards personal savings;
- all of the above should be based on methods that rely on the participation of those concerned in both the processes of reform and in the administration of the systems.

These are challenges which are facing many of the member states, and I would like to conclude by expressing our sincere appreciation of all the efforts made by our Association and the constant cooperation that it provides in order to help us progress along with the *ISSA Initiative* towards its objective of "More security in social security".

Appendix 6

Pension reforms and demographic ageing

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To understand the evolution of the design and financing of social security systems, and pension systems in particular, it is impossible to ignore politics. Such a perspective leads to the conclusion that there can be no one correct approach. Nonetheless, as the case of Germany demonstrates, current thinking suggests the desirability of a mixed system, including supplementary personal and occupational pension systems. The development of mixed systems implies a stronger regulatory role for the state, with the welfare state increasingly becoming an activating and regulating welfare state. The evolving nature of contemporary welfare states in developed economies presents costs and consequences. Consequently, effort should be directed at spreading the real costs of reform as evenly as possible across all generations and, ideally, in a manner that favours economic growth and employment.

Whilst many countries of South America, Africa or the Arab world are experiencing population growth and their populations are getting younger, in Europe, Japan and before long in the People's Republic of China too the pattern is one of an ageing population whose numbers are also set to shrink over the medium and longer term.

The prime reason for this is a falling birth rate. If we take Germany as an example, average births per woman in the 1960s were still 2.1. In the early 1970s they dropped to just 1.4 and have remained at this level, well below replacement rate, for the last 30 years or so.

At the same time average life expectancy has risen, and this too is a phenomenon not exclusive to Europe. Again taking Germany as an example: German men aged 65 can now expect to live a further 16 years. This is nearly three years more than 20 years ago. For women aged 65 the extra life expectancy is almost 20 years, a good three years more than 20 years ago. By 2030 it is predicted to have lengthened by a further three years or so. It is interesting to note here that extended life expectancy in Germany is 30 years behind the situation in Japan. In other words, life expectancy in Germany today is the same as it was in Japan in 1974.

Both trends, a birth rate lower than the population replacement rate and a longer life expectancy, are pushing up the elderly dependency ratio, that is to say the ratio of persons aged 60 and over to persons in employment – normally persons in the age range 20-64.

In Germany in 2000 this elderly dependency ratio was 26. This means that for every 100 persons potentially in gainful employment and aged 20-64 there were 26 persons aged 65 and over. By 2050 this ratio will more than double – assuming a net migration of 200,000 persons a year. In other countries such as Spain, Greece or Italy this ageing of society, measured in terms of this ratio, will start later but progress faster. The reason is that for a good 15 years the birth rate in these countries has been markedly lower than in Germany. To avoid any misunderstanding – this trend, particularly the rise in life expectancy, is a good thing, because it reflects the fulfilment of a kind of human dream, especially since a longer life expectancy usually means more years with a good quality of life.

Nevertheless, so marked a shift in the ratio of those in work to older people not in work requires an economic climate in which, first of all, the future (and numerically declining) generation of those in work can carry the demographic burden of cost which will inexorably fall upon it and, secondly, pension systems are designed in such a way that subsequent generations can be confident that their own old age will be provided for.

Against this background of population ageing I should like to make a few observations on prospects for reform in the area of retirement provision. The economic costs and consequences cannot be swept out of existence by reforms. Policy can only try:

- firstly to spread these real costs in a manner most likely to favour growth and employment;
- secondly to spread them as evenly as possible over all the generations; and
- thirdly to achieve maximum sustainability in financing. A pension system is sustainably financed if the entitlements built up under a given financing system can be permanently honoured, in other words if at existing or proposed rates of contributions or taxes no unplanned cuts in benefits will be required in future in order to meet contribution targets, and no unplanned tax increases will be needed in future in order to sustain current levels of benefit.

The first impulse of any pension reform aimed at sustainability must thus be to improve the conditions for growth and employment. Because pensions are only safe if they can be financed. Particular attention must thus be paid to the employment situation of the source of that financing, that is to say contributors and taxpayers. We must also realise that, especially in ageing societies influenced by globalisation and increasingly fierce competition over labour costs, social policy has a greater responsibility than in the past for determining growth and employment too.

Closely linked to the objective of financial sustainability is also a new and broader understanding of social justice. Social justice used to be interpreted chiefly as a social equalisation process of income redistribution from rich to poor. This interpretation is important and quite right. Because the market is by definition unfair; it only assesses shortages and not social utility, and it does not take account of individual need. This is why a social equalisation process of this kind is absolutely essential in a civilized society. But since there is a conflict of purpose between social equalisation of income, on the one hand, and efficiency of allocation on the other hand, this process cannot be taken to a level where the positive allocation effects of the market are cancelled out. But in an ageing society the issues are not only how to effect the interpersonal redistribution of income between individuals and the intrapersonal redistribution from employment to retirement, but also – and equally importantly – how to ensure a better distribution of economic opportunities, particularly for the young, who finance our pension systems.

Social justice in an ageing society thus has three dimensions:

- less inequality in incomes;
- more and better employment chances and so more chances of a stake in society for all those able to work; and
- a more even spread of the costs of ageing and of social security over all the generations.

Regarding the concrete aims of a pensions policy, there would appear to be broad agreement that the bottom line of any system of retirement provision must be the guaranteed avoidance of poverty in old age. To this extent German policy has been remarkably successful, since only 1.3 per cent of all those aged 65 and over have the right to claim welfare or income support in retirement. The poverty risk of older people is thus only one third of that of the rest of the population.

In many countries, however, Germany amongst them, the objective is more than simply the avoidance of poverty. The pensions system is designed not just to prevent poverty but also to replace earned income to a degree where the person no longer working does not suffer a huge drop in his standard of living compared to when he was still earning. This objective too has largely been achieved in Germany so far, because the average income of a two-pensioner household is 98 per cent of the overall average household income and 7 percentage points higher than the income of an average household of an employee with two children.

In addition to the specific objectives and design of a pension system, it is also important that a system or reform of the system should be perceived as "fair". There is no generally accepted definition of fairness. One will, however, find consensus as to what is "unfair":

- A system is likely to be perceived as "unfair" if the contributions payable are higher overall than the average benefits expected, that is to say if the contribution yield of the system is negative.
- A pension system is likely to be perceived as "unfair" if it is subdivided into schemes which are very differently structured and if specific groups of people are obliged to enrol in a given scheme less generous than other schemes which those same persons are not allowed to join. This is to some extent the case, for example, with the German system of pensions, which is very fragmented and is organised and financed on a range of different principles.
- Lastly, a system would be perceived as "unfair" if the benefits expected as a result of mandatory contributions were no higher than universal benefits financed out of taxation, for which a person was eligible even without paying contributions beforehand.

Let me make a few comments here on the recent pension reforms in Germany. Not least because I think pensions policy in Germany, especially in 2001 and subsequent years, can be seen as a kind of blueprint for tackling the problem of population ageing.

The pension reforms of 2001 and 2004 accompanied a twofold paradigm shift. The first shift was a move away from an "expenditure-defined revenue policy" towards a "revenue-defined expenditure policy". In other words, from a policy which sets a prescribed level of benefits and then has to find the resources to finance them, towards a pensions policy which sets long-term rates for contributions (20 per cent by 2020; 22 per cent by 2030) and will then determine benefits on the basis of these pre-set revenue levels.

This policy will be implemented using, among other things, a "sustainability factor". This factor, in the formula used to adjust pensions, means that any change in the ratio of contributors to pensioners – whether caused by the labour market or by demographic trends – will have the effect of moderating the dynamic of pension adjustment otherwise only based on wage levels.

The second paradigm shift was the abandoning of the objective of safeguarding retirees' standard of living by means of the statutory pension alone. In future even those who have been insured for many years will have to rely on a mix of statutory pension and supplementary private and company provision (aided on a massive scale by the state) for the level of provision generated by their earnings from employment. At present the statutory pension in Germany accounts on average for about 85 per cent of retirement income for an average former employee, occupational pensions provide about 6 per cent and personal provision accounts for about 10 per cent. In the longer term, that is to say over the next 40 years, the proportion of occupational and personal pensions will increase to an average of about one third of retirement income. This is to be achieved in particular by the expansion of occupational pensions. Collective bargaining will provide support in this.

In Germany the assumption in the 1980s was still that statutory pension contribution rates would reach about 40 per cent by the year 2030, but pensions policy has managed, thanks especially to the reforms of 1992, 2001 and 2004, to keep this predicted increase to just 22 per cent – the current contribution rate being 19.5 per cent.

The 2004 reform showed that Germany's pension planners had largely done their homework as far as "sustainability" was concerned, albeit at the cost of a clear reduction in statutory pension benefits.

For people with an average employment record, the statutory pension in Germany will continue to be the chief source of income in retirement over the longer term too. It will be more than a basic subsistence pension, but not all that much more. Because by 2030 the gross pension replacement rate, the ratio of standard pension to average gross earnings, will have fallen from its current level of 48 per cent to about 40 per cent (The standard pension is the monthly pension paid to an insured person who has done 45 years of paid work, at all times receiving remuneration equal to the average remuneration for all insured persons and being credited with contributions accordingly. This gross standard pension is currently EUR 1,176 in the old *Länder* and EUR 1,034 in the new *Länder*.)

If in the medium term the current statutory pensionable age is progressively raised from 65 to 67 – as seems likely – financing of the pay-as-you-go system of statutory pensions in Germany, an ageing society as defined initially, would be sustainable.

In general terms, then, it may be said there are three preconditions for a sustainable policy on pensions in ageing societies:

- lowering of labour costs in the interests of employment and growth, even if this means reduced benefits;
- making up for reduced benefits by expanding supplementary funded schemes; and
- extending the length of people's working lives, so that the costs of rising life expectancy and the consequently longer time in receipt of a pension are borne by those who benefit from this longer retirement, namely the pensioners of the future. Raising the statutory age of retirement eases the pressure on contribution rates and stabilises the level of pensions.

May I at this point add a few comments on the second paradigm shift, namely the expansion of pension systems which include a mixture of financing methods.

There is no such thing as "safe" pensions in the sense of guaranteed or supposedly guaranteed payments. Pension entitlements are always claims against a future social product and as such they carry an element of uncertainty, just as the economic future is uncertain.

The two methods or principles used to build and finance a pension scheme, namely pay-as-you-go (PAYG) and funding, both have specific advantages and disadvantages, and neither will always be a priori the superior option.

The advantages of pay-as-you-go – because it is linked to ongoing income – are a broad measure of inflation-proofing and easy adjustability, since it can be introduced and expanded at any time (as with integration of Germany's new *Länder* into the country's social insurance systems in 1990). When a pension scheme is introduced in a country, it has to be a PAYG scheme.

PAYG has disadvantages, however, in that it is dependent on the current employment situation and in particular it has the drawback of being sensitive to demographically determined shifts in the ratio of contributors to pensioners. PAYG schemes in an ageing society routinely penalise the young and in that sense are unfair in terms of the contract between the generations. Younger people in an ageing society have to pay higher and higher contributions in order to have the same entitlements as older people, or if their contributions remain constant they have to settle for lower benefits.

Whilst PAYG relies on the stability and availability of national earned incomes, funded schemes place their trust in the stability and productivity of national and international capital revenues. And probably the most important difference between the two methods is the ability to invest internationally. Because pension savings can be invested abroad it is possible – within limits – to be independent of national trends in population and the labour market and to use profits gained abroad, in the form of capital gains and foreign exchange gains, to finance retirement income at home – although such investment carries money market and foreign exchange risks.

In view of the specific advantages and disadvantages of the two financing principles and the different ways in which they react to the various kinds of economic and/or demographic change, there is much to be said – not least with a view to risk hedging – in favour of a "good" and "safe" pension system which relies not on one financing principle alone but on a hybrid system of financing.

There is, however, no "scientific" answer to the question of what the right mix should be between PAYG and funding. The answer will always be a political one. And it will depend not only on confidence in the stability of capital markets but also on an assessment of the "distribution probabilities" when a (partial) shift is made from PAYG towards funding. Because all modelling studies, including those which simulate just a partial shift towards money-purchase schemes, show that even where the assumption is that long-term interest rates remain higher than the rate of growth of social product and wages and salaries paid, so that funded schemes show constantly superior yields, there is always an additional burden on those currently working, the "sandwich generation". The greater and more extensive this shift, the higher these additional costs of retirement provision will be whilst funded schemes are being established.

In Germany it is fair to say that those who benefit from the pension reforms will be all those born after 1990. Their hybrid form of retirement provision – compared to the position if these reforms had not been undertaken – will be better and cheaper than that available to the current workforce. The losers under this pension reform – again compared with a no-reform situation – are all those born between 1960 and 1980. To that extent Germany's recent pension reforms were reforms for the next generation but one.

Conclusion

In an ageing society social security systems financed solely on a pay-as-you-go basis cannot guarantee the continuance of a previous standard of living, that is to say they cannot maintain the same levels of income and consumption which a person enjoyed whilst he was still working. Single-tier state pension schemes will thus be replaced in ageing societies by multi-tier systems made up of public and private elements, which together ensure that this standard of living can be maintained.

The political objective of the welfare state to ensure provision for retirement will no longer be reflected in a stabilising of state-run systems, but increasingly in the political shaping, regulation and scrutiny of supplementary personal and occupational schemes. The active welfare state will increasingly be an activating and regulating welfare state.

Appendix 7

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