



INTERNATIONAL SOCIAL SECURITY ASSOCIATION

Social Policy Highlight 09



Dynamic Social Security for Asia and the Pacific: The integral role of social security

A key message from the recent experiences of Asia and the Pacific is that successful social security and health-care systems require strong state commitment. However, such state involvement may often be constrained by limited fiscal resources. Consequently, better management of resources is vital – a fact that is further confirmed by the pressures of global market instability and demographic change. Despite these challenges, the good news is that social security is increasingly accepted as integral to national development. As this *Highlight* concludes, in Asia and the Pacific as elsewhere, for social security to meet this role more fully it must be complementary to, and integrated within, broader national development goals.

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The state, social security and development

Analysis of the successful development of a number of economies in Asia and the Pacific over recent decades might suggest that higher levels of economic growth lead more readily to improved levels of income and social security for an ever-increasing share of the population.

However, and despite overall healthy trends in economic growth rates, closer examination suggests that unless the benefits of growth are distributed equitably across all population groups and access to social security programmes extended, improvements in income and social security will be limited. This observation is one key finding presented in the ISSA's report *Dynamic Social Security for Asia and the Pacific*.¹

As the report underlines, although economic growth is necessary, the role of state intervention remains vital for realizing improvements in income levels and social security.

This issue

- Summarizes recent developments and trends in Asia and the Pacific
- Spotlights the integral role of the state in extending coverage
- Discusses national efforts to extend social security and health-care coverage
- Explores major policy challenges facing the region's social security organizations
- Underlines social security as a necessary stabilizing and proactive force in times of crisis

A further key finding of the report is that public attitudes about social security systems have evolved – they are no longer viewed just as instruments, albeit important ones, to mitigate the negative impacts of risk events. Social security systems, from the Gulf States to East Asia, are also increasingly appreciated as proactive social and economic driving forces in society. Building upon the earlier experiences of the region's more-developed economies, social security is now more widely understood to be integral to sustainable national development.

Key statistics for Asia and the Pacific

- The region has a combined population of over 4.1 billion, or over 60 per cent of the world's population.
- The People's Republic of China and India are the world's most populous countries, with 1.3 billion and 1.2 billion individuals, respectively. In 2009, their combined populations equate to 37 per cent of the world's population.
- The region also has some of the world's smallest and least populated countries, including a number of island states with populations fewer than 15,000.
- Around 10 per cent of the population is aged 60 or older.
- Around 25 per cent of the population is aged 14 or younger.
- Across the region, social security coverage ranges from universality in higher-income OECD member states to estimates of 5 to 10 per cent of wage earners in some lower-income countries.
- Only one person in five has access to adequate health care.
- In some countries, around 10 per cent of the population live in extreme hunger and poverty.

The challenge of extending coverage

Asia and the Pacific is characterized by considerable heterogeneity in the institutional nature of its national social security systems (social insurance programmes, national provident funds, tax-financed programmes, mandatory occupational schemes), as well as in the scope of benefits and the breadth of coverage provided.

Although significant progress has been made in the region to extend coverage under existing and new programmes, in many countries much more remains to be done. This is especially so for the region's lower-income countries, where only around 5 to 10 per cent of the population has social security coverage. For health care, the coverage challenge is no less important. Adequate health-care coverage extends to only 20 per cent of the region's population of 4.1 billion individuals.

Despite these figures, a number of countries have recently extended coverage to previously inadequately covered workers, including self-employed workers (Jordan and the Islamic Republic of Iran), migrant and expatriate workers (Sri Lanka and United Arab Emirates), and rural populations (People's Republic of China – China). Other reforms have sought to improve coverage for all citizens, including the elderly (Maldives). Significantly, major steps towards realizing universal health-care coverage have been taken in China, Thailand, the Republic of Korea (Korea), and the Philippines.

In these latter cases, significant design elements for extending health-care coverage have been the use of pluralistic systems and mixed-financing models. The importance of these elements rests on the fact that health-care needs and service expectations vary considerably among different income groups and no single approach to health-care delivery and financing can satisfy all.

Recent progress in China in extending coverage across all branches of social security merits special mention in the report (see Table).² Nonetheless, China is not without its policy challenges. One of these is to develop unified social security programmes capable of equitably meeting the needs of the country's large internal migrant labour force.

Social security coverage in China

Social security branch	Coverage in 2003 (millions)	Coverage in 2008 (millions)	Increase in coverage from 2003–08 (per cent)
Pensions	116	165	42
Health care	189	1,123	494
Unemployment	103	124	20
Work injury	46	138	200
Maternity	37	93	151

Source: Zhu (2009)

Social security responds to the crisis

As a consequence of the impacts of the recent global economic downturn, meeting the coverage challenge has become more urgent and complex. Although levels of economic activity in some Asian economies now appear to be improving, the effect on populations of recent job losses, with a resultant growth in poverty and insecurity, continues to be felt. As such, the need for increased social security protection continues. Accordingly, the recent introduction of unemployment insurance for formal-sector workers in Bahrain and Viet Nam may be considered timely and appropriate. No less so are specific measures such as the very recent reduction in contribution rates in Thailand or the introduction in several countries of additional poverty alleviation measures.

Notably, the impacts of the economic downturn have been most immediate and severe for informal economy workers. Before the crisis in many low- and middle-income countries in the region, the informal labour force already accounted for 40 to 80 per cent of the total workforce. In most countries, a large proportion of these workers are women. The observation that informal workers are less likely to have adequate or any social security coverage underlines another reason why greater effort is still required to extend coverage.

To date, social policy responses to the downturn have depended to a large extent on tax financing. This growing pressure on budgetary resources, particularly when medium-term growth rates are likely to be moderate and when some governments have commitments to fiscal stimulus packages as a means to boost economic recovery, is likely to increase demands for greater operational efficiency in the delivery of benefits.

Ageing in Asia and the Pacific

Asia and the Pacific is the world's most populous region. For the region's social security and health-care organizations, demographic issues, and especially population ageing, present very specific challenges.

With increased longevity, a major challenge is how to finance and deliver protection for the projected very large absolute number of people aged 60 or older (including the very old, aged 80 or older). For instance, in China, the number of persons older than age 60 is expected to increase from about 166 million in 2008 to 342 million by around 2030. In India, the number of persons older than age 60 by 2030 is expected to have passed 180 million.

Among the more-developed economies of Australia, Hong Kong (China), Japan, Korea, New Zealand, Singapore, and Taiwan (China), the percentage of persons aged 65 or older is already in double digits. Nevertheless, and even for countries with relatively younger populations, increasing resources will have to be devoted to the elderly.

Changes to family structures, working patterns and traditional cultural values suggest that innovative, and integrated and coherent, public-policy responses are sorely required to address the social security and health-care needs of ageing populations. As one possible response, systems of public long-term care insurance operate in Japan and Korea. However, such an institutional approach may be neither feasible nor appropriate for other countries. Again, the general expectation is that population ageing will further heighten existing competition for access to limited fiscal resources.

Financing retirement benefits

In Asia and the Pacific, as elsewhere, a specific social security policy concern is the need to provide adequate benefits for longer periods spent in retirement.

The task of defining the adequacy of benefits should consider retirement income from all sources, but also consider all likely expenditures including health-care costs. For this reason, many current developments in Asia and the Pacific underline the importance of first taking into account the complementarities between all old-age benefit systems, including public and private mandatory contributory schemes, tax-financed pensions, mandatory occupational arrangements, and civil service pension systems.

An additional element to consider is the likely impact that public old-age benefit reforms may have on the financing and functioning of all retirement programmes. Two common aspects of a number of national developments witness a move towards a greater use of "pillared" or "tiered" pension systems (involving contributory and tax-financed approaches and mandatory and voluntary components) and a growing importance accorded to improving the investment performance of retirement savings.

Based on the evidence from Asia and the Pacific of moves to better ensure the adequate financing of retirement benefits, the ISSA report identifies the following issues and challenges:

- Increasing average longevity in all countries in Asia and the

Pacific demands greater financial resources to ensure the payment of adequate old-age benefits for longer periods.

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

Operational challenges for social security organizations

In addition to pinpointing the challenges associated with financing extended social security and health-care coverage, *Dynamic Social Security for Asia and the Pacific* also maps out a set of administrative, investment and governance challenges for the region's social security systems.

Adequacy and quality of benefits and services

Realizing improvements in the adequacy and quality of benefits relates not only to the monetary value of cash payments but also to the timeliness, periodicity, and relevance of the benefits and services provided.

Investment policies and performance

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

Governance and management

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

Looking forward: Key policy messages

Social security systems must be accessible and sustainable. They must also make a proactive contribution to better achieving socially inclusive and economically productive societies. These elements lie at the heart of the ISSA's Dynamic Social Security conceptual framework.

On this basis, and taking into account recent developments and trends in Asia and the Pacific, four policy messages for the region can be identified.

First, social security systems are increasingly regarded as integral to the social, economic, and political management of countries. As a result, the role of the state in social security financing, management, and supervision is expected to increase. For all countries, a remaining matter is how to source and appropriately allocate the available resources to accomplish this role.

Second, the effective reform of social security systems must be complemented by broader public-policy reforms. Such broader reform is challenging, but the innovative experiences of developments in social security may help show the way forward. For example, an expanding role for tax-financed social security benefits should be aligned with reforms in public-service delivery systems and with measures to develop a more sustainable fiscal base.

Third, the reform of core social security institutions must be associated with efforts to develop and better incorporate the complementary roles played by other legitimate social protection actors in the public, private, and private-not-for-profit sectors. In this manner, better levels of social protection should be possible, even for hard-to-reach populations.

Fourth, political will and strong governance and management are essential elements to the development of high-performing and sustainable social security organizations. While social security organizations can actively contribute to improving their own performance, only executive-level authority can guarantee the necessary political will. These are observations that also hold for the healthy operation of all legitimate social protection actors.

As the report concludes, making further progress towards Dynamic Social Security in Asia and the Pacific will require all stakeholders to cooperate in a coherent manner to implement sustainable and context-specific programmes that are tailor-made for the social security and health-care needs of populations. No less important, these policies and programmes must be integrated within, and complementary to, broader national development goals.

Sources

- ¹ ISSA. 2009. *Dynamic Social Security for Asia and the Pacific: Integrated responses for more equitable growth*. Geneva, International Social Security Association. Available at www.issa.int
- ² Zhu, Y. 2009. *A case study on social security coverage extension in China*. Geneva, International Social Security Association.

The **International Social Security Association (ISSA)** is the world's leading international organization bringing together national social security administrations and agencies. The ISSA provides information, research, expert advice and platforms for members to build and promote dynamic social security systems and policy worldwide.

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