Social Insurance For All

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1. Introduction

The development of social insurance systems in Asian and Pacific countries over the past 20 to 30 years has taken various forms. The transitional economies inherited comprehensive schemes from their socialist past, but these are now impracticable and are being reformed to meet market economy conditions. The countries whose populations were exposed to the economic and social risks of the Asian economic crisis of 1997 are introducing improvements to their social insurance systems to reduce some of these risks. Other countries have evolved schemes that prioritize the risks facing their work force. The extent of social insurance coverage in Asian and Pacific countries is determined by the kind of system, the age of the system, and the degree of economic development.

2. The Design, Financing, and Administration of Schemes

a. Old Age Pensions

Old age pensions are the oldest form of social insurance; they are designed to meet the risk of poverty in old age, when an individual's capacity for work can decline to the point where he or she is unable to earn sufficient for self-support. Contribution rates vary considerably between national schemes, as does the level of pension that can be received after a full working life. There is also considerable variation between schemes in fixing the minimum age at which workers can claim a social insurance retirement pension. The extent of coverage within the national workforce and the forecast of the pension contribution collection rate are also important factors to be taken into account when designing or re-designing a pension scheme. The financial implications of these variations for schemes and the sustainability of schemes are discussed below. The policy issues for designers are the relative importance of savings during the lifetime of a worker aimed at smoothing out the usual and expected different levels of income between working years and retirement, the extent of the redistribution element whereby one scheme member can receive income from another, and the amount of insurance against, for example, a down-turn in the economy, inflation, poor investment performance and a very long life with diminishing resources.

[1] ILO Social Security (Minimum Standards) Convention (No. 102) 1952 stipulates 40 percent for a man and his wife after 30 years of insurance.

Pension schemes are based on what their designers call "pillars". There are normally three of them, and they will have different objectives: the first pillar will normally be re-distributive, while the broad diversification of savings of the second and third pillars allows all three pillars to provide insurance against many of the risks of poverty in old age. For the purposes of definition, the three pillars are

- Contributory public defined-benefit scheme,
- Mandatory individual accounts in defined-contribution scheme, and
- Voluntary private or occupation scheme.

i. First Pillar Schemes : Pay-as-you-go

First pillar schemes pay a benefit after a fixed number of years during which the worker and/or his or her employers pay in contributions (Figures 1 and 2, Box 1). The contributions of the current generation of workers pay the pensions of current pensioners: they are pay-as-you-go (PAYG), and involve a direct transfer of resources from the those then working to those receiving pensions. Most have no funding in any form, while some rely on partial funding.

First pillar pension schemes can be sustainable over the longer period only if the system "dependency ratio", that is the ratio of pensioners to contributors, is such that current contributors can afford to pay social insurance contributions at a level that will support current pension expenditure. In the early years of a PAYG scheme, when the number of beneficiaries is low, the scheme will appear as a cheaper option than a funded scheme. However, this advantage will disappear as the number of pensions in payment rises and the implicit pension debt begins to build

However, the system dependency ratio, sometimes referred to as the "support ratio," tends to understate the extent of the sustainability problem. Throughout the world more people are living long enough to enjoy retirement. In 1990, there were 300 million

Figure 1. Pay-as-you-go Schemes

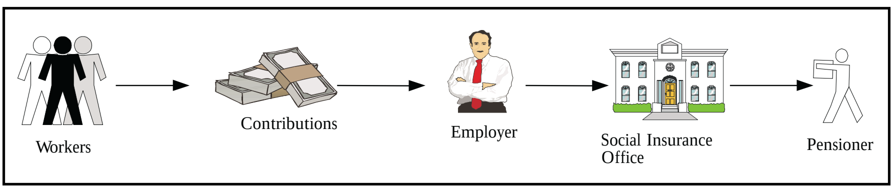
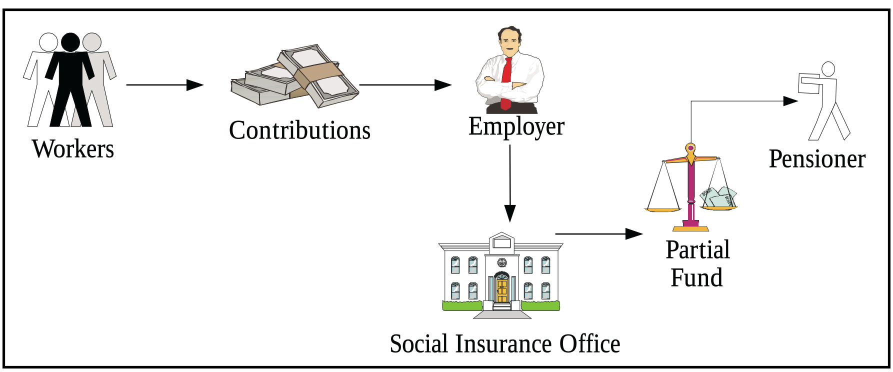


Figure 2. Pay-as-you-go Schemes, Partially Funded



Box 1. First Pillar Pension Schemes: Pay-as-you-go, Public, and Mandatory

Features:

- Income transfer to poorer workers produces a positive impact on poverty reduction.
- Schemes are funded from both employee and employer contributions.
- Pensions are paid from current contributions.
- Such schemes correct personal myopia about survival in old age.
- Schemes permit integrated contributions covering all social insurance benefits.
- Such schemes work well when economy is growing .
- Such schemes work well when contributors well outnumber current pensioners.
- Such schemes can be subject to political risk, which may lead to reduced entitlements.

Advantages:

- They are true social insurance schemes, with all the strengths and advantages of risk pooling and intergenerational support.
- Pension levels cannot be adversely affected shortly before the date of retirement by a downward movement in the stock market.
- Shortfalls in income can be corrected quickly through increases in contribution rates.
- A system for awarding contribution credits can ensure that contribution records are maintained at a minimum level during periods of illness, maternity, unemployment, and the care of dependants.
- National schemes with one provider have the advantage of scale in the processing of claims and the delivery of pensions.
- Such a scheme usually creates a sense of solidarity in a society where coverage is near universal, with presumed beneficial effects on industrial relations and hence, worker productivity.
- First pillar pension schemes were used as effective tools to reduce poverty in OECD countries decades ago.

Disadvantages:

- They may not be sustainable in the longer term if the system dependency ratio reaches a point where workers can no longer afford to support existing pension liabilities or are very reluctant to do so.
- Migrant workers and others who are unable to complete a minimum contributory period may not receive a pension.
- Governments may manipulate the scheme to achieve short or long term goals unconnected with pensions policy.
- Early retirement provisions for selected contributors can be costly.
- Governments may decide that pension increases cannot keep pace with inflation.
- In times of poor economic performance employers may fail to pay all contributions due.
- The cost of ensuring compliance by employers and the self-employed can be high.
- The public investment required for a modern computerized system of record keeping can extend administration costs in the short term.

aged over 65. By the middle of this century there will be more than a billion. But in recent decades, birth rates, particularly in industrialized countries, have been falling, with the result that support ratios are declining. The aging of populations in Asia in the period to 2050 is expected to result in the pensioner dependency ratio tripling, and, in the more immediate period to 2015, there will be a significant increase in the proportion of the population aged over 65.

Moreover, in some Asian countries the proportion of people of working age who are actually in work has been falling. An increasing number stay on in further education. In some countries the number of unemployed has risen, and in others the "informal economy" has grown, as workers have dropped out of the formal sector and ceased to contribute to social insurance schemes. The numbers taking early retirement have also risen. These factors have only partly been offset by the increasing proportion of women entering paid employment.

The result is that the ratio of people in work to those above the state pension age is already quite low. The fact that those over pension age are living longer, due to better health care and living conditions, also has important implications for both state and private pension schemes. However, it would be unwise simply to extrapolate past trends into the future. The state of the world economy will clearly affect unemployment levels and could also have an impact on levels of early retirement and the number of women seeking paid employment. So the proportion of all those between 15 and 65 who are at work may not continue to decline, or may do so more slowly than in the past.

When the burden of meeting current pension liabilities is projected to become heavier than the current generation is able or willing to pay, there are a number of reforms that can be applied to remedy the situation, in the short term and in the longer term. These include increasing the retirement age, reducing the value of pensions, increasing contributions, lengthening the contributory period required to gain entitlement to a full pension, changing the rules on indexation, and making it more difficult to retire early with a pension.

A major element in assessing the cost of a pension scheme is clearly the age at which a pension becomes payable. Many countries have faced the decision of whether, and if so how, to equalize the state pension age for men and women. In many countries across the world women have the same pensionable age as men. However in many others women are entitled to a retirement pension at an earlier age than men. This has largely reflected the fact that wives tend to be younger than their husbands, so making it possible for couples to retire at about the same time. This differential age has become harder to justify because women increasingly play an equal and more independent economic role. There is also the fact that women on average live longer than men and it may be regarded as odd to award women, say, five years more pension before men retire, as well as say, five years more after men are dead. Most countries that have moved towards the equalization of state pension ages for men and women aim to achieve equality by equalizing upwards with gradual changes over 20 years or more. Most countries faced with the problem of equalization have found it virtually impossible to justify deploying a large sum to grant pensions to men under 65 regardless of their means, employment, or employability.

Several countries where men and women already have the same state pension age are raising that age or considering such a change. The main argument used against raising the state pension age is that it will lead to higher unemployment. As older people stay on longer in their jobs, it is argued they will leave fewer jobs for younger people. In the longer term at least, this will probably be a false analysis for most countries. It is based on the assumption that there is only a fixed number of jobs to be shared out, while the historical evidence worldwide shows that over the medium to long term, the number of jobs grows broadly in line with growth in the numbers of people seeking work. The retirement age in most Asian countries is probably lower than the international average. As the average life expectancy at retirement is projected to increase, this will result in pensions being payable on average for between 15 and 20 years—a considerable burden, given the sometimes short contributory period necessary to gain entitlement to a full pension.

It will generally be the case that the lower the age at which insured persons can receive a retirement pension the greater will be the cost to the pension fund or social insurance scheme. Due to high levels of unemployment and a lack of job opportunities for older workers, the pensionable age in many countries has been kept low. This is true of many Asian countries. Several transition-economy countries still allow certain groups that have been employed in particularly stressful occupations or on hazardous or arduous work to retire early. The actual average retirement age in these countries is often considerably lower than the stated minimum, because receipt of other benefits, such as a disability pension, can often be converted to an early retirement pension. This pattern can provide an unintended incentive for older workers to claim disability pensions, resulting in substantial and unintended costs for the social insurance budget.

An important choice for first pillar schemes is between pensions that are earnings related and those that are flat rate and perhaps means-tested. Earnings-related pensions call for higher contribution levels and can often mean that workers with higher salaries receive a better deal than their lower paid colleagues. Flat-rate pensions are more likely to be acceptable to contributors in countries where there is a fully developed private or occupational pensions industry and better-paid workers do not have to rely upon a flat-rate pension. The same applies to means-tested pensions, which can only be administered in places where the assessment of personal incomes and perhaps capital holdings is feasible on grounds of cost and public acceptance.

There are several bases for deciding the extent to which a pension should replace a person's earnings. The pension may be a percentage of a final year's salary or may be based on the average salary in one or more recent years. The gross or net salary may be used. It can also be based on the average wage of all workers in the scheme. Probably the most common practice is to award a pension that represents around 50 percent of an individual's final gross wage. While this level of income would be acceptable to most higher-income workers, some additional margin may be required for workers where this percentage would place their pension below a poverty threshold

Some Asian countries operate partially funded first pillar pension schemes. In their early years these schemes can afford to pay generous pensions from investments. In the longer term, however, it is possible they will face the depletion of reserves and the same problems as many PAYG schemes with rising benefit costs. Further, the risk of stock market fluctuations should be considered if opting for funded systems.

Most existing pension schemes provide inadequate protection for the old, because benefits are rarely indexed. Countries where pensions are indexed also differ in the means: some by reference to prices and some to wages. A link to prices means that a pension retains its real value, but that current workers must contribute more if their wages do not also keep pace with price inflation. With an earnings link, pensioners share in any rise in workers' earnings, but may suffer in times of any wage standstill or reduction. Another option is to index by reference to a combination of price increases and wage increases so producing an equitable solution for both contributors and beneficiaries. Clearly, if pensions are not indexed to retain their value in times of inflation, extreme poverty in old age can sometimes result.

Many countries across the world with PAYG schemes have introduced, or are planning to introduce, a mandatory privately managed, fully funded, defined-contribution or second pillar pension scheme, providing individual accounts. In addition, many countries encourage, through income tax concessions, so called third pillar pension schemes comprising voluntary private or occupational pensions. Those countries moving towards a multi-pillar pension scheme are likely to be concerned with the limited coverage of their present schemes, gender issues including the generally lower and less regular incomes of women, administrative costs including high set-up costs, the national financial infrastructure and whether this is sufficiently well established and strong, the availability of annuities and the variation in their cost, governance within both public and private institutions, and financial market regulation and supervision.

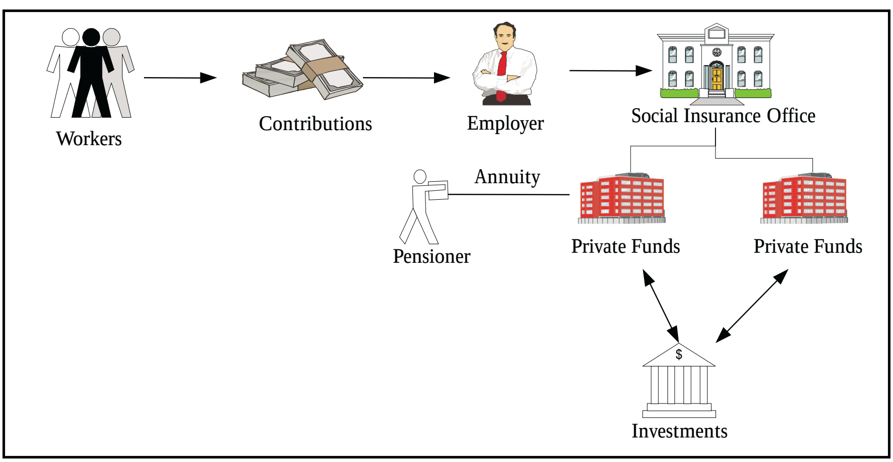
If a decision is made to move from a first pillar to a multipillar pension scheme, it will be necessary to consider how best to pay for old pension obligations. Younger workers entering a fully funded second pillar scheme may have to forego some first pillar pension expectations, while the government may need to borrow or otherwise find the means of funding these existing obligations. Some countries have used "notional defined contribution" accounts to control and reduce first pillar liabilities. These are discussed later in this chapter.

ii. Second Pillar Pension Schemes

Second pillar pension schemes or defined-contribution schemes, in which contributions are placed in individual or group funds (Box 2, Figure 2), can be managed either by private sector pension companies or in the public sector, usually as provident funds. They do not bring about a redistribution of income, but can improve capital markets and be good for the economy. In order to achieve an effective administration and operation of a second pillar pension scheme, such a scheme could well take one of several forms and include many of the following outlined provisions:

- **Contributions**. Mandatory for all contributors to an existing state PAYG scheme with more than 20 years to run before they reach the state retirement age, but voluntary for those with more than 10 years but less than 20 years before reaching that age. Employees and employers to contribute an equal amount to a fund (say 5% each), while self-employed workers contribute an amount equal to the sum of the employer's and employee's contributions. Fund members to be permitted to transfer their savings to another fund of their choice after giving notice of their intention. If a fund member ceases to contribute to a fund, membership will continue.

Figure 2. Second Pillar Funded Schemes



Box 2. Second Pillar Pension Schemes: Funded, Mandatory

Features:

- Contributions are collected by the government and transferred to private fund managers.
- Assets are owned by individual contributors and invested in financial markets.
- It is possible to diversify risks.
- Such schemes are not directly subject to demographics.
- Such schemes encourage personal responsibility.
- Such schemes assist in the growth of capital markets.
- Such schemes may need a government minimum pension guarantee.
- Such schemes do not transfer resources to poorer workers, generally benefit upper-income payers.
- Such schemes require a strict regulatory regime.
- Annuities and/or lump sums are paid at retirement.

Advantages:

- Invested contributions should grow at a rate above the level of inflation.
- Workers can be motivated by having an identifiable stake in the capital markets.
- Increased investment in industry and commerce can improve job prospects and national prosperity.
- Individual contributors can be given a choice in where and how their contributions are invested.
- Contributors can be given the freedom to adjust the risk element in their investment by choosing between degrees of growth and security.
- Flexibility can be provided in the timing of annuity purchases.
- Contributors can be given a choice in whether to take a percentage of invested savings as a lump sum on retirement.

Disadvantages:

- The risk of a poor performance by investment fund managers is borne by the individual contributor.
- Inadequate supervision of funds can lead to corrupt practices.
- Inadequate or misleading information on fund performance can lead to wrong choices by contributors.
- There is no full compensation for a recession in the stock market shortly before an individual's need to draw a retirement pension.
- People may not have sufficient financial education to make informed decisions about how their contributions should be invested.
- Interest rate changes affecting the level of annuities at the time of retirement can lead to lower-than-expected retirement income.
- Failure by government to meet its liability for guarantees in the event of fund failures or poor performance is possible.
- Administrative and marketing costs are high.

- **Pensions Control Commission (PCC)**. To oversee the scheme, protect the interests of fund members, and license pension companies, pension funds and annuity providers. The PCC has an independent chairperson and a board comprising representatives from each participating pensions company. The PCC investigates any matters relating to the functioning of any fund and may administer the fund if a pension company's license is withdrawn. The PCC requires each pension company to contribute to a National Pensions Guarantee Fund. A fund member may make a complaint to the PCC against a pension company, which the chairperson must answer within a fixed time limit. A fund member may appeal to the Courts if the PCC has not provided him/her with a satisfactory answer to a complaint. The PCC will publish an annual report on the operation of the pension scheme legislation which discloses the fees charged by each Pension Company and its managed funds. The principles for valuing fund assets and liabilities is detailed in regulations issued by the PCC, together with the valuation dates that shall not be less than once a month.

- **Annuity purchase.** A fund member retiring from a fund shall use the amount standing to his credit to purchase an annuity. A member has no right to receive any sum until retirement and may not retire from a fund earlier than the date on which he or she becomes eligible to receive a state pension. A member of a fund has the option of postponing the purchase of an annuity for up to 5 years after the date of retirement. The beneficiary of a deceased fund member may purchase an annuity for life, or elect to receive monthly payments for a period of a minimum number of years. A fund member will be free to choose from which annuity provider he or she purchases an annuity. Types of annuity on offer shall include
  - a single life annuity;
  - a single life annuity guaranteed for a period of at least five years, with any outstanding payments at death paid to annuitant's nominated beneficiaries ;
  - a survivor's annuity payable for the life of the annuitant and then to the spouse for life; and
  - a survivor's annuity for the life of the annuitant and then to a spouse for life, with a five-year guarantee; if the annuitant or spouse dies within five years, outstanding payments under the guarantee are to be paid to nominated beneficiaries.

  All annuities in payment are required to increase in value annually when price inflation exceeds a percentage specified in PCC regulations. The annuity provider must publish its annuity rates and make these available to any fund member who requests them. A company providing annuities may not impose any special terms or rates on the grounds of health, gender, race, or any similar criteria. The annuity provider must use and invest the amounts transferred to it only for the benefit of the persons receiving annuities.
- **Reporting and disclosure obligations of funds.** These include the publication of a prospectus showing the names and addresses of the shareholders of the controlling pension company, with details of their shareholding. A pension company must also provide the PCC with audited accounts showing details of the shareholders and their shareholding. Each fund member shall be issued with a semiannual statement showing the assets standing to the member's account.
- **Financing pension company activities.** A pension company must finance its activities by deducting a specific percentage from contributions paid into pension funds and by deducting a specific percentage of the value of the managed net assets. The percentages are determined in PCC regulations.
- **Investment of pension fund assets.** This shall be solely for the benefit of fund members. Each pension company must issue a statement of investment principles, setting out the types of assets in which the fund may invest and the persons responsible for investment decisions. A pension fund may invest only in the following classes of assets:-
  - bank accounts and deposits with licensed banks;
  - bonds, bills, and other securities issued by the national bank or government;
  - bonds, bills, or other securities issued by local government organizations within the national borders;
  - shares and securities listed on the national stock exchange;
  - bonds and securities issued by joint stock companies incorporated in the home nation; and

    - state bonds issued by foreign governments, as well as foreign indexed funds, that have an international rating approved by the PCC.

  The PCC may specify the maximum proportion of a fund to be held in any of the investments classified above, and the maximum to be invested in any one company's shares. The assets of a fund may not be invested in

    - real estate;
    - physical assets the value of which are uncertain, including, for example, antiques, works of art, or motor vehicles;
    - shares, bonds, and other securities issued by any shareholder of the pension company; and
    - such other assets specified by the PCC.

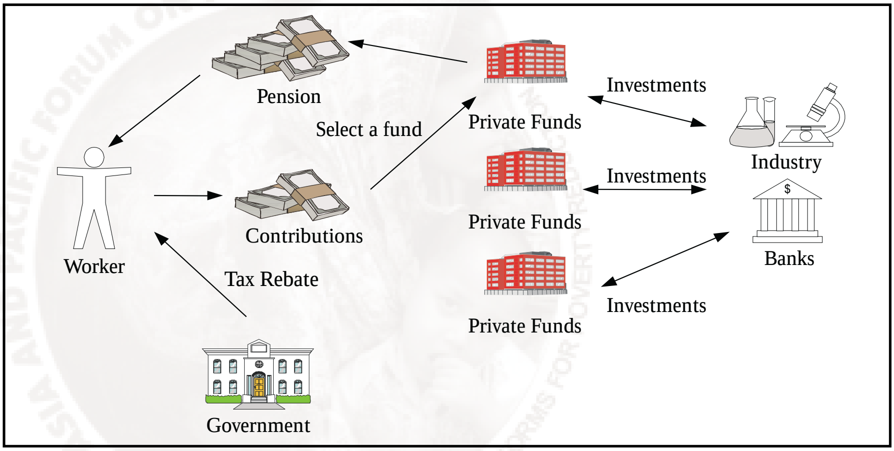
- **Single depository.** A pension company must appoint a single depository to have custodianship of the assets of any fund it governs. The depository may be a bank authorized to operate by the national government that is also licensed by the PCC. A depository bank may not hold shares in the pension company managing the fund whose assets it holds, nor may it lend money to, or borrow from, a fund or pension company whose assets it holds.
- **Guarantee provisions.** Under these provisions, if an annuity provider fails to make annuity payments within three months, an annuity shall be paid from the state budget. The PCC must apply a factor to each contribution made to a fund to reflect consumer price inflation between the date of payment and the date of retirement, with a notional deduction to reflect average fees deducted by funds. If the figure calculated is greater than the amount standing to the account of the fund member, a sum equal to the difference will be credited to the account from the state budget.
- **Penalties.** A fixed penalty will be paid for each day of delay by those pension companies who do not provide the PCC with full information as requested. Nonobservance of the legal provisions on private pensions is considered a civil offence. Organizing and operating a private pension fund without the authorization of the PCC constitutes an offense punishable by a term of imprisonment or a fine.

Market fluctuation and risk will need to be explained to fund members, probably by persons unconnected with the pension companies that manage their funds. The demographic and political risks found in first pillar schemes are rarely understood or recognized by contributors who will nevertheless be alarmed when notified of downward trends in the value of their second pillar fund holdings. A recent development seen in the USA is the move towards a flexible investment policy for funds, under which the contributor has options to invest in high-, medium-, or low-risk securities. Younger people who can afford more risk than those nearing retirement age will tend to look for higher growth, while older workers can be expected to be more interested in securing the current value of their investments.

iii. Third Pillar Pension Schemes

Third pillar pension schemes, or private pension schemes, are run by an employer for the benefit of employees (Figure 3, Box 3). These pensions are an option for better-paid workers who may be given tax incentives to transfer out of state earnings-related schemes. They can lack any element of redistribution and, in the absence of legislation to promote portability, can restrict workers' mobility. In the absence of any guarantee, workers can also suffer losses if their employer's business fails or the employer acts fraudulently. There is also the difficult question of charges by the fund managers. If these are kept low by law, the service provided may not be of the highest standard, with the best-performing companies not willing to compete for regulated funds. The best option is

Figure 4. Third Pillar Pension Schemes



Box 3. Third Pillar Pension Schemes: Private or Occupational Pensions, Voluntary

Features:

- Schemes are intended for higher paid workers.
- Contributions are nvested in financial markets.
- Fund management charges can be high.
- Tax incentives can encourage participation.
- Annuities and lump sums are paid at retirement.
- Invested funds help to develop capital the country's capital markets.

probably a statutory requirement for all pension funds to publish their charges in a form which can be understood by all contributors.

It is probably true of many Asian and Pacific countries that their market and regulatory capacities limit their choices at present for the establishment of mandatory personal savings schemes with privately managed funds. Their workers may not be sufficiently experienced to make meaningful choices as to the most suitable private fund while regulatory machinery may not be in place to protect contributors when private funds begin to advertise for clients.

Several Asian and Pacific countries have savings schemes based on the public provident fund model (Figure 4, Box 4) These are essentially compulsory savings schemes in which regular contributions withheld from employees' wages are matched by their employers. The prime purpose is to provide a lump sum payment on retirement, but there is often no provision to ensure that savings are not withdrawn and used for other purposes during a working life. In fact, many provident funds allow for premature withdrawals for a fixed number of reasons, such as family weddings or spells of unemployment. Further, while some provident funds give beneficiaries the option of a pension, many funds pay only lump sums and make little provision for survivors. Finally, even when final lump sum payments are substantial, they are not protected against the erosion of value through inflation.

In Asia, the disadvantages associated with many provident funds are that governments tend to require them to invest in low-yielding public sector securities, and they can be open to government manipulation. Provident funds have no element of redistribution

Box 4. Provident Fund Pensions Schemes: The Pros and Cons

Most second pillar schemes in Asian countries take the form of provident funds. They have stood the test of time in these countries, which suggests they have advantages for many people. These will include

- Ready access to savings in times of real need;
- Contributions that cannot be lost, as in many pension schemes, when a person can no longer afford to contribute;
- Portable savings for migrant workers;
- A lump-sum payment that may allow a disabled beneficiary to start a small business to provide a means of livelihood; and
- A lump-sum payment on retirement that can be used to purchase land or a house to provide a retirement income.

Some Drawbacks of Provident Funds

Provident funds in Asia have had only mixed success in meeting the risks of old age, not least because of low returns on investments. The majority of provident funds in Asia are reported to be invested in low-yielding securities, with the result that the credit balances of members remain low, and terminal payments are reduced. Further, a fund that allows participants to withdraw savings to meet risks occurring before retirement age is unlikely to achieve a significant reduction in poverty in old age, particularly where social assistance is not available to cover these risks. The alternative of investing in a fund with long-term investment aims and choices for the individual member should provide a better hedge against poverty. An option to purchase an annuity from a company governed by effective state regulation would also be much more beneficial than the payment of a lump sum on retirement, but this assumes that a market exists for the purchase of annuities. The provision for survivors can also be less than adequate, particularly when a terminal lump sum is small and without protection against inflation. Provident funds have been in force for many decades and have clearly failed to provide retirement security except where a compulsory annuity rule has been introduced. Conversion into social insurance schemes has been considered in several countries, and at least one has made the change to a dual pension and provident fund.

to lower-paid members and tend to cover only workers in the formal sector of the labor market. Private funds can give contributors a choice of fund managements and can be expected to give better returns than government-controlled provident funds.

iv. Multipillar Pension Schemes

A multipillar system found in some Eastern European countries has a first pillar PAYG scheme that has been converted into a "notional defined contribution" first pillar scheme. This makes explicit the implicit actuarial mathematics of any PAYG system (Holzmann, 2000). PAYG contributions are recorded in individual accounts; the law provides for these to be converted each year into pension points and given a value within a maximum of, say, three points per year. Three points will be earned by those who have contributed at the upper earnings level, while one point will be earned if gross earnings are equivalent to the national minimum wage, or another fixed wage level. Points are given a value in the published state budget and the contributor is notified each year of the total number of points earned and standing to his or her personal account. It is intended that this annual notification will encourage participation in the social insurance scheme by people who will recognize more clearly that they have a stake in a scheme that they can assess in terms of pension points.

The advantages of a multi-pillar pension system are that the strengths of each pillar, as illustrated above, can in combination be expected to overcome a temporary weakness in a particular pillar. Poor investment performance in a second pillar pension fund will not take away from the guaranteed first pillar pension. A shortfall in a first pillar pension due to a low contribution collection level could well be made up by a higher than average return on a second pillar investment fund. Countries with a first pillar scheme that have the necessary financial infrastructures to introduce a second pillar scheme see this an essential move to obtain the advantages of a multi-pillar pension system.

b. Death Grants and Survivor's Pensions

The early death of a breadwinner can leave a dependent family facing extreme poverty. Most social insurance schemes cover this risk, first with an immediate payment toward funeral costs, and then with a survivor's pension linked to the earnings or pension rate of the deceased. It is usual in a social insurance scheme to find a death or funeral grant related either to the salary of the deceased, the contributions the deceased and his or her employer paid into the fund plus interest, or a fixed sum paid to the survivors of all insured persons.

For survivors to be eligible for benefits, some schemes required the deceased to have been a pensioner, or at least to have contributed to the scheme for a given number of years. The amount of the survivor's monthly pension and sometimes its duration may be linked directly to the number of years during which the deceased contributed; for example, 20 years of contributions would earn twice the pension paid after 10 years of contributions. The surviving spouse and orphans may also not be eligible unless they can meet certain conditions, such as an age requirement. The number of children that can receive a survivor's benefit may also be limited, for example, to the first two. A surviving husband may not be entitled to a survivor's pension unless he is incapable of self-support, and there will occasionally be an earnings rule that prevents a survivor from receiving a pension when earning more than a fixed monthly sum.

For those uninsured workers who make up the majority of the work force in most Asian and Pacific countries, the provision of a lump sum on death can only be arranged through some form of microinsurance. In most countries at present, help with funeral expenses is probably available from the extended family when the personal savings of the immediate family of the deceased are inadequate. The options available to those excluded from social insurance schemes who wish to cover the risk of the early death of a breadwinner are considered below under "microinsurance".

c. Unemployment Benefits

The risk of unemployment faces all workers, and the benefits have to be designed to meet that risk. By transferring the risk from the individual to the community of scheme contributors, unemployment insurance enhances the welfare of the community as a whole. The intended purpose of an unemployment benefit scheme is usually seen as two-fold. First, it will provide those who have lost an income from work, through no fault of their own, with a measure of compensation that is sufficient to meet their needs in the short term. Second, this same income should allow them to meet the costs of searching for work over the period required by the current state of the labor market. Unemployment benefits provide income security during spells of involuntary unemployment, thereby contributing to consumption smoothing at both the individual and macroeconomic levels. In addition to promoting efficient job search, the benefits also facilitate structural changes and a better match between supply and demand in the labor market. In principle, the contingency of short-term and frictional unemployment can be considered as random and therefore amenable to protection under social insurance.

Most schemes allow for fortnightly or monthly payments subject to attendance at an employment office to confirm continuing entitlement. Other schemes provide a lump-sum payment from either the employer or a government agency. Employers can be required to pay a severance payment to discharged workers that, in the absence of an unemployment benefits scheme, is often linked to years of service. Payment of the benefits is usually earnings related, but can be flat-rate, and subject to a number of conditions. Unemployment benefit schemes have generally preserved their financial viability by a variety of mechanisms such as defining the contingency and coverage in precise terms. Because the state of being unemployed cannot be defined without reference to a list of qualifying conditions and conditions of entitlement, it is inevitably a difficult and expensive benefit both to design and to administer.

Most unemployment benefit schemes encompass one or more of the following criteria:

- **A contribution condition.** This requires that a claimant has paid a given number of contributions to the social insurance scheme over a period that is recent enough to show that he or she is still connected to the labor market. Because many unemployed claimants will be in need at the time they make their claim, a contribution condition must presuppose that an individual's contribution record can be readily accessed at the office where the claim has been made. An alternative to a contribution-based scheme is one funded from general taxation, in which a recent employment record will obviate the need for a contributions database.
- **An availability condition**. Unemployed people clearly have to be available to take employment if they are to receive benefits. This is a fundamental condition for the receipt of unemployment benefits, and one that is often difficult to test. The onus should be on the claimant to show that he or she is available to accept and take up new employment within a reasonable time—the next working day if that period is the normal practice within the labor market. The claimant must also take all reasonable steps to draw attention to his or her availability. At the time the claimant is required to make regular visits to an employment or social insurance office, he or she must make a written declaration confirming continuing availability for work. These mandatory visits are an important control mechanism within all schemes.
- **A capability condition.** Claimants cannot receive unemployment benefits if they are incapable of work. This rule presents few difficulties when the claimant has the option of claiming medical or disability benefits instead. On occasion, it will be necessary to have the claimant examined by an appointed medical officer in order to establish his or her fitness for work.
- **An actively-seeking-work condition.** Persons claiming unemployment benefits must actively seek work if the labor market is to perform efficiently. Each claimant should be told in writing that it is their responsibility to take steps each week to seek work and, if there is a doubt that active job search has been carried out, will be required to show what action they have taken to find work. If the claimant cannot show that he or she has taken all reasonable steps to find work, the benefits can be withdrawn.
- **An earnings rule.** Unemployment benefits are principally intended for those who are wholly unemployed and have traditionally been subject to a number of earnings rules. A weekly or daily earnings limit can be set, and if an unemployed

person earns above that limit, unemployment benefits for the week or the day are not payable. An earnings limit is a simple and logical test of a person's employment status. It needs to be set at a fairly low level, but not below a point at which claimants would be forced to give up small part-time jobs that they can easily undertake when in other full-time work.

- **A severance pay rule.** A person who receives a compensation payment from his or her employer for a period after the termination of a contract may not be entitled to unemployment benefits for the period covered by that payment. It is advisable to list in legislation the types of compensation payments from ex-employers that do not affect entitlement to unemployment benefits.
- **A voluntary unemployment rule.** Benefits are meant for people who are out of work for reasons beyond their own control. If the claimant has brought about, or in some way contributed to, his or her own unemployment it is unfair to other contributors to the unemployment insurance fund if such a claimant receives benefits. A usual feature of unemployment benefit schemes is a penalty for voluntary unemployment, taking the form of disqualification from benefits for varying periods of time following the termination of employment.

Other questions that have to be considered when designing an unemployment benefit scheme are

- **Number of waiting days.** Benefits are usually not be paid for the first few days after termination, as many people find work quickly and very short-term claims would overburden the claims administration. Moreover, most people have enough resources to meet very short spells of unemployment.
- **Maximum duration of benefits.** Such duration is usually decided on the basis of the insurance contributions required to qualify for benefits, can range from three months to more than 18 months, and can be linked to both the length of insured employment and the age of the claimant. Duration can also have a significant effect on job search incentives.
- **Requalification.** Claimants who have exhausted their entitlement to benefits have to have worked and paid a number of contributions before they can requalify for benefits. At the date of a claim that follows exhaustion of benefits, the normal contribution conditions have to be satisfied (see above).

In planning an unemployment benefit system Asian and Pacific countries will have to decide whether to focus entirely on the external labor market or provide some support to those enterprises with surplus workers through an employment-adjusting subsidy. This follows the Asian traditional approach to threatened unemployment, which is to avoid it by paying employers to retain surplus workers until they can be retrained and absorbed back into the enterprise. The employer will normally pay reduced wages supplemented by payments from the insurance fund.

Employment-adjusting subsidies have advantages and disadvantages. The up side:

- The surplus workers do not join the ranks of the unemployed.
- They receive in-house training from their employer.
- Workers receive a higher income during training than when in receipt of benefit.

The disadvantages:

- It is difficult to decide whether an enterprise will be in a position to absorb all its surplus workers at the end of their retraining period
- The subsidy may have the effect of assisting lame duck companies on the verge of bankruptcy or in urgent need of restructuring.
- Smaller and perhaps more efficient companies may be denied access to the skilled workers they require in order to expand.
- If an unemployment insurance fund is to bear part of the cost of restructuring state owned enterprises, there is a risk that it will become nonviable.

There is also the question whether training costs should be met from the unemployment insurance contributions of workers and employers or from employers alone in the form of a training levy. An alternative is to meet these costs from general tax revenues. The argument against meeting the cost of training from social insurance contributions is that not all unemployed workers will have equal access to training, and that training costs will rise significantly in times of high unemployment, when scheme funds are least likely to be sufficient to meet both training and benefit costs.

i. Financing Unemployment Benefit Schemes

Compared with the costs of meeting other risks covered by social insurance, the financing of unemployment benefit schemes is subject to a greater degree of uncertainty, particularly in the early years of a scheme when the pattern of claims over an economic cycle has not been established. If a scheme is funded on a PAYG basis it will usually provide for some degree of support from the state budget to meet expenditure at such points in the economic cycle when the number of claims is high and their duration extended beyond the average. In existing schemes, the combined rate of employer and employee unemployment insurance contributions can range from 2 percent to around 5 percent. The level of contributions will be determined by the assumptions made as to the number of contributors, the contribution collection rate, the size of the average contribution, the level of successful claims, the average duration of claims and, of course, the amount of the average benefit payment.

In some countries contributions are experience-rated, to encourage employers to assist employees in avoiding the need to claim. Unemployment benefit replacement rates tend to be lower than those of other social insurance benefits in order to maintain incentives; the average will be around 50 percent of previous earnings. If the insurance fund is to finance labor market programs such as training and employment subsidies to the internal labor market, these additional costs must be factored into the estimates of the appropriate contribution level. A PAYG scheme will call for regular reviews of the level of contributions and legislative provisions with powers to increase contributions at short notice. Some schemes are based on an unemployment insurance savings account that pays a lump sum in the event of job loss. Such schemes may leave the longer-term unemployed person facing the risk of poverty and pay an unintended bonus to those who find work quickly.

Many countries with developed schemes meet the cost of labor market programs such as vocational training from the state budget and not from their PAYG or funded unemployment insurance schemes. An alternative is to require employers to pay a training levy based on their payroll numbers. In some schemes, employers pay the whole cost of unemployment benefits and in others governments subsidize the scheme to a fixed limit, or meet the cost of benefits paid beyond the normal duration to certain groups of workers. With a means-tested scheme, the government can be expected to meet the full expenditure from tax revenue.

A funded scheme will fix contributions at a level that will allow for the build-up of a reserve fund of not less than about one and a half times the 12-month aggregate benefit expenditure. The size of the fund can be adjusted in the light of expenditure experience at the most costly points in the economic cycle. In many countries the government will assist in financing a funded scheme because, as with a pay-as-you-go scheme, the cost of unemployment benefits during an economic crisis can be more than an insurance scheme with affordable contribution rates can accommodate. An alternative for governments is to rely entirely on a social assistance scheme to meet the risks and costs of unemployment. The provision of a replacement income during unemployment through an individual savings account has the disadvantage that without the pooling of risk it is likely that those in less secure jobs will be unable to afford adequate cover for their own unemployment.

The administrative cost of operating an effective unemployment benefit scheme is high compared to other social insurance schemes. The costs normally fall under two headings: first, the taking and processing of claims and the making of payments, and second, the labor market actions required to ensure that claimants find employment. The former, which can amount to 10 percent of contributions, is usually met from scheme income, while the latter is usually met from the state budget. If the operations are combined in one office, the cost can be around 15 percent of contributions income.

ii. A National Network of Local Offices

To operate an efficient and effective unemployment benefits system, it is necessary to have a national network of local employment offices, where claimants can make their initial claims and attend at fixed and regular times to renew them. Those who live beyond a certain distance from the employment office are normally excused regular attendance and their renewal claims can be dealt with by post. After making a written declaration of their availability for work and any changes in their circumstances, a payment of benefits can be authorized. The employment office staff should be trained in the necessary procedures; they, or their colleagues in the same office, should also ideally have access to all the available information on the local labor market and be in a position to advise each claimant on suitable job vacancies, training opportunities, government programs for the unemployed, and methods of job search. Without a network of well equipped local employment offices with staff trained in a range of labor market related skills there will always be a danger that any unemployment insurance scheme will fast become little more than a system for distributing cash aid to those who declare themselves to be unemployed. Social insurance offices and employment placement service offices need to have a close working relationship; in some administrations, this has meant that all unemployment benefit work is merged into each local employment office.

Some Asian and Pacific countries are in the process of planning for the introduction of unemployment insurance schemes within the next five years, while at least one has a scheme in place paying benefits for a limited period of three months, with some provision for vocational training costs.

d. Illness and Disability Benefits

Illness and disability that prevent a person from earning a living are seen by the poorest members of society as risks to which they are highly exposed and vulnerable. There are a number of social insurance benefits that have been designed to cover the risk of illness in the short term and during longer-term disability. For short-term illness, an insured worker may receive an income replacement benefit on production of medical evidence of incapacity to follow his or her normal occupation. Some schemes limit the duration of illness benefits; in the absence of disability long-term benefits, this can result in hardship and poverty for a very vulnerable group.

When a claimant has been sick for some months, it will normally be appropriate to seek further medical evidence as to whether he or she is capable of taking up other forms of work or is likely to be incapable of all work for the foreseeable future. In the latter event, a disability benefit or pension can be payable, subject to periodic review where it is felt by the medical examiner that there is some prospect of the claimant re-entering the labor market. It is usual for the medical criteria used in the assessment of disability to be set out in legislation.

The incidence of illness and disability benefit claims should not vary significantly except during epidemics, when short-term claims to illness benefit will peak. A problem in terms of financing incapacity benefits arises when the average duration of claims increases for no apparent reason and more claimants move from short-term illness to the point where they can claim to be permanently incapable of work and entitled to a disability pension or other long-term benefit. The most common form of financing for short-term illness benefits is contributions to a social insurance fund with benefits designed as income replacement for a limited period of up to a maximum of about six months. In some schemes, the period of entitlement is determined by the individual's contribution record.

Employers are sometimes required under social insurance or labor law to pay illness benefits from their own resources for a limited period, or to meet the cost and then deduct the amounts paid from their monthly liability for social insurance contributions. Several developed countries have found that when employers are made responsible for payments, the incidence of short-term illness among employees falls significantly. The full cost of disability pensions can be met under a pay-as-you-go pension scheme or a dedicated social insurance fund to cover all incapacity benefits. Benefits designed to meet the additional costs of care and mobility for seriously handicapped or disabled people are more often funded from the state budget in developed-country schemes but are also often part of the state pension scheme.

The controls on expenditure that can be built into an incapacity benefits scheme are, first, the control of new claims through checks on the duration of spells of illness; this can be achieved by comparing periods of incapacity against the maximum length expected for claimants with a particular condition and taking up any large discrepancies with the certifying medical officer. Second, the application of strict criteria in the assessment of long-term disability ensures that only those who are truly incapable of all forms of work are awarded a disability pension. These forms of control call for a team of well-trained medical staff employed either by the responsible Ministry or Agency, to work in medical assessment centers, or private medical contractors where providers exist who can offer such support services.

In many Asian and Pacific countries, coverage for illness is limited to those insured workers in the formal sector of the labor market with benefits that are often paid for a very limited period. The small numbers in receipt of disability pensions suggest that there is often no automatic assessment at the end of that period to establish whether there has been a total or partial loss of work capacity. Where further treatment is required after exhaustion of entitlement to illness benefit, this treatment can be provided, together with a partial replacement income, but sometimes only if the claimant is suffering from a disease listed as requiring long-term treatment.

e. Maternity Benefits

Maternity benefits are designed as an essential part of social security schemes, to ensure that women have a replacement income when, in the interests of their own and their child's health, it is wise for them to abstain from work. The period of payment and the contribution conditions that must be satisfied will vary among schemes. Using social insurance pooling rather than labor law to pay cash benefits has been found to reduce discrimination against women workers, who can refer complaints more easily to local social insurance offices.

Like short-term illness benefits, these benefits are paid in Asian and Pacific countries to insured workers in the formal sector and are usually funded from contributions to the mandatory social insurance scheme. Payment is in the form of a cash lump sum paid on confinement and an income replacement benefit paid for a period before and after the birth. There is some evidence that not all employers are aware of the benefits payable to pregnant women or, if they are aware, avoid their responsibility for initiating claims at the appropriate time. This may indicate the need for a program of employer and trade union education.

In some enterprises, not all women who are entitled to maternity benefits will receive their full legal entitlements. One of the essentials of a maternity benefit scheme is that both employers and employees understand their obligations, and that employers do all they can to ensure that pregnant women are given all that the social insurance scheme provides. The advantages for the employee, the employer, and the health of the future generation are obvious if women are given the required time off from work and claim their maternity benefits at the appropriate time. Any educational programme on social insurance provisions for employers and trade unions could be expected to feature the proper operation of the statutory provisions on maternity rights and benefits.

In many countries, maternity care includes prenatal, obstetric, and postnatal care that is provided by the health services.

f. Work Injuries and Occupational Diseases

This class of incapacity has traditionally attracted favorable treatment in most social insurance schemes, because governments have decided that society owes a significant debt to those who face the risk of injury or disease in the course of their work. It was also felt that there were often inadequacies in the legal means of obtaining compensation from employers. There are often links to rehabilitation, with injured workers having the costs of a program met by the social insurance fund. The usual requirement under labor law for employers to record work accidents is another provision aimed at reducing work injuries to a minimum. Work injury benefits can take the form of cash payments for a temporary disability lasting for up to one year, to be replaced by a permanent disability benefit where a medical examination confirms that a degree of disability will continue.

Rehabilitation is an expensive but essential part of any industrial injuries scheme or a more broadly based disability pensions scheme. Ideally, all disabled people who can benefit should have access to a rehabilitation program that gives them the opportunity of returning to work or becoming self-sufficient. Such programs can be provided through the health care agencies or by special centers that have a main aim of returning disabled people to the workforce. If employers are left with the responsibility for rehabilitation they often have little incentive to ensure programs achieve results. The cost to the social insurance budget of providing for disabled workers will clearly be reduced if there is Health & Safety legislation that is properly enforced in the case of employers with a poor record of industrial accidents or diseases.

In Asian countries, the cost of work injury benefits is usually funded from a small employer contribution, but may also be funded from mandatory contributions to a general social insurance fund. The trend in social insurance legislation, unlike that in private insurance, has been almost wholly against relating contributions to the degree of risk. There is, however, an argument that employer contributions for work injury should be related to the pattern of claims, at least in relation to those hazards that can be avoided by more careful health and safety management. This argument, that employers' contributions should be "experience-rated," is gaining in acceptance; several schemes now require employers to pay a level of contributions related to the frequency of claims from their work force. Countries that require employers to rely on private firms to insure their employees against accidents usually find that the premiums charged by private insurance companies vary according to the past experience of work accidents in different types of employment. appear to be fully committed to covering the risk of work injury, but not always with payments sufficient to meet long-term needs. The lump-sum payments made under some schemes in Asia will often be inadequate to meet the extra lifetime costs arising from a person's disabilities.

g. Health Insurance

In countries where the State does not meet the full cost of a national health service and levies charges for personal health services, it is usual to find some form of health insurance system designed to provide cover for all or part of health care costs. A common situation in Asian and Pacific countries is where workers in the formal sector of the labor market, making up only a minority of the nation's work force, are covered by a mandatory health insurance scheme for personal health services. The dependants of these workers may or may not be included within the scheme. The international organizations concerned with the provision of health care have recognized the difficulty for most low- and middle-income countries in achieving universal coverage through governmental health systems.

An option for poorer communities is that of an microinsurance-based scheme limited to a small local community and providing a minimum of primary health care. (see below). There are also schemes under which certain categories of disadvantaged people are allocated health cards that give them access to health care at both primary and higher levels. Village committees can be given the task of distributing free health cards to those who meet the laid-down criteria. An insured worker's contributions may not provide cover for dependants, but it may be possible to obtain coverage for them through the purchase of a health card. The sale of health cards may be heavily subsidized by the government, with the sale price representing only a portion of the actual cost of the health coverage provided. Anyone using health services is often required to pay part of the fee-for-service laid down by government. This can amount to 20 percent of the charges. Poor people who are not insured and have not purchased a health card may receive free primary health care and may be referred for free hospital treatment if their local clinic approves the admission.

The two main methods of paying providers are

- Fee for service: a system of health care provider reimbursement in which payment is made for each service provided to a patient, regardless of who finances the payment.

Agreement on the services that can be provided and their cost is reached between the health insurance fund and the providers, or is set by government order.

- Capitation fees: a system of health care provider reimbursement in which payment is made for each patient on the roster of the provider, regardless of the frequency of visits or types of services received by the patient.

The fee-for-service arrangement tends to lead to an escalation of costs, as hospitals continually add new services and can argue around definitions and descriptions. The capitation fee is more straightforward, and should in general be a means of restraining costs. Health schemes tend to work with the World Health Organization list of approved drugs that can prevent the escalation of costs.

Health insurance contributions are often collected by the central health authorities, which operate a quite separate collection regime from that administered by the social insurance agencies. This can lead to a great duplication of effort within government, particularly when both health and social insurance schemes may be given wider coverage in the future.

The arrangements under which people receive health care in some Asian countries are complex and variable. Insured workers in the formal sector will normally have access to a hospital of their choice. They may have to pay an additional fee for treatment at a private hospital or even for special treatment at a government hospital. In general these workers can take advantage of the best available treatment. This is not always the case with those who have purchased a health card or been allocated a free card on grounds of poverty. A health card will give access to primary health care but may limit access to hospital services to those who receive approval from the primary health care provider, and then only at a designated government hospital. Many workers choose to pay the full cost of their health care and drugs as private patients in order to receive treatment at the place of their choice. For Asian countries where present arrangements are roughly as described above and where there are plans to extend coverage into the informal sector of the labor market, the following simplified system with three levels of contribution, could be of interest.

A mandatory scheme with two or more levels of service determined on the basis of the available medical facilities, for example,

- Contribution level 1 (the lowest level of contribution): Free primary care—patient pays for essential drugs—if hospital treatment is approved at primary care level, the patient pays a percentage of hospital fixed charges (say 30 percent) at a designated hospital.
- Contribution level 2: Free primary care plus free drugs with access to hospital services at a designated hospital without prior approval at primary care level. Patient to pay a percentage of fixed hospital charges (say 20 percent).
- Contribution level 3 (the highest level of contribution): Free primary care with free drugs and access to a hospital of choice without prior approval—Patient to receive free hospital treatment.
- Exemption from contributions on grounds of low income: Free primary care—free drugs—no hospital charges if entry to a designated hospital is approved at primary health care level.

It may be useful to consider an alternative to the above, where health insurance is made a national mandatory scheme, with exemption from contributions only for the poor, the sick, the disabled, the unemployed, and the old. Those who are active in the labor force could pay a contribution that gives access to free health care for themselves and their dependants, while the government provides a subsidy to cover the lost contributions of the disadvantaged. This is similar to proposed schemes in some Asian countries, where it is planned to move to universal coverage of the health insurance scheme.

Some of the advantages of such a mandatory scheme:

- There would be immediate universal coverage;
- One level of free service could be provided for all citizens; and
- The administrative difficulties of several different systems of payment would be removed

Among the disadvantages of such a scheme:

- The cost for the government and for insured workers might be very high;
- The collection rate for contributions in the informal sector might be very low;
- The health care services might not be able to meet demand;
- The selection of applicants for exemption could lead to a high rate of abuse;
- Insured workers could be resentful at having to bear a heavy financial burden through taxation; and
- The cost of information technology systems to create a large database could be high.

h. Microinsurance

One definition of microinsurance is “an autonomous enterprise, independent of external operators or of permanent financial lifelines”; another is ”a voluntary group self-help scheme for social health insurance.” If one considers the history of local self-help societies that have sprung up in various parts of the world from the desire of local communities to insure against life’s risks at minimum cost, it can be seen that success and long-term sustainability has come to those groups who have combined in regional, industry-wide, or national organizations. Such organizations have often drawn up rules that their membership was content to apply at the local community level. These rules often require members to live very responsible and sober lives, free from activities that left them vulnerable to many of life’s risks. Eventually governments found it necessary to legislate the proper management of such organizations, but generally allowed for wide discretion in their operation.

The interesting and important question for Asian and Pacific countries is whether local communities, or groups of persons such as members of cooperatives or occupational associations, that are currently excluded from government social insurance schemes (including health insurance) are able and willing to join and operate microinsurance schemes or similar schemes to provide protection against all or some of the risks they regard as most threatening. These might include

- primary health care,
- the cost of health care drugs,
- hospital in-patient treatment,
- payment during short-term illness,
- a death grant sufficient to meet funeral expenses,
- a maternity grant, and
- hardship payments in the event of crop failure.

This list could be extended if a community felt it could afford additional cover, but it is suggested as a possible starting point. However, it is difficult to see any scheme that covers the risk of crop failure operating over an area smaller than a province, or without a sufficient number of agricultural member communities to spread the risk over a wide area, preferably with a good spread of diverse crops. The history of local mutual help societies suggests that in the event of hardship arising from such catastrophes as fire and flood, periodic payments to alleviate hardship are the most that local contributions can support. It may be that microinsurance in Asia would be limited in this respect, and that in the event of a major crop failure covering a wide area, local funds could be used to fill gaps left by any government emergency aid program. Where crop failure is on a very limited scale, the local committee controlling disbursement for the microinsurance scheme could be expected to use its discretion to assist in cases of individual hardship. Such schemes call for specially tailored sets of rules drawn up after full consultation with the potential members. Governments could be asked to keep a national record of such schemes, and provide free banking facilities at government banks and an advice service. It is tempting to suggest that governments should provide an independent arbitration service to deal with complaints that cannot be resolved at the local level, but this would take decision-making power from the local community, where it is better left if all scheme members are to feel they can play a part in the resolution of disputes. The greater the number of microinsurance schemes that belong to a national federation of such schemes, the better will be the options for mutual support.

A microinsurance scheme may also be able to afford a single premium to provide life insurance for all scheme members at a favorable rate that could pay a lump sum at retirement age or to a survivor. The problem of adverse selection could arise if less than a substantial majority of a community were signed up as scheme members.

The history of health insurance in Japan provides an interesting model of how community insurance can provide people with access to health care and grow into a national health service. This model could well be very suitable to the needs of smaller communities in several Asian countries.

3. Key Issues

a. Governance

The governance of social insurance schemes in developing countries has generally been disappointing for a number of reasons. The objectives of good governance should include the establishment of government institutions that are accountable to contributors and beneficiaries for the proper implementation of social insurance law, whose decisions can be properly challenged within an independent appeals system and before the courts. Civil servants who advise ministers on the formulation of policy need to be fully informed on the views of those who contribute to the various national social insurance schemes and be required to publish annual financial statements and business plans for public scrutiny. None of these objectives can be achieved without effective and efficient administrative machinery operated by well-motivated, well-trained and adequately paid staff.

In any social insurance scheme, those who receive benefits or pensions should feel confident that they can challenge the authorities' decisions on entitlement by taking their case before an independent appeals tribunal or the courts. Without such confidence it is unlikely that the scheme will find a reasonable degree of acceptance with the general public, and may indirectly affect coverage and contribution collection levels. In many countries where the courts are the first tier of the appeals system, there has been a general reluctance, in particular on the part of pensioners, to use the appeal procedures because of delays and sometimes high costs. Civil courts tend not to specialize in social insurance law, and their judgments often reveal a limited knowledge of the finer points in a field of law that is generally not popular with lawyers.

Most developed schemes refer appeals to independent social insurance tribunals chaired by a local lawyer of some years' standing, assisted by two lay members representing people with knowledge of working conditions in the locality. The chairperson is usually appointed by the minister of justice, and the lay members by trade unions and employers' organizations. Almost invariably a further right of appeal is available on a point of law to the higher court or to a judge who specializes in this branch of the law. An appeals system does not preclude an administrative review of all appeals when first received at the local social insurance office. If, following an administrative review, the appellant cannot be given all that he or she is requesting, the appeal papers should be forwarded to the tribunal, with an explanation of how the decision in the case was reached. This explanation should be copied to the appellant to assist him or her with arguments before the tribunal.

The high cost of setting up a network of independent tribunals in locations that can be reached by appellants without excessive traveling has caused some developing countries to rely exclusively on administrative reviews while playing lip-service to appeal rights. The long-term effects on a scheme without proper and independent arrangements for handling and hearing appeals can lead to poor working conditions for staff who deal directly with the public, the generation of much unnecessary correspondence, and the general disruption of work for both local and senior staff in the social insurance organization. This is quite apart from what should be every person's human right to a fair and independent hearing of a genuine complaint affecting his or her standard of living.

Appeals against decisions given by officials on claims for social insurance benefits are usually dealt with in Asian and Pacific countries first by administrative review and then, if the claimant is still not satisfied, by a review committee. The number of appeals received suggests that not all claimants are aware of their rights and require more information. The review committees tend to be chaired by officials or retired officials and cannot therefore be regarded as in any way independent of the social insurance system that made the original benefit decision.

The establishment of autonomous bodies to administer social insurance schemes could lead to improved governance if these bodies were managed by tripartite boards and required to operate in a transparent manner. Consumer representation is generally seen as essential for the good governance of public schemes.

b. Communications

A social insurance scheme cannot operate effectively if those who pay for the scheme and the recipients of benefits are unaware of the rules governing its operation. Women in particular may not receive all the benefits they are entitled to under some Asian and Pacific country social insurance schemes. This may also be true of other groups, including the disabled. There would appear to be a need for a communications strategy aimed at educating the insured population and employers on social insurance rights and obligations. This will be an essential part of any move to extend coverage to the informal labor market where suspicion of government services is a large obstacle that has to be overcome if success is to be achieved.

All developed schemes rely heavily on published leaflets explaining to employers, employees, and the self-employed their obligations as contributors and, to those who believe they could be entitled to a benefit or pension, how entitlement is determined under the law. This need for good communications can lead to significant expenditure on published materials, but is essential if the public is to be informed of its rights and a good take-up of benefits is to be guaranteed. If the law needs to be changed there could be a requirement for a prolonged communications exercise before a consensus is reached in the target population .

c. Scheme Coverage

There are several definitions of "the informal sector" of the labor market. For the purposes of this paper it should be read as meaning those workers who are currently outside the scope of national social insurance schemes as noncontributors. In some Asian and Pacific countries, this will mean workers in enterprises with fewer than 10 employees. These workers will not normally be subject to the national labor laws or be income tax payers. A further definition of the informal sector refers to the position of the owner of enterprises; "the owner is personally liable for gains and losses as the enterprise is unincorporated, and the absence of full and written accounts: and the enterprise has less than 10 continuous employees" (Van Ginneken, 1999).

Many Asian and Pacific countries have plans, some of them long-term, to extend the coverage of their present social insurance schemes. Most schemes in the world grew from smaller schemes covering special groups, often concentrated in particular industries with strong trade union representation. Clearly, the ideal for any scheme is that it should cover all citizens and treat them as equal members. This cannot always be achieved quickly when there is a large disparity in incomes between formal sector workers and a large informal sector with a tradition of resisting interference from the central government. Schemes in Asia have tended to focus on employees in larger companies where the work force is fairly stable, and then to move gradually in steps to embrace employees in smaller companies. With the increasing mobility of labor and the more frequent failures, take-overs, and mergers of even large companies in the global economy, the problems facing social insurance schemes with restricted coverage will increase. In many Asian countries, there is a regular movement of workers from the informal to the formal sectors of the economy, and vice versa, and from the agricultural to the industrial sectors. It may be possible to extend social insurance coverage with a communications strategy aimed at informal sector workers linked with more simple methods of contribution collection. An alternative is to develop lower cost schemes for the informal sector perhaps, with flat-rate benefits.

All countries with a large informal sector or "gray economy" face the difficult decision of how to encourage this part of its workforce to participate in reformed social insurance schemes. If membership is made mandatory, an important question becomes whether it will it be possible to collect the necessary contributions and afford the information technology to create a database of personal contribution records. To ensure compliance in the informal sector can be beyond the means of many schemes that lack a sufficient number of local inspectors to follow up nonpayment with visits to both large and small employers and the self-employed. An option in some countries is to construct local schemes with smaller computer systems, but if coverage is not nationwide, these smaller schemes can pose problems for migrant workers.

The citizens of most Asian and Pacific countries carry a personal identity card with a personal number issued by the ministry of the interior. Given a developed computerized system for collecting contributions and locally based teams of well-trained inspectors with powers to enter employers' premises, the important question is whether it would be possible to ensure reasonable levels of compliance. Without extended coverage to at least the employees in smaller urban enterprises, it is difficult to see how the planned unemployment benefit schemes can be administered without the risk of serious abuse. Many workers in the informal sector will have had little contact with government bodies; for example, in one Asian country with a large informal sector, just 2 percent of the workforce pays income tax. Without a pilot project, it will be very difficult to judge the scale of the problems for those faced with the collection of contributions from informal sector workers. Without extended coverage, social insurance cannot, by definition, play a part in alleviating poverty where it exists in the informal sector. Voluntary participation in schemes has not been generally successful, and extended coverage must remain the key to poverty reduction through social insurance.

d. Pension Reform

In several Asian countries pension schemes are being used to fund early retirement programs as part of the effort to reduce manpower levels in state-owned enterprises. Where second pillar pension schemes with individual investment accounts are an option, these should allow for the reform of first pillar schemes and provide more scope for extended coverage to the informal sector, including the self-employed. The financial infrastructure in Asian countries will clearly benefit from pension fund investment, but will probably need to be developed if local pension companies are to compete with international providers.

e. Health Insurance

Several Asian countries are attempting, in a step-by-step process, to extend coverage to the whole of the population. The financing of health care from the health insurance fund is also presenting difficulties, in that there is very little control over the charges for services provided by hospitals where the fee-for-service system operates. The option of microinsurance schemes to provide against the risk of illness in poor communities will depend very much on the services the local population are prepared to pay for in the form of premiums and the availability of suitable local organizations or leaders prepared to organize and run such schemes.

f. Unemployment Benefits

The introduction of new schemes as proposed in at least two Asian countries will present the architects with complex decisions on the design of the legislative provisions and on the implementation via a national network of offices. It will be important to ensure that these schemes are not overwhelmed by calls on funds to support the restructuring of state-owned enterprises. A more developed and active labor market is also a prior requirement for these schemes to be effective. The new schemes are more likely to be sustainable if contributions are collected for a period before claims can be made and benefits become payable, so that some partial funding is available to meet periodic increases in the number of benefit claims.

It can be argued that unemployment insurance is inappropriate for most developing and transition countries, where economic shocks tend to affect large numbers at the same time, where the informal sector is large, and where the administrative capacity of the employment and social insurance offices is not high. The experience of the 1997 Asian crisis has persuaded some Asian countries to plan for the introduction of unemployment benefit schemes, and while a great deal of capacity building has to be completed before these can function efficiently, the benefits for labor markets should pay dividends in the longer term. The alternative of means-tested benefits for the unemployed is probably out of the question, due to the high administrative costs and the adverse effect on incentives to save.

g. Gender Issues

Social insurance schemes have in the past tended to include areas of both direct and indirect discrimination against women, and to a lesser extent against men. The European Court of Human Rights has considered a large number of appeals over the past 25 or more years and the European Commission, by issuing special European Union directives, has ensured the removal of all instances of direct discrimination from the social insurance legislation of member states. It is much more difficult to recognize when legislation discriminates in an indirect way. It is now common practice in all member states for social insurance policy staff to check with legal experts when new legislation is drafted to ensure that it does not directly or indirectly discriminate against any particular group in society. For example, a training scheme for unemployed people might be offered to a woman with dependent school children who feels she is unable to attend the course, given the fixed hours of starting and finishing. If unemployment benefits were to be disallowed on the grounds of her refusal, she might well be able to argue that she had been the subject of indirect discrimination in that most men could have attended the course without difficulty.

Where employers have the responsibility for the payment of maternity benefits, this can result in discrimination against women workers: they are refused work or dismissed by reason of pregnancy. The transfer of responsibility for benefit payments to the national social insurance fund may overcome such discrimination, but at extra administrative cost. In some schemes, where employers have this responsibility and refuse to pay, a woman has the right under social insurance law to receive payment from a central fund where officials will take up the question of nonpayment with the employer.

Given the traditional role of women in childcare, those insured workers with low and intermittent earnings are more likely to be women than men. For this reason, women will often fail to qualify for benefits or pensions that have qualifying conditions requiring contributions over a given number of months. As mentioned above, a system for awarding contribution credits to insured workers, perhaps based on the national minimum wage or an appropriate wage level, for periods spent in caring for sick or dependent children, would allow more women to qualify for benefits for which they have contributed. In the case of a person whose marriage ends in divorce, his or her income history will often show a wide discrepancy in earnings from those of the ex-spouse; an ex-wife is more likely to have had the lower average earnings over the period of the marriage. In some social insurance schemes, a divorced person can ask to be awarded the social insurance contributions record of his or her ex-partner, if this is more favorable than their own. For example, a person may use the record of pension qualifying years of their former spouse instead of their own if their basic pension does not reach the full rate. Any failure to provide in legislation for a means of compensating for the above disadvantages experienced by many female workers will inevitably lead to an increase in the number of women who fall into poverty after pension age.

h. Disability Assessment

The assessment of sick people's capacity for work and the award of disability benefits has been a failure in several Asian countries due to the use of medical experts in the assessment process who are unconnected to the social insurance administration. These medical general practitioners tend to assess claims without knowledge of the agreed criteria that must be used when reaching an opinion on the claimant's work capacity. The result has been overgenerous awards, leading to the abandonment of schemes, or a very reduced success rate for disabled claimants. Poverty will often stem from earlier incurrence of disability, where a social insurance scheme fails to provide adequate compensation for the permanently disabled.

i. Macroeconomic Linkages

If the cost of social insurance places too high a burden on employers, it could affect inward investment, if competitors in other countries have lower wage costs. High costs could also restrict the ability of employers to compete in the export market. Against such considerations must be placed the economic costs to a nation of not having a fully developed social insurance scheme. A modern industrialized economy cannot function efficiently unless both employers and employees know there is some guarantee to cover income in periods of illness and unemployment, and eventually retirement. Without social insurance to spread these risks, industry will tend to experience more unrest among workers when the economic cycle is at its lowest point, and may find it more difficult to make surplus workers redundant. Any large-scale redundancies could more easily lead to social disorder in the absence of arrangements for some form of income replacement.

In many Asian countries, the workers displaced from formal jobs have had little choice but to be absorbed by the urban informal sector, or return to their village of origin to take up subsistence farming. Most will have experienced a large drop in income and many will have fallen into poverty. This growth in poverty will have delayed a resumption of economic growth by reducing domestic consumption and savings. The extension of social insurance coverage should have the effect of smoothing consumption at the macroeconomic level, thus facilitating structural changes in society for the better. Labor market flexibility should clearly be enhanced by a developed unemployment social insurance scheme with appropriate built-in controls. However, the coverage of both unemployment benefits and pension schemes can affect labor mobility, particularly where different schemes have been developed to meet the special needs of separate industries or groups: workers will be reluctant to change employers where accrued rights are not fully portable.

Pension systems are not normally created to improve macroeconomic performance but can, of course, help to promote the development of an economy. In those countries where the State has provided generous pensions linked to past earnings under a PAYG system, the potential cost for future generations of workers can affect the future stability of the currency. This is particularly true where the system support ratio will become less favorable with an aging population. The governments of several Asian countries have recognized that a self-financed social insurance scheme will lead to economic development through improved productivity and more harmonious labor relations. While purely private pension arrangements, which do not include the sharing of insured risks, cannot strictly be regarded as part of a social insurance scheme, it is clear that pensions development across the globe is moving strongly toward funded schemes with individual investment accounts. Private pension funds have become a major policy option for many Asian countries, where they are seen as a means of strengthening capital markets.

When a pension scheme allows workers to retire early, this will clearly have an impact on the supply of labor. Many of the transition economies have used early retirement policies to assist in industrial restructuring, but at considerable cost to their pension schemes. The resulting need for increased social insurance contributions from workers could at some point reduce work incentives. Increasing the age at which pensions become payable will generally mean that more older workers stay in employment, but, as seen in several developed social insurance schemes, this can lead to an increase in claims to long-term incapacity and disability benefits, at very high cost.

Where employees were compelled to withdraw monies from their provident fund holdings during the Asian financial crisis, the absence of a developed social insurance scheme is likely to lead in the longer term to government expenditure on poverty alleviation programs for those who have made no provision for old age, unemployment, or illness.

j. Fiscal Impacts

Wage levels, and hence revenue receipts, will probably be lowered when social insurance contributions are increased beyond a certain point. This point will be closely related to the pensioner's support ratio in those countries where the ratio is high.

If benefit rates are set at a level where they affect the incentive to work, then clearly social insurance funds will be faced with higher-than-appropriate benefit costs, and the government with lower revenues. If benefit rates are set too low, this could affect the government's income from indirect taxation to a marginal extent, and have follow-on effects for government expenditure if large-scale poverty is a result.

A particular fiscal impact of social insurance schemes can be the creation of undesirable incentives for individuals to stay out of the formal sector of the labor market. High social insurance contribution rates are not the sole reason for these negative incentives, but they play a large part in denying governments the revenues they should expect from a large section of the work force.

Consumer spending and revenues from indirect taxation are likely to be marginally higher where people can be more relaxed about their income in time of need. On the other hand, personal savings could be reduced because they will be seen not to be required to the same extent to meet some of life's contingencies.

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