

## Key Points

- Social insurance is the main form of social protection in Asia and the Pacific in terms of spending, accounting for 59% of total spending.
- Social insurance programs include contributory pensions, health insurance, and other insurance schemes such as provident funds, unemployment insurance, and work insurance schemes.
- Social insurance benefits mostly those employed in the civil service and well-established private companies.
- Universal coverage for health insurance will have to involve some form of noncontributory scheme for the poor and near-poor, mostly in the informal sector.
- The distributional impact of social insurance is currently not pro-poor, nor is it gender-equitable.
- Most pension programs confront the main challenge of expanding their coverage and becoming more socially inclusive.

# Social Protection Index Brief: Social Insurance Programs in Asia and the Pacific

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## Introduction

The Asian Development Bank (ADB) report *The Social Protection Index: Assessing Results for Asia and the Pacific* (2013) highlights the dominance of social insurance in social protection systems across the region. The Social Protection Index (SPI) is defined as the ratio of total social protection expenditures to the total number of people who should receive benefits. These expenditures per person are then compared to a regional poverty line (ADB 2012).

The report's results confirm that social insurance easily surpasses spending on social assistance and labor market programs in Asia and the Pacific. The report also finds that investments in social insurance tend to increase as countries become richer. The dominance of social insurance is based mainly on its large share of total expenditures on social protection, which accounts for 59% of all such spending.

This brief focuses on the policy implications of the dominance of social insurance. In doing so, it examines the two major subcomponents of social insurance, health insurance and pensions, and a miscellaneous category called "other social insurance" (Figure 1).

The most important subcomponent of "other social insurance" is provident funds. Other subcomponents include such items as maternity benefits, severance pay, and work-injury insurance.

## Subcomponents of Social Insurance

A review of the various subcomponents of social insurance is next presented to draw out general lessons for policy making.

**Figure 1** Share of Social Insurance Expenditures and Beneficiaries by Subcomponents, 2009



Source: ADB. 2013. *The Social Protection Index: Assessing Results for Asia and the Pacific*. Manila.

### *Health Insurance Coverage Is Wide, But Benefits Are Small*

Health insurance is considered to be part of social insurance because participants in such schemes make contributions to cover costs. The SPI data show that health insurance accounts for 13% of all social insurance expenditures and 35% of all social insurance beneficiaries (Figure 1).

There is reasonably broad coverage of health insurance in the region. Actual beneficiaries represent about 40% of all potential beneficiaries. However, the average size of benefits received by the insured represents only about 36% of poverty-line expenditures (or 9% of gross domestic product per capita). Thus, the depth (or size of benefits) of health insurance is not significant compared to other forms of social insurance, especially pensions.

A major challenge confronting governments is how to expand health insurance coverage, including to workers in the informal sector, and eventually to the entire population. Inevitably, universal coverage will have to

**The main challenge of health insurance is to expand coverage to all those employed, particularly workers in the informal sector**

involve some form of noncontributory health insurance for the poor and near-poor. Governments will have to bear most of the cost for such coverage expansion.

An example of government-subsidized health insurance for the poor is provided by India's Rashtriya Swasthya Bima Yojana (RSBY) program. Launched in 2007, the program is intended to protect households below the poverty line from incurring catastrophic expenditures for hospitalization. In 2009 (when SPI data were collected), about 14 million beneficiaries in 268 districts were covered up to a maximum of \$620 and they only had to pay a registration fee. Central and state governments paid for the insurance premiums, but the program only covers a maximum of five members per household.

### *Pensions Account for Most Social Insurance*

Pensions in Asia and the Pacific present different challenges than health insurance. Potential beneficiaries of pensions are the elderly (who are identified as those 60 years or older for the SPI). This constitutes a much smaller group than the employed population. Nevertheless, pensions are clearly the dominant subcomponent within social insurance as a whole. They account for 65% of total social insurance expenditures and 45% of total social insurance beneficiaries (Figure 1).

Pension systems in Asia and the Pacific are most noteworthy for their average size of benefits. This

## Pension benefits in Asia and the Pacific represent 43% of average gross domestic product per capita

assumption is confirmed by the depth of coverage of pensions, which represents about 170% of poverty-line expenditures (or about 43% of average gross domestic product per capita). This represents the greatest depth of any form of social insurance—or even any other major form of social protection.

On average, pensions also reach about 44% of all the elderly. However, this average is attributable primarily to the extensive pension programs in a small number of formerly command economies in Central Asia and the Caucasus (some of which cover beneficiaries younger than 60 years of age). A few Pacific island countries, such as the Marshall Islands and Palau, are also able to finance fairly extensive pension systems, often based on external funding (such as compact funds from the United States).

Many pension programs are not presently sustainable in the long term due to rising costs and growing numbers of beneficiaries relative to contributors. A key factor is that while average life expectancy has increased significantly across Asia and the Pacific, the retirement ages for formal sector workers, who receive the bulk of pension benefits, still hover around an average of 60 years. In fact, this problem has been compounded since the life expectancy of formal sector workers is likely to be above-average because they are economically better off than the rest of the labor force.

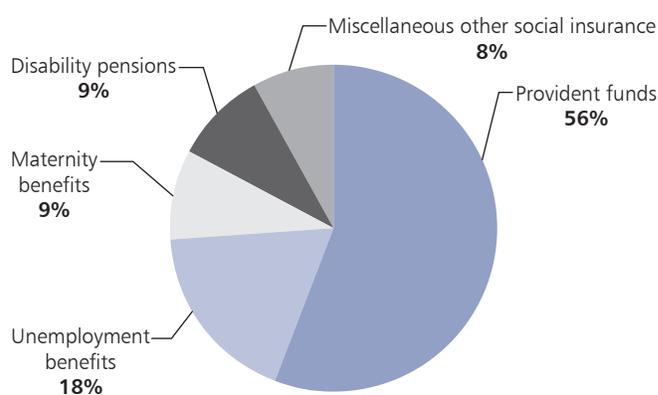
### *Other Social Insurance Is Dominated by Savings Schemes*

The miscellaneous subcomponent called “other social insurance” includes such programs as provident funds (which often have multiple purposes), unemployment benefits, disability pensions, and maternity benefits. This category is important since it accounts for 22% of all social insurance expenditures and 20% of all social insurance beneficiaries in Asia and the Pacific (Figure 1).

Provident funds, which represent the major program under “other social insurance,” are savings schemes

linked to retirement but typically utilized for other preretirement purposes. They account for about 56% of all expenditures on “other social insurance” (Figure 2). A more in-depth discussion of provident funds is provided later in this brief.

**Figure 2**  
“Other Social Insurance” by Individual Programs  
(as % of total spending)



Source: ADB. 2013. *The Social Protection Index: Assessing Results for Asia and the Pacific*. Manila.

Unemployment benefits, severance payments, and work-injury insurance account for only about 18% of all expenditures on “other social insurance.” Two other smaller programs under “other social insurance” worth noting are maternity benefits and disability pensions. Each of these two types of social insurance accounts for only about 9% of all expenditures on this subcomponent. It is important to note that expanding maternity benefits could make the impact of social insurance more gender-equitable.

### **Policy Implications of Social Protection Index Data**

Drawing in part on country experiences, the three subcomponents of social insurance are examined in more detail, focusing primarily on policy implications.

#### **Health Insurance**

According to the World Health Organization (WHO), public health expenditures, as a ratio to gross domestic product, are relatively low in Asia and the Pacific.

Correspondingly, private out-of-pocket expenditures are relatively high. For example, the share of private expenditures on health was over 65% in 2010 in Southeast Asia, which is the highest level of any WHO region (WHO 2013). Thus, expanding the coverage of health insurance is key to addressing out-of-pocket expenses.

Health insurance is one of the major modalities to raise and pool funds to finance adequate health care for the entire population. The other major modality for the government is to collect general revenue and channel some of it to public health services. The overriding objective of all such programs is to relieve those who fall ill from bearing the main burden of direct personal payments.

According to SPI data, out of a total of 35 countries in Asia and the Pacific, 21 had some type of health insurance in 2009. However, only 11 countries reported significant expenditures, namely, an amount that exceeded 10% of all social protection spending.

One of the major challenges for these countries is to spread the coverage of health insurance beyond civil servants and employees in well-established private firms in the urban formal sector. Health insurance relies mainly on some form of prepayment so that the risks of illness can be pooled among a large population. In return, participants should benefit from a specific defined benefit package.

According to the SPI data for 2009, only a few countries in Asia and the Pacific have achieved universal or near-universal coverage of health insurance. These include the People's Republic of China, Japan, and the Republic of Korea. In such systems, the government usually has to supplement prepayment with some form of subsidy in order to adequately finance health services. Such a subsidy is especially critical for poor or near-poor households, which are ill equipped to shoulder out-of-pocket expenditures or pay premiums (ADB, unpublished).

In 2009, the Republic of Korea had already achieved universal coverage of its health insurance system. The program reached about 48.6 million people in that year, and costs represented about a third of all of the country's expenditures on social protection. The main financial resource for this program relied on household contributions. However, by 2007, the government had expanded its share of the total costs to 30% and

correspondingly reduced the household share to 55%. However, the country's fast-aging population can be expected to increase the costs of health insurance. Health spending per person has already been growing rapidly since the early 2000s (OECD 2012).

## The People's Republic of China achieves wide but shallow coverage of health insurance

### **The People's Republic of China's Rural Health Insurance:**

The New Rural Cooperative Medical Scheme of the People's Republic of China (PRC) is also noteworthy for striving to provide health insurance to the entire rural population. Although this program only started in 2003, SPI data suggest that by 2009 slightly more than 90% of the PRC's registered rural residents (about 836 million people) were included in the program.

The government (at both the national and the local level) provides 80% of the revenue for this system. In addition, it subsidizes the premiums and co-payments of the poorest families. However, it is estimated that this system still covers only 50%–60% of the costs incurred by people who access health services. The rest has to be covered by out-of-pocket expenditures (Eggleston 2012). The PRC's initial priority for its rural health system has been to achieve what could be called "wide but shallow coverage," and thereafter to gradually deepen the system by covering more health services. This kind of strategy has the advantage of being fairly equitable.

Most other countries implementing health insurance systems have opted for the opposite approach: offering an extensive package of services to just a segment of the population (usually those formally employed) and then trying to expand coverage to the self-employed or informal sector employees. However, since such an option would require a large outlay of public funds, progress is rarely made in such a direction.

In this regard, the SPI report suggests that in Asia and the Pacific, the real test of success for health insurance—as well as social insurance in general—is its ability to reach what it calls the "missing middle" of social protection. This is the often sizable proportion of the

population in the region that is neither rich nor poor, and, in this case, is covered by neither health insurance nor health assistance.

Many workers who could conceivably make contributions to health insurance are employed in the informal sector, or in small formal enterprises that are reluctant to enroll their workers in such insurance schemes because of the associated costs. There is generally a lack of accurate information on the earnings of such workers and, moreover, they frequently change jobs or locations. These are some of the practical difficulties that strengthen the case for pursuing a universal coverage option similar to the PRC's scheme even if its initial medical benefits are limited.

### Contributory Pensions

As indicated above, standard contributory pension systems in Asia and the Pacific confront formidable challenges. Some of these challenges are similar to those for health insurance.

Perhaps the greatest shortcoming of the region's pension systems is that most of them cover mainly civil servants and a limited number of formal sector workers in the urban private sector. These are usually the better-off groups in society (Park 2012). Workers in the informal sector, as well as rural workers, are rarely covered. Hence, the predominant challenge for countries with such limited pension systems is to broaden their coverage.

In contrast, there are a few countries (e.g., in Central and West Asia) that have fairly extensive, and sometimes relatively generous, pension systems. Japan is also among this group. The immediate challenge for formerly socialist countries is to undertake reforms that can help strengthen the financial sustainability of their pension systems while maintaining some degree of equity in coverage so as not to leave large populations of elderly persons in destitute or precarious circumstances.

The countries of Asia and the Pacific confront varying demographic challenges. Some countries, such as the Republic of Korea and Singapore, have to deal urgently with a rapidly aging population. Other countries, such as Bangladesh, India, Indonesia, and the Philippines, still have relatively young populations. Still others, such as Thailand, find themselves somewhere in between (Park, Lee, and Mason 2012). Nevertheless, all of these

countries can expect the proportion of their elderly population to expand in the future. This is due to falling fertility rates and lengthening life expectancies. However, to focus on the elderly as “the problem” and dwell on cutting back their pensions—as is often the response—is a mistaken approach.

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Pension systems are only as financially viable as a country's underlying trends in the employment and labor productivity of its working-age population (Park, Lee, and Mason 2012). These are the underlying factors that provide the foundation for the long-term success of any social protection system.

Unemployment among the working-age population poses a problem in some countries in Asia and the Pacific, but widespread underemployment (such as in large informal sectors) and economic inactivity (such as among women) often are the most imposing obstacles standing in the way of dealing with the demographic challenges that confront social protection systems.

**Pension Reforms in Central Asia:** The largest proportion of social protection spending in Central Asian countries is devoted to extensive pension systems. Their pensions have been designed to be universal, covering all those aged 60 years and older (and sometimes even younger cohorts). At independence, their pension systems had low retirement ages, early retirement schemes, and high benefits (Falkingham and Vlachantoni 2010).

However, in order to make their pensions financially sustainable, most of these countries have had to undertake wide-ranging reforms, including tightening eligibility criteria, increasing retirement ages, and changing from defined benefits (based purely on years of work and pay level) to defined contribution systems (based on explicit contributions into a fund).

In Azerbaijan, for example, pensions accounted for about 67% of all social protection spending in 2009.

Now only men over the age of 62 and women over the age of 57 who have contributed for at least 12 years are entitled to pensions.

In 2009, Uzbekistan's pensions accounted for about 70% of all social protection spending, but its pension system has been only modestly reformed. Some male retirees can still draw on their pension when they reach the age of 60 and some women retirees when they reach the age of 55. Also, generous pensions are still provided to about 800,000 early retirees, or roughly 27% of all pensioners (Khasanbaev and Pfau 2009).

These two countries share with other countries of Central Asia the challenges of confronting the intertwined problems of an aging population and a shrinking working-age population (or contribution base). For example, in both Azerbaijan and Uzbekistan, the share of those 60 years or older will triple by 2050. Hence, these countries will certainly face difficult choices on reforming their pension systems in the future.

**Thailand's Pension System:** The historical starting point for many other countries in Asia and the Pacific is different from that of the transition economies. In Thailand, participation in the Government Pension Fund only became mandatory in 1997. By 2009, the fund provided generally adequate pensions to only about 550,000 former civil servants (or about 7% of the elderly). Thailand's Old Age Pension (or Social Security Pension) for formal sector workers in the private sector only started in 1995.

Hence, for the latter program, no real pensions will be paid out before 2014 (Brustad 2012). Those workers retiring earlier receive only limited lump-sum payments. In 2009, there were only about 100,000 such recipients (about 1% of the elderly), but even those workers retiring over the next 20 years or so will inevitably receive inadequate benefits (because of the late start of the program). As the Thai population ages more rapidly in the future, even the cost of these pensions will likely be twice the current contribution rate (Brustad 2012).

**The Philippines' Pension System:** The Philippines has long-standing mandatory defined-benefits pension systems for government employees, private sector employees, and veterans (Reyes 2012). However, it also has a relatively young age profile: only about 6% of the total population was elderly (60 years or older) in 2009. Thus, it appears to be in a potentially stronger financial position than many other countries in Asia and the Pacific.

SPI data indicate, however, that pensions were benefiting only about 1.3 million people, or about 23% of the elderly population in 2009. As in many other countries in the region, there are large swathes of the working population, particularly in the informal sector and rural areas, which have no access to pension systems. Thus, an overriding problem of the Philippines' pension system is its low breadth of coverage of the elderly. In addition, its current defined benefits pensions, especially those for civil servants, do not appear to be financially sustainable because of the lack of adequate contributions.

### Provident Funds

In response to the perceived inadequacies of traditional pension systems, some countries in Asia and the Pacific have implemented provident funds. The SPI project classifies provident funds as part of "other social insurance" because even though they can help people accumulate retirement income, they are often used for other purposes, including paying for health care, financing education, or even buying a house (Park 2012).

Provident funds are relatively uncommon throughout Asia and the Pacific. According to the SPI data for 2009, only seven countries in the region had such fully formed funds, and their expenditures totaled no more than about 12% of all expenditures on social insurance.

The most well-known provident funds are in Malaysia and Singapore. Malaysia's Employees Provident Fund (EPF) is intended primarily for retirement, but its assets can be used to cope with other contingencies, such as sickness, disabilities, and unemployment. In 2009, about 340,000 Malaysians (or about 3% of the employed population) benefited from various aspects of the fund, with about 60% of them drawing on its funds for retirement purposes.

Singapore's Central Provident Fund (CPF), introduced in 1995, is the most well-known in Asia and the Pacific. According to SPI data, it accounted for 90% of the country's social protection spending in 2009 but covered only about half of the country's resident population. The CPF is not designed, for example, to cover the growing number of self-employed and low-wage workers in the country.

Singapore's provident fund faces a large and growing elderly population

The workers enjoying CPF coverage only have to contribute one-fifth of the funds in their accounts. Employers chip in about 15% while the government contributes the lion's share of almost two-thirds of the total.

The CPF differs from standard pension schemes because its savings can be used for non-retirement purposes such as health care, children's education, and housing. Singapore is noteworthy for encouraging the use of the CPF to finance widespread home ownership. However, the country faces the daunting prospect of a large and growing elderly population. The share of the elderly already represented over 13% of the total population in 2009. As the share of the total population in the labor force declines, contributions to the CPF will dwindle, while withdrawals will increase.

Provident funds have the potential to be more financially sustainable than many defined benefits pension schemes because they tend to be based on defined contributions. Their coverage, however, is also usually limited to formal sector workers. In addition, their multipurpose design tends to weaken their effectiveness as a retirement program, especially since the size of their elderly population is markedly growing in most countries.

### Poverty and Gender Dimensions of Social Insurance

The SPI can be disaggregated to show the distributional impact of the major programs of social protection. This is feasible for comparisons of the impact on the poor and the non-poor and on women and men.

The present distributional impact of social insurance in Asia and the Pacific as a whole is not pro-poor, nor is it gender-equitable. The most popular forms of social insurance in the region are mandatory contributory schemes, which are limited to those employed in civil service and well-established private companies. Social insurance relies on contributory schemes to help people respond to common risks, such as illness, infirmity in old age, and unemployment. Although there are voluntary insurance schemes that can be accessed by people in informal employment, most poor people have difficulty in making contributions to insurance schemes because of their low income and/or insecure employment.

This finding is supported by the SPI disaggregation by poor and non-poor. The results for social insurance show

that the SPI for the poor is a mere 0.006, while the SPI for the non-poor at 0.068 is over 10 times higher. Social insurance clearly benefits the non-poor over the poor. Since social insurance captures a huge percentage of spending on all social protection, these results are also reflected in the distributional impact of all forms of social protection. The overall SPI for the poor is 0.024, while the corresponding overall SPI for the non-poor is 0.086, or more than 3.5 times higher.

Social insurance also appears to account for most of the bias against women in social protection systems. While the SPI for women for all forms of social protection is 0.046, the SPI for men is 0.064. This represents an absolute gap of 0.018. For social insurance alone, the SPI for women is 0.030, while the SPI for men is 0.045, which is an absolute gap of 0.015. Thus, the gender gap in social insurance alone accounts for over 80% of the gender gap in all forms of social protection.

### Emerging Policy Challenges

Though social insurance is the dominant form of social protection in Asia and the Pacific, its main programs face many challenges. Health insurance reaches a larger number of beneficiaries than pensions because it is intended to cover the employed population. In contrast, pensions provide much larger average benefits to a smaller number of potential beneficiaries (i.e., the elderly).

Thus, most pension programs confront the main challenge of expanding their coverage and becoming more socially inclusive. At the same time, they have to achieve such goals while maintaining financial sustainability.

Social insurance programs do not provide adequate coverage of the "missing middle" of potential beneficiaries who are neither rich nor poor. Also, the aging of populations across Asia and the Pacific will inevitably make pension programs more expensive, as well as raise the costs of medical insurance since older populations are more prone to illness and disease.

Thus, policy makers are facing difficulties in achieving financially sustainable programs for both pensions and health insurance. Such sustainability, however, will ultimately rely on factors beyond social protection, particularly the degree to which countries in Asia and the Pacific can generate broader employment and higher labor productivity.

If productive employment rises, countries will be more capable of expanding social insurance coverage. The depth of benefits might have to remain modest during the initial stages of implementing such a strategy, but the inclusiveness of such an approach should generally outweigh this disadvantage.

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