Political risk and pension privatization: The case of Argentina (1994-2008)

Stephen J. Kay

Research Department, Federal Reserve Bank of Atlanta, United States

Abstract Proponents of pension privatization in Latin America argued that systems of private fully pre-funded defined-contribution individual accounts would be better insulated from politics than was the case with public pay-as-you-go pension systems. However as the Argentinean case demonstrates, most recently with the 2008 nationalization of its private individual accounts system, transferring pension management and investment to the private sector does not necessarily reduce or eliminate political risk. In fact, the implementation of systems of individual accounts creates a new set of political risks, in part because they are a potential financial resource for governments, especially during times of economic stress. This article describes the range of political risks inherent to individual account pension systems, with specific reference to Argentina’s 1994-2008 experience with privatization.

Keywords social security reform, political aspect, pension scheme, privatization, nationalization, Argentina

Introduction

During the wave of pension reform that took place in Latin America during the 1990s, proponents of pension privatization argued that systems of fully pre-funded defined-contribution individual accounts would be more efficient and equitable and better insulated from politics than was the case with public pay-as-you-go...
PAYG) systems (see World Bank, 1994; Diamond and Valdés-Prieto, 1994), which were plagued by political manipulation (Mesa-Lago, 1978; Borzutzky, 2002). However as Argentina’s 2002 default, and the more recent 2008 government takeover of the private individual accounts pension system have demonstrated, transferring pension management and investment to the private sector does not necessarily reduce or eliminate the threat of political risk with respect to pension funds. In fact, the implementation of systems of individual accounts creates a new set of political risks, in part because they are a potential financial resource for governments, especially during times of economic stress. This article describes the range of political risks associated with pension systems that have individual accounts, with specific reference to Argentina where political interference first undermined and then led to the termination of the private pension system. The paper concludes that systems of private pre-funded defined-contribution individual accounts do not in fact reduce political risk but rather, as the Argentine case demonstrates, entail challenging new political risks.

Pension funds and political risk

Pension funds are subject to several types of risks. Nicholas Barr describes a range of uncertainties that all pension programmes are subject to, including macroeconomic shocks, demographic shocks, and political risk. Further, pre-funded pension programmes are also subject to management risk, investment risk, and annuities market risk. Barr describes both risk — where the probability of potential outcomes is known or estimable — and uncertainty — where outcomes are neither known nor estimable — and affirms that political risk falls into the latter category (Barr, 2002, p. 5).

With respect to pensions, political risk can be defined narrowly as the risk of ineffective governance with respect to pension funds, or more broadly as any government action (or inaction) that adversely affect the interests of affiliates. For example, governments can fail to adequately supervise and regulate pension funds, or more broadly they can initiate inflationary macroeconomic policies that erode the value of pension fund investments. Governments can default on bonds that compose a significant portion of pension fund investment portfolios, or they can seize pension fund assets in order to finance government spending. Both these forms of direct political intervention occurred in Argentina: in 2001-2002 and in 2008, respectively.

That pension funds remain subject to political risk and uncertainty should not come as too much of a surprise, as countries with a previous record of ineffective governance in the management of the public PAYG pension system are now expected to effectively regulate private pension funds. Governments operating within weak institutional and macroeconomic frameworks will face challenges...
implementing effective pension policies regardless of whether the system is public or private.

Political risk is mitigated to the extent that governments act as the guarantors of new systems of private individual accounts. In the event that the benefits provided by individual accounts prove to be inadequate, political pressure is likely to compel governments to provide some form of a bailout to protect pensioners. Governments can design safety net programmes, as Chile did in 2008 in creating a solidarity pension that guarantees a minimum pension for all residents regardless of labour market participation. In cases where such protection is not codified in law, it is still likely that governments will provide some form of compensation if pensioners experience severe losses. As Barr explains:

...the larger the share of the population with private pensions and the greater the fraction of pension income deriving from private sources, the greater the pressure on government in the face of disaster. If PAYG is argued to represent implicit debt, the analogous argument is that mandatory private pensions have an implicit state guarantee (2002, p. 20).

This article describes the ways in which systems of private individual accounts are subject to political risk and uncertainty (two terms that are lumped together given that some political risks are unknowable or inestimable), and uses the Argentinean case to describe political risk during the privatization era (1994-2008). It illustrates how the fate of systems of private individual accounts depend upon governments for prudent macroeconomic policy, supervision and administration responsibilities, and for the issuance of government securities that often compose the bulk of pension fund portfolios. The specific risks associated with expropriation, governance, default, and inflation are described. It concludes that a range of political risks are inherent to state-mandated systems of private defined-contribution individual accounts.

Privatization and political risk

One of the principal justifications for private defined-contribution individual accounts is that the region’s public PAYG pension systems were traditionally manipulated by politicians who placed political gain over financial logic in establishing benefits. In “young” PAYG systems where contributions from the economically active population exceed payments to beneficiaries, politicians with short-time horizons have an incentive to expand benefits regardless of the long-term financial costs, or to invest social security surpluses in projects with low financial returns but high political payoffs. For example, the first Juan Perón government in Argentina (1946-1955) and the first Getúlio Vargas presidency in Brazil (1930-1945) expanded promised benefits and coverage at little cost, since the bulk of the benefits would not be paid until the following decades. The same process
took place under successive governments in Chile, which promised benefits to various subsets of workers in return for votes. This process resulted in a fragmented and deficit-ridden pension system that was difficult to reform given the strong support it received from beneficiaries (Borzutzky, 2002).

As deficits in national PAYG systems mounted in the 1990s, several countries in the region adopted systems of individual accounts inspired by Chile’s 1981 reform (see Kay and Kritzer, 2001). Advocates of individual accounts argued that the new private systems would remove social security from the political arena because benefits would no longer depend on the decisions of politicians (Piñera, 1999). As Acuña and Iglesias put it, “The protection of mandatory social contributions from the risk represented by short-term politico-economic cycles thus became a central objective of the reform” (2001, p. 9). In other words, a key advantage ascribed to privatization is that the role of the market would supplant the role of politics in determining pension benefits, under the assumption that after privatization property rights will be inviolate and that privately-managed pension funds will remain beyond the reach of government intervention.

Others were less certain that privatization would reduce political risk. Beattie and McGillivray argued that “in a situation of financial adversity it is difficult to believe that government would not find a method of exerting control over the investments of these institutions” (1995, p. 17). Kay (1998) argued that while private management would mean that governments would not have direct access to funds, it did not preclude the possibility of other forms of political manipulation (such as confiscation or the imposition of new taxes on pension funds). Orszag and Stiglitz (2001) asked why a government that administers public systems inefficiently would suddenly become efficient when it came to private pensions.1 As is described in further detail below, these concerns were well founded as pension funds in Argentina (and elsewhere) were subject to political manipulation that, in the first instance, threatened the fundamental health of the new pre-funded individual accounts pension system, then led to its demise in 2008.

### From privatization to nationalization (1994-2008)

In 1994 the Argentinean public PAYG pension system was transformed into a mixed system enabling workers to save for retirement by contributing to individual accounts. Predictably, worker contributions to the new system led to significant deficits in the public PAYG system, leading to the passage of the Social Security Solidarity law in October 1995, which eliminated indexation to current salaries and placed ceilings on benefits. This was essentially a companion piece to the

---

1. Isuani, Rofman and San Martino (1996, p. 100) make a similar point.
privatization law as these measures would have likely generated too much political opposition had they been included in the original reform.

Six years later, the Argentinean economy entered into a severe financial crisis. Pension funds were used as a last resort source of government financing after markets had abandoned Argentine Government Treasury notes and the threat of default loomed.

The origins of the 2001-2002 financial crisis lay in part with the Convertibility Plan, which linked the Argentine peso to the United States dollar (US$) at one-to-one parity. Convertibility provided the government with credibility that it would no longer engage in monetary expansion to finance deficits; a policy that had led to hyperinflation in the past. It was accompanied by a series of structural reforms, and fostered an inflow of investment associated with privatization and trade liberalization. Privatizations of state-owned firms enabled the government to run fiscal surpluses in 1992 and 1993, but in 1994 the fiscal deficit began to rise after the pension reform was enacted, and Argentina’s debt to GDP ratio rose to 54 per cent of GDP in 2001, up from 29.3 per cent of GDP in 1993 (Guidotti, 2006, p. 79). As confidence in the government eroded in 2001 following a long recession and political crisis, the government turned to pension funds as a source of financing as part of a desperate (and ultimately unsuccessful) effort to stave off default and devaluation.

Part of the blame for the crisis can be placed on exogenous factors, such as Brazil’s 1999 devaluation which worsened the Argentine recession, or the strengthening of the United States dollar in the 1990s, which made Argentine exports less competitive. The lack of fiscal restraint in Argentina in the 1990s aggravated the crisis (López Murphy, 2001), and the government was unable to convince local and foreign investors that it could contain the crisis. The chronology in Table 1 lists key events of the 2001-2002 crisis that affected pension funds.

As discussed earlier, some analysts have suggested that an advantage of pension privatization is that it creates political insulation, which lessens the chances that social security will be subject to short-term budgetary considerations (Diamond and Valdés-Prieto, 1994, p. 307). This was not the case in Argentina, where the government intervened in pension funds in a series of actions prior to the default and devaluation of January 2002 in an attempt to reverse the deteriorating economic and financial climate (see Table 1). The government cut pension benefits by 13 per cent and halted court-ordered pension adjustments in an effort to improve deteriorating fiscal accounts, and it later reduced mandatory contributions to pension funds to 5 per cent from 11 per cent of salary in order to stimulate the economy. It also pressured pension funds to accept a debt swap in an attempt to address its short- and medium-term financing needs. When these measures proved

2. Guidotti notes that the debt to GDP ratio would have risen to 40.2 per cent instead of 54 per cent in the absence of pension reform.
to be insufficient, and the market had no alternative sources of financing, the government forced pension funds to purchase Treasury notes.

After the default and devaluation in January 2002, the United States dollar value of pension fund investments plummeted as Argentine government US dollar-denominated debt was converted to Argentine pesos, and the government defaulted on its debt payments. In June 2005, the government concluded debt restructuring, exchanging the pension funds’ holdings of defaulted debt for new debt instruments. The government had avoided addressing the issue of redollarizing the forced loans until after the debt restructuring offer was complete, since any compromise with the pension funds could have been used as leverage by Argentina’s creditors in future negotiations.

As a consequence of default and devaluation, real GDP fell 10.2 per cent in 2002. However, Argentina’s economy soon recovered, boosted in part by surging commodity prices, and real GDP growth averaged almost 9 per cent from 2003 through 2007. In the second half of 2008, commodity prices fell sharply amid a weaker global economy. Still without access to global financial markets since the 2002 default, the government sought access to pension fund assets again, this time through a takeover of the private pension system. On October 21, 2008, President Fernández de Kirchner announced the government’s intent to end the individual accounts system

### Table 1. Select chronology of the Argentine social security system during the 2001-02 crisis

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>29/07/2001</td>
<td>Senate approves “Zero Deficit” bill — cuts pensions and federal salaries by 13 per cent</td>
</tr>
<tr>
<td>21/09 2001</td>
<td>Government postpones paying pensions to comply with fiscal target</td>
</tr>
<tr>
<td>23/09/2001</td>
<td>Government pressures pension funds to accept a debt swap</td>
</tr>
<tr>
<td>24/10/2001</td>
<td>Negotiations with government over debt swap paralyzed</td>
</tr>
<tr>
<td>01/11/2001</td>
<td>Mandatory pension contributions are reduced from 11 per cent to 5 per cent of income</td>
</tr>
<tr>
<td>20/11/2001</td>
<td>Government announces that it will not pay court-ordered pension adjustments</td>
</tr>
<tr>
<td>27/11/2001</td>
<td>Pension funds reject the government swap of US$ 8 billion in provincial debt</td>
</tr>
<tr>
<td>01/12/2001</td>
<td>Pension fund affiliates actively paying contributions drops to 29.5 per cent</td>
</tr>
<tr>
<td>06/12/2001</td>
<td>US$ 2.3 billion of pension fund deposits converted to Treasury notes</td>
</tr>
<tr>
<td>20/12/2001</td>
<td>President Fernando De la Rúa resigns</td>
</tr>
<tr>
<td>27/12/2001</td>
<td>Interim President Rodríguez Saá restores the 13 per cent cut in pensions and federal salaries</td>
</tr>
<tr>
<td>03/01/2002</td>
<td>Argentina defaults on international debt</td>
</tr>
<tr>
<td>05/01/2002</td>
<td>President Duhalde announces intent to devalue the Argentine peso</td>
</tr>
<tr>
<td>07/02/2002</td>
<td>Pension funds protest pesification of bonds and US dollar loans to the government</td>
</tr>
<tr>
<td>15/04/2002</td>
<td>Number of active pension fund contributors drops 26 per cent from the previous year</td>
</tr>
</tbody>
</table>
and fold it into the public PAYG system, which was approved by the Senate just one month later in a climate of growing concern as to whether Argentina would default on its sovereign debt a second time in less than a decade.

The Presidential Decree announcing the takeover included criticism of the private system’s low rates of coverage and high commission costs, while arguing that the private system would leave workers at the mercy of the markets during a time of financial crisis (Argentina. National Executive Power, 2008). After absorbing the system of private individual accounts, the law creating the new Integrated Argentine Pension System (Sistema Integrado Previsional Argentino — SIPA) stated that benefits would be equal to or better than benefits under the private system (Boletín Oficial de la República Argentina, 2008).

While proponents of the 2008 “nationalization” described their actions as a move to protect retirees, legislative opponents saw it as a cash grab motivated by short-term financial and electoral considerations (Reuters, 2008). Mesa-Lago (2009) argued that the system’s problems did not merit its complete dismantling: the historic 6.6 per cent real returns of the funds were far better than characterized by the government; that pension funds were in relatively strong shape and underexposed to equities in the face of the economic crisis; that despite a short-term financial boost from the takeover, the long-term pension burden would increase for the government; and that the reforms did not adequately safeguard how the newly-acquired funds would be invested, which could further undermine confidence (and compliance with) the pension system.

In short, as Arza noted, past Argentine governments “have repeatedly redefined pension rules, compelled the Retirement and Pensions Fund Administrators (Administradora de Fondos de Jubilaciones y Pensiones — AFJPs) to take hazardous investment decisions, and put pension funds at risk of dramatic failure as a result of debt default” (2008, p. 2705). The 2008 pension nationalization was the final chapter in that history and provides an opportunity to consider the role of political risk and pension reform.

The range of political risks associated with pension privatization

Four types of political risk are associated with pension privatization. First, as we have seen, pensions can be seized outright by governments desperate for financing (expropriation risk). Next, since systems of individual accounts require a host of government regulation to insure prudent investment policies, as well as government action to insure compliance by workers and firms, they face governance risk in that government supervision of the pension system may be inadequate (see Barr and

3. For a comprehensive assessment of the Argentine experience with privatization, see Arza (2008).
Diamond, 2008). Third, pension funds are subject to default risk. To the extent that pension fund investments tend to be heavily concentrated in government bonds, government policies may lead to a default. Finally, it is important to mention the risk of inflation, which is in part a political risk because only governments are capable of insuring pension funds against the risk of inflation through issuing inflation-indexed bonds (Barr, 1987).

Risk of expropriation

Although governments may borrow or seize pension fund assets at any time, this risk is especially elevated during times of economic stress. As noted above, Argentina’s pension fund assets were seized twice in a span of seven years as economic crises emerged.

When the Argentine government was closed out of the international bond market in 2001, it forced the pension funds to accept a debt swap that prolonged maturities and paid lower interest. Pension fund managers complained that the government was forcing them to act against the best interests of affiliates because they would be forced to accept lower overall returns (Clarín, 2001). Barr and Diamond noted that the “proper valuation of the new bonds created continuing problems, since their value depended on the credibility of government policies” (2008, p. 213). Negotiations with the pension funds stalled, and in December 2001, just prior to the default and in the face of pension fund protests, the government ordered the AFJPs to transfer US$ 2.3 billion to the National Treasury in exchange for Treasury bills (which raised total pension fund investments in government-issued debt to 70 per cent). As is evident from Figure 1, investment in government debt climbed dramatically in 2002 as government reliance on pension fund investment increased to nearly 79 per cent of investments, before falling to 51 per cent in 2007.

In October 2008, the government seized pension fund assets in a more direct fashion when President Fernández de Kirchner announced new legislation that would nationalize the private pension system. Under the proposal the US$ 24 billion in assets managed by the ten AFJPs would be placed under government control, and all workers would join the public PAYG defined-benefit system.

The takeover appeared to be motivated by fiscal concerns — the government is heavily reliant upon income from export taxes, and commodity prices fell sharply

4. There are precedents in the region for seizing assets during crises. For example, prior to the recent Argentine crisis, the government had frozen savings in 1989. Brazil’s president Fernando Collor froze bank accounts upon taking office in 1990.
5. In 2007 the government took steps to encourage workers to join the PAYG system when it became the default option for undecided workers — previously all undecided workers were placed in a private pension fund. Workers affiliated with the private system were also permitted to switch back to the PAYG system for the first time — they could switch every 5 years.
during the second half of 2008. Government debt payments were forecast at US$ 20 billion in 2009 with a projected fiscal surplus of US$ 7.7 billion (Economist, 2008). Taking over the pension funds would appear to provide sufficient fiscal support to provide for Argentina’s financing needs through 2009, although analysts were skeptical whether such self-financing could last until the next presidential election in October 2011 (Business News Americas, 2008). Furthermore, since at the time of the proposed takeover 55 per cent of pension fund assets were invested in government bonds, the government would be taking control of over around US$ 13 billion of its own debt, which it would presumably restructure.

Legislative approval was no doubt aided by the lack of widespread support for the system due in part to its high fees. The legislative opposition, realizing it was not going to be able to block the measure, demanded provisions that the funds would be prudently managed and not used for political ends.

Mesa-Lago (2009) suggests that the legal framework for the administration of the pension funds is uncertain as the law transformed the administration of the public system (Administración Nacional de Seguridad Social — ANSES) into an autonomous entity and that within the “ambit” of ANSES a committee will oversee the management of the transferred funds. It is expected that the funds will finance government spending, which according to Lo Vuolo (2008) would fit with past experience in Argentina when funds intended to capitalize the social security system were spent on short-term priorities or brought negative returns. Lo Vuolo also notes that the reform lacks the protection for pension fund assets common in other countries. Opponents also argued that taking over the pension funds meant seizing

Figure 1. Percentage of Argentine pension fund investments in government debt

Sources: AIOS (2008); SAFJP (2007).
individuals’ private property, which suggested that the government could expect to face a significant number of lawsuits (La Nación, 2008).

The 2008 pension takeover in Argentina presents a striking contrast to Chile’s 2008 pension reform. The performance of Chile’s privatized pension system also faced its share of criticism with respect to efficiency and equity (see Gill, Packard, and Yermo, 2005), and both presidential candidates in the 2006 Chilean election pledged to initiate a reform. President Bachelet created a reform commission that held public hearings and solicited input from stakeholders, and ultimately presented a package of measures aimed at improving coverage, increasing competition, lowering costs, and reducing gender inequity (Chile. Presidential Advisory Council on Pension Reform, 2006). In Argentina, there was no public debate or any hint that a core social programme would be reformed before the legislation was introduced and quickly approved.

The fourteen-year history of Argentina’s system of individual accounts demonstrated that governments may, at times, be unable to resist the temptation to gain access to pension funds. The form of acquiring pension fund assets may vary — Argentina’s government used two different approaches during the two crises described above. In 2001 it forced pension funds to accept government bonds under conditions that a prudent manager would not willingly accept (indeed, the fund managers had no choice), while in 2008, the government expropriated pension fund assets held in affiliates’ individual accounts.

_Governance risk_

Governance risk refers to the degree to which governments effectively supervise and regulate the pension system. This must include the pension funds themselves as well as the overall functioning of the pension system, which includes enforcing compliance among workers and providing subsidies and guarantees when necessary (Mesa-Lago, 2002, p. 1318).

The main purpose of social security is to maintain income levels when individuals can no longer work. There is general agreement that compulsory social security is necessary to ensure income due to shortsightedness, inadequate savings mechanisms, or inability to save. The efficiency argument for compulsory social security is that uninsured losses would otherwise impose losses upon others (Barr, 1987, p. 191). Therefore one of the basic functions of government with respect to social security is to compel individuals to participate in the social security system.

The large informal sector in Latin America (approximately half of the labour force) means that a significant portion of the labour market is outside mandatory social security coverage. However, the evasion of social security contributions is also high in the formal sector, where enforcement of social security and labour laws can
Workers and employers have an incentive to collude in underreporting wages if both parties share the gains from avoiding contributions. Poor economic performance will also lead to a drop in contributions as employment levels erode. Finally, workers may face disincentives to comply that are built into a programme.6

Figure 2 shows contributors and affiliates to the individual accounts system as a percentage of the economically active population in Argentina for the period 2003-2008. As rates of economic growth increased beginning in 2003, the number of workers making regular contributions to their individual accounts rose to 26 per cent in 2007, before dropping to 20 per cent in 2008, when just over half of workers were affiliated with the private system. By September 2008, 38 per cent of workers affiliated with the private system made regular contributions (or 3.7 million out of 9.5 million affiliates). Even if the 2.4 million workers from the public PAYG system are included, overall less than half of the 14 million labour force were making regular contributions.

Figure 2. Individual accounts system: Affiliates and active contributors as a percentage of the economically active population in Argentina


6. For example, prior to the 2008 reform, Chilean workers needed to contribute for twenty years in order to qualify for a subsidized minimum pension, giving low-income workers little incentive to contribute beyond the 20-year minimum requirement. The new reform addressed this by providing a top-up benefit that ensures that higher contributions will lead to a higher pension (Chile. Presidential Advisory Council on Pension Reform, 2006).
regular contributions to social security. In this respect, government had been unsuccessful in compelling a majority of workers to participate in the social security system. However with high levels of informality, precarious employment conditions, low wages, along with myopia, moral hazard, and adverse selection, a majority of the labor force is not in a position to contribute regularly in the first place (Matijasic and Kay, 2006).

The Argentine case underscores Diamond and Barr’s argument that effective reform rests on policy design and political and administrative implementation (2008, p. 189). In a compulsory system of individual accounts, governments must be able to enforce worker and employer compliance.

The risk of default

It was originally hoped that a system of defined-contribution individual accounts would stimulate the creation of capital markets (Saavedra, 2002). However creating a steady source of investment capital alone is not sufficient. As Barrientos noted with reference to Chile, “it is only the combination of pension reform, privatization of public utilities, and effective regulation, against the background of very favorable macroeconomic conditions, that can explain the rapid development of capital markets” (1998, p. 143). However, like Chile, Argentina’s financial markets suffered from a lack of diversification in investment-grade instruments and the dominance of government-issued paper (Uthoff, 1997).7

Diversification is important in order to mitigate investment risk. Permitting investment abroad can diversify country and currency risk. However, such investments are often politically controversial, especially when privatization is implemented, because of popular sentiment favouring domestic investment.8 In Chile, investment abroad was not permitted in the early years of the individual accounts system, but with the 2008 reform the ceiling on total investment abroad will ultimately rise to 80 per cent of assets. By contrast, prior to the 2008 integration of the pension system, Argentina had already taken steps to reduce pension funds’ foreign investment. In 2007 the Kirchner administration ordered a US$ 4 billion reduction in pension fund investment in the Mercosur countries9 (largely Brazil),

7. Chile’s pension funds benefited from the fact that they were created prior to massive government privatizations, and were prominent investors in profitable formerly state-owned firms. In contrast, in Argentina, many large state-owned firms were sold off prior to pension reform. Also, Chile developed instruments that allowed for investment in the housing market. In Argentina, high levels of bank liquidity gave banks less of an incentive to securitize lending. Banks in Argentina did create new investment instruments for the pension fund markets, including “Fideicomisos Estructurados”. However there was little demand for them other than from AFJPs themselves.
8. The recurring pattern in the region has been for foreign investment to be permitted only after the new system has already been in place for a few years.
9. The Mercosur countries are Argentina, Brazil, Paraguay and Uruguay.
before the complete repatriation of US$ 850 million in foreign pension fund investments was called for as part of the October 2008 pension nationalization.

Investment-grade instruments remain in short supply in emerging capital markets. During the 1990s firms with investment-grade status found it cheaper to borrow from banks, both at home and abroad, than to turn to the capital markets, while small and medium-sized firms typically did not meet investment grade requirements. In other words, those firms that could access capital markets did not want to, and those firms seeking such investments did not qualify as investment grade. Consequently, government-issued securities remained the investment of choice for pension funds (see Uthoff, 1997). This lack of diversification and over-reliance on government-issued debt leaves pension funds vulnerable to government default — at the time of the default in January 2002, nearly 80 per cent of Argentine pension fund investments were in government securities.

The extent to which local capital markets provide pension funds with sufficient investment options to achieve diversification is directly related to investment risk and political risk. If pension funds are over-reliant on investments in state-issued bonds, then as in any case where investments are concentrated rather than diversified, investment risk is higher, and portfolios would have high exposure if a government defaults. Clearly if governments are successful at spurring the development of domestic capital markets, pension funds will be better able to diversify their investments. When the Argentine government announced plans to takeover the individual accounts system in October 2008, the fact that 54 per cent of pension fund investments were in government debt may have been a powerful incentive for the move.

Since the 2001-2002 Argentine crisis, Latin American countries have made only limited progress in diversifying their investments away from government securities toward domestic and foreign private sector-issued bonds and equities. Figure 3 demonstrates the heavy reliance on government-issued securities in all of the region’s pension fund investment portfolios with the exception of Chile and Peru. Chile’s pension fund investment in government paper is the lowest in the region, at 7.4 per cent in 2007, while Peru is next lowest at 22 per cent. The largest holders of public securities are Uruguay (87 per cent), El Salvador (77 per cent), Bolivia (72 per cent), and Mexico (67 per cent). These figures indicate that for most of the region’s pension funds, returns continue to depend heavily upon government bonds.

The heavy reliance on government securities means that pension funds are vulnerable to default risk. Defaulting on government obligations is another way for governments to seize assets. Default is a political risk to the extent that policy decisions (often in conjunction with a domestic or international shock) may lead to a government default.

If a government defaults on its financial obligations, it faces a clear conflict of interest when it comes to restructuring debt held by pension funds. As a debtor, the government has an interest in arriving at terms that will enable it to reschedule its
payments, while at the same time ensuring that it can meet its ongoing financial obligations. Governments in default will seek terms that permit this. However, pension fund administrators have an incentive to reach a deal that comes as close to full repayment as possible. Governments also have an obligation to protect pensions by requiring pension funds to pursue prudent investment policies.

Argentina’s experience with individual accounts illustrates just how the conflict between government interests as a debtor and government obligations to protect pensioners can come into conflict. The conflict over the funds that were utilized by the government in November 2001 was clear. The government forced the conversion of pension fund deposits to guaranteed loans. The loans were then converted to pesos at the below-market rate of 1.4 Argentine pesos to the US dollar and then indexed to inflation (at the time the peso traded at well over 3 Argentine pesos to the US dollar). Pension funds sued the government to redollarize the loans, arguing that both the forced loans and their “pesification”\(^{10}\) were illegal. However, granting such concessions would have hurt Argentina’s position in front of international creditors. In short, the AFJPs’ interest in maximizing the value of affiliates’ accounts conflicted with the government’s incentive to receive as generous a debt restructuring as possible.

10. Denotes the conversion into Argentine pesos the value of assets held in US dollars. In turn, “redollarize” denotes the reconversion of such assets held in Argentine pesos back into US dollars.

* Uruguay and El Salvador pension funds are prohibited from investing abroad.


**Figure 3. Investment in government-issued securities 2002 and 2007**
As Bertranou, Rofman and Grushka (2003) note, after the default and the pesification of the AFJPs’ government bond holdings, the government did maintain the flow of payments, thereby not defaulting as it did with other creditors. They also stressed that the manner in which the value of the pesified assets was calculated is critical to evaluating the outcome. In US dollar terms, the value of these assets fell 42 per cent between December 2001 and December 2002, but in Argentine pesos adjusted for inflation and Argentine pesos corrected for variations in the wage index, they rose in value 40 per cent and 82 per cent respectively (Bertranou, Rofman and Grushka, 2003, p. 110). Despite the 2001-2002 crisis, the pension funds produced a real annual average return of 10 per cent between 1995 and 2006 (Rofman, 2008).

During the 2008 nationalization of the pension system, the conflict of interest was less pronounced in that the funds managed by AFJPs were transferred to the public PAYG system. With funds no longer financing each affiliate’s retirement income, the government committed to providing all workers with a pension under the public PAYG system, and was then free to restructure its own debt acquired from the pension funds.

Default is a political risk since ineffective leadership can lower a country’s credibility, elevate country risk levels, and result in a loss of access to international capital. The loss of confidence in Argentina and its leadership beginning in 2000 can be measured by widening bond spreads over US Treasuries (see Figure 4). Country risk spiked when Vice-President Alvarez resigned in October 2000, rising further when Economy Minister Machinea resigned in March 2001. Bond spreads widened again in April 2001 when Economy Minister Domingo Cavallo proposed changing the convertibility law to link the Argentine peso to both the US dollar and the euro. Cavallo’s euro proposal was of concern to the financial markets because it implied tinkering with convertibility. When the economy failed to revive and tax revenue fell, confidence continued to erode. The government initiated a debt swap, and then began work on a second debt swap, but when the International Monetary Fund refused to provide additional funding in December 2001, convertibility was doomed.

Bond spreads remained at default levels until the 2005 debt restructuring agreement. Bond spreads narrowed considerably after that, as Argentina’s fiscal situation dramatically improved. However spreads began to creep upward in 2008 after an agriculture strike in protest of a proposed tax increase, widening further when commodity prices fell rapidly later in the year. Spreads spiked again in late October, 11. Bond spread reflects the yield difference between benchmark US Treasury securities and other countries’ sovereign bonds (in this case, of Argentina). 12. Since the Convertibility Plan rested on the premise that the link between the US dollar and the Argentine peso was sacrosanct, the unexpected proposal (in the midst of a financial crisis) to change convertibility at some unspecified future date only raised uncertainty (and the country risk premium).
after the pension nationalization plan was announced and fears of another potential default took hold.

**Inflation**

Inflation threatens funded systems in that “A single burst of rapid inflation at any time during a person’s working life (if assets are not fully indexed) or during retirement (if annuities are not fully indexed) will cause a sharp decline in his or her pension benefits” (Barr and Diamond, 2008, p. 154). Inflation can be driven by external shocks, however monetary and fiscal policy will also have a direct impact on the inflation rate. Monetary and fiscal policies are also driven in part by political considerations. Inflation is more of a threat in countries with relatively underdeveloped capital markets (Barr, 1994, p. 217), like Argentina and Brazil. In the 1980s and 1990s, government economic policies resulted in high or hyperinflation in both Argentina and Brazil, however since that time prices have been more stable. However, inflation is always a risk to funded pension plans. Public PAYG systems can better resist inflation if taxes and benefits are indexed.

Only government is capable of insuring against inflation through prudent fiscal policy and the issuing of government-indexed bonds, the only inflation-proof
financial instruments (Barr, 1992). The risk of inflation is uninsurable (it is not an independent risk that can be pooled) providing an efficiency argument for government guarantees (Barr 1987, p. 214). For example, the Argentine system did not include price-indexed annuities, which left pensioners vulnerable to the risk that real benefits would decline in the event of an inflationary crisis (Arza, 2008, p. 2702). In the Chilean system, the only government guarantees against inflation are provided for life annuities that can be purchased upon retirement. Until workers purchase annuities, they are exposed to the risk that a market downturn or inflation could diminish their capital just when it is needed to purchase an annuity.

Inflation remains a political risk to pension plans to the extent that government economic policies affect price stability and to the extent that governments provide instruments to safeguard pensions against the impact of inflation.

Conclusions

When pension privatization was at the forefront of the policy agenda in the 1990s, advocates suggested one of its benefits was that it reduced political risk. After all, in public PAYG systems, politicians often provided generous pension benefits to loyal supporters without ensuring adequate financing. As Mesa-Lago described the Latin American situation prior to reform, “the state did not fulfill its financial obligations with public pension systems (the state was the major debtor in most countries), used their funds as cheap or free credit, and staffed such systems with a huge bureaucracy, in other words, the state behaved improperly” (2002, p. 1318). Placing investment and administration in the hands of the private sector appeared to offer protection against such risk, as pension fund managers would be free to manage affiliates’ assets without fear of political interference.

Some questioned the assumption that transferring the administration and financing of pensions from state to market could really offer such political insulation. As Beattie and McGillivray presciently argued, financially-strapped governments would find a way of “exerting control” when it came to pension funds (1995, p. 17). Spiller and Tommasi explain this challenge when they note that because pension policy “holds the potential for opportunistic behaviour — with the possible result that you give your money now but do not get your money later — it

13. Upon retirement in Chile, the contributor may use accumulated pension funds to purchase a lifetime annuity which guarantees a monthly lifetime benefit that is required to be indexed against inflation. In order to keep this guarantee, insurance companies invest in government indexed bonds. Pensioners can also elect to receive a programmed pension paid directly by the Administradoras de Fondos de Pensiones (AFP) based on the accumulated funds in an amount that is reassessed every year based on AFP performance. These funds are only indexed between assessments (the benefits for that year are indexed). Pensioners also have the option of purchasing an annuity with a portion of the funds and making a programmed withdrawal with the rest, or they can draw on a programmed pension for a number of years and then purchase an annuity.
is difficult to undertake without complex institutional support” (2007, p. 196). Thus the capacity of governments to administer such programmes is a critical question (Kay, 2003), as they are tasked with maintaining macroeconomic stability, enforcing compliance, ensuring effective regulation and fostering an environment of stability for long-lasting institutions (Barr and Diamond, 2008, p. 190). As noted above, countries with a record of ineffective governance in the management of public PAYG systems were now expected to transcend historical precedent to oversee and administer the new private pension systems. The Argentine experience suggests that institutions that foster macroeconomic stability, compliance, and effective regulation are an essential precondition for the success of any pension system, regardless of whether it is public PAYG or private individual accounts.

The two major crises in the privatized Argentine pension system illustrate how the private AFJPs were vulnerable to political risks. In 2001-2002 the government relied upon AFJPs as a source of financing when all other avenues were closed by forcing them to purchase Treasury notes, while in 2008, it took over the pension funds assets and placed affiliates back in the integrated public PAYG system. Political risk and uncertainty was an ongoing threat to the AFJPs, ultimately leading to their demise. Argentina has set a precedent, (with Bolivia’s government considering a similar move), and there is no reason to believe that other governments may not at some point make similar calculations and terminate their privatized pension systems. Although there are financial and reputational costs to taking over affiliates’ accounts, the Argentine case demonstrates that under some circumstances, governments are willing to bear them.

Political risks are varied: in a privatized pension system the government may seize pension funds in a crisis, government supervision of pension funds and oversight of capital markets might be inadequate, weak enforcement of worker and employer compliance may lead to evasion, funds may not be invested prudently, and governments may enact policies that lead it to default on its obligations or lead to runaway inflation. In short, the risks of expropriation, ineffective governance, default, and inflation have a direct bearing on the successes or failures of pension privatization.

Bibliography


14. Spiller and Tommasi’s assessment of the experience of privatization in Argentina places it within a broader context of policymaking (2007, p. 201). As they put it, “It highlights some permanent characteristics of policies and of the policy-making process in Argentina that are often independent of the content (or title) of the policy in question — whether the system is ‘public’ or ‘private’. These characteristics include most prominently the inability to enforce commitments.”


Clarín. 2001. “Las AFJP fijan las condiciones para aceptar una renegociación.”, in Clarín, October 22.


Guidotti, P. E. 2006. “Argentina’s fiscal policy in the 1990s: A tale of skeletons and sudden stops”, in Luiz R. de Mello (ed.), Challenges to fiscal adjustment in Latin America: The cases of Argentina, Brazil, Chile and Mexico City. Paris, OECD.


Political risk and pension privatization: The case of Argentina


Voluntary affiliation to Peru’s individual accounts pension system

Carmen A. Li and Javier Olivera

Department of Economics, University of Essex, United Kingdom; Department of Economics, Catholic University of Leuven, Belgium

Abstract One important aspect in the design of social protection is coverage. In Peru, as in most Latin American countries, social security coverage is mandatory only for workers in the formal sector. This article investigates the determinants of voluntary affiliation to Peru’s individual accounts pension system. It is found that married males with more than high-school level education living in high income households and with other family members already affiliated to the individual accounts pension system have a higher likelihood of voluntary affiliation. Although the results suggest that family-based safety nets might be substitutes for voluntary participation in the individual accounts pension system, nonetheless, extending pension coverage and addressing poverty remain as challenges for government involvement.

Keywords pension scheme, old age risk, scope of coverage, gaps in coverage, Peru

Introduction

Since Chile replaced its public pay-as-you-go (PAYG) pension system with a defined contribution, fully-funded and privately managed system based on individual accounts in 1981, many other Latin American countries have followed a similar
reform path. It is argued that systems of individual accounts are more fiscally sustainable than PAYG systems and also contribute to the development of financial markets. However, after examining pension reforms in several Latin American countries, Gill, Packard and Yermo (2005) and Arenas de Mesa and Mesa-Lago (2006) identify some challenges related to their long-run sustainability and effectiveness: low and declining coverage rates, the high level of administrative costs, the uniformity of pension fund portfolios and the problem of establishing an efficient annuity market to provide adequate retirement pensions.

The problem of limited pension coverage is one of the main weaknesses of PAYG and individual accounts pension systems in Latin America. Table 1 shows that in 2007 and in relation to the economically active population (EAP), 64.2 per cent of the workforce was affiliated to an individual accounts private pension system but only 27.2 per cent contributed actively. Low coverage levels and the discrepancy between the total number of affiliates and the number who actually contribute to pension funds cast serious doubts about the adequacy of provisions for old age. Mesa-Lago (2004) argues that individual accounts private pension systems have been designed mainly for urban workers in the formal sector with stable jobs and earning above-average wages. Affiliation in the formal sector (i.e. the sector that complies with all or some of commercial and labour regulations) is mandatory. Therefore, the low percentages shown reflect the large informal sector (the unofficial sector beyond government regulation and taxation), for which affiliation to an individual accounts private pension system is voluntary.

Affiliation — both, for workers with mandatory or voluntary coverage — does not necessarily imply contributing to the pension fund; affiliated workers might default on their pension contributions, might leave the labour market, or might change their sector of employment, etc. Poverty may also contribute to low levels of coverage because limited family resources must often be allocated to satisfy immediate needs, at the expense of possible longer-term needs.

This paper aims to examine what prompts Peruvians to contribute voluntarily to the private individual accounts pension system and, therefore, provide some

2. Coverage is defined as the ratio of people insured (in any pension system) to population (or economically active population). This definition is simple to apply but overestimates coverage because workers can affiliate as participants but not make contributions. Rofman and Lucchetti (2006) discuss the problems of measuring coverage in Latin America and attempt to measure it.
3. Active contributors are defined as affiliates that contributed in the last month, with the exception of Mexico where it refers to the last six months.
4. See Jimenez and Cuadros (2003) for explanations linking low pension coverage and the informal sector. For all types of contributory pension system in Latin America, coverage for self-employed persons is voluntary in most countries, but mandatory in Argentina, Brazil, Costa Rica and Uruguay.
explanations for the low pension coverage rate. Peru reformed its pension system in 1993 and moved in the direction of private individual accounts. Unlike Chile, Peru has not dismantled the PAYG public pension system completely, which continues to operate in parallel. Affiliation to either the PAYG or the individual accounts pension system is mandatory for all formal salaried workers but voluntary for informal workers. Peru is an interesting case study because of its low pension coverage rate and large informal sector. The International Labour Organization (ILO) estimated that 55.0 per cent of the Peruvian urban labour force in 2007 was “informal” (ILO, 2008). As shown in Table 2, 32.5 per cent of the EAP was affiliated to the country’s individual accounts pension system (SPP) but only 13.4 per cent were actively contributing to individual accounts.

Some previous studies (Cox and Edwards, 2002; Holzmann, Packard and Cuesta, 2000; Packard, Shinkai and Fuentes, 2002; and Barr and Packard, 2005) have tried to

---

Table 1. Private pension system coverage in Latin America: Affiliates and Contributors (December, per cent of EAP*)

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>54.9</td>
<td>18.2</td>
<td>56.0</td>
<td>19.7</td>
<td>58.3</td>
<td>20.6</td>
</tr>
<tr>
<td>Bolivia</td>
<td>23.1</td>
<td>10.8</td>
<td>24.8</td>
<td>9.7</td>
<td>24.8</td>
<td>11.1</td>
</tr>
<tr>
<td>Chile</td>
<td>111.8</td>
<td>57.0</td>
<td>113.9</td>
<td>59.1</td>
<td>111.4</td>
<td>56.2</td>
</tr>
<tr>
<td>Colombia</td>
<td>23.6</td>
<td>11.2</td>
<td>25.2</td>
<td>12.3</td>
<td>28.5</td>
<td>11.1</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>63.1</td>
<td>47.5</td>
<td>64.9</td>
<td>47.4</td>
<td>72.0</td>
<td>49.1</td>
</tr>
<tr>
<td>El Salvador</td>
<td>36.7</td>
<td>17.4</td>
<td>38.6</td>
<td>17.9</td>
<td>40.9</td>
<td>17.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>71.6</td>
<td>29.9</td>
<td>75.6</td>
<td>29.8</td>
<td>76.8</td>
<td>29.8</td>
</tr>
<tr>
<td>Peru</td>
<td>27.2</td>
<td>10.7</td>
<td>28.2</td>
<td>11.8</td>
<td>29.1</td>
<td>11.6</td>
</tr>
<tr>
<td>Dominican Rep.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>22.3</td>
<td>14.6</td>
<td>27.7</td>
<td>14.8</td>
</tr>
<tr>
<td>Uruguay</td>
<td>41.4</td>
<td>18.7</td>
<td>41.1</td>
<td>21.7</td>
<td>42.8</td>
<td>22.4</td>
</tr>
</tbody>
</table>

**Weighted Total**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>54.3</td>
<td>23.2</td>
<td>55.4</td>
<td>23.4</td>
<td>57.5</td>
<td>23.4</td>
<td>60.2</td>
<td>24.4</td>
<td>63.6</td>
<td>25.8</td>
<td>64.2</td>
<td>27.2</td>
</tr>
</tbody>
</table>

* Economically Active Population

1 In the Dominican Republic, the private pension pillar was implemented in 2003.

uncover the determinants of affiliation to private pension systems in Latin American countries. They applied a binary choice model but without distinguishing between mandatory and voluntary affiliation. It is to be noted that in countries with a large number of informal workers, and for whom affiliation in pension schemes is voluntary, their tests can be interpreted as one of examining the determinants of participation in the formal sector rather than of pension system affiliation.

We consider that it is not adequate to include in the analysis individuals with mandatory coverage, because they do not have any choice. Hausman, Abrevaya and Scott-Morton (1998) showed that even a relatively small amount of misclassification can lead to significant bias in large samples. Moreover, empirical results quoted

6. Ordinary least squares (OLS) estimator is still appropriate when the measurement error in the dependent variable is uncorrelated with the explanatory variables. In contrast, measurement error in the binary limited dependent variable causes inconsistent estimates when traditional probit or logit techniques are applied. See Hausman (2001).

Table 2. Social security participation in Peru (December, per cent)

<table>
<thead>
<tr>
<th>Year</th>
<th>SPP</th>
<th>SNP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aff/EAP</td>
<td>Cont/EAP</td>
<td>Cont/Aff</td>
</tr>
<tr>
<td>1993</td>
<td>7.4</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1994</td>
<td>11.1</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1995</td>
<td>12.7</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1996</td>
<td>16.9</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1997</td>
<td>18.3</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1998</td>
<td>20.1</td>
<td>9.2</td>
<td>45.6</td>
</tr>
<tr>
<td>1999</td>
<td>22.1</td>
<td>10.5</td>
<td>45.7</td>
</tr>
<tr>
<td>2000</td>
<td>23.8</td>
<td>9.9</td>
<td>41.7</td>
</tr>
<tr>
<td>2001</td>
<td>25.5</td>
<td>10.1</td>
<td>41.4</td>
</tr>
<tr>
<td>2002</td>
<td>27.2</td>
<td>10.7</td>
<td>39.4</td>
</tr>
<tr>
<td>2003</td>
<td>28.2</td>
<td>11.8</td>
<td>41.9</td>
</tr>
<tr>
<td>2004</td>
<td>29.1</td>
<td>11.6</td>
<td>39.9</td>
</tr>
<tr>
<td>2005</td>
<td>30.3</td>
<td>11.0</td>
<td>36.2</td>
</tr>
<tr>
<td>2006</td>
<td>31.5</td>
<td>11.0</td>
<td>34.8</td>
</tr>
<tr>
<td>2007</td>
<td>32.5</td>
<td>13.4</td>
<td>41.4</td>
</tr>
</tbody>
</table>

Notes: n.a. Not available. The army and police force have a separate social security system. Sources: Superintendency of Banks and Insurance of Peru (Series históricas; Boletín informativo mensual); Public Pension Standardization Office (Estadísticas ONP, 2000-2007), and AIOS (1999-2007).
without this distinction might not provide an accurate assessment of the possibility of extending pension system coverage.

We contribute to the existing research by using data from the 2001 Peruvian household survey (ENAHO 2001-IV) conducted by the Instituto Nacional de Estadística e Informática (INEI, 2001), which distinguishes between mandatory and voluntary affiliation. To our knowledge, this is the first article that examines the issue of voluntary pension affiliation to the private individual accounts pension system. We also test for the importance of the extended family and family-based safety nets. To our knowledge, this is the first article that examines the issue of voluntary pension affiliation to the private individual accounts pension system. We also test for the importance of the extended family and family-based safety nets. The extended family plays a prominent role in Peru and, as a result, informal family arrangements might help protect family members from social, economic and life-cycle risks, including income losses associated with ageing. Thus, informal family safety nets could act as substitutes for formal social security. Nevertheless, policy-makers are concerned about both the sustainability and effectiveness of informal social security measures in protecting older people from poverty (Holzmann, Packard and Cuesta, 2000). A better understanding of the affiliation motive might help to evaluate the coverage limits of the private individual accounts pension system, draw attention to the need to rebalance the different pension pillars, and design policies that could help to increase coverage, smooth consumption and alleviate poverty.

It would have been desirable to differentiate between workers who do — or do not — contribute to their pension funds, but most of the household surveys do not provide information related to contribution histories. The study by Barr and Packard (2005) is an exception. They used a specially-designed survey Encuesta Sobre Previsión de Riesgos Sociales (PRIESO) that asked 1,000 individuals in Lima, Peru, about their contributions to pension accounts — but did not ask if their affiliation was voluntary or mandatory.

Our results show that the profile of an individual who is likely to choose to affiliate voluntarily to the private individual accounts pension system is quite specific: only married males with more than high-school level education living in relatively high-income households and with other family members already affiliated to the individual accounts pension system. Informal family arrangements (e.g. money transfers and remittances) reduce the possibilities for the extension of pension system coverage. These findings complement those of Barr and Packard (2005) and Packard, Shinkai and Fuentes (2002) and lend support to the “low pension coverage, social exclusion, poverty” literature. Hence, they suggest a need to reassess the role of government in achieving poverty relief and income redistribution through consumption smoothing and old-age insurance.

7. These informal arrangements may be indirectly observed through family size, investments in children’s education (Jellal and Wolff, 2002), informal old-age security provided by children (Hoddinott, 1992), help given by older people to their children in domestic tasks, risk-sharing agreements between family members (Kotlikoff and Spivak, 1981; Victorio, 2002), co-residence, etc.
The paper is organised as follows. The next section briefly describes Peru’s pension system and discusses some conventional arguments used to explain low coverage. We then present the theoretical framework, which incorporates insights from Kotlikoff and Spivak (1981) and Brown (2001). Following a discussion of the data and hypothesis, the econometric model is introduced and the empirical results analyzed. The final section presents conclusions.

The private individual accounts pension system in Peru

Since 1993 Peru has operated a parallel old-pension system, with the introduction of a privatized system of defined contribution individual accounts alongside the public PAYG defined-benefit system. Table 2 shows the coverage provided under the public defined-benefit system Sistema Nacional de Pensiones (SNP) or the Sistema Privado de Pensiones (SPP). In practice, the government has indirectly restricted access to coverage under the SNP. Workers affiliated to the public SNP system can choose to remain there or switch to the private system at any time. However, switching from the private SPP system to the public system is not allowed, unless there is proven illegal malpractice in the process of affiliation. Workers included on the payroll for the first time can choose between the SNP and the SPP, but if no decision is made within ten days of starting employment workers are automatically affiliated to the SPP. In addition, workers already covered by the SNP but who change jobs have to confirm that they wish to remain in the SNP, otherwise they are transferred automatically to the SPP.

Affiliation to either pension system is mandatory only for formal salaried workers. The remaining workers for whom affiliation is voluntary are very heterogeneous and we label them informal workers (self employed, family workers, employees of micro enterprises, etc.).

As explained, new formal salaried workers can choose to join either pension system; but informal workers have to decide, first, whether to seek coverage, or not, under either of the pension systems and, second, to choose between the public and private system. Unfortunately, household survey data does not provide information on how many informal workers choose to affiliate to the SNP. In any case, Figure 1 shows that voluntary coverage in the SNP is very low compared with that in the SPP. In 2002, the flow of monthly voluntary affiliation to the SPP was almost seven times higher than in the SNP, but this gap decreased significantly in the two years that followed before increasing steeply again in 2006. The gap was practically closed in 2007. These fluctuations and surges were prompted by policies implemented by the private individual accounts administrators (Administradoras de Fondos de Pensiones — AFPs) to attract new customers as well as changes in regulations that made the SPP more competitive.

8. The army and police force have a separate social security system.
The SPP system is relatively simple since workers cannot affiliate to more than one AFP at a time and contributions equate to a fixed percentage of their monthly earnings during their working lives. Unless the individual retires earlier, these funds are accumulated in an individual account until the individual reaches the retirement age (age 65 for men and women). At retirement, the accumulated balance remains in the AFP or is transferred to an insurance company that converts the sum to a monthly pension based on life expectancy. There are three main types of old-age benefits: programmed withdrawal managed by the AFP, immediate life annuities managed by insurance companies (the pensioner uses the balance to purchase an annuity from an insurance company), and a mixture of programmed withdrawals and an annuity. In contrast to the Chilean system, Peru’s SPP does not include a guaranteed minimum pension.9

In addition to contributing to old-age pension benefits, worker’s covered by the SPP also contribute separately to the cost of insurance covering disability and death.

---

9. Until March 2007, a top-up amount was payable at the legal retirement age only to individuals born before 1946 with at least twenty years of contributions paid on earnings at least equal to the minimum wage, in order to raise their pension to a guaranteed minimum. Since then, the date of birth qualifying condition has been removed, but entitlement to the top-up amount is restricted to individuals who have switched from the SNP to the SPP.
before retirement. Disability and survivor benefits are payable only if contributions were paid in four of the last eight months before the date of the onset of disability or death. Also, if the pensioner dies, then his or her dependants inherit a share of the old-age pension.

Each affiliated worker contributes 10 per cent of his or her monthly earnings to the pension fund, pays net commission fees equal to 1.81 per cent of monthly earnings and an average insurance (disability and sudden death) fee equal to 0.91 per cent of monthly earnings. Although the total commission fee of Peru’s AFPs has been declining over the years, it is still one of the highest among the private pension systems in Latin America. The AFP invests individual pension contributions in the domestic and foreign capital markets and the government, through the Superintendent of Banks, Insurance and AFPs (Superintendencia de Banca y Seguros), supervises their performance.

As a percentage of the EAP, the number of individuals covered by the SPP in Peru is low. Moreover, in 2007, out of the 4.1 million individuals affiliated, only 1.7 million were actively contributing to an individual account. These figures represented 32.5 per cent and 13.4 per cent of the EAP, respectively. In turn, according to available data, the effective coverage rate (i.e. the percentage of affiliates to the SPP that actively contribute) has never been higher than 45.7 per cent (in 1998). Reaching a low of 36.2 per cent in 2005, the most recent figure from 2007 was 41.4 per cent (see Table 2).

Next we discuss the soundness of three popular arguments that are frequently used to explain why the SPP has failed to extend coverage to a larger segment of Peruvian society.

**Argument 1: SPP contributions (plus commissions) are high relative to those for the SNP.** In 1994, the contribution rate to the SNP was 9 per cent of monthly earnings (6 per cent from the insured worker and 3 per cent from the employer), whilst for the SPP the contribution rate paid by the affiliate was 10 per cent of monthly earnings plus an additional 4 per cent, which included administrative charges and insurance fees. In July 1995, the SNP contribution rate was increased to 11 per cent of monthly earnings and was now borne only by the insured worker whilst the SPP contribution rate decreased to 8 per cent of monthly earnings; but once the administrative and insurance fees are considered, the total contribution to the SPP was of a similar magnitude to that of the SNP. Also the retirement age was uniform for both systems; age 65 (men and women). In January 1997, the SNP contribution rate was increased to 13 per cent of monthly earnings. The “price” gap between both systems in terms of the total contribution rate narrowed to a mere 0.28 per cent of monthly earnings at the end of 2006. Figure 1 shows that, for individuals voluntarily affiliated, member-

---

10. See AIOS (2007).
11. Before 1995, under the SNP the retirement age was age 55 (women) or age 60 (men).
ship of the SPP is associated with “prices” only up to mid-1996. During the period 1997-2007, when the “price” of belonging to the SPP became less than the SNP, the correlation is almost non-existent. The peaks of September 1998, April 1999 and April 2000 are related to the (temporal) AFP policy of affiliating university students irrespective of their work status. In sum, therefore, “prices” appear not to be associated with the choice of affiliation to the SPP. Moreover, it is interesting to note that according to PRIESO, the main reason why 22 per cent of individuals who switched from the SNP to the SPP, and 33 per cent of new members chose the SPP instead of the SNP, was “my employer forced me to change plans”.

**Argument 2: The expected retirement pension under the SPP is higher than the SNP but lower than the return from other forms of savings.** The expected retirement pension, of course, depends mainly on lifetime income, life expectancy and investment returns. Most informal workers have low income, temporary jobs and, therefore, might not be able to accumulate enough in an individual account to finance an adequate retirement pension. However, if the argument holds, we should observe switches from the SNP to the SPP among prime-age workers with higher income. Unfortunately there is no available data to test this, but according to ENAHO 2006-IV, the average age of individuals affiliated in the SPP is 12 years younger than that for the SNP.

With regard to other forms of savings, Morón and Carranza (2003) estimate that the accrued returns from the stock market and deposits in both domestic and foreign currency are lower than individual account pension fund returns. Also, Carpio (2007) shows that pension savings partially crowd out Peruvian household savings. At present, there is an absence of research findings on how pension savings affect the accumulation of other household assets (e.g. real estate).

**Argument 3: A lack of knowledge about pension systems and the perception that the SNP is better and more trustworthy than the SPP.** Data from PRIESO reveals that, for 29 per cent of the sample, the most important reason for individuals not joining any pension system is “did not know, did not have enough information”. In turn, 49 per cent of the interviewees who chose the SNP instead of the SPP did so because they perceived that “the State-administered scheme is better than the AFPs”, the “ONP (Oficina de Normalización Previsional) [the public body that administers the PAYG system] will never disappear, whereas AFPs can go bankrupt” and the “AFPs plans have a bad reputation”. Therefore, individual knowledge and

---

12. The current global financial and economic crisis is having a severe impact on capital returns and the performance of pension funds. Indeed, these adverse effects contributed in late-2008 to the Argentinean government integrating the private system of Administradora de Fondos de Jubilaciones y Pensiones (AFJP) into the country’s PAYG pension system (SIPA — Sistema Integrado Previsional Argentino).
Institutional reputation do appear to matter in the decision to affiliate and in the choice of pension system.

**The theoretical framework**

The decision to affiliate in a pension system can be thought of as one where the individual must decide whether or not to purchase an insurance against the risk of loss of income during old age. One simple way of analysing this decision is to adapt the theoretical models of Kotlikoff and Spivak (1981) and Brown (2001) by including some features of Peru’s private individual accounts pension system and, analogous to the equivalent variation in welfare analysis, compare the lifetime utility derived from consumption of an individual with and without affiliation to a pension system.  

In this setting, when both the administrative fee paid to the AFP and the contribution rate (a share of the monthly salary) are zero and also when the estimated probability of survival by the individual and the insurance company are equal, then we have the case of a “fair” annuity market where the “cost” of the annuity is zero. If this is the case, the (discounted) probability of survival could be interpreted as the price of future consumption and the individual will always prefer to affiliate because future consumption with affiliation is equivalent to the case of non-affiliation but with lower prices. This is the so-called “annuity puzzle”, but there are several factors that can decrease the value of annuities such as administrative costs, divergence in the perceptions of the population and insurance companies concerning survival probabilities, different degrees of risk aversion, informal family safety nets that might substitute for formal social security, etc.

Indeed, within this framework, and as expected, it is possible to show that the gains from affiliation will be lower the lower the risk aversion; the higher the pension administrative fees; the higher the individual’s time preference rate; and the larger the gap between the survival probability estimated by the individual and the insurance company, because individuals will not live long enough to receive the full benefits of the pension. Note that poor people tend to have a low survival rate and therefore they will have little incentive to participate in the individual accounts pension system.

Inter-family transfers, that are common practice in extended families but only implicitly captured in our basic framework, may reflect incomplete annuity markets

---

13. For simplicity, we assume no bequests, no other form of savings except the old-age pension, a separable consumption function, a constant stream of income over time and a constant relative risk aversion utility function.

14. This rate is very high, as in the case of poor people. Packard, Shinkai and Fuentes (2002) argue that, especially for the poor and self-employed, the decision not to affiliate can be a rational choice because it may limit their capacity to smooth consumption.
(or more generally, imperfections in the capital market) and hence affect the
decision to take up a pension. These family arrangements are part of a more general
form of allocations over generations and are associated with forms of exchange
within the family.\textsuperscript{15} Parents take care of children (education, food, clothes, etc.)
while they are middle-aged. As the parents increase in age, they receive financial or
in-kind support from their children as a form of exchange or compensation. Lucas
and Stark (1985), Cox and Rank (1992) and Victorio (2002) analyse the patterns of
intergenerational transfers and uncover empirical evidence suggesting that relations
of exchange link generations within the family. In particular, Cox, Eser and Jimenez
(1998) find that Peruvian family members expecting to receive social security
transfers (i.e. pension and health care benefits) have a weaker incentive to enter into
intergenerational arrangements for the purpose of old-age support. That is, their
evidence suggests a negative correlation between the existence of informal agree-
ments for old-age support and the probability of participating in a pension system.

In contrast to a formal social security institution where the payment of pensions
can be legally enforced, informal family arrangements are not enforceable and
require self-enforcement mechanisms. For example, Cigno (2000) mentions a set
of basic principles called “family constitution”. Other researchers, for instance Cox,
Eser and Jimenez (1998) argue that family altruism, loyalty and trust are key to the
enforcement of family arrangements. In fact, the risk of exclusion from the family
network, as well as liquidity restrictions and limited access to the credit market,
provide incentives to family members to fulfil agreements.

As a result of better information and trust within the family, family risk-sharing
agreements have lower levels of transaction costs, moral hazard, adverse selection
and deception than those found in conventional insurance markets (Kotlikoff and
security arrangements might be superior to a pension system because the former
covers a broader range of risks and is more flexible, so it could be tailored according
to the needs of the individual. Recently, Li and Gerry (2009) have also emphasised
how informal safety nets (i.e. support from relatives/friends and home production)
helped the most vulnerable during the 1998 Russian crisis.

\textbf{Data, hypothesis, and explanatory variables}

We use data from ENAHO during the fourth quarter of 2001. This survey has
been conducted yearly every quarter since 1995 and contains socio-economic
information pertaining to households and their members. The sample size consists
of 16,515 households including 76,635 individuals and it is representative at the
national, urban and rural levels.

\textsuperscript{15} See Arrondel and Masson (2006), Laferrere and Wolff (2006), and Stark (1995) for a more compre-
prehensive discussion on transfer motives and their implications.
We drop all individuals with mandatory affiliation in the individual accounts pension system. Furthermore, we only include individuals belonging to the economically active population and exclude those belonging to extremely poor households. The final sample size is 22,221. Our unit of analysis is the individual and we account for individuals belonging to the same household by clustering.

There are two main characteristics of our sample that must be kept in mind. The first is related to the definition of our dependent variable. We exclude individuals with mandatory affiliation to the individual accounts pension system. The ENAHO 2001-IV specifically asks if the individual belongs to the individual accounts pension system (SPP), but does not directly ask if he or she belongs to the public PAYG pension system (SNP). There are only two pension systems in Peru so we can indirectly infer if a person belongs to the SNP: a person not participating in the SPP but paying monthly pension contributions is classified as one belonging to the SNP and is excluded from the sample.

The second characteristic is related to the effects of occupations on the probability of participation in the individual accounts pension system. An individual might change occupations over his or her working life. Therefore, it might not be true that an individual who is affiliated and who currently holds an “informal” occupation (e.g. self-employed) originally chose to affiliate on a voluntary basis. For instance, a self-employed individual who participates in the pension system at the time of the survey could have affiliated during his or her previous job when he or she was a “formal” worker. Unaccounted changes from formal to informal jobs (and vice versa) might introduce biases in the analysis. We decide not to use occupations as predictors for the probability of affiliation because of the mismatch between actual occupation and the timing of affiliation. For similar reasons and given the lack of data to disentangle chronic from temporary unemployment, we did not include “unemployed” as a regressor. Instead, we rely on the characteristics of the individual (age, gender, marital status, and education) to indirectly control for the employment/occupation status.

We are interested in examining how both personal and family characteristics as well as the existence of family-based arrangements affect the probability of affiliation to the individual accounts pension system. In view of our theoretical framework and data availability, we formulate the following hypotheses:

16. The Instituto Nacional de Estadística e Informática (INEI) classifies Peruvian households into extreme poor, poor and non-poor according to poverty lines based on expenditure thresholds: minimum food calorie intake for the case of extreme poverty and minimum goods and services for the case of poverty. We have also performed the regression including the extreme poor, which is available upon request. The results did not change qualitatively and given that the choice of affiliating for the extreme poor is not deemed a realistic one, we decided to present only the results excluding them.

17. According to ENAHO 2001-IV, 77 per cent of self-employed workers first affiliated to the SPP when they were “formal” workers.
**Hypothesis 1.** Age has a positive and non-linear effect on the probability of voluntary SPP affiliation.

We expect a positive effect of age on affiliation. However, since the pension in the SPP depends directly on the length of the period in which contributions are made, it is possible that older workers might not have an incentive to affiliate to the SPP because they will not have sufficient time to accumulate funds to finance an adequate pension. Therefore, we expect a non-linear relation between age and affiliation.

**Hypothesis 2.** Individuals with more investment in human capital and belonging to households with higher income per capita have a higher probability of voluntary SPP affiliation.

We expect that more educated individuals living in households with higher per capita income will have a higher probability of affiliation because they would be better able to smooth consumption and allocate resources for social security.

We include variables to signal different education levels (postgraduate, undergraduate, vocational, high school and less than high school education). We also include income-related proxies such as household income per capita and a variable indicating whether any member of the household has liquid assets.

**Hypothesis 3.** The existence of an extended family and a large nuclear family with a high proportion of young and old members reduces the likelihood of voluntary SPP affiliation.

The effects of informal arrangements for old-age security on the probability of affiliation can be indirectly examined by using the number of household members, the proportion of children (younger than age 14) and older people (aged 65 or older) in the household, and the existence of an extended family.

**Hypothesis 4.** Family transfers decrease the likelihood of voluntary SPP affiliation.

As explained in the previous section, there are several reasons why family transfers might occur. One motive might be reciprocal “exchange” i.e. a family gives something because they expect to receive something in return.\(^{18}\) Intergenerational transfers evidence that families engage in informal social security arrangements, with children giving transfers to parents and vice versa. Therefore the existence of these arrangements in the family may reduce the probability of voluntary affiliation.

Unfortunately we do not have data on intergenerational transfers. Rather than parent-children transfers, we use a proxy to measure the effect of transfers on the probability of voluntary affiliation. Our data includes information on the provision

\(^{18}\) See Cox, Eser and Jimenez (1998) and Bhaumik and Nugent (2000) for an interesting analysis of Peruvian family exchange relations.
and receipt of family transfers from and to other family members living outside the household. Therefore, our results should be treated with some caution. We expect that belonging to a household that receives or gives these transfers reduces an individual’s likelihood of voluntary SPP affiliation.

We also include dummy variables for gender, marital status, head of household and holding private health insurance. These covariates are included to control for risk perception and women’s expected value of the future pension, which depends on their own accumulated funds (working women are typically less well paid than men and are more likely to have interrupted careers) and the survivor benefits for married women. We also add controls to signal if the household is above the poverty level, if it is located in an urban or rural area, if other members of the household are affiliated to the SPP, if there are pensioners in the household, and if any household member has a life insurance. Tables 3 and 4 present the definition and descriptive statistics of the variables used in this study. We compare the means of our variables and find that all of the means between the voluntary affiliated and non-affiliated groups are statistically different except for the means of extended family and head*female.

The econometric model and the empirical results

We do not apply a standard probit model to determine the variables that correlate with the probability that an individual voluntarily affiliates to the SPP. Recall that we are excluding all individuals with mandatory coverage (either under the SNP or SPP) from the sample; hence the sample is not random. Ignoring this selectivity problem may lead to bias estimates and unreliable policy recommendations. Therefore, we apply a two-stage discrete choice version of Heckman (1979) to correct for selection bias. In this case, the dependent variable of the selection equation indicates if the individual’s affiliation was mandatory (SPP or SNP) or not ($y_1 = 1$) while the outcome variable measures whether the individual participates voluntarily ($y_2 = 1$) or not in the SPP:

$$y_1 = 1 \text{ if } x_i^0 \beta_1 + \varepsilon_1 > 0$$

$$y_2 = 1 \text{ if } x_i^1 \beta_2 + \varepsilon_2 > 0 \text{ given that } y_1 = 1$$

$$y_2 = 0, \text{ otherwise}$$

To estimate this model we a) assume that the errors $\varepsilon_1$ and $\varepsilon_2$ have a bivariate normal distribution and that the explanatory variables are exogenously determined, and b) need at least one instrument that affects the selection equation but not the probability of voluntarily participating in the SPP. The chosen variable that fulfils those requirements is “informal”, which takes the value of 1 if in the last week previous to the interview the person was self-employed, worked in a firm of less
### Table 3. Definition of variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individual characteristics</strong></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>Age in years</td>
</tr>
<tr>
<td>Woman</td>
<td>Female = 1, 0 otherwise</td>
</tr>
<tr>
<td>Married</td>
<td>Married = 1, 0 otherwise</td>
</tr>
<tr>
<td>Married*Woman</td>
<td>Female and married = 1, 0 otherwise</td>
</tr>
<tr>
<td>Head</td>
<td>Head of household = 1, 0 otherwise</td>
</tr>
<tr>
<td>Head*Female</td>
<td>Head of household and female = 1, 0 otherwise</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>Postgraduate education = 1, 0 otherwise</td>
</tr>
<tr>
<td>University</td>
<td>University education = 1, 0 otherwise</td>
</tr>
<tr>
<td>Vocational and technical</td>
<td>Technical or vocational education = 1, 0 otherwise</td>
</tr>
<tr>
<td>High School</td>
<td>Secondary education = 1, 0 otherwise</td>
</tr>
<tr>
<td>Private health insurance</td>
<td>Individual holds a private health insurance = 1, 0 otherwise</td>
</tr>
<tr>
<td><strong>Household characteristics</strong></td>
<td></td>
</tr>
<tr>
<td>HH income per capita</td>
<td>Natural logarithm income per capita of the household</td>
</tr>
<tr>
<td>Liquid asset gains</td>
<td>Liquid asset gains are interests from deposits and loans, dividends from shares and equities and firm profits received in the last year by any member of the household. Any member of household receiving liquid asset gains = 1, 0 otherwise</td>
</tr>
<tr>
<td>HH is non poor</td>
<td>Household non poor = 1, 0 otherwise</td>
</tr>
<tr>
<td>Urban</td>
<td>Household located in urban area = 1, 0 otherwise</td>
</tr>
<tr>
<td>Household size</td>
<td>Number of members in the household</td>
</tr>
<tr>
<td>Young dependants</td>
<td>Proportion of HH members younger than age 14</td>
</tr>
<tr>
<td>Old dependants</td>
<td>Proportion of HH members older than age 65</td>
</tr>
<tr>
<td>Extended family</td>
<td>Any relative in household but not nuclear family = 1, 0 otherwise</td>
</tr>
<tr>
<td>Receiving family transfers</td>
<td>Transfers and remittances from relatives in other households and received by any member of the household during the last 6 months. Receiving transfers = 1, 0 otherwise</td>
</tr>
<tr>
<td>Providing family transfers</td>
<td>Transfers and remittances provided by any member of the household to relatives living in other households during the last 3 months. Providing transfers = 1, 0 otherwise</td>
</tr>
<tr>
<td>Other members in the SPP</td>
<td>Other member of the household (except the interviewee) enrolled in the SPP = 1, 0 otherwise</td>
</tr>
<tr>
<td>Receiving pensions</td>
<td>Any member of the household receiving a pension during the last six months = 1, 0 otherwise</td>
</tr>
<tr>
<td>Holding a life insurance</td>
<td>Any member of the household paying life insurance during the last 3 months = 1, 0 otherwise</td>
</tr>
</tbody>
</table>
than five employees, or was unemployed but his or her last job was in self-employment or in a firm with less than five employees; and 0 otherwise.

Note that some of the control variables included in the model might be potentially endogenous. In particular, holding private health insurance and receiving and or providing family transfers might be endogenous (see Cox, Eser and Jimenez, 1998). The quality of service provided by Peru’s public health system is deemed inadequate, so it is plausible to assume that the decision to affiliate with the SPP is subsequent to that of subscribing to a private health insurance scheme. For receiving and providing transfers we applied the exogeneity test suggested by Rivers and Vuong (1988). According to Wooldridge (2002), this approach can be applied to non-linear models with binary endogenous variables and has the advantage of being simple to compute.

To implement this procedure, we regress a linear probability model of the suspected endogenous variable on all the original variables of the model and the instruments (which are assumed to be correlated with the suspected endogenous variable but not with the dependent variable of the original equation) and obtained the predicted residuals. We also implement a Wald test for the significance of the predicted residuals. Then, we return to our original model, add this predicted residual together with all the variables of the model and test the null hypothesis that the predicted residuals are equal to zero i.e. the suspected variable is not endogenous.

The instruments chosen for the variable “receiving family transfers” are “lost job” (which takes the value of 1 if any member of the household has lost his or her job during the last year; and 0 otherwise) and “illness” (which takes the value of 1 if any member of the household has been affected by a severe illness or accident during the last year, and 0 otherwise). For the variable “providing family transfers”, we use “savings”; (which takes the value of 1 if the individual is able to save in the current

---

**Table 3. Continued**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal</td>
<td>Takes the value of 1 if the last week previous to the interview the person was self-employed, worked in a firm of less than five workers or was unemployed but his/her last job was a self-employed person or in a firm with less than five, 0 otherwise</td>
</tr>
<tr>
<td>Lost job</td>
<td>Any member of the household has lost his/her job during the last year = 1, 0 otherwise</td>
</tr>
<tr>
<td>Illness</td>
<td>Any member of the household has been affected by a severe illness or accident during the last year = 1 and 0 otherwise</td>
</tr>
<tr>
<td>Savings</td>
<td>The person is able to save in the current economic situation of the household = 1, 0 otherwise</td>
</tr>
<tr>
<td>HH improvement</td>
<td>The person has perceived an improvement in the living standard of the household with respect to the last year = 1, 0 otherwise</td>
</tr>
</tbody>
</table>
### Table 4. Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Voluntarily affiliated</th>
<th>Non-affiliated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean (vol) S.D. (vol)</td>
<td>Mean (non) S.D. (non)</td>
</tr>
<tr>
<td><strong>Individual characteristics</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>41.1 (13.3)</td>
<td>36.7 (15.8)</td>
</tr>
<tr>
<td>Age squared</td>
<td>1,862.5 (1,199.1)</td>
<td>1,597.8 (1,358.9)</td>
</tr>
<tr>
<td>Gender</td>
<td>0.347 (0.477)</td>
<td>0.461 (0.499)</td>
</tr>
<tr>
<td>Marital status</td>
<td>0.684 (0.466)</td>
<td>0.555 (0.497)</td>
</tr>
<tr>
<td>Head</td>
<td>0.542 (0.499)</td>
<td>0.382 (0.486)</td>
</tr>
<tr>
<td>Head*Female</td>
<td>0.063 (0.242)</td>
<td>0.072 (0.258)</td>
</tr>
<tr>
<td>Private health insurance</td>
<td>0.066 (0.249)</td>
<td>0.011 (0.102)</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>0.024 (0.154)</td>
<td>0.001 (0.037)</td>
</tr>
<tr>
<td>University</td>
<td>0.330 (0.471)</td>
<td>0.065 (0.246)</td>
</tr>
<tr>
<td>Vocational and technical</td>
<td>0.205 (0.404)</td>
<td>0.088 (0.283)</td>
</tr>
<tr>
<td>High School</td>
<td>0.281 (0.450)</td>
<td>0.453 (0.498)</td>
</tr>
<tr>
<td><strong>Household characteristics</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HH income per capita</td>
<td>7.254 (0.765)</td>
<td>6.585 (0.735)</td>
</tr>
<tr>
<td>HH income per capita squared</td>
<td>53.207 (11.396)</td>
<td>43.896 (9.927)</td>
</tr>
<tr>
<td>Liquid asset gains</td>
<td>0.125 (0.331)</td>
<td>0.029 (0.168)</td>
</tr>
<tr>
<td>HH is non poor</td>
<td>0.868 (0.339)</td>
<td>0.592 (0.491)</td>
</tr>
<tr>
<td>Urban</td>
<td>0.885 (0.319)</td>
<td>0.687 (0.464)</td>
</tr>
<tr>
<td>Household size</td>
<td>4.729 (1.957)</td>
<td>5.106 (2.422)</td>
</tr>
<tr>
<td>Young dependants</td>
<td>0.218 (0.198)</td>
<td>0.234 (0.203)</td>
</tr>
<tr>
<td>Old dependants</td>
<td>0.075 (0.164)</td>
<td>0.073 (0.187)</td>
</tr>
<tr>
<td>Extended family</td>
<td>0.413 (0.493)</td>
<td>0.400 (0.490)</td>
</tr>
<tr>
<td>Receiving family transfers</td>
<td>0.281 (0.450)</td>
<td>0.380 (0.485)</td>
</tr>
<tr>
<td>Providing family transfers</td>
<td>0.299 (0.458)</td>
<td>0.215 (0.411)</td>
</tr>
<tr>
<td>Other members in the SSP</td>
<td>0.438 (0.497)</td>
<td>0.177 (0.382)</td>
</tr>
<tr>
<td>Receiving pensions</td>
<td>0.063 (0.242)</td>
<td>0.013 (0.111)</td>
</tr>
<tr>
<td>Holding a life insurance</td>
<td>0.135 (0.343)</td>
<td>0.027 (0.163)</td>
</tr>
</tbody>
</table>
economic situation of the household; and 0 otherwise) and “HH improvement” (which takes the value of 1 if the individual has perceived an improvement in the living standard of the household with respect to the last year; and 0 otherwise).

Table 5 displays the results of the Rivers-Vuong endogeneity test and provides evidence in favour of the null hypothesis that both receiving family transfers and providing family transfers are exogenous given the chosen instruments. Although one instrument in each of the possible endogenous variables had the expected sign but is statistically insignificant, the pair of chosen instruments is jointly significant at conventional levels. Note that we have assumed that the observations may be correlated within households, but would be independent between households. Allowing only for the conventional White-corrected standard errors, the estimated standard errors for all the instruments are smaller so the results are stronger. In any case, the estimated coefficients are exactly the same and the predicted residuals are statistically insignificant when included in the original probit equation.

Table 5. Rivers-Vuong endogeneity test

<table>
<thead>
<tr>
<th>Regression</th>
<th>Coefficient</th>
<th>Robust S.E.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receiving family transfers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lost job</td>
<td>0.024</td>
<td>0.019</td>
</tr>
<tr>
<td>Illness</td>
<td>0.043**</td>
<td>0.019</td>
</tr>
<tr>
<td><strong>F statistic = 3.47, Prob &gt; F = 0.031</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Providing family transfers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td>0.059***</td>
<td>0.022</td>
</tr>
<tr>
<td>HH improvement</td>
<td>0.011</td>
<td>0.014</td>
</tr>
<tr>
<td><strong>F statistic = 4.64, Prob &gt; F = 0.01</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Probability of affiliation to the private pension system selection bias corrected</th>
<th>Coefficient</th>
<th>Robust S.E.</th>
<th>&quot;t&quot; stat</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estimated residuals</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receiving transfers</td>
<td>0.07</td>
<td>1.85</td>
<td>0.04</td>
</tr>
<tr>
<td>Providing transfers</td>
<td>-0.16</td>
<td>1.60</td>
<td>-0.10</td>
</tr>
<tr>
<td>Rho (ρ)</td>
<td>0.657</td>
<td>0.096</td>
<td></td>
</tr>
<tr>
<td>Chi Square</td>
<td>21.89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob &gt; Chi Square</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>25,745</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a The regression includes all variables form the original model except the variables instrumented. Standard error adjusted for intra-household correlation. F statistics to test joint significance of the instruments in each regression respectively. *** Sig. at 1 per cent, ** Sig. at 5 per cent.

b The probit equation includes all variable from the original regression.
Table 6 presents our main results. Overall, the signs of the estimated coefficients are as expected. Age (and age squared) has a positive (negative) and a significant effect on the probability of affiliation. Our estimation suggests that for an individual with average characteristics, the probability of voluntary affiliation to the SPP peaks at age 54. This is not surprising once we calculate that the corresponding probability of voluntary affiliation is only 1 per cent. In other words, our result suggests that the probability of voluntary affiliation is indeed very low for the average working individual of any age. The education variables and variables related to household income have an important effect on the probability of voluntary affiliation and lend support to hypothesis 2. In particular, holding a postgraduate degree increases the probability of affiliation by 2.2 per cent whilst holding a university degree does so by 1.4 per cent. High school education has the expected sign but is not statistically significant. Thus, the larger investment in human capital, the greater the chance of voluntary SPP affiliation. Individuals from households with both higher income per capita and in possession of liquid assets have a higher and significant probability of affiliation. The effect of household income per capita on the probability of affiliation is non-linear.

Married people have a positive and statistically significant larger probability of voluntary affiliation than singles. Gender by itself was found to be insignificant but the interaction gender*marital status exerted a negative influence on the affiliation probability. Married women might benefit from a widow’s pension. Also they have more transient jobs and lower income mainly because of childbearing, so they have a lower probability of affiliation.

Although not statistically significant, the positive estimated coefficient of private health insurance suggests that it complements membership in a pension scheme. This can reflect wealth and/or proxy a higher degree of risk aversion.

The risk behaviour of other household members is also important in explaining SPP affiliation. We have found positive and statistically significant effects when any member of the household is affiliated to the SPP system and/or when they have life insurance. The effect of any member of the household receiving a pension is positive but statistically significant at the 10 per cent level. These results might be interpreted in several ways, one of them relates to “imitation” or “peer” effect: members of the household learn about the advantages of formal insurance schemes from other members already belonging to such schemes. Nevertheless, these results might also suggest that informal social security arrangements are not in place when various members of the household participate in formal social security.

With respect to hypothesis 3, only household size is statistically significant and has the expected negative sign. However, we have to be cautious when interpreting family size. The number of household members might not be a good proxy for the extent of an informal social security safety net. Packard, Shinkai and Fuentes (2002)
Table 6. Probability of affiliation to the SSP system (sample selection corrected)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coeff.</th>
<th>Robust S.E.</th>
<th>dF/dx</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individual characteristics</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Woman</td>
<td>-0.012</td>
<td>0.100</td>
<td>-0.0002</td>
</tr>
<tr>
<td>Married</td>
<td>0.199**</td>
<td>0.091</td>
<td>0.0033</td>
</tr>
<tr>
<td>Married*Woman</td>
<td>-0.222*</td>
<td>0.127</td>
<td>-0.0033</td>
</tr>
<tr>
<td>Age</td>
<td>0.035***</td>
<td>0.011</td>
<td>0.0006</td>
</tr>
<tr>
<td>Age squared</td>
<td>-3.2E-04***</td>
<td>0.000</td>
<td>0.0000</td>
</tr>
<tr>
<td>Head</td>
<td>0.038</td>
<td>0.100</td>
<td>0.0007</td>
</tr>
<tr>
<td>Head*female</td>
<td>0.095</td>
<td>0.142</td>
<td>0.0018</td>
</tr>
<tr>
<td>Holding a private health insurance</td>
<td>0.184</td>
<td>0.129</td>
<td>0.0031</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>0.603**</td>
<td>0.246</td>
<td>0.0219</td>
</tr>
<tr>
<td>University</td>
<td>0.485***</td>
<td>0.092</td>
<td>0.0137</td>
</tr>
<tr>
<td>Vocational &amp; technical</td>
<td>0.376***</td>
<td>0.097</td>
<td>0.0093</td>
</tr>
<tr>
<td>High school</td>
<td>0.067</td>
<td>0.079</td>
<td>0.0011</td>
</tr>
<tr>
<td><strong>Household characteristics</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household size</td>
<td>-0.03**</td>
<td>0.015</td>
<td>-0.0005</td>
</tr>
<tr>
<td>Young dependants</td>
<td>0.319**</td>
<td>0.163</td>
<td>0.0054</td>
</tr>
<tr>
<td>Old dependants</td>
<td>0.022</td>
<td>0.164</td>
<td>0.0004</td>
</tr>
<tr>
<td>Extended family</td>
<td>0.063</td>
<td>0.062</td>
<td>0.0011</td>
</tr>
<tr>
<td>Liquid asset gains</td>
<td>0.244**</td>
<td>0.100</td>
<td>0.0055</td>
</tr>
<tr>
<td>Receiving family transfers</td>
<td>-0.136**</td>
<td>0.058</td>
<td>-0.0022</td>
</tr>
<tr>
<td>Providing family transfers</td>
<td>-0.016</td>
<td>0.059</td>
<td>-0.0003</td>
</tr>
<tr>
<td>Receiving pensions</td>
<td>0.237*</td>
<td>0.146</td>
<td>0.0054</td>
</tr>
<tr>
<td>Holding a life insurance</td>
<td>0.405***</td>
<td>0.094</td>
<td>0.0112</td>
</tr>
<tr>
<td>Other members in the SPP</td>
<td>0.323***</td>
<td>0.069</td>
<td>0.0071</td>
</tr>
<tr>
<td>Log of household income per capita</td>
<td>1.379***</td>
<td>0.502</td>
<td>0.0234</td>
</tr>
<tr>
<td>Log of household income p.c. squared</td>
<td>-0.083**</td>
<td>0.033</td>
<td>-0.0014</td>
</tr>
<tr>
<td>Household is non poor</td>
<td>0.075</td>
<td>0.083</td>
<td>0.0012</td>
</tr>
<tr>
<td>Urban zone</td>
<td>0.033</td>
<td>0.088</td>
<td>0.0005</td>
</tr>
</tbody>
</table>
argue that larger households might have to share resources with more members and this effect might reduce the probability of SPP affiliation.

The percentage of young members in the household is statistically significant but has a positive sign. One possible explanation is that, by law, children younger than age 18 inherit a share of the pension, so a working parent (with many dependant children) who might run a higher risk of illness or death may be more likely to affiliate.\(^\text{19}\) In addition, older children (and older persons), by performing household chores, may exert a positive influence on the possibility of parental wage employment and, thus, affiliation to the pension system (Holzmann, Packard and Cuesta, 2000). It is to be noted that, in our regression, the percentage of family members aged 65 or older also has a positive sign but it is insignificant.

In terms of hypothesis 4, our results suggest a negative effect of the household receiving transfers and providing transfers on the probability of affiliation, but only the former is statistically significant.\(^\text{20}\) This might signal not only exchange-related issues between relatives but also that those receiving transfers are in more need than those providing them.

\(^\text{19}\) We ran the regression with the proportion of children younger than age 18 (instead of age 14). We report that the estimated coefficient remained positive but statistically significant only at 10 per cent. For a group of Latin American countries, Packard, Shinkai and Fuentes (2002) also found a positive influence of children and older persons on pension coverage.

\(^\text{20}\) Before including the dummy variables “receiving transfers” and “providing transfers”, we tested the model with only one dummy variable which took the value of 1 if the household was “providing” or “receiving” transfers, and 0 otherwise. We found that this variable exerted a negative and significant effect on the probability of affiliation and that the estimated coefficients of the other regressors remain almost the same, so we decided not to report the results.
Finally, we assess the extent of the bias introduced by not correcting for sample selection. The predicted probability of affiliation (calculated at mean values of the regressors) is 1.26 per cent without correction and 0.91 per cent with correction. More interesting, using the whole sample but without distinguishing between voluntary and mandatory affiliation, the predicted probability of affiliation is 7.5 per cent which is still very low but substantially higher than the one we have calculated.

Conclusions

We have examined the decision to participate in the individual accounts pension system (SPP) in Peru for individuals for whom the decision to affiliate is voluntary. Overall, our results support our hypotheses. Given the large informal sector in Peru, pension coverage is limited and restricted to a selected group of individuals. Among those with a choice of voluntary affiliation, married males with more than high school-level education who belong to households with higher income per capita and with other family members already affiliated to the SPP have the highest likelihood of using that choice. Moreover, our results also suggest that family-based safety nets have a negative effect on the probability of SPP affiliation. Family arrangements tend to substitute for formal social security membership but in the long run, taking into account the potential impacts of demographic ageing, we cannot be certain of the effectiveness of these.

Therefore, our results suggest that there is a risk of income insecurity in old age for many Peruvians: not only is the rate of affiliation low but rates of active contribution are also low. This is especially so among low-income informal workers. In 2001 coverage among employed workers of the two highest income quintiles was, on average, 18.8 times that of the two poorest quintiles (Rofman and Lucchetti, 2006) and, according to AIOS, the ratio of contributors to affiliates in the SPP was 41.9 per cent. Before discussing possible ways to address these challenges, it is important to bear in mind the objectives of a pension system based on individual accounts i.e. to transfer consumption from working to retirement age, allowing the old (and the disabled) to retire from work and live decently without outliving their pension savings. Market failures and additional objectives such as poverty relief and redistribution prompt government intervention (Barr and Diamond, 2006). One way to increase pension coverage is the creation of more “formal” jobs where pension coverage is mandatory. But this is a structural and long-term task, and the labour-market trends in many countries in recent years have been in the opposite direction. As mentioned earlier, Peru’s SPP system does not include a guaranteed minimum pension — rather, it provides a top-up amount to lift the pension income of eligible pensioners up to a guaranteed minimum —, so another possibility might be for the government to provide, as is the case in Chile, a means-tested “solidarity” pension for low-income persons of retirement age that have not participated in the pension.
scheme, in addition to a minimum top-up guarantee for people that have contributed to the system but have not been able to accumulate enough to achieve a minimum threshold pension. Besides issues of moral hazard and the provision of appropriate incentives, such a policy approach inevitably leads us to consider two distinct but interrelated problems: large fiscal costs and prioritizing the need to extend coverage.

Could policies, such as lowering the administrative fees charged by the AFPs help extend coverage? This might be so, but we found little association between commissions and contributions and voluntary pension affiliation. According to PRIESO, in order to make informed decisions about affiliating, individual information and knowledge about pension systems matter. And individual perceptions about institutional reputation and trust are equally important. It is recognized that the regulation of investments by pension funds and insurance companies should be carefully designed with the aim of safeguarding affiliates’ contributions yet also providing sufficient flexibility to enable fund managers to follow optimal investment strategies. But, as a means to extend coverage, regulation might be less effective once household income is taken into account as a major factor in the probability of affiliating (and contributing) to the SPP pension scheme.

Although our results show a weak gender effect on the probability of SPP affiliation, Arenas de Mesa and Mesa-Lago (2006) find that the Chilean AFP system has accentuated gender inequality because women earn lower wages relative to men, have higher rates of unemployment, have interrupted work histories as a result of raising children and perform a larger share of the unskilled jobs for which there is no mandatory pension system coverage. Rofman and Grushka (2003) also found similar results for Argentina.

We concur with Arenas de Mesa and Mesa-Lago (2006) and Gill, Packard and Yermo (2005) that key issues not satisfactorily addressed by private individual accounts pension system reforms in Latin America, and Peru in particular, are those of coverage and compliance. We believe that in countries with a large self-employed low-income population, the issues regarding competition, efficiency and administrative costs of individual accounts are important but secondary. The debate about the fiscal sustainability and expansion of social assistance pensions to cover all the poor is controversial and complex. Although one country’s pension system might not be suitable for another, an examination of the experiences of other countries might prove helpful. We leave these issues as well as the sustainability of informal family-based arrangements and the influence of labour market inequalities as matters for future research.

Finally, our findings must be taken with some caution due to data limitations. The cross section nature of our data does not allow us to capture the effects of changes of variables over time; in particular, the effect of supply-side variables (e.g. changes in fees for managing pension funds) on the probability of affiliation. Also, lack of savings data precludes us from examining the relation between savings and
pension affiliation. In addition, we do not have a measure of intergenerational transfers but only data related to family transfers from and to other family members living outside the household. It would be desirable to have more detailed survey data to explore the effects of informal family safety nets on the decision to affiliate to the SPP system and also to have a history of contributions to be able to assess the extent of effective coverage and the problem of old-age vulnerability.

Bibliography


Jimenez, L.; Cuadros, J. 2003 “Expanding the coverage of pension systems in Latin America”, in *CEPAL Review*, No. 79.


Public Pension Standardization Office. various years. Estadísticas ONP. Lima.


Health care insurance in Japan: Beyond a binary vision of State and family

Kusuto Naïto

Platform-AGE, Belgium

Abstract Despite significant regional diversity in household structures and the existence of community solidarity in Japan, caring for elderly dependent persons has traditionally been considered an exclusively family, and female, responsibility. However, as a result of socio-demographic changes during the second half of the twentieth century, a public system of health care insurance was introduced in 2000. The objective of this development was to “socialize” family and female care activities. This article presents a critical analysis of Japan’s health care insurance system and the context that gave rise to its introduction. An important issue is whether the system meets the needs of the elderly and their carers (family and non-family). A further issue is whether the system can take account of regional diversity, diversity in household situations (above and beyond financial concerns), and societal values and beliefs. The article concludes by arguing that demographic ageing presents a societal requirement for the ongoing adjustment of behaviour patterns and living arrangements.

Keywords long term care, elder care, social insurance, demographic aspect, Japan

Introduction

Since the early 1900s, care of the elderly in Japan has been considered a family prerogative or “obligation”. Today, this perspective is being called into question. It is within this context of changing public attitudes to the provision of “informal” care

Address for correspondence: Kusuto Naïto, Research Project Assistant, Platform AGE, Rue Froissart 111, 1040 Brussels, Belgium; Email: Kusuto.naito@age-platform.org.
that Japan introduced the health care insurance system (Kaigo Hoken) in 2000 (Ministry of Health, Labour and Welfare (Legislation)).

If it appears that the traditional family obligation to provide care is difficult to apply in the current socio-demographic context, the reverse — namely, to make care provision an entirely public obligation — is also true. As a result, this begs the question as to whether it may be time to move beyond a binary and exclusive logic in care provision, namely, moving beyond State and family.

This article will, first, examine Japan’s socio-demographic and political context, including changes in the socio-demographic and political context in the second half of the twentieth century. Second, it will examine the direct (budgetary and functional) and indirect (regional diversity) components of care insurance. Third, it will attempt to define the aspects of health care provision that require further consideration. The article will consider how to balance the intervention of families, communities and public authorities in order to create a relationship of complementarity and, in so doing, prevent health care provision for elderly dependent persons becoming the responsibility of a single entity.

Setting the context: A social construction between continuity and change

A comparison of the demographic, social and political contexts since the beginning of the twentieth century provides an understanding of how the notion of welfare for the elderly “Japanese style” took root — namely, care provided predominantly by family members (frequently female) as a result of the relatively limited availability of public assistance.

Demographic context: Changes between the pre- and post-Second World War years

Figures 1 and 2 demonstrate the important change in Japan’s demographic structure between 1920 and 2005. The change is visible not only in terms of the total population, which has more than doubled in 75 years (from 56 million to 128 million), but also in terms of age-group distribution, which is marked by an increase in life expectancy for the elderly.

1. Campbell and Ikegami (2003) qualify this insurance system as “long-term care insurance: LTCI”. The official designation is that it is of a general nature, despite the fact that, as this article will show, it primarily targets elderly dependent persons aged 65 or older.

2. In recent years there has been a rise in the number of male family members (often single) providing care to aged parents. This new trend adds a further level of complexity and requires that support networks meet the needs of male and female carers alike.

3. In 2005, life expectancy for men and women at age 65 was 18.1 years and 23.2 years, respectively. In the period 1921-1925, life expectancy for men and women at age 65 was 9.3 years and 11.1 years, respectively.
Figure 1. Age-group distribution in Japan in 1920

Source: Japanese Statistics Bureau.

Figure 2. Age-group distribution in Japan in 2005

Source: Japanese Statistics Bureau.
As a consequence of these demographic changes, the population between ages 65 and 74 increased from 4 per cent of the total population in 1920 to 11 per cent in 2005. During the same period, the percentage of the total population aged 75 or older rose from 1.3 per cent to 9.1 per cent.

Population ageing is not a phenomena which occurs in isolation from other social contexts, and particularly household situations. Family environments (particularly for senior citizens aged 65 or older) have also changed considerably. Table 1 shows that the number of nuclear households (couples and elderly parents who live with their children) and single households are increasing compared to the number of “traditional” households, namely those comprising two or more nuclear families.

This article will show that this “traditional” interpretation has been intentionally simplified, since the regional diversity in Japanese households is such that this type of three-generational household is not, and has not been, the most “traditional” form of household in Japan. However, before developing this theme further, it is important to review the context which led to the implementation of care policies for the elderly. The following section briefly outlines how the principles behind these

### Table 1. Changes in types of household with persons aged 65 or older in Japan (1985–2005)

<table>
<thead>
<tr>
<th>Type of household</th>
<th>1985</th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. &quot;Private&quot; household</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1. Household with relatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1.1. Nuclear household</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1.1.1. Couple</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1.1.2. Other (father/and or mother and child(ren))</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2. Other (particularly, three generational households)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3. Households which are not related</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4. Single households</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Institution (‘non private’ household)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Japanese Statistics Bureau.

As a consequence of these demographic changes, the population between ages 65 and 74 increased from 4 per cent of the total population in 1920 to 11 per cent in 2005. During the same period, the percentage of the total population aged 75 or older rose from 1.3 per cent to 9.1 per cent.

Population ageing is not a phenomena which occurs in isolation from other social contexts, and particularly household situations. Family environments (particularly for senior citizens aged 65 or older) have also changed considerably. Table 1 shows that the number of nuclear households (couples and elderly parents who live with their children) and single households are increasing compared to the number of “traditional” households, namely those comprising two or more nuclear families.

This article will show that this “traditional” interpretation has been intentionally simplified, since the regional diversity in Japanese households is such that this type of three-generational household is not, and has not been, the most “traditional” form of household in Japan. However, before developing this theme further, it is important to review the context which led to the implementation of care policies for the elderly. The following section briefly outlines how the principles behind these
policies evolved and how they led to the creation of the public system of health care insurance in 2000.

*The political and social contexts: 50 years of dilemma between the provision of care by the family, the socialization of care, and the financing of care*

The Japanese government has sought to address the problems associated with an ageing population and changing household structures since the 1950s. It has, for example, reviewed the body of White Papers on public health matters commissioned by the Ministry of Health, Labour and Welfare. An awareness of the problems associated with an ageing population and changing household structures has been apparent since the first White Paper was published in 1956.

Consequently, it is of interest to review the route taken by the government in order to better understand the principles underlying the introduction of the health care insurance system in a country where caring for elderly parents who reside in the same household as their children has been “naturally” considered a “family obligation”. The chronological data in Table 2 demonstrates how health care principles and measures have evolved as a result of changing public attitudes towards the role of family obligation, the provision of care, and the needs of elderly dependent persons.4

*To reinforce the role of the family or socialize care?*

The development path of the principles, the measures adopted, and evolving public attitudes to care over the past five decades is somewhat perplexing. All political initiatives have been grounded in a notion of an “ideal family”, despite a more complex and changing socio-demographic reality. Moreover, this presumption of the “ideal family” is reinforced by promoting the independence of the elderly while, at the same time, implicitly maintaining inter-generational households as the desirable structure. Nevertheless, this rather forced perception of the “ideal family” cannot be solely attributed to the government, since this perspective can also be found in the general public, which oscillates between feelings of respect and obligation. Nonetheless, the introduction of a health insurance care system came to be considered necessary. This came to be so in a context where the gulf between the ideal and reality was such that the abuse of the elderly had become the norm.

4. References to the principles and measures taken have been sourced mainly from White Papers (kousei roudo hakusho), legislation and measures relating to the welfare of the elderly, and Ministerial Committee papers (Ministry of Health, Labour and Welfare). References to public opinion have been sourced from longitudinal surveys (undertaken, in particular, by the Cabinet of Japan and the daily newspaper Mainichi Shinbunsha (2005) — which has carried out National Opinion Polls on Family Plans since 1950.)
Table 2. Chronology of health care policies and public attitudes towards health care

<table>
<thead>
<tr>
<th>Policy measures and principles adopted</th>
<th>Public attitudes to health care</th>
</tr>
</thead>
</table>

**1950s: Awareness of ageing**

According to the 1956 White Paper, an ageing population is considered problematic for the future. The main solution proposed focuses on revenue (pensions) for the elderly. This means that the task of caring for the elderly falls on family members.

The Ministry of Welfare, nevertheless, is interested in creating special centres for the elderly where they can meet (day centres) or live (homes). However, public assistance is reserved for individuals on low incomes (irrespective of age).

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Attitude</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>59.1% 55.8%</td>
</tr>
<tr>
<td>1957</td>
<td>49.3% 47.4%</td>
</tr>
<tr>
<td>1958</td>
<td>43.8%</td>
</tr>
<tr>
<td>1959</td>
<td>17.9% 14.9%</td>
</tr>
<tr>
<td>1960</td>
<td>18%</td>
</tr>
<tr>
<td>1961</td>
<td>20.7%</td>
</tr>
<tr>
<td>1962</td>
<td>23.3%</td>
</tr>
</tbody>
</table>

A survey of between 3,000 and 3,835 couples (women only from 1950 to 1961) younger than age 50 reveals that the percentage of respondents who expect their children to care for them has fallen considerably.

Moreover, according to a survey by the Ministry of Welfare in 1956, 77 per cent of elderly persons are financially dependent upon their children.

**Beginning of the 1960s — beginning of the 1970s: The introduction of public assistance**

1961: Introduction of the national pension

1963: Law on the welfare of older persons

This law engages, for the first time, public responsibility (national and regional) in the welfare of older persons by encouraging the creation of specialized institutions (retirement homes and day centres).

The Ministry also envisages a support system for older persons in private retirement homes (in the form of payments; this system, however, is relatively unsuccessful) and home care services.

1969: Specific measures are introduced targeting older persons with a high level of dependence (the carer, in most instances, is the spouse and/or daughter-in-law).

Towards the end of the 1960s, the Ministry acknowledges the lack of specialized establishments and aims to diversify services. However, the principle form of care remains the provision of home care services (family care).

<table>
<thead>
<tr>
<th>Year</th>
<th>Perception of care for elderly parents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>36% Good thing 38.6% Obligation</td>
</tr>
<tr>
<td>1962</td>
<td>33.3% Good thing 38.6% Obligation</td>
</tr>
<tr>
<td>1963</td>
<td>35.3% Good thing 38.6% Obligation</td>
</tr>
<tr>
<td>1964</td>
<td>35.3% Good thing 38.6% Obligation</td>
</tr>
<tr>
<td>1965</td>
<td>31.9% Good thing 38.6% Obligation</td>
</tr>
<tr>
<td>1966</td>
<td>28.6% Good thing 38.6% Obligation</td>
</tr>
<tr>
<td>1967</td>
<td>30% Good thing 38.6% Obligation</td>
</tr>
<tr>
<td>1968</td>
<td>30% Good thing 38.6% Obligation</td>
</tr>
<tr>
<td>1969</td>
<td>30% Good thing 38.6% Obligation</td>
</tr>
</tbody>
</table>

The question regarding the notion of caring for an elderly parent was introduced in 1963. The number of respondents who consider “It is a good thing” fell, whereas the number of those who consider “It is a moral obligation as a child” remained relatively high throughout this decade.

As regards the question as to whether parents expect their children to care for them, the average response suddenly becomes more negative (the major difference observed between 1961 and 1963 is as a result of changes to the phrasing of this question and the inclusion of couples in the survey).
Table 2. Continued

<table>
<thead>
<tr>
<th>Policy measures and principles adopted</th>
<th>Public attitudes to health care</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning of the 1970s — beginning of the 1980s: Pensions as the preferred solution to ageing</strong></td>
<td></td>
</tr>
<tr>
<td>At the beginning of the 1970s, the change in attitudes towards caring for an elderly parent becomes a</td>
<td></td>
</tr>
<tr>
<td>political concern.</td>
<td></td>
</tr>
<tr>
<td>1973: Free medical care for persons who are aged 70 or older (1973 is called the “the first year of</td>
<td></td>
</tr>
<tr>
<td>welfare”). The Ministry considers that home care policies have been neglected in favour of institutionalized care.</td>
<td></td>
</tr>
<tr>
<td>1974: First petrol shock and economic slowdown. Changes are considered essential. The public pension</td>
<td></td>
</tr>
<tr>
<td>is envisaged as the principle solution to changing attitudes on family care.</td>
<td></td>
</tr>
<tr>
<td>From 1974 onwards, budgetary increases for care are smaller than for pensions and medicines.</td>
<td></td>
</tr>
<tr>
<td>1978: Measures to improve home care (medical day centres and short-stays centres) are reinforced.</td>
<td></td>
</tr>
<tr>
<td><strong>Beginning of the 1980s — beginning of the 1990s: “Return” to the family</strong></td>
<td></td>
</tr>
<tr>
<td>At the beginning of the 1980s, there is a clear change in principles (with the arrival of Mr. Nakasone</td>
<td></td>
</tr>
<tr>
<td>as Head of Government). Nostalgia for the three-generational household is encouraged, even if, in reality,</td>
<td></td>
</tr>
<tr>
<td>three-generational households are declining in number.</td>
<td></td>
</tr>
<tr>
<td>1982: The suppression of free medical care for persons aged 70 or older.</td>
<td></td>
</tr>
<tr>
<td>1983: The role of institutions becomes key, and is the preferred choice of accommodation for elderly</td>
<td></td>
</tr>
<tr>
<td>persons who find it difficult, or impossible, to live at home.</td>
<td></td>
</tr>
<tr>
<td>1989: 10-Year Strategy (1989-1999) of promoting the welfare of the elderly (the Gold Plan)</td>
<td></td>
</tr>
<tr>
<td>There is a marked quantitative and qualitative improvement in services for the elderly and, in</td>
<td></td>
</tr>
<tr>
<td>particular, home care services.</td>
<td></td>
</tr>
</tbody>
</table>

At the beginning of the 1970s, the negative trend tails off very slightly in favour of attitudes that are more open to the provision of care by children for their elderly parents. However, the percentage of negative responses increases at the end of the 1970s. As regards opinions on caring for elderly parents (a desire or an obligation), these remain unchanged.

In 1974, financial dependence of parents can be qualified as minimal as the percentage of financially-dependent parents falls to 25 per cent.

The 1980s are characterized by a confirmation of trends previously observed, despite some fluctuation in these trends. The difference in opinions expressing hope (of receiving care) and family obligation becomes more pronounced.
The slogan that accompanied the launch of the introduction of the health care insurance system was the “socialization of care”. It is important to question the reality of this statement. In fundamental terms, does this “socialization” simply mean that care provided within the family sphere is now transferred to the public sphere or that, by making the elderly solely responsible for their care, care has become diversified?

The Japanese health care insurance system: Perpetual evolution

The public health care insurance system is a logical consequence of the principles and measures previously evoked; in other words, it is a subtle compromise between the provision of care by the family and public services. However, this article will show that the health care insurance system carries a risk of radically changing the way in which living arrangements for elderly dependent persons is perceived by collective bodies (public or private) and families.

Principles of the health care insurance system

A comprehensive and deep understanding of the health care insurance system requires significant legal knowledge. This section will outline its basic principles.
It should also be noted that a series of reforms were undertaken in 2005 to further promote the preventive aspects of health care insurance, following concerns over the sustainability of the system.

**Who insures care?** The 2006 budget allocated for health care for the elderly was approximately 6 billion Yen (JPY) (in 2006, 1 million JPY = USD 8,593.00 approx.; or EUR 7,133.00 approx.). This represents 6.8 per cent of the total social security budget (pensions, health care and other forms of care) and 1.62 per cent of GDP (see Figure 3). The following graph shows that health care insurance as a percentage of social security expenditure and GDP is increasing annually.

The budget allocated for health care insurance (see Table 3) is financed 50 : 50 by contributions paid by insured persons (31 per cent of which comes from workers aged between 40 and 64, and 19 per cent from persons who are aged 65 or older) and subsidies from local authorities (prefectures and municipalities) and the State. The municipalities and prefectures each contribute 12.5 per cent and the State contributes the remaining 25 per cent. In financial terms, the Japanese health care insurance system is a hybrid between insurance (via contributions) and social assistance (via taxes).
There are two categories of insured person, conditional upon age: persons who are aged 65 or older, known as Category 1 insured; and persons between ages 40 and 64, known as Category 2 insured.

Who are the beneficiaries?
The first criteria governing the reimbursement of services by health care insurance is age: aged 40 to 64 and aged 65 or older. Persons who are aged 65 or older (Category 1 insured) can benefit, in principle, from all services covered by the insurance. The amount reimbursed varies according to the Table 3. Overview of the Japanese health care insurance system

<table>
<thead>
<tr>
<th>Financing care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes: 50 per cent</td>
</tr>
<tr>
<td>Contributions: 50 per cent</td>
</tr>
<tr>
<td>• State: 25 per cent</td>
</tr>
<tr>
<td>• Prefectures: 12.5 per cent</td>
</tr>
<tr>
<td>• Municipalities: 12.5 per cent</td>
</tr>
<tr>
<td>• Aged 40-64 (the contribution rate varies from 0.6 per cent to 1.4 per cent): 31 per cent</td>
</tr>
<tr>
<td>• Aged 65 or older (the contribution rate varies according to revenue and comprises 5 different categories): 19 per cent</td>
</tr>
</tbody>
</table>

Who are the beneficiaries?
Aged 65 or older (Category 1 insured) Aged 40 to 64 (Category 2 insured)

There are six different categories of beneficiary (revised in 2005, see Table 8), according to state of health (determined by a medical and social assessment). Services and benefits vary according to category.

Who provides care
Public bodies, community organizations, private companies, and charitable organisations (there is no restriction on legal status, with the exception of long-term health centres)

What services are provided?
Services (care and preventive) at home, at day centres and at short-stay centres

• Home help
• Rehabilitation visits
• Night care
• Short-stay centres
• Community centres (for dementia sufferers)
• Care for dementia sufferers, etc.

Institutionalised services (care and preventive)

• Residential care adapted to meet the needs of dementia sufferers (or the prevention of dementia)
• Welfare care centres for the elderly
• Health care insurance centres for the elderly
• Centres providing medical care (to be abolished in 2011)
• Private centres (not covered by the insurance)\(^1\)

\(^1\) There are three types of centres: first, those where services can be procured, if necessary, by staff who are directly employed by the centre; second, where care services can be procured, if necessary, by external services; and third, centres that ask residents to leave if they become dependent. In 2006, there were approximately 2,000 centres in existence with over 90,000 residents. Residential fees (admission fees, rent and other costs) vary significantly from centre to centre.


There are two categories of insured person, conditional upon age: persons who are aged 65 or older, known as Category 1 insured; and persons between ages 40 and 64, known as Category 2 insured.

Who are the beneficiaries? The first criteria governing the reimbursement of services by health care insurance is age: aged 40 to 64 and aged 65 or older. Persons who are aged 65 or older (Category 1 insured) can benefit, in principle, from all services covered by the insurance. The amount reimbursed varies according to the
claimant’s health. Prior to the 2005 reform, there were 6 categories (see Table 4). The eligibility criteria for persons aged between 40 and 64 is more stringent since, in order to qualify, beneficiaries must be diagnosed as suffering from a serious illness.5

The category of care required is determined by an annual socio-medical assessment (for which there is a right to appeal) and comprises a 5-stage process involving the person requesting care, the municipality and the care assessment committee (see Flow chart in Appendices). Once the degree of dependence has been assessed, a care manager will agree a care package with the persons concerned (the person assessed as being dependent and his or her family) and the most appropriate services (home care and/or institutional), within an agreed budget (if the care package is exceeded, services are not reimbursed).

Figure 4 shows the evolution in numbers in Category 1 insured persons and persons assessed as dependent (“Assistance required” or “Care required level 5”). As can be observed, there was no growth in the ratio between insured persons and those assessed as dependent between 2004 and 2005; however, in absolute numbers their numbers have grown (there were approximately 26,760,000 Category 1 insured persons and 4,401,000 persons assessed as dependent).

As regards the ratio of men to women, this has remained steady over the years: of the population assessed as dependent (all categories), women represent 70 per cent and men 30 per cent. The number of women assessed as being dependent increases with age.

**Who provides care?** The law on health care insurance makes provision for different organizations to be involved in the delivery of health care services, including private companies; however, private companies may not manage long-stay health centres (for-profit organizations are prohibited from managing long-stay health centres). The competent authorities for authorizing the delivery of health care services are either the prefecture (for care services) or the municipality (for preventive services, which were introduced in 2006).

Table 5 shows the different organizations providing health care services between 2002 and 2006. It should be noted that the number of private companies providing home care services has increased considerably compared to other organizations providing care services, with the exception of non-governmental organizations and charities (known in Japan as Non-Profit Organizations — NPOs).

5. Illnesses which are classed as serious for the purposes of health care insurance for this age group are: premature dementia (Alzheimer, for example), cerebral-vascular disease, amyotrophic lateral sclerosis (ALS), Parkinsons disease, spino-cerebellar degeneration, Shy-Drager syndrome, diabetic nephropathy, diabetic retinopathy, diabetic neuromuscular disease, arteriosclerosis obliterans, lung diseases, osteoarthritis, rheumatoid polyarthritis, ossification of the posterior longitudinal ligament, lumbar spinal stenosis, osteoporosis, Werner syndrome.


### Table 4. Initial categorization (2000-2005) of state of health

<table>
<thead>
<tr>
<th>“Degree” of care need</th>
<th>Assistance required</th>
<th>Care required 1</th>
<th>Care required 2</th>
<th>Care required 3</th>
<th>Care required 4</th>
<th>Care required 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicative state of health</td>
<td>Need for home help</td>
<td>Difficulty in bathing</td>
<td>Difficulty in walking</td>
<td>Unable to walk</td>
<td>Requires general care</td>
<td>Difficulty in communicating</td>
</tr>
<tr>
<td>Reimbursed services</td>
<td>Home care services</td>
<td>• Home care services</td>
<td>• Institutional services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly care allowance (JPY)</td>
<td>61,500</td>
<td>165,800</td>
<td>194,800</td>
<td>267,500</td>
<td>306,000</td>
<td>358,300</td>
</tr>
</tbody>
</table>

1 Allowances allocated before the implementation of the 2005 reform. It should be noted that 10 per cent of costs are to be met by the beneficiary. For example, if a “Category 1” dependent person requires services which cost JPY 61,500, he or she is required to contribute JPY 6,150 towards these costs.

Source: Ministry of Health, Labour and Welfare (Health care insurance).
What services do they provide? Since 2000, the services which are reimbursed by health care insurance are provided by the prefectures. There are two main categories of care: home care and institutionalized care (see Table 6). The first category, home care, involves the provision of care assistants (who are specially trained), nurses and other services. The second category, institutionalized care, involves either attendance at care centres (to receive care) or long-term residential centres.

The municipality-managed health care and preventive care services were introduced in 2006 following the 2005 reform of health care insurance (see Table 7). These services will be examined in the following section.

The 2005 reform

The law on health care insurance stipulates that reform should be undertaken every 5 years. The first reform took place in 2005; the majority of changes resulting from this reform took effect in April 2006.
### Table 5. Evolution of organizations providing home care services

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local authorities</td>
<td>5.7</td>
<td>4.6</td>
<td>3.9</td>
<td>2.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Public health organizations*</td>
<td>36.3</td>
<td>34.1</td>
<td>33.1</td>
<td>30.7</td>
<td>30.6</td>
</tr>
<tr>
<td>Medical organizations*</td>
<td>25.4</td>
<td>23.6</td>
<td>22.4</td>
<td>21.7</td>
<td>21.1</td>
</tr>
<tr>
<td>Other medical organizations*</td>
<td>5.3</td>
<td>4.8</td>
<td>4.5</td>
<td>4.1</td>
<td>3.8</td>
</tr>
<tr>
<td>Communities</td>
<td>3.6</td>
<td>3.7</td>
<td>3.6</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Private companies</td>
<td><strong>20.6</strong></td>
<td><strong>26.0</strong></td>
<td><strong>29.1</strong></td>
<td><strong>33.5</strong></td>
<td><strong>34.8</strong></td>
</tr>
</tbody>
</table>

+12.2 per cent between 2002 and 2006

| Charities (NPO)/Non-governmental organizations (NGOs) | 1.5 | 1.9 | 2.3 | 2.7 | 3 |
| Others | 1.6 | 1.2 | 1.1 | 1 | 0.9 |

* These organizations are public bodies (in principle, not-for-profit).

Source: Ministry of Health, Labour and Welfare (Health care insurance).

### Table 6. Main care services reimbursed by health care insurance (pre-2005)

#### Home care service
- Home care (household duties, meals, bathing)
- Nursing care
- Rehabilitation
- Bathing

#### Institutional services
- Day centres (care and rehabilitation)
- Short-stay centres
- Residential care adapted to meet the needs of dementia sufferers
- Specialized centres (long-stay) - Welfare care centres for the elderly
  - Health care insurance centres for the elderly
  - Centres providing medical care (to be abolished in 2011)

#### Loan and/or sale of care equipment

Source: Ministry of Health, Labour and Welfare (Health care insurance).
Local regional services (managed by the municipality). Local services were developed to take greater account of the routine daily needs of the elderly. The objective is to create service centres within a relatively small geographic area (generally, that of a school catchment area). In principle, local services are intended for residents in these catchment areas. The multifunctional centre is an intermediary institution between home care services and institutionalized services, offering home care, institutional and residential services — rooms, adequate staffing — for a small number of persons (29 persons).

Preventive care services. One of the principle measures adopted following the 2005 reform is rooted in the notion of prevention. The size of the health care budget led the Ministry of Health to introduce a series of measures to not only reduce public expenditure but also the neuro-physiological dependence of the elderly. The services which comprise preventive care services are not very different from those of the care services; however, providers of preventive care services are more concerned with maintaining the independence of beneficiaries in their daily lives.

### Table 7. Care services and preventive services reimbursed following the 2005 reform

<table>
<thead>
<tr>
<th>Management bodies</th>
<th>Services managed by the prefecture</th>
<th>Services managed by the municipality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursed care services</td>
<td>(see Table 6) Expanded to include the municipality-managed and prevention services</td>
<td>Local regional services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Night care services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Specialized centre(s) for dementia sufferers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Multifunctional centre(s)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Community residential centre(s) adapted for dementia sufferers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Day centre(s) adapted for dementia sufferers</td>
</tr>
<tr>
<td>Reimbursed preventive care services</td>
<td>Home services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Home care (household duties, meals, bathing)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Nursing care</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Rehabilitation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Showering, bathing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Etc.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Institutional services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Day centres (care and rehabilitation)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Short-stay centres</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Loan and/or sale of preventive care equipment (daily living aids)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Local regional services for preventive care</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Day centres for the prevention of dementia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Multifunctional centre(s) (preventive service)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Community day centre(s) for the prevention of dementia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Services to coordinate preventive care</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Health, Labour and Welfare (Health care insurance).
Expanding the categories to include prevention. As shown previously in Table 4, there are 6 categories of dependence, according to the neuro-physiological needs of the person requesting care. Level 1 requires, for example, partial or total help with personal hygiene whereas level 5, the highest category in terms of gravity of health, represents persons who are completely dependent.

The 2005 reform also further placed greater importance on prevention (rather than dependence) by adding two sub-categories (Assistance required: Levels 1 and 2) to the care categories. The reimbursable activities in these two sub-categories are primarily physical activities; this is to encourage claimants to remain independent.

A number of persons who were assessed as meeting the criteria for Category 1 and who required assistance only prior to 2006 have been re-categorized as either “Assistance required: 1” or “Assistance required: 2”. There are, therefore, 7 different levels of dependence (see Table 8).

### Table 8. Categorization of state of health following the 2005 reform

<table>
<thead>
<tr>
<th>“Degree” of care need</th>
<th>Assistance required: 1</th>
<th>Assistance required: 2</th>
<th>Care required 1, 2, 3, 4, 5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicative state of health</strong></td>
<td>Partial reduction in independence: preventive activities</td>
<td>Reduced independence: preventive activities</td>
<td>(see Table 4)</td>
</tr>
<tr>
<td><strong>Reimbursed services</strong></td>
<td>• Physical exercises • Psychological support (prevention of dementia) • Dietary assistance • Home care services</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Monthly care allowance (in JPY)</strong></td>
<td>47,900</td>
<td>104,000</td>
<td></td>
</tr>
</tbody>
</table>

1 Allowances allocated before the implementation of the 2005 reform. It should be noted that 10 per cent of costs are to be met by the beneficiary. For example, if a “Category 1” dependent person requires services which cost 61,500 JPY, he or she is required to contribute JPY 6,150 towards these costs.

Source: Ministry of Health, Labour and Welfare (Health care insurance).

**Increase in institutional care costs (introduced in 2005)**

Residential costs (particularly for meals) for persons who live in care centres are no longer reimbursed by health care insurance. This is to balance the budgets for home care and institutional care.

**Profile of establishments and beneficiaries in 2006**

Table 9 illustrates the growth in the number of establishments providing either preventive services or care services in relation to service objectives, i.e. in relation to
the provision of either home care services or accommodation for insured persons in preventive or care centres.

As can be seen, the number of home care establishments and care centres is growing. There has always been a high number of preventive care centres, as many of these centres were initially set up within existing care establishments.

As regards the distribution of beneficiaries in relation to services offered, there was a marked increase between 2002 and 2006 in both the number of beneficiaries receiving home care and those attending centres. Finally, the relatively high number of beneficiaries receiving preventive services is due to the re-categorization of a number of beneficiaries from category “Assistance required: 1” to category “Assistance required: 2”.

In terms of care centres, there are 3 types of establishment: i), welfare care centres for the elderly; ii), health care insurance centres for the elderly; and iii), medical care centres.

In principle, the first type of establishment, the welfare care centre, is for elderly persons assessed as having high dependency needs and requiring intensive support care in their daily lives (meal preparation, bathing, walking, etc.). The second type of establishment, the health care insurance centre, is also for elderly persons who are assessed as dependent; however, the objective of these centres is to ensure that residents eventually return to their own homes. Finally, the third type of establishment, the medical care centre, is principally for persons requiring specific medical care.

As regards the growth in number of establishments, it is important to note that the number of welfare care centres and health care insurance centres for the elderly have increased considerably (by over 17 per cent and 18 per cent respectively between 2002 and 2006, to 5,716 and 3,391 establishments), whereas the number of medical care centres has fallen by 25 per cent (to 2,929 establishments in 2006). In fact, the Ministry’s objective is to reduce the number of medical care centres while

<table>
<thead>
<tr>
<th>Service method</th>
<th>At home</th>
<th>Centre</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prevention</strong></td>
<td>19,269 establishments</td>
<td>18,055 establishments</td>
</tr>
<tr>
<td><strong>Care</strong></td>
<td>20,948 establishments ( + 59 per cent)</td>
<td>19,409 establishments ( + 54 per cent)</td>
</tr>
<tr>
<td><strong>Source</strong></td>
<td>Ministry of Health, Labour and Welfare (Health care insurance).</td>
<td></td>
</tr>
</tbody>
</table>
increasing home care and preventive care services, and to eventually replace medical care centres with a different type of establishment in 2012.\(^6\)

In 2006, there was also a corresponding change in the number of residents in these three types of establishments: 392,547 residents in the welfare care centres (a 20 per cent increase on 2002), 280,589 residents in the health care insurance centres (an increase of more than 20 per cent on 2002), and 111,099 residents in the medical care centres (a 12 per cent decrease since 2002).

### Direct and indirect problems associated with health care insurance

This section considers some of the problems experienced since the introduction of the health insurance system. In particular, it addresses problems specific to the 2005 reform and employment in the health care sector.

In order to present a global overview of these problems, it is necessary to differentiate between those associated with the system itself (the direct problems) and those arising out of the system’s failure to address the current socio-demographic context (the indirect problems).

**Age limit.** The first problem to evoke is that of the age limit of 65 years, which potentially discriminates against citizens younger than age 65 who require care. Japan is the only country to impose an age limit on long-term health care insurance, when compared to countries such as Germany, the Netherlands, Flanders (Belgium),\(^7\) Luxembourg and the Republic of Korea who have also introduced a system of long-term care insurance.

**Combining social and profit-making objectives.** The presence of private firms in the health care insurance system was an express political desire, the objective of which was to guarantee the provision of services and improve their quality by opening up care services to competition. However, the effect of this action merits some reflection. The primary objective of private firms is undoubtedly to make profits; consequently, it is, at times, difficult to reconcile a social objective (the welfare of the elderly) with an economic objective.

---

6. The objective of these new centres will be similar to those of the medical centres but with reduced management costs resulting, mainly, from fewer doctors on duty.

7. In Belgium, mandatory long-term care insurance does not exist in the regions of Wallonia or Brussels (voluntary coverage is possible for persons residing in the Brussels region).
Inappropriate activities such as the recruitment of non-qualified staff (synonymous with reducing employer overheads) and the false declaration of hours worked to the authorities (in order to take advantage of public funds) are increasingly reported. Between 2000 and 2006, 478 organizations had their operating licence revoked, 68 per cent of which were private firms.

Has the creation of a market for care services encouraged a dynamic of competition and creativity that is to the benefit of the service user? It is possible that the total commercialization of care services, just like State monopolization, could result in a failure to prioritize the needs — which are evolving on a social and an individual level — of those who require care. In order to guarantee a service that is both diversified and affordable for people on low incomes, there should be more stringent, frequent, and effective monitoring of not only private enterprises but also other types of organizations (public and not-for-profit).

Waiting lists for specialised institutions. It is also important to mention the latest phenomena which is undermining public policies: the growing number of persons registered on waiting lists for specialized institutions (welfare care centres).

These estimates (see Figure 5) demonstrate that the number of persons on waiting lists has increased both in absolute terms and in relation to the number of persons who are considered eligible and assessed as dependent: the number of persons on waiting lists is equivalent to the number of persons who are resident in specialized institutions. Persons on waiting lists are often transferred to other centres that are not necessarily intended for persons requiring regular long-term care. Health care insurance centres for the elderly and medical care centres frequently “come to the aid” of specialised institutions, even if the initial objective was to distinguish between the function of these different types of establishments.

The priority given to prevention and home care services cannot obscure this increase in the number of persons who do not wish, or are unable, to stay in their own homes. In this regard, the current Japanese public policy guidelines — to encourage prevention and home care — are proving inadequate, since the living conditions of the elderly and the socio-demographic conditions of those involved with the elderly (families, carers, neighbours, etc.) are become increasingly diverse with the passage of time.

8. The closure of an enterprise does not necessarily result in the closure of a service centre. In the summer of 2007, a national enterprise (with more than 1,000 establishments providing home care services and approximately 200 private homes) was ordered to close (the so-called “Comsun” affair). The assets and activities of this enterprise were taken over by 16 enterprises.

9. The law on health care insurance was amended in May 2008 to improve the monitoring of private enterprises by allowing, for example, prefectures to monitor the activities of private enterprises in other prefectures.
Problems directly associated with the 2005 reform

Uniform regionalization. The government appears cognisant of the fact that the diversification and role of intermediary bodies is important. It is therefore calling for the “regionalization” of care. And yet, paradoxically, the measures and legal frameworks on care are identical in all regions, and the care measures adopted do not necessarily reflect the specific (socio-demographic and financial) nature of individual regions or municipalities.

Is prevention better than cure? The policy objective to encourage the elderly to be more independent, which has led to the introduction of preventive services, is also intrinsically linked to the way in which the health care insurance system is financed. The recent importance given to prevention highlights the difficulty in finding a balance between the welfare of the elderly and the financial viability of the system. Niki, a doctor and specialist in health care policies in Japan, has expressed concerns that if the preventive services do not produce the desired results, namely a reduction in budgets, the government will have to re-orient the system’s objectives. In a
context of rising costs, concerns focus on the direction such a re-orientation will take (Niki, 2007).

Questions relating to labour

A comparison with other sectors: Staff shortages and low wages. The shortfall in professional carers has increased in recent years despite a rise in the number of elderly dependent persons. Although the total number of carers has increased — from approximately 555,000 in 2000 to 1,120,000 in 2005 — the change in the ratio of employment (offers of employment compared to applications) demonstrates that the sector has been affected more than most by inadequate staffing numbers (based on the employment ratio for all sectors).

Moreover, the health care sector also suffers from below average levels of remuneration — approximately 37 per cent in 2006 — compared to average monthly salary levels. Increasing salary levels in order to make the health care sector more financially attractive would first require a social consensus, since this would result in higher insurance contributions for affiliates and increased taxes.10

Within the sector: An over-representation of women, an increase in short-term contracts and a debate regarding foreign employees. Increasingly, the care of elderly dependent persons in Japan has become a family and female concern as economic and domestic activities have become increasingly spatially differentiated, with the former being viewed as increasingly attributed to men and the latter to women. Consequently, and despite care becoming less “informal” and more “formal” as a result of the introduction of the health care insurance system, societal inertia has developed within this sphere of care.

In 2004, female employees represented approximately 78 per cent of care workers in Japan and 92 per cent of all employees in the home care sector. Moreover, even if historical data demonstrates that this female distribution of care tasks has not always been the case (see Appendices, Box 1), it would be difficult to reverse this trend, since the level of remuneration for female carers is lower than for male staff. This wage discrimination could, therefore, be “advantageous” in maintaining high levels of female employees in a sector where the Ministry of Health is attempting to control global budgets.

10. Discussions are currently underway to increase the rate of consumption tax (equivalent to value added tax — VAT). Consumption tax is, in fact, relatively small (5 per cent) compared to VAT rates in other industrial nations, where VAT can be in excess of 20 per cent. This debate has largely overtaken the political and administrative context in Japan. The daily newspaper Yomiuri Shimbun (2008), for example, published an in-depth study on social security reforms that included a proposal to increase consumption tax by 10 per cent and to increase taxation to finance pensions, health care and medical care.
In order to reduce the significant shortfalls in personnel, in 2006 and 2007 the government signed agreements with the Philippine and Indonesian governments, respectively, for the provision of 1,200 carers (600 from each country) over a 2-year period. Over and above the ethical questions that this instrumental vision of importing foreign labour raises, ensuring decent working conditions for these workers and their ability to communicate with the persons they care for are two immediate challenges which the government must resolve. Furthermore, these workers will be required to pass in a 2-year period a national care worker’s examination (which would normally be taken after 4 years) if they are to remain in Japan.

Indirect problems associated with health care insurance: Overlooking regional diversity

Each of the last previous points represents a significant challenge to be overcome. Whilst bearing in mind the extent of the challenges directly associated with the system (prior to and following the 2005 reform), the following section will consider the fragility of the system (and how it leaves some elderly citizens in a position of vulnerability) from an entirely different angle. A global and systemic vision vis-à-vis health care insurance will show that problems not directly associated with the system also merit examination and reflection.11

Consideration of socio-demographic diversity12 leads to the calling into questioning of the Japanese “ideal”13 in matters of care and, in particular, to question the need to treat in a uniform manner the socio-demographic situations of the elderly in Japan.14 The services (in terms of content and infrastructure) should not, in the opinion of the author, be based on a relationship of communicating vessels but one of complementarity.

Map 1 shows that the northern15 prefectures are characterised by high levels of intergenerational cohabitation, compared to the south-western prefectures.

11. Although this section focuses on the indirect problems at a regional level (the prefecture), its objective is to show the need to take account of diversity (which is also changing with time). Diversity is, of course, global in the sense that to take account of diversity requires an analysis at a national, regional, local (community and/or neighbourhood) and individual level.

12. See, for example, the work of Hayami and Kurosu (2001) or Kumagai (1997).

13. The moral obligation towards elderly parents is laudable in itself (but which would become questionable if respected only by spouses and daughters-in-law); the issue, however, is to know whether this ideal can infer that other types of assistance are unnecessary and whether it can be encouraged in any socio-demographic context.

14. Concern should also be expressed at the way in which this discussion swings from one extreme to the other, principally through an ill-considered regionalization that would give more consideration to regional differences whilst negating national similarities.

15. The island of Hokkaido, the northern region of Japan, is somewhat atypical compared to other regions, as it only became “Japanese” in the eighteenth and nineteenth centuries (prior to which it was exclusively inhabited by the Ainous, an indigenous people). This late incorporation of the island would
Moreover, the number of intergenerational households increases in all prefectures as residents age. The societal logic of cohabitation is, therefore, partially justified; however, as intergenerational cohabitation varies from one region to the next, explain the considerable difference in household behavioural trends to those of neighbouring prefectures. Moreover, the relatively low numbers of elderly persons in three-generational households in Tokyo and Osaka is largely due to the migratory trends of young people.

16. The national average for persons aged between 65 and 74 living in inter-generational households in 2005 was 19 per cent; and 29 per cent for persons aged between 74 and 84.
so also does the number of one or two-person (couple) households who move to inter-generational households.

Nevertheless, if the projections for the composition of households prove correct, cohabitation and family ties are in danger of becoming weaker, particularly in prefectures where there are still high levels of intergenerational cohabitation, whereas the number of one-person households is projected to rise (the percentage of such households in “traditional” prefectures is expected to rise by more than 10 points between 2005 and 2025).

Relationship between health care insurance and regional diversity

As regards the relationship between care insurance and regional diversity, which is still widespread in twenty-first century Japan, it should be noted that the cost of insurance — the per capita allocation (for those aged 65 or older and who are assessed as dependent) — tends to be higher, as Map 2 shows, in prefectures considered “non-traditional” in terms of household structure.

This situation of providing cover for “traditional” versus “non-traditional” households, which the insurance system is confronted with, can be explained by the social ambivalence theory developed by Merton (1949). In fact, this highlights a potential conflict in the behaviour or attitudes of individuals when faced with a given social phenomena, which is linked to the different socio-economic conditions experienced by individuals.

This theory still holds true and seems relevant to the problems discussed in this article, since it is considered that households where the socio-demographic structure corresponds best to the system of health care insurance introduced would experience fewer financial difficulties than “non-traditional” households.

The uniform egalitarianism of the system can endanger — and erroneously render responsible — persons who, unwittingly, fall “outside the norm”. This situation, therefore, gives rise to the questions addressed in the following section.

Guarding against collective oversight

The weakness of the system’s design is also a consequence of an under-estimation of socio-demographic diversity in Japan (on a household and a regional level). To improve the health care insurance system would, in all probability, require giving consideration to this diversity, which, moreover, is also in a perpetual and considerable state of evolution.

The endogenous challenges are, in fact, numerous — inadequate staffing levels, rising costs, presence of private services, etc., — however, other, exogenous,
challenges also exist. Health care insurance should seek a balance between national and regional diversity with regard to socio-demographic structure.

To improve the structural and functional effectiveness of the system requires developing a better understanding, and then taking into account, the social characteristics of the elderly. This would enable a balance to be reached between the welfare of those requiring health care insurance and the financial sustainability of the system.

Moreover, the under-estimation, both political and social, of other forms of intergenerational solidarity, both within and outside of the family, has reinforced a binary logic in health care management. These alternative forms of solidarity are also influenced by socio-demographic change, which may make the
continuing expression of such solidarity difficult to sustain. These different aspects have, undoubtedly, not been sufficiently considered by Japanese public policies. 

Socio-cultural legacies should also be considered. While recognizing the importance of a collective heritage, care should be taken to avoid falling into an anachronistic idealism or to totally negate historical progress. Ultimately, there is an inevitable gap between this universal policy measure (i.e. health care insurance) and the complexity of social reality in which both continuity and social change are intertwined.

**Conclusion: Diverse measures for diverse situations**

In order to clarify the characteristics of, and the challenges facing, the public health insurance system in Japan, as well as the context in which they are found, this article has addressed the following points: i) a presentation of the context (socio-demographic and political) before the introduction of the system, ii) the primary role of health care insurance, iii) the 2005 reforms, iv) the problems observed before and after the reform (direct problems) and v) the under-estimation of regional diversity as an indirect problem.

Regional diversity has been included in this article as an example of an indirect problem, but the level of diversity does not stop there. Diversity can also be found on individual, regional, community, neighbourhood and household levels. Were this diversity to be more readily acknowledged as an immutable spatio-temporal element, it would be easier to guard against collective oversight as regards health care provision; namely, the risk of undervaluing the many diverse forms of solidarity geared to supporting elderly dependent persons in Japan that have developed in response to the socio-demographic changes linked to an ageing population.

This combination of historic, geographic and demographic factors cannot be underestimated in the functioning of health care insurance. Consequently, collaboration is essential at all levels: national, regional, municipal and intra-municipal.

The regional services that the government introduced in 2005 seem to be an interesting option in acknowledging diversity, since these measures require consideration of local characteristics. A study by Yamanashi (2008) has shown that activities undertaken by school pupils and local residents can create new spaces for community living, and not only health care institutions, for the elderly. Ongoing discussions, the sharing of experiences and the possible assistance of central government to improve the feasibility of the system are crucial if these services are to become truly operational as an option for daily care provision. In this regard, the following points merit further reflection:

- Local regional services are in danger of becoming monopolized. Quality control should be regularly undertaken.
• Close collaboration between regional services and centres for dementia sufferers is also essential if the most appropriate services for the service users’ state of health are to be guaranteed.
• Dialogue at the regional level between providers of local services, home care services and institutions (private and public) should be encouraged. Providing real choice with regard to possible daily living arrangements must be constantly sought.
• An effort should be made to improve communications with, and integrate elderly persons in, their local environment. Consequently, activities which encourage residents to become involved with their neighbourhood (including schools) should be envisaged.

The quest for structural and financial homogeneity of the care system on a national level is not only unachievable, it also ill-advised, since neither care methods nor expenditures for the provision of care are comparable between regions (or municipalities). The “forcing” of socio-demographic contexts into a policy measure with its precepts — three-generational households, for example — would create, indeed reinforce, a number of inequalities. The neutrality of the system with regard to the choice of services within social security and, in particular, long-term health care for the elderly should be a continuous pursuit. The regulatory role of the State — whose responsibility it is to monitor quality levels between regions — should be further reinforced.

Japanese society is now confronted with a significant challenge: health care policies directly affect the way in which society perceives old age. It is important, therefore, to create or re-create a link between socio-historical contexts and to envisage and make adjustments for evolving patterns of living. To improve the quality of life of elderly persons and their carers, the objective must be one of moving beyond the dichotomous responsibility of State and family.

Bibliography


Kurushima, N. 2004. “Nihon chuse no mura to fuyou, souzoku” [Care and Culture in Japan in the Middle Ages], in K. Okuyama K., M. Tanaka and A. Yoshie (eds.), *Fuyo to souzoku* [Care and culture]. Tokyo, Waseda University Press.


---

Flow chart. The process to determine the level of care

1. Request made (either by the person requiring care or the person’s representative) to the municipality in which the applicant resides.
2. Medical examination (followed by a computerised assessment).
3. The application is assessed (including the applicant’s medical file and results of the medical examination).
4. Result of the Committee’s assessment.
5. Determination of the level of dependence (or the lack of dependence).

The Committee comprises a group of public health experts (from three to five members) whose mandate is, generally, a period of 2 years.

Box 1. Decline of neighbourhood solidarity: Radicalization of family responsibility in providing care for older dependent persons

Neighbourhood solidarity, particularity within local communities, was widespread and closely linked to family life in Japan. In fact, in the latter half of the twentieth century, as a consequence of ageing, urbanization and an increase in the number of salaried workers in the economy (to the detriment of local rural activities), the change in neighbourhood solidarity is as important as the change in household structure. The weakening of neighbourhood solidarity and of social monitoring between and by neighbours appears to have encouraged the bi-polarization of State and family as institutions “responsible” for the provision of care for the elderly.

Papers on local regulations, district registers and compendia of “good practices” on caring for the elderly (Yanagitani, 2003; Kurushima, 2004) show that the care of the elderly during feudal times was entrusted mainly to families and, in particular, to the heads of households; however, assistance (either in cash, via a common fund, or in kind) was also provided in times of hardship by either neighbours, communities or feudal lords, particularly to isolated elderly persons and the sick.

This type of solidarity has not completely disappeared from twenty-first century Japan; however, it is indisputable that inter- and intra-generational acts of solidarity are increasingly rare for the reasons stated above. A major challenge for Japanese society, today and in the future, is to learn how to maintain or recreate neighbourhood solidarity to complement the forms of solidarity offered by the State and families (inter- and intra-generational).
Risk management in a globalizing world: An empirical analysis of individual preferences in 26 European countries

Ferry Koster

Faculty of Law, Department of Economics, Leiden University, The Netherlands

Abstract The risks that individuals face in everyday life, such as illness and unemployment, can be covered using market, government, or community mechanisms. The market can function with a lower level of solidarity compared to the other two mechanisms; the government mechanism requires the highest level of compulsory solidarity and communities are associated with voluntary solidarity. Social context affects individual preferences with regard to any one of these mechanisms. This article investigates to what extent these preferences are influenced by globalization: the economic, social and political openness of countries. The dataset used in this study combines data from the European Values Study 1999-2000 (EVS), the International Monetary Fund (IMF), and the KOF Index of Globalization, and contains information about 31,554 people living in 26 European countries. The results derived from logistic multilevel analysis show that preferences towards the organization of solidarity are related to the different dimensions of globalization.

Keywords social policy, social solidarity, welfare state, attitude, public opinion, Europe

The author thanks Paul de Beer and two anonymous reviewers for valuable comments on earlier versions of this paper. Part of this research was conducted at the Amsterdam Institute for Advanced Labour Studies (AIAS). Financial support from Stichting Instituut GAK is gratefully acknowledged.

Address for correspondence: Ferry Koster, Faculty of Law, Department of Economics, Leiden University, Steenschuur 25, 2300 RA Leiden, Netherlands. E-mail: f.koster@law.leidenuniv.nl

© 2009 The author(s) Journal compilation © 2009 International Social Security Association International Social Security Review, Vol. 62, 3/2009 Published by Blackwell Publishing Ltd, 9600 Garsington Road, Oxford OX4 2DQ, UK and 350 Main Street, Malden, MA 02148, USA
Introduction

Most studies that aim at explaining attitudes towards the welfare state investigate welfare state support and thus focus on the extent to which individuals are in favour of certain policies and arrangements. These studies provide valuable information about public opinion towards the welfare state, and the individual and national-level factors influencing it (Blomberg and Kroll, 1999; Gevers, Gelissen, Arts and Muffels, 2000; Hasenfeld and Rafferty, 1989; Svalfors, 1997). As this field of research shows, welfare state support can decline or rise for several reasons. If individuals are less in favour of certain welfare state policies in their country, it is usually interpreted as evidence of declining solidarity within society. Although this may be the case, it is also possible that only a particular kind of solidarity declines; namely, compulsory solidarity organized through the state. In contrast, individuals may continue to be willing to assist others on a voluntary basis. However, it is also possible that decreasing support for formal solidarity results in decreasing levels of informal solidarity, as is argued in the literature on the crowding-out effects of welfare states (Van Oorschot and Arts, 2005).

The present article develops a theoretical model for understanding the preferences that individuals have towards three distinct approaches to the management of risk: namely, 1) the market, which is the mechanism requiring the lowest level of solidarity; 2) formal and compulsory solidarity, i.e. the arrangements of the welfare state; and 3) informal and voluntary solidarity associated with social support accessed through social networks, for instance among relatives and friends. In the theoretical model, an individual’s social context is particularly relevant for his or her preferences towards these mechanisms for risk management. When it comes to welfare state provision and public support, globalization is widely regarded as one of the most relevant developments that societies are currently experiencing, affecting the decisions taken by and the behaviour of governments and individuals (De Beer and Koster, 2007; Guillén, 2001). Yet still, and despite the research interest, there is ongoing debate about the exact impact of the openness of countries and the literature offers contrasting opinions concerning the impact of globalization on the social structure of countries. Whereas it may be expected that globalization decreases the stability of societies and hence decreases public support for welfare arrangements and solidarity, it can also be argued that the weakening of national borders leads to an increased demand for mutual help and the provision of assistance (Jones and Smith, 2001; Kellner, 2002; Koster, 2007). So far, this question has not been fully answered and this article aims at contributing to the literature by formulating and testing hypotheses about the influence of social context in relation to globalization and individual preferences for risk management across 26 European countries.
Section 2 discusses the three main mechanisms through which risks can be managed and theorizes how the preference that individuals have for organizing the help provided to others depends on the social structure in which they are situated. Section 3 deals with the question of how the economic, social and political openness of countries may affect these preferences. This leads to the presentation of three hypotheses that are empirically investigated in Section 4 using data from the European Values Study (EVS) (Halman, 2001), the International Monetary Fund (IMF, 2001) and the KOF Index of Globalization (ETH Zurich, 2007). The article closes with a discussion of these results and their consequences for theoretical and practical debates.

Three mechanisms for security

 Individuals face social risks in everyday life, such as illness and unemployment, which may be dealt with in several ways. Usually, effective coverage of risks implies that individual contributions are pooled and arrangements are created providing rules that regulate who can make use of these collective mechanisms. This leads to a system for the collection and distribution of resources. The three fundamental mechanisms for allocating resources that are distinguished in the literature are termed markets, governments (or bureaucracies) and communities (Bowles and Gintis, 1996).

These allocation mechanisms offer different solutions for dealing with risks, as can be illustrated with the following simplified example. When an individual falls ill and requires help from others, it is possible that support can be provided through: the market, if there is private insurance covering the costs of medical care; through the government, if there are collective arrangements like social insurance or if the care is provided directly by the government; or through informal help offered by relatives and friends. The result is the same in all three cases: the sick person gets help, at least in theory; whether he or she is actually able to receive help through either one of the mechanisms depends on a multitude of additional circumstances that may vary empirically.

For the purpose of the model it suffices that the example shows that there are different mechanisms through which the same goal can be reached. Nevertheless, above and beyond their similarity, the three mechanisms work in different ways. The market functions through the price mechanism, bringing together demand and supply; the government uses formal rules and control mechanisms; and the community is characterized by informal relations and mutual trust (Bowles and Gintis, 2002). These three mechanisms for allocating resources can be distinguished based on the level and kind of solidarity they require. Market relations are characterized by the lowest level of solidarity compared to the other two mechanisms. Both the provision of help through the government and the community require solidarity,
but they differ with respect to the kind of solidarity on which they are based: in the former, a system of formal and compulsory solidarity is at work; in the latter, it is based on informal and voluntary solidarity.

In the literature, especially in the area of economic theories of organization such as the transaction cost approach (Williamson, 1981), the focus is on a dichotomy between the market and bureaucratic arrangements; in the case of risk coverage there is a choice between the price mechanism and formal regulation by the government. In analysing such choices, it is argued that as long as the price mechanism functions well, this will be the most efficient solution. If the market fails, however, it is more efficient to use bureaucratic arrangements. As such, the notion of market failure lies at the heart of economic theories of organization (Simon, 1991). In principle, everything can be taken care of through the market and there is reason for government intervention only in the case of market failure. As a result, this approach aims at identifying the causes of such failure, including the influence of human behaviour and cognition in market relationships. It is assumed that individuals are not perfect rational actors; rather, they are bounded rational actors who may act opportunistically. It follows therefore that individuals are not able to take all possible actions and their consequences into consideration, and they may take advantage of the situation if the market relationship gives them the possibility to do so. Bounded rationality and opportunism do not create market failures as such, but may do so if certain conditions are present. Market relationships can differ with respect to their complexity, uncertainty and the number of actors involved. Assuming bounded rationality and opportunism, markets are more likely to fail if the market relationship is more complex, more insecure and fewer actors participate (Williamson, 1975).

Applied to the example of medical care, wherein it is difficult to get information about other actors, two problems can occur. The first potential problem is that it leads to adverse selection (Akerlof, 1970). Those individuals who have a lower risk of getting ill are likely to be less willing to pay for insurance (if they are less likely to benefit from it). If they choose not to participate, the costs of insurance for the remaining participants will increase because the risk pool will be smaller while the average risk of those requiring support will be higher. In turn, as the cost of insurance increases, it drives out individuals with an average chance of falling ill. Even though they may need the insurance, the cost becomes too high for them to pay. In the end, the cost of insurance is too high for everyone, leading to a situation where no one is willing to purchase insurance while, at the same time, everyone would benefit from it if it were more affordable.

In cases where there is insurance to cover risk, the second problem that may occur is moral hazard (Arrow, 1963). If individuals know that risks are covered, they may exhibit different patterns of behaviour or take riskier actions or even deceive an insurance company in order to obtain money (Dornstein, 1996). As a consequence,
the cost of insurance rises and individuals must pay more, including those who are no more risk-seeking than they were before becoming insured. For this latter group, it becomes less attractive to pay for insurance. Again, this starts a process through which individuals withdraw and the cost of insurance increases. In recognizing that markets for insurance can fail as the result of problems of adverse selection and moral hazard, an argument arises in favour of government intervention to regulate these markets. The most common solution proposed for these problems is that governments choose to prevent them by implementing compulsory insurance. When combined with extensive monitoring and formal sanctions, this limits individual choices to ensure that both “good” and “bad” risks are represented. In this way, and although everyone pays contributions, only those who really need support receive it.

The argument outlined above illustrates the dichotomy between market and government solutions that is central to the literature on economic organization. Markets can be used to cover risks, but government intervention may be more efficient if markets fail. In these approaches, two solutions represent the extremes of a continuum for the allocation of resources. Nevertheless, it is also possible that markets and governments both fail. This is particularly the case if there is greater uncertainty about the behaviour of individual actors — for instance, due to information asymmetries — and if actors have conflicting interests (Ouchi, 1980). Were markets and bureaucracies the only possible mechanisms, then this would imply that no solution could be reached. However, a further mechanism that can be added to the dichotomy is termed community, and this may offer a means to overcome problems of the failure of markets and governments. Community relationships are typified by a high level of interdependence among members of a community and by the longevity of these relationships. The advantage of communities over market and government solutions is that they contain more accurate information about the behaviour, abilities and needs of their members. This information increases the possibilities for sustaining norms and the pursuit of efficient solutions that are not undermined by adverse selection and risk-seeking behaviour (Bowles and Gintis, 2002). Although community and government solutions both require that individuals are willing to share resources with others, they differ with respect to the kind of solidarity associated with them. In contrast to the compulsory solidarity organized through the government, community relationships are characterized by voluntary solidarity among members and usually operate without a formal body collecting taxes and redistributing the revenues.

Which of the three mechanisms (market, government, or community) is likely to be the most efficient depends on the characteristics of the transaction. In the theoretical literature as well as in policy discussions, considerations about the most efficient solution are made top-down. In these instances, it is estimated which of the mechanisms will function best given the complexity, uncertainty and number of
actors involved in the transaction. The present article uses a bottom-up approach to this problem by investigating individual preferences for one of the three mechanisms with regard to their willingness to help others. If individuals are not willing to help others, it is assumed they prefer the market mechanism; if they do want to help others this may be organized through the government, based on compulsory solidarity, or the community, based on voluntary solidarity. An individual’s preference with regard to the organization of solidarity depends on the extent to which he or she believes that one of the mechanisms is a good solution. Furthermore, beliefs concerning the mechanisms are assumed to be influenced by the social structure in which they should cover a certain risk.

The preferred choice of mechanism is related to the level of uncertainty, complexity and number of individuals requiring cover. The market mechanism will be the most efficient solution if the level of uncertainty and complexity is low and many individuals are involved, which is necessary to let the price mechanism bring supply and demand together. The chance of market failure increases as the uncertainty and complexity within society increases, and individuals will be more willing to let the government take over and provide solutions that cannot be left to the market. If the level of uncertainty and complexity moves beyond a certain critical point, individuals will start to doubt that the government is able to develop efficient solutions. At this point, they will be more in favour of creating their own solutions within their community. Community relationship mechanisms involve far fewer individuals than in the case of the market or the government mechanism and leads to additional coordination costs. But since communities are relatively small and the members that comprise them are able to monitor each other’s behaviour and intentions, norms and sanctions can be developed to sustain solidarity within them to handle these additional costs. Put differently, if one of the modes of risk management fails, it may be compensated by one of the other two mechanisms and the chances of success and failure of either of the mechanisms depends on the social context in which they operate. Furthermore, it should be noted that, in practice, a combination of the three mechanisms is found, but that one of them receives the most emphasis and is viewed as the most legitimate solution by the general public. Table 1 summarizes these theoretical notions about the three mechanisms for managing risk and the social context and kind of solidarity associated with each of them.

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Market</th>
<th>Government</th>
<th>Community</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solidarity</td>
<td>No solidarity</td>
<td>Compulsory solidarity</td>
<td>Voluntary solidarity</td>
</tr>
<tr>
<td>Social context</td>
<td>Low level of complexity and uncertainty</td>
<td>Moderate level of complexity and uncertainty</td>
<td>High level of complexity and uncertainty</td>
</tr>
</tbody>
</table>

Table 1. Mechanism, solidarity, and social context
The effects of openness

Globalization refers to increasing economic, social and political “cross-bordering”, and the extent to which a country takes part in all of this is indicative of its openness (Castells, 1996; Guillén, 2001; De Beer and Koster, 2007; Held, McGrew, Goldblatt and Perraton, 1999; Waters, 1995). The three different kinds of openness at the national level can influence individual preferences for the organization of solidarity through the effects that each has on the social context of societies.

Economic openness

Economic openness can influence individual preferences as follows. Countries with multiple international economic relations are more affected by fluctuations on the world market than are countries that are economically less open. As a consequence, individuals in the economically-open countries will suffer more the consequences of a crisis on the world market, for instance if such a crisis leads to unemployment. Moreover, economically-open countries face the problem of tax evasion, which means that companies and individuals may move to countries where tax levels are lower (Bowles and Wagman, 1997). Therefore, it is argued that economic openness leads to more insecurity and the social norms and social structure necessary to sustain solidarity may be undermined (Blossfeld, Buchholz and Hofäcker, 2006; Rodrik, 1998). A higher level of insecurity either implies that the risks faced by an individual increase or that the number of individuals facing a certain risk increases. In both cases the uncertainty and complexity within countries increases and it becomes more difficult to cover these risks through the market. As a result, it may raise questions as to whether insurance products are able to cover these risks efficiently. Therefore, economic openness increases the preference for compulsory solidarity provided through the government. This preference is conditional on a certain level of solidarity among a country’s citizens, since they have to be willing to spend financial resources for these collective arrangements from which they themselves may not benefit. As is shown by research concerning welfare state support, individuals will be in favour of collectively-organized solidarity if they have the impression that others do not take advantage of their contributions (Bowles and Gintis, 2000). If the level of insecurity, as a result of greater economic openness, increases further, it is possible that individuals will not put their trust in government to manage these risks; individuals will be more inclined to develop solutions within their own community and thus have a stronger preference for voluntary solidarity. It is hypothesized that: The preference for voluntary solidarity is stronger in economically-open countries because of increased insecurity (Hypothesis 1).
Social openness

The effect that social openness has on the preference for solidarity is based on the assumption that the socially-open countries have a more heterogeneous social structure because of the international flows of information, culture and people. The level of social cohesion may decrease within these countries because of this increased heterogeneity (McPherson, Smith-Lovin and Cook, 2001). Within heterogeneous countries, there is more uncertainty about the behaviour and intentions of fellow citizens and, as risks may also be distributed less homogenously among citizens, societal complexity is higher. This increases the likelihood of market failure. As risks are distributed less equally, a problem with private insurance can occur: the chances are higher that individuals with the lowest risks will be less willing to pay for insurance, leaving those who have a high risk with an insurance product that they may not be able to afford. At the same time, the preference for compulsory forms of solidarity can increase because of lower levels of actual and perceived interdependence among individuals. Nevertheless, the expectation is that individuals are less willing to contribute to collective arrangements such as the welfare state. Increased heterogeneity can thus lead to a higher preference for voluntary solidarity organized through the community. Whereas the heterogeneity of the whole social structure increases, this does not have to be the case for local structures in which people know each other well enough to deal with problems of opportunism. Therefore, the second hypothesis is: The preference for voluntary solidarity is stronger in socially-open countries because of increased heterogeneity (Hypothesis 2).

Political openness

Political openness is a consequence of international political relations among countries and is expected to have less-direct effects on the social structure of countries than do economic or social openness. All the same, there may be an indirect effect since political openness can have a stabilizing effect through international relations, which can prevent the negative effects of insecurity caused by economic openness (Dreher, 2006). Economic openness is especially assumed to negatively affect the welfare state through increased tax competition among countries. Economically-open countries face a dilemma in this respect. A country that wants to sustain its welfare state needs to keep tax levels high, but also runs the risk of individuals and companies moving to other countries with lower tax levels. To remain attractive, countries may reduce tax levels, leading to a “race to the bottom”. International political relations may be a means for countries with extensive welfare states to reach agreement with regard to sustaining their welfare states. The establishment of these mutual agreements can put a stop to the race to bottom. If political openness does indeed have such a stabilizing effect, there will be no threat to the level of compul-
sory solidarity. Accordingly, if countries counter the negative effects of economic openness successfully, it may increase the preference for compulsory solidarity among their citizens. The third hypothesis therefore is: The preference for compulsory solidarity is stronger in politically-open countries because of the stabilizing effect of international relations (Hypothesis 3).

Data and method

Data

Data from different sources are used to test the three hypotheses. The willingness to help others and the preference for compulsory and voluntary solidarity are taken from the European Values Study (EVS), a large-scale survey involving participants from 32 European countries held in 1999 and 2000 (Halman, 2001). This dataset is gathered at the individual level. These data are combined with national level data about openness and the welfare state. The KOF Index of Globalization (ETH Zurich, 2007) provides information about the economic, social and political openness of countries. Data about welfare states are taken from the International Monetary Fund (IMF, 2001). Merging these datasets implies that it was not possible to include all EVS countries. The final dataset includes information on 31,554 individuals in 26 European countries.

Dependent variable

- Organization of solidarity: The dataset does not include a variable measuring the preferences that individuals have towards the organization of solidarity. The variable “organization of solidarity” is constructed using two variables from the EVS that represent the distinction between no solidarity, compulsory solidarity and voluntary solidarity made earlier in this article. The first variable measures whether individuals are willing to help the elderly, the sick and disabled, and immigrants. In the EVS, this variable is measured on a five-point scale (1 = absolutely not; 5 = absolutely yes). The individuals scoring 1 or 2 indicate that they are not willing to help, whereas those who scored 4 or 5 are prepared to assist others. The value of 3 indicates that individuals are undecided as to whether they may or may not help others. Since the interest is in those respondents who are certain that they are willing to provide help, those who filled in the neutral option are regarded as not prepared to help. Therefore, this variable has been recoded to the two categories “not prepared to help” for those scoring between 1 and 3 and “prepared to help” for those scoring 4 and 5. The second variable measures whether respondents think individuals or governments should take more responsibility, ranging from 1 to 10. This variable is also recoded into two categories: those scoring between 1 and 5 indicate that they prefer “individual responsibility” and those scoring between 6 and 10 prefer “government intervention”. The variable
organization of solidarity combines these two variables, measuring whether people are prepared to help others or not and whether they prefer individual or government responsibility. This variable is constructed for the three groups: the elderly, the sick and disabled, and immigrants.

**Independent variables**

- **Openness:** The KOF Index of Globalization includes information about the economic, social and political openness of countries for the period between 1970 and 2004. Economic openness is measured with (1) economic flows through international trade, foreign investments and portfolio investments (all three relative to gross domestic product (GDP)) and (2) constraints on trade through trade barriers, taxes on imports, taxes on trade and an index of capital control. Social openness consists of information about personal contact, information flows and cultural proximity. These sub-dimensions are measured in relation to the number of Internet hosts and Internet users, the number of individuals with cable television and the number of radios in a country (all per 1,000 persons), trade in books relative to GDP and the number of McDonalds restaurants and IKEA stores (both relative to the number of citizens in a country). Political openness is measured in relation to the number of embassies, the number of United Nations peace missions that a country takes part in, and membership in international relations. Scales for openness are created by transforming the measures to a scale with a minimum value of 1 and a maximum value of 100, which are based on the lowest and the highest scores of a variable between 1970 and 2004. Therefore, the value that a country has at a certain moment is relative to the values of other countries and for other years. The variables are weighted using factor analyses including information from all countries and for all years (Dreher, 2006).

- **Statistical control variables:** The analyses are controlled for a number of variables that may also affect individual preferences for the organization of solidarity. At the national level, the level of solidarity and the preferences towards organizing it can be influenced by the size of the welfare state, indicating the level of compulsory solidarity present in the society. Welfare spending is measured as social spending as a share of GDP based on the data from the IMF. Besides that, the analyses control for several individual characteristics. Religious denomination is measured with the item: “Do you belong to a religious denomination?” (0 = no; 1 = yes). Gender is coded 0 = male and 1 = female. The variable employed is measured with the item: “Are you yourself employed or not?” (0 = no; 1 = yes). Stable relationship is measured with the item: “Whether you are married or not, do you live in a stable relationship with a partner?” (0 = no; 1 = yes). The age of respondents is recoded into three groups: age-low (people younger than age 35); age-middle (people between ages 35 and 65); age-high (people older than age 65). Educational level is recoded into three groups: low educational level (inadequately completed elemen-
tary education, completed elementary education, and elementary education and basic vocational qualification); moderate educational level (secondary intermediate vocational qualification, secondary intermediate general qualification, and full secondary maturity-level certificate); and high educational level (higher education, lower-level tertiary certificate and higher education, and upper-level tertiary certificate). Town size is recoded into three groups: small town (population less than 5,000); medium town (population of between 5,000 and 100,000); and big town (population of 100,000 or more).

Method

Table 2 provides an overview of the variables used in this study, the level at which they are measured and the data sources from which they are taken. As a result of the nature of the data, standard regression analysis cannot be applied. First, the dataset includes information at two different levels. Individual preferences and characteristics are measured at the lowest level and information about the country’s openness and the welfare state are measured at the national level. Second, the variables used in this study to investigate individual preferences are categorical. People prefer one of the possibilities — no solidarity, compulsory solidarity, or voluntary solidarity — to the others, and therefore these variables either have the value 0 or 1. If individuals have a value of 1 on one of the variables it implies that they have a 0 on the other two variables. Logistic multilevel analysis is applied to deal with the

### Table 2. Overview of the data

<table>
<thead>
<tr>
<th>Variable</th>
<th>Level</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferences for the organization of solidarity</td>
<td>Individual</td>
<td>European Values Study*</td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Openness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic openness</td>
<td>Country</td>
<td>KOF Index of Globalization**</td>
</tr>
<tr>
<td>Social openness</td>
<td>Country</td>
<td>KOF Index of Globalization**</td>
</tr>
<tr>
<td>Political openness</td>
<td>Country</td>
<td>KOF Index of Globalization**</td>
</tr>
<tr>
<td>Statistical control variables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Welfare state effort</td>
<td>Country</td>
<td>KOF Index of Globalization**</td>
</tr>
<tr>
<td>Individual control variables</td>
<td>Individual</td>
<td>European Values Study*</td>
</tr>
</tbody>
</table>

* See Halmann (2001)
** See ETH Zurich (2007)
type and structure of the data in which each of the three possibilities are the dependent variable for the level and kind of solidarity individuals prefer towards the elderly, the sick and disabled, and immigrants. The analyses are performed in two steps. First, the effects of the statistical control variables are investigated. The second step examines the influence of economic, social and political openness in different models. The effects of the statistical control variables do not change a great deal after including these national-level variables and therefore they are reported separately.

Results

Descriptive results

Table 3 summarizes the distribution of individual preferences for solidarity towards the three groups of people. At the aggregate level including all 26 countries these preferences are almost the same for the elderly and the sick and disabled but are different for immigrants. About 37 per cent of individuals are not prepared to help the first two groups and around twice as many — 75 per cent — are not prepared to help immigrants. For all three groups, more people prefer voluntary solidarity compared to compulsory solidarity. Table 3 also shows that there are differences between the 26 countries with regard to the distribution of the preferences. The preparedness to help all three groups is particularly low in Estonia and Ukraine. Nevertheless, that levels of solidarity towards the three groups are not always low is illustrated by Hungary. In this country the willingness to help immigrants is high but the willingness to help the other two groups is close to the average. In Sweden and Italy solidarity with the three groups is the highest.

Results from the logistic multilevel analysis

The results of the models including the statistical control variables are reported in Table 4. These analyses show that welfare state effort does have some influence on individual preferences regarding the organization of solidarity. As the welfare state becomes more extensive, the preference for voluntary solidarity is higher compared to compulsory solidarity. Individual characteristics are also related to individual preferences. Individuals that belong to a religious denomination and those who are more highly educated prefer voluntary solidarity. Women are more in favour of compulsory solidarity than are men. Again, the results for the elderly and the sick and disabled are similar but differentiate from those for immigrants. With regard to the first two groups it is shown that individuals with a stable relationship and individuals who are employed prefer voluntary solidarity and that lower-educated individuals prefer compulsory solidarity. With respect to immigrants, older people prefer voluntary solidarity towards this group.
Table 3. Distribution of individual preferences for solidarity towards the three groups

<table>
<thead>
<tr>
<th>Country</th>
<th>Elderly</th>
<th>Sick and disabled</th>
<th>Immigrants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not prepared to help</td>
<td>Compulsory</td>
<td>Voluntary</td>
</tr>
<tr>
<td>France</td>
<td>41</td>
<td>15</td>
<td>44</td>
</tr>
<tr>
<td>Great Britain</td>
<td>45</td>
<td>17</td>
<td>38</td>
</tr>
<tr>
<td>Germany</td>
<td>46</td>
<td>22</td>
<td>32</td>
</tr>
<tr>
<td>Austria</td>
<td>40</td>
<td>14</td>
<td>46</td>
</tr>
<tr>
<td>Italy</td>
<td>19</td>
<td>39</td>
<td>41</td>
</tr>
<tr>
<td>Spain</td>
<td>43</td>
<td>28</td>
<td>29</td>
</tr>
<tr>
<td>Portugal</td>
<td>39</td>
<td>23</td>
<td>37</td>
</tr>
<tr>
<td>Netherlands</td>
<td>37</td>
<td>22</td>
<td>41</td>
</tr>
<tr>
<td>Belgium</td>
<td>35</td>
<td>26</td>
<td>39</td>
</tr>
<tr>
<td>Denmark</td>
<td>33</td>
<td>17</td>
<td>50</td>
</tr>
<tr>
<td>Sweden</td>
<td>15</td>
<td>22</td>
<td>63</td>
</tr>
<tr>
<td>Finland</td>
<td>29</td>
<td>26</td>
<td>45</td>
</tr>
<tr>
<td>Ireland</td>
<td>19</td>
<td>25</td>
<td>47</td>
</tr>
<tr>
<td>Estonia</td>
<td>67</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>Latvia</td>
<td>44</td>
<td>34</td>
<td>22</td>
</tr>
<tr>
<td>Lithuania</td>
<td>66</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>Poland</td>
<td>32</td>
<td>30</td>
<td>38</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>37</td>
<td>25</td>
<td>39</td>
</tr>
<tr>
<td>Slovakia</td>
<td>31</td>
<td>41</td>
<td>29</td>
</tr>
<tr>
<td>Hungary</td>
<td>39</td>
<td>35</td>
<td>26</td>
</tr>
<tr>
<td>Romania</td>
<td>33</td>
<td>27</td>
<td>40</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>40</td>
<td>27</td>
<td>33</td>
</tr>
<tr>
<td>Greece</td>
<td>34</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>Malta</td>
<td>23</td>
<td>32</td>
<td>45</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>43</td>
<td>15</td>
<td>42</td>
</tr>
<tr>
<td>Ukraine</td>
<td>60</td>
<td>21</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
<td>25</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>Not prepared to help</td>
<td>Compulsory</td>
<td>Voluntary</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------------------</td>
<td>-------------</td>
<td>------------</td>
</tr>
<tr>
<td></td>
<td>Elderly</td>
<td>Sick and disabled</td>
<td>Immigrants</td>
</tr>
<tr>
<td>Welfare state effort</td>
<td>−0.01</td>
<td>(0.02)</td>
<td>−0.01</td>
</tr>
<tr>
<td>Religious denomination</td>
<td>−0.21**</td>
<td>(0.03)</td>
<td>−0.23**</td>
</tr>
<tr>
<td>Gender (1 = female)</td>
<td>−0.20**</td>
<td>(0.03)</td>
<td>−0.17**</td>
</tr>
<tr>
<td>Stable relationship</td>
<td>−0.21**</td>
<td>(0.03)</td>
<td>−0.17**</td>
</tr>
<tr>
<td>Employed</td>
<td>0.03</td>
<td>(0.03)</td>
<td>0.04</td>
</tr>
<tr>
<td>Young</td>
<td>0.40**</td>
<td>(0.03)</td>
<td>0.24**</td>
</tr>
<tr>
<td>Old</td>
<td>−0.04</td>
<td>(0.04)</td>
<td>0.05</td>
</tr>
<tr>
<td>Low education</td>
<td>0.12**</td>
<td>(0.03)</td>
<td>0.14**</td>
</tr>
<tr>
<td>High education</td>
<td>−0.08*</td>
<td>(0.04)</td>
<td>−0.06*</td>
</tr>
<tr>
<td>Small town</td>
<td>0.09**</td>
<td>(0.03)</td>
<td>0.09**</td>
</tr>
<tr>
<td>Big town</td>
<td>0.09**</td>
<td>(0.03)</td>
<td>0.11**</td>
</tr>
<tr>
<td>Constant</td>
<td>−0.33**</td>
<td>(0.08)</td>
<td>−0.45**</td>
</tr>
<tr>
<td>Variance</td>
<td>0.10</td>
<td>(0.04)</td>
<td>0.13</td>
</tr>
</tbody>
</table>

31,554 respondents in 26 countries. Unstandardized regression coefficients are reported; standard errors are in parentheses. † p < 0.10; * p < 0.05; ** p < 0.01

Sources: Halman (2001); ETH Zürich (2007); IMF (2001).
Solidarity with the elderly

The results of the logistic multilevel analyses for the elderly including economic, social and political openness are reported in Table 5. Economic openness is related to a lower preference for compulsory solidarity. Social openness has three effects. Individuals in a socially more-open country are a little less willing to support the elderly. At the same time, the individuals who are willing to support this group are more in favour of voluntary solidarity and less of compulsory solidarity compared to those living in socially less-open countries. Political openness is related to a lower preference for compulsory solidarity.

Solidarity with the sick and disabled

The results of the logistic multilevel analyses for the sick and disabled including economic, social and political openness are summarized in Table 6. These results are roughly the same compared to those for solidarity towards the elderly, with the exception that social openness is related to a higher level of solidarity towards this group and that political openness does not have an effect.

Solidarity with immigrants

The results from the analyses regarding immigrants differ from the other groups, as can be seen in Table 7. Here it is found that the economic, social and political openness of countries is related to a stronger preference for voluntary solidarity. Moreover, whereas the openness of countries is related to a lower preference for

Table 5. Logistic multilevel analyses: Elderly people

<table>
<thead>
<tr>
<th></th>
<th>Not prepared to help</th>
<th>Compulsory</th>
<th>Voluntary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic openness</td>
<td>0.05</td>
<td>-0.15*</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td>(0.04)</td>
<td>(0.07)</td>
<td>(0.03)</td>
</tr>
<tr>
<td>Social openness</td>
<td>0.23*</td>
<td>-0.31**</td>
<td>0.17**</td>
</tr>
<tr>
<td></td>
<td>(0.11)</td>
<td>(0.12)</td>
<td>(0.06)</td>
</tr>
<tr>
<td>Political openness</td>
<td>-0.12†</td>
<td>-0.14*</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(0.09)</td>
<td>(0.09)</td>
<td>(0.04)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.36**</td>
<td>-0.31**</td>
<td>-0.43**</td>
</tr>
<tr>
<td></td>
<td>(0.09)</td>
<td>(0.09)</td>
<td>(0.09)</td>
</tr>
<tr>
<td></td>
<td>-1.12**</td>
<td>-1.07**</td>
<td>-1.08**</td>
</tr>
<tr>
<td></td>
<td>(0.09)</td>
<td>(0.07)</td>
<td>(0.07)</td>
</tr>
<tr>
<td></td>
<td>-0.77**</td>
<td>-0.75**</td>
<td>-0.76**</td>
</tr>
<tr>
<td></td>
<td>(0.07)</td>
<td>(0.07)</td>
<td>(0.08)</td>
</tr>
<tr>
<td>Variance</td>
<td>0.08</td>
<td>0.00</td>
<td>0.08</td>
</tr>
<tr>
<td></td>
<td>(0.03)</td>
<td>(0.00)</td>
<td>(0.04)</td>
</tr>
<tr>
<td></td>
<td>0.14</td>
<td>0.12</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>(0.04)</td>
<td>(0.03)</td>
<td>(0.01)</td>
</tr>
<tr>
<td></td>
<td>0.04</td>
<td>0.03</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.02)</td>
<td>(0.02)</td>
</tr>
</tbody>
</table>

31,554 respondents in 26 countries. Unstandardized regression coefficients are reported; standard errors are in parentheses. † p < 0.10; * p < 0.05; ** p < 0.01
Sources: Halman (2001); ETH Zurich (2007); IMF (2001).
compulsory solidarity regarding the elderly and the sick and disabled, this is not the case for solidarity towards immigrants.

Summary of the findings

Based on the results from the analyses, and taking into account the general findings across the 26 countries, it is concluded that the willingness to help the elderly and the sick and disabled is higher than the willingness to help immigrants and that
voluntary solidarity is more strongly preferred for all three groups. Second, the openness of countries does influence these preferences but differs for the three groups. In the case of solidarity towards the elderly and the sick and disabled, the preference for voluntary solidarity is higher and the preference for compulsory solidarity is lower the more open a country is. This is particularly the case for social openness. With respect to immigrants the preference for voluntary solidarity is also higher in more open countries, however for this group the higher openness is not related to less support for compulsory solidarity.

Returning to the three formulated hypotheses, the following is concluded. The results for Hypothesis 1, the expectation that economic openness is related to a stronger preference for voluntary solidarity, is not confirmed with regard to the elderly and the sick and disabled but does hold for immigrants. However, focusing on the first two groups, it is shown that there is a lower preference for compulsory solidarity in economically more-open countries. Nevertheless, this does not result in a stronger preference for voluntary solidarity. The results for all three groups confirm Hypothesis 2, which states that social openness is positively associated with a preference for voluntary solidarity. Hypothesis 3, stating that political openness will not decrease the support for compulsory solidarity, is not confirmed. Although the preference for compulsory solidarity is not related to this kind of openness in the case of the sick and disabled, the results show that political openness is related to a stronger preference for voluntary solidarity towards immigrants and is related to less support for compulsory solidarity in the case of the elderly. Therefore, Hypothesis 3 is rejected.

**Conclusion and discussion**

This study investigated the relationship between the economic, social and political openness of countries and individual preferences for the organization of solidarity with the elderly, the sick and disabled, and immigrants. The results differ for the three selected groups in the sense that they are similar for the elderly and the sick and disabled but different for immigrants. Why people are less supportive towards immigrants compared to the elderly and the sick and disabled may be due to two possible explanations: first, this feature is a result of the perceived boundaries differentiating between those who are regarded as being members of the group and those regarded as being outsiders, creating a distinction between the “in-group” and the “out-group”; second, immigrants are regarded less needy of help than the other two groups, which clearly need assistance from others. Which of the two arguments holds true is a question open to discussion and may be investigated in future research. Furthermore, the results of openness are also different for the three groups, leading to the conclusion that solidarity studies should distinguish among which groups individuals are willing to support. The effects of economic openness
were only confirmed with regard to immigrants; the more economically open a
country, the more individuals will prefer voluntary solidarity towards this group.
The finding that there is support for compulsory solidarity in the case of the elderly
and the sick and disabled (albeit that this relative preference is lower in more
economically-open countries) goes against the expectation that individuals will be
more willing to favour voluntary solidarity because of increased insecurity. What it
might indicate is that, in these instances, individuals indeed question whether the
government will be able to support these groups given economic openness, but that
it is not clear which of the two alternatives individuals support; it may lead some
to prefer a market solution while others have a stronger preference for voluntary
solidarity. Additional research is required to supplement the current analyses to
decide what kinds of processes are at work here.

The impact of social openness on individual preferences confirms the hypothesis
that individuals prefer voluntary solidarity to compulsory solidarity and the market
mechanism. This finding suggests that solidarity and social cohesion are not
necessarily undermined by globalization as is sometimes suggested. That social
openness leads to a stronger preference for voluntary solidarity may be related to
increased possibilities for communication. Although the Internet facilitates indi-
vidual contact all over the world, it is also used as a means to keep in contact with
local networks. This is confirmed in recent studies about the influence of the
Internet on social relations with neighbours and relatives (Franzen, 2000; Hampton
and Wellman, 2000).

The expectation that increasing political openness will have a stabilizing effect
and support stronger compulsory solidarity was rejected. A possible explanation for
this finding is that individual preferences may be influenced by the information they
receive from political actors. It has been suggested that international political rela-
tions and involvement in international organizations, such as the International
Monetary Fund and the World Bank, influences the views of political actors about
the policy that should be followed (Simmons, Dobbin and Garrett, 2006). Within
these international relations there is a strong preference for neo-liberalism, the
political ideology supporting the view that welfare states cannot be sustained as
globalization advances and, thus, should be dismantled. Additional research should
investigate whether the individual preferences towards compulsory solidarity and
the welfare state are affected by international processes.

This article contributes to discussions about welfare state policies. A first impli-
cation deals with the relationship between the welfare state and solidarity. The
welfare state has been criticized for undermining informal solidarity and commit-
tment to society. The findings show that a more extensive welfare state is related to
a higher preference for voluntary solidarity, which does not support the concern
that welfare states are crowding out community relationships. In contrast, it can be
argued that the welfare state enables communities to create voluntary solidarity. The
second implication deals with the organization of the welfare state. Most of these discussions centre on the dichotomy between markets and governments, as if they are the only two solutions. The argument used in these discussions is that the market should take over if the government cannot function efficiently. The analyses presented here show that organizing through community relationships, based on voluntary solidarity, can be added to this dichotomy and offers a third possible solution. This is not only a matter of theory but should be considered in practice. If welfare state retrenchment is regarded as necessary, this does not mean that the market is the only option at hand; it should be considered to what extent communities and voluntary solidarity offer valuable solutions as well.

Bibliography


Voluntary improvements to social security in Spain: Current legal standards and jurisprudence

María Dolores García Valverde and Francisco García Valverde

Full Professor of Labour Law and Social Security, University of Granada, Spain; Deputy Judge of the Court of Malaga, Spain

Abstract This article presents a general overview of “voluntary improvements” as one form of voluntary social provision within the Spanish social security system. To this end, the article analyses different forms of voluntary improvements from both a legal and a jurisprudential perspective. Particular attention is given to problems that are a major source of conflict. In line with employment practice, voluntary improvements are articulated through collective bargaining. Although intended to encourage private initiative in matters of social provision, such improvements are nonetheless guided by the social security system, not least as a means to control both funding and procedure.

Keywords legal aspect, complementary protection, voluntary insurance, private insurance, mutual benefit society, occupational pension scheme, Spain

Introduction

There are days, said Demosthenes, when liberty is called courageous. The rest of the time it is called responsibility. Responsibility is the voluntary solidarity of man with his actions, which is normal; with the consequences of his actions, which is less so (Elgozy, 1977, p. 291).

Address for correspondence: María Dolores García Valverde, Full Professor of Labour Law and Social Security, University of Granada, 1, Plaza de la Universidad, 18071 Granada, Spain; E-mail: mgarcia@ugr.es. Francisco García Valverde, Deputy Judge of the Court of Malaga, Audiencia Provincial de Málaga, Paseo Reding, 22 (Palacio Miramar), 29071 Malaga, Spain. Email: francisco.garcia.valverde.ius@juntadeandalucia.es
The purpose of this article is not to compare the relationship between the Spanish social security system and diverse forms of voluntary social provision provided for under Spanish legislation, but to address the characteristics of one specific form of voluntary social provision: voluntary improvements. Consequently, the purpose of this article is to examine a number of questions relating to complementary social protection actions that are not covered by the social security system.

Article 41 of Section II of the 1978 Spanish Constitution makes provision for protection under the Spanish social security system that is voluntary and complementary to public protection measures. The complementary framework is excluded from the public social security system to ensure that it is voluntary (non-mandatory). As a result, the complementary framework is not guaranteed by the public authorities. In turn, the Constitution enshrines the separation of the private insurance of social risks, without granting it the public nature and mandatory power of the public social security system.

Complementary social security may be defined as comprising the many complementary social protection instruments which are of a private and voluntary nature and which complement or supplement public social security schemes. The purpose of these is to guarantee beneficiaries more advantageous income replacement rates, defined as a percentage of insured earnings (García Becedas, 1993, p. 20).

Basic social security can be differentiated from complementary social security in the manner in which it is implemented. If the protective measure has been mandated by the State, this represents basic public social security. Alternatively, if the measure is for additional or marginal protection for individual well-being, albeit within a framework expressly defined by the State, then it is deemed complementary social security. In both cases, the normative framework is national legislation. Despite this, the underlying initiative to provide protection stems, on the one hand, from the State, and, on the other hand, from private individuals (Sagardoy Bengoechea, 1977, p. 584).

The increasing importance accorded to complementary social security has brought about significant normative changes in Spanish legislation. In this regard, the major innovation in social security legislation between 1963 and 1978 and, specifically, in the reforms that were implemented between 1963 and 1966 and 1972 and 1974, was the judicial shaping of the function of voluntary improvements. The outcome of this has been to increase the levels of the social security system’s legal minimum benefits (Borrajo Dacruz, 1989, p. 25).

Although voluntary improvements to social security were established under the Decree of 21 March 1958, they were rapidly realigned under Decree 56 of 17 January 1963, following the negative impact on the financing of public social security arising...
out of exemptions of contributions to the system. As a result, the normative base for the system of voluntary improvements to social security was not consolidated until the promulgation of the Ministerial Order of 28 December 1966.

Voluntary improvements to social security benefits are put in place by employers for employees covered under the General Social Security System. Benefits are paid either directly or through specific entities (including insurance companies) to improve the level of protection afforded by mandatory social security in situations stipulated in the General Social Security Law (Ley General de Seguridad Social — LGSS), and for outcomes defined in Articles 39.1, 191.1 and 2(a), 192 and 193.

The legal characterization of the system of improvements is: first, strict complementarity, since the improvements protect against the same risks and provide the same benefits as the basic social security benefits which they complement; second, to voluntarily generate or establish voluntary improvements, but not to the benefit or detriment of beneficiaries; third, voluntary improvements must have a collective impact for all covered persons; and, fourth, they must have the same characteristics as the basic social security system.

The evolution of voluntary improvements

The evolution in voluntary improvements to social security is linked closely to wage policy changes in Spain (Almansa Pastor, 1983, p. 144; 1984, p. 18). Accordingly, and

2. The Basic Social Security Law (Section 13.59) makes reference to the system of voluntary improvements.
3. It should be noted that the Ministerial Decree of 28 December 1966 was subsequently amended by the Ministerial Decrees of April 1967, of 28 September 1968 and of 25 March 1969.
4. Despite this delimitation, Spanish courts are also required to determine whether the benefits received by workers are voluntary improvements. The Supreme Court Rulings of November 1997 (Judge: González Peña) and 17 July 1997 (Judge: Bris Montes), considered that the additional, extraordinary payments to a previously insured person constituted a voluntary improvement that did not form part of the wage concepts envisaged in the Collective Agreement; the judges also considered that voluntary improvements did not form part of the compensation concept under Article 44 of the Statute governing Employers’ Savings Funds (Estatuto de Empleados de Cajas de Ahorros).

Moreover, in the Supreme Court Ruling of 27 January 2005, Rec. 318/2004, Judge Martin Valverde, the Court considered that the insurance policy against accidents at sea for Galician crew members underwritten by the Galician Fisheries Ministry (la Consejería de Pesca dela Junta de Galicia) did not form part of the employment contract or collective agreement neither did it constitute a voluntary improvement to social security, since it was not within the Ministry’s remit to underwrite insurance on behalf of the enterprise in its capacity as public authority of the Autonomous Community. A similar decision was handed down by the Supreme Court on 10 July 2006, Rec. 2235/2005 (Judge: García Sanchez).

5. As stipulated in the ruling of the High Court of Justice of Galicia of 26 June 2008, No. 2349/2008 (Judge: Castro Mejuto). It concerned a voluntary improvement determined by the acquisition of a more beneficial condition than was generated through employer obligations in the exercise of their functions, thereby preventing the employer from making whimsical decisions on the right acquired by the worker and his family to be indemnified since, under such conditions, it constituted a social benefit that was mandatory in nature.
with the regulation of voluntary improvements within the social security system, this represents a further step towards a closer relationship between public social security and diverse forms of private provision.  

The normative arrangements for voluntary improvements to social security are a response to the proliferation in trade-union collective agreements of complementary mechanisms that are excluded from the framework of free mutual benefit societies established under the Law of 6 December 1941 on Free Mutual Benefit Societies and Friendly Societies. The negative repercussions of this, accentuated by the final salary liberalization policy of the 1950s, resulted in Decree 56 of 17 January 1963 setting strict limitations on collective bargaining in this regard (Valverde, 1970, p. 39).

The guidelines established under Decree 56/1963 are enshrined in the Basic Social Security Law of 28 December 1963 and the Articulated Text of the Social Security Law of 21 April 1966. As regards voluntary improvements and the Social Security Law (LSS) of 1963, the LSS was amended by Ministerial Order of 28 December 1963. In this way, this established a basic level for benefits that were voluntary and collective in nature and complementary to the basic level of mandatory social security benefits, and whose participative nature contributed to the protective action of public social security.  

There are three forms of voluntary improvements: i) voluntary improvements to raise the contribution base, ii) voluntary improvements as an additional type of contribution, and iii) voluntary improvements which directly improve benefits.

However, the Revised Text of the General Social Security Law of 30 May 1974, subsequently considered only two types of voluntary improvements: improvement through the establishment of additional types of contribution and the direct improvement of benefits, which have tacitly suppressed the other type of contribution. These have been maintained in the most recent Revised Text of the General Social Security Law, promulgated under Royal Decree 1 of 20 June 1994.

At the present time, Article 39 of the General Social Security Law (1994) establishes the possibility of making voluntary improvements through contributions to increase the protective action afforded by the social security system. The scheme governing improvements was established under Articles 191 to 194 of the General Social Security Law (1994).

It is possible to affirm that the voluntary improvement of benefits constitutes the form of voluntary social provision that is most closely linked with social security. The framework for voluntary improvements by individuals also coincides with a

---

7. See Article 13 of the Ministerial Order of 28 December 1966 (BOE, various years).
8. See Articles 181 to 185 of the 1974 General Social Security Law, which stipulate that contributions to increase the contribution base should be meaningful whilst the system of basic contribution rates is in force (BOE, various years).
major part of the mandatory occupational system framework. Therefore, complementary approaches and the social security system are bound closely together.9

Forms of voluntary improvement

This section presents evidence of a general nature on the different types of voluntary improvement without, however, providing a detailed analysis of each type of voluntary improvement.

There are two possible forms of improvement that currently form part of the Spanish complementary system: direct improvements of benefits and improvements through additional contributions (Article 19 of the General Social Security Law). Of these, only the direct improvement of benefits has proven effective.

Direct improvement of benefits

Until recently, the direct improvement of benefits was the most widespread form of voluntary provision due to their frequent inclusion in collective bargaining agreements.

Although qualified as voluntary, the improvement of benefits becomes mandatory once it forms part of the terms of the collective bargaining agreement.10 On this basis, it may be considered that the improvement is also included in and forms part of the employment contract.11

Nonetheless, the direct improvement of benefits is also considered to be dependent upon and supplementary to other occupational benefits or social security measures, since such improvements, alone, fall short of providing basic levels of cover. The direct improvement of benefits is granted unilaterally by the enterprise, or through collective bargaining, in order to increase or improve basic benefits, thereby raising them to a sufficient level for inclusion in the collective agreement.12

10. Supreme Court Ruling of July 1994 (Aranzadi. Reportorio de jurisprudencia (hereafter, ar.) 6335) and of 8 June 2005.
11. Rulings by the High Court of Justice of Catalonia in March 1993 (Aranzadi social 1559) and on 23 April 1985 (reference 2664).
12. See Supreme Court Ruling of 18 September 2008 (Appeal 823/2006) on the direct method of benefits (BOE, various years). The Supreme Court considered the appeal that had been lodged, ruling that it could not grant the concession of the voluntary improvement of the total permanent disability benefit envisaged in the occupational pension plan on the grounds that the labour contract was not terminated as a direct consequence of the cited total permanent disability, but through wrongful dismissal. The Court considered that, being the finality of the voluntary improvement established in the Collective Agreement of CLH, Aviación S.A. and regulated by the Pensions Regulations, a worker who has terminated an employment contract as a result of a permanent disability cannot simultaneously claim the said benefit with the indemnity resulting from dismissal since the worker had already been compensated for the injuries resulting from the termination of the contract.
The direct improvement of benefits can be funded by the enterprise at its own cost. Improvements of a more exceptional nature, which require prior authorization from the Ministry of Labour and Immigration, can be authorized for workers who may or may not have recourse to voluntary improvements on an individual or voluntary basis; in this instance, these require contributions by workers. As regards their management, there are a whole range of possibilities from direct management by the enterprise to indirect management. In the case of the latter, this may be achieved through insurance methods (insurance contract) or non-insurance methods (social provision entities).

The nature of the improvement depends upon the type of improvement adopted either by the enterprise or through the collective bargaining process, and the risk to be covered. As regards the criteria for improvement, these may differentiate between: an improvement of the benefits provided by the general or a special social security scheme (in this case, it is strictly a voluntary improvement of the basic mandatory social security scheme); an improvement of the protection of the same risk, of the protection of other risks, of the protection of persons who are excluded from coverage under the respective system (this is prior to voluntary, independent, social security coverage); and, lastly, an improvement of the methods of protection that are either excluded or peripheral to social security.

**Improvement through additional contributions**

Improvements through additional contributions are intended to increase the value of pensions that have already been granted and of future pensions. Approved at the discretion of the Ministry of Labour and Immigration, and included in the collective frameworks of one or more mutual benefit societies, the additional contributions should be managed by private mutual benefit societies. The financing of additional contributions should be proportionate to the share of contributions paid to the basic social security scheme, except where the enterprise assumes a greater proportion of the financing or agrees to finance improvements in their entirety.

This type of voluntary improvement is envisaged in the 1994 General Social Security Law (Article 194); however, it is rarely applied, thereby demonstrating the broader ineffectiveness of this approach.13

The 1994 General Social Security Law stipulates that only the Ministry of Labour and Immigration may approve, at the request of interested parties, additional contributions. Notably, however, the text makes no reference to any precept that

---

13. In collective bargaining, improvements through additional types of contributions have rarely been applied; and in legislation, Law 21/1992 of 6 July, governing industry, improvements considered in Art. 6.1. and in Royal Decree 825/1993 of 28 May, promulgated under Ministerial Order of 29 June 1993.
establishes the necessary requirements for the establishment of improvements through additional contributions.\textsuperscript{14}

\textit{Improvement through increasing the contribution base}

While the 1994 General Social Security Law makes no provision for voluntary increases to the contribution base, there is a need to highlight a number of considerations in light of problems encountered as a consequence of this (Martínez Lucas, 1993).

As salaries increase, the payment of contributions on a level of earnings higher than that stipulated by law seeks to more closely link future benefit income to earnings histories. This improvement, in terms of higher contributions, can be established either by means of a collective agreement or a unilateral decision taken by the enterprise; however, in both cases the intervention of the appropriate administrative body is required.

Since the 1972 Law, and under the prevailing 1974 General Social Security Law, however, it is no longer possible to increase the contribution base.

However, it has been argued in the Courts of Justice that if improvements to increase the contribution base were authorized under previous legislation, this right should prevail regardless of any subsequent changes to the rules for social security contributions. As a result of which, Spanish jurisprudence deemed that improvements derived from increasing the contribution base, obtained under the protection of previous legislation, could not be excluded from the regulatory base for calculating benefits, since legal standards have a future vocation and should not affect rights that have been acquired under earlier legislation. Moreover, this is inferred in the transitional order of the Civil Code.\textsuperscript{15}

\textbf{Problems relating to voluntary provision identified by jurisprudence}

The issue of voluntary provision has given rise to some important rulings in the Spanish courts. Consequently, we consider it appropriate to dedicate a separate section to this theme, without, however, prejudicing the contents of the preceding sections. A number of important problems identified by jurisprudence, and in

\textsuperscript{14} Article 185 of the 1974 General Social Security Law (LGSS) on improvements by means of additional contributions sets out the requirements that should accompany the proposals for improvements to be approved by the Ministry of Labour. However, compliance with these requirements is either extremely difficult or impossible. Although these requirements were not established under the 1994 LGSS, they are considered applicable as the derogatory provision of this Law was established under Articles 181 to 185 of the 1974 LGSS.

\textsuperscript{15} Supreme Court Ruling (\textit{Sentencia del Tribunal Supremo} — STS) of 14 March 1994 (ar. 5347).
several instances, by judicial doctrine, relating to voluntary improvements are addressed in the following themes:

*Regulation governing improvements and the right to improvements*

According to a reaffirmed jurisprudential doctrine, the regulation applicable to voluntary improvements to social security are the agreements or rules which govern their creation (this concerns collective agreements, individual contracts or decisions taken by enterprises), since the determination of the causal factors and the requirements and eligibility criteria for their receipt are established in these agreements.16

However, the Supreme Court has declared, and reaffirmed, that in the absence of the right to receive an additional retirement pension upon reaching retirement age to improve the contingency covered by the state pension, even though it had been discharged in an unprecedented manner in the period immediately prior to the termination of the employment relationship, at the time of termination of employment the claimant is not entitled to an acquired or consolidated right unless, in the simple expectation that, to obtain it, it has been defined as a full right.17

*Definition of risks*

When a voluntary improvement is established with reference to a specific risk of the social security system, the given concept for this system will apply and not the concept established by the supporting insurance policy. Spanish courts consider that, given the nature of social security benefits which have voluntary improvements, the protected risks should take account of the criteria defined in the normative standards of the relevant legislation; consequently, the definitions as stated in the general conditions of the insurance policy are invalidated.18

16. See Supreme Court Ruling (*Sentencia del Tribunal Supremo* — STS) of 20 November 2003 and, in particular, the STS of 7 October 2003 and 5 November 2003 (BOE, various years). In these rulings, the Supreme Court also ruled that voluntary improvements would be regulated by the agreements which gave rise to their existence, with the exception of those that had been externalised through insurance contracts; the Court ruled that these pension agreements would no longer apply following termination of contract; however, it established the right to recover or convert the consolidated contributions.
17. Supreme Court Ruling (*Sentencia del Tribunal Supremo* — STS) of February 2007, rec. 1163/2005 (Judge: Gullón Rodríguez)
18. Supreme Court Rulings (*Sentencia del Tribunal Supremo* — STS) of 8 April 1996 (Judge: García-Murga Vázquez) and of 11 April 1996 (ar. 3042)
However, an insurance policy that has voluntary improvements can be extended to include degrees of disability that are not covered by social security. While this affirmation by jurisprudence seems clear, it has been demonstrated that in addition to a harmonization of thinking on this matter, there has been a rectification in the jurisprudential positions of the Supreme Court, since in addition to the doctrine previously analysed, it has been established that the concept of risks and contingencies in voluntary improvements to social security should be specified in the collective agreement or policy which gives rise to these voluntary improvements. Where there is no such mention or where they are obscure, the established concepts of the social security system should apply (Sempere Navarro and Cavas Martínez, 1997, pp. 254-255).

It is also worth noting the Supreme Court Ruling of 31 January 2007, rec. 5481/2005 (Judge: Castro Fernández). The Supreme Court considered the appeal for the unification of the doctrine lodged by the defendant (a bank) following the ruling that recognised the right of the worker to have additional contributions included in the calculation for the retirement benefit as a voluntary improvement. The terms of the pension plan show that the pensionable quality of these contributions are conditional upon the express inclusion of such an undertaking in the individual contract and that, in the present case, no such express conditions regarding the pension were stipulated in the contract.

**Determination of the date of the causal event**

The norms on mandatory social security benefits are those which should be present to determine the date of the causal event of a voluntary improvement. This is the criteria established by jurisprudential doctrine. In this manner, the date of the causal event as regards voluntary improvements for disability benefits, and with the specific exception of the agreement itself, is deemed as the date on which the report

19. In this regard, Supreme Court Rulings (STS) of 10 July 1995 (ar. 5915), of 22 November 1996 (ar. 8719) and of 27 September 1996 (ar. 6909)
20. Yanini Baeza (1995, p. 184 and subsequent pages) considers that insurance policy clauses should be governed by the same regulations that govern social security benefits.
21. See Supreme Court Rulings of 3 April 1992 (ar. 2594), of 30 June 1994 (ar. 5506) and of 24 October 1994 (ar. 8527). The Supreme Court Ruling of 23 October 1995 (Judge: Somalo Giménez) considered that as regards voluntary improvements to social security against the risk of disability through private insurance, in the absence of any specification in the act or norm governing the inclusion of such complementary benefits, the date on which the causal event occurred is generally the date on which the disability was declared. The reasoning behind this jurisprudence is two-fold. First, it reflects the evidence that the consequences resulting from an illness or injury are not generally known at the time of their occurrence, since they are dependent upon many unknown factors. Second, the establishment of the date of the causal event as the date of declaration of disability is undoubtedly more legally-binding, since it makes it possible to establish responsibility with a degree of some certainty and to easily identify the responsible enterprises and insurances.
was issued by the Medical Assessment Unit (Unidad de Valoración Médica), or the date on which it was established that the injuries were permanent and disabling.

In this ruling, jurisprudence ultimately concluded that voluntary improvements form part of social security.22

As of February 2000, the Supreme Court has adopted a commercial approach, so that priority is given to the risk insured (occupational accident) and not the resultant consequences (temporary disability, permanent disability, death); for that reason, Court IV stipulated that the determinant is that, at the time of the accident, the insurance policy covering the risk is in force since it is the policy that covers the risk and not the declaration of disability which is produced at a later date when the policy is no longer in force.23

If the date of the causal event of voluntary improvements, where the risk is an occupational accident, does not give rise to doubts on any of these levels, the same is not true of social security benefits which are granted for a common illness or non-occupational accident, since, in principal, there is no clear or precise date when the illness or accident started and many different indications of the first signs of illness. Even though a medical certificate may be produced, it is only as the illness progresses that it is possible to determine whether the illness is irreversible and, in principle, incurable as these assumptions could potentially cover any date as the date of the causal event of the Disability Assessment Team’s report and/or the Administrative Decision as regards the determinant of the illness or accident.24

Contract of insurance

Insurance companies are exonerated of responsibility in two key instances. First, in the event of falsification of data,25 since Article 10 of Law 50/1980 of 8 October on the Contract of Insurance requires the applicant to declare any circumstances that may affect the assessment of the risk at the time of entering into the contract. The fraudulent intention of the worker, who fails to declare an illness or a shortened life expectancy, exonerates the insurer from payment of the indemnity claimed, under Articles 1265, 1269 and 1270 of the Civil Code.

22. For a commentary on this line of jurisprudence, see Ramos Quintana (1994, p. 29 and subsequent pages).
23. See Supreme Court Ruling of 1 February 2000 (BOE, various years).
24. In this regard, several High Courts of Justice have applied the new Supreme Court doctrine and even given the doctrine a much broader interpretation, as in the case of the High Court of Justice of the Canary Islands (Las Palmas). This Court, based on the assumptions derived from the common illness, established the date of the causal event as the date on which the temporary illness started. See the rulings of the High Court of Justice of the Canary Islands (Las Palmas) (STSJ) of 29 September 2000, of 27 September 2001 and of 18 July 2003 (BOE, various years).
25. The Supreme Court ruling of 8 July 1996 (ar. 5764) considered that falsification of data regarding the worker’s state of health on the application form requesting membership of the insurance scheme exonerates the insurance company from paying the indemnity.
Second, where workers are under notice at the time of the causal event. In accordance with reaffirmed jurisprudential doctrine, responsibility as regard the payment of the indemnity, which is the object of the voluntary improvements established in the collective agreement, falls upon the enterprise, where it concerns workers who are not included in contribution documentation on the date of the causal event.26

**Accident cover**

When subscribing to an insurance policy, in compliance with an agreement that has been negotiated collectively and which stipulates the payment of determined indemnities in the event of risks arising out of an accident, the policy is required to stipulate whether the indemnities referred to are for occupational accidents or for occupational illnesses.27 If the agreement clearly stipulates that only the risk of accident will be covered, as is required, common illnesses will not be indemnified.28

Clearly, the collective bargaining agreement may not undermine legally attributed rights, nor can it modify legal intent in the matter, with the exception of increasing minimum and mandatory levels. Difficulties arise when non-salaried workers subscribe to a collective insurance policy which does not clearly specify the risks covered. In such cases, Spanish jurisprudence considers that “accident” includes occupational accidents and, also, all forms of occupational illnesses, since these risks have a common origin and the same raison d’être that requires protection to be homogenous.29 Also, jurisprudential doctrine considers that the employment-related presumption applies not only to occupational accidents, in the strict sense of the term, but also to illnesses or changes in life processes that are employment-related and caused by internal or external pathological agents.30

The Supreme Court ruling of 30 September 2003 (Rec. — 1163/2002) considered that the entity responsible for risks arising out of occupational accidents is the entity that had insured the risks at the time of the accident.31 This is why, in

29. It was observed that this jurisprudential doctrine follows interpretative principles specific to the Law on Insurances and Membership Contracts, and the Social Security scheme’s internal logic.
30. Supreme Court ruling of 14 July 1997 (Judge: Desdentado Bonete).
the aforementioned ruling, it had changed the previously maintained criteria, and reaffirmed, that in the Spanish social security system, protection against accidents is established with a technical proximity similar to that of private insurance, which provides cover based on the difference between the determinant risks, situations covered and benefits, in a similar format to that which, in the insurance framework, differentiates between the risk, the damage resulting from the occurrence of the risk and the recurrence of the risk, in a format which, while similar to the contingencies derived from the risks insured or guaranteed by social security, are deemed concrete benefits in respect of occupational accidents, which it is incumbent upon the employer to indemnify and prevent.\textsuperscript{32}

Nevertheless, it is necessary to cite as evidence the decision handed down by the Madrid High Court of Justice on 11 February 2008 No. 89/2008, (Judge: Garcia Paredes). The High Court of Justice considered the appeal lodged by the insured co-defendant against the ruling that recognized the claim of the defendants, the widow and children of the deceased, for indemnity against death. If it excludes from the concept of accident any harmful act intentionally caused by the insured, suicide should not be considered as such, since suicide is the conscious and deliberate act of a person who is suffering. In this case, the parties had excluded suicide from the cover provided by the insurance policy when it defined the delimitations on the concept of accident, without, however, including it in the concept of accident injuries intentionally caused by the insured or excluding accidents intentionally caused by the insured.

In the same way, Spanish jurisprudence considers that the coverage of voluntary improvements to benefits for permanent disability is extended to assumptions of increased disability.\textsuperscript{33} This makes it possible to affirm that the causal event was not the occurrence of the accident, but the injury becoming permanent and definitive as a consequence of the subsequent deterioration in health.

\textit{Complementary pensions provided by public enterprises}

The payment of complementary benefits by public enterprises for disability or early retirement should be added to the pension in order to establish whether it exceeds the maximum established pension.\textsuperscript{34}

\textsuperscript{32} This doctrine was welcomed by the Supreme Court Ruling of 30 April 2007. Appeal No. 829/2006 (Judge: Moliner Tamborero).
\textsuperscript{33} In this regard, Supreme Court Rulings of 19 November 1990 (ar. 8548) and of 5 February 1993 (ar. 1692).
\textsuperscript{34} Supreme Court Rulings of 24 January 1996 (ar. 197), of 9 February 1996 (ar. 1010) and of 24 October 1996 (ar. 6855), concerning a reaffirmed doctrine and reference to earlier doctrines, including the Supreme Court Rulings of 20 May 1992 (ar. 3579), of 26 May 1993 (ar. 4126) and of 21 December 1994 (ar. 10218).
This jurisprudential doctrine was established when the Law on General State Budgets and the Royal Decrees on the revaluation of pensions stipulated that it considered as public pensions: the pensions granted by enterprises or companies with direct or indirect majority participation in State assets or the assets of autonomous communities, local corporations or autonomous organizations, or mutual benefit societies or pension funds where the direct contributions of the members are insufficient to cover the members’ benefits and consequently require additional funding from public resources, including from the enterprise or company concerned, to fund their members’ pensions.

However, if the Budgetary Law does not stipulate the maximum amount of benefits that may be added to pensions, this decision will fall to the Central Labour Court who will decide the maximum amount that may be added to pensions.

Consequently, at the present time, if this contribution is paid by the public enterprise, it should be considered as a form of public pension (and not as a means of terminating an employment contract or indemnifying against loss of employment) and should be subject to the same limitations as those governing public pensions (maximum pension, revaluation etc.).

*The responsibility of managing entities as regards the payment of voluntary improvements*35

The indemnities and other social benefits governed by Collective Agreements are, by their nature, voluntary improvements to complement basic social security benefits, which are of a minimum and mandatory nature. However, managing entities are not deemed responsible for the payment of all voluntary improvements of this nature. The responsibility of managing entities is limited, in principle, to the basic and public benefits paid by the social security system and this responsibility is only extended to improvements in so far as their management is assumed by the stated entities.36

35. Supreme Court Rulings of 8 April 1997 (Judge: Desdentado Bonete) and of 13 February 1997 (Judge: Fuentes López).
36. This is what followed as regards the improvement to establish the additional types of contribution and the former method of improvements to increase the contribution base, since in these cases, the entity responsible for managing the mandatory system assumed the role of the insured in a voluntary insurance relationship which had been agreed with that entity. However, this is not necessarily the case as regards direct improvements to benefits since these can be granted by enterprises, either solely or jointly, with the system’s managing entities and also with Labour Foundations, Trade Union Organizations, Friendly Societies and Social Provision Mutual Benefit Societies or any type of Insurance Company. If the voluntary improvement is established with a management entity, the entity should respond in the format determined in the corresponding agreements; however, if the enterprise is responsible, either solely or jointly, for the improvement with various other social security management entities, no responsibility can be attributed to the latter for the payment of the improvement.
**Statute of limitations governing voluntary improvements**

Under Article 54.1 of the 1974 General Social Security Law (Article 43.1 of the 1994 General Law on Social Security) the statute of limitations governing a voluntary improvement to social security is five years; the action can be instigated, for calculation purposes, from the date of declaration of the disability, since the declaration acts as a prerequisite for recognition of the right to be indemnified.\(^{37}\)

**Increased benefits and voluntary improvements**

Increases in economic benefits do not apply to voluntary improvements, since Article 123 of the 1994 General Social Security Law, which regulates economic benefits for occupational accidents, establishes penalties that may be interpreted restrictively in accordance with the principle of “*odiosa restringenda*”. The precept is found in relation to the regulation of public system benefits only, since it applies only to the mandatory system and not to the improvements.\(^{38}\)

**Concurrence of jurisdictional orders**

In the assumptions on voluntary improvements handed down by the Administrative Court (*Orden Contencioso-Administrativo*), there is an obligation arising out of an aforementioned ruling to respond to the claim, the outcome of which would depend on whether the administrative resolution was ineffective, since any other method would affect the intangibility of a secure ruling.\(^{39}\)

**Conclusions**

Voluntary social protection is characterized by a wide variety of instruments which form part of complementary protection: namely, pension plans and pension funds, mutual benefit society pensions, life insurance products, and voluntary improvements. Unlike social security, these voluntary mechanisms can be implemented and accessed in many different ways. Generally, they are privately managed, although the Spanish Constitution does not preclude a role for their public management. The

---

38. Supreme Court Rulings of 11 July 1997 (Judge: Marín Correa) and of 20 March 1997 (Judge: Gil Suárez).
benefits that are granted usually follow a private-contractual logic and have, as their ultimate objective, the provision of additional protection to complement the basic protection afforded by the public system.

As a means of improving protection, the direct improvement of benefits is the usual or most common method. The enterprise can establish this improvement at the initiative of the employer either unilaterally or through informal forms of negotiation, or through a collective agreement. The voluntary nature of such improvements does not mean that they can be freely revised, since the concession generates a worker’s right that may not be annulled or diminished independently of the regulatory norms that govern its existence.

The other method of voluntary improvements in force, additional contributions, is rarely applied in practice. In reality, additional social security contributions are unworkable. This is due mainly to two factors: the extremely rigorous nature of the established rules and the legal requirement to periodically revalue pensions.

**Bibliography**


Voluntary improvements to social security in Spain


So much has already been said in the debate about pensions — on the objectives of pension systems, the principles that pension system design should follow, challenges resulting from demographic change, the underlying reasons for persisting coverage gaps and possible strategies to close them, the advantages and disadvantages of different forms of financing (prefunding versus pay-as-you-go) and the different design of benefit entitlements (defined contribution versus defined benefit), and finally — and regardless of necessary adjustments and deeper reforms — that it is difficult to expect many new arguments in this area. Accordingly, this book by Nicholas Barr and Peter Diamond “Reforming pensions: Principles and policy choices” does not bring many new arguments. The power of this book rests elsewhere: it synthesises within its three hundred or so pages the arguments and debates, as well as the experiences and implications, of the reforms that have taken place over the last fifteen years and draws very clear conclusions from these.

As Barr and Diamond explain, the roots of this volume are traceable to the fact that both authors were asked to participate in a group advising the Government of the People’s Republic of China (hereafter, China) on pension reform. Additionally, Barr was involved in discussions in Chile, preceding the 2008 pension reform that addressed many deficiencies of the country’s well-known mono-pillar, fully-funded, privately managed pension system instituted in the early 1980s. In this co-authored volume, assessments of the pension systems in Chile and China and the need and existing options for reform in these two countries form a large portion of the book’s second part: “Policy choices”. Analysis of these two countries is however preceded with a synthetic chapter (Chapter 11), which looks at diversity and change in pensions internationally over the last fifty years, at issues that have emerged and the responses given, as well as at the policy errors made. The authors conclude that pension systems in all countries evolve and that national systems are very different today compared with how they were fifty years ago. In turn, experience shows that there are different ways to achieve effectively the various objectives of pension systems. Sure, there are examples of bad design, implementation and governance, all of which have to be fixed. But even good systems from time to time require reform to adjust to the changing environment.

The first part of the book, “Principles”, discusses the core purpose of pensions, their possible design features, the main messages arising from pension economics, linkages with labour markets, financing options, their redistributive role, risk sharing, and associated gender and family implications. The chapter concludes by formulating two sets of principles. The first of these relates to an analysis of pension systems: Pensions have multiple purposes and these will be accorded different
weight at different times but pension systems have to be assessed in relation to how they meet them all. Focussing only on one objective or aspect leads to serious policy errors. The same applies if pension analysis and design forgets about the fact that we live in a world of imperfect information and imperfect markets — only second best options are possible. Policy design and the choice of funding methods should take into account the reality of the country, including its fiscal and administrative capacity.

Of course, an important aspect of the book relates to the debate on the advantages and disadvantages of pay-as-you-go (PAYG) and prefunding and deals with numerous myths surrounding this. The authors conclude that a move from PAYG funding may be welfare improving or not — it all depends on circumstances. What is also certain is that explicit public debt is not equivalent to the so-called “implicit pension debt” and a move to funding may increase saving but may increase public debt as well (or both). The move to funding may increase economic growth and improve the operation of capital markets or not — again, it all depends on the specific context. There are important fiscal implications of moving from one regime to another, which have to be taken into account. Additionally, the different pension arrangements associated with different funding methods also have very different implications with regard to the level of administrative costs. And, even more importantly — as the global financial and economic crisis reminds us — these different arrangements also put different shares of the overall risk burden on future and current pensioners.

The second set of principles relates to policy design: One should avoid changes that are not necessary to achieve government objectives (“don't reform just because it is fashionable to do so”). Government objectives should be achieved in the simplest possible way. A uniform institutional structure catering to different groups of the covered population ensures portability and supports mobility in the labour market (a conclusion that applies in particular to the current pension debate in China). In designing pensions, one should pay attention to the incentive structure and to administrative costs. It is also good if the design enhances the capacity of the pension system to adapt and evolve, including a certain degree of automatic responses to changing circumstances — like inflation or changes in life expectancy.

The authors insist that multiple objectives (preventing poverty, guaranteeing income security in old age, consumption smoothing etc.) can be met only by a multi-tier pension system that necessarily includes a basic public pension as well earnings-related pensions, both mandatory and voluntary. They stress the need, often overlooked in many recent pension reforms, for including solutions to secure basic income in old age to those with shorter or interrupted working careers or those whose labour market status excludes them from being covered by a contributory mechanism. The Chilean reform, aimed at filling a big coverage gap through a basic, practically universal, pension, is presented as a good practice example in that respect.

While there is a strong case made by the book in favour of basic, universal, non-contributory pensions as the most promising vehicle to close existing coverage gaps, it is a bit disappointing that the authors seem to deny the feasibility of such pensions in the poorest countries. This is contrary to the growing evidence that basic universal pensions are fiscally affordable and administratively feasible even for low-income
countries — evidence which comes from research studies but also directly from a growing number of implemented policies (e.g. in Bolivia, Lesotho, Namibia and Nepal) and ongoing policy debates (i.e. Malawi, Sri Lanka, and Zambia).

An aim of the book is to be educational. That it avoids too many technicalities and the language of algebra means that it is indeed accessible to anybody interested in the topic, even those without extensive knowledge of pension economics. And readers who are pressed for time can find the synthesis of the entire book included in just four chapters (1, 10, 11 and 16). Thus, the volume has all the prerequisites to play this intended educational role. Let us hope it will help improve the understanding of pension issues among policy makers, all stakeholders and journalists. There is a lot to be done in this area, as the public pension debate is still to an extent shaped by numerous myths as well as conventional wisdoms and clichés. There is no doubt that this book can help debunk the myths — accordingly, and if only on these grounds, everybody involved in the pensions field should read it.

Krzysztof Hagemejer
Chief of Policy Development and Research, Social Security Department, International Labour Office
Social policy, development and the welfare state


Social security institutions have been among the most stable post-war social programmes around the world. Increasingly, however, these institutions have undergone profound transformation from public risk-pooling systems to individual market-based designs. Why has this “privatization” occurred? Why, moreover, do some governments enact more radical pension privatization than others? This study takes a multimethod, multilevel approach to answering these questions. It provides a theoretical and empirical account of when and to what degree governments privatize national old-age pension systems. Quantitative cross-national analysis simulates the degree of pension privatization around the world and tests competing hypotheses to explain reform outcomes. In addition, a comparative analysis of pension reforms in Argentina, Brazil, Mexico, and Uruguay evaluates a causal theory of institutional change. In some cases, attention to pension reform was impelled by the haunting spectre of deep financial shortfalls attending the retirement of large baby-boom generations; in other cases, governments contended that economic openness had made state-run social insurance programmes unsustainable. In few cases, however, did the nature and depth of subsequent structural pension reforms actually correspond to underlying actuarial imbalances in state pension systems: while some reforms fell short of needed corrections, others went far beyond the functional realignment of pension system revenue and liabilities. The central argument of this study is that, rather, a common theme uniting the diverse changes in old-age pension systems in the last quarter century has been the heavy imprint of politics — of the diverse goals of state leaders and compromises with domestic political forces whose consent made way for institutional change. This argument is developed around three dimensions: the double bind of globalization, contingent path-depending processes, and the legislative politics of loss imposition.


This book presents the different international and European normative instruments in the field of social security, their state of ratification, as well as the relations between the legal obligations arising from the ratification of these instruments. It analyses the comments which the control bodies of the European Social Security Code and its Protocol have written during the last twenty years, and indicates the
principal trends within the nine traditional branches of social security in the countries having ratified these instruments. The book confronts this evolution with the standards of the Code, which date from the 1950s, in order to put them to the test and to verify their pertinence. It also retraces the evolution of the jurisprudence of the European Court of Human Rights in matters of social security since the 1980s, showing that, besides guaranteeing procedures, the Court has developed and reinforced the material protection of certain rights. Most European countries having been induced to reform more or less completely their social security systems, have experimented with a great number of measures and thus now dispose of a choice of complex and diversified instruments which determine the development of social protection in Europe. In spite of this continued evolution, the principles of the Code and the Protocol remain valid. It is precisely through this capacity to preserve the fundamental values of social cohesion regardless of the diversity of technical approaches and the structural evolution that the system of international obligations set up by the normative international instruments proves its true value. Finally, the book also confirms the commitment of the Council of Europe and the International Labour Office to support the efforts of countries that wish to adhere to the standards of social security instruments, by implementing an ambitious programme of bilateral and regional cooperation activities.


Over recent decades, social security systems in the Americas — in the Caribbean region, North America and, particularly, the Spanish-speaking countries of Latin America — have experimented with diverse and often innovative reforms. During this period, and across the different branches of social security, the choices of programme reform introduced in these countries have often challenged conventional international norms about the nature and role of social security and health care. The purpose of this report is threefold: first, to synthesize and interpret the most important recent developments and trends in the Americas; second, to provide the key background document for the Developments and Trends Session of the Regional Social Security Forum for the Americas; and third, to provide the context for the Regional Social Security Summit for the Americas. With regard to the region under review over the period 2005 to 2009, there were about 100 important social security reforms reported in the ISSA Social Security Worldwide information service. Analysis reveals that reform efforts have mainly targeted the improvement of existing pension and health care programmes. This is reflected in the contents of the report. Following an introductory chapter on common challenges and diverse responses, two chapters focus on the coordination of health protection and pension system reform. The penultimate chapter reports on the growing role played by social dialogue in the reform process in many countries of the Americas. The last chapter presents conclusions under the heading: Social security, the global crisis, and opportunities for change. Looking to the future, it resumes that the countries of the Americas require national systems that integrate different institutional and financing mechanisms, which offer the correct incentives to covered individuals, and which are governed by fair and reliable regulation to enable the efficient and timely allocation of resources to effectively address social risks.
Work, income, family, exclusion

Andreß, Hans-Jürgen; Lohmann, Henning (eds.)

For a long time in-work poverty was not associated with European welfare states. Recently, the topic has gained relevance as welfare state retrenchment and international competition in globalized economies has put increasing pressures on individuals and families. This book provides explanations as to why in-work poverty is high in certain countries and low in others. Much of the present concern about the working poor has to do with recent changes in labour market policies in Europe. However, this book is not primarily about low pay. Instead, it questions whether gainful employment is sufficient to earn a living — both for oneself and for one’s family members. There are, however, great differences between European countries. The book argues that the incidence and structure of the working poor cannot be understood without a thorough understanding of each country’s institutional context. This includes the system of wage-setting, the level of decommodification provided by the social security system and the structure of families and households. Combining cross-country studies with in-depth analyses from a national perspective, the book reveals that in-work poverty in Europe is a diverse, multi-faceted phenomenon occurring in equally diverse institutional, economic and socio-demographic settings. As regards the orientation of the chapters, the structure of the volume reflects the basic idea of drawing a broad yet detailed picture of in-work poverty in Europe. Part I provides a basic orientation about the incidence, structure and causes of in-work poverty in Western Europe. The main question addressed in this part is whether there are variations by country, and which institutional and economic factors can be assumed to play a vital role in explaining such variations. Part II is a collection of in-depth country studies. The main question of this part is what characteristics are specific to a given country. Thus, the empirical analysis of in-work poverty is embedded in a discussion of the institutional and economic framework of each country. Part III combines the comparative and national perspectives and discusses policy options to increase overall employment while minimizing poverty risks of the working population.


“Adjusting the work–life balance in Europe”. The expression “adjusting the work–life balance” has been adopted in the current language of political action under the impulse of the European institutions and of international organisations like the OECD. Because it brings into play individual and family practices, as well as professional spheres and public policies, the work-life balance is something difficult to construct for the social sciences. The editors of this publication have undertaken to bring together researchers of disciplines or specialities that are normally apart, and to nourish the French socio-political debate with contributions from international research. They propose to treat the subject successively from three angles: an analysis of public policies which retraces the genesis of European legislation and decodes the objectives put forward by different states, institutions or groups of actors; a sociology of work and professions, that takes an interest in the manner in which each sector of activity tackles and resolves the problem of balancing periods.
of work and non-work; the social practices within households and individual behaviour, choices and preferences. The book thus provides a means to understand the problems in different national contexts, to register the diversity of possible responses, and to approach critically the question of “free choice” for citizens.

Health matters


Health systems everywhere face constant change as they seek to respond to evolving patterns of disease. This applies particularly to communicable diseases where humanity is engaged in a constant evolutionary struggle with micro-organisms that are able to adapt rapidly to a changing world. This problem is exemplified by the growth of antibiotic-resistant infection. The book confronts this challenge, looking at two regions where the pace of change is especially rapid, Europe and Latin America — places where health systems, many themselves undergoing rapid organizational transition, must find ways of adapting to an ever-changing context. It is divided into 15 chapters. Following an introductory chapter, two chapters address the contextual environment of societies in transition. Chapter 2 describes the socio-demographic changes that have occurred in these transitional economies, and explores the public health consequences since the 1990s. Chapter 3 examines the purpose of government in the realm of public health and considers the functions entailed in controlling communicable diseases, paying particular attention to the challenges raised when capacity and political commitment are weak.

Chapter 4 details the changing pattern of communicable diseases, from prehistory through to the present, while Chapters 5 and 6 describe in some detail the contemporary epidemiological situations in Eastern Europe and Latin America. Chapter 7 explores contemporary thinking about health systems as it relates to communicable disease. This is an issue that is intrinsically difficult because the determinants of success and the mechanisms by which these successes are achieved are multiple and varied. Programmes to tackle infectious disease sit within complex multidimensional settings. This complexity has, in the past, deterred systemic and multidimensional evaluations of communicable disease programmes so that current approaches to evaluation tend to be highly vertical, focusing principally on disease-specific elements of the programme and often disregarding the broader health system aspects. On the other hand, methods for assessing health systems often focus on narrow aspects of the system, such as financing, and are too generic to offer useful insights to support specific disease challenges. This chapter provides a critique of the current approaches and suggests ways of moving beyond them. Chapter 8 examines the international agencies and the tools at their disposal to support control of communicable disease and documents the profound changes of structure that have occurred in recent years following SARS (severe acute respiratory syndrome). The next five chapters examine the challenges posed for transitional economy health care systems by HIV and TB, attempt to distil lessons from the mid-1990s onwards, and reflect on the role of external agencies and the political environment in which they act. Two countries in particular receive attention, the Russian Federation and Brazil, as illustrative
examples of the challenges currently being faced. The penultimate chapter examines in detail the critically important issue of financing in support of communicable disease control and reflects on analyses conducted in a number of transitional economies in order to draw lessons in support of effective and sustainable reform. In the final chapter the editors summarise what is known, posit what is unknown, and argue for what should be known.

The text for book notes included here is derived from the cover and publicity material of the above-cited books. The editor and publisher gratefully acknowledge the permissions granted to reproduce this copyright material in this journal.