Individual information for pension contributors: Recommendations for Spain based on international experience

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Abstract The aim of this article is to establish basic guidelines to support the possible design of an information letter to be sent to individuals who contribute to the Spanish state pension system, should a decision ever be taken to adopt such an instrument. Basing our work on international experience and published research in the field, we look into the concept of “individual pension information” and identify its most relevant features. We then give detailed descriptions of two models for the provision of individual pension information (the United States and Sweden), looking in particular at how these are structured, what aspects could be improved and their limitations. Finally, we offer recommendations for the design of a model for Spain.

Keywords social security administration, client oriented approach, calculation, cash benefit, governance, Spain, international

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“Pensions” are complex and often mandatory products involving contributions (or purchase), with particularities that increase the difficulties involved in providing information to contributors (Jackson, 2005; Larsson, Sundén and Settergren, 2008). They are long-term contracts: contributions are made throughout an individual’s working life with retirement pensions, for instance, being awarded and paid much later. In some cases, members contribute to benefits for which they may never claim (e.g. disability) or which may benefit others (e.g. survivor and orphan pensions). Such benefits may, in some pension systems, be explicitly dependent on long-term demographic and economic trends such as income growth, life expectancy, inflation, returns on assets, productivity and other factors, which are difficult to predict and the implications of which some contributors may have difficulties understanding in full. For many individuals, the wealth invested in pensions and in other forms of protection against insurable risks constitutes their sole or biggest asset, but commonly they do not perceive it as such.

To make the issue of individual information about pensions even more complicated, in many countries contributory pension benefits are provided by different pillars: mandatory state defined benefit (DB) or defined contribution (DC) plans, mandatory or voluntary DB or DC private enterprise plans, and individual plans. Information about the state pension system alone may be insufficient if individuals have other pension plans, and information concerning individual pension plans may be highly complex.

Empirical evidence (e.g. Mitchell, 1988; Lusardi and Mitchell, 2006; and Lusardi and Mitchell, 2007a) indicates that most individuals have very limited information about the core elements of social insurance systems and on the key variables that define the amount of their pensions; individual information about pensions is thus required to permit informed decision-making by individuals as regards consumption and saving behaviour and risk coverage.

Various authors, including Lusardi and Mitchell (2006), Lusardi and Mitchell (2007b), Fajnzylber, Plaza and Reyes (2009) and Biggs (2010), have demonstrated that access to certain financial information and appropriate planning may have a positive impact on savings and decision-making concerning retirement. There is also evidence that information about benefits influences the age at which individuals retire (Sundén, 2009); workers who underestimate their benefits, for example, are less likely to take early retirement than those who overestimate them. Coile and Gruber (2007) and Liebman, Luttmer and Seif (2009) have shown that social security policies that provide incentives for older workers to remain in the labour market for longer have a significant influence on the age of retirement, provided workers are well informed.
One reason for a lack of financial knowledge is the difficulty encountered in understanding pensions. The fact of being retired or permanently disabled is something that individuals experience once only, which excludes the possibility of learning from past mistakes. Thus, for many individuals, the psychological cost involved is high and individuals often do not give appropriate consideration to the importance of information about pensions because they expect that the benefits provided under the state pension system will be adequate. The link between individual information about pensions and social insurance education seems obvious and is well-recognized in countries that have a tradition of providing contributors with information.¹

Individual information on pensions can be defined as all the information required by individuals to enable adequate planning for the non-active period of their adult lives and to cover the risks associated with disability and death in particular. An important objective is to incite members to think about their retirement and other risks to which they are exposed, with the aim of analyzing the impact on the expected level of their benefits of various actions which they may undertake during their lives. This information could lead individuals to take decisions based on a need to make additional efforts (savings) to maintain an adequate level of consumption during the non-active period and to improve coverage for certain risks.

One approach is to offer individual information statements on an annual basis. For example, these are commonly referred to as the “orange envelope” in Sweden, the “blue envelope” in France, the “yellow envelope” in Germany or the “Social Security Statement” in the United States. Such statements provide information on the pension system and the way it functions as well as information on accounts and estimates of the expected benefits for the risks covered. As indicated by Larsson, Sundén and Settergren (2008), it is significant that many countries improved in a meaningful manner the information they provide — or introduced such a system to provide information — in the wake of a reform of their pension system. The provision of individual statements has proven to be an extremely useful tool, as noted by Bottazzi, Jappelli and Padula (2006), given that the perceived impact of reforms on individuals depends to a large extent on the information provided about such changes. Thus, in a reform context, the widespread use of individual annual statements is an effective means of improving knowledge. Similarly, as indicated by Boeri and Tabellini (2010), necessary reforms can obtain popular support if they are well described, explained and understood. Furthermore, this underlines the importance of efforts (by government) to improve transparency and provide information as regards the future of the social security system, as well as the possible alternatives, to guarantee its long-term solvency.

¹. Here, the subject of social insurance education will not be dealt with in depth because it merits a separate article.
In Spain, a number of factors have combined that make it inevitable that the Spanish social security administration should seriously envisage the introduction of a regular information letter similar to that sent out annually to members of social security programmes in a number of other countries. The factors include the lack of information on pensions received by contributors, uncertainty concerning the financial health of the state pension system, and the 2011 reform\(^2\) which has introduced unexpected changes for the population groups (young and middle-aged contributors) who are the least well-informed about pensions and who, for the most part, will be entirely dependent on the state pension for support during their non-active period. Hence, the main objective of this article: to provide guidelines to help draft an individual information letter for contributors to the Spanish state pension system.

Following this introduction, the article is structured as follows: the next section defines what is meant by “individual pension information” and outlines its most important features. We then analyze the reporting mechanism provided in a number of countries and describe two models in more detail, the United States and Sweden, focusing in particular on their structure, aspects which could be improved, and their limitations. The article concludes with final comments and recommendations of relevance for the design of a model for Spain. An Appendix provides comparative data on selected countries.

**Individual information on pensions**

“Individual information on pensions” can be defined as all the information needed by members/contributors/pensioners concerning their particular pension system or plan, with emphasis placed on the contributions made, the probable amount of their future pensions, the replacement rate, retirement options, accrued and consolidated rights, etc. This information can be used to help individuals plan adequately for the non-active period and to cover the risks associated with disability and death. The main difference between this definition and that of Larsson, Sundén and Settergren (2008) and Sundén (2009) is that we refer explicitly to the

\(^2\) Presented in the form of draft legislation in July 2011. The changes are substantial and modify considerably the pensions that young and middle-aged contributors can expect. The reform may be described as unexpected since the official forecast, provided by the MTIN (2008), was that the Spanish state pension system would not have financial difficulties up to 2029 at least, although in reality until 2010 the system was constantly in financial deficit. In Spain, there has always been a discrepancy between the political viewpoint and that of the experts, as described by Boado–Penas, Settergren and Vidal-Meliá (2011). Government authorities had systematically denied any problems concerning the sustainability of the pension system, a situation aggravated by the lack of official actuarial figures such as those issued regularly by the social security administrations in other countries.
contingencies of disability and survivorship. The work of the latter authors is based on the Swedish model and the “orange envelope”, which refers only to the contingency of retirement.

Larsson, Sundén and Settergren (2008) and Sundén (2009) defined three basic levels of information to be provided in individual information on pensions.

**Accounting information.** This is the most basic information about the fundamental elements that affect acquired rights (retirement, disability, survivorship), i.e. contributions, contributions made, the contribution period, the calculation of contributions, etc. This type of information helps to make contributors aware that the amount of their future pension depends to a large extent on their efforts in terms of contributions, cultivates the idea of retirement pensions as a form of savings and encourages reflection about whether they have sufficient coverage for certain risks.

For example, in defined contribution (DC) pension systems, such as in Sweden and Chile, the statements provide the individual balance and may track the evolution of notional as well as financial capital, providing details of movements throughout the period (year) mainly in terms of the differences between the amounts at the beginning and end of the period. In comparison, defined benefit (DB) systems, such as the United States and Japan, provide a complete history of contributions throughout an individual’s working life to date.

This first level of information helps to make the pension system more transparent, but although essential it is rarely sufficient.

**Information concerning the possible consequences of the various decisions that the contributor may make.** This is information that enables contributors to quantify the impact of various actions that they may undertake (contribute more, take early retirement, etc.) and of possible future events (increased longevity, a decline in economic growth compared with that forecast, financial returns on investments that fall below expected levels, etc.) on the amount of their future pensions.

At this level of information, the first question is how to indicate the level of benefits. In a DB system, benefits are calculated using a formula that combines the level of contributions with the number of years worked or years of service. This formula indicates the part of the final salary or contribution base that will be retained for the retirement pension, as a replacement rate. This type of system bears a high level of implicit uncertainty as a result of the possibility that the authority managing the system may decide, for any number of reasons, to implement reform to reduce the rights credited to contributors and/or the amount of pensions currently being paid. Explicit uncertainty is also increasing in countries with DB systems, as suggested by Vidal-Meliá, Boado-Penas and Settergren (2009, 2010), where there is a tendency to link benefits to the evolution of demographic parameters by means of an automatic adjustment mechanism. This occurs, for
example, in Portugal, Finland, Germany and, from 2032 onwards, in Spain, although the latter should not be described as automatic since it incorporates a high level of discretionary choice.

In a DC system, benefits depend mainly on the contributions made, the return on these contributions and life expectancy at the time of retirement. The (notional or real) sum accrued on reaching retirement age is then converted either into an annuity, in the case of planned retirement, or in certain cases into a combination of an annuity and an initial benefit in the form of capital (i.e. a lump sum). The amount of the benefit is not predefined and depends on the contributions made, interest rates and life expectancy, which increases the degree of uncertainty.

Another question that arises is the extent to which expected benefits vary according to age at retirement. In DB systems, both the normal retirement age (the predetermined age when full retirement benefits can be claimed) and the age of early retirement (an age when retirement entails a reduction in benefits) are usually specified. The formula used to calculate the pension provides information on the amount that would be deducted from the full pension in the event of early retirement. The advantage of this system is that it is easy to understand how much the benefit would be at a given age, but it is difficult for the contributor to understand that an increase in the normal age of retirement would mean a considerable reduction in the replacement rate at the age of early retirement.

In DC systems, only a minimum age for retirement needs to be specified; there is no need to set a statutory age for retirement. The conversion of a fully-funded individual account into a monthly benefit is not easy, which makes it much more complex to guess the impact of the choice of retirement age on the level of benefits. Basically, this conversion depends on life expectancy. For example, for any given age of retirement the annual benefit will be lower as life expectancy at that age increases.

A final question at this level of information, as noted by Larsson, Sundén and Settergren (2008), is to what extent work mobility or a change in employment, including the passage from the formal- to the informal-sector, or vice-versa, may affect the amount of benefits.

It may have a negative effect in a DB system, since it is difficult to estimate the value of a mathematical balance or reserve, and a certain number of years of seniority are required in order to claim benefits. One solution to this problem is to quantify the balance and inform contributors regularly of the current actuarial value of the benefits credited, as recommended by Jackson (2005).

This problem does not arise in a DC system, since members are aware at all times of the value of their consolidated rights and it is easy to integrate the latter in any other system of a similar kind.

**Information on the risk involved in estimates and projections.** Information on how projections concerning expected benefits are calculated must be understandable for
members, and this is no easy task. If the projections are given only in terms of quantity, they may take on the appearance of a certainty when in reality the final result is highly uncertain, particularly if contributors are many years away from their expected age of retirement. In addition, it would be useful also to provide the information that an earlier calculation may be affected by a lack of financial stability in the overall system, information which is provided by the actuarial balance sheet; Boado-Penas and Vidal-Meliá (forthcoming) see this as the most important point of contact between global (actuarial balances of the system) and individual information. There is an obvious connection between these two types of information: if the indicators concerning solvency and sustainability derived from the global information reveal a doubtful financial situation, contributors receive signals that indicate that their contributions will have to increase across time and/or benefits may be reduced to maintain the sustainability of the system.

Fully-funded DC systems, such as Chile, make financial investments, which mean that members must bear all the financial risks involved. As a result, the information must include elements that enable quantification of the risks to which benefits are exposed. In such cases, Berstein (2010) indicates that information concerning the risk to pensions should be provided using a probability density function of the replacement rate that includes all the various risks to which contributors are exposed — although it is far from certain that contributors will be able to make complete sense of this information. Clearly, there is no easy solution to the dilemma of how to provide transparent and accessible information concerning the quantification of risk.

In notional defined contribution (NDC) systems (e.g. Sweden), the risk for contributors is that they have no certain knowledge concerning the possible internal return on investment of their contributions and the future replacement rate. Vidal-Meliá, Domínguez-Fabián and Devesa-Carpio (2006) and Boado-Penas, Domínguez-Fabián and Vidal-Meliá (2007) suggest that this risk can be considered non-diversifiable and systemic because it is directly associated with global economic risk. The risk that affects contributors is the economic risk of a reduction in the GDP growth rate and thus in salaries; it is also influenced by demographic risks, for example an increase in the longevity of the population, a drop in the fertility rate or a reduction in the activity rate, all factors which influence economic activity and the financial health of the pension system.

Most state pension models are based on redistribution and many countries are facing long-term deficits and serious solvency problems, which means that they must undertake reforms of an automatic or “ad hoc” nature to resolve them, either by reducing future benefits, increasing the retirement age, increasing contribution rates, or a combination of these measures. It is extremely important to highlight this information and inform contributors in their individual statements that their benefits depend on two aspects: personal factors, i.e. the
amount of contributions, contribution history and age of retirement; and collective factors, i.e. the ability of the system to honour the rights acquired by contributors and pensioners.

It is essential to emphasize that the Spanish social security system provides annual information only on paid contributions, to enable contributors to inform the administration if they detect an anomaly; recently, the Spanish system has included a computer programme on its web page that enables contributors to calculate the approximate amount of a future retirement pension, but this estimate is based solely on information they themselves introduce. In other words, individual information constitutes only a small part of the first level described, and given that Spain is on the verge of a reform of the state pension system incorporating major changes, which will substantially modify expectations concerning retirement pensions for young and middle-aged contributors, there is an important need to provide contributors with more extensive information.

The Spanish state pension system is based on redistribution and defined benefits, and is divided into various schemes which cover a large part of the population. The fundamental reforms to the system which are on the point of being approved are as follows: the statutory retirement age, currently age 65, will be raised progressively to age 67 from 2013 to 2027. The number of contribution years required to receive a full pension will rise from 35 to 37. At age 65, the full pension (100 per cent of the statutory rate) will be paid with 38.5 years of contributions, compared with 35 years at present. Early retirement will still be possible from age 63 with 33 years of contributions. A minimum pension requirement without solidarity supplements will be payable at age 61, with at least 33 years of contributions, in the case of involuntary redundancy. Moreover, additional incentives are being offered to extend the working life, the period used for the calculation of the statutory basic pension is being increased from 15 to 25 years, the coefficients per working year are being modified for increased actuarial accuracy and, finally, a so-called sustainability factor is being introduced based on changes in life expectancy for persons aged 67 from 2032 onwards, although in reality this is no more than a financial mechanism for semi-automatic adjustment which incorporates a high level of discretionary choice.

3. The Social Security Treasury Department (Tesorería General de la Seguridad Social) sends an annual statement to all members by ordinary mail to their home address that shows distinct high and low scenarios and provides information on the contribution base.
Statements providing individual information are relatively recent; with the exception of Chile, which introduced a basic version in 1981 but did not introduce individual pension estimates until 2005, most of the selected countries began issuing these in the course of the last two decades. Tables 1 and 2 of the Appendix provide a brief summary of information on Sweden, Chile, Germany, the United Kingdom, Finland, the United States, France, Japan and Canada concerning the most important elements included in the annual individual statement sent to contributors.

Most of the countries under consideration have reformed their pensions system and one of the objectives in sending out individual statements is to provide information on the reform and stimulate a certain degree of confidence in the new system on the part of members. Almost all the countries include a short section in the statement that describes the pension system. However, with the exception of the United States and Germany, most countries do not provide information on the sustainability of the system.

A general common objective in sending out individual information is to inform on past contributions and future benefits. Statements aim to make members aware of the importance of retirement planning, of the need to cover certain risks such as disability and death, of how certain decisions that they may make during their lives could affect their future benefits, and to provide information which will be useful when deciding whether or not to invest in another savings plan to complement the retirement pension. Another objective common to all the countries is to provide information that is transparent and accessible.

Usually, the individual statement provides information on contributions made to date, to enable contributors to compare the information they have with the information provided by the social security administration. This is the first level of information. Beyond this point, the information differs for DC systems, DB systems and mixed systems. DC systems provide direct information on the contributions made. However, the information provided by DB systems is usually less transparent, since full details concerning contributions and taxes may not be given for each member. In various countries, such as Sweden, Finland, the United States, Canada, Japan and France, the statement itself, while serving as a vehicle to enable a comparison of the information held by the social security administration on contributions made or the annual tax base, requires the member to contact the social security administration to correct any observed errors.

An important issue is whether all members should receive information or whether it should be provided only for certain groups who have special information
needs. Various considerations have to be taken into account. Age is one of the common factors used when deciding who should receive the statement. In a few countries, the youngest are excluded from the receipt of individual statements, since it is felt that they are not particularly concerned about retirement and have made few contributions. This is the case in Chile, for example, where contributors younger than age 30 are excluded. This is done so because the amounts held in their individual accounts are very small, which means that the pension projections would take their level of income (and the interest on contributions) into account only, with the accrued capital having little impact. Some administrations, such as Sweden, send the statement to all those who have made a contribution; this is also the case in Canada and the United Kingdom. Certain countries such as the United Kingdom and Chile differentiate on the basis of age and sex. Canada distinguishes between three age groups, young, middle-aged and close to retirement age, but does not differentiate according to sex. The United States issues statements from age 25, while Finland starts from age 18. Initially, Japan sent statements only to those aged 35, 45 or 55, but since 2009 has extended mailing to all members. Finally, in Germany the statement is sent to all those aged 27 or older who have contributed for at least five years.

In all countries, the statement is usually distributed in paper form, via the post office. In many cases, a particular colour is used for the envelopes, for example in Sweden it is orange, in France it is blue, in Germany it is yellow, in Japan various colours are used depending on various factors, while in Finland white envelopes are used to avoid confusion with publicity and to give it a more sober note. In Sweden, much thought was given to the advantages for members of the annual distribution of the paper-format orange envelope, rather than sending a statement to members in a more anonymous manner via Internet alone. Briefly, the basic conclusions were as follows: a special design and colour were chosen, using orange for easy identification; information is provided once a year and all types of communication refer to it, call attention to it and use it when referring to pensions; and it reaches a higher percentage of the population than information sent exclusively by Internet. On this basis, the orange envelope has become a point of reference, like a commercial logo, for pensions and the banks and insurance companies who use it in publicity campaigns for their products.

Most of the countries under consideration provide access to additional information using online services via special web pages. As Internet access increases, this means of communication will be more widely used, providing useful access to a wealth of additional individual information, for instance as regards the aspect of risk, which is inadequately described in most of the statements. Basic information that is readily understandable by the majority of members will continue to be sent by post.

Some of the countries under review here that have a DB system, such as the United States, Japan, Canada and Finland, help contributors to understand how
disability or death would affect them and their families, in addition to achieving the more general objectives of enabling a comparison with the information held by the social security administration and facilitating retirement planning. Only the United States, Canada and Germany provide information on disability and survivors’ benefits, the latter dealing only with disability.

Most of the statements provide an estimate of future benefits in real terms. Countries with a DB system usually use a formula for calculating benefits that indicates benefits in terms of a replacement rate, thus providing contributors with a fairly accurate idea of their future benefits provided they have a good general idea of how the pension system functions. However, these formulae can be complicated and in many countries the retirement age is being raised gradually as a result of pension system reform, as in the United States, Canada and Germany among others, which further complicates the process.

In a DC system, information is needed on expected benefits based on contributions made. Future benefits are affected by the age at retirement, life expectancy, economic risks, and so forth, particularly if benefits are based partly on real individual investment returns. In the case of Sweden and Chile where the pension system has an important DC component, the objectives focus in particular on helping contributors meet the responsibility of having to plan for their own retirement, and on providing an estimate of the pension that will be awarded to each member.

Sweden, in its individual retirement statement, provides an estimate of future benefits at certain ages: 61, 65 and 70 years. The objective is to show that working longer increases future benefits. In the United States, the annual individual statement provides an estimate of benefits at the normal retirement age, at age 62 (the youngest age for early retirement), and at age 70. Given that the normal retirement age is gradually increasing, individuals receive an estimate based on the normal retirement age for workers of their generation, e.g. for those born in 1956, the normal retirement age is 66 years and 4 months. This makes it clear that the new normal retirement age of 67 will be reached progressively, becoming the normal age of retirement for those born from 1960 onwards.

In the case of the United Kingdom, benefit estimates are split into two groups, for those younger than age 50 and those aged 50 or older, and differentiated for men and women. The statement sent to the first group also includes a set of questions on current and future employment, income, the coverage provided through other pension plans, and the possibility of savings based on current earnings. For the second group, the statement focuses on retirement planning and warns members of the need to earmark part of their savings for the retirement period and also to take into account possible expenditure during retirement. The United Kingdom’s statement provides less information on accrued rights and contributions than in most of the other countries under analysis, but it provides additional practical
advice on how to use the information provided. It also includes a sheet of additional information on various savings options. This is something that other statements do not provide. In France, the information provided for contributors older than age 55 includes estimated pensions at various ages between ages 60 and 65.

In Chile, a distinction is made between two different types of information: between what is known as the “cartola cuatrimestral” (four-monthly mailing), which is distributed three times a year to all members who have contributed (including those younger than age 30), and the personal pension projection (PPP), which is distributed annually to those aged 30 or older. The PPP provides information based on two extreme situations for members who are more than 10 years away from the statutory age of retirement (i.e. women aged 30 to 50 and men aged 30 to 55): the first concerns a person who contributes every month up to the statutory retirement age based on average earnings for the previous six contribution periods; the second is for a person who makes no further contributions and retires at the statutory retirement age based on the funds accrued to date. Members who are within ten years of the statutory retirement age (i.e. women aged 51 to 59 and men aged 56 to 64), receive an annex showing the advantages of delayed retirement. Each person is provided with an estimate based on two hypotheses: that the member will contribute for half the remaining months until reaching the statutory retirement age, and will claim a pension at that age; that the member contributes for half the remaining months until three years after the statutory retirement age (age 63 for women and age 68 men), and claims a pension at that age.

Members younger than age 30 receive an annex to their statement that is not personalized and which underlines the importance of contributing from an early age. It emphasizes that most of their savings for retirement will be based on the contributions they make between the ages of 20 and 30. A diagram is used to show that these contributions will generate approximately 40 per cent of their pensions, with 25 per cent based on contributions made while aged 30 to 40, 20 per cent while aged 40 to 50, and 15 per cent while aged 50 to 60.

When estimating future benefits, the social security administration has to base its calculations on future earnings, taking into account salary increases and interest rate levels. In France, Sweden, the United States, the United Kingdom and Japan, the hypotheses used concerning future tax bases are always equal to the most recent figures recorded, held constant in real terms. Chile, Germany, Finland and Canada use various averages. Chile, for example, calculates the average figure for the previous six years at various contribution levels, i.e. the ratio between the number of months of contributions and the number of months of membership is taken into account. Finland and Germany calculate the average tax base over the previous five years, while in Canada the average of the contribution bases throughout the individual’s working life is used. When carrying out the projection, certain countries include a minimum pension, e.g. Sweden, Chile, the United Kingdom, the United States and Canada. In
Chile and Sweden, where part or all of the pension system is based on individual accounts, the real annual interest rate is taken into account (5 per cent for the former and 3.5 per cent for the latter) although there is no reference of any kind to the fact that contributors face a high level of risk. Generally speaking, the hypotheses used to estimate pensions are over-optimistic; they tend to overestimate benefits and underestimate risks, especially for young contributors.

Given that these estimates concern possible future benefits, it is important that members should be able to interpret these amounts correctly. It is useful to provide various scenarios, thus encouraging the idea that benefits may vary with economic growth and life expectancy and that the greater the difference between the age when the statement is received and the age of retirement, the greater the uncertainty. Usually, individual pension estimates place very little emphasis on the various types of risks which may affect contributors. It would be useful to introduce some kind of sensitivity analysis for certain variables and to quantify their effect on the pension estimate. An important issue is that only a static snapshot of the predicted pension is provided, and it would be useful to include a measure of variability and a prediction interval with a confidence rating, as for any other statistical prediction. Another problem that arises is that better quality information may require a higher level of education in order to understand it properly. This is why it is important to design a basic document that can be supplemented by other means so as to provide more detailed information should the contributor wish it.

The most important features of the statements provided by the selected countries having been described, we now move on to a more detailed analysis of the model used in the United States, chosen because it is a DB pension system which, up to a point, resembles the current Spanish pension system. This is followed by analysis of the Swedish model, which having pioneered the use of this type of individual information has become a reference reform model for many countries. We will focus in particular on how these are structured, what aspects could be improved, and their limitations.

*The Social Security Statement of the United States*

The Social Security Statement (SSS) consists of a four-page individual statement distributed annually to each worker older than age 25 by the Social Security Administration (SSA) of the United States. Smith and Couch (2010) report that the SSS was first issued to members on request in 1989, and issued automatically to contributors older than age 60 in 1995; it was brought into general use for all those older than age 25 in 2000, although in March 2011 the SSA announced the suspension of postal mailing because of budgetary concerns.

The SSS has two basic aims: to facilitate retirement planning and to help contributors (and their families) understand how they may be affected by disability.
or death, and to ensure that the information available to the SSA on registered contributions is adequate and complete. The benefits paid to individuals by the SSA depend directly on the contributions recorded and are based on the best 35 years, which means that the reliability of the estimates depends on having information that is as complete as possible. Recipients of the SSS are therefore encouraged to check the information on their contributions carefully and to call a free phone number to inform the SSA of any errors.

The first page contains an introductory message that describes the importance and benefits of having a social security system. It notes that “Social Security” [as defined by the legislation in the United States] covers not only retirement but other eventualities including disability and may provide benefits to surviving family members in the event of the insured’s death. It points out that it is only one of the sources of income that a worker must consider when planning for retirement, and emphasizes that workers should take into account other income sources such as personal savings, investments and private or other types of pension plans. For more information on how and why to save, a reference is given to a federal Government Internet site which is designed to provide information for the population on basic issues concerning the management of personal finances. Finally, it describes the future financial difficulties facing Social Security and the possible need to introduce reforms in order to address them.

The second page provides an estimate of various types of benefits: retirement and disability pensions and benefits for family members in the event of the insured's death. It also indicates whether the individual has the right to claim medical benefits assistance. This page explains briefly how these benefits have been calculated and the suppositions used; it also indicates briefly the implications of two laws, the WEP and the GPO, which may reduce the benefits certain individuals can claim from Social Security and the web pages where those concerned can find more detailed information on both laws.

The third page contains a table with individual information showing contributions for Social Security and medical benefits insurance made during each year of the person’s working life. It also provides information on the total contributions paid into the social security system by the worker and his or her employers throughout the person’s entire working life. It further asks each individual to check the data sent and ensure that it is correct; if any errors are detected, the SSA free phone number is to be used.

4. Windfall Elimination Provision (WEP): the legislation concerning the elimination of unexpected advantages affects the way in which retirement and disability pensions are calculated if a pension is provided through a job that does not involve Social Security contributions. Government Pension Offset (GPO): the legislation concerning the adjustment of state pensions affects the benefits provided by Social Security for a partner, widow or widower, which may be reduced if they receive a civil service pension which does not entail Social Security contributions.
Finally, the last page describes a series of issues to be taken into account concerning the various social security programmes and benefits to which individuals and their families may be entitled in the event of retirement, disability or death. Information is provided on social security benefits, which may or may not be allocated, and the advisability of having private insurance.

**Areas of improvement for, and the limitations of, the SSS.** The SSS is intended for everyone, but as noted by SSAB (2009) it contains too much information, which means that the most important aspects such as the history of registered contributions, estimates concerning the amount of benefits and the normal age of retirement are not immediately evident.

Currently, the statement exists in one standard format only, which has to be used for all cases and the same information is provided regardless of age, pension level, and different types of family. The statement is static, it does not change over time and this may make the recipient complacent and thus he or she may fail to read or track important information. Finally, the language used is often difficult to understand, obtuse, bureaucratic and confused. This final aspect may lead contributors to take inappropriate decisions for lack of proper understanding of the information.

When calculating earnings throughout a lifetime in order to estimate future benefits, the supposition is that contributors will maintain the same level of contributions as the previous year up to the time of retirement. Calculating benefits in this way involves at least two problems.

First, as discussed by Jackson (2005), it looks as if workers do not obtain a significant increase in benefits if they work for a further year and as if the right to the estimated benefits is totally independent; in reality this is not the case, particularly for young contributors who still have to complete a very long working life.

Second, the hypothesis that contributions will continue at the same level is strongly maintained, and more explicit warning should be given of the consequences if this is not the case. In fact, the SSAB (2009) recommended that the SSA consider providing additional information to young contributors concerning their retirement pension estimates. In concrete terms, estimates for this group should include a projection based on the hypothesis that there will be no further contributions. This projection should be updated every year to show the cumulated impact of the contributions actually made.

The way in which the SSS deals with uncertainties concerning the payment of benefits is limited in a number of ways. Contributors should in theory consider two different sources of uncertainty: uncertainty concerning the legislation applicable in the future, because of possible disequilibrium affecting the actuarial balance; and

5. See OASDI (2010).
uncertainly as regards the probability that a particular individual will receive the benefits described.

For the former, the same degree of importance is attributed to uncertainty regardless of whether the person concerned is young or old. The likelihood of benefit cuts is greater in the case of a young person than for someone older, and the same warning may therefore be over-alarming or too reassuring depending on the participant’s age group.

For the latter, there is uncertainty that participants will receive one of the other types of benefit: disability benefits and survivors’ benefits. Unlike retirement benefits, these allocations are less likely to materialize. The current SSS does not provide information on the likelihood that these contingencies will arise.

Finally, as indicated, some of the hypotheses adopted when estimating retirement pensions tend to overestimate income, because they do not take into account the possibility that contributors will cease contributing at any time in the future. As indicated by the SSAB (2009), the estimates presented in the statement are much closer to reality for older rather than younger contributors.

The orange envelope in Sweden

The orange envelope came into circulation in 1999 when Sweden was carrying out a series of reforms to its pensions system, and it is the main means of communication with members. The Swedish pensions system introduced a major reform that strongly reinforced the actuarial link between benefits and contributions, through the establishment of a combined NDC and fully-funded DC system. This reform recognized the importance of increased life expectancy for the financial stability of the system and incorporated mechanisms for the adjustment of benefits as a result of changes in longevity and in other aspects. Given that it is a DC system, and in contrast to a DB system, the members bear more of the responsibility for planning their pensions and must explicitly assume this risk.

The Swedish social security administration sends out an annual five-page statement, the “orange envelope”, on the value of consolidated rights to a retirement pension. This statement provides information on the balance of the notional and fully-funded accounts and on movements in these during the year and also, in most cases, an estimate of the pension amount. In addition, it provides information on the functioning of the new pensions system and warns members that the level of estimated benefits will depend on the contributions they make throughout their working lives.

6. See <http://www.pensionsmyndigheten.se/download/18.751693cb12c7dc5ab9580006189/%C3%85%1+standard+engelska.pdf>.
7. In fact there are six pages, the last page being reserved exclusively to request the modification of information.
The first page shows contributions paid into the two accounts during the period, based on income during the previous year; the amounts are taken from the income tax declaration for each individual (i.e. contributions are based on taxable income for the previous and not for the current year). This represents retirement pension savings to date (i.e. the value of the consolidated rights for each of the two accounts). It provides an estimate of the monthly retirement pension that the contributor would receive before tax at age 65, and informs the recipient that delaying retirement would provide a further 10 per cent in benefits for each additional year.

The second page provides information on the contributions made to each of the two accounts, the tax base used to calculate the contributions due, rates of contribution for each of the two accounts, any additional contributions for specific situations (military service, childcare, unemployment) and the maximum tax base for the year.

The third page shows the movements that determine the value of the consolidated rights on the date 31-12-“n” based on the value assigned on 31-12-“n-1” for each of the accounts in the year “n+1”. The statement includes contributions assigned, the redistribution of the notional accounts of the same generation who are deceased, known technically as a survivor’s dividend, explicit administrative costs and the performance of the notional balance for the NDC account, and the financial interest on the fully-funded DC account.

The fourth page provides a breakdown of the portfolio of the fully-funded DC account assigned to the contributor, with a special emphasis on administrative costs and the interest obtained for each type of fund, compared with a hypothetical average contributor.

Finally, page five provides an estimate of the monthly retirement pension before tax the contributor would receive if he or she were to retire at age 61, 65 or 70.8 The hypothesis that salaries and prices will remain unchanged means that pension estimates can be compared with a current salary or tax base. The message that benefits may vary depending on economic growth and age of retirement is clearly transmitted, but because the projections are statistical they do not take into account the uncertainties that exist.

Areas of improvement for, and the limitations of, the orange envelope. A first major limitation is that the way in which pension income is projected tends to overestimate various elements of the future benefit. The supposition is that the individual will contribute without interruption until reaching retirement age; this hypothesis is too restrictive and is probably unrealistic for a large proportion of the younger contributors, but the Swedish authorities clearly state on their web page for those aged 60 or older, a projection is provided for all ages up to age 70.
that the pension projection must provide an answer to the following question: *What pension will I receive if I continue in the same way, contributing the same amount as in the previous year, until I retire?*

The level of performance taken into consideration for the fully-funded account does not correspond to the performance of the system to date. In any case it would be more realistic to base the projection on past performance. The value of the accrued capital does in fact reflect past performance, but it would be better to emphasize that past performance is not a guarantee for the future.

It is not specified that the pension derived from the fully-funded DC account may be claimed in the form of a reversible or non-reversible annuity or in the form of a programmed retirement pension or that, in addition, the pension based on the NDC account may be reduced in real terms if the average growth in salaries is not as forecast and/or if the automatic adjustment mechanism is activated.

The second major limitation is that there is no explicit information on the risk borne by contributors under the NDC and fully-funded DC systems. As already explained, in the NDC system contributors run a risk in that they do not know with certainty what the internal rate of interest on their contributions will be, the replacement rate that will apply or the amount of the pension. Similarly, in the fully-funded DC account there is a financial risk that depends on the investment strategy; up to now there has been considerable variation in annual investment performance (Swedish Pensions Agency, 2010).

Third, a false message is transmitted concerning the advantages of the fully-funded DC system, since the projection for the fully-funded DC account is based on an interest rate that is 3.5 per cent higher than that of the NDC account.9 Contributors may be led to believe that NDC accounts entail an implicit cost equal to the revaluation differential, although if their degree of risk aversion and the risk-adjusted performance of their fund are taken into consideration, the yield differential may even be negative.10 The orange envelope transmits a message to contributors that the fully-funded DC system is better, but it does not take the risks into account.

**Final comments and recommendations**

*with regard to Spain*

Providing contributors with information on their state pension is a recent innovation, linked in most cases with pension system reform; it is based on the

9. The Swedish Pensions Agency (2010) indicates that this margin was not reached during the period 1995-2009.
10. As indicated by Vidal-Meliá, Boado-Penas and Settergren (2010), in the period 1995-2007, the interest on the NDC system was 2.81 per cent after adjusting for risk and barely 0.41 per cent for the fully-funded DC system. Unfortunately, the Swedish Pensions Agency had not published the data required to update the calculation until 2010.
actuarial balance of the system as a whole and on other partial indicators of solvency and sustainability which, as indicated by Vidal-Meliá, Boado-Penas and Settergren (2010), is a factor that tends to increase the transparency of the pension system and helps to make its administration less political.

The objectives that individual statements are trying to achieve are well-defined, i.e. to increase the level of interest of contributors and pensioners in the pension system; to assist contributors in planning for retirement, particularly in respect of those systems where responsibility lies with the contributors and where new variables such as life expectancy, age of retirement, financial or notional performance, and the like, have an impact on the pension amount; to make contributors aware of the real level of coverage for risks such as disability and survivorship; and to check whether the information held by social security administrations about individual contributions is accurate.

Even though the introduction of individual information statements is a positive step forward, there are a number of limitations that lead us to believe that much can still be done to improve their contents. It is important to emphasize that projections concerning benefits are overestimated in the vast majority of countries mainly because of the hypotheses and suppositions used, and that in many cases this may be counterproductive. Similarly, the risk aspect is usually weakly presented and in some cases the way in which the information is provided may even lead a contributor to think that there is no risk whatever.

In Spain, the 2011 pension reform will have a major impact on the pensions that most contributors can expect to receive as a result of modifications affecting the basic parameters of the system; if anything, this provides even more justification for the introduction of this type of statement. The following recommendations concerning the design of an individual information statement for contributors in Spain are based on a critical analysis of international experience.

- It is important to relay a message underlining the importance and value of having a public social security pension system. The pension system is important not only in terms of the retirement contingency; it does a lot more; it covers disability and can provide benefits to family members in the event of the insured’s death. The public social security system represents part of a common heritage that must be administered according to the principles of transparency, equity and solvency to avoid failing to meet the expectations of contributors and pensioners.

- Individual information statements should enable contributors to understand that benefits are dependent on two elements: personal aspects, which depend on their own actions (i.e. the amount of their contributions, the period during which they contribute, age at retirement, etc.), and the community (i.e. the capacity of the system to satisfy the rights acquired by contributors and pensioners, and that the financial difficulties and/or the problems relating to the solvency of the system may also affect the amount of benefits). Information about the system’s actuarial
balance is where there is a crossover between issues of collective information and individual information. For this reason, individual statements must be combined with information on the sustainability of the system (and should be included in the case of Spain). This can be achieved by including in the statement an indicator of the solvency of the system. This aspect is much more important than it may seem at first sight, since if the indicators concerning solvency and sustainability derived from the global information reveal a doubtful financial situation, contributors receive a clear signal that their contributions will need to increase over time and/or benefits may be reduced to maintain the sustainability of the system. If contributors are capable of understanding the message transmitted via individual information, they will probably be far more willing to accept the necessary reforms.

- Information must be provided, as in the United States and Canada, about the impact the contributor may have on estimated retirement, disability and survivors' benefits. First, to avoid the phenomenon of the overestimation of benefits, particularly concerning retirement benefits for young contributors, more realistic hypotheses should replace those in general use and should include a brief sensitivity analysis. Second, to avoid giving contributors the impression that benefits would not increase if they worked for an additional year (Jackson, 2005), it would be useful to indicate the benefits accrued per year of service, because comparing this figure year after year with the pension estimate would weaken this impression and reinforce the idea of savings. Third, to improve contributors' perception of the risk that the contingencies covered by the social security system could become a reality, they need to be informed of the probability that they will reach a certain age, the normal age of retirement, and the probability of disability and death. Many contributors are “convinced” that they will never be affected by certain events, which is why certain benefits are of no value in their eyes.

- The statements should differ depending on age, and it would be better, as in certain countries, if statements were not all identical. Younger contributors, whose retirement pension estimates are subject to a high level of uncertainty, should be informed clearly of this fact. Special emphasis should be placed on the possibility of disability and/or death for self-employed workers, who make their own decisions concerning the amount of their contribution base. For older contributors, the retirement pension estimate should clearly indicate the benefits of delayed retirement and the disadvantages of early retirement, where permitted by the legislation. In fact, it would be worthwhile to organize information meetings for groups of elderly contributors interested in this issue.

- Risks should be estimated individually using the social security administration’s web site, and reference to risk should be included in the statement. The main factors that may reduce the expected pension of a contributor in a DB system are: a reduction in the real contribution base, which may come about for various reasons; contribution gaps because of long-term unemployment; or a reform of the system.
which has an impact on expectations, as happened unexpectedly in Spain in 2011.

- The actual appearance of the statement is also important. Generally speaking, the design should be attractive and dynamic and should be associated with a particular colour; the language used should be transparent, simple and accessible but at the same time rigorous; and it should have a maximum length of four to five pages. However, as shown by international experience, this may be difficult to put into practice.

- Last but not least, in a second phase, private social insurance companies should be asked to collaborate with the social security administration and individual information on state pensions should be supplemented with information on the various instruments that could be used to complement state benefits, as in Sweden. This would provide contributors with a complete picture of the way in which risks may be covered. To ensure that contributors receive better information on how and why they should save and improve their coverage for certain risks, a public website should be designed in collaboration with chosen companies to educate the population on the basic issues involved in managing personal finances. This should emphasize the message that regular contributions/savings made early on in the working life are highly advantageous, given that time is essential for the cumulative build-up of capital, as indicated in the Chilean statements. This would present a two-fold advantage: it would provide publicity for the products supplied by these companies, which means it would not be difficult to obtain their collaboration, and it would be a way of combining public and private social protection (Merton, Bodie and Marcus, 1987).

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Providing individual information to Spanish pension contributors


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SSA; ISSA. various years. Social security programs throughout the world. Washington, DC, Social Security Administration.


Vidal-Meliá, C; Domínguez-Fabían, I; Devesa-Carpio, J. E. 2006. “Subjective economic risk to beneficiaries in notional defined contribution accounts”, in The Journal of Risk and Insurance, Vol. 73, No. 3.
### Table A.1. Features of the statements sent to contributors in certain selected countries with funded or mixed systems

<table>
<thead>
<tr>
<th>Concepts</th>
<th>Sweden</th>
<th>Chile</th>
<th>Germany</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of system</strong></td>
<td>DC</td>
<td>DC</td>
<td>DB</td>
<td>DB</td>
</tr>
<tr>
<td></td>
<td>Notional and funded account</td>
<td>Individual funded</td>
<td>Points and funded</td>
<td>Redistribution and funded</td>
</tr>
<tr>
<td><strong>Pensionable age</strong></td>
<td>Flexible from age 61</td>
<td>Age 65 (men) and age 60 (women)</td>
<td>Aged 63-65; gradually rising to age 67 between 2012 and 2029</td>
<td>Age 65 (men) and age 60 (women); gradually rising to age 66 (men and women) by October 2020</td>
</tr>
<tr>
<td><strong>Target population</strong></td>
<td>All those who have contributed</td>
<td>Women: Aged 30-50; 51-59</td>
<td>From age 27 with at least 5 years of contributions</td>
<td>Men: Aged 20-49; 50-64;  Women: Aged 20-49; 50-59</td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
<td>Annual</td>
<td>Quarterly/Annual</td>
<td>Annual</td>
<td>Annual</td>
</tr>
</tbody>
</table>
| **Objectives of the statement** | • Stimulate interest in the pensions system among contributors and pensioners following the 1999 reform  
• Assist retirement planning, since the responsibility for this now lies in the hands of the contributors, influenced by new variables such as life expectancy, etc  
• Help contributors plan their retirement and encourage them to think about increased life expectancy, their needs on retirement, etc | • Provide an estimate of the pension that will be obtained by members on retirement (they may continue to work) and information on how to increase it  
• Check the information held by the social security administration on recorded contributions is sufficient and complete | • Provide information on the impact of successive reforms since 1992, and assess whether additional savings are required | |
<table>
<thead>
<tr>
<th>Description of the pension system</th>
<th>Yes</th>
<th>No</th>
<th>Yes</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information on the sustainability of the system (actuarial balance)</td>
<td>No; although the annual actuarial balance is provided</td>
<td>Not required. The system of funding based on defined contributions is, by definition, sustainable</td>
<td>Yes; although the actuarial balance is not provided, reference is made to what is called the “sustainability factor”</td>
<td>No; although the annual actuarial balance is indicated every five years</td>
</tr>
<tr>
<td>Information concerning other benefits</td>
<td>No</td>
<td>No</td>
<td>Yes, on disability</td>
<td>No</td>
</tr>
<tr>
<td>How are contributions shown in the balance of account or statement?</td>
<td>Total of previous statement + contributions over previous year = cumulated total</td>
<td>Previous balance, detailed Monthly Contributions net of tax and current balance</td>
<td>Total contributions throughout working life + employers’ contributions + total contributions paid by a third part = Total contributions from employment</td>
<td>No</td>
</tr>
<tr>
<td>Projections</td>
<td>Projection in real terms from age 28</td>
<td>Projection in real terms from age 30</td>
<td>In real terms</td>
<td>For two groups: younger or older than age 50. Different for men and women</td>
</tr>
<tr>
<td>Hypothesis concerning future tax base used in the projection</td>
<td>Identical to the most recent, constant, in real terms</td>
<td>Various suppositions, average over the previous six years, but with various contribution levels</td>
<td>Average of the tax base over the previous five years</td>
<td>The same as that most recently recorded at the time of the projection</td>
</tr>
<tr>
<td>Is a “minimum pension” included in the projection?</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Hypothesis concerning the type of interest</td>
<td>3.5% real annual</td>
<td>5% real annual</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

Note: The information provided in the table refers mainly to the benefits described in the statement, which is sent to contributors in each country. In Sweden, for example, the information refers only to the retirement contingency, although the state pensions system also covers other contingencies. For a full description of the characteristics of the pensions systems, see SSA and ISSA (various years).

Sources: Based on Usuki, Nakajima and Kitamura (2006); Swedish Pensions Agency (2008); Gip Info Retraite (2007); Larson, Sundén and Settergren (2008); Pension Service (2009); Bernstein et al. (2009); Fajnzylber, Plaza and Reyes (2009); SSAB (2009); Kalliomäki (2010); Sailer (2010); Smith and Couch (2010); SSA (2011); Boado-Penas and Vidal-Melé (forthcoming); and authors’ calculations based on various web pages.
Table A.2. Features of the statements sent to contributors in certain selected countries with DB or points systems

<table>
<thead>
<tr>
<th>Concepts</th>
<th>Finland</th>
<th>United States</th>
<th>France</th>
<th>Japan</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of system</td>
<td>DB</td>
<td>DB</td>
<td>DB</td>
<td>DB</td>
<td>DB</td>
</tr>
<tr>
<td></td>
<td>Mixed</td>
<td>Pay-as-you-go</td>
<td>Points</td>
<td>Pay-as-you-go</td>
<td>Pay-as-you-go</td>
</tr>
<tr>
<td>Pensionable age</td>
<td>Aged 62-68</td>
<td>Aged 62-66; rising to</td>
<td>Age 60 with 162 quarters of coverage (rising gradually to 168 quarters by 2020)</td>
<td>Age 60, rising to age 65 by 2025 (men) and 2030 (women)</td>
<td>From age 60, with planned changes between 2011 and 2016</td>
</tr>
<tr>
<td></td>
<td></td>
<td>age 67 in 2027</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target population</td>
<td>Aged 18-67, but not</td>
<td>From age 25</td>
<td>Contributors:</td>
<td>Contributors:</td>
<td>Contributors:</td>
</tr>
<tr>
<td></td>
<td>pensioners</td>
<td></td>
<td>Aged 35, 40, 45, 50, and 55</td>
<td>1. Younger than age 50</td>
<td>1. Aged 18-29</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2. Aged 50 or older</td>
<td>2. Aged 30-50</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3. Aged 50-70</td>
</tr>
<tr>
<td>Frequency</td>
<td>Annual</td>
<td>Annual</td>
<td>Every five years; every two years on request</td>
<td>Annual</td>
<td>Annual initially, but currently less frequent “smart mailing”. Accessible via the web</td>
</tr>
<tr>
<td>Objectives of the statement</td>
<td>• Check the information held by the social security administration on recorded contributions is sufficient and complete</td>
<td>• Assist retirement planning and further understanding of how disability or death may affect contributors (and their families)</td>
<td>• Check the information held by the social security administration on recorded contributions is sufficient and complete</td>
<td>• Provide contributors with basic information concerning the pensions system following the 2004 reform and provide an estimate of their benefits</td>
<td>• Assist retirement planning and further understanding of how disability or death may affect contributors (and their families)</td>
</tr>
<tr>
<td></td>
<td>• Assist retirement planning and further understanding of how disability or death may affect contributors (and their families)</td>
<td>• Check that information held by the social security administration on recorded contributions is sufficient and complete</td>
<td>• Inform contributors of their acquired rights and those they may acquire on retirement if they continue to work</td>
<td>• Increase confidence in the state pension system and reduce anxiety</td>
<td>• Check that information held by the social security administration on recorded contributions is sufficient and complete</td>
</tr>
<tr>
<td></td>
<td>• Check that information held by the social security administration on recorded contributions is sufficient and complete</td>
<td>• Provide contributors with basic information concerning the pensions system following the 2004 reform and provide an estimate of their benefits</td>
<td>• Check that information held by the social security administration on recorded contributions is sufficient and complete</td>
<td>• Check that information held by the social security administration on recorded contributions is sufficient and complete</td>
<td>• Check that information held by the social security administration on recorded contributions is sufficient and complete</td>
</tr>
<tr>
<td>Description of the pension system</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes, in annexes.</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>----</td>
<td>-----------------</td>
</tr>
<tr>
<td>Information on the sustainability of the system (actuarial balance)</td>
<td>No, although an official actuarial account is provided every three years</td>
<td>Yes, an official actuarial account is provided every year</td>
<td>No</td>
<td>No, although an official actuarial account is provided every five years</td>
<td>No, although an official actuarial account is provided every three years</td>
</tr>
<tr>
<td>Information concerning other benefits</td>
<td>No</td>
<td>Yes, disability and survivors</td>
<td>No</td>
<td>No</td>
<td>Yes, disability and survivors</td>
</tr>
<tr>
<td>How are contributions shown in the balance of account or statement?</td>
<td>Not shown</td>
<td>Annual tax base</td>
<td>Annual income and contributions paid</td>
<td>Tax base</td>
<td>Contributions for the year</td>
</tr>
<tr>
<td>Projections</td>
<td>Projection in real terms from age 50</td>
<td>In real terms</td>
<td>For those aged 55, projection of the pensions they would receive at ages 60, 61, 62, 63, 64 and 65 in current euros</td>
<td>In real terms</td>
<td>In real terms</td>
</tr>
<tr>
<td>Hypothesis concerning future tax base used in the projection</td>
<td>Average of the tax base over the previous five years, with 1% and 2% increases</td>
<td>The same as that most recently recorded at the time of the projection</td>
<td>The same as the last one</td>
<td>The same as that most recently recorded at the time of the projection</td>
<td>Average of the contribution base throughout the working life</td>
</tr>
<tr>
<td>Is a “minimum pension” included in the projection?</td>
<td>No</td>
<td>Yes</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Yes</td>
</tr>
<tr>
<td>Hypothesis concerning the type of interest</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

Note: The information provided in the tables refers mainly to the benefits described in the statement, which is sent to contributors in each country. For a full description of the characteristics of the pensions systems, see SSA and ISSA (various years).

Sources: See Table A.1.
Extending coverage under the Argentinian pension system: Distribution of access and prospects for universal coverage

Camila Arza

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Abstract One of the main challenges facing social policy in Latin America is to guarantee social security coverage for the entire population in the presence of a large informal sector. In Argentina, a regional pioneer in terms of the development of its pension system, more than one third of those of retirement age were without benefits in 2005. Since then, considerable progress has been made in extending coverage thanks to the introduction of a programme that has reduced contribution requirements and allocated benefits to a large number of seniors previously excluded from the system. This article analyzes the impact of this process in Argentina on the level and distribution of coverage, identifies changes in socio-demographic factors which affect inclusion/exclusion in the social security system, and discusses remaining obstacles to the provision of universal coverage in the medium and long term.

Keywords pension scheme, gaps in coverage, scope of coverage, Argentina, Latin America
Introduction

One of the major problems affecting social policies in Latin America concerns the difficulties facing contributory social security systems in providing protection for the entire population in the presence of a large informal sector. Even in periods of economic growth, Latin American countries have been unable to generate sufficient stable jobs in the formal sector to guarantee social security for all. The effect of the extensive informal sector that is characteristic of the region has been to reinforce certain weaknesses in the coverage provided by contributory pension systems, which cannot guarantee gender equality or effective protection for non-nuclear families. This is why, to complement existing social security programmes, recent social policies in Latin America have relied on designs based on non-contributory schemes (with or without a special focus) to reach informal workers, the unemployed, non-salaried workers and their families and to realize progress in extending social protection both for seniors and for families and children (solidarity pensions, conditional cash transfers).

Argentina, a country which is among the pioneers in the development of social security in Latin America, has not escaped these problems. Only a few occupational groups, thanks to their greater influence, political activism and/or economic importance, were given early access to benefits when social insurance was first introduced in Argentina (Mesa-Lago, 1978; Isuani, 1985a). “Legal” coverage was extended gradually to all workers as new pension schemes were introduced for larger segments of the population, such as the industrial and service sectors. This process took place in the mid-twentieth century and led to a significant extension of social insurance coverage in the following decades. However, in Bismarckian social security systems effective inclusion depends not only on legal inclusion but on contribution requirements and the ability of each individual to meet these. During the financial crisis of the Argentinian social insurance system in the 1980s and as a result of the structural reform of the 1990s (which occasioned a high fiscal cost because of the partial transition to a system of funded individual accounts), official concern centred on the financial equilibrium of the pension system; stricter contribution requirements were introduced in order to restrict access to benefits and limit expenditure. In a situation of widespread and increasing informality in employment, the coverage rate among individuals of retirement age began to decline. Furthermore, there was a high probability that workers without social insurance rights would belong to the most underprivileged social groups (see Rofman, Lucchetti and Ourens, 2009).

A number of measures have been introduced in recent years to significantly extend the coverage provided by the pension system. As a result, the number of retirement and other pensions allocated by the National Social Security...
Administration (ANSES) has increased rapidly and a large proportion of the seniors who had been excluded from the system in previous years are now included. This article will assess the impact of this process on the levels and distribution of access to benefits and discuss the capacity of the current social insurance network to guarantee full coverage for current and future generations. Following this introduction, the next section will examine the nature of the coverage problem within the Argentinian pension system and the institutional mechanisms introduced recently to extend coverage and their impact. The article then assesses the effect of this process on the distribution of coverage and the relative changes and/or continuity in the nature of the socio-demographic factors associated with access to benefits. The focus is then placed on the institutional structure of the Argentinian pension system and its limitations and prospects in terms of the provision of universal coverage. The final section summarizes the main results and conclusions are presented.

**Pension system coverage in Argentina**

*Institutional structure, the labour market and social protection in Latin America*

Contributory pension systems of the Bismarckian type, such as those introduced in Argentina in the twentieth century, are intended to “postpone” payment of part of workers’ salaries throughout their lives in order, when certain conditions are met, to redistribute this income to cover the risks of old age, disability and death. Traditionally, the aim of these systems is to maintain the standard of living of workers (and their families) when they retire from active employment, offering salary-based benefits as a “substitute” to replace former earnings. Generally speaking, these systems are intended also to prevent old-age poverty among covered workers (for example, through the payment of minimum benefits). Contributory systems can achieve both objectives (maintenance of living standards and prevention of poverty) in a context where formal employment is widespread and families are stable. However, where these conditions do not exist, coverage of the population is more limited and this produces the inequalities in levels of access and social protection that are frequently observed in the Latin American context.

For a number of years, various analysts have drawn attention to the problems concerning the coverage provided by social security systems within the context of Argentinian and Latin American labour markets (for example, Isuani, 1985b; Lo Vuolo and Barbeito, 1993; Mesa-Lago, 1990). The problem of coverage has attracted renewed attention in the past decade because of the way in which rates have continued at low levels in spite of structural reforms and, indeed, had continued to decline in certain countries, including Argentina (for example, Willmore, 2006;

Certain Latin American countries, which have begun a new phase of structural reform following the privatization reforms of previous decades, have thus included the extension of coverage among their primary objectives (see Uthoff, 2010). In Chile, where a social assistance benefit for low-income groups without coverage (PASIS) already existed, a new solidarity pension (Pensión Básica Solidaria) has been created for seniors without access to a contributory pension and whose income places them in the first three quintiles of the income distribution curve, and an additional benefit (Aporte Previsional Solidario) has been introduced for those with low levels of contributory benefits (Rofman, Fajnzylber and Herrera, 2009; Calvo, Bertranou and Bertranou, 2010; Délano, 2010; Arenas de Mesa, 2010). These benefits were introduced into the existing pension system in the form of a new pillar, with the aim of circumventing, both, the waiting lists which restrict access to non-contributory benefits and the contribution requirements for access to a minimum benefit under the contributory system (Mesa-Lago, 2009).

The Bonosol, a universal benefit for seniors which was created in Bolivia in the 1990s, was shown to have had a positive impact on the well-being of the poorest families (Martínez, 2006). The Bonosol was recently replaced by the universal Renta Dignidad. This new universal benefit has been incorporated into the existing social insurance system (it is not limited to a specific population group), has new sources of finance, and aims to improve both the level of benefits and their coverage (Müller, 2009). A similar benefit exists in Mexico City in the form of the Pensión Alimentaria, which was introduced in 2003 for all seniors living in the Federal District (DF). Mexico State followed this example in 2010 with the Programa 70 y Más initiative, which targets those aged 70 or older living in areas with up to 30 thousand inhabitants (Yañes, 2011). Prior to these developments, from 1992 Brazil introduced the means to extend coverage more widely through rural pensions. Access to rural pensions is provided without the need for contribution requirements typical of most social security systems. This led to a substantial improvement in coverage and in the impact of pension benefits on family income in rural households (Delgado and Cardoso, 2007). Non-contributory pensions, targeting those who do not have access to contributory social security benefits because of the nature of their employment history and personal circumstances, exist in some of these and other countries (Bertranou, Solorio and van Ginneken, 2002).

Unlike these experiences based on universality (Bolivia, Mexico DF), on regional selection (Brazil, Mexico), or with a focus on income (covering a wide segment of the population in Chile, but in a more restricted sense elsewhere), the recent extension of coverage in Argentina is based on the implementation of a huge programme to incorporate individuals of retirement age who do not meet the existing minimum contribution requirements. In practice, this is being achieved by
means of a moratorium on the payment of outstanding contributions. This measure has led to a highly significant increase in the number of beneficiaries and in persons covered. In contrast with Chile and Bolivia, however, Argentina did not introduce a new solidarity pillar into the contributory social security system — a pillar that acts as a stable mechanism for the inclusion of future generations (for a comparison between Argentina and Chile, see Mesa-Lago, 2009).

The road to exclusion from the pension system and the recent extension strategy in Argentina

The coverage provided by pension systems can be measured as regards two stages in the life course. Contributory systems enable workers to cumulate rights during the active stage of their lives, which entitle them to apply for and receive a retirement benefit on reaching retirement age and which also confer a derived right to a survivor’s pension for a spouse and child dependants. A traditional indicator of coverage concerning future pension rights is thus the percentage of workers who contribute to the social security system. In turn, coverage in terms of effective access to benefits refers to those having reached retirement age and who actually receive a retirement benefit or pension. The typical indicator in this case is the percentage of men and women who receive personal benefits or who live in households with pension-derived income (for example, through a spouse). While workers’ coverage depends on labour market conditions, actual coverage for those who have reached retirement age depends more on the rules governing the pension system (requirements for access to the existing scheme) and on the employment and family history of each individual.¹

There is a rich literature describing the difficulties facing Latin American pension schemes in providing full coverage (including Barrientos, 1996; Cruz-Saco, 2002; Mesa-Lago, 2008; Goldberg and Lo Vuolo, 2006; Holzmann, Robalino and Takayama, 2009; Rofman, Lucchetti and Ourens, 2009; Jiménez and Cuadros, 2003; ILO, 2010). In Argentina, the growth of the informal labour market in the 1990s increased the gap between those covered and those excluded from social security, restricting the future rights of many workers and their families. Following the reform of the pension system in 1993, 30 years of registered contributions were required on reaching the statutory retirement age in order to qualify for a pension. As these requirements were implemented in a labour market with a high proportion of informality, so coverage was reduced: between 1992 and 2003, it fell from 78 per cent to 68 per cent of those aged 65 or older (Figure 1). At the beginning of 2005, about 38 per cent of those of retirement age (from age

¹. For a discussion of the advantages and disadvantages of alternative methods for measuring coverage, see Rofman, Lucchetti and Ourens (2009).
60 for women and from age 65 for men) derived no income from a retirement benefit or pension (see Table 1).

From 2005 onwards, the requirements for the allocation of benefits were relaxed for seniors who did not meet the conditions laid down in the existing contributory system (see Cetrángolo and Grushka, 2008; Rofman, Fajnzylber and Herrera, 2009; D’Elia, 2007). First, early retirement was introduced for unemployed workers who were no more than five years away from retirement age but who had completed the required 30 years of contributions. These workers receive reduced benefits until reaching the statutory age of retirement. Second, a “moratorium” was introduced for those who had not completed enough years of contributions to qualify for a pension under the existing system. This is how the programme works: those who wish to do so may apply for access to the “moratorium” and declare an occupation for the period necessary to complete the years of contributions required under the present system (currently 30 years). The National Social Security Administration (ANSES) calculates the “contributions shortfall” and provides each individual with a payment plan that enables them to begin to receive benefits, reimbursing ANSES

Figure 1. *Argentinian pension system coverage, 1992-2006 (percentage)*

Source: Based on Rofman, Lucchetti and Ourens (2009).

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2. Act 25.994, art. 6 and Decree 1454/05. At present, the moratorium applies to contribution debts for periods prior to the introduction of the system of individual accounts (i.e. prior to September 1993). See <www.anses.gov.ar/jubilados-pensionados/pip.php> (in Spanish).
### Table 1. Argentinian pension system coverage, 2005-2010 (people of retirement age and salaried workers)

<table>
<thead>
<tr>
<th>Year</th>
<th>Household with pension (%)</th>
<th>Personal pension (%)</th>
<th>Employees covered (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-T1</td>
<td>77</td>
<td>62</td>
<td>53</td>
</tr>
<tr>
<td>2005-T2</td>
<td>77</td>
<td>61</td>
<td>53</td>
</tr>
<tr>
<td>2005-T3</td>
<td>77</td>
<td>61</td>
<td>54</td>
</tr>
<tr>
<td>2005-T4</td>
<td>78</td>
<td>63</td>
<td>55</td>
</tr>
<tr>
<td>2006-T1</td>
<td>78</td>
<td>62</td>
<td>56</td>
</tr>
<tr>
<td>2006-T2</td>
<td>77</td>
<td>61</td>
<td>56</td>
</tr>
<tr>
<td>2006-T3</td>
<td>77</td>
<td>62</td>
<td>57</td>
</tr>
<tr>
<td>2006-T4</td>
<td>79</td>
<td>64</td>
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<tr>
<td>2007-T4</td>
<td>86</td>
<td>76</td>
<td>60</td>
</tr>
<tr>
<td>2008-T1</td>
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<td>80</td>
<td>62</td>
</tr>
<tr>
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<td>2008-T3</td>
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<tr>
<td>2008-T4</td>
<td>90</td>
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<tr>
<td>2010-T4</td>
<td>91</td>
<td>85</td>
<td>66</td>
</tr>
</tbody>
</table>

| Reduction in the coverage gap | 59.9      | 61.3      | 28.0      |

**Retirement age**: 60 for women and 65 for men.

**Household with pension**: Individuals of retirement age living in households where there is at least one retirement benefit/pension.

**Personal pension**: Individuals of retirement age receiving a retirement benefit or pension.

**Employees covered**: Salaried workers with pension deductions.

**Coverage gap**: The difference between existing coverage and full coverage (100%). The reduction in the gap is the quotient between the percentage points of increased coverage at different points in time (between the first trimester 2005 and the fourth trimester 2010) and the initial coverage gap (in the first trimester 2005), expressed as a percentage.

**Notes**: The data concerns the 29 Urban Areas included in the Permanent Household Survey carried out by the Instituto Nacional de Estadística y Censos. In order to facilitate comparison over time, three areas that were included in the series only at the end of 2006 were excluded from the analysis (San Nicolas-Villa Constitución, Rawson-Trelew, Viedma-Carmen de Patagones).

**Source**: Estimate based on the Permanent Household survey, Continuous Quarterly Basis — INDEC.
in monthly instalments deducted directly from their benefits. This measure has had a considerable impact, providing old-age benefits for those who have not contributed sufficiently, including those who have not contributed at all. Until mid-2010, about 47,000 early retirement pensions and about 2.45 million new benefits were introduced as a result of the moratorium (MTESS, 2010, p. 35).

From 2003 onwards, there was also a significant increase in the number of social assistance pensions (a pre-existing programme), although the majority of new claims concerned disability pensions and pensions for mothers of seven or more children. In 1998, the social assistance pension programme, which specifically targets elderly and disabled population groups, represented approximately 116,300 beneficiaries out of a total of 315,298 awards for non-contributory benefits paid to various population groups (Bertranou, Solorio and van Ginneken, 2002). This figure remained relatively stable until 2003, when previous tax restrictions were removed and the number of benefit recipients expanded rapidly. The number of social assistance pensions specifically targeting the “old age” category increased from 43,272 beneficiaries in December 2003 to 92,517 in December 2006, before falling to 57,069 in June 2010 (following the same pattern as the increase in benefits generated by the moratorium). Disability benefits, however, increased more rapidly: their number was multiplied by six between December 2003 and June 2010, when it reached 487,381 beneficiaries (see MTESS, 2010, p. 37). Although the number of non-contributory pensions had started to increase before the moratorium began to have an impact, no changes were observed in rates of coverage for seniors until the end of 2006 (Table 1). In practice, the increase in new beneficiaries for non-contributory old-age benefits was far less than the increase caused by the moratorium (which led to nearly 2.5 million new beneficiaries).

**Changes in the level and distribution of coverage**

The increase in coverage for seniors reversed the tendency towards a decline observed in the second half of the 1990s. Between the beginning of 2005 and the end of 2010 the percentage of people of retirement age receiving benefits increased from 62 per cent to 85 per cent and the percentage of seniors living in households receiving at least one retirement benefit or pension increased from 77 per cent to 91 per cent (Table 1). This helped to close nearly 60 per cent of the existing coverage gap and provided a benefit for almost two out of three people of retirement age who did not previously have one.3 The increase was highly significant, although the

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3. The coverage gap is the difference between 100 per cent (full coverage) and effective coverage based on observation. Estimates were based on the Permanent Household Survey (EPH) (trimestrial data) carried out by the Instituto Nacional de Estadística y Censos (INDEC). Data concerning the payment of social benefits includes all types of benefits (state pension, special schemes, provincial non-transfer and professional schemes, pensions based on the moratorium, non-contributory pensions, etc.) but does not
majority of the new beneficiaries received a minimum pension (the corresponding amounts then being deducted from moratorium pensions); while full individual coverage has not yet become a reality this attempt was successful, particularly in improving access to benefits and reducing existing coverage gaps for specific social groups. Rofman and Oliveri suggest that increased coverage may have had a positive impact on income distribution among seniors. Their estimates show that the difference between the Gini coefficient of per capita income distribution with or without pensions has increased since 2007 following the implementation of the moratorium (Rofman and Oliveri, 2011, pp. 36-39). The authors also found less poverty among seniors, particularly seniors older than age 65 with pension coverage, than among the general population.

For many years, the regulations governing access to the Argentinian pension system and the unequal distribution of informal work created a widening split in the population between those covered by the system and those excluded from it. Generally, workers on higher incomes were better able to maintain coverage, men better able than women, state employees better able than those in the private sector, and so forth. Until 2003, only 8.9 per cent of actively-employed workers in the lowest decile contributed to social insurance schemes, compared with 59.7 per cent of those in the highest decile (Rofman, Lucchetti and Ourens, 2009, p. 33). Coverage gaps during the active-life stage increasingly had an impact on the situation of seniors. This is why the extension of coverage to include those who had remained outside the pension system led to an improvement in the intra-generational distribution of access to benefits.

The gender gap is a common characteristic of contributory pension systems — women often cumulate less direct rights because of their lower rate of participation in the salaried labour market (although in certain circumstances they acquire “derived” pensions or income through their husbands) (see Bertranou and Arenas de Mesa, 2003; Pautassi, 2002; Ginn, 2003, among others). In fact there is a significant gender gap in most Latin American countries, except those with extremely wide (e.g. Uruguay) or universal coverage (non-contributory pensions in Bolivia) (Rofman, Lucchetti and Ourens, 2009, p. 19). Although they varied, there were significant gender differences in Argentina throughout the 1990s and early 2000s. In early 2005, only 54 per cent of women of retirement age received a retirement pension or benefit (compared with approximately 74 per cent of men). At the end of 2010, the figures stood at 83 per cent and 88 per cent for women and men, respectively (Figure 2.1). Women have gained most from the recent expansion
Figure 2. Argentinian pension system: Individual coverage according to socio-demographic characteristics (percentage — population of retirement age)

2.1. Coverage by gender

2.2. Coverage by age

2.3. Coverage by marital status

2.4. Coverage by level of formal education

2.5. Coverage by per capita household income

2.6. Coverage by housing quality

The data (2005-T2 and 2010-T2) is based on 29 Urban Areas included in the Permanent Household Survey. Individual retirement age: 60 for women and 65 for.

Educational level refers to the highest level achieved in the formal educational system.

Housing quality: An indicator of structural living conditions based on six privations which affect the quality of accommodation: i) overcrowding (three or more persons per room), ii) quality of the flooring (cement, wood or earth), iii) quality of the roofing (corrugated iron, cardboard or rushes), iv) access to water (water outside the home, or outside the land), v) toilet facilities (home without a toilet, with a lavatory without a lock, with a latrine, septic tank or cesspit, or with an outside toilet), vi) location (accommodation located in a slum, close to a refuse tip and/or in an area where there is risk of flooding).

Source: Calculation based on the Permanent Household Survey, Continuous Quarterly Basis — INDEC.
of coverage because of their low initial rate of coverage and lower retirement age.\(^5\) This has enabled a reduction in the gender gap in coverage, although it has not yet disappeared.

Coverage tends to show a positive correlation with age in Argentina, as in certain other Latin American countries (e.g. Uruguay and Chile) (Rofman, Lucchetti and Ourens, 2009, p. 20). The older the person the better the coverage, for reasons that are both institutional (existence of schemes for extreme old age, or social assistance benefits for older seniors)\(^6\) and demographic (higher probability of widowhood and pension claims; longer life expectancy for higher income groups, which typically have better coverage, etc.). In Argentina, differences in coverage by age group have been exacerbated since the mid-1990s, as new requirements for access have made it more difficult for those reaching retirement age to actually claim benefits. This “layered” distribution of coverage by age group has persisted through the recent extension efforts, although the differences between the age groups have become less marked. Coverage is almost universal for those in the oldest group (aged 70 or older) (Figure 2.2).

Pension systems based on the Bismarckian model, and thus on family structure, tend to generate wider coverage gaps between individuals depending on their marital status. Widows and widowers, for example, have better coverage than single or married people because widowhood provides a pension right (particularly important for women). In 2005, individuals who were separated or divorced had a very low rate of coverage (34 per cent), less than half that for the single or widowed. These differences became less noticeable between 2005 and 2010 as a result of the significant increase in coverage for those either married or divorced (particularly for women in these categories). Marital status continues, however, to have a certain impact on the distribution of coverage: widows and widowers continue to benefit from wider coverage and are the only group to have a coverage level above 90 per cent (Figure 2.3). Coverage has doubled for individuals who are divorced or separated, but this group continues to have the lowest rate. This reflects a certain lack of familiarity concerning access to benefits, although as will be shown later in the multi-variable analysis, the effect of marital status on the likelihood of obtaining benefits has not disappeared.

Extending coverage has reduced social protection gaps based on three indicators of socio-economic status and living conditions: educational level, household income and housing quality. Layered access to benefits based on educational level was also observed throughout the 1990s and 2000s in Argentina, as in most of the

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\(^5\) In fact the moratorium was popularly known as the “housewives’ pension” because it enabled many women to claim benefits who had participated little (or not at all) in the paid labour market. Overall, 78 per cent of the benefits allocated as a result of the moratorium went to women (ANSES, 2011, p. 14).

\(^6\) In Argentina, for example, there is a special benefit for extreme old age and social assistance benefits for those aged 70 or older (the normal retirement age is 60 for women and 65 for men).
Latin American countries (with the exception of countries such as Brazil and Uruguay, for example, where coverage based on educational level was fairly homogeneous). In 2005, the rate of coverage for seniors with higher education (third level or university) was ten percentage points higher in Argentina than for those who had completed only primary school education. The marked increase in coverage for those with a low level of education is a reversal of this distribution trend: in 2010, the highest rates of coverage were among those without a formal education or with a primary school education only (Figure 2.4). The higher education group has the lowest level of coverage (74 per cent, a phenomenon probably linked with the higher rate of activity of this population group (i.e. a process of “self-selection”). The negative effect of educational level (less coverage at higher levels of education) disappears if only those who are inactive are taken into account; the higher education/inactive group has the highest rate of coverage (94 per cent).

The reduction of coverage gaps among seniors based on per capita income and housing quality also reflects a certain reduction in the social stratification of access. Differences in coverage by income level increased during past decades. The difference in coverage between the lowest income quintile and the highest income quintile, for example, increased from 16 to 47 percentage points between 1992 and 2003 (see Rofman, Lucchetti and Ourens, 2009). Coverage has increased in practically all income groups as a result of the recent extension measures, but the increase has been more marked among the poorest (Figure 2.5). Coverage did not increase for the highest income decile (in fact it fell by one percentage point). These trends have tended to reduce previous coverage gaps. Distribution has become pyramidal in that the middle-income groups have better coverage than those in the higher- and lower-income groups. In spite of the extension, the poorest decile still has the lowest rate of coverage.

Differences in coverage based on housing quality — an indicator which combines six characteristics associated with specific privations (e.g. overcrowding, lack of indoor plumbing, a toilet without a sewer, floors or ceilings made of flimsy materials, etc.) — indicate the distribution of access in relation to the more structural aspects of living conditions and the socio-economic status of families. The data based on this indicator show a similar trend to the others: increased coverage in all groups that is more marked among individuals in poorer housing.

7. Self-selection based on activity hypothesized in relation to workers of a higher educational level also seems to apply in this case: 81 per cent of those of retirement age without benefits in the highest income decile continue to work (compared with 18 per cent in the poorest decile). Almost all the inactive persons without a pension in the highest decile are women.

8. Some cross-causality is likely here: in fact, those grouped in the poorest decile may be there precisely because they do not receive benefits. Nevertheless, the fact that there are individuals on low incomes without coverage is particularly important from the point of view of public policy and indicates some of the gaps which remain in spite of the extension of coverage.
leading to a reduction in the coverage gap based on structural housing characteristics (Figure 2.6).

Naturally there is interaction among the variables, as shown in Figures 2.1 to 2.6. Multivariate analysis has been used to assess these effects, as shown in Table 2.9 A first estimate includes the entire sample of those of retirement age (estimate I-2010). The results confirm the positive impact of age (coverage improves with age) and suggest that, after controlling for other variables, only widowed women have a higher probability of coverage than married men (reference group).10 Housing quality does not have a significant effect on coverage. Taking only the inactive subgroup into account (estimate II-2010), married women have significantly less coverage than married men (reference group); the higher probability of coverage for widowed women disappears while the positive effect of age is maintained. Finally, neither educational level nor housing quality had a significant effect on the coverage of inactive workers in the year 2010.

For 2005, the socio-demographic variables appeared to have a significant impact on coverage: divorced or single men, and women almost regardless of their marital status (particularly married and divorced women), are less likely to receive a personal pension than married men (reference group). Out of the total population, only widows have a better rate of coverage (estimate I-2005), but this effect is reversed if only the inactive population is taken into account (as in 2010). The 2005 figures reveal two other differences compared with 2010 (i.e. before and after coverage was extended): one is the positive impact of educational level (the higher the educational level, the higher the coverage rate) and the other is the negative effect of housing quality11 (those living in structurally poorer housing had lower levels of coverage than the rest in 2005, after controlling for other socio-demographic variables).

In summary, our data revealed a reduction in some of the coverage gaps generated by the implementation of a purely contributory system in a context of widespread and unequal informality as well as a particular distribution of salaried and non-salaried work between men and women. Certain factors affecting the level of coverage lost their explanatory value as a result of the measures to extend coverage, although not all of them disappeared (age and gender continue to have a significant impact on the probability of coverage when combined with certain categories of marital status). Furthermore, in spite of the massive drive to extend coverage, 15 per cent of the population of retirement age was left without access to

9. Another group of variables of potential importance. The income variable was not included because of the problems of endogeneity already mentioned.
10. Individuals with a high level of education also display a significantly lower probability of having coverage. This effect is in line with that observed in Figure 2.4, and disappears when only the inactive population is taken into account (estimate II-2010).
11. See Figure 2, Note 3, for a definition of the indicator concerning housing privations.
## Table 2. Argentina: Factors affecting pension coverage for individuals of retirement age, second trimester 2010 (odds ratio$^1$)

<table>
<thead>
<tr>
<th></th>
<th>Second trimester 2010</th>
<th>Second trimester 2005</th>
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<tbody>
<tr>
<td></td>
<td>Estimate I-2010</td>
<td>Estimate II-2010</td>
</tr>
<tr>
<td>Total population of retirement age</td>
<td></td>
<td></td>
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<tr>
<td>Sex and marital status</td>
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<tr>
<td>(Married men: reference group)</td>
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<tr>
<td>Divorced men</td>
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<td>Married women</td>
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<td>Widows</td>
<td>1.505**</td>
<td>0.599*</td>
</tr>
<tr>
<td>Single women</td>
<td>1.258</td>
<td>0.691</td>
</tr>
<tr>
<td>Age</td>
<td>1.135***</td>
<td>1.072***</td>
</tr>
<tr>
<td>Level of education$^2$ (No formal education: reference group)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary level</td>
<td>0.994</td>
<td>1.055</td>
</tr>
<tr>
<td>Secondary level</td>
<td>0.844</td>
<td>0.978</td>
</tr>
<tr>
<td>Higher education</td>
<td>0.530***</td>
<td>1.696</td>
</tr>
<tr>
<td>Housing quality$^3$ (Housing with three or more privations)</td>
<td>0.831</td>
<td>0.694</td>
</tr>
<tr>
<td>Remarks</td>
<td>6.580</td>
<td>5.513</td>
</tr>
<tr>
<td>Pseudo R2</td>
<td>0.138</td>
<td>0.106</td>
</tr>
</tbody>
</table>

$^1$ The data is based on 29 Urban Areas included in the Permanent Household Survey (See Note 1, Table 1). Individual retirement age: 60 for women and 65 for men.

$^2$ Educational level is based on the formal level of education achieved. This means that the category “without formal education” includes an incomplete primary education; “primary” includes an incomplete secondary education and “secondary” includes an incomplete higher education.

$^3$ Housing quality: See Figure 2, Note 3, for the definition.

Source: Estimate based on the Permanent Household Survey, Continuous Trimestrial Basis — INDEC.
benefits. Who are those who remain without coverage in spite of the existing measures? Two factors are particularly relevant. First, seniors without coverage are concentrated in both high- and low-income households. This distribution of seniors without coverage probably reflects two different realities: people in high-income groups may not apply for benefits because they have income from other sources (for example, because they continue to work beyond the age of retirement), while others may fail to apply (or to obtain) a pension in spite of having low incomes. Many seniors without coverage are inactive (46 per cent) and a majority of them (62 per cent) live in households with no other retirement pension or benefit. And 26 per cent of seniors cumulate both situations: they are inactive in households with no retirement benefits or pension. Situations vary considerably and more intensive research into the reasons why this population does not access benefits would be worthwhile in order to design special policies where necessary. In particular, the persistent low coverage of the poorest decile calls for a strategy that would enable this population group, which continues to be excluded from the system in spite of their low incomes, to be included.

Future prospects and obstacles to universal coverage

During the past decade the difficulties experienced by Latin American social security systems in providing protection for the more vulnerable social groups, in particular for workers in unstable, informal, rural and unpaid jobs, have been recognized as constituting one of the major challenges for social protection policies in the region. A certain consensus has begun to emerge concerning the challenges involved in reversing the regressive bias of pension systems, which are aimed typically at the middle- and high-income population groups, in the absence of a strategy to provide basic coverage regardless of the access to protection provided by formal employment and personal contributions. More recently, various countries have developed policies designed to extend access to retirement pensions. New solidarity benefits have been created in Chile, non-contributory and rural pensions have been reinforced in Brazil and universal pension systems such as the Bonosol/ Renta Dignidad in Bolivia and the Pensión Alimentaria in Mexico DF have been introduced. All these experiments share the same objective: to extend protection to seniors through a solidarity benefit that enables the limitations of traditional social security systems to be transcended in the context of Latin American labour markets. Argentina has also been interested in the challenge of how to extend pension system coverage and initiated a programme for the large-scale inclusion of

12. Approximately 24 per cent of seniors without coverage have incomes 50 per cent below the median per capita family income (compared with only 10 per cent for individuals in this position with coverage) and another 24 per cent have per capita income more than 200 per cent higher than the median (compared with 14 per cent of the population with coverage).
population groups that had remained outside the system in previous decades. However, it adopted a different mechanism that maintained a closer link with the traditional contributory scheme and focussed on reducing current exclusion rather than restructuring the future pension system. The “moratorium” was a short-term solution with two basic characteristics. First, it proposed to extend coverage while maintaining a contributory approach, although with modifications. Second, it was based on the principle of “exceptions”, with the implementation of a programme aimed at compensating for existing gaps in the system without changing its structure. The “moratorium” broke certain of the rules of the contributory system in order to extend its coverage, thus enabling those who had contributed for a few years only, or even not at all, to obtain benefits. It nevertheless maintained the regulations governing the pre-existing system; it exceptionally lowered the requirements for access but did not modify the structure, producing a hybrid system that was formally contributory even though, in reality, personal contributions had become less important in providing access to benefits. The right to benefits continues to depend on previous contributions at least in theory, although it is not easy to work out how much will be received by any one person since the calculations concerning the net value of the “moratorium-based” benefit are complex. The right to receive benefits is neither automatic nor unconditional: an individual must register with a programme and declare employment for the required number of years to meet the formal contributory requirements, within the period covered by the “moratorium”.

Under the current contributory scheme, a problem concerning long-term coverage becomes apparent when the persistently low rate of participation of the active population in the pension system is taken into account. As indicated above (Table 1), coverage for salaried workers has increased in recent years although less rapidly than for coverage for seniors. Up to the end of 2010, about 34 per cent of salaried workers did not contribute to a pension scheme. The incidence of informality is even higher among the self-employed (see MTESS, 2007). Although the proportion of actively-employed women is rising, a high proportion of women continue to work at home without remuneration and usually without personal coverage. This situation forces us to look for strategies that will guarantee full coverage for seniors in the medium and long term and to progress towards a structure that recognizes the right of informal and unpaid workers to protection and which will include them in the social protection system on a permanent basis. At the same time, this could reinforce the social legitimacy of public transfers, potentially a vital factor in the consolidation of a solid strategy for the

13. This is not the first time that the Argentinian social security system has moved away from a purely Bismarckian approach. The proportionality of benefits to wages has been modified by the partial updating of benefits (including failure to update) at various times throughout the history of the system, thus abandoning the “substitute salary” approach characteristic of Bismarckian schemes.
universalization of benefits, thus helping to build the social alliances required to sustain these benefits in the face of possible changes in policy and taxation.

In the final analysis, the Argentinian experience concerning the extension of coverage demonstrates two things. First, the social importance of introducing alternative mechanisms to a purely contributory approach and their impact on distribution: in countries with high levels of informal, precarious and unpaid work, this type of strategy can help to extend protection and improve its distribution in different social sectors to reach the population groups excluded from contributory social security. The choice of structures other than those involving precise targeting also enables the selection procedures (often stigmatizing and costly and not always effective) that are characteristic of such schemes to be avoided. Second, the Argentinian experience also reveals the limitations that persist when coverage extension is based on a system of exceptions that may solve certain problems in the short term, but which lead to the institutionalization of social protection rights for future generations. If we assume that as a result of the current employment situation there is likely to be a high proportion of seniors without rights to a contributory pension in the future, the coverage problem will reappear. Following the positive impact of the recent extension of coverage on both levels of coverage and its distribution, the effective and durable universalization of access to income protection for all seniors requires a long-term strategy to enable the levels of protection that have been achieved to be maintained and further extended, thus generating effective legal rights for present and future generations.

For this to happen we need to progress towards the institutionalization of guaranteed protection for all seniors, regardless of the employment or family history of the individual, with requirements that are clear and consistent over time, and with viable and legitimate sources of finance. Unlike other countries such as Bolivia or Chile, which approved a new series of structural reforms of their pension systems in order to introduce solidarity pillars (or integrate existing benefits), the 2008 reform in Argentina (which abolished the system of individual accounts) did not modify the conditions of access to benefits established in 1993 and did not introduce a new solidarity pillar. The establishment of a basic, non-contributory and universal benefit as an integral part of the current system could offer major opportunities to improve the efficiency and equity of the system in the long term. In the first place, such a benefit could be designed in such a way that existing contributory benefits based on salary and years of contribution could be added to it, perhaps alongside semi-contributory solidarity benefits which would provide an incentive to contribute and at the same time enable lower pensions to be increased (see for example the structure of the Aporte Previsional Solidario in Chile or the Pilar Solidario in Bolivia). A reform of this kind could provide an opportunity to clarify the sources of finance for each pillar in the system and the level of protection to be provided in future, and also reinforce the idea that all citizens, regardless of their
employment, contributory and family status, have the right to basic protection. Finally, the institutionalization of this type of scheme for the provision and financing of benefits could avoid the inter-generational inequities produced when access and benefits fluctuate, sometimes considerably, as a result of changing economic or political situations.

Conclusions

High levels of informal work have been the major obstacle preventing the extension of social security systems in Latin America. In Argentina, a country which has pioneered the development of social security, this problem became more acute during the structural reform of the 1990s that consolidated contributory access, reinforcing the direct link between personal contributions and benefits. In a labour market with high rates of informality, the application of stricter contributory requirements led to a steady reduction in coverage for seniors that became noticeable in the mid-1990s.

This situation changed more recently as a result of the implementation, from 2005 onwards, of a number of measures (which had a visible impact as from 2007) to provide access to benefits for people who had contributed little, or who were unable to meet the minimum contribution requirements for an ordinary pension. The programme allocated benefits to nearly 2.5 million new beneficiaries and coverage of the population of retirement age increased from 62 per cent to 85 per cent between 2005 and 2010. This process also changed the distribution structure of access to benefits. The gender gap in coverage was reduced and reverted to the previous bias based on educational level. The percentage of seniors receiving a retirement benefit or pension increased in all income groups although the impact was greater for the poorest, reverting to the previous scaled distribution pattern. However, the lowest income decile continued to have the lowest coverage rate. Other structural indications of poverty, such as housing quality, were no longer significant in explaining coverage.

The Argentinian experience shows the importance of adopting alternative and complementary strategies to those of the purely contributory social security paradigm in countries with high levels of informality and, generally speaking, in all countries where paid and unpaid work is unevenly distributed between men and women. Nevertheless, the high percentage of workers who do not pay pension contributions raises fears as to the feasibility of maintaining and extending the levels of coverage which have been achieved in the medium term based on current regulations. The strategy for extending the coverage of the pension system in Argentina reduced the requirements for access to the system without changing its contribution structure. Although it had a positive effect on the extension of benefits and on distribution, a longer-term assessment reveals its limitations. The
institutionalization of a universal mechanism based on solidarity to facilitate inclusion, that is independent of each individual’s employment and family history, could help to overcome these limitations and to establish a simple and unconditional right to a retirement pension for current and future generations.

**Bibliography**


Extending coverage under the Argentinian pension system


Extending coverage under the Argentinian pension system


Divergence in the development of public health insurance in Japan and the Republic of Korea: A multiple-payer versus a single-payer system

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Yonsei University, Wonju City, Republic of Korea; Nihon Fukushi University, Aichi-ken, Japan

Abstract  Japan and the Republic of Korea achieved universal health insurance coverage for their populations in 1961 and 1989, respectively. At present, Japan continues to operate a multiple-payer social health insurance system, while the Republic of Korea has moved to an integrated single-payer national health insurance structure. This article analyzes the influence of political economy in shaping the policy divergence found between these two Bismarckian health insurance systems. Issues addressed include differences in political power, the policy influence of business, the extent to which regional autonomy has developed and regional traits have been preserved, the level of political democratization, the form of political leadership, and the scale of development of the health insurance system. The article offers policy lessons derived from the two countries’ experiences.

Keywords health insurance, political aspect, method of financing, scope of coverage, Japan, Republic of Korea

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Introduction

Japan and the Republic of Korea (hereafter, South Korea) have more in common with one another than they do with Western countries. These two geographically contiguous nations operate legal systems rooted in civil law and Confucian cultural traditions are deeply ingrained. Considerable similarities stem from these common structural and cultural characteristics, but similarities also derive from direct influences, such as the diffusion of policy from one country to the other. Just as Japan, for instance, has assimilated Western approaches to medical care and the design of health insurance programmes, South Korea has, in turn, taken policy lessons from Japan. It would appear that Japanese experience is the source of inspiration for many South Korean policy developments. Nevertheless, despite many commonalities, the two countries also differ widely in many ways. In the field of health insurance, the Japanese health insurance system is composed of thousands of insurers. This is not the case for its South Korean counterpart. As will be discussed in this article, between 1998 and 2003 South Korea shifted from a social health insurance (SHI) system with multiple payers to a national health insurance (NHI) system with a single payer. 1

As the example of health insurance underlines, these two countries, in spite of having similar backgrounds, have diverged as a consequence of having followed different reform processes. This article explores the influence of political economy and how this may have influenced the observed variance in national reforms. The article is structured as follows: the next section looks to the historical development of nationwide health insurance coverage in Japan and South Korea. This is followed by an examination of how the two systems came to diverge and the impact this has had on health system design. The political economy dimension of health insurance reform in the two countries is then discussed and a concluding section offers final observations.

The development of health insurance in Japan and the Republic of Korea

Japan

The first mandatory health insurance scheme 2 providing general health care to Japan’s population came into effect in 1927 with the implementation of the Health

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1. Lee et al. (2008) categorize National Health Insurance (NHI) as different from Social Health Insurance (SHI), thereby offering a category by means of which to classify the idiosyncratic development of the health systems of South Korea and Taiwan (China) witnessed since the 1990s.
2. Prior to the introduction of the mandatory health insurance scheme, there had been a form of health insurance for the military, public servants and some business employees since the second half of the
The development of public health insurance in Japan and South Korea

<table>
<thead>
<tr>
<th>Prior to the introduction of public health insurance scheme</th>
<th>Japan</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>1911: Workmen’s Compensation scheme implemented</td>
<td>1911: Workmen’s Compensation scheme implemented</td>
<td></td>
</tr>
<tr>
<td>1922: Health Insurance Act written into law</td>
<td>1922: Health Insurance Act written into law</td>
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</table>

<table>
<thead>
<tr>
<th>Introduction and development of worksite health insurance</th>
<th>Japan</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>1927: Employment Health Insurance (EHI) implemented for blue-collar employees</td>
<td>1927: Compulsory health insurance implemented for businesses with 500 or more employees</td>
<td></td>
</tr>
<tr>
<td>1934: EHI expanded to businesses with five or more employees</td>
<td>1934: EHI expanded to businesses with five or more employees</td>
<td></td>
</tr>
<tr>
<td>1937: EHI expanded to white-collar employees</td>
<td>1937: EHI expanded to white-collar employees</td>
<td></td>
</tr>
<tr>
<td>1939: EHI for white-collar employees established independently</td>
<td>1939: EHI for white-collar employees established independently</td>
<td></td>
</tr>
<tr>
<td>1941: Insurance for government employees implemented</td>
<td>1941: Insurance for government employees implemented</td>
<td></td>
</tr>
<tr>
<td>1941: EHI applied to employees’ dependants</td>
<td>1941: EHI applied to employees’ dependants</td>
<td></td>
</tr>
<tr>
<td>1942: EHI incorporated both blue- and white-collar employees</td>
<td>1942: EHI incorporated both blue- and white-collar employees</td>
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</table>

<table>
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<th>Introduction and development of municipal (locality) health insurance</th>
<th>Japan</th>
<th>South Korea</th>
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<td>1938: National Health Insurance (NHI) Act passed (NHI programmes by municipalities)</td>
<td>1938: National Health Insurance (NHI) Act passed (NHI programmes by municipalities)</td>
<td></td>
</tr>
<tr>
<td>1961: NHI programmes applied to all municipalities, thereby realizing “health insurance for all”</td>
<td>1961: NHI programmes applied to all municipalities, thereby realizing “health insurance for all”</td>
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</tbody>
</table>

<table>
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<tr>
<th>Unification or integration of health insurers</th>
<th>Japan</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983: Health Service System for the Elderly implemented</td>
<td>2000: National Health Insurance Corporation (NHIC) established as a single insurer</td>
<td></td>
</tr>
<tr>
<td>2008: Medical Care Scheme for the Senior Elderly implemented</td>
<td>2003: Demarcation between worksite and locality insurance accounts under the NHIC removed</td>
<td></td>
</tr>
</tbody>
</table>

Insurance Act (Table 1). The Employment Health Insurance (EHI), or Kenko Hoken, was composed of two schemes: the Government-managed Health Insurance (GMHI), which was predominantly targeted at workers of small- and medium-sized nineteenth century. And a compulsory workmen’s compensation scheme, intended to cover injuries at work, was introduced in 1911 in the form of a Factory Law.

3. This had been written into law in 1922, but implementation was withheld owing to earthquakes in the Kanto area.
enterprises and their families, and Society-managed Health Insurance (SMHI), largely embracing employees of large corporations and their families. The EHI initially applied to blue-collar workers, serving businesses with ten or more employees on the payroll, which covered 3 per cent of the Japanese population. Thereafter, in 1934, coverage under the EHI expanded to businesses with five or more employees, then white-collar employees in 1937, and finally employees’ dependants in 1941.

While employees and their families benefited from the coverage provided by the EHI, those deemed to be self-employed or non-employed, including farmers and fishermen, were left disadvantaged, having no employers to pay contributions on their behalf and no salaries from which to deduct their own contributions. The 1920s and 1930s saw the emergence of farmers’ cooperatives, but their number and influence soon declined.

In response to this, the National Health Insurance Act, the legal framework for health insurance operated at the municipal level, was enacted in 1938. The municipal-level (locality) National Health Insurance (Kokumin Kenko Hoken) was not a compulsory scheme, but the national government did provide subsidies to the health insurers created by the municipalities. Kokumin Kenko Hoken continued to expand, with the number of insured persons increasing sharply after the outbreak of the Second World War — coverage was encouraged by means of government support that, among other goals, sought a healthy population fit for military service. By 1943, 70 per cent of the Japanese population came under the umbrella of health insurance coverage in one form or another (Campbell and Ikegami, 1998). However, with the government’s financial situation worsening during the later stages of the Second World War, many municipal-level (locality) health insurance schemes were discontinued, resulting in the insurance coverage rate falling below 60 per cent of the population. The financing problem confronting national government and the municipalities reached its nadir immediately following 1945.5

In 1950, the year the Korean War broke out, the Japanese economy grew rapidly, resulting in an operating surplus for the EHI. This paved the way for many municipalities to resume the Kokumin Kenko Hoken and, by 1956, 68 per cent of the total population was covered by health insurance. The percentage of workers without health insurance coverage was estimated at 27 per cent. In the mid 1950s, Japan’s two main political parties both competed for votes under the banner of

4. Shimazaki (2005) argues that the use of two schemes was well suited to the prevailing circumstances at that time, taking into consideration the fact that small companies were not able to manage their own health insurance society.

5. In 1947, General Headquarters went so far as to propose to expand significantly National Treasury subsidies with the aim of rebuilding the national health insurance programme (Yoshihara and Wada, 2008).
“health insurance for all”, and by 1958 the National Insurance Act was passed, with universal health insurance achieved in 1961.

Republic of Korea

Health insurance, in the form of a social insurance programme, was introduced in South Korea in 1977 when it became legally mandatory for all large employers with 500 or more employees on the payroll to provide a health insurance programme (Table 1). Underlying and conducive to the introduction of the programme were a number of factors: sound economic fundamentals, which had been put into place through the successful implementation of the third Five-Year Economic Development Plan (1972-1976); a growing demand for social security provisions, owing in part to the absence of a national contributory pension programme at that time; the then incumbent President Park Jung-Hee’s competitive mentality, not least with regard to the Democratic People’s Republic of Korea; and the influence of Japan, first, in shaping the design of South Korea’s pilot programmes for health insurance and, second, in that its institutions and experiences provided South Korea with unsurpassed information essential to minimizing trials and errors in the early development phases.

In 1979, a separate health insurance (administered by the Korea Medical Insurance Cooperation — KMIC) was organized for government employees and private school teachers. In July of the same year, compulsory health insurance was expanded to cover businesses with 300 or more employees, thereby enrolling 21 per cent of the entire population. Beginning in January 1981, businesses with 100 or more employees on the payroll were subject to health insurance. Coverage was then expanded further to include businesses with 16 or more employees in 1983 and expanded once more in 1988 to include those with five or more employees.

From January 1988, health insurance was expanded to cover farming and fishing communities. Membership for health insurance was based on the family unit, where the family head paid the contributions. A total of 134 health insurers were instituted; one in each county. Subsequently, in July 1989, 110 urban area health insurers were instituted, one in each city or metropolitan district. This development marked the achievement of universal health insurance, only 12 years after health insurance had been introduced to the country.

Two national systems for universal health insurance

As regards the structure of health insurance used to achieve “health insurance for all”, a close similarity is found between Japan in 1961 and South Korea in 1989. Japan’s insurers, which numbered almost 5,000, and those of South Korea, which numbered over 400, had a basic structure in common, as shown in Table 2. First,
<table>
<thead>
<tr>
<th>Insurer</th>
<th>Number of insurers (% of population covered)</th>
<th>Insurer</th>
<th>Number of insurers (% of population covered)</th>
<th>Insurer</th>
<th>Number of insurers (% of population covered)</th>
<th>Insurer</th>
<th>Number of insurers (% of population covered)</th>
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<tbody>
<tr>
<td>GMHI</td>
<td>1 (21%)</td>
<td>NAHI</td>
<td>1 (28%)</td>
<td>Worksite insurance</td>
<td>154 (39%)</td>
<td>NHIC</td>
<td>1 (96%)</td>
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<td>SMHI</td>
<td>1,091 (14%)</td>
<td>SMHI</td>
<td>1,497 (24%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>MAA etc.¹</td>
<td>79 (13%)</td>
<td>MAA etc.¹</td>
<td>78 (7%)</td>
<td>KMIC</td>
<td>1 (11%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal (locality) insurance</td>
<td>3,659 (49%)</td>
<td>Municipal (locality) insurance</td>
<td>1,953 (40%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Medical Care Scheme for the Senior Elderly</td>
<td>47 (40%) (implemented in 2008)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4,830 (98%)</td>
<td>Total</td>
<td>3,576 (99%)</td>
<td>Total</td>
<td>409 (94%)</td>
<td>Total</td>
<td>1 (96%)</td>
</tr>
</tbody>
</table>

Note: ¹ This includes seamen’s insurance and daily workers’ insurance.

GMHI: Government-managed health insurance (since 2000, NAHI: National Association of Health Insurance); SMHI: Society-managed health insurance; MAA: Mutual aid association; KMIC: Korea Medical Insurance Corporation (for public servants and private teachers); NHIC: National Health Insurance Corporation.

insurer organizations for specific professions, such as public servants and teachers, were formed independently: 13 per cent of the population belonged to such insurers in Japan, while 11 per cent of the population did so in South Korea. Second, in Japan, the GMHI, with the Social Insurance Agency as the single insurer, covered 21 per cent of the population, and the SMHI, comprising 1,091 insurers, covered a further 14 per cent. In South Korea, there was no government-managed provision as in Japan, but 154 worksite insurers covered 39 per cent of the population. Third, in Japan, 3,659 municipal-level (locality) health insurers, whose services were aimed largely at the self-employed and the elderly, covered 49 per cent of the population, as compared to South Korea where 254 municipal-level (locality) health insurers covered 45 per cent of the population.

Divergence between the two health insurance systems

Discussions on integrating health insurers in Japan

In Japan, questions have been raised periodically over problems about the health insurance system, which remains fragmented into thousands of insurers (3,576 as of 2009). Endeavours to address this fragmentation have been made largely in two directions (Table 3). First, a move toward ichigenka, or “harmonization in contributions and benefits”, is under way. This seeks to remove differences in the value of the insurance contributions levied and the benefits offered by different insurers, but without altering the manner in which health insurers are organized. This has been a consistent position taken by the Ministry of Health and Welfare and the Liberal Democratic Party. Second, an attempt is being made to reduce the number of health insurers (“organizational integration”). This entails two possible lines of action: a move whereby the market size of individual insurers is enlarged and the number of insurers is curtailed, while keeping worksite insurers and municipal (locality) insurers separate (kouikika or “enlargement”), or a move whereby the two types of insurer — worksite and municipal (locality) — are integrated (ipponka or “streamlined integration”).

Harmonization of insurance contributions and benefits. Proposals for improving the equity of the health insurance system usually centre on equalizing co-payments. When “health insurance for all” was achieved in 1961, the co-payment rate was set

6. This differs from the discussions over the integration of health insurers addressed in this article in that the organizational structure remains separate.
7. Niki (2001) had proposed this programme as the most reasonable and practicable one, but this was before the Koizumi government decided on the ippouka programme as the policy direction to take.
8. This follows with the nature of integration outlined in this article, in that it seeks the merger of organizations.
at 50 per cent in the municipal (locality) health insurance and for family members of insured workers under the EHI (no co-payment was borne by the insured workers in the EHI). In a move to cope with financial deficits in the 1960s, the Ministry of Health and Welfare came up with a measure to rectify imbalances among contribution rates and gaps between benefits, thus initiating discussions over ichigenka (harmonization) (Yoshihara and Wada, 2008). The co-payment rate in the municipal (locality) insurance was lowered to 30 per cent in 1968, and the rate borne by family members in the EHI programmes decreased from 50 per cent to 30 per cent in 1973. Ichigenka (harmonization) emerged as a central reform theme when the Health Insurance Act was amended in 1984. As a result, co-payment rates were pegged at 20 per cent, and financial adjustments for risk equalization were implemented.

In 2003, co-payment rates increased and were pegged uniformly at 30 per cent, with the exception of 10 per cent for the elderly and 20 per cent for infants and children aged three or younger. Nonetheless, SMHI may offer additional benefits under the collective contracts covering employees. For instance, employees of large

Table 3. Types of integration of health insurers in Japan

<table>
<thead>
<tr>
<th>Types</th>
<th>Japanese terminology</th>
<th>Contents</th>
<th>Examples</th>
</tr>
</thead>
</table>
| Harmonization in contributions and benefits | Ichigenka (Harmonization) | • To remove differences in contributions and benefits without changing organizational structure | • Measures to rectify the imbalances of contributions and gaps of benefits since the 1960s  
• Co-payment rates uniformly pegged at 30% in 2003 |
| Organizational integration    | Kouikika (Enlargement) | • To expand the size of individual insurers and curtail the number of insurers  
• To keep worksite insurers and municipal (locality) insurers separate | • “Health insurance for white-collar employees” incorporated into the Employee Health Insurance (EHI) in 1942  
• General Headquarters’ idea in 1947  
• Ikeda administration’s idea in 1961  
• “Memorandum of understanding” in late 1980s  
• Democratic Party of Japan (DPJ) public pledge in 2009 |
| Organizational integration    | Ipponka (Streamlined integration) | • To integrate worksite insurers and municipal (locality) insurers under the same insurer | • Koizumi government’s “Basic guideline” in 2003 to expand insurers, prefecture by prefecture |

9. In his memorial statement for “health insurance for all” in 1961, Yoshimi Furui, the then Minister of Health and Welfare, made it clear that the greatest task henceforth would be to adjust the imbalance between insurances (Mizumaki, 1993).
firms may have entitlement to longer periods of leave on health grounds. The operating profits of some insurers are such that they are able to reimburse part of the co-payment and to provide free or subsidized health examinations. The contribution rate charged by the EHI ranges from 3 per cent to 10 per cent of wages. Large firms often pay up to 80 per cent of the total contribution — well over the 50 per cent mark that is set as the lower limit by law. There is also wide variation in the contribution amounts charged by the municipal (locality) health insurance, with the highest contribution, in the town of Rausu in Hokkaido, being 4.7 greater than the lowest (Jones, 2009).

Organizational integration of health insurers. The debate about “organizational integration” goes back as far as 1942, the year in which “health insurance for white-collar employees” was incorporated into the EHI.10 In 1947, the General Headquarters’ “measure for the reconstruction of the locality health insurance” embraced the idea of incorporating various health insurance programmes into the municipal (locality) health insurance. However, this idea was not implemented and remained nothing more than an “idea” (Sugiyama, 1995; Sugita, 2008). A move toward “ipponka” (integration) emerged later as part of the process of discussing universal health insurance. The idea presented was that all insurance programmes operating in any given geographic area should be integrated into one that was centred on the municipal (locality) health insurance. This idea, however, was not acceptable under the terms of the new Act for municipal (locality) health insurance.

Immediately after achieving universal health insurance in 1961, the Ikeda administration discussed whether to merge both the employment-based and the municipal (locality) programmes into one (ipponka) — at a time when the GMHI had an operational deficit. After heated discussion on ipponka under Tsuneo Uchida, the then Minister of Health and Welfare, it was concluded that health insurance should “stay on a dual basis”.11 Discussions over ichigenka (harmonization) in 1984, as mentioned before, were later followed by those over ipponka (integration) upon requests from the Japanese Medical Association (Yoshihara and Wada, 2008). Discussions kicked off with the Ministry of Health and Welfare taking the lead.12 However, neither the Liberal Democratic Party nor the Ministry of Health and Welfare were positive about ipponka. This led to the conclusion in 1989 that “while it was ideal to integrate health insurance systems into

10. “Health insurance for white-collar employees” was mapped out independently in 1939, and thus lasted for three years only.
11. The main reason suggested was that integration would result in a lower level of contributions and benefits without support from the National Treasury.
12. Memorandum of understanding exchanged among the Liberal Democratic Party and the Japanese Medical Association etc., contained the phrase: “ipponka (integration) in the health insurance system to be implemented within five years while seeking equality in contributions and benefits” (Yoshihara and Wada, 2008).
one, such a goal is to be pursued through the Health Service System for the Elderly for the time being”.

When a measure of *ichigenka* was reached by means of the harmonization of the reimbursement level in the second half of the 1990s and early 2000s, the Japanese government established a new political objective: to enlarge the market size of insurers (*kouikika*), which is sometimes referred also to as *ichigenka* (Murakami, 2009). The “basic guideline for the health insurance system and the insurance payment system”, prepared by the Koizumi government in 2003, decided to examine the restructuring and integration of insurers, prefecture by prefecture, in order to tackle the problem of fragmentation in the health insurance system. However, such reform sought gradual changes in line with a programme to equalize risk across the country’s many health insurers, while maintaining the health insurance system’s existing dichotomized structure (Health and Welfare Statistical Association, 2007).

The Medical Care Scheme for the Senior Elderly, which was established on a separate basis in 2008, seeks a degree of *ipponka* (integration). To mitigate the monetary burden added by the new scheme, the Liberal Democratic Party (LDP) administration made an attempt to re-adjust financing between employment-based insurers, dubbing it “*ichigenka* (harmonization) in the health insurance system”. In 2009, the newly-elected Democratic Party of Japan (DPJ) administration made a commitment in its public policy pledge that it would abolish the Medical Care Scheme for the Senior Elderly and integrate all health insurers into the municipal (locality) insurers (Democratic Party of Japan, 2009). This move was dubbed *ichigenka* (harmonization) but, in fact, falls into *ipponka* (integration) in its nature. Contrary to that which was pledged, there were very few who thought such commitments would be realized in the near future, even among those who argued for *ipponka* (Sakurai, 2010), and even in the DPJ.13

**The achievement of integration in the Republic of Korea**

*Disputes over integration during the expansion period of public health insurance.* Disputes, often with a political dimension, over the integration of independent health insurers were ongoing in South Korea over the 20-year period from the early 1980s to the early 2000s. The expanded application of health insurance in 1979 led to a dispute over setting an optimum size for insurers. When Chun Myung-Kee, Minister of Health and Social Affairs, sought to launch a plan for integrating the existing “network of health insurers” and the insurer for government employees and teachers (KMIC) into one, the network branded it as “integrationism”. This marked

13. Umemura and Nagao (2009), a DPJ Senator, also insisted on the integration of insurance contributions, namely, *ichigenka*. 
the initiation of long-lasting controversies.\textsuperscript{14} The majority of bureaucrats within the Ministry were against the plan proposed and spearheaded by the Minister and supported by a minority of bureaucrats. The proposed plan collapsed when the President instructed the Minister to conduct a full-scale review.\textsuperscript{15} Turbulence erupted later in 1983 when some of the pro-integration bureaucrats were ousted from the Ministry. This served as an opportunity for the ongoing integration reform to be perceived as congruous with the “democratization” movement that, at that time, was campaigning against the authoritative style of South Korea’s government. This turned out to be “the first round of the integration controversy” (Kim, 2000).

With the announcement of the planned extension of health insurance coverage to those working in the farming and fishing industries in January 1988, anger towards health insurance broke out across the country. Farmers, in particular, spontaneously opposed the proposed plan that mandated high levels of contributions. With farmers continuing to oppose health insurance, progressive social organizations such as the Citizen’s Coalition for Economic Justice and the People’s Solidarity for Participatory Democracy, which had emerged during the democratization campaign in 1987, added their voice to the debate. A National Medical Insurance Bill, which was in favour of the integration of insurers, passed the National Assembly in March 1989. However, with a critical national press continuing to publish reports that health insurance increased the financial burden faced by employees, the then President Roh Tae-Woo exercised his right of veto over the Bill, leading toward universal health insurance under multiple insurers. The ensuing campaigns that were led against this decision failed to revive the proposed National Medical Insurance Bill. This was the “second round of the integration controversy” (Kim, 2000) under the government of President Roh Tae-Woo.

\textit{Pursuing integration and universal health insurance.} When the civilian government led by President Kim Young-Sam came to power in 1993, disputes over

\textsuperscript{14} The integration opponents claimed that it would be consistent for the state to provide medical care using taxes as the main source of financing, as does the National Health Service (NHS) system of the United Kingdom, and not to integrate all the countrywide insurers into a single insurer. It was unclear what the outcome of this would be (Lee, 1989). Among the integration proponents, there were many who wanted to see the system converted into an NHS, although thinking it better to implement the integration of organizations while maintaining the social insurance system of financing, since a radical shift in institution might have ended up being impracticable (Cho, 1988). But a majority of integration proponents insisted that since the NHS system would most likely lead to a problem of the under-supply of medical care, it would be better to take advantage of the strengths of the two systems by integrating the funds only, while relying upon social contributions for financing, and leaving the supply of medical care to the private sector.

\textsuperscript{15} In this process, the Federation of Medical Insurers, newly established as the successor to the “network of insurers”, was put in charge of reviewing all the health insurance claims and an integrated computer processing system was also put into operation.
the integration of insurers resumed. Opposition was led by a “nationwide federation for health insurance integration and the expanded application of insurance”, created in April 1994. A total of 22 workers’, farmers’, and progressive social organizations joined the federation. In the tumultuous political atmosphere of 1997, in which President Kim Young-Sam withdrew from the then ruling party in October, the party proposed and passed a partial integration bill, the Medical Insurance Act, at the National Assembly in December.

The election of Kim Dae-Jung as President in December 1997 was instrumental to the implementation of the integration reform. His administration included the reform among its top 100 policy objectives and introduced the “health insurance integration spearheading planning unit”, thereby mapping out specific plans. The new integration bill, the National Health Insurance Act, was written into law in January 1999. The integration reform was designed in three phases. In the first phase, starting in October 1998, 227 municipal (locality) insurers and the health insurance for government employees and teachers were integrated into the National Medical Insurance Corporation (NMIC). In the second phase, in July 2000, the NMIC and 140 employment-based insurers were integrated into the National Health Insurance Corporation (NHIC), while the Health Insurance Review and Assessment Service (HIRA) was established on an independent basis. Although this completed the integration reform, worksite and municipal (locality) insurances were still held in separate accounts. The third phase included a process whereby this demarcation between the two was removed in January 2003. This was “the third round of integration controversies” (Kim, 2000) under President Kim Young-Sam and President Kim Dae-Jung.

The outcome of organizational change in the Republic of Korea

Japan and South Korea had much in common in terms of the health insurance structure in 1961 and 1989, when universal health insurance was achieved in both countries, respectively. There were thousands of insurers in operation throughout Japan and hundreds of insurers in South Korea. Following reform, South Korea now operates an integrated single-payer system, completely different from that of Japan as shown in Table 2. The integration reform brought about much change.

First, professional expertise among the staff of insurance organizations has been enhanced, helping to secure the basis for the strategic purchase of health care (WHO, 2000). The potential benefits of information and communication technologies (ICT) are being better realized, since the standardization of operational processes has been made more readily possible under the new single insurer scheme. The HIRA embarked upon an assessment of the appropriateness of
antibiotics and injection medications and launched Pay-for-Performance (P4P) for procedures for acute myocardial infarction (AMI) and Caesarean section for all tertiary hospitals (Jeong, 2010a). The HIRA receives all medical claims from medical providers for reimbursement following treatment by means of electronic data interchange (EDI), accumulating information on a real-time basis. The NHIC is building an important database that incorporates information on the insured. This data is analyzed and put to extensive use as a basis for drafting insurance policies.

Second, managerial costs have been reduced. The weight of managerial costs as a measure of total health insurance expenditure fell from 8.5 per cent in 1997 to 2.4 per cent in 2008 (Jeong, 2010b). The number of branch offices of the NHIC dwindled from 397 with 15,036 staff personnel to 250 with 10,716 staff personnel after the merger. The larger risk pool also permitted a reduction in the size of the financial reserves required to meet possible insolvencies. The cross-subsidization between insurers (inter-pool financial transfers) became unnecessary.

Third, it remains to be seen how far horizontal equity will be augmented. As the fund pool grew bigger in size, the spread of risks increased, thereby ameliorating the conditions on which to lift horizontal equity (Martin, Rice and Smith, 1998). However, these expected results are still to be observed fully in South Korea’s health insurance scheme. Inke and Xu (2009) show that lower-income quintiles allocated a higher share of their total household consumption expenditure to health insurance contributions than did higher-income quintiles during 1995-2007 in every insured group in South Korea. In contrast, the redistributive impacts of health insurance are emerging as a result both of the expanded list of available medical care services and the lowering of co-payments implemented since the mid 2000s.

**Discussion: The comparative political economy of reform**

In this section, the interests and power of various stakeholders will be reviewed using power resources theory as the theoretical framework, and then evaluated against other explanations. The theory of power resources underlines that an unaffiliated individual with no organization (channel) representing his or her interest is not empowered to be fully rewarded (Korpi, 1983; Kellermann, 2005). For instance, variations observed in the capacity of the working class for collective action explain cross-national differences in the distributive outcomes of government social policies. Other explanations stem from the nature of industrial capitalism, which requires a certain degree of redistribution to maintain economic efficiency and state-built institutional structures that mediate preferences over distributional policies.
The role of stakeholders

Health insurance workers’ trade unions. In South Korea, vested interests were centred previously on the right of each insurer to control their respective reserve fund. The integration of insurers meant the transfer of these independently-controlled funds into the newfound nationwide insurance organization and the abandonment by each insurer of their vested interests. This was something not done lightly, as evidenced by the worksite insurers having remained consistently opposed to integration. Generally, health insurers, including worksite and municipal (locality) insurers, expressed their political views directly or through the trade unions of their employees. The trade unions, naturally, took a particular interest in the possible implications of integration for the levels of health insurance contributions to be levied and for the scale of insurance benefits to be provided. In the process of discussing the issue of integration in the 1990s, the two nationwide trade union federations exhibited differing stances. Representing the interests of municipal (locality) health insurers, the Korean Confederation of Trade Unions (KCTU) supported integration, while the Federation of Korean Trade Unions (FKTU), representing the interests of worksite health insurers, did not. The KCTU was deemed to hold greater power resources — including union density, union centralization and bargaining coordination — and, ultimately, it was the stance backed by this federation that was successful.

In the case of Japan, municipal (locality) health insurers insisted on ipponka (integration). While it might be argued that integration was sought to promote a greater degree of equity in access to health insurance, actually, their insistence upon ipponka seems to have been intended to ease their debts. However, this insistence gradually faded and had little impact on the integration discussion. In Japan, there was no trade union that constituted a power resource among the municipal (locality) insurers run by local governments. Moreover, the EHI societies that provide health insurance coverage to employees did not want the status quo altered, especially as regards the possible integration of the municipal (locality) health insurers who offered coverage to the non-employed. Their concern was that when two or more social insurance pools are unified, typically, the less-profitable and higher-risk pool will see its financial position strengthened and the more-profitable and lower-risk pool will see its position weakened. On this basis, employment-based insurers with their wealthier and younger (healthier) members (and powerful companies) resisted integration. This has been one of the main barriers to change in Japan.

Business managers. In spite of a perception among employers that integration may heighten health insurance costs, health insurance has won overall acceptance in
both countries, not least since this has contributed to the stability of employment. As stated, there is a belief that business managers will be opposed to integration as it implies the abandonment of the vested rights achieved through the control of funds. In reality, it would appear that business managers in South Korea took relatively little note of the integration reform, being more preoccupied with the economic problems created by the 1998 Asian financial crisis.

**Medical providers.** The Korean Medical Association was in favour of integration, the primary reason being the need to reduce the incidence of overdue hospital bills. The expectation was that the payment problems encountered by many small insurers would be removed by instituting an integrated large-scaled organization—while small individual insurers may at times run operational deficits, a national health insurance system should be capable of balancing its finances. Nevertheless, medical provider groups were generally less interested in the integration reform than they had been for the pharmaceutical reform in 2000, since they apparently had no direct interest at stake.

Conversely, the Japanese Medical Association (JMA), under the leadership of its President Takemi, insisted that the EHI programmes be integrated with the municipal (locality) insurance, with the justification that this could realize consistent, life-long medical care and remove observed differences in the ability to pay (Arioka, 1997). The JMA sought also to dismantle the SMHI in the belief that it, being operated separately, caused financial losses to the GMHI. However, the JMA did not clearly indicate whether insurers should be integrated at prefecture or municipality level. The JMA has been in support of the separate establishment of the “Medical Care Scheme for the Senior Elderly” since 2000, when Tsuboi took office as President of the Association (Yoshihara and Wada, 2008).

**Civil organizations.** Civil organizations, such as the Citizen’s Coalition for Economic Justice and the People’s Solidarity for Participatory Democracy, represented mainly by progressive scholars as well as middle-class activists, played a pivotal role in South Korea’s integration reform. Civil organizations engaged positively with the issue because they saw the reform as a relatively clear social issue. The engagement by civil organizations conveys a strong message about the importance of this issue for citizens — on this occasion, rather than being passive beneficiaries of policies, they sought active political involvement. In the main, the civil organizations were comparatively free from economic interests.

In the case of Japan, few civil organizations entered discussions about the potential organizational changes to the health insurance system. And relatively little attempt has been made to create a social movement to push forward the reform agenda. As such, the civil organizations of the two countries manifested themselves in quite different ways as regards the question of health insurance integration.
**Bureaucratic groups and political parties.** The responsibility for implementing reforms lies with bureaucrats. The bureaucratic group in South Korea’s Ministry of Health was, more often than not, sceptical and passive about the integration reform. The logic of “consistency in administration” would also have affected bureaucrats’ behaviour, in that it entails their adherence to “corporatism” (a multiple-insurer system). This engendered a form of “path-dependency” (Wilsford, 1994). Meanwhile, the right to appoint the chief executive of the insurers — particularly, municipal (locality) insurers —, now numbering into the hundreds, was too attractive to lose on the part of the bureaucrats or political parties. Although their role was primarily one of policy implementation, the bureaucrats in South Korea gradually turned toward a reform-oriented position as the policy environment changed.

The bureaucratic group in Japan’s Ministry of Health and Welfare were also inclined toward dual-based operations between worksite and municipal (locality) insurers. Like their South Korean counterparts, they did not want to face the confusion and friction that was expected to arise from an abrupt shift within the current system. They noticed with concern differences in income between employees and self-employed workers. Conversely, the bureaucrats in municipalities and local government preferred the integration (ipponka) of insurers into municipal (locality) health insurers. However, the Ministry was not willing to transfer the authority for the EHI over to the municipal (locality) health insurance. Though the Democratic Party of Japan had come to power and had made a public pledge to integrate insurers, realizing this political commitment has shown to be very difficult.

**Policy environment**

**Factors for policy diffusion and policy divergence.** Diffusion of policy occurs when one government’s decision about whether to adopt a policy innovation is influenced by previous choices by other governments (Walker, 1969; Collier and Messick, 1975; Simmons, Dobbin and Garrett, 2006; Graham, Shipan and Volden, 2008). During the period spanning South Korea’s introduction of health insurance and the realization of universal health insurance (1977-1989), the role of administrative bureaucrats in the shaping of policies was much more influential than that of scholars or civic groups. The majority of bureaucrats that joined government service prior to the 1980s, when the health policies were being mapped out, had majored in law or public administration and they had not had the experience of

16. There was a move among some minority groups of bureaucrats to take the initiative in supporting and implementing the integration reform, but later they found themselves pushed out of power for some time.
studying overseas. As a consequence of time and information constraints, policymakers relied on cognitive shortcuts, a process that favoured policy diffusion (Weyland, 2005). Bureaucrats could travel to neighbouring Japan to undertake field trips or to seek advice when required. South Korea was in a favourable position to apply Japanese laws and institutions, since Japan’s influence had led it to introduce a legal system similar to that of Japan. This made the policy diffusion from Japan to South Korea much stronger than that which occurred from European countries, such as the Netherlands and Germany, to Japan.

The elite bureaucrats who joined government service later in the 1980s benefited from overseas studies sponsored by the government. They found themselves with ready access to overseas institutions other than those in Japan. At the same time, scholars — who now wielded influence as a result of the movement toward greater democratization — played a substantial role in studying foreign medical institutions and introducing these ideas into South Korea. As a result, there was a heightened demand for reform.

While Japan and South Korea certainly share more with each other than they do with Western countries, closer examination reveals their differences also. First, in Japan, regional traits stand out distinctly. The tradition of local autonomy remains intact, in spite of its close dealings with Western countries. In contrast, in South Korea, and under the long-standing influence of a centralized political system, national uniformity was preferred over regional autonomy.

Second, it is evident that the President represents the core of political power in South Korea, whereas it is less evident with whom political power rests in Japan. In Japan, there is a limit to how much political lead can be taken in coordinating various interest groups. This applies even to the Prime Minister, for this appointment is the product of compromise between political parties. According to the theory of industrial structures, the redistributive impact of state action is thought to be lower in countries where political power is diffused and many actors have the ability to block changes to the status quo (Kellermann, 2005). Japan’s experience would appear to be a good example of this. In South Korea, in contrast, the election of Kim Dae-Jung as President opened a window of opportunity for the integration reform. Representing the core of political power, he managed to achieve reform by pronouncing his commitment to the reform. The role played by President Kim, based on his personal leadership, lent itself to a style of policy-making that could be characterized as “forcing consensus” (Wong, 2004).

Third, the health insurance systems differed in the length of time (Wilensky, 1975) they took to become established and the extent to which they developed in the two countries. Japan’s health insurance system can be traced back for almost a century and is characterized by the influence of entrenched stakeholders. Over the years, the Japanese system has evolved slowly to the country’s changing needs. This makes institutional shifts even more difficult. By contrast, with its comparatively
short history of health insurance, and with vested rights not so deeply rooted, South Korea was able to set goals for measures that, elsewhere, might have been thought as too ideal to achieve. South Korea pursued such ideal reforms by first learning intensively from the lessons of Japan’s health insurance system.

**Economic crisis.** The financial crisis that hit South Korea at the end of 1997 affected the nation’s health insurance system. First, the crisis facilitated a shift of political power, which paved the way to reforms. Second, the Asian financial crisis made the strengthening of social solidarity a top political priority, which provided an incentive to promote the integration of health insurers. The economic depression which has endured in Japan since the 1990s has provided the impetus to map out the Medical Care Scheme for the Senior Elderly in 2008, but has not yet led to integration.

**Democratization and social security.** According to Wong (2004), South Korea found it possible to rapidly expand social security as part of the “democratization” process of the 1980s and 1990s. And South Korean proponents of the integration of health insurers, including most civil organizations, considered integration as part of the process to expand social security. Shifts in the political environment, including democratization and the rise of major grass-roots civil organizations, opened a window of opportunity in favour of reform. The democratization drive helped alter the incentives and ultimately the decisions of policy-makers. Vote-seeking politicians needed to promote popular policies and those who were advocating health care reforms — from bureaucrats to grass-roots activists — adapted to this new political context (Wong, 2004). Reforms that lead to changes in vested rights rarely occur overnight. However, the rapid democratic drive that gained ground in South Korea provided the impetus that made such a difficult task possible in a relatively short period.

Why did things change in South Korea, but not in Japan? Though parliamentary democracy was firmly established in Japan, the perception that social security was granted preferentially by bureaucratic elites was deeply entrenched, not least because of the long-held political monopoly of the LDP. Affecting change to the fundamental features of such a deep-rooted health insurance system, especially one that had been shaped by elite bureaucrats, was deemed impossible perhaps. There was no shift in political power during the period when the health insurance system was designed and implemented — if change did occur, this was more likely to stem from changes in the policy alignment of the incumbent political party rather than as a result of a shift in power per se. In such a context, politicians were able to operate in a climate of political certainty, with little need to be receptive to public opinion. Health policy experts and major ideologues, as well as civil organizations, found difficulty in formulating ideas about the need for fundamental reform. Thus,
reform proposals seeking fundamental change to the health insurance system seldom found their way on to political agendas.

Concluding observations

This article has investigated the process whereby Japan and South Korea, which previously both operated multiple-payer SHI systems, now find themselves with distinct models of health care. The causes for this divergence have been analyzed through the lens of comparative political economy: differences in political power, the policy influence of business, the extent to which regional autonomy has developed and regional traits have been preserved, the level of political democratization, the form of political leadership, and the scale of development of the health insurance system. From this comparative perspective, a number of observations can be presented.

First, it is not possible to conclude that either the corporative approach (multiple-insurer system) or the integrative approach (single-payer system) is superior. Nonetheless, a large risk pool can offer advantages, not least in a context of rising health care costs and population ageing. In the initial phases of introducing health insurance in Japan and South Korea it was not administratively feasible to combine coverage extension on a major scale with programme integration. Over time, with the development of an institutional framework for health insurance and the creation of infrastructure for data processing, the administrative environment has changed. Large insurers now have the capacities to manage effectively large population groups.

Second, to integrate coverage under one insurer, it is now possible to challenge the argument that employees and self-employed workers should first pay the same uniform level of health contributions. Opponents of integration insisted that reform of the income-reporting systems and contribution-levying formula should precede organizational integration. However, the imposition of uniform contributions on two population groups whose situations are different would be inequitable: the method of imposing health insurance contributions on self-employed workers has been mapped out, tailored appropriately to their situations, and solidly established in both countries. The integration reform in South Korea demonstrates that it is not differences in the contribution formula that prevent the integration of funds which cater to different population groups. To realize successful integration, it is sufficient to merge the financial and administrative controls, without unifying the contribution methods. In South Korea, professional expertise for the strategic purchase of health care has developed rapidly under the single-payer system now covering the entire population.

In sum, this article may have important policy implications as regards to whether Japan should move to a single-payer system and whether developing
countries should likewise develop such a system from the outset. First, with regard to Japan, while it may seem that the country would best benefit from a single-payer system, its health system has been tailored to its politico-economic circumstances. Japan is a populous country with a long tradition of local autonomy compared to South Korea. Despite conspicuous differences between the country’s regions, each region is relatively well equipped with a good medical care system capable of providing quality care ranging from primary to tertiary health care. Accordingly, this would suggest that there are good arguments for operating health insurance organizations on a regional basis. However, the argument in favour of a decentralized regional structure does not extend to smaller areas, such as municipalities. It can be argued that the fragmented structure of Japan’s insurers, numbering almost 3,600, should be reorganized into fewer but larger organizations.17

In the case of developing countries, a number of comments can be offered. Those countries seeking to develop universal coverage would be served best by a single-payer system. However, the implementation and extension of coverage under such a system would present important challenges. Based on experience, universal coverage is often achieved through a variety of schemes. Japan’s experience suggests that an institutional shift toward a single-payer system will be too difficult to achieve. In contrast, South Korea’s experience shows that it is possible to achieve universal coverage with a large number of insurers and then to switch over to a single-payer system. From a strategic perspective, a possible alternative would be to define from the outset an official policy goal to extend coverage to population groups gradually using appropriate insurance mechanisms and then, ultimately, to switch to a single-payer system. By means of trial and error, this is the policy lesson offered by the experience of South Korea over a 20-year period.

17. Small insurers limit the risk-pooling and redistributive effects of social insurance, exacerbating financial disparities between funds. Under a mandatory insurance scheme, it is difficult to see the advantages of competition between insurers (van de Ven and Ellis, 2000). There is little or no competition among health insurers even though they remain numerous in Japan, as they were also in South Korea before the integration reform in 2000 (Kwon, 2008). These small insurers, as quasi-autonomous and non-profit bodies, form the essence of the compulsory national health insurance scheme. All insurers offer the same benefit package, with very few exceptions. They are not permitted to cherry-pick healthy and wealthy individual members or to discourage older or poorer individual from enrolling; nor are individuals permitted to shop around for the most attractive plan. “Autonomy and competition”, as the rationale of the multiple-payer system, is hard to find among mandatory insurers.
Bibliography


Public health insurance in Japan and the Republic of Korea


Implicit debt in public-sector pension plans: An international comparison

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Abstract Most countries have separate pension plans for public-sector employees. The future fiscal burden of these plans can be substantial as the government usually is the largest employer, pension promises in the public sector tend to be relatively generous, and future payments have to be paid out directly from government revenues (pay-as-you-go) or by funded plans (pension funds) which tend to be underfunded. The valuation and disclosure of these promises in some countries lacks transparency, which may hide potentially huge fiscal liabilities to be passed on to future generations of workers. In order to arrive at a fair comparison between countries regarding the fiscal burden of their public-sector pension plans, this article recommends that unfunded pension liabilities should be measured and reported according to a standard approach for reasons of fiscal transparency and better policy-making. From a sample of Member countries of the Organisation for Economic Co-operation and Development, the size of the net unfunded liabilities as of the end of 2008 is estimated in fair value terms. This fiscal burden can also be interpreted as the implicit pension debt in fair value terms.

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Keywords  pension scheme, public sector, pay as you go system, pension fund, defined benefit plan, defined contribution plan, method of financing, actuarial valuation, governance, OECD countries

Introduction

In many countries the sustainability of fiscal policies is being questioned. A major driving force of this growing concern is age-related expenditure, such as health care and social security spending (public pensions). A sometimes overlooked reason for sustainability problems, however, involves the pension schemes for government employees. In most countries there are separate pension plans for public-sector employees. Traditionally, these specific arrangements are justified because they guarantee the security, integrity and independence of employees and because they contribute to the attractiveness of a career in the civil service.\(^1\) General findings from research indicate that compared to pensions in the private sector, public-sector pensions tend to offer more generous terms and feature lower funding levels (Palacios and Whitehouse, 2006).

Reforms have been undertaken in many countries. These reforms have been oriented at bringing remuneration practices in the public sector more in line with those found in the private sector. Such reforms have generally involved lowering the generosity of public-sector pension schemes (e.g. Finland, France, Germany, Italy, Portugal, and Sweden). In some countries, public-sector workers have been transferred to the main public pension system (e.g. Austria, Chile, Czech Republic, Greece, Hungary, Mexico, Poland, Spain, and the United States), which in some cases includes a fully-funded, defined contribution component (e.g. Chile, Denmark, Hungary, Mexico, and Poland).\(^2\)

In addition, initiatives have been taken in a number of countries to introduce some degree of pre-funding of public-sector pensions via the establishment of reserve funds (e.g. Australia, Belgium, Finland, Germany, Ireland, and Sweden). Sometimes, however, fiscal pressures have overwhelmed the drive to pre-funding, as in 2003 when the Belgian government transferred the assets and liabilities of

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1. Pensions are an important component of total remuneration. Pensions may therefore help to explain that, generally, gross wage pay in the public sector is lower than in the private sector because higher pension entitlements in the public sector compensate for gross wages differences (Disney, Emmerson and Tetlow, 2009).

2. There have been some important pension policy reversals in recent years. At the end of 2010, the Hungarian government decided to stop contributions to the mandatory funded pillar, initially for 14 months, and then introduced coercive measures to switch people back into the public, pay-as-you-go system. At the beginning of 2011, the Polish government announced that it would reduce the mandatory contribution rate to the funded pillar from 7.3 per cent to 2.3 per cent of salaries.
Belgacom, the former state-owned telephone monopoly, to the state system. The Portuguese government recently announced a similar planned assumption of the assets and liabilities of Portugal Telecom. Such moves, though worrisome if they lead to a depletion of the pension reserves, have also been justified as a way to unify pension arrangements between public- and private-sector workers.

Pre-funding implies that, in principle, the costs of pension promises are borne when those pension promises are accrued. In some countries, public-sector defined benefit (DB) schemes are pre-funded, but in other countries they are financed on a pay-as-you-go basis (PAYG) or deeply underfunded. On the liability side, sometimes benefits are not provisioned for at all in public-sector balance sheets. Those benefits that are accounted for in public-sector balance sheets are not necessarily comparable to those provisioned for in the private sector, as the assumptions employed may not use market-level discount rates, comparable longevity estimates or do not take into account the effect of future salary increases on benefits that have already been accrued. On the asset side, contribution levels are not necessarily sufficient. Finally, underfunding may persist for a long time in view of lax solvency regulations.

The funding practice of public-sector plans has received increased attention in the United States where state governments offer their employees DB pension plans. These pensions are generally pre-funded to a high extent. A recent study (Novy-Marx and Rauh, 2009), however, reports that the market-valued underfunding of the pension liabilities of the state pension funds amounted on average to 24 per cent of gross state product at the end of 2008. While these numbers have been disputed (see, for example, Angelo et al., 2010; and Lav and McNichol, 2011), they reflect a high level of concern regarding the growing cost of public-sector pension liabilities.

This article presents a survey of public-sector pension plans using a sample of Member countries of the Organisation for Economic Co-operation and Development (OECD). In particular, we are interested in public-sector pension funds and their funding status. The calculations show that public-sector funded DB plans tend to be underfunded; a finding that mirrors those presented by Novy-Marx and Rauh (2009) for the United States.

The article is structured as follows: the following section gives a broad overview of the pre-funding debate, and is followed by an overview of public-sector pension plans in OECD countries. We then deal with the funding position of a number of specific public-sector pension funds; the valuation method for liabilities is a key issue for this topic. We compare the funding positions of a number of different plans as disclosed by the plan sponsors, as well as based on market discount rates in each country and using a common fixed discount rate. The plans generally tend to be underfunded. In order to put the challenge of underfunding in perspective, we then compare the size of underfunding with the present value of future payments of unfunded plans. Concluding remarks are then offered.
A broad overview of the funding debate for public-sector pensions

There has been much debate as to what extent pension plans for public-sector workers should be funded. This section describes some of the arguments made for and against pre-funding, but it does not attempt to develop further this issue.

Pre-funding can be justified on various grounds. First, it facilitates intergenerational tax smoothing (see, for example, D’Arcy, Dulebohn and Oh, 1999), ensuring that each generation pays a more or less constant percentage of taxable income. Second, it can reap the benefits of the diversification of pension fund investments, in particular into foreign markets. Third, it can protect beneficiaries from the possibility of the bankruptcy of the sponsoring governmental entity.

At the same time, there are various possible justifications for underfunding such pension commitments. First, to the extent that funding risks can be smoothed over time as they can be shared with future generations of taxpayers, underfunding in market value terms may be an optimal strategy (see, for example, Cui, de Jong and Ponds, 2011; and Munnell et al., 2010). Second, a funding surplus might also mobilize pressure to increase benefits which, in turn, leads to higher funding costs in the longer term and so to underfunding. So, for taxpayers it is rational to aim at underfunding rather than full funding or overfunding. Moreover, a funding surplus will enforce contribution cuts and once contributions are reduced it is difficult to increase them. The accountability horizon of pension fund managers and politicians is much shorter than the horizon over which pension promises have to be met by adequate funding. This horizon gap may lead to pressure to underestimate costs and risks and to overestimate the earning capacity of assets. Third, to the extent that pre-funding leads to investment in domestic government bonds, circularity in government funding may be created, with little added value relative to a PAYG system. In the United States, with regard to the system of pension funds that operate at state level, Bohn (2011) relates optimal funding to the comparison of taxpayers’ costs of funds with the return on pension assets. He finds zero funding is optimal, as taxpayers’ borrowing costs (typically, credit card costs) are larger than the pension funds’ return on their assets. The presence of legal ambiguities and default-risks may warrant some funding.

Ultimately, therefore, there is no single answer as regards defining the optimal level of funding for such special DB arrangements. Each plan should target a level of funding that is appropriate given its circumstances. One critical element of this evaluation is the relationship between the growth rates of pension costs and the contribution or tax base. A related question is how pension cost should be divided between the government and employees. To the extent that the government is at
Implicit debt in public-sector pension plans

least partly responsible for financing pension benefits, increases in life expectancy will lead to a growing transfer of wealth from private-sector taxpayers towards public-sector pensioners. The government’s contribution rate to the special DB arrangements of public-sector workers has to grow in line with life expectancy.

One key policy message is that better disclosure and transparency is needed as regards the pension commitments made by governments to their employees, as information on public-sector arrangements is often only partially or not readily available. A debate should also be opened on how to compare governments’ commitments, not only on a domestic level but on an international basis.

Experience with pension plans for government workers in OECD countries

Pension promises for government workers are a major policy challenge for four main reasons. First, the state is often a country’s largest employer and, as such, has large pension commitments to its public-sector employees. Second, public-sector pension promises are often of a DB nature and tend to be relatively generous compared to private-sector arrangements. In some countries, generous pension promises appear to have been made to compensate for relatively lower cash pay in the public sector as compared to the private sector. Third, these pension promises are in some countries underfunded or not funded at all (that is, financed on a PAYG basis). Fourth, there is as yet no international standardized method of reporting public-sector pension liabilities in contrast to the significant disclosure requirements that exist for exchange-listed private-sector companies — requirements that are relatively standardized across many countries. Practice varies widely by country, as does the extent to which the liabilities associated with these promises are disclosed and valued. Such lack of transparency could mean that huge fiscal liabilities are potentially hidden, to be passed on to future generations of workers. This section and the next discuss in turn each of these issues.

Share of government workers in total labour force

As can be seen in Figure 1, government workers make up a substantial section of the labour force of many OECD countries, with the OECD average at close to 15 per cent of the total. In Norway and Sweden, government employees account for nearly 30 per cent of the labour force. In contrast, in both the Republic of Korea and Japan employees in the state sector account for about 5 per cent of the total.

If employees of state-owned enterprises are included, the level of labour force coverage increases by a few percentage points in most countries. Figure 1 also shows the relative stability in the level of employment in general government and public corporations as a percentage of the labour force between 1995 and 2005.
Types of pension plans for government workers in OECD countries

Government workers’ pension plans can be classified according to three key criteria. Financially speaking, the main distinction in the administration of government workers’ pension arrangements is between funded and unfunded arrangements, but partially funded and book-reserved arrangements should also be considered.

- **Funded arrangements** are those where an independent legal entity is established to hold pension plan assets on behalf of plan members. Typically, assets are held in a (legally separate) pension fund, although some countries allow public-sector plan sponsors to purchase insurance to cover their pension obligations.

- **Unfunded (or PAYG) arrangements** are financed directly out of the government’s coffers, though reserves may be set up which are the legal property of the employer (government).

- **Book-reserved arrangements** are where the sponsoring government recognizes a liability (debt) on its balance sheet that reflects the accrued pensions of its members, but there are no legally-separated pension assets.
**Partially funded plans** are where the plan sponsor specifically targets a funding level that is less than 100 per cent. The remainder could be unfunded (PAYG) or it could be book-reserved.

A second classification is whether the pension plan is specific to government workers’ or part of a broader arrangement, such as a national pension system. In the former case, it is also important to know whether the plan substitutes for, or complements, the national pension system.

Finally, pension plans may be classified into defined benefit (DB), defined contribution (DC) and hybrid pension arrangements. DB plans provide benefits that ultimately are guaranteed by the state as sponsor. In DC plans, by contrast, the government’s cost is limited to a pre-specified contribution rate and hence does not create any future fiscal liabilities. In some countries, DC plans can be considered as “protected” (Pugh and Yermo, 2008), where the pension entity or provider guarantees or targets a specific rate of return or benefit, but there is no automatic claim to the sponsoring employer in case of underfunding. In collective DC plans, risks are shared across the plan membership. Hybrid pension arrangements are those that offer a minimum return or benefit guarantee (e.g. cash balance plans) and may offer a variable (DC-like) benefit on top.

**Main features of pension arrangements for public-sector workers in OECD countries**

Following Pinheiro (2004), Palacios and Whitehouse (2006) and further research, we describe in Table 1 the main features of pension arrangements for public-sector workers in OECD countries. The table states whether such workers are covered by the general national social security arrangement and whether they have a special arrangement (a substitute for, or complementary to, the general social security system). It also describes the main features of these special pension arrangements. In particular, it describes the financing mechanisms (funded, with legal entities set up to hold the assets on behalf of beneficiaries; unfunded schemes, though reserves may be built up; and book-reserved plans) and the pension formula (DB or DC).

Most OECD governments, with few exceptions, offer special DB arrangements for public-sector workers, which in most instances are complementary to the general social security system. These special DB plans create a pension liability for governments beyond that already reported in social security arrangements. Table 1 also shows that at the federal level, unfunded (PAYG) schemes are the most common, followed closely by funded schemes. At the local government level, funded schemes are more popular than unfunded (PAYG) ones. Some schemes at the

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3. Some DC systems, however, have DB elements and may involve contingent liabilities for governments if, for example, the state provides or underwrites a minimum return or pension guarantees.
<table>
<thead>
<tr>
<th>Country</th>
<th>Are public-sector workers covered by the general social security system?</th>
<th>Is the substitute or complementary plan for public-sector workers DB or DC? Is it funded, unfunded or book-reserved?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>No, they are excluded from the mandatory DC system.</td>
<td>The Australian Public Sector Superannuation Scheme (PSS), a partially funded (with assets at about 30% of liabilities), partially book-reserved DB plan for employees of the central government, was closed in 2005 and replaced with a DC plan (PSSap) for new workers. Each state has its own plan for its employees, most of which are funded and based on either DB or hybrid pension formulas.</td>
</tr>
<tr>
<td>Austria</td>
<td>Yes</td>
<td>DB, unfunded.</td>
</tr>
<tr>
<td>Belgium</td>
<td>No</td>
<td>DB, unfunded.</td>
</tr>
<tr>
<td>Canada</td>
<td>Yes</td>
<td>There is a funded, DB pension plan for federal government workers for service after 2000 (book-reserved before then). Provincial governments tend to offer specific, DB plans to their personnel. These plans are usually funded, though some are book-reserved.</td>
</tr>
<tr>
<td>Chile</td>
<td>Yes, except military personnel. The mandatory pension system includes a fully-funded DC pillar.</td>
<td>There is no specific arrangement for public-sector workers, except military personnel (unfunded, DB).</td>
</tr>
<tr>
<td>Denmark</td>
<td>Yes</td>
<td>Collective DC, funded.</td>
</tr>
<tr>
<td>Finland</td>
<td>No, but the rules are the same as for private sector workers.</td>
<td>There is an unfunded DB pension plan for central government workers (VaEL). However, a buffer fund has been established and the target funding level is 25% of the VaEL plan’s liabilities. There is an unfunded DB plan for local government workers (KuEL). A fund has been established to cover the KuEL plan’s annual costs on a short-term basis.</td>
</tr>
<tr>
<td>France</td>
<td>No</td>
<td>DB, unfunded, plus a complementary (voluntary) fully-funded DC plan (Prefon) and a complementary funded DB scheme.</td>
</tr>
<tr>
<td>Germany</td>
<td>Employees are covered by the general system and supplementary pension arrangements. Civil servants appointed for life are covered by a special pension system.</td>
<td>All plans are DB arrangements. The supplementary pension arrangements are partially funded. For civil servants appointed for life of almost all federal states as well as at federal level, reserve funds have been set up.</td>
</tr>
<tr>
<td>Greece</td>
<td>Yes</td>
<td>DB, unfunded.</td>
</tr>
<tr>
<td>Hungary</td>
<td>Yes. The mandatory pension system includes a fully-funded DC pillar (see footnote 2).</td>
<td>There is no specific arrangement for public-sector workers.</td>
</tr>
<tr>
<td>Iceland</td>
<td>Yes</td>
<td>Collective DC, funded.</td>
</tr>
</tbody>
</table>
Table 1. Continued

<table>
<thead>
<tr>
<th>Country</th>
<th>Arrangement</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>Yes</td>
<td>Some public-sector employees (e.g. teachers) have a complementary DC plan.</td>
</tr>
<tr>
<td>Japan</td>
<td>Yes</td>
<td>DB, unfunded.</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>No, there are separate arrangements for public-sector workers. The military, civil servants and university and school teachers have each their own unfunded, DB arrangement.</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>Yes</td>
<td>There is a funded DB pension plan for government workers at all levels and the education sector (ABP) and a funded DB plan for the health care sector (PfZW).</td>
</tr>
<tr>
<td>Norway</td>
<td>Yes</td>
<td>DB, funded arrangements for local government workers. DB, partially funded, partially book-reserved arrangement for federal government workers.</td>
</tr>
<tr>
<td>Poland</td>
<td>Yes. The mandatory pension system includes a fully-funded DC pillar. There is no specific arrangement for public-sector workers.</td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>Yes</td>
<td>There is no specific arrangement for public-sector workers.</td>
</tr>
<tr>
<td>Spain</td>
<td>Yes</td>
<td>Central government workers have both an unfunded DB and a funded, DC plan. Some regional governments (e.g. Basque Country and Catalonia) sponsor funded DB plans for their personnel.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Yes</td>
<td>Arrangements for local and federal employees include both DB and DC elements. Arrangements are funded for federal government workers. For local government workers arrangements are partially funded or book-reserved and partially PAYG. (For local-government workers, pre-1997 obligations are PAYG, whereas post-1997 obligations are funded or book-reserved.)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Yes</td>
<td>DB, funded arrangements for central and local government workers.</td>
</tr>
<tr>
<td>Turkey</td>
<td>Yes, except military personnel, coal miners and school teachers. There is no specific arrangement for public-sector workers, except military personnel who are covered by a DB, funded plan (Oyak). Coal miners and primary school teachers also have their own DB plan.</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Yes, although some are contracted out of the state pension system. There is a book-reserved DB plan for civil servants of the central government and funded, DB plans for employees of local authorities. There are also separate book-reserved DB plans for employees of the National Health Service, for teachers, fire department, armed forces and police.</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>Yes, for most states and central government workers hired after 1983. Some states maintain arrangements that substitute for social security. New federal civilian employees, first hired after 1983, are automatically covered by FERS, a three-tiered system that consists of social security, a specific, unfunded DB plan and the Thrift Savings Plan which is a funded DC plan. States and local governments offer mainly DB plans, which are often funded.</td>
<td></td>
</tr>
</tbody>
</table>
federal and local government level are book-reserved, whereas a small number of schemes target partial funding.

Table 1 also reveals some countries where government workers have been fully or largely integrated into both the PAYG and the funded part of the mandatory pension system. Such countries include Chile, Denmark, Hungary, Iceland, Mexico, Poland, and Slovakia. With the exceptions of Denmark and Iceland, these are all countries that reformed their public pension system structurally, replacing part of the public pension with “carve-out” individual accounts.4 Chile led such reform in 1981, including public-sector workers in the new system (except the military, who maintained a special DB system financed directly from the government’s budget). The inclusion of government workers in the mandatory private pension system in Denmark and Iceland can be traced back to a long history of collective bargaining at industry level. The mandatory private pension system in Iceland dates from 1974.

**Pension expenditure and pension liabilities**

Information regarding public expenditure on government workers’ pensions is readily available for most OECD countries. However, international comparability is problematic because of the way the information is reported. The OECD’s SOCX database, for example, reports pensions paid to former civil servants through autonomous funds as a private spending item (Australia [partially], Canada, Denmark, the Netherlands, Sweden, and the United Kingdom). All social benefits not provided by general government are considered “private”.5

A recent study by Müller, Raffelhüschen and Weddige (2009) has collected information for selected European countries. In France and Germany, spending on pensions for public-sector workers represents 17 per cent of total public spending on pensions, while in Austria it is 27 per cent. The highest ratio of government workers’ pension expenditure to GDP is also found in these countries, as plans provide benefits that replace those of the general social security system (Figure 2).

4. In all these cases, at least part of the social security contribution was transferred to the new fully-funded DC system (see footnote 2).
5. This is in line with the System of National Accounts 1993, which states: "...Social insurance schemes organized by government units for their own employees, as opposed to the working population at large, are classified as private funded schemes or unfunded schemes as appropriate and are not classified as social security schemes..." (ISWGN, 1993, para 8.63). In practical terms, for pension payments to former civil servants to be classified as private, these payments have to go through autonomous private funds (e.g. separate pension and/or insurance companies), for which the government does not make up the deficit on a regular basis (e.g. in practice, benefit schemes that are DC plans). Non-autonomous pension schemes (including pension benefits paid directly from the government budget) remain institutionally in the government sector.
Unlike that for private-sector pension schemes (if sponsored by publicly-traded corporations), the reporting of government workers’ pension liabilities is not yet standardized internationally, although there is an ongoing initiative to do so that involves the OECD and the International Monetary Fund (IMF) via the so-called System of National Accounts (SNA). Some countries, like Australia and Canada, already require their governments (at all levels) to report their pension liabilities for their employees as a liability on the government’s balance sheet (if there are no associated plan assets, then these pension arrangements would in effect be transformed into book reserves). By making these debts explicit, these governments formally quantify and acknowledge the future commitments that they are responsible for.

Some of the more contentious issues regarding the valuation of public-sector liabilities are the extent to which benefits should incorporate future salary growth and the discount rate to be used. In the private sector, such issues have been largely solved through the application of the International Accounting Standard Board’s IAS19 standard for pension benefits in the European Union and other countries, and through similar standards applied in Japan and the United States. The choice of discount rate for calculating public-sector liabilities is particularly controversial because of the huge impact small changes in discount rates can have on the size of the liability.
Much of the recent financial economics literature proposes that public- and private-sector pension liabilities should be computed using some reasonable government paper rate (Bader and Gold, 2003; Gold and Latter, 2009; Novy-Marx and Rauh, 2009; Exley, Mehta and Smith, 1997; Kortleve, Nijman and Ponds, 2006; Waring, 2009). However, there is an ongoing debate regarding the application of market-based discount rates, given that pensions are long-term liabilities, that there is no market for such liabilities and that there is no expectation a priori that such liabilities will be sold by governments or otherwise transferred to insurance companies. Hence, to the extent that a government bond yield is to be used to calculate public pension liabilities, it may be preferable to use a long-term average measure or an expectation of its future value, based on long-term trends in economic growth and inflation. Actuaries have also traditionally adjusted such discount rates upwards to reflect the higher long-term return that may be expected from pension fund investments in equity and other instruments.

**Funded public-sector pension plans**

This section examines specific public-sector pension plans in several countries in an attempt to highlight in more detail some of the broad concerns identified above. Specifically, we present evidence of the financial aspects of a selection of public-sector funded DB plans. We find that funded plans generally tend to be underfunded and we discuss a number of arguments as to why this may be so. To put underfunding in perspective, we compare the size of underfunding in funded plans with the financial obligations captured in unfunded plans of a number of countries.

**Funding and methods of valuation of liabilities**

Participants in a traditional DB plan typically accrue pension rights based on years of service, the annual accrual rate and wage income over the career. The accrued rights offer a prospective stream of annual pension payments as of retirement age. These payments may be indexed for some reference variable, for example price inflation or wage growth. A pension fund accounts for future pension payments by reporting the size of the pension liabilities. In essence, the liability of a pension plan is the discounted value of this stream of future pension cash flows to the present.

There has been debate about which method of discounting is appropriate in valuing pension liabilities (Exley, Mehta and Smith, 1997; Bader and Gold, 2003; Kortleve, Nijman and Ponds, 2006; Waring, 2009; Novy-Marx and Rauh, 2009). For a long time, liabilities were valued using a fixed discount rate that may reflect the expected return on assets, but since the 1990s the economic approach based on fair valuation principles and a market discount rate has increasingly substituted for the
actuarial method. The private sector, for the most part, no longer utilizes the actuarial method for disclosure purposes, seeing that internationally-recognized accounting standards prescribe that companies have to report their pension obligations in fair value terms based on economic principles.

For public-sector pension plans, there is great variety in discounting practice: both the fixed discount rate method and the economic method are in use. The liabilities that the examined plans report, the discount rates used and whether the discount rates are fixed or market-related are discussed in the following section.

Table 2. Reported evidence by plans in consideration (in euros, end 2008)

<table>
<thead>
<tr>
<th>Country</th>
<th>Plan</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Funding residue</th>
<th>Funding ratio</th>
<th>Discount rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Public Service (31 March 2008)</td>
<td>70.0</td>
<td>66.8</td>
<td>3.2</td>
<td>104.9</td>
<td>6.00</td>
</tr>
<tr>
<td></td>
<td>OTTPF (2008)</td>
<td>62.1</td>
<td>68.6</td>
<td>−6.5</td>
<td>90.5</td>
<td>4.00</td>
</tr>
<tr>
<td>France</td>
<td>Public Service Additional Pension Scheme</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>ABP (2008)</td>
<td>175.6</td>
<td>195.7</td>
<td>−20.1</td>
<td>89.8</td>
<td>3.57</td>
</tr>
<tr>
<td></td>
<td>PfZW (2008)</td>
<td>71.3</td>
<td>78.7</td>
<td>−7.3</td>
<td>90.7</td>
<td>3.55</td>
</tr>
<tr>
<td>Sweden</td>
<td>Federal 7(2008)</td>
<td>20.0</td>
<td>19.0</td>
<td>−0.9</td>
<td>104.8</td>
<td>1.90</td>
</tr>
<tr>
<td>Norway¹</td>
<td>Federal (2008)</td>
<td>18.9</td>
<td>28.2</td>
<td>−9.3</td>
<td>67.0</td>
<td>5.80</td>
</tr>
<tr>
<td>United Kingdom²</td>
<td>West Yorkshire</td>
<td>4.4</td>
<td>5.5</td>
<td>−1.1</td>
<td>79.6</td>
<td>6.00</td>
</tr>
<tr>
<td></td>
<td>Approx. all local government plans</td>
<td>317.8</td>
<td>542.1</td>
<td>−224.2</td>
<td>58.6</td>
<td>6.00</td>
</tr>
<tr>
<td>United States³</td>
<td>All state and local plans</td>
<td>1,374.3</td>
<td>2,110.8</td>
<td>−736.5</td>
<td>65.1</td>
<td>8.00</td>
</tr>
<tr>
<td>Australia</td>
<td>CSS Super (31 June 2008)</td>
<td>3.0</td>
<td>32.0</td>
<td>−29.0</td>
<td>9.3</td>
<td>7.54</td>
</tr>
<tr>
<td></td>
<td>ESS Super (31 Dec. 2008)</td>
<td>8.5</td>
<td>13.8</td>
<td>−5.3</td>
<td>61.5</td>
<td>8.00</td>
</tr>
</tbody>
</table>

¹ Annual report states at value assets: “fictitious fund”.
² United Kingdom has 99 local plans and approximation is based on the three biggest plans.
³ Data derived from Novy-Marx and Rauh (2009).

Table 2 informs about the financial position of a number of countries’ funded pension plans as of the end of 2008, as reported by the plan sponsors of the schemes. All monetary terms are in euros. Assets are reported at their disclosed value. The

The fair value approach aims at market-consistent valuation. Applied to pensions, the fair valuation method implies that a pension promise has to be seen as a bond and therefore has to be valued as a bond. The discounting method to value future pension payments therefore should be the same as used in the market to value government bonds.
The value of the liabilities is determined by the discounting method. The information about the discounting method used in the table shows a large variety in this respect.

The Netherlands has two public-sector plans: the ABP for the government and education sectors, and the PfZW for the health care sector. The supervision prescribes that the discount rates for the various terms have to be derived from the nominal swap rates curve. At the end of 2008, the swap rates corresponding with the duration of the liabilities for the two plans were 3.57 per cent and 3.55 per cent, respectively.

The United States is presented in the table using aggregate information on the value of assets and liabilities of all public-sector plans (derived from Novy-Marx and Rauh, 2009). The plans in the United States use the actuarial method as prescribed by the Governmental Accounting Standards Board (GASB). GASB 25 states that the discount rate should be based on “an estimated long-term yield for the plan, with consideration given to the nature and mix of current and planned investments . . .” (citation adapted from Munnell et al., 2010). For most plans, this expected yield turns out to be equal or close to 8 per cent (Novy-Marx and Rauh, 2008).

The Australian plan also employs the actuarial method and applies a discount rate of 8 per cent. The Australian PSS scheme for federal employees is partly funded/partly book-reserved, with assets at about 30 per cent of liabilities.

The Norwegian SPK plan for federal employees is accounted for using the Norwegian accounting standard NRS 6, which is similar to the pension accounting standard required by United States GAAP for corporate plan sponsors. The SPK plan is partly funded/partly book-reserved, with assets at about 60 per cent of liabilities. At the end of 2009, the market-based discount rate was 5.80 per cent.

The pension plan for Swedish federal employees uses a market-based discount rate that is net of future indexation. At the end of 2008, this discount rate was 1.90 per cent.

The United Kingdom public-sector pension plans are partly unfunded/partly funded in nature. Unfunded plans cover civil servants, National Health Service (NHS) employees, and teachers. The 99 local government plans all are based on funding. The reported evidence in the table concerns these local government funded plans only. However, the table addresses two examples. The first row presents information for one specific plan, the West Yorkshire. The second row is an approximation of the size of assets and liabilities for all 99 local government plans. The reported value of liabilities is based on a discount rate of around 3 per cent.

7. The reason for the use of the swap curve instead of the yield curve of Dutch government bonds as a proxy for the risk-free interest rate is that the swap market is more developed (more trade terms and many more participants) and therefore much less sensitive to incidental market disturbances.

(= 6 per cent denominator discount rate minus 3 per cent inflation rate). Cash flows are projected with an expected rate of inflation/indexation of 3 per cent (approached by taking the difference between the yield on long-term gilts and the yield on inflation-linked bonds). The denominator discount rate is around 6 per cent, determined as the sum of the long-term gilt return plus assumed outperformance of assets over the gilt return, this being 2 per cent for assets relating to pre-retirement service and 1 per cent for post-retirement.

The French public service additional pension scheme (RAFP) manages the additional retirement benefit rights of French government and local authority civil servants, and the staff of French public hospitals, through a fully-funded scheme. With almost 4.6 million beneficiaries, 51,000 employers and contributions of more than EUR 1.5 billion per annum, RAFP is one of the world’s largest public pension funds in terms of members. The size of the plan’s assets and liabilities were relatively small at the end of 2008, at EUR 6.1 billion and EUR 5.4 billion, respectively, after four years of operation (the plan was implemented on 1 January 2005). The plan’s assets and liabilities are expected to grow rapidly. The discount rate is 1.80 per cent.

Funding positions for different methods of valuation

The previous section has clarified that funded public-sector plans use different methods and assumptions for valuing future pension benefit cash flows. Differences could include discount rates, mortality tables, actuarial methods and disclosure practices. Such differences may be historical or stem from regulatory practices. Regrettably, the existence of these differences in valuation and disclosure hinder an assessment of the funding positions of public-sector pension plans on comparable terms. In order to make these liabilities truly comparable, they would need to be recalculated using the same methods and assumptions.

Here, we do not attempt to fully recalculate the liabilities using the same methods and assumptions. However, in order to make the liabilities at least somewhat more comparable, they have been approximately adjusted as if they were calculated using comparable discount rates across countries. This is done by employing i) market-based discount rates based on the long-term nominal swap rates in each country, and ii) a fixed discount rate related to the expected return on assets held by the pension funds. Please note that we have made no adjustment for differences in other assumptions, including mortality tables, whether or not future salary increases are included in the liabilities, and potential differences in asset valuation. Accordingly, our revaluation can be considered only as a very rough approximation of a more “comparable” set of funding levels.
Discounting methods

There are different ways to arrive at a discount rate for pension fund liabilities. The choice of the discount rate can be related to the expected return on assets in the portfolio. The discount rate can be based also on the characteristics of the pension liabilities. The former approach typically has been advocated by actuaries and plan sponsors, whereas the latter approach in general is supported by finance theory and financial economists (Bader and Gold, 2003; Gold and Latter, 2009). We make use of both approaches in comparing the funding positions of public-sector pension funds.

Liability-based discount rate. Finance theory states that the appropriate discount rate should reflect the riskiness of the pension liabilities (Novy-Marx and Rauh, 2009). When it is highly likely that pension promises to public-sector employees will be incurred, then the appropriate discount rate would be the risk-free interest rate, which can be derived from government bonds or from the inter-bank market for interest-rate swap contracts. Pension funds in the Netherlands, for example, have to value their liabilities using this inter-bank swap curve. An assumed advantage of using the swap curve above the government bond markets is that inter-bank swap markets are well-developed and free from credit risk pricing.

A main drawback of fair value accounting is that the volatility of interest markets results in very volatile values of pension fund liabilities, even though the underlying benefit cash flows may not change. An alternative to the fair value approach might be the use of a fixed discount rate related either to some long-term average of the rate of interest on long-term government bonds or perhaps to some assumed value acting as a good proxy for the interest rate on government bonds. Such a rate should also be consistent with long-term trends in economic growth, which ultimately determines the government’s capacity to finance pensions.

Asset-based discount rate. The asset-based discount rate approach typically relates the discount rate to the assumed rate of return on the assets held in the pension fund. The motivation for using this approach may be found in the long-term orientation in funding pension promises. Given that pension funds invest for the long term, periods with below-average returns can be averaged out by periods with higher returns. Private-sector pension funds are hindered in following this practice as their sponsors are exposed to market competition and the related risk of discontinuity because of a bankruptcy, a takeover, a merger and so on. This justifies market-based accounting to inform the fund’s stakeholders about the funding position, rather than using an asset-based approach. The government, as the
sponsor of government pension funds, is much less constrained in following a long-term funding approach because of its power to tax and its ability to survive the ups and downs of the business cycle and stock market volatility. A fixed discount rate, based on an assessment of the long-term earning capacity of assets held, adds to intergenerational equity as annual contributions are determined on an equal base. Such an approach can also be justified if one considers that benefit payouts are also volatile, as they depend on parameters — such as wage growth, job turnover, and longevity — whose future evolution is uncertain.

What would be an appropriate level for an asset-based fixed discount rate? To seek guidance for expected future rates of return, one may fall back on historical performance. Looking back over a long period justifies the use of a relatively high discount rate (around 8 per cent or more), but restricting the period implies much lower average returns. State pension funds in the United States are allowed to use a rate of 8 per cent. We base our calculation on a fixed discount rate of 6 per cent, assuming that pension funds hold 50 per cent in equity and 50 per cent in fixed income positions, yielding respectively 7.5 per cent and 4.5 per cent.

### Funding positions

The revaluation of the liabilities makes use of the following formula (compare Biggs (2010) and Novy-Marx and Rauh (2008), who also employ this revaluation rule):

\[
L_{\text{alternative}} = L_{\text{reported}} \left( \frac{1 + r_{\text{reported}}}{1 + r_{\text{alternative}}} \right)^{\text{duration}}
\]

where \(r_{\text{reported}}\) stands for the discount rate as reported by the plans and \(r_{\text{alternative}}\) reflects the discount rate of the alternative valuation method.

The term “duration” measures the money-weighted average maturity of the benefit cash flows. The duration also corresponds roughly to the elasticity of the value of liabilities with respect to the rate of interest. The term duration is sometimes also explained as the percentage increase or decrease in a plan’s liabilities owing to a 100 basis point decrease or increase in the discount rate.

The actual duration of the liabilities of a specific plan is determined by the composition of the terms of plan liabilities, however we assume for all plans that the duration of the liabilities is 15 years. Generally speaking, this assumed duration of

9. Over the period 1989-2009, the state pension funds in the United States earned on average 8.1 per cent, but average returns were just 3.9 per cent for the period 1999-2009 (Lav and McNichol, 2011). The Canadian Ontario Teachers’ pension fund reports an average return of 9.7 per cent for the period 1990-2009, and for the period 2000-2009, 6.2 per cent (see <http://www.otpp.com>). The Dutch government ABP pension fund earned an average return of 7.1 per cent for 1993-2010, much lower than North America pension funds because of a more conservative asset mix (OECD, 2009b).

10. The change in the value of liabilities \(\Delta L\), because of a change in the value or rate of interest \(\Delta r\), can be approximated with the following expression, with \(D\) as duration: \(\Delta L = -D\Delta r\).
15 years is assumed to be an appropriate approximation of the duration for most funded DB plans — even though the duration of 15 years would be too high for a very mature fund and too low for a very young plan.

Table 3 displays four panels (Panel A: Pension liabilities in billions of euros; Panel B: Pension liabilities as a percentage of GDP; Panel C: Funding ratios; Panel D: Pension fund residue as a percentage of GDP), where each panel is subdivided into the valuation as reported by the plans themselves plus three different methods of valuation:

- **Reported**: Liabilities as reported by the individual schemes, based on local regulatory practice.
- **Liability-based discount rate based on the inter-bank swap rate curve**: The “fair value” liabilities are our very rough approximation of the liabilities of the individual schemes, determined using a market-based discount rate. This valuation method is inspired by the Netherlands.\(^{11}\) As the market for government bonds in the Netherlands is quite limited in terms of size and trading rates, the supervisor prescribes that fair valuation has to be based on the nominal swap curve. We use the 30-year nominal swap rate as the market discount rate for nominal liabilities as the duration of a 30-year swap rate is about 15 years. Table 3 informs on the 30-year nominal swap rates at the end of 2008 for the different countries.
- **Liability-based discount rate equal to 4.5 per cent**: This method bases the valuation on an assumed nominal interest rate on government bonds. This rate, indicated in the table as \(R_b\) (rate of interest on government bonds), is assumed to be 4.5 per cent; this being the sum of a 2.5 per cent real interest rate and 2 per cent expected inflation. This rate is also consistent with long-term GDP growth rates in OECD countries, which reflects the growth in the government’s tax base which is the financing source for public pensions.
- **Asset-based discount rate equal to 6 per cent**: The valuing of the liabilities is based on an assumed discount rate of 6 per cent as a proxy for the assumed rate of return on assets equal to the expected rate (indicated in the table as \(ER\)). We base our calculation on a fixed discount rate of 6 per cent, assuming that pension funds hold 50 per cent in equity and 50 per cent in fixed income positions, yielding respectively 7.5 per cent and 4.5 per cent.

Panel A of Table 3 reports the absolute value of liabilities in billions of euros, which is strongly related to country size.

Panel B expresses the liabilities as a percentage of GDP. The highest values can be found in the Netherlands, with fair value liabilities around 54 per cent of GDP (sum

\(^{11}\) One may ask why the Netherlands do not use real discount rates as they aim at full indexation of accrued nominal benefits. The actual granting of indexation depends on whether there is overfunding above the nominal value of pension liabilities. As indexation is uncertain and dependent on the funding position, Dutch pension funds therefore need not account for the indexation ambition explicitly and can make use of nominal swap rates and not real rates.
Table 3. Funding position of funded public-sector pension plans as reported by plan sponsors, using a market-based discount rate, using an assumed long-term government interest rate of 4.5% and using an assumed rate of return on assets of 6%

<table>
<thead>
<tr>
<th>Panel A</th>
<th>Liabilities in billion euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>Plan</td>
</tr>
<tr>
<td>Canada</td>
<td>Public Service</td>
</tr>
<tr>
<td></td>
<td>OTTPF</td>
</tr>
<tr>
<td>Netherlands</td>
<td>ABP</td>
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<tr>
<td></td>
<td>PIZW</td>
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<tr>
<td>Sweden</td>
<td>Federal</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>West Yorkshire</td>
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<tr>
<td></td>
<td>Approx. all local government plans</td>
</tr>
<tr>
<td>United States</td>
<td>All plans</td>
</tr>
<tr>
<td>Australia</td>
<td>CSS Super</td>
</tr>
<tr>
<td></td>
<td>ESS Super</td>
</tr>
<tr>
<td>Norway</td>
<td>Federal</td>
</tr>
<tr>
<td>France</td>
<td>Additional</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B</th>
<th>Liabilities as % GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>Plan</td>
</tr>
<tr>
<td>Canada</td>
<td>Public Service</td>
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<tr>
<td></td>
<td>OTTPF</td>
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<td>Netherlands</td>
<td>ABP</td>
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<td>Sweden</td>
<td>Federal</td>
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<tr>
<td>United Kingdom</td>
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<td>Approx. all local government plans</td>
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<td>Norway</td>
<td>Federal</td>
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<tr>
<td>France</td>
<td>Additional</td>
</tr>
</tbody>
</table>
of ABP and PfZW); the United States, with 44 per cent; and the United Kingdom, with 49 per cent.

Panel C informs on the funding ratios as reported and for the three different valuation models.\(^{12}\) For the valuation method based on an expected rate of return

12. “Funding ratio” is defined as assets over liabilities: funding ratio = assets/liabilities. “Funding residue” is the balance between assets and liabilities: funding residue = assets minus liabilities.
(ER) of 6 per cent, the plans in Canada, the Netherlands, Sweden and France show high funding ratios far above 100 per cent. Even with this favourable discounting method, plans in the United Kingdom and the United States are severely underfunded. The level of funding is much lower for the alternative, fair value valuation method. Most plans are in a position of severe underfunding. The best funded plan is in Sweden with a funding ratio of 122 per cent, whereas Australia and the United States have funding ratios with indexed liabilities around 30 per cent.

Panel D expresses the pension fund residue (the difference between assets and liabilities) as a percentage of GDP. These results can be interpreted as the implicit government debt, which is comparable with the implicit debt position of unfunded plans. Underfunding implies that accrued pension rights are not matched in full by adequate funding so that future taxpayers may have to make additional tax payments to fund the part of pension promises that are as yet unfunded.

Panels C and D would suggest that underfunding in public-sector pension funds is common. This is the case irrespective of the method used to value the pension liabilities, although the underfunding situation is clearly aggravated when the fair value approach is used. However, it has to be recognized that these funding ratios are derived from values during or just after the financial crisis. It might be possible that public-sector pension funds are financially sound and healthy in less extreme periods; for example, those funds in the Netherlands, Canada, and Sweden.

Public-sector pension plans not backed by pension plan assets

The liabilities of public-sector plans not backed by pension plan assets (either PAYG or book-reserved) can be perceived as a kind of implicit government debt (Holzmann, Palacios and Zviniene, 2004). The costs of pension promises are not borne by the generation that has granted them, but have to be paid by later generations of taxpayers when they lead to actual pension payments. This section provides an estimation of the size of this implicit debt position for the plans in consideration in this article. It is important to note, however, that government sponsorship of these plans, and the relative guarantee that this may imply compared to the private sector, may also be considered an implicit asset.

Pay-as-you-go plans

Some public-sector pension schemes are financed on a PAYG basis. For these plans, no provision is made in the plan sponsor’s financial statements for any liability and benefits due are payable out of the plan sponsor’s general budget.

The implicit debt position in PAYG plans is equal to the present value of plan participants’ future benefits, based on the pension rights acquired in the past service
years. Accordingly, the debt position may be perceived as the Accrued Benefit Obligation (ABO) of a PAYG-financed plan, when such a plan is treated as a fictitious funded DB plan. In Table 4, Panel A, we have very roughly estimated the fictitious ABO of the PAYG-financed plans on a fair value basis (swap rate).\(^\text{13}\)

### Book-reserved public-sector pension plans

Some public-sector pension schemes finance their obligations using the book reserve method. This means that the plan sponsor holds a provision in their balance sheet for the liabilities of the plan, but there are no assets set aside in a pension fund

---

\(^{13}\) This estimation has been made using the annual benefit payments of the plans in recent years as reported by the plans themselves. For an accurate determination of the ABO, we also need to have knowledge of the future cash flows based on accrued rights from past years of service, and knowledge of the actuarial principles (e.g. mortality tables, career parameters) and the current composition of the scheme members regarding age and gender, as these aspects determine the present value factors needed to translate benefit cash flows into the benefit obligations. As we have no knowledge of future benefit cash flows nor of present value factors, we have to fall back on rules of thumb that can be derived from the practice of real-life public-sector pension funds offering benefits of the same kind.
to cover these obligations. Rather, as benefits become due, payments are made out of the plan sponsors’ general budget. Of the plans that we examined, the United Kingdom schemes for civil servants, the NHS and teachers are financed via the book reserve method.\footnote{14}

As was done for the plans with pension fund assets in the previous section, Table 4, Panel B presents the liabilities of the book-reserved plans on the reported basis and on the fair value basis (using a market discount rate).

**Net unfunded liabilities across countries**

Funded pension schemes, in principle, accumulate assets to cover the future payments of promises when those promises become payable. However, underfunding in funded plans could also be interpreted as implicit debt for future generations of taxpayers. Underfunding implies that accrued pension rights are not matched in full by adequate funding now, so future taxpayers may have to step in to cover future financial shortfalls. The residue position as a percentage of GDP as reported in Table 3, Panel D, can be interpreted as the implicit debt of future taxpayers in funded plans. Table 4, Panel B, in principle, is the implicit debt position of the book-reserved plan.

The reported evidence reflects the actual size of the net unfunded liabilities, which are best for France, Finland, the United States, Norway, Sweden and the Netherlands, as the examined plans in these countries cover around 90 to 100 per cent of active public-sector employees (see Table 5). For the United Kingdom, there is underreporting of the total net unfunded liabilities position as the considered plans cover less than 60 per cent of the active workers in the public sector. This is also the case for Germany and even more so for Canada, as the reported Canadian plans represent about 10 per cent of the total public-sector workforce.

Figure 3 attempts to tie all the information together for all of the examined plans per country so as to get some perspective on the net unfunded liabilities on a fair value basis. Now we can compare the different examined plans, grouped by country, as to the fiscal burden for future taxpayers in one dimension. In principle, this fiscal burden, the implicit pension debt, can be replaced by explicit government debt, if the governments were to turn to the capital market and borrow the money necessary to back all unfunded pension promises made to public-sector workers to date. However, as stated previously, to the extent that pre-funding of government pension promises leads to investment in domestic government bonds, this may lead to circularity in government funding.

\footnote{14. The Australian PSS scheme is partially funded, partially book-reserved, with assets at about 30 per cent of liabilities. The Norwegian SPK plan is partially funded, partially book-reserved with assets at about 60 per cent of liabilities. These partially-funded schemes have been discussed in the section on funded public-sector pension plans.}
The examined plans in Finland, France, the United Kingdom and Germany rank the highest in terms of their net unfunded liability, with the Finnish level reaching 102 per cent of GDP and the French one 93 per cent of GDP. The net unfunded liabilities in Sweden, the Netherlands (ABP and PfZW together), and Canada (only public servants) are low due to the relatively high funding levels in the examined

### Table 5. Relative size of examined pension plans

<table>
<thead>
<tr>
<th>Country</th>
<th>Relative size of pension plans* (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>95</td>
</tr>
<tr>
<td>Finland</td>
<td>86</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>56</td>
</tr>
<tr>
<td>Germany</td>
<td>50</td>
</tr>
<tr>
<td>United States</td>
<td>&lt;100</td>
</tr>
<tr>
<td>Norway</td>
<td>88</td>
</tr>
<tr>
<td>Sweden</td>
<td>100</td>
</tr>
<tr>
<td>Netherlands</td>
<td>100</td>
</tr>
<tr>
<td>Canada</td>
<td>10</td>
</tr>
</tbody>
</table>

* = number of active members in examined plans / number of public-sector employees

**Source:** Ponds, Severinson and Yermo (2011).

**Figure 3. Net unfunded liabilities of the examined public-sector plans on a fair value basis, as percentage of GDP (end of 2008)**

![Net unfunded liabilities chart]

**Source:** Ponds, Severinson and Yermo (2011).
funded plans. The examined plans in the United States (all state and local plans) and Norway fall between these two positions.

Concluding remarks

Pension promises for government workers are a major policy challenge for four main reasons. First, the state is usually the largest employer in the country and hence it usually faces large commitments to provide pensions for its employees. Second, these pension promises, often in the form of DB plans, tend to be relatively generous, especially when compared to private-sector arrangements. In some cases, higher pension promises may compensate for lower cash pay in the public sector relative to the private sector. Third, in some countries these pension plans are underfunded, or paid for directly from government revenues (the PAYG financing mechanism). Fourth, there is as yet no international standardized method of reporting public-sector pension liabilities, as there is now for exchange-listed private sector companies in most countries. The valuation and disclosure of these promises is, all too often, less than transparent, which may hide potentially huge fiscal liabilities to be passed on to future generations of workers.

A fair comparison between countries regarding the fiscal burden of their DB public-sector pension plans is hindered by the country-specific use of valuation and reporting methods. To arrive at a fair comparison, we have estimated for a number of plans the size of the net unfunded liabilities using a market discount rate (“fair value” approach) and a common fixed discount rate, both as of the end of 2008.

The fiscal burden as a result of underfunding can also be interpreted as the implicit pension debt for government, as future generations of taxpayers may have to pay for these underfunded accrued pension promises. It should be noted, however, that the government sponsorship of public-sector DB plans might also be considered an implicit pension asset, because of the relatively longer time horizon of the government as plan sponsor and the potentially stronger level of credit worthiness of government as compared to plan sponsors in the private sector.

The limitations of this study should be considered. Not all pension plans for public-sector workers were examined in each country. In France, Finland, the Netherlands, Norway, and Sweden, the plans analysed cover most (over 85 per cent) of public-sector employees, so the plans can be considered representative of the public sector. However, for Canada, the implicit liabilities calculated only refer to plans covering 10 per cent of the public sector, while the equivalent figure for Germany and the United Kingdom is around 50 per cent.

Furthermore, in estimating the liabilities on a fair value basis, we made a series of assumptions (such as their duration), seeing as detailed actuarial information on the plans surveyed is not available. Irrespective of the valuation method used (actuarial or fair value), calculations of funding ratios and net unfunded liabilities
may be subject to potential criticism in that they are based on a given set of assumptions that may not represent accurately the long-term financial challenge faced by governments in meeting their pension commitments on an ongoing basis. For instance, the use of market discount rates, as in the fair value approach, incorporates the erratic and not always rational behaviour of capital markets in the calculation of long-term pension commitments.

One key policy message from this study is that better disclosure and transparency is needed as regards the commitments made by governments to public-sector employees. While general social security systems are under increased scrutiny, information on public-sector arrangements is often only partially or not readily available. Also, an international debate should be instigated on how to compare these commitments internationally, in order to assist the understanding of their fiscal impact. This article has sought to offer a first attempt at providing such internationally comparable data.

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Implicit debt in public-sector pension plans


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A disarming simple idea? Practical bottlenecks in the implementation of a universal basic income

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Abstract This article considers the implementation of a universal basic income, a neglected area in basic income research. We identify and examine three important practical bottlenecks that may prevent a basic income scheme from attaining the universal reach desired and proclaimed by its advocates: i) maintaining a population-wide cadaster of eligible claimants ensuring full takeup; ii) instituting robust modalities of payment that reach all intended beneficiaries; and iii) designing an effective oversight mechanism in a policy context that actively opposes client monitoring. We argue that the implementation of universal basic income faces unique challenges that its proponents must consider carefully.

Keywords guaranteed income, universal benefit scheme, benefit administration, takeup, international
Introduction

Give all citizens a modest, yet unconditional income, and let them top it up at will with income from other sources.

Philippe Van Parijs (2004, p. 7)

Much has been written in recent years about the “disarmingly simple” proposal to provide each (adult) citizen a small grant by right, irrespective of household composition, other sources of income, and participation in the labour market or a socially useful activity (Van Parijs, 1992, 2004). In the past two decades basic income has gained considerable support as an alternative to the active welfare state, with advocates claiming positive effects on income security, unemployment, social exclusion and flexibility across the life cycle among its virtues (Van Parijs, 1992; Standing, 1999, 2009; Offe, 2008). In advanced welfare states, basic income is said to resolve the dilemma between fighting unemployment and combating poverty (Van Parijs, 1996, 2004). In developing countries, too, we are witnessing a surge of interest in universal and unconditional cash transfers as instruments for securing minimum social protection (Standing, 2008). According to some commentators, basic income is even a necessary component of any policy package aimed at resolving the current economic crisis (Standing, 2011).

Discussion of basic income has concentrated largely on the ethics, economics and, more recently, the politics of universal and unconditional income maintenance schemes. By contrast, little effort has gone into considering implementation issues; an unfortunate state of affairs that we have previously challenged (De Wispelaere and Stirton, 2007, 2011a, 2011b). The reasons for this neglect of implementation issues can, in our view, be attributed to a combination of three factors: an overly restrictive conception of the nature and role of public administration as a “controlling bureaucracy” (Standing, 2002); a comparative focus in which basic income easily emerges as the natural winner in comparison with selective social assistance policies; and a conviction that basic income is administratively efficient because it does not suffer from the many deficiencies found in selective social assistance programmes.

What basic income advocates fail to see, however, is that a universal and unconditional scheme leads to a novel set of implementation challenges, or else presents familiar problems in new guises, precisely because of important differences compared to the selective policies commonly associated with the welfare state. More specifically, this article argues that universal basic income schemes give rise to three practical “bottlenecks”:

1. The bottlenecks we examine below are concerns that arise particularly for the most radical form of a basic income as advocated by Philippe Van Parijs (1992, 1995, 1996, 2004). Elsewhere, we argue that the basic income ideal constitutes a family of cognate proposals (De Wispelaere and Stirton, 2004), and that less radical cognates face their own set of problems (De Wispelaere and Stirton, 2007, 2011a).
• maintaining a population-wide list, or “cadaster”, of eligible claimants ensuring full takeup;
• instituting robust modalities of payment that reach all intended beneficiaries;
• designing an effective oversight mechanism in a policy context that explicitly opposes client monitoring.

The notion of a bottleneck suggests seriality — i.e. a set of problems that have knock-on effects on each other and which need to be resolved in mutually compatible ways. This certainly applies to the implementation of universal basic income. For instance, the absence of a population-wide cadaster (bottleneck 1) also prohibits payment modalities from reaching all eligible beneficiaries (bottleneck 2).

And while the absence of effective oversight mechanisms (bottleneck 3) does not make universal cadasters or payment modalities impossible, it nevertheless makes it very difficult for administrators to have full information about the level of universality reached in either case, or to respond swiftly to rectify error (a likely occurrence in a scheme pitched at such a massive scale).

Bottlenecks amount to serious hurdles on the path to the effective implementation of a basic income scheme, but this does not mean that such difficulties are beyond resolution. Quite on the contrary, each bottleneck may well give rise to several practical solutions, but these are neither obvious nor without cost, and require careful examination before committing to any one of them (De Wispelaere and Stirton, 2011b). Moreover, the way we dispose of any one of these bottlenecks has implications in terms of the feasibility and desirability of potential solutions to the others. In short, we view the three bottlenecks examined in this article as implementation challenges that must be jointly fulfilled for basic income to become policy reality: they are necessary conditions, not to be dismissed lightly by basic income advocates.

In the remainder of this article we first discuss the relation between universalism and target efficiency in basic income, before examining in some detail the three bottlenecks mentioned above. The purpose of this article is not to argue against the practical feasibility of basic income. Our aim instead is to outline several key implementation challenges, and to urge that proponents of this disarmingly simple idea think more seriously about the “administrative factor” in basic income (Schaffer, 1973; De Wispelaere and Stirton, 2011b). This article deliberately engages with these matters at a more general, theoretical level, leaving a more detailed, practical analysis of the surveyed problems to another occasion.

**Universal basic income and target efficiency**

Many welfare policies suffer from the problem of under-consumption, or non-takeup as it is often referred to in the literature (Craig, 1991). While easily dismissed as a matter of (rational) personal choice, from a policy perspective the widespread
non-takeup of entitlements to social assistance in fact amounts to a serious case of policy failure, reflecting ineffectiveness as well as injustice (van Oorschot, 1991, 1998, 2002). Poor takeup rates are typically associated with selective social assistance policies because of the complex interactions between clients and bureaucracies attempting to negotiate a labyrinthine set of rules. Key factors affecting takeup rates include knowledge, stigma, and perceptions of eligibility or need on the client side, but equally a number of crucial factors associated with a scheme’s structure and its administration (van Oorschot, 1991, 1998). Reviewing the state of affairs, van Oorschot (1991, p. 20) concludes that non-takeup is more likely to occur when schemes

• have a “density” of rules and guidelines;
• contain complex rules;
• contain vague criteria of entitlement;
• contain a means test;
• are aimed at groups in society which are associated with negative prejudices;
• supplement other sources of income;
• leave the initiative to start the claiming process fully to the claimants themselves.

Selective social assistance schemes typically fit this description, with means-testing in particular having been identified as a dysfunctional policy mechanism (van Oorschot, 2002; Atkinson, 1996). But a certain threshold of non-takeup may be inherent to selective schemes for yet another reason: there are limits to how far (and how fast) bureaucratic processes and routines can accommodate constantly and rapidly changing personal and social circumstances (Goodin, 1992). For some commentators, the traditional pillars of the selective welfare state — market, state and community or family — are quite literally crumbling (Goodin, 2002; also Goodin and Rein, 2001; Offe, 2008).

Basic income claims to offer a “universal antidote” to the difficulties of selective income support, and thereby potentially offer governments a means of delivering on the evident yet hard-to-fulfil commitment to reducing the complexity of the benefits system (see Harris, 2008). There is no denying that basic income schemes, by virtue of being unconditional as well as universal, bypass many of the concerns raised above, and are able to outperform selective schemes in this regard. According to Robert Goodin (1992), this is largely so because basic income operates with fewer policy presumptions than selective social assistance schemes. Basic income proposals are “less presumptuous” in two relevant senses:

They are less presumptuous... [because they are]... less prying and intrusive, and in consequence less demeaning and debasing. They are also less presumptuous in the sense that they make fewer presumptions: they assume less about the people to whom they are aiding (Goodin, 1992, p. 195).

Basic income is said to be more universal, not merely in the sense of embracing a larger share of the total population (i.e. almost all citizens), but also in terms of
effectively capturing a larger share of the target population. Proponents thus proclaim the superior “target efficiency” of a universal basic income. The question remains, however, whether a basic income scheme indeed leads to full takeup, or whether there might be other obstacles impeding its target efficiency? Our view, in brief, is that basic income indeed faces a number of difficulties (the “bottlenecks” we refer to in the introduction) that may prevent it from achieving the universal reach both desired and proclaimed by its advocates. The purpose of this article is to survey a selective few and outline their role in basic income implementation.

At this point we should stress the importance of target efficiency for the basic income ideal. Non-universal takeup constitutes a genuine problem for basic income, much more so than for selective schemes. We can illustrate this point by considering briefly how basic income is committed to safeguarding “substantive” (or “effective”) and not merely “nominal” universalism (De Wispelaere and Stirton, 2011a). Basic income is nominally universal when it does not impose any overt restrictions on eligibility, such that each citizen is in principle entitled to a grant. But this does not in itself ensure that every citizen ends up receiving a basic income, and in many cases those most at risk of falling through the proverbial cracks are the poor, the destitute and the socially excluded — precisely those who merit special attention in a progressive basic income (Van Parijs, 1992, 1995, 2004; Standing, 1999, 2002; Wright, 2004, 2006; Raventós, 2007; Offe, 2008). Ensuring that all citizens — particularly all the vulnerable and disadvantaged — effectively receive their entitlement to a basic income is what makes a scheme substantively universal. The philosophical justification of a progressive basic income scheme implies that takeup must be genuinely universal; from this perspective, nominal universalism risks becoming a mere “token policy”. Practically, substantive universalism constitutes a much more demanding requirement, since, as we have previously argued, “providing a universal basic income that robustly includes vulnerable and hard-to-reach social groups such as the homeless, disabled people, immigrants and many others requires positive administrative effort, not just the removal of barriers to eligibility” (De Wispelaere and Stirton, 2011a, p. 118). We return to this point below.

Two broad concerns now arise when contemplating the practical implementation of a substantively universal basic income. First, precisely because basic income is universal, it comprises a target population that in sheer size easily
surpasses familiar large-scale selective policies. Compared to most social assistance programmes, this places basic income in a unique position: even a very small relative non-takeup rate may affect a sizeable absolute number of entitled individuals. This size or scale effect implies that we should not stare ourselves blind at the relative takeup rates of universal programmes (in comparison with their selective counterparts), but instead appreciate the human cost involved in terms of sheer numbers of individuals affected by non-universal takeup. Second, being universal as well as unconditional means basic income, at best, partially overlaps with existing administrative systems or operational mechanisms that make up the traditional, selective welfare state. This may make it particularly difficult to piggyback on existing systems, the way selective policies are often able to. In each case the universal nature of basic income requires careful consideration of its “administrability” (its ability to be implemented congruent with stated or implied objectives), which in turn is highly dependent on the administrative capabilities of the policy environment. In our view, such an analysis requires close examination of several practical bottlenecks, discussed in the next sections.

Bottleneck 1: Listing all eligible claimants

The first bottleneck facing the implementation of a basic income relates to one of the central tasks of welfare administration: to identify those within the population who meet eligibility criteria for a grant, and to distinguish them from those not so entitled. This administrative task consists of two components that are often wrongly assumed to produce identical outcomes. Looked at from one side, identifying beneficiaries is largely a matter of preventing those who are not eligible from entering a programme, often at great cost to those included as well as to those excluded (Danz, 2000; Herd, Mitchell and Lightman, 2005). In other words, so-called programmes of inclusion necessarily also exclude (Handler, 2003, 2004). Basic income advocates maintain that the establishment of a universal and unconditional scheme eliminates the task of excluding non-beneficiaries, and consequently basic income happily does away with the bureaucratic control apparatus geared at monitoring the compliance of beneficiaries.

By and large, this is correct. However, eliminating restrictions does not itself solve the problem of identifying all those eligible. It is perfectly possible for a policy not to formally exclude an individual from a programme, yet fail to identify him or

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4. Two important qualifications are in order. First, even the most “universal” basic income scheme will still have to exclude some people: perhaps non-citizens or non-resident citizens, or institutionalized members of society such as felony prisoners (Van Parijs, 2004). Second, the extent to which basic income programmes can effectively do away with a controlling bureaucracy depends also on whether other policies still require such an apparatus, a point often overlooked by its proponents (De Wispelaere and Stirton, 2011a).
her as a beneficiary, with obvious negative consequences on takeup. It is a serious mistake, therefore, to think that all that is required to improve the reach of a programme is to eliminate restrictions on individual eligibility. What is additionally required is a list (or “cadaster”) of all those entitled; in the case of basic income, this amounts to a list of all citizens or long-term residents of adult age. As already noted, the creation and maintenance of an accurate and reliable cadaster is central to achieving substantive coverage under any social assistance scheme. However, the more universal a social assistance scheme, the more encompassing the relevant cadaster must be, and the greater the effort required to keep it up to date and reliable. Basic income is particularly demanding in this respect because the absence of restrictions and its universal scope implies that the relevant list must cover almost the whole population. The sheer scale at which basic income operates may result in the relatively low “cadasterability” of such schemes. Low casterability in turn negatively affects basic income’s target efficiency, since individuals who are not listed on the cadaster simply cannot claim their grant. While this point seems deceptively simple, the focus on removing bureaucratic barriers to access (i.e. rules and regulations determining eligibility) prevents basic income advocates from fully appreciating the administrative challenges inherent in something as “simple” as keeping an accurate list of all those entitled to receive a basic income.

Consider for a moment the practical challenges of instituting such a comprehensive list. Of course, some countries (e.g. Belgium or Spain) have robust cadasters covering the entire population in the form of a system of compulsory identity cards linked to a central database. In these cases, cadasterability poses comparatively few practical problems. However, many countries lack a suitable cadaster of beneficiaries. In such cases, a first solution would be to construct a cadaster from scratch. But this option faces two types of problems. First is the issue of cost: setting up a list from scratch will require an investment of significant proportions. The recent United Kingdom experience in attempting to set up a nationwide identity card system may give some indication of the financial costs involved. For example, a research project at the London School of Economics and Political Science gave “low”, “medium” and “high” estimates of the costs of the United Kingdom’s proposed identity card scheme at respectively GBP 10.6 billion, GBP 14.5 billion and GBP 19.2 billion over ten years, all of these estimates being much higher than the government’s own estimates of GBP 5.84 billion over ten years at 2005/2006 prices (Whitley et al., 2007). Of course, the bulk of the financial burden will arise in the start-up phase with subsequent costs of maintaining a

5. We rely here on the work of public administration scholar Christopher Hood. In his work on tax administration, Hood (1985, p. 24) defines “cadasterability” as “the property of being applicable to a readily identifiable group of taxable [in our case “creditable”] units”. The concept is equally applicable to the practical administration of benefits (De Wispelaere and Stirton, 2011b).
cadaster being significantly lower, although hardly negligible.\textsuperscript{6} But if such start-up costs prove excessive, and administrators are left without the capability to effectively handle the required task, this may have a very direct impact on the political will to roll out such a scheme. It may literally cause basic income implementation to fall at the very first hurdle. A second problem arises because of the likely resistance of citizens in many countries against anything that resembles a comprehensive identity database. Here again the vigorous debate surrounding the identity cards proposal in the United Kingdom can serve as an example (6, 2005; Beynon-Davies, 2006; Whitley and Hosein, 2010).\textsuperscript{7}

An alternative to building a cadaster from scratch would be to rely on less encompassing (but typically less reliable) cadasters already in place, such as voting registers or social security databases. The problem with these is that they are not nearly as universal as often assumed. Voting registers, for instance, typically exclude whole categories of people who would otherwise meet eligibility requirements for a basic income. This is especially the case in those countries that require individuals to register themselves on the electoral roll. One might objectively argue that where for many people voting is a burden — albeit a modest one — basic income registration comes with a real benefit, and therefore we can reliably expect everyone to make some effort to self-register. But this may not resolve all problems as the social policy literature offers many examples of people failing to obtain services that require little effort; information problems on precisely how to register as well as well-documented behavioural traits such as procrastination may combine to effectively exclude certain people from securing their place on the basic income cadaster. Moreover, signalling that one is not on the register is only one step in the process of maintaining a robust cadaster, and things may go wrong elsewhere in the process as a result of bureaucratic error (van Oorschot, 1991). Other lists or registers, such as those covering social security or health insurance, may be incomplete or unreliable because they are tied to selective policies affected by the low takeup problems surveyed in the previous section. Heavy reliance on such cadasters means quite literally that we would be importing the deficiencies of selective policies into basic income administration. More generally, relying on a single existing cadaster is likely to produce too many false negatives to be compatible with basic income’s commitment to substantive universalism.\textsuperscript{8}

\textsuperscript{6} The cheap self-regulation option — asking individuals to register themselves, perhaps online — is only a partial solution in that the cadaster must also ensure that former beneficiaries who no longer qualify are taken off the register. In addition to expatriates or prisoners, we can think primarily of the recently deceased to whom basic income entitlements may still be allocated.

\textsuperscript{7} Following the 2010 United Kingdom general election, the Conservative/Liberal Democrat government announced the ending of the national identity card scheme, apparently on civil liberties grounds, but citing also the costs of the scheme. The Identity Documents Act 2010 repealed the Identity Cards Act 2006.

\textsuperscript{8} Briefly, “false positives” refer to situations where an individual ends up in receipt of a grant, even though such a payment is not intended as part of the goals of a scheme; “false negatives” refer to the
A third possibility is to integrate multiple, overlapping cadasters: for instance, voting registers with social security or health insurance registers. But the use of overlapping cadasters implies extra bureaucratic costs (to safeguard against the possibility that citizens appearing on several lists obtain the basic income twice, for instance) and, in the end, little assurance that all eligible citizens are effectively covered. For without a single comprehensive cadaster, there is simply no way of knowing how much of the population is effectively covered by overlapping, incomplete cadasters. In other words, there is a risk of common mode failure, in which people who are not listed on one register have a high probability of not appearing on others. Here too we can plausibly assume that the most vulnerable citizens, such as the homeless, again disproportionately face the risk of falling through the cracks of the system. In so far as a progressive basic income is largely advocated with the interests of the most socially and economically vulnerable in mind, this solution would be unacceptable.

The lesson of this section is straightforward. To guarantee substantive universalism through full takeup, and in particular to ensure the most vulnerable are effectively included, basic income administration cannot rely merely on removing barriers to entitlement. Instead, basic income advocates must explicitly consider cadasterability and examine options to register all citizens in an appropriate and reliable manner. Let us end this section by emphasizing again that this bottleneck in no way invalidates the basic income proposal; it merely means the problem has to be taken seriously and solutions carefully examined with the administrative capabilities of the policy context in mind.

**Bottleneck 2: Designing universal modalities of payment**

Much of the discussion surrounding the inclusive nature of a universal basic income is devoted to the “claiming stage”, in particular the absence of any personal or bureaucratic barriers to claiming one’s entitlement. However, when looked at from the practical perspective of rolling out a policy, this covers only part of the implementation process. At least as important is to ensure that each eligible person effectively receives the grant to which she or he is entitled. Here, again, the implementation of a basic income faces an important bottleneck that merits explicit examination: the specific modalities through which basic income will be disbursed (see De Wispelaere and Stirton, 2011b).

corresponding situation where an individual does not receive a grant, even though she or he falls within the class of persons a scheme is designed to benefit. These errors (also known as Type I and Type II errors in the literature) can arise with respect to each of the bottlenecks we have identified. Thus in the case of false negatives, a basic income may fail to reach an eligible individual due to the failure to include her or him in the relevant cadaster, through her or his inability to access the relevant payment mechanisms, or (in addition) through the failure of oversight mechanisms to correct either of these failures.
Let us begin by examining a number of practical options that have been proposed in the basic income literature. One is the use of the taxation system: several advocates propose distributing a basic income as tax deductions, refundable in cases of low tax liability. The main advantage, it is said, is ease of administration because basic income can be practically integrated into a tried-and-tested existing mechanism. Nevertheless, this option raises a number of important questions, the most obvious being how to deal with those who do not work in the formal economy, or who otherwise do not have payroll tax deductions made to their salaries. A tax-integrated reimbursement scheme may be a good option for those who are liable to pay income tax, but fails to cover those who for whatever reason fall outside of this arrangement. In other words, the intended reach of basic income typically exceeds that of the income tax system.

A second problem arises because basic income operates at the level of the individual as opposed to the household, and this again may complicate relying on the tax mechanism in any straightforward manner. Where existing tax arrangements are primarily set up to deal with households, subsuming individual household members under a single administrative category, ensuring that basic income is reimbursed to individuals specifically may require considerable operational adjustments. Pragmatically, we might imagine granting each household member an individual right to a basic income but nonetheless operationalize its disbursement through traditional household-based instruments. However, those who regard basic income as an important instrument in the fight against gender inequality are likely to object to an arrangement that, for all practical purposes, grants (male) household heads easy access to the basic income of their spouses (McKay, 2001; Zelleke, 2011). Of course, tax systems vary substantially across countries and different solutions may present themselves, but here again the universal (and individual) nature of basic income means this bottleneck requires particular attention.

The tax integration option poses a further problem that specifically affects the basic income ideal and its emphasis on protecting the vulnerable and socially disadvantaged. Most states deal with taxes, and tax reimbursements, only once a year. Thus, policy-makers must decide whether to provide the basic income on a yearly basis, after the tax calculations and relevant deductions have taken place, or whether to institute some advance payment mechanism with the basic income being (partially) clawed back through the tax system if the tax liability exceeds the grant (Van Parijs, 2004; Block, 2001, p. 87). The downside of the first option — an annual grant, disbursed after all tax liabilities are accounted for — is that it may impose significant burdens on those who have insufficient income to lead a decent life without their basic income.

Furthermore, in the annual grant format, the precise amount of net basic income one receives after tax may be uncertain. The net basic income one receives at the end of the year defies straightforward advance calculation because it must not only take
into account additional income from other sources, which could vary considerably from one year to another (particularly for those in flexible or precarious employment), but also one’s overall tax liability, which again may remain uncertain until settled at the end of the tax year. It is precisely for this reason that Van Parijs (1992, 2004) argues that a basic income is practically distinct from the negative income tax proposal made famous by Milton Friedman (1962). Those living at or near the poverty line may respond to such uncertainty by deferring part of their consumption for fear of not being able to afford the expense. This not only undermines the goal of basic income security (see Standing, 2002), but also imposes constraints on the usage of one’s basic income that most advocates would find intolerable: preventing use of the grant as security for a loan, for instance. While the more serious problem is that people with low incomes might defer spending on essential goods such as medicine, heat or nutrition, the opposite problem might also arise: instead of deferring consumption, some individuals might consume on credit in anticipation of receiving a substantial basic income at the end of the tax year, which then could initiate a spiralling debt problem when the expected grant does not materialize.

These arguments would strongly suggest that basic income be disbursed in small regular instalments (monthly, perhaps weekly) as opposed to larger grants once a year. As we argued elsewhere, for those living at or near the poverty line, equal monetary value simply does not imply equal practical value (De Wispelaere and Stirton, 2011b, p. 11). But the problem with this second option — a regular income stream clawed back through the tax system — is that of “churning”, the pointless shifting of resources between different accounts (Offe, 2008). Churning not only incurs high administrative costs but is also prone to error and thus contains a high potential to frustrate basic income recipients. At the margin, this may negatively impact on the target efficiency of basic income, notably with respect to those most in need of having the grant administered accurately.

A different sort of problem concerns the practicalities of receiving a grant. The case presented by advocates of basic income often relies on each person holding a bank account. Unfortunately, this cannot be taken for granted. In the United Kingdom, for example, it is estimated that in 2008/2009 some 1.14 million households, comprising 1.54 million individuals or three per cent of the overall population, had no access to a basic transactional bank account (Financial Inclusion Taskforce, 2010). Moreover, these were overwhelmingly concentrated at the lower end of the income distribution. Even where individuals and households have access to basic banking services, many — again, including many with low incomes — live in areas with no bank and have no access to a free automated teller machine (ATM). While in extreme cases this might prove an insurmountable barrier to hard-to-reach groups such as the homeless or those without adequate proof-of-address, in other cases it still amounts to a significant transaction cost (a bus fare to the nearest town.
or the payment of a commission to use a local ATM). Alternative payment systems, such as the cashing of benefit cheques in a local post office, face similar limitations.9

An entirely different disbursement mechanism would be to provide every eligible individual with a basic income debit card, which would be periodically topped up by the state and which the individual can use like any normal debit card to pay for transactions or withdraw cash (Standing, 1999, p. 369). This innovative approach makes the delivery of a universal basic income to all publicly visible. In addition, it would appear to avoid at least some of the problems likely to occur with tax integration, by effectively setting up a delivery system from scratch. These are all good reasons for favouring this scheme over the tax-integrated option. However, the transaction costs mentioned above apply here too: providing a network of ATMs is costly, for instance, and service providers typically pass these costs onto customers. In the case of the basic income debit card, these costs would presumably be charged mainly to the programme’s administration, but in some cases will fall directly on recipients. Setting up a separate basic income delivery system from scratch is a theoretical possibility, but is likely to be costly and inefficient, and vulnerable to such severe teething problems as could drain popular and political support from the basic income scheme.

What these insights reveal is that, with respect to this second bottleneck, basic income implementation again faces a number of controversial administrative choices. One obvious concern is that of complexity, which leads to a risk of decreased target efficiency because both administrators and claimants are more prone to make mistakes (National Audit Office, 2005), as well as rendering benefit schemes vulnerable to fraud and exploitation (Harris, 2008, p. 15). But an equally important principle is that of “redundancy”, which allows for one system’s failure to be “backed up” by another and thus preventing recipients from falling through the proverbial cracks.10 Where single systems score well in terms of low complexity, multiple mechanisms typically score better in terms of improved redundancy. As before, what makes this problem unique for basic income policy are the twin requirements of having to cover a large target population (and thus having to avoid more instances of error or non-coverage) while simultaneously having to ensure that those who are disadvantaged in society are fully covered by the practical mechanisms.

In sum, in our view, basic income administrators must carefully examine practical solutions to the concerns pertaining to payment modalities. As before,

9. Perhaps the most promising technological advances can be found in the use of cell phones and various types of smart cards as electronic delivery systems for cash transfers. For an overview of these modalities in Africa, see Vincent and Cull (2011).
10. “Redundancy” is used here to refer to duplication and overlap in administrative systems. While, linguistically, redundancy often has negative connotations, none are intended here. In a seminal essay, Martin Landau (1969) argued that rather than a sign of waste and inefficiency, a degree of redundancy is essential to the long-term survival and reliability of administrative systems, enhancing safety, flexibility and innovation.
these concerns do not tell against the basic income proposal as such, but merely offer a challenge that must be taken seriously for the basic income proposal to make it off the drawing board.

**Bottleneck 3: Effective oversight without monitoring**

Discussion of these two bottlenecks has shown how a radically universal scheme such as a basic income imposes increased pressure on existing implementation channels or systems. The concerns with building a robust cadaster of all eligible individuals and offering effective universal payment modalities both point at the operational difficulties of offering income security at the vast scale of a truly universal policy. The size or scale effect of basic income implies we need to rethink the operational or practical dimension of providing income support to the population at large. Equally, these bottlenecks offer a critical perspective on the argument that basic income easily bypasses situational specifics of diverse groups of claimants; pace Goodin’s (1992) claims about the “less presumptuous” nature of basic income. Reflection about practicalities suggests that complexity returns at the level of implementation, a reality that basic income advocates must deal with head-on to retain their strong commitment to substantive universalism.

In this section we address a different type of bottleneck, one which arises from the common observation that the implementation of large-scale social programmes — including a basic income — is typically less-than-perfect. In both cases discussed above, imperfect implementation results in some level of non-takeup, particularly amongst the most vulnerable or disadvantaged in society.11 This suggests the need for a robust oversight mechanism, an administrative process by which those who fail to receive their basic income are identified, the error is swiftly rectified, and a feedback mechanism prevents the same error from occurring again. However, as we show in this section, oversight constitutes a third bottleneck, one that is little appreciated by basic income advocates predominantly concerned with avoiding client monitoring (see Standing, 2002; also Handler, 2004; Handler and Hasenfeld, 2006).

As before, we believe the inclination of basic income advocates to rely on the mere removal of barriers as the main pathway to achieving substantive universalism is flawed: it fails to appreciate the extent of error that is part and parcel of implementation systems. There are two reasons to think basic income faces considerable difficulties regarding oversight. On the one hand, we again have the problem of scale: monitoring the effective disbursement of a grant scheme that

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11. It might also result in “false positives”, by paying a basic income to some who are not entitled or some entitled claimants more than once. We abstract from this concern here, although advocates should not underestimate the importance of avoiding false positives for the political resilience of basic income.
encompasses the whole population requires considerable administrative capacity and effort. Paradoxically, in this respect universal schemes may require more administrative effort than selective ones (De Wispelaere and Stirton, 2011a). On the other hand, because basic income does not imply repeated monitoring of eligibility conditions — the much-reviled client monitoring — it has lost an important instrument to cross-check whether payments are effectively received by beneficiaries (Hood, 1986, pp. 78-79; 1985, pp. 24-25).

Consider for a moment, by way of contrast, the oversight capability of a workfare programme (see De Wispelaere and Stirton, 2007). First, workfare approaches, far from dispensing with oversight, rely on extensive intervention from caseworkers. This face-to-face oversight through a variety of “bureaucratic encounters” (see Hasenfeld, Raftery and Zald, 1987) offers an immediate channel for cross-checking actual receipt of benefits, provided the caseworkers’ role is not restricted to that of a budgetary gatekeeper. Since basic income schemes purposefully restrict client interaction with caseworkers, they cannot avail themselves of this mechanism. A second potential advantage of workfare is that the focus on training and formal employment provides a host of institutionally embedded oversight mechanisms, such as payroll systems, that allow for effective cross-checking in so far as the necessary administrative resources are kept in place. Such mechanisms enable workfare administrators to monitor the delivery of payment systems; again, an option not readily available to basic income administration. The points above are not meant to argue the case for workfare, but merely to illustrate the particular oversight bottleneck that basic income implementation faces.

The public administration literature distinguishes usefully between “police patrol” and “fire alarm” oversight mechanisms (McCubbins and Schwartz, 1984; Lupia and McCubbins, 1994). Where police patrol oversight is centralized and offers a direct approach to obtaining relevant information (e.g. through audits), fire alarm oversight establishes “a system of rules, procedures, and informal practices that enable [third parties] to examine administrative decisions [and] to seek remedies” (McCubbins and Schwartz, 1984, p. 166). The lack of institutionally-embedded mechanisms discussed in the previous paragraph affects a police patrol type of oversight, making it more difficult for basic income administrators to identify false negatives (in either cadasters or payment conduits), and possibly even responding less efficiently in rectifying the situation once such failure is identified.

This of course leaves basic income implementation with the possibility of a fire alarm type of oversight. At first sight this seems a promising avenue. The fact that basic income does not require clients to submit to any intrusive type of bureaucratic evaluation, but merely to lodge a complaint that they have not received their entitlement, certainly bodes well for increased self-regulation on behalf of clients. Nevertheless here too we should perhaps give some thought to several considerations.
First, clients will only respond “efficiently” if they fully trust administrators not to use information for other purposes. However, it may be tempting for bureaucracies to use available client information to complement information deficits across separate policy areas, with little consideration of what clients want in this regard. Here we must appreciate the variability in experience and sensitivity of populations in different countries. Belgian citizens, accustomed to featuring in all sorts of official registers are likely to respond quite pragmatically to requests to self-register, while United Kingdom citizens’ more sceptical attitudes towards official information-gathering may lead them to respond differently, even where failure to register is penalized. The efficiency of a fire alarm oversight mechanism depends critically on background conditions — such as the level of public trust in politics or bureaucracy — which vary from one case to another, making it difficult to generalize its usefulness across countries.

Second, fire alarm oversight still requires claimants to obtain relevant information and to go through the process of lodging a complaint. Even supposedly user-friendly approaches may prove too much for many recipients who may be already socially disadvantaged, such as the homeless. The solution of using technology to facilitate administrative complaints, in which many basic income proponents place their faith, may again exclude precisely this target group. Hood and Margetts (2007) caution against the belief that modern information technology offers a “technological fix” to the perennial challenges of administration. “Such a change [to the digital era] does not mean that new policy problems have appeared or old ones disappeared. Rather, they present themselves in new ways” (Hood and Margetts, 2007, p. 14). Failure to appreciate novel forms of information exclusion easily leads to a variant of the “restrictions fallacy” according to which getting rid of explicit barriers in itself ensures full access.

Third, assessing and addressing complaints requires significant administrative processing that inevitably results in time lags and backlogs, triggering difficulties similar to those discussed in relation to payment modalities. To reiterate a point made earlier, to signal that one is not on a particular list or has not received one’s entitlement is only the start of a “processing chain” resulting in rectifying an error (and, ideally, preventing its future occurrence). Signalling by fire alarm is a necessary condition for efficient oversight, but it is not sufficient. Of course, similar processing problems occur in police patrol types of oversight, but the longer the chain the more points at which the process can break down. Where police patrol oversight proceeds internally, fire alarm oversight instead “externalizes” part of the process by requiring individual clients to interface effectively with administrators.

Finally, moving away from a police patrol to a fire alarm oversight mechanism means shifting part of the administration of a basic income scheme onto the recipient. In contrast with police patrol monitoring, recipients end up bearing all the relevant inconveniences — investments in time and effort, experience of
frustration, and even delay of payment — as well as some burdens of intrusion in so far as complaints require bureaucratic checking to confirm their veracity. Where police patrol oversight implicitly entails monitoring, a fire alarm type of oversight consists of two different processes: the signalling procedure initiated by the recipient and the explicit monitoring of the veracity of the complaint by administrators. The second step reintroduces the much vilified “controlling bureaucracy”. Furthermore, effective oversight depends in large part on the solutions adopted to remedy previous bottlenecks. For instance, the administrative burden of oversight will correlate with the existence of robust cadasters or limited numbers of payment modalities, as the latter affect both the expected size of error (i.e. number of complaints) and the available instruments to monitor and correct error. Somewhat paradoxically, this means fire alarm oversight functions most effectively in cases of low or moderate error, while the situations where oversight is most valuable (because error is more common) defy the easy administration of fire alarm monitoring and require the more costly and burdensome police patrol type of monitoring.

Solutions to this third bottleneck may well exist, but again a commitment to substantive universalism requires basic income advocates to carefully think through this aspect of its implementation.

Conclusion

Basic income advocates customarily assume that universal and unconditional income maintenance schemes such as basic income outperform selective social assistance schemes in terms of target efficiency. Where selective schemes fail to capture all those entitled to receive a particular programme or service, universal policies do much better in large part because they remove barriers or restrictions for claiming an entitlement. In this article we argued that this standard picture is incomplete, for a radically universal and unconditional scheme such as basic income may produce its own bottlenecks preventing full takeup, thus impeding target efficiency. We briefly outlined three such bottlenecks that are vitally important when considering basic income implementation, without wanting to be exhaustive.

The existence of such bottlenecks does not invalidate the general case for basic income, but they give basic income advocates reasons to consider issues of implementation and administration more carefully. In so far as basic income is committed to granting all citizens a basic income entitlement by right, it is also committed to ensuring all effectively receive their entitlement. This philosophical commitment to substantive universalism has obvious practical connotations that require taking the bottlenecks outlined above seriously.

There exists a further reason to take seriously “the administrative factor” (Schaffer, 1973). Appropriate consideration of basic income implementation may
suggest radically different solutions to each of the bottlenecks surveyed: we have briefly considered some above, but many more undoubtedly exist. Which solution to favour in each case will depend on contextual factors — e.g. the administrative capacities of a particular country — but also on broad political factors, such as the acceptability of intrusive forms of information gathering. When implementation choices produce different effects on distinct social groups, the administration of basic income becomes a genuinely political problem. A failure to appreciate how the politics of basic income is shaped by the practical challenges discussed in this article may affect the political prospects of introducing a robust basic income.12

Bibliography


12. De Wispelaere and Stirton (2011a, 2011b, forthcoming) explore the political aspects of basic income administration in more detail. We refer the interested reader to these companion pieces to the present article.
Implementing universal basic income


Implementing universal basic income


Priority challenges in pension administration describes recent pension developments in selected countries on four continents, with a focus on administrative issues. The volume’s central concern with administration is a welcome addition to mainstream pension analysis, which tends to focus heavily on policy issues, less on implementation. This publication is also timely. In many countries, the adoption or expansion of multi-tier pension systems is making pension administration more complex and posing new challenges for managers. The growth of informal employment has reduced pension coverage and revenues, creating a need for new approaches to collecting contributions. The global economic recession has worsened these trends. While innovations in information technology create a potential for large leaps in administrative efficiency, they also pose challenges for protecting privacy, ensuring data security and avoiding exclusion.

The volume explains how pension administrators in 18 countries are addressing one or more of these challenges. (It provides briefer updates, references and comparisons of many other countries as well.) Edited by Professor Noriyuki Takayama, it includes papers from a conference held in Tokyo in 2010, sponsored by the Hitotsubashi University Project on Intergenerational Equity; the Japanese Ministry of Health, Labour and Welfare (Kosei-Rodosho); and the International Social Security Association.

The book has three sections: a Basic Framework is followed by Country Reports and then Future Challenges. The Basic Framework deals primarily with a single issue: the collection of contributions. The Country Reports are more diverse, focusing as well on service delivery, extension of coverage, information management, communication, pension literacy, and administrative costs. In all, ten country experiences are described: Brazil, Canada, Denmark, Germany, Japan, Republic of Korea, the Netherlands, Sweden, the United Kingdom, and the United States. The final section, Future Challenges, begins by charting recent trends in contribution collection, first worldwide and then in Central Europe; then compares five Asian provident funds; and concludes with an IBM official’s promotion of a new computer architecture.

Readers may be challenged by discrepancies between the section titles and their actual contents, as just described, as well as by differences in the issues covered by the country reports, which complicate efforts to compare the countries. The reports also vary in their extent of detachment. Several of them describe recent administrative problems and challenges with high candor and objectivity, making for informative reading — e.g. Canada, Central Europe, Japan, and Sweden — while some reports are more promotional, dealing primarily with the national pension agency’s achievements.
Among the many issues covered, three recurrent themes stand out: i) recent efforts to improve the collection of pension contributions; ii) the use of new technology to streamline pension service delivery, and iii) efforts to increase pension literacy.

It is fitting that the topic of contribution collection holds a central place in a volume on pension administration. Strong collection systems are critical not only for pension finance but for extending coverage and increasing benefit adequacy. Yet, too often, collection is treated as a dry, technical issue and relegated to the sidelines of pension analysis. The book’s inclusion of a chapter on Central Europe (Croatia, Poland, and Slovenia) is also important, as this region experienced a considerable decline in collections in the first years of its economic transformation. In more recent years, governments of Central and Eastern European countries have adopted major pension reforms with differing impacts on collection, making this a rich environment for national comparisons.

The basic framework, however, focuses primarily on a single reform, one that shifts authority for collections from the national pension agency to the national tax collection agency. It cites several potential advantages of this shift, including economies of scale in enforcement and a reduced reporting burden on employers. While recognizing that unified tax and pension collections will work best under certain conditions (e.g. the chapter cites modernized administrative systems and good cooperation between the tax and pension agencies), it portrays this shift as the way forward.

The arguments for greater efficiency are strong ones in principle, especially when a new pension system is being launched. Yet, worldwide, contributions are collected in many different ways — e.g. in Belgium, by the national social insurance office; in Germany, by health insurance funds; in Australia, by private fund managers; and in the United States, by the tax agency. Experience fails to show that one approach is consistently superior to others. Moreover, a major administrative shift always involves transition costs — revenue losses, efficiency losses — and the risk of unintended consequences.

These uncertainties are illustrated in the country experiences. Readers learn, for example, that after the Russian Federation unified its pension and tax collections, it experienced difficulties recording individual pension contributions, leading it to return authority for collections to the pension agency. In Poland, which maintains separate systems for tax and pension collections, pension compliance has improved in recent years — a trend not experienced by all Central European countries that unified their collection systems. Croatia’s efforts to reduce employers’ reporting burden through a single, unified report to a new agency, Regos, actually increased their burden due to resistance from the tax agency.

These experiences suggest that the success of a country’s pension contribution collection efforts is determined by many factors in addition to which government agency performs the task. Unified collections may offer disadvantages as well as advantages, depending on the national context. Thus, when a collection system is not performing optimally, the decision of whether to take measures to improve its performance directly or to reassign the function is usually not clear cut. Rather, the decision involves assessment of many factors whose implications are rarely clear.
The volume’s treatment of this important topic would be strengthened by a greater recognition of these nuances. This could be achieved by aligning the perspective of the basic framework more closely with the national experiences presented.

In the next section, five country reports — Brazil, Canada, Denmark, the Netherlands, and Sweden — describe service innovations that exploit new information technology. These innovations involve: i) Increased self-service on the Internet. New electronic options allow workers to file applications from their homes or offices and to make projections of their own future benefit amounts; ii) “One-stop shopping” for pensions and other benefits. In most of the reporting countries, service teams have replaced an earlier service model of “front office, back office”, in which some agency staff were assigned to deal with the public, while others processed claims and made decisions. Many agency clients reportedly found this dichotomy unsatisfactory. In the new service model, there is no distinction between front office and back office, and service teams have both authority and technological capacity to take immediate action on most requests; iii) Linked data bases. New links within and among government computer systems mean that workers and employers no longer need to provide the pension agency with changes of address, marital status, employment, or income, or to report beneficiary deaths. The country reports provide many illustrations of the advantages of such links.

For example, the Swedish Pensions Agency now provides workers with integrated benefit projections that include both public pensions and state-mandated, privately managed investment accounts. It will soon include occupational pensions as well. In Canada, the federal agency responsible for pensions uses tax information to automatically reinstate former recipients of the income-tested pension if their income decreases again. In Denmark, the largest pension administrator uses death records to pay lump-sum benefits to survivors without requiring them to apply. The Brazilian pension agency processes applications immediately following a telephone interview, relying on links between its computer system, the tax agency, and the national social registry.

Readers may wonder if there are any downsides to these innovations and, in particular, how those clients with low computer literacy or access are faring as pension agencies rely increasingly on sophisticated technology. Discussion of such problems is sparse in the reports. The Netherlands stands out for its public commitment to avoid such exclusion. Its Country Report states: “... our clients are free to choose how they communicate... This applies even if the client could have achieved what they wanted — submit an application, say, or report a change — via a website. (We) assume that there will always be a group of clients unable or unwilling to use the latest technologies... Whether they visit our website or come to one of our offices in person, we are ready to help them further; there is no wrong door”.

This open-door policy is an effective way to prevent social exclusion. An additional benefit, not mentioned in the report, is that it provides the agency with swift feedback about how well, or poorly, new technology is functioning from the users’ perspective.

A final theme is the need for government action to raise workers’ literacy, a need which is being driven by the increasing complexity of pension systems. In defined benefit (DB) schemes, the trend toward flexible retirement ages gives workers greater choice, but creates a need for
them to understand the consequences of working more or fewer years. In those countries with defined contribution (DC) schemes, workers run an increased risk of pension inadequacy. They thus need to monitor the value of their individual accounts, estimate future benefits, and project their post-retirement financial needs.

The reports show that most government efforts to raise pension literacy involve research. In Canada, the federal department responsible for public pension plans is benchmarking workers’ current understanding, so as to develop targeted mailings and online tools to raise pension literacy. In Denmark, the main pension administrator is pilot testing ways of communicating with individuals with low pension knowledge and reading skills, including visuals, graphs, and videos to support its central messages. The Swedish government continues to research how the “orange envelope”, an annual contribution report and benefit projection, affects workers’ understanding of its DC scheme, especially of the increased importance of the choice of retirement age. We learn that Swedish surveys show that the orange envelope is most effective in raising pension literacy among those who already have a basic knowledge, but less so with those who lack it. At the same time, the government’s research shows that large numbers of workers wish to receive more pension information. The government interprets this as a sign that it needs to develop better ways of communicating. As one response, it merged the Social Insurance Agency, which administers the public pension scheme, with the Premium Pension Agency, which administers Sweden’s mandatory system of privately managed savings.

None of the reported initiatives take account of recent work in the field of behavioural economics, which indicates that even with high levels of pension literacy, for reasons of myopia, risk aversion, or other factors, many people neglect retirement planning. Nor do the reports consider that, with multi-tier pension systems, retirement planning may simply require more time than most people are able or willing to spend. Thus, along with raising pension literacy, there is also a need to develop policies that reduce and simplify the decisions that individuals must make. Recent experience points to the advantages of auto enrolment, which places workers in voluntary retirement savings schemes unless they opt out (rather than the reverse), and default investment options, which place their contributions in funds with risks that are judged appropriate to their age, family, and financial circumstances, unless they opt for a different risk profile.

It is unfortunate that the volume does not contain a final chapter pointing more directly at priority issues in pension administration and their possible resolutions. Given the diversity of topics covered, drawing them together would be challenging, but such an exercise would also be of great value in highlighting the volume’s main messages and in pointing the way for future analysis. Still, this book is an important source of information on an understudied topic. Pension analysts who are interested in administrative trends can find much that is new here, while those who focus principally on policy-making can gain useful insights into the administrative consequences of recent pension reforms.

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This book presents a timely and overdue contribution to global debates on migration and development, focusing on social protection and social rights for migrants, historically an under-represented theme in the vast migration literature. This is especially so with regard to South-South migration, to which the book dedicates considerable space given that almost half of all international migrants move from a lower- or middle-income country to another developing country, rather than to richer Western countries. The book addresses also the situation of irregular or undocumented migrants as a key challenge for social policy.

By making use of conceptual frameworks, policy analysis and empirical studies, the editors seek to disentangle the complex answers that arise from what might seem a rather simple question: what social protection mechanisms and social rights are available to people outside their country of origin or, in the case of internal migrants, when they change administrative locality?

The book’s eleven chapters are organized in three sections: part 1 comprises the introduction and two chapters laying out a framework for analysis; part 2 is on policies and policy spaces, with two chapters focusing on issues of portability and access; and part 3 offers six case studies on the United Kingdom, Kerala (India), India, Ecuador, South Africa and Malawi, and on Bangladeshi migrants in the Gulf States.

In the introduction, the editors discuss the main conceptual and policy concerns presented in the different contributions. Having classified migrants and migratory flows into different categories (i.e. voluntary versus forced migration; temporary versus permanent migration; regular versus irregular migrants; and South-South versus South-North migration), the authors introduce migrants’ specific vulnerabilities and insecurities over the migration cycle that create needs for formal and informal social provisioning. They then address the central concerns of the book: approaches and access to welfare, citizenship and social protection for migrants, and the politics of migration policies.

Chapter 1 (Tendayi Bloom and Rayah Feldman) presents different viewpoints on citizenship and their implications for migrants, whose social rights and protection are often denied because they are non-citizens. The chapter further explores international instruments aimed at protecting migrant workers and refugees. Most strikingly, although the United Nations International Convention on the Protection of the Rights of all Migrant Workers and Members of their Families has been ratified by 42 states, not one is a Western state (p. 55).

In chapter 2, Ian MacAusland and Rachel Sabates-Wheeler move beyond discussions of
legal aspects of the rights or entitlements of migrants to social provision. The authors hypothesize that “being entitled or having a right to social provision does not guarantee that it is actually received” (p. 61). The chapter develops a framework for migrants’ access to social benefits under different distribution systems (based largely on work by Bernard B. Schaffer), which will prove useful for future empirical research. The chapter would have benefited from an attempt to link this framework with the literature on welfare regimes and migration as outlined in the introduction, as different welfare regimes are characterized by different distributional systems (market, state, family) with varied implications for migrants’ access to social benefits.1 The last section presents useful entry points for analyzing the political dimension of social rights for migrants and is taken up later in chapter 7.

Chapter 3 (Rachel Sabates-Wheeler, Johannes Koettl and Johanna Avato) explores why access to social protection and portability of rights such as pensions, health care and unemployment benefits are crucial not only for migrants’ well-being but to avoid financial losses and to guarantee the actuarial fairness of social security institutions. The authors analyze access to national social security schemes and bilateral and multilateral social security agreements before classifying countries into different portability regimes. It comes as no surprise that “southern countries have little to offer with respect to portability of benefits” (p. 107). Moreover, “given the limited provisions . . . concerns about the lack of portability of benefits are premature” (p. 109). Instead they suggest i) ensuring portability of occupational benefits that are available to migrants, ii) ensuring basic human and social rights to all migrants regardless of status, iii) supporting migrant networks and associations, and iv) developing a migration policy framework, especially with regard to undocumented regional migrants.

Chapter 4 (Marius Olivier) adopts a regional perspective analyzing access to and portability of, and the exclusion of migrants from, social benefits in the SADC (Southern African Development Community) countries, especially in the regional migration hub South Africa. The situation of intra-regional migrants is described as precarious, despite the long migration history related to work opportunities in agriculture and mining, and despite the existence of global conventions and the development of several national and regional instruments. The author recommends a stronger commitment to a rights-based framework and appropriate regulatory responses at national and regional levels.

In chapter 5, Rosalind Bragg and Rayah Feldman discuss the “politicization of migrants’ access to the National Health Service in the United Kingdom, resulting in the exclusion of some of the most vulnerable migrants despite a historic rhetoric of universalism” (p. 30). The authors illustrate the long tradition of attempts to exclude foreigners from health care and public welfare “despite failure to provide any empirical justification in terms of cost, or consideration of their impact on other policy goals such as public health” (p. 160).

Myrthri Prasad Aleyamma’s anthropological analysis of a Sunday Bengali market for (mostly internal) migrant workers in Kerala (chapter 6) provides thought-provoking insights into issues

1. For evidence of preliminary attempts in this direction, see Hujo, K; Piper, N. 2010. “Linking migration, social development and policy in the South: An introduction.” in K. Hujo and N. Piper (eds.), South-South migration: Implications for social policy and development. Basingstoke, Palgrave/UNRISD.
of formal versus informal social protection as well as the “erosion of citizenship as people move within national boundaries” (p. 175).

In chapter 7, Ian MacAuslan applies the framework from chapter 2 to India’s Public Distribution System (PDS), a programme that distributes mostly subsidized food and grains to all Indian households. The analysis based on fieldwork provides a detailed account of migrants’ actual access to the programme and their ability to change the system in their favour. Again we are confronted with the erosion of rights for internal migrants (amounting in India to 300 million persons) when they move between different administrative structures, despite the fact that they are legally entitled to benefits from the PDS.

Paolo Boccagni’s subsequent case study on Ecuador (chapter 8) is equally interesting, as the emigrant policies of the new Ecuadorian government elected in 2006 have captured international attention, in particular because the new Constitution establishes a right to migrate, a state responsibility to assist citizens abroad, and a new Migrant Ministry (SENAMI). The author introduces various new perspectives on social protection, social rights and transnationalism. This chapter, along with the chapters on South Africa and Malawi, places more emphasis on the impact of migration on the families left behind and on the situation of migrants in their country of origin, for example the impact of remittances and practices of transnational caregiving.

In chapter 9, Rachel Sabates-Wheeler offers an extremely comprehensive case study on migrants originating from Malawi, including an analysis of their situation in the host country (South Africa) and the impact of remittances in their home country, and an interesting comparison between South-South and South-North migration through inclusion of data on Malawian migration to the United Kingdom. The author concludes that i) migration represents a very important safety net as well as an asset-building strategy for most migrants, and that ii) repeat migration and networks are key to a positive migration experience for poor migrants (p. 259).

Chapter 10 (by C. R. Abrar) is based on primary fieldwork and provides an impressive account of the multiple vulnerabilities and disadvantages of Bangladeshi migrants to the Gulf States. Reliance on informal intermediaries, lack of access to formal loans before departure, lack of access to legal and social protection in the host country, as well as violation of basic rights and standards at work are just some of the problems these migrants face. The author further points to the important issue of return migrants’ reintegration and productive use of newly acquired skills and financial resources.

The book offers readers solid conceptual-analytical frameworks and a variety of recent and complementary case studies. Moreover, the analysis of context-specific experiences and social practices, the juxtaposition of legal entitlements versus actual access and the reasons behind barriers and exclusion demonstrate the value of multidisciplinary social science research for understanding the political and social underpinnings of migrants’ vulnerabilities and identifying policy measures and actions to support them in claiming social rights.

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