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Second-pillar pensions in Central and Eastern Europe: Payment constraints and exit options

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Abstract During 1998–2007, a majority of Central and Eastern European (CEE) governments enacted laws obligating workers to save for retirement in privately managed individual accounts. The governments funded these accounts with a portion of public pension revenues, thus creating or increasing deficits in public systems. After the onset of the global financial and economic crisis (2008), most CEE governments reduced these funding diversions and scaled back the accounts. Now, a decade after the crisis, this article examines the benefits that the accounts are beginning to pay retiring workers. In general, these benefits are shown to be disadvantageous compared with public pensions. Some pay lump sums in lieu of regular monthly benefits, most fail to adjust pensions regularly for inflation, and some pay women less than men with equal account balances. In several countries, pensioners with individual accounts receive lower benefits than those without them. To enable retiring workers to avoid these disadvantages, several CEE governments have allowed them to refund their account

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balances and receive full public pensions. Yet while this strategy diffuses worker dissatisfaction, it also places strains on public pension finance. To assist second-pillar account holders without weakening public pensions, governments should consider making private pension savings voluntary and financing these schemes independently of public pensions – i.e. by worker and employer contributions and, possibly, direct state support.

Keywords pension scheme, annuity, social security reform, Eastern Europe, Europe

Introduction

This article traces the latest developments in the brief but tumultuous existence of Central and Eastern Europe's (CEE) mandatory individual retirement accounts. Often referred to collectively as second pillars, these accounts were established by a majority of CEE governments during 1998–2007 with advocacy and financial support from the World Bank. At that time, the World Bank held that the second pillars would boost national economic growth, relieve strains on public pension finance as populations aged, and shield workers' savings from adverse political actions, making the accounts more stable than public pension systems (World Bank, 1994; Holzmann, 1998). While these claims subsequently came under challenge, including from within the Bank itself, they resonated at the time in the CEE region, where the Soviet Bloc had recently disintegrated, its member states regained national independence, and privatization was a popular reform strategy (Orszag and Stiglitz, 1999; Barr, 1999; Müller, 1999; Holzmann and Palacios, 2001; and Fultz, 2012).

Governments funded the new individual savings accounts by diverting to them a portion of the public pension contribution made by or on behalf of each worker. This increased operating deficits in the public, pay-as-you-go pension systems.[1] In most countries, the participation requirement was initially imposed on younger workers, so that eventually the entire workforce would be covered. Reflecting the split of each participating worker's contributions between the first and second pension pillars, governments planned that each worker would receive two pensions in retirement: one financed on a pay-as-you-go basis and under

1. Estonia also required an additional worker contribution of 2 per cent of covered wages.

Table 1. *Public pension contributions diverted to second-pillar individual accounts (% of covered wages)*

Country	At inception of the second pillar	Prior to crisis (2007)	2018
Bulgaria	2	5	5
Croatia	5	5	5
Estonia	6	6	6
Hungary	6	8	0
Latvia	2	8	6
North Macedonia	7.4	7.4	6
Poland	7.3	7.3	2.3
Romania*	2	2*	3.75
Slovakia	9	9	4.5
Average	**5.2**	**7**	**4.28**

Note: *In Romania, the diversion of contributions was subsequently raised to 5.1%, then cut to 3.75% in late 2017.
Sources: Columns 1 and 2: Altiparmakov (2015); Column 3: Krzyzak (2016), Vukorepa (2018), SEB (2019), Mitev (2017), Naczyk (2016), Ottawa (2018), and Ministry of Finance of the Slovak Republic (2017).

public management, and a second with advance funding and management by private commercial companies.

However, the second pillars soon encountered a spate of difficulties. The commercial firms that managed individual accounts charged high fees, eroding account balances (Fultz and Ruck, 2000; Price and Rudolph, 2013). These firms invested in government bonds, causing a circular flow of worker contributions back to the state coffers, but reduced by private administration charges. Governments relied primarily on borrowing to fill the holes in public pension finance caused by diverting revenues to individual accounts, thus inflating national deficits and causing some countries to approach the European Union's (EU) debt and deficit limits.[2] After 2007, the global financial and economic crisis made credit scarce and expensive. Most governments responded by reducing second-pillar funding (see Table 1). The cuts did not cease after economic stability was restored, but continue to be debated and enacted at present.[3]

In the decade since the crisis, the scaled-down second pillars have matured and most of them have recently begun to pay benefits. This article describes the design

2. The EU Maastricht Criteria generally require Member States to keep annual deficits under 3 per cent of GDP and accumulated debt under 60 per cent of GDP.
3. Most recently, Romania reduced the funding of its second pillar (2017), and Poland is planning a further retrenchment for 2019. See the next section.

of these benefits and compares them with the public pensions that most account holders also receive. It does so in three parts.

First, we present the background, which provides a snapshot of the nine CEE national pension schemes that operate funded second pillars. We then describe second-pillar benefit laws and, in countries where laws have not been enacted, government proposals. The article then looks at three benefit design features that are of high importance for workers' retirement security – lifetime benefit guarantees, regular pension adjustments, and gender equality in benefit calculation.

Drawing on these sections, the discussion then identifies patterns across the countries and offers recommendations for further second-pillar reform.

In general, the article shows that second-pillar policies remain unsettled. In some countries, further retrenchments are being planned or debated; in others, laws specifying the benefit package are blocked or repealed; and in still others, workers are being allowed to exit the second pillar and receive full public pensions. These exit options enable workers to avoid second-pillar disadvantages, yet they also strain public pension finance. To protect account holders without destabilizing public pension systems, CEE governments should consider moving to supplemental pension systems in which worker participation is encouraged but not required and which are funded independently of the public pension system, i.e. by additional contributions from workers and/or employers, as well as possible state support.

A snapshot of CEE pension schemes

Across the nine CEE countries examined here, second pillars are designed as components of public pension systems. Thus, these systems are the starting point for this analysis. All of them have features that reflect the countries' previous socialist governance and subsequent transitions to the market economy: contributions are borne mainly by employers. Retirement ages, previously lower than in Member countries of the Organisation for Economic Co-operation and Development (OECD), are increasing in small steps toward ages 65–67 for men and ages 62–67 for women (Hirose, 2011). However, there has recently been some backsliding.[4] Redistribution in benefit formulas, widely regarded as excessive during the Soviet period, has been reduced or eliminated (Fultz and Ruck, 2000, p. 12). Furthermore, in most countries, public pension finance is strained by the diversion of contribution revenues to second pillars.

4. In 2017, Poland's ruling conservative consensus repealed a 2012 reform that would have increased the retirement age to age 67 for both men and women, leaving it at age 65 for men and age 60 for women.

Table 2. *Aggregate replacement rates for selected CEE pension systems (percentage), 2016**

Country	Men and women	Men	Women
Bulgaria	45	50	42
Croatia	37	39	40
Estonia	45	39	51
Hungary	67	71	66
Latvia	42	40	43
North Macedonia	–	–	–
Poland	62	72	61
Romania	66	68	57
Slovakia	62	60	57
EU 19**	58	61	55

Notes: *The ratio of the median individual gross pension of people aged 65–74 to the mean individual gross earnings of people aged 50–59. **EU 19 = The 19 EU Member States that have adopted the euro as their common currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

Source: European Commission (2018b, p. 47).

In terms of benefit design, CEE public pensions have three basic features in common. First, monthly payments are guaranteed for life to all those who meet contribution and age requirements. Thus, the elderly do not face the risk of outliving their public pensions. Second, benefits are adjusted regularly, usually based on a mix of wage and price indices. This too helps to protect older pensioners from economic hardship. Third, all CEE public pensions are computed in a manner that gives women and men of the same age with equal years of work and pension contributions equal monthly benefits, a policy that is widely accepted and regarded as equitable.

Aggregate replacement rates vary widely across countries, with some falling below the EU average (Bulgaria, Croatia, Estonia, Latvia) and others above it (Hungary, Poland, Romania). Women's replacement rates also vary significantly in relation to men's. With two exceptions, all the systems have aggregate replacement rates of at least 40 per cent. Note that the International Labour Organization's (ILO) Convention concerning Minimum Standards of Social Security, 1952 (No. 102), requires that the old-age benefit level equals at least 40 per cent of the reference wage for a standard beneficiary after 30 years of work (Table 2).[5]

5. For a model of theoretical replacement rates for second-pillar pensions, see Fultz and Hirose, (2018, Appendix B).

Table 3. *Countries, dates of second-pillar laws, and dates for benefit payouts*

Country	Launch of second pillar	Inception of benefit payouts	Benefit law enacted
Bulgaria	2002	2022	No
Croatia	1999	2012	Yes
Estonia	2002	2009	Yes
Hungary	1998	2013	No (enacted in 1997, repealed in 2010)
Latvia	2001	2014	Yes
North Macedonia	2006	2016	Yes
Poland	1999	2008 (women) 2013 (men)	Yes
Romania	2008	2032*	No
Slovakia	2005	2015	Yes

Note: *Year in which large numbers of account holders will begin to retire.

Sources: Altiparmakov (2015), World Bank (2017), Croatian Ministry of Labour and Pension System (2014), European Commission (2015, 2018a, 2018b), and Fultz (2012); and personal correspondence with Jadranka Mrsik (23 June 2017) for North Macedonia, Marian Preda (25 May 2017) for Romania, and Maria Svorenova (23 June 2017) for Slovakia.

Legal frameworks for second-pillar benefits

Many CEE governments launched their second pillars before they defined in law the benefit package that workers could expect to receive (Fultz and Ruck, 2000, p. 16). At present, laws specifying those benefits have been adopted in six countries (Croatia, Estonia, Latvia, North Macedonia, Poland, Slovakia), as shown in Table 3. All six have recently begun to pay benefits to small numbers of account holders. In two other countries, the inception of payouts is still on the horizon (Bulgaria, 2022; Romania, 2032), without a benefit law in place. In Hungary, the current government repealed most legal requirements for second-pillar benefits in 2010, when it ceased diverting public pension contributions to individual accounts and recouped most workers' account balances (see Simonovits, 2011).[6]

In none of the latter three countries is legislative action on the horizon. A number of obstacles are identifiable.

6. The 1997 Hungarian second-pillar law required account holders to convert their balances to annuities with gender-neutral benefit calculation and inflation adjustments identical to those provided in the public pension system. However, the law did not actually require private pension managers to provide these types of annuities. Recognizing this problem and others, the World Bank called for a fundamental revision of the law's benefit provisions (World Bank, 2006). See also, Rocha (2012).

• In Bulgaria, the Finance Ministry proposed a payout law in 2016, but subsequently withdrew it under criticism led by second-pillar funds. Their main objection focused on a requirement that the funds pool their assets to ensure solid financing for life annuities.[7] After the Finance Ministry withdrew, the government shifted authority for formulating a second-pillar payout law to the Ministry of Labour and Social Policy. Until such time as a payout law is enacted, retiring workers receive lump-sum payments or refund their account balances to the public system in return for a full public pension (Table 2).

• As noted, the current Hungarian government, long opposed to the second pillar, repealed the statute specifying second-pillar benefits in 2010. In its absence, the approximately 60,000 Hungarian workers who still retain their individual accounts may take periodic withdrawals, refund their balances in return for a full public pension, or receive a private pension designed in accordance with private market practices.[8]

• In Romania, the previous government's Labour Ministry proposed a payout law in 2016, but soon thereafter national elections brought a new government to power. Citing low public confidence in the second pillar and low investment returns, that government proposed at various times to discontinue the second pillar, to make it optional, to cut the public pension contributions diverted to it, and to lower the cap on management fees charged by private funds (Ottawa, 2018). A compromise agreed in late 2017 reduced the diversion of contributions from the first pillar to the second from 5.1 per cent to 3.75 per cent of covered wages, but retained the requirement that workers participate. The government continues to study eliminating that requirement.

In recent years, some CEE governments have amended their second-pillar statutes to create exit options. During 2010–2015, four of them relaxed requirements that workers save in individual counts – i.e. Bulgaria, Croatia, Hungary, and Slovakia (Table 4) – either by making the accounts *optional* for some workers (Bulgaria, Poland, Slovakia) or *allowing* workers to refund their contributions to the state in return for a public pension (Bulgaria, Croatia, Hungary). One country, Poland, *required* the latter scenario.

Further changes are being contemplated. In 2017, the Polish government announced plans to cease funding the second pillar from the first, substituting instead workers' own voluntary contributions, encouraged by tax incentives,

7. The requirement was aimed at ensuring adequate funding for annuities for the long-lived. However, the funds criticized it as "rendering the concept of personal savings meaningless" (Krzyzak, 2016).

8. Surrendering the account balance to the government was the default in the 2010 Hungarian retrenchment. Those workers who wished to retain their accounts had to go to regional pension offices to file declarations.

Table 4. *Second pillars: Exit options/requirements*

Country	Amendment
Bulgaria	• At the end of 2014, second-pillar account holders were allowed to return to the first pillar alone, while refunding their account balances to the government.[1] The option is available until five years before retirement. • Those who opt out of the second pillar may also opt back in. • First pillar alone was made the default for new labour market entrants who do not select a second-pillar fund within one year (for 2015 only[2]). • A legislated increase in the second pillar contribution rate (from 5% to 7%), scheduled to take effect in 2017, was repealed.
Croatia	Since 2011, retiring workers who had joined the second pillar voluntarily (aged 40–50 at the time of implementation of the second pillar) have been allowed to return to the single first pillar if that benefit would be higher than their combined first- and second-pillar benefits. From 2019, this option is extended to retiring workers who were mandatorily enrolled in the second pillar.
Hungary	In 2010, the government repealed most of the 1997 law and recouped most workers' account balances, while restoring their full public pension rights. Those few workers who opted to retain their second-pillar savings (currently numbering about 60,000) can still refund the balance to the government and receive a full public pension.
Poland	In 2014, the government required second-pillar account holders who are 10 years from retirement to transfer 10% per year of the balance to a special account within the public pension system, to be included in public benefit computation; and second-pillar membership was made optional for all workers.[3]
Slovakia	On four occasions during 2008–2015, the government allowed second-pillar account holders to refund their account balances and regain the right to a full public pension (and, conversely, first pillar members were permitted to join the mixed system).

Notes: [1]The government has proposed that the funds be credited to the government Silver Fund, a public pension demographic reserve. [2]Since the close of 2015, new labour market entrants are again required to join the second pillar. If they do not choose a fund within three months, they are assigned to one. After one year, they are able to change the fund or choose the single first pillar. [3]In addition, after 2013, all government bonds purchased by second-pillar funds were transferred to the public pension system and credited to NDC subaccounts.

Sources: Krzyzak (2015) and Vukorepa (2018); and personal correspondence with Krzysztof Hagemejer (14 May 2017) for Poland, and Marian Svorenova (13 June 2017) for Slovakia.

employer matching funds, and automatic enrolment (Strzelecki, Onoszko and Waldoch, 2016).[9] This restructuring is planned for 2019. As noted earlier, at the end of 2017, the Romanian government cut the second pillar's funding by a quarter and is now studying the feasibility of making individual accounts optional (*Nine O'Clock*, 2018). In June 2017, the government of North Macedonia created a committee to develop proposals for addressing the problem of low second-pillar pensions.[10] As of July 2018, the committee deliberations were still underway.

9. Under automatic enrolment, workers will be included in this new arrangement unless they opt out.
10. Personal correspondence with Jehona Ramadani, Ministry of Labour and Social Policy, 25 April 2018.

Table 5. *Will retiring workers be guaranteed regular, life-time payments?*

Policy	Countries
Yes No lump-sum payments allowed	● Croatia – annuity purchase required or, as an alternative, refund savings to public pension system in return for a full public benefit ● Latvia – same as above ● Poland – required to transfer the entire second-pillar account to the public NDC account, where it is counted in the NDC pension calculation
Mostly Account holders are generally required to purchase annuities, but with exceptions for small accounts	● Estonia – lump sum paid for accounts equal to less than one quarter of flat pension rate ● Slovakia – lump sum paid if no pension provider offers annuity ● Bulgaria and Romania – previous government proposals require annuity purchase for larger accounts
No Life annuity purchase not required	● North Macedonia – worker has choice between annuity or phased withdrawal ● Hungary – financial standards for annuity payments but no requirement to do so*

Note: *The fund must hold a reserve of 100 million Hungarian Forints (HUF) and at least 70% of contributors must make regular contributions.

Sources: Bulgaria: Krzyzak (2016); Croatia: Vukorepa (2018); Estonia and Latvia: Fultz (2006); North Macedonia: Hirose (2017); Hungary: Fultz (2012) and personal correspondence with Gabor Fekecs (2 March 2018) and Andras Simonovits (7 January 2017); Poland: Krzysztof Hagemejer (14 May 2017); Romania: Marian Preda (25 August 2017); Slovakia: Maria Svorenova (26 June 2017).

Second-pillar benefits: Three design issues

Will payments be provided for life?

Myopia, or short sightedness, is the main economic rationale for guaranteed lifetime pensions.[11] Were workers left to their own devises, many would save inadequately for retirement and recognize their error only when it was too late. Some would be confronted with hardship, thus leading to requests for public assistance and a heightened demand made of taxpayers. The ILO's Minimum Standards Convention, No. 102, helps to avoid these outcomes by requiring that retirement benefits be paid regularly during the pensioner's lifetime.[12] To what extent do CEE second-pillar laws adhere to this basic principle?

As shown in Table 5, most laws require lifetime benefits for most workers. A third of the countries (Croatia, Latvia, Poland) require that workers convert their entire individual account to a life annuity, with no options for phased withdrawals

11. See, for example, Thompson (1998).
12. In CEE, ILO Convention No. 102 has been ratified by Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Montenegro, Poland, Serbia, Slovakia, Slovenia, Romania, and Ukraine.

or lump-sum payments. In two others (Estonia and Slovakia), laws also require payment of lifetime benefits but make exceptions for small accounts, which can be paid as lump sums. Proposals by the relevant ministries in Bulgaria and Romania, subsequently withdrawn or rejected, were similar to the latter.

In contrast, neither North Macedonia nor Hungary requires that account balances be used to purchase a lifetime pension. North Macedonia leaves the choice between a lifetime pension and phased withdrawals to the account holder. However, if the latter is opted for, a complex rule requires that withdrawals be large enough to make the public pension plus the withdrawal equal to at least the minimum pension. This prevents a pensioner from collecting the minimum pension while preserving his or her second-pillar account for future years. When the exhaustion of an individual account leaves the pensioner's monthly payment below the minimum pension, it is automatically increased to that level.[13]

The Hungarian government promulgated fiduciary standards for private annuities, but it does not require second-pillar account holders to purchase them. Second-pillar funds that meet fiduciary standards may pay annuities that are designed according to their own rules. So far, only one of four remaining second-pillar funds has met this standard.[14] Account holders in the other three funds may take their balances as periodic withdrawals or refund them to the government in return for a full public pension.[15]

Will second-pillar pensions retain purchasing power?

Adjusting pensions regularly for inflation and/or changes in wage levels promotes social cohesion and pensioners' economic security. Such adjustments are of special importance in CEE, where many of the grandparents of today's workers experienced hardship in retirement during an era when pensions declined in value as pensioners aged (Fultz and Ruck, 2000, p. 4). More recently, runaway inflation also eroded pensions during the early years of transition, making life difficult for the parents of many current workers.

As shown in Table 6, only one country requires regular second-pillar pension adjustments. Namely, in Croatia, where pensions must be adjusted in the same manner as public pensions, which is currently twice per year. This requirement provides essential protection for pensioners but is designed in a way that poses

13. Personal correspondence with Jadranka Mrsik, 21 March 2017.
14. The fund, *Horizont*, was granted permission to pay annuities in Hungarian National Bank decision H-EN-IV-12/2017
15. See Pension Guru; (in Hungarian).

Table 6. *Will second-pillar pensions retain their purchasing power?*

Status	Country
Adjustment required	● Croatia – must follow the public pension adjustment (currently two adjustments per year, using the Swiss method (50% wages, 50% prices) and a variation on it (70:30, 50:50, 30:70), depending on wage and price trends ● Poland – required indirectly, as the second-pillar account is mandatorily added to the public NDC account, which is adjusted annually ● Romania – proposed law would have required adjustment at a rate prescribed in the individual's pension contract
Adjustment not required	● Bulgaria – no requirement in previous draft law ● Hungary – requirement repealed ● Latvia
Adjustment optional for fund, but with conditions	● Estonia – cannot exceed 3% per year ● North Macedonia – can occur only for two years ● Slovakia – initial benefit amount is reduced to offset costs of adjustment

Sources: Vukorepa (2018), Fultz (2006 and 2012), Republic of Macedonia (2014), and personal correspondence with Maria Svorenova (26 June 2017).

risk for the pension provider, due to the uncertainty of future inflation rates. Governments can mitigate such risks by issuing inflation-indexed bonds. Through investing in them, private funds can shift the risk of uncertain inflation rates to taxpayers. However, so far, Croatia has not issued such bonds. Only one CEE country, Poland, has done so and only in small quantities.

In addition, some second-pillar account holders have *indirect* access to regular pension adjustments. In Poland, a 2014 retrenchment requires workers to add their account balances to their public notional defined contribution (NDC) accounts and receive a single pension benefit based on both records (Krzyzak, 2014). That pension is adjusted regularly in accordance with a formula that takes account of a combination of inflation and wage growth. Furthermore, in countries that allow all or some account holders to refund their balances in return for a full public pension (Bulgaria, Croatia, Hungary, Latvia, Slovakia – see Table 2), a similar strategy for obtaining a pension that will be adjusted for inflation is available to those with this option.

In contrast, some CEE laws restrict private funds' latitude to provide adjustments – i.e. Estonia (Cavegn, 2018), by rate, and North Macedonia, by duration. Slovakia requires that the initial pension amount be reduced to finance future adjustments, a procedure akin to self-insurance.

In sum, under the second-pillar benefit laws at present, the great majority of pensions will not maintain their value over time. The main recourse available to account holders who seek inflation protection is to refund their balances to the public system, if they have this option.

Will second-pillar pension calculations provide gender equality?

The conversion of an individual account to a lifetime pension involves "stretching" the account balance over the worker's remaining years of life. Since that time period is not known, annuity providers rely on estimates for particular age cohorts. Two quite different estimates are possible: (i) a unisex life table that applies to both sexes, or (ii) distinct life tables for women and men, reflecting the fact that women as a group live longer. The former approach ensures that men and women with the same account balances at retirement will receive the same monthly pension amounts while, under the second, a woman will receive roughly 15 per cent less.[16] As discussed earlier, gender-neutral calculation is the norm in public pension schemes, where it helps to avoid poverty, is widely regarded as fair, and is consistent with treatment of life expectancy in other public policies.[17] European Commission Directive 79/7/EEC[18] calls for those Member States that treat their second pillars as part of the public pension systems to refrain from using gender-specific actuarial factors in calculating benefits.

As shown in Table 7, CEE second pillars are nearly evenly divided on this question. Five governments mandate, or have proposed, gender neutrality, while four others allow, or have proposed to allow, private funds to reduce benefits paid to all women to reflect the longer life expectancy of women as a group.

There are some important nuances. As can be observed:

- In Latvia, retiring female workers have an indirect path to gender-neutral benefit computation. Through refunding their accounts to the public pension system at retirement, they can receive a full public benefit computed with a single, gender unified life expectancy estimate. This is an especially beneficial option for women who, all other things being equal, can be expected to use it in larger numbers. If so, this would create disproportionate savings for private pension funds and disproportionate costs for the public system.
- In North Macedonia, where account holders have the option to convert their balances to a lifetime pension, the absence of a requirement for gender fairness will likely discourage women from doing so.

16. The ratio of female to male life expectancy at age 65 is 18.2/21.6 = 84.3 per cent for the EU Member States.

17. As noted by Fultz, Ruck and Steinhilber (2003), women are not the only group in society with longer life expectancy. Non-smokers on average outlive smokers, the affluent on average outlive the poor, and those with strong genetic endowment live longer on average than those born with predispositions to disease. However, public benefit programmes do not, in general, reflect these differences.

18. See European Commission Directive 79/7/EEC.

Table 7. *Will the calculation of second-pillar pensions be gender-neutral?*

Yes	No
Croatia	Latvia, but workers may return to the public NDC system, where gender-neutral pensions are provided
Estonia	North Macedonia
Poland, because second-pillar account balances are combined with public pensions at retirement and paid by ZUS according to public pension rules	Romania, no requirement in the proposed law
Slovakia	Hungary – Absence of a law or government proposal leaves private funds free to use gender-specific tables
Bulgaria, proposed*	

Note: *This proposal was coupled with a second proposal to create a common pool of assets for paying pensions. Such a fund would presumably have been structured as a single annuity provider for all. If so, this would preclude gender discrimination.

Sources: Vukorepa (2018), Fultz (2006), Petrasova and Svorenova (2005); and personal correspondence with Hristina Mitreva (5 March 2017) for Bulgaria, and Marian Preda (25 May 2017) for Romania.

- In Romania, the previous Labour Ministry's proposal required workers to use their accounts to purchase life annuities but without either a requirement for gender fairness or an exit option (as in Latvia). Had this proposal been enacted, Romanian women would have received lower monthly second-pillar pensions than male peers with similar account balances and investment returns.
- In Hungary, with no law stipulating second-pillar benefits, to the extent that lifelong pensions are available to account holders, private pension fund practices (gender specific life tables) will prevail.[19]

Gender-neutral pension calculation is key to achieving gender fairness, but in competitive private pension markets this requirement alone is not sufficient. When subject to such a requirement, private providers can lower their overall costs by recruiting more males and fewer females. Such efforts may be illegal but nevertheless take place in subtle ways – e.g. through advertising or rewards for joining the fund that target men. There are two ways to eliminate this incentive: a single national annuity provider that converts all account balances to monthly payments, and thus has no leeway to discriminate in choosing members, or a mandatory system of financial transfers among pension providers that offsets any advantage that would accrue from a disproportionate number of men in a particular fund's membership base.

19. As described earlier, only one of four Hungarian funds, *Horizont*, has met government solvency requirements for paying annuities.

Two CEE governments have adopted the former approach: Poland and Croatia.[20] Such an arrangement was proposed but withdrawn in Bulgaria.

The second approach does not exist in any CEE country. There are, however, precedents in European health care systems where private funds compete for members – e.g. the Netherlands, Poland, Romania, Slovakia and Switzerland.[21] In these countries, equalization funds are designed to dissuade private health care providers from discriminating against potential members who are likely to be less healthy and thus incur higher medical expenses.

Discussion

Drawing on the preceding discussion, this section highlights major implications of CEE second-pillar benefit design for workers' retirement security. These relate to: (i) the stability of second-pillar policies; (ii) the extent of protection from inflation; (iii) government implementation strategies; and (iv) the new refund options' impacts on the stability of public pension finance.

Unsettled second-pillar policies

It is a universal principle that pension reforms need to be implemented gradually, so as to enable workers to plan for their security in old age well in advance. The preceding pages show that, in one country, Estonia, the second pillar has been relatively stable over time. While the Estonian government suspended contribution revenue after the global crisis, it restored funding when economic conditions stabilized (Fultz, 2012, Table 2). However, Estonia's situation contrasts noticeably with volatility in the other eight countries.

Five of them have permanently reduced or eliminated the flow of public pension contributions to individual accounts (Latvia, North Macedonia, Poland, Romania, Slovakia), and one (Hungary) has entirely ceased such funding. Five countries have relaxed or eliminated the requirement to save in individual accounts (Bulgaria, Croatia, Hungary, Poland, Slovakia). Three countries have neither a benefit payout law in place nor a political consensus on enacting one (Bulgaria, Hungary, Romania).[22] One government is the target of lawsuits from holders of second-pillar accounts who receive lower pensions than non-members (North Macedonia) and is now considering remedies.

20. As noted earlier, under Poland's 2014 retrenchment, the Social Insurance Institution (ZUS), responsible for public pensions, pays lifelong pensions for all covered persons, combining second-pillar savings with public pension rights.
21. As well as in the United States Affordable Care Act (Obamacare).
22. For Bulgaria, see Krzyzak (2018).

Clearly, such turbulent policy flux is not helpful to workers in planning for the future, nor is it conducive to the worker confidence that is essential for the second pillars' success.

Pensions with little or no inflation protection

Five of the six countries with payout laws require that all or most account balances be converted to annuities at retirement. This is a positive development for the affected workers, one that will help ensure a stream of regular payments throughout their lifetimes. Yet only a single national law requires that second-pillar pensions be adjusted regularly for inflation in the same manner as public pensions, and several laws place limits on the frequency, rate, or means of financing such adjustments. Thus, for those workers who retain their account balances in the second pillar at retirement – either because they do not have a refund option or choose not to exercise it – the goods and services that their pensions can buy will diminish over time.

Missing support and enforcement mechanisms

Second-pillar pensions can be designed to protect workers' retirement security in the same way that public pension systems do: guaranteed lifelong benefits, regular inflation adjustments, and gender fairness in benefit computation. However, competing private funds require both regulation and assistance from governments to implement these worker protections. In several CEE countries, the legal requirements are in place but the regulation and support needed for successful implementation are not.

The observation applies, first, to gender-neutral benefit computation. Without either a single annuity provider or a cost equalization fund, private annuity providers operating in those CEE countries that require gender fairness in benefit calculation (Estonia, Slovakia) have the potential to reduce their costs through the subtle recruitment of more male members and the discouragement of females. Such gender discrimination may not yet have occurred, or the regulatory authorities may not have detected it. The threat, however, is real, as evidenced by the existence of equalization funds in many European systems that rely on competing private firms to deliver health benefits.

Similarly, in the single country with mandatory, regular private pension adjustments, Croatia, this requirement is not supported by a government initiative to make inflation-adjusted bonds available to private funds, thus enabling them to hedge their risks. For Croatia and other governments that might follow its lead in protecting second-pillar pensioners from inflation, ensuring the availability of such bonds will be key to success.

Refund options that strain public pension finance

Refund options enable account holders to avoid second-pillar losses relative to public pensions. Such options have proliferated in CEE countries, with four governments (Bulgaria, Croatia, Hungary, Slovakia) having adopted this approach in some form in recent years. In addition, Poland now *requires* refunding; and Latvia included a refunding option in its original second-pillar law. These options advantage the subset of account holders that is both eligible and well versed on their rights. But they are problematic for other account holders, as well as for public pension recipients as a group.

Those account holders who do not follow pension policy changes closely may be unaware of their eligibility for a refund option. If options are time limited, some account holders may miss deadlines or make mistakes, either by action or inaction, that become clear only after it is too late. Laws that allow workers to make multiple choices, moving in and out of the second pillar, add further complexity to their decisions.

Furthermore, the existence of refund options for some account holders but not others creates horizontal inequities. As retiring account holders find out that they are disadvantaged relative to peers who have refund options, or those who do not have individual accounts at all, political pressure is likely to mount for more and broader options for exiting second pillars.

Yet expanding such options strains public pension finance to the disadvantage of all pensioners. Strains arise, first, because the account balances that are refunded to the public pension system do not compensate them entirely, due to the subtraction of private management fees during a worker's career. These fees are high in most CEE countries and, over a worker's career, can erode the account balance by a fifth or more.[23]

A second strain arises from gender differences in life expectancy. In countries without a mandate for gender-neutral pension calculation in the second pillar, women have stronger incentives to refund their account balances at retirement, all things being equal, than do men. Thus, the more "expensive" pensioners will likely return to the public system in larger numbers, providing large benefit savings to private funds but posing disproportionate benefit costs on the state.

23. An investment management fee of just 1 per cent of the account balance will cause it to be 20 per cent less over a workers' full career (Barr, 2011, p. 19). For CEE management fee levels, see Price and Rudolph (2013).

For both reasons, the more widely that refund options are made available and exercised, the more likely that they will strain public pension finance and create pressure for future cuts in public pensions.

How can governments protect retiring account holders from second-pillar losses without weakening the financing of their public pension systems? While recognizing that there are no easy answers, some observers have called for a paradigm shift so that the second pillar is no longer financed from the first, and in which governments "nudge" rather than require workers to contribute to supplemental retirement savings plans. Policy initiatives that encourage pension participation through automatic enrolment, but from which workers can withdraw at will, have been undertaken on a large scale by the United Kingdom, the State of California in the United States, and New Zealand (Kiwi Savings Plan).[24] Such an initiative is currently being planned in Poland where, in 2019, three-quarters of the funds remaining in workers' second-pillar accounts will be transferred to new occupational savings accounts. Enrolment in this new system will be automatic, but workers may opt out by filing a declaration (Reuters, 2016). Given that these types of supplemental pensions are financed by worker contributions (often with employer and/or state matching contributions), they do not strain public pension finance and so do not pose a threat to the financing of workers' public pensions.

Some critics, including the World Bank, have called this type of reform short sighted, and assert that it eases pension finance now at the cost of jeopardizing it in the future. However, as shown by Altiparmakov (2015), this argument applies only so long as second-pillar investment returns are favourable, that is, exceed the growth rate of GDP.[25] This critical condition does not apply in most CEE countries. On the contrary, CEE second-pillar rates of return have been chronically low and often negative.[26] In this situation, discontinuing the diversion of public pension revenues to fund mandatory private savings accounts can improve a country's short-term pension financing without weakening its long-term viability.

However, the ultimate success of such a shift hinges not only on investment returns but also on pension scheme governance. Four prerequisites are key. First, governments will need to raise awareness and overcome resistance, including

24. The concept of the "nudge" was elaborated by Thaler and Sunstein (2008). It has been advocated as a tool for pension policy by, among others, Mitchell Orenstein (2013) as an alternative to mandatory second pillars, and by Jonathan Cribb and Carl Emmerson (2016).

25. GDP growth is assumed to be a proxy for wage growth.

26. Using World Bank data, Altiparmakov 2015 (Table 2) shows that second-pillar rates of return over GDP growth from date of scheme inception to the end of 2007 for selected systems. The results are -2.8 per cent for Bulgaria, -3.1 per cent for Estonia, -1.1 per cent for Hungary, -12.5 per cent for Latvia, -2.5 per cent for Lithuania, 4.8 per cent for Poland, and -7.6 per cent for Slovakia.

opposition from private investment managers that benefit at present from mandatory worker participation, public funding of second pillars, and management fees. Second, with worker participation encouraged by making enrolment automatic, governments must develop the technical capacities and commit the resources needed to monitor private management fees and to regulate them, so as to protect the investments of inattentive account holders. Third, to promote high levels of worker participation, governments will need to ensure transparency in the operation of voluntary private funds, as well as to raise workers' awareness and pension literacy. Fourth, when the second pillar is voluntary, the need for an adequate and soundly financed public pension system takes on even greater importance.

Together these prerequisites provide a reminder that there are no shortcuts in addressing the difficulties that currently face CEE second pillars. But it is equally clear that a key source of those difficulties – the funding of the second pillar by diverting revenues from the first – is difficult to sustain when private benefits compare unfavourably with public pensions. For those CEE governments that are seeking to protect account holders from second-pillar disadvantages, while simultaneously protecting public pension systems from rising costs, the option of moving toward a voluntary, independently financed supplemental system deserves close attention and analysis.

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Effective retirement age from employment and full-time employment, and the impact of the 2008 crisis

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Abstract Estimates of effective retirement age based on labour force participation rates are commonly used for actuarial experience review and policy development. However, the transition from work to retirement and the socio-economic environment have evolved over the years, influenced by a growing role for gradual retirement and the labour market impact of the 2008 economic crisis. Rather than focusing exclusively on retirement ages based on labour force participation rates, this article presents complementary estimates of retirement ages to better assess the effective retirement age from employment. It also introduces the concept of retirement from full-time employment, showing that the retirement age from full-time employment is systematically lower than the retirement age from employment. The results reveal that the trend towards an increase in the retirement age has been impacted by economic conditions when considering the effective employment of older workers. Results are presented for different Member countries

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of the Organisation for Economic Co-operation and Development over the period 2005–2015.

Keywords retirement age, retired worker, labour force participation, employment, flexible retirement, older worker, OECD, international

Introduction

Indicators developed to estimate the average effective age at which older workers withdraw from the labour market are useful for actuarial experience review and policy development. An accurate understanding of trends and cross-country differences has become important, and such indicators are now commonly used and updated on a regular basis.[1] The focus of this article is on retirement from employment, bearing in mind that understanding the transition from work to retirement is key to a proper assessment of social security provisions, including reviews of early retirement provisions and the possible increase of normal retirement age in a context of population ageing.

Comparative estimations of the age of retirement from the labour market go back to the 1990s (Latulippe, 1996; Gendell, 1998). Refinements were introduced over time but, to this day, estimates of retirement age based on labour force participation rates are still widely used. This methodology considers a person not employed but looking for work or a person working only a few hours per week as active and not retired. In other words, to be considered active, a person has to either work more than one hour per week, be temporarily absent from work, or be unemployed but actively seeking employment and currently available to start work.[2] Although at older ages those losing employment involuntarily may have a rather small chance of finding another (in particular, full-time) job, nonetheless, there are some workers who continue to search for a new job.

The meaning of retirement has evolved, as has the socio-economic environment. More specifically, the idea of "gradual retirement" has become more attractive (Kantarci and Van Soest, 2008). For instance, older workers are now more inclined to maintain some form of economic activity following retirement from their main occupation, and employers tend to rely more on their workers who are near retirement age. For some people, there may be a "part-time bridge job" in

1. See OECD statistics on average effective retirement age.
2. See OECD Data on employment rate (Data year: 2017).

the transition from full-time work to full-time retirement. In fact, based on a study from the United States, around a half of American retirees follow a path that involves partial retirement transition or return to work after retirement (Maestas, 2010).

Moreover, the 2008 financial and economic crisis has had a significant impact on labour markets and employment, with important variations from country to country. The effective retirement of older workers is directly linked to their employment status and opportunities. More specifically, some workers effectively retire because they cease to be employed and cannot return to work, even though they stay in the labour force and continue to seek employment.

In such a context, it is of interest to look at complementary ways to estimate retirement age to better assess the age of exit from employment among older workers. It is also of interest to obtain distinct estimates for retirement from full-time employment, defined as a minimum of 30 "usual weekly hours worked on the main job".[3] This article calculates the age of effective retirement from employment and from full-time employment between 2005 and 2015, in addition to the traditional estimates based on labour force participation rates. When looking at participation rates, it is widely agreed that there has been an increase in the retirement age in recent years. As will be shown, there is room for more in-depth analysis and there are significant variations across countries when looking at the effective employment of older workers, especially in the aftermath of the 2008 crisis.

The first section of the article reviews different methods used to estimate retirement ages, addresses the published literature on this topic and presents a brief description of the specificities of the methodology used in this current study. More details on the methodology are provided in Appendix 1. Results are then presented, highlighting major differences between countries and the evolution of data from 2005 to 2015. Subsequently, in the last two sections, the correlation between retirement age and unemployment is analysed, as well as regional differences in retirement age, presenting findings for five regional groupings of Member countries of the Organisation for Economic Co-operation and Development (OECD).[4]

Methodology and literature review

Different methods have been developed to estimate the effective age of retirement from the labour force based on changes in participation rates. One method uses percentiles as the reference. For example, Munnell (2015) defines the average

3. See OECD Data on part-time employment rate (Data year: 2017).
4. The data and statistics used in this article were obtained from the OECD Employment database and from the OECD Labour Force Statistics (LFS) by sex and age – indicators.

retirement age as the age at which the labour force participation rate drops below 50 per cent. Gendell and Siegel (1992) also use percentiles to calculate the median age at retirement.

Two of the main retirement age indicators used in the past, which refer to participation rates, are the static indicator (Latulippe, 1996) and the dynamic indicator developed as a refinement of the methodology used for the static indicator (Scherer, 2002). The static indicator is a cross-sectional measure comparing labour force participation rates in the same calendar year for two consecutive age groups. By contrast, the dynamic approach compares the participation rate of the same cohort in two consecutive five-year periods (a pseudo-cohort or pseudo-longitudinal approach).[5]

The static indicator is usually not volatile. However, the main disadvantage of this approach is that the comparison of participation rates between two successive age groups at a given point in time may introduce a cohort effect and may not adequately describe the retirement behaviour of cohorts. This is particularly important for women, as we have witnessed an increasing labour force attachment of successive generations of women. The main disadvantage of the dynamic indicator is fluctuations between years due to the comparison of two different samples (calendar years), which increases the estimator error (Vogler-Ludwig and Düll, 2008).

The dynamic approach is used by a majority of countries and by the OECD, as well as the Employment Committee (EMCO) Indicators Group of the European Commission (EC), according to the results of a survey conducted by the EC (Vogler-Ludwig and Düll, 2008).

To avoid bias due to the relative weight of successive cohorts, these methodologies do not consider the population structure when estimating the retirement age from the labour force. Standardized formulas can be used for both static and dynamic indicators to remove the impact of the age structure of the population (Keese, 2012), similar to the methodology used for other (synthetic) demographic indicators such as the total fertility rate and life expectancy.

An alternative approach using participation rates is to measure working life expectancy and non-working life expectancy (Hytti and Nio, 2004). Based on life expectancy calculated with survival functions, the approach multiplies survival rates by participation rates and thus achieves estimates for "survival in the labour market". The difference between life expectancy and working life expectancy is the non-working life expectancy. Estimates of average length of retirement (Lee, 2001) and expected working life at age 50 (Carrière and Galarneau, 2011) have been

5. It is referred to as a *pseudo*-cohort or *pseudo*-longitudinal approach, since it does not follow a single cohort over all potential retirement years. Rather, it follows successive cohorts over 5 years to take note of the reduction in participation rates during this period.

developed based on a similar approach. It is also used by Vogler-Ludwig to estimate the duration of active life, the duration of employment and the duration of working time, based on participation rates, employment rates and annual working hours (Vogler-Ludwig, 2009). Since 2010, Eurostat has used the duration of working life rather than the dynamic or static indicator.[6]

The average age of persons receiving initial awards of social security retirement benefits has also been used to assess trends in the average age at retirement. Referring to United States' data, Gendell and Siegel (1992) compare two different measures of retirement: receipt of social security retirement benefits and withdrawal from the labour force.[7] Their methodology does not take into account the age of receipt of pensions from other sources. The OECD also compares the effective retirement age from the labour market with the normal pensionable age (OECD, 2015).

In this article, the commonly used dynamic approach is expanded so that the effective retirement age is calculated from employment rates and the calculations do not rely solely on labour force participation rates. The methodology is similar; i.e. considering persons in successive five-year age groups who retire over a given 5-year period, with retirement being based on the reduction of employment and full-time employment rates during this five-year period. Traditional estimates rather consider the reduction of participation rates over the period of 5 years.[8]

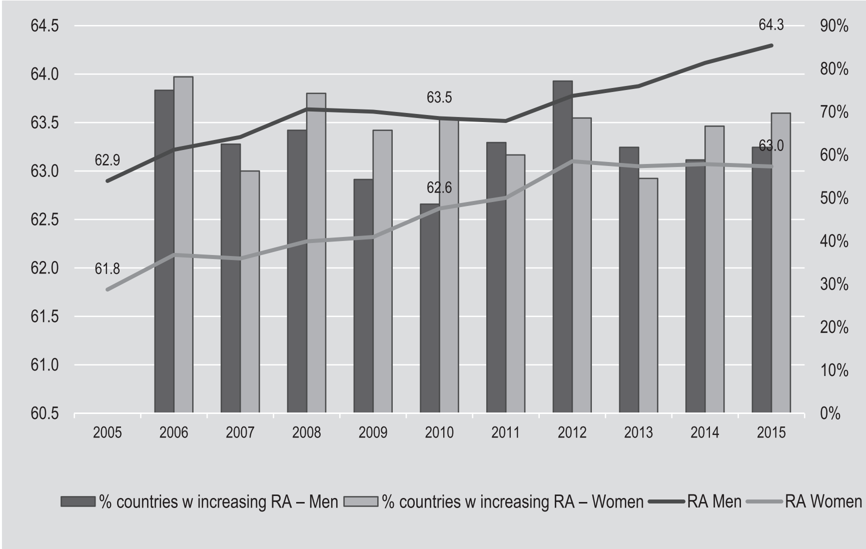
The common results: Retirement from the labour force

Estimates of effective retirement age based on labour force participation rates go back to 1970. Data show that there was a downward trend of effective retirement age until the early 2000s. However, this trend has stopped and reversed in most countries in recent years (OECD, 2015).[9]

As shown in Figure 1, there has been an increase in the age of retirement from the labour market in the majority of countries in each single year between 2005 and 2015, for both genders.[10] On average, it increased by 1.4 years for men and 1.2 years

6. Limited information is provided in the one-page Eurostat document "Note to the users" that officialises the switch from the dynamic indicator to the duration of active life, but the reasons for the switch are possibly linked to the points raised in Vogler-Ludwig and Düll (2008) and mentioned previously.
7. Both measures show a decline between 1950 and 1990, with comparable magnitudes (between 4 and 5 years) and pace.
8. See Appendix 1 for more on the methodology.
9. There may be slight variations in retirement age from the labour market presented in this article compared with estimates published by the OECD because of the assumption of zero participation rates past age 80 in our calculations.
10. See OECD Labour Force Statistics (LFS) by sex and age indicators.

Figure 1. *Average retirement age (RA) from the labour market 2005–2015 (35 OECD Member countries)*



Source: OECD Labour Force Statistics (LFS), by sex and age indicators.

for women over the 10-year period. Despite the increasing trend, the average retirement age in OECD Member countries has been stable for men during the period 2008–2011, following the 2008 financial crisis. For women, stability is rather associated with the most recent years. Retirement age is lower for women than men, by 1.3 years on average in 2015.

There are variations from country to country. Table 1 provides information on the countries with the lowest and highest retirement ages. In 2015, only two countries (France and Belgium) had a retirement age below age 60 for men, down from six countries in 2005. In contrast, the number of countries with a retirement age of age 67 or older increased slightly between 2005 and 2015, from five to seven for men and from two to four for women. Most countries still have a retirement age between ages 60 and 66 in 2015. Detailed results for all countries are shown in Appendix 2.

The bigger picture

Over the period 2005–2015, on average, the retirement age from employment is very similar to the retirement age from the labour market. The average age of retirement from employment is age 63.3 for men and age 62.5 for women, compared to ages of retirement from the labour market of age 63.4 for men and

Table 1. *Countries with the lowest and highest age of retirement from the labour market in 2005 and 2015 for men*

Age of retirement from the labour market, lower than age 60			
2005		**2015**	
Belgium	58.5	France	59.4
France	58.6	Belgium	59.8
Austria	58.6		
Hungary	58.6		
Slovakia	59.2		
Luxembourg	59.2		
Age of retirement from the labour market, age 67 or older			
2005		**2015**	
Chile	67.0	New Zealand	67.2
Iceland	68.0	Israel	68.2
Japan (2007)	68.3	Japan	68.5
Rep. of Korea	68.8	Mexico	69.6
Mexico	70.7	Iceland	69.7
		Rep. of Korea	70.9
		Chile	70.9

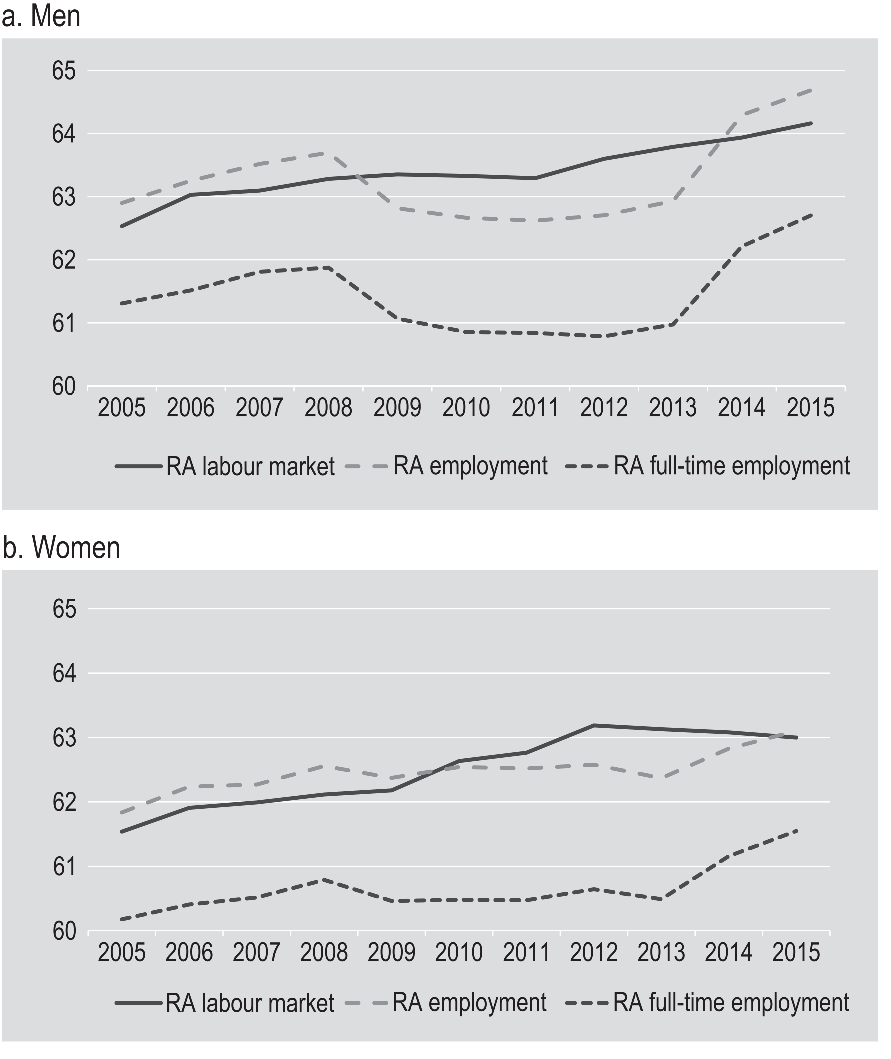
Source: Derived from OECD Labour Force Statistics (LFS), by sex and age indicators.

age 62.5 for women.[11] Nonetheless, as shown below, there are important variations over time and from country to country. There is also a significant difference when looking at retirement from full-time employment: age 61.5 for men and age 60.7 for women, on average, between 2005 and 2015.

Figure 2a clearly shows that, for men, retirement from employment and from full-time employment was significantly impacted by the economic crisis of 2008. In other words, in a context of increasing unemployment men have retired earlier: average retirement ages from employment and full-time employment decreased by 1 year between 2008 and 2010. These ages remained stable in the following years, up to 2013, and increased again in 2014 and 2015. This is in sharp contrast with the age of retirement from the labour market which, as

11. For consistency, results are presented only for those 23 OECD Member countries where data is available to estimate retirement age on all three bases (labour market, employment, full-time employment) for every year between 2005 and 2015: Austria, Belgium, Canada, Chile, Estonia, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Republic of Korea, Latvia, Mexico, Netherlands, New Zealand, Portugal, Slovakia, Slovenia, Spain, Turkey, United Kingdom.

Figure 2. *Average retirement age (RA), 2005–2015 (for the 23 OECD Member countries with data available for the three estimates of RA)*



Source: Derived from OECD Labour Force Statistics (LFS), by sex and age indicators.

discussed previously, has witnessed a relatively steady increase over the same 10-year period. Between 2005 and 2015, the average retirement age from employment increased by 1.7 years for men, from age 63.0 to age 64.7.

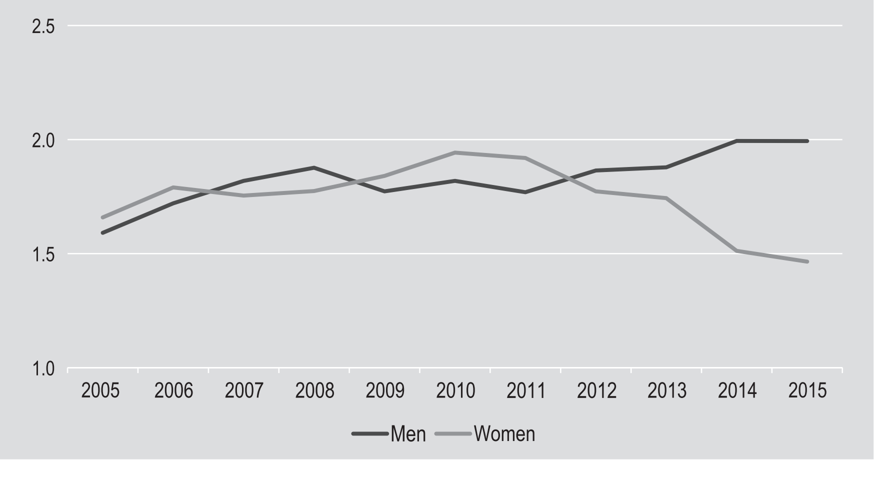
The pattern is not so clear for women. Regarding retirement age from employment, the trend towards later retirement was halted between 2008 and 2013 when the average retirement age was rather stable. The retirement age from full-time employment decreased by 0.3 years in 2009. In both cases, there was an increase of about 1.0 year between 2013 and 2015 on average (Figure 3b). For women, retirement age may have been impacted by changing patterns of employment in addition to the prevailing economic conditions. In 2015, it reached age 63.1 compared to age 62.0 in 2005.

As mentioned earlier, the retirement age from full-time employment is lower than the retirement age from employment. This is the case for both genders and virtually all countries and all years studied. These findings support the hypothesis that people may opt for a part-time job following their retirement from full-time employment or that career part-time workers are possibly more inclined to defer retirement to a later age. In 2015, the average retirement age from full-time employment was age 62.7 for men and age 61.5 for women.

As shown in Figure 3, the difference of 1.5 to 2 years between employment and full-time employment retirement ages has not varied much over time, either for men or for women, except maybe in the most recent years when there has been a narrowing of the gap for women and a widening for men. In 2015, the retirement age from employment was higher than the retirement age from full-time employment by 1.5 years for women and 2.0 years for men.

As mentioned previously, only France and Belgium had retirement ages below age 60 in 2015 as regards retirement from the labour market. A few more countries fall below this threshold of age 60 when looking at retirement from employment (Greece and Luxembourg) or full-time employment (Greece and Italy). Details are

Figure 3. *Difference between employment and full-time employment retirement age, 2005–2015, men vs. women*



Source: Derived from OECD Labour Force Statistics (LFS), by sex and age indicators.

Table 2. *Countries with retirement ages (RA) from employment and full-time employment lower than age 60 in 2015 (men)*

RA from employment		RA from full-time employment	
France	58.9	France	58.4
Greece	59.5	Belgium	59.0
Luxembourg	59.6	Greece	59.1
Belgium	59.7	Italy	59.3

Source: Derived from OECD Labour Force Statistics (LFS), by sex and age indicators.

provided in Table 2. Retirement age from employment and full-time employment decreased by about 3 years in Greece between 2005 and 2015. Although less significant, a reduction in the retirement age from full-time employment was also recorded in Italy (-0.9 years), Spain (-0.4 years) and France (-0.2 years). Greece is the only country where the retirement age from employment was lower in 2015 than in 2005.

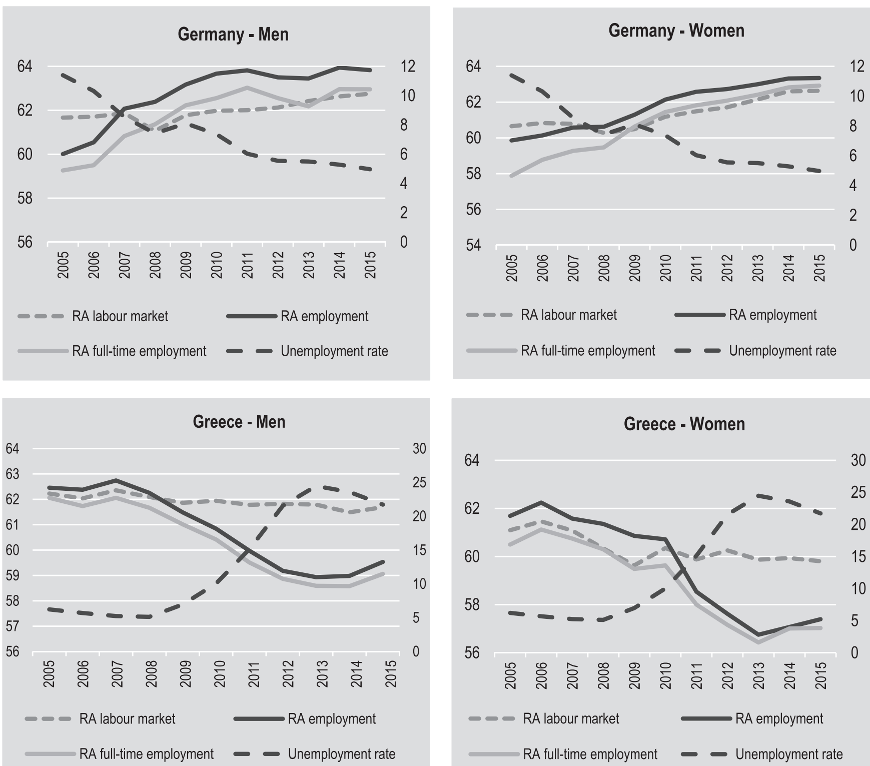
The age at retirement from full-time employment varies less between countries than the retirement age from employment: in 2015, a standard deviation between countries of 3.3 years for retirement age from employment compared to 2.3 years for men and 2.4 years for women for retirement from full-time employment. In fact, the countries where people retire late from employment are also the countries with a more important number of years between the retirement age from full-time employment and the retirement age from employment: more years of gradual retirement or part-time work following retirement from full-time employment.[12]

Retirement age and unemployment

Country-specific cases shed light on the relationship between retirement and unemployment. The four panels of Figure 4 present data from Germany and Greece, for men and women. Greece experienced major economic turmoil over the last decade, extending far beyond the financial market crisis of 2008. Over the same period, the German labour market has been resilient since 2005; except for a short period between 2008 and 2009, the German unemployment rate decreased. As shown in Figure 4, the retirement age under all three measures increased steadily in Germany during the period 2005–2015, whereas a significant reduction of the age of retirement from employment and full-time employment took place in Greece.

12. The correlation coefficients show a strong relationship (correlation coefficient of 0.77 for both men and women) between a high retirement age from employment and a greater number of years between retirement from full-time employment and retirement from employment.

Figure 4. *Average retirement age (RA) and unemployment in Germany and Greece, men and women, 2005–2015*



Source: Derived from OECD Labour Force Statistics (LFS), by sex and age indicators.

From a statistical standpoint, there is strong negative correlation between the changes in unemployment rates and the reduction of the retirement ages from employment and full-time employment between 2007 and 2010. The correlation coefficient is -0.8 for men. For women, it is slightly lower at -0.5 for the retirement age from employment and -0.7 for the retirement age from full-time employment. There is hardly any correlation between the increase in unemployment rates between 2007 and 2010 and the decrease in the age of retirement from the labour market over the same period: the correlation coefficient is -0.1 for both men and women.

The correlation between unemployment and the age of retirement from employment is also clear when looking at data from the countries that recorded the largest variations (either decreases or increases) in the retirement age from employment between 2007 and 2010. As shown in Table 3, countries where the retirement age from employment has decreased by more than 2 years over this

Table 3. *Changes in retirement age for men and unemployment rates between 2007 and 2010 for specific countries*

Country	Variation in retirement age (RA) from employment	Unemployment rate		
	Men 2007–2010	Variation over 2007–2010	2007	2010
Reduction of RA by more than 2 years				
Ireland	-4.6	12.1	5.0	17.0
Estonia	-3.4	13.9	5.4	19.3
Iceland	-2.9	6.1	2.2	8.3
New Zealand	-2.7	2.5	3.4	5.9
Spain	-2.5	13.2	6.4	19.6
United States	-2.2	5.8	4.7	10.5
Increase of RA by more than 1 year				
Israel	1.3	0.0	6.8	6.8
Slovenia	1.3	3.4	4.0	7.4
Austria	1.5	0.5	4.5	5.0
Germany	1.6	-1.2	8.5	7.4
Netherlands	1.7	1.6	2.8	4.4

Source: Derived from OECD Labour Force Statistics (LFS), by sex and age indicators; and unemployment rates from OECD.Stat.

period have registered a sharper increase in unemployment rates. In Ireland, Estonia and Spain, where unemployment rates went up by more than 10 per cent, retirement ages were reduced by 4.6, 3.4 and 2.5 years, respectively. By contrast, countries where the retirement age increased by more than 1 year have not seen a significant increase in their unemployment rate, except maybe for Slovenia where the unemployment rate increased by 3.4 per cent, from 4.0 per cent to 7.4 per cent.

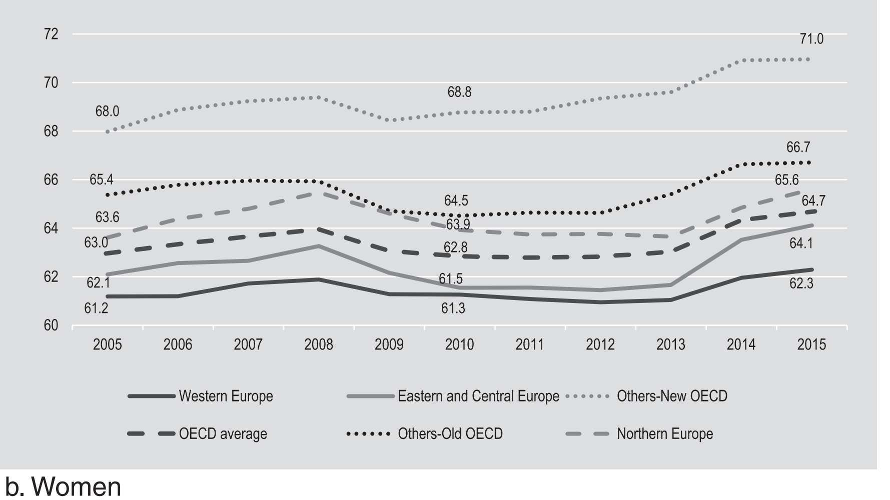
Regional differences

Figure 5 shows graphs of retirement age from employment, separately for men and women, by grouping the 35 OECD Member countries into five regions as follows:

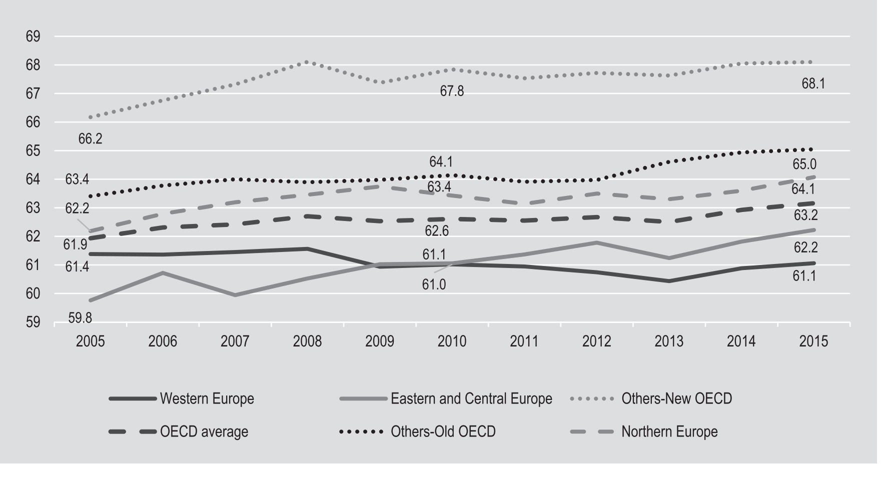
- **Western Europe:** Austria, Belgium, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Switzerland, United Kingdom.
- **Eastern and Central Europe:** Czech Republic, Estonia, Hungary, Latvia, Poland, Slovakia, Slovenia, Turkey.
- **Northern Europe:** Denmark, Finland, Iceland, Norway, Sweden.
- **Others-Old OECD Member countries:** Australia, Canada, Japan, New Zealand, United States.

Figure 5. *Age of retirement from employment by region for 35 OECD countries, 2005–2015, men and women*

a. Men



b. Women



Source: Derived from data in Annex 2.

- **Others-New OECD Member countries:** Chile, Israel, Republic of Korea, Mexico.

There are two conclusions to be drawn from the graphs. First, there are significant differences in retirement age between the five groups of countries. The retirement age is lower in Western Europe as well as in Eastern and Central Europe compared to the other groupings. In Western Europe, the average retirement age from employment was age 62.3 for men and age 61.1 for women in 2015.

Second, the differences in retirement age between groups have been rather stable between 2005 and 2015 and there are strong similarities in the patterns of evolution of the retirement age over this period. As seen, for men the retirement age was lower between 2009 and 2013; this is the case for all five groups of countries. Retirement age increased in each of the five groups when considering the entire ten-year period between 2005 and 2015. For women, the average retirement age increased in all regions except in Western Europe, where it dropped by 0.3 years between 2005 and 2015. The increase for women was most pronounced in Eastern and Central Europe (2.3 years).

Conclusion

The methodology developed over the last 20 years to estimate effective retirement age is based on labour force participation rates. Consequently, it considers as active and not retired a person unemployed but looking for work and a person only working a few hours a week. This article shows complementary calculations of retirement age based on effective employment of older workers. Results are shown for selected OECD Member countries for the ten-year period from 2005 to 2015. Separate estimates are shown for retirement from full-time employment.

As confirmed in the literature, the retirement age based on participation rates increased in a large majority of countries between 2005 and 2015. On average, it increased by 1.4 years for men and 1.2 years for women. The retirement age remained lower for women than men, by 1.3 years on average in 2015: age 64.3 for men versus age 63.0 for women. In 2015, there were only two “resistant” countries with a retirement age from the labour market lower than age 60 for men: France and Belgium. Generally speaking, retirement ages remain lower in Western Europe as well as in Eastern and Central Europe compared to the other regions.

Retirement age from employment is very similar to retirement age from the labour market when looking “globally” at the average retirement age for the period 2005–2015 and for all countries studied. Nevertheless, the structural tendency towards an increase in the retirement age has been significantly impacted by the economic conditions, when measured on the basis of the retirement age from employment. It actually decreased in most countries as of 2009, following the economic crisis, by 1 year on average. The retirement age from employment has increased again in the last few years to levels close to those registered for retirement from the labour market. The retirement age from employment was higher in 2015 than in 2005 in all countries except Greece. On average, it increased by 1.8 years from 2005 to 2015, reaching age 64.7 for men and age 63.1 for women.

The retirement age from full-time employment is systematically lower than the retirement age from employment in virtually all countries and for all years studied. People leaving full-time employment may not retire but switch to part-time employment and continue in this for some time before effectively and fully retiring. The gap in retirement ages between employment and full-time employment has been relatively stable over time, at 1.5 to 2 years on average. The retirement age from full-time employment decreased in most countries following the 2008 economic crisis. Nonetheless, when looking at retirement ages in 2015 compared to ten years earlier, it increased for men in all countries except Greece, Italy, Spain and France. The average increase was 1.4 years over the 10-year period, to reach age 62.7 for men and age 61.5 for women in 2015.

Countries that experience higher retirement ages from employment also have a larger number of years between retirement from full-time employment and retirement from employment. This would suggest that if a policy objective is to make people work longer this will require considering part-time work and gradual retirement.

Discussions of retirement age will remain on the agenda for years to come, and the current article aims to provide additional tools for greater in-depth analysis of the retirement experience. It is clear that retirement age is impacted by the economic conditions, and more specifically by labour market conditions. In several countries, the retirement of the baby-boom generation in the coming years will put pressure on the labour market that could favour a higher retirement age, along with an increase in the normal retirement age at which entitlement to full social security benefits commences. There should also be a growing preference, or need, for maintaining some form of economic activity following retirement from the main occupation. In that context, estimates of retirement age that consider the effective employment of older workers and throw greater light on part-time work and part-time retirement should be useful to stimulate further discussion.

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Appendix 1. Methodology

Current methodology

The dynamic indicator commonly used provides an estimate of the actual average age at retirement for the persons in successive five-year age groups who withdraw from the labour force over a given 5-year period, considering the reduction of participation rates during this five-year period. In other words, people are regarded as "retired" if they are not in the labour force and the net movement into retirement is then the change, over time, in the proportion of the population in different age groups who are neither working nor classified as unemployed.[13]

If we let A_j^y be the participation rate for the cohort at age j in year y, the average age of retirement can be written as:

13. Retirement is defined on an "aggregate net basis" as it refers to the gradual decrease with age of participation in the labour market. Swaps between new retirees and people in the same age group who re-enter the labour market have no impact.

$$AAR_A = \sum_{k=9}^{16} (5k)*\left(A_{5(k-1)}^{y-5} - A_{5k}^{y}\right) / \sum_{k=9}^{16} \left(A_{5(k-1)}^{y-5} - A_{5k}^{y}\right)$$

It is assumed that no withdrawals occur before age 40 and that no one aged 80 or older is in the labour force (Keese, 2012).

Estimates based on employment rates

Referring to participation rates provides an estimate of retirement age based on withdrawal from the labour force. Retirement from employment can be calculated using the same methodology, but referring to employment rates rather than participation rates. The employment rate, also known as the employment to population ratio, is calculated as the ratio of the employed to the population. Employed people are those aged 15 or older who report that they have worked in gainful employment for at least one hour in the previous week or who had a job but were absent from work during the reference week. Employment rates are lower than participation rates.

If we let E_j^y be the employment rate for the cohort at age j in year y, the average age at retirement based on employment rates can be written as:

$$AAR_E = \sum_{k=9}^{16} (5k)*\left(E_{5(k-1)}^{y-5} - E_{5k}^{y}\right) / \sum_{k=9}^{16} \left(E_{5(k-1)}^{y-5} - E_{5k}^{y}\right)$$

Estimates based on full-time employment

Finally, to obtain estimates of age at retirement from full-time employment, it is necessary to apply a factor to employment rates that reflects the proportion of persons working full-time, in each age group and each calendar year. The proportion is expressed relative to total employment.

Defining F_j^y as the full-time employment ratio in year y and age group j, the full-time employment rate FE_j^y can then be defined as follows:

$$FE_j^y = F_j^y * E_j^y$$

The estimate of the average age at retirement from full-time employment can be written as:

$$AAR_{FE} = \sum_{k=9}^{16} (5k)*\left(FE_{5(k-1)}^{y-5} - FE_{5k}^{y}\right) / \sum_{k=9}^{16} \left(FE_{5(k-1)}^{y-5} - FE_{5k}^{y}\right)$$

Appendix 2. Effective retirement age in OECD Member countries – 2005–2015

	Retirement age from the labour market – Men										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Australia	63.1	63.3	63.6	63.6	64.1	64.3	64.4	64.2	64.5	64.5	64.7
Austria	58.6	59.0	58.0	57.6	58.2	59.2	59.7	61.3	61.6	61.8	61.5
Belgium	58.5	58.9	59.4	59.7	59.2	60.4	59.3	59.3	59.6	59.9	59.8
Canada	63.2	63.0	63.1	63.5	63.4	63.3	63.5	63.6	63.8	64.5	65.1
Chile	67.0	67.3	67.5	68.3	68.3	67.0	67.1	67.8	67.4	67.7	70.9
Czech Republic			62.1	62.6	62.2	62.3	62.4	63.0	63.3	63.2	62.8
Denmark	61.4	63.9	63.3	63.9	64.5	63.9	63.5	63.3	62.5	63.0	63.6
Estonia	62.1	63.6	64.4	66.3	67.3	65.5	64.3	63.0	64.0	63.6	63.4
Finland	60.3	60.4	60.1	61.4	61.6	61.6	62.0	63.0	62.2	61.9	62.4
France	58.6	58.5	58.7	59.0	59.0	59.3	59.1	59.7	59.5	59.4	59.4
Germany	61.7	61.7	61.9	61.1	61.8	62.0	62.0	62.1	62.4	62.6	62.8
Greece	62.2	62.0	62.4	62.1	61.9	61.9	61.8	61.8	61.8	61.5	61.7
Hungary	58.6	59.4	59.4	59.4	59.8	60.0	60.2	60.7	61.2	62.4	63.0
Iceland	68.0	68.7	68.9	69.0	68.8	67.9	67.2	67.1	68.0	68.7	69.7
Ireland	64.2	64.3	65.3	64.6	63.2	63.0	63.1	63.4	64.6	64.5	65.4
Israel	65.1	66.1	66.1	65.7	66.1	67.0	66.5	67.1	68.3	67.7	68.2
Italy	60.2	60.4	60.5	60.4	60.8	60.5	60.7	61.1	61.2	61.3	61.7
Japan			68.3	68.5	68.4	68.8	68.2	68.1	68.3	68.4	68.5
Rep. of Korea	68.8	69.5	69.6	68.9	68.9	69.6	69.8	70.1	70.3	71.6	70.9
Latvia	64.1	63.5	64.3	65.4	63.8	64.2	65.4	64.7	64.1	63.1	62.0
Luxembourg	59.2	58.8	59.6	59.4	57.3	57.7	57.8	57.6	58.5	61.6	60.1
Mexico	70.7	71.5	70.5	70.5	69.9	69.8	68.9	69.7	69.8	69.7	69.6
Netherlands	61.4	60.9	61.8	62.7	62.9	62.8	63.2	63.4	63.1	63.3	63.7
New Zealand	65.8	66.8	66.5	66.8	66.9	65.8	66.2	66.8	67.1	67.5	67.2
Norway	63.6	64.1	64.1	65.1	64.5	64.2	64.0	64.4	63.9	64.9	65.1
Poland			61.1	61.1	61.4	61.3	61.5	62.0	61.8	61.9	62.1

(Continued)

Continued

	Retirement age from the labour market – Men										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Portugal	65.2	65.4	65.7	65.8	66.0	65.6	65.0	65.1	65.2	65.4	65.9
Slovakia	59.2	59.3	59.3	59.2	59.9	59.9	60.4	60.9	61.2	61.0	61.0
Slovenia	60.6	60.3	59.5	60.9	61.8	61.3	61.3	62.4	61.2	61.9	62.6
Spain	60.7	61.5	61.5	61.7	61.8	62.2	62.2	62.3	62.2	62.2	62.2
Sweden	64.8	64.9	65.2	65.6	65.6	65.1	65.5	65.9	65.6	65.3	65.6
Switzerland	65.1	64.6	65.0	66.4	65.6	65.3	65.9	66.1	66.0	66.0	65.7
Turkey	63.2	63.3	62.6	62.5	62.2	62.3	62.5	62.6	63.1	63.7	63.9
United Kingdom	63.1	63.3	63.2	63.4	64.2	63.9	63.6	63.7	64.3	64.2	64.0
United States	64.4	64.6	64.7	65.3	65.3	65.2	64.9	64.7			
	Retirement age from the labour market – Women										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Australia	61.2	62.0	61.8	61.5	62.5	62.8	62.5	62.5	62.7	62.7	63.0
Austria	57.9	58.7	57.8	57.5	57.0	57.7	58.2	59.3	59.9	60.1	60.1
Belgium	57.4	57.6	58.5	58.5	59.0	58.6	58.9	58.5	58.7	59.2	59.4
Canada	61.5	61.7	61.9	61.6	62.1	62.6	62.4	62.6	63.1	62.5	63.0
Chile	64.6	65.1	66.7	66.3	66.8	66.8	67.4	69.2	68.1	68.7	67.5
Czech Republic			58.5	58.8	58.9	59.0	59.1	59.8	59.9	60.6	60.8
Denmark	61.2	62.2	62.0	62.3	62.1	61.9	61.3	61.9	61.5	60.6	61.6
Estonia	62.9	64.6	64.3	64.3	63.8	63.7	63.0	62.9	62.9	62.7	63.8
Finland	60.0	60.4	61.1	61.2	61.4	61.5	61.9	62.0	62.1	62.4	62.7
France	59.1	59.2	59.3	59.4	59.6	59.5	59.4	59.9	59.8	59.9	59.9
Germany	60.7	60.8	60.8	60.3	60.5	61.2	61.5	61.7	62.2	62.6	62.6
Greece	61.1	61.5	61.1	60.3	59.6	60.4	59.9	60.3	59.9	59.9	59.8
Hungary	57.1	57.7	57.8	58.3	58.9	58.9	58.8	59.5	59.7	60.0	60.1
Iceland	64.8	65.7	65.2	65.4	66.3	66.2	65.6	66.9	67.3	67.5	67.8
Ireland	65.1	65.2	64.6	64.5	63.1	63.9	64.0	62.0	63.0	62.9	63.1
Israel	61.6	62.3	62.4	63.2	63.5	64.7	63.5	65.1	65.8	66.1	66.3
Italy	60.3	60.1	60.1	60.4	58.4	59.0	59.0	60.5	60.3	61.1	60.5
Japan			65.8	66.1	66.5	66.3	66.1	65.8	66.8	67.0	67.3
Rep. of Korea	66.7	66.9	67.2	69.1	68.7	68.7	68.9	69.0	68.9	70.3	70.9
Latvia	59.9	59.9	62.1	62.5	63.3	63.4	64.2	64.2	63.2	62.3	61.1
Luxembourg	61.3	61.0	60.7	61.3	58.4	58.5	58.6	59.5	59.7	60.6	59.0

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	Retirement age from the labour market – Women										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Mexico	70.8	72.0	72.2	71.5	67.6	69.2	68.0	67.7	67.2	66.2	66.5
Netherlands	60.2	61.0	60.9	61.1	61.4	61.4	61.9	62.0	61.8	61.6	61.9
New Zealand	63.7	63.4	64.0	64.4	64.9	65.6	66.0	66.3	66.7	67.1	66.3
Norway	62.2	62.7	63.5	64.5	64.5	63.9	64.2	64.1	63.7	64.1	64.4
Poland			57.5	57.8	58.3	58.8	59.4	59.9	60.0	59.4	59.4
Portugal	65.1	65.0	65.1	64.5	63.4	64.2	64.2	64.4	64.8	64.9	64.6
Slovakia	55.6	55.1	54.6	55.4	56.1	56.8	57.6	58.7	58.0	58.8	59.2
Slovenia	57.8	58.4	57.1	57.5	58.8	58.0	58.0	60.2	58.9	59.1	60.0
Spain	62.3	63.3	63.1	63.2	63.4	63.0	63.5	63.3	63.4	63.0	62.6
Sweden	62.8	63.0	63.3	63.5	63.8	63.3	64.2	64.2	64.1	64.2	64.4
Switzerland	64.7	63.6	64.0	64.2	63.5	63.6	64.1	63.9	64.1	64.5	64.3
Turkey	62.2	62.6	62.3	62.7	67.6	71.1	72.8	72.9	72.7	68.7	66.7
United Kingdom	61.8	61.9	62.1	62.3	62.6	62.2	62.4	62.9			
United States	63.1	63.8	64.1	64.2	64.8	65.2	64.8	64.7			
	Retirement age from employment – Men										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Australia	63.8	64.1	64.2	64.1	64.0	64.2	64.3	63.7	63.9	64.5	64.3
Austria	58.2	58.8	57.8	57.6	58.0	59.3	59.6	61.1	61.1	61.7	61.1
Belgium	58.3	58.6	59.5	59.9	59.4	60.3	59.6	59.4	59.3	59.8	59.7
Canada	63.3	63.6	63.8	64.0	62.5	62.6	62.8	63.1	63.5	65.3	65.6
Chile	67.9	68.7	68.9	69.5	67.9	67.2	68.0	68.9	68.4	70.8	72.0
Czech Republic			62.3	63.1	62.5	62.2	62.2	62.6	62.5	63.3	63.8
Denmark	61.2	63.9	63.7	64.4	63.9	62.7	62.1	62.1	61.5	63.2	64.7
Estonia	65.5	65.6	65.1	66.9	64.1	61.7	61.8	60.6	62.9	67.5	67.8
Finland	60.8	60.8	60.9	62.6	61.6	61.1	61.7	62.2	61.2	61.5	62.1
France	58.9	58.5	58.9	59.2	59.1	59.3	59.0	59.3	58.7	59.0	58.9
Germany	60.0	60.5	62.1	62.4	63.2	63.7	63.8	63.5	63.5	63.9	63.8
Greece	62.5	62.4	62.7	62.3	61.5	60.8	60.0	59.2	58.9	59.0	59.5
Hungary	58.8	59.4	59.0	59.1	58.9	58.9	59.0	59.7	60.5	62.8	63.2
Iceland	67.7	68.4	69.2	69.0	67.0	66.3	65.6	65.6	67.2	69.2	70.2
Ireland	64.4	64.2	65.2	64.3	61.3	60.6	60.5	60.9	62.0	64.8	67.2
Israel	64.2	65.6	67.9	68.7	68.2	69.1	69.0	69.3	70.3	70.7	70.5

(Continued)

Continued

	Retirement age from employment – Men										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Italy	60.3	60.5	60.8	60.4	60.5	60.1	60.2	60.0	59.8	60.0	60.5
Japan			69.1	69.0	68.0	68.0	67.7	67.6	68.0	69.1	69.5
Rep. of Korea	69.8	70.2	69.7	69.1	68.7	69.7	70.0	70.2	70.7	71.9	71.0
Latvia	65.2	66.3	66.7	66.2	60.9	60.9	61.8	61.9	62.9	65.7	66.0
Luxembourg	58.8	58.6	59.4	59.2	57.3	57.6	57.5	57.2	58.6	61.2	59.6
Mexico	70.0	71.1	70.5	70.3	68.9	69.1	68.1	69.0	69.0	70.3	70.3
Netherlands	60.6	60.0	61.3	62.9	63.3	63.0	63.1	62.4	61.3	61.8	62.6
New Zealand	66.7	67.4	67.3	66.9	65.6	64.6	65.1	65.3	66.2	67.6	67.4
Norway	63.3	64.2	64.8	65.6	65.0	64.7	64.3	64.2	63.7	64.9	65.1
Poland			64.3	65.1	65.5	64.7	63.9	62.0	60.9	61.4	63.0
Portugal	63.8	64.1	64.5	65.2	64.7	64.2	63.2	62.4	62.3	64.1	65.1
Slovakia	59.5	60.4	60.9	61.4	61.8	60.6	60.3	60.3	59.9	60.8	61.7
Slovenia	61.0	60.5	60.0	61.6	62.0	61.2	60.6	61.5	59.6	60.8	62.5
Spain	61.2	61.8	61.9	61.0	59.6	59.4	59.1	58.5	58.9	60.1	61.3
Sweden	65.0	64.7	65.3	65.8	65.5	64.7	65.0	64.8	64.6	65.4	65.9
Switzerland	64.4	64.1	64.7	66.7	65.8	65.3	65.6	65.6	65.6	65.5	65.3
Turkey	62.6	63.1	63.0	62.6	61.6	62.2	62.9	63.1	64.1	65.8	64.9
United Kingdom	63.8	63.4	63.4	63.5	63.0	62.8	62.7	62.9	63.5	64.5	64.9
United States	63.9	64.7	65.3	65.6	63.4	63.2	63.3	63.5			
	Retirement age from employment – Women										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Australia	61.5	62.5	62.2	62.0	62.7	62.9	62.5	62.5	62.7	62.6	63.0
Austria	57.8	58.7	57.6	57.5	57.2	57.8	58.5	59.5	60.0	60.1	60.1
Belgium	57.4	57.3	58.5	58.9	59.3	59.2	59.6	59.0	58.8	59.4	59.6
Canada	61.6	62.0	62.3	61.8	61.9	62.6	62.2	62.3	62.8	62.7	63.2
Chile	65.0	65.2	66.5	66.7	67.0	66.9	67.5	69.3	68.3	69.1	68.1
Czech Republic			58.6	59.2	59.2	59.1	59.3	59.7	59.7	60.8	61.0
Denmark	61.2	62.3	62.2	62.5	62.5	61.8	60.7	61.0	60.5	60.2	61.5
Estonia	64.7	66.5	66.1	65.9	64.1	61.8	61.4	62.1	62.1	64.0	66.7
Finland	60.0	60.4	61.3	61.3	61.7	61.9	62.2	62.1	61.9	62.3	62.3
France	59.6	59.5	59.8	59.7	59.8	59.7	59.5	59.7	59.5	59.8	59.9
Germany	59.9	60.1	60.6	60.6	61.3	62.1	62.6	62.7	63.0	63.3	63.3

(Continued)

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	Retirement age from employment – Women										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Greece	61.7	62.2	61.6	61.4	60.9	60.7	58.5	57.6	56.8	57.1	57.4
Hungary	57.0	57.0	57.6	57.8	58.1	58.5	58.4	59.2	59.7	60.2	60.5
Iceland	64.8	66.0	65.6	65.6	66.3	65.9	64.5	66.4	66.8	67.2	67.7
Ireland	65.3	65.4	64.8	64.5	63.0	63.1	63.1	60.7	61.1	61.9	63.1
Israel	61.7	62.8	63.4	64.9	66.1	66.8	66.0	65.4	66.2	66.5	66.7
Italy	60.7	60.5	60.6	60.8	59.1	59.4	59.2	60.1	59.4	59.7	59.8
Japan			66.4	66.5	66.4	66.2	66.0	65.7	66.8	67.3	67.7
Rep. of Korea	67.2	67.1	67.2	69.5	69.0	68.8	68.9	68.9	69.0	70.3	70.9
Latvia	61.3	64.2	63.4	64.4	63.1	61.7	61.9	61.9	61.9	64.4	63.7
Luxembourg	60.7	60.2	60.8	61.3	58.7	58.7	58.9	59.6	59.6	60.5	58.8
Mexico	70.8	71.8	72.2	71.4	67.4	68.9	67.8	67.3	66.9	66.3	66.8
Netherlands	60.1	60.6	60.8	61.3	61.8	61.5	62.1	61.9	60.7	60.4	60.6
New Zealand	64.8	64.2	64.7	64.9	64.9	65.3	65.5	65.8	66.2	67.1	66.4
Norway	62.1	62.7	63.8	64.6	64.7	64.6	64.3	64.1	63.5	63.9	64.1
Poland			59.3	59.9	60.5	61.1	60.8	60.3	59.0	59.2	60.0
Portugal	64.2	63.8	63.9	64.0	62.5	63.4	63.4	63.1	63.2	64.0	64.7
Slovakia	55.2	55.3	54.9	56.5	57.1	57.4	58.4	58.7	57.2	58.5	59.5
Slovenia	58.1	58.6	57.3	57.7	59.0	58.1	57.9	59.4	57.6	58.3	59.4
Spain	64.1	63.8	63.9	63.6	62.4	61.9	60.6	58.9	59.0	59.8	61.0
Sweden	62.8	62.5	63.1	63.4	63.5	63.0	64.0	63.8	63.8	64.3	64.7
Switzerland	64.6	63.6	63.8	64.4	63.7	63.6	64.1	64.0	64.2	64.4	64.4
Turkey	62.2	62.7	62.5	62.8	67.1	70.7	72.9	73.0	72.7	69.1	67.0
United Kingdom	61.9	61.9	62.2	62.3	62.5	62.0	62.2	62.7			
United States	62.8	63.9	64.4	64.3	63.9	63.7	63.4	63.6			
	Retirement age from full-time employment – Men										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Australia		62.4	62.7	63.0	62.9	62.8	63.0	62.1	62.1	62.6	62.7
Austria	58.0	58.4	58.0	57.6	57.7	59.2	59.2	59.8	59.9	60.3	60.0
Belgium	58.5	58.1	58.9	59.3	58.9	59.3	59.1	58.5	59.0	59.2	59.0
Canada	62.0	62.3	62.7	62.8	61.3	61.5	61.9	62.1	61.9	63.4	63.6
Chile	64.1	64.8	65.1	64.6	63.8	62.3	62.9	63.3	63.3	64.5	66.4
Czech Republic					61.9	61.7	61.6	61.7	61.9	62.2	62.9

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	Retirement age from full-time employment – Men										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Denmark		62.6		62.9							
Estonia	65.3	66.1	64.9	66.9	64.0	60.9	61.0	60.2	62.4	66.1	67.3
Finland					60.1		60.0		59.7	60.6	60.6
France	58.6	58.1	58.6	58.9	58.6	58.9	58.8	58.9	58.3	58.5	58.4
Germany	59.3	59.5	60.8	61.4	62.2	62.6	63.0	62.6	62.2	63.0	63.0
Greece	62.1	61.7	62.1	61.7	61.0	60.4	59.5	58.9	58.6	58.6	59.1
Hungary	57.5	59.0	58.8	58.9	58.6	58.7	58.4	59.1	59.5	61.6	61.5
Iceland											
Ireland	64.0	63.3	63.9	62.8	59.9	59.3	59.2	59.6	60.4	63.3	65.8
Israel	62.3	63.4	64.6	65.6	65.2	66.3	67.2	66.7	67.1	68.0	68.0
Italy	60.2	60.5	60.6	60.1	59.8	59.7	59.6	59.2	58.9	59.1	59.3
Japan			64.5	64.2	63.3	63.3	63.3	63.6	63.9	64.7	64.7
Rep. of Korea	63.1	63.6	63.7	63.1	63.3	64.1	62.9	64.3	64.5	65.8	65.2
Latvia	65.0	65.1	66.3	65.5	60.6	60.3	61.0	60.8	62.0	65.6	65.3
Luxembourg											
Mexico	62.9	63.0	62.6	62.5	62.2	62.4	62.4	62.7	62.8	63.6	64.4
Netherlands	59.2	58.8	59.7	60.8	61.6	60.8	60.7	59.8	59.3	59.3	60.2
New Zealand	65.4	65.7	65.7	65.2	63.6	62.9	63.7	63.6	64.5	65.8	65.6
Norway			63.3	64.5	64.0	64.1	63.5	63.2	62.7	64.0	63.3
Poland			62.1	62.8	63.2	62.7	62.5	60.9	59.6	59.9	61.2
Portugal	62.3	62.3	62.7	63.4	62.7	62.3	61.4	60.8	60.6	62.1	63.1
Slovakia	58.8	59.3	59.9	60.2	61.1	59.9	60.0	60.2	60.0	60.9	61.7
Slovenia	60.0	59.8	59.8	61.0	60.3	60.2	59.3	59.6	58.7	59.8	61.1
Spain	61.1	61.6	61.8	60.8	59.4	59.1	58.8	58.1	58.4	59.6	60.7
Sweden								63.5	63.4	64.1	64.3
Switzerland											
Turkey	59.0	58.9	59.1	58.7	57.8	57.8	58.6	58.5	59.1	60.3	60.6
United Kingdom	61.6	61.4	61.4	61.7	60.9	60.7	60.8	60.8	61.1	62.5	62.9
United States											
	Retirement age from full-time employment – Women										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Australia		61.0	61.0	61.3	62.1	62.1	62.0	61.9	62.0	62.3	62.5

(Continued)

Continued

	Retirement age from full-time employment – Women										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	57.4	57.8	57.8	57.5	57.0	57.6	58.4	58.3	58.8	59.1	59.3
Belgium	57.5	56.5	57.3	57.3	58.2	58.5	58.5	58.4	59.1	58.6	59.4
Canada	61.1	61.4	61.8	61.4	61.0	61.6	61.3	61.5	61.9	62.1	62.2
Chile	61.9	62.3	62.7	62.9	63.5	62.4	63.5	64.8	64.6	64.4	65.2
Czech Republic					58.8	58.7	58.7	58.8	58.7	59.4	59.9
Denmark		61.1	60.9							59.8	
Estonia	63.9	63.5	64.0	64.2	61.9	60.2	59.8	61.3	61.3	63.4	65.1
Finland						60.6	60.8			61.3	61.2
France	59.2	59.2	59.2	59.4	59.2	59.4	59.1	59.4	59.1	59.5	59.5
Germany	57.9	58.8	59.3	59.5	60.6	61.4	61.8	62.1	62.4	62.8	62.9
Greece	60.5	61.1	60.7	60.3	59.5	59.6	58.0	57.2	56.4	57.0	57.0
Hungary	56.1	56.5	57.2	57.4	57.9	58.3	58.1	58.6	58.9	59.4	59.4
Iceland											
Ireland	64.0	62.8	62.9	63.0	60.5	61.6	61.5	60.2	61.2	62.8	62.7
Israel	59.8	60.8	61.2	63.1	63.3	63.9	64.2	63.8	63.8	63.8	64.0
Italy	59.5	59.7	59.4	59.6	59.0	59.0	58.7	60.0	58.8	59.2	60.2
Japan			62.7	62.9	62.7	62.6	62.1	62.5	63.0	63.3	63.8
Rep. of Korea	62.4	62.9	63.1	64.2	63.8	63.4	62.5	63.6	63.6	64.8	65.0
Latvia	60.4	63.1	62.9	63.0	62.7	60.4	60.1	59.9	60.5	63.3	63.2
Luxembourg											
Mexico	63.3	64.3	63.2	64.6	62.8	62.8	62.8	61.8	60.7	60.0	62.1
Netherlands	57.8	59.6	60.0	61.2	61.1	61.0	60.8	60.7	59.5	59.4	59.7
New Zealand	63.1	63.4	64.2	64.4	63.8	64.0	64.0	63.9	64.6	65.7	64.3
Norway			63.2	63.8	63.9	63.7	63.9	64.2	62.2	64.0	63.9
Poland			57.2	57.8	58.5	59.0	59.1	58.5	58.2	58.1	59.2
Portugal	62.3	61.7	62.2	61.4	60.2	61.5	60.4	60.0	60.7	61.1	61.9
Slovakia	55.1	55.0	54.8	56.0	56.2	56.6	57.3	57.7	56.3	57.4	58.3
Slovenia	57.6	57.9	57.1	57.1	57.6	56.5	56.7	57.3	56.5	56.8	57.4
Spain	62.7	62.3	62.4	62.1	61.5	61.9	60.3	58.5	58.4	59.1	60.4
Sweden								63.3	63.8	63.9	64.1
Switzerland											
Turkey	60.2	58.3	58.3	58.4	58.9	59.6	63.1	65.1	63.8	65.7	64.7

(Continued)

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	Retirement age from full-time employment – Women										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
United Kingdom	60.4	60.4	60.2	60.2	60.3	59.8	59.8	60.5			
United States											

Source: Annex 2 derived from OECD Labour Force Statistics (LFS), by sex and age indicators.

How fair are unemployment benefits? The experience of East Asia

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Abstract Despite an increasing emphasis on active labour market measures, unemployment benefits still remain a focal point of employment protection. This article takes the cases of four East Asian economies – China, Japan, Republic of Korea, Taiwan (China) –, which are often characterized as having welfare states with a strong developmental and productivist orientation, to investigate whether, as is sometimes argued, unemployment benefits are restrictive and exclusionary. In doing so, it examines the logic behind the design of unemployment benefits and argues that they are in fact progressive in design and fair when they pay out. Nonetheless, low effective coverage and low benefit rates weaken their redistribution and compensation objectives.

Keywords unemployment benefit, China, Japan, Republic of Korea, Taiwan (China), East Asia

Introduction

In times of austerity, unemployment provision is often thought to be one of the first social security policy areas to experience retrenchment. In Denmark, for instance, where jobseekers receive up to 90 per cent of their former salary, the maximum period of eligibility to receive unemployment benefits was halved from 4 years to 2 years in 2013, while the necessary qualifying period to claim benefits doubled from 6 months to 12 months (Preisler, 2015). In Sweden, the unemployment benefit, which before the 1990s provided compensation as high

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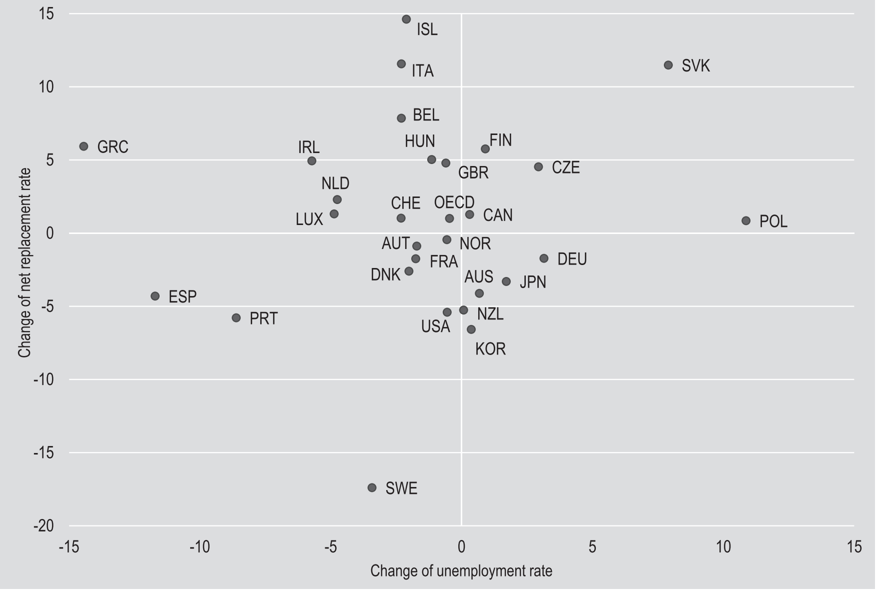
as 90 per cent of net salary, is now less generous, below the OECD average, standing at around 55 per cent of net income (Penketh, et al., 2015). Indeed, 16 out of 28 Member countries of the Organisation for Economic Co-operation and Development (OECD) have experienced cuts in the initial net replacement rate of unemployment benefits between 2001 and 2015. The Republic of Korea, New Zealand, Slovakia and Sweden experienced a more than 10-point reduction in the net replacement rate over the 15-year period (OECD, 2017).

This is somewhat misleading for at least two reasons. First, unemployment benefits can experience expansion during a period of economic downturn, as was the case in Japan and the Republic of Korea in the late 2000s. Second, the aforementioned retrenchment only represents the case of a one-earner couple with two children, in receipt of the average wage. A more rounded picture can be drawn by referring to the net replacement rate for six family types at the initial phase of unemployment with different earnings levels. As Figure 1 shows, more countries improved their net replacement rate. In fact, a few managed to improve both employment and net replacement rates (see top right of Figure 1). Only some countries (see bottom left of Figure 1) experienced worsening rates of unemployment as well as a fall in the net replacement rate.

Figure 1. *Change of unemployment rate and net replacement rate (2001–2015)*



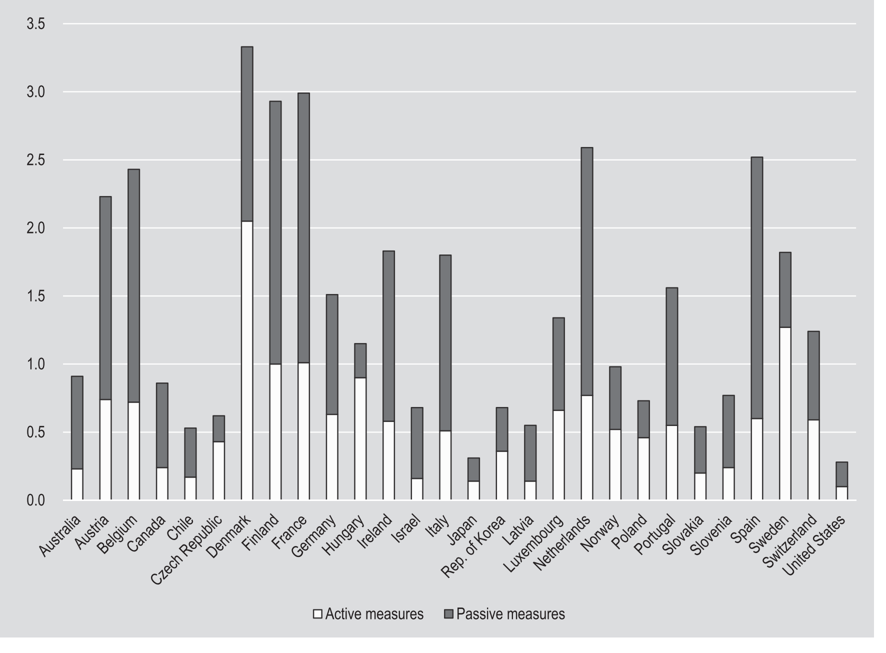
Note: Positive unemployment number refers to a reduction in the unemployment rate; negative replacement rate refers to a reduction in the net replacement rate.

Sources: OECD SOCR; ILOSTAT database.

Also important to note is that the increasing emphasis on active labour market measures has not necessarily undermined the importance of unemployment benefits as a focal point of unemployment protection. Often considered as passive measures of labour market policy, the role of unemployment benefits is expected to reduce whereas the role of active labour market measures is expected to increase. As of 2015, however, only 7 out of 28 OECD countries have a higher share of active labour market spending compared to unemployment benefit spending (Figure 2). Of interest is that these countries are not typical liberal welfare states (Esping-Andersen, 1990), but comprise the Czech Republic, Denmark, Hungary, Republic of Korea, Norway, Poland and Sweden (OECD Datastat).

Against this backdrop, this article takes the cases of four large East Asian economies – China, Japan, Republic of Korea and Taiwan (China) – to investigate how unemployment benefits fare in these growth-oriented models of welfare development (Goodman, White and Kwon, 1998). These apparently weak welfare states are perhaps the least likely country settings to have established redistributive, solidarity-enhancing unemployment provision. While often

Figure 2. *Active labour market and unemployment benefit spending, 2015, public expenditure as % of GDP*



Source: OECD Datastat.

assumed to be lacking in generosity and short-term in duration, unemployment benefits in these countries take the form of contributory insurance-based benefits, which might be expected given their developmental welfare state credentials (Holliday, 2000). For this reason, these programmes are often understood as instruments to achieve labour regulation rather than social solidarity and compensation. This begs the question whether unemployment benefits in these countries are as restrictive as commonly thought? Furthermore, is there a central logic that underpins the design of unemployment benefits in East Asia?

To answer these questions, the article first discusses various types of unemployment benefits and their functions. This is followed by examining how unemployment benefits can be understood from a fairness point of view. It then examines, in turn, the cases of China, Japan, Republic of Korea and Taiwan (China). The article draws these cases together and argues that unemployment benefits in these countries are progressive in design and fair when they pay out. However, weak effective coverage rates and low benefit levels weaken their compensation and social solidarity objectives.

Different types of unemployment protection and their functions

As a relatively late addition to a series of post-war social policies, (un)employment insurance has replaced and supplemented existing schemes of severance pay and voluntary insurance schemes in most industrialized countries (Pierson, 2005). While there are a number of different ways to protect workers against the contingency of unemployment, the provision of periodic cash benefits (i.e. unemployment benefits) is one of the most important components and commonly used methods. Indeed, the International Labour Organization (ILO) highlights that 92 out of 204 countries around the world have unemployment benefit programmes (ILO, 2017, p. 44). Unemployment benefits can be financed either by general revenue or by insurance contributions or by a mix of the two (Table 1). Insurance contributions are often made by employers and employees. But they can also be funded by taxes that employers pay on behalf of their

Table 1. *Types of unemployment benefits*

Type 1. Contributory unemployment insurance benefits	Type 2. Fax-financed unemployment assistance benefits	Type 3. Mix of Type 1 & Type 2
Belgium, **Canada**, China, Denmark, **Italy**, **Japan**, **Rep. of Korea**, Netherlands, Norway, Switzerland **Taiwan (China)**, **United States**	Australia, New Zealand	Austria, Finland, France, Germany, Ireland, Spain, Sweden, United Kingdom

Source: Author.

employees, as is the case in most states of the United States. When they pay out, benefits can be either flat-rate or earnings-related. Tax-financed unemployment programmes are often linked with flat-rate benefits whereas contributory insurance-based provisions are more often associated with earnings-related benefits.

These two types of provision (contributory versus tax-financed) have a very different institutional logic. By comparing some of the common features that govern them (Table 2), certain issues pertinent for contributory provisions may not be as relevant for tax-financed benefits, and vice versa. For instance, most insurance-based unemployment benefits have a maximum duration that varies considerably from one country to another. In an insurance-based system, the duration and the amounts of benefits are closely associated with the total period of contribution. In other words, the longer the worker has been insured, the longer the worker is entitled to benefits. The same logic applies to the amount of benefit. Those who have paid more into the unemployment insurance fund will receive more than those who have paid less. For tax-financed benefits, in comparison, the duration of benefits is not so much about how much a worker has contributed to the system and for how long, but more about whether the worker is in need of assistance.

The choice of a particular instrument is often heavily influenced by the sort of functions that unemployment benefits are supposed to serve. Although the ILO stipulates that the main objective of unemployment insurance should be kept as

Table 2. *Key features of unemployment benefits*

	Insurance-based unemployment benefits	Tax-financed unemployment benefits
Means-testing	No	Yes
Contributory record	Yes	No
Time-limit	Yes (except Belgium)	No
Benefit amount	Earnings-related	Flat-rate
Conditionality	Actively seeking work; able to work; registered and interviewed on a regular basis	
Cause of unemployment	Non-voluntary, extended waiting period applies otherwise	8 weeks of waiting period for voluntary; 12 weeks for misconduct (e.g. Australia)
Waiting period	Typically, 1 week	1 week
Sanctions	Various; jobseekers are expected to accept offers unless there are specific reasons	Work-test; suitable job offers must be accepted

Source: Author.

simple and straightforward as possible (Carter, Bédard and Bista, 2013), most unemployment benefits are designed to serve multiple functions (Standing, 2000). Furthermore, these functions are not necessarily mutually exclusive. For instance, unemployment benefits may be essentially about compensating for the loss of earnings (Bista and Carter, 2017). However, if the benefits are flat-rate and set at around the minimum wage regardless of earnings, they may serve an income redistribution role rather than a compensatory or income-smoothing and maintenance function. In this sense, tax-financed unemployment benefits may be progressive and redistributive. Nonetheless they may not be sufficient to insure against risk, which goes against one of the main objectives of the welfare state (Esping-Andersen, 1999). Similarly, few would call highly selective means-tested benefits an instrument of social solidarity. Contributory benefits that compensate lost earnings up to a level that is closer to a previous level of earnings may connect people with the social security system better than does a system of means testing. However, because they reproduce the income inequalities found in employment, and thus prioritize horizontal redistribution (Esping-Andersen and Myles, 1999), such benefits do not respect in full the principle of social solidarity (Standing, 2000), particularly if they are exclusionary by being made available only to a selective number of people. For developing countries, Prasad (2008) notes that social insurance programmes tend to exclude workers in the informal economy who are disproportionately the poor. Unemployment benefits also serve a labour mobility function by enabling workers to move between jobs without pressurizing them to lower their wage expectations. In this role, earnings-related instruments work better to help jobseekers have a degree of security in their search for suitable work.

Of note, almost all types of unemployment benefits entail activity or work tests as well as an array of often very restrictive eligibility rules and qualifying conditions. The ILO Convention concerning Employment Promotion and Protection against Unemployment, 1988 (No. 168), for instance, stipulates the qualifying period for months of contributions to be 6–24 months over the last 15–24 months. All four countries under investigation here, China, Japan, Republic of Korea and Taiwan (China), comply with this international standard. However, given that the effective coverage of unemployment benefits remains very low, this alludes to the difficulties faced by workers in satisfying these conditions when becoming unemployed (see Figure 5). A number of conditions attached to unemployment benefits clearly suggest that, regardless of the institutional form the unemployment benefits take, they also have an inherent labour regulation objective. This is most commonly found in tax-financed provisions, where the conditions imposed on the receipt of tax-financed cash transfers are often justified on the grounds that they are not an entitlement. Yet, in contrast, for contributory benefits, what might justify the conditions imposed in order to receive them?

Is it not the case that insured workers are claiming only on the basis of the rights for which they have contributed?

One of the strongest justifications for attaching conditions to entitlement comes from moral hazard theory, which argues that unemployment benefits may disincentivize those in receipt of benefits from looking for work. ILO Convention No. 168 (Article 14) states that “benefits shall be provided in the form of periodical payments calculated in such a way as to provide the beneficiary with partial and transitional wage replacement and, at the same time, to avoid creating disincentives either to work or to employment creation”. Much empirical evidence supports the disincentive effect of unemployment benefits. In Japan, for instance, one case study showed that the majority of re-employment amongst laid-off workers occurred towards the end of the benefit period (Matoba Ishitake and Noguchi, 2003). Hence, unemployment benefits act as a deterrent to job searches. In various other studies, delays in re-employment are observed among laid-off workers in receipt of unemployment benefits (Atkinson and Micklewright, 1991; Nickell Nunziata and Ochel, 2005; Vodopivec, Wörgötter and Raju, 2005).

Nevertheless, the work disincentive argument should not be used to justify benefit cuts. In their study of the German Hartz IV reform, Nagl and Weber (2014) found that the reduction of unemployment benefits reduced the duration in unemployment for short-term unemployed. But the effect was insignificant or even negative for most long-term unemployed. In his study of France, Germany and the United Kingdom, Tatsiramos (2004) found that more generous unemployment benefits induced a longer duration of unemployment but improved the stability of subsequent employment. The extensive literature review undertaken by O’Campo et al. (2015) suggests that generous unemployment benefits (i.e. high replacement rates, long duration, broad eligibility criteria, short waiting period) not only reduce material hardship but also improve health and well-being.

Unemployment benefits may delay re-employment. But the impact unemployment benefits have on employment remains contested, not least because there is much less agreement on whether the reduction in unemployment benefits has a positive impact on job creation. Equally unclear is the question of whether extending unemployment benefits improves job quality (e.g. Rothstein, 2011; Farber and Valletta, 2013; Hagedorn, Manovskii and Mitman, 2015; Nekoei and Weber, 2015). It is important to bear in mind that the impact of unemployment benefits reaches beyond employment growth. For instance, the type of benefits unemployed people receive, be they means-tested or entitlement-based, affect the perceived health status of recipients (Rodriguez, 2001).

All in all, the questions of who should be eligible, for how long and at what benefit levels have come centre stage in many countries. The answers to these questions are often dependent on how unemployment benefits are financed, which in turn determines how the programme should be organized. When there is a close association between who pays and who benefits, for instance, it establishes a reasonably direct link between eligibility and benefit levels. In short, although the scope and size (and duration) of benefits is determined by the contributory principle, a similar link is much more arbitrary in tax-financed provisions.

Unemployment benefits and fairness

Despite the close association between the period of contribution and the duration of benefits in the case of insurance-based unemployment benefits, these acquired rights are different from other contributory social insurance provisions. Unlike health insurance or old-age pensions, for instance, unemployment benefits are often very restrictive: benefits are time limited and capped at a particular level, above which no benefits are paid; and subject to a number of conditionalities. In fact, it is very rare to find any countries without earnings ceilings for benefit calculation purposes, above which no benefits are paid. Among the Member States of the European Union, only Slovenia has no ceiling, while Belgium has no time limit in terms of benefit duration (Esser et al., 2013, p. 9).

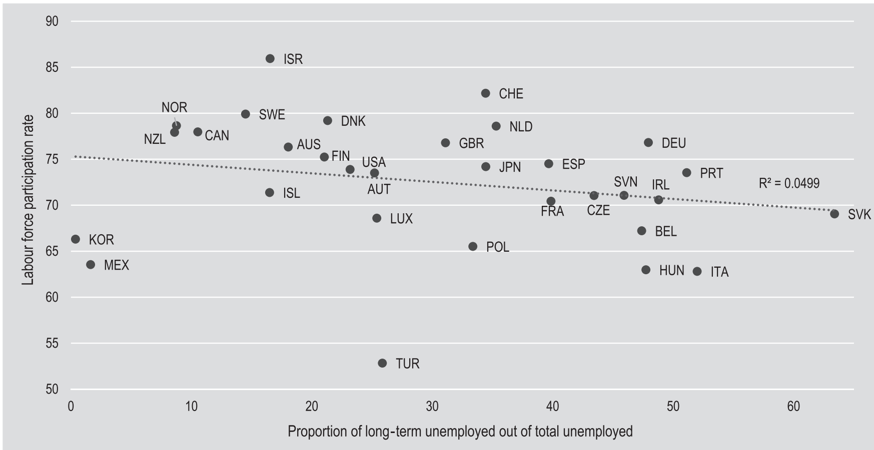
None of the East Asian countries studied in this article has a system of tax-financed unemployment benefits, although all four do operate social assistance programmes. Whereas tax-financed systems of unemployment benefits are geared specifically towards the goal of poverty alleviation, insurance-based unemployment benefits are designed to be compensatory. How much of prior earnings (i.e. replacement rate) is compensated is therefore central to any fairness test. Any conditions that may disqualify people from receiving unemployment benefits are also critical. One such condition is to deny access to benefits for periods of voluntary unemployment. Unlike tax-financed unemployment benefits that often distinguish between those deemed to be deserving or undeserving, contributory benefits establish a close link between who pays and who benefits. From an insurance point of view, granting benefits for periods of voluntary unemployment may be understood as being akin to a motor vehicle insurance policyholder intentionally having an accident to claim insurance. But the voluntarily unemployed debate reaches further than a discussion about moral hazard. Excluding periods of voluntary unemployment may impede labour mobility, and force workers to stay in jobs that may offer inadequate wages and poor working conditions. ILO Convention No. 168 (Article 20(c)) stipulates that the benefit may be refused, withdrawn, suspended or reduced “when it has been determined by the competent authority that the person concerned has left employment voluntarily without just cause”. What might constitute “just cause” is not clear, however. In this study, only Japan implements “reduced” benefits in the event of voluntary unemployment. A point left unaddressed is the fact that voluntary unemployment, or departure from work, may be necessary as an important means for workers to upgrade their skills. Moreover, it raises a dilemma for people who are between jobs as regards what to state on their curriculum vitae to explain the departure from previous employment. For instance, the two statements “I was not wanted any longer” and “I left work voluntarily” may incite very different interpretations from a future perspective employer.

The employment-contribution record is one of the critical components that determines eligibility for unemployment benefits. In some cases, the rules related to the employment-contribution record do not appear fair. For instance, take the case of a worker in Japan whose job was terminated due to bankruptcy or dismissal. To qualify, workers must have been employed for 6 of the last 12 months, with a minimum of 20 hours of work per week. In practice, this could mean that someone who worked part-time for 6 months would qualify, whereas someone who worked full-time for 5 months would not. It is difficult to see the logic behind this particular condition. In fact, although the international labour standards recommend this rule, there is no rule-setting condition regarding the employment record that seems demonstrably fairer than any other.

In most cases, unemployment benefits have a time limit and the maximum amount a worker can receive is capped. The rationale behind this is that the unemployment period is assumed to be short term (less than 12 months). However, between 2007 and 2014 in the OECD area, long-term unemployment (12 months or more) affected 30 per cent of all unemployed. Of course, there is a wide range of variation amongst countries. The OECD long-term unemployment rate ranges from 0.39 per cent in the Republic of Korea to 63.40 per cent in Slovakia (Figure 3). To critically address the long-standing argument that an extended period of unemployment benefit coverage induces voluntary idleness, it is useful to refer to Figure 3 which shows the relationship between long-term unemployment and labour force participation. It suggests that there is no strong relationship between the two. Moreover, when the dimension of different types of unemployment benefits is added, there is no clear pattern to be found between the length of entitlement to unemployment benefits, long-term unemployment and labour force participation. In fact, when considering the countries that provide contributory unemployment benefits for a short period (shown in bold in Table 1) or a long period, as well as those that provide tax-financed benefits, or a combination of the two, all are sporadically placed. In short, the identified assumptions have little empirical ground on which to stand.

By contrast, restrictions on the duration of benefits may lead to the unemployed making poor long-term decisions, as a consequence, perhaps, of hurriedly accepting to take the first available job offer. If the new job entered into is not suitable, workers may find themselves once more unemployed, but without having been

Figure 3. *Long-term unemployment versus labour force participation (2007–2014 average)*



Sources: OECD SOCR database; OECD (2017), Labour force participation rate (indicator).

able to accumulate enough contributions to access unemployment benefits. This leads to the problem of labour market churning (i.e. workers transiting constantly between periods of unemployment and low-paid and low-skilled work). Repeated periods of unemployment depress earnings and wages (Stevens, 1997; Arulampalam, Greg and Gregory, 2011). Yet, it remains contested whether a longer period of job search should be granted to help improve employment matches (Cooper, 2014). Although a short-duration benefit regime cannot be presumed to lower unemployment (Standing, 2000), time-limited welfare measures are often considered necessary to prevent the development of welfare dependency (Arulampalam, Greg and Gregory, 2011). Hence it is difficult to establish a fairness argument for time-limited measures. If the primary purpose of unemployment benefits is to provide income security while seeking employment, and if voluntary unemployment triggers disentitlement, what justifies a time limit? A declining level of benefits during the course of unemployment may be justified as an incentivizing measure to encourage job searches. But granting no benefit after a certain period of time seems to run contrary to the purpose of providing the benefit.

Although most contributory unemployment benefits are earnings-related, the pure form of actuarially fair social insurance is practically non-existent. The rationale behind earnings and contribution-related benefits is not typically about poverty prevention, as is the case in unemployment assistance systems, but to provide income maintenance. Contributory-related benefits also promote a degree of vertical equity (redistribution). The caps placed on benefit amounts mean that those who have contributed less due to their lower earnings receive more in proportional terms. But if the expected return for the average earner is less than what was contributed, then it is likely that the programme will be viewed as unfair. In other words, the expected return for those who have contributed over time should be at least equal to what they have contributed.

Having set out the framework to analyse fairness tests, the following section examines the four East Asian cases. The primary purpose is to understand how each system performs in relation to the fairness criteria discussed above, including eligibility rules, benefit duration, benefit rates and the source of finance.

China

First introduced in 1985, unemployment insurance in China covers all employees in urban areas, both private and public. Migrant workers from rural areas are also insured if they have signed a labour contract with their employer. Previously, China's centrally planned economy meant life-long employment for all workers. Hence there was no need to have unemployment insurance. Economic liberalization brought about the reform of state-owned enterprises and eventually, in 1988, the legal recognition of private enterprises. As part of this change, the government sought to change the locus of financing responsibility from the state to individual employment contracts. Employers are now made to contribute to a series of social insurance provisions including pensions, health, unemployment and housing (*China Labour Bulletin*, 2016).

The total contribution for unemployment insurance is 3 per cent of wages, of which employers contribute 2 per cent while employees pay 1 per cent. This contribution rate is rather high by regional standards, particularly given the fact that employers contribute a higher share. In 2015 against the backdrop of downward economic pressure, the Ministry of Human Resources and Social Security and the Ministry of Finance decided to reduce the insurance premium by 1 per cent in order to reduce business costs (Notice on the Interim Reduction of Social Insurance Contribution Rates; Hong Kong Trade Development Council, 2017). In May 2016, the premium was further reduced to 1.0–1.5 per cent, at the discretion of local governments. Almost immediately, Sichuan lowered the premium rate to 1 per cent. In Guangzhou, the capital city of Guangdong province, the employer's contribution rate was reduced from 1.5 per cent to 0.8 per cent while the employee contribution was lowered from 0.5 per cent to 0.2 per cent, making a total of 1 per cent of worker's salary.

Benefit levels are determined by provincial governments (autonomous regions and municipalities), and some provinces use earnings-related principles to set the benefit rate. But most provinces have a flat-rate benefit set at a lower level than the local minimum wage. Minimum wages are determined by regional governments with considerable disparities. China's 2004 minimum wage regulations stipulate that each region should set its minimum wage between 40–60 per cent of the local average wage. Nonetheless, the minimum wage in most cities remains at around 20–25 per cent of the average wage.

To be eligible, certain conditions must be met, including at least one year of contribution record, the involuntary nature of unemployment, and registered as unemployed and seeking employment. Refusal to accept job offers recommended by the local government authorities leads to the termination of benefits. Benefits last from 12 months, for less than 5 years of contribution, through to 18 months for 5–10 years of contributions, to 24 months for over 10 years of contributions (SSA and ISSA, 2016). Unlike other countries, there is no waiting period. In principle, unemployment benefits can be claimed in any location. Nevertheless, few rural areas have a system in place to distribute urban unemployment benefits. The decentralized nature of the social security system and the non-comparability of different programme elements make the portability of social insurance benefits very difficult to implement (Hopkins, Bastagli and Hagen-Zanker, 2016).

Japan

Japan introduced the compulsory unemployment insurance programme in 1947, which was renamed in 1974 as "employment" insurance. All workers employed for more than 20 hours a week are included in the scheme. Government employees and seasonal workers with less than four months or 30 hours per week of work are exempted from the scheme. In addition to unemployment benefits, services for employment stability and developing workers' capability, also known as the "Two Services", are fully funded by employers' contributions. For unemployment benefits, employees and employers used to share equal contributions, making a combined total contribution of 1.2 per cent of the employee's wage. To lessen the financial burden on workers and encourage consumer spending (*The Mainichi*, 2016), the combined contribution was reduced to 0.9 per cent, of which two-thirds (0.6 per cent) is contributed by employers as of April 2017. A particularity is that the government contributes around 13.75 per cent of the total cost of unemployment benefits (SSA and ISSA, 2016).

To qualify for benefits, unemployment should be the result of being fired, made redundant, or contract termination or its non-renewal. The payment of benefits is possible in cases of voluntary resignation, but only following a waiting period of

3 months, compared to 7 days for other cases, and the duration of benefit payment is also affected. As with most contributory insurance systems, the duration of entitlement to unemployment benefits depends on how long a worker has been in employment. Unlike other social insurance schemes, however, age is a factor in the determination of the duration of benefit. This ranges from 90 days for all age groups younger than age 65 who have been employed for less than a year, up to 330 days for a worker aged 45–59 who has been employed more than 20 years. In the case of voluntary resignation or the non-renewal of a fixed-term contract, the maximum duration, even with more than 20 years of employment, is 150 days.

The payment rate ranges from 50–80 per cent of the worker's daily wage. Benefit amounts are earnings-related so that those who have contributed more receive more benefits in absolute terms. But in proportional terms there is a redistributive element. Varying by age, for instance, daily benefits have a minimum (1,832 Japanese Yen (JPY) in 2016; approximately USD 16) and maximum (JPY 7,775; approximately USD 68), while those with lower wages enjoy a higher replacement rate. Those who belong to the lowest daily wage bracket (JPY 2,330 to JPY 4,650) receive 80 per cent of the average daily wage in the six months prior to contract termination, whereas for the highest daily wage bracket (JPY 11,770 to JPY 15,780) it is 50 per cent.

The duration of benefits can be extended by 90 days if the nationwide unemployment rate is greater than 4 per cent or in other exceptional circumstances, such as following a natural disaster or financial crisis. For those workers who return to work before they have received two-thirds of their total benefit entitlement, re-employment bonuses are provided in the form of a lump sum, up to a maximum of JPY 5,885 (USD 52).

Republic of Korea

Introduced in 1995, the Employment Insurance Programme (EIP) expanded as the country experienced a massive hike in the unemployment rate, from 3 per cent to 7 per cent in 1998. Covering around 15 per cent of workers in 1995, affiliation became compulsory for all workers by 1998. Exceptions include government officials, school teachers, small construction firms, part-time workers with less than 60 working-hours per month, and businesses engaged in fishery, forestry, farming and hunting with less than four employees. Self-employed and small business owners (with less than 50 employees) are not required to affiliate, but can join voluntarily.

As the name of the EIP indicates, there was a strong emphasis on active labour market measures from the outset. Unemployment benefits are in fact only one of the four pillars that constitute the programme. However, it is the unemployment benefit component alone that is financed equally by employees and employers (0.65 per cent of the monthly wage each), for a combined total of 1.3 per cent of the monthly wage. Other components, such as vocational competency development and employment stabilization, are financed fully by employers.

Employees' contributions are based on earnings, and the benefit amount (currently set at around 50 per cent of the average wage of the last 3 months) is linked closely to the amount of contributions. To be eligible, a worker must have worked at least 180 days – not necessarily 6 months, as only paid work days and paid leave days are included – in the last 18 months, with a minimum of 60 hours per month. In 2018, the minimum benefit amount was set at 90 per cent of the minimum wage and the maximum daily amount capped at 60,000 South Korean Won (KRW) (USD 53). Whereas the minimum duration of benefit for all workers regardless of their age is 90 days, the maximum duration varies depending on the worker's age and the length of insured employment with the former employer. For workers younger than age 30 the maximum duration of benefit is 180 days, while for those older than age 50 it is 240 days. Unless concessions are granted for an extension, the maximum duration for unemployment benefit is thus 240 days.

The benefits are not generous and of short duration. However, the fact that there are minimum and maximum amounts and that benefits are capped, while contributions are not, suggests a degree of progressive vertical redistribution. The government also applies exceptions to benefit duration when the unemployment rate exceeds 6 per cent for three consecutive months. If the ratio of unemployment benefit recipients to all EIP members exceeds 3 per cent for three consecutive months, special extended benefits are provided. This is accompanied by an incentive measure to reward 50 per cent of the remaining benefits to those workers who find a job before having received benefits for the maximum duration they are entitled to.

Taiwan (China)

As part of its longstanding Labour Insurance, unemployment benefits were first introduced in 1999. However, when unemployment rose to a record high rate (increasing from 1.67 per cent in 1990 to 5.17 per cent in 2002), the benefits were integrated with the new employment insurance programme in 2003.[1] Following the 2008 financial crisis, the unemployment rate reached a new high of 5.89 per cent in 2009. In the same year, unemployment benefits also recorded their highest level of pay out, placing the unemployment insurance fund in deficit.

1. See <www.bli.gov.tw/en/>.

As Ku and Chang (2013) note, when the unemployment rate rises above 5.5 per cent, the financial robustness of unemployment insurance funds is put into question.

Similar to neighbouring countries, unemployment benefits are but one component of employment insurance, which also includes a reemployment allowance, vocational training living allowance, parental leave allowance and a national health insurance premium subsidy for unemployed workers and dependants. Unlike other countries where benefits are designed to support individual workers rather than the family, the 2009 amendment introduced a 20 per cent extra payment for unemployed workers with non-working dependants younger than age 20.

The insurance premiums are paid by employers (70 per cent), employees (20 per cent) and the government (10 per cent), and the contribution rate is 1 per cent of the worker's monthly insurance salary. The Employment Insurance Act (article 8) states that the Ministry of Labour, as the central competent authority, sets the premium rate at 1–2 per cent of the insured person's current monthly insurance salary. The current rate approved by the Executive Yuan is 1 per cent. The rate is revised every three years. The Ministry of Labour can also readjust the rate if the programme's financial situation is affected (article 9).

Eligibility rules require a total of more than one year of insurance coverage within three years; non-voluntary unemployment; mandatory registration with the public employment service institution; a 14-day waiting period after registration; and an ability and willingness to work (article 11). The unemployed who have been offered a job can refuse the offer without losing the benefit if the salary offered is lower than the amount of unemployment benefit and the workplace is 30 kilometres or more away from their normal place of residence (article 13).

Unemployment benefits are paid at 60 per cent of the average monthly salary in the last 6 months prior to unemployment. Benefits can be paid for a maximum of 6 months; 9 months if older than age 45 or disabled (article 16). This is considerably shorter than in neighbouring countries. For workers who reapply within two years after having received unemployment benefits, the maximum benefit is halved. As an early re-employment payment, half of the unpaid benefit is granted as a lump sum for workers who return to work before the maximum period of unemployment benefit (article 18).

Discussion

Table 3 summarizes the four countries' systems of contributory unemployment benefits. In terms of the link between the level of contributions and benefits, China is an outlier in that unemployment benefits are paid at a flat rate while contributions are earning-related with an upper limit. This rate is set at a level that is higher than that of social assistance, but lower than the local minimum

Table 3. *Unemployment benefits compared*

	Who is eligible?	How long?	How much?	Who pays?
China	A total of more than 1 year of insurance coverage in 3 years before unemployment	<5 years: 12 months 5–10 years: 18 months >10 : 24 months No waiting period	Flat-rate locally determined benefit; higher than social assistance benefits but lower than local minimum wage	In Guangdong: Employers: 0.8 Employees: 0.2 Flat-rate below minimum wage (local variation but around 20-25% of the average wage) = 1% of salary
Japan	12 months of coverage during the last 24 months before unemployment (in the case of insolvency or dismissal, at least 6 months of insurance during the last 12 months)	From 90 to 330 days depending on age and duration of contribution 7-day waiting period; 3 months for voluntary	50–80% of the daily wage, with a minimum and maximum amount	Employers: 0.6 Employees: 0.3 = 0.9% of salary Government: 13.75% of the cost of unemployment benefits
Korea (Rep. of)	180 days of coverage in the last 18 months; minimum 60 hours per month	From 90 to 240 days depending on age and duration of contribution 7-day waiting period	50% of the past 3-month average wage	Employers: 0.65 Employees: 0.65 = 1.3% of salary
Taiwan (China)	Minimum 1 year of contribution within the past 3 years	Maximum 6 months; for those aged 45 or over maximum 9 months 14-day waiting period	60% of the average monthly salary in the last 6 months prior to unemployment	Employers: 0.7 Employees: 0.2 Government: 0.1 = 1% of salary

Source: Author.

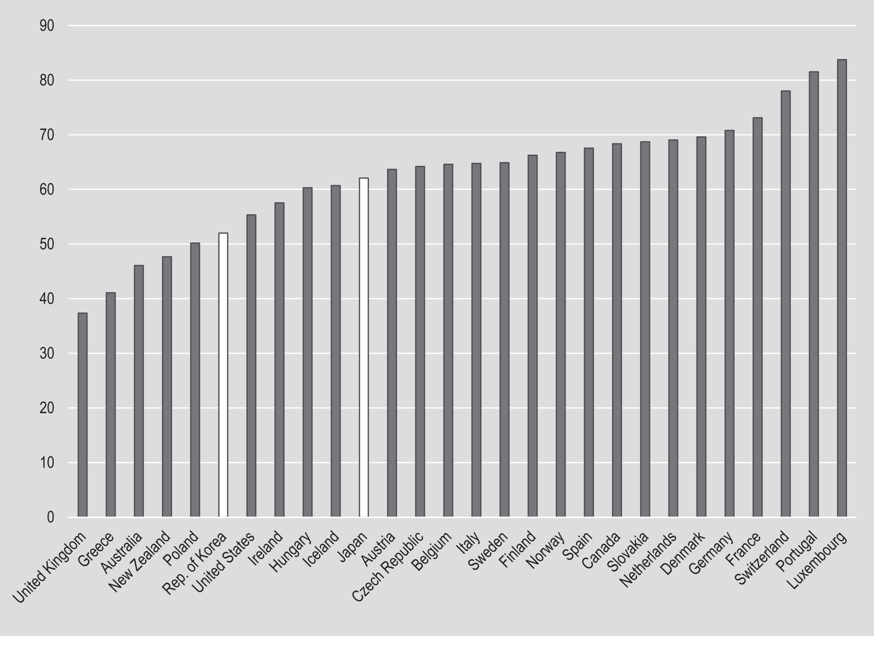
wage. Although the rate of benefit is lowest in China, unemployment benefits can be paid for a maximum of 24 months, which is substantially longer than in Taiwan (China), with a maximum of 9 months (Lee, 2000). This is in stark contrast to countries that use tax-financed unemployment assistance benefits (e.g. Australia and New Zealand) where benefits are flat-rate but not time-limited.

The current insurance contribution rate for the four countries is set at around 1 per cent of the worker's salary. The actual percentage of the worker's contribution is less than that of the employer, which is typically more than half of the total contribution. These rates are very low, particularly in comparison to some European countries with generous unemployment benefits. For instance, the employer-employee combined contribution rate in Denmark, Germany and France are 8.0 per cent, 3.0 per cent and 6.4 per cent, respectively (SSA and ISSA, 2016). Figure 4 shows the average net replacement rate of six different family types at the initial phase of unemployment for three different earnings levels between 2001 and 2015. From among our group of countries, only the Republic of Korea and Japan are included, and they do not score particularly well. Denmark, Germany and France are at the top of the rankings.

For most countries, unemployment benefits are subject to a number of qualifying conditions as prescribed by international labour standards. Commonly applied conditions include unemployment being involuntary, and not being the result of misconduct or a labour dispute. Refusal of a suitable job offer also disqualifies the insured. Nonetheless, country variations are observed. In Japan, the unemployed who have left work voluntarily are still entitled to unemployment benefits, albeit for a reduced period and after a longer waiting period. In Taiwan (China), the unemployed can refuse a job offer if the salary is lower than the benefit and the place of work is distant from the normal place of residence.

Despite Taiwan (China) offering the shortest duration of benefits, its benefit replacement rate is set at 60 per cent of the previous salary, which is higher than

Figure 4. *Net replacement rates for six family types, initial phase of unemployment, 2015, different earnings levels, Figures are average of 2001–2015.*



Source: Calculated from OECD, Tax-Benefit Models <www.oecd.org/els/benefits-and-wages-statistics.htm>.

the Republic of Korea but lower than Japan. In Japan, the rate ranges from 50–80 per cent. But because there is a minimum and maximum daily limit, the actual replacement rate paid for various family types and different income levels averages around 62 per cent (Figure 4).

In the Republic of Korea, too, unemployment benefits have a minimum floor and maximum daily cap, while insurance contributions are not capped. This is in contrast to other social insurance provisions, such as old-age pensions and national health insurance, for which there is a maximum earnings limit used to calculate contributions. Raising or eliminating the cap on wages that are subject to social insurance contributions could reduce the long-range deficit in the social insurance funds. This would be particularly effective if the base was retained for benefit calculations. This raises a question, however, about whether doing so would be particularly unfair to those who earn a very high income. Perhaps because of this, there does not appear to be any particular logic in relation to where and when the minimum and maximum level should be applied to earned income when benefits and contributions are calculated.

Unemployment insurance premiums are not intended to be actuarially fair, to reflect the individual's unemployment risks that are being underwritten. At the same time, the rate of contribution must be set at the level appropriate to maintain the solvency of the programme. At least in part, the removal of the maximum earnings limit can be justified for its positive redistributive and accumulative affects. For the average earners (i.e. the majority), this social solidarity argument may not necessarily be appealing. A highly targeted tax-financed system, often in the form of social assistance, redistributes more despite the fact that its effectiveness is often challenged by its "exclusion by design" approach (Kidd, Gelders and Bailey-Athias, 2017, p. 18). Hong Kong (China) is an example where there is no specific unemployment assistance provision. Instead, social assistance fulfils this role.

For a contributory programme, a fairness principle can be achieved if it redistributes and, at the same time, leaves no one worse off when it pays out. For example, the statutory replacement rate in Japan ranges from 50–80 per cent. As a measure of redistribution, the highest replacement rate applies to those with earnings in the lowest of the five income brackets, while the lowest benefit rate applies to those who earn the highest. In Taiwan (China), there are 17 insurance salary brackets on which individual contributions are calculated. Unlike for the Republic of Korea, the highest amount of insurance premium is, as of January 2018, capped at 1,527 New Taiwan dollars (TWD), approximately 50 US dollars (USD) (i.e. the daily insurance salary), for those who earn more than TWD 45,800 (USD 1,486) per month.[2] In the Republic of Korea, the

2. See Bureau of Labour Insurance <www.bli.gov.tw/en/>.

average monthly income in 2015 was 3,290,000 South Korean Won (KRW), approximately USD 2,910. If we assume that an average worker has earned this much for ten years, his or her unemployment insurance contribution per month is KRW 64,140 (USD 57) (employer's contribution included), totalling KRW 7,690,000 (USD 6,803) over ten years. The maximum benefit duration for a worker with more than ten years of contributions is 210 days. The worker then receives KRW 46,584 (USD 41) per day as an unemployment benefit for 210 days. The total amount received by the worker is therefore KRW 9,782,640 (USD 8,654). This is more than the worker has contributed. Table 4 provides a simplified simulation of the system progressivity in the Republic of Korea.

Other than the eligibility conditions that are imposed on the receipt of unemployment benefits, which in many ways are very commonplace, the design of unemployment benefits is not necessarily stringent or particularly reflective of a productivist intent. The very existence of unemployment benefits distinguishes these four countries from Singapore or Hong Kong (China), where no separate unemployment benefits exist. In fact, the very design suggests that these four countries, to varying degrees, have sought to achieve redistributive and compensatory goals.

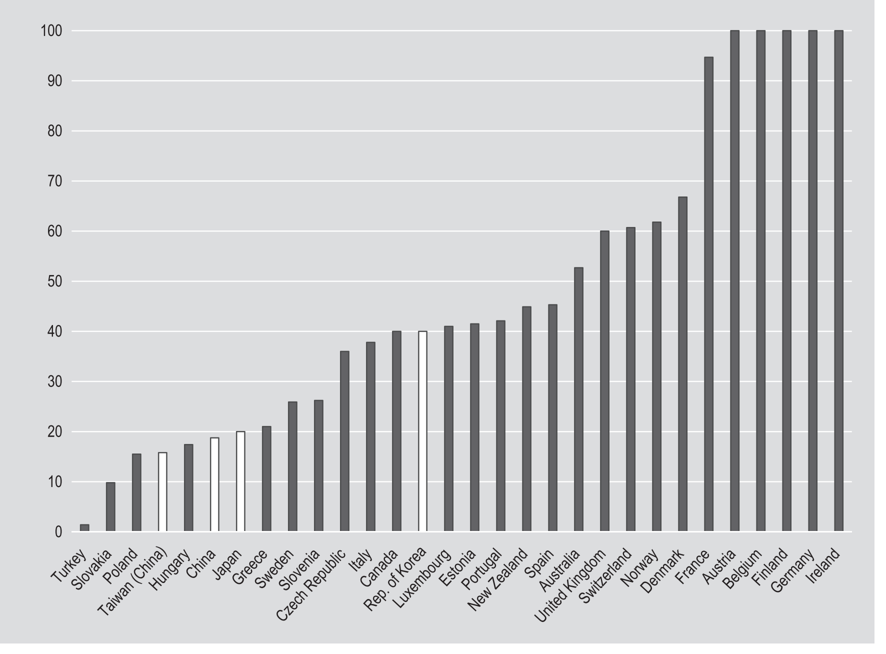
This does not mean, however, that a labour regulation element is absent from their design. In fact, the strong presence of qualifying conditions in all four countries demonstrates that there is a concern to address the risk of moral hazard. The labour regulation function is also made evident by the effective coverage rate of unemployment benefits. Effective coverage is commonly expressed as the ratio of those in receipt of unemployment benefits in relation to

Table 4. *Simulation of system progressivity: Republic of Korea*

Age/Contribution period		9 months	2 years	4 years	6 years	20 years
Age 45 with average monthly wage of KRW 3,290,000	TC	21,385 x 9 = 192,465	21,385 x 24 = 513,240	21,385 x 48 = 1,026,640	21,385 x 72 = 1,539,720	21,385 x 240 = 5,132,400
	TB	4,500,000	6,000,000	7,500,000	9,000,000	10,500,000
	TB/TC	23.38	11.69	7.31	5.85	2.04
Age 45 with half of average monthly wage of KRW 1,645,000	TC	10,692 x 9 = 96,228	10,692 x 24 = 256,608	10,692 x 48 = 513,216	10,692 x 72 = 769,824	10,692 x 240 = 2,566,080
	TB	4,192,560	5,590,080	6,987,600	8,385,120	9,782,640
	TB/TC	47.57	21.78	13.62	10.89	3.81

Notes: TC=Total contribution; TB=Total benefit.
Source: Author's own calculation from <www.ei.go.kr/ei/eih/eg/pb/pbPersonBnef/retrievePb0203Info.do>.

Figure 5. *Unemployment effective coverage, unemployed who actually receive benefits*



Note: Taiwan (China) (2012).
Source: ILO (2017, p. 278).

the total number of unemployed. Not all workers are included in the programme. Government officials, teachers and self-employed workers are commonly excluded. Perhaps more importantly, those who work less than 15–20 hours per week are excluded from coverage. Compared to the statutory coverage of unemployment insurance therefore, the effective coverage rate tends to be lower. The countries that combine unemployment insurance and unemployment assistance tend to come closest to 100 per cent statutory coverage (Figure 5). According to ILO figures, the statutory or legal coverage of (un)employment insurance schemes is low. Japan has the highest level, with 83.8 per cent, followed by the Republic of Korea with 66 per cent and China with 31.9 per cent (data for Taiwan (China) is unavailable). The effective coverage rate for the countries are typically lower (ILO, 2010). The latest ILO figures for 2015 are shown in Figure 5 (ILO, 2017).

A number of factors might explain these low levels of effective coverage (Schmitt, 2011). Factors can include workers' short tenure, low earnings or limited number of hours worked (ILO, 2016). In statutory terms, all four countries allow permanent workers, temporary workers, daily workers and agency workers to affiliate with (un)employment insurance. Regardless, workers with short-term contracts and with insufficient working hours are not entitled to unemployment benefits. Irregular work by undeclared or under-declared workers could also be a factor, as is the exclusion of those who have been unemployed longer than the maximum duration for receiving unemployment benefits. Unemployment benefits, as a social programme, seem to be reserved for those who have enjoyed a relatively stable and uninterrupted career. Indeed, whereas nearly all regular workers are covered under unemployment insurance in Japan and the Republic of Korea, the respective figures for these two countries for non-regular workers are much lower, sitting at 60 per cent and 40 per cent (Shin, 2013; Osawa, Kim and Kingston, 2013).

This exclusionary effect might not have been intended. Indeed, the central design features of unemployment benefits were established under the conditions of sustained low unemployment. While the 1997–1998 Asian financial crisis was an exception, since then, across the period 2001–2017, the unemployment rate has averaged around 4 per cent of the total labour force. Jobs across the period were mostly full-time and regular.[3] However, the nature of work has changed fundamentally. Moreover, definitions of irregular or non-standard workers vary from country to country, making direct comparisons rather difficult. Nonetheless, the rise of irregular work across East Asia is evident. Japan's non-regular workforce grew from 15.3 per cent in 1984 to 33.7 per cent of the total employed population in 2010 (Osawa, Kim and Kingston, 2013, p. 314). In the Republic of Korea, the figure grew from 27.4 per cent in 2002 to 34.2 per cent in 2011 (Shin, 2013, p. 34). The comparative figures for Taiwan (China) are much lower, showing 2.39 per cent in 2001 and 8.80 per cent in 2010. According to Hsiao (2013, p. 376), work in Taiwan (China) has not always tended toward retaining its "standard" form; rather, some work has been retained in other "informal" and "self-employed" forms. There are no official figures for China, but according to Zhou (2013, p. 361) the proportion of informal employment increased from 17.5 per cent in 1990 to 60.4 per cent in 2008.

International comparisons show that non-standard workers face wage penalties that are often greater than wage premiums, leading these workers to receive lower benefits (ILO, 2016, p. 190). The growth of non-standard work has certainly changed the dominant form of employment and the labour market landscape. Notwithstanding, extending coverage remains central to realizing the goals of redistribution and compensation.

3. See ILOSTAT database <www.ilo.org/ilostat>. See also <www.bli.gov.tw/en/>.

Conclusion

This article has asked how social insurance-based unemployment benefits differ from other contributory social insurance schemes. Despite a wealth of empirical literature on the relationship between unemployment benefits and economic productivity, this relationship remains contested. Given this, East Asia is an unlikely place for observers to find deep-rooted systems of unemployment protection. Not only have unemployment rates over an extended period been relatively low, but this has occurred in countries that have followed a growth-oriented rather than redistributive development path. At face value, these country examples would not be expected to provide observers with much of interest.

Looking closely, however, we find that there are at least three central points that are worthy of further consideration.

- The design principle of a social programme consists of a number of different elements. The fact that benefit coverage is limited might be seen as a shortfall in programme design. Nonetheless, unemployment benefits in East Asia are, as far as how the benefits are calculated and applied, designed to serve redistributive purposes. For instance, it is certainly surprising to find that unemployment benefits is the only social insurance scheme with no contribution limit in the Republic of Korea.
- The lack of effective benefit coverage is more closely associated with changing labour market structures than a flaw in design per se. The initial qualifying rules regarding the minimum working hours and duration of employment no longer realistically reflect the present labour market situation. Yet, any possible proposal to relax these may face strong barriers from the moral hazard logic built into the structure of unemployment benefits. In this sense, a mix of contributory and tax-financed unemployment benefits may provide better protection for new forms and non-standard forms of employment.
- For those workers who are entitled to unemployment benefits, the low replacement rate stems from the redistributive element of capping the maximum contributions and benefits. The overall low level of contributions also leads to low benefits. Nonetheless, all but the Republic of Korea have engaged in lowering the contribution rate, while the logic behind China's dissociation between benefits and contributions makes it a clear outlier.

This article looks at one social insurance benefit programme: unemployment benefits. As one element among a large array of disparate social policies that constitute the welfare state, this cannot possibly tell us the full story about the four countries under study. But, as a central element of what constitutes East Asia's productivist or growth-oriented welfare model, the institution of unemployment benefit programmes that seek to redistribute income and risks raises a question about how far these productivist intents are embedded in social policy institutions. The exclusionary effect that is observed in the form of limited effective coverage is perhaps far from intentional, especially in the light of the structural shortcomings that these countries have yet been able to address. For further reflection, the remaining question to be addressed is whether it is the liberalized labour market that requires restructuring or whether it is the design of unemployment benefits that are unreflective of the present labour market structure?

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Employer-oriented labour market policies in Sweden: Creating jobs and the division of labour in the public sector

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Abstract In many European countries, greater importance is accorded to labour market policies in which employers are involved in activating unemployed workers. Such employer-oriented policies target employers' demand for labour and attempt to influence their willingness to hire, train or guide (often disadvantaged) unemployed groups. Using data from a qualitative interview study of an employer-oriented programme in a medium-size city in Sweden, the present article aims to develop knowledge about how these policies are used to influence employers to hire unemployed workers and how jobs created in this context differ from regular jobs. The article argues that creating jobs through new arrangements for the division of labour, with the promise of relieving regular staff of unskilled tasks, may influence employers' willingness to hire the unemployed when used alongside other kinds of policy instruments. However, the article also shows that this new division of labour, with programme participants performing mainly unskilled tasks, has been difficult to realize, as new staff gradually come to perform an increasing number of regular working tasks.

Keywords return to work, unemployed, division of labour, employers participation, public sector, Sweden

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Introduction

A notable and well-studied trend witnessed across the last two to three decades is the transformation of welfare states into workfare states (Jessop, 1994). A key factor in this process has been the shifting of responsibility for unemployment, wherein unemployment has transitioned from being a legitimate state concern to being the responsibility of unemployed workers (McDonald and Marston, 2005; Garsten and Jacobsson, 2004; Harris, 2001). This tendency is clear in most contemporary European states and can be considered as part of a general reform agenda, typically referred to as active labour market policies (ALMPs). The focus of governmental actions and policies has therefore "shifted away from managing demand through job creation to a supply-side focus" (McDonald and Marston, 2005), which implies the activation of people registered as unemployed. This has entailed putting greater pressure on the unemployed to seek work in return for receiving benefits (Ochel, 2005; Greer, 2016). Governmental measures to achieve "job-ready" clients (Sztandar-Sztanderska, 2009) include training, work-experience programmes, personal guidance (and coaching), as well as strong sanctions for non-compliance (van der Aa and van Berkel, 2014, p. 12).

Despite these strong trends in European labour market policies, van der Aa and van Berkel (2014) propose that activation policies are in fact developing towards more demand-led labour market policies (Gore, 2005; Fletcher, 2004). Demand-led policies aim to encourage employers to take part in activating the unemployed to a higher degree than was previously the case, and this objective can be accomplished in several ways by public employment services. The authors cite new forms of recruitment and training services, as well as the aim to "influence employers' willingness to hire, train or guide the unemployed" (van der Aa and van Berkel, 2014, p. 13).

Several drivers of this development have been discussed. Spoonley (2008, p. 20) points out that the shortcomings of supply-side ALMPs, for example, those that take demand as a given, have generated room for demand-led ideas to enter into labour market policies. Gore (2005) mentions that the individualistic and supply-side-focused programmes have not been able to address discriminatory practices in the recruitment of unemployed workers, leaving a "hard core of severely disadvantaged people who remain a long distance from the job market" (Gore, 2005, p. 342). To respond to this, Gore points to new demand-led ideas that encourage employers to take into account the needs of these unemployed groups (Gore, 2005, p. 342). McCollum (2012) has observed that supply-side activation programmes have difficulties in ensuring sustained employment. In contrast, this is a challenge that demand-led programmes may be able to deal with if employers have a more important role in the activation process

(McCollum, 2012, p. 530). Van der Aa and van Berkel (2014) further explore the implications of demand-led policies and concentrate on analysing employers' motives for their deeper engagement with the activation process, as well as how they experience this new involvement in practice (van der Aa and van Berkel, 2014, p. 18).

According to Spoonley (2008, p. 28), the nature of demand is poorly understood in these ALMPs, and attempts to construct demand at the employer level using employer-oriented public programmes raise many questions as to how this can be done. Van der Aa and van Berkel (2014) identify three basic policy instruments that are commonly used to increase employers' interest in hiring unemployed people. These demand-led policies are therefore "employer-oriented" and seek to support employers to meet their *responsibilities,* which can encompass the promotion of more adapted working conditions for workers with disabilities as well as the enforcement of anti-discrimination laws; provide *public services* for employers, for example, the administration of various types of recruitment or personnel services; and constructing different *financial incentives*, designed to attract employers by lowering their costs for employing the long-term unemployed. In this context, Bredgaard (2018) distinguishes between committed, dismissive, sceptical and passive employers when explaining different types of employer engagement in activation policies.

Employer-oriented policies also raise questions regarding the operation of these kinds of employment programmes. Van der Aa and van Berkel (2014) show that employers in employer-oriented programmes do not offer regular jobs, instead "they organized 'additional' jobs that were beneficial for the company but not fundamental to business operations" (van der Aa and van Berkel, 2014, p. 21). Van der Aa and van Berkel therefore conclude that unemployed persons engaged in employer-oriented programmes may acquire a separate status, as their jobs are not organized as regular jobs (van der Aa and van Berkel, 2014, p. 21). According to their study, this would, for example, impede their social integration in the long run.

The aim of the present article is to further develop knowledge about how employer-oriented policy instruments are used to influence employers' willingness to hire unemployed workers. Using the evidence from a Swedish employer-oriented labour market programme, we specifically investigate how such policy instruments influence employer demand and how the jobs created in this context differ from regular jobs. To shed light on these issues, the article focuses on an empirical case that promotes the idea that a new division of labour in public-sector organizations will be able to influence employers' willingness to hire unemployed workers. A basic assumption in the programme under study is that, during recent decades, public-sector professional work in preschools, schools and elder care has been characterized by de-skilling, as it involves to a greater degree unskilled tasks previously performed by other staff categories (MCA, 2013). At the same time, new administrative tasks have been introduced that put additional pressure on these employee groups.

The programme's aim has been to relieve these professionals from undertaking unskilled tasks and to reduce workplace stress by increasing the division of labour through a process of transferring working tasks from regular staff to a new category of staff in public organizations. This new staff category is recruited from among unemployed workers. Ideally, the aim is to enable regular staff to devote a larger part of their work to their core tasks, such as education or providing care, while at the same time broadening the available labour market opportunities for unemployed workers.

In addition to three basic policy instruments defined by Van der Aa and van Berkel (2014), one main theoretical contribution of the present article is to propose a fourth employer-oriented policy instrument: the *promise of relief from strained working conditions* in, primarily, public welfare organizations. Considering that these organizations are operating under considerable strain and increased pressure to manage more with fewer resources (Tummers et al., 2015; Diefenbach 2009; Hales, 2006; Kirkpatrick, Ackroyd and Walker, 2005; Butterfield, Edwards and Woodall, 2005; Forssell and Ivarsson Westerberg, 2014), this proposed policy instrument could be seen as an attempt to influence public employers' willingness to hire unemployed people to, for example, reduce regular employees' work-related stress.

A second theoretical contribution of this article is to try to better understand how this policy instrument actually plays out in practice. The article shows that the status of the jobs created in employer-oriented programmes tends to be either "additional" or "nearly regular". The status of the new jobs depends very much on assessments of the recruited participants' personal skills.

The next section develops the theoretical perspective used to analyse the Swedish employer-oriented programme. Thereafter, the study's research design is presented, and the way in which the interviews were conducted and analysed is discussed. We then present the empirical results and analysis before moving to summarize the key messages and discuss the more general implications of the study.

Employer-oriented policies and a new division of labour in public-sector organizations

Although employer-oriented policies can be placed under the umbrella of active labour market policies, there are some factors that distinguish them from policies that focus on supply-side activation. Van der Aa and van Berkel (2014, p. 13) define supply-side-oriented policies as "policies [that] predominantly [focus] on preparing the unemployed for 'open competition' in the regular labour market 'as is'". In contrast, "employer-oriented policies aim to influence employers' willingness to hire, train or guide the unemployed who have a disadvantageous position in the labour market" (Van der Aa and van Berkel, 2014, p. 13).

The three policy instruments identified by van der Aa and van Berkel (2014) are highly relevant when studying how employers are involved in activating the unemployed. The additional policy instrument – the *promise of relief from strained working conditions* – that we propose focuses on the strained working conditions in organizations, especially public-sector organizations that provide welfare services, for example in schools, and among healthcare and elderly care providers. Strained working conditions in this context refers both to a higher workload due to a trend towards the *de-specialization of work* and to the general *increase in administrative work* in these types of organizations.

De-specialization: Vertical and horizontal integration of work

Efficiency in the workplace has long been equivalent to a strict division of labour and task differentiation, as well as to a hierarchical organizational structure in both private-sector and public-sector production. Treated in the literature as the "classical" approach to work organization, this form involves a set of five fundamental principles: (i) systematic work methods, (ii) detailed division of labour and specialization, (iii) centralized planning and control, (iv) low-involvement employment relationship, and (v) an ideology of technological efficiency (Hales, 2006, p. 50; see also Freidson, 1976, p. 312). This rational, streamlined and hierarchical organization of work was taken for granted during most of the twentieth century, and it has greatly shaped our general understanding of labour (Allvin et al., 2011).

There is reason to believe that, over the past two to three decades, the organization of work in industrialized countries has changed significantly and shifted away from the classical view (Hales, 2006; Allvin et al., 2011). The ideas underlying this routinized and rationalized organization of work came to be the target of considerable critique during the early 1980s, especially as regards their alienating and de-humanizing consequences for workers. Industrial manufacturers became increasingly aware of the limitations of this model for meeting new market requirements. This led to a trend in the redesign of the organization of work towards increased functional flexibility (Atkinson, 1984) involving the horizontal and vertical reintegration of the division of labour. In other words, this led to the de-specialization of work (Hales, 2006, p. 95). Although the trends of vertical and horizontal integration can be observed generally in many labour market sectors, they are particularly distinct in public-sector welfare organizations, especially in schools and in the healthcare and elderly care sectors.

Horizontal reintegration. This reduces specialization in individual work tasks and instead transfers responsibility to a group or department as a whole (Hales, 2006, p. 102). Another tendency is that horizontal reintegration blurs the boundaries between production and maintenance work in public-sector organizations. For example, this flexibility requires employees to clean their place of work or even replace broken light bulbs – tasks previously performed by another category of employees. Work tasks once performed by assistants, clerks and secretaries are often also included in jobs involving different tasks.

Vertical reintegration. This entails the transfer of previous management functions in organizations, such as planning, coordination and control, to employees of the public organization (Hales, 2006, p. 102). As a consequence, employees have gained greater flexibility and opportunities to plan and monitor their own work. In some of the literature this general turn in the organization of work has been discussed as the "empowerment of work" (Kanter, 1993; see also Harley, 1999; Hardy and Leiba-O'Sullivan, 1998). Thus, some argue that trust in employees has increased, in that there has been a transfer of responsibility from the organization to the individual worker. Obviously, employee autonomy is still restricted.

These reforms made the organization of work in welfare organizations more flexible, heightened the importance of professional qualifications, increased employee responsibility and created a higher degree of autonomy for employees. At the same time – especially during the early 1990s financial crisis in Sweden, with high rates of unemployment – many low-skilled jobs in the public sector became superfluous and disappeared from the labour market. Work tasks did not always disappear, however. As a consequence, fewer employees had to do more work.

The overall tendency regarding the division of labour in public-sector welfare organizations, such as preschools, schools and elderly care providers, appears to be moving in one direction – from a high degree of division of labour towards less differentiation. Although the "new" organization of work was a positive development in many respects, it also brought about problems associated with increased pressure in many public organizations (Tummers et al., 2015; Diefenbach, 2009, p. 903ff). Among these sources of pressure in the workplace are a higher workload (Hales, 2006, p. 125), rising stress levels (Kirkpatrick, Ackroyd and Walker, 2005, p. 176) and greater obligations to carry out routine administration, monitoring and communication tasks (Butterfield, Edwards and Woodall, 2005, p. 338; Forssell and Ivarsson Westerberg, 2014).

Increased administrative work in public organizations

A key change in modern work organization, in parallel to the reintegration trends, is the increase in administrative work, and particularly so in public-sector organizations (Forssell and Ivarsson Westerberg, 2014). The causes of this increase can largely be explained by the common tendencies towards greater evaluation, scrutiny and control in the delivery of public services (Hall, 2012; Power, 1999). In turn, these tendencies are the effects of several organizational reforms of the public sector made over the last decades. Performance management is one example of a reform that generates more administration (Forssell and Ivarsson Westerberg, 2014). New demands on public-sector organizations – such as requirements for environmental, ethical and gender equality policies as well as documentation of procurement processes – are also explanatory factors.

Although administrative work is perceived to have increased, organizations rarely expand their staff in response. On the contrary, we can see a reduction in the number of administrators, at least in the Swedish state, since 1990 (Swedish Agency for Public Management, 2000, p. 105). Studies suggest that the fulfilment of administrative tasks is instead included as part of the roles of the existing positions in an organization, based on the principle of horizontal reintegration. Thus, on the one hand, there is a decrease in traditional administrative job roles, while, on the other hand, other employees and professionals now need to be more concerned with administration (Forssell and Ivarsson Westerberg, 2014). This means that the increase in administrative duties for employees is likely to steal time from that available for undertaking core professional tasks, which may be to educate children, or to provide care for those who are ill or elderly and frail. This development may well weaken the role of professionals in the public sector and limit their autonomy. Another consequence of the blurring of boundaries between different functions in the organization is increased levels of stress, which, as mentioned, is also an effect of the horizontal reintegration of the organization of work and of a reduced number of total employees being asked to do more. Overall, the evidence suggests that these changes in responsibility for completing administrative tasks in public organizations may be a source of stress and increased pressure (Semmer et al., 2010).

Involving employers in a new division of labour in public organizations

Taken together, the trends towards the de-specialization of work and a general increase in administrative work pose a major challenge to public welfare organizations. Employer-oriented policies might therefore address these issues by attempting to involve employers and influence their willingness to hire the long-term unemployed, while simultaneously offering both wage subsidies and recruitment services. By converting the problems resulting from the horizontal and vertical reintegration processes into employee demand, the employer-oriented programme under study here attempts to reduce the workload in local public welfare organizations by designing new jobs that are less qualified than current positions in the public sector. Through reconstructing the division of labour and with the involvement of employers, the employer-oriented policy attempts to do two things: relieve strained public organizations and their staff and help address the problem of long-term unemployed people living on social benefits.

The programme strategy resembles the job carving process in supported employment (SE), with its ambition to "reassign duties from current staff to supported employees in such a way as to maximize employee productivity and organizational efficiency" (Nietupski and Hamre-Nietupski, 2000, p. 104). However, job carving tends to be used for unemployed individuals with severe disabilities, for example those with intellectual disabilities (Nietupski and Hamre-Nietupski, 2000) or war veterans (Kukla, McGuire and Salyers, 2016). Job carving also focuses on disabled individuals' skills, abilities, needs and preferences (Kukla, McGuire and Salyers, 2016, p. 132) when creating new jobs. In the present programme, the unemployed did not have these characteristics, neither was the ambition to create jobs tailored to the unemployed. Rather, employers were given the opportunity to create job positions that matched their organizational needs.

Research design

The empirical data in the article were derived from a broader study of a public employment programme called Complementary Working Life (CWL), initiated by a local public Metropolitan Coordination Association (*Samordningsförbund* – MCA) in western Sweden (MCA, 2013). An MCA is a joint public body with the purpose of coordinating local work rehabilitation; it consists of representatives from the municipality, the regional public authority, the local state employment agency and the local social insurance agency. Contrary to supply-side labour market policies in Sweden and the European Union (EU) that aim to activate the unemployed by meeting their needs for work (Bonvin, 2008; Ochel, 2005; see also Jessop, 1994), the CWL programme is aimed at employers and their need for labour. Therefore, the CWL programme was chosen for the study because it is one of the few explicit employer-oriented programmes in Sweden. Since the completion of this study, more regions in Sweden have launched similar programmes, indicating that the use of employer-oriented policy is becoming more common.

For the collection of data, 41 semi-structured interviews were conducted during 2014 and 2015 with informants affected by the CWL programme. Informants holding senior positions in the local municipality where programme participants were employed were interviewed (directors of local public organizations or units), as were local trade union representatives and selected programme participants hired through the programme. Besides the interviews, official reports and documentation were also analysed. This broad approach created an opportunity to study the employer-oriented labour market programme as a process involving a broader range of actors than employers alone.

When initiating the programme, the MCA organized meetings in three city districts, informing officials and trade unions about changing the division of labour and the use of recruiting services and programme subsidies. As a result, 29 local public organizations in the three districts supported the programme's main idea concerning the division of labour and applied to participate in the programme.

Of the 41 interviews, 23 were conducted at the local public organization level, with both directors and programme participants. These interviews, which also constitute the main data in the present article, were chosen from the local public organizations participating in the CWL programme. The local public organizations under study were selected from the total of 29, and it was determined that 21 organizations were relevant to the study. The organizations not selected had created jobs that did not follow the initial rationale of the programme. Nineteen of the selected organizations were preschools, making them the absolute majority in the collected data. The remaining organizations were one elementary school and one elderly care unit. There is research indicating that these kinds of public organizations are also those that have been subject to the negative effects of both vertical and horizontal work integration (Tummers et al., 2015; Diefenbach, 2009, p. 903ff) as well as the negative effects of increased administration (Forssell and Ivarsson Westerberg, 2014; Hall, 2012; Power, 1999).

In total, 16 directors managed the 21 public organizations chosen for the study; 11 directors were interviewed. Five directors were not available for interviews, for various reasons. However, this means that a majority of the chosen organizations were covered by the interviews, as one director could manage more than one unit. These interviews focused on the directors' perceptions of the programme's purposes and how the CWL jobs were created in their organizations.

Regarding the programme participants, about 110 unemployed individuals, registered in the three districts, were chosen and invited to an information meeting at the MCA. The employers participating in the programme could then recruit, using conventional recruiting processes, programme participants/employees from this group. The employers then obtained 36 programme participants to employ for one year (MCA, 2014), using state subsidies to pay for about 80 per cent of their wages, while the MCA administered the programme.

When selecting programme participants, the programme required that participants were long-term unemployed, were older than age 25 and qualified for a state subsidy called *Nystartsjobb* (approximately, “Jobs for a new start”). Regardless of these requirements, the participants were between ages 22 and 58, and almost three out of four had a non-Swedish background. Twelve of the 36 participants at the 21 selected local public organizations were interviewed in the study, and the main focus was on the work tasks and organization of the CWL jobs.

Interviews lasted between 30 and 90 minutes, depending on the respondent. Some programme participant interviews tended to be shorter than the director interviews. One explanation is that some participants had weak Swedish language skills, and these interviews were therefore not as deep as desired.

In the following sections, two issues are examined. First, the question of influencing employers’ willingness to hire and whether the promise of relief from strained working conditions was met in practice are analysed. Second, analysis is offered of how the jobs were organized at the different workplaces. Here, the dimension of analysis is based on the distinction between the separation and integration of tasks among the CWL staff and regular staff. The issue is therefore whether the programme has resulted in establishing a new category of staff who relieve the burden on regular staff, or whether the CWL employees should be regarded as part of the existing group of staff.

Incorporating the effects of vertical and horizontal integration into a policy instrument

Prior to the development of the CWL programme, officials at the MCA had observed problems with strained working conditions in local public welfare organizations, such as preschools and elderly care. These observations were also interpreted as indications of a need for more staff in these organizations, and thus served as a point of departure for developing a programme to involve local public employers in hiring unemployed people.

A similar condition of high workload was also identified in the present study. One explanation for the high workload is that group sizes for preschool and school children have increased over time. As one preschool director (PD) put it:

> The number of children, for example, has increased … Children with different cognitive or neurodevelopmental problems are also more resource intensive, and they have increased. We rarely have extra staff to deal with this, which means that you always have a need for more staff. (Respondent PD2)

The discussion about the need for more staff among the unit directors is also closely related to recent requirements from the municipal authority and several state organizations, leading to an increase in administration at the workplace. One preschool director explained:

> We have a new curriculum, a new revised school bill that has strengthened and emphasized our responsibilities, for preschool teachers above all, where we have to manage complex demands for documentation, follow up and evaluate our work. It is a duty that has become greater, heavier and clearer since 2011. … And it adds work, but nothing else was removed. (Respondent PD2)

A similar development towards increased administration has taken place in the elementary schools and elderly care (see Swedish National Agency for Education, 2010). Furthermore, the municipality often formulates new requirements related to areas such as gender issues, environmental work, fire safety, facility management and equal treatment issues. Taken together, the directors agreed that this development had increased pressure on staff.

Several of the requirements mentioned can be related to both horizontal and vertical integration in the public welfare sector (Hales, 2006). In the study, horizontal integration was evident regarding fire safety, environmental work and facility management, as these tasks, over time, have been incorporated into and normalized in the work of regular staff. Vertical integration was even more pronounced for preschool teachers, caregivers, teachers and assistant nurses – planning, coordination and control are factors common in their daily work. Although they have a larger scope of action, their responsibility is distinctly regulated in policy documents and their work must be documented and evaluated. The increase in work tasks for staff is often related to these kinds of highly administrative tasks, but the organization is seldom compensated with an increase in the workforce.

When the MCA initiated the CWL programme, the idea of changing the division of labour was presented to the local public employers as a solution to the problem of strained working conditions. The solution also encompassed the design of new staff positions that could be manned by unemployed people, yet with financial and recruitment support provided by the MCA.

Although sharing working tasks across different employee categories is the norm in the preschool sector in Sweden, the idea of the division of labour was nevertheless welcomed by virtually all of the directors in the study and seen as a way to relieve regular staff of tasks that were at odds with their higher educational level and, thus, to diminish their workload. In the initiation process, the MCA attempted to attract employers who were interested in testing the idea, and a further step was to encourage employers to formulate and prepare new employment positions mainly focused on practical working tasks, in line with the idea of the division of labour. According to the HR manager in one of the city districts, the CWL programme was presented to the district's approximately 125 unit directors. Similar presentations were also made in the other two districts. The HR manager (HRM) described the directors' reception:

> I made a presentation at the meeting [for managers], and after that I sent out the description [of the CWL programme], a PowerPoint made by the HR managers, and then a form the unit directors could fill out, regarding type of job, mentors, telephone numbers, all the info you would need. And since then they [unit applications to take part in the programme] have just kept coming. (Respondent HRM)

At these meetings, the CWL programme advocates at the MCA clearly stressed the programme's effects as regards relieving burdens: reducing stress, allowing regular staff to concentrate on main tasks, increasing work satisfaction and strengthening staff members' professional status. The CWL programme can therefore be seen as a way to incorporate the effects of vertical and horizontal integration into an employer-oriented policy instrument.

The study shows that most CWL positions prepared by the employers incorporated tasks normally included in the regular employee's work, such as setting and wiping tables, washing dishes, taking care of supplies and waste, helping the young children to get dressed, acting as an extra adult in break activities and reading with the older pupils. When the new CWL staff had been hired, many directors reported that they added "flavour to life" for the regular staff. A preschool director explained:

> We needed to have someone who can do some of these hidden tasks [*sic*]. Everything from setting the table to being able to assist the children when it's time to go out. To help with dressing and undressing. An extra eye on situations when there's a lot happening. (Respondent PD1)

The directors pointed out that having more staff can facilitate work at the unit significantly during periods of high absenteeism. Several preschool directors mentioned that the workload was constantly high and that being able to hire an extra person could make a big difference, by relieving the burden on the staff to some extent and making daily routines less stressful. Two preschool directors offered their view on the CWL programme:

> Yes, it works. We have been able to divide the children into smaller groups, since it benefits them. … We always try to divide the children as much as possible. If you do have extra staff

> … If [name of CWL employee] manages the tables after lunch, then the ordinary staff doesn't have to. Then they can take care of a group of children instead. (Respondent PD2)

It is evident that the CWL programme staff positions helped to reduce the workload for regular staff, as they enabled them to devote more of their efforts to their main tasks. More time was made available for the preschool teachers to plan pedagogical activities and spend time with the children, for nurses at the elderly care unit to focus on caring for the elderly, and for school teachers to engage in valued planning.

A combination of policy instruments: The role of subsidies, public service and social responsibility

Despite the fact that the idea of the division of labour was embraced by the directors, the study shows that the programme also required support from the three policy instruments discussed by van der Aa and van Berkel (2014).

We can assume two patterns of motives for the need for financial incentives, such as wage subsidies, in the study. First, although the need for more staff was perceived as real, all unit directors emphasized that there was no room in their regular budget to hire more staff. They operate under a strict budget, and directors' scope of action is limited. Second, when they hire, the study reveals a tendency among the directors to prefer prioritizing the recruitment of well-educated staff or the improvement of staff skills, for example for preschool teachers, teachers or nurses. One explanation for this approach can be related to the increased demands for administrative skills among preschool staff – higher educational requirements tend to follow from expanded and more complex work tasks (le Grand, Szulkin and Tåhlin, 2001). The directors are also obliged to follow municipal recruitment policies, which state that only educated and experienced staff should be hired.

Clearly, these two organizational conditions counteract attempts to influence employers' willingness to hire unemployed people with the promise of relief from strained working conditions. Given that the employers lack actual resources for hiring more staff, wage subsidies make the CWL programme more attractive and feasible for the directors. These subsidies are added to the local public organizations via the MCA. Yet wage subsidies still need to be specified and closely related to the idea of the division of labour, as the concept of relief from strained working conditions serves a decisive reason for the directors' participation in the programme. This should be contrasted with supply-side ALMPs, where the unemployed are often "placed" at a workplace without taking the needs of employers into account.

The study shows, however, that many directors were satisfied after experiencing the CWL programme and would consider keeping the CWL staff if their budgets were increased. An important factor in this context was how the unit directors evaluated the skills of the CWL staff and how the new staff functioned in the workplace.

Besides wage subsidies, another policy instrument used to influence employers' willingness to hire was the public recruitment and employment support services provided by the CWL programme. One part of this service, highly appreciated by the directors, was the possibility for employers to interview some of the unemployed people before deciding on who to hire; this resembled a "normal" recruitment procedure. Another part of the service was that all responsibility for the CWL staff was placed on the MCA, and not on the directors, as is the case with conventional employment contracts. Being able to surrender employer responsibility was very valuable to the directors, and this also played a role in their willingness to commit to the programme – and become a "committed employer", to use one of Bredgaard's terms (2018, p. 375).

Social responsibility motives can also be observed, although to a much lesser degree. Several directors stressed that they found it important to help unemployed people integrate into the labour market. A significant part of this concerns helping people to acquire Swedish language skills and to increase opportunities to gain labour market qualifications.

Taken together, four policy instruments – relief from strained working conditions (division of labour), financial incentives, public service and social responsibility – were important factors in getting public employers involved in the CWL programme. However, the division of labour emerged as the primary policy instrument that triggered local public welfare organizations to initiate collaboration with the CWL programme.

Separation and integration of jobs under employer-oriented employment programmes

The study provides examples of both clear separation and integration of tasks, although many CWL positions fell between these extremes. Few were completely separated or fully integrated.

Re-specialization and separation

CWL positions were significantly separated from the work the rest of the staff undertook at three preschools and one primary school. For the CWL employees at the preschools, the work primarily involved doing practical chores, such as serving food three times a day and washing dishes. To a lesser extent, another feature of these positions was helping the other staff dress the children for outdoor activities. One CWL employee (PP) described the work:

> In the morning, I begin at the baby department. Setting and cleaning the table. Helping children with their clothes. Setting the table for lunch. I also help other departments during the day, because my new schedule requires me to move between departments. (Respondent PP1)

At these three local public organizations, the CWL employees' work was clearly separated from the caregivers' and preschool teachers' duties. The time that the CWL employees spend with the children represents only a very small part of their working day, according to them and their unit directors.

According to the preschool directors and the deputy principal, the goal of relieving teachers of certain tasks and transferring these tasks to the CWL jobs has been achieved satisfactorily. In this way, they indicated that the teachers could devote themselves to what they should be doing, the core task of teaching:

> After lunch, for example, ... some kids need new diapers, before going for an afternoon rest. Before, this required a teacher who had to leave the other kids to do these things. Obviously it is wonderful to be able to go with the older kids right away and have someone else to do it. Also to get the food cart, it's really far away, a person needed to leave the group. Now the food cart arrives for the teachers. It's a huge difference. (Respondent PD5)

The same applies to the school in the study, where the CWL employee allowed the teachers to devote more time to their main task, which is "furthering children's knowledge", instead of spending a lot of time on creating a calm study environment.

The staff welcomed this "re-specialization" of the preschool and elementary school teachers' objectives. The study indicates that separation of practical and lower-skilled tasks actually relieved the pressure on the regular staff at the local public organizations described here.

Various degrees of integration

All CWL positions studied in this programme did not, however, demonstrate the same degree of separation as described above. At the elderly care unit, the boundaries between CWL posts and the regular staff positions were more fluid.

Moreover, at the other preschools in the study, work was organized in a more integrated manner. In these six preschools, the division of labour was substantially less developed. Although the main tasks of these CWL positions were focused on practical work in preschools, the CWL employees spent a great deal of their time with the children.

The practical tasks at these preschool units were more extensive and varied, including work related to feeding the children, outdoor activities, preparation for rest, play and singing with the children. It is also evident that many preschool directors actively introduced and involved the CWL staff in the existing work groups, with the aim of creating a feeling that they were involved in the same kind of work as the other employees. One preschool director also pointed out that the CWL employees should ultimately fill a regular position in the local public organization, which highlights the ambition to integrate the CWL positions into the rest of the workforce. Several CWL employees also felt they performed tasks comparable to those of the regular staff. For example, two CWL employees described their work as follows:

> I'm always with the kids. I change diapers, I participate when the kids are reading. I consider myself a member of the regular staff. I learned everything they do. If someone from the staff is not present, I can fill in. (Respondent PP2)

> [I do the same work] as the others who work here. Helping children with breakfast, going out with the kids, doing crafts with the kids. I get an hour with the kids and we can do different things. I work like all the others. (Respondent PP3)

Another CWL employee at one of these preschools explained how the job increasingly involved working with the children rather than performing unskilled work such as cleaning and wiping tables. Results from the interviews with unit directors clearly indicate that they subsequently sought to allow the development of the CWL posts to include more varied tasks. One preschool director described the work the CWL employee performed at her unit:

> She is in the children's group, yes. ... And, she also participates in our unit meetings and she is planning the work with the team to be able to become a part of our work team ... In the beginning I wrote in the original job description that the tasks would be these practical things. That we wanted help cleaning and setting tables, to prepare for meals ... But that said, we noticed very quickly that she was an ambitious girl. It would have been a waste to let her stand and prepare sandwiches and run food carts all the time. (Respondent PD1)

Regarding these more integrated CWL positions, they tended to relieve the regular staff, but not by taking over more unskilled tasks alone. Instead, CWL employees tended to function more like extra staff with more varied tasks, although they had less education and less ability to assume responsibility for more administrative tasks in the pedagogical or elderly care work. The time made available by the CWL positions seemed to be shared within the team to a greater extent and there was not such a clear separation between core tasks and the more practical, unskilled tasks. This development took place despite the fact that they initially defined the majority of the CWL tasks as unskilled and routine.

Several reasons for the development from separated to integrated work tasks for the CWL staff can be found in the study. The unit directors' evaluations of the CWL staff showed that they, in many cases, regarded CWL staff as having highly valued personal skills despite their lack of education, and thus as being suitable for more qualified tasks than initially planned. Tasks have therefore been adapted according to assessments of the CWL staff members' competences. Many of the preschool unit directors agreed on the role of personal skills:

> And it has been an unexpected success, she is awesome. Not only does she have a pedagogical spirit and can connect with the children, she also has a great competence we can make use of in our work. … So the effect of the [CWL] employment can of course depend on the person. (Respondent PD6)

> Yes, I think it [personal skills] can mean a lot, it is not necessary to have a caregiver education, but you must have a desire to learn and pick things up and not be afraid to ask. (Respondent PD7)

Yet the personal skills of CWL staff were closely associated with the recruitment strategies used in the programme. In the recruitment of CWL staff, participants had to go through three stages of selection (Castillo, 2015), thus increasing the likelihood that the selected CWL staff would perform well. This might be considered as a case of "creaming practices" (Sztandar-Sztanderska, 2009, p. 625), where public officials are consciously or unconsciously prone to focus on unemployed people closest to the labour market so as to ensure the project's success.

Conclusions

Influencing employers' willingness to hire unemployed people is the leitmotif in employer-oriented activation policies and is thought to have better potential to re-integrate the unemployed than supply-side activation programmes. The changing focus – from preparing individuals for work to influencing employer demands – may result in more long-term and sustainable labour market programmes, as the latter approach is better adapted to employers' staffing needs. The aim of the present article has been to improve our knowledge about how employer-oriented policy instruments are used to influence employers' willingness to hire the unemployed in these programmes, as well as to examine the nature of the jobs created.

Going beyond the policy instruments identified in earlier studies – social responsibilities, service offers and financial incentives (van der Aa and van Berkel, 2014) – the present article has shown that employer-oriented activation programmes can also apply to the strained working conditions in public welfare organizations, to encourage public employers to hire the unemployed. Regarded as a fourth policy instrument, it may be helpful to understand how public employment services can impact demand, especially in work organizations where vertical and horizontal integration processes have affected work.

The CWL programme analysed here utilized a strategy of relieving regular staff, primarily in preschools, of the burden of undertaking unskilled tasks and to encourage hiring unemployed people to perform these tasks. This strategy was largely appreciated by the public unit directors, as they welcomed reinforcement of the workforce, in combination with wage subsidies and public recruitment and employment support services. Hence, the results show that the idea of the division of labour was successful in influencing the employers' willingness to hire, as there was a perceived need for more staff in the organizations under study. The directors experienced a constant high workload. Larger, more complex client groups, together with the de-specialization of work and new administrative requirements are significant observations in this regard. Nevertheless, unit directors both lacked resources and preferred educated to unskilled staff. Therefore, without the governing idea of the division of labour in the CWL programme alongside the other policy instruments mentioned, it is unlikely that hiring unemployed people would have been prioritized.

The article also set out to analyse the nature of the jobs in employer-oriented programmes as well as how they are related to regular jobs. The results suggest that introducing a new division of labour to influence employers' willingness to hire the unemployed and creating jobs with a separate status were difficult endeavours. However, the results are inconclusive, as the cases under study show signs of both separation and integration of the CWL staff in relation to the regular staff. What is interesting here is that, although the programme aim was to create jobs with a separate status, the study shows that many of the created jobs were gradually integrated into the regular tasks at the local public organizations. Explanations for the integration process can primarily be found at the level of recruitment of programme participants. High ambitions for the success of labour market programmes create circumstances that benefit unemployed individuals who are least vulnerable and thus recognized as being suitable for expanded working tasks (Sztandar-Sztanderska, 2009).

The employer-oriented programme studied here created an opportunity for experimentation with a perceived demand for more staff among the employers – a demand that relies heavily on the discussed policy instruments. Without the triggering idea of the division of labour and the promise of relief from strained working conditions, in combination with wage subsidies and public recruitment and employment support services, the willingness among the directors to hire the unemployed would have been limited. In this sense, employer-oriented policies can be successful because they can challenge employers' perception of demand as well as create conditions for the long-term unemployed to develop their skills in a "real" workplace setting as well as develop their interest in continuing education. Thus, employer-oriented policies can go beyond short-sighted, individual activation policies. However, one might question the sustainability of programmes that rely on wage subsidies. In contrast, the CWL programme can help employers evaluate different aspects of demand for staff and rethink how they cope with the challenges of vertical and horizontal integration in the long run in their organizations.

Regarding employer-oriented labour market policies, the observations in the present study help to improve our understanding of how employers can become involved in labour market programmes and what kinds of consequences these programmes can have for employers and the nature of the jobs created. However, the outcomes of employer-oriented policies may differ across economic sectors, types of companies as well as types of work (Bredgaard and Halkjær, 2016). Nevertheless, the findings have wider implications for studies of employer-oriented policies and the organization of work, as they shed light on new forms of division of labour in a context where many organizations face the same level of increased workload and have gone through processes of vertical and horizontal integration, particularly organizations in the public sector.

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Social health protection in Cambodia: Challenges of policy design and implementation

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Abstract The Government of Cambodia is implementing ambitious reform initiatives to improve the country's social health protection system. In January 2018, it was announced that the Health Equity Fund (HEF), which is fully subsidized by a joint government-donor initiative for the reimbursement of user fees for the poor at public health facilities, is to be expanded to some segments of informal workers belonging to associations, as well as to commune and village chiefs. Since 2017, the National Social Security Fund (NSSF) has provided social health insurance for formal economy workers in enterprises with eight employees or more. In January 2018, it was expanded to civil servants and all employees regardless of the size of the enterprise. However, this article highlights that the new ambitious reforms are not accompanied by careful planning as regards funding, service delivery, human resources and institutional design. This article therefore aims to examine key policy issues and challenges for Cambodia's ambitious reform of its social health protection system in terms of resource generation, population coverage, strategic purchasing and governance.

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Keywords health policy, health insurance, social protection, Cambodia

Introduction

Until recently, health financing and the social health protection system in Cambodia has been weakly rooted, with out-of-pocket payments at the point of service accounting for more than 60 per cent of total health expenditure in 2015 (Royal Government of Cambodia, 2017). The Government of Cambodia is currently embarking on an ambitious reform initiative to improve the country's social protection system. This is guided by the National Social Protection Policy Framework 2016–2025 (NSPPF) (Royal Government of Cambodia, 2017).[1] Within the policy proposal, the government seeks to expand benefits and coverage under social assistance and social insurance.

Prior to the launch of this ambitious reform effort, the prevailing social health protection scheme in the country has been the Health Equity Fund (HEF). The HEF is subsidized in full by a joint government-donor initiative, which reimburses user fees charged at public health facilities when people living under the poverty line utilize healthcare. HEF members also enjoy other non-medical benefits, such as transportation costs, from the HEF when accessing healthcare. The expansion of the HEF was announced in January 2018, and coverage is now offered to some segments of informal-economy workers belonging to associations, including cyclo[2] drivers, athletes, and artists, as well as commune and village chiefs and their deputies, and those who are under part-time or seasonal employment. However, a coherent definition of informal employment is absent in the Cambodian context, and the target groups are included in an ad hoc manner by decisions at the executive – and not the technical – level. Such an approach to targeting is not without political implications.

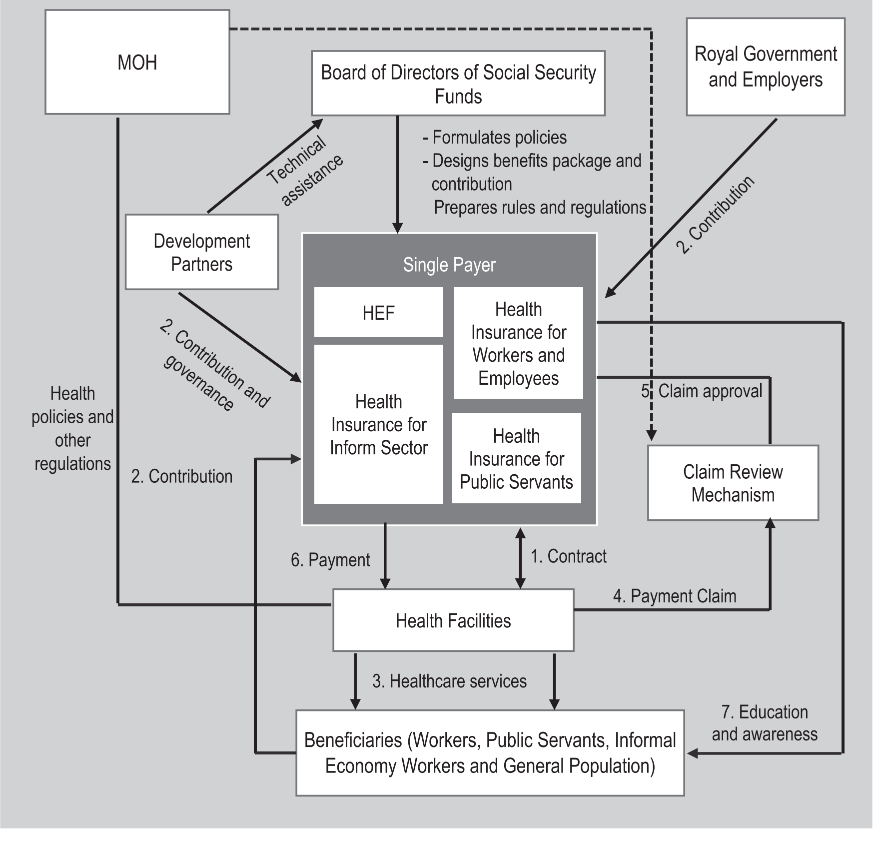
According to the NSPPF, Cambodia is to move towards a system of social health insurance wherein the National Social Security Fund (NSSF) will play a key role. In November 2016, the NSSF began rolling out a health insurance scheme for formal economy workers. Beginning in January 2018, the NSSF started the phased introduction of additional ambitious initiatives: a health insurance scheme for

1. The Royal Government of Cambodia (2017) has defined its long-term vision for the development of the social protection system: "The construction of a social protection system based on inclusiveness, effectiveness and financial sustainability as a tool to reduce and prevent poverty, vulnerability and inequality and which will contribute to the development and protection of human resources and stimulate economic growth."
2. A cyclo is a three-wheeled bicycle taxi.

civil servants, and extending coverage by reducing the mandatory participation threshold for enterprises from those with eight employees or more to one employee or more. Figure 1 shows the healthcare and social health protection system of Cambodia in the National Social Protection Policy Framework 2016–2025.

The implementation of the NSPPF is steered by the National Social Protection Council (NSPC). By reforming its health system, the goal is to achieve Universal Health Coverage (UHC), which is one of the key pillars of the Sustainable Development Goals (SDG) 2030 (especially goal 3: ensuring healthy lives and promoting well-being for all at all ages). Currently, much remains to be done before this goal is achieved, with further action required to extend coverage to those who are currently without.

Figure 1. *Management structure of the Cambodian healthcare system*



Source: Royal Government of Cambodia, 2017.

According to the NSPPF (Royal Government of Cambodia, 2017), recent economic and social development in Cambodia has been robust. GDP per capita has increased from USD 487 in 2005 to USD 1,215 in 2015, and the poverty rate declined from 53 per cent in 2004 to 13.5 per cent in 2014. The maternal mortality rate decreased from 206 per 100,000 in 2013 to 140 per 100,000 in 2015, and the infant mortality rate declined from 27 per 1000 in 2013 to 22 per 1000 in 2015. The population profile remains young, with the vast majority of the population of working-age. The unemployment rate is low.

This article aims to examine key policies and implementation issues of social heath protection (SHP) and offer policy recommendations for Cambodia to achieve UHC. To do so, this study reviews the relevant literature and has undertaken interviews with key actors and policy-makers in Cambodia, such as the Ministry of Economy and Finance (MOEF), the Health Insurance Division of the NSSF, and the Ministry of Health (MOH).

The remainder of this article is structured as follows. The next section provides an overview of current institutional health provision and social protection coverage. This is followed by a discussion of the key policy challenges facing the social health protection system in terms of resource generation, population coverage, strategic purchasing and governance. With the goal of realizing UHC, the article then offers a number of policy conclusions.

Major social health protection schemes in Cambodia

According to the NSPPF, over and above social assistance for the poor (i.e. Health Equity Funds), social insurance provisions in Cambodia consists of five components: (i) pensions, (ii) health insurance, (iii) work injury insurance, (iv) unemployment insurance, and (v) disability insurance. This section examines the key aspects of two SHP programmes: Health Equity Funds and Health Insurance.

Health Equity Funds (HEF)

The intention of the HEF, a fully subsidized programme, is to provide coverage to people who are poor, vulnerable or disabled, and children younger than age 5, using both pre- and post-identification of the poor. However, there is still no coverage for the near-poor and certain vulnerable population groups (OECD, 2017). The HEF programme covers about 2.9 million people, but Cambodia's number of poor and vulnerable stands at approximately 7.3 million people. Presently, funding for the HEF is shared equally by government and donors, but the existing funding agreement expires in 2021. According to the NSPPF, full responsibility for the HEF will be assured by the government (when donor funding comes to an end), but no concrete planning currently exists.

The positive impacts of the HEF programme on reducing out-of-pocket (OOP) payments and increasing the healthcare utilization of the poor have been documented (Bigdeli and Annear, 2009; Flores et al., 2013; Noirhomme et al., 2007). A recent World Bank report (2016) shows that the HEF has had positive impacts on the improvement of financial protection, especially for in-patient care, although there is still insufficient coverage of the near-poor. Some demand factors, for instance, awareness of and knowledge about benefits, as well as supply factors, such as proximity, quality and trust, are identified as determinants of HEF members' use of the healthcare services offered by public providers. As the HEF is limited to the use of public providers, the quality of care and trust with regard to public providers affects the levels of financial protection and access to care for HEF beneficiaries. In other words, even if HEF beneficiaries do not have to pay user fees for public facilities, they might nevertheless opt to use private providers when they do not trust the quality of care provided by the public sector.

The HEF purchases and pays for the (standard/recently revised) HEF service package from public providers. Fees were recently increased to further incentivize the providers, albeit with little evidence of the purported benefits to be gained. The timing for this price increase can be interpreted as seeking to motivate public providers to maintain satisfactory services to HEF clients, not least to reduce the possibility of voiced public dissatisfaction in the lead up to the July 2018 general election that elected the National Assembly. This price increase, introduced without either due consultations with the MOEF or cost-benefit analyses, could potentially induce providers to play one purchaser (MOH) off against the other (NSSF) for the same services. The impacts of this recent price increase on budgetary requirements and, potentially, on the number of beneficiaries need to be examined, as budget constraints may lead to fewer beneficiaries being covered.

The quality of care is a critical issue. Assuring the quality of care is currently the responsibility of the MOH, and there is a need to subject quality matters to a wider peer or external assessment. There is no mechanism to accredit/contract with providers, and all public health facilities are HEF contractors. As mentioned, quality of care is an important determinant of the willingness of the HEF beneficiaries to use medical care.

A Patient Medical Record System (PMRS) is used by the HEF at the point of entry to health facilities to verify HEF eligibility and to bill the HEF. The PMRS is not an electronic, individual hospital-patient record, but a paper-based patient medical record maintained by health facilities. This paper-based patient medical record may not contain sufficient/relevant clinical details of treatment for continuing care and/or clinical evaluation.

The Payment Certification Agency (PCA), a department closely associated with the MOH, receives claims and verifies and pays claims. It has the power to audit health facilities for cases not consistent with billing criteria, including for fraud and non-acceptable events. But there is a potential conflict of interest because the PCA, although it is deemed to be independent of the MOH in theory, is largely a part of the MOH in practice, and therefore cannot be a rigorous independent reviewer of claims submitted by public hospitals. Government should consider the potential inefficiencies resulting from this lack of separation of purchasing and service provision. The PCA has, since September 2017, taken over the Health Equity Fund Implementers (HEFI) role, but faces a serious challenge in under-staffing, in addition to the aforementioned potential conflict of interest.

A change in the governance of the HEF, i.e. the removal of third-party operators (non-governmental organizations), was intended to reduce some administrative costs, owing to the MOH's direct administration of the programme. However, this change in governance in favour of centralization may face incentive problems, given that the MOH may have less strong incentives (compared to NGOs) to increase the number of beneficiaries and to monitor their access to healthcare.

The government has announced the introduction of a new scheme, the Health Equity Fund Extension, to cover selected groups belonging to various associations (including cyclo drivers, athletes, artists, etc.) and commune and village chiefs and deputies. However, there is no concrete policy on the funding, benefits and management of this new scheme, although it is understood that the funding will come from the government portion of the HEF budget, and not from the donor portion. If the new scheme is managed by the NSSF and government does not provide adequate funding, there will be a cross subsidy from the employee group to the beneficiaries of the Health Equity Fund Extension.

National Social Security Fund (NSSF)

In 2017, about 608,000 employees were registered with the National Social Security Fund (NSSF), covering approximately 55 per cent of the estimated 1,100,000 employees working in enterprises with eight employees or more; the policy was expanded to all formal employees in January 2018. The policy intention is clear, but this ambitious expansion of coverage requires additional implementation measures, in particular for enterprises that have a small number of employees and who may be prone to not register their employees. As the number of enterprises with few employees is constantly in flux, the implementation of the new policy is likely to face many challenges. Earlier instruments and strategies to mandate registration by enterprises with eight employees or more would need to be redesigned to capture all (smaller) enterprises with one employee or more.

The total contribution (2.6 per cent of the payroll) is paid by the employer alone (though the initial design was to share the contribution between the employer and employee). Although the employer contribution is likely to come from employees eventually – the long-term incidence of the social insurance contribution will fall on employees as employers cut wages or reduce increases in wages –, the 100 per cent employer contribution may represent a financial burden for many employers in the short to medium term. This mandate may lead to the use of hidden labour contracts (i.e. employees working without being registered in the social security system) or the growth of the informalization of labour, although there is no available empirical evidence as yet of this occurring in Cambodia.

Cambodia also introduced a civil servants scheme in 2018 that aims eventually to cover all civil servants, retirees and veterans (approximately 685,000 people). The scheme currently only targets active/retired civil servants, and contracted staff are not covered. The contribution rate is set at 1 per cent of payroll; 0.5 per cent is paid by the government and 0.5 per cent by civil servants. There is little rationale or evidence to justify the low contribution rate for the civil servants' scheme compared with that of private employees. The differential contribution rate will result in a perverse cross-subsidy from private-sector employees to civil servants in the NSSF.

The NSSF purchases the standard/recently revised service packages from both public and private providers. The NSSF uses a crude case-based payment with 52 case groups to pay providers. Private providers are paid 50 per cent higher than are public providers, although there is no clear rationale for this difference. The NSSF has staff in health facilities who check enrolees' eligibility status and collect and submit (paper) claims. The NSSF faces similar issues (as the HEF) in assuring the quality of care, although a telephone hotline for consumer complaints and a checklist for users exists. There is no accreditation/contracting mechanism for providers, and the NSSF's quality assurance team does not have sufficient capacity.

A challenge faced by the NSSF is under-staffing. As of May 2018, the NSSF employed approximately 90 personnel to handle approximately 80,000 claims per month for 1,470,000 registered beneficiaries. The number of claims could significantly increase if the NSSF increases population coverage and members' healthcare utilization increases. An increase in staff numbers and a move to an electronic platform for claims processing is inevitable. Ideally, the aim would be the development of a common platform covering both the NSSF and HEF that would provide a database of patients' individual medical records, permitting access for providers and insurers to these medical records over patients' lifetimes. The insured person would also have access to his or her own medical records.

Key policy issues and challenges

Financial resource generation

Resources for the HEF are currently sourced 50 per cent from government and 50 per cent from donors, but this model is envisioned to end in June 2021. The resources needed (including the method of their generation, e.g. ear-marked taxes) must be planned and prepared in advance to avoid potential disruption. In addition, the government should perform periodically a fiscal space analysis for each scheme, as well as for the overall social health protection system, and examine the different revenue sources and assess their performance as well as identify the root causes of good or poor performance (Barroy, Sparkes and Dale, 2016).[3]

As stated, the contribution rate is 2.6 per cent for private formal workers (paid by the employer alone) and 1 per cent for civil servants. Considering that civil servants are, in general, high users of healthcare, their contribution rate should increase. Otherwise, there will be a cross-subsidy from the private formal employees' scheme to that of civil servants. This would be unfair. This article argues that the formal economy schemes for private formal workers and civil servants should be merged, and that having different contribution rates in the same scheme is inequitable and difficult to justify.

To ease the financial burden of employers and increase the compliance rate of employers in the private formal sector, employees may also need to contribute. The current financial burden on employers, especially those in small businesses, may reduce the employment rate or increase the informality of labour. In the early stages of social health insurance (SHI) development, evidence from Viet Nam and the Philippines suggests that the compliance rate in the formal economy is typically about 50 per cent (Ekman et al., 2008; Obermann et al., 2006).

The maximum monthly earnings (ceiling) on which health insurance contributions are paid is set at a level equivalent to USD 300. Considering that the level of the minimum wage is equivalent to about USD 200, the current ceiling is low. Key principles of social health insurance/social health protection are solidarity and equity or payment based on the ability to pay. Although many

3. Macroeconomic conditions, political prioritization on health, earmarking, efficiency savings of the healthcare system, and financing support from development partners all affect the fiscal space for health.

social health insurance systems have a ceiling on contribution payments, nevertheless, it should be set at a level high enough to ensure equitable levels of contributions.

Population coverage and resource pooling

Cambodia needs a concrete plan to expand healthcare coverage to those working in the informal economy. Out of a total of 8.4 million people who are in employment, 4.0 million workers are estimated to be in the informal economy (ILO, 2017). In terms of the expansion of population coverage to achieve UHC, the informal economy is the major challenge in Cambodia – as it is also the case in many low-income countries. A number of policy design choices do exist, however. The non-poor informal economy may be covered by a full subsidy provided by the government (e.g. the case of Thailand), by a partial subsidy (e.g. the case of China), or even without any subsidy and with reliance on a contribution (e.g. the case of the Philippines) (Obermann, Jowett and Kwon, 2018).

Generally, it is very difficult to expand population coverage to workers in the informal economy when there is no government subsidy for social health insurance contributions. For example, voluntary enrolment in Community Based Health Insurance (CBHI) typically results in adverse selection, which limits the financial sustainability of small pools (Atnafu and Kwon, 2018). The experience of voluntary CBHI in Cambodia and Lao PDR shows that CBHI has a limted impact on expanding population coverage and cost coverage in the informal economy, leading to fragmentation and low financial sustainability (Alkenbrack, Jacobs and Lindelow, 2013; Bigdeli et al., 2016; GIZ, 2018). Government fiscal capacity in Cambodia, owing to rapid and sustained economic growth of over 7 per cent in the last two decades (Royal Government of Cambodia, 2017), provides a favourable environment to use the government budget to finance a contribution subsidy for informal-economy workers.

Currently, the coverage provided by the NSSF extends to workers only; coverage for dependants is yet to be introduced. An effective way to increase population coverage and move toward UHC is to introduce dependants' coverage in formal schemes. When the dependants of formal workers are covered in this manner, the size of the informal economy without coverage would shrink accordingly.

Social health protection schemes in Cambodia are fragmented and the complexity of having many different schemes contributes to their low utilization (i.e. because of low levels of health literacy). It is essential to minimize the differences (in benefits, contributions, provider payments, etc.) across different schemes to improve the equity and overall efficiency of social health protection and to facilitate their longer-term merger into a single scheme.

Strategic purchasing and healthcare delivery

Currently, the benefits provided by Cambodia's NSSF are generous in principle, with no co-payment and no benefit ceiling. Generous benefits contribute to financial protection, but such generosity must be aligned with the rate of contribution and the scheme's financial sustainability. If generous benefits are not financed by adequate contributions, it can result in deficits for the social health insurance scheme. In turn, if generous benefits lead to high contributions, this can be a barrier to the expansion of population coverage. The level of co-payment at the point of service is a controversial issue because it creates a barrier to access to healthcare for the poor (James et al., 2006). Nonetheless, most social health insurance schemes demand a co-payment from the non-poor (i.e. the poor are exempted). This is done to minimize a potential over-use of unnecessary care and to disincentivize the by-passing of primary care providers. When patients with minor health problems skip consultations with primary care providers and opt to use higher-level (secondary or tertiary care) providers, this waste of resources results in an increase in health expenditure.

A key challenge in Cambodia is to ensure that services in the benefits package are available and delivered, which necessitates that the capacity of service providers is strengthened. In addition, when the insured basket of covered benefits is not clearly defined, implicit rationing at the point of service can result. Once more, this can be a barrier to access, especially for the poor and vulnerable. The process of determining an explicit benefits package based on evidence and a social value judgment needs to be institutionalized (Oh et al., 2015), and the benefits offered by health protection schemes should be clearly understood by the insured population. The design and revision of benefits coverage also need to take into account epidemiological changes (e.g. the increasing burden of non-communicable diseases) in Cambodia (Annear et al., 2015).

A crude case-based payment system with only 52 cases is currently used (while most established case payment systems in Europe have more than 1,000 case groups). When the case-based payment consists of too small a number of case groups (i.e. cases are too broadly defined), the payment cannot accurately compensate for the relative severity of the specific case and the resource use associated with each group. Those responsible for the social health insurance scheme should monitor the provider behaviour and healthcare utilization of patients as well as assess if the current level and method of provider payments are adequate for patient access and quality of care. Case-based payments need good data and thus also require a powerful information system to be able to continue to elaborate, for instance, on the number of cases/classifications and case rates (Annear et al., 2018).

Strategic purchasing is not used by the NSSF and HEF. In other words, there is no clearly defined process to decide on the benefit package and no mechanism for accreditation and contracting with providers. (As a result of there being no mechanism for the selection of providers based on quality/performance standards, all providers are contracted.) Also, the capacities of the NSSF and the PCA in the claim review process should be strengthened.[4] For the pooling of resources in a single fund and the strategic collective purchasing of health services in the near future, the review systems of the PCA and NSSF should be built on a unified ICT system and database. Currently, the gatekeeping and referral system does not work well, leading to the increased utilization of higher-level hospitals in Cambodia. Gatekeeping should be ensured by primary care providers, or a financial penalty should be enforced on patients who do not comply with the referral system. When more people are enrolled in health insurance, there will be an increased demand for and supply of private providers, and government will have to strengthen the regulatory framework for this sector. Quality standards as well as the accreditation mechanism for private providers should function effectively to ensure quality of care and the financial sustainability of the social health protection system.

Governance

Social health protection is fragmented in Cambodia, and a national consensus on the governance reform for the social health protection system is urgently called for. The roles and responsibilities of SHP agencies and related government ministries should be agreed. In turn, the mechanisms to make the SHP agencies accountable, including the performance measures, disclosure of performance information, and so forth, need to be clearly specified. The pricing of services and benefits coverage decisions are currently made with little cost analysis or social consensus. As they have crucial impacts on access to care and the financial health of the social health protection system, decisions should be made in a transparent and evidence-based manner.

The purchasing function needs to be harmonized across schemes as soon as possible – or, at a minimum, a common platform for patient medical records, claim forms, and review and assessment should be adopted. Compared with a

4. In recent years, 81 per cent of NSSF workers were engaged on a contractual basis and three-fourths of workers had worked in the NSSF for less than a year (ILO, 2017). Therefore, strengthening the human resource capacity of the NSSF is an immediate challenge for the social health protection system of Cambodia.

system of multiple schemes, a single payer system is more efficient in terms of low administrative costs, better bargaining power with respect to providers, and greater risk pooling capacity as well as being more equitable by offering uniform benefits coverage for all. The single entity for social health protection should fulfil the role as a strategic purchaser. In this way, its functions will enable, among others, the design of the benefits package and the provider payment system, support the undertaking of claim reviews and assessments, and permit the assessment and monitoring of provider performance, as well as economic and financial analysis.

Some degree of fiscal autonomy is necessary for public hospitals to maximize the effect of strategic purchasing (Cashin et al., 2017). Public financial management and budget laws should be examined and revised to align public hospital operations with strategic purchasing by the NSSF. Therefore, policy discussions and consensus among the MOEF, MOH, and the Ministry of Labour and Vocational Training (for the NSSF) are called for in order to change the public financial management system and improve the governance of public hospitals.

Conclusion

The Government of Cambodia has recently implemented a number of social health protection schemes, including social health insurance for formal employees and civil servants, and the extension of the Health Equity Fund (HEF) to some types of informal workers. The governance of the HEF for poor workers has also recently changed, and now the Ministry of Health plays a key role in the claim review (of public providers) for the HEF. All of these new policies were implemented over a period of less than two years.

However, the government has not yet fully considered the key institutional changes and financing requirements that are essential for the successful implementation of the policies. Without plans to support funding and the implementation of key institutional changes, these ambitious policies may face tough challenges in implementation and may fail to achieve their intended goals. Take the example of the expansion of the NSSF scheme for formal private-sector workers only a year after its original implementation. Initially covering enterprises with eight employees or more, it has since been extended to all employees (i.e. to enterprises with one employee or more). In practice, this may not lead to full compliance, especially for small business employers. A more incremental approach to expand population coverage, which is fully supported by funding arrangements and institutional changes, would be better able to maximize coverage.

Cambodia needs a concrete plan for the funding of the HEF after 2021, when donor funding comes to an end and the government is expected to take full responsibility for funding. Although the government has announced the implementation of new policies to extend population coverage, it has not yet provided funding for civil servants to be covered by the NSSF and for some informal workers to be covered by the HEF. Therefore, the government should provide a concrete plan for the funding and implementation of those schemes, accompanied by a consideration of the overall fiscal space and administrative capacity of the NSSF and PCA.

Social health protection for some informal workers should be considered within a broader framework addressing coverage for the informal economy. More specifically, the government should consider whether, to successfully extend coverage for informal workers, it will expand the fully subsidized scheme (HEF) or expand the contribution-based scheme (SHI for formal private-sector workers), or whether it will mix these two approaches. Previous experience of CBHI in Cambodia suggests that a voluntary contributory approach does not work for the informal economy. To cover workers in the informal economy effectively and move toward the goal of UHC, the government will have to provide either a full subsidy, as used in Thailand, or a partial subsidy, as used in China.

In the short run, the government should merge the Payment Certification Agency (PCA) and the claim review function of the NSSF, or at least adopt a common ICT platform for the two agencies. The role of the PCA under the MOH harbours a potential conflict of interest in reviewing the claims submitted by public providers. Duplication and the failure of coordination between the two agencies is a crucial barrier for the overall efficiency of the social health protection system now and for any future move toward a single-payer system. Differences across schemes in terms of benefits and provider payments need to be minimized to facilitate the merger of these schemes in the future.

A key function of social health protection is not only to raise financial resources but also to purchase services from healthcare providers for the benefit of the insured population. The government (and thus the NSSF and PCA) should strengthen the role of strategic purchasing to better organize service delivery to enable a number of improvements, including in the benefits package, provider payment mechanism, claim review and assessment, and the quality monitoring of providers. The government also needs to strengthen the monitoring and evaluation system to assess the outcomes of the social health protection system, not least in terms of patient access, healthcare utilization and financial protection (catastrophic health payments, impoverishment, and unmet needs).

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BOOK REVIEW

Taylor-Gooby, Peter and Leruth, Benjamin (eds). **Attitudes, aspirations and welfare: Social policy directions in uncertain times**. London, Palgrave Macmillan, 2018, 317 pp. 978-3-319-75782-7.

The title of this book highlights the authors' major concern, namely the urgent need to understand what citizens want and expect from the future of European welfare states. These systems are exposed to major challenges and uncertainties, provoking public frustration, resistance and even revolt. Major challenges to European welfare systems include globalization, demographic ageing, rising inequalities, increasing immigration, and decent work. Particular uncertainty relates to labour market changes, associated with the use of new technology (robots, artificial intelligence, digital platforms, etc.), and future jobs that may not guarantee stable employment, full access to social security coverage or decent pay. Also to be considered is the constrained capacity of public finance and of welfare states to address growing unmet needs and to ensure social security across the life course. This situation exacerbates popular mistrust in "elites", encouraging "populist" responses, often accompanied by rising nationalism, protectionism and anti-immigrant welfare chauvinism.

All these developments coincide with the decline of the very institutions that support public social security provision – a vicious circle that underlines the urgency for policy-makers to understand how policy changes affect public attitudes and their implications for welfare state reforms. Yet, the authors argue that existing data collated from public surveys and related tools fall short for analysing public attitudes. Their response is to use a new approach to "demographic forums" (DFs), which enable policy-makers to consult a broad public. This public consultation should be done before undertaking reforms, to assess the likelihood of the approval or rejection of projects that are deemed essential for the sustainability of welfare states.

For this book, the authors solicited people's attitudes on individualism, neoliberalism, welfare nationalism, inequality, redistribution of income and wealth, intergenerational solidarity in areas such as pensions, the sharing of caring responsibilities, supporting health care, and addressing the challenges of changing labour markets. The authors acknowledge that they used the DFs in a relatively unusual way: to assess how people justify their ideas and link them together for determining their priorities for social policies. This link between social attitudes and existing values can legitimize decisions about the relative costs of services for different needs, and influence spending choices.

Each DF consisted of up to 36 people and comprised the main socio-demographic groups broadly representing the population (younger people, middle- and working class, women and men, people with or without children, unemployed, self-employed, retired, ethnic minorities and immigrants, from five countries – Denmark, Germany, Norway, Slovenia and the United Kingdom). From a welfare state "regime" perspective, the countries represent Scandinavian, corporatist, liberal and post-socialist welfare regimes, as well as co-ordinated market and liberal market varieties of capitalism. The DFs also included break-out groups (10–12 participants) and plenary sessions. The DFs were given a broad future-oriented question about possible government priorities for social policies in 2040, and were asked to select and rank five themes related to what they considered the major challenges for the future of welfare states, notably: immigration; work; education; old age and welfare state resources; and, inequality. In turn, they were asked to rank five themes determined by the research team, namely: immigration, labour markets, population ageing, gender, and inequality.

Analyses of the findings were discussed in the DFs, commencing with the existing constraining factors for formulating acceptable welfare policies, and notably the increasing influence of individualism and neoliberalism on European welfare state policies. Discussions dealt with the degree to which these factors have influenced welfare states, how they emerged in public attitudes, how people link these ideas in framing the welfare state, and the implications of these for public policy, inequality, solidarity and sustainability.

The discussions showed that while neoliberal individualism may play a powerful role in formulating welfare state policies, it does not dominate attitudes. Indeed, across the countries examined, people value the main welfare state services (healthcare and pensions), want greater equality and are concerned about the rising cost of the welfare state and the capacity and accountability of government. There were differences in the relative support/concern for these issues and in perceptions of the extent to which government policies undermine social values or welfare state sustainability. What is more, the DFs welcomed social investment policies: participants were favourable of state intervention to support individual development, albeit with preferences for different population groups.

Another discussed topic was European welfare nationalism, associated with increasing immigration and greater public reluctance to grant immigrants access to social rights. This is an issue prominent in public debates in Denmark, Germany, Norway and the United Kingdom, whereas in Slovenia the main concern was how to attract highly qualified workers. The DF debates pointed to different rationales justifying welfare nationalism, wherein the self-interest rationale was rarely mentioned, it being considered unacceptable; except in the United Kingdom. Welfare nationalism appears to be related to the absence of shared identity and solidarity with immigrants across the five countries. The discussions on social rights distinguished between “deserving” refugees and other immigrants, and focused on the impact on nationals. In Denmark and Norway the main concern was how immigrants could support national economic growth that benefits society.

In Denmark, Germany, Slovenia and the United Kingdom, the DFs discussed attitudes to inequality and the redistribution of income and wealth. This focused on citizens’ perceptions and assessments of economic inequalities and their development, their assumptions of the causes and consequences of changing inequalities, and their assessments of government measures that could influence the distribution of income and wealth. Perceptions and assessments of economic inequalities were fairly similar across the four countries – a general agreement prevailed that inequalities had increased and become too wide. Nevertheless, differences existed in understanding economic inequalities and their causes, consequences and countermeasures. The authors note that the findings provided only some general insights into inequality assessments, but did not enable to identify specific explanatory factors needed for generalizing their impact on welfare state regimes. Further research is needed to fill this gap.

The sustainability of European welfare states was addressed by evaluating the strength and nature of intergenerational solidarity, conceived as an implicit contract between generations that takes place through transfers and services to the young as well as to the elderly. However, growing competition for public resources in a context of population ageing had sown doubt that this contract could persist in its present form. The deliberations therefore sought evidence of possible age-based tensions or conflict among citizens related to these resource pressures, and whether public funding had been replaced by private forms of intergenerational solidarity, or by combined private-public forms of solidarity.

The authors assume that future policies will be influenced by attitudes towards the intergenerational contract, as well as by existing welfare policies and institutions and by the national socio-economic context. It was noted that resources are distributed according to age group (children, working-age population and the elderly) across the life course. They also examined the differences and similarities in public and family-based forms of intergenerational solidarity, and tried to assess state-mandated cash transfers and social services in future welfare states. There were wide cross-country variations, confirming the hypothesis that perceptions of the intergenerational contract and solidarity are influenced by differences in the national socio-economic context and existing institutional configurations, though there were some inter-country similarities.

Population ageing was the main driver of policy challenges. In all countries, young people care about the needs of the elderly, who are generally seen as deserving. There was consensus on the need to address old-age poverty and that the state should provide a basic safety net for the elderly, as well as the need for individual responsibility for retirement income and for elderly care. Many young participants said they did not expect the same pensions as current retirees, and appeared to accept the financial burden this implied. Moreover, some DF participants of all ages called for social investment to meet the ageing challenge. Thus, intergenerational solidarity appeared quite strong, especially within the family (albeit less so in the United Kingdom).

Another facet of solidarity is care (for children, the elderly and people in poor health). The need to provide care was uncontested by DFs. The respective weight of the shared responsibility for its delivery (the state, family, private sector) was discussed. Care systems across Europe assign different roles to numerous actors. The welfare mix of state, family and employers was considered important for childcare provision in Germany, Norway, Slovenia and the United Kingdom, with some differences about families' roles. Changing demographic and economic conditions raise new challenges for welfare state sustainability, requiring reconsideration of the division of responsibilities between family, state and the market. The attitudes indicated relatively high support in all four countries for the state provision of childcare and policies for the elderly. As regards future attitudes, cross-country concerns about the sharing of responsibilities for childcare or elderly care considered the potential for increasing women's labour market participation or favouring investment in early childhood education. The authors note that this discussion provided a unique insight into citizens' attitudes towards care provision, a relatively neglected area in the literature.

Turning to healthcare futures, visions of solidarity and the sustainability of European healthcare systems, the DFs expressed high levels of solidarity with those in need of medical care – except as regards those with diagnosed conditions related to personal behaviour or those thought to over-use or abuse the health system, or those considered as not belonging to the political community (immigrants). Overall, healthcare solidarity remains strong, though this varies significantly between countries and has different consequences for healthcare systems. Despite the generally high level of support for public medical care and for the deservingness of medical patients, the authors observe significant problems of legitimacy in each country.

The discussions also covered labour market challenges and the palliative role of social investment. Most European welfare states have undergone significant social and economic changes, affecting society, labour markets and the work-welfare nexus. Broadly, these include new technology, globalization, European integration, demographic shifts, and changing family patterns. The nature of risks faced by people across the life course has altered. The authors criticize the failure of previous attitude surveys to capture how changes to European labour markets and welfare policies have affected livelihoods. This failure calls into question not only the legitimacy of public policy changes but also the levels of support for labour market policies, childcare provision, education, social investment strategies, etc. The authors underline that their approach allowed to provide a first overview of people's real perceptions of public policy trends. For instance, they found crucial differences in the way people understood and scrutinized the social investment paradigm, and its impact on productivity, equal opportunities and human capital investment.

DFs hold the potential to unravel citizens' different perceptions, preferences and ideas, identifying common cross-country concerns relating to welfare state interventions and social policy objectives. The DF methodology for attitude research thus permits to generate new knowledge about how people perceive major social policy debates, and why they come to their conclusions in different economic, social and institutional contexts. For instance, the DFs show that in most European countries the intergenerational contract remains resilient, with older people willing to support provisions for younger age groups, and young people accepting the need to contribute to the pensions and care of the elderly. Yet, overall, the focus is now shifting in policy debates from the elderly to the young and from consumption to social contribution and social investment. The book shows that there is an expectation that welfare states will continue to adapt to challenges. By revealing areas of consensus, the DF approach can help guide the necessary reform of European welfare states.

To sum up, this volume offers convincing arguments for the importance of consensus. In a context of declining solidarity and rising populism, and with past social achievements under threat, this is a timely and necessary message. Policy-makers, employers' organizations, trade unions and academics, would benefit from reading the feasible and plausible recommendations and insights of this book.

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