7

Social Insurance

Krzysztof Hagemejer

Extending coverage through contributory social insurance or other contributory programs is tempting for governments as a potential avenue for mobilizing new resources and creating new fiscal space. Such extension has clear limits, however: it applies only to those in the labor market who have employment status with high degree of formality and whose incomes are significantly above subsistence level and received regularly. It also requires administrative structures with capacity to regularly register incomes of those covered, and to collect contributions.

This chapter analyzes the potential of social insurance (also called contributory social protection) in the 16 Asian countries reviewed in this publication to fill the protection and coverage gaps in income security. It focuses on pensions, but also reviews other benefits temporarily replacing lost labor income due to events such as sickness, maternity, and unemployment. As current labor market structures largely determine the chances of extending coverage through these means, this chapter also examines their characteristics and analyzes coverage by the different forms of social insurance and assesses the potential for extension.

The analysis finds that, although efforts to extend coverage by social insurance may have major effects in some countries both in reducing poverty and in mobilizing additional resources, most of the current gaps will have to be plugged by noncontributory interventions. The reason stems from prevailing informal labor market structures and the 3- or 4-decade lag between initiating contributory old-age pension programs and when the first pensioners can retire with decent pension benefits. Filling the protection gap in income security in old age by 2030 will require expansion of noncontributory pensions everywhere.

Making Social Insurance Universal

Purpose and Scope of Social Insurance

The purpose of social insurance is to provide income security and replace income from work lost due to life contingencies and social risks: temporary sickness (employment related or not); longer-term disability (employment related or not); incapacity to work and longevity risk in old age; loss of the breadwinner (employment related or not); and unemployment, maternity, and family obligations.[90]

In contributory social security schemes, a certain minimum required period of payment is always one of the entitlement criteria for receiving benefits. Mandatory social insurance schemes are a specific type of contributory scheme that usually have a link between the contribution paid by a member and the levels of benefits received. But these schemes do not attempt to link the contribution paid to individual risks (which private insurance does) and allow redistribution. Contributions are charged according to ability to pay.

Contributory provisions may cover the same contingencies as social insurance and may provide similar benefits, but do not follow the same principles: schemes based on provident funds or individual savings accounts may provide important coverage for life contingencies and social risks but, in terms of adequacy, are usually inferior to social insurance coverage. Some countries however, including those in Asia, have recently attempted to enhance these schemes' adequacy of benefits.

For example, Singapore's provident fund introduced partial but mandatory annuitizing of benefits (Asher and Bali 2013). Malaysia is debating reforming its Employees Provident Fund—the country's central pension pillar—either by moving from a retirement savings investment fund to a fully fledged pension fund that offers some minimum annuities, or by creating a Notional Defined Contribution scheme, financed pay as you go with the fund's resources as its major reserve fund (Holzmann 2014).

[90] According to social security standards of the International Labour Organization (ILO), social insurance benefits for all these contingencies should be paid through the duration of the contingency as periodical (e.g., monthly) benefits. Benefit payment is usually assumed to be temporary (for sickness, maternity, family, or unemployment benefits) and only for disability, loss of the breadwinner, and old age. Benefits (disability, survivors', and disability pensions) paid over longer periods and, at least for old-age pensions, should be life annuities (rather than lump-sum payments).

In many countries, coverage (as for employment injury, sickness, or maternity) is solely the employers' liability as mandated by labor codes. This form of coverage also has many deficiencies both in terms of the financial burden and risk for employers (usually much higher than when coverage is through social insurance) and of the situation of the individual covered.[91] Social insurance was never intended to be only for the better off: it was designed specifically to cover employees in the formal labor market, and social insurance schemes are often important for basic social protection.

Advantages and Disadvantages of Universalizing Social Insurance Coverage

Social insurance was historically designed to cover those with employee status and potentially completely dependent on it as an income source, and so has usually been financed by contributions from employees and employers.[92] These days, formal sector employees are often seen as privileged relative to those in the informal economy, which is dominated by the self-employed. But this "privileged" position—rather, less vulnerability—is because formal sector employees are much more often either covered by social insurance or by similar provisions for income security, at least in certain contingencies. And employees who must rely only on income from informal employment (that is, they are not covered by social security) may sometimes be even more vulnerable than other groups in the informal economy. Hence, Target 8.5 (Achieve full employment and decent work) of the Sustainable Development Goals (SDGs) should mean that *at least* all those who are employees should be covered by key social insurance provisions.[93]

For the above reasons, policies often prioritize covering with social insurance all those with employee status. Also, covering people through contributory schemes requires certain regularity of income, a condition more often met by employees. (Although many informal employees are paid irregularly, that usually violates provisions of national labor codes, and thus formalizing them is at least theoretically easier than formalizing the self-employed.)

---

[91] The ILO's Social Protection Floors Recommendation No. 202 of 2012 recognizes contributory schemes—social insurance in particular—as one way to build and then expand social protection. According to this recommendation, such national floors should prioritize social insurance to cover all those with contributory capacity. The ILO lays heavy stress on the need for efforts to formalize the informal economy and indicates that policies aimed at extending coverage should be closely coordinated with measures aimed at formalization.

[92] International social security standards require that protected persons should not cover more than half the costs of overall social security expenditure in the country.

[93] That is employment injury or death, sickness, maternity, and unemployment; followed by old-age pensions, general disability and survivors' pensions; and family benefits.

In addition, solid coverage by social insurance (or any other contributory schemes) requires administrative structures allowing the registration of contributors—their incomes and contributions. While it is possible to develop such structures that register the self-employed, it is much harder to record actual income of the self-employed, which is why social insurance schemes covering the self-employed either base contributions on declared income (and a required minimum income) or use flat-rate contributions and provide flat-rate benefits. Also, not every country has the administrative structures necessary to enhance coverage, if it is easy to put in place a contributory scheme.[94]

Quite a few Asian countries are extending coverage beyond those with employee status (MacKellar 2009, Durán-Valverde et al. 2013). In the Philippines, for certain categories of the self-employed, social insurance coverage is, in theory, mandatory for groups such as independent professionals, business owners, farmers, fishers, arts professionals, professional athletes, street vendors, and some others. Coverage is gradually increasing (it is now about 20% of all self-employed), reflecting a mix of efforts within the scheme's design (differentiation of income categories), administration (intensive use of information and communication technologies, and cooperation with banks), and incentives to contribute (access to personal loans and other benefits). Azerbaijan, Kazakhstan, Mongolia, and the Philippines are the only ones in the region to support such mandatory coverage.

Other countries rely on voluntary coverage. Examples include ambitious (only partly successful) attempts to expand rural pensions in the People's Republic of China (PRC); a scheme for farmers, fishers, and the self-employed in Sri Lanka; and plans in Indonesia to subsidize contributions from informal workers; and design a pension program for herders and the self-employed in Mongolia (ILO 2016).

A wider issue for pensions is that social insurance may be an important part of the national pension system but will never provide enough coverage to all unless combined with other schemes. Only those in formal employment (employees and certain groups of self-employed with regular incomes) can be *effectively* covered, and then only if their employment and contribution records

[94] For example, although many Latin American countries established social insurance at the same time as much of Europe between World Wars I and II, most European countries have since achieved nearly universal social insurance coverage, while Latin America's social insurance coverage gap has stayed unchanged for decades.

hit certain thresholds.[95] To meet all the main objectives of the pension system and—given the SDGs' social protection agenda—particularly poverty prevention, the contributory (social insurance) tier of the national pension system has to be supplemented with a noncontributory one, providing either a universal pension or at least an income- or pension-tested basic pension.[96] And as contributory pensions only begin to have an impact after several decades of coverage starting, most countries wanting to fill the coverage gap in minimum income security to all elderly in Asia by 2030 will have to do so largely via noncontributory (social assistance) provisions. Contributory provisions within this time frame can take care only of those who are already effectively covered and contributing.

A great advantage of filling the existing coverage gaps with contributory schemes—possibly with social insurance—is that well-designed and well-governed contributory schemes provide their own financing. Thus, rightly, many see extending social insurance coverage (and increasing its effectiveness—contribution compliance, etc.) as a promising way to expand the fiscal space for social protection (Box 7.1).

To summarize, expanding social insurance must be part of countries' strategies to achieve the social protection-related SDGs. All employers should be mandatorily covered and contribute to employment injury schemes covering all their employees. Similarly, all employees should be covered by short-term benefits for sickness, maternity, and temporary unemployment (the long-term unemployed and new entrants to the labor market need different social protection policies).

Asian Coverage and Gaps

Table 7.1 shows the scope of statutory coverage in most of the 16 countries analyzed in this publication. Five of the 16 (Azerbaijan, Kazakhstan, Mongolia, the PRC, and Thailand) with their social insurance provide comprehensive legal

[95] *Effective coverage*—the proportion of all employed people contributing (or having employers contributing on their behalf) to any social insurance scheme that provides coverage for a given contingency—is a more accurate measure than legal coverage. These people should in the future therefore be entitled to benefits, such as a retirement pension or unemployment benefits, if they continue contributing long enough. Effective coverage is usually far lower than *legal* (or *statutory*) *coverage,* which presents the portion of the economically active who, under existing legal provisions, should be covered by one of the schemes providing protection for a given contingency (pensions, disability, unemployment, etc.). They may not, however, be contributing and thus not be effectively covered. Often easy to estimate, the legal coverage indicator usually overestimates numbers of the effectively protected.

[96] For a discussion of a pension system's objectives, see Barr and Diamond (2008).

Box 7.1: Fiscal Space and Social Protection

An International Labour Organization study by Ortiz, Cummins, and Karunanethy (2015), analyzing existing options to expand fiscal space for social protection, makes extension of effective coverage by social insurance one of the most important. At the same time, however, it concludes (p. 22) that much of the scope for increasing coverage depends on the efforts of social security administrations and labor inspectorates to enforce the legal provisions and ensure compliance of employers and workers to register, on the one hand, and to fully pay their contributions, on the other.

Of course, one must consider the country's situation, including the tax burden (there may be a trade-off between how much one can collect from employees through personal income tax and social security contributions, and the potential impact of labor cost increases due to raised employers' contributions).

Source: Author.

coverage for all eight major social security policy areas. India and Viet Nam provide semi-comprehensive coverage with seven policy areas covered by at least some schemes. The Lao People's Democratic Republic (Lao PDR), the Philippines, and Sri Lanka have limited scope, covering five or six policy areas. Indonesia, Malaysia, Myanmar, and Nepal have very limited scope, covering only three or four policy areas. Cambodia and Timor-Leste have too little information, but their scope is certainly very limited.

Old-Age Pensions

According to results of the research conducted through the second wave of the East Asian Retirement Survey (Chomik 2016, Jackson and Peter 2015, World Bank 2016), while Asian countries have previously prioritized economic growth over social protection, there is evidence of increasing expectations among populations that their government will increasingly step in to finance retirement. People in different countries were asked: "Who, ideally, should be mostly responsible for providing income to the retired?" In the Philippines, the PRC, Thailand, and Viet Nam, more than 60% said the most responsible is government, while the rest of the respondents indicated that the family or retirees themselves should be responsible.

Table 7.1: Scope of Statutory Coverage by Statutory Schemes in Sample Countries

	Policy Areas Covered		Existence of a Statutory Program							
Country	Number of Policy Areas Covered by at Least One Program	Scope of Coverage	Sickness (Cash)	Maternity (Cash)	Old Age	Employment Injury	Invalidity	Survivors	Family Allowances	Unemploy-ment
Azerbaijan	8	Comprehensive	●	●	●	●	●	●	●	●
Cambodia	...	Very limited	...	▲	...	...	...	...	...	▲
PRC	8	Comprehensive	●	●	●	●	●	●	●	●
India	7	Semi-comprehensive	●	●	●	●	●	●	None	●
Indonesia	4	Very limited	△	▲	●	●	●	●	None	▲
Kazakhstan	8	Comprehensive	●	●	●	●	●	●	●	●
Lao PDR	6	Limited	●	●	●	●	●	●	None	None
Malaysia	4	Very limited	△	▲	●	●	●	●	None	▲
Mongolia	8	Comprehensive	●	●	●	●	●	●	●	●
Myanmar	3	Very limited	●	●	▲	●	▲	▲	Not yet	Not yet
Nepal	4	Very limited	▲	▲	●	●	●	●	None	▲
Philippines	6	Limited	●	●	●	●	●	●	None	▲
Sri Lanka	5	Limited	△	▲	●	●	●	●	●	▲
Thailand	8	Comprehensive	●	●	●	●	●	●	●	●
Timor-Leste	...	Very limited	...	▲	●	...	...	...	None	None
Viet Nam	7	Semi-comprehensive	●	●	●	●	●	●	None	●

Symbols

● At least one program anchored on national legislation

▲ Limited provision (e.g., labor code only).

△ Only in-kind benefit (e.g., medical benefit).

... = no data, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Source: Data extracted from ILO (2014a), Table B.2, Annex IV (Statistical Tables).

Everywhere except Viet Nam, the majority of respondents believed that employee contributions to contributory pension schemes should be increased, and everywhere a large majority agreed that "government should require workers to save more for their retirement." The majority of respondents in most countries also agreed that government should increase taxes to provide a basic social pension to the elderly in need.

In most of the 16 Asian sample countries, coverage is rather low. For 15 of them (Myanmar is not included), Table 7.2 shows proportion of older people receiving any type of pension as well as proportions of those covered by contributory and noncontributory provisions.

Effective coverage rates, showing people contributing compared with all the employed, are in Table 7.6. Only in Azerbaijan, Kazakhstan, Malaysia, Mongolia, the PRC, and Viet Nam does it seem that more than half of employees are contributing to one of the contributory pension schemes. In the Philippines,

Table 7.2: Old-Age Pension Beneficiaries as Percentage of Population over Statutory Pensionable Age

Country	Total	Contributory	Noncontributory	Year	Statutory Pensionable Age (Basis for Reference Population)
Azerbaijan	81.7	40.8	40.9	2012	62.5 Men | 57.5 Women
Cambodia	5.0	...	...	2010	55
PRC	74.4	32.2	42.1	2011	60 Men | 55 Women
India	24.1	9.9	14.2	2011	58
Indonesia	8.1	...	...	2010	55
Kazakhstan	95.9	...	...	2011	63 Men | 58 Women
Lao PDR	5.6	...	...	2010	60
Malaysia	19.8	16.2	3.6	2010	55
Mongolia	100.0	62.6	37.4	2011	60
Nepal	62.5	9.2	53.3	2010	58
Philippines	28.5	24.3	4.2	2011	60
Sri Lanka	17.1	...	...	2010	55 Men | 50 Women
Thailand	81.7	13.1	68.6	2010	60
Timor-Leste	100.0	0.0	100.0	2011	60
Viet Nam	34.5	25.8	8.7	2010	60 Men | 55 Women

... = no data, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.
Source: ILO (2014a), Annex Table B.9, Annex IV (Statistical Tables).

Sri Lanka, and Thailand, about half of employees contribute. In the other countries, effective coverage from contributory schemes is very low, even among employees.

None of the 16 countries can reach high legal coverage with only contributory schemes. Table 7.3 shows key features of main pension programs in 14 of the 16 countries, as well as estimates of legal coverage by contributory (mandatory and voluntary) and noncontributory pension schemes. In the PRC, the estimate shows 100% coverage as, theoretically, all those not covered as employees can join voluntary schemes for rural and urban nonsalaried workers, but, in practice, the proportion of people effectively contributing to these schemes is much lower. Azerbaijan, Kazakhstan, Mongolia, and Thailand potentially cover the whole population, combining contributory and noncontributory provisions. (Although Nepal has a noncontributory pension, coverage is estimated to be low as the age of entitlement to that pension is much higher than to the contributory one.) In countries which do not use noncontributory provisions to supplement contributory ones, even legal potential coverage is quite low (generally less than 50% of the working-age population).

Employment Injury

Table 7.4 shows key feature of main employment injury programs in 13 of the 16 Asian countries with data. In about half the countries, coverage for employment-related injury comes in the form of social insurance, in the other half as employer's liability insurance (sometimes, employers are obliged to secure private insurance). Still, these schemes are funded mainly by employers, either through contributions, through buying insurance for workers, or—for simple employers' liability—by directly paying benefits. Coverage in all countries is limited to employees, and usually those in the larger firms.

Unemployment Benefits

Among the 16-country sample, only six (Azerbaijan, Kazakhstan, Mongolia, the PRC, Thailand, and Viet Nam) have well-working contributory unemployment benefit programs. In Thailand, nearly 30% of the unemployed receive benefits, but in other countries, coverage is 10% or less of all the unemployed. India has a public employment guarantee program for the unemployed rural poor, but it reaches a maximum of 3% of the unemployed across the country, although in some states coverage is significantly higher—see, for example, Kamath (2010) and Das (2013). Some other countries in the region (including Indonesia, Malaysia, the Philippines, and Sri Lanka) are debating the possibility of

Table 7.3: Old-Age Pensions—Key Features of Main Extension Programs and Estimates of Legal Coverage

		Statutory Pensionable Age		Contribution Rates: Old-Age, Disability, Survivors			Estimate of Legal Coverage for Old Age as Percentage of Working-Age Population			
Country	Type of Program	Men	Women	Insured Person	Employer	Financing from Government	Total	Mand. Contrib.	Volun. Contrib.	Non-Contrib.
Azerbaijan	Social insurance and notional defined contribution (NDC)	63	58.5	3%	22%	Provides subsidies for social insurance	100.0	65.8	0.0	34.2
	Pensions-tested noncontributory pension	67	62 (57)	–	–	Total cost				
PRC	Budget-funded pension scheme for civil servants and employees of public cultural, educational, and scientific institutions	60	55	–	–	Total cost	6.8	0.0	0.0	6.8
	The basic pension scheme for urban workers	60	55 (cadres) / 50 (workers)	8%	20%	Subsidies as needed	29.8	22.3	7.5	0.0
	The voluntary rural and urban pensions for nonsalaried workers						63.4	0.0	63.4	
	The voluntary *rural* pension scheme									
	– noncontributory government budget financed basic pension	60	60	–	–	Total cost for noncontributory pension (at least CNY55 a month per insured person)				

continued on next page

Table 7.3 *continued*

Country	Type of Program	Statutory Pensionable Age		Contribution Rates: Old-Age, Disability, Survivors			Estimate of Legal Coverage for Old Age as Percentage of Working-Age Population			
		Men	Women	Insured Person	Employer	Financing from Government	Total	Mand. Contrib.	Volun. Contrib.	Non-Contrib.
PRC	– Individual account pension	60	60	CNY100–CNY500	–	Local governments contribute at least CNY30 a year per insured person to the individual account				
	The voluntary urban pension scheme for nonsalaried workers									
	– noncontributory government budget financed basic pension	60	60	–	–	Total cost for noncontributory pension (at least CNY55 a month per insured person)				
	– Individual account pension	60	60	CNY100–CNY1,000	–	Government contributes at least CNY30 a year per insured person to the individual account				
	PRC Total						100.0	22.3	70.9	6.8
India	Provident Fund complemented with social insurance (Pension Scheme)	55	55	12%	12%	1.17% of the insured's basic wages	12.5	1.9	10.6	
	Gratuity schemes for industrial workers (lump-sum benefit)			No contribution	4%	No contribution				
	Means-tested noncontributory pension	60	60	–	–	Total cost				

continued on next page

Table 7.3 *continued*

Country	Type of Program	Statutory Pensionable Age		Contribution Rates: Old-Age, Disability, Survivors			Estimate of Legal Coverage for Old Age as Percentage of Working-Age Population			
		Men	Women	Insured Person	Employer	Financing from Government	Total	Mand. Contrib.	Volun. Contrib.	Non-Contrib.
Indonesia	Provident fund with a small social insurance component	55	55	2%	4%	No contribution	42.9	10.5	32.4	0.0
Kazakhstan	Social insurance: NDC based on individual accounts	63	58	10%	11%	Cost of state basic pension. Old-age solidarity pension: Subsidies as needed	100.0	73.3	0.0	26.7
	Pensions-tested noncontributory pension	63	58	–	–	Total cost				
Lao PDR	Social insurance	60	60	4.5%	5%	Administrative costs for the Social Security Organization	9.5	9.5	0.0	0.0
Malaysia	Social insurance	55	55	0.5%	0.5%	No contribution	45.0	45.0	0.0	0.0
	Provident Fund	55	55	11%	13%	For self-employed persons only, 5% of contributions up to RM60 a year				
Mongolia	Social insurance: NDC (for those born after 1960)	60	55	5.5%	13.5%	–	100.0	23.2	18.6	58.2
	Means-tested noncontributory pension	60	55	–	–	Total cost				

continued on next page

Table 7.3 *continued*

Country	Type of Program	Statutory Pensionable Age		Contribution Rates: Old-Age, Disability, Survivors			Estimate of Legal Coverage for Old Age as Percentage of Working-Age Population			
		Men	Women	Insured Person	Employer	Financing from Government	Total	Mand. Contrib.	Volun. Contrib.	Non-Contrib.
Nepal	Provident Fund	58	58	10%	10%		29.1	2.0	0.0	27.1
	Pensions-tested noncontributory pension	70 (60 in some areas)	70 (60 in some areas)	–	–	Total cost				
Philippines	Social insurance	60	60	3.33%	7.07%	Any deficit	53.2	53.2	0.0	...
	Means-tested noncontributory pension	77	77	–	–	Total cost				
Sri Lanka	Provident Fund	55	50	8%	12%	No contribution	31.5	31.5	0.0	0.0
Thailand	New social insurance system	55	55	3%	3%	1%	100.0	35.9	25.9	38.2
	Pensions-tested noncontributory pension	60	60	–	–	Total cost				
Timor-Leste	Pensions-tested noncontributory pension	60	60	–	–	Total cost	100.0	0.0	0.0	100.0
Viet Nam	Social insurance	60	55	7%	13% (14% from 2014)	Subsidies as needed	65.6	26.4	39.2	...
	Means-tested noncontributory pension/ Pension tested above 80	60	60	–	–	Total cost				

... = no data, –= not applicable, Lao PDR = Lao People's Democratic Republic, Mand. = mandatory, PRC = People's Republic of China, vol. = voluntary.

Source: Data extracted from ILO (2014a), Table B.6, Annex IV (Statistical Tables).

Table 7.4: Employment Injury—Key Features of Main Programs and Estimates of Legal Coverage

		Contribution Rates (%)				Estimate of Legal Employment Injury Coverage as % of Labor Force	
Country	Type of Program	Employee	Employer	Self-Employed	Financing from Gov't.	Mandatory Coverage	Voluntary Coverage
Azerbaijan	Employers liability to provide mandatory insurance	No contribution	Whole cost	Whole cost. Voluntary	Whole cost of funeral grant	39.7	0.0
PRC	Social insurance Employer liability	No contribution	1% of total payroll (on average) for social insurance; whole costs for employer liability	Contribute as employer for employees	Subsidies as needed	24.2	0.0
India	Social insurance	Global contribution, under sickness	Global contribution, under sickness	Not covered	Global contribution, under sickness	7.9	0.0
Indonesia	Social insurance	No contribution	Whole cost	1% of monthly declared earnings. Voluntary basis	No contribution	28.7	44.3
Kazakhstan	Employer liability involving compulsory insurance; social assistance	No contribution	Total cost of insurance premiums (from 0.04% to 9.9% of payroll) or directly provides benefits to the insured	Cost of certain benefits	Cost of permanent disability and survivor benefits	56.1	0.0
Lao PDR	Social insurance (employer liability for non-covered employees)	No contribution	Global contribution, under old age (5% of monthly payroll)	Not covered	Administrative costs for the social security administration	6.7	0.0

continued on next page

Table 7.4 *continued*

		Contribution Rates (%)				Estimate of Legal Employment Injury Coverage as % of Labor Force	
Country	Type of Program	Employee	Employer	Self-Employed	Financing from Gov't.	Mandatory Coverage	Voluntary Coverage
Malaysia	Social insurance	No contribution	1.25% of monthly payroll, according to 34 wage classes	Not covered	No contribution	36.2	0.0
Myanmar	Social insurance	No contribution; under sickness for the funeral grant	1% of monthly payroll; under sickness for the funeral grant	Not covered	No contribution	...	...
Nepal	Employer liability involving compulsory insurance	No contribution	Whole cost	Not covered	No contribution	3.8	0.0
Philippines	Social insurance	No contribution	0.2% for monthly earnings of at least ₱15,000	Not covered	Any deficit	45.8	0.0
Sri Lanka	Employer liability	No contribution	Whole cost or (1% to 7.5% of gross payroll according to assessed risk)	Not covered	Whole cost of medical benefits	42.3	0.0
Thailand	Employer liability involving compulsory insurance	No contribution	0.2% to 1% of annual payroll according to assessed risk	Not covered	No contribution	26.2	0.0
Viet Nam	Social insurance	No contribution	1% of monthly payroll	Not covered	No contribution	30.4	0.0

... = no data, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Source: Data extracted from ILO (2014a), Table B.4, Annex IV (Statistical Tables).

introducing unemployment benefits by converting existing severance pay obligations of employers. Debates are difficult as trade unions, though opting for unemployment benefits, want to keep at least partially existing severance payments, while employers seem willing to agree to pay contributions to new social insurance programs only if their severance pay obligations are phased out.

Coverage Gaps in Social Insurance

The share of employees in total employment in the 16 Asian countries varies widely (Table 7.5). In some countries, over 50% of all the employed are wage and salary earners (Kazakhstan, Malaysia, Mongolia, the Philippines, the PRC, and Sri Lanka), while in the rest, they are in the minority, with the lowest shares well below one-third in India, the Lao PDR, and Myanmar.

Table 7.5: Share of Wage and Salary Earners in Total Employment, 2015

Country	Wage and Salary Earners as Share of Total Employment (%)
Azerbaijan	34.7
Cambodia	37.3
PRC	53.3
India	21.2
Indonesia	36.1
Kazakhstan	69.2
Lao PDR	15.5
Malaysia	75.5
Mongolia	53.9
Myanmar	11.9
Nepal	26.6
Philippines	54.8
Sri Lanka	57.9
Thailand	46.0
Timor-Leste	32.8
Viet Nam	36.2

Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Source: Author's estimates based on ILO Global Employment Trends 2014: supporting data sets (ILO 2014b).

Estimating the Contribution of Social Insurance to Achieving the Social Protection Agenda of the Sustainable Development Goals

Contributory schemes effectively covering larger proportions of self-employed until now have proven possible only in highly formalized economies with sound mechanisms for registering (people and incomes) and enforcing collection of taxes and contributions. In countries with large proportions of mostly rural self-employed, highly informal economies, and weak administrative capacity, there are clear limits for extension of coverage by contributory pension schemes.

Table 7.6 shows estimates of social insurance coverage rates—and its inverse, coverage gaps—in the 16 countries, assuming that all those with employee status

Table 7.6: Estimates of Social Insurance Coverage Gaps, 2015 or Latest Available

	Maximum Potential Coverage by Contributory Schemes (thousands)				Coverage Gap (% not contributing)	
Country	All Employed	All Paid Employed	Employees	Estimated Number of Actual Contributors (thousands)	Maximum (% of paid employed)	Minimum (% of employees)
Azerbaijan	4,714	4,351	1,508	1,773	59	4
Cambodia	8,606	7,941	2,964	43	99	99
PRC	769,919	676,346	360,382	270,995	60	25
India	484,550	419,227	88,748	51,887	88	42
Indonesia	118,260	101,055	36,499	13,838	86	62
Kazakhstan	8,679	8,645	5,979	5,750	33	4
Lao PDR	3,407	2,184	339	48	98	86
Malaysia	13,057	12,484	9,431	7,761	38	18
Mongolia	1,234	952	513	611	36	4
Myanmar	29,678	16,698	1,979	0	100	100
Nepal	15,051	14,031	3,735	468	97	87
Philippines	41,254	37,004	20,291	11,711	68	42
Sri Lanka	8,156	7,541	4,363	2,057	73	53
Thailand	39,873	32,063	14,760	9,049	72	39
Timor-Leste	189	145	47	18	87	61
Viet Nam	54,622	46,133	16,713	11,555	75	31

Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.
Source: Author's estimates based on ILO and World Bank databases.

could be potentially covered. (We do not consider here the second, maximum option, which would aim to cover all those with paid employment, that is, including all the self-employed. We see this option as unrealistic, at least by 2030.)

In only three countries is the percentage of contributors among all those in paid employment higher than 50% (and respectively the coverage gap is lower than 50%): Kazakhstan, Malaysia, and Mongolia (penultimate column). These three countries, as seen, have high shares of employees in total employment. But some other countries with similar shares still have coverage gap ratios to total paid employment higher than 50%—the Philippines, the PRC, and Sri Lanka.

If, however, we look at coverage gaps among employees only (right-most column), the picture changes slightly. The lowest coverage gaps are in Azerbaijan, Kazakhstan, and Mongolia where nearly all employees seem to be contributing. Shares of employees not yet covered are in the PRC and Malaysia, 20%–25%; in Viet Nam, about 30%; in India, the Philippines, and Thailand, about 40%; in Sri Lanka, slightly over 50%; in Indonesia and Timor-Leste, about 60%; and in the Lao PDR and Nepal, close to 90%. Contributory schemes offer no coverage at all in Myanmar and Cambodia (but, in these countries, at least certain groups of government employees are covered by noncontributory schemes for pensions and some other benefits).

Current levels of coverage rates and gaps reveal countries' varying potential for closing some of the social protection gap through 2030 with contributory schemes.

In further analysis, we assume that, as part of achieving decent work, countries will make efforts to cover with social insurance all those with employee status in the labor market. Most countries with low employee coverage rates will find this challenging, sometimes due to institutional and administrative problems, and so our assumption may lead to overestimating possible coverage and poverty reduction effects. We also assume that the above aim will be achieved gradually, using the maturation function (Chapter 1). We do not assume, however, that by 2030 there will be any substantial increase of coverage by contributory schemes for the self-employed.

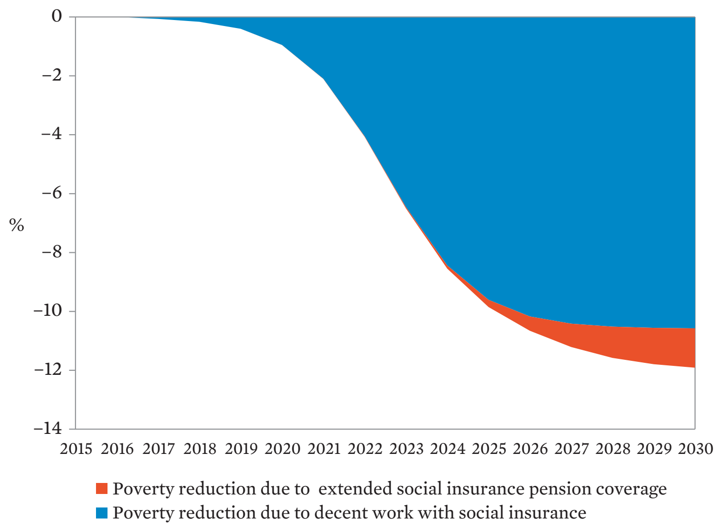
The above is taken to have the following effects:

- All employees covered by social insurance and their dependents will enjoy decent remuneration and social insurance benefits for different contingencies. Implicit assumption here is that this expansion of coverage will mean not only increasing the extent of personal coverage of employees but also the scope and quality of such coverage—that all the major contingencies and policy areas will be covered (which, in many countries in question, is far from being the case now) and that benefits will be sufficient to prevent poverty. Again, this assumption may be overoptimistic and thus results may overestimate possible poverty reduction effects.
- Poverty incidence in this group of the population (employees and their dependents) will be gradually reduced to zero, and the number of poor, the poverty gap, and the protection gap will be proportionally reduced relative to the status quo scenario (see Chapter 1) of projected government revenues in 2030.
- More people will start receiving pensions, assuming the same maturation function as above but with the effects delayed by a further 5 years, proportionally to the increased coverage of the working-age population. Most of these pensions will likely be disability pensions, as 2030 is too short to allow enough time for contributions to give entitlements to meaningful old-age pensions, and so the number of those in poverty will additionally fall by the number of these new pensioners.
- Poverty incidence among those who become newly entitled to pension benefits will be reduced to zero relative to the current level. The poverty gap and protection gap will be proportionally reduced relative to the decrease in the number of poor compared with the status quo scenario.

We also assume that, from the fiscal point of view, such extension of coverage and reduction of poverty will be fully financed by revenue from contributions paid by the newly insured and their employers. Of course, such increase in coverage is not neutral in fiscal and economic terms. Higher fiscal obligation of the newly covered may result in their behavior in terms of willingness to pay other taxes as well as in terms of their behavior at the labor market. Increased labor costs may have an impact on the hiring behavior of employers. On the other hand, better coverage and more decent work in the longer run leads to higher productivity of those employed, making it hard to predict the balance of these economic consequences.

Figure 7.1 shows aggregate expected reduction of poverty for all 16 countries. Table 7.7 presents detailed results.

Figure 7.1: Estimated Reduction of Poverty Due to Extension of Social Insurance Coverage to All Employees, 16 Asian Countries, 2015–2030 (%)



Source: Author's calculations.

Conclusions

Extending coverage by social insurance potentially not only provides an opportunity to reduce the current social protection gap, but also serves as mechanism to mobilize resources to finance it. Our analysis shows, however, that there are limits to such extension by contributory schemes due to the labor market structures of many Asian countries, notably degree of formality of employment.

Given that populations in many of the 16 Asian countries seem to expect more government involvement in providing income security in old age, and that groups of populations seem ready to participate with additional contributions, savings, or both, efforts to extend coverage should be undertaken as part of national strategies to reach the social protection-related SDGs.

Table 7.7: Assumed Increase in Social Insurance Coverage and Estimated Poverty Reduction Effects of Expanding Share of Employment Covered by Social Insurance and by Extending Coverage by Contributory Pensions through 2030

	Coverage (% of All Employed Covered)		Reduction of Poverty Incidence (Percentage Points) by 2030	
Country	2015	2030	Covering All Employees with Full Range of Short-Term Social Insurance Benefits	Covering All Employees with Social Insurance Pensions
Azerbaijan	33	35	– 1.4	– 0.2
Cambodia	0	22	– 21.9	– 2.3
PRC	40	53	– 13.3	– 3.2
India	12	21	– 8.9	– 1.1
Indonesia	14	36	– 22.4	– 2.8
Kazakhstan	66	69	– 2.8	– 0.4
Lao PDR	2	15	– 13.3	– 1.0
Malaysia	62	75	– 13.6	– 1.9
Mongolia	52	54	– 2.2	– 0.2
Myanmar	0	12	– 11.9	– 1.5
Nepal	3	27	– 23.1	– 2.4
Philippines	32	55	– 23.0	– 2.3
Sri Lanka	27	57	– 29.7	– 6.2
Thailand	28	42	– 14.1	– 3.8
Timor-Leste	13	30	– 17.6	– 1.2
Viet Nam	25	36	– 11.2	– 1.9
Total	–	–	**– 10.6**	**– 1.3**

– = not applicable, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Source: Author's calculations.

The situation, of course, differs by country. Some have already achieved relatively high coverage by social insurance, and for them, closing coverage gaps requires completing it with noncontributory schemes for those not covered and needing protection. Other countries still need to sharply improve coverage of people with employee status but must also expand social assistance schemes, including social pensions, to close the protection gaps of those in the informal economy. Expansion of social insurance is therefore important, but not a full solution.

Benefit eligibility in contributory pension schemes always requires a certain minimum period of contribution payments and, with old-age pensions, such periods extend to decades. That is why one should not expect any dramatic increase in the number of elderly receiving contributory old-age pensions through 2030 and why closing the protection and coverage gap requires rapid expansion of noncontributory interventions.

Thus, through 2030, the effects of extending contributory pensions on reducing poverty and expanding protection will likely be very small, but one must remember that much larger effects will come within a longer period after 2030, when—after 40 or more years of contributing—the people newly covered before 2030 will retire.

References

Asher, M. G., and A. S. Bali. 2013. Fairness and Sustainability of Pension Arrangements in Singapore: An Assessment. *Malaysian Journal of Economic Studies*. pp. 175–191.

Barr, N., and P. Diamond. 2008. *Reforming Pensions—Principles and Policy Choices*. Oxford University Press.

Chomik, R. 2016. Sustainable Development Goals, Population Ageing, and Social Security in Asia. CEPAR: ARC Centre of Excellence in Population Ageing Research. *Working Paper 2016/23*. Kensington: University of New South Wales.

Das, S. K. 2013. A Brief Scanning on Performance of Mahatma Gandhi National Rural Employment Guarantee Act in Assam, India. *American Journal of Rural Development*. 1 (3). pp. 49–61.

Durán-Valverde, F., J. F. Aguilar, J. F. Ortiz Vindas, D. Muñoz Corea, A.C. de Lima Vieira, and L. Tessier. 2013. Innovations in Extending Social Insurance Coverage to Independent Workers: Experiences from Brazil, Cape Verde, Colombia, Costa Rica, Ecuador, Philippines, France and Uruguay. *Extension of Social Security Working Paper*. No. 42. International Labour Office.

Holzmann, R. 2014. Old-Age Financial Protection in Malaysia—Challenges and Options. *Social Protection Discussion Paper*. No. 1425. World Bank Group.

Holzmann, R., and R. Palacios. 2001. Individual Accounts as Social Insurance. *Social Protection Discussion Paper*. No. 0114. World Bank Group.

International Labour Organization (ILO). 2008a. *Tanzania: Social Protection Expenditure and Performance Review and Social Budget*. Geneva.

———. 2008b. *Zambia: Social Protection Expenditure and Performance Review and Social Budget*. Geneva.

———. 2010. *World Social Security Report 2010/2011*. Geneva. http://www.socialsecurityextension.org/gimi/gess/ShowTheme.do?tid=1985.

———. 2014a. *World Social Protection Report 2014/15*. Geneva. http://www.socialsecurityextension.org/gimi/gess/ShowTheme.action?th.themeId=3985.

———. 2014b. Global Employment Trends 2014: Supporting Data Sets. http://www.ilo.org/global/research/global-reports/global-employment-trends/2014/WCMS_234879/lang--en/index.htm (accessed February 2017).

———. 2016. *Mongolia—Financial Assessment of the Proposed Reform to the Social Security System for Older Persons and a Proposed New Pension Scheme for the Herders and Self-employed Persons*. Geneva.

Jackson, R., and T. Peter. 2015. *From Challenge to Opportunity. Wave 2 of East Asia Retirement Survey*. Washington, DC: Global Aging Institute.

Kamath, R. 2010. National Rural Employment Guarantee Act: An Effective Safety Net? *IIMB Management Review*. 22. pp. 42–55.

MacKellar, L. ed. 2009. Pension Systems for the Informal Sector in Asia. *Social Protection Discussion Paper*. No. 0903. World Bank Group.

Ortiz, I., M. Cummins, and K. Karunanethy. 2015. Fiscal Space for Social Protection: Options to Expand Social Investments in 187 Countries. *Extension of Social Security Working Paper*. No. 48. International Labour Office. http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=51537.

World Bank. 2016. *Live Long and Prosper: Aging in East Asia and Pacific. World Bank East Asia and Pacific Regional Report*. Washington, DC.

———. 2017a. Data on Pensions, Social Protection and Labor, Table "Active Coverage 4Q2013" http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTPENSIONS/0,,contentMDK:23231994~menuPK:8874064~pagePK:148956~piPK:216618~theSitePK:396253,00.html (accessed February 2017).

World Bank Aspire Database. 2017b. *The Atlas of Social Protection Indicators of Resilience and Equity*. http://datatopics.worldbank.org/aspire/ (accessed February 2017).

6 ADB Avenue, Mandaluyong City, 1550 Metro Manila, Philippines
Tel +63 2 632 4444; Fax +63 2 636 2444
www.adb.org

ISBN 978-92-9261-290-0 (Print), 978-92-9261-291-7 (e-ISBN)
Publication Stock No. TCS178935-2
DOI: http://dx.doi.org/10.22617/TCS178935-2

Notes:
In this publication, “$” refers to United States dollars.
Corrigenda to ADB publications may be found at http://www.adb.org/publications/corrigenda.