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Social security coverage extension in the BRICS

A comparative study on the extension of coverage in Brazil, the Russian Federation, India, China and South Africa

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Abbreviations and acronyms

AABY	Aam Admi Bima Yojana (India)
AIDS	acquired immune deficiency syndrome
ANS	Agência Nacional de Saûde Suplementar (National Agency for Supplementary Health Care) (Brazil)
ART	antiretroviral therapy
BPC	Benefício de Prestação Continuada (Continuous Cash Benefit) (Brazil)
BRL	Brazilian Real
CAPS	Caixas de Aposentadorias e Pensões (Pension and Retirement Funds) (Brazil)
CBHI	community-based health insurance
CCT	conditional cash transfer
CGHS	Central Government Health Scheme (India)
CIS	Commonwealth of Independent States
CNY	Chinese Yuan
CPI	Consumer Price Index
CRAS	Centro de Referência de Assistência Social (Referral Centre for Social Assistance (Brazil)
DB	defined benefit
DC	defined contribution
EA	enterprise annuity (China)
EP	employed persons
EPF(O)	Employees' Provident Fund (Organization) (India)
EPS	Employees' Pension Scheme (India)
ESI(C)	Employees' State Insurance (Corporation) (India)
GDP	gross domestic product
GHSi	Global Health Strategies Initiatives
HDI	Human Development Index
IAPS	Institutos de Aposentadorias e Pensões (Retirement Pension Institutes) (Brazil)
IBGE	Instituto Brasileiro de Geografia e Estatistica
ICROP	Integrated Community Registrations Outreach Programme (South Africa)
ICT	information and communications technologies
ID	identification

IDSUS	SUS performance index (Brazil)
IGNOAPS	Indira Gandhi National Old Age Pension Scheme (India)
IIMPSL	Invest India Micro Pension Services Limited (India)
ILO	International Labour Office /Organization
IMF	International Monetary Fund
INCS	International Conference of Labour Statisticians
INPS	Instituto Nacional de Previdência Social (National Institute of Social Welfare) (Brazil)
INR	Indian Rupee
INSS	Instituto Nacional do Seguro Social (National Institute for Social Security) (Brazil)
IPEA	Instituto de Pesquisa Economica Aplicada (Brazil)
IRDA	Insurance Regulation Development Authority (India)
IRKS	individual (personal) registration system (Russian Federation)
ISSA	International Social Security Association
LIC	Life Insurance Corporation (India)
MCA	Ministry of Civil Affairs (China)
MDMS	Mid Day meal Scheme (India)
MDS	Ministry of Social Development (Brazil)
MFI	microfinance institution
MHI	mandatory (compulsory) health insurance
MLA	Member of the Legislative Assembly (India)
MOF	Ministry of Finance (China)
MOH	Ministry of Health (China)
MOHRSS	Ministry of Human Resources and Social Security (China)
MOLSS	Ministry of Labour and Social Security (China)
MOSPI	Ministry of Statistics and Programme Implementation (India)
MPS	Ministry of Social Welfare (Brazil)
NBS	National Bureau of Statistics (China)
NCEUS	National Commission for Enterprises in the Unorganised Sector (India)
NCSSF	National Council of Social Security Fund (China)
NDC	notional defined contribution
NFSB	National Food Security Bill (India)

NGO	non-governmental organization
NHI	National Health Insurance (South Africa)
NOAPS	National Old Age Pension Scheme (India)
NPF	National Pension Scheme (India)
NRCMS	New Rural Cooperative Medical Scheme (China)
NSS	National Sample Survey (India)
NSSF	National Social Security Fund (China)
OECD	Organisation for Economic Co-operation and Development
OSS	Orçamento de Seguridade Social (Social Security Budget) (Brazil)
PAT	Programa de Alimentação do Trabalhador (Workers Food Programme) (Brazil)
PAYG	pay as you go
PBF	Programa Bolsa Família (Brazil)
PETI	Programa de Erradicação do Trablho Infantil (Programme for the Eradication of Child Labour) (Brazil)
PFRDA	Pension Fund Regulatory and Development Authority (India)
PPP	purchasing power parity
RAF	Road Accident Fund (South Africa)
RSBY	Rashtriya Swasthya Bima Yojana (India)
RUR	Russian Rouble
RVPS	Rajasthan Vishwakarma Pension Scheme
SASSA	South African Social Security Agency
SCIO	State Council Information Office (China)
SEWA	Self-Employed Women's Association (India)
SFPC	State Family Planning Commission (China)
SHG	self-help group
SME	small and medium-sized enterprise(s)
SOE	state-owned enterprise
SUS	Sistema Único de Saúde (Single Health System) (Brazil)
TCU	Tribunal de Contas de União (Accountability Court of the Union) (Brazil)
TFR	total fertility rate
TPDS	Target Public Distribution System (India)
UEBMIS	Urban Employees Basic Medical Insurance Scheme (China)

UI	unemployment insurance
UIDAI	Unique Identification Authority of India
UIF	Unemployment Insurance Fund (South Africa)
UN-DESA	United Nations Department of Economic and Social Affairs
URBMIS	Urban Residents Basic Medical Insurance Scheme (China)
USD	United States Dollar
UTI-AMC	UTI Asset Management Company (India)
WHO	World Health Organization
ZAR	South African Rand

Foreword

The BRICS

The acronym "BRIC" stands for Brazil, the Russian Federation, India and China. It was first coined in 2001 by Jim O'Neill, then Head of Global Economic Research at Goldman Sachs, to refer to what he predicted would be the four fastest growing emerging economies. "BRIC" became "BRICS" in late 2011 when South Africa was invited to join the group. In March 2012, the fourth BRICS summit was convened in India, following the first in the Russian Federation in 2009, the second in Brazil in 2010, and the third in China in 2011. The next summit is scheduled to take place in South Africa in 2013.

In the late 20th and early 21st centuries the five countries have all gone through major institutional transitions, as well as changes in their economic structure. In the 1950s, most had economies based on a centrally planned model or with a significant role for the State. "Later on, in all these countries, inward oriented and more or less centrally planned development strategies from the 1950s to the 1970s were replaced by gradual integration in the global economy in the 1980s and 1990s" (Cassiolato and Lundvall, 2005).

Varying country profiles but common challenges

As shown in the this report each of the BRICS countries has a unique profile. The share of urban population ranges from 30 per cent in India to 87 per cent in Brazil; the mean years of schooling from 4.4 years in India to 9.8 years in the Russian Federation; the unemployment rate from less than 3 per cent in India to around 25 per cent in South Africa; and 2011 per capita gross domestic product (GDP) in terms of purchasing power parity (PPP) from USD 5,432 in India to nearly USD 13,000 in the Russian Federation. However, the five countries are facing some common challenges with regard to ageing of their populations, urbanization, vulnerability to environmental shocks, increasing labour market fragmentation, growing income disparity, and the need to more fully exploit and leverage information and communications technologies (ICT). In general, the BRICS countries' global rankings according to the Human Development Index (HDI) – which measures the average achievements in a country in terms of a long and healthy life, access to knowledge and a decent standard of living – remained low among 187 countries in 2011, ranging from No. 134 for India to No. 66 for the Russian Federation.

Growing economic and political clout

Accounting for over 40 per cent of the global population, nearly 30 per cent of the land mass and a share in world GDP in terms of PPP that increased from 16 per cent in 2000 to nearly 25 per cent in 2010 (Government of India, 2012), the BRICS countries have gained increasing international prominence due to their rapid economic growth and corresponding rise in political status.

In terms of economic growth, for instance, the average annual GDP growth of the BRICS countries exceeded 8 per cent in the first decade of this century, significantly higher than the average of 2.6 per cent in developed countries and the global average of 4.1 per cent over the same period. According to the International Monetary Fund (IMF), the contribution to global economic growth by the BRICS countries (in terms of PPP) rose from 13.1 per cent in 2000 to over 60 per cent in 2010, while that of developed economies decreased from 76.6 per cent in 2000 to about 30 per cent in 2010 (Lin and Zhou, 2011). From 2001 to 2010, the total trade among BRICS countries increased on average at an annual rate of 28 per cent, reaching USD 239 billion in 2010 (Titarenko, 2012).

By 2015, the BRICS share of global GDP is likely to surpass 40 per cent (Dmitriev, 2012) and by 2030 the cumulative BRICS GDP is expected to exceed that of the G8 major industrialized countries (Kokotsis, 2012).

In terms of geopolitical importance, all five countries are members of the G20. The Russian Federation (which is also a member of the G8) and China are both permanent members of the United Nations Security Council. Recent years have witnessed a shift in the focus of multilateral financial institutions such as the IMF to give the BRICS a substantial role in decision-making. More importantly, the current transition of BRICS countries from recipient to donor status has helped maintain the level of spending on foreign assistance and global health programmes in the context of reduced aid spending by major donor nations due to the economic and financial crisis, and has contributed to the establishment of new models of cooperation that may challenge traditional thinking about foreign assistance. It is estimated that the average annual growth in the BRICS' foreign assistance spending between 2005 and 2010 was more than ten times higher than that of the G7 (GHSi, 2012).

Why a BRICS social security comparative study?

As new drivers of global economic growth and major geopolitical players, the BRICS countries are also becoming more well-known for their substantial commitments to social protection and the remarkable extension of social security coverage. While the expansion of social security used to take place mainly in developed countries, the past two decades have witnessed major developments and innovations in emerging economies, particularly in BRICS countries.

Among such examples are the National Rural Employment Guarantee Scheme and the Rashtriya *Swasthya Bima Yojana* health insurance scheme for the informal sector in India; a rights-based approach to social security in South Africa, whose Government launched in 2012 an ambitious universal health insurance programme; and the *Programa Bolsa Família,* a conditional cash transfer (CCT) programme implemented in Brazil, where the population classified as "middle class" grew from 38 per cent in 2001 to 55 per cent in 2011.

China too has made important breakthroughs in the extension of social security coverage. For example, the coverage rate for health insurance rose from 318 million people (24 per cent of the population) in 2005 to 1.26 billion people (94 per cent of the population) in 2010, an average monthly increase of nearly 16 million people in five years.

The Russian Federation is tackling the challenges of improving the adequacy and sustainability of social security schemes, curbing the shrinking of coverage and enhancing social protection for migrants and informal-sector workers.

In spite of different cultural, political and socio-economic backgrounds, the BRICS countries share common challenges in enhancing social protection for their populations. These include an ageing of the population; relatively high official and hidden unemployment (especially among unskilled workers); uneven regional development; large income gaps between various social groups; fragmentation of social security schemes and barriers to portability of social security benefits; weak grass-roots/frontline social security infrastructure; gaps in the utilization of information and communications technology; coordination of social security programmes with other social policies and programmes; and the need to extend protection to informal-sector and migrant workers. The expectations of the population are also evolving, leading to increased demands for higher benefits and better services – which in turn requires administrations to address the long-term social and financial sustainability of programmes.

The first annual BRICS Health Ministers Meeting was held in July 2011 in Beijing, where the Beijing Declaration was issued to emphasize the importance of collaboration and innovation in public health across the BRICS and with other countries. The BRICS State leaders directed through the Delhi Declaration issued at the fourth BRICS summit in 2012 that in view of a number of similar public health challenges including universal access to health services, the BRICS Health Ministers Meetings should be "institutionalized in order to address these common challenges in the most cost-effective, equitable and sustainable manner". Among the five countries, Brazil is the only country which has ratified the International Labour Organization (ILO) Social Security (Minimum Standards) Convention, 1952 (No. 102), and the Government of the Russian Federation has recently announced its plan to do so in the near future.

In view of these significant trends, the International Social Security Association (ISSA) Secretariat has launched a project on social security developments in the BRICS countries, with special emphasis on the extension of coverage.

Objective and major outcomes

The overall objective of this project is to promote the implementation of the ISSA strategy for the extension of social security coverage launched at the 2010 World Social Security Forum in Cape Town, and thereby assist ISSA member institutions in the BRICS and other countries in their efforts to extend coverage in both qualitative and quantitative terms. Key outputs include:

- a comparative study on progress made in the extension of coverage in the BRICS countries, with a focus on innovations that measurably extend and improve coverage, the role of administration and how administrative challenges were overcome;
- an observatory of social security coverage extension in the BRICS countries on the ISSA Web portal; and
- the development of platforms for knowledge sharing and transfer, within and outside ISSA and through both bilateral and multilateral arrangements, where social security administrators, policy-makers and researchers from the BRICS countries can learn directly from each other, and inform and catalyse developments in other parts of the world.

We believe that the findings of this comparative study will provide an important input into the ISSA series of handbooks on extension of coverage to difficult-to-cover groups. It highlights common barriers to increasing coverage and pragmatic and innovative policies and administrative responses to address these.

We hope that the results of the study and subsequent activities under the project will prove a valuable information source for all countries sharing the BRICS commitment to extending social security coverage and providing social protection for all.

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1. Universal social security coverage and democracy: The Brazilian path to nation building

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1. Universal social security coverage and democracy: The Brazilian path to nation building

Summary

Brazil's recent strong economic performance and improved social indicators have received global attention, but much could be done to consolidate these achievements. The extension of coverage, which has been a policy priority for several decades, is a key element to understanding Brazil's resilience during the global financial and economic crisis. But more growth and employment, a higher quality of state intervention, and improved allocation of resources and personnel are of critical iseemportance. The immediate policy challenges can be met not only via constitutional reform, but, in the shorter term, through administrative reform and improved regulatory performance. The considerable achievements in the extension of social security coverage have been mostly restricted to basic protection involving income transfer or social services. The complexities involved with an ageing and wealthier society are far from resolved, and over 70 per cent of Brazilian families still have insufficient income to cope with their needs. Without further and deeper reforms to reduce inequalities, it will be difficult for the country to achieve its potential.

1.1. Economic and social background

In 2010 the population of Brazil was 190.7 million, with 160.9 million or 84.4 per cent living in urban areas and 29.8 million or 15.6 per cent in rural areas, compared to 81.7 per cent and 18.7 per cent in 2000 (IBGE, 2011). Between 2000 and 2010 average family size decreased from 3.8 to 3.3 individuals. The percentage of the population with university degrees increased from 7 to 11.2, and the illiteracy rate dropped from 12.9 to 9.5 per cent.

Average life expectancy increased from 65.1 in 1990 to 70.4 in 2000 and 73.5 in 2010. The segment of the population aged 65 and over is growing rapidly (see Table 1.1).

Table 1.1. Brazil: Demographic changes, 1980–2050

Population	1980	2010	2050 (est.)
Under age 15	38.2	25.6	13.2
Ages 15–64	57.6	67.6	64.1
Ages 65 and over	4.0	6.8	22.7

In 1980, Brazil reached the so-called "demographic dividend", with increasing numbers of adults compared to the dependent population. Since then, there has been a decline in the younger cohorts and a rapid increase among those 60 years and older. However, this demographic bonus became a "demographic onus" since the economy was stagnant, and high unemployment rates and informality remained prevalent.

From 1987 to 2004 Brazil was unable to generate sufficient formal jobs. Criminality rose fast, and productivity, according to the International Labour Organization (ILO), remained stagnant. After 2004, more favourable terms of trade for Brazilian export products contributed to gross domestic product (GDP) growth. This scenario, together with the expansion of the domestic market through the improvement of income among the lower deciles, led to massive job creation.

Despite the recent global financial and economic crisis, Brazilian GDP has experienced moderate average annual growth when compared to the period between 1940 and 1980. Between 1980 and 2010 average real GDP growth was equivalent to 3.3 per cent and the GDP per capita growth to 2.8 per cent. Estimated GDP by the end of 2011 is equivalent to USD 2.42 billion, which is sixth in the world. Per capita GDP is estimated at USD 12,917 in 2011, ranking 53rd according to the International Monetary Fund (IMF).

According to the Brazilian Central Bank, the country's current foreign currency reserves are about USD 350 billion. Nevertheless, Brazil faces challenges with respect to inflation, rising labour costs in key economic sectors, and possible housing bubbles in the largest urban areas. Municipal and state debt has been on a stable path since the country adopted strict fiscal measures known as the Fiscal Responsibility Laws in the late 1990s, and the fiscal budget has had consistent primary surpluses since 2001, despite the very high interest rates burden (upon a declining public debt).

The current Gini coefficient is very high, at 53.6 according to the Census carried out by the *Instituto Brasileiro de Geografia e Estatistica* (IBGE) for 2010. Differences between lower and higher percentiles are enormous. The Gini Index is inferior to South Africa and well above that in China, India and the Russian Federation, where according to World Bank data inequality is increasing, unlike in Brazil.

Brazil's total health expenditure in 2008 was equivalent to 8.4 per cent of GDP. Public spending on health care represented 3.7 per cent of GDP and private health care expenditures, covering 27 per cent of the population, represented 4.7 per cent of GDP. Expenditures on pensions are equivalent to 13.1 per cent of GDP, of which social assistance represents 1.7 per cent and unemployment benefits 0.7 per cent.

Employment elasticity has been constant over the years (from 0.71 between 1979 and 1990 and 0.73 in 2007). In 2011 there were a total of three million individuals in urban areas searching for jobs, including 1.2 million new university graduates, while only 2.3 million new urban jobs were expected to be created. According to the IBGE, the unemployment rate was 5.8 per cent in October 2011, with 76 per cent of the unemployed receiving unemployment insurance benefit.

By the end of 2009 there were 95.6 million employed persons in Brazil, with 78.4 million employed in urban areas. Public employees earned an average monthly wage of BRL 2,314, while the average for urban private-sector employees was BRL 1,144. In rural areas there were 29.4 million rural farmers and workers with an average monthly wage of BRL 447.

1.2. Social security in Brazil: A historical overview

Social protection coverage in Brazil dates back to the colonial period, when in 1554 the *Santa Casa de Misericórdia* in Santos first provided it for Portuguese officials. After the installation of the Portuguese Court in Rio de Janeiro in 1808, pension and medical assistance was provided to select groups.

In 1919, after the formation of the International Labour Organization, work accident insurance was provided via mandatory contributions to insurance companies. In 1923 the Pension and Retirement Funds *(Caixas de Aposentadorias e Pensões – CAPs)* were created; these were defined benefit (DB) programmes, fully funded with contributions from employees and employers.

After the 1930 Revolution, state intervention was widespread and social policies were adopted in order to modernize society and spur development though industrial investment. In 1930 and 1931 President

Getulio Vargas created the Ministry of Labour, which was in charge of social security, as well as the Ministry of Education and Health. This new Ministry coordinated health and medical assistance to workers, which it managed with pension institutions.

In 1933, the Government created the Retirement Pension Institutes (*Institutos de Aposentadorias e Pensões* – IAPs). The IAPs were focused on professional categories; by the end of the 1940s all urban workers were covered, with benefits varying by category. Usually workers with the strongest political influence were entitled to receive medical assistance.

As part of his drive to remain in power in 1945, President Vargas proposed the creation of a centralized social security institution for all citizens. This attempt failed, however, and after democratic elections the legislature approved a new Constitution that consolidated labour rights and even proposed the creation of unemployment benefits.

In 1953, under the second Vargas administration, new initiatives were adopted. The civil service was regulated, all remaining CAPs were included under the IAPs, and the new administration created the Ministry of Health, splitting it from education. In 1960 new legislation for social security was approved that implemented uniform criteria for financing and benefits.

But centralization of the IAPs and new administrative and institutional reforms only took place from 1966 to 1968, when a new centralized institution encompassing all IAPs except those for public-sector workers was created. The fully funded schemes were replaced by a pay-as-you-go (PAYG) plan. The increasing costs of medical care and rapid urbanization, together with poor accounting standards and poor administrative performance, jeopardized funding and led to the creation of the National Institute of Social Welfare (*Instituto Nacional de Previdência Social* – INPS). Workers' compensation insurance was also redirected to the INPS, as was health insurance, with services contracted out to private and philanthropic institutions. Finally, new legislation removed employment stability for workers, and substituted it with a fund (FGTS), for separation without cause.

Between 1971 and 1974 after decades of debate, the military government which had taken power in 1964 adopted new legislation to cover rural workers, the self-employed and domestic workers. However, rural workers had severely restricted benefits. In 1977 there was a major administrative reform with the creation of INAMPS – an institution responsible for medical assistance.

After the end of the military regimes, democratic institutions emphasized social inclusion. The struggle for universal coverage and social rights was consolidated in 1988 with the adoption of the new Constitution, which represented a turning point.

1.3. Extending social security coverage in Brazil: A key policy target

While under the 1971 law, rural workers received less extensive benefits, universal coverage guaranteeing equal treatment of all workers was enacted in the 1988 Constitution There was considerable controversy over specific language in the Constitution that critics viewed as inefficient and financially onerous but that supporters viewed as necessary to reduce Brazil's perennial inequality and its social debt towards the poorest. Since that time, all policies to extend coverage have been derived from the constitutional principles approved in 1988.

The following discussion of efforts to extend social security coverage therefore begins with the 1988 Constitution.

1.3.1. Constitutional legislation: The pillar for coverage extension

The introduction of the concept of social security (*seguridade social* in Portuguese) in the 1988 Constitution was a key principle in social policy. According to the Constitution the policies encompassing pensions, unemployment insurance, health care and social assistance should be cohesive in order to improve coverage and deliver social protection as a right of citizenship. Social security was at the very core of efforts to promote a successful democratic transition.

The basic principles of the Constitution are:

- universality of coverage and service;
- uniformity and equivalence for urban and rural populations;
- selectivity and distributiveness in the provision;
- irreducibility of the value of the benefits;
- equitable participation in funding;
- diversity of financing; and
- democratic and decentralized management, by means of the participation of workers, employers, retired persons and the government.

Universality is the core of the Constitution and equity was related to progressive taxation as well as the need for diversification in order to avoid financial shortfalls as seen in the pension crisis of 1982. From 1964 to 1984 the military-based administrations treated social needs as subordinate to the economic imperatives; the constitutional deliberations were conceived as a reaction to this agenda, with emphasis on the argument that there is no development without welfare.

Democratic and decentralized character was a key principle. It is important to underline that these policies are relevant in different spheres:

- local in the 5,565 municipalities, involving management of service delivery and the contracting out of private and philanthropic services to complement public ones when the disposal of public services is insufficient;
- regional in the 27 member states of the federation that develop interaction between municipalities, coordinate actions and help to provide training for personnel as well as organizing the planning; and
- central in the national sphere, involving tax collection, strategic planning, regulation and monitoring.

These administrative spheres interact through bipartite and tripartite commissions in order to harmonize policies and settle conflicts and budget or attributions involving each sphere. Finally, there are periodic national conferences involving all the actors in the political process to establish guidelines for public policy action. This model is particularly developed with respect to health care as well as, to a smaller degree, social assistance and education. Cash transfer policies such as pension or unemployment insurance are much more centralized in the federal sphere, although local commissions are far from being irrelevant.

Last but not least, in order to confer credibility on the new reforms, the National Institute for Social Security (*Instituto Nacional do Seguro Social* – INSS) replaced the INPS and the Social Security Budget (*Orçamento de Seguridade Social* – OSS) was created. The OSS was funded from multiple sources, including:

- payroll taxes (*folha salarial,* targeted to pensions of the private sector);
- taxes on added value (COFINS);
- taxes on earnings and profits (CSLL);
- company revenues (PIS/PASEP, exclusively for unemployment insurance);
- lotteries; and
- financial transactions – CPMF – from July 1993 to December 2007.

The OSS was intended to fund pensions, health care and social assistance. By combining these various policy areas under a new legal definition, policy-makers would presumably have more stable resources, and budgets would presumably be insulated from political interference, particularly from the Ministry of Finance.

The impact of the 1988 Constitution – which specified the parameters of social protection – is critical to understanding how events have unfolded in subsequent years. All policies were intimately and directly influenced by the Constitution and one cannot understand social protection in Brazil without familiarity with its provisions.

1.3.2. Universal coverage: Health care institutions as a paradigm

The Brazilian Constitution lists the following principles of health coverage and its integration with social security:

- Health is a right of all and a duty of the State and shall be guaranteed by means of social and economic policies aimed at reducing the risk of illness and other hazards and at universal and equal access to actions and services for its promotion, protection and recovery.
- Health care and services are of public importance, and it is incumbent upon the Government to provide, in accordance with the law, for their regulation, supervision and control, and they shall be carried out directly or by third parties and also by individuals or private legal entities.
- Health care and public services are integrated into a regionalized and hierarchical network and constitute a single system.

The principles of health care, currently adopted by the Single Health System (*Sistema Único de Saúde* – SUS) are characterized by:

- decentralization, with a single authority in each sphere of government;
- full coverage, priority being given to preventive activities without prejudice to assistance services; and
- community participation.

Health care in Brazil is provided by both the public and private sectors. In the public sector the system has a strong hierarchy as prescribed by the Constitution, and an intense involvement of all spheres of government. The authorities are coordinated by national, state and municipal governments though the Ministry of Health and by the Secretaries of Health in sub-national units.

Specifically, the main differences concern the local level, since the 5,565 municipalities differ sharply among themselves in terms of infrastructure and their capacity to absorb human resources with the necessary skills to deliver adequate health care. According to Matijascic, Guerra and Aldrin (2011), 1,865 municipalities, mostly in the poorest regions, do not provide urgent care. Since these are important differences, there is more or less autonomy at the municipal level to manage resources and hire staff, or in the use of private-sector services to supplement the needs of the population. As municipalities grow and develop infrastructure and human resources, they are entitled to increasing autonomy with respect to health. Establishing programmes for family medicine, public health measures and preventive policies is crucial for increasing autonomy.

Two additional autonomous government agencies are tasked with oversight and regulation:

- ANVISA – public health services, involved with pharmaceutical products and public health in public spaces; and
- ANS – for supplementary health care to establish regulations for providers in the private sector.

The private sector is based on four essential institutions: group medical care, insurance companies, cooperatives and company-sponsored plans.

It is obvious that multiple and diverse health care initiatives contributed to the achievement of universal coverage. Among them are the following:

- 1990 Law 8,080 regulates health care actions
- 1991 Programme of community agents for health assistance
- 1996 National family health care programme
- 1999 Generic medicine programme with tax incentives
- 2001 NOAS – mandatory creation of regional plans (involving multiple municipalities) for health care infrastructure and the creation of consortiums
- 2004 Popular Pharmacy Programme
- 2006 Creation of managerial contracts with municipalities and their contracts with local providers.

Financial resources were the main limitation, although problems with the quality of human resources quality were also an issue. Overall, though, the results were positive, and very positive with respect to coverage. Although the share of health care as a percentage of GDP was declining in the public budget, coverage indicators usually increased. It is important to highlight the family care programme and preventive measures, especially those associated with public health surveillance that reduced the need for hospital assistance.

In order to present a basic picture of Brazilian health care, Table 1.2 presents selected coverage data from the IBGE household surveys of 1998, 2003 and 2008. The data does not reflect regional and local disparities, and does not represent the typical health condition of the average Brazilian.

Table 1.2. Brazil: Selected health coverage indicators, 1998, 2003 and 2008

Selected indicators	1998	2003	2008
Medical consultations per capita	2.2	2.4	2.6
Medical consultations in the last 12 months (%)	54.7	62.8	67.7
Dentist consultations in the last 12 months (%)	33.2	38.8	40.2
Hospitalizations (%)	7.2	6.6	5.6
Births in hospitals (%)	96.4	96.6	97.7
Coverage under private plan (%)	24.5	24.6	25.9
Physicians per 1,000 inhabitants	1.3	1.5	1.8
Dentists per 1,000 inhabitants	0.9	1	1.2
Nurses per 1,000 inhabitants	0.4	0.5	0.9
Aid nurses per 1,000 inhabitants	0.4	0.8	2.5
Nutritionists per 1,000 inhabitants	0.2	0.2	0.3
Municipalities with family care programme (%)	20.3	80.7	94.1
Teams for family care programme	4,945	19,068	29,300
Beds per 1,000 inhabitants	3	2.7	2.3
Beds for SUS[1] per 1,000 inhabitants	0.9	0.8	0.8

Note: [1] SUS = Sistema Único de Saúde (Single Health System).
Sources: DATASUS and IBGE/ANS for selected years.

Heterogeneity can be seen in Table 1.3, which lists health equipment available according to the size of the municipality.

Table 1.3. Brazil: Disposable equipment according to the population of the municipality, 2009 (percentages)

Thousand inhabitants	Magnetic resonance	X-Ray	Tomography
0-5	0.0	11.9	0.0
5-10	0.0	27.6	0.0
10-20	0.0	60.1	1.2
20-50	2.2	82.2	9.5
50-100	19.5	97.4	73.6
100-500	54.3	99.3	81.1
500 +	96.2	100.0	97.9

Sources: IBGE/ANS for selected years.

It is usually impossible to spend on expensive and delicate equipment if the scale for use is insufficient. Small municipalities lack scale and, most of the time, human resources to deal with more sophisticated equipment such as tomography or magnetic resonance equipment. Nevertheless, in a country the size of a continent, distances are long and transportation infrastructure is inconsistent, which means that populations of towns with 20,000 people or less might be in a precarious situation if they need more sophisticated equipment. Additionally, 1,852 municipalities do not have establishments to deal with medical emergencies. In other words, there remain challenges to improving coverage.

Moreover, as shown by IBGE/ANS data, the more sophisticated procedures are concentrated in the private sector and are largely unavailable to the 75 per cent of the population not in private plans. There is an incidence of 44.3 tomography machines for one million insured in the private sector, inferior only to Australia and Japan among OECD countries. All equipment available would represent an index of 15.8, a figure very similar to Finland and Germany and quite average for OECD countries. But for those covered by the SUS, the figure is 6, superior only to Mexico among OECD countries. The figures are almost identical of magnetic resonance. In sum, heterogeneity in Brazil does not fall only along urban/rural or large and small municipalities, but also according to household income.

The challenge for the Brazilian health care system is to expand the infrastructure and the availability of quality and efficient services to the vast majority of the population to reduce inequalities and improve human development. This situation is particularly challenging given the fact that massive fraud and tax evasion took place when services were contracted out in the past.

1.3.3. Cash transfer benefits: An age of profound change

According to the Constitution, the social security system is organized as a general scheme based on contributions and mandatory participation, with due regard for criteria that preserve financial and actuarial balance, and shall provide benefits for:

- illness, disability, death and old age;
- maternity, especially for pregnant women;
- involuntary unemployment;
- allowance and confinement for dependants of the low-income insured; and
- survivors' pensions.

Social assistance shall be rendered to whomever may need it, regardless of contribution, and shall have as objectives:

- protection for the family, maternity, childhood, adolescence and old age;
- assistance to needy children and adolescents;
- promotion of integration into the labour market;
- rehabilitation of people with disabilities and their integration into community; and
- guarantee of a monthly benefit of one minimum wage to people with disabilities and to the elderly who prove incapable of supporting themselves.

The federal social security system, compulsory for all salaried workers and optional for the self-employed, has two regimes:

- The General Social Security Regime, managed by the INSS and encompassing all urban and rural private-sector employees, employees in government-owned firms, and the self-employed.
- The Statutory Social Security Regimes for Civil Servants, covering all federal employees. State and municipal systems (most covered by INSS) have their own schemes.

The Ministry of Social Security is charged with managing the general regime and the statutory systems sponsored by states and municipalities. The federal system is managed by the Ministry of Planning, Budget and Management.

Most of these statutory regimes plan to adopt defined contribution (DC) pension funds.[1]

The system also includes two supplementary regimes:

- Closed private pension programmes that are exclusive to workers (or a category of workers) in a given firm. The majority of these programmes are DC. Supervision is the responsibility of the National Superintendency of Complementary Pensions (PREVIC).
- Open complementary private pension programmes, also generally DC, that are open to any worker seeking supplementary retirement savings. Benefit levels vary by plan and are under the supervision of the Superintendency of Private Insurance (SUSEP) at the Ministry of Finance.

In this respect, the coverage of the public systems and the closed complementary funds for workers in state-owned enterprises tend to offer better guarantees than do other programmes because they offer higher replacement rates.

Although the 1988 Constitution defines unemployment insurance as a social security policy, benefits are managed by the Ministry of Labour and its regional agencies covering municipalities with higher population. On the other hand, since 2003 social assistance has been administered by the Ministry of Social Development (MDS). The Continuous Cash Benefit (*Benefício de Prestação Continuada* – BPC), which is the main benefit paid by social assistance, guarantees a monthly benefit of one minimum wage (about USD 240 or BRL 560 in December 2011) to the disabled and to the elderly and is paid by the INSS.

More extensive coverage comes from the well-known *Programa Bolsa Família* (PBF), a conditional cash transfer (CCT) to very poor families with children younger than age 17 and with family income inferior to one quarter of the minimum wage per capita (excluding the pensions of any elderly household members). This benefit targets families not targeted by pension benefits; its aim is to alleviate poverty and stimulate school attendance or regular health care visits, according to the kind of benefit of each recipient. The programme is managed by MDS in close interaction with the municipalities and with a political process called SUAS (system of social assistance) almost identical to that of the SUS.

There are also in-kind transfers, but they are targeted to very specific groups and for a limited period of time, except for long-term care institutions, and are usually managed through philanthropic initiatives sponsored by religious institutions. They are a relatively small percentage of the budget, and utilize tax incentives. They are also controversial because the rules governing them are confusing, fraud is widespread, and some political actors prefer the State to provide these benefits.

1. Constitutional Amendment 41, introduced in 2003, made the pension benefit criteria for federal employees similar to that of private-sector workers by imposing a DB ceiling equivalent to that of INSS workers (BRL 3,916 or USD 2,200 in March 2012). The legislation also called for a supplementary DC plan, but political obstacles and budgetary constraints involving transition rules for older workers meant that the initiative was postponed. In 2007, a new proposal called for only new employees to join the DC scheme.

If Bill 1992/2007 is finally approved, the impact on Brazilian financial markets will be significant. There will be more than a million insured when the plan matures. It could expand the assets of the pension fund industry by 40–50 per cent or even more, if regional and local plans are included or if current public employees opt into the new plan, as happened in the 1990s when DB plans were shifted to DC plans in state-owned companies. The proposal was recently approved by the House of Representatives and should not face major obstacles in the Senate.

Since 1991 pensions and the minimum wage have been linked. In addition, rural workers have the right to retire five years before urban workers, and women have the right to retire five years before men or with five fewer years of service.

During the 1990s and 2000s Brazil instituted a number of parametric reforms in the general regime, public service regimes and complementary pension funds. Retrenchment, as defined by Myles and Pierson (2001), was a key feature for pensions. It is difficult to forecast what the reforms will look like when current impasses in the reform process are overcome; however, since the focus of this section is coverage, the analysis will not focus on pension reform (see Matijascic and Kay, 2006, 2009 for details). Most measures undertaken in the period to expand coverage are not typically intrinsic to pension or social insurance, but are rather attached to social assistance or non-contributory schemes such as rural pensions, BPC and CCT. The major initiatives were:

- **1991** Law 8,213 that implemented the Constitution in fixing the minimum wage as a floor benefit and equalizing rural and urban workers;
- **1993-1996** Law 8,742 that implemented the Constitution in creating BPC for the elderly and disabled to substitute for the RMV – a monthly permanent income created in 1974;
- **1996** The Programme for the Eradication of Child Labour (Programa de Erradicação do Trablho Infantil – PETI), with CCT for families and school attendance as a counterpart;
- **2001** Law 10,219, the Bolsa Escola to stimulate school attendance through CCT for all Brazilian families; and, in the same year, Executive Decree 2,026 on food aid for very poor pregnant women and children under 6 years old;
- **2003** Law 10,817, an old-age statute reducing the BPC minimum age to 65 years and excluding pension income of the elderly in determining income for the purpose of CCT programmes; and
- **2004** Law 10,836 on the Bolsa Família, encompassing all previous CCT and expanding more rapidly.

It is important to note that CCT were part of a major strategy to provide poverty alleviation between 1991 and 2003 in a context of severe economic crisis and rigorous fiscal policies through a safety net targeted for the poorest. Furthermore, they were designed as programmes and not universal social rights, reducing fiscal exposure and adapting it to budgetary policy.

Box 1.1. Brazil: Additional efforts to expand social coverage, 1998–2011

1998 – The Brazilian Government adopted a number of new measures to combat unemployment and extend benefits to the unemployed. The supplementary unemployment benefit is for the long-term unemployed (those out of work for between 12 and 18 months). An employer may temporarily dismiss an employee without paying a termination benefit if it sponsors training courses during the same time. The Government pays a training bonus. The temporary dismissal is valid for between two and five months, after which the employer must reintegrate the employee or pay a termination indemnity, together with a penalty of an additional month's salary.

2003 – The Government decided to extend coverage of special pensions related to hazardous work to cooperative members. The law previously covered only employees and non-insured workers. The reform provides further coverage to persons working in former companies that have been transformed into work cooperatives, in particular in the mining sector. Since 2003, cooperative members carrying on an activity subject to hazardous conditions of work are now entitled to contribute for only 15 years, 20 years, or 25 years to receive a pension.

2009 – Brazil announced the extension of Bolsa Família. In expanding the income ceiling for eligible families (from BRL 120 to BRL 137 for poor families and BRL 60 to BRL 69 for families in extreme poverty), the Government planned to add an additional 1.3 million families. The extension of the programme was intended to ease the effects of rising unemployment due to the global economic crisis, but it also served as a national economic stimulus: increasing family income helps to stimulate local and regional economies, as poor families tend to spend money on food, clothing, school supplies and other basic consumer goods.

2011 – President Dilma Roussef announced a new multibillion-dollar anti-poverty plan called Brazil Without Misery (Brasil Sem Miséria), to target 16 million poor people and eliminate dire poverty by 2015. Brazil Without Misery will increase cash transfers by broadening the scope of Bolsa Família. By increasing the number of eligible children per family from three to five, the Government will extend benefits to an additional 1.3 million children. Another aspect of the new anti-poverty programme will be improved access to public services such as education and health care, and improved infrastructure (running water, electricity and sewage disposal). The programme will also increase "productive inclusiveness", improving the economic means of Brazilians through job creation, vocational training, and micro-credit.

Source: Brazilian Presidency of the Republic.

Table 1.4 presents the number of benefits paid by INSS. In many situations there maybe a single person with more than one benefit, especially those receiving both old-age pensions and survivors' pension. Pension benefits for public servants are not included in the table; they represent up to 15-20 per cent more benefits.

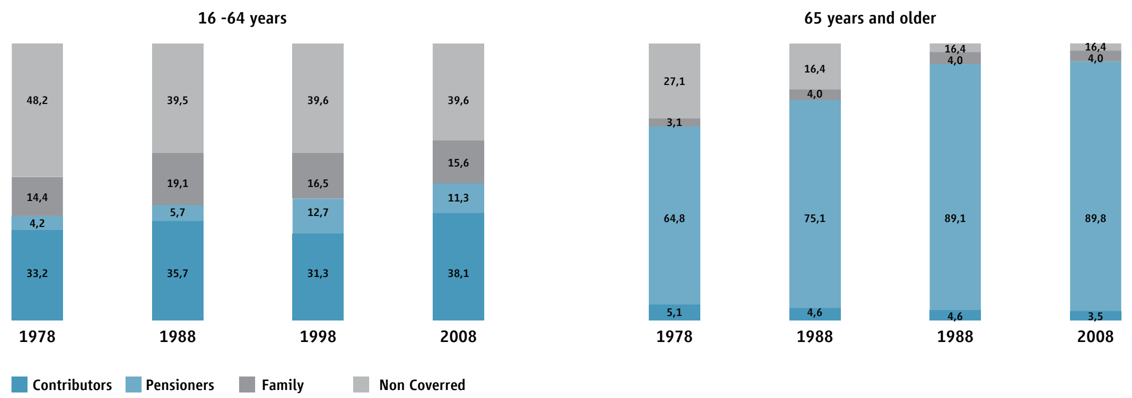
Table 1.4. Brazil: Number of INSS benefits, selected years

Benefits	1995	2000	2005	2009
Total number	**15,724,774**	**19,572,748**	**23,951,338**	**27,048,356**
Social insurance pensions (contributory)	**13,934,776**	**16,862,131**	**20,393,756**	**22,736,409**
Old age	4,786,846	5,589,251	6,676,958	7,856,916
Disability	2,029,989	2,251,069	2,673,536	2,902,600
Length of contribution	2,319,869	3,350,935	3,702,117	4,316,779
Survivor	4,235,420	5,030,850	5,775,998	6,457,846
Illness aid	520,018	492,084	1,492,875	1,078,270
Maternity aid	14,895	132,862	40,548	71,166
Other aid	27,739	15,080	31,724	52,832
Employment injury (contributory)	**572,473**	**669,030**	**755,804**	**798,088**
Pension for the insured	85,168	110,963	143,660	159,766
Survivor	118,562	128,841	130,181	126,740
Illness aid	65,101	77,144	125,335	161,541
Accident aid	197,503	253,760	267,608	275,448
Supplementary aid	106,139	98,322	89,020	74,593
Social assistance (non-contributory)	**1,217,525**	**2,041,587**	**2,792,638**	**3,504,080**
BPC Old age	-	403,207	1,065,604	1,541,220
BPC Disability	-	806,720	1,211,761	1,625,625
RMV Old age	501,944	303,138	157,860	85,090
RMV Disability	701,341	509,643	340,715	237,307

Source: MPS Statistical Yearbook, 1995, 2000, 2005 and 2009.

The number of benefits is inconclusive when it comes to evaluating coverage. Figure 1.1 is designed to bridge the gap by using IBGE household data to define coverage according to individuals and their share in specific cohorts.

Figure 1.1. Brazil: Social security coverage according to status, selected years (percentages)



Source: PNAD/IBGE (annual household survey) for selected years.

Coverage for old age in Brazil is very high in comparison to other BRICS or developing countries, for both contributors and dependants (including survivors): only 2.4 per cent of those 65 and older had no coverage in 2008. For the working-age population, however, there are high and persistent gaps in coverage. The number of contributors has grown only modestly, although the number of beneficiaries and family dependants such as spouses or legal dependants has increased. These numbers are stable and represent an important share of the population. It should be emphasizes that all those insured under public regimes such as the INSS and public servants, as well as BPC, are included in these figures, but that unemployment benefits and the CCT are excluded.

According to the Ministry of Social Development (MDS 2012), nearly 13.8 million families - around 21 percent of all families in Brazil - received a monthly benefit of BRL 137 from the *Bolsa Familia* (PBF) conditional cash transfer program (around USD 67.50 in October, 2012 - about 22 percent of the minimum wage). To qualify for the PBF, families must have income of less than BRL 70 per capita per month (some families are exempted from the income test, including families of agricultural field workers and indigenous communities). In Brazil, nearly 13 million families have a per capita household income of BRL 70 or lower (USD 34.50), nearly 18.2 million have incomes up to BRL 140 (USD 79), and 22 million have per capita household incomes equal to one-half of the minimum wage or less (BRL 311 or USD 155.50). Families earning above BRL 70 per capita are not eligible for the PBF, but are still considered vulnerable.[2]

Data on unemployment insurance are scarce and not updated on a regular and uniform basis. Nevertheless, according to the Instituto de Pesquisa Economica Aplicada (IPEA, 2009), it covered 66 per cent of the unemployed in 1995, 62.1 per cent in 2000 and 63.3 per cent in 2006. The replacement rates were 51.0, 51.3 and 65.1 respectively. The benefit could be paid from 3 to 5 months according to previous regular contribution records, and the ceiling was about USD 550 in 2011.

Finally, as explained previously, the many successful achievements have transformed Brazil into a showcase of social security and social protection policies. Expanding coverage is a key element to understanding how Brazil has overcome the financial crisis and improved its social indicators.

1.4. Key challenges and solutions

Although Brazil has been successful in expanding coverage and adopting a large number of innovative solutions, many challenges remain. Social security policy-making is currently fragmented among the Ministries of Social Security, Health, Social Development, and Labour. As described below, this means that agencies charged with granting and monitoring the payment of benefits or promoting the provision of services are dispersed among the ministries. One of the great challenges is to promote a more integrated approach in order to improve efficiency and expand services to an ageing and increasingly urban and heterogeneous society.

2. It is important to note that Brazil's definition of poverty – which is defined as ¼ of the minimum wage per capita, is higher than the World Bank or UNDP definitions, but is well below the OECD definition, which is considered ½ of the median wage, which would be 421 (around USD 207). Moreover, ½ of the median wage in a developing country with reduced per capita income is a fragile measure since it might not meet basic needs as in fact occurs in Brazil. According to DIEESE (2010), a labour union sponsored think tank, if the rules of the 1940 Minimum Wage legislation were maintained for a family with two adults and two minors children, the monthly wage would be equivalent to BRL 2,713 or BRL 904 per capita (about USD 451, since two minor are considered equivalent to a single adult). In short, there is a considerable distance to go toward providing a basic income in Brazil, and it will only occur with economic growth and adequate social security and social services. See https://www.dieese.org.br/rel/rac/salminMenu09-05.xml.

Reducing mismanagement and outdated institutional mechanisms that serve to concentrate income are essential actions. These problems may well lead to impasses that can put severe brakes on building a just and equitable society. This section analyses the various administrative, institutional and sustainability challenges for social security coverage.

1.4.1. Administrative issues

Fragmentation. The most important administrative challenge in Brazil is limited service and the lack of interaction within the administrative spheres – federal, represented by the central Government; regional, by member states; and local, by the municipalities. The heterogeneity between regions in Brazil is high, but the differences among municipalities, intimately related to the size of their population and GDP, is the key to understanding the challenges that Brazil must overcome to be recognized as a developed country.

Some key indicators reflecting this include (Matijascic, Guerra and Aldrin, 2011):

- 19.3 per cent of municipalities (1,266) have Workers Food Programme offices (*Programa de Alimentação do Trabalhador* – PAT);
- 18.6 per cent of municipalities have INSS offices;
- half of municipalities have public health service monitoring;
- 1,733 or 31.1 per cent of municipalities do not offer social assistance referral services (*Centro de Referência de Assistência Social* – CRAS);
- 1,875 or 33.7 per cent of municipalities do not have hospitals with internment capacities;
- 1,867 or 33.6 per cent of municipalities lack emergency rooms; and
- 428 or 7.7 per cent of municipalities do not have resident physicians hired by SUS.

In contrast, all municipalities have ambulatory services and elementary schools. In other words, key extension efforts have been targeted to offering the most essential services, while those that require higher levels of complexity or scale and scope advantages are concentrated in larger municipalities, usually known as regional poles. This policy is usually explained in terms of Brazil's limited resources. However, limited access for the populations of smaller towns and poor regions represents a major challenge, in part because it contributes to migration to larger urban areas. This situation places pressure on the urban areas through higher crime rates and additional financial pressure on social security because of higher spending on health care and benefits.

Data collection. Challenges to improving administration performance also remain. Data are very limited and all spheres of government need to endorse real efforts in order to improve data collection.

There is a perception in Brazil that there are too many public employees; however, an international comparison based on OECD data suggests that this is not the case. In 1995, 11.3 per cent of the labour force was employed by the public sector; in 2005 the figure was 10.7 per cent – comparable to Turkey and below figures for Western Europe. In Australia and the United States, the figure for those two years was 14.8 per cent.

Although it would be interesting to measure the wage proportion of state employees when compared to total individual income in the economy, those figures are not currently available. Moreover, developing a benchmark for evaluating state performance and, more specifically, social security costs, is a serious challenge. The administrative costs of pensions, which are 3.7 per cent of benefits, are higher than in other countries. In the United States, administrative costs were 0.7 per cent in 1992; they were 0.8 per cent in Switzerland, 0.3 per cent in Japan, and 3.4 per cent in Italy (World Bank, 1994). Brazil could benefit much more from economies of scale. For the sake of comparison, these costs as a percentage of contributions pale in comparison with the commission charges of individual accounts, which have higher expenses.[3]

The lack of benchmarks makes it difficult to evaluate performance, particularly for health care. There are also no data to evaluate unemployment insurance. As regards health care, there is a sense that there are too many employees working in administration, and not enough in service delivery. (As we have seen, this kind of evaluation applies not only to health care – it could be extended to the whole public sector.) Again, there are no detailed data on this question as regards health care. Data from the World Health Organization (WHO) present some indicators, but these are incomplete even for Western European countries; for Brazil they are outdated and perhaps misleading when compared to SUS records.

IPEA (2011) presents some interesting data on the public perception of health care and who uses SUS services; this information suggests avenues for evaluating managerial performance and administrative problems faced by SUS beneficiaries:

- 58 per cent believe that SUS needs more physicians; 36 per cent found that waiting time is too high and 35 per cent that it takes too long to get in touch with a specialist.
- 47 per cent believe that the list of medications is too short and 34 per cent believe that they are not sufficiently available.
- 30 per cent rate SUS as good, 42 per cent as adequate, and 28 per cent as presenting poor quality of service.

The SUS beneficiaries also gave positive ratings: 45 per cent for outpatient services; 81 per cent for family health care; 61 per cent for quality of physicians; 48 per cent for urgent or emergency services; and 70 per cent for the availability of medications.

In March 2012 the Ministry of Health launched the SUS performance index (IDSUS). This index is composed of 24 indicators: 14 that evaluate access to services and 10 that measure effectiveness with respect to basic care, specialized outpatient and hospital care, and emergency care. On a 10-point scale, 27 per cent of Brazilians live in municipalities that do not reach a score of 5, and only 1.9 per cent live in municipalities with a score above 7. The Brazilian consolidated index for 2010 was 5.47.

The ratings were better for access and effectiveness of the most basic care, and worse for medium and highly complex procedures. The study classified municipalities in six groups according to their socio-economic situation, health coverage, and infrastructure that was either basic or more complex. The data find that 75 per cent of municipalities do not have health infrastructure that can provide average or highly complex procedures (Table 1.5). The differences among regions were very large, with the more developed south and south-east region have had better performance than the north and north-east.

3. DB-PAYG systems cost much less than those based on defined contributions and individual accounts (see Matijascic and Kay, 2006).

Table 1.5. Brazil: Municipalities classified according to key situation indicators, 2012

Type	Socio-economic	Health care coverage	Average and highly complex procedures	Number of municipalities
6	Low	Low	None	2,183
5	Medium	Medium	None	2,038
4	Low	Low	Low	587
3	Medium	Medium	Low	632
2	High	Medium	Medium	94
1	High	Medium	High	29

Source: Ministry of Health, IDSUS (2012).

Nevertheless, IDSUS is quite limited and does not measure the time that patients spend waiting to be seen, nor distances travelled to receive health care. To demonstrate the gravity of the situation, the Accountability Court of the Union (*Tribunal de Contas de União* – TCU) found in 2011 that oncology was in a highly critical state. The average wait for patients in need to receive chemotherapy was 76 days and only 35 per cent of patients were seen within 30 days (as recommended by the Ministry of Health). The average waiting rate for radiation treatment was 113 days, and only 16 per cent began the treatment within 30 days.

With respect to private health care plans, 40 per cent complain about the waiting time for an appointment, and 35 per cent complain about restrictions on specialized procedures. Nevertheless, 40 per cent of the insured decided to join a private plan because they expected that it would be easier to get an appointment with a physician.

Tax collection. There are also major problems with tax collection, with losses from evasion equivalent to 2.4 per cent of GDP (the data is from 2005, but there is no reason to expect that the situation has changed). This figure represents almost twice the INSS cash flow deficit; if reduced, it could improve the financial stability of INSS given that actuarial projections forecast a deficit for INSS of 1.3 per cent of GDP in 2020.

In 2005, payroll tax collection was moved to the Ministry of Finance, but clearly there is further need to increase monitoring in order to reduce fraud. The diverse audit actions involved within different ministries or agencies and the exchange of information with other spheres of government is limited, with the result that tax revenue is reduced and tax rates remain elevated.

Brazil's high interest rates also have an impact on tax collection because:

- there is no incentive to pay regularly since there are no financial advantages such as improved or cheaper access to credit;
- the risk of being penalized by an audit is low, and there are repeated moratoria for evaders; and
- those resources can be used to reinforce capital flows in an economy with credit shortages.

With Brazil's low savings rate and a need for major investment in public infrastructure and social services, improved performance with respect to public spending and personnel allocation is fundamental to increasing resources for investment. Brazil's recent strong economic performance and improved social indicators have received global attention, but much could be done to consolidate these achievements. More growth and employment, a higher quality of state intervention, and improved allocation of resources and personnel are of critical importance.

1.4.2. Implementation and organizational issues[4]

Policy delivery. Although the 1988 Constitution establishes that social security should be integrated, policy delivery, like policy-making, is fragmented. This situation generates higher administrative costs, managerial problems and reduced efficiency. This outcome is the result of vested and conflicting interests. For example, ordinary legislation to regulate health care, pensions, unemployment insurance and social assistance were approved separately, and the respective services are conducted independently.

With regard to the institutional structure of Brazilian social security, there is sharp fragmentation at the cabinet level, with the trend increasing since the 1990s. The multiplicity of institutions delivering services is an even bigger problem. Pensions (INSS), unemployment insurance (SINE/PAT) and CCT *(Bolsa Família)*, coordinated by the MDS with agreements at the local level, are all distinct institutions that act independently. This leads to inefficiencies since it requires different branches at the regional and local level and the need to hire more employees, generating poor results with limited financial resources. There are also problems with scope and scale of the administrative operation. The situation is so complex (and as some would argue, confusing) that the BPC is managed by the INSS, even though it is a social assistance benefit regulated by the MDS.

It is important to emphasize that there is no problem if a single institution is involved with multiple ministries. But this example shows that the institutional and managerial logic is at times ad hoc. This fragmentation also imposes limits in coverage for major portions of the territory and makes it difficult for those in the poorest regions to have access to benefits. Finally, this fragmentation is a problem for citizens who cannot clearly determine what the most appropriate source of benefits might be.

There is, for example, an enormous distance between the INSS and SUS. Most benefits granted by the INSS involve illness or disability, which requires medical evaluation. Usually a physician involved with SUS recommends the granting of a benefit, but it also requires approval by the physician from the INSS. The INSS physician cannot require better evidence to prevent fraud. Rather, he or she is obliged to ask the individual's physician to provide more evidence, and this process is slow and expensive. Moreover, if the physician hired by an individual acts unethically, there is no sanction. This situation reduces efficiency, which, in turn, may generate problems for those with urgent needs and legitimate claims.

Following the example of the *Bolsa Família* Programme, the INSS and PAT could work with the social referral services (CRAS) and with municipal social action secretaries to grant benefits and share administrative tasks, given the challenges of size and scale in Brazil described earlier. The large footprint of CRAS and, especially, the municipal social action secretaries could lead to greater efficiencies and the INSS or PAT could provide technical assistance, auditing, analysing and authorizing the concession or cessation of benefits.

4. This section updates and synthesizes the central arguments of Matijascic and Kay (2008).

This institutional fragmentation contributes to low social indicators. It does not stimulate investment in some policies that could reduce financial commitments with regard to leaves, illness or work-related losses of capacity. The reduced monitoring of environmental and labour conditions is the origin of the many benefits granted due to unhealthy conditions, such as permanent disability or premature death. There are multiple examples:

- Brazil is a global leader in accidents at work.
- Traffic accidents are on an epidemic scale and represent huge hospital and pension costs.
- The prevalence of mental illness is growing fast, with Brazil having one of the highest incidences of depression.
- Mortality due to external causes is very high, which implies potentially higher costs of health procedures and burden on social insurance.

There is increased awareness of these challenges. Improving the quality of life in the *favelas* is a current priority; state intervention here reduces criminality as a counterpart to improved social services. But the problems are so serious that any initiatives, however deserving of merit, seem to evolve too slowly.

Reform processes. The process of social security reform also requires a closer look. Since the regional trend toward individual accounts for pension and health care took off in the 1990s, Brazil's path toward social security reform has differed significantly from that of its neighbours, focusing on universalizing benefit coverage and parametric reforms in the PAYG public pension system.

In health care all actions were slanted toward enlarging coverage and adopting preventive measures to avoid the "hospital-centric" approach that prevailed in the 1970s and led to corruption in the contracting-out model. Social assistance was centred on protecting those who did not contribute regularly, and on providing a safety net in times of economic slowdown in the midst of high inequality. As described earlier, policies in recent years have been shaped by the range of social protection codified in the 1988 Constitution, and the process of social security reform has required investments of tremendous political capital in order to amend the Constitution.

One conclusion that can be drawn from examining current debates in Brazil is that the immediate policy challenges of improving equity and efficiency can be met not only via constitutional reform, but, in the shorter term, through administrative reform and improved regulatory and managerial performance.

Low levels of coverage for affiliates remains a basic problem in Brazil as in Latin America generally (Matijascic and Kay, 2009). Without higher salary levels, a largely formal and salaried labour sector and high density of contributions, social security benefits cannot provide a basic standard of living, and it is not possible to have a classic universal social security system functioning with actuarial equilibrium based on social insurance.

With respect to current laws, changing the survivorship rules and regulations would reap clear savings. In Brazil, lifetime survivors' benefits are given indiscriminately without regard to the age of the spouse, number of children in the family, or length of the marriage. Such permissive benefits would be considered quite generous in the industrialized world, but seem altogether out of place in a developing country like Brazil. In Sweden, for example, able-bodied workers are eligible for a universal survivors' pension payable for six months after five years of marriage, or for as long as the survivor is caring for a child under the age of 12. Sweden's six-month survivors' pension stands in sharp contrast to the situation in Brazil, where even a young adult capable of working automatically receives lifetime benefits.

A similar principle exists with respect to disability: those capable of working should be expected to do so. However, in Brazil nearly all those classified as temporarily or permanently disabled are considered totally disabled. Appropriately classifying the partially disabled and providing enlarged assistance for recovery of injured or ill workers would encourage those who are capable of work to find suitable employment.

Another indicator that Brazil's disability pensions are alarmingly and disproportionately high is that expenditures associated with risk (disability and survival pensions) have remained steady for 30 years, despite the fact that the elderly population has grown. Under these circumstances, one would expect old-age pensions to increase as a proportion of overall pension expenditures. Nevertheless, disability and survival pensions comprised 38.2 per cent of expenditures from 1980 through 1984, and 34.8 per cent of expenditures between 2005 and 2010.

Furthermore, many workers continue to be formally employed even while drawing pensions, a situation commonly justified by low benefits. Seniors are thought to have no choice but to return to work. But retired persons with lower benefits are less likely to be employed, while retirees receiving higher average benefits are more likely to be employed. The general argument for permitting individuals to have multiple benefits is this: because benefit levels are so low to begin with, people should justifiably be able to accumulate more than one pension. However, that individuals receiving higher benefits tend to have multiple sources of income while those with lower benefits do not suggests that permitting multiple benefits leads to a higher concentration of income.

In coping with these challenges, it is important to emphasize that the lengthy process of constitutional reform is not the only or necessarily the most effective method of reforming social security and bringing about financial stability. Parametric reforms, including administrative measures, play an important role and could bring faster and more immediate results. Administrative reforms can present an effective financial solution without the political challenges of amending the Constitution. Such measure could include:

- eliminating risk-based benefits for those who do not need them. Partially disabled workers can continue to work in some capacity;
- verifying more diligently disability status and ceasing total disability status for those capable of working; and
- preventing disability through better monitoring of workplace safety.

The following measures could be taken via ordinary legislative reforms:

- imposing restrictions on receiving one or more pension benefits while still receiving wages from employment;
- considering the presence or absence of minor children and the capacity of survivors to be employed in granting of death benefits; and
- granting partial disability status where appropriate.

Fiscal policies. Fiscal policies involving social security are not exempt from their share of contradictions and legal problems either. In Brazil, philanthropic institutions are tax exempt and this exemption is also applied to payroll taxes. Tax exemption is a widespread international practice in this situation but it is contradictory to extend it to social contributions, since these are not meant for redistribution and they generate social rights of proportional benefits related to the amount of contribution. This exemption is questionable since there is no compensation in INSS accounts, and the reduction (equivalent to 0.6 per cent of GDP) represents more than 40 per cent of the INSS cash flow deficit or almost 85 per cent of the PBF budget. Although the Brazilian Constitution has led to important achievements, considering fiscal resources (taxes on profits, sales or value-added taxes) as contributions generates confusion.

These policies originated in the 1960s, when the aim was to fund social programmes by the potential beneficiaries through specific taxes on labour. The directives proposed that taxes should not be used to finance social security; their unique purpose was to stimulate economic growth. Since financial shortfalls were feared in the social policy arena after the 1960s, the 1988 Constitution tried to solve the problem by introducing the social security budget and by considering its sources as social contributions exclusively designated to finance this budget.

It is clear that the process of administrative and legislative reform at the sub-constitutional level should be accelerated. However, such reforms require transparency and must be made in such a way as to minimize both risks and administrative costs. This is not to say that many additional constitutional reforms are not necessary, but much could be done with ordinary legislation.

1.4.3. Sustainability issue[5]

Many analysts suggest that reform efforts since 1993, while significant, have been insufficient, given projected actuarial shortfalls that could have grave macroeconomic consequences in the future. Furthermore, the growing INSS cash flow deficits and rising expenditures on pensions for public servants have brought on a fiscal crisis that has led to public spending being increasingly directed toward benefits rather than investment.

Generous rules guiding benefits also contribute to financial shortfalls. According to Giambiagi and Tafner (2011), the relatively high value and long duration of pensions based on length of contribution are costly. They argue further that non-contributory pensions are relatively ineffective social policies, leading to high payroll taxes that in turn provide an incentive to join the informal sector. They argue that reforms are necessary to contain costs, which could otherwise reach 10 per cent of GDP assuming moderate economic growth and a continued rise in the real value of the minimum wage. The authors point out that acceleration in growth will lead to worsening deficits unless a reform is enacted. The proposed reforms project that expenditures would fall to 6.9 per cent of GDP assuming 3 per cent annual GDP growth, or to 5.6 per cent of GDP with an annual GDP growth of 4 per cent.

On similar assumptions, the INSS forecasts that expenses by 2020 will equal 6.3 per cent of GDP, with a projected deficit of 0.93 per cent and 3.5 average annual real GDP growth.

Others point to the fact that since the constitutional reform of 1993–94 the Government has diverted more than 20 per cent of the social security budget to other expenditures. Critics argue that this practice deviates from the original 1988 Constitution, arguing that if all revenues had been allocated

5.. This section updates and synthesizes the central arguments of Matijascic and Kay (2008, 2009).

to social security they would have exceeded benefits, generating a huge surplus. In short, from this perspective the INSS was not the source of the growing deficit. Accordingly, there is no sense in calculating an INSS deficit, since the Constitution has settled the issue with the creation of the social security budget. Without diverting social security's resources there would be a surplus of about 2.2 per cent of GDP and the financial debate would be meaningless.

It is important to note that major challenges remain. Some workers contribute regularly, but about 50 per cent of the working population, including rural workers, domestic employees, and workers in the informal urban economy, generally do not. Furthermore, many workers move back and forth between formal and informal employment, and face long work histories where they are not covered. In addition, precarious employment is most common among women and lower-income workers. The financing arrangements established in the 1988 Constitution are intended to compensate for workers' differing abilities to contribute by redistributing funds collected by levies on a broader revenue base. The system for funding health, welfare, and social security benefits reflects this mix of contribution-based and universal benefits.[6]

At older ages coverage is universal, but that is not the case with the risks that affect current workers and their dependants, where the rate of coverage is less than 60 per cent. If this trend is not reversed, the system will be dependent on resources that cannot be financed only by ordinary contributions as a pure social insurance system.

Arguments that Brazil's social expenditures are elevated given its stage of development should be viewed with caution. Although Brazil's population is relatively young compared to European countries, its population is ageing at a faster rate (UN-DESA, 2011). As the rate of economic growth has slowed, income transfers have increased fiscal pressure. Table 1.6 suggests that Brazilian spending on old-age pensions could be considered relatively low compared to that in Mexico, which has a higher rate of growth, and lower than in the United States, which has a social protection system that assigns a greater role to the market and individual initiative.

Table 1.6. Public social expenditures by type of benefit, selected countries, 1995 and 2005 (percentage of GDP)

Benefit	Italy		Mexico		Portugal		Sweden		United States		Brazil	
	1995	2005	1995	2005	1995	2005	1995	2005	1995	2005	1995	2005
Old age	10.7	11.3	3.3	7.4	6.4	7.9	9.9	9.2	5.4	5.3	4.6	5.3
Survivors	2.6	2.6	0.2	0.2	1.3	1.5	0.7	0.6	1.0	0.8	2.2	3.2
Disability	2.4	2.1	0.1	0.2	2.5	2.5	5.1	5.2	1.2	1.1	1.1	1.6
Family	0.8	1.0	0.3	0.3	1.0	1.2	3.7	2.9	0.6	0.4	0.5	1.0
Total	**16.5**	**17.0**	**3.9**	**8.1**	**11.2**	**13.1**	**19.4**	**17.9**	**8.2**	**7.6**	**8.4**	**10.5**

***Source*s**: OECD (2004); Ministério da Fazenda (2005).

As Gillion et al. (2000) point out, any analysis of social spending must consider total spending and not just public-sector expenditures. It should be viewed according to the age profile of the population to assess the spending levels with respect to the covered population. The key question in the short term is, as shown previously, how to reduce problems related to the survivors' pension

6.. Law 8,213 provides that civil and military federal, state and municipal employees covered by specific statutes are exempt from paying into social security. These expenditures are not part of the OSS seguridade budget that encompasses all the federal Government's actions for health care, social assistance and pension coverage (excluding the special regimes for public servants).

granted on bases that are only weakly related to social needs, to the possibility of accumulating an ordinary pension with a survivors' pension and both with regular salaries or income derived from occupation. Survivors' pensions cost more than 3.2 per cent of GDP and represent more than double the average figure for OECD countries. The lack of monitoring for illness and disability benefits and for other benefits also deserves closer attention.

Any effort to reduce these benefits would generate political opposition from those benefiting from the public sector schemes, especially the legislative and judiciary systems that provide very high benefit levels and allow pensioners to continue to earn wages while receiving benefits. Reforming these systems, however, is essential to improving equity.

Determining how to expand current policies is a major challenge. The benefit floor for pensions and CCT programmes such as the PBF are set at the value of the minimum wage; it is not clear how this virtuous cycle can be maintained. Without consideration of state transfers via social services, in particular for health and education, it is not possible to have a precise picture of state intervention and its impact based on income distribution via taxes.

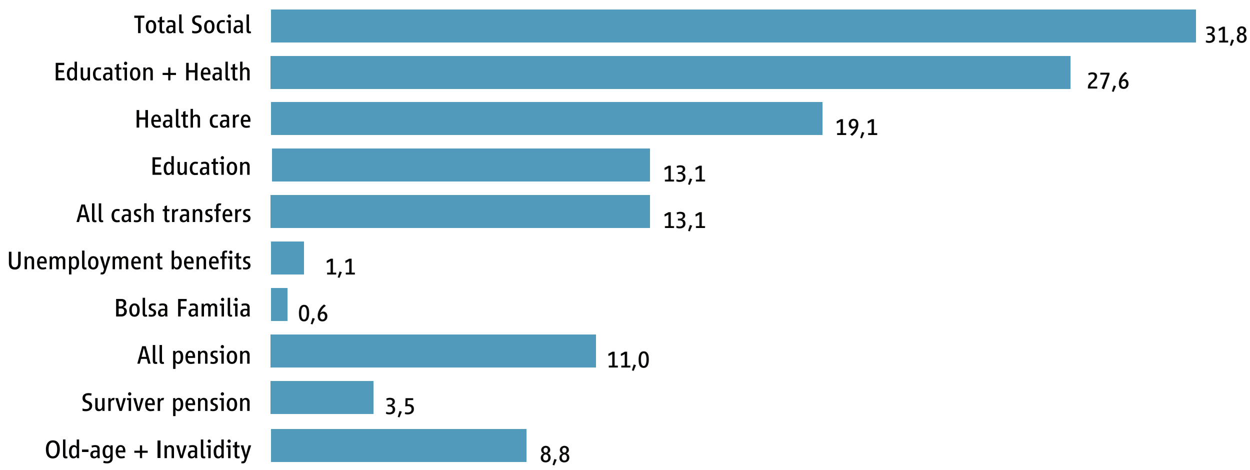
In isolating the effect of cash transfers and social spending with regard to health and education, which cover the majority of needs for specific population groups, it is possible to obtain some initial results which may suggest a possible future direction. Based on calculations using PNAD (household population and income survey), and POF (household budget survey), cash transfers – i.e. all pensions, unemployment insurance benefits and PBF – reduce inequality (as measured by the Gini coefficient) by 13.1 per cent, and social services represented by health care and education by 27.1 per cent. If all results are combined, the inequality reduction is 31.8 per cent, which shows a statistical composition effect. For other countries, the percentages for social services and all social policies combined would be, respectively:

- Australia: 7 and 30
- Denmark: 18 and 41
- Germany: 4 and 26

These results reveal that for Brazil, in a similar manner to that described by Esping-Andersen and Myles (2007), a large part of the reduction in inequality is due to social services and not cash transfers. Comparing the transfer of social resources in Brazil to that of the OECD countries, Brazil's performance has been strong. This highlights the fact that the central problem in Brazil is that the distribution of income via market mechanisms is concentrated, and while social policies reduce these inequalities, Brazil remains one of the global leaders in inequality.

Figure 1.2 shows that education and health spending, where spending levels are lower than for pensions, have a similar or comparatively larger impact on inequality than is the case with CCTs. In other words, strengthening these policies could improve welfare and reduce inequalities. Although it is not possible for the population at large to perceive an impact on income, because the transfers are via services, the improvement in conditions is notable and generates opportunities.

Figure 1.2. Brazil: Reductions in inequality after public transfers and family spending, specific social policies (percentages)



Sources: PNAD; POF; DATASUS; INEP.

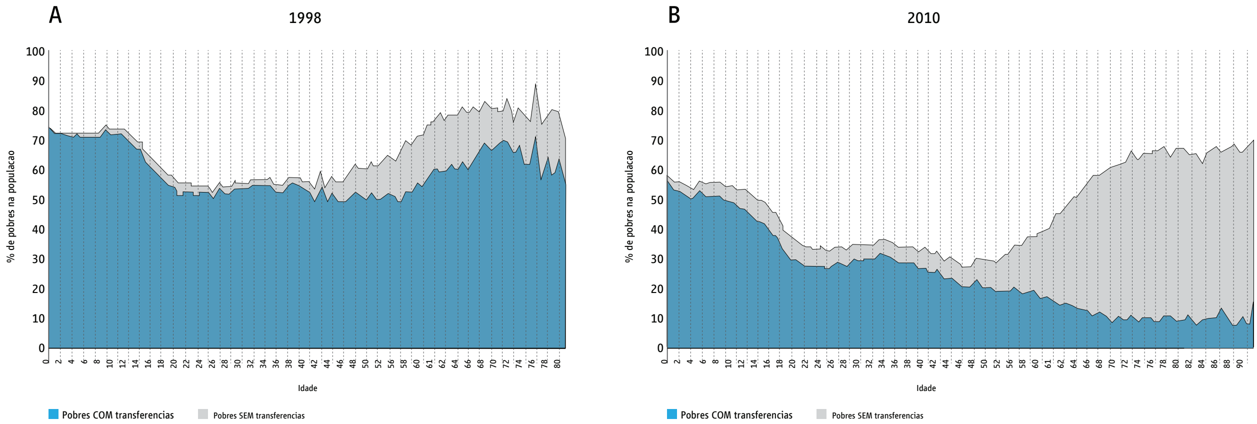
Cash transfers, with the exception of targeted CCTs, are programmes that in general seek to smooth income along the life cycle of the insured. Put differently, social insurance, which comprises the bulk of cash transfers, seeks to preserve the insured's pre-existing status. The distribution is among generations, and not among different income levels.

The opposite occurs with social services granted without the transfer of money to individuals or families. In this case, the service is the same for any citizen, regardless of income or social status. Thus, those with lower incomes benefiting from social services such as education, health or other programmes receive an indirect transfer, relative to family income, that is larger than that for individuals with higher incomes.

Moreover, it is important to note that the impact of some policies on the reduction of inequalities is reduced because the expenditures are so low that they have a minimal impact on the Gini or Variation coefficients. Compared to health and education, other programmes such as unemployment insurance receive such minimal transfers that they do not have much impact on market-based income distribution, as will be discussed below.

In Brazil, the social pension granted to rural workers and to those belonging to vulnerable families in conditions of old age or disability have reduced poverty among individuals, especially among the elderly population (see Figure 1.3).

Figure 1.3. Brazil: Poverty as a percentage of the cohort before and after INSS benefits in 1988 and 2009[1]



[1] These figures use the Brazilian national poverty line which is defined as an income below ¼ of the minimum salary per capita (equivalent to USD 2.03 or USD 5.08 in PPP method per day) which is far above the MDG targets for 2015.

Source: IBGE/PNAD (Household Surveys for 1988 and 2009).

In short, Brazil has achieved many successes with respect to the extension of coverage. Nevertheless, these achievements are mostly restricted to basic protection involving income transfers or social services. The complexities involved with an ageing and wealthier society are far from resolved, and over 70 per cent of Brazilian families still have insufficient income to cope with their needs. Without further and deeper reforms to reduce inequalities, it will be difficult for the country to achieve its potential.

1.5. Conclusions

Brazilian social security was integral to democracy-building after the mid-1980s. Previously, policies dictated that fiscal resources should be directed exclusively toward stimulating economic growth. However, public opinion viewed this path as unsustainable for achieving development.

The 1988 Constitution played a key role by establishing the basis for building a democratic society based on greater equity. Social security was the core of those efforts, since pensions, health care, and social assistance were intended to reduce inequalities and be used as leverage for consolidating a vigorous internal market. Brazil's recent economic success in the face of the global crisis suggests that these efforts were successful, although fraught with political conflict. The political debate over the degree of state intervention versus the market and the proper role of social policies remains robust.

Although Brazil's social security has achieved success in reaching its targets and is recognized as a model among developing countries, there are obstacles to overcome. Social security was indeed decisive in reducing inequality and its success is comparable to societies with well-developed welfare states. But Brazil is not a welfare state; per capita income is still low and social expenditures cannot meet those requirements in such conditions. Nevertheless, Brazil could further reduce inequality by enhancing the coverage and quality of social services and by improving education and health care.

Furthermore, most of Brazil's social policy achievements are muted by the reluctance to promote deeper reforms. The tax burden is high and regressive compared to other developing countries, placing the heaviest tax burden on the poorest families. It does not make sense to develop social security if other policies confound its impact. Moreover, the state sector is not overly large in relative terms, but the quality of its services as demonstrated by life expectancy indicators, or the Programme for International Student Assessment (PISA) results, are much lower than those of countries with similar per capita income.

In a complex political arena, a lot has been achieved with marginal changes and targeted administrative initiatives. Life conditions have improved, but they remain precarious for the poorest, and the problems of infrastructure are dramatic. Corruption and mismanagement are usually accepted with resignation by voters.

Most authorities believe that even more can be achieved with further marginal policy changes rather than deeper reforms. This is unlikely. Current challenges require more investment and much better allocation of financial resources. The precarious conditions of social infrastructure are evident from public opinion surveys. Public spending is still inefficient, leaving a lot of room for improvement.

For instance, while pensions reduce poverty and inequality, they could be more effective if multiple benefits were not allowed and workers could not collect pensions while continuing to work. With respect to health care, there is no precise statistical evidence but it appears that the more costly and complex health care interventions in the SUS are biased towards wealthier families, and it is clear that access to better hospitals is not available for those who live in poorest regions. *Bolsa Família* is effective at alleviating poverty, but emancipation from the programme is still a challenge, and there will likely be ongoing welfare dependence. Creating more jobs for enhancing infrastructure, buying better hospital equipment and building infrastructure for better social services are initiatives that could also be financed. These goals should become a priority, and these issues merit broader public debate and popular input.

The 1988 Constitution, which transformed social policy, did not remove most of obstacles inherited from the past, and populism and patronage are holding the country back from achieving more of its potential. Moreover, a rapidly ageing population means that there is a need for better health care and related social services, including care for chronic disease and convalescent care, which is insufficient in most areas. Finally, as discussed above, Brazil needs to improve its social services, without which, as Celso Furtado (2002) predicted, development will remain elusive.

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A comparative study on the extension of coverage
in Brazil, the Russian Federation, India, China and South Africa

2. Social security in the Russian Federation: From paternalistic towards sustainable protection

Contents

2. Social security in the Russian Federation: From paternalistic towards sustainable protection

Summary

The Russian Federation differs from the other BRICS countries in that although it was able to build on what was a universal social security system in Soviet times it has also been faced with more fundamental and disruptive changes to the environment in which social security operates. In the last 20 years, the country has been subject to a number of significant social, economic and demographic changes which put strains on existing schemes, generating risks for universal coverage. Inequality significantly increased, widening the gap both between and within rural and urban areas. These pressures have stimulated the introduction of comprehensive targeted reforms and efficient policy measures, including a range of obligatory and voluntary programmes.

2.1. Economic and social background

The current social security system of the Russian Federation is rooted in the Soviet paternalistic model, which had its origin in 1918 following the introduction of government regulations on social security for workers. This legislation aimed at protecting employed citizens against risks of sickness and employment injury and at providing coverage for maternity. It was the first landmark shift from the pre-Soviet Russia social insurance programmes to a social security model covering all working people whose source of living was their labour, and was due to the "military communism" of 1918–1921 during which all industry was nationalized and mandatory labour introduced. Such changes required the implementation of universal social security by the State (Agaptsov and Degtyarev, 2008). Driven by this paternalistic vector of development, the Communist welfare state, which finally crystallized in the USSR by the end of the 1980s, was based on full employment; subsidized prices of consumer goods and services including housing; public provision of health, educational and cultural services, free or at nominal charge; and employment-related social security benefits with nearly 100 per cent coverage (Cichon and Hagemeijer, 1996, p. 167).

The main pillars of the Soviet Union paternalistic model, in addition to other social protection programmes with a variety of monetary and in-kind benefits, were the universal public health care system, widely known as the Semachko model, and the nationwide one-tier pay-as-you-go pension system. The health care system was designed as a centralized polyclinic-based system with comprehensive primary care programmes, universal coverage, free services, active preventive measures and complete medical check-ups including vaccination and immunization services, and available to the entire population.

The state-run pension system, with universal coverage and low retirement ages (55 for women and 60 for men, set in 1928), provided a vast array of privileged retirement pension benefits, including length-of-service pensions, pensions for those who worked in the regions of the Far North or in hazardous and dangerous conditions, or for mothers with five or more children, among others. Some of these elements still remain under the current pension system (see Table 2.1).

Table 2.1. Russian Federation: Old-age labour (work-related) pension and privileged pension beneficiaries as of December 2011

	Number of beneficiaries (in thousands)	Percentage of total beneficiaries
Total old-age labour pension beneficiaries	**33,000.0**	
Privileged pension beneficiaries	10,928.3	33.13
Due to medical–biological conditions	1,368.0	4.15
List No.1 of professions	1,963.9	5.95
List No.2 of professions (and similar conditions)	3,096.6	9.39
Work in Far North	2,703.1	8.19
Length-of-service pensions	1,745.2	5.29

Source: Soloviev et al. (2011).

In the Soviet era the most dynamic evolution in the extension of social security coverage took place in the pension system. The law of 1922 provided coverage for workers employed in both socialist and private sectors. The pension law of 1956 further extended coverage to certain categories of collective farms (*kolkhoz*); and the law of 1964 eventually extended pension and other benefits coverage to all members of *kolkhoz*. As the final milestone, the last Soviet Union pension law of 15 May 1990 unified the system of pension security for all categories of the employed and established the Pension Fund of the USSR, autonomous from the state budget. Further, given the context of political transformation, Russia introduced its pension law of 20 November 1990 and set up the Pension Fund of the Russian Soviet Federative Socialist Republic (RSFSR) in December 1990 (Karasyov and Lublin, 2001, pp. 140–42).

Along with some Central and Eastern European countries, whose pension systems were based on the same common principles at the beginning of transition reform in the 1990s, the Russian pension model generously recognized non-contributory periods in the calculation of pensions. A number of workers with privileged rights benefited from favourable conditions in terms of the pensionable age and pension calculations. Another important characteristic was that there were no clear demarcation lines between the state budget and budgets of the social security systems (Hirose, 2011, p. 3).

The transition from a centrally planned to an open-market economy launched in 1991 was hard and socially divisive in the Russian Federation. In particular, the gap between the average income of the richest and poorest 10 per cent of the population widened from 4.5 in 1991 to 8 in 1992 and to 15 in 1994 (Rudakova and Kharitonova, 2008). The transition entailed a number of unforeseen drastic challenges to the national social security system, including decreasing adequacy, shrinking coverage and chronic delays in payment of benefits, chiefly generated by the national economic crisis coupled with the deterioration of industrial relations, a rapidly expanding shadow economy, widespread contribution and tax evasion and non-regulated migration.

Moreover, a noticeable decline in population occurred (see Table 2.2), partly due to the disintegration of the Soviet health care model and its deteriorating financial situation. This has emerged as one of the toughest challenges for the Russian Federation. As a result of the above mentioned trends, the Soviet-era social security standards drastically dropped below minimum international standards (such as those of the ILO Social Security (Minimum Standards) Convention, 1952 (No.102)).

Table 2.2. Russian Federation: Natural increase (decrease) of population, 1992–2010 (thousands)

Years	Births	Deaths	Natural increase or decrease (-)
1992	1,587.6	1,807.4	-219.8
1995	1,363.8	2,203.8	-840.0
2000	1,266.8	2,225.3	-958.5
2005	1,457.4	2,303.9	-846.5
2006	1,479.6	2,166.7	-687.1
2007	1,610.1	2,080.4	-470.3
2008	1,713.9	2,075.9	-362.0
2009	1,761.7	2,010.5	-248.8
2010	1,789.6	2,031.0	-241.4

Source: Federal State Statistics Service (http://www.gks.ru).

By the early 2000s the economic reforms in the Russian Federation had led to noticeable economic growth that, in turn, affected social security positively, both quantitatively and qualitatively. From 2000 until the period of the world economic crisis and again later in 2011, the federal budget showed a surplus enabling not only the repayment of budget debts to citizens such as salaries, pensions and social benefits but also their enhancement. Currently, the national Government is using this economic growth to allocate significant resources to the introduction of comprehensive measures aimed at upgrading living standards, increasing birth and life expectancy rates, and improving the health of citizens. In 2011, the Russian delegation at the autumn ILO Governing Body Session in Geneva announced plans to adopt ILO Convention No.102 in the near future, thereby acknowledging adequacy of social security benefits as one of the central social policy objectives of the Government.

In January 2012 at the first session of the Presidium of the Russian Government, Prime Minister Putin reported the following key economic statistics for the year 2011 (see http://government.ru/eng/docs/17730):

- GDP increased by some 4.2 per cent, with industrial output growing by about 4.7 per cent.
- Inflation was on a downward trend; in 2011 it was 6.1 per cent, the lowest in the last 20 years.
- State finances were healthy, with a budget surplus of 0.8 per cent of GDP and state debt of 10.4 per cent of GDP in 2011. External debt amounted to just 2.5 per cent.
- Foreign-exchange reserves had been restored following the global financial and economic crisis and are currently equal more than USD 500 billion – the third largest in the world after China and Japan. State reserve funds, namely the National Welfare Fund, were worth RUR 2.79 trillion (2,790 billion) while the Government Reserve Fund had assets worth RUR 1.89 trillion (8.7 per cent of the country's GDP).
- The unemployment rate had fallen to its pre-crisis level of an average rate of 6.2 per cent as of December 2011.
- Over the last decade, the number of Russians living below the poverty threshold had been halved, accounting for 12.5 per cent (internal statistics) or about 26 per cent (international estimates) by 2011.

2.2. Social security in the Russian Federation: An overview

2.2.1. Transition from the Soviet system

Among the social and economic changes initiated in the early 1990s, the need for a transition from the Soviet system of social security to a new social protection model responding to insurance-based market relations became a national priority. Thus, new social security reforms were to be based on a social insurance model, in contrast to the previous paternalistic universal social security/assistance model.

The economic transition, which lasted, in major terms, until the early 2000s, saw increasing private property, large changes in the distribution of wealth and income, privatization of the majority of financial and material resources and a reduction in the role played by the State in the area of social protection. The transition was characterized by the following particularities:

- The new social insurance system was developed in the context of the socio-economic and political crisis.
- The Government acted as a regulator in the process so that the system was imposed from above instead of following a natural upward development: there was a lack of adjustment to the terms and procedures required in the insurance process or to public opinion, mainly of employees.
- The social insurance system was based on the Soviet "non-insurance" legacy, with benefits having no close actuarial links to the contributions paid.

At the onset of the reform, the Government introduced legislation establishing the terms and procedures for insurance against social and occupational risks.

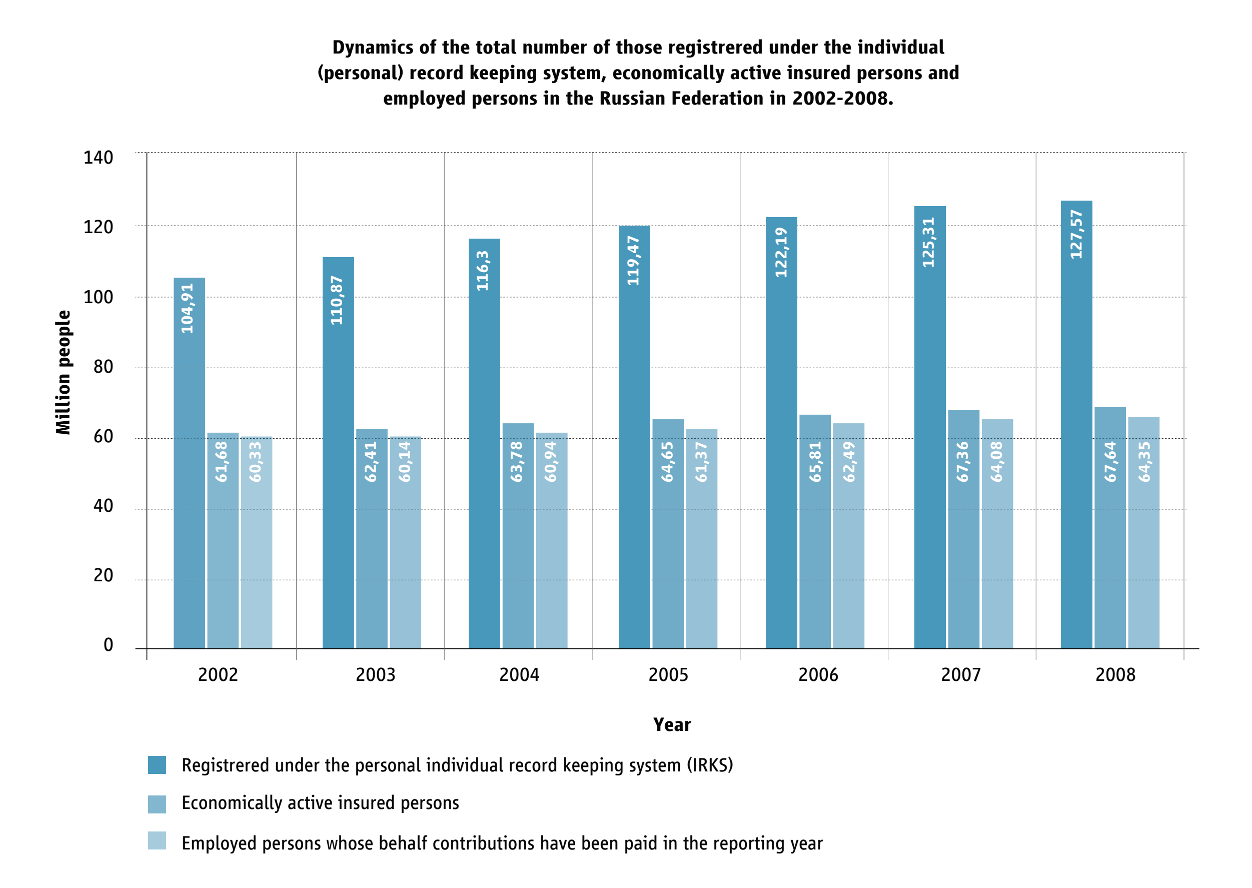
A major milestone was the setting up of the non-extra-budgetary funds, such as the Pension Fund of the Russian Federation, the Federal Compulsory Health Insurance Fund and its regional branches, the Employment Fund, and the Social Insurance Fund of the Russian Federation under the coordination of federal ministries. These are currently the Ministry of Health and the Ministry of Labour and Social Protection, in charge of social policy design and norms to regulate health care services as well as labour, social, and consumer protection, including a reorganization of the system of preventive medicine.

Since state extra-budgetary funds, along with targeted social insurance contributions, are direct recipients of large budget allocations under the Budget Code of Russia, they are controlled by the respective federal institutions (the Accounts Chamber and the Russian Service of Financial and Budgetary Oversight). Thus, the dual functions of extra-budgetary funds – protecting the insured, on the one hand, and being subject to insurance market relations, on the other – bring them under double state supervision.

Under the reform the Russian Federation introduced obligatory pension insurance, obligatory health insurance, unemployment insurance and occupational accident and disease insurance. It amended the system for temporary disability insurance, maternity and child care; expanded eligibility criteria for social security; and set up, as already mentioned, the required organizational social security institutions (state extra-budgetary insurance funds and their regional offices, insurance companies, and so on).

Another crucial development was the establishment of the single insured person database along with the introduction of a system for individual registration, an important administrative improvement (Government of the Russian Federation, 1996). This reform, which was pioneered by the Pension Fund, was further extended to all branches of social insurance and became an important tool in accounting for insured rights to benefits as well as in combatting contribution evasion. Over the period 2002–2008, the percentage of the resident population covered by the "individual (personal) record keeping system" (IRKS) increased from 73 to 90 per cent. By the end of 2008, the number of insured persons registered in the IRKS reached 127.57 million, an increase of 21.6 per cent compared to the beginning of the period (see Figure 2.1).

Figure 2.1. Russian Federation: Number registered under the IRKS, economically active insured and employed persons, 2002–2008



Source: Federal State Statistics Service (2010).

Social insurance programmes now cover the majority of the country's population of 142 million. In particular, over 38 million retirees are covered by pension insurance; over 130 million people by obligatory health insurance; and the total working population, over 72 million people, by other types of social insurance programmes. There is however a number of groups whose coverage has suffered some qualitative or quantitative contractions. This new and alarming trend is still not significant, however, and mainly concerns informal-sector and migrant workers. Challenges related to these groups of workers are addressed later in this chapter (section 2.4.1).

Considerable financial resources are allocated to national social insurance. In particular, the 2011 total allocation exceeded RUR 4.5 trillion (8.3 per cent of GDP), while the tax-financed social security programmes received an additional RUR 2 trillion from federal and regional budgets. The system's financial assets are sufficient to cover, over a one-year period, more than 80 per cent of all pension and health care expenses, and 100 per cent of temporary disability and maternity benefits, as well as child care allowances for children under 18 months (Krichevsky, 2007).

The Government's social policy is an efficient instrument of social protection. Its main focus is:

- to adopt measures to improve the health of the population and to stabilize the demographic situation where life expectancy, particularly for males, has reduced dramatically in the last 20 years;
- to bring the minimum wage up to subsistence level and to introduce a new wage system for public-sector workers aimed at improving the efficiency and quality of the services provided;
- to resolve the problem of poverty in old age (the minimum pension has been set to not be below the retiree subsistence level since 2010 and the average labour (work-related) pension is to be raised to 2.5–3 times retiree subsistence levels by 2016–20);
- to structurally and technologically modernize health care, education and other social spheres, making quality services accessible to the public (Government of the Russian Federation, 2008a).

2.2.2. Design and core principles

The national social security (social protection) system comprises social insurance and non-contributory social security (including social assistance) programmes. Social insurance is a form of social protection that entitles those insured to benefits in accordance with contributions paid to the respective insurance funds. Non-contributory social security entitles specified categories of individuals not covered by compulsory social insurance (or whose contributions are under the eligibility threshold) to state-guaranteed benefits.

The national social insurance system is divided into two types: obligatory and voluntary programmes (Soloviev, 2009, p. 15). Table 2.3 presents the main elements of the system.

Table 2.3. Russian Federation: The social insurance system

Forms of social insurance						
Compulsory				**Voluntary**		
Old-age pension	Employment injury	Temporary disability (sick leave, pregnancy)	Health	Old-age pension	Personal temporary disability	Health
Social risks						
Retirement age, disability, loss of breadwinner	Temporary or permanent disability due to employment injury or occupational disease	Temporary disability (sick leave, maternity)	Health care	Retirement age	Disease or employment injury	Health care spending
Insurer						
Pension Fund of the Russian Federation Non-state pension funds (optional)	Social Insurance Fund of the Russian Federation	Social Insurance Fund of the Russian Federation	Federal Compulsory Health Insurance Fund	Non-state pension funds	Insurance company	Insurance company
Insuring party						
Employer (for employees), self-employed persons and others				Legal or private persons		
Insured persons						
Employed population (employed citizens, self-employed and others)	Employed citizens	Employed population (employed citizens, self-employed and others)	Entire population	Contributors to the Fund		

Non-contributory social security is financed from the state budget at all levels and depends on the economic situation in the country or region as well as fiscal performance, budgetary spending and demographics. Since 2001, the compulsory contributory unemployment insurance system has been replaced by a non-contributory national unemployment protection programme funded by the federal budget. Table 2.4 shows the difference between obligatory social insurance and non-contributory social security in the social protection system.

Table 2.4. Russian Federation: Social insurance and non-contributory social security: A comparison

Criteria	Non-contributory social security	Social insurance
Subject	Financial support of statutory specified groups to achieve living standards not below minimum state guarantees	Financial support of individuals in case of relevant risks to maintain their working capacity and living standards
Goal	Minimum state social guarantees	Income protection, working capacity and health
Financial mechanism	State budget	Insurance
Funding sources	General budget revenue	Contributions from workers and employees plus budgetary subsidies
Management	Regional and local authorities	Target extra-budgetary funds
Implementation principles	Means-testing	Universality, solidarity, refundability, etc.
Qualifying conditions	Means- testing	In case of an insurance risk provided that contributions have been paid

Source: Soloviev (2009), pp. 17–18.

With the advance of the economy and the social fabric, the role and significance of social insurance in the Russian Federation's social protection system have continued to increase. Social insurance covers for the risk of something going wrong and resulting in a change in the financial and/or social status of workers and certain other groups covered by the compulsory system. The directives for the working-age population are defined in federal law (Government of the Russian Federation, 1999).

The key principles of the compulsory system are as follows:

- a sound financial system backed by balanced social insurance funding;
- the universal compulsory nature of social insurance and availability of social guarantees to insured persons;
- state guarantee of the rights of the insured to protection against social insurance risks and to fulfilment of social insurance liabilities regardless of the financial situation of the insurer;
- state regulation of the compulsory social insurance system;
- equal representation of those subject to compulsory social insurance in its managing bodies;
- insurer commitment to pay insurance contributions and (or) taxes;
- responsibility for targeted use of the compulsory social insurance system funding;
- surveillance and public control; and
- autonomy of the compulsory social insurance financial system.

The types of benefit provided include old-age, health, unemployment (non-contributory since 2001), employment injury, disability and temporary disability, survivors, maternity and child benefits and a funeral grant.

The main elements of the current social insurance system can be traced back to the Soviet "non-insurance" relation between contributions and benefits. Thus the Pension Fund, which manages the individual record keeping system (IRKS) and the accumulation and redistribution of the pension funding, acts in practice as a social protection body when testing means and providing financial support from the federal budget for certain categories of insured persons.

2.2.3. Financing of social insurance programmes

The financial mechanism is provided by an association of autonomous extra-budgetary (social insurance) funds, among which the chief ones are the Pension Fund of the Russian Federation for compulsory pension insurance, the Social Insurance Fund of the Russian Federation for compulsory social insurance in case of temporary disability, employment injury and maternity, and the Federal Compulsory Health Insurance Fund for compulsory health insurance. The operations of each fund are aimed at protecting the insured from the respective risks through financial or other aid provided under statutory terms and conditions. They are funded through contributions by individuals and economic entities, with some financial participation by the State, although federal budget funding is provided only if there is a need to support their financial stability.

Contribution rates are set by federal law (Government of the Russian Federation, 2009, 2011a). In 2011, the combined social insurance contribution rate payable to state extra-budgetary funds by the majority of insurers (employers) was 34 per cent, including 26 per cent to the Pension Fund, 2.9 per cent to the Social Insurance Fund and 5.1 per cent to the Federal Compulsory Health Insurance Fund (with a two-way split: 3.1 per cent to the Federal Fund and 2.0 per cent to the Territorial Funds of the Federal Compulsory Health Insurance Fund). There is a contributions ceiling of maximum taxable annual payroll of RUR 463,000 per employee.

Since 2012 the combined rate has been lowered to 30 per cent: 22 per cent to the Pension Fund, 2.9 per cent to the Social Insurance Fund, and 5.1 per cent to the Federal Compulsory Health Insurance Fund with maximum taxable annual payroll accounting for RUR 512,000. Insurance contributions to the Territorial Funds were abolished from 1 January 2012.

During 2012 and the following years of the transition period, contribution rates for specified groups of insurers/employers will also be lowered. This concerns primarily:

- agricultural producers, organizations and self-employed individuals subject to single agricultural tax; organizations paying contributions for the disabled of Groups I, II or III; institutions promoting educational, cultural, health-related, sports, science, information, and other social events; and institutions providing legal or other support to the disabled, disabled children and their parents (or their legal representatives). These categories pay 8 per cent to the Pension Fund, 1.9 per cent to the Social Insurance Fund and 2.3 per cent to the Federal Compulsory Health Insurance Fund;
- business entities founded after 13 August 2009 by budgetary scientific organizations and educational institutions of higher professional education. These entities pay 8 per cent to the Pension Fund, 2 per cent to the Social Security Fund and 4 per cent to the Federal Compulsory Health Insurance Fund;
- organizations subject to the simplified tax system whose main economic activity is education, health care, social services; pharmacies that pay the single tax on imputed income. These organizations pay 20 per cent in insurance contributions to the Pension Fund only.

2.2.4. The pension system

The right to pension security is fixed in the Russian Constitution (Government of the Russian Federation, 1993). There are currently two main types of pension benefits, contributory or non-contributory:

- pension paid from the insured's contributions under the compulsory social insurance scheme and accumulated in the Pension Fund; and
- state pensions funded from the federal budget.

Labour (work-related) pensions are monthly cash benefits granted and paid under Federal Law No. 173-FZ (Government of the Russian Federation, 2001a) and can be an old-age, disability or survivors' pension. An overwhelming majority of Russian pensioners (36 million) are beneficiaries of the old-age labour pension (Soloviev et al., 2011, pp. 9–10).

The three-tier pension system. The pension insurance system's design has three tiers: two obligatory and one voluntary. Accordingly, the mandatory pension benefit is calculated as the sum of two components: one based on the notional account (insurance part – notional defined contribution (NDC) – including a basic flat-rate element according to the category of beneficiary); the other a defined contribution (DC) component based on the value of the individual account (funded part). Calculations are based on insurance coverage and a projected life expectancy at retirement of 216 months (rising to 228 months by 2013). The individual account benefit is based on the insured's contributions plus interest and will be paid as of 2013.

The compulsory pension insurance system is administered by the state insurer, i.e. the Pension Fund of the Russian Federation. It is the largest social insurance body in the Russian Federation, comprising eight administrations in the federal districts, 81 branches in the federal territories, one branch in Baikonur (Kazakhstan) and 2,500 regional administrations. The Pension Fund's staff exceeds 133,000 people.

The second tier, however – the DC individual account pension component – can be administered by non-state pension funds. It is up to individuals to decide whether to "contract out" of state provision. If no choice is made, contributions related to the DC individual account component are paid to the Pension Fund.

The third tier is a voluntary DC individually-focused pension programme which is run by the non-state pension funds. These funds initially developed in the mid-1990s as a vehicle for voluntary pension savings. Their legal form of organization is a non-profit institution; they are controlled and regulated by the Ministry of Finance and the Federal Financial Markets Service.

The main activities of a non-state pension fund are:

- as a provider of voluntary (non-state) pension benefits under agreements for non-state pension security;
- as a pension insurer under compulsory pension insurance; and
- as an occupational pension insurer in line with federal law and agreements on setting up occupational pension programmes.

Their functions include the accumulation of pension contributions, the investment of pension reserves, management of the fund's pension liabilities, as well as entitlement and payment of non-state pensions and the funded part of labour (work-related) pensions to those insured.

According to reports by the Federal Financial Markets Service (2011), in 2010 there were 100 non-state pension funds managing the pension savings of individuals, compared to 47 in 2005. Growing trust in non-state pension funds is confirmed by the increasing number of insured persons who have transferred the funded part of their pension to such funds: 5.7 million in 2009 and 7.8 million in 2010. In 2010, the total amount of pension savings in non-state pension funds accounted for RUR 155.35 billion.

To maintain stability and reliability, the legislation envisages an increase in the appraised value of property to at least RUR 50 million, to provide for statutory activity of non-state pension funds from 1 July 2009 (Government of the Russian Federation, 1998). A rigorous system of control established by the Government practically excludes the probability of a bankruptcy of private pension funds.

Since 2002 the Government has been conducting a reform of the pension system aimed at establishing economic mechanisms providing for the most comprehensive implementation of its insurance principles, and the adjustment of the labour (work-related) pension to the contribution and employment record (see below, section 2.3.1).

2.2.5. Unemployment insurance to 2001

The legal, economic and organizational foundations of the Government's policy to promote employment, including guarantees to enforce the constitutional rights of Russian citizens to work and of social protection from unemployment, are laid down in Federal Law No. 1032-1

(Government of the Russian Federation, 1991). This law introduced the system of compulsory unemployment insurance including the following:

- A state extra-budgetary social fund for employment insurance was established, with contribution rates for all companies set at 2.5 per cent of the payroll, and subsequently reduced to 1.5 and 1 per cent.
- Unemployment benefit was paid for a maximum of 12 months.
- Individuals with an extensive employment record were to be paid 75 per cent of the past average monthly wage for three months, 60 per cent during the next four months and 45 per cent during the last five months.
- First-time jobseekers were to be paid scholarships equal to those paid to students at educational institutions.
- Following the termination of benefit payments individuals could still receive financial support.
- Individuals had the right to take out voluntary unemployment insurance with insurance companies.

Among the aims of government policy on promoting employment are the following:

- developing labour resources, facilitating their mobility and protecting the national labour market;
- providing all Russian citizens with equal opportunities for work and free career choice irrespective of nationality, sex, age, social status, political beliefs and religion;
- providing comprehensive conditions for a decent life and personal development;
- supporting the employment and business initiatives of individuals;
- promoting employment for people who have problems finding a job, such as people with disabilities; newly released prisoners; minors between the ages of 14 and 18; people of pre-retirement age (two years before eligibility for an old-age pension, including early retirement); refugees and displaced persons; individuals discharged from the army and members of their families; single parents and parents of large families with minor children; disabled children; radiation victims of the Chernobyl or other radiation disasters; individuals aged between 18 and 20; and university or vocational school graduates looking for their first jobs;
- preventing massive unemployment and curbing long-term unemployment of over one year; and
- stimulating employers to create and maintain new jobs mainly for individuals who have trouble in finding a job.

Federal Law No. 1032-1 was the basis for the labour market infrastructure – both institutional (the Federal Employment Service, since 2004 the Federal Labour and Employment Service or Rostrud) and financial (the State Employment Fund, which was shut down in 2000). During the first decade of operation, the unemployment insurance system helped some 10 million Russian citizens find jobs. Seven million found jobs during the first two years of the Fund's operation, while thousands learnt a new profession with the help of the Employment Service.

The unemployment insurance system was replaced in 2001 and is now a non-contributory system. It is discussed below in section 2.3.2.

2.2.6. Social insurance due to temporary incapacity for work

The main goal of the state social insurance programmes is to provide guarantees of financial support for workers in case of force majeure, in the form of social insurance benefits. The Social Insurance Fund of the Russian Federation pays various types of benefits, as described below.

Temporary disability benefit. The Labour Code entitles persons to temporary disability benefit if they are among those covered by compulsory social insurance – namely, Russian citizens, foreign citizens (permanent or temporary residents) and stateless persons. Applicants should fulfil one of the following eligibility conditions:

- employed under a labour contract;
- civil and municipal servants;
- state officials, officials in federal territories, or permanently employed municipal civil servants;
- employed members of productive cooperatives;
- clergymen; or
- convicted persons performing remunerated work in prison.

Maternity and pregnancy benefit. Women are entitled to benefits in the amount set by the relevant laws, upon request and on the basis of a certificate of incapacity issued in line with required procedure.

Pregnancy registration supplement. This is a lump sum paid to women entitled to pregnancy and maternity benefit when the pregnancy is registered in the first twelve weeks. It amounts to RUR 1,065 with indexation adjustments from 1 January 2011.

Childbirth grant. This is a lump sum of RUR 11,703 with indexation adjustments from 1 January 2011.

Monthly childcare benefit for taking care of a child under 18 months old. The minimum benefit paid to the insured or to unemployed parents is RUR 2,194.34 (for the first child) and RUR 4,388.67 (for the second and subsequent children), with indexation adjustments.

The maximum amount of the benefit for mothers serving in the army on a basis of a contract, as well as for mothers and fathers or other relatives, foster parents looking after a child and dismissed during this period due to the closing of the organization is RUR 8,777.35 from 1 January 2011.

Monthly child allowance. The amount, qualifying conditions, indexation rates and payment procedures are set by national or federal agreements.

Foster care grant. This grant is paid to a foster or custodial family upon the transfer of a child. It amounts to RUR 11,703.13 with indexation adjustments from 1 January 2011.

Adoption grant. Employed persons who have adopted a child (or children) are eligible for an adoption grant equal to 100 per cent of the maternity benefit provided for the period of leave (70 calendar days after adoption, or 110 calendar days after a child's birth if two or more children have been adopted).

Childcare leave benefit to look after a disabled child. Parents (including foster or custodial parents) of a child with a disability are entitled to four paid vacation days per month. The benefit can be used by the individual so entitled or shared between several individuals, at their discretion.

Funeral grant. A spouse, close relative, other relatives, legal representative of the deceased or other individuals who have taken responsibility for the funeral are entitled to a funeral grant in line with the guaranteed services but not exceeding RUR 4,000 with indexation adjustments to the projected inflation rate.

2.2.7. Health insurance

Mandatory (compulsory) health insurance (MHI) is a type of social insurance applicable to all Russian citizens, temporary or permanent residents, and individuals without citizenship. MHI stakeholders include insured persons, insurers and the Federal Compulsory Health Insurance Fund (Government of the Russian Federation, 2010).

The key element of the MHI system is a licensed health insurance organization. Such organizations have the specific powers of an insurer under a financial security agreement concluded between itself and a regional fund. They are not allowed to perform any other activity except compulsory and voluntary health insurance. Insurers can also include:

- organizations or persons (such as employers) providing payments or benefits to individuals; and
- self-employed individuals involved in private practice, such as notaries or lawyers.

Unemployed citizens are insured by executive institutions in the federal territories and other organizations defined by the federal Government.

The scheme covers the cost of medical services provided directly by a medical institution. MHI medical institutions can take any legal organizational form including self-employed individuals licensed to practise medicine and listed in the register of medical institutions. The rules and procedures, and information in the register, are set by the Standard Policies on Compulsory Health Insurance.

Voluntary health insurance entitles citizens to extra medical or other services not covered by the MHI programmes. It may be funded either at individual expense or by enterprises, institutions and organizations or other sources, in conformity with the legislation.

2.2.8. Tax-financed social security programmes

State pensions. The state pension security system, administered by the Pension Fund, currently covers over 3 million people. Over 2.7 million (87.3 per cent) receive social pensions while some 280,000 (9 per cent) are retirees who were victims of radiation exposure and industrial accidents; members of their families are also beneficiaries. Former military personnel and members of their families account for 58,300 (1.9 per cent) of beneficiaries, while some 54,000 (1.8 per cent) are former civil servants (Federal State Statistics Service, 2010).

State pension benefits are paid according to the following qualifying conditions: length of service, old age, disability, survivorship, and eligibility for a social pension. They are paid regardless of individual accumulated reserves under the funded tier. The payment expenses, including delivery logistics, are funded by inter-budgetary transfers from the federal budget that are allocated to the Pension Fund.

Length-of-service pensions are paid to federal civil servants, military personnel, cosmonauts and civil aviation test pilots. Federal civil servants are entitled to length-of-service pensions after a minimum of 15 years of service with at least 12 months of federal civil service.

Survivors' pensions are paid to the members of the families of military personnel, cosmonauts, individuals exposed to radiation or industrial accidents, and may be paid as a social pension to disabled survivors.

Social pensions are primarily targeted to maintain the minimum subsistence level of individuals who are not yet entitled to an old-age labour pension. It may be given to a disabled individual for old age, disability or survivorship. The amount depends on the category of a retiree. Recent reforms to social pensions are discussed below in section 2.3.1.

Specific groups are entitled to receive two pensions: disabled Second World War veterans, parents of military personnel killed in action or who have died of wounds, widows (if not remarried) of military personnel who died of war wounds, disabled members of the families of individuals affected by radiation sickness due to the Chernobyl Nuclear Power Station disaster or related clean-up works, holders of the Resident of the Besieged Leningrad badge, and cosmonauts.

People with disabilities. One of the priorities of state social protection policy is protection of the disabled by providing them with equal opportunities to implement their civil, economic, political and other rights and freedoms defined in the Russian Constitution and in commonly acknowledged international laws and agreements ratified by the Russian Federation.

The social protection measures for the disabled defined in the federal law (Government of the Russian Federation, 1995) are expenditure liabilities for the Russian Federation, except for social support and services under the authority of the Russian federal territories.

The law on social protection of the disabled stipulates comprehensive activities, including free medical aid under the programme of social guarantees of public medical care, guaranteed access to vital sources of information and unhindered access to social infrastructure facilities; accommodation; education for disabled children adjusted to the individual situation; benefits including various allowances (pensions, compensations, insurance and other payments); guaranteed social services; and medical and domestic services at home or in residential care facilities for those who require constant care.

Employment guarantees are backed by the following measures that increase the competitiveness in the labour market of people with disabilities:

- implementing employment quotas for people with disabilities, including a minimum number of jobs in enterprises of any legal organizational form;
- reserving jobs mostly suitable for people with disabilities;
- stimulating organizations and enterprises to create extra jobs for the disabled;

- adjusting the work environment to individual rehabilitation programmes;
- creating conditions for involving those with disabilities in business activity; and
- organizing vocational training for people with disabilities.

A package of social protection and social care measures for people with disabilities is also undertaken by the executive authorities in the federal territories, in line with their powers, including providing the disabled with technical means of rehabilitation, and state social support for specific groups of individuals, namely, providing them with treatment at health resorts and free transportation to and from the resort.

Unemployment protection. The change of the unemployment protection system from an insurance-based to a non-contributory scheme is discussed in the next section (2.3.2).

2.3. Recent reforms and extension efforts

2.3.1. Pension reform

The reform of the pension system that began in 2002 is bringing about significant changes:

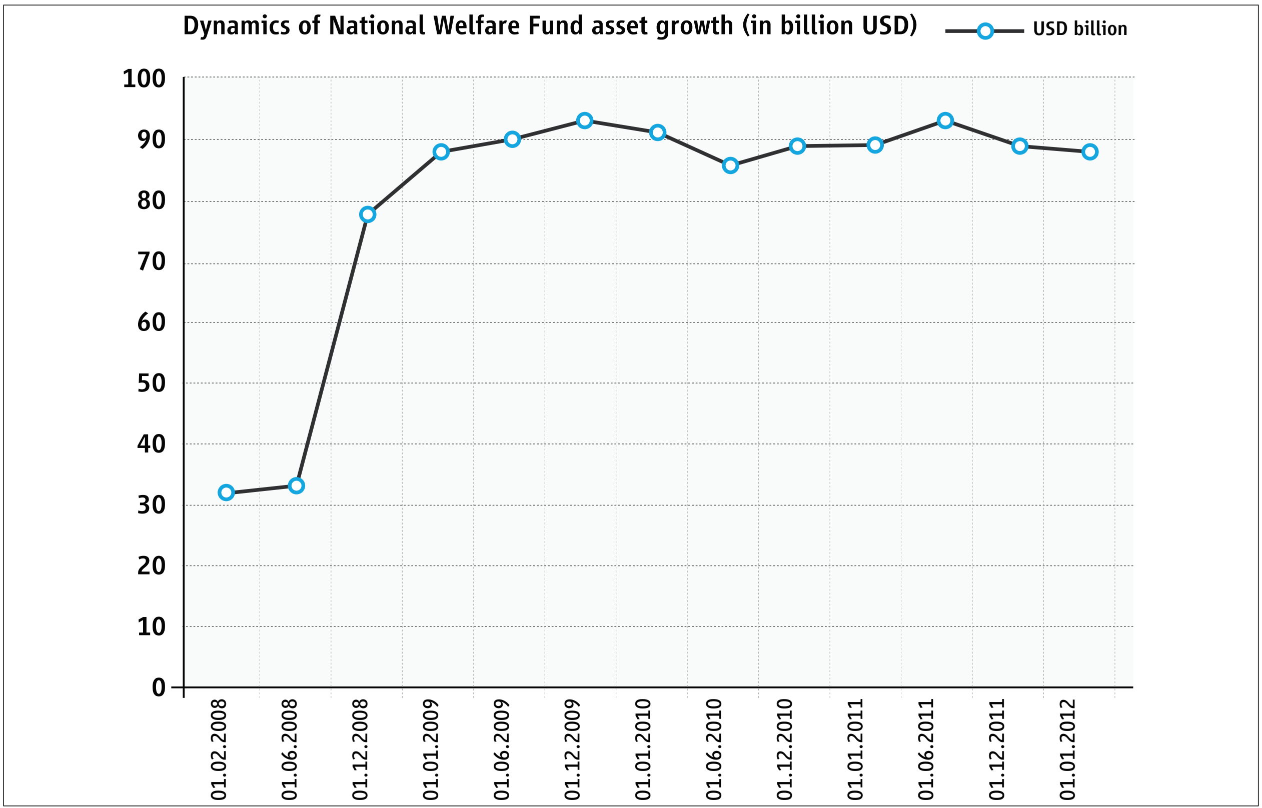
- The real value of pensions will be differentiated depending on the record of covered employment, and adjusted to recent dynamic changes in national wages. At the same time, the amounts of old-age pension benefits will depend on lifetime adjusted earnings, instead of earnings in the last two years or on any five years of covered employment.
- The old-age benefit is now a combination of a basic flat-rate component, insurance and funded elements;
- The pension formula – a model used for calculating the work-related pension – has been changed from one based on the individual coefficient of a pensioner to a formula based on the accrued capital divided by the projected life expectancy after retirement.
- The financial mechanism for accruing pension rights has changed radically.
- A considerable degree of economic responsibility for financial security on retirement has been transferred from the State to the insured person, calling for long-term effective management of the funded part of the pension.

The National Welfare Fund. Key to both the improvement of social security and the financial sustainability of the social security system, particularly since the onset of the global financial and economic crisis, was the establishment of the National Welfare Fund in 2008. The Fund was created by splitting the Stabilization Fund of Russia, founded in 2004, into the Reserve Fund and the National Welfare Fund.

The main goals of the Fund were to cover the deficit (to provide for a balanced budget) of the Pension Fund and to ensure co-funding of a new programme of voluntary pension savings by Russian citizens under which the State and individuals share contributions equally. In particular, the Government is committed to co-financing additional pension savings of participants in the range of RUR 2,000 to 12,000 annually. The programme lasts for ten years from the first contribution by a participant. In 2011, the programme covered 6.34 million people and is open for enrolment up to 1 October 1913 (Government of the Russian Federation, 2008b).

The Fund comprises federal budget assets that are to be accounted for and managed separately (namely, oil and gas income which exceeds the transfer order for the current fiscal year) if the accumulated funding of the Reserve Fund exceeds its regulatory asset value. Figure 2.2 shows the growth of the Fund.

Figure 2.2. Russian Federation: National Welfare Fund asset growth, 2008–2011



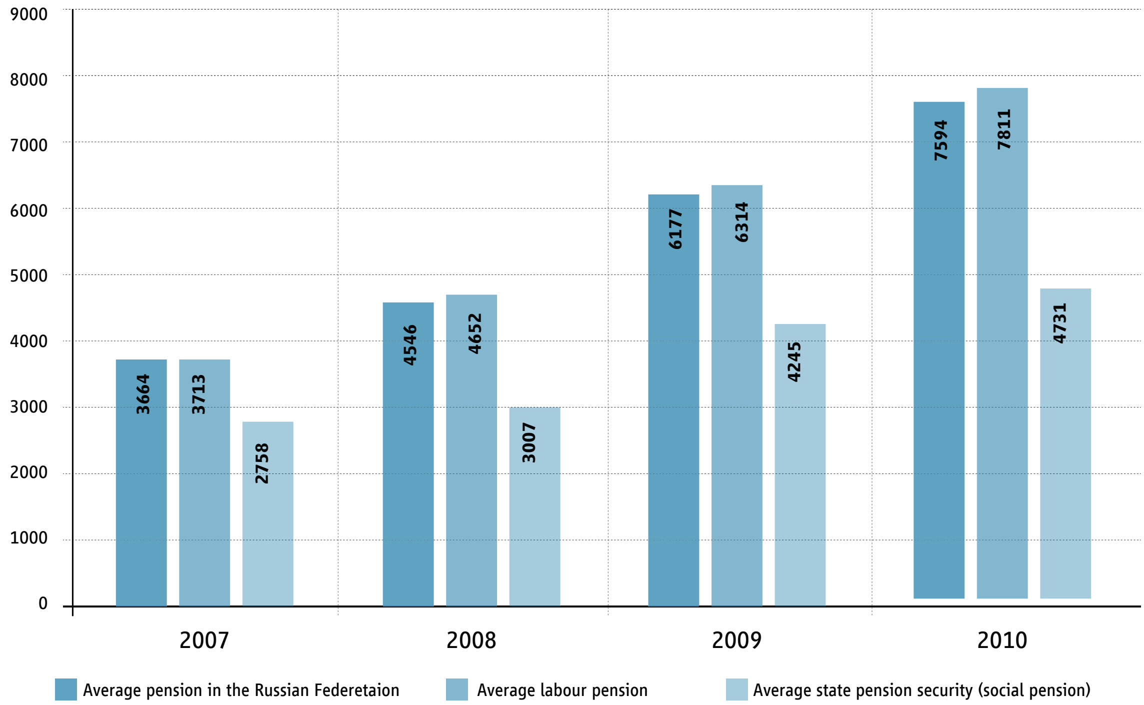
Source: Ministry of Finance.

With regard to other pension initiatives aimed at raising pension standards the following activities can be highlighted (Karasyov, 2010).

- Pension benefits have been indexed. In 2009 pensions were raised at a higher rate than changes in the CPI.
- There has been a revalorization (reassessment of the cash value) of pension rights earned before 2002, by adding 1 per cent for each year of service in the Soviet period before 1 January 1991, and indexing (by 10 per cent) citizens' estimated pension funds before the pension reform of 2002.

The indexation raises in 2009 and 2010 as well as the valorization of pension rights resulted in an increase to the average old-age pension by around 46 per cent in 2010, and pension expenditure reached 10 per cent of GDP. By the end of 2010, the average social pension corresponded to 104.6 per cent of the pensioner's minimum subsistence level (see Figure 2.3).

Figure 2.3. Russian Federation: Average pension growth, 2007–2010 (RUR)



Source: Pension Fund of the Russian Federation. <http://www.pfrf.ru.>

Non-state pension funds. The Government is also considering measures to reform the non-state pension system in order to:

- create economic stimuli to develop private pension security through favourable taxation; stimulating employers, employees and self-employed individuals to pay pension contributions; and stipulating a rational use of the investment potential of non-state pension funds, which requires better regulation of the investment process and an expanded set of investment instruments; and
- enhance public trust in non-state pension funds by establishing real mechanisms to protect investors' and participants' rights, including new legislation on the implementation of compulsory insurance of pension savings of individuals (similar to the current insurance of the bank deposit system); and the establishment and operation of collective guarantee funds that voluntarily insure pension savings. At the same time, public financial and pension literacy (Drozdov, 2010, p. 43) should also be enhanced.

Far-reaching measures to increase the reliability of the non-state pension pension funds include:

- specifying requirements for their property structure;
- establishing and implementing standards regulating their activity;
- implementing internal controls conforming to the national legislation;
- strengthening their actuarial control; and
- conducting regular training to upgrade the skills of their staff.

Further developments. A new package of measures is currently being launched to further develop the insurance-based pension system by 2020 to enhance its sustainability and adequacy (Ministry of Health and Social Development, 2010). These measures include:

- abolishing advanced (privileged) pension benefits, beginning from 2011 and during at least a 15-year transition period, by transferring the benefit into the old-age work-related pension insurance system;
- reforming the funded part of the labour pension, beginning from 2011, by granting the insured the right to choose whether to continue voluntarily accumulating their savings in a non-state pension fund or return their contributions to the pay-as-you-go pension scheme;
- releasing the Government from the responsibility for inefficient investments of pension savings of those who voluntarily chose to accumulate the funded part of their pension in non-state institutions;
- preventing loss of pension rights by creating mechanisms to insure funded pension risks;
- improving the calculation formula for labour pensions by adjusting it to the length of insurance period, changes in the macroeconomic and demographic situation in the country and projected life expectancy at the moment of retirement;
- specifying indexation mechanisms for pension rights and granting pensions according to fund availability (not all pension savings accumulated during employment can be adjusted to the current Pension Fund income growth rate or increases in the average wage);
- estimating state pension liabilities and making future liabilities key elements in the balance and budget of the Pension Fund;
- regulating contribution policy by annually adjusting the insurance contribution rates and annual income ceiling on the basis of an actuarial assessment of the amount sufficient for the Pension Fund's financial stability;
- completing the transition for employers in specific economic areas subject to lower Pension Fund insurance contribution rates;
- setting requirements for the standard insurance coverage period (30 years) qualifying for a labour pension (to provide for at least a 40 per cent replacement rate), with early retirement before the minimum qualifying period possible but subject to a pension reduction;
- amending the Federal Law on Compulsory Pension Insurance in the Russian Federation by introducing legal regulations on the methodology of calculating the replacement rate;
- encouraging workers to remain in employment longer; and
- raising the retirement age to adapt it to the projected life expectancy of men and women according to the current and projected demographic trend, but no earlier than in 2030.

This complex set of measures is expected to ensure the implementation of core insurance principles and thereby contribute to the Pension Fund's long-term financial sustainability.

Social pensions. The 2002 pension reform and the implementation of Federal Law No. 166-FZ (Government of the Russian Federation, 2001b) laid the foundation for establishing and developing social pensions. Up to 2010 the value of social benefits was not specified in the pension legislation; they were based on the legislation for labour pensions and the basic component of old-age or disability labour pensions. Since 1 January 2010 the value of the social pension is no longer dependent on these and has been set at the amounts shown in Table 2.5

Table 2.5. Russian Federation: Social pensions, amounts at 1 January 2012

Categories of beneficiaries	Amount of social pension (excluding regional indexation rate)
• Indigenous people of the Far North territories aged 55 (men) and 50 (women) • Males aged 65 and over, and females aged 60 and over • Disabled in Group II (except those disabled since childhood) • Children who have lost one of their parents (half-orphans) under 18, or under 23 for full-time students regardless of organizational and legal form of the educational institution (except supplementary education) till the end of study.	RUR 3,179 per month
• Disabled in Group I • Disabled since childhood in Groups I and II • Disabled children • Full orphans under 18, or under 23 for full-time students regardless of organizational and legal form of the educational institution (except supplementary education) till the end of study • Children of a single mother	RUR 6,357 per month
• Disabled in Group III	RUR 2,701. 76 per month

Note: There are three degrees of disability. Group I: 100% loss of working capacity and requires constant attendance. Group II: 100% loss of working capacity and does not require constant attendance. Group III: 50% loss of working capacity and does not require constant attendance.

The indexation criteria for social pensions (except those for civil servants and military personnel) have also changed. Up to 1 January 2010 they were adjusted in the same way as the basic component of labour pensions; thereafter they are indexed annually on 1 April, adjusted to the annual increase of the retiree subsistence level. Indexation rates for social pensions are subject to approval by the Government.

State pensions for individuals living in the Far North or equated territories are indexed according to the regional coefficient; in regions with severe climate conditions which require additional financial and physiological efforts, pensions are indexed according to the respective regional coefficient set by the Government. When such individuals move away from these territories the regional coefficient is no longer applied.

2.3.2. Unemployment protection

Since 2001, the Government has continued to develop its unemployment protection policy but not on an insurance basis. As mentioned earlier, the State Employment Fund was shut down and its managing and funding functions transferred to the Federal Ministry of Health and Social Development and its subordinate organization, the Federal Labour and Employment Service (Rostrud). In line with this reform, national unemployment protection is currently funded from the federal budget and no longer from insurance contributions.

According to the Federal State Statistics Service (Rosstat), in December 2011 the economically active population aged between 15 and 72 (employed and unemployed) was 75.6 million, or 53 per cent of the total Russian population. Of this number, 70.9 million people were classified as employed and 4.6 million as unemployed under ILO criteria; that is, they had no job or income-generating activity, and were willing and able to work when the survey was carried out. The unemployment rate – the percentage of the workforce that is unemployed – amounted to 6.1 per cent (including seasonal factors), with unemployed women comprising 47.6 per cent of the total unemployed (ILO methodology).

2.3.3. Maternity and child benefits

A reform starting in 2007 significantly increased maternity benefits for mothers looking after a child under the age of one, and covering unemployed women and adoptive parents. In addition, parents have been entitled to partial compensation for pre-school education and a number of regional authorities have adopted minimum benefits for foster and custodial families and wages for foster parents. A crucial decision was made to annually adjust the benefits to more than the rate of inflation.

2.4. Key challenges and solutions

Since early 2000, the Government has been implementing a package of measures, including administrative, financial and other innovations aimed at upgrading living standards. These measures involve a two-fold response: to the challenges of the transition to a new economic model, and to those that emerged in the aftermath of the recent global financial and economic crisis.

2.4.1. Administrative issues

Privileged benefits. Among targeted measures to put an end to the Soviet legacy of numerous privileged (Russian lgoty) in-kind benefits and services such as free rail and inter-urban transport to places of rehabilitation and spa resorts and some medicines, which often were not backed either financially or logistically, was the adoption of Federal Law No. 122-FZ (Government of the Russian Federation, 2004) concerning the monetization of such benefits. In 2005, under this law the Government started activities to replace Soviet-era privileged benefits with cash compensation.

According to experts and public opinion, this law requires further amendments. However, some specific groups, including Second World War veterans who were unable to enjoy certain benefits, felt that receiving financial compensation for unused benefits was an improvement.

Informal-sector and migrant workers. The transition to a market economy brought the challenge of free movement of labour among former Soviet Union countries and beyond. The Russian Federation, given its advanced economic situation, became a recipient of a large number of migrant workers, including non-registered (or illegal) migrants.

Precise statistical data on the scale of informal employment in the Russian Federation is lacking. According to recent reliable estimates, it is around 30 per cent of active persons but varies from region to region. The highest levels can be found in the large cities and most developed territories. One-third of this group are non-registered migrant workers (excluding internal migrants) who come mainly from the Commonwealth of Independent States (CIS), specifically from Armenia, Azerbaijan, Belarus, Kyrgyzstan, Republic of Moldova, Tajikistan, and Ukraine. To a lesser extent, but still with noticeable rates of 3 to 4 per cent, the donors of illegal labour beyond CIS countries are China and Viet Nam. These informally employed persons are contributing to the coverage gap in terms of taxation (including social insurance contributions) and social security protection.

However, formally-employed migrant workers also contribute to the extension of the coverage gap. The national legislation defines formal migrants as foreign citizens who hold the status of "temporarily entering" persons, and persons with temporary or permanent residence status. Foreign citizens holding temporarily entering status usually have an entry visa and are holders of a migration card but have not yet received a temporary residence permit.

To address the coverage challenge of formally-employed migrant workers, the Government introduced measures in 2012 to extend pension protection to this category of people. Before this, foreign citizens temporarily entering the territory of the Russian Federation and working there were not recognized as insured under the compulsory pension insurance scheme. Accordingly, their earnings under employment and civil contracts were not subject to contributions. As of 1 January 2012, pursuant to the provisions of Federal Law No.167-FZ of 15 December 2001, foreign citizens and stateless persons (except for highly-skilled specialists), temporarily entering the country are recognized as insured provided they perform work under an employment or civil contract for the period of at least six months. The employer is now obliged to pay pension insurance contributions on behalf of such employees (Government of the Russian Federation, 2001c, 2011a). Notably, the contribution rate does not depend on the insured person's year of birth, but is equal to the contribution rate established for Russian citizens to finance the first tier insurance part of the work-related pension.

For other branches of national social insurance, in particular compulsory social insurance due to temporary incapacity for work and health insurance, the compulsory coverage is provided only to foreign citizens who permanently or temporarily reside and perform work under an employment or civil contract. Nevertheless, emergency health care is provided at no cost to all foreigners or stateless people regardless of their status.

In response to the challenge of shrinking health insurance coverage for migrants, the CIS Executive Committee is currently elaborating a draft agreement on cooperation among CIS members in the area of health insurance of migrant workers and their families.

The challenge of illegal migrant employment has been given priority in the national social economic strategy until 2020. In accordance with this strategy illegal migrant employment should be reduced to between 5 and 10 per cent of the total number of migrant workers, while legal migrant employment should be considerably extended.

2.4.2. Implementation and organizational issues

Health care. Important innovations have recently been introduced in the national health care system. In 2011, the Law on Compulsory Medical Insurance (No. 326-FZ) came into force, creating a single compulsory health insurance framework for all regions. In accordance with this measure, all health insurance allocations are to be distributed so as to have a per capita minimum for every citizen in all regions. The funding principle has also been changed so that a service rather than a medical institution is financed. For the first time, an individual is free to choose a medical insurance organization, medical clinic or a doctor.

The Law on the Fundamentals of Health Protection in the Russian Federation (No. 323-FZ) came into force on 1 January 2012, aimed at further improving the quality and affordability of medical services. Its main goals are to reduce the mortality rate, develop the scientific foundations of health care and cut the deficit of medical personnel across the country (Skvortsova, 2012). It defines state guarantees for free health care provision to the entire population. It divides all services into public and private, and for the first time requires that medical rehabilitation and palliative care be provided at no cost. Under this law, all citizens are entitled to quality medical care in line with uniform standards (Government of the Russian Federation, 2011b).

The programmes of state guarantees will be based on the aggregate estimate of medical care standards adjusted to the morbidity rate. This approach should allow a better justification of financial needs for health care in general, and the cost of regional state guarantee programmes in particular.

In addition to these major instruments, considerable efforts have been made in other areas over the last decade. An important contribution has been made under the National Priority Project "Health", launched in 2006 with the major objectives of increasing access to quality health care, strengthening primary care, health promotion and preventive medicine and improving access to tertiary care. The Project's activities include the training and re-training of primary and emergency care physicians, the purchase of modern technological equipment for primary care providers, additional immunization programmes, regular medical examinations of the working population and the introduction of new programmes for check-ups of infants, pregnant women and for childbirth.

In 2010 every region worked out its own "Health" project. Measures to modernize health care in the regions are aimed at building a three-level system which envisages a new "movement" strategy for patients, depending on their condition and disease, namely from primary-care municipal institutions to medical establishments at regional and federal medical centres.

Recent years have seen a large step forward in modernizing the health care system and improving the quality of services. A vast amount of work is being conducted to prevent cardiovascular mortality, traffic-related deaths and cancer mortality. Considerable sums have been invested in developing pregnancy assistance centres, health centres and high-tech medical centres. Three biomedical laws are being drafted, aimed at establishing modern biomedicine in the Russian Federation. The National Health Care Strategy up to 2020 is being finalized and will encompass all developments in the sphere.

2.4.3. Sustainablity issues

While Major efforts are being applied to ensure the financial sustainability of the social security system and adequacy of benefits and pensions in a context of a controlled but still considerable inflation rate, shrinking production, and tax and social contribution evasion. However, unfavourable demographic trends, along with uncontrolled immigration, negatively affect the employment-to-population ratio.

The global financial and economic crisis. In September 2008, to address the negative impacts of the crisis, the Government began to implement anti-crisis measures that have been further developed by an action plan and then subsequently by the national anti-crisis programmes for 2009 and 2010 (ISSA, 2010). The federal budget has earmarked an additional RUR 43.7 billion to stabilize employment. In particular, the maximum unemployment benefit has increased by 50 per cent since early 2009.

The territories of the Russian Federation adopted 82 regional programmes of preventive vocational training as a measure to combat mass layoffs, to create temporary jobs, and to organize internal labour migration to fill vacancies in some regions lacking qualified specialists. Allocations also financed special measures to promote small businesses and self-employment (Golikova, 2011).

The total cost of these regional programmes exceeds RUR 25 billion, of which federal subsidies account for 90 per cent. Federal grants to support the unemployment and employment programmes increased overall by RUR 33.95 billion, including RUR 29.8 billion to support registered unemployed persons. Special emphasis was given to preserving and creating jobs for people with disabilities. Among the conditions for a company to be eligible for government support were the preservation of jobs and priority employment of the disabled.

The role of the Reserve Fund and the National Welfare Fund increased during the crisis. In particular, the Funds' assets covered all state liabilities during the crisis period, well as all pre-crisis plans to increase social benefits and pensions. Notably, the Government did not resort to external borrowing to finance social security expenditure, but used resources accumulated in the Reserve Fund and the National Welfare Fund

Improving the demographic situation. The main objectives of the national demographic policy are to alleviate the demographic crisis and to establish a legal, organizational and financial basis for maintaining the positive trends seen so far. A central role in this activity is given to social protection measures aimed at improving the demographic situation in the country.

In 2006, the President proposed a "birth-encouraging" programme whose cornerstone is the government family support grant entitled Maternity (Family) Capital. This programme is run by the Pension Fund of the Russian Federation. The benefit is paid to families with a second child (or subsequent children if the benefit has not been received for the second child) beginning from 1 January 2007. Annually indexed, this benefit has increased from RUR 250,000 in 2007 to RUR 387,640 (around EUR 10,000) in 2012.

Maternity capital is received during three years following the birth of the child and can be used for:

- housing improvement: to buy housing, pay off a mortgage, or build a house;
- educational investment, i.e. to cover expenses for pre-school, secondary, higher or postgraduate education including the cost of board;
- pension investment to augment the mother's future funded pension.

To date, more than 2 million Russian families have benefited from maternity capital, and over 300,000 families have used it to improve housing.

As a result, the population growth rate is improving; by 2011 the decline was halted and total population at August 2012 was 143.2 million. Between 2007 and 2010 the net birth rate grew by 21.2 per cent from 10.4 per 1,000 in 2006 to 12.6 in 2010. The number of children born in 2010, (1,789,623), exceeded the number registered in 2006 (1,479,637) by almost 310,000. The average number of children born to a woman of childbearing age was 1.59 in 2010 compared to 1.3 in 2006.

The net mortality rate also fell by 5.9 per cent, from 15.2 per 1,000 in 2006 to 14.3 in 2010. The number of deaths dropped from 2,166,703 in 2006 to 2,030,963 in 2010. Projected average life expectancy increased by 2.38 years between 2007 and 2010, among males by 2.66 and females by 1.64 years. In 2010, the average life expectancy was 68.98 years (63.03 for men and 74.87 for women), compared to 66.60 years in 2006 (60.37 for men and 73.23 for women); it has since risen overall to over 70 in late 2012.

The current Policy Implementation Plan for 2011–2015 includes measures that respond to the unfavourable demographic trends projected for the next five years, which include a considerable reduction – by 2 million – in women of active childbearing age between 20 and 29, and an increase in the number of retired people (especially aged 80 or older). The main emphasis of the Plan is on adopting more active measures to reduce the mortality rate, mainly of the working-age population, and to considerably improve overall and reproductive health.

2.4.4. Moving forward

The current transition to an innovation economy requires a flexible and efficient labour market. The Government has put in place a number of employment programmes whose key policy objectives include:

- encouraging longer working careers of employees;
- improving the quality of the labour force by reforming the system of professional education, improving training and encouraging re-training to ensure that the skills available meet the demands of employers; and
- improving labour mobility and ensuring a better match of supply and demand of labour.

Future social security provision will need to be consistent with this changing labour market environment. Policy measures that may directly have an impact on social security include:

- measures to increase the insurance period by encouraging workers to stay in employment longer, such as flexible working and pension benefit provision (e.g. partial retirement);
- changes to the unemployment benefit system to encourage jobseeking, and the development of voluntary additional unemployment protection in line with insurance principles (compensation for lost wages adjusted to the employment and wage record and insurance contributions);
- measures to support internal labour migration, including the improvement of state support for individuals and their families who move to work in a different region, including relocation compensation;

- measures to put in place private and public partnerships in employment and unemployment protection;
- improving protection of the labour force and the work environment and reducing mortality and risks of occupational injury or disease by improving occupational risk management; and
- measures to attract foreign workers to respond to long-term economic demands for skilled and unskilled labour.

An important part of national social policy is devoted to long-term social support, which requires modernization, and to the development of the social services sector, as well as programmes targeting the poor and social security beneficiaries. The system of social support needs to meet the needs of modern society, performing both social protection and social development functions and creating affordable mechanisms of "social lift" for everyone including socially vulnerable groups.

Specific objectives related to social security development have been fixed in relation to medical and old-age benefits.

Specific health care objectives. The modernization of the system of compulsory health insurance and further development of voluntary health insurance will pursue the following policy objectives and measures:

- shifting to a one-tier model of health care funding in the compulsory health insurance system, including legislative determination of income sources and expenditure liabilities;
- introducing uniform insurance contributions for all employers and self-employed persons;
- introducing an annual taxable income ceiling;
- putting forward uniform requirements concerning the amount of compulsory health insurance contributions from the federal territories for the non-working population;
- creating an efficient system of equalizing funding of regional public health care programmes on the basis of minimum per capita standards;
- increasing the responsibility of state insurance organizations when implementing one-tier funding for health care organizations involved in compulsory health insurance;
- moving gradually toward efficient methods of payment for health care on the basis of rational rates that will depend on the quality and quantity of the health services;
- creating a quality management system of medical care;
- creating a competitive model of compulsory medical insurance allowing choice of insurer and medical organization, and providing people with up-to-date information about such insurers and organizations; and
- creating the conditions that will involve medical institutions of different organizational and legal forms in compulsory medical insurance.

Specific pension objectives. A long-term development of the insurance-based pension system should be undertaken to enhance pension security for all categories of pensioners, to provide financial sustainability of the system and to achieving the following outcomes envisaged:

- to increase the average old-age labour pension to at least 2.5–3 times the retiree subsistence level by 2016–2020; and
- to increase the replacement rate for labour pensions to at least 40 per cent of individual earnings on which pension contributions have been paid.

The following measures are planned to achieve these goals:

- A minimum insurance contribution is to be introduced that, if paid for 30 years, will ensure that a labour pension is not less than the retiree subsistence level.
- Beginning from 2015, the base component of the old-age labour pension is to depend on the contribution record, decreasing annually by 3 per cent for each year of service less than 30 years, and increasing by 6 per cent for each year above this period.

A well-balanced system of assessment and monitoring of pension liabilities is necessary for a long-term perspective. Authorized pension institutions are therefore to be entitled to an actuarial review of the development of the pension system, estimating state pension liabilities during the entire insurance period. The actuarial review also should substantiate the number of notional accounts and benefits entitled to indexation and prepare recommendations for any necessary adjustments to the main parameters of contribution accruals.

The funded part of the pension system should be strengthened through:

- increasing the efficiency of investment by expanding the list of investment tools and options for pension savings and investing pension reserves conditional on the safety of such investments being guaranteed;
- developing the system of co-funding of voluntary pension savings by the State and employers;
- regulating the financing procedures for funded pension payments;
- increasing the transparency of the administration of the funded part of the pension system by improving the system of regulation, control and surveillance in the area of accumulation and investment, in order to improve accountability and define standards for release of information by the parties; and
- introducing legislation on advanced retirement due to specific working conditions.

It will be also imperative to undertake measures to streamline the taxation of employers' contributions to non-state pension funds, making their assets the basis for increasing the level of pension security for their participants.

2.5. Conclusions

This chapter has provided a concise overview of the national social security model in the Russian Federation: its evolution, design, financing, main challenges and major policy measures. Today's social security protection is a complex system comprising social insurance, health insurance, tax-financed social insurance programmes, social assistance, unemployment benefits and other measures to ensure social protection. The system has undergone continuous development since the Soviet-era paternalistic system and still retains a number of non-insurance elements, such as an opportunity to receive insurance benefits without paying insurance contributions, the nature of benefits paid, and so on.

Policy-makers and social security stakeholders have designed numerous programmes and introduced comprehensive measures to address the challenges of sustainability, adequacy and shrinking coverage in the context of national economic growth, with a view to enhancing social security in both quantitative and qualitative terms. Further developments will need to focus on reforms primarily aimed at removing the state extra-budgetary funds from the administration of non-insurance tax-financed social benefits, while the social insurance contributions should be differentiated to better account for risks of unhealthy, dangerous and hazardous working conditions. Thus, the introduction of mandatory occupational schemes should be a priority.

Another priority focus should be on the more active involvement of individuals in funding and managing the compulsory social insurance system and to the further development of voluntary social insurance programmes.

Appendix tables

Table 2A.1. Pension system indices, 1990–2010 (percentages)

	1990	2000	2002	2008	2009	2010[1]
Real value compared to previous year	100	34	55	66	94	128
Pension to subsistence level	119 (1992)[2]	76	100	115	127	165
Pension to wages (replacement rate)	33.73[3]	31	31	24	28	36

Notes:

[1] The nominal value of the average pension in 2010 was RUR 7,478 a month, the retiree subsistence level RUR 4,521, the old-age work-related pension RUR 7, 689, average monthly wages RUR 21,090.

[2] The subsistence level concept was introduced in1992.

[3] In 1990 the average pension was RUR 102 compared to wages of RUR 303. In the USSR, the average annual pension was RUR 99, wages RUR 275, so the replacement rate was 36 per cent.

Table 2A.2. Current social security measures to maintain benefit levels

Measures to maintain the social security level of beneficiaries when dividing powers between federal and regional executive authorities	
1.	Social support of Great Patriotic War veterans and senior citizens
2.	Social support of Great Patriotic War veterans
3.	Monthly compensation and financial aid
4.	Social support of disabled participants in the campaigns in Afghanistan, the North Caucasus and members of the families of military personnel who have died in peacetime
5.	Supplements for the disabled and individuals with limited mobility, rehabilitation of the disabled
6.	Supplements to support individuals exposed to radiation
7.	Social aid for the homeless
8.	Benefits for Moscow residents: housing, utilities, transport and communications allowances
9.	Social support of maternity and childhood

Table 2A.3. Main elements of the budget, 2008–2014 (RUR billions)

	2008	2009	2010	2011	2012	2013	2014
Total federal revenue	**16,198.4**	**13,552.5**	**15,737.5**	**19,325.1**	**20,406.6**	**22,439.9**	**24,360.3**
Percentage of GDP	**38.8**	**34.9**	**35.0**	**36.3**	**35.5**	**35.4**	**34.6**
Federal budget	9,275.9	7,337.8	8,305.4	10,303.4	10,627.8	11,687.6	12,645.5
Extra-budgetary funds	3,253.3	3,789.2	4,814.5	5,540.2	6,675.5	7,373.1	8,130.5
Regional compulsory health insurance funds	536.7	479.1	587.8	849.1	871.6	984.7	1,122.5
Total expenses	**14,169.7**	**16,328.0**	**17,614.5**	**20,089.8**	**22,195.8**	**24,374.6**	**26,149.5**
Percentage of GDP	**34.0**	**42.1**	**39.2**	**37.7**	**38.6**	**38.4**	**37.1**
Federal budget	7,570.9	9,660.1	10,117.5	11,022.5	12,198.3	13,431.9	14,293.9
Extra-budgetary funds	2,897.8	3,587.2	4,779.5	5,529.7	6,672.8	7,367.2	8,122.5
Regional compulsory health insurance funds	500.1	479.1	587.8	849.1	871.6	984.7	1,122.5
Total balance/deficit	**2,028.7**	**-2,775.5**	**-1,877.0**	**-764.7**	**-1,789.2**	**-1,934.7**	**-1,789.2**
Percentage of GDP	**4.8**	**-7.2**	**-4.2**	**-1.4**	**-3.1**	**-3.0**	**-2.5**

Table 2A.4. Social care budget allocations, 2012–2014 (RUR billions)

	2011	2012		2013		2014	
	(Law)	Draft bill	% of previous year	Projected	% of previous year	Projected	% of previous year
Total	**454.1**	**646.5**	**142.4**	**670.1**	**103.7**	**699.7**	**104.4**
Public normative commitments	**296.6**	**510.1**	**172.0**	**532.8**	**104.5**	**561.9**	**105.5**
Benefits for military personnel	263.8	472.0	179.0	493.2	104.5	520.8	105.6
Benefits for persons exposed to radiation or nuclear tests	9.2	9.7	106.3	10.3	105.5	10.8	105.0
Child care benefits for persons exposed to radiation	2.6	3.2	122.5	3.4	105.5	3.6	105.7
Compensation and benefits for nuclear accident survivors	11.8	13.0	109.8	13.7	105.4	14.4	105.0
Monthly supplements for specific groups paid due to the 60th anniversary of the victory in the Great Patriotic War 1941-45	0.8	0.7	93.2	0.7	93.4	0.7	100.0
Other socially important commitments	**157.5**	**136.4**	**86.6**	**137.3**	**100.7**	**137.8**	**100.4**
Promotion of employment	77.2	46.5	60.2	46.3	99.6	46.3	100.0
Compensation and benefits for military personnel, qualifying persons and retired military personnel	7.3	9.5	130.0	9.6	101.1	9.6	100.0
Military mortgage plans	28.7	37.0	128.9	37.0	100.0	37.0	100.0
Compensation of health-resort treatment for children of military personnel (under 15)	5.8	5.0	86.9	5.0	100.0	5.0	100.0
Pension supplements to adjust regional pensions to the retired subsistence level	6.9	7.3	105.8	7.7	105.5	7.7	100.0
Social support of orphans and children without parental care	6.8	5.9	86.8	6.2	105.1	6.5	104.8
Accommodation for orphans, children without parental care, under custody but without their own housing	6.2	6.2	100.0	6.2	100.0	6.2	100.0

Table 2A.5. Transfers to the Federal Compulsory Health Insurance Fund, 2012–2014 (RUR billions)

	2011	2012		2013		2014	
	(Law)	Draft bill	% of previous year	Projected	% of previous year	Projected	% of previous year
Total	**21.2**	**23.3**	**109.9**	**18.8**	**80.7**	**18.8**	**100.0**
Compensation for unaccounted income of the Fund's budget adjusted to lower social contribution rates for specified tax payers	16.3	18.4	112.9	18.8	102.2	18.8	100.0
Managed expenses:	4.9	4.9	100.0	0.0	-	0.0	-
Medical check-ups of orphans and children in difficult circumstances	0.9	0.9	100.0	-	-	-	-
Additional check-ups of employed persons	4.0	4.0	100.0	-	-	-	-

Table 2A.6. Transfers to the Social Insurance Fund of the Russian Federation, 2012–2014 (RUR billions)

	2011	2012		2013		2014	
	(Law)	Draft bill	% of previous year	Projected	% of previous year	Projected	% of previous year
Total	**83.2**	**76.5**	**91.9**	**79.6**	**104.1**	**82.9**	**104.1**
Compensation for unaccounted income adjusted to lower insurance contribution rates for specified taxpayers	**5.4**	**6.3**	**116.7**	**5.6**	**88.9**	**5.6**	**100.0**
Coverage of the deficit of the Social Security Fund	**11.3**	**-**	**-**	**-**	**-**	**-**	**-**
Managed expenses	**66.5**	**70.2**	**105.6**	**74.0**	**105.4**	**77.3**	**104.5**
Childcare benefits for persons not covered by compulsory social security and looking after a child under 18 months	49.3	52.3	106.1	55.2	105.5	57.9	104.9
Technical means of rehabilitation for people with disabilities	9.0	9.0	100.0	9.0	100.0	9.0	100.0
Childbirth grant for persons not covered by compulsory social insurance	5.7	6.0	105.3	6.3	105.0	6.6	104.8
Childcare benefits for persons exposed to radiation	1.4	1.5	107.1	1.6	106.7	1.7	105.0
Four vacation days per month for parents of a child with a disability	1.1	1.4	127.3	1.9	135.7	2.1	110.5
Earmarked allocations to cover the budget deficit of the Social Security Fund	-	85.7	-	88.3	115.8	93.5	106.1

Table 2A.7. Transfers to the Pension Fund of the Russian Federation, 2012–2014 (RUR billions)

	2011	2012		2013		2014	
	(Law)	Draft bill	% of previous year	Projected	% of previous year	Projected	% of previous year
Total	**2,341.7**	**2,621.8**	**112.0**	**2,857.1**	**109.0**	**3,150.1**	**110.3**
Pension coverage	**1,794.3**	**2,045.6**	**114.0**	**2,246.1**	**109.8**	**2,507.9**	**111.7**
Coverage of the Pension Fund budget deficit	875.9	1,060.1	121.0	1,192.7	112.5	1,355.7	113.7
Valorization of pension rights	527.7	570.9	108.2	626.5	109.7	685.2	109.4
State pension benefits	278.4	286.5	102.9	313.7	109.5	353.8	112.8
Compensation for unaccounted income adjusted to lower pension insurance rates	69.6	78.7	113.1	56.4	71.7	56.4	100.0
Federal pension supplement	34.5	38.5	111.6	42.9	111.4	42.9	100.0
Compensation for non-insurance period	3.2	3.5	109.4	3.9	111.4	3.9	100.0
Co-financing to accumulate pension savings	5.0	7.5	150.0	10.0	133.3	10.0	100.0
Managed expenses	**547.4**	**576.2**	**105.3**	**611.0**	**106.0**	**642.2**	**105.1**
Monthly payments	365.3	378.5	103.6	397.6	105.0	417.3	105.0
Maternity (family capital)	120.8	132.7	109.9	144.1	108.6	151.3	105.0
Benefits for caring after the disabled	40.4	44.0	108.9	49.3	112.0	54.2	109.9
Monthly supplements for specified categories	10.0	8.9	89.0	8.0	89.9	7.2	90.0
Funeral grant	0.2	0.26	105.0	0.3	147.6	0.3	106.5
Other social benefits	10.7	11.8	110.3	11.7	99.1	11.9	101.7

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3. Social security in India: A patchwork quilt

Contents

3. Social security in India: A patchwork quilt

Summary

While two decades of economic reform in India have brought changes to the way in which the social security safety net operates, the country's social and economic situation is itself a challenge to the extension of social security coverage. Over 90 per cent of workers are in the informal sector, and the income of one in five informal workers is below the poverty line. Although new government programmes for food security, health care for the poor, and cash transfers have been put in place, they are mostly ad hoc; some successful experiments failed to live up to expectations when they were scaled up. Microinsurance and micro-pensions might hold out certain promise but also face challenges. This chapter highlights the difficulty of creating nationwide social security programmes that reach and meet the needs of India's poor.

3.1. Economic and social background

India is the second largest country (after China) in terms of population. Although it has less than 2.4 per cent of the world's landmass, it is home to about 18 per cent of the global population. At the time of independence in 1947, India's population was less than 350 million; by 1965 it was 500 million and by 1999 had crossed the billion population mark. In June 2011, the Indian population was estimated at 1,210,193,000.

With population growth today standing at 1.4 per cent a year, India adds one "mini-Australia" (about 18 million) every year. In the past decade it has added to its population a "mini-Brazil" (about 180 million).

There are 28 states in India along with seven union territories. The states vary greatly in size of population: the largest, Uttar Pradesh, has 199,590,000 people while the smallest, Sikkim, has 608,000.

In considering employment in India, a distinction has traditionally been made between the "organized" and the "unorganized" sectors. This distinction is similar to that made between what has been called the formal and informal sectors in other parts of the world. Although there has been some confusion between these two typologies, a Ministry of Labour Commission Report noted in 2002 that

> it has almost become the universally accepted practice to treat the words "unorganised sector" and "informal sector" as denoting the same area. They are, therefore, regarded as interchangeable terms. We too will follow the practice… (Labour Commission, 2002, p. 596).

While the international definition of the informal sector is usually that given in the 1993 New Delhi Resolution of the Fifteenth International Conference of Labour Statisticians (ICLS)[1], researchers and policy-makers in India have since pointed out that this enterprise-based definition excludes

1 "The informal sector may be broadly characterised as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees" (New Delhi Resolution, in ILO, 1999).

a large number of workers with informal job status, partly due to the increasing casualization and sub-contracting in formal enterprises. In 2008 the National Commission for Enterprises in the Unorganised Sector (NCEUS) proposed a definition of informal employment to complement the ICLS definition:

> Informal workers consist of those working in the informal sector or households, excluding regular workers with social security benefits provided by the employers, and the workers in the formal sector without any employment and social security benefits provided by the employers. (NCEUS, 2008, para. 2.7.3)

In other words, the definition of an informal worker depends largely on the existence or otherwise of social security benefits from the employer. This covers the vast majority of Indian workers.

According to figures based on the 61st Round of the National Sample Survey Organization (MOSPI, 2006),[2] total employment in India was 457.46 million in 2004/2005, of which the estimated number of informal-sector workers (i.e. defined by enterprise) was 394.9 million, 86 per cent of the total. But the number of workers with informal job status was considerably higher: almost 423 million in 2004–2005, or 92.38 per cent of total workers (NCEUS, 2008; Naik, 2009). Also, while 99 per cent of workers in the informal sector were informal workers, only just over half the number of workers in the formal sector were formal workers (i.e. with social security), down from 62 per cent in 1999–2000 (NCEUS, 2008; Naik, 2009). As shown in Table 3.1, the total number of informal workers is increasing, not only in absolute numbers but also as a proportion of employment, with increasing casualization and sub-contract work in urban employment. Productivity in the informal sector is generally low and falling, with informal workers generating just 44 per cent of GDP in 2004–2005.

Table 3.1. India: Growth of the informal sector in India, and productivity, 1983–2005 (% GDP)

Year	Informal workers	
	Percentage of economically active population	Amount of GDP (%)
1983–1984	91	49
1988–1989	91	48
1993–1994	92	47
1999–2000	92	45
2004–2005	92.4	44

The largest numbers of informal workers are in agriculture, accounting for 99 per cent of employment in the sector. In the non-agricultural sector, the highest numbers of informal workers are in retail trade, construction, land transport and textiles.

2 Although the NSS 66th Round (July 2009–June 2010) has been published, comparable computations from the raw data have not yet been made available.

3.2. Social security in India: An overview

Social insurance in India has been and continues to be a piecemeal affair. There is no such thing as one "umbrella coverage" for all workers in all sectors; and what happens in the formal sector is very different from what happens in the informal sector.

India has a long history of social security regulation. Laws governing social security have been in existence since 1923. According to the Ministry of Labour, the major social security laws that apply in India today are the following:

- Employees' State Insurance Act 1948 (ESI Act)
- Employees' Provident Funds and Miscellaneous Provisions Act 1952 (EPF Act)
- Workmen's Compensation Act 1923 and Workmen's Compensation Rules 1924 (WC Act)
- Maternity Benefit Act 1961 (MB Act)
- Payment of Gratuity Act 1972 (PG Act)

These laws are in line with statutory provisions in other countries around the world. Most of them are direct derivatives from India's colonial past. For developed countries, such laws make perfect sense. However, as we have noted, the overwhelming majority of the economically active population in India works in the informal sector. Most of these laws do not cover this sector, and even where they do, enforcement is extremely lax (with some exceptions such as the Self-Employed Women's Association (SEWA), discussed later in this chapter). There is a total mismatch between the labour market realities and the history of social security laws. Hence, efforts to provide social security safety nets in the last two decades have tended to move away from their focus on the formal sector and directly attack the problems of the informal sector. The following paragraphs briefly describe the provisions of each Act as applicable at present.

Employees' State Insurance Act 1948. The ESI Act, which is administered through the Employees State Insurance Corporation under the Ministry of Labour and Employment, covers factories and other enterprises with ten or more employees and provides for comprehensive medical care of the employees and their families. It also provides for cash benefits during sickness and maternity, and monthly payments in case of temporary or permanent disability or death.

Coverage is mainly aimed at factory workers nationwide, and is compulsory for factories with 10 or more workers if the factory uses power and for factories with 20 or more workers if it does not. In a 2001 Amendment, the Act also included workers in shops, hotels, restaurants, movie theatres and other similar establishments employing 20 or more workers. In addition, through another amendment in 2010 more autonomy has been granted to the states to run the hospitals in their locations.

Employees' Provident Funds and Miscellaneous Provisions Act 1948. The EPF Act is a complement to the Employees' State Insurance Act. While medical care, disability and death are covered under the ESI Act, the EPF Act covers money for retirement, mainly administered through the Employees' Provident Fund Organization (EPFO) under the Ministry of Labour and Employment. It applies to specific scheduled factories and establishments employing 20 or more employees, authorizing provident funds, superannuation pensions, and survivors' (family) pensions in case of death during employment. Separate laws exist for similar benefits for workers in specific industries such as coal mines and tea plantations. In 2010 the EPF Act covered some 47.1 million workers.

Benefits under the Act are funded principally through employer/employee contributions. Payout occurs under the following situations:

- on retirement at age 58 (early retirement is possible at age 50 at a discounted rate);
- on retirement as a result of total and permanent disability;
- immediately before migration from India for permanent settlement abroad through taking up employment abroad;
- termination of service upon retrenchment;
- termination of service under a voluntary retirement scheme; and
- job termination and remaining unemployed for over two months or leaving the job from a covered establishment and joining an establishment not covered by another provident fund scheme.

In addition, partial withdrawals can be made for specified purposes such as house construction, illness, natural disasters, and higher education of children. Employees have the right to withdraw 90 per cent of the balance in their accounts in the year before retirement.

Workmen's Compensation Act 1923 & Workmen's Compensation Rules 1924. The Act applies to workers in a limited range of occupations and covers permanently or temporarily disabled employees for any workplace injury, as well as the dependent family in case of a death. In case of a temporary disability, a worker should receive 50 per cent of wages, while a maximum lump sum of around USD 10,000 (in 2010) is payable for death of the employee. In reality however, only very large employers in the formal sector actually pay. In cases where the employer refuses to pay, the worker (or the family) can appeal to the state labour department, but most often such appeals do not produce results. Most small employers do not have the means to pay such compensation. In 2009, the word "workman" was substituted by the word "employee" in the Act.

Maternity Benefit Act 1961. The MB Act provides for 12 weeks worth of wages during maternity, as well as paid leave for certain other related contingencies. It also defines the parameters under which pregnant women can be employed. Section 4 of the Act states: "No employer shall knowingly employ a woman in any establishment during the six weeks immediately following the day of her delivery or her miscarriage"; while section 5 stipulates that "every woman shall be entitled to, and her employer shall be liable for, the payment of maternity benefit at the rate of the average daily wage for the period of her actual absence immediately preceding and including the day of her delivery and for the six weeks immediately following that day".

Section 8 of the Act 1961 provides that every woman entitled to maternity benefit shall also be entitled to receive from her employer a medical bonus of INR 250 if no pre-natal confinement and post-natal care is provided free of charge by the employer. In 2007, the monetary amount was revised upward to INR 1,000 by an Amendment to the Act. The Amendment also gives powers to the central Government to revise the medical bonus from time to time (subject to a maximum of INR 20,000).

Payment of Gratuity Act 1972. The PG Act applies to factories and other establishments employing ten or more workers. On completion of five years of service, employees are entitled to a gratuity of 15 days wages for every completed year of service or part thereof in excess of six months. The amounts were originally subject to a maximum of INR 350,000 (about USD 8,000), but the ceiling has since been raised to one million INR (about USD 22,000). The money set aside for this purpose by a factory or other establishment is not subject to company tax, but each company has to add to the reserve for this purpose.

3.3. Recent extension efforts

From the previous section it is clear that the legislation described above is relevant to the formal sector; meanwhile, however, the growth of the informal sector has continued unabated.

Traditionally in rural areas, people lived off the land in extended families – where first, second and third cousins lived under the same household. Over the past century, this situation has gradually changed due to migration to urban areas and other unalterable demographic changes.

As noted in the first section of this chapter, over 90 per cent of the working population works in the informal sector. This rate has been consistent over the past two decades and the percentage shows no sign of diminishing. This stands in contrast with all developed countries. For example, in the United States, in the early 1930s most of the labour force worked in the informal sector with most transactions taking place in cash. By 1950, however, that situation had changed dramatically; over 80 per cent of the population were covered by social security and most monetary transactions were taking place through the banking system. Banks help the formalization of a sector and hence the coverage of social security programmes.

The lifetime income of one in five informal workers in India is below the poverty line, and at least half the rural population has no bank account. In response to this, the first decade of the 21st century has seen the development of many innovative products, both public and private, in what has become known as microinsurance. The Self Employed Women's Association (SEWA), now famous throughout the world, has been working with poor self-employed women in Ahmadebad since 1972, and is thus possibly the oldest microinsurance scheme in India, with life, old-age (through UTI, discussed in section 3.3.1 below), health insurance and other products, although it began simply as a savings scheme. It has been advocated as a model to be replicated elsewhere in India (it is largely a Gujarat-based organization) and in other developing countries.

Founded by lawyer and trade union leader Ela Bhatt in 1972, the SEWA was formed with 1,070 members consisting of poor, self-employed women workers such as vendors, home-based workers and labourers. By 2010 it had over 1.2 million members, slightly more than half of them from Gujarat and with a large presence in Madhya Pradesh and some coverage in a total of nine Indian states. More than two-thirds of SEWA members are from urban areas.

These non-salaried informal-sector women workers realized that they had special needs; for example, secure mechanisms for collecting daily savings from their places of business or houses, or providing saving boxes; special loan procedures for illiterate women (the majority); savings and credit schemes that allowed for small savings and took into account family crises. SEWA Bank was founded on these principles.

Women who work in the streets need facilities to take care of their children when they are working. They need health care for themselves and their children. They need schools for their children. SEWA health care, child care, life insurance, asset insurance and old-age pension schemes for these otherwise unprotected workers were born out of the sheer necessities of life

India is now a global leader in the development of microinsurance, and its overall experience is generally considered to have been successful:

> The Indian context brings together a number of factors that contribute to improved risk management for low-income households by governing the intersection between financial inclusion in the insurance markets and the extension of social protection to workers in the informal economy. While there is certainly room for improvement, anyone interested in expanding social protection ... could learn valuable lessons from the Indian experience (Ruchismita and Churchill, 2012).

By 2010 over 164 million low-income persons had some form of insurance, not counting those insured under the Government's mass health-care schemes. Key elements for microinsurance to be sustainable and scalable include government commitment, facilitative regulation, technological solutions, the involvement of new stakeholders and tailored and specialized products.

In the last decade the Indian Government has launched a range of life insurance, medical insurance, health insurance and pension schemes for low-income people. Many are offered through the Life Insurance Corporation (LIC, a large government-owned insurance company) or through other publically owned enterprises. The key difference between the microinsurance outreach of LIC and the private insurers is in their distribution models. "While LIC relies on a large network of individual agents, a historical legacy that may not be considered 'good practice' for microinsurance today, private insurers typically offer loan-linked products that reach low-income households through a variety of means". These include self-help groups (SHGs), cooperatives, NGOs and, increasingly, microfinance institutions (MFIs). "The Indian achievement over the past decade to protect the poor through the involvement of all sectors of society has been nothing short of remarkable" (Ruchismita and Churchill, 2012).

3.3.1. Safety net for the elderly

Financial security in retirement depends on several critical factors:

- income during working life;
- length of post-retirement life;
- financial support from relatives; and
- income from work during retirement.

All four factors are fraught with uncertainty (see Bloom et al., 2010). Income during working life can be uncertain due to illness or fluctuations in the larger economy; the average lifespan of any group of people is highly variable; financial support from relatives may not materialize when needed; and post-retirement work is not always easy to come by.

Depending on children during old age has been the norm in India for millennia. However, such a support system has been seriously eroded in recent times. Table 3.2 illustrates the problem through data from the NSS. It shows that a majority of elderly males have no financial support, although the proportion varies between urban and rural areas. The situation is somewhat better for women.

Table 3.2. India: Elderly without financial support, 2011 (percentages)

State	Rural male	Rural female	Urban male	Urban female
Andhra Pradesh	49.24	15.82	57.00	26.16
Assam	47.95	13.58	56.28	29.81
Bihar	59.64	18.66	49.79	19.86
Chhattisgarh	57.02	28.55	58.74	23.32
Gujarat	49.93	12.98	52.47	12.54
Haryana	37.70	12.67	49.34	20.58
Himachal Pradesh	59.76	21.49	72.35	31.13
Jammu & Kashmir	67.64	11.38	63.12	11.74
Jharkhand	56.26	18.66	50.29	15.20
Karnataka	54.19	15.74	55.41	14.28
Kerala	36.39	11.72	47.26	20.52
Madhya Pradesh	59.83	17.58	65.44	21.33
Maharashtra	49.29	18.97	50.49	19.21
Orissa	46.96	10.21	51.4	10.22
Punjab	46.85	10.26	52.08	13.17
Rajasthan	47.63	9.47	55.38	12.87
Tamil Nadu	48.66	19.30	54.3	19.30
Uttar Pradesh	61.82	15.03	61.41	15.26
Uttaranchal	67.42	36.03	82.69	21.87
West Bengal	48.71	9.81	67.21	19.30
All India	**52.66**	**15.49**	**56.51**	**18.34**

Source: Prasad (2011).

With the present rapid decline in the total fertility rate (TFR), the problem is soon going to get far worse. The TFR is defined as the average number of children born per woman during her lifetime. In the Indian context, falling TFR means fewer people in the family to provide financial support for the elderly.

The Indian Government, at both the national and the state levels, has long been preoccupied with financial support for the elderly. One external strong voice with considerable power in policy-making has been the World Bank with its so-called "three-pillar model" for pensions proposed in the 1990s, later revised into the five-pillar model.

The five-pillar model. Bloom et al. (2010) suggest an adaptation of the five-pillar system proposed by Holzmann and Hinz (2005) for the World Bank, as a framework for India:

- the "zero" pillar: a government-funded social pension;
- first pillar: a government-mandated but employer/employee contribution defined benefit plan, possibly run as a pay-as-you-go (PAYG) system;
- second pillar: a government-mandated individual account plan run as a defined contribution system;
- third pillar: a tax-advantaged voluntary contribution system; and
- fourth pillar: an informal support system.

The "zero" pillar would serve the extremely or marginally poor in the informal sector. The first and second pillars would serve those in the formal sector for consumption smoothing over lifetime and to protect against longevity risk; the second pillar could also protect individuals who do not save for old age on their own. The third pillar (which includes micro-pensions) would attract a portion of the informal sector, while the fourth would take advantage of the family-based system.

The "zero" pillar has been implemented to some extent and is being expanded in India (see below). Although the first pillar exists for the formal sector, its long-term viability in the form of a PAYG system is questionable; for example, the pension plan run by the Government for central government employees runs a large deficit.

The basic problem faced by the Indian Government can be seen from the following scenario. If the Government decided to pay USD 1 per day for each person over 60, this would require over USD 40 billion a year – roughly a quarter of its entire budget. The only way the Government can even contemplate such a plan is if it can increase its tax base, and the only way it can increase its tax base is to reduce its dependence on indirect taxes and start taxing income directly. This would require a large-scale reduction in the size of the informal sector. Unfortunately there is no sign that such a transition is taking place yet.

The second pillar also exists, but only for those working in the formal sector and some parts of the informal sector, covering 10 per cent of the workforce. This is the EPF and the Employees' Pension Scheme (EPS) administered by the EPFO, and the National Pension Scheme (NPS).

The third pillar has developed only in the last decade. Since 2009, the NPS is open to all Indian citizens to make voluntary contributions, but a scheme offering tax incentives is not generally attractive to those whose incomes are too low to pay tax. Some recent initiatives to match individual contributions with government subsidies, however, might have the potential to quickly extend social security coverage to informal sector employees.

Micro-pensions might also play a role in a relatively rapid coverage extension. The concept of micro-pensions is "long-term savings by relatively low-income informal-sector workers, with the objective of obtaining income security during old age" (Shankar and Asher, 2011). Many of the early micro-pension schemes were therefore hybrids between savings and pensions. The first micro-pension plan in India was launched in 2006 by a mutual fund, UTI Asset Management Company (AMC) in partnership with the SEWA (Self Employed Women's Association) Bank. The UTI micro-pension has no minimum requirement for monthly or yearly contributions.

Low individual contributions (ranging from INR 50 to INR 200) are typically made until age 55, and pension payments commence from age 58. UTI is responsible for fund management. Records are maintained on an individual basis and each member receives a unique account number.

It should be noted, however, that micro-pensions must be differentiated from microinsurance programmes as the latter in most places are short term contingent contracts. It makes a big difference, if one tells low-income people who do not make enough money to eat today, to set aside money for the next 30 years when they may not even be alive. For this reason, hybrid savings pension schemes may be a more attractive option than a pure pension plan arrangement. Therefore, the successful implementation and delivery of any micro-pension scheme is dependent on an active role of a third party, representing a number of workers and who play a marketing, communication and administrative role in the collection, record keeping and transfer of contributions. This is essential if administration costs are to be kept low for a scheme with low average contribution amounts. More importantly, the government should play an active role through proper regulation and supervision, and through government subsidy for contributions (or even better, non-contributory social pension to complement individual accounts) and awareness-raising campaigns.

Indira Gandhi National Old Age Pension Scheme (IGNOAPS). The most important government direct cash payment scheme introduced for elderly low-income people is the non-contributory and means-tested National Old Age Pension Scheme (NOAPS), a centrally sponsored scheme launched by the Government in 1995. There are two components to the programme. Originally, assistance under the NOAPS was available to those (a) whose age was at least 65 years or higher; and (b) whose income was below the poverty line. The poverty line was defined as a person with income less than INR 300 (USD 7) a month. Under the scheme, an amount of INR 75 (slightly less than USD 2) per month was paid to beneficiaries.

In 2000 the scheme was renamed after Indira Gandhi and is now called the Indira Gandhi National Old Age Pension Scheme (IGNOAPS). It is estimated that almost 17 million persons above the age of 65 years and living below the poverty line were receiving assistance under the IGNOAPS up to 2011, at a cost of USD 30 million per year to the central Government.

The IGNOAPS is implemented by the Department of Social Welfare in each state. When a person applies for assistance, the local government official verifies eligibility and forwards the claim to the local Member of the Legislative Assembly (MLA), who has the final authority of approval of the payment. Half the funding for the scheme is provided by the state governments, with the other half coming from the central Government. The state governments typically (a) increase the amount of money per beneficiary and/or (b) reduce the age of eligibility. As a consequence, there is wide variation in the implementation of the scheme. Some states have substantially increased the amount of benefit (often more than doubling it) while other states have reduced the eligibility age.

On 9 June 2011 the central Government lowered the eligibility age for the IGNOAPS from 65 to 60. It also raised benefits for those aged 80 or older (purportedly to help keep pace with inflation, although the benefits are not indexed to inflation). The changes were retroactive to 1 April 2011 – the beginning of the fiscal year.

The expanded scheme is projected to cost significantly more, but the extension envisioned for the programme is substantive. The Government estimates that the lower age limit for IGNOAPS will bring in an additional 7.2 million persons aged 60 to 64. India has about 80 million persons aged 60 or older, with 51 million with incomes below the poverty line. IGNOAPS beneficiaries aged

80 or older, of whom there are an estimated 3 million, will now get INR 500 (slightly over USD 11) per month. The administrative expenses are estimated to be around 3 per cent of the total cost.

Informal Sector Workers Social Security Scheme. Following the recommendations of the Second National Labour Commission, the Government of India launched the Informal Sector Workers Social Security Scheme (2002) on a pilot basis in 50 districts. It was targeted to workers in the informal sector with incomes less than INR 6,500 (USD 130) per month. The scheme was financed through a contribution of INR 50 per month from workers in the age group 18–35 years and INR 100 per month for workers in the age group of 36–50 years. The employers were required to contribute another INR 100 per month. The Government contributed 1.16 per cent of the monthly wages of the workers.

The scheme included the following three benefits: (i) an old-age pension scheme: a minimum pension of INR 500 per month at the age of 60 or on permanent/total disability, and a family pension in case of the death of the worker; (ii) personal accident insurance: INR 100,000 paid following death from an accident; and (iii) medical insurance: reimbursement of hospitalization expenses up to INR30,000 a year. However, only a few thousand workers signed up for the scheme and it was closed in 2005. This scheme is an example of an unsuccessful attempt to provide social protection to those in the informal sector. It may be interesting to compare its design to that of more successful schemes.

Varishtha Pension Bima. This scheme is reserved exclusively for informal-sector workers aged 55 years and above. It is a single premium (deferred) annuity that guarantees a minimum rate of return of 9 per cent on investment. The investment varies from a minimum of INR 33,335 (USD 670) to a maximum of INR 266,665 (USD 5,300). The minimum monthly pension would be INR 250 (USD 5). The Government provides a subsidy to make that payment possible. The scheme is implemented by the LIC.

Rajasthan Vishwakarma Unorganized Sector Workers (Motivational) Contributory Pension Scheme (RVPS) and New Pension System-Lite. Launched in 2008 and jointly implemented by the Rajasthan state government and Invest India Micro Pension Services (IIMPSL), the RVPS is open to resident workers of the state who are aged between 18 and 60 and who belong to 20 identified occupations. The scheme specifically targets those who are not members of any other pension or provident fund scheme. The minimum single contribution for the scheme is INR 100, while the Rajasthan state government has committed to add a matching contribution to the members' savings, subject to a maximum contribution of INR 1,000 per annum per worker. Individual retirement accounts, each with a unique identification number, are maintained under a central server, with IIMPSL as the record-keeping agency. The accounts are portable across the state. The government pays an interest rate of 8 per cent per annum on the retirement account. On reaching age 60, the member will receive a pension based on the sum total of his or her contributions plus government matching contributions and interest (Shankar and Asher, 2011). As of 1 April 2011, RVSP membership had reached 51,700 individuals.

In January 2012, the state government decided to merge the existing RVSP with the "New Pension System-Lite (NPS-Lite) Swavlamban Yojna Scheme" of the Government of India. The latter is administered by the Pension Fund Regulatory and Development Authority (PFRDA), for existing members of RVPS and other workers in the unorganized sector across the State. The idea is to make use of a cost effective model of the National Pension System (NPS), referred to as NPS-Lite, so as to allow grass root intermediaries including NGOs and other organizations identified through public bidding to function as the "subscriber interface" and facilitate collective affiliation of economically weaker sections of society. Participants will have freedom to switch between pension funds and service providers and will have nationwide access over a period of time (Government of Rajasthan, 2012).

3.3.2. Old-age income security for the formal sector

Unlike the informal sector, the formal sector has a series of well-defined programmes for health care and retirement. There are also well-funded programmes for government employees both at the state and the central government levels.

The Employees' Provident Fund Organization (EFPO). Most people who work in the formal sector contribute to the Employees' Provident Fund (EPF) and the Employees' Pension Scheme (EPS) of 1995. They are both administered by the same central agency: the Employees' Provident Fund Organization (EFPO). The administration consists of 45 members of the Board, with the Minister of Labour as Chairperson. With so many Board members, it is difficult for the EPFO to change policies quickly.

The structure of the EFPO is very unusual. On the one hand, it provides services to its members – the common function of pension funds. However, it is also the enforcement agency to oversee the implementation of the EPF Act. Thus, the Commissioners of the Organization are vested with extraordinary powers under the statute. Thus, with (quasi) judicial authority, it can search and seize records, assess financial liability on the employer for violation of regulations, impose fines, auction off a defaulter's property, prosecute and arrest and detain a guilty employer in a civil prison. No other pension fund in the world has such authority.

For the private sector, any establishment with more than 20 employees and belonging to one of the nearly 200 scheduled industries is required by law to make contributions. Such contributions are made on the basic wage plus dearness allowances and not on the full wage, with a wage ceiling of INR 6,500 (USD 150) per month. For many, the actual wage is double that amount. Total contributions to the EPF were around USD 1 billion per year in 2008–2010, while total funds managed under the EFPO were around USD 50 billion in 2010, making it by far the largest pension fund in India. Not surprisingly, the management of the EFPO has been subjected to political pressure (see below, section 3.4).

Most contributions are administered directly by the EPFO; however, companies can seek exemption status, which means they would be allowed to manage their own funds. In that case, they pay to the EPFO 0.09 per cent of wages as an administration fee. Of the total 47.1 million members in the scheme, 42.7 million belong to the un-exempt category and 4.4 million to the exempt category. The average contribution of the un-exempt members was USD 120 during 2009, while it was nearly USD 300 for exempt members.

Contribution rates for these funds are as follows. In general, it is 12 per cent of wages from the employee and 12 per cent from the employer. While the employee contribution goes to the EPF, the employer contribution is divided into two: 3.67 per cent to the EPF and 8.33 per cent to the EPS. The employer also contributes another 0.50 per cent to a life insurance plan (EDLIS); thus, the total contribution of the employer is 12.50 per cent. The Government pays 1.17 per cent of the worker's monthly salary to the EPS for eligible employees. There is an additional charge of 1.10 per cent for the un-exempted sector contribution, while for the exempted sector the charges are 0.18 per cent. In all, the total cost for social security coverage is around 27 per cent of wages, although there is a reduced rate for the beedi, brick, jute, coir and guargum industries.

While the EPF is (largely) a defined contribution (DC) scheme that provides a lump-sum payment at retirement, the EPS is a defined benefit (DB) scheme that pays a pension proportional to earnings at the time of retirement and to years of service. The benefit rate is 50 per cent of the final wage for affiliates who have contributed for at least ten years. The scheme is financed partly by the employer contributions and partly by the government contributions described above.

For central government employees – who are the main contributors to the scheme – the EPS is non-contributory and tax-financed for those who started work before 1 January 2004. Those who were appointed on or after 1 January 2004, however, have contributed to the National Pension Scheme (NPS) since then.

The National Pension Scheme or New Pension Scheme (NPS). Came into operation on 1 January 2004 following the establishment of the Pension Fund Regulatory and Development Authority (PFRDA), the National Pension Scheme (NPS) was a defined contribution pension scheme that replaced the defined benefit pension scheme (the EPS) for all government employees (except the armed forces) who joined government service on or after 1 January 2004. In most states, state government and public-sector company employees were eligible to participate in the NPS. Since 1 May 2009 when the scheme was re-named the New Pension Scheme, all Indian citizens have also been eligible to open an NPS account on a voluntary basis so long as he or she is in the age group 18–55, but with one crucial difference – there is no matching contribution from the government for the open system. Under the NPS, at the time of retirement, a minimum of the cumulative amount in an individual's account is used to purchase an annuity, with the rest paid as a lump sum.

The minimum contribution is INR 500 a month, INR 6,000 per year (USD 140), and there should be a minimum of four contributions per year. There are two types of accounts:

- Tier I: A non-withdrawable account to which the affiliate shall contribute his/her savings for retirement. This is mandatory.
- Tier II: A voluntary savings facility which provides liquidity to the affiliates. This tier is optional. An affiliate cannot open a Tier II account without having a Tier I account first.

The pension fund managers manage three separate schemes in three different asset classes: Equity (E Class), government securities (G Class) and Credit risk-bearing fixed income instruments (C Class). In E Class, investment is in equity market instruments that replicate the portfolio of either the BSE Sensitive index or the NSE Nifty 50 index. In G Class, investment is in government securities such as bonds issued by the Government of India and or by state governments. In C Class, investment is in fixed income securities other than government securities (such as liquid funds of asset management companies regulated by the Securities and Exchange Board of India (SEBI) with filters suggested by the Expert Group; fixed deposits of scheduled commercial banks with filters; debt securities with maturity of not less than three years tenure issued by corporate bodies including scheduled commercial banks and public financial institutions; and credit-rated public financial institutions bonds, credit-rated municipal bonds or infrastructure bonds).

If the affiliate does not choose an asset allocation, the contribution will be invested in a "default choice" option. The investment will be determined by a predefined portfolio depending on the age of the affiliate. At the lowest age of entry (18 years) the default choice will entail investment of 50 per cent of pension wealth in E Class, 30 per cent in C Class and 20 per cent in G Class. These ratios of investment will remain fixed for all contributions until the participant reaches the age of 36. From age 36 onwards, the weight in E and C Classes will decrease annually and the weight in G class will increase annually till it reaches 10 per cent in E, 10 per cent in C and 80 per cent in G class at age 55.

The charges levied on each account in the NPS are as follows. There is a fixed fee of INR 280 per account per year. In addition, there is a 0.0075 per cent (of total balance) of asset services fees and 0.0009 per cent (of total balance) of investment management fees. If a person contributes the minimum amount of INR 6,000 (USD 140) a year then the charges amount to INR 300 a year – making it 5 per cent of the flow. For contributions above USD 1,000 per year, the fees drop to 1 per cent of the flow – making it the lowest cost DC pension plan anywhere in the world. In contrast, in Mexico, the charges are 20 per cent of the flow.

Employees' State Insurance Corporation (ESIC). Under the ESI Act, the Employees' State Insurance Corporation (ESIC) provides many benefits including health coverage for employees in private enterprises in the formal sector. It includes retirees and their dependents. By 2011, the number of insured family units had grown to 15.5 million; the total number of beneficiaries including family members was over 60 million (ESIC, 2011).

Funding comes from tripartite contributions: from the employee (1.75 per cent of gross wages), the employer (4.75 per cent of gross wages) and the state government which contributes 1/8th of the expenditure on medical benefits. For workers earning less than USD 1 per day, the employee contribution is waived.

Government and public enterprise schemes. The state and central governments and public enterprises have separate schemes. For central government workers there is the Central Government Health Scheme (CGHS). For state government employees and public sector employees, there are similar plans to cover against the financial risk of ill health and financial losses due to sickness and disability. There is a nominal contribution by the employees but they are mostly tax-financed. The benefits are generous. For example, beyond routine diagnostics, specialist needs are referred to expensive facilities in the private sector. These benefits continue at the same level even after retirement.

3.3.3. Health insurance

State-driven mass health insurance schemes, often subsidized by the Government, have proliferated in recent years. Often implemented through the insurance industry through public–private partnerships, they have also been able to draw on the widely reported experience of mutual and NGO health microinsurance schemes, including community-based health insurance (CBHI) schemes (Radermacher et al., 2006).

Coverage is estimated to have risen from about 75 million in 2007 to over 300 million in 2010, with three of the schemes – *Aarogyasri* in Andhra Pradesh, *Kalaignar* in Tamil Nadu, and the national *Rashtriya Swasthya Bima Yojana* (RSBY) reportedly insuring 56 million families at that date (Ruchismita and Churchill, 2012). The earliest such scheme, Yeshasvini, started in 2003 by the

Karnakata Department for Cooperation and with over 3 million beneficiaries in 2010, has been an inspiration for later schemes but has certain unique features which make it difficult to replicate or scale up. A few of these schemes are highlighted below.

Universal Health Insurance Scheme. The Universal Health Insurance Scheme was introduced by the government-owned general insurance companies in 2003. For families below the poverty line, it charged a premium of INR 165 for individuals, INR 248 for a family of five and INR 330 for a family of seven. The benefits included reimbursement of medical expenses up to INR 30,000 for hospitalization; accidental death cover of INR 25,000; and compensation for loss of earnings at the rate of INR 50 per day up to a maximum of 15 days. The coverage for the first few years was low (INR 130,000 in the first three years) and a task force was set up to examine the matter. The requisite changes were made and the numbers insured increased to 10 million by the end of 2006, although this growth has since slowed because of competing programmes. The management has now been opened to private-sector insurance companies.

Rashtriya Swasthya Bima Yojana (RSBY). This programme was launched in 2007 to provide health coverage for those living below the poverty line in India. The beneficiaries are entitled to hospitalization coverage of up to INR 30,000 annually (USD 700) for most diseases. Beneficiaries pay INR 30 for registration, but the central and state governments pay the premium to the insurer.

Depending on the location, the premium ranges from INR 400 to 600 per person covered. Benefit packages also provide beneficiaries with transportation assistance of up to INR 100 per visit, but not exceeding INR 1,000 per year. Over 2,000 hospitals nationwide, together with 1,500 private clinics, provide this service. Each beneficiary is issued a SmartCard and all transactions are cashless. Providers are paid on a fee-for-service basis, with costs specified for each of the covered procedures and interventions. Claims submission and processing is also cashless. The technology allows for real-time monitoring and underwriting of the relevant processes, and the ability to take appropriate action.

Self Employed Women's Association of India (SEWA). SEWA offers special health and life policies for its members with several private and nationalized insurance companies. The scheme is financed through three separate channels:

- 25 per cent is provided by the interest paid on a grant provided by GTZ;
- 50 per cent comes from direct contributions by SEWA members; and
- 25 per cent is provided by a subsidy from the Government of India through the Life Insurance Corporation.

In 2010 the total health and asset insurance premium was INR 175 (USD 4) per year, covering INR 10,000 (USD 2,100) for natural death, INR 40,000 for accidental death, INR 10,000 for assets, and INR 10,000 for the house. There is also a range of other bundled and unbundled product options (see the SEWA website http:/www.sewa.org for further details).

3.3.4. Other social insurance schemes

A number of insurance schemes started since 2000 are discussed below and summarized in Table 3.3.

Janashree Bima Yojana. The objective of this scheme is to provide life insurance protection to rural and urban poor persons living below and marginally above the poverty line. The eligibility requirements are that the applicant is (a) aged between 18 and 59 years; (b) below or marginally above the poverty line; and (c) a member of any of the approved vocational/occupational groups.

The point of contact can be a state government department which is concerned with the welfare of any such vocational/occupational group; a welfare fund or society, a village *panchayat* (council), an NGO, or a self-help group, among others. The scheme is a group life insurance policy, with the requirement that there are at least 25 persons in the group.

The premium is set at INR 200 per year and the scheme pays INR 30,000 for natural death and INR 75,000 for accidental death or permanent disability. Of the INR 200 premium, 100 is paid by LIC's Social Security Fund, INR 60 by the Government of India and the rest – INR 40 – by the affiliate. The policy also has a component of child education, providing a scholarship to the children of parents with coverage – an amount of INR 1,200 per year for up to two children.

Krishi Samajik Suraksha Yojana. This programme started on 1 July 2001 and closed on 24 February 2004 due to lack of funds. The scheme was carried out in 50 identified districts to cover about a million agricultural workers. Each worker paid INR 1 per day, with the Government contributing INR 2 per day. Implemented by LIC, the scheme covered agricultural workers in the age group 18–50. Benefits included life-cum-accident insurance, a lump sum amount of INR 4,000 as money back after 10 years, to be doubled after every additional 10 years until the insured person reached the age of 60. The pension ranged from INR 100 to 1,900 per month, depending upon the age of entry.

Aam Admi Bima Yojana (AABY). The AABY covers rural landless households by insuring the head of the family, or one earning member in the family, for a premium of INR 200 per year per person to cover death and disability. Half the money comes from the Government of India and the other half comes from the state governments. The programme started in 2007. It pays INR 30,000 for natural death and INR 75,000 for accidental death or total disability. Unlike the *Janashree Bima Yojana* discussed above, the beneficiary pays no premium out-of-pocket at all. By the end of 2010 6 million persons were covered by the scheme. In many states, there have been huge actuarial losses.

Table 3.3. India: Selected social insurance schemes since 2000

Scheme	Objective	Target groups	Sources of contribution
Janashree Bima Yojana	Insurance cover in the events of natural and accidental death as well as partial or permanent disability	Urban and rural poor who live below the poverty line or on the margin	Central and state governments, and beneficiaries
Krishi Samajik Suraksha Yojana	Some life/accident insurance, a lump sum money back after 10 years and a moderate pension	Agricultural workers 18–50 years of age	Central Government and beneficiaries
Aam Admi Bima Yojana	Some death and disability benefits to the rural landless poor	Informal landless households	Central and state governments

Source: Adapted from Remesh (2010).

These programmes are targeted rather than universal; however, the long-term goal is to have universal programmes of health care and pension schemes for all in the informal sector.

3.3.5. Social assistance programmes

A number of social assistance programmes have been launched by the Government at both the central and the state levels. There are three distinct kinds of programmes. First, there are employment programmes for able-bodied persons, such as *Sampoorna Gram Swarozgar Yojana,* food-for-work programmes, and employment assurance schemes. These programmes were consolidated and expanded in the National Rural Employment Guarantee Act, 2005 (renamed the Mahatma Gandhi National Rural Employment Guarantee Act on 2 October 2009, Mahatma Gandhi's birthday).

The Act provides that the state government in a rural area shall provide employment paying at least the stipulated minimum wage to every poor household whose adult members volunteer to do unskilled manual labour for at least 100 days a year. If the state government fails to provide such a level of employment it is liable to pay an unemployment allowance.

There are also welfare programmes for specific vulnerable groups (e.g. the elderly and disabled, pregnant/lactating mothers), and programmes for basic education and nutrition for children.

An important element of social assistance in India is food assistance. A brief description of the major food programmes follows (see also the summary in Table 3.4).

Mid Day Meal Scheme (MDMS). This scheme started in 1923 in the City of Madras (now Chennai) for the schools under the jurisdiction of the City Corporation. It was expanded to the whole state in the 1980s as a populist measure. In response to a court case, in 2001 the Supreme Court of India directed state governments to provide mid-day meals for primary schools, setting in place a statutory right. The scheme has since been expanded across India. Of course, such a scheme cannot be expected to eradicate malnutrition in India; indeed, the attendance of children at primary school has not increased beyond 50 per cent in many parts of the country.

Village Grain Banks Scheme. The scheme was started in 1996–1997 with the objective of setting up grain banks in tribal areas prone to starvation, in identified districts in specific states. The scheme covers 234 villages in such districts in 13 states: Andhra Pradesh, Bihar, Gujarat, Kerala, Madhya Pradesh, Manipur, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh, Maharashtra, West Bengal and Tripura. The "banks" are initially stocked with grain supplied by the Government. Community members can "borrow" up to 40 kilograms of grain in times of distress with the expectation that they will pay "interest" of 2 kilograms per month and return the amount of grain borrowed plus the interest. The grain banks are managed by local tribal representatives. In the majority of the villages concerned, the banks are almost always full in the absence of extreme drought. Similar schemes are in operation in many countries across the globe.

Targeted Public Distribution System (TPDS). The public distribution system (PDS) of food has been a constant in India since the 1930s. At that time, urban areas were covered by "fair price shops" that distributed certain kinds of grains, legumes and sugar. The programme continued through World War II; however, such public distribution did not prevent the death of millions in Eastern India.

In the post-Independence era, the PDS continued despite the following common criticisms: (a) it failed to serve people living below the poverty line; (b) there was a perceived urban bias; (c) there was low coverage in states with a high density of rural poor; (d) there was a lack of transparency and accountability; and finally (e) it was an extremely inefficient and wasteful distribution system. The budget for the PDS continued to hover at about 3 per cent of the total budget of the Government of India.

In June 1997 the Government launched the Targeted Public Distribution System (TPDS) with a focus on the poor. Under the TPDS, states are required to formulate and implement foolproof arrangements for identification of the poor for delivery of food grain and for its distribution in a transparent and accountable manner at the fair price shops. There are still, however, a number of challenges in the implementation of the TDPS; these are discussed in section 3.4.2.

Annapurna Scheme. About 20 per cent of the population (especially in poor rural areas) are eligible for an old-age pension under the National Old Age Pension Scheme (NOAPS) were not actually getting the pension. In the year 2000 the Ministry of Rural Development set up the Annapurna Scheme to address this gap. There are three eligibility criteria: (i) applicants should be at least 65 years old (it is not clear whether the lowering of the age limit for the IGNOAPS will also be implemented for the Annapurna Scheme); (ii) an applicant must be destitute, with no means to support himself or herself through regular income or through family support; and (iii) the applicant should not be getting a pension from NOAPS.

Antyodaya Anna Scheme. Launched in 2001, this scheme was intended to create food security in India in the following five years. It was targeted to the poorest of poor. It has been estimated that 5 per cent of families are unable to get two meals a day throughout the year even at the subsidized prices available for persons below the poverty line. The Antyodaya Anna Scheme targets this 5 per cent.

Table 3.4. India: Major food security schemes since the mid-1990s

Programme	Benefit/target group	Objective	Coverage
Mid Day Meal Scheme (MDMS)	Cooked meal, 100 gm per child per day or 3 kg of dry food grains conditional on 80 per cent attendance	Nutritional support and incentive for enrolment and attendance of primary school	97 million children
Village Grain Bank Scheme	Mainly tribal population in remote areas	Prevention of starvation deaths in 13 identified states	Selected regions in 13 identified states
Targeted Public Distribution Scheme (TPDS)	Food grains of 35 kg per household at 45 per cent of cost	All Below Poverty Line	198 million households
Annapurna Scheme	Relief for the elderly poor (10 kg food grain per person per month at no cost)	Indigent persons above 65 who are eligible for old-age pensions (IGNOAPS)	500,000 persons
Antyodaya Anna Scheme	Freedom from hunger (35 kg of food grain with 50 per cent subsidy)	Targeted to the poorest of the poor	20 million families

Conditional cash transfers (CCT). Given the quagmire of problems with food distribution, policy-makers in India are considering conditional cash transfers. A conditional cash transfer, as the name suggests, transfers money to the target individual or family based on some condition that triggers that payment. The condition may be a certain level of attendance at school by the children in the family, attending a health clinic or getting infants immunized. Some estimates have shown that the present government subsidies of fuel, food and fertilizer would be more than sufficient to pull the 370 million people below the poverty line out of poverty if the same amounts were given as cash transfers. Conditional cash transfers are widely used in countries in Latin America. Mexico pioneered the initiative with its *Progesa* programme. In Brazil, a similar programme, *Bolsa Família*, has been successfully implemented (see Chapter 1). Both have shown substantially better outcomes in anthropomorphic measurement of children where the programmes have been implemented.

Several small-scale CCT programmes have already been tried in India. For example, *Janani Suraksha Yojana* provides a cash benefit of INR 500 for every live birth to a woman from a household below the poverty line. An additional amount of INR 100 in rural areas and 200 in urban areas is provided to poor women if they deliver in a hospital and has helped reduce the maternal mortality rate in India.

3.4. Key challenges and solutions

In India, the implementation of any programme faces challenges at various levels. The first barrier arises at the legislative level: any new legislation is tested first in Parliament itself and then in the courts at local and national levels. After a law is passed, it faces another challenge at the level of implementation: there is a lack of transparency and consequent endemic corruption, and there have been a number of efforts to deal with these problems through technology. Some of these challenges are discussed through the examples below.

3.4.1. Administrative issues

Pension Fund Regulatory and Development Authority (PFRDA). The regulator of the pension funds, PFRDA, was established by the Government of India in 2003. Even before the Authority came into existence there were struggles between various government authorities such as the Central Bank (Reserve Bank of India) and the newly formed Insurance Regulation Development Authority (IRDA), among others, as to who should regulate the pension funds. There were even regional lobbies as to where to locate the proposed PFRDA.

The Bharatiya Janata Party Government and its allies did not have enough votes to establish the PFRDA through parliament, so the Authority was provisionally launched through an executive order with the mandate to act as a regulator for the pension sector. Its main purpose was to regulate the unfunded defined benefit pension funds of central government employees that were to be converted into a fully funded defined contribution plan. The defined contribution pension system (NPS) was announced in the 2003–2004 Budget, and was immediately opposed by the left-wing parties in India. In early 2004, new elections were held and the opposition came to power with the support of the left-wing parties. The main party now in power, the Indian National Congress, proposed to formalize the existence of the PFRDA by Act of Parliament, the left-wing parties threatened to bring down the Government. The opposition of the left continues.

Since the pension system introduced in 2004 does not have legislative backing it is vulnerable to court challenges. Indeed, a number of court cases are slowly making their way to challenge the authority of the provisional PFRDA at the highest level. The existing set-up is also vulnerable to political uncertainty, and could be dismantled by a new government.

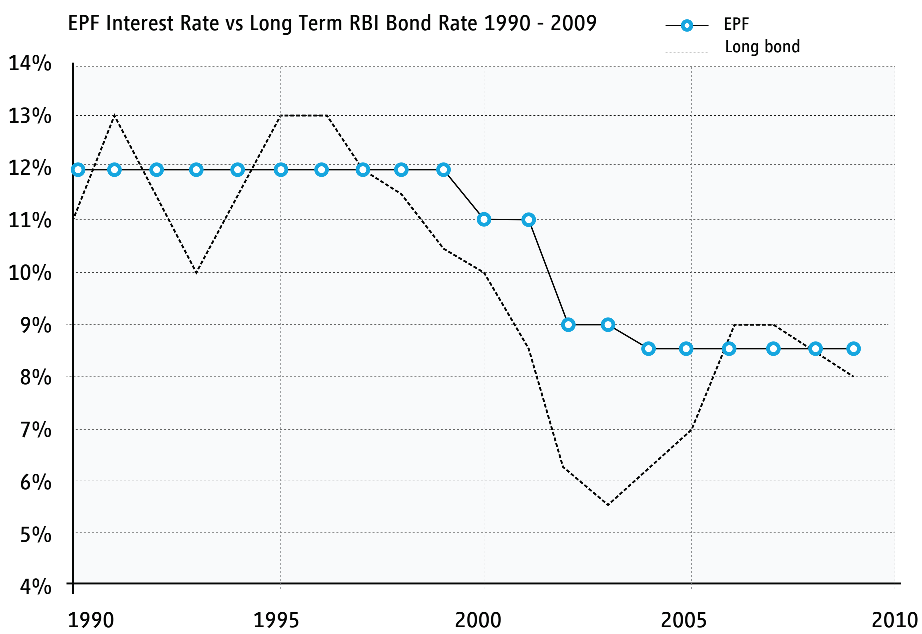
A new PFRDA Bill in 2011 (known as the Pension Bill) aims to give the PFRDA statutory powers to regulate and develop the industry, but a sensitive sticking point is whether to allow foreign investment in the sector. An earlier draft of the Bill allowed up to 26 per cent foreign ownership into pension fund management. However, as now proposed, the Bill says that the Government will separately announce a foreign investment policy for the sector, perhaps in line with the insurance sector (where 49 per cent foreign ownership is allowed).

Even in its provisional existence, the PFRDA has set up defined contribution pension funds with very low fees for government employees. Whether the plan is able to attract workers from the informal sector in large numbers, however, remains to be seen.

Employees' Provident Fund Organization. The EFPO has been discussed in section 3.3.6 above. It too faces some administrative challenges, among them the following.

By law the EPFO is allowed to invest only in government bonds, with a guaranteed minimum rate of return. However, the interest earnings it declares do not correspond to the bond yields (see Figure 3.1). Between 1990 and 1999 the EPFO declared yields of 12 per cent each year. These declined between 2000 and 2005 but were consistently above the long-term bond rate in which it had invested the money, so the central Government had to put extra money into the coffers of the EFPO under the guaranteed minimum rate of return arrangement. For the most recent financial year for which figures are available, 2010–2011, the Board again declared a yield of 9.5 per cent, while the best performing fund yielded 8.72 per cent. The Ministry of Finance protested, but to no avail: the EFPO Board declared that this yield was on the basis of a one-time-only surplus.

Figure 3.1. India: EFPO and long-term government bond yields, 1990–2009



In 2011 the Government proposed a set of changes to the rules that would eliminate such a guarantee of a minimum rate of return. Unfortunately, several partners in the coalition Government are unhappy about this proposal

3.4.2. Implementation and organizational issues

As we have already noted, corruption is an endemic problem in India. For example, in the *Rashtriya Swasthya Bima Yojana* health care scheme, the private providers encouraged people to stay longer in the hospital even though they did not need to. It was a "win-win" situation – both for the providers, who got their scheduled fees, and the patients, who stayed in relative luxury. But it certainly did not help the Government – it was a classic case of a moral hazard problem.

Another case concerns the Targeted Public Distribution System (TPDS) discussed in section 3.3.5 above. A study by the Planning Commission (2005) found the following problems:

- The implementation of the TPDS is plagued by targeting errors – there is a prevalence of "ghost cards" (where the cardholder does not exist or has died) and unidentified households.
- Only about 57 per cent of the households below the poverty line are covered.
- The fair price shops themselves are generally not viable because of low annual turnover. They often stay in business through theft of the food grain received and sell it at a higher price in the marketplace.
- There are large leakages and diversions of subsidized grain.
- Target households receive only about 42 per cent of the subsidized grain issued from the Central Pool.
- Some 36 per cent of the budgetary subsidies on food is siphoned off the supply chain; another 21 per cent reaches households above the poverty line for whom they are not destined.
- The cost of income transfer to the poor through the TPDS is much higher than that through other modes used.

In the six years since the study was published and tabled in the Indian Parliament there have been some changes to identify the ghost cards. It has been estimated that there are 20 million ghost cards, and at least 15 million persons below the poverty line who are not receiving the food intended for them.

In 2011, in the Monsoon Session of the Indian Parliament a new Food Security Bill was tabled. This was supposed to tackle some of these problems. Unfortunately, at the same time a different corruption scandal erupted that overshadowed all other agenda items; it involved the allocation of a telephone auction, a scam worth nearly 5 per cent of GDP.

As of December 2011, a new Bill, called the National Food Security Bill (NFSB) was due to be tabled in Parliament. Starting in the 2012/13 fiscal year, the scheme is to be rolled out in phases. There are three important elements:

- The new Bill attempts to consolidate all the food programmes that have been operating independently (listed in Table 3.4).
- It will have provisions for everyone, from infants and lactating mothers to senior citizens, all the way to the homeless and destitute.
- It comes with a price tag of USD 23 billion annually starting from 2014.

Unfortunately, the NFSB does not even begin to address the problems of corruption highlighted above. With larger programmes, such problems tend to multiply. Neither has it addressed the inflation of food prices that such large-scale procurement of food might ignite.

Indira Gandhi National Old Age Pension Scheme (IGNOAPS). The IGNOAPS scheme stipulates that payments should be made to the account of the beneficiary in the post office, savings bank or commercial bank, or through postal money order and beneficiaries are asked to open an account. However, over half the village populations in India do not have bank accounts, nor are there any banks nearby. In many states, the money order option was not available when the scheme began, making it difficult for many to receive their payments.

In practice, there have been other difficulties too:

- In many cases, the necessary form was not available in the district administrative office. On the other hand, some nearby photocopy shops sold them, indicating corruption of the process.
- Among the eligibility conditions is the age of the applicant. In India, most poor persons do not have birth certificates, so that verifying one's age is not a simple matter. In many cases, the certificate of age is issued by a government certified medical officer. Just to get an appointment with the doctor often requires a bribe.
- Another condition of eligibility is that the applicant has to be below the poverty line of USD 7 per month. However, the scheme does not set out how to verify the economic status of the potential beneficiary. Since there is no uniform procedure, different methods are adopted by different local governments. Sometimes, applicants have to get such certification from the local revenue officers (Tehsildar and Patwari). Besides the revenue officer, the *Gramsewak* (village level worker) also has to verify whether the applicant comes from a household below the poverty line or not. Sometimes even district social welfare office or members of the state legislative assembly (MLA) have to recommend the applications, based on their personal knowledge of the economic status of the applicants.

In a country like India, where democracy collides with corruption, where poverty overwhelms everything else, it is always going to be a challenge to make programmes operate smoothly, efficiently and without such problems.

3.4.3. Sustainability issues

There are many challenges to sustainability of the various schemes, including microinsurance and micro-pension schemes. These include:

- *Risk management*. For example, the Yeshasvini health microinsurance scheme, with three million beneficiaries at the end of 2012, has no risk provider.
- *Investment management*. Despite increasing attractiveness of some schemes, the financial cost imposed on the government through the need to maintain fund returns at relatively high fixed rates may require considerable financial expertise and constitute a financing challenge for the government since India's fiscal deficit is already higher than 10 per cent of its GDP. Its internal debt to GDP ratio at 80 per cent is well above the 60 per cent considered fiscally sustainable.
- *Claims management*. With a claims ratio of 157%, for instance, Yeshasvini scheme risks bankruptcy, unless claims experience can be improved.
- *Scaling*. There are challenges of scaling up small scale or regional programmes to the national level. Up-scaling calls for a sound top design, good governance via proper public-private partnership and ICT support, government financial commitment, and systematic integration of fragmented schemes.

Replicability. The SEWA has all the hallmarks of a good social insurance plan: (i) it is run by the stakeholders themselves; (i) it has successfully been scaled up; and (iii) government involvement has been limited to providing the legal framework and a certain amount of subsidy; it has stayed away from day-to-day operations.

But whether the SEWA model is replicable or would be sustainable in other contexts is open to question. The SEWA's success is based on a number of unique factors that have worked in its favour. It was led by an extremely able leader who was also an experienced labour lawyer. She was able to navigate the organization through many challenges such as the payment of a minimum wage to members. This cause galvanized members into standing up for their rights to an extent rarely seen in other organizations. Because of her reputation, Ela Bhatt also found a sympathetic ear at the central level of government. This helped the organization to become recognized under the trade union charter as an organization of the unorganized sector. In addition, her contacts were instrumental in getting the banking arm going, along with the insurance function that the SEWA has been able to offer to its members (Venkatesh, 2005). It remains to be seen whether the SEWA model can be replicated in India by others.

3.5. Conclusions

The best way to describe social security coverage in India is a patchwork. In some cases it has grown organically without direct government support, as in the example of SEWA. In other instances, programmes have been actively encouraged by the Government, as in the food programmes as well as some of the cash transfer programmes. In many cases, however, government programmes have been launched with inadequate prior in-depth study as to cost, leading to the failure of a number of programmes.

Probably the most glaring example of this kind, is the launch of the regulatory body PFRDA itself. Eight years after it came into existence by decree, it has yet to be ratified by Parliament. Another example is the launch of the NPS-Lite programme – the pension scheme for the informal sector.

In its first four years it was taken up by fewer than 30,000 people (see Shankar and Asher, 2011). Since over 90 per cent of Indian workers are in the informal sector, this cannot be considered a good start. The programme was clearly not marketed well, despite the fact that it is an inexpensive programme with low management fees.

Some programmes, such as the SEWA, are scalable, but some require a lot more effort to reduce corruption and waste. Some require centralization, which would help in their implementation in the future. If each state has to launch its own social security safety net, it becomes costly; a centralized plan would help. The IGNOAPS, for example, requires several layers of administration to implement it at present. If India had a national identification system in place, many of these steps could be curtailed.

There have been attempts by the Government to try "technological solutions". In 2009 a programme called *Aadhaar* was launched. The purpose is to give each resident in India a 12-digit unique number issued by the Unique Identification Authority of India (UIDAI). The number will be stored in a centralized database and linked to basic demographics and biometric information – a photograph, ten fingerprints and an iris print. If and when such a plan is implemented nationwide, it would greatly simplify the identification of the person and substantially reduce the implementation costs of many other programmes. So far, 130 million identity numbers have been issued, with the target of 600 million by the end of 2014.

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INTERNATIONAL SOCIAL SECURITY ASSOCIATION

4. Towards universal social security coverage in China

Contents

4. Towards universal social security coverage in China

Summary

China has established a social security system which for many decades has been based on social insurance (for old-age pensions, medical care, unemployment, work injury and maternity), social assistance and social welfare, centred on the basic old-age pension, basic health care and tax-financed minimum subsistence guarantee, and supplemented by charitable support and private insurance. The past few years have witnessed a significant extension of coverage in both contributory and non-contributory schemes. Under the medical insurance programmes alone, the scope of coverage expanded from 567 million people or 43 per cent of the population in 2006 to more than 1.3 billion or over 95 per cent of the population in 2011. This chapter sheds light on the developments over the past few years as well as the implementation challenges faced and the approaches adopted to extend social security coverage.

4.1. Economic and social background

By the end of 2011 mainland China had a population of about 1,347.35 million,[1] of whom 690.79 million or 51.27 per cent lived in urban areas and 656.56 million or 48.73 per cent in rural areas (SCIO, 2012). Between 2000 and 2010, average family size decreased from 3.44 to 3.10 people, the percentage of those who had received university education increased from 3.61 to 8.93, and the illiteracy rate dropped from 6.72 to 4.08 per cent. In terms of age composition, in 2010 those aged 0–14 accounted for 16.60 per cent, 15–59 for 70.14 per cent, and 60 and above for 13.26 per cent (including 8.87 per cent for 65 and above). During the same decade, the urban population rose by 13.46 per cent, the share of the population aged 0–14 declined by 6.29 per cent, while those aged 60 and above increased by 2.93 per cent and those aged 65 and above by 1.91 per cent. (NBS, 2011a). Average life expectancy increased from 68.55 in 1990 to 71.40 in 2000 (NBS, 2011b) and 73.50 in 2010 (SFPC, 2011).

Over the past 30 years the country has enjoyed a relatively high youth dependency ratio[2] and an economically productive population structure, which is often referred to as the "demographic dividend" that contributes to fast economic growth. However, some Chinese scholars estimate that the country's total dependency ratio[3] will exceed 50 per cent by around 2015, which will kick-start the gradual closing of "the window of population opportunities" (Hu, 2011). According to the Population Society of China, the country will experience its first peak in the growth of the elderly population from 2011 to 2015, during which the number of people aged 60 and above will grow from 178 to 221 million, an average annual increase of 8.6 million (People's Daily, 2011), posing increasing challenges for the country to provide pension and health care for the elderly generation in the decades to come.

1. This figure (as well as other figures in this paper) does not include statistics on Hong Kong (pop. 7,097,600), Macau (pop. 552,300) and Taiwan (pop. 23,162,123).
2. The youth dependency ratio is the number of persons aged 0–14 per 100 persons aged 15–64.
3. The total dependency ratio is the number of persons under age 15 plus persons aged 65 or older per 100 persons aged 15–64.

Despite the recent global economic and financial crisis, China's gross domestic product (GDP) has experienced a double-digit average annual growth rate over the past five years, the highest in the world. By the end of 2010, China's GDP amounted to 39,798.3 billion Chinese Yuan (CNY)[4] or USD 6,009.20 billion, second only to the United States despite a still low per capita GDP of USD 4,481. And in 2011 mainland China's GDP reached CNY 47,156.4 billion (USD 7,484.07 billion), an increase of 9.2 per cent over 2010. The per capita GDP rose to USD 5,554.66 (SCIO, 2012). Meanwhile, the country's foreign currency reserves totalled USD 2,847.3 billion, and its financial revenues CNY 8,308 billion or USD 1,254.44 billion (including USD 1,105.29 billion as tax revenues), providing a sound environment for the Government's increased expenditure on social security (NBS, 2011c). In tandem with rapid economic growth, however, China is also confronting some widely reported problems such as inflation, rising labour costs and credit and housing bubbles, as well as significant local government debt.

Income gaps remain large, especially between rural and urban areas. In 2010, the annual per capita disposable income of urban households was CNY 19,109 (USD 2,885.30), compared to the annual per capita net income of CNY 5,919 (USD 893.72) for rural households. Household food consumption accounts for 41 per cent of total consumption for rural residents and 35.7 per cent for urban residents. According to the 2010 national rural poverty standard of CNY 1,274 (USD 192.36), the rural population in poverty totalled 26.88 million, a decrease of 9.09 million over the previous year (NBS, 2011c).

In late November 2011 the central Government set a new rural poverty standard of CNY 2,300 annual per capita net income, or about USD 1.00 per day, an increase of 92 per cent over the 2010 standard. As a result, the number of rural people living below the poverty line has increased to 128 million, accounting for 13.4 per cent of the rural population and nearly 10 per cent of the population in mainland China (Xinhuanet, 2011a). While about 23 million urban residents benefited from the urban minimum subsistence guarantee scheme in 2010, there are an estimates 50 million poverty-stricken people in urban areas (Economic Weekly, 2011).

China's total health expenditure in 2010 amounted to CNY 1,754.2 billion (equivalent to 5.2 per cent of GDP) including 27.5 per cent as government expenditure, 35.1 per cent as social expenditure and 37.5 per cent as personal out-of-pocket expenditure. In the same year, China's government expenditure for social security and employment amounted to CNY 913.1 billion (including CNY 45 billion from the central Government and 868 billion from local governments), accounting for 10.5 per cent of total government expenditure and 2.3 per cent of GDP (NBS, 2011c).

Despite the high GDP growth rate, however, employment elasticity has been declining steadily over the years (from 0.33 between 1979 and 1990 to 0.226 in 1991, 0.1 in 1995 and 0.068 in 2007) due to a shift from labour-intensive to capital- and technology-intensive production (Hu and Lu, 2011). In 2012, for instance, there will be a total of 25 million urban people including 6.8 million new university graduates searching for jobs, while only 9 million new urban posts are expected to have been created (in addition to around 3 million jobs vacated by retirees). Official figures show an urban registered unemployment rate of 4.1 per cent by the end of 2011, or 9.22 million unemployed people, of whom 1.97 million claimed unemployment insurance benefit.

By the end of 2011 there were 764.20 million employed persons in mainland China, among whom 359.14 million, or 47 per cent, were employed in urban areas (see Table 4.1). The 2011 shares of employed persons registered in primary, secondary and tertiary industry were 34.8, 29.5 and

4. USD 1 = CNY 6.6227 at end 2010 (CNY 6.3009 on 30 December 2011).

35.7 per cent respectively. Statistics from the Ministry of Human Resources and Social Security (MOHRSS) show that in the country as a whole, urban non-private-sector employees earned an average annual wage of CNY 42,452, an increase of 14.3 per cent over 2010, while the average for urban private-sector employees was only CNY 24,556, in spite of an increase of 18.3 per cent over the previous year (MOHRSS, 2011).

In agriculture, there is a commonly recognized problem of underemployment and thus a need for the surplus labour to transfer to urban areas through both domestic migrant labour and urbanization. By the end of 2011 there was a total of 252.78 million farmer-turned-workers nationwide, of whom 158.63 million or 63 per cent were working in urban or other areas (hereinafter referred to as "rural migrant workers") (MOHRSS, 2012a).

Table 4.1. China: Economically active population and employed persons in mainland China, 2006–11

	2006	2007	2008	2009	2010	2011
Population (millions)	1,314.48	1,321.29	1,328.02	1,334.74	1,340.91	1,347.35
Economically active population (millions)	763.15	765.31	770.46	775.10	783.88	n.a.
Economically active population (%)	58.1	57.9	58	58.1	58.5	n.a.
Employed persons (EP) (millions)	749.78	753.21	755.64	758.28	761.05	764.20
Employed persons (EP)(%)	57	57	56.9	56.8	56.8	56.72
Urban EP (millions)	296.30	309.53	321.03	333.22	346.87	359.14
Registered urban unemployed persons (millions)	8.47	8.30	8.86	9.21	9.08	9.22
Registered urban unemployment rate (%)	4.1	4.0	4.2	4.3	4.1	4.1

Sources: NBS (2011b); MOHRSS (2012a).

4.2. Social security in China: An overview

The current Chinese social security system is based on social insurance (for old-age pensions, medical care, unemployment, employment injury and maternity), social assistance and social welfare, centred on the old-age pension, health care and tax-financed minimum subsistence guarantee, and supplemented by charitable undertakings and private insurance. China has followed a developmental welfare approach, or "developmentalism", which attaches great importance to economic development and strives to integrate welfare policies within a planned national development process.

The development of the Chinese social security system, which was initiated in 1951 with the promulgation of the Labour Insurance Regulations (amended in 1953, 1958 and 1978), can be briefly divided into three stages.

The first is the labour insurance period (1951–1978), during which all social insurance benefits except unemployment were introduced, although the scope of coverage was confined to the urban state-owned enterprises (SOEs), while individual enterprises had to finance their own welfare programmes as a result of the disruption of the ten-year (1966–1976) period of domestic turmoil known as the Great Cultural Revolution. One commendable achievement in the rural areas during this period was the establishment of a community-based health care system (cooperative health insurance) which in the mid-1970s covered about 90 per cent of the rural population and was once touted as an excellent example for developing countries, but which collapsed in the late 1970s with the introduction of the household responsibility system and market-oriented reforms (Zhu, 2002).

The second stage is the reform period (1978–2002) during which the Government initiated employment-based and contribution-financed social insurance programmes, mainly in urban areas. Unemployment, maternity and employment injury insurance schemes were introduced in 1986, 1995 and 1996 respectively. Major decisions were made in 1998 and 1999 in terms of nationwide implementation of the basic medical and pension insurance for urban employees. In 1998, the Government integrated the previously self-administered industry pension funds (for coal mining, civil aviation, etc.) into provincial or local pooled or solidarity funds. Meanwhile, efforts had also been made to pilot social insurance in rural areas and the expansion from employment-based to residence-based schemes, through the establishment of a budget-financed minimum livelihood guarantee system and a government contribution subsidy to vulnerable social groups. The urban provident fund for housing, co-financed by both the employer and employees, was first piloted in 1991 and implemented nationwide in 1999 (Zhu, 2009).

The third stage is the rapid expansion period since 2003, characterized by unified planning for both urban and rural areas and enhanced efforts for the extension of coverage. Following the principle of "wide coverage, modest benefit, multi-tiered programmes and a sustainable system", the Chinese Government committed itself in 2006 to building up a comprehensive social security system covering the whole population by 2020, with a focus on basic pension and health insurance as well as the minimum subsistence guarantee system. China's 12th Five Year National Economic and Social Development Plan (2011–2015) lays great emphasis on the concept of inclusive growth, and seeks to tackle rising inequality and create an environment for more sustainable growth by prioritizing more equitable wealth distribution, increased domestic consumption, and improved social infrastructure and social security programmes. Specific recent extension efforts will be discussed in the next section.

Currently, social insurance programmes are supervised by the MOHRSS, while the Ministry of Civil Affairs (MCA) takes charge of the social assistance programmes and the Ministry of Health (MOH) administers the New Rural Cooperative Medical Scheme.

The major challenges confronted by the Chinese social security system include – but are not confined to – ageing of the population, urbanization and diversification of work patterns. Aside from limited coverage, low benefit and rising inequalities, institutional segmentation is also a feature of the system, under which most of the schemes are administered at county or city level by different authorities.

4.3. Recent extension efforts

The period since 2003 has indeed witnessed a most rapid extension of social security coverage in China. The New Rural Cooperative Medical Scheme was launched in 2003; rural and urban medical assistance programmes in 2003 and 2005 respectively; the pilot on urban residents medical insurance and nationwide implementation of the budget-funded and means-tested minimum subsistence income guarantee scheme in 2007; the full-scale implementation of the urban residents medical insurance system nationwide and the launch of a new type of rural social pension scheme in 2009; and the launch of a new pilot on the urban resident social pension insurance programme in July 2011.

The Social Insurance Law, a milestone piece of legislation for the Chinese social security system, came into force as of July 2011 and set the tone for its future development. Major provisions include the portability of basic pension and health care benefits across different regions in the country; the establishment of a nationwide unified personal social security ID system based on an identity number for each citizen; the gradual realization of a national pooled fund for the basic pension scheme and a provincial pooled fund for each of the other social insurance schemes; the coverage of foreigners working in China; enhanced compliance and enforcement measures with regard to a unified collection of social insurance contributions; privacy protection as regards social security information; prevention of the misappropriation of social insurance funds; and the investment and management of the non-contributory national social security fund as a strategic reserve for the social insurance schemes.

In the 2006–2010 Five Year National Economic and Social Development Plan, the Government included for the first time a compulsory quota for the extension of urban pension insurance coverage and that of the New Rural Cooperative Medical Scheme (NRCMS) (see Table 4.2). Based on the national targets, the relevant ministries also worked out annual and five-year quotas (split among different regions) and supervised their implementation nationwide (Zhu, 2009).

According to a circular issued in early June 2011 by the MOHRSS and MOH, the past five years have witnessed the initial establishment of a social security system framework covering both urban and rural areas and a major breakthrough in the extension of social security coverage.

Table 4.2. China: Realization of major targets set in the Five Year National Economic and Social Development Plan, 2006–2010

Item	2005 basis	Five-year targets	Accomplishment by the end of 2010
No. of participants covered by urban basic old-age insurance, including retirees (millions)	174	223	257
No. of participants covered by urban basic medical insurance (millions)	138	300	432[1]
No. of participants covered by unemployment insurance (millions)	106	120	134
No. of participants covered by employment injury insurance (millions)	85	140	162
No. of participants covered by maternity insurance (millions)	54	80	123
Coverage of the New Rural Cooperative Medical Scheme (NRCMS) (millions)	180		835[2]
Coverage of the NRCMS (%)	23.5	80	95

Notes:

[1] The figure of 432 million includes participants under both the urban workers' and the urban residents' basic medical insurance. The 2005 basis and the five-year target, however, do not include participants in urban residents' basic medical insurance, which was launched only in 2009.

[2] The 2005 basis comes from the Report on Implementation of China's National Economic and Social Plan for 2006, while the five-year target and accomplishment by the end of 2010 are based on information concerning the 2005–2010 plan for health undertakings development from the website of the Ministry of Health.

The MOHRSS expects to realize basic universal social insurance coverage within the next five years, and sets the major new five-year (2011–2015) targets, as shown in Table 4.3.

Table 4.3. China: Major targets set in the Five Year National Economic and Social Development Plan, 2011–2015 (millions)

Item	2010 basis	2015 target	Type of targets
No. of participants covered by urban basic old-age insurance (including retirees)	257	357	Binding
No. of participants covered by the new rural old-age insurance (including retirees)	100	450	Recommended
No. of participants covered by urban and rural basic medical insurance	1,260	1,320	Binding
No. of participants covered by unemployment insurance	134	160	Binding
No. of participants covered by employment injury insurance	162	210	Binding
No. of participants covered by maternity insurance	123	150	Binding
No. of social security cards issued	100	800	Recommended

4.3.1. Old-age income security

There are five main kinds of old-age income security scheme:

- the Budget-funded Pension Scheme for civil servants and employees of public cultural, educational and scientific institutions;
- the Basic Pension Scheme for Urban Workers (hereinafter referred to as "the Basic Pension Scheme");
- the Voluntary Rural Pension Scheme;
- the Voluntary Urban Pension Scheme; and
- the means-tested Minimum Subsistence Income Guarantee Scheme.

Budget-funded Pension Scheme. This scheme covers an estimated 40 million people, including about 7 million civil servants as well as over 30 million employees working for various public cultural, educational and scientific institutions. Military personnel have a similar but independent pension scheme. The retirement age is set as 60 for men and 55 for women. Pension benefits, which are based on the individual employee's salary and calculated according to the years of service, range reportedly from 70 to 90 per cent of the pre-retirement salary. In recent years, there has been a move to gradually reduce the Government's financial support to the budget-financed pension of public cultural, educational and scientific institutions and incorporate those that are partly or not at all funded by the Government into the Basic Pension Scheme. Meanwhile, there has been a debate in the media on whether the civil servant pension scheme should also be merged into the Basic Pension Scheme.

Basic Pension Scheme. Under this scheme, which covers mandatorily all kinds of urban enterprises as well as public (cultural, educational and scientific) institutions that are partly or not at all funded by the government budget, the contribution rate is around 20 per cent of payroll for employers, which goes to the basic pooled fund, and 8 per cent of payroll for the individual employee, which is credited to the individual account. Specific contribution rates are at the discretion of local governments and thus may vary from one region to another. Upon reaching retirement age, which is 60 for males, 55 for female cadres and 50 for female workers, an employee having at least 15 years of contributions is entitled to a pension made up of two elements, one from the pooled fund and another from the individual account. In case of shortfall, subsidies shall be provided by the Government into the Basic Pension fund. The benefit target replacement rate for a retiree with 35 years of contributions is 59.2 per cent, including 35 per cent from the pooled fund and 24.2 per cent from the individual account. Upon the death of the insured member, a lump sum of between 6 and 12 months of the deceased's last monthly wage is paid, depending on the number of surviving dependants. A lump sum of the balance of the deceased's contributions, plus interest, is paid to the deceased's legal heir.

As nearly all state-owned and collective enterprises are covered by the Basic Pension Scheme, the 2005 State Council Decision on Improving the Basic Pension System for Enterprise Employees stipulates that the focus of the future extension of coverage will be on urban non-public enterprises and the self-employed, as well as people engaged in flexible types of employment. A flat contribution rate at 20 per cent of the previous year's local average wage was set for the self-employed and people engaged in flexible types of employment, with 8 percentage points being deposited in the individual account while the rest (12 per cent instead of 20 per cent) going into the local pooled fund. The contribution basis, at the choice of the insured persons, ranges in some provinces from 40 to 100 per cent of the previous year's provincial average monthly wage income. Upon reaching retirement age and a minimum of 15 years of contributions, the insured person is entitled to the same two-component pension benefit. In some provinces such as Hebei, the self-employed and those engaged in flexible types of employment have been allowed to choose a contribution basis ranging from 40 to 300 per cent of the previous year's provincial average employee wage income, and they can choose to contribute every month, quarter, half year or annually (YZDSB, 2011).

Since 2005 the Government has continually increased the average pension benefit of enterprise retirees by about 10 per cent each year so as to narrow the gap compared to the pensions received by retirees from government departments and public institutions that are fully funded via government budgets. As a result, the average monthly pension of urban enterprise retirees increased from CNY 649 in 2005 to CNY 1,362 in 2010 and CNY 1,531 in 2011, an annual increase of 16 per cent, much higher than the consumer price index over the same period. Reportedly, the five-year (2006–2010) budget support for five social insurance programmes from various levels of government totalled CNY 721.9 billion (of which 85 per cent came from the central Government), representing an average annual growth of 19 per cent since 2005 (MOF, 2011). In 2011, the central budget transfers earmarked for pension payments in the less developed central and western regions totalled CNY 184.6 billion, an increase of 28.6 billion, or more than 18 per cent over the previous year (MOHRSS, 2012a).

In December 2010 the State Council decided to extend the scope of coverage of the Basic Pension Scheme to over 5 million previously excluded collective enterprise workers before the end of 2011. Workers in uncovered enterprises who possess an urban household registration and have reached or exceeded retirement age can make a lump-sum payment worth 15 years of pension contributions for participation in the scheme. The specific contribution rates are determined by the local governments, based on individual employees' means and age, and the enterprises are encouraged to provide appropriate subsidies to the lump-sum contributions. Those who have not yet reached retirement age should make standard contributions to the fund, and are allowed to continue to contribute upon reaching retirement age if they have less than 15 years of contributions, until they qualify for pension benefit.

By the end of 2011 the Basic Pension Scheme covered 283.91 million people, including 215.66 million active employees and 41.4 million rural migrant workers (see Table 4.4); the annual fund revenues totalled CNY 1,689.5 billion including CNY 1,395.6 billion as collected contributions and CNY 227.2 billion as earmarked subsidies from the budgets of various levels of government; the annual fund expenditures totalled CNY 1,276.5 billion and the aggregate fund accumulations over the years had reached CNY 1,949.7 billion (MOHRSS, 2012a).

Table 4.4. China: Coverage extension of the basic pension scheme, 2005–2011

	2005	2006	2007	2008	2009	2010	2011
Total number covered (millions)	178.47	187.66	201.37	218.91	235.50	257.07	283.91
Annual growth (%)		7.3	7.3	8.7	7.6	9.2	10.4
Active employees covered (millions)	131.20	141.31	151.83	165.87	177.43	194.02	215.65
Annual growth (%)		7.7	7.4	9.3	7.0	9.4	11.1
Retirees covered (millions)	43.67	46.35	49.54	53.04	58.07	63.05	68.26
Annual growth (%)		6.1	6.9	7.1	9.5	8.6	8.3
Rural migrant workers covered (millions)	n.a	14.17	18.46	24.16	26.47	32.84	41.40
Annual growth (%)			30.3	30.9	9.6	24.1	26.1

n.a. = not available.
Source: Annual statistical communiqués published in Chinese on the MOHRSS website. <http://www.MOHRSS.gov.ch>.

Voluntary Rural Pension Scheme. As part of the efforts to bridge rural–urban differences and stimulate domestic consumption in the context of the global economic and financial crisis, the Chinese Government decided in June 2009 to pilot a new Voluntary Rural Pension Scheme, planning to implement it in 10 per cent of counties in 2009 and gradually extend coverage to all rural areas by 2020 (State Council, 2009a).

The new rural pension scheme succeeds the old voluntary one, which was piloted in 1986 and implemented in 1991; its membership had stagnated since the late 1990s due to its reliance on personal contributions and the absence of supporting policies. By the end of 2008, a total of 56 million people participated in the old rural pension scheme, which was administered separately by county-level rural social insurance organizations. The new scheme, which is composed of a government-financed basic pension and an individual account pension, covers all rural residents above 16 years who have not yet participated in the urban basic pension schemes. Individuals can elect to contribute to their individual accounts an amount of contributions from one of the five scales ranging from CNY 100 to CNY 500 (more scales may be set up if local government deem necessary) each year, for which the local government will provide an annual subsidy of at least CNY 30. The minimum personal contributions of vulnerable groups such as those with serious disabilities are to be paid either partially or fully by the local government. For the basic (social) pension, the central Government will provide a 100-per-cent subsidy to the less developed central and western regions, and 50 per cent to the developed eastern region, with the remainder to be covered by the local government.

Upon reaching the age of 60 with a minimum of 15 years of contributions, a participant will be entitled to both a budget-financed monthly social pension of no less than CNY 55, and a monthly benefit based on accumulated funds in the individual account, which is equivalent to the fund value divided by 139 (the same as the individual pension account benefit under the basic urban pension scheme). In pilot areas, those aged 60 and above who are uncovered do not need to make any personal contribution and can claim the social pension directly, provided that their children who meet the conditions also join the scheme, despite its voluntary nature. Those under age 60 should make annual contributions until that age, and can buy back some years to reach the minimum of 15 years of contributions in order to be entitled to both benefits.

Pensioners under the old rural pension scheme will be entitled to a government-financed basic pension on top of the existing individual account benefit. Such participants who have not yet reached retirement age are required to have their old individual accounts converted into new ones and to continue to pay contributions according to the the new standards until reaching 60. The new scheme is also to incorporate the current "land for social security" arrangements for millions of farmers whose land has been expropriated in the course of industrialization and urbanization. The idea is to channel their current pension resources into their individual accounts under the new pension scheme, while the government is to finance their contributions to the basic pension fund. Farmer-turned-domestic migrant workers who do not qualify for the urban basic pension (if they have less than 15 years of contributions, for instance) may have their urban individual account accumulations converted into rural individual accounts and claim pension benefits as per the new rural pension insurance stipulations, after buying back certain years of contributions.

The individual accounts under the new scheme will be administered by the county social insurance agencies as special accounts under the supervision of the finance authorities, with interest credited with reference to the one-year state bank interest rate as announced by the People's Bank of China, while the basic pension is financed solely through budget allocations on a pay-as-you-go basis. Unlike the old scheme, under which the relevant agencies at county and lower levels charged a fee for administration, all the administrative and operational costs (including staff salaries) for the new scheme will be fully financed by ear-marked allocations from the government budget.

By the end of 2011, the new rural pension scheme covered a total of 326.43 million people, including 85.25 million pension beneficiaries (see Table 4.5). The annual fund revenues and expenditures totalled CNY 107 billion (including CNY 41.5 billion in individual contributions) and CNY 58.8 billion, respectively. The accumulation over the years reached CNY had 119.9 billion. In June 2011, the Chinese Government decided to accelerate the pace of extension to cover 60 per cent of the rural areas by the end of 2011, and all rural areas by the end of 2012 (Hexun, 2011).

Table 4.5. China: Coverage extension of the new Voluntary Rural Pension Scheme, 2006–2011

	2006	2007	2008	2009	2010	2011
Total coverage (millions)	53.7	51.7	56	86.9	102.8	326.4
Annual growth (%)	9.9	-3.9	8.2	55.3	18.3	217.5
No. of pensioners covered (millions)	3.6	3.9	5.1	15.6	28.6	85.3
Annual fund payment (CNY billions)	3	4	5.7	7.6	20	58.8
Aggregate fund accumulation (CNY billions)	35.4	41.2	49.9	68.1	42.3	119.9

Source: Annual statistical communiqués published in Chinese on the MOHRSS website. <http://www.MOHRSS.gov.ch>.

Voluntary Urban Pension Scheme. On 1 June 2011 the Chinese Premier announced a new pilot pension insurance programme for non-employed urban residents, to be implemented as of 1 July 2011. Modelled on the new type of rural pension scheme, it is expected to cover 60 per cent of China by the end of that year and to benefit all uninsured urban residents (around 50 million) by the end of 2012, in parallel with the new Voluntary Rural Pension Scheme.

All urban residents aged 16 and over (excluding school students) who are not engaged in employment and hence do not qualify for enrolment under the basic pension scheme for urban employees can join the urban resident pension insurance programme on a voluntary basis at the place where their households have been registered. Enrolled residents can elect one of the ten scales ranging from CNY 100 to CNY 1,000 as an annual contribution to their individual accounts, for which the Government will provide a subsidy of no less than CNY 30 to each person every year. The scales may differ in different regions. In Hangzhou City, for example, both rural residents and the non-employed can choose from one of the six scales (CNY 100, 300, 600, 900, 1,200 and 1,500) as annual contributions to their individual accounts. Upon reaching the age of 60, an insured person will receive not only a pension benefit based on his or her individual account accumulation, but also a monthly basic (social) pension of no less than CNY 55 which is fully financed by the government budget and adjusted according to economic development and price changes. Those aged 60 and over who meet the prescribed conditions, however, are not required to pay any contribution and can claim the basic social pension each month. For this basic pension, the central Government will provide a 100-per-cent subsidy to the less developed central and western provinces and 50 per cent to the more developed eastern provinces, as it does for the new rural pension scheme.

In some places, the basic pension benefit differs according to the age of the pensioner. In Dunhua City of Jilin Province, for example, the basic pension benefit is CNY 60 for those aged 60–69, CNY 70 for those aged 70–79, and CNY 80 for those aged 80 and above (Xinhuanet, 2011b). In fact, some provinces or equal-level municipalities such as Zhejiang Province, Beijing, Tianjin and Chongqing hand already covered urban residents under the new rural pension scheme from the start (Hexun, 2011). In Beijing, for instance, the municipal government implemented in 2008 an integrated old-age guarantee for urban and rural residents. All Beijing residents aged 60 and above, whether urban or rural, who are not covered by any old-age protection scheme are entitled to a budget-financed and non-means-tested monthly welfare pension of CNY 200 as of 1 January 2008 (increased to CNY 230 in 2011). On top of the monthly benefit based on the resident individual pension account, the local government also provides each beneficiary an additional monthly basic pension of CNY 280 (increased to CNY 330 in 2011) from the ear-marked local budget. The municipal government also allowed a two-way transfer between the urban basic pension scheme and the residents' individual account pension scheme, the first such arrangement in China (Zhu, 2009). Experts believe that these developments in Beijing represent a positive move towards realizing equity in public services and gradually mitigating the rural–urban gap in the old-age income security system (Xinhuanet, 2011b).

Minimum Subsistence Income Guarantee Scheme. This means-tested and budget-funded scheme was first piloted in Shanghai in 1993, implemented in all cities in 1997, and covered the whole population by 2007. In 2011, the scheme benefited 22.77 million urban residents and 53.06 million rural residents, with expenditures totalling CNY 65.99 billion (including 76.1 per cent as central government subsidy) and CNY 66.77 billion (including 75.3 per cent as central government subsidy) respectively. In the same year, the average per capita urban minimum income guarantee benefit standard stood at CNY 287.6 per month, with each beneficiary receiving CNY 240.3 per month (as a difference between the standard and actual per capita income), compared with the rural figures of CNY 143.2 and CNY 106.1 respectively (MCA, 2012).

In addition, the various levels of government allocated in 2011 a total of CNY 12.17 billion to provide 5.3 million so-called "five-guarantee" rural residents (mostly destitute older people) with food, housing, clothing, medical care and burial expenses, including 1.85 million people in a concentrated manner with an average annual per capita expenditure of CNY 3,399.7, and 3.67 million in a more disparate way for an average annual per capita expenditure of CNY 2,470.5 (MCA, 2012).

Official data show that by 1 July 2012, all county-level districts in China had implemented the new Voluntary Rural Pension Scheme and the pension insurance programme for non-employed urban residents, so that full system coverage by pension schemes was basically realized eight years ahead of schedule. By the end of August 2012, the number of people covered by the various pension insurance schemes exceeded 700 million, among whom 432 million are under the above-mentioned two schemes, and included over 180 million pensioners, of whom 118 million are under the above-mentioned two schemes and 70 million under the Basic Pension Scheme (MOHRSS, 2012b).

As a second pillar in the Chinese multi-tiered social security system, the enterprise annuity programme (EA, initially referred to as supplementary enterprise old-age insurance) was first piloted in the 1990s. It was initiated in mid-2004 (Zhu, 2009), covering 44,900 enterprises encompassing 15.77 million people and by the end of 2011 had accumulated CNY 357 billion (MOHRSS, 2012a). The EA scheme is run on a voluntary basis with participation mainly by state-owned enterprises. In 2008, for instance, more than 90 per cent of annuity funds came from large-sized (and often monopoly) state-owned enterprises, while small and medium-sized enterprises (SMEs) represented less than 1 per cent of the total. While the employer contribution up to 5 per cent of payroll is tax deductible, the employee contribution, investment income and benefit pay-out are subject to taxation (Herd, Hu and Koen, 2010).

4.3.2. Health care

There are basically four kinds of health care scheme:

- the Urban Employees Basic Medical Insurance Scheme (UEBMIS) which covers all employees in urban areas working in government organizations, enterprises, social groups, and non-profit organizations;
- the Urban Residents Basic Medical Insurance Scheme (URBMIS) which covers non-salaried people such as the elderly and the children and receives government subsidies;
- the New Rural Cooperative Medical Scheme (NRCMS) which covers all rural residents and receives government subsidies; and
- the budget-funded medical assistance programmes targeted at the needy people in both urban and rural areas.

In April 2009 the Government unveiled a three-year CNY 850 billion medical reform plan, under which two-thirds of the budget is to be spent on consumers (as premium subsidies, etc.) and one-third on service providers with a focus on extending health insurance coverage and improving grass-roots health care facilities and services. The plan aims to provide, by 2011, over 90 per cent of the population with universal access to basic health insurance in parallel with the introduction of an essential drug system, improved primary health care facilities, equitable access to basic public health services and pilot reform of state-run hospitals. The ceiling of reimbursement is to be raised from four to six times annual income under various medical insurance schemes (State Council, 2009b).

Urban Employees Basic Medical Insurance Scheme. The UEBMIS is based mainly on the 1999 State Council Decision on Establishing the Basic Medical Insurance System for Urban Workers and Employees and is administered by the social insurance agencies under the local government human resources and social security authorities. The contribution rate is in principle 2 per cent of payroll from the employee (to the individual account) and 6 per cent from the employer (out of which 70 per cent goes to the pooled fund and 30 per cent to the individual account). The individual account is used to pay medical expenses of up to 10 per cent of the local average annual wage income, while the pooled fund reimburses the amount from 10 per cent to 400 per cent (raised to 600 per cent since 2009) of the average annual income according to a certain schedule. Medical treatment in high-grade hospitals should result in a low percentage of reimbursement, and vice versa. Overall, reimbursement of medical expenses (including both inpatient and outpatient care) has been kept at around 75 per cent in recent years (Yao, 2011). Payment above 600 per cent rests with private insurance schemes or public-run supplementary schemes, if any.

In 2009 the central Government set aside CNY 42.9 billion as earmarked subsidies to bring all retirees of state-owned enterprises that had been closed down, merged or bankrupted under the coverage of the UEBMIS, and resolved in a unified way the issue of medical care guarantees for other types of urban residents. As shown in Table 4.6, by the end of 2011 the scheme covered a total of 252.27 million people, including 189.48 million active workers and 62.79 million retirees (who do not pay contributions).

Table 4.6. China: Coverage extension under the Urban Employees Basic Medical Insurance Scheme (UEBMIS), 2006–2011 (millions and percentages)

	2006	2007	2008	2009	2010	2011
Total coverage (millions)	157.32	180.20	199.96	219.37	237.35	252.27
Annual growth (%)	14.1	14.5	11.0	9.7	8.2	6.3
Active employees covered (millions)	115.80	134.20	149.88	164.10	177.91	189.48
Retirees covered (millions)	41.52	46.00	50.08	55.27	59.44	62.79
Rural migrant workers covered (millions)	23.67	31.31	42.66	43.35	45.83	46.41

Note: [1] Rural migrant workers covered are included in either covered active employees or covered retirees.
Source: Annual statistical communiqués published in Chinese on the MOHRSS website. <http://www.MOHRSS.gov.ch>.

Urban Residents Basic Medical Insurance Scheme. Financed by personal contributions coupled with central and local government subsidies, the URBMIS was launched in July 2007 as a voluntary scheme according to the State Council Guidelines on conducting the pilots for basic medical insurance for urban residents (2007). The guidelines called for an experiment in one or two cities in each province (where appropriate) in 2007 and an expansion in 2008, and envisaged a coverage extension to 80 per cent of cities in 2009 and an implementation in all cities in 2010 so as to benefit 240 million non-salaried urban residents. While the fund is mainly used to cover insured residents' hospitalization and major disease expenditures, over 80 per cent of the urban areas had implemented the pooling of funds for inpatient expenditures by 2010. The initial annual premium for an adult ranges from CNY 150 to CNY 300 with an average of CNY 236, while that for a child between CNY 50 and CNY 100 with an average of CNY 97 (Wang, 2008). Annual per capita premium subsidy from the Government has grown from CNY 40 in 2007 to CNY 120 in 2010, CNY 200 in 2011 and CNY 240 in 2012. The average reimbursement rate increased from the initial 54 per cent to 60 per cent in 2010 and 70 per cent in 2011 (Yao, 2011).

One important recent development is that the individual health insurance contributions of old, vulnerable and disabled people are being fully covered by the local governments. In Beijing, for instance, starting in 2011 the local government is paying an annual health insurance premium subsidy of CNY 600 for each non-employed and seriously ill urban citizen, CNY 300 for each seriously disabled urban citizen, and CNY 300 for each uncovered urban citizen aged 60 and above and living under the poverty line. The personal contributions of such people are to be fully financed from the budget of the relevant county or district government (Beijing Morning Newspaper, 2011).

As shown in Table 4.7, by the end of 2011 the URBMIS covered 221.16 million people nationwide, an increase of 25.88 million over 2010. For both UEBMIS and URBMIS combined, the joint annual fund revenues and expenditures totalled CNY 553.9 billion and CNY 44.31 billion respectively, and the fund accumulation over the years reached CNY 401.5 billion, including CNY 49.7 billion for URBMIS (MOHRSS, 2012a).

Table 4.7. China: Coverage extension under the Urban Residents Basic Medical Insurance Scheme (URBMIS), 2007–2011

	2007	2008	2009	2010	2011
Urban residents covered (millions)	42.9	118.3	182.1	195.3	221.2
Annual growth rate (%)	42.9	175.6	54	7.2	13.3

Source: Annual statistical communiqués published in Chinese on the MOHRSS website. <http://www.MOHRSS.gov.ch>

New Rural Cooperative Medical Scheme. The NRCMS was launched in 2003 as a voluntary programme covering all rural residents and administered by the local health authorities. The central and local governments finance around 80 per cent of the premiums (less in well-off provinces) while the rest is covered by individuals. In 2010, the national average per capita annual premium was CNY 156.6, including CNY 120 as per capita government subsidy; from an initial amount of CNY 20 this subsidy rose to CNY 200 in 2011 and 240 in 2012. Participation is based on family units so as to avoid adverse selection and extend the coverage quickly. The average reimbursement rate for hospitalization costs was 60 per cent (70 per cent in 2011) and the average maximum ceiling for reimbursement was CNY 30,000, which rose to no less than CNY 50,000 in 2011 (MOH, 2011). Meanwhile, various regions including 80 per cent of the villages have also implemented the pooling of funds for inpatient care, where costs can be reimbursed up to a certain percentage which differs from one place to another. By the end of 2011 the NRCMS covered 832 million participants, an enrolment rate of 97.5 per cent (see Table 4.8).

The total annual fund revenue and payout amounted to CNY 204.76 billion and CNY 171.02 billion respectively, and the number of reimbursements reached 1.32 billion (MOH, 2012).

Table 4.8. China: Coverage extension under the New Rural Cooperative Medical Scheme (NRCMS), 2004–2011

	2004	2005	2006	2007	2008	2009	2010	2011
No. of counties implementing the NRCMS	333	678	1,451	2,451	2,729	2,716	2,678	2,637
No. enrolled (millions)	80	179	410	726	815	833	836	832
Annual growth rate (%)		124	129	77	12	2	0.4	-0.5
Enrolment rate (%)[1]	75.2	75.7	80.7	86.2	91.5	94.2	96	97.5[2]
Annual per capita premium (CNY)	50.4	42.1	52.1	58.9	96.3	113.4	156.6	246.2
Annual payout (CNY billion)	7.6	12.2	27.2	45.3	58.5	75.9	118.9	171

Notes:
[1] Enrolment rate: number of NRCMS participants per 100 rural residents.
[2] This increase is due to the transfer of a number of counties into cities in 2011.

Sources: NBS (2011b); MOH (2012).

Medical assistance programmes. The budget-financed and means-tested rural and urban medical assistance programmes were launched in 2003 and 2005 respectively. Recent years have witnessed a continuous improvement of the system, under which the assistance targets have covered all "five-guarantee" rural people and beneficiaries of urban and rural minimum subsistence guarantee schemes, and have been gradually extended to other vulnerable groups. The content of assistance has expanded from hospitalization only to a more comprehensive package which centres on hospitalization but also gives due consideration to other kinds of assistance. Some local governments have simplified procedures by turning "post-treatment assistance" into "assistance during the treatment". Many local civil affairs authorities have also made full use of the many existing community medical service networks with their low prices and convenient services, by issuing medical assistance cards containing a subsidy ceiling so as to facilitate consultations and purchase of medicines by beneficiaries (Xinhuanet, 2009). In 2011, the urban programmes provided 22.22 million reimbursements, including subsidies for a total of 15.50 million people to join the urban resident medical insurance scheme through per capita assistance of CNY 67.9, and direct assistance from the civil affairs authorities to 6.72 million urban residents through a per capita amount of CNY 793.6. The total annual budgetary allocation for the urban programmes from the various levels of government was CNY 6.76 billion nationwide, an increase of 36.6 per cent over 2010. In the countryside, the rural programmes provided 62.97 million reimbursements including subsidies for 48.25 million people to join the NRCMS through per capita assistance of CNY 45.6, and direct assistance from the civil affairs authorities to 14.71 million people through a per capita amount of CNY 635.8. The total annual budgetary allocation for the rural programmes from the various level of government was CNY 12 billion nationwide, an increase of 43.7 per cent over 2009 (MCA, 2012).

4.3.3. Unemployment insurance

Initially confined to contract workers in state-owned enterprises (SOEs), participation in the unemployment insurance (UI) scheme is now compulsory for all wage employees in urban areas. The fund is financed by a contribution of 2 per cent of payroll from the employer and 1 per cent from the employee. Previously linked to wages in employment, the unemployment benefit is now a flat-rate amount ranging from 60 to 70 per cent of the minimum wage, as determined by local governments. The benefit is set by local governments at a level higher than the local public assistance benefit but lower than the local minimum wage. It is paid for up to one year for those with less than five years of contributions, for up to 1.5 years for those with five or more but less than ten years of contributions, and for up to two years for those with ten or more years of contributions (Zhu, 2009).

One important UI policy development over the past five years has been the gradual transition from focusing mainly on guaranteeing subsistence to attaching the same importance to unemployment prevention and employment promotion. In accordance with the MOLSS/MOF joint circular of 11 January 2006 on the pilot of adequately extending the scope of expenditure of unemployment insurance funds, seven relatively well-off provinces were mandated to immediately launch pilots on expanding the scope of expenditure of the local unemployment insurance funds to provide subsidies for vocational training, employment service, social insurance premiums and job posting, as well as special loans (Du, 2011). In 2008 MOHRSS began to explore the establishment of dynamic surveillance over unemployment and an unemployment pre-warning system.

To help enterprises adapt to the global economic and financial crisis and stabilize jobs, the central Government adopted in late 2008 special measures such as “deferred contribution payments for five social insurance schemes, phased contribution reduction for four social insurance schemes (except pension), and three subsidies (from the unemployment fund for social insurance contribution or job post, and from the special employment fund for on-job training)” (Du, 2011) From 2009 to 2010, UI funds disbursed CNY 18.5 billion in social insurance contribution subsidies or job-posting allowances for the hardest-hit enterprises, benefiting 52,000 enterprises and encompassing a total of 14.07 million employees; in addition, through a temporary reduction in UI contributions a total of CNY 25.1 billion was waived, benefiting 3.83 million enterprises and 130 million employees; postponed UI contribution payments totalled CNY 940 million, benefiting 10,000 enterprises and 2.18 million employees (Du, 2011).

By the end of 2011 a total of 143.17 million people or 39.86 per cent of the urban employed (including 23.91 million rural migrant workers) participated in unemployment insurance schemes (see Table 4.9). In the same year, a total of 1.97 million people received unemployment benefits, and a lump-sum subsistence subsidy was paid to 64,400 rural migrant workers whose labour contracts had been either not renewed or terminated in advance. The annual fund revenues and expenditures stood at CNY 92.3 billion and CNY 43.3 billion respectively, and the aggregate fund accumulation over the years reached CNY 224 billion (MOHRSS, 2012a). In 2010 the national average monthly unemployment insurance benefit was about CNY 500, and the average duration of benefit payment about seven months (Du, 2011). That same year expenditure on employment promotion reached CNY 20 billion, accounting for 47 per cent of the unemployment insurance fund balance and representing an increase of 48 per cent over the previous year (MOF, 2011).

Table 4.9. China: Coverage extension of unemployment insurance schemes, 2006–2011

	2006	2007	2008	2009	2010	2011
Total number covered (millions)	111.9	116.5	124	127.2	133.8	143.2
Rural migrant workers covered (millions)	n.a.	11.5	15.5	16.4	19.9	23.9
Benefit recipients (millions)	3.3	2.9	2.6	2.4	2.1	1.97
Annual fund revenues (CNY billions)	38.5	47.2	58.5	58	65	92.3
Annual fund expenditures (CNY billions)	19.3	21.8	25.4	36.7	42.3	43.3
Aggregate fund accumulation (CNY billions)	70.8	97.9	131	152.4	175	224

n.a.= not available.
Source: Annual statistical communiqués published in Chinese on the MOHRSS website. <http://www.MOHRSS.gov.ch>.

4.3.4. Employment injury insurance

Covering employees in all enterprises and the self-employed in urban areas, with an average contribution rate of 1 per cent of payroll to be contributed solely by the employers, contributions for employment injury insurance vary according to the three categories of industry and the assessed degree of risk. Benefits consist of medical treatment, including rehabilitation, as well as temporary and permanent disability pensions. The 2004 Regulations on Work Injury Insurance stipulates that the various work injury insurance funds should set aside a certain proportion as reserve funds for benefit payouts in case of major accidents. Specific proportions and methods of utilization are at the discretion of the provincial level governments.

In 2005, just one year after the implementation of the Regulations on Work Injury Insurance, the Government incorporated for the first time the extension of work injury insurance in the mandatory targets under the 2006–2010 National Economic and Social Development Plan and committed itself to bringing a total of 75 million people under work injury insurance coverage by the end of 2005, compared to 68.45 million in 2004. In May 2006, the MOHRSS (then known as the Ministry of Labour and Social Security (MOLSS)) launched the three-year national campaign called the Ping An (Peace and Safety) Programme, which aimed to cover all rural migrant workers who work in highly risky trades such as mining and construction under the work injury insurance scheme. The newly enacted Regulations on Safe Production Licence also obliged all enterprises to participate in the scheme as one of the prerequisites to obtain or renew the licence (Zhu, 2009). To explore effective means of combining compensation with prevention and rehabilitation, in 2007 MOLSS issued Guidelines on Enhancing the Pilot Work on Work Injury Rehabilitation, which was later supplemented by supporting standards and procedures. To promote work injury prevention nationwide, and based on several pilots, MOHRSS is currently in the process of formulating guidelines on utilizing and managing the work injury prevention fund.

The newly revised Regulations on Work Injury Insurance entered into force as of January 2011. The major revisions include the extension of the scope of coverage to public institutions, social groups, non-profit grass-root organizations, foundations, law and accounting firms; the simplification of work injury ascertainment, adjudication and dispute disposal procedures; an increase in lump-sum death compensation and work injury compensation (20 times the national average urban resident's disposable income in the previous year, instead of 5–6 times the local average annual wage income); and the inclusion of prevention costs as a new item of expenditure.

In January 2011 the State Council decided to allocate a total of CNY 5.6 billion as a central government subsidy to extend coverage before the end of 2011 to about 3.3 million so-called "old work-injured people" who remained excluded either because the injury took place before the scheme was initiated, or their enterprises had been closed down or gone bankrupt, or they had not yet participated in the scheme (Xiang, 2011).

By the end of 2011, a total of 176.96 million people, or 49.3 per cent of the urban employed, and including 68.3 million rural migrant workers, were participating in the work injury insurance scheme, while the number of people receiving benefits had reached 1.63 million (see Table 4.10). The annual fund revenues and expenditures stood at CNY 46.6 billion and CNY 28.6 billion respectively, and the aggregate fund accumulation and reserve fund had reached CNY 64.2 billion and CNY 10.1 billion respectively (MOHRSS, 2012a). Civil servants and employees of public cultural, educational and scientific institutions (except for institutions financed off-budget) are covered under special government-funded, employer-administered systems (SSA and ISSA, 2010).

Table 4.10. China: Coverage extension under employment injury schemes, 2006–2011

	2006	2007	2008	2009	2010	2011
Total number covered (millions)	102.6	121.73	138.87	148.96	161.61	179.96
Rural migrant workers covered (millions)	25.37	39.80	49.42	55.87	63.00	68.28
Benefit recipients (millions)	0.78	0.96	1.18	1.30	1.47	1.63
Annual fund revenues (CNY billions)	1.22	1.66	2.17	2.40	2.85	46.6
Annual fund expenditures (CNY billions)	6.85	8.8	12.7	15.6	19.2	28.6
Aggregate fund accumulation (CNY billions)	19.3	26.2	33.5	40.4	47.9	64.2
Aggregate reserve fund accumulation (CNY billions)	2.4	3.3	5.0	6.5	8.2	10.1

Source: Annual statistical communiqués published in Chinese on the MOHRSS website. <http://www.MOHRSS.gov.ch>.

4.3.5. Maternity insurance

The maternity insurance programme covers all employees in urban enterprises, with a contribution rate of up to 1 per cent of payroll paid solely by employers. The average monthly wage of the enterprise for the previous year is paid by the maternity social insurance fund for up to 90 days for the birth of a child, 42 days for a pregnancy that lasted at least several months, and 15 to 30 days for less (SSA and ISSA, 2010).

Among the problems still to be tackled are:

- the low level of legislation – the basis for the current policy remains the provisional methods issued by the former Ministry of Labour in 1994, while there are documents promulgated by the State Council for at least four other social insurance schemes;
- the limited scope of coverage, which has not yet reached rural women, female staff of township and village enterprises, government organizations and public institutions, let alone informal-sector workers and the unemployed;
- uneven development, with coverage rates ranging from 60 to 99 per cent;
- the lack of a nationwide unified policy for the collection of contributions, rate of contributions and eligibility criteria;
- the inadequate scope of fund expenditure, due to a tendency towards increased numbers of caesarean births instead of natural ones, and a need to guarantee and enhance paternity rights.

In November 2011 the State Council's Legal Office publicized for public scrutiny its draft Regulations on Special Labour Protection for Female Workers, which proposes:

- to extend maternity leave from 90 days to 14 weeks in line with the provisions of the relevant International Labour Conventions; and
- to oblige those employers who have not registered for maternity insurance to cover the wages, maternity benefits and medical costs associated with birth and abortion as far as their female employees are concerned (Xinhuanet, 2011a).

By the end of 2011, a total of 138.92 million people or 38.68 per cent of the urban employed were participating in the maternity insurance programme, and a total of 2.66 million people received benefits the same year. Annual fund revenues and expenditures stood at CNY 22 billion and 13.9 billion, respectively, and the aggregate fund accumulations over the years reached CNY 34.3 billion (MOHRSS, 2012a).

Table 4.11. China: Coverage extension under maternity insurance schemes, 2006–2011

	2006	2007	2008	2009	2010	2011
Total number covered (millions)	64.59	77.75	92.54	108.76	123.36	138.92
Annual growth (%)		20	19	18	13	26
Benefit recipients (millions)	1.08	1.13	1.40	1.74	2.11	2.65
Annual fund revenues (CNY billions)	6.2	8.4	11.4	13.2	16	22
Annual fund expenditures (CNY billions)	3.7	5.6	7.1	8.8	11	13.9
Aggregate Fund accumulation (CNY billions)	9.7	12.7	16.8	21.2	26.1	34.3

Source: Annual statistical communiqués published in Chinese on the MOHRSS website. <http://www.MOHRSS.gov.ch>.

4.4. Key challenges and solutions

In spite of the rapid expansion of social security coverage in China, little is known to date about how the Chinese social security agencies have addressed key implementation challenges along the way. Mr Xiaoyi Hu, Chinese Vice-Minister for Human Resources and Social Security and former Director-General of the Chinese Social Insurance Administration, declared at the 2010 World Social Security Forum that the success of the Chinese social security schemes depends 30 per cent on the policy and legislation but 70 per cent on the implementation. This section seeks to present a picture of Chinese practices and innovations in tackling administrative, institutional and organizational challenges, as well as the issue of sustainability.

4.4.1. Administrative issues

Compliance and collection of contributions. Compliance and the collection of contributions are of vital importance to all contributory social security schemes. In China, provincial governments have been authorized since 1999 by the Provisional Regulations on Collection of Social Insurance Contributions to decide whether social insurance contributions should be collected by the local social insurance agency (whose administrative expenses are also covered by the government budget) or the tax authorities. As a result, by early 2011 the collection of contributions was carried out exclusively by social insurance agencies in 51.3 per cent of the areas, and by tax authorities in 8.1 per cent of the areas, while in other areas it was carried out by both types of agencies. Article 59 of the Social Insurance Law, which came into effect as of July 2011, stipulates that:

> Collection of social insurance contributions shall be carried out in a consolidated way. The steps of implementation and the concrete approaches in this regard shall be regulated by the State Council.

Article 86 provides that the failure of an employer to pay social insurance contributions on time and in full will result in a daily overdue payment fine at the rate of 0.05 per cent. In case of non-payment at the expiry of the prescribed period,

> a fine above the overdue amount but less than its triple shall be demanded by the authoritative administrative department.

Furthermore, Article 88 stipulates that:

> For any offence of making fraudulent claims for social insurance benefits through cheating, fake documentation or other means, the social insurance administrative department shall order a return of the social insurance benefits defrauded, and levy a fine larger than double but less than five times of the amount defrauded.

In November 2011, MOHRSS publicized a proposed draft Regulations on Collection of Social Insurance Contributions to solicit public opinion. New provisions include the integrated collection of contributions for five social insurance programmes, the option of online declaration, and the extension of the scope of coverage to individual participants under different pension and health insurance schemes. In many regions, contributions to five social insurance programmes have been or are to be collected in an integrated way, and both enterprises and individuals can make their contributions via the bank or post office network, online banking or the collection agency's front desks for customer services. Innovative measures in the collection of contributions include data exchange among different authorities, flexible contribution basis and payment schedules (annual, semi-annual, quarterly or monthly payment for some groups), reduced contribution rates for pensions of the self-employed, deferred or reduced payment for hard-hit enterprises during the crisis, bundled participation for the family as a unit for rural pension and rural health care schemes to avoid adverse selection, government contribution subsidies for vulnerable groups, linkage of business licences to social insurance registration and payment of contributions, and online transactions.

Information and communications technology. ICT constitutes a key element in enhancing efficiency, extending social security coverage and guaranteeing the safety of social insurance funds. The grass-roots information system has suffered in general from scattered construction and non-unified standards, posing a challenge for the integration of resources. Statistics show that in 2008, an average of only CNY 29,000 was spent on ICT by each social insurance agency (provincial, municipal and county levels) with only CNY 18,100 at the county level; nationwide, there was an average of only 1.14 ICT personnel for each social insurance agency, with 3.13 on average for provincial level agencies (Xu, 2010).

Due to the proliferation of different schemes and different information systems, as well as competition for insurance resources, there has been a common problem of double health insurance coverage for certain groups such as rural migrant workers, rural enterprise workers, and rural students studying in urban areas. Some newspapers reported in 2010 (see for example Beijingtimes, 2010) that this percentage was as high as 10 per cent, which would mean that the Government would have to spend an extra CNY 12 billion that year in double subsidy for urban and rural residents' health insurance, based on the per capita subsidy of CNY 120. This phenomenon has been curbed with the help of a modern social security card system based on personal identity numbers, and the promulgation of policies banning double coverage of any person for the same social security branch.

With the completion of the first phase of the government-funded e-governance programme titled the "Golden Social Insurance Information System Project", an information network connecting the central, provincial and municipal governments has already been established, and over 95 per cent of insured persons have realized real time settlement for medical expenditure, under which they pay only their individual share while the rest is to be settled between the social insurance agencies and service providers. A total of 199 million social security cards had been issued nationwide by the end of 2011; the number is scheduled to reach 349 million by the end of 2012 and 800 million by the end of 2015. While mainly used at present for the real time settlement of medical expenses, the new type of multi-purpose social security cards will be loaded with financial functions and allow their holders to complete a variety of tasks, including making social insurance contributions and disbursing social insurance benefits and special employment subsidies, as well as withdrawing money from their bank accounts and transferring money between localities.

Social insurance agencies. The rapid extension of coverage from urban to rural areas has put tremendous pressure on social insurance agencies nationwide, especially in terms of delivery of benefits and services. The current structure, based mainly in urban areas and relatively weak in rural areas, can no longer meet the requirement of a system covering both urban and rural areas. Limited staffing size is one of the constraints; social insurance agencies nationwide currently employ only around 150,000 people. Statistics show that, on average, each social insurance agency staff member was serving 5,767 people by 2010 (and in some cities one staff member has to serve 20,000 to 30,000), far higher than the international average of 1:1,000–2,000. Front-line staff have been plagued by excessive workloads and inadequate training, and service quality is often poor. Some local social insurance agencies also face a shortage of funds in conducting their routine work (Xu, 2010).

In March 2010 the MOHRSS issued a guideline requesting all local authorities to:

i. build an integrated public labour and social security service platform and network at street, village, township and community levels throughout the country by 2012, and establish street and township platforms with a ratio of one staff member per 6,000 people to be served; and
ii. fully implement the social security system nationwide between 2013 and 2015, so as to realize the objectives of standardization, professionalization, digitalization and networking, and enable both urban and rural residents to have easy access to nearby public employment and social security services.

In 2010 the central Government decided to invest a total of CNY 5 billion in a pilot to build employment and social security service facilities in 162 counties in the central and western part of China. In January 2011 two social security standards, one titled "General Provisions on Social Insurance Services" and the other "The Facility and Equipment Requirements of Social Security Service Centres" were examined and technically approved by the National Technical Committee on Social Insurance Standardization. The first stipulates the fundamental principles of the services, together with system, guarantee, delivery and supervision requirements, as well as basic requirements for assessment and improvement; the second sets standards concerning overall construction requirements, selection of sites, scale of construction, internal functions and equipment requirements, among others, for different levels of service centres.

Meanwhile, many social insurance agencies have also devoted much effort to improving online social security services, training their staff in a systematic way and exploring the outsourcing of certain services so as to save administrative resources and enhance service efficiency. Also encouraging is the effort in many places, such as in the cities of Chengdu and Hangzhou, to integrate the various social insurance agencies covering different social groups for the same risk, in order to provide one-stop services.

Management of contributory social insurance funds. The management of contributory social insurance funds remains a hard nut to crack for Chinese social insurance agencies. On one hand, there are a few thousand fragmented schemes administered at provincial, municipal and county levels. Some coastal provinces such as Guangdong have accumulated enormous savings, while less developed areas have to rely on central government subsidies just to ensure the timely payment of pension benefits. On the other hand, social insurance funds have been growing continuously over the past few years. By 2010 the five social insurance funds (excluding the NRCMS) had accumulated total assets of CNY 2,388.6 billion. Unlike the diversified investment profiles of the annuity funds and the non-contributory social security reserve fund, social insurance funds can be deposited only in state-owned banks or used to purchase domestic state bonds, and thus come under pressure to ensure that there is no reduction in fund values in real terms. To solve the problem, the Government has anticipated a national pooling of pension funds by 2015 and plan to gradually put in place provincial pooling of funds for other branches. New regulations on the investment of contributory social insurance funds are being formulated to allow for diversified investment, with reference to the experience of annuity and non-contributory funds. Reportedly, the State Council approved in March 2012 the proposal of the Guangdong provincial government to entrust investment operations of its CNY 100 billion pension fund surplus to the National Council of Social Security Fund (NCSSF), which is allowed to diversify its investment portfolios and has recorded a much higher investment return over the past ten years. In 2011, for example, the NCSSF managed a total of CNY 54.36 billion of entrusted provincial pension funds (mainly as central government subsidy for recapitalizing the individual accounts), and achieved an investment return of 10.17 per cent, 8 per cent higher than the annual inflation rate. More provinces are expected to follow suit.

4.4.2. Implementation and organizational issues

Recent years have witnessed marked progress in tackling institutional fragmentation, the issue of portability, and coordination among various schemes covering the same or multiple social security branches.

Under the traditional social security administrative structure, officials working at county, municipal and provincial social insurance agencies are professionally guided by a higher level of authority but are appointed by the same level government. Article 72 of the Social Insurance Law stipulates, however, that:

> A social insurance agency may, given its workload, set up branches and service network units within the pooling district with approval from the local social insurance administrative department and the local public sector reform commission. Personnel expenses of a social insurance agency, its essential operational costs and administrative expenses shall be appropriated from the government at the same administrative level as the agency in accordance with national provisions.

Aside from the previously mentioned planned upgrading of social insurance fund pooling levels, some provincial and municipal social insurance agencies (such as in Tianjin) have also implemented pilots on vertical management structure under which the provincial/municipal social insurance agency directly appoints the staff at different levels, administers all funds and collect all contributions in an integrated way. In other places, such as the provinces of Shaanxi, Heilongjiang and Jilin, a provincial vertical structure has already been put in place in terms of basic old-age insurance management. Such a development is conducive to the anticipated national pooling of the basic pension fund and may eventually lead to a vertically-structured national social insurance administration in the years to come.

While the Ministry of Health is responsible for the rural health insurance scheme and the rest lies with the MOHRSS via social insurance agencies, the management functions for rural health insurance in many places (such as Ninxia, Wenzhou and Kunming) have been transferred to the social insurance agencies so as to enhance efficiency and provide integrated services. In Hangzhou city, the functions of the New Rural Cooperative Medical Scheme and the medical assistance programmes (formerly managed by the health and civil affairs authorities) were transferred in January 2011 to the Municipal Medical Insurance Centre, which has been exercising an integrated management of all medical care programmes according to the principle of the same treatment for people in the same city. The so-called “five-ones” (one information network, one-stop service, one social security card, one display screen and one promotion board) provided by the Centre have greatly relieved the medical burdens of the municipal residents. The municipal government provides each year a subsidy equivalent to 0.5 per cent of the contributable basis to the urban basic medical insurance fund; government subsidies account for over 60 per cent of the annual per capita premium for the non-employed residents' medical insurance programme. The medical insurance contributions of the prescribed vulnerable groups are fully financed by the government, such municipal budget subsidies totalling CNY 350 million in 2010 (Wang, 2011).

The Social Insurance Law has made clear-cut stipulations on the portability of pension and medical care benefits. For people who have worked across different pooling districts, the basic old-age and health care insurance relationship shall transfer together with the insured persons, and their lengths of contribution payment shall be cumulative. In the case of pension, the benefit shall be calculated in separate tranches corresponding to the phases of contribution payments, and paid in integrally as an aggregate. In 2010, the MOHRSS provided guidance on the portability of social insurance benefits through the following documents:

- The methods of transferring and continuing the relationship for the basic old-age pension of urban enterprise workers;
- The provisional measures on transferring and continuing the relationship for the basic medical security of mobile people engaged in employment: and
- Opinions on interregional medical settlement service concerning the basic medical insurance.

The second document bans double participation in medical insurance schemes and double claims of medical insurance benefits. In 2011, social insurance agencies nationwide processed 780,000 cases of basic pension transfers and 440,000 cases of health insurance transfers across the provinces. Twenty-five provinces conducted interprovincial direct settlement of medical expenditure claims.

4.4.3. Sustainability issues

The Chinese social insurance system is facing a multitude of sustainability challenges. First is the huge amount of unfunded basic pension liability, estimated by the former Ministry of Labour and Social Security in 2005 to be as much as CNY 6 trillion over the next 30 years. This has been mainly caused by the rapid ageing of population, the disruption of the system and the subsequent transition towards a partly funded system without government funding for the middle aged and those already in retirement. Consequently, the current generation has to pay an extremely high contribution rate to support the retired generation while at the same time saving for their own pensions. In some places the individual pension accounts, although designed as a funded defined contribution scheme, remain largely empty because nearly all revenues have been spent to fulfil current pension obligations. According to a newspaper report (Guangzhou Daily, 2012), among the CNY 1.9 trillion total individual account value nationwide, only 203.9 billion had been recapitalized by the end of 2010, representing a funding gap of CNY 1.7 trillion; a World Bank report estimated the Chinese pension fund gap between 2001 and 2075 to be as high as CNY 9.15 trillion; the first 10-year pilot to recapitalize individual accounts in Liaoning Province proved a failure; and the Chinese pension system calls for a second round of reforms.

A second challenge for sustainability is the fragmentation of social insurance schemes according to urban and rural household registers, the public and non-public nature of establishments and areas of administrative jurisdiction, which tends to result in little pooling of risk, limited redistributive impact and high administrative costs, as well as barriers which prevent people from moving from one place to another and between different schemes. A rising problem is the increasingly heavy financial burden on local governments in the course of welfare competition among different localities to expand coverage and improve benefit adequacy via excessively high government subsidies.

A third challenge is the issues of moral hazard and adverse selection in the voluntary insurance schemes, including the new rural and cooperative medical schemes and the urban residents' pension and health insurance schemes.

Last but not the least is the drastic need to formulate effective measures to guarantee the maintenance and increment of the value of the contributory social insurance funds.

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To tackle these issues, the Chinese Government has taken the following steps:

1. In 2001 it established the National Council of Social Security Fund (NCSSF) to manage a strategic reserve fund called the National Social Security Fund (NSSF), which is non contributory and financed through central budget appropriations, social welfare lottery income and the proceeds of divestiture of state-owned enterprises, among others. The main purpose of the reserve fund is to cover the basic pension funding gap when the ageing of the Chinese population peaks in about 15 years time. By the end of 2010, the NCSSF operated a CNY 856.69 billion fund (including 58.10 per cent in direct investment and 41 per cent as an investment asset mainly entrusted by the provincial governments), and reported a 9.17 per cent annual average capital gain over the past ten years (NCSSF, 2011).
2. It plans to build a national basic pension pooling fund by 2015 and gradually realize the provincial pooling of funds for other schemes and the integration of both urban and rural schemes.
3. It has enhanced portability of pension and medical insurance benefits through the promulgation of a series of new rules and stipulations.
4. It has increased social transfers to less developed regions: in 2010, the social transfers from the central budget accounted for 56 per cent of the total and amounted to CNY 2.73 trillion, which is 11.45 times of the figure in 1994 (Xinhuanet, 2011c).
5. It has actively explored the feasibility of increasing the retirement age. In 2010 Shanghai, the city with the highest old-age dependency ratio in China, piloted a flexible retirement age to allow options for urban males to work until 65 and females until 60. Experts estimate that an increase of one year in the retirement age will result nationwide in an extra CNY 4 billion of annual revenues and a saving of CNY 16 billion as pension expenditure. Due to the heavy pressure on the existing job market for young people, however, such a pilot has not yet been implemented elsewhere (Lin, 2011).
6. It has striven to maintain and increase the value of contributory social insurance funds (see Management of contributory social insurance funds above).

4.5. Conclusions

In the context of a trend towards integrated and coherent social security policies, the scope of social security coverage has expanded from urban to rural areas, from state-owned enterprises to all types of establishments, and from salaried workers to people engaged in flexible types of employment and non-employed urban and rural residents. By the end of 2011, non-contributory social assistance programmes including the minimum subsistence guarantee programme and the medical assistance programme had been implemented nationwide; pension programmes covered about 50 per cent of the population and medical insurance programmes over 95 per cent.

Among recent improvements in benefit adequacy and service quality are the introduction of unified social security cards; a more than doubling of the basic pension benefit in six years; and an increase in the medical reimbursement ceiling from 4 to 6 times of the previous year's average income under the different medical insurance schemes.

The recent evidence of developments and achievements in the extension of social security coverage in China can be attributed mainly to the following enablers, which may prove useful and inspiring to other developing countries in their own extension efforts:

- an accelerated pace of social security legislation to deal with system absence for excluded groups and move from selective schemes to inclusive and universal programmes;
- active fiscal and labour market policies;
- piloting and gradual expansion in line with prudent planning and evidence-based research;
- a strong political will demonstrated through special campaigns and the inclusion of coverage extension in national socio-economic plans;
- increasing social transfers from the central budget and subsidies from the government for vulnerable groups;
- enhanced efforts to tackle fragmentation of schemes and improve adequacy and portability of social insurance benefits;
- the increasing application of ICT and other administrative innovations;
- the constant pursuit of good governance and improved administrative performance of social security organizations.

In spite of these marked achievements, however, tremendous challenges remain ahead for the Chinese social security system in terms of upgrading levels of pooling, integrating fragmented schemes, strengthening grass-roots service networks, enhancing the portability and adequacy of social insurance benefits, resolving the issue of long-term sustainability in the context of the rapid ageing of the population, urbanization and diversification of employment patterns, and extending social security coverage to the whole population. Programmes targeted to disability, survivor and family benefits, and long-term care are yet to be fully developed. In view of the low per capita GDP and the gaps between different regions and social groups, improvements in benefit adequacy and service quality must take national circumstances into account and be implemented in a phased manner. While government-led social insurance and social assistance programmes have developed rapidly, due attention should be given to sustainability and proper linkages among the different programmes (especially those covering the same social risk), and much is yet to be achieved in terms of the development of other pillars.

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5. Extending social security coverage to the excluded and marginalized: Perspectives on developments in South Africa

Contents

5. Extending social security coverage to the excluded and marginalized: Perspectives on developments in South Africa

Summary

Almost two decades ago, South Africa moved away from being an apartheid State. South Africa is now a sovereign, democratic State founded on values such as human dignity, the achievement of equality and the advancement of human rights and freedoms; non-racialism and non-sexism; supremacy of the Constitution and the rule of law; and universal adult suffrage, a national common voters roll, regular elections and a multi-party system of democratic government, to ensure accountability, responsiveness and openness. One of the issues that the post-apartheid Government had to urgently endeavour to address was the deracialization of the social security system and the extension of its scope of coverage to excluded and marginalized groups and categories of persons. Remarkable progress has been made towards the realization of these goals.

It is often said that South Africa has a well-developed social security system for a developing country. This observation is broadly true, particularly when one takes into account the fact that all nine classical risks expounded in the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) are catered for by contributory and/or non-contributory programmes and/or schemes. Furthermore, South Africa has one of the largest cash transfer programmes in Africa benefiting almost 15 million individuals. This chapter evaluates the developments in post-apartheid South Africa to expand the scope of social security coverage, highlighting the milestones achieved as well as the gaps and challenges in its pursuit of a comprehensive social security system.

5.1. Economic and social background

South Africa covers a land surface area of 1,219,090 square kilometres and is divided into nine provinces, namely: Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, North West, Northern Cape and Western Cape. According to Statistics South Africa, the 2011 mid year population of South Africa was estimated at 50.59 million (see Table 5.1).

Table 5.1. South Africa: Mid-year population estimates by population group and sex, 2011

Population group	Male		Female		Total	
	Number	% of male population	Number	% of female population	Number	% of total population
African	19,472,038	79.4	20,734,237	79.5	40,206,275	79.5
Coloured	2,188,782	8.9	3,351,008	9.0	4,539,790	9.0
Indian/Asian	626,690	2.6	648,177	2.5	1,274,867	2.5
White	2,227,526	9.1	2,338,299	9.0	4,565,825	9.0
Total	**24,515,036**	**100.0**	**26,071,721**	**100.00**	**50,586,757**	**100.0**

Source: Statistics South Africa (2011a).

The 2011 Human Development Report (UNDP, 2011) ranks South Africa on the Human Development Index (HDI) at No. 123 and as a country with medium human development. Notwithstanding this standing on the HDI, South Africa is confronted with an assortment of socio-economic factors that have a negative impact on its endeavours to broaden the scope of coverage of its social security system.

First, poverty and inequality, which are more widespread in rural than urban areas, continue to be a source of concern (Mpedi, 2004). According to the development indicators released towards the end of 2010 by the Presidency (Republic of South Africa, 2010), applying the Gini coefficient shows that inequality worsened from 0.64 to 0.66 in 2008. Statistics South Africa (2011a) estimates life expectancy at birth in South Africa for 2011 at 54.9 years for males and 59.1 years for females.

Second, unemployment in South Africa remains stubbornly high. According to recent statistics from Statistics South Africa (2011b), the unemployment rate based on the narrow definition is hovering at 25 per cent, with young people the hardest hit. According to the National Treasury (2011), half the South African population between the ages 18 and 25 is unemployed. Table 5.2 shows the unemployment rate by population group during the third quarter of 2011.

Table 5.2. South Africa: Unemployment rate by population group, 2011, third quarter

Population group	%
Black/African	28.9
Coloured	23.6
Indian/Asian	10.8
White	5.6

Source: Statistics South Africa (2011b).

Third, the prevalence of HIV/AIDS is extremely high; it is estimated that 5.38 million persons in South Africa were living with HIV in 2011, about 10.6 per cent of the total population. The number of AIDS orphans was estimated at 2.01 million. In 2010, 1,058,399 adults and 105,123 children received antiretroviral therapy (ART) and it is estimated that 1,115,284 adults (15+ years) and 377,097 children (0-14) are in need of ART in 2011 (Statistics South Africa, 2011a).

5.2. Social security in South Africa: An overview

5.2.1. Design and core principles

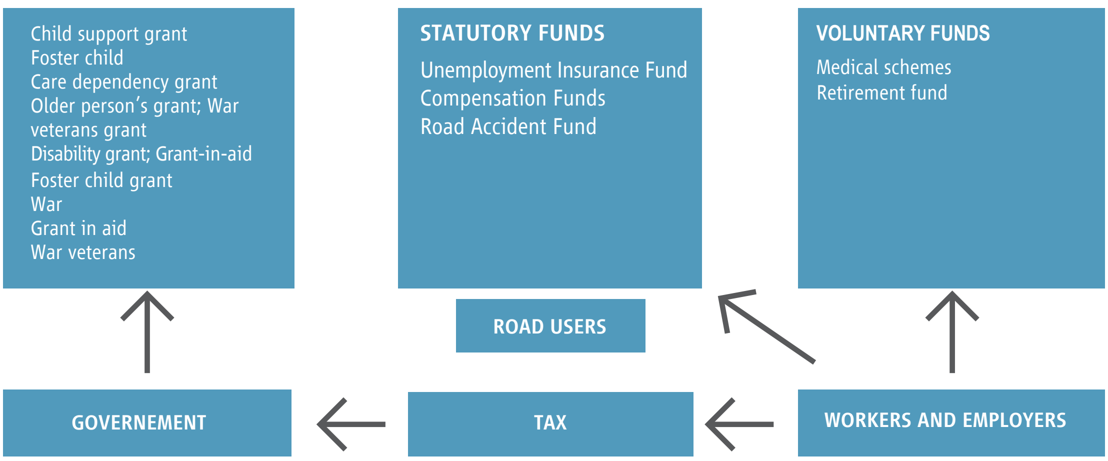
The South African social security system comprises contributory schemes and non-contributory programmes. Contributory schemes can be divided into two, namely: the statutory funds (compensation funds, the Road Accident Fund and the Unemployment Insurance Fund) and voluntary funds (retirement funds and medical aid schemes). Contributory schemes are financed mainly through contributions from employees and/or employers and, in some instances, the State. Three non-contributory programmes are identifiable in South Africa. They are comprised of social assistance grants, military pensions and special pensions. Non-contributory schemes are funded from the general tax revenues. The South African social security system makes provision for the nine classical risks encapsulated in the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), namely: medical, sickness, maternity, old age, family, invalidity, unemployment, employment injury and death.

The legislative framework of both the contributory and non-contributory social security schemes is contained in a sizeable number of legal instruments. The South African social security legislative landscape is not codified. Nonetheless, it should be noted that the Constitution of South Africa, 1996 (the Constitution) does, to a great extent, serve as the legislative foundation of the social security system and, most importantly, an adhesive that keeps the entire system together. These observations should be understood from the perspective that:

- First, the Constitution is the supreme law of the country and law or conduct inconsistent with it is invalid to the extent of the inconsistency (sections 1(c) and 2).
- Second, the Bill of Rights provides every person with the right to have access to social security, including, if they are unable to support themselves and their dependants, appropriate assistance (section 27(1)(c)). The State has a constitutional duty, within its available resources, to strive to achieve the progressive realization of the aforementioned right (section 27(2)).
- Third, the Bill of Rights, which contains rights such as the right of access to social security, equality, life and human dignity, applies to all laws and binds the legislature, the executive, the judiciary and all organs of state (section 8(1)).

The general design of the South African social security system is illustrated in Figure 5.1. While this figure captures the structure of the system, it must be borne in mind that there are also self-organized coping strategies, largely relied on by the poor and those marginalized from the mainstream social security schemes and programmes. These strategies are commonly referred to as informal social security; examples include burial societies and rotating credit schemes.

Figure 5.1. South Africa: Overview of the social security system



Source: National Treasury (2010), p. 102.

5.2.2. Public contributory schemes

Compensation funds. These funds provide benefits to employees or their dependants for work-related injuries or occupational diseases. They are financed through employer contributions. Employees and their dependants are barred by section 35(1) of the Compensation for Occupational Injuries and Diseases Act No.130 of 1993 from claiming damages from their employers on account of accidents or qualifying occupation diseases. In Mankayi v. Anglogold Ashanti Ltd 6 BLLR 527 (CC) (2011), the Constitutional Court found that the exclusion of civil claims contained in section 35 does not extend to miners covered by the Occupational Diseases in Mines and Works Act No. 78 of 1973. This is indeed a landmark ruling, for it marks the dawn of a new era where (ex-) miners can institute civil claims against their employers for diseases contracted at work in terms of the common law. This means that they can now claim for damages over and above the compensation prescribed by statute.

There are four major compensation funds in South Africa: the Compensation Fund, Mines and Works Compensation Fund, Rand and Mutual Association and Federated Employer's Mutual Assurance. The first two funds are administered by government departments and the latter two are operated by private enterprises under license. The Compensation Fund operates under the auspices of the Department of Labour and its scope of coverage extends to employees not employed in the mining and construction sectors. The Mines and Works Compensation Fund, which falls under the scope of oversight of the Department of Health, provides compensation to past and present miners who have contracted lung-related diseases during the course and scope of their employment. The Rand and Mutual Association provides benefits to employees employed in the mining industry who suffer injuries while discharging their duties. Unlike the Rand and Mutual Association, the Federated Employers' Mutual Assurance pays benefits to workers employed in the building industry who suffer injuries while on duty. The Government has expressed its desire to improve the financing and administration of the compensation funds (National Treasury, 2010, p. 109) better than it is at the moment.

Coverage against occupational injuries and diseases extends to individuals (as well as their families) employed in the formal sector. Vulnerable employees such as domestic workers, independent contractors, informal-sector workers and self-employed persons are excluded from the ambit of the occupational injuries and diseases scheme.

Road Accident Fund. The Road Accident Fund (RAF), which is established in accordance with the Road Accident Fund Act No. 56 of 1996, is responsible for the payment of compensation for losses suffered due to road fatalities. Risks covered under the Road Accident Benefits Scheme include loss of income and reduced earning capacity, survivors' benefit, medical expenses, funeral expenses and non-financial losses (for example, pain and suffering). The RAF is funded through a dedicated fuel levy of 80 cents per litre (National Treasury, 2011, p. 104).

A draft policy paper on the restructuring of the Road Accident Fund was published during the course of 2010. The paper proposes that a no-fault road accident benefit system premised on social security principles be adopted in South Africa (Department of Transport, 2010). According to the 2010 Budget Review (National Treasury, 2010, p. 110):

> The proposal, approved for public consultation by Cabinet, will establish a fairer and more cost-effective system of statutory protection for road users. The system is intended to:

- expand access to benefits to a wider group of road accident victims by removing common law requirement for fault to be proven;
- optimise resources in favour of people with serious injuries and reduce spending on minor injuries;

- align benefits and resource allocation to other social security arrangements;
- focus on rehabilitation to facilitate timely and appropriate medical care to reduce the impact of injuries;
- provide financial support to persons affected by the injury or death of an earner;
- simplify claims procedures, reduce disputes and create certainty by providing defined benefits.

Key components of the Government's policy reforms to be introduced to a benefit scheme for road users are summarized in Table 5.3.

Table 5.3. South Africa: Key components of the Government's policy reforms to be introduced to a benefit scheme for road users

Comparison	Delictual claim	Social security
Legal base	Fault, negligence or wrongdoing Exclusions for own negligence	Fault not relevantEntitlement based on need and meeting criteria to access benefits Universal access with social policy exclusions
Purpose	Protect driver from claims Compensate injured party for loss and expenses incurred	Protect against misfortune and specific risks for persons injured and those causing accidental injury
Aim	Restitution to condition before injury (impossible); financial reward	Protect against misfortune and specific risks for persons injured and those causing accidental injury
Focus	Individualistic approach	Social solidarity and risk pooling
Benefit structure	Open to dispute and determined by Courts	Defined benefits and rules
Mode	Money and financial award	Assistance, facilitation to access services and limited monetary benefit
Pain and suffering	Compensation paid for serious injury	No benefits paid
Frequency	One-off lump sum payment for some categories of loss	Periodic payments
Financing	Liability insurance premiums	Taxation with option of some risk-based financing through additional surcharges

Source: Department of Transport (2010).

Unemployment Insurance Fund (UIF). The legislative framework for unemployment insurance in South Africa is provided in two pieces of legislation: the Unemployment Insurance Act No. 63 of 2001 and the Unemployment Insurance Contributions Act No. 2 of 2002. Five types of short-term benefits are payable: unemployment benefits, sickness benefits, maternity benefits, adoption benefits and dependant's benefits. In 2010–2011 a total of 732,158 persons received benefits from the Unemployment Insurance Fund. A breakdown of this number per benefit is shown in Table 5.4.

Table 5.4. South Africa: Number of persons receiving unemployment insurance benefits, 2004–2011

Year	Benefits				Total
	Unemployment	Sickness	Maternity/Adoption	Dependants	
2004-05	440,000	26,000	72,000	25,000	563,000
2005-06	451,000	26,000	81,000	31,000	589,000
2006-07	421,000	30,000	96,000	25,000	572,000
2007-08	397,000	25,000	89,000	16,000	527,000
2008-09	474,793	25,648	94,529	15,959	610,736
2009-10	628,595	24,720	104,529	21,760	779,604
2010-11	578,266	22,727	104,042	27,123	732,158

Source: Department of Labour (2011), p. 28.

Participation in the unemployment insurance scheme is compulsory in South Africa. Coverage extends to employees who are or were contributors as defined in the Unemployment Insurance Act. Nevertheless, it should be noted that the following groups and categories of persons are excluded from the ambit of the unemployment insurance scheme: persons who do not fall within the definition of employee; employees employed for less than 24 hours per month; previously unemployed persons who are employed as learners in terms of the Skills Development Act; employees and employers in the national and provincial sphere of government; and persons who enter South Africa for the purpose of working who are required to leave South Africa or whom the employer is required to repatriate when their employment terminates. Unemployment benefits are financed largely through employer and employee contributions. Employers and employees to whom the unemployment insurance laws apply each contribute 1 per cent of the remuneration paid or payable to the employee, up to an earnings ceiling of 12,478 Rand (ZAR) per month. The State carries any deficit that may accrue in any financial year. It should be mentioned that the UIF had, as at 31 March 2011, a healthy surplus of ZAR 9,461 million. This is 38.1 per cent higher than the 2010 surplus of ZAR 6,854. The swell in this surplus has been attributed largely to the "increase in contribution and investment revenue, including a positive fair value adjustment on investments assisted by a decrease in benefit payments and change in benefits payable" (Department of Labour, 2011, p. 54).

5.2.3. Private contributory schemes

Retirement funds. Retirement or pension funds are regulated in accordance with the Pension Funds Act No. 24 of 1956. Contributory retirement funds in South Africa are private in nature. South Africa does not have a public contributory pension scheme, nor is there any statutory duty to belong to private funds. Some employers, as part of the conditions of service contained in a contract of employment or collective agreement, compel their employees to join their retirement funds.

Retirement funds are mainly financed through employer and employee contributions. Consequently, access to retirement funds is intimately linked to formal sector employment. Persons engaged in the informal sector are to a large extent excluded and marginalized from the contributory retirement schemes. Ultimately, they end up relying on the tax-financed old-age grants when they retire. Although there are private insurance products offered by commercial insurers that informal-sector workers could purchase, this is essentially a theoretical offer as most informal-sector workers do not have a regular income and live from hand to mouth. As a result, many cannot either afford the monthly premiums or guarantee that they will not default. This is troubling – particularly when one takes into account the fact that only 45.8 per cent of employees or their employers contribute to a retirement fund in South Africa. The retirement funds' scope of coverage also has a gender dimension: the ratio of females contributing to a retirement fund is lower than that of males by 5 per cent (Statistics South Africa, 2011c).

Medical aid schemes. The statutory regulation of medical aid schemes in South Africa is set out in the Medical Schemes Act No. 131 of 1998. They are private and voluntary schemes financed largely by means-tested contributions. It is not uncommon for employers to subsidize the medical aid contributions of their employees. The proportion of employees entitled to medical aid benefit from their employers is estimated at 38.1 per cent, but the proportion of female employees entitled to a medical benefit from the employer is below that of male employees in the same position by 1.3 per cent (Statistics South Africa, 2011c). According to 2010 data (National Treasury, 2010), a total of 7.9 million South Africans (i.e. 3.4 million principal members and 4.5 million dependants) were covered by medical aid schemes.

While there is a public health system, there is no public health insurance scheme in South Africa. Furthermore, there is no statutory compulsion for individuals who can afford the medical aid schemes' contributions to belong to such schemes. The South African public health system is hamstrung by, among other challenges, staff shortages, unsatisfactory infrastructure and lack of skills. Consequently, private health care in South Africa, which is of world-class quality, is supported by those who are fortunate enough to afford it or can contribute towards private medical aid schemes. This has yielded an unfortunate situation whereby the poor are forced to contend with unsatisfactory public health services while those who have the means enjoy superior health care services provided by the private system.

5.2.4. Non-contributory programmes

Social assistance grants. These grants, which are administered by the South African Social Security Agency (SASSA) in accordance with the Social Assistance Act No.13 of 2004 and the South African Social Security Agency Act No. 9 of 2004, are the most widespread poverty alleviation mechanism in South Africa. A variety of social assistance benefits are provided under the social grant system. These benefits include the following: old-age grant, child support grant, disability grant, care dependency grant, foster-child grant and war veterans' grant. Apart from these, social relief of distress may be made available to qualifying individuals. Almost all social assistance grants disbursed by SASSA are subject, in addition to eligibility conditions such as age, citizenship and/or residency, to the means test which varies from one grant to another.

The social assistance grants are categorical in nature. They are provided to qualifying persons who are too young, too old or too disabled to participate in the labour market. In addition, they are provided as a matter of right; that is, the State is bound to provide the applicable social assistance grant(s) to a person as long as the person is or remains eligible for the grant(s) in question. The asset and income thresholds have been revised pursuant to the 2011–2012 budget (see Table 5.5).

Table 5.5. South Africa: Social assistance grants, asset and income thresholds, 2008–2011 (ZAR)

Old age, disability and war veterans' grant	22/08/2008	01/10/2008	01/04/2009	01/04/2010	01/04/2011
Asset threshold					
Single person	451,200	460,800	484,800	518,400	752,400
Spousal relationship	902,400	921,600	969,600	1,036,800	1,504,800
Income threshold					
Single person	26,928	27,552	29,112	31,296	44,880
Spousal relationship	53,856	55,104	58,224	62,592	89,760
Child grants (child support grant)					
Single person	25,200	27,600	28,800	30,000	31,200
Spousal relationship	50,400	55,200	57,600	60,000	62,400
Care dependency grant					
Single person	112,800	115,200	121,200	129,600	136,800
Spousal person	225,600	230,400	242,400	259,200	273,600
Foster child			**No means test**		

Military pensions. These pensions are provided according to the Military Pensions Act No. 84 of 1976. The Act is primarily aimed at the payment of pensions and gratuities to people disabled, or whose disabilities were aggravated, by military service. It also covers the provision of medical treatment to eligible persons. Military pensions are financed through moneys appropriated from Parliament for this purpose.

Special pensions. The Special Pensions Act No. 69 of 1996 makes provision for the disbursement of benefits in favour of persons who made sacrifices or served in the public interest in the fight for democratic change in South Africa. Three types of benefits are payable in accordance with the Act: pension, survivors' benefits and funeral benefits. A person claiming a pension under the Special Pensions Act must, among other eligibility conditions, have made sacrifices or served in the public interest in the establishment of a non-racial, democratic constitutional order and must be a citizen or be entitled to be a citizen of South Africa and have been prevented from providing for a pension for a total or combined period of at least five years prior to 2 February 1990. This must be due to circumstances such as a person's having been engaged full-time in the service of a political organization or having been prevented from leaving a particular area or place in South Africa in terms of an order issued under certain apartheid laws (for example, the Riotous Assemblies Act No. 17 of 1956). Benefits regarding the death of the pensioner are paid to the surviving spouse(s) or dependants. These benefits may be paid as a lump sum, a monthly pension or both. Special pensions are funded from the general tax revenue.

5.3. Recent reforms and extension efforts

5.3.1. Contributory schemes

Access to contributory schemes in South Africa is tied largely to the existence of an employer–employee relationship. To put it differently, one needs to be an employee as defined in the applicable labour and/or social security laws. In addition, individuals are in a majority of instances at liberty to choose not to participate in these schemes, although there is a statutory duty to participate in the unemployment insurance schemes for those who fall within the definition of a contributor. Another notable problem is the shortage of measures aimed at preventing social risks and, if they happen, reintegrating the affected individuals into the labour market. Recent efforts to tackle these problems are largely in the form of blueprints as part of the ongoing comprehensive social security reform endeavours of the country.

Unemployment: The extension of coverage to domestic, seasonal and taxi sector workers. The reach of the Unemployment Insurance Fund has been broadened to embrace previously excluded groups of workers, namely domestic workers, seasonal workers and taxi sector employees. As shown in Table 5.6, there were 606,517 employers of domestic workers and 6,455 taxi employers registered with the Fund at the end of March 2011.

Table 5.6. South Africa: Number of domestic and taxi employers registered with the Unemployment Insurance Fund, April 2010– March 2011

Month	Domestic employers	Taxi sector employers
2010		
April	592,155	6,188
May	593,401	6,212
June	594,617	6,229
July	595,942	6,251
August	596,988	6,271
September	598,159	6,299
October	599,484	6,353
November	600,691	6,384
December	601,482	6,392
2011		
January	602,993	6,407
February	604,767	6,426
March	606,517	6,455

Source: Department of Labour (2011).

The incorporation of the taxi sector workers into the unemployment insurance fold was facilitated through a sectoral determination. Section 51(1) of the Basic Conditions of Employment Act No. 75 of 1997 provides the Minister of Labour with discretion to issue a sectoral determination establishing basic conditions of employment for employees in a sector and area. The Sectoral Determination 11: Taxi Sector 2005 issued by the Minister pursuant to section 51 of the Act elevated persons engaged in the taxi sector to the ranks of the formally employed. This was crucial, because the social security and labour laws which serve as gatekeepers to social insurance protection often require a person to be an "employee" prior to granting access (Olivier and Kalula, 2004).

A criticism often levelled against the South African unemployment insurance system is that its scope of coverage is limited, the monetary value of its benefits is low[1] and benefits are provided for a limited duration.[2] This is largely due to an assumption that unemployment is a transient risk. This supposition is no longer accurate. A small percentage (5 per cent) of the unemployed receive unemployment benefits. Also, 44 per cent of the unemployed with previous work experience remain unemployed for a period longer than a year. This implies that they will have long exhausted their unemployment benefits. What is required to deal with the situation is to reinforce unemployment benefits with measures to (re)integrate the unemployed in the labour market (National Planning Commission, 2011). It is therefore pleasing to note that, according to the 2010 Budget Review, alternatives for improving the system currently under consideration by the Government include options for improving and extending benefits (e.g. raising the amount of income replacement) and extending coverage to public servants (National Treasury, 2010).

National Health Insurance (NHI). The Department of Health has recently published the policy paper National health insurance in South Africa (2011). The proposed NHI is expected to ensure that every person has access to "appropriate, efficient and quality health services" and is anticipated to be introduced through phases over a 14-year period. The main funding mechanisms for the NHI will, according to the policy paper, be clarified in six months time following its publication. It remains to be seen how the envisaged scheme will be implemented.

Retirement reforms. As part of the ongoing social security and retirement reform, the Government proposes to introduce mandatory retirement contributions for persons earning below a specific threshold, additional mandatory participation in private occupational or individual retirement funds for persons earning above the threshold, and supplementary voluntary savings. These are to be supported by a wage subsidy for low-wage employees and pertinent administrative reforms. The purpose of the wage subsidy is to stimulate job creation and counterbalance the costs of contributing towards the social insurance scheme by low-wage earners.

5.3.2. Non-contributory programme: Social assistance grants

Old-age grant. Prior to the Social Assistance Amendment Act No. 6 of 2008, prospective male applicants for the old-age grant had, in addition to other qualifying requirements such as the means test, to be 65 years or older to qualify. In light of the fact that the qualifying age for women was set at 60 years, it was argued by many that this could not stand a constitutional challenge. The main reason behind this line of thinking was that such a distinction amounted to unfair discrimination on the basis of sex, age and gender. A law suit was filed against the Minister of Social Development essentially challenging the distinction (Christian Roberts and Others v. Minister of Social Development and Others, Case No 32838/05 TPD (17 March 2010). The Social Assistance Amendment Act was promulgated before the High Court, which ruled that the distinction between males and females did not infringe upon the right of elderly men to equality. It argued (para. 39) that: "Courts should refrain from stepping into the legislative jurisdiction and create or amend

1. The South African unemployment insurance scheme, for example, applies a graduated scale of benefits. In accordance with Schedule 3 of the Unemployment Insurance Act a contributor who earned ZAR 10,000 per month will be entitled to a maximum of 30.78 per cent of the previous earnings (i.e. ZAR 3,077.62), while a contributor who earned ZAR 150.00 per month will be entitled to a maximum of 58.64 per cent of the previous earnings (i.e. ZAR 87.96 per month). See Van Kerken and Olivier (2003).

2. Section 13(3) of the Unemployment Insurance Act sets the rate of accrual of entitlement to benefits at one day's benefit for every completed six days of employment as a contributor, subject to a maximum accrual of 238 days benefit in the four-year period immediately preceding the date of application for benefits.

statutes. It is certainly not its function to legislate, no matter how strong it feels or is predisposed to doing that. Courts must respect the separation of powers, at all times." Pursuant to section 2 of the Act, the qualifying age for males for the old-age grant was lowered in stages, from 65 to 63 in 2008, from 63 to 61 in 2009 and from 61 to 60 in 2010.

Child support grant. Pursuant to the 2008 Budget Speech, the child support grant was extended to children up to their 15th birthday with effect from 1 January 2009.[3] It was foreseen already at that stage that approximately 500,000 children would benefit from this measure. It was later announced[4] that the child support grant would be gradually extended further to children up to their 18th birthday with effect from 1 January 2010. This move is well in line with the recommendation in 2002 by the Committee of Inquiry into a Comprehensive System of Social Security for South Africa that the child support grant be extended to all children under 18 years of age. The total number of children benefiting from the child support grant is anticipated to escalate from 9.1 million in December 2009 to 11.5 million by March 2013 (National Treasury, 2010). Furthermore, it is estimated that the phased extension of the child support grant will require additional budgetary allocations in the next three years: ZAR 1.2 billion in 2010–2011, 3.1 billion in 2011–2012 and 5 billion in 2012–2013. The phased extension to children up to their eighteenth birthday is still in progress and will be implemented in 2013–2014 children will be entitled to the child support grant up until they reach the age of 18 (National Treasury, 2011).

Means-testing. As noted earlier, social assistance grants are payable subject to a means test. Although means tests fulfil a legitimate role, they also have their disadvantages. The National Treasury commented in its 2011 Budget Review that:

> They are complicated. They prevent poor households whose income is marginally above the threshold from receiving support. They increase administrative costs. They can have adverse consequences on people's behaviour – for example, by creating an incentive for older workers to divest their assets and liquidate saving prior to retirement (p.101).

To address the challenges associated with the means test, the Department of Social Development has proposed that the old age grant be reconstituted as a universal non-contributory benefit. According to the Department, the National Treasury has approved the proposal to remove the means test. However, this will be introduced through phases by increasingly raising the means test threshold till the test is eventually eliminated (Department of Social Development, 2011).

Extension of social assistance to non-citizens with permanent residence status and to refugees. Prior to the Constitutional Court decision of Khosa v. Minister of Social Development; Mahlaule v. Minister of Social Development 2004 (6) BCLR 569 (CC), non-citizens with permanent residence status were not eligible for social assistance grants. In this matter, the Court was called upon to decide whether the exclusion of all non-citizens from the social assistance scheme was consistent with the Constitution of South Africa – particularly the right of access to social security. The Court held that the right of access to social security is a right bestowed by the Constitution on "everyone" and that accordingly, permanent residents were the bearers of this right. The Court ruled that the

3. Regulation 2 of the Amendment: Regulations Relating to the Application for Payment of Social Assistance and the Requirements or Conditions in Respect of Eligibility for Social Assistance 1116 of 27 November 2009.
4. In President Zuma's State of the Nation Address 2010 and Minister of Finance Pravin Gordhan's Budget Speech, 17 February 2010.

exclusion of permanent residents from the social assistance scheme was neither reasonable nor justifiable. In addition, it held that such exclusion unfairly and unjustifiably limited the right to equality. Thus, the Court ordered that the words "or permanent residents" after "South African citizens" be read into the relevant legislative provisions.

Since August 2011 a parent who is a refugee and has a care-dependent child can apply for a care dependency grant. The Regulations to the Social Assistance Act, 2008 will be amended in 2012 to extend coverage to refugees for access to the older person's grant and the child support grant.

Taking social grants to the rural poor. Social assistance grants services are mainly located in urban areas, so that indigent persons without the means of travel who reside in remote areas, and particularly the so-called "deep rural areas", are often excluded from accessing the social assistance grants system and the benefits it offers. The problem is aggravated by ignorance and the high illiteracy rate generally discernible in rural settings. Many of the rural poor are unaware of the availability of social assistance benefits. To address this situation, the South African Social Security Agency (SASSA) has introduced, among other initiatives, the Integrated Community Registrations Outreach Programme (ICROP). Through ICROP, SASSA endeavours to reach prospective beneficiaries in the rural and deep rural areas of South Africa through the deployment of 40 mobile offices (SASSA, 2008). The initiative has enjoyed considerable success: in October 2011 the Parliamentary Monitoring Group reported (2011a, p. 3): "675 outreach programmes were conducted in 121 municipalities across the country, and 72,425 new beneficiaries were registered. 3,766 households that experienced hardships were issued with vouchers, food parcels, and assisted with other material needs."

Nevertheless, a more permanent solution has to be found. This could include the establishment of permanent offices in these areas and employing more personnel, or widening the reach of ICROP. One of the problems that ICROP had to contend with is "the depletion of human resource capacity at local offices, as some of the existing staff members had to be deployed to mobile offices" (SASSA, 2008). This is compounded by the fact that SASSA has an alarming vacancy rate of 60 per cent (Parliamentary Monitoring Group, 2011b).

Alternative forms of identification in support of social assistance grant applications. As a general rule, social assistance grant applicants are required to supply documentary evidence in proof of their age, citizenship and permanent residence status. Such evidence includes officially issued documentation such as the South African thirteen-digit green bar-coded identity document. However, if there are delays in processing such documentation, this can indirectly hinder access to social assistance benefits. In the past, such a situation arose when the Department of Home Affairs experienced delays in issuing documents such as birth certificates and identity documents (Guthrie, 2002). To deal with this problem, as of 1 June 2008 SASSA accepts social assistance grant applications from eligible individuals experiencing difficulties in obtaining the requisite identity documents and birth certificates. This is subsequent to the unreported High Court judgement in Alliance for Children's Entitlement to Social Security (ACESS) v. Minister of Social Development (Case No: 5251/2005). In this judgement, the High Court ordered the Minister of Social Development to forthwith implement Regulation 10(6) of the Regulations in terms of the Social Assistance Act, 2004.[5] Regulation 10(6) provides SASSA with the power to accept alternative proof of identification

5. GNR162 of 22 February 2005. These regulations will remain in force until 31 December 2008 (Reg. 38(2) of the Regulations: Application for and payment of social assistance and the requirements or conditions in respect of eligibility for social assistance, GG 31356 of 22 August 2008).

when individuals apply for social grants. This is to be welcomed, but because it heightens the possibility of fraud and corruption (see section 5.4.1 below) SASSA needs to redouble its efforts to prevent and combat these.

5.4. Key challenges and solutions

5.4.1. Administrative issues

The social security institutional and administrative frameworks in South Africa are not integrated, with the consequence that the available resources are gobbled up by an unnecessary duplication of processes and functions. This is inefficient and minimizes the effectiveness of the South African social security schemes. As pointed out in the 2011 Budget Review (National Treasury, 2011, pp. 106–107):

> Social security agencies essentially perform the same tasks: They collect contributions, manage accounts and disburse benefits. Yet none of these functions are shared. Information gathered this year from the five largest agencies underscores the extent of the problem ... administrative costs vary significantly. For example, SASSA's administration ratio is 6 per cent, the UIF's is 25 per cent and the Compensation Fund spends over 40 per cent of costs on administration. These numbers do not tell the whole story. For example, SASSA's distribution costs are high due to expensive cash payment contracts. Without these costs, administrative expenditure as a percentage of benefit payments would have fallen over time. The UIF has 948 service points, compared with 540 for SASSA and a total of 1,700 across all social security entities. Sharing the service points would reduce costs, increase the presence of some entities, and enhance service delivery.

To remedy this problem, the inter-ministerial committee on social security reform and health finance recently proposed that the administrative functions be unified, benefits be aligned and policy-making across social security agencies should be coordinated (National Treasury, 2011).

This is not the first time a call has been made for the integration of social security agencies in South Africa. According to section 3 of the South African Social Security Agency Act, the objectives of SASSA are threefold, namely:

> to act, eventually, as the sole agent that will ensure the efficient and effective management, administration and payment of social assistance; serve as an agent for the prospective administration and payment of social security; and render services relating to such payments.[6]

When proposing the establishment of SASSA the Committee of Inquiry into a Comprehensive System of Social Security for South Africa (the Committee), suggested that consideration be given to functions of the Social Security Agency in the following spheres:

> (a) Social assistance: The Agency will have the function of managing the non-contributory social assistance fund, including budget determination and grant administration. (b) Social insurance: The Agency will become the oversight authority for all social insurance funds operating in South Africa. This will not extend to policy control, as this function will rest

6. See also the Preamble to the South African Social Security Agency Act.

> with the lead ministers responsible for particular policy areas. (c) Intermediary services: The important interface between the general public and all areas of the social security system, whether contributory or non-contributory, would become the responsibility of the Social Security Agency. The Agency may develop eventually into an intermediary between the general public and relevant Government departments (e.g. Home Affairs) or social assistance and social insurance institutions (e.g. UIF [and] COIDA) (Committee of Inquiry, 2002a, p. 503).

In light of these objectives and functions, it could be argued that the Committee envisaged a "one-stop shop"[7] as regards the reform of the social security institutional framework in South Africa. However, SASSA has yet to incorporate the social insurance and intermediary services into its activities. Developing SASSA into a one-stop shop could be advantageous:

- It would be consistent with the structurally differentiated but unified public sector approach being pursued by the Government, and supported by Chapter 10 of the Constitution.
- It would significantly enhance overall efficiency, effectiveness and service delivery to the poor.
- It would reduce overall costs through better economies of scale and minimal duplication of expenditure. In addition, the consolidation of the present institutional and administrative capability (i.e. by integrating current capacities and human resources) would contribute to higher levels of operational management and standards in service delivery.
- It would promote improved cooperation and partnership of government services.

In its quest to develop an integrated institutional and administration framework in South Africa, the State should therefore make firm commitments to specified timeframes and develop SASSA into a one-stop shop.

5.4.2. Implementation and organizational issues[8]

Corruption, fraud and mismanagement are among the main challenges facing most social security schemes in South Africa. The Road Accident Fund is, in comparison with other social insurance schemes, one of the most affected. Among the non-contributory programmes SASSA and the Special Pension Fund are also affected, although fraud and corruption in the social assistance programme is not as widespread as it used to be when the programme was still administered by the provincial departments of social development in each of nine South African provinces.[9] Nevertheless, corruption and fraud still rank high among the sources of concern at SASSA. There are reports that the syndicats which were active within the provincial departments that used to be responsible for the payment of social assistance benefits have simply transferred to SASSA. The problem of corruption and fraud is compounded by the fact that SASSA has an alarming vacancy rate of 60 per cent. This adds to the factors creating an environment that encourages fraud and corruption.

7. A "one-stop shop" approach in social security provisioning is an administration and institutional model based on the theory that by providing different social security services in one place, social security institutions can offer their clients the convenience of having their social security needs served in one stop. It follows naturally that a one-stop shop provides a "one-stop service". According to Bellamy (1996, p. 174) a "one-stop service" refers to "a service which permits customers to transact all their business through one point, without the need to deal directly with other parts of the bureaucracy".

8. This section is partly based on Mpedi (2008).

9. The administration of social assistance by provincial governments had its legal basis from a proclamation (GG 16992 of 23 February 1996) by the then State President assigning the administration of almost the whole of the Social Assistance Act No. 59 of 1992 to the provincial governments. However, the proclamation concerned has since been declared unconstitutional and invalid by the Constitutional Court in the case of Mashavha v. President of the Republic of South Africa and Others 2004 (12) BCLR 1243 (CC)).

The organizational management of special pensions is also far from perfect. There are reports regarding the National Treasury's plight in cleansing the Special Pension Fund of mismanagement and fraud. There are also allegations to the effect that legitimate claimants of the special pensions benefits have been excluded and marginalized, mainly due to bureaucracy. It is reported that based on official statistics, "the Special Pensions Unit received 71,104 applications between 1996 and the end of July 2011. Of these, 21,277 are approved, 35,478 were rejected and 9,373 applications were received after the closing date. At present, 4,976 applications are pending" (Ferreira, 2011). The following steps have since been put in place to remedy the situation: (i) additional personnel have been trained; and (ii) the Government Employees Pension Fund and Special Pensions offices have been integrated at regional level. Outreach programmes and information road shows have been held and district municipalities are expected to assist those who are unable to access services in towns and cities (Parliamentary Monitoring Group, 2011a).

5.4.3. Sustainability issues

Social assistance expenditure. The value of the social assistance grants has grown significantly over the years (see Table 5.7).

Table 5.7. South Africa: Value of social assistance grants, 2009–2012 (in ZAR)

Type of grant	2009–10	2010–11	2011–12	Increase
Care dependency	1,010	1,080	1,140	60
Child support[1]	240	250	270	20
Disability	1,010	1,080	1,140	60
Foster care	680	710	740	30
Old age	1,010	1,080	1,140	60
Old age, over 75s	1,010	1,080	1,160	80
War veterans	1,030	1,100	1,160	70

Note: [1]Increase of ZAR 10 in April and October 2011.
Source: National Treasury (2011), p. 101.

Table 5.8 shows that the total number of social grant recipients had grown from 10,738,757 beneficiaries at the end of January 2006 to 14,641,610 recipients as at 31 January 2011 – more than a quarter of the South African population.

Table 5.8. South Africa: Number persons receiving social assistance grants, 2006–2011

Type of grant	31/01/2006	31/01/2007	31/01/2008	31/01/2009	31/01/2010	31/01/2011
Care dependency	88,776	97,794	101,607	106,126	110,381	110,838
Child support	6,880,558	7,771,592	8,136,049	8,526,845	9,351,988	10,154,531
Disability	1,309,316	1,418,497	1,415,438	1,343,535	1,288,467	1,191,815
Foster care	300,379	381,925	436,996	474,376	510,713	480,431
Grant-in-aid	26,228	30,422	36,172	44,353	52,118	55,834
Old age	2,130,611	2,184,013	2,220,118	2,344,981	2,517,517	2,647,188
War veterans	2,889	2,403	1,986	1,610	1,272	973
Total	**10,738,757**	**11,886,646**	**12,348,366**	**12,841,826**	**13,832,456**	**14,641,610**

Sources: SASSA (2010), p. 19; SASSA (2011), p. 7.

As was to be expected, the growth in reach and value of the social assistance grants has been accompanied by an increase in expenditure, which was estimated to grow from ZAR 70,715 million in the 2008-2009 financial year to ZAR 97,560 million during the 2011–12 financial year, or from 3.2 per cent of GDP to 3.5 per cent in 2010–11. According to the National Treasury projection, social assistance transfers are expected to amount to ZAR 114,409 million during the 2012–13 financial year – 10.6 per cent growth per year. The anticipated growth in expenditure from 2010–11 to 2013–14 is shown in Table 5.9.

Table 5.9. South Africa: Estimated social grant expenditure, 2010–2014 (ZAR millions)

Type of grant	2010–11 revised estimate	2011–12	2012–13 projected	2013–14	Growth per year (%)
Care dependency	1,582	1,727	1,885	2,129	11.1
Child support	30,594	35,564	38,810	41,993	13.5
Disability	17,080	17,813	19,439	20,626	5.1
Foster care	4,898	5,536	5,833	6,281	10.7
Grant-in-aid	160	177	190	205	15.4
Relief of distress	143	160	175	190	10.2
Old age	33,797	36,571	39,913	42,975	11.1
War veterans	14	12	11	10	-12.3
Total	**88,268**	**97,560**	**106,256**	**114,409**	**10.6**

Source: National Treasury (2011), p. 103.

The growth in the monetary value of the social assistance grants and the number of social assistance grants beneficiaries is to be welcomed. This assertion stems largely from the poverty alleviation role played by the social assistance grants in South Africa. In most instances and predominantly in black households, grants (more especially old-age grants) are the only family income. Old-age grants in particular are used not only to see the elderly through their old age, but stretch far beyond that to cater for the needs of the family. Nonetheless, these trends bring the long-term financial sustainability of the social assistance grants system into question. As succinctly put by the Organisation for Economic Co-operation and Development (OECD):

> While there are many things that can and should be done to improve employment outcomes in South Africa, it is also important to avoid taking actions which will make things worse. One risk to bear in mind in this respect is going too far with the expansion of social support mechanisms. In recent years South Africa has massively expanded budgetary transfers for social protection, and these have proved to be effective in combating poverty. Moving too far in this direction will, however, undermine incentives to find and keep a job, as well as compromising fiscal sustainability and thereby undermining macroeconomic stability (OECD, 2010, p. 113).

It is therefore of utmost importance that "a better balance…be struck between fighting poverty through cash transfers, and broad-based development and opportunities for the poor to participate in the mainstream economy" (National Treasury, 2005, p. 56).

Administrative costs. Both SASSA and the Road Accident Fund face the challenge of curbing their steep administrative costs. In 2010, it was reported that 53 per cent of SASSA's expenditure was used for the remuneration of cash payment contractors, and nearly 27 per cent for the cost of personnel. In its quest to reign in the costs associated with the disbursement of social assistance grants, SASSA is developing an alternative payment system built around three goals:

- Security of funds: As far as possible, grants should be transferred electronically and kept in accounts at regulated organizations.
- Accessibility of funds: Beneficiaries should be able to access their funds anywhere and at any time within a safe and secure environment.
- Cost-effectiveness for both government and beneficiaries.

The social grant payment contract was awarded in January 2012 and the costs per grant paid will be capped for a period of five years. It is foreseen that the payment method envisaged will result in considerable savings, which will enable SASSA to use the resources freed to realize its broader mandate of integrating social security administration in South Africa. The Road Accident Fund, on the other hand, spends about 30 per cent of fuel levy proceeds (its primary source of funding) on legal and administrative costs. It is anticipated that the planned no-fault system discussed in section 5.2.2 above will significantly reduce costs by 7.5 per cent. This is chiefly due to the fact that the scheme is expected to shepherd expenditure away from claims settlements and legal costs towards medical expenditure.

5.5. Conclusions

In this overview we have attempted to sketch developments in South African efforts to extend social security coverage to excluded and marginalized groups. It cannot be overemphasized that South Africa remains one of the most unequal societies in the world. Poverty is rampant in a country that has adequate resources to provide for the basic needs of its people. Consequently, the rationale that underpins attempts at extension coverage is the desire to reduce inequality and poverty.

It is clear that in terms of policy and legal structure, South Africa probably has the most extensive framework in the developing world that seeks to extend social security coverage to the excluded and marginalized. This policy and normative framework are underpinned by the Constitution, which has entrenched social security rights, enabling laws and institutions. The South African social security system comprises both contributory and non-contributory programmes, public and private.

Public contributory schemes consist of various compensation funds, the Road Accident Fund and the Unemployment Insurance Fund. Private schemes consist of numerous provident and retirement funds and medical aid schemes. Non-contributory programmes consist of social assistance grants (including old-age, child support, disability, care dependency, foster child and war veteran grants), military pensions and special pensions administered by the South African Social Security Agency (SASSA).

Efforts have recently been made to extend both contributory and non-contributory schemes. Significant non-contributory extension efforts have been the expansion of the Unemployment Insurance Fund to cover domestic and taxi sector workers. Even potentially more significant are the current efforts to establish a National Health Insurance scheme and mandatory retirement reforms.

Notable among recent efforts in the extension of the non-contributory programme have been the equalization of the age of eligibility for the old-age grant, the gradual extension of the child support grant and the extension of social assistance to non-citizens with permanent residence status. Concerted attempts to take social grants to the rural poor are significant developments.

There are however many challenges that continue to prevent the full attainment of coverage for excluded and marginalized groups: administrative, institutional and organizational capacity problems. There are also issues of sustainability on the horizon as coverage extension is progressively achieved. While it is clear that South Africa is gradually extending coverage to the excluded and marginalized, efforts are far from adequate in the face of the many challenges of development.

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6. Conclusion

Contents

6. Conclusion: A comparative study on the extension of coverage in Brazil, the Russian Federation, India, China and South Africa

6.1. The BRICS – dynamic countries with dynamic social security

The increasing importance of the BRICS countries in the global economy reflects a dramatic transformation in the economic, social and demographic environment in the five countries. These changes bring a number of opportunities but also raise challenges for social security to adapt to the dynamic situation in which they operate. A number of initiatives to extend coverage have already been taken and these experiences can be shared and built on. The effective and efficient approaches to expanding coverage highlighted in this report can be exploited. But the five countries also face a number of shared challenges – a change in expectations of the population reflected in a greater awareness of what social security can do; and in many countries, a reduction in more traditional or ad hoc support mechanisms leading to a greater demand for social security. Coupled with a changing demographic, health, social and labour market environment, dynamic changes to social security are taking place in the BRICS countries as they respond to the challenge of increasing coverage.

6.2. Common characteristics and opportunities

The five countries making up the BRICS have become symptomatic of a shift in world influence and economic growth. All five have enjoyed significant and sustained economic growth over the last two decades. This growth has been driven by an increasing demand for natural resources and manufactured goods, but the BRICS have also developed value-added industries through substantial investment in training and education. There have also been significant and fast-moving cultural and societal changes, including to family structures, and a large rural to urban migration.

The BRICS share a political will to extend social security coverage, and the dynamic economic environment has facilitated efforts to achieve this aim. For most of the countries, there is also a "demographic window" as an incentive to act now – young populations with growing workforces make extension measures easier to put in place.

6.3. Diverse starting points, varying challenges and differing responses

Although the BRICS share a number of common characteristics, extension efforts are operating in very different environments in the five countries. As highlighted in the introduction to this report, each country's current social security framework reflects to a large degree the history of the country and its aims for and attitudes to social security. The culture, institutional and population characteristics vary widely. And in the last 50 years, all countries have seen significant transformations in their societies, with most moving from economies with substantial state presence to a freer market economic environment. Each of the BRICS will also face different demographic, economic and societal changes and external pressures in the future.

6.4. Summary of challenges and extension efforts by country

6.4.1. Brazil

Brazil is a country with a young population but which is ageing relatively rapidly. Although there are a number of well-developed social security vehicles, coverage levels vary due to the fact that there is a relatively large informal sector and that provision is often organized at a combination of federal, regional and local levels leading to fragmentation and inconsistency in benefit provision. Traditionally, coverage and benefit levels varied significantly between the rural and urban areas and between the formal and informal sector. The 1988 Brazilian Constitution however requires universality of coverage and services and equivalence for urban and rural populations – its requirements have driven extension coverage initiatives strongly in the last 25 years. The result is an excellent coverage level of the over-65s and an increasing proportion of those aged 16–64 covered for social security.

Social security provides a range of benefits including old-age, disability, maternity, unemployment and family benefits. These are often managed by different government departments or agencies. These schemes are supplemented by certain conditional cash transfers (for example the well-known *Bolsa Família* programme) and in-kind transfers. In addition, there are also a number of supplementary schemes which provide benefits on top of the standard state benefits. For example, benefits for public-sector workers tend to be higher than for the private sector. Certain groups of workers such as the self-employed are covered only on a voluntary basis.

Although coverage of the population has seen a large improvement since 1988, a number of key challenges remain:

- ***Coverage and benefit levels vary widely by region.*** For example, many municipalities do not provide anything other than basic medical services. This has exacerbated migration from small towns to big cities, leading to increased numbers of vulnerable groups in urban areas. Better medical services and hospital facilities are often provided in areas with a better-off population, aggravating inequalities.
- ***A number of sectors of the population are not covered.*** Groups such as rural workers, domestic employees and workers in the informal urban economy are generally not covered or do not contribute enough. It is estimated that about 50 per cent of the working population do not contribute regularly to social security. Furthermore, many workers move back and forth between formal and informal employment, and often build up long work histories where they are not covered.
- ***Policy delivery is fragmented, leading to higher administration costs, duplication of services, managerial problems and inefficiency.*** Not only do a multitude of different agencies manage and pay benefits, but the different levels of regional and state government and administration add to the complexity (see for instance **Box 6.1**). The result is a relatively high cost of benefit provision but low public satisfaction for certain benefits. In addition, such a provision environment can limit the ability to take a high-level and holistic view of key nationwide priorities such as the large numbers of work accidents, mental illness and traffic accidents in the country.
- ***Increasing inequalities by region but also between state and private provision of health and pension benefits and between private-sector and public-sector workers.*** As referred to

above, certain workers receive higher benefits – these workers are typically those who are better off. In addition, vulnerable employment is most common among women and lower-income workers and these workers are typically not covered by social security, leading to increasing inequality.

- ***Administration constraints including a lack of personnel and lack of data to enable proper management.*** This lack of data makes analysis of the administration barriers difficult. In addition, administration costs for social security are high and there is a feeling that the allocation of personnel to different functions is sub-optimal. For example, recent population surveys seem to confirm the key problems of long waiting times and lack of skilled medical staff in the health service.
- ***Compliance is also identified as a problem.*** It is estimated that tax evasion amounts to 2.4 per cent of GDP. This is part of a wider future challenge of financing constraints and sustainability challenges. For example, pension benefits are relatively high and paid from relatively low retirement ages. Increasing life expectancy means these costs are increasing rapidly.

Box 6.1. Brazil: Fragmentation of provision and the universal health care system

The main administration challenges in health care provision relate to a fragmentation of providers and agencies – there are some 5,565 municipalities and 27 member states of the Brazilian Federation. Therefore, although there is a universal health care system, the standard of services and coverage levels depend on the ability of the municipalities to meet demand. The challenge for health care provision is therefore to ensure that infrastructure and personnel levels meet the expectations of the population. In the past, efforts to sub-contract certain services were often disappointing; fraud and mismanagement cases arose.

Extension efforts in the last decade have aimed at addressing these challenges and the resulting gaps in coverage. For example, in 2003 special pensions were extended to include workers in cooperatives, who are now eligible for pensions if they work under hazardous conditions. However, most efforts made since 2009 have focused on cash transfer programmes (for example increasing the scope of the *Bolsa Família* and family benefits). From 2005 to 2009, the number of recipients of contributory social insurance pension benefit increased by 11 per cent whilst the number of non-contributory social assistance recipients increased by some 25 per cent.

There is also increased recognition of the need to coordinate policy and administration measures across the different stakeholders and ensure that management of benefit payments is improved.

Given the financing constraints, there is likely to be increasing focus on the cost of benefits and targeting these effectively. For example, survivors' benefits are generally paid with no consideration of the need or situation of the individual. Eligibility for disability payments is rarely assessed after payment commences, partly due to a lack of monitoring but also because partial disability as a concept has not really developed in the country. At the same time, challenges remain in both the coverage and adequacy of old-age benefits; expenditure on these benefits is low in comparison to peer countries but is relatively high on survivors', disability and family benefits. Public expenditure on these three benefits amounts to 5.8 per cent of GDP compared to just 0.7 per cent in Mexico and 2.3 per cent in the United States.

There should also be more effective proactive and preventive disability measures and the putting in place of back-to-work programmes. Measures taken should be consistent with labour market policy – for example, a high number of pension recipients are often continuing in paid employment – and there is also a possibility to link unemployment benefit more closely with employment market policies (e.g. retraining).

Going forward, there is likely to be increasing effort on "formalizing the informal sector" and improving the management and administration of benefit provision. Coordinating the different bodies that manage, collect contributions and provide benefits will be challenging. Determining the role of the private sector to avoid duplication of benefits, and addressing the problem of "two-tier" provision, will also be a future theme. Despite these challenges, we can be optimistic regarding the future. The proportion of the working-age population without social security or social assistance has decreased from 39.6 per cent in 1998 to 35.1 per cent in 2008, reflecting the success of the extension efforts. Only 2 per cent of the over-65s have no coverage at all – an exceptional achievement. Sustainability challenges and addressing demographic changes are likely to be the focus of measures to meet coverage objectives. It will also be important that benefit programmes evolve to reflect changing work patterns, health trends and societal changes.

The efforts already made have had an influence on poverty reduction. For example, the social pension payable to rural workers has significantly reduced poverty for all ages but most particularly for the elderly population. The impact on inequality of social security, cash transfers and service provision is more complex; the evidence cited seems to show that the provision of medical services and education is a greater factor in reducing inequalities than social security or cash transfers which often simply aim to put the individual back in the position they were "before the event occurred". This raises questions of the adequacy of benefit payments. However, social security unequivocally reduces inequality when it provides benefits to those who were previously not covered; hence the importance of extending coverage to these groups in Brazil.

6.4.2. Russian Federation

The Russian Federation differs from the other BRICS countries in that although it has been able to build on what was a universal social security system in Soviet times, it has also been faced by more fundamental and disruptive changes to the environment in which social security operates. In the last 20 years, the country has been subject to a number of significant social, economic and demographic changes. These changes have put a number of strains on existing schemes, leading to a reduction in the level and quality of benefits, particularly for those working in the informal sector. Inequality significantly increased, leading to a greater gap between rural and urban areas, as well as within these areas. These pressures have led to the need to introduce targeted reforms and policy measures, including a range of mandatory and voluntary programmes.

Russian social security encompasses a wide range of programmes, including both mandatory and voluntary pension schemes, health, family and maternity programmes, unemployment and work injury provision. Pension benefits, provided through a multi-pillar system, consists of a number of components including both compulsory and voluntary elements. There is also the possibility to "contract out" of state provision for the funded part of the pension benefit and select a non-state pension fund to which contributions are paid. These schemes have been backed up with a number of social assistance measures to target certain vulnerable groups.

The key administrative measures to support these reforms included the creation of autonomous extra-budgetary funds for the different branches (the Pension Fund, the Federal Compulsory Health Insurance Fund and the Social Insurance Fund) and supporting governance and management measures to ensure their effective functioning, including the setting up of an individual record-keeping system. Actions taken to strengthen the operating environment for non-state pension funds are likely to increase public confidence and may lead to increases in the number covered by these institutions.

Measures taken that specifically aim to enhance contribution compliance include the significant reduction in social security contribution rates for self-employed and agricultural workers (a total contribution rate of 12.2 per cent of earnings compared to 30 per cent for salaried employees).

A Russian specificity is the significant number of workers entitled to special terms for benefit provision; these include workers in so-called “hazardous occupations” and those employed in the Far North of the Russian Federation. Special pensions are targeted to such workers and provide a pension payable from termination of work to normal retirement age. This situation creates an additional financial burden for the national pension system. Social security in the Russian Federation has also specifically addressed the population with disabilities, providing free medical care and other benefits such as pension benefits to this group.

There is growing recognition that efforts to extend coverage to the informal sector will be efficient only in coordination with measures aiming to formalize this sector. It is estimated that 30 per cent of workers are employed in the informal sector; effective labour market measures addressing this are therefore also likely to improve coverage for such workers. In general terms, social security will need to take into account the significant ongoing changes in labour market policy in the country. Such measures aim to encourage workers to stay in employment longer and attempt to facilitate geographical job mobility. The introduction of a new mandatory unemployment insurance that will not only cover more people but will also provide linkage among benefits, training and employment measures is particularly important for the nearly 6 million registered unemployed in December 2011.

Another challenge relates to attempts to enhance the coverage of certain groups such as migrant (see Box 6.2) and self-employed workers by improving the levels, quality and range of benefits for those within the system – for example, there has been significant effort to improve the quality of medical benefits.

Box 6.2. Russian Federation: Extending coverage to migrant workers

Increased fragmentation of labour markets after the disintegration of the USSR and healthy economic growth in the Russian Federation has led to a significant growth over the last decade in the number of migrant workers in the country, many coming from other former Soviet Union countries. Although some workers do enter with legal permits, a significant number are working illegally in the informal sector, raising a number of coverage challenges. Since January 2012, foreign workers who are employed for at least a six-month period are required to be covered by the mandatory pension scheme and may also be covered for other benefits depending on the nature of their work and residence status.

Other priorities include adapting to a difficult demographic situation (the population has decreased by over 5 million over the last 20 years) which impacts on both benefit adequacy and the financial sustainability of the system. In the context of this challenge, a special focus has been placed on activities to improve the birth rate in the country including significant improvements in maternity and family benefits such as increased child allocation amounts. Recent efforts highlight a number of innovative approaches such as the one-off "Family Capital" payment worth around EUR 10,000 which can be used for educational or housing needs or to supplement retirement savings.

Initiatives to improve the adequacy of benefits include the fixing of a minimum target replacement rate for pensions, changes to indexation rules, encouraging and facilitating additional contributions to non-state arrangements and encouraging workers to stay in employment longer.

Going forward, despite economic growth and a current account surplus, the sustainability of social security schemes in Russia will remain a challenge. Indeed a number of measures are already being taken to address the long-term financing of schemes such as the creation of Reserve Funds to smooth financing requirements and anticipate future demographic changes. More fundamental changes include linking benefit payment amounts or conditions to the demographic development in the country. The question of the targeting of benefits in a country where there are a number of universal, non-means-tested benefits to certain groups, such as free travel or "privileged pensions" , will also need to be tackled. Recent government measures reflect the awareness of the need to address the evolution of the labour market which may see increasing levels of migration and fragmentation in the future.

6.4.3. India

India is a young country characterized by a very favourable demographic situation with a high birth rate, meaning that it will age much less quickly than the other BRICS countries (apart from South Africa). This provides the country with a longer "demographic window" in which to put in place extension measures. At the same time, the country is faced with the challenge of extending coverage to a large informal or "unorganized" sector making up over 90 per cent of the workforce. Although a number of legislative instruments exist, there is a mismatch between labour market realities and social security laws. So although schemes exist for work injury, disability and death benefits, maternity coverage, old-age and end-of-service benefits, extension efforts will need to address the challenges of getting the large informal sector covered.

Traditionally, India was an overwhelmingly rural economy; in the absence of formal social security, extended family support and ad hoc systems of provision grew up to address the needs of the population. However, given increasing rural to urban migration – a trend also seen in other BRICS countries – and changes in family structures, this informal system of protection is starting to break down.

Extension efforts are therefore needed to address these realities. Increasing coverage to the informal sector in general and the rural population in particular raises a number of challenges:

- ***Accessibility issues.*** The dispersion of the rural population means that it is difficult for the administration to effectively provide services to them.
- ***Administrative barriers.*** These include various challenges, from the lack of birth certificates and other documentation which makes signing up difficult, to the challenge for administrations to properly assess income for benefits that are means-tested.

- ***Fraud and corruption.*** It is estimated that there are some 20 million "Ghost Cards" (where the holder has died or simply does not exist).
- ***Lack of access to contribution and benefit mechanisms.*** Less than 50 per cent of the rural population has a bank account; payments of both contributions and benefits are thus difficult and costly.
- ***Reduction in family support.*** Changes in family structures have led to a reduction in support from the extended family, which not only used to provide informal social security but also facilitated the organization of contribution payments to formal schemes. It is estimated that 50 per cent of the elderly male population have no financial support.
- ***Financial constraints.*** It is simply impossible to finance coverage for the 90 per cent of the working population in the informal sector solely from government finances.
- ***Legislative barriers.*** These reflect the difficulty of putting in place clear legislative instruments to support new schemes or make changes to existing ones.

The last decade has seen a number of initiatives in both contributory and non-contributory programmes seeking to address these issues. The non-contributory and means-tested National Old Age Pension Scheme (NOAPS) provides benefits to those earning less than USD 7.00 per month. This scheme reaches 17 million poor people; however, the administration challenges (including proof of income and age) mean the scheme doesn't reach as many as it should. Indeed, an additional scheme (the "Annapurna Scheme") was set up to target those eligible but not receiving benefits under the NOAPS. Other schemes include reduced food prices, village grain banks and free midday meals. The key challenges of such schemes are assessing eligibility, administration problems (lack of staff, information and communication technology (ICT) and training) and addressing corruption.

A number of new contributory schemes have also emerged, providing benefit coverage for death, old-age, employment injury, medical and family benefits. These initiatives have tended to provide flat-rate benefits and fixed low contributions for the population covered. Although mixed results are reported for some of these initiatives, a number of approaches have proved successful and could be applied to a wider target group. For example, the Universal Health Insurance Scheme has more than 10 million members paying a premium for basic medical cover. In 2007, the Rashtriya Swasthya *Bima Yojana* was set up to provide health coverage for those living below the poverty line. This scheme works using a SmartCard system for beneficiaries, showing the importance of supporting administration and ICT measures for schemes to be effective. On the other hand, voluntary plans providing old-age benefits to those in the informal sector have proved less successful. with disappointing take-up rates.

For formal-sector workers, the Employees Provident Fund (EPF) Scheme covers more than 50 million workers. Although in 2009 the scheme was opened to all workers on a voluntary basis, takeup has been low as there is no matching of employee contributions by the employer. In the same year, all Indian citizens were also eligible to join the National Pension Scheme (NPS), a defined contribution plan with individual accounts. Charges have been kept very low and there is a possibility to use part of the accumulated contributions as a flexible savings account. These relatively low-cost retirement savings vehicles may prove an attractive option to some workers.

However, the key to significantly increasing coverage remains getting the informal sector covered. Some policy measures reflect the wider objective to move workers from the informal to the formal sector – for example, through closer linking of employment policies with unemployment insurance. Offering low-cost and simple plans is a promising approach. Another successful approach is working with organizations representing the informal sector and the self-employed. The experience of the Self-Employed Women's Association (SEWA) has proved exemplary; it is an example to follow for India and other countries (see Box 6.3).

Box 6.3. India: SEWA and social security

The Self-Employed Women's Association (SEWA) is a trade union set up in 1972 and now represents over 1.2 million poor, self employed women workers. It runs benefit plans and works with insurers to provide a range of benefits to its members; these benefit plans are run by the union and reflect the needs and working environment of its members. It has successfully scaled up operations over the last 40 years; despite the fact that members pay 50 per cent of the benefit costs, sign-up rates to benefit plans have been high. This reflects the simple and understandable nature of benefit and contribution requirements but also, and importantly, that a full range of benefits is offered including child care, health coverage and old-age benefits. Such associations can be an effective vehicle for reaching a large number of informal and self-employed workers and a model for other regions of India.

Going forward, administration problems still need to be addressed if coverage is to be significantly extended. Although there have been some important initiatives including investment in ICT (for example, the rolling out of SmartCards), problems related to administrative inefficiency and corruption remain. These administration barriers mean that not all the targeted populations are reached. There is debate in India whether a more centralized approach and a roll-out of a national identity card (ID) scheme could help address some of these issues and achieve a greater consistency of provision. Indeed, under the "Aadhaar" programme launched in 2009, over 130 million Indians now have a unique ID number for benefits; it is expected that 600 million will have such a number by the end of 2014, showing that significant advances can be made in a relatively short time period.

In the future, India's key challenges will be to reach the large informal sector and to ensure that this can be done in a financially sustainable way. It will need to build on an ad hoc system of benefit provision and a low level of coverage through administration and policy measures targeted at the sector. At the same time, coverage of existing schemes such as the EPF is already being widened and can be used as a vehicle for such expansion. Although India will age, it has a long "demographic window" in which to increase coverage and some of the advances made so far show that much can be achieved with the appropriate responses.

6.4.4. China

Over the last decade, China has taken advantage of its current favourable demographic situation, political will and healthy government finances to achieve a substantial increase in coverage of its population through the introduction and extension of different social security programmes. It has managed to address the challenges of large regional differences in the environment in which social security operates and a significant rural to urban migration, to move to almost 100 per cent medical coverage and about half the population covered for old-age benefits.

The approach in China has been a step-by-step one. Enabling legislation was put in place to allow social security to move from a number of disparate schemes covering only certain groups to a truly universal system. At the same time, there was recognition that reaching rural populations and ensuring efficient administration and compliance to effectively manage such schemes required a nationwide social security card system. Equally important was the political will to move towards the objective of coverage of the whole population by 2020, backed up by measures on the ground such as effective communication, good governance initiatives and financial support from central and regional government. One of the reasons for the success of many of the programmes introduced since 2003 is that they were initially tested through a series of pilot programmes. For example, in 2007 a medical insurance scheme for urban residents was piloted and finally introduced in 2009.

The approach adopted in China provides useful pointers to other countries for putting in place an effective coverage strategy in a challenging environment and for choosing appropriate responses to a number of different issues. The policy and administrative measures taken have impacted on coverage levels in a number of branches:

- ***Old-age benefits.*** Although urban workers and public-sector workers are generally covered by either the civil service and public institution employee pension fund (covering around 40 million workers) or the basic pension scheme (covering over 280 million), there are still a sizeable number of workers who fall outside the remit of these two schemes. Since 2005, over 40 million rural migrant workers as well as five million previously excluded collective enterprise workers have been added to the basic pension scheme. But a more systematic approach was required. A government-subsidized new voluntary rural pension scheme with simple and low contribution rates was set up in 2009 and a similar voluntary plan for urban residents not covered in other plans was set up in 2011. Allowing regions some flexibility in setting benefits and contribution levels to reflect local economic realities, the two new schemes covered a total of 432 million people by the end of August 2012. As a result, full system coverage of the pension schemes was realized eight years ahead of schedule. .
- ***Medical care.*** The approach taken to extending medical care coverage was also set up with different focuses on rural and urban residents. There are now four schemes covering urban employees, urban residents (i.e. urban population not in the workforce), rural residents and a budget-funded Medical Assistance programme for those in need not covered in the three other schemes. These schemes have managed to move coverage close to 100 per cent: the urban employee scheme has seen a 60 per cent increase in coverage from 2006 to 2011; the urban residents scheme a nearly five-fold increase from 2007 to 2011; whilst the rural scheme has multiplied coverage ten-fold between 2004 and 2011. The key to the success of the rural plan is that 80 per cent of costs are met by central and local government and that premiums are based on family units so as to simplify adhesion and contribution calculations and to minimize adverse selection. Again, provinces were allowed some freedom in setting contribution and benefit levels to reflect local conditions.
- ***Unemployment insurance*** has seen two major shifts in the last ten years. First, coverage is now mandatory for all urban employees. Second, the focus has shifted from being solely an instrument of income replacement to linking the benefit with employment policies such as retraining. The scheme covered approximately 140 million workers at the end of 2011. Although efforts are impressive, there are still a number of challenges ahead to increase coverage further.

- ***Employment injury coverage*** has also benefited from enabling legislation, binding targets and changes to the way the benefit is provided. Requiring that companies have work injury cover before business licences and work safety permits are awarded and renewed has proved an effective way to quickly increase coverage. In 2011, coverage was extended to new groups and there was simplification to the assessment and payment of work injury benefits. At the same time, increasing emphasis was placed on prevention. Coverage increased by 75 per cent between 2006 and 2011.
- ***Maternity benefit.*** Despite a doubling of coverage of maternity benefit provision, this benefit suffers from low levels of penetration in rural areas, as well as to informal workers and the unemployed. Extending coverage and integrating this with increasing paternity rights will prove to be challenging.

These successes have required significant administrative efforts on the part of social security. Measures to support the expansion included the introduction of a national system of identity cards for social security (nearly 200 million cards were issued up to the end of 2011), development of e-services, improving training of staff, transforming the management of social security administrations and introducing measures to improve governance.

Despite the successes of the last decade, a number of challenges remain:

- Provision of benefits under certain branches such as disability and maternity benefits and unemployment insurance is still limited.
- Despite the move to a universal system, there is still fragmentation of benefit provision and management. Many programmes are still administered at a county or city level by different authorities. This raises problems of duplication of benefits, integration with other benefit programmes and employment policy and in some areas a lack of qualified staff and expertise. A fragmented approach also limits the redistributive possibilities of social security and increases administration costs.
- Compliance and collection of contributions presents a challenge to increasing coverage and this can be exacerbated by the fragmentation referred to above. The response to this challenge has been a certain amount of flexibility in payment of contributions (e.g. allowing annual or semi-annual contributions for some groups), the use of ICT to facilitate online payments, and multiplying the points where contributions can be made (e.g. banks and post offices).
- Internal migration of employees seeking out appropriate job opportunities or for other reasons is on the rise. Given the fragmented nature of benefit provision, this raises the question of the portability of benefit entitlements. Lack of transferability may impede internal mobility of employees if there is a lack of coordination and communication between different agencies. This issue has been addressed through the Social Insurance Law promulgated in 2010 which sets out the terms on which portability of pension and medical benefits is assured; results were already seen in 2011 with 780,000 cases of pension transfers treated. Another consequence of increasing mobility coupled with fragmentation is “double coverage”; for example, rural students studying in urban areas may be covered in two different schemes. This issue has been addressed through the launch and management of a system of national identity cards for social security.

- Given the rapid increase in coverage of different benefits, it is important that there is capacity to actually deliver the increased level of services and benefits demanded. In China, this has placed pressure on social security administrative staff, who in many regions have been faced with an increasing workload but often without the necessary training to manage it. The response has been to improve training, increasing staff numbers but also devoting resources to improving online services.
- A number of social security plans have accumulated large funds which need to be effectively managed. This raises governance issues, as well as whether some regional funds have the necessary expertise to properly invest these funds. Although there is a plan to pool pension funds by 2015, this is likely to be an important issue going forward, given the likely accumulation of funds over the next few years.
- The existence of voluntary schemes may only have limited impact and lead to adverse selection issues.

Although these challenges are complex, legislation and policy measures are already being put in place to address some of the issues arising. For example, there are plans to build a national basic pension pooling fund in 2015 to address the fragmentation issue. The portability of pension and medical benefits has been improved. The regional differences are addressed to some degree by differentiated approaches by region (for example, different contribution rates) and increases in social transfers from central government budgets. In the Social Insurance Law, which came into force in July 2011, coverage was extended to foreigners and measures taken to improve compliance and unify the collection of social security contributions.

China will need to manage the system so that long-term sustainability can be assured. One of the most pressing issues is the large unfunded basic pension liability and the challenges of moving from a pay-as-you-go (PAYG) to a partially funded system. In the longer term, the key challenge for China is likely to be related to its ageing population, as the dual impact of longer life expectancy and a significant fall in the birth rate will place pressure on financing. Since 2001, a reserve fund is accumulating assets to meet the funding gap when the Chinese population starts to decline from around 2025 to 2030, but other measures will also be required, particularly if the adequacy of benefits is to be maintained. Other changes that social security will need to address are family structure changes, changing employment patterns, the impact of climate change, the still significant difference in rural and urban living standards and the increase in the incidence of non-communicable diseases such as obesity and diabetes. However, the progress made by China shows that significant advances in coverage are possible even when the challenges are significant.

6.4.5. South Africa

South Africa is characterized by a young and growing population, but one which has been significantly affected by the impact of the Acquired Immune Deficiency Syndrome (AIDS) affecting around 10 per cent of the population. Benefit coverage is widespread; indeed all risks are in theory covered by a mixture of contributory and non-contributory schemes together with cash transfer programmes. The provision of benefits is characterized by the importance of social assistance; this non-contributory social security pays out old-age benefits, family benefits and disability grants amongst others, based on minimum residency or citizenship requirements and minimum age conditions. These benefits are means tested and flat rate. There is a universal medical service. In addition, there is compulsory funded work injuries coverage provided through four major compensation funds; however, the self-employed, domestic workers and informal-sector workers are excluded from the system. Two other important schemes are the Road Accident Fund and the Unemployment Insurance Scheme. The former provides benefits on the result of road accidents, whilst the latter provides not only unemployment insurance but also maternity, illness and dependants' benefits, although not all employees are covered – the list of excluded workers includes some migrants and those who work fewer than 24 hours a month. The number receiving unemployment insurance benefits increased by 30 per cent from 2005 to 2010 – a rise attributable to an increase in coverage as the unemployment rate has fallen slightly over this period – and maternity and adoption benefits by more than 40 per cent over the same period.

In addition to these basic benefits, many employers provide generous funded pension plans and private medical plans for their workers. These plans do not cover all the working population and are not compulsory. For the employer- and employee-financed medical plans, around 40 per cent of employees are covered. In practice, this means that there is a large difference between the benefits and services enjoyed by salaried workers covered in private medical plans and other parts of the population who receive medical services from the public health system.

The key challenges for social security are therefore related to extending coverage to groups that are currently excluded from it, reducing inequalities in the system (for example, addressing the reality of the two-tiered medical provision environment) and improving the duration and adequacy of benefits in certain branches. Another challenge is the importance of reinforcing unemployment insurance with effective job reintegration measures. Chapter 5 highlights a number of positive initiatives taken in this respect, including the extension of the unemployment insurance scheme to domestic workers and seasonal workers and the inclusion of long-term residents in benefit programmes. Reforms proposed to the Road Accident Fund include a greater emphasis on rehabilitation to reduce the impact of injuries. A recently published policy paper on implementing a National Health Insurance Scheme addresses the financing of benefits related to medical benefits. Finally, proposals to introduce a new mandatory retirement plan for low earners and making participation in private occupational plans mandatory for higher earners are currently under consideration.

Chapter 5 reflects on the administration challenges and barriers to achieving the objective of extending coverage and highlights some of the innovative measures taken to address these. These include the putting in place of a system of 40 mobile offices to address accessibility issues for the rural population, and flexibility in the documentation required for social assistance grant applications by accepting alternative forms of identification. Simplifying procedures for claiming under the Road Accident Fund have also been proposed.

The chapter also highlights other administration challenges. Corruption and fraud exist and operating costs for some social security agencies are high. A move to reduce the duplication of services and offices has been proposed. This would require significant institutional and organizational change, but could lead to increased efficiency and reduced operating costs. Other proposals include the opening of a series of "one-stop shops" which would improve services to the population, and an improved payment method which would allow easier access to beneficiaries and members and improve services. All these proposals show the political will to increase coverage and to put in place administrative measures to support this objective.

Looking forward, despite a favourable demographic situation recent years have seen significant cost increases (for example, the amount paid out in social grants increased by over 10 per cent from 2010–2011 to 2011–2012) and the recent reduction in retirement age for men from 65 to 60 will reinforce this trend.

The South Africa Constitution entrenches the right to social security benefits in the law. Measures taken now and in the future to extend coverage are consistent with this legal requirement and also respond to the policy objective of reducing poverty and inequality. As in a number of other countries, South Africa's challenge arises from a social security system based on the assumption of an employee/employer relationship; informal-sector workers and the self employed are excluded from many benefits. Efforts to expand coverage to these groups will constitute a key element of extension efforts. Recent policy measures and proposals show that the will is there to build on already existing measures to increase coverage.

6.5. Summary of common challenges

The different approaches of the BRICS reflect the challenges each country faces in respect of extending social security coverage. Despite a clear difference in the issues and environment in each country, there are common challenges for social security administration in the BRICS:

1. Social security provision has historically focused on covering salaried employees. All countries have had to address changing benefit rules, structures and financing to facilitate coverage for the significant number of the population that do not fall into this category, such as the self-employed and those in the informal sector. Measures need to be accompanied by appropriate administration support if coverage is to be effectively extended.
2. The BRICS are faced with growing inequalities. These have sometimes been exacerbated by social security itself due to the reality of differing levels of coverage for different groups. Rural populations are generally less well covered than urban; the problem of covering the informal sector means that those in the formal sector have better coverage. Added to this is the increasing importance of company or private benefit provision, which may add to the inequality of coverage and levels of benefit received.
3. All countries are faced with the difficulty of ensuring accessibility for rural workers. These challenges relate to ensuring a geographical presence of frontline services, simplifying adhesion, contribution and benefit payment procedures and affordability issues.
4. The BRICS are witnessing a growing mobility of workers – both within country and cross-border migrants – which requires appropriate policy responses and administration measures. For example, this raises questions regarding the coverage of family members and the coordination of different agencies when there is fragmentation of service.
5. The existence of national, regional and local levels of government – and often a federal structure – means that administration and management of social security is often fragmented. With increasing fiscal constraints, such structures risk duplication of benefit payments and inefficiencies in the management of schemes.
6. Despite favourable government finances, financing the increase in coverage is a challenge. The extension of coverage efforts may focus on poorer workers who may not be able to afford even a nominal contribution; this raises the question of the extent of government financial transfers that are required to meet coverage objectives.

7. There has been a mixed success rate for voluntary schemes. Targeted populations for such schemes may simply not have the resources or may consider the scheme as unattractive, raising the question of what are appropriate benefits for this part of the population.
8. Although schemes exist for most or all social security branches, coverage levels vary, with higher coverage generally achieved by medical systems and lower coverage for old-age, disability and unemployment benefits.
9. Although progress has been made, proactive and preventive measures are still not always an integral part of benefit programmes. In addition, the monitoring of claims and encouraging return to work needs to be developed.
10. Increasing coverage requires an increase in frontline service capacity. This requires the management and training of social security administration employees as well as the resolution of questions regarding the presence of offices and alternative methods of providing services.
11. The adequacy of benefits is becoming increasingly important. Coverage of the population is important, but the right level, duration and form of benefit needs to be provided if social security is to meet its objectives. With increasing financial constraints this challenge also raises the issue of the effective targeting of benefits. However, means testing of benefits has proved challenging to put in place and administer.

6.6. Selected responses

The measures put in place show that innovative responses to these challenges exist. Although responses vary by country, a number of trends can be identified:

1. There have been great strides made in the coverage of rural populations. Effective approaches require a combination of an appropriate benefit and financing structure (simple benefits and contribution rates) with improving access (for example, the use of mobile offices, extending e-services or working with other stakeholders).
2. The administration and management of social security has improved through the application of modern management techniques, the effective use of ICT (e.g. the introduction of social security identity cards) and training and development of personnel.
3. Social security administrations have proved flexible in adapting procedures and processes to the needs and desires of new sectors of the population. Simplifying adhesion, changing benefit structures, reflecting local realities and facilitating contribution and benefit payments are all examples observed in this report.
4. Fragmentation of delivery and benefit provision is being addressed by better coordination and the use of ICT. This has led to a reduction in the duplication of benefits and improved delivery of services. It has also allowed administrations to better respond to the challenges of increased migration.
5. A more proactive and preventive approach can be observed in some countries. For example, linking unemployment insurance with employment policies (such as retraining) or increased focus on rehabilitation after accidents to reduce future medical costs and facilitate return to work are two examples observed in the report.

6. The communicating of social security benefits to the population has improved through a series of initiatives such as the use of ICT and working with groups representing certain workers. This has reinforced other measures to extend coverage to new groups.

As coverage improves, it becomes harder to cover those still not in the system. The financial challenges of covering the poor will remain, and the problems raised by fragmented schemes need to be addressed in many countries. Employment patterns will continue to evolve, leading to increased fragmentation of work patterns even for those in the formal sector. Growing inequality can be addressed by appropriate approaches on the part of social security administrations.

6.7. Future challenges

Looking forward, the extension of social security in the BRICS faces a number of major issues:

- Demographic challenges are likely to be the biggest influence on benefit provision – increasing life expectancy and a low birth rate mean that countries will rapidly age. This will place pressure on financing extension efforts.
- Increasing migration, both internally and externally, will require appropriate responses from social security.
- Changing family structures will influence social cohesion, reduce informal support mechanisms and increase pressure on social security, affecting its ability to meet its objectives.
- Social security will be increasingly asked to act in response to future shocks such as economic downturns and natural disasters. Climate change is likely to lead to a greater number of "extreme events". In addition, an increase in non-communicable diseases such as obesity and diabetes will put greater pressure on medical and health systems as well as requiring greater focus on preventive and proactive measures.
- An increasingly interlinked and interdependent world may lead to growing inequalities. Although these can be met by effective social security measures, current systems of provision may also reinforce these inequalities. This may threaten the credibility and public perception of social security.
- The challenge of not just extending coverage but providing an adequate benefit will become increasingly important.

6.8. Next steps

The production of this comparative study is the first stage in an ongoing project to raise issues relating to the extension of coverage in the BRICS countries. The challenges and responses highlighted here will be developed and complemented by other output under the project to facilitate the sharing of knowledge and good practice. In the future, a range of new challenges will mean that social security will increasingly have to evolve to respond effectively if it is to meet its objectives.

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