Towards a More Resilient Society: Lessons from Economic Crises

Report of the Social Resilience Project 2014-15

Coordinated by

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Foreword

A series of regional and global financial crises highlighted the need to enhance the resilience of social infrastructure against sudden shocks, particularly for those categorized as vulnerable groups. More recently, a persistent and widening social divide that casts a shadow on the stability of national and global systems presents a serious challenge, and more social policies need to be developed to mitigate this gap.

In response to these challenges within the Asia-Pacific regional context, the Japan National Committee for Pacific Economic Cooperation (JANCPEC) has been conducting the Social Resilience Research Project (SR Project) as a Pacific Economic Cooperation Council (PECC) International Project since 2010. The SR Project aims to shed light on the importance of social security and to closely examine its role in the domestic economy. In addition, the SR Project is the first ambitious attempt by the APEC/PECC family to discuss social policy dimensions, as APEC and PECC have traditionally focused on trade and investment liberalization issues.

The first and second SR Projects have a four-fold focus: pension, health insurance, unemployment insurance, and macro-analysis. The first final report, entitled "Towards a More Resilient Society: Lessons from Economic Crises," was published in October 2010, and the second final report was published in March 2012. Since 2012, we have attempted to conduct a case study of each Asia-Pacific economy. As the economic and social circumstances in each economy of this region are significantly different, a bottom-up approach is needed to identify the issues and challenges for the future development and reform of social security systems.

In this report, the SR Project 2014-2015 covers the Philippines, Thailand, Malaysia, Korea and Chinese Taipei. The studies focus on specific issues in these economies, such as coverage for informal workers, social security for migrant workers and the sustainability of social security systems in aging societies.

The views expressed herein are the personal views of the individuals indicated, and do not necessarily reflect the views of PECC and The Japan Institute of International Affairs (JIIA). I hope that these inputs will prove useful in showing the way toward resilient societies and sharing best practices among member economies.

July 2016

Yoshiji Nogami
Chair, JANCPEC
President, The Japan Institute of International Affairs

Inclusive Growth and Social Security

Nobuhide Hatasa[1]

1. Overview

In the beginning of the 21st century, the world experienced a worldwide economic crisis which is often described as serious enough to happen only once in a century. This global economic crisis of the latter half of the 2000s was not as devastating as the Great Depression of 1929 due to a series of Keynesian economic recovery policies that many affected economies undertook. However, a tremendous amount of people around the world in fact lost their jobs and financial assets, and faced economic difficulties in particular for those who were categorized as socially and economically vulnerable. The most difficult part of the global economic crisis seems to have been mostly mitigated at present but some economies or regions including the EU are still negatively affected by the long-lasting impact of the economic recession and have not fully recovered.

This sort of economic crisis has begun to occur more frequently than before since the 1990s. At least six major economic crises can be observed in the 1990s.[2] It is quite noticeable that the financial crisis of 1997 which was originally brought out in Thailand, spread through the neighboring economies, and became a region-wide crisis in Asia as an 'Asian Currency Crisis'. The global economic crisis of 2008 is also the consequence of the widening of the financial crisis that occurred in the US after the burst of the housing bubble. The frequency and contagion of crises is one of the important characteristics of the recent economic crises in the last two decades.[3]

There are mainly three critical reasons behind the features of the recent economic crises. The first fundamental reason lies in the liberalization and globalization of the financial and economic system. Money has begun to move freely around the world without border and it tends to flow into a single economy where return of investment is assumed to be the best among investors. Once investors feel that their investment gains are not as good as they expected, they will quickly relocate their investment money to other economies and projects. The global money moving without border is large enough to affect the entire economic condition of a single economy. If the amount of money targeted to an economy is quite large compared with the foreign reserves that the economy has, the economy will lose the control function of foreign exchange rate adjustment and then suffer from the depreciation of its currency. Under these circumstances, any

1 Associate Professor, Nagoya University of Economics
2 Crises happened in these economies or regions such as Finland and Sweden in 1991, Japan in 1992, Mexico in 1994, Asia in 1997, and Russia in 1998.
3 See Miyazaki, Marumo, and Ookita, 2012, pp143-147.

defensive measures that an economy takes against financial and economic crises are no longer effective.

Rapid movement of money is the second factor. Global money moves not only without border but also quite rapidly. The speed in which that money moves around the world is currently unquestionably fast, so a large amount of money gathers in one place quickly and monetary power comes to have a stronger impact on each economy. The speed of money transaction became very fast thanks to the development of information technology and the financial system. Only one click is enough to transfer a large amount of money at once and a series of money transactions are unnecessary under contract for deference. It is not uncommon that a computer automatically decides investment positions and quickly processes the transaction of money.[4] Authorities in charge of finance and economy can no longer effectively follow this rapid mobility of global money or take any counter action in timely manner. It is now quite difficult for any single economy to efficiently react to the speedy movements of funds and global investments.

The third reason behind the recent economic crises is attributed to the monetary easing policies taking place commonly around the world. As the voices of citizens become larger, their economic conditions become more crucial political agenda than ever for the government to maintain its legitimacy. At present, how the government tackles on the economic policies is the main concern of the people among most of the economies in the world. The governmental authorities are very careful on the current and future economic conditions and take quick counteractions against signs of economic downturn as well as any negative economic shocks without any hesitation. A large amount of money flows into the world market due to credit expansion measures that many economies adopt for their economic recovery. Investors including global hedge funds freely and swiftly maneuver large amounts of money by using financial leverage. Utilization of leverage further increases the amount of available money that investors can handle and then their power becomes larger.

The competitive race for weak currency among economies is another element where the government tends to prefer economic policies for monetary relaxation by which its currency is theoretically to be depreciated. The aging phenomenon in particular at major developed and growing economies accelerates the world wide activities of asset management. A pension fund is one of the significant components of financial assets and fund managers are making great efforts to raise their returns by thoroughly examining the movement of the global economy.

Under these circumstances where financial and economic liberalization and globalization is well progressed and established, it is rather natural to consider that financial and economic crises can happen anytime and anywhere. More important to keep in mind is how to prepare for the crises and to alleviate the negative consequences of them rather than how to eradicate them. In other words, we must examine how to make our society resilient to financial and economic crises.

[4] The advent of global hedge funds drastically changed the manners of money games as well as flows of global money. Hedge funds swiftly move a large amount of money using computers and financial engineering and now have a great impact on the national, regional and global economy.

In response to this need, JANCPEC (Japan National Committee for Pacific Economic Cooperation) launched the Social Resilience Research Project (SR Project) at the end of 2009. Officially approved as a PECC (Pacific Economic Cooperation Council) International Project at the Singapore Conference (October 9-11, 2009), the SR Project is a social policy-oriented research project whose focus is inclusive growth and social security in Asia and the Pacific region. How an economy can achieve inclusive growth, what are the problems an economy is facing to make a society more resilient, and what kinds of social security policies needed for an economy to promote inclusive growth and to create a resilient society are the major questions that this SR Project aims to tackle on and find answers to. In the following, I will first explain the meanings of inclusive growth and how it comes to attract global attention. Then, basic knowledge of social security and its relation with economic development are examined.

2. Inclusive Growth

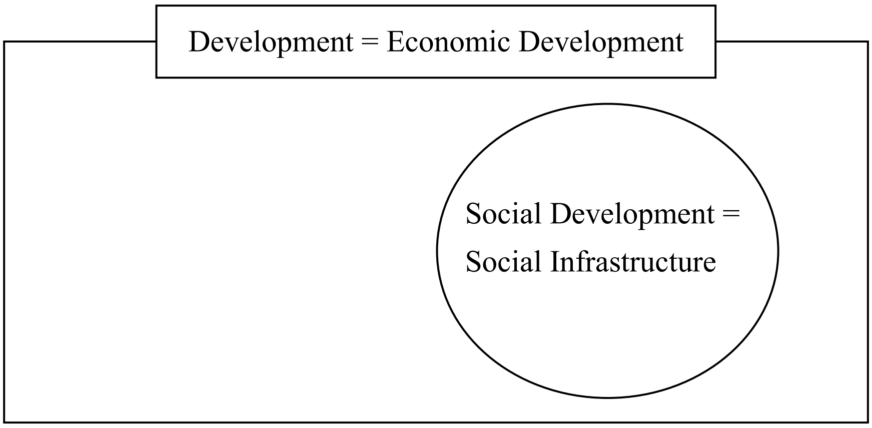
International society has been changing its global goals and objectives by timely and flexibly corresponding surrounding social conditions and global circumstances as well as voices of people around the world. The transition of definitions or concepts of development well explain how global society has changed the direction that concerned international institutions strive for and the world moves forward (Figure 1).

Up until several decades after the Second World War, ‘development’ referred to economic development and economic growth. Social development at that time was regarded as the condition of infrastructure such as roads, transportation, electricity, water, sanitation, and communications and was thought to be a supplement to economic growth. Physical infrastructures were considered to be significant and necessary sources for making economic investments effective and were consequently recognized as merely supplemental for efficient economic growth.

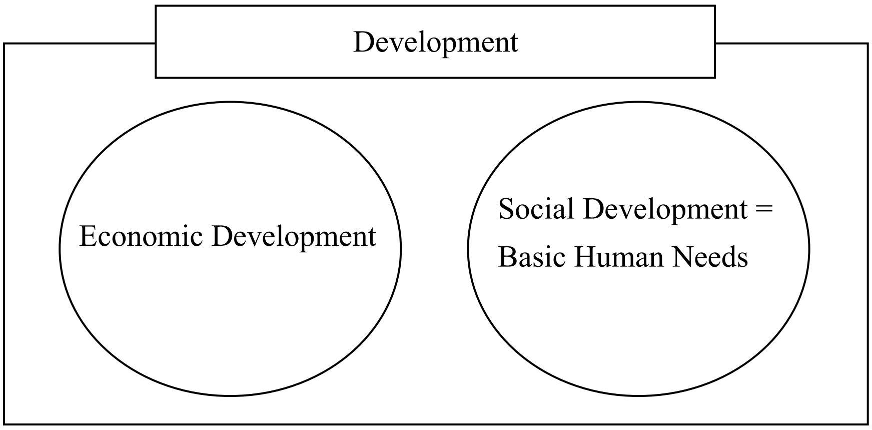
However, since the late 1970s, it has been argued that economic development does not necessarily contribute toward reducing poverty, narrowing the gap between the poor and the rich, and improving human life. In the 1980s, it became a popular notion that the purpose of development was not only to make an economy grow but to facilitate basic human needs (BHN). Basic human needs are defined as the basic goods and services necessary for a minimum standard of living, including food, shelter, clothing, sanitation, education, and so on.

Figure 1. Concept of Development

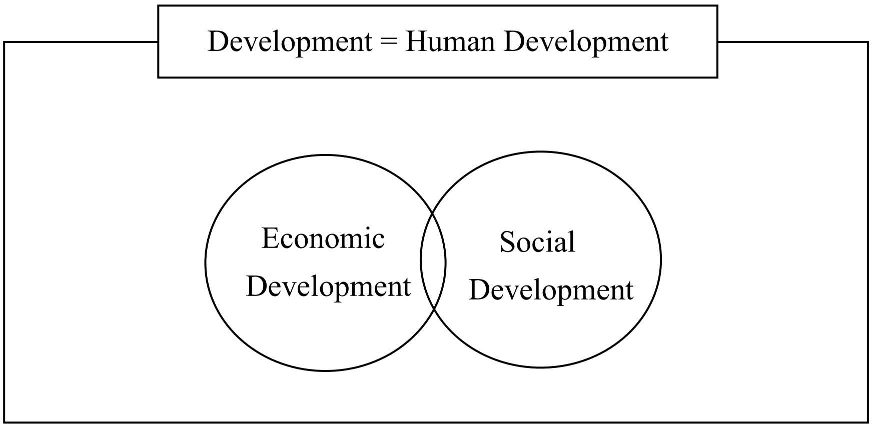
(1) 1960s and 1970s



(2) 1980s



(3) 1990s



Since the United Nations Development Programme (UNDP) published its Human Development Report in 1990, the concept of development has evolved further from a materialistic dimension to a more humanistic one. Haq (1995, pp. 25-26) states, "Concern with human development seems to be moving to center stage in the 1990s. For too long, the recurrent question was, how much is a nation producing? Increasingly, the question now being asked is, how are its people faring? The main reason for this shift is the growing recognition that the real objective of development is to enlarge people's options."

According to Sen (1999), development should be seen as a process of expanding freedoms that people can share and thus freedoms should be understood as principal ends of development. His aspiration to transform the definition of development into a broader, but more human-focused, one has been welcomed by many people and recognized internationally, as is attested by his having been awarded the Nobel Prize for Economics in 1998.

Since the 1990s, with the advent of the concept of human development, development does not only mean economic growth but also includes social development. Social factors and people's living conditions became more focused than ever and started to be regarded as important as or more significant than economic development.

Under these circumstances, the question of what social development means has been discussed by many people and organizations, and the answers are various and not consistent. The broadest definition of social development includes even some economic factors in addition to many social and political elements as follows: poverty, employment, micro finance, roads, transportation, electricity, water, sanitation, education, nutrition, health, medical services, social welfare, environment, population, family planning, gender, NGO, agricultural development, urbanization, shelter, social work, community development, equity, good governance, democracy, ethnicity, human rights, etc.[5]

No matter how the term of social development is defined, the most important point to stress is that social development is one of the core concepts of development, being independent of, or sometimes incorporating economic development. With this transition of development concept, international institutions and political leaders have come to pay more attention to the social conditions of people in addition to their economic situation. However, this conceptual change was not enough to fully push individual government and administration to take practical actions for the progress of social development.

More concrete growth strategies and policy oriented measures had to be introduced extensively to persuade political leaders and administrative officers to allocate more budget for the implementation of social policies. The term inclusive growth has come out to be heard frequently in public and to be used often at international fora since the beginning of the 21st century. Inclusive growth then became one of the growth strategies that each economy tackles on

[5] The World Summit for Social Development, held at Copenhagen in 1995, picked poverty, employment, and social integration as the principal subjects that needed to be discussed.

for the development of society. It is no longer merely a conceptual framework and superficial word that implies goals and objectives.

Inclusive growth in this sense encompasses a broad range of policy targets in terms of both social and economic development. If we suppose that growth has to be inclusive, meaning a fruit of economic growth has to permeate through the entire people of the economy including the young, the elderly, women, disadvantaged people, minorities, sick or injured persons, the unemployed, and the poor, a series of social policies that will extend social safety nets and strengthen social protections have to be designed and implemented.

If we try to understand inclusiveness as equity, then the policy targets will focus on creating equal opportunities so that all members of a society can participate in and contribute to the growth process regardless of their individual circumstances (Ali and Zhuang, 2007, p. 10). From this aspect of inclusive growth, full employment strategies are to be promoted by incorporating various sorts of demand and supply side economic stimulus policies in addition to the conventional social policies for the unemployed and human resource development (Felipe, 2009).

Global society has been relatively successful in developing the economy and eradicating poverty thus far but we still face the tremendous amount of economic gap between the rich and the poor, and there remain a number of people who are marginalized from economic growth. Income inequality is widening even today, and economic and social marginalization is becoming one of the mounting frustrations against the government and society. It is often articulated by experts and intellectuals that many of the recent political turmoil, civil riots, and global conflict in particular after the 21st century are partly or mostly rooted to complaints against economic and social gaps and isolation. Inclusive growth strategies can definitely help overcome these problems highlighted significantly in the 21st century by giving the marginalized people equal opportunities for economic growth and social development.

These social and economic circumstances mentioned above are not at all exceptional in Asia and the Pacific region. At APEC 2010 Yokohama, the leaders agreed to pursue five growth strategies: balanced, inclusive, sustainable, innovative, and secure growth. Under the banner of inclusive growth, APEC economies shared the value that all their citizens have the opportunity to participate in, contribute to, and benefit from global economic growth. The growing income gap was a bothersome underlying phenomenon among the APEC economies as well. Table 1 describes that many economies of the Pacific-Asia experienced a widening income gap during the decade from the end of the 20th century.[6]

[6] Among the 15 economies in the region of Asia and the Pacific appearing in Table 1, only 4 nations, Chile, Mexico, Malaysia, and the Philippines, were able to redress income inequality in the decade.

Table 1. Gini Index

Economy	1996	1997	1998		2006	2007	2008
Canada		31.8	33.6			33.9	
Chile	54.9		55.5		51.8		
China	35.7						42.6
Colombia	56.9				58.7	58.9	56.1
Indonesia	31.3						34.1
Lao PDR		34.9				35.5	
Mexico	48.5		49		48.1		48.3
Mongolia			30.3				36.5
Malaysia		49.2				46	
Peru		34.8	56.2		49.1	49.6	46.9
Philippines		46.2			44		
Thailand	42.9		41.5		42.4		40.5
US		40.8				41.6	
Vietnam			35.5		35.8		35.6
Japan			30.1 (1999)				31.1 (2009)

Source: Statistics Bureau, Ministry of Internal Affairs and Communications, National Survey of Family Income and Expenditure, http://www.stat.go.jp/english/data/zensho/index.htm.

World Bank, World Development Indictors, http://data.worldbank.org/indicator/SI.POV.GINI.

Notes: Japan's data are from National Survey of Family Income and Expenditure of 1999 and 2009.

The other important reason that the APEC economies in the beginning of the 21st century raised inclusive growth as one of the important regional policy targets was the emergence of diverse needs of society encompassing not only the poor but also the low and middle income class of people. Thanks to the success of poverty reduction and the subsequent decline in the number of the poor, low income households with $1,000-$5,000 or middle income households with $5,000-$35,000 increased and became the majority among income groups in each economy.

In China, the poor group whose income was less than $1,000 consisted of 64.6 percent of total households in 1990; however, the majority group shifted to the low income class in 2000 (Table 2). In most economies in this region, the ratio of the income group with less than $1,000 was below 10 percent, and more and more people were shifting into upward income levels as its economy grew successfully. Inclusive growth policy reflected this reality in this region by announcing the government puts its policy focus not only on poverty reduction but also on the improvement of living conditions of the low and middle income class. The adoption of inclusive growth can be recognized as a shift of policy makers' attention away from poverty alleviation focused policies towards policies supporting the diverse needs of low income households as well as the middle income class (Kawai, 2010).

Table 2.

A rise of low-income and middle class households in East Asia

HH Income	China			India						Japan		
	1990	2000	2008	1990	2000	2008				1990	2000	2008
0-1,000	64.6	16.4	8.9	28.6	24.6	9.3				0.0	0.0	0.0
1,000-5,000	33.6	67.9	56.7	68.4	71.0	71.8				0.6	0.3	0.5
5,000-35,000	1.6	5.3	33.0	2.7	4.1	18.2				35.9	22.8	27.4
35,000-	0.2	0.4	1.4	0.3	0.3	0.7				63.5	76.9	72.1
	Indonesia			Malaysia			Philippines			Thailand		
	1990	2000	2008	1990	2000	2008	1990	2000	2008	1990	2000	2008
0-1,000	24.3	11.4	0.6	3.9	1.9	2.1	23.8	20.2	6.9	16.0	14.6	4.9
1,000-5,000	69.9	83.8	59.4	45.6	28.3	15.6	62.6	60.7	49.5	55.5	54.0	36.2
5,000-35,000	5.4	4.5	35.9	48.8	66.3	72.0	13.0	18.3	42.0	27.6	30.4	56.5
35,000-	0.4	0.4	1.1	1.7	3.5	11.3	0.6	0.8	1.6	0.9	1.0	2.4
	Hong Kong China			Korea			Singapore			Chinese Taipei		
	1990	2000	2008	1990	2000	2008	1990	2000	2008	1990	2000	2008
0-1,000	0.0	0.2	0.2	0.3	0.1	0.1	0.3	0.4	0.1	0.1	0.1	0.1
1,000-5,000	1.4	2.5	1.8	9.7	4.0	2.4	5.1	3.0	1.1	3.8	1.6	1.7
5,000-35,000	63.1	33.6	30.9	86.0	79.6	62.6	76.0	34.1	25.9	81.6	58.0	52.7
35,000-	35.5	63.9	67.1	4.0	16.3	34.9	28.6	62.5	72.9	14.5	40.2	45.5

Source: Author's computation from Euromonitor International, *World Consumer Lifestyles Databook*, 2009.

Source: Kawai, 2010, p. 7.

3. Social Security

Social security is one of the important tools that enhance inclusive growth. There is no universally accepted definition of social security but international bodies such as ILO (International Labour Organization) and ISSA (International Social Security Association) prefer to use the term social security as a range of income transfer schemes.[7] According to this broad approach, social security, a variety of income protection programs, can be categorized into the following five: social assistance, universal social allowances, social insurance, provident fund, and employer mandates (Midgley and Tang, 2008, p. 25).

Social assistance is benefits from public revenues given to targeted people whose income is less than a certain amount and/or who fall in eligibility criteria such as inability, old age, widowhood, or desertion. Social assistance is mainly focused to alleviate poverty and often provided to those whose income is less than a certain amount and those who are not able to work

7 See Midgley and Tang, 2010, p. 17.

properly. Food stamps, housing subsidies, and widow's/widower's benefits are usual cases classified into social assistance.

Universal social allowances are funded by the government and paid to those who meet certain requirements for eligibility. The difference between social assistance and universal social allowance are whether means test is taken place or not to determine their eligibility. Once people match with the requirements of eligibility of social allowances, they are able to receive the benefits no matter how large their annual income might be. This type of allowance is often given to a child and/or a family who has a child. These child benefits and family allowances are becoming significant social policies for aging economies and are playing an important role in raising the number of children. Maternity allowances, birth allowances, and old-age allowances are paid as universal social allowances in some economies.

Social insurance is distinguished from social assistance and social allowances mentioned above in that it is financed by the contributions of members who participate in the insurance scheme. Social insurance is different from private insurance in that social insurance is mandatory and its contributions are usually supplemented by the government. Health insurance, unemployment insurance, and pension insurance are some of the examples that have fallen in this category.

A provident fund is commercial savings accounts established by employers and financed by regular payroll contributions. Most provident funds are designed to provide retirement allowance, to cover disability, to supplement salary during temporary unemployment, and to manage corporate pension. Contributions paid into provident funds are invested by fund managers, and profits if any are added to the contributions when the workers are eligible to withdraw them.

Employer mandates are a series of income compensations for workers which should be provided by employers under rules and regulations imposed by the government. For example, employers are obliged to pay compensatory benefits to workers who sustain injures during working hours. This workmen's compensation is mostly mandatory in many economies. Employers in most advanced economies are required by law to provide workers redundancy payment when employers want to lay off workers without any prior notice. In some counties, governments offer insurance schemes for employers being able to meet these workers' claims and require employers to insure themselves.

While people are aware of the importance of social development as well as social security, there are mainly two reasons that authorities are not willing to initiate social policy. First, there still exists a popular notion that economic growth is the most decisive solution to social degradation even though there is no automatic link between economic growth and social development. Therefore, economic policy tends to be more emphasized than social policy in most developing economies.

The second reason lies in the concern that too much or too early intervention in free economic activities may hinder the impetus of growth. Because social security schemes are designed to facilitate compulsory income transfer, they are regarded as governmental intervention on the free economic markets. For example, policy makers are not sure whether policies to remedy imbalance in income distribution slow the pace of economic development or not. This uncertainty makes the authorities in developing economies hesitate to mobilize resources for social development and implement any policy focused on social security.

Midgley and Tang (2008, pp. 63-77) introduce two opposite views regarding the impacts of social security on economic development. While there exists the idea that social security harms economic progress, the opponents claim that social security promotes economic growth by investing in human capital. There is no unanimous agreement on this debate in terms of both theoretical and empirical analyses; however, it is universally acknowledged that a minimum level of social security measures that secure at least the life and health of people should be provided as humanitarian needs.

In fact, most economies at present are implementing some sort of social security scheme though the kind of policies and the amount of budget allocated for them are different depending on people's needs, political governance, and financial capacities. The more economic crises we face in the current era and coming future, the more focused stabilization of social security measures which can be regarded as the preparations for and insurances against economic damages will be.

In the region of Asia and the Pacific, however, the level of social protection is generally low even after suffering from the Asian Currency Crisis in 1997. Figure 2 illustrates the global maps describing the level of social protection in terms of old age pension, unemployment insurance, public health care, and total public social expenditure. The darker the color of the economies, the more socially protected the economies are. In general, social security systems are less developed in such regions as Africa, the Middle East, Asia, and South America. The PECC region including East and Pacific Asia and the Pacific side of South America has much to do with the facilitation of social security schemes. In particular, the level of social protection is quite low in these PECC developing economies like Indonesia, Vietnam, the Philippines, Mexico, and Peru.

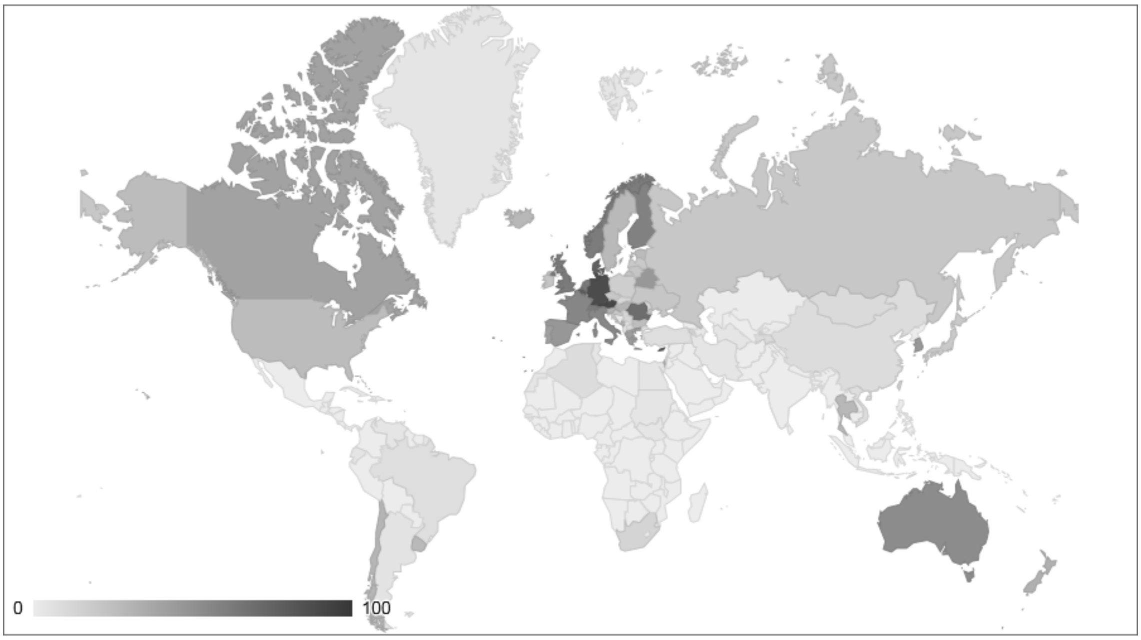
Figure 2. World Map on Social Security

(1) Old age pension recipient ratio above retirement age

Source: ILO, Social Security Inquiry Database:

http://www.ilo.org/dyn/ilossi/ssimaps.mapIndicator2?p_indicator_code=CR-1f+OA

(2) Unemployed receiving unemployment benefits



Source: ILO, Social Security Inquiry Database:

http://www.ilo.org/dyn/ilossi/ssimaps.mapIndicator2?p_indicator_code=CR-1f+UE

(3) Percentage of health care expenditure NOT financed by private households' out of pocket payments

Source: ILO, Social Security Inquiry Database:
http://www.ilo.org/dyn/ilossi/ssimaps.mapIndicator2?p_indicator_code=H-1c

(4) Total public social expenditure as a percentage of GDP

Source: ILO, Social Security Inquiry Database:
http://www.ilo.org/dyn/ilossi/ssimaps.mapIndicator2?p_indicator_code=E-1c

Table 3 indicates social security data for major economies in Asia and the Pacific region.[8] The old age pension recipient ratio above the retirement age is more than 70 percent in New Zealand, Canada, Japan, and Hong Kong SAR China, while that number is less than 10 percent in Vietnam, Indonesia, Peru, and Laos.[9] Although public pension schemes exist in many economies, the coverage ratio is quite low particularly in developing economies because most informal sectors are not officially covered, a large number of citizens are not able to continuously pay the insurance fee due to poverty, and the pension system itself is fragile on account of weak governance and budget constraints.

The percentage of the unemployed receiving unemployment benefits is very high in Australia and Canada. On the other hand, many developing economies in Pacific Asia have no unemployment insurance system. People are vulnerable to poverty if unemployment insurance is not established. Economic crises tend to deprive many people of jobs which are important sources of their income. Without an unemployment insurance system, they suddenly fall into poverty. A well designed unemployment insurance system needs to be introduced as soon as possible in these developing economies and the coverage of it should be increased in middle and high income economies.

In Thailand and Colombia, the percentage of health care expenditure not financed by private household's out of pocket payments is relatively high compared with other developing economies in the region. The larger the public coverage of health care expenditure is, the more secured the citizen feels when they suffer from an illness or injury. It is recognized from these data in the table that the national health care system seems to be well established if the share of public expenditure on health care is more than 80 percent. Developing economies are recommended to raise the figure by revising their health insurance schemes and improving their financial conditions.

Total public social expenditure as a percentage of GDP is between 15 and 25 percent in most advanced economies in Asia and the Pacific region. Chile and Colombia whose share of total public social expenditure in GDP indicates around 10 percent are relatively taking positive and concrete measures to promote social security among other developing economies of the region. Korea and Chinese Taipei may be able to make more efforts to develop social security systems and strengthen public capacity on the implementation of them.

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[8] Please also refer to ADB's Social Protection Index, which summarizes the extent of social protection in the economies of Asia and the Pacific.

[9] This data however requires special caution in that there are old age people who are not covered by the public pension system because they are rich enough to live without any social assistance.

Table 3. Social Security Data for Major Economies in Asia and the Pacific Region

Old age pension recipient ratio above retirement age			**Unemployed receiving unemployment benefits**		
Economies	2009		Economies	2009	
New Zealand	98.4%		Australia	58.2%	
Canada	97.7%		Canada	48.4%	
Japan	80.3%	(2008)	Korea	39.2%	
Hong Kong, China	72.9%		New Zealand	35.8%	
Australia	48.3%		Chinese Taipei	32.7%	
China	44.9%		Japan	25.4%	
Korea	42.3%		Thailand	24.3%	
Thailand	41.9%		Hong Kong, China	16.9%	
India	34.6%	(2010)	Chile	16.1%	
Chile	25.4%		China	14.0%	
Mexico	25.2%		Vietnam	0.7%	
Colombia	23.0%		Colombia	0.0%	(2008)
Philippines	19.7%	(2001)	India	0.0%	
Vietnam	7.2%		Indonesia	0.0%	
Indonesia	6.7%		Laos	0.0%	
Peru	1.7%		Mexico	0.0%	
Laos	0.1%		Peru	0.0%	
			Philippines	0.0%	

Percentage of health care expenditure NOT financed by private household's out of pocket payments			**Total public social expenditure as a percentage of GDP**		
Economies	2011		Economies	2010	
New Zealand	89.5%		Japan	22.3%	
Thailand	86.3%		New Zealand	21.4%	(2011)
Canada	85.6%		Canada	18.6%	
Japan	83.6%		Australia	17.9%	
Colombia	83.0%		Chile	10.8%	
Australia	80.2%		Colombia	10.5%	
Korea	67.1%		Chinese Taipei	9.7%	
China	65.2%		Korea	9.2%	
Chile	62.8%		Mexico	8.1%	
Peru	61.7%		Peru	6.9%	
Laos	60.3%		China	6.8%	
Mexico	52.2%		Vietnam	6.3%	
Indonesia	50.1%		Thailand	6.0%	
Vietnam	44.3%		Indonesia	2.6%	
Philippines	44.1%		India	2.6%	
India	40.6%		Laos	1.7%	
			Philippines	1.2%	

Source: ILO, Social Security Inquiry Database:
http://www.ilo.org/dyn/ilossi/ssimain.home?p_lang=en

4. Closing Remarks

Conceptual transitions of development and changes of policy focus in global society are key elements for the emergence of inclusive growth strategies. Inclusive growth was stated as one of five growth strategies that APEC economies pursued during the APEC meeting in 2010 at Yokohama and since then a series of studies and policy dialogues for the achievement of inclusive society have taken place in this region. The APEC region is encouraged to seek the establishment of a society where all citizens have the opportunity to participate in, contribute to, and benefit from global economic growth.

Social security schemes, a range of income transfer measures, are recognized as one of the important concrete policy targets under the banner of inclusive growth. It was declared in the APEC Leaders' Growth Strategy on 14 November 2010 that APEC would focus its efforts to promote inclusive growth by enhancing social resilience and social welfare through means such as improving social safety nets and supporting vulnerable groups.[10] It further stated that APEC economies would share experience and capacity building of our efforts in strengthening and establishing well-functioning social safety net programs that enhance social insurance coverage and encourage participation in the labor market. Social security policies were picked up as a tool to facilitate inclusive growth together with other important policy measures such as human resource development, revitalization of small and medium-sized enterprises, inclusive access to finance and financial services, creation of new economic opportunities for women, the elderly, and vulnerable groups, and the promotion of tourism.

The basic idea underlying the inclusive growth strategies are that social security is not at all harmful to economic growth but beneficial to it and that the benefit of economic growth should be utilized as much as possible in order to enhance human dignity and social status for all people. Greater emphasis has to be placed on the inclusiveness of society rather than merely on the level of the economies' income. This trend of focusing more on the social and living conditions of each group of citizens will be paid much attention in the 21st century.[11]

The JANCPEC SR Project has been functioning exactly to support these APEC activities for inclusive growth and to share experience and capacity building of the PECC economies' efforts in strengthening and establishing well-functioning social security programs. It is intended to contribute toward disseminating the meanings and values of inclusive growth as well as social security, offering knowledge in forms that facilitate APEC discussions on inclusive growth, and

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[10] See the APEC Website, http://www.apec.org/Meeting-Papers/Leaders-Declarations/2010/2010_ aelm/growth-strategy.aspx.

[11] In September 2014, the Open Working Group (OWG) on Sustainable Development Goals (SDGs) initiated by the United Nations General Assembly formulated and proposed the 17 goals for sustainable development based on which the post-2015 development agenda next to the Millennium Development Goals (MDGs) was discussed. Under "Goal 1: End poverty in all its forms everywhere" of the proposal of the OWG on SDGs (United Nations, 2014), it is stated in the third paragraph, "1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable." The fourth paragraph of Goal 10 titled "Reduce inequality within and among countries" mentions, "10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality." Goal 8 in the proposal of the OWG on SDGs advocates promoting sustained, inclusive and sustainable economic growth. These statements clearly indicate that the importance of inclusive growth and social security is now being widely and deeply acknowledged in the international arena.

providing support to the Human Resource Development Working Group (HRDWG), which examines social policy issues in APEC, by analyzing the situations of inclusive growth and social safety net systems in the PECC region, verifying good and bad practices in the Asia-Pacific region, considering policy approaches that would make socioeconomic infrastructure more resilient against risk, and finally submitting relevant policy recommendations to APEC and related meetings.

Economic and social conditions that an economy is facing and problems that policy makers are tackling are usually different from economy to economy. The level of social inclusiveness and conditions of social safety nets are in particular very much influenced by each economy's social norms and values, economic situations and systems, political motivations and governance, and administrative capacities. In this respect, case studies focusing on an economy one by one are well fit research methods. The following research outcomes lead after analyzing and examining one economy of Asia and the Pacific region would hopefully help each economy's policy makers and administrative officers understand the current status of social inclusiveness as well as social security and find out what they should do for a better society.

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Migrant Workers and Social Protection: The Philippine Experience

Aniceto C. Orbeta, Jr.[1]

1. Introduction

International Labor Migration has become an enduring feature of Philippine development. The economy already had 40 years of experience and continues to gain experience in managing deployment of high volume migration. Deployment breached the 1 million annual flow in 2005 and has not shown signs of declining despite the respectable growth the economy has shown in recent years. For this feat the economy has been singled out as a model of migration management even if many know it continues to face challenges in managing the flow of migrant workers. Accompanying this experience is the realization that the flows started to challenge commonly held views such as migration being temporary. Another widely held belief that is being challenged is that remittances will spur investments as migrants send remittances and/or return home to start businesses. One glaring issue that needs to be addressed immediately as overseas Filipino workers (OFWs) continue to work abroad is providing them with social protection. This paper tries to contribute to this gap in the literature by describing the efforts done by the economy in terms of improving the social protection of migrant workers.

The paper is organized as follows. The next section describes the main feature of the migration flows, the policies and institutions that have been put in place as well as the primary challenges and issues being faced. This is followed by a description of the social protection measures put in place. The final section provides a summary.

2. Overview of Overseas Filipino Workers (OFWs)

The commonly accepted estimate of the Filipinos overseas is 10% of the population. There are, however, two major groups of Filipinos overseas, namely: (a) permanent migrants, and (b) temporary workers. In addition, there are also irregular migrants. According to the latest stock estimates of the Commission on Filipinos Overseas (CFO) as of December 2013, there are some 10.2 million[2] Filipinos abroad, 4.9 million (48%) of which are permanent, 4.2 million (41%) are temporary and 1.2 million (11%) are irregular migrants. This paper will focus on the temporary workers because at issue is their social protection and they also constitute more than 96%[3] of the annual deployment in recent years.

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[1] Senior Research Fellow, Philippine Institute for Development Studies. Opinions expressed here are of the author and do not necessarily reflect the views of PIDS.

[2] This provides the estimate of 10% because the total population of the Philippines is about 100 million.

[3] The POEA data says we deployed 1.836 million temporary workers in 2013 while CFO data says the number of emigrants in the same year was 78,228 (4%). This proportion of permanent migrants continued to decline from some 11% in 1985.

2.1. Flow of Temporary OFWs

From the data of the Philippine Overseas Employment Administration (POEA), the economy currently deploys some 1.83 million temporary overseas workers. The primary destinations of temporary OFWs are the Middle East and Asia with the two continents accounting for around 90% of the deployments. Saudi Arabia, UAE, Qatar and Kuwait are the main destinations in the Middle East. In Asia, the main destinations are Singapore, Hong Kong (China), Chinese Taipei and Malaysia.

The flow of temporary workers somewhat decelerated in the middle of the 1990s to the middle of the 2000s but increased to nearly 8% annually between 2005 to 2010, which appears to have decelerated again in recent years (Table 1).

Table 1. Flows of Temporary Migrant Workers

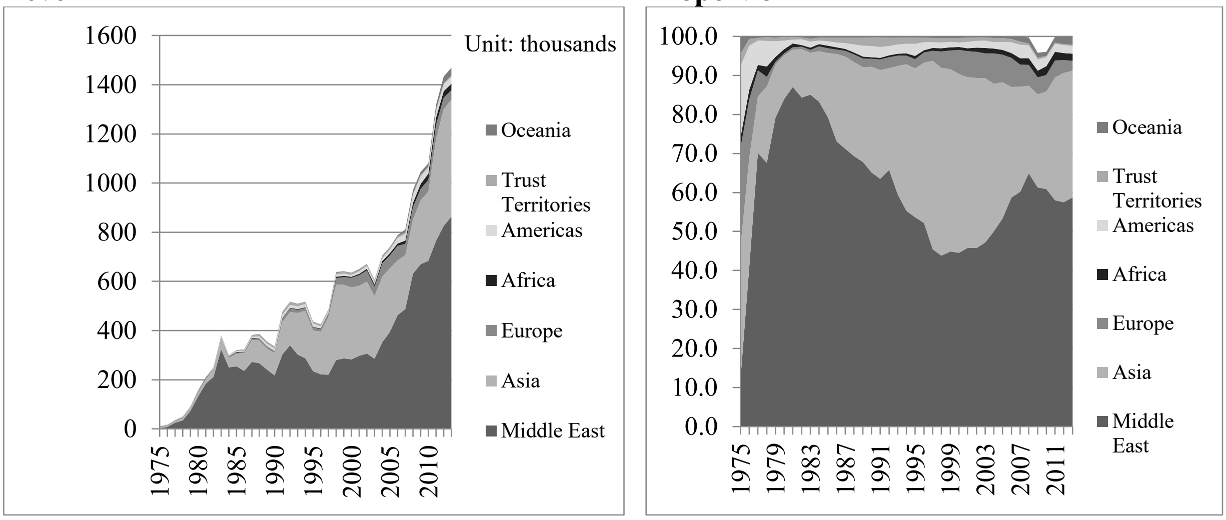
						Average Annual Growth Rates			
	1985	1995	2005	2010	2014	1985-1995	1995-2005	2005-2010	2010-2014
Level									
Total Temporary	372,784	653,574	988,615	1,470,826	1,832,668	5.6	4.1	7.9	5.5
Temp, land-based	320,494	488,173	740,632	1,123,676	1,430,842	4.2	4.2	8.3	6.0
New-hire	160,815	214,157	289,981	341,966	487,176	2.9	3.0	3.3	8.8
Re-hire	159,679	274,016	450,651	781,710	943,666	5.4	5.0	11.0	4.7
Temp, sea-based	52,290	165,401	247,983	347,150	401,826	11.5	4.0	6.7	3.7
Percentage									
Temp, land-based	86.0	74.7	74.9	76.4	78.1				
New-hire	50.2	43.9	39.2	30.4	34.0				
Re-hire	49.8	56.1	60.8	69.6	66.0				
Temp, sea-based	14.0	25.3	25.1	23.6	21.9				

Source of basic data: POEA

By Destination. Orbeta and Abrigo (2009) already noted that the flow of temporary migrant workers is dominated by flows to the Middle East followed by flows to Asia. This tendency has not substantially changed through the years (Figure 1).

Figure 1. Temporary migration flows by destination

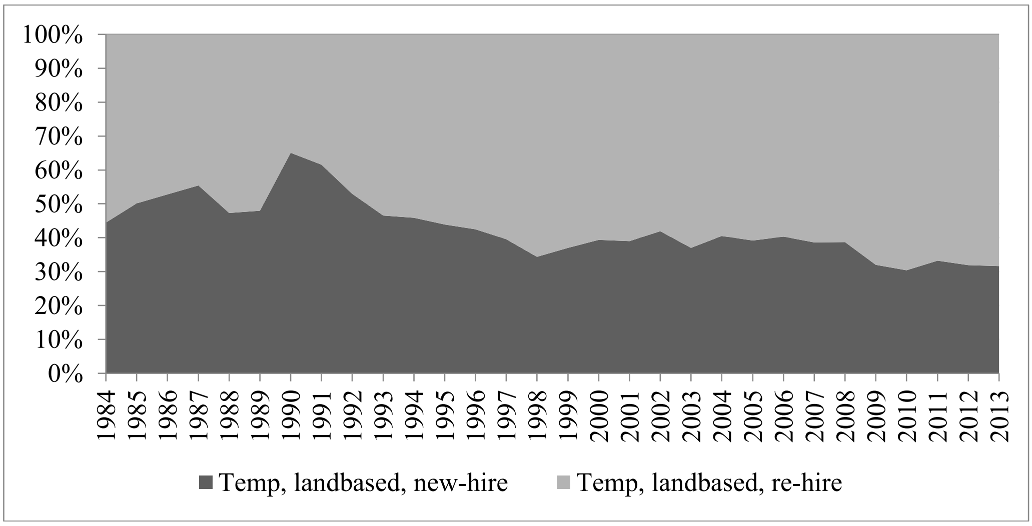
Level **Proportion**



Source of basic data: POEA

By Type of Hire. The flows of migrant workers are classified by type of hire, namely, new-hires and re-hires. An important emerging feature is the ever increasing proportion of re-hires. In 1990 the new hire is 43% (Figure 2). By 2013 this has gone down to 24%. This trend is important to notice because this runs counter to the commonly held stylized feature that working abroad is a temporary phenomenon. This seems to indicate that migrant workers are showing a tendency of continuously working abroad. This trend continues even if the economy has posted consistent decent growth rates in recent years.

Figure 2. Deployment by type of hire



Source of Basic Data: POEA

One way to better understand the OFW market is to compare it with the domestic labor market. This is done by comparing the OFW market and domestic labor market using the Labor Force Survey (LFS)[4]. It is important to mention that LFS data is not totally consistent with the POEA data used earlier. Unfortunately, the POEA data does not have the corresponding demographic characteristics that would enable a meaningful comparison of the characteristics of the OFW market relative to the domestic labor market.

By Sex. The data shows that for both markets, males in general constitute a bigger proportion. However, it is worth nothing that the proportion of women in the OFW market is much more pronounced particularly in recent years. For instance in 2012, females constituted 49% of the OFW market while they comprised only 39% in the domestic labor market (Table 2). But it is worth pointing out that this is a relatively recent phenomenon. In the 1970s and 1980s the OFW market was male dominated very much like the domestic labor market when the OFW market was dominated by construction workers coincident with the boom in construction in the Middle East. Table 2 even shows that this was the case even as late as 1988 and only started to deviate from the pattern of an increasing proportion of females in the OFW market starting in the 1990s. This may be expected to continue into the future because a fairly recent survey of secondary students shows a strong female bias of the intension to migrate among youth (Mendoza, Yap and Navarro, 2013).

Table 2. Distribution of OFW, Domestic labor force by sex

	1988	1996	2001	2006	2012
OFW*					
Sex					
Male	64.1	56.1	51.9	49.3	50.8
Female	35.9	43.9	48.1	50.7	49.2
Domestic labor market					
Sex					
Male	63.0	62.8	60.8	61.7	61.0
Female	37.0	37.2	39.2	38.3	39.0

* includes OCW, workers other than OCWs, employees in embassies abroad

Source: PSA LFS October Series

By Age-group. The OFW market is clearly dominated by prime-age workers. In 2012 for instance, OFWs 25-44 years old constitute three-quarters of the OFWs (Table 3). The domestic labor market, on the other hand, even though the prime working age population still dominates,

[4] Even though not considered part of the domestic labor market, the LFS accounts for family members working abroad in order to provide a good estimate of the household population. The LFS considers as OFWs those who have been away for not more than five years from the date of departure and are expected to be back within five years from the date of last departure.

this is not as much as what it is in the OFW market with the prime age group only constituting 49% of the working age population.

Table 3. Distribution of OFWs and domestic labor force by age

	1988	1996	2001	2006	2012
OFWs*					
15 - 24 years	15.0	13.0	12.5	12.3	8.8
25 - 44 years	69.5	69.6	66.0	70.8	73.8
44 > years	15.5	17.4	21.5	17.0	17.4
Total	100.0	100.0	100.0	100.0	100.0
Domestic labor force					
15 - 24 years	40.1	37.6	23.1	21.5	21.5
25 - 44 years	47.2	49.0	44.8	49.3	48.6
44 > years	12.8	13.4	32.1	29.3	29.9
Total	100.0	100.0	100.0	100.0	100.0

* includes OCW, workers other than OCWs, employees in embassies abroad

Source: PSA LFS October Series

By Education Attainment. In terms of education attainment, the OFW market clearly prefers more educated labor compared to the domestic labor market. In 2012, for instance, OFWs with tertiary education constituted 58% or more than twice the proportion of domestic labor market workers with tertiary education (25%) (Table 4). This heavy concentration of workers with tertiary education is consistently shown through the years and has been pointed out by earlier studies as well (e.g., Orbeta and Abrigo, 2009, Alburo and Abella, 1992, and Carino, 1994).

Table 4. Distribution of OFW, Domestic labor force by education

	1988	2001	2006	2012
OFWs*				
No Grade Completed	0.3	0.1	0.2	0.2
Primary	10.9	5.5	4.5	3.1
Secondary	34.2	32.3	32.3	39.0
Tertiary	54.6	62.1	63.0	57.8
Total	100.0	100.0	100.0	100.0
Domestic labor force				
No Grade	4.0	2.3	1.9	1.7
Elementary	47.3	37.2	32.2	28.2
Secondary	29.6	36.3	38.3	44.8
Tertiary	19.1	24.2	27.6	25.2
Total	100.0	100.0	100.0	100.0

* includes OCW, workers other than OCWs, employees in embassies abroad

Source: PSA LFS October Series

2.2. Remittance Flows

The flip side of the migration flows is the flow of remittances. Recent data shown in Ratta (2014) indicates that the economy is the third largest remittance-receiving economy next only to China and India. The remittance flows constitute a substantial proportion of domestic output hovering at 10% of GDP. It has been observed that even during the crisis in 2008, the flow of remittances has not declined but merely decelerated. Family Income and Expenditure Survey (FIES) data shows that the proportion of Filipino households receiving remittances has steadily increased from 18% in 2000 to 27% by 2012. This clearly indicates that the proportion of households that are affected by migration flows is getting bigger. It is also noteworthy that the proportion of remittance-receiving households rise with household income (Table 5). In addition, remittance as a proportion of household income also rise with household income. This clearly indicates that until today migration is dominated by richer households.

Table 5. Remittance receiving household by income decile

	2012		2006	
Decile	With remittances	As prop to income	With remittance	As prop to income
Poorest	6.39	0.009	5.16	0.010
Second	9.48	0.016	8.87	0.017
Third	14.55	0.029	11.48	0.021
Fourth	18.32	0.040	15.80	0.034
Fifth	23.72	0.055	20.33	0.046
Sixth	28.04	0.072	23.96	0.060
Seventh	34.89	0.102	31.03	0.084
Eight	40.79	0.126	35.48	0.109
Ninth	45.11	0.148	42.23	0.137
Richest	49.09	0.167	47.12	0.167

Source of basic data: PSA FIES

2.3. Policies and Institutions

An earlier review of the institutions serving Filipino migrants (Orbeta, Cabalfin and Abrigo, 2009) pointed out that the economy is considered as a global model of managing migrant workers (e.g., IOM, 2005). This, of course, is primarily the result of learning by doing with the economy having been managing substantial migration flows for more than 30 years. Holzmann and Pouget (2010b) noticed that the Philippines was an exception among sending economies as being able to think of migration as a development tool. Yet everybody knew nonetheless that the economy faced weaknesses in its migration management.

2.3.1. Policies

Several laws and executive orders on migrant workers have been passed. The latest one is Republic Act 10022 which was signed into law in March 2010. It reiterates the stated policy that the Philippines does not promote labor migration, but once an OFW decides to work abroad, he is accorded the appropriate protection. One important addition of this recent law is that before deployment can be done in any economy, it has to be certified by the Department of Foreign Affairs as having in place the basic labor safeguards. Another important initiative in the new law is the aggressive promotion of forging Bilateral Labor Agreements (BLAs) with receiving economies. Still another important policy is the joint-liability provision of employment contracts which make the domestic recruitment agency answerable for problems with the contracts of OFWs processed by them.

2.3.2. Institutions

Figure 3 summarizes the web of government institutions involved in managing migration flows. The strength of the system is that it covers all aspects of migration from deployment, on-site services and return migration. It spans the three major departments including Labor, Foreign Affairs and the Office of the President.

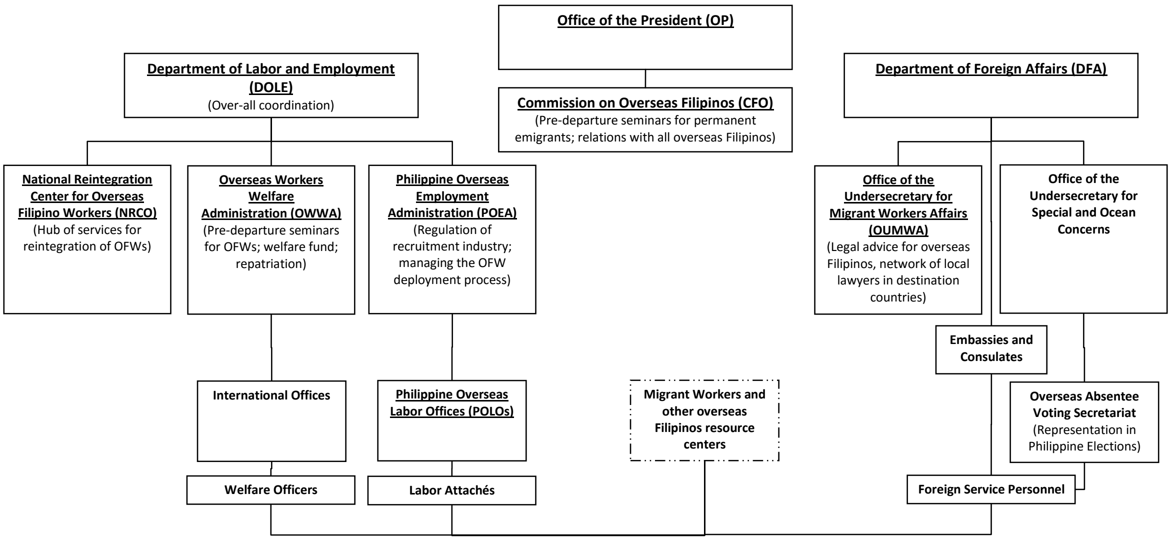
Under the Department of Labor, three institutions are tasked with migration management, namely, the Philippine Overseas Employment Administration (POEA), the Overseas Welfare Administration (OWWA) and the National Reintegration Center of Overseas Filipino Workers (NRCO).

The POEA was created in 1982. Its main task is deployment management. The OWWA is primarily tasked with minding OFW welfare including that of their dependents. Finally, the NCRO is tasked with re-integration programs for returning OFWs.

With the Department of Foreign Affairs are three offices that are involved with migration management. The office of the Undersecretary of Migrant Workers' Affairs (OUMWA) provide legal advice to OFWs with its network of lawyers both in economy and in destination economies. The Office of the Undersecretary for Special Concerns are concerned with the absentee voting process for OFWs. Finally, the embassies and consulates abroad constitute a team that support migrant workers. It also houses Philippine Overseas Labor Officers (POLOs) whose primary task is to provide on-site assistance to OFWs.

Attached to the Office of the President is the Commission of Filipino Overseas (CFO) which is directly responsible for managing the flows of permanent emigrants and connecting with diaspora Filipino communities abroad.

Figure 3. Philippine Migration Institutions



Adopted from: Ruiz, N. G., "Managing Migration: Lessons from the Philippines", Migration and Development Brief 6 (Migration and Remittances Team - Development Prospects Group, The World Bank, August 2008). www.worldbank.org/prospects/migrationandremittances.

2.3.3. Regulatory Tools

As summarized by Orbeta, Cabalfin and Abrigo (2009), the Philippine migration management system uses three major instruments, namely, (a) limiting entry to qualified actors, (b) rules on fees and standard contracts, and (c) ensuring compliance through monitoring and adjudication machinery. Limiting entry to qualified actors (recruitment agencies, prospective employers and, migrant workers) limits problems by ensuring that recruitment agents and employers are accountable and migrant workers have appropriate skills. Rules on fees and standard contracts helps to limit exploitation both in areas of fees and terms of employment. Transparent rules also facilitate enforcement and resolving conflicts. Finally, monitoring compliance helps to prevent problems from occurring. When problems do occur, the adjudication machinery is activated.

3. Social Protection for Migrant Workers

Social protection for migrant workers are of two types (a) unilateral programs, and (b) bilateral/multilateral programs. The unilateral programs are national programs initiated by an economy to protect is own international migrant workers and their dependents. Bilateral programs, on the other hand, are those that require agreements by participating economies to recognize specific provisions of social protection programs in participating economies.

3.1. Unilateral Programs

3.1.1. PhilHealth Overseas Workers Program

The Philippine Health Insurance Corporation (PhilHealth) was established through a series of laws[5] to implement the National Health Insurance program. It is mandated to achieve universal health care and provide financial protection for the poor. The health insurance program for overseas workers used to be implemented by the Overseas Workers Welfare Administration (OWWA) since 1994. In 2003, the funds and functions were transferred to PhilHealth through Executive Order 183.

Coverage. Consistent with is mandate of universal health care, PhilHealth expanded its coverage to include overseas workers. Membership for OFWs is mandatory by law. Coverage is also extended to their dependents. Dependents include spouses, unmarried children below 21 years of age who have no work, disabled children even beyond 21 years old, foster children, parents 60 years and above who are not members, and parents who have permanent disability. Premiums can be paid in the Philippines or to accredited collection agents abroad. The OFW can pay premiums annually or for the whole duration of the contract for a maximum of five years.

Premium. The annual premium was initially set in 2005 at PhP900. This was subsequently increased to PhP1200 in July 1, 2012, and PhP2400 in July 1, 2013.

B*enefits.* PhilHealth provides its members with in-patient hospital coverage, out-patient coverage, and other health care services as may be specified by the PhilHealth. In-patient hospital coverage includes all identified case rates and includes a considerable number of expensive procedures called type Z benefits. Out-patient coverage includes minor surgical procedures/day surgeries, ambulatory surgical procedures, hemodialysis, chemotherapy, radiotherapy, and primary care benefit – *Tamang Serbisyo Para sa Kalusugan ng Pamilya* (TseKap) package. It also reaches out to its members by providing information and services through ALAGA KA – *Alamin at Gamitin*.

Service Delivery. PhilHealth services are delivered through accredited health providers and paid through reimbursement. The OFW can avail these benefits even if done outside the economy so long as documents are submitted within 180 calendar days from the date of discharge.

Lifetime Membership. After contributing for 120 months or more, the OFW can apply for lifetime membership.

Indications of performance. Table 6 shows the number of registered members to the PhilHealth OWP, the number of beneficiaries, the contributions received, total claims paid and the average value per claim. One noticeable feature is that the number of members is way above the number of deployed migrant workers. For instance, in 2013, there were 3.1 million members

[5] Republic Act (RA) 7875 in 1995 amended by RA 9241 in 2004 and again amended by RA 10606 enacted in 2013. The health insurance program for overseas workers used to be implemented by the Overseas Workers Welfare Administration (OWWA) since 1994. In 2003, the funds and functions were transferred to PhilHealth through Executive Order 183.

while the total deployment of both temporary land-based and seamen was only 1.84 million. Even if permanent migrants of 78,000 were included, the number of members would still be 64% higher than the number deployed. It seems that the compulsory nature of the premium payment for departing OFWs had been observed. Since PhilHealth allows OFWs to prepay for the entire duration of the employment contract up to five years, the excess over current deployment can come from those who prepay for more than a year of premium.

Table 6. PhilHealth Overseas Workers Program

	2009	2010	2011	2012	2013
Registered Members	2,104,810	2,336,696	2,571,457	2,844,711	3,135,494
Beneficiaries	4,421,537	6,900,032	5,085,502	5,229,926	5,862,577
Contribution (PhP Million)	722	839	833	1,099	1,246
Benefit Payment (PhP Million)	758	920	1,225	1,578	1,663
Total Claims Paid	105,182	105,734	120,684	152,515	173,281
Average Value Per Claim (PhP)	7,549	8,870	9,259	9,842	9,738
Total Deployment Temporary OFWs	1,422,586	1,470,826	1,687,831	1,802,031	1,836,345
Emigrants	79,718	86,075	83,410	83,640	78,228
Total OFWs	1,502,304	1,556,901	1,771,241	1,885,671	1,914,573
% of PhilHealth OWP Members to Total	140	150	145	151	164

Source of basic data: PhilHealth and POEA

3.1.2. Social Security System (SSS)

The Social Security System is tasked to provide social protection to private sector workers. The SSS was established through the Social Security Act of 1954 (RA 1161). In recent years it has expanded coverage beyond the formal private sector workers to include the self-employed, house helpers, and Filipino seafarers. It has also extended voluntary memberships to separated members, non-working spouses of SSS members, and OFWs. The SSS has two programs for OFWs. One is the voluntary coverage program and the other is the Flexi-Fund saving program for OFWs.

A. Voluntary Coverage Program for OFWs

The Voluntary Coverage Program for OFWs is a social insurance scheme that was started in 1995 and was strengthened with the forging of a memorandum of agreement (MOA) with the Department of Foreign Affairs and the Department of Labor and Employment in 1997.

Coverage. The Program is intended to cover all OFWs who are not over 60 years old, whether previously an SSS member or not. For those who are previous members, they did not need to register again for coverage. Coverage is effective upon the payment of the first monthly contribution.

Contribution rates. The monthly contribution is based on the monthly salary declared by the OFW upon registration. The rate is equivalent to 11% of the corresponding monthly salary credit (MSC), which ranges from PhP5,000 to PhP16,000. Starting January 2014, the monthly contribution for OFWs range from PhP550 to P1,760. The OFWs can pay through accredited banks and their foreign correspondent institutions.

To ensure that OFWs have ready access to SSS services, SSS representatives were deployed in foreign economies starting in 1998. To date, the SSS has a total of 17 representative offices – 6 in Asia (Hong Kong, SAR; Taipei, Chinese Taipei; Brunei Darussalam; Singapore; Kuala Lumpur, Malaysia; and Macau, SAR); 3 in Europe (Rome, Italy; Milan, Italy; and London, United Kingdom); and 8 in the Middle East (Riyadh, KSA; Jeddah, KSA; Al-Khobar, KSA; Kuwait; Doha, Qatar; Dubai, UAE; Abu Dhabi, UAE; and Bahrain).

Benefits. The SSS provides the following social security benefits: retirement benefits, death and funeral benefits, permanent disability benefits, sickness benefits, and maternity benefits. The SSS also provides a lending program.

Indications of performance. To provide indications of impact, the number of contributing members is compared to the deployed OFWs. Table 7 shows the proportion of contributing OFWs in the record of the SSS compared to the deployment for the year. The best record so far in recent years is 22% in 2013. This is about the same level of coverage for the other voluntary program for own account workers. Given the not so impressive record of the SSS in extending coverage to its primary clients – the private wage and salary workers – there is a long way to go before full coverage can be expected for OFWs.

Table 7. Estimated SSS Coverage of Private Sector Workers

Year	**Contributing SSS Members (000)**			**Workers (000)**			**Estimated Coverage (%)**		
	Employed [a]	Voluntary [b]	OFWs [c]	Private wage & salary workers [d]	Own account [e]	OFW Deployed [f]	Private wage & salary workers [a]/[d]	Own account [b]/[e]	OFW Deployed [c]/[f]
2000	5,519	1,343	89	11,534	10,471	842	48	13	11
2005	6,054	1,463	112	16,438	12,263	989	37	12	11
2006	6,327	1,533	141	14,141	11,938	1,063	45	13	13
2007	6,592	1,573	158	14,580	12,290	1,078	45	13	15
2008	6,715	1,683	175	15,160	12,259	1,236	44	14	14
2009	6,850	1,833	197	18,874	12,240	1,423	36	15	14
2010	7,373	1,595	248	19,776	12,406	1,471	37	13	17
2011	7,700	1,636	273	21,161	12,604	1,688	36	13	16
2012	8,227	1,882	325	21,623	11,979	1,802	38	16	18
2013	8,700	2,051	396	22,197	12,178	1,836	39	17	22

Source of basic data:

Philippine Statistics Administration, Labor Force Survey - Private sector workers, Own account workers

Philippine Overseas Employment Administration - OFW Deployed

Social Security System/Bureau of Labor and Employment Statistics - Contributing SSS members

B. Flexi-Fund Program

The Flexi-fund Program is a provident fund that provides a mechanism for OFW-members to save part of their earnings abroad for future needs. It was launched in 2001 to serve as an additional layer of social security protection for OFWs by complementing the benefits under the Voluntary OFW Coverage Program.

Savings. Any OFW member of the SSS may enroll in the Flexi-fund Program by filing an application at any SSS foreign representative office or SSS branch while in the Philippines. Flexi-fund contributions are remitted in the same manner as the Voluntary OFW Coverage Program (i.e., using SS Form RS5 - Contribution Payment Return) and may be paid at the same time or separately from the regular contributions. Once enrolled, any amount not lower than PhP200, paid in excess of the required regular contribution is automatically credited to the individual flexi-fund savings account and earns interest. Members may continue their flexi-fund savings even after overseas employment, provided that regular contributions remain at the maximum (e.g., as voluntary paying member).

Benefits: The benefits from the flexi-fund savings include: a) Retirement, disability and death benefits; b) Annual incentive benefits (AIB) to qualified members; and c) Early withdrawal. A member has the option to withdraw contributions anytime subject to pre-termination fees if contributions stayed in the fund for less than one year.

Indications of performance. There is still no readily available data on the performance of the program.

3.1.3. Overseas Workers Welfare Administration (OWWA)

The OWWA is a membership institution attached to the Department of Labor and Employment (DOLE). It is mandated to deliver welfare services and benefits to overseas Filipino workers (OFWs) and their dependents and to ensure the build-up of capital and viability of the OWWA fund built from the contributions of OFWs.

Contribution. OFWs pay a mandatory membership fee of US$25.00 in return for various services and benefits over the period of the employment contract up to a maximum of two years. Membership is renewable.

Benefits. Benefits include disability, death, and burial. It also provides education and training, workers welfare assistance, repatriation, and a re-integration program. It also provides scholarship programs for dependents and survivors of deceased OFWs. Finally, OWWA also provides lending programs for its members.

Indications of performance. Table 8 shows that the number of OFWs covered with disability and death benefits. In 2013, it covers 1.67 million OFWs which is 91% of deployment for that year.

Table 8. OWWA Health Care Program

INDICATOR	2009	2010	2011	2012	2013
OWWA MEMBERSHIP PROMOTION, HEALTH CARE, DISABILITY AND DEATH BENEFITS					
OWWA Membership					
Number of Members Covered	1,123,124	1,225,016	1,473,898	1,603,410	1,676,557

Source: Overseas Workers Welfare Administration

3.2. Bilateral Agreements

Holzmann and Pouget (2010) describe the first best as "equal access of temporary migrants to all social benefits as national workers for equity and efficiency reasons." Given the varying degrees of adherence to recommended conventions, this is difficult to achieve. The ILO has identified two common hindrances emanating from national social legislation. One is territoriality which confines the application of the legislation to the country where it is enacted. The other is that the migrant workers may receive differentiated benefits according to their nationality. The ILO also defined five basic principles that should shape bilateral or multilateral social security agreements. This includes: (a) equality of treatment ensuring that migrant workers should receive equal treatment as own nationals; (b) "portability" is the guarantee that the migrant worker will receive the benefits of acquired rights regardless of where he earned it; (c) one applicable legislation to the migrant at any one time; (d) "totalization" is the principle that completion of a qualifying period should consider all periods served by the migrant regardless of where it was served; and (e) there is administrative facilitation between and among institutions of participating members.

Bilateral agreements is considered as the fastest way of approximating the first best ideal. But Holzmann and Pouget (2010) warn that bilateral and regional arrangements are "poorly understood and articulated."

3.2.1. Social Security Agreements

To guarantee social security benefits for migrant workers, the Philippines entered into bilateral social security agreements with 13 economies, the latest of which is with Germany (signed last 19 September 2014). Such agreements provide for "totalization" and export of social security benefits, thus allowing workers who have worked in the Philippines and the other economy with which the economy has social security agreements with to combine the contributions they have made in both economies to qualify for social security benefit or pension in either or both economies. Similar agreements were made with Spain, France, the United Kingdom, Norway, Northern Ireland, the Republic of Austria, and Quebec. Annex Table A provides a summary of the existing SSAs. Exploratory talks are being pursued on proposed bilateral SSAs with China, the Netherlands, and the USA. Continuing negotiations are being conducted on the proposed SSAs with Israel, Japan, and Korea.

Indications of performance. There is still no direct evidence on the impact of the SSAs on migrant workers. The readily available indications is how much of the deployed OFWs can potentially benefit from the agreements. Table 9 shows the number of OFWs that can potentially benefit from the SSAs is a rather small proportion of the deployed OFWs to the economies where the Philippine has an existing SSA. For 2014, for instance, this only potentially covers 2% of the deployed OFWs. What is even more ominous is the speed with which the economy is able to forge SSAs is not in keeping with deployment as indicated by the declining proportion of OFWs covered.

Table 9. Number of Deployed Land based OFWs in Economies with Bilateral Social Security Agreements

		2010	2011	2012	2013	2014
Total Land based Workers Deployed	Number	1,123,676	1,318,727	1,435,166	1,469,179	1,430,842
Total Land based Workers Deployed covered by SSA	Number	33,698	35,600	35,033	31,882	28,254
	%	3.0%	2.7%	2.4%	2.2%	2.0%

Source: Author's calculation

3.2.2. Bilateral Labor Agreement

Bilateral labor agreements (BLAs) are expected to cover many more areas but with the same objective as SSAs – protecting migrant workers. The most recently enacted law for migrant workers, RA 10022 encourages the Philippine government to enter into bilateral agreements with economies hosting overseas Filipino workers. The economy is viewed by other economies as a pioneer in negotiating BLAs.

The economy has signed BLAs with 21 economies. Annex Table B provides a summary of these agreements. The BLAs may be focused only on the terms and condition of employment and recruitment or be more expansive in coverage to include co-operation on exchange of information and technical expertise on manpower development.

Indications of performance. Again there is no direct evidence on the impact of the BLAs. We can only use an indirect measure such as the proportion of deployed workers who would potentially be benefiting from the BSAs. Table 10 shows that a substantial proportion of deployed workers are potentially covered by the BLAs. In 2014, this is about 41% of deployed OFWs.

Table 10. Number of Deployed Land-based OFWs in Economies with Bilateral Labor Agreements

		2010	2011	2012	2013	2014
Total Deployed Land based OFWs		1,123,676	1,318,727	1,435,166	1,469,179	1,430,842
Total Deployed Land based OFWs covered by BLAs	Number	465,421	537,024	587,773	577,644	589,079
	%	41.4%	40.7%	41.0%	39.3%	41.2%

Source: Author's calculation

4. Summary and Recommendations

The economy continues to deploy more than a million workers a year since 2005 with the most recent estimate (2014) putting it at 1.83 million. Despite consistent and respectable economic growth in recent years, there is no indication that the flow is not showing a definite declining trend as many are expecting in response to a respectable growth of the economy. An emerging feature of the flow is the increasing proportion of re-hires among the migrant workers. This indicates that, contrary to commonly accepted stylized fact, working abroad is not temporary for many of the OFWs but may be becoming a permanent mode of employment. If more and more OFWs continue to work abroad, the importance of improving social protection for them becomes even more of an important policy issue.

The paper describes the current initiatives at providing social protection for migrant workers. This consists of unilateral and bilateral efforts. It also describes the statutory coverage and benefits and provides indications of performance. Among the unilateral efforts are health insurance programs provided by the Philippine Health Insurance Corporation for the OFWs and their dependents. The Philippine Social Security System offers voluntary membership to OFWs not only for its pension program but also for its provident fund program. The Overseas Workers Welfare Administration also provide various forms of social protection program memberships of which is mandatory for all OFWs. The benefits include a suite of services ranging from disability, death and burial, education and training, repatriation and re-integration programs.

The bilateral efforts consist of bilateral social security and bilateral labor agreements. Social security agreements cover such issues as "totalization" and export of social security benefits allowing workers abroad to combine contributions made both at home and abroad to be considered in computation of eligibility and benefits of social security. Labor agreements, on the other hand, cover terms and conditions of employment and recruitment but may also be expansive to cover the exchange of information and technical expertise on manpower development.

While social protection programs appear to be in place, it remains to be seen how effective these are in terms of providing the needed protection for OFWs. As shown in the report, at best the only statistics that are currently available is the extent of OFWs covered and on some the benefits provided. It is useful to note that social protection programs need to be assessed in terms of three dimensions (WHO)[6]: width (population covered), breadth (services/risks covered), and depth (extent of financial protection). Given this framework, more information is still needed to be able to provide a better and more comprehensive assessment of the existing social protection initiatives for OFWs. The study recommends that a more comprehensive and consistent data gathering should be pursued in the future consistent with the assessment framework identified. This should enable a better description of the performance of the existing initiatives. Only then can an empirically-based recommendation be made to improve the social protection provided to migrant workers.

[6] ADB Social protection index uses only two dimensions by combining width and breadth together.

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Annex Table A. Social Security Agreements

Region/Economy	International Social Security Agreement (SSA)	Date Signed/ Date of Entry into Force
Europe		
Austria	Convention on social security	1980/ 01 April 1982
	Agreement for the implementation of the convention on social security	1980/ 01 April 1982
	Supplementary convention amending the convention on social security	2000/ 2004
	Protocol of exchange of instruments of ratification pertaining to the supplementary convention	In Force
Belgium	Convention on social security	Dec. 2001/ March 2002
	Administrative arrangement concerning the terms of application of the convention on social security	Dec. 2001/ March 2002
	Joint declaration on social security	March 2002/ In Force
France	Convention on social security	07 February 1990/ 01 November 1994
	Administrative arrangement relevant to the implementation of the convention	February 1990/ November 1994
Germany	Agreement on social security	19 September 2014
Greece	Agreement on social security	Under negotiation
Netherlands	On the export of social insurance benefits (not a SSA)*	10 April 2001/ In force
	Procedure for verification of claims and ongoing entitlement of AOW – pensions and ANW and AKW – benefits by the SSS for the private sector workers of the Republic of the Philippines (not a SSA)*	2001/ In Force
Norway	Agreement for the voluntary coverage under the social security law, Medicare act and employees' compensation for Filipino employees of the Royal Norwegian Embassy	31 October 1989/ 01 January 1989
Spain	Convention on social security*	20 May 1988/ October 1989
	Administrative agreement for the implementation of the convention	May 1988/ October 1989
Switzerland	Agreement on social security	March 2002/ September 2001
	Administrative arrangement for the implementation of the agreement on social security	March 2002/ September 2001
	Convention on social security	17 Dec. 2001/ 01 March 2004

Region/Economy	International Social Security Agreement (SSA)	Date Signed/ Date of Entry into Force
United Kingdom	Convention	1985/ September 1989
	Arrangements for the implementation of the convention	1985/ September 1989
	Concerning benefits for old age, survivors (widows) and industrial accidents and corresponding benefits under the social security scheme in the Philippines	01 November 1989/ 01 December 1989
UK and Northern Ireland	Convention on social security	27 February 1985/ 01 December 1989
North America		
Canada	Agreement on social security	September 1994/ March 1997
	Administrative arrangement for the implementation of the agreement on social security	September 1994/ March 1997
	Supplementary agreement to the agreement on social security	1999/ July 2001
Canada (Quebec)	Understanding on social security	October 1996/ November 1998
Canada (Quebec)	Administrative arrangement for the implementation of the understanding on social security	October 1996/ November 1998
Canada (Quebec)	Amendment to the understanding on social security*	2000/ In Force
United States of America	Agreement concerning social security coverage for non-US citizen employees, etc.	07 June 1949/ 07 June 1949 30 August 1963/ 30 August 1963 08 October 1963/ 08 October 1963 10 March 1965/ 10 March 1965 15 July 1965/ 15 July 1965 25 April 1967/ 25 April 1967 21 May 1976/ 21 May 1976
Middle East		
Israel	Agreement on social security	March 2009/ Pending
	Administrative arrangement for the implementation of the agreement	March 2009/ Pending
Asia		
Korea	Agreement on social security	September 2006/

Region/Economy	International Social Security Agreement (SSA)	Date Signed/ Date of Entry into Force
		Pending
	Administrative arrangement for the implementation of the agreement	September 2006/ Pending
Source: CMA, 2012. Bilateral Labor Agreements and Social Security Agreements. Appendix 2. https://centerformigrantadvocacy.files.wordpress.com/2012/06/bilateral-labor-agreements-and-social-security-agreements1.pdf		

Annex Table B. Bilateral Labor Agreements

Economy	Agreeing Parties	Labor Agreement	Date Signed
Bahrain	The Republic of the Philippines and the Kingdom of Bahrain	MOA on Health Services Cooperation	27 April 2007
Canada			
Alberta	Dept. of Labor and Employment (DOLE) and the Ministry of Employment and Immigration of Alberta, Canada	MOA concerning Cooperation in Human Resources Deployment and Development	01 October 2008
		Draft of Implementing guidelines for the MOU with British Colombia and Alberta	
British Columbia	DOLE and the Ministry of Economic Development of the Govt. of British Columbia, Canada	MOU concerning Co-operation in Human Resources Deployment and Development	29 January 2008
Manitoba	The Rep. of the Phil. (DOLE) and the Dept. of Labor and Immigration of the Govt. of Manitoba, Canada	MOU concerning Co-operation in Human Resource and Deployment	08 February 2008
Manitoba	The Rep. of the Phil. (DOLE) and the Dept. of Labor and Immigration of the Govt. of Manitoba, Canada	MOU concerning Co-operation in Human Resource Development and Deployment	21 September 2010
Manitoba	The Rep. of the Phil. (DOLE) and the Dept. of Labor and Immigration of the Govt. of Manitoba, Canada	Guidelines for the Implementation of the MOU concerning Co-operation in Human Resource Development and Deployment	21 September 2010
Saskatchewan	The Rep. of the Phil. (DOLE) and Her Majesty the Queen in the Right of the Province of Saskatchewan as Represented by the Minister Responsible for Immigration and the Minister of Advanced Education and Employment	MOU concerning Co-operation in the Fields of Labour, Employment and Human Resource Development	18 December 2006
Commonwealth of the Northern Mariana Islands	The Rep. of the Phil. (DOLE) and the CNMI	MOU	14September 1994

(CNMI)		MOU	18 December 2000
Indonesia	The Rep. of the Phil. (DOLE) and the Dept. of Manpower and Transmigration of the Republic of Indonesia	MOU concerning migrant workers	18 January 2003
Iraq	The Rep. of the Phil. (DOLE) and the Rep. of Iraq	MOA relating to mobilization of manpower	25 November 1982
Japan	The Phil. Overseas Employment Administration and the Japan International Cooperation of Welfare Services	MOU on the deployment and acceptance of Filipino candidates (JPEPA)	12 January 2009
Jordan	The Minister of Labor of the Philippines and the Minister of Labor of the Hashemite Kingdom of Jordan	MOU	5 December 1981
Jordan	The Government of the Philippines and the Government of the Hashemite Kingdom of Jordan	Agreement on Manpower	3 December 1988
Jordan	The Government of the Hashemite Kingdom of Jordan and the Government of the Philippines	MOU on Labor Cooperation	27 May 2010
Jordan	The Government of the Hashemite Kingdom of Jordan/Ministry of Labor and the Government of the Philippines/DOLE	Principles and controls for Regulating Deployment and Employment of Filipino Domestic Workers	29 January 2012
Korea	The DOLE of the Philippines and the Ministry of Labor of the Republic of Korea	MOU on the Sending of Workers to the Republic of Korea	23 April 2004
Korea	The Republic of the Philippines and the Republic of Korea	MOA	15 December 2005
Korea	The DOLE of the Philippines and the Ministry of Labor of the Republic of Korea	MOU on the Sending and Receiving of Workers of the Republic of Korea under the Employment Permit System	20 October 2006
Korea	The Ministry of Labor of the Republic of Korea and the DOLE of the	MOU on Cooperation in the Field of Labor and Manpower Development	30 May 2009

	Philippines		
Korea	The DOLE of the Philippines and the Ministry of Labor of the Republic of Korea	MOU on the Sending and Receiving of Workers under the Employment Permit System of Korea	30 May 2009
Kuwait	The Government of the Republic of the Philippines and the Government of the State of Kuwait	MOU on Labor and Manpower Development	14 September 1997
Kuwait	The Dept. of Foreign Affairs of the Republic of the Philippines and the Ministry of Foreign Affairs of the State of Kuwait	MOU on the Establishment of Bilateral Consultations	14 September 1997
Lao People's Democratic Republic (LAO PDR)	The Government of the Republic of the Philippines and the Government of LAO PDR	MOU on Technical Cooperation on Labor and Employment	27 July 2005
Libya	The Philippines and Libya	Agenda for Cooperation in the Field of Labor, Employment and Manpower Development	18 October 1979
Libya	The Philippines and Libya	MOU (with Arabic Version)	17 July 2006
New Zealand	The Government of the Republic of the Philippines and the Government of New Zealand	MOA on Labor Cooperation	4 November 2008
Norway	POEA and the Directorate of Labour Norway	Agreement on Transnational Cooperation for Recruiting Professionals from the Health Sector to Positions in Norway	26 June 2001
Papua New Guinea	The Philippines and Papua New Guinea	MOU	14 March 1979
Qatar (Between the Government of the Republic of the Philippines and the State of Qatar)		Agreement Concerning Filipino Manpower Employment in the State of Qatar	10 May 1997
Spain	The Ministry of Labor and Social Affairs of the Kingdom of Spain and	MOU on Cooperation for the Management of the Migration Flows (English	29 June 2006

	the Ministry of Labor and Employment of the Republic of the Philippines	Version) MOU on Cooperation for the Management of the Migration Flows (Spanish Version)	
Switzerland	The Government of the Republic of the Philippines and the Swiss Federal Council	Agreement on Exchange of Professional and Technical Trainees	2 July 2002
Chinese Taipei	The Manila Economic and Cultural Office (MECO) in Taipei and the Taipei Economic and Cultural Office (TECO) in the Philippines	MOU regarding the Special Hiring Workers	3 September 1999 12 January 2001 20 March 2003
United Arab Emirates (UAE)	The Government of the Republic of the Philippines and the Government of the UAE	MOU in the Field of Manpower MOU in the Field of Manpower (Arabic)	9 April 2007
United Kingdom	The Government of the Philippines and the Government of the Kingdom of Great Britain and Northern Ireland	MOU on Healthcare Cooperation	30 July 2003
United Kingdom	The Government of the Philippines and the Government of the Kingdom of Great Britain and Northern Ireland	Recruitment Agreement	8 January 2002
United States of America	The Government of the Republic of the Philippines and the Government of the United States of America	Agreement Relating to the Recruitment and Employment of Philippine Citizens by US Military Forces and Contractors and Civilian Agencies of the US Government in Certain Areas of the Pacific and the Southeast Asia	28 December 1968
Source: CMA, 2012. Bilateral Labor Agreements and Social Security Agreements. Appendix 2. https://centerformigrantadvocacy.files.wordpress.com/2012/06/bilateral-labor-agreements-and-social-security-agreements1.pdf			

Thailand: Social Resilience in a Divided Society

Yasuhito Asami[1]

1. Introduction: Social Cleavage and Resilience

Thailand has been one of the forerunners among Southeast Asian nations in implementing social protection policies. Thailand introduced the universal health care scheme in 2001, thirteen years ahead of Indonesia. UN Secretary General Ban Ki-moon lauded Thailand's healthcare system, saying, "In Thailand I saw the benefits and effects of universal health care. .... Thailand is a middle-income country but they started a long time ago. So you don't have to wait to be rich to provide these health services to people." (Ban 2011) Amartya Sen wrote in his column in the British newspaper, *the Guardian*, "Thailand's experience in universal healthcare is exemplary, both in advancing health achievements across the board and in reducing inequalities between classes and regions." (Sen 2015)

In 2004, Thailand introduced unemployment insurance. Vietnam followed suit in 2010. But, so far, no other economy in the region, including the economically more affluent Singapore and Malaysia, has introduced unemployment insurance, as of yet. As we will see in the later sections of this paper, Thailand's unemployment insurance has been functioning quite well without putting too much burden on the government's coffer.

In 1998, the old-age pension scheme for those who used to work in the formal sectors started as a part of the social security system. The Thai government also started providing 500 baht per month to the elderly people uncovered by the social security system in 2009, without requiring them to pay any prior contributions to the scheme. In 2015, a non-compulsory contributory public pension scheme for those who worked in the informal sectors was set up.

The main objective of this paper is to draw lessons, both positive and negative, from Thailand's experience in expanding social protection. Although Thailand is well ahead of most of the other Southeast Asian countries in the field of social protection, it has been facing a number of difficulties. Lessons learnt from Thailand's experiences will be helpful for other Southeast Asian countries to maximize the benefits of the expansion of social protection and minimize the difficulties it might entail.

Social protection is said to increase social resilience, and it did so in Thailand. The expansion of social protection is also often said to reduce social cleavage. But, so far as its effects on social cleavage are concerned, social protection policies in Thailand do not seem to have any tangible positive impacts, at least for now.

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The causal relations between expansion of social protection and social cleavage can run both ways. Under favorable conditions, expansion of social protection can reduce social cleavage. But when social cleavage is so deep and mutual distrust and hatred among conflicting societal groups are so strong, it might as well hinder the expansion of social protection. In Thailand, the prolonged political conflict and deepening social mistrust and hatred between the urban elites and the rural masses in recent years have been casting an increasingly darker shadow on social protection policies, as we will see in the later sections of this paper.

Like many other Asian economies, Thailand also has a three-tier structure of social protection; the first tier for those who work/worked in the informal sectors, the second tier for employees and former employees of private enterprises in the formal sectors, and the third tier for public servants[2]. The number of public servants is much smaller than those who are covered by the first and second tiers, and, in general, public servants in Thailand have been better protected by the government-sponsored insurance and pension schemes. Therefore, this paper focuses its attention to the first two tiers.

More specifically, this paper seeks to find answers to the following three research questions regarding social protection policies in Thailand;

1) How does the current social security system work with regards to informal workers?

2) What are the shortcomings of the current systems?

3) How can we strengthen social protection for informal workers in a divided society?

Informal workers in Thailand are largely excluded from the contributory social security system. Though some efforts have been made to extend the social security system to cover some portions of informal workers, it seems neither feasible nor desirable to put all the informal workers under the current social security system.

The two main shortcomings of the current social security systems in Thailand are 1) insufficient protection for informal workers, and 2) financial unsustainability of the pension scheme. As for the protection for informal workers, however, some noteworthy attempts have been made to set up non-contributory social protection programs separate from the ones for formal workers. As for financial sustainability, except for the pension scheme, the current social security system for formal workers does not seem to face serious financial deficits in the foreseeable future. The pension scheme, however, will need to go through extensive reforms, if it is to avoid accumulating huge deficits in the not-so-distant future.

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[2] In the literature on social protection, the term, "three-tier structure," has been used in many different ways. In one of the most common uses of the term, the three-tier structure is said to consist of 1) a tax-financed tier for those who are not entitled to receive benefits from social insurance schemes, 2) a social insurance tier for employees and former employees in the formal sectors with mandatory contribution from employers and employees, and 3) a complementary tier for those who can afford to supplement their first or second two securities by voluntarily purchasing commercial insurance benefits (For example, Devereux and Sabates-Wheeler 2004, 16). It should be noted, however, that the term, "three-tier," is used in a little different way in this paper. This paper does not include protection offered by commercial insurances into its scope of analysis. It also regards the social protection for public servants as a tier separate from social insurance schemes for employees and former employees of private enterprises in the formal sector.

This paper argues that proper sequences and the right timing are key if we are to strengthen social protection for informal workers effectively. Thailand's experiences show that no matter how well designed the program is, if it is implemented in a wrong sequence and/or with the wrong timing, it won't improve social protection for informal workers. It also argues that politics can play significant roles, both positive and negative, depending on political situations, in determining the directions and pace of the expansion and improvement of social protection for informal workers.

2. Defining and Identifying Informal Sectors

2.1. Definition of Informal Sectors

Thailand's National Statistical Office started conducting a survey on informal employment in 2005, and publishes an "Informal Employment Survey" annually. In these surveys, informal employment is defined as "employed persons who are not protected and have no social security from work like formal employment," while formal employment is defined as "employed persons who are protected and have social security from work" (National Statistical Office 2012, 19-20).

Though it might look blatantly simple, the above official definition of informal employment in Thailand is in accordance with the latest guideline concerning a statistical definition of informal employment endorsed in the 17th International Conference of Labour Statisticians in 2003, which says, "Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, special protection or entitlement to certain employment benefits" (ILO 2013, 293).

In the old definition adopted in the 15th International Conference of Labour Statisticians in 1993, informal employment was defined as those who work in the informal sectors. This old definition, however, excluded a large number of people who worked in the formal sectors without a formal employment contract and/or without being covered by labor legislation. In the new definition, all those who work with a non-standard, irregular or precarious employment status are classified as informal workers regardless of whether they work in the formal or informal sectors.

In Thailand, not only those who work in the informal sectors, but also almost all the small-scale farmers and self-employed workers are classified as informally employed. All the workers with a formal employment status in Thailand are now required to enroll in the social security system regardless of the sizes of the business enterprises where they work. Therefore the line between those who are covered by the social security system and those who are not coincides with the line between those who have formal employment status and those who do not.

2.2. Characteristics and Significance of Informal Sectors in Thailand

As shown in Figure 1, informal workers have been occupying around 60% of all the employed persons in Thailand. The share of informal workers has just started declining in the past two years. Even after a slight drop in the past two years, however, informal workers still far outnumber formal workers.

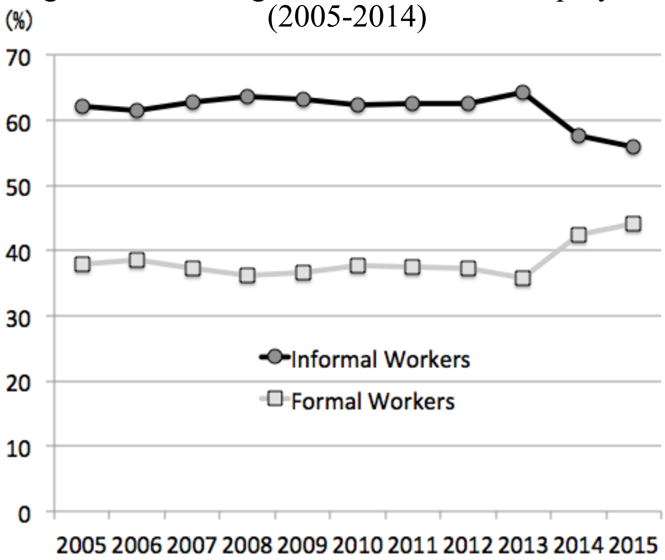
A decline in the share of informal workers in the recent two years is largely attributable to the decrease in the number of farmers, which still occupy more than a half of informal workers in Thailand. Figure 2 shows that the share of farmers in the total number of informal workers started declining in the past two years.

The national average figures shown in Figure 1 and 2, however, conceal vast differences across the regions in Thailand. Figure 3 shows that the shares of informal workers differ considerably across the regions.

In Bangkok, formal workers occupy more than 70% of all the workers. Formal workers outnumber informal ones in the central region as well. But in the North and Northeast, the shares of informal workers exceed 70%, while in the more urbanized South, the share of informal workers does not reach 60%.

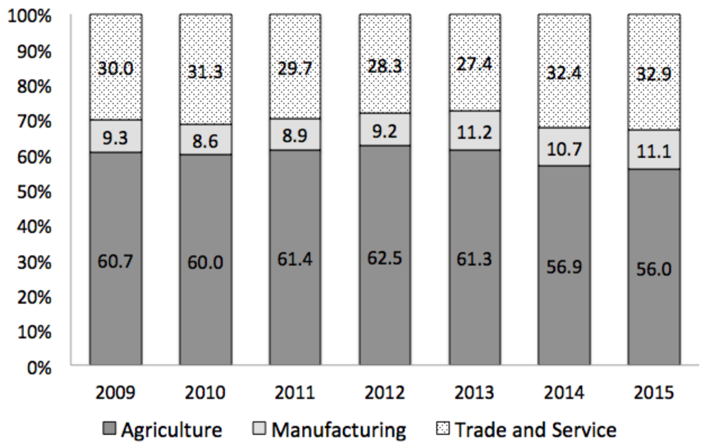
It should be noted that the line between the regions with a large number of informal workers and those with a large number of formal workers roughly coincides with the line between the regions where the supporters of the former Prime Minister Thaksin Shinawatra dominate and the regions where anti-Thaksin sentiment runs deep. Therefore, it is not surprising that the prolonged political conflict between the anti- and pro-Thaksin camps has been

Figure 1: Percentage share of informal employment (2005-2014)



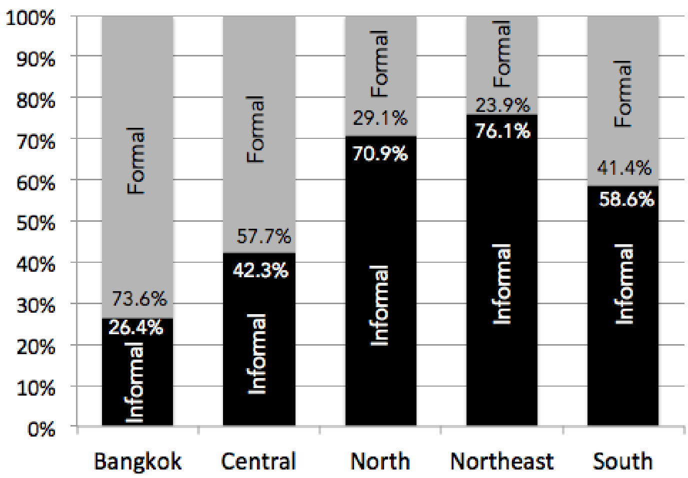
(Source: National Statistical Office, *Informal Employment Survey*, various issues.)

Figure 2: Types of Industry and the Distribution of Informal Workers (2009-2015)



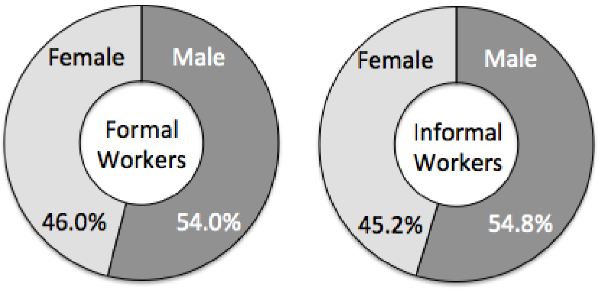
(Source: National Statistical Office, *Informal Employment Survey*, various issues)

Figure 3: Shares of Informal Workers in Each Region (2015)



(Source: National Statistical Office, Informal Employment Survey 2015) affecting the policy debates regarding the expansion of social protection for informal workers. Pro-Thaksin political parties tend to show more willingness to expand and improve social protection for informal workers, including farmers, while the anti-Thaksin camp tends to view those policies initiated by pro-Thaksin political parties merely as a political tool to boost Thaksin's popularity by using the money collected from the middle- and upper classes as tax.

Figure 4: Gender Ratios of Formal and Informal Workers (2014)



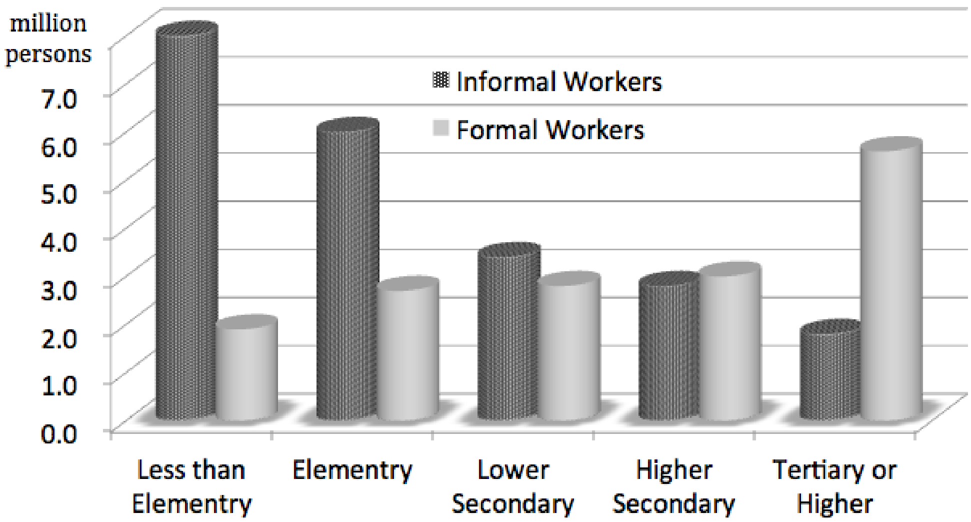
(Source: National Statistical Office, Informal Employment Survey 2014)

As shown in Figure 4, in Thailand, unlike Japan and South Korea, the gender ratio does not differ much between informal and formal workers.

Figure 5 shows that there is a big difference in the educational levels between the formal and informal workers.

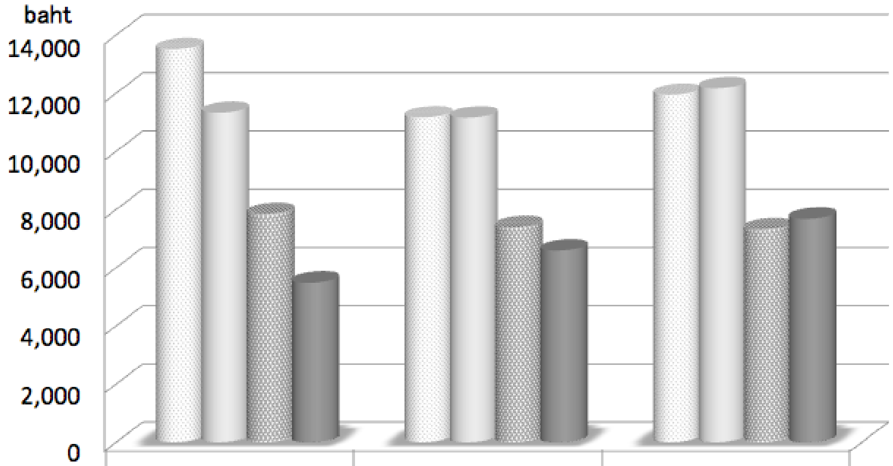
According to the *Informal Unemployment Survey*, the average monthly wage of Informal workers was 6,583 baht, while that of formal workers was 14,427 baht in 2015 (NSO 2015, 14). A huge difference in their average monthly wages cannot be accounted for solely by the large presence of farmers among informal workers. Figure 6 shows that the average monthly wage of informal workers is much smaller than that of formal workers within the non-agricultural sectors as well.

Figure 5: Educational Levels of Informal and Formal Workers (2014)



(Source: National Statistical Office, Informal Employment Survey 2014)

Figure 6: Average Monthly Wages of Informal Workers and Formal Workers in Non-Agricultural Sectors (2015)



	Manufacturing	Construction	Commerce
Formal Workers (male)	13,513 baht	11,169 baht	11,946 baht
Formal Workers (female)	11,330 baht	11,164 baht	12,170 baht
Informal Workers (male)	7,851 baht	7,400 baht	7,324 baht
Informal Workers (Female)	5,489 baht	6,592 baht	7,684 baht

(Source: National Statistical Survey, Informal Employment Survey 2015)

It should also be noted that gender inequality in wages is larger among informal workers. As shown in Figure 6, there exist considerable differences between male and female informal workers in the manufacturing and construction sectors, while the differences are smaller among formal workers. In the commerce sector, unlike in the other sectors, female workers, on average, receive higher wages than their male counterparts.

As for the significance of informal sectors, according to one of the World Bank's reports, the informal sectors accounted for as much as 48.2% of its GDP in 2007 (Schneider, Buehn, and Montenegro 2010, 30). In terms of employment, as already shown in Figure 1, more than half of workers in Thailand are in informal employment. Although informal workers in Thailand are less educated and paid less than formal workers, there is no doubt that informal workers contribute to the Thai economy significantly. As we will see in the following sections, however, informal workers are not as well protected by the governmental social security policy as formal workers.

3. Overview of Current Social Security System

3.1. Workmen's Compensation Fund

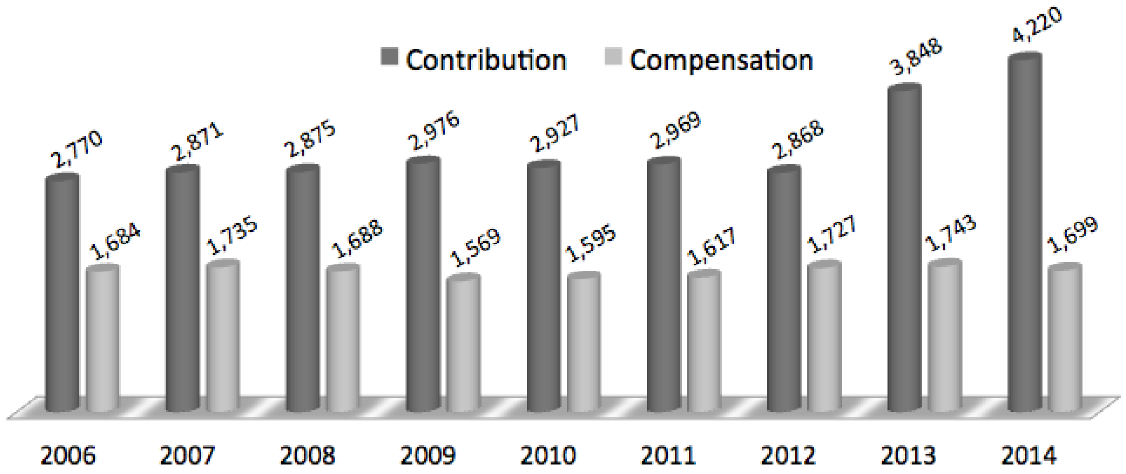
The Workmen's Compensation Fund was established in 1972 to provide compensation for employees who are injured, disabled, made sick, or killed from work-related causes. But it only covered formal workers in business establishments with 20 or more employees in the Bangkok Area. In 1976, the coverage was expanded to cover five more provinces near Bangkok, namely, Samut Prakan, Nonthaburi, Pathum Thani, Samut Sakhon, and Nakhon Pathom. But it was not until 1988 when the coverage was expanded to cover all the provinces. In 1993, it came to cover formal workers in the business establishments with 10 or more employees, and then in 2002, it finally came to cover all the formal workers in the business establishments with one or more employees (Social Security Office 2015b, 5).

In the case of death from a work-related cause, the Workmen's Compensation Fund provides 60% of the deceased worker's monthly wage for 8 years and a funeral expense, which is equal to 100 times minimum daily wages, to his or her family. As for medical expenses for those who are injured or get sick, the amount of compensation is stipulated in the Ministerial Regulation on the prescribed medical expense each year. For 2015, if the medical expense does not exceed 50,000 baht, the employee can receive all the medical expense as actually incurred. If certain conditions specified by the Ministerial Regulation are met, the upper limit can be increased up to 1 million baht. If the workers have to be absent from a work-related injury or sickness for more than three consecutive days but not exceeding one year, the Workmen's Compensation Fund will provide them with 60% of their wages during their absence. In the case of work-related invalidity, the workers can receive 60% of their wages for 15 years from the Fund (For more detail, see the Social Security Office's website: http://www.sso.go.th/wpr/category.jsp?lang=th&cat=773).

The Workmen's Compensation Fund has been funded solely by employers' contribution. The contribution rate varies from 0.2 to 1.0% of wages. The employers in the industries with a high number of industrial accidents are required to pay at a higher contribution rate. The contribution rate will be reduced in proportion of 20-80% if no or only a small number of industrial accidents occurred in their enterprises in the preceding years. On the contrary, the contribution rate will be increased in proportion of 20-150% if a large number of industrial accidents occurred in their enterprises.

As Figure 7 shows, the amount of contributions paid to the Workmen's Compensation Fund far exceeds the amount of compensation it paid to workers. It means Thailand's Workmen's Compensation Fund has very strong financial sustainability. It may also suggest that it is financially feasible to reduce the contribution rate.

Figure 7: Contribution to and Compensation from the Workmen's Compensation Fund



(Source: Social Security Office, *Annual Report*, various issues)

Workmen's Compensation Fund does not cover informal workers. Unlike formal workers, informal workers in Thailand cannot receive any compensation even if they get injured, sick or killed from work-related causes.

Even for formal workers, the Workers' Compensation Fund does not cover non-work-related injury, sickness, and death. It is also common for employers to be reluctant to admit that the workers' injury, illness or death is work-related, because, if they admit, they will have to pay a higher compensation rate in the following years. As the number of formal workers increased in the 1980s, workers organizations came to demand for a social security system, which cover non-work-related injury, sickness, and death.

3.2. Social Security Fund

The social security system was established in 1991. In the first two years, it only covered formal workers who worked in the establishments with 20 or more employees. In 1993, it came to cover formal workers who worked in the establishments with 10 or more employees. It was not until 2000 when it came to cover all the formal workers regardless of the number of employees who work in their workplace. Since 2000, all the formal workers have been legally obliged to enroll in the social security system.

In its first seven years, namely from 1991 to 1998, Thailand's social security system provided only four types of benefits, that is, non-work-related sickness and injury, non-work-related invalidity, non-work-related death, and maternity. In 1998, an old-age pension scheme and child allowance started as a part of the social security system. Then in 2004, unemployment insurance also started as a part of the social security system.

3.2.1. Contribution Rates

Thailand's social security system has been co-funded by employers, employees, and the government. The current contribution rate is shown in Table 1 below.

Table 1: Contribution Rates for Thailand's Social Security

	Employers	Employees	Government
Sickness, Invalidity, Death*, and Maternity	1.5%	1.5%	1.5%
Child Allowance and Old Age Pension	3.0%	3.0%	1.0%
Unemployment	0.5%	0.5%	0.25%
Total	5.0%	5.0%	2.75%

* Sickness, Invalidity, and Death must be non-work-related.

Work-related ones are covered by Workmen's Compensation Fund.

(Source: Ministerial Regulation Contribution Prescribing the Rate of Contributions for Social Security Fund 2012, and Ministerial Regulation Prescribing the rate of Contributions for Benefit Payment in Case of Unemployment 2003)

3.2.2. Current Benefits

[Sickness]

Workers enrolled in the Social Security System can receive free medical care, including prescribed medicines, in a registered hospital, if they have contributed to the Social Security Fund for three months or more in the preceding 15 months. They can also receive 50% of their wages during their absence from the workplace, so long as their absence does not exceed 90 days for each sickness or injury (Article 62-64, Social Security Act).

[Invalidity]

In the case of lifetime invalidity, those who contributed 3 months or more during the preceding 15 months can receive 50% of their wages throughout his or her life (Article 69-71, Social Security Act).

[Death]

If the case of non-work related death, the Social Security Fund provides a lump sum payment of 40,000 baht to the worker's family to cover funeral expenses, so long as he or she has paid contributions at least 1 month in the preceding 6 months. In addition to funeral expenses, the deceased worker's family can receive 1.5 times his or her monthly wage if he or she has paid contributions for 36-119 months before the death, or 5 times the monthly wage if the worker paid contributions for 120 months or more (Article 73-, Social Security Act).

[Maternity]

As for maternity benefits, a lump sum payment of 13,000 baht will be made to cover medical costs so long as a worker has paid contributions for not less than seven months during the 15 months before the date of receiving medical services for pregnancy. They can also receive 50% of their salary for 90 days as a partial income replacement during their maternity leave (Article 65-67, Social Security Act).

[Child Allowance]

Workers who have paid contribution for not less than 12 months during the period of 36 months before the birth of their child can receive 400 baht per child per month until their child reaches the age of six. The number of children, for whom workers are entitled to claim child allowance, however, cannot exceed two (Article 74-75, Social Security Act).

[Old-Age Pension]

Workers who have paid contribution for a period of not less than 180 months whether the contributions are consecutively paid or not can receive old-age pension after their retirement. The base rate is 20% of average wage of the last 60 months before retirement. For those who have paid contribution for 192 months or more, 1.5% would be added to the base rate per every 12 months of contributions above 180 months. (Article 76-77, Social Security Act; Article 2, Ministerial Regulation Prescribing the Rules, Procedures, Period, and Rate of Compensation Payment in the Event of Old Age, 2007). A worker who worked and paid contributions for 35 years can receive 50% of average wage of the last 60 months before retirement, because 30.0% (1.5% multiplied by 20) would be added to the base rate, which is 20%.

For those who have paid contributions for less than 180 months, or 15 years, are not entitled to old-age pension. But they can receive a lump sum old-age benefit when they retire. The amount of the lump sum old-age benefit varies depending on the number of months for which workers paid contributions. (Article 76-77, Social Security Act; Article 6-7, Ministerial Regulation Prescribing the Rules, Procedures, Period, and Rate of Compensation Payment in the Event of Old Age, 2007).

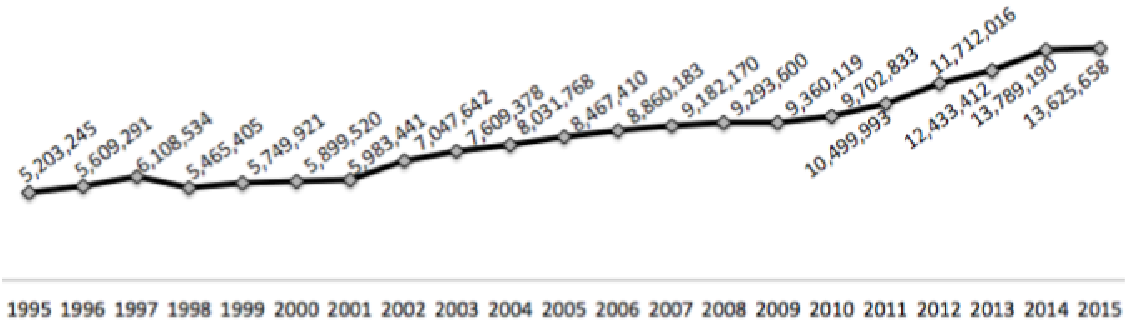
[Unemployment Insurance]

Workers who have paid contributions for not less than 6 months within 15 months before becoming unemployed can receive unemployment benefit, so long as they show their willingness and ability to work. In case of involuntary lay-off, workers can receive 50% of their average wage before lay-off for six months. In case of voluntary resignation, workers can receive 30% of their average wage for three months. In order to be eligible for unemployment benefits, unemployed workers need to register as a job seeker at the Employment Office, and report to the Employment Office at least once a month. Once they find a new job, they are no longer eligible for unemployment benefits. (Article 78-79, Social Security Act; Article 1 & 3, Ministerial Regulation Prescribing the Rules, and Rate of Compensation Payment in the Event of Unemployment, 2004).

3.2.3. Expansion of Social Security System

Figure 8 shows that the number of people who registered with the Social Security Office has been steadily increasing. In addition to formal workers, for whom registration is compulsory, the Social Security Office also accepts those who are not formal workers as voluntary members. Voluntary members can be classified into two groups.

Figure 8: The Number of Persons Registered with the Social Security Fund



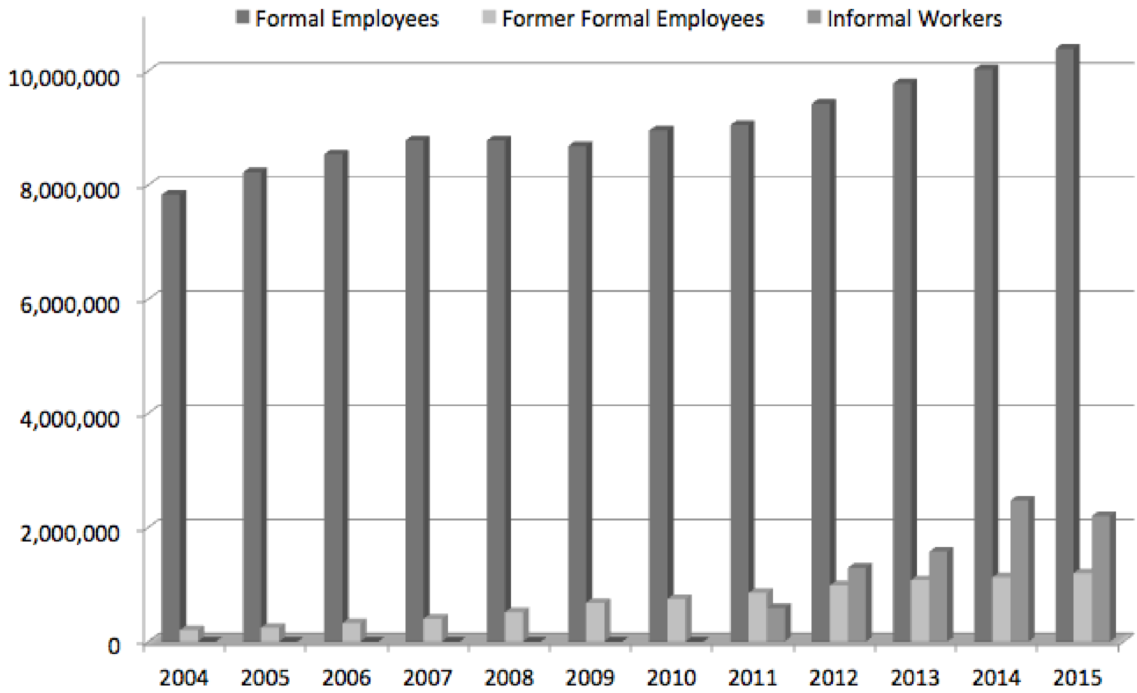
(Source: Social Security Office, *Annual Report*, various issues)

The first group consists of those who were registered with the Social Security Office as a formal worker for not less than one year. If they submit an application form within six months after they ceased to be a formal worker, they are accepted as a voluntary member under Article 39 of the Social Security Act. They can receive all the benefits except for unemployment insurance. They are required to pay 432 baht per month as their contribution[3].

The second group consists of those who are not a formal employee and ineligible to register under Article 39, or in other words, those who have never registered with the Social Security Office or registered for less than one year. They can register with the Social Security Office under Article 40 of the Social Security Act, if they pay 70 baht or 100 baht as their monthly contribution. As the amount of their contribution is smaller, benefits they can receive are also smaller than formal employees or those who register under Article 39. We will see the provisions regarding those who register with the Social Security Office under Article 40 in more detail in Section 4.

[3] The amount of their contribution, 432 baht, is calculated as 9% of 4,800 baht. As shown in Table 1, formal workers are required to pay 4.5% of their wage as their contribution for various benefits except for unemployment insurance. Their employers also pay the same amount as contributions. It means the Social Security Office receives 9% of each worker's wage as contributions for six types of benefits. As those who register under Article 39 do not have any employers who pay contributions for them, they are required to pay 9% of their "wage." Since they are not formal employees, however, they do not have a fixed wage. In order not to put too much burden on them, in the calculation of their contribution, their monthly "wage" is supposed to be 4,800 baht, which is equivalent to 16 times of daily minimum wage. All those who register under Article 39 pay a flat amount, that is 432 baht, as their contribution, regardless of their real income level.

Figure 9: The Number and Composition of Those Who Registered with the Social Security Office



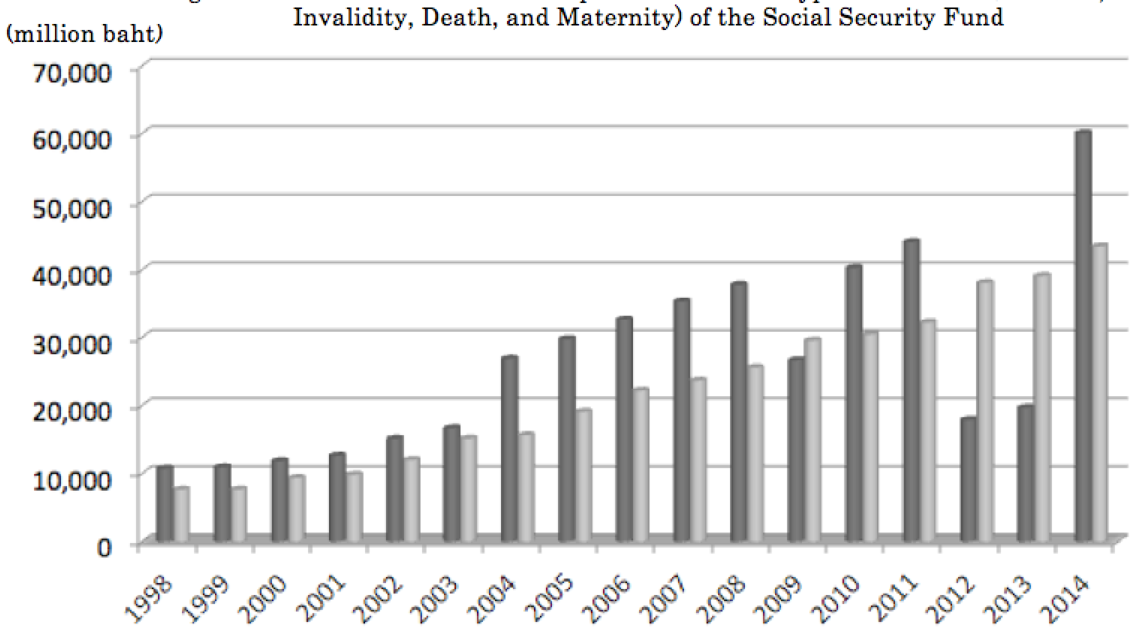
(Source: Social Security Office, *Annual Report*, various issues)

Figure 9 shows that, though the overwhelming majority of those who register with the Social Security Office are formal employees, the number of voluntary members has been increasing. We will analyze the reasons behind the rapid increase of informal workers who register with the Social Security Office in 2011-2014 in Section 4.

3.2.4. Financial Sustainability of Thailand's Social Security System

As shown in Figure 10, the amount of contribution for the first four types of benefits (sickness, invalidity, death, and maternity) has been safely exceeding the amount of compensation, except for 2009, and 2012-2013. The amount of contribution declined abruptly in those three years because the government temporarily reduced the contribution rate for workers and employers as a measure to reduce the "social pain" caused by the world-wide recession triggered by the bankruptcy of Lehman Brothers in September 2008 and economic down-turn caused by a severe flood, which hit many parts of Thailand, including Bangkok, in the latter half of 2011. So long as the usual contribution rate is maintained, provision of the first four types of benefits is unlikely to run a deficit. Though the amount of compensation paid has been increasing, the pace of increase is lower than the pace of increase in the amount of contribution.

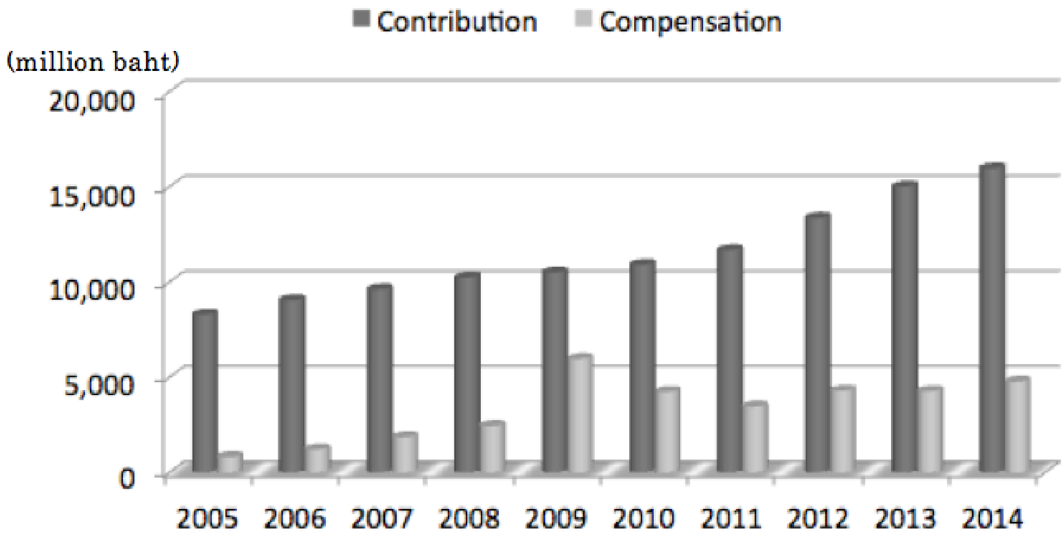
Figure 10: Contribution to and Compensation from 4 Types of Benefits (Sickness, Invalidity, Death, and Maternity) of the Social Security Fund



(Source: Social Security Office, *Annual Report*, various issues)

Figure 11 shows that unemployment insurance, which is a part of the Social Security Fund, has been accumulating a huge amount of profit. Even in 2009 when the Thai economy was hit very hard by the worldwide recession and Thailand's GDP growth rate plunged to -0.7%, the amount of unemployment benefits paid did not exceed the amount of contribution collected.

Figure 11: Contribution to and Compensation from Unemployment Benefits of the Social Security Fund



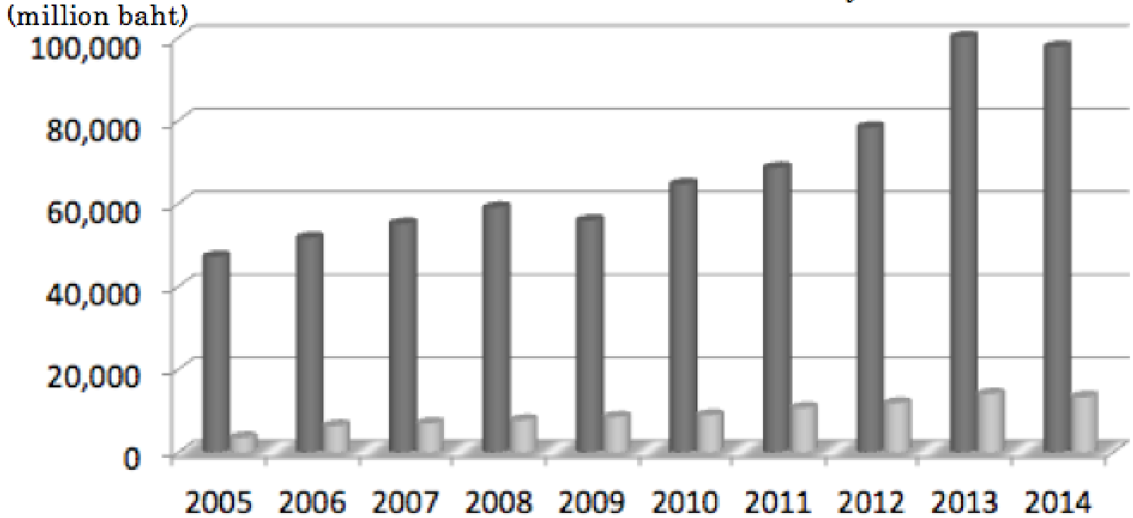
(Source: Social Security Office, *Annual Report 2014*, Figure 5, p.23)

As already explained, unemployment benefits offered by Thailand's unemployment insurance is not as benevolent as those in European countries. Laid-off workers can receive only 50% of their wage for 6 months at the maxim. So long as the present contribution rate is maintained and unemployment benefits remain the same, Thailand's unemployment insurance is very unlikely to run a deficit for a prolonged period (for more detailed analysis of the financial sustainability of Thailand's unemployment insurance, see Asami 2010).

Figure 12 shows that Thailand's old-age pension scheme, which is also a part of the Social Security Fund, has been accumulating a huge surplus every year. The huge surplus shown in Figure 12, however, conceals a very serious financial unsustainability of the pension scheme.

The Social Security Fund started collecting contributions for old-age pension and child allowance in 1998. Workers, however, become eligible to receive a pension only after they pay contributions for at least 15 years. If they retire before the number of years of their enrollment reaches 15 years, they only receive a relatively small amount of lump sum old-age benefit. It means it was not until 2013 when the Social Security Fund started paying old-age pensions.

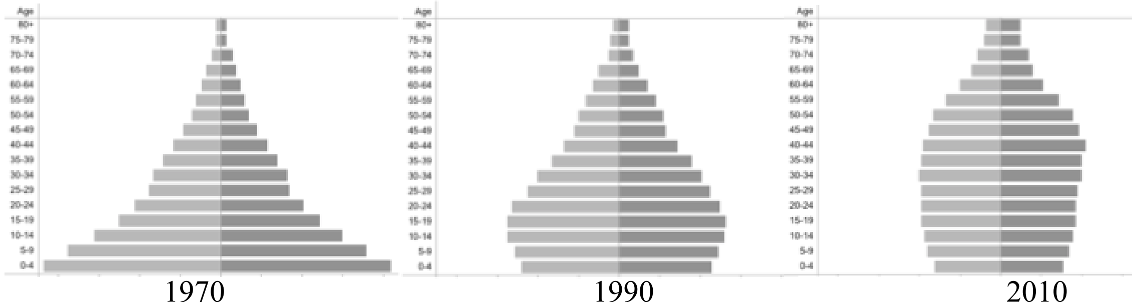
Figure 12: Contribution to and Payment from Old-Age Pension and Child Allowance of the Social Security Fund



(Source: Social Security Office, *Annual Report 2014*, Figure 4, p.23)

As shown in Figure 8, the number of workers registered with the Social Security Office in 1998 was less than half of the number of registered workers in 2014. For the time being, the number of those who pay contribution far exceeds the number of those who received pension. Such a situation, however, will change drastically in the not-so-distant future. The Thai society is rapidly aging, as clearly shown in Figure 13.

Figure 13: Changing Shape of Thailand's Population Pyramids, 1970, 1990, and 2010



(Source: Haub 2013)

In addition, as the average year of workers' enrollment in the Social Security Fund become longer, the amount of pension to be paid also becomes larger. Those who retired in 2013 or 2014 received only 20% or 21.5% of their wage as their pensions, because the period of their enrollment with the Social Security Fund is just a little longer than 15 years. In 20 years, however, a large number of workers come to retire after registering with the Social Security Fund for 35 years or more. As explained earlier, if the present regulation is not revised, workers who retire after paying contributions for 35 years are entitled to receive 50% of their wage until their death.

Simple arithmetic calculations show that Thailand's pension scheme is likely to become financially unsustainable in a few decades. Let us take an example of a worker who retires after registering with the Social Security Office for 35 years. To make our calculation simple, let us suppose that he or she continue to receive 10,000 baht as his or her monthly wage throughout those 35 years. As a contribution rate for the pension scheme and child allowance is set at 3%, this worker must pay 300 baht per month. His or her employer also pays 300 baht per month, the government 100 baht (see Table 1). Altogether, the Social Security Office receives 700 baht per month. After his or her retirement, the Social Security Office must pay 5,000 baht per month, that is, 50% of his or her monthly salary.

How long the Social Security Office can pay 5,000 baht per month by using the accumulated amount of contributions made for this worker depends on how much return the Social Security Office will make by investing the pension fund. It also depends on the number of children for whom they claim child allowance, because their contributions are to cover not only an old-age pension but also child allowance. Table 2 shows the relations between the average rates of return of the pension fund's investment and the number of years they can provide a pension as stipulated in the present regulations to our hypothetical worker explained above. To make our calculation simple, we assumed that the rate of return remains at the average rate throughout 35 years[4].

[4] This unrealistic assumption makes our projection less accurate, but not to the extent that it prevents us from drawing a rough picture. Unless, the rates of returns of their investment in the first half of those 35 years differs considerably from those in the latter half of the period, the range of underestimation or overestimation would not be very large. It should also be noted that another unrealistic assumption of ours is that the worker's salary remains at the same amount over 35 years and is likely to overestimate the average number of years for which the Social Security Office can provide a pension to a worker without running a deficit, because in reality a worker's salary is likely to become larger in the final several years than in their early years of their working career.

Table 2: Relations between the Average Rates of Returns of the Pension Fund and the Number of Years for which the Social Security Office Can Provide an Old Age Pension to Those Who Paid Contributions for 35 Years by Using the Accumulated Amount of Their Contributions

rate of return		0%	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
number of years	no kids	4.9	5.9	7.1	8.7	10.7	13.3	16.5	20.7	26.1	32.9	41.7
	1 kid	4.4	5.3	6.3	7.6	9.3	11.3	14.0	17.4	21.7	27.3	34.4
	2 kids	3.9	4.6	7.1	6.6	7.9	9.6	11.7	14.5	18.0	22.5	28.3

*For the case of one kid, we assumed that child allowance would be paid for six years from the 5th to the 10th year. For the case of two kids, we assumed that child allowance for the first kid would be paid from the 5th to the 10th year, and the allowance for the second kid from the 7th to 12th year.

(Source: Calculated by the author)

When Thailand's pension scheme was designed in the boom years of the mid-1990s, it did not seem unrealistic to assume that the average rates of return of the pension fund's investment to be 8% or more. As shown in Table 2, if the rate of return of the pension fund's investment remains at 8%, the Social Security Office can keep paying a pension for about 26 years after our hypothetical worker retires without using any other resources than accumulated contributions and their yield, if he or she does not receive child allowance during their enrollment. Or in other words, if he or she retires at the age of 55 with no kids, the Social Security Office can keep providing a pension until he or she becomes 81 without running a deficit.

Even if this worker receives child allowance from the 5th to the 10th year, and retires at the age of 55, so long as the average rate of return of the pension fund's investment remains at 8%, he or she can receive a pension until they reach the age of 77 without forcing the pension fund to rely on any other resources than the contributions accumulated for them and the yield made by those accumulated contributions.

If the rates of return decline to 4%, however, the prospect changes drastically. The contributions accumulated during the 35 years will be used up in 10.7 years. That means even if our hypothetical worker retires at the age of 60 without receiving child allowance, the Social Security Office needs to rely on other resources after he or she becomes 71 years old, which is lower than the average life expectancy in Thailand.

About three quarters of Thailand's pension fund has been invested in government bonds and state-enterprise bonds (Social Security Office 2015a, 37). The yield on 25-year maturity government bonds, however, plunged to 3.2% at the end of 2015. Its six-year average now stands at 4.18%. The yield on shorter-maturity bonds is even lower. The 10-year maturity government bonds plummeted to below 2% in February 2016 (Bloomberg News 2016).

Some Thai researchers that specialize in social security programs have been warning against the financial unsustainability of the pension scheme repeatedly (for example, Worawan 2006). However, because of the huge current surplus of the Social Security Fund, such warnings have not been paid enough attention to by most government officials and politicians until very recently. According to a newspaper article published in January 2014, when faced with such a warning by a scholar, a senior official at the Social Security Office played down the concerns by saying "the investments by the Social Security Fund have generated a profit of at least Bt10 billion a year" ("Government pension scheme at risk of collapse: TDRI," *The Nation*, January 4, 2014).

In February 2016, the Social Security Office finally came to admit that the existing returns might be insufficient for retirement payments and announced that it would lower domestic bond holdings and switch into stocks so that they can have higher returns (Bloomberg News 2016). Such a shift to more "risky" assets, however, does not guarantee higher returns. Thailand's stock price index has also shown a downward trend in the past two years.

Although all the other programs run by Thailand's Social Security Office have a healthy financial sustainability, the danger of the pension scheme to accumulate a huge loss in the not-so-distant future is so immense that it threatens the financial sustainability of Thailand's social security system as a whole.

4. Prospects for the Expansion of Social Protection for Informal Workers

4.1. Prolonged Political Conflict and Debates on the Expansion

Like in many other middle-income economies in the region, the social security system in Thailand has been covering mainly formal workers, and the vast majority of informal workers have been left out, despite the fact that formal workers are generally better off than informal ones.

Discontent with the government's inaction to extend social protection to disadvantaged informal workers was growing, but largely ignored by the urban elites and middle classes for many years. It was not until the early 2000s when the Thai government started to implement large-scale programs to extend a certain level of social protection to informal workers. Thaksin Shinawatra, an ambitious and astute politician, found that extending social protection to the underprivileged people would greatly strengthen his popularity.

In his election campaign, Thaksin promised to implement a program that would enable those who were not covered by the social security system to receive medical services at a nominal cost of 30 baht (about 80 U.S. cents) per visit, and won the general election in 2001. After becoming prime minister, he implemented the Universal Health Care Scheme, which became very popular among informal workers, which includes a large number of farmers in rural areas.

Though his main political base was among economically disadvantaged farmers and precarious workers in cities, Thaksin is not a leftist. He was the owner of a number of big business enterprises and one of the richest men in Thailand. He pursued a number of pro-business and pro-poor policies at the same time. His party won the overwhelming majority of the seats in the general election in 2005. As he stayed in power longer, however, many of the traditional elites came to perceive him as a threat to their influence, and a large portion of the urban middle classes came to resent a series of corruption scandals surrounding his administration and his family.

Thaksin was ousted by a military coup in September 2006. Many of the traditional elites and urban middle classes welcomed the coup. But, when a general election was held under a newly written constitution and an election law, which were designed to prevent Thaksin's political comeback, in December 2007, it was Thaksin's party which won the largest number of seats. Political support for Thaksin among the rural and urban poor was much stronger than many of the traditional elites and urban middle classes thought. A pro-Thaksin party formed a coalition government with five smaller parties after the election. But the pro-Thaksin party was disbanded by the ruling of the Constitutional Court, which was under a strong influence of the traditional elites in December 2008. Pro-Thaksin politicians were kept out of the government until a newly formed pro-Thaksin political party won the general election in 2011.

After the election in 2011, Thaksin's younger sister, Yingluck became prime minister. Many of the traditional elites and urban middle classes, dismayed by the repeated defeats in the elections, came to strongly believe that the Pro-Thaksin political party's popularity had been "unfairly" inflated by a series of "irresponsible populist" policies. In their views, those pro-poor policies were irresponsible, because it causes a budget deficit and puts a heavy burden on later generations in exchange for a short-term political gain. Finding it too difficult to defeat a Pro-Thaksin political party in the election, the traditional elites and urban middle classes urged the military to stage a coup again. The pro-Thaksin administration was ousted by a coup in May 2014.

As the conflict between the pro-Thaksin and the anti-Thaksin camps prolongs and political tensions flare up, social protection policies also came to be entangled with this political conflict. Some of the policies initiated by the pro-Thaksin government to expand social protection to informal workers, including farmers, came to be viewed as a political tool for Thaksin to increase and maintain his popularity at the expense of long-term fiscal soundness.

4.2. Universal Health Care

Only three months after its inauguration, the Thaksin administration experimentally started the Universal Health Care Scheme in several pilot provinces in 2001. The scheme was expanded to all across the country in 2002, and the National Health Security Office was set up as a new government agency to administer the Universal Health Care Scheme. The scheme was popularly called "*khlongkarn 30 baht,*" or the 30-baht Scheme, because Thaksin's political party repeatedly used this phrase during the election campaign.

The Universal Health Care Scheme covers all those who are not covered by other public health care schemes such as the Social Security Scheme and the Civil Servant Medical Benefit Scheme. Table 3 shows the number of people covered by the Universal Health Care Scheme and its share in Thailand's total population. The scheme came to cover almost all those who were uncovered by other public health care schemes in 2002.

Table 3 also shows that, even before the introduction of the Universal Health Care Scheme in 2001, about two-thirds of the population were covered by some form of public health care schemes. In 2000, about 57% of those who were covered neither by the Social Security Scheme nor Civil Servant Medical Benefit Scheme registered with either the now-defunct Medical Welfare Scheme or Health Card Scheme (Viroj 2002, 8).

Table 3: Coverage of Public Health Care Schemes

(million persons)

	Universal Care Scheme		Social Security Scheme		CSMBS[1/]		others		Combined Coverage[3/] (%)
	no. of persons	%	no. of persons	%	no. of persons	%	no. of persons	%	
2000[2/]	-	-	5.90	10.0	6.49	11.0	26.60	45.0	66.0
2002	45.35	74.2	7.12	11.6	4.05	6.6	4.60	7.5	97.3
2003	45.97	73.6	8.09	12.9	4.02	6.4	4.37	7.0	99.0
2004	47.10	74.9	8.34	13.3	4.27	6.8	2.83	4.5	100.9[4/]
2005	47.34	75.0	8.74	13.8	4.15	6.6	2.58	4.1	100.6
2006	47.54	75.2	9.20	14.6	4.06	6.4	1.59	2.5	99.3
2007	46.67	73.3	9.58	15.0	5.13	8.1	1.02	1.6	99.0
2008	46.95	73.3	9.84	15.4	5.00	7.8	0.76	1.2	98.7
2009	47.56	73.8	9.62	14.9	4.96	7.7	0.56	0.9	98.7
2010	47.73	73.4	9.90	15.2	4.92	7.6	0.93	1.4	99.4
2011	48.12	73.8	10.17	15.6	4.96	7.6	0.67	1.0	99.8
2012	48.62	74.2	10.33	15.8	4.97	7.6	0.67	1.0	100.2
2013	48.61	73.9	10.77	16.4	4.98	7.6	0.67	1.0	100.4
2014	48.31	73.3	11.07	16.8	4.84	7.3	1.25	1.9	100.5

(Source: Viroj 2002; National Health Security Office, *Annual Report*, various issues; National Statistical Office, *Statistical Yearbook*, various issues)

1: CSMBS stands for Civil Servant Medical Benefit Scheme.

2: The number of people covered by other types of public health care scheme is an estimated number presented in Viroj 2002, 8.

3: The coverage rate of each scheme differs depending on how we define and estimate "total population." In this table, we used the data provided by the National Statistical Office, which is slightly smaller than the population size estimated by the National Health Security Office. The small differences stem mainly from different treatment of foreign nationals residing in Thailand and Thais living abroad.

4: The coverage rates in some years exceed 100% partly because of membership overlap between "other" types of public health schemes and the three major health care schemes, and partly because of the inclusion of foreign nationals in the Social Security Scheme.

The Medical Welfare Scheme, which started in 1975, was targeted exclusively at poor households. Those who were enrolled in this scheme were given free treatment at government hospitals. Since the Thai government did not have accurate information on the income level of each household, however, the screening was often done arbitrarily. Many empirical studies found that a sizable portion of the needy families remained uncovered by this scheme. Besides, this scheme was not very popular among its users because they were often treated in a humiliating way at the hospital (Viroj 2002, 5-25; MacManus 2012, 38).

In 1983, the Ministry of Public Health experimentally started the Health Card Scheme with rural households above the poverty line as its main target. The participating households were required to pay 500 baht per year as a premium. In return, they were entitled to receive free medical treatment at designated government hospitals. In contrast to the Medical Welfare Scheme whose members were viewed and treated as those who could not afford medical fee, the Health Card Scheme emphasized that its members with its annual premium paid were legitimate users of medical services, and urged the government hospitals to treat its members with dignity (Siripen 2001; Supasit *et. al.* 2000; Thaworn and Worawet 2011a, 393).

Table 4 shows that the number of people covered by the Health Card Scheme increased steadily. However, even at its peak in the late 1990s, it covered less than 20% of those who were covered neither by the Social Security Scheme nor the Civil Servant Medical Benefit Scheme. Even in 2000, those who were under the free Medical Welfare Scheme far out-numbered those who enrolled in the premium-based Health Card Scheme[5].

Table 4: The Number of Persons under the Health Card Scheme

(million persons)

Number of the Insured	1987	1988	1991	1992	1993	1994	1995	1996	1997	2000
	2.69	2.11	1.40	1.32	2.08	3.44	6.21	5.27	8.24	7.38

(Source: Supasit *et.al.* 2000, 305 for 1987-1997; Viroj 2002, 8 for 2000)

Seeing tens of millions of needy households that remained uncovered by any of the public health care systems, a number of civic organizations as well as reform-minded bureaucrats in the Ministry of Public Health came to propose and demand the establishment of a tax-financed universal health care scheme. Though the Universal Health Care Scheme introduced in 2001 has often been viewed as a brainchild of Thaksin, the blueprint was prepared by reform-minded bureaucrats with a help from civic organizations specialized in public health issues. In fact, they tried to persuade the preceding Chuan administration to implement their plan, but in vain (MacManus 2012, 31-32; Viroj 2002).

[5] In 2000, the Medical Welfare Scheme had about 20 million beneficiaries (Viroj 2002, 8).

The Universal Health Scheme replaced the Medical Welfare Scheme and the Health Card Scheme. Under the Universal Health Scheme, all those who are not covered by other public health care schemes are given a membership card called "golden card (*bat thong*)." No premium payment is required. Members of the scheme are required to pay only 30 baht (about 80 U.S. cents) per visit to medical facilities[6].

Members are required to register at one of the designated hospitals. Except for emergency cases, they can use their golden card only at their pre-registered hospital. The National Health Security Office, which is in charge of this scheme, calculates the estimated medical expenditure per person and disburses the budget to each participating hospital, by multiplying the estimated medical expenditure per person by the number of people registered at each hospital.

From a viewpoint of hospitals, the larger the number of people who register at their hospital, the larger amount of budget they can get from the National Health Security Office. However, if they spend more than the amount estimated by the National Health Security Office, they may run a deficit. On the contrary, if they spend less than the amount estimated by the National Health Security Office, they can make a profit. But if they do not provide decent medical treatment to patients, bad reputation may discourage people from registering at those hospitals in the following years. The capitation method was adopted to discourage participating hospitals from incurring unnecessary medical costs and at the same time encourage them to maintain the quality of their service at a reasonable level.

Many empirical studies show that this Universal Health Care Scheme significantly improved the quality of life of a large number of poor households (see for example, Viroj and Anchana 2006; Supon 2011). For political opponents of former Prime Minister Thaksin, however, the high popularity of this scheme, which has been so closely associated with him, turned out be a source of a headache.

The Surayud administration, which came into power after Thaksin was ousted by a military coup in 2006, tried to dissociate the scheme from Thaksin by abolishing 30-baht co-payment so that people would stop calling the scheme the "30-baht scheme," one of the most-well known catch phrases in Thaksin's election campaign. Despite the abolishment of the 30-baht co-payment and the Surayud administration's effort to spread the use of the scheme's formal name, the "Universal Health Care Scheme", most of the rural dwellers continued to call it the "30-baht Scheme" and view it as a "gift" from Thaksin. After Thaksin's younger sister, Yingluck assumed power by winning the election in 2011, her government revived the 30-baht co-payment so that people could continue to call the scheme the "30-baht Scheme."

Although the Universal Health Care Scheme is still highly popular among low-income classes, it came to receive an increasingly strong criticism from influential segments of the traditional elites and urban middle classes during the height of anti-Yingluck and anti-Thaksin

[6] Those who cannot afford this 30 baht co-payment can ask for exemption.

demonstrations in 2013-14 and after the military coup by anti-Thaksin military generals in May 2014.

The critics claim that the Universal Health Care Scheme puts too much burden on the government's coffer, and jeopardizes the financial status of private hospitals. As shown in Table 5, the capitation budget for the Universal Health Care Scheme has been increasing at a faster pace than an inflation rate and GDP growth rate almost every year.

However, as supporters of the scheme point out, the share of the total budget for the Universal Health Care Scheme in the Thai government's total budget has not increased much in the past 12 years (see Figure 14). Besides, the capitation budget for the Universal Health Care Scheme is much smaller than that of the Civil Servant Medical Benefit Scheme.

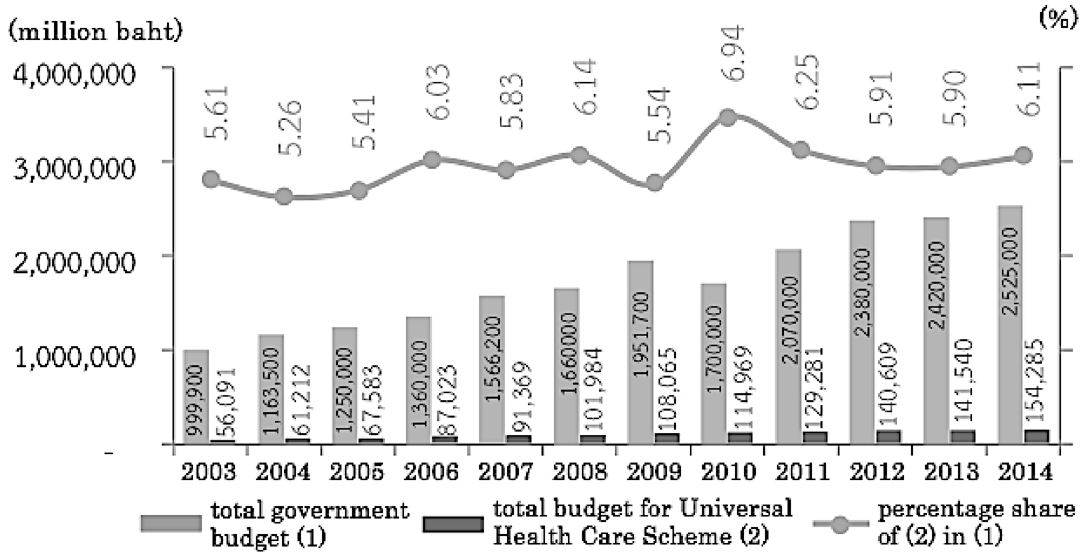
Table 5: Capitation Budget for the Universal Health Care Scheme

year	capitation budget	capitation increase	inflation rate	GDP growth rate
2002	฿1,202	-	0.7%	6.2%
2003	฿1,202	0.0%	1.8%	7.2%
2004	฿1,309	8.8%	2.8%	6.3%
2005	฿1,396	6.7%	4.5%	4.2%
2006	฿1,659	18.8%	4.7%	5.0%
2007	฿1,900	14.5%	2.2%	5.4%
2008	฿2,100	10.5%	5.5%	1.7%
2009	฿2,202	4.9%	-0.9%	-0.7%
2010	฿2,401	9.1%	3.3%	7.5%
2011	฿2,546	6.0%	3.8%	0.8%
2012	฿2,756	8.2%	3.0%	7.3%
2013	฿2.756	0.0%	2.2%	2.6%
2014	฿2.895	5.1%	1.9%	0.9%

(Source: National Health Security Office and Bank of Thailand)

Some critics propose that members of the Universal Health Scheme should pay contributions, as formal workers registered with the Social Security Scheme do. According to the Informal Employment Survey 2015 published by the National Statistical Office, the average monthly income of informal worker in 2015 was 6,583 baht. In the Social Security Scheme, the formal workers are required to pay 1.5% of their wage to receive free medical services. If the same rule is applied to informal workers, they have to pay, on the average, about 100 baht per month, or 1,200 baht per year, which is more than twice as high as the premium of the Health Card Scheme. The supporters of the Universal Health Care Scheme argue that, if informal workers are required to pay 1,200 baht per year, the coverage of the scheme might drop to more or less the same level in the 1990s.

Figure 14: The Share of the Universal Health Care Scheme's Budget the Thai Government's Total Budget (2003-2014)



(Source: National Health Security Office, Annual Report 2014, Figure 8, p.37)

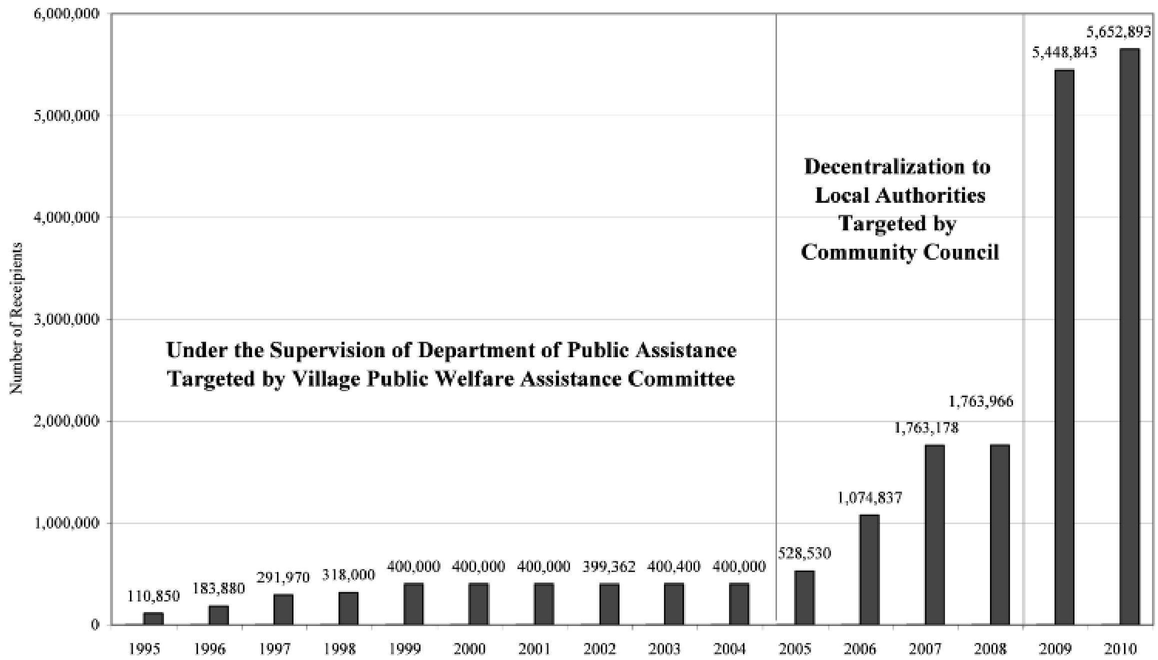
Some of the supporters of the Universal Health Care Scheme also counter-argue that, in the Social Security Scheme, the government pays 2.75% of workers' wages to cover the cost of providing seven types of benefits to its members (see Table 1 in Section 3). About a quarter of formal workers under the Social Security Scheme earn more than 14,000 baht per month (Social Security Office 2014, 17). The government pays 385 baht per month as contribution for a worker whose monthly wage is 14,000 baht. It amounts to 4,620 baht per year, which is much higher than the capitation budget for the Universal Health Care Scheme. They claim that if the government can afford to spend 4,620 baht for well-paid middle-class workers, it should not be too much to ask the government to spend a little less than 3,000 baht per head to provide decent health care for the needy informal workers and their family.

4.3. Universal Pension Scheme

The expansion of social protection for the elderly who are not covered by the Social Security Scheme or the Civil Servant Medical Benefit Scheme took a trajectory similar to the expansion of health care schemes, but it has been proceeding at a slower pace. The Thai government started a non-contributory means-tested scheme targeted at the needy elderly people in 1993. The scheme was designed to provide 200 baht per month to an impoverished person who is at least 60 years of age and without enough income or assets to survive. Figure 15 shows the number of elderly people who received assistance from this scheme. The amount of allowance was increased to 300 baht in 2000, but the number of recipients did not increase much between 1999 and 2004. Since the Thai government did not have accurate information on the income levels of elderly people, screening for this scheme was also often done arbitrarily. Some empirical studies pointed out that more than half of needy elderly were not covered by the scheme (Thaworn and Worawet 2011b, 407-409).

After realizing that a means-tested scheme does not work well, the Ministry of Social Development and Human Security proposed a universal pension scheme that accepts all the people at the age of 60 or over who are not covered by any other public pension schemes. Final decision to implement the Universal Pension Scheme was made by the Abhisit administration in April 2009 (Thaworn and Worawet 2011b, 409).

Figure 15: The Number of the Elderly Covered by the Non-Contributory Means-Tested Old Allowance and the Universal Pension Scheme



(Source: Thaworn and Worawet 2011b, 407, Figure 2-1)

In 2009, the Universal Pension Scheme started paying 500 baht per month to all the people who were 60 years or older and not covered by any other public pension schemes. In the election campaign in 2011, the Pro-Thaksin Pheu Thai Party, which fought fiercely against the Democrat Party led by Abhisit, announced that it would increase the monthly payment of the Universal Pension Scheme. After their victory in the election, they raised the monthly payment as shown in Table 6.

Table 6: The Current Rate of the Monthly Allowance of the Universal Pension Scheme

	60-69	70-79	80-89	90 and over
Monthly Allowance	600 baht	700 baht	800 baht	1,000 baht

(Source: Website of the Ministry of Social Development and Human Security. https://www.m-society.go.th/ewt_news.php?nid=15283)

As explained in Section 3, the formal workers who enrolled in the Social Security Scheme for not less than 15 years can receive 20-50% of their monthly wage as a pension after their retirement. It means a worker who works at the minimum wage, currently set at 300 baht all over Thailand, for 20 days a month, can receive 1,200-3,000 baht per month as his or her pension if he or she is enrolled in the Social Security Scheme as a formal worker.

4.4. Expansion of the Social Security Scheme to Informal Workers

In responding to informal workers' demand for better social protection after retirement, the Social Security Office modified its policy and started accepting informal workers in a large number under the provision of Article 40 in the Social Security Act in 2011. As shown in Figure 9 in Section 3, the number of informal workers who enroll in the Social Security Scheme exceeded 2 million in 2014. It means a little more than 10% of informal workers now voluntarily enroll in the Social Security Scheme.

The benefits given to informal workers who enroll in the Social Security Scheme under Article 40 are as follows (Social Security Office's Website: http://www.sso.go.th/wpr/content.jsp?lang=th&cat=876&id=3696);

1) If an insured person is hospitalized for not less than two days and if he or she has paid contribution for not less than three months during the preceding four months, 200 baht will be paid as compensation for the loss of income during the hospitalization period. But the length of compensation payments cannot exceed 20 days. Those who enroll in the Social Security Scheme under Article 40 are supposed to enroll in the Universal Health Care Scheme as well so that they can let the Universal Health Care Scheme pay medical expenses. The Social Security Scheme only gives 200 baht per day as compensation for their lost income.
2) If an insured person is disabled, and if he or she has paid contribution for not less than 15 years, he or she can receive 500-1,000 baht per month. The amount they receive depends on the length of their enrollment in the scheme.
3) If an insured person dies, and if he or she has paid contribution for not less than 6 months during the preceding 12 months, 20,000 baht will be paid to cover the cost of his or her funeral.
4) If an insured person pays not less than 100 baht per month, he or she will be given a lump sum old age allowance from when he or she becomes 60 years old. The amount of allowance differs depending on the duration of enrollment and the amount of contribution.

Those who enroll in the Social Security Scheme under Article 40 are required to pay either 70 baht or 100 baht per month as their contribution. For those who pay 70 baht per month can receive the first three types of benefits but not an old-age allowance. Those who pay 100 baht per month can receive all four types of benefits.

4.5. National Savings Fund

Even after the expansion of the Social Security Scheme to about 10% of the informal workers, the concern about the imminent arrival of the aged society was growing. It was obvious that the amount of the pension offered by Article 40 to registered informal workers after their retirement would not be enough to support their daily expenditure.

Responding to such a concern, the Thai government set up the National Savings Fund in August 2015 to supplant and expand the Social Security Office's pension scheme for informal workers under Article 40. Those who enrolled in the pension scheme under Article 40 in the Social Security Act are now encouraged to move to the National Savings Fund, which offers a larger amount of pension with a larger amount of government subsidies.

Those who register with the National Savings Fund can choose the amount of their yearly contributions between 50 to 13,200 baht. Unlike in the Social Security Office's pension scheme for formal workers, each member of the National Savings Fund owns his or her individual account. Each member's contributions will be put into his or her individual account. The amount in their account would not be shared with other members. The big difference from an ordinary savings account in a commercial bank is that the government also put a certain amount of contributions to each member's account. How much the government adds to their savings account depends on their age and the amount of their own contributions as shown in Table 7.

Those who are younger than 15 years or older than 60 years are not allowed to enroll. It means that those who enroll at the age of 50 or older can remain in the scheme for less than 10 years. It is explained that in order to help them to save an enough amount of money in their account to support their life after their retirement, the government pays a higher amount of contributions to the account held by those who are older than 50 years.

Table 7: Contribution Rates of the Government in the National Savings Fund

Age	Government's Contributions
15-29 years old	50% of an insured person's contributions, but not exceeding 600 baht per year
30-49 years old	80% of an insured person's contributions, but not exceeding 960 baht per year
50 years and over	100% of an insured person's contributions, but not exceeding 1,200 baht per year

(Source: National Savings Fund)

After they reach the age of 60, they can start receiving a pension from their account in the National Savings Fund. If the amount in their account exceeds 14,400 baht, they will receive one-240th of their savings at the age of 60 for 240 months, or 20 years. If the amount in their account does not exceed 14,400 baht, they will receive 600 baht every month until all the money in their account is used up.

5. Conclusion and Policy Recommendations

We can learn a number of lessons from Thailand's experiences.

First, as far as the formal workers are concerned, contributory social security schemes can work effectively even in the relatively early stage of economic development. Even unemployment insurance, which is often viewed as a luxurious good affordable only to rich, developed countries, can function well in a middle-income country.

However, it is not advisable to keep the pension scheme under the same management with the other social security schemes. Thailand's pension scheme is very likely to run a huge deficit in the not-so-distant future, unless the present regulations are changed drastically. Although most of East Asian economies are facing mushrooming deficits in their pension scheme, Thailand may face even harsher predicaments because the Social Security Office's pension scheme is not financially separated from the other social security schemes. As a prospect of a financial crisis of the pension scheme becomes more obvious, it may seriously shake the general public's confidence in Thailand's social security system as a whole.

Second, it is prohibitively difficult for lower or middle-income countries to effectively extend social protection to the economically disadvantaged informal workers and their families by means-tested schemes targeted at the needy. Unless they have very efficient and transparent administrative agencies all over the countries, it is very likely that a large number of the truly needy are excluded, while some non-poor manage to get into the scheme. Thailand's experiences show that non-contributory tax-financed universal schemes, which offer benefits to informal workers and their families without screening, can often alleviate their plights more effectively, even with a relatively small per-capita budget.

However, non-contributory tax-financed universal schemes alone may not be able to respond well to the diverse needs of the informal workers. It is recommendable to set up supplementary contribution-based schemes with government subsidies to provide additional social protection to informal workers and their families who live above the poverty line. But it is not advisable to make those contribution-based schemes compulsory or replace the non-contributory tax-financed schemes, because a large number of informal workers might not be able to afford to pay contributions.

Third, the implementation of non-contributory tax-financed universal schemes needs a strong political will. It may enhance the popularity of political leaders among the economically disadvantaged people, but it may also antagonize the influential upper and middle classes, who tend to view the government spending on those schemes as “unconstructive” and worry about an adverse effect on the government coffer.

However, it is not advisable to rely solely on the political will of a single political leader or party to implement non-contributory tax-financed universal schemes. If the schemes come to be viewed by many as a “signature policy” of a particular political leader, they may become a target of criticism, when that political leader loses his or her power.

In the case of Thailand, it is unfortunate that the Universal Health Care Scheme came to be viewed as a brainchild of former Prime Minister Thaksin, despite the fact that many reformist bureaucrats and civic organizations played key roles in designing the scheme. Overall, Thailand’s Universal Health Scheme has improved the quality of life of the economically disadvantaged people greatly. But it is also true that it needs to go through some reforms to work better and respond to the changing social and economic situations. Even for academic scholars, however, it is now difficult to discuss about the pros and cons of the scheme and propose a reform plan without being entangled with deepening political conflict between the anti-Thaksin and pro-Thaksin camps.

Finding a proper balance between enhancing the contribution-based social security schemes designed mainly for formal workers and supporting the non-contributory universal schemes designed mainly for needy informal workers requires not only a strong political will to fight against the opponents but also political compromise and social dialogue among diverse groups in the society.

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Social Protection and the Informal Economy in Malaysia

Jun-E Tan[1]

1. Introduction

Social protection is considered a key element in national development strategies that prioritize human development, political stability and inclusive growth; lack of comprehensive social protection is associated with high levels of poverty, economic inequality, low levels of human capital and productivity, and lack of resilience in times of economic recessions and slow growth (ILO, 2014). Although the importance of social protection cannot be overstated, only 27 percent of the global population enjoy access to comprehensive social security systems, whereas 73 percent are covered partially or not at all (ILO, 2014).

The informal economy is by definition a segment of the economy that is excluded from the formal labor market. Informal workers therefore do not have adequate access to social protection as do their formal counterparts, exposing them to risks such as income and health insecurity. Chen et al. (2001) note that the trend of global industrialization has contributed to the expansion of informal work in recent decades. Capital intensification often leads to the reduction of workforce that pushes retrenched formal workers into the informal economy; and decentralization of production has led to the rise of subcontracting work to production units that are smaller, more flexible and often unregistered or informal. On top of that, a general trend towards cost-cutting for efficiency gains has also led to a decrease in formal employees and an increase in subcontracting of services.

The advent of globalization and technological advances have enabled investors to move capital and production to economies with lower labor costs and more informal work, to the detriment of social and human rights protection at the global level. In general, the quality of employment has declined in terms of wages and conditions of work in most economies (Canagarajah and Sethuraman, 2001). The rate of unemployment is increasing, as is the rate of underemployment (measured by part-time or casual work or income). These trends are present both in developed and developing economies. The global inclination towards the informalization of jobs has brought about increasing concern about social protection within the informal economy, as the established social protection mechanisms are often out of reach for those that work outside formal settings.

Malaysia's developmental aspirations envision a future of being a developed, advanced nation by 2020, with high income, environmental sustainability and inclusiveness in reaping

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developmental benefits (New Economic Model, 2010). To achieve this, social protection is vital, and the government has been responding with incremental changes in policy and regulations towards a more comprehensive social security system, though there is still much room for improvement.

The visionary aspect of social protection for all is important to highlight from the very beginning, as this will be the framework in which social protection for the informal economy will be discussed. Malaysia, together with the rest of the global community, is moving towards the 2030 Agenda towards Sustainable Development beyond the timeline of the Millennium Development Goals (MDGs). The ultimate goal is to achieve long term societal well-being that sees economic growth as a tool, rather than an end; and environmental sustainability as a necessary precondition for social sustainability.

With the stage set as such, the objectives of this report are to address three research questions, in the context of Malaysia:

1. How does the current social security system work with regards to the informal sector?
2. What are the shortcomings of the current systems?
3. What are the policy recommendations in improving the social security access of the informal sector?

To address these questions, the rest of the report is laid out in the following manner. Section 2 discusses the concepts and definitions of social protection and the informal economy, in order to provide a foundation for further discussion in the Malaysian context. Section 3 looks into Malaysia's background, the social security system and its relation to the informal economy. Current access to social protection from the informal workers' perspective is explored as well. Section 4 explains the enabling factors for better social protection for all, while Section 5 delves into policy trends and recommendations. The report then concludes with Section 6.

2. Concepts and definitions

2.1. Social security and social protection

For simplicity, the terms "social security" and "social protection" are used interchangeably within this study, although it is recognized that in certain contexts social protection is interpreted as having a broader character than social security (ILO, 2014). At the country level, social protection or social security can be understood as

> "a set of policies and programmes designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income" (ADB, 2013, p.2).

There are multiple ways of viewing social protection systems and policies. ILO (2014) takes a lifecycle approach that looks at social protection policies, from realizing children's full potential through income security and cash transfers for poor families, to protecting working age adults (covering unemployment benefits, employment injury protection, disability benefits, maternity protection, etc.), to pensions for older citizens' post-retirement. The International Social Security Association (ISSA, 2013) pins down five types of social security programs for cross-country comparison, including: 1) old age, disability and survivors, 2) sickness and maternity, 3) work injury, 4) unemployment, and 5) family allowances. The Asian Development Bank deconstructs the concept of social security into three components of social insurance, social assistance and active labor market programs (see Table 1).

Table 1. Social protection programs and their subcomponents

Item	Social insurance	Social assistance	Labor market programs
Program description	Mitigates problems for population groups that are vulnerable to common risks, such as illness, unemployment, work injury, maternity, or old age. These groups are often not poor, at least not before confronting a particular risk.	Commonly provided as transfers to groups, such as the poor, who cannot qualify for insurance or would otherwise not receive adequate benefits.	Actively help people to secure employment, such as through employment services, skill development and training, or special work programs. The SPI project includes passive labor market programs, such as income support for the unemployed, under social insurance.
Subcomponents	• Health insurance • Pensions • Other forms of social insurance (unemployment benefits, severance payments, benefits from provident funds)	• Social transfers • Child welfare • Health assistance • Assistance to the elderly • Disability programs • Disaster relief	• Cash- or food-for-work programs • Skill development and training

Source: ADB (2013)

ILO (2014, p.163) states that social security can be condensed into two main (functional) dimensions, i.e. "income security" and "availability of medical care", as reflected in ILO's Declaration of Philadelphia (1944). These two functional dimensions broadly frame the scope of social protection studied within this paper. On one hand, they can be seen in the light of "protective" mechanisms to minimize risk against transient poverty by providing social safety nets; on the other hand, they can be seen at a more "preventive" level aimed at eliminating risks, by making structural improvements to increase social resilience in general (Canagarajah and Sethuraman, 2001). Where the informal economy is concerned, both are needed: protective mechanisms for short term relief against uncertain employment circumstances, and preventive mechanisms to raise the quality of employment in general, transitioning from informal to formal in the longer term.

Before further discussion, the concepts about informal work should be clarified.

2.2. The informal sector and informal employment

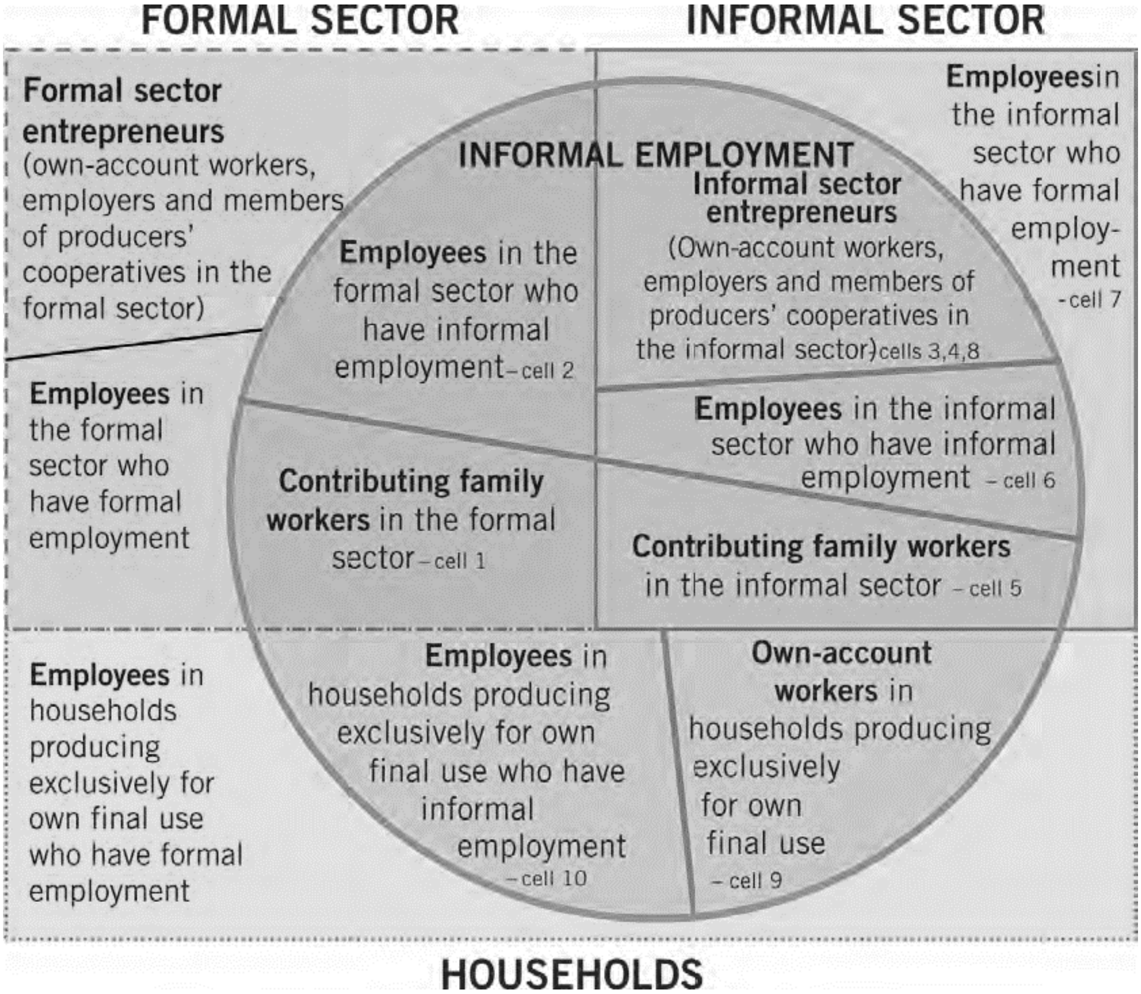
In a working paper published by Women in Informal Employment Globalizing and Organizing (WIEGO), Vanek et al. (2014) clarify terms related to informal economic activities based on the ICLS resolutions and guidelines:

> "The *informal sector* refers to unincorporated enterprises that may also be unregistered and/or small; *informal employment* refers to employment without social protection through work both inside and outside the informal sector; and the *informal economy* refers to all units, activities, and workers so defined and the output from them." (p.6, emphasis in original)

An important point here is that workers that are not covered by social protection exist both within and outside the informal sector. Figure 1 provides a better visualization of this. Within the informal sector, informal employment includes employers, employees, own account workers, contributing family workers and members of co-operatives. Outside the informal sector, there are four possibilities, as follows:

1. employees in formal enterprises (including public enterprises, the public sector, private firms and non-profit institutions) not covered by social protection;
2. contributing family workers in formal enterprises;
3. producers of goods for own final use by their household (e.g. subsistence farming), if considered employed according to the international definition of employment; and
4. employees in households (e.g., domestic workers) without social protection.

Figure 1. Components of informal employment (17th ICLS guidelines), Source: ILO (2013)



The difference between the informal sector and informal employment brings important implications to the scope of discussion and following policy recommendations. One takes the enterprise approach (characteristics of the production unit in which activities take place), while the other focuses on labor (characteristics of the persons or jobs involved) (ILO, 2013). A comprehensive approach would take an overall view on the informal economy covering both the informal sector and informal employment outside the informal sector. This is also in line with the context of social resilience. Therefore, the scope of discussion within this paper will cover all employment without social protection and policy recommendations will also be aimed towards a broad vision of social protection for all.

The breakdown in Figure 1 of the types of workers under informal employment illustrates the heterogeneity of the group. Besides the distinction between informal employment within formal and informal sectors, employment status brings forth different considerations for policy interventions. Those who work in the informal economy can be broadly classified into wage workers and non-wage workers, as depicted in Table 2 (adapted from Chen et al. 2001); the former also known as dependent workers and the latter, independent workers. Social protection needs are different between these two groups, as is the level of precariousness of their work. Social protection needs also differ depending on characteristics of the individual informal worker, such as income level, gender, nature of work within the sector, or legal status as a local or a migrant worker.

Table 2. Types of employment within the informal economy (adapted from Chen et al., 2001)

Non-wage Workers	**Wage Workers**
• Employers, including: • owners of informal enterprises • owner operators of informal enterprises • Self-employed, including: • heads of family businesses • own-account workers • unpaid family workers	• Employees of informal enterprises • Domestic workers • Casual workers without a fixed employer • Homeworkers (also called industrial outworkers) • Temporary and part-time workers • Unregistered workers

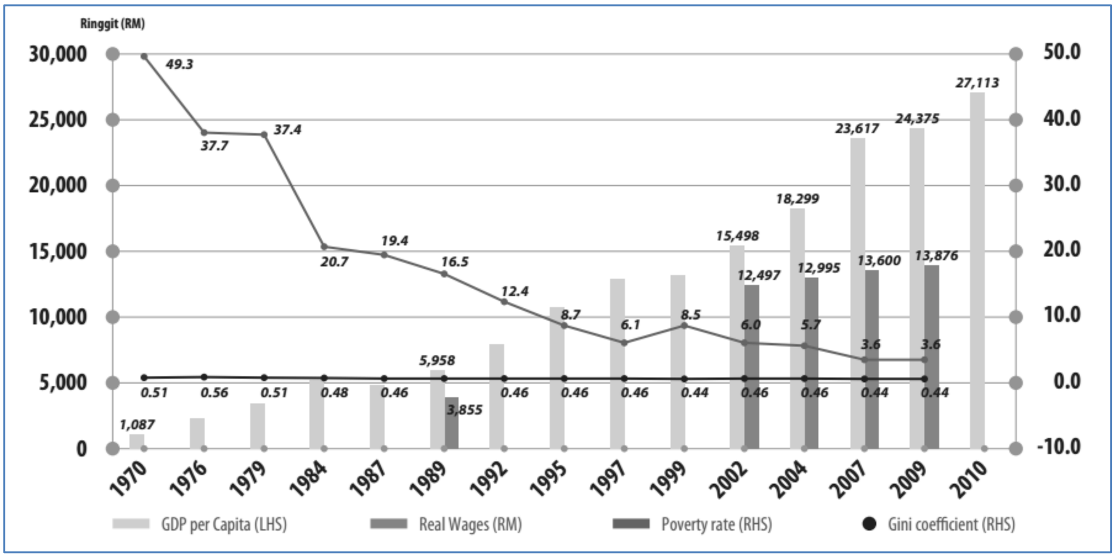
For the informal sector in particular, Canagarajah and Sethuraman (2001) argue that there are varying levels of informality within the sector, adding to the heterogeneity of informal organizations. They suggest that the informality is a spectrum; often the enterprises involved in the informal sector have "partial" recognition and access to resources and markets. Small and medium enterprises, due to their limited resources, often choose to comply some regulations that grant them partial recognition. As a risk minimizing strategy they only comply with regulations that threaten their very survival as a business and improve their income.

3. Social protection and informal employment in Malaysia

Malaysia has a population of approximately 30 million, living within 329,847 km^2 of land mass. It is situated near the equator and hence enjoys a tropical climate. As of 2014, the country's citizenry is comprised of a multicultural mix of Malays (50.1%), Chinese (22.6%), Indigenous people (11.8%), Indians (6.7%), others (0.7%) and non-citizens (8.2%). Its diversity in ethnic makeup is mirrored in the diversity of religions that co-exist with the national religion of Islam, including Buddhism, Christianity, Hinduism, Taoism, Sikhism, and others. For the most part, citizens of Malaysia have been able to live in peace and harmony, although maintaining national unity remains to be high in priority for efforts on nation-building.

As can be observed in Figure 2, Malaysia's economy has been growing steadily since the 1970s, with GDP per capita of RM1,087 in 1970 to RM27,113 in 2010. The poverty rate in the country has been reduced remarkably from 49.3 percent to 3.6 percent, and is reported as virtually eradicated as of the 11th Malaysia Plan in 2015. Malaysia is considered a developing economy that is in transition from efficiency driven to innovation driven. It is ranked 18th out of 144 economies in the Global Competitiveness Index published by the World Economic Forum (2015). Its private sector is sophisticated and innovative, and its institutional framework is considered business-friendly.

Figure 2. GDP per capita, poverty rate, real wages and Gini coefficient, Malaysia 1970-2010 (source: UNDP, 2014)



Malaysia's developmental policy has focused on poverty eradication and income redistribution, explicit within the formulation of the New Economic Policy (NEP) in 1971, with consistent implementation from then until the present day (through various renditions in other national plans after the expiration of the NEP) after because of a strong state and relative political stability. Born out of a political crisis mostly due to income disparity linked with racial division, the NEP cemented Malaysia's economic and social policies into a policy direction that combines economic growth and social engineering for national unity, resulting in a developmental project that can be characterized as "nationalist-capitalist", or a "nationalistic project driven by capitalist impulses or a capitalist project imbued with nationalist aspirations" (Khoo (2003), cf. Khoo & Khoo, 2010: 5). Such a background positioned post-colonial Malaysia with a state-capital relationship that is business-friendly with a strong governmental presence that leans towards social structuring and populist decisions, with virtual absence of a liberal left or labor movements because of state restrictions on freedom of association.

The progress in economic figures over four decades shows Malaysia as a success story. Indeed, the country has come a long way in improving its national economy, and increasing its competitiveness in the global arena. From an agrarian society, it made the transition towards industrialization and is presently moving towards a services-oriented economy. However, recent reports show that although absolute poverty has decreased, relative poverty is increasing. Distribution of wealth is extremely skewed and concentrated at the top, and Malaysia's middle class remains small at 20 percent of total households (UNDP, 2014). In 2013, wages in Malaysia accounted for 33.6 percent of the GDP, while gross operating surplus, or profits, of enterprises accounted for 64.2 percent. This figure implies that workers are not getting a fair share of economic development[2].

The economic vulnerabilities of the regular Malaysian citizen are further exposed when one considers that most of the lower income households (about 70% of the citizenry) derive their purchasing power from wages and self-employment incomes, with negligible contributions from wealth income or income transfer (ibid). Lower income groups undertake debt for consumption purposes, while middle and higher income groups use debt as asset generating instruments, causing even wider gaps in asset ownership among the groups. In other words, while the GDP of the country has grown and absolute poverty figures have gone down, corporations as well as middle and upper income groups get a larger piece of the pie. Beyond progress at an aggregate level, the challenge now is to proceed towards inclusive growth, where benefits of economic growth can be equitably enjoyed by all.

3.1. Social protection in Malaysia

In Malaysia, labor welfare can be seen as a two-pronged state intervention: “economic intervention to generate full employment, and social intervention towards some degree of redistribution” (Khoo & Khoo, 2010, p.20). The wider welfare regime beyond labor, indeed, is economically driven or productivist (Saidatulakmal, 2010). Development expenditure has been focused on economic service expenditure rather than social service expenditure, as economic growth is associated with positive social externalities such as the improvement of quality of life. For instance, the latest Budget 2016 announced RM30.1 billion to boost the economy and RM13.1 billion for the social sector (that covers education and training, health, housing and other items that improve the people’s wellbeing).

In 2012, Malaysia spent 2.99% of its GDP on public social protection, which is comparable to some neighboring economies like Singapore (2.83% in 2011), Indonesia (2.63% in 2010), and Brunei Darussalam (2.95% in 2009) but falls short of Thailand (7.24% in 2011), Vietnam (6.28% in 2010) and China (6.83% in 2010). The average ratio of social protection expenditure to GDP in economies of the Asia-Pacific (4.6%) is much lower than Western Europe (27.1%), Central and Eastern Europe (17.8%), North America (17.0%) and Latin America and the Caribbean (13.9%) (ADB, 2013).

Based on historical observations, social security in economies usually follow the trajectory of the introduction of employment injury benefits, followed by old-age pensions, disability and survivors’ benefits, and further on in providing sickness, health and maternity coverage. Benefits for children and families, and unemployment benefits, typically come last (ILO, 2014). The World

[2] To put the figures in perspective, most developed economies have a high wage-to-GDP ratio of about 50 percent, such as the United States with 52.8%, Japan 51.9% and Germany 51.5%. Moderate wage-to-GDP ratios of 40 percent are exemplified at 46.2% of Chinese Taipei and 43.7% of South Korea. (*The Star Online*, 24 January 2015)

Social Protection Report (2014/2015) published by ILO states that Malaysia provides a "very limited scope of legal coverage" in its national social security system, with only four main policy areas (old age, employment injury, invalidity, survivors) out of eight that are covered by at least one program in national legislation. The other four policy areas not covered adequately are cash benefits for sickness, maternity, and unemployment, as well as family allowances.

The following subsections provide a general overview of social protection in Malaysia. The categorization of types of social protection discussed follows the ADB framework of social insurance, social assistance and labor market programs.

3.1.1. Social insurance

Literature on social protection in Malaysia usually emphasizes its social insurance policies, for a good reason. Social protection expenditure in Malaysia is mostly (93%) spent on social insurance, mostly on retirement benefits, either on the government pension scheme or the private Employees Provident Fund (ADB, 2013). Similar to other economies in the Asia-Pacific, social insurance reaches only a small fraction of its population, about 1 million beneficiaries out of a total population of about 28 million in 2009.

For social insurance, the main schemes are covered briefly as follows. For the sake of readability, most of the content in this section is compiled from Sharma (2012), Saidatulakmal (2010) and Ragayah et al. (2002).

Employees Provident Fund (EPF)

The Employees Provident Fund (EPF) is the largest provident fund in Malaysia, covered by the EPF Act (1991), and previously EPF Ordinance 1951. It is a compulsory savings scheme covering all private sector employees and certain employees in the public sector who have not been confirmed and do not qualify for the pension scheme; self-employed persons can participate at a voluntary basis. The EPF is mostly intended as a retirement fund; employees contribute 11% of their monthly salary while employers contribute 12-13%. All funds can be withdrawn at age 55, though some portions of the fund can be withdrawn before that for approved purposes, such as education, certain critical illnesses, or buying a house. The full sum can also be withdrawn if individuals pass away (withdrawal by their dependents), leave for permanent residency outside of the economy or are incapacitated.

Civil service pension

The public sector, covering federal, state, statutory bodies and municipal authorities, is the largest employer in Malaysia, with 1.3 million employees (ADB, 2013). The civil service pension is a non-contributory pension scheme for civil servants, providing benefits in the event of employment injury, disability, superannuation or gratuity payment upon retirement, and dependents' pension in the event of death while in service and death after retirement. The government allocates 17.5 per cent of a civil servant's salary into a pension trust fund (KWAP) every month for her retirement usage. The scheme is funded by taxpayers.

The Armed Forces Fund (Lembaga Tabung Angkatan Tentera, or LTAT)

The Armed Forces Fund (LTAT) provides retirement and other benefits to members of the other ranks in the armed forces (all military personnel below commissioned officers in rank, including warrant officers, non-commissioned officers, and privates), a voluntary savings scheme for officers and Mobilized Members of the Volunteer Forces in the service, and retraining for the retiring and retired personnel of the armed forces. For members of the other ranks, the superannuation system works similarly to the EPF whereby the employer (the government) and employee both contribute to the fund. Under this scheme, the members are required to contribute 10% of their monthly salary to LTAT, with the government contributing 15%. For the voluntary scheme, the contributions are a minimum of RM 25 with a maximum of RM1,000 monthly. Contributors to this system will receive annual dividends, tax deductions from their contributions, and death and disability benefits for the dependents of contributors who pass away while being in service, among other benefits.

Employment Injury Insurance and Invalid Pension Scheme

Employment injury insurance and invalidity pensions are covered within the same social insurance system in the private sector, under the Employees' Social Security Act 1969. The social insurance system is co-financed by employees and employers in the private sector, administered by the Social Security Organisation (SOCSO). The first scheme provides protection for employees who suffer from work-related injuries, illnesses or accidents; protection provided includes medical benefit, temporary disability benefit, permanent disability benefit, dependent's benefit, death benefit, and rehabilitation benefit. The Invalidity Pension Scheme provides coverage against invalidity or death due to any cause.

Employer's Liability Scheme

The Employer's Liability Scheme covers mainly two types of benefits: 1) employment injury compensation under the Workmen's Compensation Act 1952, and 2) sickness, maternity and retrenchment benefits under the Employment Act 1955. These benefits are under the responsibility of the employers in the private sector, enforced by the Labour Department.

The Workman's Compensation Act 1952 applies to all Malaysian citizens not covered under the Employee's Social Security Act 1969 as well as all foreign workers. A special scheme, enacted under the Foreign Workers Compensation Scheme (Insurance) Regulation 1996, provides coverage to all foreign workers against the risk of work accidents and death or permanent disability of any cause. The employer pays for the insurance coverage provided by private insurance companies. The Employment Act 1955 is the main legislation that outlines the rights of employees that enter into contracts of service with private sector employers. It covers employees earning less than RM2,000 but all private sector employees are entitled to these basic benefits regardless of how much they earn. The employer is obliged to provide the employees with:

1. Sickness benefits equal to 8 days of fully paid leave certified by a doctor if the employee has less than 2 years of service, 12 days for 2-5 years, and 16 days for service exceeding 5 years.
2. Maternity benefits equal to 60 days of paid maternity leave to qualified female employees, for births live or still, after a gestation period of 22 weeks.
3. Retrenchment benefits depending on the length of the employee's service, equal to 10 days of wages per year of service for service less than 2 years, 15 days per year for service 2 to 5 years, and 20 days per year for service exceeding 5 years.

Employment Insurance Scheme (in last stages of proposal)

Although employees are entitled to severance pay upon being retrenched, the system relies on the employers to pay, which may be problematic when businesses close down or when enforcement is weak. An unemployment insurance that is a contributory scheme by both employers and working employees would serve as a better safety net, and retrenched employees can also get access to retraining programs organized by the government to facilitate their return to the workforce.

From 2009, the government, in partnership with the International Labour Organisation (ILO), embarked on a feasibility study on a Framework for Relief Fund for Loss of Employment in Malaysia, which was agreed upon by the government with an allocation of RM80 million (under the 10th Malaysia Plan) within the period of 2010 to 2012. However, the fund was not disbursed as there was no consensus among the stakeholders on the contributions from employers and employees to sustain the scheme. The debate continued until 2012, when the government announced that it would shelve the plan for the time being until the minimum wage system was enforced, due to strong protests from the business sector (*The Malaysian Insider*, 11 June 2012). In the Prime Minister's Budget 2015 speech in October 2014, the establishment of an Employment Insurance Scheme (EIS) was announced to give temporary financial assistance and job training for retrenched workers, which is essentially what the unemployment insurance would do, but with a new name. As of September 2015, the status of the scheme is still undefined, with the Deputy Minister of Human Resources stating that the government would announce its decision very soon regarding the EIS, in light of worldwide economic turbulences that might lead to an increase in dismissal and retrenchment cases, which happened during the economic crises of 1997/1998 and 2008/2009 (*The Malaysian Insider*, 2 September 2015).

3.1.2. Social assistance

Public responsibility for welfare is low in Malaysia as there is a customary reliance on the family institution for support during hard times (Saidatulakmal, 2010). However, rapid urbanization has eroded family ties and community support. The number of nuclear families and divorce rates are on the rise, and reproduction rates are slowing down. In the meanwhile, global risks are increasing with environmental threats from climate change and also financial turbulence and political insecurities. The argument that individuals can rely on family support is increasingly untenable.

Ong and Hamid (2010) estimate that in 2008, about 5% of the population was benefiting from social assistance and social welfare at the state and federal level. The federal government of Malaysia provides eleven categories of means tested cash assistance to those in need. It sees social welfare in two ways: productive and unproductive, with the first group comprising of children, dependents of the sick, prisoners and detainees, poor families, single parent families and their dependents, ex-residents of welfare institutions; and the second group of the critically ill, persons with disabilities that are unable to work, and the elderly. (Ragayah et al. 2002). For the former, financial assistance is given for a specified period until they are able to regain independence, and they are also provided with other assistance such as rehabilitation services, start-up opportunities and job training. For the latter, they are provided for in their basic living needs indefinitely, with financial aid, shelter, healthcare and subsidized services.

In recent years, the government has launched a number of social assistance programs under the 1Malaysia flag, including one-off cash transfers of BR1M and low cost housing PR1MA. Those in the productive welfare group will be channeled into the 1AZAM program, a skills training and entrepreneurship program that is a National Key Result Area (NKRA) under the Economic Transformation Programme pushed by the Najib administration.

3.1.3. Labor market programs

It is stated explicitly in the website of the Department of Social Welfare that the Malaysian government has never adopted the concept of a welfare state, and financial assistance is provided "as a tool to help the citizens in the process of rehabilitation, prevention, development and integration"[3]. This philosophy links welfare with job creation and labor market programs; those considered as productive are channeled into the workforce. Therefore, there is an abundance of labor market programs in creating jobs and entrepreneurship opportunities. For example, during the Ninth Malaysia Plan period (2006 – 2010), the Malaysian government spent 11.6% (RM26 billion) of its total development expenditure on SME development programs (SME Master Plan 2012-2020), focusing on three strategic thrusts of enhancing access to financing, building capacity and capability, and strengthening enabling infrastructure.

[3] Quote can be found in the following link, accessed on 9 September 2015 http://www.jkm.gov.my/content.php?pagename=perkhidmatan_bantuan_kewangan_kebajikan&lang=en

The numerous programs that exist in job creation and training are spread over multiple ministries and governmental units. Here are some examples:

1. 1AZAM program for job creation for lower income households (initiative of the Economic Transformative Programme in collaboration with the Ministry of Women, Family and Community Department)
2. Microfinance (by Amanah Ikhtiar Malaysia, that receives funding from the Malaysian government)
3. Human Resources Development Fund that provides upskilling and reskilling of the workforce through cost-sharing with employers (by the Ministry of Human Resources of Malaysia)
4. e-Rezeki program that provides part-time employment opportunities through paid crowd-sourcing (initiative of the Ministry of Communications and Multimedia)
5. Launching grants for persons with disability (by the Department of Social Welfare)

3.1.4. Other social safety net measures

Public healthcare and education

Healthcare and education are indirectly related to social protection at a structural and preemptive perspective, in providing better resilience to external shocks. For those suffering from poverty who are working informally, inexpensive healthcare and education provide opportunity for social mobility.

Malaysia's public health system is available at a negligible fee to the general population, and is financed mainly through general revenue and taxation collected by the federal government. At the same time, there is a growing private sector that is funded through out-of-pocket payments and private health insurance of patients. Health expenditure has remained predominantly public spending at 55% of total health expenditure (Safurah et al., 2013). With regards to education, primary and secondary education in public schools are free. Access to education is widespread but there is a disparity between urban and rural education with the urban areas performing better at literacy rates, enrolment rates, dropout rates, and quality of education in general (UNESCO, 2013).

Subsidies and price controls

While there have been heavy subsidies in the past by the government (on items such as fuel, sugar, and electricity), the Najib administration has been rationalizing the subsidies in recent years. Sugar subsidies were abolished in the 2014 Budget, and subsidies on RON95 fuel and diesel were removed a year later. While it can be argued that blanket subsidies benefit the rich more than the poor due to consumption patterns, the poor are also hit the hardest with the withdrawal of subsidies. The removal of subsidies, combined with the recent implementation of the Goods and Services Tax, as well as price hikes in public transportation and toll rates, have increased the cost of living within the economy. The government's response to this was to provide cash handouts in the form of BR1M to those with household income below a certain bracket. The Eleventh Malaysia Plan also has a specific strategy on addressing the increasing cost of living by strengthening the monitoring and enforcement of price control regulations; there will also be more focus on affordable housing and access to healthcare services.

Minimum Wage Policy

The progress towards better labor conditions is ongoing. Since January 2013, a minimum wage policy has been in place, guaranteeing a minimum monthly wage level of RM900 (or RM4.33/hour for part time workers) and RM800 (RM3.85/hour) for workers in Peninsular Malaysia and East Malaysia, respectively. This has been increased to RM1000 and RM920 in Budget 2016. This policy is effective on all employers who employ more than 5 employees, though those engaged in professional business activities (i.e., medical and dental clinic, law, architectural and consulting, etc.) will also need to abide by the rules even if they have fewer than 5 employees. Apprentices and domestic workers (e.g., maids, cooks, guards, gardeners and personal drivers) are not covered under the minimum wages law.

3.2. Informal workers in Malaysia

It has been estimated that “at the very least, nearly one in four of all employed persons in Malaysia are non-standard informal workers” (Serrano, 2014, p.60), though the source speculates that numbers might even be higher as many non-standard workers may be categorized as employees. Accurate and comprehensive data is difficult to get. The informal sector is addressed by the Department of Statistics of the Malaysian government, but data on informal employment in general is more elusive as there are no conclusive statistics that cover informal workers within the formal sector. As such, this section provides the numbers wherever possible, but also tries to focus on the qualitative aspects of vulnerable populations and the challenges that they face.

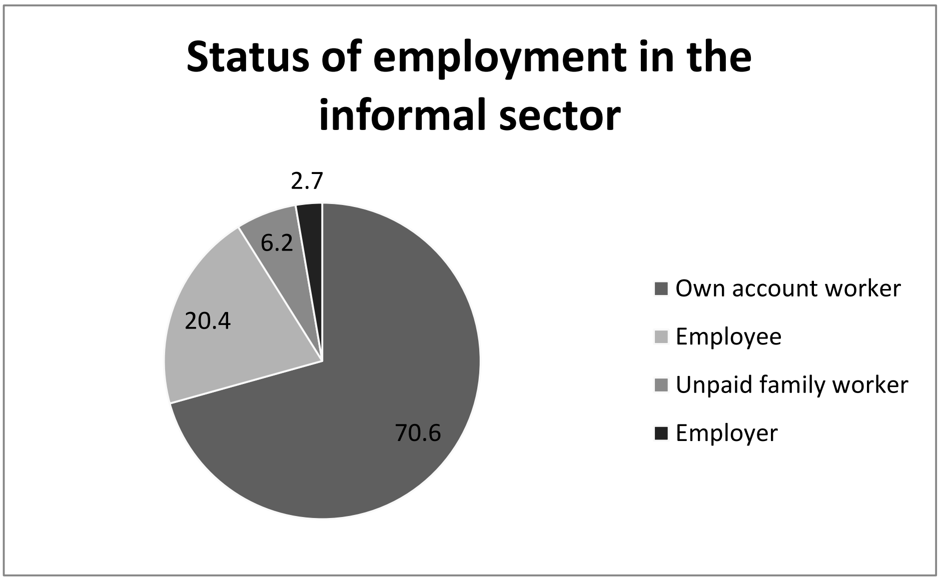
3.2.1. Informal employment in the informal sector

The Department of Statistics’ latest data states that in 2013, the number of employed in Malaysia was 13.2 million persons, of which 1.3 million persons (9.7%) are employed in the informal sector. The definition of employment in the informal sector is derived from the ILO manual of *Measuring informality: A statistical manual on the informal sector and informal employment*, in which the informal sector enterprise fulfils the following criteria:

1. the enterprise is not registered with the Companies Commission of Malaysia (CCM) or any other professional bodies, including the Local Authority (LA);
2. all or at least one goods or services produced are meant for sale or barter transactions; and
3. the size in terms of employment is less than 10 persons and not registered under a specific form of national legislation.

The Informal Sector Work Force Survey is a module of the Labour Force Survey, covering the same survey population[4], and takes an enterprise approach. According to the survey, about two-thirds of employment in the informal sector was urban in 2013. Workers in the informal sector were equally likely to be male or female, distributed across all ages with the main age group being 40-49 years old (27.9%). More than half had secondary level education, followed by those with primary, tertiary and no formal education. The top five industries were construction (19.6%), 2) wholesale and retail trade, repair of motor vehicles and motorcycles (17.6%), 3) manufacturing (16.2%), 4) human health and social work activities (15.4%), and 5) accommodation and food and beverage service activities (13.8%). The status of employment can be seen in Figure 3, comprising mostly of own account workers (70.6%).

Figure 3. Status of employment in the informal sector in 2013 (Department of Statistics, 2014)



Ragayah, Lee and Saidah (2002) state that workers in the informal sector in Malaysia usually have low educational attainment, with low ability to advance because of the lack of skills. They are hence economically insecure, being less capable to diversify their income generation or seek better opportunities in other fields. Those in the informal sector are also more exposed to natural, economic and social hazards.

[4] The survey population only includes persons who live in private living quarters, and therefore excludes persons residing in institutions such as hotels, lodging houses, hostels, hospitals, old folk's homes, military barracks, and prisons. The coverage extends to non-government employees from age 15-64, working in all sectors except agriculture, hunting, forestry and fisheries. These activities are excluded as they are widely operated by unregistered and unincorporated household enterprises in small scale, and are recommended to be surveyed separately. This is an approach supported by the 15th International Conference of Labour Statisticians (ICLS).

3.2.2. Informal employment in the formal sector

Informal employment in the formal sector in Malaysia is not often addressed, but a study on non-standard employment in selected ASEAN economies provides some idea about outsourced and contract work that can sometimes be considered precarious (see Table 3 for an idea of the employment conditions of workers most adversely affected by such non-standard work).

Table 3. Employment conditions of workers most adversely affected by non-standard precarious work

Dimensions	Characteristics
Contractual arrangements	Limited duration (fixed-term, short term, temporary, seasonal, day-labour and casual labour)
Nature of employment relationship	Triangular and disguised employment relationships, 'bogus' self-employment, subcontracting and agency contracts
Conditions	Low wage, poor protection from termination of employment, lack of access to social protection and benefits usually associated with full-time standard employment, lack of or limited access of workers to exercise their rights at work

Non-standard workers in Malaysia are generally those on short or fixed-term contracts, which bears a specified period of engagement, with the start and end dates fixed, and expires after the end date with no obligation to renew. The regulations in Malaysia do not impose any limitations on the use of fixed-term contracts, whether on the maximum number of successive fixed-term contracts allowed or the maximum cumulative duration of fixed-term contracts. There are two types of fixed-term contracts in Malaysia: "contract of service" or "contract for service". The distinction between these two is important. The former is a fixed-term employment contract between an employer and an employee which is covered by labor law; the latter is "independent contracting" whereby a person is doing work for another party but not recognized as an employee of that party for which he or she is doing work, and therefore is excluded from the coverage of labor and employment legislations. Contract for service is governed by the general law of contract (Serrano, 2014, p.56), and workers under this category are often more susceptible to precarious work.

Outsourcing, or the notion of using workers without entering any employment relationship is an increasingly popular route for employers in Malaysia to reduce the workforce and cut labor costs. Originally meant for the employment of outsourced foreign workers, the Private Employment Agencies Act (1971) was extended to locals in recent years. The Act stipulates that private employment agencies or outsourcing agents are considered the employers of these workers, providing them with wages, accommodation, transportation, medical examination, and insurance coverage instead of the user enterprise where the worker is assigned. This triangular relationship in agency work positions the workers in a vulnerable position because she bears the business risk of the cost of longer-term employment (as outsourced workers are the first to be laid off in an economic downturn), has no say about the pay and working conditions, and cannot join workplace unions or benefit from collective agreements at her actual place of work.

3.2.3. Vulnerable populations of informal workers

As has been discussed before, informal workers are heterogeneous and their social protection needs vary. Hence, this section covers some vulnerable populations of informal workers to provide a clearer idea of their situations. The groups chosen are women workers, domestic servants, migrant workers, and outsourced workers, based on their numbers and importance in the Malaysian context. Granted, there would be some overlaps amongst these groups, for instance a female migrant worker working as a domestic servant would fall into multiple categories. However, there are also distinct differences in terms of challenges or legal frameworks. A housewife taking on an informal job struggles differently from a migrant house maid, even though they are both women.

Women

In a comprehensive study of women's participation in the workforce jointly produced by the Ministry of Women, Family and Community Development (MWFCD) and the United Nations Development Programme (UNDP), the situation of women within the informal economy is addressed through in-depth interviews with 31 respondents[5] across different states and ethnic groups. It is found that many female informal workers choose to work informally because of the flexibility that part-time and home-based work affords, as they have to juggle familial responsibilities as well; those that have lower educational levels also find it difficult to find work within the formal sector. Another reason for engaging in informal work that provides less benefits but more flexibility is not as obvious: the lack of mobility of women (partly due to the lack of viable public transportation) causes them to drop out of the formal workforce as they fear harassment or assault during a commute to work.

A study by Loh-Ludher et al. (2006) on home-based workers, who are mostly composed of women, explains that home-based workers face problems on negotiating contracts individually as they have no bargaining power. They are disadvantaged from a legal standpoint as they do not have any standards or legal measures on which they can base their contracts; they also have limited access to legal redress. Most of their work comes from personal connections and contacts. The self-perception of being illegal or semi-legal silences these women as they are reluctant to draw attention to themselves and hence they remain mostly invisible to the system. The above

[5] The occupations covered include (but are not limited to) hawkers, tailors, workers in the market, van drivers, kuih sellers, graphic designers and online business women.

factors contribute to the vulnerability of the women to exploitation, as well as various health and safety risks that come with the lack of social protection and labor laws in general.

Foreign legal and illegal workers

The officially documented number of foreign workers has increased remarkably from 870,000 in 2000 to 2.3 million in 2011, the vast majority of whom are low skilled. The actual number, including undocumented workers, is closer to four million, according to government estimates (Bernama, May 17, 2012, cited from UNDP, 2014). Malaysian immigration law categorizes migrants into three groups: (1) low-skilled documented migrants; (2) expatriate workers who hold managerial and executive positions; and (3) irregular migrants who violate immigration laws by entering without authorization (IOM, 2010:42, cf. Hall, 2011, p.47).

Low-skilled legal migrants and unauthorized migrants are very vulnerable to precarious work, as many researchers have observed. Migrant workers form an important part of the informal economy and is therefore noted here as a key vulnerable group. However, this study will not delve into that segment of informal work, as it would require extensive discussions of immigration policies, trafficking and human rights, or transnational agreements and memoranda of understanding, which would extend beyond the scope of this paper. For further reading on the topic, Azizah and Ragayah (2011) have provided a detailed breakdown of policy challenges and recommendations for irregular migrant workers in Malaysia.

Domestic workers

It has been reported that in Malaysia, domestic employees work an average of 66 hours a week, well above the 48-hour threshold (ILO, year unspecified). These statistics from 2008 give an indication of the exploitative nature of domestic work within the economy, and the figures cited may be lower than reality. Working hours for live-in domestic workers are not well defined and may be much longer spanning day and night, with no overtime pay. Domestic workers' right to rest and leisure are therefore violated, with poor working conditions such as sleep interruptions, fatigue, stress, and non-existent work life balance.

A review of recent amendments on Malaysian employment laws indicate that the authorities have taken a proactive approach to monitor and regulate foreign domestic servants, by implementing a registration system. An employer needs to inform the director general of the employment and termination of a foreign domestic servant, failing which they can be fined up to RM10,000 (Nazruzila, 2012). The reduction of invisibility of the foreign domestic servants is the first step in according them with rights and protection.

Outsourced workers

Trade unions have noted that the practice of outsourcing and hiring workers through temporary work agencies is on the rise, especially in the telecommunications, banking and information technology sectors. Agency-hired workers are also common in the hotel and retail sectors. In Malaysia, outsourcing companies are called "contractors for labour" and they are usually operated by medium-sized enterprises owned by Malaysians. Scholars have observed that the triangular employment relationship exposes workers to risks such as evasion of contributions of EPF or SOCSO, or even situations where the contractor absconds with the wages already paid by the user company (Kamal et al., 2013).

As mentioned earlier, outsourcing is possible for local and foreign workers, and is made possible by the legal recognition of the contractors for labor. In an amendment to the Employment Act 1955, contractors for labor were legally obliged to keep and maintain the information of employees supplied in a register, for the monitoring and inspection by the Labour Department. The reactions to this were mixed, as some argued that it implied endorsement for the labor supplying sector, and might open the floodgates for abuse by middle men taking a sizeable cut from the workers that they supply. On the other hand, it is important to have data on the workers within a formal system to prevent exploitation. For this matter, the Ministry of Human Resources eventually limited the amendment to the plantation or agricultural sector – however, there is no easy answer to the conundrum of the legal status of contractors for labor, since outsourcing companies still operate outside of the agricultural sector, without the requirement for registering their workers.

3.3. Social security provision for informal workers

Although the group that is classified as informal workers is heterogeneous, there are some general risks that they face. Chen et al. (2001) argue that informal workers face the same general risks as their counterparts in the formal sector (such as illness, property loss, disability, old age, and death), but they are not sheltered against those risks. They also face higher work-related risks as they do not have guarantee of work, fair wages, worker benefits, and are unable to negotiate for better working conditions. Independent informal workers have less access to market information, skills, and other tools that would enable them to compete with the formal sector; they also typically have less access to credit and other mechanisms to deal with risks. In general, the informal workers have fewer career and market opportunities compared with workers and entrepreneurs in the formal economy.

ILO (2009) makes some generalizations on the social security situation of the poorer segment of informal workers. They are usually unable to afford private insurance and live in poor communities unable to co-insure against risk. They are excluded from contributory schemes (such as unemployment insurance), but may be eligible for social assistance schemes primarily designed for target groups that are unable to work (such as children, the elderly, or persons with critical disabilities). They may be included in temporary public work schemes but these usually do not lead to longer term employment.

In the situation of Malaysia, the self-employed within the informal sector have access to the Employees Provident Fund. Since 2010 under the 1Malaysia Retirement Savings Scheme (SP1M), self-employed persons or individuals without a fixed monthly income (e.g., taxi drivers, petty traders, farmers, housewives and fishermen – examples are taken from the EPF website) are encouraged to participate in the EPF, with a minimum contribution amount of RM50 per transaction (and maximum contribution of RM60,000 yearly). Within the period of 2014-2017, the government will also contribute 10% (subject to a maximum of RM120 per year) to this group of beneficiaries. Those who have employers already contributing are not eligible for governmental contributions.

However, in a study of 400 workers in the informal sector in Kuala Lumpur, Saidatulakmal (2013) found that only 28.2% of the workers had enrolled themselves in a formal retirement scheme (mainly referring to EPF). Those that had not, planned to protect themselves with other forms of financial protection that include personal savings (56.75%) and insurance (24.5%), and family support (24.75%). About half of the respondents owned a property that can also be construed as a form of social protection. Saidatulakmal concludes that workers in the informal sector were reluctant to invest in EPF because they believed that benefits from EPF were inadequate to finance retirement expenses, as other saving schemes might give higher returns.

For employees within the informal sector, social insurance and benefits that rely on employer contribution are mostly out of reach. They may resort to private insurance against risks, though the poorer may not have the means to do so. Social assistance, while available, are means-tested and they may not qualify – labor market programs require knowledge about the programs and depend on the worker's self-motivation and abilities to continue developing themselves. Certain social safety nets extend to the whole population, including informal workers, though these are not targeted social security provisions for this group.

For informal workers within the formal sector, access to social security is available but workers are vulnerable because of weak enforcement and vague laws. Malaysia's Employment Act 1955 establishes the statutory benefits for labor migrants, including payment of wages, working hours, shift work, overtime, rest days, holiday pay, annual leave, and sick leave. The Workmen's Compensation Act 1992 provides some coverage related to work-related accidents for labor migrants. The Employment Insurance Scheme, once established, may serve as bridge between jobs so that the unemployed need not resort to the informal economy to support themselves.

4. Enabling factors for better social protection for all

Inclusive growth and decent work are integral to a socially sustainable and socially just working environment that would further human well-being. Attempts towards protecting informal workers against exploitation and inequity should therefore have a systemic view of institutional and structural enabling factors; efforts would be piecemeal and lack effectiveness otherwise. A comprehensive look at enabling factors would cover macro-economic and sectoral policies, labor policies and standards, infrastructural support, regulatory controls and institutional frameworks… a diverse range of topics that would stretch beyond the scope and space of this paper. This paper will therefore only look at some main enabling factors, without claiming the list to be exhaustive.

A vision beyond GDP

The New Economic Model (2010) is a key document by the Malaysian government outlining a framework that guides the nation's transformation into an advanced nation by 2020. The main goals outlined are high income, inclusiveness and sustainability, which embodies the three pillars of sustainable development: economic, social and environmental sustainability. However, five years after the launch of the New Economic Model, policy attention is disproportionately focused on high income attainment. A national vision that has a key focus on GDP growth runs the risk of overemphasizing the quantity of growth and neglecting the quality of growth. The indicator of GDP per capita does not include the narrative of inclusiveness and equity by default; the economic benefits from growth can be disproportionately concentrated on a select few, yet the income of the economy as a whole does appear to have risen.

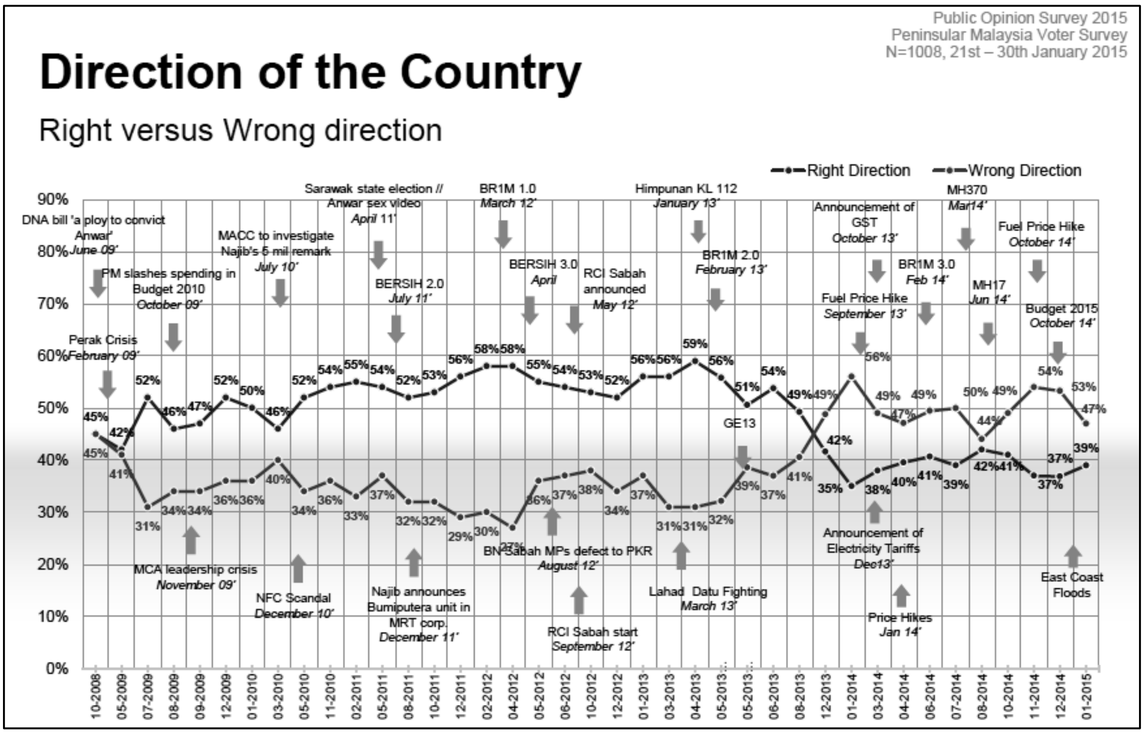
The need to increase GDP manifests in policy decisions that put profit before people, such as the government's backtracking on the unemployment insurance because of heavy pressure from the industry, and also the government's soft recognition of contractors of labor. The informal economy exists because of the market's failure or refusal to absorb labor costs, and the state's failure to encourage and regulate formal employment. A shift in worldview to developmental indicators beyond GDP will remove a paradigmatic obstacle to businesses internalizing social costs, including costs for social protection, and increase the quality of work in general.

Better governance

A certain "trust deficit" is often mentioned in the context of the governance of the country and its institutions. This comes from a political system that is generally biased towards the incumbent; legislative and judiciary powers are also heavily influenced by the executive, and mechanisms for checks and balances are not independent from the ruling government. Distrust towards the state is evident through the increasing number of rallygoers for the Bersih demonstrations (held in 2007, 2011, 2012 and 2015) where hundreds of thousands of Malaysians took to the streets to demand for free and fair elections. A survey (N=1008) conducted by the independent opinion research firm Merdeka Centre in early 2015 indicates that only 39% of those surveyed believe that the country is going towards a right direction; versus 47% who believe that the country is going towards a wrong direction (13% of the respondents were unsure and 1%

refused to answer the question). Figure 4 shows the longitudinal opinion trends from 2008 to 2015 amidst the context of key issues of the time.

Figure 4. Public opinion of the country's direction, from 2008-2015 (Source: Merdeka Centre, 2015)



Controversies regarding corruption are rife, more so in the recent years on allegations regarding the 1Malaysia Development Bhd (1MDB) that is under investigations in at least five different countries. Related allegations of misappropriation of funds of up to RM2.6 billion (or USD700 million) connected to the Prime Minister do not help in assuaging the people's distrust. The 1MDB case is relevant to discussions on social security especially when the EPF and Retirement Fund Inc. (KWAP) have invested over RM3 billion in 1MDB and its subsidiaries (*The Star Online*, 19 May 2015). Contributions on social security are affected by trust towards the state, especially when the contributions are voluntary by the informal sector. Leakage of public funds also means less funding for state-sponsored social protections and maintenance of the commons.

Education and human capital development

It was recognized in the National Education Blueprint (2013-2025) that Malaysia has performed poorly in international educational benchmarks such as TIMSS and PISA in recent years, and the performance of its students does not reflect the amount of national budget spent on education. Command of the English language at a national level has also deteriorated over the years, affecting the competitiveness of Malaysians in the job market, locally and internationally.

Stronger academic capabilities bring forth better chances of finding quality jobs in the formal economy, as many within the informal economy in Malaysia have secondary school level education and below. However, possibly a more important point is that those who are better educated have a better grasp of worker rights and the importance of social security, and are in a better position to negotiate for fair treatment and decent work. The people's empowerment that comes with knowledgeable citizens raises the bar for social security standards within the economy.

Civil freedoms and human rights

Civil freedoms is an enabling factor to strengthen social security provision because they allow civil society to act as watchdogs against worker exploitation and violations of human rights in general. The Human Rights Watch World Report 2015 reports a fairly restrictive space on civil freedoms of expression, association and assembly in Malaysia. Numerous laws have a chilling effect on free speech, such as Sedition Act 1948 which criminalizes the discussion of politically sensitive issues, and the Printing Press and Publications Act 1984 which enables the government to seize or revoke a printing press or publication license at wide discretion. Freedom of association and assembly are similarly limited. Organizations with more than seven members are required to register with the Registrar of Societies, which has absolute discretion on declaring any organization illegal; and while street protests have become more and more common with the Peaceful Assembly Act (2012), there have been cases of police assaults against protesters. Restrictions on freedom of assembly, for instance on trade unions, have been criticized to have favored corporate and governmental interests to the detriment of workers.

In general, Malaysia does not have a strong record of protecting human rights. Within the same report of Human Rights Watch, it is noted that there is a pattern of police impunity and lack of accountability, leading to cases of police abuse and suspicious deaths in custody. There is no independent body to oversee these cases that has sufficient teeth to investigate and sanction abuses. The Internal Security Act and the Emergency (Public Order and Prevention of Crime) Ordinance allow for detention without trial. These ensure that status quo within the system is maintained, and any political instability, even for championing human rights causes, will be quickly silenced. Malaysia's laws also do not recognize asylum seekers or refugees, and these populations do not have legal permission to work, hence forcing them underground.

5. Policy trends and recommendations

During the writing of this paper, the Eleventh Malaysia Plan was launched to provide policy direction for the next five years (2016-2020). With regards to the topic at hand, the Plan mentions that "the low-income group, particularly in the informal sector, will be encouraged to participate in voluntary savings and retirement schemes to ensure economic protection in their old age" (p. 3-27). Not much else is said regarding the informal economy and social protection directly. There is mention on an "integrated and comprehensive social safety net" (pp.3-21) that emphasizes monitoring and evaluation with a standardized targeting mechanism and database, with exit strategies geared towards productivity. This implies a reinforcement on the strategy of productive welfare, i.e., providing social assistance for the under-privileged and eventually channeling them into labor market programs. The discourse has not changed, and will continue for the foreseeable future, that the informal sector is an economic driver and will improve social well-being by increasing income. Social protection or social security in informal jobs are generally overlooked.

Social protection in Malaysia has been described as "demonstrating significant breadth of coverage, but lacks depth in terms of adequacy of provision and efficacy of administration" (UNDP, 2014, p.152). The following policy recommendations are made in view of systemic problems that impede support for the informal economy, as opposed to sector-specific recommendations because sectors would require closer and deeper inspection in context and nuances.

Better data collection on the informal economy

There is need to define the informal economy and informal work in a broader sense, and to collect data on demographic and sectoral details on informal workers both within informal and formal sectors. Target recipients of social protection within the informal economy would include the self-employed and their enterprises/economic activities, informal wage workers and their employers, informal workers as a whole, and organizations or associations of informal workers. The dataset should be designed with longitudinal data collection in mind to monitor the trend and progress of the informal economy. The quantitative data should also be supplemented by qualitative data collection that would paint a better context of opportunities and challenges faced by vulnerable groups in the informal economy.

Implementation of a holistic strategy on social protection provision for the informal economy

There are no policies or plans that address the social protection needs of the informal economy directly. A strategy that is systemic in nature is therefore recommended for addressing the issue, including a long term implementation timeframe and quantifiable targets. The strategy should address both immediate social protection needs and longer term structural reforms that serve to eliminate risks for the informal economy. Related to the previous point on data collection, policy analysis should be conducted on vulnerable groups (such as what has been explored in this paper, though it should not be limited to those groups) to identify their needs on social insurance, social assistance, labor market programs; and these should be linked to the overarching vision of social protection for all. The outcome of the analysis will inform the implementation of the strategy, carried out by related ministries and departments but overseen by an overarching institution to streamline the actions and monitor the outcomes.

Removal of restrictions on unions and encourage collective bargaining by workers

According to Xavier (2008), the laws do not permit more than one national union in an industry, and the classification of what construes as an industry is the prerogative of the Registrar of Trade Unions. The Registrar of Trade Unions also holds wide discretion to deny registration (which has happened in the past). On the other hand, numbers of unionized workers are declining, as the perception of workers as surveyed by Rose et al. (2011, cited from Serrano, 2014) is that employers are highly opposed to unionization, and therefore refrain from unionizing. Unionization is an important mechanism for workers to self-organize and defend their own rights and demand for adequate social protection, based on their own needs. Therefore, restrictions on unions should be lifted, and collective bargaining by workers should be encouraged with the objective of raising the standards of decent work across the board.

Utilization of community-based social enterprises to champion social protection

Related to the previous point on workers championing their own rights is the idea of changing the nature of work itself. “Community-based social enterprises” are enterprises that should have the triple-bottom-line in general, i.e., have received multiple mentions within the 11MP, in raising the income of the poorest 40% of the economy, empowering the Bumiputera economic community, and providing social services. These social enterprises are envisaged to adopt the co-operative model, which is a legal structure that enables its members to make collective decisions for the organization. As they are community-based and aim for social impact, community-based social enterprises are a natural vehicle for spearheading decent work and better social protection. In 2013, there were 10,914 co-operatives in Malaysia and about 7.6 million people who were members of co-operatives (note that one person can be member of more than one co-operative). There is also the Co-operative College of Malaysia (CCM) that focuses on capacity-building for co-operatives. Mainstreaming of social protection for the informal economy can therefore go through CCM and existing co-operatives, which is to say that the organizations would embody the spirit of decent work and respect shared values of respect and fairness to workers, within and without the informal sector.

Provide better social protection within formal sector

Better social protection within the formal sector is not only important for informal workers within, but also important for norm-setting in general. For this, existing laws need to be continually updated to reflect current challenges and concerns for social protection. Triangular employment relationships should be reconsidered, and enforcement of social security contributions of employers should be stricter, so that workers’ rights are protected. Besides labor laws, delivery of social services should also be improved. This is covered within the 11MP, as the document acknowledges that there are gaps in implementation of social assistance for instance, such as overlaps in governmental functions in serving the poor. For example, multiple databases exist for registration of the poor and underprivileged, and different agencies have systems that are not compatible thus data cannot be shared. If the social protection system can be streamlined and leakages minimized, more resources can be available for those who need them.

Extension of social protection to informal sector

The extension of social protection to the informal sector would include efforts to formalize the sector, by reducing barriers to formalization. This might include the cutting down of paperwork, more personnel to assist the processing of registration, and wider outreach on the ground to spread the awareness of the benefits of being part of the formal sector. It is also possible to emulate other economies such as Japan, India and Portugal to bypass the formalization process, and extend state protections to informal workers directly (see Chen et al., 2001).

6. Conclusion

Social protection in Malaysia relies on the assumption that economic growth will bring about social well-being, therefore there is a lot of focus on labor market programs of job and entrepreneurship creation. Therefore, the informal economy does not receive much in terms of social insurance or social assistance. Workers within the informal sector have to rely on themselves, and some fare better than others, as the sector is heterogeneous. Those within the formal sector are experiencing increasing rates of informalization, especially with the advent of globalization and the gradual recognition of outsourcing or contractors of labor. Particularly vulnerable groups include women, foreign workers, domestic workers, and outsourced workers. The policy recommendations presented in this paper are overarching in nature. Sectoral contexts of the informal economy need to be studied further to have for detailed proposals on how best to implement suitable social protection.

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Social Security System: The Korean Case

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1. Introduction

The trend of low birth rates, defined as a total fertility rate below 1.6, began in earnest in Korea since 1996. With a total fertility rate (TFR) of 1.21 in 2014, the population in Korea is also rapidly aging. The proportion of the elderly in the total population in 2015 was 13.1%, which is not yet a worrisome level. However, it is expected to increase to 37.4% in 2050. Thus, preparing for aging has emerged as a crucial political task for the future. In particular, rapid changes in the population structure are expected to affect the social security system and national finance, which requires social security reforms. Therefore, this paper first examines the National Pension, Health Insurance and Long-term Care Insurance systems in Korea generally, and then assesses the national financial situation in light of the rapid change in the population structure. Finally, the paper examines the sustainability of the above systems through a medium to long term financial forecast and discusses related policy issues.

2. Overview of the Current Social Security System

2.1. Pension

The National Pension Act came into effect on January 1, 1988, when the national economy was in good shape. At its initial stage, the National Pension covered only those working in workplaces with 10 or more full-time employees. Since then, the National Pension has expanded continuously to cover workplaces with 5 or more full-time employees (1992), individuals in rural areas (July 1995), individuals in urban areas (i.e., every person in Korea, April 1999), and workplaces with 1 or more employees (July 2003), eventually becoming a pension scheme for the whole general public. Other public pension schemes in Korea include Government Employees Pension (implemented in 1960), Military Personnel Pension (1963) and Private School Teachers Pension (1975).

As of April 2015, the number of people insured under the National Pension is 21,299,625 persons. Of this, 58.4% are workplace based, while 39.6% are individually insured. The insurance fee for the National Pension is calculated as [standard monthly income x contribution rate]. In the case of workplace based insured persons, the person and the employer each pays half of the

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contribution rate, which amounts to 9% of monthly income (i.e., 4.5% of the monthly income for each party) every month. Individually insured persons, voluntarily insured persons and voluntarily and continuously insured persons pay the contributions fully by themselves. During the initial stages of National Pension implementation, the contribution rate was set at 3% to lighten the burden, but the rate was adjusted upwards by 1% annually since July 2000, reaching 9% after July 2005. Insured persons with average income levels can receive 40% of the contributions as pension payment after contributing for 40 years, subject to inflation.

Table 1. Number of Workplaces & Insured Persons

(Unit: number of persons or workplaces)

	Total Insured Persons	Workplace Based Insured Persons		Individually Insured Persons			Voluntarily Insured Persons	Voluntarily & Continuously Insured Persons
		Workplaces	Insured Persons	Total	Agricultural and Fishing Villages	Urban		
'88.12	4,432,695	58,583	4,431,039	-	-	-	1,370	286
'92.12	5,021,159	120,374	4,977,441	-	-	-	32,238	11,480
'95.12	7,496,623	152,463	5,541,966	1,890,187	1,890,187	-	48,710	15,760
'96.12	7,829,353	164,205	5,677,631	2,085,568	2,085,568	-	50,514	15,640
'99.12	16,261,889	186,106	5,238,149	10,822,302	2,083,150	8,739,152	32,868	168,570
'03.12	17,181,778	423,032	6,958,794	9,964,234	2,062,011	7,902,223	23,983	234,767
‘05.12	17,124,449	646,805	7,950,493	9,123,675	1,969,017	7,154,658	26,568	23,713
‘06.12	17,739,939	773,862	8,604,823	9,086,368	1,972,784	7,113,584	26,991	21,757
‘07.12	18,266,742	856,178	9,149,209	9,063,143	1,976,585	7,086,558	27,242	27,148
‘08.12	18,335,409	921,597	9,493,444	8,781,483	1,940,510	6,840,973	27,614	32,868
’09.12	18,623,845	979,861	9,866,681	8,679,861	1,925,023	6,754,838	36,368	40,935
’10.12	19,228,875	1,031,358	10,414,780	8,674,492	1,951,867	6,722,625	90,222	49,381
’11.12	19,885,911	1,103,570	10,976,501	8,675,430	1,986,631	6,688,799	171,134	62,846
’12.12	20,329,060	1,196,427	11,464,198	8,568,396	1,956,215	6,612,181	207,890	88,576
‘13.12	20,744,780	1,290,557	11,935,759	8,514,434	1,962,071	6,552,363	177,569	117,018
‘14.12	21,125,135	1,389,472	12,309,856	8,444,710	1,972,393	6,472,317	202,536	168,033
‘15.04	21,299,625	1,436,549	12,442,468	8,442,908	1,965,004	6,477,904	219,994	194,255

Source: National Pension Research Institute (2015. 6), *National Pension Statistical Yearbook.*

2.2. Health Care

The health care system in Korea takes the form of social insurance, but is managed and operated by a single insurer for the whole population. Therefore, it can be categorized as a National Health Insurance system (NHI). The Medical Insurance Act (now replaced by the

National Health Insurance Act of 1999) was first enacted in 1963, based on which the Medical Insurance Society could be established voluntarily at workplaces with 300 workers or more. In 1977, it was amended, requiring compulsory coverage of workplaces with 500 workers or more. National coverage was implemented in 1989. Further, in 2003, the two separate financial accounting systems that existed for the Employee Insurance and the Self-employed Insurance programs were integrated, signaling the beginning of a truly national, integrated health insurance system.

Under the Korean National Health Insurance System, there are two types of insurance, Employee Insurance and Self-employed Insurance. The Employee Insurance consists of workers in industrial establishments, government employees and private school employees and their dependents, while Self-employed Insurance covers anyone that is not covered by the Employee Insurance. Dependents of the insured, refers to those who are without income and depend on the employees covered by the Employee Insurance for their livelihood. This includes direct dependents, spouses, dependents of spouses, and siblings.

The number of the total population insured amounted to 51,430,000 persons as of March 2014. Of these, 49,970,000 persons were insured under the health insurance and 1.46 million persons qualified to receive medical aid. Out of the total insured, 68.4% (35,188,000 persons) were insured under Employee Insurance while 28.8% (14,782,000 persons) were insured under Self-employee Insurance. The Health insurance premium is calculated as [monthly remuneration x insurance premium rate]. For employment provided policyholders, the policyholder co-payment is 50%, while the self-employee insurance policyholder is charged the full premium amount.

Even though chronic diseases have emerged as a serious threat to society as aging progresses rapidly, there has been insufficient social preparation to meet this need.[3] So far, health insurance policy has focused on expanding coverage for serious illnesses such as cancer, despite the rapid rise in chronic diseases such as high blood pressure or diabetes due to aging. The population that currently has or has a history of high blood pressure or diabetes is currently 10,700,000 persons and is expected to increase up to 18,400,000 persons by 2040. Therefore, there are calls for health policy changes to shift the focus according to structural changes in illness due to aging. While chronic diseases such as high blood pressure and diabetes are difficult to cure completely, it is possible to prevent them from developing into more serious diseases. Systemic effort for preventive, optimal care is therefore crucial for these diseases.

[3] Yun, H. (2013.2), "Policy Direction of National Health Insurance to Prepare for Aging Society," *KDI Monthly Trends*, Korea Development Institute, p.33.

Table 2. Insurance Premium Rate by Year

Effective Period	Health Insurance Premium Rate	Long-term Care Insurance Premium Rate
2008.1-2009.12	5.08%	4.05%
2010.1-2010.12	5.33%	4.78%
2011.1-2011.12	5.64%	6.55%
2012.1-2012.12	5.80%	6.55%
2013.1-2013.12	5.89%	6.55%
2014.1-2014.12	5.99%	6.55%
2015.1-present	6.07%	6.55%

Note: Long-term Care Insurance premium rate charged since July, 2008.

Source: National Health Insurance Service homepage (http://www.nhis.or.kr).

2.3. Elderly care

Long-term care insurance provides physical assistance or domestic services either in a nursing home or at home, for the elderly or for those with geriatric diseases such as Alzheimer's disease or paralysis. These patients are unable to undertake everyday routines on their own for more than 6 months. This is a social insurance system based on the principle of social solidarity. The Act on Long-term Care Insurance for the Aged (Long-term Care Insurance Act) was enacted in April 2007, and has been implemented since July 2008. Benefits are provided to those who have been approved for long-term care recognition Grade 1-5. Types of services provided include facility benefits (aged care facility, senior congregate housing), in-home benefits (home-visit care, home-visit bath, home-visit nursing, day/night care, short-term care, medical devices benefits), and special cash benefits for family care. Qualification grades are determined according to the long-term care recognition score result from 52-indices test of the applicant's physical and mental state.

Table 3. Representative Status of Long-term Care Beneficiaries by Grade

Grade	Physical and Mental Health
Grade 1	A person with mental and physical disabilities completely dependent on the help of another person to take care of daily life and with a score of over 95 in the long-term care assessment evaluation.
Grade 2	A person with mental and physical disabilities in partial need of help from another person to take care of daily life with a score of between 75 and 95 in the long-term care assessment evaluation.
Grade 3	A person with mental and physical disabilities in partial need of help from another person to take care of daily life with a score of between 60 and 75 in the long-term care assessment evaluation.
Grade 4	A person with mental and physical disabilities in partial need of help from another person to take care of daily life with a score of between 51 and 60 in the long-term care assessment evaluation.
Grade 5	A person with dementia (limited to those defined as geriatric disease under the Long-term Care Insurance Act) with a score of between 45 and 51.

Source: Long-term Care Insurance, National Health Insurance Service Homepage (http://www.longtermcare.or.kr/portal/site/nydev/MENUITEM_GRADEPROC/).

Contributors to the Long-term Care Insurance are the same as that for the National Health Insurance, and the National Health Insurance Service charges the contributions collectively but keeps separate accounts for the Long-term Care Insurance premium and National Health Insurance premium (see Table 2). Co-payment by the beneficiaries for in-home benefits is 15% of the total cost of LTC benefits, and for facility benefits, 20%.

3. Demographic Overview

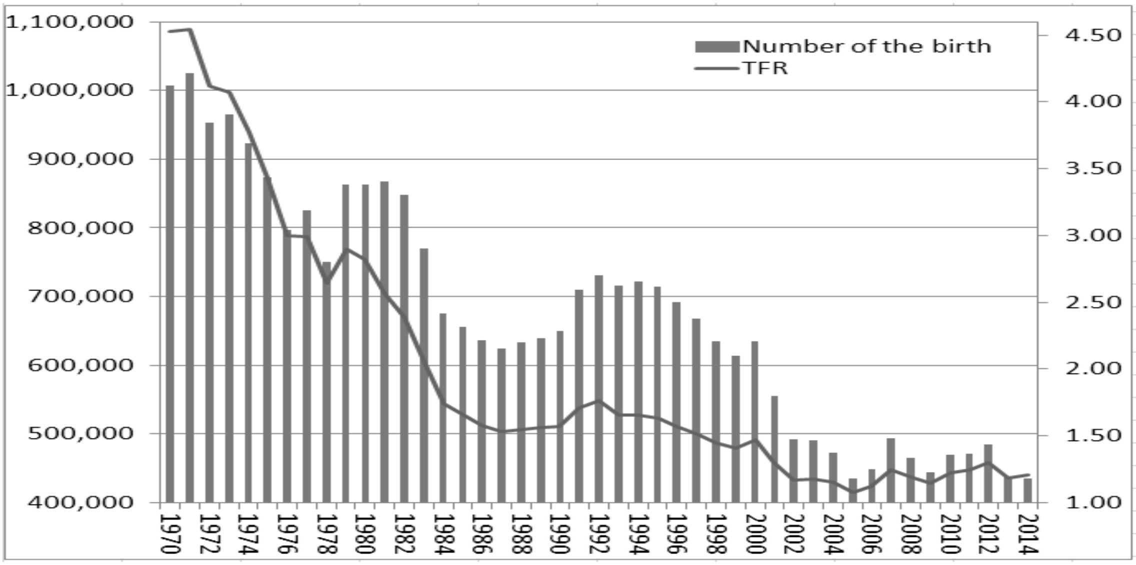
3.1. Total Fertility Rate

The fall in the fertility rate of Korea has been as rapid as its economic growth rate has been. In 1970, the number of births was 1,006,645, with a TFR of 4.53. However, Korea’s TFR continued to decline and by 1983 it reached 2.06, which was lower than the replacement level of fertility of 2.1. The number of births recorded was only 769,155.

The birth control policy continued until 1996. The government abolished the birth control policy when the New Population Policy was established in 1996. However, visions for future population policy were lost in the midst of the financial crisis that forced the country to go through tremendous socioeconomic upheavals. As a result, the fertility rate continued to decline. In 2000, the number of births decreased to 634,501 with a TFR of 1.47. Ultimately, the number of births fell to 435,031, which is half of what it used to be in the 1970s, and the TFR fell to 1.08, which is 1/4 of what it used to be during the 1970s. Korea thus became one of those countries with the lowest TFR in the world. Attempts to raise the fertility rate was not successful, and the number of births in 2014 reached the 435,300 level, while the TFR remained at 1.21.

The government implemented the Framework Act on Low Birth Rate in an Aging Society since 2005, and has established the third Five-Year Comprehensive Plan for Low Birth Rate in an Aging Society (the Saeromaji Plan) to be implemented in 2016. In its preparation to tackle low fertility, the government has set the target TFR to be 1.6 in 2020, the average TFR of OECD member countries.

Figure 1. Total fertility rate and Number of births (1970-2014)



Source: Statistics Korea, Korean Statistical Information Service (KOSIS).

3.2. Aging population

The population structure of the Korean society is undergoing change with rapid advancement of low fertility rate and aging. The total population is estimated to peak in 2030 with 52,160,000 persons and then start to decline from 2031, down to 43,959,000 persons by 2060. The productive population (ages 15-64) is estimated to peak at 37,039,000 persons in 2016 and then start to decline in 2017, being reduced to 21.865 billion persons by 2060.

The population ratio is also expected to change tremendously. The proportion of juveniles (ages 0-14) in the total population will continuously decrease from 16.1% in 2010 to 9.9% in 2050. On the other hand, the ratio of the elderly is expected to steadily increase from 7.2% in 2000, which is when the Korean society was transformed into an “aging society,”[4] to 14% in 2017, which is when the Korean society will become an “aged society.” Korea is expected to become a super-aged society, with the expected ratio of the elderly reaching 20.8% in 2026 and then 40.1% by 2060.

[4] According to UN definition of aging society, which refers to the ratio of population aged 65 or more to total population.

Table 4. Transition of Population

(Unit: 1,000 persons, %)

Year	Total				Male				Female			
	Population	Population ratio			Population	Population ratio			Population	Population ratio		
	Total	0-14	15-64	65+	Total	0-14	15-64	65+	Total	0-14	15-64	65+
2010	49,410	16.1	72.8	11.0	24,758	16.8	74.2	9.0	24,653	15.5	71.4	13.1
2011	49,779	15.6	73.0	11.4	24,942	16.2	74.5	9.3	24,837	15	71.5	13.4
2012	50,004	15.1	73.1	11.8	25,040	15.7	74.6	9.7	24,965	14.6	71.6	13.9
2013	50,220	14.7	73.1	12.2	25,133	15.2	74.7	10.1	25,087	14.2	71.5	14.3
2014	50,424	14.3	73.1	12.7	25,220	14.8	74.7	10.5	25,204	13.8	71.4	14.8
2015	50,617	13.9	73.0	13.1	25,303	14.4	74.7	10.9	25,315	13.4	71.3	15.2
2016	50,801	13.6	72.9	13.5	25,380	14	74.6	11.3	25,421	13.1	71.2	15.7
2017	50,977	13.4	72.6	14.0	25,454	13.9	74.4	11.8	25,523	13	70.9	16.2
2018	51,141	13.3	72.2	14.5	25,523	13.8	74.0	12.2	25,618	12.9	70.4	16.7
2019	51,294	13.2	71.7	15.0	25,587	13.7	73.5	12.8	25,707	12.8	69.9	17.3
2020	51,435	13.2	71.1	15.7	25,645	13.6	72.9	13.5	25,790	12.8	69.3	18.0
2025	51,972	13.0	67.2	19.9	25,858	13.4	69.0	17.6	26,114	12.5	65.3	22.2
2026	52,042	12.9	66.3	20.8	25,882	13.3	68.2	18.5	26,160	12.4	64.4	23.2
2030	52,160	12.6	63.1	24.3	25,901	13	65.0	21.9	26,259	12.2	61.1	26.7
2035	51,888	12.0	59.5	28.4	25,715	12.5	61.7	25.9	26,174	11.6	57.4	31.0
2040	51,091	11.2	56.5	32.3	25,265	11.6	58.9	29.5	25,827	10.8	54.2	35.0
2045	49,810	10.4	54.5	35.1	24,584	10.8	57.1	32.1	25,227	10	52.0	38.0
2050	48,121	9.9	52.7	37.4	23,736	10.3	55.3	34.3	24,385	9.6	50.1	40.4
2055	46,125	10.0	51.6	38.4	22,777	10.3	54.1	35.5	23,348	9.6	49.2	41.2
2060	43,959	10.2	49.7	40.1	21,767	10.5	51.8	37.7	22,193	9.8	47.7	42.5

Source: Statistics Korea (2011.12), Future Population Projection: 2010-2060.

The elderly population can be categorized into three groups, young-old (ages 65-74), mid-old (ages 75-84) and old-old (ages above 85). The total number of the elderly population was 5,452,000 in 2010 and is projected to reach 17,622,000 in 2060. During the same time period, the young-old category is expected to steadily decline from 62.4% to 37.7%, while the old-old category is projected to rapidly rise from 6.8% to 25.4%.

Table 5. Proportion of the Elderly Population: 2010-2060

Year	Total				Male				Female			
	Population	Population ratio (%)			Population	Population ratio (%)			Population	Population ratio (%)		
	Total	65-74	75-84	85+	Total	65-74	75-84	85+	Total	65-74	75-84	85+
2010	5,452	62.4	30.8	6.8	2,227	68.5	27.2	4.3	3,225	58.3	33.2	8.5
2011	5,656	61.3	31.6	7.1	2,321	67.4	28.2	4.5	3,335	57.1	34.0	8.9
2012	5,890	60.4	32.2	7.4	2,428	66.5	28.9	4.6	3,462	56.2	34.5	9.3
2013	6,138	59.6	32.7	7.7	2,543	65.6	29.6	4.8	3,595	55.3	34.9	9.7
2014	6,386	58.8	33.2	8.0	2,658	64.8	30.3	4.9	3,728	54.5	35.3	10.2
2015	6,624	58.0	33.7	8.3	2,767	64.0	30.9	5.1	3,857	53.7	35.7	10.7
2016	6,864	57.2	34.1	8.7	2,876	63.2	31.4	5.3	3,988	52.9	36.0	11.2
2017	7,119	56.6	34.3	9.1	2,994	62.6	31.8	5.6	4,125	52.2	36.1	11.7
2018	7,396	56.4	34.1	9.5	3,125	62.4	31.7	5.9	4,271	52.0	35.9	12.1
2019	7,716	56.8	33.4	9.8	3,276	62.7	31.1	6.1	4,440	52.4	35.1	12.5
2020	8,084	57.6	32.4	10.0	3,451	63.4	30.2	6.3	4,633	53.2	34.1	12.8
2025	10,331	60.2	29.2	10.5	4,541	65.4	27.6	7.0	5,790	56.1	30.5	13.3
2026	10,840	60.8	28.6	10.6	4,784	65.8	27.1	7.0	6,056	56.7	29.8	13.4
2030	12,691	60.0	29.6	10.4	5,682	64.5	28.4	7.1	7,010	56.3	30.6	13.0
2035	14,751	54.3	34.9	10.8	6,650	58.0	34.1	7.9	8,101	51.2	35.5	13.3
2040	16,501	48.9	38.5	12.6	7,460	52.2	38.1	9.7	9,041	46.1	38.9	15.0
2045	17,468	44.3	38.8	16.9	7,886	47.6	38.7	13.7	9,582	41.6	38.9	19.6
2050	17,991	40.8	38.6	20.6	8,151	44.3	38.8	17.0	9,841	38.0	38.5	23.5
2055	17,713	38.4	38.1	23.5	8,091	42.3	38.3	19.5	9,622	35.2	37.9	26.9
2060	17,622	37.7	36.9	25.4	8,197	41.8	37.1	21.0	9,425	34.0	36.7	29.2

Source: Statistics Korea (2011.12), Future population projection: 2010-2060.

4. Sustainability of the Social Security System

4.1. Fiscal Feasibility

4.1.1. Pension

The Korean national pension system is a "defined benefit" type that is operated by the government on a "partially funded system." The National Pension Fund amounted to 491.4 trillion won at the end of April 2015, which is composed of contributions (378.8 trillion won), operational profits from the fund (227.2 trillion won) and benefits paid out (109.8 trillion won).

Table 6. Operation of National Pension Fund (Market value) by Year

(Unit: 100 million won)

	'07.12	'08.12	'09.12	'10.12	'11.12	'12.12	'13.12	'14.12	'15.04	Total
Fund Raised (A)	355,261	225,853	500,843	554,295	351,892	551,681	486,278	571,987	266,192	6,069,414
Pension Premium	216,702	229,855	238,582	252,857	274,346	301,277	319,067	340,775	118,137	3,788,098
Operational Profit	137,190	-4,191	262,462	301,058	76,717	249,916	166,513	230,326	147,926	2,272,333
Others	1,370	189	-200	380	829	488	699	886	129	8,984
Expenditure(B)	55,936	66,978	78,719	90,812	103,118	120,682	136,410	143,304	50,342	1,155,335
Payment of Benefits	51,826	61,808	74,719	86,359	98,189	115,508	131,128	137,799	48,956	1,098,069
Operational Expenses	4,110	5,170	4,000	4,453	4,930	5,174	5,282	5,504	1,386	57,265
Others										
Increase(A-B)	299,325	158,875	422,124	463,484	248,774	431,000	349,869	428,684	215,851	4,914,080
Investment	2,195,400	2,354,325	2,776,424	3,239,908	3,488,677	3,919,677	4,269,545	4,698,229	4,914,080	4,914,080
Public Sector	-	-	-	-	-	-	-	-	-	-
Welfare Sector	2,036	1,842	1,540	1,282	1,081	1,271	1,249	1,264	1,277	1,277
Financial Sector	2,190,099	2,350,015	2,772,519	3,235,975	3,484,681	3,915,683	4,264,473	4,692,534	4,903,845	4,903,845
Others	3,264	2,468	2,365	2,650	2,915	2,723	3,823	4,431	8,958	8,958

Source: National Pension Research Institute (2015.6), *National Pension Statistical Yearbook*.

According to the "2013 Third Actuarial Projection Results," the accumulated fund will peak at 2,561 trillion won in 2043 (49.4% relative to GDP 2035) under the present framework. The fund will face a deficit in 2044 for the first time and will be exhausted by 2060, only 16 years after the first deficit.

4.1.2. Health Care

The health care benefit amount recorded 13.9 trillion won in 2001. This reached 30.1 trillion won in 2009, showing a 2.17 fold increase in only 8 years. The rate of increase in medical expenses and benefits is increasing every year, at a rate faster than the increase in the GDP.

Table 7. Medical Expenses Relative to GDP by Year.

(Unit: billion won, %)

	2002	2003	2004	2005	2006	2007	2008	2009
GDP(A)	720,539	767,113	826,892	865,240	908,743	975,013	1,023,937	1,063,059
Medical Expenses (B)	18,832	20,742	22,506	24,862	28,410	32,389	34,869	39,339
Benefits (C)	13,899	14,952	16,131	18,262	21,489	24,561	26,499	30,146
B/A	2.61	2.70	2.72	2.87	3.13	3.32	3.41	3.70
C/A	1.93	1.95	1.95	2.11	2.36	2.52	2.59	2.84
C/B	73.81	72.09	71.67	73.45	75.64	75.83	76.00	76.63

Source: Shin, Y.S. et al (2011.10), "Research on Ways to Improve the Sustainability of Health Insurance." Korea Institute of Health and Social Affairs, p.46

The National Health Insurance Fund showed a surplus for three consecutive years from 2011 to 2014. The current cumulative surplus stands at 8.2 trillion won. Financial surplus can be explained largely by the increase in revenues due to expansion of income tax base and strengthening of eligibility criteria for dependents. The main sources of the health insurance fund consist of revenues from contributions and government subsidies.

Table 8. Financial Indicators of National Health Insurance by Year.

(Unit: trillion won, %)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenue (A)	20.3	22.4	25.3	28.9	31.2	33.6	38	42	45.2
Contributions	16.6	18.6	21.6	24.8	26.5	28.7	32.4	35.9	38.6
Government Subsidies	3.7	3.8	3.7	4.1	4.7	4.9	5.1	5.5	6
Government Subsidies of Insurance Finances	2.8	2.9	2.7	3.1	3.7	3.8	4.2	4.5	5
National Health Promotion Fund	0.9	0.9	1	1	1	1.1	0.9	1	1
Expenditure (B)	19.2	22.5	25.6	27.5	31.2	34.9	37.4	38.8	41.5
Benefits	18.3	21.6	24.6	26.5	30.2	33.8	36.2	37.6	40.3
Administrative finances	0.9	0.9	1	1	1	1.1	1.1	1.1	1.3
Balance (A-B)	1.2	-0.1	-0.3	1.4	0	-1.3	0.6	3	3.6
Cumulative Balance	1.3	1.2	0.9	2.3	2.3	1	1.6	4.6	8.2
Rate of Balance (Expenditure/Revenue)	94.2	100.3	101.1	95.3	100	104	98	92.8	91.9

Source: National Health Insurance (2014.9), *Service Statistical Yearbook*.

4.1.3. Elderly Care

Korea adopted the long term care insurance system early, despite its relatively lower ratio of the elderly to total population compared to predecessor nations. This is because politicians responded actively to the concern that there would be insufficient time and resources to prepare for the imminent aged society in the face of weak welfare institutions and the world's fastest aging rate in Korea. However, since the introduction of the system was driven by politicians without establishing a wide public consensus regarding its need, willingness to pay for long term care for the elderly was low, forcing the system to set a very limited coverage. Although it was estimated that the proportion of those needing long term care was 12.5% of the population over 65 years old at the design stage, the coverage was confined to 3.1%, evidently to make the system affordable. In the face of such a limited coverage and low quality, it would be difficult for anyone to disagree that the system should be expanded to improve the quality of life for citizens. However, unlike western societies which have gradually worked towards establishing the institutional basis to support the aging population, Korea does not have a blueprint and an institutional framework to build upon. Most of the effort in Korea was expended on adopting the system in the first place. Little attention was paid to foreseeing potential problems and providing for their solutions. The situation has not changed even after the system has been adopted. Policy effort is focused on enlarging the scale of the system rather than implementing reforms to resolve problems that have already surfaced.[5]

The Long-term Care Insurance Service (LTCIS) oversees the LTC Insurance. The LTCIS undertakes work on eligibility assessment such as grading and evaluation, preparation of the "Standard Plan for Long-term Care Benefits," payments and so on. Detailed implementation plans are required to be established according to the Long-term Care Insurance Comprehensive Plan every 5 years at the level of cities, districts and counties. Presently, financial resources for LTC Insurance consist of policy holder contributions, the government, and individual co-payment. The mainstay of resources is policy holder contributions, which is calculated as [health insurance contributions x LTC Insurance contributions rate]. Of the total resources, government contribution is reported to be 25.4%. Individual co-payment is 15% in the case of in-home benefits, and 20% for facility benefits. Co-payment is completely exempt for beneficiaries who are eligible for assistance under the National Basic Living Security Act, while there is 50% reduction for recipients of medical benefits and those with low levels of income.

At the end of 2014, annual total LTC benefits stood at 3.9849 trillion won (payment basis). The share of National Health Insurance service increased from 2.7177 trillion won to 3.4981 trillion won in 2014. By the end of 2014, the number of persons approved for LTC reached 424,572.

[5] Yun, H. et al (2010. 3), "Long-term Care Insurance: Prospects and Problems," *KDI Focus*, Korea Development Institute, pp.1-2.

Table 9. Long-term Care (LTC) Benefits Trend

	2010	2011	2012	2013	2014
LTC Benefit Recipients (persons)	348,561	360,073	369,587	399,591	433,779
Days of LTC (10,000 days)	7,357	7,938	8,034	8,585	9,223
Total Cost of LTC Benefits (100 million won) (A)	27,456	29,691	31,256	35,234	39,849
Benefit Amount (100 million won) (B)	24,023	25,882	27,177	30,830	34,981
B/A (%)	87.5	87.2	86.9	87.5	87.8
Monthly Average Total Cost of LTC Benefits per Recipient (won)	958,652	944,916	956,986	996,714	1,024,520
Monthly Average Benefit Amount per Recipient(won)	838,915	823,727	832,132	872,106	899,361

Source: National Health Insurance Service (2015.7), *2014 Long Term Care Insurance Statistical Yearbook*.

4.2. Mid to Long-Term Reform

4.2.1. Pension

The National Pension Act was amended in 1998 to provide for fiscal assessment of the National Pension Scheme. The level of benefits and pension contributions is to be adjusted to secure the long-term financial balance of the National Pension Scheme, based on which a comprehensive plan on the overall operation of the Scheme can be made every 5 years. The first fiscal assessment was carried out in 2003, the second in 2008 and the third in 2013.

Considering the fact that the pension benefit has been reduced from 70% to 40% (by 2028) through two reforms already, there will most likely be a mid to long-term raise in the pension contributions rate. The 1998 amendment lowered the benefit rate from 70% to 60% in the case of an average income earner that has been insured for 40 years. Further, the contribution rate of the current 9% (amended rate of 2007) is to be maintained while the benefit rate was reduced from 60% to 50% in 2008. Since then, it is to be reduced annually by 0.5% to 40% by 2028.

What is noteworthy is the steep change in the scale of the national pension scheme that is expected in the future. If the current framework is maintained, the reserves are estimated to be exhausted in 2060. Although the income replacement rate was reduced to 40% through two prior reforms, an actuarial balance could not be struck. At present, the National Pension Fund is going through a transition period towards exhaustion. In the midst of an aging population, neglecting fund exhaustion or switching to a pay-as-you-go system would create a generational conflict as the future generation is left with a greater burden of contribution.[6]

[6] Yun, H. et al (2015. 5), "Need for fiscal Goal of National Pension and Improvement of Governance Structure for Operating Fund," *KDI Focus*, Korea Development Institute, p.2.

Table 10. Financial Flows Projections

(Unit: billion won, %)

Year	Accumulated fund	Accumulated fund/GDP	Income			Expenditure			Balance	Accumulation rate
			Total income	Contribution income	Investment income	Total expenditure	Total expenditure/GDP	Pension payment		
2013	417,727	31.1	52,217	32,135	20,082	14,556	1.1	14,032	37,661	26.1
2020	847,171	39.3	109,098	54,073	55,025	33,923	1.6	33,487	75,175	22.8
2030	1,732,381	47.8	186,913	95,041	91,872	89,953	2.5	89,176	96,960	18.2
2040	2,494,494	47.4	258,427	141,595	116,832	213,773	4.1	212,563	44,654	11.5
2043	2,561,489	44.2	277,586	156,765	120,822	267,328	4.6	265,963	10,258	9.5
2044	2,558,741	42.7	283,749	162,747	121,003	286,498	4.8	285,076	-2,748	8.9
2045	2,541,358	41.1	289,420	168,889	120,531	306,804	5.0	305,324	-17,383	8.3
2050	2,200,519	30.5	309,781	203,282	106,498	414,088	5.7	412,288	-104,308	5.6
2060	-280,716		263,375	263,375	0	657,820	6.9	655,155	-394,445	0.2
2070	-		358,101	358,101	0	948,255	7.7	944,311	-590,154	-
2080	-		477,892	477,892	0	1,263,650	7.8	1,257,811	-785,757	-
2083	-		518,944	518,944	0	1,388,539	7.9	1,381,971	-869,595	-

Source: Actuarial Projection Committee, (2013.10), "Long-term Actuarial Projection for National Pension."

In order to minimize worsening actuarial conditions of the pension fund, it is not only necessary to cope with the situation agilely and professionally at each stage of the fund scale, but also consider diversifying investment strategies, including investing overseas. For that to be successful, a systemic structure that forces decision makers to respond to changing market conditions to their utmost capacity is necessary, in addition to professionalism of the decision makers. Transparency in operating the fund is another important factor. As the proportion of domestic equities in the fund grows, influence of particular firms on the fund operation will increase. This should not allow the managers of the fund to pursue private interest or allow the government to use it as a tool of controlling private firms.

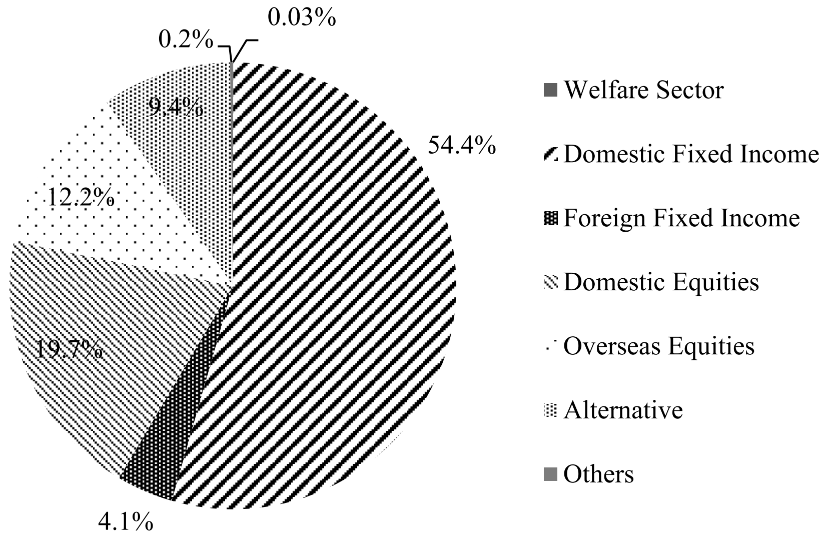
It is well known that asset allocation strategies should change at different stages of asset accumulation and that aggressive fund management is beneficial during the period before arriving at fund maturity. Since until then, there is no need to maintain liquidity for benefit disbursement. That is, unlike the period when the fund should be liquid so that the proportion of bonds (fixed income) has to be increased, neither the principal nor the profits from the reserves need to be used. Therefore, aggressive management that takes advantage of long-term investment, where rate of return increases in proportion to the duration of the investment, needs to be employed.

In the past, the National Pension Services has been criticized for its passive management of the fund. This is due to the governance structure of the fund which prevents managers from active engagement.[7] For example, at the end of April 2015, the proportion of bonds (fixed income) in the National Pension Fund recorded 58.5%, which is far greater than any other foreign pension fund, except that of Japan which has already arrived at maturity. Moreover, considering the fact that in 2004, the "National Pension Fund Operation Masterplan" suggested the ideal level of

[7] Yun, H. et al (2015. 5), supra note, pp.3-4.

investment overseas to be 38%, and recommended a target of 25% in 2014, the current investment overseas ratio of 16.3% is too low (see Figure 2).

Figure 2. National Pension Fund Investment Portfolio



Note: 1. Domestic fixed income includes domestic bonds and shorter term funds. The welfare sector includes welfare town (Chungpoong Resort), child care and senior citizen facility rentals, credit recovery support funds, and emergency loans for old age (silver loan). Others represent acquisition costs of buildings, deposits for rent and money held temporarily for the next day's operation by the settlement bank.

2. Alternative investments include investment into real estate, social overhead capital, private funds (venture, CRC, private equity), in contrast to traditional financial investments such as listed equities and securities.

Source: National Pension Research Institute (2015.6), *National Pension Statistical Yearbook*.

When rates of return from overseas investment and alternative investment by NPS are compared with those by major foreign pension funds, investment in overseas equities generated higher rates of return than domestic equities did. However, the rate of return from overall equity investments or total rate of return was lower than foreign pension funds. The rate of return for alternative investments also display low levels. Compared to the Canadian CPPIB's recent rate of return from investments in overseas equities and domestic equities, which were 27.4% and 16.6%, respectively, NPS demonstrated a mere 9.4% and -5.5%, respectively.[8]

The most essential reform needed is establishing a fiscal objective. A fiscal objective serves as an important index that indicates whether the pension scheme is planned out from a comprehensive perspective. For example, Canada, which is evaluated to have the most advanced

[8] Yun, H. et al (2015. 5), supra note, p.4.

fund management governance structure, had set a fiscal goal of increasing the reserve ratio (asset/loan) to 20% by 2017. Predicting that it would need an operational rate of return of 4% to achieve such a goal, Canada established the CPPIB (Canada Pension Plan Investment Board) in 1997. By doing this, Canada established a clear range of roles to be undertaken by the fund managing entity, and ascertained the importance of setting a rate of return goal. More importantly, this was part of a bigger goal Canada had set out: “a reform to create an operating governance structure that would not leave the burden to future generations.” Another good example of setting a fiscal objective is New Zealand, where the target rate of return is explicitly stated in law, thereby authorizing a definite range of roles to be undertaken by the fund manager. As for Japan, it went through an extensive pension reform in 2004 in view of its aim to achieve fiscal balance for the next 100 years.[9]

The fiscal burden of NP due to aging is a relatively long-term issue, but realistically, it is a difficult problem to resolve since NP also provides welfare for the elderly. It is projected that the burden of aging on the National Pension finance will be realized after 2020. In preparation, the debate on reforming the National Pension Scheme is expected to continue.

4.2.2. Health Care

Shin et al (2011) estimated two scenarios regarding the fiscal soundness of the National Health Insurance according to the level of healthiness in aging. In Scenario 1, they assume that there is no consideration for healthy aging so that there is no additional longevity gain in bad health, and there is no medical cost saving effect. In Scenario 2, there are additional longevity gains due to healthy aging, so that there are medical cost savings per person. Both scenarios assume an income elasticity of 1 and that the residual growth rate will converge to 4.99% in 2009 and to 0% in 2050. The results of the study showed that health insurance expenditure relative to GDP will increase from 4.15% in 2015 to 8.97% in 2050 as in Scenario 1 or increasing from 4.03% in 2015 to 8.46% in 2050, as in Scenario 2. Accordingly, the contribution rate necessary to meet the estimated cost must also continuously increase from 6.07% in 2015 to 15.74% and 14.86% by 2050 under Scenario 1 and Scenario 2, respectively. There is a limit to sustainability based on the current fiscal arrangements, and so other ways of fiscal expansion should be considered.

[9] Yun, H. et al (2015. 5), supra note, p.5.

Table 11. Fiscal Projection of Health Insurance 2015-2050 (base year = 2009)

(Unit: billion won, %)

	Forecasted GDP (A)	Scenario 1			Scenario 2		
		Expenditure (B)	Necessary Contribution Rate	B/A	Expenditure (C)	Necessary Contribution Rate	C/A
2015	1,368,023	56,753	7.28	4.15	55,144	7.08	4.03
2020	1,682,088	87,407	9.12	5.20	83,795	8.75	4.98
2025	1,940,554	121,433	10.99	6.26	115,534	10.45	5.95
2030	2,238,734	162,128	12.71	7.24	153,514	12.04	6.86
2035	2,418,890	195,000	14.15	8.06	184,928	13.42	7.65
2040	2,613,542	226,013	15.18	8.65	214,241	14.39	8.20
2045	2,737,353	244,955	15.71	8.95	231,657	14.86	8.46
2050	2,867,030	257,120	15.74	8.97	242,613	14.86	8.46

Source: Shin, Y.S. et al (2011.10), "Research on Ways to Improve the Sustainability of Health Insurance," Korea Institute for Health and Social Affairs, pp. 80-82.

The fiscal burden on health insurance caused by aging is a problem that is currently very real, and the government is in the process of introducing policies to reduce the hospital and drug bill for the elderly. If improvement in the levels of public health can ensure healthy lives in old age, the fiscal burden due to aging can be eased naturally. Therefore, promotion of healthy lifestyles is necessary to ameliorate the fiscal burden of health insurance. It would be necessary to strengthen public health education at the middle school curriculum and to promote public health and education through local governments.

4.2.3. Elderly Care

Since Long-term Care Insurance was first introduced with a very narrow coverage (3.1%), it is natural to expect the scope of eligible beneficiaries to expand as fiscal resources increase with greater social consensus. Yun ed. (2010) analyzed 54 scenarios under various assumptions of increased applicants, changes in population structures and expansion of coverage to estimate increases in future LTC Insurance benefit payments. The results of the study indicate large discrepancies between different scenarios. In the least cost scenario (no expansion in coverage, reduction in number of persons with chronic diseases, strong cost control, no change in proportion of the elderly living alone), benefit payments are estimated to be 9.5 trillion won, or 0.38% of GDP in 2040. On the other hand, in the high cost scenario (expansion in coverage, increase in persons with chronic diseases and the elderly living alone, increase in payments due to overall economic growth), benefit payments are estimated to be 58 trillion won or 2.3% of GDP in 2040.

Table 12. Projections for Long-term Care Insurance Benefit Payment

(Model 1: no expansion in coverage)

(Unit: trillion won, %)

Scenario for Annual Average Rate of Change			**Projected Year**						
Chronic Diseases	**Living Alone**	**Productivity**	**2010**	**2015**	**2020**	**2025**	**2030**	**2035**	**2040**
-1	0	0	2.8031 (0.26)	3.5518 (0.27)	4.3756 (0.27)	5.3215 (0.29)	6.4392 (0.31)	7.8374 (0.34)	9.5098 (0.38)
0	0	0	2.8031 (0.26)	3.5956 (0.27)	4.4755 (0.28)	5.5004 (0.30)	6.7256 (0.32)	8.2509 (0.36)	10.0476 (0.40)
1	0	0	2.8031 (0.26)	3.6412 (0.28)	4.5847 (0.29)	5.7061 (0.31)	7.072 (0.34)	8.7765 (0.39)	10.7662 (0.43)
-1	1	0	2.8031 (0.26)	3.5699 (0.27)	4.4208 (0.28)	5.4051 (0.30)	6.5741 (0.32)	8.0515 (0.35)	9.8292 (0.40)
0	1	0	2.8031 (0.26)	3.6139 (0.28)	4.5218 (0.28)	5.5871 (0.31)	6.867 (0.33)	8.4767 (0.37)	10.3894 (0.42)
1	1	0	2.8031 (0.26)	3.6596 (0.28)	4.6321 (0.29)	5.7965 (0.32)	7.2212 (0.35)	9.0172 (0.40)	11.1379 (0.45)
-1	0	1.5	2.8031 (0.26)	3.8263 (0.29)	5.0781 (0.32)	6.6532 (0.37)	8.6726 (0.42)	11.3717 (0.50)	14.8647 (0.60)
0	0	1.5	2.8031 (0.26)	3.8735 (0.30)	5.194 (0.33)	6.8768 (0.38)	9.0584 (0.44)	11.9716 (0.53)	15.7052 (0.63)
1	0	1.5	2.8031 (0.26)	3.9226 (0.30)	5.3207 (0.33)	7.134 (0.39)	9.5249 (0.46)	12.7341 (0.56)	16.8284 (0.68)
-1	1	1.5	2.8031 (0.26)	3.8457 (0.29)	5.1306 (0.32)	6.7576 (0.37)	8.8542 (0.43)	11.6823 (0.51)	15.3639 (0.62)
0	1	1.5	2.8031 (0.26)	3.8931 (0.30)	5.2476 (0.33)	6.9852 (0.38)	9.2488 (0.44)	12.2993 (0.54)	16.2394 (0.65)
1	1	1.5	2.8031 (0.26)	3.9425 (0.30)	5.3758 (0.34)	7.2469 (0.40)	9.7259 (0.47)	13.0834 (0.58)	17.4094 (0.70)
-1	0	3	2.8031 (0.26)	4.1176 (0.31)	5.8805 (0.37)	8.2908 (0.46)	11.6299 (0.56)	16.4098 (0.72)	23.0829 (0.93)
0	0	3	2.8031 (0.26)	4.1683 (0.32)	6.0146 (0.38)	8.5694 (0.47)	12.1471 (0.58)	17.2755 (0.76)	24.3881 (0.98)
1	0	3	2.8031 (0.26)	4.2211 (0.32)	6.1614 (0.39)	8.8899 (0.49)	12.7727 (0.61)	18.376 (0.81)	26.1324 (1.05)
-1	1	3	2.8031 (0.26)	4.1384 (0.32)	5.9413 (0.37)	8.421 (0.46)	11.8735 (0.57)	16.8581 (0.74)	23.858 (0.96)
0	1	3	2.8031 (0.26)	4.1895 (0.32)	6.0768 (0.38)	8.7045 (0.48)	12.4024 (0.60)	17.7484 (0.78)	25.2177 (1.01)
1	1	3	2.8031 (0.26)	4.2425 (0.32)	6.2251 (0.39)	9.0307 (0.50)	13.0422 (0.63)	18.88 (0.83)	27.0346 (1.09)
Estimated GDP			1,077	1,310	1,594	1,821	2,081	2,275	2,487

Source: Yun, H. ed. (2010.3), *Long-term Care Insurance: The Status Quo and the Issues*, Korea Development Institute, p.93.

Table 13. Projections for Long-term Care Insurance Benefit Payment (Model 2)

(Unit: trillion won)

Scenario for Annual Average Rate of Change			Projected Year						
Chronic Diseases	**Living Alone**	**Productivity**	**2010**	**2015**	**2020**	**2025**	**2030**	**2035**	**2040**
-1	0	0	3.1612 (0.29)	4.0331 (0.31)	4.9855 (0.31)	6.0714 (0.33)	7.3536 (0.35)	8.9699 (0.39)	10.9216 (0.44)
0	0	0	3.1612 (0.29)	4.2244 (0.32)	5.2581 (0.33)	6.4622 (0.35)	7.9016 (0.38)	9.6937 (0.43)	11.8045 (0.47)
1	0	0	3.1612 (0.29)	4.4556 (0.34)	5.6044 (0.35)	6.9845 (0.38)	8.6715 (0.42)	10.7624 (0.47)	13.1753 (0.53)
-1	1	0	3.1612 (0.29)	4.1221 (0.31)	5.1246 (0.32)	6.2765 (0.34)	7.6443 (0.37)	9.3935 (0.41)	11.5138 (0.46)
0	1	0	3.1612 (0.29)	4.3169 (0.33)	5.4048 (0.34)	6.6823 (0.37)	8.2158 (0.39)	10.1529 (0.45)	12.4565 (0.50)
1	1	0	3.1612 (0.29)	4.5523 (0.35)	5.7609 (0.36)	7.2246 (0.40)	9.0188 (0.43)	11.2742 (0.50)	13.9201 (0.56)
-1	0	1.5	3.2087 (0.30)	4.41 (0.34)	5.8727 (0.37)	7.7044 (0.42)	10.0528 (0.48)	13.2101 (0.58)	17.3272 (0.70)
0	0	1.5	3.2087 (0.30)	4.619 (0.35)	6.1937 (0.39)	8.2004 (0.45)	10.802 (0.52)	14.2759 (0.63)	18.7282 (0.75)
1	0	1.5	3.2087 (0.30)	4.8719 (0.37)	6.6018 (0.41)	8.8632 (0.49)	11.8545 (0.57)	15.8499 (0.70)	20.903 (0.84)
-1	1	1.5	3.2087 (0.30)	4.5074 (0.34)	6.0365 (0.38)	7.9647 (0.44)	10.4502 (0.50)	13.834 (0.61)	18.2669 (0.73)
0	1	1.5	3.2087 (0.30)	4.7202 (0.36)	6.3666 (0.40)	8.4797 (0.47)	11.2315 (0.54)	14.9522 (0.66)	19.7626 (0.79)
1	1	1.5	3.2087 (0.30)	4.9777 (0.38)	6.7861 (0.43)	9.1679 (0.50)	12.3292 (0.59)	16.6036 (0.73)	22.0847 (0.89)
-1	0	3	3.2561 (0.30)	4.8157 (0.37)	6.9011 (0.43)	9.7428 (0.53)	13.68 (0.66)	19.3444 (0.85)	27.3047 (1.10)
0	0	3	3.2561 (0.30)	5.0442 (0.39)	7.2783 (0.46)	10.3699 (0.57)	14.6994 (0.71)	20.9052 (0.92)	29.5123 (1.19)
1	0	3	3.2561 (0.30)	5.3203 (0.41)	7.7579 (0.49)	11.2081 (0.62)	16.1316 (0.78)	23.2101 (1.02)	32.9394 (1.32)
-1	1	3	3.2561 (0.30)	4.9221 (0.38)	7.0937 (0.45)	10.072 (0.55)	14.2206 (0.68)	20.2581 (0.89)	28.7853 (1.16)
0	1	3	3.2561 (0.30)	5.1546 (0.39)	7.4815 (0.47)	10.7231 (0.59)	15.2839 (0.73)	21.8956 (0.96)	31.1423 (1.25)
1	1	3	3.2561 (0.30)	5.4357 (0.41)	7.9745 (0.50)	11.5934 (0.64)	16.7776 (0.81)	24.3138 (1.07)	34.8014 (1.40)
Estimated GDP			1,077	1,310	1,594	1,821	2,081	2,275	2,487

Note: Expansion in coverage is assumed to increase until 2011, and then stabilize.

Source: Yun, H. ed. (2010.3), *Long-term Care Insurance: The Status Quo and the Issues*, Korea Development Institute, p.95.

Table 14. Projections for Long-term Care Insurance Benefit Payment (Model 3)

Scenario for Annual Average Rate of Change			Projected Year						
Chronic Diseases	Living Alone	Productivity	2010	2015	2020	2025	2030	2035	2040
-1	0	0	3.1612 (0.29)	5.0315 (0.38)	8.5608 (0.53)	10.4403 (0.57)	12.6585 (0.60)	15.4133 (0.67)	18.6675 (0.74)
0	0	0	3.1612 (0.29)	5.2761 (0.40)	9.0513 (0.56)	11.1424 (0.60)	13.6425 (0.65)	16.7086 (0.73)	20.236 (0.80)
1	0	0	3.1612 (0.29)	5.5718 (0.42)	9.6746 (0.60)	12.0805 (0.65)	15.0249 (0.71)	18.6215 (0.81)	22.6712 (0.90)
-1	1	0	3.1612 (0.29)	5.1196 (0.39)	8.6977 (0.54)	10.645 (0.58)	12.9484 (0.61)	15.847 (0.69)	19.2858 (0.77)
0	1	0	3.1612 (0.29)	5.3648 (0.40)	9.1805 (0.57)	11.3365 (0.61)	13.9127 (0.66)	17.1065 (0.74)	20.8004 (0.83)
1	1	0	3.1612 (0.29)	5.6613 (0.43)	9.7942 (0.61)	12.2606 (0.66)	15.2672 (0.72)	18.9666 (0.82)	23.1518 (0.92)
-1	0	1.5	3.2087 (0.29)	5.5017 (0.41)	10.0842 (0.62)	13.2486 (0.72)	17.3048 (0.82)	22.6993 (0.99)	29.6164 (1.18)
0	0	1.5	3.2087 (0.29)	5.769 (0.43)	10.6619 (0.66)	14.1394 (0.77)	18.6501 (0.88)	24.6069 (1.07)	32.105 (1.27)
1	0	1.5	3.2087 (0.29)	6.0925 (0.46)	11.3963 (0.71)	15.33 (0.83)	20.5399 (0.97)	27.4241 (1.19)	35.9684 (1.43)
-1	1	1.5	3.2087 (0.29)	5.598 (0.42)	10.2455 (0.63)	13.5083 (0.73)	17.7013 (0.84)	23.3381 (1.01)	30.5974 (1.21)
0	1	1.5	3.2087 (0.29)	5.8661 (0.44)	10.8141 (0.67)	14.3859 (0.78)	19.0195 (0.90)	25.1929 (1.09)	33.0004 (1.31)
1	1	1.5	3.2087 (0.29)	6.1903 (0.47)	11.5371 (0.71)	15.5586 (0.84)	20.8712 (0.99)	27.9323 (1.21)	36.7309 (1.46)
-1	0	3	3.2561 (0.30)	6.0079 (0.45)	11.8502 (0.73)	16.7537 (0.91)	23.5485 (1.12)	33.2401 (1.44)	46.6702 (1.85)
0	0	3	3.2561 (0.30)	6.3 (0.47)	12.5291 (0.78)	17.8802 (0.97)	25.379 (1.20)	36.0336 (1.56)	50.5917 (2.01)
1	0	3	3.2561 (0.30)	6.6531 (0.50)	13.392 (0.83)	19.3857 (1.05)	27.9507 (1.33)	40.159 (1.74)	56.6797 (2.25)
-1	1	3	3.2561 (0.30)	6.1131 (0.46)	12.0397 (0.75)	17.0821 (0.93)	24.0879 (1.14)	34.1756 (1.48)	48.216 (1.91)
0	1	3	3.2561 (0.30)	6.4059 (0.48)	12.7079 (0.79)	18.1918 (0.99)	25.8817 (1.23)	36.8918 (1.60)	52.0027 (2.06)
1	1	3	3.2561 (0.30)	6.7599 (0.51)	13.5575 (0.84)	19.6748 (1.07)	28.4015 (1.35)	40.9031 (1.78)	57.8813 (2.30)
Estimated GDP			1,077	1,310	1,594	1,821	2,081	2,275	2,487

Note: Expansion in coverage is assumed to increase until 2011, and then stabilize to reach 12.5% by 2020. Any increased amount, due to the scheme-change after the first 3 years, is assumed to be accounted for by in-home services.

Source: Yun, H. ed. (2010.3), *Long-term Care Insurance: The Status Quo and the Issues*, Korea Development Institute, p.97.

5. Policy Recommendations

5.1. Pension[10]

Discussions on governance structure for the National Pension Fund management have so far focused on the necessity of improving the rate of return. This emphasis is based on the argument that raising the rate of return by 1 percentage point will lead to delays in fund exhaustion by 8

10 Yun, H. et al (2015. 5), supra note, p.7.

years, which amounts to the same effect of increasing the contribution rate by 2 percentage points. However, numerous attempts to reform had not been successful due to a deep mistrust of fund managers' professional integrity, and opposition to giving priority to improving the rate of return over investing in the welfare sector.

In order to break the stalemate and begin productive discussions, it is important to set clear principles regarding fund management. First, to facilitate the best performance, top professionals must be employed. Also, one must define the range of their role explicitly in advance. Furthermore, the possibility of pursuing private interests, in contrast to the interests of fund owners, must be prevented through a transparent accountability mechanism.

A major challenge is to set forth a clear fiscal goal in such an explicit form as "maintain a rate of return of x%." Setting a minimum threshold at a higher level in this way clearly defines the range of roles for the fund managers but at the same time allows for a broad range of discretion for the fund managers within the set limit. It is necessary to statutorily require the National Pension Council, which is supposed to deliberate on important decisions regarding the pension fund, to periodically set and state such fiscal goals.

Second, the National Pension Fund Operation Committee needs to be overhauled. A permanent, *internal* board of directors, composed of financial experts from the private sector, should be formed to monitor the National Pension Fund Operation Committee. The Committee has now become independent of the National Pension Service.

Third, it is necessary to monitor the National Pension Fund Operation Committee and its decisions by an independent, *outside* entity with financial expertise. In addition, it would also be important to adopt legal liability of Committee members when they fail to fulfil their duties. At the same time, the Committee should be given explicit authority to facilitate effective performance evaluation and promote internal competition.

Finally, it is necessary to redefine the concept of public interest. To prevent very subjective arguments such as the one claiming "public interest" to mean only investing in welfare projects, it is essential to reduce the ambiguity present in the "public interest" principle, and rather, focus on the more specific interest of subscribers. It would therefore be desirable to redefine the concept of "public interest" as "achieving the fiscal goal without adversely affecting the financial markets or the macro economy."

5.2. Health Care

Policy direction for health insurance should be revamped in preparation for aging.[11] Chronic diseases such as high blood pressure and diabetes are already exerting pressure on the current system, but to date, there has been little attempt to incorporate the efforts of medical policies to manage such diseases into the health insurance policy. In order to care for such chronic diseases, it is necessary to provide policy support to improve individual lifestyles as well as

[11] Yun, H. (2013. 2), supra note, pp.39-41.

medical efforts. It would be equally important to relate such policy efforts to the health insurance guarantee structure, which forms the backbone of the medical policy tool in Korea. However, so far, medical policies have been very narrowly confined to "support of medical expenses and management of health insurance finances through health insurance guarantee policies," without a broad and long-term perspective to meet the needs of changes in the population structure.

Until now, efforts to strengthen the health insurance guarantee took the approach of focusing on supporting medical expenses, favoring certain diseases that are well known. Health insurance policy almost exclusively focused on easing the burden of medical expenses that have already been incurred. Only recently have there been discussions about the need to include reimbursement for efforts to treat chronic diseases preventively. As in most economies, medical expense subsidies include both the approach of setting a limit on patient co-payment without regards to type of diseases, and the approach of favoring certain diseases through special reductions for incurable or rare diseases. Disease specific policies to reduce out-of-pocket payments for particular diseases or bringing uncovered expenses of such diseases under insurance coverage can be popular by favoring certain well known diseases. However, this can generate inequity between disease groups. For example, under such a disease-specific approach, guarantees for cancer patients have improved so much as to drive a huge gap compared to other disease groups, deepening the inequity between cancer patients and patients with other high cost diseases. The health insurance guarantee rate (ratio of health insurance benefits to total medical expenses) for all health insurance patients was 62.7% in 2010, while special reductions have led to wide differences in guarantees among different diseases, recording 78.9% for cancer, 79.5% for heart disease, and 79.1% for cerebrovascular diseases in 2011.

In order to solve the problems of inequities between disease groups that have been generated and the neglect of future medical expenses, it would be necessary to lower the difference between diseases subject to special reductions and those that are not, and to include the appropriate management of high blood pressure and diabetes as an explicit health insurance goal. Health insurance policy should reject the disease-based approach and reduce the guarantee gaps between different diseases that have deepened in the past. At the same time, a shift from focusing on medical expense support towards pursuing long-term risk management is necessary. In particular, since neglecting high blood pressure and diabetes will most likely cause a surge in future medical expenses, early diagnosis and appropriate management need to be made an overall social goal, based on which mid to long-term policies can be established. This, then, should be reflected on the health insurance policy. Indices such as awareness and control rates should be set as performance goals, and be reflected in the method of payment for medical expenses. Securing the budget to undertake studies and pilot projects to establish the methods and contents of measuring performance, as well as strengthening cooperation with the medical community are other important requirements.

5.3. Elderly Care[12]

At this stage, all capacity should be concentrated on overhauling the institutional arrangements to ensure the sound expansion of the LTC Insurance. Most importantly, there must be appropriate coordination and division of labor between related institutions. The authority of the National Health Insurance Service as a party to the contract needs to be recognized, but we must avoid power being concentrated at the NHIS unnecessarily. The fact that the NHIS, which is the operator of the scheme, is currently also the sole evaluator of service providers, must be intimidating for service providers. This situation may also result in a distortion of evaluation results. On the other hand, the fact that the NHIS, which is a party to the contract, does not have the authority to renew contracts for long-term care service, has fundamentally blocked its ability to use performance evaluations to enforce quality improvements in LTC services. To resolve these problems, policy priority should be given to matching the role of NHIS in protecting the users by improving quality of service providers with the corresponding legal authority such as the right to rescind licenses of service providers. Despite widespread concern that long-term hospitals and nursing homes are not able to provide sufficient medical services to those who are in need of the respective institutions, users themselves have no information on determining which of the facilities (long-term hospitals or nursing homes) would more effectively serve their needs. This is because there is neither objective information nor sufficient incentive to do so. Therefore, it is necessary to establish common evaluation/inspection tools for both types of facilities and force these institutions to periodically examine medical needs and to decide whether there needs to be a transfer of patients between them, based on common evaluation/inspection. Such common evaluation/inspection tools would be essential for appropriate preventive services and constitute first steps towards integrated service provision.

In order to link services provided by the NHIS and local governments, a constructive cooperation mechanism between the two must be built up. This is particularly important for collecting information on those who are not eligible for the LTC Insurance but eligible for services provided to the elderly by the local governments. Appropriate legal mechanisms, regarding the range, procedure and methods of information, need to be sought to allow the NHIS to communicate information to local governments without infringing upon private information protection, and to provide seamless service provision, must be set up. Due to government's impatience to rapidly develop the LTC industry, regulations regarding in-home services and management of related labor forces such as care helpers had been lax, leading to too many low quality service providers setting up business and care helpers being poorly trained. The major challenge in solving these problems is to establish minimum qualification standards and instituting systematic monitoring mechanisms. Lax regulation regarding in-home service needs to be strengthened and establishments providing a narrow range of services should be merged to create integrated service providers. Providing government certified qualification standards with an

[12] Yun, H. et al. (2010. 3), supra note, pp. 6-7.

accurate definition of training contents and a precise evaluation system needs to be set up to ensure the minimum essential qualification of care helpers.

Apart from the role of NHIS, the role of the central government in establishing standards, coordinating various institutions with different roles, and setting up general policy directions, cannot be emphasized enough. Given that most of the problems that have surfaced so far are related to role-coordination, a lack of standards and monitoring means that such a role of the central government must be urgently strengthened.

6. Conclusion

Aging is a universal phenomenon that can be found worldwide. However, the concern in Korea is that the rapid rate at which aging is taking place will greatly intensify the consequent adverse effects within a short period of time. In particular, it is expected to put a great financial burden on the social security system represented by the National Pension Scheme, National Health Insurance, and Long-term Care Insurance. In this paper, we have given an overview of the three social security systems and their financial status in light of changes in the population structure. Further, the paper analyzed the sustainability of the systems through mid-to-long term financial projections and also examined policy challenges needed for each social security system. Major policy reform for the National Pension Scheme is to set specific fiscal goals, to reform the National Pension Fund Operation Committee, to strengthen the monitoring mechanisms of the Operation Committee, and to redefine the concept of public interest. With respect to National Health Insurance, we have suggested establishing mid to long term policy goals that explicitly pursue management of chronic diseases and long term risk management, as well as incorporating these into the national health insurance policy as the prior policy task. Lastly, we argued that important policy goals in the LTC Insurance area should be setting up appropriate coordination between relevant institutions, establishing common evaluation/inspection tools for LTC service providers, and strengthening the coordinating and monitoring roles of the central government.

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Challenges and Reforms of Social Security System Due to Ageing Population in Chinese Taipei*

Ke-Jeng Lan[1]

1. Introduction

Social security is a collective framework to provide compensation to people who are unable to work because they are old, disabled, or unemployed. It may be channeled through social insurance, social welfare or social assistance. The earliest social security can be traced back to Germany in the 1880s. Germany offered sickness insurance in 1883 and offered old age and invalidity insurance in 1889, the state paid the premium in full (Rubinow, 1904). The United States has provided its social security system of old-age, survivors, and disability insurance since 1935.[2] The International Labor Organization (ILO) has advocated for minimum standards of social security since 1952. The Social Security (Minimum Standards) Convention (No.102) covers nine principal branches of social security, namely medical care, sickness, unemployment, old age, employment injury, family, maternity, invalidity and survivors' benefits.

Article 9 of the Economic, Social and Cultural Convention of the UN on December 1966 (taking effect on 3 January 1976) mentioned that, everyone has the right of social security, including social insurance; the UN Economic and Social Council explained Article 9 on February 2008, and the revealed contents included health care, disease, agedness, unemployment, occupational injury, family and offspring aid, maternity, disability, and family dependents of the deceased, etc.; everyone shall acquire the benefit of the contribution or insurance basis, without discrimination to migrants, those without local nationality, or for political asylum, and shall apply to those with part-time employment, who are occasionally working, are self-employed, or working at home as well, which is similar to the ILO No. 102 Convention.

However, mainly due to the ageing population and macroeconomic conditions, most social security systems have amended to increase premiums, extend its qualification of the full pension age, or reduce payments. For example, Germany extended its retirement age to 67 gradually from 2012 to 2029, and its current premium rate of old-age, invalidity and survivors' pension is 18.9% of wages (European Commission, 2013). The age to apply for full pension of social security in the

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2 Medicare and Medicaid have been provided since 1965 and the Obama Care has been implemented since January 2014 in the U.S.

U.S. has been extended to 67 years old gradually by 2027.[3] And the current premium rate of social security in the U.S. is 15.3%.[4] Argentine amended its social security from defined benefits to defined contribution in 2001 in reaction to a significant reduction of pension funds due to a devaluation and default (Matijascic & Kay, 2006). Failure to amend in time may result in a situation similar to Greece (Tsarouhas, 2012).

In Chinese Taipei, Labor Insurance has been initiated since 1950, Civil Servants and Faculty and Staff Insurance has been initiated since 1958, Farmers Health Insurance has been initiated since 1985,[5] Elder Farmers Pension has been initiated since 1995, National Health Insurance (NHI) has been implemented since 1995, unemployment benefits have been offered since 1999, and the National Pension has been provided since 2008.

As time lapses, the demographic characteristics changed. The proportion of those that are 65 years old or above was 2.53% (of the population) in 1947 and increased to 11.99% in 2014 (see Figure 1). When the proportion of those that are 65 years old or above reached 7% of the population in Sept. 1993, Chinese Taipei became an ageing society. It has been projected that Chinese Taipei will become an aged society in 2018 when the proportion of those that are 65 years old or above reach 14% of the population and become a super aged society in 2025 when the proportion of those that are 65 years old or above reach 20% of the population (Council of Economic Planning Development, 2012). The speed of ageing in Chinese Taipei is faster than many advanced economies. And the proportion of those that are 65 years old or above will be between 38% and 44% of the population in 2061 (Council of National Development, 2014). The life expectancy in Chinese Taipei had extended from 74.26 years old in 1992 to 80.02 years old in 2013 (www.moi.gov.tw).

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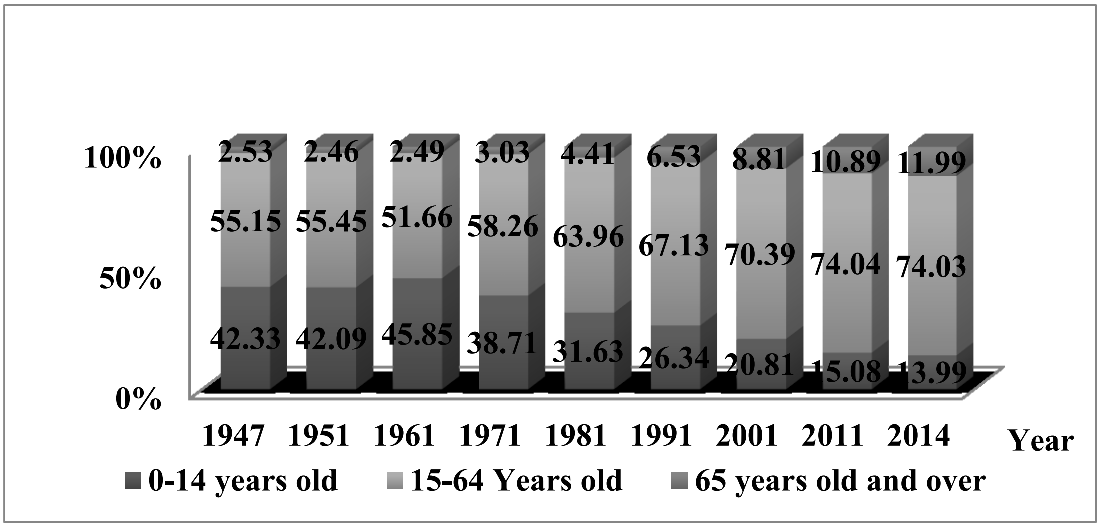
[3] The amendment was made in the 1980s.

[4] The premium rate was 4.0% in 1956 and 6.0% in 1961.

[5] 1985 was a try-out. The universal coverage for farmers has been implemented since 1989.

Figure 1. Proportion of Three Age Groups in Chinese Taipei (1947-2014)



Source: Ministry of Interior.

The impact of an ageing population becomes more severe when the fertility rate and labor force participation rate get lower, which will result in fewer of the insured to pay premiums and more retirees to enjoy pension payments. The total fertility rate in Chinese Taipei had declined from 7,040 in 1951 to 1,165 in 2014 (www.moi.gov.tw). Over the past 35 years, Chinese Taipei had encountered a declining labor force participation rate for males and an increasing labor force participation rate for females, but the number of females was much lower than males (see Table 1).

Table 1. Labor Force Participation Rates of All and By Gender in Chinese Taipei

Unit: %

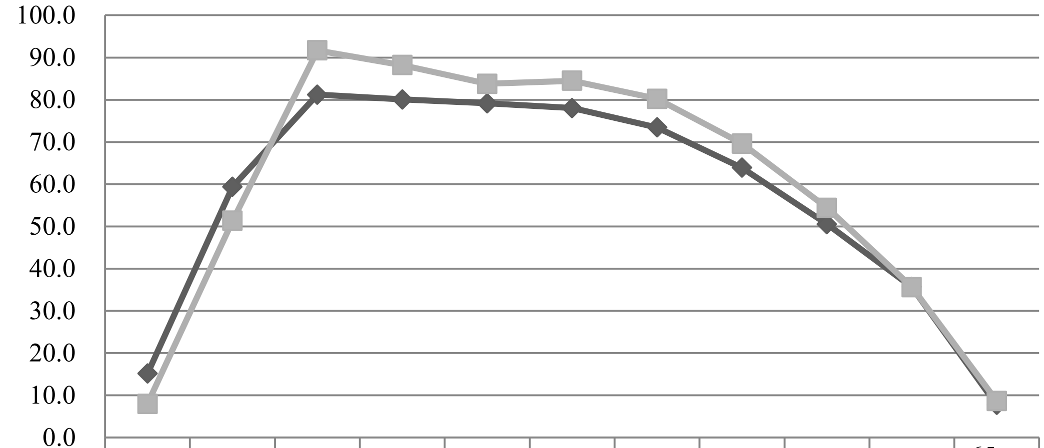
Year	LFPR of All	Male LFPR	Female LFPR
1980	58.26	77.11	39.25
1990	59.24	73.96	44.50
2000	57.68	69.42	46.02
2014	58.54	66.78	50.64

Source: www.dgbas.gov.tw.

Concerning the labor force participation rates of all by age cohort in Chinese Taipei, 25-29 years old were the highest and they declined faster after 45 years old both in 2014 and 2000 (see Figure 2). Compared to other economies (see Table 2), Chinese Taipei encounters a relatively lower labor force participate rate, especially for females.

Figure 2. Labor Force Participation Rates of All by Age Cohort in Chinese Taipei

(2000 and 2014)



	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65 or above
2000	15.14	59.41	81.22	80.08	79.15	78.04	73.43	63.91	50.54	35.68	7.71
2014	7.98	51.35	91.67	88.19	83.77	84.48	80.21	69.63	54.41	35.61	8.68

Sources: www.dgbas.gov.tw.

Table 2. Labor Force Participation Rates of All and Female in Chinese Taipei, the U.S., Singapore, the Netherlands and Sweden

Unit: %

Category	Chinese Taipei (2014)	the U.S. (2013)	Singapore (2013)	the Netherlands (2013)	Sweden (2013)
All	58.54	72.8	73.7	79.6	72.8
Female	50.64	67.1	65.1	74.6	78.7

Sources: www.dgbas.gov.tw, http://stats.mom.gov.sg/Pages/Home.aspx, https://stats.oecd.org/Index.aspx?DataSetCode=LFS_SEXAGE_I_R#.

When people are ageing and have a longer life expectancy, more insured demand pension instead of lump-sum payments. Due to demographic impact and other reasons,[6] Labor Insurance had amended drastically in 2008, including the increase of the premium rate from 5.5% to 12% gradually and replacing one-time payments with pension. And National Health Insurance (NHI) had amended its premium rate from 4.25% in March 1995 to 4.91% plus a 2% supplementary rate in Jan. 2013.

[6] Other reasons include macroeconomic conditions, characteristics of system design, etc.

2. Social security systems in Chinese Taipei

There is no unitary social security system in Chinese Taipei, universal health care and four kinds of social security (namely, private sector workers, civil servants and school faculty and staff, farmers and non-labor force) related to non-health care according to occupations are discussed here.[7]

2.1. Health care

All social insurances implemented before 1995, such as Labor Insurance in 1950, Civil Servants and Faculty and Staff Insurance in 1958 and Farmers Health Insurance in 1985, offered medical benefit to their insured. But only Civil Servants and Faculty and Staff Insurance offered its medical benefit to the insured's dependents. The medical benefits of these insurances are different, premium rates are relatively low, their coverage is limited to only 50% of the population, and set aside are mostly children and elderly.

In order to provide a healthier population such that the value of human capital and productivity can be enhanced, the design of the NHI was initiated in 1988.[8] After the universal NHI had been implemented in March 1995, the medical benefits have been excluded from Farmers Health Insurance, and the medical benefits of the ordinary insurance have been excluded from the Labor Insurance and Civil Servants and Faculty and Staff Insurance.

According to the National Health Insurance Act, there are six categories of insured, whose contribution of premium ranges from 0% to 100%, and government subsidy ranges from 100% to 0%. Dependents can also join the NHI according to the NHI Act. As for employees, their premiums are contributed by the insured (30%), the employer (60%) and government (10%). Employers shall provide NHI to their employees from the first day of employment.

The premium rate was 4.25% in March 1995, increased to 4.55% in Sept. 2002 and then 5.17% in April 2010. All residents have to pay the premium since their birth. Starting from Jan. 2012, the current rate applies, and the premium rate is 4.91% of the insured payroll-related amount, which ranges from NT$19,273 to NT$182,000, 52 grades in total, plus 2% supplementary rate.[9] The threshold of paying the supplemental premium was NT$5,000 in 2013. Since the threshold was criticized for being too low, it will be increased to monthly minimum wage (NT$20,008) in Jan. 2016.

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[7] Military personnel are covered by the Military Personnel Insurance Act in June 1950 (insured persons were 136,387 in Dec. 2013) to get their Retirement Pension (defined benefit), and covered by the Military Personnel Service Act to get their retirement payment (defined benefit) provided by their employer. These will not be discussed in this paper.

[8] National Health has been designed to be sponsored by insurance, rather than sponsored by general tax revenue because its expenditure amount would be huge.

[9] Items applied to the supplementary rate include high amounts of bonus, moonlighting income, income from professional practice, stock dividends, deposit interest income, and individuals' rental income from corporation/enterprise/institution. Starting from Jan. 2016, the premium rate will be decreased to 4.61% of the insured payroll-related amount, which will ranges from NT$20,008 to NT$182,000, plus 1.912% supplementary rate

The number of insured and dependents increased from 19,123,278 persons in 1995 to 23,462,863 persons in 2013. The average insured payroll-related amount increased from NT$20,691 in 1995 to NT$34,715 in 2013. (www.nhi.gov.tw)

The payment of NHI to the insured is not in cash. The payment is delivered to medical institutions directly, except for overseas medical expenses. Generally, 10% deductible of medical treatment charges apply and the insured pay for registration fees. The payment systems adopted include the Referral System under Global Budget System with a rating system applied to all medical institutions.

When the expected medical expenditure is going to increase, the competent authority has to manage amendments of payment mechanisms and the premium rate. As domestic health expenditure increased from NT$423,626 million in 1996 to NT$962,777 million in 2013, health expenditure (payment) of the Bureau of NHI increased from NT$228,406 million in 1996 to NT$507,552 million in 2013,[10] and financial revenue of NHI (primarily collected from premium) increased from NT$242,588 million in 1996 to NT$552,594 million in 2013 (see Table 3). The major reason of the medical expenditure increase is due to the ageing population because older people need more medical treatment. For example, in the estimation of 2010, *per capita* expenditure of 65 year olds or above was three times the *per capita* expenditure of the whole population (see Table 4).

Table 3. Medical Expenditure and NHI Revenue in Chinese Taipei (1996-2013)

Unit: Million NT$

Category	**1996**	**2000**	**2005**	**2013**	**Figure in 2013/ Figure in 1996**
Domestic Health Expenditure	423,626	563,124	733,502	962,777	2.27
Health Expenditure (Payment) of Bureau of NHI	228,406	294,998	373,643	507,552	2.22
Financial Revenue of NHI	242,588	301,703	375,217	552,594	2.28

Source: www.mohw.gov.tw.

[10] Expected payment of NHI in 2021, 2031, 2041 and 2051 would be NT$525.6 billion, NT$606.4 billion, NT$632.6 billion and NT$618.0 billion, respectively (Wu, 2012).

Table 4. Estimation of 2010 *per capita* Medical Expenditure in Chinese Taipei

Unit: NT$

Category	Outpatient Visits	Inpatient Care	Emergency Service
***per capita* Medical Expenditure of All**	11,457	7,205	730
***per capita* Medical Expenditure of 65 Year Olds or Above**	33,660	29,900	2,167
***per capita* Medical Expenditure of 15-64 Year Olds**	9,247	4,940	558

Source: Wu (2012).

2.2. Social security for private sector workers

Related regulations include the Labor Insurance Act, the Labor Pension Act, the Employment Insurance Act and the Act for Protecting Workers from Occupational Accidents.

The Labor Insurance Act provides composite insurance. It includes (a) Ordinary incident insurance: There are five different kinds of benefits which are maternity, injury or sickness, disability, old-age and death benefits. (b) Occupational accident insurance: There are four kinds of benefits which are injury and sickness, medical-care, disability and death benefits. Workers above 15 and below 65 years of age shall all be insured, with their employers (who hire more than five employees are compulsorily to join Labor Insurance), or the organizations or institutes to which they belong reckoned as the insured units.

In the beginning of Labor Insurance in 1950, there were five kinds of benefits, namely, maternity, injury, disability, old-age and death benefits. Inpatient care of sickness benefit was offered in 1956, outpatient care of sickness benefit was offered in 1970, wage compensation of ordinary sickness benefit was offered in 1979 and unemployment benefit was offered in 1999. When NHI was implemented in March 1995, medical treatment benefits of ordinary incident insurance were excluded from Labor Insurance. When Employment Insurance was implemented in 2003, unemployment benefit was excluded from Labor Insurance.

The premium rate (of ordinary incident insurance only[11]) is 9% of insured wages (ranging from NT$20,008 to NT$45,800[12]) now, which will increase gradually to 12%.[13] The government provides certain insurance premium subsidies (from 10% to 80%) for different kinds of insured person. For example, 10% to employees, 40% to occupational trade union members, 80% to Class A members of the Fishermen's Association.

With respect to old-age insurance payments, there have been the following stipulations: (1) 60 year olds[14] with a Labor Insurance tenure attaining to 15 years can apply for old-age pension

[11] The premium rate of occupational accident insurance is an experienced rate and is all paid by employers.
[12] Maximum insured wage of NT$45,800 has been effective since 1 May 2016. Before that date, it was NT$43,900.
[13] Taking account of the premium rate of Employment Insurance, the upper limit of the premium rate becomes 13%.
[14] The legal minimum retirement age will gradually increase to 65.

payments.[15] (2) 60 year olds[16] with Labor Insurance tenure not attaining to 15 years, can apply for lump-sum payments. (3) Persons with Labor Insurance tenure before 2008, and meet the following qualifications as well as requirements, can apply for lump-sum payments: a. retirees at 60 years of age (females at 55 years of age) with one-year Labor Insurance tenure; b. retirees at 55 years of age with Labor Insurance tenure attaining to 15 years; c. retirees in the same insured unit with Labor Insurance tenure attaining to 25 years; d. retirees at 50 years of age with Labor Insurance tenure attaining to 25 years; e. retirees at 55 years of age with five-year special nature work experience with respect to hazards, great physical strength, etc. approved by the central competent authority. (4) All old age payments (either lump-sum or pension) are defined benefit.

Any old-age pension applicant can choose from the following two options: First, the average of the maximum 60 months of insured wages x insured years x 0.775% + NT$3,000. Second, the average of the maximum 60 months of insured wages x insured years x 1.55%.

Suppose the average of the maximum 60 months of insured wages were NT$20,008, and the insured years were 20 or more, then the second option would be better.

Any old-age pension applicant can postpone in claiming the old-age pension benefit. Then the extra 4% of the pension benefit amount will be granted for each year of postponement with the upper limit of 20% extra. For those claiming the old-age pension benefit in advance, 4% of the pension benefit amount will be deducted for each year in advance with the upper limit of a 20% deduction.

Insured of Labor Insurance were 9,920,361 persons in Dec. 2014. The number dominates around 90% (89.54%) of all employed and (86.00%) the whole labor force. In retrospective, Labor Insurance had encountered financial threats of medical benefit payments prior to 1995. The medical benefit of Labor Insurance only covered the insured, not including their dependents. But dependents of the insured usually took the insured's coupon for medical treatment without due monitoring from the competent authority. After the implementation of NHI, such financial burdens were transferred to the NHI, so the Labor Insurance fund has increased its balance ever since. However, due to the trend of an ageing population, the old-age benefit has become the primary payment of Labor Insurance. The financial balance of Labor Insurance had deteriorated since 2002, and reached its worst level in 2008. Transforming the old-age benefit from lump-sum payment to pension payment was initiated in 1993, but aggressive efforts were not observed until 2006, and eventually enacted in August 2008.

After offering old-age pensions since 2009, the financial situation of Labor Insurance has improved because more and more of the insured apply for pension (60% applied for pension in 2009, 80% applied for pension in 2014). The balance of the Labor Insurance fund was NT$520 billion, NT$427 billion, NT$214.4 billion and NT$622.5 billion in 2001, 2007, 2008 and 2014, respectively (http://statdb.mol.gov.tw). The lowest figure in 2008 is due to the insured rushing to

[15] Pension is also available to those incapable to work permanently due to disability and qualified survivors of the deceased who were insured.

[16] The legal minimum retirement age will gradually increase to 65.

apply for old-age payment in Labor Insurance[17] and join National Pension. In this case, when these insured were 65 years old, they could get at least NT$3,000 in pension per month from National Pension.

However, the Bureau of Labor Insurance indicated that on the basis of the end of 2011, estimating 50 years forward the actuarial figures indicate that the premium rates of insurance payments for each ordinary incident in Labor Insurance are separate: old-age benefit is 25.6896%, disability benefit is 0.3087%, death benefit is 1.7148%, maternity benefit is 0.0855%, sickness and injury benefit is 0.0382%, and the total is 27.8368%. In this case if the premium rate were not amended and adjusted again, the situation of the current premium income would not be adequate to cover all payments in 2018 for the first time, then the expenditure gap between premium income and all payments will tend to be widened year by year, and the loss of the cumulative balance of fund assets is expected in 2027. (Shiao, 2012)

It is the result of the gap between the long-term accumulation of debts in the past and the current cash income. The actual financial situation of Labor Insurance would be more embarrassing in the event that most of the insured apply to claim old-age payments. In fact, due to reports of mass media concerning potential financial deficits of Labor Insurance, there had been a retirement rush from Oct. 2012-March 2013. For example, cases of old-age lump-sum payment applications were 157,794 and 144,809 in 2012 and 2013, respectively, which was 70% more than the case in 2011 (see Table 5).

Table 5. Cases of Old-Age Payment in Chinese Taipei

Category	2001	2007	2008	2009	2010	2011	2012	2013	2014
Cases of Lump-sum Payment	115,275	142,053	293,635	153,058	88,431	85,334	157,794	144,809	97,467
Cases of Pension Payment	-	-	-	65,632	118,502	188,716	318,973	497,373	614,960
Total	115,275	142,053	293,635	218,690	206,933	274,050	576,767	642,182	712,427

Source: http://statdb.mol.gov.tw.

According to an estimation of the Bureau of Labor Insurance, as of Dec. 2014, there were 2,422,612 qualified insured for old-age payment, with an accrued payment of NT$2,515 billion. If one were to take account of payment probabilities of old-age, disability and death payments for all insured, the accrued payment cash value of around 9.92 million persons as of Dec. 2014 would be

[17] One may also refer to Table 5 for the significantly high number of old-age payment cases (293,635) in 2008.

NT$9,453.6 billion, and if the total asset value of Labor Insurance were only NT$830 billion, the potential deficit would reach NT$8,600 billion.

On 17 June 2015, the Ministry of Labor and the Ministry of Education each promulgated a guideline concerning campus part-time student workers' Labor Insurance rights. The guidelines require all campus student employees, no matter what their wages are, to join Labor Insurance. Yet 45% of campus student employees earn at most NT$3,000 per month and 75% of them earn at most NT$6,000 per month. They all have to join Labor Insurance at a minimum insured wage of NT$11,100. Such regulations may increase insured persons, but will create more of a burden in accrued old-age payments in the future. Specifically, when student employees qualified for their old-age pension at 65 years old, their average of a maximum 60 months insured wage is expected to be the highest grade (NT$43,900)[18], so each additional insured year will add NT$680 (=NT$43,900 x 1.55%) to their pension. Under the current life expectancy of 80 years, the accrued 15 years of old-age pension for each student employee will be NT$122,400 (=NT$680 x 12 months x 15 years).[19] There are 110,000 such student employees. Suppose half of them[20] carry on their jobs and join Labor Insurance, then the grand total of the additional accrued pension would be NT$6.73 billion (=NT$122,400 x 55,000 persons). Hence, such action, *ceteris paribus*, is expected to deteriorate the financial status of Labor Insurance.[21] Nevertheless, some argue that the "potential deficit of Labor Insurance" is a fake issue because the Labor Insurance fund has an increasing balance (NT$214.4 billion in 2008 and NT$622.5 billion in 2014).

The Labor Pension Act[22] requires employers to contribute labor pension (at least 6% of an employee's monthly wage) to individual accounts at the Bureau of Labor Insurance on a monthly basis for employees applicable to the Labor Standards Act. Employees can also contribute at most 6% of their monthly wage voluntarily. An employee who is 60 years old or above and whose contribution period exceeds 15 years, shall claim monthly pension payments. However, an employee whose contribution period is less than 15 years shall claim a lump-sum payment for retirement. Participating employees of Labor Pension, whose retirement payment is defined contribution, were 6,020,787 persons in Dec. 2014.

Furthermore, all employees above 15 and below 65 years old in the private sector are covered by the Employment Insurance Act (insured persons were 6,437,767 in Dec. 2014). Employment Insurance provides Unemployment Benefit,[23] Occupational Training Allowance, NHI Premium Subsidy and Parental Leave Allowance (which are all defined benefits). Since 2003,

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[18] As of 17 June 2015, the maximum insured wage of Labor Insurance was NT$43,900.

[19] Suppose the highest insured wage or life expectancy increased in the future, then the figure would be higher.

[20] Due to possible slash of student employees by law of demand.

[21] More absurdly, any employee joinging Labor Insurance shall also join Employment Insurance. After a one year insured period of Employment Insurance, these part-time student employees will be qualified for unemployment benefits, which will be 60% of the average insured wage (NT$11,100) for 6 months.

[22] The Labor Pension Act has been implemented since 2005 to replace retirement payment (defined benefit) stipulated in the Labor Standards Act.

[23] Unemployment Benefit was first provided through Labor Insurance in 1999-2002.

its premium rate has been 1% of insured wage, which shares from Labor Insurance, but it has an accumulated financial surplus of NT$100 billion now.[24]

The Act for Protecting Workers from Occupational Accidents offers the minimum wage compensation of occupational disability and death to workers who are covered by the Labor Standards Act but cannot obtain their compensation according to the Labor Standards Act and are not insured by Labor Insurance. The Act also provides some benefits (such as living allowance, occupational training allowance, impaired assistance device subsidy and care-taking subsidy) to insured of Labor Insurance. Payments of the Act are financed by surplus of occupational accident insurance of Labor Insurance.

2.3. Social security for civil servants and school faculty and staff

In Chinese Taipei, civil servants' retirement payments were first offered by employers (government) through the Civil Servants Retirement Act and the Civil Servants Consolation Payment Act in 1943. School faculty and staff retirement payments were first offered by employers (school) through the Statute Governing the Retirement of School Faculty and Staff in 1944. Such systems originally were superannuation (fully provided by government) but have been transformed into contribution benefit (contributed by workers and government) and established the Civil Servants Pension Fund[25] in July 1995. According to the Civil Servants Retirement Act and the Statute Governing the Retirement of School Faculty and Staff, civil servants or school faculty and staff who have more than 15 years tenure can apply for pension retirement, otherwise, they can only apply for lump-sum retirement. According to the Civil Servants Retirement Act, civil servants can apply for voluntary retirement after 25 years tenure at age 50 or above. But due to the ageing population, the qualification of voluntary retirement extended from "75 mechanism" (25 years tenure and age 50 or above) to "85 mechanism" (25 years tenure and age 60 or above) in 2011, and plans are to extend it further to "90 mechanism" (25 years tenure and age 65 or above) in the future.

In order to provide other benefits to civil servants, the Civil Servants Insurance Act was enacted in Jan. 1958 to offer benefits of maternity, sickness, injury, disability, old-age, death and dependents' funeral grant. The Act incorporated the Statute of Private School Faculty and Staff Insurance in May 1999 and renamed as the Civil Servants and Faculty and Staff Insurance Act. When the NHI had been implemented in 1995, medical benefits of sickness and injury were excluded from Civil Servants and Faculty and Staff Insurance. In August 2009, Civil Servants and Faculty and Staff Insurance started to provide parental leave allowance. It now provides disability benefits, old-age benefits, death benefits, dependents' funeral grants, maternity benefits and

[24] Possible reasons of surplus include relatively low unemployment rates and relatively higher premium rates.
[25] Military personnel and political appointees also join the Civil Servants Pension Fund.

parental leave allowance. But no unemployment benefits[26] exist for civil servants and school faculty and staff because involuntary unemployment has been rare for these workers.

The maximum premium rate of Civil Servants and Faculty and Staff Insurance is 15%, and the current rate is 8.25% (effective in 2013).[27] The insured wage is the actual total salary,[28] which is up to NT$93,705. The insured civil servants contribute 35% of premium (government contributes 65%) while the insured private school faculty and staff contribute 32.5% of premium (both private school and government contribute 32.5%, respectively).[29] The average insured wage was NT$35,109 in 2014. As of Dec. 2014, the number of insured persons were 587,459, including 525,189 civil servants and 62,270 school faculty and staff (www.dgbas.gov.tw).

As for its old-age payment, the insured period exceeds 15 years and ages 55 or above will be qualified. The old-age lump-sum payment is calculated by the following: Each insured year will be paid for 1.2 months, up to 42 months, but those applying for deposit under preferential interest are limited to 36 months. The old-age pension payment is calculated as the following: Each insured year will be paid within 0.75% (basic pension rate) and 1.3% (upper limit of pension rate), the maximum insured period to be counted is 35 years, and the maximum pension rate is 45.5%. The odds of the insured period will be counted proportionally.[30]

The qualifications for old-age pension applications are one of the following: (1) Insured period exceeds 15 years and age 65 or above. (2) Insured period exceeds 20 years and age 60 or above. (3) Insured period exceeds 30 years and age 55 or above. According to the amendment of the Civil Servants and Faculty and Staff Insurance Act on Jan. 2014, only private school faculty and staff can apply for pension instead of lump-sum old-age payment, which traces back to apply for retirees after 2010. Other insured are expected to have the option for old-age pension in the future.

Moreover, by an executive order issued in 1960, retired civil servants' certain amount of lump-sum retirement payment could be deposited in the Bank of Taiwan to earn a government subsidized 18% preferential interest rate. A similar executive order was issued in 1965 for retired school faculty and staff. By another executive order in 1972, retired civil servants and school faculty and staff who applied for old-age pension payment could get a year-end bonus and consolation money.

In sum, civil servants and school faculty and staff can get their occupational old age payments from Civil Servants and Faculty and Staff Insurance (defined benefit, lump-sum payment, pension available to private school faculty and staff), Civil Servants Pension Fund (defined contribution, pension or lump-sum payment), 18% preferential interest and year-end bonus and consolation money.

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[26] Though severance payments exist in the Civil Servants Retirement Act.

[27] Premium rate will be 8.83% from Jan. 2016.

[28] Which was 93.52% the actual total salary before 2012.

[29] The status of public school faculty and staff is similar to civil servants.

[30] Labor Insurance will not take account of an insured period of less than one year.

The potential deficit of civil servants and school faculty and staff retirement payments has been estimated to be 160 billion, which is less severe than Labor Insurance because the government provides subsidies constantly and commits to be the last resort of payment. Nevertheless, the Civil Servants Pension Fund would be bankrupt (insufficient to provide payment) in 2031 and school faculty and staffs' pension funds would be bankrupt in 2027 (Lin, 2013).

2.4. Social security for farmers

In order to offer social security protection to farmers, Farmers Health Insurance (try-out) has been initiated since Oct. 1985 but the Farmers Health Insurance Act was not enacted until June 1989. Its benefits include maternity, accidents (medical payment), sickness (medical payment), disability and death. No old-age payment has been offered in the Farmers Health Insurance.

The premium rate was 6.8% in 1995 and has been decreased to 2.55% when NHI was implemented in March 1995[31] because medical payments were excluded from Farmers Health Insurance. The insured wage has been NT$10,200 since 1985. The government subsidies 70% of the premium, so the insured only pay a NT$78 (=10,200 x 2.55% x 30%) premium per month.

And the Elder Farmers Pension Temporary Act was enacted in May 1995 to provide Old Farmers Allowance to farmers (and fishermen) who reach 65 years old and poses a more than 6 month insured period of Farmers Health Insurance. No additional premium has been collected. The Allowance performs as a pension, which was NT$3,000 per month at the beginning, then increased NT$1,000 in Jan. 2004, Jan. 2006, July 2007 and Jan. 2012, respectively, to NT$7,000 currently.

Since there is no upper age limit in Farmers Health Insurance, the average age of its insured was 54 years old in 1996 and increased to 63.49 years old in 2012. The number of insured were 1,349,903 persons in Dec. 2014. Qualified persons for Old Farmers Allowance were 651,482 persons in Dec. 2014. The premium revenue has never exceeded the payments. The differentials are financed by general tax revenue. The accrued debt of Farmers Health Insurance and Old Farmers Allowance was estimated to be NT$149.9 billion in 2012 (Lin, 2013).

Farmers Health Insurance and Old Farmers Allowance once were successfully integrated into National Pension in the enactment of the National Pension Act in August 2007. However, since then, comparing the National Pension with Farmers Health Insurance plus Old Farmers Allowance, farmers had protested for unfairness of a higher premium and lower benefits. After the presidential election in March 2008,[32] before the implementation of the National Pension Act in Oct. 2008, the National Pension Act amended to revoke the integration in July 2008. This is a huge setback to reform of social security in Chinese Taipei.

[31] Because National Health Insurance premium was 4.25% in March 1995, 6.8% - 4.25% = 2.55%.

[32] The ruling party shifted from the DPP to the KMT in the presidential election.

2.5. Social security for non-labor force

Before the enactment of the National Pension Act, social insurances, excluding NHI, in Chinese Taipei were offered to "workers" only. Such mechanisms ignore social security protection of a huge non-labor force. In order to provide pension to the non-labor force, unemployed and workers who are 25-64 year old citizens and do not join any other social insurance[33], and integrate Old-Age Allowance offered by some local governments, the National Pension Act has been implemented since Oct. 2008.

The premium rate was 6.5% in 2008 and will increase to 12% gradually, which is 8% in 2015. The insured wage was NT$17,280 in 2008 and has increased to NT$18,282 since Jan. 2015. The government subsidizes at least 40% of the premium,[34] so the insured pays at most NT$878 (= NT$18,282 x 8% x 60%) per month in 2015. Its benefits include old age pension payment, maternity payment, disability pension payment, death payment and surviving family pension payment.

The old age pension payment can be applied to 65 year olds and will be calculated based on the most advantageous method of the below: (1) Monthly insured amount x insurance period x 0.65% + NT$3,500 to the result. (2) Monthly insured amount x insurance period x 1.3%. Thus the old age pension payment is guaranteed for at least NT$3,500.[35]

The National Pension sounds like a good design to people who do not join any other social insurance. The number of the insured was 4,220,950 persons in 2008 and declined to 3,584,020 persons in 2014. However, the insured proportion out of those who shall be insured declined from 64% in 2008 to 55% in 2014 and most of the insured are 50 years old or above. The reasons include that most young people do not want to join the National Pension because it is too early to be qualified for pension and no penalty has been imposed on not joining the Insurance, and many try to join Labor Insurance legally or illegally because Labor Insurance pays better.[36] The accrued debt of National Pension was estimated to be NT$135.7 billion in 2012 (Lin, 2013). According to the evaluation report consigned by the Bureau of Labor Insurance anticipated that the National Pension would be bankrupt (defined as payments exceeding revenues) after 38 years (in 2046) (Huang, Young, Lee & Tsai, 2012).

3. Challenges of social security system in Chinese Taipei

Primarily due to the ageing population, part with characteristics of design, the critical challenges of the social security system in Chinese Taipei are discussed in the following.

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[33] Such as Labor Insurance, Civil Servants and Faculty and Staff Insurance, Farmers Health Insurance and Military Personnel Insurance. Workers in units of less than four employees who do not join Labor Insurance voluntarily are required to join National Pension Insurance.

[34] The governent subsidizes up to 70% of the premium for specific vulnerable people.

[35] The old age pension payment is guaranteed for at least NT$3,000 in 2008, which has increased to NT$3,500 since 2012 in consideration of CPI indexation.

[36] The old-age payment amount of Labor Insurance is the average of a maximum 60 insured monthly wages x insurance years x 1.55%. But Labor Insurance collects a higher premium.

3.1. Health care

Universal NHI provides good health care to residents in Chinese Taipei. Five characteristics of NHI are highlighted, namely, (a) Universal NHI for all residents by a single payment. (b) Use of an NHI-IC card as evidence of being insured. (c) Highly efficient insurance information system. (d) Implementation of a Global Budget System. (e) Low premium and high quality medical treatment. (www.nhi.gov.tw) But there are challenges of financial sustainability, medical quality and long-term care establishment.

a. financial sustainability

Due to the ageing population and extending coverage of treatment, medical expenditure of NHI increases over time. For example, the medical expenditure proportion of 65 year olds or above increased from 31.1% in 2001 to 33.5% in 2010, and the medical expenditure proportion of catastrophic illnesses increased from 22.7% in 2001 to 28.5% in 2010 (www.mohw.gov.tw). The NHI adjusts the premium according to expenditure. The premium is the primary revenue source (95%) of NHI, and other sources (including premium overdue fines, public benefit lottery revenue allocation and Health Tax on Tobacco) count for only 5%. Since NHI counts on its premium as primary revenue, its financial threat exists all the time because an amendment (increase) of the premium rate is always a difficult task.

In order to alleviate such threats, the reserve fund of the NHI has been reduced from three months to one month of the total insurance benefit payment since August 1999.[37] In increasing the premium rate from 4.55% to 5.17% in April 2010, ranges of insured payroll-related amounts extended from NT$131,000 to NT$182,000 simultaneously. In reducing the premium rate from 5.17% to 4.91% in Jan. 2012, a low threshold (NT$5,000) of 2% supplemental premium was incorporated simultaneously. The original plan in Jan. 2012 was to increase the premium rate from 5.17% to 6.97% or to substitute family income for the insured payroll-related amount but failed. How to guarantee stable sufficient funding for National Health with better mechanisms is still a challenge.

b. medical quality

NHI has constantly ameliorated medical quality in Chinese Taipei. But some challenges remain. For example, urban areas have better density of medical institutions than nonurban areas. People that live in nonurban areas encounter potentially lower medical quality. Moreover, there are four ranks of medical institutions, namely from bottom to top, primary medical care, community hospitals, regional hospitals and medical centers. NHI pays medical expenses (under the Global Budget System) differently according to ranks of medical institutions. the insured have to pay higher registration fees in a higher rank medical institution if they did not follow the

[37] The balance of NHI Fund was NT$30.4 billion in 1995, went to the lowest NT$6.9 billion in 2010 and increased to NT$28.1 billion in 2013 (www.nhi.gov.tw).

Referral System. Yet due to improvements in transportation over the past decades, the insured usually crush into medical centers for small symptoms (such as for colds), which may cost an extra NT$400 million NHI expenditure per year. Due to carefulness and low deductibles, the insured may search for second or more opinions of treatment, hence a waste of medical treatment, medicine, personnel overload and overwork are commonly observed.

Furthermore, after NHI has been implemented, there is a phenomenon of the "Hollow Four", medical institutions having a hard time attracting doctors to medicine, surgery, gynecology and pediatrics. Later on, the phenomenon of the "Hollow Four" evolves into the "Hollow Five", emergencies become an additional specialty that makes it hard to attract doctors.

c. long-term care establishment

Prevention is better than treatment, especially for elderly health. Due to grown-up children usually not living with their parents, the elderly have to live themselves. Suppose they need nursing care without good caretaking, they may require more medical treatment later. The demand for long-term care grows fast, the number of disabled who need long-term care (more than 60% are 65 years old or above) are estimated to be 668,933, 1,174,071 and 1,966,339 persons in 2011, 2030 and 2060, respectively (Executive Yuan, 2013).

Chinese Taipei has enacted the Long-term Care Act in May 2015, which will be implemented within two years because the Long-term Care Insurance Act (draft) has not been enacted yet. The financial sources of long-term care (which may reach NT$60 billion per year) are not specifically defined in the Long-term Care Act. Only 20% of related training participants (100,000 persons over the past seven years) work in caretaking. How the role of foreign workers hired by individual family,[38] which has performed as a supplement to the lacking long-term care framework since 1992, shall be defined is still under debate. Therefore, how to map out well-functioning long-term care is still a challenge in Chinese Taipei.

3.2. Old-age payment

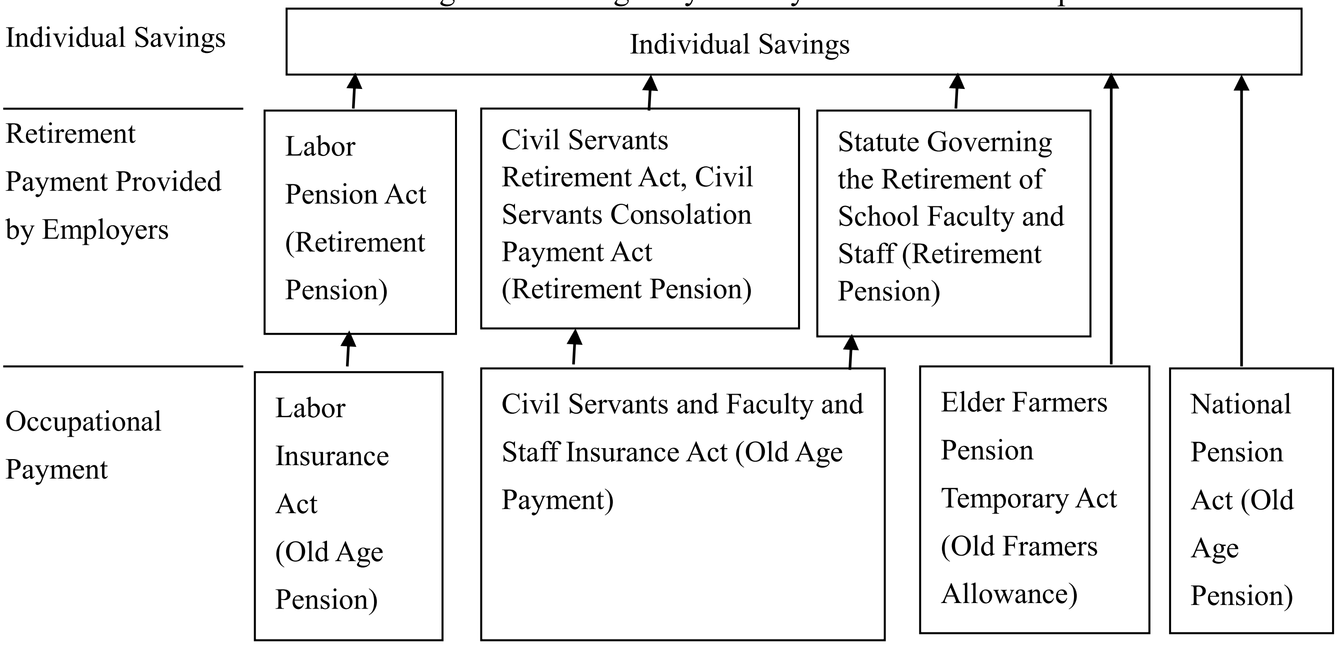
a. different systems for different occupations

The old-age payment system in Chinese Taipei is established by occupations. The first layer of payment is offered by social insurance, the second layer of payment is offered by employers, and individual savings provide complementary payment. The three layers of the Old Age Payment System can be referred to in Figure 3. Specifically, private sector workers' old-age pensions are provided by the Labor Insurance Act (defined benefit) and the Labor Pension Act (defined contribution). Civil servants and school faculty and staff's old-age payments are provided by the Civil Servants and Faculty and Staff Insurance Act (currently, pension is an option for private

[38] Qualification include disability to qualified degree and there is family member of 85 years old or above. There were 217,858 foreign caretakers in 2014.

school faculty and staff only, defined benefit), the Civil Servants Retirement Act, the Civil Servants Consolation Payment Act and the Statute Governing the Retirement of School Faculty and Staff[39] (option for pension available to all, defined contribution). Farmers and fishermen's old-age payments (Old Framers Allowance, similar to pension, defined benefit) are provided by the Elder Farmers Pension Temporary Act. Unemployed, non-employed or workers without any social insurance of 25-64 years of age are covered by the National Pension Act to get their Old Age Pension (defined benefit).

Figure 3. Old Age Payment System in Chinese Taipei



Mixed lump-sum and pension payments may not offer the best protection to old-age life and will let the social security financial situation become hard to estimate. A sort of integration may be required. Moreover, inconsistent systems nourish arguments of unequal treatment. One argument is among workers between private and public sectors, say, private sector workers criticize civil servants' excessive social security, particularly in contrasting new entrants' NT$22,000 monthly wage with retired civil servants' NT$60,000 monthly pension. Another argument is among different generations, say, younger generations worry about older generations taking advantage of their contribution to social security.

b. low premium rate

Benefits of social insurances in Chinese Taipei usually increase as time lapses, but premium rates generally do not increase sufficiently. For example, the balanced premium rate is 21.16% for National Pension (Huang et al., 2012), whose current premium rate is only 8% and maximum

39 Refer to Civil Servants Pension Fund.

premium is only 12%. The balanced premium rate is 40.66% for the Civil Servants Pension Fund (Lin, 2013), whose current contribution rate is only 12% and the maximum premium is only 15%. The balanced premium rate is 42.32% for the School Faculty and Staff Pension Fund (Lin, 2013), whose current contribution rate is only 12% which is also the maximum premium. The balanced premium rate is 27.8368% for Labor Insurance (Shiao, 2012), whose current premium rate is only 9% and maximum premium is only 12%.[40]

Compared to stipulations in other economies, social security tax in the U.S. is 15.3%, mutual and old-age pension premiums in Japan range from 13.292% to 16.766%, the pension premium in Germany is 19.6% (Fu, Shi, Chang, Chuang & Lin, 2013), and the premium of social insurances in Chinese Taipei are also relatively low.

c. high income-substitution rate

The civil servants and school faculty and staff income-substitution rate is the highest. Their old-age payment can be 80% or more (some even over 100%) of their prior income because they have payments of Civil Servants and Faculty and Staff Insurance, the Civil Servants Pension Fund and 18% preferential interest of a certain amount of the retirement payment. As for workers in the private sector, those insured with Labor Insurance, 35 years tenure, and an average insured wage of NT$32,000, the income-substitution rate is 54.25%. Suppose one takes account of the 6% Labor Pension as extra, the income-substitution rate would increase to 70%. But workers with wages higher than NT$43,900 will have a lower income-substitution rate as their wages get higher.[41] (Lin, 2013)

The high income substitution rate will encourage earlier retirement. For example, in 2013, the average retirement age of private sector workers was 57.4 years old (www.dgbas.gov.tw), that of civil servants (pension) was 55.47 years old, and that of school teachers and staff (pension) was 53.90 years old (www.fund.gov.tw). All of them were less than 60 years old.

d. coverage of part-time workers in Labor Insurance need reconsideration

To cover all workers of social insurance is an ideal. But to cover all workers without threshold may threaten the sustainability of social insurance. There is no such problem in Civil Servants and Faculty and Staff Insurance because part-time workers are not allowed to join it, and all their insured are full-time workers. In Labor Insurance, it requires all employees hired in units with 5 or more employees to join Labor Insurance compulsorily. Some of these employees are part-time workers, whose weekly work hours are less than normal full-time workers. Suppose these part-time workers work for significant work hours annually, their joining Labor Insurance is legitimate. Yet some part-time workers just work for a few days or for a small amount of hours annually, specifically the part-time student workers on campuses, then their joining (and exiting

[40] Another 1% goes to Employment Insurance.

[41] Concerning the insured of National Pension, their pension will be only NT$8,986 (present value) after 40 years tenure (Lin, 2013).

when they are off work) Labor Insurance may be troublesome without much benefit and will impair the financial sustainability of Labor Insurance. Hence some sort of amendment to part-time workers' Labor Insurance rights may be reconsidered. Since part-time workers demand for their right to join Labor Insurance due primarily to the protection of occupational accident insurance in Labor Insurance, promoting an independent Occupational Accident Insurance is imminent as a coordinative measure.

4. Reform Recommendations

Changing the population structure has a dynamic influence on the financial situation of social security. The impact of an ageing population on the social security system in Chinese Taipei is significant and will carry on in the future, so reform is a dynamically required task. Any reform shall consider its administrative requirements, which shall be easy to handle. Any reform shall consider its political feasibility, its total benefits shall be positive and potential fighting of vested interests shall be minimized (Lan, Wu & Ma, 2014). Social security in Chinese Taipei has high potential debts, and how reform can alleviate the financial situation without affecting the insured's benefits is quite challenging.

In order to have a sustainable social security system, various aspects of reform may be required. The government has proposed some, such as an increase in insurance premium, an extended calculation period of pension and lower payment of pension. But some more actions may be adopted.

4.1. Reform recommendations for the mid-term

a. health care

Though the current premium mechanism let NHI collect sufficient revenue, charging premiums according to the insureds' occupational categories is not consistent with horizontal fairness. It would be ideal to collect premiums according to household income and eliminate the supplementary premium[42]. And the joining fee mechanism shall be adopted for those who are first time insured or rejoining NHI. Medical quality can also be improved by enlarging payment differentials for the "Hollow Five" (medicine, surgery, gynecology, pediatrics and emergencies) doctors under the Global Budget System, increasing the deductible amount and enlarging registration fee differentials for those who do not follow the Referral System seeing a higher rank medical institution. And a well-functioning long-term care mechanism shall be completed with well-designed financial sources, roles of family foreign caretakers[43] and long-term care institutions.

[42] Supplementary premium may distort behavior to moonlight.
[43] Hiring foreign workers may alleviate financial burdens in the short-run, but it may not be the best strategy in the long-run.

b. promote an independent occupational accident insurance

Promoting an independent occupational accident insurance can separate the insured who aim only for occupational accident insurance, alleviate unnecessary burdens in Labor Insurance and incorporate the Act for Protecting Workers from Occupational Accidents. Labor Insurance is composite insurance, including ordinary incident insurance and occupational accident insurance. The insured can get the protection of occupational accident insurance only if they joined Labor Insurance. The concept of workers joining Labor Insurance compulsorily is mostly based on the protection of occupational accident insurance,[44] which is more evident in the process of campus part-time student workers' demand to join Labor Insurance.[45] Therefore, promoting an independent occupational accident insurance is imminent. Suppose workers can join occupational accident insurance and ordinary insurance separately, the financial status of Labor Insurance would be improved.

c. pension payment calculation

The ideal goal of the pension payment calculation base is to take account of insured wages across all periods. In Civil Servants and Faculty and Staff Insurance, the pension payment base is calculated from the most recent 120 months of insured wages. In Labor Insurance, the pension payment base is calculated from a maximum 60 months of insured wages, which encourages speculators to reduce their insured wage after they have achieved the highest insured wage (NT$45,800) for 60 months to save premiums. Hence the calculation base period shall be extended. The best way is to calculate the average wages of all insured periods as a pension payment base, but it is infeasible politically. Instead the government has proposed to adopt the "maximum 144 months of insured wages" to calculate pension payment. Eventually a "maximum 120 months of insured wages" may be more feasible.

Furthermore, early retirement pension shall be deducted by a larger amount to discourage early retirement. Currently in Labor Insurance, the early retirement pension will be deducted for 4% of the pension benefit amount for each year of claiming advancement with the upper limit of a 20% deduction. This is in the same magnitude (but reversed direction) as the postponed retirement pension. In order not to encourage early retirement pension applications, the deduction of early retirement pensions may be increased progressively.

d. reconsider how to cover part-time workers

Due to mini-job workers possibly deteriorating the financial sustainability of Labor Insurance, a threshold excluding mini-job workers from joining Labor Insurance may be adopted. Referring to Japanese Employment Insurance excluding workers with weekly work hours less

[44] For example, some scholars have suggested to require employees of all units to join Labor Insurance compulsorily.

[45] Particularly, student workers in campus labs encounter a higher risk of accidents than other student workers, and students have a higher risk of traffic accidents than general workers. Traffic accidents during the insured period of Labor Insurance can be regarded as an occupational accident under due conditions.

than 20 and employment period less than 31 days, German Pension excluding workers with monthly earnings no more than 450 Euros, and as the minimum insured wage is NT$11,100 in Labor Insurance currently, such a definition of mini-jobs may be set at monthly earnings of no more than half of minimum wage (NT$20,008 from July 2015). Suppose excluding these workers from Labor Insurance were not politically feasible, the mini-job workers' insured period for old-age payment may be discounted according to their proportion of insured wage with respect to the first grade (the minimum insured wage of full-time workers) of insured wage (NT$20,008). Specifically, the insured period of the insured wage of NT$11,100 shall be discounted as 55.48% (NT$11,100/NT$20,008).

e. reconsider fully funded reserve concept

Suppose stakeholders can accept the concept of a pay-as-you-go system as adopted by NHI and Japan (Takayama, 2010), instead of the fully funded reserve concept, then the impact of a financial threat would be less severe. Of course, under the pay-as-you-go system, it does not imply an immunity to financial threats. One has to project how many months or years of reserves would be required and what shall be amended once the reserves become insufficient. Under such circumstances, some built-in stabilizers (to amend payments and premiums) may be required for in-time reactions.

f. reduce premium subsidies from government

Referring to stipulations in other economies, the social security tax in the U.S., mutual and old-age pension premium in Japan and pension premium in Germany are all shared 50/50 by employer and employee. In Chinese Taipei, insured employees of Labor Insurance get a 10% premium subsidy from the government, the insured of Civil Servants and Faculty and Staff Insurance get 32.5% premium subsidy from the government, the insured of Old Farmers Health Insurance get 70% premium subsidy from the government and the insured of National Insurance get at least 40% premium subsidy from the government. Furthermore, government subsidy to premium in Labor Insurance varies according to the kind of insurance, which nourishes loopholes for speculators, which should be reduced and unified to various kinds of insurance. At least government subsidies to premiums can be reduced as the insured wage increases. The government certainly may subsidize social security, however, better groups to be subsidized shall be judged by a means-test, not by occupation.

g. promote labor force participation rate

More of the insured will increase premiums and alleviate the financial burden at least in the mid-term. Compared to other economies (see Table 2), Chinese Taipei encounters relatively lower labor force participation rates, especially for females, particularly those that are 45 years old or above (see Figure 2). Suppose Chinese Taipei can effectively promote its labor force participation rate,[46] the contribution to social security can be enhanced. Of course, the labor force had better obtain some jobs rather than mini-jobs.

4.2. Reform recommendations for the long-term

a. extend National Pension coverage

The National Pension can be extended to all people, not only those who do not join any other social insurance and the insured age can be lowered from 25 to 20 years old.[47] Thus the National Pension can become the basic old-age pension for all and increase contributions from the insured. Such reforms can add extra pensions to the insured of Labor Insurance and Civil Servants and Faculty and Staff Insurance, and can once again incorporate the Elder Farmers Pension.[48]

b. integrate various old-age payments

Suppose the integration of old-age payments (paying due amounts at 65 years old) had been realized, the financial risk of social security could be lowered. Currently those who have applied for old-age payments from the Civil Servant and Faculty and Staff Insurance and Civil Servant Pension Fund at the due age (which may be less than 65 years old) can start to enjoy their lump-sum and pension payment. Most of them will not work anymore in a formal sector but can enjoy their pension for a longer period. For some of them who will try to find another job in the private sector and join Labor Insurance, they can enjoy the pension plus their current salary. Once they are 65 years old, they can apply for the old-age payment from Labor Insurance, which may be a lump-sum (if insured periods were less than 15 years) or pension (if insured periods were more than 15 years). Another controversial phenomenon is that a retired professor of less than 65 years of age from a public school can then take a faculty position in a private school, and enjoy a pension and salary that is 1.8 times of his/her prior salary.[49]

Such phenomena can be improved by the integration of various old-age payments in different social security systems: Insured tenure in different social insurances shall be added-up (totalization) to provide old-age payments at the due age (normal retirement age, 65 years old). Currently in Chinese Taipei, only Labor Insurance and National Insurance have such a totalization of insured tenure. The totalization of insured tenure for old-age payments had better be applied to all social insurances in order to realize the protection of old-age life and ameliorate financial sustainability of various social insurances. This can also alleviate the “unfairness” debate between

[46] For example, more nonstandard employment can be created for female. And the Employment Insurance Act may be amended to allow parent to apply for partial Parental Leave Allowance (for raising children) instead of current qualification of full-time children raising allowance.

[47] Japanese National Pension covers 20-59 years old.

[48] In consideration of political feasibility, the differential amount between Elder Farmers Pension (NT$7,000 per month) and National Pension (at least NT$3,500 per month) of vested interest can be supplemented by social welfare mechanism.

[49] Such criticism comes from private sector workers' feelings of unfairness with respect to better social security of civil servants and school faculty and staff. In fact, suppose a retired professor from a public school took a job in the private sector, similar unfairness exists but were ignored in debate.

private and public sector workers. As a further step, the social security system in various occupations can be integrated, as in the cases of the U.S., Japan and Germany.

c. phase-out old-age lump-sum payment

Suppose all old-age payments could be transformed into pension, the financial risk of social security could be reduced. Currently in Labor Insurance, of the insured with fewer than 15 years insurance tenure can apply for an old-age lump-sum payment. This shall be treated as an interim strategy in the process of introducing the pension system. However, there is no "sunset" clause and may create uncertain cash outflow in the future. It would be better to amend it as the following: Suppose the insured were not qualified for old-age pension due to insufficient tenure, they cannot apply for the old-age lump-sum payment. As for Civil Servants and Faculty and Staff Insurance, only private school faculty and staff can apply for pension currently, others still have to apply for the lump-sum payment, whose pension option still pending on amendment of other laws and financial actuarial estimations.

d. built-in stabilizers can be considered

The impact of the trend of an ageing population on social security is certain, but the impact may vary from time to time. In order to response effectively in time and in due magnitude, some sort of built-in stabilizers may be adopted to slightly adjust the pension amount, premium or due age of old-age payment. For example, Japan takes account of life expectancy and employment rate, and Germany takes account of intergenerational equality and sustainable development (Fu et al., 2013). Chinese Taipei currently only takes account of gradually increased premiums (up to 12% in Labor Insurance), retirement age (up to 65 years old in Labor Insurance) and CPI indexation of pension amount (in Labor Insurance and National Pension). It may consider what other parameters shall be included with more research related to pension behavior.

e. more private pension can be encouraged

For workers in the private sector, they can also contribute at most 6% of their wages to Labor Pension, as extra contribution in addition to the employers' 6% contribution. However, there were only 5.89% that did so in 2014, which was lower than the figure (9.25%) in 2005 (the first year of implementing Labor Pension) (http://statdb.mol.gov.tw). There is no such mechanism in the Civil Servants Pension Fund. Chinese Taipei may encourage such kind of private pension, to supplement an uneasily elevated public pension.

f. find more sources to finance potential debt of social security

Where can the money go to finance the potential debt of social security? Japan uses general tax revenue and sales tax (consumption tax), Germany uses ecological tax (Fu et al., 2013). In additional to general tax revenue, sales tax and ecological tax, Chinese Taipei may also consider adopting a joining fee mechanism for those who are insured for the first time or rejoining social insurance, income tax on pension and special assessment tax. Of course, investment returns of social security funds shall be ameliorated as well.

g. eliminate compulsory retirement age regulation

Many workers will apply social insurance pension when they are forced to retire by law. So the compulsory retirement age (65 years old) in the Labor Standards Act, the Civil Servants Retirement Act and the Statute Governing the Retirement of School Faculty and Staff can be eliminated gradually to postpone the retirement age. As a complement, a measure of requiring workers beyond 65 years old to pass a health examination can be imposed.

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