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Multi pillar models as a basis for social protection

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What is a multi pillar model?

- We have had them for decades in some countries,…
- ….but the term itself is often associated with a 1994 World Bank report and a rather aggressive WB pension reform campaign that followed
- The basic idea:

A system constituted through the coordinated coexistence of multiple complementary elements - each with their own specific characteristics and serving separate functions

- "Multi" is not enough – the quality of the term lies in the "system"-part
- The term - *multi-pillar system* – offered a much-needed framework…
- …hence, many countries have applied the terminology in their system communication without necessarily buying in on the full policy package

Questions

- Is the current pension system in Rwanda a multi-pillar system?
- Why / why not?
- Is anything missing?
- And if so, what might that be?

The 90’s and 00’s WB multi-pillar campaign…

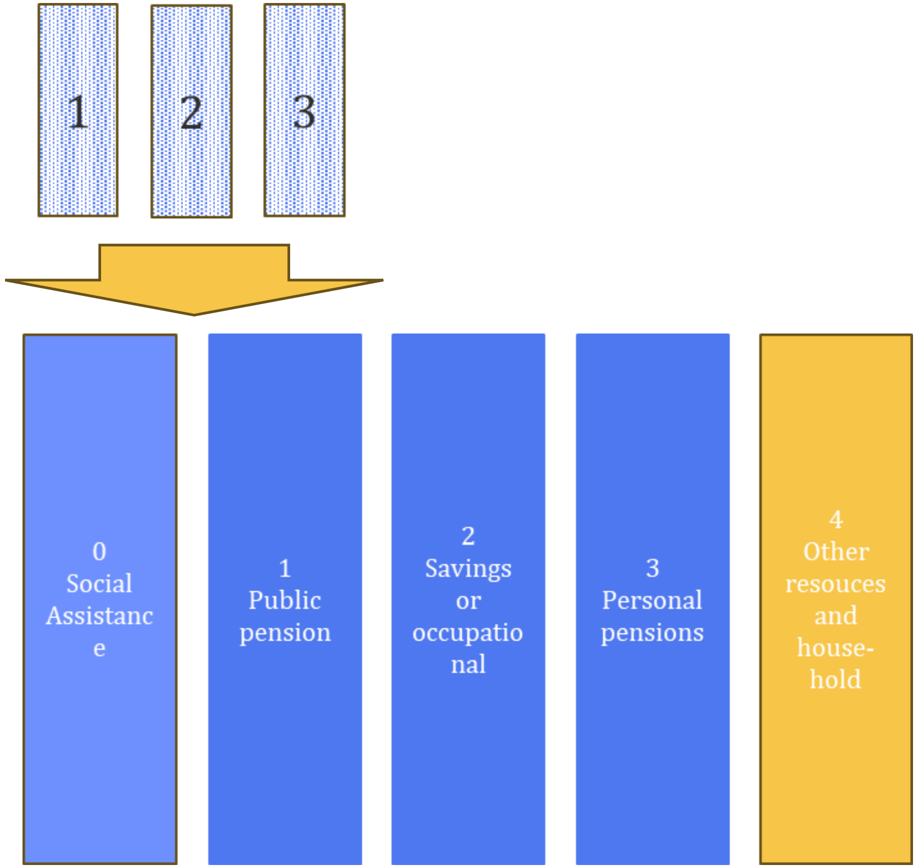
- Key elements in the original WB multi-pillar model and reform strategy:
  - Reform public pensions to become smaller and focus on poverty protection only
  - Create a dominant privately managed mandatory savings-based 2nd pillar to smooth consumption over the life course
  - Carve out 1st pillar contributions and direct them to the new 2nd pillar individual accounts
- Reforms along those lines were pushed quite aggressively
- More than 30 countries – not least in Easter Europe and Latin America – adopted the model in various forms

…eventually the strategy capsized…

- Fierce debate over the role of social security and severe critique
  - Critics - ISSA, ILO, and academia – focused among on the minimalist approach to public pensions, shallow economics, lack of context awareness, neglect of transion costs, neglect of inherent risks, overly optimistic assesments of market based schemes…
- An internal WB evaluation presented severe critism of WB efforts on pension reform
- Eventually – especially around the financial crisis - the results of this “multi-pillar pension reform” approach proved dramatic,…
- …and a large number of countries rolled back reforms

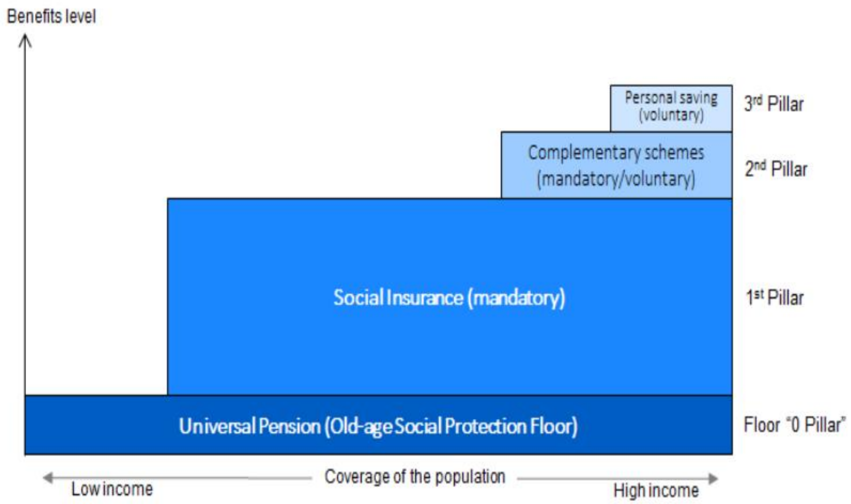
…and the WB had to revise its model…

- The World Bank reformed its model around 2005/2008
  - ➢ From 3 to 5 pillars
  - ➢ More focus on poverty protetion and more focus on public pensions
  - ➢ Greater emphasis on country capacity when promoting savings based prensions
- Since 2016 the focus has been on coverage and poverty issues together with the ILO



…bringing it closer to the ILO multi-pillar model

- The ILO model has similarities with the revised WB model,…
- …but yet views divert significantly on key issues
- ILO rejects pursuing basic social security objectives through pillar 2 and 3
  - ILO insist on a strong pillar 1 and an effective pillar 0
  - ILO policy is that while such systems may complement pillars 0 and 1,…
  - …they should in no way attempt to replace them



A relative consensus and lessons learned

- Some possible lessons learned:
  - One size will not fit all, and context and capacity matters
  - Funded schemes can complement but they cannot replace public provision…
  - Public pensions is key to poverty aleviation…
  - …and they are critical to broader basic pension provision
- Lessons in hand, the multi-pillar approach survives as an attractive approach
  - It distributes responsibility, diversifies financing
  - It separates key functions - redistribution, basic security, risk sharing, and deferral of consumtion int pillars
  - It designs pillars in view of each other and the different partial objectives

Questions

- Does this development have relevant messages for Rwanda?
- Again, does Rwanda have a multi tier system?
- What steps, should Rwanda focus on – short and mid-term?

Universal social security in a multi-pillar system…

- Public programs are to ensure poverty protection and provide basic income security
- If pillar 1 has limited outreach short term focus turns to pillar 0
- Pilar 0 is to assist those who have too little and may combine different benefits
  - Income support, housing support, medical benefits, special needs support etc.
- Focus on forward-looking strategies to reduce old-age poverty
  - Increase pillar 1 coverage over time is key
  - Better 2nd pillar coverage, adequate contributions and high contribution density can assist,…
  - …provided that schemes are designed to complementary…
  - …and attractive, well-managed with low costs

Objectives, tools and the design of pillars I

- Different pillars call on different designs and characteristics
- Consider a range of design decisions/aspects, their effects and their application:
  - Contributory or non-contributory
    - Universal social rights based arrangement or an arrangement where financing and rights depend on contribution payments and labiur career?
  - Mandatory or voluntary
    - Should participation be mandatory – all participate on equal terms – or should participation be voluntary for thge individual (or for employers)?
  - Targeting – income, means and needs test
    - Wish to achieve as much welfare for a given expenditure – should benefits depend on past income, present income, household or individual, should assets be taken into account, or should benefits reflect particular needs?

Objectives, tools and the design of pillars II

- PAYG or partially or fully funded
  - Should current revenue/contributions pay current benefits or should benefitds be paid – fully or partly – from accrued savings/reserves?
- DB or ~~NDC or~~ DC
  - For contributory benefits only: Should benefits be defined beforehand or should they depewnd on the accrued savings at retirement?
  - Who bears the risk?
- Publicly managed or privately managed
  - Only for savings based schemes
- Mutual or commercial
  - Should collective savings vehicles be built or should private schemes be mandated?

Objectives, tools and the design of pillars III

- Redistribution or risk sharing
  - Should redistribution from rich to poor be distinguished from risk sharing?
  - Risk sharing can relate to insurable contingencies – old-age, death, and survivors
  - Redistribution relates to established needs without prejudice
- Savings or insurance
  - In complementary arrangements: Savings arrangements does not support risk sharing, insurance arrangements do
- Does the answers to these aspects depend on the overall model and combination of pillars?

The new old-age grant is a case in point…

- The old-age grant is a cornerstone in the current strategy to reduce old-age poverty
- The old-age grant will replace the Umurenge direct old-age support retaining many characteristics
  - It will be targeted to the poorest of pensioners with limited working capacity
  - Based on social registry information supported by Ubudehe council assesments
- Financial contraints exist, but is it the best design choice even in the longer term…?

- What other designs may be considered?

…along with the RSSB pension scheme…

- The RSSB is contributory DB pension sceme for the formal sector
- The RSSB coverage is very low – less than 10%
- Its financial sustainability will be affected by future demographic development
- Yet it may be desirable to see it as the cornerstone in a future multi-pillar system

- How can RSSB pension participation be strengthened?
- Are design changes relevant to this effect?

…and the Ejo Heza

- Massive enrollment success, thereby presenting an impressive platform
- It will take decades to develop and its long term effects remain uncertain:
  - Contributions are very low, contribution density is low, many participants do not benefit from incentives, incentives may cause perverse redistribution, early withdrawals cause pension leakage, no risk sharing…
- Ejo Heza should not compete pillar 1 participation – it should stay complementary
- Other measures to address pension coverage and old-age poverty are key

- How can Ejo Heza fit into an overall pension system?
- May design changes to other elements be relevant?

A future multi-pillar model?

- Poverty protection for the vast majority through protection floor offered by the old-age grant (pillar 0)
  - But many will not receive benefits
- A small minority enjoys basic income security through the RSSB pension scheme (pillar 1)
- For the vast majority, Ejo Heza will only provide small supplementary benefits – if any - even when matured
- Other schemes exit but their outreach is very limited
- Pillars or silos?
- Consequences of silo'ism?