

Investments in social security: Amounts, results and efficiency

8

8.1 Introduction

This chapter examines the levels of resources allocated to investments in social security in different regions of the world, and at the patterns of the sources of finance, with a view to evaluating the results of these investments in terms of poverty reduction, reductions in inequality, and other policy objectives. In order to identify the efficiency of the investments made it is obviously important to look at the relationship between resources and policy outcomes.

Since its inception the ILO has attached great importance to there being adequate and sound economic and financial foundations of the policies it promotes. This is reflected in the Declaration of Philadelphia of 1944, which is an annex to the ILO Constitution. In affirming that a fundamental objective of the ILO is that “all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity”, the Declaration makes it the responsibility of the ILO to assess “all national and international policies and measures, in particular those of an economic and financial character”, and states that only those which are “held to promote and not to hinder the achievement” of this fundamental objective should be accepted.

The Declaration states that “the extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care” is one of the policies on which depend the achievement of the fundamental objective stated above. And

it is clear that adequate resources for the financing of social policies in general and social security policies in particular will not be available unless sound economic and financial policies are in place.

Questions of sustainable and just financing, as well as of the effective design of benefit schemes and the overall social security system, are therefore emphasized in the ILO standards.

The Income Security Recommendation, 1944 (No. 67), the Medical Care Recommendation, 1944 (No. 69), and the Social Security (Minimum Standards) Convention, 1952 (No. 102), set forth principles concerning the financial guarantees of social security systems. According to Convention No. 102, the costs of the benefits and of their administration may be borne collectively, by way of insurance contributions or taxation, or a mix of both. The mode of financing may differ according to national preferences, but in any case, Convention No. 102 specifies that the total of insurance contributions borne by protected persons should not exceed 50 per cent of the total of the overall financial resources allocated to social security in the country. Recommendation No. 67 lays down that *social insurance* should be financed by a mix of sources – both by specific social security contributions paid by protected persons and employers, and by general taxation, as follows: “The cost of benefits, including the cost of administration, should be distributed among insured persons, employers and taxpayers in such a way as to be equitable to insured persons and to avoid hardship to insured persons of small means or any disturbance to production” (Recommendation No. 67, Paragraph 26). As for social assistance,

the Recommendation refers to “public subsidies in cash or in kind, or both” for financing the maintenance of children (e.g. through child allowances) and their health care, but does not make any specific provision for the financing of other types of social assistance benefits laid down in the Recommendation. As for Recommendation No. 69, it makes a distinction between medical care provided under a social insurance service, which should be financed by way of contributions from workers and employers (and taxpayers for those costs which are not covered by contributions), and a public medical service, the costs of which should be met by public funds (by way of taxation or out of the general revenue).

Both Recommendations and the Convention are also clear that, even in cases where social security has a mainly contributory character, persons of “small means” such as those whose income is below the subsistence level should not be required to pay contributions or, as laid down in Recommendation No. 69, to pay a special tax that would be levied to finance the public medical service (at all or in the full amount); instead contributions should be fully paid on their behalf or partially subsidized from the public funds (general revenue).

According to Recommendation No. 67 there are also other circumstances where social insurance contributions should be complemented by funds provided from the general revenue:

- (a) the contribution deficit resulting from bringing persons into insurance when they are already elderly;
- (b) the contingent liability involved in guaranteeing the payment of basic invalidity, old-age and survivors’ benefits and the payment of adequate maternity benefit;
- (c) the liability resulting from the continued payment of unemployment benefit when unemployment persists at an excessive level.

The government of a country which has ratified Convention No. 102 is under an obligation to accept general responsibility for the due provision of the benefits provided in compliance with the Convention, and should take all measures required for this purpose; it should ensure, where appropriate, that the necessary actuarial studies and calculations concerning financial equilibrium are made periodically and, in any event, prior to any changes in benefits, the rate of insurance contributions, or the taxes allocated to covering the contingencies in question.

Recommendation No. 67 specifies here that contribution rates to social insurance schemes should not exceed the rate necessary to ensure collective financial

equivalence – that is, the rate which would yield, in the future, contribution income from all the insured persons such that its expected present value would be equal to the expected present value of the benefits due in the future to all those insured and their dependants. However, Recommendation No. 67 advises that “the rates of contribution of insured persons and employers should be kept as stable as possible, and for this purpose a stabilization fund should be constituted”.

The Recommendation also attaches great importance to the proper coordination of the social security system: the administration should be unified or coordinated within a general system of social security services, and contributors (both employed and employers) should, through their organizations, be represented on the bodies which determine or advise upon administrative policy and propose legislation or frame regulations. If there is a separate authority administering social insurance it should be associated with the authorities administering social assistance, medical care services and employment services in a coordinating body for matters of common interest. Central and regional advisory councils, representing – in addition to trade unions and employers – such bodies as farmers’ associations, women’s associations and child protection societies, should be established for the purpose of making recommendations for the amendment of the law and administrative methods, and generally of maintaining contact between the administration and protected persons.

In addition, Recommendation No. 67 includes a clear concern with the need to achieve a balance between benefit adequacy, labour market incentives and the financing burden involved: “Benefits should replace lost earnings, with due regard to family responsibilities, up to as high a level as is practicable without impairing the will to resume work where resumption is a possibility, and without levying charges on the productive groups so heavy that output and employment are checked” (Paragraph 22).

8.2 Resources allocated to the financing of social security across the world

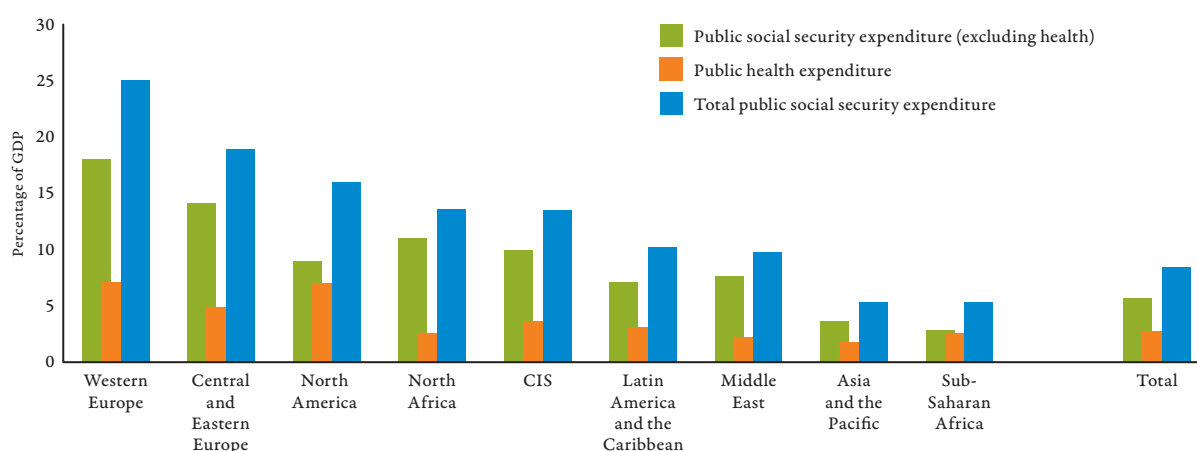
How much are countries investing in social security and how is it financed? On average, 17.2 per cent of global GDP is allocated to social security. However, these expenditures tend to be concentrated in higher-income countries, and so this average does not reflect the situation for the majority of the world’s population,

Table 8.1 Social security expenditure by region and globally, latest available year (percentage of GDP)

	Social security expenditure (excluding health) as a percentage of GDP			Public health expenditure as a percentage of GDP			Total social security expenditure as a percentage of GDP		
	GDP weighted	Simple average	Population weighted	GDP weighted	Simple average	Population weighted	GDP weighted	Simple average	Population weighted
Western Europe	17.9	16.7	18.0	7.1	6.4	7.1	25.0	23.2	25.1
Central and Eastern Europe	14.5	13.9	14.1	5.0	5.0	4.8	19.5	18.9	18.9
North America	9.0	9.3	9.0	7.0	6.9	7.0	15.9	16.2	16.0
North Africa	10.5	9.5	11.0	2.5	2.4	2.5	13.0	11.9	13.6
CIS	9.0	8.2	9.9	3.9	2.7	3.6	12.9	10.9	13.5
Asia and the Pacific	7.9	3.6	3.6	4.2	3.3	1.7	12.0	6.9	5.3
Middle East	8.8	6.6	7.6	2.8	2.8	2.2	11.6	9.4	9.8
Latin America and the Caribbean	6.6	4.0	7.1	3.1	3.4	3.1	9.7	7.4	10.2
Sub-Saharan Africa	5.6	2.3	2.8	3.1	2.4	2.5	8.7	4.8	5.3
Total (138)	11.3	7.1	5.7	5.9	3.8	2.7	17.2	10.9	8.4

Sources: IMF, 2009; OECD, SOCX (OECD, 2009a); ILO Social Security Inquiry (ILO, 2009c); ESSPROS (European Commission, 2009a); WHOSIS (WHO, 2009a). Country data are available in the Statistical Annex. See also ILO, GESS (ILO, 2009d).

Figure 8.1 Social security expenditure by region, weighted by population, latest available year (percentage of GDP)



Link: <http://www.socialsecurityextension.org/gimi/gess/ResFileDownload.do?ressourceId=15126>

Sources: As for table 8.1. Country data, definitions and interpretation issues are available in the Statistical Annex.

who live in lower-income countries where much less is invested in social security. An alternative measurement which better reflects the situation is a simple mean of the proportions of GDP allocated to social security in different countries. This reveals that, on average, countries in the world allocate 10.9 per cent of their respective gross domestic products to social security. The size of the population in different countries can also be used as a weight to calculate mean percentages of GDP: in this case the result shows that for the “average” resident only 8.4 per cent of the GDP of the country is

allocated as social security benefits in the form of cash and in-kind transfers (see table 8.1 for all results).

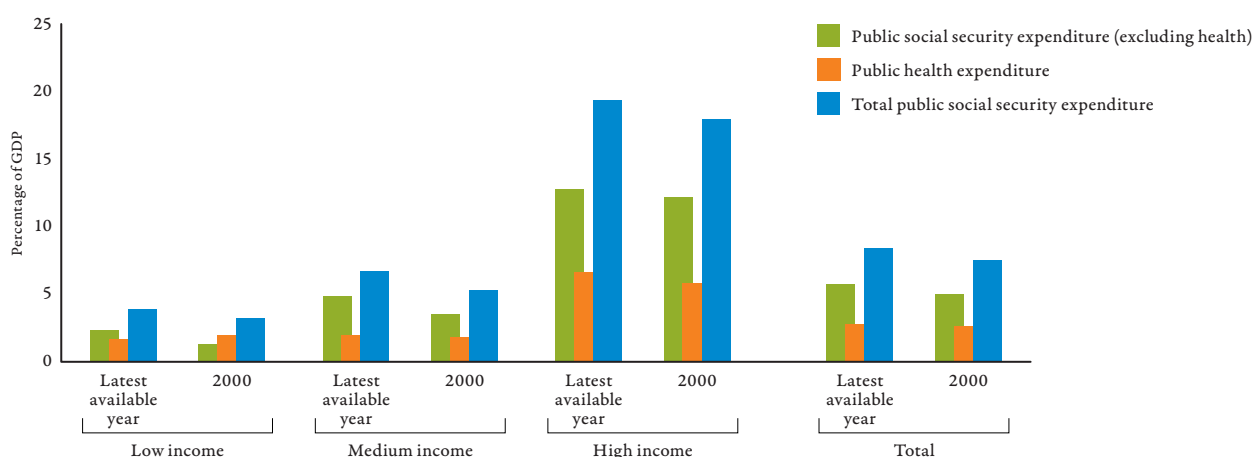
Country figures vary widely among the populations living in different regions, and among countries of different national income levels. While residents of Europe can see between 20 and 30 per cent of GDP invested in their social security, in most African countries only 4–6 per cent of GDP is spent on social security benefits; most of these funds are spent on health care rather than on cash transfers aimed at providing income security (see figure 8.1).

Table 8.2 Social security expenditure by income level and globally, latest available year (percentage of GDP)

	Social security expenditure (excluding health) as a percentage of GDP			Public health expenditure as a percentage of GDP			Total social security expenditure as a percentage of GDP		
	GDP weighted	Simple average	Population weighted	GDP weighted	Simple average	Population weighted	GDP weighted	Simple average	Population weighted
Low income	2.1	2.0	2.3	1.4	2.1	1.6	3.5	4.1	3.9
Middle income	6.2	6.6	4.8	2.7	3.5	1.9	8.9	10.1	6.7
High income	12.7	12.9	12.8	6.7	5.5	6.6	19.5	18.4	19.4
Total (138)	11.3	7.1	5.7	5.9	3.8	2.7	17.2	10.9	8.4

Sources: As for table 8.1. Country data are available in the Statistical Annex.

Figure 8.2 Social security expenditure by income level, weighted by population, 2000 compared with latest available year (percentage of GDP)



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15127>

Sources: As for table 8.1. Country data are available in the Statistical Annex.

Higher-income countries in general spend more as a proportion of GDP than low-income countries do. While low-income countries spend from public resources an average of less than 4 per cent of their GDP on health care and non-health social security income transfers, in middle-income countries this proportion is at least twice as high (7–10 per cent), and in high-income countries about five times higher (about 20 per cent; see table 8.2 and figure 8.2).

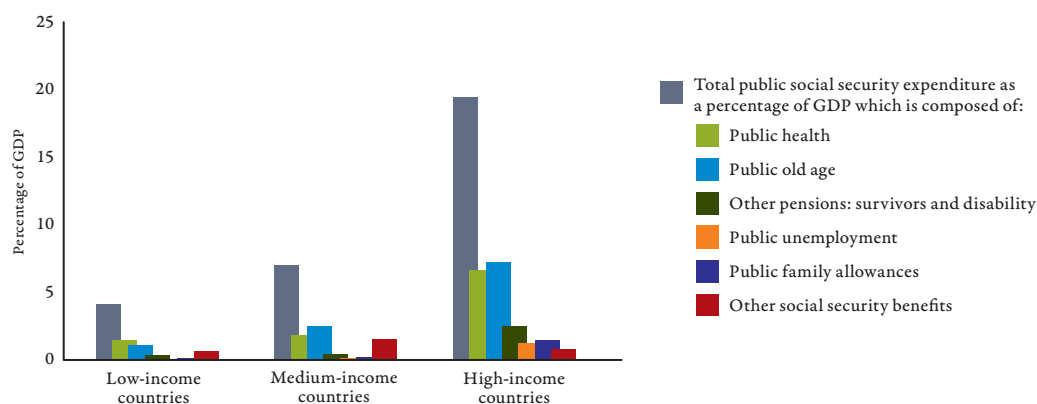
Figure 8.2 compares the recent situation (data for the latest available year depending on the country) with that in the year 2000. This comparison should be treated with caution, in that data for 2000 are available for a slightly smaller number of countries, and the availability of data for the range of contingencies included has improved in some countries. Still, it seems that there has been a global increase in the share of GDP allocated to social security. Most of this increase has

taken place in middle- and higher-income countries, less in low-income countries.

Figure 8.3 shows that health and pension expenditure dominate everywhere – however, where in low-income countries health care has the largest position in social security expenditure, in other countries it is pensions that dominate. Only in higher-income countries is expenditure on branches such as unemployment benefits and family benefits significant in terms of resources allocated.

There is also a clear correlation between the amount of resources allocated to social security and the level of vulnerability of a country (defined, as earlier in this report, in relation to two combined characteristics – poverty incidence and degree of informality of the labour market; see figure 8.4). Those countries with the highest investments in social security are also the ones with both low labour market informality and low

Figure 8.3 Social security expenditure by income level and branch, weighted by population, latest available year (percentage of GDP)



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15128>

Note: The number of countries for which detailed social security data on expenditure by branch are available is smaller than the number of countries covered for the calculation of total expenditure as presented in figure 8.2. This explains some differences in the results for total expenditure.

Sources: As for table 8.1.

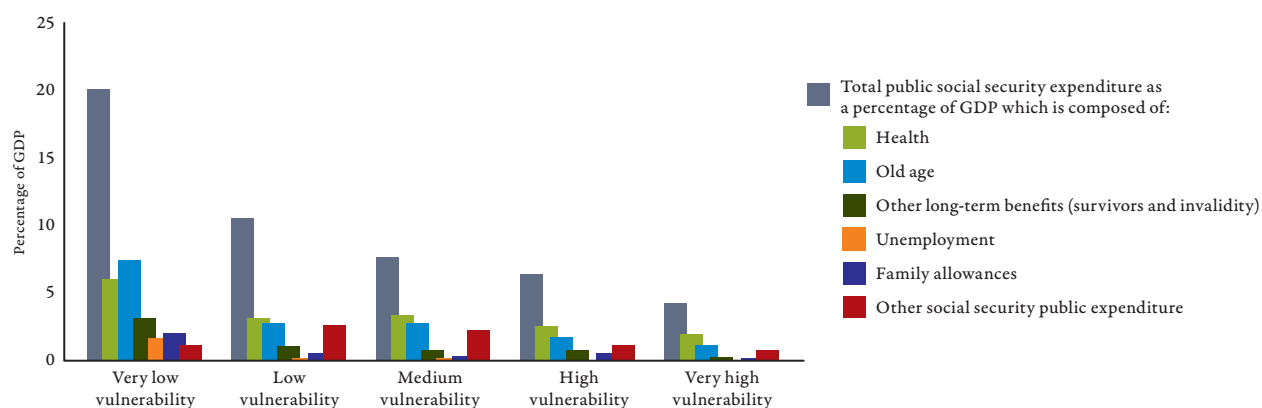
poverty incidence. Also, only in countries with very low vulnerability levels are pensions the largest expenditure item – in all other groups it is health-care expenditure that dominates.

Already revealed in our earlier analysis of coverage gaps in respect of various contingencies, here again the serious imbalances in the allocation of resources to social security in countries with lower incomes, high poverty rates and large informal economies can be clearly seen. Not only are the resources allocated low (which is reflected by the low coverage analysed earlier), but in addition the structure of expenditure does not match obvious patterns of social priorities. While the domination of health-care spending is understandable where the resource base is small, and cannot be

questioned as a priority, it is still true that near negligible resources are allocated to income support measures other than contributory pensions – such as cash benefits to families with children, to those unemployed or to the poor.

Although this prevailing pattern shows a strong correlation between income levels and amounts of resources allocated to social security, it cannot be concluded from this that social security is a “luxury” good. On the contrary, low-income countries with high poverty incidence and large informal economies need social security even more than other countries, although they may have different priorities with respect to which branches should be developed first and how benefits should be financed and delivered. And there are many

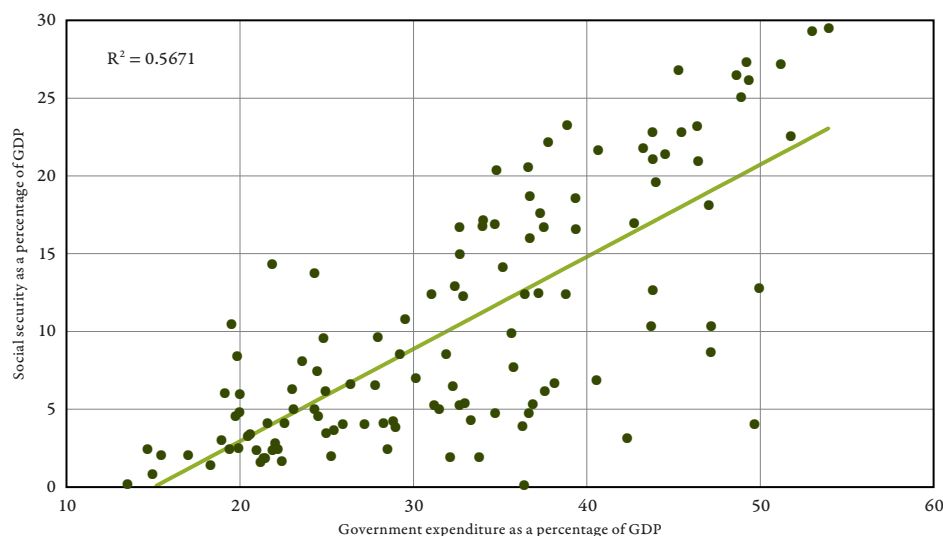
Figure 8.4 Social security expenditure by vulnerability and branch, weighted by population, latest available year (percentage of GDP)



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15129>

Sources: As for table 8.1. Country data are available in the Statistical Annex.

Figure 8.5 Size of government resources (ratio of government expenditure to GDP) and amount of social security expenditure (percentage of GDP), latest available year



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15130>

Sources: Social security expenditure as a percentage of GDP: as for table 8.1. Government expenditure as a percentage of GDP: IMF, 2009. See also ILO, GESS (ILO, 2009d).

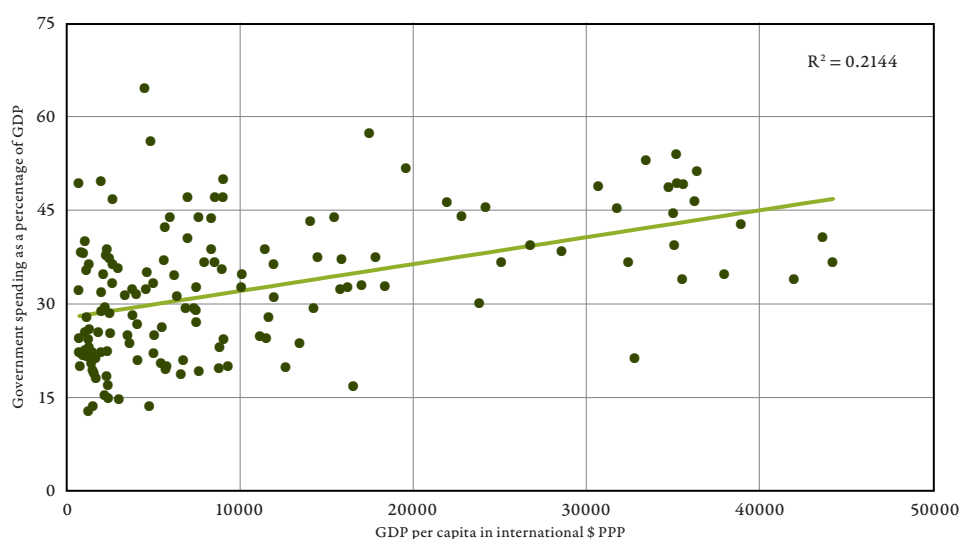
studies clearly showing that social security in those countries not only can be made affordable but is also necessary as a factor in development (see for example ILO, 2008d; OECD, 2009e; Townsend, 2009).

There is certainly a correlation between the size of overall government expenditure in a country and the size of its social security expenditure (both measured as a percentage of its GDP; see figure 8.5). The link works both ways: on the one hand a certain minimum fiscal space is needed to finance social security programmes; on the other, the expansion of social security creates further incentives to raise more resources. However, it is also clear from figure 8.5 that countries with a similar size of government resources (“small” or “big”) may take very different decisions as to the share of these resources allocated to social security. We see countries with relatively “small” government allocating a large share of these limited public resources to social security programmes, and at the same time countries with “big” government unwilling to finance large-scale social security programmes. Thus, the size of social security investment (and, it follows, the extent and level of coverage of the population of the country by social security) depends to a significant extent on the prevailing political and social will (of the governments, of the taxpayers, of the electorate): it is this that effectively defines the fiscal space available to finance this and not other programmes.

All countries, whatever their level of income, enjoy a certain degree of freedom. Figure 8.6 shows that there exists a very weak correlation between levels of GDP and size of government. Countries at similar income levels differ significantly with respect to the size of government measured by the size of public finance. In many cases this is a result of different, often historically shaped, societal preferences. In some cases, however, where government expenditure is very small this may simply indicate a low capacity on the part of the authorities to raise and collect taxes and other revenue. In such countries the main challenge is to introduce and enforce tax reforms to increase fiscal resources, including, in particular, enhancing the effectiveness and efficiency of tax collection. But it may also mean the need to revise spending programmes, making them more adequate to societal preferences in order to increase the willingness of the taxpayer to pay taxes.

After reaching a certain level of fiscal revenue countries can exercise a significant degree of discretion in choosing which public programmes to invest in. Of course this discretion does not mean that choices are easy – there are always opportunity costs behind any such decision and expenditure planning should combine the democratic process, reflecting societal preferences, with a careful quantities analysis of the social cost of benefits for the different alternatives. Figure 8.7 shows that, at any size of government, countries have some

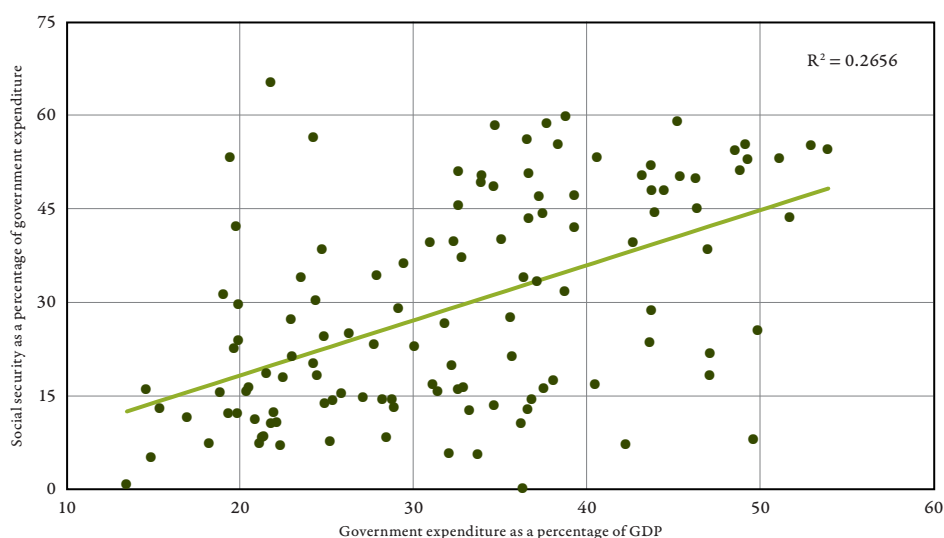
Figure 8.6 Size of government resources (ratio of government expenditure to GDP) and GDP per capita, latest available year (international \$ PPP)



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15131>

Sources: As for table 8.1.

Figure 8.7 Share of government spending invested in social security and size of government (ratio of government expenditure to GDP), latest available year



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15132>

Sources: As for table 8.1.

choice as to what portion of public resources to invest in social security; and that even countries with relatively very small government (as expressed by government spending in the range of 20–25 per cent of GDP) differ significantly in their decisions on the share of these resources devoted to financing social security programmes: one-tenth, one-fifth, one-third or more than half.

How decisions are made is thus crucial for the organization and financing of public social security programmes. The main choice is to what extent these programmes should be organized as contributory social insurance and to what extent as non-contributory programmes accessible to all residents or all residents in a specified category. As discussed earlier, the success of

Table 8.3 Structure of social security receipts by type and sector of origin, 27 EU Member States, 2007

Type of receipt	Sector of origin					Total receipts
	Government	Corporations	Households	Non-profit institutions serving households	Rest of the world	
General revenue	37.9	0.0	0.0	0.0	0.0	37.9
Contributions	8.2	29.0	20.8	0.7	0.0	58.7
Other receipts	1.1	1.5	0.4	0.0	0.4	3.3
Total receipts	47.2	30.5	21.2	0.7	0.4	100.0

Source: ESSPROS (European Commission, 2009a).

the different forms of social security organization and financing depends to a large extent on labour market structure, the proportion of formal wage and salary employment in total employment, and the scope of the informal economy.

A comprehensive data set which would allow the identification of global financing patterns of social security is not yet available, although the ILO collects data on sources of finance for social security expenditure as part of its Social Security Inquiry (ILO, 2009c). With respect to public health-care expenditure, financing from general taxation dominates financing from social security contributions (WHO estimates of national health accounts; see also Chapter 3 of this report). Slightly less than one-quarter of national public health expenditure worldwide is financed from social insurance contributions (24.7 per cent). Social health insurance contributions finance slightly more than half of public health-care expenditure in Europe and Central Asia (51.1 per cent), 27.1 per cent in the Americas, 12 per cent in Asia, the Middle East and Northern Africa and only 3 per cent in sub-Saharan Africa. The picture is different if one takes not simple averages but weights the average with the size of health expenditure. Then, globally and in all countries apart from low-income countries, about 40 per cent of health expenditure is financed by contributory social security schemes, while in low-income countries the amount is only 7 per cent. At the same time, many low-income countries depend to a significant extent on foreign aid for the financing of their health-care needs: in these countries the external financing of healthcare was in 2006 on average equal nearly to half of its public health care financing (46 per cent) and has since increased significantly compared to the 2000 level of this proportion (35 per cent).¹

There are no similar global estimates for non-health social security financing patterns. It is obvious, however, from the coverage patterns that contributory social security schemes dominate, although they cover – in particular in lower-income countries – only a minority of the population. But actual comprehensive data exist only for selected countries. In the long run the objective is to be able to estimate all financing patterns of social security systems – both health and non-health – by type of receipt and sector of origin. It should be possible to estimate for every country what the European Union can already do for its 27 Member States (as well as several other European countries) through its statistical office EUROSTAT with its Integrated Social Protection Statistics methodology and ESSPROS database. These figures are presented in table 8.3.

From the table one can see that nearly 60 per cent of total receipts are social security contributions, of which 30 per cent comes from non-governmental employers, more than 20 per cent from employees and other protected persons (that is, from households), 8 per cent from the governments as employers, and less than 1 per cent from non-governmental organizations as employers. Most of the rest comes from general taxation – collected, of course, from corporations and households. Slightly over 3 per cent of the total revenue comes from other receipts – of which a large part comes from investment income from social security funds. Government is the largest financier of social security systems in the European Union (47 per cent), with 30 per cent paid directly by corporations and 21 per cent by households.

¹ Recalculated using WHO, 2009b.

8.3 Measuring effectiveness and efficiency of investments in social security: An overview of approaches in selected international organizations

Comprehensive social security requires significant investments of public resources and, like any other set of publicly financed programmes, it requires monitoring and evaluation mechanisms to be put in place so that a government and its social partners can assess the effectiveness of its policies, as well as their efficiency (that is, a relationship between resources invested and outcomes achieved). National policies should be assessed against their objectives; it is thus very important that such objectives are clearly stated when policies are formulated and social security schemes and systems designed or redesigned, and that these objectives are known to all the stakeholders. It is not feasible to assess, within an internationally comparative framework, the currently very differentiated social security systems in the various countries, operating in quite different circumstances and thus with different priorities, and aiming to achieve very different country-specific policy objectives. Such a comparison is not only beyond the ambitions of this report; it is simply impossible.

Social security systems and their individual components always have multiple objectives: among others, to reduce poverty, prevent poverty, reduce income inequality, and provide income replacement of lost or reduced income due to various life contingencies, thus “smoothing” consumption of individuals and their families over the life cycle. In the different countries there are bound to be various needs and priorities with respect to these objectives, which are then reflected in different designs of social security programmes – more or less focused on poverty reduction or prevention, more or less focused on consumption smoothing, more or less focused on redistribution. In assessing the effects of social security systems it is therefore necessary to consider multiple dimensions. At the same time, no social security system works in isolation; it exists in a context of socio-economic circumstances and is accompanied by other economic and social policies. It is not always possible to identify which circumstances and which policies have played a more important role, nor the importance of combinations of specific policies and circumstances.

This section looks at attempts to assess effectiveness and efficiency of social security programmes carried out by selected international organizations – the European Union, OECD and ADB.

8.3.1 *Monitoring social protection in the European Union*²

Within a so-called Open Method of Coordination (OMC) on Social Protection and Social Inclusion, it has been agreed that the overarching objectives of the social protection and social inclusion processes are to promote:

- (a) social cohesion, equality between men and women and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;
- (b) effective and mutual interaction between the Lisbon objectives of greater economic growth, more and better jobs and greater social cohesion, and with the EU’s Sustainable Development Strategy;
- (c) good governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy.

Within this framework Member States of the European Union periodically prepare national strategies and submit them to the European Commission in the form of National Reports on Strategies for Social Protection and Social Inclusion. In these reports, Member States report on agreed sets of common objectives in this policy area. There are four sets of objectives: in addition to the three overarching objectives listed above, there are specific objectives in three strands: social inclusion, pensions and health care (including long-term care).

The European Commission then drafts a report for joint adoption by the Commission and the European Council. This report summarizes the main issues and trends and assesses Member States’ progress in reaching the common objectives. It also reviews how social protection and social inclusion policies are contributing to the Lisbon goals of employment and growth and assesses how progress towards these goals is having an impact on social cohesion.

The above reporting framework uses a set of commonly agreed indicators and context information, which are calculated and regularly updated by EUROSTAT on the basis of the commonly agreed definitions and presented on the EUROSTAT web site on well-identified and dedicated pages. Indicators are used to monitor the overarching objectives, as well as the specific objectives of the three strands: social inclusion, pensions and health care. An EU-level analysis of the indicators is carried out by the Commission, discussed

² For further details see European Commission, 2009b.

with the indicators Sub-Group of the Social Protection Committee (SPC), and made available to Member States in advance of the preparation of the National Reports on Social Protection and Social Inclusion.

Three categories of indicators are used:

- commonly agreed EU indicators contributing to a comparative assessment of progress by Member States towards the common objectives. These indicators may refer to social outcomes, intermediate social outcomes or outputs;
- commonly agreed national indicators based on commonly agreed definitions and assumptions that provide key information to assess the progress of Member States in relation to certain objectives, while not allowing for a direct cross-country comparison, or not necessarily having a clear normative interpretation. These indicators are especially suited to measure the scale and nature of policy intervention. They should be interpreted jointly with the relevant background information (exact definition, assumptions, representativeness);
- context information: each portfolio will have to be assessed in the light of key context information, and by referring to past and, where relevant, future trends.

For monitoring the overarching objectives the European Union uses the following 14 indicators, most of them presented by gender and for different age groups:

1. *At-risk-of-poverty rate*: Share of persons aged 0+ with an equivalized disposable income below 60 per cent of the national median equivalized disposable income; and *relative median poverty risk gap*: Difference between the median equivalized income of persons aged 0+ below the at-risk-of-poverty threshold and the threshold itself, expressed as a percentage of the at-risk-of-poverty threshold.
2. *Quintile ratio*: Ratio of total income received by the 20 per cent of the country's population with the highest income (top quintile) to that received by the 20 per cent of the country's population with the lowest income (lowest quintile). Income must be understood as equivalized disposable income.
3. *Healthy life expectancy*: Number of years that a person at birth, at 45 and at 65 is still expected to live in a healthy condition (also called disability-free life expectancy).
4. *Early school leavers*: Share of persons aged 18 to 24 who have only lower secondary education (highest

level of education or training attained is 0, 1 or 2 according to the 1997 International Standard Classification of Education – ISCED 97 (UNESCO, 1997)) and who have not received education or training in the four weeks preceding the survey.

5. *People living in jobless households*: Proportion of people living in jobless households.
6. *Projected total public social expenditures*: Age-related projections of total public social expenditures (e.g. pensions, health care, long-term care, education and unemployment transfers), current level (percentage of GDP) and projected change in share of GDP (in percentage points) for the years 2010–20–30–40–50.
7. *Median relative income of elderly people*: Median equivalized income of people aged 65+ as a ratio of income of people aged 0–64; and *aggregate replacement ratio*: Median individual pensions of persons aged 65–74 relative to median individual earnings of those aged 50–59, excluding other social benefits.
8. *Self-reported unmet need for medical care*: Total self-reported unmet need for medical care for the following three reasons: financial barriers, waiting times too long, too far to travel.
9. *At-risk-of-poverty rate anchored at a fixed moment in time*: Share of persons aged 0+ with an equivalized disposable income below the at-risk-of-poverty threshold calculated from the year 2004, up-rated by inflation over the years.
10. *Employment rate of older workers*: Persons in employment in age groups 55–59 and 60–64 as a proportion of total population in the same age group.
11. *In-work poverty risk*: Individuals who are classified as employed (distinguishing between “wage and salary employment plus self-employment” and “wage and salary employment” only) and who are at risk of poverty.
12. *Activity rate*: Share of employed and unemployed people in total population of working age group 15–64.
13. *Regional disparities – coefficient of variation of employment rates*: Standard deviation of regional employment rates divided by the weighted national average (age group 15–64 years).
14. *Total health expenditure per capita*: Total health expenditure per capita in PPP.

The above indicators are analysed together with a number of context indicators: *GDP growth, employment rates, unemployment rates, life expectancy at birth and at 65, dependency ratio* (current and projected), *distribution of population by household type, public debt* (current and projected), *social protection expenditure* (current, by function, gross and net), *jobless households* (by main household type), *marginal effective tax rates, net income of social assistance recipients as a percentage of the at-risk-of-poverty threshold* (for selected jobless household type), *at-risk-of-poverty rate before social transfers* (other than pensions) and *change in projected theoretical replacement ratio for base case 2004–2050*.

There are also three sets of more detailed indicators designed to monitor specific objectives in the three strands: pensions, health and social inclusion (see European Commission, 2009b).

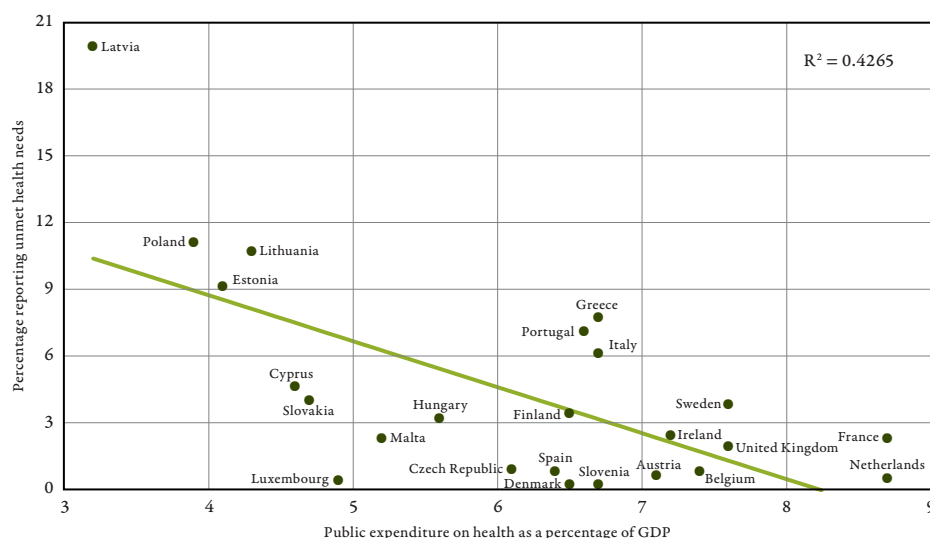
As one can see, the indicators listed above are mainly (but not all) indirect outcome indicators of social security, assessing situations with respect to poverty, income inequality and relative incomes, health status and access to health and education, and labour market behaviour. Only a few indicators are related more directly to social security coverage, and then to only some of its dimensions. There are pension replacement rates derived from household survey data, as well as theoretical replacement rates derived from existing legislation in force at present, and in the future as a

result of reforms undertaken. There is a subjective measure of coverage gap in terms of health care (self-reported unmet need for medical care due to financial barriers, or waiting time too long, or too far to travel); and there are two indicators related to the level of resources allocated to social security: current and projected age-related social expenditure and total (public and private) health expenditure per capita.

Let us look briefly at some of these indicators and how they are related to resources invested in social security. Figure 8.8 shows the average percentage incidence of persons reporting unmet health needs in the three lowest quintiles (on the vertical axis) plotted against percentage of GDP spent by countries on health care from public funds.

It seems that higher public spending on health helps to decrease coverage gaps in health care (as measured by the subjective assessment of barriers to access) but of course it is not the only factor. There are countries where, despite relatively high expenditure, perceived barriers to access are still rather high, and there are also countries with middle levels of expenditure where the health-care access gap is lower than in some countries with higher expenditure. Efficiency of expenditure depends to a large extent on how a social security system and its specific components are organized in terms of providing effective coverage to all, in particular to all those with lower incomes, in its three

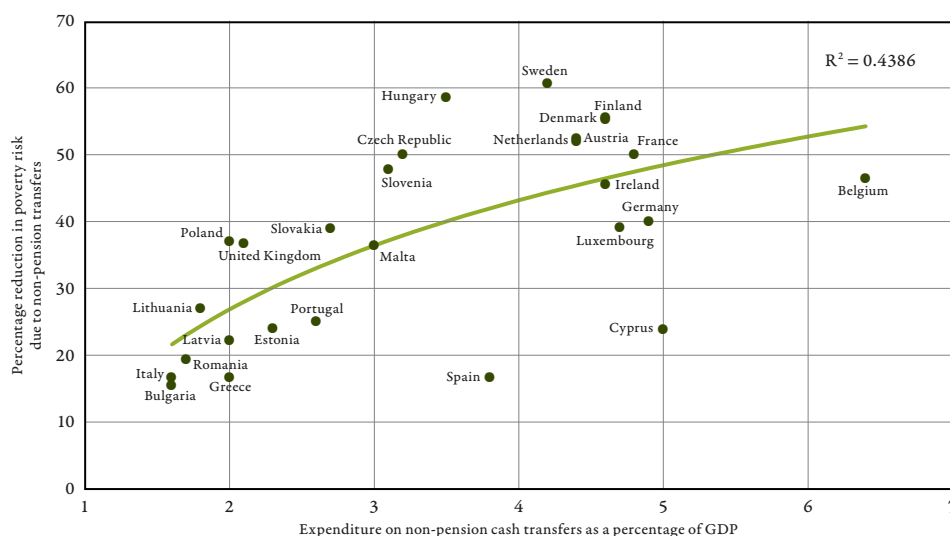
Figure 8.8 Percentage of lower-income persons (first three income quintiles) reporting unmet health needs, and public spending on health (percentage of GDP), European Union countries, 2007



Link: <http://www.socialsecurityextension.org/gimi/gess/ResFileDownload.do?ressourceId=15133>

Source: ILO calculations based on ESSPROS (European Commission, 2009a). See also ILO, GESS (ILO, 2009d).

Figure 8.9 Non-pension cash transfers: Reduction in poverty risk, European Union countries, 2007



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15134>

Source: ILO calculations based on ESSPROS (European Commission, 2009a).

dimensions – scope of benefits available, extent of the population covered and level and quality of benefits delivered.

Another indicator relates to the effectiveness of transfers in reducing poverty. Figure 8.9 shows on its vertical axis the percentage reduction in poverty risk achieved by cash transfers other than pensions, while the horizontal axis shows national expenditure on these transfers as a percentage of GDP. Here again we can see that, in general, the greater the resources invested, the stronger the impact from the point of view of the objectives of such transfers. However, once again some countries show higher than average poverty reduction despite relatively lower than average expenditure. For these countries it can be said that investments in social security are more efficient, giving higher returns in terms of poverty reduction and prevention. On the other hand, it must be remembered that poverty reduction is not the only objective of the social security system, and that some countries may have different priorities with respect to these different objectives and design their social security scheme accordingly.

8.3.2 Monitoring social protection in the OECD

The Organisation for Economic Co-operation and Development does not have a monitoring mechanism similar to the Open Method of Coordination in the European Union. However, over the years the OECD

has developed a methodology for monitoring various social policies, as well as databases which can be used to calculate various indicators of social outcomes in addition to social policy processes. The results and analysis are periodically presented in the report *Society at a Glance: OECD Social Indicators* (OECD, 2009f). The objective of these indicators, as stated in the report, is to address two questions:

1. Compared with their own past and with other OECD countries, what progress have countries made in their social development?
2. How effective have the actions of society been in furthering social development?

OECD social indicators are grouped along two dimensions. The first dimension considers the nature of these indicators:

- *Social context* indicators refer to variables that, while not usually direct policy targets, are crucial for understanding the social policy context (such as demographic indicators).
- *Social status* indicators describe the social outcomes that policies try to influence (such as poverty rates, inequality measures, and so on).
- *Societal response* indicators provide information about what society is doing to affect social status indicators. Societal responses include indicators of government policy settings.

The second dimension groups indicators according to the broad policy fields that they cover. Four broad objectives of social policy are used to classify indicators of social status and social response:

- *Self-sufficiency*
- *Equity*
- *Health status*
- *Social cohesion*

While there seems to be agreement concerning the main policy objectives, it seems there is less with respect to the list of specific indicators: different editions of *Society at a Glance* have included different indicators, although some have been published in all editions. Among the indicators used at least once in the report there are a number in the “societal response” category which relate directly to social security:

Self-sufficiency

- Adequacy of benefits of last resort: net incomes of social assistance recipients as a percentage equivalent of median household income

Equity

- Public social protection spending
- Total social protection spending (public and private)
- Private social protection spending
- Percentage of unemployed receiving benefits
- Pension replacement rates

Health

- Health-care expenditure
- Responsibility for financing health care (public and private)
- Percentage of elderly receiving long-term care

In addition to *Society at a Glance* (OECD, 2009f), the OECD also publishes periodically the reports *Pensions at a Glance* (OECD, 2009c) and *Health at a Glance* (OECD, 2009g) which also contain sets of indicators calculated for most of the member countries, including a number of specific social security indicators. Other OECD research and publications focus on the effectiveness and efficiency of social policies and in particular social security transfers. The recently published report *Growing unequal?* (OECD, 2009b) on income inequality and poverty in OECD countries has two sections specifically on the role and impact of social security transfers: “How much redistribution do governments achieve? The role of cash transfers and household taxes” (Chapter 4, pp. 97–124) and “The role of

household taxes and public cash transfers in reducing income poverty” (Chapter 5, pp. 139–143).

The OECD analysis of the redistributive force of social transfers on the one hand and taxes paid by households on the other gives interesting results. The report calculated indicators of concentration of both transfers and taxes, using a measure similar to the Gini coefficient. Social transfers are usually concentrated in lower-income households; this is why the concentration coefficient used – see column D in table 8.4 – has a negative sign for most of the countries. If transfers were distributed equally to all households the coefficient value would be 0; its high negative value shows that a larger share of transfers goes to households with lower incomes. Taxes are usually progressive; thus the concentration index is positive and higher when a larger share of taxes is paid by higher-income households.

Table 8.4 shows that in OECD countries the redistributive force of transfers is far more differentiated than that of taxes. Of course the highest concentration occurs in those countries where a major part of the social security system is based on income or means-tested benefits (as in Australia, Denmark or New Zealand); it is much lower in countries where earnings-related social insurance provisions dominate social security (Austria, France, Germany, Italy and a number of others). In the latter countries a large part of the social security system is less concerned with the pure redistribution of income than with income smoothing for persons at all income levels. This is clearly visible when we look at the “efficiency” indicator for transfers presented in column C of table 8.4, and at the same time study figure 8.10. As a general trend, the higher the cash transfers, the stronger the inequality reduction effect. However, there is a group of countries with relatively higher spending but lower effectiveness in inequality reduction. The efficiency index (as calculated by table 8.4) is thus lower for those countries, but any assessment of effectiveness and efficiency should take into account all important multiple objectives of the social security system, not just the one. As already pointed out, different countries have different priorities in their social security policies and accordingly allocate resources to different components of their social security systems. Table 8.5 shows the concentration of transfers for different social security branches in various OECD countries. Non-pension benefits (benefits to the unemployed, families with children, housing support and other social assistance benefits) are in general more concentrated within

Table 8.4 Effectiveness and efficiency of social security cash transfers received by households, and taxes paid by households, 22 OECD countries, mid-2000

	A. Effectiveness index (inequality reduction)		B. Size (share of household disposable income)		C. Efficiency index A / (B/100)		D. Concentration index	
	Household taxes	Public cash transfers	Household taxes	Public cash transfers	Household taxes	Public cash transfers	Household taxes	Public cash transfers
Australia	0.045	0.097	23.4	14.3	0.193	0.679	0.533	-0.400
Austria	0.029	0.052	33.4	36.6	0.086	0.142	0.381	0.157
Belgium	0.037	0.119	38.3	30.5	0.096	0.391	0.398	-0.120
Canada	0.037	0.060	25.8	13.6	0.145	0.444	0.492	-0.152
Czech Republic	0.037	0.114	21.6	24.3	0.170	0.468	0.471	-0.154
Denmark	0.042	0.118	52.5	25.6	0.080	0.461	0.349	-0.316
Finland	0.038	0.065	30.1	14.4	0.127	0.449	0.428	-0.219
France	0.020	0.056	26.0	32.9	0.079	0.171	0.374	0.136
Germany	0.046	0.086	35.5	28.2	0.130	0.303	0.468	0.013
Ireland	0.041	0.100	19.4	17.7	0.210	0.565	0.570	-0.214
Italy	0.047	0.073	30.2	29.2	0.156	0.251	0.546	0.135
Japan	0.003	0.048	19.7	19.7	0.015	0.244	0.378	0.010
Rep. of Korea	0.005	0.011	8.0	3.6	0.067	0.312	0.380	-0.012
Luxembourg	0.032	0.066	23.8	30.6	0.135	0.215	0.420	0.085
Netherlands	0.041	0.080	24.7	17.1	0.166	0.468	0.471	-0.198
New Zealand	0.038	0.080	29.0	13.0	0.132	0.615	0.498	-0.345
Norway	0.027	0.093	33.2	21.7	0.082	0.427	0.376	-0.183
Slovakia	0.028	0.094	20.0	26.0	0.138	0.361	0.422	-0.056
Sweden	0.032	0.121	43.2	32.7	0.075	0.368	0.337	-0.145
Switzerland	-0.012	0.057	36.0	16.0	-0.034	0.355	0.223	-0.170
United Kingdom	0.039	0.085	24.1	14.5	0.164	0.586	0.533	-0.275
United States	0.044	0.041	25.6	9.4	0.170	0.434	0.586	-0.089
OECD-22	0.032	0.078	28.3	21.4	0.117	0.396	0.438	-0.114

Note: The effectiveness index is defined as the percentage point reduction in the Gini coefficient of income inequality due to household taxes (i.e. between gross and disposable income) and cash transfers (i.e. between market and gross income) in each OECD country. The efficiency index is the effectiveness index of taxes and transfers divided by the respective share of taxes and transfers in each country. The concentration index of household taxes and public cash transfers is computed in the same way as the Gini coefficient of household income, so that a value of zero means that all income groups receive an equal share of household transfers or pay an equal share of taxes. However, individuals are ranked by their equivalized household disposable incomes.

Source: OECD, 2009b, table 4.6.

poorer households than pension benefits, which are more often strictly earnings-related and have limited redistributive force.

These findings are once again confirmed in another graph borrowed from the excellent OECD report on inequality (2009b). Figure 8.11 shows on the one hand the relationship between the poverty rates achieved after social security transfers to persons of working age and the social security transfers aimed at this group of the population. A second graph shows a similar relationship with respect to poverty among the elderly and transfers to that group. While for those of working age there is a clear and strong relationship (higher transfers

result in less poverty), the situation is much more complex with respect to the elderly and the impact of pension transfers on reducing poverty within the population of older people. Some countries spend not so much on pensions but still achieve strong poverty reduction effects (Canada, Netherlands or New Zealand). At the same time there are countries where spending is much higher but the poverty reduction effects are comparable (Austria, France, Germany, Poland). Are the public pension systems in the second group of countries less efficient than in the first? Yes – but only if poverty reduction were to be the only objective of the pension system. In fact, pension systems have multiple

Table 8.5 Concentration coefficients of benefits in different branches of social security, 27 OECD countries, mid-2000

	Old-age pensions	Disability benefits	Compensation for occupational injury and diseases	Survivor benefits	Family cash benefits	Unemployment benefits	Housing benefits	Other benefits
Australia	-0.47	-0.35	...	-0.30	-0.33	-0.44	...	-0.40
Austria	0.25	0.14	0.16	0.00	-0.09	-0.17	-0.48	-0.05
Belgium	-0.09	-0.27	-0.13	-0.14	0.03	-0.22	-0.15	-0.50
Canada	-0.11	...	...	...	-0.46	-0.06	...	-0.22
Czech Republic	-0.11	-0.06	...	0.19	-0.26	-0.28	-0.66	-0.36
Denmark	-0.49	-0.18	...	...	-0.04	-0.22	-0.58	-0.37
Finland	-0.44	0.07	0.12	0.02	-0.07	-0.24	-0.61	-0.39
France	0.25	0.14	...	0.05	-0.13	0.08	-0.55	-0.23
Germany	0.10	...	0.07	-0.04	-0.04	-0.28	0.00	-0.24
Greece	0.15	0.06	0.25	0.02	-0.02	0.04	-0.17	-0.11
Hungary	0.01	...	...	...	-0.06	-0.25	...	-0.17
Ireland	-0.32	-0.27	0.27	0.08	-0.21	-0.07	-0.46	0.02
Italy	0.22	0.90	...	...	-0.52	-0.04	...	-0.05
Japan	0.02	...	...	...	...	-0.11	...	-0.33
Luxembourg	0.17	0.00	...	0.13	-0.02	-0.09	-0.41	-0.52
Netherlands	-0.16	-0.11	...	-0.14	-0.36	0.03	-0.65	-0.37
New Zealand	-0.32	-0.35	-0.41	0.02	-0.43	-0.38	-0.37	-0.14
Norway	-0.27	-0.06	...	-0.18	-0.06	-0.12	-0.65	-0.24
Poland	0.26	0.04	0.40	0.15	-0.22	0.13	-0.26	-0.13
Portugal	0.33	0.03	...	0.03	...	0.20	0.13	-0.77
Slovakia	0.00	-0.19	-0.01	0.24	-0.01	-0.07	0.84	-0.59
Spain	0.04	0.11	0.14	0.05	0.35	0.02	0.48	0.02
Sweden	-0.19	0.25	0.25	...	-0.07	-0.10	-0.66	-0.16
Switzerland	-0.19	...	...	...	-0.02	-0.15	...	-0.29
Turkey	0.37	0.07	...	0.25	0.17	0.08	...	0.52
United Kingdom	-0.21	-0.20	...	...	...	...	...	-0.37
United States	-0.04	...	...	...	-0.56	0.07	...	-0.10
OECD-27	-0.05	-0.01	0.10	0.02	-0.14	-0.10	-0.29	-0.24

Note: ...: not available

Source: OECD, 2009b, table 4.4.

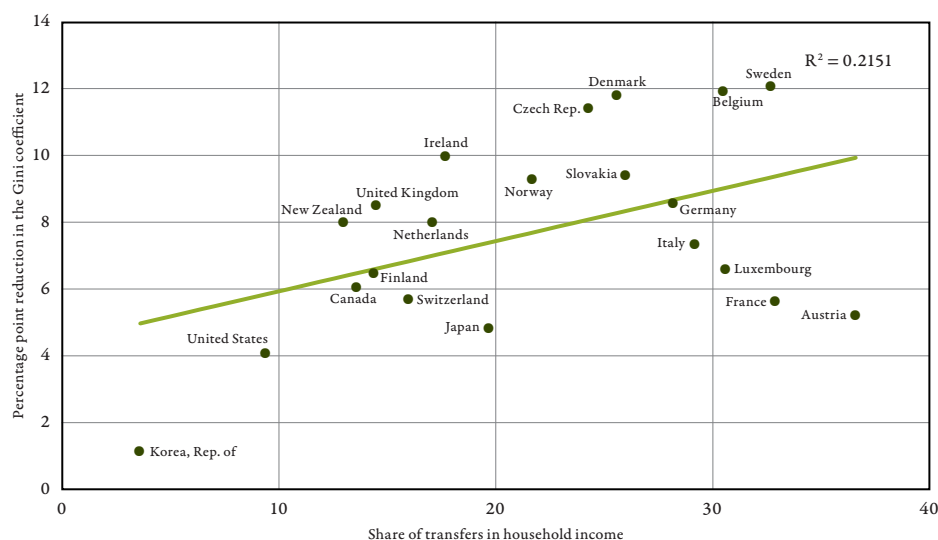
objectives. In the second group of countries, in addition to poverty prevention the public pension systems deliver a large portion of after-retirement income not only to the poor but also to those with higher incomes, while in countries in the first group income from public pensions is a smaller part of overall retirement income, which comes mainly from occupational or private pension schemes. In the second group public transfers account for more than 70 per cent of the overall income of the retired, while in most of the countries in the first group public transfers amount to less than half of the income of those above retirement age – a large portion coming from accumulated capital and from continuing

some form of gainful employment (see OECD, 2009c: Part I, “Policy issues”, Chapter 2, “Incomes and poverty of older people”, and figure 2.3, “Sources of incomes of older people”).

8.3.3 The Asian Development Bank Social Protection Index

In both the European Union and OECD the set of indicators selected is usually subject to years of discussion among experts, statisticians and representatives of the governments responsible for social policies. Data used

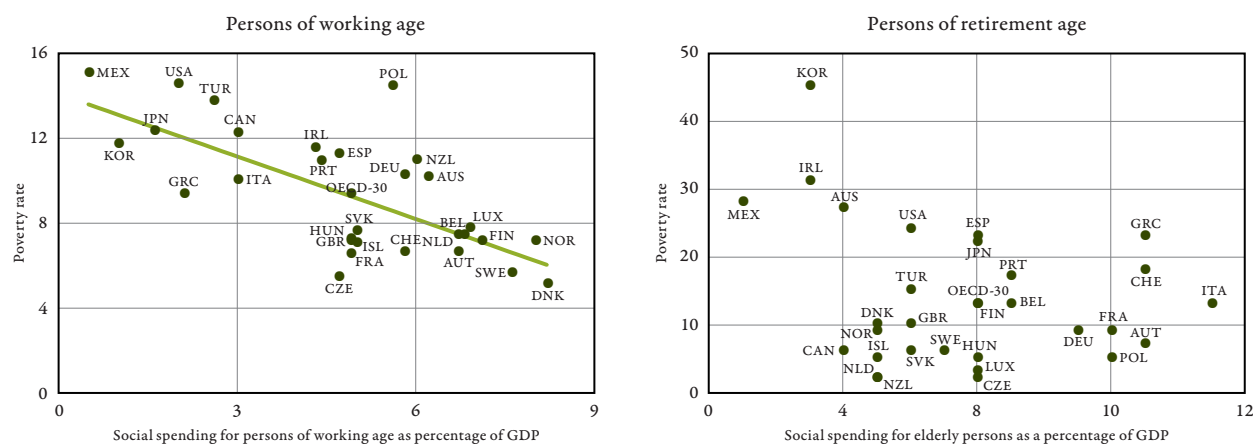
Figure 8.10 Percentage reduction in the Gini coefficient, and share of social security cash transfers in household incomes, 22 OECD countries, mid-2000



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15135>

Source: Based on table 8.4. See also ILO, GESS (ILO, 2009d).

Figure 8.11 Poverty rates and social security expenditure for persons of working age and retirement age, OECD countries, mid-2000 (percentages)



Link: OECD StatLink, <http://dx.doi.org/10.1787/422333665216>

Note: Poverty rates based on a threshold set at half of median household disposable income. Social spending includes both public and mandatory private spending in cash (i.e. excluding in-kind services). Social spending for persons of working age is defined as the sum of outlays for incapacity, family, unemployment, housing and other (i.e. social assistance) programmes; social spending for persons of retirement age is the sum of outlays for old-age and survivor benefits. Data on poverty rates refer to the mid-2000s for all countries; data for social spending refer to 2003 for all countries except Turkey (1999).

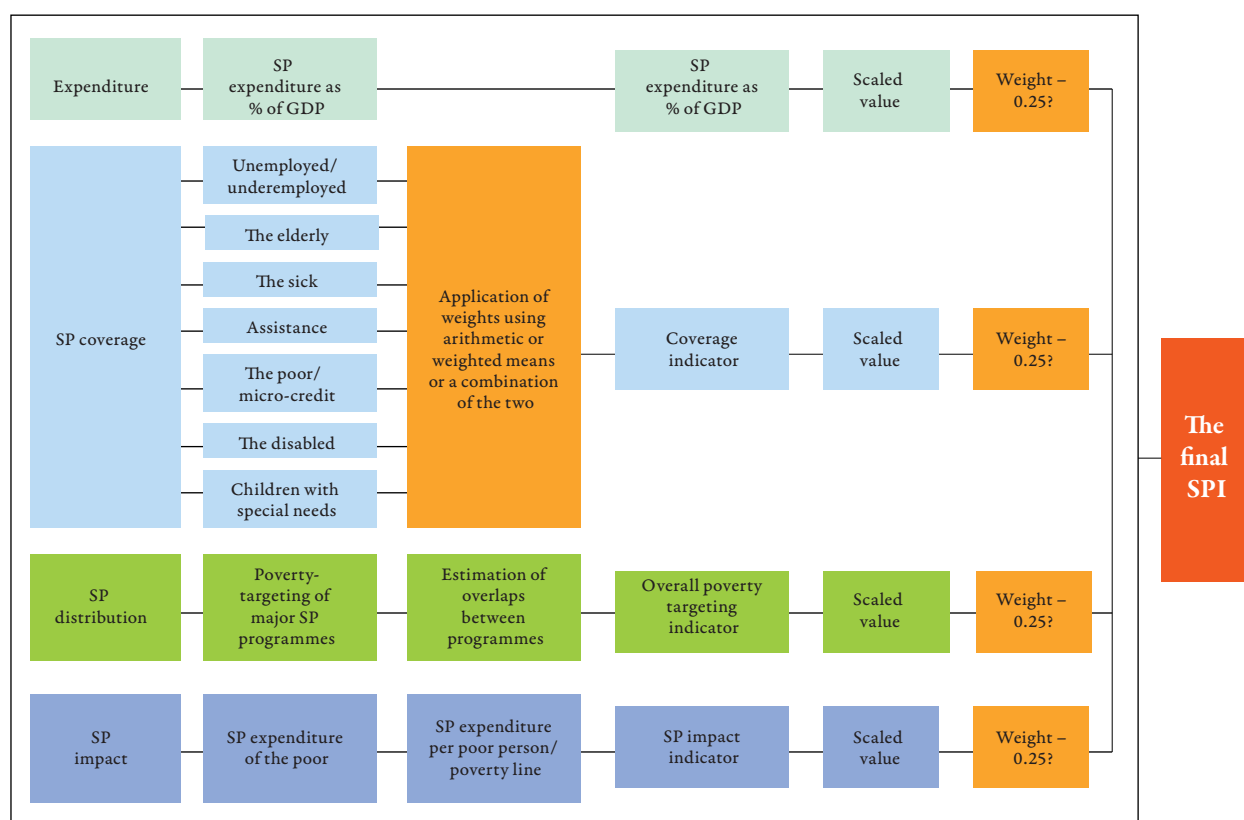
Source: OECD, 2009b.

to calculate agreed indicators are usually produced on a regular basis by the national statistical offices; in order to ensure maximum possible comparability they are standardized, at less frequent intervals, according to internationally agreed methodologies.

In Asia and the Pacific the situation is different. Only a few members of the Asian Development Bank (ADB) are members of the OECD and produce

high-quality statistics in their various areas of enquiry, including social security. In the majority of ADB member countries social security systems are not well developed; further, statistics on expenditure and coverage are not produced at the national level: information is dispersed and available only at the level of individual social security schemes. Household surveys, if done on a regular basis, usually do not look deeply

Figure 8.12 Structure of the ADB Social Protection Index



Source: ADB, 2006, figure 3.1, p. 468.

into the situations of those covered by social security schemes.

To ameliorate this situation, the Asian Development Bank has over the last several years successfully implemented an ambitious project aimed at collecting basic information on different aspects of social security coverage in 31 countries of the Asia and Pacific region. A new concept, the Social Protection Index (SPI), was developed for the purposes of the project and was piloted in six countries of the region. The first report published in 2006 (ADB, 2006) included, in addition to country analyses, a methodological section discussing the SPI concept in detail. The second volume of the report (ADB, 2008) includes information on social protection in all 31 countries as well as a multi-country analysis using the SPI. A long-term goal is to update the country information more regularly and discussions are in progress between the Bank, the OECD and the ILO on joint activity in this respect.

Unlike the European Union or OECD with their rich sets of indicators, the Asian Development Bank focuses on only four indicators at the national level:

Social Protection Expenditure (SPEXP): Measured as a percentage of GDP, it shows total expenditure in all social protection schemes identified in the country.

Social Protection Coverage (SPCOV): Average number of beneficiaries as a proportion of the number of persons in the assumed target population.³

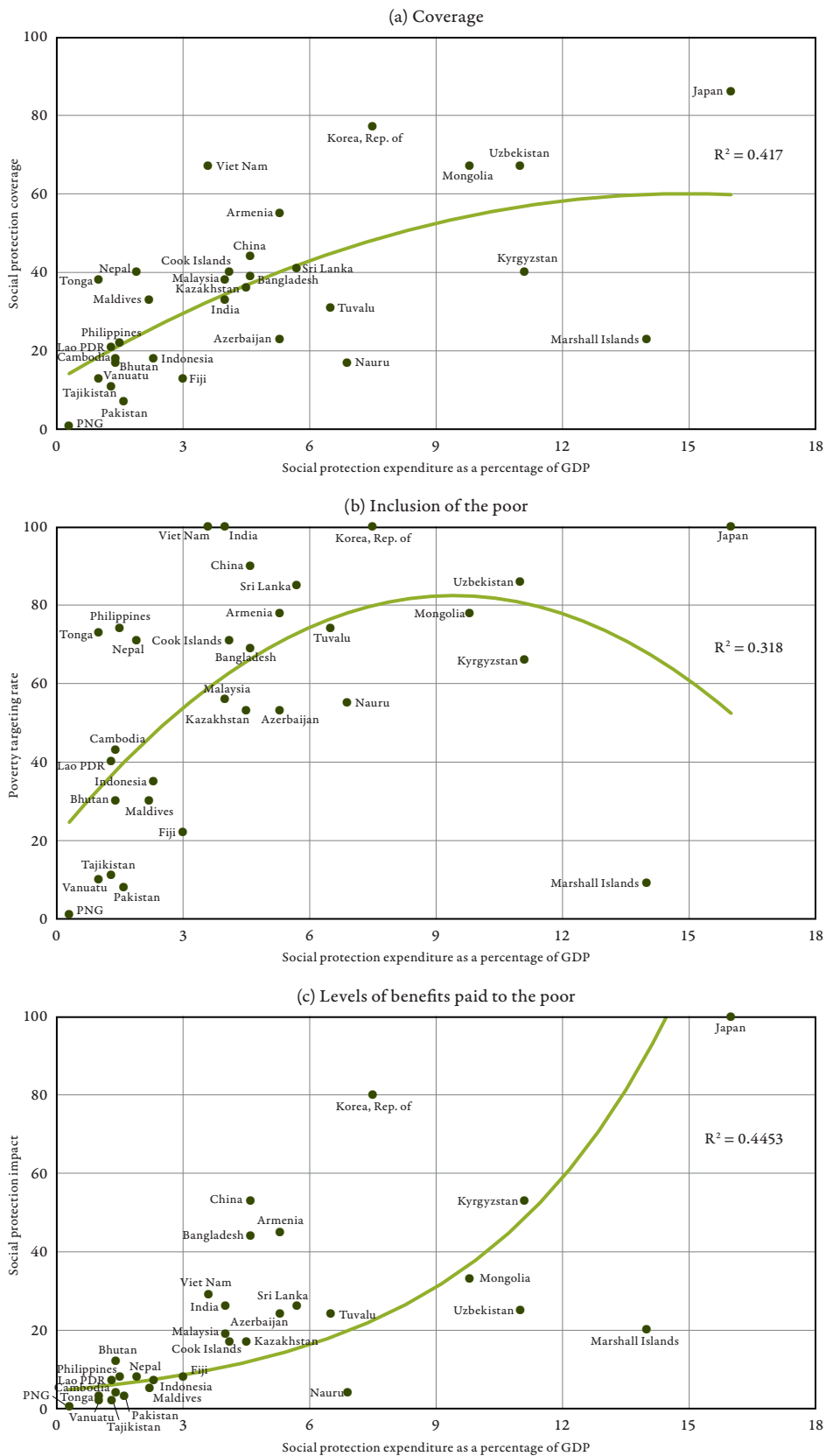
Poverty-Targeting Rate (PTR): Percentage of the poor in the country who are beneficiaries of a social protection scheme.

Social Protection Impact (SPIMP): Amount of benefit received on average by a poor beneficiary as a proportion of the poverty line.

It can be seen that these indicators differ from the OECD or EU approaches in that they are directly related to social security interventions (amount of

³ Beneficiaries for each of the schemes identified are assumed to belong to one of the target groups (poor, unemployed, elderly, disabled, children, etc.). For each target group a beneficiary coverage ratio is calculated; the average is then calculated for the country level using the size of the target group as weight.

Figure 8.13 Investments in social protection: Expenditure (percentage of GDP) in Asian countries for three SPI indicators



resources invested, overall beneficiary coverage, coverage of the poor, level of coverage of the poor) rather than to indirect outcomes.

The Social Protection Index is calculated as a synthesis of these four summary indicators, again a different approach from the EU and OECD. The coverage component involves the combination into a single indicator of seven indicators expressed by the target group (see figure 8.12). The four summary indicators are scaled and weighted to produce an additive index which takes into account resources invested and three aspects of coverage.

On average, in 2004–05 the Asian and Pacific countries were found to spend just under 5 per cent of their GDP on social protection, achieving an overall average coverage level of 35 per cent of the seven key target groups. The average proportion of the poor (using national poverty lines) who receive some benefits from these programmes, whether in cash or kind, was 57 per cent. The impact of social protection programmes on the incomes of the poor is, however, generally low, averaging under 25 per cent of the poverty line per capita income.

Three broad groups of countries may be detected. The first, a group with high levels of social protection, comprises 11 countries, all of which have an SPI greater than two standard deviations above the All-Asia average. These include Japan and the Republic of Korea, followed by all but one of the Central Asian countries. Three of the South Asian countries (China, India and Sri Lanka) also appear in this group, though with substantially lower values than for Central Asia because of their relatively high expenditure and impact values. In this first group of countries, which by definition have relatively adequate provision of social protection, priorities for assistance might be the improvement of effectiveness and governance, and of the inclusion of the poor and those in the informal economy into the current social protection system.

The second group, with medium levels of social protection, is made up of 10 countries as diverse as Armenia and the Maldives. The distinguishing features of these countries, which all have an SPI within two standard deviations of the mean, is that two of the four indicators – usually expenditure and impact – are much lower than the other two. This suggests an imbalance

between the desire of these countries to provide relatively extensive social protection programmes and the financing available to fund them.

The third group, with low levels of social protection, consists of 10 countries with an SPI of less than two standard deviations below the mean. This group includes most of the Pacific countries together with Bhutan, Cambodia, the Lao People's Democratic Republic, Nepal, Pakistan and the Philippines. In this group of countries, all four indicators tend to be uniformly low, suggesting the need to develop new, affordable social protection programmes with higher coverage and greater inclusion of the poor and those in the informal economy.

The averages therefore mask substantial variations between countries and regions (see ADB, 2008). There is also substantial variation in the overall SPIs and some components (such as the degree of inclusion of the poor) for countries with similar income levels (GDP per capita). Once again this shows that the political will to extend social security is at least as important as the level of development of the country. It is clearly possible for most countries to provide more adequate levels of social protection, irrespective of their level of economic development. This finding has important policy implications: most of these countries have the scope to provide improved social protection to their populations in need, so long as they have the political will to do so.

The amount of resources invested in social security certainly matters. Figure 8.13 shows the correlation between the level of social protection expenditure (EXP) and three other ADB social protection indicators: coverage (CV), inclusion of the poor (TR) and levels of benefits paid to the poor (IMP). On average, the level of investment in social security in the region is low. Limited resources are undoubtedly the main barrier to achieving better outcomes in terms of the extent and level of coverage, as well as inclusion of the poor. As is clear from the several parts of figure 8.13, other factors matter as well – design, implementation and governance of social security – at any level of resources allocated. But a country needs to invest a certain minimum amount of resources in order to reach a substantial level of coverage and also to be able to achieve efficiency gains from improved governance.

