# Case study No. 4

## *The challenge of providing income security to the elderly people in Coresia*

## *Social protection programmes for the elderly*

The Government has implemented various schemes that provide income security to the elderly population. These schemes come under the purview of the Ministries of Social Development, Labour, Planning, and Finance. At present, it is estimated that a fair number of formal and informal economy workers in the country and civil servants have access to these schemes. The various schemes are both contributory and non-contributory in nature.

Compulsory insurance programmes, which cater to civil servants, military personnel, and formal private sector employees, have been in existence for many years. The National Law for the Extension of Social Security (No. 293), enacted on 11 August 1995, provides a legal framework to design and implement a system to provide basic social security and welfare to all Coresian workers and their dependants. The Law has been adopted and programmes designed with the aim to provide basic income to people above retirement age, which is 60 years in Coresia.

Existing social protection programmes providing income security to the elderly include:

- **"National Pension Scheme (NPS)":** This is a compulsory programme wherein all workers in organizations of ten or more employees are eligible to receive a pension after retirement. The Ministry of Labour supervises the NPS fund and manages contributions and payment of pensions. Contributions amount to 5 per cent of the wage by the employee, 5 per cent of the wage by the employer, and 5 per cent of the wage by the Government on a monthly basis. To be entitled to an old-age pension, the minimum duration of paying contributions is 15 years. The maximum wage to be considered for contributions is COD20,000 per month. Employees who have contributed for less than 15 years receive their own contributions and those of their employers as a lump-sum payment upon retirement. The Government's contributions are foregone in this case. The National Pension Scheme also covers private school teachers. Equal contributions at the rate of 5 per cent are made by the teachers, schools, and the Ministry of Education. The old age pension under this scheme is calculated as 15 per cent of the average monthly salary received in the last five years of employment plus 1.75 per cent of the average salary for each additional year of contribution beyond 15 years. For example, a person who has contributed for 15 years will receive 15 per cent of the average salary of the last five years of employment. A person who has contributed for 30 years will receive 15 + 15*1.75 = 41.25 per cent of the average monthly salary of the last five years of employment. In 2011, the scheme had 5,503,084 contributors, which is 15 per cent of all employed workers. This demonstrates that although the programme is compulsory, its enforcement has not been sufficiently strong. There is high social evasion by private sector employers under NPS.

- "**Employee Provident Fund (EPF)":** Formal sector workers in organizations of ten or more employees are eligible to register for the EPF, which provides a lump-sum payment upon retirement. This payment is composed of all the contributions made by the employee and the employer and is non-taxable. Employees may contribute between 2 per cent to 8 per cent of their monthly income into the EPF. The employer has to at least match the employee's contribution. There is no maximum wage limit for the EPF scheme. The fund is supervised by the Ministry of Labour. The scheme had 2,438,080 members in 2011.

- **"Armed Forces and Civil Servants Pension Plan (ACPP)":** All civil servants and armed forces personnel, including the police and teachers in public schools, are members of the ACPP, a tax-funded pension scheme for public servants. The Ministry of Finance is responsible for administering the benefits under the programme. All civil servants, military, police personnel, war veterans, and public school teachers who have been in service for at least 20 years are eligible to receive a monthly pension. The pension received under the ACPP is two-thirds of the average salary received by the public servant during the last three years of service. Those who have served for less than 20 years, but more than 8 years, are eligible to receive a lump-sum payment depending on the number of years of service and their past salaries. In 2011, membership to ACPP was 2,421,687.

- **"Government Officials' Provident Fund (GOPF)":** All civil servants, police, military personnel, war veterans, and public school teachers are eligible to register for the GOPF, wherein they receive a lump-sum payment upon retirement. The contributions range from 3 per cent to 8 per cent of the salary by public servants on a monthly basis and 3 per cent by the Government. The GOPF is supervised by the Ministry of Finance. 1,567,003 public servants were members of GOPF in 2011.

- **"Voluntary Pension Plan for Self-Employed and Informal Sector Workers, and SME Employees (VPP)":** The VPP was launched in 1992 following the Ministry of Labour Regulation No. 46/1990 on 'Pension payments to workers in informal sectors and SMEs'. The programme is targeted at self-employed workers, employees of SMEs with fewer than ten employees, and other informal economy workers. The VPP fund is supervised by the Ministry of Labour. Contributions are made by the insured person at a fixed rate of COD1,000 per month for a minimum duration of 12 years. The contributions are matched by the employer and the Government. For self-employed workers, only worker and

Government contributions are applicable. Upon retirement, the pensioner receives a monthly payment depending on the number of years of contribution that is at least equal to the poverty line. If the worker has not contributed for at least 12 years, the worker receives a tax-free lump sum consisting of the employer's, the Government's, and the worker's own contributions. In 2011, about 867,000 informal workers above the age of 60 years received benefits under the scheme.

- **"Universal Pension Scheme (UPS)":** The Ministry of Social Development aims to provide a basic subsistence allowance to all elderly people in the country. This led to the 2007 Regulation on 'Implementing pension benefits for the elderly' and a pension programme for people currently uncovered by other schemes was designed and executed in close collaboration with local Government authorities. Under the UPS, Coresian nationals who are above 75 years of age and are not members of any other pension scheme are eligible to receive an old age allowance of COD500 per month (which is less than one-third of the poverty line). UPS is funded by tax revenues of the national Government. On the basis of the national ID card and the database, prospective UPS beneficiaries are identified. Once the application for the pension has been received by the local Government authority, it is verified and the pension is processed. The first pensions under UPS were disbursed in January 2008. Recently, the Government sanctioned additional budget for the UPS which would raise the benefit level to the poverty line of COD1,742 per month. In 2011, 332,247 people or 22.8 per cent of the informal economy population over 75 years of age received pensions under UPS.

- **Old age homes** in several places provide facilities, such as meals, shelter, recreation, and basic medical care, to elderly people. These are funded by rents from members and additional donations. Some NGOs also run old age homes for people from lower socio-economic backgrounds who have no relatives to support them. In addition, there are home care programmes run by volunteers.

## *Growing challenges*

Although the Government of Coresia has made an effort to include the entire population in pension schemes, a portion still does not have access to an old-age allowance. The bulk of the uncovered population comprises informal economy workers in the age group of 60–74 years and formal sector workers not covered by NPS. During one of the joint discussions, the UN-GOC team recommended to the Government that the age threshold for UPS should be progressively reduced to cover more people between 60 and 74 years of age.

In the private formal sector, many employees claim not to have access to NPS despite the scheme being compulsory. It has been found that employers often do not register their staff members under NPS to avoid paying contributions. Monitoring and control mechanisms to check for social evasion and enforce the law are nearly absent. It is important that the penalty for evasion by employers is made strict and enforceable and supervisory mechanisms to monitor registration and contributions are put into place.

Contributory pension schemes usually stipulate a minimum number of years of service and contribution to be eligible for the monthly pension. If this condition is not satisfied, the beneficiary receives a lump-sum payment at the time of retirement. For instance, the National Pension Scheme stipulates that a worker must have at least 15 years of service to be eligible to receive the pension, while the Voluntary Pension Plan requires the beneficiary to have completed 12 years of contributions. When workers change employers, there is no portability of their entitlement to the pension scheme. This means that workers start contributing to the scheme from scratch every time they change jobs. A person who might have worked for 30 years with three different employers and contributed for ten years under each contract would only be entitled to receive a lump-sum payment rather than the pension upon retirement.

The benefit received under the UPS is a meagre amount of COD500 per month. This is well below the national poverty line of COD1,742 per month. An interview with 81-year-old Nook Lin, who has claimed benefits under UPS, revealed the following: *"I have been receiving a pension of 500 Dines every month for the last three years. It is very convenient for me as I just have to show my ID card. But sometimes, the money is not enough. I live alone and have to visit the doctor every two weeks. The money does not cover the transportation to the nearest health care centre, my food, and the cost I bear to maintain the house."*

The UPS has encountered some criticism since the benefit amount has remained constant since the inception of the scheme in 2008. Inflation in the country was recorded at 3.8 per cent in 2011. The indexation of benefit levels on inflation was not part of the design of the Universal Pension Scheme. It is expected that with the Government's sanction of additional budget for the UPS, these problems will be adequately resolved.

Beneficiaries of the VPP scheme for informal worker, self-employed workers, and employees of SMEs with fewer than ten employees have voiced concerns regarding the long and difficult administrative procedures involved to register and claim the benefits. This is mainly due to the requirement of too many documents which are sometimes difficult to obtain. Also, it is not possible for beneficiaries to register and claim benefits in different regions. This is a problem since workers often migrate to larger towns and cities looking for work and shift back to their hometowns after retirement. They may have to go to a different city to claim their pension every month. For self-employed workers, putting aside a contribution of COD1,000 per month is particularly challenging, as many of them live from hand to mouth.

## Way forward

The Government has already approved an increase in the UPS benefit level to the 2011 poverty line of COD1,742. It has also been decided to index the pension amount on annual inflation. The Government is now considering extending the UPS to informal economy people in the age group of 60–74 years. For those who already benefit from VPP, the Government plans to provide a reduced amount of monthly UPS allowance. It is awaiting a cost estimate from the UN-GOC SPF team before making a decision on further implementation.

## *The legal framework*

*Table 13: Legal framework of social protection programmes for the elderly*

| Programme | Legal framework |
|---|---|
| National Pension Scheme (NPS) | • Law No. 149/1983 on 'Pension and retirement entitlements for workers'<br>• Ministry of Labour Regulation No. 28/1986 on 'Provision for pension and provident fund for formal sector employees' |
| Employee Provident Fund (EPF) | • Law No. 149/1983 on 'Pension and retirement entitlements for workers'<br>• Ministry of Labour Regulation No. 28/1986 on 'Provision for pension and provident fund for formal sector employees' |
| Armed Forces and Civil Servants Pension Plan (ACPP) | • Law No. 110/1973 on 'Welfare of civil servants, military, and veterans'<br>• Ministry of Finance Regulation No. 24/1978 on 'Retirement allowance for civil servants'<br>• Ministry of Finance Regulation No. 46/1980 on 'Extending pension payments to police and military personnel' |
| Government Officials' Provident Fund (GOPF) | • Law No. 110/1973 on 'Welfare of civil servants, military, and veterans'<br>• Ministry of Finance Regulation No. 52/1981 on 'Provident Fund for public servants' |
| Voluntary Pension Plan for Self-Employed and Informal Sector Workers, and SME Employees (VPP) | • National Law No. 293/1995 for the 'Extension of social security' and its amendments<br>• National Law No. 178/1988 on 'Ensuring retirement care and subsistence allowance for all'<br>• Ministry of Labour Regulation No. 46/1990 on 'Pension payments to workers in informal sectors and SMEs' |
| Universal Pension Scheme (UPS) | • National Law No. 293/1995 for the 'Extension of social security' and its amendments<br>• National Law No. 178/1988 on 'Ensuring retirement care and subsistence allowance for all'<br>• Ministry of Social Development Regulation No. 178/2007 on 'Implementing pension benefits for the elderly' |
| Old age homes, home care programmes | • Legal status is unclear |

## *Questions:*

Module 8 – Please complete the assessment matrix provided to you on the basis of the case. You are encouraged to discuss the case within your group and refer to the *World Café* reports while completing the matrix. Please keep in mind that you should address the issue of elderly only.

Module 10 – Please translate the recommendations of your group into three scenarios.

Module 11 – Please calculate the cost of implementation of each scenario. Your group is required to propose one scenario to the Government for implementation. Please keep in mind that the cost of implementing the scenario you propose should not exceed the budget allotted to your group in the *Jeopardy* and *Who wants to be a protectionaire?* games. Strengthen your proposition by linking the cost of implementation to economic indicators such as GDP.

Module 14 – Please develop an advocacy campaign to lobby for one or several policy options and gain support for the endorsement and implementation of your recommendations.

## *Assumptions for costing (for facilitators to provide to their groups)*

*Table 14: Share of formal and informal employment*

| | |
|---|---|
| Share of formal employment | **37.7%** |
| Share of informal employment | **62.3%** |

We assume that the share of informal sector elderly in the total elderly population is 62.3 per cent and that this percentage remains constant for all years until 2020.

VPP covered 15.9 per cent of the elderly population in 2011. This applies to both the 75 and older age group and the 60 and older age group. This percentage is assumed constant for all years until 2020.

UPS covered 22.8 per cent of the age 75 and older informal economy population in 2011. This percentage remains constant for all years until 2020.

The administrative cost of schemes that target all those not covered by other public social protection schemes is assumed to be 10 per cent of the cost of benefits. The administrative cost of universal programmes is lower at 5 per cent of the cost of benefits. The administrative cost of targeted programmes is higher at 15 per cent of the cost of benefits.