Assessing current and future costs of social protection transfers

Designing and Implementing Social Transfer Programmes
22 July - 4 August 2007
Cape Town, South Africa

Krzysztof Hagemejer
Social Security Department
International Labour Office
Assessing and projecting costs of social protection transfers

- Overview of the information, statistical data and assumptions required to assess current and future costs of the social protection scheme
- Costing (social budgeting) as inherent part of the social protection monitoring mechanism
- Discussion of factors and parameters driving costs of different social protection schemes
- The role of quantitative policy analyst in social protection. Overview of the tools and skills necessary
Assessing and projecting costs of social protection transfers

Key points:
- The basic set of data and information which should be available for any social protection programme
- Main factors driving the overall costs of social protection scheme
- The need for regular periodical financial reviews of any social protection programme
What we define as social security = social protection?

- All interventions from public or private bodies intended to relieve households and individuals of the burden of social risks or needs.
- Interventions to replace lost income but also to help where there is a lack of income.
- Interventions are mostly in the form of transfers with no reciprocity.
How much social protection is needed?

- Human right (articles 22 and 26, Universal Declaration)

- Labour standards - Convention no 102 (Minimum Standards) and other ILO conventions
How much social protection is affordable?

- Social protection systems which perform in a way approved by the majority of the general public are usually also affordable – whatever is their size.
- Systems which perform badly from the point of view of the general public usually lose support and acceptance and may become unaffordable even if relatively small in fiscal terms.
Good governance of social protection

- Any – even the smallest – social cash transfer scheme – should conform with the basic rules for social security systems as established in the ILO Convention no 102:
  - the entitlements should be clearly defined in the legislation
  - everybody should have a right to appeal
  - opinion of protected persons should be taken into account in the decision making process
  - the government accepts general responsibility for the due provision of the benefits according to legislated entitlements
  - the necessary actuarial and other quantitative analysis concerning financial sustainability are made regularly and, in any event, prior to any change in benefits or other rules
## Hierarchy of quantitative social protection governance instruments

<table>
<thead>
<tr>
<th>Main purpose of instrument</th>
<th>Scheme level</th>
<th>National level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Descriptive (statistics, accounting and reporting)</td>
<td>Scheme statistics</td>
<td>National social protection statistics</td>
</tr>
<tr>
<td></td>
<td>Scheme accounts</td>
<td>National social accounting system (SAS)</td>
</tr>
<tr>
<td></td>
<td>Annual reports</td>
<td>National social protection reports</td>
</tr>
<tr>
<td>Evaluation and planning (budgeting, projections, simulation, resource mobilization)</td>
<td>Actuarial studies and valuations</td>
<td>Social budgets</td>
</tr>
<tr>
<td>Performance measurement, monitoring and analysis</td>
<td>Scheme-based system of performance indicators</td>
<td>Social Protection Expenditure and Performance Reviews (SPERs)</td>
</tr>
</tbody>
</table>
Basic requirements for record keeping for any institution administering the social protection scheme (1)

- To run smoothly the scheme and be able to assess its performance one has to know all the time:
  - Who are the beneficiaries (potential, claimants, actual – age, sex, family status, income status etc.)?
  - How much they should be/were paid and when?
  - How much was spent on delivery of benefits and other administration?
  - Other things…
Social budgeting: monitoring past, current and future social protection finances

- Where money goes now and where do resources come from?
- Expenditure/revenue accounts for all existing social protection schemes
- What resources are needed in the future to finance existing schemes?
- How much it will cost in short, medium, longer term to finance new planned or reformed schemes?
Social Protection Expenditure and Performance Reviews – objectives

- Provide statistical analysis of the costs and financing sources of the national social protection systems
- Measure the performance in terms of effectiveness, equity and efficiency of the social protection system
- Develop set of indicators for performance monitoring
- Recommend measures to improve availability and quality of the required statistical data and other information
Assessing effectiveness of existing schemes

- Who benefits and how many (poor- non poor, vulnerable groups, gender)?
- What are the benefits (amount)?
- What are the impacts?
- Who pays (source of financing) and how much (how much for benefits, how much for administration)?
Indicators and statistics needed to monitor performance of the social protection systems with respect to effectiveness and efficiency

- Coverage
- Scope (who is covered for what contingency – mostly legislative information)
  - Extent (how many are covered – protected/insured and beneficiaries)
  - Level (adequacy/quality of coverage)
  - Equity and distribution
- Expenditure and financing
- How much does it cost and who pays?
Performance measurement

- Indicators of:
  - Benefit adequacy
  - Financial sustainability

- Benchmarking against:
  - Policy targets
  - International standards
  - International comparisons
Assessing costs of a social protection scheme: Total cost in year t

Total cost (t) = Benefit expenditure (t) + Administration cost (t)
Assessing costs of a social protection scheme:
Benefit expenditure in year \( t \)

Benefit expenditure \( (t) = \)

(\text{expected}) number of cases \( (t) \)

* (\text{expected}) cost per case \( (t) \)
Assessing costs of a social protection scheme:
Expected number of cases

(a) Number of persons exposed to risk
   * (b) Probability of risk’s occurrence
     * (c) Expected duration per case

- (a) – driven by demography, employment, coverage rates, compliance rates
- (b) – probabilities of risks (morbidity, fertility, unemployment, poverty) but corrected for eligibility conditions and for take-up rate
- (c) – past experience, behaviour, scheme’s design
Assessing costs of a social protection scheme: Expected cost per case

- Depends on scheme’s design (benefit formula, “replacement rate”)
- Driven by wages, inflation, adjustment policy etc.
Assessing costs of a social protection scheme: Administration costs

- Costs of registering benefit claims, verifying, processing, delivering benefits
- Cost of reaching beneficiaries (from just giving information to: collecting information)
- Cost of additionally assisting beneficiaries (counselling and other social work)
- Start-up costs: building registers, computer systems, registration and delivery networks
The cost assessments and projections have to be repeated on a regular basis as part of the routine monitoring process.

- Real costs usually depart from those expected and projected.
- This is particularly true for the new schemes.
- Quality of projections depends on quality and depth of our knowledge of the past performance of the scheme.
- High quality administrative records but also regular surveys are necessary to build such knowledge.
The role of social protection actuary or quantitative social policy analyst

- He or she has to be the guardian of the financial rationality in the social protection policy formulation process and in particular of keeping the balance between affordability and adequacy of benefits.
- It is him or her who has to judge whether the vision of the future social protection policy development is consistent and realistic.
- It is her or him who has to alert the government and the governors of individual social security schemes to obvious inconsistencies and incompatibilities in policies.
Valuation of a major structural social protection reform

- The actuarial valuation (or any quantitative policy analysis) of any social protection reform answers one of the following two questions:
  - How much protection can be provided with a given level of financial resources?
  - How much financial resources are necessary to provide a given level of protection?
The report

- The assessment report presents the viability of the scheme under various economic and demographic scenarios, giving to the financiers of the system an evaluation of the risk they face with regard to the sufficiency of the recommended financing levels versus expected benefit levels and impacts of the programme.
- The report also informs the population about the magnitude of funds to be raised and how these funds are expected to be used for meeting future benefit obligations.
Difficult questions

- Were the long- and short/medium term financial projections done to assist the debate?
- Were there simulations undertaken to assess impact on living standards of different groups (boys, girls, men, women, other particular groups)?
- Are there assessments and projections of administration costs?
- Are all the results known and understand (with respect to limitations and underlying assumptions) by the:
  - Policy makers (government, parliamentarians)
  - Social partners
  - Wider public
More:

Financing social protection

Michael Cichon
Wolfgang Scholz
Arthur van de Meerendonk
Krzysztof Hagermejer
Fabio Bertranou
Pierre Plamondon
ILO Social Security Training Initiative

- A one-year master degree course in Social Protection Financing developed in collaboration with the Maastricht University
- Two-years master degree actuarial studies in Lausanne
- A series of textbooks in *Quantitative Methods in Social Protection*
  - Modelling in health care finance
  - Actuarial mathematics of social security pensions
  - Social Budgeting
  - Actuarial practice in social security
  - Social Protection Financing
- Training within the framework of technical co-operation projects
- Courses in collaboration with the Turin Centre International Training Centre and the ISSA
Some of the questions for discussion

- What national set of indicators?
- How to improve our knowledge about objectives, resources, coverage and impact of the existing social protection schemes?
- What « routine » data should be collected annually? By whom?
- How to implement standards for record-keeping, accounting and reporting?