

SWK6061:
***COMPARATIVE SOCIAL SECURITY
SYSTEMS***

**LECTURE 10: EVALUATING
SOCIAL SECURITY SYSTEM**

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Criteria for evaluating social security system

- **Adequate** (足夠水平)
- **Coverage** (保障人口)
- **Affordable** (可以支付)
- **Sustainable** (可持續)
- **Diversified** (多元化)
- **Balance Functions** (平衡不同功能)

Adequate

□ Level

- **Absolute poverty : subsistence / relative to price level (same purchasing power)**
- **Relative poverty: relative to income**
- **Relative to individual life chance:
Replacement ratio**

Adequate

□ Coverage

- **No. of eligible/ benefited people**
- **% of eligible/ benefited people**
- **Take up rate**
- **Selective: is the targeted population really benefited**
- **Universal: who is excluded from the system**

Affordable

- **Impact to Tax system**
- **Equivalent tax rate**
- **Impact to disposable income of households**
- **Anti-economic cycle vs. synchronize with economic cycle**
- **Administrative and Management Cost**

Sustainable

- **Population Factor for inter-generational redistribution**
- **Political Factor for intra-generational redistribution**
- **Economic Factor for funded/ non funded scheme**
- **Social Factor: Trust, altruism**

Diversified

- **Different need imply different programme/ levels of protection**
- **Social Security as social risk management to diversified the risk not just the state, the community and the family can be the base of SRM**

Balance Functions

- **A key policy issue for governments designing pension and social insurance systems is to balance re-distributive, savings, and insurance functions. Each pension pillar serves these three functions in different ways.**

Approaches to evaluation Social Security

Systems (Dixon, 1999)

□ Inputs

- % of Social security expenditure of GNP (relation importance of ss among social policy)
- Per-capita social security expenditure (level of input)
- Indices of average annual benefit expenditure per capita over time (input nominal growth)
- Indices of real average annual benefit expenditure per capita over time (input real growth)

Efficiency & Performance

- Efficiency
 - ▣ Administrative cost per unit benefit dispersed
- Performance
 - ▣ Coverage measures
 - ▣ Benefit adequacy measures
 - ▣ Needs-satisfaction / adequacy perception
- Economic outcome
 - ▣ *Household financial security*
 - ▣ *Poverty incidence*
 - ▣ *Income distribution*
 - ▣ *Unemployment, inflation, economic growth*

Design Features

- Adequacy of their design features



Challenges in comparison of Social Security System

Comparative Input evaluation

- Kaim-Caudle (1973) criticizes that comparison of level of public expenditure on social security has “dangers, difficulties and limitations” because of the problem of
 - Uniform definition of statistics
 - Standardized accounting
 - Distortion of purchasing power of money

Input not equal to performance

- Kaim-Caudle argues that low cost implies low standards is unjustified and high levels of expenditure are not necessarily an indication of high standards of service.

Level & Trend analysis of input

- The public social security expenditure data permit a statistically portrayal of input levels and trend over time, however, it depends:
 - Whether the system are provided by employers or individuals – the cost are outside the public domain
 - ***Whether the data is consistent and reliable***

Input is not a good criterion for comparison

- Comparative input evaluation approach is reductionist
- Cross countries social security systems cannot be assessed ordinally ranked on the basis of their cost.

Compare efficiency and performance evaluation

- Using quantitative, inferential and judgmental analysis, drawing upon whatever national data is available, utilizing simulation methodologies
- ***However, there is no straightforward, accurate and comprehensive way to do so.***
- ***Clear cut indicators at abstract level cannot be operationalize in the comparative study in global text.***

Administrative cost

- Social security administrative cost measures are problematic because of double counting and the existence of gaps: multiple agencies are involved in SS administration, interagency or intergovernmental administrative subsidies are provided

Coverage measures are problematic

- Difficulties in determining the number of people who are actually, rather than potentially, eligible for program benefits under general qualifying criteria specified, e.g. minimum residency, employment or contribution qualifying periods

Benefit adequacy

- They ignore differential social security needs and the distribution of benefit payment above or below the chosen standard or benchmark
- (such as a poverty-income threshold or an average wage level)

Need Satisfaction

- Needs satisfaction or benefit-adequacy perception measures may be biased by the form of question posed and the measurement scales used

Socioeconomic performance

- can be judged by their impact on
 - Material and social deprivation
 - Household financial insecurity
 - Family economic status
 - Incidence of poverty
 - Income distribution
 - Unemployment
 - Inflation
 - Economic Growth

Economic Performance

- However, it is a difficult task for consistent definitions for
 - “income” : Gross, disposable, net cash, permanent or current, transfer from family members or the state
 - “income unit”: household, family or individual
 - “Equivalence scales”: for weighting income units of different size and composition
- To isolate the impact of a SSS on those indicators.

Methodological challenge

- *How do you coalesce a set of complex assessment indicators into a **single indicator** to permit the assessment and ordinal ranking of SSS.*

Informational Challenge

- *how do you overcome the unavailability of **reliable** and **compatible** data on a global basis?*

Not compare efficiency or performance

- *SSS cannot be comparatively assessed in terms of their merits and shortcomings, and ordinally ranked on the basis of their efficiency or their performance*

Comparative system design feature

- Design feature of national SSS are commonly **described** but rarely **evaluated**
- **Kaim-Caudle (1973)** is an exception. He evaluated ten national SSS by rating the adequacy of their design features: the top (+1), and bottom (-1) among the ten countries. He then aggregated to ordinally rank them. He compiled a national ranking of SSS

Kaim-Caudle (1973)

- ▣ The Netherlands (first, +5),
- ▣ Germany (second, +4)
- ▣ Demark (third +3)
- ▣ Austria & UK (equal fourth, +2)
- ▣ New Zealand (sixth, 0)
- ▣ Ireland and Canada (equal seventh, -2)
- ▣ US (tenth, -6)

Dixon (1999)

- *Global SSS can be comparatively assessed in terms of their merits and shortcomings, and thus ordinally ranked on the basis of their design features.*

Methodology

- ***Judges a country's statutory social security intention not its SSS cost or socioeconomic performance.***
- ***There is implementation gap between what a SSS promises to deliver and what it actually delivers.***
- ***This gap will be very significant in countries where public administration and public finances have largely collapsed, or severely restricted by war, disasters and economic dislocation***

Conceptualization

- Scoring system that quantifies design feature merits and shortcomings.
- Evaluation methodology should ensure that the empirical technique employed (the evaluation of systemic design feature merits and shortcomings) relates directly to the evaluation questions posed (which countries have the best designed SSS?)

Acceptable – subjective score

- The attachment of a subjective score to the existence of a specific design feature depends the design feature makes SSS “ more acceptable” and its absence makes it “less acceptable”)

Values → more acceptable SSS

- ▣ **V1: Cover all social security contingencies**, which penalizes countries that have made the policy choice:
 - Using other public policy strategies (e.g. taxation strategies) to achieve SS goals; or
 - Not establishing SS programs for particular contingencies;

V2: Universality of coverage

- which penalizes countries that have made the policy choice of restricting coverage by excluding specific population categories.

V3: Minimal restrictions and specification of needs-assessing criteria

- which penalizes countries if they have made the policy choice of restricting eligibility on any basis other than need, whether for ideological, political or economic reasons.

V4: *Maintain their accustomed lifestyle*

- *Provision of periodic cash entitlements that enable recipients to maintain their accustomed lifestyle, relative to the prevailing community living standards*
- **which penalizes countries providing benefits on any basis other than past earning and not regularly adjusting the such cash entitlements so as to ensure that remain commensurate with prevailing community living standards.**

V5: Appropriate health-services benefits

- Provision of health-services benefits that include appropriate medical, hospital and paramedical care, of a standard comparable to that available to the community as a whole***
- to those covered by SS programs (including dependents) and to SS recipients who are in need of such services for as long as such services are medically required***

V6: Minimal cost and share by three parties

- **Minimized its costs** and share them amongst employers, employees and government in such a way to **ensure the cost burden to individual (as tax players and contributors) is progress rather than regressive**

V7: Simple and decentralized administration

- **Have a mode of administration that is as simple and as decentralized as possible, especially from the perspective of the end user.**

ILO conventions

- **The ILO's conventions on minimum social security standards constitute a long-standing and internationally accepted set of conservative, minimum-standard benchmarks that**
- identify the design features that should be embodied in a **“minimally acceptable” SSS.**



Operationalization

National SS program design

assessment in ten SS programs

- Old age and retirement
- Disability
- Survivors'
- Sickness
- Maternity
- Employment-related temporary injury and disease
- Employment-related permanent injury and disease
- Employment-related Survivors'
- Unemployment
- Family and child benefits

Three dimensions

- Each SS strategy is assessed on three dimensions:
 - Coverage requirement
 - Benefit-eligibility requirements
 - Benefit provided

national SS program design assessment score

- Each of these dimensions is initially assigned a base-level point score –say 100.
- Deductions are then made if particular shortcomings are included.
- Bonus are added if particular shortcoming are included.
- The deduction and bonuses should be small for particular design, so that the absence or inclusion of one design feature does not dominate the evaluation

Program Design Assessment Score

$$P = 0.3((100 - Cd + Cb) + (100 - Ed + Eb) + (100 - Bd + Bb) + Sb)$$

where,

Cd is the sum of all primary strategy coverage design shortcoming deductions,

Cb is the sum of all primary strategy coverage design merit bonuses,

Ed is the sum of all primary strategy benefit-eligibility design shortcoming deductions,

Eb is the sum of all primary strategy benefit-eligibility merit bonuses,

Bd is the sum of all primary strategy benefit design shortcoming deductions,

Bb is the aggregate primary strategy benefit merit bonuses, and

Sb is the merit bonus assigned to any supplementary strategies.

Health Service Design

$$H = 0.3((100 - HCd + HCb) + (100 - HEd + HEb) + (100 - HBd + HBb) + HS)$$

where,

HCd is the sum of all primary health service coverage design shortcoming deductions,

HCb is the sum of all primary health service coverage design merit bonuses,

HEd is the sum of all primary health service benefit-eligibility design shortcoming deductions,

HEb is the sum of all primary health service benefit design merit bonuses,

HBd is the sum of all primary health service benefit design shortcoming deductions,

HBb is the sum of all primary health service benefit design merit bonuses, and

HSb is the design merit bonus assigned to any supplementary health service strategies

Financing Assessment score

A national social security financing assessment score (F) can be similarly calculated as follows:

$$F = (100 - F_d + F_b)$$

where,

F_d is the sum of all social security financing design shortcoming deductions,
and

F_b is the sum of all social security financing design merit bonuses.

Administration assessment score

A national social security administration assessment score (A) can also be similarly calculated:

$$A = (100 - Ad + Ab)$$

where,

Ad is the sum of all social security administration design shortcoming deductions, and

Ab is the sum of all social security administration design merit bonuses.

National SSS Design assessment score

National social security system design assessment. A national social security system design assessment score—the basis for an ordinal ranking of social security systems—can be calculated as follows:

$$R = a((P_{\text{sum}} + H)/11) + b(F) + c(A).$$

where,

P_{sum} is the sum of all the national social security program design assessment scores,

A is the national social security administration assessment score, and a , b and c are coefficients of relative importance that sum to unity.

First-Tier Systems

- comprise top 5 percentage of all SSS:
- 1st: Australia (Selectivity) its disability, unemployment and family are the best;
- 2nd: Sweden : the largest, most expensive and most egalitarian state welfare ;
- 3rd: France: traditional social insurance approach,
- Denmark (4th) New Zealand (5th),
- all have design scores that are within 5 percent of the best-designed system.

Second-Tier Systems:

- 10% and 20% below that of the best-designed system:
- 38 countries and comprise 20 percentage of all SSS,
- most of the remaining Western European countries (Greece & Netherland 33th ; UK 37th), most of the remaining East European countries,
- 9 Latin America countries (Brazil equal 37th) and 5 countries in Asia (Japan 20th)

Third-Tier Systems

- 49 countries have a design score between 20 and 30 percent below the best-designed system
- comprise 30 percentage of all SSS.;
- USA (62th), Hong Kong (75th)

Fourth-Tier Systems

- 66 countries more than 30 percent below the best-designed system and comprise 40 percentage of all SSS.
- All pacific island, half of Asia and Middle East and almost half of Africa, and one-third of Latin America.
- Singapore ranked 117th because of its chosen financial arrangements, which sought to achieve objectives other than those related to social security

Different road of Australia and Europe

- ***Western Europe dominates the first-tier SSS ranking, 60% of European countries were in the first-tier,***
- ***Australia has the best-designed SSS in the world. However with expenditure program design, there is little to choose between Australia and the next ranked country, Sweden, France and Denmark.***

Australia: Social Assistance

- *Australia, by Western European standards, a relatively low SS cost burden, financed without significantly burdening employers and employees,*
- *because its social assistance system provides modest benefit to many*
- *a product of the gradual liberalization of its means-tests, with additional support available to those deemed to be in most need.*

poor performers

- ***US: This reflects a past disinclination to construct a Western European style SSS, on the whole, to leave employers and individuals to take responsibility for meeting SS needs.***
- ***Hong Kong and Singapore also falls in this category.***
- ***Hong Kong has a third-tier system because it clings to the residualist social assistance model.***

Singapore

- *has a fourth-tier system because it has designed a set of financial arrangements that seek to achieve social and economic goals that far removed from the social security arena.*

The Netherlands

- *might have been expected to be in the ranks of the first tier, but its chosen financing arrangements have very significant design flaws that outweighed the meritorious design feature embedded in its expenditure programs.*

program level


- ***Australia has the best designed disability, unemployment (shared with Finland) and family support programs.***
- ***Sweden has the best-designed sickness program and shares the best-design standing with New Zealand for employment-related temporary disability programs.***

Program Level

- Austria and Luxembourg have equal best-design standing for their employment-related permanent disability program.
- France has the best maternity program.
- Finland also has top billing for its old-age program. I
- Iceland and Kazakhstan have equal best-designed survivors' program.



The END

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- ***This approach stands in stark contrast to the Scandinavian approach premised on the relatively more expensive principles of universal coverage and benefit adequacy.***