



Extending social security coverage to informal workers

The design imperative



Antoine Delarue
BBL presentation; May 1st 2008



Outline of the presentation

- I. Introduction : *Two case studies on extension*
- II. Precarious workers or "mobile workers" ?
- III. Contribution prepayment techniques
- IV. Towards a mobile work pension scheme (RTM)
- V. Health insurance extension issues
- VI. Conclusion : *The design imperative*

SERVAC
9, rue Notre Dame de Nazareth
75 003 Paris
www.servac.fr

Service Actuariat Communication
Tel : 331 44 54 11 22
Fax : 331 44 54 08 88
adelarue@repartition.com

Outline I

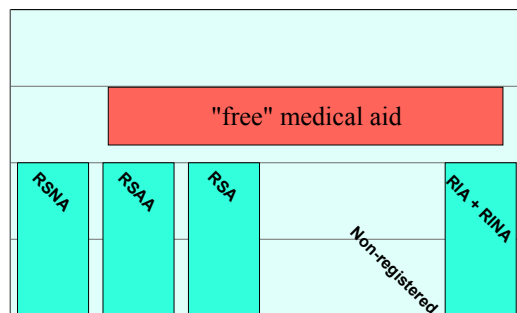
- **I. Introduction : Two case studies on extension**
 - This presentation builds upon two missions performed by SERVAC:
 - ▶ Tunisia (2002-2003): Extension of social security to three types of "precarious" workers (fishermen, small agricultural laborer, domestic labor);
 - ▶ Cape Verde (2005-2006): Strategy to expand the coverage of social security.

Tunisia: while social cover is offered through a wide grid of schemes...

	Scheme of non agricultural wage earners	Scheme for agricultural wage earners	Improved scheme for agricultural w. earners	Scheme for independent agricultural workers	Scheme for independent non agricultural workers
	RSNA	RSA	RSAA	ex-RIA	ex-RINA
Salaried agric. workers		x	x		
Non salaried agric. workers				x	
Salaried fishermen	x		x		
Non salaried fishermen			x	x?	
Domestic labor	x				

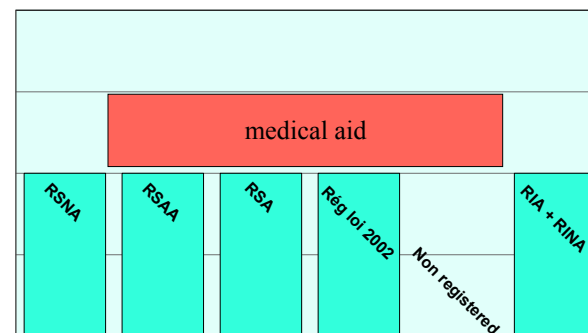
Several schemes are already offered to agricultural workers and fishermen. Benefits and contribution rates differ. Registration is compulsory for fish boats >5 barrels and farm or fish labor >45 work days /quarter. The "improved" RSAA, created in 1989, is restricted to farms with > 30 workers and boats < 30 barrels.

... registration had little bearing on "precarious" workers.



Non registered "precarious" labour is estimated to amount to 55 millions working days in farming, 7.5 million in fishing and 10 million in domestic work. These workers have access to "free" medical aid.

The 2002 Law introduces a new "low cost" scheme for precarious workers ...



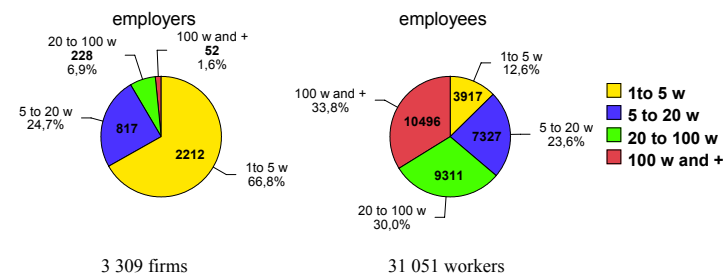
The new scheme for precarious workers entails minimal and flexible contributions, yet requires due registration and payment by identified "employers", like the other (vertical) existing schemes.

... while keeping the employer at the center of the declaration process.

- The 2002 Law keeps the declaration obligation from existing schemes :
 - request for affiliation as an employer (or self-employer) within a month of the first hiring (or self-hiring),
 - request for registration of each employee within a month of hiring,
 - quarterly filing of a declaration of salaries and contributions paid, employee by employee.
- This process keeps the employers as the cornerstone of the registration process, but does not address the issue of an employee with several simultaneous employers (the normal situation for mobile workers, as will be seen).

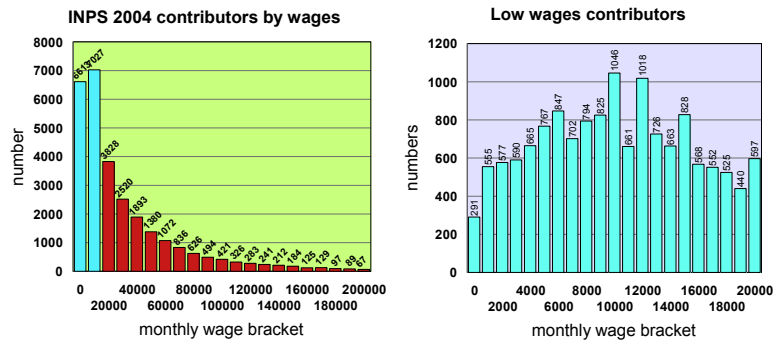
Cape verde : in the insured sector, 2/3 of all firms have less than 5 workers.

Répartition 2004 of contribuintes and segurados by size of firm



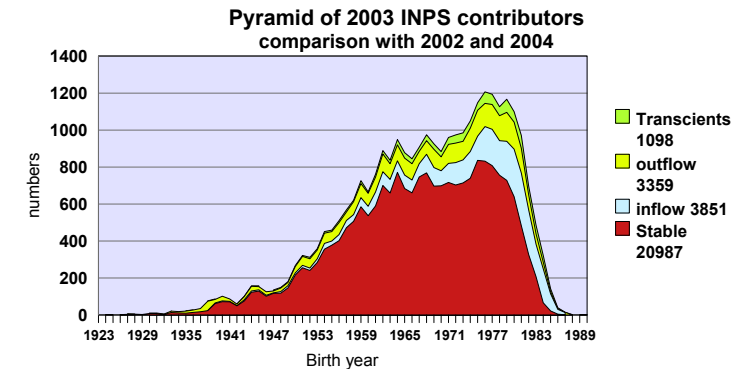
In INPS data base, 2/3 of firms have less than 5 workers, but these 2200 smaller firms only account for 12,6% of workers in 2004. Conversely the 52 largest account for 1/3 of the insured labor force.

47% contribute on low wages and 23% on very low ones



13 640 contributors, i.e. 47%, have a monthly wage < 20 000 ECV. Other contributors (15 710) follow a standard pattern (including 887 with wage > 210 000 ECV not shown). The second graph points to large number of very low wages (23% < 10 000 ECV, 12% < 6 000 ECV) whose contribution are far below average health benefit.

High turnover: only 2/3 of 2003 contributors also contributed in 2002 and 2004



Out of 29 350 contributors presents in 2003, 2/3 (the "stable") are also present in 2002 and 2004. "Inflows" are presents in 2003 and 2004 only, "outflows" (of which 160 retirements) are present in 2002 and 2003 only. "Transcients" only appear in 2003. Turnover is higher among the young.

Two classical extension strategies

- **Tunisia** tries to induce precarious workers to register in customized "low cost" pension schemes,
 - keeping the standard design for employers' role and obligation.
- **Cape Verde** is experiencing the limits of the "enforcing compliance" strategy without design changes:
 - ▶ Control of employers have decreasing returns in terms of population coverage
 - ▶ Large part of insured population are bad risks with the classical contribution mechanism (in % of wage).
 - ▶ High turnover challenges the timely record of contribution periods and its possible use as a condition to the access to health benefits.
- Without any minimal wage set, should a minimal contribution be introduced ?

Outline II

- I. Introduction : *Two case studies on extension*
- II. **Precarious workers or "mobile workers" ?**
 - *Fishers, small farmers and farm laborers, domestic workers :*
 - *individually they may have precarious income, ...*
 - ▶ *and so do the firms which employ them ...*
 - *... but collectively the demand for their services is strong : whole branches of the economy rely on them (and those branches are growing).*
 - *They are highly mobile, and often hold several jobs simultaneously, which helps to cushion them from the precarity of their jobs.*

"Mobile" work is key to informal economies' performance.

- The three populations share specific labor relations...
 - Specialised but segmented work effort, located by the user
 - coping with an uncertain demand (weather dependent)
 - risk sharing with the employer/user (ex: payment in % of the catch)
 - multiples employers/users without any durable ties with any one;
 - fluctuating incomes, but often globally significant
 - due to the overall economic competitiveness of the sector,
 - and their willingness to change employers and even activities.
- ... that makes them neither true employees nor self-employed
 - the multiplicity of missions and employers is similar to self-employment,
 - but unlike artisans or shop-owners, they often work as part of a team, and their place of work is dictated by an employer.

Mobile work, a new labor relation

- Mobile workers are a special case :
 - their work relations are short and change often, they have no fixed or even primary employer.
 - But they do not view themselves as self-employed, able to take up the burden of their social contributions.
- The people who pay them do not view themselves as employers,
 - due to the transience of the link between them.
 - They refuse any individual responsibility toward them,
 - ... but are aware that the availability of mobile workers is key to the economic survival of their activity.
- A double challenge for old age insurance :
 - the mobile worker's work environment means a multiplicity of declarations and a fractionalization of contributions
 - for which nobody, worker or employer, is willing to assume responsibility.

"Users" of mobile work are not ready to play "employers"

- Mobile workers have special labor relation; they do not fit neatly into the traditional employee / self-employed distinction.
- Their work is, however, essential to their activity branches, and those branches are dynamic and often growing.
- Users of mobile work do not feel individually responsible and refuse to assume:
 - responsibility for declaring their workers
 - responsibility for computing and paying their contributions
- The old model of social security, centered on the employer, does not work.

Outline III

- I. Introduction : *Two case studies on extension*
- II. Precarious workers or "mobile workers" ?
- III. **Contribution prepayment techniques**
 - *The mobile phone paradigm*
 - *Substituting earmarked branch taxes to employers contribution*
 - *Using "tripartite contribution vouchers" for salaried contribution*
 - *The points mechanism makes prepayment acceptable*

The mobile phone paradigm

- When cell phones were introduced, companies required subscriber to have a bank account, and marketed them to people with a fixed income.
- But the invention of prepaid cards changed that paradigm:
 - ▶ it eliminated any solvency concern on the part of the cell phone company,
 - ▶ and thus allowed them to be marketed to people with no bank account and no fixed income;
 - ▶ mobile phones have been spectacularly successful in the informal economy.
- In the same way, prepaid contribution could make a big difference in the social coverage of the informal economy.

Contributions from three different sources :

in DT	Employer	Employee	total
old age	0,30 / day	0,12 / day	0,42 / day
health	0,12 / day	10 / quarter	0,24 / day
total	0,42 / day	0,24 / day	0,66 / day

Annotations:

- prepaid through tripartite voucher (points to 0,12 / day in Employee column)
- through the branch tax (points to 0,42 / day in Employer column)
- paid by the employee if not otherwise covered (points to 10 / quarter in Employee column)

The scheme is financed through three separate sources which echo the familiar distinction between activity branches and employer/employee contributions

Earmarked branch taxes as employer contribution

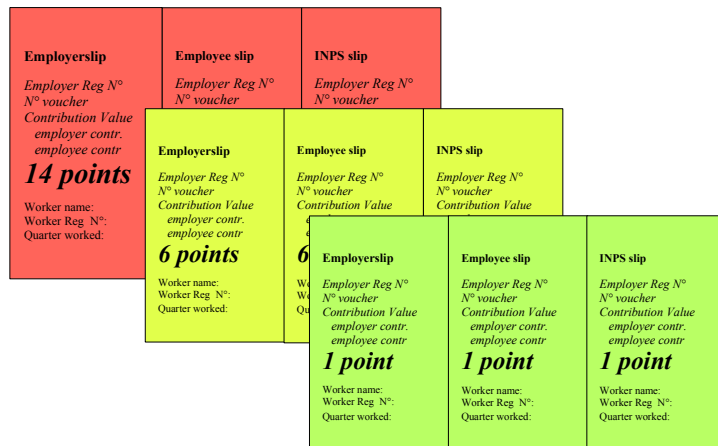
- Employer centered scheme does not work
- Employer contribution can be replaced by a collective contribution
 - taking the form of a branch tax
 - and freeing the employers from having to declare employees and collect employee contributions.
- Thus creating a new mobile worker scheme (RTM),
 - cumulative with existing schemes,
 - strictly contributive,
 - with pensions rights accrued as points
 - and simplified through the use of tripartite contribution vouchers.

Tripartite contribution vouchers as employee contribution

Employer slip	Employee slip	INPS slip	
<i>Employer Reg N° N° voucher Contribution Value employer contr. employee contr Number of points</i>	<i>Employer Reg N° N° voucher Contribution Value employer contr. employee contr Number of points</i>	<i>Employer Reg N° N° voucher Contribution Value employer contr. employee contr Number of points</i>	} Prefilled part
Worker name: Worker Reg N°: Quarter worked:	Worker name: Worker Reg N°: Quarter worked:	Worker name: Worker Reg N°: Quarter worked:	

The vouchers are intended to be read by optical readers.

Three kinds of vouchers with different colors and values



Mechanisms of the RTM : branch tax and tripartite vouchers

- The branch tax replaces the employer contribution
 - and eventually part of the employee contribution.
- Employers prepay the rest of employees' contributions (old age) while purchasing the vouchers
 - which are given to employees according to the duration of work;
- Workers bring the vouchers to CNSS or one of its partners when it is convenient
 - which is when the pension rights are awarded and recorded;
 - this avoids the collection of small amounts of employee contributions;
- Health insurance is paid by a quarterly contribution from the employee,
 - if the employee is already insured, he does not have to subscribe a second time.

The tripartite voucher makes prepayment administrately feasible

- The tripartite voucher takes care of most of the paperwork :
 - a voucher has legal status as a short time work contract
 - it is bought (in advance) by the employers and given to the employee with his wages
 - the employee brings his vouchers to INPS when convenient and the equivalent rights are awarded, for a minimal gestion cost.
- It also takes care of the need to control employee registration and employers' payment of employee's contributions
 - being prepaid and of fixed value, it makes certain the correct contributions are paid.
 - the employee are registered once without the need to monitor their current employer.

The point mechanism makes the prepayment of vouchers acceptable

- The points system is ideal to record small and potentially irregular contributions.
 - The link between contributions and rights is transparent;
 - There is no threshold, even a small contribution means an increase in pension.
- Awarded points accrue on an individual account at INPS.
- When the pension is liquidated, the annual pension is equal to the number of accrued points multiplied by the service value of the point.
- The service value of the point is based on what regular employee with similar contribution would receive.

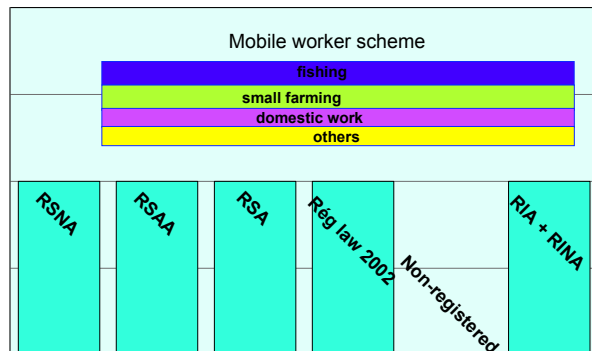
Outline IV

- I. Introduction : *Two case studies on extension*
- II. Precarious workers or "mobile workers" ?
- III. Contribution prepayment techniques
- IV. **Towards a mobile work pension scheme (RTM)**

Targeting mobile work branch rather than mobile workers

- A mobile work branch contains both:
 - employees with several employers,
 - and the corresponding *potential* employers-users,
 - who agree to support a collective tax rather than having to declare their employees.
- Each mobile work branch is responsible for the collective tax of a sector of activity (fishing, etc.);
 - it sets its scope, that is the eligibility rules both for employers-users and for employees
- Contributions and rights are mutualized and harmonized within the mobile worker scheme.

A transversal mobile worker scheme

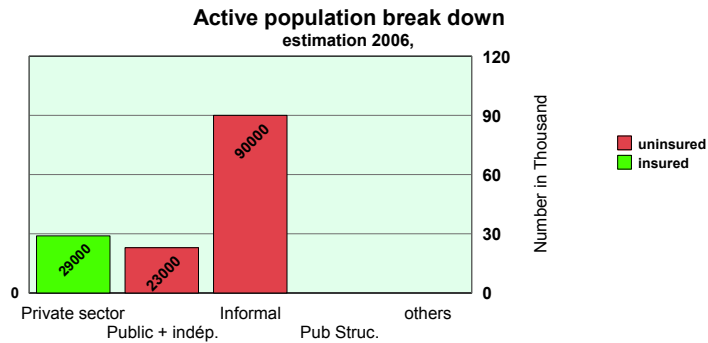


The introduction of several branches of mobile work will eventually lead to a larger, transversal scheme (the RTM). the pension served by RTM will when appropriate be added to that served by other schemes in which the employer may have contributed.

Outline V

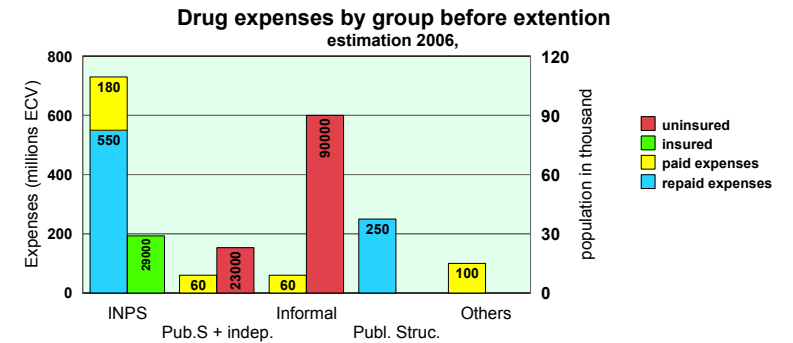
- I. Introduction : *Two case studies on extension*
- II. Precarious workers or "mobile workers" ?
- III. Contribution prepayment techniques
- IV. Towards a mobile work pension scheme (RTM)
- V. **Health insurance extension issues**
 - unlike old age insurance, health insurance is difficult to break into levels of benefits

Cape Verde: only INPS wage earners have health coverage



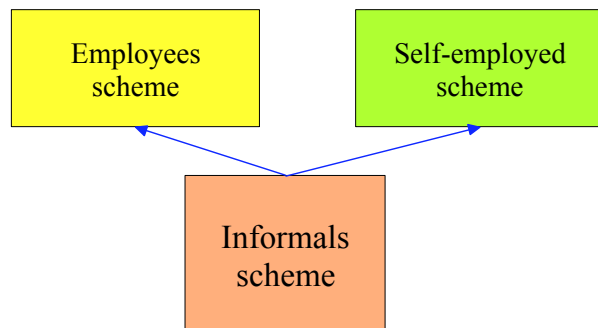
At the beginning of 2006, wage earners contributing to INPS number around 29 000, while other workers are uninsured : public servants and formal independents on one hand, informal workers of around 90 000 active workers on the other.

... but they account for most of the islands' drug consumption



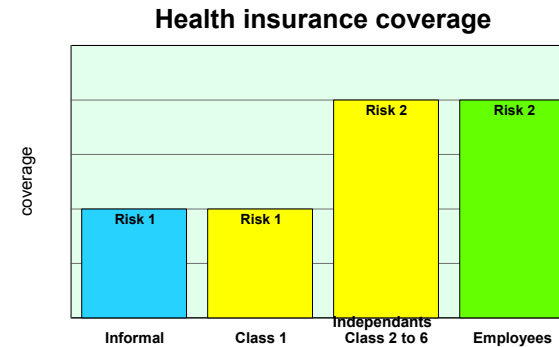
Today, apart from public health structures, most of the islands pharmaceutical drugs (total of 1200 MEcv) are bought by INPS insurees (with 75% reimbursed). But a large part of these repaid expenses benefit uninsured populations: public servants and self-employed on one hand, informal sector on the other .

The informals' scheme is meant as a first step towards other schemes



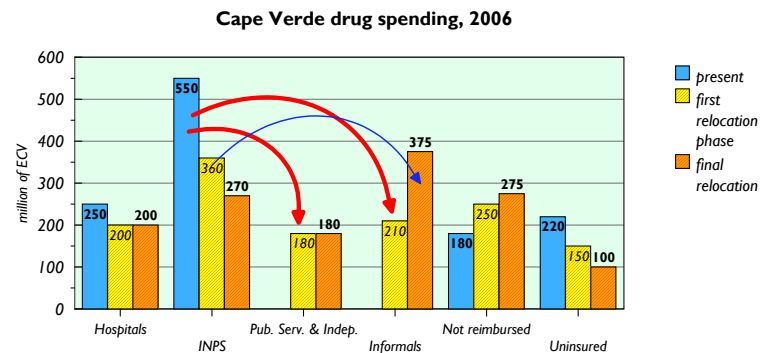
The new schemes should present consistent health benefit / contribution ratio with the existing Employees scheme.

Two levels of health coverage to bridge the contribution gap



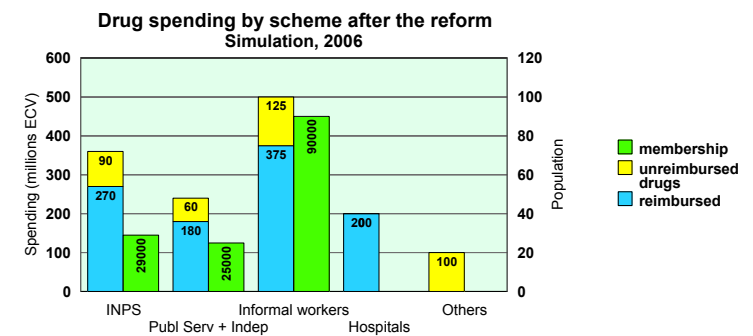
Starting with the second class, independants have the same coverage as employees. Independants who choose the first class have the same coverage as informal workers

The creation of new schemes will ease the abuse plaguing the old one



The creation of the new schemes allows the relocation of drug spending formally (and abusively) charged to INPS. Global spending increases, so do the part not reimbursed by the scheme, but direct spending by uninsured people diminishes.

Spending inline with membership



Global drug spending increases slightly, but the spending is better balanced between the different schemes.

Outline VI

- I. Introduction : *Two case studies on extension*
- II. Precarious workers or "mobile workers" ?
- III. Contribution prepayment techniques
- IV. Towards a mobile work pension scheme (RTM)
- V. Health insurance extension issues
- VI. Conclusion : **The design imperative**

Organizational constraints of large scale old age insurance.

- A large scale old age insurance scheme entails:
 - Regular and stable contributions on one hand
 - Regular declarations of insured members, so that their individual pension rights may be properly computed and recorded.
- These two essential flows need to be processed together...
 - no contribution without rights and no right without contribution
- ... for the least possible cost, which is a considerable organizational challenge :
 - collecting and checking (for accuracy and compliance) contributions,
 - recording and checking data pertaining to rights and making the appropriate computations.
- Such mass treatment is possible only if the data is aggregated and homogeneous.

The usual response does not work effectively outside the modern sector.

- **Usual social security schemes rely on the employer to perform aggregation :**
 - *He is responsible for collecting and paying contributions (employer's and employee's)*
 - *He is responsible for the declarations of insured members, recording rights.*
- **This is particularly effective in the modern sector :**
 - *the number of employees per company is high*
 - *and so is their stability within the company (low turnover)*
- **But ineffective for other sectors :**
 - *self-employed workers (one employee per company, though at least he can handle the declaration process)*
 - *informal workers (very high turnover of workers, far less able to cope individually with the declaration process) with no user willing to play employer.*
- **Another form of organization is needed.**

Conclusion : *A new form of organization around prepayment of contributions*

- The goal of RTM is to extend coverage to "mobile workers", building on their new type of labor relation.
- RTM introduces collective financing (through a branch tax) in exchange for dispensing the "employers-users" with employees' declarations.
 - The use of tripartite contribution vouchers introduces standard contributions and rights; this allow for prepaid contributions, and their efficient mass treatment.
 - The points mechanism insures that every contribution will yield similar pension rights; It makes prepayment acceptable.
- RTM's new organization is well adapted to the needs of the informal sector.