

Portability of Pension, Health, and other Social Benefits: Facts, Concepts, Issues

FNA-Jahrestagung 2011
Berlin, January 27&28

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Background and Motivation

- **Labor mobility increases**
 - Domestically across sectors
 - Internationally across regions and countries: South-South, North-North, South-North, and North-South
 - Stock of migrants small (3+% in world population) but higher share will spend some time of life abroad (15%?)
- **Concerns with portability of social benefits and key considerations in favor**
 - Economic –neutrality to labor mobility decisions
 - Social policy – acquired rights/social risk management
 - Human rights – access to social protection
- **Bi-/multi-lateral agreements considered best practice? We may be able to do better! Requires to bring economic analysis to the discussion.**

Road Map

- I. Facts on Migration and Portability Regimes
- II. A Conceptual Framework of Portability to Assess and Improve Policy Design
- III. Benefit Design and Portability Arrangements – Pensions
- IV. [Benefit Design and Portability Arrangements – Health Care]
- V. Special: Level of exported benefits and indexation
- VI. Key Issues for Better Understanding Portability
- VII. Main Conclusions

I. Facts on Migration and Portability Regimes

- **4 broad types of portability regimes**
 - I. Access to social security and portability through bi- or multi-lateral **agreements**
 - II. Access to social security and exportability by **national** legislation
 - III. Formal labor market participation, but **no access** and no contributions to social insurance
 - IV. **Informal** labor market participation and hence no eligibility to and portability of SI benefits
- **Estimation:** Linking multi-country migration matrix with information on bi-lateral agreements, etc allows estimation of migrants by regime for sending and receiving countries

Table 2 Global emigrant stock estimates by origin country income-group and Portability Regime (2000)

Origin country income-group	Regime I (Agreement)	Regime II (National)	Regime III (No Access)	Regime IV (Informal)	Total	<i>% global stock</i>
Low-income countries	850,985	36,720,832	5,293,338	10,757,086	53,622,241	29%
<i>% total</i>	2%	68%	10%	20%	100%	
Lower middle- income countries	11,312,511	47,224,671	3,476,163	14,473,805	76,487,150	41%
% total	15%	62%	5%	19%	100%	
Upper middle- income countries	3,521,212	10,724,671	189,357	7,203,975	21,639,215	12%
% total	16%	50%	1%	33%	100%	
Non-OECD high-income countries	2,063,914	3,534,415	192,987	57,809	5,849,125	3%
% total	35%	60%	3%	1%	100%	
OECD high- income countries	24,778,310	3,658,850	291,007	189,802	28,917,969	16%
% total	86%	13%	1%	1%	100%	
Total	42,526,932	101,863,439	9,442,852	32,682,476	186,515,699	100%
% global stock	23%	55%	5%	18%	100%	

Table 3: Global migrant stock estimates of Regime IV migrants only (undocumented migrants) by origin and host income-group (2000)

Origin country income-group	Host country income-group					Total
	Low-income countries	Lower middle- income countries	Upper middle- income countries	Non-OECD high-income countries	OECD high- income countries	
Low-income countries	3,775,249	3,681,516	781,597	561,591	1,957,132	10,757,086
Lower middle- income countries	779,250	6,156,610	1,471,782	970,669	5,095,494	14,473,805
Upper middle- income countries	111,890	531,205	234,206	288,799	6,037,875	7,203,975
Non-OECD high-income countries	1,949	12,663	3,319	2,052	37,825	57,809
OECD high- income countries	11,442	26,805	17,160	8,563	125,833	189,802
Total	4,679,780	10,408,798	2,508,064	1,831,674	13,254,160	32,682,476

II. A Conceptual Framework for Portability

Key Tenants

- Portability issues emerge from tensions between domestic social policy objectives re risk management design and international objectives re labor mobility
- Critical for full portability is disentangling the 3 key components of any social benefit in design and implementation
 - Insurance (risk pooling)
 - Pre-funding across life-cycle (actual or notional)
 - Redistribution (inter-personal)
- 2 key options to establish portability
 - Change in benefit design and disentangling 3 components
 - Use of uni-, bi-lateral and multilateral arrangements

Elements of the Framework

- i. **Migration and Social Risk Management**
- ii. **Domestic Social Policy Objectives and Instrument Design**
- iii. **Mobility Objectives and Results Criteria for Portability**
- iv. **An Analytical Model for Portability Considerations**
- v. **Defining Portability: Scope and Issues**
- vi. **Establishing Portability: Options and Issues**

i. Migration and Social Risk Management

- Oldest, most widespread and most important SRM instrument of mankind
- While emergence of formal SRM-I (public and private) have reduced importance of migration in HICs (high income countries), remains important informal and formal SRM-I in MICs and LICs
 - Migration creates new risks for migrants for which they may not have risk management instruments
 - Migrants are loosing access to risk instruments in home country (formal, informal such as family)
 - For migrants portability is interface between social benefits and services in home and host countries

ii. Domestic Objectives and Instrument Design of Social Protection

- Original social benefit design geared toward domestic objectives of immobile labor force that is still alive
 - E.g. traditional DB design, separate benefit schemes, etc
 - All social benefits represent a mixture of implicit insurance, (notional or actual) pre-funding and redistribute elements that creates problems for portability
 - **Old-age pensions:** Has separated accumulation and disbursement phase plus redistribution
 - **Health care benefits:** Has integrated accumulation and disbursement phase through back-loaded expenditure plus redistribution in both phases
- Social policy objectives can also be achieved with benefit design that allows the explicit disentangling of insurance, prefunding and redistributing component
 - E.g. DC type individual account structures and explicit redistributive component

iii. Mobility Objectives of Portability and Results Criteria

- 2 key objectives for labor mobility
 - Efficiency considerations (neutrality with regard to mobility decisions)
 - Fairness (at individual and country level)
- Results criteria (Holzmann et al., 2005)
 - No benefit (dis-)advantage because of mobility
 - Fiscal fairness for home and host country
 - Bureaucratic effectiveness

iv. Sketch of An Analytical Model of Portability

- Single period insurance budget constraint w/o saving

$$c(a) = b(a) \quad p(a) = E[b(a)]$$

- Single period insurance budget constraint with saving

$$c(a) - E[b(a)] = s(a)$$

- Accumulated the individual savings till an age \tilde{a}

$$S(\tilde{a}) = \sum_{a=1}^{\tilde{a}} s(a)(1+r)^{\tilde{a}-a} = \sum_{a=1}^{\tilde{a}} [c(a) - E[b(a)]](1+r)^{\tilde{a}-a} = C(\tilde{a}) - B(\tilde{a})$$

- Future benefits and contributions

$$B^e(\tilde{a}+1) - C^e(\tilde{a}+1) = \sum_{a=\tilde{a}+1}^{a^d} \frac{b(a)p(a)}{(1+r)^{a-\tilde{a}+1}} \sigma(\tilde{a}+1, a) - \sum_{a=\tilde{a}+1}^{a^d} \frac{c(a)}{(1+r)^{a-\tilde{a}+1}} \sigma(\tilde{a}+1, a)$$

- Actuarial balancing condition

$$C(\tilde{a}) - B(\tilde{a}) = B^e(\tilde{a}+1) - C^e(\tilde{a}+1)$$

- Introducing Redistribution

$$S(\tilde{a}) + R(\tilde{a}) = C(\tilde{a}) - B(\tilde{a}) + R(\tilde{a}) = B^e(\tilde{a}+1) - C^e(\tilde{a}+1)$$

Defining Portability: Scope and Issues

- Ability to preserve, maintain and transfer vested social security and private rights or rights in the process of being vested, independent of profession, nationality and country of residency, with 2 elements
 - The full receipt of vested and eligible social security rights as well as rights under private sector arrangements (benefits in disbursement, health care coverage) based on acquired rights through prior contributions/premiums or residency criteria in any chosen residency
 - The full transfer of social security rights as well as rights under private sector arrangements that are in the process of being vested before eligibility has been established based on acquired rights through prior contributions/premiums or residency criteria in any chosen residency

Issues (1/2) Acquired rights and transfers

- **Actuarial value of contributions or accrued to date liability – redistributive component and sustainability**
- Backward and forward looking approach – equivalence, difference and implications
- **Transfer of acquired rights in PAYG schemes – reserve fund and GDP bonds**
- Occupational schemes and HR features
- Basic provisions (demogrant) and transfers
- **Top-ups and transfers**

Issues (2/2): Benefits to be considered?

- Old age benefits
- Disability benefits
- Survivors benefits
- Workers accident and occupational diseases (invalidity benefits)
- Sick pay and maternity benefits
- Severance pay
- Unemployment benefits
- Family benefits (such as children/family allowance)
- Health care benefits
- Long-term care benefits for the elderly
- Income replacement benefits for the care of children, sick or old people

Establishing Portability: 2 key Options and Issues

- **Change in benefit design, e.g.**
 - Old-age pensions (from DB to DC)
 - Disability benefit (dis-linking from OAP)
 - Unemployment benefit (from DB to USA)
 - Health care benefit (health accounts?)
- **Portability arrangements**
 - Unilateral Actions
 - Bilateral Agreements
 - Multilateral Agreements
 - Multinational Providers

III. Benefit Design and Portability Arrangements – Pensions

- Application of Analytical Framework
- Application in Multi-pillar Pension Framework and Portability Arrangements
 - Basic pillar (demogrant, social pension)
 - Mandated and earnings-related (funded and unfunded) pillar
 - Voluntary and funded pillar
- A Regional Framework for Pension Portability
 - NDC at core and social pension and voluntary pension at the wing (Holzmann, 2006)

Pillars (and Benefit Types)	Potential individual loses	Unilateral Action (UA)	Bilateral Agreements (BA)	Multilateral Arrangements (MA)	Multinational Providers (MP)
Portability constraints					
Basic pension: Demogrant and minimum income guarantee					
Not exportable	Loss in basic pension	Make demogrant exportable on pro-rata basis	Reciprocity; Totalization of residency & benefit recalculation	Reciprocity; Totalization of residency & benefit recalculation	
Mandated earnings-related benefits (first & second pillar)					
No access to social security in host country (NDB, DC)	From none to access to any pension	Contribution in home country			Contribution to MP
Voluntary access, not exportable (NDB, NDC)	From non to access to any pension	Contribution in home country; Reimbursement of contributions	Reciprocity; totalization; benefit recalculation	Reciprocity; totalization; benefit recalculation	Contribution to MP
Access but not exportable (NDC, NDB)	Loss in contribution payment/pension benefit	Make exportable Reimbursement of contributions	Totalization; benefit recalculation	Totalization; benefit recalculation	
Access, exportable with penalties (NDB, NDC)	Loss at the level of penalty	Eliminate penalties	Totalization; benefit recalculation	Totalization; benefit recalculation	
Vesting period (NDB)	From non (if not binding) to loss f any pension	Move to NDC	Totalization	Totalization	
Last salary formula (NDB)	Back-loading gains	Move to NDC	Benefit recalculation	Benefit recalculation	
Non-linear accrual rates (NDB)	Loss or gain depending on accrual rate scale	Move to NDC	Benefit recalculation	Benefit recalculation	
Top-ups not exportable	Loss of top-ups	Grant export	Reciprocity	Reciprocity	
Taxation policy	From gains to non to double-taxation		Reciprocity	Harmonized tax treatment (EET, TTE)	
Voluntary funded benefits					
Vesting period (FDB)	From non to full loss in pension	Move to FDC			Contribution to MP
Last salary formula (FDB)	Loss in back-loading gains	Move to FDC			Contribution to MP
Non-linear accrual rates (FDB)	Loss or gain depending on accrual rate scale	Move to FDC			Contribution to MP
Taxation policy (e.g. different taxation rules; no tax deduction for premium paid abroad)	From gains to non to double-taxation	Allow tax deduction for contributions paid to abroad	Reciprocity	Harmonized tax treatment (EET, TTE); deductibility	

NDC System as Regional Portability Framework

- Emulating Value-Added Tax scheme of production and consumption neutrality for labor mobility
- Proposal: NDC pillar plus basic and voluntary pillars
- Transforming diverse national schemes in NDC
- Portability of acquired rights – leaving in home or transferring to host country
- Country' autonomy of decision on contribution rate (NDC/FDC) and level of basic pillar preserved
- Basic pillar portability: Reciprocity
- Voluntary pillar portability: Coordinated design (FDC) and taxation approach (EET or TTE, with caps)

Special: Level of Exported Pension Benefits

- Should benefit levels be adjusted to Purchasing Power Parity of Country of Residence?
 - Only income replacement/consumption smoothing guaranteed, but welfare gains when moving/returning to cheaper country
 - Escaping host country taxation under EET regime
- Should host country provide some XR guarantee
- Examples of adjustment
 - Germany: 30 percent reduction
 - France: 2010 ruling of constitutional court
 - Netherlands: Reportedly under discussion

Special: Exported Benefit Indexation

- Should exported benefits be indexed?
 - Pros: Non-discrimination?
 - Cons: Responsibility for resident beneficiaries only (UK)
- How should they be indexed: Same as in host country, or price index only (of host or home country)?
- How should PPP adjusted benefits be indexed?
 - With local price index only, or corrected for change in PPP relations over the year?

VI. Key Issues for Better Understanding Portability

- Data need
- Details on portability arrangements and evaluation that they are effective
- Corridor studies on portability of social benefits under arrangements
- Empirical evidence that portability (and for what benefits) matters
- Expanding the formal analytical framework

VII. Summing-Up and Conclusions

- Labor mobility increases: Economic, social policy and human rights considerations all point to portability
- Proposed definition of portability is linked to acquired rights and mobility across profession and borders
- Portability issues emerge from tensions between domestic benefit design objectives and international labor mobility objectives

Summing-up (2/3)

- Current approach to address tensions through bi-lateral agreements with unknown coverage, rules and impact
- Proposed approach to disentangle risk pooling, saving and redistributive component:
 - Portability through full transfer of/access to saving component (in accumulation and disbursement)
 - Portability of redistributive component – case specific and for discussion (arrangements)
 - Open issues re differences in risk profile, benefit price, family benefits, etc

Summing-up (3/3)

- Benefit redesign and bi-/multilateral arrangements are likely to reinforce each other
- Disentangling of the 3 components is facilitated in individual account-type approaches. Domestic reforms move in this direction (pensions, unemployment benefits, health?)
- Proposed conceptual framework is just the beginning of a journey

- THANK YOU
- AND LOOKING FORWARD TO A GREAT DISCUSSION WITH GREAT INPUTS AND SUGGESTIONS
- PLEASE SEND YOUR WRITTEN COMMENTS TO
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Selective References

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