

Social Insurance Funds in International Perspective: A Note on Pension Administrations Around the World

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Social Insurance Funds in International Perspective:
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Social insurance funds throughout the world are administered in a myriad of ways according to their position in government, the composition of the funds they oversee, the proportion of public and private funds that make up the pension system, cultural and historical factors. It is safe to say that no two social insurance administrations are the same, even though they may be based on similar models of public administration (for example, the New Zealand model of decentralization). This experimentation at the national level has created a wealth of best practices throughout the world, as well as providing lessons about approaches that have failed to deliver adequate social security to vulnerable populations. Both experiences are equally valuable as Armenia attempts to institute a multi-pillar pension system.

Throughout the Social Protection Systems Strengthening (SPSS) project, TSG will be providing specialists to apply these lessons of pension administration and help Armenia's State Fund for Social Insurance optimize its management and fulfill its role of administering the country's pension system. This brief note will provide some background information on a few select pension administrations to inform the State Fund for Social Insurance of the diversity of administration approaches and suggest possible models to draw upon. It will be followed over the course of the project by more in-depth studies, in tandem with technical assistance and legal reform services.

Croatia

The Croatian Pension Insurance Institute (CPII) is under the direct supervision of the Ministry of Economy, Labor, and Entrepreneurship and runs the mandatory pension (pillar one) for the country. The Insurance Fund is the successor to three separate institutions: the Pension Insurance Institute for Workers (hereafter PI), the Pension Insurance Institute for the Self-Employed, and the Pension Insurance Institute for Farmers, creations of the old Yugoslav system that was plagued by administrative problems and was adequate only to handle pension distribution in the context of a command economy. By law, these three institutes were merged in 1998 to form the CPII.

The new CPII was still plagued by capacity problems, however, as a World Bank assessment from 2002 noted that "management is weak... its human resources policy is outmoded...[it] remains overstaffed and insufficiently automated, internal control functions and IT systems are in need of significant improvements in data management and security."¹ In November 2001, new management of the CPII endorsed a reform strategy which outlines a "new vision," involving streamlining the institution and focusing on the core mandate of benefits delivery and record-keeping.

¹ "Project Appraisal Document On a Proposed Loan In The Amount Of US\$27.3 Million To The Republic Of Croatia For A Pension System Investment Project," World Bank Document No. 23714-HR, June 2002.

This strategy was necessary, for the reporting burden and information flows under the CPII, inherited from the PI days, continued to be a mess. The system prior to 2002 required the employer to report and submit some 20 different forms on either a monthly or annual basis, with parallel networks of staff for data and contribution collection and processing in the Health Insurance Institute, Pension Institute, and Tax Department interacting with the same set of employers. It was estimated that in the PI alone, the number of staff dedicated to these functions at end 2001 was around 1,000 out of a total staff of 3,300. From 2000, the Government began taking steps to lessen the burden on employers, and in July 2001, the Tax Department assumed responsibility for contribution of collections for the CPII.

While collections were ceded to the Tax Administration, the reorganized CPII retains record-keeping authority over mandatory Pillar I, and has actually expanded its operations in record-keeping to use pension registration data and information from throughout the government (see below) to create an annual report on the state of pensions in Croatia. The most important source of information remains annual reporting from employers, and the CPII maintains three databases on insured persons, pensioners, and contributors (however, these databases are only partially computerized). But most of its authority has been transferred elsewhere in the government, and its budget has also decreased to take into account, as of 2004, only the administrative functions of the agency. As a government agency, it is governed by a 13 member tripartite board, with representatives appointed to and serving at the leisure of the government.

In 2002, as part of the move to a multi-pillar system, two other agencies were established to oversee the new voluntary pillars of the pension system and to carry out collections for Pillar II. The Pension Funds and Insurance Supervisory Agency (HAGENA) supervises the whole pension system and issues the authorization for establishing pension companies, granting licenses for pension funds to operate in Croatia. The other new agency, the Central Register of Insured Persons (REGOS), and keeps all the records necessary for the control and efficient functioning of the pension system in regards to Pillar II and issues reports to the members of funds and pension companies. Pillar II contributions are still collected by the Tax Administration, who is responsible for *enforcement* of Pillar II collection but not *control*; this authority is vested solely within REGOS. The establishment of these agencies was regulated by the Law on Compulsory and Voluntary Pension Funds, and the relation of each to the CPII is shown in Figure 1.

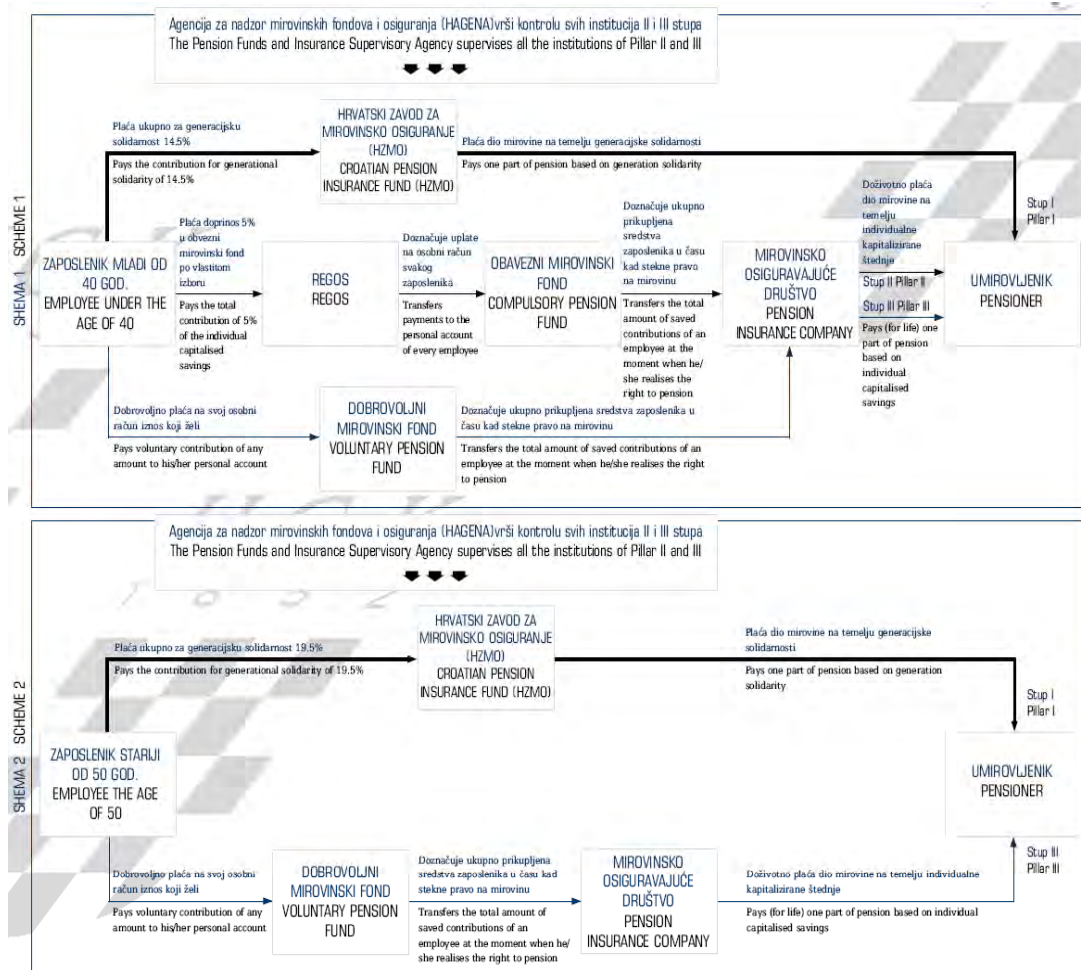
As new agencies, REGOS and HAGENA have not had to deal with the administrative shortcomings of the CPII and have made impressive strides in management, quality and strategic planning, and performance measurement. Indeed, REGOS has been certified ISO9001/2000 compliant, owing to its detailed and thorough reports on all segments of business activity, monitoring performance towards objectives, involvement of employees in building the quality management system, and measurement of employee satisfaction.² Unlike the CPII, REGOS also has a website that is available in English.

While Croatia has made some strides to overcoming the old Yugoslav administrative model, there are still many issues that need to be resolved to ensure the smooth functioning of the multi-pillar system. In the first instance, despite its name as the Central Register, REGOS does not actually function as a unified registry of insured persons in the country, meaning pensioners need to register with the CPII for Pillar I and REGOS for Pillar II. The World

² REGOS website, <http://www.regos.hr/default.aspx?id=207>.

Bank is providing assistance to unify this register under a Pension Improvement Project, which has recently been extended through the end of this year.

Figure 1 - The Relation of Croatian Pension Authorities



In addition to lack of a unified registry, this new system has created some confusion within the Croatian government regarding interactions with employers. The Tax Administration continues to collect Pillar I and other mandatory social contributions, and collects Pillar II contributions from employers based on REGOS data; in practice, however, the tax administration still collects its own data. This has led to problems in harmonizing record-keeping and has increased the burden on the businesses, which have to report information several times to different authorities. The clarification of the data-collection roles of REGOS and the Tax Administration is still ongoing and remains at an uneasy impasse.

Estonia

The pension system in Estonia is under the responsibility of the Ministry of Social Affairs, with specifically the Social Security Department of the Ministry overseeing policy

developments in pensions. The administrative body charged with the administration of mandatory pension programs is the Social Insurance Board (SIB), while collection is held exclusively within the Tax Office and the second pillar is under the supervision of the Financial Surveillance Authority (under the Central Bank of Estonia). The institutional structure of the Estonian multi-pillar system is shown in Figure 2.

Figure 2 – Institutional Structure of the Estonian Pension System

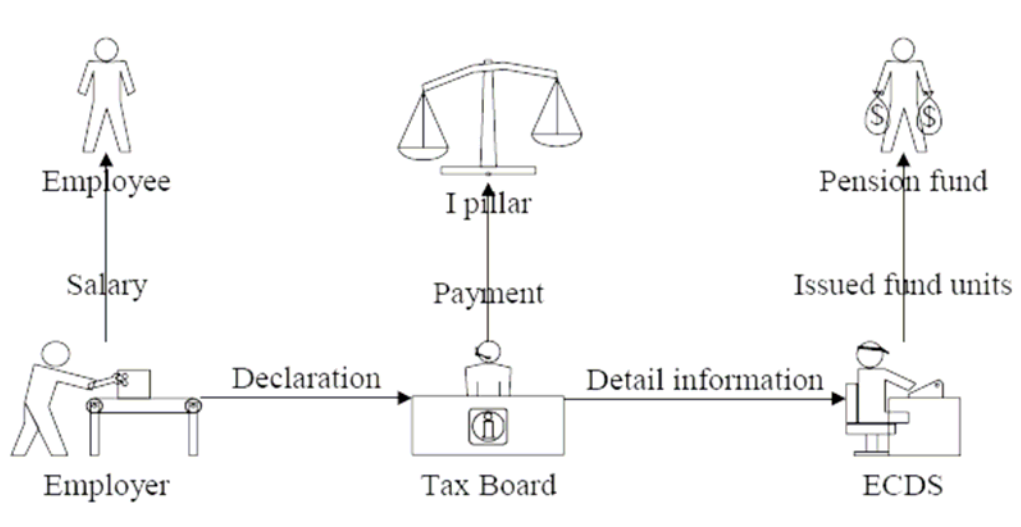
		Risks	Participation	Access	Benefit structure	Financing	Administration	Collectors and Providers
<i>3rd Pillar (Individual schemes)</i>		<i>Old-age, Disability</i>	<i>Voluntary</i>	<i>Contribution</i>	<i>Contributions-related</i>	<i>Contribution, Fully-funded</i>	<i>Licensed Private Life Insurance Companies/Pension funds</i>	<i>Private Institutions</i>
<i>(Pension funds)</i>		<i>Old-age</i>	<i>Voluntary</i>	<i>Contribution</i>	<i>Contributions-related</i>	<i>Contribution, Fully-funded</i>	<i>Private companies</i>	<i>Private institutions</i>
<i>1st Pillar</i>	<i>2nd Tier</i>	<i>Old-age</i>	<i>Compulsory (for new workers)/ Voluntary for current workers</i>	<i>Contribution</i>	<i>Contributions-related</i>	<i>Contribution, Fully-funded, Guarantee Fund</i>	<i>Private fund managers (linked to Banks and/or Insurance Companies)</i>	<i>State/Private funds</i>
	<i>1st Tier (Employment-based Pension)</i>	<i>Old-age, Disability, Survivorship</i>	<i>Compulsory</i>	<i>Residence/ Employment/ Contribution</i>	<i>Earnings-related</i>	<i>Contribution, PAYG</i>	<i>State</i>	<i>State</i>
	<i>National Pension</i>			<i>Residence</i>	<i>Flat-rate</i>	<i>Taxation, PAYG</i>		

The main task of the Social Insurance Board is organization and payment of the state pensions, benefits, and compensations to insured persons who have at least 15 years of pension-able service in Estonia and are at least 63 years of age (and have resided in Estonia for at least 5 years prior to claiming the pension). The vast majority (72%) of the SIB’s budget is dedicated to paying these pensions and benefits according to the national legislation and international agreements on time, and is channeled through the regional offices.

The actual administration of the pension system occurs at the local level, organized through 4 regional Pension Departments with branch offices in all 15 counties. These Offices have substantial autonomy within the decentralized nature of the Estonian public administration, and process benefits applications, grant benefits and arrange the payment of benefits through banks or post offices. The local offices also have the authority to sub-contract with NGOs or private bodies for the administration of social services and in undertaking the back-office functions necessary to keep the mandatory system functioning.

Beyond mere disbursement of payments, the SIB also acts as the central coordinating office for the country and maintains the State Pension Insurance Registry, which includes data of all insured persons and the social taxes paid on their behalf, as well as data on beneficiaries. According to the Social Tax Act, the contributions paid on behalf of each employee are accounted for individually (the employer must submit this information to the Tax Office, who then relays it to the SIB – see Figure 3), and it is the SIB’s responsibility to collate the information from the Tax Office to produce the Registry.

Figure 3 – Collections and Data within the Estonian Pension System



Beyond the PAYGO pillar, the second and the third pillar in Estonia are relatively newer, with the second pillar coming into being in 2002 and the third pillar in 1998. The second pillar is characterized by the following features:³

- Participation is compulsory for new entrants to the labor market and voluntary for current employees;
- Participants have to pay an individual contribution of 2% of gross wage;
- Individual contributions are supplemented by the state with 4% of gross wage, which is re-directed from the pension insurance part of social tax paid by employers;
- The scheme is fully funded;
- Defined-contribution principle applies;
- Pension fund assets are managed by private fund managers;
- State supervision.

The second pillar scheme addresses only the risk of old age and does not provide pensions for the risks of invalidity and survivorship, which is currently handled by the SIB. Participants of the second pillar have to choose a pension fund, where their contributions are directed, and the pool of assets is managed by one of 6 fund managers. As noted above, and as in Croatia and other countries, collections are done by the Tax Administration but oversight is provided by the Financial Surveillance Authority, a new creation in 2002 that merged functions of the Banking, Insurance, and Securities Inspectorates of the Bank of Estonia.

Sweden

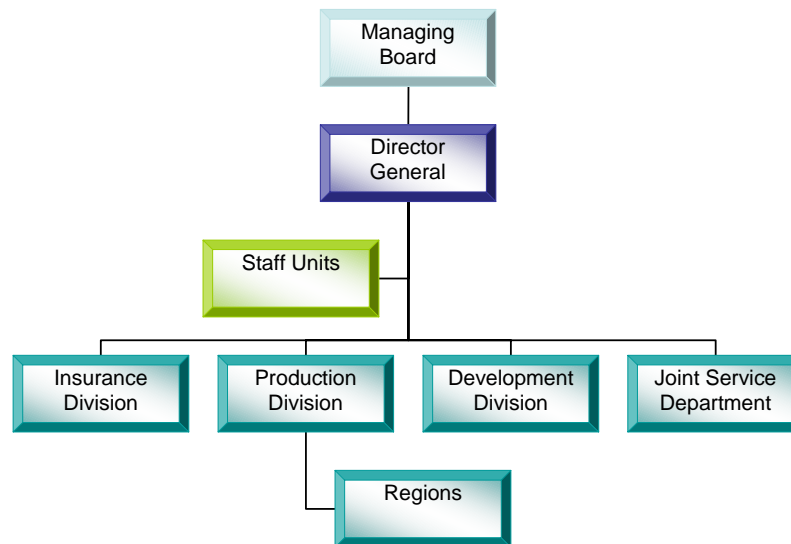
Sweden's extensive social safety net is run primarily through the Social Insurance Administration (SIA), a new creation in Sweden's public administration. The Swedish Social Insurance Agency was formed in January 2005, consolidating 21 autonomous social

³ Lauri Leppik and Ruta Kruuda, "Study of the Social Protection Systems in the 13 Applicant Countries: Estonia," Gesellschaft fuer Versicherungswissenschaft und gestaltung e.V., financed by the European Commission Director General for Employment and Social Affairs, January 2003.

insurance offices and the former National Social Insurance Board during the biggest agency conversion in Sweden’s history. The motivation behind the reorganization was a continued increase throughout the 1990s in workers taking long-term sick leave, due in part to the generous benefits paid by the state, and the SIA was intended to “create clearer control of the work within the social insurance sphere, a more uniform application of laws and regulations,” and increased public awareness.

The mission of the SIA is to enquire into, decide on, and pay out over 400 billion SEK (approximately \$57.3 billion) in social insurance benefits each year (including disability, family health, and pensions). Much of its work is done in record-keeping and ensuring that payments are correctly transferred, and to this end the Agency has worked diligently on controls plans to catch cheaters and erroneous payments. The SIA also has an extensive public outreach function, as it provides information about social insurance programs to citizens and is the first point of contact for all social insurance related questions. According to the Agency, they deal with just over 100,000 people per day via phone, in-person visits at local social insurance offices, or via the website at www.forsakringskassan.se.

Figure 4 - Structure of the Swedish Insurance Agency



Headquartered in Stockholm, the SIA is currently comprised of 16,000 employees who are spread out over 240 offices across the country.⁴ The SIA is led by a Managing Board, elected by the government and consisting of nine members, which then in turn appoints the Director General (who also sits on the Board). In addition to the Director-General, there is a Deputy Director-General, seven staff units, the Production Division (incorporating the former 21 county organizations), and the other divisions as shown in Figure 4.

As in Estonia, the local offices of the SIA have substantial autonomy in operating the benefits mechanisms, and as such function more as decentralized administrative units. In the most important case, directors at the local level are empowered to make decisions about individual pensioner cases without consulting the central office, including denial of benefits. Over the

⁴ The SIA announced in January of this year that it will cut 1,400 jobs, or nearly 9 percent of its work force, as a cost-saving move.

first year of operation, the SIA also used the decentralized nature of the organization to improve operational efficiency, as regional offices that were faced with smaller case loads helped more stressed offices in shortening the processing times for occupational injury cases. Performance management across the SIA is also tailored to the needs of the local entities, with indicators and goals designed annually to take into account the individual and unique situation of each county office.

At present, the SIA is responsible only for the mandatory social security pillar, the PAYGO portion of the social safety net, with another government body, the Premium Pension Authority (PPM) delegated the task of “occupational” and voluntary pension administration. Although both authorities work closely with each other and have collaborated on forecasting and website development, the Swedish government has tabled a proposal this year to further consolidate the pension administration and unify the agencies. Under this proposal, the PPM would take over pension functions supervised by the SIA. The SIA has resisted such a move, claiming that the government’s proposals to unify the administration is a correct move, but that administration functions should be transferred from the PPM to the SIA and not vice versa, in order to take advantage of the SIA’s extensive local offices. The PPM has countered that the SIA staff does not have enough knowledge of the premium system to effectively administrate it. As of this note, these options had not been decided by the Swedish government.

United States of America

While the Social Security system within the United States has been challenged and analyzed over the past decade for problems in its policy, the present Social Security Administration (SSA) may be considered highly efficient in managing its administrative functions. The SSA employees approximately 65,000 employees to oversee the nation’s 300 million people, headquartered in Baltimore, Maryland but with 10 regional offices in major cities (Atlanta, Boston, Chicago, Dallas, Denver, Kansas City, Los Angeles, New York, Philadelphia, and Seattle) and over 1300 local offices nationwide. While in the past the SSA has been under the purview of different federal departments (most recently Health and Human Services), in 1994 President Clinton returned the SSA to its original status as an independent entity with the federal bureaucracy.

The headquarters administration is organized under a Commissioner, with nine Deputy Commissioners; one apiece for Communications, Human Resources, Operations, Policy, Systems, Disability and Income Security, Disability Adjudication and Review, Legislation/Congressional Affairs, and “Budget, Finance and Management”. Below management there are 6 additional offices, including the Offices of the Inspector General (for internal auditing), the General Counsel (legal matters), the Actuary, the Chief Information Officer, the Chief Strategic Officer, and Quality Performance. Of these Offices, the Actuary is charged with creating the estimates of the administration of the “trust funds” that SSA oversees, while the Chief Strategic Officer creates the management plans for the SSA and the Office of Quality Improvement monitors performance indicators and tracks progress towards the strategic plans.

With the SSA, overall administration costs are approximately \$10 per worker, amounting to 0.42 percent of contributions and 0.57 percent of benefits paid. As a percentage of assets, the administration costs are 0.39 percent. The low cost of administering the SSA is due in large

part to the fact that in the US, as elsewhere, pension contributions are not collected by the social insurance fund itself but by the Treasury Department (Finance Ministry), through the Internal Revenue System (IRS), the American tax administration. The absence of a private, voluntary pillar also means that the SSA is not concerned with maintaining financial accounts and is thus involved in record-keeping and benefits calculation.

Record-keeping represents a small portion of the SSA's operations, with information on the contributions of each worker entered only once a year, as this information is reported to the IRS at tax time. It is benefits calculation that comprises the bulk of the administration's work, with 93 percent of the SSA budget going to benefits calculation. The benefits formula is based on a number of factors, including earnings history, marital status, age, and anticipated wages and salaries for the coming calendar year.⁵ To receive these benefits, a worker must apply to the SSA prior to his or her expected retirement date and also estimate wages for the year of application. Benefits are then disbursed by check on either the second, third, or fourth Wednesday of the month (depending on the birth date of the recipient). The intra-governmental cooperation that SSA has with Treasury also extends to payments disbursement, as benefits may be reduced if the pensioner owes the government taxes that are currently unpaid.

⁵ Robert Genetski, "Administration Costs and the Relative Efficiency of Public and Private Social Security Systems," *Cato Project on Social Security Privatization Paper No. 15* (March 9, 1999), available at www.cse.org/reports/cato_ss_mar0999.pdf.