Pension Diagnostic Assessment and Conceptual Framework
Philippines SPL Course
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Organization

I. Background
II. Existing system, challenges & needs
III. Analysis undertaken and tools used
IV. Options to improve SSS Sustainability
V. Options to Close the Coverage Gap
VI. Conclusions & lessons learned
Background
• Role of the Bank
• Previous engagement
• Earlier analysis
• Political economy
• Counterparts – SSS, GSIS, DSWD

Existing system, challenges and reform needs
• Demographics & aging
• SSS parameters & coverage
• Previous efforts to improve coverage
• Previous parametric changes
• Social pension, CCT & targeting
Analysis undertaken

• Demographics
• Existing scheme parameters, coverage, adequacy, sustainability.
• Simulation of reform options.
• Assessment of labor force characteristics, poverty incidence and severity across the life cycle, co-residency.
• Review of fiscal position, delivery systems, financial inclusion, health coverage, identification systems.

Tools employed

• Literature review
• PROST
• ADEPT SP & Poverty
• APEX
• Comparative analysis
Total dependency ratio flattening as OADR increases & Youth dependency decreases

Source: World Population Prospects, the 2015 Revision
High levels of informality

- Barriers to employment generation: investment climate and costly business, tax and labor market regulations.
- Weak worker skill set (partly from outmigration)
- Informality makes compliance enforcement difficult & costly
- Informal workers => low and intermittent earnings => avoid SSS participation.
- Other SP risks (loss of income, weather shocks, health) may be more important than old age, disability & survivorship.
Elderly Income & Living Arrangements

Source: 2007 Annual Poverty Indicators Survey (APIS), data cited in Racelis, Abriago and Salas, Filipino Elderly Living Arrangements, Work Activity and Labor Income as Old-age Support, Table 8, p. 9. Note: In this data, elderly refers to individuals aged 58 and above while in other cases in this report it refers to individuals aged 60 and above.
Poverty & Inequality

Figure 10: Poverty Headcount Incidence and Share by 5-year Cohorts (Percent)

Source: Household Survey 2013, Poverty and Inequality Data.

Figure 11: Income Distribution by Decile
(Share of total, percent, 2012)

Stylistic Illustration of the Coverage Gap

- About 26% of the employed contribute on an active basis (75% informal)
- About 1/3 of the elderly receive old age benefits either by the SSS, GSIS or the DSWD Social Pension program.
- Informality contributes to low coverage.

Uncovered workers who will not meet the vesting requirements for a benefit at retirement

Mandatory, contributory scheme – DB, DC; PAYG, funded (about 75% of workers)

Voluntary supplementary occupational/individual pension savings

DSWD Social Pension (about 10% of elderly)

Individual Ret. Benefit as a % of Average Elderly Benefits

Individual Wage as a % of Average
Most beneficiaries and benefits who of SSS/GSIS pensions go to the highest income households

Contributory Pension Disbursements as a Percent of Household Income (by decile) (Percent)

Source: NSO, Family Income and Expenditure Survey 2011, Table 3, Number of Families and Family Receipts by Income Decile.
Why is worker coverage weak?

- **High levels of informality** (75+% of the labor force): low, volatile & non-wage incomes
- **Limited savings capacity**, high discount rate/liquidity preference, savings focused on non-social security needs
- **Low levels of financial inclusion** - Low bank penetration, limited mobile money payments, micro-savings just starting. Infrastructure constraints (foundational identification, industry constraints). *High costs of serving informal sector clients w/existing infrastructure*
- **Inefficiency in financial intermediation** – low account coverage, relatively high transaction costs.
- **Payroll-tax DB pension design** aligned to formal sector employment
- **Possibly some lack of public confidence** – discretionary indexation, sustainability concerns
Almost half of households have negligible savings – voluntary saving for a poverty level pension beyond the affordability of all but the top 4 deciles

Options for Reducing Coverage Gaps (for informal workers & retirees)

- Social Insurance
- Micro-savings
- Social Assistance
- Savings/Ins. Instruments - Old Age, Disability, Survivors
- Health Insurance
- Mobile Payments & Micro-Savings
- Elderly Assistance
- Assistance to the Poorest

Identification ↔ Data/Account Management ↔ Payments

Possible Subsidies for the poorest incl. through a match
Coverage expansion requires strategies for ID and delivery system design

Mobile payments platforms and micro-savings vehicles -> **provide longer term financial planning & savings behavior** for informal workers.
SSS Baseline + Impact of proposed parametric reforms

SSS – Impact of Reform Packages on Sustainability – Annual Current Balance

(Percent of GDP)

- Unify the SSS benefit formula;
- Automatic inflation-based indexation;
- Extend the wage base;
- Gradually increase the retirement age to 65;
- Gradually reduce the accrual rate (in 15 years);
- Gradually increase the contribution rate.

Annual current balance (% of GDP)

Source: Bank estimates.
Conclusions and lessons learned

Closing the Coverage Gap

• Improving sustainability can at the same time improve incentives and equity.
• PROST outputs can strengthen the case and measure the impact of parametric reforms

Sustainability & parametric reforms

• Improving sustainability can at the same time improve incentives and equity.
• PROST outputs can strengthen the validity of the rationale for parametric reforms
Thank you!

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Further reading:


