

Managing cost of the social security administration



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Outline of the presentation

- † 1. Overview of social security administration
- † 2. Analytic dimensions of administration cost
- † 3. International comparison of administration cost

1. Overview of social security administration

† To start with.....

Check all aspects of social security, regardless of the functions or the institutions

e.g. Functions

(a1) Decision-making

(a2) Planning

(a3) Implementation

Institutions

(b1) the State

(b2) Social security organizations

1. Overview of social security administration

† Functions

† 1. Decision-making

- Parliament
- Social security boards

† 2. Planning

- Legislation
- Finance
- Administration

1. Overview of social security administration

† Functions

† 3. Implementation

- Registration of employees and contributors
- Contribution collection
- Benefit disbursement
 - Cash benefits
 - In-kind benefits
- Record keeping
- Statistics
- Public relations

1. Overview of social security administration

† Institutions

† 1. the State

- Civil servants
- Cost financed through general revenue of the states, e.g. taxations

† 2. Social security organizations

- Sometimes branch of the State (composed of civil servants), sometimes autonomous organizations (with separate account or fund)
- Cost financed through contributions or state subsidies

2. Analytic dimensions of administration cost

† 1. Major cost item

- Major cost on labour (**labour intensive** work)

⇒ **rationalization of personnel cost essential**

† 2. Cost for planning social security

- **Minor** compared with implementation cost
- Often funded through taxation for civil servants planning social security in central government
- **In-house** legislative, actuarial and administrative **expertise** permanent core for well-functioning scheme

⇒ **outsourcing not easily recommended**

2. Analytic dimensions of administration cost

† 3. Cost for implementation

- Major cost for collecting contributions

⇒ rationalization of cost for contribution collection essential

⇒ Employers' understanding and collaborations key for contribution collection for schemes for salaried workers

⇒ Major challenges for collecting contributions for schemes for self-employed

cf. collection through cooperatives etc.
collaborations with tax agency

2. Analytic dimensions of administration cost

† 3. Cost for implementation

- Streamlining of operations essential

- not only beneficial for well-functioning and customer-oriented social security with better service

- but also contributing to cost containment, mainly through rationalizing personnel cost

- => setting and simplifying standard **procedures**
computerization

2. Analytic dimensions of administration cost

† 3. Cost for implementation

- Material cost

- Cost for facilities and computerization substantial

- Computerization pays, taking into account rationalized personnel cost and better service for beneficiaries

- Running cost (water, electricity etc.) difficult to cut down

2. Analytic dimensions of administration cost

† 4. Other issues on cost

- Scale merit and collaboration with other agencies

- some cost not proportionately increasing to the scale of the scheme

- e.g. cost for planning

- cost for cash benefit determination by computer system

- better collaboration with other agencies

- e.g. government agencies (tax agencies, labour inspection department)

- employers/employees

- cooperatives

2. Analytic dimensions of administration cost

† 4. Other issues on cost

- Investment

- Fundamental principles controlled by Board

- e.g. less risky long-term investment for pension fund
 - short-term financial flow sustained

- Daily operations fists for outsourcing to financial institutions

- Direct investment (e.g. land, buildings) not recommended without proper governance and in-house expertise

- => tends to be politically abused

2. Analytic dimensions of administration cost

† 4. Other issues on cost

- Expenditure other than benefits and standard administration cost

e.g. Welfare facilities for contributors and beneficiaries (hospitals, hotels, resorts etc.)

Subsidies for semi-public organizations

Loans to contributors and beneficiaries with favourable interest rate

⇒

should be restrictive, otherwise;

equity of the fund and trust to the fund could be damaged.

3. International comparison of administrative expense

Social Security Administrative Costs as a % of Benefit Expenditures

Latin America and the Caribbean		OECD	
Mean	27.78	Mean	3.12
Standard deviation	31.16	Standard deviation	1.28
Antigua-Barbuda	n/a	Australia	1.22
Argentina	2.30	Austria	2.48
Bahamas	30.75	Belgium	4.55
Barbados	5.56	Canada	2.80
Belize	89.49	Denmark	2.98
Bolivia	21.39	Finland	3.36
Brazil	7.00	France	4.18
Chile	8.00	Germany	2.86
Colombia	81.80	Greece	6.72
Costa Rica	4.75	Iceland	1.71
Cuba	n/a	Ireland	4.88
Dominica	46.97	Italy	2.20
Dominican Rep.	31.72	Japan	1.79
Ecuador	13.55	Luxembourg	2.74
El Salvador	33.40	Netherlands	3.10
Grenada	9.85	New Zealand	2.42
Guatemala	12.72	Norway	1.00
Guyana	22.66	Portugal	4.86
Haiti	n/a	Spain	2.81
Honduras	18.25	Sweden	4.24
Jamaica	6.40	Switzerland	3.04
Mexico	23.55	Turkey	2.62
Nicaragua	n/a	United Kingdom	3.10
Panama	5.88	United States	3.28
Paraguay	n/a		
Peru	130.98		
St. Lucia	48.31		
St. Vincent	n/a		
Surinam	n/a		
Trinidad & Tobago	15.29		
Uruguay	6.51		
Venezuela	17.46		

Source: Mitchell et al. (1994b)

3. International comparison of administrative expense

Administrative cost of Lao SSO and Thai SSO

	Lao SSO		Thai SSO	
	2001	2002	1993	2002
Admin cost / benefits	44.5%	18.9%	10.7%	6.2%
Admin cost / contributions	15.6%	5.4%	2.8%	2.1%

3. International comparison of administrative expense

Comparison of administration cost - Japanese case

	Administration cost (billion yen) (1)	Collected amount (billion yen) (2)	Ratio (3)	Staff number (4)
National Pension (NP)	15.91	196.48	8.1%	5,850
Employees' Pension Insurance (EPI)	15.25	2,616.92	0.6%	11,250
National Tax	73.28	5,391.71	1.4%	56,466

3. International comparison of administrative expense

† Needs attention to different country context

e.g. History of the scheme

Higher percentage at the initial stage (capital investment and start-up cost and smaller benefits)

Different type of the scheme

Level of overall administration in the nation
(taxation, inspection)

† However, overall governance is the key for effective cost containment