EU-CHINA
Social Protection Reform Project
中国欧盟社会保护改革项目

1.4.1 - CORRECTIONS IN PAY AS YOU GO SYSTEMS

(BOTH NDC AND TRADITIONAL SOCIAL INSURANCE)

Component 1

There are a number of instances where the theoretical model of pension contributions assessed on salaries and pension benefits derived from insurance records do not apply. Those exceptions are in fact strongly contributing to the difference between insurance and social insurance. Experience has shown however that excessive departure from the basic model – too many exemptions from contributions, too big a proportion of benefits independent from insurance records – may create difficulties affecting the credibility and hence the sustainability of pension scheme. In order to better understand where to strike the balance between reward for contributions and response to specific socio-economic needs, the present Note summarizes the main characteristics of related provisions to be found in European public pension scheme. The Note was prepared by Koen Vleminckx (Belgium), expert with the EU-China Social protection reform project.

Social Insurance schemes contain important corrections within the design of the system, as well on the contribution side, as on the benefit side.
These corrections are possible in both traditional PAYG schemes, as in NDC schemes.
They can be financed by government subsidies, by contributions from other social insurance schemes, or by internal redistribution between groups of contributors/beneficiaries.

1.Contribution side

Citizen credits

Governments can subsidize credits for certain non contributory periods corresponding to services rendered to the nation. Most European systems contain such credits for military service, child rearing, certain kinds of voluntary service, education or training, …

Social credits

Social retirement insurance can be continued on behalf of certain population groups. For instance contribution to retirement insurance could be continued during periods of sickness, unemployment, etc. . In this case the contributions are paid by government revenue or through payments from other social insurance schemes, etc..

Promotion of employment

In order to stimulate certain sectors of the economy or the stimulate the employment of certain groups (young people, low-skilled workers, …), mandatory contributions can be partially lowered. Some categories can even be exempted from the payment of contributions.

Furthermore, enterprises that face economic problems can be allowed to delay the payment of their contributions. In some cases a moratorium on the repayment of employers' contribution debts could be allowed to alleviate the burden on enterprises. In some cases the contribution payments can be lowered for entire sectors of the economy that face particular problems.

2. Benefit side

Minimum benefits

In some countries, minimum pension rights were built into the PAYG social insurance scheme in order to protect certain vulnerable groups of workers. These minimum right are usually based on a minimum number of contribution years. Thus, low wage workers or workers that are only partially employed could obtain higher benefits through the attribution of these minimum rights. These minimum rights are not to be confused with means-tested social assistance arrangements for the elderly.

Derived rights for spouses:

In countries with strong inequalities in the employment and/or income from employment between men and women, so-called derived rights were introduced. In this case retired women could obtain pension rights on the basis of the contributions paid by their partners. An example is the so-called 'widows pension'. In some countries women can obtain pension rights obtained on the basis of the contributions paid by their partners after a divorce.

3. Through the tax system

Instead of lowering contributions, one could also allow full or partial tax deductions. In Sweden, for instance, the worker's contribution to the pension system is fully tax deductible. Thus, his or her NDC contribution is in fact paid from government revenue.

4. Government incentives

Governments can decide to provide specific incentives through the pension system, the tax system, or through direct subsidies.

Examples are:

- Rewards for pension funds that take over responsibilities otherwise incumbent over the Government (past systems/credits).
- Remunerating pension funds or insurers for performing certain administrative functions on behalf of the Government.
- Repaying pension funds amounts previously borrowed by Government from accumulated contributions.

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