

*Adopted by the Government  
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## **Concept of Social Protection of Population Of the Republic of Kazakhstan**

### **Introduction**

Social protection is a system which serves to ensure a certain level of accessibility to necessary goods and certain level of wealth for individuals who, due to circumstances (old-age, poor health, loss of the breadwinner or the job and other legal eligibility criteria) can not be economically active and provide themselves with incomes by means of decently paid work.

International Labour Organization, where Kazakhstan is a member, determines social protection system as a system of measures including:

- creating incentives for sustainable, paid employment;
- preventing and compensation of a part of income in case of basic social risks by means of social insurance mechanisms;
- providing mechanisms of social assistance for the most vulnerable groups of population who do not participate in social insurance system;
- access of individuals to basic rights and services such as education and health care.

Quantitative parameters of social protection system are at greater extent determined by the level of economic development, and degree of solidarity between individuals, degree of participation of state institutions as well as the level of incentives are function of chosen socio-economic model.

Due to historical, cultural, political and other factors countries of the same level of development differ as far as degree of solidarity in social protection and participation of State institutions are concerned.

Full solidarity is characterized by absence of link between contributions and benefits; right does not depend on contribution but is just open at the moment of the occurrence of social risks. Financial burden is charged upon all taxpayers and the right for social protection is open to all citizens. In such a system State budget is a mechanism of income redistribution and the only one source of financing, and the State regulates directly the whole system. Systems based on the principle of full solidarity usually provide equal, as a rule minimal, level of social protection to all citizens.

Under the limited solidarity rights for benefits depend on individual contribution. As a rule such a system is financed by employers and employees contributions and only those individuals are eligible for benefits by or for whom (by an employer) contributions were paid. Such systems usually provide additional protection to a limited group of population, for instance, for formal sector workers or within one enterprise.

Besides, there are systems where there is no solidarity (zero solidarity) and every person makes individually recorded contributions on the basis of which are computed benefits paid under social contingencies.

On the basis of international experience analysis a conclusion can be made that the most effective and integrated systems of social protection include usually the following basic elements: 1) State allowances 2) Mandatory social insurance 3) Funded pension schemes 4) Social assistance.

State allowances ensure guaranteed benefits to all citizens at a certain level in case of contingencies, subject to social protection.

Mandatory social insurance financed by employers and employees contributions serves to provide additional protection to formal sector workers depending on individual contributions.

Funded pension schemes serve to regulate the process of pension savings by every individual.

Social assistance ensures additional protection to certain categories of population from State budget.

Besides, everyone has a right for voluntary insurance against social risks.

Such a combined system allows combining advantages of solidarity and of personified schemes.

Transfer to market economy is now under completion in Kazakhstan. Changes in economical relations require creation of adequate social protection system.

In the situation of transformation at the first stage the State was obliged to resolve the current issues of social protection taking into account inflation, budget deficit, decline of production, growth of informal sector of economy. As a result, reforms in the social sphere were fragmentary and reactive to the current problems with exception of introduction of a funded pension scheme and replacement of benefits in kind by cash payments.

In spite of transformations performed, actually the social protection system is characterized by the very complex and not systemic legislation and by the low incentives to participate in the system.

Favorable changes of last years in the economy and measures ensuring a sustainable growth allow proceeding to creation of an integrated system of social protection against social risks. In this connection a need emerged to make new Concept of social protection of population taking into account priorities and possibilities of Kazakhstan in present and in future.

Issues of access to health care and education services are not considered within the present document, as they are determined by other program documents.

### **CURRENT SITUATION IN THE SOCIAL PROTECTION SYSTEM OF THE REPUBLIC OF KAZAKHSTAN**

Predominance of full solidarity, high degree of state participation and low incentives characterize the current system of social protection.

A full solidarity principle is a basis to cover such risks as invalidity, loss of the breadwinner, unemployment and old age. All individuals - citizens of Kazakhstan, foreigners and individuals without citizenship (further citizens) - receive flat-rate state allowances in case of the occurrence of social risks independently from their participation in professional activity or contributions made, if other provisions are not made by laws or international agreements. Besides that, as there are no economically justified benchmarks for social benefits computing and there is no link with wage system, the adequacy between the level of working population income and social benefits amount is lost. As a result, a part of working population receive wages at the level less than even social benefits for those who had never contributed to the system.

There is no system based on a limited solidarity in the Republic, in other words, there is no system, which would additionally protect working people in case of the occurrence of social risks dependently on their contributions to the system.

Solidarity pension system only partly takes into account the labour contribution of an individual. Funded pension scheme is only one type of protection in case of old age, which is based on principles of savings, without any solidarity between participants, which provides effective incentives to participate in the scheme.

The current legislation allows also voluntary insurance against social risks, which is still not widespread due to a number of factors.

State remains the main source of financing and the main regulator of the system. According to the legislation certain categories of population are provided with social assistance from the State funds. Incentives to participate in the system are minimum, with exception of the funded pension scheme.

The main deficiencies of the current system, preventing its effective functioning, are the following:

- Imperfect legislation: legislation system, regulating the social sphere, is oriented on types of benefits and not on the social risks and the eligibility criteria;
- Lack of equity and low incentives: formal sector workers paying taxes have no advantages in face of those who do not contribute in terms of eligibility for social benefits;
- Lack of transparency: system of individual identification necessary to monitor distribution of social benefits is only under elaboration now.

Maintenance of the current system can lead to deterioration of the current deficiencies, further weakening of the link between the volume of benefits and the contribution to the system, and, consequently, to increase the non-compliance of tax and social contributions payment to the mandatory funded pension scheme.

## **THE MAIN GUIDELINES OF SOCIAL PROTECTION SYSTEM DEVELOPMENT IN THE REPUBLIC OF KAZAKHSTAN**

***General approaches to social protection system reforming.*** The main guidelines of social protection development are based on the analysis of international experience and the current situation. It is proposed to build such a system that would correspond to market economy conditions and would contribute to creation of incentives to have sustainable paid work, would have wider coverage and minimum administrative cost.

A new system will be combined and will include elements of solidarity system as well as of personified system, of mandatory as well as of voluntary insurance, and will protect population from basic social risks that an individual might run throughout his life.

Fundamental goals and tasks of a new system of social protection should include elements inherent for economic growth, equity in terms of eligibility of individuals for protection against risks, effective functioning and full coverage.

Legislation regulating social sphere will be formulated on the basis of social risks.

The system, proposed for the implementation, must be:

Equitable: access to the rights for social protection must be easy for potential beneficiaries. Minimum volume of benefits guaranteed by the State must provide a flat-rate level for all beneficiaries on the occurrence of the same contingency independently from length of service and the wage. At the same time, a supplementary level of protection must depend on length and volume of contribution to the system of each individual;

Motivating individual responsibility of each person and not his dependency on the State. In general, all active people must try to be responsible for their future and the wealth of their families;

Performing: benefits must be targeted, in other words, they must be provided only to those who has a right and needs them most of all;

Effective: in other words, transparent and well managed, cost-effective and simple. The basic components of the system must be regulated in a flexible way;

Accessible: in other words, ensure the most full coverage of population in a certain brief period.

On the basis of all above mentioned, it is planned to create a system of social protection based on social risks and including the following elements of protection:

- State benefits to all citizens at a flat-rate level financed from the Budget dependently on a type of a social risk,
- Mandatory social insurance financed by employers contributions at the first stage, and also by employees in the prospect,
- Funded pension system,
- Social assistance and specific State social programs of support for certain categories of population from the State budget.

Besides that, participation of citizens in a voluntary insurance against social risks will be stimulated.

Taking into account the specific situation in Kazakhstan and on the basis of international experience a combined system should be preferred while contemplating institutional framework. Advantages of State as well as of private institutions must be effectively used.

To manage the system of social benefits more effectively a National system of individual identification and National database must be established with assigning of individual identification code to every citizen.

Large-scale social protection of maternity and childhood will be one of priorities of the whole system of social protection in the country. In the future, as the system will be improving, the list of contingencies subject to social protection will be extended. For instance, to improve some demographic processes, child birth and education will be considered as a situation implying social protection. As a support, a lump-sum childbirth allowance as well as family allowances for families with children will be introduced.

It is planned to contemplate several measures to resolve some problems of disabled people, to organize State support to enterprises producing goods for them, to introduce State standards making easier access of disabled people to the basic rights and services. Measures will be undertaken to develop individualized programs of prevention and rehabilitation (medical, social, professional), to create a system of social and vocational adaptation of disabled people, integration of disabled people to society. These proposals will make a part of the Program of rehabilitation of disabled people in 2002-2005, which is under elaboration at the time being.

Targeted social assistance will be offered only to the most vulnerable groups of population on the basis of real criteria of need. Besides, special programs will be elaborated aimed at providing supplementary protection to certain groups – veterans, disabled, poor.

A very important issue in general approaches to social protection reforming is an increasing role of social norms and standards, progressive increasing of minimum wage and its approaching to the level of subsistence minimum. Social benefits amount will be computed on the basis of an indicator that has real social and economic origin.

To prevent and to reduce probability of social risks occurrence the State will take preventive measures. To prevent the risk of unemployment and to stimulate seeking sustainable paid professional activity, the State will improve programs of jobs creation. To prevent occupational injuries, the State will increase control on the respect of Labour and occupational safety and health legislation. To reduce invalidity risk, the health care system is supposed to be improved, including improvement of financing mechanisms.

Principles of benefits payment already authorized at the moment of introduction of social insurance system (old-age, loss of the breadwinner and invalidity) will not change.

It is planned to increase participation in the social protection system not only of every individual, but also of social partners of the Government – trade unions and employers associations, because all the social protection systems are financed, directly or indirectly, by employees and employers.

## **THE MAIN MECHANISMS OF SOCIAL PROTECTION AGAINST SOCIAL RISKS**

All workers employed in enterprises subject to social tax will become participants of social insurance scheme against the loss of the breadwinner, capability to work and the job. While introducing the scheme particularities of kick-off period will be taken into account. Financing of the social insurance scheme will be based, at the first stage, on an employer's contribution, and, in prospects, also on an employee's one.

### **Social protection against the loss of capability to work and the loss of the breadwinner.**

Concerning the approach to evaluate the degree of invalidity among population of active age it is planned to take into account not only the degree of autonomy limitations, but also the working ability limitation. Measures will be taken to regulate formally the procedure of invalidity assignment and to separate responsibility of doctors and of medico-social commission members.

Social protection system reform supposes the introduction of the following system in case of the loss of capability to work and the loss of the breadwinner:

*First level:* flat rate benefits provision to all citizens from the means of the State budget (dependently on a type of social risk).

*Second level:* providing the formal sector workers with supplementary benefits from a social insurance scheme until the normal pensionable age or until canceling the eligibility situation.

Benefit amount from social insurance system will be computed on the basis of replacement rate to the average wage within certain period, length of contributions and dependently on the degree of invalidity or the number of dependents. Social insurance benefits will be subject to social contributions to mandatory funded pension scheme. The ceiling on individual income will be established by the legislation for the purpose of contribution collecting and benefits computing.

*Third level:* in case of the loss of capability to work and the loss of the breadwinner as a result of occupational accident or disease occurred during the work, an additional social protection is introduced as insurance company's payments until the normal pensionable age or until canceling the eligibility situation. Mandatory system of employer's responsibility insurance will be introduced for the harm caused to the health or the life of an employee during the work. Insurance will be based on mandatory contributions of employers to an insurance company within the insurance contract between them. In case of the loss of capability to work and the loss of the breadwinner during the work individual has a right to the relative social allowance from the State budget, social insurance benefit and insurance company benefit. Besides, an insurance company will cover employee's expenditure on prosthesis, health care, rehabilitation, recovering etc. Insurance company benefits will be also subject to social contributions to mandatory funded pension scheme.

Minimum level of insurance companies' benefits will be prescribed by the legislation and a system of fines will be introduced to punish those employers who did not conclude an insurance contract in time. Introduction of this type of insurance will serve an incentive for employers to improve safety at work.

For State institutions workers, financed from the State or local budgets a special scheme of compensation in case of the harm caused to the health or the life of an employee during the work will be introduced in form of lump-sum compensation payments at the expenses of institution budget estimation. The amount of the compensation payment will be regulated by the relative legislation.

Besides, the voluntary insurance of individuals against the loss of working ability and the loss of the breadwinner at individual expenses will be stimulated.

### **Social protection against the risk of unemployment.**

Social protection system reform supposes two-level protection in case of the loss of work.

*First level:* Social protection of all unemployed people by means of assistance in search of job, occupational training, paid public works at the expenses of local budgets.

*Second level:* Providing with benefits from mandatory social insurance scheme during certain period for formal sector's workers.

The right to a social insurance benefit is open for an individual if he is officially registered as unemployed person and is actively searching for job as well as if he had contributed to the scheme. Benefit's amount will depend on individual wage and contributory length. Social insurance benefits will be subject to social insurance contributions to mandatory funded pension scheme. The ceiling on individual income will be established for the purpose of contribution collecting and benefits computing.

A system of disqualification will be implemented, for instance, for refusal of the proposed convenient job, voluntary firing, for certain infringements, what could postpone, reduce or cancel the payment of a benefit.

Introduction of a mandatory unemployment insurance system will considerably improve and extend protection of population during periods of unemployment. Potential beneficiaries will know the amount of individual benefit and will be motivated to an active search for the job due to limited period of its payment. To help them with information a centralized database will be established concerning offer and demand on the labour market with breakdown on professions and regions.

### **Social protection in old age**

Parameters of solidarity pension system will be improved. While increasing pension amount, a period of retirement will be taken into account. Pensions' amounts within the solidarity scheme will be progressively increased taking into account the consumer's prices growth as well as different benefits limitations prescribed by the pension legislation.

It is supposed to activate the propaganda and explanatory work on funded pension scheme provisions. Measures are contemplated to widen coverage of population by funded pension funds, first of all it concerns rural population using possibilities of mail and savings services, State payment center and other institutions.

Measures will be tightened on behalf of fiscal bodies concerning mandatory pension contributions payment by enterprises, fully and in time. Besides, amendments to the Code of administration infringements will be made concerning the increasing of fines for non-compliance.

Improvement of pensions payment mechanism from funded pension funds will be continued taking into account sufficiency of solidarity scheme's benefits and State guarantees in form of supplementary payments up to minimum pension level in case of insufficient pension savings. Measures will be proposed to

develop market of pension annuities, including incentives for married couples to buy joint annuities aimed at provision of monthly payment from funded pension scheme at the level not less than a minimum pension (pension annuity is a type of individual insurance which supposes payment of periodical insurance benefits in form of a pension or of a life-long rent on the occurrence of pensionable age).

The current pension legislation will be amended to exclude the State funded pension fund's function as "a fund by default", to offer a right directly to private funds to autonomous investment of pension assets meeting the requirements of the relevant legislation.

### **Social protection of the poor**

Reduction of poverty potential will be reached by means of creation of new working places and increasing wages. Targeted State social assistance will be offered to individuals in cash, in kind as well as in form of paid public works. Improvement of mechanisms of social assistance targeting as well as of incomes evaluation methods will be continued.

Assistance in kind will be offered only to those incapable to work – children, pensioners, disabled. Besides, social assistance to active population will be offered through financing public works, training programs and job seeking. Level of public works remuneration will not motivate a long participation in it and will push them to seek permanent job.

## **GUIDELINES TO IMPROVE LEGAL AND INFORMATION BASIS OF SOCIAL PROTECTION**

It is proposed to systematize progressively legislation on the basis of social risks and eligibility criteria. Special legal acts will be elaborated concerning protection of certain categories of population. It is planned to continue improving methods of social standards determination.

As reforms of social protection system concern interests of all population, special role must be assigned to offering full and truly information to population concerning all issues of interest. Necessary explanatory work will be done with participation of social partners.

Taking into account increasing role of social insurance, a very important issue will be information and recording process within the social protection system.

It is planned to establish a model according to which authorization of social benefits will be based on a unified individual registration code, and the basis for

this code will become identification parameters of different departments. Key element of such a system will be a State database “Individuals”, what will reduce administrative costs of infrastructure, create a link between contributions paid and a right to benefits. Measures will be taken to improve methodological base of actuarial calculations for social protection system (actuarial calculations are economical and mathematical calculations of liabilities’ volume implied by insurance and re-insurance contracts aimed at ensuring solvability and financial sustainability of an insurance organization).

## **GUIDELINES TO IMPROVE FINANCIAL AND INSTITUTIONAL BASIS OF SOCIAL PROTECTION**

It is supposed that the State will remain the main source of financing of social protection system until the completion of the reforms. This situation will progressively change following the reduction of the State’s participation and social insurance mechanisms development. The State will ensure all social payments from the Budget fully and in time.

Financing of social insurance scheme will be based on reducing the Social tax rate by 3% and introducing mandatory insurance contributions at the level of 3% of worker’s income. At the first stage, the only contributors will be employers. Personifying social insurance contributions will be incentive for workers, trade unions and employers’ association to control the process of contributions payment. Introduction of individualized recording of social insurance contributions is one of prerequisites of the reform of social protection system.

State regulation of social protection system is the main principle of implementing a new policy of social protection in the Republic. Role of State will remain leading one even if social insurance schemes and funded pension scheme will be highly developed which are not financed from the State budget as the State will keep control on activity of participants of the scheme. Authorized State body on social protection issues will increase its actuarial potential to take measures on changing parameters of funded pension scheme, social insurance scheme and compensation schemes at workplace.

Introduction of mandatory social insurance implies creation of specialized institutions to accumulate participants’ contributions. Taking into account international experience in terms of social insurance based on principles of limited solidarity, to reduce administrative costs and to ensure the fullest coverage of population and viability of the scheme it is proposed to create a State Fund of Social Insurance (further – Fund) as a closed joint-stock company with 100% participation of State. Such a Fund provided with mechanisms of

individualized recording of contributions will allow covering by social insurance in a brief period the entire formal sector, including remote rural regions, which are not interesting for private organizations. In parallel, effective mechanisms of control will be introduced to avoid misusing of funds. Framework of investment activity of the Fund, funds management and investing procedures, rights and responsibilities of the Fund on keeping and recording of assets will be determined by the legislation. It is supposed to invest the Fund's means preferably to the State bonds. Taking into account a close link between the State pension payment center and social insurance system, functions and responsibilities of the former will be widened. Liabilities of the Fund will become liabilities of the State as far as of a stakeholder within the relative legislation requirements. In the same time in the future it seems possible to allow participation of private institutions in organization of social insurance benefits payment. With changes in social and economic conditions the main parameters of mandatory social insurance scheme will be adjusted.

## **FINAL PROVISIONS AND STAGES OF REALIZATION OF THE CONCEPT OF SOCIAL PROTECTION OF POPULATION OF THE REPUBLIC OF KAZAKHSTAN**

After the Concept's adoption it is planned to elaborate on its basis a series of legal acts aimed at improving the social protection system of the republic of Kazakhstan.

It seems reasonable to have two stages in implementing activity.

### **I stage (2001-2002):**

Conducting actuarial calculations; elaboration and adoption of legal acts on mandatory insurance of employer's responsibility for the harm to worker's health and life at workplace from July, 1, 2002; elaboration and adoption of legal acts regulating introduction of social insurance on invalidity and the loss of the breadwinner and its entering into force from the end 2002; amending social protection legislation, including pension and tax legislation; development of pension annuities; preparation of legal basis regulating the state Social Insurance Fund's activity; introduction of informational system.

### **II stage (2003-2005):**

Inclusion of the risk to lose a job into the list of social risks subject to mandatory social insurance; transition to social benefits authorization on the basis of unified individual registration code; improvement of methodological basis of individual incomes evaluation; progressive rapprochement of minimum wage to the subsistence level; development of new forms of targeted assistance to precarious individuals, inclusion of lump-sum allowance at childbirth and family allowances into mandatory types of assistance financed from the state budget.