Principles of Social Security

Bogor, 6th March 2017: Nuno Cunha
Iuran manfaat atau perlindungan sosial kesehatan.
What is social security?

- Maternity
- Sickness
- Unemployment
- Work injury
- Medical care

Life cycle

- Families with children
- Invalidity
- Death of the breadwinner
- Old age
Types of social transfers

All social security benefits represent social transfers (cash or in kind)

- Contributory
  - Compulsory
    - Social insurance
  - Voluntary
    - Social insurance to informal sector
    - Some microinsurance
- Non-contributory
  - Targeted
    - Targeted social assistance
  - Non-targeted
    - Universal schemes
Social Protection

http://www.thatsitcom.co.za/tag/brand-objectives/
(i) Consumption Smoothing

- transfer consumption from higher income moments to lower income moments
- choose a better time path of consumption over active and non active periods

Source: http://www.protectyournestegginretirement.com/retirecalc/
(ii) Insurance

Support individuals and businesses

To live better in a world dominated by uncertainties

When will someone get sick?

When will my employee get pregnant?

How long will I live after retirement?

How will the economy perform?

What will be the inflation?
(iii) Redistribution

Within the same generation

- Formulas can provide low earners with a higher percentage of their previous earning
- Subsidize the consumption from who is less well-off but not necessarily poor

Between generations

- Promoting a transfer from the future to the current generation
- By setting a lower contribution rate in the early stages
- Expecting that future generations will have higher wages due to economic growth and productivity increases
(iii) Poverty relief

Transfers

For those who do not have the capacity to earn enough resources
Potential Economic Impact

- Increases consumption
- Promotes domestic demand
- Creates market for businesses
- Automatic Stabilizer
- Reducing vulnerability to external shocks
- Economic transformation
Economic Impact? What more?

• Allows people and businesses to take more risks
  – Key to increase profits and returns
  – Related with economic transformation

• Motivational impacts
  – Workers feeling saver / more protected feel more motivated, enhancing workers productivity and business profits
Data from Vietnam SMEs shows

– Firms which increase the social security coverage by 10 per cent, experience:
  • a per worker revenue gain of between 1.1-2.6 per cent
  • and a profit gain of around 1.3-3.0 per cent,

• Social security costs do not seem to be driving firms out of business
  – social security coverage is positively correlated with firm survival
SP is an investment in Human K development

- International data shows
  - Higher use of health services
    - Improved health status (physical and psychological) and less absenteeism
  - Better nutritional status
  - Higher school attendance
  - Higher educational results

- All this lead to HIGHER PRODUCTIVITY – key for competitiveness
Thank you

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