

## Building Resilience, Equity and Opportunity in Myanmar: The Role of Social Protection

### Strengthening social security provision in Myanmar<sup>1</sup>

**Myanmar** has a mix of contributory and non-contributory programs providing some elements of social security but for a very small section of the population. The government is considering reforms to its pension and other social security schemes. Strengthening systems and ensuring fiscal sustainability should be a priority before implementing new provisions that may strain current delivery and financial management systems and to avoid crowding out other social spending. Should the proposed reforms be introduced, a very gradual transition is advisable. The reforms should aim to develop integrated, or at least harmonized, social security schemes for both public and private sector workers in the formal sector. It will also be critical to have a clear roadmap for long-term coverage expansion to a larger share of the population, particularly the poor and vulnerable.



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## 1. Overview

**Though Myanmar is still a relatively young country, it is experiencing a gradual demographic transition.** with the share of older people starting to increase significantly. In 2010, only 8 percent of the population was aged 60 or above; this figure is projected to rise to 22 percent by 2050 (UN Population Prospects, 2012).<sup>2</sup> At present, older people not only rely on their children for economic support, they also often live with them or very close (HAI 2013). However, these family structures may well start to erode over time.

**A large share of households are vulnerable to the danger of falling into poverty due to ill-health and other shocks.** The volatility of household incomes and exposure to risks is a serious concern. Health shocks are the most commonly experienced household-level shocks: health outcomes are relatively poor and out-of-pocket private health expenditure in Myanmar are estimated to be as high as 60% of total health expenditure in 2012/13 (World Bank, 2015c). Illness, accident or death of the income earner can be devastating in terms of the expenses associated with health care and lost income. This is particularly true for the vast majority of workers – nearly 71 percent – who are employed in the informal sector, with little job security.

**Social security programs can protect individuals and households against sudden drops in income and welfare due to a range of shocks such as illness, disability, unemployment, illness or death of the main income earner, and old age.**

**Myanmar has a mix of contributory and non-contributory programs providing some elements of social security for a relatively small section of the population.** This includes old-age pensions as well as illness, work injury, and disability benefits for public and private workers in the formal sector. Although these schemes represent the bulk of social protection spending in the country, they cover less than 5 percent of the population. Pensioners and informal sector workers will also come to expect more government support in coming years, as Myanmar starts to age and as traditional family support structures weaken.

**The government is proposing reforms to its social security schemes.** This Note reviews existing schemes in Myanmar and examines the proposed civil service pension reforms and the provisions of the new Social Security Law. It focuses largely on pension schemes, examining the current system and proposed reforms on the basis of three aspects: coverage, adequacy, and sustainability.

Most countries face the challenge of addressing the **coverage gap**— that is, the share of workers who will not have any kind of pension income from contributory and/or non-contributory pension schemes. Myanmar has very low coverage compared with other countries in the East Asia region, as existing pension schemes cover only civil servants and the country does not yet have a non-contributory cash transfer (CT) program that covers older people. A related challenge is **adequacy of pension benefits** to ensure decent living standards in old age. Like many other countries in the East Asia region, Myanmar's current schemes offer low retirement incomes for pensioners. Finally, concerns about **sustainability** of pension systems are forcing many countries to reform their schemes. Though not an immediate concern for Myanmar with its relatively young population,

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2. See Note on 'Risks and vulnerabilities along the lifecycle: Role for social protection in Myanmar'

the civil service pension scheme will start facing fiscal risks in coming years as the ratio of pensioners to contributors rises steadily.<sup>3</sup>

**Another key consideration for Myanmar will be the addressing the above three aspects of coverage, adequacy, and sustainability through an integrated national strategy.** Introducing multiple schemes using different delivery systems can create inequities and increase administrative costs. This Note draws on the experience of other countries in the region to suggest feasible options for Myanmar.

## 2. Existing social security schemes in Myanmar

**At present, only civil servants, military and political personnel, and employees of state economic enterprises (SEEs) are covered by an old-age pension system** (see Table 1).<sup>4</sup> The current pension scheme is a non-contributory and unfunded defined benefit (DB) plan based on a formula that provides a pension worth 50 percent of the final salary for a worker who spends 35 years in the civil service.<sup>5</sup> It is not indexed but the government has increased it periodically to compensate for loss of purchasing power over time. The retirement age is 60 and a survivor's pension is provided to the surviving family of a civil servant who dies. These groups are also provided benefits in case of invalidity and work injury, death, or termination of employment.<sup>6</sup> These are non-contributory benefits, funded by the state budget.

**At present, there is no pension scheme operating for workers in the private sector.** The 2012 Social Security Law (see below) introduces a new contributory pension scheme that will pay a lump sum at the age of 60, based on years of contribution. However, this provision is yet to be implemented and the precise rules of the scheme have not been defined. In April 2015, the Ministry of Social Welfare, Relief and Resettlement (MSWRR) introduced a basic non-contributory or social pension pilot program for people aged 90 and above (Ramkissoon, 2015).

**Workers in the formal private sector are covered by a contributory social security scheme and provided medical care and five types of cash benefits for sickness, maternity/paternity, death (funeral grant), and work injury.** These provisions were first introduced under the 1954 Social Security Act, which mandated equal contributions from employers and workers. The SSB under MOLESS administers these schemes through a large network of SSB offices and medical facilities. There are 77 township offices covering 110 townships in all states and regions (except Chin state).

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3. See World Bank (2015) for the changing demographics in the East Asia region and a review of pension and health care systems for older people.

4. This Note uses the term 'civil service pension' to refer to all groups covered – including civil servants, military and political personnel, and employees of SEEs. Pensions for SEE employees are directly borne by SEEs, whereas pensions for the other three groups come out of the state budget. The scheme parameters are the same for all groups.

5. Defined benefit (DB) is a guarantee by the pension agency that a benefit based on a prescribed formula will be paid. The benefit is generally expressed as a percentage of the salary. Defined contribution (DC) is a pension plan in which the periodic contribution is prescribed and the benefit depends on the accumulated contributions and the investment return.

6. These are referred to as the invalidity and extraordinary pension in Myanmar. The termination benefits are referred to as compensation pensions.

The SSB has three workers' hospitals and 95 clinics to provide free health care to insured workers; it also manages 40 government enterprise clinics supervised by their respective ministries.

**In 2012, the government adopted a new Social Security Law, which extended social security provisions for formal sector workers in several ways.** It introduced additional branches of social security – that is, family benefit, superannuation benefits (i.e. old-age savings scheme), disability and survivors' pensions, unemployment insurance, and housing benefits. In addition, it increased the benefit levels of existing provisions (sickness, maternity/paternity, death, and work injury). It also increased contributions for the various provisions and mandated the creation of three sub-funds for the different types of benefits. The total mandatory contribution rate increases from the current 4 percent to 13 percent. Moreover, it allows for a voluntary contribution of 25 percent by worker towards housing benefits (GoM, 2012; ILO, 2015).

**The new Social Security Law was implemented in 2014, but in a phased manner.** As of April 2015, only the existing branches of social security were covered (medical care and sickness benefits, death, maternity, and work injury). However, cash benefits levels for these provisions were raised and collection started for the additional contribution from the employer for the work injury fund. The total contribution at present is 5 percent (2 percent from the worker and 3 percent from the employer).

**At present, workers in the informal sector are not covered, but the 2012 Law also introduces possible progressive extension of social security provisions to the informal sector.** This includes expansion of mandatory registration to smaller enterprises (the current threshold is five workers) and voluntary registration for sectors not covered by mandatory registration (informal workers and rural workers).<sup>7</sup>

Table 1: Myanmar social security schemes

Target group	Types of benefits	Responsible body
Civil servants	Invalidity and work injury (referred to as extraordinary) pension, family survivor's pension, compensation pension, and old-age pension (referred to as superannuation, retiring and reduction pension)	Pension Department, Ministry of Finance (MOF)
Political personnel	Family or survivor's pension, and old-age pension	Each responsible ministry
Military personnel	Disability, family or survivor's pension (with or without special allowances), and old-age pension (service pension, retirement gratuity, death cum gratuity).	Ministry of Defense
Formal sector workers in SEEs	Invalidity and work injury (referred to as extraordinary) pension, family survivor's pension, compensation pension, and old-age pension (superannuation, retiring and reduction pensions).	Each responsible SEE
Formal private sector workers	Medical care, sickness, maternity/paternity, death, and work injury	Social Security Board (SSB), Ministry of Labor, Employment and Social Security (MOLESS)

Source: GoM (2012); ILO (2015).

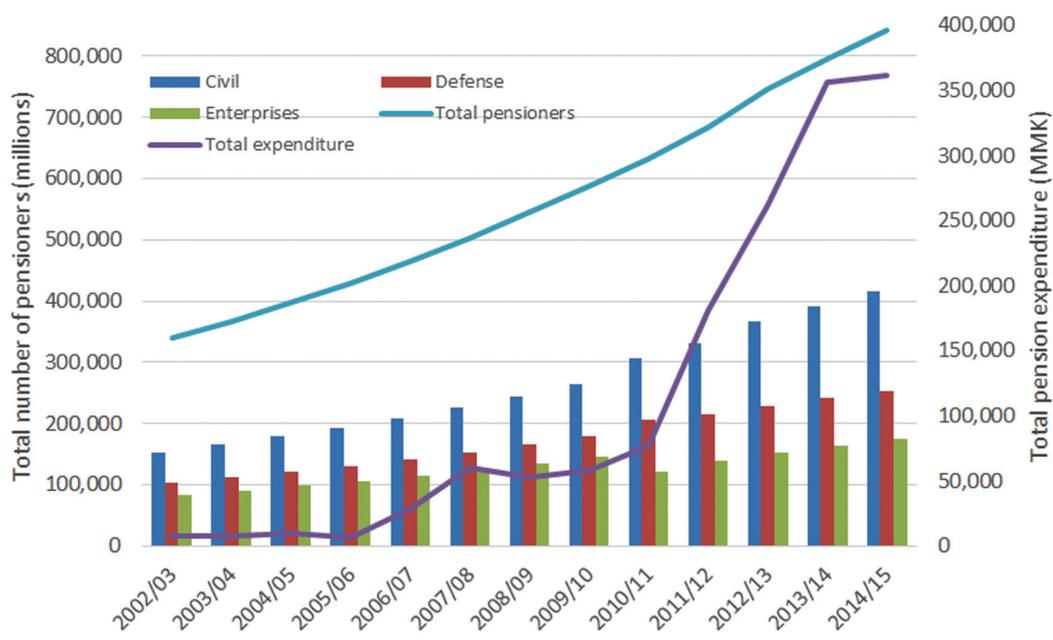
7. These figures are based on data from the Budget Department; there are some discrepancies between these and the disaggregated data from the Pensions Department used in Figure 1.

## 3. Spending, coverage, and adequacy

**Myanmar has lower pension coverage than other countries at the same income level and spends less than other countries at the same stage of the demographic transition.** In 2013/14, only 3 percent of the population was covered. This is largely because only civil servants and political and defense personnel receive pensions at present. In 2014/15, there were 668,538 civil, political, and defense pensioners supported by the state budget and 174,022 pensioners supported by SEEs. Total government expenditure on pensions has increased steadily over the past decade, to account for 0.66 percent of gross domestic product (GDP) in 2014/15<sup>8</sup> (see Figure 1). System dependency ratios are quite high, with current civil service pensioners comprising about 60 percent of active civil servants (GoM, 2014a).

**SSB schemes also cover a small proportion of the working-age population.** The Law mandates coverage of all workers employed in companies with five workers or more. However, it explicitly excludes many workers, including civil servants. In 2013/14, there were about 700,000 registered workers (and over 33,000 companies; ILO and MDRI, 2014), largely concentrated in urban industrial centers like Yangon, Mandalay, and Bago. Although these numbers have increased steadily, reflecting a growing industrial sector, these schemes cover only an additional 1.3 percent of the population.

Figure 1: Trends in pension coverage and spending, 2002/03-2014/15



**Note:** Civil pensioners include civil servants and political personnel.  
**Source:** Administrative data, Pensions Department.

8. These figures are based on data from the Budget Department; there are some discrepancies between these and the disaggregated data from the Pensions Department used in Figure 1.

**Both pension and SSB scheme benefit levels are low and do not provide adequate income security for workers and pensioners.** The average monthly pension in 2013/14 was about MMK 37,000 (or USD 37). While target replacement rates are in line with international standards, the low pensionable wage implies lower pension benefits. Average benefit level per claim for SSB schemes is also relatively low, especially for disability and maternity benefits. This is also likely linked to the use of outdated wage classes rather than actual salary for the calculation of contribution and benefits. Utilization of medical services at SSB facilities is low in comparison with that of other providers of health care in the country (ILO and MDRI, 2015).

## 4. Recent reform proposals: civil service pensions

**The government is considering both parametric and systemic reforms, motivated by a desire to reduce future liabilities and the fiscal burden once Myanmar starts to age and the number of pensioners increases.** Parametric reforms aim to rationalize the scheme without significantly modifying its basic framework. The systemic reforms comprise two phases: first, moving to pre-funding part of its unfunded pension liability; and second, adding a defined contribution component to its system.

### 4.1 Parametric reforms

**The government is considering changes to the parameters of the existing DB scheme in the medium term.** These include extending the averaging period for the reference wage from final to final three years and perhaps longer. This is a measure in the right direction. Longer averaging periods are good practice in terms of both sustainability and equity. However, this measure will require better linkages with the civil service human resource policy and better data on workers' wage histories.

**These parametric reforms under consideration could usefully be supplemented by several additional measures.** These include the following: a) price indexation to maintain the purchasing power of pensions and help avoid the need for discretionary, periodic adjustments to the level of benefits; b) including allowances in the pensionable base wage in order to achieve the target replacement rate; c) limiting the survivor beneficiaries to spouse and children under 18 to avoid administrative complexity and reduce spending; and d) minimizing the amount that can be commuted (i.e. taken as a lump sum) to ensure the minimum annuity value of the pension is sufficient to allow the pensioner receiving the minimum pension a decent living standard (even after commuting the maximum possible amount). The government could also consider changes to the retirement age, keeping in mind increasing life expectancy, but this should be considered in light of overall civil service human resource policy.

**Finally, there is a special issue in the case of Myanmar that merits attention – namely, the ‘compensation pension’.** This is a special type of pension that really serves as a termination benefit or severance pay rather than a source of income support in old age but is generally not considered good practice. In Myanmar, it has been utilized in the process of privatization and downsizing of SEEs; since 2010/11, these beneficiaries now represent a significant and potentially growing share of the total pensioner population. The government is considering options for dealing with this group of pensioners as well as policy changes going forward.

**Two policy measures can be taken to address this issue.** First, the liabilities arising from the compensation pensions can be separated from normal pension liabilities.<sup>9</sup> This makes the cost of the policy clear and allows for a better understanding of the true drivers of the pension finances. It also may reduce the incentive to create new liabilities instead of dealing with them upfront. There are high upfront fiscal costs but these can be reduced at least partially by the revenues from the SEE sale. Second, to the extent that the compensation pensions are provided, efforts should be made to ‘cash out’ or pay lump sums instead of annuities, especially to younger workers. Tracking a 35 year old for the next 50 years, not to mention his or her survivors, is an unnecessary task for an already strained pension administration.

## 4.2 Systemic reforms

**The government is also considering more systemic reforms that will change the underlying architecture of the pension scheme.** The MOF proposal covers two phases. First is a move from an unfunded to a partially funded DB scheme, with the government putting aside 10 percent of the wage bill for civil servants each year. The accumulated savings would be earmarked to pay future pension benefits in the existing DB pension scheme. Second is a traditional DC scheme. The second phase is contingent on putting in place robust governance arrangements to manage these accumulated funds and information systems to allow for the reconciliation of contribution flows with individual account records.

**In late 2014, an alternative proposal was put forward by an inter-ministerial committee set up by the President’s Office.** This proposes establishing a Myanmar Provident Fund (MPF) and diverting 5 or 10 percent of the civil servant’s wage to an individual account that would then supplement the existing DB pension. It would be divided into two accounts, one for retirement and one for pre-retirement withdrawals, including education, health, and housing. The draft proposal considers the option of government subsidies, and mentions possible extension of the MPF coverage to private sector workers on a voluntary basis (GoM, 2014a, 2014b).

**In principle, the move from an unfunded to a partially funded scheme can help the government reduce what is likely to be a rising pension bill by setting aside funds earmarked for this purpose.** However, the challenges of a new defined contribution scheme for civil servants or an MPF are daunting at the present time. For both reforms, a number of conditions would have to be met

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9. China faces a similar legacy on pensions issued from state-owned enterprises and earlier rounds of pension system reform and is considering these policy options (Dorfman et al., 2013).

in order to achieve their objectives. The design issues can be broken down into the following key choices:

- **Who should be covered?** For both prefunding and a new DC scheme, there are two options: a) apply the contribution only to the wages of new civil servants from a particular date; or b) apply it to all active civil servants (see Box 1 for an example from Thailand's Government Provident Fund (GPF)). At this stage, it might be advisable to accumulate contributions only on new civil servants, rather than all civil servants.<sup>10</sup> Setting aside contributions for all civil servants could pose a serious financial management challenge before the right processes and systems are in place. Moreover, for prefunding, allocating 10 percent of all civil servants' salaries would absorb an important share of the state budget, reducing the fiscal space for other critical short-term priorities.

#### Box 1: The experience of Thailand's Government Provident Fund

Thailand introduced a hybrid pension scheme, whereby the DB component of the existing scheme was reduced while a DC component was introduced to make up for the gap, with a gradual transition period. Since 1997, new civil servants are mandated to contribute 3 percent of their wages, which the government matches to a total of 6 percent. Civil servants hired before that date were given the option to take a smaller DB pension and contribute to the GPF or to maintain the higher DB benefit. However, the transition was accelerated to a certain extent by allowing workers to choose to switch to the hybrid scheme. The conditions of that choice led some younger workers to switch to the hybrid scheme while the majority of older workers stayed in the pure DB scheme.

Currently, the scheme has 1.2 million members. Assets have grown over time to THB 562 billion, or almost USD 20 billion. The GPF Act that established this fund specifies that the funds will be invested only in the interests of members. A tripartite board with 25 members manages the fund – 12 from the employees, 9 from the government, 3 experts, and the fund chief executive. The Investment Committee comprises the director of the Fiscal Policy Office as the chair, a representative of the Bank of Thailand, four investment experts appointed by the Board, and the fund's secretary general. The GPF Act empowers the Committee to formulate selection criteria of external fund managers, to monitor the overall investment of the fund, to report the outcome of investment operations, and also to act as the adviser on investment issues to the Board. The Board has issued a corporate governance policy covering key areas such roles and responsibilities, ethics, disclosure, and treatment of members.

*Source:* <https://www.gpf.or.th/eng2012/index.asp>

- **How much to contribute?** For the new DC scheme, the choice of contribution rate (to be collected from civil servants) should reflect the objectives of introducing the new scheme. However, in the absence of detailed individual-level civil servant data, it is difficult to set actuarially fair contribution rates.
- **How to invest the fund?** Covering all civil servants at the moment the fund is established would result in a significant fiscal outlay in the short term. It would also generate a rapidly growing fund that would, in a few years, become the largest single institutional investor in the country. The MPF proposal envisions the possibility of investing in equities, corporate bonds,

10. Hong Kong and India chose the first option for a new DC scheme: contributions collected only from new entrants. The contribution rates were actuarially fair and in line with the target replacement rate. This results in a clear relationship between the contribution rate and the benefit target but involves a very long transition.

and unspecified 'other' assets. Given the dearth of liquid and tradable assets in Myanmar and the lack of experience and local capacity in this area, it would be prudent to restrict investments. One option would be a special non-marketable government bond issued expressly for the provident fund and linked to bank deposit rates that is preferable to investing in illiquid assets. This would avoid the additional and unnecessary transaction costs and complication of having the pension fund participate directly in the bond market.<sup>11</sup>

- **How to manage the fund?** Any accumulation of funds will require new governance arrangements. The current proposal envisions a Pension Fund Board composed of government officials and appointed non-government experts. However, details of the organizational structure, roles, and responsibilities of the board, the regulatory framework, and internal governance and accountability procedures have not yet been worked out. Moreover, the government could consider involving civil servants' representatives in the Board to ensure the fund responds to contributors and not to political priorities (see Box 1).
- **When (and how) to allow withdrawals.** The MPF proposal refers to the maintenance of two accounts, one expressly for retirement income and the other to be used for other purposes, including housing. Thus withdrawals from the second account would take place during the working life and the actual contribution rate left to generate income after retirement would be reduced accordingly.<sup>12</sup> Trying to pursue short-term social outcomes (education and housing) and long-term income security (pensions) through a provident fund also requires a much higher degree of administrative capacity and record-keeping than a pure retirement account and adds to administrative costs.<sup>13</sup> The government should carefully study the challenges faced by these programs before embarking on such a sophisticated design.

**The implementation challenges are no less daunting: any systemic reform will require record-keeping systems that will likely take several years to put in place.** The present record-keeping systems cannot support the proposed reforms. Since data on civil servants and pensioners are highly decentralized and paper-based, it is difficult to design and implement reforms that require timely information on individual-level salaries or salary increases. Adequate administrative capacity and a good management information system (MIS) with updated individual records for both pensioners and active civil servants are crucial. Such a system should, at a minimum, allow quick long-term fiscal projections at the macro level as well as enable individual workers to ascertain their contributions and benefits at the micro level. International experience suggests putting in place a centralized and dynamic civil servants' database could take several years.

**Finally, using multiple instruments to provide pensions for the same group (i.e. civil servants) should be avoided.** These proposals for parametric changes to the existing DB scheme, introduction of a DC scheme, and/or setting up the MPF need to be carefully considered to avoid the risk of duplication. Not only would this strain administrative capacity, but also the additional budgetary outlay for these multiple provisions would likely crowd out other social spending.

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11. This is the approach taken in Singapore where the government issues special bonds to the Central Provident Fund (CPF).

12. For instance, Malaysia's Employees' Provident Fund delivers very low provident fund benefits at retirement as result of the generous rules on early withdrawal.

13. For instance, in Singapore, there is a sophisticated network of commercial mortgage banking that allows for efficient channeling of the CPF savings for housing purchase and the information system that tracks transactions and balances is very advanced.

## 5. Recent reforms: SSB schemes

**The new Social Security Law started phased implementation in April 2014 but has not yet been fully costed, and the financial sustainability of the proposed benefits is in question.** The Law follows some principles of good practice in social security provision (see Box 2), but in other cases diverges from what would be considered sustainable and appropriate practice for a country at its level of income and capacity. Given the range of benefits, costing the benefit package is a complex exercise, made even more challenging given the data and capacity constraints in Myanmar. And yet an assessment of expected revenues and expenditures is essential to define provisions that are equitable, financially sustainable, and appropriate in Myanmar's context. Ideally, the provisions should have been costed prior to adoption of the Law and implementation of the regulation.

**The SSB acknowledges these concerns and has indicated its intent to revise the regulations and amend the law based on a more rigorous analysis of the proposed provisions.** The discussion below highlights the main areas that would benefit from a review. Addressing the issues identified will require a thorough revision of the Law and regulations.

### Box 2: Social security provision – general principles of good practice

- **Benefits:** The scope and generosity of benefits should be able to be supported from contributions to the social security funds plus a sustainable level of budgetary transfer if required. Ideally, the budget transfer level should be limited if the scheme is truly an insurance-based approach, imposing a reasonably hard budget constraint. The package of entitlements and services should where possible seek to minimize fragmentation of benefit and delivery regimes for different groups of the population. Any new social security law should be costed rigorously before implementation.
- **Financing:** While a solid contribution base is important, the rate of contributions needs to be determined taking account of ability and willingness of employers and workers to pay, risks of driving formal employers into the informal sector in order to avoid contributions, potential disincentives for informal employers to formalize given the marginal tax rate on labor created by the scheme, and potential effects on competitiveness of labor.
- **Governance:** The funds should as far as possible not be used for funding general expenditures in other parts of government. More generally, the budgeting and operations of the funds should aim for maximum transparency of planning, decision-making, investment, and expenditure execution.
- **Investment policy:** The investment and portfolio rules of the funds should follow prudent investor principles, and require fund managers to act honestly and in good faith. This would generally involve a conservative investment approach, with a good match between the time profile of expenditure liabilities and liquidity of investments.
- **Implementation:** The funds should have a client-oriented focus in development of its business processes – favoring simplicity of procedures, ease of access to services, and regular reporting to members on services and financial performance. This would include imposing the minimum necessary burden on firms and workers for compliance with contribution payment and other reporting requirements. Administration of the funds should seek wherever possible to harmonize business processes and practices and data and financial systems with those of other agencies dealing with firms and workers, in order to promote efficiency of public administration and lower the overall compliance burden for members.

## 5.1 Defining the benefit package

**The overall package of services and benefits is generous for a country at Myanmar's level of development and there are significant uncertainties on the financial obligation implied.** The benefits proposed under the new Law are overly comprehensive; some proposed benefits could be avoided altogether or better accommodated in other elements of Myanmar's social protection system. The value of several benefits is left open-ended in the Law and regulations, making it difficult to estimate costs.<sup>14</sup> In addition, benefit design could be simplified by rationalizing the numerous eligibility criteria and exclusions currently applicable.

**Particular concerns emerge with respect to a few specific provisions.** First, global experience with publicly funded housing in social security schemes has been mixed at best and suggests such programs can present major governance challenges and absorb substantial resources that compromise the ability of funds to deliver on their other benefit commitments.<sup>15</sup> It would be advisable to remove housing entitlements from the benefit package at this stage or, at a minimum, to tighten the regulations to prevent cost escalation and malfeasance. Second, **unemployment benefits** are not, in general, a common feature of countries at Myanmar's level of development, and are in particular not common in countries in the East Asia region at this level of income.<sup>16</sup> Third, while **disability benefits** are important, the provisions on work-related disability raise concerns. On the one hand, benefits for low-level disability are overly generous by relevant international comparison; on the other hand, disability is very narrowly defined. Fourth, the health services and benefits proposed under the Law are relatively open-ended and further definition of the package of services can help assess the extent of financial and service commitments on health services for members (see below). Finally, the parameters of the **pension scheme** are not entirely clear and the broad proposal differs significantly from the civil service pension.

**The interaction of this Law with existing legislation and provisions on related issues also needs to be better defined.** This includes provisions under the Civil Service Rules and Regulations for pensions (and other social security provisions) for civil servants (and the proposed reforms), the Workers' Compensation Act provisions for work injury, the new labor laws for severance pay and dismissal, and laws regulating the health sector.

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14. A useful point of comparison is the benefit rates of neighboring and low-income countries: <http://www.ssa.gov/policy/docs/progdesc/ssptw/2012-2013/asia/index.html>

15. While a few countries, such as Singapore, have operated relatively transparent and effective housing funds, some countries (e.g. China and Mexico) have been plagued with scandals and rent-seeking around such programs, including collusion with property developers. This is also a relevant concern for the MPF proposal described above.

16. Globally, several countries with a large informal sector use public works programs to provide temporary employment to needy workers during the lean agricultural season. See Note on 'The experience of public works programs in Myanmar'.

## 5.2 Financing

**The Law calls for a significant increase in the payroll tax levied on formal sector workers and employers from 4 to 13 percent (if all provisions are implemented).** There is an additional 25 percent contribution by workers for housing that is voluntary. While a solid contribution base is important, the contribution rate needs to be determined taking into account the ability and willingness of employers and workers to pay and potential impacts on the formal labor market. The potential fiscal and labor market implications of this increase and the associated benefit package will need to be worked out.

**Current provisions for administrative costs and capital spending risk compromising the core function of providing benefits to registered workers.** While capping administrative costs is good practice, 25 percent of contribution revenue is very high and affects how much will accumulate in worker accounts.<sup>17</sup> The appropriate level should be based on the overall costing exercise and estimates of reasonable administrative costs for implementing the scheme, separate from the salary costs of SSB health personnel. Similarly, there do not appear to be any provisions to control total capital spending by the social security funds, nor a clear rule to prioritize current benefit payment over capital spending, at a minimum with respect to the use of contribution revenue.

**The various provisions on access to budgetary resources and potential lending from the budget to the social security funds suggest a weak budget constraint.** Budgetary support to the SSB was reintroduced in 2013/14, accounting for about 21 percent of total contribution revenues. This was used to cover salaries and capital expenditure. However, the regulations do not specify any limits or specific reasons for requesting budgetary and loan assistance from the state budget. On the other hand, the prohibition of lending by the funds to the budget is a prudent decision and should be strictly enforced. The phenomenon of raiding social security funds for unrelated public spending has been a challenge in a number of countries in the region and globally, and is one that Myanmar is wise to avoid.<sup>18</sup> That said, the very loose fund investment provisions (see below) suggest possible loopholes in these might achieve the same end goal as direct loans or grants to the budget.

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17. For example, administrative costs (as a share of contribution revenue) of traditional social insurance funds in the region range from under 1 percent in Singapore to around 2 percent in Thailand, Malaysia, and Korea, 10 percent in the Philippines, and almost 20 percent in Indonesia's Jamsostek. While not strictly comparable with the package offered under this law, the wide range demonstrates the importance of limiting administrative costs.

18. Pension-related accumulations in social security funds have proven particularly vulnerable to use for unintended purposes globally owing to the long lead times between collection of contributions and realization of the pension liability to the beneficiary, in contrast with more immediate demand for health services.

### 5.3 Management of the accumulated funds: governance arrangements and investment policy

**There are serious concerns about the unconstrained and under-regulated investment policy of the SSB.** The Law and regulations place few limits on the nature of investments the social security funds permit; nor are the provisions for the regulation of the investments and the portfolio mix elaborated. This opens possibilities for risky investment and potentially malfeasance at the cost of members and with a potential for budgetary bail-out affecting the wider population. Investments are permitted in:

- Banks and government bonds (at least 60 percent of accumulated reserves). This is consistent with good global practice.
- Shares of profitable public companies and the stock exchange, loans to members, housing projects for members, and other investments in coordination with relevant ministries (no more than 30 percent) and establishing any economic enterprises owned by the SSB (no more than 10 percent). These options are not commonly allowed in global social security schemes. Even those funds that have more liberal investment regimes with higher equity and other investments tend to balance the higher-risk/-return investments with more conservative investments. Real estate loans to third parties (including members) and in economic enterprises are typically a negligible portion of investment in global social security schemes and are generally best avoided altogether.

**The conditions for a more liberal investment regime are not yet in place and a more conservative and restrictive investment policy may be more appropriate.** At present, domestic investment opportunities are inadequate, experience with managing such funds is limited, and regulatory and supervisory frameworks are just emerging in Myanmar. Investments from social security agencies are typically conservative and take a careful approach to balancing concerns of fund preservation and returns (see Box 2). Many countries allow only for quite restricted investment in government and highly rated bonds and deposits in major banks (e.g., globally, public pension funds held around 85 percent of investments in bonds in 2006/07, or around 58 percent if US and Japan are excluded; Bebczuk and Musalem, 2008).

**Finally, the governance arrangements for the SSB with respect to management and oversight of the social security funds need to be further detailed and strengthened.** These include provisions for the appointment of SSB members (including declarations of interests and potential conflicts of interest) and the respective roles of the SSB and the executive of the funds in the strategic and day-to-day management of the system, respectively. Detailed policies and procedures are also required to ensure proper functioning of the fund's governing body, managing institution(s), and others.

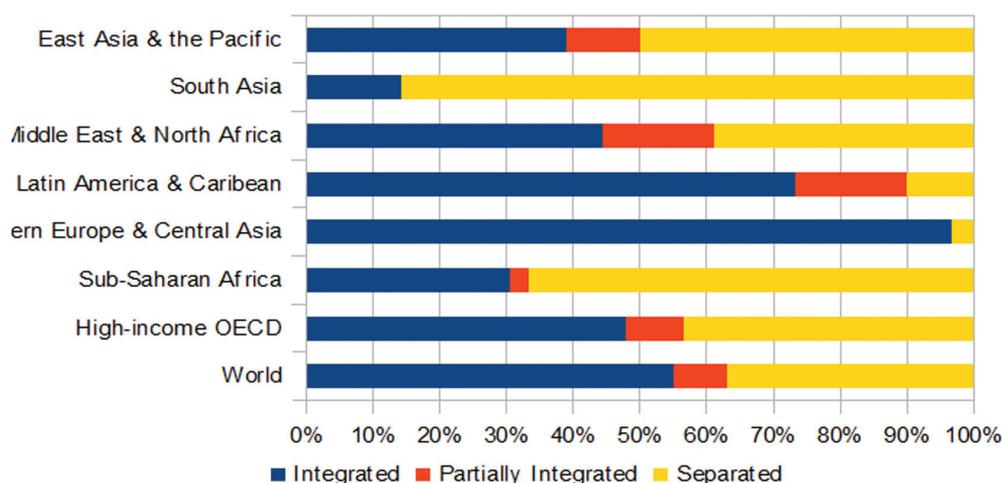
## 6. Lessons from global experience

In reforming its social security schemes, Myanmar can draw on the experience of other countries.<sup>19</sup>

### 6.1 Ensuring sustainability

Most countries are being forced to reform their social security schemes as over the past two decades it has become evident that their existing schemes were not sustainable. In China, major reforms were introduced for reasons of sustainability, and most analysts think more will be needed. In Thailand and Vietnam, cash-flow deficits in their pension schemes are expected to emerge in the next 10-20 years, repeating the experience of richer countries. This will force benefit cuts or increased contribution rates.

Figure 2: Integrated vs. separated pension systems



Source: Palacios and Whitehouse (2006).

It is also important to avoid, or at least to minimize, subsidies to mandated social security schemes that may have the unintended effect of crowding out other areas of social spending. Civil service pensions are financed from the budget and therefore use scarce fiscal resources to pay the pensions of a very small part of the population. This may be justified as part of the compensation package, along with wages, required to maintain a quality civil service, but it also suggests these benefits should be set at reasonable levels. In principle, contributory social security schemes should be self-financing. However, if the parameters are not conducive to long-term sustainability or if investments are managed poorly resulting in an unanticipated shortfall, a government bailout would imply a transfer from the rest of the population to a small group of workers

19. This section draws extensively on Pallares-Miralles et al.(2012) and World Bank (2015).

through diversion of budgetary resources. This should be avoided, and it makes good estimates of the long-term finances of social security benefits all the more important.

**Another lesson from the experience of many public social security funds, including those in the region, is how difficult it can be to effectively invest accumulated reserves.** Rates of return in the public pension schemes in China, Thailand, and Vietnam are low and reflect problems of governance and capacity. Similar experiences have been observed around the world, with few exceptions. Where provident funds have been the main source of pension savings – namely, in Malaysia and Singapore – positive returns credited to members’ accounts have not kept pace with the rapid growth of wages and this has resulted in low replacement rates for members. Finally, the funds must be able to invest in assets that will generate reasonable risk-adjusted returns in the long run.

**Fiscal sustainability and the ability to protect worker benefits are relevant concerns for Myanmar.** The demographic outlook in Myanmar allows for a gradual transition, with more modest benefits and lower contributions for slow accumulation of reserves. A gradual transition will also allow the space to build systems and capacity for managing and investing funds well, to avoid compromising the longer-term finances of the system (especially pensions).

## 6.2 Integrating formal sector schemes

**An important international trend towards integration of schemes covering public and private sector workers is particularly relevant for countries like Myanmar.** There are numerous reasons for integrating formal sector social security provision. First, as a matter of public policy, there is no reason the mandated replacement rates for pensions or the social security benefit package should differ between public and private sector workers. Second, pooling risks of disability, death, and longevity is more effective. Third, portability of benefits between public and private sector employment should be as seamless as possible to facilitate labor mobility. Finally, there are significant economies of scale in administration; with the system covering a relatively small share of the workforce, it is even more important not to duplicate costs.<sup>20</sup>

**Nevertheless, for historical reasons, many countries have ‘dualistic’ or non-integrated social security schemes.** A growing number of these countries have retroactively integrated partially or fully their civil service and private sector pension and other social security schemes (see Figure 2). Examples include Ghana, Hong Kong, Jordan, the US, and Vietnam. This experience suggests different levels of integration are possible, ranging from full integration with respect to scheme parameters and institutions (though some groups such as civil servants may receive top-ups to the base benefits) to entirely separate administration and benefits.

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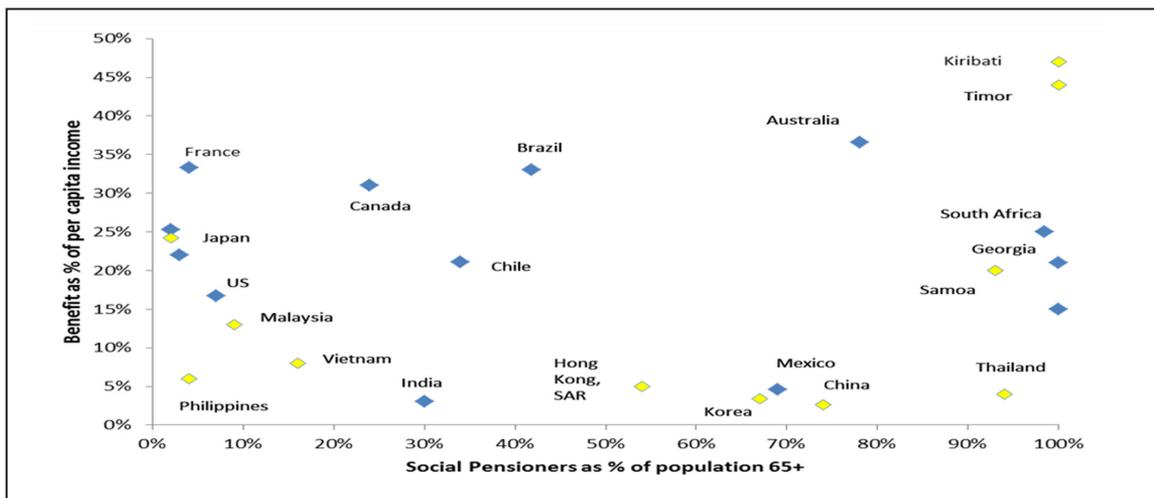
20. A study of 104 public pension funds from 87 countries estimates a significant reduction in administrative costs per beneficiary as numbers increase. For example, the administrative costs of the Philippines’ civil service pension scheme were roughly the same as those for the private social security scheme, despite the fact that the latter had seven times more contributors and beneficiaries. Similarly, the cost per participant was six times higher in Thailand’s civil service pension scheme than in the national scheme (Sluchynskyy, 2014).

**This is a fundamental policy choice that merits discussion in Myanmar.** Is there a good reason to set up parallel schemes for different types of employees and, if so, what is the rationale for the two schemes to have different parameters?

### 6.3 Expanding coverage to the poor

Several countries are trying to expand coverage to the informal sector and particularly to the poor. Many countries have tried and failed over decades to expand coverage of contributory social security schemes and have now decided to rely more on social pensions (i.e. budget-financed transfers to the elderly) (see Figure 3). This is the case in Thailand, where a CT to all Thais over age 60 who do not have a contributory pension was started in 2009. Similarly, Vietnam has a social pension, tightly targeted for those aged 60-79 and pension-tested from age 80. An alternative to this approach is to rely on a household-based CT program that includes the elderly as beneficiaries because they live in poor households rather than because they are above a certain age. A key consideration for both social pensions and household-based transfers is their fiscal affordability. For instance, social pension coverage is low in countries like Indonesia and Philippines that have large social assistance programs covering a significant proportion of poor households.

Figure 3: Global social pension coverage, 2010-2012



Source: World Bank (2015).

Another way that budget financing (as opposed to earmarked payroll taxes) can be brought to bear on the question of social security coverage is to use budget resources to subsidize the contributions of lower-income and informal sector workers. In Korea, for example, the subsidy for fishermen and farmers equivalent to about half of the total contribution was found to have increased participation by around 10 percentage points. China also pays part of the contribution for the rural pension scheme. Thailand has recently introduced a new program for informal sector workers in which the government matches a THB 100 contribution. Whether this is the best use of

available resources is a matter for discussion, but what is clear is that, in order for pension schemes for informal sector workers to succeed, they must allow small contributions to be made easily and at low transaction costs. Informal sector workers must also trust the institutions into which they are voluntarily placing their long-term savings.

**This is also an important long-term consideration for Myanmar.** Current social security programs cover less than 5 percent of the population. The majority of workers are employed in the informal sector, with little income security. Pensioners and workers in Myanmar will come to expect more government support in coming years, reflecting likely changes in family support for older people and high out-of-pocket health expenditure.<sup>21</sup>

## 6.4 Evolution of pension systems

**Finally, pension systems evolve slowly and adapt to different priorities over time.** For instance, Vietnam has redesigned its social insurance legal framework three times in the past 20 years (Castel and Tong, 2013). In 1995, the government moved from an unfunded to a partially funded DB system for civil servants and military, similar to what Myanmar is considering. Later, in 2006, the pension and other social security schemes were expanded to private sector employees. Finally, in 2014, further reforms to Vietnam's Social Insurance Law adjusted pension benefits and equalized treatment between civil servants and private sector workers. To sum up, countries usually move slowly to establish robust systems first, then gradually expand coverage while integrating those different groups under the same policies. In parallel, adjustments of parameters or structural reforms are carried out from time to time, but carefully, since these can be contentious and careful negotiations are required.

## 7. Options for strengthening social security provision in Myanmar

### 7.1 Gradual policy reform

**Despite the constraints identified above, strengthening and expanding social security schemes is an important priority in Myanmar.** These are the largest government social protection programs at present and form a crucial building block of a social protection system that provides workers with mechanisms to save for old age and to cope with short-term drops in income and welfare.

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21. See Note on 'Risks and vulnerabilities along the lifecycle: Role for social protection in Myanmar'.

**The risks listed above imply the following recommendations:**

- a. If the proposed reforms to the civil service pension scheme are introduced, there should be a gradual transition by reforming the parameters of the pension scheme for new entrants rather than all active civil servants. Similarly, if a contributory pension scheme for private sector workers is introduced in the long term, it should have modest objectives in terms of target benefit levels. This will reduce the need to accumulate significant funds and the required payroll tax deduction and government budget contribution in both the short and the longer run.
- b. High priority should be given to governance and especially the rules applied to the management of accumulated reserves. A conservative and restrictive investment policy is likely more appropriate, at least until such a time as domestic investment opportunities, capacity for managing such funds, and regulatory and supervisory frameworks are developed. One option would be to issue a special non-marketable government bond issued expressly for the provident fund and linked to bank deposit rates.
- c. It will be important to establish adequate systems and regulatory frameworks before introducing sophisticated schemes or attempting to expand coverage (*see below*). The challenges of a new defined contribution scheme for civil servants or a government provident fund, in terms of design and implementation, are daunting. In any event, introducing *both* in parallel to provide pensions for the same group (i.e. civil servants) should be avoided. Should the decision to introduce a DC scheme be made, the government should consider moving slowly as it would require additional record-keeping systems that will likely take several years to put in place. In this context, the government's intention to introduce the social security reforms in a phased manner is appropriate.
- d. Finally, the fiscal implications of the proposed reforms should be carefully considered. In the case of the Social Security Law, a full costing of the benefits and services proposed is necessary, as better data become available. The extent to which the issues identified can be addressed depends on the scope for revising the regulations and amending the law. In the case of the civil service pension reforms, the fiscal impact of the alternative options needs to be simulated, ideally jointly with any proposed changes to the civil service human resource policy.

## 7.2 Strengthening social security delivery

**Even without policy reforms, there is scope for strengthening civil service pension delivery.** Conversely, some of the reforms under consideration cannot be implemented without the right processes and systems. The current pension delivery process is fragmented, slow, and largely manual. The current retirement-to-pension process takes almost an entire year.<sup>22</sup>

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22. Both the pension and personnel and payroll management systems for civil servants are highly decentralized and largely manual. There is no centralized payroll or database with individual-level information on all civil servants or pensioners. Each administrative unit develops its own system for payroll and pensions, and uses Myanmar Economic Bank for payments (World Bank, 2013). See Note on 'Institutional landscape for implementation and financing of social protection programs: Towards effective service delivery in Myanmar'.

- In the short to medium term, the main priority would be to simplify and automate processes to reduce the time taken and the documentary burden on pensioners to receive their benefits. Improving record-keeping and creating a centralized and dynamic database of pensioners would help reduce duplication of efforts and shorten the processing time.
- In the medium to long term, substantial improvements will be required to support the proposed reforms. Introducing a new DC scheme rests on the ability to track individual civil servants' salaries, contributions, and pensions, so that contributions and accumulated benefits can be tied to individual accounts. As a result, investments will be required to upgrade human resource management information systems (HRMIS), an activity that has implications beyond pensions. Since this would take several years to put in place, the government could in the interim consider developing a basic civil servants' database. Similarly, capacity for managing and regulating funds will need to be gradually developed.

**The SSB has recently introduced measures, such as an MIS and some process simplification to strengthen its delivery processes; further strengthening is possible in the short to medium term.**

Further improvements are possible to achieve timely and accurate enrolment that ensures the uniqueness of individual members in the program. For employers, the registration process could be simplified by coordinating with the process of business registration. Procedures to improve compliance and reporting by employers will require a shift to more automated procedures. The documentary requirements for claims processing can be reduced to decrease the burden on workers, while shifting to electronic payments and claim settlement can make benefit delivery more transparent. This will become increasingly possible as banking and telecoms infrastructure improves.

**In the long run, these delivery systems need gradually to become more client-centered.** This would include further simplifying procedures to minimize the burden on pensioners and SSB-affiliated employers and workers to register, pay contributions, and avail themselves of services and benefits. This would also include regular reporting to members on services and financial performance. Where feasible, these delivery systems should coordinate with other agencies dealing in similar areas for greater efficiency and a minimal compliance burden.

### 7.3 Expansion of coverage to the rest of the population

**In the long run, pensions and SSB schemes should cover a larger share of the population, particularly the poor and vulnerable, in an equitable and affordable manner.** The government needs to develop a long-term roadmap for expanding social security coverage based on a careful assessment of feasible options, including modeling of the fiscal implications of alternative reform options. As noted above, pension coverage can be expanded using non-contributory approaches, such as providing universal or targeted social pensions (or some combination of social pensions for older persons and household-based transfers for poor households) and subsidizing the contribution of informal sector workers. Similarly, expansion of the provisions for formal sector workers under the new Law, especially with regard to health care services, should be considered in the context of the government's broader efforts to ensure universal health coverage. In this context,

the Ministry of Health (MOH), MOF, and the SSB are deliberating on options for providing financial health protection. Tight coordination and planning are important to avoid the inefficiencies in the delivery system and in the use of public resources that can result from parallel systems for subgroups of the population. To avoid crowding out of resources for social security coverage expansion, it will also be important to keep budgetary contributions to the civil service pension scheme reasonable and to avoid, or at least to minimize, subsidies to the SSB schemes.

## 7.4 Developing integrated policies and systems

**There is a narrow window of opportunity to harmonize pension and SSB schemes for public and private sector workers in the formal sector in Myanmar.** An integrated system would be more equitable and make it easier for workers to move across sectors. It could also reduce administrative costs and better utilize the limited human resources required for contribution collection, record-keeping, investment, and payments.

- In the short to medium term, the SSB benefits that are currently limited to private sector workers under the Social Security Law can be expanded to cover the families of these workers and to cover civil servants and their families.
- In the long run, a national pension scheme can in principle be introduced. The private pension scheme under the SSB has not yet been defined, nor is implementation planned in the short term. Ideally, a fully integrated system that harmonizes scheme design, institutional arrangements, and delivery systems will be achieved. At a minimum, even if design parameters cannot be harmonized, there are likely to be important synergies as well as advantages from interoperability between the two public and private (parallel) delivery systems.

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