Social Protection: Lessons from Jordan

Dr. Omar Razzaz,
Director General
Social Security Corporation
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- Social Protection in the Arab Region: A change in the rentier State model?
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- Strategies to Enhance Social Protection in Jordan
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Social Protection in MENA
• Poor labor participation rate implies heavy burden on Social Protection Schemes
• A common problem for MENA countries
Low female participation rates and male-female income disparity imply lower capacity of households to generate income.
Social Protection in MENA

- Conventional Social Protection mechanisms of the MENA “Rentier” type States:
  - Expanding employment in the public sector
  - Broad price subsidies for fuel, food staples, and some production inputs.
  - Provision of public education and primary health services of varying quality and coverage
  - Reliance on grants, gifts, and various forms of Government largess and handouts earmarked to various groups and on various occasions in a seemingly haphazard way.
Social Protection in MENA

Why the need to revamp Social Protection policies in the region

- Conventional rentier State policies are not financially sustainable (not capped, not targeted or linked to need, not linked to social and economic status, escalating expectations by beneficiaries)
- Conventional rentier State policies do not enhance the sense of citizenship and equality before the State and its institutions, weakens work ethic, and
- Very often are regressive in distributional terms: upper class citizens receive an overwhelming share of the subsidies.
- Major risks facing the population remain uncovered.
Transition towards Modern Mechanism

- A number of countries of the region have been moving away from conventional rentier mechanisms towards modern mechanisms that are:
  - Budgeted and/or financed (i.e. sustainable),
  - Rule based, transparent, and targeted or based on clear criteria for eligibility.
  - Encouraging of labor participation, employment in the private sector rather than public sector or staying unemployed.
  - Integrated (linking subsidies with means testing/ employment related training/ and school attendance by children).

- The MENA region is slowly introducing these “modern” mechanisms. The empirical questions which are worth asking are:
  - Are they being introduced instead of, or in addition to conventional ones?
  - Are they robust enough institutionally or subject to manipulation
  - Are they being introduced fast enough to meet growing needs?
  - and others on top of them. experiencing a quiet transition from the conventional “rentier” State mechanisms to “modern” State mechanisms. This is happening at a different pace and for different reasons in different countries. In some countries, modern mechanisms are being added to
Social Protection is more than absolute adequacy

Gini Index (Selected Countries)

Source: UNDP, HDI (2009)
## Framework for Social Protection

<table>
<thead>
<tr>
<th>Status</th>
<th>Status</th>
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<tbody>
<tr>
<td>Absolute poverty</td>
<td>Progress</td>
</tr>
<tr>
<td>Health and education</td>
<td>Progress</td>
</tr>
<tr>
<td>Risk of income loss due to unemployment, sickness, work injury, disability, maternity, old-age, death (benefits to family)</td>
<td>Limited progress</td>
</tr>
<tr>
<td>Relative poverty (redistribution of income through progressive tax policy)</td>
<td>No or limited progress</td>
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Social Protection In Jordan: Status Quo
### Direct Role

- **Social Insurance** (Contributory Based):
  - Social Security
    - Old Age
    - Disability
    - Death
    - Work Injuries
  - Public Pension Scheme (Civil Servants Hired Before 1995 & Military Servants Hired before 2003)
    - Old Age
    - Disability
    - Death

- **Social Assistance**
  - National Aid Fund (Government)
  - Government Food Subsidies
  - Zakat Funds (minor role)

### Indirect Policies and Institutional Arrangements

- **Employment Protection Legislation**
  - Minimum Wage
  - Hiring and firing conditions

- **Employment Support funds, e.g.**
  - Employment & development fund
A rising cost of Social Protection

• Contributory based scheme comprises 62% of total expenditures on social protection
• Budgetary constraints (limited resources) imply more reliance on non-budgetary schemes in the future
• Contributory schemes are the main source of income for 28% of Households

• There is an increasing role of contributory based social protection schemes (Public pension fund & Social security), while stable role of the social assistance program (NAF)
Social Security… Covering the Most Vulnerable

- Targeting: Social Security covering an important segment (low and middle wage earners) of the population (Especially Among female)

- High share of contributors stand close to the poverty line (in both terms; absolute& relative)

- Poverty Line (2007 estimate): 600 JD per capita per year (monthly 50 JD) or 50% of median wage in relative terms

- Head of family who earns 250/month- with 4 dependents could fall below poverty line
Social Protection Strategies:
Jordan
Future Vision for Social Protection: Beyond Basic Needs

• Relative Adequacy Vs. Absolute: Improving individuals’ standard of living while reducing income inequality

• Increasing reliance on contributory based schemes (with affordable replacement rates) imply a gradual transition towards relative adequacy

• The potential role of social protection schemes

  ✓ Preventive Measures: Avert poverty (in relative measures) and provide a suitable standard of living

  ✓ Promotive Measures: Creating incentives and motivating people to generate adequate income by their own means. (e.g. insuring against employment related risks, work injuries, disability, …)
Social Security- Policies to strengthen social protection

- Social Security Strategies to Enhance Social Protection
  I. Improving the financial viability of the scheme to ensure adequate pension (in absolute and relative terms) for future retirees and
  II. Reaching more people
  III. Insuring Additional Risks
  IV. Policies with indirect impact on social protection
More People would be relying on social security
• Ageing population & more people nearing retirement conditions contribute significantly to the maturity of scheme's liability.
• Actuarial studies indicated that the financial position of social security is deteriorating
  • starting from the mid of coming decade, Expenditures exceeds contributions
  • 2026-2035 Expenditures > Contributions+ Investment Income. Assets liquidation
  • 2036 buffer fund would be fully depleted
• More families would be relying on social security as a major source of income. Almost one-thirds Jordan’s Households by 2050
Main Drivers of future pension funding shortfalls

- **Increased tendency towards early retirement**
  - Generosity of early compared with normal retirement (Adverse incentives)
  - Restructuring
  - Economic conditions (e.g., Unemployment..)

- **Gaming**
  - Reference wage for pension calculation based only on last 2 yrs
  - No ceiling on covered wages
Policy Measures to ensure adequate pension for future retirees

- A new social security law has been approved by the cabinet, addresses the following goals and objectives:
  - Changing retirement conditions and incentives
    - Making normal retirement more attractive (Incentives)
    - Increasing minimum vesting period (Enforcement)
    - Increasing the minimum age of retirement
  - Controlling & rationalizing pension expenditures through:
    - Ceiling on covered wages
    - Capping family allowances
- A first step towards improving the financial position of the scheme (Temporary Law)
  - Closing early retirement window for new entrants to the labor market
  - Ceiling on covered wages (5000 JD, Approx. 14 times the average wage)
  - Controlling for salary increase before retirement
The new law addresses the problem of inequality

- Replacement rate is negatively correlated with salary level
- This implies a decreasing inequality among scheme pensioners
To enhance social protection, social security has launched a medium-term project to extend coverage for all employees:

- Geographically starting from Aqaba (2008)
- Irbid (2009)
- All governorates by the end of 2011

**Voluntary Coverage** (Self-employed, uncovered firms, Jordanians working abroad)

**Government subsidy program (2009):** Government pays employee’s contribution to SSC and 50% of employers in the Agriculture Sector.
Employment is the major source of income and especially for low income earners. Therefore, the severity of losing a job is high especially among the poorer quintiles.

Initially SSC considered the Standard Unemployment Insurance System. The major challenge: a standard, OECD-style UI scheme faces a huge problem of employment disincentives -- moral hazard. Transferring such a scheme to Jordan would not work, because:

- Inactivity and unemployment rates are already high (especially voluntary unemployment)
- There is a large informal economy
- Jordan has weak institutional capacity to deliver employment services

Social Security has considered totally different approach based on Unemployment Saving Accounts.
Insuring Additional Risk

- **Maternity Insurance (As preventive & Promotive measure)**
  - Labor law covers a paid maternity leave (70 days) for firms hiring more than 10 employees
  - In Practice, employers are not fully complying:
    - Reluctant to hear female
    - Firing policies
    - Wages
  - **SSC new law**
    - Covers a paid maternity leave of 70 days
    - Minimal Contribution (0.75%) on covered wages

- **Employment in Private Sector**
  - Female: 19%
  - Male: 81%

- **Employment in Public Sector**
  - Female: 34%
  - Male: 66%

- **(Inflation Risk) Pension Indexation**
  - Currently, pensions are increased on ad-hoc basis (high uncertainty on both, pensioners and the system)
  - New Law: Pensions will be annually raised according to the Price index of elderly consumers
  - To avoid adverse Incentives (indexation starts at normal age of retirement)
The proposed measures and their indirect impact on social protection

- Promoting higher labor force participation

![Bar chart showing labor force participation by gender over age categories with labels: Changing Early retirement Incentives, Maternity Insurance]
Employment Incentives

- Levels of employment has a significant impact on social protection schemes, it reduces reliance on social assistance and hence provide extra resources for the most needy people.

- **Government Subsidy Project**: To motivate employers to hire young unemployed people, the government will pay 50% of the employers’ share of SSC Contributions and total employee’s contribution for 2 yrs.

![Bar chart showing employment rates](chart.png)
Policy Dialogue

- Defining a national vision for social protection
- Policy harmonization (Social, Macro, Fiscal, etc..)
- Coordination
Thanks for Your Attention