

Social Protection: Lessons from Jordan

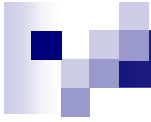
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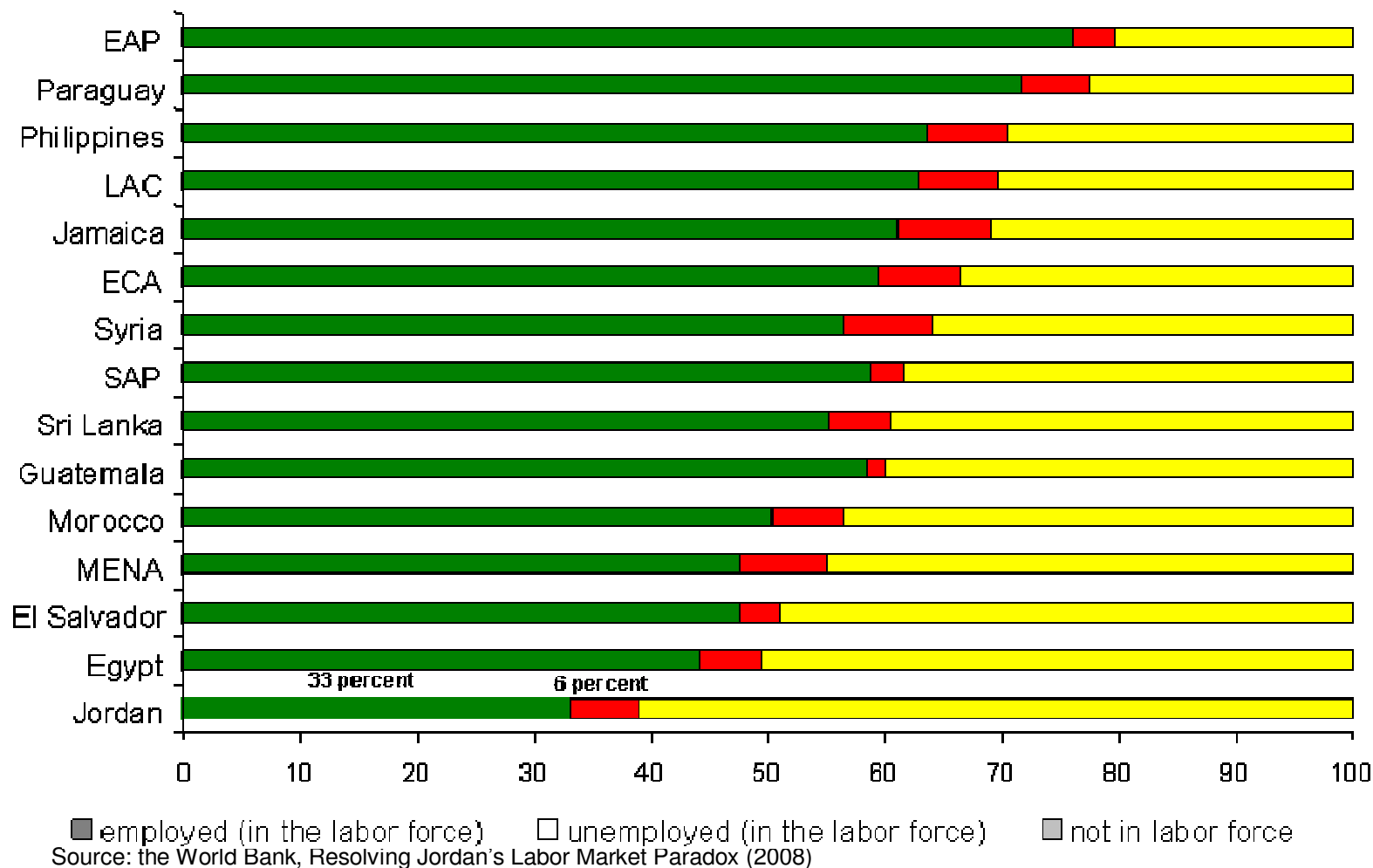
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Social Protection in MENA

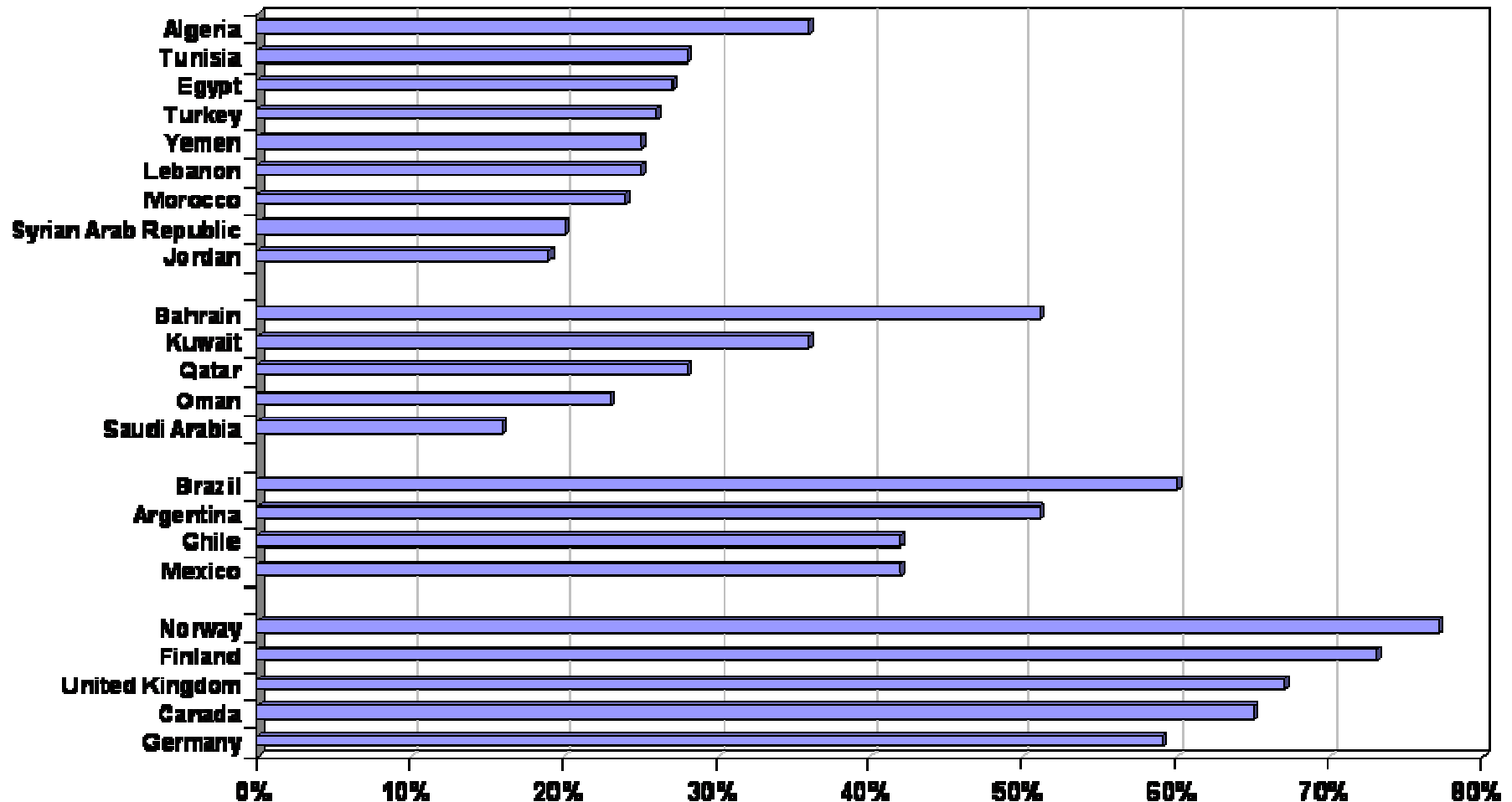
Challenges facing Social Protection in MENA



- Poor labor participation rate implies heavy burden on Social Protection Schemes
- A common problem for MENA countries

Challenges facing Social Protection in MENA

Earned Income- Ratio of Female to Male



Source: UNDP, HDI (2009)

- Low female participation rates & 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.

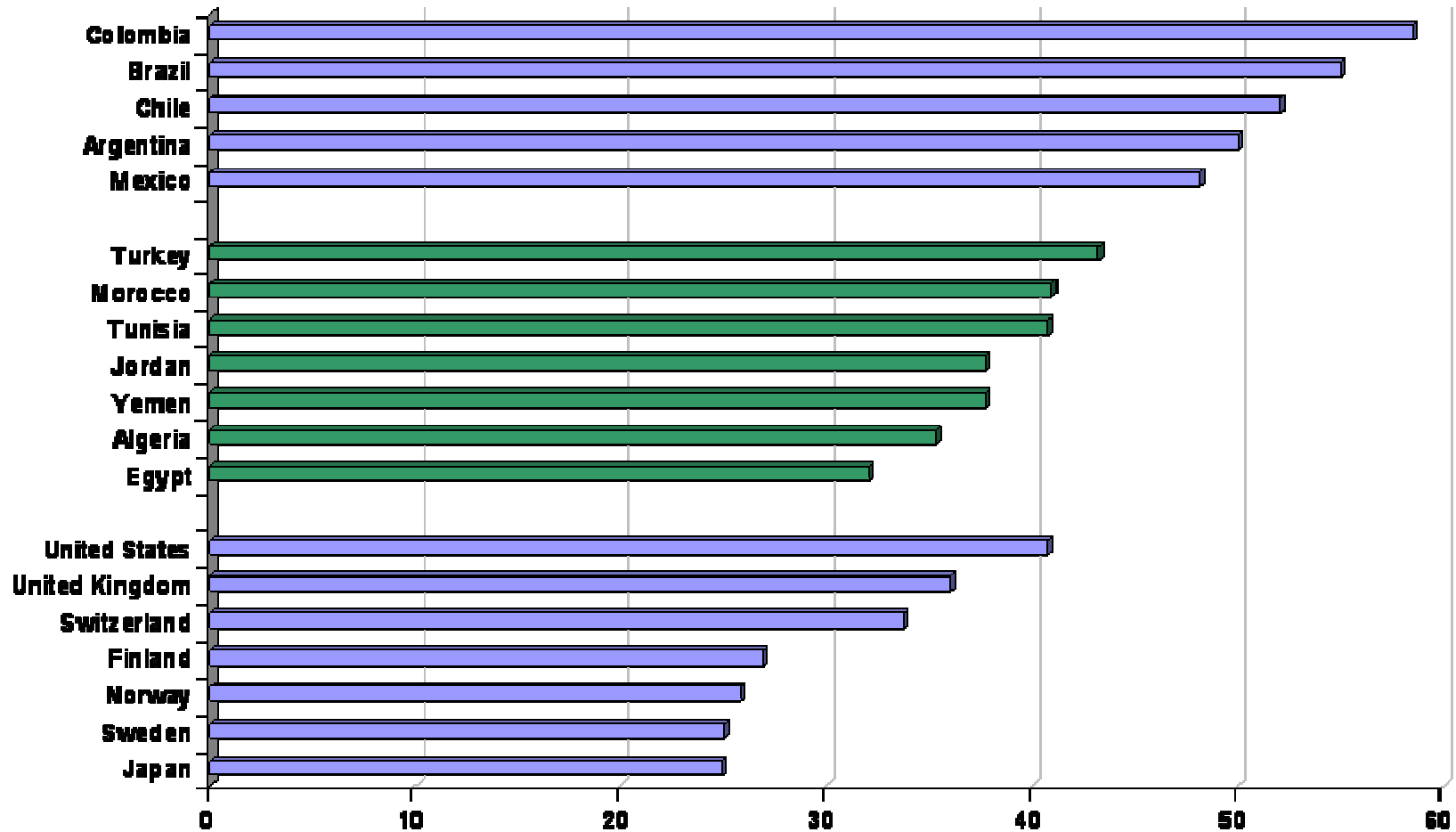


Transition towards Modern Mechanism

- ❑ **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)



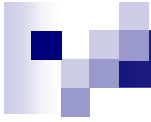
Source: UNDP, HDI (2009)

%



Framework for Social Protection

	Status
Absolute poverty	Progress
Health and education	Progress
Risk of income loss due to unemployment, sickness, work injury, disability, maternity, old-age, death (benefits to family)	Limited progress
Relative poverty (redistribution of income through progressive tax policy)	No or limited progress



Social Protection In Jordan: Status Quo



Social Protection In Jordan: Major Players

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

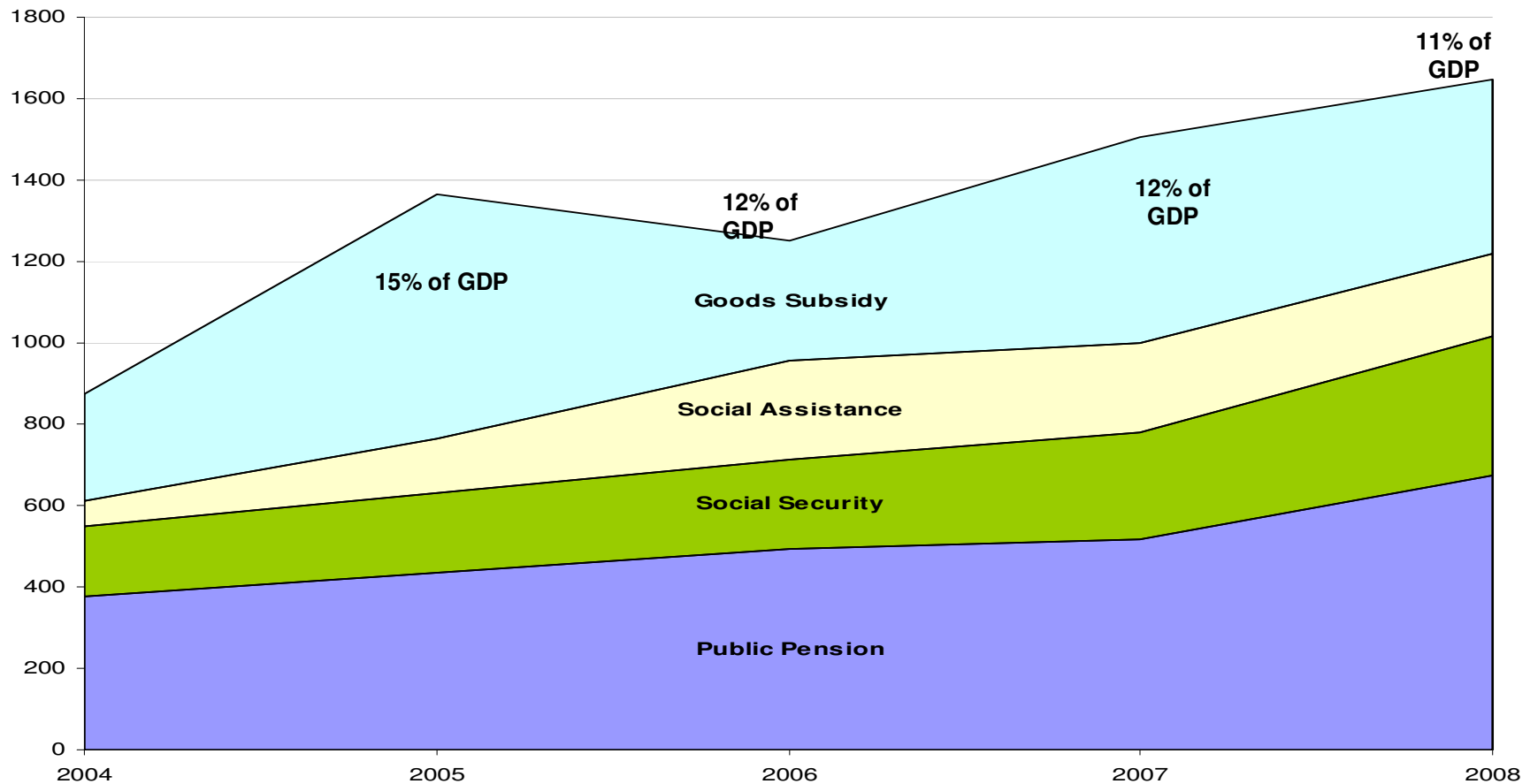
☐ **Employment Protection Legislation**

- **Minimum Wage**
- **Hiring and firing conditions**

☐ **Employment Support funds, e.g.**

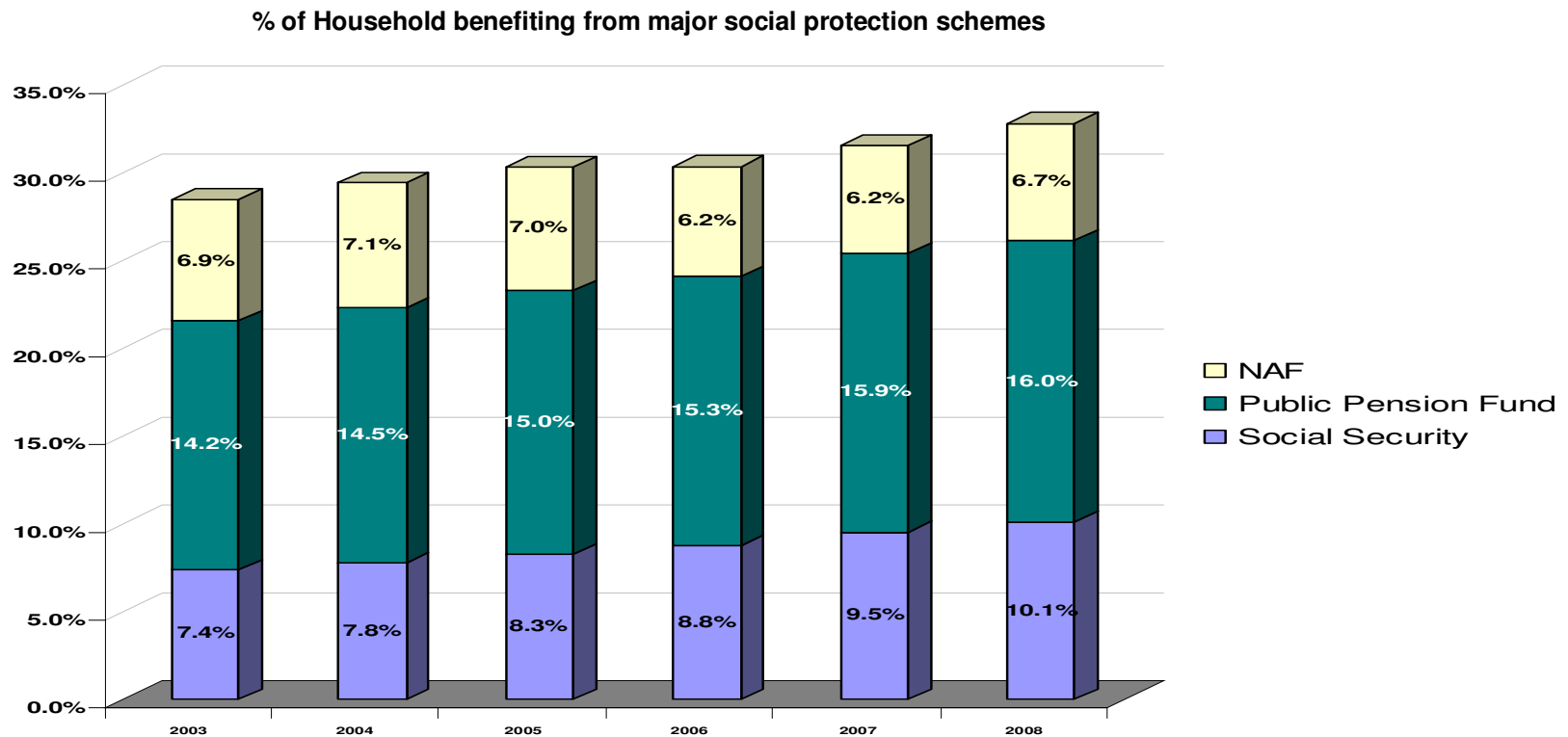
- **Employment & development fund**

A rising cost of Social Protection



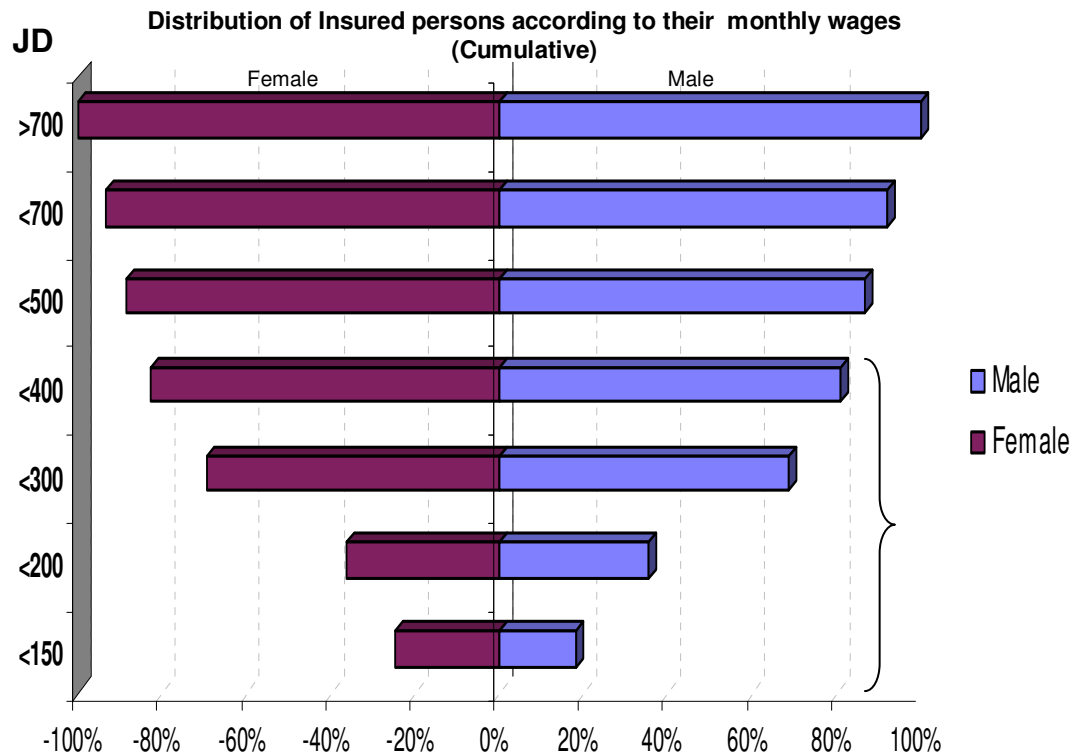
- Contributory based scheme comprises 62% of total expenditures on social protection
- Budgetary constraints (limited resources) imply more reliance on non-budgetary schemes in the future

An increasing role of Social Protection Schemes

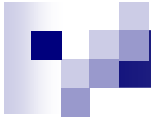


- Contributory schemes are the main source of income for 28% of Households
- There is an increasing role of contributory based social protection schemes (Public pension fund & Social security), while stable role of the social assistance program (NAF)

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

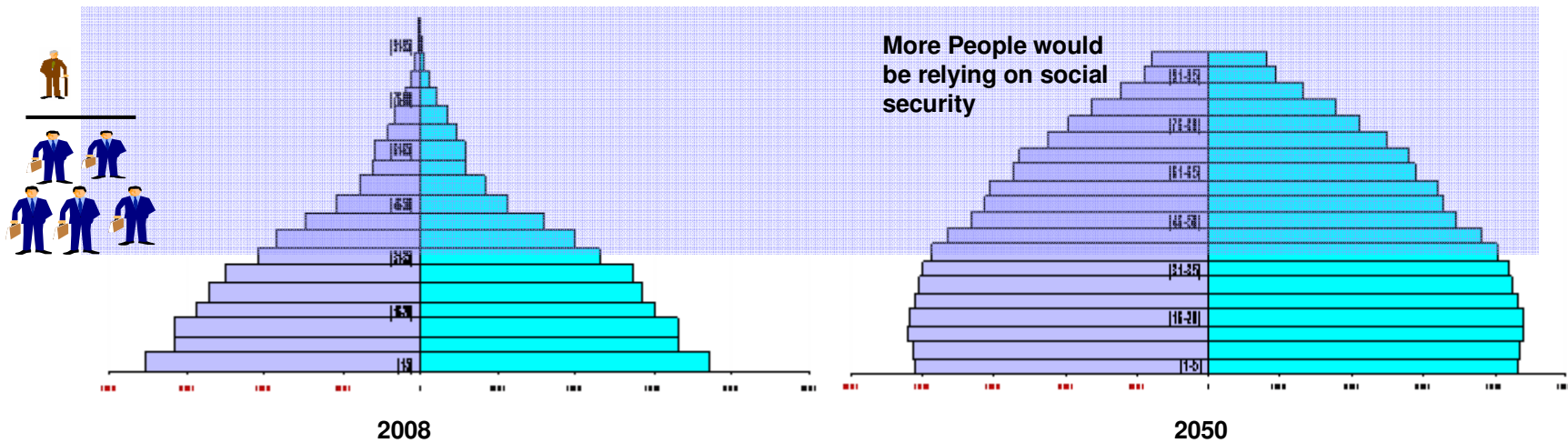
- Relative Adequacy Vs. Absolute : Improving individuals' standard of living while reducing income inequality
- Increasing reliance on contributory based schemes (with affordable replacement rates) imply a gradual transition towards relative adequacy
- The potential role of social protection schemes
 - ✓ **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 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**

Evolution of Scheme's demographic structure and its financial consequences



- 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

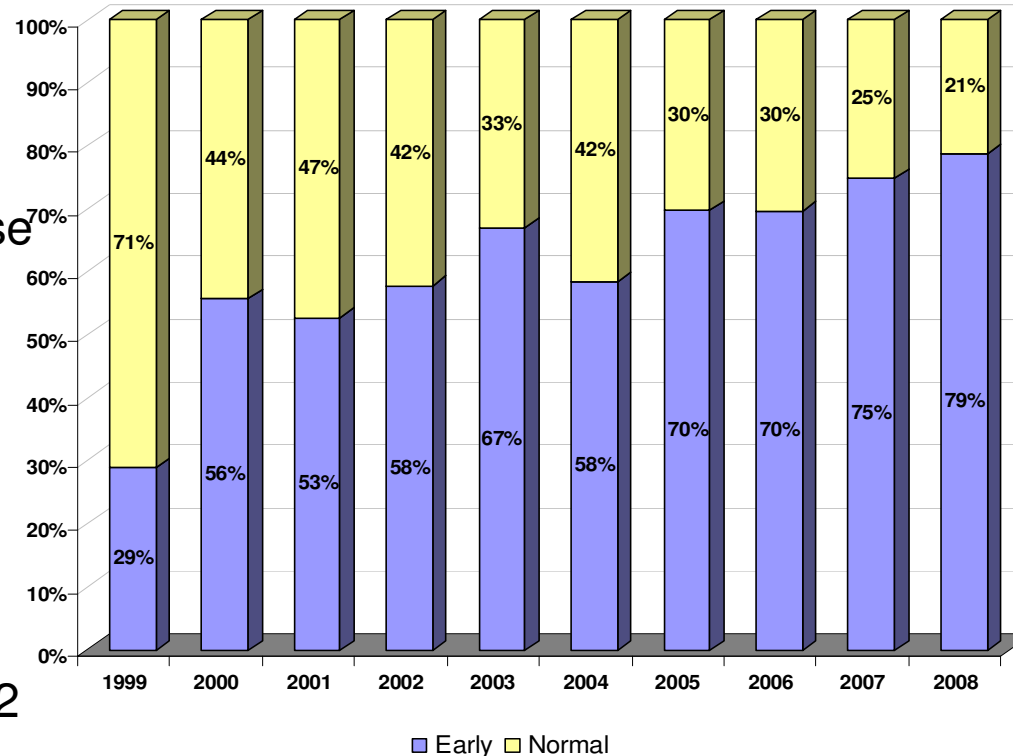
Main Drivers of future pension funding shortfalls

■ 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

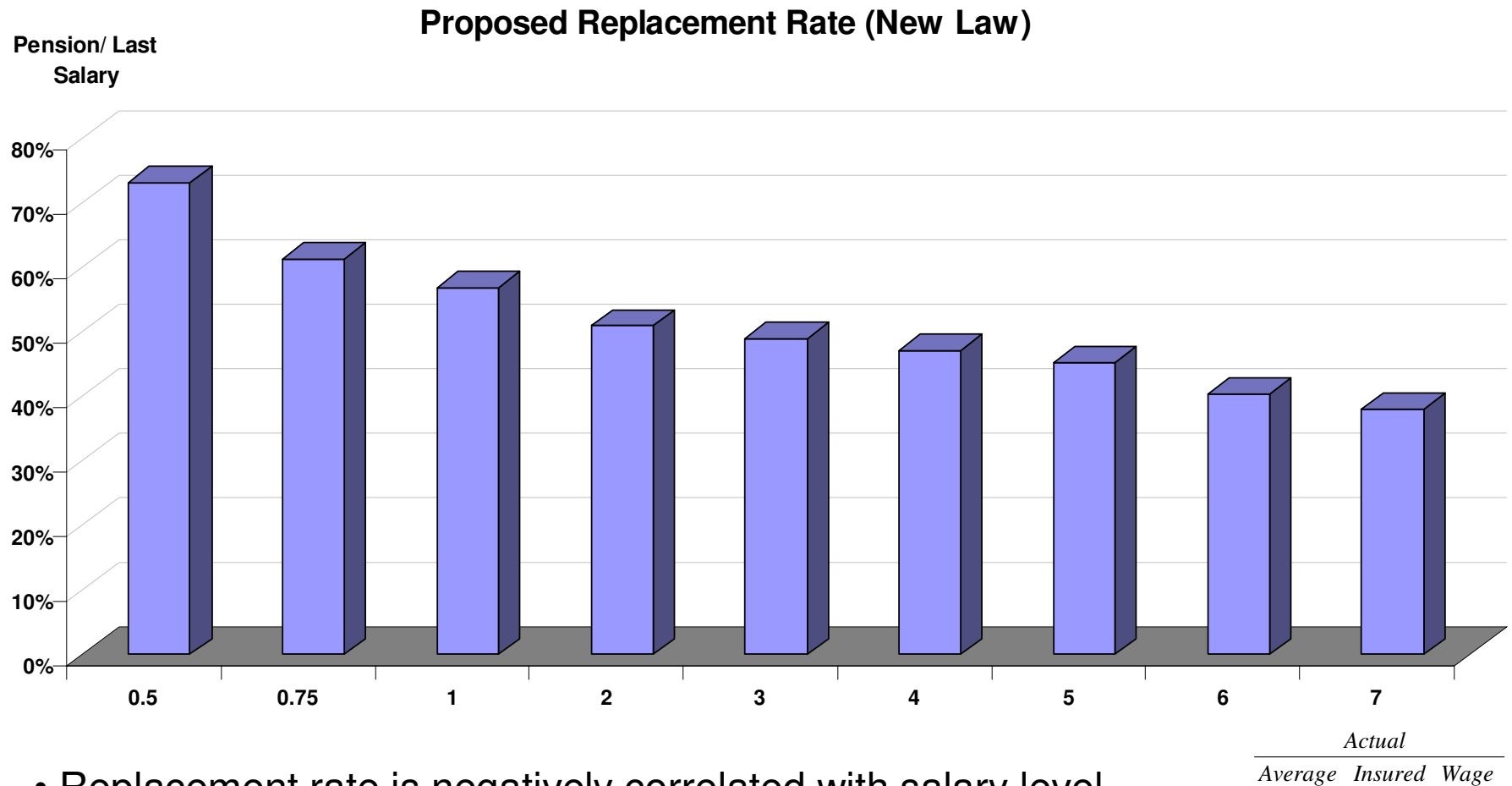




Policy Measures to ensure adequate pension for future retirees

- **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
 - Increasing the minimum age of retirement} (Enforcement)
 - **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

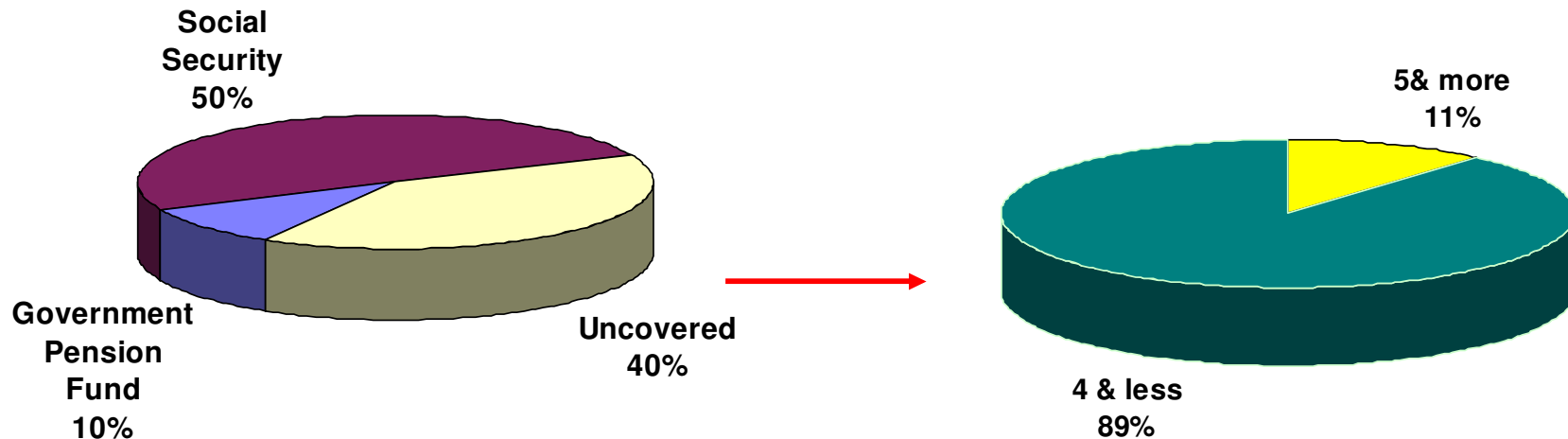
The new law addresses the problem of inequality



- Replacement rate is negatively correlated with salary level
- This implies a decreasing inequality among scheme pensioners

Reaching more People

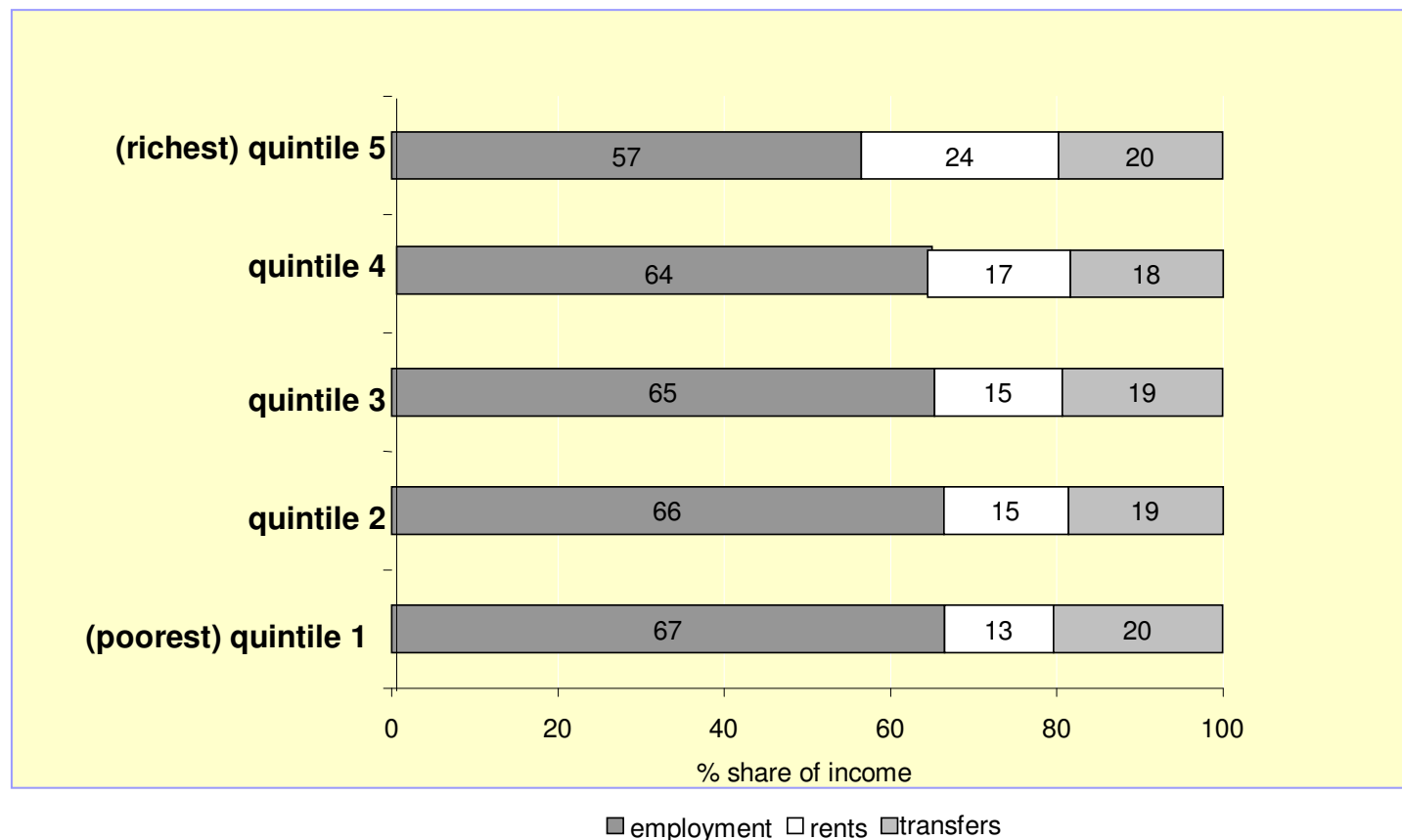
Policy Measures: Extending Coverage



- 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

Insuring Additional Risk (Unemployment Insurance)

- Employment is the major source of income and especially for low income earners
- Therefore, the severity of losing job is high especially among the poorer



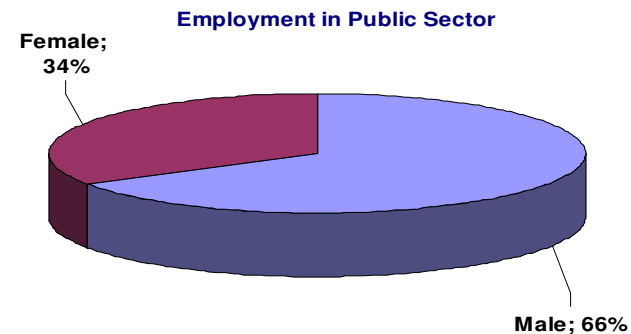
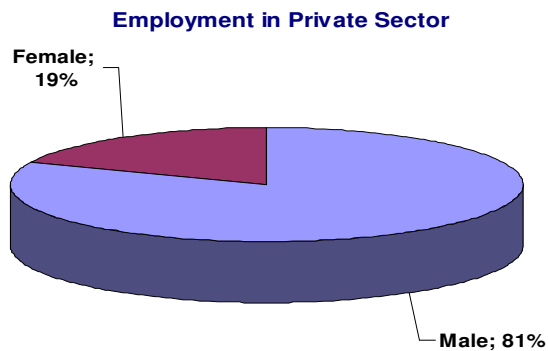


Insuring Additional Risk (Unemployment Insurance)

- ❑ **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

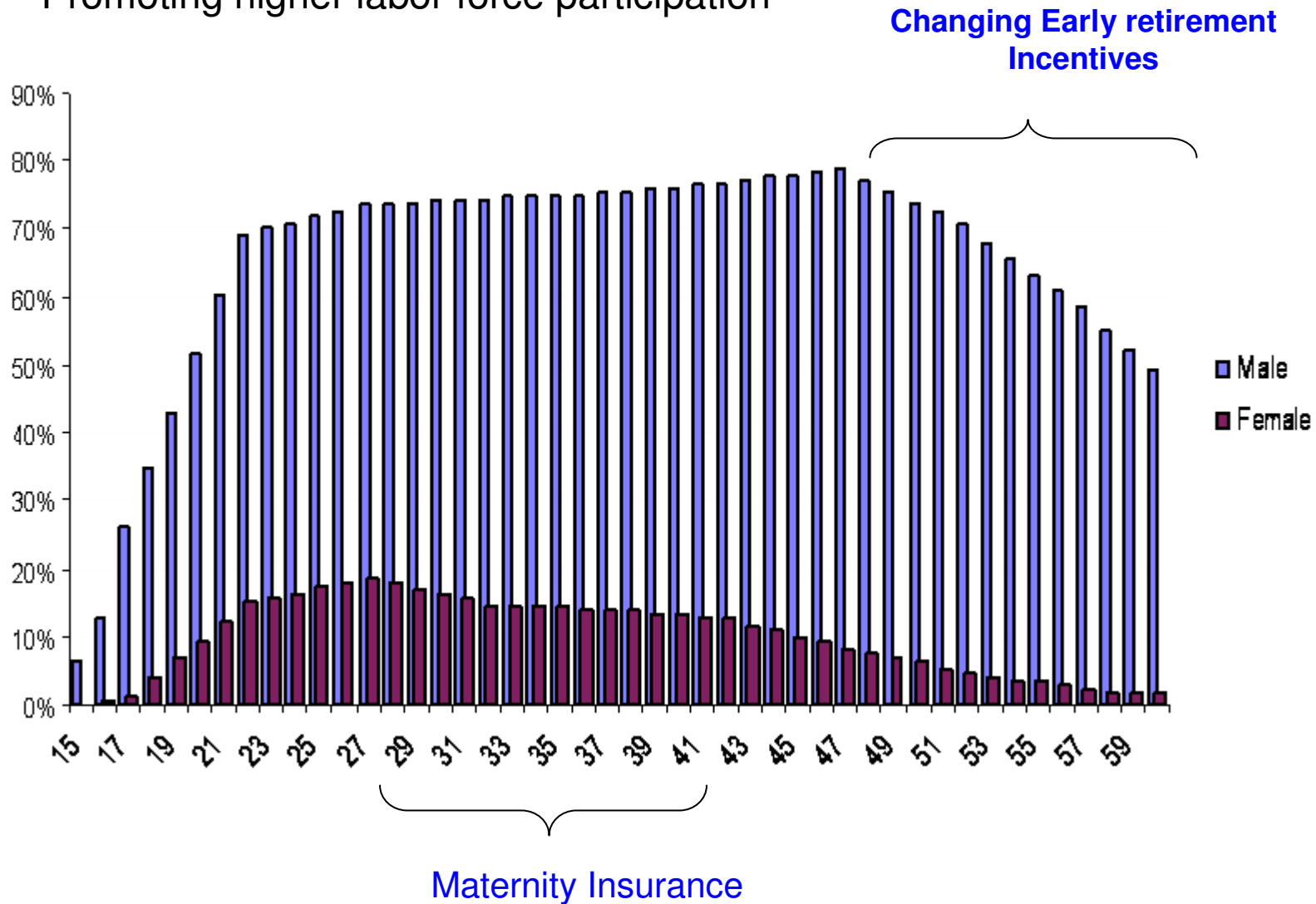


❑ (Inflation Risk) Pension Indexation

- 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)

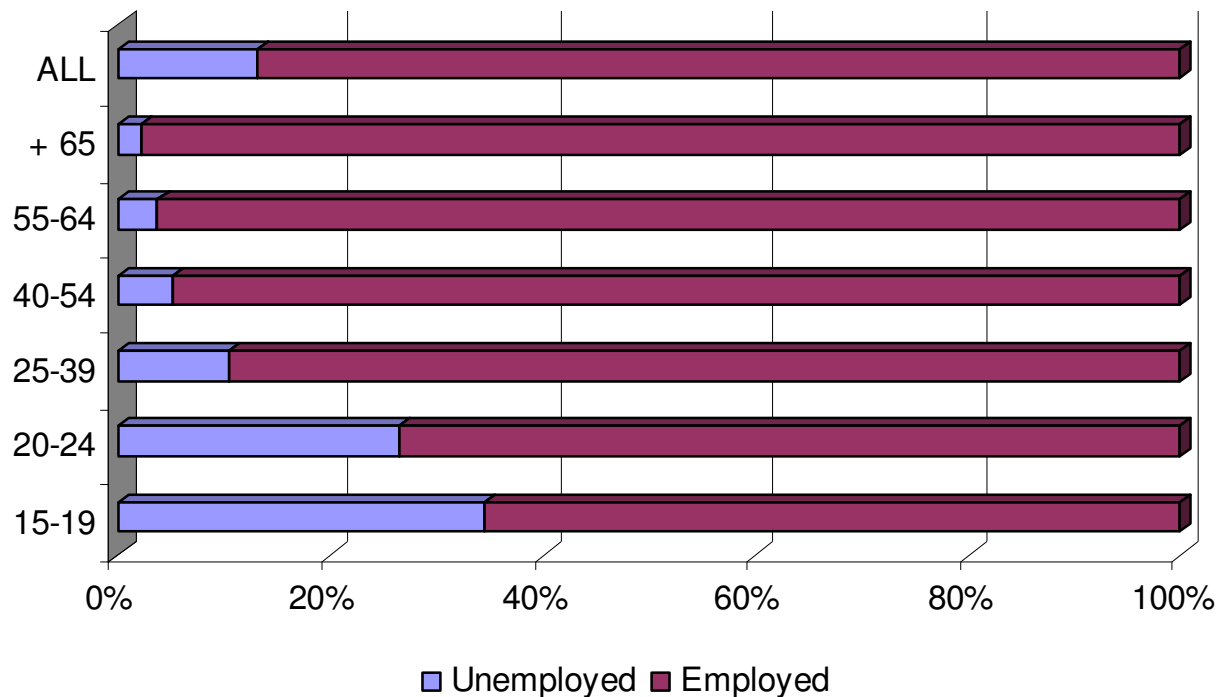
The proposed measures and their indirect impact on social protection

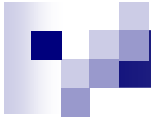
■ Promoting higher labor force participation



Employment Incentives

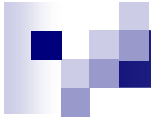
- Levels of employment has a significant impact on social protection schemes, it reduces reliance on social assistance and hence provide extra resources for the most needy people
- **Government Subsidy Project:** To motivate employers to hire young unemployed people, the government will pay 50% of the employers' share of SSC Contributions and total employee's contribution for 2 yrs





Policy Dialogue

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



Thanks for Your
Attention