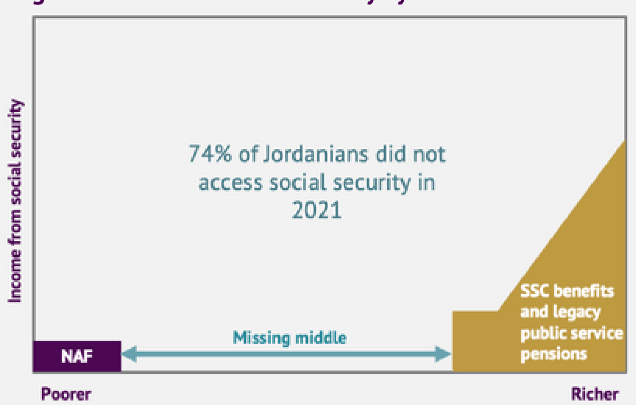
Multi-tiered, comprehensive, social security systems: A brief description

1 Introduction

All countries, as they develop economically and socially, move towards building comprehensive, multi-tiered social security systems that enable all individuals to address the risks and shocks experienced across the lifecycle. Comprehensive, lifecycle social security systems are effective in addressing poverty, generating greater trust in the state among citizens (thereby strengthening social cohesion), and contributing to sustainable economic growth. However, many middle-income countries continue to implement the model of social security found in many high-income countries before the Second World War. These systems are bifurcated, providing contributory benefits to those in the formal economy while offering cash handouts to poor households in the form of charity. As a result, many of those in the informal economy or outside the labour force are excluded from the system despite paying taxes to fund the benefits. This group is often referred to as the 'missing middle.'

Figure 1 illustrates the situation in Jordan: the poorest households benefit from the National Aid Fund (NAF) while the formal economy workforce accesses income support from the Social Security Corporation or legacy military and civil service pensions. The exclusion of most of the population from social security systems in middle-income countries – despite paying taxes and experiencing low incomes – can undermine trust in the state, social cohesion, and economic growth. This briefing paper, therefore, outlines the main features of modern, comprehensive, multi-tiered social security systems, which offer income support to all members of society across the lifecycle, financed from a mix of general government revenues and contributions from those in employment.

Figure 1: Jordan's social security system

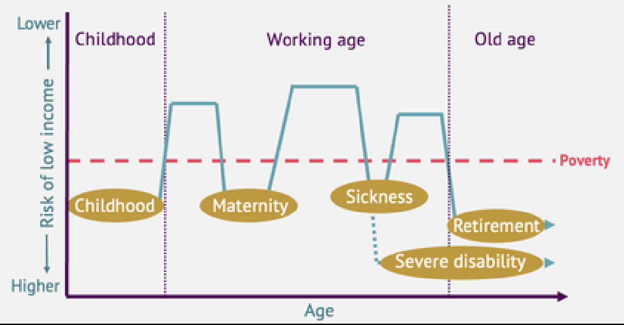


2 Lifecycle risks: a key cause of poverty

As illustrated by **Figure 2**, all of us face risks and challenges across our lives that impact our well-being and increase the likelihood that we may fall into poverty. For example, while having a child is a blessing, it also means an increase in family expenditures just when family incomes fall if a parent has to give up work to care for the child; during working age, people may experience unemployment or sickness; and, during old age, we become less able to work, thereby limiting our income-generating potential. Disability may affect us at any stage of the lifecycle, potentially reducing our ability to work while also requiring us to spend more to address the costs of disability.

If we do not receive income support when affected by these risks, not only do we experience a significant fall in standards of living, but so do our family members. Therefore, if countries wish to address poverty, they need to be able to provide people with income support whenever lifecycle shocks hit them.

Figure 2: An illustration of how risks across the lifecycle increase the risk of falling into poverty



3 The right of everyone to lifecycle social security

Following the Second World War, the global community recognised that the previous charity model of social security had failed, and a new paradigm was required. In 1948, the Universal Declaration of Human Rights recognised that 'everyone, as a member of society, has the right to social security' and that income support should be available to all, whenever we experience a lifecycle shock. This universal right to social security was repeated in many other human rights conventions and forms the basis of the Social Protection Floor, as set out in Recommendation No. 202 (2012) of the International Labour Organization.

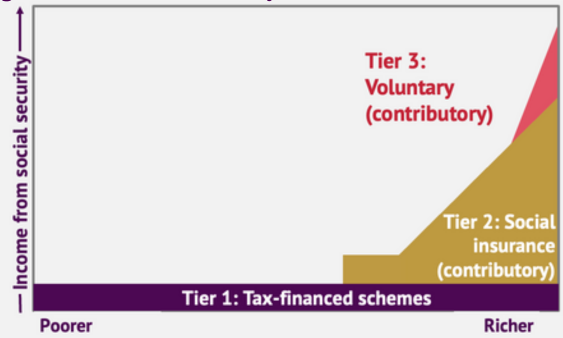
Figure 3 illustrates some of the types of income support that should be available to all citizens across the lifecycle, although the largest areas of spending are usually in child, old age, and disability benefits. Of course, countries should always provide income support for those who fall through the cracks of the system, such as that offered by the NAF. But, poverty benefits should only comprise a small component of overall national investment in social security: most spending should be on lifecycle benefits. The most effective means of providing tax-financed lifecycle benefits is by offering them on an equal basis to everyone, given that everyone pays – or has paid in their lifetimes – taxes, often through general sales taxes (GST). If means testing is employed, it is guaranteed that many of the most vulnerable members of society will be excluded. A study by Development Pathways has shown that the best-performing means-tested programme in middle-income countries excludes 44 per cent of its intended recipients.

Figure 3: Examples of the types of lifecycle benefits that comprise comprehensive social security systems

4 The right of everyone to lifecycle social security

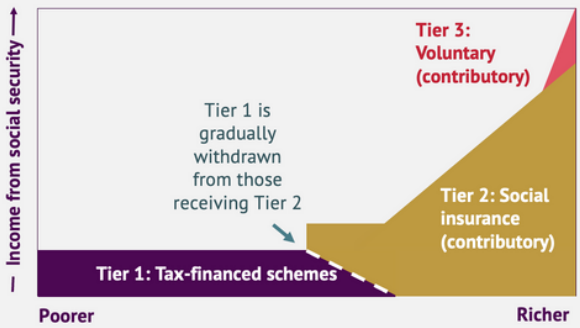
As indicated above, a comprehensive social security system can be financed either from general government revenues or from contributions paid by employees and employers. As a result, social security systems often have multiple tiers, as illustrated by **Figure 4**. The tax-financed **Tier 1** is the foundation tier of the system and guarantees that everyone can access a minimum level of income support, set at the level that society believes offers individuals and families a dignified life. **Tier 2** is financed from mandatory contributions from employees and employers and, when there is some sharing of benefits between contributors, is referred to as social insurance. **Tier 3** comprises voluntary contributory benefits which are provided by the private sector – often by employers – but regulated by governments. While Tier 1 is an essential component of a multi-tiered system, some countries develop only 2 tiers and provide their contributory benefits only through the voluntary Tier 2. (For a more detailed description of the tiers, see Paper 1 in this series).

Figure 4: A multi-tiered system with a universal Tier 1



While Figure 4 shows a universal tax-financed Tier 1, it is possible to guarantee access to lifecycle benefits through what is known as 'benefit-testing.' This comprises removing the tax-financed benefit from those already receiving a Tier 2 mandatory contributory benefit. However, as illustrated by **Figure 5**, this needs to be carefully designed so that everyone is incentivised to contribute to the Tier 2 benefits. This can be achieved by tapering the Tier 1 benefit so that those who receive lower value contributory benefits can also still receive the tax-financed scheme. It is essential to ensure that those who contribute into Tier 2 receive a higher value benefit than those who do not so as to incentivise people to contribute.

Figure 5: A benefit-tested multi-tiered system



5 Conclusion

If Jordan wishes to modernise its social security system, it will be essential to **build** a comprehensive, multi-tiered system that ensures access for everyone to core benefits across the lifecycle, financed from both general government revenues and additional contributions into the Social Security Corporation. A multi-tiered system could be delivered by the Social Security Corporation. It should be considered an essential public service, alongside health, education, and social services. A comprehensive social security system will bring significant benefits to Jordan. Not only will it reduce poverty and provide income security to all citizens, it will strengthen citizens' trust in the state, encourage them to pay taxes and generate greater social cohesion and stability while promoting economic growth. It is no coincidence that the countries with the strongest and most sustainable economies are those that have invested in comprehensive social security. Indeed, an investment in comprehensive social security is an investment in the citizens of Jordan.