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## Portability of pension, health, and other social benefits: Facts, concepts, and issues

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# Portability of Pension, Health, and other Social Benefits: Facts, Concepts, and Issues

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# Portability of Pension, Health, and other Social Benefits: Facts, Concepts, and Issues

## Abstract

Portability of social benefits across professions and countries is an increasing concern for individuals and policy makers. Lacking or incomplete transfers of acquired social rights are feared to negatively impact individual labor market decisions as well as capacity to address social risks with consequences for economic and social outcomes. The paper gives a fresh and provocative look on the international perspective of the topic that has so far been dominated by social policy lawyers working within the framework of bilateral agreements; the input by economists has been very limited. It offers an analytical framework for portability analysis that suggests separating the risk pooling, (implicit or actual) pre-funding, and redistributive elements in the benefit design, and explores the proposed alternative approach for pensions and health care benefits. This promising approach may serve both as a substitute and complement to bi- and multilateral agreements.

JEL-Code: D690.

Keywords: acquired rights, labor mobility, migration, individual accounts, bi-lateral agreements.

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## 1. Introduction

The portability of social benefits across professions and countries is an increasing concern for individuals and policy makers. The concern reflects rising labor mobility as one feature of globalization, visible in increasing labor movements among high income countries, and an increase in population flows from poor to rich countries and among poorer and less poor countries.<sup>1</sup> The stock of the population (migrants) living outside their countries is still small (estimated at 3.1% of the world population in 2010, or 214 million people (UN 2009)) and the share has been increasing again since the 1970s, following a dip after its peak post-World War I. But the underlying flows are much higher and less well documented, as an increasing number of people are working and retiring outside of their own country's borders. Within countries, there is a noticeable increase in labor mobility across professions and sectors.

International migration from "South" to "North" countries is getting the increased attention of policy makers. In the North, the strong inflow of migrants, the projected population aging, and low or even negative labor force growth have heightened interest in migration issues, including the portability of social benefits, as the perspective of returning migrants is politically more palatable. In the South, migration is increasingly seen as a potential development instrument: in the short term, it can ease labor market pressures among youth and provide valuable remittances; in the medium to long term, return migrants contribute to firm creation, employment, and economic growth via human and financial capital.

From a first-best economic point of view, an individual's labor mobility decisions should not be influenced by the lack of portability of social benefits for which he or she has established acquired rights.<sup>2</sup> From a social policy point of view, such acquired rights are a critical element of the individual's (or family's) lifecycle planning and social risk management. From a human rights point of view, an individual has the right to social protection according to national legislation and international conventions and these rights should carry over when he leaves the country or profession. Combined, these perspectives suggest that eligibility to and disbursement of social benefits in payment should not depend on one's chosen country of residency.

Within areas of economic integration such as the European Union (EU), social security coordination has been on the table since 1958. The 50<sup>th</sup> anniversary of Regulation 3 has given rise to various reviews among experts and academics, including of the most recent EU directive 2004/38.<sup>3,4</sup> At the international level, the International Labour Organization

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<sup>1</sup> At times we will use a simplifying albeit imprecise abbreviation for these labor movements between rich ("North") and poor ("South") countries.

<sup>2</sup> In a second best world, it is claimed by some authors that imperfect portability could be welfare-improving in the presence of several market failures (see, for example, Becker 1964; Lazear 1979; and Fabel 1994). While these arguments may have some validity for national labor markets, we doubt that such a human Tobin tax through imperfect portability is relevant in cases of cross-border mobility as the other involved costs will remain high.

<sup>3</sup> See the special issue of the *European Journal of Social Security* 2009; Pieters and Schoukens 2009; Eichenhofer 2009.

<sup>4</sup> The most relevant EU regulation comprises: Council Regulation (EEC) No. 1408/71 of 14 June 1971 and Council Regulation (EEC) No. 574/72 of 21 March 1972, and the new regulations (which enter into force

(ILO) has pioneered international instruments for migrant workers since the 1930s, created two Conventions, and sponsored several Conventions/ recommendations that provide important guidance for the coordination of social security schemes.<sup>5</sup> The ILO Multilateral Framework on Labor Migration, endorsed by the ILO Governing Body in March 2006, details the principles and guidelines for a rights-based approach (ILO 2009).

These legal and human rights-based considerations are increasingly joined by economic considerations that help underpin the social policy objectives with a more analytical and empirical framework. Examples include: a first framework, data, and good practices on portability regimes (Holzmann, Koettl and Chernetsky 2005); regional work on social protection management for migrants between EU and North Africa (Koettl, Morghandi and Van der Bosch 2009); an analysis on the portability of pension rights for the Caribbean (Forteza 2008), and a comprehensive review and analysis of social protection for migrants in the North and South, and the portability linkage (Sabates-Wheeler and Feldman 2011). The economic analysis has recently also been deepened by modeling portability and providing empirical indications of its potential importance (e.g., Jouston and Pestieau 2002; Fenge and Weizsaecker 2009).

This work has led to a better understanding of the objectives of portability, the broad portability regimes, and the role of bilateral agreements (BA) between countries. But we are still far from being able to advise policy makers in the North and South how to ensure portability across countries and professions and from substantiating that this matters. To progress in this direction, this paper: sketches a broad picture of portability regimes across regions (Section 2); undertakes a conceptualization of portability, starting with the (domestic) social policy objectives of social benefits compared to the more (international) economic objectives of labor mobility, and offers an analytical framework for portability analysis that suggests separating the risk pooling, pre-funding, and redistributive elements in the benefit design for better portability (Section 3). It applies this conceptual framework to (old-age) pensions (Section 4) and health care benefits (Section 5). The paper highlights key issues that need to be addressed to further our understanding of portability (Section 6) and concludes with a summary of key considerations (Section 7).

## **2. Facts on Migration and Portability Regimes**

This section presents broad estimates of portability regimes that apply to legal and illegal migrants across the world. It builds on an approach developed by Holzmann, Koettl and Chernetsky (2005) and draws on more recent estimates by Avato (2008) and Avato, Koettl and Sabates-Wheeler (2009, 2010). According to Holzmann, Koettl and Chernetsky, the social protection status of migrants can be classified into four regimes:

Regime I (Portability) includes all legal migrants enjoying indiscriminate access to social services in their host country, and home and host country have concluded bilateral or multilateral social security agreements to guarantee full portability of accrued benefits.

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on 1 May 2010): Regulation (EC) No. 883/2004 of the European Parliament and the Council of 29 April 2004 and Regulation (EC) No. 987/2009 of the European Parliament and the Council of 16 September 2009.

<sup>5</sup> ILO Conventions No 19, 102 (Article 68), 118 and 157 and ILO Recommendation No. 167 with the model provisions in Annexes 1 and 2.

Regime I is the most favorable in terms of formal social protection for migrants. This status can mostly be found within the EU and between many high-income countries with well-developed social security systems. The agreements, however, have varying depth with regard to benefits covered and rules applied to such benefits.

Regime II (Exportability) includes all legal migrants who have access to social services and social security in their host country without a BA between their host and origin country. For example, migrants may receive benefits abroad, but cannot rely on totalization of their contribution periods; i.e., eligible benefits are made exportable but acquired rights are not fully portable. The extent to which benefits are payable abroad is exclusively subject to national legislation, and host and home country do not cooperate when determining and paying benefits. This regime concerns the largest number of international migrants.

Regime III (Access exclusion) includes all legal migrants who do not have access to social security in their host country—either because they are excluded or because the host country has no social security system. Access exclusions for non-permanent residents exist in the Gulf Cooperation Council (GCC) countries in the Middle East, and in Singapore. Despite this disadvantage, migrants are also not required to contribute to long-term benefits like old-age pensions, thus strictly speaking, they do not lose contributions and may, in principle, contribute to a private scheme elsewhere or remain insured in the home country.

Regime IV (Informality) includes all undocumented migrants, who arguably face the greatest challenge regarding their social protection. They have very limited access to social services and social security and are subject to unchecked and unregulated labor market conditions. This regime particularly concerns migrants moving between lower-income countries.

It is estimated that there were almost 187 million migrants worldwide in 2000/01 (see Appendix Table A). Eastern Europe and Central Asia (ECA) had the highest share of migrants, due to the break-up of the Soviet Union. The second biggest sending region was the EU-27 and “other Europe.” In all regions except Latin America and Caribbean (LAC), intra-regional migrants constituted the highest share of all migrants. North America, the EU-27, and “other Europe” were the biggest receiving regions.<sup>6</sup> Low and lower middle income countries were the biggest migrant senders, supplying about 70 percent of the world’s migrant stock. High income countries, which hosted 50 percent of all migrants, only sent 19 percent. Thus, South-North and South-South migration flows have predominated (see Appendix Table B).

This stands in contrast to the social protection status of migrants. About 23 percent of global migrants fall under Regime I, mostly originating from the EU-27. Overall, most migrants under Regime I moved between high income countries (see Table 1). In fact, the share of migrants under Regime I increases with the income level of the origin country. Even though some low and lower middle income countries are able to protect their emigrants with social security agreements, the largest sending countries (such as Russia, Mexico, India, Bangladesh, Ukraine, and China)—with emigrant stocks between 6 and

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<sup>6</sup> For regional and income country groupings, see World Bank (2009a).

13 million—had until recently concluded next to no bilateral portability arrangements. Moreover, multilateral agreements (MA) in South and Central America cover merely 27 percent and 2 percent of their emigrants, respectively (Avato *et al.* 2009) and implementation has been rated as not very effective (Forteza 2008). Thus, protecting emigrants through BAs seems to be practiced mainly by high income countries.

**Table 1: Global emigrant stock estimates by origin country income-group and portability regime (2000)**

Origin country income-group	Regime I (Portability)	Regime II (Exportability)	Regime III (No Access)	Regime IV (Informal)	Total	% global stock
<b>Low income countries</b>	850,985	36,720,832	5,293,338	10,757,086	53,622,241	29%
<i>% total</i>	2%	68%	10%	20%	100%	
<b>Lower middle income countries</b>	11,312,511	47,224,671	3,476,163	14,473,805	76,487,150	41%
<i>% total</i>	15%	62%	5%	19%	100%	
<b>Upper middle income countries</b>	3,521,212	10,724,671	189,357	7,203,975	21,639,215	12%
<i>% total</i>	16%	50%	1%	33%	100%	
<b>Non-OECD high income countries</b>	2,063,914	3,534,415	192,987	57,809	5,849,125	3%
<i>% total</i>	35%	60%	3%	1%	100%	
<b>OECD high income countries</b>	24,778,310	3,658,850	291,007	189,802	28,917,969	16%
<i>% total</i>	86%	13%	1%	1%	100%	
<b>Total</b>	42,526,932	101,863,439	9,442,852	32,682,476	186,515,699	100%
<b>% global stock</b>	23%	55%	5%	18%	100%	

*Note:* Country income-grouping according to World Bank 2009a terminology.

*Source:* Avato, Koettl and Sabates-Wheeler 2009.

Poorer countries seem to have less developed social security systems and, more generally, less developed social protection frameworks for their residents—nationals and migrants alike. The size of their informal labor market is large, so many workers are not covered by formal social protection. Immigration policy is often geared more towards restricting and controlling migration than securing the statutes of migrants. These factors reduce their ability to negotiate and administer social security agreements.<sup>7</sup>

Moreover, undocumented migration is much higher in poorer countries (Table 2). While many informal migrants may live in high income countries, very few originate from these countries and many remain in their (poorer) region. These migrants rarely claim any sort of formal social protection and rely primarily on informal social protection networks. In fact, many migrants see migration as a social risk management strategy to escape poverty, and thus, in a way, benefit from migration without any sort of formal social protection.

<sup>7</sup>See Olivier (2009) for a detailed assessment of migrants' social protection status in the Southern African Development Community (SADC).

**Table 2: Global migrant stock estimates of Regime IV migrants only  
(undocumented migrants) by origin and host country income-group (2000)**

Origin country income-group	Host country income-group					Total
	Low income countries	Lower middle income countries	Upper middle income countries	Non-OECD high income countries	OECD high income countries	
Low income countries	3,775,249	3,681,516	781,597	561,591	1,957,132	10,757,086
Lower middle income countries	779,250	6,156,610	1,471,782	970,669	5,095,494	14,473,805
Upper middle income countries	111,890	531,205	234,206	288,799	6,037,875	7,203,975
Non-OECD high income countries	1,949	12,663	3,319	2,052	37,825	57,809
OECD high income countries	11,442	26,805	17,160	8,563	125,833	189,802
<b>Total</b>	<b>4,679,780</b>	<b>10,408,798</b>	<b>2,508,064</b>	<b>1,831,674</b>	<b>13,254,160</b>	<b>32,682,476</b>

*Note:* Country income-grouping according to World Bank 2009a terminology.

*Source:* Avato, Koettl and Sabates-Wheeler 2009.

Based on the available evidence, it appears that the practice of social security agreements is not readily transferable to poorer countries with less developed and often differing frameworks of social protection. Furthermore, to our knowledge, there have been no evaluations of any kind to investigate if and when BAs do deliver. Thus, other approaches are needed to improve social protection and portability frameworks.

### **3. A Conceptual Framework of Portability to Assess and Improve Policy Design**

Portability issues for internationally mobile workers (migrants) emerge from the tension between the more domestically oriented social policy objectives linked to traditional social risks and the more internationally oriented economic policy objectives linked to cross-border labor mobility; they reflect more broadly the diverging interests of the host country, the home country, and migrants.<sup>8</sup> A review of objectives and instruments in both areas yields a better understanding of possible trade-offs as does a review of the key policy options to address conflicting objectives. The proposed portability framework builds on the Social Risk Management (SRM) framework that has proven helpful in guiding social policy analysis in both developing and developed countries.

#### **3.1 Migration and Social Risk Management (SRM)**

Migration is quite likely mankind's oldest, most widespread, and most important risk management instrument: to address risks pro-actively (e.g., in response to climatic

<sup>8</sup> From a political economy point of view, the tensions also reflect the interests of the mobile versus the immobile labor force within and between countries.

change); to mitigate risks *ex ante* (e.g., in response to expected unemployment or diversification of risks within the extended family); and to cope with risks once they are realized (e.g., in response to natural catastrophes or armed conflicts). The SRM framework proposes three risk management strategies (risk prevention, risk mitigation, and risk coping) and three broad types of risk management arrangements (informal, market-based, and public) to address risks. Conceptually, SRM defines “Social Protection as public interventions to (i) assist individuals, households, and communities better manage risk, and (ii) provide support to the critically poor” (Holzmann and Jorgensen 2001).

While the emergence of formal social protection instruments has reduced the importance of migration as an informal risk management instrument in the developed world, it remains a crucial informal and formal risk management instrument for the developing world. And both formal and informal instruments are closely intertwined:

- With South to North migration, individuals attempt to address specific risks (poverty, unemployment, diversification needs) but get exposed to new risks and lose access to prior risk management instruments. Hence access to social protection and portability of social benefits becomes crucial for migrants to address risks in host and home countries.
- For (youthful) home countries, labor migration reduces the unemployment pressure for youth, and remittances have proven to be important for addressing idiosyncratic and systemic risks. For (aging) host countries, labor migration supports formal risk management instruments by increasing the labor force and hence the internal rate of return of pension and health care programs, as well as by enhancing the skill profile and supply of health workers.
- Access to and portability of formal SRM instruments for migrants are likely to change the size and composition of migrant flows to host countries, as they have a major bearing on the key choices and decisions by labor migrants (Koettl, Morghandi and Van der Bosch 2009). Thus, access and portability regimes for social benefits are a critical instrument of migration management (Holzmann and Pouget 2010, 2012).
- For migrants, portability (of acquired rights) is the interface between social services in home and host countries (Koettl 2006). Such services include health care benefits, long-term social security benefits like old-age and disability benefits, and short-term benefits like social assistance, maternity, and unemployment benefits, and family allowances as well as public housing and education.

### **3.2 Domestic Objectives and Instrument Design of Social Protection**

Formal social protection instruments to mitigate or cope with risks were developed in the now rich countries in the North over more than 100 years, followed by a gradual diffusion to most other countries in the world. Social insurance programs that link benefits to prior contributions typically started out with a narrow focus on sectors (trades), and coverage moved from civil servants to white and then blue collar workers, to farmers and the self-employed, and then to the voluntarily insured. The original benefit design had little consideration for mobile workers. While some consolidation has taken place, portability of acquired rights across sectors (in particular between public and

private sectors) remains an issue. Resistance to reform of these programs has been driven by the narrow interests of sector members (and the dominance of the many immobile compared to the few mobile members). Portability considerations in design and implementation have entered only slowly, with the rise in labor mobility. But domestic considerations are still given dominance in the social protection area (unless they contradict EU objectives or ratified ILO Conventions). The situation is similar, or worse, in countries where benefit eligibility is linked to residency. Portability of benefits is, at first sight, an alien concept.

### **3.3 Labor Mobility Objectives and Results Criteria for Portability**

A variety of objectives can be raised to support the demand for full portability of social benefits. Ultimately, they boil down to two: fairness and efficiency.

Fairness considerations can be raised at the individual and country levels. If an individual has contributed (mandatorily or voluntarily) to programs to mitigate future risks to allow him or her to smooth consumption across states of the world, then acquired rights should be portable across time and space as a matter of fairness. Similar considerations apply at the country level. If an individual moves between countries, denying him portability of acquired rights provides a windfall profit for the home country. Its mobile work force leaves while potentially burdening the new country of residency.

Efficiency considerations of portability are closely linked with the labor market, but go beyond. Full portability should render the labor mobility, labor supply, and residency decision independent of social benefits. In the absence of full portability, individuals (and families) may decide not to migrate or return, or may decide to offer labor in the informal sector, possibly with stark implications for the overall tax revenues and economic growth of their home country.

To assess whether portability arrangements succeed in delivering on fairness and efficiency considerations, three broad results criteria have been suggested (Holzmann, Koettl and Chernetsky 2005):

Criteria 1: *No benefit disadvantage with regard to pension and health care* for migrants and their dependents. Movements between host countries or back to the home country should not lead to lower pension benefits or gaps in health coverage than if one stayed in one country.

Criteria 2: *Fiscal fairness for host and home countries.* No financial burden should arise for the social security institution of one country while the social security institutions of the other country benefit from any provisions on portability or the lack thereof.

Criteria 3: *Bureaucratic effectiveness.* The administrative provisions on portability or the lack thereof should not cause a bureaucratic burden for the institutions involved and should be easy to handle for migrants.

### **3.4 An Analytical Model for Portability Considerations**

The prior two subsections motivated the importance of a more actuarial structure of social benefits to achieve labor mobility while still catering to domestic policy objectives.

This subsection provides an analytical framework for how best to achieve this while keeping critical features of publicly mandated social insurance benefits, such as redistribution.

***The insurance, saving, and distributive components of social insurance benefits: A motivation***

Essentially all social benefits contain elements of insurance as risk-pooling against a specific (group of) risk(s), “pre-saving” or at times a credit/tax mechanism across an individual’s lifecycle, and explicit or implicit redistribution within and between cohorts (Holzmann 1990). Disentangling the three is critical for portability. Social insurance (with risk-pooling across different risk profiles) and explicit redistribution across cohorts constitute the key elements of “solidarity,” albeit this notion is hardly ever defined in such analytical terms. The pre-saving element also exists in unfunded or “pay as you go” (PAYG) schemes. These distinctions are crucial for portability of acquired rights before eligibility. Their application varies across benefit types:

*Old-age pension benefits:* This benefit clearly distinguishes between saving (pre-funding) and risk coverage. Saving happens before retirement. At retirement, such accumulations are transformed into an annuity to insure against the uncertainty of death. Accumulations before retirement should be, in principle, straightforward to make portable. Once the benefit is in disbursement, the individual is a member of the risk pool and there are few economic and social policy reasons why receipt of the pension should depend on residency. However, acquired rights and pensions sometimes contain important elements of redistribution that make portability less straightforward. Explicit and implicit redistribution happens at the time of accumulation (through contribution and benefit formulas) and at disbursement (through pooling of different survival profiles).

All *other social (cash) benefits* insure against a specific risk, and have elements of pre-saving and redistribution in contribution and/or benefit design. Financing is sometimes from general taxes, not earmarked contributions. In addition, the insurer (government or private sector) needs to be able to stop paying when the risk ceases to exist, which is more difficult when payments happen to abroad. These factors render decisions about scope and limits of portability quite complex.

*Sick pay:* Payment is linked to a short-term risk but payouts typically increase with age and are proportional to wages. This implies some pre-saving, but limited redistributive features in a wage-based contributory scheme. Hence, few issues of transfer of acquired rights should emerge if an individual changes country (or employer), while benefits in disbursement could, in principle, be paid under existing rules. But since verification of pre-existing conditions or continued sickness may prove difficult, portability has typically not been established (or proposed). Issues of acquired rights, however, emerge if sickness leads to work-related injury claims or non-work-related disability claims after the individual changes employer or residency.

*Unemployment benefits:* The benefit payment is linked to a short-term risk and has some pre-saving elements if older workers are more prone to unemployment; redistributive features exist if the unemployment risk is not equally distributed across individuals (professions). Although the pre-saving element supports transfer of acquired rights, this

would be difficult to establish in most schemes given the strong redistributive features of typical unemployment insurance schemes.

*Family benefits:* Typical benefits in European and some other countries include child care benefits (usually financed through contributions by employers and/or employees but the logic holds when general tax financing is applied. The objective is largely redistributive (towards children and families with low income). Conceptually, there is a pre-saving credit/tax element as the transfers (as credit) when young (and with children) and the contributions or taxes (re-payment) when old (and children are out of the house) help finance the expenditure. Continued payment of benefits when individuals move abroad would be consistent with the proposed framework. But the pre-saving credit/tax structure invites welfare arbitrage and possible fiscal unfairness may call for restrictions/reimbursement.

*Health care benefits:* Health care benefits contain a major element of redistribution and pre-funding in both public and private schemes. Contributions are typically flat or a fixed share of income, while health care expenditures rise strongly with age. This allows for the accumulation of funds when individuals are younger, from which excess expenditures are paid when they are older. This should allow for the portability of health care benefits upon retirement, but also the transfer of accumulated funds while individuals are active and changing countries. Critical issues concern the calculation of the transferable funds in view of different risk profiles, differences in health care costs between sending and receiving countries, and the redistributive contribution feature in many countries.

Specific program objectives and design features clearly have a bearing on portability. If portability is considered critical to address fairness and efficiency concerns across space, professions, and time, this may call for changes that force tradeoffs between different social policy and economic objectives. For key social programs, the current trend is towards multi-pillar arrangements consisting of basic (and tax financed), mandated (and contribution based), and voluntary (and premium-based) provisions (such as in old-age and health care benefits). For fairness and efficiency considerations of portability, all pillars need to be considered.

***The insurance, saving and distributive components of social insurance benefits: A simple analytical model***

In a world of homogenous individuals exhibiting the same risk profile and under full information, individuals would be able to insure themselves against well-specified risks with a fair insurance premium. Portability would not be an issue when moving between countries; individuals would simply buy actuarially fair insurance for each period in the new host country. The insurance component of a one-period benefit with homogenous individuals, without pre-saving and redistribution, has a simple budget constraint:

$$[3.1] \quad c(a) = b(a) p(a) = E[b(a)]$$

with  $c(a)$  the contribution/insurance premium at age  $a$ ,  $b(a)$  the benefit paid in case of risk realization,  $p(a)$  the probability of the risk, and  $E[b(a)]$  the expected benefit. The insurance is fair and the aggregation over (homogenous) individuals assures budget balance.

If the risk and/or price of the benefit package increases with age, individuals will simply pre-save for future higher contribution payments. But this could also be addressed by levying a contribution above the period insurance costs when individuals are younger, thus building a pre-saving component into the insurance package. In this case, one's contribution at a young age pays for a period insurance component plus a period pre-saving component for future insurance coverage. If pre-saving is introduced, the period budget constraint is extended to:

$$[3.2] \quad c(a) - E[b(a)] = s(a)$$

with  $s(a)$  the period pre-savings available at the end of period  $a$ . If moving between countries, the individual now has accumulated pre-savings that he needs to take along to establish portability.

Accumulating the individual savings till an (arbitrary migration at) age  $\tilde{a}$  and using capital letters for the aggregated amounts at this age (measured at end-period) gives:

$$[3.3] \quad S(\tilde{a}) = \sum_{a=1}^{\tilde{a}} s(a)(1+r)^{\tilde{a}-a} = \sum_{a=1}^{\tilde{a}} [c(a) - E[b(a)]](1+r)^{\tilde{a}-a} = C(\tilde{a}) - B(\tilde{a})$$

with  $r$  the rate of return provided by the system and consistent with the macroeconomic budget balance.  $C(\tilde{a})$  are the aggregated contributions paid into the system plus the returns received;  $B(\tilde{a})$  is the aggregated (present) value of the insurance component and is independent of any benefits received.

At the time of migration (the beginning of period  $\tilde{a}+1$ ), the present value of the (expected) future benefits  $B^e(\tilde{a}+1)$  minus the present value of any (expected) future contributions  $C^e(\tilde{a}+1)$  till the latest possible age of death  $a^d$  in the new host country is:

$$[3.4] \quad B^e(\tilde{a}+1) - C^e(\tilde{a}+1) = \sum_{a=\tilde{a}+1}^{a^d} \frac{b(a)p(a)}{(1+r)^{a-\tilde{a}+1}} \sigma(\tilde{a}+1, a) - \sum_{a=\tilde{a}+1}^{a^d} \frac{c(a)}{(1+r)^{a-\tilde{a}+1}} \sigma(\tilde{a}+1, a)$$

The present value of the future benefits depends on the survival probability from migration age  $\tilde{a}$  to age  $a$  –  $\sigma(\tilde{a}+1, a)$ , the benefit level  $b(a)$ , and the probability (risk) of using the benefit  $p(a)$ . The latter is typically 1 for pension benefits, but below 1 and rising with age for health care benefits.

If the (new) host country has characteristics similar to the (old) host country, the expected present value of benefits minus contributions is positive and needs to be financed with external financing. If the characteristics of both countries are identical, the accumulated and portable savings provide this financing match:

$$[3.5] \quad C(\tilde{a}) - B(\tilde{a}) = B^e(\tilde{a}+1) - C^e(\tilde{a}+1)$$

Equation [3.5] presents an actuarially fair scheme in which the expected value of future benefits minus future contributions equals the level of savings at each age. If this is not the case, redistribution is taking place in the form of taxation or transfer. Introducing  $R(\tilde{a})$  as the present value of the redistribution component at age  $\tilde{a}$  in equation [3.6] completes the exercise;  $R(\tilde{a})$  can be positive (a transfer) or negative (a tax).

$$[3.6] \quad S(\tilde{a}) + R(\tilde{a}) = C(\tilde{a}) - B(\tilde{a}) + R(\tilde{a}) = B^e(\tilde{a}+1) - C^e(\tilde{a}+1)$$

The left hand side signals the amount of resources at stake when moving across professions or borders. There should be no disagreement that the savings component be portable (at both the accumulation and disbursement stages). There may be some discussion about the portability of the redistributive component, in particular if it is negative. If no savings or distributive components exist, the question of portability should not even emerge.

### 3.5 Defining Portability: Scope and Other Issues

To which social risk management instruments should portability apply? Those based on mandated (public program) contributions and occupational or voluntary (private sector program) premiums (i.e., “acquired rights”)? Those based on needs-based considerations that are tax-financed? The legislation and ruling within the EU and the Conventions by the ILO restrict portability on benefits based on acquired rights, albeit not necessarily those contribution-financed but those based on prior length of residency (and general tax payment).

This suggests a definition of portability as the ability to preserve, maintain, and transfer vested social security rights (or rights in the process of being vested), independent of profession, nationality, and country of residency, as specified by two critical elements:

- The full *receipt* of vested and eligible social security rights as well as rights under private sector arrangements (benefits in disbursement, health care coverage), based on acquired rights through prior contributions/premiums or residency criteria in any chosen residency.
- The full *transfer* of social security rights as well as rights under private sector arrangements that are in the process of being vested before eligibility has been established, based on acquired rights through prior contributions/premiums or residency criteria in any chosen residency.

These criteria raise many questions for which good answers are not yet available:

- Are the acquired rights limited to the actuarial value of own contributions (such as in pensions) or do they extend to the present value of expected benefits based on prior contributions (accrued-to-date liability) that may contain major distributive elements across and within cohorts or may not be financially sustainable?
- Should all, some, or none of the redistributive component of acquired rights be recognized? In a Coasian world of well-defined property rights, issues of portability would not emerge, but property rights are typically not well-defined in social insurance programs.
- How should the acquired rights, and hence the transfer amount, be calculated: backward-looking based on past contributions and one’s risk profile under the old institution, or forward-looking based on expected net benefits under the new institution?
- How should the transfer amount be financed in PAYG schemes? While only the net amount (of inflows and outflows) needs to be financed, it could still exceed the available reserves in more traditional pensions and health care schemes.

- As voluntary premiums to private sector programs (in particular, supplementary old-age pensions and health care) are part of SRM and are increasing in importance worldwide, they should be made portable for the same fairness and efficiency reasons. Employer-sponsored programs may contain enterprise-specific human resource policy elements, imposing rational restrictions to portability; how should this be addressed? And as these programs are often tax-privileged, what would an efficient and fair tax treatment for individuals, enterprises, and sending and receiving countries look like?
- What happens in the case of residency-based benefits (such as demograts<sup>9</sup>) that are tax financed? Should they be included on a pro-rata residency basis?
- Should benefits in disbursement (such as pensions) that contain elements of social assistance and other top-ups (e.g., for housing) also be portable? If so, to what extent? Would indexation apply to these benefits or be restricted to the country of disbursement?

A further set of decisions concerns the scope of social benefits for which portability should apply. In many countries, there is a realm of social benefits that could potentially qualify for portability based on acquired rights. Typically old-age pension and health care benefits get most of the attention but the list is much longer (and not yet complete):

- Old-age benefits
- Disability benefits
- Survivor benefits
- Workers' accident and occupational diseases (disability benefits)
- Sick pay and maternity benefits
- Severance pay
- Unemployment benefits
- Family benefits (such as children/family allowance)
- Health care benefits
- Long-term care benefits for the elderly
- Income replacement benefits for the care of children, and sick or elderly people

While fairness considerations warrant making all of them as portable as possible, to avoid biases, only a few benefits may be relevant for individual mobility decisions. Furthermore, the administrative arrangements needed to establish and monitor portability may prove to be very costly, if they can be made to work at all (e.g., unemployment and family benefits). They may work in a regional arrangement (such as the EU) but not across continents.

### **3.6 Establishing Portability: Policy Options and Issues**

It is proposed that there are essentially two key aspects involved in establishing portability of social benefits. The first aspect is to change the design to make benefits as portable as possible. The second aspect is to define a range of portability arrangements at the unilateral, bilateral, and multilateral levels. These two aspects are partly substitutive and partly complementary.

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<sup>9</sup> Basic provisions granted because of residency and independent of other income or assets.

### *Changing benefit design*

The key feature of this proposal is to move toward a benefit design that distinguishes explicitly between the period insurance element and the pre-funding element of social benefits in addition to making any redistributive action outside the benefit schemes. While this may have limited bearing on the portability of benefits in disbursement, having a clearly identified pre-funding element should substantially ease portability for all social insurance type benefits, except, perhaps, family benefits. For cash benefits, this is accommodated by the (partial or full) move from a defined benefit (DB) to a defined contribution (DC) type structure. DC benefits are inherently more portable than DB benefits for two reasons:

- First, accrued rights are better defined under DC schemes than under DB schemes. Under a DC scheme, an individual gets out what he/she paid in (plus interest); and what he/she gets out he/she paid in but not more. This should allow full portability at the accumulation as well as at the disbursement phase.
- Second, in funded DC schemes, the accrued rights are backed by financial assets that are, in principle, fully mobile. Such mobility can also be established in non-financial Notional Defined Contribution (NDC) schemes, as countries need only to transfer (clear) the net value of all bilateral movements. If established at the multilateral (regional) level, any net amount would even further decrease and may be financed out of the reserve (buffer) fund or else through debt instruments that are transferred with the (net) benefits.

The key benefits enhanced by these design changes include:

- Old-age benefits: Moving to DC schemes has no material impact on portability for benefits in disbursement, but allows for easier portability of benefits accumulated. The amount of the latter is easily established by the individual account value and can be carried with any move between countries (or left in-country if further remunerated). It requires essentially no vesting period and benefits can be fully aggregated.
- Disability benefits: A move to DC schemes would allow governments to separate disability benefits from old-age benefits. As the risk can be independently priced, a distinct scheme can be established to finance benefits if an individual becomes disabled, but also allow him to contribute to the old-age DC scheme. When an individual is young, his disability risk is low but the length of time to pay for the old-age scheme (financed by the disability insurance) is long; the reverse holds for older workers. This should keep contributions fairly flat and hence limit prefunding.
- Survivor benefits: Moving to DC schemes would allow the establishment of independent rights for the survivor before the plan holder's death and hence full portability (and easier handling of divorces via division of accumulated funds during marriage). Survivor benefits can then be restricted to a short-term DB scheme, with eligibility length depending on the age of children.
- Sick pay: As sick pay already has pre-funding features, the design can be strengthened by allowing accumulation of permissible sick-days per year (say, 2 weeks) on which individuals can draw for longer sickness, while having part of

- their unused sick-days compensated when they change employment. The latter could be made transferable to the new employer (and country).
- Unemployment benefits: Moving from DB-type unemployment insurance to a DC-type unemployment savings account (UISA) makes it easier to transfer accumulated benefits (also into retirement) and has conjectured positive labor market effects (Hartley *et al.* 2010). Of course, DB-type benefits for individuals with high unemployment risks will need to be established (“social pooling”). And if borrowing from the UISA is possible, there needs to be a mechanism to recover these funds (say, from the retirement account).
  - Health care benefits: Here also, one could envisage a DC-type structure that separates the prefunding from the period insurance element, but the actual implementation is quite likely to be more complicated.

### *Portability arrangements*

There is a range of arrangements that can be used to enhance or fully establish portability; some are already in use. Most portability analysis and discussions focus on BAs, but the scope of the arrangements is much larger and includes the following:

- Unilateral actions (UA): UAs can be taken by the country where the individual has established acquired rights and can improve portability through full exportability of acquired rights. Examples of unilateral actions include:
  - (a) Denying access to the national social security scheme (such as in the GCC countries for essentially all “expats,” and for some categories of foreign workers in Singapore and Hong Kong). As no contributions are levied, the individual can establish his own rights by contributing to pension and health care benefits (for himself and his family) in his home country, as in the Philippines and in Mexico.
  - (b) Allowing access on a voluntary basis. In this case, the individual can make a choice between contributing in his host or home country, with the decision depending on benefit design and exportability.<sup>10</sup>
  - (c) Allowing the full or at least partial exportability of benefits based on acquired rights.
- Bilateral agreements (BA): BAs are the centerpiece of current portability arrangements between countries. While they can, in principle, cover the whole range of exportable social benefits, they typically focus on long-term benefits such as old-age, survivor, and disability pensions, and to a much lesser extent on health care benefits, if at all.<sup>11,12</sup>

*On pensions, a BA can:*

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<sup>10</sup> The Philippines and Mexico fall somewhere between example (a) and (b). The Philippines allows workers to contribute to the national pension schemes but independently of access in host country. Similarly, Mexican migrants can get access to health care benefits for a flat-rate premium (for their families left behind or themselves when they return) independent of their insurance in the host country (i.e., U.S.).

<sup>11</sup> For some historic and legal background on bilateral agreements, see Strban (2009).

<sup>12</sup> There is no single study (inventory) that captures the content of BAs across the world or even of sub-regions such as Europe, and to our knowledge there is no single evaluation undertaken that assesses the effectiveness of BAs and MAs.

- (a) Focus on temporary migrants only (e.g., waving the contribution requirement to the pension scheme in the host country while making such contributions mandatory in the home country).
- (b) Cover all (legal or even illegal) migrants that have established acquired rights.
- (c) Establish benefits in the case of different benefit types between countries (e.g., residency-based basic and contributory schemes).

*On health care, a BA can:*

- (d) Provide emergency access to the health care system only.
  - (e) Provide access to basic health care benefits.
  - (f) Allow full access to health care benefits with complicated arrangements of compensation.
- Multilateral arrangements (MA): For a group of countries, a general framework of portability for all or a subset of social benefits is established. These general rules are typically supported by further BAs. The best known and developed MA is among the EU member states. MAs have also been established in Latin America (MERCOSUR) and the Caribbean (CARICOM), and one is currently being established between Latin America and Spain and Portugal (Ibero-American Social Security Convention.). The EU is also leading efforts to enhance social security cooperation within the Euro-Mediterranean Partnership (EMP).<sup>13</sup>
  - Multinational providers (MP): A promising approach may be to use the services of MPs, at least for supplementary benefits. MPs exist and function well for health care benefits (e.g., Van Breda, a Belgium service provider, services World Bank staff and retirees residing in Europe, and is used by the European University Institute). MP arrangements have been discussed, and sometimes implemented, for supplementary pensions of international workers in multinational enterprises.

#### **4. Benefit Design and Portability Arrangements - Pensions**

This section applies the conceptual framework of the prior section to (old-age) pension benefits. The key purposes are: to gain a better understanding on the most critical elements in pension scheme design that impede portability; to identify the role, scope, and limits of portability arrangements to overcome those impediments; and to illustrate the role of benefit design in establishing full portability in a regional setting.

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<sup>13</sup> Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey, and the Palestinian Authorities.

## 4.1 Actuarial Fairness of Pension Benefits and Portability

A key conjecture of Section 3 is that portability can be improved or even fully established if the insurance, savings, and redistribution components can be clearly distinguished within an actuarial framework and agreements between countries established accordingly.

Abstracting initially from redistribution, the actuarial value of old-age benefits under a social insurance approach can be formally defined, the net savings amount/accrued-to-date liability calculated, and portability established.

Equation [3.3] provided a presentation of the (actuarial) saving component for an individual at any arbitrary age  $\tilde{a}$  before retirement under an old-age social insurance scheme. The expected benefit  $E[b(a)]$  prior to retirement in an old-age insurance scheme can be a disability or survivor benefit or zero if such benefits are provided via separate schemes that are individually priced. True to a social insurance scheme, the risk profile and hence the insurance component –  $E[b(a)]$ ,  $B(\tilde{a})$  – reflects the average for the population.

With these contributions, the individual acquires rights to a stream of expected future pension benefits  $b(a)$  from retirement age  $a_r$  onward. Valued at age  $\tilde{a}$  the present value can be written as:

$$[4.1] \quad B^e(\tilde{a}) = \frac{B^e(a_r)}{(1+r)^{a_r-\tilde{a}}} = \left[ \sum_{a=a_r}^{a^d} \frac{b(a)}{(1+r)^{a-a_r}} \sigma(a_r, a) \right] / (1+r)^{a_r-\tilde{a}}$$

with  $\sigma$  the survival probability from retirement  $a_r$  to age  $a$ .

If the system is actuarially fair, the present value of future benefits will need to equal the value of accumulated savings. Put differently,  $B^e(\tilde{a})$  is the acquired right (accrued-to-date liability of the scheme) for an individual at age  $\tilde{a}$ . To be fully financed (and actuarially fair), this amount must be matched by the accumulated value of individual and contribution-based (actual or notional) savings  $S(\tilde{a})$ .

We can be a bit more specific about the stream of benefits when specifying an initial benefit at retirement  $b(a_r)$  that is indexed with an annual growth rate  $g$ , and can rewrite the actuarial equilibrium condition accordingly:

$$[4.2] \quad S(\tilde{a}) = b(a_r) \sum_{a=a_r}^{a^d} \frac{(1+g)^{a-a_r}}{(1+r)^{a-a_r}} \sigma(a_r, a) / (1+r)^{a_r-\tilde{a}} = b(a_r) G(g, r, \sigma) / (1+r)^{a_r-\tilde{a}}$$

where  $G(g, r, \sigma)$  is a function of the growth rate (indexation) of pensions, the interest rate, and the survival probability measured from retirement. Keeping  $g$  and  $r$  equal,  $G$  can be simplified to the (conditional) life expectation at retirement.

Equation [4.2] can be solved for the initial benefit needed to achieve equilibrium (and indeed, this approach is used by DC systems (fully funded or notional) to calculate the initial annuity).

$$[4.3a] \quad b(a_r) = \frac{S(\tilde{a})(1+r)^{\tilde{a}-a_r}}{G(g, r, \sigma)}$$

The same approach can, in principle, also be used for a DB scheme and a translation of the accrued-to-date liability into an actuarially fair benefit stream. In many cases, however, these will not be the same.

$$[4.3b] \quad b(a_r) = \frac{B^e(\tilde{a})(1+r)^{\tilde{a}-a_r}}{G(g, r, \sigma)}$$

Both [4.3a] for DC schemes and [4.3b] for DB schemes can be used to establish actuarial fairness and hence full portability of old-age pensions across borders. Under equal country characteristics, the individual as well as the sending or receiving country would be indifferent between having the pension paid out in the future by the sending country or receiving it as a transfer and moving the accumulated savings or accrued-to-date liability to the receiving country.

In country systems that are of Notional Defined Benefit- (NDB-) type, the actuarial condition as formulated in [4.2] is typically not fulfilled, as the systems exhibit main redistributive features at the level of contributions, at the level of benefits, and their non-actuarial linkage. Hence to achieve balance, a residual redistributive component  $R(\tilde{a})$  is introduced that can be positive (a transfer) or negative (a tax) for the individual.

$$[4.4] \quad S(\tilde{a}) + R(\tilde{a}) = b(a_r)G(g, r, s)/(1+r)^{a_r-\tilde{a}}$$

This redistributive component may represent redistribution within a cohort or generation and hence a deviation from some average that is actuarially fair and financially sound. For example, the benefit formula may favor low income groups through contributive advantages and flat rates or progressive benefit formulas. In this case,  $R(\tilde{a})$  is positive for individuals below some reference average and negative for those above. And there are good arguments to make both the savings  $S(\tilde{a})$  and the redistributive component  $R(\tilde{a})$  fully portable before retirement and the insurance component  $B(\tilde{a})$ , or what it is left, portable after retirement. They all reflect acquired rights that are financially sustainable. Hence, a transfer will not make the individual, the sending country, or a potential receiving country worse off.

The portability issues become less straightforward if the redistributive component is financially highly unsustainable, and the system needs a comprehensive reform with direct impact on the expected benefit level. In consequence, the acquired rights that are recognized at the time of migration are not well-defined. This is of little consequence if the migrant does or will receive his pension abroad from the former receiving country, as a reform-induced reduction in benefit level would hit him as well. It is potentially different for transfer amounts taken along with migration that include the savings as well as the redistributive component. While there should be little problem for the savings component under a DC scheme, the redistributive component may be an issue if it is large, as this risks leaving the sending country worse off while making the migrant better off compared to the immobile nationals. This issue is prevented with a fully fleshed out DC scheme with a balancing mechanism that ensures solvency.

## 4.2 Application of Benefit Design Review and Portability Arrangements in a Multi-pillar Pension Framework

Multi-pillar pension designs are being adopted in an increasing number of countries and a five pillar concept has been proposed to analyze existing systems (see Holzmann and Hinz 2005). The presentation here is compressed to three pillars (see Table 3): basic pensions; mandated earnings-related pensions (funded and unfunded); and voluntary and funded supplementary pensions. For each pillar, the first column in Table 3 identifies key constraints for portability that result from legal restrictions, benefit design, or taxation rules. The second column identifies the potential losses linked with each constraint. The remaining columns sketch the key actions that can be taken under the four identified portability arrangements to increase or fully establish portability.

(i) *Basic pensions* in the form of demogrant exist only in a few countries.<sup>14</sup> Portability should, in principle, not be an issue as it can be easily established on a pro-rata or threshold basis. Guaranteed minimum income schemes in the form of means-tested social pensions and similar social assistance-type schemes that provide a floor exist in many more countries, including in the developing world<sup>15</sup> (see Holzmann, Robalino and Takayama 2009). In low and middle income countries with typically low coverage, they serve as the main instrument of old-age retirement income for the elderly needy. The higher the income level of countries (and hence coverage rate), the more the minimum income guarantee serves to supplement low contributory pensions. Such guarantees reflect the social policy concerns for low-income groups that are country-specific and needs-based, and as a result are typically excluded from portability. A solution exists in reciprocity contracts between countries. While only the pension based on acquired rights is made portable, individuals get access to the income guarantee when they take residency in another country covered by the agreement (an approach emerging under the 2004 EU directive).

Making *earnings-related pensions* fully portable should, in principle, create no obstacles and would be consistent with individual and fiscal fairness. The main constraints emerge due to: national decisions to exclude migrant workers from contributing to the scheme or disallowing the export of pensions; design features of pension benefit design; and tax regulations. (Temporary) migrants' lack of access to the host country's pension scheme is not strictly a portability issue, as it allows individuals to contribute to schemes in their home country or save on a voluntary basis. A social policy issue emerges if they cannot or do not want to do so, as they may lack coverage when they are old. Difficult to justify, but easier to address is the prohibition of benefit export, or if permitted, the reduction on pensions in payment. The prohibition of export is a case where international rules should become binding to make eligible rights fully exportable. The reduction of exported benefit levels to take account of differences in purchasing power is a more complicated matter – both conceptually and operationally.

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<sup>14</sup> E.g., Canada, Iceland, Mauritius, Netherland, and New Zealand.

<sup>15</sup> E.g., Botswana, Brazil, Chile, Namibia, and South Africa.

**Table 3: Multi-pillar benefit design and portability arrangements**

<b>Pillars (and benefit types)</b> Portability constraints	<b>Potential individual loses</b>	<b>Unilateral action (UA)</b>	<b>Bilateral agreements (BA)</b>	<b>Multilateral arrangements (MA)</b>	<b>Multinational providers (MP)</b>
<b>Basic pension: Demigrant and minimum income guarantee</b>					
Not exportable	Loss in basic pension	Make demigrant exportable on pro-rata basis	Reciprocity Totalization of residency Benefit recalculation	Reciprocity Totalization of residency Benefit recalculation	
<b>Mandated earnings-related benefits (first &amp; second pillar)</b>					
No access to social security in host country (NDB, DC)	From none to access to any pension	Contribution in home country			Contribution to MP
Voluntary access, not exportable (NDB, NDC)	From none to access to any pension	Contribution in home country Reimbursement of contributions	Reciprocity Totalization Benefit recalculation	Reciprocity Totalization Benefit recalculation	Contribution to MP
Access but not exportable (NDC, NDB)	Loss in contribution payment/pension benefit	Make exportable Reimbursement of contributions	Totalization Benefit recalculation	Totalization Benefit recalculation	
Access, exportable with penalties (NDB, NDC)	Loss at the level of penalty	Eliminate penalties	Totalization Benefit recalculation	Totalization Benefit recalculation	
Vesting period (NDB)	From none (if not binding) to loss of any pension	Move to NDC	Totalization	Totalization	
Last salary formula (NDB)	Backloading gains	Move to NDC	Benefit recalculation	Benefit recalculation	
Non-linear accrual rates (NDB)	Loss or gain depending on accrual rate scale	Move to NDC	Benefit recalculation	Benefit recalculation	
Top-ups not exportable	Loss of top-ups	Grant export	Reciprocity	Reciprocity	

Taxation policy	From gains to none to double-taxation		Reciprocity	Harmonized tax treatment (EET, TTE)	
<b>Voluntary funded benefits</b>					
Vesting period (FDB)	From none to full loss in pension	Move to FDC			Contribution to MP
Last salary formula (FDB)	Loss in back-loading gains	Move to FDC			Contribution to MP
Non-linear accrual rates (FDB)	Loss or gain depending on accrual rate scale	Move to FDC			Contribution to MP
Taxation policy (e.g., different taxation rules; no tax deduction for premium paid abroad)	From gains to none to double-taxation	Allow tax deduction for contributions paid to abroad	Reciprocity	Harmonized tax treatment (EET, TTE) Deductibility	

*Source:* Authors.

(ii) For mandated earnings-related pension benefits, BAs and MAs are a way to address most fairness and efficiency concerns, although the limited available information and evidence suggest that they are unlikely to comply fully with the fairness and efficiency criteria established above. Again, a more actuarial benefit structure (augmented by explicit redistributive features, as deemed useful) would reduce the severity of these concerns.

(iii) *Voluntary pension pillars* are gaining increasing importance to increase coverage for the uncovered, to compensate for reduced public generosity for the covered – a trend that will continue – and to provide more room for individual retirement decisions – for example, bridging the period to a later retirement age by own saving. The first two policy goals are increasingly supported by direct monetary incentives (i.e., matching contributions, see Hinz *et al.* 2013), the last two aspects are of particular relevance for high income groups that are typically also more mobile. Portability issues for voluntary pensions prior to retirement are typically linked to DB design in occupational pensions and regulatory and tax issues in both occupational and personal (tax-qualified) pensions. Occupational DB pensions with their vesting and back-loading features that risk impeding within-border mobility have attracted attention for a long time in a country context; with increased mobility across countries, portability issue of occupational pensions have also received more attention, including in the EU (see, e.g., Andrietti 2001). Cross-border portability of occupational pensions is of relevance also for migrants from outside the EU: in a number of EU member countries, occupational pensions are fully part of the national pension system design (such as in France, Denmark, Netherlands, Sweden, and the UK) and migrants have higher internal-EU mobility than nationals. Despite this strong interest, progress has been slow and has stalled at a time when non-statutory pensions are gaining importance (Verschueren 2009). The difficulty of coming up with EU-wide regulations is linked with the diversity and complexity of occupational schemes within and across countries, their voluntary nature (policy makers are hesitant to burden employers with complex and possibly expensive regulations), and the political resistance at the EU Council level for more coordination and streamlining.

### **4.3 A Regional Framework for Pension Portability**

To address fairness and efficiency concerns related to the production of and trade in goods and services within regional areas of integration, the value-added tax (VAT) system was created by the (predecessor of the) EU and since implemented in many other countries. The VAT system creates a framework for taxing goods and services that is neutral for domestic production and consumption decisions while allowing countries to fix their own contribution rates and hence allow for an autonomous fiscal policy stance. Development of an equivalent framework should be considered to guarantee freedom of movement of labor across the EU and to inspire neighboring countries to join this approach. A portability framework for pension benefits that creates fairness and efficiency while allowing (member) countries to continue autonomously determining the level of benefits and financing requirements (contribution levels) could emulate the intent and outcome of the VAT system. The proposed key elements of such a framework for pensions (old-age, disability, and survivor) include (Holzmann 2006):

- A multi-pillar pension approach, with NDC schemes at its core and social pension-type (basic) and voluntary (occupational and personal) Funded Defined Contribution (FDC)-type (supplementary) provisions at its wings.
- Full portability of acquired rights across professions within borders (e.g., between civil servants and private sector workers) as well as for all professions across borders. Acquired rights in NDC accounts could be kept in each country, and revalued through the notional interest rate and transformed into a pension at retirement. Alternatively the individual's account value could be transferred with the mobile worker when he crosses borders to a new job and when a new individual account is created. Between countries, only the net flows for all movers would need to be cleared.
- Countries could decide on the level of overall contribution rate and also a possible split between statutory NDC and FDC schemes.
- For the basic pillar, countries could establish a minimum income guarantee (social pension) and its integration with the statutory earnings-related pension. While such guarantees might not be exportable, reciprocity agreements would establish fairness and efficiency.
- For the voluntary pillar, benefit portability within a common FDC framework would be highly facilitated. A common framework for tax treatment (such as on taxation principles such as EET and cross-border contributions) would be required for complete implementation. Alternatives include the use of MPs for pensions.

## **5. Benefit Design and Possible Portability Arrangements – Health Care**

Health care benefits share a number of similarities with pension benefits but exhibit additional features that render their portability significantly more complex, perhaps explaining why comprehensive arrangements for their portability are still more the exception than the rule. Yet application of the framework developed in Section 3 provides a promising basis to overcome many of the obstacles, and offers an analytical benchmark to facilitate the development of an operational portability approach.

### **5.1 Similarities and Differences between Pension and Health Care Benefits**

Pension and health care benefits share a *number of similarities*, most importantly:

Prefunding: Health care benefits are also characterized by a major savings component. While some benefits are accessed early in the lifecycle, the majority of expenditure are incurred later. With flat or earnings-related contributions, this leads to a major accumulation of savings that typically peaks around the age of retirement.

Redistribution: The redistributive component of health care benefits is quite likely at least as high as that of pensions, and in many cases much higher. The redistributive elements enter at the level of contributions that in many health care systems are wage-based, while the benefits are risk-based. Redistributive elements also enter at the level of benefit provision through survivor benefits for pensions and health care benefits for family members that are often not separately priced.

Benefit costs: Both benefit types are exposed to differences in the purchasing power/cost of living between home and host countries. This has a potential impact on the relative value of any savings component that may be transferred and the value of goods and services that can be purchased.

Health care benefits exhibit a number of complexities that create main *differences* from pension benefits, most importantly:

Benefit package: Pension benefits are relatively simply structured. The benefit is a monetary amount and once its initial value is established, it typically changes in line with an index formula related to wages and/or prices. Health care benefits are, in principal, open-ended. Even when a basic health care benefit package is defined, it can vary substantially across countries and over time.

Risk profile: The common risk profile across both benefits is the survival probability (related to mortality). In addition, health care benefits depend on health-specific risk profiles (related to morbidity) that vary substantially across individuals.

Family benefits: Both benefit types provide family benefits for dependent family members. However, in the case of health care, the access to benefits may, in principle, be distributed between host and home countries if the migrant's family stays behind.

## 5.2 Applying the Framework to Health Care Benefits

The challenges of portability of health care benefits are the result of asymmetric information, the revelation of an individual's true health risks with age, and redistributive considerations. Otherwise, individuals could purchase actuarially fair insurance in each period (in host and home country) as per equation [3.1] and buy new insurance each time they migrated to a new country. However, as the expected benefit typically increases with age because of higher health risks and more intensive benefit usage, health insurance premiums likewise increase. This could, in principle, be addressed with personal pre-saving. But some individuals move from being a good (low) risk to being a bad (high) risk—often entailing catastrophic costs— so that the premium may eventually become unaffordable if a contracting insurance company can be found at all. Even if it could be financed, pre-saving for a risky event does not allow welfare-optimal consumption smoothing, as at the end, too little or too much will have been saved. For this reason, mandated risk-pooling in social health insurance has been established in most countries. The mandated contributions are levied in a flat or earnings-related manner over the lifecycle, largely divorced from the individual's risk profile, giving rise to a savings as well as a redistributive component.

Abstracting initially from these complications, the actuarial value of health care benefits under a social insurance approach can be formally defined, the net savings amount calculated, and portability established.<sup>16</sup> Recall again equation [3.3]. In the case of a social health insurance scheme, the risk profile and hence insurance component  $B(\bar{a})$  reflects the average for the population. Any non-anticipated mortality and morbidity changes are reflected in the sustainable rate of return  $r$ .

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<sup>16</sup> For a more complete analytical treatment of the different risks involved, see the companion paper by Werding and McLennan (2011).

In the receiving (host or home) country, a transferred savings amount serves to balance the difference between the present value of expected benefits and contribution for the remainder of the lifecycle till death ([5.1] as per equation [3.5]).

[5.1]

$$S(\tilde{a}) = \sum_{a=\tilde{a}+1}^d \frac{b(a)p(a)}{(1+r)^{a-\tilde{a}+1}} \sigma(\tilde{a}+1, a) - \sum_{a=\tilde{a}+1}^d \frac{c(a)}{(1+r)^{a-\tilde{a}+1}} \sigma(\tilde{a}+1, a) = B^e(\tilde{a}+1) - C^e(\tilde{a}+1)$$

with  $b(a)$  the price of the health care benefit package at age  $a$ ,  $p(a)$  the probability of its use, and  $\sigma$  the (conditional) survival probability.

Equation [5.1] is the actuarial condition for any age cohort within a country. The new and old risk pool would not be better or worse off by transferring the saving component with the migrant as long as: the risk profiles are largely similar; the contributions in home and host countries are levied in a similar manner; the migrant represents a fair selection of both populations; and the benefit package is of similar size and price. Portability of health care benefits could be fully established under these conditions.

Some of these simplifying assumptions are next relaxed one by one to investigate the implications for actuarial fairness and portability, and first considerations outlined.

Different risk profiles: What happens to actuarial fairness and portability if the new member is known to be a bad risk? To assure actuarial fairness, would this need to be compensated by a higher transfer amount from the home country? In principal yes, but it is not clear whether the bad risk profile necessarily leads to higher expected expenditure as the expected higher benefits  $E[b(a)]$  at all ages need to be assessed against the lower survival probabilities of a bad risk. There is limited empirical research on this topic, but available studies suggest that at least for retirees, being healthy does not lead to lower remaining lifetime health care costs (see Sun, Webb and Zhivan 2010). Nevertheless, the expected expenditures of bad versus good risks also have to be compared to expected contributions. Ultimately, an analysis of the net balance of expected contributions over expenditures of bad versus good health risks at different ages would have to take into account potential adverse selection issues; bad risks—knowing their true health status—might decide to migrate to countries with better health packages.

Different contribution profiles: Under equal conditions in host and home countries, the contribution profile can be flat over the lifecycle, say a given share of average wage or average health expenditures, or a share of the individual wage, leading to a major redistributive component  $R(\tilde{a})$  at migration age  $\tilde{a}$ :

$$[5.2] S(\tilde{a})_i + R(\tilde{a})_i = C(\tilde{a})_i - B(\tilde{a})_i + R(\tilde{a})_i = B^e(\tilde{a}+1) - C^e(\tilde{a}+1)_i$$

The redistributive component can be substantial. Say individual  $i$  earns half of the average income for his whole life. As the contribution needed to finance the average benefit package is at the level of the average income payer,  $R_i(\tilde{a})$  amounts to the size of his accumulated own contribution effort  $C_i(\tilde{a})$ . To ensure that neither home nor receiving country is made worse off, the redistributive component would also need to be transferred/made portable.

As long as migrants are an unbiased sample of the population in home and host countries, and wage and hence contribution levels are equivalent, neither risk pool would be affected. When migrants are among the lower paid individuals in the host country, as happens when the host country has a well-educated, high-productivity labor force, then the home country receives a larger transfer compared to the expected future benefits. The reverse is true when migrants depart from a lower income home to a higher income host country.

Different prices of health care packages: So far, it has been assumed that the health care package has the same price in the host and home countries. But richer host countries typically have more comprehensive and expensive packages, even for basic provisions. Hence transferring the full amount of the saving component from a richer host country  $h$  at retirement would lead to a windfall profit for the poorer home country  $m$  while leaving the risk pool in the host country unchanged. When migration happens from a poorer home country to a richer host country at mid-career, the reverse may happen and a financing gap in the host country emerges.

$$[5.3] S_i(\tilde{a})_h \geq B^e(\tilde{a} + 1)_m - C^e(\tilde{a} + 1)_m \text{ iff } b(a)_m \leq b(a)_h$$

Reducing the savings component to the level of the expected benefits net of contributions in the home (and return) country would leave the home country risk pool unchanged and establish full portability for the migrant, as no impact on the return migration decision should take place. However, if the benefit package in the return country is worse, he may still have an incentive to stay in the home country. This may be an argument to allow for an in-kind or cash transfer to the returned migrant, either through selective access to the health care benefits in the former host country, to high-quality health care services in the home country (but paid by the host country, or a simple lump-sum cash benefit, up to the aggregated value of the difference in equation [5.3].

Family benefits: Social health insurance provides a major redistributive component through the typically cost-free insurance of dependent family members (mostly spouse and children). The redistributive component for an individual depends on the size of his family and its access to the benefits:

$$[5.4] R_i(\tilde{a}) = B_i(\tilde{a}) - B(\tilde{a}) \leq 0$$

Most host countries do not extend health care benefits to family left in the home country, leading to a negative redistributive component. This may be an argument to co-pay up to this amount towards a health care package in the home country.

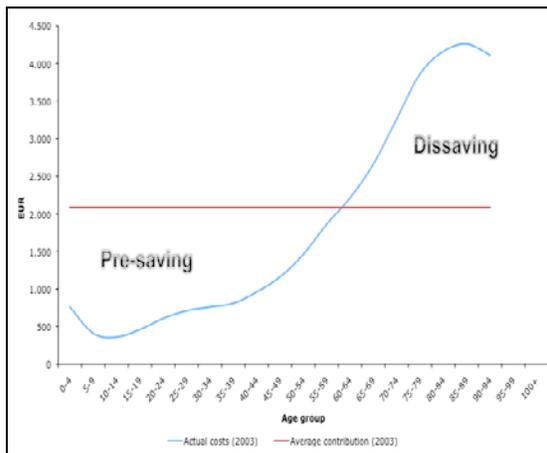
### 5.3 Lifecycle Contributions to and Expenditures of Social Health Insurance

Available data across the world strongly indicate that health expenditures over the lifecycle significantly depend on age. Taking Austrian data to illustrate, annual health expenditures in 2003 on average ranged from less than EUR 500 for 10-year-olds to over EUR 4,000 for 85-year-olds (Figure 1). This compares to average annual contributions of about EUR 2,100 for employees. If contributions were constant over age groups, actual expenditures would reach actual contributions around the age of 60. At younger ages, contributions would exceed age-specific expenditures. As a result, average workers are

net contributors to the health system up to the age of 60, and net receivers thereafter. From an individual perspective, health insurance financing includes an important pre-saving element.

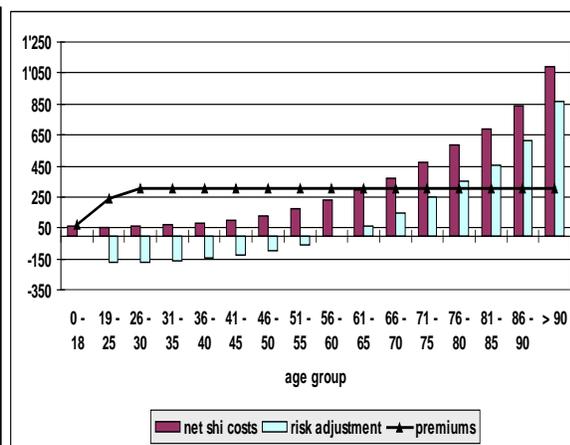
Other countries with financing models different from social health insurance have similar implicit pre-saving elements. Switzerland, for example, applies a flat contribution rate towards private, competing insurers. As seen in Figure 2, premiums exceed net costs up until the age of 60. Tax-financed universal health systems, as in the UK, most likely display similar expenditure features. Other countries display similar contribution and expenditure profiles.<sup>17</sup>

**Figure 1. Austria: Average annual health care expenditures and contribution profile by age group in 2003 (EUR)**



Source: Hofmarcher and Rack 2006.

**Figure 2. Switzerland: Average monthly health costs (net and risk adjusted) and premium profile by age groups for male members in 2006 (SF)**



Source: World Bank 2009b.

To the extent that wages increase with age, so do contributions to social health insurance. This may reduce some of the pre-savings and bring contributions more in line with actual expenditures over age groups. At the same time, because earnings are higher at older age, the “break-even” age when contributions equal expenditures is also shifted outwards. Overall, the break-even point will most likely be around retirement age. Social health insurance effectively redistributes from the active to the inactive population in a cross-sector consideration while shifting resources from the young to the old in a lifecycle consideration. In other words, social health insurance has an implicit pre-saving element that must be taken into account when designing portability arrangements. Notional health accounts could be a means to achieve this.

#### 5.4 A Simple Model of Notional Health Accounts and Challenges of Portability between Countries

Notional health accounts serve to determine the average pre-saving element for individuals, based on their age-specific contribution and expenditure histories. The pre-saving element would be determined by calculating average contributions and health expenditures for each age cohort and each year. The difference between average

<sup>17</sup> As shown in Werdinger and McLennan (2011) for Germany and Slovenia.

contributions and expenditures for a certain age cohort is then the net pre-saving element credited to an individual for a particular year, and these annual credits (or debits for older age groups) accumulate throughout an individual's life.

Table 4 presents a stylized example of such a notional health account for an individual living for 10 periods. Initially, the individual earns a positive saving credit  $s(\tilde{a})$ . As the individual ages, contributions increase significantly with earnings while health expenditures also slowly grow. By period 7, the individual accumulates a sizable savings element  $S(\tilde{a})$ . In period 8, the individual retires and stops contributing, while health expenditures continue to increase. Until the individual dies at age 10, the accumulated savings serve to finance his health expenditures. By the time of his death, savings are depleted.

If the individual moved to another country at any given age  $\tilde{a}=a'$ , the individual could simply transfer the accumulated savings  $S(a')$  into the social health insurance of the host country and full portability would be established. The accumulated savings together with future contributions are sufficient to cover future health expenditures in the host country, so the risk pool in the host country is not affected. Similarly, the risk pool of the home country does not enjoy a windfall profit from the individual leaving savings behind.

Full portability, though, hinges on the assumption that the home and host countries are similar with regard to (i) health contributions and expenditures as well as the value and quality of health benefit packages. In addition, it assumes that actual migration flows are unbiased with regard to (ii) health risk profiles and (iii) characteristics that have an impact on redistributive policies, including family benefits. The following subsections relax these assumptions one by one.

**Table 4: Stylized expenditures, contributions, and savings for an individual over 10 periods**

Age $\tilde{a}$	Expenditure by age $b(\tilde{a})$	Contribution by age $c(\tilde{a})$	Saving credit by age $s(\tilde{a})$	Accumulated savings by age $S(\tilde{a})$
1	5	10	5	5
2	10	35	25	30
3	15	55	40	70
4	20	65	45	115
5	25	75	50	165
6	35	85	50	215
7	50	75	25	240
8	80	0	-80	160
9	90	0	-90	70
10	70	0	-70	0
<b>Sum</b>	400	400	0	

Source: Authors.

### *Differing contribution and expenditure profiles*

The main challenge to establishing international portability of health benefits through notional accounts is arguably the wide variety in the level and shape of contribution and expenditure profiles of health insurance systems across countries. These originate from

differences in: (i) income levels; (ii) morbidity and mortality; (iii) health systems; and (iv) quality of health care.

Differing income levels likely imply that both contribution and expenditure levels differ from one country to another. As a consequence, migrants' accumulated savings are also likely to differ from country to country and risk being either too low or too high when the migrant arrives in the host country. The risk pool of the host country will be negatively (positively) affected by the arrival of the migrant when the migrant's savings are too small (too large).

Even when countries have roughly the same income level, differing morbidity and mortality will lead to differing expenditure profiles. Countries with higher morbidity also have higher health expenditures. The effect of mortality could be more ambiguous, because shorter lives to some extent also mean lower health expenditures.<sup>18</sup> Differing health systems are also likely to lead to considerable differences in expenditure and contribution profiles even between countries of the same income level. Contribution rates and bases differ significantly between countries: in some, contributions are entirely based on labor income, while in others, health systems are entirely financed from general revenues. And the items covered by health insurance can differ substantially across countries.

Finally, differing quality of health care between countries can affect migrants even if expenditure and contribution profiles are exactly identical in the home and host countries. This issue is somewhat analogous to the issue of purchasing power of pensions, which also differs across countries. Savings from one country could allow migrants to consume similar packages of health benefits across countries, yet the quality might vary substantially.<sup>19</sup>

### ***Unbiased migration flows with regard to health risk profiles***

The concept of notional health accounts as proposed is based on community-rated risks, not experienced-rated risks. That is, it does not take into account individual health risks, but rather credits savings based on average contributions and expenditures across the same age-cohort. This is in line with the principles of social health insurance systems.

As long as the health risk profiles of migrants are similar to those of natives, migrants will display expected future health expenditures similar to those of natives. If the health risk profiles of migrants are better (worse), the risk pool of the host country will be positively (negatively) affected. By the same token, the reverse could happen to the risk pool of the home country: if migrants have relatively better health risk profiles than the rest of the population, the home country's risk pool will be negatively affected by the migrant's departure.

In the long run, this could lead to problems of adverse selection. If migration flows are relatively large and the selection of migrants is unbiased, migrants will mirror the same average risk profiles in terms of morbidity and mortality as the home country's population, and the risk pool will not be affected by their departure. For the host country,

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<sup>18</sup> The impact of differing morbidity and mortality is discussed in more detail below.

<sup>19</sup> For examples of how the age of the migrant and the home and host country situation influence and complicate the outcome, see the full version of Holzmann and Koettl (2011).

though, two problems could occur: first, the average health risk profile of migrants from a particular country might be worse than that of the host country,<sup>20</sup> such that, on average, migration could negatively affect the host country's risk pool. Second, even if the risk profiles of the two countries are similar, if the selection of migrants is biased towards worse risks, the host country's risk pool could be negatively affected (and the home country's positively). Such a bias could be due to adverse selection: individuals with bad health risks could choose to migrate to countries with better health systems; alternatively, countries could choose to only accept migrants with better health risks, thereby improving the quality of their risk pools (cream skimming).

Finally, none of these issues would matter if migration flows between the two countries in question were symmetric, as they would cancel each other out. This could, to some extent, be the case for migration flows in homogenous regions like the EU and certain regions with large migration flows in the developing world. However, the large migration flows between developing and developed countries are unlikely to be symmetric.

***Unbiased migration flows with regard to characteristics that have an impact on redistributive policies***

Last but not least, differences in redistributive policies will pose challenges to achieving portability of health benefits through notional health accounts. In most (social) insurance systems, the following redistributions are observed: (i) from high to low income earners; (ii) from households with no or few dependents (like spouses and children) to those with more; and (iii) from young to old. The redistribution *per se* does not pose a challenge; challenges arise when migrants who are different from the average enter or leave risk pools. To leave the risk pools unaffected, an additional transfer would be necessary to compensate, for example, the host country's risk pool when a relative low-wage earner or a family with relatively many dependents arrives. At the same time, though, the risk pool should also pay a compensation for those migrants who are above average: the high-wage earners, singles, and the young.

*Redistribution from high to low income earners:* if migrants from a particular country enter the host country as low (high) income earners, *ceteris paribus*, the risk pool of the host country is negatively (positively) affected because average contributions decrease (increase). The effects on the home country's risk pool are similarly dependent on the income of the migrants relative to the rest of the population. In fact, it could even be that on average migrants are high income earners in the home country—meaning their departure negatively affects the risk pool of the home country—while at the same time being low income earners in the host country, negatively affecting the risk pool there.

*Redistribution from households with no or few dependents to those with more dependents:* if migrants bring more than the average number of dependent, non-working family members with them to the host country, it could potentially negatively affect the host country's risk pool. The reverse holds for the home country's risk pool.

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<sup>20</sup> As already mentioned, the relationship between mortality and actual health expenditures is not straightforward: higher mortality could actually mean lower lifecycle health expenditures because of the shortened life period, but the actual relation and the interaction with morbidity is complex.

*Redistribution from the young to the old:* This issue is a bit more complex, but crucial given the demographic development in many countries. Notional health accounts assume that contributions and expenditures balance over an individual's lifecycle. In practice, though, health systems are set up as PAYG systems where current contributions finance current expenditures, with limited possibility to create significant reserves. That is, the surpluses of the current active population finance the expenditures of the inactive population. If the inactive population becomes relatively large—as during a demographic transition—and no reserves have been built up from the contributions of the previous elder generation—the young have to contribute more to finance the expenditures of the old.

It is not clear at this point how any compensation related to redistributive policies could be administered in practice. Most studies conclude that the decisive factor is the age at which migrants arrive in the host country: the younger, the more contributions over the lifecycle migrants will make in host countries, and the more positive the fiscal impact of migration. Since most migrants indeed arrive in host countries at relative young ages, the overall fiscal impact of immigration into OECD countries—especially those that are relatively far advanced in their demographic transition—is likely to be positive. In that sense, discussions on compensation for the redistributive impact or differences in health risks profiles of migrants might not be a priority in high income host countries. To the authors' knowledge, no such comprehensive studies have been made for sending countries in the South, so the impact on sending countries' risk pools is less well understood.

*Some practical considerations:* Finally, there are many statistical issues associated with maintaining individual health accounts. Significant statistical capacities will be required in both host and home countries. It will be necessary to disentangle costs from expenditure in a heavily subsidized setting of public health care and achieve an earmarking of expenditure and revenue to cohorts. There will also be a need to identify the redistributive element of health care provisions. While challenging and seemingly insurmountable, these requirements are no different from those of any other approach to establish portability of health care benefits across countries. The proposed framework at least offers a transparent approach to better determine the issues and trade-offs.

## **5.5 Current Portability Arrangements**

Currently, there are very few BAs or MAs for health care benefit portability. More importantly, there are also main obstacles on the unilateral level that prevent portability of health benefits; this also suggests that the most progress could be achieved at the unilateral level.

Most countries do not cover treatments abroad without prior authorization. The U.S. Medicare program, which covers health expenditures for retirees, is a good example. Although beneficiaries may have contributed for many years, if they migrate during their retirement, they lose all coverage.<sup>21</sup> Similarly, many EU countries do not cover health

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<sup>21</sup> The U.S. Medicare program is actually an example of a health care program where the pre-saving element is more explicit: contributors are not covered by health insurance, but contribute towards health insurance during retirement. In that sense, it is actually more like a pension benefit.

expenditures that occur outside the EU. Retirees who, for example, move to a third country are by and large not reimbursed for health expenditures incurred there.<sup>22</sup> An exception is the Austrian social health insurance system, which grants partial reimbursement for health care costs of out-of-network providers—including all foreign providers. The reimbursement rate, though, is low, at only 80 percent of what the same treatment would have cost with an in-network provider in Austria. Claims are handed in directly to the Austrian health insurance, which is not very practical for emigrants. There are no reports of any direct contracting with foreign providers.

On the (multilateral) EU level, there are some examples where the same principles developed on EU level have been extended to BAs with non-EU countries. Within the EU, migrants have full access to health insurance in their country of residence, conditional on national legislation.<sup>23</sup> Overall, though, there are no financial flows between countries that reflect a transfer of the aforementioned pre-saving element, except: (1) for essential health care treatments of health insurance members of one country who are on a temporary stay in another country (basically tourists and other short-term visitors);<sup>24</sup> and (2) for retirees who reside in an EU country from which they receive no pension. In that case, the health insurance of the country from which the retiree receives his or her largest pension will compensate the health insurance of the country of residence.<sup>25</sup> The same principles have been applied in BAs between Germany and Austria on the one side, and Turkey and the countries of the former Yugoslavia on the other. To the authors' knowledge, there are no other MAs or BAs that cover the portability of health benefits.<sup>26</sup>

## 6. Closing the Knowledge Gap

While portability is increasingly seen as a key issue for better migration management, and notable progress has been made in our understanding of issues and possible solutions, our knowledge base is still fairly limited. To move to the next stage of portability design and implementation, the main knowledge gaps to be closed include:

**Data:** For migration in general and portability in particular there is a dearth of quantitative information. This includes general demographic information about migrants (and their families in host and home countries) as well as their migration and employment status, their access to social protection programs, and possible portability issues for individual migrants before and after return/retirement.

**Details on portability arrangements and their functioning and effectiveness:** While UAs, BAs, and MAs are public information, no comprehensive yet basic study provides

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<sup>22</sup> In some cases, retirees who give up residency in the EU but receive a pension from an EU country lose health care coverage in the EU, but their pension might still be subject to health contributions.

<sup>23</sup> In most countries, access to health insurance is conditional on employment. In some countries, it is conditional on residency (where there is a universal health system).

<sup>24</sup> Essential health care treatments means emergency treatments and all treatments that cannot reasonably be postponed until return to the home country.

<sup>25</sup> For a case study on health care portability arrangements—including financing arrangements—within the EU, see Obermaier (2009) and also Werding and McLennan (2011).

<sup>26</sup> See, for example, the agreement between Turkey and Germany from April 30, 1964 (BGBI 1965 II S. 1169).

information and analysis on benefits covered, coordination mechanisms for benefits, administrative procedures, etc. To our knowledge, there is no rigorous empirical information on or analysis of their performance. Issues to investigate include: the share of processed requests compared to potentially eligible beneficiaries; the portability loss prevented by the agreements; and an assessment of the process of coordination and key issues.

**Corridor studies on portability of social benefits:** Undertaking a number of corridor studies on benefit portability between countries in the North and South would represent a promising step towards such a results framework. Such studies are not very costly and should contribute to the understanding of issues and would help fill some of the data gaps.<sup>27</sup>

**Empirical evidence that portability matters:** A key tenet for improved portability is that it matters for labor mobility decisions. But the evidence is fairly thin, both in the scope of investigation as well as on the empirical effects. Most of the results are from occupation schemes in the U.S. and Europe,<sup>28</sup> while investigations of portability issues of statutory schemes within the EU are virtually non-existent.<sup>29</sup> To our knowledge, there are also no relevant studies of mobility issues of portability between the South and the North (both in The Americas and the Mediterranean region).

**A formal analytical framework:** To render the empirical work and proposed conceptual considerations sound, a comprehensive formal analytical framework may be needed. The starting point could be characterization of a first-best social insurance contract that includes job mobility (and the risks involved, including the risk of having to migrate). Separation of the insurance, pre-savings, and distributive components of social benefits should be folded into this new general analytical framework.

## 7. Conclusions

The paper provides a fresh look at the international perspective of portability of social benefits, a topic that until now has been dominated by social policy lawyers working within the framework of BAs and MAs. The contribution by economists to the discussion has been limited. This paper offers a conceptual framework grounded in socio-economics for portability analysis and applies the proposed alternative solution of changes in benefit design to pensions and health care. Summing up, several key elements stand out:

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<sup>27</sup> For first steps in this area see Holzmann *et al.* (2005), Abdousalam (2009), Sabates-Wheeler and Feldman (2011). A project under preparation by the Marseille Center for Mediterranean Integration for 2013 plans 4 corridor studies for Morocco-Belgium/Morocco-France, and Turkey-Austria/Turkey-Germany – stay tuned.

<sup>28</sup> These studies could not find evidence that portability losses in occupational schemes in the U.S. and Europe caused lower mobility (Forteza 2008).

<sup>29</sup> Bonin *et al.* (2008) assess a small impact of portability on European labor mobility (compared to language skills, job prospects, and culture adaptation. And Aguila and Zissimopoulos (2009) expect from a ratification of the U.S.-Mexico agreement an increased return migration from older Mexicans. The results by Hooghe *et al.* (2008) on the drivers for migrants on the selection of European host countries indicate that job opportunities are important, not the size of social expenditure (and, perhaps, portability?).

First, labor mobility across professions and borders has increased worldwide for various reasons. From a first-best economic point of view and for individual labor mobility decisions, from a social policy point and the individual's (or family's) lifecycle planning, and from a human rights point of view and an individual's right to social protection, broad portability of social benefits should be established and one's eligibility to and receipt of benefits should not depend on one's country of residence. As such, the paper defines portability as the ability to preserve, maintain, and transfer vested social security rights (or rights in the process of being vested), independent of profession, nationality, and country of residency.

Second, the paper conjectures that issues regarding the portability of social benefits for internationally mobile workers (migrants) emerge from the tension between domestically oriented social policy objectives and internationally oriented economic policy objectives linked to cross-border labor mobility. These tensions reflect more broadly the diverging interests of host and home countries, and those of their mobile and immobile labor forces. As the latter has a large majority, this creates special issues of political economy.

Third, the current approach to address these tensions is through BAs and MAs that cover an unknown set of social benefits with no international inventory of the rules applied nor any evaluation of their effectiveness. The very limited information available suggests that many BAs focus on old-age pensions and related benefits and very few on health care and other benefits, if at all. At least some these agreements seem not to be operative or effective.

Fourth, the paper proposes a review of the social benefit design and a disentangling of the risk pooling, pre-funding, and redistributive components included with varying importance in each social benefit. For eligible benefits in disbursement, the redistributive component creates obstacles to export across borders. For benefits in accumulation, the pre-funding and redistributive components both create such obstacles. Identifying the pre-funding components of acquired rights and making them transferable across borders would improve portability. BAs and MAs are needed to export redistributive components from the old to the new country of residency (for social insurance benefits) and to address their accessibility in the new country of residency (for social assistance benefits).

Fifth, while the paper presents benefit redesign and inter-country agreements as alternative approaches to establish portability to tease out their scope and limits, the approaches are likely to be reinforcing and complementary. The better the social benefit components are identified, the easier it is for national legislation to allow for the export of benefits in disbursement and the transfer of acquired rights (pre-funding), and for inter-country agreements to focus on reciprocity in the redistributive component.

Sixth, while the risk pooling, pre-funding, and income redistribution components exist in funded and unfunded DB- and DC-type benefits, disentangling these components is facilitated better in the latter (and largely independent of the financing form). Essentially all social insurance-type benefits based on contributions can, in principal, be converted in this direction and their components separated. But not all need to be converted for reasons of portability, as many have limited bearing on labor mobility or lifecycle SRM. Yet for a number of benefit schemes, in particular pensions and more recently

unemployment benefits, such a benefit redesign is taking place anyway, with limited considerations for portability.

Seventh, the separation of risk-pooling and pre-funding is investigated for old-age pensions and health care benefits. For pension benefits, such a scheme (the NDC) already exists, has been introduced in a number of countries<sup>30</sup>, and is under implementation in others. The paper expands the application within an economic area of integration (the EU) to establish full portability across borders (and professions). For health care benefits, the application of the approach has been analytically investigated for privately provided health care within countries, but never for publicly provided health care across borders. The analysis suggests that it is feasible in principle, but there are a number of issues and questions for which good answers are not yet available.

Lastly, the proposed conceptual framework is only the beginning of an intellectual voyage and many empirical and theoretical issues still need to be addressed. They include: filling critical data gaps; understanding how current BAs and MAs actually work; conducting in-depth corridor studies; investigating empirically for which benefits portability really matters and why; exploring the political economy of the approach; and developing a formal analytical framework to improve conceptual clarity and allow ex ante evaluations.

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<sup>30</sup> Such as Italy, Latvia, Poland, Sweden, and Poland, see Holzmann, Palmer and Robalino 2012.

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**Appendix Table A Global migrant stock estimates and bilateral portability arrangement by origin and host income-group (2000)**

Origin country income-group	Host country income-group					Total	% global stock
	Low income countries	Lower middle income countries	Upper middle income countries	Non -OECD high income countries	OECD high income countries		
Low income countries	23,339,921	10,989,418	4,832,109	3,332,615	11,128,178	53,622,241	29%
Lower middle income countries	4,817,600	27,815,316	9,099,077	5,592,653	29,162,504	76,487,150	41%
Upper middle income countries	691,741	2,095,454	1,447,944	1,110,490	16,293,585	21,639,214	12%
Non-OECD high income countries	195,520	1,270,164	332,871	205,867	3,844,703	5,849,125	3%
OECD high income countries	1,147,634	2,689,451	1,721,117	949,142	22,410,626	28,917,970	16%
<b>Total</b>	<b>30,192,416</b>	<b>44,859,803</b>	<b>17,433,118</b>	<b>11,190,767</b>	<b>82,839,596</b>	<b>186,515,700</b>	<b>100%</b>
<b>% global stock</b>	<b>16%</b>	<b>24%</b>	<b>9%</b>	<b>6%</b>	<b>44%</b>	<b>100%</b>	

*Note:* Regional country grouping according to World Bank 2009a terminology.

*Source:* Avato, Koettl and Sabates-Wheeler 2009.

**Appendix Table B. Global migrant stock estimates and bilateral portability arrangement by origin and host region (2000)**

Origin region	Host region									% global stock
	East Asia and Pacific	Eastern Europe and Central Asia	EU-27 and other Europe	Latin America and Caribbean	Middle East and North Africa	North America	South Asia	Sub-Saharan Africa	Total	
<b>East Asia and Pacific</b>	10,451,218	261,715	2,397,524	210,760	1,232,753	7,960,615	483,914	214,378	23,212,877	12%
<b>Eastern Europe and Central Asia</b>	585,669	27,453,705	8,437,718	98,641	1,906,963	1,618,709	572,588	842,734	41,516,727	22%
<b>EU-27 and other Europe</b>	2,611,118	2,531,940	13,106,560	1,253,781	1,118,468	7,012,820	387,166	859,007	28,880,860	15%
<b>Latin America and Caribbean</b>	599,267	317,860	2,635,291	3,746,076	473,456	19,881,165	394,517	296,351	28,343,983	15%
<b>Middle East and North Africa</b>	373,298	308,571	5,322,781	90,602	7,196,066	1,395,416	244,863	590,254	15,521,851	8%
<b>North America</b>	426,299	65,989	806,774	754,313	167,834	1,250,399	53,953	59,890	3,585,451	2%
<b>South Asia</b>	1,001,521	254,613	2,060,491	48,931	8,660,674	2,075,446	10,779,215	301,710	25,182,601	14%
<b>Sub-Saharan Africa</b>	265,609	205,743	2,869,461	42,855	860,137	977,764	254,197	14,795,580	20,271,346	11%
<b>Total</b>	16,313,999	31,400,136	37,636,600	6,245,959	21,616,351	42,172,334	13,170,413	17,959,904	186,515,696	100%
<b>% global stock</b>	9%	17%	20%	3%	12%	23%	7%	10%	100%	

*Note:* Regional country grouping according to World Bank 2009a terminology.

*Source:* Avato, Koettl and Sabates-Wheeler 2009.