

SOME APPROACHES TO IMPLEMENTATION OF THE BASIC PENSION INSURANCE SYSTEM IN MONGOLIA

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Abstract

The effective operation of financial system plays an important role in providing the stable financial condition, increasing the financial intermediation scope, providing the base of secured population living and promoting development. In order to provide the pension insurance fund of Mongolia with the independent and effective operation, the basis of the national basic pension insurance in Mongolia was formulated by calculating the planning and sources of this fund based on this research on current pension insurance system and its comparison to the similar system of some countries. The methods such as comparison, integration, conclusion, mathematic-statistics and prost program were used in the research. The specific features of pension insurance systems of Chile, Sweden and Japan were compared. If the basic pension is issued to all people who got on for 60, the significant state budget burden will occur. To avoid this problem it is accepted to issue a pension to people who have paid for social insurance contribution for 10 years. If people pay contribution for 10 years, they can get pension of 2nd phase proportionally and plus basic pension. There is need to start pension renovation in 2013 and finish in 2015. If it is not immediately start such innovation, the demographic structure of our country will be complicated. It is suitable that the basic pension rate should be established by considering the minimum level of living. In case of its establishment of 118,1 thousand MNT, it may account for 1.7-1.6% of GDP and 4.9-4.0% of the united state budget.

Key words: Insurance system, Pension insurance, Basic pension

Overview

The content and characteristics of social insurance were issued firstly in Constitution of Mongolia in 1940 by declaring the right of citizens to get material security in case of their old ageing and disability. In accordance with the Labor code was adopted in 1941, the employers of that time paid the contributions of 3%; 6%; 10% of total salaries and those contributions saved in Danger protection fund. The first Law of pension was adopted in Mongolia in 1958 and the state pension had the characters of full coverage, equality, sufficiency and low rate per capita.

Changes in pension system and transition to the insurance system in accordance with the Law of pension and benefit to be granted from social insurance fund passed in 1994 and the Law of individual pension account of 1999 newly established the new pension insurance system and the legal conditions. The budget burden has decreased as a result of the establishment of new insurance

system which will be jointly built up by the state budget revenue and the contribution paid by employers and insurers and citizens. 'The basic state direction for pension renovation to be followed till 2021' passed and implemented by the State Great Khural in 1999 has became an inception and an integral part of pension system.

In total, 13.2% of population of Mongolia was aged 50 and above in 2011 and the property level was 29.8% of which 26.6% in city and 33.3% in the countryside. Pension and benefit income had 19.3% of city's households and 29.2% of rural households [1].

Pension insurance is one of the problems which were not economically resolved and 60% of total pensioners get the minimum pension. So there is a need to renew such system and we have the opportunities to implement the system renovation:

- Mining export and GDP of Mongolia have been increasing due to the stable increase in price of mineral resources

such as copper, ironstone, coal and gold at the world market.

- 2000-2020 is the period of maximum amount of working age population.
- Percentage of population aged 60 and above was 5.2% in 2000 and it will reach to 13,1% in 2020, increasing the burden to pension fund.

So we need to start pension renovation in 2013 and finish in 2015. If we do not immediately start such innovation, the demographic structure of our country will be complicated. Total fertility decreased from 7.0 to 2.3 in 1975-2000 which was the maximum decrease compared to the other countries in the world [5]. The amount of child per one mother might be reach 1.9 and the percentage of old age population –15.8%.

Basic pension means social protection measures [2] in the framework of which all citizens of working age are compulsorily covered without regard to their employment and income, and pay contribution for basic pension insurance and are issued the basic pension from such fund. Also it is briefly defined as money not based on contribution and is issued to old age people who of particular age. National basic pension insurance is new type of pension insurance

which aims to provide the basic living guarantee of all Mongolian people by involving all population aged above 20. Current time approximately 80 countries have been implementing such basic or social pension under their specification in relation with age, citizenship, and income and pension structure.

Studied status of this topic

Researcher Ch.Dagvadorj [3] explained the social insurance systems of 9 foreign countries and put forward some proposals which are able to be implemented in Mongolia in his work 'Social protection: theory-methodology, experience and comparison'. Each 5 funds of social insurance were analyzed by the work of researcher D.Dalkhjav [4] "Some issues on advanced financial management of social insurance" and he submitted his proposal to changing such funds. The world countries have been implementing pension insurance using the basic 3 methods such as allocation (Pay-As-You-Go), semi- accumulative and full accumulative. We compared the specific features of pension insurance system of Chile, Sweden and Japan which are using the above mentioned insurance system as shown in Table 1.

Table 1. Specific features comparison of foreign countries' pension insurance systems

Specification of pension fund
<p>Chile</p> <p>There is 3-phased pension system. The Ministry of Social protection and labor (Ministerio del Trabajo y Previsiyn Social) formulates the policy of an old and new system.</p> <p>Compulsory pension insurance was introduced in 1924. Individual pension insurance system (Sistema de Capitalizaciyn Individual) was entered in May 1981 and the old system was changed phase by phase. But the system for armed force, policemen and special personnel was kept unchanged.</p> <p>However all people who work on contract are compulsorily covered in individual pension account the self-employed people are covered in voluntary insurance. People who are covered in the previous system of social insurance have the right to be covered in individual insurance account system or not.</p> <p>Nowadays the most part of workers in Chile is covered in individual pension account system, and other part is covered in the previous system of social insurance and in special programs.</p> <p>The Government of Chile has introduced the pension system based on the Solidarity (Sistema de Pensiones Solidarias) system since July 1, 2008. It is the one part of the individual pension account system which has been implemented at the year of 27 and those systems are based on tax and aimed to broad the coverage framework of such system and to be unrelated to contribution.</p> <p>One of those phases is the basic pension system based on the Solidarity principles (Pensiyn B6sica Solidaria). Basic pension (old age pension, disability pension) is granted to people who are 65 or above it or people who do not have right to get pension of another types in relation with their income. Also in Chile, people are entitled to get pension case of living in Chile territory for minimum 20 years of which during 4 years from 5 years before pension issuing period.</p> <p>Another one is the supplementary phase based on the Solidarity principles (Aporte Previsional Solidario). This system contribution was paid to individual pension account by this system and the supplementary pension was issued to people who had income of 50,000-150,000 peso in 2008.</p> <p>Sweden</p> <p>Its pension system was renovated in 1992-1994. Most laws related to pension renovation were passed in 1998. The basic goal of such renovation was the transition from the system with definite benefit with regard to income into the benefit calculation system by the 2-type labor rate. According to the new system 14% of contribution transferred into individual account and the rest of 86% - into the new allocation system. Also survivors and disability pensions were isolated from old age pension and transmitted to another type.</p> <p>Previous one-size pension was changed by the basic pension which gives an extra pension to the people who get pension with regard to only low rate income. Basic pension will be funded by the state budget not by the paid contribution.</p> <p>There is no definite pension age in Sweden. The insurer can get pension starting from the age of 61. Pension is financed by two funds: allocation system and accumulation system. Pension of people who were born before 1937 is issued under old system and people born in 1938-1953 get pension in accordance with previous and current system. 16/20 of pension of people who were born in 1938 is funded by the old system and 4/20- by the new system. 15/20 of pension of people born in 1939 is financed by the old system and the rest of 5/20- by the new system. Only 1/20 of pension of people born in 1953-by the old system. People born after 1954 are covered in system which calculates the pension from their labor rate in an abstract way.</p>

Japan

The Ministry of Health, Labor and Protection of Japan is responsible for the united management of Social protection. It has 11 departments, 8 units. The social insurance agency and Central committee on labor regulation work under this ministry.

Japanese pension system has two stages which are basic and extra pension and has the basic role in saving the population income. It involves all people in down mentioned 3 types herein :

1. National basic pension insurance,
2. Employees' pension insurance involved the workers in private companies,
3. Mutual assistance pension involved the workers of state service and some fields

A. National pension /basic/ insurance has 3 types such as old age, disability and survivor's pension and involves the following people of 3 types herein:

1st type: involves self-employed people, farmers and unemployed people who must pay monthly contribution of 13 300 ¥ starting from the age of 20 till 60. Also if they are covered in supplementary benefit by their own choice they pay contribution of ¥ per month. 19,3 million people of this type pay contribution to the National insurance.

2nd type: Total 38,8 million people who are the workers of the private companies, cooperatives and sole proprietorships which have 5 or more jobs and the workers of state service get involved in this type. They do not pay for National pension /basic/ insurance specially but they are entitled to get pension by paying contribution of 8,675% /sailors, miners 9,575%/ to the Employers' pension insurance from the salary network with 30 phases.

3rd type: involves 10,5 million unemployed family members of the 2nd type people. They do not pay contribution particularly and are entitled to get pension in case of contributions from workers and employers was paid.

Every person have to be compulsorily covered in National basic pension insurance and has the right to get pension by paying contribution during 25 years. There are 3-type basic pension issued from this insurance.

B. Old age pension Every person who are 65 are entitled to get this pension and the amount is equal to 67 000 ¥ a month.

C. Basic disability pension is granted to the people who are naturally disabled or doctors' resolution has approved that he or she became disabled during their working period but people who paid for basic insurance contribution of 66 or more percent are entitled to get such pension. This pension is issued by 2 grades in relation with disability level.

- 1st grade or people who have disability of 100% are granted the basic old age pension increasing by 25%.

- 2nd grade or basic disability pension equal to the basic old age pension.

D. Basic survivor's pension is granted to the up to 18 year old children, disabled widowed wife or husband if they lived 10 or more years when insurer or pensioner die. In the following case it will not be granted:

- insurer paid for the basic pension insurance contribution of 2/3 or more before his death,
- however insurer paid for contribution he/she does not reach to the pension age,
- insurer had been gotten the basic old age pension.

According to the research on brief statistics on Mongolian people who get pension from social insurance fund at present, following table can be shown.

Table 2: The brief statistics of pension insurance fund at present

No	Statistic indicator of social insurance fund	Men	Women
1	Average pension age	62	52
2	Average percentage of pension from salary	52.5	52.5
3	Average pension period, by year	13	17
4	Working period till pension period, by year	30	25
5	Contribution to be accumulated in individual pension account, by yearly salary	4.2	3.5
6	Average period of pension from accumulated contribution, by year	8.0	6.7
7	Period of pension to be issued after finishing the individual account balance	5.0	10.3
8	Percentage of pension to be calculated by individual account accumulation, by percentage of salary	32.3	20.6

Of which:

- Men pay for contribution for average 30 years and get pension average 13 years from salary percentage of 52.5%
- Women pay for contribution for average 25 years and get pension average 17 years from salary percentage of 52.5%.
- If considering that tendency will be kept for people who get pension from individual account, they can accumulate by 14% of salary a year. When they retire, man will accumulate contribution equal to salary of 4.2 years in his individual account, and women-3.5 years. Those contributions are sufficient for man average 8 years and for woman- 6.7 years.
- Man will not be entitled to get pension of average 5 years and woman- 10.3 years.
- Considering that pension will be set based on accumulation level of individual account man can get pension by 32.3% of his salary and woman- by 20.6%
- In accordance with this survey, any changes in 1-phase system may decrease pension rate of insurers so it is very important to establish basic pension.

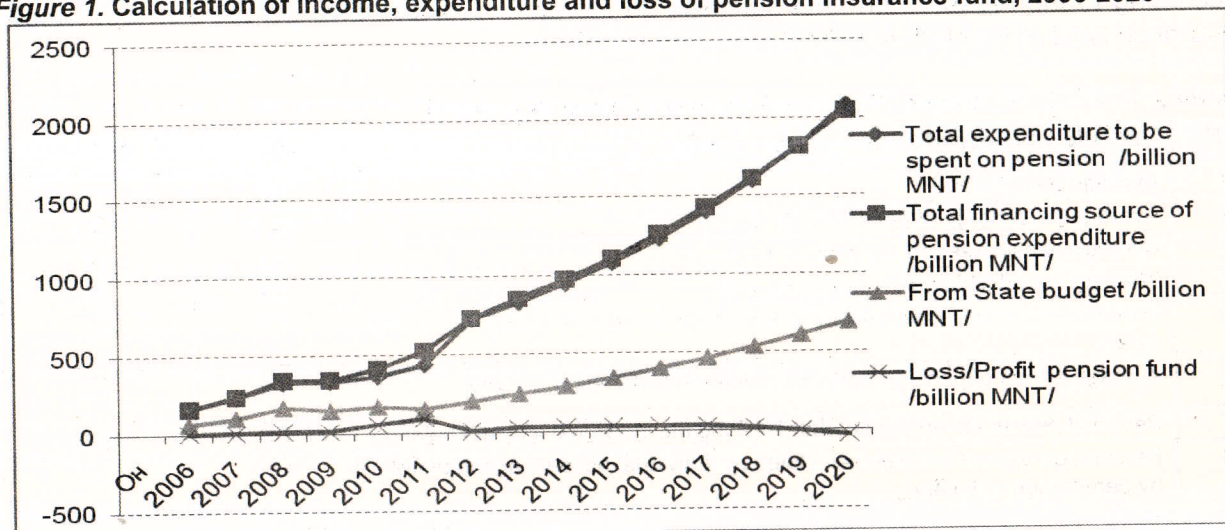
The Ministry, professionals and international organizations have expressed their opinion that basic pension will be issued to population aged of 60. But there is a question. Who can get this pension? All people who got for 60 or only the insurers who got for 60 and paid for contribution for particular period.

Calculation of pension insurance fund results during 2009-2011 and possibilities of 2012-2020 income, expenditure and loss is as follows:

Table 3: Calculation of pension insurance fund results during 2009-2011 and possibilities of 2012-2020 income, expenditure and loss

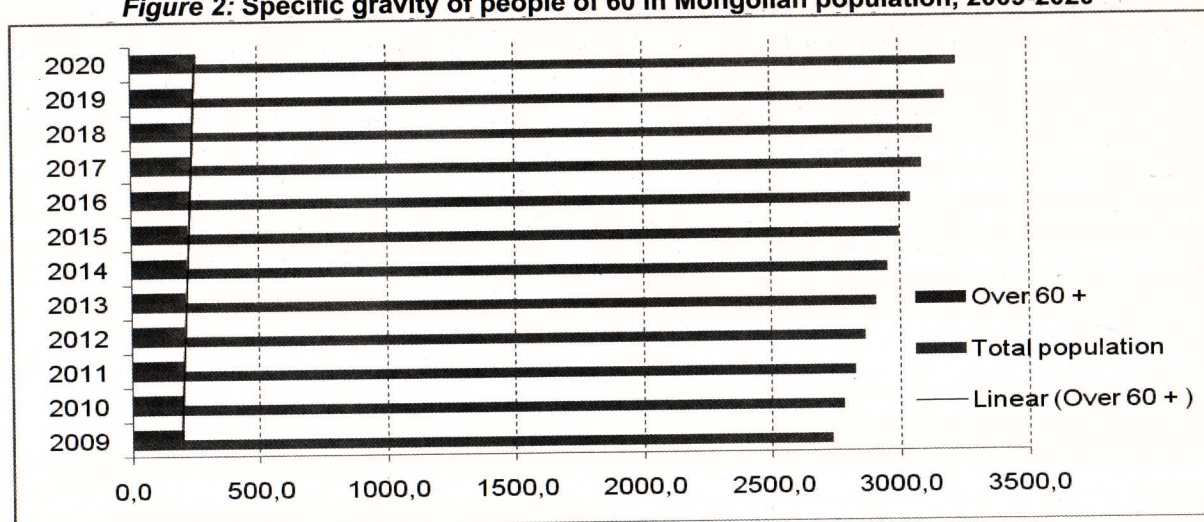
Year	Total revenue to be spent on pension /billion MNT/	Total financing source of pension expenditure /billion MNT/	Of which:	Profit and loss of pension fund /billion MNT/
			Revenue from state budget /billion MNT/	
2009	332.1	344.5	145.9	12.4
2010	360.4	415.0	170.7	54.5
2011	435.3	526.3	153.4	91.0
2012	724.6	734.2	198.9	9.6
2013	829.3	856.2	243.8	26.9
2014	945.4	976.0	290.1	30.6
2015	1077.8	1110.5	342.3	32.8
2016	1228.6	1260.9	400.5	32.3
2017	1400.7	1428.3	464.6	27.6
2018	1596.7	1613.6	534.3	16.8
2019	1820.3	1817.9	609.1	-2.4
2020	2075.1	2042.1	688.3	-33.0

Note: The calculation is based on the information database of Social Insurance GeneralOffice, 2011

Figure 1. Calculation of income, expenditure and loss of pension insurance fund, 2006-2020

Note: The calculation is based on the information database of Social Insurance General Office, 2011

According to this calculation, the current loss of pension fund is always covered by the state budget and it will reach to 688.3 billion MNT per year by 2020. The growth imagination of Mongolian population of which the specific gravity of people of 60 will be as follows:

Figure 2: Specific gravity of people of 60 in Mongolian population, 2009-2020

Source: Based on information database of SIGO using Prost program, 2012

In accordance with the above mentioned graph, the population of Mongolia will reach 3.2 million of which the amount of people who are 60 or above it will be 13,1% or 265,6 thousand by 2020 or it will increase by 55,2 thousand people compared to the amount of 2012. If the basic pension will be issued to all people who got on for 60, the significant state budget burden will occur. To avoid this problem it is accepted to issue a pension to people who have paid for social insurance contribution for 10 years. If people pay contribution for 10 years they can get pension

of 2nd phase proportionally and plus basic pension.

It is important how to establish the rate after defining the needs to issue the basic pension to the target group. Basic pension must be set in relation to welfare benefit, the minimum level of living, the minimum labor rate and the minimum old age pension. If it will be established by the amount below welfare benefit, it cannot mean as basic pension. On the other part, the minimum labor rate is equal to the minimum old age pension or high, there will be increase in the

state budget burden and the social insurance coverage might sharply decrease.

Welfare benefit, the minimum level of living, the minimum labor rate, average and the minimum old age pension as of 2012:

Table 4: Some indicators of pension and welfare benefit, 2012

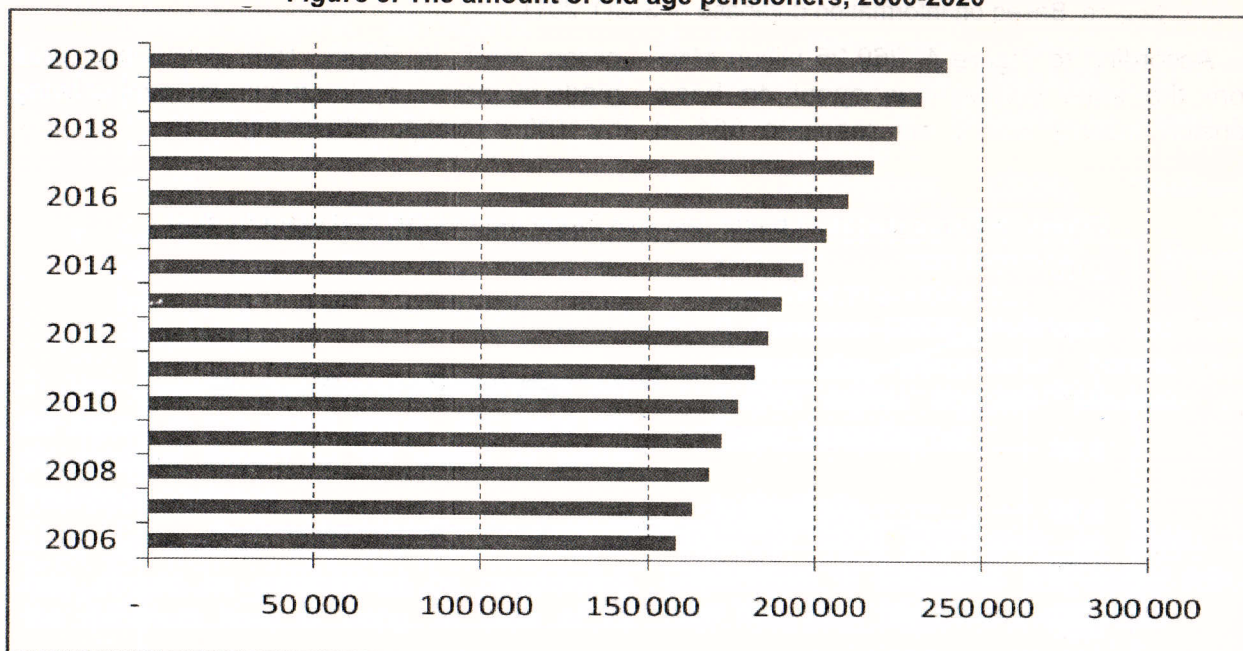
№	Indicator	Amount /thousand MNT/
1	Welfare benefit	53.8
2	The minimum level of living	118.1¹
3	The minimum labor rate	140.4
4	Minimum of old age pension	
	-proportional	145.2
	-complete	180.3
5	Average amount of old age pension	221.3

Source: Based on information database of Social welfare General office and SIGO, 2012

The Government of Mongolia set the minimum level of living 118.1 thousand MNT in Ulaanbaatar. So it is possible to establish the basic pension rate by this amount.

Calculation of the amount of old age pensioners until 2020 might be as follows:

Figure 3: The amount of old age pensioners, 2006-2020

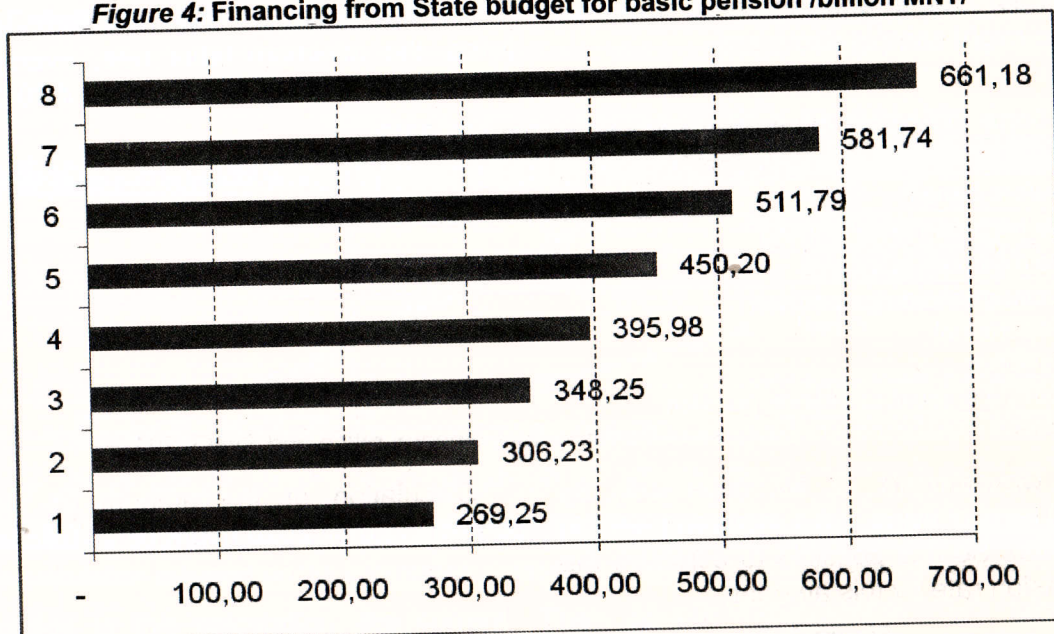


Source: Based on information database of SIGO, 2011

By 2020 the amount of pensioners will reach 239.4 thousand or 53.6 thousand more than 2012. If the basic pension will be issued by the universal condition, it will be increased by 26.2 thousand people reaching 265.6 thousand. In accordance with the current

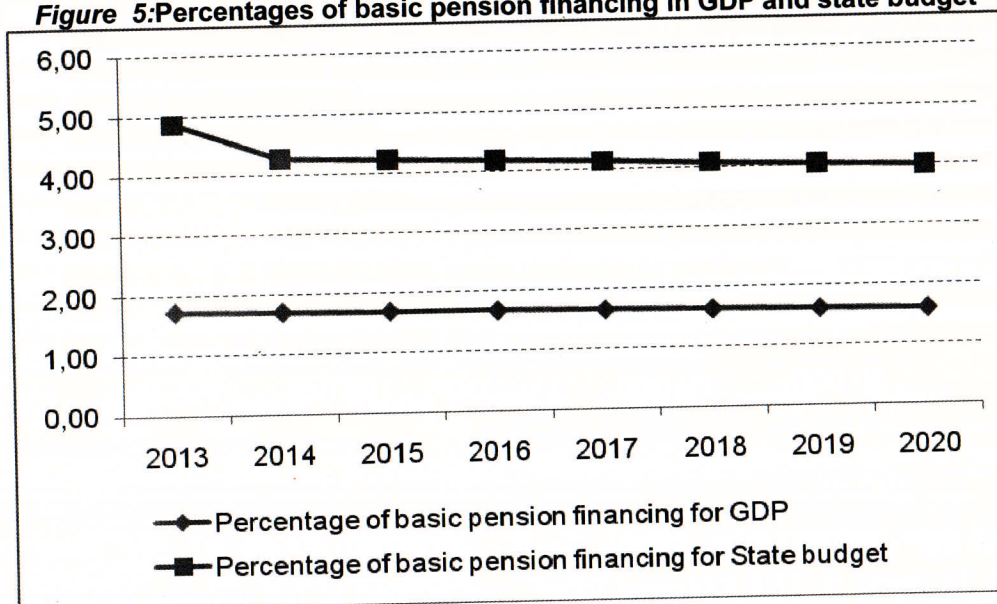
Law of benefit, the old age people who are not entitled to get pension can obtain benefit pension.

Basic pension will be funded by the state budget and the calculation of revenue to be spent on it might be as following.

Figure 4: Financing from State budget for basic pension /billion MNT/

Source: Based on information database of SIGO, 2011

According to Figure 4, 269.25 billion MNT from the state budget was spent on basic pension in 2013 and it will reach to 661.18 billion MNT in 2020. This calculation was made by increasing the minimum level of living by 10% in relation with inflation rate.

Figure 5: Percentages of basic pension financing in GDP and state budget

Source: Based on the 2013 Budget introduction of Mongolia and information database of SIGO, 2011

According to the above mentioned calculation, the percentage of basic pension financing might be stable or 1.7-1.6% of GDP and 4.9-4.0% of the united state budget.

Conclusion, recommendation

Although Mongolia conducted social insurance system renovation in 1995 and 1999, it is required to carry out such renovation at present time. The following favorable conditions for transition from 1 phased pension system into multi phased system were created:

- More than one third of total population was children up to 15 in 2000. But it may decrease by 25%. There is an increase in the amount of working age people and percentage of people of 60 or above it was 5.2% of total population in 2000 and it may reach 13,1% in 2020.
- So there is a great chance to change pension system in 2013-2015.
- As a result of increase in GDP of Mongolia above 10 % it is required to allocate the wealth equally to each capita.
- Current pension insurance coverage is insufficient. Thus the levers for increasing such coverage were established.

We consider that pension insurance will be issued to the target group. Or there will be negative impact on 2nd phase or social insurance coverage.

It is suitable that the basic pension rate should be established by considering the minimum level of living. In case of its

establishment of 118,1 thousand MNT, it may account for 1.7-1.6% of GDP and 4.9-4.0% of the united state budget. Basic pension will play an important role in providing the old people's life with guarantee, keeping their income in particular level and allocating the social wealth equally to each person. Therefore 'Law of basic pension' is needed to be formulated and passed. Also the necessary assets must be included in the state budget.

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