



Social Policy Highlight

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Success factors in contribution collection and compliance

This *Social Policy Highlight* identifies success factors for improving the core administrative tasks of contribution collection and the enforcement of compliance. Significantly, in addition to ensuring rights to entitlements, benefit adequacy and the financial health and public standing of social security programmes, success in contribution collection and compliance can support ambitions to extend social protection coverage. On the basis of survey evidence provided by ISSA member organizations, this *Highlight* concludes that although the realization of improvements in contribution collection and compliance cannot escape the influence of the broader national regulatory environment, social security organizations can contribute positively towards achieving these goals by prioritizing improvements in governance.

Hans-Horst Konkolewsky, ISSA Secretary General

Financing social security benefits

Globally, the dominant mechanism for financing social security benefits is through the payment of contributions. However, besides the challenges of contribution evasion and benefit fraud, a number of risks challenge the financial sustainability of many contributory social security programmes. One set of risks stems from demographic trends in the form of increased longevity, declining fertility rates and increasing geographic mobility. Another set arises from structural changes to labour markets and evolving employment patterns, and a trend towards higher levels of informal and casual work in particular.

This issue

- Explains why success in contribution collection and compliance is essential
- Discusses success factors and challenges to improved contribution collection and compliance
- Outlines national examples of good practice in contribution collection and compliance
- Underlines that good governance in social security administration is vital

These risks may make the need for complementary sources of finance (income from sovereign funds, social security investment fund returns, State budget subsidies, etc.) and reforms to the design of social security programmes increasingly necessary. In some cases, the impacts of worsening old-age dependency ratios and lower levels of contribution revenues vis-à-vis growing expenditures may lead contributory programmes towards financial disequilibrium.

Key facts and figures

- Most commonly, mandatory contributions finance public social insurance programmes, but contributions may also finance individual savings schemes (e.g. national provident funds and mandatory individual savings accounts for retirement or unemployment).
- Contribution evasion can be a serious problem for social security systems: there may be pressure to increase the rate of contributions paid by those who do contribute, or to lower benefits, or both.
- In recent decades a number of European countries have moved towards unified systems for the collection of contributions and taxes (for example, Ireland, Sweden and the United Kingdom). Other countries using unified systems include Australia, Canada, New Zealand, United States and Uzbekistan. However, across all countries, the duties and roles of national collection bodies vary.
- There would appear to be one example only of a centralized system having moved in the opposite direction, towards decentralization – the Russian Federation.
- There is an observed trend for social security systems to make increasing use of tax-financed provisions, with a relative reduction in the role played by contributions-financed provisions.
- Improved contribution collection and compliance is one necessary requirement to defend the rights and values associated with social insurance programmes and to counter any movement in favour of more residual approaches to social protection.
- Enhanced contribution compliance among employers and workers can be enforced (and non-compliance reduced) through a series of targeted measures, including strengthening inspection tasks, imposing financial penalties for non-payment, publicly “naming and shaming” non-compliant employers, and through public education campaigns to reinforce knowledge about the importance of compliance.

Why improvements are essential

The findings of a survey of social security organizations and contribution collection agencies conducted by the ISSA suggest common reasons why the objectives of improving contribution collection and better enforcing compliance are essential.

First, the timely and full payment of contributions, by and on behalf of insured persons, is necessary if these individuals are to achieve, in the first instance, the legal right to minimum benefits.

Second, the financial sustainability of programmes and the adequacy of prescribed cash benefits depend on the full and timely payment of contributions.

Third, the efficient and effective collection of contributions is necessary to strengthen public support for, and the legitimacy of, social security as a societal institution.

Fourth, successful contribution collection may facilitate efforts to extend social security coverage. Specifically, by helping to ensure that contributory social security programmes remain predominantly self-financing, social security organizations will make fewer demands on finite fiscal resources.

Fifth, improved contribution collection and compliance offers a practical means by which ISSA member organizations can make a positive contribution in support of the *ISSA strategy for the extension of social security coverage*. The expectation is that administrative improvement in these regards will aid coverage extension and complement the International Labour Organization’s “Global Campaign on the extension of Social Security for All” and the joint UN agency initiative to build a global “Social Protection Floor”.

An aspect of governance

Improving contribution collection and compliance has important social protection, legal, political and fiscal dimensions. However, when viewed as a question of administration, such improvement may be considered also as an aspect of governance.

Public perceptions of whether a contributory social security organization is efficient, effective, trustworthy and legitimate – and thus sustainable – will be to an important degree a measure of how well it is seen to govern contribution collection and compliance processes.

Success factors

Although improvements in collection and compliance are essential, often their realization remains difficult. Nevertheless, a number of factors can be identified that increase the likelihood of success.

Factors for success

- The maturity of the social insurance programme.
- The degree of coverage and size and diversity of the labour force.
- The degree of automation.
- The extent of coordination with outside organizations.
- The constant evaluation and adjustment of collection policies and practices.
- The extent of a country’s social security culture.
- The existence of a culture of compliance among employers and workers.
- The effectiveness of compliance enforcement measures and penalties for non-compliance.

Evidence suggests that collection efforts are more effective where a programme has operated over a longer period of time. This is because the agency responsible for contribution collection has had time to refine the collection and audit processes and the programme administrators have been able to amend programme policies that assist with efficient collection.

The size and diversity of the labour force is also a factor. Where the labour force is geographically dispersed and less formal, the collection of taxes and social contributions becomes increasingly difficult.

The degree of automation brings important advantages for success. These advantages can be realized through use of the Internet, electronic data matching, electronic wage reporting, on-line management information, electronic payment of contributions, the use of sophisticated algorithms to detect anomalies in payment patterns, the use of automated customer relationship management programmes, etc. An interesting recent development is the use of mobile phone technology. In one case, the Government Employees Provident Fund of the United Republic of Tanzania, in partnership with Vodacom (M-Pesa) Tanzania, enables contributions to be remitted using cell phones.

Effective coordination and cooperation with outside entities, including tax authorities and other social programmes, social partners and agencies, is also deemed significant to successful contribution collection. For instance, the National Social Insurance Institute (*Instituto Nazionale della Previdenza Sociale* – INPS) in Italy coordinates efforts with the Chamber of Commerce to detect the presence of workers without social security numbers particularly in tourism, agriculture and the food service industry.

The organizations deemed most successful in the collection of contributions monitor constantly, evaluate and adjust their processes and practices. Introducing well planned and timely changes to contribution collection work processes is therefore one further factor for success. The Central Agency of Social Security Bodies (*Agence centrale des organismes de sécurité sociale* – ACOSS) in France is an example of good practice in this regard.

A further factor is the strength of what is referred to as national social security culture. In any given country, public perceptions about the effectiveness of the administration, the timeliness of benefit payments, and public knowledge of the benefits provided by social security programmes, will contribute to either a relatively positive or negative perception of social security. It is anticipated that a more positive perception of social security will support efforts to improve contribution collection and compliance. To contribute to such a culture, the Japan Pension Service runs a month-long public outreach initiative annually to improve recognition of the importance of, and publicize information about, pension programmes.

The survey responses of ISSA member organizations suggest that there is no single most important success factor. Rather, in each national context, it is a combination of factors that seem to have the greatest impact on collection efforts.

Obstacles to improvement

In spite of these identified success factors, a series of common challenges often hinder progress in realizing improvements in contribution collection and compliance.

In many cases, these identified challenges underline a need for greater investments to be made in infrastructure and staffing as well as signalling a possible requirement for institutional and regulatory reform. However, responding effectively to these challenges requires not only administrative reform, but policy-maker input.

Common challenges that hinder progress

- The absence of individual social security numbers/tax identification numbers as a common method of providing unique identifiers for all contributors/benefit recipients.
- Confidentiality restrictions that thwart efforts to match data with other organizations.
- A lack of automation, which does not help in combating problems of under-reporting, evasion and fraud.
- The ageing of the agency's workforce leading to a loss of knowledge and, in some cases, an inability to replace trained and experienced personnel.
- Non-compliant employers and workers may make a rational choice to avoid paying contributions if enforcement measures are perceived to be weak and if the economic gain of non-compliance is perceived to outweigh the financial cost and potential damage to the reputation of enterprises of imposed penalties and sanctions.

No single best way

A recurrent argument about contribution collection and compliance is that a centralized, unified system for collecting social security contributions and taxes holds the potential to be more efficient. Most often, this is argued to be so because centralization is thought to bring economies of scale and help coordinate audit and record-keeping activities.

Yet, just as there is no agreement on the single best way for all countries to achieve good governance, so there is no agreement on a single best way to collect contributions. Rather, a complex interactive set of factors – policy design and regulation, the extent of coverage and the makeup of the labour force, the organizational location of the collections entity, the degree of automation, cultural and political factors, as well as institutional history – are all at play.

Despite this complexity, social security organizations are contributing positively towards enhanced contribution collection and compliance by making changes that lie within their institutional mandates. First and foremost, this is being done through the wider pursuit of improvements in administration and governance.

As part of its strategic mandate to promote and develop social security, and in looking to promote the importance of good governance further, the ISSA remains committed to developing tools and guidelines for social security organizations to pursue these aims further.

Key conclusions

- It is within the power of social security organizations to influence positively contribution collection and compliance by working first towards improvements in administration and governance.
- Improvements in contribution collection and compliance (and reductions in non-compliance) ensure that insured persons can access fully their right to benefits.
- Higher levels of contribution income make more certain the financial sustainability of programmes and the adequacy of benefits, and strengthen the legitimacy of social security as an institution and the values it represents.
- By improving the financial health of programmes and by reducing the need for fiscal subsidies, finite State budget resources may then be redistributed in alternative ways to address broader national social security coverage priorities and social needs.

Sources

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4 route des Morillons
Case postale 1
CH-1211 Geneva 22

T: +41 22 799 66 17
F: +41 22 799 85 09
E: issacomm@ilo.org | www.issa.int