

# The Risk-Sharing Policy for the Diverse and Diversifying World of Work

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**Seminario de la AISS sobre las Tecnologías de la  
Información y de la Comunicación en el nuevo mundo  
del trabajo y los servicios de Seguridad Social**

Rio de Janeiro, Brasil, 25-26 de Octubre de 2018

In part based on

White Paper  
of the Social Protection &  
Jobs Global Practice

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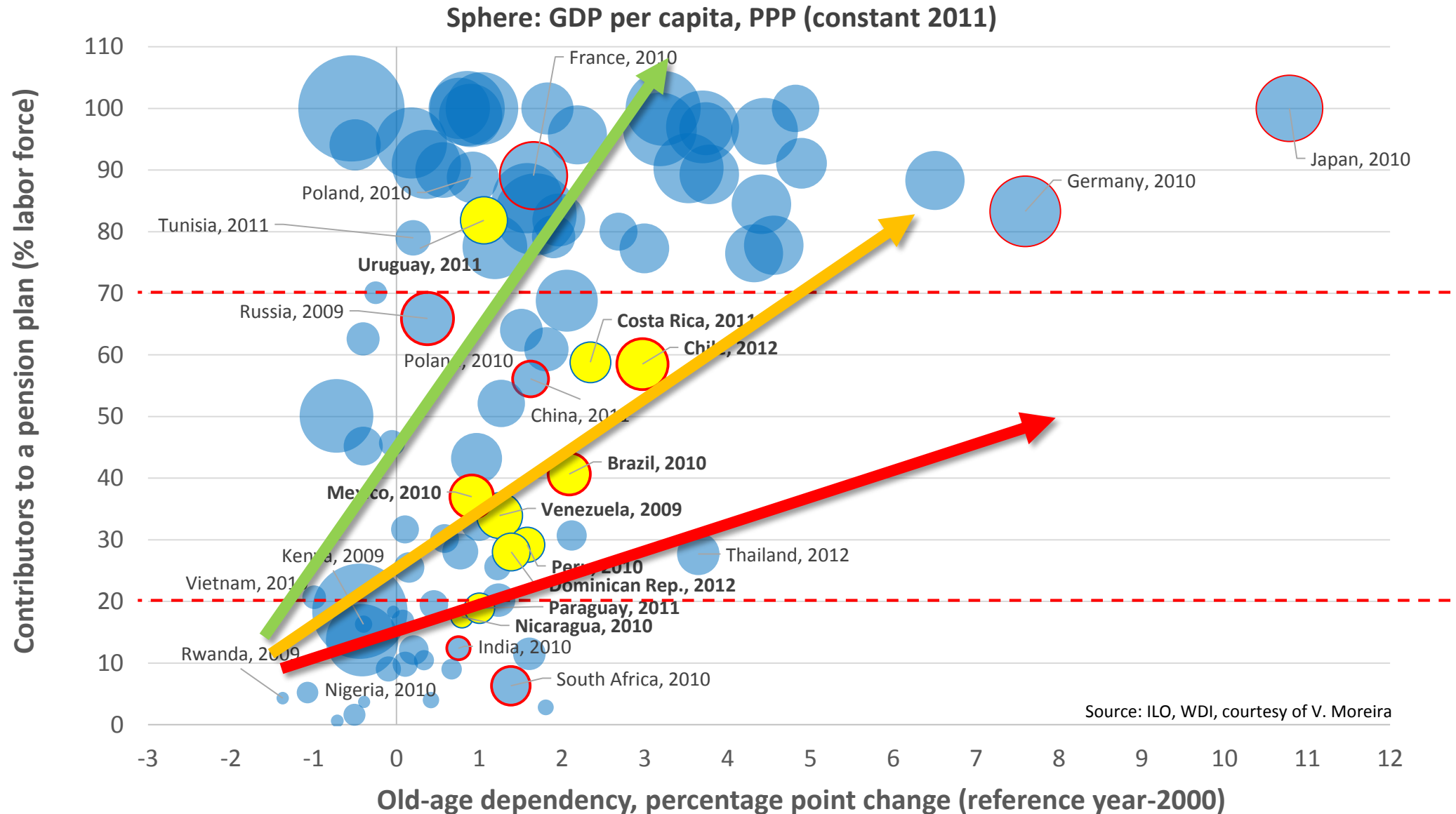
# Risk-Sharing Policy for the Diverse and Diversifying World of Work

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# Danger on the horizon: low formality & rapid ageing



# The “big idea”, in three points

1. Current risk-sharing policies were designed for a more stable, homogenous world of work.
  - Stable employment was the platform to provide protection.
2. Work has always been **diverse** and **fluid** in LICs, and is diversifying further in MICs and HICs.
  - Threat to effectiveness and relevance.
3. Society can't rely on stable employment and agency of the employer to provide the platform for protection.
  - The social and economic costs of exclusion are high and growing.

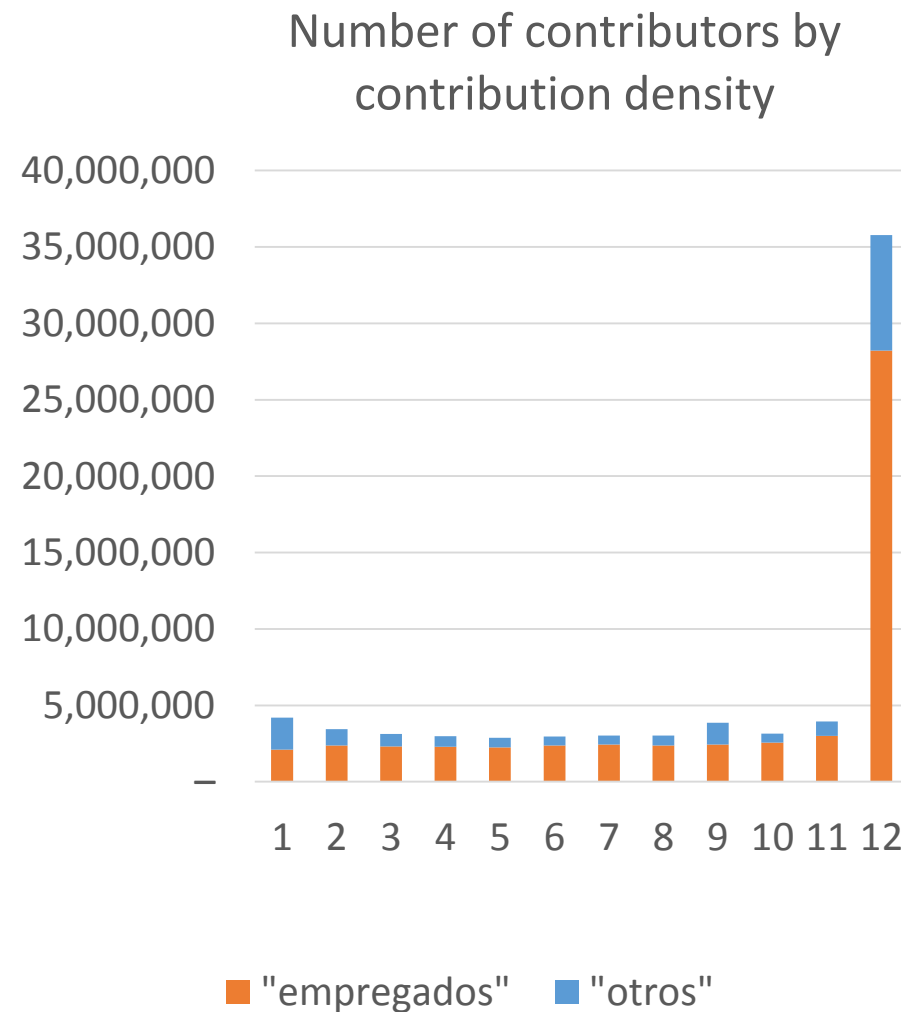
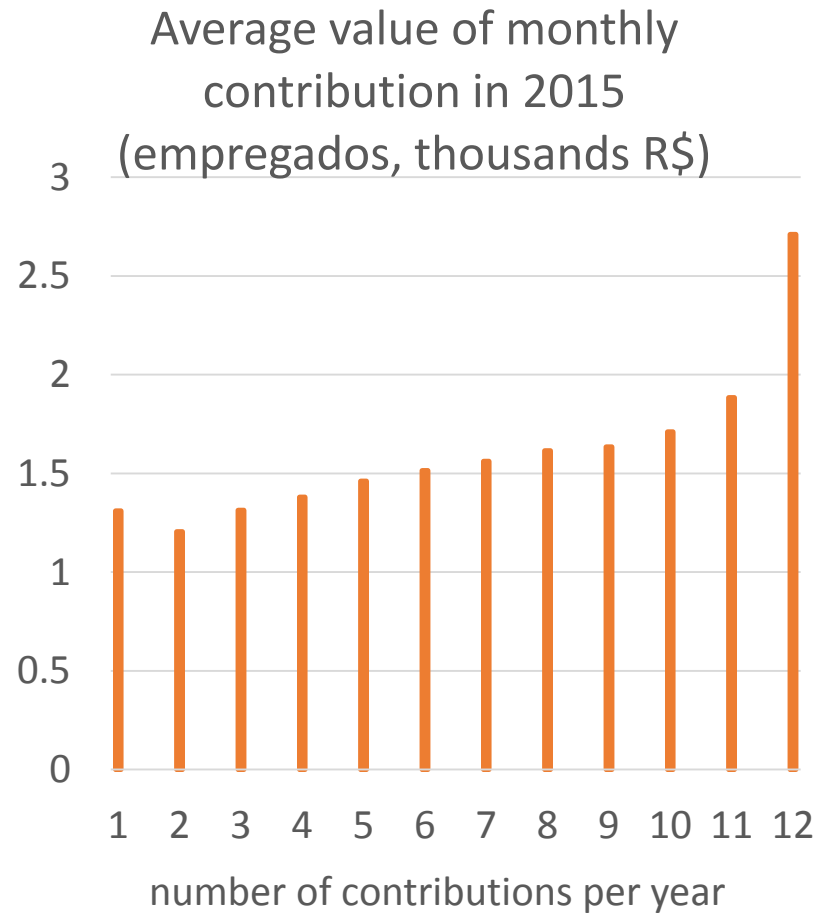
# Changing nature of work: Drivers of disruption

Technological change	Economic integration	Social change	Demographic change
<ul style="list-style-type: none"> <li>Productivity increases</li> <li>Urbanization</li> </ul>	<ul style="list-style-type: none"> <li>Bigger more contestable markets</li> </ul>	<ul style="list-style-type: none"> <li>Women's participation in the labor force (demand for flexible working forms)</li> </ul>	<ul style="list-style-type: none"> <li>Youth bulge</li> </ul>
<ul style="list-style-type: none"> <li>Agglomeration (ever-narrower division of labor/specialization)</li> </ul>	<ul style="list-style-type: none"> <li>Migration within and across borders</li> </ul>	<ul style="list-style-type: none"> <li>From plan to market</li> </ul>	<ul style="list-style-type: none"> <li>Falling fertility</li> <li>Later entry into full-time work</li> </ul>
<ul style="list-style-type: none"> <li>Decline of market transactions costs ("atomization" and the rise of digital platforms)</li> </ul>	<ul style="list-style-type: none"> <li>Growth of trade in intermediate goods</li> <li>Multi-country production chains</li> </ul>	<ul style="list-style-type: none"> <li>Conflict mobilization</li> <li>Population flight from conflict</li> <li>Population influx from conflict</li> </ul>	<ul style="list-style-type: none"> <li>Longer life</li> <li>Longer healthy life</li> </ul>
<ul style="list-style-type: none"> <li>Rising connectivity &amp; market access</li> <li>Declining cost of distance</li> </ul>	<ul style="list-style-type: none"> <li>De-industrialization</li> <li>Dominance of the services sector</li> </ul>	<ul style="list-style-type: none"> <li>From majority poor, to majority 'middle-class'</li> </ul>	<ul style="list-style-type: none"> <li>Longer period of life in work</li> </ul>
<ul style="list-style-type: none"> <li>Automation</li> <li>Artificial intelligence</li> </ul>	<ul style="list-style-type: none"> <li>Fading distinction between 'tradable' and 'non-tradable'</li> </ul>	<ul style="list-style-type: none"> <li>New norms and aspirations of labor market 'success'</li> </ul>	<ul style="list-style-type: none"> <li>Rise of the 'active elderly' (60-80 year-olds)</li> </ul>

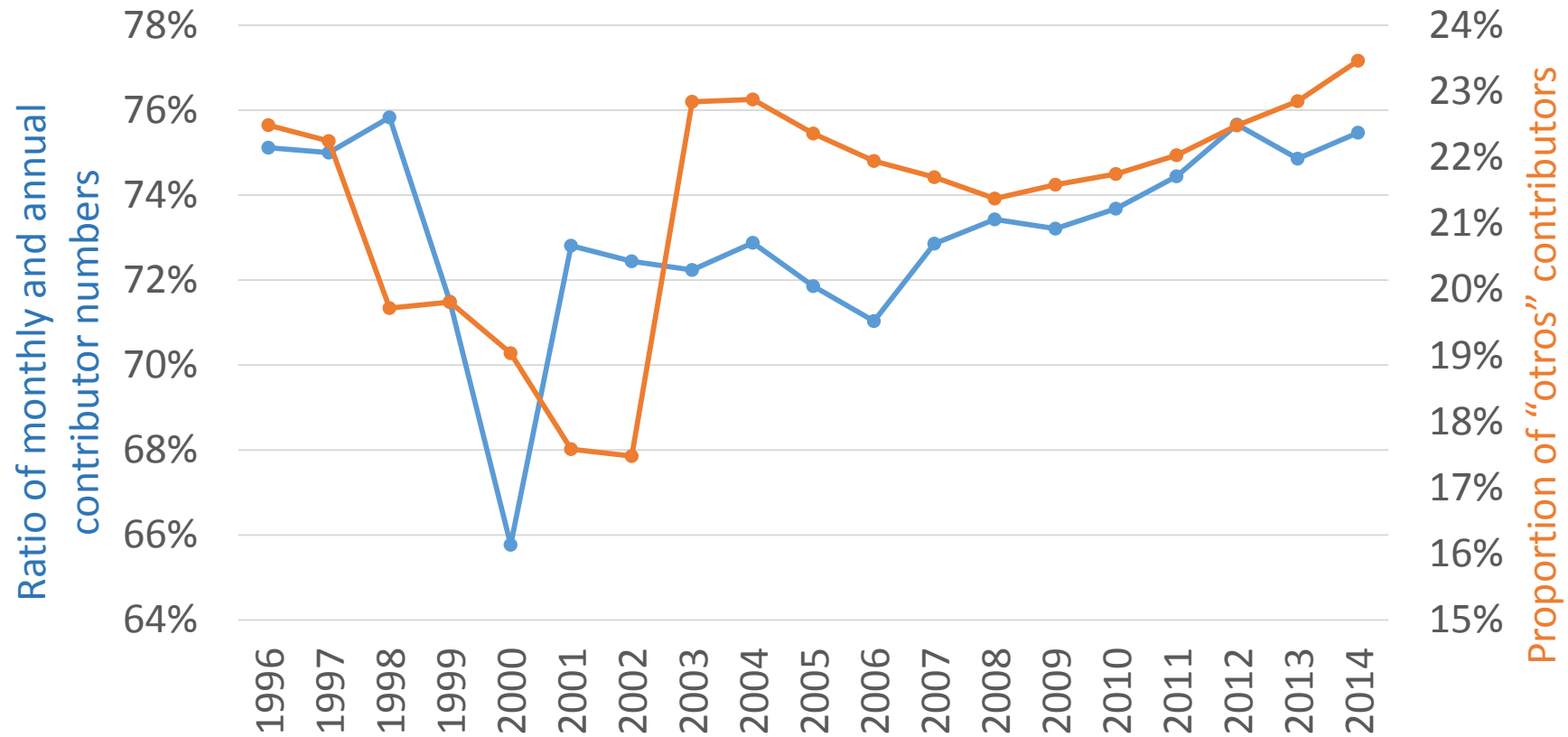
# A diverse world of work challenges the foundational assumptions of prevailing risk-sharing policies

- The prevailing model was designed around the ***'standard employment relationship'*** for practical reasons with the goal of insuring against catastrophic losses
  - Institutions, norms and aspirations were developed and took hold when (and *where*) most working people were in standard employment relationships
  - Most workers were men, sole-worker heads-of-household, with inelastic labor supply and few career interruptions
  - The model evolved to increasingly mimic saving and not insurance instruments and started to divide those affected by shocks into deserving and undeserving of help; it became too expensive for many employers and potential workers
- While the world of work is evolving and becoming more diverse, these institutions, norms and aspirations remain rigid
- That rigidity (*failure to keep up*) threatens first the effectiveness, and ultimately the relevance of the prevailing model

# Contribution density in Brazil in 2015: Significant correlation between density and income



Contribution density is rather stable:  
no basis to expect significantly longer carriers in the future





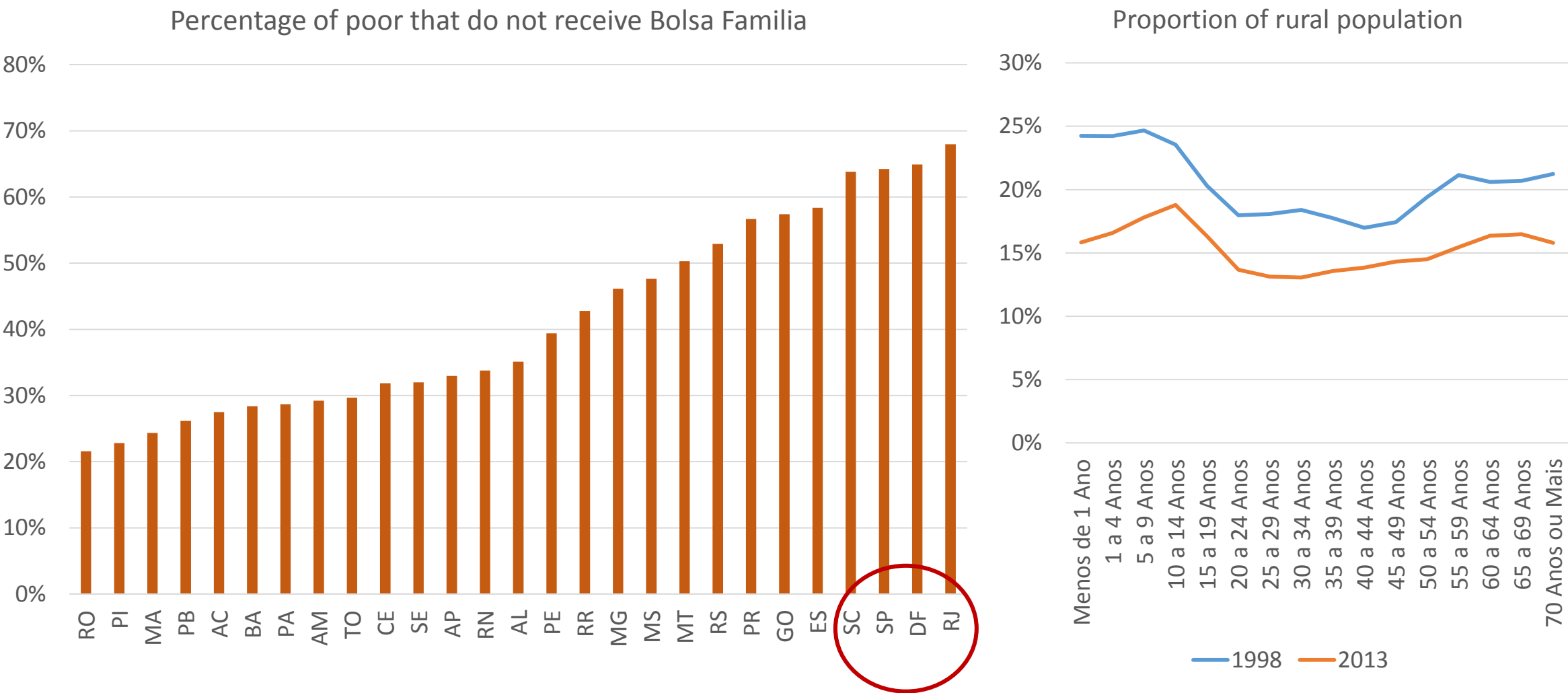
## Expected retirement paths: only minority follows “standard employment” ideal

	Size of population group	Average Wage	Contribution density
Profile 1: On track to LOS	25% → 30%	3 min. wages	100%
Profile 2: On track to Idade pension above min.	10% → 15%	2 min. wages	70%
Profile 3: On track to minimum Idade pension	15% → 25%	1.5 min. wages	35%
Urban potential BPC recipient	35% → 20%	below min. wage	-
Rural population	15% → 10%	below min. wage	?

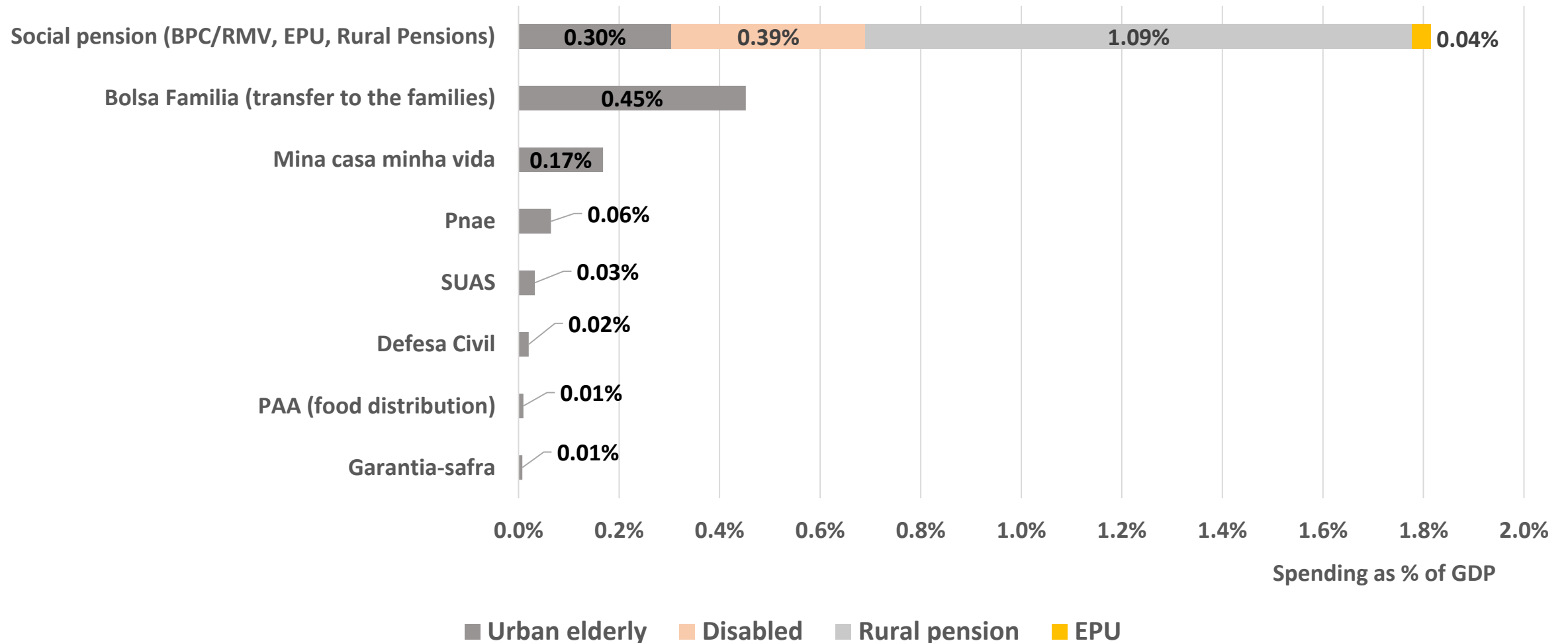
# Implications of growing diversity and fluidity in working forms

1. Livelihood disruptions is a “new normal”: A significant portion (most?) working people are in multiple, fluid, and short-term economic engagements.
2. Limiting access to risk-sharing based on *where* and *how* people work, incurs social costs (exclusion) and regressively-distributed fiscal costs.
3. Social costs of relying on the “agency” of employers outweigh the benefits.
4. A clearer, transparent distinction between the “actuarial risk pooling” and “income redistribution” objectives matters for financing, delivery and incentives.

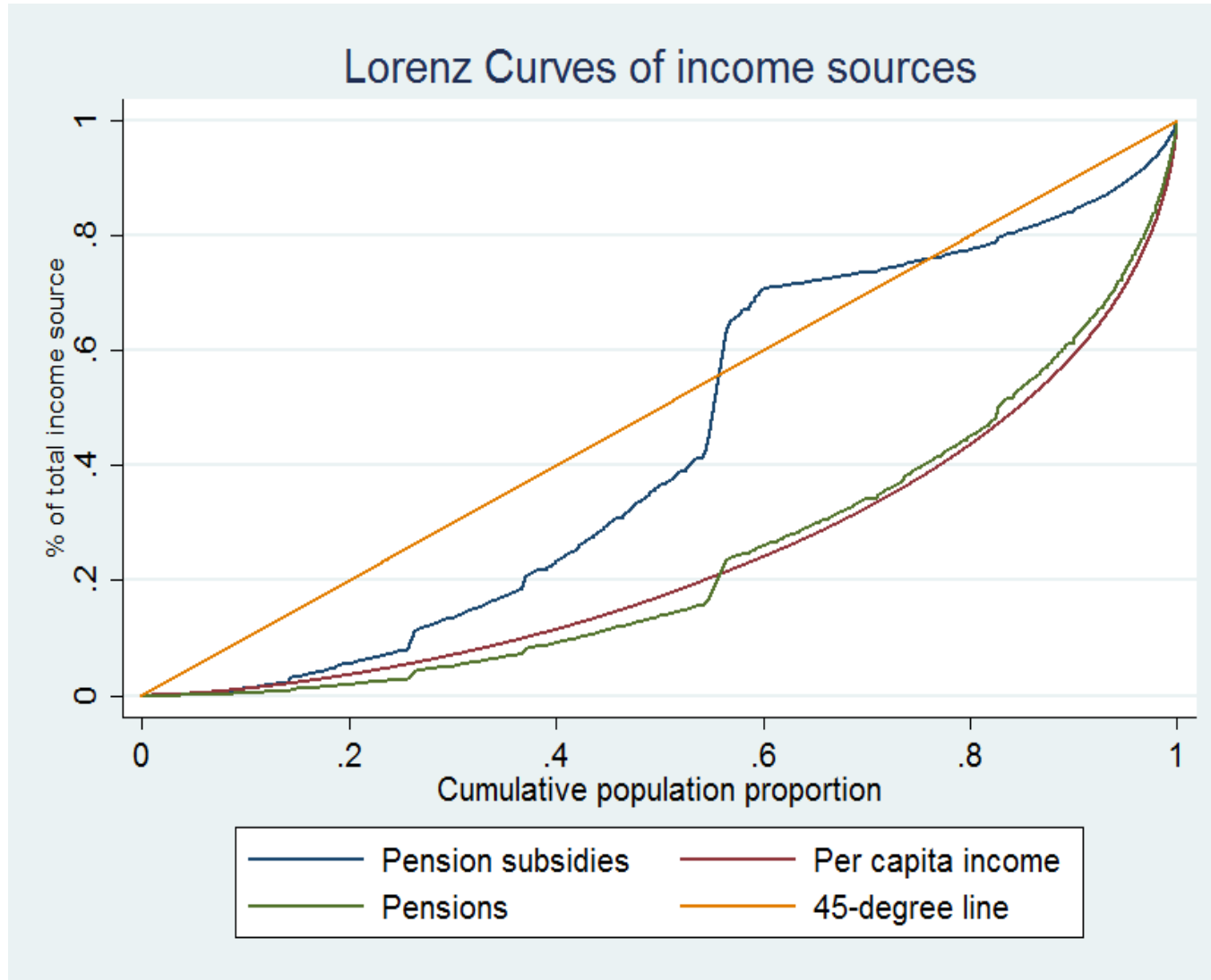
# Exclusion in Brazil (1): urban poverty coverage



# Exclusion in Brazil (2): Social Assistance mostly goes to elderly...

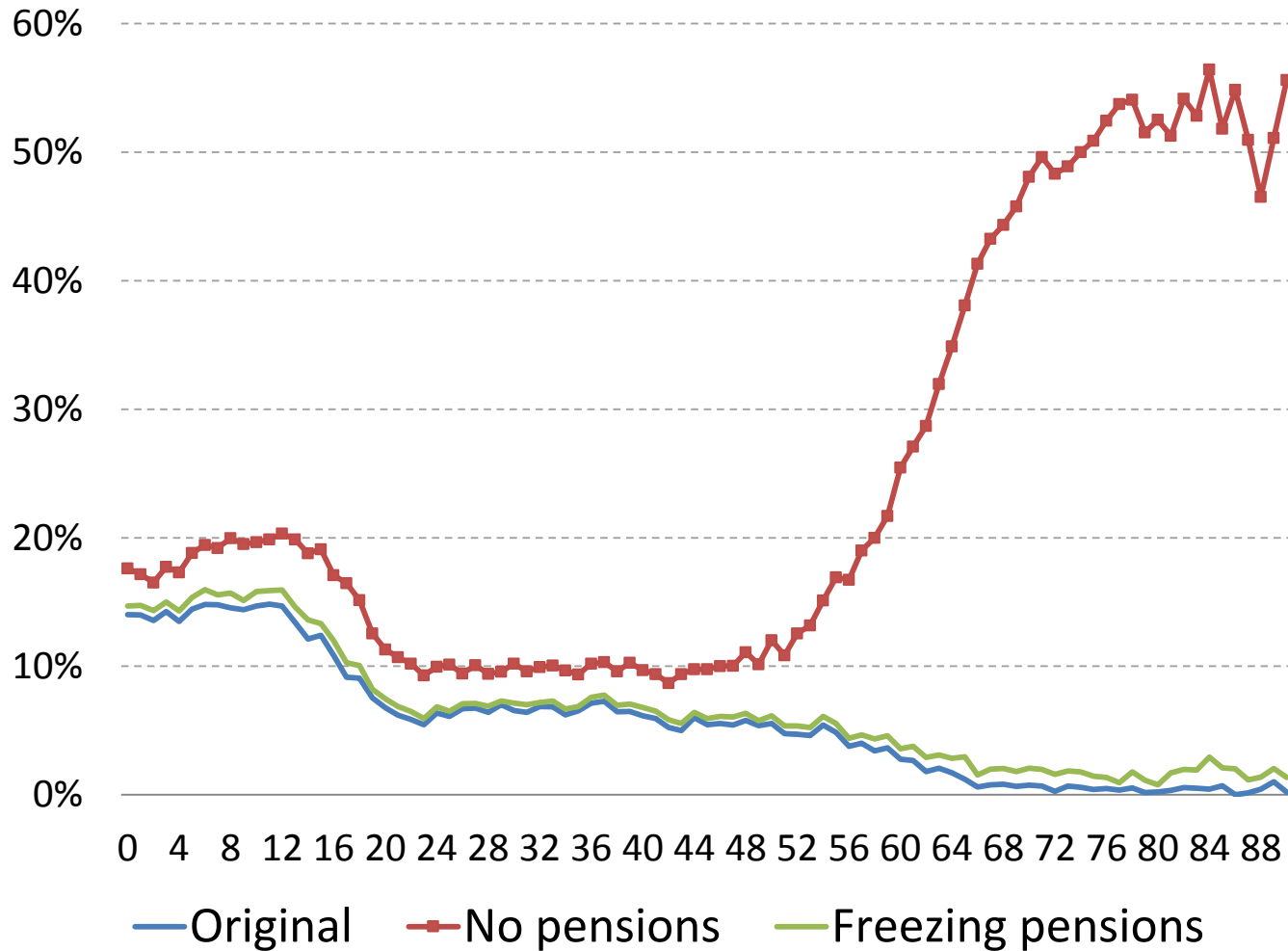


# ... disproportionately subsidizing more affluent households...



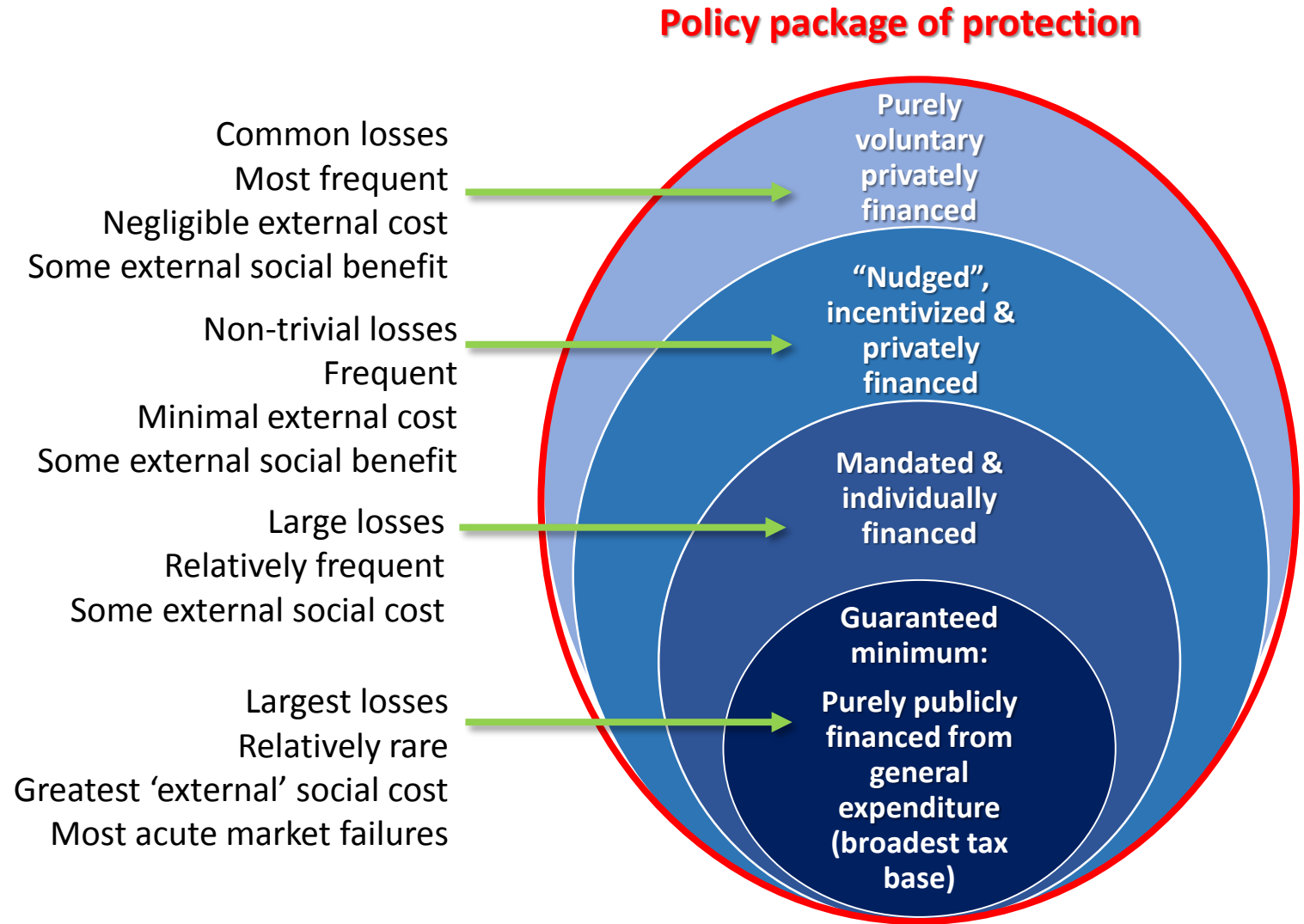
- Pension income is more important to 50% of the richest population than 50% of the poorest
- 20% of pension subsidies go to the poorest 40% of population;
- 30% to the 6<sup>th</sup> decile, and

## ... leaving younger cohorts more exposed to poverty

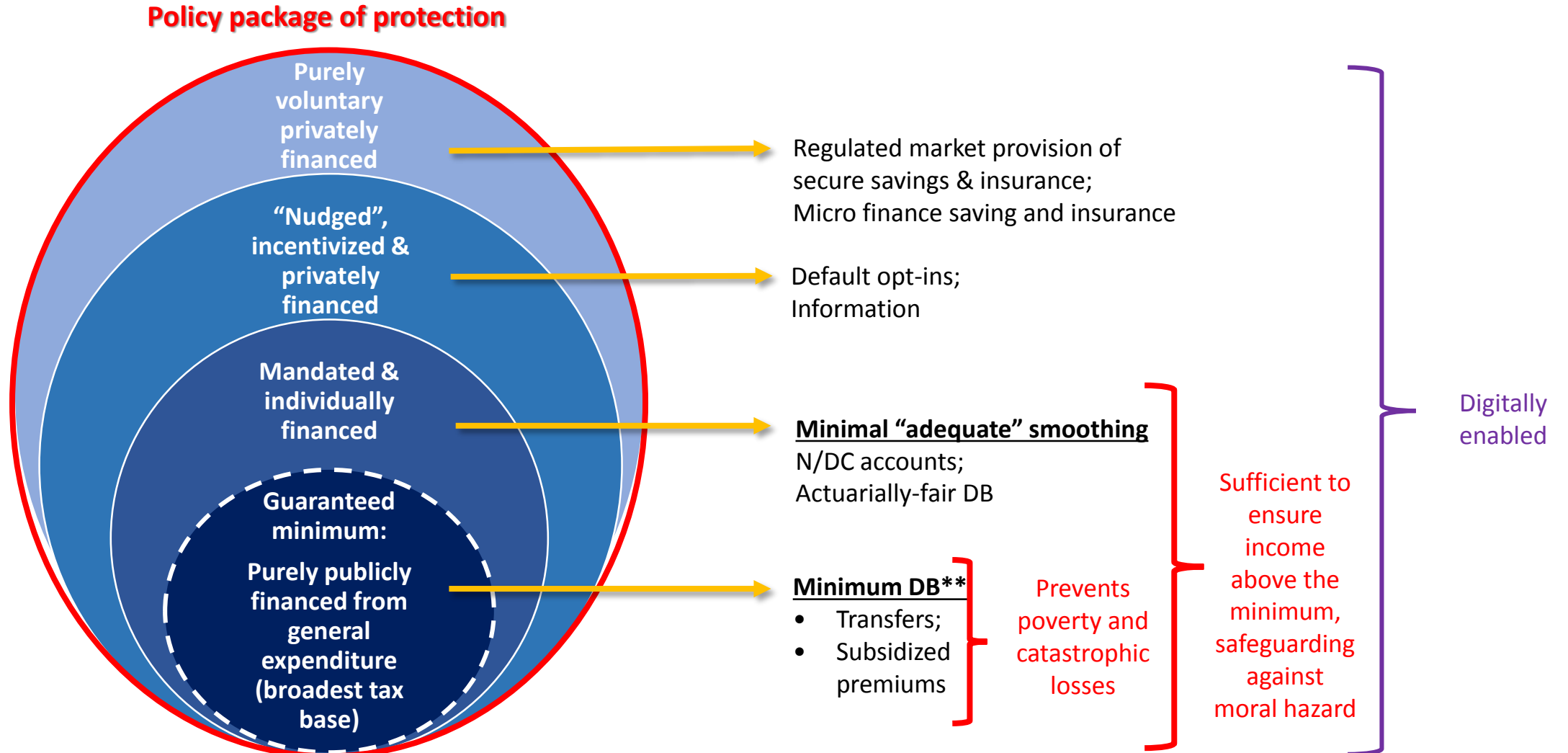


- Poverty among pensioners is 5%
- median per capita income of 60+ population is 4 times the poverty line
- Eroding pensions by 30% (including minimum pensions) would not significantly change poverty profile (green line) – median goes to 3 times the poverty line

Nature of shocks  
& losses, and  
extent of market  
failure  
determines how  
and how  
intensively  
government  
responds.



# The specific mix of instruments deployed can vary.



\*\* Replaces contributory min guarantees and tax incentives



# Thank you.

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