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Portability of Social Benefits: Research on a Critical Topic in Globalization

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1. What Are the Issues, and What Do We Know?

The stock of migrants living outside their countries of origin may appear small, amounting to some 3% of the world population (United Nations Population Fund 2014). But this represents more than 200 million people, and this share has been (re-)increasing since the 1970s. The underlying flows are substantially higher and less is known about them. Therefore, a substantial number of individuals are spending at least part of their lives outside their own countries' borders, mostly working but also in retirement. The potential for international mobility may be even higher, as migration is a highly regulated phenomenon, mainly governed by immigration laws in receiving countries that effectively prohibit migration in many directions and may discourage it in many other cases.

Economic research on migration has a long tradition (see, for example, Tiebout 1956 as a predecessor, and Sjaastad 1962 and Harris and Todaro 1970 for fully fledged contributions), relying on the idea of rational decision making and a cost-benefit framework as powerful analytical tools. Wage and income differentials are seen as the main incentives to migrate, adjusted to migrants' actual labor market prospects. Measures of geographical and cultural distance and the network of immigrants from the same home country living at a specific destination capture important determinants on the cost side. Far less is known with respect to the effects of institutional determinants, such as labor market institutions and particular features of social protection systems in receiving countries, on individuals' decisions to migrate (see Geis *et al.* 2013 for preliminary evidence). There are indications that the existence and generosity of social protection systems have an impact on migration (see, for example, Pedersen *et al.* 2008; Mayda 2010), but measurement of activities of 'the welfare state' becomes rough whenever this research moves outside a narrow institutional setting at a subnational level (as in Borjas 1999).

A field that is definitely underresearched is the role for mobility played by the portability of social benefits for which (potential) migrants have established vested rights in their current country of residence. Lack of portability creates problems mostly for individuals who consider migrating, as they may lose important parts of their benefit entitlements, with massive consequences for their lifecycle planning and their social risk management—or for their willingness to migrate. Absence of or limitations on the portability of benefits thus go against the basic objectives of social policy and may also violate affected individuals' social and human rights. Less clear is the economic rationale for granting portability and the actual consequences for migration decisions as well as for social protection systems. From a first-best point of view, it may seem natural that individual decisions to migrate should not be influenced by a lack of portability of social benefits when these are based on vested rights. But as a matter of fact, this case still needs to be strengthened.

For quite a while, identification of portability problems and attempts to resolve them were largely left to the practical sphere and legal discussions. In recent years, economists' interest in portability issues and their conceptual penetration has notably increased—yet only slowly. Thus far, a number of studies pave the way from a first analytical framework (Holzmann *et al.* 2005), to regional studies (Forteza 2008) towards a comprehensive review of social protection for migrants between South and North and the linkage to portability, to commenting on good practices (MacAuslan and Sabates-Wheeler 2011). At the same time, economic analysis has expanded into this area by modeling portability and providing empirical indications of its potential importance (see, for example, Breyer and Kolmar 2002; Jousten and Pestieau 2002; Poutvaara 2007; Fenge and Weizsaecker 2009; and Razin and Sadka 2012).

Nevertheless, there is still some way to go to advise policy makers about what is best suited to ensure international portability of social benefits and to demonstrate its importance. As we see it, this reflects: a lack of a shared conceptual and theoretical understanding; very incomplete knowledge of what works, what does not, and why; and last but not least, a lack of data with which to empirically evaluate practical arrangements.

2. Filling the Gaps: Contributions from the Venice Workshop

Against this background, a CESifo workshop held in Venice in July 2012 was meant to stimulate further research and to create an opportunity for discussion of topics such as: objectives of portability and optimal design of portability rules; conceptual issues arising in different subfields, in particular old-age provision and health care; assessments of broad portability regimes and existing agreements; and empirical work on the effects of portability, or the lack thereof. The workshop aimed to take stock of analytical and empirical work done by economists on the portability of social benefits and to provide a venue for teasing out and discussing fresh, original work on this theme. Following a review process, a selection of the papers presented at that workshop is now published in this issue.

The contribution by Anna D'Addio and Maria Cavalleri ('Labour Mobility and the Portability of Social Benefits in the EU') investigates the role of benefit portability and relevant experience and expectations for individual decisions to become mobile. For this purpose, the authors focus on the EU, where the issue of portability has been addressed since the 1960s and portability policies have been developed for various types of social benefits. Besides incentives to move abroad that are mainly related to opportunities to receive a higher income and reach better living standards, economic theory also points to a number of obstacles to, or costs of, becoming mobile. Among these obstacles are perceived financial risks, the absence of family and friends, language barriers, and other cultural differences.

Among the aggregate results of the Eurobarometer survey (wave 75.1, collected in 2011), concerns about social protection abroad show up as one of the obstacles for intentions to move abroad for professional reasons. The survey also includes information on respondents' earlier experience with transfers of social benefits. The authors take this as an opportunity for an in-depth, empirical analysis of the role of portability problems for international mobility, which is basically unprecedented. The analysis is clearly constrained by the way in which items were defined and surveyed in their data. For instance, they have to look at mobility intentions, rather than realized mobility, and focus mainly on subjective perceptions, since information on many details of individuals' relevant experience is lacking. Nevertheless, using a matching-cum-multinomial-logit estimation technique, they construct an interesting treatment and control group exercise with an EU-wide sample of more than 10,000 respondents. Estimation results suggest that having experienced an 'easy' transfer of social benefits in the past has a significant positive effect on the propensity to move abroad, while experiences of 'difficult' transfers have opposite effects. The magnitude of these effects is substantially larger for people in the EU-15 than for people in the EU-12, which may be driven by cultural, political, or economic factors or by different knowledge of the EU system in these countries. In any case, the findings are robust with respect to various changes in the empirical setup.

The paper by Robert Holzmann and Johannes Koettl ('Portability of Pension, Health, and other Social Benefits: Facts, Concepts, and Issues') extends and generalizes earlier work on conceptual issues in benefit portability for the full range of social benefits. It starts by distinguishing broad types of existing portability regimes that are increasingly less favorable from migrants' perspectives ('portability', limited 'exportability', 'exclusion', and 'informality') and attempts to attribute current stocks of migrants to these regimes. Their conceptualization of portability is based on criteria derived from objectives of (domestic) social policy and international labor mobility, augmented with the idea of social risk management for which migration is quite likely one of the oldest instruments. This leads to a generic definition of portability and raises a number of questions regarding its actual scope.

As their core contribution, the authors develop an analytical framework for portability analysis that suggests separating the elements of risk pooling, (implicit or actual) pre-funding, and redistribution in the design of social benefits. In most existing social protection schemes, these elements are mixed in one way or another. The normative basis for considering the corresponding benefit entitlements as vested, portable rights may differ; this is certainly true regarding the political support for maintaining these promises *vis-à-vis* individuals who immigrate or emigrate. Therefore, it may be helpful to disentangle them not only at a notional level but also in practice. Building on this idea, the authors apply their conceptual framework to (old-age) pensions and health care benefits, with some attention to features that are specific to these two branches of social protection. Summing up their key considerations, they argue that this promising approach may serve both as a substitute and complement to existing bi- and multilateral agreements—a point which is effectively exemplified with respect to portability of health care benefits by Werding and McLennan's contribution (see below).

The paper by Alain Jousten ('The Retirement of the Migrant Labor Force: Pension Portability and Beyond') proposes a stimulating look at the role of portability of social benefits for migration. To clarify and stylize the argument, it focuses on the European context with large migration flows and its rather intense (and unique) international coordination framework. It combines basic findings from the literature on the role of migration for pensions, with a strong focus on early-life mobility, and key results from the literature on pensions and retirement in a national setting. Focusing on the decision to retire from the labor market, the paper discusses how financial incentives for individuals with a migration background differ from those for individuals with purely domestic careers and outlines some promising avenues for future research at the nexus between these different strands of the literature.

Several observations emerge from the European context. First, while current regulations help coordinate programs, they do not set out a harmonized or unified social protection system, thus maintaining possible incentives or disincentives to migrate between countries. Second, the EU-level coordination regime is non-neutral. At the individual level, a simple look at workers' national professional trajectories is insufficient or even misleading. Social programs, in particular pensions, have a strong intertemporal dimension, so that people are still exposed to rules and benefits from their former countries of work. At the system level, the coordination mechanism essentially follows a lifecycle logic of pro-rating across countries, while the situation is very different for programs such as health or unemployment insurance, where substantial discontinuities appear between countries. Last but not least, budgetary issues arise at the system level from mobility toward the end of the working life, in particular with regard to taxation.

The paper by Bei Lu and John Piggott ('Meeting the Migrant Pension Challenge in China') addresses a very different institutional setup, exploring the feasibility and implications of a separate migrant pension scheme to establish portability of pension benefits for the more than 150 million migrant Chinese workers. Currently, most of these internal migrants are not covered by a pension program. When they are, their acquired rights are typically lost when they move to other jurisdictions or return to their hometown or province. The authors argue that adequately accommodating migrant workers within the existing structures requires reforms that would negatively impact the populations they already serve. Therefore, they analyze the feasibility of a special migrant pension plan, based on notional defined contribution (NDC) principles, from both theoretical and implementation perspectives.

The authors consider the proposed NDC arrangement for mobile workers in China as a win-win strategy, as it would not only improve the long-term financial sustainability of provincial pension funds, but would also enable portability for migrants moving between urban areas and provide them with adequate retirement benefits at realistic rates of return. These conclusions are supported by simulations using a model calibrated to data for Zhejiang province. Specifically, because the urban-enterprise pension system's cash flow and net present value would become negative earlier under the new rules, provincial authorities would likely become aware of the financial implications of population aging sooner. The authors propose to accumulate reserves in the NDC scheme under provincial management with centralized oversight, as this could provide a model with some rivalry under which, over time, best practices might be shared. Lastly, the new institutions may act as a pilot for the unification of the national pension scheme and may also serve as a model for medical and disability insurance.

Volker Meier and Andreas Wagener ('Do Mobile Pensioners Threaten the Deferred Taxation of Savings?') turn to a problem involved in international mobility that does not directly relate to the operation of benefit systems, but to the taxation of benefits paid out to recipients living abroad. National tax-benefit systems nowadays often follow a logic of deferred taxation of old-age income, where contributions to public systems or precautionary savings for private provisions are deducted from the tax base during the active lifespan, while pensions are fully taxed during retirement. Usually, this is not part of a general strategy of exempting savings and taxing consumption, rather than income, but a targeted instrument for integrating public old-age provision into the overall fiscal system and for supporting individual provisions. However, if individuals move away once they retire, either because they return home after having worked abroad for a long period of time or because they prefer the living conditions elsewhere, this strategy is undermined. Also, even if the principle of residence-based taxation of income is fully operative, mobility of individuals effectively creates a new difficulty for taxing capital income.

The authors suggest a model where, to smooth tax payments over the lifecycle and to keep excess burdens low, full deferral of taxes on saving is optimal in the absence of mobility. They show that this is no longer true if mobility exceeds a certain low level. If pensioners are able to escape the deferred taxation of savings, governments will have to reduce the degree of tax deferral (and the tax rate on capital income), although it is never optimal to return to full, immediate taxation of savings. This problem could be mitigated if tax laws were also enforced *vis-à-vis* emigrants. While this may seem relatively easy to implement with respect to public pensions that could be taxed at the source, deferred taxation of private provisions may have to be restricted to accounts that can be monitored by the home country and where tax payments can be enforced after emigration.

Quite likely, the paper by Martin Werding and Stuart McLennan ('International Portability of Health-Cost Cover: Mobility, Insurance, and Redistribution') addresses the most complex area of social benefit portability, namely health care. The need for health care is a lifelong risk and the costs can amount to a notable fraction of income or in extreme cases even exceed it. At the same time, expected health costs have a strong lifecycle dimension, as they typically increase at higher ages, while payments made by the individual mostly follow a flatter or income-based profile. A feature that adds another difficulty to establishing portability in this area is that health care services are most easily delivered at the place of residence. Against this background, the authors attempt to disentangle the various elements of insurance, pre-saving, and redistribution that are involved in most public schemes covering health costs, and determine the components of costs and benefits that are shifted around through international mobility under these schemes.

They conclude that to establish full portability for individuals who move from one health care scheme to another and to avoid external costs or benefits that could arise at both ends, compensating payments are generally needed between the two health care schemes involved. These payments should be assessed based on changes in expected net costs (expected health care costs minus expected contributions) for both of the schemes involved, adjusted for health-cost inflation, wage growth, and long-term (non-)sustainability, and properly discounted over time. Compared with existing rules, this solution has a few novel features: First, the proposal leads to a consistent legal framework for portability of health-care cost coverage applying to all types of migrants at any age. Second, the proposal allows for a formal transfer of health fund membership with one-time payments in cases of mobile pensioners (or other types of non-working migrants), avoiding a need for constant interaction between two health care systems regarding the provision of services and related reimbursements. Finally, the proposal is easily applicable to cases of temporary migration lasting a few years for which the responsibility for health-cost coverage can be fully transferred to the host country, while migrants retain the right to return to full lifelong coverage in their home country later on.

3. Outstanding Research Issues and Proposed Next Steps

The papers collected in this issue make important contributions to the underresearched topic of portability of social benefits—an area that so far has been largely a domain of lawyers and to a lesser extent of social policy experts, but has received limited attention by the economic profession. While progress has been made, this is only the beginning of a long journey. Many more areas deserve further attention at a conceptual, empirical, or policy level, of which six areas are highlighted.

3.1 Does labor mobility really matter, and is lacking or incomplete portability a major obstacle to this end?

Three major economic and social concerns underlie the portability issue. Relevant questions are: Do obstacles to portability impede labor mobility? Does incomplete portability lead to unfair fiscal results between countries? And does it impinge on the capacity of individuals to manage the diverse risk across their lifecycle? To demonstrate the relevance of labor mobility, research needs to establish two points: (i) that impeding labor mobility across countries implies major welfare losses at the individual, national, and international level; and (ii) that lacking or incomplete portability of social benefits is a major contributor to this effect.

For the time being, convincing cross-country evidence for both aspects is missing. While most economists believe in the virtue of free mobility of labor, there is actually very little sound empirical evidence regarding the losses incurred when mobility is prohibited or reduced and regarding the functional relationship between the scope of mobility and desired outcomes. In fact, the literature on international economics proposes other channels for equalizing factor prices across countries—exchange of goods or capital—although some recent migration research suggests there is a net gain from cross-border labor mobility with internal redistributive effects (Dustmann *et al.* 2008).

Assuming that the case for international labor mobility could be strengthened by empirical evidence, one would be still missing clear evidence that lacking or incomplete benefit portability creates a relevant obstacle; that is, that individuals decide to stay put instead of moving to new jobs abroad if their vested rights are curtailed or lost. If the differentials of wages, career prospects, or personal security between home and destination countries are large enough, migration seemingly still takes place, as the examples of Europe, the Gulf Cooperation Council countries, and the USA demonstrate.

3.2 What social benefits should be made portable?

The relevance of portability and financial fairness for labor mobility is likely to differ across social benefits. It is conjectured to be very high for pension benefits and health care (the former including not only old-age pensions but also survivor, disability, and work-injury benefits) but less strong for others such as unemployment, family, and sickness benefits. Still, there is strong pressure from sending countries for their nationals to get access to the whole set of social benefits, which is resisted by receiving countries for both financial and administrative reasons (the latter includes the difficulty of observing the state of the world for insured events abroad).

Many good arguments exist for a restricted or expanded set of portable social benefits, but economic analysis of this topic has only scratched the surface. Disentangling three components of portable benefits proposed in the paper by Holzmann and Koettl—insurance, savings, and redistribution—may offer a conceptual base for further analyses that should also take into account the experience in countries with both restricted and comprehensive sets of portable benefits.

3.3 Inventory and analysis of the operation of bilateral agreements: do they deliver?

The current approach to establishing international portability of social benefits is based on bilateral agreements that increasingly work under the umbrella of multilateral agreements. These multilateral agreements offer a framework to establish some uniformity and avoid reinventing the wheel each time a bilateral agreement is negotiated. Multilateral arrangements exist for the EU at the level of directives and other regulations but also between the EU and sets of neighboring countries (such as European Union Association Agreements with Tunisia, Morocco, and Algeria). ILO recommendation #167 of 1983 on the maintenance of social security rights may have proven to be too comprehensive and too prescriptive to be of practical value for a larger number of countries.

Bilateral agreements lay down for which social benefits portability is established between two countries and under what circumstances. They also define the processes used to implement the agreement, to review it periodically, and to amend or update it. In the (limited) social policy literature on the topic, bilateral agreements are seen as a best-practice approach for establishing portability, yet such a statement is faced with two issues: First, there is no regional or even worldwide inventory of what bilateral agreements comprise—what benefits, what conditions, or what processes. Second, even if such an inventory existed, no systematic assessment based on reliable evaluations of whether these bilateral agreements actually work exists; that is, whether they deliver on a clear set of objectives and indicators.

To establish such an information base, the World Bank initiated four corridor studies covering the 'Eastern corridors' of Austria-Turkey and Germany-Turkey and the 'Western corridors' of Belgium-Morocco and France-Morocco. The studies were carried out by two European research teams based on a common evaluation framework in 2013–2014.[1] The selection of the corridors was guided by considerations of proximity of pairs of receiving countries to allow for better comparability of differences, and by considerations of diversity with regard to experience. The agreements between Austria or Germany and Turkey are considered mature and advanced, as they included health care benefits from the beginning. The agreements between Belgium or France and Morocco started more modestly and were recently reformed to include health care benefits. Research focused on the effectiveness of these agreements in facilitating portability of pensions (old-age, survivor, and disability benefits) and health care benefits, as these are typically the core (or only) benefits typically covered by bilateral agreements between Southern and Northern countries.

The preliminary results indicate that bilateral agreements in these four corridors are broadly working quite well, with no substantive issues in the area of pensions and few moderate issues in the area of health care. Some procedural issues regarding access to information about the agreements and the automatic exchange of information are recognized, and

1 A summary policy paper and the four corridor studies are under review and revision. Publication of discussion papers is programmed for mid-2015, and journal publication thereafter. Look for Holzmann (2015) for a summary policy paper and for the four corridor study papers by Holzmann *et al.* (2015a, b, c, d).

corrections are in preparation or under consideration in all corridors. However, much information about how these agreements work is still qualitative, as quantitative information for a full evaluation framework is not yet collected or accessible. This calls for further studies of similar type to enlarge the set of observations and for an effort to select, collect, and disseminate the relevant results.

3.4 Investigating alternative coordination mechanisms and their complementarity/substitutability

Available research suggests that there are three alternative coordination mechanisms conducive to benefit portability across countries: (i) establishment of benefit schemes that separate the insurance, savings, and redistributive component (if any); for pension benefits, defined contribution schemes comply with this requirement; (ii) bilateral agreements that establish rules for eligibility, benefit levels, and the responsibility for costs between countries; the more similar the benefit programs, the easier the allocation of cost responsibility; and (iii) establishment of a multinational benefit provider that receives the contributions, invests the resources, and takes care of financing the benefits. In health care, such providers already exist, say, for retirees of international organizations who take residence away from their former headquarter country. For pensions, such providers have been under discussion for some time and are now under establishment in Europe by consortia of research institutions and multinational firms (pan-European pension funds).

Preliminary research on these approaches show substitutability but also complementarity between these alternatives for creating portability, which calls for further investigation—of each approach in isolation and of their coexistence. For example, benefit schemes that separate components of insurance, savings, and redistribution are easier to establish for pension benefits. But even then they raise issues of benefit levels when exported to countries with different living standards. Portability of health care financing becomes complicated when the contents, prices, or quality of the health care packages differ between countries. Refining and expanding current proposals for modeling these issues with more realistic assumptions and developing new policy recommendations should offer a rewarding research area.

3.5 Taxation of pensions and other social benefits

The structure of contributions and benefits and arrangements for cooperation such as bilateral agreements are not the only drivers of portability. Labor mobility and migration decisions, fiscal fairness, and the ease of administration for a mobile labor force are also influenced by the tax treatment of contributions and benefits. Income taxation is particularly important for pension benefits, but of lesser relevance for other unemployment benefits and family allowances. In any case, these benefits are not portable beyond the European setting and even if they were, the total income of the benefit recipients typically escapes taxation.

At the moment, there is no overview of the different tax regimes of countries (including Europe) governing the taxation of portable pensions; even overviews of the taxation of non-portable pensions are sparse and not available in English (see Wellisch *et al.* 2008). Available information suggests that the tax treatment of retirement income (and earlier contributions and savings) is very complex and not very consistent. As regards the treatment of pension benefits that are transferred and received internationally and are dealt with in double-taxation treaties, only a few principles seem to be established and actually respected. For civil servants' pensions, the taxation right for the source country has been established and appears to be broadly applied. For social insurance pensions, the country-of-residence principle seems to be favored, but is not consistently applied. Only recently, some countries have started to tax pension benefits that are paid abroad (Germany); others do not tax pensions at all—neither domestic ones nor those coming from abroad (Turkey); yet others tax pensions from abroad but with differentiated and favorable rates depending on the convertibility of the account to which the pension is transferred (Morocco, Tunisia); while again others make the non-taxation of pension benefits a marketing element for decisions of foreign retirees to take residence (Portugal). Rules for taxing funded corporate or personal pensions are again different and complex.

To initiate and launch research in this area, CESifo (Munich) and CEPAR (Sydney) initiated a joint work program with research workshops held in Sydney in November 2014 and scheduled for Munich in September 2015 on the broader issue of 'taxation of pensions', including 'taxation of mobile pensioners' as a subtopic. Given the complexity of the topic and the interaction with the underlying issue of benefit portability, the topic will occupy interested economists for years to come.

3.6 Establishing a comprehensive information base

While the availability of micro data (including panel data) has dramatically improved over the last two decades or so in many OECD countries, data on portability issues are fraught with limited access, incompleteness, or simple nonexistence. Much of the interesting data on the international portability of benefits reside in social security institutions in sending and receiving countries. While access to these data has improved in many countries, it still remains patchy, and the identification of mobile versus non-mobile workers, current nationality, and nationality of origin are often not available or not made accessible. Administrative data as well as survey data make reference to the country of origin of a worker in some countries, while this is prohibited by law in others. As a result, once migrants become nationals, any return migration decision, if only for retirement, is confused with temporary or permanent migration decisions of native 'sunbirds'. Last but not least, panel data (for example, from the Survey of Health, Ageing and Retirement in Europe, SHARE, or with similar content) typically start and finish in one country, thus leaving out much of the history of migrant workers. As highlighted in some papers in this journal issue, retirement and other relevant decisions are closely linked with the profile a worker had before migration. Lack of this information has the potential to bias empirical results.

Besides the lack of suitable micro data, the analysis of portability is also constrained by the lack of comparable data on relevant institutions in various areas. The lack of any inventory of the content of bilateral agreements and the scope of benefit coverage, in particular in a comparable format, was already mentioned. Even if this existed, sound analysis would also need comparative descriptions of the systems of contributions and benefits; available information, say, by the International Social Security Association (ISSA), may not be sufficiently detailed and comparable. Last but not least, the tax treatment of pensions and of other relevant benefits, including that of contributions or premiums, for domestic and mobile labor is also awaiting an inventory. In fact, working on databases in any of these areas would be an important starting point for future in-depth analyses of portability if researchers want to offer evidence-based policy advice.

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