



**T20**  
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## Policy Brief

# TOWARDS AN INTERNATIONAL MODEL OF PORTABLE MIGRANT SOCIAL PROTECTION SCHEME

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*Task Force 5*

*Inequality, Human Capital and Well-being*

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# Abstract

Most countries exclude foreign migrant workers from their national pension schemes. Migrants who get end-of-service gratuities in lieu of deferred pension benefits often lack the financial skills and access to institutions that offer efficiently diversified, low-cost pension products. Existing defined contribution pension schemes are not internationally portable and face unfavorable tax treatments.

We propose that the G20 and the relevant international organizations develop model documents and agreements to support the development of internationally portable pension-investment accounts for migrant workers. The models would facilitate the development of robust internationally portable pension schemes and support inclusive growth by expanding ownership of equities to migrant workers.

# Challenges

**Millions of international migrant workers lack old-age financial protection.**<sup>1</sup> Only a small share of migrant workers are included in their host or home country pension schemes. Some migrants may get end-of-service gratuities in lieu of deferred pension benefits. However, poorer or lower educated migrants are unlikely to have the knowledge, skills—including numeracy skills—incentives, and/or access to institutions where they can invest efficiently and earn the equity premium to support themselves in retirement (Cole and Shastri, 2009; Khorunzhina, 2013; Lusardi, 2012; Lusardi, et al., 2013). Many low-cost asset managers are unlikely to offer accounts to migrants due to the reporting and compliance burden related to overlapping tax and legal jurisdictions of such clients.

**Migrants who are part of their host country’s pension schemes face another challenge:** the lack of international portability of pension accounts and unfavorable tax treatment after they move to another country. Migrant workers participating in their host country’s public or private pension schemes often have no choice but to withdraw their contributions upon departure from the country. They forego some of the accrued benefits earned with tenure and may have to pay a tax on the lump-sum withdrawal in the host, and possibly the home country.

**The International Labor Organization** (ILO 2013; Hirose, Nikac̃, and Tamagno, 2011), **International Social Security Association** (ISSA, 2014), and **several researchers** (Genser and Holzmann, 2016; Holzmann, 2013; Holzmann, et al., 2016; Migrant Forum in Asia, 2013; Sabates-Wheeler and Koettl, 2010) studied the coverage and policies to improve social protection of migrant workers. All highlight severe disadvantages in accessing social protection for old-age retirement. Since 1925, ILO has developed several specific standards for the protection of migrant workers' social security rights (ILO, 2013 page 3)<sup>2</sup>. *The Maintenance of Migrants’ Pension Rights Convention*, 1935 (No. 48) was the most focused attempt to provide migrant workers with

<sup>1</sup> In 2019, the last year for which data is available, there were an estimated 169 million international migrant workers, constituting 4.9 percent of the global labor force (ILO, 2021). The majority of migrant workers were in three subregions: 24.2 percent in Northern, Southern and Western Europe, 22.1 percent in North America and 14.3 percent in the Arab States. Collectively, these three regions hosted 60.6 percent of migrant workers in 2019. Asia hosted 19.8 percent of migrant workers.

<sup>2</sup> *The Equality of Treatment (Accident Compensation) Convention*, 1925 (No. 19) 121 ratifications as of April 14, 2022. *The Maintenance of Migrants’ Pension Rights Convention*, 1935 (No. 48) 12 ratifications and 4 denunciations, subsequently included in Convention No 118. *The Social Security (Minimum Standards) Convention*, 1952 (No. 102) 61 ratifications (no country in Middle East, no South Asian or South East Asian country). *The Equality of Treatment (Social Security) Convention*, 1962 (No. 118) 38 ratifications (some countries accepted compliance with only just a few of the 9 branches of social security: (a) medical care; (b) sickness benefit; (c) maternity benefit; (d) invalidity benefit; (e) old-age benefit; (f) survivors' benefit; (g) employment injury benefit; (h) unemployment benefit; and (i) family benefit. Only 18 countries accepted branch “e” – old-age benefit. *The Maintenance of Social Security Rights Convention*, 1982 (No. 157) 4 ratifications (Sweden, Spain, The Philippines, Kyrgyz Republic).

access to host countries' old-age social protection schemes. However, only 12 countries ratified the convention, and it has been shelved.

**ILO's preferred solution seemed to have been to include migrant workers in domestic social protection systems.** The inclusion would have ensured equitable treatment across all workers and reduce labor market distortions. However, many countries have been unwilling to include migrant workers in their pay-as-you-go (PAYG) or even capitalized, defined contribution schemes. Most migrant workers are poor and migrate to affluent countries where social assistance is quite generous and redistributive towards citizens with lower incomes. Therefore, policymakers have resisted including foreign workers in redistributive schemes, in particular when they expected them to retire outside the host country. Moreover, politically disenfranchised migrant workers cannot or do not vote. Some supporters may see a universal (basic) income, launched globally, as a viable universal social protection scheme (Grimalda, et al., 2021). However, early experiences with universal income experiments have not been promising (Verho, et al., 2022). At the same time, many advanced countries have been trying for decades to reduce PAYG-related pension liabilities to restore the long-term sustainability of the schemes undermined by an aging population.

# Proposals for G20

**Governments routinely pursue policies to increase self-reliance and individual saving among the population.** While sound socio-economic policies accept the need for social solidarity (Euzéby, 1997), successful social welfare policies distinguish between routine life-cycle demands and unpredictable events. They encourage people to prepare for routine events by saving and insuring, while the government, as the insurer of the last resort, builds financial and other buffers, and stands ready to help deal with major natural disasters, economic or financial crises, and Black Swan events. Successful policies minimize moral hazard and the related reliance on taxpayer or charity assistance. Policies range from encouraging individuals to explore increasing savings, incentivizing them to save more, helping and nudging them to improve the quality of investment decisions, make the “right” choices, and mandating or prohibiting choices (Annex 1).

**We propose a pragmatic approach to supporting migrant workers’ right to social insurance, including old-age, disability, and survivors’ pension.**<sup>3</sup> We recommend that policymakers promote efficient, internationally portable defined contribution plans. Defined contribution plans are likely to gain political support across the world because they do not involve redistribution of benefits from citizens to foreigners. Moreover, they align with already-in-progress reforms in many national pension systems that try to restore their long-term sustainability and reduce the distortions brought by generous PAYG schemes (Barr, 2012, 2013; Ehrlich and Kim, 2005; Redonda, et al., 2019).<sup>4</sup> Defined contribution schemes avoid the negatives of the PAYG system and offer tangible benefits for migrant workers as well as their host and home countries. We note that migrant workers could view their mandatory inclusion in traditional PAYG schemes in host countries as a cynical attempt to make them support retirees in their host countries in exchange for an economically unrealistic promise of future benefits.

**Host countries should encourage their foreign workers to save and help them deploy their savings efficiently.** Historically, people who invested savings in equities earned a higher rate of return than those who kept savings in ultra-safe bank deposits or government bonds (Barro and

<sup>3</sup> Following Jensen and Meckling (1994), we accept the view that in their rational part people are “resourceful, evaluative maximizers” (REMs). To be effective, public policies must take into account people’s responses to policies, including the unintended ones.

<sup>4</sup> Ehrlich and Kim (2005, p. 3) identify the following adverse socio-economic consequences of the PAYG social security system: “Controlling for a host of other contributing factors, we find that the ratio of social security’s pension benefits to GDP, which approximates the system’s equilibrium tax rate (PEN), has adverse effects on: a. the rate of marriage net of divorce – decreasing marriage and increasing divorce; b. the total fertility rate; c. the private savings rate; and d. schooling attainment measures and per-capita GDP growth rates. These effects are especially large for family formation and fertility, and in OECD countries; they are not duplicated when PEN is replaced by a benefits measure that includes other welfare programs; and they are generally not observed in countries where social security is a provident fund, rather than a defined-benefits, PAYG system.” [...] “Our model also suggests that higher social taxes crowd out intergenerational transfers going from children to old parents – the traditional family security system.”

Misra, 2013, Table 1). By diversifying internationally, savers can reduce wealth and income volatility and vulnerabilities to shocks. High participation in efficient, well diversified savings-investment schemes reduces inequality, promotes growth by minimizing tax-induced distortions and disincentives to work, improves fiscal sustainability, and undermines support for destabilizing political “populism”, in particular, in the world of the growing share of returns to capital in GDP. In addition, by ensuring that today’s migrants save for retirement, host countries buy valuable financial insurance in the event the workers settle in their host country, as is likely to happen even more often in the future.

**We call on G20 policymakers to support the development of self-funded, internationally portable, social protection schemes.** The schemes, in addition to old-age protection, could offer unemployment insurance and support routine life-cycle expenditure, including health care and education, to facilitate continuous productivity growth and successful participation in the labor market (Hartley, et al., 2010; Schulz, 2002; Vogel, et al., 2013).

**We propose G20 members and the leading low-cost financial intermediaries design the following uniform schemes for international voluntary adoption:**

1. A Model of “Internationally Portable Pension Scheme” (IPPS).
2. A Model of “International Migrant Pension Investment Account” (IMPIA).
3. A Model of “Tax Treatment and Treaty” to provide a uniform tax treatment of savings and investments in IMPIAs and facilitate their full international portability.

**The G20 is uniquely placed to coordinate the development of the model documents and institutional arrangements to support internationally portable migrant savings schemes, investment accounts, and their uniform, non-discriminatory tax treatment across tax jurisdictions.** The Development and Employment Working Groups (under the Sherpa Track) in collaboration with the Finance Track, in particular, its Global Partnership for Financial Inclusion, could draft a roadmap for the development of the Model documents and their implementation starting in 2023, under India’s presidency of the G20. <sup>5</sup>

<sup>5</sup> “The Development Working Group (DWG) was created in 2010. It has become an essential forum to discuss and promote action on a broad range of issues directly affecting developing countries, especially low-income countries. In 2016, the G20 entrusted the DWG with coordinating and monitoring policy actions across all G20 countries related to the United Nations 2030 Agenda for Sustainable Development.” The mandate of the Working Group on Employment (established in 2014) is to address the priority issues related to labour. The group elaborates shared guidelines aimed at promoting employment, improving working conditions and triggering economic environments able to foster strong, sustainable, balanced and inclusive growth. To this end, it promotes shared responsibility between stakeholders and develops policy principles and methodologies aimed at ensuring effective implementation of policies and programmes.” <https://g20.org/sherpa-track/>. “In 2010, the Global Partnership for Financial Inclusion was created to advance financial inclusion globally as a means of increasing well-being and achieving sustainable and inclusive growth. The focus of its action is to enhance the access to, and the use of, responsible formal financial services – also through digital means – for families and businesses. It also helps to promote adequate financial education and to strengthen financial consumer protection.” <https://g20.org/finance-track/>

**G20 members and relevant financial intermediaries would encourage countries to adopt the Model documents and institutional solutions—voluntarily—and offer their benefits to migrant workers.** The Model documents would give the highest legal private property protections possible and require the signatories to guarantee full transferability of funds to beneficiaries designated by the account owner upon the owner’s death (Fultz, 2012; Kay, 2009).

**T20 has routinely called for measures to improve the fate of migrants.** Stein-Zalai and Dennis Görlich (2020) compiled a summary of these efforts since 2017 (Policy Briefs on Migrant-related issues are available at [https://www.g20-insights.org/policy\\_area/youth-aging-population-migration/](https://www.g20-insights.org/policy_area/youth-aging-population-migration/)). However, most proposals have been relatively limited. For example, Stam, et al. (2019) proposed making company-based social security and pension scheme portable over different organizations to promote labor mobility and innovation.

**The international implementation of the IPPS would require cooperation from the private sector.** G20 governments should encourage major private international financial intermediaries such as mutual fund (unit trust) management companies to offer highly competitive and efficient IMPIAs, and form a global network of collaborating companies to facilitate account transfers for workers changing jobs across national borders.

**To safeguard the integrity of the program and protect the savings entrusted in IMPIAs, the G20 and the financial sector would develop investment guidelines for IMPIAs.** The binding guidelines would minimize the risk of IMPIAs being diverted towards financially questionable projects and would impose the fiduciary duty on asset managers to align their interests exclusively with the interests of shareholders: the migrant workers. Moreover, the investment guidelines would impose strict limits on holdings of sovereign debt (limited to short-term liquidity management) and prohibit investing in securities issued to support what in principle are quasi-fiscal operations, such as non-market-based financing schemes. Mandating the use of broadly diversified and well-known market indices would depoliticize the investment process and reduce management and trading costs.

**The “Tax Treatment and Treaty” Model would provide for the uniform tax treatment of savings in the IMPIAs and facilitate their full, unencumbered international portability.** The Model would include a tax treaty to facilitate post-tax contributions (tax-free accumulation – tax-free withdrawal) or pre-tax contributions (tax-free accumulation – taxable withdrawal).

### **Proposed Country-Level Mechanism**

**We propose a mechanism that recognizes low-income migrant workers comprising both formal and informal workers.** The mechanism draws on findings from behavioral economics to improve take-up. This takes the form of a contribution to the IMPIAs made during regular remittance transactions, with an added financial incentive to encourage contributions.



**The decision to include informal migrant workers suggests that operating through traditional government or employer channels would not be effective.** Additionally, socioeconomic characteristics (e.g. age, income, education), as well as location of work (rural vs urban), can be determining factors for participation in national micro-pension schemes by informal workers (Agravat and Kaplelach, 2017; Collins-Sowah, et al., 2013).

**Thus, an effective mechanism must be able to capture less-educated, low-income, informal migrant workers working in rural areas (e.g. as farm workers).** We suggest a mechanism to leverage on the international remittances system. Migrant workers regularly remit funds back to their home countries, providing a useful avenue to allow them to interact with the IPPS. Administration costs would be minimized as remittance operators/agents would be situated in areas of convenience for migrant workers, have Know Your Customer (KYC) in place, and be seen as trusted parties. The regular KYC requirements for remittances would fulfill the onboarding/updating of KYC for individual IMPIAs. Remittances also require recipient information which can be easily incorporated as a beneficiary of the IMPIAs in the event of death. The global nature of IPPS and IMPIAs as well as remittance being carried out regularly would allow migrants that move to different countries for work to continue providing their latest personal and beneficiary details. Additionally, remittances can be thought of not just to facilitate consumption transfer to families abroad, but also as alternative savings mechanisms (Quinn, 2005).

**Facilitating contributions to IMPIAs via remittances also allows the scheme to align with and benefit from the SDG goal to reduce remittance costs.** Target 10.c of the Sustainable Development Goals is “By 2030, reduce to less than 3 percent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 percent” (United Nations, 2021). This is measured based on the cost to send US\$200, which was on average 6.51 percent in 2020 compared to 9.30 percent in 2011 (United Nations, 2021). Currently, lower fees are passed on as savings, which could be adapted as contributions to the IMPIAs. Channeling the remaining 3.51 percent in reduced fees by 2030 towards a low-cost portable pension scheme would act as a credible savings option that supplements rather than competes with the traditional savings/investment schemes in the remittance destinations.

**Here we can apply the inertia of defaults to encourage contributions.**<sup>6</sup> The mechanism could be set such that the remittance would consist of the 3 percent fee and a 3.51 percent contribution to the IPPS or IMPIA. The migrant worker retains the right to instead choose to not

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<sup>6</sup> Studies show that participation in a retirement fund is "significantly higher under automatic enrolment" (Camerer, et al., 2003, p. 1211; Beshears, et al., 2006) and defaults are universally beneficial (Carroll, et al., 2005; Choi, et al., 2001a, 2001b), including for the more educated (Agnew and Hurwitz, 2013; Brown and Weisbenner, 2007). Default rules often determine choice due to heuristics, inertia, and ill-formed or not well-defined preferences that result in lack of or poor decisions and large foregone income over one's lifetime (Benartzi and Thaler, 2002).

make the contribution or to make additional voluntary contributions, retaining the libertarian paternalism choice architecture (Thaler and Sunstein, 2008). However, migrant workers may use alternative remittance channels such as *hawala* or physically carrying funds overseas. Therefore, an additional incentive to use the traditional remittance channels would benefit the proposal of this policy brief, as well as facilitate the shift from informal to formal finance.

**The proposed incentive would be US\$100 deposited in the IMPIA of every migrant worker upon their first remittance transaction with a contribution to the IPPS that year.** However, they would only get to keep the full US\$100 if, by the end of the year, they made contributions based on an accumulated US\$1,000 of remittances during the year. The US\$100 incentive would be pro-rated should accumulated remittances during the year be under US\$1,000. Phrasing the incentive in this manner would trigger the endowment effect and loss aversion; resulting in an increased likelihood for the migrant workers to make the contributions to obtain the “free” US\$100 that they were initially given (Thaler and Sunstein, 2008). Relative to the remittances sent, the incentive would be an additional 10 percent, while relative to the contributions (3.51 percent of US\$1,000) it would be 285 percent. The average migrant sends between US\$200-US\$300 home every 1-2 months, so this remittance threshold should serve as a reasonable baseline (United Nations, 2019).

**The funding for the US\$100 would be provided through an equivalent increase in the annual visa fees for these migrant workers.** This funding mechanism recognizes the importance for employers to contribute to the longer-term welfare of the migrant workers they employ. This would also limit administrative costs by operating as part of existing visa processes.

**The longer-term financial sustainability of this incentive could be strengthened through a mechanism designed to disincentivize higher-income migrant workers from claiming the incentive.** For example, only having qualifying remittances from operators/agents that typically serve low-income migrant workers. Alternatively, the visa fees for higher-income migrant workers could be increased by more than US\$100. Furthermore, it is unlikely to achieve 100 percent take-up even with informal migrant workers that work without visas. Additionally, the visa fees would be collected in advance of the migrant workers’ labor for the year, allowing these funds to be invested in money markets to generate short-term safe returns that can also be used to cover administrative costs. The exact amounts for the financial incentive and contributions could be adjusted based on country circumstances to further ensure sustainability.

**Domestic financial sector development would be supported through the need for intermediaries (trustees, custodians, money managers) for the domestic short-term management of IPPS and IMPIAs funds prior to regular transfers to the globally managed pension portfolio.** Operating through remittance operators/agents also opens up opportunities for these entities to branch out into innovative micro-savings and micro-finance products.

**This mechanism would also support the achievement of SDG 10.c by incentivizing a shift from informal to formal remittances in order to benefit from the financial incentive and the micro-pension.** This would increase overall remittance volumes, allowing for the lowering of fees. The opening up of additional product offerings by remittance operators/agents would also create new revenue streams that may encourage cross-subsidization of remittance fees. Overall, we argue that this is a robust country-level mechanism for IPPS and IMPIAs that takes into account informality as well as behavioral economics to ensure low-income migrant workers are nudged into contributing to their longer-term welfare.

### **Further Considerations**

- **The experience with setting up long-term savings-pension schemes shows the importance of a single objective exclusively focused on the welfare of the schemes' participants.** Prudently managed portable schemes will inevitably result in continuously increasing income, wealth, and social welfare, and thus help indirectly meet the Sustainable Development Goals while reducing the demands for fiscal spending and tax revenue mobilization.
- **Contribution rates to the savings accounts could increase over time.** For example, a share of the employee's future salary increases could be dedicated to their savings account (Benartzi and Thaler, 2004).
- **Countries with existing centralized national provident funds, such as Brunei Darussalam, Malaysia, or Singapore, have gained valuable experience in managing, expanding, and improving their provident funds.** They could allow migrants to benefit from the discipline and low administrative costs offered by such platforms and share their experiences with other countries.
- **Countries should strive to minimize administrative and fund management costs by pooling together assets and using tracking indices.** The annual expense ratio of many large U.S.-based index funds is less than 5 basis points of the net asset value under management. This is a small fraction of the fees charged—to the detriment of savers—by funds in most developed and developing countries (French, 2008).
- **Offering balanced investment products to beginner or high-risk aversion savers-investors could help them** gain familiarity with international financial markets while ensuring participation in equity markets from the start.

- **Rules could allow account owners to self-manage investments for balances exceeding a pre-set minimum balance.**<sup>7</sup> People opting for self-management could be required to periodically review their investment performance against the performance of the trust fund to learn their true investment skills.
- **Including migrants in pension schemes would bring relevance and emotional connection to financial education programs, two necessary conditions for the effectiveness of financial education** that would inevitably accompany the rollout of the schemes (Berg and Zia, 2013; Bayer, et al., 1996).

**The finance industry may argue that the program could harm private finance and reduce employment.** However, the program's main target audience would be migrant workers, a group currently underserved by finance. Moreover, investors are already embracing indexing as they learn to appreciate the adverse impact on their earnings of asset management costs. Finance will continue to develop at a very healthy pace by offering genuine value, such as in private equity, which, in addition to financing, can deliver managerial capital to raise productivity.

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<sup>7</sup> For example, Singapore's Central Provident Fund allows savers to invest in the CPF Investment Scheme (CPFIS) and Special Discounted Shares (SDS) Scheme after they reach a certain minimum balance in their Ordinary Account. <https://www.cpf.gov.sg/member/growing-your-savings/earning-higher-returns/investing-your-cpf-savings>

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# Appendix

Economists routinely assume that people are rational decision makers. Studies in behavioral economics shed doubt on this assumption and offer food-for-thought for policy makers designing pension schemes. It is important to understand behavioral biases and market imperfections that result in poor investment decisions. Low propensity to save and weak asset management have contributed to rising income and wealth inequality, possibly more than differences in labor income. For a summary of several important behavioral biases, please see (Kok, Bankowska, Zytek 2022).