

Universal Social Protection

Universal old-age pensions in Mongolia



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In Mongolia, every older person receives a pension. The Mongolian old-age pension system comprises both a social insurance and social welfare pension schemes. The social welfare pension provides a minimum income security to those who have not qualified for a social insurance pension.

In recent years, Mongolia has displayed an impressive pace economic growth. As most countries in the world however, Mongolia is facing the challenges of an ageing population, especially also in attempts to ensure universal old age protection. From the mid-1970s to today, the older population aged 60+ has increased at a greater pace relative to the overall population. For the period until 2050, this pattern is projected to become even more pronounced. Combined with an increasing life expectancy, the prevention of old age poverty and the maintenance of the Mongolian pension system has become a more complex task.

Despite impressive economic growth over the past decade, 21.6 per cent of the population remains in poverty in 2014, mainly in rural areas. At the same time, more than 50% of households were reported to have older family members living with them. Population livelihood measurement surveys conducted between 1975 and 2000 furthermore identified the elderly as a group particularly vulnerable to poverty.

What does the old-age pension system look like?

Mongolia inherited a defined benefits (DB) pension system, based on a pay-as-you-go (PAYG) financing method that provided universal coverage and high levels of benefits. The pension system was fully funded by the State budget based on some financial redistribution mechanisms. In 1995, the Government reformed the system and introduced a contributory pension among other new social insurance branches. In 1999 a

Notional Defined Contribution (NDC) scheme was established for workers born after 1960, with the intention of addressing the financial sustainability and coverage issues of the DB system. The NDC scheme applies only for those born after 1960.

Table 1. Two parallel contributory pension schemes of Mongolia

Old age pension	DB wage-based pension scheme (for those born before 1960)	NDC scheme (for those born after 1960)
Regulatory Law	Law on Pensions and Benefits provided by the Social Insurance Fund (1995)	Law on Individual Pension Insurance Contribution Accounts (1999)
Years of contribution	At least 20 years for a full pension, 10–20 years for a reduced pension	At least 15 years for a minimum pension
Retirement age	60 for men and 55 for women	60 for men and 55 for women
Contribution rates	Mandatory insurance: Employee and employer each pay 7 per cent of reference salary Voluntary insurance: Unemployed and self-employed workers, and herders pay 10 per cent of reference income Range of pensionable incomes/earnings: between minimum wage and ten times minimum wage	Mandatory insurance: Employee and employer each pay 7 per cent of reference salary Voluntary insurance: Unemployed and self-employed workers, and herders pay 10 per cent of reference income. Range of pensionable incomes/earnings: between minimum wage and ten times minimum wage

Pension rates	(45 per cent + 1.5 per cent for each additional year of contribution over 20 years) multiplied by the highest salary for any five continuous years among the last 20 years of contribution.	Notional account accumulation (contributions earmarked for old age + notional interest calculated according to average growth in covered wages over the past three years) / (annuity factor or life expectancy at retirement)
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Source: Law on Pension and Benefits provided by the Social Insurance, 1994; Law on Individual Pension Insurance Contribution Account, 1999.

By the end of 2015, 255,600 old-age pensioners, equivalent to the entire population in pensionable age, were receiving benefits from the contributory Social Insurance Fund, under the DB scheme. Due to significant reduction of the replacement rate under the NDC scheme, in 2015, the Parliament adopted an amendment to the Law on Individual Pension Insurance Contribution Account. The amendment provides alternative choice for participants born between 1960 and 1979 expected to receive an old-age pension under the current NDC scheme to opt for a pension benefit under either the initial DB or NDC, choosing the higher pension. In 2015, among the new pensioners born after 1960, therefore first pensioners being eligible to the NDC pension, all opted for a pension calculated using the DB formula.

Besides the old-age benefits provided by the contributory (mandatory and voluntary) pension fund, the Ministry of Population Development and Social Protection (MPDSP) also implements a non-contributory social welfare pension for those women above 55 and men above 60 who have not contributed or do not have the required years of qualification to access the contributory pension¹. The Social Welfare

¹ At least 10 years for a partial pension, 20 for a full pension for both voluntary and mandatory DB schemes; 15 years with both the voluntary and mandatory NDC scheme (SIGO, 2015).

General Office (SWGGO) of MPDSP administers the social welfare pension, as well as a number of other social welfare programmes targeting at vulnerable people. As of May 2016, 1,871 older persons receive a social welfare pension, mainly women who account for 1,3422.

Table 2. Number of pensioners per programme

Scheme	Number of beneficiaries
Defined benefit old age pension insurance	255,600 people or over 100 per cent of the male population over 60, and female population over 55 years old (due to early retirement pensions) in 2015.
Defined contribution old age pension insurance	All new pensioners eligible under the NDC scheme in 2015 opted to receive a DB pension
Non-contributory military pension benefit scheme	16,200 people benefitted in 2015
Non-contributory social welfare old-age benefit	1,871 older persons in 2015
Social welfare cash supports for older persons	333,300 (double counting) people in 2013.

Source: SIGO, SWGGO, 2015.

Several laws govern the legal framework of Mongolia's pension system, amongst others the Law on Social Insurance (1994), the Law on Social Welfare (2012) and the Law on Pensions and Benefits provided by the Social Insurance Fund (1994).

How was this major breakthrough achieved?

The introduction of the NDC system in 1999 did not reform key parameters such as retirement age to address sustainability issue. The system guarantees a minimum pension provision at a

² MPDSP, May 2016

level that will continue requiring substantial fiscal subsidies over the long run. Although first pensioners under the NDC scheme are only arriving now, a significant decrease in the benefit level is anticipated. Finally the NDC reform did not address the issue of universal coverage that the voluntary scheme failed to achieve. It is only in recent years, that coverage significantly increased under the voluntary scheme. By 2015, almost a million workers (989,036) were contributing to the social insurance fund counting for 85.0 per cent of the economically active population.³

The universality of the pension scheme in Mongolia relies in part on its large share of the population contributing to the scheme in particular among the formal economy. However, despite recent fast progress in increasing voluntary coverage (from 9.2 per cent of the herders, informal and self-employed workers in 2012 to 16.3 per cent in 2015), still only 10.4 per cent of herders in age of contributing are registered under the voluntary schemes (2015). In addition their period of contribution tends to be discontinued mainly due to the nature of their income.

Aware of the potential cost implication resulting from a large increase in the number of social welfare pension beneficiaries in years to come (those who have not sufficiently and are not currently contributing to the social insurance fund), the government has taken steps to increase coverage under the voluntary scheme. In January 2015, an amendment to the Law on Social Insurance introduced more flexibility in the contribution schedule. A recent measure (February 2016) requiring affiliation to the social insurance scheme as a condition for accessing commercial banks' loans with a lower interest rate also resulted in significant improvement in the coverage rate among herders.

Moreover, over the past three years, the government has been preparing a broader reform of the old-age pension system aimed at achieving universal coverage and strengthening the pension system. The State Policy on the Pension Reform, adopted at the Parliament in 2015, introduces a multi-tier system that articulates a universal minimum pension combined with a contributory pension for all, and supplementary accounts. Parameters for implementation of the State Policy on the Pension Reform are now being discussed.

What are the main results in terms of impact on people's lives?

Mongolia has introduced a large-scale contributory and non-contributory program for old-age pension. To date, all older people above statutory pensionable age receive a pension under the defined benefit scheme, inherited from the socialist economy. The social welfare pension corresponds to Mongolia's recognition of the universal right to social protection. It also responds to Mongolia's long tradition of social justice and in particular concern for supporting herders, including older herders. This is of particular importance due to decreasing support of traditional family structures and has many positive effects on the well-being of older people. A study shows that they feel better off as the social welfare pension enables the purchase of basic necessities as well as the participation in social activities (Mujahid, Banzragch, & Oyun-Erdene, 2010).

A universal pension is therefore a successful instrument to prevent older people from falling into poverty and reducing the vulnerability of households. Furthermore, while social health insurance is universal and fully subsidized for persons in pensionable age, a universal minimum pension improves access to health care services and drugs that are not covered and only partially reimbursed. However, the pension scheme itself does not sufficiently cover all medical expenses of the older people and

³ SIGO, May 2016

inadequate medical service provision remains an issue (Mujahid, Banzragch, & Oyun-Erdene, 2010). However, a challenge is the significant inflation of the past few years as the pension is not indexed to inflation. Despite the basic income, 80% of older people in Mongolia consider themselves as poor due to the fast rising prices of consumer goods (UNFPA). Thus, a crucial element would be the adaption of the pension benefits to the actual costs of living. To conclude, poverty still remains a significant obstacle despite the strong economic growth and the introduction of large-scale programs for a universal old-age pension scheme.

Furthermore, the establishment of a multi-tier system of which the first pillar will correspond to a universal minimum pension and articulated with the contributory scheme will ensure a better adequacy of the level of pension. In order to reach universal contributory pension among the economically active population, the government is proposing the introduction of subsidies for certain categories of the population, following the success of the mandatory and universal social health insurance scheme already existing in Mongolia.

Finally, with political changes and pressure caused by the recent economic crisis and abrupt decrease in the mining revenues, the government, trade unions and business sector are strongly advocating for the ratification of the Convention on Social Security (minimum standards) Convention, 1952 (No.102) as a safeguard to the existing social protection system. Mongolia has one of the more expanded social protection systems in the region, with guarantees that provide universal social protection at each stage of life, e.g. maternity benefits, child allowance, old-age pension. A recent assessment of Mongolia's social protection legislation concludes that the country complies with the minimum requirements for ratification, which would place Mongolia as the second country of Asia and the Pacific in ratifying the Convention No. 102.

This Universal Social Protection brief was produced by Simon Neuland of GIZ. It was reviewed by Isabel Ortiz, Celine Peyron-Bista, Lkhagvademberel Amgalan and Loveleen De of the ILO.

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