

## Robert Holzmann The Cross-Border Portability of Social Benefits



Robert Holzmann  
Austrian Academy of Sciences  
and CEPAR – University  
of New South Wales,  
Research Fellow  
of CESifo and IZA.

### INTRODUCTION

The portability of social benefits for international migrants is gaining importance across the world. This is the result of an increasing number of individuals spending at least some part of their life working abroad and acquiring benefit rights that they want to preserve when returning home or moving on to another country of work or residency. The historical labour migrant-driven demand for cross-border portability is joined by retirement migrant-driven demand, i.e., the desire to spend some or all of one's retirement years in a better climate and lower-cost environment abroad.

Cross-border benefit portability is understood as the migrant's ability to preserve, maintain, and transfer both acquired social security rights and rights in the process of being acquired from one private, occupational, or public social security scheme to another, independent of nationality and country of residence (Cruz 2004; Holzmann, Koettl and Chernetsky 2005).

Social security rights refer, in principle, to all rights stemming from contributory payments or residency criteria in a country. While individuals and migrant-sending countries often aspire to make the largest scope of benefits portable, their worldwide portability scope is much smaller. It is almost universal within the European Union (EU); restricted to key benefits such as pensions, healthcare, and family benefits between EU and non-EU member states; and often restricted to pension benefits (old-age, disability, survivorship) in most other migration corridors, if it exists at all.

The economic analysis of portability issues is very recent and incomplete at both the theoretical and empirical level. This overview starts by offering magnitudes of relevance followed by selected conceptual considerations and estimates of portability regimes across the world. The latter include bilateral social security agreements (BSSAs); but do they actually work? The overview ends by presenting a selection of policy research issues.

### SCOPE AND TRENDS OF RELEVANCE

The share of individuals living outside their home country is on the rise again after hitting a temporary low in the 1970s, reaching 3.4% of the world population in 2017 (up from 2.3% in 1980), or an estimated 258 million people (United Nations 2017). Figure 1 presents the dynamics of the number of migrants and their share of

the world population as of 1960. On 1 January 2016, the number of people living in the EU-28 who were citizens of non-member countries was 20.7 million, representing 4.1% of the EU-28 population, while the number of people living in the EU-28 who were born outside of the EU was 35.1 million. In addition, 16.0 million persons were living in one of the EU member states on 1 January 2016 and held the citizenship of another EU member state (Eurostat 2017).

These migrant stock numbers – impressive as they are – underestimate the underlying labour mobility dynamics, that is, the number and increasing share of individuals who have lived, or will live at least part of their working or retired life outside their traditional country of residence. While this development is more difficult to quantify due to individuals' multiple migration spells of varying lengths, sometimes to multiple countries, indications from across the world are strong that the number of spells spent abroad is increasing. In the EU, the number of citizens who spend at least some of their adult life living outside their home country (as a student, intern, intra-firm and inter-firm mobile employee, labour migrant, or "snowbird" retiree) is definitely rising, and may soon be as high as one in every five individuals. Past labour market spells abroad translate into rising numbers of pension payments to and from abroad that amount to around 11.1% of the total number of pensions paid in Germany (Genser and Holzmann 2016).

### SELECTED CONCEPTUAL CONSIDERATIONS

Four conceptual considerations are discussed, drawing on Holzmann (2017) and Holzmann and Koettl (2015).

#### Three Key Dimensions of Interest in Portability

Establishing portability of social benefits should be straightforward, as three key considerations – economic, social, and human rights – favour it.

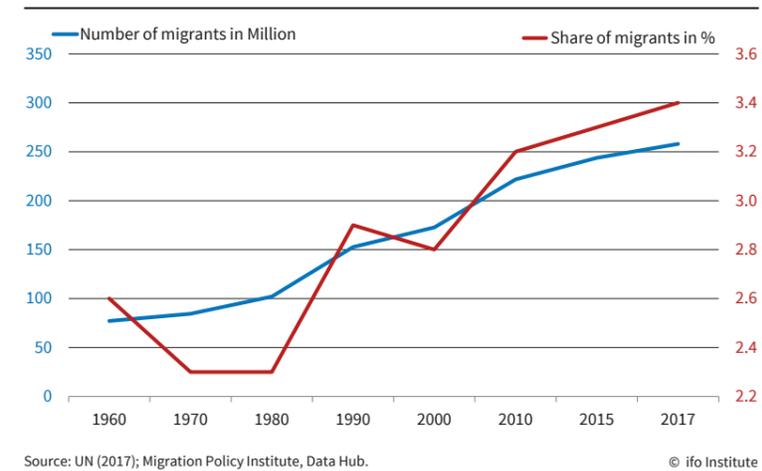
From a first-best economic point of view, an individual's labour mobility decisions should not be influenced by the lack of portability of social benefits to which she/he is entitled. Efficiency is increased by the absence of any distortionary obstacles toward portability.

From a social policy point of view, such acquired rights are a critical element of an individual's (or family's) lifecycle planning and social risk management. Denying portability – particularly once the mobility decision has been made and cannot be reversed – risks upsetting the lifecycle planning of individuals and families, creating substantial welfare losses.

From a human rights point of view, individuals have the right to social protection according to national legislation and international conventions and these rights should carry over when individuals leave the country or profession. A key question is whether these human rights apply only to acquired (contributory or

Figure 1

Migrants in World Population, 1960 to 2017



residential) rights or to all social rights. As they are resource-consuming, economic and human rights tradeoffs will emerge. The exportability of top-ups to own pensions to achieve the minimum income guarantee from the host country to the home country is one example also discussed below.

#### Why is Portability Difficult to Establish?

Political support for portability across countries is typically limited, as immobile labour by far dominates mobile labour in terms of both volume and influence. This problem is evident when considering labour mobility between the private and the public sector within countries. In many countries, such mobility is limited and special schemes remain in place. This fragmentation within countries is not conducive to establishing portability between countries. Portability considerations for the design and implementation of schemes have only slowly been incorporated, following the rise in labour mobility. Domestic considerations are still given priority in the social protection area unless they contradict, for example, EU objectives or ratified International Labour Organization (ILO) Conventions.

Technical reasons for limited portability are largely linked to the pseudo insurance nature of benefit determination, which does not allow a straightforward split of acquired rights into (i) a contemporaneous insurance component that is consumed in any period and hence incurs no portability issue; (ii) a pre-savings component that all benefits have to some extent and that could be made portable if its value could be easily established; and (iii) a redistributive component within and between benefit cohorts that can be huge (as in pension and health care schemes). The redistributive character of benefit schemes is responsible for long vesting periods that internationally mobile workers may not fulfil in a single country, but would easily meet

if the insurance periods in all countries were to be added up (that is, totalised).

#### Which Benefits Should Be Made Portable?

For which types of social security benefits is portability desirable: for all benefits or just a subset, and based on which criteria?

Social security covers both social insurance and social assistance programmes. The difference can be framed through the financing: social security contributions versus general government financing. However, it is also related to the contingencies to be covered and the extent to which they lend themselves to insurance considerations or reflect general redistributive/anti-poverty considerations. An incomplete list of social security benefits to consider includes old-age, disability, and survivors' benefits; workers' accidents and occupational diseases; sick pay and maternity benefits; family benefits; and health and long-term care benefits.

Not all benefits may be equally important from a social policy angle, and not all bias mobility decisions in a relevant manner. For such decisions, the long-term benefits—pensions and health care—may be the most important ones. Furthermore, for various contingencies listed above, it is difficult to determine the "state of the world"; that is, whether the risk situation (e.g., unemployment) is still valid. For others, the quantities (like the number of children, for example) or prices (such as long-term care costs) cannot be observed. Thus, cost-benefit considerations may call for limited benefit packages and only for a set of countries with tight labour market integration and bi-directional labour flows.

Policy Options to Establish Portability

#### Policy Options to Establish Portability

Three approaches are essentially used to establish portability: (i) changing the benefit design to make benefits as portable as possible without government action; (ii) establishing portability arrangements at unilateral, bilateral, and/or multilateral level; and (iii) using multinational private sector providers. These approaches are both substitutes and complements.

The key feature of changing the benefit design is to distinguish explicitly between the contemporaneous insurance element, the pre-funding element of social benefits and the redistributive action outside the benefit scheme. While the latter will have limited bearing on the portability of benefits in disbursement, having a

Table 1

Global Migrant Stock Estimates by Origin Country Income Group and Portability Regime, 2013

Origin Country Income Group	Percentage per regional income group				Total (in million)
	Regime I (Portability)	Regime II <sup>a)</sup> (Exportability)	Regime III <sup>b)</sup> (No Access)	Regime IV <sup>c)</sup> (Informal)	
High-income non-OECD	5.0	41.5	7.5	0.0	21.2
High-income OECD	38.3	52.7	0.0	9.0	123.7
Upper-middle	14.9	25.5	40.8	18.8	31.6
Low-middle-income	10.2	67.9	1.7	20.2	47.8
Low-income	2.8	75.0	0.7	21.4	28.1
Total (%)	23.3	53.2	9.4	14.0	252.3

Note: <sup>a)</sup> Legal migrants with access to social security in the host country in the absence of a bilateral or multilateral arrangement;

<sup>b)</sup> Legal migrants without access to social security in their host country; <sup>c)</sup> Undocumented immigrants.

Source: Holzmann and Jacques (2018).

clearly identified pre-funding element should substantially ease portability for all social insurance-type benefits, except, perhaps, for family benefits. For cash benefits, this is accommodated by the move from a defined benefit to a defined contribution-type structure. Defined contribution schemes are inherently more portable than defined benefit schemes.

A range of portability arrangements can be used to enhance or fully establish portability. Most portability discussions focus on BSSAs, but the scope of arrangements is much larger and includes those listed below.

Unilateral actions can be taken by a country where individuals have established acquired rights. Such actions can improve portability through the full exportability of benefits in disbursement and by facilitating the transfer of rights in creation.

BSSAs are the centrepiece of current portability arrangements between countries. While they can, in principle, cover the whole range of exportable social benefits, BSSAs mostly focus on long-term benefits such as old-age, survivor, and disability pensions and, to a much lesser extent, on healthcare benefits.<sup>1</sup>

Multilateral Arrangements (MAs) represent a general framework of portability for a group of countries for all or a subset of social benefits. These general rules are typically supported by more detailed BSSAs. The most developed MA is the one among EU member states (plus Norway, Lichtenstein, and Switzerland), which is actually not an MA, but is based on supranational EU law. Traditional MAs have been established in Latin America (MERCOSUR) and the Caribbean (CARICOM) and in 15 French-speaking countries in Africa (CIPRES); one was recently established between Latin America and Spain and Portugal (Ibero-American Social Security Convention); and one is in the pipeline for the Association of Southeast Asian Nations (ASEAN) countries.

<sup>1</sup> For some historic and legal background on BSSAs, see Strban (2009); for a review of issues of BSSAs with non-members within the EU context, see Spiegel (2010); for a review of literature see Taha, Siegmann and Messkoup (2015). For the texts of BSSAs worldwide, see the ILO NATLEX database: [www.ilo.org/dyn/natlex/natlex4.search?p\\_lang=en](http://www.ilo.org/dyn/natlex/natlex4.search?p_lang=en).

Multinational providers (MPs) are a promising approach that uses the services of private sector providers, at least for supplementary benefits in healthcare and retirement income. MPs exist and function well for healthcare benefits (Cigna, for example, services World Bank staff and retirees residing in Europe and is also used by the European University Institute). MP arrangements have been discussed and occasionally implemented for the supplementary pensions of international workers in multinational enterprises.

#### SCOPE AND TRENDS OF PORTABILITY REGIMES WORLDWIDE

Table 1 shows the magnitude of portability regimes by national income group in 2013: Regime I (portability) signals the existence of a BSSA independent of its depth, but typically covering at least pension benefits. Regime II (exportability) indicates migrants in countries that have no BSSA with their home country but allow, in principle, the export of cash benefits, once eligibility is established. Hence rights under establishment are not typically covered. Regime III (no access) indicates migrants in countries with no access to national social insurance programmes, which means no mandated contribution obligation, but also no pension or other benefits on return. Regime IV (informal) offers an estimate of the share of migrants who are undocumented in the country, with no or no valid contributions to pay and no benefits to take back.

In 2013 only 23.3% of the total stock of migrants in the world was subject to BSSAs, and of this favoured group, the vast majority (80.5%) were migrants from high-income countries living in other high-income countries. The majority of migrants (53.2%) lived and worked in countries that allow cash benefits, once established, to be exported, but this is often restricted to pension-related benefits. Yet eligibility may nevertheless not be granted, as many countries have waiting periods of 10, 15, or more years. About one in ten (9.4%) migrants could not join the national system (such as in

Saudi Arabia and Singapore), but did not have to pay contributions either. An estimated 14% were undocumented migrants in 2013.

Table 2 compares the results for 2013 with those of 2000. The changes under regime I indicate a moderate aggregate improvement of 1.4 percentage points that nonetheless affects a much larger change for migrants from low- and low-middle-income countries. Furthermore, the mere exportability regime and the informality regime are also in retreat, with reductions of 3.0 and 2.9 percentage points, respectively. All changes concern much larger numbers of migrants, as their recorded total number increased by 60.6 million over the two years. The largest change took place for regime III, where migrants have no access to the national pension and healthcare scheme, but do not have to pay contributions either. Hence, they can do their own retirement saving and healthcare provision in their home country, where remittances can be a major contributor to poverty reduction and a source of foreign exchange for the home country. Most of the 4.5 percentage point change is attributed to migrants toward upper-middle-income countries, due to the expansion of managed migration programmes between Asian countries and the Gulf Cooperation Council countries, but also Singapore, Hong Kong, Malaysia, and South Korea.

#### DO BSSAS ACTUALLY WORK?

Despite their still-limited scope of cross-country applicability, BSSAs are the workhorse of benefit portability, often considered the state-of-the-art approach to be promoted and expanded. Although strongly supported by many legal and social scientists, little evidence exists on their actual functioning. Do they really deliver what is expected and what are the criteria by which the envisaged outcome is measured?

To explore the delivery of BSSAs between EU and non-EU countries in relevant migration corridors, a

World Bank-sponsored project undertook four corridor studies, summarised in Holzmann (2017). The Austria–Turkey, Germany–Turkey, Belgium–Morocco, and France–Morocco corridors represent well-established migration corridors that were selected to reflect both similarities and differences.<sup>2</sup> This allowed for the first-ever qualitative and quantitative insights into BSSAs' working and the formulation of recommendations for policy reforms and future research steps. To assess whether portability arrangements succeed in delivering on fairness and efficiency considerations, three broad results criteria were applied: individual fairness – no benefit disadvantage with regard to pension and health care for migrants and their dependents; fiscal fairness for host and home countries; and bureaucratic effectiveness.

The overall conclusions from the four investigated corridors were relatively encouraging. The four investigated BSSAs broadly seem to work well, with only a few areas of contention and recognised areas for improvement. With some exceptions, this assessment essentially holds for all three criteria used to evaluate the BSSAs.

**Fairness for individuals:** BSSAs do not create a major benefit disadvantage that affects mobility on a large scale in any of the four corridors. Implementation of full healthcare benefits for mobile workers between France/Belgium and France/Morocco will close a remaining relevant benefit gap. The BSSAs offer the expected pension portability for mobile workers, with no major issues around the lack of benefit take-up. A few important outstanding issues remain, particularly the non-portability of non-contributory pension top-ups, requests for retroactive payment, and (for the

<sup>2</sup> For the individual corridor studies, see Holzmann et al. (2016a and 2016b), Holzmann, Jacques and Dale (2016), and Holzmann, Legros and Dale (2016). For a comparison across the east corridors, see Fuchs and Elitok (2014); for the west corridors, see Legros et al. (2014). For an elaboration of broader principles and further country experiences with portability, see the papers in a special volume of CESifo Economic Studies 2015 and the overview paper by Holzmann and Werding (2015).

Table 2

Global Migrant Stock Estimates by Origin Country Income Group and Portability Regime;

Change between 2000 to 2013

Origin Country Income Group	Percentage points per regional income group				Total (in million)
	Regime I (Portability)	Regime II <sup>a)</sup> (Exportability)	Regime III <sup>b)</sup> (No Access)	Regime IV <sup>c)</sup> (Informal)	
High-income non-OECD	-2.0	-6.4	-21.2	-16.5	10.5
High-income OECD	-0.6	6.4	0.0	-5.9	34.6
Upper-middle	-5.5	-9.7	10.1	5.1	14.5
Low-middle-income	3.8	-0.8	0.0	-3.0	3.0
Low-income	1.9	-7.4	-0.4	5.9	-2.1
Total (%)	1.4	-3.0	4.5	-2.9	60.6

Note: <sup>a)</sup> Legal migrants with access to social security in the host country in the absence of a bilateral or multilateral arrangement;

<sup>b)</sup> Legal migrants without access to social security in their host country; <sup>c)</sup> Undocumented immigrants.

Source: Author, based on Holzmann and Jacques (2018).

Francophone corridors) the handling of Muslim repudiation/divorces and widows' benefits. Family allowances remain an issue for discussion and different approaches across the corridors may prevail.

**Fiscal fairness for countries:** The pension systems evaluation yields a mixed picture. For the four BSSAs considered, their increasingly actuarial pension benefit structure helps in the pursuit of fairness; while the high and increasing levels of budgetary transfers needed to keep pension systems afloat have a counter effect. For healthcare systems, it is unclear whether and to what extent fiscal fairness is or can be achieved under the current responsibility and reimbursement structure and how important the problem is. This is an area where major conceptual and empirical work is required.

**Bureaucratic effectiveness:** Stakeholders gave EU host countries' institutions high marks for their provision of benefit-related information and services; but delivered a less favourable assessment for their home countries. A concern for many applicants is the delay in processing; the advantages of advanced electronic file preparation in many, but not all EU countries are attenuated by the paper-based information collection systems in Morocco and Turkey; while the situation is further aggravated by verification issues for names and birth dates. Electronic file exchange systems across BSSAs are envisaged and may soon be implemented in some corridors.

## SELECT POLICY RESEARCH ISSUES

Many issues around benefit portability await analytical penetration and policy discussion. We select three that emerge from the corridor studies, but also from EU internal discussions.

**Does portability or its absence actually matter?** If so, does it matter more for labour mobility or social risk management? For what phase of labour mobility does it matter – departing, staying, or returning – and for what risk management area – pension, health, or family? The findings in the corridor studies are consistent with sparse empirical evidence that departure consideration may be influenced little by the presence or absence of portability. Furthermore, no implemented BSSA exists between Mexico and the United States or between Asian and Gulf Cooperation Council countries, although these are the largest migration corridors globally. This suggests wider implications for the risk management of migrants (forcing own provisioning) and home countries (offering special arrangements such as healthcare by Mexico and a range of support programmes by the Philippines).

**Does the lack of portability of non-contributory top-ups and quality healthcare matter for return migration?** Portability arrangements seem to have a limited effect on return migration, while some specificity of pension and healthcare provisions may make many migrants stay on. For pensions it is top-ups that seem to matter, while for healthcare it is access to

high-quality care if needed. It would seem important to experiment with the limited portability of top-ups or selective access to healthcare in former host countries for return migrants (including visas) to explore the mobility effects.

**Should child allowances or pension benefits be graduated according to the living costs of the receiving country?** A pre-Brexit discussion in the United Kingdom over the scope of child allowances sent to Poland is echoed in Germany and Austria. The proposed level adjustment is fiscally and politically motivated, but can be justified on fairness grounds. The high child allowances sent abroad create a wage subsidy effect that impinges on individual and fiscal fairness of portability. Yet accepting this argument would also call for lower child allowances to be sent to British or German children residing in Poland or Spain.

Similar arguments can be raised for the call to adjust pension benefit levels to the cost of living of the residence country. In a ruling by the French constitutional court on military pensions to former colonial soldiers, a differentiation by country of residency was considered acceptable, but not one by the nationality of the soldier (Le Monde 2010). Applying that principle at an EU level would allow for lower German pensions to be sent to Spain or Greece, not only to returning Spanish or Greek workers, but also to German snowbird retirees.

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