

## WRITE UP TEMPLATE

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|---------------------------------|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CATEGORY                        | : | Financial literacy Recognition Award                                                                                                                                                                                                                                                              |
| ORGANIZATION                    | : | Social Security Board, Ministry of Labor, Immigration and Population, Myanmar                                                                                                                                                                                                                     |
| CONTACT PERSON                  | : | U Maung Maung Aye, Director General, Social Security Board, Myanmar                                                                                                                                                                                                                               |
| NAME OF PROJECT                 | : | Financial Sustainment of Social Security Funds and retirement security                                                                                                                                                                                                                            |
| OBJECTIVE AND NATURE OF PROJECT | : | To succeed the goal of financial sustainable in order to implement the objectives contained in the Social Security Law; to stand on the Social Security Fund and the Employment Injury Benefit Fund by establishing and Maintaining Social Security Funds                                         |
| WHY IT SHOULD BE RECOGNISED     | : | Financial literacy is crucial for Social Security Board managing funds for sustainment when implement retirement security and other social security schemes within limited resources and is also important for workers to consider their retirement plan and more security in social life.        |
| SUMMERY OF THE PROJECT          | : | Fund operation system was changed by different regimes, now is crediting at banks and will make other investment options in near future for strengthening resource and making awareness the social security plans; retirement security, unemployment benefit insurance system and housing scheme. |

## **The Sustainment of Social Security Funds of Myanmar**

### **History and Background**

The Social Security Board (SSB) as known as Social Security Office was established in 1956 after appearing of the Social Security Act, 1954 with the aims to support the insured workers and their family members for living when the formers are unable to work, to improve the health of insured workers, to speed their working ability in order to boost productivity and to provide benefits effectively when facing social contingencies such as employment injury, maternity, sickness and death, etc. There were a few Social Security offices covering the townships in those days when started implementation the Social Security Law, 1954. The new Social Security Law, 2012 was adopted with more branches of social security covers such as old age pensions, family benefit, unemployment benefit and housing benefits. The percentage and amount of cash benefits for insured workers are increased in new law. That is why the number of insured persons is increasing and the coverage rise up to 120 townships according to the data of Insurance Department, Social Security Head Office which released on March 31, 2017.

The SSB used multiple financial operation system in the past. Between 1956 and 1962, the SSB stood on his own feet and got freedom to manage on her expenditures. It means that the Ministry of Planning and Finance did not control on expenditures of SSB. Began on the fiscal year after the Socialism leaders grasped the power, the SSB had to participate the Union Consolidated Fund Account according to the Financial sharing Act which prescribed by the government until 1975. The system of the Union Consolidated Fund Account is all earning of SSB had to contribute to the State and the expenditures must be passed by the Ministry of Planning and Finance. After that, started from *1975-1976 the fiscal year*<sup>1</sup> the government departments were separated into two groups, the State Economic Enterprises (SEE) account and the Ministry Departments (MD) account. The SSB was counted into one of the state enterprises. So, the SSB had to change her policy which based on yielding for maximize return rather than social based policy. As a

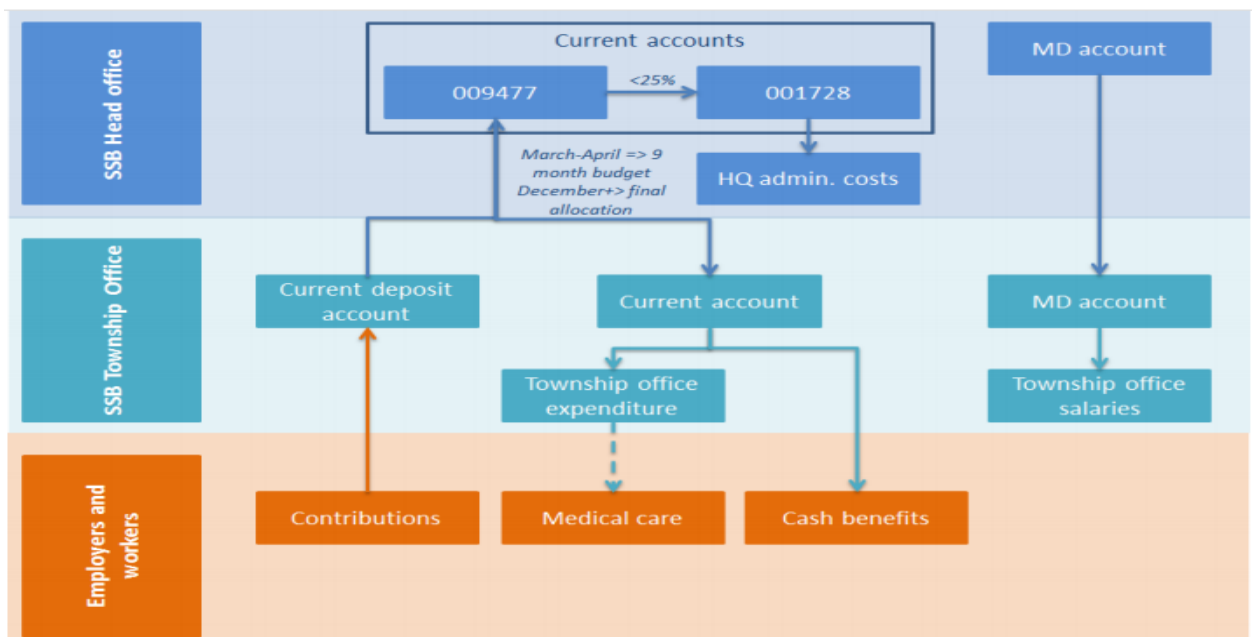
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<sup>1</sup> The fiscal year of Myanmar is begin from April 1 and ended at March 31, e.g the fiscal year of 1975-1976 is between the period of April 1, 1975 and March 31, 1976.

result, the confidence of insured workers dropped until the newly Social Security Law, 2012 was empowered.

Nowadays, SSB is using financial regulation as an autonomous financial management which starting from the fiscal year of 2013-2014. But all the staffs' salaries are bearing from the state budget like the civil servants of Government. In the near future, the SSB have to stand on her own feet. It means that all of the cost and expenses including the salaries must be allocated from the earning of SSB. It is a big challenge for the Social Security offices because the recent fiscal year of 2016-2017 had used 13168 million Kyats. The amount is not included the cash benefit cost as known as reimbursement for insured workers. Total reimbursement amount is about 7500 million Kyats during the fiscal year of 2016-2017. Moreover, SSB earnings which contributed by the employer and employee are depended on robust economy. If something happened on business such as financial crisis, natural disasters will affect the income of business and SSB as well. So, the financial sustainment is very important to achieve the vision and the missions of SSB.

**Figure: Financial Management of SSB**



Source: ILO and MDRI (2015) 'Evaluation of the Operations of the Social Security Board'. Technical Report. Yangon: ILO and MDRI.

## **Investment and Secure Financial Future of SSB**

Financial sustainment for our Social Security funds is deeply concerned by the government because some countries projects that Social Security's costs will exceed the program's total income in 2020. In Thailand and Vietnam, cash-flow deficits in their pension schemes are expected to emerge in the next 10-20 years, repeating the experience of richer countries. This experience will force benefit cuts or increased contribution rates (Strengthening social security provision in Myanmar, World Bank). So, SSB is allowed to carry out business for fund sustainment. Currently SSB oversee the operation of two kinds of fund. They are Social Security fund and Employment Injury Benefit fund. At article 84 of Social Security Law, 2012, mention that the Social Security Board may, in order to increase the funds established according to the law, carry out the following works which are in conformity with the existing law and which may be profitable with the fund which are not yet necessary to be used for the time being:

- (a) depositing, saving, purchasing saving certificates and debenture at any State Bank or other bank;
- (b) carrying out and investing in any investment business;
- (c) issuing loan to contributors by fixing interest rate under appropriate terms and conditions;
- (d) investing after establishing Social Security Housing by laying down plans;
- (e) hiring movable and immovable properties owned by the Social Security Board, selling any of those property which are not necessary to use in accord with the stipulations or transferring by any other means;
- (f) carrying out any other business for the interests of the Social Security Board.

Above options of generating the funds for financial sustainable, the SSB is depositing, saving, purchasing saving certificates and debenture at state bank and semi-state banks. The other options of investment that allowed by law will be made in the near future. The current investment in the bank yields a lot bank's interest every month. The SSB is earning the interest approximately 1027.800 million Kyats per month. This

amount is equal to 758524 US Dollars. From the period of 2013 to 2017 SSB obtained the interest for investment from the banks exactly 7416.50 million Kyats, according to the data on April 10, 2017 of the Investment Section, Social Security Head Office. SSB does not put their liquidity asset at pure private owned banks, deposit at the state bank and the semi-state banks. And all assets do not put at one bank, spreading the investment to four banks such as Myanmar Economic Bank, Myawady Bank, Small & Medium Industrial Development Bank and Construction & Housing Development Bank etc. The total value of money in the banks is over 122 billion Kyats.

SSB would like to go for further step for investment in Housing for workers. The amount of financing will be huge for housing because this kind of investment is expensive. Neglect of the cost, SSB has to create residences for worker because most of workers do not own the house. They have to use at least 40% of earning for rent according to an article of Frontier Myanmar<sup>2</sup>. So, housing is urgently needed for them. According to the Social Security Rules, Article 36 (a), not less than 60 percent of the funds can invest in such the state owned bank or at any other bank. Article 36 (b), the amount of money not more than 30 percent of the saved funds may be invested as follows:

- (i) investing by buying shares of the public companies which are being successful in business, investing by buying bonds, and investing by buying shares from security exchange market;
- (ii) issuing loans to the persons who have paid contribution by specifying interest rates under the suitable terms and conditions;
- (iii) establishing housing projects for the insured persons;
- (iv) carrying out other investment works, in coordination which the relevant Ministries of the Union Government.

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<sup>2</sup> On Yangon's outskirts in Myanmar, rooms can be rented for between Kyats 60,000 and Kyats 100,000 a month, and it costs at least Kyats 150,000 to rent a house or apartment in areas closer to the city centre. <http://frontiermyanmar.net/en/the-lost-dream-affordable-housing>

At Article 36 (c), the amount of money not more than 10 percent of the saved funds may be invested by establishing owned economic enterprise. The SSB oversee the funds and has responsible for sustainment.

### **The Social Protection Schemes for retirement**

The Old-Age, Survivors, and Disability Insurance program makes monthly income available to insured worker and their families at retirement, death, or disability. Currently, Myanmar has two kinds of pension scheme. One is government's pension scheme which is non contributory scheme and eligible for all public servant, political personal and military personal. Another pension scheme for insured worker is contributory scheme which initiated by SSB. Pension Scheme for insured workers has to be implemented in the near future according to the Social Security Law. To implement the old age pension, SSB has to consider the financial sustainment. This scheme is important for private employee because people need income for survive when they became old. In younger time they must save money for using in old age or contribute from income to SSB. As stated in Social Security Law, employer has to contribute 3% and also employee has to contribute 3% of employee income for pension scheme. That pension scheme is secure some of spending needs during retirement if he just contributes 3percent from his earning. So, SSB will set up a plan for retirement security of insured worker.

The main goal for retirement plan is to ensure retired person will have decent financial resources to improve or maintain the former lifestyle during the retirement years. A complete retirement income package is commonly referred to as a three legged stool, comprising your social security, employer sponsored retirement plans and your personal savings. The amount of personal savings you need to achieve depends on the contributions to retirement accounts by your employer and your projected income from social security. You will need to save enough so that your retirement income is in the range of 70% to 80% of your pre-retirement income according to some financial planning experts. Your retirement income may have to be more than your pre-

retirement income, if you have more expenses in retirement than before retirement. Your retirement will be more enjoyable if your income is structured to fit your lifestyle choices and if you have developed a retirement plan to protect the assets you have worked hard to acquire.

## **Conclusion**

SSB is now opening a campaign for public awareness on social security plan and benefit scheme for insured person including housing benefit, superannuation benefit. SSB has to implement for retirement security for insured workers and also has to prepare for its security of financial sustainment. People with a sound knowledge of financial literacy are more likely to make plans for retirement and those who make plan for retirement security have more than twofold the wealth of people who do not plan. A comfortable, secure retirement is much easier when you plan your finances. A secure, comfortable retirement is every employee's desire. People with less financial literacy tend to accumulate less wealth, borrow more and pay more in financial product cost and less likely to invest or know the terms of retirement security.

There is some evidence that workplace financial education has helped raised retirement plan participation and contributions and that it has raised households' overall level of saving as well. Indeed financial illiteracy may place great stain on personal and families' finance, spending, retirement and heading to suboptimal arrangements regarding investment. Furthermore, when people produce poor decision of financial, the damage of those decisions may be passed on to others while they depend on social safety nets requiring consequent tax increases. Clearly the worth of illiteracy of financial is a social headache which is likely to devolve not only to society as a whole but also the least capable individuals. So, financial knowledge assists retirement planning which affords retirement security for workers.

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