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## **Voluntary Savings Schemes to Protect Informal Workers in Jordan**

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## Abstract

This paper proposes a framework of voluntary savings schemes (VSS) in Jordan that can complement the current formal sector arrangements to better protect informal workers against economic shocks, unemployment, old age, or disability. As benefits of traditional mandatory pension systems worldwide have been cut substantially since the 1990s, voluntary defined contribution schemes are increasingly trying to fill the gap. In many countries, including in low-income countries, special voluntary savings schemes have been introduced to protect informal workers. Blending the knowledge from best practices internationally with the cluster methodology developed specifically for Jordan, the paper provides an overview of the current system of social security in Jordan and presents policy options to lower informality, extend social protection coverage, and provide more adequate protection to workers.

**JEL Codes:** E26, H55, J26, J28, J21, J46

**Keywords:** Informal Sector, Informal Labor Market, Social Security and Public Pension, Pension Reform, Pension Benefits

## الملخص (تعزيز حماية العاملين في الأردن)

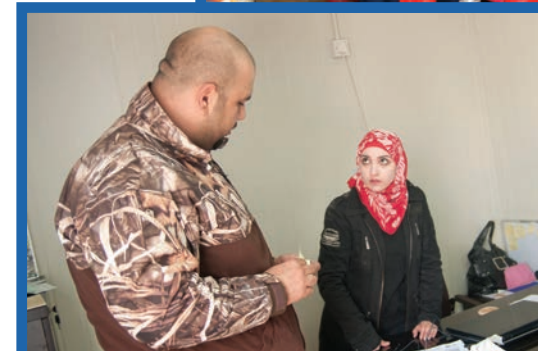
يستند هذا التقرير على قاعدة بيانات غنية لتوفير تنميط شامل للعمالة غير الرسمية في الأردن ، بما في ذلك: من هم العمال غير الرسميين وخصائصهم ، ومكان عملهم ، فضلاً عن تقديم توصيات بشأن السياسات لمعالجة العمالة غير الرسمية. يتبع الإطار الهيكلي الذي تم تطويره من خلال التنميط الشامل تحليل لأسباب كون العاملين غير رسميين، باستخدام التحليل الاستنتاجي متعدد المتغيرات. تُستخدم الأساليب الإحصائية (أي التحليل العنقودي) لتصنيف العمال حسب الخصائص المتشابهة (بما في ذلك التعليم والجنس والدخل ونوع العمل) للسماح لصانعي السياسات بتحديد أدوات السياسة المحددة التي يمكن أن تستهدف كل مجموعة. يقدم التقرير حلولاً سياسية طويلة الأمد لمعالجة العمالة غير الرسمية، بما في ذلك تعزيز المنافسة لتعزيز الإنتاجية وتوفير فرص متكافئة. كما يقترح خيارات لسياسات قصيرة ومتوسطة الأمد لحماية العاملين من الصدمات (الأزمات المفاجئة) حتى يتم خلق وظائف أكثر إنتاجية، على سبيل المثال من خلال توفير مزايا قصيرة الأجل من خلال خطط مساهمات محددة. تتم معالجة عدم التجانس من خلال تكييف أدوات السياسات لكل تصنيف من العاملين.

**تصنيفات جيل:** J23، J64، J31، J24، J21، J48، E26، E24، J46

**الكلمات المفتاحية:** سوق العمل غير الرسمي، إنتاجية العمل، رأس المال البشري، سياسات سوق العمل، هيكل القوى العاملة، الضمان الاجتماعي

# Contents

Acknowledgements .....	v
Acronyms.....	vi
Executive Summary.....	vii
<b>1 Introduction .....</b>	<b>1</b>
<b>2 Jordan’s Social Security System .....</b>	<b>5</b>
<b>3 Best Practices in Voluntary Savings Schemes .....</b>	<b>9</b>
Country examples of voluntary savings schemes .....	9
Lessons drawn from international experience .....	13
<b>4 A Voluntary Savings Scheme for Jordan.....</b>	<b>16</b>
General considerations in structuring a VSS in Jordan .....	16
A VSS based on clusters of workers .....	17
Extending VSS to early retirees.....	25
<b>5 The Way Forward .....</b>	<b>27</b>
<b>References .....</b>	<b>29</b>
<b>Photo Credits.....</b>	<b>31</b>



## Boxes

1. Jordan's Social Security System .....6
2. New policies to expand social security coverage in Jordan .....7

## Figures

1. The “missing middle” of the income distribution excluded from social protection coverage.....3
- B2.1. Tranches of contributions and lower benefits compared to full pension .....7
2. Mexico's voluntary contribution system.....11
3. Hypothetical approach to identifying profiles where informal workers have similar wages to formal sector colleagues .....18
4. Comparison in wage distributions between formal and informal female Jordanian employees.....20
5. Comparison in wage distributions between formal and informal male Jordanian employees.....20
6. Comparison in wage distributions between formal and informal male non-Jordanian employees.....21
7. Conceptual incentive design for different tranches for the informal sector.....22
8. Comparison of four pilot packages to add to full current retirement pensions (in JD) .....25
9. Proposal to provide incentives to postpone early retirement.....25

## Tables

1. Voluntary contributions growth in Mexico compared to mandatory contribution growth.....12
2. India's APY contribution and guaranteed benefit .....14
3. Clusters of informal workers .....19
4. Summary of pilot packages.....23
5. Cluster analysis mapping .....24

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## Acronyms

APY	Atal Pension Yojana
CBJ	Central Bank of Jordan
CONSAR	National Commission of Savings Systems for Retirement (Comisión Nacional del Sistema de Ahorro para el Retiro)
DB	Defined Benefit
DC	Defined Contribution
DS	Department of Statistics—Government of Jordan
GoJ	Government of Jordan
ILO	International Labour Organization
IT	Information Technology
JD	Jordanian Dinar
JLMPS	Jordan Labor Market Panel Survey
KYC	Know Your Customer
LFS	Labor Force Survey
MOPIC	Ministry of Planning and International Cooperation
MXP	Mexican Peso
NSSF	National Social Security Fund
NTHC	National Trust Holding Company
OECD	Organisation for Economic Co-operation and Development
PAYG	Pay As You Go
SSC	Social Security Corporation
SSL	Social Security Law
SME	Small and Medium-Sized Enterprises
SSNIT	Social Security and National Insurance Trust
SSIF	Social Security Investment Fund
USD	United States Dollar
VSS	Voluntary Savings Scheme

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## Executive Summary

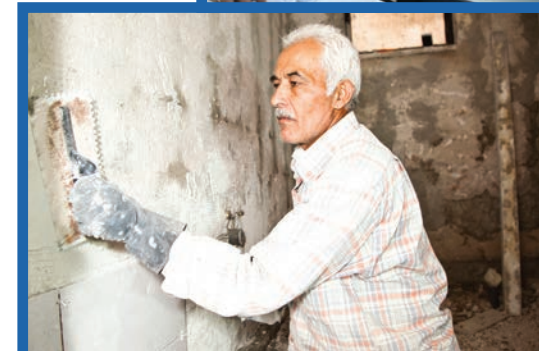
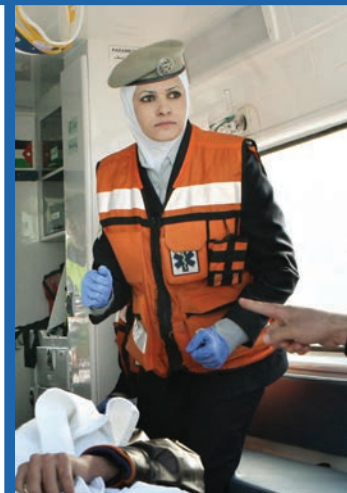
**The recent COVID-19 pandemic has exposed informal workers' vulnerabilities.**

As described in the companion paper to this study, “Enhancing Workers’ Protection in Jordan” (hereafter “Profiling paper”), high levels of job informality weigh heavily on Jordan’s social and economic development (Rother et al. 2022). Almost half of the total workforce, and 90 percent of non-Jordanian workers, are not covered by social security programs, thus leaving these segments of the labor market without access to pensions and unemployment insurance. The COVID-19 pandemic has added fuel to the fire: its impact has hit informal workers harder. Without adequate and timely social protection, job losses and reduced livelihoods as a consequence of the crisis have pushed many informal workers into poverty.



**The Government of Jordan (GoJ) has recently achieved some progress with improving social security but long-term challenges remain significant.**

To mitigate the impact of the pandemic on firms and better protect workers, the Social Security Corporation (SSC) established new programs and policies. These recent initiatives have been highly successful in reaching workers and in expanding participation in social security schemes by providing an incentive to formalize. It has been estimated that SSC support reached more than 900,000 workers and more than 35,000 businesses—some of which registered for the first time in 2020. New registrations included over 170,000 workers. The net gain in terms of social protection coverage in Jordan, however, might have been smaller, since more than 180,000 workers became inactive. And while the new programs and policies led to important short-term improvements, more effective schemes are still needed to improve social protection in a longer-term view. The key is to build on short-run gains with formalization to achieve higher levels of formal contributions and protection for the longer term.





**The pandemic underscores the need not only for timely policy interventions, but also for sustainable protection mechanisms that recognize the heterogeneous nature of informality.**

The short-run policies to mitigate the loss of purchasing power and buffer the shock to vulnerable workers as well as their families and communities have proven to be effective in providing support to Jordan's social fabric. However, in the medium to long run, more adequate and sustainable social protection is needed. Specifically, the COVID-19 pandemic has highlighted the need for solutions to extend social protection to informal workers in a way that recognizes the informal sector's heterogeneity. At the same time, formal workers can supplement inadequate retirement earnings through alternative savings schemes. What is required are policy interventions tailored to different needs. This has become an urgent policy priority to reduce the impact of informality, while the longer-term priority remains the creation of more productive jobs that allow the workforce to gradually move into formality.

**Addressing informality requires going beyond formalization.**

While the GoJ has taken some steps in the right direction to address informality, it has faced profound challenges in reaching out to the large segment of the workforce that works informally. Efforts by the government have tended to focus on formalization: they included measures to formalize businesses, getting formal businesses to register workers in the SSC, or

incentivizing self-employed workers to register in the mandatory SSC programs. These measures are useful but cannot capture the complexity of the problem or the heterogeneity of the workers involved, as outlined in great detail in the companion "Profiling paper" to this study.

**Expanding protection to informal workers requires targeted policies.**

The clusters identified in the companion "Profiling paper" are especially helpful in designing tailored policy responses for the biggest segments of the population of informal workers in Jordan and their respective needs. The World Bank's cluster approach of identifying informal workers by specific characteristics builds on this insight and complements findings from recent reports (Razzaz, Pellerano, and Byrne 2020; Winkler and Gonzales 2019; Palacios and Robalino 2020) showing that this methodology is now seen to provide a strong basis for devising successful policy responses to the complex challenge of informality. The proposed voluntary schemes complement the SSC's current mandatory scheme by providing different levels of contributions paired with benefits specifically designed for the target population groups based on the cluster analysis. Four different packages were designed based on wage levels and other differences between formal and informal sector colleagues as a proxy to measure vulnerability. Three of these packages are part of the proposal for a pilot program for Jordan.

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# 1

## Introduction

**Many workers in Jordan are informal and vulnerable to economic shocks and poor health, lacking any protection during old age or unemployment.** Almost half of the workforce remains in informality, not contributing to social security programs such as pensions and unemployment insurance. Formal employment is the long-term vehicle to provide workers with better opportunities to earn income and the ability to contribute to social protection schemes.

**While efforts to formalize workers will continue to be important, it will take decades if not generations to fully integrate Jordan's large population of informal workers.** Attempts are underway to expand coverage to informal workers through new bylaws and regulations. A companion paper to this study, "Enhancing Workers' Protection in Jordan" (Rother et al. 2022), proposes further policies to increase formalizing of workers. In the meantime, there is an urgent need offer better social protection to informal workers who remain vulnerable to shocks.

**In terms of instrument choice for better protecting informal workers, a Voluntary Savings Scheme (VSS) can play an important role.** A voluntary scheme already exists today, but is modest in scope, and it is designed as DB (defined benefit), not DC (defined contribution). The aim of the VSS is to expand coverage of social security into the informal sector under fiscally constraint conditions. It is meant to be a complementary pillar to the existing schemes at SSC.<sup>1</sup> This is because

1. In 2020, participants in the current voluntary DB pensions program represented less than 10 percent of total insured persons in SSC. As such, the voluntary DB program does not provide adequate pensions and also increases the financial sustainability challenge.



one pillar cannot bear all the weight of delivering adequate income with broad coverage in a sustainable, efficient and secure way. Globally, there is no example of a country that achieves high levels in each of these outcomes with a single pillar; instead, countries rely also on additional pillars, such as voluntary savings schemes. Some schemes in the MENA region are only starting to consider some additional pillars (Price, et al, 2017).

**Best international practices show that VSS are increasingly part of the solution to balance extended coverage with financial sustainability.**

As benefits of traditional mandatory pension systems have been cut substantially since the 1990s, voluntary DC schemes are increasingly filling the gap. In many countries, the primary objective of these schemes has been to maintain or increase the level of pension adequacy. Voluntary pension savings already provide about 20 percent of retirement income on average in OECD countries (OECD 2019a), and other countries across the world are following the same path. In some emerging market countries, 14 percent of the labor force are already making voluntary contributions to established pension systems (Jackson 2017). While the figure may pale in comparison to the 54 percent in the United States of America, it is still significant and continues to grow (Jackson 2017). In middle-income countries, VSSs are particularly relevant, given the fact that a high percentage of their population is in the informal sector.

**Even in low-income countries in Africa, special VSSs have been introduced to protect informal workers.**

Taking advantage of technology, countries like Ghana, Kenya, and Rwanda have established contribution channels through mobile money network operators, which already have allowed over 800,000 individuals to participate. For example, in Ghana, about 4 percent of the labor force contributes to a VSS (Guyen 2019; NPRA—Pension's Regulator in Ghana, 2020).

**VSSs will likely become even more relevant as employment practices change.**

While VSSs play an important role in improving benefit adequacy in a financially sustainable way, they are also fundamental in adapting social protection policies to the changing nature of jobs. Increasingly, non-standard forms of employment are emerging that are not covered by the traditional social insurance schemes, especially with the expansion of the gig economy (see Packard et al. 2019; World Bank 2019).

**Finally, voluntary savings schemes can be used to incentivize workers to contribute for longer periods of time and reduce early withdrawals.**

Jordan shows significant challenges in maintaining contributions from formal sector employees over time. Administrative data from SSC over a 20-year period shows a contribution density of about 34 percent, significantly lower than other countries such as Chile and Uruguay.

## The focus of the paper

**This study proposes a framework of a VSS that can complement the current formal sector arrangements and can cater to a vast and heterogeneous group of informal workers.**

A companion paper (Rother et al. 2022) comprehensively profiles informal workers in Jordan, and shows clear differences in workers' demographic and socioeconomic characteristics and levels of vulnerability. A significant segment of informal sector workers perhaps cannot afford to contribute toward a pension. However, other workers can contribute, and their income and level of vulnerability may not differ much from their formal sector colleagues. These less poor households are not eligible for social protection coverage, cash transfer programs, or formal sector arrangements and are often described as the "missing middle" of households when discussing informality. The missing middle is the intended target

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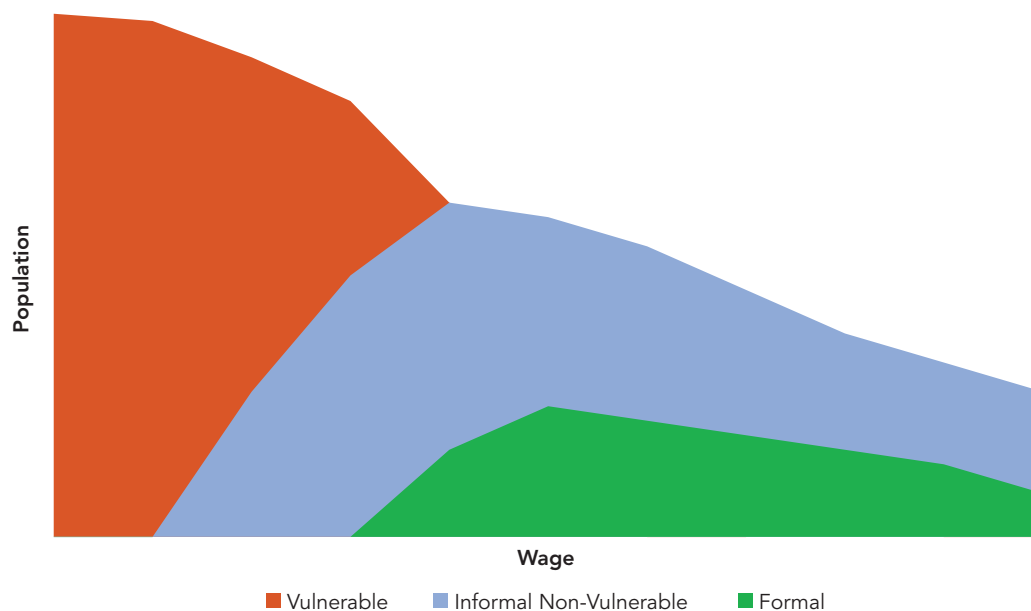
group for VSSs, as illustrated in Figure 1. The conceptual illustration is useful since using data from Jordan's Department of Statistics (2018 and 2016) will typically underrepresent the income of informal and self-employed workers.<sup>2</sup>

**Jordan's household income distribution shows three groups of people with very different outlooks for social protection.** For a first group of people with low household incomes, voluntary savings contributions are unaffordable (Figure 1). This group of poor and vulnerable individuals is

2. According to OECD (2019b), the self-employed lacks an employer, which complicates pensions design. Among the complications is the lack of income validation by an employer, which makes it hard to prevent income underreporting (that is, at least partial informality) and low contributions. In Spain, income underreporting is widespread among the self-employed (Martinez-Lopez 2012). In other countries Hurst, Li, and Pugsley (2010) and Bucci (2019) also find similar underreporting. In the United States, one-third of the self-employed admittedly underreport their income for tax purposes (Bruckner and Hungerford 2019).

unable to afford social contributions to become protected by the Jordanian system, and can roughly be found in the first 2–3 deciles of the income distribution. These workers typically work in informality and contribute with their basic skills to low-productivity micro and small firms. For them, social assistance programs aiming at curbing vulnerability and alleviating poverty are probably the most suitable and realistic option. A second group includes wage earners above the 3<sup>rd</sup> decile and below the 9<sup>th</sup> decile of the income distribution. This group is able to make social contributions and can be enrolled in the mandatory Jordanian social protection system. For this group of people that work either formally or informally, a new VSS can be established to complement the mandatory system. This means more resilience to economic shocks and higher pensions at old age. Workers and families in this group would benefit from a range of contribution options that responds and is

**FIGURE 1. The “missing middle” of the income distribution excluded from social protection coverage**



Sources: Authors' illustration.

targeted to their individual ability to save and their needs. A final group represents household incomes in the top 2 deciles of the income distribution. These workers can afford to contribute to a VSS at the level of their choice.

**The framework for this study was developed using best practices from international experience and blends this knowledge with the cluster methodology developed specifically for Jordan.** Following this introduction, the study proceeds as follows: Section 2 describes the current system of social security in Jordan, including recent attempts to improve coverage by expanding access. Section 3 presents best practices of voluntary savings schemes (VSS) and their innovative possibilities for extending social protection to informal workers. Cross-country evidence shows that these programs could lower informality, extend coverage, and provide more adequate

protection to workers.<sup>3</sup> Section 4 presents a framework for a VSS that is based on the statistical techniques (cluster analysis) employed in the companion paper (Rother et al. 2022). The clustering of workers by similar characteristics (including education, gender, wealth, and form of employment) informs development of the most attractive policy tools within the VSS for each targeted population group.<sup>4</sup> The paper concludes with a suggestion for three pilots to test the approach.

3. A profiling of the self-employed and employers is currently under implementation and will be conducted as a follow-on analysis and report under this task. The labor demand survey specifically targets informal businesses, including the self-employed.

4. Both inferential and multivariate clustering are used, employing data from two surveys: the 2010–16 panel data in the Jordan Labor Market Panel Survey 2016 (JLMPS 2016) and the Labor Force Survey 2018 (LFS 2018). While most of the profiling will be done using the LFS 2018, intertemporal and dynamic analysis has been carried out using the JLMPS 2016.



# 2

## Jordan's Social Security System

**Jordan's legal framework provides for social security coverage of regular employees and the self-employed.** By law, the social security system covers a wide range of workers (see Box 1), including: (i) all workers (not younger than 16 years of age) who are Jordanian, as well as non-Jordanian private sector employees, working either more than 16 days a month or getting paid on a monthly basis;<sup>5</sup> (ii) public sector employees; (iii) self-employed persons; and (iv) citizens of Jordan working at diplomatic missions or for international organizations in Jordan. However, many workers who meet the requirements are in fact not covered by the system (Rother et al. 2022).

**Recent policy efforts to strengthen social security coverage in Jordan include the following:**

- **In 2019, certain bylaws and amendments to current regulations were introduced for start-ups in the IT and agriculture sectors.** Eligible firms, defined as employing fewer than 25 workers under age 28, are allowed a grace period of non-contribution<sup>6</sup> to the pensions program during the first five years of existence of the firm. The new regulations will also allow for partial coverage for long-term benefits (retirement), depending on reduced rates of contributions chosen by individual workers (see Box 2 for more details).

5. This is the definition of regular employment. For the first month of work, the principle of 16 days or more per month applies, not whether payment is intended to be on a monthly basis.

6. The non-contribution period also represents a non "pension credited" period. Those affected young employees might decide to contribute voluntarily.



## Box 1. Jordan's Social Security System

Jordan's first social security law from 1978 (Law No. 30) provided work injury, old-age, survivors, and disability benefits, and was administered by the Social Security Corporation (SSC). Until 1995, the SSC covered only private sector workers; civil servants and the military had their independent schemes, which were closed to new entrants under the 1995 and 2003 reform laws, respectively. New recruits in the government and army are now covered by the SSC. It is estimated that by the 2060s, Jordan will have a fully unified social security system where both public and private sector workers will be covered solely by the SSC.

Today, the Jordanian social security system provides benefits for old-age, disability, survivors, maternity, work injury, and unemployment insurance.<sup>a</sup> The law was redesigned in 2010 and approved by Parliament in 2014.<sup>b</sup> Maternity leave, unemployment, and health insurance for pensioners were initiated during these reform years.

The pension program of SSC is designed as a contributory, earnings-related, pay-as-you-go (PAYG), defined-benefit (DB) plan.<sup>c</sup> Social security contributions (payroll taxes) are currently 21.75 percent overall, but 17.5 percent of that goes to pensions. Employers and workers contribute 14.25 and 7.5 percent of wages, respectively. Benefits include maternity and sickness allowances for all members. Private-sector employees and Jordanians with SSC membership also receive unemployment benefits. However, public sector employees, self-employed workers, and casual laborers are excluded from such benefits. Work injury benefits are provided to private sector employees and apprentices, the self-employed, and Jordan citizens at diplomatic missions or in international organizations.

As a result of COVID-19, various "defence orders" and protective measures affecting the current SSC regulations were implemented. Between March and May 2020, private sector firms (except for banking and electricity) were allowed to suspend payments to the retirement program, while continuing to make contributions for all other insurance schemes. The total social security contribution for that period was reduced to 5.25 percent (of which workers' contribution was 1 percent), although voluntary contributions were allowed (up to 17.5 percent). Since July 2020, firms have been allowed to halve their contributions to the old age pension program.

### Notes:

a. A means-tested benefit is paid to certain elderly persons, persons with disabilities, and survivors under an SSC program on family allowances.

b. Jordan has undergone a profound social security reform since 2010, primarily aiming to ensure the financial sustainability of the system over time. The reform measures mainly included increasing the age of early retirement and the minimum contributions required to claim it, increasing employee and employer monthly contributions, and covering even micro firms (with at least one employee).

c. Contributory means that participating employees in the pension scheme are required to support the scheme with contributions (often through payroll taxes). Earnings-related means that pensions are based on the beneficiary's earnings. Pay-as-you-go (PAYG), in its strictest sense, is a method of financing whereby current pensions are paid out of current revenues from contributions. When revenues are higher than expenditures some reserves can be accumulated, hence PAYG can be partially funded, like in the case of Jordan. Defined benefit (DB) means the pensions are calculated based on a prescribed formula that usually considers several factors—mostly length of employment and salary history.

## Box 2. New policies to expand social security coverage in Jordan

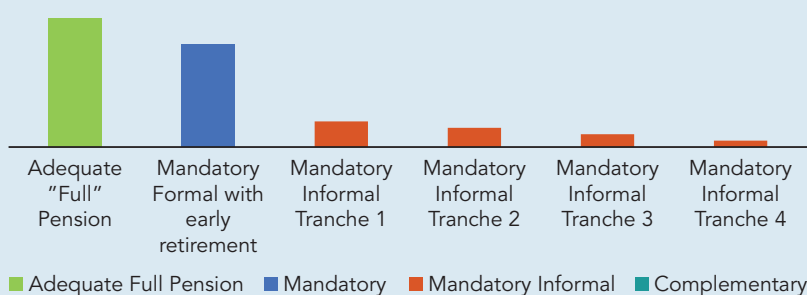
New bylaws have recently been considered to address the situation of Jordan's self-employed, IT, and agriculture workers. Beginning in 2021, a new bylaw is in the process of being implemented whereby mandatory insurance will be extended to self-employed Jordanians (and non-Jordanians with flexible work permits) in the following sectors: (i) agriculture, (ii) construction, (iii) transport, (iv) tourism, (v) general services and maintenance, (vi) art and media production, and (vii) other occupations or trades as decided by the Board based on recommendation of the General Manager.

The new regulations will allow for full coverage in the case of short-term benefits and partial coverage for long-term benefits (retirement), depending on reduced rates of contributions chosen by individual workers. Unlike waged workers, the individuals who will enroll under this new bylaw will be given the option of paying their full old age pension payment or part of it. The contribution tranches allowed are 75, 50, 25, or 10 percent of full payment, with the benefit calculated the same way (pro rata) as for waged workers, but proportional to the contribution made. With these levels of partial payment, new contributors may end up receiving lower pensions than their formal colleagues (see Figure B2.1). The new bylaw allows the applicant to define the wage level, subject to upper and lower limits (the minimum is equivalent to the minimum wage, and the maximum is a specific multiplier of the average wage per age group).

Implementation is planned in stages. The new amendment states that instruction will be issued defining conditions for enrollment for the workers in the occupations mentioned above. The first group of workers to be targeted by the SSC will be the taxi drivers; the SSC has begun coordinating with the transportation authority in order to identify these workers. Implementation started in the first semester of 2021.

The new bylaw, as well as further amendments to current social security regulations that SSC is considering (to encourage early retirees to return to the labor market), would need to be carefully assessed and analyzed. Both the share of workers that will actually decide to contribute to their pension accounts and the adequacy of the pensions are unknown. For instance, it is realistically assumed (based on international experiences) that workers might end up contributing the minimum rate (10 percent) on the minimum wage. If so, the pro rata benefit based on this contribution level would be insignificant for the individual. In short, the tranching approach is a good way to establish a first stepping stone toward formality, but could also establish wrong expectations for individuals enrolling in terms of how adequate these pensions will be.

**FIGURE B2.1. Tranches of contributions and lower benefits compared to full pension**



Note: This figure is an illustration by the author aimed at showing the impact on the benefits of the different tranches of contributions in relation to the "full" formal sector benefit individuals would receive.



- **Other recent amendments to SSC regulations discourage early retirement.** Recognizing the challenge of early retirement in Jordan, a recent amendment to 2014 Law specified that all contributors who started contributing on October 1, 2019 will be subject to new rules: men will be required to contribute at least for 252 months before retiring at age 55, and women will be required to contribute at least 228 months before retiring at age of 52. Nobody will be allowed to retire before the ages of 55/52 for men/women respectively. As only new entrants are affected, no impact of these changes is expected for at least the next 20 years. The new amendment also specifies a higher reduction factor for early retirement pensions, even if they will not yet be actuarially fair. With the new rule of early retirement, people will no longer be able to retire at 45 with 25 years of service. However, there could still be many people retiring at as young as age 55/52, while life expectancies keep increasing.
- **In addition, Jordan operations a voluntary pension scheme.** The country provides a voluntary pension scheme for self-employed Jordanians (who could not contribute to the regular scheme), casual workers, and inactive housewives.<sup>7</sup> According to Ar-

7. They contribute 17.5 percent of monthly earnings, where the minimum earnings are based on the national monthly minimum wage.

ticle 4 of the 2014 Law, those who are excluded from mandatory coverage (and voluntary coverage if they are non-Jordanians) include: (i) individuals covered by the old civil and military pension schemes; (ii) non-Jordanians living in Jordan but employed by regional and international missions; and (iii) irregular workers (who neither work 16 days a month nor get paid on a monthly basis). Participation in the current voluntary pension program of SSC remains low at less than 10 percent of the total number covered by the SSC. The voluntary program does not provide adequate pensions and also increases the financial sustainability challenge since it is a defined benefit.

- **While the recent efforts to expand social security coverage are welcome, complementary efforts are needed.**<sup>8</sup> The next section depicts some of the global experience on how countries with a high share of vulnerable informal workers have attempted to increase protection through a voluntary savings scheme.

8. ILO (2021) suggests a need for a combination of policy approaches, such as combining actions to fill regulatory gaps and clarify ambiguities with those aimed at addressing inadequate compliance and enforcement.

# 3

## Best Practices in Voluntary Savings Schemes

**A number of countries have taken on the challenge of assisting informal sector workers to save for retirement in different ways.** The structure of existing systems provides some insight as to how they are able to cope with the demands of a pension system focused on the self-employed and informal sectors. A variety of alternatives exist, which range from leveraging existing structures to creating brand new entities to run the new pension schemes. A few country examples are presented below, followed by lessons drawn from international experience.

### Country examples of voluntary savings schemes

**A number of countries have made a voluntary savings program available to workers.** International experience may provide insights on how a complementary pension system may be designed to complement the SSC's supply of pension products. For example, in addition to the mandatory enrolment to the Old Age Security and the Canada Pension plans, Canadians have the option of also enrolling in an employer-sponsored voluntary program (the Occupational Pension plan). In Mexico, private funds (Afores) manage pensions and operate in a market-driven scheme, but they also allow voluntary contributions. Kenya relies on their mobile money infrastructure to facilitate contributions to a defined contribution pension scheme targeted at the informal sector. And in Ghana, employers and employees' shared contributions to the pension system use electronic/mobile platforms to manage and make contributions; at the same time, the system offers workers the possibility of accessing their long-term savings in case of a shock. Here, we examine the VSS experiences in Mexico, Kenya, Ghana, and India in terms of three main elements: the administration they have used and leveraged to support these informal sector-focused pension systems, the product configuration, and the outreach efforts to gain members.



سُبْحَانَكَ اللَّهُمَّ رَبَّ الْعَالَمِينَ  
قُلْ أَعُوذُ بِرَبِّ الْفَلَقِ مِنْ شَرِّ مَا خَلَقَ وَمِنْ شَرِّ مَا نَسَفَ وَإِذَا وَقَبَ  
وَمِنْ شَرِّ النَّفَّاثَاتِ فِي الْعُقَدِ وَمِنْ شَرِّ حَاسِدٍ إِذَا حَسَدَ  
صَلَّى اللهُ عَلَيْهِ وَسَلَّمَ





**TABLE 1. Voluntary contributions growth in Mexico compared to mandatory contribution growth**

Year	Voluntary savings (Mex\$ million)	YoY voluntary savings growth (%)	Mandatory savings (Mex\$ million)	Voluntary savings as a % of mandatory savings (%)	YoY mandatory savings growth (%)
2009	482.15		104,341.86	0.47	
2010	1,555.66	216.09	119,139.39	1.31	14.18
2011	2,937.14	88.80	125,494.87	2.34	5.33
2012	4,917.21	67.41	130,190.66	3.78	3.74
2013	6,187.47	25.83	137,334.06	4.51	5.49
2014	7,172.35	15.92	155,519.58	4.61	13.24
2015	9,657.25	34.65	166,022.99	5.82	6.75
2016	11,332.85	17.35	182,047.52	6.23	9.65
2017	12,030.44	6.16	195,293.21	6.16	7.28
2018	14,000.60	16.38	215,034.84	6.51	10.11
2019	16,180.48	15.57	237,851.18	6.80	10.61

Source: Mexico, National Commission of Savings Systems for Retirement (CONSAR), voluntary savings statistics.  
Note: Figures in millions of pesos (about Mex\$20/US\$1).

## Kenya

### **Kenya introduced a new defined contribution pension scheme in 2009 to target the large informal sector.**

Kenya's informal sector amounts to 85 percent of the working population. Individuals are allowed to make contributions as small as US\$0.20 to an individual account, leveraging the well-known Kenyan mobile money infrastructure M-Pesa. The pension scheme was initially championed and heavily promoted by the regulator, and took off to a great start to reach over 78,000 contributing members by 2017. The key enabler in Kenya has been to leverage informal sector associations as outreach channels, using field agents who are trusted within the community where the National Social Security Fund (NSSF) (Kenya's formal sector mandatory security fund) is not as well known. Kenya also uses mobile money as the main means to make contributions to the scheme, free of fees to the members making contributions, and allowing members to withdraw the full voluntary savings

after just three years (although the process to do so is complex). Among the main challenges for the sustainable growth of the new pension scheme have been the need for continued outreach and the ability of the administrative platform to provide online access to members' up-to-date balances. Both policy makers and regulators continue to work to improve administrative capacity and to undertake research on the demand side geared toward providing an appealing product and expanding the number of members enrolled in the scheme.

## Ghana

### **Ghana's Social Security and National Insurance Trust (SSNIT) introduced a voluntary defined contribution scheme in 2005.**

The program based enrollment and contribution collection on its field offices, which collect mandatory contributions from formal businesses. The program was later segregated from the SSNIT organization to constitute a new organization dedicated to

run the program, the National Trust Holding Company (NTHC), which has gained about 150,000 members. The pension system provides for a “tier 3” voluntary defined contribution system. This is run by private pension administrators, who have leveraged the third tier to increase the defined contribution product to over 500,000 members. Accounts may split contributions, so that a percentage of the funds contributed can be made available in the short term (5 years), with a 50/50 split for short- and long-term disbursement being the most common practice. Enrollment and contribution processes have been adapted to be more in tune with the channels and mechanisms that informal sector workers use. These efforts have included leveraging a network of mobile money operators, or in some cases local agents, who have been trained to provide information and enroll individuals, as well as introducing fee-free contribution channels through mobile money and standing orders on mobile wallets. Outreach from NTHC continues to rely on SSNIT’s branches, while private providers engage with different alliances, including mobile network operators, by training them specifically for that purpose.

## India

**India’s Atal Pension Yojana (APY) pension scheme was established in 2015.** It is structured as a national pension scheme, and its administration is based on the public sector pension scheme’s central recordkeeping agency used to manage a defined contribution scheme. Eligibility to enroll ranges from ages 18 to 40. The government offered a 50 percent match of the contributions for initial enrollees, but that was discontinued after the first year. Enrollment is done online, leveraging a network of private banks who receive compensation based on the number of members enrolled and the persistence of their contributions. The APY product offers individuals who enroll a guarantee of the outcome of

their contributions, and this outcome depends on the age of entry and contribution rate (Table 2). Thus, individuals have some certainty on benefits, with a specific monthly pension for different levels of contribution. The benefit is not pegged to inflation, which makes it easier for the scheme to manage the commitment of the pension liabilities.

## Lessons drawn from international experience

**A VSS requires administrative capacity to collect contributions, maintain an accurate recordkeeping system, and simplify enrollment processes.** In most cases, workers in retirement schemes, both self-employed and formal workers, have three contacts with pension administrative systems in their lifetime: (1) when they enroll, (2) when they access and update their information, and (3) when they apply for their pension. The experience individuals have in these three key moments is crucial to building trust in the pension system. Administrators should aim to be agile and have adequate and easy processes in different “touch points.”

**Because the collection of contributions from informal sector members can be challenging, administrators and social security institutes must have as many collection points as possible to ensure greater coverage and to facilitate contributions.** This usually has a direct relationship with access to banking or banking services in different jurisdictions, as pension system administrators generally do not have enough branches to cover an entire country or region. Institutions focusing on extending coverage should make alliances with other financial-inclusion-focused parties to provide simple and accessible channels for contributing to the pension scheme. If these new contribution channels are subcontracted, the fee structure should ensure very low-cost contribution collections, if not free, for the administering entity.

**TABLE 2. India's APY contribution and guaranteed benefit**

Age of entry	Years of contribution	Monthly pension of rs. 1,000	Monthly pension of rs. 2,000	Monthly pension of rs. 3,000	Monthly pension of rs. 4,000	Monthly pension of rs. 5,000
18	42	42	84	126	168	210
19	41	46	92	138	183	228
20	40	50	100	150	198	248
21	39	54	108	162	215	269
22	38	59	117	177	234	292
23	37	64	127	192	254	318
24	36	70	139	208	277	346
25	35	76	151	226	301	376
26	34	82	164	246	327	409
27	33	90	178	268	356	446
28	32	97	194	292	388	485
29	31	106	212	318	423	529
30	30	116	231	347	462	577
31	29	126	252	379	504	630
32	28	138	276	453	551	689
33	27	151	302	414	602	752
34	26	165	330	453	659	824
35	25	181	362	495	722	902
36	24	198	396	543	792	990
37	23	218	436	594	870	1,087
38	22	240	480	654	957	1,196
39	21	264	528	792	1,054	1,318
40	20	291	582	873	1,164	1,454

Source: NSDL—Central Recordkeeping Agency for National Pension System, India.

Additionally, workers should ideally not be charged at the contribution collection point for making contributions, thus eliminating as many barriers as possible for contributions. From observed experience, the higher the volume of contributions, the greater the chance of establishing a low-cost solution for contribution collection. These new mechanisms should be

integrated with accurate reconciliation systems and an accurate identification validation mechanism at the point of contact. Because the contributions will be received at different times for different individuals, the administrator should focus on daily reconciliation to accurately reflect transactions on individual benefit statements or accounts, in the case of defined contribution

plans. This daily reconciliation is essential for defined contribution systems, as the administration should be focused on investing the contributions as soon as possible, ideally the next day, and reflecting the new balance on the individual accounts.

**An efficient contribution collection system requires an accurate recordkeeping system.** Administrators should be able to provide up-to-date information to their members, where they can see reflected the transactions they have made within a very short period of time after the contribution is made, along with up-to-date benefits information. This is crucial in building confidence with members, thus providing a high level of transparency for those who have a harder time postponing short-term needs for long-term savings. International experience shows there are both centralized and decentralized types of recordkeeping.

**A simplified enrollment process would significantly improve the likelihood of increasing enrollment.** A simplified process typically relies on a simplified Know Your Customer (KYC) requirement, along with identity solutions in each

jurisdiction. In many countries, administrators carry out the KYC process manually, following the same guidelines and processes for enrollment and identification of informal workers that they use for formal sector workers. Because many of these pension schemes are voluntary, a complex process may discourage individuals from enrolling.

**Finally, services need to be tailored for the workers being targeted, and behavioral tools can be used to nudge individuals toward enrollment.** A readily available benefit statement, along with reminders and (potentially) nudges for workers to comply or make voluntary contributions, is key. However, significantly improved infrastructure and recordkeeping capacity is required, along with more focused demand side research to provide greater insight on what type of balance statements and services would support compliance. Effective outreach and communication of the value of pensions or long-term savings within a trusted institution that runs the pension scheme will be needed to induce workers to participate in the retirement plan.







# 4

## A Voluntary Savings Scheme for Jordan

**VSS can be a useful tool to extend coverage and improve income retirement adequacy for very heterogeneous workers and needs.** The protection needs of Jordan's workers can be as heterogeneous as the profile of workers (see the heterogeneity discussion in Rother et al. 2022). In order to meet that need, effective VSSs are able to strike a balance between short-run needs and long-run objectives. International experience also signals that enrollment simplicity, collection points, and administrative infrastructure are all critical issues in a well-functioning VSS. In addition, the most effective VSSs are attractive, flexible, and transparent. These attributes can make a VSS attractive for informal workers, who do not have access to social protection, as well as to formal workers that do have access to social protection but want to increase the adequacy of their retirement incomes.

**This section presents options to pilot a VSS in Jordan taking into account workers' heterogeneity and cluster-based structure of contributions and benefits.** Following workers' clusters identified by Rother et al. (2022), this section employs those clusters as the basis to tailor pilots to implement a VSS approach. The structure of benefits in such pilots is based on custom-tailored contribution levels that allow the system to be flexible and attractive for workers. Finally, the suggested pilots for Jordan could address both white- and blue-collar workers as a first stage to test their effectiveness.

### General considerations in structuring a VSS in Jordan

**International experience highlights attributes of voluntary savings schemes that are critical for success.** A VSS can be most effective when both short- and

long-run savings objectives are included. Because the collection of contributions from informal sector members can be challenging, administrators and social security institutes must have as many collection points as possible to ensure greater coverage and to facilitate contributions. An efficient contribution collection system requires an accurate recordkeeping system, so that administrators can provide up-to-date information to their members. A simplified enrollment process significantly improves the chances for increasing enrollment. Finally, services need to be tailored for the workers being targeted, and behavioral tools can be used to nudge individuals toward enrollment.

**Jordan's VSS would be most effective if the system strikes a balance between short-run needs and long-run objectives.** The VSS could have a combined short- and long-term savings component; this vehicle could leverage the existing investment fund structures of Jordan's Social Security Investment Fund (SSIF), and could provide some characteristics that individuals may need as part of the product design. The savings rate in Jordan grew from 3.8 percent in 2014 to 9.3 percent in 2017 (although only 28 percent of adults use formal bank accounts to save), which hints at the capacity to save for many Jordanians. According to a Central Bank of Jordan (CBJ) study from 2017, old age represents the second most important reason for individuals to save (CBJ 2018). Between 2014 and 2017, more people saved informally, growing to 13.1 percent; thus, the VSS could be appealing for those individuals who do not currently have a formal savings vehicle of any kind, and especially for those who "are often discouraged by the product conditions" (CBJ 2018).

**The choice of the administrative machinery for the VSS is critical.** Leveraging the SSC's infrastructure would imply potentially strengthening the administration platform to a level that is typically not required by traditional mandatory

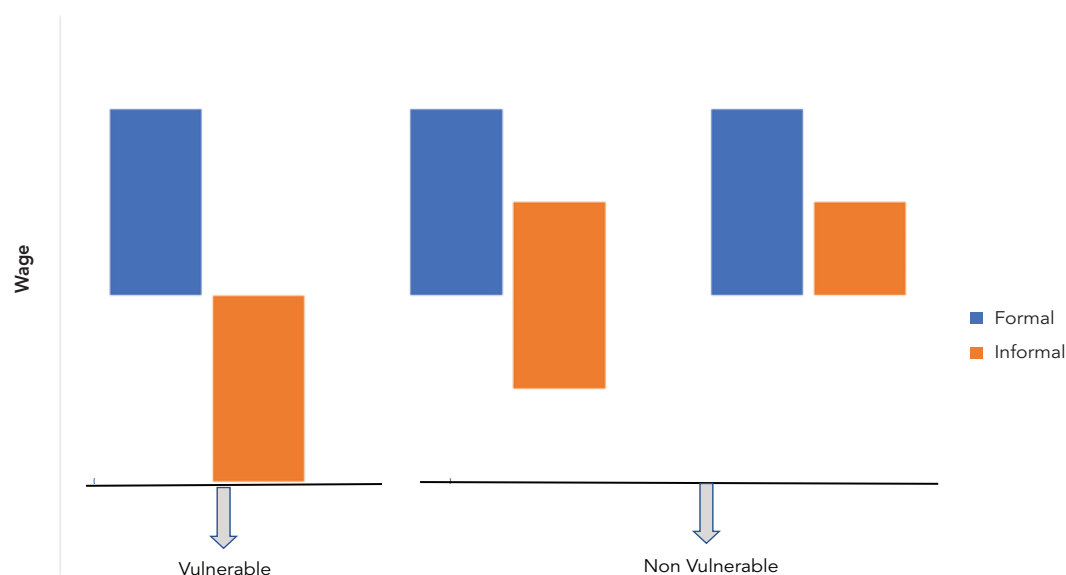
systems. VSS administration, including fragmented contribution periods and potentially different benefits for different cohorts, could put a significant burden on the already loaded mandatory contribution or occupational pension systems. The informal pension system is also more sensitive to administration costs, particularly transactional costs from collecting and managing micro-level contributions. Thus, running a mixed formal/informal administration system is a strategic choice affecting the long-term sustainability of the informal sector pension system.

**A Jordanian VSS would require flexibility, attractiveness, and transparency to work.** The VSS for informal and self-employed workers in Jordan could be managed by a public authority, such as the Ministry of Planning and International Cooperation (MOPIC), or by private funds. Some other characteristics of the system should include: (i) voluntary contributions; (ii) possibility for matched employer contributions; (iii) possibility to bundle products and services focused on attracting different clusters of individuals; (iv) access to savings in the short term in the form of loans (should the employer experience a shock); (v) access to other insurance such as health, employment, and disability insurance; (vi) mobile application option to offer transparency; and (vii) portability, so that the worker can move in and out of informal employment and keep their benefits. Jordan's national or foundational ID efforts could be leveraged by the SSC to provide a simple yet reliable enrollment process.

## A VSS based on clusters of workers

**The proposed VSS would cater to the heterogeneity of informal workers and their different needs.** This heterogeneity in Jordan is analyzed in detail in Rother et al. (2022), where an innovative clustering methodology was developed to profile informal workers. As a result, six clusters were

**FIGURE 3. Hypothetical approach to identifying profiles where informal workers have similar wages to formal sector colleagues**



Source: Authors.

identified for each of the following subgroups of informal workers: (i) Jordanian male employees, (ii) Jordanian female employees, (iii) self-employed men,<sup>9</sup> and (iv) non-Jordanian male employees (Table 3). Each cluster depicts similar characteristics in terms of who the informal workers are, where they work, and what they earn.

**Cluster analysis reveals major differences in informal workers' capacity to save and contribute to a VSS.** Comparison between informal and formal wages was used as a proxy for a cluster's capacity to save. It helped identify how vulnerable the informal workers are in each cluster. If the wage is not significantly different between formal and informal workers, then an informal worker should not face a "savings capacity" challenge and therefore should be able to contribute at the comparable wage level. Figure 3 presents a hypothetical illustration of how vulnerable workers can be identified. Where there is wage overlap in the comparison between formal and informal sectors, it can be assumed that the informal

sector is non-vulnerable when comparing to their formal sector colleagues.

**The analysis underscores the need for an approach that differentiates between at least four segments of the target population.** The comparison shows that the agricultural workers across all subgroups, service and sales Jordanian male workers, Jordanian male workers in less populated governorates, and Syrians involved in crafts trade are among the most vulnerable. There is virtually no overlap in wages between formal and informal, making it hard to induce workers in these four segments to save (Figures 4–6). Wage distributions that show some overlap but still indicate a significantly lower median informal wage (and very little overlap with the 25th percentile for formal sector workers) would also have a lower capacity to save. This is also the case for the clusters of "service and sales" Jordanian female employees (cluster 3A in Table 3), "craft and related trade" Jordanian male employees (cluster 3B in Table 3), and semi-skilled non-Jordanian workers in medium and large firms" (cluster 5C in Table 3).

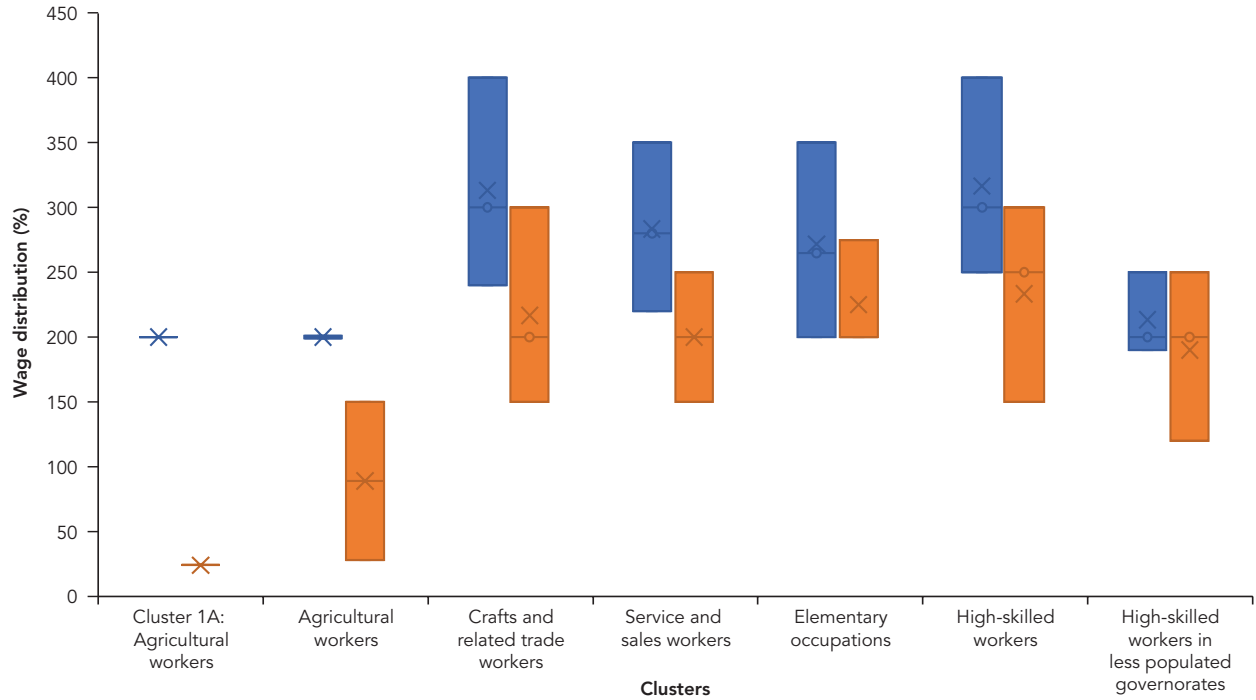
9. Details on the self-employed are not shown in this study as this population group lacks data on income.

**TABLE 3. Clusters of informal workers**

Category	Cluster	Cluster name	Short description
Female Jordanian employees	1A	Agricultural workers	Workers of low education who are in the agriculture sector, employed in SMEs. They are the lowest earners among that population group with average monthly wage of JD 76.
	2A	Crafts and related trade workers	Workers of medium education who are in the manufacturing sector, employed in micro firms. Their average monthly wage is JD 178.
	3A	Service and sales workers	Workers of high education in the trade sector, employed in micro to medium firms. Average monthly wage is JD 224.
	4A	Elementary occupations	Workers of medium education who are employed in all sectors across all firm sizes, including large firms. Their average monthly wage is JD 202.
	5A	High skilled workers	Workers of high education who are employed in the education and human health sectors across all firm sizes, including large firms. Their average monthly wage is 246 JD.
	6A	High-skilled workers in less populated governorates	Workers of high education who are employed in all sectors including administration and professional activities across all firm sizes, including large firms, and across all governorates, including less populated ones. Their average monthly wage is JD 219.
Male Jordanian employees	1B	Agricultural workers	Workers of low education who are in the agriculture sector, employed in SMEs. They are the lowest earners among that population group with average monthly wage of JD 201.
	2B	Service and sales workers	Workers of low education who are in the trade sector, employed in micro and medium firms. Their average monthly wage is JD 249.
	3B	Crafts and related trade workers	Workers of low education who are in the construction and manufacturing sectors, employed in micro firms. Their average monthly wage is JD 214.
	4B	Plant and machine operators	Workers of low education who are in the transportation sector, employed in micro firms. Their average monthly wage is JD 238.
	5B	Semi-skilled workers in less populated governorates	Workers of low education who are in various low-productivity sectors, employed in SMEs across all governorates, including less populated ones. Their average monthly wage is JD 233.
	6B	High-skilled workers	Workers of high education who are employed in all sectors including administration and professional activities across all firm sizes including large firms. They are the highest earners among that population group with average monthly wage of JD 321.
Male non-Jordanian employees	1C	Service and sales Egyptian workers	Highly educated Egyptian workers in the administration sector, employed in micro firms, half of whom are not registered. They are the highest earners among that population group with average monthly wage of JD 263.
	2C	Agricultural Egyptian workers	Workers of medium education who are in the agriculture sector, employed in micro firms, half of whom are not registered. Their average monthly wage is JD 240.
	3C	Craft and related trade Syrian workers	Many Syrian workers of low education in the construction sector, employed in micro firms that are mostly registered. Their average monthly wage JD 152.
	4C	Semi-skilled workers in registered businesses	Workers of medium education who are in various low-productivity sectors, employed in micro firms that are mostly registered. Their average monthly wage is JD 213.
	5C	Semi-skilled workers in medium and large firms	Workers of medium education who are in various low-productivity sectors, employed in medium and large firms. Their average monthly wage is JD 224.
	6C	High-skilled white-collar workers	Workers of high education in various sectors including professional activities, employed mostly in micro firms. Their average monthly wage is JD 232.

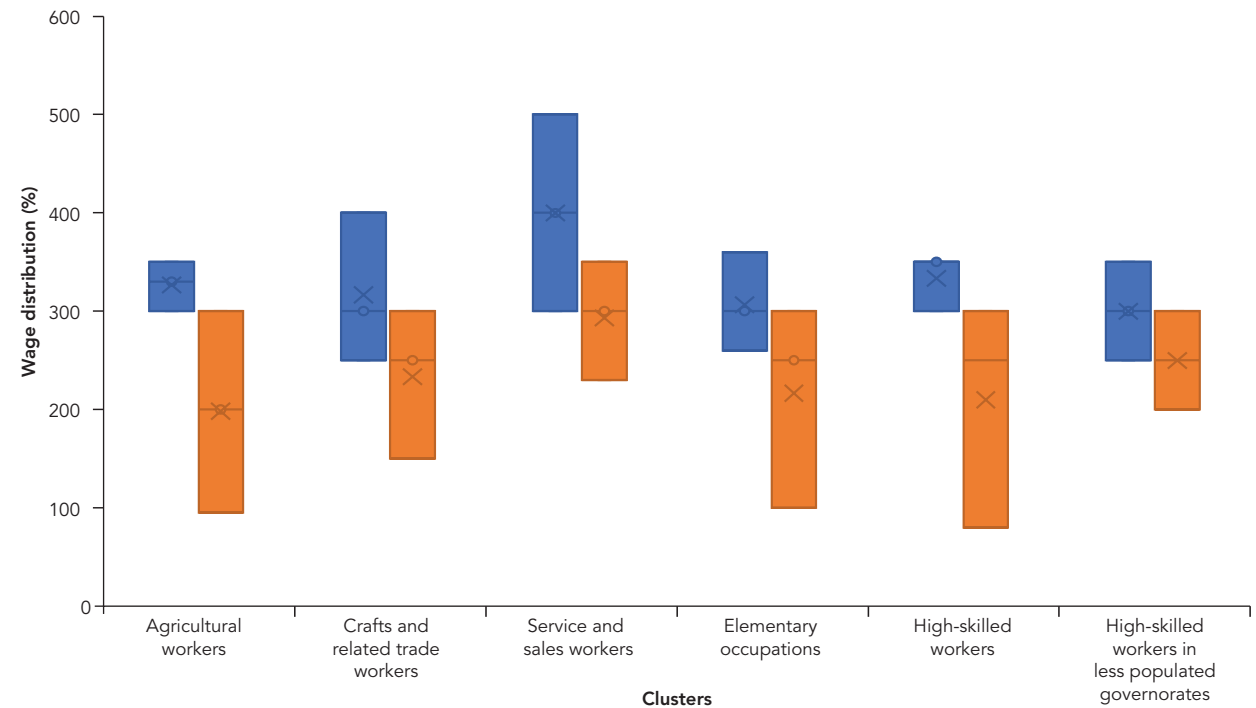
Source: Companion paper (Rother et al. 2022).

**FIGURE 4. Comparison in wage distributions between formal and informal female Jordanian employees**

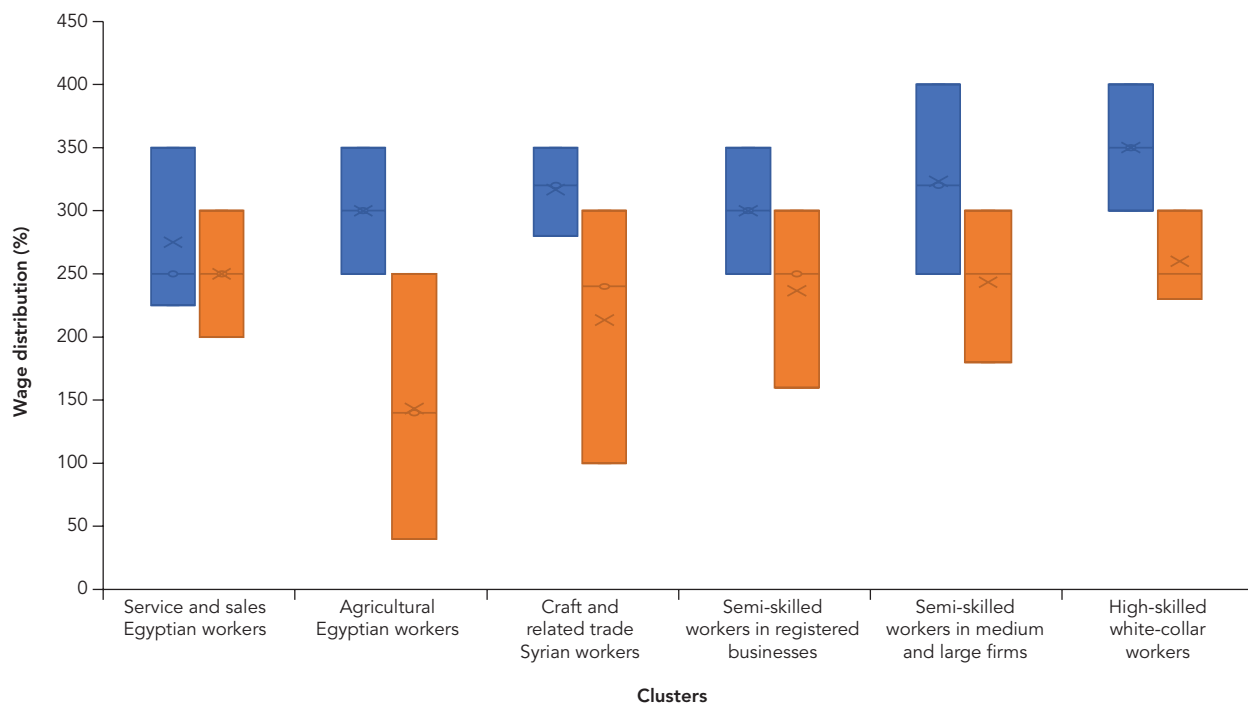


Source: Authors' calculations based on cluster analysis in Rother et al. (2022).

**FIGURE 5. Comparison in wage distributions between formal and informal male Jordanian employees**



Source: Authors' calculations based on cluster analysis in Rother et al. (2022).

**FIGURE 6. Comparison in wage distributions between formal and informal male non-Jordanian employees**

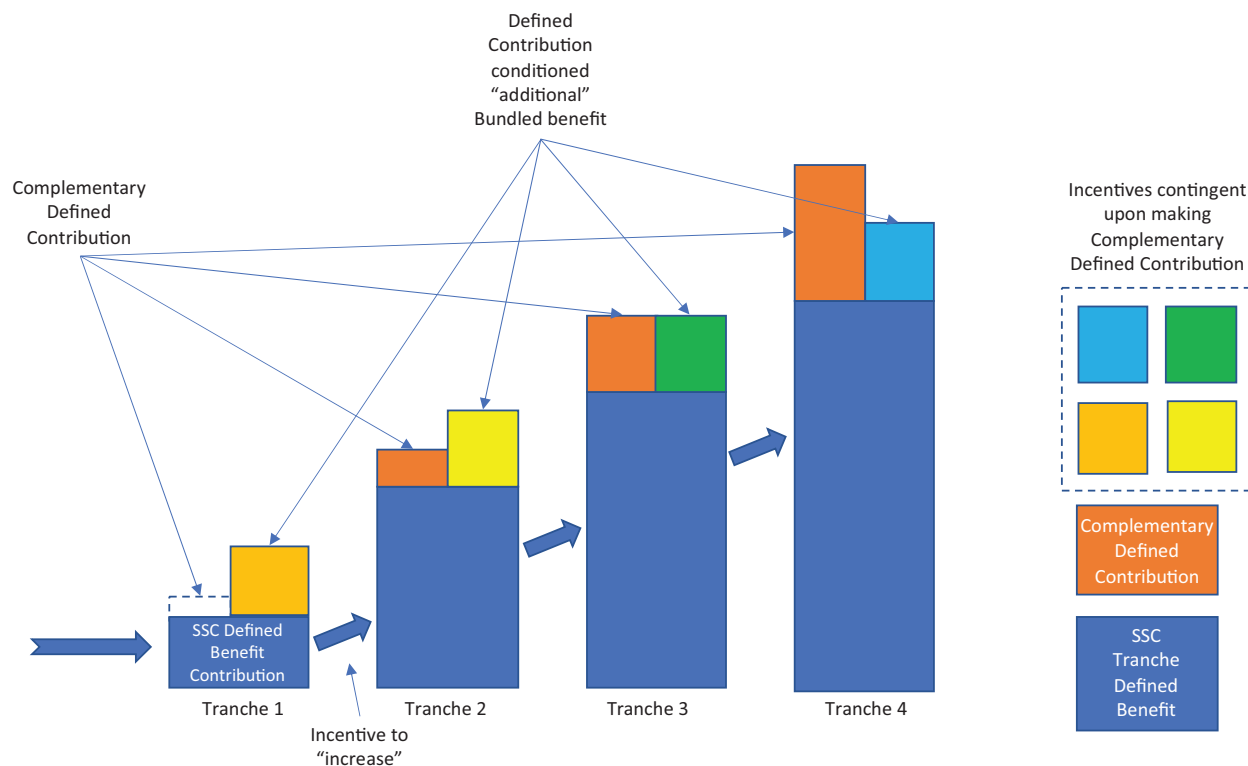
Source: Authors' calculations based on cluster analysis in Rother et al. (2022).

Less vulnerable clusters show wage overlap between formal and informal workers, but informal wages are still lower compared to the 75<sup>th</sup> percentile. On the other hand, for individuals where formal and informal wages at the 75<sup>th</sup> percentile are similar, capacity to save and ability to contribute is the highest. This is the case for clusters with high-skilled workers (clusters 6A, 6B, and 1C in Table 3).

**Against this backdrop, a VSS can be structured to provide different levels of benefits, based on custom-tailored contribution levels, for different clusters.** With the new bylaws (see Section 2), the SSC is allowing individuals to choose the tranche at which they will contribute (contribution tranches allowed are: 75, 50, 25, or 10 percent of the normal contribution). The proposed VSS also introduces a component that would encourage tranche selection based on cluster characteristics. The voluntary complementary DC component would bundle different benefits depending on the level of contributions (Figure

7). The different benefits (represented as different colors in the figure) can be specifically targeted to the needs of the different clusters. Benefits could range from specific insurance or credit bundled with the complementary contribution to a flexible scheme where individuals could withdraw the complementary contribution based on specific conditions. These bundled products could include:

- Short- and medium-term savings;
- Vehicle insurance;
- Additional unemployment support where a portion of the voluntary contribution would be used;
- Children's educational insurance, leveraging a portion of the voluntary contribution;
- Access to housing/vehicle subsidized credit, using the defined contribution component as collateral; and
- Access to low-interest micro-credit, using the defined contribution component as collateral.

**FIGURE 7. Conceptual incentive design for different tranches for the informal sector**

Source: Authors.

**On balance, four packages are proposed to complement the existing mandatory scheme.**

The packages respond to two criteria: (i) they need to be self-sustainable in the long term, and (ii) they need to improve the adequacy of pensions (see Table 4).

**Package 1:** This most basic tranche level of contribution could introduce a voluntary complementary DC component with a simple short-term withdrawal. This would allow individuals to contribute additional funds for retirement in a typical DC scheme. This component may be heavily subsidized through a government program and/or serve as “one-stop-shop” access to other targeted government programs (Table 4).

**Package 2:** Individuals would make contributions linked to different government licenses or authorization processes. The complementary contributions would be part of the product offering. Part of the contribution would be channeled to an insurance product related to the license or authorization provided through an opt-out process based on the product. A portion would be directed to the SSC as part of their DC component, complementing the pension. A small portion would be treated as short-term accessible funds that, if unused, would be rolled over to the pension. Finally, another portion would be used to gain access to a feature that would be appealing to the different pilot clusters (Table 4).

**TABLE 4. Summary of pilot packages**

	Pilot packages			
	1	2	3	4
Complementary contribution purpose				
Defined contribution component for pension	X	X	X	X
Links to licenses, permits, and other government authorizations		X		
Defined contribution accessible in the short term with pension rollover	X	X	X	X
Self-selection bundled product	X	X	X	X
Subsidized component/one-stop shop	X			

Source: Authors.

**Package 3:** A small portion of the complementary contributions would be channeled to the SSC as part of a short-term accessible component that, if unused, would be rolled over to the pension. Another portion (larger than the one for package 2) would be used to gain access to a feature that would be appealing to the different clusters (Table 4).

**Package 4:** An additional complementary DC component would provide access to a product that would target higher-wage groups, as well as provide access to a medium- or long-term savings vehicle that many individuals otherwise would not have access to. A portion of these funds could be withdrawn according to simple rules, and if unused, would be rolled over to the pension scheme (Table 4).

**Clusters are mapped to each of the packages depending on expected levels of contributions and capacity to save.** Package 1 is targeted to the most vulnerable clusters as it is heavily subsidized. They are clusters whose informal wages at the 75<sup>th</sup> percentile are much lower than the mean or median wages of similar formal workers. On the other extreme, package 4 is targeted to informal workers who can save, and where their wages are relatively comparable to formal workers with similar characteristics (Table 5).

**Ultimately, individuals would “self-select” the package they contribute to; however, the mapping of clusters to the four packages helps in designing the incentives that would encourage the most adequate contribution levels.** For example, for clusters of individuals who are not able to save and are the most vulnerable (clusters 1a-c in Table 3), the “mandatory” contribution may have to be supported by significant subsidized short-term benefits. This subsidized benefit targets those in the lower wage groups but should be deemed irrelevant for higher wage groups, so as to establish a “self-selection” process. That is, those with higher wages would not be inclined to comply “only” at the minimum level to gain access to the short-term subsidized benefit.

**Introducing the voluntary complementary DC component to the scheme may help improve adequacy for those who comply with the mandatory contributions and introduce incentives for the informal sector to enroll and contribute.** It would incentivize individuals contributing to the different tranches to potentially have a pension a little closer to the “normal” mandatory pension scheme benefits (Figure 8). The figure compares SSC pension adequacy levels between (i) full formal sector retirement and (ii) packages of contribution tranches “topped up” with DC components. Finally, the voluntary complementary DC component would increase exposure to DC schemes, paving the way for more structural changes to the base of the SSC system in the future.

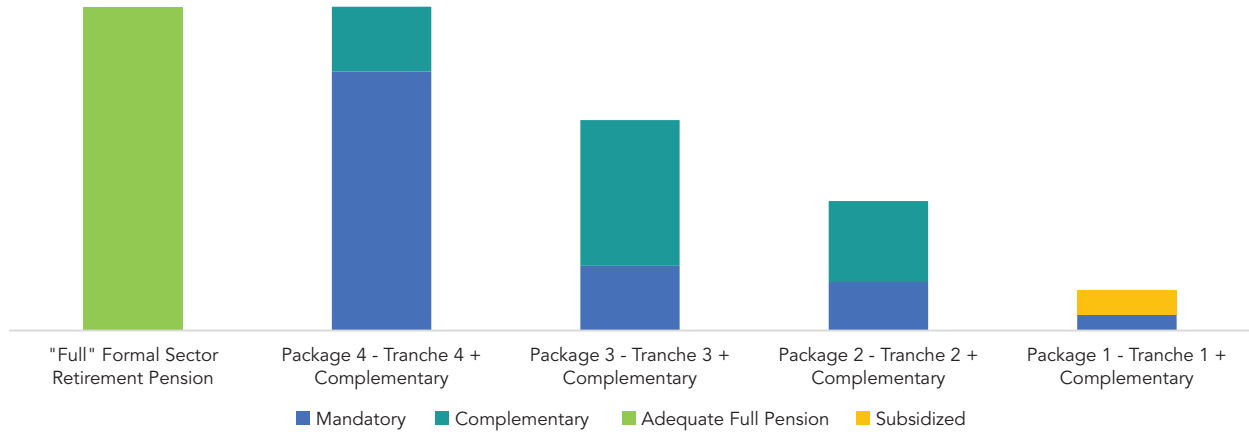


TABLE 5. Cluster analysis mapping

Category	Cluster	Short Description	Mean Wage		P 25		Median Wage		75 Percentile Wage (P75)		Mean Informal/ Mean Formal	P75 Informal/ Mean F	P75 Informal/ Median F	Pilot Package Classification
			Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal				
Female Jordan Employed	1	Agricultural workers	200.00	73.10	200	24	200	28	200	150	0.37	0.75	0.75	1
	2	Crafts and related trade workers	330.03	218.84	240	150	300	200	400	300	0.66	0.91	1.00	3
	3	Service and sales workers	298.53	200.10	220	150	280	200	350	250	0.67	0.84	0.89	2
	4	Elementary occupations	292.03	223.63	200	200	265	200	350	275	0.77	0.94	1.04	3
	5	High skilled collared	337.87	246.39	250	150	300	250	400	300	0.73	0.89	1.00	3
	6	High skilled in less populated governorates	221.17	177.84	190	120	200	200	250	250	0.80	1.13	1.25	4
Male Jordan Employed	1	Agricultural workers	336.05	200.25	300	95	330	200	350	300	0.60	0.89	0.91	1
	2	Service and sales workers	341.67	232.41	250	150	300	250	400	300	0.68	0.88	1.00	1
	3	Crafts and related trade workers	435.97	321.39	300	230	400	300	500	350	0.74	0.80	0.88	2
	4	Plant and machine operators	320.94	237.53	260	100	300	250	360	300	0.74	0.93	1.00	3
	5	Semi-Skilled in less populated governorates	339.37	213.38	300	80	350	250	350	300	0.63	0.88	0.86	1
	6	High skilled collared	323.85	248.83	250	200	300	250	350	300	0.77	0.93	1.00	4
Male Non Jordanian Employed	1	High Ed Egyptians	282.14	239.06	225	200	250	250	350	300	0.85	1.06	1.20	4
	2	Agricultural Egyptians	327.44	151.23	250	40	300	140	350	250	0.46	0.76	0.83	1
	3	Craft and related trade Syrian	327.98	211.58	280	100	320	240	350	300	0.65	0.91	0.94	1
	4	Semi-skilled in Reg Biz	309.24	224.35	250	160	300	250	350	300	0.73	0.97	1.00	3
	5	Semi-skilled workers in med and large firms	332.31	232.30	250	180	320	250	400	300	0.70	0.90	0.94	2
	6	High skilled white collared	350.00	262.63	300	230	350	250	400	300	0.75	0.86	0.86	2

Source: Authors' calculations based on cluster analysis in Rother et al. (2022).

**FIGURE 8. Comparison of four pilot packages to add to full current retirement pensions (in JD)**



Source: Authors.

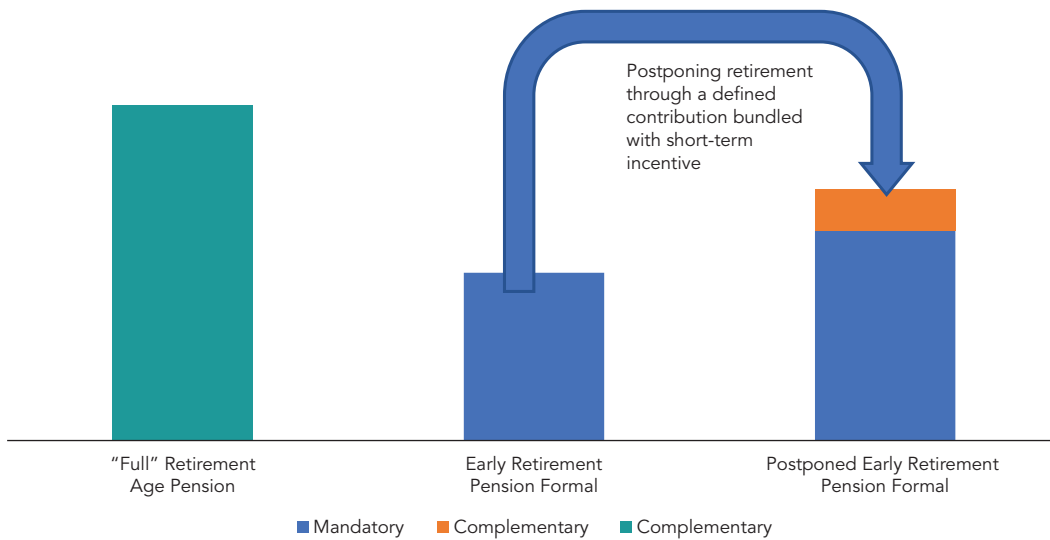
## Extending VSS to early retirees

**The VSS can also target early retirees to encourage extended coverage.** Short-term incentives would be integrated into the VSS, helping individuals reach the formal sector “full” retirement age. The overall desired effect is to improve the adequacy of all pensions while supporting

the financial viability of the incentive. The voluntary scheme can thus help workers achieve full retirement benefits and provide incentives for postponing early retirement (Figure 9).

**Short-term incentives would be awarded only to those who continue to contribute.** While these benefits could be offered to everyone, the intervention may be specifically designed so that

**FIGURE 9. Proposal to provide incentives to postpone early retirement**



Source: Authors.

it would benefit those in the age groups who are more inclined to take early retirement. These short-term incentives would require further demand side research, but may include a combination of different alternatives, similar to those provided to informal workers and described in section 4:

- Additional unemployment support where a portion of the voluntary contribution would be used;
- Children's educational insurance, leveraging a portion of the voluntary contribution;
- Access to housing subsidized credit, using the defined contribution component as collateral; and
- Access to low-interest micro-credit using the DC component as collateral.



# 5

## The Way Forward

**This study proposes a framework for developing a voluntary savings scheme complementary to the mandatory one that exists in Jordan.** The aim of the VSS is to improve workers' protection, especially for those who remain vulnerable to income shocks and have limited ability to contribute to existing social insurance schemes. The framework proposes four different packages of the voluntary component targeted to different clusters of informal workers, responding to their respective capacity to save.

**As a next step, the framework developed in this study would need to be tested.** To this aim, we suggest three pilots focusing on two distinct target populations with differing needs:

- **Another pilot (package 1) would focus on high-skilled blue-collar construction workers.** This test would focus on low education/low skills construction workers and would be offered to workers irrespective of nationality (including refugees). This target population, which represents the lowest wages and lowest work hours in the economy, is mainly organized in unregistered micro firms. Participation in the SSC scheme would not depend on a work permit.
- **One pilot (package 2) for low-skilled white-collar workers would be tested in Amman, Irbid, and Zarqa.** This cluster comprises about 18 percent of Jordanian men working in the informal sector. The pilot would target sales and service workers with low education and who work in micro firms, which are mostly registered. This would mostly cover the wholesale and retail trade sector. The individuals would make contributions linked to different government licenses or authorization processes: specifically, individuals would be required



to make the SSC's contribution before receiving the license<sup>10</sup> and would have to opt out of the proposed combined product if they didn't want to participate. The opt-out mechanism would be important to introduce a behavioral bias in favor of participation in the scheme.

- **A third pilot (package 4) would focus on high-skilled workers who are mostly professionals.** It would capture individuals who are “on the fence” of contributing to SSC,

10. The requirement for the contribution would be evaluated based on political economy factors by the SSC. The license renewal process would also need to include the same process, not just new license applicants.

and offer them products to encourage their participation. A portion of the account would be accessible in the short term, and the remaining amount would be savings.

**The pilots would need to be carefully designed, implemented, and evaluated.** A comprehensive demand side diagnostics would support the design of the pilots and provide more information on the kinds of incentives that would attract informal workers to the two proposed packages. Specialized market studies, surveys, and field focus groups could be established to collect data on the specific needs of the targeted groups. A thorough evaluation would be undertaken before any scale up.



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## ABSTRACT

This paper proposes a framework of voluntary savings schemes (VSS) in Jordan that can complement the current formal sector arrangements to better protect informal workers against economic shocks, unemployment, old age, or disability. As benefits of traditional mandatory pension systems worldwide have been cut substantially since the 1990s, voluntary defined contribution schemes are increasingly trying to fill the gap. In many countries, including in low-income countries, special voluntary savings schemes have been introduced to protect informal workers. Blending the knowledge from best practices internationally with the cluster methodology developed specifically for Jordan, the paper provides an overview of the current system of social security in Jordan and presents policy options to lower informality, extend social protection coverage, and provide more adequate protection to workers.

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