Title: Remittances, Health Insurance, and Pension Contributions: Evidence from Colombia

I identify the causal impact of international remittances on the probability of participation in the health and pension contributive regime for those workers with informal jobs in Colombia. Pension contributions and health insurance guarantee that people withdraw from the labor market without falling into poverty and protect individuals against adverse health shocks. However, many workers with informal jobs in developing countries lack access to these two components of the social security system. One way to deal with the lack of coverage has been the implementation of non-contributory programs, but these programs are costly and can bring negative effects on productivity and growth (Levy and Schady, 2013). Recent literature suggests that income is a strong predictor of participation in contributive schemes, and remittances have the capacity of relaxing budget constraints of members left behind in migrant households. Nevertheless, little is know about the relationship of remittances and participation in the contributive regimes.

To identify the causal impact of remittances, I use a nationally-representative household data from Colombia, and an instrumental variable approach that relies on the weighted average unemployment rate, an interaction between the share of migrants to the main destination countries and the unemployment shocks experienced by these countries after the 2007/2008 financial crisis. I construct the IV by weighting the unemployment shocks with the historical share of migrants (constructed with IPUMS data) to these countries. Conditional on a set of covariates and region fixed effects, the unemployment shock should not affect the worker’s current decisions to contribute to the schemes other than through remittances.

My study finds that those workers who live in a recipient household are more likely to enroll in the health and pension contributive scheme than those in non-recipient households. Moreover, the impact is larger for two groups that are more likely to have an informal job; women and youth workers at schooling age. These results highlight the importance of facilitating the flow of remittances to transnational households as a mechanism to improve access to health services and contribution to pension, two important component of the social security system to improve well-being and fight against poverty.