Social Pensions as an Important Component of Public Transfers

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How are needs met beyond labour income?

- Child consumption
- Reduced labour income covered by savings, family support and public transfers

Income–Consumption Life Cycle (source: Mason and Lee)
Type of pensions

Pensions

Contributory
- Mandatory
- Voluntary

Tax-financed (Social pension)
- Means-tested
- Universal

Means-tested

Pension-tested
Indonesia

Older worker participation in the formal and informal labour market by gender, 2011

Source: HelpAge International and the Demographic Institute, Faculty of Economics at the University of Indonesia, Social assistance needs of poor and vulnerable older people in Indonesia, 2012
Vietnam - Pensions and income security

What if the national policies on pensions is not adapted to the rapidness of population ageing?

Source: MoLISA (2016)
What is a ‘social’ pension?

- **Function:**
  - Providing a minimum income (poverty reduction)
  - Redistribution

- **Eligibility:**
  - **Always:**
    - Age
    - Citizenship and/or residency
  - **Sometimes:**
    - Means test
    - Pensions test
    - Geographical restriction

- Transfer value, regularity and methods of payment vary across countries
Pensions as priority

Number of countries with pension in place

- Old age pensions: 83% Countries
- Social pensions: 53.6% countries
- Means-tested: 59.5%
- Universal 41.5%

Source: Nuno Meira Simoes da Cunha, 2016
Pensions as priority: Social pensions has been on the rise since 1990

Technical analysis
Sri Lanka: cost to 2041
(15.5% of GDP per capita: $21 per month)
Option 1: Poverty-targeted social pension

Countries with this model include...
Bangladesh, Philippines, India, Indonesia

Limitations include...
- Remaining coverage gap
- Challenges of poverty targeting...

Social pension

Coverage gap

Voluntary pensions

Public contributory pensions

Pension income

Poorer

Older people

Richer
As a result...
Major targeting errors are normal

Normal for $\frac{1}{2}$ of target population to miss out
Exclusion errors of proxy means testing

Social costs
- Divisions within communities
- Stigma

Economic costs
- Perverse incentives

Administrative costs
- Cost of poverty-targeted significantly higher

Political costs
- "Benefits meant exclusively for the poor often end up being poor benefits." Sen, 1995
- Poverty-targeted schemes secure relatively small budgets
Option 2: Universal pension (age and residency only)

Countries with this model include...
New Zealand, Timor-Leste, Bolivia, Namibia, Mauritius, most OECD countries
Option 3: Universal **minimum** pension (including a pensions-test)

Countries with this model include...
Moldova, Kyrgyzstan, Vietnam, Thailand (for government pensions)

**Advantages**
- Cost saving
- Easier to administer than means-testing

...but...
Perverse incentives? Unfairness?

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Moldova, Kyrgyzstan, Vietnam, Thailand (for government pensions)

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...but...
Perverse incentives? Unfairness?
Expansion of social pension in Thailand

Source: NESDB by Worawet Suwanrada, 2017
Option 3A: Universal *minimum* pension (with *tapered* pensions-test)

**Countries with this model include...**
Maldives, Chile, Norway

**Advantages**
- Cost saving
- Reduced perverse incentives

... but what is the ideal ratio?
In absence of social protection, older people are often net recipients of financial support and care from children...

...although this support may be limited.
Pension income can allow older people to be **net contributors** to their families.

- Boosts dignity and autonomy
- Improves situation of families

Pensions provide support to wider family and kinship networks
In short

- Social pensions have an important role in addressing poverty and income insecurity in old age
- Social pensions have redistributive effects
- Social pensions are becoming an increasingly popular social policy across the globe
- There are major limitations in a means-tested approach to social pensions, universal pensions have significant advantages
- Affordability of the scheme is crucial and has to be demonstrated to policy makers