This note summarises the preliminary findings of research into the feasibility of a universal social pension in the Philippines. The research is being undertaken in partnership between the Coalition of Services of the Elderly (COSE) and HelpAge International, with support from the Social Development and Research Center (SDRC) and independent researchers from University of the Philippines. The full report will be released in mid-2016.

Why universal social pension

The need for a life cycle social protection system

Levels of poverty, vulnerability and inequality remain high in the Philippines despite positive economic growth in recent years. It is common knowledge that in recent decades the country has struggled to reduce poverty. Around a quarter of the population were below the poverty line at the last count, and an additional quarter of the population live on a low income and risk falling into poverty at any moment. In the meantime, the Philippines remains one of the most unequal countries in the region; and there are signs that inequality is growing. Failure to tackle these issues will not only result in continued insecurity for at least half the population but also risks weakening social cohesion and heightening social unrest.

Social protection is a critical tool for ensuring that growth is inclusive, yet existing policies in the Philippines remain too limited to have a major impact. International experience shows that social protection systems are an essential approach to reducing poverty and inequality. The Philippines has recently taken positive steps to expand social protection schemes that reach poorer households and individuals, particularly through the Pantawid Pamilyang Pilipino Program (4Ps) and the social pension for indigent senior citizens. These schemes have had an important impact on recipients, however, at a cost of just 0.5 per cent of GDP, they remain small relative to the economy and the government budget. For recipients, benefit levels are relatively low by international standards, while the targeted nature of the programmes results in many poor and vulnerable families being left out.

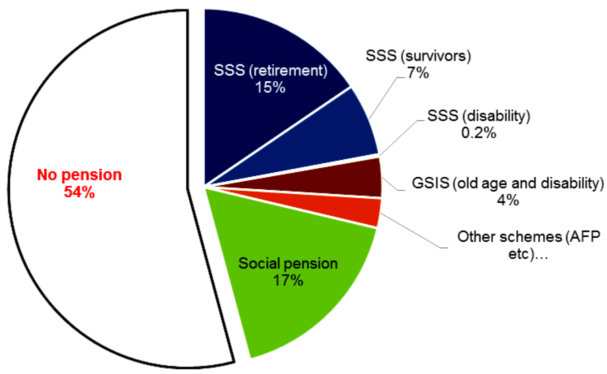
Moving towards a life cycle system social protection will provide a stronger foundation for tackling poverty and inequality. Countries where social protection systems has made a substantial contribution to inclusive growth have been those that have developed comprehensive social protection floors that protect all citizens from major life course risks, such as old age, disability, and raising a family. Building a system of this nature cannot be done overnight, but the Philippines can start making concrete steps now toward such a system. A pension system that benefits all Filipinos would be an important starting point in the process of building a social protection floor.

The economic challenges of old age

Growing old in the Philippines comes with major challenges to earning a living. As individuals age, staying at work becomes significantly harder, and those who do tend to work fewer hours. The main drivers of this dynamic are ill health and disability that affect a large proportion of older people. This does not necessarily mean older people become inactive in a broader sense; many continue to contribute to their families in a variety of ways, such as through caring for grandchildren. Many older people would also like to work longer, given the opportunity, but face barriers due to age discrimination and the mandatory retirement age of 65.

The majority of Filipinos cannot currently expect to receive a pension in their old age. As shown in Figure 1, a little over a quarter of senior citizens or 29 per cent of their population receive pension based on their previous working history (SSS, GSIS and others) with an additional 17 per cent of older people (1.4 million) budgeted to be in receipt of the social pension by the end of 2016. Even when all of these schemes are combined, over half of Filipino older people (at least 54 per cent) are left with no pension at all.[1] For many of those in receipt of a pension, benefits can be low – and this is not only limited to social pensioners. A third of SSS retirees (34 per cent) receive less than PhP 2,000 per month, and half (52 per cent) receive less than PhP 3,000.

Figure 1: Over half of senior citizens receive no pension at all
Estimated coverage of the population 60 years and over by type of pension



[1]Given that some older people may be in receipt of more than one pension, total coverage may be lower in reality.

In this context, most senior citizens have to look to their families for financial support in old age. In general, the culture of *utang na loob* (debt of gratitude) remains strong in the Philippines with most older people looking to their children for care and financial support. Over half (58 per cent) of older people receive income from children within the country, and a fifth (21 per cent) from children outside the country.[2] This support is reciprocated often in the role that older persons play in continuing to providing care and support for grandchildren and adult children. Younger Filipinos also have a strong expectation that their children will provide financial support when they grow old and they see investing in children's education as the primary way to ensure old age income security.

> ***"…we should make it sure that we are able to send our children to school and so we could rely on them for support when we are old."***
>
> 34 years old, female participant, Oroquieta City

There are, however, major issues with the exclusive reliance on children for old age support. There are strong indications that, even where older people receive financial support, this is often too limited, particularly to pay for rising medical costs associated with old age. A major reason for this is the widespread poverty and vulnerability amongst Filipino families. Many working adults have to make a trade-off between supporting older people and investing in young children. Depending completely on their children for financial support also threatens the dignity of senior citizens - many of whom fear becoming dependent, and feel too proud or ashamed to ask for support. Young and middle-age adults who took part in discussions for this study noted that older people who have meagre resource are heavily burdened emotionally and mentally when they are unable to help their adult children and grandchildren in their survival needs. The expansion of a social pension was seen not only as a way to enable older persons to live a dignified life where they can meet their own needs, but also to extend aid to their families in dire need of financial help.

Designing a universal pension system

Expanding coverage of contributory pensions will be a core part of building a comprehensive pension system. Contributory pensions are key for ensuring that individuals can smooth their consumption across the life course, ensuring they can sustain their standard of living in old age. Existing contributory pensions in the Philippines (of which SSS and GSIS are most significant) have a long history and provide a foundation for expanding contributory system.

Nevertheless, levels of poverty and informality put major limits to which contributory coverage can expand in the short to medium term. Currently, less than a third of economically active Filipinos are making regular contributions to a pension. This means that, if nothing is done, pension coverage will increase little for future generations of older people. A major reason for this is that a large proportion of the economically active population – an estimated 42 per cent – are working in the informal sector.[3] A number of initiatives can be undertaken to expand coverage to the informal sector, however, an inherent barrier is the simple fact that many informal sector workers do not earn enough income to make sufficient payments to a contributory scheme. International experience shows that for countries with similar profiles to the Philippines in terms of poverty and informality coverage will not expand significantly without a much greater role for tax-financed social pensions.

The social pension for indigent senior citizens has gone some way to close this gap, but does not go far enough. Two main issues limit the impact of the social pension. First, the means-tested nature of the scheme excludes – by design – a large proportion of vulnerable older people whose incomes were too meagre to contribute to social security earlier in their lives, but who fail to meet the strict eligibility criteria for the current social pension. Targeting errors also mean many of the very poorest older people are left out. Second, the benefit level of PhP 500 is low relative to both Filipino and international benchmarks, meaning the scheme provides a very limited level of income security.[4]

A universal social pension would close the pension coverage gap and provide a strong foundation for the development of the pension system. Universal social pensions are tax financed schemes which guarantee a minimum pension to all citizens and/or residents, primarily on the basis of age. They exist in a several countries across the region and the world and have proven to provide one of the simplest and most effective ways of ensuring all citizens receive a pension in old age. The expansion of a universal social pension would reflect the approach being taken by other countries facing similar constraints to the Philippines. A number of other ASEAN countries including Thailand, Vietnam and Brunei have universal pensions in place. Indonesia is strongly prioritising a move towards universal old age social security, while Myanmar is taking steps to implement a universal social pension.[5] This reflects a trend in other Asian countries, such as China, Timor-Leste and South Korea, where coverage of social

Why universal?

Universal pensions have a number of advantages compared to the means-tested approach currently used for the social pension for indigent senior citizens.

- **All poor senior citizens will be reached:** established universal pensions have virtually no exclusion errors.
- **They provide security for low-income informal sector workers:** this can be complemented by contributory savings.
- **Eligibility criteria are transparent and easy to understand:** this creates less space for corruption and clientelism.
- **A right; not a gift:** rather than feeling a sense of shame at being poor, recipients receive their pension with dignity.
- **Strong Political Support:** as an entitlement for all Filipinos universal pensions may gain broad-based political support.
- **Cheaper administration cost:** the simple and transparent eligibility criteria for universal pension results in lower administration costs.

[2] Cruz, T. G., Camhol (2014)
[3] Mesa-Lago, C., Viajar, V., Castillo, R. (2011)
[4] Knox-Vydmanov, C., Horn ,D and Sevilla, A. (2016)
[5] The Republic of the Union of Myanmar (2014)
[6] HelpAge International (*2014)*

There are a number of different ways to design a universal social pension. The simplest option available would be to provide a benefit to all older people over the age of 60. Figure 3 shows how a universal social pension would provide a foundation to the Philippines pension system. This approach would have the lowest administrative costs, and be substantially less burdensome to implement than the current social pension for indigent senior citizens. It would also have the political advantage of providing an entitlement that all Filipinos could look forward to while reducing the scope for local level politicisation of the scheme. On the other hand, there may be a desire to exclude older people who are already receiving pensions, such as from the GSIS and SSS. This approach –called “pensions testing” (Figure 4) – would be relatively straightforward to implement if adequate systems are put in place for sharing information between different schemes.[7] However, a risk is that this creates a sense of unfairness amongst other pensioners that have been excluded, and potentially discourages younger people from joining those schemes.[8] A middle way would be to taper away the social pension benefit as other pension income increases rather than bluntly excluding existing pensioners, or only excluding those from certain schemes such as the GSIS (Figure 5). This is an approach used in many Scandinavian countries as well as Chile and the Maldives.

Figure 2: Current pension system

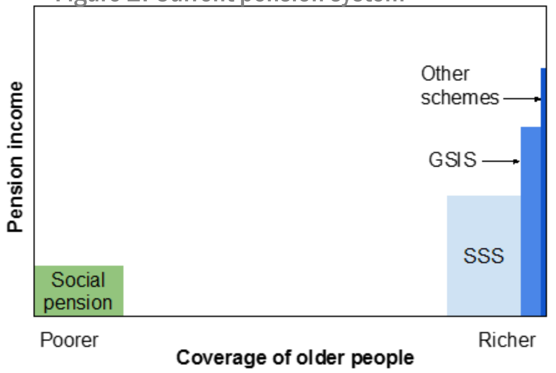


Figure 3: Universal pension

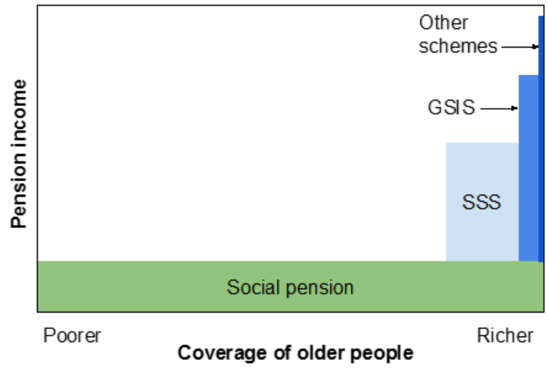


Figure 4: Pensions-tested pension

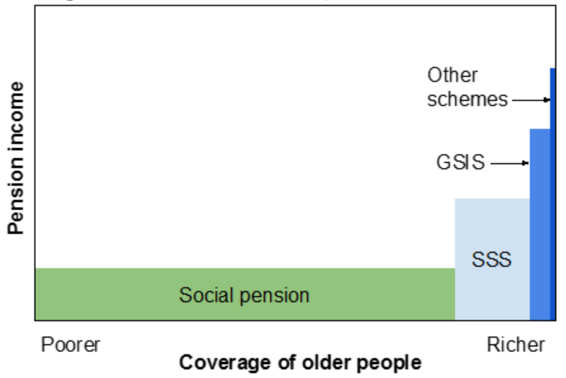
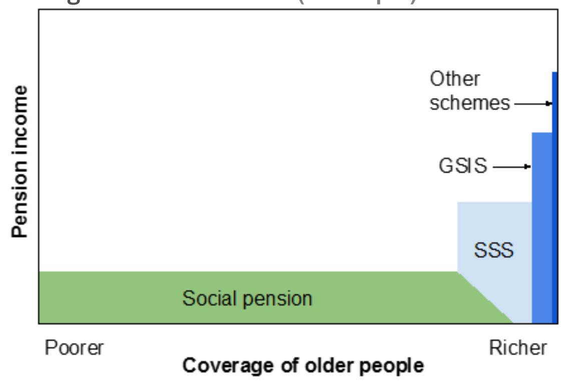


Figure 5: Pensions test (with taper)



Impacts of a universal pension system

A universal social pension will help to ensure that all Filipinos live their old age with dignity and autonomy. International evidence shows how universal social pensions promote a sense of dignity, which is often lacking when older people have to depend exclusively on their children for support. The introduction of a universal social pension in Mexico has led to a significant reduction of depressive symptoms amongst recipients, and an increase in empowerment indicators, such as participating in household decision making.[9] Their universal nature also means recipients see the benefit as a right, and a recognition of the contributions they have made to society, rather than simply a gift or a handout.

Beyond older people, universal pensions also contribute to a variety of positive developmental outcomes.

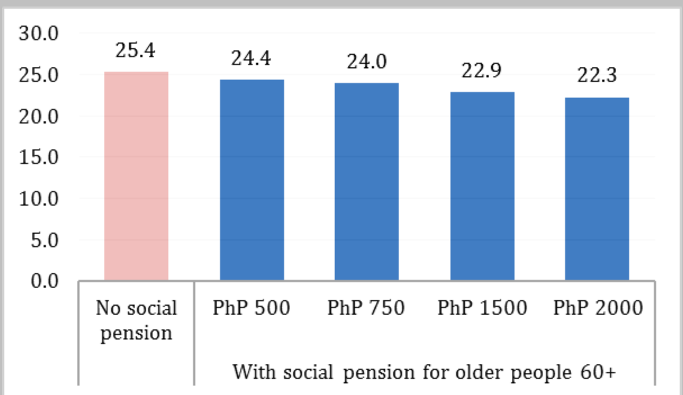
- ***Reducing poverty and inequality:*** Pensions are often central to efforts to reduce inequality and strengthen inclusive growth by sharing the financial risks of old age across society. In Brazil, basic pensions were responsible for one-third of the reduction in inequality between 1995 and 2004.[10]
- ***Transformative support to ordinary families:*** The regular income from pensions is often invested in boosting family livelihoods and building the skills of future generations. In Bolivia, the universal social pension was found to substantially reduce child labour and increase school enrolment in households receiving the pension.[11] It also boosted food consumption for recipient household in rural areas by over 1.5 times the value of the pension, in a large part due to multiplier effects from productive investments.[12]
- ***Stimulating the economy:*** Pension systems are an important channel for governments to boost household consumption, especially in times of crisis. Thailand’s universal social pension was introduced in 2009 as a counter-cyclical response to the global financial crisis, while China’s rural pension is part of an approach to boost spending and strengthen domestic demand.[13]

[7] It is worth noting that this sharing of information is not in place with the current social pension for indigent senior citizens, despite the fact that the eligibility criteria excludes those in receipt of another pension (from SSS, GSIS or other scheme).
[8] This would be of particular concern with the SSS where current benefits are relatively low.
[9] Salinas, A., et al (2014)
[10] Soares, F. et al (2014)
[11] Mendizabal, J. (2013)
[12] Martinez, S. (2004)

A universal social pension in the Philippines could lift over 3 million Filipinos out of poverty. Figure 6 shows results of simulations of the immediate impact of providing a universal social pension to all senior citizens age 60 and over, according to different benefit levels. A universal social pension of PhP 2,000 would lead to a reduction of three percentage points. While seemingly modest, this is a major "day after" impact relative to the limited falls in poverty over the last 15 years. It would also lead to 3.2 million Filipinos – old and young – being lifted above the poverty line. It should also be noted that the simulations do not take account of indirect impacts, such a multiplier effects within local economies, which could lead to further reductions in poverty.

Figure 6: A social pension would reduce national poverty by between 1 and 3 per cent

Total poverty rate before and after universal pension for older people aged 60 and over [14]



Source: Microsimulation based on APIS 2013

Table 1: The cost of a universal pension varies significantly depending on the benefit level
Cost of a universal pension for all older people aged 60 and over (2016)

Cost	Benefit level (monthly, PhP)				
	500	750	1,000	1,500	2,000
PhP (billions)	48.0	72.0	96.0	144.0	192.0
% of GDP	0.32%	0.48%	0.65%	0.97%	1.29%
% of govt. budget	1.60%	2.40%	3.20%	4.80%	6.39%

Table 2: Pensions tested (scenario 1)
No other pensioners included

Cost	Benefit level (monthly, PhP)				
	500	750	1,000	1,500	2,000
PhP (billions)	34.2	51.3	68.4	102.7	136.9
% of GDP	0.23%	0.35%	0.46%	0.69%	0.92%
% of govt. budget	1.14%	1.71%	2.28%	3.42%	4.56%

Affording a universal pension

A universal social pension close to the poverty line would be an affordable ambition for the Philippines. It is well acknowledged that the current social pension benefit is too low to provide adequate income security to senior citizens. A universal social pension of PhP 1,500 per month providing an income close to the poverty line would cost around 1 per cent of GDP if provided to everyone over 60 (Table 1). This level of expenditure is comparable to that of a number of other countries with social pensions at a similar level of economic development.

In the meantime, there are a number of lower cost options that would allow the country to gradually expand a universal social pension in the short term. Budgetary constraints mean it may take some time to secure financing the optimal scenario for a social pension. In the meantime, a number of interim options exist. Simply expanding the current social pension to all older people aged 60 and over would cost just 0.3 per cent of GDP (PhP 39.8 billion), still less than what is spent on the 4Ps programme. Even lower cost interim options could be found by limiting the universal scheme to older people above a certain age (eg. those 70 years and over) or using some form of pensions test. Table 2 and Table 3 show the cost of two scenarios for pensions-tested schemes. Scenario 1 would exclude all existing pensioners and reduce the cost of a scheme by about 30 per cent relative to a pure universal scheme. Scenario 2 would only include SSS pensioners, but exclude GSIS and other schemes, reducing costs by about 6 per cent.

The cost of a universal pension could be kept stable over time, while still maintaining the purchasing power of the benefit. A common concern in financing of universal pensions is that the ageing of the population will lead costs to increase exponentially. In fact, cost over time is strongly influenced by how the benefit level is indexed. Figure 6 shows the cost of a pension of PhP 1,500 (2016 prices) to all senior citizens according to different scenarios. When the benefit is indexed to inflation, the total cost would remain stable, seeing either a modest rise or fall depending on the speed of economic growth in the country.

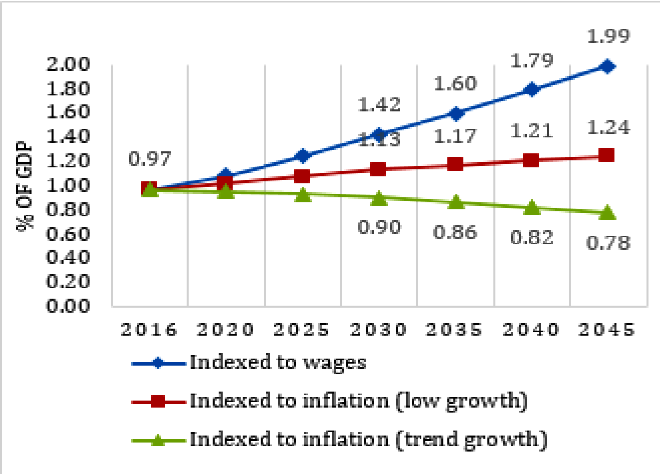
Table 3: Pensions tested (scenario 2)
SSS pensioners included

Cost	Benefit level (monthly, PhP)				
	500	750	1,000	1,500	2,000
PhP (billions)	44.9	67.4	89.8	134.8	179.7
% of GDP	0.30%	0.45%	0.60%	0.91%	1.21%
% of govt. budget	1.50%	2.24%	2.99%	4.49%	5.99%

[13] HelpAge International.
[14] Due to some limitations of the public use file used for analysis of the APIS 2013, the headline poverty rate for 2013) is slightly different from the published figure. This poverty rate is, however, within the confidence interval.
[15] Cost estimates are based on authors' calculations based on IMF and UN Population Division Data.

Figure 7: The future cost of a universal pension depends on indexation choices, and growth

Cost of a universal pension into the future (2016-2045) – scenario is PHP 1,500 to over 60s



Financing a universal pension would recognise the contributions made by senior citizens throughout their lives, financial or otherwise. Today's senior citizens have contributed to the nation in all manner of ways throughout their lives: by paying taxes, by contributing to the growth of the economy and by raising the future generation of Filipinos. In this way, a universal pension can be seen as a way of systematising the culture of *utang na loob*.

A universal pension can be financed as part of a broader effort to build a more equitable and efficient tax system. There is already broad recognition of the need to increase government revenue to meet priority expenditures, and a number of options exist for doing so, including improving management of investment tax incentives and the system of taxation on individuals. A universal pension would be an equitable expenditure relative to many other items on the government budget. This includes a number of existing pension schemes. In 2010, the state-financed pensions for middle- and upper-income pensioners took 35 times the projected cost of social pensions for the elderly poor. State-financed non-contributory pensions for separate schemes (armed forces, judges and policemen) took 0.34 per cent of GDP whereas those for the poor only 0.01 per cent. (Meso-Lago, et al, 2010)

Conclusions and Recommendations

A stronger social protection system will be essential in order to tackle the persistent levels of poverty, insecurity and inequality in the Philippines. A pension system that delivers "for every older Filipino" will be a core part of this. A universal pension system would respond to the unavoidable economic challenges of old age while providing a cushion to families that struggle to divide meagre incomes between competing priorities. Evidence from other countries shows how pensions have a broad range of impacts on poverty and inequality, family livelihoods, and the economy as a whole. A universal pension in the Philippines could lift 3.2 million people out of poverty.

A universal social pension financed from taxes will be essential to close the pension coverage gap, which currently leaves half of seniors out of the system. A universal pension would avoid the inherent challenges of means-testing while creating a clear entitlement that all citizens can understand. It could also provide a foundation for the longer-term task of expanding coverage of contributory pensions to the informal sector. There are choices to be made about whether a universal pension would be for all, or just those left out from other pensions. Either way, costings show that there are a number of low cost options for a universal pension that are affordable, both now and into the future. Making fiscal space for a universal pension can be done in a variety of ways, while forming part of the process of building a fairer and more progressive tax system in the country.

Policy Recommendations:

- As a priority, expand the existing social pension to cover all senior citizens without any other form of pension, regardless of indigency. This will ensure that all Filipinos can expect at least a minimum pension in old age.
- Initiate a broader process to reform the pension system as a whole so that is performs the dual function of ensuring a minimum level of adequacy, while providing a channel for all workers (formal or informal) to save for their old age.

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