

# Income security for all older people in Bangladesh during COVID-19 and beyond

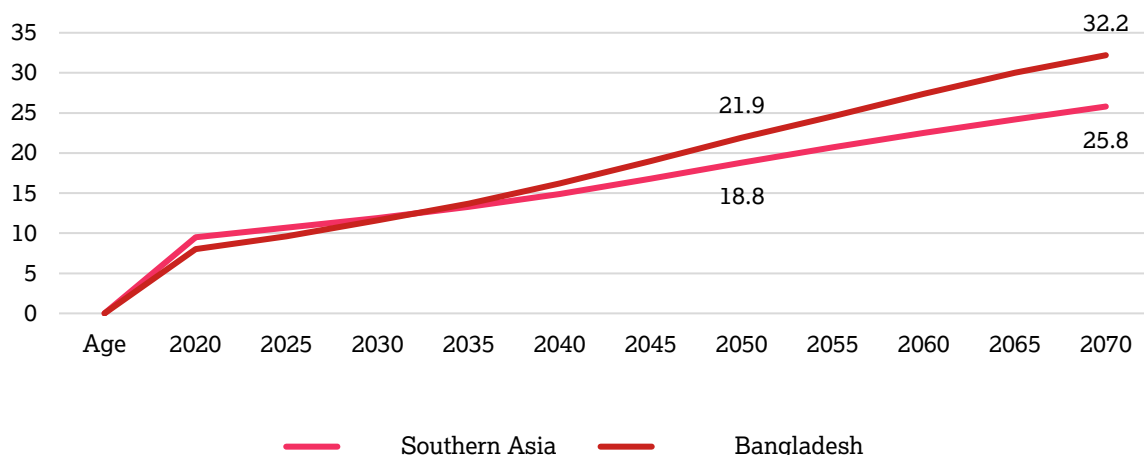
*Is the pandemic a wake-up call to finally ensure income security for all older people through a universal social pension?*

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Over the last five decades Bangladesh has experienced rapid demographic shifts – in particular from high mortality and fertility to low mortality and low fertility. This quick shift from a high mortality and high fertility society to a low mortality and low fertility society means rapid change of the age structure of the country’s population. The share of the 0–14 years cohort in the total population in 2020 is around 27 per cent, and that of the working-age group (i.e. 15–59 years) is around 65 per cent. The share of the old-age population (60+) is 8 per cent. However, Bangladesh is one of the fastest aging nations in South Asia and the share of the old-age population is projected to reach 22 per cent by 2050<sup>1</sup>.

**Figure 1. Percentage of 60+ population in total population in South Asia**



Source: Authors’ calculations based on the 2019 Revision of the World Population Prospects. UN DESA (2019)

As Bangladesh will transit to an *ageing nation* within a decade, ensuring income security and welfare of older people is a responsibility of the state and requires timely actions. The objectives of this policy brief are to provide an assessment of the pace of aging and to examine the levels of poverty and economic vulnerability of the older population in Bangladesh, in particular how the COVID-19 pandemic has effected older people's income and poverty levels. On the basis of the evidence presented, this brief concludes that a universal social pension is the only effective and feasible solution to ensure basic income security of Bangladesh' growing number of older people.

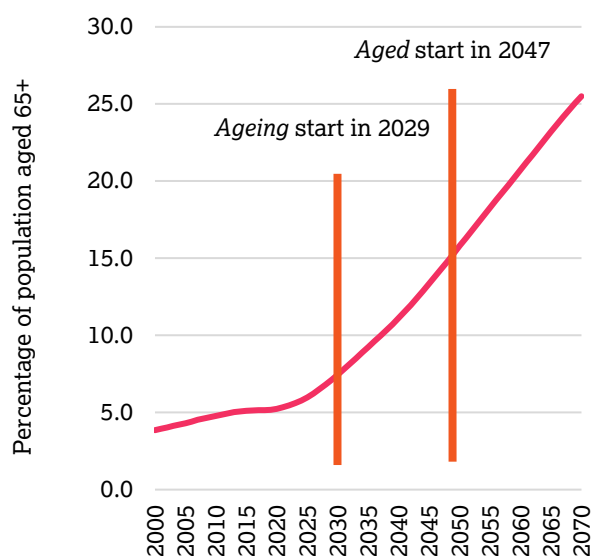
## The rapid ageing of Bangladesh's population

Researchers refer to societies as *ageing* if 7 per cent of the total population is 65 and above. A society is considered *aged* when those 65 and above make up 14 per cent of the total population. The time required for Bangladesh's shift from an *ageing* to an *aged* society is shown in Figure 2. According to demographic estimates, Bangladesh will transition to being an *ageing society* in 2029, just 9 years from 2020. From there it will take only 18 years to transition to an *aged society* (i.e. in 2047).

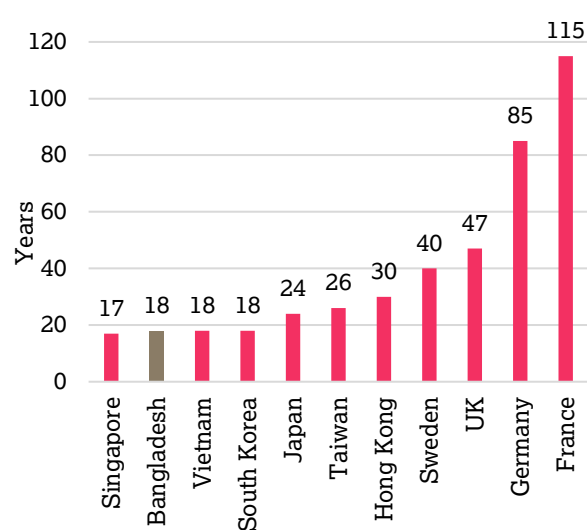
The speed at which Bangladesh is likely to transition to "ageing" to "aged" stage in 18 years is faster than Asian advanced countries and rich European countries. It of the fastest speeds of aging compared with both historical developments in European high-income countries (e.g. France, United Kingdom, Germany and Sweden) and contemporary data of other Asian countries. Importantly, the above statistics further suggest that Bangladesh will likely experience this demographic transition at a lower stage of economic development compared to Asian advanced countries and European high-income countries, where transitions took place at significantly more advantage stages of their development.

**Figure 2. Population aging in Bangladesh**

Panel A: Bangladesh population aged 65 and older and transitions from an 'ageing' to an 'aged' society



Panel B: Speed of transition from an 'ageing' to an 'aged' society



Source: Authors' calculations based on the 2019 Revision of the World Population Prospects. UN DESA (2019)

The 7th and 8th Five Year Plans of Bangladesh set the objective to achieve zero extreme poverty by 2030. Given the projected growth of Bangladesh's older population, **the country's goal to eradicate societal poverty cannot be achieved unless measures are taken to end poverty among this fast-growing segment of the population.**

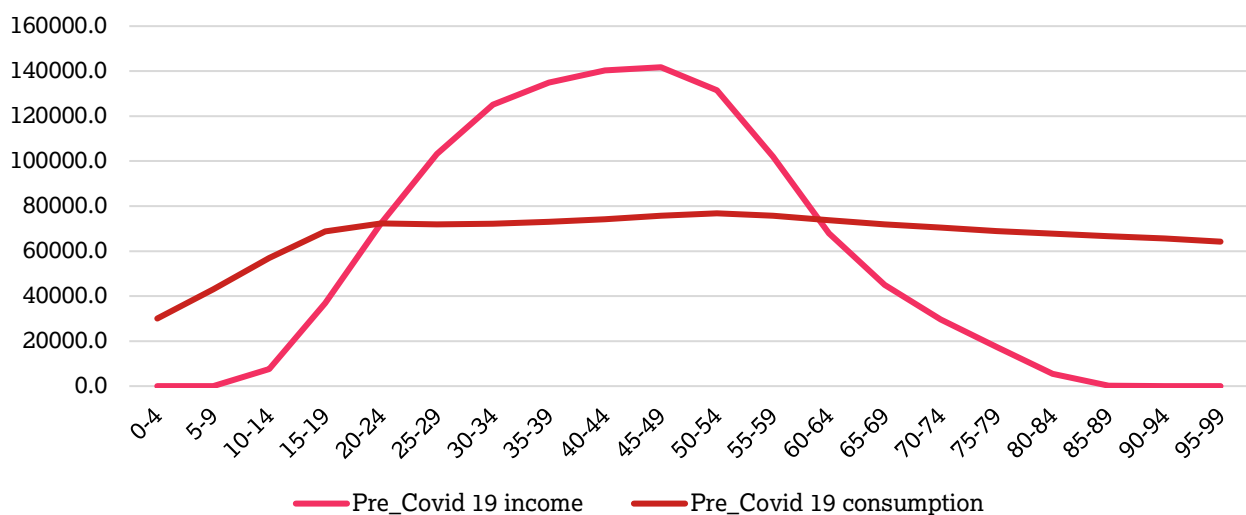
## Income security across the life course and in older age

**In every society, there are groups of people that for a number of reasons earn no or only a limited income but still need to be able to meet their needs.** Generally, these are children, older people and other groups that, for a variety of reasons, are unable to, or not supposed to, earn an income. Given the declining levels of health and increasing rates of disabilities that often accompany ageing, most societies agree that people should be supported in older age to not have to derive their survival from work. In reality, many older people continue to be economically active, either by choice or by necessity, especially if there are no pensions<sup>2</sup>.

**Transfers and savings liberate older people and children from the requirement to work to survive.** The spending of these two groups are supported by transfers from family member, and relatives, past savings (i.e. private transfers) as well as transfer from the state (i.e. public transfers or pensions). Figure 3 (Panel A) captures the lifetime income and consumption throughout the life course in Bangladesh. The figure illustrates typical trends in labour income in Bangladesh – average per capita incomes start rising rapidly from around the 16 years and peak in somewhere the early 40s. Incomes earned through labour then decline quickly from the late 50s onwards and turn minuscule in the late 70s.

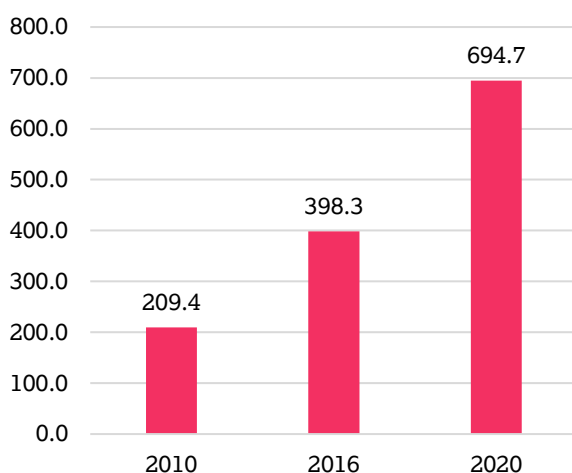
**Figure 3. Life course income and consumption and older people’s life course deficit in Bangladesh**

**Panel A: Lifetime consumption and labour income**



Source: Authors’ calculations based on 2020 Bangladesh National Transfer Accounts (NTA)<sup>3</sup>

**Panel B: Older people’s life course deficit (billion BDT)**



**Panel C: Private and public transfers to compensate for older people’s lifecycle deficit**



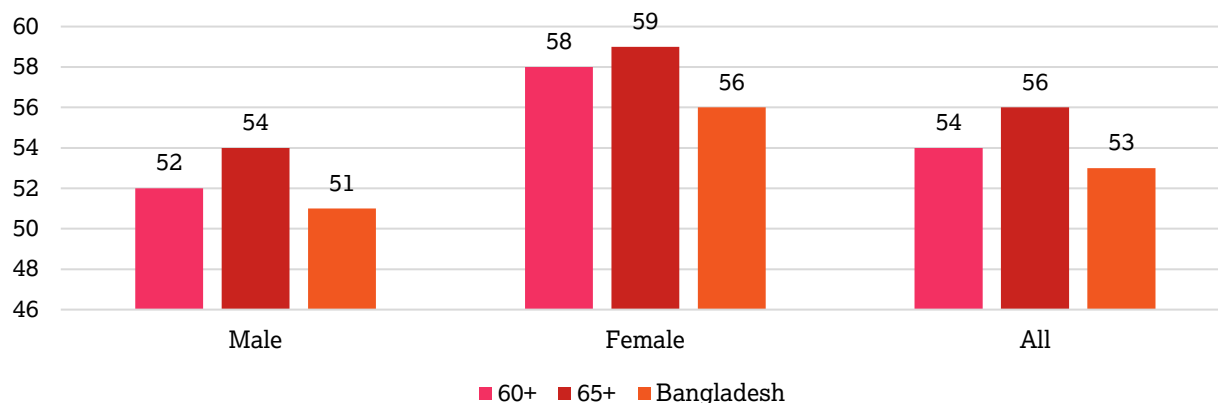
Source: Authors’ calculations based on 2020 Bangladesh National Transfer Accounts (NTA)

**The gap between the incomes and expenditures throughout life is known as the life course deficit (LCD).** They capture the gravity of the income insecurity of the various generations and how these deficits are being covered. In terms of life course deficit, two groups are particularly important – children and older people. Their consumption relies mainly on the surpluses and transfers from of the ‘working age’ (18-65) population. In Bangladesh, for instance, the consumption of people aged 80 and older are 100 per cent supported by transfers and savings, and those aged 70 and older also relying to a large extent on support from other. Using data on income and consumption across average life courses in Bangladesh for 2010, 2016 and 2020, we estimate the size life course deficits of older Bangladeshis and whether they are growing or shrinking.

**Older people’s life course deficits are rising fast in Bangladesh and families need to compensate for a limited pension system.** Our estimates indicate that life course deficits almost doubled between 2016 and 2020 (Panel B). They covered mainly by private transfers from family members and relatives due to pension system which provides only limited coverage and low transfer values.

**Income vulnerability is higher amongst older people Bangladesh as compared to the national average.** Applying the definition of economically ‘vulnerable’ groups adopted in the National Social Security Strategy<sup>4</sup> (i.e. vulnerability threshold = upper poverty line x 1.25) we calculated vulnerability rates for older people and the national average. The estimated vulnerability rates for the 60+ and 65+ population groups are, respectively, 55 per cent and 57 per cent – higher than the national vulnerability rate of 53.4 per cent. Noticeable variations are also observed in vulnerability rates between older men and older women. Older women are more likely to be economically vulnerable than older men. The vulnerability rates are 52 per cent and 58 per cent respectively, for 60+ males and females. The rates are 54 per cent and 59 percent for 65+ male and female, respectively.

**Figure 4. Economic vulnerability among older people in 2106 in Bangladesh**



Source: Authors’ calculations based on 2016 Bangladesh Household Income and Expenditure Survey (HIES) <sup>5</sup>

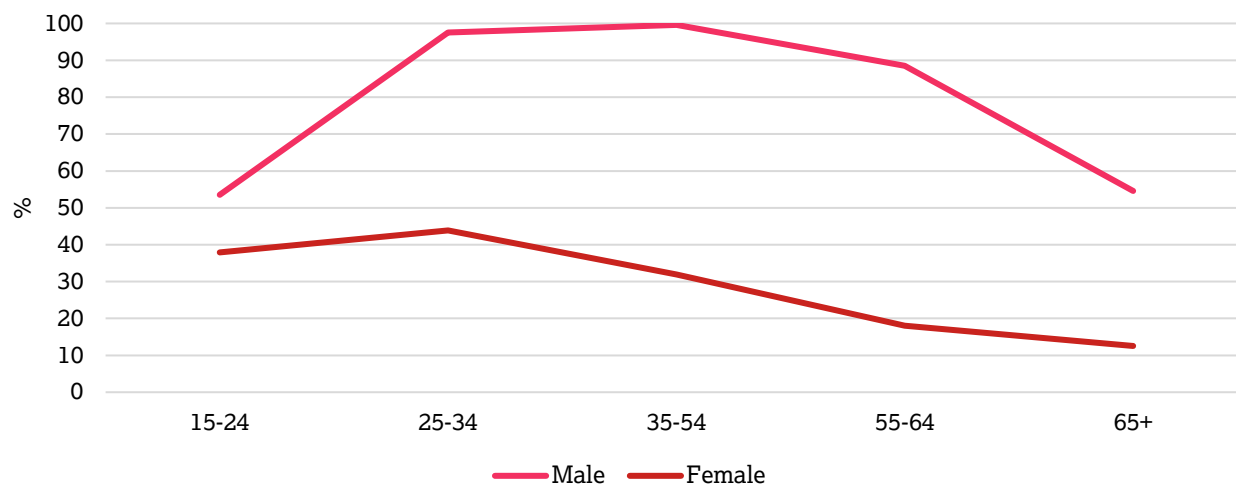
## Work in older age

**One key factor driving up poverty in older age and life-course deficits, is the drop in labour income – as a direct result of older people’s reduced participation in the labour market.** Figure 5 shows labour force participation across the life course in Bangladesh, defined as the proportion of the population engaged actively in the labour market both in formal and informal sectors, either by working or by looking for work. The data suggest a sharp decline in the proportion of both men and women working after the age of 55. For men, the figure drops from 99.6 per cent between the ages of 35 and 54 to just 54.6 per cent over the age of 55. For women, who have significantly lower labour force participation rates on average, the figure drops from 43.9 per cent between the ages of 25 and 34 to 12.5 per cent over the age of 65.

**The marked decline in labour force participation after the age of 55 correlates strongly with the increase in disability around the same age<sup>6</sup>.** Information gathered from the 2016 HIES suggests that problems with hearing, vision, mental disability, and mobility (walking) are strongly correlated with ageing. Incidence of disability increases for those aged between 55 and 64 and those aged 65 and over. This is true for all types of disability, except for difficulty in meeting self-care needs. These issues have been discussed in studies undertaken by the General Economics Division of the Planning Commission.

**In addition to disability, discrimination against older workers is another driver of lower labour force participation.** Older people can face discrimination in the labour market, such as being denied access to microcredit. A survey by HelpAge International (2008)<sup>7</sup> found that only 19 per cent of older people were able to access credit, compared to an average adult participation rate among Bangladesh’s poor of 45 per cent. Self-employment has also been constrained due to limited access to micro-credit.

**Figure 5. Labour force participation rate by age in Bangladesh (%)**



Source: Authors’ calculations based on Bangladesh Labour Force Survey 2017<sup>8</sup>

**The decreased ability to earn an income in older age suggests that most older people must depend on other people, such as family members, personal savings or pensions for to make ends meet.**

## Bangladesh’s pension system

Formal social protection in old age in Bangladesh comprises both contributory and non-contributory schemes. On the contributory side, civil servants and employees of public corporations are eligible for a pension based on their working history. The civil service pension provides income security for only a small proportion of the population, with around 720,000 recipients covering 5.3 per cent of the population aged 60 and over<sup>1</sup>. The public contributory pension and voluntary pensions cover the relatively better-off segment of the old-age population.

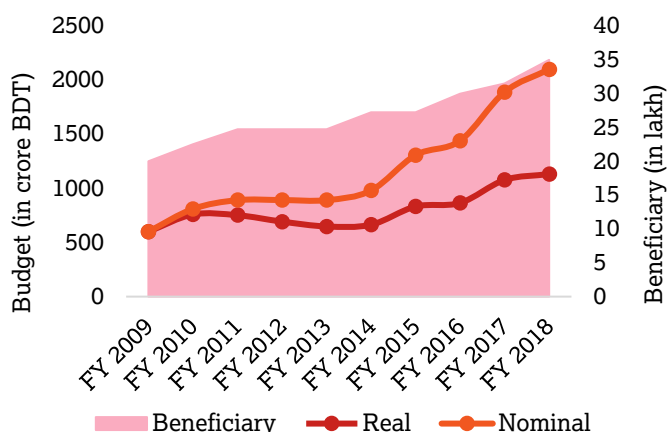
On the non-contributory side, the tax-financed Old Age Allowance (OAA) programme is a social pension paid to poor older people with no requirement for previous contributions. Coverage of the OAA is much more substantial than that of the civil service pension, with 4.4 million older people budgeted to receive a payment in the financial year 2019/20, representing 32 per cent of the population aged 60 and over. Introduced in 1998, it initially allocated benefits for around 400,000 older people, a figure that had increased by seven times as of 2020. The transfer level has also increased from an initial monthly value of BDT 100 to BDT 500.

Pension statistics (Panel A in Figure 6) also suggest that the civil servant pension is much more expensive than the old age pension despite reaching a smaller segment of the older population in Bangladesh.

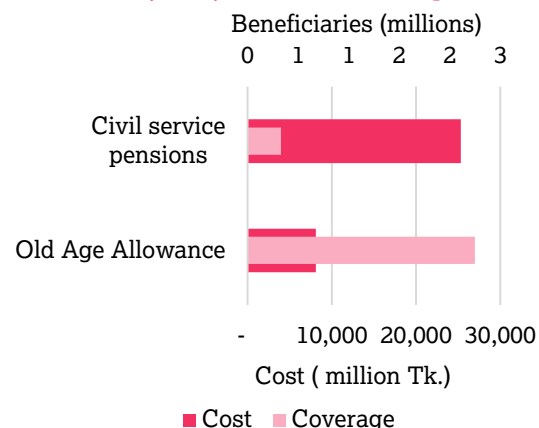
<sup>1</sup> Based on social protection data from the Finance Division, Ministry of Finance.

**Figure 6. Social protection in older age: Bangladesh's pension system**

**Panel A: Trends in the Old Age Allowance (OAA)**



**Panel B: Costs and coverage of the Old Age Allowance (OAA) and civil service pension**



Source: Author's representation of the Bangladesh Pension system; Author's calculations based on Finance Division data.

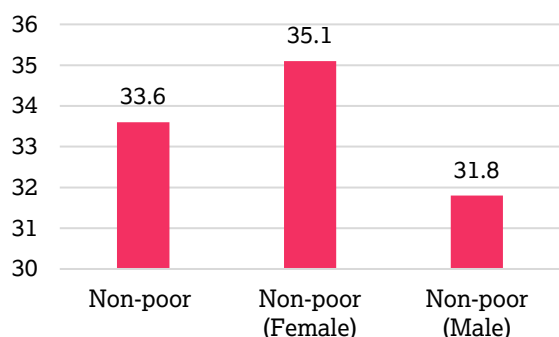
The OAA is one of the major cash transfer programmes in Bangladesh but faces serious implementation challenges. The budgetary allocation for the OAA in the fiscal year 2019/2020 was 26,400 million BDT or just above 0.1 percent of the 2019 GDP. The OAA currently reaches over a third (38%) of the population who are eligible in terms of age. OAA's beneficiary criteria are related to disability, landholding (prioritizing those with less than 0.5 acre), the availability of support from a spouse or children, and whether someone is considered destitute.

**Difficult-to-apply eligibility criteria and weak implementation systems result in high inclusion and exclusion errors.** Estimations using 2016 HIES data suggest that 33 per cent of recipients in 2016 were above the national poverty line and 32 per cent were younger than the eligibility age.

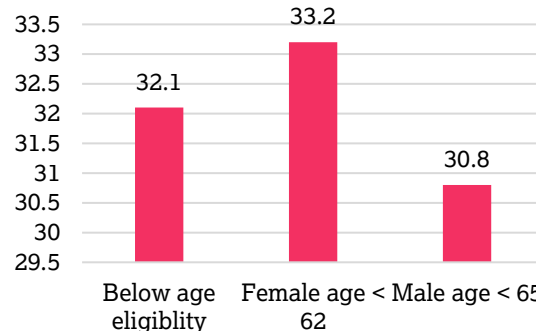
**The inability to reach the poorest limits the effectiveness of the OAA in reducing poverty amongst older Bangladeshis.** As a result of the OAA, poverty rate among elderly Bangladesh population declined by 0.37 percentage in 2016 from 22.5 percent (without OAA) to 22.24 (with OAA). However, with same transfer amount but with better (i.e. 100%) selection of beneficiaries the poverty reduction would have much higher at 3.02 percentage points. Thus, forgone poverty reduction of 2.65 percentage points (i.e. 3.02 % and 0.37 %) is due to high exclusions of eligible beneficiaries and inclusions of older people that do not meet the OAA's eligibility criteria.

**Figure 7: Missing the poor: Inclusion errors in the Old Age Allowance (OAA) in 2016**

**Panel A: Inclusion errors in applying the poverty criterion (%)**



**Panel B: Inclusion errors in applying the age criterion (%)**



Source: Authors' calculations based on 2016 Bangladesh Household Income and Expenditure Survey (HIES)

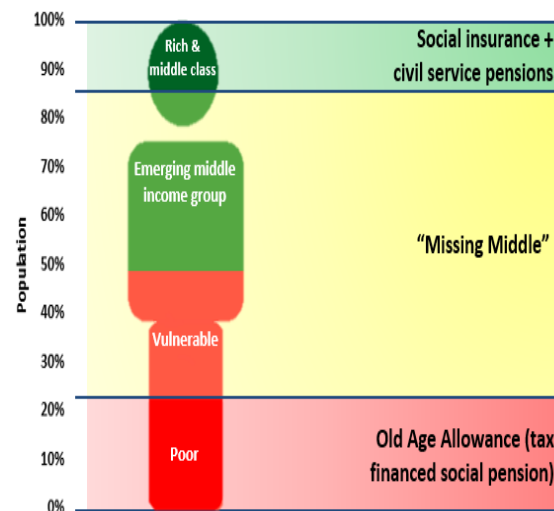
**Overall, the Bangladeshi pension system delivers adequate pensions only to the better-off, provides no coverage to the 'missing middle' and fails to reach all older people in poverty.**

**Adequacy only for the better-off:** Pension benefits high enough to live dignified lives in older age are only available for the richest 8 to 10 per cent of older people. The OAA transfer values are not enough to lift older people out of poverty, as average transfers were only 31 per cent of upper poverty line in 2018<sup>9</sup>.

**No pension for the ‘missing middle’:** Around 60 per cent of the older population, including the emerging middle class and income vulnerable groups, receives no pension.

**Failing to reach older people in poverty:** Although the goal of the OAA is to provide at least basic income security to all older people in poverty, challenges in the implementation and selection of beneficiaries led to high levels of exclusion. Only 30 per cent of the eligible recipients who met all eligibility criteria are currently covered.

Chart 2. Overall pension coverage in Bangladesh



Source: Development Pathways

## The impact of COVID-19 on older Bangladeshi's income and consumption

**COVID-19 has affected virtually all individuals and businesses in Bangladesh, but we know little how the crisis affected the income and consumption of various population groups, including older people.** Estimates by the Government of Bangladesh, the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank (ADB) as of June 2020 suggest that the crisis has severely affected Bangladesh's economy and the wellbeing of its citizens. All socio-economic impact assessments of COVID-19 examined effects on the overall size of the economy, job losses and unemployment rates, and poverty rate and number of people pushed into poverty by the crisis.

These general assessments did not allow us to determine the impacts of the crisis specifically on the income security and economic vulnerability of older people in Bangladesh. To fill this knowledge gap, we used a simulation model to assess the impacts of COVID-19 on various households classified by age cohort, such as children, youth, 'working age' adults and older people. Taking these impact estimates of various groups, we then estimated how the COVID-19 crisis affects the income and consumption across the life course, including existing life course deficits in older age.

Using the 2020 Bangladesh Computable General Equilibrium (CGE) model, we simulated the economic impacts of COVID-19 on children, youth, 'working age' adults and older people. Following earlier assessments of multilateral agencies (i.e. WB, IMF and ADB) as well as expert opinions in Bangladesh, the simulation considered a 15 per cent reduction in Ready Made Garment exports, 3.7 per cent reduction in foreign remittances and an 8-week lockdown of the domestic economy.

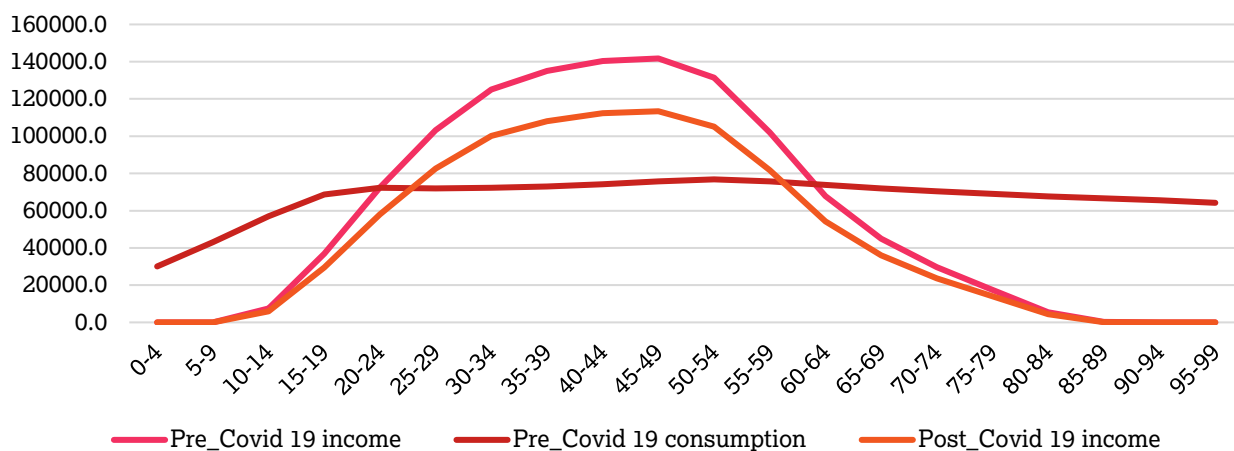
**The simulation suggests that the crisis led to an overall 13 per cent decline in the income of Bangladesh's households.** To move beyond national averages and understand how the crisis has affected people across the life course, these reduced levels of household income are then linked to the 2020 Bangladesh NTA model. This enables us to assess the specific impacts on labour income and consumption across the life course, using 5-year age groups, and see whether existing life course deficits increase as a result of the COVID-19 crisis.

**Labour income declined across all economically active groups relative to pre-COVID-19 levels.**

Impacts on consumption across the life course are not straightforward as they depend not just on income but also changes to intra-household transfers. Unfortunately, we do not know whether patterns of transfers have changed as a result of the crisis. Assuming that they follow pre-COVID-19 patterns, we find that life course deficits of children and older people deteriorated as a result of COVID-19. This is due to a contraction of the economy and reductions of the labour income for groups, mainly younger or 'working age' adults, that

provide support to children and older people who are no longer economically active. For older people, life course deficits are projected to increase by 13 per cent from BDT 695 billion before COVID-19 to around BDT 780 billion, implying a growing gap between older people's incomes and expenditures.

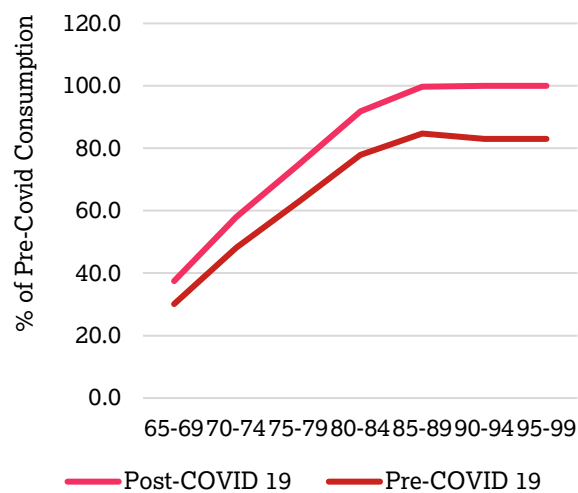
**Figure 8. Impact of the COVID-19 pandemic on per capita income and consumption through the life-course in Bangladesh (in per capita BDT)**



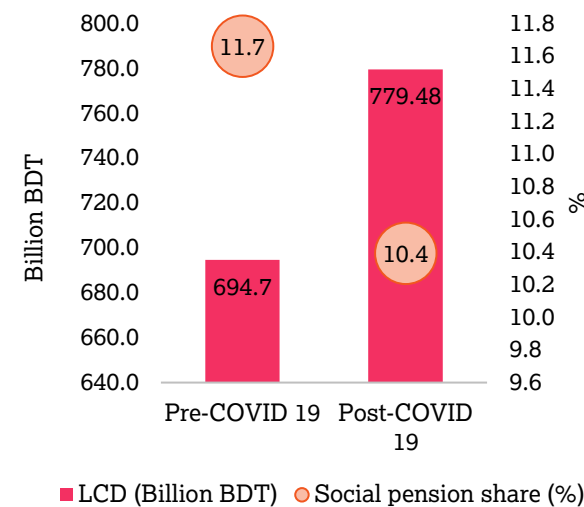
Source: Authors' calculations based on 2020 Bangladesh National Transfer Accounts (NTA)

**Figure 9. The impacts of COVID-19 on older people's life course deficits**

**Panel A: Older people's life course deficit before and 'after' COVID-19**



**Panel B: Life course deficits and public transfers to older people**



Note: OAA as per cent of LCDs. Since the OAA remains at the pre-COVID-19 level, the share fell due to increase in LCDs in post COVID-19 period.

Source: Authors' calculations based on 2020 Bangladesh National Transfer Accounts (NTA)

**Chart 1. How COVID-19 impacts older people's economic wellbeing**





**The growing life course deficits experienced by older people could result in three different outcomes, with radically different results for older people's wellbeing:**

<p><b>1. No efforts are made to close the growing income gap for older people</b></p>	<p>No actions – public or private – are taken to close the growing gap between older people's income and consumption. Older people are therefore compelled to absorb the income loss by lowering their consumption, which were already low and often limited to only the most essential ones. This outcome would lead to higher levels of poverty and mortality amongst older Bangladeshis'.</p>
<p><b>2. Younger people reduce their consumption to support older people</b></p>	<p>'Working age' adults and younger population groups voluntarily reduce their consumption to support older people meet at least their basic needs in the face of their growing income gap. While families tend to share resources during crises, many will not be able to reduce their already low levels consumption even further. High unemployment and drastic fall in labour income also further reduces the scope for younger generations supporting older people. Furthermore, reduced consumption in younger generation would risk undermining progress on human development, including on education, health and nutrition.</p>
<p><b>3. Government implements a universal social pension in response to COVID-19</b></p>	<p>The growing life course deficit experienced by older people during COVID-19 can easily be covered through the introduction of a universal social pension that would guarantee at least basic income security for all older people in Bangladesh. With high levels of poverty in older age, rising unemployment and falling labour income across all generations, the provision of an adequate social pension to all older people is the only way to safeguard the wellbeing of older people in Bangladesh.</p>

## Overcoming the COVID-19 shock and ensuring income security for all in older age with a universal social pension

The analyses presented above suggests that COVID-19 is further exacerbating the widespread poverty and economic vulnerability experienced by older people in Bangladesh. The key question for policy makers is whether the high levels of poverty and economic vulnerability of older Bangladeshis should be simply left to families and older people themselves to deal with or whether COVID-19 is highlighting the need to final ensure at least basic social protection for all older people through a universal social pension.

### Box. 1. The global social protection response to COVID-19

Social protection systems, and especially social assistance cash transfers, have emerged as the most important mechanisms to save lives and livelihoods during COVID-19. At the beginning of September 2020, 208 countries and territories have newly introduced, expanded or improved 1407 social protection measures in response to COVID-19.<sup>10</sup> 35 countries have temporarily or permanently increased pension benefits and 8 countries have expanded pension coverage in response to the COVID-19 crisis.<sup>11</sup>

Rich countries have allocated around 6 per cent of their GDP<sup>12</sup> towards new and expanded social protection schemes to mitigate the negative impacts of COVID-19. The IMF<sup>13</sup> and World Bank are calling for countries to significantly increase their investments in social protection to cushion people and business from the impacts of the crisis and jump-start and inclusive recovery. Former World Bank director and well-known economist Martin Ravallion advises countries to allocate at least 2 percent of GDP to social protection programme to address COVID 19 impacts<sup>14</sup>. Development Pathways, a social policy consultancy and think tank, urges the Government of Bangladesh to allocate at least 2 per cent of GDP out of proposed stimulus at 3.7% of GDP.<sup>15</sup>

### Ensuring income security for all older people through a universal social pension

**A universal social pension with an adequate transfer amount is the only way forward to ensuring income security for all older people in Bangladesh.** The Government is poised to launch the 8<sup>th</sup> Five Year Plan from October 2020. If the Government is serious about ensuring the income security of all older people, the following strategies may be implemented within the 8<sup>th</sup> Five Year Plan:

1. **The current poverty-targeted Old Age Allowance should be converted to a universal social pension.** Considering or fiscal space constraint, an exception may be adopted with the provision that individuals covered by contributory pension schemes are excluded from the basic social pension.
2. **The monthly transfer amount should be increased to the lower or upper poverty lines to achieve its poverty reduction objective, and must be inflation-indexed to preserve its real value.** This means implementing transfer values ranging between BDT 1,000 (inflation indexed to 2016 lower poverty line) and BDT 3,000 (inflation indexed to 2016 upper poverty line). The transfer values must be inflation-indexed to preserve its real value.
3. **Expand the contributory pension system for private sector employees and self-employed persons.** Social pensions are key to protect people from poverty in older age, but most people strive for higher levels of income when they retire. Therefore, a social pension should be complemented with contributory pension schemes, creating a multi-pillar system that 1) protects all people from poverty and 2) ensures that those who have paid into pension schemes are retire more comfortably than the social pension would allow. Given the large share of informality in employment (close to 90%), this may be a medium-term option for Bangladesh, as such schemes would become effective only after 20/25 years.

### What would be the cost and benefits of a universal social pension?

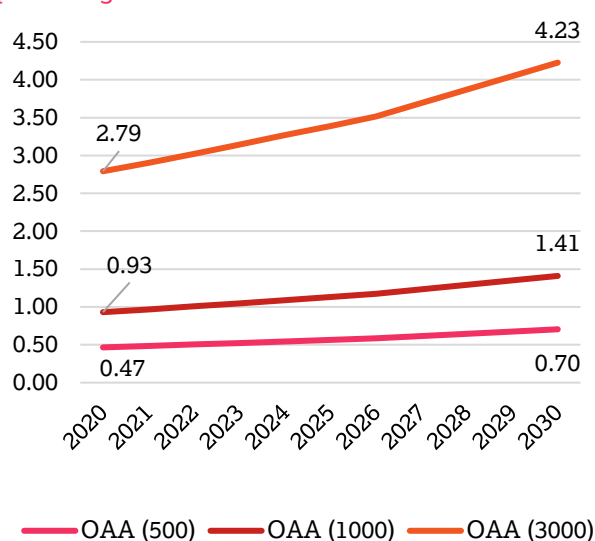
The cost and benefits of a universal social pension based on three benefit level options are assessed. These transfer values considered are BDT 500/month (current value of the OAA), BDT 1,000/month (inflation indexed 2016 lower poverty line) and BDT 3,000/month (inflation indexed 2016 upper poverty line).

**A universal social pension is affordable for Bangladesh – now and in the future.** The cost of implementing a universal social pension with a monthly transfer value of BDT 500 ranges from 0.47 per cent of GDP in 2020 to 0.70 per cent in 2030. With a transfer value of BDT 1000, the cost would be 0.93 per cent in 2020 and 1.41 per cent in 2030. Cost ranged from 2.79 per cent in 2020 to 4.23 per cent in 2030 under the BDT 3,000 option.

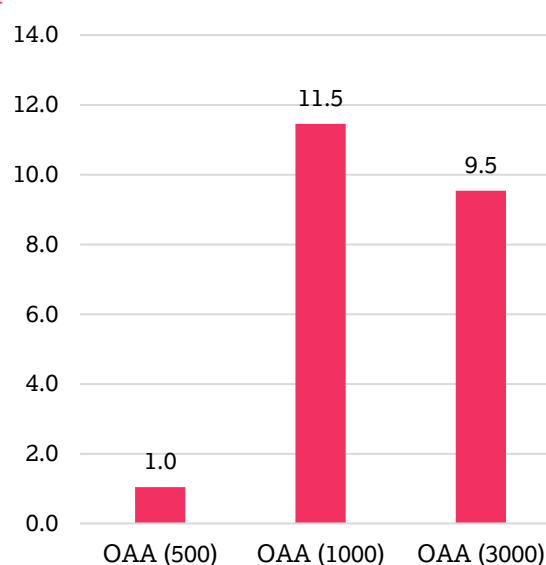
Benefits are calculated as reduction in economic vulnerability rates due to the adoption of the universal social pension. Benefit-cost ratios refer to percentage point changes in economic vulnerability rates under universal social pension options compared to the status quo of no pension coverage, divided by the cost of each option as a percentage of GDP. **The BDT 1,000 per month option has the highest ratio of cost to benefits, followed by the BDT 3,000/month option. Both options significantly outperform the current benefit provided through the Old Age Allowance (OAA).**

**Figure 10: Cost and benefits of the universal social pension under different benefit amounts**

**Panel A: Costs of the universal social pension as a percentage of GDP**



**Panel B: Benefit-cost ratios of the universal social pension**



Note: Monthly transfer amounts are inflation indexed and include administrative cost of 5 per cent.

Source: Authors' calculations based on an internal Bangladesh Costing Model

## Endnotes

- <sup>1</sup> 2019 Revision of World Population Prospects. UN DESA (2019)
- <sup>2</sup> Work, family and social protection in Asia. HelpAge International (2016)
- <sup>3</sup> National Transfer Accounts: Understanding the Generational Economy
- <sup>4</sup> National Social Security Strategy (NSSS) of Bangladesh. Government of Bangladesh (2015).
- <sup>5</sup> Household Income and Expenditure Survey 2016-2017. Bangladesh Bureau of Statistics (2016).
- <sup>6</sup> Poverty, Vulnerability and Inequality in Bangladesh, Background Paper No 01, Preparation of National Social Protection Strategy for Bangladesh, GED/UNDP. Khondker, B. H. (November 2013)
- <sup>7</sup> Making a living last longer: insights into older people's livelihood strategies. HelpAge International (2008)
- <sup>8</sup> Labour Force Survey 2017. Bangladesh Bureau of Statistics (2017)
- <sup>9</sup> Social Protection for Children in Changing Demographic. UNICEF (March 2020)
- <sup>10</sup> Social Protection Responses to COVID-19 Crisis Around the World. ILO (September 2020)
- <sup>11</sup> Responding to COVID-19 with improved social protection for older people. HelpAge International (August 2020)
- <sup>12</sup> International Monetary Fund (2020a) Fiscal Monitor. IMF (April 2020)
- <sup>13</sup> Managing the Impact on Households: Accessing Universal Transfers. Special Series on Fiscal Policies to Respond to COVID-19, International Monetary Fund (2020b)
- <sup>14</sup> On the virus and poor people in the world. Blog Post. Economic & Poverty. Ravallion, M. (2020)
- <sup>15</sup> Economic Fallout of COVID-19 and Child Sensitive Social Protection in Bangladesh. Development Pathways (2020)

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**HelpAge International is a global network of organisations promoting the right of all older people to lead dignified, healthy and secure lives.**

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*This brief is based on the analysis undertaken by Professor Bazlul Khondker of Department of Economics, Dhaka University.*