

Pension watch

Briefings on social protection in older age



Briefing no. 12

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Redistribution of wealth and old age social protection in Bolivia

The impact of the Renta Dignidad on the wellbeing of households with older persons

By Joel Mendizabal and Federico Escobar (Unidad de Análisis de Políticas Sociales y Económicas – UDAPE)

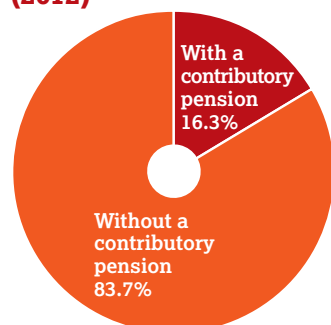
Key lessons

- Bolivia's universal social pension – the *Renta Dignidad* – reaches 91 per cent of Bolivian's over the age of 60, compared to just 14 per cent covered by contributory pensions.
- Costing around one per cent of the country's GDP, the programme is financed by income from taxes on oil and gas production, together with profits of state-owned companies.
- Receipt of the pension is associated with significant increases in income and consumption, and substantial reductions in official and self-perceived poverty rates.
- The poverty rate of households receiving the *Renta Dignidad* is 14 percentage points lower than the control group (households where the eldest member is just below the age of eligibility).
- Rates of child labour in households receiving the *Renta Dignidad* are over half that of the control group, while school enrolment reaches close to 100 per cent.

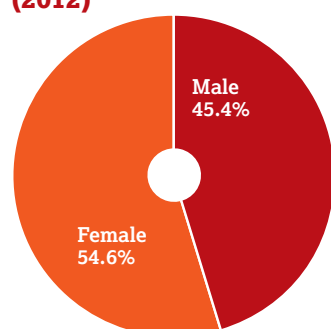
Introduction

Despite being the poorest country in South America, Bolivia's pension coverage is one of the highest in the region. This achievement is a result of the implementation of a universal social pension (the *Renta Dignidad*, or "Dignity Pension") in 2008 that guarantees a basic pension to all older people over the age of 60. Funded mainly with income from taxes on hydrocarbons, the budget for the programme is around one per cent of the country's GDP (2012). This makes it one of the most significant transfers in the region in terms of expenditure, more so even than conditional cash transfer programmes such as *Oportunidades* in Mexico and *Bolsa Familia* in Brazil, both of which cost around 0.5 per cent of GDP. Unlike these programmes and many other cash transfers across the region, which target households living in poverty, the *Renta Dignidad* is also noteworthy in its universal nature. Until recently, information on the programme was limited to small-scale studies and macro-level analysis. This briefing summarises new results from a survey of older people carried out in 2011 that reveals important findings on the impact of the *Renta Dignidad*, as well as the broader situation of older people in Bolivia.

Beneficiaries of the *Renta Dignidad* by type (2012)



Beneficiaries of the *Renta Dignidad* by sex (2012)



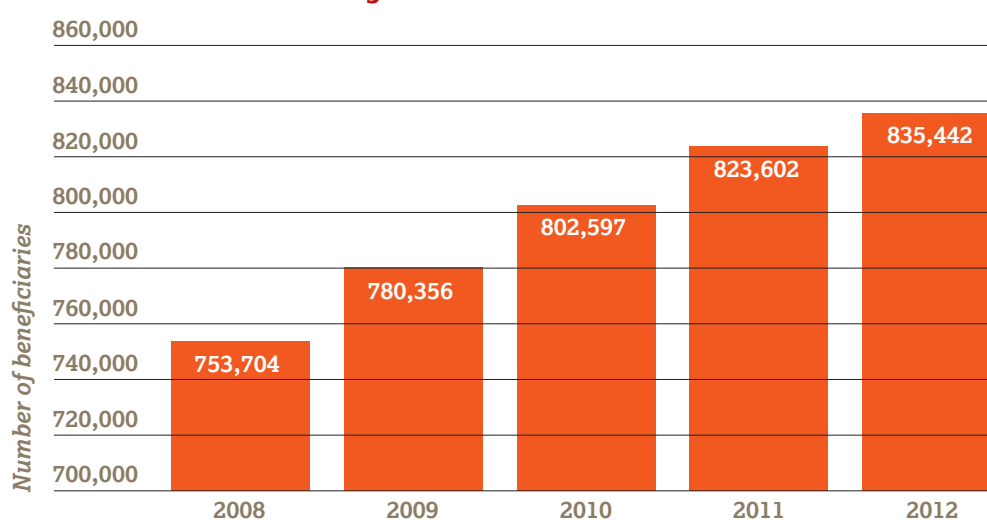
What is the *Renta Dignidad*?

Bolivia's *Sistema Integral de Pensiones* (Integrated Pension System) identifies three areas within the scheme of old age income security: the **contributory regime**, which provides pensions through a defined contribution system, also known as individual capitalisation; the **semi-contributory regime**, aimed at providing solidarity pensions to those who have retired with low contributory pensions;¹ and the **non-contributory regime**, made up of the universal old age pension, known as the *Renta Dignidad*.

The *Renta Dignidad* is a non-contributory pension for all Bolivian citizens over 60 years of age residing in the country. The payment of the pension is guaranteed under the Constitution of 2009, which states that "All older persons have the right to a dignified old age, with human quality and warmth. The State shall provide a lifelong old age pension in the framework of the integrated social security system, as stipulated by legislation".²

The *Renta Dignidad* came into effect in February 2008, replacing the *Bonosol* programme which had been in place since 1997. The new programme made a number of important changes including: lowering the age of eligibility from 65 to 60 years, moving from an annual to monthly benefit and varying the benefit level according to whether or not an older person is in receipt of a contributory pension. By December 2012, 835,442 older people were receiving the *Renta Dignidad* of which 136,137 (16 per cent) also received a contributory pension and therefore a lower benefit.³ Reflecting Bolivia's demographic profile, the majority (55 per cent) of recipients of the *Renta Dignidad* are women.

Beneficiaries of *Renta Dignidad*



1. This is done via a scheme financed with funds from additional solidarity contributions made by all the contributors of the system

2. Article 67 of the New Political Constitution of the State, approved on February 9th, 2009

3. Source: Data obtained based on information of the Autoridad de Fiscalización y Control de Pensiones y Seguros (Pensions and Insurance Regulator) at April 2013

By law the payment of the *Renta Dignidad* may be made in cash or in kind, yet to date only monetary payments have been made. As of April 2013 the monthly payment was Bs.200 (US\$28.7) for persons not receiving contributory pensions, with recipients of contributory pensions receiving three quarters of this sum (Bs.150 or US\$21.60). In May 2013 the Bolivian government increased the level of the *Renta Dignidad* to Bs.250 (US\$35.9) and Bs.200 (US\$28.7) for the two categories respectively. The analysis here was conducted prior to the increase in the value of the pension.

Although the payment is monthly, beneficiaries may voluntarily accumulate payments for up to twelve months, beyond which the obligation ceases to be valid. Administrative data shows that more than half of recipients collect the pension on a monthly basis (58 per cent), with over 90 per cent collecting the payment within a three-month period. This marks an important shift from the *Bonosol*, where all payments were made on an annual basis.

Regularity of collection of the <i>Renta Dignidad</i>	
Monthly	57.7%
Between 2 and 3 months	33.0%
Between 4 and 6 months	6.5%
More than 6 months	2.7%

Based on payments collected in the 12 months following February 2011 to January 2013.

The resources for the payment of *Renta Dignidad* are consolidated in the *Fondo de la Renta Universal de Vejez* (“Old Age Universal Pension Fund” – FRUV) currently administered by a private managing body. These funds come from two financing sources: i) a portion of the Direct Hydrocarbons Tax (IDH) and ii) annual profits generated by a group of state-owned companies. The IDH funds are deposited in the FRUV monthly, while the funds of the public companies are deposited yearly, subject to a decision regarding the distribution of dividends of the state-owned companies.

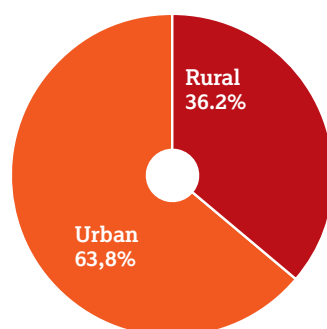
Liquidity remaining in the FRUV is invested in the stock exchange, in a manner similar to an investment fund, generating additional income from the yield obtained. In 2012 the amount funded was US\$518 million, of which 84 per cent came from IDH funds, 14 per cent from the profits distributed by state-owned companies and the remaining 2 per cent from the investments made.

In 2012, payments of the *Renta Dignidad* amounted to approximately US\$262 million, with 12 per cent paid to existing pensioners via the contributory system, and the remaining 88 per cent paid to individuals with no other pension through financial entities (such as banks and mutual funds) as well as other types of entities such as pharmacies connected to the payment network system. It is noteworthy that, in order to provide payment coverage in rural areas with no access to financial entities, the programme uses mobile units of the Bolivian Armed Forces. In relative terms, the annual cost of the *Renta Dignidad* is approximately one per cent of GDP – a figure which has decreased in recent years due to nominal increases in GDP. Over time the cost of the benefit has been less than the income provided by the funding sources, which has allowed the Government to generate a financial reserve in the FRUV of over US\$ 572.5 million as of December 2012.

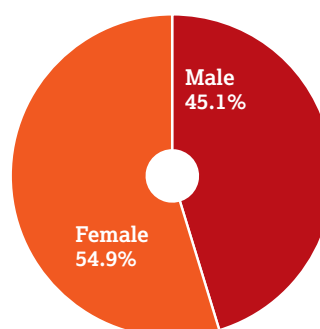
The situation of older people in Bolivia

With the aim of evaluating the impact of *Renta Dignidad*, the Unidad de Análisis de Políticas Sociales y Económicas (Unit for Analysis of Social and Economic Policies – UDAPE) of Bolivia conducted a national survey of households with persons close to or above the age of 60 in late 2011 (named EPAM 2011). The survey was supported by UNFPA, HelpAge International and the Embassy of Sweden. The descriptive results of this survey provide detailed insights into the characteristics of older persons in Bolivia (those aged 60 and over) who, in 2011, represented 7.6 per cent of the total population.

Older persons by place of residence (EPAM 2011)



Older persons by sex (EPAM 2011)



The results of EPAM 2011 reveal that the majority of older persons live in urban areas – 64 per cent compared to 36 per cent in rural areas. This distribution largely reflects that of the total population – 67 per cent urban and 33 per cent rural.⁴ Older people in Bolivia are also more likely to be women, who make up 55 per cent of the population 60 years and over.

An important factor for understanding the situation of older people is their living arrangements. As with many other low- and middle-income countries, the majority of older people in Bolivia live with children and other relatives (61 per cent) or their partner/spouse (25 per cent). Just 14 per cent live alone.

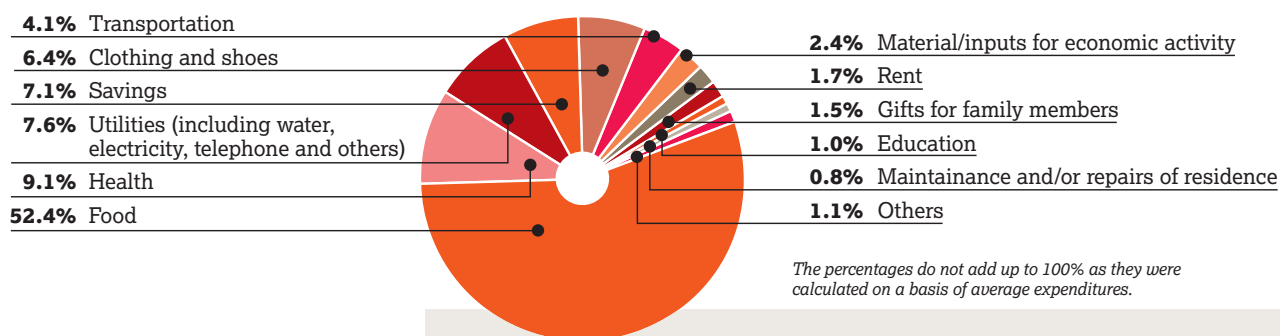
Older persons who live:	
Alone	13.5%
With partner/spouse only	25.3%
With children and/or other relatives	61.3%

The survey also revealed that a high proportion of older persons (61 per cent) are considered the head of their household, which is defined as the person who makes the most important decisions within the home. This tendency is strongest in rural areas.

Older persons considered heads of households	
Country total 61.1%	
Urban 59.1%	Rural 64.6%

4. The urban/rural distribution of the total population is taken from the 2011 Household Survey conducted by the National Statistics Institute (INE) of Bolivia. The aim of the survey is to provide information on the living conditions in households nationwide

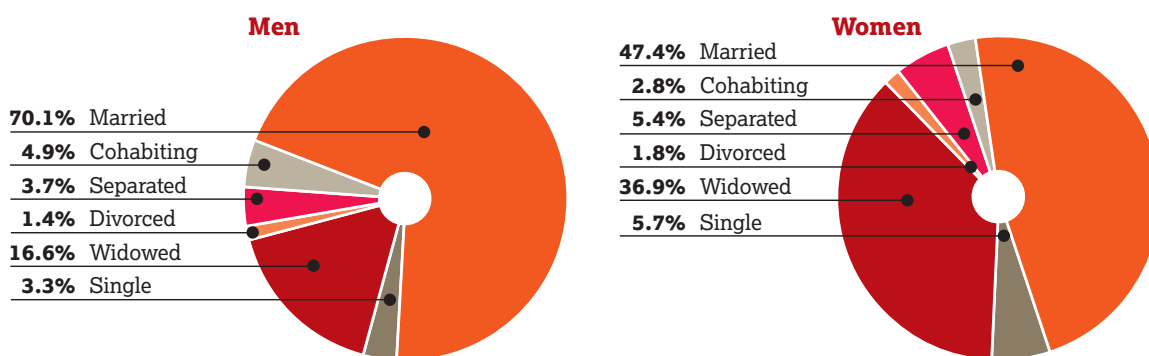
Main expenditure categories of the *Renta Dignidad*



Box 1: What do older persons spend the *Renta Dignidad* on?

Older people were asked to give a breakdown of how they spent the income from the *Renta Dignidad*. The data reveals that – on average – over half of the benefit is spent on food (52 per cent). Other important categories of expenditure are health (9 per cent), utilities (8 per cent), savings (7 per cent), clothing and shoes (6 per cent), and transportation (4 per cent).

Marital status of older persons



Most older people are married, however, this bigger picture hides important gender differences. While the vast majority of men (70 per cent) are married, this figure is much lower for women (48 per cent). Meanwhile, a large proportion of older women are widowed (37 per cent) compared to just 17 per cent of men.

Over half of older people have a per capita income below the official poverty line established by INE, while the figure relative to subjective poverty is marginally lower. For both measures, the poverty rate is higher in rural areas.

Poverty of older persons		Poverty in relation to the official poverty line	Subjective poverty according to the self-perception indicator
Poverty at the country level		52.2%	50.0%
Poverty by geographic area	Urban areas	48.3%	46.2%
	Rural areas	59.2%	56.7%

Box 2: Pension coverage in Bolivia

The EPAM 2011 reveals that coverage of contributory pensions in Bolivia remains low, with only 14 per cent of older people receiving a contributory pension. Coverage of contributory pensions is higher in urban areas, and men are twice as likely to receive a contributory pension than women. Coverage of the *Renta Dignidad* far surpasses contributory pensions, with 91 per cent of older people collecting the benefit. For the 9 per cent of older people not receiving the *Renta Dignidad*, the reasons include administrative problems, lack of identification documents, distance from a pay point, lack of need or because they work. The share of persons who do not collect the *Renta Dignidad* is greatest in the 60-64 age range (18.2%), which suggests that the principle reason for not collecting the *Renta Dignidad* relates to administrative problems and issues with documentation during the period immediately after reaching the age of eligibility.

Contributory pension system		Coverage (%)
Older people in receipt of contributory pensions (national level)		14.3%
Older people in receipt of contributory pensions according to:	Urban areas	18.2%
	Rural areas	7.3%
	Men	19.0%
	Women	10.4%

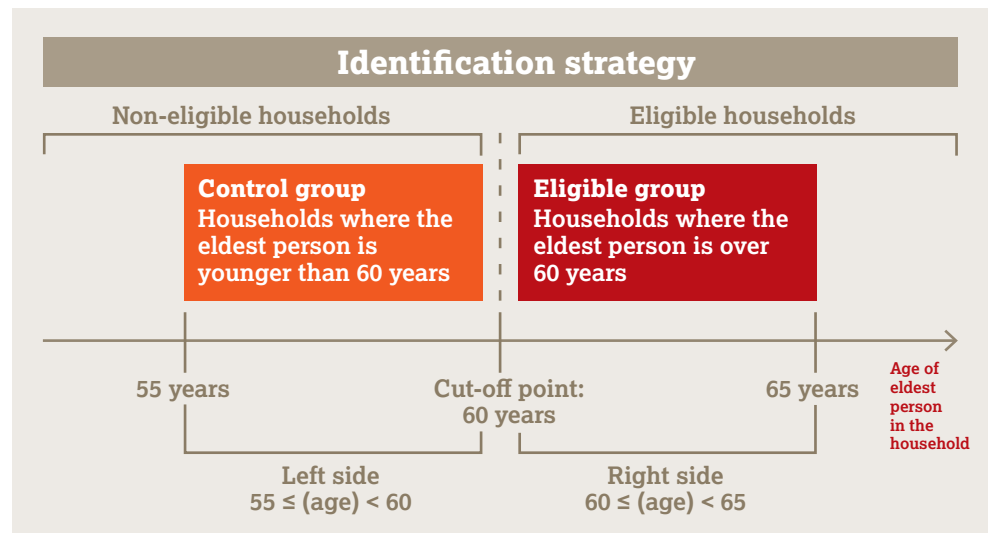
Non-contributory pension system: <i>Renta Dignidad</i>		Urban	Rural	Country total
Older persons who collect		91.3%	90.5%	91.0%
Older persons who do not collect		8.7%	9.5%	9.0%
Main reasons for not collecting:	Administrative problems	51.1%	35.5%	45.2%
	Lack of identification document	12.7%	21.8%	16.1%
	Distance from pay point	9.1%	21.6%	13.8%
	No need, or working	23.8%	16.6%	21.1%

The percentages of the reasons for not collecting do not add up to 100%, as respondents chose up to three options.

Methodology

Despite being introduced in 2008, evidence of the impact of the *Renta Dignidad* within the first years of implementation was limited to small-scale surveys and top line trends from household survey data. Acknowledging this gap, the EPAM 2011 was implemented incorporating an element to assess the impact of the pension. The design of the evaluation had to confront a number of practical challenges. Firstly, the pension was implemented without taking into consideration the need for future evaluation, for example, by developing a baseline dataset. Secondly, the universal nature of the programme meant it was not possible to identify a control group of non-recipients amongst those over the age of 60.

In this context, the decision was taken to apply a semi-experimental method based on a **regression discontinuity design**. This method works by assigning a cut-off point or threshold that determines whether or not an individual participates in a particular program. The impact of the programme can be estimated by measuring the changes in the variables analysed (income, consumption, poverty) on different sides of the cut-off point. The analysis used a model proposed by Lee and Lemieux (2009), choosing a cut off point relating to the age at which individuals become eligible for the *Renta Dignidad* (60 years of age).



Specifically, households with an older person between the ages of 60 and 65 years were chosen as the eligible group, while households where the eldest member was slightly below the eligibility age (55-59 years) were chosen as the control group. It is important to highlight that the eligible group and the control group were differentiated at the household level and not at the individual level. This was done in order to avoid the possibility of including persons less than 60 years of age in the control group who share their homes with older persons collecting the *Renta Dignidad*. More generally, analysis was undertaken at the household level in recognition of the fact that the majority of older people in Bolivia do not live alone and are often considered the head of household, indicating that impacts of the *Renta Dignidad* go beyond the individual.

Income (per capita)

16.4%**
increase ↑

Consumption (per capita)

15.4%**
increase ↑

Impact on poverty (at the household level)

13.5pp*** 53,6%
reduction ↓
(poverty line) 40,1%

16.1pp*** 52%
reduction ↓
(with subjective indicator) 36%

Child labour

8.4pp*** 13,9%
reduction ↓
5,5%

School enrolment

8.0pp*** 96,7%
increase ↑
88,7%

Impact on income and consumption

The analysis found that levels of income and consumption were substantially higher in households receiving the *Renta Dignidad* compared to those in the control group. The results indicate a 16 per cent increase in a household's income per capita (Bs.164.60) when an individual reaches the age of eligibility. Consumption per capita also increased, although marginally less (Bs.153.80 or 15 per cent) – these differences may reflect the fact that part of the income from the *Renta Dignidad* is saved (see Box 1).

Robustness tests indicate that these results are statistically significant when compared with modifications in the age range, calculations without expansion factors and also when employing information from the household survey done in 2003-2004 when a non-contributory benefit was not in place for the range of age analysed (60-64 years).

Impact on poverty

In line with increases in income and consumption, receipt of the *Renta Dignidad* leads to a reduction in poverty in households with older persons. This was found to be the case with both the official poverty line (determined by the INE) as well as a subjective measure of poverty that relates to households' perception of the minimum level of monthly income that they think they need. The programme led to a 14 per cent reduction in incidence of official poverty and a slightly higher reduction (16 per cent) in subjective poverty. This implies that when households receive the *Renta Dignidad* they will perceive themselves as being less poor than they actually are when measuring with monetary indicators. Robustness tests confirmed the statistical significance of the results.

Statistical significance: *** 0.01%, ** 0.05%

HelpAge International helps older people claim their rights, challenge discrimination and overcome poverty, so that they can lead dignified, secure, active and healthy lives.

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Impacts on child labour and education

The analysis went on to assess whether decreased poverty rates within households receiving the *Renta Dignidad* had any impact on household members beyond older people. Specific analysis was undertaken in relation to the employment situation and school enrolment of children between the ages of 10 and 16.

The results show that children living in households receiving the pension are less likely to be working, with child labour participation less than half that of the control group (a reduction of 8.4 percentage points). Meanwhile, school enrolment rates were eight percentage points higher in households eligible for the pension, taking the enrolment rate close to universal. The correlation between these two results suggests that the greater income security of households receiving the *Renta Dignidad* reduces the pressure on children to work, thus freeing them up to attend school.

Conclusions and policy challenges

Bolivia now has evidence that demonstrates that the *Renta Dignidad* is an effective component of the country's social protection system; with significant impacts on household income, consumption and poverty. Of particular note is that the pension not only benefits direct recipients of the pension (older people) but also indirectly affects the welfare of the entire household in which the beneficiary is living. The significant reduction in poverty in households receiving the *Renta Dignidad* (14 percentage points lower than the control group) echoes impact evaluations of social pensions in other countries (Brazil, with 18 percentage points and South Africa with 12.5 percentage points).

The quasi-experimental method of discontinuity regression employed for quantifying the impact of *Renta Dignidad* provided the optimal approach for evaluating this type of benefit, since age changes the likelihood of participation of persons at the cut-off point, thus making it possible to establish two comparable groups for adequately measuring changes in the impact variables analysed.

The main recommendation of the study is that the *Renta Dignidad* should continue to be implemented, while considering areas where the programme can be strengthened. Areas of improvement include addressing administrative issues so that the programme reaches 100 per cent of older people, and exploring options for increasing the benefit level which remains modest. The evidence found demonstrates that, in light of the major impacts on the wellbeing of households, there is no justification whatsoever for suspending the payment of the *Renta Dignidad*. In the meantime, the analysis undertaken so far represents an initial view of the richness of data available in the EPAM 2011. There is substantial scope to expand the analysis of this data in order to explore further options for enhancing the programme.

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