

HelpAge

International



Why social pensions?

**Achieving income security
for all in older age**

About HelpAge

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

Why social pensions?

Achieving income security for all in older age

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Front page photo
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Female Daw Mu Nge,
63, Myanmar

Table of Contents

1	Introduction.....	3
2	Social protection throughout the life-course.....	3
3	Economic and social challenges in older age.....	5
4	Pension systems ensure social protection in older age.....	7
5	Achieving income security for all older people through universal social pensions	10
6	Impacts of social pensions.....	13
7	The affordability of universal social pensions.....	17
8	References	18

1 Introduction

This paper aims to present a concise yet comprehensive argument for the importance of old age social pensions as an effective, efficient and affordable policy to achieve income security, and reduce poverty and inequality in older age.

It makes the case for social pensions by drawing on international human rights principles and standards, decades of global experience in the design and implementation of pension systems, as well as evidence emerging from a wide range of lower and middle-income countries implementing social pensions.

The paper starts with an introduction of the concept of social protection, followed by a short discussion of common socioeconomic challenges faced by many older people which provide a fundamental justification for social protection in older age. Section four presents a discussion of the objectives and components of pension systems, followed by an analysis of the crucial role of universal social pensions in providing basic income security within comprehensive pension systems. Section six presents some of the impacts of social pensions on recipients, their households and communities. The paper concludes with considerations on financing and affordability of social pensions.

2 Social protection throughout the life-course

Every person, male or female, young or old, rich or poor, faces a variety of circumstances throughout their life-course that hold the potential to negatively impact their health, psychosocial wellbeing, livelihoods and the ability to achieve and maintain an adequate standard of living.

Although each individual's life-course is unique, there are stages or circumstances in a person's life which are universally recognized to heighten the risks to one's wellbeing, including childhood, orphanhood, parenthood, disability, sickness or injury, unemployment, widowhood and old age. **The interventions developed in response to these risks are known as social security.** Indeed, the nine classical branches of social security which constitute the foundations of comprehensive social protection systems - medical care, sickness benefit, unemployment benefit, old-age benefit, employment injury benefit, family

benefit, maternity benefit, invalidity benefit, survivors' benefit - relate to these risks.¹

The human right to appropriate social security and social protection throughout the life-course is well-established in international human rights law (Box 2). However, there are different views on the objectives and scope of social protection, which have implications for how the right to social protection is implemented in practice.

There are a variety of approaches to social protection ranging from more narrow ones which focus on addressing the challenges faced by today's poor and reducing existing poverty (safety net approach), to approaches that see the role of social protection as not only reducing today's existing poverty but protecting everyone against universal risks that might lead to poverty and multiple forms of deprivation (life-cycle approach).

For HelpAge, social protection is an **effective mechanism to reduce existing poverty, deprivation and marginalization, including amongst older people**, but its real potential lies in its capacity to **provide protection against shocks and stresses that everyone faces throughout their lives, thus ensuring that people do not become destitute in the first place.**

HelpAge further believes in the transformative power of social protection, recognizing the crucial contributions

it can make in increasing people's **dignity and self-esteem, inclusion and social participation, as well as active citizenship and empowerment.**

In this sense, HelpAge defines social protection as the system of public policies and programmes aimed at preventing or protecting all people against poverty, vulnerability, and social exclusion throughout their life courses.

BOX 1

Approaches to social protection

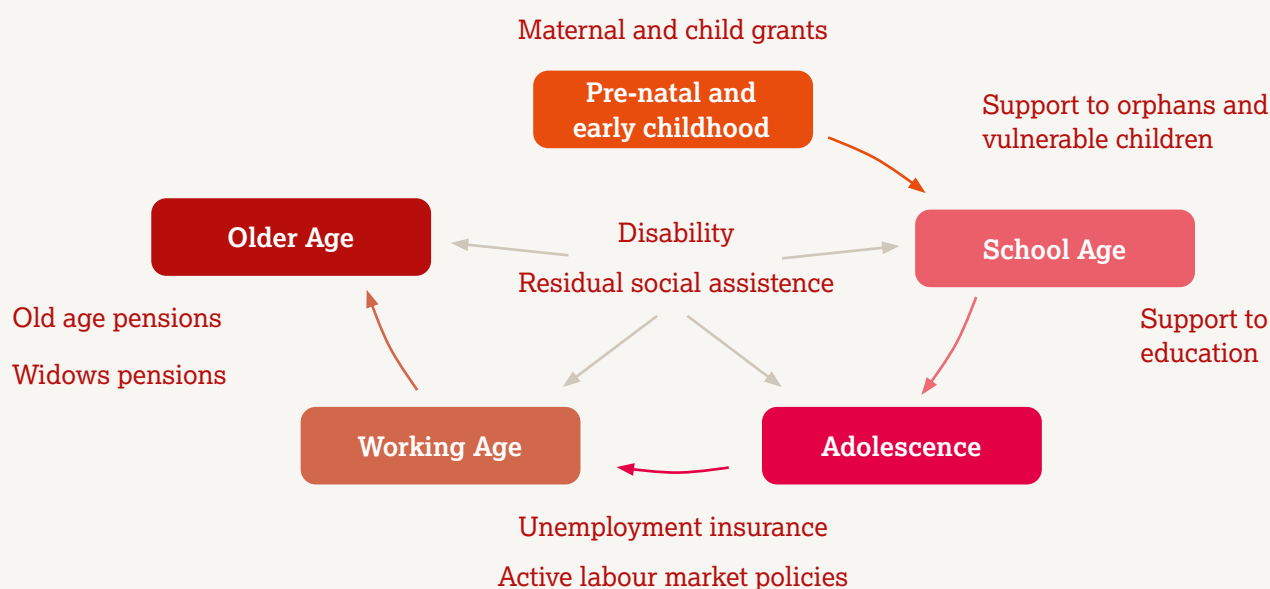
The **safety net approach** is based on the idea that limited resources should be directed to those identified as the poorest and most vulnerable in society to address their economic needs, while benefits or services provided on a universal basis, including to the those identified as “non-poor” would be considered inefficient. This is a model often advocated for by institutions such as the World Bank and the International Monetary Fund (IMF). It can also be called the “poor relief”, “charity” or “poverty-targeted approach”.

The **life-cycle approach** focuses less on targeting “the poor” and is instead based around the logic that if people are protected from life cycle risks (such as

disability, old age, raising a family, unemployment) then this will prevent them from falling into poverty in the first place. A key distinction is that such an approach defines universal risks that all people may face at some point in their lives, rather than seeing social protection as something relevant to a small portion of a country's population.

This approach is championed by the United Nations, in particular the ILO, and other rights-based organizations. Figure 1 illustrates the life-cycle approach to social protection, showing the different kinds of social protection benefits that may be relevant for risks faced at different stages of the life-course.

Figure 1 The life-cycle approach to social protection



Source: Kidd (2017)²

3 Economic and social challenges in older age

Growing older is often associated with increasing challenges to earning an adequate income to maintain an acceptable standard of living, while expenditure, especially on healthcare, often increases.

Work in older age

Global evidence shows that although a significant proportion of people remain economically active in older age, especially in lower- and middle-income countries. Nonetheless, participation in the labour force declines markedly in older age. As shown in Figure 2, the labour force participation rate peaks at ages 25-54, reducing considerably among older age groups.

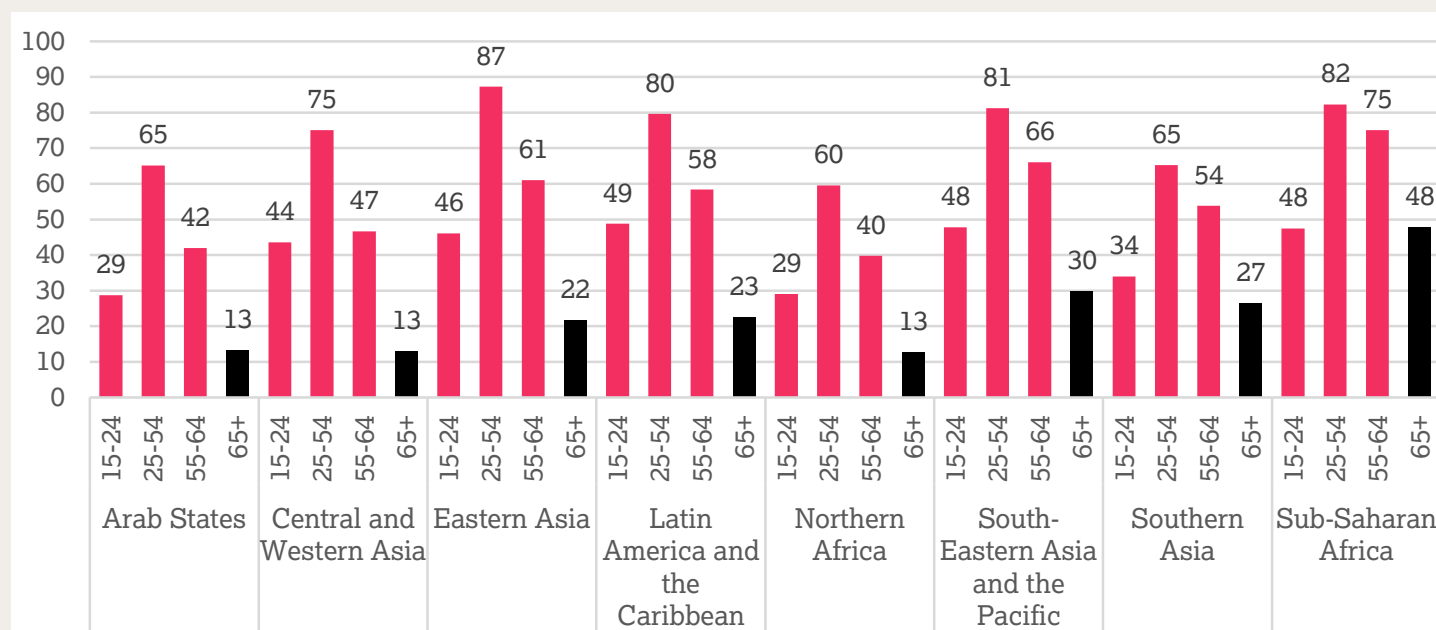
Older men are significantly more likely to be in paid employment than older women. According to ILO

estimates, over 40 percent of older men and around 15 percent of older women (65+) in low- and middle-income countries participated in the labour force in 2017.

“Inequalities accrue and get reinforced over a person’s life. They come home to roost in later years, often exacerbating each other and causing greater disadvantage.”

Sir Richard Jolly, Honorary Professor of the Institute of Development Studies at the University of Sussex, in Facing the Facts: The Truth About Ageing and Development

Figure 2 Labour force participation rate by age



Source: ILOSTAT, 2018 ³

Moreover, the intensity of work and the quality of jobs available tend to decrease with age. Older workers tend to work fewer hours on average than younger ones.

Declining health and increasing rates of disabilities are major reasons why older people reduce their levels of work. Worldwide, prevalence rates of disabilities increase with age. While 9 percent of 18-48-year-olds, and 21 percent of 50-59-year-olds, experience some form of disability, the prevalence of disability for those aged 60+ stands at 38-46 percent. It should also be noted that the prevalence of disability among people aged 60+ is higher in lower income countries (43 percent), compared to higher income countries (29 percent).⁴

Family responsibilities are also an important reason for not engaging in paid work, particularly for older women.⁵ A 2018 study on older women’s economic empowerment in 30 countries across the world found that older women across all income levels spent more than four hours daily, on average, on unpaid work and care.⁶

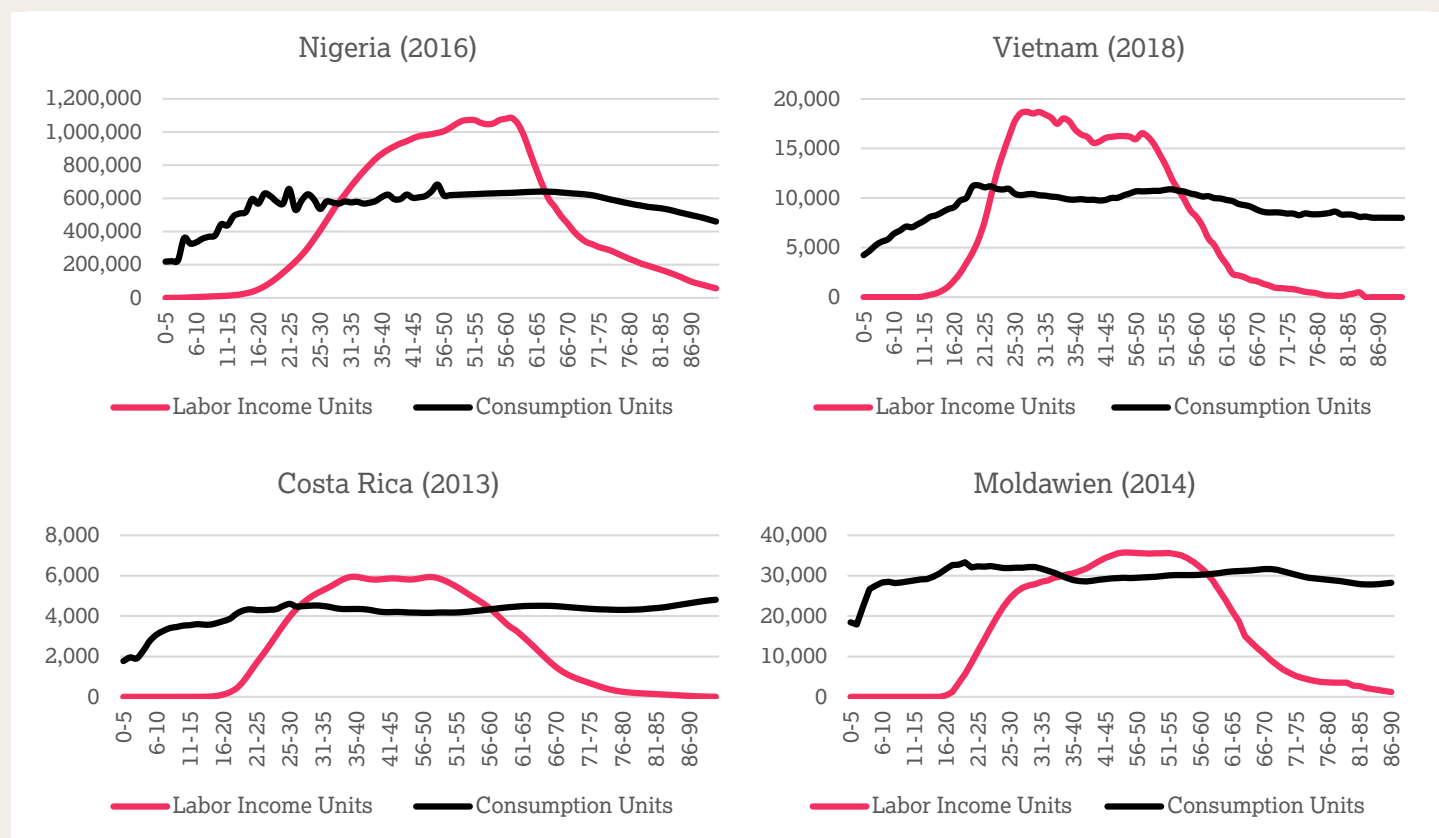
Older people are also more likely to have informal and precarious jobs. Worldwide 80 per cent of older people are in informal employment.⁷

As a result, work in older age tends to provide lower and more volatile incomes. Figure 3 shows per capita

consumption and labour income throughout the life course in Nigeria, Vietnam, Costa Rica and Moldova. The graphs illustrate typical trends in labour income in lower-middle and upper-middle-income countries

- 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, before stabilizing somewhat in the 70s and 80s at low levels.

Figure 3 Lifetime consumption and labour income in selected middle-income countries



Source: National Transfer Accounts⁸

Family support is important, but often not enough

With few opportunities to work and limited availability of pensions, a large proportion of older people rely on their families for financial and material support.

In lower and middle-income countries, the majority of older people live with, or close to, other family members. For instance, in Bangladesh, Nepal, Philippines, Thailand and Vietnam between 55 and 80 percent of older people live with at least one child.

Intra-family transfers of cash or goods are common, with 79 per cent of older people in Thailand and 67 per cent in Vietnam receiving income support from family.⁹ A similar picture can be found in other regions. Older Zanzibaris estimated that nearly two-thirds of their income and material support is provided by family members.¹⁰ Even in places with relatively overall high pension coverage, such as Jordan, gendered productive and reproductive roles often result in older women relying to a large extent on family support, and spousal or household income.¹¹

Nevertheless, the adequacy of this support is often limited. High levels of poverty and economic vulnerability faced by the population as a whole mean many families have limited resources to share. While the data on sources of income shows the relative importance support received from family, in particular from children, they also consistently point to the insufficiency of this support. In the Philippines, for instance, despite widespread financial support from children, half of older people still report facing some or considerable difficulty in meeting expenses. In Myanmar, 45 per cent of older people reported their income was only sometimes or rarely adequate.¹² For 41 per cent of Jordanian men and 47 per cent of women, their income was seldom or never enough to cover their basic needs, with two thirds of older women and men reporting having accumulated debts.¹³

Moreover, although the majority of older men and women live with their children, family structures are fast changing, and a growing number of older people are living in nuclear families.

In recognition of the reduced opportunities that older people have to earn adequate income, old age is widely acknowledged as one of the crucial stages or circumstances in a person's life-course that require

financial support through social protection systems. The next section presents a discussion of how pension systems can provide income security in older age.

The right to social protection

BOX 2

The right to social security and social protection is enshrined in the Universal Declaration of Human Rights (1948) Articles 22 and 25, the International Covenant on Economic, Social and Cultural Rights (1966) Article 9, the Convention on the Elimination of All Forms of Discrimination Against Women (1979) Article 11, and the Convention on the Rights of Persons with Disabilities (2008) Article 28.

At the regional level older persons' right to social security is enshrined in Article 17 of the Inter-American Convention on Protecting the Human Rights of Older Persons, Article 7 of the Protocol to the African Charter on Human and Peoples' Rights on the Rights of Older Persons in Africa and Article 23 of the revised European Social Charter.

The content of these rights is further specified in the normative body of standards developed by the International Labour Organisation, which provide concrete guidance to countries to realize the right of older persons to social security. Convention 102 on Social Security (Minimum Standards) (1952), Convention 128 on Old-Age, Invalidity and Survivors' Benefits Convention (1967) and Recommendation

202 on Social Protection Floors (2012), provide an international reference framework and set out the range and levels of social security benefits that are necessary and adequate for ensuring income maintenance and income security, as well as access to health care, in old age.

"Social pensions are critical to human rights"

Magdalena Sepúlveda, United National Independent Expert on human rights and extreme poverty. HelpAge International, March 2010

ILO Conventions 102 and 128 envisage the provision of income security to all older people through earnings-related contributory pensions (guaranteeing minimum benefit levels, or replacement rates corresponding to a prescribed proportion of an individual's past earnings – in particular for those with lower earnings) and/or by social pensions. The guaranteed minimum levels of non-contributory pensions "shall be sufficient to maintain the family of the beneficiary in health and decency" (Convention No. 102, Art. 67(a)).

4 Pension systems ensure social protection in older age

Pension systems are the main social protection instrument to protect people against the socioeconomic risks and vulnerabilities that can be associated with older age.

Objectives of pension systems

The core objectives of pension systems are to:¹⁴

- **Eliminate poverty** in older age and ensure at least basic income security for older people;
- **Redistribute incomes** between the rich and poor, as well as between current and older generations, to reduce inequalities in older age;
- **Provide insurance** to individuals to protect them from the risk of outliving their savings, guaranteeing a reliable stream of income for the rest of their lives;

- **Smooth consumption**, by maintaining an income in retirement that is comparable to pre-retirement income.

These core objectives are not achieved by a single pension scheme. Rather, **pension systems usually consist of different components or pillars that focus to varying degrees on one or more of these objectives**. What is crucial is that the totality of a country's pension systems effectively addresses all of these objectives.

Policymakers rely on two main instruments to develop comprehensive pension systems – **tax-financed social pensions and contributory pensions**.

- Tax-financed social pensions, also known as 'social assistance' or 'non-contributory' pensions, are regular cash transfers provided to older people regardless of

their employment histories or contributions to pension schemes. **The main objective of social pensions is eliminating poverty in older age and ensuring at least basic income security for all older people.**

Social pensions can be provided universally to all people of a certain age or be targeted at segments of older people, such as those living in poverty. For universal social pensions, age and citizenship or residence are the only eligibility criteria, while targeted social pensions include additional requirements related to individual or household characteristics.

- Contributory pensions are regular cash transfers financed by workers and employers' contributions over defined period of time, and linked to an individual's salary and work history. **Contributory pensions aim primarily to ensure individuals maintain an income in retirement comparable to their income during working years.**

Contributory schemes can be public (often called social insurance) or private. Social insurance normally include

a degree of redistribution within schemes, where better-off workers subsidise those with lower life-time earnings and interrupted working lives; private schemes, on the other hand, closely link pension benefits to contributions without redistribution, acting more like a private savings account for individuals, leading to lower pension levels for those with lower life-time earnings and interrupted working lives.

A comprehensive pension system needs to combine contributory schemes with tax financed elements to achieve the objectives of poverty reduction, insurance, redistribution, and consumption smoothing. The box below outlines the ILO model of a comprehensive and well-developed pension system.

“Though there are sound principles of pension design, there is no single best pension system for all countries”

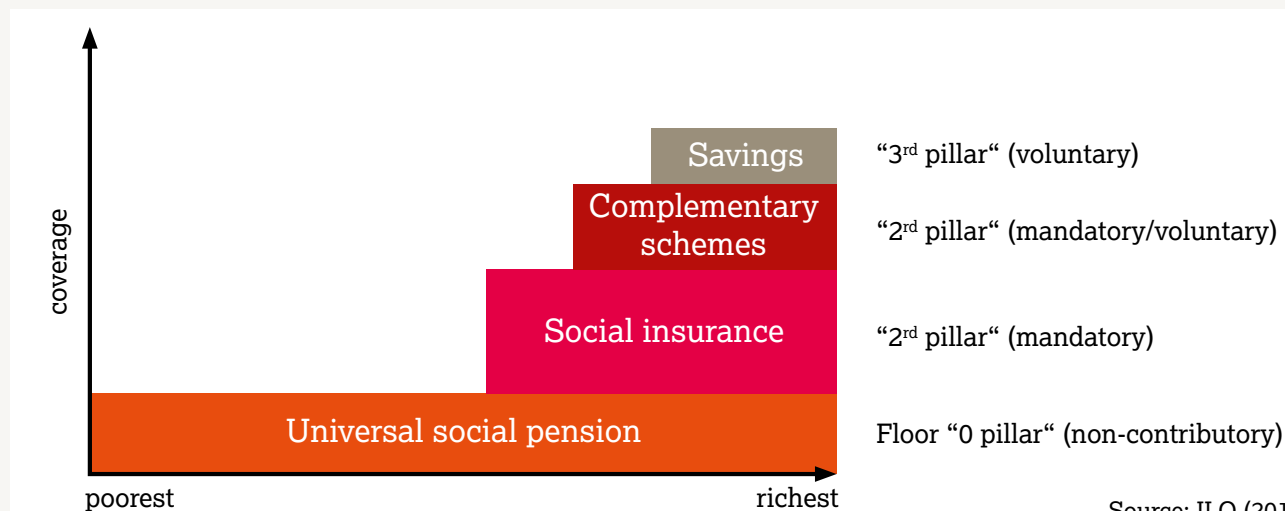
Nicholas Barr, Professor of Public Economics at the London School of Economics and Public Policy, in Barr and Diamond (2009).

Outline of a well-developed pension system

BOX 3

Comprehensive and well-developed pension systems are often presented as a set of pillars that complement and build on each other.

In addition, some pension systems include complementary contributory pillars aimed at supplementing the pension benefits from the two



The foundation of a pension system - “Pillar 0” or Social Protection Floor - seeks to ensure income security for all in older age. This is often achieved through a universal non-contributory social pension or, in places where contributory schemes have significant coverage, through a combination of guaranteed minimum pensions from contributory schemes and a means-tested or pension-tested social pension.

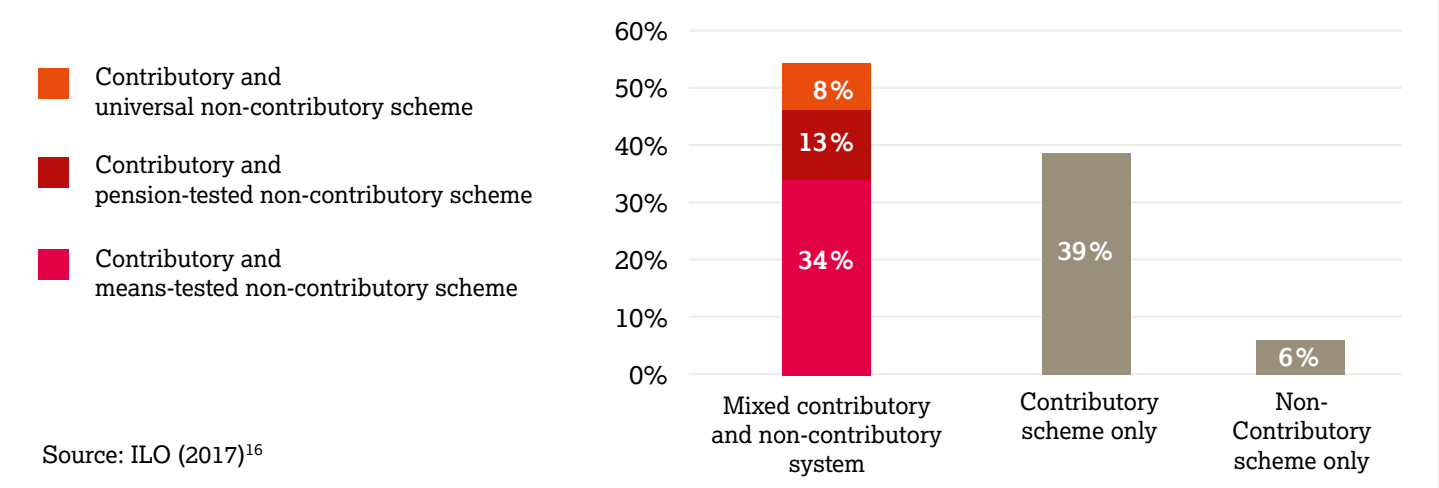
Mandatory social insurance (“Pillar 1”) aims to provide higher levels of benefits to enable people to maintain similar standards of living after retirement. Social insurance is based on the principles of solidary and redistribution.

main pillars. These can be mandatory or voluntary contributory schemes (“Pillar 2”) or voluntary private schemes for those with the economic capacity to make additional savings, generally managed by private pension administrators with government regulation (“Pillar 3”). Such schemes place too many risks (macroeconomic, financial and demographic) on individuals, and limit the scope for solidarity and redistribution within pension systems, and as such shouldn’t be seen as a substitute for social insurance, but rather as an additional component or pillar of well-developed systems.

National pension systems differ in configurations and design choices. Pension systems have often developed over decades, and their design and priorities are shaped by complex historic, political, and social influences, as well as the nature of a country’s demography, economy, labour market and poverty profile.

Some systems place more importance on eliminating poverty in older age and redistributing incomes, while others accept higher levels of inequality and focus mainly on enabling individuals to smooth their lifetime consumption and provide insurance against the risk of people living past their savings.

Figure 4 Global overview of types of pension systems



As shown in Figure 4, a large proportion of national pension systems only have contributory schemes. The main issue with such systems is that they often have large coverage gaps, as contributory schemes rarely have universal or near-universal coverage. In rich or poor countries there are a significant number of people who

work in the informal sector or have intermittent careers and are thus in most cases unable to access contributory systems. Women, who tend to have lower incomes and formal employment rates due to discrimination, gender norms and care responsibilities, are particularly disadvantaged.

Social pensions and gender equality^{17,18}

BOX 4

Throughout their lives, women and men are exposed to different risks and disadvantages, which are often specific to their gender and related to gendered inequalities or discrimination. Inequalities in older age stem from the accumulation of multiple and interconnected disadvantages, discrimination, inequalities and denial of rights that women experience across the life-course, such as education and wage differentials; gendered productive and reproductive roles; mobility constraints and a lack of voice and agency.

Around the world, women are more likely than men to experience poverty throughout their lives, with poverty often deepening in older age. Women also tend to live longer than men, are more likely to be widowed and living alone. Women are also less likely to be able to rely on savings and income in older age, as they often have shorter work histories, less formal education and training, spend more time in informal and low-paid employment, shoulder most unpaid care, and face persistent discrimination.

Despite all this, women are less likely than men to receive a pension at all, and if they do, they have considerably lower benefits. Even in countries where women enjoy broad access to pensions, their benefit levels are often only a fraction of pensions enjoyed by men.¹⁹ The link between contributory pensions and labour markets means that contributory pensions tend to replicate inequalities and exacerbate the discrimination that women experience throughout their lives.

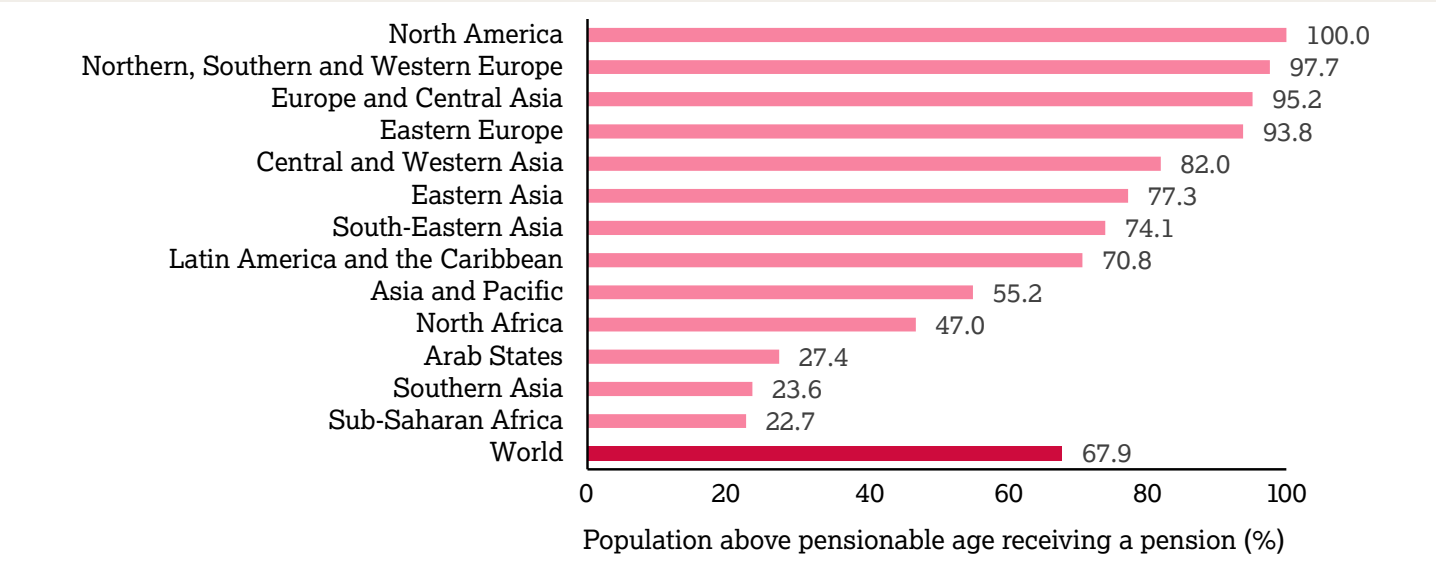
Social pensions are detached from assumptions about continuous participation in paid formal sector employment and therefore more accurately reflect the gendered nature of the life-course. They play a key role in ensuring that women can access at least a basic pension and enjoy a at least basic income security in older age. Although social pensions cannot be expected to reverse years of discrimination, detaching entitlements to a basic social pension from labour markets ensures that accumulated inequalities are not transferred into the pension system.

Coverage of contributory systems are particularly low in lower- and middle-income countries, given high levels of chronic and transient poverty, and large informal labour markets. For instance, in Bangladesh, India, Indonesia, Nigeria, and Pakistan, which hold about a third of the world's population, the number of people covered by contributory schemes remains in the single digits, with very limited progress in decades.²⁰ Moreover, the

changing structure of labour markets might further limit the scope of systems based on employment status to effectively increase coverage.

In an effort to solve the coverage issue and build more comprehensive and inclusive pension systems, more and more governments have started to implement social pensions.

Figure 5 Percentage of persons above statutory pensionable age receiving a pension



5 Achieving income security for all older people through universal social pensions

Social pensions are tax-financed cash transfers paid regularly to older people, regardless of their employment history or social security contributions. Social pensions often constitute the zero pillar or floor of pension systems, providing minimum levels of income security in older age.

Social pensions have become an increasingly popular policy in low- and middle-income countries in the last three decades. The first social pensions were introduced in countries such as Australia, Denmark, New Zealand, Sweden and the United Kingdom in the late 1800s and early 1900s.

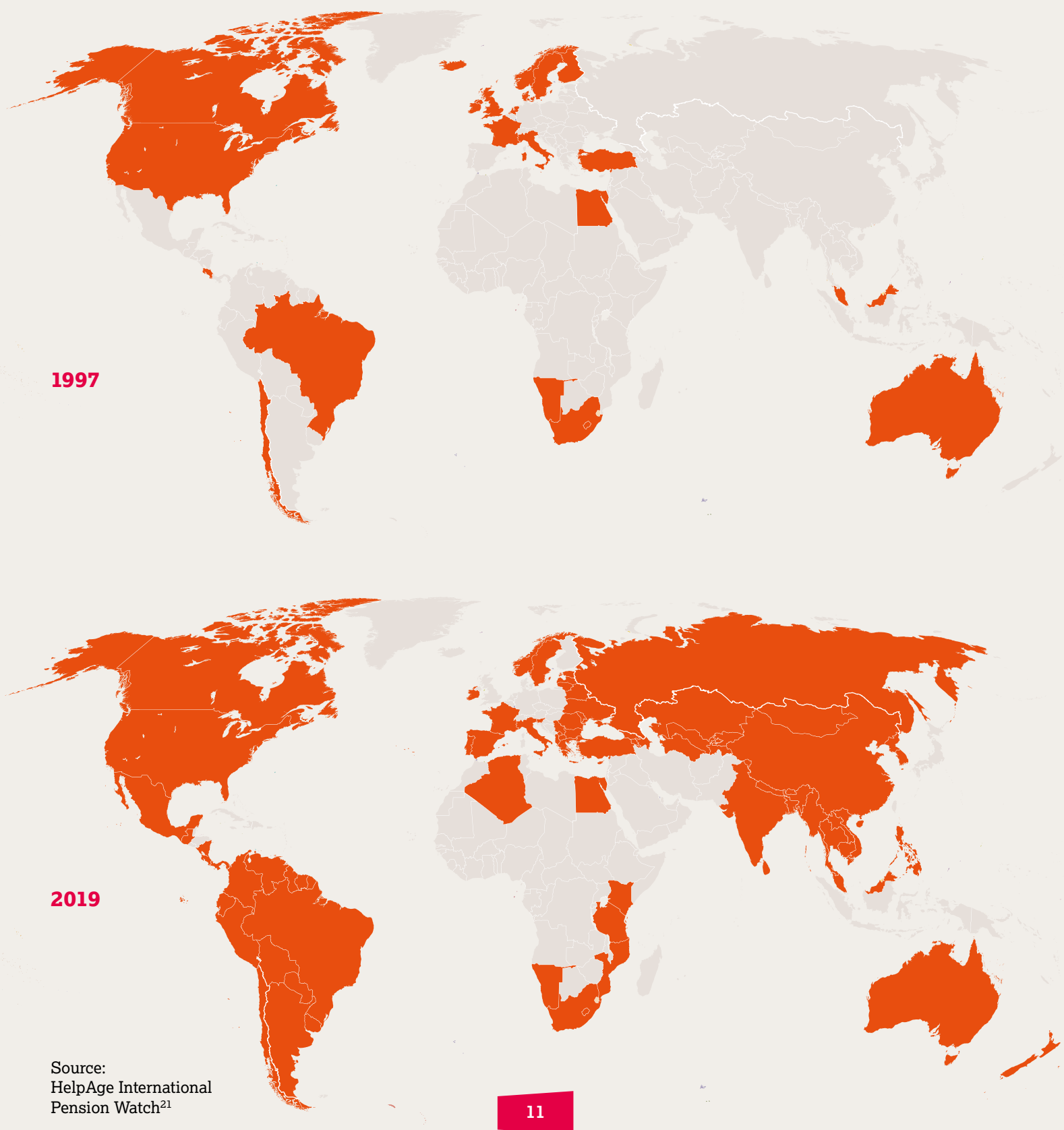
Figure 6 Characteristics of a social pension



By the mid-1980s only around 33 countries had social pensions. However, during the past thirty years that there has been a rapid increase in the number of countries introducing and expanding social pensions. Today it is estimated that 109 countries have social pensions and most of them are low- and middle-income countries.

Social pensions are of particular relevance to countries where the scope for expanding coverage of contributory pensions in the near future is low given high levels of structural socio-economic issues, particularly high informality. A social pension could be seen as a way to rapidly increase coverage of the pension system, providing a foundation for longer-term efforts to strengthen the contributory system.

Figure 7 Social pension coverage in 1997 and 2019



Source:
HelpAge International
Pension Watch²¹

In terms of design, social pension can be either offered to all (universal), exclude only those in receipt of other pensions (pension-tested), or targeted at the poor (means-tested).

Universal social pensions have particular advantages in their administrative simplicity, political popularity and ability to effectively marginalized older people. The fact that all older people are eligible means they effectively reach the very poorest and most vulnerable, including those living close to the poverty line.

By providing an entitlement that all citizens will one day benefit from, universal pensions tend to be politically popular, which supports the willingness of the population to see them financed through general tax revenue.

Their simple eligibility criteria also mean that they are relatively straightforward and cheaper to implement at national scale, even in low income settings with limited administrative capacities. This is exemplified by the cases of Zanzibar, which was able to reach 86 per cent coverage of its universal social pension in the first month of implementation,²² and Kenya where more than 600,000 people were reached in the first payment.

Moreover, while poverty-targeted programmes are often associated with social cohesion and sustainability issues, universal transfers, such as universal social pensions, tend to be much more popular with the general population, mainly because they are perceived as fairer and more transparent, and because everyone can expect to benefit from them. The inclusion of the politically powerful ‘middle class’ consistently results in higher overall transfer levels and political sustainability of programmes, as compared to poverty-targeted schemes.²³

“Benefits meant exclusively for the poor often end up being poor benefits”.

Amartya Sen, Nobel Prize winning philosopher and economist in *The Political Economy of Targeting, in Public Spending and the Poor. Theory and evidence* (1995)

Finally, poverty targeting can also undermine societal support for programmes, often resulting in low quality services or meagre transfers - as the Nobel Prize winning philosopher and economist Amartya Sen put it: “Benefits meant exclusively for the poor often end up being poor benefits”.²⁴

The challenges of targeting ‘the poor’

Means-testing requires complex, bureaucratic, and expensive techniques to identify those that are eligible to receive a social pension. Since actual incomes are difficult to establish and verify in lower and middle-income countries, poverty-targeted programmes largely rely on a methodology called ‘proxy-means testing’ (PMT), which attempts to predict a household’s level of welfare based on indicators derived from national household surveys such as demographics, human capital, type of housing, durable goods, and productive assets.

These approaches are particularly challenging to implement in low- and middle-income countries. First, it is difficult to establish and verify data on income or assets in largely informal economies. Second, administrative systems are often not equipped to collect detailed data on the economic situation of older people. Third, “the poor” does not exist as a fixed group - income levels of most of the population are relatively similar and fluctuating, and the differences between poor and non-poor older people tend to be small and constantly changing. Fourth, PMTs do not capture intrahousehold poverty differences, even though pensions are targeted to individuals. Fifth, asset ownership does not necessarily equate to income security. Finally, proxy-means testing is a very costly process.

Therefore, PMTs have been found to generate high exclusion errors, ranging from around 50 percent to 93 percent.²⁵ In Bangladesh and Thailand, for instance, over half of eligible beneficiaries were found to miss out from means tested schemes, and similar issues have been reported in the social pension in the Philippines.²⁶ Qualitative evidence also corroborates these findings, with many studies reporting complaints by community members that many living in extreme poverty were excluded from programmes using PMT targeting, while many they regard as affluent were included.²⁷

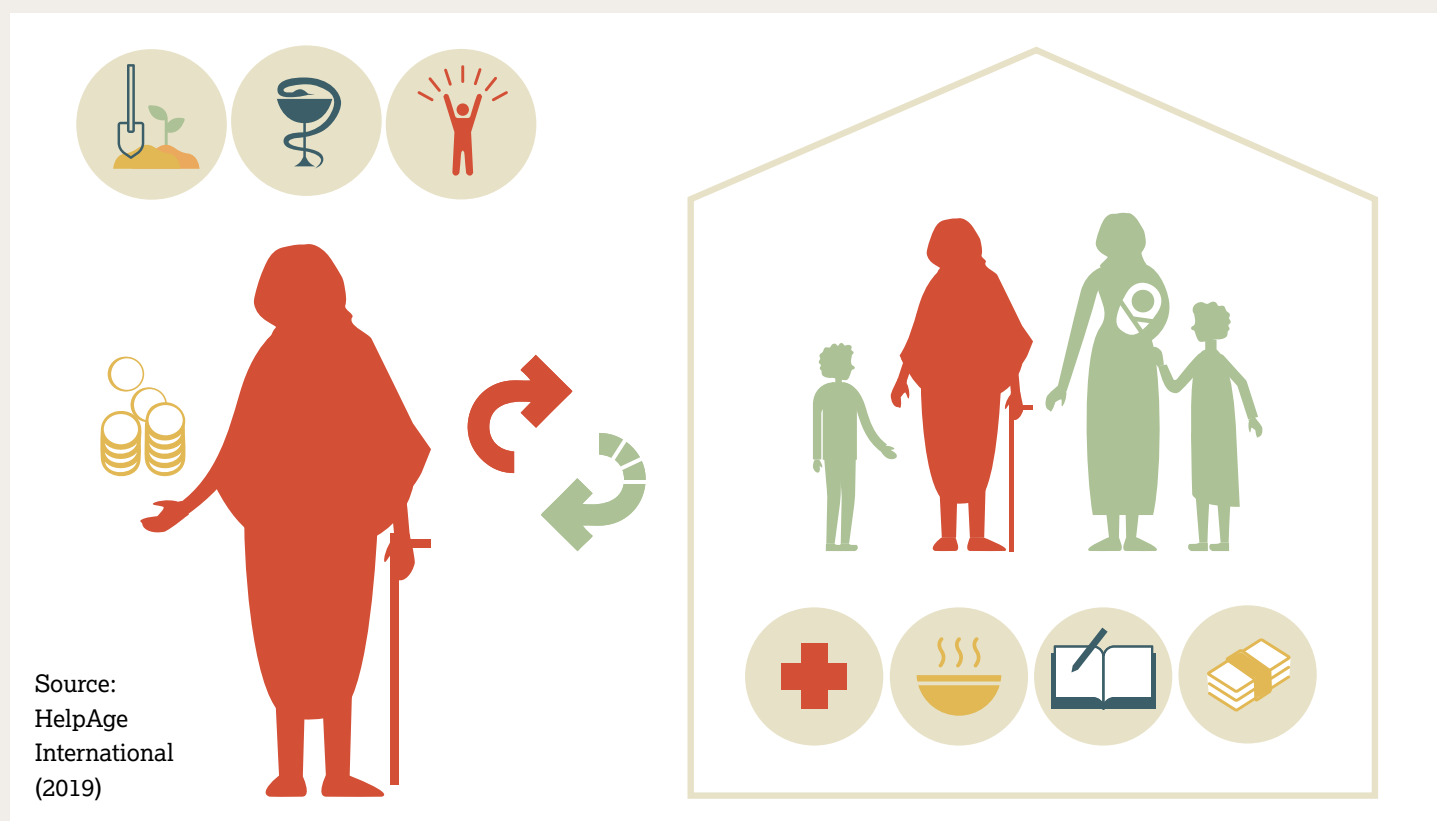
These high levels of inclusion and exclusion errors can create animosity between beneficiaries and non-beneficiaries, and weaken social relations. Complex eligibility criteria often mean that people do not understand why some in the community are included in programmes while others are not, creating resentment towards recipients and implementers, and undermining social cohesion, particularly in places where there is little difference in living standards between beneficiaries and non-beneficiaries.²⁸ The IMF notes that “the random nature of exclusion around the eligibility cut-off score, and the associated lack of transparency in defining eligibility, can generate significant community discontent.”²⁹

BOX 5

6 Impacts of social pensions

The following section introduces HelpAge's theory of change on social pension, and briefly presents the global evidence on the impacts of social pensions on older people, their households and communities.

Figure 8 Social Pension's Theory of Change



Social Pension's theory of change

The primary objective of pensions is to improve the economic status and wellbeing of older people at an individual level. Indeed, social pensions differ from many other cash transfers in low- and middle-income countries in that they target individuals, in this case older people, rather than households.

It is expected that receipt of a pension will result in a direct effect in the level income at an individual level, leading to **changes in recipients' patterns of expenditure, savings and investment**.

Social pensions are expected to support older people to meet their basic needs, particularly in the case of expenses which primarily benefit the older person as an individual, rather than the household as a whole. For instance, social pensions can be particularly important in **helping older people meet health expenses**, given the high levels of ill health and disability experienced by older people, and considering the high levels of out-of-pocket health expenditures in most countries.

Receipt of a pension may also result in **changes in the level and composition of other sources of income at the individual level, such as income from economic activities or transfers from family members**.

Pension receipt **may impact an older person's engagement in economic activities in different ways** –

it may enable older people to **reduce levels of work**, particularly physically intensive and undignified work; or it may provide **greater livelihood opportunities**, with increased investment and productivity of work undertaken.

The ability of a pension recipients to cover their basic needs **may reduce the amount of material support provided to them by family members**, although other factors may result in **increased levels of financial support**. Pension income may also allow older people to provide greater material and financial support to others, both within their households and beyond. These dynamics and potential **impacts on households are further discussed below**.

The above changes – having some income of their own; greater ability to meet their own basic needs; reduced need to undertake undignified work or beg for financial support; the ability to contribute to family and community life – are likely to lead to positive impacts on wellbeing and empowerment of older people.

Impacts on pension recipients' households

The vast majority of older people live with or in close proximity to their families, and are often part of rich networks of transfers to and from family members (particularly children and grandchildren). While recognising that these kinship networks transcend the boundaries of the household, these impacts are likely to be greatest at the household level. There are two primary mechanisms by which pensions can impact the households of pension recipients:

1. **The ability of a pension recipient to cover her/his basic needs may allow the family to shift some household funds to other needs.** Resources previously used to provide financial and material support to older people can be used for other purposes. This dynamic is often described as “crowding out” of transfers to older people but is rarely assessed in terms of how it may result in positive impacts for family members who can reallocate resources.
2. **Older people may share part of their pension.** Rather than being exclusively dependent on others, a pension enables an older person to be a contributor to family income. This may be through contributing to consumption pooled at a household or family level (e.g. making food purchases) or purchasing things for family members, for instance school uniforms.

These dynamics may have a direct impact on household income and expenditure, and intermediary impacts on areas including savings and debt, food security, and healthcare access. Household level impacts are likely to be influenced by household composition and the associated income-earning capacity of other household members.

All these effects are contingent on transfer's level, that is, if the transfer amount is low, it is unlikely that the pension would be used for anything other than supplementing food consumption on the most basic level. The international literature on cash transfers considers that the value of the transfer should be at least twenty per cent of the target population's consumption.³⁰

What does the evidence say?

Social pensions help older people and their households meet their basic needs and reduce poverty

Around the world, social pensions have been found to have a major impact on poverty and on older people's ability to meet their basic needs.

Increased income and expenditure:

- **China's** New Rural Pension Scheme has been found to increase household income by 18 percent and food expenditure by 10 percent.³¹
- **Vietnam's** social pension was found to increase the incomes of recipient households.³²
- The social pension in the **Philippines** is having a meaningful impact on the income and expenditure of recipients.³³
- The **Zanzibar** Universal Pension Scheme (ZUPS) has been found to have increased recipients' individual income, as well as household per capita expenditure. ZUPS recipients were also 11 percentage points more likely to think their household income is adequate compare to non-recipients.³⁴

“Because we did not get money in the past, some of the people were eating one meal, now the situation is better.”

Female social pension recipient from Zanzibar

Improved ability to meet basic needs:

- Qualitative research on **Nepal's** universal social pension show that it helps poor households meet basic subsistence needs.³⁵
- In the **Philippines**, the social pension has been found reduce the proportion of households without sufficient income for food by 8 percentage points.
- In **Zanzibar**, the ZUPS has increased per capita household food expenditure, and increased the probability of a household eating three meals a day by 7 pp.
- In **Malawi**, the SCTP increased by 12 pp the proportion of households eating more than one meal per day.
- **Myanmar's** Dry Zone social pension pilot has been found to decreased household debt by 60 per cent.

“The pension is what I depend on. There is nothing except the pension.”

Female social pension recipient from Zanzibar

Poverty reduction:

- In **Thailand**, according to the World Bank, 65 percent of poverty reduction amongst older people can be credited to the expansion of the universal social pension between 2006-2010.³⁶
- **Uganda's** social pension increases household expenditure by 33 percent.³⁷

- In **Malawi**, older people headed households receiving the SCTP were 15 percentage points less likely to live below the ultra-poverty line.³⁸

“Even though the amount is low, it is very useful for me. Before, I felt depressed when I was sick, but now I can take medicine and buy things, as I prefer. Now, I am happy.”

Female social pension recipient from Myanmar

Social pensions improve older people’s health and increase access to healthcare

Studies often find that pensions improve older people’s health and increase access to healthcare.

Increased health expenditure and access to healthcare

- **Philippines’** social pension increased health spending of recipients.³⁹
- In **Zanzibar**, the ZUPS has been found to increase individual and household-level health expenditure.
- **El Salvador’s** social pension increased the likelihood of seeking medical attention by 5 percent.⁴⁰
- In **Mexico City**, households receiving the universal pension were 25 percentage points less likely to not being able to buy medicines because they were too expensive.⁴¹
- In **Malawi**, the SCTP increased by 10 percentage points the probability of seeking treatment for an illness or injury at a public or private health facility among individuals aged 65 and over.

“I now have my own money without being dependent on anyone. We were not used to see money regularly but now we do. This is a proud thing.”

Female social pension recipient from Zanzibar

Improved health outcomes

- **Vietnam’s** social pension was found to reduce the number of self-reported health problems.⁴²
- **China’s** rural social pension significantly reduced rates of disability, underweight and mortality amongst older people.⁴³
- **Myanmar’s** Dry Zone social pension pilot was found to decrease the occurrence of illness or injury among recipients by 15 percentage points.

Social pensions enhance self-esteem and dignity of older people

Having a source of income to call their own can give older people a renewed sense of dignity and autonomy.

Reduction in depressive symptoms

- **China’s** rural social pension has been found to reduce the prevalence of depressive symptoms amongst older people by 40 percentage points.⁴⁴

- **Mexico’s** universal social pension has been found to reduce depressive symptoms, and feelings of sadness.
- **Peru’s** social pension has been found to reduce levels of depression by 9 percent.
- **Zanzibar’s** social pension has had a positive impact in reducing negative feelings such as sadness.

Improved outlook

- **Malawi’s** SCTP has been shown to improve perception of future wellbeing by 19 pp.

Improved agency and autonomy

- **Mexico’s** universal social pension has been found to increase participation in household decision-making and increase empowerment.⁴⁵
- **Peru’s** social pension has been found to increase recipients’ sense of contribution and self-worth by 12 per cent and 7 per cent respectively.⁴⁶
- Quantitative evidence suggests that **Myanmar’s** Dry Zone pension pilot has given recipients a sense of dignity and independence, by allowing them cover some of their own expenses, reducing their reliance on children and other family members, or, in the case of those who have no support, the charity of others.

“Now we have hope and we can make plans about our future that is why we are joining Banki Mkhonde [Village Bank] as one way of investing for the future.”

Older female recipient of Malawi’s SCTP

- Qualitative evidence suggests that **Zanzibar’s** ZUPS has given recipients a sense of dignity and independence by allowing them cover some of their own expenses, reducing their reliance on children and other family members. Community leaders (Shehas) and health workers also noticed improvements in older people’s wellbeing since the introduction of the ZUPS.

Social pensions strengthen social relations and informal support

A social pension can also strengthen systems of informal support and care. One concern sometimes raised about formal social protection is that it could undermine existing informal systems support within families and communities. However, evidence suggests that pensions can have the opposite dynamic and – in fact – strengthen informal support and social relations.⁴⁷ Anthropological studies across the world have highlighted how people build kinship relations by offering “gifts” to others. So, by receiving pensions, older people are in a position to strengthen their kinship relations, as they have resources or “gifts” to share with others.⁴⁸

No “crowding out” of family support

- In **Myanmar’s** Dry Zone pension pilot, there has been no significant change in prevalence, or the amount of transfers received by households from family members outside the household, from non-family members, from religious organisations and scholarships.

- In **Zanzibar**, ZUPS beneficiaries were more likely to have received support from family.

Improved social inclusion

- Quantitative evidence suggests that **Myanmar's** Dry Zone pension pilot allowed older people to support others and actively contribute to their communities, potentially strengthening their social relations.
- Quantitative evidence suggests that **Malawi's** SCTP Qualitative has had a positive impact on the self-esteem and inclusion of older people by enabling beneficiaries to take part in community activities, which often involve some costs or financial contributions.

Social pensions also improve children's wellbeing

Many older persons use their pension income to care for their grandchildren, thereby building their capabilities and future productivity.

- Evidence from **China** has shown that among children aged 15 and below, the pension scheme has led to more pocket money and caring received from grandparents, as well as improved health and higher schooling rates.⁴⁹
- In **Namibia** older people give around half their pensions to children to help with schooling, food and other costs.⁵⁰

“We are caring for orphans and we are able to support them because of the assistance we get from SCTP.”

Older male recipient of Malawi's SCTP

- In **Brazil** and **South Africa**, over 80 per cent of pensioners share the majority of their pensions with others, much of it with children.⁵¹
- **Georgia's** pension accounted for 69 per cent of the reduction in child poverty.⁵²
- **Uganda's** social pension has contributed reduction in stunting and a 10 percent increase in the number of meals eaten each day by children aged 0-5 years.⁵³

- In **Zanzibar**, the ZUPS is estimated to have increased household education spending in children's education.
- **Malawi's** SCTP has had positive effects on school attendance (10pp), attendance without interruptions (12pp), highest grade completed (0.5) of children living in older people headed households.

“It helps a lot. When I receive it, the children celebrate at home as they are sure that that day they will eat nice food. It becomes celebration day to them.”

Male social pension recipient from Zanzibar

Social pensions support inclusive economic development and reduce inequalities

Social pensions can create multiplier effects which boost local economies. Impact evaluations of cash transfers and social pensions often find that local traders record increased business due to pensioners having more money to spend, which increases incomes of traders and producers.

- Research in **Thailand** on how older people spent their pension found that most was spent, or shared, within the community.⁵⁴
- In **Africa**, research has found income multipliers between 1.27 and 2.52. This implies that for every dollar put into a community through a transfer between 0.27 to 1.52 extra dollars were circulating in the local economy.⁵⁵

High levels of inequality reduce economic growth and pensions are a key tool used by countries to bring down inequality.

- **Brazil's** near-universal pension system is estimated to have reduced inequality by 12 per cent.
- **Georgia's** universal pension has reduced the Gini coefficient – a measure of inequality - from 0.41 to 0.37.⁵⁶

7 The affordability of universal social pensions

The cost of a universal pension is influenced by two key factors: the size of the population targeted, and the benefit level. The cost of a universal pension would vary significantly depending on the parameters chosen.

The size of the eligible population for a universal pension is determined solely by the age of eligibility. There is a strong case for low-income countries to adopt relatively low age of eligibility for universal pension given the low life expectancy. However, many low- and middle-income countries have chosen to set higher ages of eligibility as a pragmatic starting point for their social pensions and to gradually reduce the age of eligibility over time. Nepal, for instance, introduced its universal pension in 1995 for older people aged 75 and over, but reduced the age to 70 in 2008 (60 for Dalits and those resident in the Karnali zone). Bolivia introduced its universal pension for all older people 65+ in 1997, reducing the age to 60+ in 2008. Other countries including Mexico, Vietnam, and Myanmar have all followed a similar path.

“Countries agreed to establish social protection for all, but many feel they can’t afford it. In reality, we can’t afford to be without it”

Archbishop Desmond Tutu, December 2014

Benefit levels for a universal pension would ideally be set at the poverty, however it may take some time to reach this ambition. A benefit level between 10 and 20 per cent of average income would be in line with most low-middle income countries.

While a benefit with lower age of eligibility and an adequate benefit level would be optimal, identifying which scenarios are feasible in the short, medium- and long-term means taking account of the potential to create “fiscal space”. **Countries have a number of low-cost options for gradually expanding a universal pension.** For example, by starting with a higher eligibility age and relatively low transfer level and gradually decreasing the age and increasing the amount, as fiscal space grows with economic development.

Global experiences and research demonstrate that universal social pensions are affordable even in low-income countries. Recent global research⁵⁷ into the affordability of universal social pensions shows that:

- 79 countries would be economically able to shift from targeted social pensions to basic universal social pensions with less than 1.2 percent of their GDP;
- 16 countries have means-tested, or geographically limited, social pensions that more expensive than a hypothetical basic universal social pension;
- An arbitrary threshold of “economic development” is not a limitation for implementing social pensions since at least 17 countries with relatively low economic development have successfully implemented universal social pensions.

The experience of low and middle-income countries shows that they have been able to use innovative approaches to financing social pensions. Countries such as Mexico, Brazil, Thailand, Costa Rica and Bolivia demonstrate a variety of sustainable financing methods from general taxation as well as payroll and consumption taxes, expenditure switching and taxing natural resources.⁵⁸ Importantly, evidence from several countries shows that fiscal space for new social protection expenditure can be extended without reducing economic growth. One way to do this is by increasing tax rates, introducing new taxes, broadening the tax base, and improving tax collection.⁵⁹

Above all, fiscal space needs to be considered in a country-specific context, as it is dependent on the specific national circumstances, including political priorities and macroeconomic conditions. Eventually, the chosen financing option will be based as much on political debates and decisions as on technical considerations. What is clear, is that there are a number of options open for investigation for countries aiming to increase fiscal space in order to fund social pensions in the long term.

More information on pensions and social protection

HelpAge's Knowledge Hub on Social Protection: [Pension Watch - HelpAge Social Pensions Database](#)

[socialprotection.org](#) - An online member-based knowledge sharing and capacity building platform on social protection

[Social Protection Platform of the International Labour Organization](#)

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