International Conference on Social Protection for the Elderly

Selasa, 22 May 2018
Jakarta, Indonesia
An overview of social pensions

by Stephen Kidd
New Zealand’s Minister of Finance, when arguing for his country’s universal pension program, noted:

“The ability to retire in a degree of personal comfort, without worry and with dignity, is the least that citizens can expect in a modern, developed economy.”

However, people “cannot expect the state to maintain in retirement the incomes people became accustomed to during their working lives.”
Aims of pension systems

1. To ensure that everyone has access to a minimum income once they reach old age (tax-financed social pension)

2. To enable working age people to undertake consumption smoothing, by giving up some income during employment which they can draw on once they retire, thereby providing themselves with a higher income in old age (contributory pension)

3. Offer insurance against the [welcome] risk of long life, guaranteeing people an income for as long as they live.
There are a variety of pension system models

**Targeted social pension**

- **Targeted pension**
- **Private pension**
- **Social insurance pension**

Coverage gap among 'missing middle'

**Inclusive social pension**

- **Tax-financed Citizens' Pension**
- **Over time, social insurance scheme expands**
- **Social insurance pension**
- **Private pensions**
Introduction of social pensions across the world

First national state pension was introduced in 1889, by Bismarck in Germany.

It was a contributory pension.

But, Bismarck had originally proposed a tax-financed social pension.
Higher coverage of pensions is associated with higher transfer values

The higher the coverage, the higher the value of the transfer.

This is due to the popularity of schemes with higher coverage.

Often, promises to introduce pensions have helped governments win elections.

Average transfer value is around 15% of GDP per capita: in Indonesia, this would translate into a transfer of IDR 700,000 per month.
Efficacy of types of pension in reaching the poorest older persons

**Georgia’s universal pension**

- Exclusion error

**India’s targeted pension**

- Correctly excluded
- Inclusion error

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Percentiles of households (ranked based on consumption expenditure per adult equivalent)
Impacts of social pensions on child wellbeing

- **Pensioners share their transfer with others, in particular their grandchildren**
  - **Namibia**: half of pension given to children
  - **South Africa and Brazil**: 80% share majority of pension with others

- **Children living with pensioners have better nutrition**
  - **South Africa**: Children in pensioner households are 5 cm taller
  - **Uganda**: Increase in height of 0.86 standard deviations

- **Children are more likely to attend school**
  - **Brazil**: Pension reduced enrolment gap among girls by 20%
  - **Bolivia**: School enrolment is 8% higher in pensioner households
Increase in employment and income generation

Pensioners themselves more likely to engage in income generating and entrepreneurial activities

Uganda: 45% increase in older people buying productive assets
Bolivia: investment in productive assets improved consumption by 50%

Grandparents care for grandchildren enabling young parents to return to the labour force

South Africa: Young people more likely to migrate to towns for work
Uganda: 9% increase in employment and 16% increase in hours worked

Older people withdraw from labour force, opening up opportunities for younger people

Mexico: 20% of recipients withdrew from labour force
Uganda: Younger people able to replace older people in work
Impacts happen over time:
Example from South Africa

Mamzoli cares for one child and six grandchildren
Two sons live in the city

At age 60 years, she began to receive a South African pension: around US$80 pm

Elder son reduced remittance he sent home and, therefore, could continue his education

Now, everyone has a higher income and better lives.
And, it’s all down to a pension……..

Eventually, they bought Mamzoli a fridge and she now has a business selling meat and beer

He got a better job and helped his brother continue in school. He also got a better job
More dynamic local economies

Injection of cash into communities results in significant multipliers as cash circulates.

Entrepreneurs and shopkeepers are able to sell their goods to a larger market, thereby building their businesses.

Jobs created, including through older people offering employment.

Namibia, Uganda and Bangladesh: Strong evidence of traders benefitting from sales to older persons.

Uganda: In districts with pension, there was a 6 percentage point increase in labour and 80% increase in median wages.

Multipliers in local economies

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Importantly, older people live better lives, in greater dignity

**Uganda:** ‘My children and grandchildren came to reality when the pension came in. I was a burden to them but I now share in their life with my small support. We are more united than before the pension’

**Brazil:** 90% of pensioners express satisfaction with family relations and believe that they are shown respect by community members

**South Africa:** only 22% of pensioners dissatisfied with life

**China:** Disability rate among older people fell by 3% as a result of the rural pension, as well as reduced mortality

**Mexico:** Evidence of higher cognitive ability among older people

**Across all nations, the main beneficiaries of social pensions are women**
Conclusion

• All countries end up developing comprehensive old age pension systems, with coverage for all citizens

• Pensions not only benefit older people, but other members of society and the nation as a whole, including generating greater economic growth

• Politicians who introduce pensions gain significant political rewards: for example, in recent years, the promise of universal old age pensions have influenced elections in Peru, Kenya, Lesotho and Mauritius

• Social pensions for all citizens are ‘contributory’ schemes, since they are given in recognition of the contributions of all citizens to the nation over their lifetimes