What is the role of social pensions in Asia?

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Social pensions describe a range of tax-financed programmes providing transfers to older people aimed at improving their income security

Social pensions are at the core of pension provision in high income countries, but scarce in low and middle income countries

Social pensions can be an effective policy response in a variety of contexts:

Reducing and preventing old age poverty and vulnerability

Expanding the coverage of social protection systems
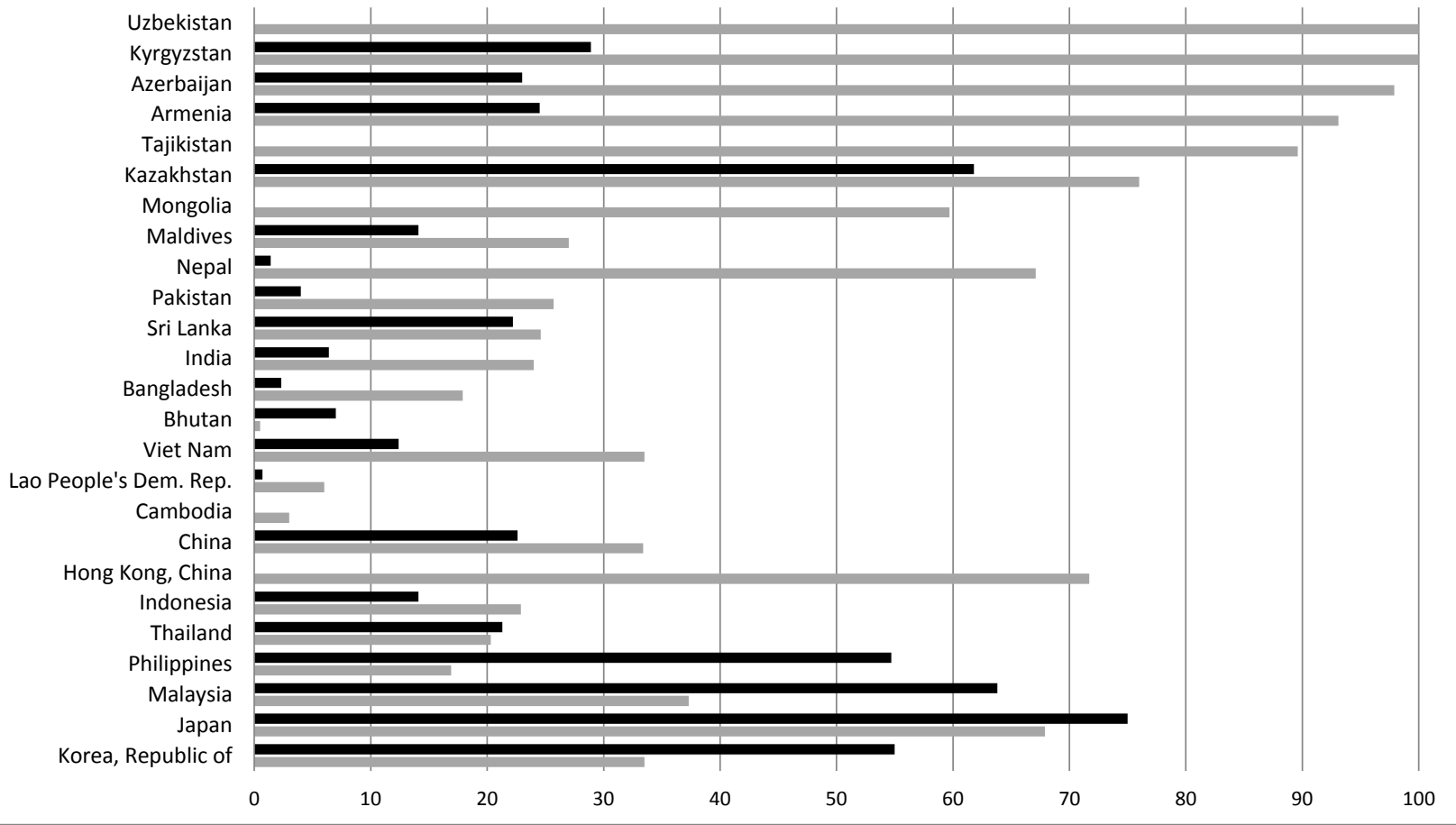
Addressing the effects of rapid demographic change

Addressing the effects of rapid urbanisation and industrialisation

Are social pensions needed in Asia?

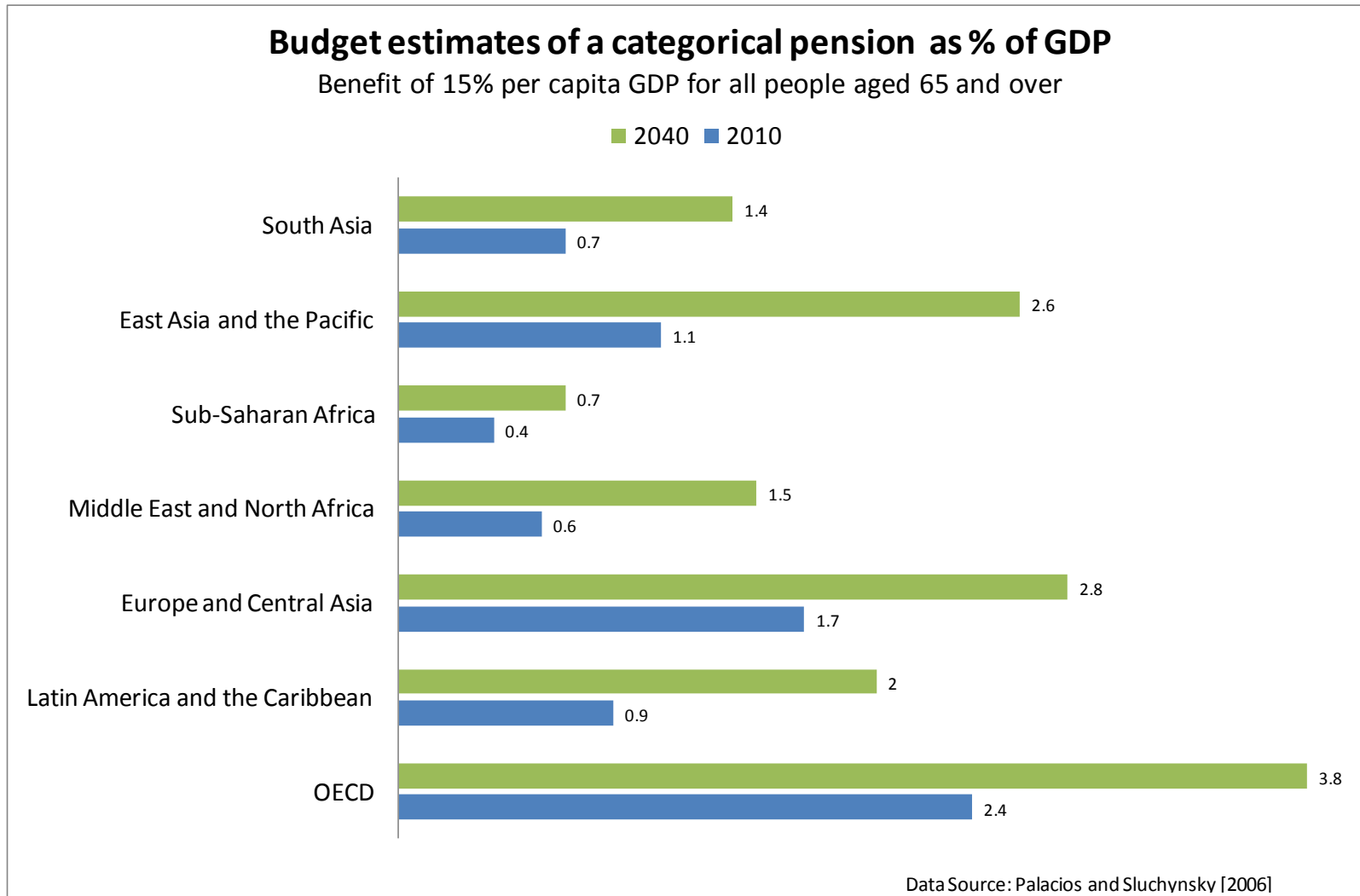## Share of population above retirement age receiving a pension and share of active contributors in the working population 2010/11

■ Active contributors to a pension scheme in the working-age population (%)

■ Share of population above legal retirement age in receipt of a pension (%)

Demographic trends suggest rising social pension budgets

Budget estimates of a categorical pension as % of GDP

Benefit of 15% per capita GDP for all people aged 65 and over

■ 2040 ■ 2010

Region	2040	2010
South Asia	1.4	0.7
East Asia and the Pacific	2.6	1.1
Sub-Saharan Africa	0.7	0.4
Middle East and North Africa	1.5	0.6
Europe and Central Asia	2.8	1.7
Latin America and the Caribbean	2	0.9
OECD	3.8	2.4

Data Source: Palacios and Sluchynsky [2006]

Linking poverty reduction effectiveness, incentives and budgets

The 45° line in the upper panel links the points where gross income = net income

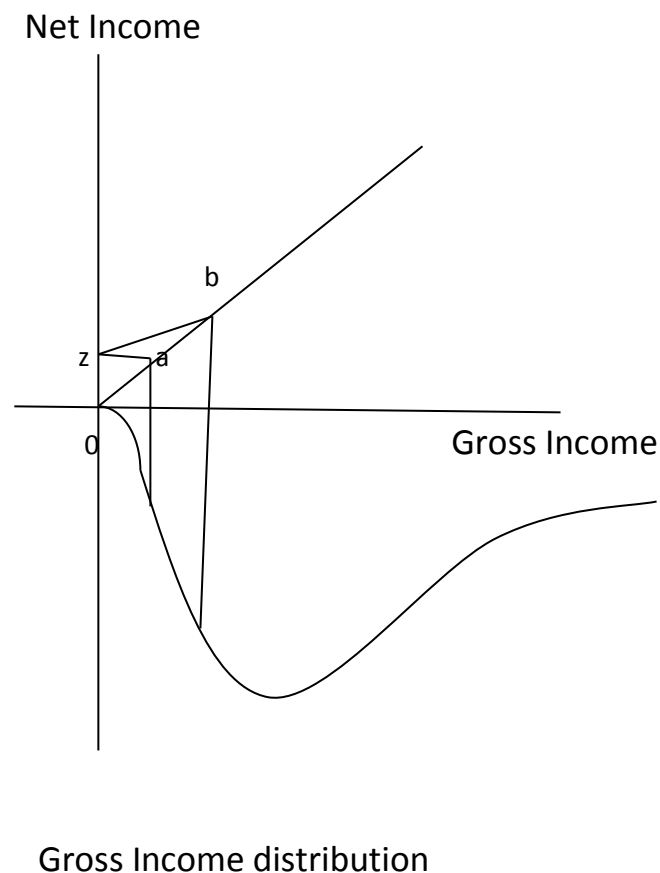*The lower panel shows the distribution of income (lognormal distribution)*

A social pension guarantees a minimum income z through a transfer equal to the difference between older people's income and the poverty line z or za0

The transfer eradicates poverty, but impacts on incentives, as beneficiaries with incomes below z could opt not to work and get z. The marginal tax rate is 100%
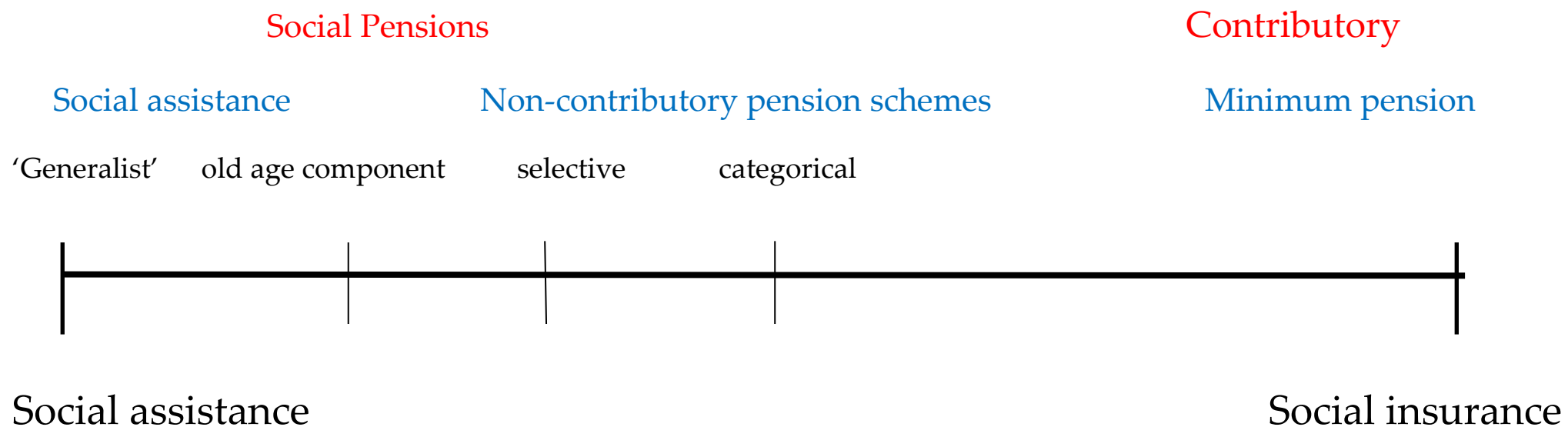
A taper zb would reduce the marginal tax rate, but at a significant cost, given the distribution of gross income.

Trade-offs between poverty reduction, incentives to work and budgets are key to assessing policy options

Poverty reduction, incentives, and budget trade-offs

Gross Income distribution

Policy options for old age income security

Social Pensions   Contributory

Social assistance   Non-contributory pension schemes   Minimum pension

'Generalist'   old age component   selective   categorical

Social assistance   Social insurance

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Social assistance   Social insurance

Policy nodes:
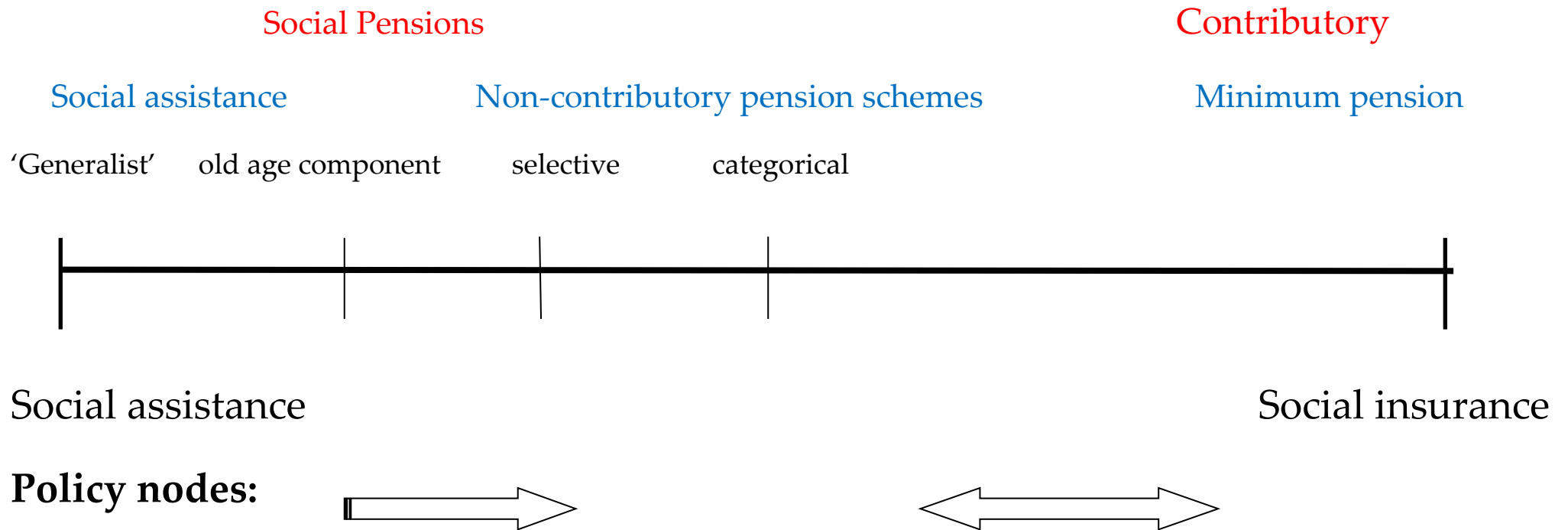
Social assistance versus non-contributory pensions

On paper, comprehensive social assistance could be sufficient;

- If it covers all households in poverty, it guarantees horizontal equity

- A household approach has advantages over an individual approach

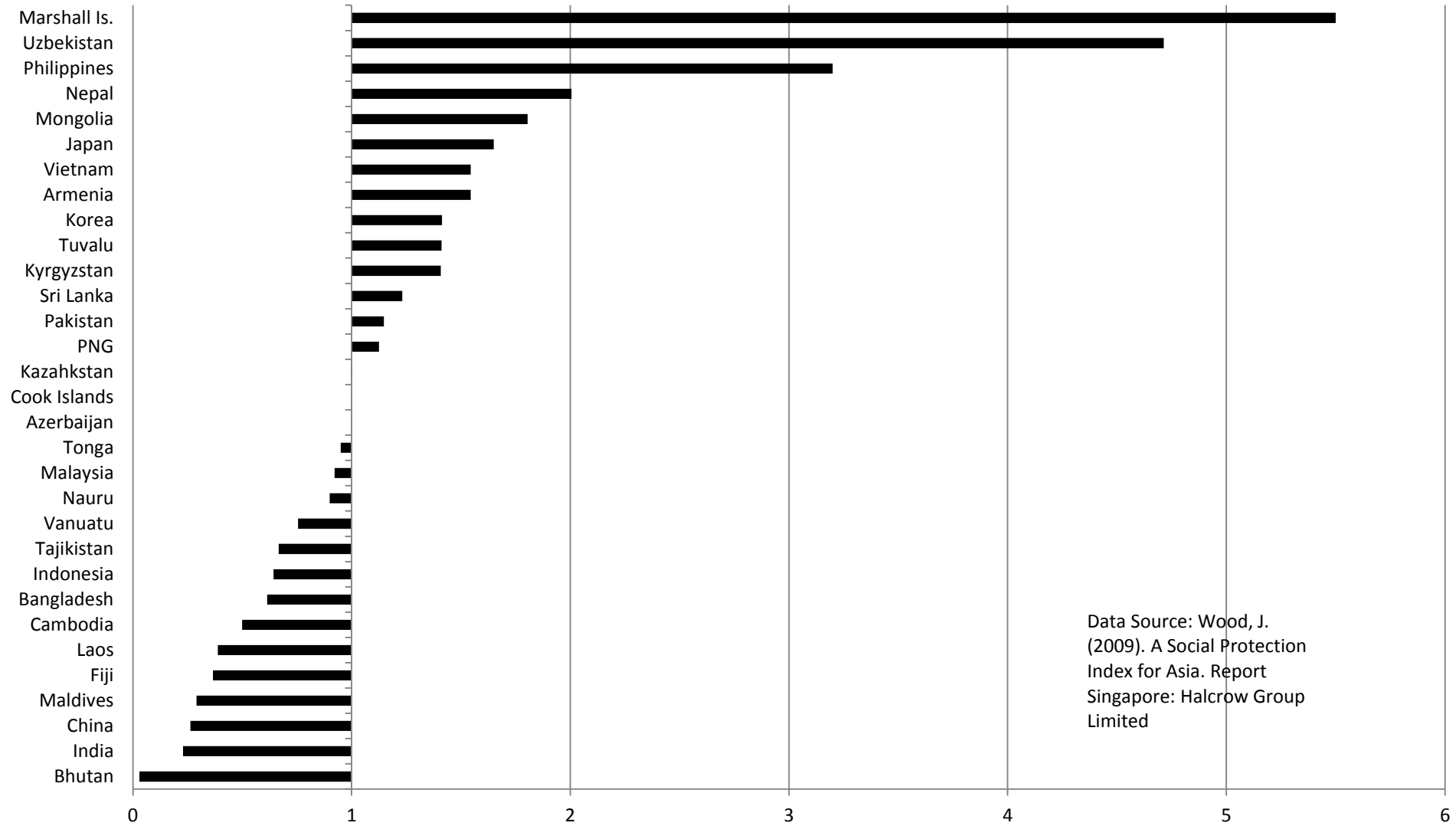For developing countries, dedicated programmes can be justified if:

1. In practice, social assistance and other development interventions exclude older persons;

2. Providing a close correlation exists between old age and poverty, categorical transfers to older people could be more generous than social assistance, with less disincentive effects [Akerloff 1978]

    …and political economy implications!

Pro-old or Pro-poor? The relative reach of transfers

■ ratio of % 60+ to % poor reached with transfers

Country	Ratio
Marshall Is.	5.5
Uzbekistan	4.7
Philippines	3.2
Nepal	2.0
Mongolia	1.8
Japan	1.65
Vietnam	1.5
Armenia	1.5
Korea	1.4
Tuvalu	1.4
Kyrgyzstan	1.4
Sri Lanka	1.2
Pakistan	1.1
PNG	1.1
Kazahkstan	
Cook Islands	
Azerbaijan	
Tonga	0.97
Malaysia	0.95
Nauru	0.9
Vanuatu	0.75
Tajikistan	0.7
Indonesia	0.65
Bangladesh	0.65
Cambodia	0.5
Laos	0.4
Fiji	0.38
Maldives	0.3
China	0.28
India	0.22
Bhutan	0.05

Data Source: Wood, J. (2009). A Social Protection Index for Asia. Report Singapore: Halcrow Group Limited

Means tested versus categorical social pensions?

Means tested social pensions require smaller budgets, but

       Impact on incentives to work and save

       Impact on living arrangements and intrahousehold dynamics

Categorical pensions often receive stronger political support

    … and are easy to administer

    …but the required budgets will rise over time

    …where the correlation between old age and poverty is weak, poverty reduction will be limited

Combining social pensions with contributory pensions

Social pensions extend pension coverage, but may reduce contribution incentives for those in the labour force

> Workers with low contribution density and/or secondary earners might drop out
>
> with implications for informal employment (…and productivity?)

Strategies to strengthen incentives to contribute might reduce welfare of older people:

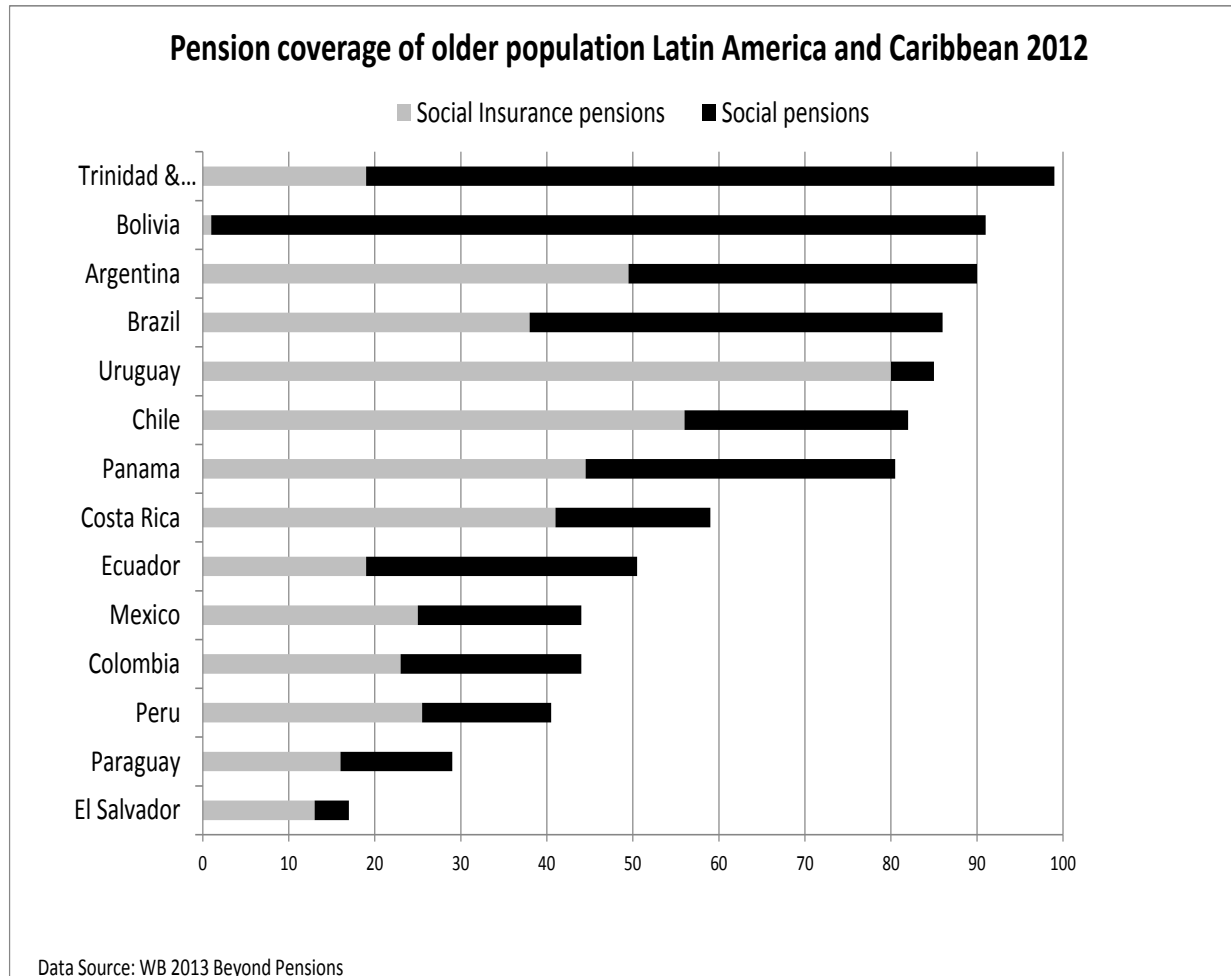> Vesting periods (years of contribution)
>
> Differential benefit level and age of entitlement
>
> Public subsidies to encourage affiliation to contributory pension schemes

For countries with well-developed contributory pension coverage, integration with social pensions requires difficult trade-offs

Insights from Latin America

Expansion of social pensions – regional mean coverage is 60%

Pension coverage of older population Latin America and Caribbean 2012

■ Social Insurance pensions ■ Social pensions

Trinidad &...
Bolivia
Argentina
Brazil
Uruguay
Chile
Panama
Costa Rica
Ecuador
Mexico
Colombia
Peru
Paraguay
El Salvador

0   10   20   30   40   50   60   70   80   90   100

Data Source: WB 2013 Beyond Pensions

Why social pensions?

Stagnation in social insurance coverage

Informality

Policy focus on poverty and inequality firm

Three main strategies:

- Categorical
- Targeted on uncovered elderly
- Means tested

Conclusions

- A range of policy options are available to address basic old age income security: social assistance, non-contributory pensions and minimum pensions under contributory schemes

- Assessing alternative policy options requires paying attention to the trade-offs between poverty reduction effectiveness, incentives and budgets

- On paper, social assistance can ensure a basic minimum, but in practice many interventions exclude older persons and social pensions might be necessary and desirable.

- Categorical social pensions have lower administration costs and enjoy stronger political support, but will require rising budgets over time.

- In countries with well-developed social insurance, considerable care is required to ensure social pensions do not weaken contribution incentives but many available strategies to strengthen incentives have adverse effects on the welfare of older people.

Country	Design	Coverage (m=million)	Benefits	Reforms
				Appendix. Summary information on social pensions for selected countries in Asia
Japan	Several non-contributory pension schemes: full-time housewives; disabled; low income exempt from paying contributions.	Housewives (10.5m); low-income old age qualified (5.84m).	Equivalent to the basic pension in contributory pension schemes.	Discussions around a categorical pension financed with a rise in consumption tax.
Korea	Minimum Living Standards Scheme (2000) income maintenance benefits to poor households including older people. 2007 National Pension Scheme includes a means tested non-contributory basic old age pension, financed from contributory scheme.	60% of population aged 65 and over; coverage exceeds the share of older people in poverty but it is less than a categorical pension.	Around 5% of National Pension Scheme affiliates' monthly earnings; less than 20% of national poverty line.	2007 Basic Old-Age pension Law is being implemented.
Nepal	Social pension introduced in 1995, categorical for older people, selective for widows. Implemented by public agencies.	Citizens aged 70 and poor widows aged 60 and over. Covers 76% of eligible population.	Flat rate age-related benefits: monthly US$ 2-6.5 (NRs 150-500). In 2007 scheme absorbed 0.23% of GDP.	2009, lower age of entitlement (from 75 to 70) and improved benefit levels.
Thailand	Old Age Allowance initiated in 1993 and gradually expanded, more recently in April 2009.	Citizens aged 60+ not receiving a government pension; covers 6m or 80% of older population; 0.01% GDP.	Flat rate monthly benefit is US$14 (B500) (around 34% of poverty line).	Planned upgrade of benefit as resources permit. Benefits rising with age.
India	National Old Age Pension Scheme (1995) Social assistance pensions for elderly, widows and disabled; persons with a below poverty line card (BPL); managed and supplemented by states.	Varies by state, but national estimates suggest it covers 7%- 10% of older people (5m) and widows (3m).	Flat rate but varies due to co-contribution by state government; 2005/6 monthly basic benefit was US$4.5 (Rs2200), central government budget is 0.04% GDP.	Recent expansion of coverage to all Below Poverty Line card holders and upgrade in benefit level.
Bangladesh	Old Age Allowance and Distressed Widows Allowance introduced in 1997/8, community selection & implementation; people aged 57 and over; means tested.	Fixed number of beneficiaries per village (15 oldest and poorest in each ward); in 2006 1.6m beneficiaries.	Flat rate monthly benefits US$ 4 (Tk300); scheme absorbs 0.12 of GDP.	

Appendix 1 continued. Summary information on social pensions and social assistance covering older people for selected countries in Asia/ continued…

Country	Design	Coverage (m=million)	Benefits	Reforms
Philippines	Legislation introduced in 2010, social pensions for people aged 70 and over; means tested.		Flat rate monthly benefit is US$11 (Ph$500).	
Vietnam	Social pension introduced in 2004, people aged 60 and over; elderly living alone in poor households, or with spouse needing care; elderly 80 and over not receiving pension or social allowance.	Qualification age is 80 years. 119,068 (2009) in first category; and 691,120 (2009) in second category; or 10% of elderly and 50% of social allowance recipients	Monthly benefit is US$6 (180,000 Dong).	In 2004 age of eligibility was 85, then 60 plus included in 2006, and reformed in 2007.
China	Dibao and Wubao provide assistance to elderly, disabled, children, later on extended coverage to all below poverty line. Means tested.	Urban Dibao covers 22m in 2008 and has been extended to rural areas (around 46m additional beneficiaries); Wubao covered 5.3m (5% of older people in rural areas) in 2007.	Variable rate benefits: Dibao provides cash and in kind benefits around US$20 per month on average; Wubao benefits are mainly in kind.	2009 experimental rural pension scheme to achieve full nationwide coverage by 2020; basic non-contributory component (US$8 is central government basic rate).
Kyrgyzstan	Monthly Social Benefit Scheme provides assistance to vulnerable categories: older people without pensions, disabled children, orphans.		2009 62,100 beneficiaries (all categories); 1.2% of state budget; Benefit is US$15 for older people.	
Sri Lanka	Public Welfare Assistance (Mahajanadara 1939); means tested benefit to destitute persons, including older people; means tested; also Samurdhi (1995) national poverty alleviation programme.	Approximately 60% of beneficiaries of PWA are elderly people.	US$ 1-4 per month.	

Sources: Pension Watch at http://www.pension-watch.net/country-fact-file/; and (Moon 2009; Takayama 2009; Barrientos, Niño-Zarazúa and Maitrot 2010; Dutta, Howes and Murgai 2010; Weber 2010)