

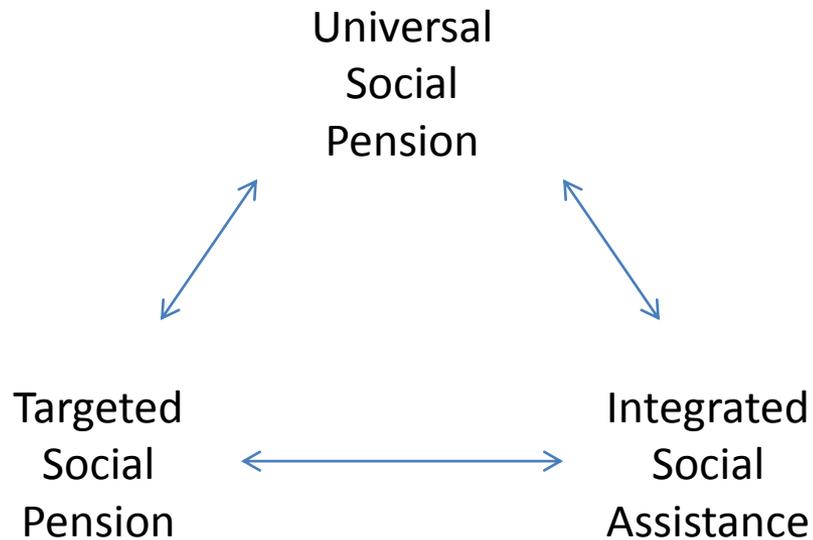
# Social Assistance vs. Social Pensions

Mark C. Dorfman

Social Safety Nets Course

December 9, 2013

# Options for non-contributory support to the elderly



# Universal Social Pensions

- Advantages:
  - Eliminates need for targeting
  - Fewer issues of disincentives for labor supply and savings, especially pension contributions
  - Political economy favorable
- Disadvantages
  - High cost for benefit adequacy
    - Kakwani and Subbarao 2004: 70% of poverty threshold to those above 65 in 15 African countries – 0.7% -2.4% of GDP
    - While most countries spend 0.5-2% of GDP on ALL targeted transfers
    - Projected spending can rise much higher with aging
  - Administration still requires key processes including identification, enrolment and transactions/payments.
  - Horizontal equity

# Targeted Social Pensions

- Advantages:
  - Reduces overall cost (even with targeting cost)
  - So that for the same cost, benefits can be higher or eligibility age lower
- Disadvantages
  - Errors of inclusion and exclusion
  - Administrative challenge and cost to est. a targeting system
  - Increased distortions, in particular to save for retirement in voluntary or mandatory schemes

# Integration with General Social Assistance

- Advantages:
  - Minimizes administrative costs, avoids duplication of functions
  - Likely to maximize poverty reduction impact for given budget envelope
  - In high co-residence situations, the two targeted approaches should converge
- Disadvantages, other considerations
  - Concerns over disincentives for labor supply and savings
  - Re-certification/graduation issues may differ
  - Intra-household distribution may not be desirable

## Tradeoffs between Universal and Targeted Social Pensions

	Universal Social Pension	Targeted Social Pension
Fiscal affordability & cost effectiveness	Costly, particularly for aging societies	Can increase the benefit or lower the qualification age for the same cost
Effectiveness in addressing elderly poverty - Targeting Efficiency	Strong evidence of impact on reducing elderly poverty (but at the expense of broader impact on poverty reduction?)	Varying levels of errors of exclusion and inclusion.
Administrative efficiency	Generally less costly than targeted benefit	Generally more costly than universal benefit.
Incentive Issues	Least adverse labor markets and savings incentives effects, yet any guaranteed income support may lead to lower savings.	Should discourage savings the most (incl. pension contributions), but with low contr. coverage, ability to 'game' the system will be negligible.
Institutional requirements	UID, enrollment, payment system	Same as Universal + Targeting system

# Some Criteria for the Establishment or Expansion of a Social Pension

Contributory scheme coverage	Low	High
Existing Social Assistance	Limited or non-existent	Broad, with high spending ratio
Poverty ratio – elderly/non-elderly households	High	Low



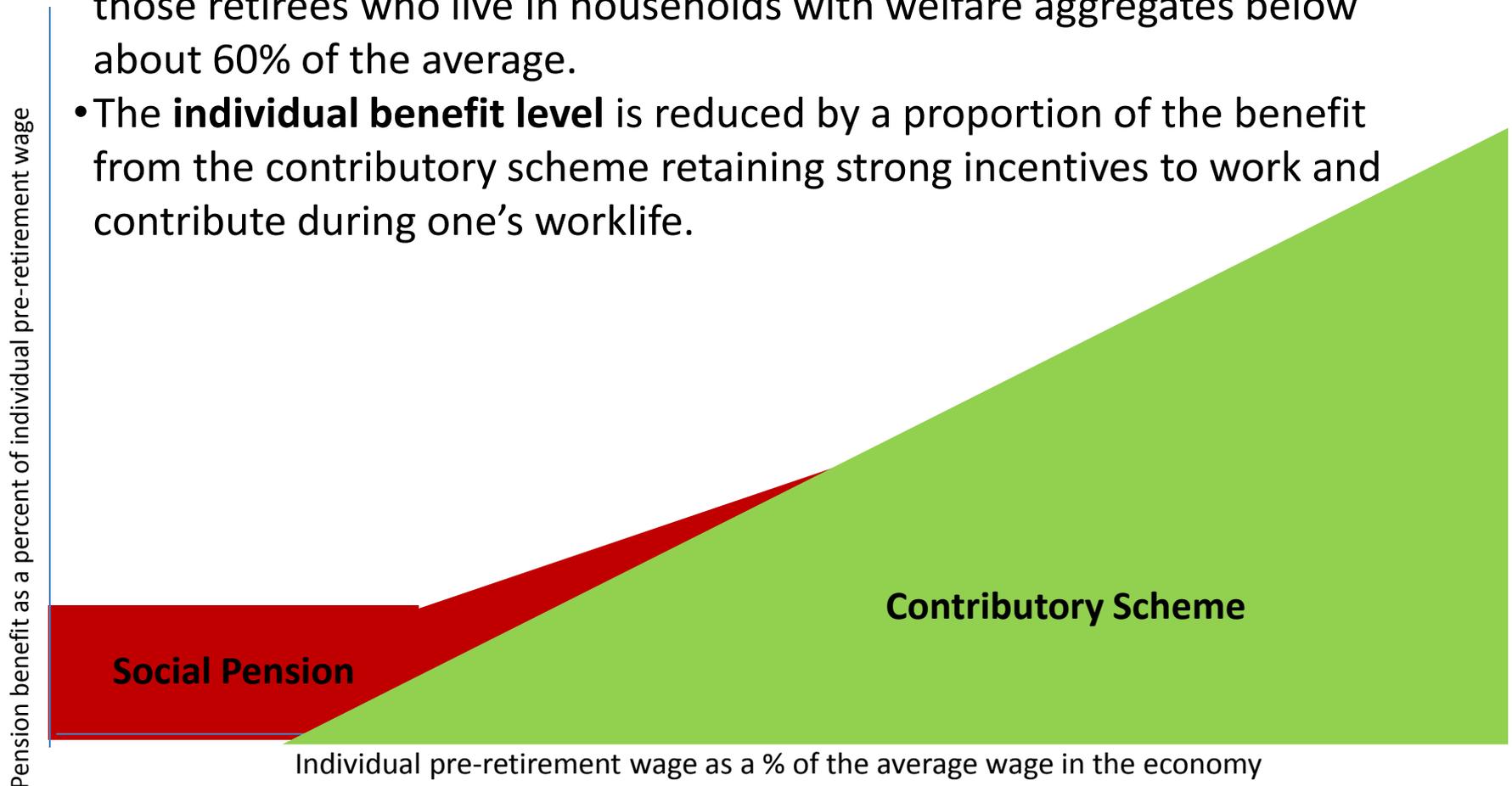
Supporting



Detracting

## A Hybrid Option – Addressing coverage gaps while maintaining strong labor market incentives

- In Chile, **eligibility** for a non-contributory social pension is provided for those retirees who live in households with welfare aggregates below about 60% of the average.
- The **individual benefit level** is reduced by a proportion of the benefit from the contributory scheme retaining strong incentives to work and contribute during one's worklife.



## Checklist of Variables for Consideration

- Overall poverty incidence across cohorts and overall welfare objectives
- Poverty concentration by age groups (esp. elderly & Kids)
- Contributory pension coverage & adequacy
- Coverage and resources allocated to social assistance
- Targeting infrastructure and efficiency
- Potential impact of Social Pension &/or Social Assistance on labor market & savings incentives
- Social assistance &/or social pension infrastructure

# Conclusions

- Social pension schemes may be redundant if broad social assistance programs exist or if coverage is high in contributory schemes
- Universal vs targeted can be considered as a continuum – a tradeoff between targeting errors and the ability to pay more to the poor.
- Several countries with high poverty levels & limited pension and social assistance coverage may find advantages to improving overall welfare through integrated social assistance systems.
- Incentive issues between social pensions and contributory schemes are greater to the extent there is an overlap of households covered which is more likely in middle income countries.