Social Pensions for the Elderly or Social Assistance for Poor Households?

Margaret Grosh Pensions Core Course April 28, 2015 World Bank, Washington DC

Are social pensions:

- A. An integral part of the pensions panorama?
- B. An integral part of the social assistance panorama?



What is more important in social policy?

- A. Reducing poverty
- B. Reducing risk



Should policy be directed at:

- A. The individual?
- B. The family/household?



Proposition for Debate

SOCIAL PENSIONS SHOULD BE THOUGHT OF AS SOCIAL ASSISTANCE

The Elderly are Not all Poor





 In fact, many studies show that in most countries they are not poorer than average, and even in countries where elderly are poorer than average, it isn't by much

(Eg. Cotlear and Tornarolli 2009 for LAC, Kakwani and Subbarao 2005 for Africa, Braithwaite, Grootaert and Milanovic 1999 for ECA)

Because Most Elderly Live In Families



Co-residency is high, even in upper middle income countries, the more so in poorer countries



ASPIRE data, presented in Pensions at Glance, IDB, OECD, World Bank 2014

Co-residency is higher, but not that much higher, among lower income households within each country

	Poorest	2	3	4	Richest
Argentina	68%	56%	42%	47%	40%
Bolivia	79%	54%	68%	66%	64%
Brazil	85%	59%	59%	57%	55%
Chile	79%	65%	61%	64%	57%
Colombia	74%	81%	84%	75%	61%
Costa Rica	67%	55%	70%	73%	65%
Dominican Republic	87%	78%	75%	75%	65%
Ecuador	64%	70%	70%	68%	60%
El Salvador	81%	84%	80%	74%	69%
Guatemala	78%	80%	84%	78%	75%
Honduras	85%	84%	85%	82%	77%
Mexico	66%	72%	71%	69%	65%
Nicaragua	95%	92%	92%	87%	78%
Panama	68%	76%	68%	65%	51%
Paraguay	74%	82%	80%	72%	67%
Peru	70%	73%	71%	73%	66%
Uruguay	64%	42%	40%	33%	27%
Venezuela	80%	88%	86%	85%	73%

ASPIRE data, presented in Pensions at Glance, IDB, OECD, World Bank 2014

And because elderly many work, at among least the 'younger' elderly



Where informality and self-employment are high, the earnings "cliff" is less an issue



Employment Rates decline gradually with age Poorer older workers are self-employed or informal

Mexico: Employment during Aging Transition, by Income Level

(percent of population by labor status)

Non participant ■ Formal workers ■ Informal ■ Self-employed ■ Unpaid worker





Brazil: Employment during Aging Transition, by Income Level

(percent of population by labor status)





Source: ENIGH 2008.

Source: PNAD 2008.

Moreover, the elderly are not the only poor



And the elderly are not poorer than others



Based on household survey data for 62 countries

There are Advantages to Integrating Social Pensions with Social Assistance

- Avoids age-related horizontal inequities
- Minimizes administrative costs, avoids duplication of functions
- Potential synergies
 - in helping with links to enrollment in social health insurance, or
 - encouragement via CCTs of use of health care that would be helpful in managing chronic conditions such as diabetes or cardiac risk
 - Links to activation measures
- Allows Social Security administration to stay service-oriented rather than become gatekeepers

And yet the trend is otherwise:

Illustrations from LAC

- Of 15 countries with CCT programs (eg poverty targeted social assistance), 11 also have separate social pensions programs
- Many of the social pensions programs are targeted
- Many social pensions set up after the CCT
- Average spending:
 - CCT program: 0.30% of GDP
 - Social pension: 0.37% of GDP
- Average coverage:
 - CCT program: 16% of population
 - Social pension: 2% of population

Possible reasons for separate social pensions and social assistance programs

- Political support for social assistance is often less than political support for pensions; and politicians may get rewarded for new or multiple programs;
- Differences in perception and stigma
- Receipt of family-based social assistance won't empower the elderly within the household the way receipt of an individual-specific pension might;

DISCUSSION

IF Social Pensions are Integrated with Social Assistance

Some possible issues:

- Some adjustments to social assistance programs may be helpful:
 - to eligibility formulae: -- asset disregards, allowance for higher medical expenses, etc;
 - to benefit formulae: -- to provide higher income if no other adult earners in household, economies of scale if living in small households, etc.

What do we mean by integrating social assistance and social pensions?

- Is it in the program name?
- Is it in the eligibility or benefit formulae?
- In the back office systems targeting questionnaire, information system, payment system? In linkages to other programs?

Targeting controversies: Should/can social pensions be effectively targeted?



Fiscal Space: Not enough currently to provide 100% and big benefit



Targeting Know-How:

Progressive outcomes for targeted programs but errors of both inclusion and exclusion; administrative and other costs 23

Targeting controversies: Should/can social pensions be effectively targeted?



Fiscal Space: Not enough currently to provide 100% and big benefit <u>Universalist:</u> Optimistic that social unity will garner bigger budget Pessimistic about track record or future practice on targeting

<u>Targeter:</u> More pessimistic about fiscal space; More optimistic with respect to targeting practice and/or potential



Targeting Know-How:

Progressive outcomes for targeted programs but errors of both inclusion and exclusion; administrative and other costs 24

An increasing number of countries have poverty targeted cash transfers; eg have decided that targeting is desirable for some social assistance and invested in administrative capacity to do it



Universal Social Pensions May not Have Large Coverage or Good Targeting, which will limit their impact on poverty overall

Figure 12: Coverage of Social Pension Programs by Country and Deciles of Income, Total Population



From Cerutti, et al 2013 based on SP ADEPT data

Unequal Attention to Different Age Groups is Common

Impact of Government Transfers on Poverty by Age Group: Brazil 2008, Poverty Rate 9.6% overall



Poverty rate without transfers Poverty rate without BF and BPC Poverty rate

Indirect impacts of social pensions

- Large schemes with no or limited targeting shown to reduce elderly poverty significantly (but question is whether that is best potential poverty impact)
- Targeted schemes vary widely in targeting outcomes
- There is evidence of indirect behavioral effects of larger schemes including:
 - Reduction of labor supply of coresident workers
 - Reduction of private intergenerational transfers
 - Permanent income increased due to investment
 - Better health indicators for children in pensioner households
- Practically all of this based on handful of studies of Bolivia, Brazil and above all, South Africa

MORE EMPIRICS WITH LATIN AMERICAN EXAMPLES

The Older are Not Always Poorer

Relative poverty rates of the elderly and non-elderly in Latin America



ASPIRE data, presented in Pensions at Glance, IDB, OECD, World Bank 2014

The Older are Not Always Poorer



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Myth busting: poverty and the elderly in Niger and Panama



Results largely insensitive to specification of economies of scale (over plausible range of θ from 1 to 0.7); to FGT(0); FGT (1), etc.

Targeted social pensions would reduce poverty more than universal social pensions

Changes in Extreme Poverty Rates Simulation with .5% of GDP given to all elderly (65+) vs poor (<US\$2.5/day) elderly (65+)



Table 1. Labor Force Participation in Latin America: Adults and Elderly

Significant but lower labor force participation among the elderly;

Significant variation by country

	Adults (25- 64)	Elderly (65+)	Ratio Elderly/Adults	
Costa Rica	72.8	14.3	0.20	
Argentina	77.4	15.5	0.20	
Uruguay	82.2	17.3	0.21	
Chile	72.3	18.5	0.26	
Brazil	77.4	23.1	0.30	
Colombia	73.6	22.1	0.30	
Barbados	86.7	27.0	0.31	
Guyana	70.4	23.0	0.33	
Panama	74.7	25.4	0.34	
Dominican Rep.	68.4	23.6	0.35	
Venezuela	78.1	27.6	0.35	
Jamaica	82.5	31.7	0.38	
Мехісо	72.0	30.1	0.42	
El Salvador	73.3	31.0	0.42	
Belize	68.7	32.8	0.48	
Paraguay	79.2	39.2	0.49	
Nicaragua	73.9	37.2	0.50	
Ecuador	78.0	39.5	0.51	
Haiti	76.2	41.7	0.55	
Honduras	68.3	38.6	0.57	
Peru	84.9	51.1	0.60	
Bolivia	83.1	57.8	0.70	
Source: CEDLAS.		34		

Source: Murrugara, 2012