

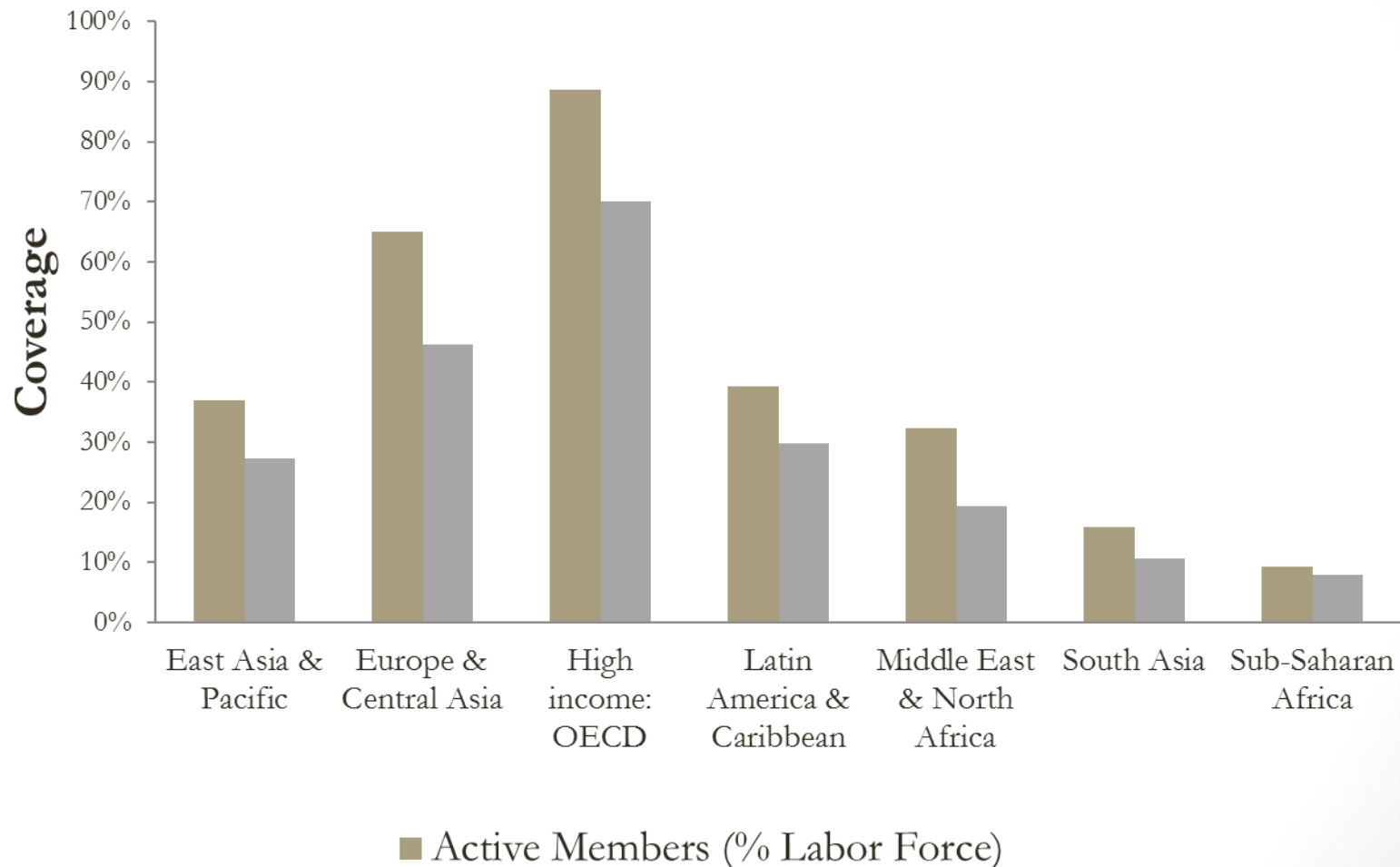
# Social Pensions

Robert Palacios, Lead Pensions, World Bank  
Pension Core Course, April 28, 2015

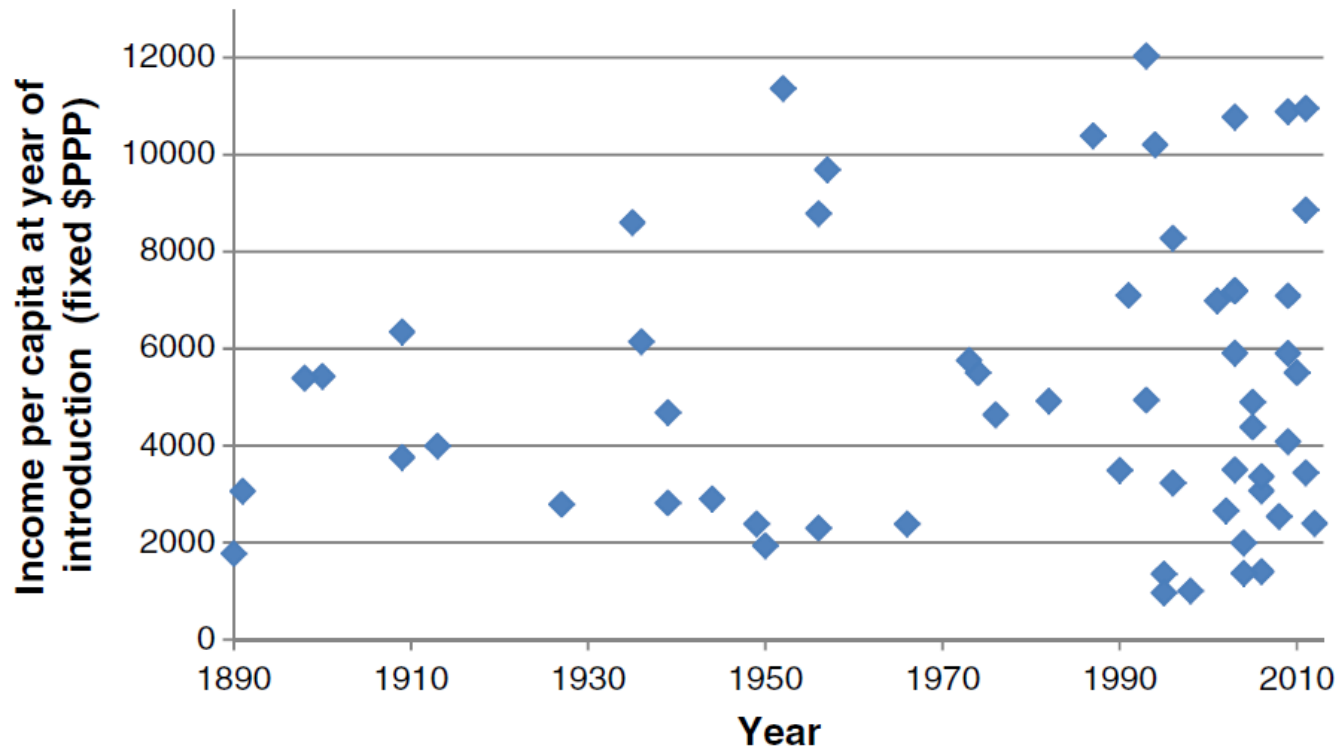
# Motivation

- Coverage in contribution-based pension schemes has remained low for decades in developing countries
- Social pensions are increasingly proposed as a way to address the ‘coverage gap’
- Many countries have recently introduced new schemes or expanded existing ones and others are considering
- Some of the policy questions:
  - Are they affordable and what are the tradeoffs?
  - Do they create distortions for savings and labor supply?
  - How do they affect the contributory scheme?
  - How do they fit with social assistance?

# Contributory pension coverage

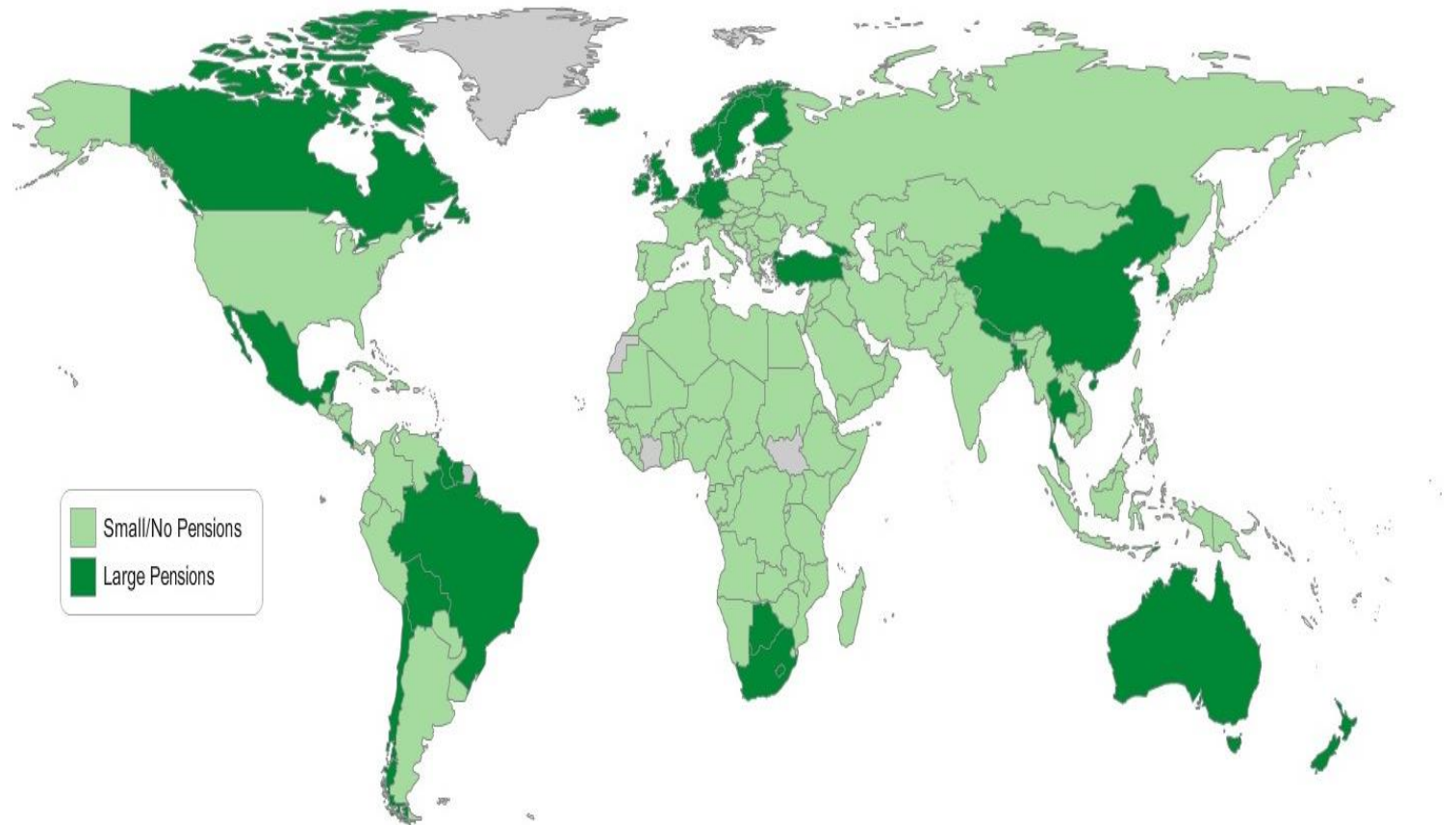


# Recent global spread of social pensions

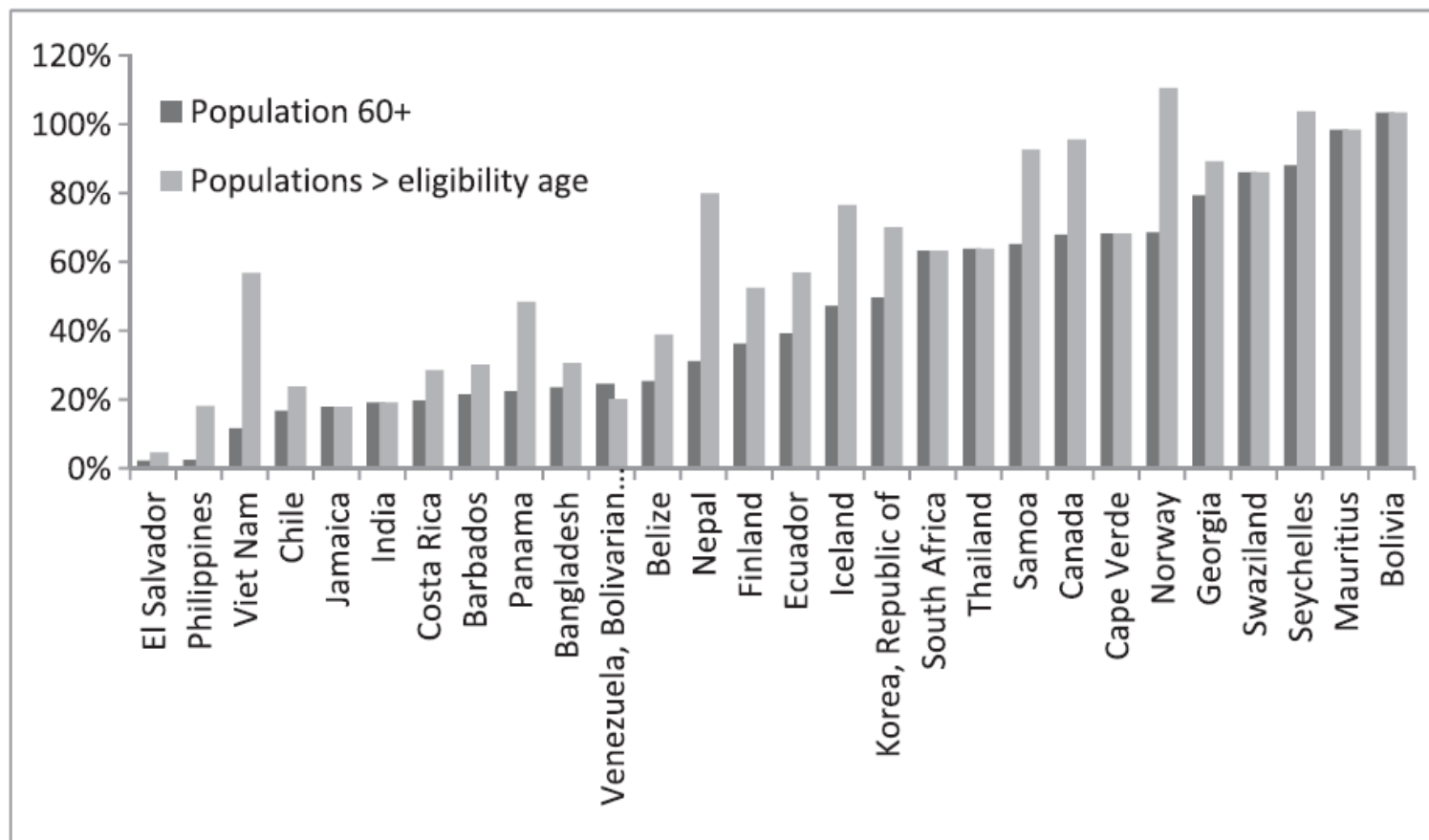


Source: HelpAge International 2012 and Gapminder 2013.

# THE ROLE OF SOCIAL PENSIONS IS GROWING

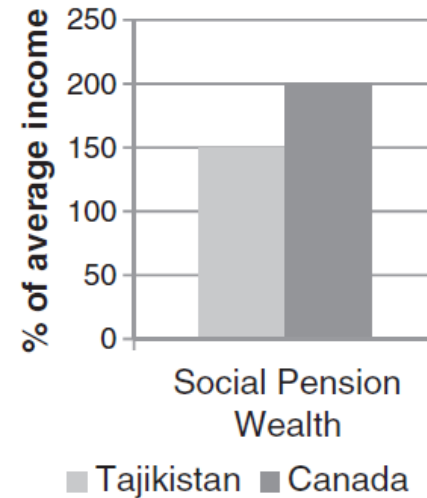
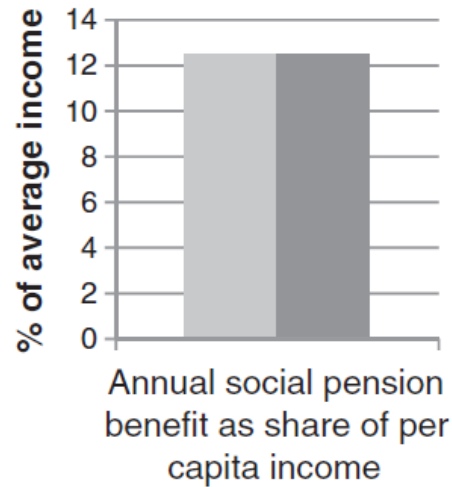


# But coverage varies significantly



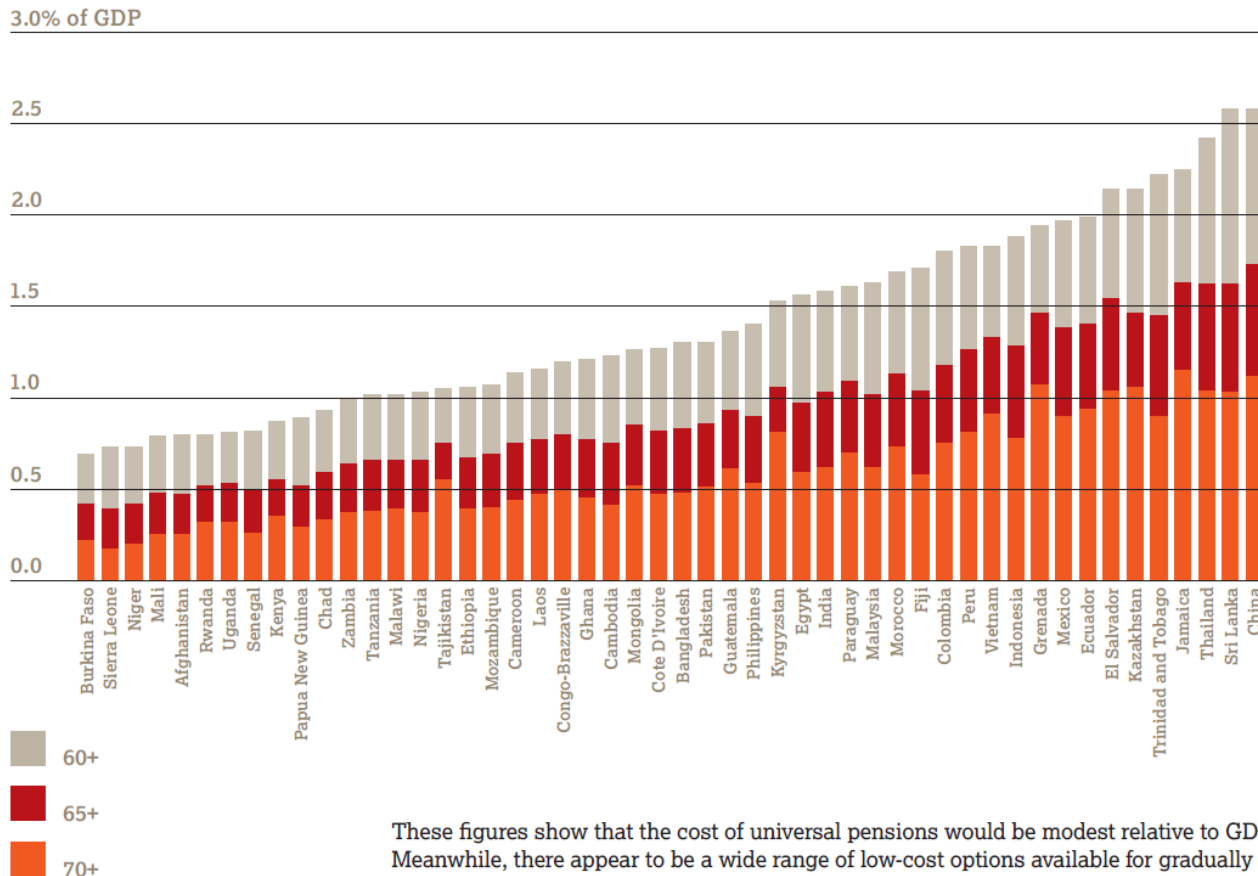
Source: HelpAge International, Social Pensions Database

# Comparing benefit levels



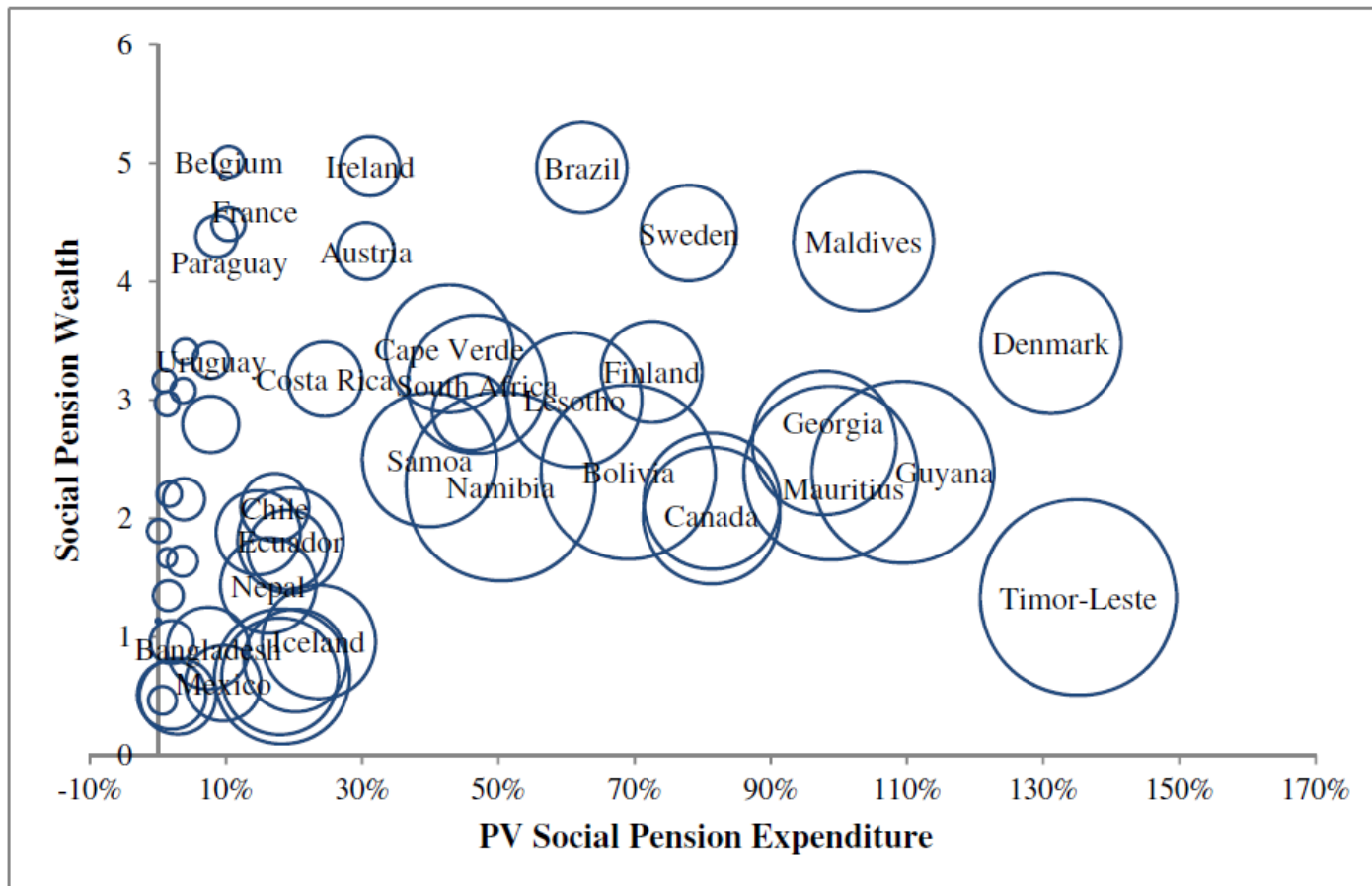
# Comparing cost

Figure 1: Cost of a universal pension in 50 low- and middle-income countries





# Comparing coverage, benefit levels and costs

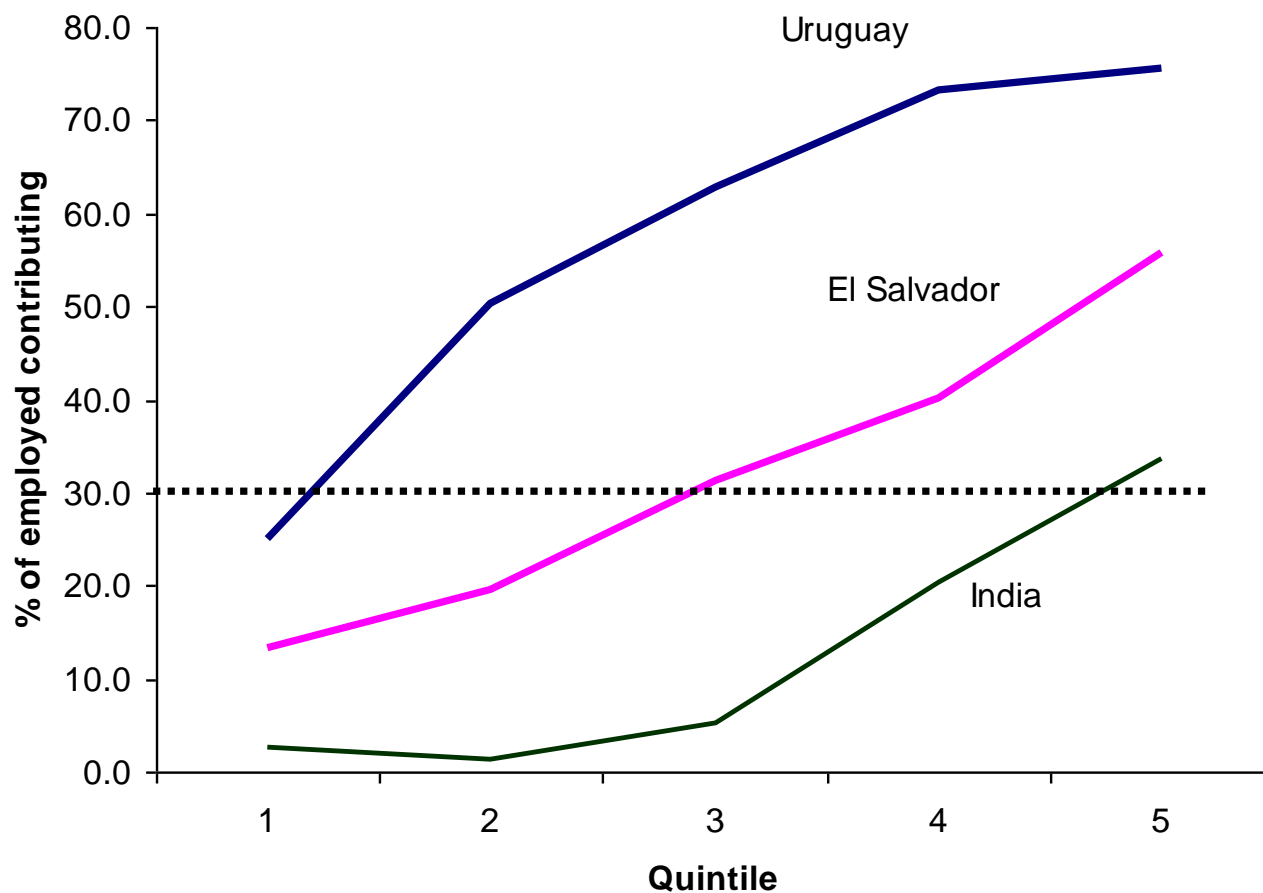


Notes: Size of circle proportional to the ratio of pensioners to population 65+; Y axis is present value of benefits as currently paid using life expectancy at eligibility age. X axis is the discounted present value of social pension spending assuming current coverage rates and relative benefit levels through 2040.

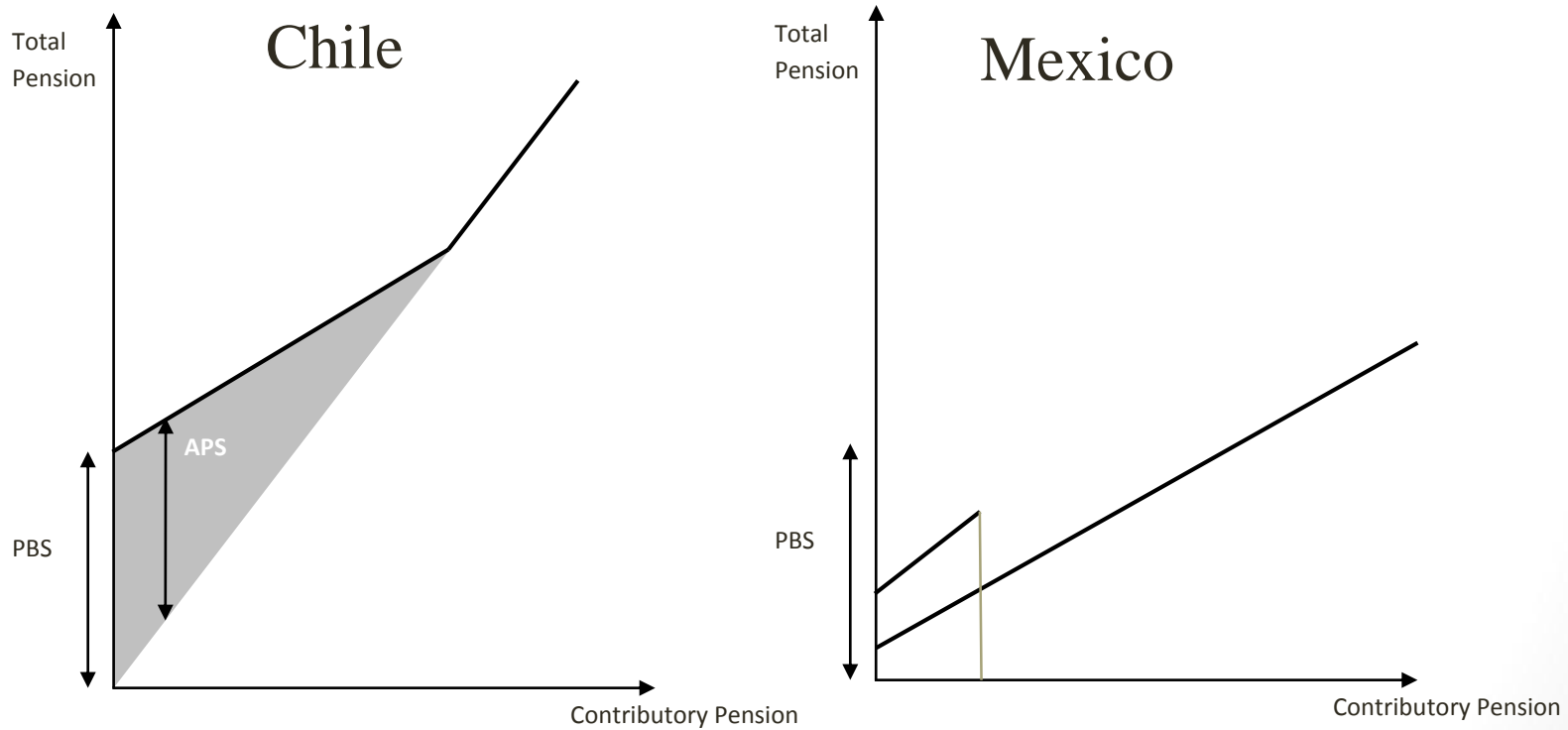
# Contributory pension incentives

- All of the options may lead to lower savings if people feel that they have a minimum old age income guaranteed – in some models, this is the justification for the mandate (Kotlikoff 1987)
- Means-testing should discourage savings most and this includes contributions to pension schemes, but with low contributory coverage, ability to ‘game’ the system will be negligible
- However, in medium coverage countries, design is much more important – examples of Mexico vs Chile

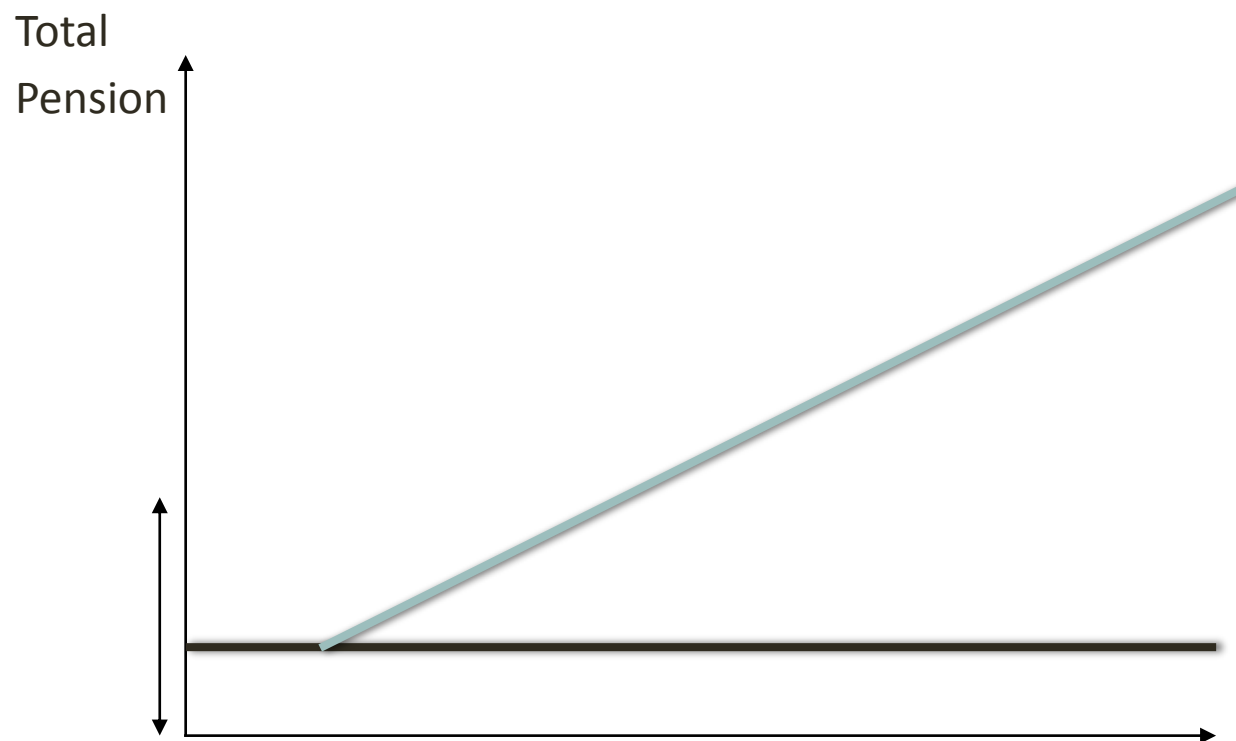
# Contributory pension incentives



# Social and contributory pensions: *Chile and Mexico*

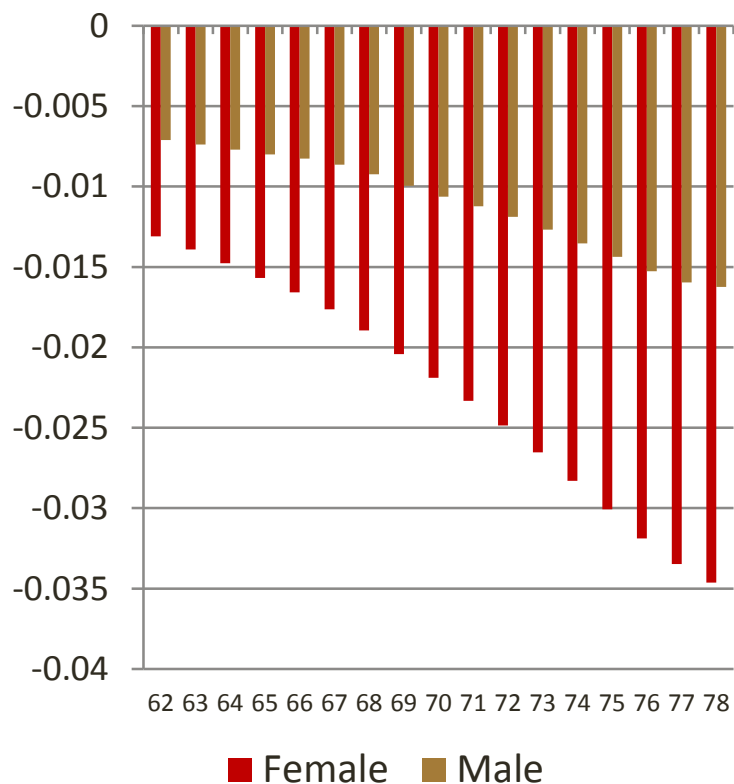


# Universal flat alternative

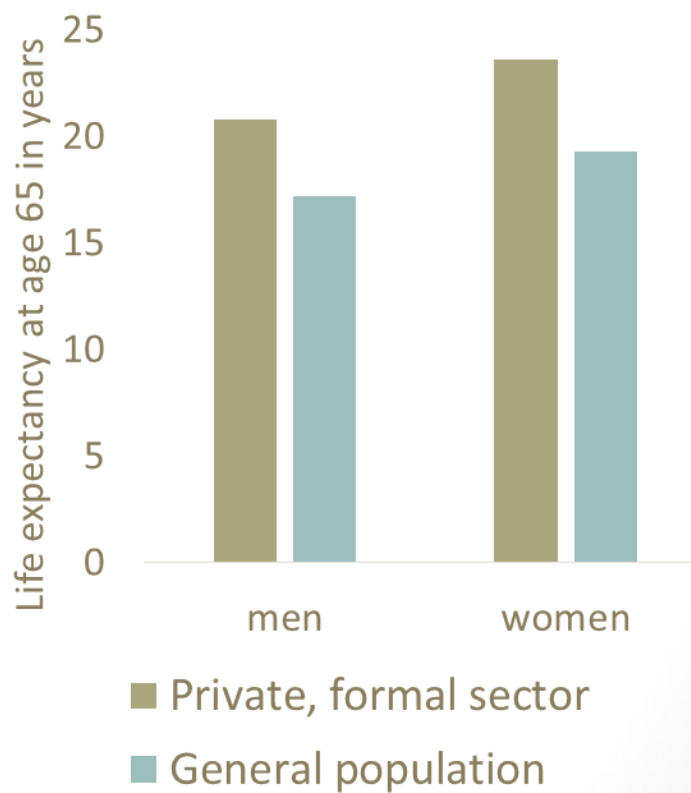


# Mortality differentials

Ghana – % difference in mortality rates, ages 62-78



Mexico – Difference in life expectancy at age 65 in years



# Indirect impact of social pensions

- Not surprisingly, large schemes with no or limited targeting shown to reduce elderly poverty
- There is evidence of indirect behavioral effects of larger schemes including:
  - Reduction of labor supply of co-resident workers (South Africa)
  - Reduction of labor supply of rural elderly (Brazil)
  - Reduction of private intergenerational transfers (Peru)
  - Permanent income increased due to investment (Bolivia)
  - Better health indicators for children in pensioner households (South Africa)
- Most evidence based on large transfers. Small transfers have not been shown to have much impact (China)

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ON

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TOGETHER WITH THE

PROCEEDINGS OF THE COMMITTEE,

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AND APPENDIX.

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“it has been held that the prospect of a pension for their closing years will disincline the poor to make or continue the exertions that many of them make at present for their own support and that the considerations which induce to industry and thrift will cease to operate in future.”



# Concluding Remarks

- Social pensions have been part of the answer to the pension coverage gap in a growing number of countries, but take many different shapes and sizes
- Universal vs targeted can be considered as a continuum – the tradeoff is between targeting errors and the ability to pay more to the poor.
- Failure to deliver benefits is not only due to poor targeting but also the other processes involved
- Incentive issues are greater to the extent there is an overlap of coverage and where social pensions are generous relative to contributory pensions.

Thank you