Chapter IV
Old age: responding to a rapidly ageing population

Key messages

- While 68 per cent of the world's older population receive a pension, there are significant regional disparities in terms of coverage. More than 95 per cent of people above retirement age receive a pension in Europe, compared with only 26 per cent in Central and Southern Asia and 23 per cent in sub-Saharan Africa. The coverage of contributory pension schemes is particularly low in these and other developing regions.
- Tax-financed pensions are provided in only 114 out of 192 countries for which data are available. Given current levels of funding, these pensions are often insufficient to provide their beneficiaries with income security.
- Pension coverage is still lower among older women than among older men, both because women generally live longer than men and because of the lifelong disadvantages women experience, including in the labour market.
- The proportion of older persons in the world population is expected to increase from 12 per cent in 2015 to 21 per cent by 2050. As the population grows older, all countries will need to find a balance between ensuring the adequacy of pension benefits and the long-term sustainability of pension systems. The commitment to leave no one behind means safeguarding or strengthening the poverty-reducing role of social pensions, even under reforms to cut overall pension costs.
- Extending the coverage of tax-financed pensions and supporting pension entitlements for low-income earners, workers in informal employment and workers with interrupted careers can contribute greatly to cushioning the impact of pension reforms among persons most in need.

Introduction

The well-being of older persons (aged 60 or over) will feature prominently in the policy agendas of Governments around the world in the coming decades. The ageing of the world's population is one of the most significant demographic trends in recent decades. Resulting from a combination of falling fertility rates and rising life expectancy, it is altering the demographic profile of virtually all countries.

Globally, the number of older people is projected to double from 2015 to 2050, reaching nearly 2.1 billion in 2050.[43] Europe and Northern America have the highest percentage of older persons at present, but countries in Latin America and the Caribbean and Asia will witness the fastest growth of the older population in the coming decades. In Africa, the number of people aged 60 or over is expected to increase from

[43] Data from *World Population Prospects 2017 Revision*. Available from https://esa.un.org/unpd/wpp/publications/Files/WPP2017_KeyFindings.pdf (accessed 19 July 2017).

64 million in 2015 to 226 million in 2050.[44] The number of persons aged 80 or over is growing faster still and is expected to more than triple from 2015 to 2050. Women tend to live longer than men and are therefore overrepresented in the older population in general, and among those aged 80 or over in particular.

Meeting the needs of the growing number of older persons will be critical to achieving the SDGs. For developing countries, where population ageing is occurring at a much faster pace than it did in developed countries, doing so will pose significant challenges. Social protection programmes will need to expand quickly, and health-care systems will have to adapt to the needs of an ageing population. As this chapter shows, older persons are often net providers of income and care to their families. With adequate old-age support from social protection systems, population ageing can become a vehicle for growth and prosperity.

A. Risks and disadvantages faced by older persons

1. Economic disadvantages

As people become older, physiological changes make them increasingly vulnerable to chronic and other illnesses and age-related disabilities. More than 46 per cent of older persons worldwide live with a disability (WHO, 2012). Disability and ill health do not systematically lead to retirement from the labour force. Some people continue working and earning a living to an advanced age. Nevertheless, the capacity to work declines with age. The challenges brought about by disability and ill health are often compounded by discrimination against older persons in the labour force.

The income security of older persons is at risk when they stop working, in particular if they do not have a pension. Estimates of income poverty among older persons vary significantly from one country to another and depending on the data used. In Latin America, data from household surveys show that older persons are on average better off, economically, than the total population in countries such as Argentina and Brazil, but worse off in Colombia and Costa Rica (Cotlear, 2010). In OECD countries, an average of 12.6 per cent of older persons live in relative poverty, compared with 11.4 per cent of the total population (OECD, 2015d).[45] People over 75 years of age are more exposed to the risk of poverty: 14.7 per cent of them live in poverty, compared with 11.2 per cent of those aged from 66 to 75 (ibid.). Poverty in old age has, however, declined faster than total poverty in OECD countries since the 1980s, albeit with marked variations from country to country.

Many older persons, even in affluent households, have no independent sources of income and may be poorer than other household members. Some studies have indeed found that expenditure allocations within households are often lower among older members (United Nations, 2016a; Barrientos and Sherlock, 2002). Standard poverty headcount measures, which obtain per capita household income by dividing total household income by the number of persons in the household, do not reveal such intra-household inequalities. It is assumed, often incorrectly, that income is distributed evenly among household members.

Available data indicate that older women tend to be less affluent than older men. In OECD countries, poverty rates are close to 8 per cent among older men and about 12 per cent among older women (OECD, 2015d). Women not only live longer than men, they also experience discrimination and greater income insecurity throughout

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their lives, as discussed in chapter I. Given the disadvantages they face, women are often unable to accrue contributory pension rights on an equal footing with men. They are therefore less likely to secure an income during old age. Even when women have access to pensions, their income tends to be lower than that of their male counterparts (European Commission, 2015a). In some countries, those vulnerabilities are compounded by discriminatory practices against female widows. In approximately one fifth of countries for which data are available, for instance, widows do not have the same inheritance rights as widowers (World Bank, 2015).

2. Older persons in their families and communities

In the absence of adequate social protection systems, co-residence with family members has traditionally functioned as a safety net for older persons, operating as a flow of support from younger to older generations (Handayani and Babajanian, eds., 2012). Intergenerational living arrangements can benefit younger generations as well (see chapter II).

Living arrangements vary greatly across regions and countries. Intergenerational households are more prevalent in developing countries. It is estimated that, in 2010, more than 50 per cent of older persons in Asia, Africa and Latin America and the Caribbean were living with their children, while only 20 per cent did so in Europe and Northern America (United Nations, 2017c). Worldwide, co-residence dropped from 65 per cent of older persons in 1990 to 53 per cent in 2010 (ibid.). In countries that lack comprehensive social protection systems, the decline in co-residence can increase the economic vulnerability of older persons.

An exception to this trend is the rise of "skipped-generation" households in some countries, where older persons live with children, usually their grandchildren. Largely owing to the HIV and AIDS pandemic, more than 60 per cent of orphans in Namibia, South Africa and Zimbabwe and 50 per cent in Botswana, Malawi, the United Republic of Tanzania and Thailand were living with their grandparents in the mid-2000s (United Nations, 2007). In countries with high levels of labour migration, older persons and grandchildren often remain in the place of origin while the children's parents migrate to urban areas or to other countries.

When it comes to participation in social life, older persons frequently face social isolation and loneliness when communities fail to integrate them and respond to their specific needs. Living independently, even when preferred by the individual, can diminish social interaction and compel older persons to rely exclusively on social networks outside the household. Since older persons are more prone to suffer from health complications and related disabilities, persons whose family and social networks are not sufficiently strong may face loneliness.

Exiting the labour market can also jeopardize the social inclusion of older persons, radically transforming their status in society and profoundly altering their social networks. The workplace often opens essential networks, and alternative institutional or social support structures are not always in place. In low-income countries in particular, older persons who are not actively contributing economically to their family or to society may be perceived as a burden.

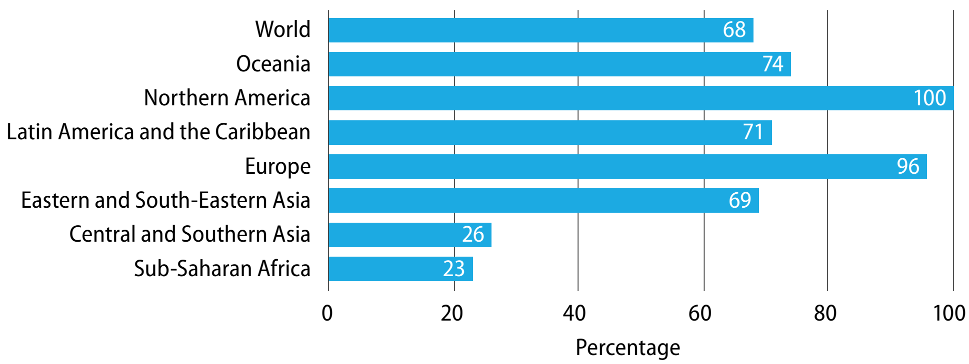
Deteriorating health, exiting the labour market and evolving trends in living arrangements are risk factors that can threaten the well-being of older persons. Whether they lead to social exclusion depends on the situation of each person—including characteristics such as gender and place of residence—as well as on the social protection programmes in place.

B. Gaps in social protection coverage for older persons

1. Gaps in pension coverage

SDG indicator 1.3.1 monitors the proportion of the older population covered by social protection floors or systems. A majority of older persons—68 per cent of persons above retirement age—received a pension in 2016 (ILO, 2017a). However, critical gaps remain (see figure IV.1). While more than 95 per cent of people above retirement age received a pension in developed regions, only 26 per cent in Central and Southern Asia and 23 per cent in sub-Saharan Africa did. There are considerable differences between countries, including within regions: estimated pension coverage was below 10 per cent in Guatemala but close to 70 per cent in Costa Rica, for instance, in 2016.[46] The right to income security in old age for all is still unfulfilled.

Figure IV.1
Proportion of the population above retirement age receiving a pension in 2016



Source: SDG Indicators Global Database. Available from https://unstats.un.org/sdgs/indicators/database (accessed 29 November 2017).

Note: Data are for latest year available, which is 2015 or 2014 for about 20 per cent of countries with data.

There has been considerable progress in ensuring that older persons receive a pension. While only 34 countries covered more than 90 per cent of the population above the statutory pensionable age in 2000, 53 countries did in 2016 (ILO, 2017a). Furthermore, the number of countries where pension coverage reaches less than 20 per cent of older persons declined from 73 to 51 over the same period. Effective coverage increased in almost all developing countries. Some have even achieved universal coverage of older persons. At the same time, coverage declined in a few countries—including Albania, Azerbaijan, Croatia, Greece and Turkey—from 2000 to 2016, partly as a result of the financial crisis of 2008 (ibid.).

Pensions and other non-health benefits for older persons accounted for more than half of total public non-health social protection expenditure, or 6.9 per cent of GDP, worldwide around 2015.[47] Social protection expenditure for older persons is highest in Northern, Southern and Western Europe, at 10.7 per cent of GDP, and lowest in South-Eastern Asia, at 1.4 of GDP (ibid.).

Despite their longer life expectancy, the proportion of older women who receive any type of pension was, on average, 11 percentage points lower than that of men in the period 2008-2013 (ILO, 2016a). Approximately 65 per cent of older persons without a

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pension are women (ibid.). In the European Union, the average pension for women was between 4 per cent and 46 per cent lower than for men in 2012 (European Commission, 2015b).

Box IV.1

The makeup of old-age pension systems

Old-age pensions are periodic payments[a] provided to people above a specific age. Broadly, there are three types of pensions:

1. Tax-financed pensions: often called social or non-contributory pensions, they are financed from general government revenues and aim to provide a minimum income in old age. Tax-financed pensions can be universal (directed at all citizens above a specific age), pension-tested (available to older persons who do not receive a contributory pension or whose contributory pension benefits are below a certain threshold) or means-tested (for older people whose income is below a certain threshold).

2. Mandatory contributory pensions: these schemes are available to workers, generally in formal employment, and are meant to partly or fully replace labour earnings received prior to retirement. Contributory pensions are financed by deductions from employees' salaries and complemented by contributions from employers. Contributory schemes can either be financed on a pay-as-you-go basis (contributions from the working population financing pensions of current retirees) or by individual savings accounts (involving investments and deferred payment arrangements).

3. Voluntary or private contributory pensions: offered to the working population and elective by design, voluntary or private contributory pensions can take many forms. Some are funded exclusively through individual savings, while others are funded by both employees and employers.

Countries usually adopt different combinations of the above to build their pension systems. In other words, pension systems usually have several tiers, as described above: tier 1 (tax-financed pensions); tier 2 (mandatory contributory pensions); and tier 3 (private or voluntary contributory pensions). Tax-financed and mandatory contributory pensions are typically provided through the State. Voluntary or private contributory pensions are generally operated by the private sector and Governments play only a regulatory role.

[a] Some contributory systems are designed to provide a portion of the benefit as a lump sum.

In 2016, 186 out of 192 countries provided old-age pensions through at least one scheme and, often, through a combination of contributory and tax-based schemes. Contributory schemes (including mandatory and voluntary contributory pensions) were anchored in the national legislation of 174 countries. Of the 186 countries with pensions, 72 had only contributory schemes, and the remaining 102 countries offered a mix of contributory and tax-financed pensions. Only 12 provide tax-financed pensions exclusively. Of the 114 countries worldwide that offer tax-financed pensions, 66 provide means-tested, tax-financed pensions, while the rest offer pension-tested (24 countries) or universal, tax-financed pensions (24 countries) (ILO, 2017a).

Close to 100 per cent of workers in Northern America and 87 per cent of workers in Northern, Southern and Western Europe were contributing to a pension insurance scheme in 2016 and can therefore expect to receive a contributory pension upon retirement (ILO, 2017a). In contrast, only 9 per cent of workers in sub-Saharan Africa and about 14 per cent in Southern Asia were paying in to such schemes. Access to contributory pensions is closely linked to formal employment. In developing countries, high

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Key messages

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- The proportion of older persons in the world population is expected to increase from 12 per cent in 2015 to 21 per cent by 2050. As the population grows older, all countries will need to find a balance between ensuring the adequacy of pension benefits and the long-term sustainability of pension systems. The commitment to leave no one behind means safeguarding or strengthening the poverty-reducing role of social pensions, even under reforms to cut overall pension costs.
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Introduction

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A. Risks and disadvantages faced by older persons

1. Economic disadvantages

As people become older, physiological changes make them increasingly vulnerable to chronic and other illnesses and age-related disabilities. More than 46 per cent of older persons worldwide live with a disability (WHO, 2012). Disability and ill health do not systematically lead to retirement from the labour force. Some people continue working and earning a living to an advanced age. Nevertheless, the capacity to work declines with age. The challenges brought about by disability and ill health are often compounded by discrimination against older persons in the labour force.

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Living arrangements vary greatly across regions and countries. Intergenerational households are more prevalent in developing countries. It is estimated that, in 2010, more than 50 per cent of older persons in Asia, Africa and Latin America and the Caribbean were living with their children, while only 20 per cent did so in Europe and Northern America (United Nations, 2017c). Worldwide, co-residence dropped from 65 per cent of older persons in 1990 to 53 per cent in 2010 (ibid.). In countries that lack comprehensive social protection systems, the decline in co-residence can increase the economic vulnerability of older persons.

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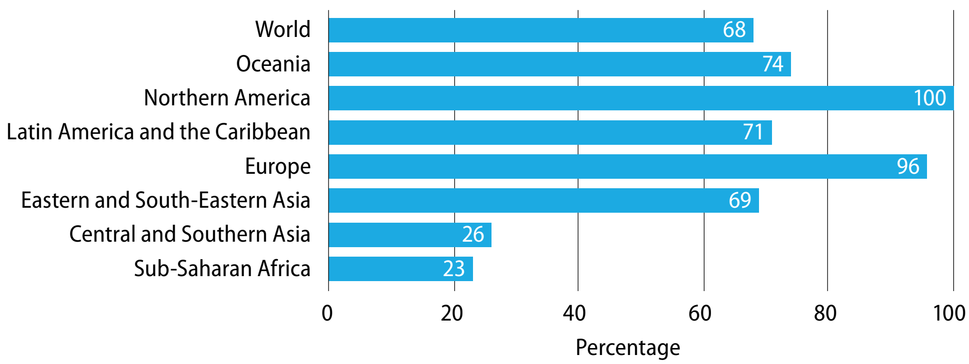

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In Asia, where the percentage of the labour force covered by mandatory contributory pension systems ranged from close to 100 per cent in Japan to less than 5 per cent in Bangladesh, Cambodia and Nepal in 2016, contributory pensions are generally limited to civil servants, the military and the police (ILO, 2017a; Park and Estrada, 2013; Handayani and Babajanian, eds., 2012). In sub-Saharan Africa, all countries have contributory schemes for civil servants.

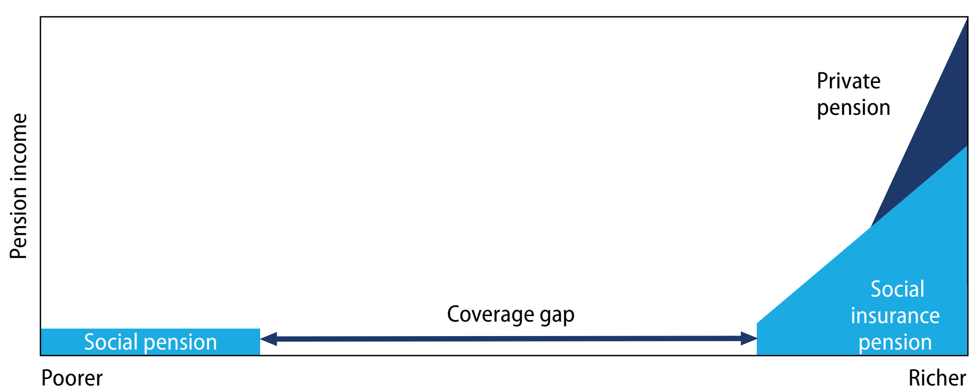
Some developing countries, however, have managed to cover a majority of the population through contributory schemes. In Brazil, for instance, 61 per cent of persons above statutory retirement age (65 and 60 years of age for men and women, respectively, in urban areas, and 60 and 55 for men and women in rural areas) are legally covered by mandatory contributory pensions, and 39 per cent are covered by voluntary contributory pensions (ILO, 2017a). This total includes more than 8 million recipients of the rural pension—which is partially contributory but significantly subsidized by the State (UNDP and ILO, 2011). These contributory pensions are complemented by a civil service pension and a means-tested social pension (Barbieri, 2010; Kidd and Huda, 2013).

Given the observed coverage gaps in contributory pensions, many countries have established tax-financed pensions, usually as part of a multi-tiered system. Most tax-financed pensions are means-tested and thereby restricted to older people with low income, often those living in poverty. Means-tested, tax-financed pensions are rarely sufficient to fill the coverage gap.

In general, only wealthier older persons—often those who worked in the formal sector—are covered by contributory schemes, and older persons living in poverty are covered by means-tested, tax-financed schemes (see figure IV.2). This leaves other older persons in the so-called missing middle without a minimum income guarantee, especially in countries with significant informal employment. Older persons living just above the poverty line, when not covered, are compelled to continue working in old age or become dependent on their family's financial support. In the Philippines, for instance, means-tested, tax-financed pensions are estimated to effectively cover 33 per cent of the population over the age of 60, while less than 30 per cent of older persons receive a contributory pension, leaving almost 40 per cent without a pension (Knox-Vydmanov, Horn and Sevilla, 2017).

Figure IV.2

Model pension income of older adults under poverty-targeted social pension and contributory pension schemes



Source: Kidd (2015).

In addition, errors of exclusion are often high in means-tested social pensions, particularly in low- and middle-income countries. In India, for instance, it is estimated that only around 20 per cent of older persons received a social pension in 2012 (Bhattacharya and others, 2015).[48] India's old-age pension is, in principle, offered to all older persons aged 60 or over living in households in possession of a Below Poverty Line card. Below Poverty Line lists rely on socioeconomic censuses that are conducted sporadically and suffer from exclusion and inclusion errors (Alkire and Seth, 2013; Panagariya and Mukim, 2014). While some Indian states have eased eligibility criteria in recent years—by using self-declared income as the main criterion for payment—coverage is still low (Bhattacharya and others, 2015). In general, applicants must still navigate complex administrative processes and incur costs to make claims.

In many countries, eligibility for means-tested schemes is assessed based on the income of the applicant. However, in some countries, such as India, the Philippines and Zambia, older persons are assessed against household income. This method is likely to exclude many vulnerable older persons, given that resources are not shared equally among household members. In addition, older persons may be encouraged to leave intergenerational households so that they can qualify for the pension. In some countries, such as Kenya and Zambia, only one person in a household can receive a pension. Other older persons in the household are denied access, which is likely to affect women more often than men. Some countries, such as New Zealand, compromise by reducing the value of each individual benefit if both persons in a married couple receive pensions.

Targeting pensions at those living in poverty can also generate perverse incentives. People of working age may avoid making contributions to social insurance schemes if they believe that they will be excluded from the national tax-financed pension on the basis of a means test. Similarly, people may be encouraged to take their savings out of contributory pensions as lump sums prior to retirement so that they can qualify for the means-tested pension, as has happened in Australia and South Africa (Sass, 2004; Samson and others, 2007). Pensioners may also be unwilling to engage in work if they fear losing their pension owing to the means test.

Universal tax-financed pensions provide an alternative solution to ensure that all older persons have at least a basic level of income security in old age, as part of a nationally defined social protection floor. However, universal pensions can still fail to guarantee effective coverage for all. In Georgia, around 4 per cent of applicants for the social (universal) pension have reported problems in obtaining access to the scheme, mainly owing to the distance they had to travel or because their disabilities prevented them from reaching the registration point (USAID and UNICEF, 2011). In the Plurinational State of Bolivia, access to the social pension is lowest among older persons in the lowest income decile (Palacios and Knox-Vydmanov, 2014; Kidd, 2017).

Beyond pension coverage, the social protection of older persons should include access to health care. However, the health-care needs of older persons are often neglected. Those needs increase with age, but the use of health-care services does not rise correspondingly, particularly in middle- and low-income countries. In low-income countries, for instance, out-patient health services are used by less than 30 per cent of people aged 70 or over but by more than 35 per cent of persons under 70 (WHO, 2015b). In-patient services are used by less than 5 per cent of the population in all age groups.

[48] Author calculations based on the India Human Development Survey 2011-2012 (see www.icpsr.umich.edu/icpsrweb/DSDR/studies/36151) lead to the same result and indicate that 76 per cent of older persons below the poverty line are excluded from the old-age pension.

Lack of health insurance and the subsequent costs of health care are the main barrier to access (WHO, 2015b). In OECD countries, the cost of home or institutional care for severe needs is estimated to be equal to or greater than the median disposable income of older persons above the age of 65 (Muir, 2017). Therefore, access by older persons to health care, including long-term care, is hindered by high—often impoverishing—out-of-pocket payments.

Additionally, only 6 per cent of the global population lives in countries that provide universal long-term health-care coverage based on national legislation (Scheil-Adlung, 2015). Belgium, Denmark, Germany and Japan are among the few countries that do so (Scheil-Adlung, 2015; ILO, 2017). Globally, public expenditure on long-term health care was below 1 per cent of GDP in the period 2006-2010 (Scheil-Adlung, 2015). Even OECD countries spent less than 1.5 per cent of GDP on long-term care in 2016 (Muir, 2017). Shortages of long-term care workers contribute to making high-quality services unavailable for many older persons. The global short-fall in formal long-term care workers has been estimated at 13.6 million (Scheil-Adlung, 2015).

2. The adequacy of pensions

Whether a pension provides income security depends on the benefits received, their duration and under what conditions they are provided. Analyses of the adequacy of contributory pension values generally focus on income or earnings replacement rates and cost-of-living adjustments. In OECD countries, the net replacement rate from tiers 1 and 2 (tax-financed and mandatory private pension schemes) was 63 per cent on average in 2014.[49] That is, pensioners in OECD countries receive about two thirds of their pre-retirement earnings as their monthly pension, on average (OECD, 2015d).

The average net replacement rate was similar in countries of Latin America and the Caribbean, at 66 per cent in 2010, although pension coverage is lower in that region than in OECD countries (OECD, IADB and World Bank, 2014). Replacement rates for the average salary vary considerably between countries: they were below 35 per cent in the Dominican Republic, Haiti, Mexico and Suriname but above 90 per cent in Argentina, Ecuador and Paraguay (ibid.). Estimated net replacement rates were lower in South Africa (12 per cent) and Indonesia (14 per cent).[50]

More disaggregated data show that, generally, the replacement rate is higher for low-wage workers (75 per cent in 2014) than for high-wage workers (58 per cent in the same year) across OECD countries (OECD, 2015d). That is due to the progressive nature of contributory pension and tax systems and to the existence of tax measures supportive of pension income (OECD, 2015d; European Commission, 2015a). Nonetheless, the retirement income of low-wage workers with a short working career is below the poverty threshold in many European Union countries, despite provisions that guarantee a minimum income (European Commission, 2015c). Some countries do better than others at protecting low-wage earners after retirement: net replacement rates were close to 100 per cent for low-wage workers in Denmark, Luxembourg and the Netherlands, but just below 50 per cent in Japan and the United Kingdom in 2014 (OECD, 2015d).

Regular adjustments of retirement incomes from contributory pensions to the cost of living—or wage indexation—also determine the capacity of pensions to provide income security. When pensions are not adequately adjusted to the cost of living,

[49] The net replacement rate is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners. It is usually measured as a percentage of pre-retirement earnings (OECD, 2015d).

[50] See OECD Net Pension Replacement Rates (https://data.oecd.org/pension/net-pension-replacement-rates.htm, accessed in November 2017). Comparable net replacement rates are unavailable for countries in other regions.

even pensioners who start off with an adequate pension may face economic challenges as they grow older, owing to inflation. In general, developed countries have progressively switched to less frequent or generous indexation of pensions, mostly to improve the financial sustainability of pension systems.

Given the current levels of investment, tax-financed pensions are often insufficient to provide income security to their beneficiaries. ILO (2015a) estimates, for instance, that in the period 2010-2014, beneficiaries received less than $1.25 a day (in terms of purchasing power parity, or PPP) from tax-financed pensions in more than one quarter of developing countries for which data are available. In general, transfers from such pensions are significantly lower than those from contributory schemes, as they have typically been conceived as basic-income transfers meant to prevent poverty and complement, rather than replace, contributory pensions (Kidd, 2015). However, their value varies considerably from one country to another. In the Latin American countries shown in table IV.1, monthly benefits in terms of PPP ranged from $45 in Colombia in 2003 to $641 in Venezuela in the period 2011-2012 (5 per cent and 48.4 per cent of per capita GDP, respectively). In sub-Saharan Africa, where 13 countries provide a tax-financed pension, benefit levels range from 4 per cent of GDP per capita in Botswana to 39 per cent in Lesotho (Dorfman, 2015).

Table IV.1

Tax-financed old-age pensions in Latin America

Country	Programme, year introduced	Targeting	Monthly benefit in PPP	Age of eligibility	% GDP per capita
Bolivia (Plurinational State of)	Renta Dignidad or Renta Universal de Vejez (1997)	Universal	$80	60	15.0
Brazil	Benefício da Prestação Continuada de Assistência Social (1996)	Means tested	$340	65	33.3
Brazil	Previdência Rural (1963)	Tested on eligibility for pension and individual having worked in agricultural or subsistence production.	$340	55 (women) 60 (men)	33.3
Colombia	Colombia Mayor (2003)	Means tested and regional	$45	54 (women) 59 (men)	5.0
Costa Rica	Régimen No Contributivo (1974)	Means tested	$186	65	14.5
Ecuador	Pensión para Adultos Mayores (2003)	Means tested	$64	65	7.4
El Salvador	Pensión Básica Universal (2009)	Means tested and regional	$102	70	15.1
Mexico	Pensión para Adultos Mayores (2007)	Pension tested	$71	65	4.7
Panama	120 a los 65 (2009)	Pension tested	$207	65	12.2
Paraguay	Pensión Alimentaria para las Personas Adultas Mayores (2009)	Means tested	$189	65	26.2
Peru	Pensión 65 (2011)	Means tested	$81	65	8.2
Uruguay	Programa de Pensiones No Contributivas (1919)	Means tested	$382	70	21.1
Venezuela (Bolivarian Republic of)	Gran Misión Amor Mayor (2011-2012)	Means tested	$641	55 (women) 60 (men)	48.4

Source: HelpAge International Social Pensions Database. Available from: www.pension-watch.net/about-social-pensions/about-social-pensions/social-pensions-database.

Despite low levels of investment, tax-financed pensions fulfil an important role in promoting inclusion. Evidence from several country studies indicates that tax-financed pensions can have a considerable impact on poverty alleviation among older persons, as described in section C below.[51]

C. Expanding access to social protection for older persons

Despite persistent challenges, many countries in more and less developed regions have social protection systems that adequately respond to the needs of older persons. This section considers some of the effects of old-age pensions on the well-being of older persons and their families and discusses their sustainability.

1. The positive impact of old-age pensions

Pensions protect older persons and their families from poverty and improve their material well-being (OECD, 2015d; ILO, 2014a). The transfer value of tax-financed pensions varies substantially by scheme, but their impact on poverty reduction is significant. In Brazil, for example, old-age poverty has almost been eradicated as a result of social insurance and a high-value, tax-financed pension (Kidd and Huda, 2013). Surveys conducted in the country in 2002 and 2008 show that the increase in transfer values of tax-financed pensions, in particular, allowed a significant percentage of households to move out of poverty during that period (Barrientos and Lloyd-Sherlock, 2011).

At the household level, pensions allow for improved health and food security among older persons and their families. There is substantial evidence of old-age pensions being invested in children's schooling, health and nutrition (see chapter II). In China, for instance, the county-by-county roll-out of the tax-financed rural pension in 2009 increased expenditure on food in beneficiary households by 10 per cent and reduced the disability rate and the likelihood of being underweight among eligible persons in the following four years (Huang and Zhang, 2016). There is also evidence of older persons investing pensions in income-generating activities, mostly in the farming sector, and of old-age pensions allowing households to overcome credit constraints (HelpAge International, Regional Hunger and Vulnerability Programme and UNICEF, 2010; Barrientos and Lloyd-Sherlock, 2011; Ardington, Case and Hosegood, 2009).

At the local and national levels, pensions inject cash into the economy and therefore generate demand, support entrepreneurs and stimulate economic growth. In the United States, pension benefit spending generated an estimated $1.2 trillion in economic output in 2014—that is, each dollar paid in pension benefits generated $2.21 in economic output—and supported an estimated 7 million jobs (Brown, 2016). Pension assets have been found to improve the functioning of financial markets, ease investment and increase growth across this and other OECD countries (Bijlsma, van Ewijk and Haaijen, 2014). Similar multiplier effects are reported on the local and national economies of developing countries, even though the potential impact of pensions on inclusive economic growth is reduced by the absence of financial services in many rural and remote areas (Kidd and Tran, 2017).

[51] See Schwarzer and Querino (2002) for Brazil, Olivera and Zuluaga (2013) for Colombia and Peru and Barrientos (2005) for South Africa and Brazil.

2. Good practices in expanding pension coverage

Given the size of the informal sector in most developing countries, as well as growing job instability and the spread of poorly paid, precarious work around the world, it is unlikely that contributory pensions will help to guarantee income security for all older persons. A combination of contributory and tax-financed old-age pensions helps to improve coverage.

The expansion of tax-financed or social pensions has been particularly dramatic in countries of Latin America since the early 2000s (OECD, IADB and World Bank, 2014; Rofman, Apella and Vezza, 2013). This expansion has enabled workers in the informal economy to receive a minimum income in old age and benefited women in particular. In the Plurinational State of Bolivia, for instance, the universal social pension scheme Renta Dignidad reached more than 90 per cent of older persons in 2012, while only about 15 per cent received contributory pensions (Mendizábal and Escobar, 2013). About 55 per cent of Renta Dignidad recipients were female (ibid.).

Universal, tax-financed pensions are now available in most developed countries and in many developing countries. Lesotho, for instance, made its tax-financed old-age pension available to all residents above the age of 70 in 2004. Previously, only war veterans and civil servants, accounting for less than 3 per cent of the population, had been entitled to receive a pension. Coverage is now estimated to be close to 100 per cent of older persons (ILO, 2016c). Georgia converted its contributory social insurance system into a universal, tax-financed pension in 2006 and increased spending on social protection—with up to 4.1 per cent of GDP spent on pensions alone (Nutsubidze and Nutsubidze, 2015). That change was accompanied by a decline in poverty for persons aged 60 or over from 22.4 per cent in 2006 to 15.1 per cent in 2013 (ibid.).

Some countries use pension testing to select beneficiaries of tax-financed pensions. A pension test is a means test that assesses only income from (other) pensions, rather than income or assets from all sources. Their design is therefore simpler than that of means-tested pensions. Pension-tested schemes are common in developed and developing countries. Sweden, for instance, introduced pension testing in 1999, replacing a universal, tax-financed pension (Hagen, 2013). In contrast, Chile introduced it in 2008 to replace its means-tested, tax-financed pension (Barr and Diamond, 2008). In some countries, such as Lesotho, Nepal and Thailand, the entire tax-financed pension is withdrawn if the older person is in receipt of another social insurance or civil service pension (Kidd, 2015). Nepal provides coverage through a combination of a pension-tested, tax-financed pension and a civil service pension. Coverage of the tax-financed Old Age Allowance, which was introduced in 1994, has expanded gradually to reach around 80 per cent of the eligible population (HelpAge International, 2017). In 2008, the minimum age of eligibility was reduced from 75 to 70. The value of the Allowance has also increased rapidly in recent years (Knox-Vydmanov, 2017).

Several countries have taken steps to improve the reach of contributory schemes. Some have subsidized contributions or encouraged savings by directing employers or the Government to match individual contributions. Innovations in payment technologies have brought down the cost of managing small contributions and made their payment more convenient. In Mexico, for instance, voluntary contributions into the contributory pension system can be paid conveniently at local stores (HelpAge International and Centre for Financial Inclusion, 2015). Some countries have established voluntary contributory old-age pension schemes for different categories of workers, mostly in the informal sector. Their reach is often limited, although there are exceptions (see box IV.2).

Box IV.2

Increasing the coverage of contributory pensions in a developing country: the Mbao pension fund in Kenya

The Mbao pension plan was established in Kenya in 2009 as a voluntary private pension fund for the informal sector. Since its inception, the fund has experienced rapid growth. Although small in terms of assets, in 2014 it accounted for 46 per cent of total membership of individual pension plans in Kenya (66,228 members) (OECD, 2017b). Eligibility to join the plan was later extended to any Kenyan national aged 18 years and over. The fund operates on mobile money platform technology that is quite simple to use for making transactions. It is also flexible, allowing for irregular and fluctuating contributions. Members may contribute daily, weekly, fortnightly, monthly, quarterly, seasonally or yearly.

3. The sustainability of old-age pensions

Population ageing is inevitably putting financial pressure on pension systems. In OECD countries, the number of expected years in retirement increased from an average of 11 for men and 15 for women in 1970 to 18 and 22 years, respectively, in 2014 (OECD, 2015d). Public expenditure grew from an average of 6.2 per cent of GDP in 1990 to 7.9 per cent in 2011 and is projected to grow to 10 per cent of GDP in 2050 (ibid.). The continued increase in expenditure is driven mainly by projected improvements in coverage in OECD countries where pension coverage is currently lowest, namely the Republic of Korea and Turkey.

In recent decades, many developed and some developing countries have reformed pension systems in order to strengthen their long-term sustainability. Some countries have raised the statutory pensionable age and cut early-retirement provisions; others have reduced benefits for future retirees—mostly through changes in benefit indexation—or increased contribution rates. Many countries are increasingly relying on defined-contribution pension plans, in which benefits depend on the level of savings accumulated by the pensioner, while reliance on defined-benefit plans that provide minimum-income guarantees has been declining (OECD, 2016c). The fiscal consolidation efforts that followed the financial crisis of 2008 accelerated drastic cost-saving measures in pension systems.

The combination of these reforms is expected to result in lower benefits. In countries of the European Union, the gross replacement rates of public pensions are projected to decline from an average of 47.5 per cent in 2013 to 35.3 per cent in 2060 (European Commission, 2015c).[52] Expected changes in replacement rates vary significantly by country: they are projected to fall by more than 20 percentage points in Poland and Spain but expected to increase slightly (by less than 2 percentage points) in Bulgaria and Czechia, where replacement rates are currently low (ibid.). These reforms may therefore result in more income insecurity among older persons. In the absence of adequate indexation, retirees may also grow poorer as they get older and the real value of their pension declines.

While the main task confronting developed countries is to ensure that pension benefits are adequate, most developing countries face the double challenge of increasing coverage while maintaining or increasing the adequacy of benefits. Many developing countries are aiming to make contributory pensions accessible to individuals who are not yet covered but have sufficient contributory capacity to participate, as section B

[52] The gross replacement rate is calculated by the European Commission as the average first pension over the average wage at retirement.

describes. Some countries are also expanding the reach of social pensions, although benefits are still insufficient to provide income security in many of them. Some have been able to put in place or expand pension systems even at low levels of income. With political will, they have created the necessary fiscal space to do so.

As the world population grows older, all countries will need to find a balance between ensuring the adequacy of benefits and the long-term sustainability of pension systems. Very generous pensions may not be sustainable. Benefit costs and means of financing must be regularly monitored to ensure that pensionable age and benefits are adjusted as life expectancy increases. At the same time, insufficient coverage and inadequate benefits will jeopardize the well-being of older persons. They may even undermine the future capacity of the State to support pension systems: if pensions are perceived to be ineffective and unfair, citizens may not be willing to contribute to pension schemes during their working lives.

The commitments to leave no one behind and promote inclusive societies require safeguarding or strengthening the poverty-reducing role of social pensions, even under cost-cutting reforms. Some of the potentially negative effects of these reforms on disadvantaged older persons can be offset, for instance, by extending the coverage of tax-financed (social) pensions. Measures to support pension entitlements for low earners, workers with interrupted careers and workers in informal employment would also help considerably to cushion the impact of reforms among persons most in need. In addition to promoting formal employment, much can be done to integrate workers in informal employment into contributory systems and ensure that they can build future pension entitlements. There may also be scope for a more preferential and progressive tax treatment of pensions.

Some countries are already implementing reforms aimed at improving the poverty-reducing role of pensions, even while trying to contain overall pension costs. In April 2017, Japan reduced the qualifying period for the national pension from a minimum of 25 to 10 years of paying contributions—a change that benefitted workers with short and interrupted careers—despite being the country with the world's oldest population (OECD, 2015e).[53] In 2016, the United Kingdom introduced changes in its public pension scheme designed to improve the adequacy of pensions for low-income earners. The two-tier benefit structure (a flat-rate basic pension and an earnings-related additional pension) was merged into a flat-rate basic pension that will deliver an enhanced minimum pension benefit (ILO, 2017a). In 2014, the Republic of Korea increased the minimum pension to nearly twice the previous amount (ibid.). The pension system in the Netherlands, notable for its focus on cooperation and solidarity, continues to be praised for its sustainability and adequacy despite the strains of an ageing population (see box IV.3).

Efforts to improve the fairness of pension systems are not limited to developed countries. Between 2000 and 2013, at least 18 countries in Latin America undertook inclusive reforms meant to increase coverage of older persons in need (Rofman, Appella and Vezza, 2013). Chile, for instance, adopted a new social pension in 2008 (ILO, 2017a). Costa Rica expanded coverage of its tax-financed pension in 2000 to ensure better coverage of older persons living in poverty and established mandatory pensions for independent workers (Rofman, Appella and Vezza, 2013).

In reviewing measures to improve the coverage and efficiency of pension systems, Governments must also take into consideration that low investment in the well-being of older persons reinforces a vicious cycle of poverty and lack of trust. Pensions benefit not only those who receive them but also their families and communities.

[53] See also www.nenkin.go.jp/international/english/nationalpension/nationalpension.html and Kittaka (2017).

Box IV.3

Pensions in the Netherlands: adequacy, fairness and sustainability

The Dutch pension system is one of the best performing in the world and is ranked highly in terms of adequacy, sustainability and integrity (Mercer, 2017). The first of its three pillars is a flat-rate, universal, tax-financed pension based on the minimum wage, paid to all residents and meant to provide a minimum income—70 per cent of the minimum wage for a single person and 50 per cent per person for households with more than one person (Pew Charitable Trusts, 2017). The second pillar—supplementary, occupational pensions—is connected to a worker's employment and collectively owned by current and retired employees. The third is a private individual pension provided by an insurance company or bank.

Second pillar pensions are essentially collective or cooperative structures owned by their members—active employees and retirees in each sector—and are operated independently of employers or the Government, although they are regulated by the latter. Employee contributions are uniform across sectors. They cover approximately 90 per cent of residents and are basically mandatory for Dutch employees. The risk-sharing and solidarity features inherent in a cooperative structure have so far worked well in ensuring fund solvency and the system's fairness, although the sustainability of such pensions depends on the continued willingness of younger workers to pay for the pensions of their older counterparts.

The system has come under strain in recent years as a result of population ageing, the 2008 financial crisis and concerns among young people about their own retirement security. Some issues are related to recent reforms enacted to preserve the pension system's sustainability, including a rise in the retirement age from 65 to 66 in 2018 and to 67 in 2021. Moreover, young workers are more likely than their older counterparts to change employment or move between regular employment and self-employment, which can have an impact on their pension contributions.

The above concerns notwithstanding, the minimum pension in the Netherlands is the world's second highest after that of France (Mercer, 2017). The net replacement rate of mandatory pensions for low-wage earners (50 per cent of the average salary or less) is 105 per cent, the second highest in OECD countries—after Denmark, at 110 per cent—and far higher than the OECD average of 73 per cent (OECD, 2017c).

Conclusions

As the share of older persons in the population continues to rise around the world, meeting their needs will be an increasingly pressing challenge. Social protection, in particular old-age pensions and access to health services, has a key role to play in addressing the disadvantages that older persons face and in promoting their participation and inclusion in society.

Countries have taken different approaches to improving the income security and overall well-being of older persons, but all need some combination of contributory schemes and adequate tax-financed pensions. In developing countries, where gaps in access are greater, remarkable progress has been achieved in recent decades, mainly thanks to the introduction or extension of tax-financed pensions. Coverage alone, however, is not enough. In many countries, pension benefits are still inadequate. Pension coverage does not systematically keep people out of poverty.

Meeting the needs of a growing number of older persons will be critical to achieving the SDGs. Governments will need to find the right balance between providing adequate benefits and ensuring the long-term sustainability of pension schemes.

Very generous pensions may not be sustainable, but insufficiently funded or otherwise inadequate pension systems will jeopardize the well-being of older persons and hamper their participation in social life. They may also undermine trust in Governments and the willingness of citizens to contribute to pension schemes during their working lives, thus further curtailing the capacity of social protection schemes to ensure income security in old age.