Social Pensions

Non-contributory Elderly Assistance Programs
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Pensions Core Course
Social Protection Systems balance three goals across the life cycle

- **Opportunity/Promotion**
  - Pregnancy/early childhood: Nutrition, ECD, Cash transfers linked to pre-school/health
  - Childhood: Cash transfers for (girls’) education
  - Youth: Youth employment programs, skills
  - Work- ing age: Employment services, entrepreneurship, skills
  - Old age: Productive aging

- **Equity/Protection**
  - Orphans – vulnerable child programs, child allowances
  - Child allowance, school feeding
  - Public works
  - Cash & in-kind transfers, public works
  - Social pensions

- **Resilience/Prevention**
  - Maternity allowances
  - School feeding
  - Micro insurance schemes
  - Unemployment, disability insurance
  - Old-age pensions, disability insurance
World Bank’s multi-pillar framework

- **Zero pillar**: mandatory, public, adequacy
  - Basic
  - Resource-tested

- **First pillar**: mandatory, public, mainly income replacement
  - DB
  - Points
  - NDC
  - Public DC
  - Minimum pensions

- **Second pillar**: mandatory private, income replacement
  - Private DC
  - Private DB

- **Third pillar**: voluntary private
Choosing a pension path...

Panel B. Poor relief and unemployment compensation

Panel C. Public pensions

(*excluding pensions for government employees)
“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.”
The rise of DB Schemes: 1935
THE RISE OF DB SCHEMES: 2016
The tide turns against the DB model
Rich countries reached high coverage...
..but coverage has remained low in developing countries
...with little change in last 20 years
Growing at a snail’s pace in India...

Pension coverage in India, 1953-1998
...and falling in Eastern Europe

Number of Old Age Pensioners and Elderly, Ukraine

Number of uncovered and socially dependent may increase to 1/3 of all elderly
...leading to more social pensions

Cumulative number of countries introducing social pensions by year
...of different shapes and sizes
Latin American social pensions with widely varying benefit levels

% of poverty line (US$4 PPP)

% of average benefit

- Beneficio como % de la línea de pobreza
- Beneficio como % de beneficios contributivos
Social pension wealth comparison: 
Canada and Tajikistan
Difference in origins, purpose

1. Poverty programs
   • Bangladesh, India, Kenya, Myanmar, Vietnam

2. Main element of pension system
   • Pioneers – Australia, New Zealand, Mauritius, South Africa
   • Newcomers – Bolivia, Kosovo, Maldives, Timor-Leste

3. Programs aimed at addressing the coverage gap
   • Mature contributory schemes without sufficient coverage – China, Chile, Mexico
   • Immature contributory schemes in aging countries – Hong Kong, Korea, Thailand
   • Collapsing post socialist pension schemes – Georgia
Different types of social pensions
Four types of social pensions

1. **Non-contributory pension**
   - Coverage
   - Income-replacement pension (no minimum)
   - Earnings when working
   - Potential for affluence test

2. **Targeted benefit**
   - Coverage
   - Contributory social insurance (public)
   - Redistribution within system and government subsidy

3. **Income-replacement pension**
   - Coverage
   - Contributory pensions (public or private)
   - Strong link between contributions and benefits

4. **Retirement income**
   - Coverage
   - Other private pension income
   - Contributory social insurance (public)
   - Redistribution within system and government subsidy

- **Other private pension income**
  - Coverage
Chile’s integrated approach

- Social pension
- Self-financed Pension
- Total Pension

Lower to higher income households
Concluding Remarks

• Social pensions have been around since the earliest days of the welfare state but most countries chose the path of contributory, social insurance pensions

• Coverage of these PAYG-DB schemes in rich countries gradually became universal but this never happened in poor and middle income countries and full coverage has reversed in Eastern Europe and Central Asia

• To address the coverage gap many countries have introduced or expanded social pensions in the last 20 years

• But they come in all shapes and sizes in terms of coverage, benefit levels and costs
Concluding remarks

• Research questions:
  • What is the impact of social pensions on elderly poverty, health, well being?
  • Do social pensions inhibit labor supply, savings (including pension contributions) or private transfers?
  • Is there any evidence of crowding out of other social assistance programs?

• Policy questions:
  • Should countries without social pensions consider introducing them? Should social pensions co-exist with social assistance and does one crowd out the other?
  • What should be the eligibility rules for social pensions?
  • How can social and contributory pensions best be integrated?
Thank you