

Providing Income Security for the Elderly

Despite high and long-lasting economic growth, inequalities are widening in most countries in Asia and the Pacific. Currently over 1.6 billion people in the region live on less than \$2 per day, of which more than 740 million live on less than \$1.25 per day, deprived of basic rights, and vulnerable to increased economic and environmental risks. Within this context, there is increasing consensus by national governments that these inequalities must be addressed in order to promote a more sustainable approach to development that upholds the rights of all people to income security and access to a minimum level of social services through more extensive social protection.

Income security in old-age is an important element of social protection. This is especially the case considering the demographic transition that many countries in the Asia-Pacific region are experiencing. Thus, while the region's growth performance has been strongly supported by favourable population dynamics taking the form of a large young workforce, rapid changes in life expectancy and lower rates of fertility are fuelling a transition towards an older population structure that is progressing at a speed far greater than that experienced by developed regions. In this view, the share of the population exceeding 65 years of age is expected to nearly triple between now and 2050 in developing countries in Asia and the Pacific, from 6% of the population to 17%. At the same time, rapid rates of urbanization and other social changes are contributing to a breakdown of informal family-based support systems for old-age income security, making the provision of a formal pension scheme all the more important.

Almost all countries in the region have some sort of formal pension scheme. These, however, usually cover only the public sector, although they may extend to workers in the formal sector. With large informal sectors, this means that overall coverage of the labour force is relatively low (figure 1): in developing Asia-Pacific an estimated eight out of 10 workers are still not covered by a pension scheme, compared to coverage of about nine out of 10 workers in developed economies. Moreover, in Asia and the Pacific, coverage of pension systems is in general skewed towards urban areas. In China, for instance, less than 10% of rural workers have pension coverage. Clearly, greater efforts need to be made to strengthen income-security in old-age.

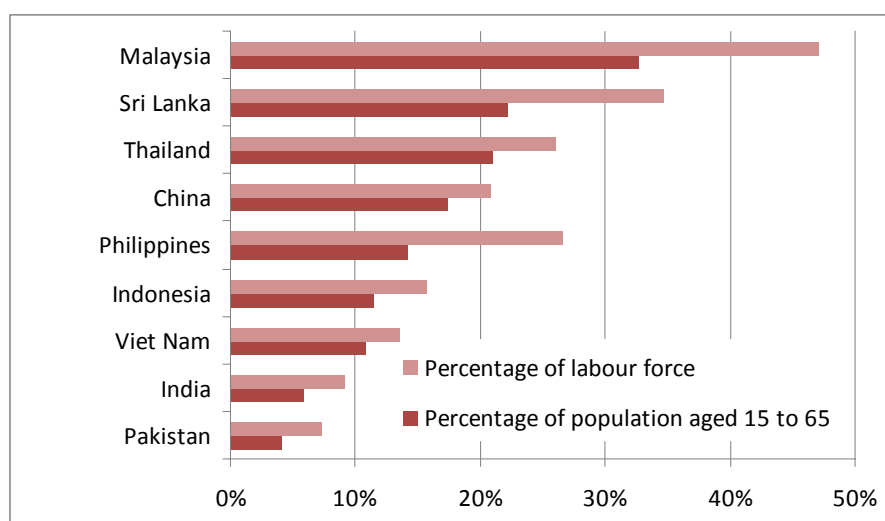
Many countries in the region, moreover, take a fragmented approach to the provision of income security for older persons, with separate schemes for the public service and formal sector and additional programmes for the informal sector and the poor. This fragmented approach comes with great administrative cost and carries a high risk of uneven distribution with overlaps and gaps in coverage.

To build consensus among policy makers and stakeholders in moving toward broader and more robust social protection coverage, ESCAP launched in December 2013 the Social Protection Toolbox. This online advocacy platform, which is available at <http://www.socialprotection-toolbox.org>, provides access to a database of more than 70 good practices in social protection in developing countries, including a selection focussing on pensions. It highlights, for instance, that through an integrated approach to income security for older persons, the Maldives is able to provide one of the highest levels of universal coverage in the region. Introduced in 2010, the Maldives Old-Age Basic Pension (MOABP) entitles all older persons over the age of 65 to a cash transfer of MYR 2,000, or USD 156 per month, provided they do not collect other pension income exceeding twice the amount of the MOABP.

While the MOABP is accessible to all, with eligibility solely determined by age, the Government of the Maldives offers an additional scheme to assist those able to make contributions during their working-age. The Maldives Retirement Pension Scheme (MRPS) is a mandatory contributory scheme for all public and formal sector workers and voluntary for all informal sector workers, and can also be applied to migrant

Figure 1.

Share of labour force and population aged 15-64 years covered by pension system



Sources: ESCAP based on OECD Pensions at a Glance: Asia-Pacific 2011 (Paris 2012)

workers. The MRPS is funded by a total contribution of 14 percent of salary split evenly between employers and employees. Workers can begin claiming the pension as early as 55 years of age, provided they have sufficient funds in their accounts to provide a monthly annuity that is at least twice the amount of the MOABP. While the MOABP provides coverage to nearly 100 per cent of the population, the MRPS reaches 100 per cent of the public sector and more than 70 per cent of the private sector. Before the introduction of these schemes only public sector employees had access to income security.

With large segments of society primarily active in the informal sector, a non-contributory pension system is indeed the more appropriate mechanism to provide for security in old age. Several other countries in the region have already introduced such a social protection pillar. In Thailand, for instance, a means-tested social pension (a cash transfer scheme) exists for vulnerable older people 60 years and older. This scheme covers approximately 25% of the target population. Similarly, in India the National Old Age Pension Scheme covers about half the people 65 years and older who are under the poverty line and destitute with little or no regular means of subsistence.

Ideally, any broad-based pension scheme that aims to provide a minimum level of income security should not only be non-contributory, but also universal with eligibility purely based on having reached a certain age. Such schemes are in general less costly to administer and do not suffer from non-take-up that may be associated with the stigma of claiming means-tested benefits (moreover, they do not affect savings decisions). Indeed, several countries in the region have introduced universal non-contributory programmes and others plan on doing so. In Nepal,

for instance, a universal non-contributory pension scheme was introduced in 1995 granting everyone older than 75 years of age a pension benefit; in 2009, the eligible age was reduced to 70 years (and to 60 years in one part of the country). In Brunei Darussalam, a universal non-contributory pension scheme has also been operational since 1984, covering residents aged 60 and older. In Viet Nam a universal pension scheme was introduced in 2004 for those older than 90 years; eligibility has since been reduced to 80 years in general, and 60 years for those who live alone and do not have relatives. Similarly, in developing Pacific countries, universal retirement pensions are paid in Samoa from age 65 and in Kiribati from age 70.

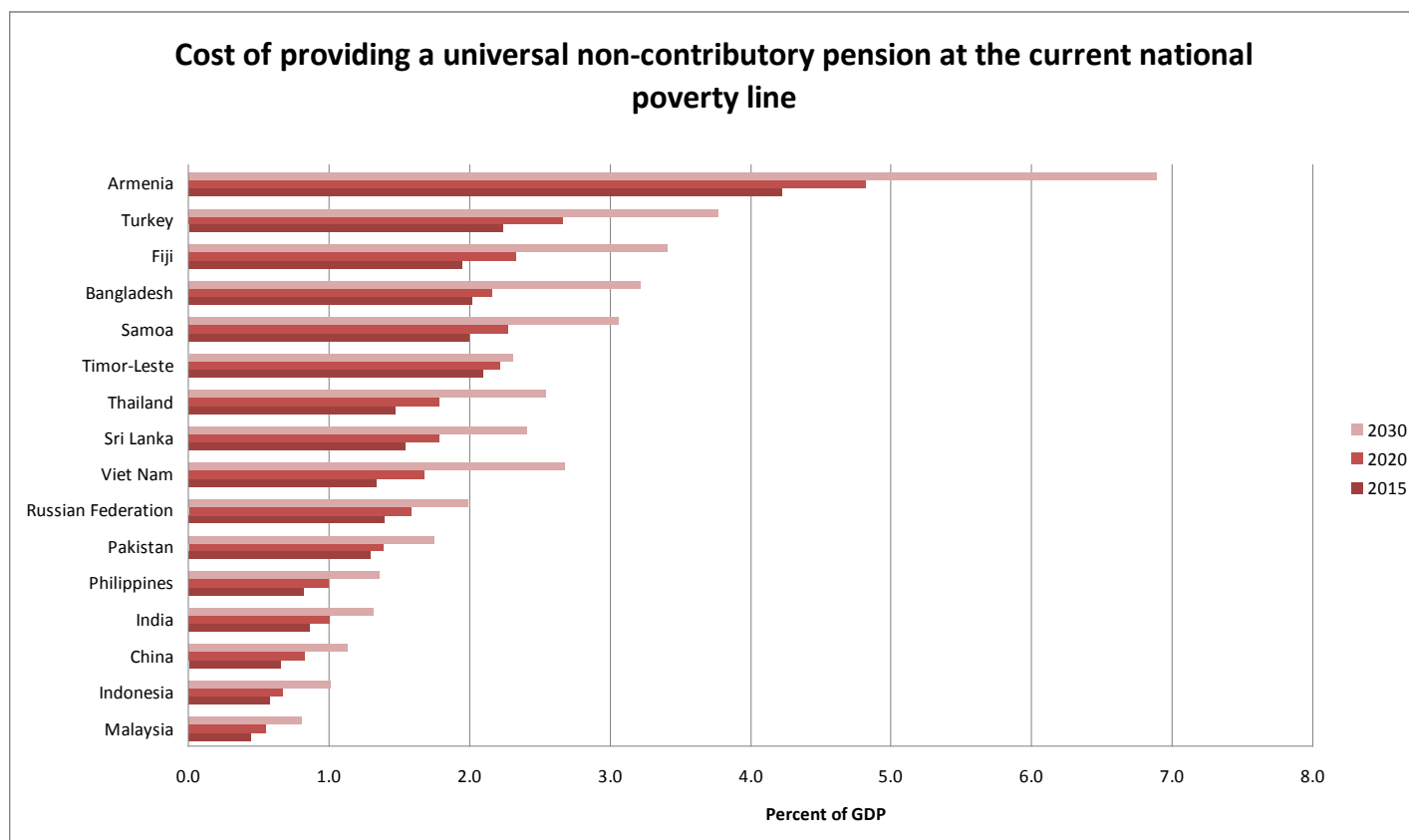
As is evident, a number of these systems have relatively high age requirements, especially when compared to life-expectancy. Moreover, in many cases benefits are relatively low, maybe even too low to provide for a minimum standard of living. In Thailand, for instance, the monthly pension is about two-thirds below the national poverty line. A means-tested benefit for the elderly in the Republic of Korea is equivalent to only about 5% of the average wage, whereas in Samoa the non-contributory pension is equivalent to approximately 20% of average income. In Nepal, benefits have been raised to approximately 25% of GDP per capita from initially 10% of GDP per capita.

What is the fiscal cost of providing a universal non-contributory pension?

Taking a more decisive stance towards tackling old-age income insecurity would require setting more reasonable eligibility requirements in terms of age as well as ensuring that benefits are sufficiently high

Figure 2.

Expenditure requirement for a universal non-contributory pension at the current national poverty line



Sources: ESCAP

to avoid falling into poverty. A valid question remains as to how much universal, non-contributory pensions would cost governments, particularly if benefits are to be financed out of general taxation.

According to ESCAP calculations, the costs of a universal, non-contributory pension scheme are affordable for many countries in the Asia-Pacific region. The required expenditure to provide a universal, non-contributory pension to all persons aged 65 or older in 14 countries in the region, with benefits that are equivalent to the national poverty line in each country, ranges from under 1% of GDP in Malaysia to almost 7% of GDP in Armenia by 2030 (figure 2). In some countries, population dynamics will lead to a more rapid increase in expenditure to finance a universal non-contributory pension. For instance, in Malaysia, the relative expenditure of universal pension will more than double as the proportion of the population aged 65 and older will almost double between 2015

and 2030; in Fiji and Viet Nam the expenditure will increase by more than 75%.

Based on current United Nations population projections, the expenditure is expected to increase beyond 2030 in the countries analysed. Yet, in the Russian Federation, a plateau of 2.6% of GDP would be reached by 2055, after which the expenditure would decline as the proportion of the population aged 65 and above decreases; in Thailand expenditure would reach 4.2% of GDP before declining after 2075. In Turkey, however, costs would reach almost 10% by the end of this century, while in Bangladesh they would then exceed 12% of GDP. This indicates that while the introduction of a non-contributory pension would be an important element in providing a social protection floor, governments will necessarily need to introduce additional pillars of pensions and may eventually have to introduce a means-test (or reduce benefits) to keep expenditure under control.

The MPDD Policy Briefs aims at generating a forward-looking discussion among policymakers, researchers and other stakeholders to help forge political will and build a regional consensus on the needed policy actions and pressing reforms. Policy Briefs are issued without formal editing. This policy brief was prepared by Daniel Jeongdae Lee and Oliver Paddison from the Macroeconomic Policy and Development Division and Patrik Andersson, Manuel Mejido and Chad Anderson from the Social Development Division. The analysis is drawn from the *Economic and Social Survey of Asia and the Pacific 2013: Forward-Looking Macroeconomic Policies for Inclusive and Sustainable Development*. For further information on the policy brief, please contact Anis Chowdhury, Director, Macroeconomic Policy and Development Division, ESCAP (escap-mpdd@un.org)

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