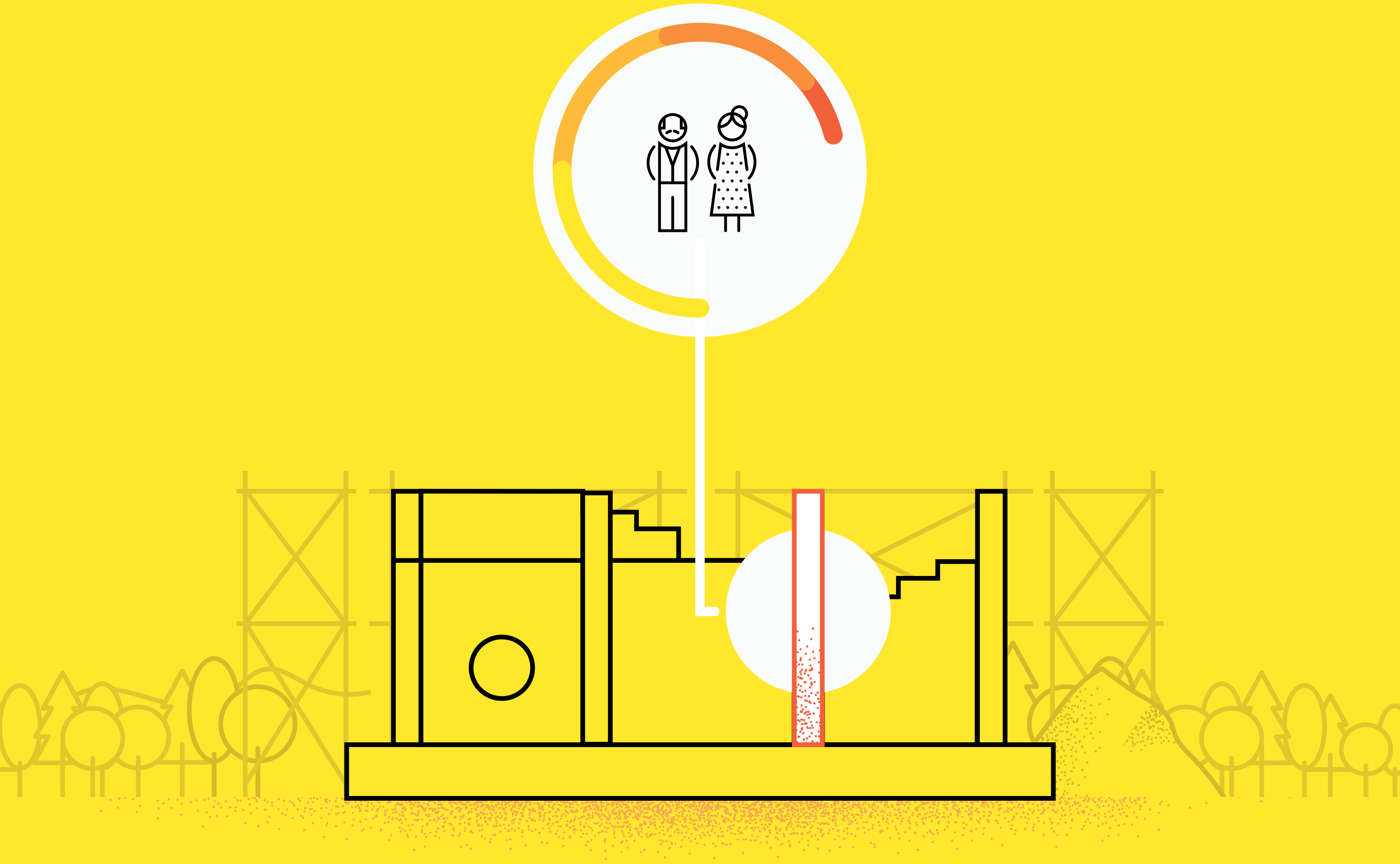
Chapter 5

Protecting women and men in old age: supporting dignity and independence



Effective income security among older persons enables them to live independently and in dignity. Leaving old-age support to families alone is becoming increasingly unsustainable given that demographic ageing is resulting in fewer children to support each older person. Receiving a pension upon retirement means that there is less need to save money throughout the working life and that younger family members can invest in their own future. These investments could be in their own or their children's nutrition and education or to purchase productive assets. Effective old-age social protection systems are particularly relevant for women given the greater vulnerability they often face in older ages, as well as their greater longevity.[129]

5.1 A wide variety of schemes

Most countries in the region combine a mix of contributory and non-contributory schemes. In some cases, the mix is designed to secure some form of income-security for all older persons, irrespective of their work history. There is significant diversity in the design of these schemes.

Contributory schemes are primarily in the form of either social insurance pensions or mandatory individual saving schemes. Individual saving schemes in the region include provident funds, which collect members' contributions into individual savings accounts that accrue interest, and, in most cases, pay a lump sum upon retirement. A new trend in some countries is to transform these funds into an annuity, which becomes a pension. In Singapore, it is mandatory to convert a part of the funds into an annuity. Some countries in North and Central Asia introduced private individual accounts after 1991, but few have reversed or are considering reversing these reforms, giving a stronger role to social insurance. Social insurance pensions — which are the dominant type of contributory schemes across the region — are considered to provide superior income security, as they pool risks among members and provide regular, predictable and higher benefits until the end of life. A few economies, including Australia; Hong Kong, China; and Papua New Guinea, have mandatory occupational pensions. Notably, some others, such as China, Thailand and countries in North and Central Asia use a combination of schemes.

Non-contributory pensions, or so-called social pensions, are usually targeted in one of three ways:

- *Universal pensions,* which are in place in countries such as Georgia, New Zealand and Timor-Leste, provide benefits to all older people over a defined age, regardless of other income they receive.
- *Means-tested* schemes limit benefits to certain categories of the older population based on their income, assets or other indicators of poverty and vulnerability. They are in place in India, the Republic of Korea, the Philippines and Sri Lanka.
- *Pensions-tested* schemes determine eligibility for a non-contributory pension based on other pension entitlements. In some cases, people with other pension entitlements are not entitled to a non-contributory pension. This is a common approach in many countries in North and Central Asia. In other cases, such as in Maldives, individuals with access to contributory pension entitlements can still receive a non-contributory pension, although it is reduced according to the level of the contributory pension entitlement (tapered pensions-testing).

The above categories do not simply correlate with higher or lower coverage. For example, some means-tested schemes only cover a minority of older people, (Bangladesh, Malaysia and Sri Lanka), while others provide benefits to the majority of those over the age of eligibility (Australia and the Republic of Korea).

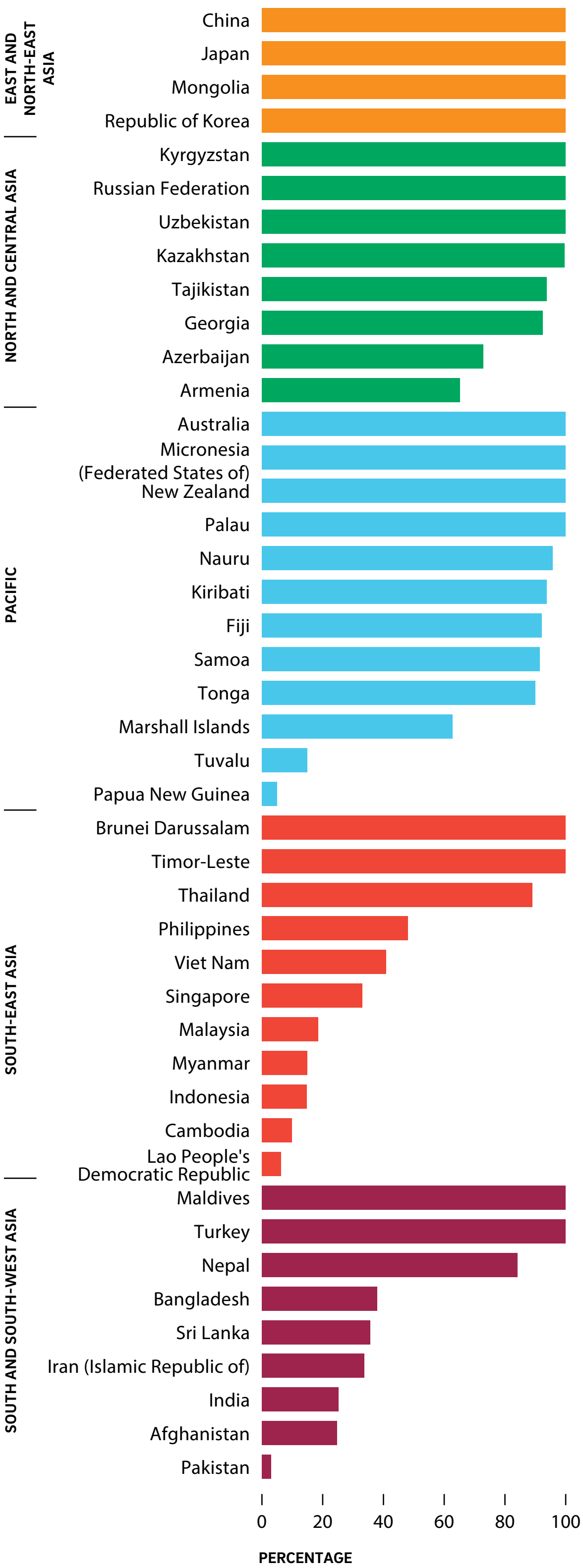
5.2 Old-age pension coverage has increased

Compared to most other areas of social protection, countries in the region have achieved a relatively high coverage of old-age pensions (figure 5.1). Most countries across East and North-East Asia and North and Central Asia have attained universal or near-universal coverage for those above statutory pensionable age. Notably, while countries in the Pacific tend to have lower coverage for other contingencies, many countries in the subregion have achieved high pension coverage. South-East Asia and South and South-West Asia are significantly diverse in their levels of coverage.

129 Charles Knox-Vydmanov, "Work, family and social protection: old-age income security in Bangladesh, Nepal, the Philippines, Thailand and Vietnam (2017). Available at Available at https://www.helpage.org/what-we-do/social-protection/work-family-and-social-protection-in-asia/.

FIGURE 5.1 Most people in the region are covered by some form of old-age pension

Percentage of persons above statutory pensionable age receiving a pension, by country, latest available year

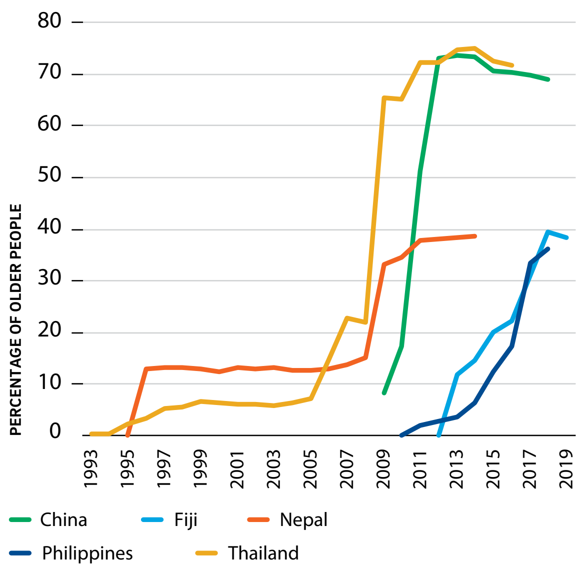


Source: International Labour Organization, World Social Protection Database. Available at https://www.social-protection.org/gimi/ShowTheme.action?id=10.

Recent expansion of non-contributory and subsidized contributory schemes has contributed to increased old-age pension coverage. China, Fiji, Nepal, the Philippines and Thailand are good examples of how coverage has increased through expansion of new or modified schemes since the early 1990s (figure 5.2). The schemes in the figure are non-contributory pensions, with the exception of the resident's pension in China, which is a contributory scheme with a significant tax-financed component.[130] Thailand and China are notable examples where coverage has expanded from being very low to include more than 70 per cent of all persons aged 60 and above within a period of two to three years. New schemes in Fiji and the Philippines reach more than one third of their older populations. The (old-age pensions) scheme in Nepal has been operating for a relatively long time. It was expanded in 2008 and now covers all people aged 70 and above. The eligibility age is lowered for Dalits and people living in the Karnali zone (box 5.1). It should be noted that coverage of the schemes in Fiji and Nepal above the

FIGURE 5.2 Steep increase in old-age pension coverage

Percentage of persons aged 60 and over who receive a non-contributory and subsidized contributory pension, selected countries, 1993–2019



Sources: National Bureau of Statistics of China; China Statistical Yearbook (multiple years); United Nations Population Division, World Population Prospects 2019 (https://population.un.org/wpp/); HelpAge International, Social Pension Database, 2017 (http://www.pension-watch.net/social-pensions-database/social-pensions-database--/); Ministry of Women, Children and Poverty Alleviation (Fiji); Annual Reports (multiple years.)

130 For the China Urban and Rural Residents Pension Scheme, the Government fully subsidizes the basic pension benefit, which complements members' entitlements from their contributions to an individual account.

actual age of eligibility (65 and 70 years, respectively) is significantly higher than indicated in the chart (which considers the population aged 60 and over).

How non-contributory pensions are designed and targeted has a significant impact on who benefits. Georgia has a universal scheme for men 65 and over, and for women 60 and over, while Thailand has a near-universal scheme for older people aged above 60.[131] The scheme in India is targeted at the poorest older people aged 60 and over, while Viet Nam has a mixed scheme. All older people in Viet Nam aged 80 and over are eligible for a non-contributory pension, while for those between the ages of 60 and 79 years, there is a scheme targeted at poor older people living alone. Figure 5.3 shows that universal schemes in Georgia and Thailand are very successful in reaching most households with older people across deciles. Coverage in Bangladesh, India and Viet Nam is much lower, owing to the restricted eligibility criteria and to some poverty targeting.

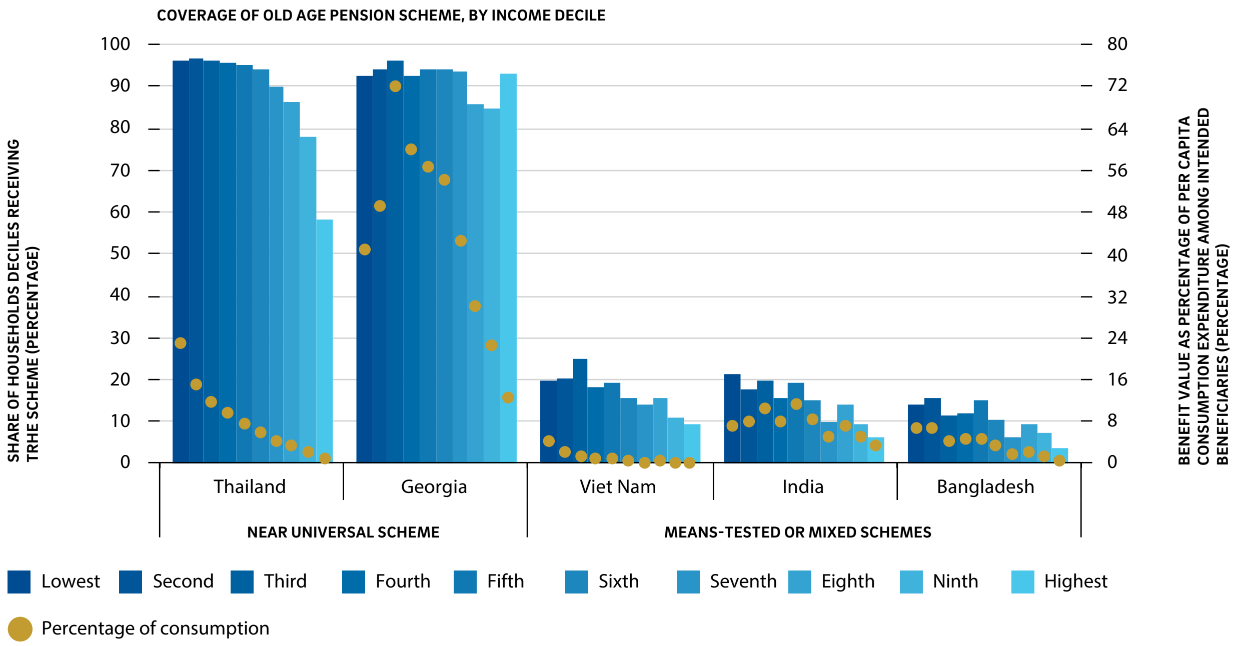
Coverage of contributory pensions tends to be lower among women than men (figure 5.4, panel A). This imbalance reflects the dynamics discussed in chapter 2, including women's lower labour force participation, shorter or interrupted careers because of care responsibilities and their lower incomes. For those reasons, they are also generally more likely to receive non-contributory pensions than men (figure 5.4, panel B).

5.3 Benefit levels remain inadequate

Despite the rapid increase in coverage of non-contributory pensions, benefit levels are often far from adequate. As a share of GDP per capita, benefit levels range from 2 to 35 per cent, with the majority corresponding to less than 10 per cent of GDP per capita (figure 5.5). In many countries, including, for example, Bangladesh, India and the Philippines, benefit levels are below the $1.90 international poverty line. In countries where benefits are low either in absolute or relative terms, older persons may need to continue to work or rely

FIGURE 5.3 Poverty-targeted non-contributory old-age pensions reach a very small share of intended beneficiaries

Coverage of non-contributory pensions by consumption decile among households with at least one member aged 65 and over, selected countries, latest available year

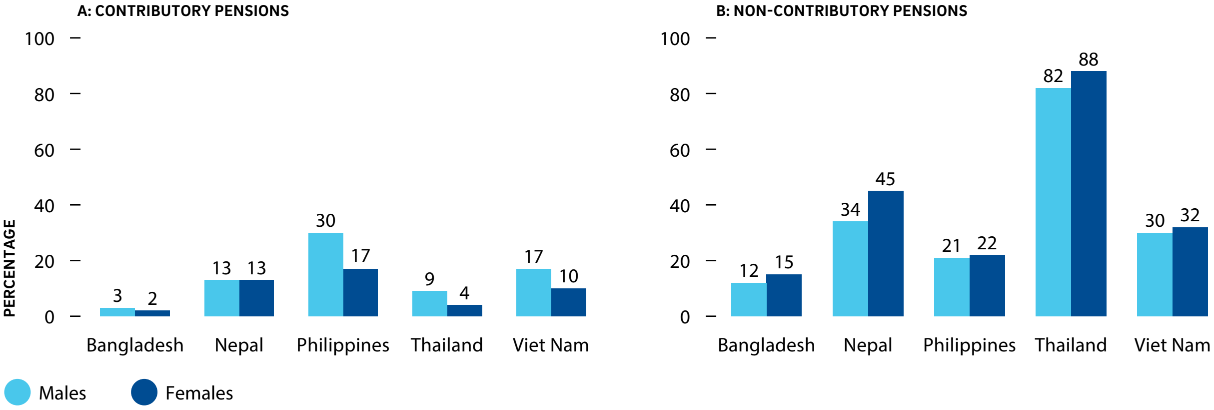


Source: Household Income and Expenditure Surveys, ESCAP Social Protection Simulation Tool, see annex 2. Available at https://devpathways.shinyapps.io/escap_tool_p3/

131 The Old Age Allowance in Thailand targets all older people apart from those receiving government pensions from the Government Pension Fund (civil servant). For more information see HelpAge International, Social Pensions Database, 2016 (http://www.pension-watch.net/about-social-pensions/about-social-pensions/social-pensions-database/).

FIGURE 5.4 **Women are more likely to receive non-contributory pensions, usually with lower benefit levels**

Percentage of persons aged 60 and over receiving a pension by sex, selected countries, latest available year



Source: Charles Knox-Vydmanov, "Work, family and social protection: old age income security in Bangladesh, Nepal, the Philippines, Thailand and Vietnam" (2017). Available at Available at https://www.helpage.org/what-we-do/social-protection/work-family-and-social-protection-in-asia/
Note: Data relates to the following years – Bangladesh (2010), Nepal (2010/11), Philippines (2017), Thailand (2017) and Viet Nam (2011). Data for the Philippines on contributory pensions only includes Social Security System pensions, and not those from the Government Social Insurance Scheme.

heavily on family support and face the risk of living in poverty. Examples of countries with social pensions that exceed the regional average benefit level of 12.8 per cent of GDP per capita include Georgia, Kiribati, Maldives, Mongolia and Nepal. More details on the social pension in Nepal are given in box 5.1.

The near-universal old-age pension scheme of Thailand provides a benefit of between THB 600 and 1,000 per month, depending on the age of the recipient.[132] This corresponds to levels of 3 to 5 per cent of GDP per capita, one of the lowest levels in the world, equivalent to only 85 per cent of the international extreme poverty line.[133] As such, it accounts for less than one quarter of the poorest households' pre-transfer income (figure 5.3). Despite this very low pension level, a national survey of older persons has found that one-in-five considered the scheme their main source of income.[134] This surprise finding highlights that even low benefits can make a meaningful — albeit inadequate — contribution to those living on very low incomes.

Contributory social insurance pension schemes tend to perform better, but do not necessarily guarantee adequate benefits in all cases. Social insurance pension schemes provide periodic benefits for those that have contributed to the scheme. Benefits are generally calculated based on a stipulated formula, often requiring a minimum level of income and years of contribution, so-called defined benefits. The contributions are pooled, so the risks are shared and redistribution takes place among the members of the scheme. For example, schemes can be designed in a way that compensates for disadvantages and periods without contributions, such as providing care credits or guaranteeing minimum benefits for those with lower incomes, both of which benefit women.[135] Nevertheless, the adequacy of benefits depends on the parameters of a given scheme, which includes retirement age and the benefit formula. The limited adequacy of contributory benefits in some countries explains why non-contributory benefits may be considered a complement, rather than an alternative.

132 Those aged between 60 and 69 years receive THB 600 per month. Those aged between 70 and79 years receive THB 700 a month. Those aged between 80 and 89 receive THB 800 a month. Those over 90 years receive THB 1,000 a month.

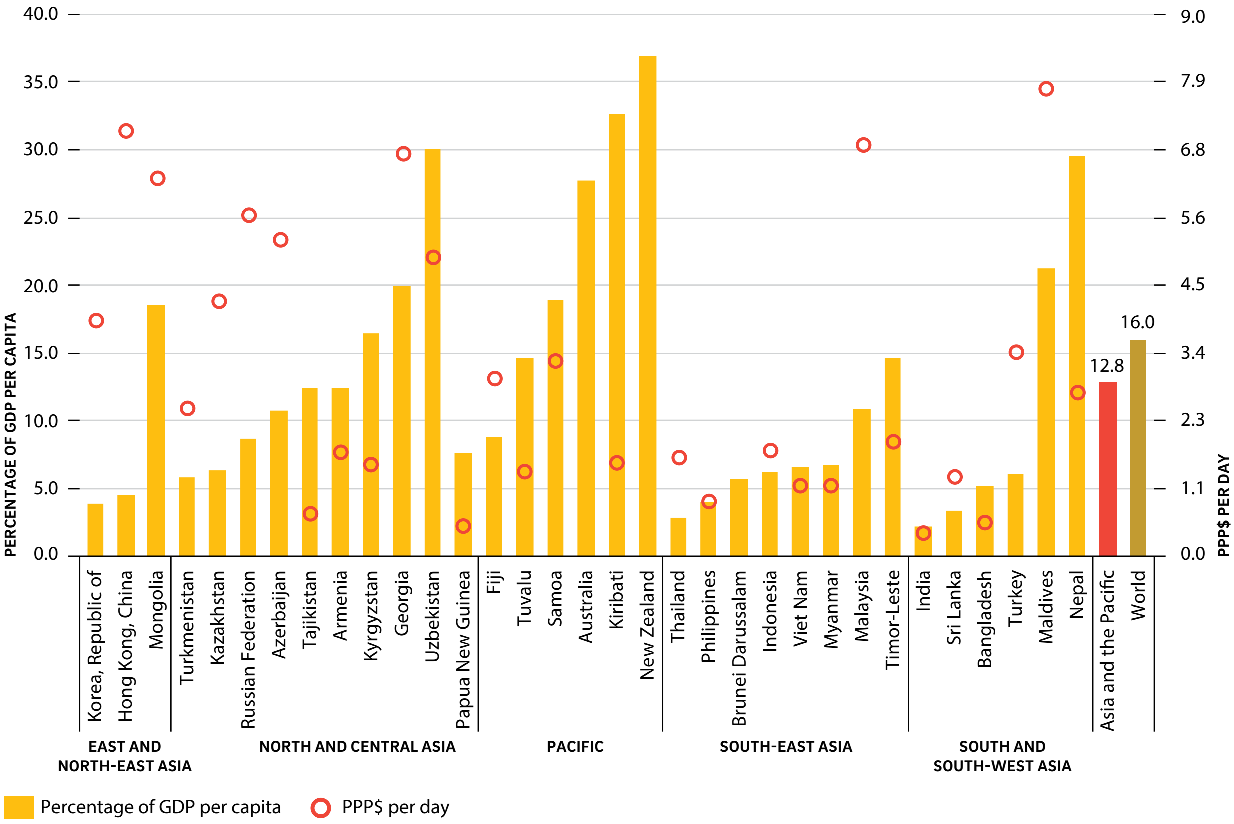
133 Authors' calculations based on International Monetary Fund, World Economic Outlook Database, October 2019 (https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx); IMF, World Economic Outlook Database, October 2019 (https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx).

134 Busarawan Teerawichitchainan and others , "Thailand's older persons and their well-being: an update based on the 2017 survey of older persons in Thailand"(Chiang Mai, Thailand, HelpAge International, 2019).

135 International Labour Organization, "Improving Women's access to old-age pensions Cambodia and Viet Nam" (2019). Available at http://www.oit.org/hanoi/Whatwedo/Publications/WCMS_716009/lang--en/index.htm.

FIGURE 5.5 Non-contributory old-age pensions are often inadequate

Benefit levels of non-contributory old-age pensions as share of GDP per capita, and in PPP $ per day, by country, latest available year



Source: HelpAge International, Social pensions database. Available at: www.pension-watch.net/social-pensions-database/social-pensions-database--/

Concerns about the financial sustainability of social insurance pensions have led some countries to move towards more individualized forms of contributory pensions. In many cases, population ageing is expected to place pressure on the financial balance of social insurance unless key parameters are adjusted, such as retirement ages, contribution rates and benefit formulas. In response, some countries are reshaping their contributory pension schemes towards different models of individual accounts, where there is a stronger link between lifetime contributions and benefits and less responsibility for the State as a guarantor of the level of benefits. For example, reforms in North and Central Asia have included adding a scheme of mandatory individual accounts, where funds are invested in the financial market. Others have included a mechanism where social insurance pensions are adjusted to strongly reflect an individual account ("notional defined contribution").

The results of some of these reforms have, nevertheless, been disappointing. An analysis of the reform in Kazakhstan in 1998 showed poor results in terms of adequacy of pensions, particularly for women, precipitating further pension reform in 2013.[136] In general the introduction of individualized forms of contributory pensions represents a clear move away from the core principles of solidarity and redistribution. Such schemes also place a greater responsibility on the individual to handle risks such as inflation, capital market performance and many times deal with high administrative fees of pension funds, while risking facing periods without income.[137] The economic crisis associated with the COVID-19 pandemic will embody another stress test for these savings-based old-age income pension schemes. Judging by the consequences of the international financial crisis of 2008, it is reasonable to assume that the expected periods of contracting economic activity will negatively affect pension levels for members of these schemes. True old-age income

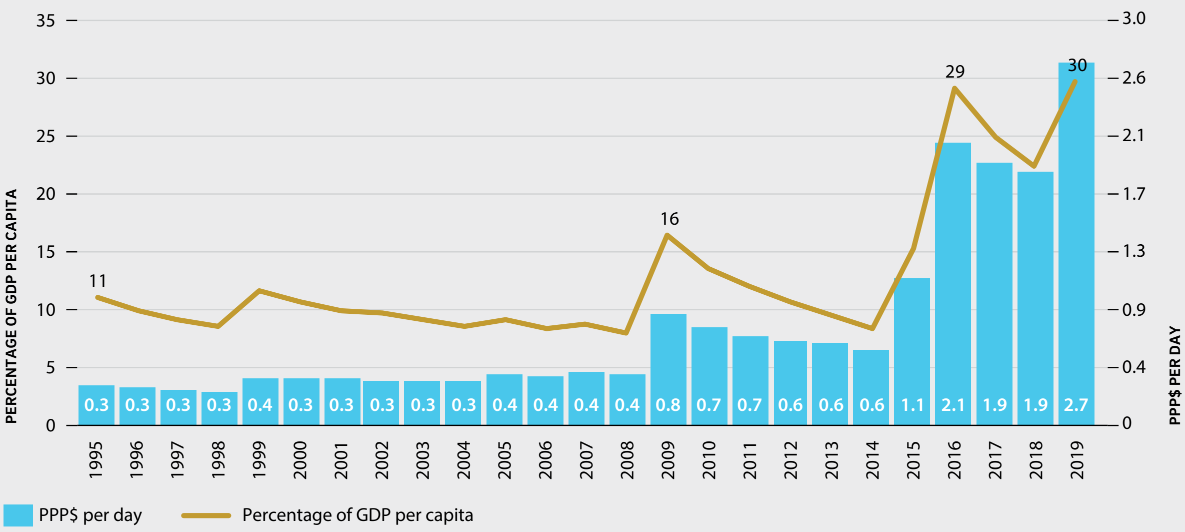
136 Isabel Ortiz and others (eds), *Reversing Pension Privatizations: Rebuilding Public Pension Systems in Eastern Europe and Latin America* (Geneva, ILO).

137 Isabel Ortiz and others. "Reversing pension privatization: rebuilding public pension systems in Eastern European and Latin American Countries (2000-18)", ESS – Working Paper No. 63 (Geneva, ILO, 2018).

BOX 5.1 Senior Citizen's Allowance in Nepal[a]

Nepal is a good example of a low-income country that has managed to introduce a non-contributory old-age pension with a comparatively high coverage and adequacy relative to other countries in the region. Introduced in 1995, the country's Senior Citizen's Allowance provided a benefit for all older people over the age of 75 years, at a benefit level of NPR 100, or 11 per cent of GDP per capita, which corresponded to less than a fifth of the extreme poverty line. The scheme was reformed in 2008–2009 following the end of the civil war. Coverage was expanded to include older people 70 and over, and to 60 and over for Dalits and those living in the poorest region of the country (the Karnali Zone). The benefit was also increased to NPR 500 per month, and subsequently to NPR 1,000, 2,000 and then 3,000 in 2015, 2016 and 2019, respectively. These increases put the benefit above the international extreme poverty line and made it one of the highest benefits in the world, at 30 per cent of GDP per capita.

FIGURE 5.6 Development of Nepal's Senior Citizen's Grant, in percentage of GDP per capita and PPP$ per day, 1995–2019



Sources: Budgetary documents 1995–2016 and International Monetary Fund, World Economic Outlook Database, October 2019 (https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx).

a Charles Knox-Vydmanov, "Work, family and social protection: old age income security in Bangladesh, Nepal, the Philippines, Thailand and Vietnam" (2017). Available at Available at https://www.helpage.org/what-we-do/social-protection/work-family-and-social-protection-in-asia/.

security has to be underwritten by entire societies because only then can older persons be guaranteed a fair share of future national incomes.

Adequacy is also an issue for provident funds. These schemes traditionally provide lump-sum benefits at retirement, which raises the risk that retirees will outlive their savings. An analysis of benefits associated with the Employees Provident Fund of Sri Lanka indicates that if all retiring members were in a position to invest their lump-sum benefit in an optimal way, the replacement rate would initially only be 20 to 45 per cent of the average wage and would decline as the person ages.[138] Singapore has initiated steps to address the challenges of lump-sum benefits. It now obliges members with savings above a certain threshold to convert them to a life annuity. However, low benefit levels remain an issue for many low-income workers.

138 International Labour Organization, *Analysis of the Sri Lankan Social Protection Schemes in the Context of Social Protection Floor Objectives* (Geneva, ILO, 2016).