Why social pensions are needed now

October 2006

This briefing outlines the role of social pensions in ensuring everyone can age in security and with dignity, and how different stakeholders can contribute to achieving this. It complements HelpAge International's report *Age and security*, which presents evidence on the impact of social pensions, and best practice lessons on implementation in more detail.

HelpAge International is a global network of not-for-profit organisations with a mission to work with and for disadvantaged older people worldwide to achieve a lasting improvement in the quality of their lives.

Briefing on social pensions

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Summary

HelpAge International is calling for a universal social pension for all people over 60 years of age in order to:

Realise older people's rights

Social (non-contributory) pensions are a valuable and strategic element of a minimum social security package that supports the realisation of rights, via implementation of the right to social security for all and furthering state provision of social protection for vulnerable people. Social pensions support commitments made by governments in the Madrid International Plan of Action on Ageing 2002 to halve the numbers of older people living in extreme poverty by 2015. They also make important contributions to older people's empowerment and ability to claim other rights for themselves and their dependants.

Reduce poverty

Social pensions are an effective way of reducing income poverty and other forms of poverty among older people. The numbers of the older poor in developing countries are increasing and older people are over-represented among chronically poor people. Two-thirds of older people receive no regular income and 100 million live on less than US$1 a day. Regular cash transfers also increase poor older people's access to services, particularly health care.

As most older people live and share resources with younger family members, social pensions have a substantial impact on child wellbeing and the achievement of MDGs 1-6. Social pensions contribute to increased school attendance and better nutrition among children. They can play an important role in breaking intergenerational poverty cycles. Rather than creating dependency, social pensions can actually reduce it.

Tackle HIV and AIDS

In addition to reducing demands on older carers, social pensions help HIV positive people access treatment, which strengthens livelihoods and reduces levels of orphaning. They also improve the life chances of extremely vulnerable children.

Effectively support the most vulnerable

Social pensions are an underused policy instrument for achieving just and more equitable societies for all ages. Their vital role as part of anti poverty policy needs to be recognised.

Social pensions are affordable. Depending on the size of the transfer and the number of the eligible population, costs range from 0.03 to 2 per cent of GDP. Most existing schemes are fully nationally financed, but fuller coverage can be achieved with a mix of national and donor financing. Political will and predictable and long-term financing are needed. Strong community based accountability mechanisms can ensure that resources are delivered efficiently and well-used. Universal pensions are generally simpler and less costly to administer than means-tested pensions, and less prone to corruption and discrimination in their distribution.

'If I do not get this money I will be treated as an undesirable burden and my children will pass me from one house to another.'

Bhagya, 75 Uttar Pradesh, India

Social pensions – a win-win policy option

Social pensions are generally defined as state provided non-contributory regular cash transfers to older citizens, given at specific ages in different countries. Seventy two countries have either means-tested or universal social pensions – forty-six of these are low or middle income countries. It is increasingly recognised that they are a win-win policy, reducing the poverty of older people and their dependents and increasing older people's status, material security and access to services.

A meeting of senior African government representatives in Zambia in 2006, co-hosted by HelpAge International, and supported by the African Union and the Government of Zambia, called for 'greater use of social pensions and other social transfers to vulnerable children and disabled people as policy options and the development of national social transfer plans within three years.'[1]

Why social pensions are needed

Older people are entitled to benefit from international commitments to end poverty but they are deliberately or by default excluded on grounds of age. Social pensions are a proven, cost-effective way of helping realise older people's rights, including the right to development.

Older people are often disproportionately affected by poverty. 100 million older people are living on less than one dollar a day and older people are disproportionately at risk of chronic poverty with older people in multigenerational households among the poorest.[2] In many African countries affected by HIV/AIDS, households composed of older people and children are particularly vulnerable to poverty.[3]

Most older people have no regular income. Most poor older women and men in developing countries work in the informal sector and are excluded from contributory pension schemes. In Sub-Saharan Africa and most of South Asia, less than 19 per cent of the older population has a contributory pension.[4] Social pensions help bridge this gap. The World Bank recommends social pensions as an essential pillar of all pension systems to ensure all older people are adequately protected.[5]

To prepare for global ageing. Given global population ageing, social pensions are a vital component of social security and anti-poverty policy. By 2050, there will be an estimated 1.2 billion people over 60 worldwide, two-thirds of them in developing countries.[6] Older people will comprise an estimated 19 per cent of developing country populations, up from 8 per cent today, with women outnumbering men.[7] Institutionalising social pension provision is thus an important strategic component of long-term anti-poverty and social security policy.

The role of social pensions in realising older people's rights

Regular income in old age is an essential component of the rights to social security and an adequate standard of living, recognised in the Universal Declaration of Human Rights (1948), and the International Covenant on Economic and Social Rights (1966). The right to regular income in old age is reiterated in the Madrid Plan of Action on Ageing (MIPAA 2002) and in the 2002 African Union Policy Framework and Plan of Action on Ageing. Social pensions are an effective way to deliver this regular income.

Regular social pension income enables older people to access the services to which they are entitled, particularly health care and medicines. However, even with a social pension, many older people cannot afford all the medicine they need; social pensions need to be part of a wider social security package including free and appropriate basic health care.

Regular social pension income can increase older people's standing in their families. Recipients often contribute their pensions to their households, and this helps them feel they are not burdening their families. Sharing pension income also helps cement intergenerational relationships and obligations. In the words of Bhagya, a widow of 75 living in Uttar Pradesh. India. 'If I do not get this money I will be treated as an undesirable burden and my children will pass me from one house to another.'

Regular social pension income can contribute to dignity and empowerment. The right to social pensions provides older people with security and control over their own lives. Effects are strongest where the right to a pension is a constitutional provision (as in India and South Africa), which can be upheld legally. For example with a regular income recipients can invest in their own or family businesses, which can help them, live with dignity and avoid work that endangers their health.

'The first thing I do when I get the pension is buy medicine for my wife. Afterwards I go to the butcher and buy some meat.'
Older man, Brazil

How social pensions reduce poverty

Social pensions reduce the proportion of older people living in poverty and the severity of their poverty. For example, 55 per cent of recipients of Chile's PASIS (social pension) have moved from being extremely poor to poor and 45 per cent have moved out of poverty altogether.[8] Social pensions increase the income of the poorest 5 per cent of the population by 100 per cent in Brazil and 50 per cent in South Africa.[9] People in households receiving a pension are 18 per cent less likely to be poor in Brazil and 12.5 per cent less likely in South Africa.[10]

Social pensions reduce child poverty and increase school enrolment and nutritional intake. Most older people in developing countries care for children and share their pensions with their households and/or other relatives. Pension income is often invested in, and frees up money to spend on children's health, education and better nutrition, contributing to meeting the MDG's on hunger (1), education (2 and 3) and health (4-6). As a result 10-14 year olds' school enrolments are significantly higher among rural Brazilian households that receive pensions as compared with those who don't,[11] and girls in pension recipient households in South Africa are on average 3-4cm taller than girls of the same age in non-recipient households.[12] Pension income often finances investment in assets and small scale business which in turn supports children's welfare and the capacity of the older poor to continue to contribute to family and community.

Social pensions promote gender equity. Social pensions generally redistribute proportionately more income to women (who have less opportunity to obtain contributory pensions due to lower rates of formal sector employment and, often, shorter work histories due to child-rearing). Furthermore, they generally live longer than men, are often subject to discriminatory inheritance and property laws and may face greater discrimination in access to services and resources. Social pensions thus play a particular role in enhancing the wellbeing of older women. They can also be a lifeline for older men, living alone, who can use their pensions to help pay for care, or to thank other family or community members who help them out.

Social pensions alleviate the impact of HIV and AIDS by:

- **Providing financial resources for the care of very vulnerable children and of orphans.** Between 50 and 60 per cent of orphans live with grandparents in Namibia, Botswana, South Africa, Malawi, Zimbabwe and Tanzania, as do 50 per cent in Thailand.[13] In such contexts, and particularly where other forms of social assistance are limited or non-existent, social pensions can be an effective way to support living standards among older people and children simultaneously.
- **Enabling HIV-positive people to access treatment.** Regular cash transfers (such as social pensions, child benefits or disability grants) can be used for health care expenses (e.g. drugs or clinic fees) or related costs, such as transport and food. Where transfers facilitate anti-retroviral treatment, this can enable HIV positive people to look after themselves and continue in remunerative work, strengthening livelihoods and reducing the likelihood of children being orphaned.
- **Reducing the demands on older people who frequently care for their HIV positive children, in addition to grandchildren.** Social pensions can enable older carers to better provide for themselves and their dependents and reduce anxieties about making ends meet. See Box below for an example from Mozambique.

Cash transfer helps a household get back on its feet

Until recently, Nguinia, a widow lived with her son (Fungai) and his wife who are both HIV positive, and their three children. The family sold all their belongings trying to get treatment for Fungai, without realizing he was HIV positive.

Nguinia had to do all the cooking and care of the household as well as trying to farm; finally her caring responsibilities prevented her farming and her harvest failed. Around this time she met an activist, from an older people's support group, who provided Fungai with the funds to travel to the district hospital and get tested for HIV.

After he started anti-retroviral treatment, Fungai felt so much better that he was able to restart his business as a cobbler, thus contributing to household income and reducing demands on Nguinia.

Though the funds were, in this case, provided by an NGO, HelpAge International Mozambique, rather than through the state pension, the principle of cash enabling access to anti-retroviral treatment and thus getting a household 'back on its feet' is the same.

Social pensions support economic growth. Social pensions are an investment in less poor, healthier, more cohesive societies all of which have important economic as well as social benefits. Social pension expenditure should be viewed as an investment rather than unproductive spending.

Research in northern Namibia, for example, showed that one quarter to one half of pension income was invested in productive enterprises, while evidence from South Africa suggests that social transfers, including pensions, facilitate access to and create employment.[14] Preliminary findings from research into the social pension in Lesotho show 18 per cent of recipients spent part of their pension on creating cash jobs for other people.[15]

As Dona Elvira, a Bolivian widow explained, 'with this (the Bonosol – Bolivia's social pension) I buy a few things…I buy blankets. I buy a dozen or two dozen depending on the price, but I make use of the money from the Bonosol as capital'.[16] She and her relatives then resell these blankets at a profit to meet basic household expenses.

Rather than creating dependency, social transfers such as pensions can reduce dependency, as the following example from Zambia below, shows.

From begging to farming

72-year-old Zambian widower Haatantala lives alone in a small mud house surrounded by large open fields of tall grass. For the first time in a few years there is also a small field of maize next to his house.

In May of 2004 Haatantala qualified for a government scheme that provides him with a regular income of US$6 per month. He has used this money to buy seed and hire local labour to plough and cultivate his maize field.

Asked why he has chosen to invest his money in farming rather than use it immediately to buy food, Haatantala looks proudly at his field and says that it is only by growing his own food that he can be sure he will never again have to beg from his neighbours to survive.

Regular social pensions that are delivered by the state contribute to improved relations between citizen and state, important for social cohesion and economic growth, and ultimately for governance. The delivery of national programmes of social pensions requires clear and transparent processes, including appropriate incentives and accountability, and supports institution and capacity building within government. Evidence from countries with regular social pensions shows that citizens are more aware of their entitlements, have improved access to services and information on rights and willingly participate in the monitoring of delivery to the benefit of others.

Implementing social pensions

HelpAge International is calling for universal social age pensions to start at 60 in recognition of the fact that poor people often face early onset of old age and declining health and in accordance with the UN definition of older people.[17] We recognise that this may be a challenging target in low-income countries; with international support, however, it is feasible.

Universal and means-tested pensions
Pension experts report that income testing is administratively difficult, expensive and can induce stigma. Tight targeting is possible on the basis of well-chosen indicators, such as old age.[18] Universal transfers avoid the high administrative costs of means-testing which can divert funds away from pension expenditure, and overtax implementation systems. They also enhance equity and inclusion, by avoiding the discrimination that can occur where means-tests are applied, and opportunities for corruption arise. Though 'leakage' of benefits to the better-off is a major concern, where poverty levels are high and benefit levels low, as in most poor countries, leakages cost less than the costs of means-testing. Universal schemes also help build social solidarity and are often politically more acceptable because taxpayers (not only poor people) stand to benefit.

Affordability
Universal social pensions are affordable even in very poor countries. Though many analysts, policy-makers and donors are concerned that universal social pensions are unaffordable, there is increasing evidence that where political will exists, they can, indeed, be afforded. For example, Botswana, Lesotho, Nepal and Mauritius all have domestically financed universal social pensions, which cost a maximum of 2 per cent of GDP.[19] Extending Lesotho's social pension to all eligible citizens over 65 (it is currently provided only to people over 70) would increase the cost to a still-affordable 2.5 per cent of GDP. Recent ILO studies in seven African countries, suggest that even with population ageing, universal social pensions will be affordable, and that in the medium-term they can be financed from domestic resources.[20]

Costs can be contained by initially making smaller transfers, and by starting with a high minimum pension age and progressively lowering it, as the Government of Lesotho plans to do. While the poorest countries – such as Nepal – make minimal transfers (around 10 per cent of per capita GDP), others are more generous – for example Brazil's social pensions are set equal to the level of the minimum wage, and Lesotho's social pension provides benefits equal to the official national poverty line for a single person, and is explicitly intended to eliminate old age poverty.[21] The size of transfers can also be scaled up over time.[22]

Feasibility
Social pensions are administratively feasible. Recent experiences in Lesotho, Nepal and Namibia show that with strong political will, and the mobilisation of a spectrum of agencies such as the Post Office, private and public banks, key government departments or local councils and the military (to protect cash or reach remote areas), constraints of administrative capacity can be overcome. Having a major cash transfer programme to deliver builds capacity among implementing agencies. Where administrative capacity is limited, simplicity and transparency are of particular importance.

Conflict-affected countries often pose particular challenges for transfers such as a social pension. In such contexts, if the banking system reaches most people, it may be possible to set up accounts and make direct transfers to recipients. Using remittance systems has proved effective in distributing social protection transfers in Somalia.[23] Truces or humanitarian corridors also provide opportunities to deliver pensions.

A core element of social protection programmes
Social pensions should form a core element of a programme that progressively achieves social security for all. The ILO recommends that social pensions be instituted as part of a package also involving child benefit, and a disability grant.[24] This would also achieve the greatest reduction in poverty – for example, in Tanzania this approach would cut overall poverty headcounts by 35 per cent and the poverty of households with children and older people by 46 per cent.[25] Universal access to free basic health care and education are also vital complementary measures.

Promoting equity through the design of social pension programmes.
Key actions include: increasing uptake through simplifying documentation requirements; expanding mechanisms for applying for and receiving pensions locally (which reduces transport costs and demands on ill and infirm people); and ensuring that older people are informed of their rights.

Role of different stakeholders

Governments – national, regional, district and local
There is a strong case for state financing, and delivery of social pensions. States have obligations to realise the rights to social security and adequate livelihoods. Experience also suggests that social pensions support the effective functioning of state or quasi-state institutions (such as Post Offices); decentralisation objectives and progress in anti-discriminatory legislation; and ensuring access to free basic health care and education. Governments should however embed policies on social pensions within national social protection and poverty reductions strategies in order to ensure necessary financing from government and development partners.

Donors and development partners
Though many social pension schemes are entirely domestically financed, in some countries, medium-term donor support (through general budget support and/or protected social protection sector programmes) will be needed. Donor and development partner support, including UN and multi-lateral institutions, to governments to mainstream social protection programmes into development policy is needed, as is agreement on long term and predictable funding mechanisms. The perceived unpredictability of donor funds is an important obstacle to regular state-provided income transfers in many African countries.[26]

Donor countries are also bound by obligations under the International Covenant on Social, Economic and Cultural Rights, and thereby the progressive realisation of economic, social and cultural rights of all people. They can play an important role in both disseminating innovative experiences and also in supporting developing country governments to explore the practical and political consequences of instituting national schemes of income transfer in old age.

Civil society organisations
Civil society organisations – from small, grassroots older people's and community based organisations to large, professional NGOs can play a key role in helping older people become aware of, and access their entitlements, as the box below illustrates.

Promoting accountability to older people and uptake of pensions

In Bangladesh, an NGO, the Resource Integration Centre, worked with older people in 80 villages to form associations, which elected monitoring groups on older people's entitlements – the old age allowance, widow's allowance and access to health services.

They found that significantly fewer people were receiving entitlements than were eligible – less than 1 in 10 in one area. The older people's associations held regular meetings with local government to help people claim pension entitlements; as a result, pension uptake increased five-fold, and banks improved their procedures for serving older people.

Civil society organisations can also play a key role in monitoring progress on government commitments to older people, for example by monitoring how national policies, including PRSPs, take forward the Madrid International Plan of Action on Ageing. They have a key role in engaging in public policy processes to ensure older people's wellbeing and entitlements are kept high on policy agendas.

What is HelpAge International doing?

HelpAge International is working in partnership with governments, civil society organisations, including community-based and national organisations of older people, and donors to raise awareness of the issues faced by older people and to achieve the commitments on older people's rights made by many governments under the Madrid International Plan of Action on Ageing.

These commitments include taking forward the rights of older people and reducing the number of older people living in extreme poverty by 50 per cent by 2015. HelpAge International believes these commitments can be achieved through the provision of a package of universal state social pensions, free health care and anti-discriminatory legislation.

HelpAge International is therefore:

- **Helping older people access their entitlements** and engage with their governments on social pension and other rights issues, for example, in Bolivia, Bangladesh, Mozambique and South Africa.
- **Facilitating dialogue and exchange of experience between governments, donors, development partners and civil society on social pension issues,** particularly feasibility, implementation and impact. For example, together with the African Union and Government of Zambia, HelpAge International facilitated an intergovernmental meeting on social protection between senior African government representatives and donors in March 2006.
- **Supporting existing schemes and researching into their impact.** For example, HelpAge International has researched the impact of social pensions in Brazil, South Africa and Lesotho and of cash transfers more generally.

- **Monitoring and publishing new developments on social pensions** e.g. through the Pension Watch section on our website http://www.helpage.org/Researchandpolicy/Socialprotection/Pensionwatch, our regular publication Ageing and Development, and reports on pensions, such as Age and Security.
- **Working within coalitions of non governmental organisations and research institutions** to raise the profile of social protection and universal social transfers for older people, children and the disabled, and to campaign for the inclusion of social protection in global development policy and financing models.

Endnotes

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Key resources

Books and papers

Ageing and security: How social pensions can deliver effective aid to poor older people and their families (2004) Helpage International, UK.
Download from **http://www.helpage.org/Resources/Policyreports**

Making cash count: Lessons from cash transfer schemes in east and southern Africa for supporting the most vulnerable children and households (2005) Save the Children/HelpAge International/IDS, UK.
A UNICEF-commissioned review of social-protection measures reaching the increasing numbers of vulnerable children in east and southern Africa
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Download from **http://www.epri.org.za/socialtransfers**

Poverty, old-age and social pensions in Kenya (2006) Kakwani, N. et al, (2006) , Working Paper 24, UNDP International Poverty Centre, Brasilia.
A case study with useful information on the cost and impact of different social pension options.
Download from **http://www.undp-povertycentre.org/newsletters/WorkingPaper24.pdf**

Newsletters

Ageing and Development
A regular briefing to raise awareness of the contribution, needs and rights of older people, and promote the development of laws and policies that will bring a lasting improvement to the quality of life of disadvantaged older people.
Published twice a year in English and Spanish (*Tercera Edad y Desarrollo*).
Download from **http://www.helpage.org/Resources/Regularpublications/AgeingandDevelopment**

Websites

Pension watch
Survey of social (non-contributory) pension schemes, analysing the cost, coverage and types of social pension in18 low and middle income countries.
http://www.helpage.org/Researchandpolicy/Socialprotection/Pensionwatch

Non-Contributory Pensions and Poverty Study
Papers on broad issues related to social pensions, with country studies of South Africa and Brazil.
http://idpm.man.ac.uk/ncpps/about.htm

International Labour Organsation
Pensions web page
http://www.ilo.org/public/english/protection/secsoc/areas/policy/pensions.htm

Annotated bibliography on social pension issues
http://www.ilo.org/public/english/protection/secsoc/downloads/policy/pensref.pdf