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How to Provide **Basic Income Security to all Elderly People?**

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The Social Protection Floors Recommendation adopted in 2012 urges all countries to establish as quickly as possible and maintain floors of social protection through guarantees that all people in need have access to at least essential health care and to basic income security throughout their life. In particular, such guarantees should include basic income security in old age.

However, the reality is that worldwide only a minority of people—concentrated in higher-income countries and in the formal economies of lower-income countries—are effectively covered by contributory old-age pension schemes. Also, only a minority of the world's elderly people are receiving any pension now. While 75 per cent of those aged 65 or over in high-income countries are receiving some kind of pension, in low-income countries less than 20 per cent of them receive pension benefits; the median in this group of countries is just over 7 per cent.

Providing income security to all elderly people requires a concerted effort through a pension system composed of a mix of policy measures: contributory and non-contributory (in terms of building entitlements to pensions), earnings-related and flat rate (in terms of pension amounts), and of contributory and tax-financed (in terms of financing sources). These different types of policy measures can be undertaken through separate schemes forming different 'tiers' or 'pillars' of the pension system, but often these different measures are also present within a single scheme. To a large extent it is the presence of the non-contributory and non-earnings-related components which makes social security pension schemes and systems 'social'. The actual composition of such a mix of policy measures in any country depends on many factors— ranging from the structure of the labour market and degree of informality of the economy to societies' attitudes and preferences regarding redistribution, support to elderly and poor people, responsibilities of the state and individuals, and the role of the public and private sectors.

Taking into account the need to provide "as quickly as possible" income support to all those who are already elderly and the fact that a large proportion of those who are still of working age not only work in the informal economy but also have no contributory capacity indicates that in many countries providing floors of social protection, including income security in old age, has to be done through non-contributory programmes.

Among the existing options there are universal pensions paid to all residents meeting specified criteria (such as reaching a certain age); there are also income-based or means-tested pensions provided to all those below specified income or asset thresholds. These pensions are called by some 'social pensions', and they are often seen as the most effective way to reach in a relatively short time all those who for some reason (such as very low incomes which make regular contributions to contributory schemes unaffordable, or irregular incomes making regular contributions to contributory schemes unfeasible etc.) cannot be members of a contributory scheme— therefore, to reach universal coverage. For many, the universal pension solution has an advantage over the means-tested approach, being not only much simpler and less costly to administer and deliver but primarily the most equitable way to provide to everybody a minimum income security at retirement, avoiding stigma and exclusion often associated with means-testing. However, the actual solution will always depend on prevailing societal attitudes towards equity and redistribution and also on overall costs concerns.

Already the majority of the world's elderly people live in Asia, and this proportion will grow further in the future. Many Asian countries are thus making various efforts to provide at least basic income security to current and future elderly people, beyond those working in the formal sector. Sri Lanka has had a scheme for a long time to cover farmers and fishers which has achieved substantial coverage rates. India is making efforts to cover some in the informal sector with a new pension scheme.

Bangladesh, Mongolia, Sri Lanka and Viet Nam present examples of means-tested pension schemes, where the governments have established non-contributory social pensions targeted at elderly poor people who are not covered by formal pension schemes. To be eligible the person needs to have reached a certain age (65 years in Bangladesh, 55 for women and 60 for men in Mongolia, and 80 in Viet Nam) and be considered poor.

Other countries have established universal social pensions. In Nepal, for instance, a universal non-contributory social pension scheme was introduced in 1995 and covers people aged 70 and above.

Thailand is a good example of a successful transition from a means-tested pension to a universal one. The means-tested old-age allowance system, established in 1993, was facing implementation problems, and over half of elderly poor people were not receiving benefits despite their entitlement. Thus the government moved to a universal scheme: the THB500 (less than USD16)[1] per person per month universal pension scheme was officially launched in April 2009.

In People´s Republic of China the rural pilot pension insurance programme has two components: a basic minimum pension that is tax financed (with a mix of central government and local government funding) and guaranteed to all rural residents, and subsidised individual accounts. The funding method of the basic pension allows for redistribution across regions, since the share of funding from the central government is greater for less developed regions, and local governments from better-off regions have to contribute proportionately more.

Reference:

Hagemejer, K. and V. Schmitt (2012). 'Providing Social Security in Old Age: The International Labour Organization View' in S.W. Handayani and B. Babajanian, eds. *Social Protection for Older Persons: Social Pension in Asia.* Manila, Asian Development Bank: pp. 137-152.

Note:

1. THB31.99 = USD1.

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