Defining Eligibility for Social Pensions

A View from a Social Assistance Perspective

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Developing and low-income countries around the world have been unable to provide old-age income security to all through contributory pensions. Neither reforms to pension systems nor general growth and development have helped countries to increase coverage much. In frustration, many countries are considering or have implemented non-contributory social pensions, aiming to reduce poverty and vulnerability among the elderly. It is therefore important to consider how such programs fit into social assistance programming. This note discusses the horizontal equity of programs that are solely for the elderly and the option of targeting such programs differently. It then sheds empirical light on the issue with simulations based on data from the Kyrgyz Republic, Niger, Panama and Yemen.

Are Special Programs Needed for the Elderly Poor?

Proponents of social pensions take an axiomatic view that the elderly are poorer than the rest of the population. However, the literature and our data analysis do not confirm this. Kakwani and Subbarao (2005), Guven and Leite (2014) and Devereux (2001) show that the elderly can be better off than other population groups in Sub-Saharan Africa. Whitehouse (2000) found that in most studies of middle- and higher-income countries, the old are proportionately or under-represented among the poor. Pal and Palacios (2011) found similar results for India. Evans and Palacios (mimeo) found that poverty rates were lower for the elderly than for the non-elderly in about half of the 62 countries they studied, and that children were poorer than the elderly in many countries. This literature highlights the importance of conducting country-specific analysis before assuming that universal social pensions are the right policy tool to address poverty in a given region.

Therefore the first step in formulating social assistance policy should be to diagnose poverty and vulnerability before giving the elderly high priority. How many elderly persons are poor or at risk of poverty? What are their characteristics? What are the causes of their poverty and vulnerability? How poor are they vis-à-vis other groups?

Is the common lifetime income path of reliance on their own or their partner’s wage earnings suddenly eliminated by retirement, with no replacement via pension? Do the elderly abruptly withdraw from productivity and earnings, as in formal sector retirement, or do they continue their economic activities, possibly at diminishing levels or with diminishing earnings? Do they live alone or in families with other earners? Do families pool income across members of different ages? The answers to such questions are not only country-specific, but vary depending on whether the elderly had formal employment, the sector in which they worked, and perhaps their ethnicity, if that affects household structure.

The poverty diagnostic should also include other groups besides the elderly. If programs that serve other groups are lacking, then a social pension—especially a universal one—violates the principle of horizontal equity by implying that the elderly are somehow more worthy of support than other needy groups, such as poor children, persons with disabilities, working families with low earnings, and so on. This issue will be especially severe in low-income countries, where social assistance is most lacking, contributory pensions are least common, the coverage gap is largest, and social pensions are thus of most interest.

In countries with programs for other groups, horizontal inequity may be less marked but does not vanish, as separate programs are rarely fully equal. The question of efficiency also arises: should income support be provided by a social pension, or by including the elderly in other social assistance programs?
A single system offers obvious administrative advantages for targeting, payments, monitoring and evaluation, and so on. Furthermore, by integrating groups into a single program, the issue of which is more worthy of support is avoided. Integration of the elderly poor into a poverty-targeted social assistance program is thus the preferred option.

Of course, the elderly are always implicitly integrated into general needs-based programs, even in four of the best-known conditional cash transfer programs—those in Brazil, Ecuador, Jamaica, and Mexico—which are usually thought of as serving only children. Broader social assistance programs can be similarly modified to ensure that the elderly are well served through adjustments to eligibility rules, the determination of benefits, or other program requirements. For example, the eligibility threshold for Bulgaria’s guaranteed minimum income program is higher for families with elderly members. In Jamaica’s PATH program, the proxy means test was adjusted to lower the weight given to housing assets, allowing significant numbers of elderly living alone to participate. The elderly also receive their full payment even if children in the household default on the conditions pertinent to them and fail to qualify for their own benefits. In the U.S. food stamp program, the certification period is longer for elderly-headed households than for others, since the earnings of the elderly are less likely to change. In Romania’s guaranteed minimum-income program, the elderly are exempt from the public service requirement.

**Should Separate Social Pension Programs be Universal or Targeted?**

Fiscal constraint is a pervasive concern in social assistance, especially in countries where the safety net is incomplete as measured by coverage or the adequacy of benefit levels. The costs of universal social pensions are not trivial, particularly viewed against spending on other needy groups. Moreover, the fiscal costs of social pensions will present an increasing challenge with demographic change, especially in the countries where the population is aging most rapidly. Countries with large social pensions can spend more than 50 percent of their total assistance budget on them despite the fact that social pensions cover a small share of the population. In Thailand the cost of social pensions is projected to more than double between 2012 and 2040 (0.44 percent to 0.98 percent of GDP) due to demographic changes, while the universal social pension in Mauritius, already more than 2 percent of GDP, could eventually absorb almost 7 percent of GDP.

These expected cost increases are raising government concerns about the sustainability of social pensions over the long run. Therefore, targeting and or contributory system reforms should be considered.

Much is known about the pros, cons, and requirements of targeting systems for the general population. Below, we examine whether such methods might work equally well for the elderly.

**Assessing the Impact of Social Pensions on Poverty**

We conducted an empirical analysis to assess the impact of social pensions on poverty using national representative household surveys that show poverty determinants and poverty incidence for different population groups. To show how poverty profiles differ across countries, four were studied: the Kyrgyz Republic, Niger, and the Republic of Yemen, which are poor, and Panama, which is middle-income.

Most elderly in the four countries live in households with working-age adults; only 6 percent live without such support in the Republic of Yemen, and only 10 percent in Niger. Households anchored by the elderly are more common in the Kyrgyz Republic and Panama, where almost a third of the elderly live in households without working-age adults. In the three poor countries with less formal labor markets, about two-thirds of elderly members contribute income to the household. In Panama, only a third make such contributions.

Overall, about one in five households includes an elderly member, but these households are not uniformly poor. Among the 20 percent lowest-consumption households, those with elderly are somewhat poorer in the Kyrgyz Republic and Panama. The difference is more marked in Niger, but not as great in the Republic of Yemen. The highest poverty rates are found in households whose elderly do not earn income, but that category accounts for only a quarter to a third of households with elderly members, less than 10 percent of all households.

Missing-generation households (composed of elderly household heads and children, but no other adults) are not very numerous in countries without severe HIV epidemics. In the Kyrgyz Republic and in the Republic of Yemen poverty rates for these households are about the same as for all households. In Panama the rates are much lower, about 5 percentage points below the national average, and in Niger they are more than 10 points below the average. The average or low level of poverty in missing-generation households contrasts with the popular impression that these households are destitute. The poverty gap for missing-generation households is higher than, or close to, the average for all households in all four countries, despite their lower-than-average poverty headcount rates. The low or average headcounts imply that elderly persons living in households without working-age adults are mostly those who can afford it, but the higher poverty gap indicates that there is a subset of missing-generation households that are very poor indeed. Again, although these households are not numerous, they are of salient policy concern—the figurative "poster child" for

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1Monchuk (2014) shows that in Lesotho almost 50 percent of spending in safety nets is for universal social pensions, while in Mauritius, non-contributory old age pensions account for 87 percent of total government social assistance spending.

2Jitsuchon et al. (2012)

3Guven and Leite (2014)
social pensions.

The size and age structure of households may affect whether households with the same consumption level per capita live equally well. There may be economies of scale; it may cost as much to boil a pot of rice, provide a television set, or heat a house for one person as for three or six people. And not all members may need the same things to be equally well off: children need fewer calories from food than adults, prime-age adults need less health care than elderly persons or children, the elderly need no school fees or textbooks, and so on.

**Simulating the Effect of Universal and Targeted Social Pensions on Poverty Rates**

To help understand how targeting affects the outcome of social pension programs, we compare two schemes. One covers all elderly (universal coverage), while the other targets only the elderly poor. In both scenarios, the potential beneficiaries are age 65 and older.

For the universal social pension scheme, we estimate that about 20 percent of households in all four countries contain at least one elderly person. The elderly number 321,000 in the Kyrgyz Republic and 210,000 in Panama, 6 to 7 percent of the population. They total 355,000 in Niger and 688,000 in the Republic of Yemen, 2 to 3 percent of population.

For the targeted social pension scheme, household per capita income is used as the welfare measure. The elderly in the poorest 20 percent of households are considered eligible.
We find that a universal social pension in all four countries would be mildly progressive because households with elderly members are somewhat poorer than average. However, a substantial share of the benefits would go to the non-poor, because most of the elderly—more than 80 percent—live in households that are not poor. In the Kyrgyz Republic, 85.4 percent are non-poor; in Niger, 80.2 percent; in Panama, 88 percent; and in the Republic of Yemen, 83.4 percent in the Republic of Yemen. Moreover, the universal social pension would only partly address overall poverty, as a strong majority of poor households have no elderly: 79 percent of those in the Republic of Yemen, 78 percent in Niger, 79 percent in Panama, and 80 percent in the Republic of Yemen.

The targeted social pension scheme yields fewer participants than the universal program. Thus, either the unit benefit can be increased or the overall program cost can be reduced. As ever, targeting induces exclusion errors and reduces inclusion errors. As much as 40 percent of the target group may be excluded (but most often, those excluded are around the threshold of eligibility). Coverage in the poorest decile is quite high, with only around 10 percent of this group excluded in the Kyrgyz Republic, Panama, and the Republic of Yemen. Errors of exclusion are higher in Niger, the poorest country in the sample. Inclusion errors are low, with only 5 to 20 percent of those households predicted to be poor not actually being poor. Again, performance is substantially better in Panama than among the poorer countries and is worst in Niger, in keeping with the general experience that it is more difficult to target narrowly in countries with very low incomes.

With a fixed budget, the generosity of simulated programs varies widely according to the number of beneficiaries selected. Transfers for universal social pensions represent between a tenth and a third of the amount possible with the targeted options. Because of this smaller transfer amount, the universal social pension has less effect on poverty. It also is less cost-effective, since most elderly are not poor. Separate estimation of the model for households with and without elderly increases cost-effectiveness in every country except the Kyrgyz Republic.

When the budget is not fixed, the cost of the universal program increases to more than 0.5 percent of GDP in all countries, but has no impact on cost-benefit ratios compared with the fixed budget.

### Figure 4: Simulated Results of Alternate Policies: Fixed Costs, Kyrgyz Republic, Niger, Panama, and the Republic of Yemen

<table>
<thead>
<tr>
<th>Country</th>
<th>Annual Cost (LCU)</th>
<th>Number of beneficiaries</th>
<th>Transfer per beneficiary</th>
<th>Average per capita consumption of families with beneficiaries</th>
<th>ΔFGT(0) (percent)$^a$</th>
<th>ΔFGT(1) (percent)$^b$</th>
<th>ΔFGT(2) (percent)$^c$</th>
<th>Correlation</th>
<th>Cost benefit $^d$</th>
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<tr>
<td><strong>Kyrgyz Republic</strong></td>
<td></td>
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<tr>
<td>Universal Social Pensions</td>
<td>3,913.3</td>
<td>321,247</td>
<td>7,062</td>
<td>14,695</td>
<td>3.6%</td>
<td>10.6%</td>
<td>14.7%</td>
<td>0.561</td>
<td>0.46</td>
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<tr>
<td>PMT 1</td>
<td>3,913.3</td>
<td>46,177</td>
<td>7,062</td>
<td>8,473</td>
<td>3.8%</td>
<td>10.6%</td>
<td>14.7%</td>
<td>0.686</td>
<td>0.46</td>
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<td><strong>Niger</strong></td>
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<tr>
<td>Universal Social Pensions</td>
<td>7,439.5</td>
<td>355,409</td>
<td>11,145</td>
<td>11,570</td>
<td>3.0%</td>
<td>6.0%</td>
<td>7.8%</td>
<td>0.188</td>
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<tr>
<td>PMT 1</td>
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<td>4.6%</td>
<td>9.8%</td>
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<td>0.461</td>
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<td><strong>Panama</strong> $^e$</td>
<td></td>
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<td>Universal Social Pensions</td>
<td>330.7</td>
<td>210,679</td>
<td>952</td>
<td>2,105</td>
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<td>10.5%</td>
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<td>9.2%</td>
<td>12.8%</td>
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<td><strong>Republic of Yemen</strong></td>
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<td>Universal Social Pensions</td>
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Source: Crush and Lette (2009) — Figure 12.6

Note: Potential beneficiaries are elderly persons (age 65 or older) living in poor households. The poverty line is equal to the first quintile (Q1) maximum household per capita consumption. Universal social pensions represent a transfer T to all the elderly population (age 65 or older). The means test is defined under household per capita income. PMT 1 is estimated jointly for households with and without elderly members.

a. Poverty measures are computed for household per capita consumption, setting elasticity of consumption equal to 1. Only households with elderly members are considered here.

b. For the means test, the correlation between household per capita consumption and household per capita income is used, for the proxy means test, the correlation between household per capita consumption and household predicted per capita consumption is used.

c. Reduction, in U.S. dollars, in the poverty gap for each dollar spent in the program.

d. Cost is set as 0.1 percent of per capita GDP.
The findings, interpretations, and conclusions expressed herein are those of the author(s), and do not necessarily reflect the views of the International Bank for Reconstruction and Development/The World Bank and its affiliated organizations, or those of the Executive Directors of The World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work.

case. The cost for all of the targeted programs fall to less than 0.2 percent of GDP, and the cost-benefit ratio increases compared with the fixed-budget case. The universal social pension has a higher effect on headcount poverty because there are no exclusion errors. (In addition, when the benefit is fixed, the budget is higher.) Again, however, it has the lowest cost-effectiveness ratio because the great majority of elderly are not poor.

Despite the much higher budget for the universal social pension, the targeted program has close to the same impact on the poverty gap as a result of its higher cost-effectiveness.

Conclusions

The issues surrounding the targeting of social pensions are not very different than for other aspects of social policy. It is important to consider the situation of the target group by itself and in relation to others, and to consider all available options.

Universal pensions reach all the elderly poor, but most resources go to the non-poor and so the programs are not very cost-effective. In a budget-constrained environment, this means that the benefit level is likely to be so low that the policy cannot provide adequate benefits to the elderly poor it does reach. Targeted social pensions are much more cost-effective per dollar spent, and with fewer beneficiaries they could, for a fixed budget, convey a higher benefit. But they entail some errors of exclusion, the rates of which are quite variable by country.

Considering the findings and the need for cost-effective programs due to financial constraints, particularly in poor countries, the universal approach is undesirable in many cases. If a targeting system is to be devised, there is no prima facie case for a social pension system to be run separately from a general needs-based social assistance program. Integration will lower administrative costs and guard against unequal treatment of different groups at the same welfare level.

References


Evans, Brooks and Robert Palacios. mimeo. How poor are the old relative to other age groups? World Bank. Washington, DC.


