Assisting the Elderly Poor: Social Pensions? or Social Assistance?

Closing the Coverage Gap: The Role of Social Pensions

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Outline

I. Poverty among the elderly
II. Policy options
III. Targeting Issues
Part I: Poverty Among the Elderly
Poverty Among the Elderly: Bottom Lines

• Most elderly live in larger households, which raises philosophical and data issues about whether poverty is individual or household;

• Most empirical work shows mixed results: elderly (or households with elderly) may be poorer on average, but not always, and degree varies.
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## Eastern Europe and Central Asia

### Headcount Rates of Poverty and Age

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Source: Braithwaite, Grootaert, and Milanovic 1999. The authors use OECD scales of equivalence where the first adult is 1, a second adult is weighted as .7 and a child is weighted .5.
Niger: Poverty and the Elderly

Policy messages:
- Most hh do not include elderly, so if goal is general poverty reduction, social pension serves poorly;
- 90% of elderly living in households with earners, so not necessarily poorer;
- Targeting by household structure not helpful as ‘lonely elderly and missing generation hh have lower poverty rates than average;
- Look into age or health status of elderly, need of household;

Results largely insensitive to specification of economies of scale (over plausible range of θ from 1 to 0.7); to FGT(0); FGT (1), etc.
Panama: Poverty and the Elderly

Policy messages:
• Most hh do not include elderly, so if goal is general poverty reduction, social pension serves poorly;
• 73% elderly living in households with earners, so not necessarily poorer;
• Targeting by household structure not helpful as ‘lonely elderly and missing generation hh have lower poverty rates than average;
• Look into age or health status of elderly, need of household;

Results largely insensitive to specification of economies of scale (over plausible range of \( \theta \) from 1 to 0.7); to FGT(0); FGT (1), etc.
Part II: Policy Options
Public Policy Options

A. Contributory pensions
B. Universal social pension
C. Targeted social pension
D. Inclusion in general social assistance
A. Expanding Contributory Systems

• The record of coverage in contributory systems is not encouraging

• Contributory system may not provide adequate income support to:
  – The lifetime poor
  – Those with not complete employment history
  – Informal sector workers who prefer to stay outside

• Exacerbated by difficulties with collection and record-keeping, particularly in rural areas and among self-employed
B. Universal Social Pensions

**Selling points:**
- Apparent simplicity – no affiliation, contributions or targeting issues
- Little issue of labor disincentives for direct beneficiaries
- Political economy usually good

**Problems:**
- Not all administrative problems eliminated (see later presentation)
- Most money goes to non-poor:
  - Simulations in chapter for Kyrgyz Rep, Niger, Panama, Yemen
  - Universal social pensions very mildly progressive in these countries because elderly are poorer than average, but
  - Over 80% of elderly in each country are non-poor
  - Illustration confirmed in wider targeting work (Coady-Grosh-Hoddinott, 2004)
- Fiscal cost can be high
Simulations of costs of social pensions in 5 African countries by Kakwani and Subbarao, 2004:
-- transfer 70% of country specific poverty line to those 65+
-- costs vary between .7 and 2% of GDP

Total social assistance spending in developing countries is around 1-2% of GDP Weigand and Grosh, 2008
C. Targeted Social Pensions

• Selling points:
  – Radically reduces fiscal cost, so more feasible
  – Also opens door to reduce horizontal inequity with other groups

• **BUT** targeting requires a whole new system, and is never perfect, is especially challenging in low income countries
D. Integration with General Social Assistance

Selling points:
- Minimizes administrative costs, avoids duplication of functions
- Avoids issues of one group being more worthy of support than another
- May facilitate cross-eligibility with subsidized health insurance
- Allows SS administration to stay service-oriented rather than become gatekeepers

But some disadvantages:
- Stigma may be greater if support called social assistance rather than a pension;
- Receipt of family-based social assistance won’t empower the elderly within the household the way receipt of an individual-specific pension might;
- Political support for social assistance is often less than political support for pensions.
D. Integration with General Social Assistance

Examples:

– Elderly included in any general “last resort” program
– Elderly even included in 4 CCT programs – Mexico, Brazil, Ecuador, Jamaica

Some adjustments may be sensible:

– Adjustments to means or proxy means tests formulae (e.g. Bulgarian guaranteed minimum income program guarantees high level for elderly, especially lonely elderly)
– Less frequent re-certification (every two years rather than every six months in US food stamps)
– Relaxation of work/job search rules (elderly exempted in Romanian guaranteed minimum income)
Part II: Targeting Issues
Targeting Issues with Respect to Social Pensions

• As for wider social assistance field, targeting choices are situation specific and fraught with trade-offs;
• Apparently much of the general know-how applies for social pensions;
• Options:
  – Household structure (elderly only, missing generation)
  – Community based/participatory methods
  – Means or proxy means tests
Option 1: Targeting by Household Structure
(elderly only, or elderly plus child households)

Advantages:
- HH structure easier to observe than income;
- Limits costs still further because few elderly live in such households (1-2% in Kakwani-Subbarao, 2005);
- No labor disincentive issues for prime aged;

Disadvantages:
- Questionable accuracy – elderly only households may be independent not because they have no family ties, but because they prefer/can afford it
- Possible incentive issue - concern that it may cause families to ‘reject’ their elderly;
Option 2: Community Based Targeting

• The elderly, or at least the lonely elderly of missing generation families, seem often to be included in community criteria (eg. Zambia, Kenya);

• The usual issues of CBT which are not well studied
  – Modestly progressive, but
  – Depends on well-defined communities, effects on social fabric unclear
Option 3: Means or Proxy Means Tests

**Usual issues:** often good incidence, sometimes issues of errors of exclusion, administrative system required, etc.

**Special issues**
- Include only elderly’s income or assets? Or of all household members?
- The elderly may plausibly have a different asset to income mix than the non-elderly, so formulae would need adjusting.
Customizing Proxy Means Tests (PMT)* for the Elderly

• We develop a series of PMT and compare errors of inclusion and exclusion among them.
  - A basic formula;
  - Formula calibrated separately for households with and without elderly;
  - Formula with an emphasis in capturing information about elderly within the household;
  - Formulae with both extras
  - Illustrate with data from Kyrgyz Rep, Niger, Panama, Yemen.

• Results:
  • Elderly do not usually have higher exclusion errors in base model;
  • Extra effort in modeling can improve performance with respect to elderly and not harm it for other groups can reduce errors of exclusion for elderly further, a nearly costless improvement in targeting

* Widely used, generally give good results. Premise is that easily observable vector of variables on location and quality of dwelling, assets, household demographics predict welfare well, as alternative to income-based means testing.
Conclusions on Major Policy Choices

• Targeting social pensions will often be the preferred solution due to fiscal issues.

• If targeting is used, there is no prima facie case for a separate program rather than integration into a general social assistance program.

• Likelihood of integration depends in part on institutional and political landscape.