

Social Protection of Older Persons

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Institutional Framework

“The ability to retire in a degree of personal comfort, without worry and with dignity, is the least that citizens can expect in a modern, developed economy.... [I]t is also most they can expect. They cannot expect the state to maintain in retirement the incomes people became accustomed to during their working lives.”

Dr. Michael Cullen, New Zealand's Finance Minister, 13 June 2003.

Decisions, decisions, decisions ...

- ◆ Flat vs income-related pension
- ◆ Non-contributory vs contribution-tested
- ◆ Universal vs means-test
 - Individual or household?
 - Assets
 - Earned income
 - Other pension income
 - Income from savings
- ◆ Fully universal vs residency-tested

Advantages of universal, flat pensions

- Simple and easy to administer
- Automatic, 100% coverage
- Reach women and rural areas
- Do not stigmatize recipients
- Broad political support
- Avoid disincentive to save for old age
- Avoid disincentive to work in old age

Alleged drawbacks of flat, universal pensions

1. They are inequitable, since the wealthy live longer than the poor
2. The young should have priority over the old in government expenditure
3. Universal pensions “crowd out” private transfers
4. They are a luxury few countries can afford

1. Universal pensions are inequitable, since the wealthy live longer

- ◆ The wealthy also pay more taxes
- ◆ Life expectancies are averages: some of the poor live long lives; some wealthy die young
- ◆ Pension income is known to improve health and increase life expectancy of the elderly poor

2. The young should have priority over the old

- ◆ False choice, as budgets are not fixed
- ◆ For example, much money is spent on subsidies and tax breaks for contributory pensions (examples of South Africa, Australia, Bolivia)
- ◆ Pensioners in developing countries live with extended family and share income

3. Universal pensions “crowd out” private transfers

- ◆ Each dollar of pension reduces transfers from children by as much as 37 cents
- ◆ So what is the implication?
- ◆ Is it possible for government to force adult children to care for their parents? After all, household income is not distributed equally: children and productive adults have priority over the old and unproductive

4. Universal pensions are a costly luxury

- ◆ Governments spend large sums on subsidies and tax relief for contributory pensions
- ◆ Costs can be reduced by increasing age of eligibility or decreasing size of benefit
- ◆ Or rules-based means tests can be applied (e.g. universal *minimum* pension) – a form of taxation

Thank you for your attention

For further information, see

L. Willmore, "Universal pensions for developing countries", *World Development* 35:1 (January 2007), pp. 24-51.