Pensions for older persons

1 Pensions are vital for the income security of older persons. Yet, half of the world's population goes without.

Pensions are essential for providing reliable sources of income to individuals as they grow older. As people age, they are less able to rely upon income from employment. Private savings and assets can provide some security, but for most people they are insufficient to provide an adequate level of income until the end of their lives.

Despite their importance, only half the world's population has access to the benefits of an old-age pension, leaving many older persons to rely solely on family support. In Asia and the Pacific, just 47 per cent of older persons receive an old-age pension and about one third of the labour force (34 per cent) is contributing to a pension scheme.

2 Many developing countries have achieved universal pension coverage using a variety of schemes.

In recent decades, many countries have made great efforts to expand the coverage of contributory pension schemes and establish non-contributory social pensions to guarantee basic income security in old age to all.

The experience of these countries shows that extending pension coverage to all citizens over a relatively short period is possible. As in the case of Botswana, Lesotho, Namibia and others, this can be done through a universal non-contributory benefit to older persons, covering vulnerable groups that have limited or no capacity to pay contributions. For example, Timor-Leste achieved universal pension coverage by 2011, up from a coverage rate of just 0.5 per cent in the year 2000. Universalization can also be done by combining contributory old-age insurance schemes and non-contributory social pensions, as was done in China where pension coverage tripled in just four years, making impressive strides towards its goal of universal coverage by 2020.

Many developing countries have achieved universal pension coverage

Argentina	Belarus	Bolivia	Botswana,
Georgia	Guyana	Kazakhstan	Kyrgyz Rep.
Lesotho	Maldives	Mauritius	Mongolia
Namibia	Nepal	South Africa	Swaziland
Thailand	Timor-Leste	Trinidad &Tobago	Ukraine
Uzbekistan			

3 Pension adequacy is threatened by fiscal consolidation pressures.

Fiscal consolidation policies adopted from 2010 onwards have affected older persons around the world, and may further constrain the policy space for pension policy in the future. Countries undertaking fiscal consolidation are reforming their pension systems for cost savings by raising the retirement age, reducing benefits, increasing contribution rates and, in a few cases, implementing structural reforms like moving to individual accounts and market-based solutions. These adjustments are often undermining the adequacy of pension systems and reducing their ability to prevent poverty in old age.

In Asia and the Pacific where the population is rapidly ageing, the pension debate is high on the policy agenda. The debate raises the topics of fiscal consolidation in the context of rapid ageing and system sustainability, as well as the challenges of extending coverage and ensuring the adequacy of benefits. Those concerned over public finances and government liabilities, as well as the potential impact of an ageing population on schemes' financial sustainability, often ignore the importance of pension adequacy, the state responsibility to ensure old-age income security, and the experience of many countries that have reversed pension privatization processes in recent years.

4 Countries are increasingly recognizing the benefits of publicly-managed defined-benefit schemes.

Contrary to public perception, very few countries privatized pension systems in earlier decades – some 23 countries, mostly in Latin America and Easter Europe. This was a policy of the 1980s-90s. But today governments are increasingly recognizing the risks of defined-contribution schemes with regard to low coverage rates, excessive management costs, limited adequacy of benefits, negative impacts on women, and the transfer of risk to pensioners. Experience has also shown the huge transition costs involved with switching from defined-benefit to defined-contribution schemes, as high as 5 per cent of GDP in Chile and 1.5 per cent of GDP in Poland and Hungary.

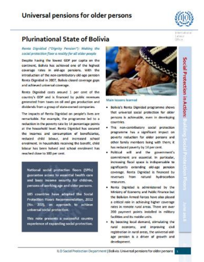
The world's population is ageing. For some countries in Asia, the pace is extremely high. This is the case in China and Thailand, and even in lower-income countries such as Bangladesh.

A number of countries reversed earlier privatizations of their pension schemes, including Argentina, Bolivia, Ecuador, Hungary, Kazakhstan, Nicaragua, and Poland.

Today, the majority of world countries continue to expand coverage through public pension systems, through non-contributory pension schemes, and/or through the extension of contributory schemes to previously uncovered groups of workers in the informal economy.

According to ILO standards, all residents should have the right to affordable retirement through pension systems providing at least a minimum level of income protection in old age and disability that effectively protects people against poverty. In addition, a minimum replacement rate for all contributors adequately reflecting the level of the contributions paid should be guaranteed.

Read more about pensions in the ILO's country notes series:



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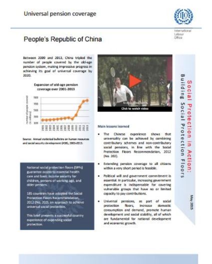

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