Experiences with Social Pensions in Selected Middle Income Countries

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Organization

- Introduction
- Social Pensions in South Africa
- Social Pensions in Chile
- Concluding Remarks

Introduction/1

- This presentation reviews experiences with social pensions in middle-income countries, focusing on South Africa and Chile.

- The importance of social pensions as an inherent component of a multi-tier social security system is increasingly accepted in principle.

Introduction/2

- But, design of such schemes, particularly the incentives they create, administrative capabilities of the government, fiscal costs, and integration with the other tiers are key factors in determining the impacts in terms of coverage, fiscal and economic costs, and enhancing social cohesion and perceptions of equity.

- It is therefore difficult to be for or against social pensions on *a priori* grounds in any country. Each scheme and the country context must be carefully examined.

Table 1: Characteristics of Social Pensions in Selected Middle-Income Countrie

Country	Age Eligibility	Universal or Means Tested	Amount paid in US$ and Local currency	% of People over 60 years in population	% of people over 60 receiving Social Pension	Social Pension Cost as % of GDP	Remarks
Brazil BPC	67+	Means Tested	US$140 (300 Reals)	9	27	0.7	Includes women over 55.
South Africa	65+ Men 60+ Women	Means Tested	US $109 (780 Rand)	7	60	1.4	February 2008 announcement will permit both men and women to access at age 60.
Chile	65+	Means Tested	US$75 (40,556 Pesos)	12	51	0.38	
Costa Rica	65+	Means Tested	US $ 26 (13,800 Colones)	8	20	0.18	

Source: HelpAge International (www.**helpage**.org); Various Official Reports

Social Pensions in South Africa/1

- In South (and Southern Africa) social pensions has been “narrative of unequal struggle, and slow progress towards justice and equality” (Devereux, 2007).

- The Preamble to the final 1996 Constitution introduced democracy and equality for the first time in South Africa; and compels the state to ensure the “progressive realization of social security” (Olivier, 2006).

Social Pensions in South Africa/2

- Section 27 of the Constitution clearly and unambiguously obliges the state to develop a comprehensive social security system with universal right to access social security including social assistance (Olivier, 2006).

- The “test of reasonableness” however qualifies the above right. This presumably includes fiscal, economic, and administrative sustainability.

- The ANC (African National Congress) has pursued policies which views social spending in a “developmental” rather than a “welfarist” perspective (Devereux, 2007).

Social Pensions in South Africa/3

- As noted in Table 1, the current social assistance in South Africa is means-tested, covers 60 percent of those above 60 years, and its amount has not kept up with inflation.
- Even then, the cost of social pensions is 1.4 percent of GDP.
- The Taylor Committee in 2000 recommended universal minimum income support grant or Basic Income Grant (BIG). This is affordable only if South Africa can effectively levy more progressive income taxes.

Social Pensions in South Africa/4

- Kakwani and Subbarao (2005) had argued that "…there *is* a case for a non-contributory social pension to *some* of the elderly in *all* (African) countries"; but affordability and fiscal sustainability suggest non-universal approach. Their recommendations are consistent with those of the Taylor Committee.

Social Pensions in South Africa/5

- But attempting to implement such taxes may adversely impact international competitiveness of its businesses.
- In today's globalized world, South African policymakers may not have the requisite tax policy autonomy to significantly increase income tax progressivity.
- More innovative funding sources will be needed if there is political commitment to provide social pensions.
- Greater efforts in both design and implementation to minimize benefit-cheating may also be needed.

Social Pensions in South Africa/6

- How the tension between expectations of the lower income population on the one hand, and the requirements of managing economic and financial stability on the other hand is resolved will be a key factor in determining the future of social pensions in South Africa.

Social Pensions in Chile/1

- Chile's 1981 pension reform, based on mandatory savings, individual-account, and choice of pension fund managers with strong regulation, has evolved over time.

- It is regarded as a success and there is no sense of crisis.

- Yet, in March 2006, President Bachelet set up Presidential Advisory Council on Pension Reform, under the chairmanship of Mario Marcel to evaluate the existing pension system (Marcel, 2006).

- The recommendations of the Council, with some modifications, were approved by Chile's Congress in January 2008.

Social Pensions in Chile/2

- Key Reasons for Need for Solidarity Pillar (i.e. social pensions):
  - A projection of expected pensions for the cohort of 2020-2025 show that only 52 per cent of AFP members would have sufficient accumulations to generate pensions higher than the minimum pension.
  - Of the remaining, the MPG (Minimum Pension Guarantee) top up program would apply to only 2 per cent, and the remaining 48 per cent would have to depend on own savings or handouts.
  - The projections for women are even starker: 61 per cent of women will not receive even the minimum pension.
  - Low density of contributions

Social Pensions in Chile/3

- Features of Solidarity Pension System (SPS):
  - provide universal minimum pension coverage to the poorest 60% of the population, equivalent to CLP 75,000 per month, to be gradually withdrawn as the amount of self-financed contributory pension increases.
  - The maximum pension with solidarity support will be CLP 200,000 in 2012. The phase-in will begin from July 1, 2008.

Social Pensions in Chile/4

- There are several other changes which will take place concurrently designed to achieve greater gender-equity, increased coverage of the self-employed, encourage young low-income workers to contribute, etc.

- The total incremental fiscal cost in 2025 is estimated to be 1.1 percent of GDP; while the total annual cost of solidarity pillar is projected to be 2.5 percent of GDP; for contributory pillar 2.9 percent of GDP – the total being 5.4 percent of GDP.

Social Pensions in Chile/5

- Chile has shown admirable political commitment for universal pension, and has been willing to integrate different pillars with the social pensions.

- Its relatively strong fiscal position and proven effectiveness in delivering governmental services (including social pensions), and the depth of its pensions industry portend reasonable success in its objectives (Asher and Vasudevan, 2008).

Concluding Remarks/1

- Experiences of South Africa and Chile analyzed in the presentation are instructive in different ways.

- In Chile, there is no sense of crisis. But there is strong commitment to providing adequate pensions, and there is proven competency in delivering government services and in managing pensions industry.

Concluding Remarks/2

- Chile’s plan for solidarity pension is also characterized by careful planning and phasing in of the scheme over time, explicitly addressing the possible disincentive issues.

- Chile’s experience also suggests that introduction (and/or major reform) of social pensions requires complementary reforms in the other pillars (Chile is simultaneously revamping the mandatory savings tier).

Concluding Remarks/3

- In South Africa, given its past history, there is understandable constitutional rights-based approach to provision of more adequate universal pension, qualified by the “test of reasonableness”.

- South Africa represents an interesting case-study of whether rights-based approach to social protection can be successfully pursued in countries with historically large inequality in incomes, wealth, and human capital, and where the sense of responsibilities of citizenship is yet in the process of development.

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