

PENSIONS AND OLD AGE POVERTY

Stephen Kidd

HelpAge International

Edward Whitehouse

OECD and World Bank

ABSTRACT

Over half of older people worldwide lack income security and, with rapid global population, unless action is taken to improve the situation, it is likely that 1.2 billion older people will be without access to secure incomes by 2050. Nonetheless, there is currently a debate on whether older people are, in fact, poorer than the general population. A number of recent studies have argued that, in many countries, the households in which older people live are better-off than the general population. However, these studies do not take into account intra-household distribution of wealth and income. Since, in many households, resources are directed away from older people and towards children and those of working age, such studies should not be interpreted as providing evidence that older people themselves are better-off than the general population.

Measures of old-age poverty that rely on aggregate data also hide the fact that poverty levels are often higher among sub-groups of older people. For example, households with children that are headed by older people tend to be among the poorest households. In some countries, households comprising only older people are poorer than the general population, but this is not always the case, perhaps reflecting that many older people live alone because they can afford to. Poverty among older women is higher than among older men, with older women making up the majority of older people. Furthermore, studies of old-age poverty often present a static picture and do not take into account that older people are particularly vulnerable to sickness or disability when compared to younger people. Therefore, their chances of falling into poverty are higher. And, as older people themselves age further, they are likely to become even poorer.

Public pensions, however, have had a major impact on old-age poverty, including in some developing countries. They provide older people with more choice about whether to work since, in the absence of pensions, older people are obliged to continue working, often in less attractive jobs and at lower rates of pay. If the international community is serious about tackling old age poverty, a social pension is the best answer we have.

The 21st century is the century of aging. Worldwide, there are more than 670 million people aged over 60 - 10.4% of the population - and this number will increase to almost 2 billion by 2050, 21.7% of the total. By 2015, over 67% of older people will live in developing countries and this is estimated to rise to close to 80% by 2050, almost 1.6 billion in total. Currently, over half of older people worldwide - 342 million - lack income security and, unless action is taken to improve the situation, it is estimated that, by 2050, more than 1.2 billion older people will be without access to secure incomes (UNDESA, 2007).

In 1948, the Universal Declaration of Human Rights recognized income security in old age as a fundamental human right. Since then, the world has broadly taken two diverging paths. Rich countries have invested heavily in providing income security for older people, with average spending on public pensions of 7.0% of GDP, according to the OECD's social-expenditure database. In poor countries, the opposite has happened. Coverage of formal pension schemes has remained low, restricted to contributory pension schemes for those in formal sector jobs, often less than 10% of the working age population. However, some middle-income countries - such as Bolivia, Brazil, Chile, South Africa, Namibia and Botswana - are providing retirement benefits to the vast majority of older people, regardless of whether they have contributed to formal pension systems.

This paper will examine the nature of poverty among older people. It will begin by considering a number of studies that compare the poverty of households in which older people live with that of the general population. Although it is often assumed that such studies demonstrate that rates of old-age poverty are the same or less than the population as a whole, the paper will question whether this is the case. It will go on to examine the impact that public pension schemes have on old age poverty and argue that, in the absence of pensions, older people are often obliged to work. The paper will further argue that studies of average old-age poverty rates can gloss over large differences between different groups of older people, such as those who live with children, those who live alone or with their spouses only, and older women. Finally, the paper will demonstrate that older people become increasingly vulnerable to illness and disability as they age, thereby increasing their risk of falling into poverty. The paper concludes that tackling old-age poverty must be an important part of achieving the Millennium Development Goals and that ensuring access to pensions for older people is the best contribution that pension policy can make to these objectives.

1. Old Age And Poverty: Are They Correlated?

An important question is whether older people are poorer than the population as a whole. Some researchers have argued that they are not, while others report that old age and poverty are correlated. This section reviews some of empirical evidence.

Figure 1 compares poverty rates among older people and the general population in 27 OECD countries. The picture is mixed. In 14 countries, old-age poverty rates are lower than the national rate. In six, national and old-age poverty rates are broadly comparable. However, in seven countries, old-age poverty is clearly more pronounced than national poverty as a whole, despite substantial retirement-income programs.

(Figure 1 here)

Turning to lower-income countries, Kakwani and Subbarao (2005) compared population poverty rates with those of households including older people in 15 sub-Saharan African countries. None of these countries has a social-pension scheme. They found statistically significant differences in poverty rates in nine countries and, in all of these, households with older people were poorer than those without older people (Figure 2). In the other six countries, the differences were not statistically significant. On this evidence, the most likely conclusion is that, across sub-Saharan Africa, households with older people tend to be poorer than the general population.

(Figure 2 here)

For Latin America and the Caribbean, Gaspirini et al. (2007) have made similar comparisons. They found poverty rates among older people to be higher than the population in only six out of 18 countries. However, they also indicated that public pension programs were one of the key explanations for lower poverty rates among older people. When they calculated putative poverty rates as if pensions did not exist they found contrasting results, with old-age poverty rates higher than national poverty rates in 14 countries and lower in only four (see Figure 3).

(Figure 3 Here)

In Asia, two studies can be highlighted. In India, Pal and Palacios (2008) examined 1995-6 National Sample Survey household data from 16 states and found poverty rates for households with older people to be lower than those of the population in six of them. In Kerala, however, the opposite was found, with older persons' households significantly more likely to be poor. In Vietnam, Evans et al. (2007) found that the over 60s have slightly higher average incomes (6.4 million

VND) than under 60s (6.0 million VND). However, if social security income is removed from both categories, older people are poorer (5.7 million VND compared to 5.8 million VND).

For the Middle East and North Africa, Robalino et al. (2008) have calculated that in the five countries they studied - Djibouti, Egypt, Jordan, Morocco and Yemen - poverty rates for households with older people are lower than for households without older people. In Djibouti, the difference is smallest, with a 43.5% poverty rate in households with older people against 45.1% in other households. In contrast, in Morocco the figures are 13.2% versus 9% respectively.

However, it is important to recognise that studies of income distribution are based on household-survey data, which aggregate all the income sources of the household. Living standards are then assessed by dividing the household income equally among different members. Therefore, despite assertions by some researchers to the contrary, results using this methodology cannot claim to have calculated levels of poverty among older people. Instead, they can only show *the poverty rate of those households in which older people live*, a significant difference. Depending on the intra-household distribution of income, older people could, potentially, be richer or poorer than other members of their households.

Therefore, a key question is: Do older people receive a higher or lower than average income in multiple-generation households? The answer is particularly significant in low- and middle-income countries, where multi-generational households are common. For instance, in rural India, 89% of older people live in three-generation households (Rajan and Mathew, 2008); Kakwani and Subbarao (2005) report similar proportions for sub-Saharan Africa.

Despite a common belief in a golden age when older people were taken care of and held in great respect by their families, there is little empirical evidence that this ever happened. Research in recent years has demonstrated a very different picture, one in which households – especially when they are poor - give preference to those of working age and children. In Ghana, van der Geerst (2002) and Aboderin (2006) have described how adult children decide how well to care for their parents based on their perceptions of the quality of care they received during childhood. Even if older people are judged to be deserving of care, in times of economic scarcity support will not be forthcoming. Women are particularly vulnerable as they live longer and are a burden to their families for more years; when times are difficult, this can lead to accusations of witchcraft from their children, a phenomenon observed elsewhere in

Africa by Miguel (2005). Similarly, in China, UNFPA (2007a) report that: “The tradition for family to provide older persons with basic life assurance is being continuously weakened, and the proportion of older persons receiving economic support from their children is declining.” Even when older people bring in significant income themselves, this is distributed throughout the household: in Namibia, for instance, 70% of pension income is shared among household members (Palacios and Sluchynsky, 2006).

It is likely, therefore, that in most cases older people - especially those in a more dependent situation - receive a smaller than average share of income in multigenerational households. If this is correct, it is probable that studies comparing old age poverty with overall poverty underestimate poverty rates among older people. Consequently, claims that older people are better off than the population should be treated with caution.

2. Effect of pension systems on old-age poverty

Public-pension programs have had a major impact on old-age poverty. Figure 4 compares putative old-age poverty rates in developed countries (if public pension schemes did not exist) with actual poverty rates. This analysis does not imply that these poverty rates would be observed in the absence of public retirement-income programmes. It is simply a device to show the current role that the public sector plays in providing incomes in old age for lower-income groups.

(Figure 4 here)

In almost all cases, poverty would be significantly higher in the absence of public pensions. France, for example, would have the highest poverty rate at almost 90% compared to its present rate of around 6%. This is achieved at a cost of public pension spending of 12.4% of GDP, the third highest after Italy and Austria.¹ In fact, in some countries - such as New Zealand, the Netherlands and the Czech Republic - public pensions have been so effective that income poverty in old age has almost been eliminated. The countries where impacts are smallest are those where public pensions are less developed or extensive, such as Mexico and South Korea.

The effectiveness of pensions in reducing old age poverty is not restricted to developed countries. Similar situations can be found in some middle-income countries. In Brazil, 77% of older people benefit from a public pension. The old-age poverty rate in the absence of these pensions would be 47.9%, compared with the

¹ Source: OECD social-expenditure database

actual rate of 3.7% (Gaspirini et al., 2007). Mauritius has had a universal social pension since 1950. The scheme, which costs 2.9% of GDP (Piggott and Whitehouse, 2002), has had an extensive impact on old-age poverty. For example, poverty rates for older people living with more than one younger person would be 30% without the universal pension, compared with an actual poverty rate of 6% (Kaniki 2007). The South African non-contributory pension reaches around 85% of those over 65. It provides up to US\$75 per month and costs 1.4% of GDP. Samson (2006) has examined the impact of this program on the poverty gap: the amount by which household incomes fall below the poverty line. Among households that include older people, the poverty gap falls by 54%. The effect is naturally much more significant for older people living alone, with a 96% reduction in the poverty gap.

Of course, retirement-income programs do not always have a significant impact on poverty, due either to low benefit values or narrow coverage. In Nepal, for example, the pension is just US\$2 per month and is paid only to over-75s. In other countries – such as India and Bangladesh – non-contributory pensions are targeted on a very small group of the most vulnerable. However, many eligible older people are unable to make successful claims for the grants and there are myriad accounts of corruption. A survey by HelpAge India found that only one in ten eligible older people were receiving the pension (HAI 2008).

3. Work in Old Age

In countries without comprehensive public pensions, most older people need to work while in developed countries, pensions provide people with much more choice and are able to retire from work. As Figure 5 indicates, in the world's poorest countries just over 70% of men and 35% of women aged over 60 are engaged in work outside the home, compared with around 20% of men and 10% of women in developed countries. The impact of pensions in providing older people with choice on whether to work can be observed in Morocco where work participation rates among older people are higher in rural areas - where there is no pension coverage - than in urban areas (World Bank 2008).

(Figure 5 Here)

While, for many older people, the option of continuing to work is important in allowing them to lead active lives, older workers in developing countries are usually in the informal sector, in less attractive jobs with lower pay than people of prime age. In Latin America, for example, older people work fewer hours and receive lower wages than those who are younger (Gasparini et al., 2007). As older people

themselves age, they are able to work less and less as a result of poor health and disabilities. In Vietnam, for example, weekly hours worked by men reduce from 36 hours at age 60 to around 18 at age 85 (Evans et al., 2007). Similarly, in India, although 56% of those over 60 are in employment, for those above 80 years old the figure is only 16% (Rajan and Mathew 2008).

4. Differences in Poverty Rates among Older People

Measures of old-age poverty that rely on aggregate data present only a partial picture: hidden within the averages are pockets of old-age poverty affecting particular groups. This section examines the situation of three kinds of households: those with children headed by older people; households consisting entirely of older people; and older women.

4.1 Households with children headed by older people

Older people often assume the role of head of household - or main breadwinner - at a time in their lives when they themselves may have expected to be taken care of by their own children. This is caused by two main factors: HIV/AIDS and migration. In Africa, for example, Kakwani and Subbarao (2005) find that elderly-headed households range from 12% of the total in Madagascar to 27% in Gambia.

In countries with a high prevalence of HIV/AIDS, older people have had to care for orphans. For example, more than 60% of orphans in South Africa, Zimbabwe, and Namibia - and 50% in Botswana, Malawi and Tanzania - live with their grandparents (UNDESA, 2007). And, the situation has been worsening; in Namibia the proportion has risen from 44% in 1992 to 61% in 2000. Similar figures can be found elsewhere: in Thailand half of orphans live with their grandparents. According to Kakwani and Subbarao (2005), poverty rates among households headed by older people are higher than overall poverty rates in 11 out of 15 countries surveyed. In those countries where poverty rates were lower, the results were not statistically significant.

Many older people in HIV-affected households also have to look after their own children who are ill with AIDS. A study by HelpAge International of 12 communities in Africa shows that, in some communities, even more adults with HIV/AIDS than orphans are cared for by older people (Figure 6).

(Figure 6 here)

Migration can also place a burden on those older people who care for their grandchildren while their children seek work elsewhere. In Thailand, for example, 28% of those aged 60-64 and 18% of those aged 70-79 are looking after a grandchild

because parents have migrated (UNFPA, 2007b). Migration can also result in a rapid ageing of rural communities: in Russia, for example, there are over 34,000 villages with fewer than 10 inhabitants, typically older women (Harding, 2008).

The evidence indicates that, in many countries, households comprising only older people and children are even poorer than three-generation households. In sub-Saharan Africa, in 10 countries out of 15 studied by Kakwani and Subbarao (2005), the poverty gap for households comprising only older people and children was higher than the poverty gap for three-generation households. However, such households comprise less than 1.5% of the total households in all of the countries studied.

Further evidence of the poverty of households comprising only older people and children can be found in other regions of the world. In Yemen, for example, 63% of these households live in poverty compared to 43% of three-generation households (Robalino et al., 2008). In Vietnam, families of only older people and children have incomes of just 4.4 million VND compared to 5.6 million VND for three-generation households (Evans et al. 2007). Yet, it is not the case that households consisting of only older people and children are always poorer on average. In Egypt, Jordan and Morocco, they have lower poverty rates than three-generation households. Nonetheless, as in sub-Saharan Africa, such households are a small proportion of the total, for example less than 0.2% of all households in the five Middle East and North African countries studied by Robalino et al. (2008).²

Migration can have varying impacts on poverty. For example, remittances can reduce poverty significantly. However, not all migrants remit their earnings to those looking after their children and, in some cases, they are unable to send enough to cover costs. In Thailand, for example, among those aged 60-64 who are responsible for caring for the children of migrants, 41% pay half or more of the expenses of raising the grandchild, while the figure is 32% for those aged 70-79 (UNFPA, 2007b). Older people in this situation could find themselves becoming increasingly poor.

Overall, therefore, households including both older people and children are likely to be among the poorest households in any country. Furthermore, evidence from sub-Saharan Africa and Vietnam would suggest that the poorest households may well be those comprising entirely older people and children. The situation is likely to be particularly severe for households caring for orphans as they would have lost key breadwinners with the death of the children's parents. The situation of people

² It is possible that the low numbers of households consisting of only older people and children affect the sample size and lead to less accurate assessments of their relative poverty.

caring for the children of migrants may not be quite as clear-cut since, in many cases, they may benefit from remittances. However, often, they will not.

4.2 Households comprising only older people

In developing countries, only a small proportion of older people live alone or in households comprising only older people (usually a married couple): 17% in Africa, 23% in Asia and 25% in Latin America and the Caribbean (UNDESA 2007). Studies have been inconclusive as to whether such households are poorer than the average. Kakwani and Subbarao (2005) have compared the incidence of poverty among single older people with the average for all persons in sub-Saharan Africa and found a statistically significant difference in only two countries: Uganda and Zambia. In both these countries, single older people were poorer. They note, however, that when the depth of poverty is compared, poverty seems greater among single older people in most countries.

A study of Vietnam revealed average income was higher in households of only older people: 6.8 million VND compared with 6.0 million VND for households with all members under 60 (Evans et al., 2007). However, this is mainly a result of social security benefits and remittances. Once these are removed from household income, households of only older people would be much poorer: 2.7 million VND income compared with 5.2 million VND. Therefore, households of only older people not in receipt of pensions or remittances are likely to live in deep poverty.

Robalino et al. (2008) found households of only older people in Djibouti, Egypt Jordan, Morocco and Yemen to be less poor than the average older person. Although they did not take into account the proportion of income provided by social security benefits, they did point out that these results may reflect the fact that better-off older people may well choose to live alone. This may also be the case in other countries and is likely to partly explain why, in developed countries, 68 per cent of older people live alone or with their partners (UNDESA, 2007). Furthermore, some studies may have exaggerated the wealth of households of only older people by not taking into account higher expenses per capita compared to large households since they do not enjoy the same advantages of economies of scale.

4.3. Poverty Among Older Women

Women are more likely to reach old age than men. In developed countries, there are 76 men aged over 60 for every 100 women while, in developing countries, there are 88 (UNDESA, 2007). The discrepancy becomes wider as people age:

among those over 80, there are 49 men to 100 women in developed countries and 67 in developing countries.

Older women tend to be poorer than men. Figure 7 shows the situation in 10 European countries. The difference between the sexes is largest in the United Kingdom: 18.1% of older women live in poverty compared with 11.7% of men. In developed countries, this is, in large measure, the result of pension arrangements. Women have shorter working lives than men and earn less so they tend to receive lower pensions. However, women are also more likely to live alone and poverty rates for older women living by themselves are usually higher for men who are alone (UNDESA, 2007). In part, this is because those women who have not participated in the labor market often have to live on survivors' benefits, which are lower than normal old-age pensions.

(Figure 7)

In developing countries, it is likely that a similar situation of greater poverty among older women exists, but more work is needed to discern poverty by both age and sex. Women tend to have lower rates of labor-market participation than men, often engaging in domestic labour in their own households for which they receive no remuneration. There are, however, exceptions: Rajan and Mathew (2008) found rural work participation rates to be 59% for older men and 66% for older women in India (and 57% and 62% respectively in urban areas). As with younger women, it is likely that older women earn less than men of similar age.

Older women in developing countries are more likely to live alone than older men, as they are in developed countries (Figure 8). Differences are greatest in Asia and Africa, with around 10% of older women in Africa living alone. Again, this is likely to exacerbate differences in the incidence of poverty between older men and women. Moreover, there are differences in wealth: in India, for example, around 60% of women and just 30% of men have no valuable assets in their names (Rajan and Mathew, 2008). Those living alone are often in a particularly precarious position.

(Figure 8 here)

Therefore, older women in developing countries almost certainly live in greater poverty than older men. In urban China, for example, poverty rates are three to four times higher among older women than among older men (UNFPA, 2007a).

5. Old Age and Vulnerability

Studies of old-age poverty that rely on poverty rates or poverty gaps present a static picture. They do not take into account the fact that older people are a vulnerable group and that, as they age further, they become increasingly vulnerable. They are open to risks that could, at any time, cause them to fall into poverty or make their existing poverty worse. In particular, as people age, they are more likely to become sick or disabled. This can reduce their chances of gaining income through work as well as increase their expenditures substantially.

A number of studies have demonstrated that frequency of illness is higher among older people. For instance, Kakwani et al (2006) have calculated that, in Kenya, the incidence of sickness among people over-60 was 26% compared to 16% for the total population. Also, in India, half of all older people suffer from at least one chronic disease that requires life-long medication (Rajan and Mathew 2008). In fact, during interviews for the 52nd National Sample Survey (1995-6), 10% of older people in India reported being ill the day prior to the interview.

Among older people themselves, their vulnerability to poor health also increases as they age further. Evans et al. (2007) have shown that, in Vietnam, the number of days people spend incapacitated in bed increases significantly as they get older, from around 15% at age 60 to nearly 55% at age 95.

However, older people are not just more likely to be ill; they are increasingly likely to be disabled. In India, 38% of older people suffer from at least one disability, while 15% suffer from two or more (Rajan and Mathew 2008). A separate study in urban areas of Gujarat, in 1993, found that two-thirds of older people had deteriorating physical conditions such as poor vision, impairment of hearing, arthritis and loss of memory (Shah 1993³). In Africa, around 9% of over-50s are blind, compared to much less than 1% for younger people⁴. Functional blindness among older people caused by not owning spectacles is likely to be much higher.

Increasing poor health and disability among older people has economic consequences. In countries where older people cannot access a pension, it has ramifications for their income - and for their families - as they are less able to work. For example, Rajan and Mathew (2008) report that, in India, 33% of households with a hospitalised older person have suffered a loss of income due to absence from work. In addition, sick older people have to find cash for the costs of seeking treatment and

³ In Rajan and Mathew (2008)

⁴ Source: State of the World's Older People at:
<http://www.helpage.org/Researchandpolicy/Stateoftheworldsolderpeople/Accessstoservices>

purchasing medicine. 40% of families in India use savings to meet hospital charges while another 27% fall into debt by borrowing money (Rajan and Mathew, 2008)

The impact of increasingly poor health and disabilities as people age almost certainly results in greater poverty among the elderly. In China, for example, the percentage of older urban residents in poverty increases with age; UNFPA (2007a) report a poverty rate among those aged 60-64 of 11.3%, rising to 30.1% for those aged 85 and above.

Therefore, studies of average income and poverty rates among older people paint only a partial picture. As older people age, the risk of falling into poverty can increase substantially, not only because of a reduction in their capacity to work and secure income but also because poor health and disability can result in much higher levels of expenditure. Pension policy needs, therefore, not only to tackle existing poverty but also to provide security for older people who are in danger of falling into poverty.

6. Conclusion

There is strong evidence that, in many developing countries, older people as a whole are likely to be one of the poorest categories of the population, in particular when comprehensive public pension schemes are absent. Studies that claim to demonstrate that older people are wealthier than the general population need to be treated with caution, in part due to assumptions they make on intra-household distribution of wealth but also because they do not take into account a range of other factors, including the increasing risk that older people will fall into poverty as they age. Furthermore, sub-categories of older people tend to be much poorer than the average, such as women and those living with children.

There is strong evidence that public pensions are a key means of reducing poverty among older people in both developed and developing countries, in particular those that reach the vast majority of older people. In developing countries, there is good evidence that non-contributory pensions with very broad coverage among the older population - in other words, social pensions - can have significant impacts on old age poverty. In countries where the majority of older people live in poverty - such as in much of sub-Saharan Africa - their role as part of a broad-based anti-poverty strategy needs to be recognised.

The need for social pensions will increase as populations age further. Pal and Palacios (2008) point out that, as countries develop, more poor people will reach old age. As a result, older populations are likely to grow increasingly poor. Putting

comprehensive social pensions in place now will enable countries to prepare for the future.

Of course, poverty reduction is not the only reason for countries deciding to put in place a social pension for all older people. Pensions that benefit the vast majority of older people are likely to be politically popular and, therefore, more likely to be sustainable than poverty-targeted safety nets. Moreover, there are strong arguments that older people deserve to have the state step in after a lifetime of working and caring for families as well as contributing to national finances. Social pensions could change for the better the lives of millions of older people who currently live in poverty in poor countries - just as they have for older people in many developed countries. They could imbue the lives of poor older people and their families with a measure of predictability, replacing the uncertainty in which they currently live and transforming their behaviour, encouraging them to plan for and invest in the future. If the international community is serious about tackling old age poverty, a social pension is the best answer we have.

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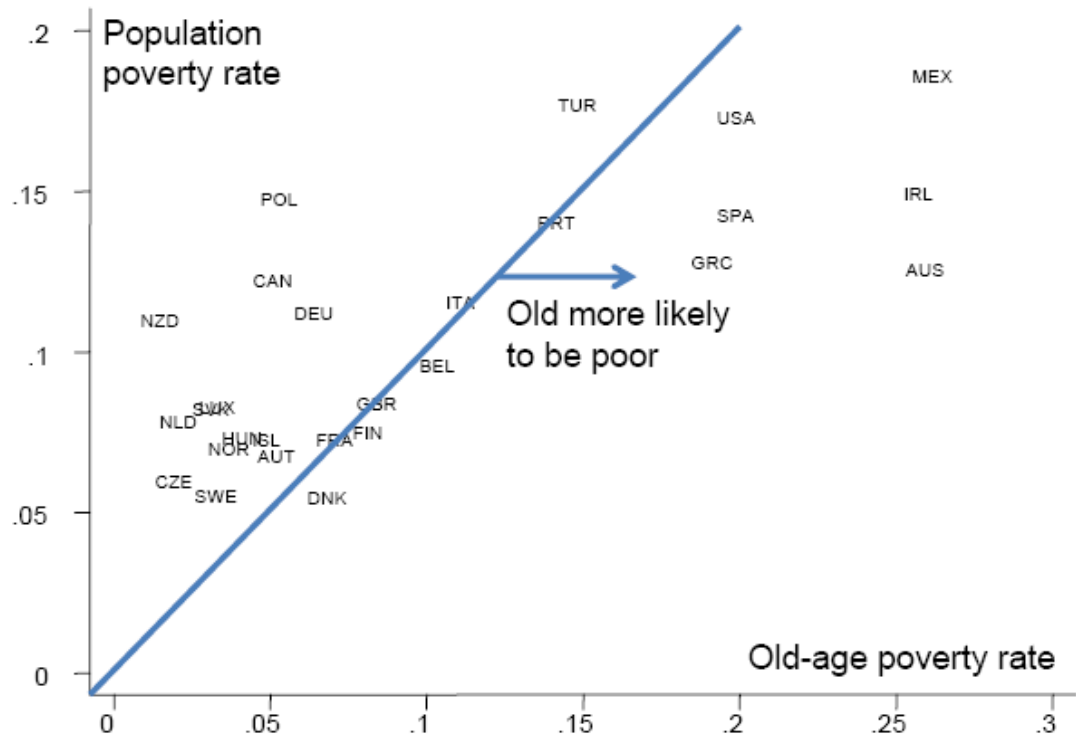
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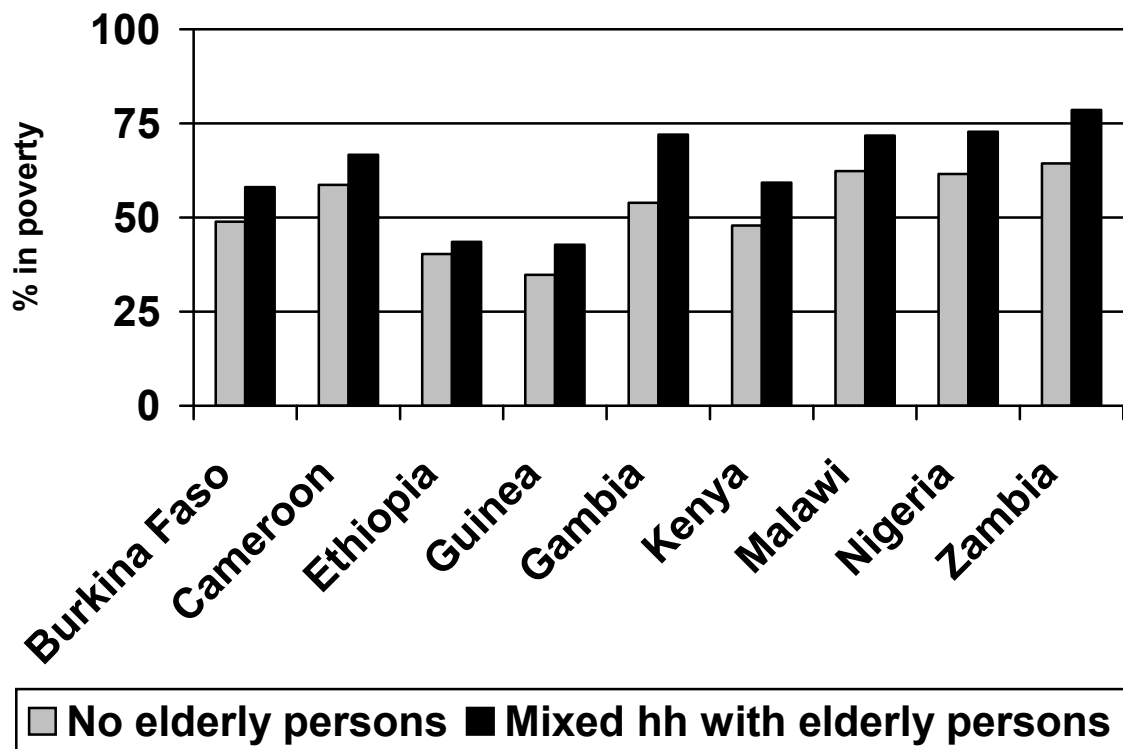
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Figure 1: Comparison of population and old-age poverty rates, OECD countries



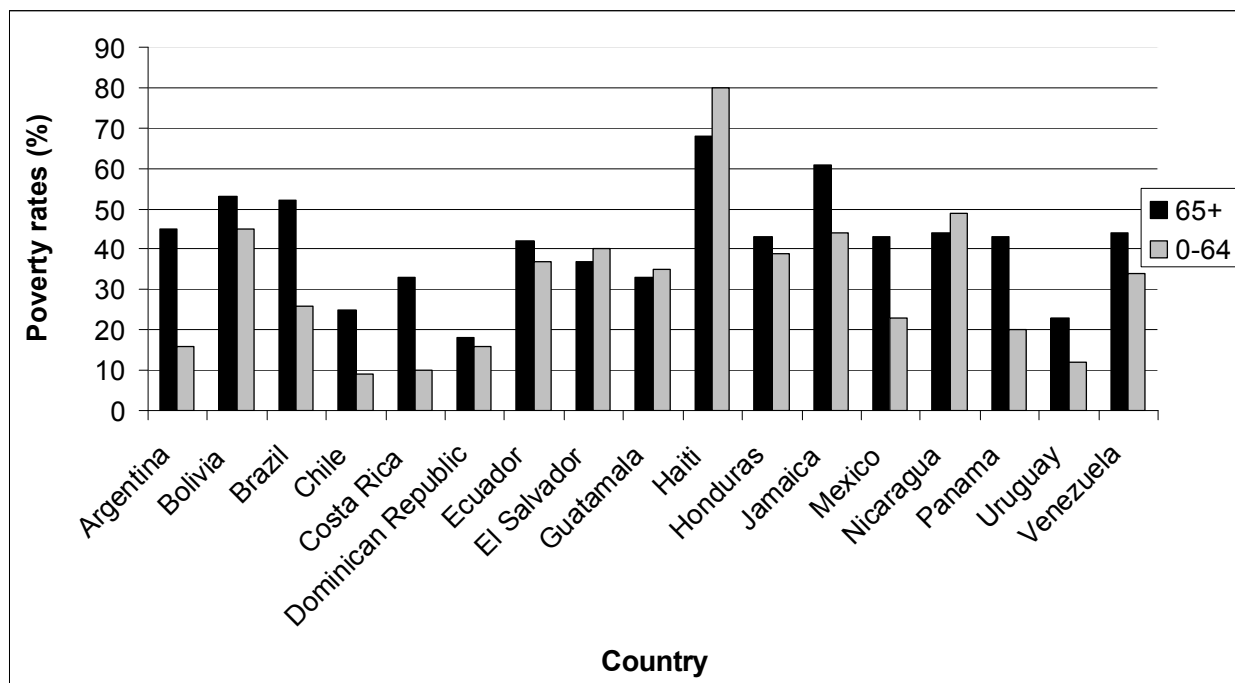
Source: OECD income-distribution database

Figure 2: Poverty rates for general population and households with older people in selected African countries



Source: Kakwani and Subbarao (2005)

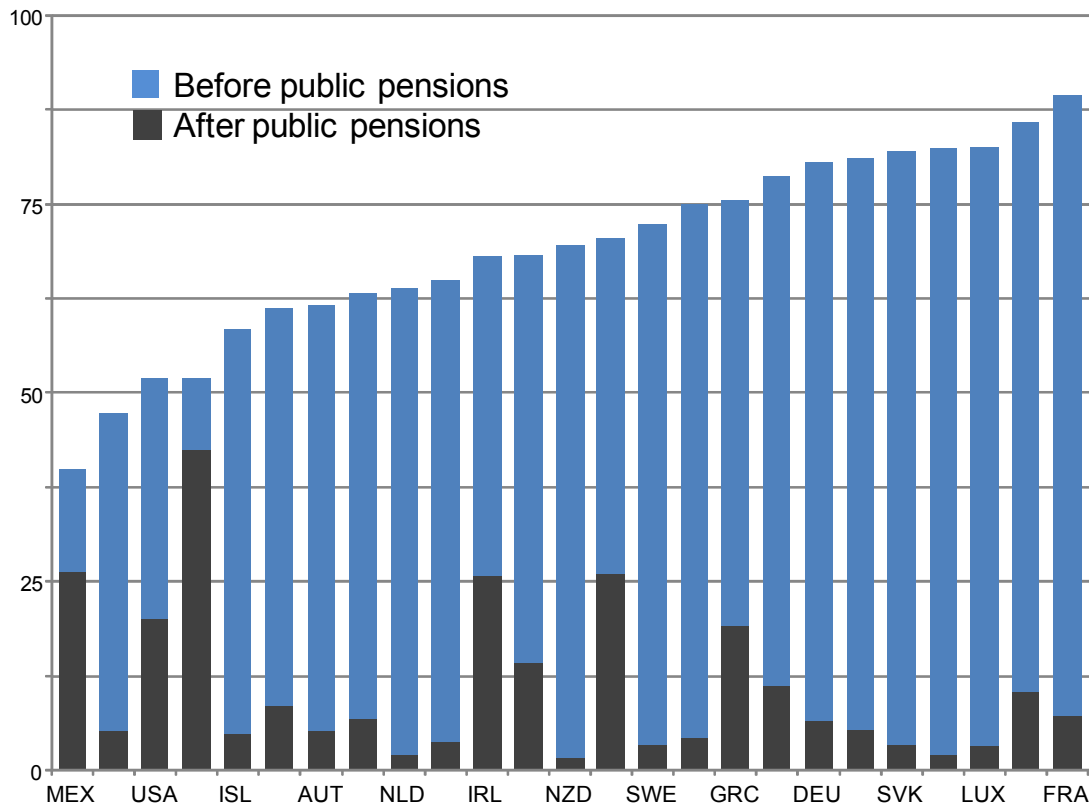
Figure 3: Old-age poverty rates and population poverty rates, controlling for the effect of pensions, Latin America and the Caribbean



Source: Gaspirini et al (2007).

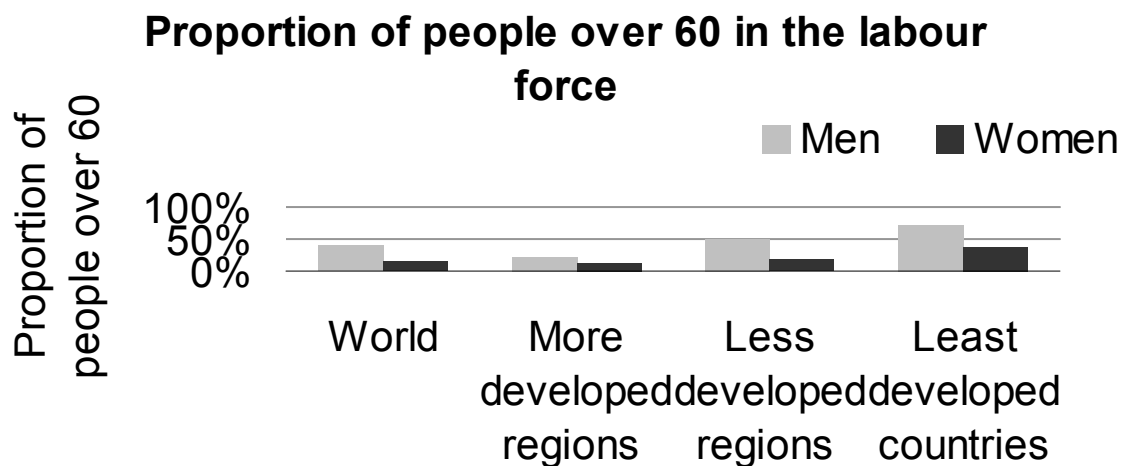
Note: Poverty rates for all the population have also been adjusted to take into account the impact of the pension. Poverty line is US\$2 per day.

Figure 4: Old-age poverty rates and putative poverty rates in the absence of public pensions, OECD countries



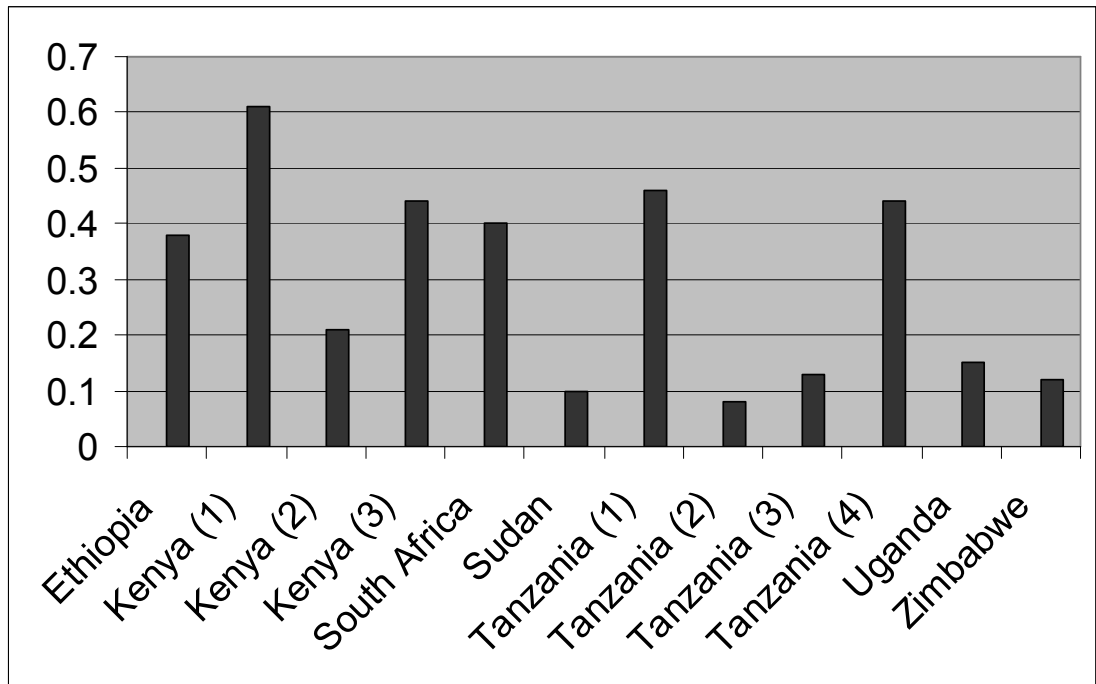
Source: OECD income-distribution database

Figure 5: Labor force participation rates for people over 60



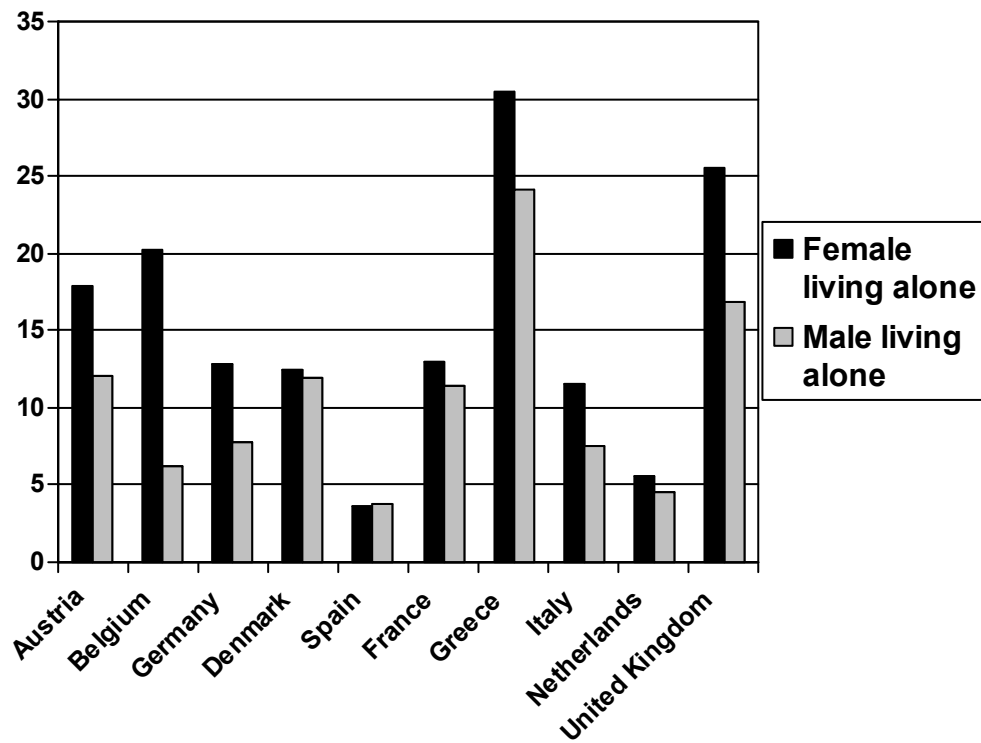
Source: HelpAge International State of the World's Older People Database

Figure 6. Percentage of orphans and people living with HIV/AIDS cared for by older people, 12 communities across Africa



Source: HelpAge International

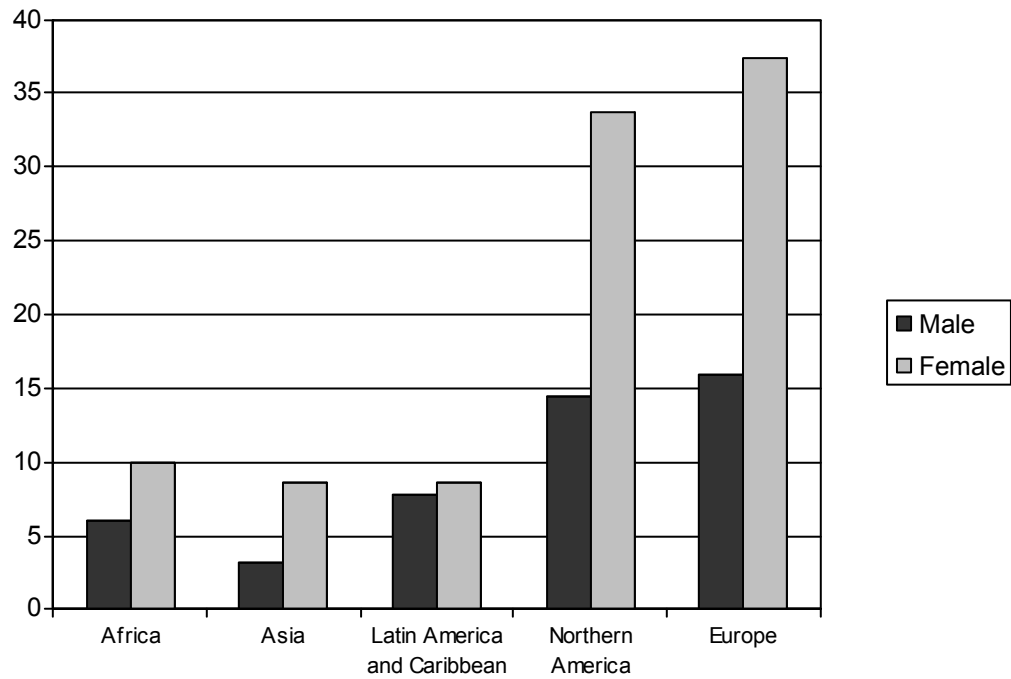
Figure 7: Poverty rates for men and women aged 65 and over living alone, selected European countries



Source: UNDESA (2007:95), based on Heinrich (2000)

Note: Poverty line is set at 50% of median per capita income.

Figure 8: Proportion of older women and older men living alone



Source: UNDESA (2007), based on Heinrich (2000)