
Social Pensions: Solving the Issues by Good Design

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Tokyo, February 21, 2008

Four Issues about Social Pension

1. Social Pension helps the wealthy because the wealthy live longer than the poor
 2. Social Pension diverts resources from children and youth
 3. Social Pension crowds out private transfers
 4. Social Pension is a costly luxury
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1. Helping the wealthy?

BUT...

- Life expectancy statistics are averages
 - Endogeneity: impact of SP on life expectancy
 - Eligibility: late age? wealth test?
 - Benefit level: very low?
 - More needed if contributory scheme coverage low
 - More needed if social assistance system limited or non-existent
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2. Diverting resources from children and youth?

BUT ...

- **Depends on intrafamily transfers**
 - **Is the contributory system subsidized? If yes, financing should come first from there**
 - **SP appropriate if poverty ratio elderly/non-elderly households is high**
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3. Crowding out private transfers?

BUT...

- Not dollar for dollar (SP recipients gain but not the full amount)
 - Important to look at other social indicators and poverty ratio elderly/non elderly households
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4. Costly luxury?

BUT....

- ❑ What matters in the principle of universality
 - ❑ Design/eligibility options include raising the age of eligibility and/or decreasing the size of pension
 - ❑ Two-tier system with a modest pension for the „young old” and a larger pension for „old old” also a possibility
 - ❑ Means-testing? What kind?
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Whitehouse shows that...

- Social pension dominate some retirement-income systems
 - E.g. Australia, Canada, Ireland, New Zealand, United Kingdom
 - Coverage of social pensions among retirees is high in some others
 - E.g. Finland, France, Greece, Italy, Spain, Sweden
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For developing countries...

- it is inconceivable to have good coverage of social pensions without having social pension dominating retirement income
 - but it is hard to build contributory system if social pension already dominates retirement income
 - So perhaps, social pension should be introduced along with the contributory system e.g. through a partially contributory (subsidized) system...
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Fundamentally: can we simply import “best practice” Social Pension programs from other countries? **NO!**

- For SP programs to work well we need deep analysis for the country’s specific situation:
 - To discover what behavior needs changing, and how extensive that behavior is
 - To design a program that fits in well with other programs and practices
 - To monitor the program’s efficacy
 - To evaluate its outcomes after a few years
 - The biggest need, therefore, is in high quality data that allows this analysis
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