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Poverty, Old-Age and Social Pensions in Kenya

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Objectives of the study

- The main objective of this study is to explore the introduction of a non-contributory social pension that provides benefits to all persons who attain a specific retirement age.
- The study analyzes:

(i) The poverty situation among the elderly in Kenya from the view point of introducing a pro-poor pension system.

(ii) The impact of elderly pensions on the national poverty as well as poverty among children.

(iii) Alternative poverty simulations with different costs of pension system.

Why do we need a non-contributory pension for elderly in Kenya?

- The current pension system covers only 3% of the elderly population.
- The current system provides benefits mainly to the better educated and higher income.
- The incidence of poverty among elderly is high.
- A large proportion of elderly have no protection at old age.
- Due to HIV/AIDS epidemic, elderly are taking greater responsibility for caring grand children.
- A universal pension will reduce poverty among children as well.
- Elderly suffer from high incidence of sickness and lack resources to get treatment when sick.

Data Source

- Main sources of data used for the study include Welfare Monitoring Surveys (WMS) for 1994 and 1997.
- Although in this study the results are presented using the two surveys, strict comparisons may not be possible because of changes in survey methodologies.
- In this presentation, we will focus only on empirical results from WMS 1997.

Where are the elderly?

Table 1: Percentage and number of elderly: Kenya 1997

	55 years and older	60 years and older
	Percentage of elderly (%)	
Rural households	7.74	5.62
Urban households	2.47	1.14
Poor households	7.57	5.6
Non-poor households	6.38	4.36
All households	6.92	4.92
	Number of elderly (in million)	
Rural households	1.66	1.21
Urban households	0.10	0.05
Poor households	1.05	0.78
Non-poor households	0.73	0.50
All households	1.76	1.25

Poverty among elderly and children

Table 2: Poverty among elderly in Kenya, 1997

	55 years and over	60 years and over	Whole population
Percentage of poor	48.92	50.85	45.04
Poverty gap ratio	16.85	17.53	14.07
Severity of poverty	7.57	7.91	5.86

Table 3: Poverty among children living in elderly headed households in Kenya, 1997

	55 years and over	60 years and over	Whole population
Percentage of poor	51.54	54.59	45.74
Poverty gap ratio	17.40	18.48	14.21
Severity of poverty	7.63	8.13	5.91

Costing of alternative benefit levels

Table 4: Pension per beneficiary and costing in Kenya, 1997

	55 years& over	60 years & over
	20% of per capita GDP	
Pension per beneficiary rural areas	360	363
Pension per beneficiary urban areas	548	554
Cost as share of GDP	1.38	0.98
	35% of per capita GDP	
Pension per beneficiary rural areas	610	622
Pension per beneficiary urban areas	1303	1330
Cost as share of GDP	2.42	1.72
	50% of per capita GDP	
Pension per beneficiary rural areas	871	889
Pension per beneficiary urban areas	1861	1901
Cost as share of GDP	3.46	2.46

Impact of pensions on poverty

Table 5: Percentage reduction in poverty in Kenya, 1997: benefits of 20% of per capita GDP

	Pension given to 55 years &over	Pension given to 60 years &over
	Impact on poverty among 55 years & older	
Percentage of poor	17.21	13.94
Poverty gap ratio	40.54	31.15
Severity of poverty	61.18	45.82
	Impact on poverty among 60 years & older	
Percentage of poor	18.87	18.42
Poverty gap ratio	43.52	42.05
Severity of poverty	65.44	62.63
	Impact on children less than 15 years old	
Percentage of poor	2.06	1.74
Poverty gap ratio	4.72	3.31
Severity of poverty	7.04	4.93
	Impact on national poverty	
Percentage of poor	2.97	2.36
Poverty gap ratio	7.45	5.41
Severity of poverty	11.22	8.11

Cost efficiency of pensions

Table 6: Cost efficiency of pensions in reducing national poverty in Kenya, 1997

	20% per capita GDP	35% per capita GDP	50% per capita GDP	20% per capita GDP to poor
		Elderly 55 years and over		
Percentage of poor	2.15	2.4	2.48	4.56
Poverty gap ratio	5.39	5.17	4.91	11.04
Severity of poverty	8.11	7.34	6.58	16.6
		Elderly 60 years and over		
Percentage of poor	2.41	2.61	2.55	4.66
Poverty gap ratio	5.5	5.18	4.85	10.71
Severity of poverty	8.25	7.35	6.55	16.07

Poverty Simulation

- Giving pensions to elderly affects welfare of elderly and other members of households living with elderly.
- In the poverty simulation approach, it is assumed that pensions given to elderly are pooled within families and distributed to each member so that every member enjoys the same level of welfare.
- A shortcoming of this simulation is that it does not take into account intra-household inequity in welfare.

Some concluding remarks

- There are four basic questions regarding the feasibility and outcomes of a social pensions system:
  (i) Number of pension beneficiaries
  (ii) Benefit levels
  (iii) Impact on poverty
  (iv) Disincentives caused by social pensions

- In this study, we did not deal with issues related to (iv).
- Since elderly are generally unable to work, we believe that the disincentive impact may not be significant.
- We have also not considered the administrative costs involved in implementing the program.
- Since we do not suggest means-tested pension scheme, the administrative costs of identifying beneficiaries are likely to be very small.

Some concluding remarks (continued)

- Brazil, Namibia and South Africa spend 1%, 2% and 1.4% of GDP on old pensions, respectively.

- Given income level, Kenya or any other Sub-Saharan African countries cannot afford more than 1% of GDP.

- Our study shows that targeting elderly 60 years and older with a benefit level of 20% of per capita GDP will cost 0.98% of GDP.

- Our simulation results show that even with this modest benefit level, the poverty incidence will be reduced by about 18% among the elderly.

- In addition, this would reduce overall national poverty by 2.36%.

Some concluding remarks (continued)

- The impact on poverty reduction is stronger on the poverty gap ratio & severity of poverty.
- This suggests that the pension system benefits the ultra-poor more than the poor.
- Raising the benefit level will achieve greater reduction in poverty, but efficiency measured by the change in poverty reduction per unit cost may decline.
- Therefore, the study recommends that targeting elderly 60 years and older with a benefit level equal to 20% of per capita GDP be a feasible pension system for Kenya.