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**A GLOBAL OVERVIEW ON SOCIAL SECURITY
IN THE AGE OF LONGEVITY**

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A global overview on social security in the age of longevity¹

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One of the key challenges confronting countries with an ageing population over the coming years is to guarantee to the whole older population an adequate level of income without placing excessive demands on younger generations and on national economies. This dilemma has direct implications for social security systems and their ability to achieve their goals.

An increasing number of countries are affected by population ageing, which has triggered increasing concern over the future of social security, both for its sustainability and for the capacity of these societies to extend coverage to the often large section of the population excluded from receiving social security benefits. Debate on pension reform and controlling health-care expenditure centres mainly on the financial viability of retirement and health-care plans in ageing societies. Our ability to gauge the future of such societies is inextricably linked to the sustainability of their social protection programmes over the next few decades. There is a need to consider not only the economic dimension, but also the social dynamics of an ageing population. Can free choice and individual responsibility be promoted in a way that avoids social segmentation and instability? Can social security be extended to the non-formal sectors of the economy? It remains to be seen what path social security systems can take to meet the challenges and opportunities of population ageing. How can social protection be secured and extended in a way that is efficient and fair? The future of ageing societies depends on their governments' ability to adopt a comprehensive approach to social security which is both economically and socially viable.

Despite the vast number of issues yet to be tackled by social policies, this paper argues that social security systems do have the capability to adjust to the emerging needs of workers and citizens in the unprecedented demographic, social and economic environment that constitutes ageing societies (or to use a more positive term, "long-life societies"). It

¹ The responsibility for opinions expressed in this paper rests solely with the author, and does not constitute an endorsement by the ISSA of the opinion expressed in it.

further argues that new tools exist to allow governments in the least wealthy societies to provide basic social security to all.

1. Setting the picture

Since the mid-1990s, there has been much talk of the threat that population ageing poses for social security programmes, more specifically pension and health-care schemes. The statistics are quite striking. Demographic forecasts show that, in roughly 50 years' time, the percentage of over-60s in industrialized countries will have virtually doubled, from 20 percent to 35 percent of the overall population. The increase will be even more staggering in the developing world, from 8 percent to 20 percent, representing a fourfold rise in the number of older people. By 2030, the number of over-60s living in the People's Republic of China is expected to have reached 350 million, which corresponds to the total population of the European Union (EU) before its expansion.

Another indicator frequently highlighted is the ratio of pensioners to people of working age (or economically active). In industrialized countries, current forecasts see that ratio shifting from today's level of 4 or 5 potential workers for every pensioner to just 2 potential workers for every pensioner by 2050.

Drawing on linear estimates of population growth and changes in social expenditure, a number of international financial institutions have concluded that, if current trends hold, public spending on pensions will increase dramatically in all parts of the world over the next 50 years. The outlay in countries of the Organisation for Economic Co-operation and Development (OECD) is now 10 percent of GDP, but is forecast to stabilize at 17 percent within 30 years, amounting to a 70 percent increase. It is hard to see how these costs could be met. A United Nations Population Division report published in 2000 calculated that today's ratio of 4-5 workers to every non-worker could only be sustained through to 2050 if mass immigration were fostered (e.g. 12.7 million workers per annum to the EU, over 30 times the current net migratory flow) or the retirement age were increased to over 75 years. Both options are clearly unrealistic. Is the only alternative urgent and rapid reform, or indeed the disbanding of pension and health-care schemes? Is that, ironically, the only way to salvage an income for future pensioners and follow World Bank advice to safeguard future economic growth, which is threatened by the ageing crisis?

The facts appear merciless. Today, population ageing and an attendant social security crisis seem inevitable. To make matters worse, there is doubt in political, media and other influential circles about the State's ability to tackle this problem effectively.

On a less pessimistic note, other experts contend that population ageing is not the foremost threat facing social security systems, despite the worrying shift in dependency ratios (Economic Policy Committee, 2000; and Mullan, 2000). The past 50 years have seen efficient old-age protection schemes introduced which have slashed poverty rates amongst older people without jeopardizing economic growth. Experts argue that the same truth still holds today: the bottom line is the capacity of a society – and its economy – to provide all its

citizens, irrespective of age, with a decent standard of living by ensuring steady production levels. In other words, population ageing is only a cause for concern if a society's lifeblood, not least its productive activity, fails to expand.

1.2. Beyond the myths of population ageing

Before examining possible ways of easing the pressure caused by population ageing, we first need to look at the facts. There is no denying that the number of older people is increasing. However, the ensuing impact on society, the economy and, of course, social security expenditure is by no means as clear-cut. Box 1 lists a number of myths that frequently feature in debate on population ageing, as reported by Mullan (2000). The negative connotations that tend to permeate such debate are striking. While it is generally recognized that longer life expectancy is one of the greatest achievements of the twentieth century, emphasis tends to be placed on the looming pension crisis and sustainability of economic growth. Whereas increased life expectancy is highly valued at an individual level, the prospect of an ageing society and the associated social and economic implications engender nothing but doom and gloom.

Box 1. A fresh look at the myths surrounding population ageing

Myth 1: Population ageing is caused by increased life expectancy (implying that improved life expectancy is not actually a good thing as it leads to population ageing).

Fact: Population ageing is primarily the result of falling birth rates.

Myth 2: Population ageing is a natural phenomenon (implying that population ageing is a relentless, intractable fact that cannot be altered through human intervention).

Fact: Population ageing stems from social change; the very definition of "old" is socially determined.

Myth 3: Population ageing is an ever growing trend (implying that the problems have only just begun and are bound to get worse indefinitely).

Fact: Current population ageing in industrialized countries is linked to the post-war, baby-boom generation. By 2050, demographic balance will have been restored in these countries, with the percentage of over-60s settling at around 30 percent. For less developed countries, reaching the balance will be delayed, with a faster demographic transition. It is worth noting that for many of these countries, the current situation is often very favourable (the "window of opportunity").

Myth 4: Population ageing threatens economic growth (implying that we can expect a lower standard of living in an ageing society).

Fact: Economic growth is driven by a host of factors that are barely affected by demographic trends.

Myth 5: Population ageing is a considerable burden on society, not least social security systems (Implying that benefits should be reduced to offset the rising number of pensioners).

Fact: Industrial societies are sufficiently productive to generate the wealth required to cater for an older population. A low level of economic growth will be enough to cover the projected rise in pension and health-care spending. The question is how the benefits of economic growth are to be shared out amongst generations.

Myth 6: Population ageing will ruin existing pension plans (implying that public pay-as-you-go schemes must be converted to private pension funds).

Fact: Pay-as-you-go and funded schemes require the same economic conditions to ensure sustainability: economic growth and wealth creation. From an economic point of view, it has been clearly proven that demographic change is not a strong argument for a shift towards funding (Barr, 2002). Indeed, private pension schemes may turn out to be less efficient owing to higher administrative costs.

Myth 7: More older people means spiralling health-care costs and greater dependency (Exaggerating the cost of caring and catering for older people and strengthening the belief that ageing is a burden on society).

Fact: Ageing is not an illness. Most older people are neither sick nor dependent. Increases in life expectancy are partly a result of better living conditions. Further improvements will mean older people enjoying better fitness and health than previous generations. While health-care costs will climb, the increase will most likely be limited and will owe more to longer lifespan than a more sizeable older population. There will undoubtedly be a rise in the number of very old dependent people, but it may be lower than the increase in the number of the oldest people (for example, the number of frail elderly requiring long term care fell in the United States in 2000 and 2001).

Source: Adapted from Mullan, 2000.

Most of the above myths are based on the projected impact that population ageing will have on pension and health-care schemes over the next 40-50 years. These projections are often rooted in misconceptions and underestimate the social and economic changes that the next 50 years might bring. Recall the 1950 forecasts for 2000. There is no reason to suppose that we will not continue to witness the same degree of change as over the past half a century. It is probably just as difficult for us now as it was then to foresee what our world will be like in another 50 years' time. Many of today's forecasts assume that social security systems will remain virtually unchanged in future. However, pension and health-care systems are undergoing major reforms, and these changes will make their mark over the next 20-30 years. More reforms can be expected, and this should be taken into account.

2. Strengthening the sustainability of social security systems

The aim of this section is to dispel some of the myths about the implications of ageing populations. The intention is not to dismiss the real difficulties that social security schemes may face in future, but to put into perspective the doomsday scenarios that permeate debate in this area. The factors outlined all revolve, in one way or another, around employment. Contrary to popular belief (World Bank, 1994), it is argued that savings (for example, in the form of pension funds) are not necessarily a growth factor. The links between funded pension schemes and savings, savings and productive investment, and investment and growth are theoretically and empirically questionable and the subject of much debate (Barr, 2002).

2.1. Job promotion

Job promotion is just as crucial as economic growth to the future of social protection systems. A wide range of recent studies has shown that the drop in labour supply triggered by population ageing could be partially offset by higher labour-market participation, at least over the next 25 years. This type of corrective measure is chiefly needed in European countries. Each country's starting point – that is, its potential for increasing employment – varies according to its rate of unemployment, the number of working women, the average retirement age, its birth rate and the number of immigrant workers. According to recent OECD forecasts for annual GDP growth in 2030, member states could record strong economic growth provided that older workers do not retire too early and more women enter the workforce.

Hence job promotion is a vital instrument in reducing the economic cost of population ageing and in fostering overall prosperity. The problem is that, for years, many countries have been grappling with acute unemployment and underemployment, and the policies implemented to tackle these issues have failed, leaving little hope of higher employment rates. Some experts believe that the dismal results of employment policies implemented in most European countries, and their relatively low employment levels, have exacerbated the implications of population ageing. If a substantial proportion of the working-age population is jobless, those in employment are called upon to support a larger number of dependent citizens. More optimistic specialists argue that this trend might ultimately prove to be an asset, as the resulting labour-market reserve could be used to boost job rates, whereas high-employment countries would find it hard to increase their workforce further.

In most European countries, high unemployment is combined with a shortage of skilled workers in some sectors, with the situation set to worsen once the sizeable ranks of the baby boom generation retire. The effectiveness of job creation policies in these countries will therefore depend on their ability to bring the jobless (back) into the labour market. To that end, greater investment must be channelled into the education and vocational training of jobseekers, to align their qualifications and skills more closely with companies' needs.

Greater female participation in the labour market is often perceived as one of the key answers to population ageing. As can be seen in Nordic countries, relatively high fertility rates do not necessarily rule out an increased female presence in the workforce, although

the state must provide families with benefits and social services, and employers must offer both parents working conditions that enable them to reconcile professional and family lives. It should be noted that the impact of higher female employment is contingent not only on the actual number of women in paid work, but also on the type of jobs they hold. If most women entering the workforce are in part-time, unstable jobs, the benefits could be limited, despite a nominal rise in overall employment.

Increased female participation in the workforce is not only an effective way of safeguarding families, particularly single-parent families, against poverty. It also fosters greater financial security for retired women, most of whom will live much longer than men. Low wages, career breaks and the skewed division of unpaid work mean that older women are not always entitled to a pension, and if they do receive one, it is generally lower than that accruing to men. Bolstering the number of women in the labour market will therefore have the dual advantage of restoring balance to the ratio between workers and dependents and securing women a higher income during retirement.

Other categories of “non-workers” could be tapped to boost labour supply, subject to the right policies being implemented. Cases in point are the long-term unemployed and the considerable number of people drawing disability pensions, many of whom could return to employment through reintegration policies (workplace adjustments, change in attitudes, legislative incentives, etc.).

Together with economic growth, job creation is vital in safeguarding the future of an ageing population. The viability of social protection systems and personal retirement savings schemes is largely contingent on society’s ability to right the balance between workers and dependents in a fair and effective manner.

2.2. Reversing the trend towards early retirement and combating ageism

Reversing the trend towards early retirement (see Sigg, 2005) is another cornerstone for any strategy designed to make social security systems viable. Measures to this end would correct a paradoxical situation, in which older people live longer and enjoy better health, yet the effective retirement age has fallen drastically over the past 30 years. Despite a reversal in many countries, the effective retirement age is still, on average, significantly lower than the statutory threshold. Many companies use early retirement as a relatively inexpensive and socially acceptable way of downsizing. That policy, however, carries a hefty price tag for society in general, which is called upon to fund the social benefits accruing to those taking early retirement and to shoulder the related loss of human capital and productive capacity.

Harnessing older workers’ productive capacity for longer would strengthen the viability of pension schemes in three ways: (i) goods and services produced by a larger workforce would bolster economic growth; (ii) payment of pensions, unemployment and disability benefits would be postponed for those remaining in employment; and (iii) increased tax revenue and social security contributions would help fund pensions and other benefits. In other words, it would be in the interests of government authorities to take measures to align the effective retirement age much more closely with the legal pension age rather than raising the latter.

A move away from early retirement would require a major change in socio-cultural models and attitudes, however. In many societies, early withdrawal from the labour market is currently seen as both desirable and acceptable, even for people in full possession of their faculties and in sound health. This view is linked to workplace dissatisfaction, the negative image associated with older workers and the labour-market discrimination they suffer.

In other words, reversing early retirement means taking steps to combat age discrimination in the workplace. It is often claimed that older workers are less productive than their younger colleagues. However, there should also be due recognition of their extensive professional experience, built up throughout their careers. Companies shedding older workers are squandering human resources. In a few years' time, when skilled workers are in short supply, such an attitude will seem incomprehensible. A growing number of companies and governments have now acknowledged the advantages to be gained from hiring and retaining older workers, and have acted accordingly to foster employment in that age bracket. Further training policies should enable workers, in particular older workers, to adjust continuously to the labour market by updating their skills and qualifications.

Employing older workers is not just an economic imperative. It is also a good way of enhancing their well-being. Work is still one of the best means of social integration. In the best cases, it can enable older workers to integrate with new social groups, feel more confident and fulfilled, and maintain their physical and mental skills. However, it should be borne in mind that jobs can also sap an individual's well-being and health, often through poor working conditions and stress. Hence there is a direct link to better working conditions for all, one of the chief goals pursued by the International Labour Organization (ILO).

Future generations of older workers in the major industrialized countries are likely be better suited to working longer than their predecessors. Better qualified and healthier than their parents, they will have the potential to extend their working lives by a few more years.

2.3. Tackling the challenge of atypical employment

Employment is not just essential in enabling social security schemes to meet the challenges of population ageing. It also has a direct bearing on the level of social protection afforded to individuals. Unstable employment, part-time and temporary work, career breaks, unemployment and low wages all increase the risk of not receiving an adequate pension, ultimately perpetuating insecurity of income post-retirement. This trend has been exacerbated by recent reforms to contributory pension schemes, which have strengthened the link between contributions and benefits and, by extension, between people's careers and the income they receive upon retirement.

Securing a stable income during retirement is a particular concern for people in atypical employment and those working in subsistence farming or the informal sector, even more so in developing countries and, increasingly, in middle-income countries. People employed in the informal economy are generally excluded from all public social security schemes and therefore have little coverage for illness, disability, pregnancy, unemployment and old age. Similarly, "new" freelancers, that is employees passed off as freelancers to reduce social security charges, will see their entitlements to benefits drastically reduced. Giving these

workers full access to public social protection schemes would significantly benefit society as a whole. Individual workers and their families would enjoy better protection against life's risks, and increasing the number of people covered by and therefore contributing to social insurance would ensure that the financing of social expenditure was more evenly shared within society. Given the rapid expansion of informal economies in so many countries over the past few years, there is a need to extend social security cover to the workers affected.

If social protection systems are to offer pensioners a sustainable and stable income, they must provide an adequate level of protection to those in atypical employment and the informal economy. A key step in this connection would be to award a basic pension to all people unable to pay in sufficient contributions during their working lives, as recommended in the International Plan of Action on Ageing adopted at the Madrid World Assembly on Ageing. Whether it is part of the general pension scheme or separate, universal pension cover would have to be carefully planned. Clearly, the sums paid out would have to be high enough to enable beneficiaries to avoid the poverty trap and enjoy a decent standard of living.

2.4. Lessons for the future

A whole host of studies have recently been published exploring the ramifications of population ageing, generally looking at 2050. Each has come up with theories on growth rates, the evolution of productivity, the potential for increasing the workforce and labour-market participation, and prospects for higher immigration flows, albeit with vastly different social security implications (Sigg, 2002).

A recent study of the International Labour Office (ILO) (Cichon et al., 2003) suggested that industrialized countries could only achieve a real increase in per capita growth over and above productivity growth by boosting labour-market participation and fostering immigration. If growth forecasts are substantially higher than productivity rates, the number of immigrant workers required will rise dramatically. That would not bode well for host countries, where integration issues might have disastrous social and political consequences, or for home countries, where the brain drain would hamper economic growth. More specifically, econometric forecasts made for the countries of the European Union before its expansion show that, other things being equal, if growth is 0.5 percent higher than productivity, and labour-market participation increases by 15 percent, new immigrants would need to account for roughly 20 percent of the population by 2050.

In summary, the policy implications are that there is no panacea. Immigration alone cannot fill the population gap. Similarly, a massive rise in labour-market participation will help increase employment rates, but will not offset the fall in the number of workers. Higher birth rates are also an option, albeit a long-term one. Ultimately, these and other factors will have to be combined to attain growth levels on a par with those recorded over the past 20 years (in the region of 2-2.5 percent per annum in OECD countries) and provide young and old alike with a decent standard of living. The measures set out below should at least be considered in countries with a particularly poor demographic structure (for example, in mainland Europe):

- Bolster labour-market participation by at least 15 percent, by integrating more non-workers and encouraging people to work longer.
- Agree to share wealth with a significantly higher number of immigrants, who could account for up to 25 percent of the population by 2050.
- Maintain a high rate of productivity increase (roughly 1.5 percent, which has been the average in industrialized countries over the past 20 years), if possible not less than 0.5 percent below economic growth, to be achieved through technological improvements and more efficient work structures.
- Examine family policy options, in particular those that reconcile work and family life, enabling women to have as many children as they want. (Between 1995 and 2000, France increased its birth rate from 1.6 to nearly 2 children, thus proving that higher rates can be achieved).
- Revise purchasing power expectations, which cannot measure up to levels recorded over the past few decades. Real income growth of 1-2 percent might, however, be possible.

Although the outlook is not as bleak as it seems, a radical change of attitude will be required. That is the challenge that population ageing presents over coming years.

3. Addressing the challenges of ageing in low-income and middle-income countries

Most of the issues raised in Section 2 relate to industrialized countries. This may indicate that ageing of the population is seen primarily as a problem of high-income countries where the populations are already relatively old. To date, low-income (LICs) and middle-income countries (MICs) have indeed been assumed to be relatively well protected from these problems, or at least to be spared for some time to come until demographic pressures become more acute. However, nearly all countries, including LICs and MICs, now face mounting socio-demographic pressures. Irrespective of their level of development, countries can ill-afford to ignore the challenges presented by the rapid pace of demographic change. Whereas in OECD countries it took 150 to 200 years for the old-age dependency ratio to double from some 7.5 to 15 percent, in some LICs and MICs it is projected that this ratio will double in less than 50 years. These changes will constitute a very harsh test of the capacity of these societies to adapt, especially in countries with a rapidly declining fertility rate.

Communicable and non-communicable diseases, most notably in the form of the AIDS pandemic and malaria, place further strains on the ability of many societies to cope with the ageing of the population. In cases where the working age population has been decimated the general productive capacity of society is severely reduced and it becomes much more difficult to support children and frail older persons.

In many LICs and MICs contributory social security schemes only protect a small proportion of the population, with coverage being mainly confined to civil servants and

employees in the formal labour market. Workers in informal employment often do not have any access to social protection, and therefore face destitution in the event of the temporary or permanent loss of their earnings capacity. The extension of social security coverage is therefore a vital element in improving the well-being of these workers, especially in the fields of health care and old age pensions. Building effective social safety nets, for example through the institution of basic universal or means-tested, tax-financed old age pensions, can help to prevent destitution for those many, many people with no means of contributing to a social security scheme.

Traditionally, a major asset of many LICs and MICs has been strong family and community networks that offer mutual support to their members. In countries where formal social security schemes are not well developed, these networks can be essential for coping with the ageing of the population, especially since they provide transfers of resources in cash and in kind from the active to the inactive members of the community. The notions of mutual support and reciprocity have been central to the functioning of these relationships. While older people may receive money, nutrition or other goods, it should be recognized that they play an important and irreplaceable role in the family and the community.

But the strength and robustness of family and community networks should not be overestimated. Increased geographical mobility, as a result of urbanization and migration, changing family patterns, diseases, natural disasters, as well as underemployment, poverty and destitution, is placing major strains on the capacity of mutual support networks. It is therefore questionable whether families and communities will continue to be strong enough to cater for all members of society, and it is likely that a growing proportion of the population will be excluded from these traditional forms of support.

Family and community networks are not a substitute for formal social security schemes but, together with such schemes, they constitute an important element of a comprehensive social protection strategy. Formal and informal support mechanisms can be mutually reinforcing. Formal schemes can step in when major contingencies occur that would overstretch self-help capacities, while at the same time strengthening such capacities. A combined approach can therefore provide a basis for social protection that takes into account needs and capacities. A well-balanced approach would offer social security transfers and services to those who are in need, but would take care not to disrupt existing support networks. For example, the provision of child care should not deprive older persons of their role in caring for young children, but it could integrate them in the provision of these services (See Apt, 2002). This is an example of an innovative approach to building social protection in low-income and middle-income countries that is both economically and socially sustainable.

Concerns about the sustainability of old age pensions and health care schemes in industrialized countries should not discourage the further development of social security in low-income and middle-income countries. Using the policy experiences of other countries with similar levels of socio-economic development, LICs and MICs should develop and implement social security policies appropriate to their country specificities. Even if the

possible policy options remain limited, it is increasingly accepted that successful economic development requires the development of a viable social security system.²

3.1 Assessing the coverage gap³

Among the specific issue issues relating to developing countries outlined above, the one that gives rise to most concern is the very low access to social security their populations have. Indeed, at the start of the 21st Century, less than 25 percent of the world's population has access to adequate social security coverage, and no more than half of the population benefits from some form of social protection (van Ginneken, 2002). A close connection can be found between a country's level of economic development and social security coverage. While, at one extreme, OECD countries have "universal" coverage of around 90 percent of the population, at the other extreme, in sub-Saharan Africa and South Asia coverage commonly extends to less than 10 percent of the population.

Further analysis shows a relationship between the level of social security coverage and per capita GDP, the number of people employed in the agricultural sector, the percentage of the economically active workforce who are self-employed, and the estimated percentage of GDP generated in the informal sector. A relationship between the level of social security coverage and whether the social security system is national, or comprised of sector or occupation-based schemes can be observed as well.

It can be said that coverage is generally lower in those countries where demographic ageing is not yet an issue, typically Low Income Countries (LICs). In this sense, such countries arguably have a window of opportunity to improve social security today, while it is more financially viable to do so. In these countries, challenged by health and disease problems, improving social security coverage today is arguably an essential foundation for improving economic productivity, which in turn can ensure sustainable social protection in the future. Extension of social security coverage is therefore a vital issue for developing countries both today, and with an eye to demographic changes ahead.

Where coverage is defined as being in receipt of an old age pension, a study by the International Labour Organisation (ILO, 2000) shows that large proportions of the population in many regions of the world do not enjoy any social protection, or have only very limited cover. While in industrialized countries coverage ranges, from around 70 per cent (e.g. in the UK) to almost 100% per cent (e.g. in Finland) , coverage in MIC countries is estimated to vary between 17 per cent (e.g. in Mexico) and 88 per cent (e.g. in the Czech Republic). In LIC countries, estimates of coverage range from 4 per cent (e.g. in Thailand) to 47 per cent (e.g. in Morocco).

² This is the case for example in many South-East Asian countries, see Gough, 2002.

³ This section is based on a study commissioned by ISSA and reflected in Roberts et al., 2002.

Where coverage is based on whether people of working age currently contribute to pension schemes or are covered by a residence-based or universal scheme, an average of 84 per cent of the current working age population in industrialized countries can be regarded as covered by a state pension. In MIC countries, approximately half of future recipients were covered. In LIC countries, an average 12 per cent of people of working age were contributors to pension schemes of any kind.

While the figures presented for the first two groups of countries show the proportion of people who are covered by the main national pension scheme, they do not show all those who are in receipt of a retirement benefit of one type or another. Each of these countries relies upon a mix of some or all of statutory contributory, non-contributory, non-contributory means-tested and private schemes to provide income security in old age. Ideally, coverage would have been broadly defined in order to include receipt of any eligible benefit for a specific risk. The requirement to work with published data, however, meant that it was not possible to assess the number of people who were actually in receipt of any one of these benefits. Simply summing the numbers in receipt of each benefit for a given risk would risk multiple counting of people.

If survivor benefits, occupational and private pensions and means-tested social assistance are taken into account, it is estimated that each of the industrialized countries provides social security in old age for over 95 percent of the population, while if survivor benefits and social assistance are included it is likely that most people are covered for old age pensions in many of the MIC countries. However, nominally high coverage rates under non-contributory means-tested schemes may disguise actual take-up, irrespective of country.

Describing the recent trends in coverage is difficult, due to the diversity of situations. For instance, coverage by social insurance may be declining in countries like the Czech Republic and Hungary, while coverage for old age in both Mexico and Uruguay either stagnated or declined during the middle and second half of the 1990s. By the end of the decade coverage in Mexico had returned to the level it had been prior to the 1995 economic crisis. However, while Uruguay still had one of the two highest pension coverage rates in Latin America there was a downward trend in coverage between 1999 and 2001 while non-compliance steadily rose between 1996 and 2000.

3.2 Key characteristics of excluded groups

Exclusion is "non-random", there are, across countries, systematic similarities in who is least likely to be covered by social security. Women, migrants, and agricultural and urban informal sector workers are most likely to be excluded. These groups are unprotected largely because of the interface between their labour market position and the role and design of contributory schemes, which lie at the heart of most countries' social security systems. These findings have important implications for the design of policies to extend coverage of social security.

3.2.1 The agricultural and urban informal sectors

The agricultural and the urban informal sectors present particularly acute challenges to those seeking to extend coverage of social security. Half of the world's labour force is employed in agriculture, while over the past two decades, globalization and structural adjustment have increased employment in the informal sector in all regions of the world (Charmes, 2000).

Even where agricultural and informal urban sector workers have rights and entitlements to social security, low educational qualifications and lack of trade unionism may prevent some groups accessing their rights. Many informal sector employers avoid paying contributions for their employees, while in many LIC countries, the state does not have effective institutional mechanisms to detect, affiliate and collect contributions from self-employed, micro-enterprise and informal sector workers.

Where schemes are available on a voluntary basis, the proportion of those who join is often very low. This may be because many workers in the agricultural and urban informal sectors have immediate needs for food, shelter and clothing and may be unable or unwilling to set aside a relatively high proportion of their current incomes to meet future needs. Many may lack coverage because of fluctuations in their incomes. The absence of a contributing employer may also reduce the incentive of self-employed workers to contribute.

3.2.2 Women

Coverage for old age pensions has an important gender dimension. Only in universal schemes are retired women as likely to receive a pension as men. A partial explanation for the high coverage rates for women in some countries may lie with contribution credits granted in those countries to people who are temporarily outside the workforce. In most MIC countries, men were about one-third again as likely to receive an old age pension as women, whereas in industrialized countries, men were about one-quarter again as likely as women to receive a pension. Amongst LIC countries, in the few cases where male and female figures were available separately, men were almost four times more likely to receive a pension than women.

3.2.3 Migrants

Another group of people who may be disproportionately represented among informal workers are migrants. In some cases migrants may not be legal residents and consequently may not have any entitlement to benefits. However, many countries have nationality or residence conditions attached to at least some old age pensions or healthcare services that may exclude migrants who are legally resident. Those who are not excluded by nationality and residence conditions may have work histories that do not conform to the long-term formal sector employee model and may not have not paid sufficient contributions to build up an entitlement to a full pension. Migrants may be discriminated against and may also be reluctant to assert their rights.

3.3. Policies to extending coverage

Policy-makers tasked with extending the scope of coverage must decide which programmes or combination of programmes are likely to best meet the aim of providing social security for all parts of society and foster institutions at the national, local and community level that are able to deliver the selected benefits and services.

3.3.1. Choice of programme

While contributory systems may provide a high level of protection for members, they are exclusive and not open to outsiders. Our findings show that the contributory social insurance model developed in Europe, based on employment status where individuals have an earnings and employment record, has proved to be ineffective in extending social security beyond the urban elites in LIC and some MIC countries where agriculture remains labour intensive and the urban economy is largely informal. These findings have important implications for the extension of social security coverage, suggesting that it will be necessary to move beyond conventional social insurance to expand coverage to groups that are currently unprotected.

Options to extend social security coverage to unprotected groups include:

- **Tighten the link between benefits and contributions**

The direction of policy in some countries recently has seen a tighter link between benefits and contributions as they introduce multi-pillar systems with a large defined contribution component usually accompanied by a modest redistributive public pillar. It is argued that this tighter link is a precondition for financially sound expansion of coverage, ensuring that revenue covers obligations and so making the system more sustainable for those who are included (James, 1999 and World Bank, 1994).

While proposals to increase the availability of second and third tier pensions may provide greater security and maintain high income levels in retirement for those in stable, formal employment situations, it is very unlikely that these policies will be more inclusive of groups who are currently legally or de facto outside the scope of existing provision. Indeed, where such schemes are expanded at the expense of basic state pensions, they may even increase the numbers of people who are without social security coverage.

- **Modify the contributory principle**

The findings show that contributory insurance schemes, in their current form, do not work for large sections of the population in many countries. Coverage of contributory schemes could be extended to groups who are presently excluded by reducing contributions rates that are unaffordable to many people with low incomes, and amending entitlement conditions to take into account the particular circumstances of selected groups such as the self-employed and domestic servants, women and migrants. Policies that are likely to improve pension coverage for women will modify contribution requirements and ensure that schemes provide adequately for survivors. For migrants the contributory principle could be modified similarly to women, for example to allow migrants to select "best years" contributions. This option

requires contributors or the state to subsidise previous non-contributors and requires them to be perceived as legitimate claimants by contributors and/or taxpayers. So it may be more difficult to extend this approach to groups that are often perceived as "outsiders", such as migrants.

- **Move beyond the contributory principle**

Another option, which may be specifically combined with either of the two previous options, is to introduce a tax-financed safety net to help cover the gaps that arise in a contributory scheme. It has been suggested that the Australian means-tested system provides a model for countries that cannot afford or do not wish to go down the social insurance route. However, there is evidence from several countries that means-tested social assistance does not always reach the intended population and that nominally high coverage rates under non-contributory means-tested schemes may disguise actual take-up. Non-take up of means-tested benefits may exclude more women than men.

- **Universal entitlement**

For those seeking to close the coverage gap, universal non-contributory schemes are of major interest in principle because by definition they cover the whole target population and can therefore make a major impact coverage rates, particularly in middle income developing countries (as seen in Namibia, Samoa and Botswana, for example). The role that such schemes can play in both rapidly extending social security coverage and alleviating poverty is gaining wider international interest. The key issue for policy-makers is how best to deliver and, crucially, finance such schemes on a sustainable basis. India, South Africa and a number of Latin American countries such as Brazil are operating such schemes but on a means-tested basis, intended to keep costs down and reduce any deadweight that may have resulted from supporting those who already have sufficient individual resources. (In practice, however, high administrative costs and non-take up may nullify these advantages).

3.3.2. Administrative capacity and governance

When considering policy options the state's capacity for intervention is crucial. In Industrialized countries and to a varying degree in MIC countries, the state has the institutional capacity to collect taxes and contributions which provides the scope to extend existing public based coverage to excluded groups.

However, in LIC countries the state's capacity to collect taxes and contributions and to deliver benefits and services is much smaller. From this perspective universal benefits and services may be the most realistic choice of policy instrument for extending coverage as they require far less administrative machinery than contributory or means-tested benefits and services. Nevertheless, whatever the choice of programme, it will be necessary for LIC and some MIC type countries to build the capacity and commitment of the state to gather taxes and contributions and deliver benefits and services to the target populations.

It may be particularly difficult to deliver healthcare services to isolated rural areas due to low population density and dispersion, lack of infrastructure and medical professionals,

illiteracy, language and ethnic barriers, cultural prejudices against modern medicine, and lack of trust of the user in the quality of the services available. Good governance is crucial to the effective and efficient use of resources and to gain confidence in the credibility and integrity of the programme. There are examples of good practice within MIC countries. For example, specific strategies of reforms in Costa Rica include improving governance by increasing the participation of the community in decisions about health policy at the local level, while at the same time lowering the cost of providing basic healthcare services by improving the coordination of relevant agencies.

3.4. Options for the future⁴

If the policy aim is to extend social security to all parts of society, then policy-makers must decide which programmes or combination of programmes are likely to best meet the aim. The direction of policy in some countries is to replace social security programmes which exhibit a redistributive element, with programmes with direct equivalence between individual contributions and benefits.

If the policy aim is to extend coverage, it is very unlikely that this is route will be successful. Our findings suggest a link between funding method and coverage: coverage appears to increase the further the scheme moves away from a direct equivalence between individual contributions and benefits and towards a social security scheme that redistributes resources.

The relationship between redistribution and coverage is perhaps not all that surprising. While schemes that are based on equivalence between individual contributions and benefits can provide security in old age and sickness for "insiders" they are closed to those who may need social security the most. In many cases it is not feasible to bring the excluded within the scope of contributory benefits. Providing adequate social protection for these groups will necessitate a complete or partial decoupling of contributions and benefits and a redistribution of resources.

In some parts of the world the coincidence of limited financial resources with large scale need conspire against implementing an effective universal social security system. In the general and likely continuing absence of universal solutions, especially in lower-income developing countries, the short- to medium-term task at hand appears to be one of examining all possible avenues for building creative organizational linkages between existing contributory and non-contributory social security programmes and other forms of voluntary social protection to increasingly provide at least a basic degree of security. In the longer-term, and labour market conditions permitting, the policy objective must remain one of significantly increasing the numbers of people covered by, and guaranteeing the right to benefits under, mandatory social security. To this end, all efforts that aim to promote more stable and more secure patterns of employment globally should be encouraged. By raising

⁴ For more detailed proposals, see McKinnon, 2005.

productivity, the improvement of employment prospects will also help to secure the sustainability of social security in the longer term.

Is this a feasible route for low- and middle-income countries in today's global economy? Heater (1990) argues that the growing economic and monetary interdependence of the world undermines any argument for operating a policy of distributive justice within the strict confines of the nation state:

"If economic mechanisms are transnational, so too should be economic justice."

The key political challenge that closing the coverage gap poses is to secure legitimacy at both the national and the global level for the sharing of risks and redistribution of resources so that a commitment can be made to providing and maintaining social security for all, not just a few. One such example is the Global Social Trust initiative suggested by the ILO (see Cichon, 2003).

4. Concluding Remarks

Population ageing will unquestionably be one of the key factors shaping social and economic development across the world over the next few decades. Each society will need to find a viable adjustment strategy. The Second World Assembly on Ageing, held in Madrid in 2002, underscored the active role that older people can play in society. Active ageing is increasingly portrayed as a promising model for the future. The idea, which has been popular for some time now, acknowledges the contribution that senior citizens make to society and promotes their active involvement in all areas.

The World Health Organization (WHO) defines active ageing as:

“The process of optimizing opportunities for physical, social and mental well-being throughout the life course, in order to extend healthy life expectancy, productivity and quality of life in older age.”

One of the cornerstones of active ageing is employment, in the broadest sense of the term, in other words including unpaid activities, community work, helping to raise children, involvement in charities, etc. Active ageing has a direct impact on an individual's health and physical and mental well-being. The strategy is mainly geared towards social integration, but also seeks to foster autonomy, dignity and freedom. It is worth noting that active ageing is relevant for all age brackets, not just older citizens.

Increased life expectancy will become the hallmark of our societies in coming years, often in line with the economic development of countries. In “long-life societies”, people will switch between paid employment and voluntary work throughout their lives and will be more active in old age than previous generations.

Social security should be an integral component of any active ageing strategy, to ensure an adequate standard of living for all those unable to earn an income, owing to age, disability, poor health or other constraints. Pension levels should be ample and stable

enough to enable older people to live out their final years free from financial worries. That is a pre-requisite if they are to remain in employment or active and useful to society. However, it is equally important that they be fully integrated into society, enjoy the same rights as other citizens and have access to health services and high quality, long-term care. In this connection, there is some doubt as to whether the current trend towards greater individual responsibility, in particular shifting cost to the individual, will guarantee a sufficient degree of social protection to provide the standard of living required for a full, active and socially useful old age.

A long-life society must cater for young and old alike. Population ageing makes it more important than ever to provide families with decent conditions in which to raise and educate their children. More specifically, families should be guaranteed the financial resources needed to shield them from poverty and give them access to education, health-care, and childcare facilities. Economic globalization makes spending on education an even more crucial investment for a country's competitiveness and productivity over coming years.

Education should increasingly be perceived as an investment, in both a country's economy, since it improves workforce qualifications, and its citizens, who earn a decent wage and are ultimately able to secure better social protection. Education should be a permanent feature of a long-life society, enabling people of all ages to remain fully fit for work and, in due course, be more active and autonomous in old age.

The real quest over the next few years will be to devise an integrated strategy to tackle impending social and demographic changes. The strategy needs to be based on a realistic assessment of the situation. Population ageing affects a wide range of policy areas, including the labour market, economy, education, social security and health. These areas are generally managed by a variety of stakeholders reporting to different ministries, guided by their own specific rationale. For example, many countries have introduced policies enabling employers to encourage early retirement as a way of reducing staff levels. However, early retirement undermines efforts to curb pension spending. An integrated strategy would seek to avoid such inconsistencies and foster a coherent, efficient approach in future.

Social security institutions might find it even more difficult to achieve an integrated approach. A range of different funds and government departments are often involved in areas such as old age, disability, unemployment and family, making it hard to ensure a coordinated or coherent attitude towards the people concerned. A number of trials involving one-stop-shops and using current information technology resources prove that some degree of integration is possible and very much in the interests of both scheme members and other social security beneficiaries.

Time and again, societies have proven their remarkable ability to adjust to change, and there is no reason why they should not do likewise in respect of population ageing. Adjustment could be made easier by focusing on policies to bolster employment and productivity, with due regard for the needs of all population groups. Only in this way can we guarantee citizens of all ages a just and fair society.

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