



United Nations

Department of
Economic and
Social Affairs

Leaving No One Behind In An Ageing World

World Social
Report 2023



DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS

WORLD SOCIAL REPORT 2023:
LEAVING NO ONE BEHIND
IN AN AGEING WORLD



**United
Nations**

CHAPTER 4

AGEING, POVERTY AND INEQUALITY, NOW AND IN THE FUTURE

KEY MESSAGES

- Old-age pensions and access to health care are critical in reducing poverty and inequality among older persons. But they are not sufficient on their own. Ensuring economic security and health for all in old age calls for promoting equal opportunity from birth, including through universal access to health care and education as well as opportunities for decent work.
- Investments in decent work are paramount. Decades of wage stagnation are jeopardizing people's ability to save enough to support themselves in older ages. Informal employment and various non-standard forms of employment limit workers' social protection coverage and their contributions to public revenues.
- Without swift policy action to prevent it, future cohorts of older persons are likely to be economically more unequal than those today. With growing numbers of older persons in all regions, inequality and economic insecurity at older ages should be rising causes of concern.
- While worries over fiscal sustainability have dominated pension reforms, pension benefits are still too low in many countries and beyond the reach of some groups. Inadequate investment in economic security at older ages risks jeopardizing progress in reducing poverty among older persons. It may diminish the well-being of future cohorts of older persons and further undermine already shaky trust in Governments.
- Not everyone has benefitted equally from the advances in health and living conditions that drive population ageing. Many of today's older persons are in good health. Others live with multiple ailments or severe disability. Some are economically active and enjoy income security but many live in poverty. Some have strong social ties. Others lead isolated lives. Population averages conceal these inequalities and the diverse needs and abilities of older people.

Inequalities do not emerge suddenly at older ages. They follow and feed on people's different experiences throughout their lives. A person's country of birth, family, education, employment path and social networks affect well-being in later life, as do gender, ethnicity and other characteristics. Advantages or disadvantages in access to opportunities and resources can reinforce each other at any point. Prolonged unemployment, for instance, has negative impacts on health and social networks. Poor health and limited social networks, in turn, constrain employment opportunities. From a policy perspective, it is important to understand the influences across the life course that underlie inequalities in later life, and how different national and local contexts shape this process.

Inequalities evolve over a single generation and from one generation to the next. On average, today's youth are healthier and more educated than prior generations. Progress in education is likely to continue among future generations, despite the disruptions of the COVID-19 crisis. Younger people today are expected to live longer and make important contributions to society, including at older ages. Yet growing uncertainty and economic insecurity mar their transition to adulthood. Examining the labour market characteristics of successive cohorts of youth, working-age adults and older persons across countries as well as inequality trends across cohorts sheds light on ongoing changes with implications for the future of ageing.

This chapter illustrates how diverse ageing paths drive disparities in old age within and between countries, with a focus on poverty and income inequality. It uses cross-coun-

try evidence to explore how public policies can influence economic well-being at older ages.²³ Even countries that have made progress in improving the opportunities and quality of life of women and men as they grow older,²⁴ however, are far from ensuring that no one is left behind.

A.

POVERTY, INEQUALITY AND EXCLUSION IN OLD AGE: A SNAPSHOT

1. POVERTY RISKS CAN RISE WITH AGE

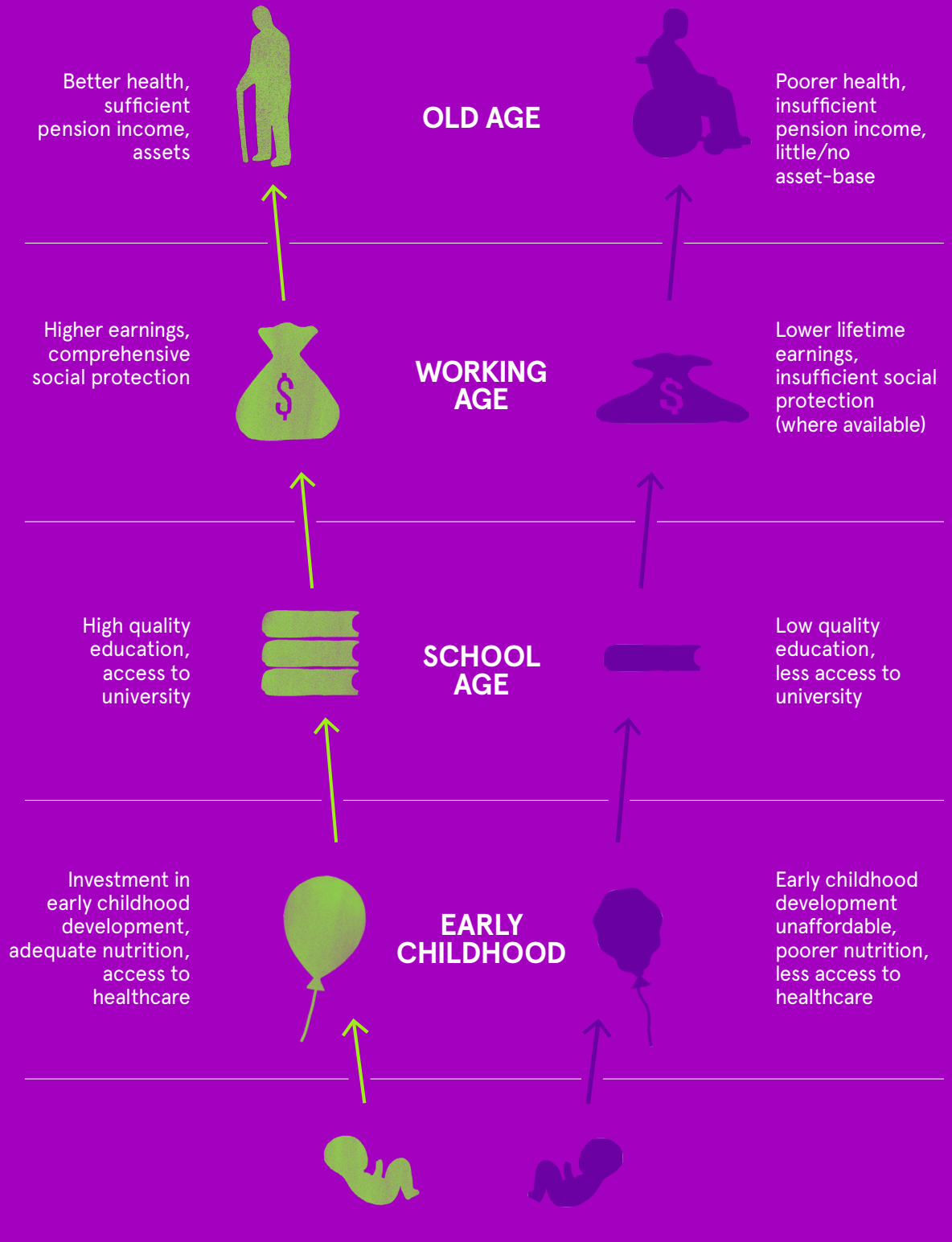
Reducing poverty among older persons is a core objective of the Madrid International Plan of Action on Ageing. Older people face particular risks of falling into poverty. At some point, most begin to work less or stop working altogether due to health reasons or family responsibilities, or because they are obligated or wish to retire at a statutory retirement age. Discrimination may undermine further employment. While many older persons remain productive, their economic well-being depends on the availability of public income support, affordable health care, family support and personal savings to a greater extent than for the working-age population.

Despite the policy relevance of detailed, disaggregated poverty information, including for SDG monitoring, there are few

23 The chapter's findings are based on microdata analyses using the LIS Database, which covers numerous developed and developing countries, and the Gateway to Global Aging data platform.

24 The Madrid International Plan of Action on Ageing refers to this as "building a society for all ages".

UNEQUAL AGEING ACROSS THE LIFECOURSE



cross-country, comparable estimates of the prevalence of poverty among different population groups, including older persons. Box

4.1 describes the methodological challenges affecting the reliability and comparability of poverty data by age.

BOX 4.1

CHALLENGES IN MEASURING OLD-AGE INCOME POVERTY

Measuring poverty and inequality remains a difficult task. Most estimates rely on household survey data that are not regularly available in many developing countries and that are not fully comparable across countries or over time. In terms of poverty data disaggregated by age, one major constraint of household surveys is that they do not provide information on the actual distribution of income or consumption within households. Without detailed individual data, it is often assumed that income and other resources are shared equitably among household members. All older persons living in households where pooled income or consumption are above the poverty line are therefore considered to live above the poverty line and vice versa.

Evidence suggests that the intrahousehold distribution of resources is not always equitable, however. In some settings, older persons (especially older women) and children have lower levels of economic well-being than other household members, particularly when resources are limited (Brown, Calvi and Penglase 2021; de Vreyer and Lambert, 2020). Further, the needs of individual household members vary. While older persons may have lower energy requirements than working-age adults, they more often live with disabilities and therefore incur higher costs to achieve the same standard of living (WHO and World Bank, 2011).

Assuming intrahousehold equity in the distribution of resources, income (or consumption) is often divided by the number of household members to adjust for household size in poverty calculations. This per capita equivalence scale does not consider that some costs are fixed regardless of household size. Namely, the costs of energy or housing do not increase proportionally with each additional household member. Other equivalence scales, such as the square root scale used in this report, take economies of scale into account. A wide range of equivalence scales, including those used by the OECD, adjust for assumed lower resource needs among children.

Intrahousehold inequalities, the equivalence scales used and other methodological choices (including the use of income versus consumption data to measure poverty) affect the reliability of estimates of old-age poverty. Whether child poverty estimates are higher than old-age poverty and by how much depends on the equivalence scale used, for instance (Gelders, 2021). While there are no easy ways to address these challenges, the underlying assumptions must be made explicit and their impact systematically assessed. Additional research is needed to account for intrahousehold inequities in the distribution of resources and the ways in which these affect older people.

Taken at face value, scarce cross-country estimates suggest that levels of extreme income poverty are lower among older persons than among children and even the working-age population. In one of the most comprehensive efforts to provide a global demographic profile of people living in extreme income poverty using harmonized survey data, Castañeda and others (2018) estimated that the percentage of persons aged 65 or above living on less than \$1.90 a day around 2013 (7 per cent) was below that of the working-age population (from 10 per cent for those aged 25 to 34 to 7 per cent for those aged 55 to 64) and much lower than for children (20 per cent).²⁵

Whereas extreme poverty is increasingly concentrated in some developing regions, particularly sub-Saharan Africa and Southern Asia, other measures of poverty are relevant for countries at all income levels. In most developed countries, for example, poverty is not measured in absolute terms. Instead, the poverty line is set as a proportion of each country's mean or median income.²⁶ The proportion of people living below 50 per cent of each country's median income, disaggregated by age, sex and disability status, is part of the SDG global indicator framework.²⁷

Findings based on a new series of estimates of relative poverty by age, covering 49 countries, including 20 developing countries, differ somewhat from those based on absolute extreme poverty measures (figure 4.1). They suggest that older persons live in relatively poor households more often than working-age people (aged 25 to 64 in this case), as do children (aged 0 to 14) and youth (aged 15 to 24).²⁸ Relatively lower incomes, combined with fewer opportunities to participate in the labour market, can make older persons more economically insecure and vulnerable.

Differences in relative poverty between the working-age population, older persons and children tend to be larger in developing than developed countries. In the latter, comprehensive social protection systems, including more generous public pensions and broader coverage and access to health care than in developing countries, have been successful in addressing economic insecurity at older ages. In developing countries, age-related differences in relative poverty are larger even though more older people live in intergenerational households, which should help to protect older and younger members from falling into poverty in times of crisis.

25 Based on the World Bank's Global Micro Database, which contains harmonized household survey data for 89 low- and middle-income countries. The estimates are based on the international poverty line of \$1.90 per day using 2011 PPP conversion rates and a per capita equivalence scale.

26 The use of relative poverty measures is increasingly common, including in regional and international organizations. The World Bank, for instance, has introduced a relative (or "societal") poverty line to its set of estimates (Jolliffe and Prydz, 2019). These relative measures, including the one used in this chapter, are tailored to country circumstances. They reflect the fact that different countries have different standards for basic needs, namely, higher expenditure may be deemed necessary to cover such needs in a rich country than in a poor one. The main limitation of relative measures is that they rely on a different yardstick to assess poverty in each country, effectively treating individuals differently depending on their country of residence. Half of the median income is close to or even below absolute (extreme) poverty in some low-income countries and way above extreme poverty in high- and even middle-income countries. Considering this limitation, relative poverty measures are used here to compare poverty levels by age and across different groups within countries but not to compare well-being across countries.

27 See indicator 10.2.1, the only indicator for SDG target 10.2 (by 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status). The SDG indicator database does not currently contain information on indicator 10.2.1 disaggregated by age, sex or disability status. See <https://unstats.un.org/sdgs/dataportal> (accessed on 27 July 2022).

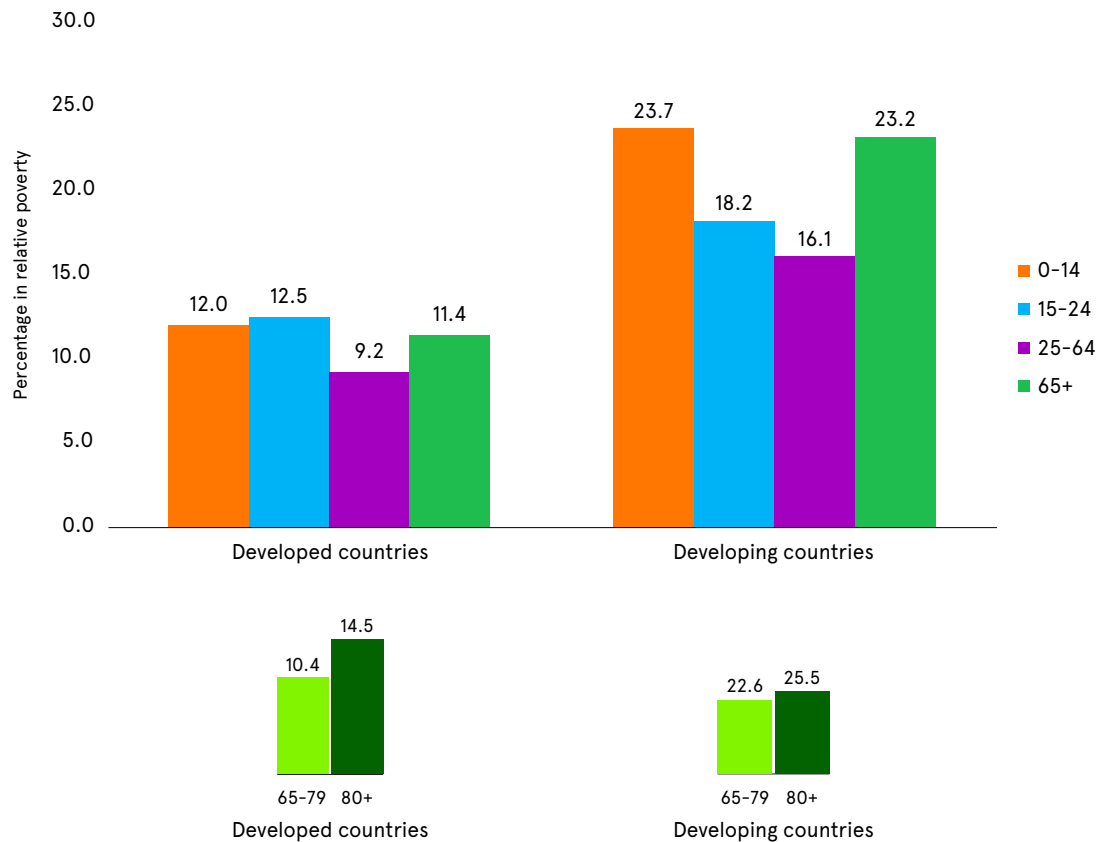
28 The estimates are based on a relative poverty line of half of the median income of the total population. This threshold is also used by the OECD, which calculates estimates using similar assumptions (see <https://data.oecd.org/inequality/poverty-rate.htm>). The series in figure 4.1, which is based on harmonized income survey data, covers a larger number of countries (49, including 20 developing countries) than the OECD.

In all regions, people aged 80 years or older, the majority of whom are women, face the highest risk of relative poverty among all age groups. They are more likely than people in younger groups to be widowed and to live alone, two features that affect their economic vulnerability. They also participate less in the labour market and are not as well covered by public pensions as those aged 65 to 79. In Latin America and the Caribbean,

for instance, the percentage of persons who neither worked nor received a pension was higher among people aged 70 or over (37 per cent) than among those aged 60 to 64 (25 per cent) or aged 65 to 69 (29 per cent) around 2016 (ECLAC and ILO, 2018). Moreover, the share of those aged 70 and older who did not work or receive a pension was much higher among women (48 per cent) than among men (13 per cent) (ibid.).

Figure 4.1

Share of the population living in relatively poor households by broad age group, late 2010s (or latest year with data)



Source: Calculations based on data from the LIS Database (multiple countries; surveys conducted between 2010 and 2020). Available at www.lisdatacenter.org.

Note: Estimates are based on a relative poverty line of 50 per cent of the median income of the total population. They are calculated using harmonized survey data on disposable household income, reported at the individual level, for 20 developing countries (3 in Africa, 7 in Asia, and 10 in Latin America and the Caribbean) and 29 developed countries. The calculation of individual-level income is based on a squared root scale. Disposable income includes labour income, capital income, pensions, public social benefits and private transfers minus income taxes and social security contributions.

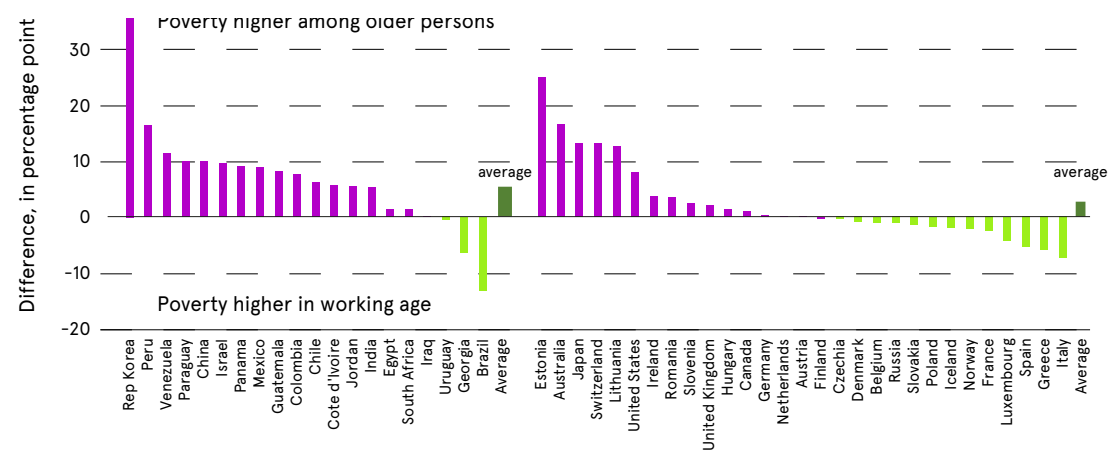
Differences in the prevalence of relative poverty by age vary substantially across countries (figure 4.2). The Republic of Korea stands out for having much higher levels of relative poverty among older persons than among the working-age population. Declines in family support, linked to changes in living arrangements and a rapid increase in the number of older persons living independently, have not been countered with adequate public pensions and other social protection measures (Ku and Kim, 2020; OECD, 2016). At the same time, younger cohorts have benefited from the country's fast economic transformation and rising levels of education much more than older persons in this rapidly ageing country. By contrast, Brazil's social protection system plays a major role in keeping older persons out of poverty and reducing inequality at older ages, including through the Benefício

de Prestação Continuada, a social assistance transfer for older people and people with disabilities living in poor households, and Previdência Rural, which includes informal workers (Barrientos, 2021; Tramuja Vasconcellos Neumann and Albert, 2018).

Across developed countries, there is some correspondence between public spending on pensions and the old-age poverty gap. Pension spending is below the OECD average in most countries that, according to figure 4.2, suffer from relatively high old-age poverty.²⁹ Australia's spending on pensions (3.9 per cent of GDP in 2019) is just over half the OECD average (7.7 per cent of GDP). Estonia's pension system has one of the lowest net replacement rates in the European Union.³⁰ By contrast, pension spending is above 10 per cent of GDP in France, Greece, Italy and Spain.

Figure 4.2

Differences in relative poverty rates between older and working ages, selected countries, 2018 (or latest year with data)



Source: Calculations based on data from the LIS Database (multiple countries; surveys conducted between 2010 and 2020). Available at www.lisdatacenter.org.

Note: See note on figure 4.1.

29 See the OECD pension spending indicator at <https://data.oecd.org/socialexp/pension-spending.htm> (accessed on 11 April 2022).

30 Net replacement rates are defined as an individual's net pension entitlement over her or his net (disposable) income before retirement.

With growing numbers of older persons in both developed and developing countries, high levels of economic insecurity should be a rising concern. Longer life expectancies and policy reforms that reduce future retirement income could exacerbate these trends. They may even jeopardize the general health and economic improvements observed among older persons in developed regions in recent decades.

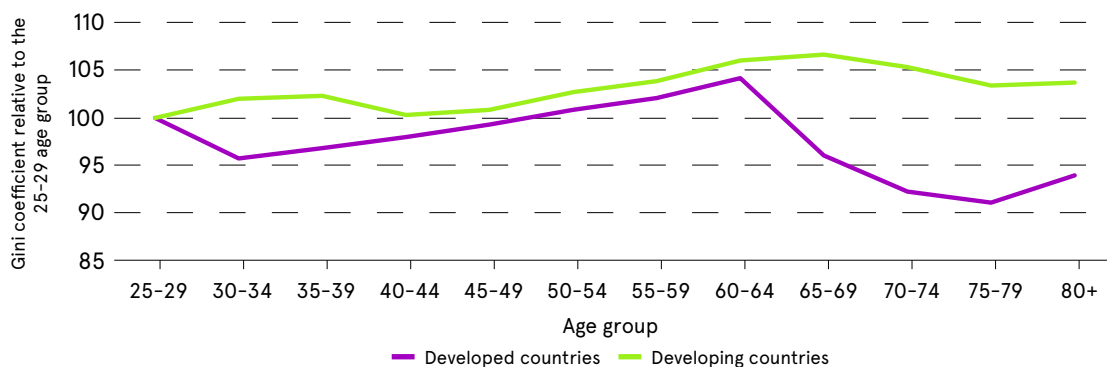
2. INEQUALITY NEED NOT INCREASE IN OLD AGE

Poverty snapshots by age conceal large and persistent inequalities within each age group. Overall, the shape of the age-specific disposable income inequality curve, which is used to compute the Gini coefficient, differs substantially between developing and developed countries (figure 4.3). Inequality is higher among older persons than among working-age people in developing countries but lower in developed countries. In the 18 developing countries included in this analysis, inequality is higher among people aged 65 to 69, on average, than in any other age group. This occurs despite the fact that people at the bottom of the income distribution tend to die earlier, on average, a selection effect that should push inequality down as people grow older.³¹ In developed countries, by contrast, a precipitous drop in inequality starts around age 65.

With growing numbers of older persons in both developed and developing countries, high levels of economic insecurity should be a rising concern

Figure 4.3

Gini coefficient by age, selected developed and developing countries, 2018 (or latest year with data)



Source: Calculations based on data from the LIS Database (multiple countries; surveys conducted between 2010 and 2020). Available at www.lisdatacenter.org.

Note: The figure shows the Gini coefficient of equivalized disposable household income. Income values are top and bottom coded. Estimates by age relative to the Gini coefficient at ages 25 to 29 are based on information for 29 developed countries and 18 developing countries (3 in Africa, 5 in Asia and 10 in Latin America and the Caribbean).

31 Cohort effects may influence age-specific Gini coefficients. That is, inequality may have been systematically higher among people in older cohorts throughout their lives. Levels of inequality have increased across successive cohorts in most countries, however, as discussed below. Cohort effects alone probably do not explain the rise in inequality over people’s work lives or the sudden decline in developed countries after ages 60 to 64. Longitudinal studies support the finding that inequality tends to increase with age within cohorts, especially during people’s working lives (Hungerford, 2020; Crystal, Shea and Reyes, 2017; Deaton and Paxson, 1994).

The sudden drop in inequality starting at around age 65 in countries that, overall, have comprehensive social protection systems, including public pensions and other public old-age transfers, suggests that these play an important role in curbing income inequality in old age.³² In general, pension entitlements are less unequal than wages in countries with broad coverage (OECD, 2013, 2015, 2017; Bosch, Melguizo and Pagès, 2013). Replacement rates are higher for people with lower wages; tax-based pensions provide an income floor for the lowest earners. In countries without comprehensive social protection systems, the redistributive role of public pensions is absent, and inequalities over the life course persist at older ages.

The sudden drop in inequality starting at age 65 in countries with comprehensive social protection systems suggests that these play an important role in curbing inequality in old age

3. SAVING FOR OLD AGE STUMBLES OVER MULTIPLE OBSTACLES

Wealth assumes an increasingly important function for economic security throughout old age. Individuals and households use wealth accrued throughout their lives, including physical assets such as homes or land and financial assets, to finance

consumption and withstand shocks once they stop working. The distribution of household wealth is typically more unequal than the distribution of income within and across countries (United Nations, 2020d).

About 46 per cent of adults save for old age in high-income countries, compared to 16 per cent in middle- and low-income countries.³³ These disparities reflect people's varying capacities to accrue wealth based on their incomes and their unequal access to asset markets. In 75 countries, women's property rights are still restricted, for instance (World Bank, 2019). Even without legal obstacles, there are substantial inequalities in access to and use of financial services, including in old age. A lack of financial literacy, limited digital capabilities, illiteracy (especially in developing countries), discrimination, and the absence of financial services, products and digital infrastructure affect some groups of people more than others.

Given the challenges in measuring household and individual wealth, even more so if the focus is on differences by age, estimates are not widely available. Figure 4.4 shows wealth levels by age among people living in relative income poverty and those living above the poverty line in eight developed countries with available data (Australia, Canada, Finland, Germany, Italy, Norway, the United Kingdom and the United States).

Average household wealth typically rises with the age of the household head up to the official retirement age, when older persons start to spend their savings or

³² Differences in living arrangements between more and less developed countries may also play a role. In settings where the co-residence of older persons and working-age adults is still common, mostly in countries in developing regions, the disposable income of households of older persons reflects inequalities during working ages to a greater extent than in settings where intergenerational co-residence is less common.

³³ World Bank, Global Findex database. Available at <https://www.worldbank.org/en/publication/globalfindex>.

else stop accruing assets and the burden of liabilities declines. There are large gaps in wealth between people living in relative income poverty and those with incomes above the relative poverty line, however. These differences increase up to ages 70 to 74. Gaps in wealth widen among survivors despite the fact that the poorest people tend to die earlier than people with higher incomes and more wealth.

The composition of wealth matters as well. Non-financial assets constitute a large share of wealth owned by older persons with low incomes in the eight developed countries with data (see annex figure 4.1.1). Their main residence, vehicles and other non-liquid durables and valuables make up 90 per cent of these non-financial assets. Spending down these assets to finance consumption is challenging, particularly for older persons in poverty, who for the most part can hardly downsize their homes.

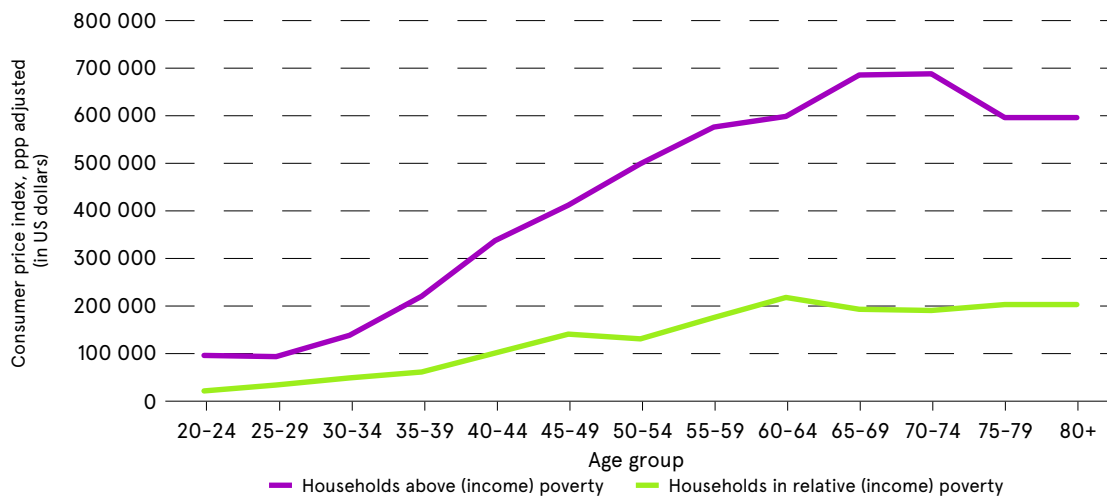
4. GENDER DISPARITIES MAKE OLDER WOMEN POORER

Inequalities between men and women persist into old age. Economically, women’s lower levels of formal labour market participation, shorter working lives and lower wages during working years lead to more economic insecurity in later life. As a result of longer life expectancies, older women are also more likely than older men to be widowed, less likely to remarry following widowhood and more likely to live alone, three features that contribute to their economic insecurity, especially by age 80 or beyond.

In developed countries with data, higher levels of relative poverty among older persons compared to people of working age are due to greater poverty among older women (see figure 4.5.A). In developing countries with data, relative poverty is higher among women than men at all ages (figure 4.5.B).

Figure 4.4

Household wealth by age, selected developed countries, 2019 (or latest year with data)

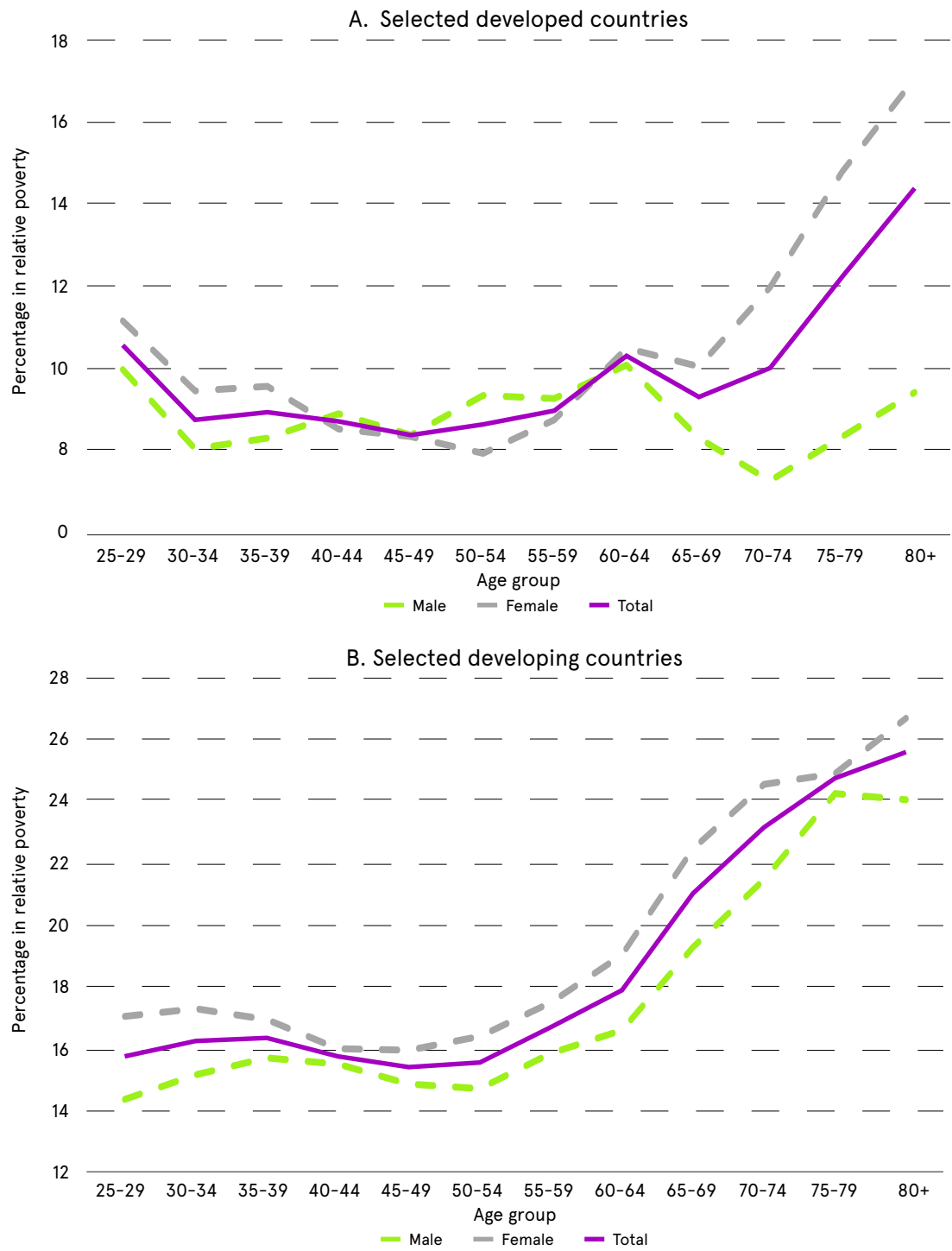


Source: Calculations based on data from the LIS Database (multiple countries; surveys conducted between 2010 and 2020). Available at www.lisdatacenter.org.

Note: Estimates are calculated using harmonized survey data on wealth reported at the household level for eight developed countries (Australia, Canada, Finland, Germany, Italy, Norway, the United Kingdom and the United States). Households in relative poverty are those living under 50 per cent of the median income of the total population. Estimates of household wealth include financial assets except pension assets and non-financial assets minus liabilities.

Figure 4.5

Share of the population living in relative poverty by age and sex, late 2010s (or latest year with data)



Source: Calculations based on data from the LIS Database (multiple countries; surveys conducted between 2010 and 2020). Available at www.lisdatacenter.org.

Note: See note on figure 4.1.

While retirement benefits and old-age transfers should reduce old-age poverty in countries with strong social protection systems, the gap in pensions between men and women is substantially higher than the gender pay gap, at least in the OECD countries (OECD, 2019). Older women are more likely to have worked in lower-paying jobs than men. Because of the unequal distribution of care and domestic work, as well as their reproductive roles, women also have shorter working careers and lower pension incomes even as they spend longer periods in retirement. Some countries have recognized these differences in pension entitlements. A growing number of countries in Europe offer caregiver credits for public, tax-funded pensions, for instance (Gerlinger, 2018). Expanding access to tax-funded old-age pensions and reducing requirements for access to contributory schemes have also helped women.

However, pension systems are not a silver bullet to close gaps in old-age poverty that result from the wider inequalities that women and other disadvantaged groups confront throughout their lives. Addressing these disparities requires more comprehensive life course approaches, including social, employment and family policies.

5. OTHER DIMENSIONS OF OLD-AGE EXCLUSION

While older persons do not always fare worse than younger people economically, they face spatial and social barriers that exacerbate the risk of social exclusion.³⁴ The fact that disability grows with age but

supportive infrastructure is often insufficient limits autonomy, mobility and access to spaces, markets and services. Surveys have found that older persons report lower life satisfaction, fewer social interactions and less social support than working-age adults (OECD, 2020a). Against a backdrop of age discrimination, they also express a lack of agency or control over their lives and feel that they are not treated with dignity or respect (WHO, 2021a). Across Europe, more than one in three people aged 65 years or older reported being a target of ageism (Abrams and others, 2011). A meta-analysis of 52 studies across 28 countries suggested that one in six older persons has suffered from some form of elder abuse, a problem exacerbated by the pandemic (Yon and others, 2017).

Older persons report lower life satisfaction, fewer social interactions and less social support than working-age adults

For employed older workers who can afford to retire or are forced to do so, leaving the labour market often leads to shrinking social networks (Kauppi and others, 2021; Patacchini and Engelhardt, 2016). It also means losing a source of social identity and social acceptance. Older people who remain in the labour market, however, often report high levels of job insecurity and discrimination (Ayalon and Tesch-Römer,

³⁴ Defined as a state in which individuals are unable to participate fully in economic, social, political and cultural life (United Nations, 2016).

2018; Phoenix and Parravani, 2019; OECD, 2020a). Cross-country evidence shows that employers are less likely to hire older than younger applicants for the same position and that, once employed, older workers have less access to training (Chang and others, 2020; Lahey, 2006).

Social connections are important for people's well-being and health. Compared to younger people, older persons report fewer social interactions and a lack of social support in times of crisis. In OECD countries, older people are almost three times more likely than young people to say they have no friends or family members to turn to for help in an emergency (OECD, 2020a). The COVID-19 crisis ex-

acerbated social isolation among older persons, particularly at its onset (see box 4.2). Digital technologies and new media platforms allowing connections with family and friends may reduce social isolation to some extent. Yet a persistent digital divide in accessibility and usability may exclude older people from yet another sphere of social life.

A persistent digital divide in accessibility and usability may exclude older people from yet another sphere of social life

BOX 4.2

COVID-19, ISOLATION AND DISCRIMINATION AGAINST OLDER PERSONS

The COVID-19 pandemic has disproportionately affected older people. After many countries enacted limits on interpersonal contact to control the virus, warnings emerged about the possible unintended impacts on vulnerable groups, including older people.

Early evidence suggests, for instance, that lockdowns prevented health and social care systems from effectively responding to older peoples' pre-existing needs (HelpAge International, 2020). This has been a particular problem for older women as they are overrepresented among older persons and require more long-term care than older men. Even before the pandemic, care ar-

rangements for older persons were fragile and unequal.

The restrictions disrupted social connections for many older persons, contributing to loneliness, stress and deteriorating mental health. Isolation has been particularly acute for those living in dedicated care facilities or alone. For older persons with cognitive decline or dementia, the interruption of regular and familiar social interactions and group activities has likely been particularly damaging. Some restrictions, including the closure of long-term care facilities to visitors, persisted far longer than others due to the specific threats the virus poses to older persons.

BOX 4.2

The physical isolation of older persons from traditional social networks may have put some at greater risk of elder abuse and neglect. Social isolation is a known risk factor for elder abuse as it limits opportunities for detection (Burnes and others, 2015). While data are still limited, a study suggests that, in the United States, one in five older persons was abused during the pandemic, an over 80 per cent increase compared to pre-pandemic estimates (Chang and Levy, 2021).

Measures meant to protect older persons may have contributed to narratives, in news and media coverage, of COVID-19 as mainly an “older person’s illness” and of older people as a homogenous and extremely vulnerable group, despite large variations in risks within age groups. The World Health Organization (2021a) has noted that this framing may have undermined public health efforts against COVID-19 by pitting the needs of younger and older adults against each other and eroding intergenerational solidarity.

Health care, social care and social protection, and transportation and mobility are lifelines for older persons to participate in society. Even in countries that offer these public services, older persons are often excluded or their needs are not adequately met (United Nations, 2016). Insufficient access to services and supporting infrastructure is a particular problem for older persons in rural and remote areas. As an increasing number of public services are offered online, age-related gaps in access and skills compound these challenges.

Physical isolation and immobility also limit access to public services and spaces, forming a vicious cycle of exclusion for some older persons. A lack of accessible public transport and unwalkable public spaces such as marketplaces, hospitals and parks create barriers to their participation. They also threaten the ability of older persons to “age in the right place”, as discussed in chapter 5.

B.

INEQUALITIES OVER THE COURSE OF LIFE ADD UP

Snapshots of older persons at one point in time provide little information on how advantages or disadvantages over the life course affect health and other markers of well-being in later life (Carr, 2019). A life course approach helps identify the roles that early life conditions and people's paths during adulthood play in driving divergent outcomes in old age. It can also shed light on some of the structural social and political factors that explain unequal ageing.

Education has consistently emerged as a primary determinant of health and well-being throughout the life course

This section examines how education and employment paths affect economic prospects and health in old age – specifically, the risk of living in poverty or with a disability. Despite the importance of understanding the determinants of healthy ageing, necessary data are not widely available, particularly in developing countries. Comparisons across countries are even more challenging due to the lack of harmonized cross-country surveys containing retrospective information as well as the dearth

of longitudinal studies. These are crucial to understanding how context affects the ways that family, education and work influence ageing outcomes. Better ageing outcomes in some countries than in others provide some evidence to assess which social and economic policies matter most.

1. HEALTH DISPARITIES AMONG OLDER PEOPLE OFTEN START EARLY: EDUCATION IS KEY

Adversity early in life can leave lasting imprints on health and well-being in later ages. Extensive research illustrates how disadvantages in infancy and childhood increase the likelihood of developing chronic diseases, engaging in unhealthy behaviours and suffering from functional limitations in adulthood.³⁵

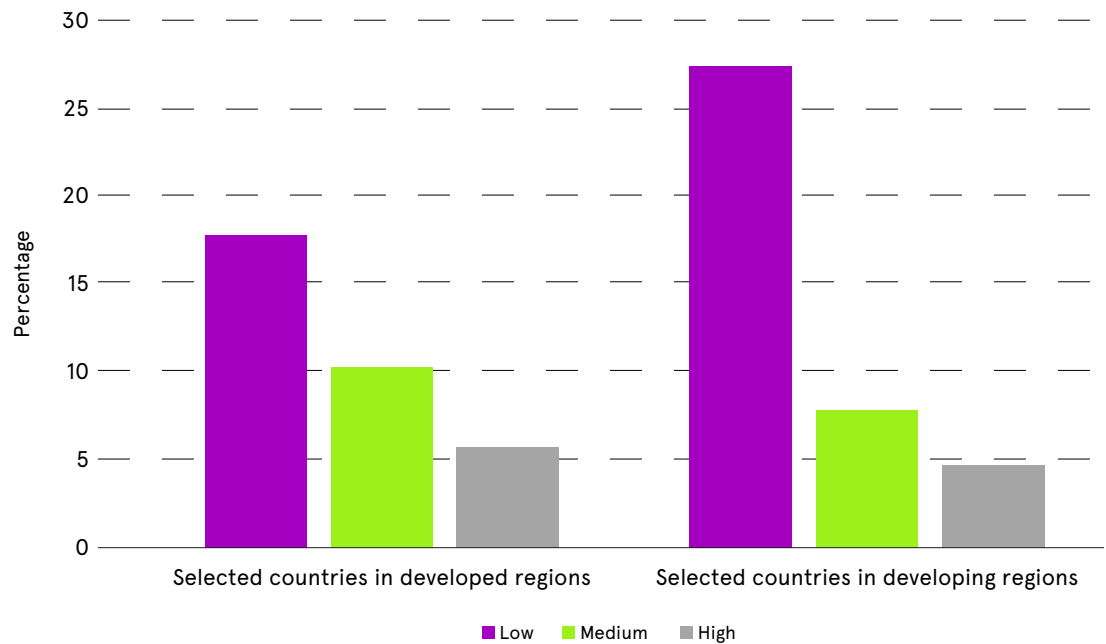
Education has consistently emerged as a primary determinant of health and well-being throughout the life course. A person's education, and even that of their parents, affects their income, access to health care, lifestyles and social networks – all the way to old age.

Disparities in the prevalence of relative old-age poverty by education, for instance, are very large (figure 4.6). Gaps are greater in developing countries but substantial in developed countries as well, suggesting that social protection in old age does not fully correct disadvantages that accumulate along the lifespan even in these countries. Older persons with low levels of education experience three to four times as much poverty as those with high levels of education in developed countries with data.

35 See, for instance, Carr, 2019; Kobayashi and others, 2017; McEniry, 2013; and van der Linden and others, 2020.

Figure 4.6

Share of older persons living in relative poverty by level of education, 2019 (or latest year with data)



Source: Calculations based on data from the LIS Database (multiple countries; surveys conducted between 2010 and 2020). Available at www.lisdatacenter.org.

Note: Based on information for 18 developing countries and 29 developed countries. The educational level is classified into three categories: low (primary and lower secondary levels), medium (upper secondary) and high (tertiary).

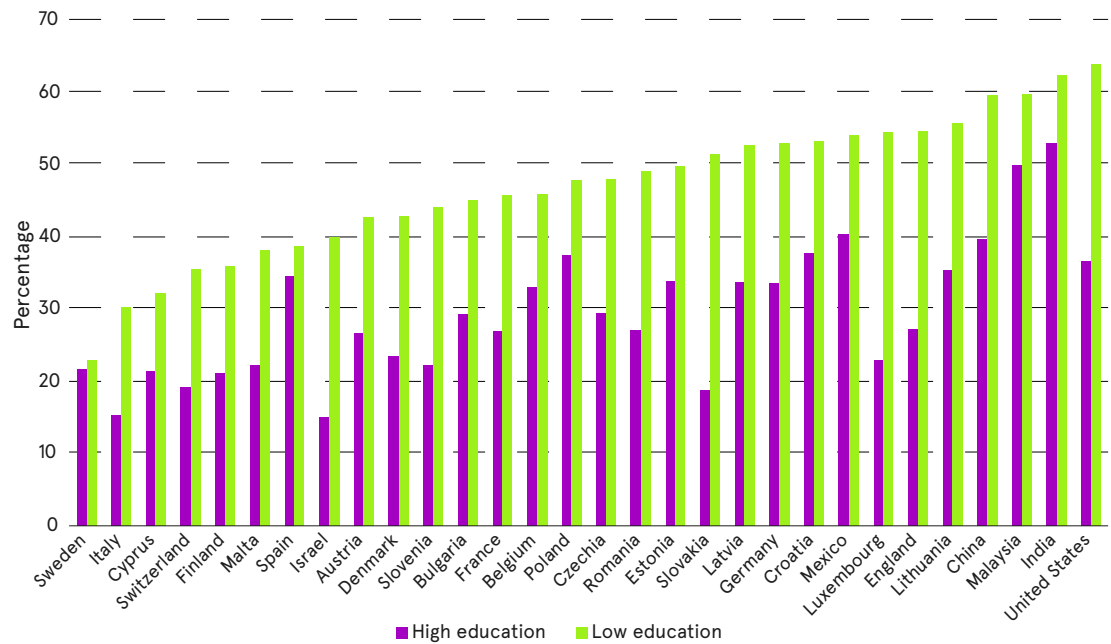
People with less education are also more likely to suffer from poor health and die earlier. Even with this selection effect, health disparities by education persist into old age.

As shown in figure 4.7, there is a significant difference in functional disability prevalence – defined as limitations in completing daily tasks, as in the note for the figure – between the least and most educated

older adults, across countries. On average, the prevalence of disability is twice as large among older adults with low levels of education. In some developed countries, levels of disability among the less educated are as high as in the developing countries in figure 4.7. The disability gap differs by country in part due to differences in social protection coverage, levels of spending on public education and support to workers or families with children.

Figure 4.7

Share of adults 50 and older with a functional disability by education level, selected countries, around 2018



Sources: Harmonized Health and Retirement Studies accessible from the Gateway to Global Aging Data platform. Available at <https://g2aging.org/>. Studies include the China Health and Retirement Longitudinal Study, the English Longitudinal Study of Ageing, the Irish Longitudinal Study on Ageing, the Longitudinal Aging Study in India, the Malaysia Ageing and Retirement Study, the Mexican Health and Aging Study, the Survey of Health, Ageing and Retirement in Europe and the United States Health and Retirement Survey.

Notes: Functional disability is measured by whether the respondent had some difficulty in any of the following activities: (a) walking 100 metres, (b) getting up from a chair, (c) stooping, kneeling or crouching, or (d) lifting or carrying 10 lbs (5 kilos). Educational attainment in China, India, Malaysia and Mexico was classified as none (low) or more than primary education (high). In all other countries, education was divided into low (less than upper secondary education) and high (tertiary education). Estimates are age-adjusted and weighted to correct for sample design. The age range of the studies is 50 to 118 years.

BOX 4.3

DISPARITIES IN DISABILITY SIGNAL
UNEQUAL AGEING

The onset and severity of disability, affecting either physical or mental health, profoundly impacts people and their families. It incurs large economic and societal costs in terms of health care and caregiving needs. The estimated global cost of dementia alone reached nearly \$1 trillion in 2016 (Xu and others, 2017). Physical disability can include limitations in the ability to carry out daily activities needed for personal care and an independent life, such as eating, bathing and mobility.

The onset of disability prior to old age and a disproportionately high rate of disability are indicators of poor health that are unequally distributed. Disability rates vary significantly throughout the world and reflect differences in childhood circumstances, adverse exposures to disease and risk, and uneven access to resources and opportunities. In general, people in developing countries are more exposed to risk factors

associated with disability, such as limited access to health care, unsafe water systems and malnutrition. Disability rates are also steeper in populations that have experienced catastrophic events such as natural disasters and civil conflict. While disability rates are higher in developing countries than in developed countries around the world, disability prevalence is greatest among the poorest in all countries (Hosseinpour and others, 2013).

Examining functional limitations as a measure of disability (see note for figure 4.7) allows cross-national comparisons of inequalities in health in old age as it tracks the difficulties that people face in daily life. It does not depend on access to health care and medical professionals for diagnosis, as is the case for examining differences in the prevalence of diseases, such as diabetes or cardiovascular disease.

2. EMPLOYMENT CAN SUPPORT OR DAMAGE HEALTH

A person's occupation, whether they have a job and the conditions in which they work shape well-being in old age. While the effects of employment on health depend on the types of jobs people do and their access to social protection, the fallout from unemployment is unequivocally negative. Episodes of unemployment damage physical and mental health,³⁶ cause financial hardship and lead to isolation and psychological stress. Vulnerable employment, often in the informal sector, has similar impacts as it limits access to social protection and links with social and political organizations, including unions.

Physically demanding jobs can also damage health. In European countries, men and women holding such jobs since the start of their working lives had a 35 and 41 per cent greater risk of disability by the age of 50, respectively, than those who did not (see figure 4.8 and annex figure 4.1.2). The interplay between the type of work and disability later in life occurs independently of the level of education. For women, the effect of working or having worked in physically demanding jobs is as large as not having higher education.

The significant, independent effects of employment characteristics and educational attainment on functional disability at older ages suggest distinct pathways linking each to ageing.

Figure 4.8

Odds ratios of the effect of working in physically demanding jobs on functional disability, adults aged 50 or older, selected European countries and Israel, around 2018



Source: Survey of Health, Ageing and Retirement in Europe for ages 50 to 118. Available at <http://www.share-project.org/home0.html>.

Notes: The numbers represent the odds ratio of experiencing disability compared to workers with non-physically demanding jobs (employment history) and those with tertiary education (education). For employment history, respondents either agreed or disagreed with the following statement: My main job was physically demanding. Results are significant at the $p < .001$ level.

36 See, for example, Wanberg, 2012 for a review.

Job demands may increase the risk of injury or other health risks that can lead to disability and poor health in old age. Education likely affects health behaviours. Low educational attainment may be a good proxy of the characteristics of employment history with negative effects on health, other than physical labour, such as episodes of unemployment, job precarity and low wages.

C.

THE FUTURE OF AGEING: MORE UNEQUAL

The situation of older persons will continue to evolve as today's children and youth grow older. Assessing the social and economic characteristics of successive cohorts of youth, working-age adults and older persons provides important insights into the future of our ageing world.

Successive cohorts of youth and adults are increasingly unequal and economically insecure, in both developed and developing countries, despite improvements in health and education

Despite the impact of COVID-19 and other sources of uncertainty, future cohorts of older persons are likely to be healthier and more educated – and therefore more pro-

ductive – than those today. They will benefit from continuing scientific and technological innovations, including medical and pharmaceutical advances, that will allow many to enjoy healthier and longer lives (Carr, 2019). Health has largely improved throughout the life course, both over time and across successive cohorts. Yet from an economic perspective, successive cohorts of youth and adults are increasingly unequal and economically insecure, in both developed and developing countries, despite improvements in health and education. Without swift and bold policy action to counter this trend, future cohorts of older persons may be even more economically unequal than those today.

1. THE EMPLOYMENT CRISIS WILL BE FELT ACROSS GENERATIONS

A. *PRECARIOUS WORK AND LACK OF EMPLOYMENT*

Recent decades have seen dramatic changes in how people work. Labour market participation has helped millions of people to escape poverty and empowered women and other disadvantaged groups. Yet deficits in decent work are large and persistent. Full-time jobs under standard employment contracts, which usually entail access to social protection and other employment rights, have ceased to be the norm even in developed countries. Involuntary temporary, part-time and casual work, including zero-hours contracts, subcontracted labour and self-employment, are on the rise. New forms of employment and work are emerging partly through digitalization and automation and in a growing “gig” economy. Workers in these new forms of employment have little

employment security, unsteady incomes and limited access to social protection, much like workers with more traditional forms of non-standard contracts as well as those in the informal economy.

This growing labour market flexibility has not brought about more employment opportunities for all workers. Globally, the number of jobless persons increased from 161 million in 2000 to 187 million in 2019 and is projected to touch 207 million in 2022, after reaching 221 million in 2021 due to the COVID-19 crisis.³⁷ The unemployment rate hovered between 5 and 6 per cent before the crisis.

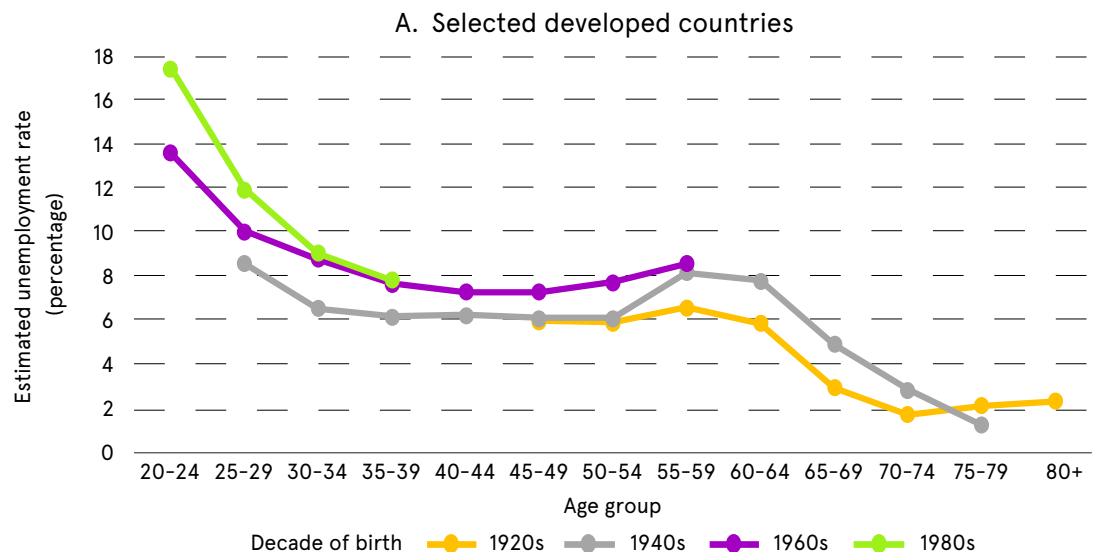
Growing unemployment levels across successive 10-year birth cohorts are evident in figures 4.9.A and 4.9.B. Unemployment has increased from one cohort to the next in practically all age groups in developed and developing countries with data. For workers aged 25 to 29, for instance, unemploy-

ment rose from 9 per cent for the cohort of people born in the 1940s, on average, to 12 per cent for those born in the 1980s in developed countries. For workers aged 55 to 59, it climbed from nearly 7 per cent for those born in the 1920s to 9 per cent for the 1960s cohort. In developing countries, the shorter cohort series also suggests rising unemployment from one cohort to the next, particularly among younger workers.

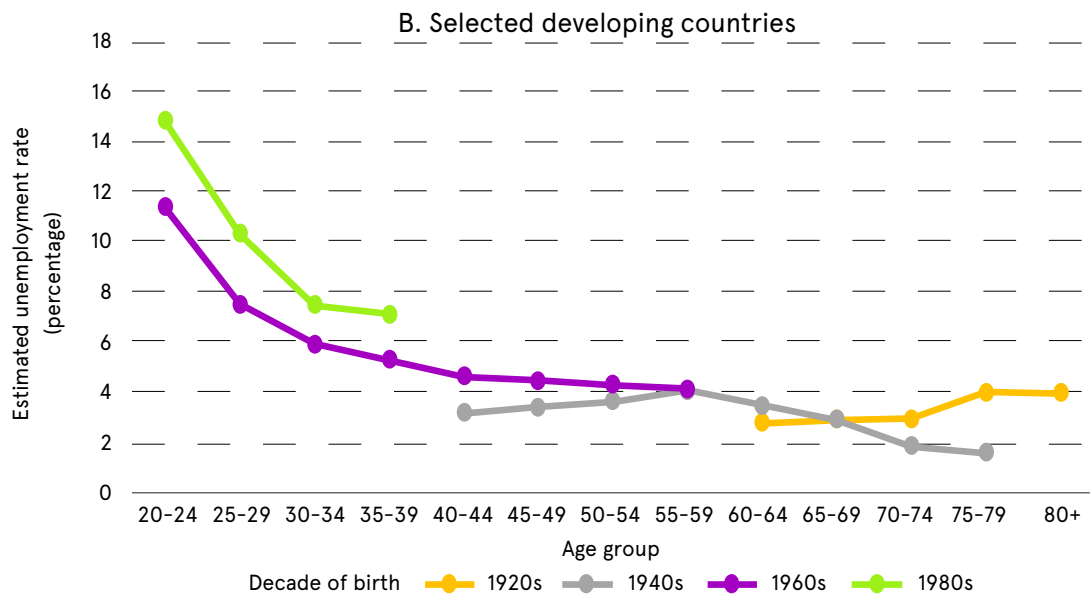
To some extent, temporary shocks affect trends across cohorts. For example, part of the 1980s cohort reached their 20s during the 2008 financial and economic recession, which resulted in a protracted unemployment crisis. This downturn and other disturbances have had scarring effects on workers, affecting their employment prospects in the long term. It is unlikely that temporary setbacks alone, however, explain the increase in unemployment across birth cohorts.

Figure 4.9

Estimated unemployment rate by age and birth cohort



37 ILO Statistics. Available from: <https://ilostat.ilo.org/>. See also ILO, 2022.



Source: Calculations based on data from the LIS Database (multiple countries; surveys conducted between 2010 and 2020). Available at www.lisdatacenter.org.

Notes: Based on information for 29 developed and 16 developing countries. Data come from successive waves of the LIS Database, from 1978 to 2019. Each line represents a 10-year birth cohort (that is, people born between 1 January 1920, 1940, 1960 or 1980 and 31 December 1929, 1949, 1969 or 1989, respectively). The trend for each cohort is estimated using age and country fixed effects to adjust for some missing observations, especially in earlier survey waves.

Unemployment trends are an incomplete measure of deficits in productive employment and decent work. In countries lacking comprehensive social protection systems, most workers cannot afford to stay unemployed. An estimated 60 per cent of workers worldwide, and over 70 per cent in developing countries, struggled to earn income through informal employment in 2019 (ILO, 2021a; World Bank, 2021). As a result of the pandemic and measures to contain it, informal workers were three times as likely as workers in formal employment to lose their jobs in countries with data (ILO, 2021a).

Persistent informality and the rise of non-standard forms of formal employment pose a challenge to income security in old age. Most workers in informal employment do not pay into contributory pensions or other social protection programmes. In fact, a lack of social protection coverage is often a criterion to identify informal employment (Gatti and others, 2014). Further, liquidity constraints limit the ability of these workers to save privately and regularly, since wages are lower and more unreliable in informal than in formal employment. Such workers also face many barriers to accessing formal and reliable financial services, from low financial literacy and high transaction costs to a lack of information. Many workers in the “gig” economy, own-account workers and those with temporary or part-time contracts face similar obstacles due to unsteady incomes and the lack of employment security.

Persistent informality and the rise of non-standard forms of formal employment pose a challenge to income security in old age

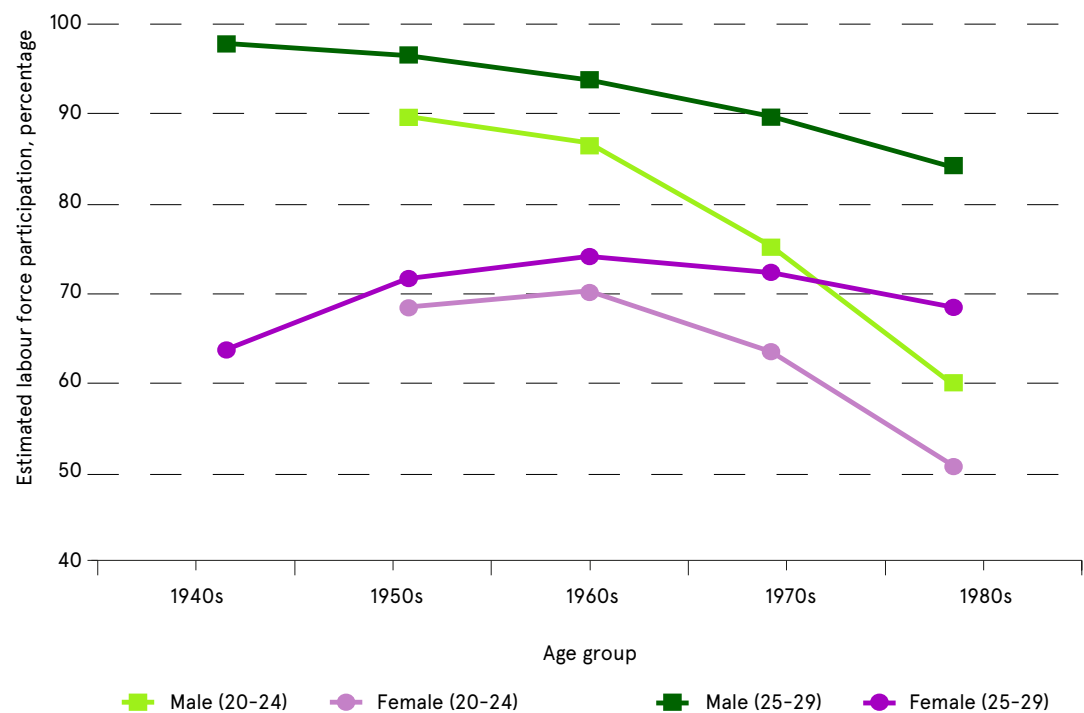
B. THE YOUTH EMPLOYMENT PREDICAMENT

For young people, decent jobs are an important step in the transition to adulthood. Since early labour market experiences shape future employment opportunities, decent work deficits, both in the amount and quality of jobs available to youth, can have long-lasting consequences in terms of poverty, including in old age, and may even deter the well-being of future generations. They also challenge the ability of countries moving through a demographic transition to capitalize on a demographic dividend.

Young people are three times as likely to be unemployed as adults and bear the brunt of employment losses during recessions (ILO 2021a, 2021b). Many countries have witnessed a big surge in the number of discouraged young workers, who are available to work but have dropped out of the labour market. As shown in figure 4.10, labour force participation rates on average have declined steadily among young men aged 20 to 24 as well as young adults aged 25 to 29 from one birth cohort to the next in countries with data. Female labour force participation rates reached their highest point for young women of the 1960s cohort and have declined across more recent cohorts (1970s and 1980s).

Figure 4.10

Estimated youth labour force participation rate by birth cohort



Source: Calculations based on data from the LIS Database (multiple countries; surveys conducted between 2010 and 2020). Available at www.lisdatacenter.org.

Note: Based on information for 29 developed countries and 16 developing countries (see figure 4.1). The horizontal axis represents consecutive 10-year cohorts.

The growing number of years that young women and men spend in education explains part of the decline. Since the mid-2000s, however, the number of young people who are “not in employment, education or training” (known as NEET) has increased. This represents a severe waste of human potential with potentially drastic repercussions, both for young people in terms of lifelong marginalization and exclusion and diminished well-being in old age, and for societies at large, particularly those who could benefit from a demographic dividend.

Growing casualization, underemployment and persistent informality are long-standing features of an employment crisis that has endured even during periods of economic expansion and disproportionately affects youth. The economic insecurity generated by this deep crisis compounds inequality, undermines public trust and damages the social fabric.

2. INEQUALITY IS RISING

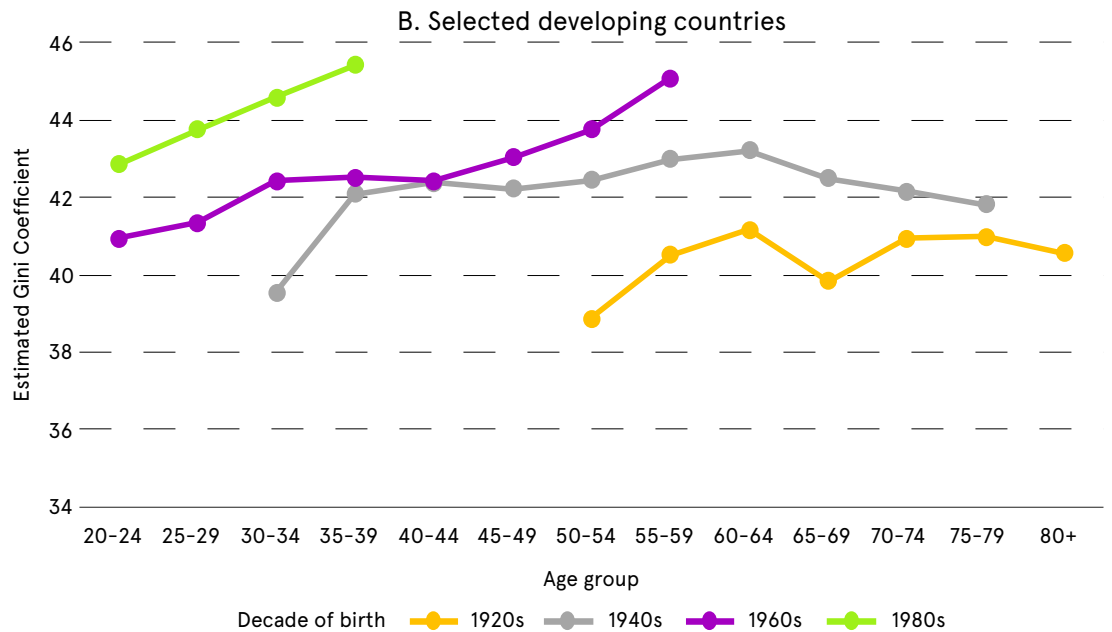
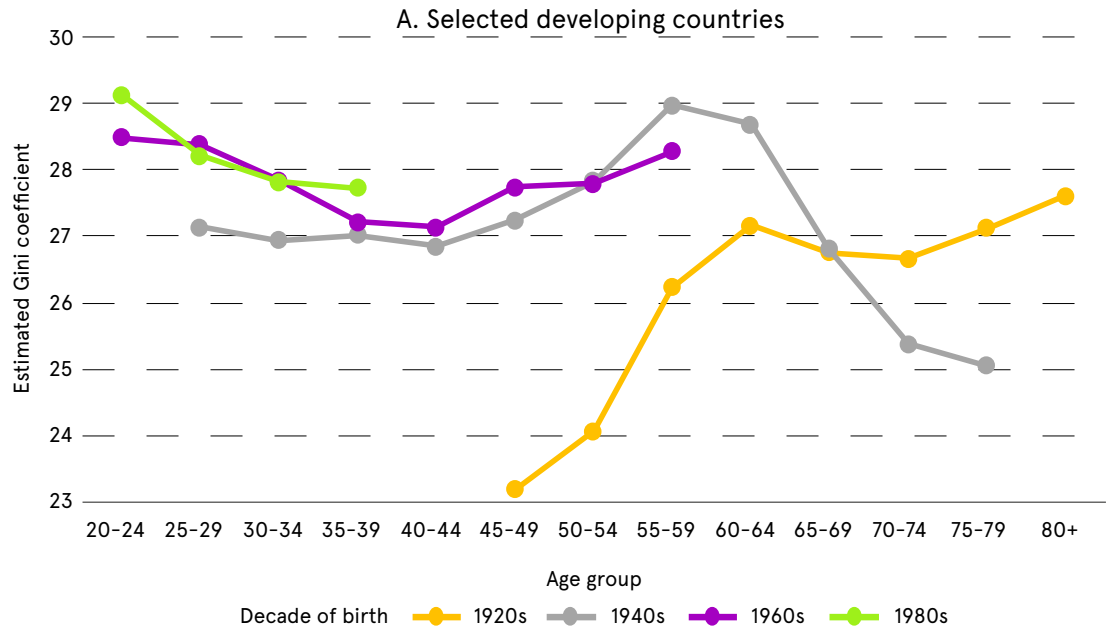
Changes in the world of work have implications for inequality. Cohort analysis based on the Gini coefficient of income inequality shows widening disparities among successive cohorts of youth and working-age people (figures 4.11.A and 4.11.B). Future cohorts of older persons will likely face higher inequality in old age without action to prevent it.

In developing countries, according to figure 4.11.B, the Gini coefficient has increased steadily from one birth cohort to the next at all ages. Cohorts born in the 1960s or later are extremely unequal: Gini coefficients between 44 and 45 are well above the world average of 38 around 2015 (United Nations, 2020d). In developed countries, inequality is also deepening across cohorts at all ages but with exceptions. Increasingly comprehensive social protection systems and other forms of old-age support have helped curb inequality among older people, even during crises (part of the 1940s cohort reached retirement age amid the 2008 financial meltdown and its aftermath).

High and growing income inequality is concerning for ethical and instrumental reasons. Extremely unequal countries are less effective in reducing poverty and less successful in sustaining economic growth than those with low inequalities (United Nations, 2020d). Income inequality is linked to disparities in health and education that transmit disadvantages from one generation to the next. Without appropriate institutions to prevent them, inequalities often concentrate political influence among those who are already better off. Political inequalities tend to maintain or widen unequal opportunities and undercut trust in the ability of Governments to address the needs of the majority, with implications for political stability and the functioning of democracy.

Figure 4.11

Gini coefficient by birth cohort



Source: Calculations based on data from the LIS Database (multiple countries; surveys conducted between 2010 and 2020). Available at www.lisdatacenter.org.

Note: Based on information for 29 developed countries and 16 developing countries (see figure 4.1)

3. COVID-19 ALTERED PROSPECTS FOR EDUCATION AND LABOUR MARKETS

The COVID-19 pandemic and the ensuing economic crisis have had major implications for education and labour markets. The hardest hit are low-wage workers, including those in informal employment, and women and youth. As a result, poverty has increased and emerging evidence indicates that income inequality has risen within many countries as well, possibly reversing the declining inequality observed in a majority of developing countries since 2000 (World Bank, 2022; Narayan and others, 2022; United Nations, 2022d). Current trends point to increased inequality between men and women (Alon and others, 2021; Flor and others, 2022) and indicate that youth aged 18 to 25 suffered the largest drops in household income (Belot and others, 2020).

There is a high risk that rising inequality will continue to escalate and even intensify during the recovery from the pandemic and over the long term. In the labour market, the crisis is inducing structural changes that threaten to exacerbate existing divides. The rise in remote work, for instance, is likely to reduce decent work opportunities for low-income workers, in particular, since the tasks they perform are less amenable to working from home, and their housing conditions, including Internet connectivity, are less adequate.

Disparities within countries in access to remote work are likely to appear across countries, considering that poor countries have more jobs with physical or manual tasks and lower ICT access and use. A growing reliance on self-employment, particularly in the “gig” economy, could accelerate the trend towards precarious work for a large share of the labour force.

For younger cohorts, disruptions in education brought about by the pandemic compound unequal employment opportunities. Among the various channels through which the pandemic will affect future cohorts, education is probably the most important and de-equalizing one.

Although learning away from school has been temporary for some, others may never return to the classroom due to economic hardship at home that forced them to work instead of going back to school or because they have become discouraged. Even for those who did not drop out, disruptions in education leave scars, affecting motivation, future employment opportunities, wages and social mobility, with implications for well-being in old age. The COVID-19 pandemic and its aftermath may result in a lost generation of children and youth without fast action to address their needs. Current cohorts of children and youth risk losing \$17 trillion in lifetime earnings in present value because of school closures induced by COVID-19 (World Bank, UNESCO and UNICEF, 2021).

D.

REDUCING INEQUALITY AND PROVIDING SECURITY – WITHOUT BREAKING THE BUDGET

Many older persons have incomes that are low by national standards, placing them below the relative poverty threshold. Some enjoy a comfortable old age; a few are very wealthy. Without policies to prevent it, disadvantage accumulates through peoples' lives, leading to large disparities. This chapter highlights how countries with comprehensive social protection systems, including broad access to affordable health care, have been much more successful in curbing income inequality and reducing poverty at older ages than those without them.

Countries with comprehensive social protection systems, including broad access to affordable health care, have been much more successful in curbing income inequality and reducing poverty at older ages than those without them

Fiscal sustainability concerns have dominated policy discussions about the impacts of population ageing, including those related to pension reforms. In countries with broad pension coverage, benefits currently represent 2.5 to 5 per cent of GDP (Khan, 2022). Measures to sustain pension ex-

penditures over the long run can affect progress towards more immediate goals of eradicating poverty and reducing inequality.

Nonetheless, action on two fronts can help address sustainability concerns without sacrificing equity or the right to economic security at older ages. First, ex ante actions can be taken over the life course to promote healthy ageing and reduce levels of poverty and inequality before people reach older ages. Second, specific policies to reduce inequality and promote economic security at older ages can be constructed in a fiscally sustainable manner, with a focus on old-age pensions.

1. CUTTING THE ROOTS OF OLD-AGE DISADVANTAGE AND ILL-HEALTH

Policies and programmes that promote the well-being of older persons are critical. Yet from a life course perspective, such efforts are insufficient (Carr, 2019). Poverty and exclusion at older ages result from disadvantages experienced by some groups, including women, throughout their lives. Actions to counter or mitigate such disadvantages along the life course can prevent poverty and exclusion from taking root.

While no single set of policies applies universally, all countries should adopt a coherent and integrated policy strategy to give every person an equal chance to grow older in good health and with economic security. Towards that end, national strategies should promote equal access to opportunities, back fiscal policies conducive to reducing inequality, and tackle prejudice and discrimination (United Nations, 2020d). Strategies centred on these

three building blocks should help reduce both age-based and broader inequalities.

While no single set of policies applies universally, all countries should adopt a coherent and integrated policy strategy to give every person an equal chance to grow older in good health and with economic security

While intergenerational equity deserves greater attention and requires urgent policy action in many countries, existing gaps between rich and poor within one age group or one generation are extremely large and consequential, as reflected in the 2030 Agenda's call for reducing economic inequality.³⁸ Yet States have generally been much more effective in redistributing resources across age groups, especially from the working-age population to children and older persons, than across socioeconomic groups.³⁹ Promoting equal opportunity requires that all children have an equal chance to advance their capabilities from birth, including through access to quality education and health care, and later in life to enjoy the rewards of their education through opportunities for decent work.

Ensuring healthy ageing should be a key priority. Maintaining good physical and mental health over the life course helps to prevent descents into poverty and promotes the income security of older persons. Health insurance is crucial, since without it, many people fall more seriously ill or end up in poverty due to an inability to afford the cost of health care. Globally, nearly 1 billion (996 million) people face catastrophic levels of health spending, defined as out-of-pocket expenditures above 10 per cent of household income (WHO, 2021b). Out-of-pocket health expenditures per capita doubled from 2000 to 2019 worldwide,⁴⁰ spurred in part by privatization. The increased costs of health care and other basic services make them unaffordable for people in poverty or affect the quality of services they receive.⁴¹

Universal health coverage is a necessary step to ensure affordable and equal access to health-care services for all. Accelerating its achievement will reduce out-of-pocket spending on health, thereby protecting vulnerable groups from financial hardship while improving access to health care. Several developing countries, such as Ghana and Viet Nam, have shown that universal health coverage is feasible at various levels of development.

Addressing the social determinants of health is also important, with education being one of the most critical factors for health in old age. A person's education af-

38 SDG 10 calls for reducing inequality within and among countries. Specifically, target 10.1 calls for progressively achieving and sustaining income growth of the bottom 40 per cent of the population at a rate higher than the national average.

39 Even in Europe, as a Vanhuyse, Medgyesi and Gal (2021) note, States are "better characterized as inter-age redistribution machines, performing lifecycle consumption smoothing rather well" while social policies serve multiple goals in Europe, but "empirically they are neither primarily nor solely responsible for poverty relief and inequality reduction

40 Calculations based on the WHO Global Health Observatory data repository, out-of-pocket expenditure per capita in PPP international dollars. See <https://apps.who.int/gho/data/node.main.GHEDOOPcPPPSHA2011?lang=en>, accessed on 15 June 2022.

41 See A/73/396, Note by the Secretary-General on Extreme Poverty and Human Rights on Privatization (26 September 2018).

fects health not only through its impact on income and access to health care but also through behavioural and psychological dimensions such as smoking, diet and access to social support, all of which influence physical and mental health in later life. The significant education gradient in health and well-being across the life course is an argument for improving education access and quality for all, not only as a goal in and of itself but also as a health policy.

Considering rapid changes in labour markets around the world, education should not stop after childhood. All workers, regardless of wages or skills, will experience an increasing number of job transitions. Providing opportunities for learning and skills development throughout people's working lives would allow them to adapt to shifts in labour demand. Education and training systems and techniques must be updated to better meet the needs of learners at all ages.

Improved education and potential increases in labour productivity will have little effect on poverty and inequality, much less on people's ability to save for old age, without successful school-to-work transitions and decent job prospects. In recent decades, real wage growth has not kept pace with improvements in productivity, particularly in developed countries (ILO, 2018b). In addition, wage inequality has grown (ibid). Wage adjustments that reflect changes in labour productivity over time and a statutory minimum wage are key for workers and their families to save. Higher wages would also have a positive impact on public budgets.

High levels of informal employment limit the ability of workers to attain economic

security at older ages. Promoting formalization can expand decent work opportunities and reduce working poverty across the life course. Stronger labour market institutions, including regulations, employment contracts, collective agreements and labour inspection systems, along with comprehensive social protection systems based on solidarity and risk-sharing, are essential pathways to formalization. Governments can incentivize the transition from the informal to the formal economy for employers and employees alike by improving access to business services, financing and markets, coupled with continuing education and skills development programmes that reduce barriers to entry into formal work. Formalization is a complex and gradual process, but some countries, including Brazil, Thailand and Türkiye, have significantly reduced informality over the last decade.⁴²

2. IMPROVING THE LIVES OF OLDER PERSONS THROUGH ADEQUATE PENSIONS

The struggle against poverty among older persons, aimed at its eradication, is a fundamental objective of the Madrid International Plan of Action on Ageing. Significant progress in extending pension coverage has helped protect many older persons from poverty, including during the COVID-19 crisis. In 2020, 77.5 per cent of older persons worldwide received a pension (ILO, 2021c). While the coverage rate was above 95 per cent in Europe, less than 20 per cent of people above retirement age received a pension in sub-Saharan Africa (ibid.).

42 ILO Statistics on the informal economy. See: <https://ilostat.ilo.org/topics/informality/> (accessed on 15 June 2022).

Many countries have expanded pension coverage through tax-funded, non-contributory schemes. These reach groups that are usually undercovered, namely, women and workers in informal employment. But they often do not provide income security on their own. As regards contributory schemes, most countries have defined benefit plans in place. A small but growing

number of countries complement these with mandatory or voluntary defined contribution systems (ILO, 2021c). Since most contributory schemes are pay-as-you-go, where the working-age population funds current pension benefits, increases in the share of older persons and the number of years in retirement have caused growing concerns about pension sustainability.

BOX 4.4

THE BUILDING BLOCKS OF OLD-AGE PENSION SYSTEMS

Old-age pensions are payments provided to people above a specific age. Broadly, there are three types of pensions:

1. Tax-financed pensions: Often called social or non-contributory pensions, they are financed from general government revenues and aim to provide a minimum income in old age. Tax-financed pensions can be universal (directed at all citizens above a specific age), pension-tested (available to older persons who do not receive a contributory pension or whose contributory pension benefits are below a certain threshold) or means-tested (for older people whose income is below a certain threshold).

2. Mandatory contributory pensions: These schemes are available to workers, generally in the formal sector, and are meant to partly or fully (in a few cases) replace labour earnings received prior to retirement. Contributory pensions are financed by deductions from employees' salaries and complemented by contribu-

tions from employers. Contributory schemes can either be financed on a "pay-as-you-go" basis (contributions from the working-age population financing pensions of current retirees) or funded by the individual through the investment of savings and deferred payment arrangements. Funded schemes can be paid for by investment returns set by the market or by returns set by the Government (in what are called notional defined-contribution plans). The basis of the pension calculation can be related to labour earnings and meant to ensure a specific level of benefits during retirement (in what are referred to as defined-benefit schemes) or linked only to contributions made (in so-called defined-contribution schemes).

3. Voluntary or private contributory pensions: Offered to the working-age population and elective by design, voluntary or private contributory pensions can take many forms. Some are funded exclusively through individual savings while others are funded by both employees and employers.

BOX 4.4

Countries usually adopt different combinations of the above to build their pension systems. In other words, pension systems usually have several tiers, as described above: tier 1 (tax-financed pensions), tier 2 (mandatory contributory pensions) and tier 3 (private or voluntary contributory pen-

sions). Tax-financed pensions are provided through the State. Mandatory contributory pensions are usually offered fully or partly through the State. Voluntary or private contributory pensions are generally operated by the private sector; Governments play only a regulatory role.

To improve fiscal sustainability, many countries have raised the age at retirement, cut down early retirement provisions or indexed the retirement age to increases in life expectancy. Others have bumped up contribution rates or reduced benefits for future retirees, mostly through changes in benefit indexation. There is also a trend towards private defined contribution pension plans, in which benefits depend on the level of savings accumulated by the pensioner, either to complement or replace public defined benefit plans that provide minimum income guarantees.

to lower benefits. The ILO recorded 57 cases of reforms to reduce pension benefits that were introduced from 2018 to 2020 (ILO, 2021c). In countries of the European Union, the average gross replacement rate of public pensions is projected to decline from 42.5 per cent of the average wage in 2013 to 35.9 per cent in 2053 (European Commission, 2017). Expected changes in replacement rates vary significantly by country: They are projected to fall by more than 20 percentage points in Poland, Portugal and Spain but expected to increase slightly (by less than 2 per cent) in Czechia and Denmark (ibid.).

Measures to ensure fiscal sustainability must be weighed against the need for public pensions to cover and provide income security to all older persons

The combination of these reforms, which will affect youth and future generations more than older people today, is expected

Measures to ensure fiscal sustainability must be weighed against the need for public pensions to cover and provide income security to all older persons. In countries with comprehensive social protection systems, the challenge is to maintain the poverty- and inequality-reducing effects of pensions. In countries without them, the focus must be on extending pension coverage, providing adequate benefits and creating fiscal space to finance public pension systems and meet target 1.3 of the SDGs.⁴³ Early action on these fronts would

43 The aim of target 1.3 is “to implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable”.

allow a gradual phase-in that may spread costs across generations.

A. A FISCALLY SUSTAINABLE FOCUS ON EQUITY AND ECONOMIC SECURITY

In countries with broad pension coverage, replacement rates are higher for low-income than for high-income earners. In the European Union, replacement rates even increased for the bottom income quintile from 2007 to 2015 but declined from 2015 to 2018 (European Commission, 2021b).

Beyond concrete measures to safeguard the income security of low-income earners, supporting the diverse needs and preferences of workers regarding retirement age is also key

Reforms to ensure sustainability that are applied across the board can negatively affect the income security of low-income earners. Take increases in retirement age, for instance. As life expectancy grows and people's health improves, they can remain productive until later in life. Considering that low-income earners have a lower life expectancy than high-income earners, however, indexing the retirement age to average life expectancy has a regressive effect. Workers with an expectation of shorter lives lose a larger proportion of their projected lifetime income from pensions than those who are expected to live longer. If gains in longevity benefit higher-income earners the most, as they

have in many countries in recent decades, this regressive effect will increase over time. Yet very few pension schemes take inequalities in life expectancy into account (OECD, 2017; Diakite and Devolder, 2021; Ayuso, Bravo and Holzmann, 2020). In addition, low-income workers also have fewer and more precarious employment prospects, particularly at older ages.

Maintaining or increasing the inequality-reducing role of pensions while raising the retirement age calls for granting low-income workers higher accrual rates, lowering minimum contribution thresholds, crediting periods of unemployment, improving the portability of pensions and, above all, strengthening efforts to guarantee decent work, including decent wages. More frequent or generous adjustments of retirement incomes to the cost of living (or indexation) for low-income workers would also help ensure that those in need do not face economic insecurity as they grow older.

Beyond concrete measures to safeguard the income security of low-income earners, supporting the diverse needs and preferences of workers regarding retirement age is also key. Most countries already allow workers to continue working beyond retirement age, with some earnings limits. Early retirement is strongly restricted in many countries, although several have expanded early retirement options since 2020 (OECD, 2021b). Very few countries allow partial retirement, where employees continue working on a reduced schedule while starting to draw a portion of their pension (OECD, 2017). Taking into consideration the concerns of workers with physically demanding jobs and those with health issues, countries could consider more phased retirement arrangements.

Regarding the move towards defined contribution pension schemes, many of these rely on private savings accounts and thus shift investment risks from the State to individuals. They are less redistributive than defined benefit programmes and therefore magnify labour market inequalities, particularly since individuals with lower levels of income and education have less financial knowledge and access to financial services than their more educated counterparts. Implementation depends on broadly available and accessible financial services and facilities, which many developing countries currently lack.

Very few countries rely exclusively on defined contribution schemes today (ILO, 2021c). As a complement to defined benefit programmes, they can improve the adequacy of pension benefits. But some do not meet the core principles set out in international social security standards.⁴⁴ Specifically, defined contribution schemes based on individual savings accounts have suffered severe losses during recent recessions, therefore failing to ensure predictable and adequate benefits until death, as legal entitlements.

The fact that future generations of older persons may be more unequal and

economically insecure than today's, absent major policy correctives, must be factored into pension systems reforms. Very generous pensions may not be sustainable. At the same time, reforms that weaken the redistributive power of pensions will jeopardize the well-being of a growing number of older persons. Such reforms may further undermine State capacity to support pension systems, particularly if they are perceived to be ineffective and unfair.

B. EXPANDING PENSION COVERAGE AND ADEQUACY

Despite efforts to extend pension coverage, access to contributory pensions is usually limited to waged workers in the formal sector. This presents a challenge to developing countries with large informal sectors. But gaps in coverage and insufficient benefits are not only a concern for developing countries. Workers under non-standard contracts in all countries face some of the same challenges. And around the world, women's persistent disadvantages in the labour market and their disproportionate burden of unpaid care limit their access to pensions and other social protection programmes.

There is no one-size-fits-all process to increase pension coverage. But action on three fronts can help. The first is to encourage pension savings. The second is to introduce and expand tax-funded pension schemes, recognizing that these first and second measures are not mutually exclusive. Third, the labour mar-

The fact that future generations of older persons may be more unequal and economically insecure than today's, absent major policy correctives, must be factored into pension systems reforms

⁴⁴ See the ILO Social Security (Minimum Standards) Convention (no. 102) or the ILO Convention on Invalidity, Old-age and Survivors' Benefits (no. 128). For further analysis, see also ILO 2011 and 2021c.

ket policies discussed earlier alongside efforts to include non-wage workers in contributory schemes and improve financial literacy will go a long way in helping workers and their families save and contribute to social protection systems.

Tax-funded schemes have helped expand effective coverage around the world and ensure that all older persons have at least a basic level of income security, particularly when they are universal. Chile legislated a large increase in both the basic (solidarity) pension and the publicly financed pension supplement in 2019. As a result, the future pension of full-career, low-wage earners will increase by one third (OECD, 2021b). In Latvia, both the minimum pension and non-contributory old-age benefits were raised by 25 per cent in 2020, albeit from a low level. Mexico introduced a tax-based basic pension in 2019, available to all citizens from age 65 since July 2021 (ibid.).

Many tax-funded schemes are means tested and thereby restricted to older people with low income, often those living in poverty and who do not pay into contributory systems. Means-tested tax-funded pensions leave older persons who are neither in poverty nor covered by contributory schemes (the so-called “missing middle”) without a minimum income guarantee. In developing countries, this “missing middle” mainly comprises workers in informal employment.

Beyond coverage gaps, tax-financed pensions are often insufficient to provide income security to their beneficiaries. The ILO (2015) estimates, for instance, that from 2010 to 2014, beneficiaries received less than \$1.25 a day from tax-financed pensions in more than one quarter of developing countries

with available data. While these schemes are typically designed as basic-income transfers meant to complement, rather than replace, contributory pensions, they have some impact on poverty alleviation among older persons (United Nations, 2018a).

Reforms to the design and implementation of pension systems may be important. But improving the coverage and adequacy of pension benefits in the end rests on expanding decent work opportunities and strengthening the institutions of work. Policies to level the playing field for women in the labour market, promote transitions from informal to formal employment, provide adequate wages and other measures will go a long way towards achieving target 1.3 of the SDGs.

There is also space for opening decent work opportunities for older persons and eliminating barriers to their participation. Having the option to retire gradually would make staying in the labour market more attractive to many older persons. Tackling bias and discrimination against older workers would also expand job options and improve employment conditions. The UN Global Campaign to Combat Ageism recommends three strategies to combat ageism: policies and laws to reduce or eliminate it, educational interventions and increasing intergenerational contact (WHO, 2021a). Much more can also be done to adapt jobs and workplaces to people with disabilities, including older persons.

3. THE POTENTIAL OF PROGRESSIVE TAXATION

In countries without comprehensive social protection systems, a critical

factor for achieving SDG target 1.3 is sustainable funding. Increased public funding can come either from reallocating existing resources or generating additional revenue.

In most countries, there is scope for mobilizing public revenue without imposing a heavier tax burden on low-income workers or the middle class (UN IATF, 2022). For the most part, the effect of taxes and social protection systems on poverty and inequality depends on how progressive taxes are. Income and property taxes are usually progressive while indirect taxes, such as consumption taxes, are generally regressive; that is, they take a larger percentage of income from low-income households than from high-income ones.

In developed countries, top income tax rates could be higher, as they were in the 1980s, with little impact on economic growth (IMF, 2017). Strengthening taxation on wealth and property could generate new revenue if countries devote sufficient resources to enforcement, given the opportunities for avoidance.

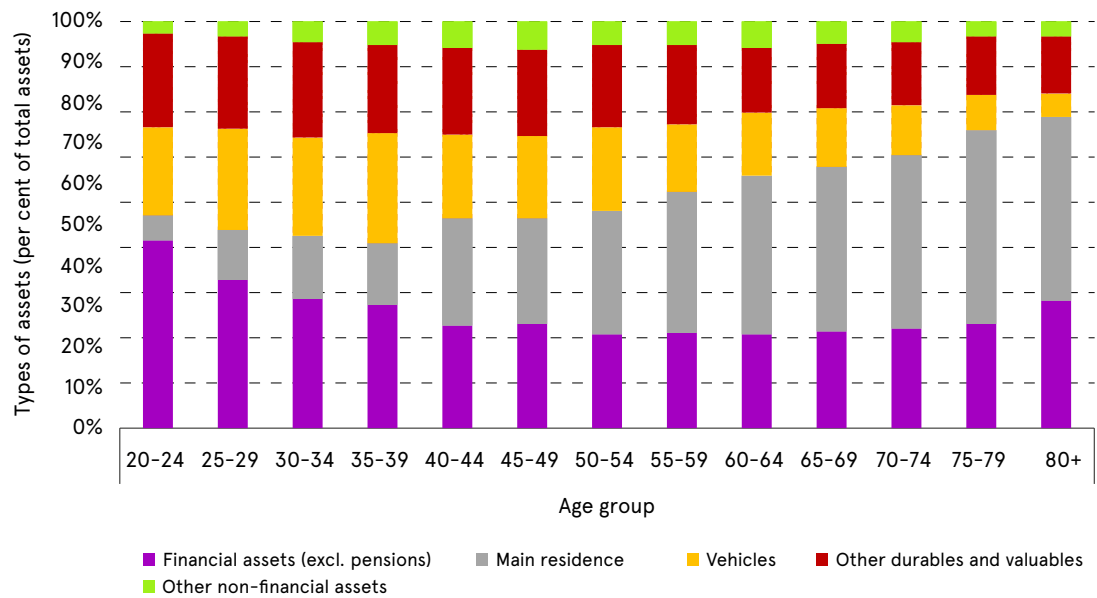
In developing countries, reducing levels of informality will go a long way in expanding tax bases, as will tackling capital flight and illicit financial flows and enacting reforms to strengthen tax administration, as ad-

vocated in the Addis Ababa Action Agenda. Improving compliance and preventing tax evasion can increase revenue without necessarily hurting people in poverty. Raising minimum income tax thresholds and reducing the burden of indirect taxation can make tax systems more progressive. Lower tax rates on basic goods, such as staple foods, may be warranted. That said, given the increasingly globalized nature of trade and business, there are limits to what countries can achieve on their own. Recent multilateral initiatives aimed at improving coherence and transparency in addressing tax avoidance are steps in the right direction.

Ultimately, progressive fiscal policies and a well-functioning tax system can encourage a virtuous cycle of social solidarity, where comprehensive social protection systems, including pension systems, strengthen public support for redistribution. In contrast, inadequate benefits and regressive reforms jeopardize progress towards reducing old-age poverty and the overall well-being of future cohorts of older people. Such reforms may undermine trust in Governments and the willingness of citizens to pay taxes and contribute to pension schemes during their working lives. They may further erode the capacity of social protection schemes to ensure income security.

ANNEX 1. ASSET OWNERSHIP AMONG PEOPLE LIVING IN RELATIVE POVERTY

Figure 4.1.1 Types of assets owned by people living in relative poverty by age in eight developed countries, 2019 (or latest year with data)



Source: Calculations based on data from the Luxembourg Wealth Study Database (multiple countries; surveys conducted between 2010 and 2020). Available at <https://www.lisdatacenter.org/our-data/lws-database/>.

Note: Estimates are calculated using harmonized survey data on wealth reported at the household level for eight developed countries (Australia, Canada, Finland, Germany, Italy, Norway, the United Kingdom and the United States). Households in relative poverty are those living under 50 per cent of the median income of the total population.

ANNEX 2. THE LIKELIHOOD OF FUNCTIONAL DISABILITY BASED ON WORK HISTORY

Figure 4.1.2 Logistic regression predicting functional disability based on work history, by sex, adults aged 50 and older in Europe, 2018

	Male		Female	
	ODDS RATIO	95% CONFIDENCE INTERVAL	ODDS RATIO	95% CONFIDENCE INTERVAL
Main job physically demanding (ref=no)				
Yes	1.35 ***	(1.19,1.54)	1.41 ***	(1.26,1.58)
Individual covariates				
Age	1.05 ***	(1.04,1.05)	1.06 ***	(1.06,1.07)
Rural	0.94	(0.84,1.05)	0.95	(0.85,1.06)
Education (ref=tertiary)				
1.Less than upper secondary	2.05 ***	(1.69,2.49)	1.55 ***	(1.31,1.84)
2.Upper secondary and vocational training	1.49 ***	(1.26,1.78)	1.38 ***	(1.17,1.62)
Country covariates (ref=Northern Europe)				
Central Europe	1.61 ***	(1.38,1.86)	1.52 ***	(1.32,1.76)
Southern Europe	0.91	(0.76,1.09)	1.20 *	(1.01,1.43)
Eastern Europe	1.86 ***	(1.60,2.15)	1.87 ***	(1.63,2.14)
N	19283		22535	
r ² _p	0.049		0.071	

Source: SHARE, Gateway to Global Aging Data. Available at <https://g2aging.org/>.

Notes: Estimates are age adjusted and weighted to correct for sample design. * p < .05, ** p < .01, *** p < .001.