Pensions arrangements for informal workers

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Background

1. Only one in five workers is covered by adequate social security schemes (ILO 2002) and 85% of the world’s population over 65 years old has no retirement benefit (Holzman et alii 2001)

2. Breaking down of traditional social safety nets based on family and community-based arrangements (HIV-AIDS, decrease in fertility rates, migration rural-urban)

3. Expansion of the informal economy together with economic growth
   - Africa: 90% of new jobs created in the last decade were formal,
   - Latin America (1990-2005): 60% of the new jobs were informal and 90% were created in the services sector
   - Asia: Informality has increased together with economic growth (except Japan, Korea, Singapore and HK)

\[1 + 2 + 3 + \text{aging process} = \text{social insecurity}\]
Few words about informality and social protection in developing countries...

- Labour markets have not demonstrated capacity for greater inclusiveness (ECLAC)
- Contributory systems have been undermined by lower coverage and contribution density
- Informal workers are not always poor… but certainly unprotected
- Labour history: workers migrate between formal and informal economy (effects of contribution gaps)
- Correlation between poorness and informality is stronger for women
Attributes of the informal worker (household’s surveys)

- Low income;
- Employment relation: self-employed, domestic and house workers; temporary employees;
- Small and micro enterprises’ workers;
- Economic sectors: services, transport, construction and agriculture;
- Migrants;
- Young workers and disabled.
Implications for the coverage of social protection schemes

• A progressive universalism approach should be adopted

• Social protection floor should be promoted:
  – Universal
  – Social assistance and conditional cash transfers
  – Minimum pension and contribution subsidies

• Community-based arrangements should be reinforced and linked to national schemes

• Contributory schemes (public and private) need to be attractive, flexible and adapted to different forms of employment

• Policy consistency
The traditional developmental social protection

Policy vision: The new developmental paradigm: towards progressive universalism

Shaping the social protection floor…

<table>
<thead>
<tr>
<th>Targeted</th>
<th>Contributory</th>
<th>Non-contributory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum pensions</td>
<td>Contribution subsidies</td>
<td>Social assistance Conditional Cash transfers</td>
</tr>
<tr>
<td>Non targeted</td>
<td></td>
<td>Universal pensions</td>
</tr>
</tbody>
</table>
Shaping the social protection floor…

- Universal benefits: easier to administrate, high fiscal costs, low redistributive capacity;
- Social assistance targeted to the poor may have a lower fiscal burden, but has higher administrative costs and mistargeting risks, reduce incentives to save, work and participate in the contributory schemes;
- Conditioned Cash Transfers (conditioned to poverty status + behavioral assumptions) may break intergenerational poverty circle human capital investment and articulate social policies (pensions, health and education);
- Minimum pensions and contribution subsidies: fail to reach the poor.
Is the social protection floor affordable?
Cost of universal basic old age (65) and disability pension (benefit = $0.5 per day)

Is the social protection floor affordable?
Cost of universal basic old age (65) and disability pension (benefit = 30% of GDP per capita)

### Examples of universal and means tested schemes

<table>
<thead>
<tr>
<th>Country</th>
<th>Age limit</th>
<th>US$</th>
<th>% of GDP</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>57</td>
<td>2</td>
<td>0.03</td>
<td>means tested</td>
</tr>
<tr>
<td>Bolivia</td>
<td>65</td>
<td>18</td>
<td>1.3</td>
<td>universal</td>
</tr>
<tr>
<td>Botswana</td>
<td>65</td>
<td>27</td>
<td>0.4</td>
<td>universal</td>
</tr>
<tr>
<td>Brazil (Rural)</td>
<td>60 (M) 55 (W)</td>
<td>140</td>
<td>0.7</td>
<td>means tested</td>
</tr>
<tr>
<td>Chile</td>
<td>65</td>
<td>75</td>
<td>0.38</td>
<td>means tested</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>65</td>
<td>26</td>
<td>0.18</td>
<td>means tested</td>
</tr>
<tr>
<td>India</td>
<td>65</td>
<td>4</td>
<td>0.01</td>
<td>means tested</td>
</tr>
<tr>
<td>Mauritius</td>
<td>60</td>
<td>60</td>
<td>2</td>
<td>universal</td>
</tr>
<tr>
<td>Moldova</td>
<td>62 (M) 57 (W)</td>
<td>5</td>
<td>0.08</td>
<td>means tested</td>
</tr>
<tr>
<td>Namibia</td>
<td>60</td>
<td>28</td>
<td>0.8</td>
<td>universal</td>
</tr>
<tr>
<td>Nepal</td>
<td>75</td>
<td>2</td>
<td></td>
<td>universal</td>
</tr>
<tr>
<td>South Africa</td>
<td>65 (M) 60 (W)</td>
<td>109</td>
<td>1.4</td>
<td>means tested</td>
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<tr>
<td>Thailand</td>
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<td>8</td>
<td>0.005</td>
<td>means tested</td>
</tr>
<tr>
<td>Vietnam</td>
<td>60</td>
<td>6</td>
<td>0.5</td>
<td>means tested</td>
</tr>
</tbody>
</table>

Assessing potential impact and costs of universal social pension in Senegal and Tanzania:

Costs (excluding administration):

- Senegal:
  - 1.2% of GDP -> reduces 22% of total poverty gap reduced

- Tanzania:
  - 1% of GDP -> 20% of total poverty gap reduced

Social and economic impacts of the social pensions

- Poverty reduction among elderly (Brazil, South Africa, Chile)
- Increase in school enrolment ratios of children in pensioner households (South Africa). Intergenerational care.
- Reversal migration rural-urban (Brazil)
- Liquidity: households shifting from subsistence to surplus agriculture, investments in rural production and increase consumption (Bolivia), credit for pensioners (Brazil)
- Decrease in birth mortality rates (Brazil)
Improving contributory schemes...

- Flexibility to include workers with seasonal income (self-employed, domestic, temporary workers, etc)
- Specific treatment for some economic sectors (services, construction, tourism, agriculture, small and micro enterprise)
- Differentiation according to contributory capacity (social insurance income redistribution)
- Incentives to affiliation of self-employed and young workers
- Management improvement (affiliation, recordkeeping, collection and service delivering)
- Communication and social awareness
Promoting community-based schemes

- Developed to manage credit and risk in a context of low contributory capacity and small scale to face medical expenses and cover other emergencies
- Adapted to local needs and possibilities
- Low administrative costs
- Based on community and family links
- Non substitutive with respect to the national scheme
- Vulnerable to risks related to the dynamic of the community
ILO survey on microinsurance schemes in India

- 60 schemes, 5.2 million people
- Coverage: life, health, disability, death, funeral, housing, etc
- Implementation
  - 33% by micro finance organizations
  - 31% by NGOs
  - 23% by community-based organizations
  - 12% by health care providers
- 60% are based in rural areas
- Mostly annual contributions
- 70% operate in partnership with private and public companies
  - India legislation mandates insurance companies to offer insurance products for rural and informal (unorganized) sector
Conclusions: Policy consistency

- Consistency of Parameters
  - Benefit value, coverage, targeting criteria, indexation, management
- Incentives and crowding out effects
  - Non contributory pensions and incentives to participate in the contributory system
  - Social pensions x informal private transfers (in South Africa pensions have reduced 37% the private transfers to elderly Jensen (2003)
- Fiscal and social trade offs
  - Tax incentives for private pensions x contribution subsidies x non contributory schemes expenditures (how much? To whom? social impacts? economic impacts?)
  - Poverty reduction via pensions x other type of cash transfers
Thanks

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