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Case Study

The Politics of Aging, Global Challenges and National Solutions

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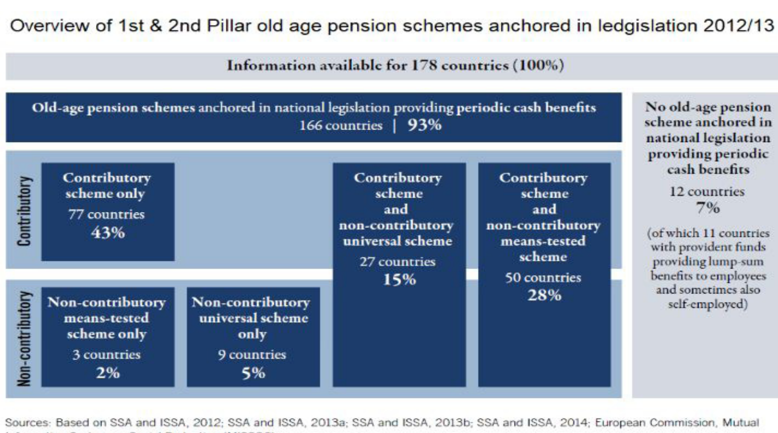
Abstract

The UN estimates that by 2050, over 1.2 billion older people will be without a secure income, unless drastic actions are taken. Today, the average life expectancy worldwide according to the WHO is 71.4 years. The average number of children is 2.4. Due to the combination of declining birthrates and rising longevity, with growing urbanization and migration, family support is becoming an increasingly demanding obligation in most regions of the world. That is why aging is often framed in terms of 'crisis'.

In the West, we needed a few generations to develop a social safety net for older people. In emerging economies, the process of aging is much faster, while societies are still insufficiently equipped. It is the paradox of development: poverty at a later age is a risk that increases with economic progress. Among these global challenges, becoming a widow or getting divorced is one of the major risks for women to fall into old age poverty [1]. In the Politics of Aging [2], we brought together the analytics of the risk of old age poverty with the way households and governments perceive this 'crisis'. Our research question was: How do households and governments deal with the risk of old age poverty in emerging countries?

Old age pension systems are categorized in three pillars: the 1st Pillar refers to tax based, non-contributory 'social' pensions. Globally there are large disparities in the budget percentages that governments spend on social protection (varying from less than 1 percent in Afghanistan to about 14 percent is South Africa. The 2nd Pillar is the funded formal work related private pillar. The 3rd Pillar consists basically of individual and household savings. We concentrated on the introduction and effect of the 1stand the 3rd Pillar pension schemes.

The relationship between the three pillars of social protection is highly politically determined (annex 1). It also refers to the concept of social contract [3].



Annex 1

According to studies by Dutt et al. [4], at least 245 million women around the world have been widowed and more than 115 million of them live in devastating poverty.

For Social protection, many definitions can be found. The World Banks defines social protection as a collection of measures to improve or protect human capital, ranging from labor market interventions and publicly mandated unemployment or old-age insurance to targeted income support. Social Protection interventions assist individual, households, and communities to better manage the risks that leave people vulnerable. Social Protection defined by the United Nations Research Institute for Social Development, is concerned with preventing, managing, and overcoming situations that adversely affect people's wellbeing.

Social security is defined in the constitution of the International Social Security Association as any scheme or programme established by legislation, or any other mandatory arrangement, which provides protection, whether in cash or in kind, in the event of employment accidents, occupational diseases, unemployment, maternity, sickness, invalidity, old age, retirement, survivorship, or death, and encompasses, among others, benefits for children and other family members, health care benefits, prevention, rehabilitation, and long-term care. It can include social insurance, social assistance, mutual benefit schemes, provident funds, and other arrangements which, in accordance with national law or practice, form part of a country's social security system.

These social contracts, and the attitudes behind them, evolve over time as social, cultural, demographic and economic conditions change. They are also reflected in international labour standards or human rights instruments. [5].

Esping Andersen [6] showed in his Three Worlds of Welfare Capitalism that in the socialist model the state is dominant (1st Pillar), in the liberal welfare state the market (2nd Pillar) and in the conservative model the family (3rd Pillar). Wood and Gough frame two other types of regimes, the informal security regimes and the insecurity regimes, besides the welfare state regimes of Esping-Andersonin order to provide a global representation. In addition to state, market and family, they introduce the community as a factor in social security. In addition, they also added the international level eminent in this globalizing world.

What Questions Guided the Research on the Politics of Aging?

1. If there is no state pension defined in a country, like in many parts of Africa, could an exemption of the health insurance premium for older people reduce the risk of poverty?
2. If there is a state pension defined, but which covers only a small part of the population, as in many parts of South Asia, would the strengthening of the 3rd Pillar, e.g. through (micro) pensions, lead to the reduction of the risk of old age poverty?
3. If more people are covered by a state pension, would this lead to a reduction of the 3rd Pillar household savings?

If there is no state pension defined in more developed countries, what are the factors that make the introduction possible and what is the impact of such a pension?

Case Studies

Four case studies were conducted on Ghana, India, China and Peru in which the above questions guided the research. In Ghana we found that that the exemption of the insurance premium for people over 70+ lead to better access to health care. However, by focusing on the reasons why older people did not enroll in the National Health Insurance Scheme, we concluded that there were serious barriers. Some older people still consider participating in the scheme too costly which might be due to the mandatory registration-process fees.

India has a state pension provisions, but this program only covers only about 5% of the population. This is insufficient especially for low-income workers in the unorganized sector where most women earn their income. In the case study, we found that about three quarters of the female low-income entrepreneurs were willing and able to save for a micro pension. However, they were reluctant to convert their existing savings into this long-term pension product.

After India, China has the world's highest savings rate. Two generations after the introduction of the one-child policy in the late 1970s, caring for (grand) parents has now become an increasingly demanding obligation. The Chinese government took responsibility for mitigating old-age poverty risks. Between 2009 and 2013, the proportion of people enrolled in a pension almost doubled. This was the result of the 2005-2010 Five Year Plan that included the introduction of pension schemes to cover all 737 million rural residents and 357 million urban residents. At the same time, household savings increased to about 30 percent of disposable income. The 2011 China Health and Retirement Longitudinal Study (CHARLS) dataset gave us the opportunity to study the impact of the then recently introduced NRPS. We expected to find a drop-in household savings, because the risk of old age poverty had declined thanks to the newly introduced rural pension schemes. However, the results showed that Chinese households whose members are between 45 and 60 years old and expect future benefits from the NRPS, do not save less than those not covered by the scheme. Our research suggests that if the Chinese government extends the pension coverage in rural areas, this will not have an immediate impact on household saving rates.

Peru is also steadily moving into a more advanced stage of demographic transition, the birth rate in Peru is 2.52 which is hardly enough for the population to naturally replace itself. Furthermore, over 2 million Peruvians have emigrated in the last decade. How Peru overcame its arrears in social protection for older people, was the main research question in this case study. The so called conditional factors (Figure 1) mainly responsible for Peru's arrears in social protection for older people are rooted in socio-political history. For long, the ruling elites had left out a large part of its indigenous population, leading to the reproduction of inequality and exclusion. This case study on Peru gave a clear insight into the extent to which international organizations {WB ILO, UN} in close cooperation with social movements and older people (bottom up) could convince politicians to introduce a state pension, ''Pension 65'' in 2011.Most of the respondents considered "Pension 65" and its positive impact in terms of coverage as well as poverty reduction as a breakthrough with respect to the arrears in social protection in Peru.

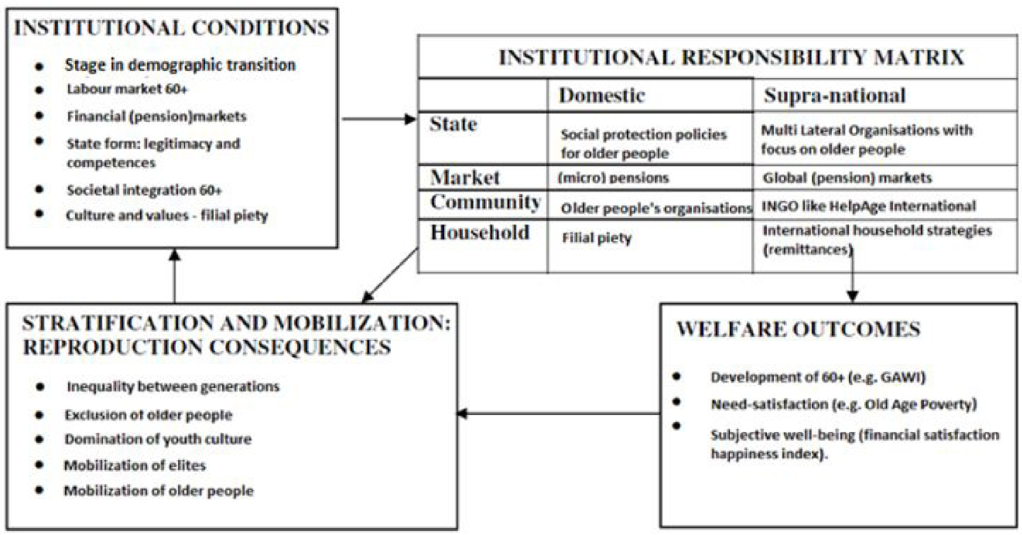


Figure 1: Theoretical framework for comparing welfare regimes on social protection for older people.

Conclusions and Theoretical Model

Most Europeans share the view of French philosopher Jean Jacques Rousseau [7], who stated that the Caribbean (i.e. non-European) man lived by the day to such an extent that he would sell his bed in the morning only to discover in the evening that he had no place to sleep. Our case studies prove this is not the case. Though we did not conduct a comparative study and in terms of general conclusions we need to be more tentative than final, we found a growing awareness of the risk of old age poverty and the need for savings and pension policies.

Nevertheless, in rapidly aging emerging countries, increased life expectancy and declining family support threatens poor and low-income people. The risk of old age poverty is particularly high for women since they live longer - and run the risk of becoming a widow and they often had and still have fewer opportunities to create a pension due to less (formal) labor force participation.

In general, many governments are taking more responsibility of mitigating old age poverty risks. Some countries, like China, have achieved unprecedented progress in pension coverage last decade. Of the more than 80 countries where a state pension has been introduced, there are 47 low or middle-income countries. Barrientos and Hulme [8] describe the progress in governmental social expenses over the last decade as "The quiet revolution of social protection". This means a reduction in poverty levels which is partly due to the impact of first pillar pensions. Those pensions are not only impacting on the direct expenses of beneficiaries but also on the expenses on (grand)children in the household, leading to significant improvements in their education and health.

In the case studies, we identified also some serious reluctance to change the existing behavior of household members with respect to financially preparing for old age, preparation in the 3rd Pillar. In China the strongly increased nationwide pension coverage did not lead yet to a robust decline of the household savings. Households still spread the risks for old age poverty in both pensions and savings. In India the women in the informal economy were willing to invest in a long term new microfinance pension product, but were not willing to move their short-term savings into the new long-term microfinance program.

Secondly, we found that social protection policymaking in emerging countries often is no longer a purely national process. The case studies of Peru and of India show how the strong influence of international institutions and of NGO's could lead to closing the pension coverage gap.

Thirdly, we noted a serious deficit of gender-disaggregated social-economic data which could have made in-depth research possible into the different effect of social protection policies on the lives of older men and women. In the case study of Ghana, though, we found low level of enrollment in health insurance among females than of men. This difference could be attributed to the differences in levels of education.

We have built on the theoretical model of [9] to develop a framework for comparing welfare regimes on social protection for older people. This model analyses the Politics of Aging on the national level: the characteristics of a country; the policies that the different actors carry; the effects of that policy and the results for social security for the older people. The model also identifies the global (supra national) level: the multi-lateral organizations with focus on older people, global (pension) markets, INGOs like Help Age International and international household strategies (migration, remittances)

As the Age of Aging is arriving, the need for effective social protection for older people becomes urgent. The well-being of older men and women, as their individual, guaranteed, non-personal and human right, is extremely relevant for the older people of today. But it is of crucial importance for the generations of tomorrow. Moreover, the politics of aging is important for the self-reliance of older women and men, but it also reduces the financial burden of their children and grandchildren.

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