

Grow Old, Be Poor

Are the workers of the world on a doomed voyage to old age? A new study by the International Labour Organisation (ILO) says some 90 percent of the world's working-age population are not covered by pension schemes capable of providing adequate retirement income. The book *Social Security Pensions: Development and Reform* pins the blame on bad management of many of the schemes that do exist, saying that because of it most working people face the risk of poverty in their old age.



www.arttoday.com

Even where coverage is nearly universal and schemes are well managed, as in the advanced industrialised countries of the Organisation of Economic Co-operation and Development (OECD—mainly North America, Western Europe, Japan and Australia—major problems in financing pensions will arise in the coming years as populations age and as countries seek to diversify the risk to individuals, the book says.

“OECD countries already spend an average 10 percent of their Gross Domestic Product (GDP) on old-age retirement benefits, which exceeds their total spending on health care,” said Colin Gillion, Director of the ILO’s Social Security Department, and an editor of the book. With that number rising, Mr. Gillion said OECD pension

The lack of more complete pension coverage throughout the world will become a growing problem as lifetimes are extended and the importance of traditional extended family units, which once provided old-age protection, diminishes.

plans are “generally excellent, but expensive. The best way to deal with aging populations is to increase the actual age of retirement and to increase the number of women in employment.”

The ILO study found that the U.S. pension system—and to a lesser extent, the system in the United Kingdom—carries more risk for its members than those in West European countries, because the U.S. and UK systems rely more heavily on occupational and privately-funded schemes rather than complete government financing.

The ILO study is also cautious about investing funds in financial markets, which has become one of the most fashionable panaceas for helping these pension schemes meet future needs. According to Colin Gillion, “Investing in financial markets is an uncertain and volatile business. Under present pension plans people may save up to 30 percent more than they need, which would reduce their spending during their working life; or they may save 30 percent too little, which would severely cut their spending in retirement. Which way around cannot be foreseen at the beginning of a working life.”

The ILO says that an option for the United States might be to increase the So-

cial Security contribution from workers and employers. “Raising the contribution rate by one or two percentage points, or even better, by planning further increases in the actual age of retirement, would solve most of the deficit problems far into the future for Americans,” Mr. Gillion says.

Legislating Retirement: A Tricky Job

Many OECD countries have legislated increases in the age for early retirement in an attempt to encourage workers to delay leaving their jobs. A number of countries have reduced benefits by increasing the years used in the earnings averaging period, reducing the adjustment for cost-of-living increases for retirees, or requiring more years of work to qualify for certain benefits.

However, this sort of fine-tuning of eligibility and retirement age is a luxury most countries cannot afford. It is politically difficult to achieve, and it can strain the basic social consensus underlying pension schemes.

“The lack of more complete pension coverage throughout the world will become a growing problem as lifetimes are extended and the importance of traditional extended family units, which once provided old-age protection, diminishes,” says Mr. Gillion.

Among the Book’s Findings are:

- ▶ Pension schemes in countries of the former Soviet Union have become practically worthless with the collapse of national economies;
- ▶ In general, pension schemes in Africa are very weak and badly managed;
- ▶ Pension schemes in Asia have been weakened by the continent’s financial turmoil of the late 1990s;
- ▶ Retirement schemes in Arab states of the Middle East are relatively young and face

major problems in dealing with the high percentage of foreign workers who are not permitted to join the schemes;

- ▶ Many retirement schemes in Latin America and the Caribbean are performing poorly, with at least eight countries converting their schemes to different systems.

The report identifies five main causes why pension schemes in developing and reforming countries have failed to provide wide coverage:

- ▶ In many developing countries, the majority of people work in the informal sector or in rural regions which provide few or no benefits or worker protection of any kind;
- ▶ Employees in small companies with 10 or less employees are often excluded from participation in social security pension schemes;
- ▶ Many existing pension schemes are badly managed, with the consequence that they have overly high administrative costs and do not deliver benefits when they should;
- ▶ Many schemes are unable to collect contributions from all the people who should pay into them, which leads them into financial deficit;
- ▶ Many schemes are based on weak and unregulated financial systems and may be open to corruption.

The ILO is working with middle-income and developing countries to develop pension schemes or to reform existing schemes.

These countries include: China, Indonesia, Madagascar, Morocco, Panama, Philippines, South Africa, Thailand, Tunisia, Turkey, Ukraine, Uruguay, Vietnam, several



www.arttoday.com

Decent shelter is one basic need that governments should ensure in developing benefit packages for older people.

Central European countries, and several Caribbean countries.

The Search for a New Balance

The ILO study makes specific recommendations on how countries can increase the percentage of protected workers and improve benefits for everyone.

The ILO says that all countries should adopt the goal of extending coverage to all members of the population. Other desirable goals include instituting schemes which protect not only against poverty in old age, but also against disability and benefits for the family in case the wage earner dies; adjustment of retirement income to take account of inflation and a general rise in living standards; development of additional voluntary provisions for retirement income.

The most crucial challenge is to extend even minimal old-age retirement benefits to the hundreds of millions of workers in the



www.arttoday.com

Sister bonding, more than just keeping each other company, older women should be able to establish and strengthen their links as issues concerning them are becoming more pressing.

informal sector. In Africa, upwards of 90 percent of the workforce are engaged in informal, small-scale and often subsistence-level activities with little or no social protection. In Latin America, the informal sector is the only part of the labour market that is growing, accounting for 80 percent of all new jobs created.

To extend coverage to this vast and growing sector, the ILO recommends, among others: modification of existing schemes to

cover excluded groups; designing special schemes for excluded groups; introducing tax-based, universal or targeted anti-poverty schemes; and encouraging the development of special schemes based on self-help among people in the informal sector.

The ILO emphasises the need to improve management and governance of existing pension funds by involving workers and employers in the process. It says that compliance in nearly all schemes needs improvement. Ensuring this remains the responsibility of governments.

Many ideas should be taken into consideration before raising the age of retirement. The ILO cautions that when this happens, older workers will then need better disability and unemployment benefits.

It was recommended that countries avoid trying to develop a single perfect retirement system. "All countries need to develop pluralistic designs and flexible structures for their social security schemes," the book says.

Rise of Pension Schemes

At the beginning of the twentieth century, few workers possessed the security of an old-age pension. In developed countries, either most people died early or they worked until they were in their late 60s, spending a brief retirement living with their children before dying in their early 70s. To be old generally meant to be poor. Becoming disabled signified that poverty began earlier.

For developing and middle-income countries, older people faced much worse prospects. Incomes were substantially closer to subsistence levels and children were less

The overwhelming majority of the world's population is still without some form of income security in old age or disability.

able to support their parents. Death came earlier, and as in the famous expression: "Life was nasty, brutish and short."

Today, at the beginning of the twenty-first century, the situation has dramatically changed. In developed countries, the incidence of poverty in old age is now comparable to levels in the remainder of the population. Life expectancy is longer and most workers can expect a significant period of retirement with a reasonable income.

Disability pensions and the possibility of early retirement have reduced the financial risks of incapacity to work. Almost all women are entitled to a survivor's pension, and a growing majority are entitled to a pension as workers in their own right.

Alongside these changes, an increasing number of developing countries are beginning to emulate the experience of the developed countries, in terms of the extension of coverage and in the improvement of benefits.

A large part of this profound improvement in social conditions can be attributed to the creation of social security pensions, which must be counted as one of the great social developments of the last 100 years. Pensions accelerated in the second half of the twentieth century, after growing hesitantly in the first half. Pension outlays in the developed countries grew at twice the rate of gross domestic product (GDP), and more and more

developing countries and middle-income countries attempted to provide benefits for retirees.

The task is only half-complete, the book shows. Pension schemes throughout the world are in a state of upheaval. On the one hand, the developed countries are contemplating new architectures for the financing of pension outlays. This will require careful thought and the development of a new consensus. But on the other hand, the overwhelming majority of the world's population is still without some form of income security in old age or disability.

To extend the security available to workers in the developed countries of the world to workers in all other countries remains a paramount task for the early years of the new century.

"It will require great effort, great imagination and an enlightened adaptation to the different circumstances of developing countries," the book says. "It means extending the coverage of pension schemes (and all other forms of social security), improving their governance, and ensuring that the design of the schemes is both economically efficient and compatible with internationally accepted human and social values."

Reprint from *Social Security Pensions: Development and Reform*, edited by Colin Gillion, John Turner, Clive Bailey and Denis Latulippe. Geneva: International Labour Office, 2000. ISBN 92-2-110859-7. See also ILO press release ILO/00/14 or visit Website: <<http://www.ilo.org/public/english/bureau/inf/magazine/index.htm>>.