

Promoting Decent Employment for a Sustainable Social Security System

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Abstract

The promotion of productive, high quality employment is key to ensuring sustainable social security systems, and vice versa. Together with rights at work and social dialogue they form ILO's decent work agenda, and play an essential role in fostering inclusive and sustainable growth and social justice. Building on previous BRICS commitments, discussions and papers, this background paper addresses the important role of decent employment for sustainable social security systems in BRICS countries. Based on a review of key labour market and social protection indicators, the paper elaborates on the linkages between employment and the sustainability of social security systems. The second part of the paper discusses three concrete policy options in response to current demographic and labour market trends in BRICS countries and shows their potential impact on and implications for the sustainability of the social security system. The analysis shows that BRICS countries still have a large potential workforce that doesn't contribute to the social security system. Bringing those who are not economically active into the labour force and supporting the transition of workers and economic units from the informal to the formal economy could enhance the sustainability of the social security systems. Having more people in quality employment generates more resources for social protection and reduces pressure on governments' social assistance budgets, thereby making social security more sustainable. The paper concludes by offering some policy recommendations to inform the exchange and cooperation among BRICS member States.

Introduction

Decent employment opportunities and social protection are two cornerstones of a human-centred approach to a world of work that respects people's aspirations and is also the basis for inclusive and sustainable growth and social justice. They are closely connected: the promotion of decent employment is key to ensuring sustainable social security systems and vice versa.

This paper discusses the importance of the interconnection between decent employment and social security. Based on a review of key labour market and social protection indicators, the paper discusses policy options, their potential impact and implications, and offers some conclusions to inform the exchange and cooperation among BRICS member States.

Policy interventions in either decent employment creation or social security alone without considering the consequences for the other can lead to negative effects on decent work for all, and hence compromise the goals of social justice and sustainable growth. Having a social security system in place that does not cover everybody undermines aggregate demand in the economy, which in turn makes the creation of high quality employment for all impossible. On the other hand, the more decent employment opportunities that exist within an economy, the more stable is the financing base of the social security systems through a combination of taxes and contributions, thereby ensuring the sustainability of the system. In addition, the more secure people feel, the more likely they are to try to seek opportunities for personal growth, for example by getting re-trained and looking for a better job. This has positive effects for the individual, the economy and society as a whole.

The ILO Centenary Declaration on the Future of Work, adopted in June 2019 by the International Labour Conference calls on member States *“to act with urgency to seize the opportunities and address the challenges to shape a fair, inclusive and secure future of work with full, productive and freely chosen employment and decent work for all”* (para. I (B)). It highlights the importance of *“developing and enhancing social protection systems, which are adequate, sustainable and adapted to developments in the world of work”* (para. II (A)(xv)), and emphasizes in particular the provision of *“universal access to comprehensive and sustainable social protection”* as a key contribution to *“strengthening the capacities of all people to benefit from the opportunities of a changing world of work”* (para. III (A)(iii)). Moving towards universal and sustainable social security systems has been one of the priorities for BRICS governments and has been addressed in previous BRICS LEMM declarations.¹

Building on previous BRICS commitments, deliberations and papers², this short paper addresses the important role of decent employment for sustainable social security systems in BRICS countries. It argues that bringing more people into quality employment – by increasing the labour force participation rate of different groups or by formalising informal work – strengthens the contributions and tax base and decreases the pressure on social assistance budgets. This enhances the sustainability

¹ BRICS Labour and Employment Ministers' Declaration: Quality Jobs and Inclusive Employment Policies, Ufa, Russian Federation, January 2016; BRICS Labour and Employment Ministers' Declaration: Employment generation, social protection for all and transition from informality to formality, New Delhi, September 2016; BRICS Labour and Employment Ministers' Declaration, Chongqing, July 2017; BRICS Labour and Employment Ministers' Declaration, Durban, August 2018. The BRICS Social Security Cooperation Framework, adopted in Chongqing in July 2017, includes in particular a commitment to promote, through bilateral and multilateral exchanges and cooperation, *“the reform and improvement of social security systems in the BRICS countries, [to] expand social security coverage and enhance the sustainability of social security so as to adapt to the ever evolving national and international environment”*.

² These include the following report and country briefs : ILO, 2017a; ILO and ISSA, 2018a, 2018b, 2018c, 2018d, 2018e, 2018f; ISSA, 2016.

of the social security system. The paper ends by providing some conclusions to inform the exchange and cooperation among BRICS member States.

The link between employment and the sustainability of social security systems: key indicators

Employment and labour market policies are closely linked to the development of social security systems, including pensions. The more people have a decent job, which enables them to pay social insurance contributions and taxes, the more solid is the financing base of social security systems. In addition, a high level of decent employment also contains expenditure on transfer payments, such as unemployment benefits and social assistance.

The relationship between decent employment and the economic sustainability of social security systems is based on a complex set of interactions between different variables, including the demographic structure of the population, labour market dynamics, economic growth, the level of development, the level of poverty and informality, labour productivity and a country's business environment. The analysis of such relationships is fundamental to formulate policies that ensure the sustainability of social security systems.

Experience in many countries has shown that “social security systems work best if they are well integrated and coordinated with wider social, employment and economic policies” (ILO, 2013a: 61). Social protection policies contribute to inclusive growth and decent employment through three main channels (ILO, 2013b, 2014, 2017c; Global Commission for the Future of Work, 2019):

- Social security systems ensure income security and access to health care especially for children and older persons, as well as the unemployed and other vulnerable groups, thereby stabilising aggregate consumption and demand, particularly in times of crisis;
- Social security systems ensure effective access to health care, and facilitate access to education, skills development and lifelong learning, thereby enhancing people's capabilities and hence labour productivity;
- Social security systems contribute to the creation of decent employment, particularly in the health and care sectors, especially for women.

While the notion of sustainability of social security systems is not clearly defined, it is widely accepted that it is necessary to consider not only financial sustainability, but also economic, social and political sustainability. In general, the concept is associated with the level of social security expenditure that is socially accepted as adequate and affordable. It is thus assumed that social security systems are sustainable to the extent that the population is willing to finance them; therefore, willingness to pay contributions or taxes determines economic viability. It is also possible to conclude that the economic sustainability of a social security system is determined by the capacity of the economy as a whole to finance it. Closely related to this is the notion of political sustainability, which relates to society's desire to uphold a social security system with certain characteristics, matching a society's values and social contract. Such a broad notion of sustainability is also reflected in the position taken by the International Labour Conference in 2011, pointing out that the challenge of rising expenditure on pensions, health and long-term care in the context of the ageing of the population will be manageable within properly organized systems, and that necessary reform processes can be successfully managed, fairly balancing social needs and financial and fiscal requirements, and embedded in a well-informed social dialogue process (ILO, 2011: 19).

In the particular case of contributory pension systems, whose financing relies mainly on social security contributions generated from work income, long-term economic sustainability is directly related to the capacity of the economy and the labour market to generate a broader financing base; that is, the mass of income from work on which a significant fraction of social security contributions are financed

in most countries. An indirect effect is that a person with a decent job is less likely to need other social security benefits (e.g. unemployment insurance benefits), which contributes to the overall sustainability of the social security system. And, via demand effects, people with a decent job will contribute to economic growth, which in turn will create room for financing social security systems, including pension systems. Finally, being sure to get a pension reduces the imperative for the younger generations to save. This in turn will allow them to choose when to leave the labour force based on their physical and mental conditions and their personal aspirations.

A comprehensive theoretical analysis of the size of the financing base of the pension system needs to take into account the impact of:

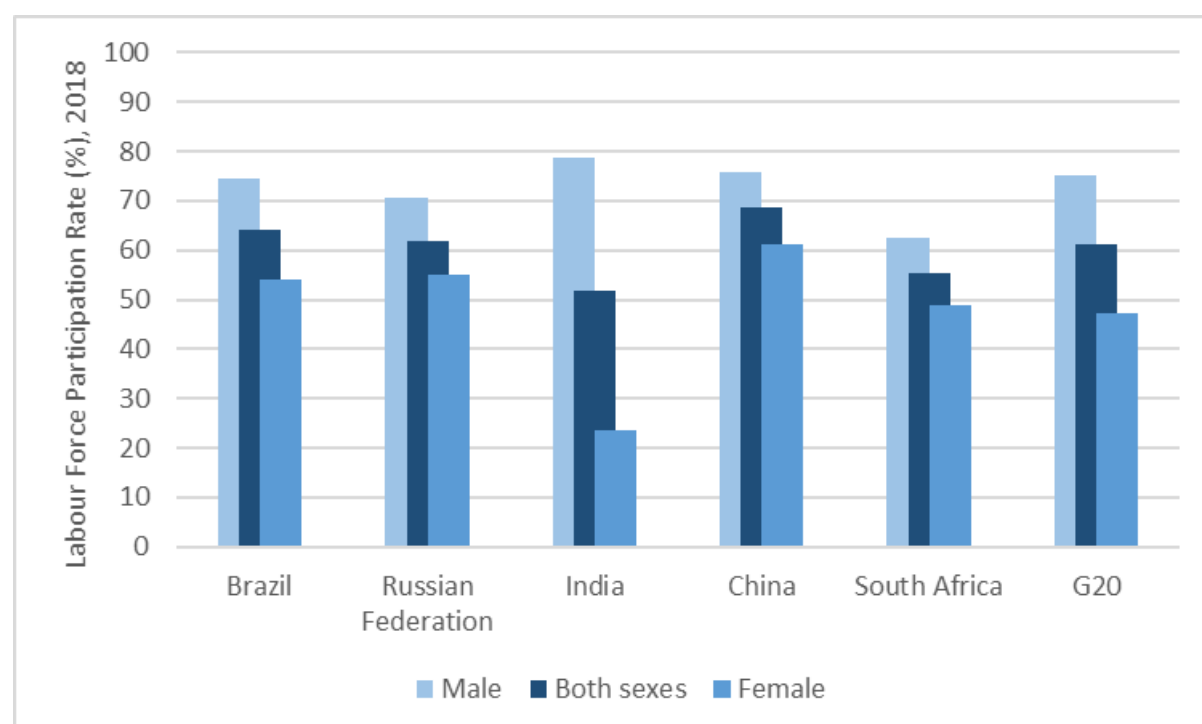
- ageing trends
- retirement conditions
- coverage of the pension system
- labour shares
- labour market composition
- shares of informality
- active ageing policies
- lifelong learning policies

All these components have an impact on labour force participation rates, labour productivity and therefore income levels and economic performance of the economy. They also influence the total number of people contributing and benefiting from the pension system.

Labour force participation

Figure 1 presents the labour force participation rate for BRICS countries and the weighted average of G20 countries. While there is significant variation in the total participation rate between BRICS countries, the differences by age and gender are even greater. Figure 1 shows that there is still room for progress with regard to the labour force participation of women.

Figure 1: Labour force participation rate in BRICS countries and G20 (total), total population (15+), by sex, 2018 (percentage)



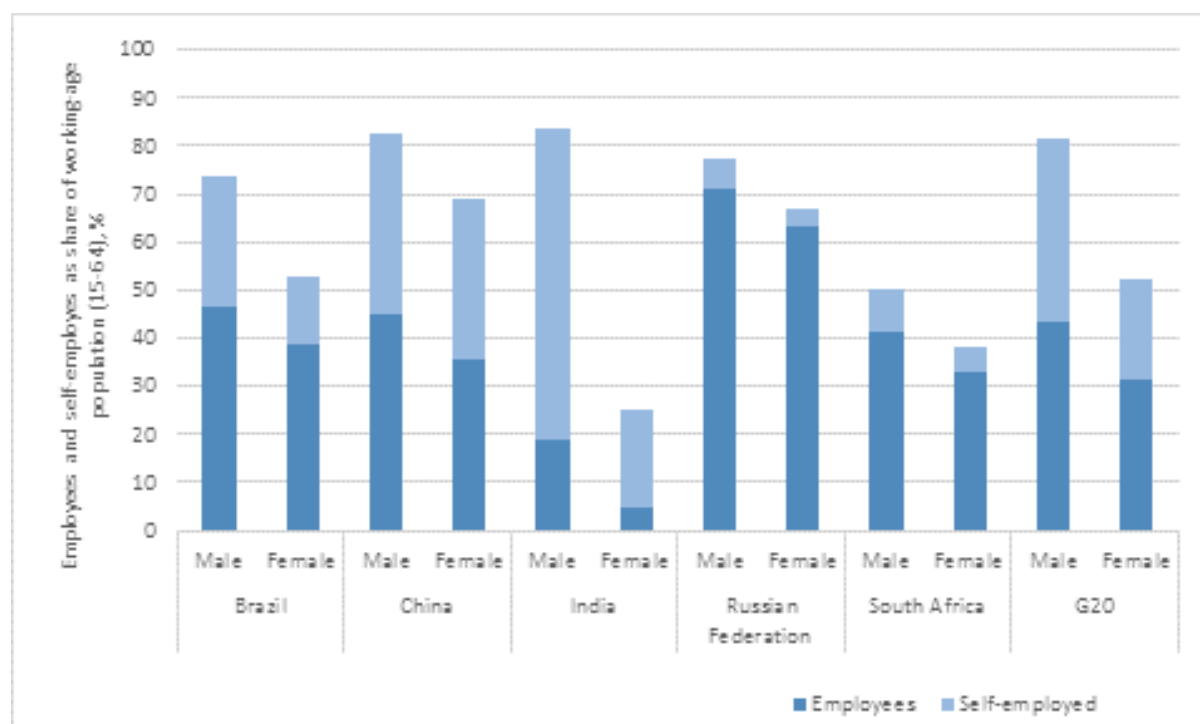
Source: ILO, Labour force participation rate by sex and age -- ILO modelled estimates, July 2018 (%)

Wage employment and self-employment

The structure of the labour force, and in particular the proportion of wage employment, is also an important parameter for ensuring the financing of social security systems, including pensions. Figure 2 indicates the large variation between countries. Whereas the large majority of workers in South Africa and the Russian Federation are in wage employment, the majority of India's labour force is in self-employment.

Despite efforts to extend social security coverage to self-employed workers, in many countries employees still tend to be better covered by contributory social security systems, including pensions, than self-employed workers. In emerging economies self-employment tends to be associated with higher levels of informality and low social security coverage. Many countries have made significant progress in expanding the coverage of social security systems to the self-employed (including self-employed rural workers, traders, homeworkers and artisans), taking into account their specific situation and needs through adapted mechanisms, such as the simplification of administrative procedures and adapted financing mechanisms (ILO, 2017c and ILO, forthcoming).

Figure 2: Employees and self-employed population as share of working-age population (15-64) in BRICS countries and G20 (total), by sex, 2018 (percentage)



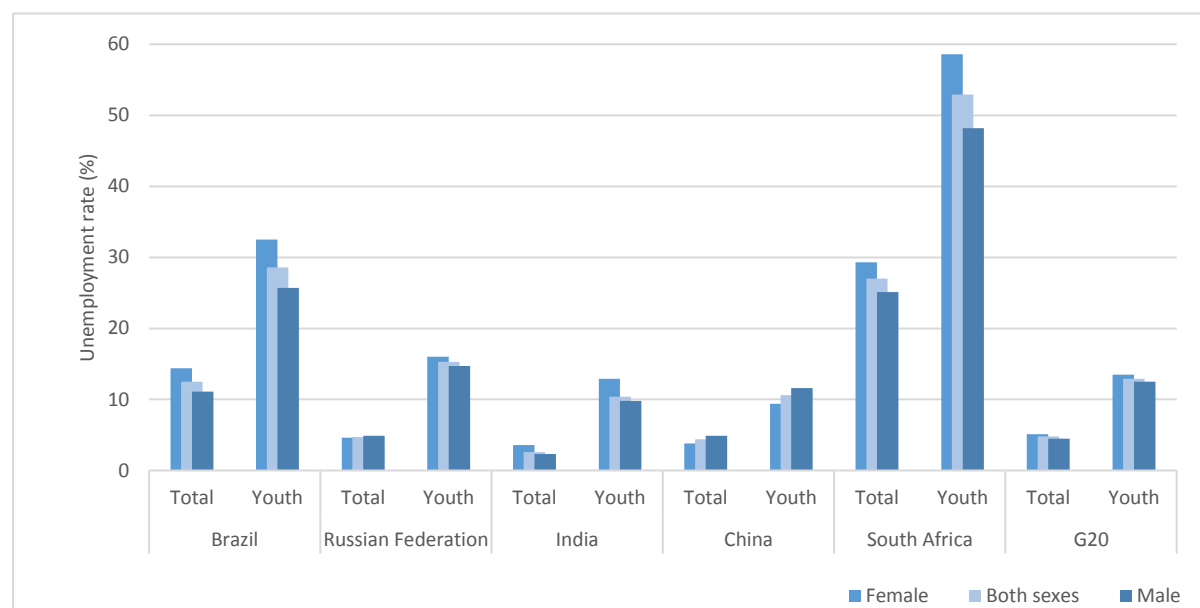
Source: ILO, *Status in employment – ILO modelled estimates*, July, 2018.

Unemployment

Unemployment also influences the coverage and financing of social security systems. Spells of unemployment interrupt or reduce the payment of social insurance contributions, and thereby reduces workers' social security entitlements, including future pension entitlements.

High youth unemployment, together with high rates of informality among youth, constitute a particular challenge. This reduces not only the financing base of the social security system in the short term, but also the opportunities for new generations to generate adequate social security entitlements, including for pensions. Figure 3 presents comparative information on unemployment rates in the BRICS and the G20 average, distinguishing rates for young people.

Figure 3: Unemployment rate in BRICS countries and G20, by broad age group and sex, 2018 (percentage)



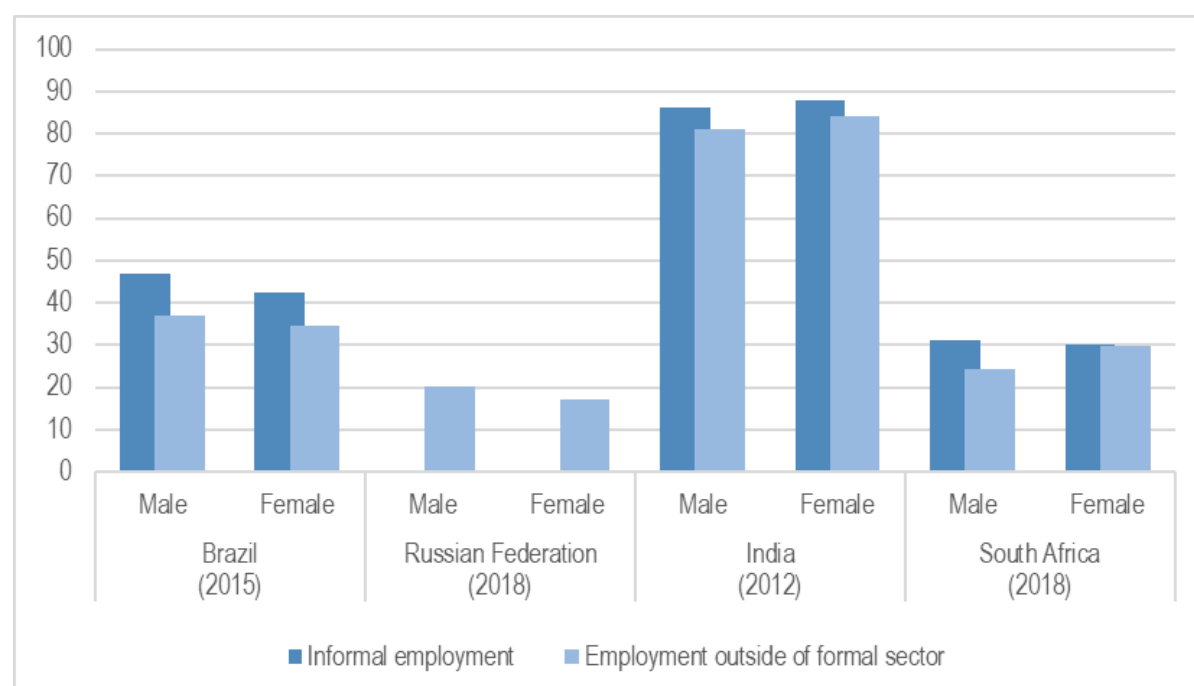
Sources: ILO modelled estimates.

Informal employment

Informal employment is one of the key drivers of a lack of access to social protection and an important challenge for the sustainability of social security systems in BRICS countries (see Figure 4). While informal employment accounts for around 45 and 30 per cent of employment in Brazil and South Africa respectively, it affects more than 85 per cent of workers in India. In the Russian Federation, close to 20 per cent of workers are outside the formal sector.³

³ Comparable data are not available for China.

Figure 4: Informal employment and employment outside the formal sector in selected G20 countries as share of total employment in all economic activities, by sex, latest available year (percentage)



Notes: Indicator description available at: https://www.ilo.org/ilostat-files/Documents/description_IFL_EN.pdf.

Source: ILOSTAT modelled estimates and projections.

Extending social security coverage has been a significant driver in facilitating the transition from the informal to the formal economy in BRICS countries. Brazil's extension of pension coverage to rural workers and its simplified tax and contribution mechanisms for micro-entrepreneurs and their workers (SIMPLES/MEI) have contributed to fostering the transition from the informal to the formal economy. In China, extension of health and pension coverage extension has been an important factor in promoting employment in the formal economy. South Africa's extension of maternity and unemployment insurance coverage to domestic workers has helped to formalize this sector (ILO, 2017c and ILO, forthcoming).

Extending the contributory coverage of pension systems can increase the economic sustainability of the pension system in at least two ways: first, by guaranteeing a much broader pension financing base; second, in the case of means-tested pensions, by decreasing the proportion of older persons receiving non-contributory pensions that will be financed through general taxation. Therefore, in the medium and long term, the extension of contributory coverage has a positive effect on the expansion of the fiscal space for financing pension systems.

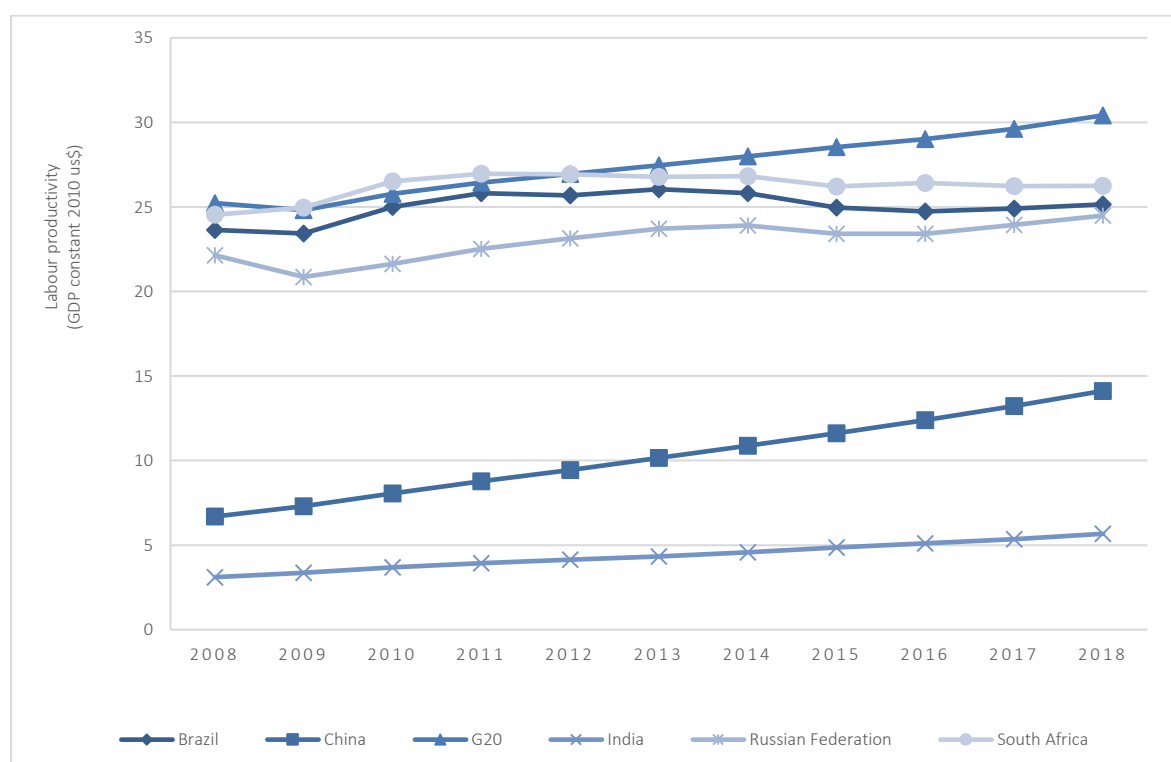
Labour productivity

Experience in advanced economies shows that increased labour productivity and related higher growth and wages have played a key role in offsetting the rising costs of social security systems. At the same time, social security systems are also an important contributor to higher labour productivity by facilitating better access to health and education, by enhancing income security that enables people to engage in economic activities that carry higher economic risks without resorting to negative coping strategies (such as child labour or the selling of productive assets during a crisis), by providing the necessary time for rest and recovery (in cases of sickness, maternity and employment injury), by

offering not only in-cash benefits but also facilitating access to (re-)training in the case of unemployment and employment injury, and by contributing to general well-being (ILO, 2014, 2017c).

Higher labour productivity is therefore a key element for the economic sustainability of social security systems. In the BRICS, the indicator shows a positive evolution during the last decade. Although China and India still display lower levels of labour productivity than the rest of the BRICS, the gap is narrowing, especially in the case of China (Figure 5).

Figure 5: Labour productivity (GDP constant 2010 US\$) in BRICS countries and G20, by sector and sex, 2018 (thousands)



Source: ILO estimates based on ILOSTAT estimates and projections.

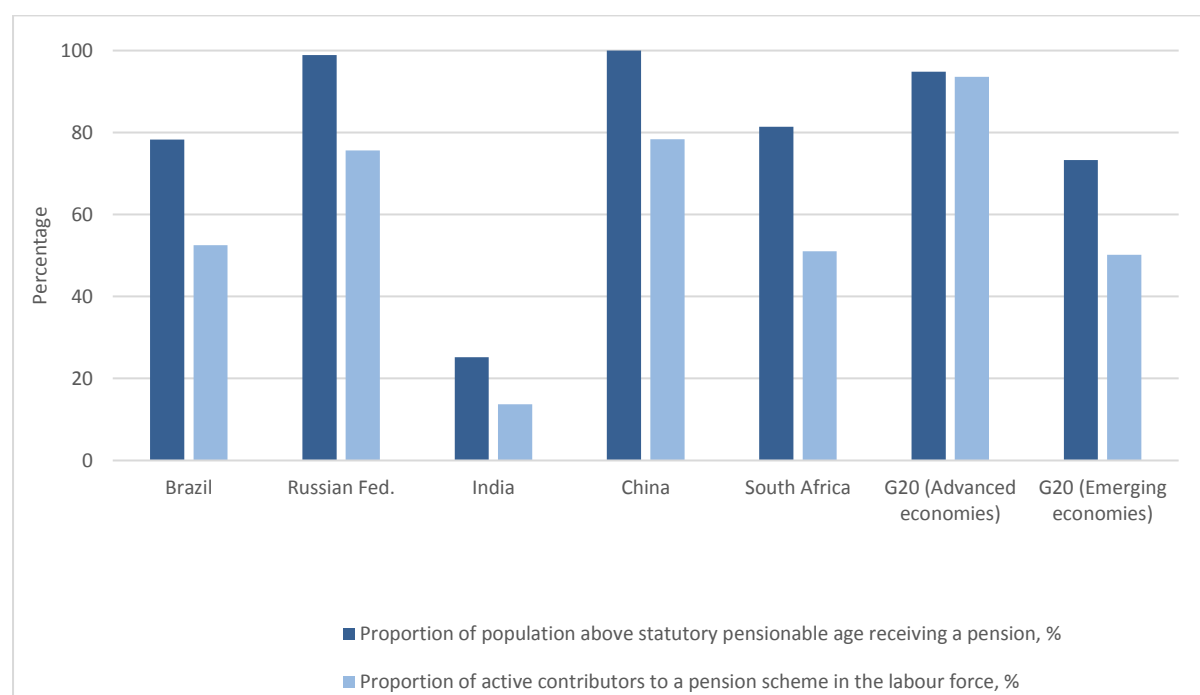
Social security coverage, adequacy and sustainability

Many countries have made significant progress in extending the coverage of social security systems, both in terms of contributory and non-contributory coverage; this global trend is also observed in the BRICS. Focusing specifically on pension coverage, China stands out at the global level as one of the most significant cases of a fast extension of coverage, joining the Russian Federation in reaching universal coverage in terms of older persons receiving a pension through a combination of contributory and non-contributory pensions. Other countries making significant progress in extending pension coverage are Brazil and South Africa (see Figure 6). When considering the proportion of the labour force actively contributing to pension systems, effective coverage in the BRICS lags behind: while in China and the Russian Federation, some three in four workers contribute to pension systems, this is the case for only one in two workers in Brazil and South Africa, and one in seven workers in India.

Gaps in benefit coverage rates for older people constitute an obvious challenge of old age poverty and income security. The challenge of gaps in the proportion of contributors to the pension system may be less obvious, but provides an important indicator of future pension coverage on the one hand, and

the sustainability of the pension system on the other hand. In countries where few members of the working age population contribute to pension systems, the risks of old age poverty and the ensuing need for higher public spending on tax-financed pensions and social assistance are high. For this reason, it is essential to consider the mix between non-contributory and contributory pensions and ensure that both combined ensure high pension coverage and an equitable financing mix.

Figure 6: Proportion of active contributors to a pension scheme in the labour force, and proportion of population above statutory pensionable age receiving a pension in selected BRICS countries and G20 (advanced and emerging economies), latest available year (percentages)

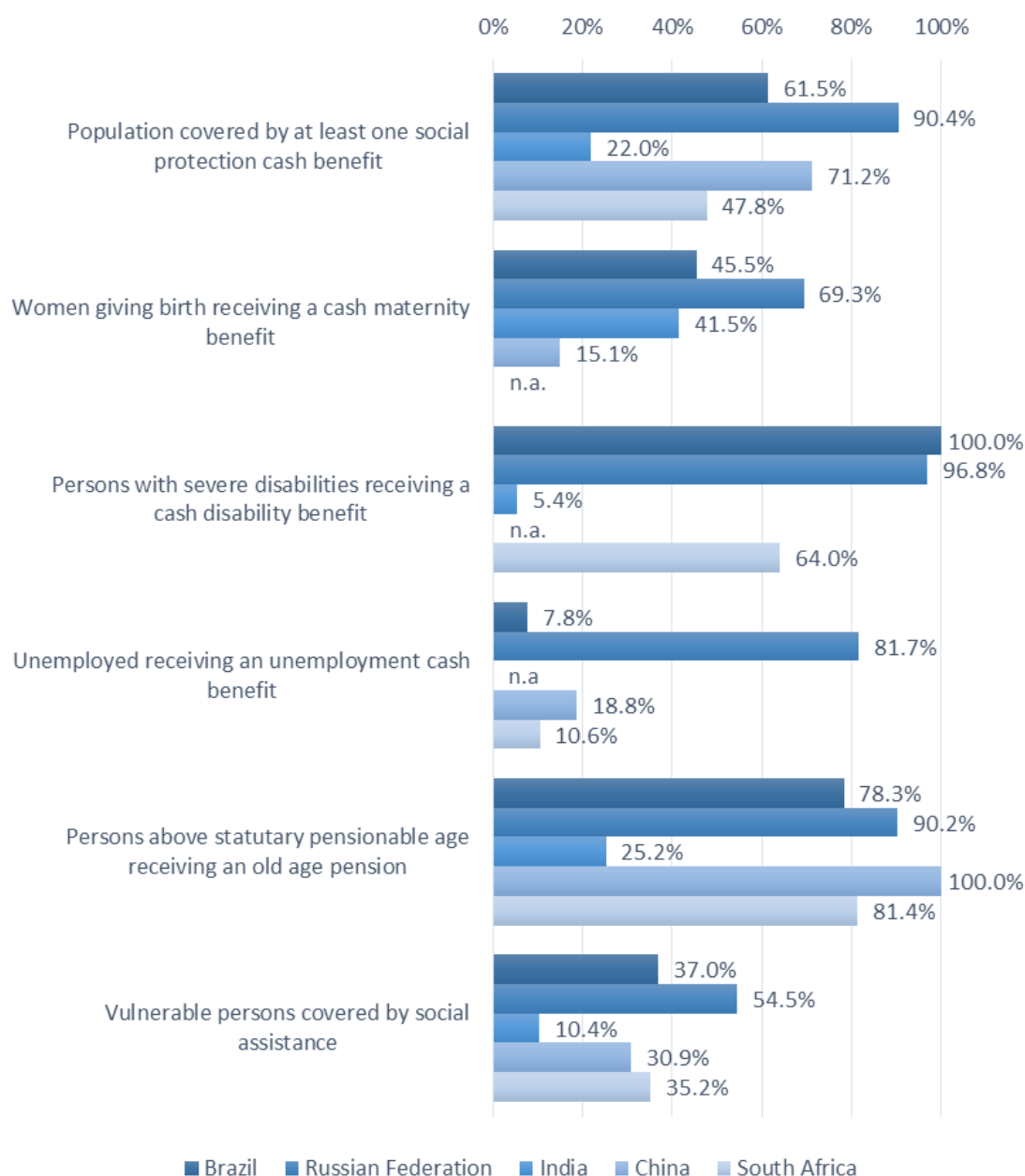


Source: World Social Protection Database, based on the ILO Social Security Inquiry (SSI).

While the level of effective coverage is important, equally important is the level of benefits paid by pension systems, i.e. the adequacy of benefits. It is essential to strike a balance, guided by international labour standards, between adequacy of benefits and the system's financial sustainability, particularly in the context of ageing populations and mature pensions systems. Trends in recent years have been dominated by the introduction of cost-saving reforms (e.g., increasing retirement age, reforming pension formulas and reducing the overall level of benefits), as well as by diversifying the sources of funding for old-age income security. Ensuring adequate benefits that respond to people's needs is also essential for ensuring the sustainability of social security systems as such benefits usually enjoy very high public support manifesting itself by low levels of contribution and tax evasion. Still, for many countries that have already achieved relatively high levels of coverage, ensuring adequate benefits still represents a major challenge (ILO, 2019c).

Looking at the broader social security system, persistent coverage and adequacy gaps also challenge the sustainability of system. . a well- It is therefore essential to consistently improve national social security systems and ensure as a matter of priority that nationally-defined social protection floors play a key role in guaranteeing at least a basic level of social security for all in line with the ILO Social protection Floors Recommendation, 2012 (No. 202), and progressively ensure higher levels of social security to as many people as possible (ILO, 2017a).

Figure 7: Beneficiaries of social protection cash benefits by groups of population (SDG 1.3.1), 2015



Notes: Population covered by at least one social protection cash benefit: Proportion of the total population receiving a contributory or non-contributory benefit, or actively contributing to at least one social security scheme. Children: Ratio of children/households receiving child/family benefits to the total number of children/households with children. Mothers with newborns: Ratio of women receiving cash maternity benefits to women giving birth in the same year. Persons with severe disabilities: Ratio of persons receiving disability benefits to persons with severe disabilities. Unemployed: Ratio of recipients of unemployment benefits to the number of unemployed persons. Older persons: Ratio of persons above statutory retirement age receiving an old-age pension to the persons above statutory retirement age (including contributory and non-contributory). Vulnerable covered by social assistance: Ratio of social assistance recipients to the total number of vulnerable persons (defined as all children plus adults not covered by contributory benefits and persons above retirement age not receiving contributory benefits (pensions). For more detail, see ILO (2017c), Annex II.

Sources: ILO and ISSA (2018) and ILO (2017c), based on the ILO World Social Protection Database, including the ILO Social Security Inquiry.

Policy options to foster decent employment and the sustainability of the social security system, particularly pensions

In some countries, the ageing of the population has led to concerns about increasing costs for pensions, health care and long-term care, and have raised concerns about the financial sustainability of the social security system. In the case of pension systems, such concerns have frequently led to calls for a reduction of benefit levels and an increase in retirement ages. However, such measures may lead to unintended consequences, such as higher unemployment among older persons, higher old-age poverty rates or higher expenditure for social assistance. Effective measures to safeguard and enhance the sustainability of the social security system therefore need to take into account the broader social and economic context, and consider a broader set of employment and social protection policy options. This includes in particular accrued pension rights, paying due consideration to inter-generational fairness and solidarity, and ensuring well-informed consultation, substantive dialogue and shared responsibility among social partners (ILO, 2013b: para. 25).

How could the promotion of decent employment contribute to ensuring the sustainability of the social security systems in BRICS countries? This section will explore a few policy options based on modelling calculations and simulations. Three policy options will be discussed in this chapter:

- Increase in retirement age and the promotion of longer working lives;
- Increase in female labour force participation and quality of employment;
- Fostering transitions from informal to formal employment.

In view of the diversity of national situations in the BRICS, not all of these policy options will be equally suitable for all BRICS countries.

The principles for ensuring the sustainability of social security systems and the adequacy of benefits, as set out in the Social Security (Minimum Standards) Convention, 1952 (No. 102) and other ILO social security standards, provide an international reference framework for the establishment of comprehensive social security systems that ensure protection throughout the life cycle .

Longer working lives and active ageing

Promoting longer working lives and active ageing is often being discussed as a possible policy option to address the sustainability challenges in pension schemes, aiming at shifting the balance between contributors and beneficiaries. Considering such reform options is part of the continuous monitoring of pension systems in view of adapting them to the changing conditions of the economic and demographic environment and thus ensuring their long-term sustainability. In recent years, in view of increasing life expectancy many countries have undertaken reforms that delayed the receipt of benefits and increased retirement ages (ILO, 2017c: 91–92). However, the success of such reforms depends on their capacity to enhance the quantity and quality of employment opportunities available

for older workers and to provide suitable pathways into retirement, taking into account individual health status, particularly of workers in arduous occupations.⁴

Box 1: Key principles for pension systems

As pension systems have been the main focus of the discussion of the impact of demographic change on the sustainability of social security systems, it is important to recall the key principles for pension systems, as set out in international labour standards and good practice. There is no single model for the design of national pension systems applicable to all countries. However, a review of international practice indicates a preference for the implementation of pension systems based on the concept of a multi-pillar system, within which public and collective financing predominates through a combination of taxes and social security contributions. Public administration by the State is also a predominant feature in international practice. Some countries have introduced a mandatory pension pillar based on individual savings accounts, but mostly as a complement to public and solidarity-based systems of collective financing, and under tight regulation. Regardless of how countries choose to design their national pension systems, the following core principles anchored in ILO social security standards, should apply: Progressive realization of universal coverage; social solidarity and collective financing; adequacy and predictability of benefits; overall and primary responsibility of the State; non-discrimination, gender equality and responsiveness to special needs; financial, fiscal and economic sustainability; transparent management and administration; involvement of social partners and consultations with other stakeholders; and the periodic review of pensions to match evolution of cost of living and level of earnings.

With people living and working longer, it is important to also see what impact that has on their life planning. There are some indications that this will lead to an increase in transitions in people's lives, with people leaving the labour force at younger age for certain periods, not working full-time throughout their work-life and changing professions and occupations more often. This not only has a consequence for social security contributions, but it also increases the need of social security systems to actually cover people during transition periods (ILO, 2019b).

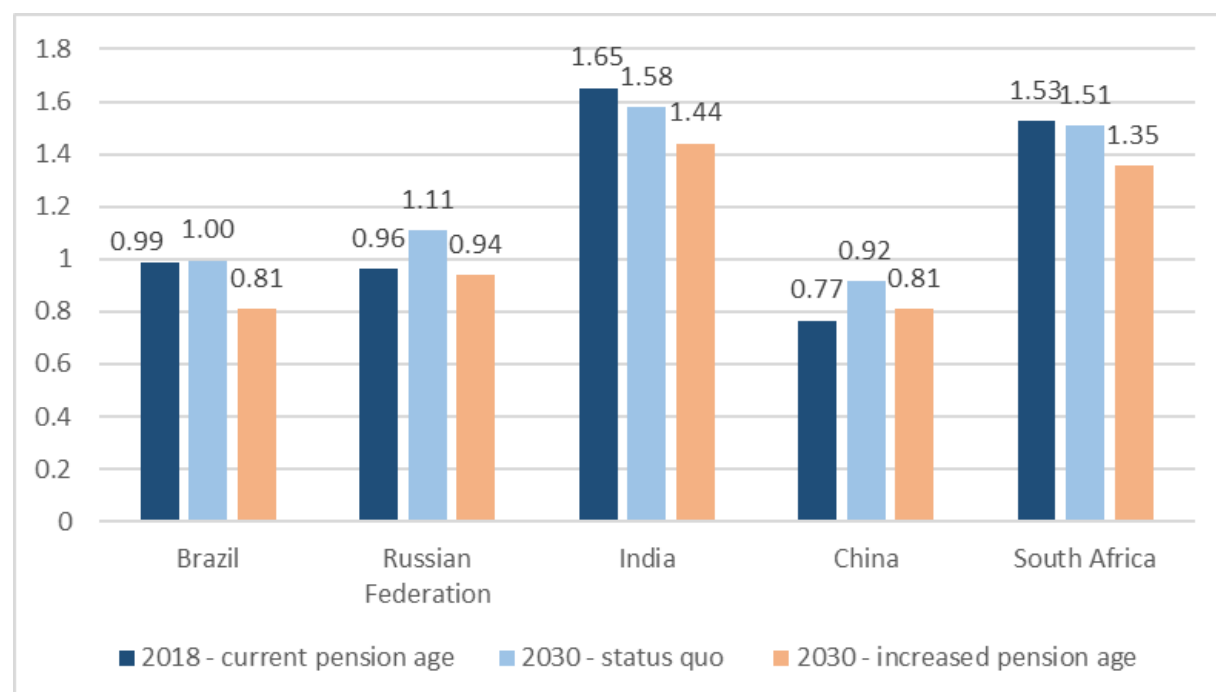
Retirement age is one of the key variables in determining the costs of pension systems, and in practice increasing retirement age is the measure most frequently adopted by countries, although it is not the only one. In view of the above considerations, policies to extend people's work lives and/or reduce benefit levels need to be designed carefully.

Our first scenario estimates the impact of an increase in the retirement age to 65 years on the activity-based dependency ratio in BRICS countries by 2030. This scenario assumes that the labour-force participation rates in the age group 60-65 will increase to the level of current labour force participation rates in the age group 55-60. The activity-based dependency ratio takes into account the labour force participation rate in the country instead of the size of the population of working-age as in the demographic dependency ratio. Many people of working-age are not participating in the labour force, the activity-based dependency ratio is therefore a more precise measure to assess the contribution

⁴ The ILO Invalidity, Old Age and Survivors' Benefits Convention, 1967 (No. 128) sets out that the pensionable age "shall not be more than 65 years or such higher age as may be fixed by the competent authority with due regard to the demographic, economic and social criteria, which shall be demonstrated statistically. If the prescribed age is 65 years or higher, the age should be lowered, under the prescribed conditions, in respect of persons who have been engaged in occupations that have been deemed by national legislation, for the purpose of old-age benefit, to be arduous or unhealthy" (Art. 15 (2) and (3)).

base for social security systems. Even though this ratio could be further specified, it is a good proxy for the calculations needed in this paper.

Figure 8. Scenario I: Simulated change in the activity-based dependency ratio (persons outside the labour force as a percentage of labour force) in case of an increase in pensionable age to 65 years



Note: The activity-based dependency ratio is defined as the number of persons outside the labour force (children below the age of 15 and older persons above statutory retirement age, and persons of working age outside the labour force) as a percentage of the labour force. A value of 0.8 means that for every 100 persons in the labour force, 80 persons are outside the labour force and need to be economically supported, through private or public transfers.

The status quo scenario is based on ILO modelled estimates and projections. The policy change scenario is based on the assumption of an increase of the statutory pensionable age by 2030 as follows: increase by 5 years for Brazil, China, India and South Africa (from 60 to 65); and for women in the Russian Federation (from 60 to 65). It is assumed that the labour-force participation rates in the age group 60-65 will increase to the level of current labour force participation rates in the age group 55-60.

Source: Based on ILO Social Security Inquiry; ILOSTAT modelled estimates and projections.

The results of this simulation exercise presented in figure 8 show that, for all BRICS countries, an increase in pensionable age to 65 would lead to a reduction in the activity-based dependency ratio. In other words, fewer people would need to be supported by productively employed people. This would to some extent enhance the financial sustainability of social security systems. Compared to a status quo scenario, such a reform could offset a projected increase in activity-based dependency ratios by 2030 (Brazil, Russian Federation and China) or accelerate a projected decrease (India and South Africa).

However, this is not automatic. There are significant challenges associated with an increase in statutory pensionable age and the promotion of longer working lives. In countries where employment rates of older workers before statutory retirement age are low and their unemployment rates are high, an increase in statutory retirement age by itself is unlikely to lead to a significant increase in the employment of older workers.

Promoting employment of older workers therefore requires to enhance their employability as well as policies to combat age discrimination and ensure that increased diversity promote human dignity and increasing productivity. This could include investing in lifelong learning, reskilling and up-skilling for older workers, reformed employment services that provide effective re-employment and career guidance for older workers (ILO, 2013a: para. 26); promoting, enforcing and/or enacting employment legislation that combats discrimination on the basis of age; awareness-raising campaigns conducted by governments, social partners and the media to combat negative attitudes about older persons and to increase appreciation of their value to society; or enterprise-level initiatives such as company-run diversity programmes (ILO, 2013a: para. 26).

In case effective retirement ages need to be increased, the transitional implications for workers, particularly those close to retirement, must be addressed on a fair basis, respecting workers' and employers' interests, and the specific concerns and opportunities for employers, workers and society. Such reforms must recognize that some workers or groups of workers have reduced capacities and life expectancies, notably those who spend their lives in arduous or hazardous occupations, and their health and related issues need to be addressed. It is important to ensure that delaying retirement should be a matter of choice for workers (ILO, 2013b: para. 25).

Increasing women's labour force participation and quality of employment

The promotion of women's employment can also enhance the sustainability of their social security systems and attain broader economic and social objectives. BRICS countries have already committed to close the gap between male and female labour force participation rates by 25 per cent by 2025, as set out in the G20 Leaders' Declaration in Brisbane in 2014.⁵

As part of broader objectives, women's greater participation in the labour force can generate positive effects in terms of the number of people contributing to pension systems and lowering the demographic dependency ratios. In view of women's educational achievements, their decent employment contributes to inclusive growth and higher productivity, and wider economic and social development.

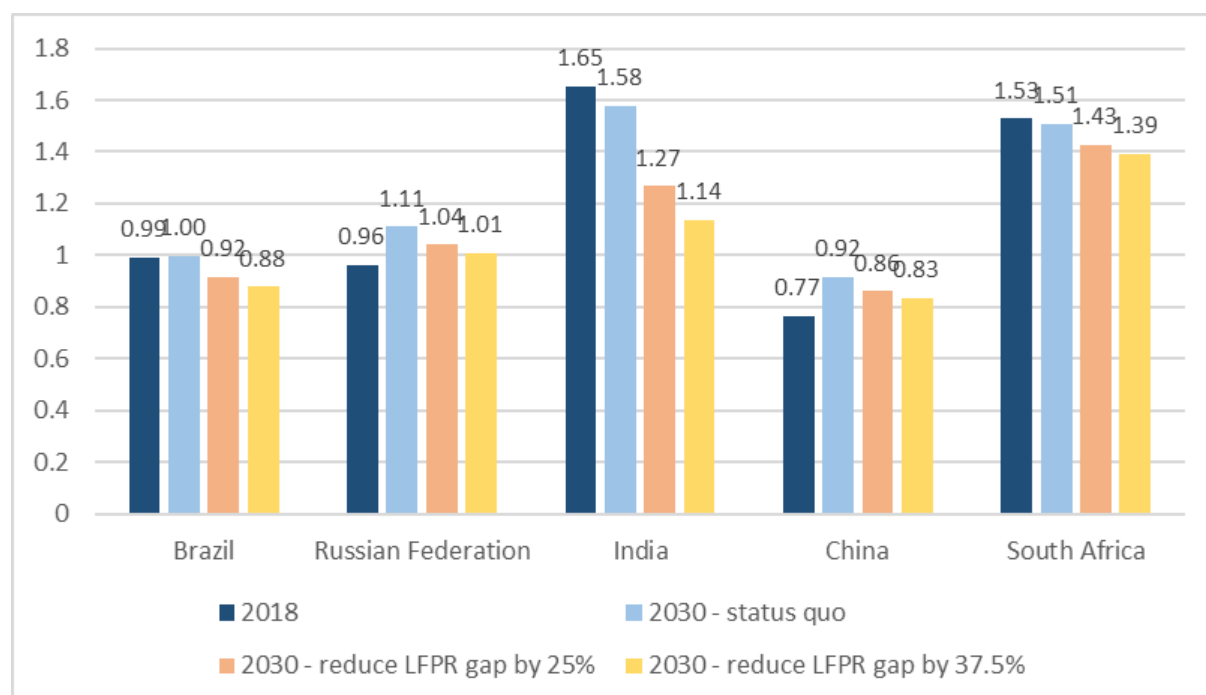
Our second scenario simulates an increase in women's labour force participation, reflecting the G20 Brisbane commitment in two variants:

- a. assuming that the Brisbane commitment of closing the gender gap by 25 per cent is achieved by 2025 and that female labour force participation will remain stable between 2025 and 2030;
- b. assuming that the Brisbane commitment is achieved by 2025 and that the gender gap the gender gap decreases by an additional 12.5 per cent by 2030; this is equivalent to closing the gender gap by 37.5 per cent between 2015 and 2030.

The results of the simulations presented in figure 9 show that a significant decrease of the activity-based dependency ratio could be achieved by closing the gender gap in labour force participation. The impact of this simulated change is greatest in India, leading to a situation where by 2030, a 100 persons in the labour force would have to support 127 persons under scenario (a) or 114 persons under scenario (b), instead of 158 persons under the status quo scenario. In the other BRICS countries, the simulated effect is less pronounced, but significant (Figure 9).

⁵ "We agree to the goal of reducing the gap in participation rates between men and women in our countries by 25 per cent by 2025, taking into account national circumstances, to bring more than 100 million women into the labour force, significantly increase global growth and reduce poverty and inequality." (para. 9 of the G20 Leaders Declaration, Brisbane, 2014).

Figure 9. Scenario II: Simulated change in the activity-based dependency ratio (persons outside the labour force as a percentage of labour force) in case of an increase in women's labour force participation



Note: The activity-based dependency ratio is defined as the number of persons outside the labour force (children and older persons above statutory retirement age, and persons of working age outside the labour force) as a percentage of the labour force. A value of 0.8 can be interpreted as follows: for every 100 persons in the labour force, 80 persons are outside the labour force and need to be economically supported, through private or public transfers.

Status quo scenario: ILO modelled estimates. Policy change scenarios are based on the assumption that the countries implement employment policies to reduce the labour force participation gap between men and women (a) by 25% (G20 Brisbane commitment 2014, assuming that the gender gap in labour force participation is closed by 25% by 2025 and remains constant thereafter) or (b) 37.5% (assuming extrapolation of G20 Brisbane commitment to 2030, assuming the closing of the gender gap in labour force participation is reduced by 25% by 2025 and an additional 12.5% by 2030). The labour force participation rates for men are kept unchanged.

Source: ILOSTAT modelled estimates and projections.

Policies to increase women's labour force participation and quality of employment are therefore an important policy option to better cope with the repercussions of the ageing of the population. An increase in women's (formal) employment can potentially increase the number of contributors in the short term, while contributing to better social protection for future pensioner generations in the medium and long term. This can help to address the significant gaps in women's social protection, facilitate access and enhance adequacy (ILO, 2016b, 2017c, 2019a).

Closing the gender gap in women's labour force participation requires a combination of well-designed policy measures to ensure that the additional employment opportunities lead to decent and productive employment. Policies to enhance family support, a more equal sharing of family responsibilities between women and men, better work-life balance, better access to quality childcare and long-term care facilities, maternity protection, paternity and family responsibility-related leave, flexible working time and home work are important elements to increase overall labour force participation (ILO, 2013c: 30). Adequate labour and social protection, including for those in non-standard forms of employment, are also essential for promoting women's access to decent work (ILO, 2016a).

In this respect, investments in the care sector are essential: on the one hand they are essential for creating decent employment opportunities in the care sector; on the other hand, better access to quality childcare and long-term care services allows parents and carers (the majority of whom are women) to participate on the labour force (ILO, 2018a, 2018b). Such investments in the care sector should recognize the complementary and fundamental roles of family, community and professional care services, develop care structures that address the diverse demands for care services and ensure that professional care services are appropriately accredited and regulated (ILO, 2013c: 30).

Fostering formal employment

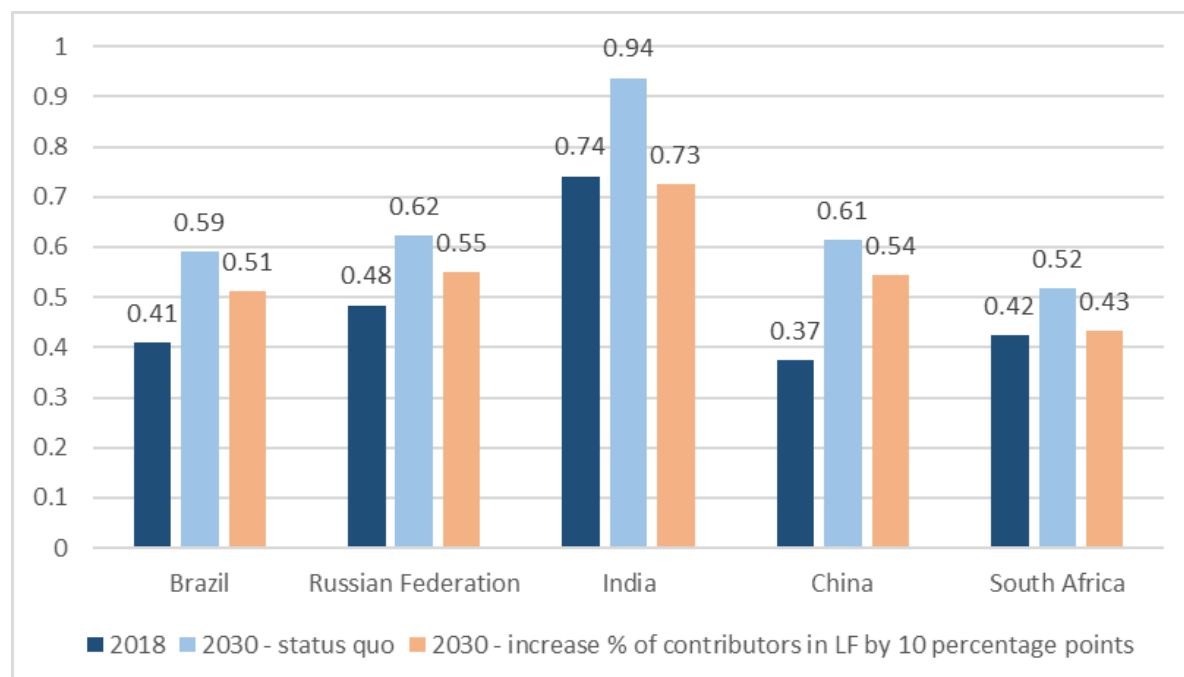
Promoting formal employment and facilitating transitions from the informal to the formal economy is another policy option that is particularly relevant for countries with ageing populations and high levels of informality.

As highlighted above, this dimension is also central to the discussion of the first two policy options – if longer working lives and higher female labour force participation do not lead to increased levels of formal employment, the impact of these measures will be limited.

Our third scenario simulates an increase in the formal employment rate on the ratio of the number of older persons above statutory pension age⁶ to the number of contributors to a pension fund. The results presented in figure 10 show that an increase in the number of contributors by 10 percentage points can keep the ratio relatively stable (India, South Africa) or at least contain this increase that would take place in a status quo scenario (Brazil, Russian Federation, China). For countries currently displaying relatively low levels of pension coverage (see Figure 6 above), such as Brazil, India or South Africa, greater efforts in fostering formal employment and extending social security coverage, and thereby increasing the share of contributors in the labour force, provides an important window of opportunity to rationalise pension costs and to ensure better pension coverage for a growing population of older persons. However, even with significantly higher social insurance coverage, non-contributory pensions will remain an important element of the policy mix to ensure at least a basic level of social security for those who are not (sufficiently) covered by contributory pensions.

⁶ The figure considers all older persons above statutory pension age, not only recipients of a contributory or non-contributory pension, as the latter would require a more complex calculation procedure to arrive at a reliable estimate for 2030.

Figure 10. Scenario III: Simulated change in the ratio of older persons above statutory pension age as a percentage of contributors to a pension fund in case of an increase in formal employment



Note: Status quo: Assuming a constant share of contributors as a percentage of the labour force. Policy change scenario: Based on the assumption that the share of contributors in the labour force increases by 10 percentage points by 2030. Contributors to public pension funds were used for Brazil, China, India and the Russian Federation; for South Africa, contributors also include the private pension fund.

Source: Social Security Inquiry; ILOSTAT modelled estimates and projections.

Beyond fostering greater social security coverage, the promotion of formal employment also plays a much larger role in promoting higher levels of labour productivity and contributing to inclusive growth, as discussed in the previous section.

Conclusion

Decent employment plays an important role for sustainable social security systems in BRICS countries.

In view of the current labour market situation in BRICS countries, the promotion of decent work and the inclusion of more persons of working age in the labour force (i.e. women, people with disabilities) should be the first priority. This includes in particular the promotion of formal employment, ensuring adequate wages and working conditions and ensuring social security coverage. Having more people in quality employment would decrease the activity-based dependency ratio and therefore make social security more sustainable. Thus, prioritizing effective measures to ensure full and decent employment for the (potential) workforce would lift pressures on pension systems, reduce the need for pension reforms, and contribute to wider employment and social protection policy objectives.

Based on our analysis, policy-makers may take the following specific policy responses in consideration:

- Increasing older workers' employment rates and quality of employment. Tripartite consensus on measures and incentives that enable employers to provide more and better job opportunities for older workers and that facilitate the retention of workers in productive employment until retirement (ILO, 2013c) is a potential way forward.
- Increasing women's labour force participation, building on previous G20 and BRICS commitments, requires a combination of well-designed policies to include more women in (formal) employment and improve their working conditions. This includes policies to enhance family support, a more equal sharing of family responsibilities between women and men, better work-life balance, better access to quality childcare and long-term care facilities, maternity protection, paternity and family responsibility-related leave, flexible working time and adequate labour and social protection, including for those in non-standard forms of employment.
- Policies that aim at the inclusion of more persons of working age into the labour force, especially women and persons with disabilities, should aim at removing barriers and promote decent and productive employment.
- Policies to increase pensionable ages for men and women need to be considered in a very careful way, enabling workers to prolong their working life if they desire so. Policies should strive to ensure the adequacy and the predictability of pensions and a gradual and flexible transition from active working life to retirement through measures such as phased-in retirement, part-time work and job-sharing.
- In addition to ensuring the financial, fiscal and economic sustainability of pension systems (through appropriate and well-designed policies, financing mechanisms and enforcement measures), social security systems should also ensure access to adequate other social security benefits as well as affordable, quality public health and social services, in line with ILO social security standards.

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