



## ► 4.3 Social protection for older women and men: Pensions and other non-health benefits

- Pensions for older women and men are the most widespread form of social protection in the world, and a key element in meeting SDG target 1.3. Globally, 77.5 per cent of people above retirement age receive some form of old-age pension. However, major disparities still exist across regions, between rural and urban areas, and between women and men.
- Pension systems are often composed of a mix of contributory and non-contributory schemes aimed at providing income security. As both the expression and the result of social solidarity, and when financed sustainably with due regard to social justice and equity, pension systems are a key means by which States can ensure redistribution and overcome various inequities in societies.
- In countries with high levels of informality that face difficulties in extending contributory schemes, the introduction of tax-financed pensions has allowed the extension of coverage to previously uncovered population groups, especially women. However, in many instances the benefits provided lack a legal basis and do not provide adequate levels of basic income security that can guarantee a dignified life.
- Significant progress has been made with respect to the objective of extending pension systems in developing countries to achieve universal coverage. Universal pensions have been developed in a wide variety of countries, including in low- and middle-income countries, as part of national social protection floors.
- Observed trends vary substantially across regions and even among countries within the same region. In countries with comprehensive and mature systems of social protection, with ageing populations, the main challenge is to maintain a sound balance between financial sustainability and pension adequacy. At the other extreme, many countries around the world are still struggling to extend and finance their pension systems; these countries face structural barriers linked to low levels of economic development, high levels of informality, low contributory capacity, poverty and insufficient fiscal space, among others.

- ▶ Apart from the challenge of extending protection to uncovered people, ensuring that those who benefit from pensions are able to maintain themselves in health and decency represents another important challenge.
- ▶ Adequate protection in old age remains a challenge for women, people in low-paid jobs, those in precarious forms of employment, people working on digital platforms and migrants.
- ▶ Public pension schemes, based on solidarity and collective financing in line with ILO social security standards, remain by far the most widespread pillar of old-age protection globally. Many countries are introducing parametric reforms to their contributory pension systems in order to adapt them to changing conditions and ensure their long-term sustainability. While important, these parametric reforms can only go so far in the face of macro phenomena such as wage suppression, frozen contribution rates, growing inequalities and, last but not least, the falling labour share of income.
- ▶ Increasingly, public pension schemes are complemented by voluntary or mandatory defined contribution schemes (individual savings accounts and notional defined contributions), the objective of which is to raise benefit levels on the basis of market or economic performance, although without guarantee as to the levels ultimately secured.
- ▶ The COVID-19 crisis brought additional pressures to bear on the costs and financing of pension systems, but with a moderate to low impact over the long term. The massive response of countries to the crisis has highlighted the critical role that old-age protection systems, including long-term care, play in ensuring the protection of older adults, particularly in times of crisis.



### 4.3.1 Ensuring income security in old age to realize older people's right to social security

Ensuring income security for people in old age is a crucial dimension of the human right to social security (see box 4.23). Public pension schemes constitute the foundation of systems to guarantee income security for older people through a combination of rights-based mechanisms. Income security in old age is also closely related to the availability of accessible social services, including healthcare, home help and long-term care.

Income security for older people plays a key role in preventing poverty and vulnerability among older people, and is part and parcel of achieving SDG target 1.3 and other SDGs. To guarantee that no older person is left behind, policymakers and legislators should aim at building and maintaining comprehensive social protection systems based on the principle of universality. Recommendation No. 202 calls for contributory and non-contributory pension schemes to be combined in an optimal way to protect the entire population.

### 4.3.2 Types of pension schemes

In international practice, pension systems are organized in many different ways. ILO social security standards recognize the need for various mechanisms to coexist with a view to achieving universal coverage (see box 4.23). Public pension schemes have proven to be effective in ensuring adequate levels of income security of older people, as well as in combating poverty and social inequality. Most countries have progressively added additional components to their systems to guarantee minimum pensions and, in certain cases, have established supplementary mechanisms aimed at securing higher levels of benefits.

Thus the vast majority of countries provide old-age pensions in the form of a periodic cash benefit through at least one scheme, and often through a combination of different types of contributory and non-contributory schemes. In a few countries, schemes offer no periodic benefits, but do provide lump-sum benefits through provident funds or similar programmes. Some combination of contributory and non-contributory schemes is the most prevalent form of organization of

#### ► Box 4.23 International standards on old-age pensions

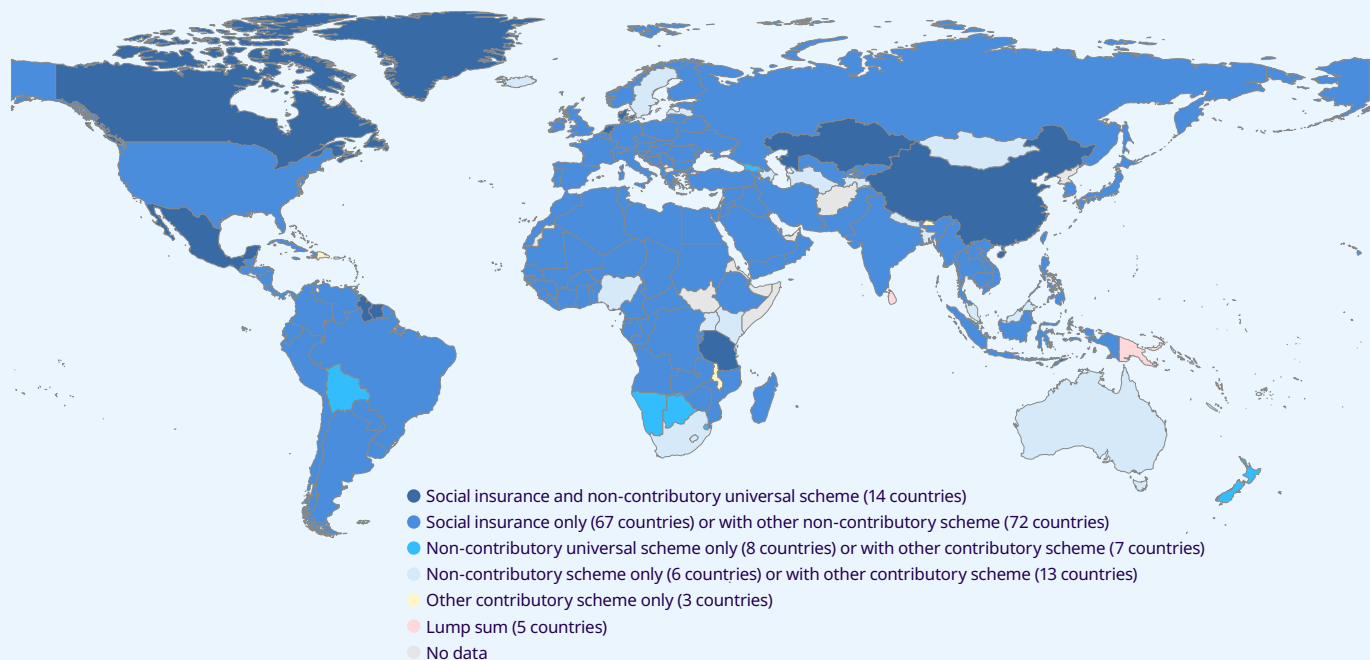
The rights of older people to social security and to an adequate standard of living are laid down in the major international human rights instruments, the Universal Declaration of Human Rights (UDHR), 1948, and (in more general terms) in the International Covenant on Economic, Social and Cultural Rights (ICESCR), 1966.<sup>1</sup>

Convention No. 102, Convention No. 128 and its accompanying Recommendation No. 131, and Recommendation No. 202 together provide an international reference framework for pensions and other social security benefits to ensure income security, as well as access to healthcare, in old age. They state that adequate old-age pensions should be provided at guaranteed levels, upon completion of a qualifying period, and regularly adjusted to maintain pensioners' purchasing power until the beneficiary's death. Pensions can be provided through contributory schemes and/or by universal or means-tested non-contributory schemes. Contributory pensions should ensure income maintenance by guaranteeing at least minimum replacement rates corresponding to a prescribed proportion of an individual's past earnings, or minimum benefit levels. Non-contributory pensions, including means-tested old-age pensions, should guarantee that the provision offered is at least sufficient to maintain the family of the beneficiary in health and decency (Convention No. 102, Art. 67(c)). Together, these benefits should guarantee a national social protection floor that secures a dignified life in old age as part of comprehensive social protection systems that also provide higher levels of pensions.

International social security standards thus provide a comprehensive framework of core principles and benchmarks for the establishment, development and maintenance of adequate old-age pension systems at national level. Importantly, in the face of rapidly ageing societies and the financing challenges involved, Recommendation No. 202 confirms the State as the entity entrusted with the overall and primary responsibility for social protection, including that of ensuring the financial, fiscal and economic sustainability of pension systems with due regard to social justice and equity.

<sup>1</sup> UDHR, Arts 22 and 25(1); ICESCR, Art. 9. See also UN 2008.

► **Figure 4.31 Old-age protection (pensions) anchored in law, by type of scheme, 2020 or latest available year**



Sources: ILO [World Social Protection Database](https://www.ilo.org/global/publications/world-social-protection-report-2020-22), based on the SSI; ISSA/SSA, Social Security Programs Throughout the World; ILOSTAT; national sources.

Link: <https://wspr.social-protection.org>.

pension systems in the world, applied in 106 countries (54 per cent) out of the 195 countries for which data are available (see figure 4.31). The non-contributory schemes in these countries vary: 21 countries provide universal benefits for all older people above a certain age threshold, and 85 countries provide means-tested (either income- or pensions-tested) benefits for older people who do not receive any other pension.

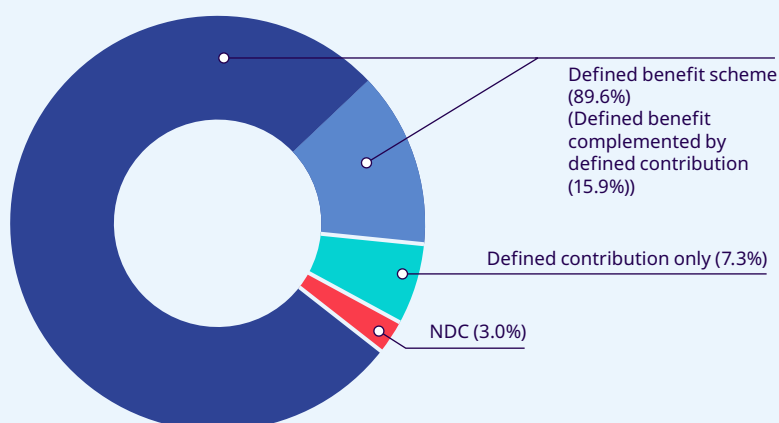
In 70 countries (36 per cent of the total number of countries for which data are available), contributory schemes are the only mechanism providing old-age pensions – most of them (67 countries) operating under a public social insurance scheme and mainly covering employees

and self-employed workers. In 14 cases, however, pensions are provided exclusively through non-contributory schemes. Of these, the majority (eight countries) provide universal coverage.

As regards contributory schemes, defined benefit pension schemes, based on collective financing, are predominant, being present in 90 per cent of countries. In one in six countries (16 per cent), defined benefit schemes are complemented by mandatory defined contribution schemes. Only 7.3 per cent of countries rely exclusively on mandatory defined contribution schemes, based on individual accounts, and just 3 per cent have only notional defined contribution schemes (see figure 4.32).<sup>40</sup>

<sup>40</sup> This term describes notional or fictitious individual personal accounts under a public pay-as-you-go scheme.

► **Figure 4.32 Financial mechanisms for old-age pensions: Percentages of countries with pension schemes financed by defined benefits and defined contributions**

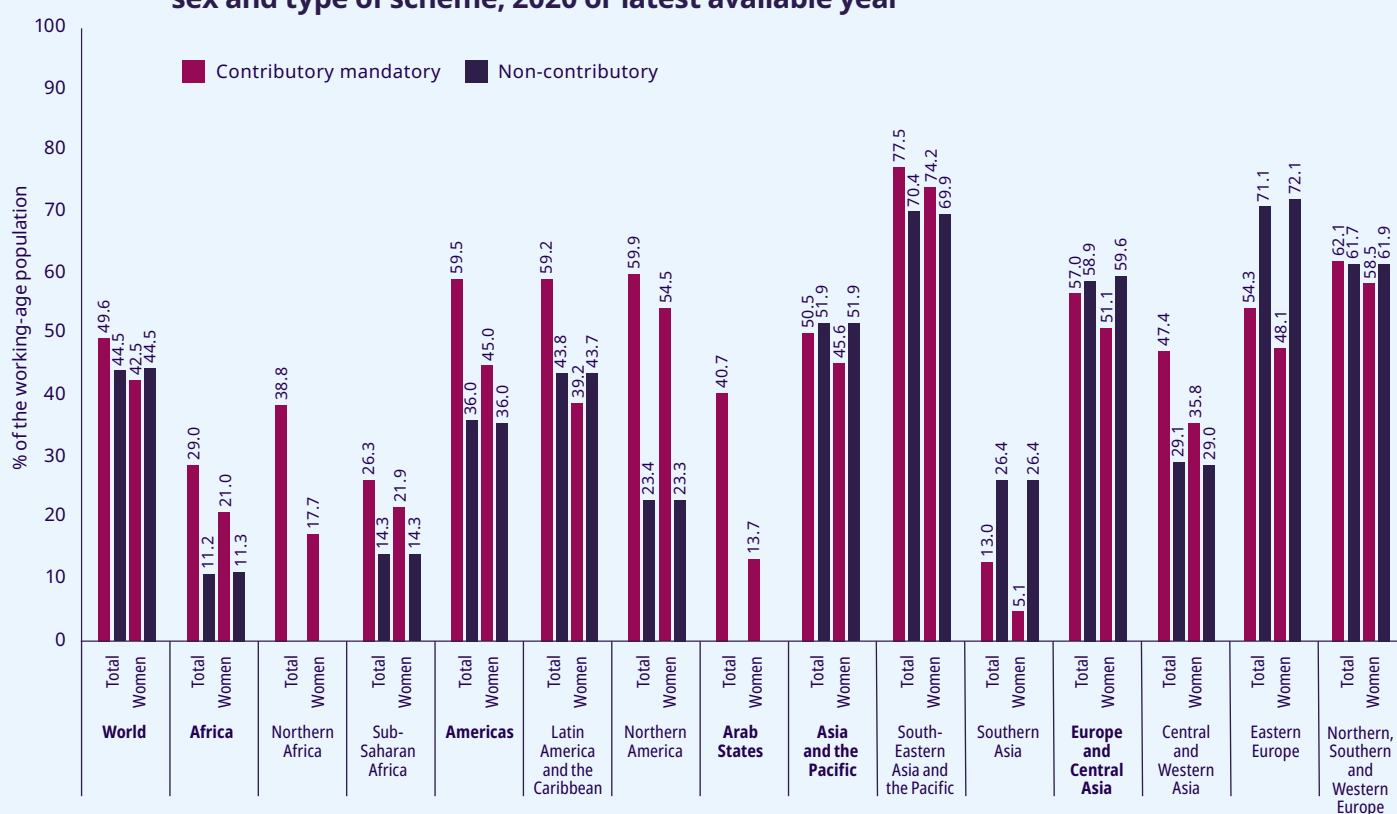


Note: NDC = notional defined contribution.

Sources: ILO, [World Social Protection Database](https://wspr.social-protection.org), based on the SSI; ILOSTAT; national sources.

Link: <https://wspr.social-protection.org>.

► **Figure 4.33 Legal coverage for old-age protection: Percentage of working-age population aged 15+ years covered by old-age pensions, by region, subregion, sex and type of scheme, 2020 or latest available year**



Note: Global and regional aggregates are weighted by the working-age population aged 15+ years.

Sources: ILO, [World Social Protection Database](https://wspr.social-protection.org), based on the SSI; ISSA/SSA, Social Security Programs Throughout the World; ILOSTAT; national sources.

Link: <https://wspr.social-protection.org>.

### 4.3.3 Legal coverage

While there is an observable global trend towards increasing both legal and effective coverage, considerable coverage gaps and inequalities persist in pension systems. Globally, 49.6 per cent of the working-age population are covered by existing laws under mandatory and voluntary contributory schemes and would therefore be potentially eligible for a contributory pension once they reach the prescribed age.

At the same time, 44.5 per cent of the world's working-age population are legally covered by non-contributory schemes and are therefore potentially eligible for a non-contributory benefit once reaching pensionable age (see figure 4.33). Although national legal frameworks often include the option of voluntary pension coverage, the likelihood of coverage through voluntary mechanisms is not high, given that few individuals take this option owing to the significant contributory burden and the perceived remoteness of the contingency, in contrast to the immediate needs of households.

In contributory schemes, legal coverage for women tends to be lower than for men, at 42.5 per cent and 49.6 per cent, respectively, of the total population. This gender gap reflects women's lower labour market participation and their overrepresentation among the self-employed and those working as contributing family workers (particularly in agriculture), as domestic workers, or in other occupations or sectors frequently excluded from the scope of existing legislation. In the Arab States, legal coverage of women in contributory schemes is only 13.7 per cent, while total population coverage stands at 40.7 per cent. Similar trends can be observed for sub-Saharan and Northern Africa, where women's legal coverage is lower as a proportion of the total population. While some of these women may be eligible for survivors' pensions, these do not provide the same level of protection as pensions earned in their own right.

Considerable coverage gaps and inequalities persist in pension systems.

### 4.3.4 Effective coverage: Monitoring SDG indicator 1.3.1 for older people

Effective coverage of pension schemes can be measured by two complementary indicators focusing, respectively, on people of working age contributing to a pension scheme and people of retirement age actually receiving benefits.

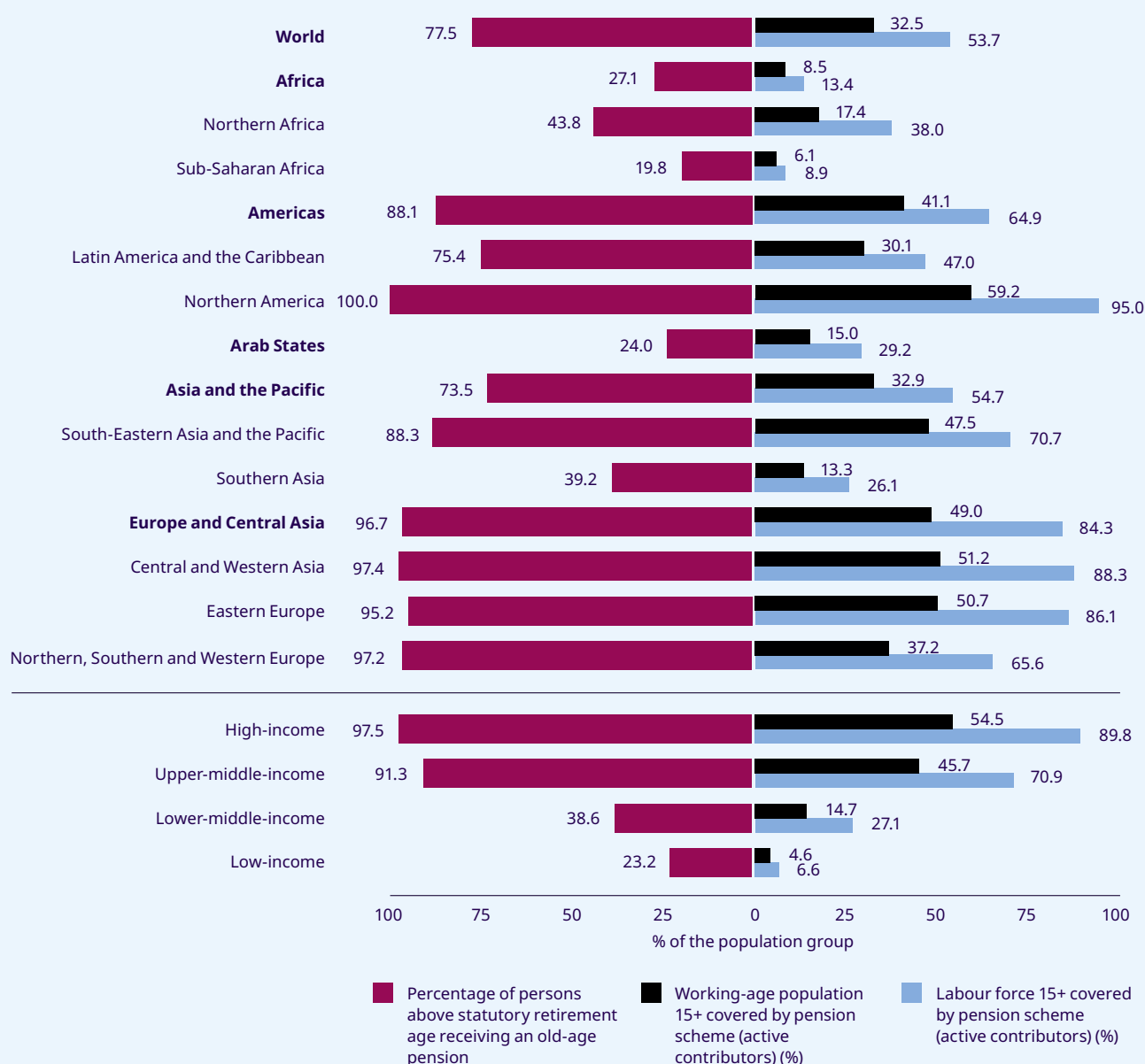
#### ► Effective coverage of people of working age (contributors)

Figure 4.34 presents two indicators that help us to understand the implementation of statutory schemes: active contributors as a percentage of the working-age population, and active contributors as a percentage of the labour force. These provide an indication of future pension coverage for those who are economically active and those of working age who are contributing to existing contributory pension schemes. An important cause for concern is that, at the global level, only a third of the working-age population (32.5 per cent) contribute to pension schemes, with large regional variations. Just over half of the global labour force (53.7 per cent) contribute to a pension scheme (figures 4.34 and 4.35), and can therefore expect to receive a contributory pension upon retirement; again, though, there are significant regional variations. For example, in sub-Saharan Africa, only 8.9 per cent of the labour force are contributing to pension schemes and accumulating rights to a contributory pension, whereas in Northern, Southern and Western Europe, and Northern America, coverage rates are 88.3 per cent and 95 per cent, respectively.

In low-income contexts, usually only a very small proportion of those employed are wage and salary earners with formal employment contracts covered by contributory pensions. This is reflected in the low proportion of the labour force, just 6.6 per cent, actively paying contributions in low-income countries. Informality, associated with low contributory capacity, contribution evasion and fragile governance (including lack of institutional capacity to ensure enforcement of laws) is also more prevalent in low- and middle-income

At the global level, only a third of the working-age population contribute to pension schemes.

► **Figure 4.34 SDG indicator 1.3.1 on effective coverage for old-age protection: Percentage of persons above statutory retirement age receiving an old-age pension and percentage of labour force aged 15+ years and working-age population aged 15+ years covered by pension scheme (active contributors), by region, subregion and income level, 2020 or latest available year**



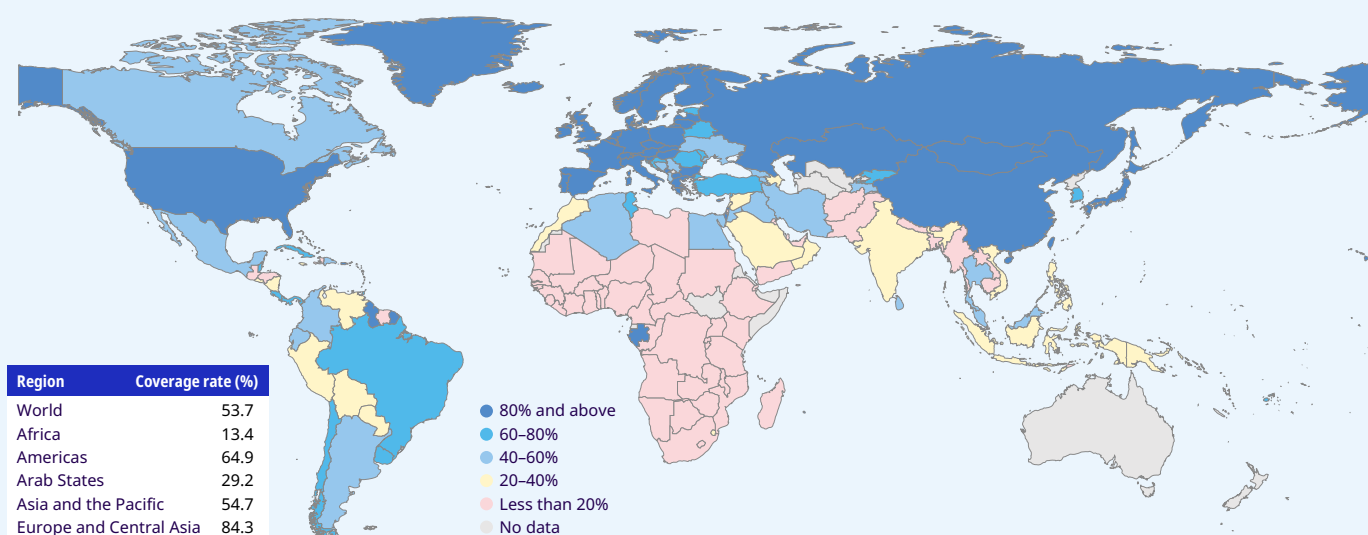
Notes: See Annex 2 for methodological explanation. For active contributors, regional and global aggregates are weighted by working-age population aged 15+ years and labour force aged 15+ years. For beneficiaries, regional and global aggregates are weighted by population of retirement age. Estimates are not strictly comparable with 2016 regional estimates owing to methodological enhancements, extended data availability and country revisions.

Sources: ILO, [World Social Protection Database](https://wspr.social-protection.org), based on the SSI; ILOSTAT; national sources.

Link: <https://wspr.social-protection.org>.



► **Figure 4.35 Effective coverage for old-age protection: Percentage of labour force aged 15+ years covered by pension scheme (active contributors), 2020 or latest available year**



Note: See Annex 2 for methodological explanation. Global and regional aggregates are weighted by the labour force aged 15+ years. Estimates are not strictly comparable with 2016 regional estimates owing to methodological enhancements, extended data availability and country revisions.

Sources: ILO, [World Social Protection Database](https://wspr.social-protection.org), based on the SSI; ILOSTAT; national sources.

Link: <https://wspr.social-protection.org>.

countries, resulting in a high number of people reaching old age without any pension entitlements under contributory schemes.

Efforts to extend contributory schemes to all people with contributory capacity, and also, importantly, the introduction of non-contributory pensions in many countries, have led to a significant extension of coverage to workers in informal employment, securing at least some level of income security in old age for those hitherto unprotected.

### ► Effective coverage of older people (beneficiaries)

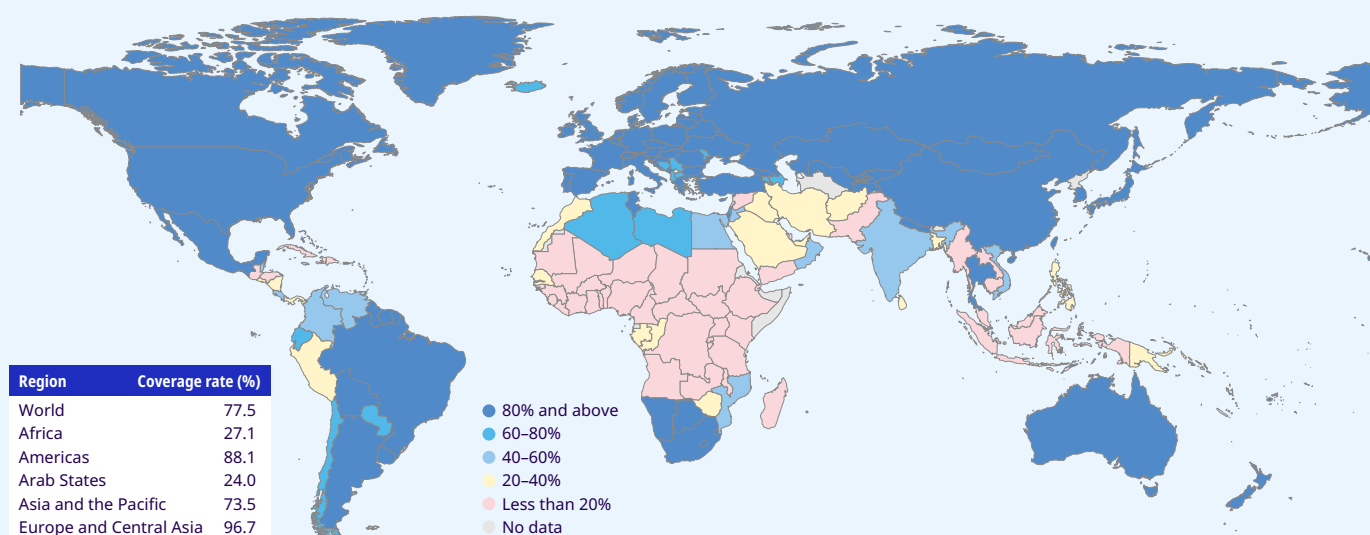
Figure 4.36 shows the percentage of older people above statutory pensionable age receiving contributory or non-contributory pensions.

Worldwide, 77.5 per cent of people above retirement age receive a pension, either contributory or non-contributory.<sup>41</sup> Income protection for older people is thus the most widespread form of social protection, significant progress in coverage having been achieved over recent years. Regional differences in income protection for older people are very significant, however: coverage rates in higher-income countries are as high as 97.5 per cent, while in sub-Saharan Africa they are only 19.8 per cent, and in Southern Asia 39.2 per cent, of people above retirement age (see figure 4.36).<sup>42</sup>

<sup>41</sup> Weighted by total population.

<sup>42</sup> As the available data for many countries do not allow for a detailed age breakdown of old-age pensioners, the indicator is calculated as the total number of beneficiaries of old-age pensions as a proportion of the population above statutory pensionable age.

► **Figure 4.36 SDG indicator 1.3.1 on effective coverage for old-age protection: Percentage of persons above statutory retirement age receiving an old-age pension, 2020 or latest available year**



Note: See Annex 2 for methodological explanation. Global and regional aggregates are weighted by the population above the retirement age. Estimates are not strictly comparable with 2016 regional estimates owing to methodological enhancements, extended data availability and country revisions.

Sources: ILO, [World Social Protection Database](https://wspr.social-protection.org), based on the SSI; ILOSTAT; national sources.

Link: <https://wspr.social-protection.org>.

### 4.3.5 Trends in pension coverage across the world: Achieving universal social protection for all older people

While challenges remain, a significant number of countries have made substantial progress in extending effective pension coverage in recent years. Whereas in 2000 only 34 countries had reached effective coverage of more than 90 per cent of the population above statutory

pensionable age, 78 countries fell into this category between 2015 and 2020. In addition, the number of countries where pension provision reaches fewer than 20 per cent of older people fell to 48, according to the most recent data available, compared with 73 countries in 2000. Overall, the data indicate positive trends in both legal and effective coverage.



A significant number of countries have made substantial progress in extending effective pension coverage.

As indicated by the examples presented in box 4.24, many countries have made significant progress towards universal pension coverage. While some countries, such as the Plurinational State of Bolivia, Botswana, Lesotho, Namibia and the United Republic of Tanzania (Zanzibar), have established universal non-contributory, tax-financed schemes, other countries, such as Cabo Verde and Trinidad and Tobago, are close to achieving universality through a combination of contributory and non-contributory schemes. These experiences show that progress towards universal pension coverage is feasible in low- and middle-income countries.

As indicated in figure 4.37, a substantial number of countries have been successful in expanding effective coverage: Bangladesh, Belarus, Belize, Ecuador, India, the Republic of Korea and Viet Nam, among others. In many countries, the extension of coverage was achieved mainly through the establishment or extension of non-contributory pension schemes, which provide at least a basic level of protection for many older people, while others have combined the extension of contributory schemes to previously uncovered groups of the population with other

### ► **Box 4.24 Extension of pension coverage through universal social pensions or by a mix of contributory and non-contributory provision**

**Plurinational State of Bolivia:** Despite having the lowest GDP per capita in South America, Bolivia has one of the highest coverage rates in old-age pensions. With the introduction in 2007 of the non-contributory old-age pension, “Renta Dignidad”, it achieved universal coverage. Renta Dignidad reaches close to 100 per cent of the population over the age of 60 years, providing benefit levels at around US\$54 a month for each recipient without a contributory pension and around US\$47 for each beneficiary of a contributory scheme. The programme costs 1.2 per cent of GDP and is financed from a direct tax on hydrocarbons and dividends from state-owned companies. It has led to a 14 per cent reduction in poverty at the household level and has secured beneficiary incomes and consumption.

**Cabo Verde:** In 2006 Cabo Verde took two major steps towards a universal pension system. The first was the creation of the National Centre of Social Pensions. Non-contributory pensions, in combination with the contributory scheme, cover about 84.8 per cent of the population above pensionable age, and provide benefits of around US\$53 a month (20 per cent above the national poverty line). The second was the creation of the Mutual Health Fund, from which pensioners also benefit through its subsidy of the purchase of medicines from private pharmacies and provision of a funeral allowance.

**Namibia:** The Basic Social Grant in Namibia guarantees all residents over 60 years of age a monthly allowance of 1,100 Namibian dollars (approximately US\$78), lifting beneficiaries well above the poverty line. Beneficiaries have been found to share the grant with the extended family, especially by supporting the schooling and well-being of grandchildren. While there are some problems in reaching people in remote areas, the total coverage is estimated to be over 90 per cent.

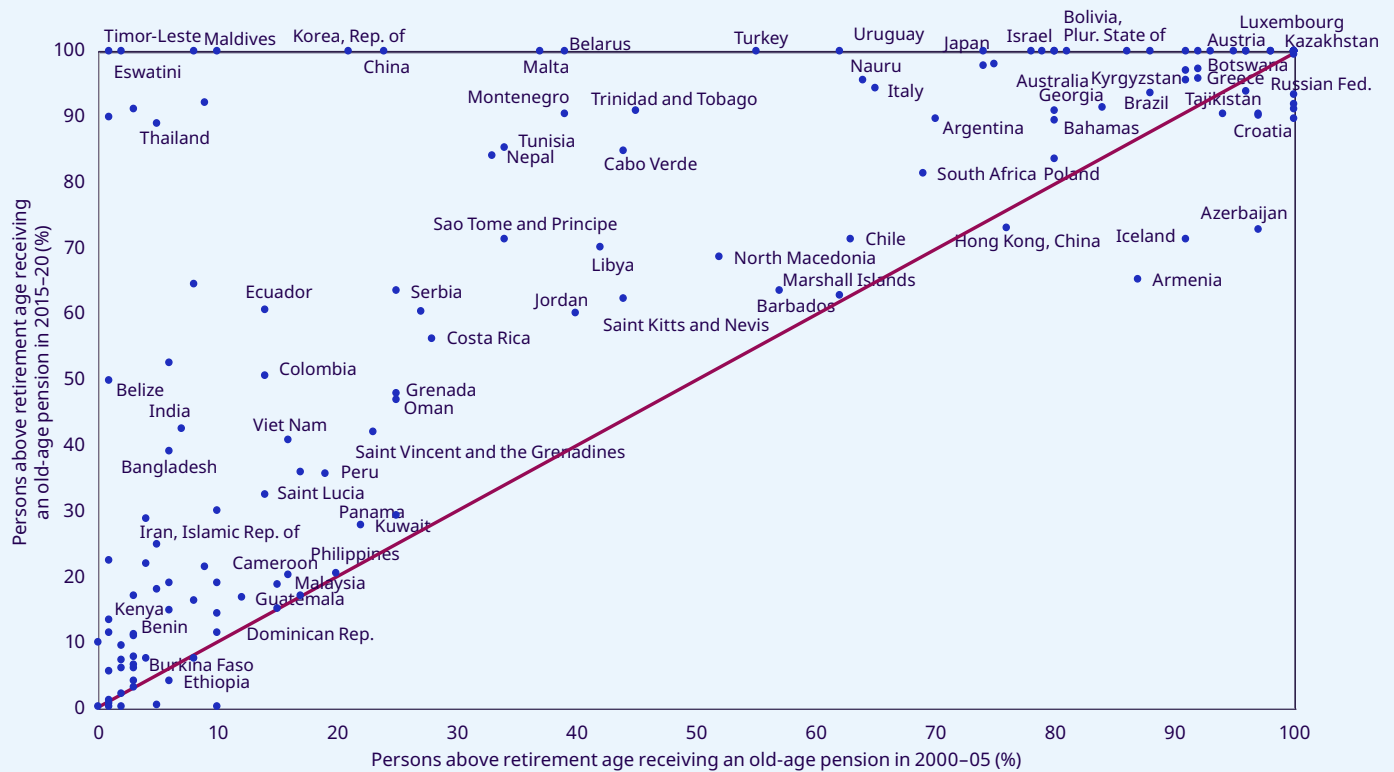
**South Africa:** South Africa was the first African country to introduce a social pension to extend coverage to those older people who did not have social insurance. The Older Person’s Grant is an income-tested scheme, providing a monthly payment of 1,500 South African rand (US\$112) for each person aged 60–75 years and 1,520 rand (US\$114) for each person above 75 years. It is paid to around 3 million older people in South Africa, reaching 100 per cent coverage in some jurisdictions. The Older Person’s Grant is given to citizens, permanent residents and refugees with legal status, and is estimated to have helped to reduce inequality significantly, bringing the Gini coefficient down from 0.77 (without grants) to 0.60 (with grants).

**United Republic of Tanzania (Zanzibar):** In April 2016, Zanzibar became the first territory in East Africa to implement a social pension financed fully by the Government. The Universal Pension Scheme provides all residents over the age of 70 with a monthly pension of 20,000 Tanzanian shillings (US\$9). In a context characterized by high levels of poverty and labour market informality, very few people are eligible for the contributory pension. While the benefit level of the social pension is modest and on its own cannot lift older people out of poverty, it constitutes a reasonable first step towards achieving universal coverage. In May 2016, 21,750 people, or 86 per cent of the eligible population, received the universal pension.

**Trinidad and Tobago:** A contributory retirement pension administered by the National Insurance Board and a non-contributory Senior Citizens’ Pension (SCP) provide income security for older people in the country. The SCP is a monthly grant of up to 3,500 Trinidad and Tobago dollars (US\$520) paid to residents aged 65 years or more. This is higher than the national poverty line. The SCP cost 1.6 per cent of GDP in 2015. With 90,800 citizens receiving the SCP in September 2016, it is estimated that the combination of the contributory retirement pension and the SCP achieves universal coverage of older people in the country.

Sources: Based on [Global Partnership for Universal Social Protection](#); INPS Cabo Verde 2019; ILOSTAT; Autoridad de Fiscalización y Control de Pensiones y Seguros de Bolivia, *Boletín Estadístico*, December 2020.

► **Figure 4.37 SDG indicator 1.3.1 on effective coverage for old-age protection: Comparison of percentage of persons above statutory retirement age receiving an old-age pension, 2000 and 2015–20**



Sources: ILO, [World Social Protection Database](https://wsp.spr.social-protection.org), based on SSI; ILOSTAT; OECD Social Benefit Recipients Database (SOCR); national sources.

Link: <https://wsp.spr.social-protection.org>.

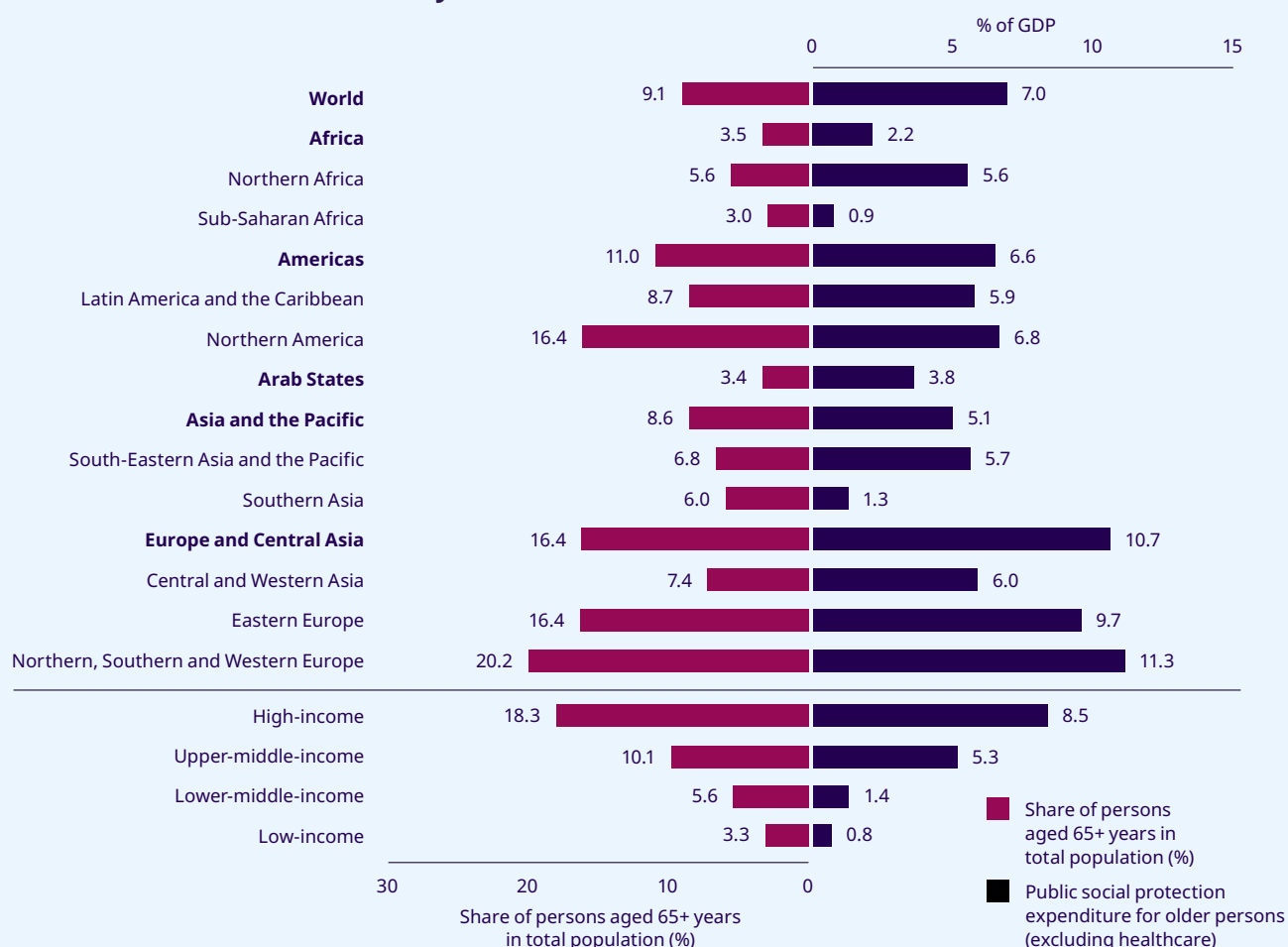
measures. While the introduction of tax-financed mechanisms covering hitherto unprotected people has extended effective coverage, the benefit levels often remain inadequate to maintain beneficiaries in health and decency.

Figure 4.37 indicates that, despite significant efforts to extend coverage around the world and the success stories presented above, not all countries have fared well. Armenia and Azerbaijan, for instance, which had achieved coverage rates close to or above 90 per cent in 2000, have since suffered a drastic regression.

### 4.3.6 Expenditure on social protection for older people

The level of expenditure on the income security of older people represents a useful indicator of the level of development of pension systems, and is highly correlated with the proportion of older people in the population. National public pension expenditure levels are influenced by several factors, including the country's demographic structure, effective coverage rates, adequacy of benefits, and variations in the policy mix between public and private provision of pensions and social services. Public social security expenditure on pensions and other non-health benefits earmarked for older people amounts on average

► **Figure 4.38 Public social protection expenditure (excluding health) on older population (percentage of GDP) and percentage of older persons aged 65+ years in total population, by region, subregion and income level, 2020 or latest available year**



Notes: See Annex 2 for methodological explanation. Public social protection expenditure for older persons (excluding healthcare) global and regional aggregates are weighted by GDP.

Sources: ILO, [World Social Protection Database](https://wsp.spr.social-protection.org), based on the SSI; ILOSTAT; national sources.

Link: <https://wsp.spr.social-protection.org>.

to 7.0 per cent of GDP globally (see figure 4.38),<sup>43</sup> but there are large regional differences, with levels ranging from 10.7 per cent of GDP in Europe and Central Asia to 3.8 per cent in the Arab States.

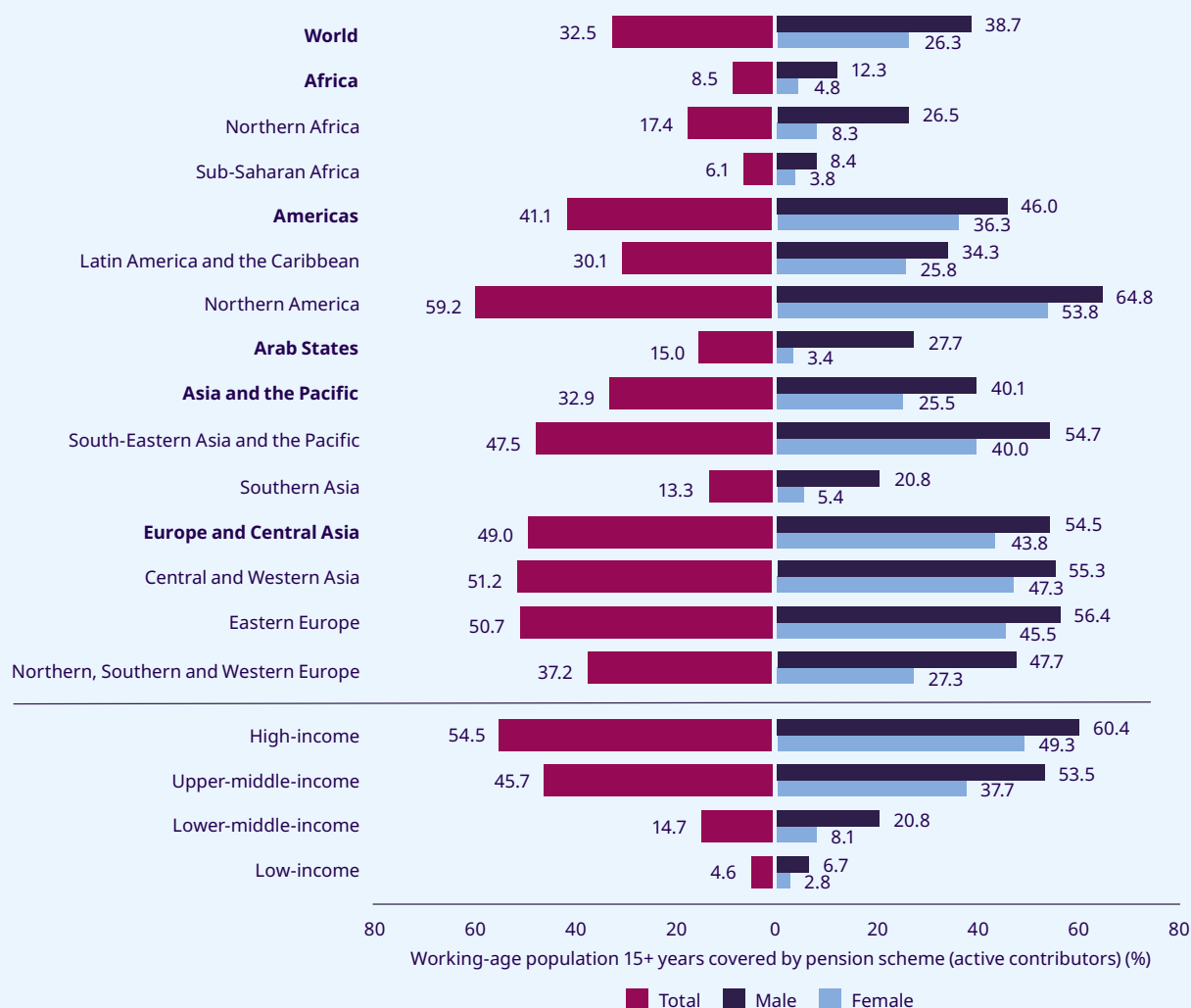
The proportion of older people in the national population, in combination with the level of expenditure on pensions, offers an indication of the economic sustainability of the pension system. Figure 4.38 shows that countries around the world

are at widely different stages in the population ageing process, with notable variations associated with income level. In general, developing countries have younger population structures and nascent pension systems, giving them the opportunity to anticipate the changes required to respond in a timely manner by optimizing system design and adopting reforms as appropriate to ensure the system's long-term economic sustainability.

<sup>43</sup> While the data include not only pensions but, as far as possible, other cash and in-kind benefits for older people, they do not include expenditure on long-term care, the cost of which in many countries is already significant and is likely to increase further in the future as a result of demographic change.



► **Figure 4.39 Effective coverage for old-age protection: Percentage of working-age population aged 15+ years covered by pension scheme (active contributors), by region, subregion, income level and sex, 2020 or latest available year**



Note: See Annex 2 for methodological explanation. Global and regional aggregates are weighted by the working-age population 15+ years. Estimates are not strictly comparable with 2016 regional estimates owing to methodological enhancements, extended data availability and country revisions.

Sources: ILO, [World Social Protection Database](https://wsp.spr.social-protection.org), based on SSI; ILOSTAT; national sources.

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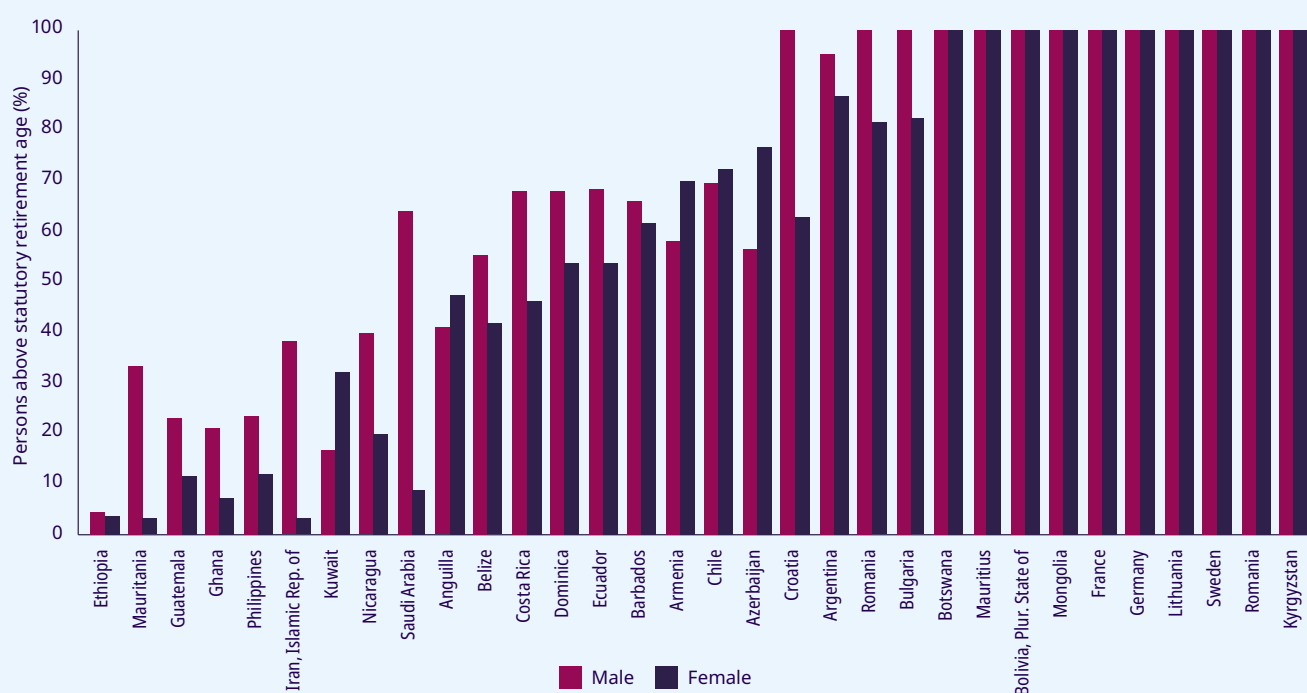
### 4.3.7 Closing gender gaps in access to income security in old age

Securing women's income security in old age remains a challenge in many countries, in view of persistent gender inequalities in labour markets as well as broader societal inequalities and disparities, including gendered division of unpaid family responsibilities. All these factors contribute

to women's lower labour force participation, their higher representation in vulnerable forms of employment (also as contributing family workers), persistent gender pay gaps and lower lifelong earnings.

For these reasons, women in many countries are less likely than men to contribute to a pension scheme, and also less likely to receive a pension. While at the global level 38.7 per cent of working-age men are covered under a pension scheme, this percentage is only 26.3 per cent for women (see figure 4.39). The gender gap

► **Figure 4.40 SDG indicator 1.3.1 on effective coverage for old-age protection: Percentage of persons above statutory retirement age receiving an old-age pension, selected countries, by sex, 2020 or latest available year**



Sources: ILO World Social Protection Database, based on SSI; OECD SOCR; ILOSTAT; national sources.

Link: <https://wspr.social-protection.org>.

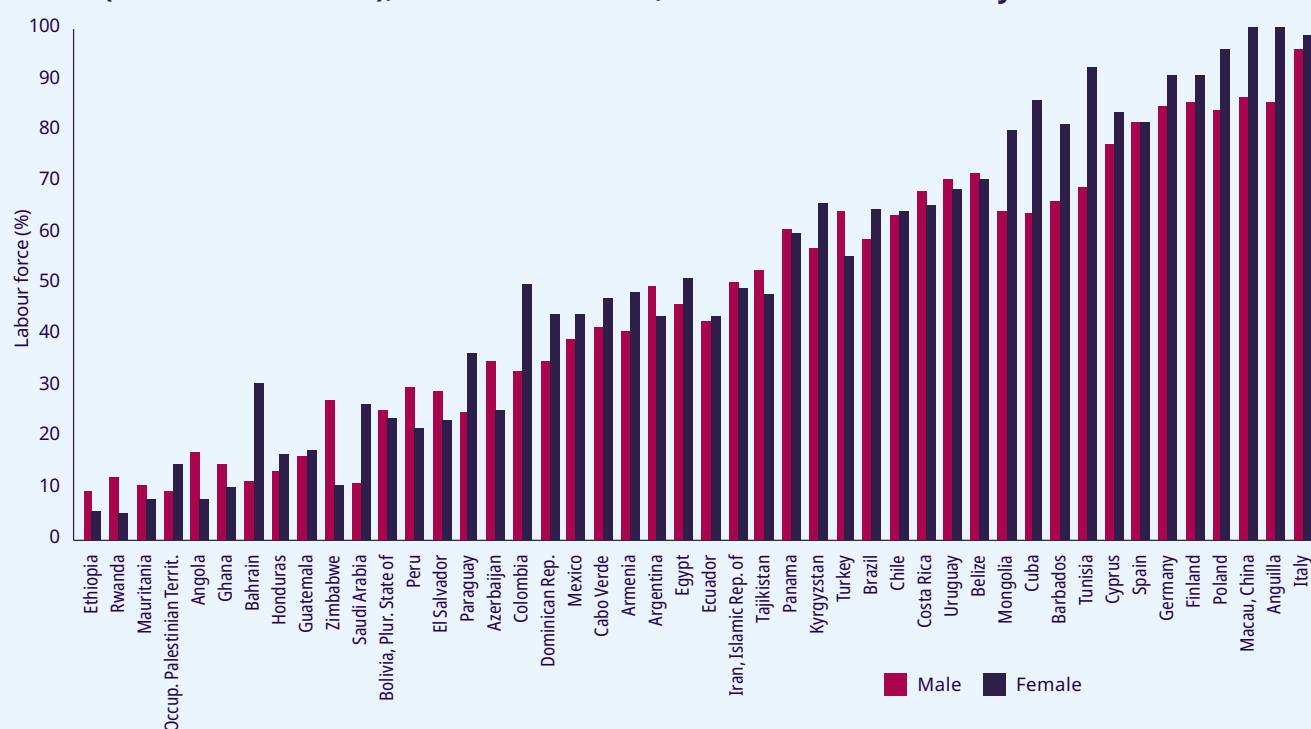
is more pronounced in lower-middle-income countries, where 20.8 per cent of men are covered compared to only 8.1 per cent of women. There are also marked differences across regions, with some regions having particularly high coverage gaps between men and women; for example, in the Arab States only 3.4 per cent of working-age women are covered, compared with 27.7 per cent of men (see figure 4.39).

Women also tend to have lower earnings than men, and to interrupt their market-based work more often to take care of dependants. These factors lead to gender inequalities in pension schemes; some countries have partially offset such inequalities by introducing compensatory mechanisms, such as pension care credits for both women and men, or an extension of minimum pension guarantees. Unlike public pension schemes, private pension schemes do not offer such compensatory measures, as benefit levels are more strictly based on past contributions, penalizing women for lower contributions, earlier retirement and, where gender-specific actuarial tables are used, for their greater average longevity (Behrendt and Woodall 2015; Behrendt 2000).

In many parts of the world, men's higher rates of out-migration from rural areas are resulting in women becoming disproportionately represented among rural populations, where paid work, even if available, is very often poorly remunerated, informal and insecure. In the absence of other forms of pension coverage, non-contributory pensions, particularly in low- and lower-middle income countries, help bridge gender coverage gaps, though not necessarily adequacy gaps. While non-contributory pensions can go a long way towards securing women's (and men's) access to basic protection, benefit levels are often too low to allow beneficiaries to fully meet their needs. Hence, the provision of non-contributory pensions should be accompanied by efforts to support women's increased participation in contributory schemes (ILO 2016f).

In Ecuador, for instance, 68.4 per cent of men above retirement age are receiving a pension, compared to 53.9 per cent of women (see figure 4.40). For Zimbabwe, the data in figure 4.41 also show a relatively low proportion of women in the labour force (10.6 per cent) contributing to a pension scheme, compared with 27.5 per cent of men. Although in many countries the proportion

► **Figure 4.41 Effective coverage for old-age protection, by sex:**  
**Percentage of labour force aged 15+ years covered by pension scheme**  
**(active contributors), selected countries, 2020 or latest available year**



Sources: ILO [World Social Protection Database](https://www.ilo.org/global/research/publications/databases/world-social-protection-database), based on SSI; OECD SOCR; ILOSTAT; national sources.

Link: <https://wspr.social-protection.org>.

of women in the labour force contributing to pensions may be higher than that of men (see figure 4.41), frequently women end up with a lower effective coverage rate in terms of pension benefit recipients, especially in developing countries (see figure 4.40).

It is encouraging that, in parallel to the introduction of tax-financed pension schemes, measures are being introduced to expand contributory schemes progressively to cover self-employed and other workers with contributory capacity.

Gender considerations are also increasingly gaining ground in the public debate on pension reforms. Proactive gender-sensitive policy measures have been implemented to reduce the impact of differentiated career patterns on

pensions. Women's pensionable age has been aligned with men's, albeit coupled with increases in retirement age applicable to both women and men (see table 4.3 below).

Care-related contribution credits are also gaining ground in pension systems. They can be provided irrespective of whether the care is for children or other family members needing care, although in practice credits are primarily awarded for childcare (UN Women 2015; Fultz 2011). Promoting the sharing of care responsibilities between women and men contributes to greater equality in employment and social protection, redressing women's socio-economic disadvantages in old age and improving the adequacy of their pensions (see box 4.4).

► **Table 4.3 Old-age pensions: Examples of parametric reforms in selected countries/territories, 2018–20**

Country/territory and year	Measure
Sweden (2020)	Increase of minimum retirement age for contributory pensions from 61 to 62. The minimum retirement age for the guaranteed tax-financed pension is expected to rise from 65 to 66 by 2023 and to 67 by 2026.
Viet Nam (2019)	Gradual increase of retirement age from 60 to 62 for men and from 55 to 60 for women, as of January 2021. The rate of increase will be three months per year for men (up to 2028) and four months per year for women (up to 2035).
Brazil (2019)	Creation of a minimum retirement age for workers in the private sector, which will be 65 for men and 62 for women, with transition rules for those who have already entered the labour market.
Saudi Arabia (2019)	Increase of the official retirement age for women under the country's public PAYGO pension programme, from 55 to 60, to match the retirement age of men.
United Kingdom (2019)	Increase of retirement age from 63 for women and 65 for men to 66 for men and women as of 2019, and 67 as of 2026.
Croatia (2019)	The normal retirement age for women (age 62 and four months as of 1 January 2019) will gradually rise by four months a year to age 65 in 2027, matching the normal retirement age for men. The normal retirement age for men and women will subsequently rise at the same rate up to age 67 in 2033.
French Polynesia (2018)	Increase of retirement age from 60 to 62.

Source: ILO, [World Social Protection Database](#), based on ILO Social Protection Monitor.

### 4.3.8 The adequacy of pensions to provide genuine income security for older people

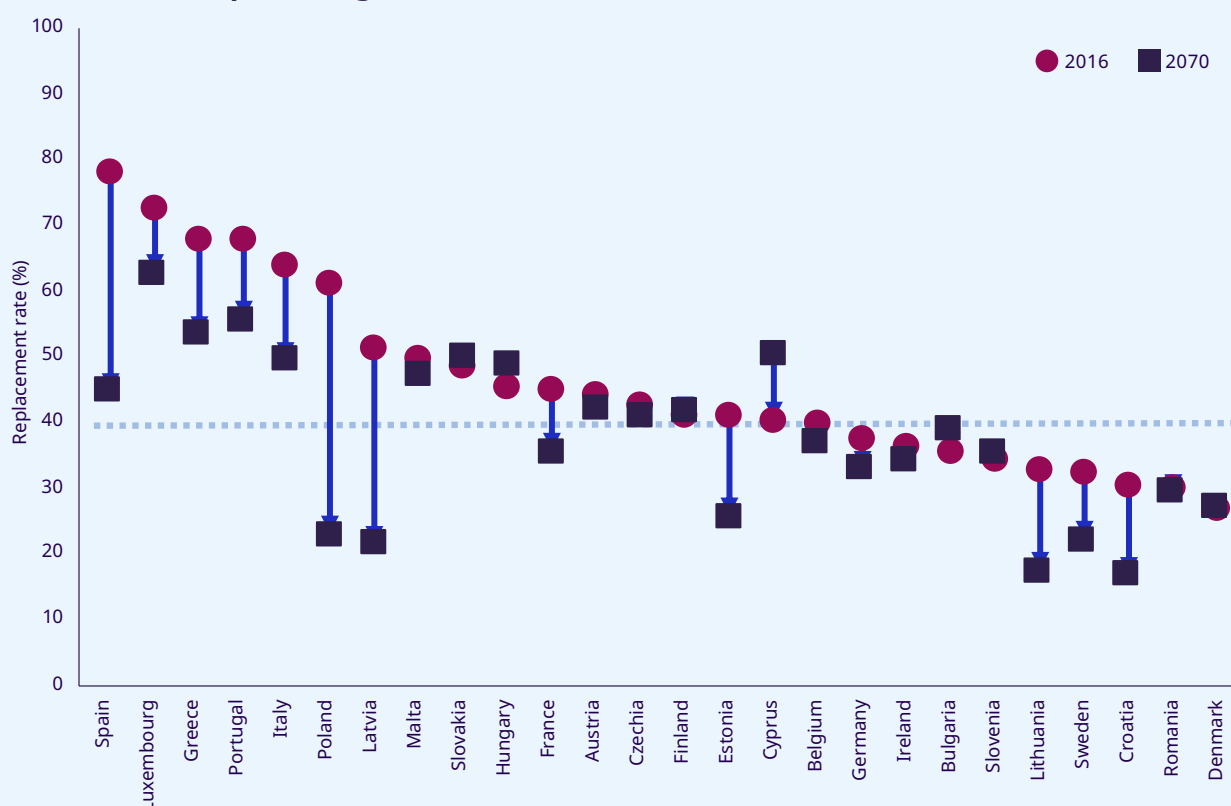
Alongside universal coverage, the objective of securing adequacy of pensions is also central, yet designing a methodology applicable globally to measure the adequacy of old-age pensions is challenging. The notion of pension adequacy combines objective indicators (such as the replacement rate or the capacity of the pension to sustain the basic needs of beneficiaries) with more subjective ones (such as beneficiaries' perception of the extent to which their pensions sustain living standards in retirement or reflect their contribution to economic and social progress during their active years). Importantly, there are other critical factors influencing pension adequacy beyond the levels of pension benefits themselves:

these include the affordability of essential goods and services such as healthcare, food, housing and transport. Furthermore, assessment of the adequacy of retirement benefits needs to be dynamic in that it evolves over time as social, cultural, demographic and economic conditions change.

Figure 4.42 shows the average replacement rates at retirement in earnings-related public pension schemes across selected European countries, indicating a troubling downward trend to reduction towards 2070 in projected data. In some cases, these reductions are significant, with rates projected to fall well below the minimum benchmarks established by ratified ILO social security standards, notably Convention No. 102 and Convention No. 128, which respectively stipulate rates of at least 40 per cent and 45 per cent of previous earnings after a period of 30 years of contributions or employment.

 Securing adequacy of pensions is central.

► **Figure 4.42 Average replacement rates at retirement in earnings-related public pension schemes, selected European countries, 2016 and projected for 2070 (percentage)**



Notes: A minimum 40 per cent replacement rate of previous earnings is prescribed by Convention No. 102 for periodic old-age benefits after a contributory period of 30 years (currently applicable to Bulgaria, Croatia, Cyprus, Denmark, France, Greece, Italy, Luxembourg, Poland, Portugal, Romania, Slovenia and Spain as regards old-age benefits). Convention No. 128 increases this minimum replacement rate to 45 per cent for the same contributory period (currently applicable to Austria, Belgium, Czechia, Finland, Germany, the Netherlands, Slovakia and Sweden as regards old-age benefits).

Source: European Commission 2018, table II.1.18, p. 84.

Link: <https://wspr.social-protection.org>.

Pensions are long-term benefits, and so an important consideration and condition for gauging their adequacy is their ability to retain their purchasing power and real value over time. This is particularly important for women, who tend to live longer than men and thus face a higher risk of depreciation of the value of their pensions.

All ILO social security standards recognize the need for pension levels to be periodically reviewed with reference to changes occurring in the levels of earnings and the cost of living. National practices in this respect vary from ad hoc mechanisms to automatic indexation, and vary across countries and schemes, as shown in table 4.4.

While adjustment of pension levels in relation to levels of earnings was more widespread historically, an increasing number of current schemes limit adjustments to changes in the cost of living, either through ad hoc government interventions or more protective automatic indexation mechanisms. In this respect, ILO social security standards set the principle of regular adjustment of benefit levels according to criteria such as substantial changes in either the general level of earnings or the cost of living. In Egypt, in 2020, the Government implemented a new law that replaced ad hoc adjustments with automatic yearly adjustments of the pension based on changes in the national consumer price index, with a maximum annual increase of 15 per cent.



► Table 4.4 Indexation methods

Indexation method	No. of schemes
Price indexation	76
Wage indexation	37
Mixed price/wage indexation	26
Regular, not specified	18
Ad hoc	4
No indexation/no information	182
<b>Total</b>	<b>343</b>

Note: “No information” in most cases means “no indexation”.

Source: ILO, [World Social Protection Database](#), based on ISSA/SSA, Social Security Programs Throughout the World.

Many pension schemes, however, provide only ad hoc pension adjustments, often contingent on political factors, which risks the erosion of their purchasing power. In inflationary environments, the majority of pensioners end up receiving nominal pensions with limited impact in preserving beneficiaries’ purchasing power. Unless pensions are regularly adjusted to keep up with increases in real wages or other measures related to the overall cost of living, the standard of living of older people will deteriorate, pushing more of them into poverty.

### 4.3.9 Reforming pension systems in a challenging context

According to data collected by the ILO Social Protection Monitor, between 2010 and 2020 a total of 291 measures were announced by governments in several regions of the world with the aim of rationalizing expenditure on adjusting revenues of pension schemes to foster economic sustainability, especially with regard to contributory schemes. Of these, 150 were related to delaying pension receipt by raising the retirement age (100 announcements), the elimination of early retirement, the introduction or increase of penalties on early retirement, the introduction or increase of incentives for late retirement, and measures aimed at increasing the eligibility period or tightening eligibility criteria (see table 4.5). It remains to be seen whether and how the COVID-19 pandemic will affect the

► Table 4.5 Government announcements of pension reforms (contraction), 2010–20

Type of measure (expenditure rationalization and revenue adjustment)	No. of cases
<i>Delaying pension receipt:</i> raising retirement age (100), introducing or increasing incentives for late retirement (16), introducing or increasing penalties on early retirement (10), eliminating early retirement (6), increasing eligibility period (12), tightening eligibility criteria (6)	150
Freezing pension indexation (5), modifying calculation formula (34), eliminating or decreasing subsidies on benefits (1), reducing subsidies on contributions (2)	42
Introducing or increasing taxes on benefits (8), reforming indexation method (20), freezing pension indexation (5), rationalizing and narrowing schemes or benefits (1)	34
<i>Others:</i> increasing contribution rates (41), increasing contribution ceiling (4), partial or total closure of a scheme (4), privatization or introduction of individual accounts (16)	65
<b>Total number of measures</b>	<b>291</b>

Source: ILO, [World Social Protection Database](#), based on ILO Social Protection Monitor.

patterns of pension system reforms observed during the past decade.

Reforms of pension systems to guarantee their sustainability have been prompted by a series of factors: demographic changes combined with decades of wage stagnation and frozen contribution rates; challenges related to a rapidly changing world of work and the emergence of precarious forms of unprotected employment; a low-interest-rate environment; fiscal austerity policies; and sometimes constraints imposed in the context of financial assistance. To secure the financial sustainability of pension systems, many countries have introduced a series of adjustment measures. Most of these measures affect either benefit levels or eligibility criteria so as to delay pensionable age, for example, by increasing penalties for early retirement, raising the statutory pensionable age or indexing the retirement age to increases in life expectancy. Some pension reforms aimed at securing financial sustainability have tightened the link between contributions and entitlements with insufficient regard to also securing social justice and equity, as stipulated by Recommendation No. 202, making

benefits more contingent on investment returns and market performance, in some cases by establishing individual account schemes. While the introduction of non-contributory pensions has helped increase protection in old age at a basic level, the extension and strengthening of employment-related contributory schemes remains crucial in securing adequate benefit levels.

In many cases, reforms aim at adjusting benefit levels, retirement age or eligibility requirements (table 4.3). The ILO Social Protection Monitor records 57 cases of reforms announced by governments that have reduced benefit levels. These comprise 39 cases of reform that have decreased pension benefits, modified the calculation formula, eliminated or reduced subsidies on benefits, or decreased subsidies on contributions; and 18 reform measures that have reduced pension system adequacy by reforming the indexation method, freezing pension indexation and introducing or increasing taxes on benefits.

In line with the principles and benchmarks established by international social security standards, which provide guidance on a range of options for designing pension schemes, the ILO's approach to pension reform seeks to privilege structural or parametric reforms in line with these standards, with a view to securing the dual objective of ensuring financial, economic and fiscal sustainability while according due regard to equity and social justice. The ILO has thus promoted reforms aimed at achieving protection in old age in both qualitative and quantitative terms based on core normative principles (see box 4.25); among others, providing adequate and predictable benefits until the death of beneficiaries and as legal entitlements; transparent, accountable and sound financial management and administration, including through the

participation of social partners/insured people's representatives in the management of pension funds; collective and solidarity financing; and periodic review of benefit levels to prevent erosion of purchasing power. Supported reforms include those that, while preserving financial sustainability, seek to establish lower minimum contribution thresholds for workers with fragmented contribution histories; provide credits to cover periods of unemployment;

strengthen the portability of benefits; and support decent work and decent wages, while preventing the misclassification of employees to escape pension contributions.

While ILO principles allow and even encourage combining contributory and non-contributory mechanisms into multi-pillar pension systems, and do not rule out any type of financing mechanism, certain types of schemes, such as individual savings accounts, generally fail to comply with key principles established in international labour standards, such as securing predictable benefit levels, guaranteeing receipt of benefits until death, participatory management, periodic review of benefit levels to prevent the erosion of purchasing power, and equity within and across generations. Such additional mechanisms could represent an option to complement (voluntarily or mandatorily) solidarity-based social insurance systems, provided that their financing does not jeopardize the financial viability of the solidarity-based pillars and their capacity to guarantee benefits at least at the minimum rates prescribed by ILO standards, based on the core principles set out above.

Even though a number of countries have introduced defined contribution schemes (on a mandatory or voluntary basis or both), in most cases these are intended not to replace social insurance pension schemes, but to complement them so as to increase benefit levels. Unlike solidarity-based mechanisms, schemes based on individual accounts and defined contributions transfer market risks on to individuals and magnify existing inequalities in the labour market, including gender inequalities. Conversely, solidarity-based mechanisms are key to reducing not only vertical inequality (between high- and low-income earners) but also horizontal inequality (for example, between stable and fragmented careers, between men and women) and inter-generational inequality. Thus, from the point of view of ILO principles and standards, solidarity-based contributory and non-contributory pension schemes are key pillars in securing the levels of old-age protection established in national legal frameworks. In countries with sufficiently developed financial services and facilities, individual savings mechanisms regulated by public authorities, or managed jointly by employers and workers, could complement social insurance pensions. Moreover, while additional sources of financing could be explored to complement contributions in order to increase the fiscal space and secure the financial sustainability of pension



The ILO has promoted reforms aimed at achieving protection in old age in both qualitative and quantitative terms.

### ► Box 4.25 What do international social security standards say about the organization and financing of social security systems?

The 1990s witnessed a drive to reduce the State's responsibility in social security by increasing the role of private mechanisms and gradually reducing the public tier. These reforms were assessed from the point of view of ILO standards, which allow diverse modalities of ensuring protection without prejudging any system, provided that it adheres to certain core principles set out in international social security standards.

Those principles, notwithstanding their flexibility and a recognition that there is no one-size-fits-all pension system, establish certain boundaries for reforms, including limits on the privatization of social security.

In practice, while a number of countries have complemented their pension systems with individual savings account pillars, in many instances these have functioned to the detriment of social solidarity and redistribution by reducing the share of finances that go into the collective pay-as-you-go mechanisms. ILO supervisory bodies have generally observed that pension schemes based on the capitalization of individual savings managed by private pension funds were organized in disregard of the principles of solidarity, risk-sharing and collective financing which are the essence of social security, as well as in disregard of the principles of transparent, accountable and democratic management, which must include the participation of representatives of the insured persons. The CEACR pointed out in 2009 that these principles underpin all international social security standards and technical assistance, and offer the appropriate guarantees of financial viability and sustainable development of social security; neglecting them, and at the same time removing state guarantees, exposes members of private schemes to greater financial risk.

The collectively financed schemes managed by the State, in particular through pay-as-you-go financing, have also fared much better during crises than the fully funded privately managed schemes, which have sustained severe losses. The failure of so many private schemes to deliver decent pensions, not least because of the losses sustained during economic crises, has triggered a move by public authorities to re-establish or reinforce solidarity and income redistribution mechanisms. Increasingly, as seen during the pandemic, these basic principles are also at the centre of public appeals for a reinvigorated social contract that puts social protection and good governance at the heart of building back a better economy.

Source: Based on ILO (2011a).

systems, reliance on progressive tax mechanisms offers better outcomes in terms of social justice and equity than regressive ones, such as taxes on consumption.

In many cases, the reduction of pension levels consequent on recent reforms is expected to compromise their adequacy, which in turn is likely to increase the number of workers who resort to tax-financed social assistance or guaranteed minimum income schemes to ensure life in dignity in their old age. Compliance with the minimum levels established by ILO standards, including Conventions Nos 102 and 128, will thus become an issue in ratifying countries implementing such reforms.

In the context of the COVID-19 pandemic, some countries drew on the reserve funds of their pension programmes to pay emergency benefits, raising concerns about the effects on financial

sustainability. According to the Federation of Pension Fund Administrators (FIAP), a number of countries in Latin America have proposed the early withdrawal of pension funds from individual savings accounts to mitigate the adverse impacts of the worldwide COVID-19 pandemic, thereby depleting their savings. This has resulted in significant reductions in worker coverage and a suppression of or marked reduction in future pension benefits.<sup>44</sup> In Chile, two consecutive withdrawals have resulted in around 40 per cent of contributors depleting their individual accounts. This means that, in the future, the State will have to finance more non-contributory pensions through taxes, and the adequacy of pensions will also be affected. In Peru, successive legal provisions have increased the total amount that can be withdrawn in a lump sum on meeting certain early or old-age retirement requirements to up to 95.5 per cent of the funds. Consequently, by November 2020,

<sup>44</sup> FIAP Statement: The withdrawal of pension funds to mitigate the effects of Covid-19. See <https://www.fiapinternacional.org/en/fiap-statement-the-withdrawal-of-pension-funds-to-mitigate-the-effects-of-covid-19/>.

16 per cent of the total amount of the pension funds had been withdrawn. At least one third of workers have withdrawn 25 per cent of their funds, and as a result will no longer have sufficient funds to finance their retirement. While tapping into resources accumulated for old-age protection to face the consequences of the pandemic does not represent a good practice, measures to authorize such withdrawals are motivated by a lack of alternative funds that can be mobilized. This illustrates the greater fragility of defined contributions pension systems, which lack a solid pay-as-you-go pillar and unemployment protection schemes able to better respond to crisis conditions.

#### 4.3.10 Ensuring income security for older people in the future

As life expectancy increases, so the need for protection in old age increases accordingly. Even though no two national pension systems are identical, and there is no blueprint for an ideal system, most countries have tended to secure the future sustainability and universality of their pension systems by introducing multi-tiered pension schemes composed of both contributory and non-contributory components, in which the former guarantee adequate levels of income replacement while the latter help secure basic income security for older people. In the face of changing labour markets and population ageing, countries, especially those with more mature pension systems, are increasingly opting to introduce parametric changes (increasing retirement ages or required contributory periods) or to complement pension contributions from general government revenue. How progressive or regressive these taxes are, including especially the respective shares of revenue financing from labour and from capital, has a direct impact on how equitable and redistributive the resulting pension system is – for example, taxes more closely linked to employment outputs will achieve these objectives better than regressive taxes on consumption.

Aside from demographic considerations, a series of other factors threaten the capacity of States and pension systems to guarantee each person's right to protection in old age. The future of work and questions regarding how to secure adequate

social protection coverage for workers in all types of employment – including platform work, flexible working arrangements and so on – constitute an important source of concern in respect of old-age protection. Uncertainties in current legal frameworks about the legal nature of these workers' relationships with the platforms need to be resolved, and, where necessary, these frameworks should be adapted in order to secure both sustainable sources of collective financing and adequate old-age protection for these categories of workers, without which they will be left vulnerable and dependent on tax-funded basic old-age pensions.

Another central challenging factor for the sustainability of pension systems is the prevalence – and, in many cases, even the expansion – of informal economies. In the developing world, informality and poverty are widespread, and a significant share of those in formal employment are sliding into informality. Despite decisive steps taken in extending tax-financed pensions to people previously active in the informal economy, these benefits are often insufficient to maintain a dignified life or are too narrowly targeted, leaving many people unprotected. In addition, in the absence of effective and comprehensive formalization strategies, which will also result in strengthened contributory mechanisms, financing pensions for the majority of people in old age from taxation represents a considerable burden on public finances which could compromise their sustainability in the long run. In this context, ensuring better articulation between contributory and non-contributory pension mechanisms, in parallel with formalization policies, is key to promoting employment-related contributory mechanisms providing adequate and sustainably financed pensions. All nations, to varying degrees, face the challenge of securing the future of their pension systems, and need to strike a judicious balance between financial, economic and social sustainability by guaranteeing acceptable financing and benefit eligibility conditions, as well as adequate benefit levels, in order to secure pension systems that function effectively and efficiently, and support progress towards achieving the 2030 Agenda.

Most countries have tended to secure the future sustainability and universality of their pension systems by introducing multi-tiered pension schemes.