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One of the key challenges confronting countries with an ageing population over the coming years is to guarantee to the whole older population an adequate level of income without placing excessive demands on younger generations and on national economies. This dilemma has direct implications for social security systems and their ability to achieve their goals.

An increasing number of countries are affected by population ageing, which has triggered increasing concern over the future of social security, both for its sustainability and for the capacity of these societies

and on controlling health-care expenditure centres mainly on the

financial viability of retirement and health-care plans in ageing societies. Our ability to gauge the future of such societies is inextricably linked to the sustainability of their social protection programmes over the next few decades. There is a need to consider not only the economic dimension, but also the social dynamics of an ageing population. Can free choice and individual responsibility be promoted in a way that avoids social segmentation and instability? Can social security be extended to the non-formal sectors of the economy? It remains to be seen what path social security systems can take to meet the challenges and opportunities of population ageing. How can social protection be secured and extended in a way that is efficient and fair? The future of ageing societies depends on their governments' ability to adopt a comprehensive approach to social security that is both economically and socially viable.

alk of the threat that population ageing poses for social
nd health-care schemes. The statistics are quite striking.
years' time, the percentage of over-60s in industrialized
per cent of the overall population. The increase will be
om 8 per cent to 20 per cent, representing a fourfold rise
number of over-60s living in the People's Republic of
qual to the total population of the European Union (EU)

the ratio of pensioners to people of working age (or
, current forecasts see that ratio shifting from today's
r every pensioner to just 2 potential workers for every

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[*] The responsibility for opinions expressed in this paper rests solely with the author, and does not constitute an endorsement by the ISSA of the opinion expressed in it.

Drawing on linear estimates of population growth and changes in social expenditure, a number of international financial institutions have concluded that, if current trends hold, public spending on pensions will increase dramatically in all parts of the world over the next fifty years. The outlay in countries of the Organization for Economic Cooperation and Development (OECD) is now 10 per cent of GDP, but is forecast to stabilize at 17 per cent within thirty years, amounting to a 70 per cent increase. It is hard to see how these costs could be met. A United Nations Population Division report calculated that today's ratio of working-age population to every non-worker could only be sustained through to 2050 if mass immigration were fostered (e.g., 12.7 million workers per annum to the EU, over 30 times the current net migration flow) or the retirement age were increased to over 75 years (United Nations, 2001). Both options are clearly unrealistic. Is the only alternative

Hence job promotion is a vital instrument in reducing the economic cost of population ageing and in fostering overall prosperity. The problem is that, for years, many countries have been grappling with acute unemployment and underemployment, and the policies implemented to tackle these issues have failed, leaving little hope of higher employment rates. Some experts believe that the dismal results of employment policies implemented in most European countries, and their relatively low employment levels, have exacerbated the implications of population ageing. If a substantial proportion of the working-age population is jobless, those in employment are called upon to support a larger number of dependent citizens. More optimistic specialists argue that this trend might ultimately prove to be an asset, as the resulting labour-market reserve could be used to boost job rates, whereas high-employment countries would find it hard to increase their workforce further.

age is still, on average, significantly lower than the statutory threshold. Many companies still use early retirement as a relatively inexpensive and socially acceptable way of downsizing. That policy, however, carries a hefty price tag for society in general, which is called upon to fund the social benefits accruing to those taking early retirement and to shoulder the related loss of human capital and productive capacity.

Harnessing older workers’ productive capacity for a longer time would strengthen the viability of pension schemes in three ways: (i) goods and services produced by a larger workforce would bolster economic growth; (ii) payment of pensions, unemployment and disability benefits would be postponed for those remaining in employment; and (iii) increased tax revenue and social security contributions would help fund pensions and other benefits. In other words, it would be in the interests of government authorities to take measures to align the effective retirement age much more closely with the legal pension age rather than raising the latter.

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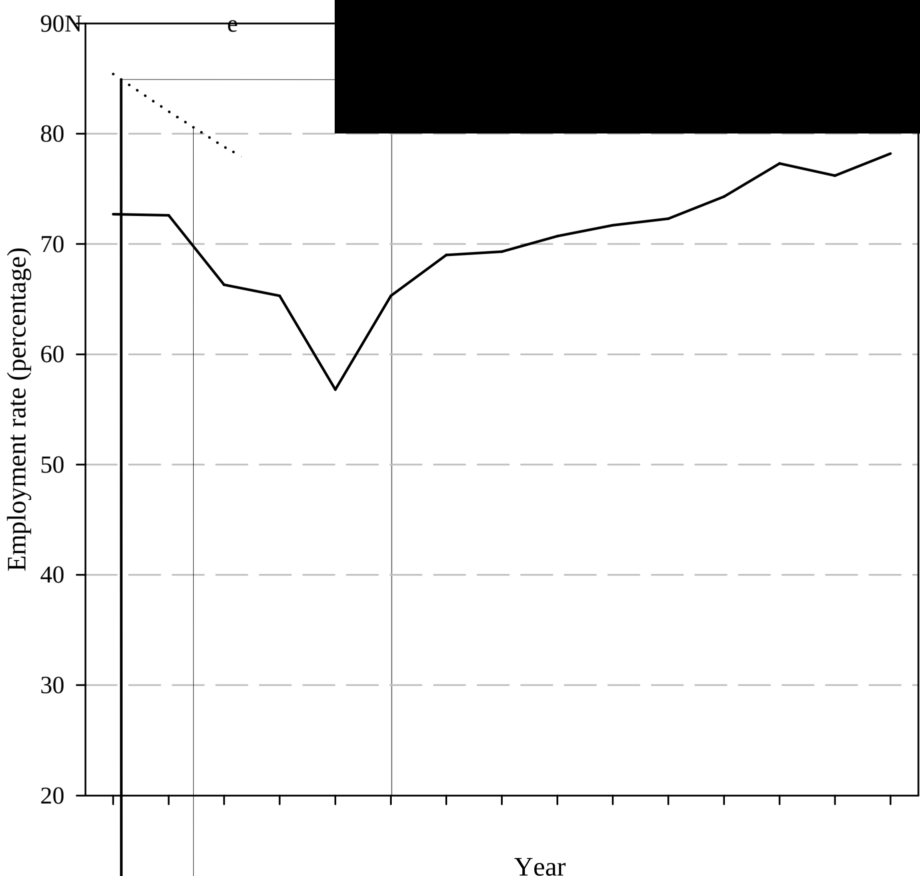
A move away from early retirement would require a major change in socio-cultural models and attitudes, however. In many societies, early withdrawal from the labour market is currently seen as both desirable and acceptable, even for people in full possession of their faculties and in sound health. This view is linked to workplace dissatisfaction, the negative image associated with older workers and the labour-market discrimination they suffer.

In other words, reversing early retirement means taking steps to combat age discrimination in the workplace. It is often claimed that older workers are less productive than their younger colleagues. However, there should also be due recognition of their extensive professional experience, built up throughout their careers. Companies shedding older workers are squandering human resources. In a few years' time, when skilled workers are in short supply, such an attitude will seem incomprehensible. A growing number of companies and governments have now acknowledged the advantages to be gained from hiring and retaining older workers, and have acted accordingly to foster employment in that age bracket. Further training policies should enable workers, in particular older workers, to adjust continuously to the labour market by updating their skills and qualifications.

Employing older workers is not just an economic imperative. It is also a good way of enhancing their well-being. Work is still one of the best means of social integration. In the best cases, it can enable older workers to integrate with new social groups, feel more confident and fulfilled, and maintain their physical and mental skills. However, it should be borne in mind that jobs can also sap an individual’ir f en -20.6557 -1 demographic pressures and budgetary resources. Governments introducing such reforms also hope that they will delay retirement by making pensions less attractive. More rarely, “carrot” approaches have also been adopted that enable pensions to be combined with income from employment or that offer financial incentives for continuing to work after the retirement age.

average, the shift occurred in 1995 (figure 1). Even though the majority of OECD member-countries have increased their rates since 1995, few have returned to the high levels of the 1970s and the 1980s. It is also important to stress that the cu[redacted]
an increase of 5-6 percentag[redacted]
2004. In this context, it is w[redacted]
2010: the employment rate i[redacted]
per cent (Stockholm target). [redacted]
decline in the employment [redacted]
countries: (i) those where th[redacted]
such as Switzerland and Ja[redacted]
worsened the situation, as fo[redacted]



and labour-market participation increased by 15 per cent, new immigrants would need to account for roughly 20 per cent of the population by 2050 (Cichon and others, 2003).

In summary, there is no panacea in terms of policy implications. Immigration alone cannot fill the population gap. Similarly, a massive rise in labour-market participation will help increase employment rates, but will not offset the fall in the number of workers. Higher birth rates are also an option, albeit a long-term one. Ultimately, these and other factors will have to be combined to attain growth levels on a par with those recorded over the past twenty years (2.0-2.5 per cent per annum in OECD countries) and provide young and old alike with a decent standard of living. The measures set out below should at least be considered in countries with a particularly poor demographic structure (for example, in mainland Europe):

In many LICs and MICs contributory social security schemes protect only a small proportion of the population, with coverage being mainly confined to around 90 per cent of the population, at the other extreme, in sub-Saharan Africa and South Asia, coverage commonly extends to less than 10 per cent of the population.

Further analysis shows a relationship between the level of social security coverage and per capita GDP, the proportion of people employed in the agricultural sector, the percentage of the economically active workforce who is self-employed, and the estimated percentage of GDP generated in the informal sector. A relationship between the level of social security coverage and whether the social security system is national, or comprised of sector- or occupation-based schemes can be observed as well.

It can be said that coverage is generally lower in those countries where demographic ageing is not yet an issue, typically LICs. In this sense, such countries arguably have a window of opportunity to improve social security today, while it is more financially viable to do so. In these countries, challenged by health and disease problems, improving social security coverage today is perhaps an essential foundation for improving economic productivity, which in turn can ensure sustainable social protection in the future. Extension of social security coverage is therefore a vital issue for developing countries both today, and with an eye to demographic changes ahead.

If coverage is defined in terms of being in receipt of an old-age pension, a study by the International Labour Organisation (ILO, 2000) shows that large proportions of the population in many regions of the world do not enjoy any social protection, or have only very limited coverage. While in industrialized countries coverage ranges from around 70 per cent (e.g., United Kingdom) to almost 100 per cent (e.g., Finland), coverage in MICs is estimated to vary between 17 per cent (e.g., Mexico) and 88 per cent (e.g., Czech Republic). In LICs, estimates of coverage range from 4 per cent (e.g., Thailand) to 47 per cent (e.g., Morocco).

If coverage is based on whether people of working age currently contribute to pension schemes or are covered by a residence-based or universal scheme, an average of 84 per cent of the current working age population in industrialized countries can be regarded as covered by a state pension. In MICs, approximately half of future recipients were covered. In LICs, an average 12 per cent of people of working age were contributors to pension schemes of any kind.

While the figures presented for the first two groups of countries show the proportion of people who are covered by the main national pension scheme, they do not show all those who are in receipt of a retirement benefit of one type or another. Each of these countries relies upon a mix of some or all of statutory contributory, non-contributory, non-contributory means-tested and private schemes to provide income security in old age. Ideally, coverage would have been broadly defined in order to include receipt of any eligible benefit for a specific risk. The requirement to work with published data, however, meant that it was not possible to assess the number of people who were actually in receipt of any one of these benefits. Simply summing the numbers in receipt of each benefit for a given risk would be subject to multiple counting of people.

If survivor benefits, occupational and private pensions and means-tested social assistance are taken into account, it is estimated that each of the industrialized countries provides social security in old age for over 95 per cent of the population. In many of the MICs, it is likely that most people are covered for old-age pensions if survivor benefits and social assistance are included. However, in all countries, nominally high coverage rates under non-contributory means-tested schemes may disguise actual take-up.

Describing the recent trends in coverage is difficult, due to the diversity of situations. For instance, coverage by social insurance may be declining in countries such as the Czech Republic and Hungary, while coverage for old age in both Mexico and Uruguay either stagnat01 0.0002()-1ch Repo1ahnsise Cze.3(e7TJ0Czed had been prior to the 1995 economic crisis. However, while Uruguay still had one of the two highest pension coverage rates in Latin America, there was a downward trend in coverage between 1999 and 2001, while non-compliance steadily rose between 1996 and 2000.

*Key characteristics of excluded groups*

Exclusion is "non-random". There are, across countries, systematic similarities in who are least likely to be covered by social security: women, migrants, and agricultural and urban informal sector workers. These groups are unprotected largely because of the interface between their labour market position and

While proposals to increase the availability of second- and third-tier pensions may provide greater security and maintain high income levels in retirement for those in stable, formal employment situations, it is very unlikely that these policies will be more inclusive of groups who are currently legally or de facto outside the scope of existing provisions. Indeed, where such schemes are expanded at the expense of basic state pensions, they may even increase the number of people who are without social security coverage.

> BOX 1. THE THREE PENSION PILLARS
>
> Pension pillars can be defined in different ways, trying to capture the key dimensions in the design of national pension systems. The following elements are important in describing pension systems:
>
> - Coverage: is it universal?
> - Participation: is it mandatory or voluntary?
> - Contributions: where is the system within the spectrum moving from a general revenue-financed (perhaps means-tested) benefit, to some form of earnings-based formula –defined benefit scheme, ending with a pure individual lifetime account scheme, called defined contribution?
> - Benefits: to what extent do benefits (annuities) reflect the life expectancy of the retiree at retirement?
> - Funding: to what extent do assets cover future liabilities?
> - Management/ownership/governance: is it public, private or some mix?
>
> In 1994, the World Bank on an influential report titled Averting the Old-Age Crisis defines the three pillars in this way:
>
> *Basic pension*: the first pillar is an anti-poverty pillar that is non-contributory and guarantees a minimum income in old age. It is intended to protect the elderly from absolute poverty.
>
> *Forced savings*: the second pillar is a forced savings pillar that provides benefits only to contributors, and, in general, provides the most benefits to those who contribute most.
>
> *Voluntary savings*: the third pillar is available to anyone who cares to supplement the retirement income provided by the first two pillars.

- Modify the contributory principle

The findings show that contributory insurance schemes, in their current form, do not work for large sections of the population in many countries. As previously stated, these systems limit the number of covered people. Open to the formal-sector workers, they do not normally cover people who do not earn an income from work. Furthermore, people who do have incomes from work but are outside the formal sector are typically not able or willing to contribute a relatively high percentage of their incomes to finance social security benefits that do not meet their immediate priority needs. Therefore, many groups of people remain unprotected because of their position in the labour market, and many people reach old age with no pension entitlements, including almost all of those who have been poor during their working lives.

Coverage of contributory schemes could be extended to groups who are presently excluded by reducing contribution rates that are unaffordable to many people with low incomes, and amending entitlement conditions to take into account the particular circumstances of selected groups such as the self-employed and domestic servants, women and migrants. Policies likely to improve pension coverage for women will modify contribution requirements and ensure that schemes provide adequately for survivors. For migrants, the contributory principle could be modified similarly to provisions that have been considered for women, for example, to allow migrants to select "best years" contributions. This option requires contributors or the State to subsidise previous non-contributors and requires them to be perceived as legitimate claimants by contributors and/or taxpayers. Hence, it may be more difficult to extend this approach to groups that are often perceived as "outsiders", such as migrants.

- Move beyond the contributory principle

Another option, which may be combined with either of the two previous options, is to introduce a tax-financed safety net to help cover the gaps that arise in a contributory scheme. It has been suggested that the Australian means-tested system (see box 2) provides a model for countries that cannot afford or do not wish to go down the social insurance route.

However, there is evidence from several countries that means-tested social assistance does not always reach the intended population and nominally high coverage rates under non-contributory means-tested schemes may disguise actual take-up.

Non-take-up refers to the fact that some social benefits are available but not used by eligible recipients. In policy debates, this is generally not considered to be a serious issue. This comes from the presumption that only very few people entitled to social benefits will fail to receive them because people will seek their profit and will not intentionally renounce a financial gain. Nevertheless, many studies show that only in a few rather specific cases are non-take-up rates less than 20 per cent (Nicaise, 2001). The reasons for non-take-up appear to be many and varied, such as personal choices, lack of knowledge, administrative complexity, and fear of being stigmatised in case of claiming means-tested benefits. Non-take up of means-tested benefits may exclude more women than men.

BOX 2. AUSTRALIA'S PENSION PILLARS – KEY CHARACTERISTICS

Unlike most other high-income countries, Australia has never had an earnings-related social insurance pension system. Its social security retirement income system combines two components.

The first is known as the Age Pension, which is a flat-rate pension funded out of general government revenues, and which, although means-tested, is received by the majority of the nation's retirees. The age pension is about one third of average full-time earnings and serves primarily to guarantee a minimum standard of living.

The second component is a mandatory defined-contribution savings programme, called the *superannuation guarantee.* Since 1992, it has provided a second pillar for most people. It was introduced in part to reduce government expenditures for old-age pensions. Employers must participate in this scheme or pay charges that are larger than the contributions. Employees are not required to contribute but can make voluntary contributions for themselves and their spouses. As a result, the number of workers in occupational schemes has risen from 39 per cent in 1986 to over 90 per cent today.

- Universal entitlement

  For those seeking to close the coverage gap, univer

BOX 3. NON-CONTRIBUTORY OLD-AGE PENSION SCHEMES IN SELECTED COUNTRIES

*Universal schemes*

*Namibia:* Old-age pension schemes in Namibia were inherited from the colonial South African regime at the time of independence in 1990. The National Pension Scheme (NPS) – otherwise known as the Universal Pension Scheme – is a social pension, which provides a flat-rate benefit, non-contributory and non-taxable. During the apartheid years, the system was characterised by extreme inequalities. White Namibians received substantially higher social pension payments than blacks. After the country's transition to democracy in the 1990s, the government brought about harmony and alleviated these racial discriminatory practices and put all beneficiaries as equals. Currently, everyone who is a Namibian citizen residing in Namibia and is above the age of 60 years is entitled to the old-age pension. This entitlement is regardless of any assets, income and other pensions from defined contribution schemes. According to studies, the social pension affects its recipients, their families and local communities in a variety of ways including contribution to household incomes, poverty reduction and food security, and education of grandchildren.

*Mauritius:* Since the mid-1970s, Mauritius has had a dual universal and social-insurance pension. Every elderly resident of Mauritius receives income support from a system of non-contributory pensions, subject to a minimum residency requirement (12 years from age 18 for citizens; 15 years from age 40 for non-citizens). The scheme dates from 1950 and became universal in 1958, following abolition of a means-test. In the fiscal year 2002-2003, the amount of the pension was

*Means-tested schemes*

*South Africa:* The pension is a means-tested benefit granted to women from age 60 and men from age 65. The programme began in the early 1900s as a means of providing a basic income in retirement for whites and coloureds who lacked an occupational pension (van der Berg, 2001). Subsequently, the programme was extended to blacks (1944), but with more stringent conditions for entitlement and lower benefit levels. After the fall of apartheid, parity in the provision of the social pension was instituted, at a lower level than that previously enjoyed by the whites. Blacks are now the main beneficiaries. The scheme is funded through general taxation and pays relatively generous pensions (around $3 per day). Benefit entitlements are means- tested on the income of the individual beneficiary, and his/her partner if married, but not on the income of other household members. The benefit produces a significant redistribution of income in a country where, on average, the incomes of whites remain ten times that of Africans.

*Brazil:* In Brazil, non-contributory pensions serve mainly to complement contributory pensions, benefiting primarily those who, particularly in rural areas, have not contributed to social security during their active lives. Social security benefits equivalent to the minimum wage are paid out to rural workers from the age of 60 (men) and 55 (women), on condition that they can prove at least 10 years of rural activities (whether or not they have previously contributed to the system). The rural old-age pension is very important in that it ensures a minimum retirement income to those who have worked in family agriculture, restoring the elderly to the status of assets, instead of the liabilities they had come to be to their families in the past. In March 2001, 6.5 million rural benefits were granted (33 per cent of the total), which represents an annual expenditure of about 1 per cent of GDP. The urban non-contributory old-age benefits are much less common and less developed. This is because, firstly, the urban population has much better access to government contributory mechanisms than does the rural population and, secondly the conditions of entitlement are more stringent in urban than in rural areas. The maximum family income requirement is very low and the minimum age of entitlement high (67 years or older).

It may be particularly difficult to deliver health care services to isolated rural areas due to low population density and dispersion, lack of infrastructure and medical professionals, illiteracy, language and ethnic barriers, cultural prejudices against modern medicine, and lack of trust of the user in the quality of the services available. Good governance is crucial to the effective and efficient use of resources and to gain confidence in the credibility and integrity of the programme. There are examples of good practice within MICs. For example, specific strategies of reforms in Costa Rica include improving governance by increasing the participation of the community in decisions about health policy at the local level, while at the same time lowering the cost of providing basic health care services by improving the coordination of relevant agencies.[4]

## *Options for the future* [5]

If the policy aim is to extend social security to all parts of society, then policymakers must decide which programmes or combination of programmes are likely to best meet this objective. The direction of policy in some countries is to replace social security programmes that exhibit a redistributive element with programmes having direct equivalence between individual contributions and benefits. If the policy aim is to extend coverage, it is very unlikely that this route will be successful. Our findings suggest a link between funding method and coverage. Coverage appears to increase the further the scheme moves away from a direct equivalence between individual contributions and benefits and towards a social security scheme that redistributes resources.

The relationship between redistribution and coverage is perhaps not surprising. While schemes that are based on equivalence between individual contributions and benefits can provide security in old age and sickness for “insiders”, they are closed to those who may need social security the most. In many cases, it is not feasible to bring the excluded within the scope of contributory benefits. Providing adequate social protection for these groups will necessitate a complete or partial decoupling of contributions and benefits and a redistribution of resources.

In some parts of the world, the coincidence of limited financial resources with large-scale need conspires against implementing an effective universal social security system. In the general and likely continuing absence of universal solutions, especially in lower-income developing countries, the short- to medium-term task at hand appears to be one of examining all possible avenues for building creative organizational linkages between existing contributory and non-contributory social security programmes and other forms of voluntary social protection to increasingly provide at least a basic degree of security. In the longer term, and labour market conditions permitting, the policy objective must remain one of significantly increasing the numbers of people covered by, and guaranteeing the right to benefits under, mandatory social security. To this end, all efforts that aim to promote more stable and more secure patterns of employment globally should be encouraged. By raising productivity, the improvement of employment prospects will also help to secure the sustainability of social security in the longer term.

Is this a feasible route for low- and middle-income countries in today’s global economy? Heater (1990) argues that the growing economic and monetary interdependence of the world undermines any argument for operating a policy of distributive justice within the strict confines of the nation State:

> "If economic mechanisms are transnational, so too should be economic justice."

The key political challenge that closing the coverage gap poses is to secure legitimacy at both the national and the global level for the sharing of risks and redistribution of resources so that a commitment can be made to providing and maintaining social security for all, not just a few. One such example is the Global Social Trust Initiative suggested by the ILO (Cichon, 2003).

## D. Concluding remarks

Population ageing will unquestionably be one of the key factors shaping social and economic development across the world over the next few decades. Each society will need to find a viable adjustment strategy. The Second World Assembly on Ageing, held in Madrid in 2002, underscored the active role that older people can play in society. Active ageing is increasingly portrayed as a promising model for the future. This idea acknowledges the contribution that senior citizens make to society and

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