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**SOCIAL PROTECTION
IN AN AGEING WORLD**

PETER A. KEMP
KAREL VAN DEN BOSCH
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INTRODUCTION

This book brings together a selection of papers presented at a seminar organised by the Foundation for International Studies of Social Security (FISS) on the theme of ‘Social Protection in an Ageing World’.

Population ageing is one of the most pressing issues facing social policy in the advanced welfare states, but also has important implications for middle and low income economies. People are having fewer babies and living longer than in the past. The fact that people are living longer, of course, is something to be celebrated. But increasing longevity has threatened to undermine the financial viability of pension systems. Policy makers may respond to this challenge in a variety of ways, including raising pensionable age, increasing employer or employee contributions and reducing benefits. None of these options is likely to be especially popular (Pensions Commission, 2004). Indeed, pension reform is a politically hazardous business (Myles and Pierson, 2001), as recent demonstrations and strikes in several European countries have highlighted all too clearly. Meanwhile, changes in the labour market and in family and household structures have raised questions about pension coverage and adequacy. Furthermore, an ageing population also has implications for labour supply, something that has prompted policy makers and, to a lesser extent, businesses to examine the employment potential of older people (Emanuel, 2006; Saunders, 2005).

Part one of this book considers new survey evidence on ageing. In Chapter 1, Borsch-Supan, Hank and Jurges present findings from the ‘Survey of health, ageing and retirement in Europe’ (SHARE). This important new longitudinal survey looks set to provide a wealth of invaluable data on older people as they age over time. The chapter draws on the first wave of the SHARE survey to provide cross-national information from eleven countries on the socio-economic status, health and family relationships of older people. To illustrate the usefulness of the survey, the authors focus on three key topics: receipt of disability insurance (incapacity benefit), volunteering, and self-perceived health status. They show that the considerable variation that exists across European countries in the proportion of people aged between 50 and 64 years receiving disability insurance benefits remains marked even when physical and mental health status and demographic differences are taken into account. Volunteering is often presented as a means of staying productive and of improving the life satisfaction or health of older people. Borsch-Supan et al conclude that country specific social,

institutional and cultural background affects the probability of participation in voluntary work. Finally, they also show that how respondents across countries perceive their health partly reflects variations in reporting thresholds, but also what appear to be real between-country differences in physical health.

In Chapter 2, Banks describes the English Longitudinal Study of Ageing (ELSA). He argues that ELSA is providing empirical evidence on a number of policy related questions and issues with a degree of comprehensiveness and interdisciplinary rigour that has not been possible before. For example, ELSA provides the opportunity to investigate the adequacy of individual savings for retirement and the distribution of retirement savings wealth across the UK population. His analysis shows that raising the state pension age is unlikely by itself to result in older people extending their working lives, not least because the majority of them exit from work before the current state pension age. Finally, he demonstrates that health inequalities are apparent for specific health conditions and that those who perceive themselves in better financial circumstances do indeed report better health.

In Chapter 3, Willis discusses the historical and analytical benefits and weakness of using the US Health and Retirement Study (HRS) as a tool for informing policy decisions about Social Security and Medicare, particularly in relation to questions relating to pre- and post-retirement and to the determinants of the behaviour and welfare of individual households. Willis tracks the development of the HRS from a historical and analytical perspective and demonstrates how the HRS provides researchers with a model that can be used as a template to develop country specific surveys that can address scientific and policy questions at a local and general level.

Part two of the book looks at the political economy of pensions in the developed welfare states. In Chapter 4, Anderson and Rein examine the evolution of the public-private mix in pension provision in the Netherlands, Sweden and Denmark. They discuss how the public-private pension mix both creates opportunities for offloading public commitments onto private schemes and shapes interest group activity. They also examine the trade-offs between public-private schemes and show that policy choices are often made without any consideration of the interdependencies between these two spheres. Using the Swedish, Danish and Dutch cases, they suggest that the key to understanding institutional stability and change is to investigate the political coalitions that sustain institutions. They demonstrate that incremental policy changes and non-action can have dramatic long-term effects on people and political institutions. Policy development in all three countries is characterised by gradual, incremental change rather than

punctuated by episodes of significant innovation. As a result, political policy change processes are often long-term.

In Chapter 5, Schulze examines developments in four European countries – Austria, Britain, Germany and Luxembourg – in order to understand how pension policy reform measures are linked to specific political contexts and the decisions made by elected politicians. She argues that the main motive for the choice or modification of specific reform measures in these countries was party political competition and the electoral threat posed by specific groups of voters. She concludes that governments will choose different reform measures to achieve similar objectives, often directed by those who exert electoral threat or political competition.

Part three of the book focuses on older workers. In Chapter 6, Hofäcker et al present a cross-national comparison of late careers and retirement in eleven OECD countries. They argue that the growth in early exit from the labour force among older workers is the result of increasing international, economic competition and interdependence. In their view, nation-specific institutions have differentially filtered the economic challenges of globalisation, leading to cross-nationally different employment patterns among older workers. Hofäcker et al conclude that substantial reversal of early retirement trends will require institutional reforms that go beyond public pension systems and need to explicitly aim at improving the employability of older workers.

In Chapter 7, Fougère et al review the incentive effects of Canada's public pension system on retirement behaviour. They utilise a dynamic, applied general equilibrium overlapping generation model to quantify the impact of this system on effective labour supply and productive capacity. Their simulations suggest that reducing the work disincentives for older workers created by the public pension would have a positive impact on labour supply. But they also note that the changes in overall participation rates and productive capacity are likely to be limited. They argue that, if the Canadian Government wishes to use policy to affect retirement decisions and thereby encourage increased labour force participation among older workers, it may need to investigate more active measures and incentive programmes.

Chapter 8 by Ilmakunnas and Ilmakunnas examines partial retirement in Finland. Using data from the Quality of Work Life Survey undertaken by Statistics Finland, they show that partial retirement in Finland was influenced by three related decisions: whether (1) to retire on a part-time pension, (2) to continue to work beyond the lower age limit, and (3) to work while in retirement. They

examine in particular concerns that partial retirement does not increase the probability of preferring to stay longer at work or that it does so at a relatively high cost. Their analysis did not find a significant positive effect of partial retirement on anticipated retirement age. Hence they conclude that partial retirement does not seem to lengthen the working life of older people.

Part four of the book is focused on developing countries. In Chapter 9, Barrientos et al examine new survey evidence about ageing and poverty in developing countries. Such data, they argue, can make a contribution to understanding the prevalence and nature of old age poverty, as well as the public policy responses that are needed to address it, and that this is especially so in the context of accelerated ageing. In contrast to the situation in Africa, a high proportion of older people in Latin America live alone and pension provision is more widespread. Barrientos et al show that, in lower income countries, the incidence of poverty among older people follows poverty rates for the population as a whole. They conclude that pensions can be an effective instrument for reducing poverty and vulnerability among older people in developing countries, including poverty within extended households.

In Chapter 10, Johnson and Williamson discuss the potential for universal non-contributory pension schemes in low-income countries. At present, old-age pension coverage is low in most such countries. Moreover, old-age statutory pension cover is typically higher in urban than in rural areas. Johnson and Williamson argue that the benefits of non-contributory pensions for older people and their communities in both rural and urban areas are substantial, not only in helping to prevent and reduce poverty; but also in facilitating access to housing and medical services, and in potentially enabling direct or secondary participation in trade and business. The authors acknowledge that the political and policy environment may at present be a barrier to the implementation of a universal non-contributory pension system. And they accept that, for some very poor countries, the lack of an administrative capacity to install a universal non-contributory pension may prevent them from participating in such a scheme. However, they conclude that much more attention needs to be paid to the social, economic and political benefits of implementing universal non-contributory pensions as a way of protecting older people from poverty in urban and rural communities.

In Chapter 11 Skinner presents a case study of the universal non-contributory pension for older people in Bolivia. Her ethnographic research examines how the universal non-contributory pension scheme known as the Bonsol impacts upon the livelihoods of the ageing population in La Paz, Bolivia. The Bonsol is a fixed

annual payment made to all older Bolivians on their birthday. Skinner argues that the Bonsol has raised the profile of older people as a vital source of revenue at a time when income-generating opportunities are limited. It is also an implicit recognition of their citizenship rights in old age and of their former and future contribution to society. She draws on the sustainable livelihoods framework in order to consider the different ways in which the Bonsol strengthens older people's capabilities and assets and consequently helps to reduce their vulnerability. Her research also demonstrates that the Bonsol has a positive impact upon the households and extended families of older peoples. However, an important weakness of the Bonsol is the lack of government financial commitment and it is now being subsidised by the private pension funds. As a result, the payment is unpopular with people in receipt of private pensions and with people of working age who are contributing to pension funds. Skinner concludes that the Bonsol's low value and infrequent payments, combined with its precarious funding, suggests that it is more of a token effort than a systematic attempt to create a proper social protection scheme for poor people in old age.

In Chapter 12, Ferro and Romero explore the efficiency of private pension funds in Argentina. A major reform of the pension fund system in 1994 implemented a mixed pension system, comprising a private funds scheme and a new public pay-as-you-go system. The authors estimate efficiency levels among pension fund administrators and argue that a new reform should be focused on the regulatory body. They present a comparison between the public and private schemes and discuss the different views and proposals put forward to modify regulation of the pension system. They then examine the impact of the macroeconomic crisis in 2001, and the subsequent devaluation in 2002, on the private funds scheme. Their analysis shows that lack of macro-economic stability can seriously undermine the financial robustness of both public and private pension schemes in middle income countries.

Part five of the book looks at the impact of divorce on older people. The male breadwinner model, on which social security was based in the advanced welfare states, involved an implicit assumption of stable marriage. On the death of the breadwinner, the wife could gain access to pension benefits as the surviving widow. However, the rise in divorce rates in many welfare states in recent decades has arguably created a 'new social risk' (Esping-Andersen, 1999; Taylor-Gooby, 2004; Bonoli, 2005) for married women, who may lose their claim to pension entitlement as a survivor to their husband in old age if they divorce.

In Chapter 13, De Vaus et al examine the financial consequences of divorce in later life. In particular, they consider the effects of divorce in older age on

retirement incomes and assets in Australia. They discuss the reasons why divorce may affect retirement incomes and explore gender differences in superannuation, education and employment rates, home ownership and financial assets. Their analysis shows that, on average, divorce has negative consequences for income in later life. They also demonstrate, however, that remarriage can significantly reduce the negative effects of a previous divorce. They conclude that, in order to reduce the financial hardship caused by divorce in later life, public policy should encourage labour force participation both before and after retirement age. In addition, assistance should be provided to enable older people to obtain further education or to retrain following divorce, and thereby increase their employability in the job market.

Peter A. Kemp and Lindsey Smith

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