Publication Number
2021 Policy Research Paper

A Comparative Study of ASEM Partners' Pension Policy

ASEM Global Ageing Center

A Comparative Study of ASEM Partners' Pension Policy

2021. 12.

ASEM Global Ageing Center

About the Authors

Hae-Yung Song PhD, is Director of ASEM Global Ageing Center based in Seoul, Republic of Korea. She holds a Ph.D. in development studies at the School of Oriental and African Studies, University of London. She taught International Political Economy and Korean Studies at University of London, University of Warwick and Korea University. She works on the theories of human rights, political theory and development theory.

Giang Thanh Long PhD, is an Associate Professor at the National Economics University in Hanoi, Vietnam. He is also a Senior Researcher at the Institute of Social and Medical Studies (ISMS) in Hanoi; an Affiliate Research Fellow at the Oxford Institute of Population Ageing, Oxford University (United Kingdom); and an Adjunct Senior Researcher at the Menzies Institute of Medical Research at the University of Tasmania (Australia).

Worawet Suwanrada PhD**,** is a Professor in the Faculty of Economics, Chulalongkorn University in Thailand. In 2019, he received the National Distinguished Researcher Award in Economics from the National Research Council of Thailand. He also served as the Dean of College of Population Studies (2012–2016) and Dean of Faculty of Economics (2016–2020), Chulalongkorn University. Currently, he is serving as a committee member of the National Elderly Committee in Thailand. His primary area of research focuses on old-age income support, social protection and public finance.

Yang Jae-Jin PhD, is a Professor of Public Administration and director of the Institute for Welfare State Research at Yonsei University, Seoul, Republic of Korea. His work focuses on the comparative political economy of the welfare state. He won the Best Article Award (2013) and Injae Best Book Award (2017) from the Korean Political Science Association and Akira Nakamura Award (2019) from the Asian Association for Public Administration.

David Natali PhD, is a Professor in EU and Comparative Politics at the Sant' Anna School of Advanced Studies in Pisa, Italy. He holds a Ph.D. in political science at the European University Institute of Florence (EUI, 2002) with a thesis on pension reforms in France and Italy. His work deals with the comparative analysis of social protection reforms across Europe, and on the role of the European Union in the field. The specific focus of his research is the coordination of social protection and social inclusion policies through the OMC and Europe 2020.

Andrea Terlizzi PhD, is a Postdoctoral Researcher at the Sant'Anna School of Advanced Studies in Pisa and an Adjunct Professor at the University of Florence, Italy. He holds a Ph.D. in Political Science from the Department of Social and Political Sciences at the Scuola Normale Superiore in Florence. His main research interests include public and social policy, public administration and management, critical policy studies, theories of the policy process, and institutional and policy change.

Abstract

ASEM Global Ageing Center (AGAC) was established in 2018 as a specialized international agency to promote the human rights of older persons in the context of the Asia-Europe Meeting (ASEM). AGAC pursues research projects, as one of its main activities, that are relevant to and have important policy implications for the human rights of older persons. It has selected, as the research theme of the year 2021, ‘A Comparative Study of ASEM Partners’ Pension Policies’. This year’s research has been conducted by a team consisting of experts in pension policy from the EU and the ASEAN respectively.

Population ageing is now recognized as an irreversible trend that most societies are currently facing or will face sooner or later. Thanks to the advance of (medical) technology, humanity has come to live in societies where an increasing number of the population is of old age, although this is defined differently in different societies. While there is a great degree of diversity in the social, economic and cultural resources with which each society can respond to population ageing, most societies today must address various social, economic and cultural challenges and issues population ageing poses.

The aim of this project, ‘A Comparative Study of ASEM Partners’ Pension Policies’, is to explore and assess the common efforts made by high- and mid-income countries, their varying social and economic conditions notwithstanding, to ensure a decent life in older age, as well as the disputes and conflicts around these efforts. The current research project has been carried out by researchers from four countries, Republic of Korea, Vietnam, Thailand and Italy, covering seven countries’ pension policies: Republic of Korea, Vietnam, Thailand, Denmark, Italy, Slovenia and UK. This research project thus contains information and insights that reflect vividly the respective countries’ actual situations and experiences in relation to pension policy and reform.

This project addresses how the selected ASEM partners have responded to rapid population ageing and economic and social polarization through their pension systems by moving away from solely ‘economic’ values, i.e., the health of public finance or economic growth: how their ‘social’ concerns such as elder poverty, inequality and the working poor are reflected in their pension policies and reforms. While high- and mid-income countries have different levels of resources that influence the remit and scale of policy choice, this research aims to show what pension-related policies have been developed and adopted by the selected ASEM partners to address ‘social’ concerns as opposed to ‘economic’ and ‘fiscal’ constraints and what challenges they have encountered in ensuring a more equitable society.

This project hopes to provide ASEM partners as well as other countries with valuable insights which could help them better to prepare for a future with increased older populations.

Contents

Introduction ········· 1

The Vietnamese Pension System: Current Issues, Future Challenges and Policy Options ········· 8

The Pension System in Thailand: Current Situation, Policy Development and Future Challenges ········· 30

Old-Age Income Protection in South Korea: Impending Challenges and Reform Agenda for Future ········· 51

Comparative Analysis of Minimum Income Protection for Older Persons in Europe: The Cases of Denmark, Italy, Slovenia and The UK ········· 67

INTRODUCTION

HAE-YUNG SONG

Population ageing is now recognized as an irreversible trend that most societies are currently facing or will face sooner or later. Thanks to the advance of (medical) technology, humanity has come to live in societies where an increasing number of the population is of old age, although this is defined differently in different societies. While there is a great degree of diversity in the social, economic and cultural resources with which each society can respond to population ageing, most societies today must address various social, economic and cultural challenges and issues population ageing poses. One of the key questions is how to ensure older citizens a decent and dignified life. This question is acute for both high- and low-income countries.

High-income countries, as many of those in the EU, where social welfare systems for older persons are more advanced than elsewhere, have to deal with a phenomenon known as 'super-ageing society' under conditions of chronic low economic growth in the past few decades. Mid- and low-income countries as in the ASEAN, where drastic social and economic transformations have occurred with rapid industrialization and urbanization, are less well equipped to deal with rapid population ageing both in terms of economic resources and policy tools. In this respect, the Republic of Korea (thereafter 'Korea') is situated between high- and mid/low-income countries, represented by the EU and ASEAN respectively: while speed and degree of population ageing exceed those of the former, and while Korea has developed relevant policies for older persons for the last two decades or so further than the latter, it has been the country with the highest level of elder poverty in the OECD. This is in part caused by the fact that a large proportion of the older population has still been excluded from the benefits of (pension) policies which were adopted only recently.

The aim of this project, ‘A Comparative Study of ASEM Partners’ Pension Policies’, is to explore and assess the common efforts made by high- and mid-income countries, their varying social and economic conditions notwithstanding, to ensure a decent life in older age, as well as the disputes and conflicts around these efforts. From this, it is hoped to provide ASEM partners as well as other countries with valuable insights which could help them better to prepare for a future with increased older populations. This aim corresponds to the broad goal of ASEM Global Ageing Center (AGAC). AGAC was established in 2018 as a specialized international agency to promote the human rights of older persons in the context of the Asia-Europe Meeting (ASEM) and has pursued policy research projects that are relevant to and have important policy implications for the human rights of older persons. Having conducted policy research in the areas of ‘Elder Abuse’ and the ‘Ageism Index’ in the past years, AGAC has selected pension policy as its research theme of the year 2021. This year’s research project is special in that it has been conducted by a team consisting of experts in pension policy from the EU and ASEAN respectively. While past projects were conducted either by AGAC’s own research team or by commissioning an external research institution, the current research project has been carried out by researchers from Korea, Vietnam, Thailand and Italy, covering seven countries’ pension policies: Korea, Vietnam, Thailand, Denmark, Italy, Slovenia and UK. This research project thus contains information and insights that reflect vividly the respective countries’ actual situations and experiences in relation to pension policy and reform.

The choice of pension policy as the research theme of the year 2021 could not have been more pertinent for the rights of older persons given that it is an issue directly related to ensuring life with dignity in older age. Despite a great degree of diversity in social and welfare policies between ASEM partner countries as shown in this research, two conflicting forces are commonly in play in drafting and reforming pension policies. On the one hand, there has been a growing consensus amongst policy makers and academics that poverty and inequality are not only social issues that need to be addressed but negatively affect economic growth as they hinder consumption and investment. Especially, as the vulnerable including older persons have borne the brunt during economic crises in the last

2000s and the Covid-19 pandemic, international economic institutions e.g., the IMF, the World Bank and many national governments have increasingly found it difficult to prioritize the prudence of public finance and economic growth as social integrity is increasingly in danger with heightening poverty and social and economic polarization. This broad trend can be found in many ASEM partner countries. As seen in the cases of Vietnam, Thailand, Korea, Italy and the UK, pension reforms have been implemented in the direction of broadening the entitlement of (minimum) pension income to low-income older populations, offering cash transfers to older populations in poverty. On the other hand, this move towards what can be called 'universalism' has met a challenge from and has been restrained by the principle of public financial viability. As a result, while the range of people entitled to a minimum pension income has widened, as a way to mitigate the burden of public finance, private pension schemes (savings) are expanded and income inadequacy remains low as only a small amount of minimum pension income is offered (Thailand, Vietnam). Otherwise, a very stringent entitlement rule is applied (Italy) or strong stigma is attached in applying for such income (the UK) which has had the effect of defeating the policy's purpose of poverty alleviation among older persons.

Against this backdrop, this project is particularly interested in addressing how the selected ASEM partners have responded to rapid population ageing and economic and social polarization through their pension systems by moving away from solely 'economic' values, i.e., the health of public finance or economic growth: how their 'social' concerns such as elder poverty, inequality and the working poor are reflected in their pension policies and reforms. While high- and mid-income countries have different levels of resources that influence the remit and scale of policy choice, this research can show what pension-related policies have been developed and adopted by the selected ASEM partners to address 'social' concerns as opposed to 'economic' and 'fiscal' constraints and what challenges they have encountered in ensuring a more equitable society.

Prof. Giang Thanh Long discusses basic features of the Vietnamese pension system and how both contributory and non-contributory pension schemes have evolved. He addresses major challenges Vietnamese society is currently facing as a country that has experienced rapid industrialization for the last few decades and at the same time fast population ageing: the speed at which Vietnam experiences population ageing is much faster than other comparable middle-income economies as categorized by the World Bank; the number of years that the ratio of population aged 60 and above would take to double from 10 per cent to 20 per cent in Vietnam is expected to be merely 15 years, compared to 25 years in Japan and 20 years in Korea. He diagnoses the limits of both current Vietnamese contributory and non-contributory pension schemes. While the former has been expanded to different groups of people, its coverage is still uneven across different groups of workers along the lines of age, gender and residence. Similarly, even if it is recognized that the non-contributory (social) pension program has had the effect of reducing poverty for older persons, there still is a large coverage gap and its benefit adequacy is below the poverty line. On the basis of this diagnosis, Prof. Giang Thanh Long discusses different policy designs to integrate both contributory and non-contributory programs with the aim to expand coverage as well as achieve income security for the participants.

Prof. Worawet Suwanrada introduces key characteristics of the Thai pension system and discusses major pension reforms. Particularly he addresses the evolution of the Thai pension system with reference to the 2009 reform which marked a major shift in the public pension system. With the 2009 reform, all older Thai people, excluding some specific groups enjoying government officials' pension and older persons in public welfare facilities, are entitled to receive an old-age allowance. This means that the function of the old-age allowance changed from being a form of social assistance for unprivileged older persons to being part of a social protection floor for all Thai older persons, covering more than 90 per cent of the total older population. Prof. Suwanrada also discusses another significant reform implemented in 2011 that introduced the National Savings Fund (NSF) scheme. If the 2009 reform brought about the near-universalization of the old-age allowance, NSF is a voluntary and contributory pension system that targets working population in the informal sector to accomplish higher pension benefits in their old age. Despite the Thai government's endeavors and achievements in advancing its pension system, many challenges still remain: 7.2 per cent of the Thai population aged 60 and over have living standards beneath the poverty line, and a large number of the informal-sector working population do not join voluntary schemes. In addition, the governance mechanism of pension systems are fragmented due to the absence of a single authority and the current government is reluctant to raise the adequacy level of old-age allowance. Prof. Suwanrada projects a long and difficult path towards a more equitable society in Thailand.

Prof. Jae-Jin Yang discusses the acute policy challenges that Korea faces in relation to population ageing: Korea will be a ‘super-aged’ society by 2025 when 20 per cent of the population will be aged 65 or older, while it is currently the country of the lowest fertility rate (less than 0.8 as of 2021) in the world and the highest elder poverty rate in the OECD. Prof. Yang introduces the key features of the Korean pension system and its evolution, particularly the adoption of the National Pension Scheme (NPS) in 1988 for those employed and its extension to the self-employed and workers in the informal sector in 1999. It also discusses the basic old-age pension adopted in 2007 to cover the bottom 40 per cent of the older persons, which was then changed to the current basic pension that covers the bottom 70 per cent of the older persons. Prof. Yang points out that even if Korea has developed and adopted pension schemes for the employed and older persons, the prospect of alleviating elder poverty is rather poor: the NPS was only recently introduced, thus the contribution period of the participants is short while the monthly basic pension is only half of the poverty line. As a solution to elder poverty, Prof. Yang proposes to adopt the Swedish model. His argument is grounded on the reasoning that to the extent that the poverty of the current elder population will be different from that of future generations as the NPS matures, more resources should be channeled into those in need (40 per cent of the older population in poverty) rather than covering 70 per cent. While he endorses ‘selective’ rather than ‘universal’ support for older persons in poverty, his view suggests that a more ‘targeted’ approach to elder poverty might be more effective especially when pension systems are relatively developed and some welfare measures for older persons are already in place. Prof. Yang’s approach in fact constitutes one of the key positions in the debate over the validity of ‘universal’ basic income that is arguably most discussed in Korea today.

Prof. David Natali and Dr Andrea Terlizzi assess comparatively four countries in Europe, Denmark, Italy, Slovenia and the UK in terms of the respective countries' minimum income protection for older persons. Europe experienced population ageing earlier than other countries, with 20 per cent of the total population being aged 65 and above in the EU (27 member states) as of 2018. One characteristic of elder poverty in Europe is that while older-age poverty rates have decreased, the actual number of older people at risk of poverty has been stable with an increase in the absolute number of the older population. Another characteristic is the large gender gap: the risk of poverty is higher among women than men. After showing empirically the extent of poverty risk in older age in Europe, Prof. Natali and Dr Terlizzi closely examine how the four selected countries in Europe adopted pension policy to tackle and respond to elder poverty. Recognizing these countries' measures against elder poverty such as a minimum income can only be adequately understood when they are situated within the broad institutional architecture of pension systems, they categorize the countries' pension systems into Bismarckian (occupational coverage) and Beveridgean (universal coverage) ideal types and assess how the key features associated with the types have informed subsequent measures adopted to tackle elder poverty. By highlighting how the four countries' measures against elder poverty are informed by these two principles, 'universalism' vs. 'targeting', they show how these principles have different implications for budget (cost), behavioral issues (stigma), political support (solidarity) and efficacy in reducing elder poverty. While most countries in reality have an institutional mix of these two ideal types, the authors arrive at a rather mixed conclusion: even if Beveridgean systems are better in terms of poverty alleviation than Biskmarckian schemes, the extent of monetary transfers (public spending) is only loosely correlated with the better protection of older persons in poverty, as seen in Italy where poverty and inequality rates are high despite Italy being a big pension spender.

This comparative study of ASEM Partners' pension policies shows that as population ageing accelerates, pension policy has been increasingly a major tool with which most countries respond to it, and its importance has grown accordingly. While the seven countries examined in this project might differ greatly in terms of economic development, social conditions and cultural/familial values, it is shown that they are all striving to strike a balance between economic realty (fiscal constraints) and social concerns to mitigate poverty and inequality. Moreover, this study shows that there is not one clear solution to elder poverty that fits all countries: non-contributory universal basic pension might be effective for alleviating elder poverty in the countries where modern pension systems are yet to be developed, while a more targeted and selective approach might be more effective if the ratio of the population in poverty is low and other social welfare measures are in place. This study finally suggests that to the extent that pension policy is closely related to the rights to live in dignity, social cohesion, solidity and equality, it cannot but be contested, and its content and direction are ultimately decided by political decisions.

THE VIETNAMESE PENSION SYSTEM:

CURRENT ISSUES, FUTURE CHALLENGES AND POLICY OPTIONS

GIANG THANH LONG

INTRODUCTION

Ageing population is an important demographic trend in the 21st century as it has significant impacts on the socio-economic and health performances of countries, regions and the whole world (United Nations Population Fund – UNFPA and HelpAge International – HAI, 2012). If older persons are defined as those aged 60 and over, the medium-variant population projections of the United Nations Department of Economic and Social Affairs (2019) showed that the world's number of older persons will increase from about 910 million in 2020 to about 2.3 billion in 2050 (or respectively from 12 per cent to 22 per cent of the world population). Particularly in middle-income countries, population ageing will present various challenges for public policies on income security. In addition, rapid socio-economic and health changes stemming from urbanization and industrialization and the weakening of family bonds also suggest an urgent need to address old-age income security in these countries, where pension schemes are underdeveloped with limited coverage (UN-DESA, 2007; UNFPA and HAI, 2016).

Vietnam is not an exception from this demographic trend. Fertility rates decreased from 3.4 children per woman in 1990 to 2.09 in 2019, which is slightly lower than the replacement rate. At the same time, life expectancy at birth increased from 64.8 in 1990 to 73.6 in 2019 (or about 10 more years). These two changes have made for population ageing in Vietnam, where the proportion of older persons (those aged 60 and over) increased from 8.7 per cent of the total population (or 7.45 million persons) in 2009 to 11.9 per cent in 2019 (or 11.4 million persons) (General Statistics Office of Vietnam – GSO, 2021a). According to the population projections by GSO (2021b), Vietnam will enter an 'aged' population in 2036 when persons aged 65 and over will account for 14.17 per cent of the total population. In two decades to the present, with the *Doi moi* (renovation) programs, Vietnam changed from one of the poorest countries in the world in the late 1980s to a low middle-income country in 2009 (World Bank, 2021). Along with economic changes, the social protection system in Vietnam, including pension schemes, has been developed, with considerable progress in terms of coverage and benefits. Various studies, however, have shown that with a rapidly ageing population, the pension schemes – both contributory and non-contributory – will face a number of viable and equitable issues, owing to their current design and implementation (Giang and Pfau, 2009; UNFPA and ILO, 2014; Giang and Nguyen, 2017). The majority of older persons are still living in rural and disadvantaged areas, and only one-third of them are receiving public pensions; while the remainder are living on their own and/or supported by children and family members (Vietnam's Women Union – VWU, 2012; GSO, 2021a). Also, the past two decades witnessed a continuous decline in the multi-generational family model: the rate of older persons living with their children declined, while the rates of those living alone or with an aged spouse increased (Giang and Pfau, 2007; VWU, 2012; GSO, 2021a). Any reduction in family support, along with the limited coverage provided by the pension schemes, will therefore expose older persons to further income vulnerabilities.

In such a situation, this paper aims to provide descriptions of and discussions on both contributory and non-contributory pension schemes in Vietnam, with focuses on their key current features and the various challenges of an ageing population. It also discusses possible designs adapted to an ageing population.

The research is organized as follows. In the next section, we provide an overview of the Vietnamese pension schemes and then discuss the current status and challenges of these schemes, as well as propose designs adapted to an ageing population. The final section concludes the research.

THE VIETNAMESE PENSION SYSTEM: CURRENT STATE AND CHALLENGES

The current social security system in Vietnam includes four main pillars: i) active labor market; ii) social insurance; iii) social assistance or social allowances; and iv) basic social services. These pillars are built to deal with various risks, based on a life-cycle approach. In this paper, we focus on the second and third pillars of this system. In particular, the second pillar (i.e. social insurance) includes the contributory pension scheme, which consists of the mandatory program and the voluntary program. The third pillar (i.e. social assistance or social allowances) includes the non-contributory pension scheme (or social pension or cash transfer scheme).

The contributory pension scheme

To provide a brief description of the mandatory and voluntary pension programs, **Table 1** provides information about regulations for these programs.

Table 1. A comparison between the mandatory program and the voluntary program

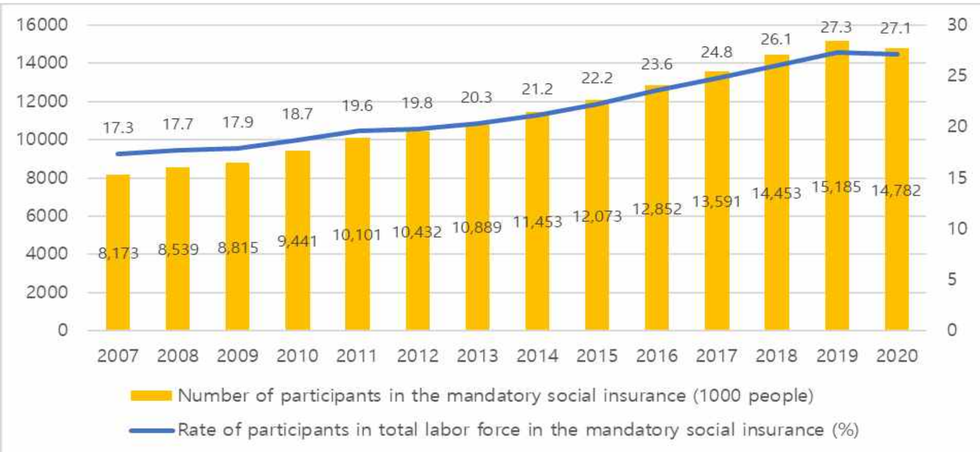
	MANDATORY PROGRAM	VOLUNTARY PROGRAM
Benefits covered	Sickness, maternity, occupational sickness and accidents, pension, survivorship	Pension, survivorship
Monthly income basis determining the premium	Current monthly salary (incl additional allowances and payments), but at least the minimum wage	Monthly income by choice, but at least the poverty line of the rural area
Premium rate	26% of monthly salary, of which: - 18% by employer = 3% for sickness & maternity+ 1% for occupational disease + 14% for pension and survival - 8% by employee, for pension and survival	22% of monthly salary/income, for pension and survival, but subsidized: - For 30% if poor - For 25% if near-poor - For 10% for others (max 10y)
Periodicity of Contribution	Monthly	Monthly, quarterly, every 6 months, annually or once for many upcoming years and once for missing years

Source: Giang et al. (2021)

Coverage

The current pension scheme is mandatory for i) persons working under labor contracts with a term of between one full month and under three months; ii) Vietnamese workers working abroad under labor contracts defined in the Law on Vietnamese Workers working abroad, who have never participated in the mandatory social insurance (SI); iii) salaried managers of enterprises and cooperatives; iv) part-time staff in communes, wards and townships; and v) employees who are foreign citizens working in Vietnam with work permits or practice certificates or practice licenses granted by the Vietnamese authorities, who are covered by mandatory social insurance under the Government's regulations (Article 2, Chapter I, Law on Social Insurance 2014). In the period 2007-2020, the coverage rate of the mandatory pension scheme – as a per centage of the total workforce – increased gradually from 17.3 to 27.1 per cent (or from 8,173 thousand persons to 14,782 thousand persons, respectively) **Figure 1**.

Figure 1. Coverage of the mandatory pension program, 2007-2020

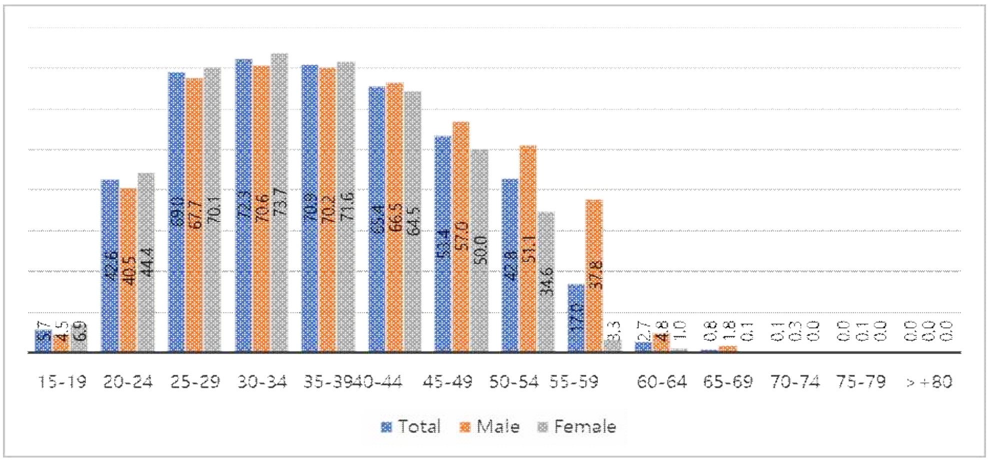


Source: Vietnam Social Security (various years), cited by Giang et al. (2021)

In order to see how participation in the mandatory pension scheme by various groups of workers differed from each other, the following figures present their participations in terms of age group along with gender (male vs. female), residential place (urban vs. rural), and by type of labor contract.

Figure 2 shows that the rate of participation in the mandatory pension scheme varied by age, from less than 1 per cent for very old workers to more than 70 per cent for younger groups. Particularly, male workers aged 20-54 and female workers aged 20-59 had higher rates of participation than did other respective groups. Between male and female workers within the same age group, the results show clearly that male workers usually had a higher rate of participation than their female counterparts. More specifically, gender gaps in participation were significant for workers aged 45-64.

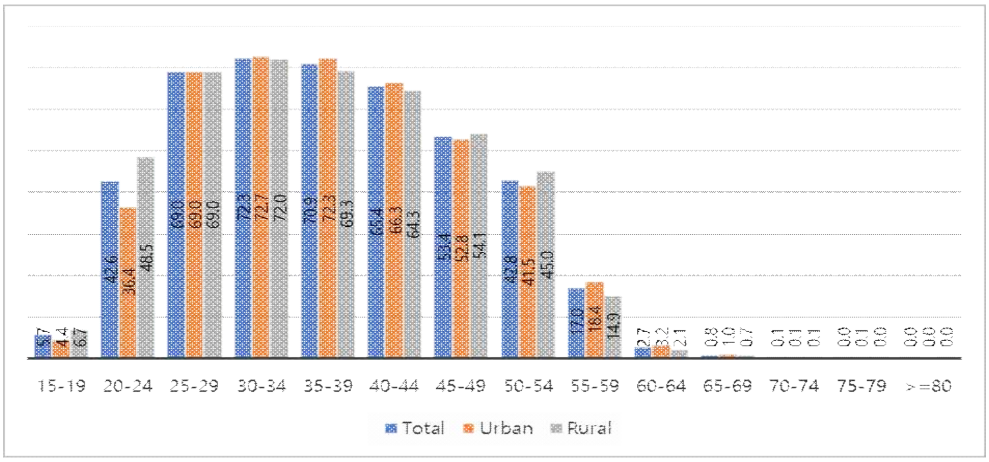
Figure 2. % participating in the mandatory pension scheme by age and gender, 2019



Source: Own calculations, using Labor Force Survey (LFS) 2019

Figure 3 shows that in all age groups, urban workers did not have significantly different participation rates from rural workers. This is a quite encouraging sign, as urban workers usually have significantly higher rates of participation than their rural counterparts (as presented in World Bank, 2007; MOLISA, 2017).

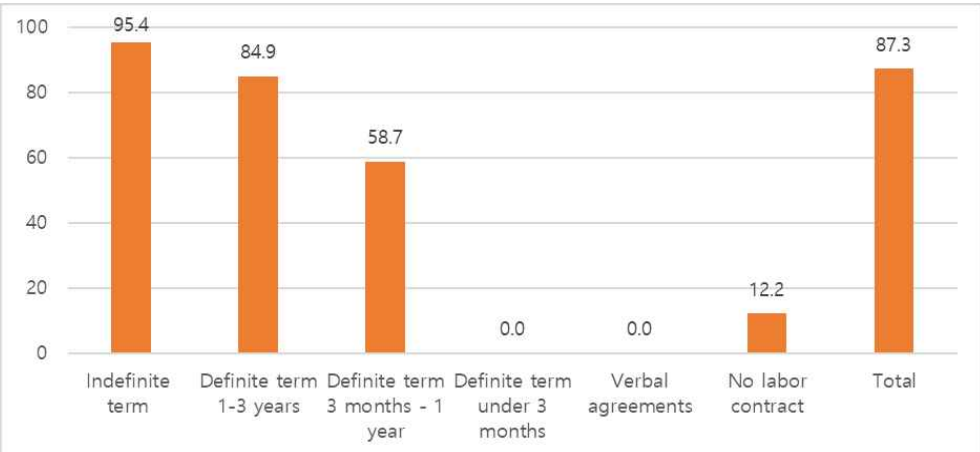
Figure 3. % participating in the mandatory pension scheme by age and residential place, 2019



Source: Own calculations, using Labor Force Survey (LFS) 2019

Types of labor contract are important in defining whether a worker is eligible for participation in the mandatory pension scheme. **Figure 4** indicates clearly that short-term or no contracts were significantly related to low coverage of the mandatory pension scheme for workers. About 95 per cent of workers with indefinite labor contracts participated in this scheme, while the rates were lower for workers with shorter labor contract terms.

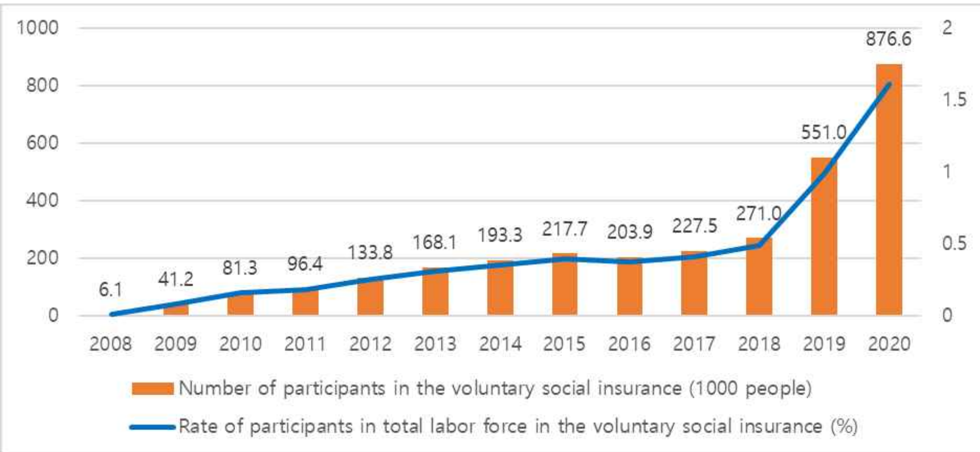
Figure 4. % participating in the mandatory pension scheme by type of contract, 2019



Source: Own calculations, using Labor Force Survey (LFS) 2019

The current contributory pension scheme is voluntary for all Vietnamese citizens aged 15 and over who are not subject to the mandatory pension program, as indicated in the Law on Social Insurance 2014. **Figure 5** presents the coverage rate and the number of participants in the voluntary pension program in the period 2008-2020. The results show that both indicators increased gradually in 2008-2018, and then increased rapidly in 2019 and 2020. This could be explained by the fact that Resolution 28/2018 of the Central Party Committee on expanding coverage of the social insurance system was implemented. The coverage rate of the voluntary pension program is, however, still very limited, at less than 2 per cent of the workforce in 2020. It is really critical when comparing this rate with the rate of informal workers in the workforce (about 78 per cent).

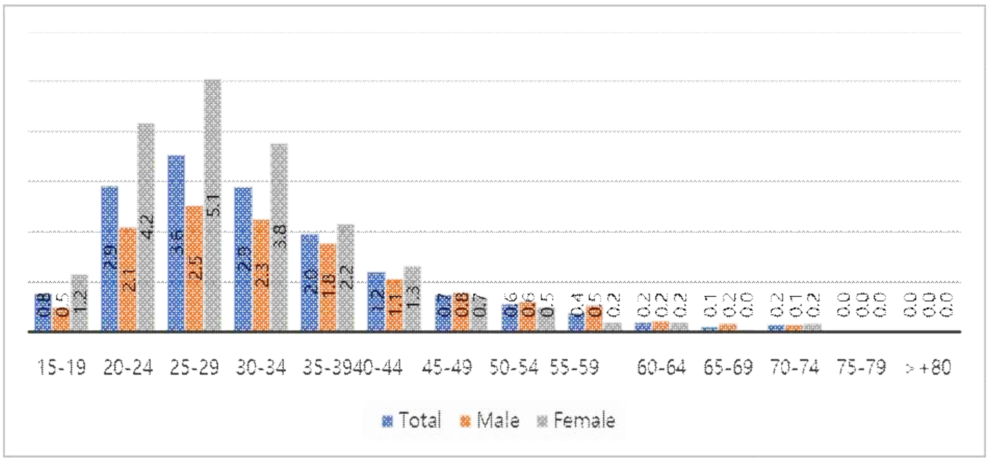
Figure 5. Coverage of the voluntary pension program, 2008–2020



Source: Giang et al. (2021), compiled from Vietnam Social Security annual reports

Figure 6 shows the participation rate in the voluntary pension program by age group and gender in 2019. At ages 20 to 34, there were significant differences between male and female workers. The differences were, however, smaller in higher age groups.

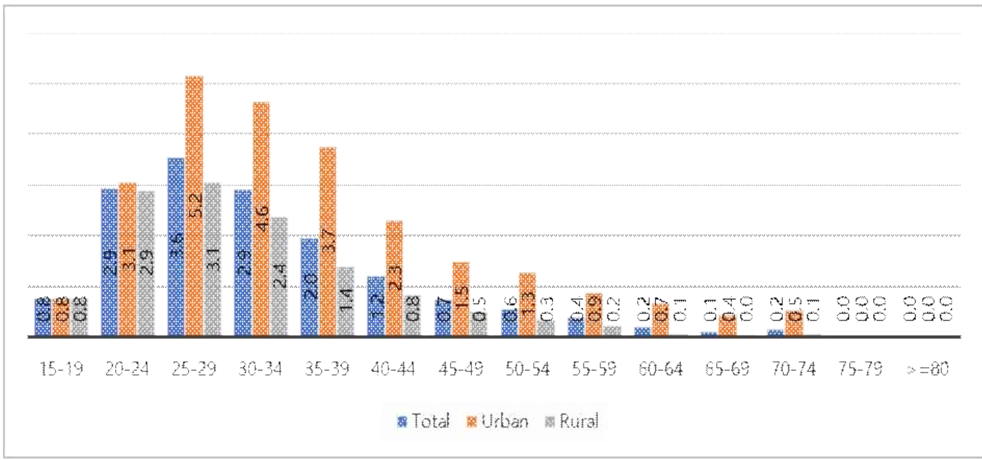
Figure 6. % participating in the voluntary pension program by age and gender, 2019



Source: Own calculations, using Labor Force Survey (LFS) 2019

Figure 7 presents the participation rates in the voluntary pension program for urban and rural workers. It shows that urban workers participate at about twice the rate of rural workers. The difference is significant for those aged 25-29, while smaller for those in higher age groups.

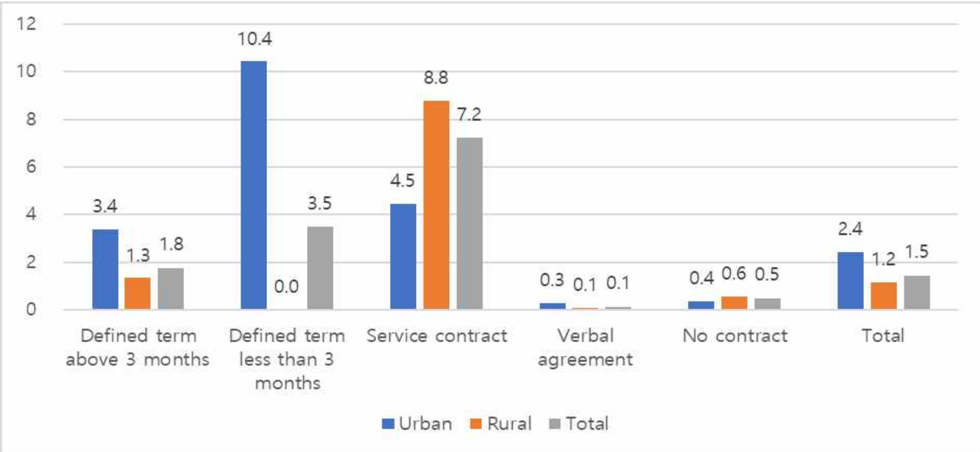
Figure 7. % participating in the voluntary pension program by age and place of residence, 2019



Source: Own calculations, using Labor Force Survey (LFS) 2019

Regarding types of labor contracts, **Figure 8** shows that those with short-term or no contracts have lower rates of participation than their counterparts (such as those with defined terms). This trend echoes that for workers participating in the mandatory pension program. Particularly for workers with verbal agreements or without labor contracts, their participation rates are extremely low.

Figure 8. % participating in the voluntary pension program by type of labor contract and residential place, 2019



Source: Own calculations, using Labor Force Survey (LFS) 2019

Contributions and benefits

For the mandatory pension program, the contribution rate of employees (who have a labor contract of one full month or more, cadres, civil servants, and armed forces) is 8 per cent of the monthly salary into the retirement and survivor allowance fund, while their employers contribute 18 per cent. Of these contributions, 22 per cent (8 per cent from employees and 14 per cent from employers) are for retirement and survivorship, and the remaining 4 per cent are for sickness benefits; maternity leave; occupational accidents and diseases. **Table 2** presents how regulations on benefits from the mandatory pension program were changed in the past ten years.

For the voluntary insurance premium rate is 22 per cent, and this is contributed to the retirement and survivorship fund only. The minimum income level selected for social insurance payment is the rural poverty line, which is defined by the Ministry of Labor, War Invalids and Social Affairs (MOLISA). In 2018, the rural poverty line was 700,000 VND/person/month.

Table 2. Changes in mandatory pension regulations, 2008-now

Retirement regime	Period of 2008-2015	Period of 2016-2017	Period 2018 – now
Conditions for benefit entitlement	Being full 60 years old for men, or full 55 years old for women; have paid social insurance premiums for minimum full 20 years	Being full 60 years old for men, or full 55 years old for women; have paid social insurance premiums for minimum full 20 years	Being full 60 years old for men, or full 55 years old for women; have paid social insurance premiums for minimum full 20 years
Bases for determining levels of pension	Average monthly salary on which social insurance premiums are based for the whole time of participation	Average monthly salary on which social insurance premiums are based for the whole time of participation	Average monthly salary on which social insurance premiums are based for the whole time of participation
Pension rate levels	45% of the average monthly salary for 15 years	45% of the average monthly salary for 15 years	Women: 45% of the average monthly salary for 15 years Men: 45% of the average monthly salary for the participation time, increasing gradually from 16-19 years, applicable from 2018 to 2021 Men: 45% of the average monthly salary for 20 years from 2022
	Men: 2% for each additional year	Men: 2% for each additional year	Men: 2% for each additional year
	Women: 3% for each additional year	Women: 3% for each additional year	Women: 2% for each additional year
	Maximum rate: 75% of average monthly salary	Maximum rate: 75% of average monthly salary	Maximum rate: 75% of average monthly salary
Conditions for enjoying maximum rate	Men: have paid social insurance premiums for full 30 years or more Women: have paid social insurance premiums for full 25 years or more	Men: have paid social insurance premiums for full 30 years or more Women: have paid social insurance premiums for full 25 years or more	Men: from 2022, have paid social insurance premiums for full 35 years or more Women: from 2018, have paid social insurance premiums for full 30 years or more

Source: Giang et al. (2021), compiled from the Law on Social Insurance 2006 & 2014

Challenges of an ageing population

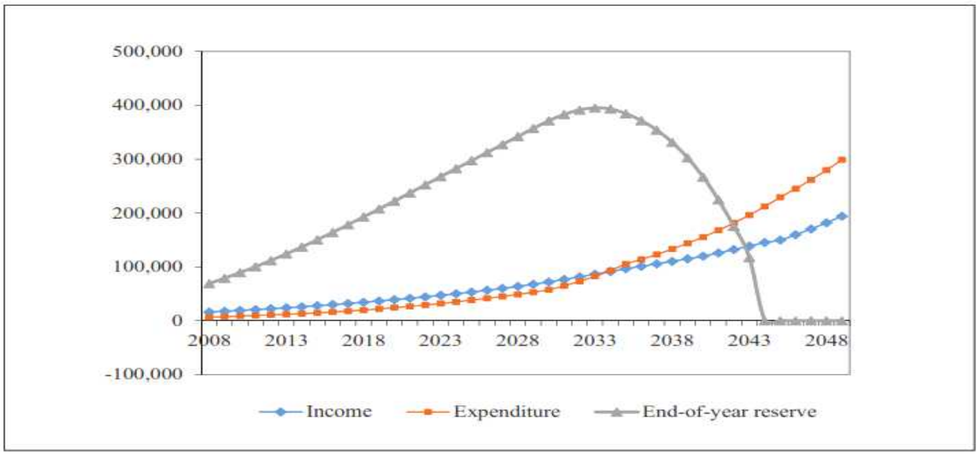
In addition to differences among various groups of workers in terms of age, gender, and place of residence, a number of studies on the financial viability of the scheme have also indicated that the current pay-as-you-go (PAYG) defined-benefit (DB) mechanism would not be sustainable with the rapidly ageing population expected in Vietnam. For instance, the ILO (2014) showed that, without changes, the scheme will be financially depleted by 2034, and the PAYG cost rate – the rate that helps balance revenues and expenditures of the pension fund – would be 47.5 per cent rather than the current 22 per cent. Policy changes to increase normal retirement ages for male and female workers as well as benefit adjustments would help to extend the balance for about 30 more years (**Table 3**). Giang and Nguyen (2017) found similar signs that the financial balance of the scheme could be sustained until 2043 and the PAYG cost rate would be 44 per cent (**Figure 9**). These studies imply that, without systematic reform, the scheme will not be financially viable.

Table 3. Financial projections for the contributory pension program

Options		**The year in which...**		**At 2049**
		PAYG cost rate exceeding 22%	Depletion of reserves	PAYG cost rate (%)
SQ	*Status quo*	2021	2034	47.5
Scenario 1	1.5% flat + 65 yrs. Old	2050	2080	21.3
Scenario 2	2.0% flat + 65 yrs. Old	2046	2066	26.2

Source: ILO (2014)

Figure 9. Pension fund projections with changes in NRA and CR, 2008-2049



Note: NRA – normal retirement age; CR – contribution rate

Source: Giang and Nguyen (2017)

The non-contributory (social) pension program

The non-contributory pension program – also known as the social pension program – is intended to provide a monthly income to different groups of older persons who do not qualify for contributory pension benefits. There are two groups of older beneficiaries:

those aged 80 and over: this is a pensions-tested program, meaning that older persons who do not receive contributory pension benefits will qualify for this;

those aged 60 to 79: this is a means-tested program, meaning that older persons who are qualified with specific conditions (such as living alone without any support from children or other relatives) will receive benefits.

Table 4 presents the milestones of the social pension scheme in Vietnam.

Table 4. Milestones of the social pensions scheme in Vietnam

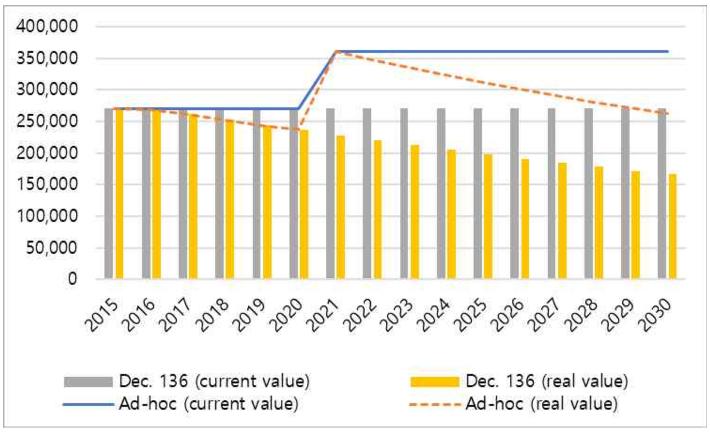
No.	Time	Age eligibility	Benefit per month
1	26 March 2000	90 and over	VND 45,000 (or about $3)
2	2004	90 and over	VND 65,000 (or about $4.2)
3	13 April 2007 (Decree 67)	85 and over	VND 120,000 (about $7.5)
4	27 February 2010 (Decree 13)	80 and over	VND 180,000 (about $9.5)
5	21 October 2013 (Decree 136)	80 and over	VND 270,000 (about $13)
6	15 March 2021 (Decree 20)	80 and over	VND 360,000 (about $15)

Source: Own compilation from various legal documents

Various studies have indicated that the social pension has had a role in reducing poverty for older persons in Vietnam (see, for instance, ILSSA and UNFPA, 2007; Giang and Pfau, 2009; Giang and Wesumperuma, 2012). However, a number of challenges have been exposed due to limitations in regulations. As indicated by the International Labour Organisation (ILO, 2021), there has been a very large coverage gap among those aged 60–79 because the means-tested social pension is targeted at those living in poverty, and the program is now covering only 95,000 older persons in this age range.

More critically, benefit adequacy is another problem as the base-line value of the benefit was set at 270,000 VND (or about US$12), which is equivalent to about 39 per cent and 30 per cent of the rural and urban poverty lines (at VND 700,000 and VND 900,000, respectively) (McClanahan, James, and Gelders, 2019). The new Decree 20/2021 increased the base-line value to 360,000 VND (or US$15), but this is still very low when compared with any income-based measure such as poverty lines or the minimum wage. The base-line value is about 6 per cent of GDP per capita, which is among the lowest in middle-income countries (McClanahan and James, 2019). Also, since the base-line value is not indexed to either minimum wage or inflation, the real value (or purchasing power) of benefits was reduced over time, and is expected to reduce further in the coming years (**Figure 10**). That is why the impact of the social pension on poverty reduction for older persons has been low (Giang and Pfau, 2009; Kidd, Gelders, and Tran, 2019).

Figure 10. Overtime real value of social pension base-line value (VND)



Source: ILO (2021)

REFORM DIRECTIONS[1]

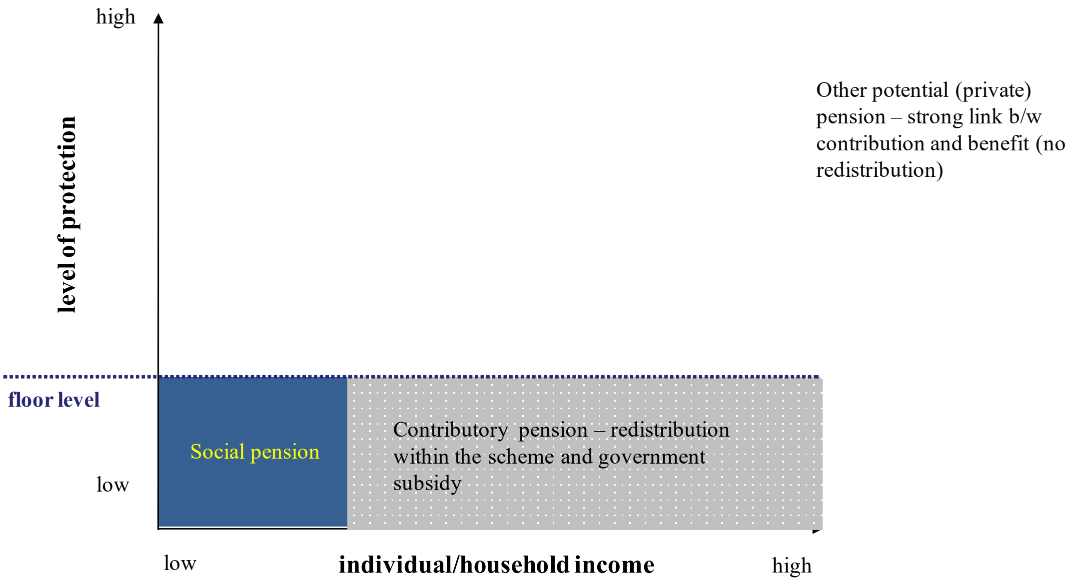
As discussed by Barr and Diamond (2008), pension systems pursue multiple objectives, including (i) consumption smoothing, which enables older people to enjoy higher incomes; (ii) redistribution, which aims to avert or reduce poverty among older people; (iii) insurance against longevity risk; and (iv) gender equity, which provides a fair amount of pension for both males and females in similar conditions. If the pension scheme is structured appropriately, it can ensure that pensioners will receive income for their entire pension-receiving period. Experiences from both developed and developing economies have indicated that a pension system aiming to guarantee long-term income security for any groups of population, especially for informal sector workers who usually have low income and savings, can be designed in a variety of ways and with varying levels of complexity (World Bank, 1994; Mitchell and Fields, 1996; Thompson, 2001; Holzmann, Robalino, Takayama et al., 2009). It is also worth noting that for any design, the pension system should achieve three core principles, i.e., (i) coverage expansion; (ii) reducing informality; and (iii) ensuring fiscal efficiency (including fiscal viability and fiscal equity among participants).

In a rapidly developing economy like Vietnam, a strategy for extending coverage to the informal sector needs to be dynamic and takes account of the changing characteristics of the population. In particular, it will be important to have a strategy to provide pensions (i) for current older people who spent most of their working lives in a much poorer and less developed Vietnam, and (ii) for future generations of older people who may well have greater potential for individual savings. Both strategies are likely to include a combination of contributory and non-contributory (or social) pensions, even if the scale of the system may change over time. As such, it is important that these strategies are designed to be as complementary as possible with each other.

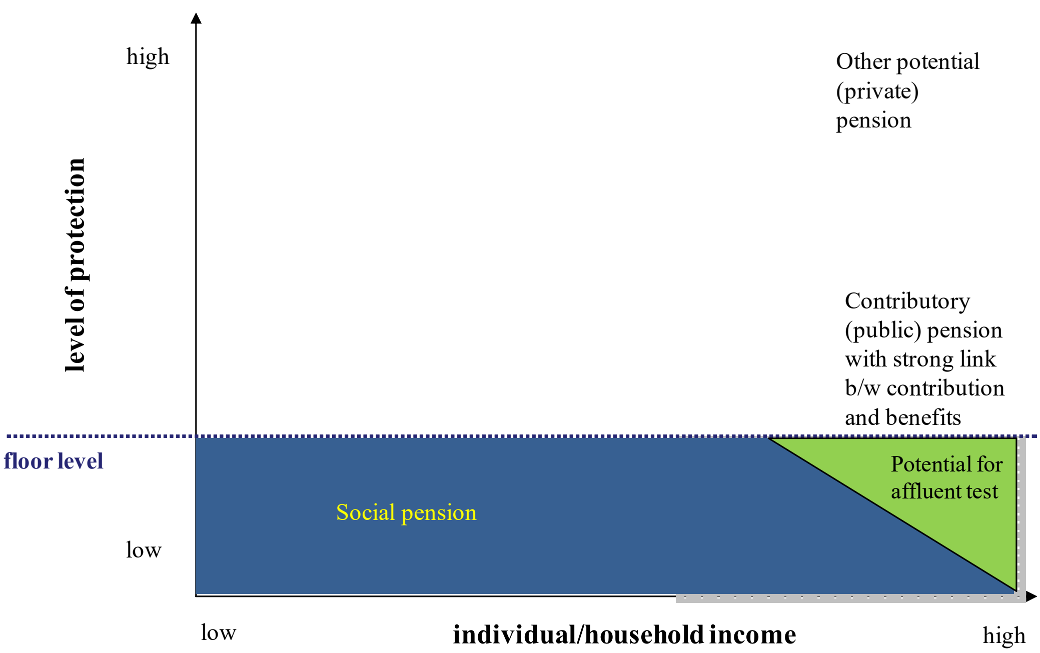
1) This part is heavily based on ILO and UNFPA (2014)

Figure 11. Design options for the future pension system in Vietnam

Option 1



Option 2



Source: ILO and UNFPA (2014) based on Knox-Vydmanov (2012) and Galian (2014)

The first option (Figure 11, upper panel) reflects the situation in many OECD countries such as Germany, France, the USA, and many post-Soviet countries that have implemented earnings-related **contributory social insurance** schemes that cover the majority of their working population. While they are earnings-related, far from being a simple individual savings account for members, these schemes classically involve substantial redistribution and subsidy from government. For example, benefit formulas are often designed so that lower income workers will eventually receive proportionally higher pension benefits than their higher-earning peers. Similarly, many schemes include some form of minimum pension guarantee that may be funded from general taxes or from revenue from the social insurance fund. Notably, in relation to the objectives of a pension system outlined by Barr and Diamond (2008), such schemes involve both consumption smoothing and redistribution. Lower-income workers who would have been unable to accumulate a sufficient pension through some form of individual account are able to do so through the solidarity between members of such a scheme.

In some countries, informal sector workers on low incomes can participate in this kind of scheme on a voluntary basis with contributions matched by government, as will be discussed in the next section. It should be noted, however, that as a matching grant from the government is tax-financed, such a grant should be defined at a reasonable level which (i) can provide minimum pension level; and (ii) should not create more burdens on formal sector workers who may have to pay more taxes.

In this model, **social pensions** tend to play a minimal role in the system, mainly covering a relatively small proportion of the population that has been unable to contribute to a pension scheme for a sufficient period to gain a pension entitlement. Amongst this group tend to be immigrants, people with long periods of unemployment, and also women who have spent a large period of their lives out of the workforce caring for children. That said, these social insurance schemes tend to provide survivor benefits that are paid to women whose spouses built up an adequate pension entitlement.

The social pension can be 'means-tested' to exclude individuals with a certain level of income and/or assets (for example in Germany and France) or 'pensions-tested' to exclude people who receive benefits from social insurance. Pensions-tested schemes exist in countries such as Russia and Kyrgyzstan that have high-coverage social insurance schemes. Vietnam is currently using a pensions-tested method for those aged 80 and over.

Experiences from some middle-income countries, however, have indicated that it may be difficult to expand this type of scheme to cover the informal sector because workers in the formal sector with payroll taxes and benefits typically oppose providing 'free' non-contributory benefits to those who work for low pay in the informal sector as well as to unpaid workers (Willmore, 2014).

The second option (Figure 11, lower panel) is distinct in that it divides the functions of redistribution (on the one hand) and consumption smoothing (on the other). In this case, the foundation of the pension system is a tax-financed **universal (or near-universal) social pension** with a flat-rate benefit. Rather than being earnings-related, there is a certain benefit level to all older people regardless of their income levels. In addition to the social pension, there is a **contributory pension** which provides additional income to those who have contributed. With the primary redistribution function of the pension system being performed by the social pension, the contributory scheme can be more clearly focused on consumption smoothing. In this sense, it would be expected that such a scheme would be self-financing and – unlike the social insurance scheme in the first option – would not receive tax-financed subsidies. It is also likely there would be a closer link between contributions and benefits, although there would still be an option to include some level of redistribution between members.

As with the first option, informal sector workers – either with low or high incomes – can usually participate in the contributory scheme on a voluntary basis, so as to earn additional benefits. To encourage informal sector people to participate in (contribute to) this scheme, it is extremely important that the level of social pensions be appropriately defined. Some have argued – though this is in the preliminary stages – that the basic coverage option to take care of informal sector workers might prove counterproductive as it reduces the incentive to become formal while increasing pressure on formal sector workers to become informal as their tax burden increases (Holzmann et al., 2004).

CONCLUDING REMARKS

In the situation of a low middle-income country with an ageing population, it is suggested that the pension scheme be reformed so as to stabilize pension fund balance, reduce old-age poverty, and maintain generational equity. Vietnam is now growing in line with such trends, so that discussion on the key features, challenges, and reform directions for both contributory pension and non-contributory pension schemes is ever more necessary.

This paper has made use of available studies to pursue such a research demand. It showed that both contributory and non-contributory schemes have contributed significantly to the social protection system in Vietnam, which have in turn improved the living standards of many older people. With swift demographic and socio-economic changes, however, the paper also showed that the current operating mechanisms of both schemes might not be working well. In particular, the contributory scheme will be facing both financial instability and generational inequity, while the non-contributory scheme will experience low effectiveness. As such, the paper proposes that designing an integrated system where contributory and non-contributory programs are complementary with each other should be pursued so as to expand coverage and achieve income security for all beneficiaries.

REFERENCES

Barr, N. and P. Diamond. (2008). *Reforming Pensions: Principles and Policy Choices*. Oxford University Press.

Galian, Carlos. (2014). *Social Protection Assessment for Vietnam. Draft unpublished mimeo.* Hanoi: World Bank.

General Statistics Office of Vietnam (GSO). (2021a). *The Population and Housing Census 2019: Population Ageing and Older Persons in Viet Nam*. Hanoi: General Statistics Office of Vietnam.

General Statistics Office of Vietnam (GSO). (2021b). *Viet Nam Population Projection for the Period 2019-2069*. Hanoi: General Statistics Office of Vietnam.

Giang, T. L., & Pfau W. D. (2007). The Elderly Population in Vietnam during Economic Transformation: An Overview. *Social Issues under Economic Transformation and Integration in Vietnam, 1*, 185-210.

Long, G. T., & Pfau, W. D. (2009). Ageing, Poverty and the Role of a Social Pension in Vietnam. *Development and Change, 40*(2), 333-360.

Giang, T. L., & Wesumperuma, D. (2012). Social Pensions for Older Persons in Vietnam: Current Status and Recommendations for Policy Responses. *Social Protection for Older People: Social Pensions in Asia,* 168-186.

Giang, T. L., Do, T. T., & Phi, M. P. (2021). *Overview of the Social Insurance System in Vietnam*. Hanoi: Oxfam Vietnam.

Giang, L. T., & Nguyen, C. V. (2017). The Aging Population and Sustainability of the Pension Scheme: Simulations of Policy Options for Vietnam. *Journal of Economics and Development, 19*(3), 40-51.

Holzmann, R., Palacios, R. J., & Zviniene, A. (2004). *Implicit Pension Debt: Issues, Measurement and Scope in International Perspective* (Vol. 403). Social Protection, Labor Markets, Pensions, Social Assistance, World Bank.

Holzmann, R., Robalino, D. A., & Takayama, N. (Eds.). (2009). *Closing the*

Coverage Gap: The Role of Social Pensions and Other Retirement Income Transfers. Washington D.C: World Bank.

International Labour Organization. (2014). *Pension Fund Projections for Vietnam under New Policy Proposals* (Unpublished Manuscript). Hanoi: International Labour Organization.

International Labour Organization. (2021). *Technical Note: Analysis of Draft Decree 136 and exploring options for social pension expansion in Viet Nam.* Hanoi: International Labour Organization.

Institute for Labour Science and Social Affairs., & United Nations Population Fund. (2007). *Assessment on Social Pension for the Elderly Persons in Vietnam.* (Unpublished report). Hanoi: Institute for Labour Science and Social Affairs amd United Nations Population Fund.

Kidd, S., Gelders, B., & Tran, A. (2019). *Potential Impacts of Social Pensions in Viet Nam.* Hanoi: International Labour Organization.

Knox-Vydmanov, C. (2012). *Social Protection Floors and Pension Systems: The Role of a 'Citizen's Pension'. Pension Watch - Briefings on social protection in older age, Briefing No.9.* London: HAI.

McClanahan, S., & James, P. (2019). *Assessing the Adequacy of Tax-Financed Social Protection in Viet Nam'.* Hanoi: International Labour Organization.

Mitchell, O. S., & Fields, G. S. *Designing Pension systems for Developing Countries* (No. 95-14). Wharton School Pension Research Council, University of Pennsylvania.

Ministry of Labour, War Invalids, and Social Affairs, Vietnam. (2017). P*roposal to Reform the Current Social Insurance System in Vietnam.* Hanoi: Ministry of Labour, War Invalids, and Social Affairs, Vietnam.

Thompson, L. H. (2001). Operation of Pension Systems: Public or Private?, Chapter 6 in Ortiz (comp.), *Social Protection in Asia and the Pacific. Manila, Banco Asiático de Desarrollo.*

United Nations Department of Economic and Social Affairs, Population Division.

(2019). *World Population Prospects: The 2019 Revision. Volume 1 – Comprehensive Tables.* New York: United Nations Department of Economic and Social Affairs, Population Division.

United Nations Department of Economic and Social Affairs. (2007). *World Economic and Social Survey 2007: Development in an Ageing World*. New York: United Nations Department of Economic and Social Affairs.

United Nations Population Fund., & Help Age International. (2012). *Ageing in the Twenty-First Century: A Celebration and A Challenge.* London: HelpAge International.

United Nations Population Fund.., & Help Age International. (2016). *Work, Family and Social Protection: Old Age Income Security in Bangladesh, Nepal, the Philippines, Thailand and Vietnam.* London: HelpAge International.

United Nations Population Fund.., & International Labour Organization.. (2014). Expansion of Pension Coverage to Informal Workers in Vietnam: International Experiences and Policy Options. Hanoi: United Nations Population Fund and International Labour Organization.

Vietnam Women's Union. (2012). *Vietnam Aging Survey 2011: Key findings.* Hanoi: Women's Publishing House.

Willmore, L. (2014). Towards Universal Pension Coverage in Mexico. *Pension Watch Briefing,* (13).

World Bank. (1994). *Averting the Old-Age Crisis: Policies to Protect and Promote Growth.* Hanoi: World Bank.

World Bank. (2007). *Vietnam Development Report 2008: Social Protection*. Hanoi: World Bank.

World Bank. (2021). *World Bank Country and Lending Groups. 2020.* Hanoi: World Bank.

THE PENSION SYSTEM IN THAILAND: CURRENT SITUATION, POLICY DEVELOPMENT AND FUTURE CHALLENGES

WORAWET SUWANRADA

INTRODUCTION

Population ageing is a serious challenge for Thai society. According to the Bureau of Registration Administration, as of the end of October 2021, the older population in Thailand (generally defined as the population aged 60 and over) accounts for 12.02 million people, which is equivalent to approximately 18.2 per cent of the total population. According to the population projection conducted by the National Economic and Social Development Council (hereafter as NESDC), the proportion of older people in Thailand will surpass one-fifth of the total population in 2022, and increase to one-fourth by the end of this decade. Thailand will shortly become a super-aged society. However, over the last four decades Thailand has continuously confronted the challenge of a rapidly ageing society, brought about by a decline in fertility rates and an increase in life expectancy. The number and proportion of older people has continued to rise since 1980. According to the National Population and Housing Census conducted by the National Statistical Office (NSO), from 1970, the proportion of the older population increased from 4.9 per cent in 1970 to 5.5 per cent in 1980, 7.4 per cent in 1990, 9.5 per cent in 2000, and 13.2 per cent in 2010. In addition, the NESDC's population projection indicates that the proportion of the older population will keep on increasing, to 25.9 per cent in 2030 and 32.1 per cent in 2040. Together with the increase in the proportion of older population, the number and the proportion of both the working-age population (age of 15-59) and children (age of 0-14) are decreasing. Consequently, there is an age-structure imbalance between the older population and the working-age population. The potential support ratio, namely, the number of working-age people per one older person, is going to decrease respectively from 3.59 in 2020 to 2.34 in 2030 and 1.78 in 2040.

Rapid demographic change, especially under the social conditions of “having fewer children and living longer”, has aroused many concerns for the well-being of older people in an ageing society. Old-age income security is one among many issues which concern Thai society in general. The Survey of Older Persons in Thailand conducted by NSO (Pothisiri W. and B. Teerawichitchainan, 2019) reveals that Thai older persons’ sources of income are earnings, income from savings and interest, pensions, old age allowances, and support from family and relatives. According to previous rounds of the survey, a certain proportion of the older population is still working to earn income to support itself. The 2017 Survey of Older Persons in Thailand revealed that 38 per cent of older persons worked during the prior 12 months. Analyzing six rounds of the National Survey of Older Persons in Thailand from 1994 to 2017, Knodel et al. (2019) confirmed that work as an income source for older-age Thais was relatively common, at around 40 per cent. Simultaneously, almost 80 per cent of older persons received some income from their children. Overall, this proportion has been quite stable throughout the last 25 years. Nevertheless, there are some older persons whose old-age income security is still unsatisfactory. According to the same survey in 2017, 19.9 per cent of older people in Thailand have reported that the government-provided old age allowance, which can be regarded as a sort of social pension that provides a cash transfer continuously until the end of life of approximately 600-1,000 THB per month (approximately 20-33 USD), is their main source of income. This level of public cash transfer is quite low in relation to the poverty line. This reflects the fact that at least one-fifth of the Thai older population has no, or not much, income from other sources. Moreover, recent government statistics reveal the level of poverty among the older population. The Poverty and Inequity Report 2019 officially released by NESDC reported that 7.2 per cent of the Thai population aged 60 and over have living standards beneath the poverty line, whereas the poverty rate at country level is 6.2 per cent. This means that there are many older people in this country still living in vulnerable or poor conditions, with insecure old-age incomes.

Theoretically, pensions are an important tool for the government to secure old-age income security for the older population, reduce old-age poverty, cope with longevity risk and smooth lifetime consumption. To cope with population ageing and strengthen old-age income security, the Thai government has gradually reformed existing pension systems and introduced a new pension scheme and a new governance mechanism, especially since 2009. The old-age allowance reform in 2009 was one of the pension reforms that has changed the landscape of public pensions in Thailand enormously.

The old-age allowance was established in 1993 as a means-tested system among various social assistance schemes for specific vulnerable groups of the population. Only unprivileged elderly people were eligible to receive the allowance. Subsequently there were several changes of rules and regulations on eligibility, the entities in charge of selection, the level of benefits, and payment methods. Finally, it was converted to a more universal scheme in 2009. Excluding some specific groups who are enjoying government officials' pensions, or salaries from the government, and older persons in public welfare facilities, all older Thai people are entitled to receive the old-age allowance based on registration. As a result, the old-age allowance has changed its function from social assistance for underprivileged older persons to being a part of a social protection floor for all Thai older persons. This drastic policy change brought about a dramatic increase in the coverage of non-contributory public pension schemes for the older population, now higher than 90 per cent of the total older population. The National Survey of Older Persons in Thailand 2017 reveals that 85.5 per cent of older people receive the old-age allowance, whereas in the survey year only 6.8 per cent of older people received the pension. Naturally, the non-working population in the employment sector, such as informal workers, farmers, the self-employed, housewives, benefited from this policy change because there were no compulsory pension schemes for this population group. It is not an exaggeration to say that near-universalization of the old-age allowance scheme has realized the universality of protection as a basic pension for the Thai population (Suwanrada, 2017).

Besides the universalization of the old age allowance scheme in 2009, there are also a series of new pension schemes introduced to the entire pension system. In 2011, the so-called National Saving Fund (NSF) was introduced. This new pension scheme created a dramatic change in the landscape of public pension provision in Thailand. The NSF is a voluntary and contributory pension scheme which targets people working in the informal sector to enable them to receive higher pension benefits (an annuity) in their old age. Without participation in the NSF, an informal worker can only enjoy the non-contributory old-age allowance. However, unfortunately, this scheme only officially started to operate and recruit members in 2016. But, the non-working population in the employment sector is able to attain the old age allowance as a basic pension and an additional amount of annuity subject to their contributions to the NSF scheme during their working lives.

Simultaneously, as another option for the informal sector's working population, the Social Security Office, Ministry of Labor, has launched three packages of voluntary social insurance schemes, two packages of which include old-age income benefits. This scheme is generally referred as voluntary social insurance packages for Article 40 members (see below). However, those two packages do not provide a pension (annuity), but embed a long-term saving scheme which provides only a lump-sum payment after the age of 60. Such competition among government pension schemes reflects a policy coordination failure in the Thai public sector and the lack of a single authority on pensions to govern or coordinate the whole system. At the same time, if we focus on these systems from the perspective of the working-age population’s preparedness for old-age income security, there are truly serious concerns. The proportion of the informal sector’s working-age population who have already participated in voluntary and contributory public pension schemes does not match initial expectations. This means that although the government has made enormous efforts to encourage the informal sector’s working-age population to prepare for their old-age income security during their working lives, there are apparently a large number of them who do not join such schemes. Ultimately, they receive only the old-age allowance after 60, without any additional pension benefits from those voluntary schemes.

Besides reform of the old-age allowance in 2009 and efforts to introduce new pension schemes for the working population in the informal sector, two more movements on the introduction of new mechanisms should be addressed. Firstly, the government is concerned about the replacement rate of existing pension schemes, especially for a person in the employment sector who has not yet been provided a provident fund by their employer. The government intends to make a provident fund compulsory for everyone in the employment sector. Secondly, there are enormous concerns about policy coordination failures regarding pension schemes overall at present, about the absence of any blueprint for the future, and governance mechanisms. Therefore, the cabinet has just approved in principle two pension-related government bills proposed by the Ministry of Finance in March 2021. Currently, those bills have been submitted to the Office of the Juridical Council to investigate in detail.

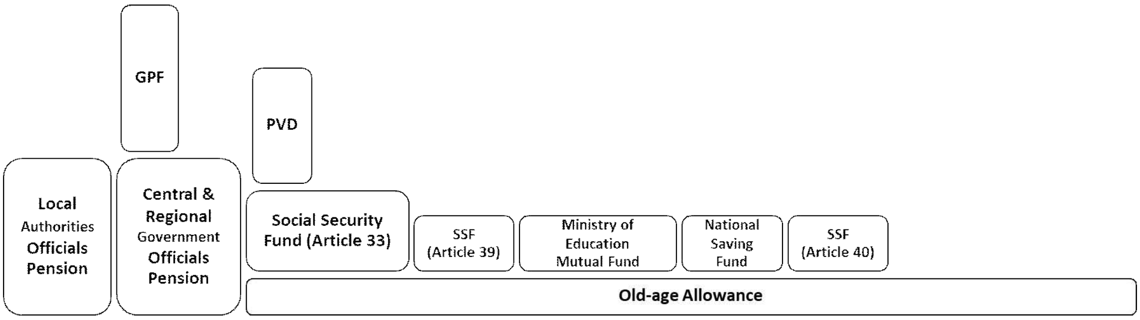
The objectives of this paper are, firstly, to review historically and systematically the situation of pension policy, changes and reform, in Thailand, especially after the change of the old-age allowance from a means-tested system to a more universal system in 2009. The second objective is to analyze whether the changes and reform of pension policy in Thailand address social concerns and can ensure a more equitable society in response to ageing and social polarization. The composition of this paper is as follows: the first section is this Introduction. The second section explains systematically the current pension schemes in Thailand. The third section focuses on the overall picture of public pension schemes in Thailand in 2009 before the transformation of the old-age allowance, and on changes in pension policy after 2009 until the present day. The last section contains Concluding Remarks. We will discuss whether or not pension policy reforms after 2009 have addressed social concerns and can ensure a more equitable society responding to ageing and social polarization. Some current pension debate issues will be addressed as well, in order to point out possible future directions for pension policy in Thailand, and to weigh up how much value Thai society places on economic versus social concerns in its consideration of pension reform.

THE PENSION SYSTEM IN THAILAND

The Thai pension system is not a nationally unified single scheme but is comprised of many fragmented systems which have been officially established at different points of time and are operated and governed by different ministries or government bodies. Naturally, each pension system targets different groups of population, and adopts different methods of financing and pension benefits. Suwanrada (2017) indicated that the current pension system in Thailand has four major characteristics. Firstly, the pension system consists of an occupational (or labor status)-based pension scheme and an old-age allowance scheme. Secondly, universal protection under the pension system is fulfilled by the old-age allowance system. This excludes only older persons who are enjoying equivalent benefits from the government, including the government officials' pension, government officials (age of 60 and over) who are still working, or older persons in public welfare facilities. Thirdly, there is an individual pension system which employs either non-contributory or contributory schemes. For contributory schemes, some offer defined benefits, whereas others are based on defined contributions. Fourthly, there is as yet no single pension authority to regulate, monitor and govern all individual systems at present.

The main pension schemes in Thailand and their main features, namely establishment year, target group, method of financing, pension benefits and ministry or government bodies in charge, are described in Table 1. If we put all schemes together and take into account the fact that one person can associate with and enjoy benefits from multiple schemes simultaneously, the current pension system in Thailand is regarded as a multi-layer system. For national government officials, if they are not a Government Pension Fund (GPF) member, they enjoy traditional tax-financed government pension benefits. If they are a GPF member, they receive an adjusted tax-financed government pension and accumulated savings and financial returns from GPF. For local government officials, pension benefits are equivalent to those of a national government official non-GPF member. For employees in the employment sector, who are compulsorily required to be members of the Social Security Fund (SSF) scheme, they enjoy the old-age allowance and old-age benefits from SSF. If their employers provide a provident fund, they will additionally receive accumulated savings and financial returns from that provident fund. For the rest, they receive only the old-age allowance if they do not voluntarily apply for membership of the National Saving Fund or SSF's Article 40 packages. The entire picture can be visualized as Figure 1.

Figure 1. Comprehensive Picture of Pension Schemes in Thailand



Notes: compiled by the author basing on current public pension schemes

Table 1. Main Public Pension Systems in Thailand

Scheme	Year of Establishment	Target Group	Financing Method and Pension Benefits	Government Bodies in charge
Old Age Allowance System	1993	Older persons aged 60 and over, excluding those who are receiving government officials' pension, actively working government officials (age of 60 and over) or older persons in public welfare facilities	Non-contributory system, Defined Benefits	National Senior Citizens Committee, Department of Local Administration Promotion Ministry of Interior, Bangkok Metropolitan Administration, Pattaya City
Government Officials Pension	1951	Government officials	Non-contributory system, Defined Benefits	The Comptroller General's Department Ministry of Finance
Government Pension Fund (GPF)	1996	Government officials Remarks: After 1996, a government official who has become a member of GPF still receives the government officials' pension but benefits calculation formula is different from the original one.	Contributory system, Defined Contribution	Government Pension Fund Ministry of Finance
Local Government Officials Pension Fund	1957	Local government officials in provincial administrative organizations, municipalities and sub-district administrative organizations	Non-contributory system, Defined Benefits	Department of Local Administration Promotion Ministry of Interior

Social Security Fund (SSO)	1990	Employees in an establishment with at least one employee or more (Article 33)	Contributory system, Defined Benefits	Social Security Office Ministry of Labor
		One who has already left Article 33 membership but is willing to maintain SSO membership (Article 39)	Contributory system, Defined Benefits	
		Voluntary system for working population in informal sector (Article 40, Option 2, 3)	Contributory system, Lump-sum payment	
Provident Fund	1987	Employees in an establishment where the employer has set up a company-based provident fund for their employees	Contributory system, Defined Contribution	The Securities and Exchange Commission
Private Schools Mutual Fund	2007	Teachers and administrative personnel in private schools	Contributory system, Defined Contribution	Ministry of Education
National Saving Fund	2011	Any of the working population aged15-60 who is not affiliated with any pension schemes mentioned above	Contributory system, Defined Contribution	National Saving Fund, Ministry of Education

Notes: Revised by the author based on Table 12.3 in Suwanrada W. (2017).

We will explore the outcomes of current pension schemes in terms of coverage and adequacy of pension benefits. For coverage of pension schemes, we will consider from the perspectives of both the older population and the working-age population.

From the older population's perspective, the present-day pension system in principle covers all of them. Universality of protection exists through the old-age allowance system. If the population aged 60 and over are not beneficiaries of the government officials' or local government officials' pension, or are not government officials still continuously employed by the government, or are not cared-for older persons in public welfare facilities, they are eligible to register for old-age allowance benefits. Although the old-age allowance system is not universal by itself, however, this system can guarantee that there will not be any older persons left behind in term of old-age income security. As mentioned earlier, according to the National Survey of Older Persons in Thailand 2017, old-age allowance recipients constitute 85.5 per cent of the total older population.

Pension recipients (including of the government officials' pension and old age benefits from the Social Security Office) are 6.8 per cent of the total older population. Thus, it is not an exaggeration to say that approximately 92 per cent of Thai older persons are currently being covered by non-contributory defined benefits pension schemes.

However, in terms of the monetary value of non-contributory defined benefits pension schemes, there are still challenges for the old-age allowance system in the future. The level of its benefits has been fixed at 600-1,000 THB per month depending on the recipients' age since it was introduced in 2009. There is no automatic indexation mechanism within the scheme. On the other hand, the formula for calculating government officials' pension is based on each individual retiree's salary. For a government official who chose not to become a member of the Government Pension Fund scheme, and for a local government official, the calculation will be subject to salary a month before retirement, and on their working period. For a government official who is a member of the Government Pension Fund scheme, the base salary for calculating pension is defined as an average of 60 months before retirement.

With regard to the working-age population, in principle multiple pension systems have been established for their benefit. By design, pension schemes differentiate by working status, principally among government officials, employees in private establishments, and the rest, mostly the working-age population in the informal sector. Whether or not, and how, they are covered in such schemes depend on their work status or occupation, or their willingness to join voluntary pension schemes. By law, government officials who started working after 1996 and employees working in an establishment with at least one employee are obliged to be members of the Government Pension Fund and Social Security Fund (Article 33) respectively. Teachers and administrative personnel in private schools are obliged to join the Private Schools Mutual Fund. For the rest, workers can voluntarily apply for membership of the National Saving Fund or the Social Security Fund's Article 40 social insurance package. Currently, membership of these schemes accounts for approximately 38 per cent of the working population; in other words, the coverage rate of these contributory pension schemes is not very high. Consequently, although Thailand has prepared to provide income security in old age by establishing many schemes, the old-age poverty problem will surely remain in the future, especially among the vulnerable or the poor who have slipped through the voluntary social safety net.

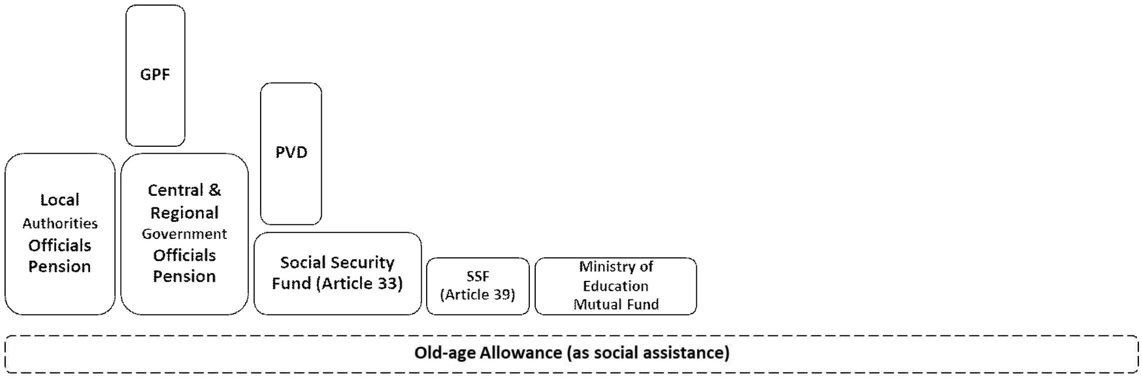
In terms of adequacy of pension benefits, this issue remains a big challenge for the Thai pension system, at present and for the future. One person is able to qualify for more than one scheme, depending on their work status or occupation, or their willingness to join a voluntary pension scheme. For instance, an employee in a private company can enjoy pension benefits as an Article 33 member of the Social Security Fund, and simultaneously receive benefits from a provident fund contributed to while they were working for a particular employer. Then, when they reach 60, the old-age allowance is payable once they register. Government officials who have become members of the Government Pension Fund after 1996 will enjoy government official pensions and additionally receive benefits from the provident fund contributed to by themselves and the government as their employer. A worker in the informal sector (such as a self-employed person, a farmer, a taxi driver, a street vender, a housewife, etc.) may receive the old-age allowance after the age of 60, and pension benefits on top of that from the National Saving Fund scheme. Of course, they may choose to be a member of the Social Security Fund's Article 40 voluntary social insurance package instead of the National Saving Fund scheme.

Although Thai pension schemes as a whole can achieve universality of protection for the older population, adequacy of pension benefits is still an important issue. A person in receipt only of the old-age allowance will get 600-1,000 THB per month, without any indexation to maintain its value in real terms. By comparison with the official poverty level, calculated by NESDC at 2,710 THB/head/month in 2019, the old-age allowance can be regarded as a relatively thin social protection mattress which cannot get rid of individual poverty by itself. To receive old-age benefits as a Social Security Fund Article 33 member, one must contribute for at least 180 months before the pensionable age of 55. The formula for old-age benefits calculation is (20 per cent + some additional per cent) x average salary (last 60 months' average, but maximum value of the average = 15,000 THB). The additional per centage will be topped up by 1.5 per cent for every 12 months of contribution after 180 months. For example, if one pays contributions for 30 years (equal to 360 months), the applicable coefficient will be (20 per cent for the first 180 months + 22.5 per cent for the rest = 42.5 per cent) x 15,000 = 6,375 THB per month. This possible amount from the SSF is certainly higher than the current poverty line. Nevertheless, for a member with a lower monthly salary and/or shorter membership, the amount of pension benefits will be more discounted. Moreover, the pensioner of SSF will receive the defined amount until the end of life, without an automatic indexation to market prices. Their pension benefits in real terms will not be very high. It must be noted that SSF pension beneficiaries will get both the SSF pension and the old-age allowance subject to current rules and regulations. On the other hand, considering the formula for calculating government officials' pension benefits, we can observe a big gap in terms of the replacement rate from other groups in the population. For non-GPF member government officials, the formula for pension calculation is (applicable service years/50) x salary before retirement. For the GPF member who has a separate contributory pension scheme (defined contribution with individual account), the formula has been modified to 70 per cent of average salary 60 months before retirement. Therefore, in terms of level of pension benefits, not only adequacy but also disparity among the working population's working status or occupations is significant.

CHANGES IN PENSION SYSTEMS IN THAILAND AFTER 2009 AND THEIR IMPLICATIONS

In this section, the changes in pension policies after 2009 until the present day will be explained and analyzed. Have they addressed social concerns and been able to ensure a more equitable society in response to ageing and social polarization? The entire picture of pensions in Thailand was transformed by a series of policy reforms and the introduction of new pension schemes after 2009. Before exploring and evaluating such policy changes, the landscape of pension systems in Thailand before 2009 should be explained.

Figure 2. Comprehensive Picture of Pension Schemes in Thailand before 2009



Notes: compiled by the author to reflect public pension schemes before 2009

Before 2009, the pension system in Thailand comprised occupational or labor status-based pension schemes, and the old-age allowance system. The old-age allowance was launched in 1993 under the Department of Public Assistance, Ministry of Interior. The objective of the scheme was to provide financial assistance to underprivileged older persons, defined as persons of at least 60 years of age without adequate income to meet necessary expenses, or unable to work, or abandoned, without caregivers. At that point in time, Thailand still had no universality of protection or guarantee of income for the elderly. Knodel et al. (2019) observed that according to the National Survey of Older Persons in Thailand in 2002, the proportion of Thai older persons who received a pension or the old-age allowance were only approximately 4.3 per cent and 3.0 per cent of the total older population respectively. From the same national survey in 2007, the proportion of Thai older persons who received a pension or the old-age allowance increased to 5.4 per cent and 24.4 per cent respectively. In the same period of time, Thailand still had no specific pension schemes which covered people working in the informal sector. The entirety of pension systems in Thailand before 2009 is illustrated in Figure 2. However, a series of policy reforms, the introduction of new pension schemes and some efforts to change the system after 2009 altered the landscape of Thai pension system dramatically.

OLD-AGE ALLOWANCE SYSTEM: FROM TARGETED SCHEME TO MORE UNIVERSAL BENEFIT

The old-age allowance system in Thailand was initiated in 1993 as a tax-financed social assistance scheme for the underprivileged older population. Since its inception, the system has gone through a number of changes, especially regarding how recipients qualify, targeting mechanisms, and the level of benefits (Suwanrada, 2013). It was changed to a more universal system under the administration of Prime Minister Abhisit Vejjajiva in 2009. The old-age allowance system was expanded to all persons in Thailand aged 60 or older, excluding only those who are living in public residential care facilities for the elderly or who receive permanent income through a salary or a government officials' pension. Consequently, while 21.4 per cent of the older population received the old-age allowance in 2007, the figure rose to 81.4 per cent in 2011 (Knodel et al, 2019). In 2012, the Yinluck Shinawatra Cabinet approved a change in the pension rate from a single rate of THB 500 per head per month to the multiple rate system. The monthly amount of old-age allowance varies by age of recipient, namely, THB 600 per month for those aged 60-69, THB 700 per month for those aged 70-79, THB 800 per month for those aged 89-89, and THB 1,000 per month for those aged 90 and older. These multiple rates have been maintained until the present day. However, the philosophical background of "universalism" in old-age allowance provision has become a little blurred since Prime Minister Prayut Chan-ocha made efforts to focus more on older persons in need of assistance. Suwanrada and Sukontamarn (2021) said blurring was indicated by two measures in 2017. One was the amendment of the Act on the Elderly to provide additional allowances for older persons classified as low-income earners. The funding for the additional allowance comes from earmarked excise taxes on alcohol and tobacco. Based on this amendment, older persons classified as low-income earners receive either THB 50 or THB 100 monthly top-up to their old-age allowance, depending on the level of National income . The second measure is the government's effort to encourage financially better-off older persons to donate their old-age allowance to assist older persons in need. Those who relinquish their old-age allowance are awarded medals, and the amount can be deducted from their taxable income at up to 10 per cent. To change the old-age allowance system from a targeted system to a more universal system under the so-called “universality of protection” principle of guaranteeing old-age income to all Thai older persons has in theory been achieved by two non-contributory pension schemes, namely the government officials’ pension and the old-age allowance. In fiscal year 2019, the number of old age allowance recipients was 9,093,916, while the total number of people aged 60 and over at the end of year 2019 was 11,136,059. Thus, this system includes approximately 81.6 per cent of Thai older persons.

NATIONAL SAVING FUND: EXPANSION OF A CONTRIBUTORY PENSION SCHEME TO THE INFORMAL SECTOR

In 2011, the National Saving Fund Act, which ultimately aims to expand coverage of contributory public pension schemes to the working-class population in the informal sector, namely persons who do not work as employees in formal workplaces, was enacted. However, the scheme’s launch, and recruitment of members, were delayed for more than four years. The National Saving Fund scheme has been designed as a voluntary and contributory system which targets the working population from 15-59 years of age who have not affiliated to any other public pension schemes such as the government officials' pension scheme and the Social Security Fund (insured persons under the compulsory scheme Section 33 and Section 39 and insured persons under the voluntary schemes Section 40 Options 2 and 3). Each member has their own account and must contribute 50 THB (1.66 USD) or 100 THB (3.33 USD) per month. Additionally, the government co-contributes, subject to the age of each member. If a member is under 30 years of age, the government will co-contribute 50 per cent; 30-50 years of age, 80 per cent; 50 years and over, the government co-contributes 100 per cent of the member’s contribution. The National Saving Fund has an obligation to manage the members’ individual accounts to achieve high returns, which will be guaranteed at a certain rate. On the pension benefits side, when the member becomes 60 years of age, the accumulated amount of money in the individual account will be used for calculating the monthly amount of pension, in principle distributed till the end of life. However, this scheme affords the opportunity to increase the monthly amount of pension by allowing and encouraging all members to contribute more than the basic rate. But such amount of additional contribution must not exceed 1,100 THB per month (or 36.66 USD). Of course, the government will not co-contribute on top of such additional contributions. Unfortunately, the participation rate in the National Saving Fund Scheme has not been satisfactory. As of August 2021, there are only 2.4 million members, approximately 10 per cent of the informal sector's working population.

SOCIAL SECURITY FUND SECTION 40: ALTERNATIVES FOR THE INFORMAL SECTOR WORKING POPULATION

One possible reason why the National Saving Fund Scheme cannot raise more members is the fact that it is in competition with another public voluntary scheme launched by the Social Security Fund at the same time in 2011 as the National Saving Fund. In 2011, the Social Security Office launched and promoted three new voluntary social insurance packages aimed at the working-class population in the informal sector. These packages are familiarly called Social Security Fund Section 40 Option I, Option 2 and Option 3. The qualifications of eligible persons for these packages are as follows: (1) Thai nationality; (2) age of 15-65 years; (3) not SSF Section 33 or Section 39 members or public servants or public enterprise officials. The SSF Section 40 Option 1, which requires 70 THB of monthly contribution, provides three kinds of compensation in the case of accidents or illness, disability and death. The SSF Section 40 Option 2, which requires 100 THB of monthly contribution, provides the same three kinds of compensation and a lump-sum payment at the age of 60. Such a lump-sum payment is based on the accumulation of 50 THB of monthly contributions and interest. The SSF Section 40 Option 3, which requires 300 THB of monthly contribution, adds child allowance benefits to the package. Moreover, a lump-sum payment is based on the accumulation of 150 THB of monthly contributions and interest. The number of insured persons under the voluntary schemes Section 40 Options 1, 2 and 3 were approximately 3.6 million as of June 2021. However, the number of these schemes (especially Option 1 members) has dramatically increased since the Thai government has provided a specific assistance package to SSF Section 40 members as part of an economic stimulus package after the emergence of COVID-19. Although SSF's voluntary scheme does not provide an annuity but a lump-sum payment after the membership's termination, by rule, the member of the voluntary schemes Section 40

Options 2 and 3 are not eligible for the National Saving Scheme. Thus, they enjoy only the old-age allowance in their old age. Substitution and competition among these two schemes are still an obstacle to enhancing old-age income security in the form of pensions for working people in the informal sector.

ONGOING EFFORTS TO INTRODUCE NEW PENSION AND GOVERNANCE SYSTEMS

The Thai government is endeavoring to cope with population ageing, to strengthen old-age income security and integrate fragmented existing pension schemes by introducing a new compulsory pension scheme and a governance mechanism. Recently, the cabinet has approved in principle two pension-related government bills proposed by the Ministry of Finance in March 2021. Currently, these bills have been submitted to the Office of the Juridical Council to investigate in detail.

Among the working population in the private sector, especially the 11.6 million of the Social Security Fund's insured persons under the compulsory scheme (Sections 33 and 39), only 2.88 million have long-term savings for retirement in the form of a voluntary provident fund provided by their employer. One of the Draft bills is based on the idea of establishing compulsory provident funds for employees aged 15 – 60 years. This new compulsory scheme will cover private employees, government temporary employees, government employees, and public organization and state enterprise employees who are not already members of a voluntary provident fund. This system allows those employees to have additional long-term savings after retirement, and aims to achieve a replacement rate of at least 50 per cent of their pre-retirement income, which is considered sufficient for living in old age. The National Pension Fund scheme will raise savings and contributions from two parties respectively, namely an employee and their employer. After saving long-term until the age of 60, an employee will be able to choose to receive a lump-sum payment or a pension (annuity) for a period of twenty years. In addition, the office of the National Pension Fund will act as a center for integrating databases between government and private agencies related to the pension system, in order to improve management and governance of the entire pension system.

Currently there is still no single authority to govern all the fragmented pension systems, understand the whole picture, internalize fiscal externality among the systems and navigate pension policy to deal with rapid population ageing. Each system has been operated individually and separately. Therefore, to cope with such policy coordination failure, the main aim of the Draft of the National Pension Policy Committee is to establish a National Pension Policy committee chaired by the Prime Minister. This national committee will have authority to recommend policies, oversee plans and guidelines for the development of pension systems to cover all retirees, and achieve the pension policy goals of adequacy, equity and sustainability. Simultaneously, this committee will govern and supervise coordination among the many agencies that operate each pension system, and aim to build linkages in the database on the pension systems in both public and private sectors. Ultimately, the committee must ensure that all pension systems will be operated, changed and/or reformed in line with the aforementioned integrated policy goals.

CONCLUDING REMARKS

This section discusses whether or not the changes in and reform of pension policy in Thailand address social concerns and ensure a more equitable society responding to ageing and social polarization.

After reviewing the current situation, and the development of pension schemes in Thailand, it is no exaggeration to say that pension reform in 2009 did indeed address social concerns, because there were underprivileged older persons left behind due to the targeting inefficiency of the old-age allowance as social assistance. Thus the old-age allowance was changed in favor of universalization. At the same time, this change guaranteed that the working population in the informal sector could be included in the social safety net. The change was on the principle of “no one left behind”. Secondly, the National Saving Fund scheme was established to enable the working population in the informal sector to enjoy a higher level of old-age income security. The introduction of this new scheme aimed to open opportunities for informal workers to build up old-age income security with dignity and leave no one behind. Thirdly, launching a compulsory provident fund for employees in the private sector aims to support employed persons in relatively small establishments where employers may not be capable of establishing a provident fund. From the labor protection point of view, this effort of the government should not be ignored. Fourthly, establishing a national committee as a single authority to govern fragmented pension systems and navigate the entire pensions landscape can be expected to help adjust inequality among groups of beneficiaries.

Naturally, we cannot deny that the Thai government has given weight to the economic value of pension policy. The Prime Minister declined submissions from some non-governmental organizations aiming to change the old-age allowance to an official basic pension and set its benefits at the official poverty line. These proposals were therefore not seen by the cabinet and the parliament. The new proposals would require fivefold of government budget. Thus, the government is still reluctant to change the status of the old age allowance and its amount at this moment, although the amount is extremely low and has not been changed to cope with inflation for a decade. Therefore, the position of the old-age allowance system remains currently as status quo. However, some additional policies of the government in the last five years reflect the preference for social assistance rather than universalism. Suwanrada and Sukontamarn (2021) mention that this government preference can be seen from the following two measures. One is the amendment of the Act on the Elderly in 2017 to provide additional allowances for older persons classified as low-income earners. The funding for the additional allowance comes from earmarked excise taxes on alcohol and tobacco. The second measure is the government’s effort to encourage financially better-off older persons to donate their old-age allowance to assist older persons in need. Those who relinquish their old-age allowance are awarded medals, and the amount can be deducted from their taxable income at up to 10 per cent.

Currently, most other pension polices are in the position of business as usual. As far as the fragmented pension landscape is concerned, 'laissez-faire' prevails: there is still no single authority to navigate the Thai pension system in the appropriate direction, weighing social concerns against economic values and the probable future burden. Whether or not the Thai public pension system can potentially ensure a more equitable society responding to ageing and social polarizations is not immediately apparent.

REFERENCES

Teerawichitchainan, B., Pothisiri, W., Knodel, J., & Prachuabmoh, V. (2019). Thailand's older persons and their well-being: An Update based on the 2017 Survey of Older Persons in Thailand.

National Economic and Social Development Board. (2007). *Population Projections for Thailand 2000-2040.* Bangkok: Office of the National Economic and Social Development Board.

National Statistical Office. (2017). *Report on the 2017 Survey of Older Persons in Thailand.* Bangkok: Ministry of Digital Economy and Society.

Pothisiri, W., & Teerawichitchainan, B. (2019). National survey of older persons in Thailand.

Suwanrada W. (2013). Financial Security for the Elderly and Pension Reform in Thailand. *Global Aging Issues and Policies: Understanding the Importance of Comprehending and Studying the Aging Process.* 134-152.

Suwanrada W. (2017). Old-Age Allowance Scheme in Thailand. *Recommendation on Social Protection Floors: Basic Principles for Innovative Solutions.* Kluwer Law International.

Suwanrada W., & Sukontamarn, P. (2021). Should social pensions be universal or targeted? Older persons' preferences over the old-age allowance system in Thailand. *Forthcoming in Journal of Aging & Social Policy.*

OLD-AGE INCOME PROTECTION IN SOUTH KOREA: IMPENDING CHALLENGES AND REFORM AGENDA FOR FUTURE

JAE-JIN YANG

INTRODUCTION

South Korea (henceforth, Korea) is entering a super-aged society that no other country has ever experienced. In Korea, the population aged 65 and older currently accounts for about 16 per cent of the total population (or 8.5 million of 52 million). It is still relatively young compared to Western countries with an average ageing rate of 20 per cent, or Japan, where the ageing rate is 28 per cent. However, by 2025, Korea will enter a super-aged society at the fastest rate in the world. People aged 65 or older will exceed 20 per cent of the population. At this point, Korea will catch up with Japan, currently the country with the highest ratio of older people in the world. Ageing in Korea is happening at a faster pace than in Japan, so by 2045, it will take over the latter. In 2067, the proportion of the population aged 65 and over is expected to rise to 47 per cent, which will be unprecedented in history. This is the result of the world's lowest fertility rate, at less than 0.8, and the world's highest life expectancy.

Among social security systems, the pension is one of the programs directly related to an ageing population. In Western welfare states, which currently have an ageing rate of around 20 per cent, pension expenditures account for approximately 40 per cent of total public social expenditure. Health care follows, accounting for about 30 per cent of social spending. For now, however, health is the highest spending program in Korea. Yet it is only a matter of time before pension expenditure outpaces health spending. In the case of the National Pension Scheme (henceforth, NPS), which is the main pillar of Korea’s old-age income security system, a person can receive the maximum amount of pension after paying contributions for 40 years. However, it is only in 2028 that the national pension system itself will have been in operation for 40 years. And baby boomers have not yet started to retire. Pension spending is expected to explode in 10 to 15 years. Is Korea's old-age income security system sustainable even in a super-aged society? What are the reform tasks needed to enhance the sustainability of the pension system?

In addition, Korea is a country where the relative poverty rate of the population aged 65 and over (or the elderly poverty rate) exceeds 40 per cent. Among OECD countries, the elderly poverty rate of Korea is the highest. As the NPS matures in the future, it is expected that the poverty rate will decrease. However, if institutional remedies are not implemented, many elderly people will suffer from poverty for a long time to come. What are the reform tasks needed to solve the poverty of the elderly? After an overview of Korea's old-age income security system and the current situation of ageing in Korea, I will suggest reform measures to aid the sustainability of the pension system and alleviate poverty for older people.

OLD-AGE INCOME PROTECTION SYSTEM IN KOREA

As in many advanced welfare states, Korea's old-age income security system has the aspect of a multi-pillar or multi-tier system. The basic model of the multi-tier system formulated by the World Bank (World Bank, 1994) and the International Labor Organization (Gillion, 2000) is to take charge of the basic income security (redistribution) function by placing a tax-based basic pension on the first floor. On the second tier, public or mandatory private pensions administer compulsory savings and also provide insurance against longevity risks. On the third floor, there are voluntary private pensions to ensure the adequacy of retirement income for the middle- and upper-income groups (Holzmann and Hinz, 2005; Holzmann and Palmer, 2006).

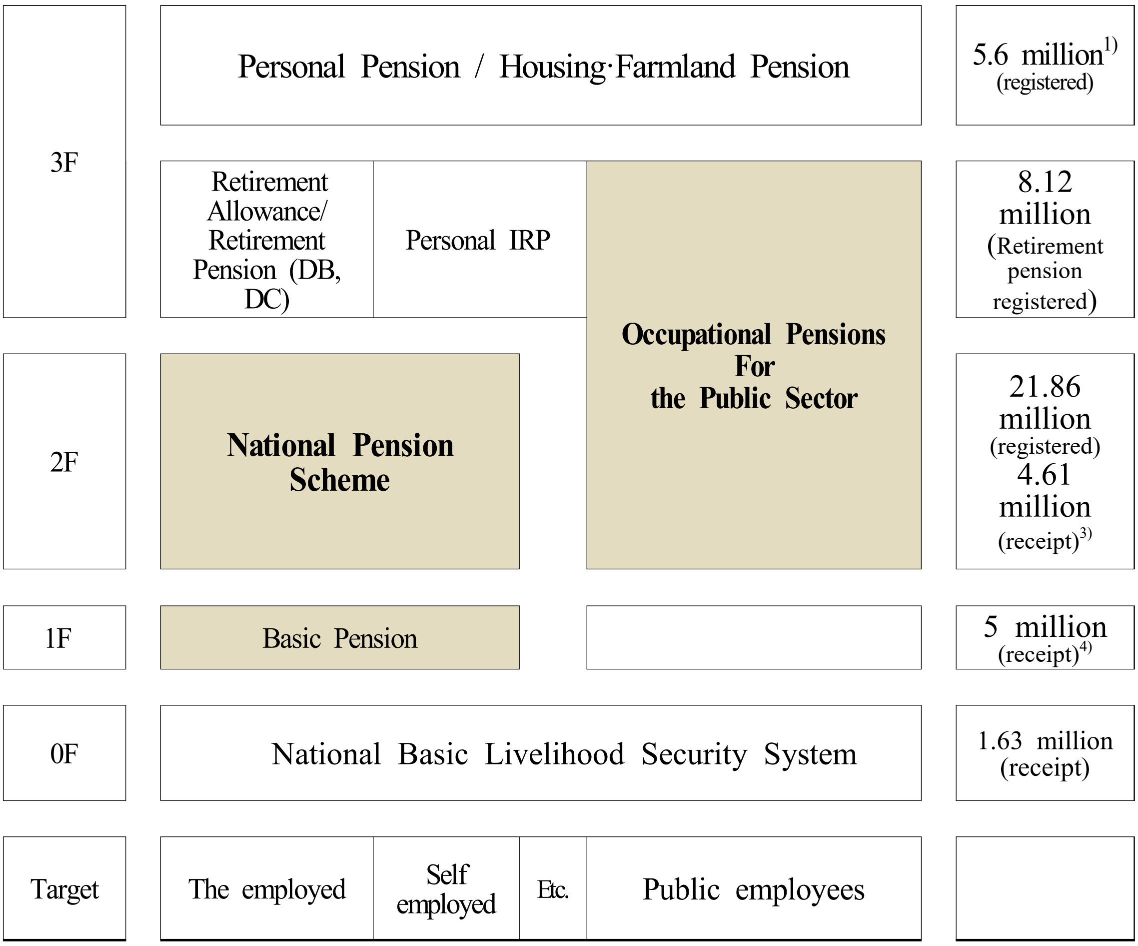
In Korea, the main old-age income security system that covers the general public is the National Pension Scheme (NPS), which was introduced in 1988 for salaried workers. The NPS was extended to cover the self-employed and workers in the informal sector in 1999. It is a defined benefit system. Its contribution rate is 9 per cent of income, and 40 per cent of income replacement rate is promised. Although it is an earnings-related pension, it has an income redistribution function to increase the pension amount of low-income earners, as in the US public pension system, the Old-Age, Survivors, and Disability Insurance Program (OASD). In other words, it is a pension system with mixed functions: redistribution, compulsory savings, and insurance against longevity risks, are all together on the same tier.

In the late 1990s, a multi-pillar system began to form. The Senior Citizen Pension was introduced in 1998, that had the character of a basic pension funded by general taxation. However, it was difficult to describe the Senior Citizen Pension as an old-age income security system, due to its low coverage rate and meager benefits. It is the National Basic Livelihood Security System (NBLSS), introduced in 2000 that provided basic income security for low-income older people. The NBLSS is a public assistance program, and many beneficiaries are the elderly. Thus it could be called the 0-tier old-age income security system. But the eligibility rule is very strict so that many low-income elderly people are ruled out from getting the benefit.

In 2007, the Basic Old-Age Pension, the predecessor of the current Basic Pension, was introduced, to cover around the bottom 40 per cent of the older population. This pension system took on the first-tier role of basic income security or redistribution. The third tier, of private pensions, started with personal pension savings and pension savings, which were introduced in 1994 and 2001 respectively, with tax-incentives attached. However, the core of the third tier is the Retirement Pension introduced by the Workers' Retirement Benefit Security Act in 2005. The Retirement Pension induced the external accumulation of severance pay enforced by the Labor Standards Act and made it possible to receive benefits as an annuity rather than a lump sum. Since 2010, Retirement Pension can be set for workplaces with four or fewer employees, and the Retirement Pension is developing on a scale comparable to that of the NPS. Employers are responsible to pay pension premium for the workers, and the rate is set at 8.33 per cent of wage.

In summary, there is a social insurance-type public pension, the NPS, as an income-related pension on the second tier, a tax-based pension, the Basic Pension, on the first floor, and a public assistance program, the NBLSS, on the zero floor to provide basic income security. To compensate for the low pension benefits of the NPS, mandatory corporate pension schemes, the Retirement Pension, and individual retirement pension (IRP) are located on the third tier above the NPS. The special occupational pensions which cover public officials, teachers, and military personnel, span the first, second, and third layers, and include the functions of the basic pension and retirement pension as well. In addition to personal pensions with voluntary contributions that receive tax benefits, housing pensions and farmland pensions have recently been introduced, and are located on the top tier (refer to Figure 1).

Figure 1. Multi-tier System of Old-Age Income Security in Korea



Note: 1) Tax-eligible personal pension ('17)
2) ('16)
3) Old age (3.73 million), survivors (710,000), disability (70,000), lump-sum payment (100,000) ('18.6. Current year cumulative)
4)`18.5

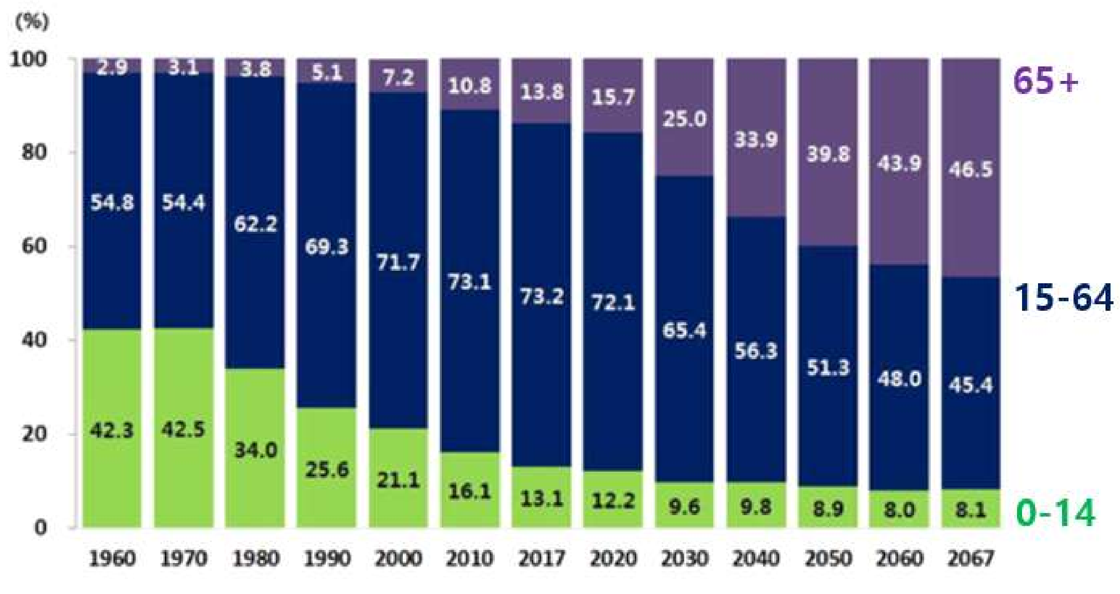
Source: National Pension Experts Meeting (September 27, 2018)

KOREA'S DEMOGRAPHIC CHANGE AND OLD-AGE POVERTY

Coming of the Super-Aged Society

Korea’s age structure is changing rapidly. As of 2017, the population of Korea was 51.36 million. The population is expected to decrease after peaking at 51.94 million in 2028, and then decrease to 39.29 million by 2067. The change is unprecedentedly dramatic. Between 2017 and 2067, the proportion of the working-age population aged 15 to 64 will fall by nearly 30 per centage points, from 73.2 to 45.5 per cent. The proportion of the population aged 65 and over will increase by more than 30 per centage points, from 13.8 to 46.5 per cent. The youth population will be cut in half, from 6.72 million to 3.18 million. The median age will increase from 42 in 2017 to over 50 in 2031. The median age is expected to reach 62.2 by 2067 (Statistics Office, 2019).

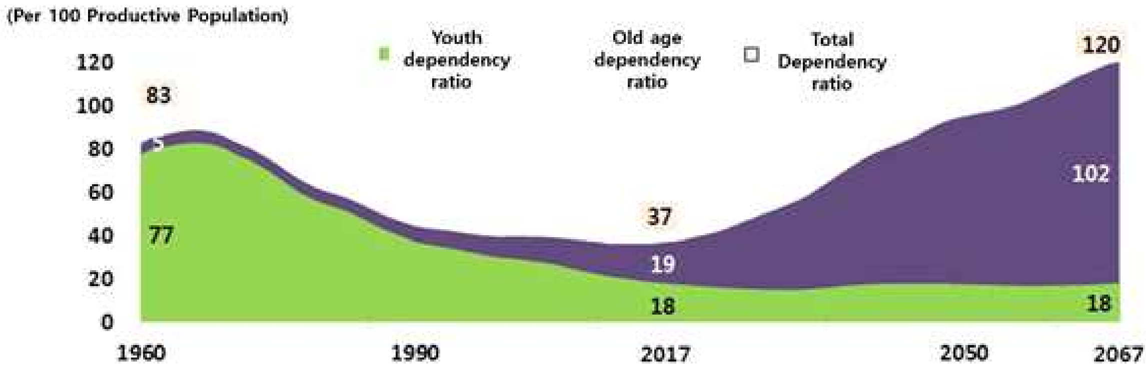
Figure 2. Changes in the Demographic Structure of Korea (2017-2067)



Source: Statistics Korea (2019: 7)

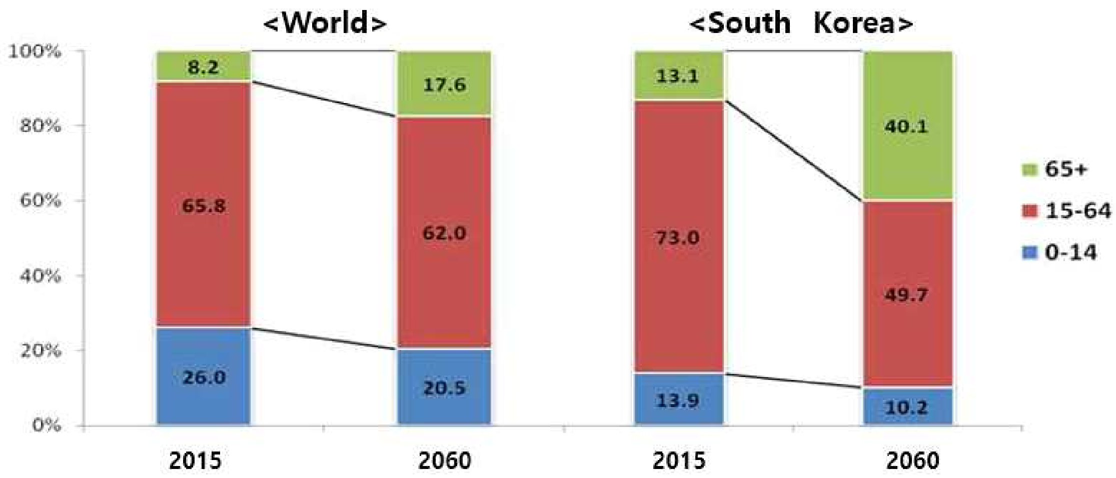
The working-age population was projected to drop sharply from 2020, when the baby boomers, who were born after the end of the Korean War in 1953, joined the older population. Accordingly, the number of dependents per 100 working-age population increases rapidly, from 37 in 2017 to 120 in 2067. Among them, the old-age dependency ratio is expected to rise rapidly, from 19 in 2017 to 102 in 2067 (Figure 3). In short, the cost of supporting the elderly will increase 5.5 times in 50 years. If productivity increases by 5.5 times and the size of the economy grows that much, it will be able to absorb the impact of ageing to some extent. However, Korea's rapid growth has ended. It is already showing a low economic growth rate of 1 to 2 per cent. The impact of future demographic changes will be beyond imagination.

Figure 3. Changes in Korea's Dependency Ratio (1960-2067)



Source: Statistics Korea (2019: 17)

Figure 4. Changes in the Demographic Structure of Korea and the World



Source: Statistics Korea (2015: 13)

The rapidly rising old-age population and shrinkage of productive population will deal a fundamental blow to Korea’s pension system. Since the 1980s, many OECD countries have been intensively reforming their pension systems to make them more financially sustainable. Reforms are expected to continue in the future as well. If Korea follows in their footsteps and makes reforms, it will be able to solve the sustainability problem of the pension system. However, as shown in Figure 4 and mentioned above, Korea's ageing is progressing rapidly, although ageing is a general phenomenon experienced by all countries. This suggests that our reform measures should be carried out with much greater intensity (Shin, 2017).

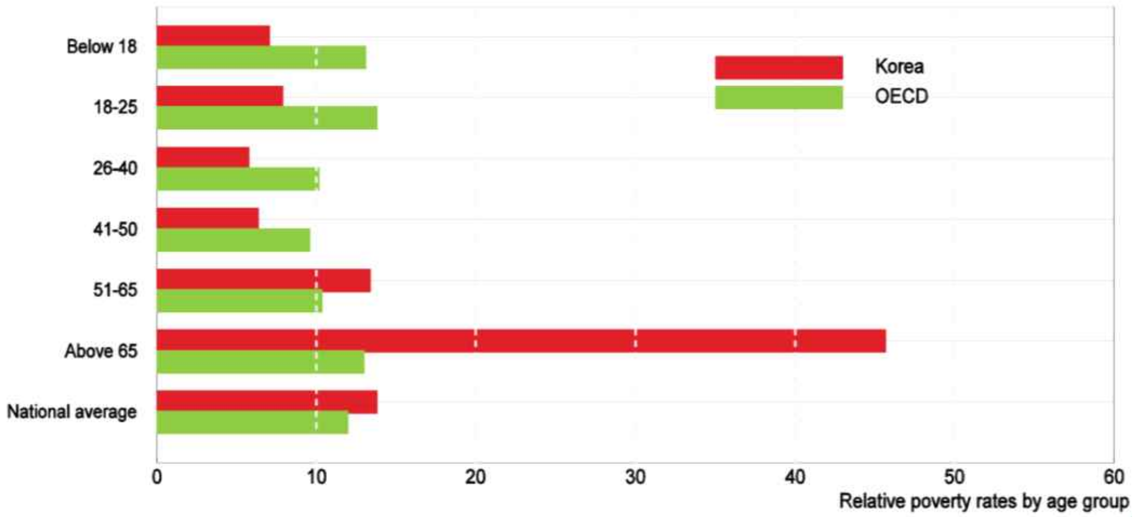
Due to rapid ageing and sluggish economic growth, the National Pension Fund is expected to be depleted at a rapid pace. Its reserve will continue to grow up to a maximum of KRW 1,778 trillion in 2041. This is because the number of contribution payers is still higher than the number of pensioners. However, starting in 2042, the pension reserve will begin to decline rapidly. Just 15 years later, in 2057, the fund will be exhausted. This is not the end of the decline. It is estimated to record a deficit of 124 trillion KRW in 2057 alone. From this point on, the NPS will be converted to a Pay-As-You-Go system that is entirely dependent on future generations of subscribers. Since the fund is running out, all the necessary pension expenses will have to be covered by increasing the insurance premium. If contributions are not raised, revenues will remain at 337 trillion KRW. while pension expenditure is expected to reach 1,120 trillion KRW, resulting in a deficit of 783 trillion KRW in 2088 alone (National Pension Fiscal Estimation Committee, 2018).

When the fund is exhausted, the premium rate required for the payment of pension benefits is expected to reach a maximum of 29.3 per cent of income in 2060, 34.7 per cent in 2070, and 37.7 per cent in 2088 (National Pension Finance Estimation Committee, 2018). This estimate assumes a fertility rate of 1.05. Considering the current fertility rate of about 0.8, the required premium rate will rise further. Considering the necessary increase in other burdens such as health insurance premiums and general taxes, it is virtually impossible to apply a premium rate close to 40 per cent only to the NPS. If so, should we give up the NPS? It is necessary to find ways out anyhow to secure financial sustainability in order to continue to provide income security for the elderly.

Old-age Poverty in Korea

The (relative) poverty rate of those aged 65 and over in Korea is much higher than the OECD average. As shown in Figure 5 below, in 2015, the poverty rate of the elderly aged 65 and over was 45 per cent, which was four times the OECD average. Poverty rates for all other age groups are below the OECD average, but the poverty rate for the elderly is particularly high. This is because, unlike in other OECD countries, there are many elderly people who do not receive pensions from the main public pension scheme, the NPS. The NPS was introduced in 1988 for workers of large corporations first, and then gradually expanded to small-and-medium-sized enterprises. It was only 22 years ago, in 1999, that the NPS was extended to cover enterprises with fewer than five employees and the self-employed in urban areas. At that time, elderly people aged over 60 were not eligible to join the NPS. Although those over 40 were able to join the NPS, they had a short contribution history, so the amount of pension they receive is small.

Figure 5. Comparison of Relative Poverty Rates by Age Group (2015)



Note: The relative poverty line is below 50 per cent of the median income.

Source: OECD (2018)

The tax-based Basic Pension was introduced in 2007 to ensure the income of low-income seniors who do not receive the NPS pension or have a small amount of pension. However, as of 2021, the monthly basic pension amount is 300,000 KRW (or 280 USD), which is only half of the poverty line of 600,000 KRW for single-person households. It is difficult to escape poverty through the basic pension. As the NPS matures, it is highly likely that the pension income of low-income seniors will increase. However, since the NPS has a relatively short history and the premium payment period is short, the amount paid by the NPS pension will not be high for the next 20 to 30 years. It will not be easy to solve the poverty problem of the current elderly generation without structural reform to the basic pension.

Also, not all citizens are currently enrolled in the NPS. About 30 per cent of people do not pay insurance premiums to the pension scheme. Without paying contributions, no one will be entitled to a pension after retirement. They have to depend on the basic pension, but the basic pension amount is not high enough, so there is a high probability of older people falling into poverty. Income security for these poor older persons is urgently needed.

REFORMING THE OLD-AGE INCOME SECURITY SYSTEM IN SOUTH KOREA

Reform Directions

Individuals are exposed to risk from both short-sightedness and longevity. The state should provide income security for older people. Under the multi-pillar system, each pillar of the Basic Pension, the NPS, and Retirement Pension should function properly. The NPS, which has a compulsory saving function and protects the contributors against longevity risk, should be made to play a pivotal role in the multi-pillar structure of old-age income security. However, in order to ensure financial viability, there is no option but for the level of pension benefit to drop gradually. Also, the government should normalize the Retirement Pension so that members of the middle class and above can supplement the reduced pension amount of the NPS through Retirement Pension. Then the government can use available resources to provide basic income security for older persons with low-income. In order to strengthen basic security, the Swedish-style Guarantee Pension should be introduced by integrating the current Basic Pension and the NBLSS.[2)]

Why should the Swedish-style Guarantee Pension be introduced? It will provide adequate income security for older persons with low-income. In thinking about this, it is necessary to distinguish between measures to deal with the poverty of the current generation, and an income guarantee for future generations after the NPS has matured. As mentioned above, the current poor elderly were either unable to join the NPS because the pension scheme was introduced late, or they have only a short history of contributing to the NPS. Therefore, most seniors receive no, or only a small amount of, pension from the NPS. However, currently middle-aged people joining the NPS will have a contribution period of at least 25 years or more. Compared to the current generation of seniors, pension income will be significantly higher for the current working-age population. In addition, unlike in the past, the number of dual-income earners is increasing, so the combined pension amount for married couples is expected to increase in the future. Therefore, we should not insist on the quasi-universalism of the Basic Pension that covers 70 per cent of all elderly people. Given that the poverty rate is around 40 per cent, the 70 per cent of coverage should be reduced to concentrate on the poorer 40 per cent, while the pension amount of the Basic Pension should guarantee the level of the National Minimum to escape poverty.

2) The author's pension reform proposal is benchmarked from Sweden. Swedish pension system reform has been carried out in stages since 1999. The most distinctive feature is the implementation of structural reforms to change the second-tier income-related pension (ATP), which was operated as a DB (Defined Benefit) system with pension benefit promised in advance, to an NDC (Nominal Defined Contribution) system. Under the NDC system, individuals' contribution payment is recorded only into a virtual individual account. In fact, the pension assets do not operate in the real market. But just as in the 'normal' DC scheme in the private pension market, pension annuity is calculated on the basis of individual pension assets virtually accumulated. Thus the pension benefit is quite closely related to the contribution actually paid. In this sense, the NDC pension is a contribution-related pension without redistributive function. For basic security for the low-income elderly, a supplementary benefit-type Guarantee Pension is placed instead of flat-rate basic pension on the first tier. The Guarantee Pension is funded by general taxation. In addition, a Premium Pension, a pre-accumulated defined contribution pension, was placed on the third floor on top of the NDC pension to increase benefit adequacy for middle class retirees (Yang, 2011).

Reform Agenda from a Multi-pillar Perspective

Sustainability Reform for the National Pension

First of all, measures for financial stabilization of the NPS, which will play a pivotal role in the old-age income security system, are required. As the ageing population continues to rise, raising insurance premiums is a *sine qua non* of stabilization reform. Currently, the contribution rate is 9 per cent, but the promised income replacement rate is 40 per cent. Given that most other welfare states require about a 20 per cent contribution rate while providing an income replacement rate of about 40 per cent, Korea's contribution-benefit is quite imbalanced. Redressing the imbalance should be the first step of financial sustainability reform.

But the contribution increase alone is not enough. Along with the premium increase, pensionable age should be gradually increased as life expectancy grows. For specific measures, it would be necessary to apply the reform proposal of the National Pension System Development Committee in 2018. The government committee recommended that the insurance premium rate should be raised in stages from the current 9 per cent to 13.5 per cent by 2029. After then, an automatic stabilization device should be introduced from 2030, as in Sweden, Germany, and Japan, so that pension benefits can be adjusted downward in accordance with the progress of ageing. It would also be necessary to gradually raise the age at which pension benefits begin to be received, from 65 years to a higher age (National Pension Fiscal Estimation Committee, 2018).

Mandatory Pension Enrollment for the Retirement Pension

The problem of downgrading the national pension benefit should be offset by normalizing the Retirement Pension. As of 2019, the total annual premium of the Retirement Pension paid by employers was 34.1 trillion KRW, more than 70 per cent of NPS revenue (47.8 trillion KRW in 2019). Considering that Retirement Pension subscribers account for only one-fourth of the NPS, the actual amount of insurance premiums per person is very large. It means that middle-class workers could receive adequate benefits. However, at present, most of them receive an interim settlement during their tenure, and receive benefits as a lump sum after retirement. Receiving an annuity is relatively rare. In this sense, the Retirement Pension is only a pension in name. In fact, it is operated as an externally funded severance pay system. In short, the current retirement pension has a weak pension function. Thus, it should be converted into a semi-public pension to compensate for the decline in the income replacement rate of the NPS (Yang, 2021).

As a quasi-official pension plan, the National Pension Service can collect premiums and manage the Retirement Pension along with the NPS, as Sweden does. Alternatively, the current system, in which the many retirement pension products are managed by private financial companies, can be left as it is, but the National Pension Service can participate in the private pension market as a retirement pension operator to strengthen competition among financial companies. The National Pension Service's operating rate of return on the NPS fund is more than twice that of private retirement pension operators, while the fee is as low as one-third of private retirement pension operators.[3] Considering that the pension is a long-term financial product, it is expected that, at the same premium, the retirement pension operated by the National Pension Service will give higher pension benefits than the private retirement pension companies.

On the other hand, it should be made difficult for Retirement Pension subscribers to take an interim settlement during tenure and lump sum payments after retirement. Instead, an annuity-type monthly payment should be the principal payment method, to provide a reliable income source for the post-retirement period.

3) In 2018, private retirement pension operators' annual fee as per centage of accumulated assets was 0.4 to 0.49 per cent. This is significantly higher than the 0.08~0.23 per cent of the National Pension Service for the NPS. Since an annuity is a long-term product that looks forward 30 years, the compounding effect of reducing fees and a higher rate of return would be very large. More pension assets can be accumulated if the National Pension Service operates the Retirement Pension (Yang, 2021).

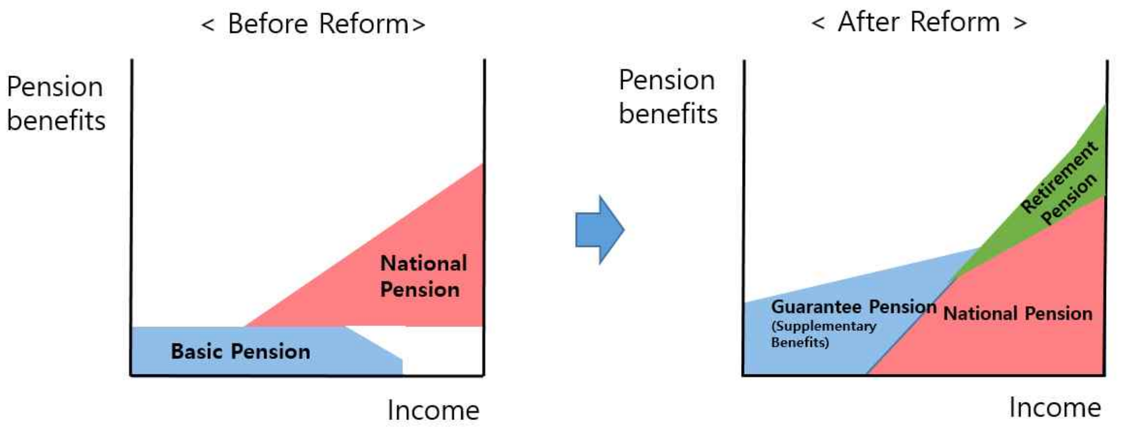
Strengthening Basic Income Security Through Guarantee Pension

In consideration of the principle of solidarity and financial efficiency, it is necessary to reorganize the basic income security system for low-income earners from flat-rate basic pension to a Swedish-style Guarantee Pension. Since the Guarantee Pension, on the first floor, is a supplementary pension, it is possible to take the basic security line higher than the current basic pension, even with the same financial resources. As seen in Figure 6, anyone whose combined pension benefits from the NPS and the Retirement Pension are below the national minimum will receive supplementary pension to make up for the gap between the national minimum and their actual income. The pension amount of the Guarantee Pension will be up to two times higher than the current quasi-universal basic pension amount.

In a nutshell, the Guarantee Pension could be understood as a public assistance program that would be a loose means-tested system for people aged 65 and over. Introduction of the Guarantee Pension would mean that senior citizens aged 65 and over would be separated from the NBLSS and protected by a tax-based supplementary pension. The current NBLSS has no choice but to strictly enforce the conditions for receiving benefits as not only older persons but also working-age recipients are intertwined in the public assistance system. In other words, to prevent the moral hazard problem of the working-age population (e.g. avoiding work to get benefits), the means-test is very strict. Thus even older people who are deemed not capable of work have difficulty qualifying for benefits. If the Guarantee Pension is introduced, it would be possible to significantly ease the means-test to the extent that only those with a certain high level of wealth would be excluded from benefits.

The Guarantee Pension provides supplementary benefits only for income below the national minimum. Therefore, as previously suggested, if the coverage of the NPS is expanded and the pension amount increases as the NPS matures and the Retirement Pension is normalized, the financial expenditure of the Guarantee Pension will be minimized proportionately. As it becomes financially efficient, the government will be able to pay a higher basic income to low-income seniors.

Figure 6. Comparison before and after reform of the old-age income security system



CONCLUDING REMARKS

Korea's ageing population is expected to impose a significant financial burden on the overall social security system. The impact on the old-age income security system is very direct. Securing the financial sustainability of the pension, which usually accounts for the highest proportion of social expenditure, is also a necessary measure for the continuation of the social security system for the working-age population. Therefore, a reform was proposed to systematize income security by income class while diversifying cost-sharing under the multi-pillar system for old-age income security.

On the other hand, due to the immaturity of the NPS, which is the backbone of Korea’s old-age income security system, the poverty of older people of the current generation is serious. In addition, a considerable number of the working population who are not financially capable of paying contributions cannot obtain stable old-age incomes after they retire. They need a tax-based pension. The current basic pension aims to be universal, so the number of recipients is high, but the amount is low. Tax-based pension needs to be generously paid to older persons below the poverty line. Therefore, a Swedish-style Guarantee Pension is proposed.

Although it has not been dealt with due to space constraints, measures to reduce dependence on pensions through increasing the retirement age and promoting economic activity among the inactive labor force should be seriously considered. Furthermore, the importance of economic growth should not be forgotten. Economic growth can afford the cost of ageing and help increase the income of the low-income class. Measures to attain productivity increase and economic revitalization should go in tandem with pension reform.

REFERENCES

Gillion, C. (2000). The Development and Reform of Social Security Pensions: The Approach of the International Labour Office. *International Social Security Review, 53*(1), 35-63.

Holzmann, R., & Hinz, R. (2005). *Old-age Income Support in the 21st century: An International Perspective on Pension Systems and Reform.* Washington D.C.: World Bank.

Holzmann, R., & Palmer, E. E. (Eds.). (2006). *Pension Reform: Issues and Prospects for Non-financial Defined Contribution (NDC) Schemes.* Washington D.C.: World Bank.

National Pension Financial Estimation Committee. (2018). *Materials from Public Hearings on the Direction of National Pension System Improvement.* Jeonju: National Pension Financial Estimation Committee.

Shin, H. Y. (2017). Demographic Change and Long-Term Financial Prospects for Social Insurance (II). *Korea Institute for Health and Social Affairs Research Report, 54.*

Statistics Korea. (2015). *Population Status of the World and South Korea.* Seoul: Statistics Korea

Statistics Korea. (2019). *Special Estimation of Future Population: 2017~2016.* Seoul: Statistics Korea

World Bank. (1994). *Adverting the Old Age Crisis*. New York: World Bank

Yang, J. J. (2021). Making Korea's Retirement Pension a Semi-Public Pension: Necessities and Plans. Unpublished manuscript.

Yang, J. J. (2011). The Swedish Pension System and Issue Analysis. *Social Science Review, 41*(1). 105-129.

COMPARATIVE ANALYSIS OF MINIMUM INCOME PROTECTION FOR OLD PERSONS IN EUROPE: THE CASES OF DENMARK, ITALY, SLOVENIA AND THE UK

DAVID NATALI AND ANDREA TERLIZZI

INTRODUCTION

Pension policy is vitally important for contemporary societies. From a policy perspective, pension systems represent one of the cornerstones of contemporary welfare states. Protection against age-related risks is a central aim of welfare programs, and pension spending represents a huge part of the welfare budget. From an analytical perspective, the study of pensions sheds light on the complex structure of social rights and on the emergence and evolution of welfare institutions. This is the case of Europe where welfare programs – and old-age pensions in particular – are well established programs that cover large parts of the population and provide a crucial source of revenues.

The role of pensions is also crucial in preventing poverty and affecting income inequality across Europe. While non-contributory (and needs-based) pensions to mitigate poverty risks have usually received less attention than contributory schemes, some comparative publications have recently targeted the issue and provided interesting evidence on these schemes (Ebbinghaus, 2020; Goedemé, 2013; Guardiancich, 2016).

As outlined by Goedemé and Marchal (2016), minimum income protection schemes for older persons are important policy instruments for at least three reasons. Firstly, they constitute a crucial part of old-age income provision to alleviate poverty, especially for persons with low earnings throughout their working lives. Consequently, the analysis of minimum income protection is important to explain cross-national differences and trends in old-age poverty.

Secondly, as a consequence of recent reform trends that have been based on cost-containment, minimum income protection schemes for older adults are likely to become more important in the future. Cutbacks and a reinforced link between contributions and benefits are going to reduce old-age benefits provided by public schemes, with a greater role for private pensions. On top of that, trends in the labor market are also going to put the adequacy of future pensions at risk: with the current growth in the number of persons with non-standard working careers, non-contributory pensions may well become even more important in the future (Hinrichs and Jessoula, 2012). As stressed in the recent Pensions Adequacy Report of the European Commission and the Social Protection Committee of the European Union (EU) (European Commission, 2021a; 2021b), several EU Member States are introducing new benefits to expand minimum income protection in old age. In Italy, for example, the establishment of the 'citizenship pension' in 2019 is expected to reduce the large proportion of low-income pensioners by providing – subject to a means test – a monthly benefit of EUR 780, including a housing supplement (see Section 3 below).

Thirdly, the reform trends of non-contributory minimum income protection schemes are different from those of contributory earnings-related pension schemes. This is not only because both types of schemes tend to serve a different purpose (poverty avoidance and income maintenance, respectively), but also because reforms of minimum benefits for older persons generally affect current pensioners, whereas reforms of contributory schemes tend to be implemented with long phase-in periods, and thus affect different social and occupational groups.

In line with this literature, the present paper sheds light on the role of minimum pensions (in their different forms) in four European countries. These countries represent different types of pension systems with different outputs and outcomes in fighting poverty. The four countries provide evidence of both achievements and shortcomings in covering poverty risks. They are thus examples to reflect on for setting up an effective strategy to fight against poverty and inequality in old age.

Section 1 summarizes key data about poverty risks in old age across Europe. While pension systems are well-developed in Europe (with a high level of public spending), poverty risks are still present. Recent projections show that in the future, old-age poverty could re-emerge as a consequence of changes in the labor market and cost-containment measures introduced in the last decades. Because poverty prevention is still on the agenda of European policymakers, data are taken from key publications – such as the EU Pension Adequacy Report (2021a; 2021b) – that provide statistical and qualitative information on pension systems in the EU Member States.

Section 2 provides a taxonomy of minimum pensions for older people in Europe. We focus on three key aspects of pension policy to prevent poverty risks: financing (contributory or non-contributory); access (universal or based on residence, work and/or means-tests); level of benefits. The taxonomy is based on recent contributions in the literature (Goedemé and Marchal, 2016; Guardiancich, 2016). Different rules mean different coverage of the old-age population and different capacity to alleviate poverty risks.

Section 3 provides more in-depth information on the four countries under scrutiny: Denmark, Italy, Slovenia and the UK. The four countries represent very different cases. They give evidence of different pension systems with different capacity to alleviate poverty risks. Denmark and the UK are typical multi-pillar systems where old-age protection is provided by a mix of public and private pension schemes. Italy and Slovenia are typical social insurance systems, where public pensions are the backbone of old-age protection. The four countries also differ in terms of minimum pension schemes. As we will see, in each country different schemes contribute to alleviate risks of poverty and material deprivation: some are contributory; some are tax-based; some are part of the pension system; others are social assistance schemes. For each country we present the pension policy instruments and provide a brief summary of their capacity to address poverty. Data are from the EU comparative datasets, OECD publications, original country-based sources, as well as the scientific literature.

Section 4 focuses on broad comparative trends in poverty protection for older persons in Europe. Based on the empirical evidence of the four countries under examination, we provide a critical reading of the different policy measures and their capacity to reduce poverty risks. This comparative reading helps investigating the pros and cons of each policy measure and thus helps to identify the more promising reform strategies to address poverty in old age.

SECTION 1. POVERTY RISKS IN EUROPE

In the European Union (EU-27) in 2018, people aged 65 and over totalled about 89 million (20 per cent of the total population). While older women made up 51 million (57 per cent), 38 million were men (42 per cent). In 2060, the number of older people is estimated to rise to 131 million (72 million women and 59 million men) (European Commission, 2021a).

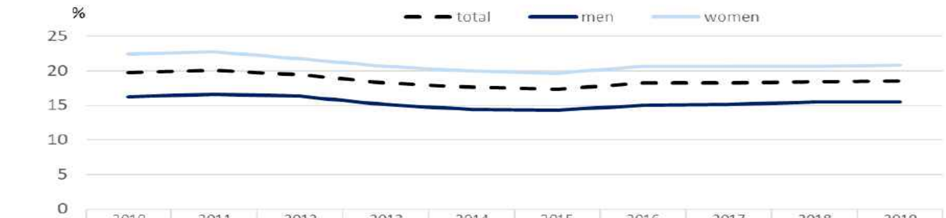
Since 2008, although old-age poverty rates have decreased, the actual number of older people at risk of poverty or social exclusion (AROPE)[4] has remained stable due to the increasing number of older persons (Figure 1 below). In 2008, the number of older persons at risk of poverty or social exclusion was 16.7 million. This number decreased to 14.9 million in 2010 and increased again to 16.1 million in 2019. This rise is largely due to an increase in the older population from 75.7 million to 90.5 million between 2008 and 2019. Large differences remain across countries. In 2019, the AROPE rate ranged from 10 per cent in Denmark and France to almost 50 per cent in Latvia (Figure 2 below). The risk of poverty or social exclusion was higher among women than men.

In relation to older people, the AROPE combines measures of relative income and severe material deprivation.[5] If we look at these components separately, we find that old-age income poverty for both men and women decreased during the period 2010-2016 and then started to rise again (Figure 3 below). In the EU, in 2019, relative poverty among older persons was slightly higher than working-age poverty. However, there are significant differences across countries (Figure 4 below).

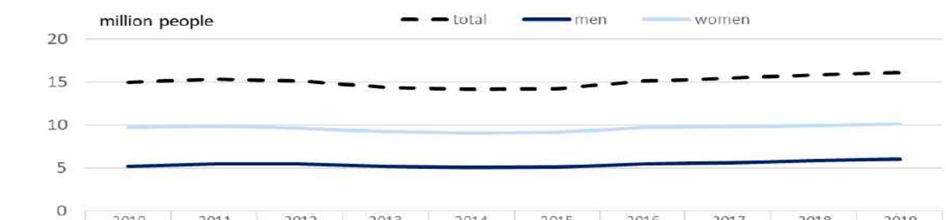
4) The rate of people at risk of poverty or social exclusion combines measures of relative income, severe material deprivation, as well as work intensity in the household. However, the latter applies to the working-age population only. Therefore, AROPE rates for the older population and the working-age population are not comparable.

5) Material deprivation is defined in relation to at least four of the following nine items: (1) cannot afford to pay rent/mortgage or utility bills on time; (2) cannot afford to keep home adequately warm; (3) cannot face unexpected expenses; (4) cannot afford to eat meat, fish or a protein equivalent every second day; (5) cannot afford a one-week holiday away from home; (6) cannot afford a car; (7) cannot afford a washing machine, (8) cannot afford a colour TV; and (9) cannot afford a telephone (including mobile phone) (European Commission, 2021a: 32). For Eurostat, severe material deprivation consists of the enforced inability to pay for at least four of the above-mentioned items (https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Material_deprivation).

Figure 1. People at risk of poverty and social exclusion (AROPE), older persons (65+), EU-27, 2010-2019, by sex, % and million people



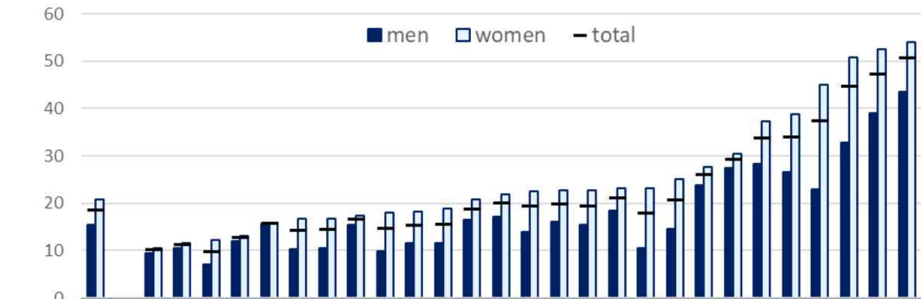
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
total	19.8	20.1	19.4	18.2	17.6	17.3	18.2	18.2	18.4	18.5
men	16.2	16.6	16.3	15.1	14.4	14.3	15	15.1	15.5	15.5
women	22.5	22.8	21.8	20.7	20	19.7	20.7	20.7	20.7	20.9



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
total	14.9	15.3	15.1	14.4	14.1	14.2	15.1	15.4	15.8	16.1
men	5.2	5.5	5.5	5.2	5.0	5.1	5.4	5.6	5.9	6.0
women	9.7	9.9	9.6	9.2	9.1	9.1	9.7	9.8	10.0	10.1

Source: European Commission (2021a: 27)

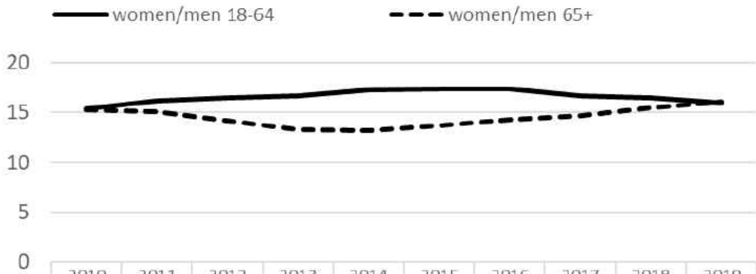
Figure 2. People at risk of poverty or social exclusion (AROPE) in old age (65+), 2019, by sex, %



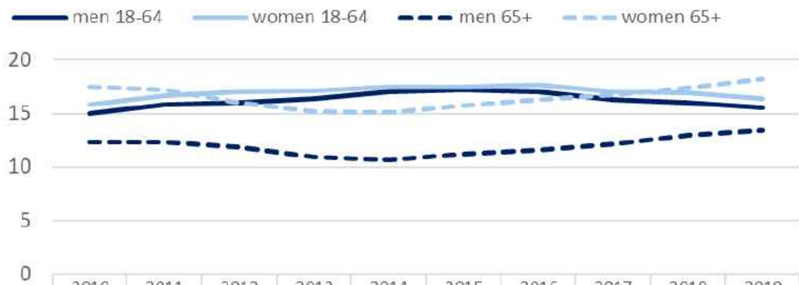
	EU	DK	FR	LU	NL	ES	SK	HU	BE	AT	FI	SE	DE	PT	PL	IT	IE	EL	CZ	SI	CY	MT	HR	RO	LT	EE	BG	LV
men	16	9	11	7	12	16	10	11	15	10	12	12	17	17	14	16	16	18	11	15	24	27	28	27	23	33	39	44
women	21	11	12	12	13	16	17	17	17	18	18	19	21	22	23	23	23	23	23	25	28	31	37	39	45	51	53	54
total	19	10	11	10	13	16	14	14	17	15	15	15	19	20	19	20	19	21	18	21	26	29	34	34	37	45	47	51

Source: European Commission (2021a: 28)

Figure 3. People at risk of poverty, by age group and sex in the EU-27, 2010-2019, %



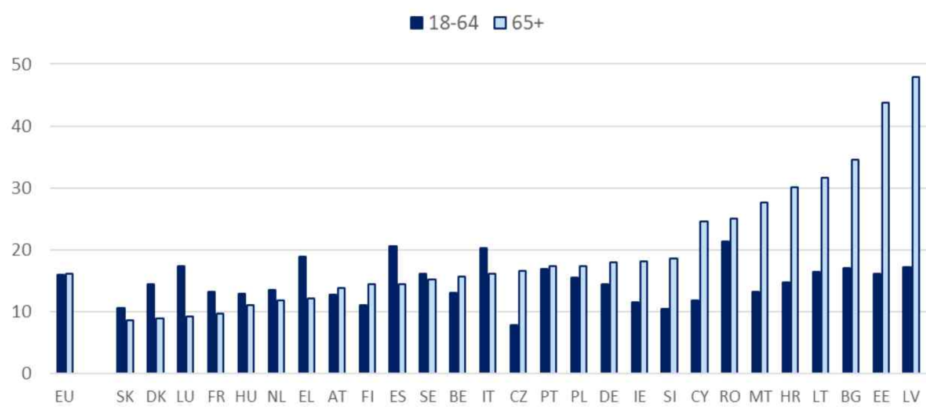
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
women/men 18-64	15.4	16.2	16.5	16.7	17.3	17.4	17.4	16.7	16.5	16
women/men 65+	15.3	15.1	14.2	13.3	13.2	13.7	14.3	14.7	15.5	16.1



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
men 18-64	15.0	15.8	16.0	16.4	17.0	17.2	17.0	16.3	16.0	15.6
women 18-64	15.8	16.7	17.0	17.1	17.5	17.5	17.7	17.0	16.9	16.4
men 65+	12.3	12.3	11.9	10.9	10.7	11.2	11.6	12.1	13.0	13.4
women 65+	17.5	17.2	16.0	15.2	15.1	15.7	16.3	16.8	17.4	18.2

Source: European Commission (2021a: 28)

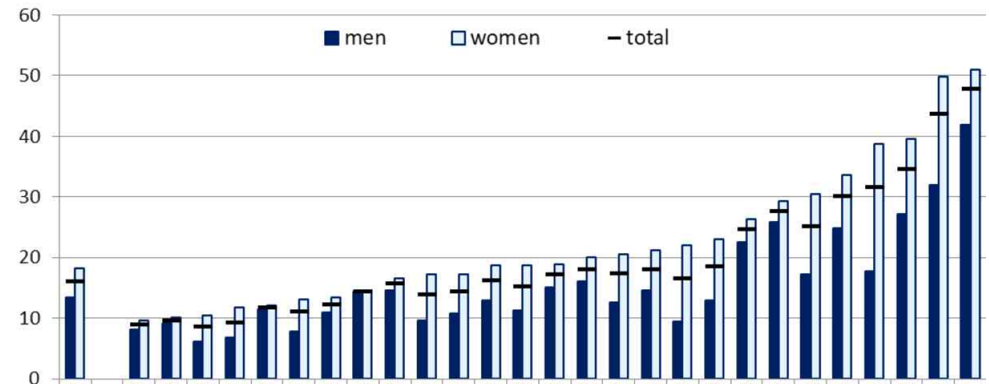
Figure 4. People at risk of poverty in old age (65+) and working age (18-64), 2019, %



Source: European Commission (2021a: 30)

The comparatively low prevalence of being at risk of poverty among the older population in some countries is mostly due to pension levels and the capacity of pension systems for redistribution. Obviously, the lowest poverty rates are found in countries that provide sufficient and well-distributed incomes to older persons (European Commission, 2018). However, as shown in Figure 5, in almost all EU countries women in old age face a higher poverty risk than men.

Figure 5. People at risk of poverty in old age (65+), 2019, by sex, %



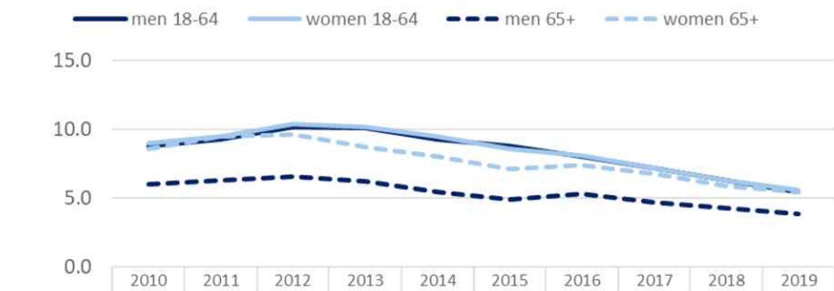
	EU	DK	FR	SK	LU	NL	HU	EL	ES	BE	AT	FI	IT	SE	PT	DE	PL	IE	CZ	SI	CY	MT	RO	HR	LT	BG	EE	LV
men	13	8	9	6	7	11	8	11	15	15	10	11	13	11	15	16	13	15	9	13	23	26	17	25	18	27	32	42
women	18	10	10	11	12	12	13	13	14	17	17	17	19	19	19	20	21	21	22	23	26	29	30	34	39	40	50	51
total	16	9	10	9	9	12	11	12	15	16	14	14	16	15	17	18	17	18	17	19	25	28	25	30	32	35	44	48

Source: European Commission (2021a: 31)

If we look at the AROPE component concerning severe material deprivation (SMD), it has been declining over the last decade (Figure 6). However, also for this component, there are significant differences among EU countries. If we consider the material and social deprivation (MSD)[6] indicator – which is based on a broader range of needs including the ability to afford some social activities – values are higher than the SMD indicator (Figure 7). Overall, material deprivation indirectly relates to pension expenditure (Figure 8).

6) People at risk of material and social deprivation are those who cannot afford at least five items out of this list: face unexpected expenses; one week annual holiday away from home; avoid arrears in mortgage, rent, utility bills and/or hire purchase instalments; afford a meal with meat, chicken or fish or vegetarian equivalent every second day; keep their home adequately warm; a car/van for personal use; replace worn-out furniture; replace worn-out clothes with some new ones; have two pairs of properly fitting shoes; spend a small amount of money each week on him/herself ('pocket money'); have regular leisure activities; get together with friends/family for a drink/meal at least once a month; have an internet connection (European Commission, 2021a).

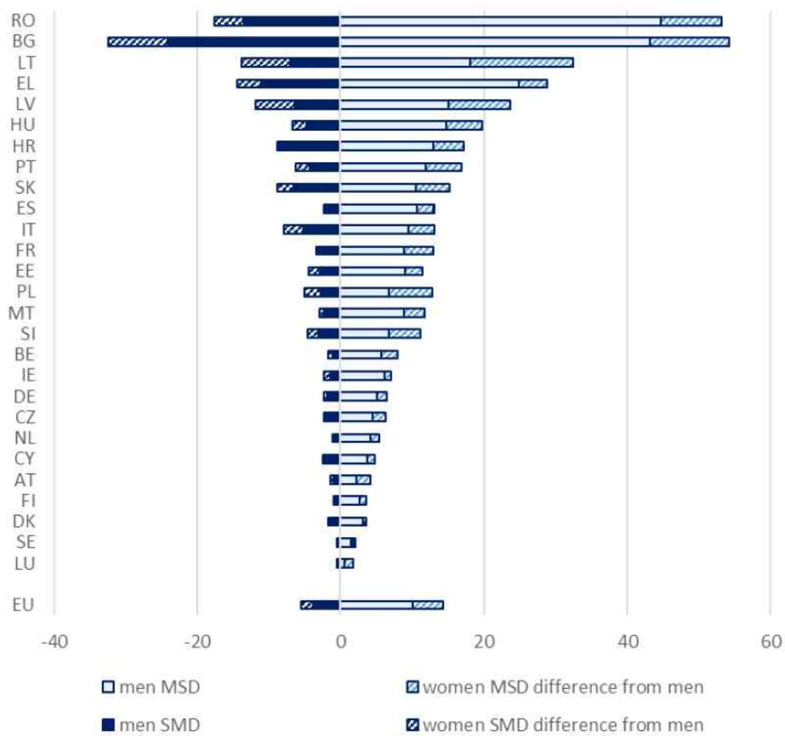
Figure 6. People in severe material deprivation, by age group and sex in the EU-27, 2008-2019, %



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
men 18-64	8.8	9.3	10.2	10.1	9.3	8.8	8.0	7.2	6.3	5.5
women 18-64	9.0	9.5	10.4	10.2	9.5	8.6	8.1	7.2	6.3	5.6
men 65+	6.0	6.3	6.6	6.2	5.5	4.9	5.3	4.7	4.3	3.9
women 65+	8.6	9.5	9.6	8.7	8.0	7.1	7.4	6.8	5.9	5.5

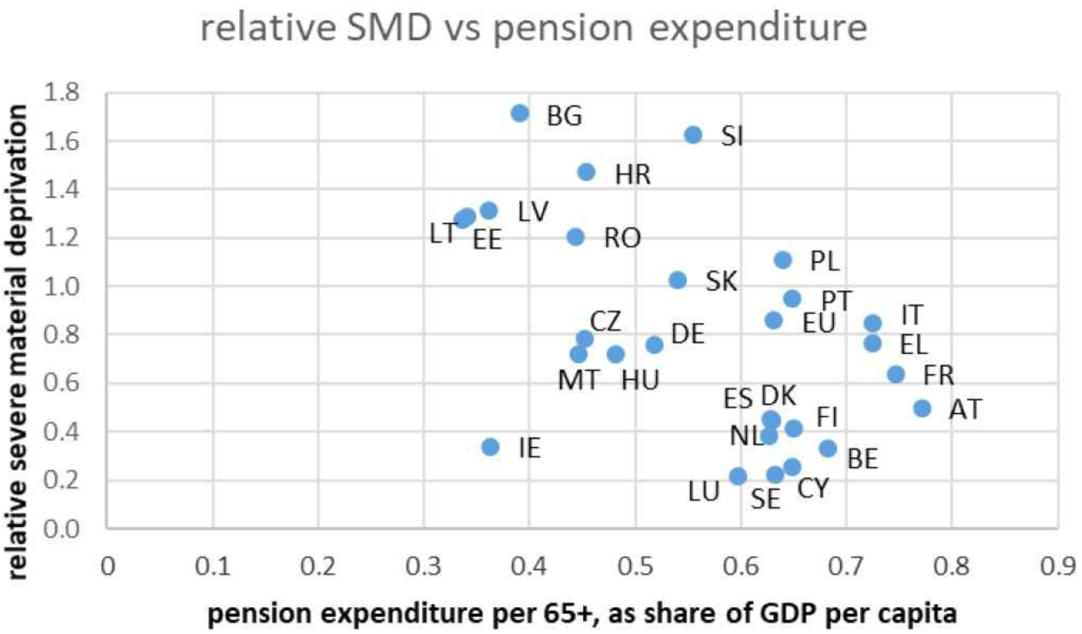
Source: European Commission (2021a: 33)

Figure 7. Severe material deprivation and material and social deprivation in old age (65+), by sex, 2019, %



Source: European Commission (2021a: 34)

Figure 8. Severe material deprivation in old age (65+) over 18-64, 2019, and per capita pension expenditure (2018) as % of GDP



Source: European Commission (2021a: 35)

As stressed in the literature (Ebbinghaus, 2020), in the last decade, countries across Europe have implemented several pension reforms. Other than reforming pension financing (with a general shift towards financing from the general budget), promoting longer working lives and later retirement, as well as improving the inclusiveness of pension systems, a common trend has been the introduction of measures to reduce poverty risks. This has been addressed mostly through basic or minimum pensions (European Commission, 2021a). Minimum old-age benefits, which may depend on need and be income- or means-tested, are particularly important for those people with short careers or low incomes.

SECTION 2. PENSION SCHEMES TO ADDRESS POVERTY IN OLD AGE

The previous section has provided evidence of the role of pension benefits to reduce poverty risks for older persons. But European countries have different sets of instruments for this purpose. These differences are related to the broad institutional architecture of pension systems. The latter can be distinguished into Bismarckian and Beveridgean types. Whereas the primary objective of the former is income maintenance for those with an employment, insurance or contributory history, the latter aims at ensuring universal poverty alleviation (Table 1) (Bonoli, 2003; Guardiancich, 2016). Originally, European countries clustered along these two types (Table 2).

Table 1. Bismarck vs. Beveridge

	Bismarck	**Beveridge**
Coverage	Occupational	Universal
Eligibility	Employment	Citizenship, residence, need
Financing	Social security contributions	General taxation
Benefits	Earnings-related	Flat-rate
Social partners	Involved	Uninvolved
Public sector	Full state provision	Limited state provision
Private sector	Pension funds developed late	Pension funds developed early

Source: Bonoli (2003)

Table 2. Country clusters

Bismarckian clusters	**Beveridgean clusters**
Continental	**Nordic**
Austria, Belgium, France, Germany, Netherlands (before ’56)	Denmark, Finland, Norway, Sweden
Southern	**Anglo-Celtic**
Greece, Italy, Portugal, Spain	UK, Ireland
Eastern	**Mixed**
Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Yugoslavia	Switzerland, Netherlands (after ‘56)

Source: Guardiancich (2016)

These original configurations paved the way for the further clustering of countries into single- and multi-pillar systems. In single-pillar systems the state provides the greatest share of individual pension income. A single public pillar pursues an ‘income maintenance’ goal with generous benefits and general coverage, reducing the room for supplementary provisions. Financing is usually pay-as-you-go (PAYG), so that current contributions and tax revenues are immediately disbursed to finance benefits. This is the case of the Bismarckian countries that have remained committed to large, publicly-administered PAYG systems. Finland, Norway and Sweden have created a public-private mix that is mandatory for all the employed-on top of the Beveridgean basic pensions. The other Beveridgean countries rely on a multi-pillar structure, where occupational and individual pensions are voluntary (in Ireland and the UK) or quasi-mandatory (in Denmark, the Netherlands and Switzerland), leading to coverage problems in the Anglo-Celtic cluster. In these countries, the state chiefly focuses on poverty prevention and the provision of basic flat-rate or means-tested entitlements. Non-public schemes, occupational and/or individual, mostly fulfil the income replacement function. Financing is therefore mixed: PAYG for public programs and fully-funded for supplementary funds (Natali and Terlizzi, 2021).

In the context of these different institutional designs, pension schemes to alleviate poverty are of two distinct types, contributory and non-contributory; that is, whether eligibility to a minimum income in old age depends on the contributions one has made during his or her working life, or not. In line with the World Bank (1994) – quoted by Guardiancich (2016) – minimum pensions can be organized in line with different instruments (Table 3).

Table 3. Different forms of minimum pension schemes

<table>
<tr><th>Contributory</th><th>Non-Contributory</th></tr>
<tr><td>- flat-rate pension</td><td>- universal non-means-tested pension (e.g. basic pension)</td></tr>
<tr><td rowspan="3">- minimum pension guarantee</td><td>- residence-based pension</td></tr>
<tr><td>- recovery-conditioned pension (ex-post means test)</td></tr>
<tr><td>- social assistance pension (ex-ante means test)</td></tr>
</table>

Source: Guardiancich (2016)

Another distinction relates to whether (or not) eligibility to a minimum income guarantee is tested against certain types of income. Both contributory and non-contributory minimum provisions show large variations in means tests. As regards the non-contributory income protection provisions, we can distinguish between a non-means-tested basic pension, a pension-tested conditional basic pension, and a social pension with a broader means test.

With reference to Table 3, *basic pension* is a universal benefit (Goedemé and Marchal, 2016). It is granted to all citizens above a certain age, regardless of other sources of income. However, other conditions – e.g. residence – may apply, both for establishing eligibility and defining the benefit level. In this case we talk of a residence-based basic pension. A *conditional basic pension* tops up pension income to a pre-defined level. Other income sources are not taken into account for defining the benefit level. S*ocial pensions* are the most common type of non-contributory minimum income protection for older people in Western Europe. Eligibility depends on a means test which includes not only public pension income, but also other income sources. Sometimes a minimum residence record of several years before submitting the claim is required. Administratively, social pensions may be part of a general social assistance scheme or of the public pension system. In some countries, there is no non-contributory minimum income guarantee targeted at older people. In these countries, those not qualifying for a contributory pension are catered for by the general social assistance scheme. In the *social pension* countries, categorical social assistance for older persons was from the outset a separate scheme, with its own institutional design. These minimum income guarantees in old age were introduced in the course of the 20th century, and generally well before the working-age population was covered by a general social assistance scheme.

Of the old EU-15 countries, only Sweden, Denmark, Finland and the Netherlands have a (conditional) basic pension as their main non-contributory minimum income scheme for older people. These countries all introduced a *basic pension* in the 1940s and 1950s, replacing their former universal means-tested pensions. The new basic pensions became the cornerstone of their public pension systems. Later on, Denmark incorporated some elements of means testing in parts of its basic pension, and Finland and Sweden converted their basic pension into a conditional basic pension. In these countries, the level of benefit strongly depends on the number of years of residence, implying that, especially for migrants, either the general social assistance scheme or a separate social pension remains the only form of protection.

Pros and cons of the different minimum pension schemes

Basic pension schemes differ in terms of financing, administrative rules, and eligibility. These schemes may be inspired by one or other of two principles: universalism versus targeting. In the former case, access is open to all, while in the latter it is conditional. While the two principles inspire different ideal types, in reality, pension systems tend to mix schemes with different degrees of coverage. Universal and targeted schemes have different implications in terms of budgetary costs, behavioral issues, political support, and efficacy.

In terms of costs, in principle, universal schemes imply higher fiscal costs than targeted schemes. If pensions are set at a high level, this leads to high levels of public spending, with potential problems for long-term sustainability of the public budget and high opportunity costs. Yet if the benefit is too low and spread too thin, the poverty alleviation function is compromised. At the same time, universal schemes usually imply low administrative costs, because the system is simple. Targeted systems run the risk of higher administrative costs due to the monitoring of the population and its economic status, with potential risks of mismanagement and fraud.

In terms of behavioral issues, targeted schemes are deemed to be the source of the so-called poverty and inactivity traps, and poor quality benefits for a minority of persons. Problems of stigma may reduce take-up ratios and reduce the efficacy of the system. Political support for universal schemes is usually high precisely because they are based on a broad notion of solidarity across the whole population and – in principle – tend to benefit everybody (many groups and individuals). By contrast, targeted systems tend to evoke a negative reaction from the more affluent because they represent a direct and explicit form of redistribution towards the worse off.

In terms of efficacy, there is no agreement on the potential and real effects of the different schemes mentioned above (see Guardiancich, 2016 for a review). Whereas, in a seminal article, Korpi and Palme (1998: 661) wrote that 'the more we target benefits at the poor […], the less likely we are to reduce poverty', later studies challenged this view. Marx, Salanauskaite and Verbist (2013) found that (ibid: 42): 'targeting tends to be associated with higher levels of redistributive impact, especially when overall effort in terms of spending is high'.

SECTION 3: THE FOUR-COUNTRY COMPARISON

This section sheds light on recent reform trends in the field of minimum income guarantees for older persons. It refers first to broad trends in Europe. Then we focus on the four countries under study: Denmark, Italy, Slovenia, and the United Kingdom. The four represent different pension systems, and have introduced different types of minimum income benefits for older people.[7]

As we will see, the four countries provide evidence of some longstanding characteristics of pension schemes targeted at the population at risk of poverty, while also showing more recent reform trends. In the four countries, as well in many other European countries, the main adequacy focus of reforms has been to improve the protection of low-income pensioners. While the adequacy agenda in the last decades has been broad, as described above, efforts aimed at strengthening anti-poverty safeguards in national pension systems have continued, with a focus on improving minimum guarantees. About half of all EU Member States undertook such reforms, notably by introducing a basic pension (Italy) or a contributory minimum pension (Slovenia); raising basic/minimum pension levels (e.g., Denmark); or implementing different types of pension top-ups. At the same time, a few Member States (e.g., Denmark) introduced measures to tighten the conditions for means-tested/basic pensions, based on residence (European Commission, 2021a).

3.1 Denmark

The Danish pension system

Denmark has a typical multi-pillar pension system (with Beveridgean roots) that is based on three main schemes (statutory, occupational and personal pension schemes). The first pillar consists of public pensions with universal coverage. The statutory pensions consist of two old-age pension schemes: the national old-age pension (*folkepension*) and the statutory funded pension (ATP). The

7) Danish and UK pension systems are typical multi-pillar pension systems while Italy and Slovenia represent social insurance systems where public pensions are the backbone of old-age protection.

national pension is a universal, non-contributory, residence-based scheme financed from general taxation on a PAYG basis. The ATP is a mandatory, fully-funded defined-contribution scheme financed from small nominal contributions from all employed persons (European Commission, 2021b) (Table 4).

Table 4. Danish pensions

	Pension system	**Residence-based pension**	**Contributory minimum pension**	**Social assistance cash benefits for older people**
Denmark	Multi-pillar (Beveridgean)	Public old-age pension (*Folkepension*) 1st part, flat-rate (income-tested) 2nd part, means-tested + supplementary pension (lump sum) for low-income		Special housing benefit for pensioners (*Boligydelse*)

Source: European Commission (2021a)

The second pillar – which covers 94 per cent of full-time employed people or 63.4 per cent of the working-age population – is based on voluntary collective agreements providing compulsory coverage for employees. The third pillar consists of pension savings and life insurance programs, and is particularly important for the self-employed, who have no access to occupational schemes. Moreover, people with a permanent loss of a major part of their working capacity are entitled to a disability pension (*førtidspension*), which is higher for single claimants than for those who are married or cohabiting (European Commission, 2021b).

In the last decades, the 2006 Welfare Agreement largely reformed the pension system with the aim of increasing labor market participation of more mature cohorts of workers. The reform consisted of voluntary early retirement, the increase of the general retirement age, and the introduction of demographic adjustment of the retirement age to life expectancy (de la Porte and Natali, 2014). The reform was intended to address the rising costs of pension schemes while also maintaining living standards during old age. In 2011, the Danish government passed a reform package that confirmed the priorities of the previous reforms. The *Reformpakken 2020* increased the retirement age from 65 to 67 (with a further increase up to 69 in 2035). Other measures concerned the voluntary early retirement scheme and, in January 2013, the introduction of the ‘senior disability pension’.

In August 2020, the Social Democratic minority government submitted a proposal to allow workers with very long working careers to retire before reaching the statutory pension age (Kvist, 2019). Under the new Early Pension scheme, persons who, at the age of 61 (the age of assessment) have a work record of at least 42, 43 or 44 years, can take out an early pension before the statutory retirement age. The working career of reference includes part-time and self-employment, periods of unemployment, training, sickness and maternity benefits. The early pension benefit offers almost the same amount as the public pension. Further opportunities for early exit have been set, for instance with the improvement of the so-called Senior pension, which can be claimed up to six years before the statutory retirement age by workers with limited abilities. Trade unions have had a role in supporting the more recent measures. They are also challenging the automatic adjustment of the retirement age to life expectancy, and thus supported the new options for early retirement. It is probable that in 2022, the issue will be at the core of the political debate.

Minimum income guarantees for the older persons in Denmark

As for minimum pension, the Danish system consists of the people's pension (*folkepension*), a basic scheme for those with forty years of residence. The scheme consists of two parts: a basic amount, and a supplement tested against household income (Table 4).

From 1994 the two components were indexed to wages and consist of the same amount. The two components are tested against employment income above a certain threshold. Since 2004 a supplementary pension benefit (which is taxed as income) has been added. This is a lump sum payment to recipients of the residence-based basic pension (*folkepension*) who have either low income or none at all (Figari, Matsaganis and Sutherland, 2008). However, the reform implemented in 2017 introduced measures to tighten eligibility criteria for the residence-based public pensions, disability and supplementary benefits, making entitlement conditional on a longer period of residence in the country (European Commission, 2021a). In 2019, the country created a pension fund to ensure that people temporarily or permanently not in employment build up a supplementary pension (European Commission, 2021a).

On top of minimum pensions, further protection for older persons is represented by the pensioners' housing benefit that often pays more than one-half of the rent. In addition, pensioners may receive means-tested heating support, health supplements, and discretionary personal supplements (Andersen, 2011; Ploug, 2012).

Poverty in old age in Denmark

Overall, public pensions in Denmark play a key role in securing a basic means of subsistence and, compared with other segments of the population, the country records low rates of older people at risk of poverty (European Commission, 2021b)

Whereas the Danish pension system scores well on poverty protection, it does less well on income maintenance. In fact, much emphasis is put on the universal public pension which, as we have discussed above, mostly aims at poverty protection. Instead, income maintenance is to be fulfilled by the occupational pension schemes, many of which were established in the early 1990s. However, the latter do not cover the self-employed and people in jobs not covered by collective agreements. These groups can compensate through individual private savings.

Low-income groups receive substantially more in public pensions and tend to have better replacement rates than high-income groups. This is a result of the income-testing of old-age pensions: the flat-rate part of the public pension (the basic amount) is only reduced for income from work above a significant amount, while the income-tested part (the supplementary benefit) is reduced for all kinds of taxable income above certain amounts and can only be claimed by people with modest or no income besides the public pension.

When judged by poverty-protection measures of adequacy, the performance of the Danish pension system appears more impressive. Thus, it manages to achieve poverty levels that are low by EU[8] standards and have even tended to reduce since the onset of the 2008 financial crisis. The at-risk-of-poverty-or-social-exclusion (AROPE) rate for older people was 10.0 per cent in 2019 (down 8.6 per centage points from

8) EU and EU-27 refer to the current 27 Member States of the European Union.

2008), and was slightly higher for women compared with men. The at-risk-of-poverty (AROP) rate was 9 per cent in 2018 (down 9.1 per centage points from 2008). However, these fluctuations are more likely to have been caused by changes in median incomes than in pensions. As for the severe material deprivation rate, it was 1.3 per cent in 2019, with no significant change from 2008. When looking at the situation of people aged 75 or over, the poverty risk in old age becomes more pronounced (AROPE rate of 15.3 per cent and AROP rate of 14.5 per cent in 2019). However, these values still remain below EU levels.

As for severe material deprivation, in 2019 only 1.3 per cent of older people reported they were materially deprived (one-fifth of the level in the EU). With regard to the gender gap in pensions, it decreased by 10.4 per centage points from 2008 to 2019. This is one of the smallest gaps in the EU.

The Danish response to challenges to adequacy has not been a reduction in benefits but an increase in the activity and employment rates of older workers. This has led to an increase in the effective retirement age. Beyond key measures such as restricted access to early retirement and the indexation of pensionable age to longevity, the possibilities for combining earned income with a public pension have also been markedly eased.

In general, public pensions in Denmark play an important role both in securing a basic means of subsistence and in redistributing income. The non-contributory national old-age pension secures a basic income for everybody irrespective of gender, health and labor market career. The only exception is people who have lived a considerable part of their life abroad (primarily immigrants/asylum-seekers). Because half of the public pension is income-tested there is a high degree of income redistribution from people with occupational and personal pension savings to people without. Moreover, self-employed workers and those in non-standard jobs receive a public pension on the same conditions as everybody else. This redistribution capacity is reflected by a relatively even income distribution within the retired group. Overall, relatively high public pensions help explain the low rates of older people at risk of poverty compared with other segments of the population. Public pensions also secure income maintenance for low-income groups.

3.2 Italy

The Italian pension system

The Italian pension system is a typical example of the social insurance, single-pillar model (Bismarckian type): the first pillar (public PAYG schemes) represents the major source of income for the elderly, while supplementary pension funds (second-pillar occupational schemes and third-pillar personal pensions) still cover a minor part of the workforce (about 34 per cent). Since the early 1990s, reforms have aimed at controlling public spending (with the replacement of Defined Benefit, DB, with Notional Defined Contribution, NDC, schemes in the statutory public PAYG pillar, and the progressive increase of the legal retirement age), while increasing the coverage of supplementary private funds.

Table 5. Italian pensions

	Pension system	Residence-based pension	Contributory minimum pension	Social assistance cash benefits for older people
Italy	Single-pillar (Bismarckian)	Citizenship pension (from age 67) *(Pensione di cittadinanza)* Means-tested benefit + housing benefit	Minimum pension supplement (for those retired before 2011 with a DB pension) (*Integrazione al trattamento minimo)*	Social allowance, from age 67 (and 10-year residence period) (*Assegno sociale*) Social increase to the minimum pension supplement (*Maggiorazione sociale*) Supplement from age 70 (or from age 60 with disability) (*Incremento al milione*)

Source: European Commission (2021a)

Since 1992, four waves of reform have implied changes along various dimensions (Jessoula and Raitano, 2016). In the first wave (1992-1997), the overall pension architecture was redesigned by launching the transition to a multi-pillar system – through the development of supplementary voluntary occupational (second-pillar) and personal-funded pension schemes (third-pillar) – and replacing DB with NDC schemes in the statutory public PAYG pillar. The second wave (2001-2007) mainly included fine-tuning measures and provisions in relation to supplementary pension coverage. In the third wave (2009–2011), reforms were aimed at reducing expenditure in the short term, and tightening eligibility conditions for retirement, by both substantially raising pensionable age and linking it with demographic changes. The latter measures were partly (and temporarily) reversed by the reforms of the fourth wave (2016-2019), which also strengthened the anti-poverty safety net.

The first pillar is based on basic pension guarantees and earnings-related schemes. Both the old-age social allowance (*assegno sociale*, formerly social pension) and the new citizenship pension (*pensione di cittadinanza*) constitute the first tier. They are anti-poverty, means-tested programs financed by general revenues, providing flat-rate social assistance benefits to poor older people as identified by national income-test thresholds (European Commission, 2021b).

PAYG schemes represent the main component of the public statutory pillar, covering 100 per cent of the employed population: private and public employees, the self-employed (including platform workers), and the so-called para-subordinate workers (*parasubordinati*, formally self-employed people who mostly work as employees through collaboration contracts).[9] While in the past these were all DB schemes, since the 1995 reform an NDC system applies to new entrants in the labor market after 1 January 1996. For workers with fewer than 18 years of contributions in 1995, the NDC system applies pro rata (i.e. for working years after 1995 only). Initially, the DB system remained in force for workers with at least 18 years of contributions in 1995, but the 2011 reform also applied the NDC system pro rata (i.e. for working years after 2011) to these previously exempted workers.

Contribution rates vary from 33 per cent of gross earnings for private and public employees[10] to 24 per cent for the self-employed. Para-subordinate workers pay the same contribution rate as employees – though in previous years they were subject to a much lower contribution rate (e.g. 10 per cent in 1996-1998, see Raitano, 2018). Eligibility conditions for old-age and early-retirement pensions, as well as the old-age social allowance, are automatically adjusted for changes in life expectancy, and they have been rapidly tightened in the last decade. While in 2010 the pensionable age was still 65/60 years for men/women respectively,

---

9) Only liberal professionals (e.g. lawyers, architects) are not enrolled in public second-tier schemes, since they are compulsorily covered by private pension funds for their respective categories.

10) Contributions were not levied on yearly gross earnings above EUR 103,055 in 2020.

in 2020 old-age pensions were paid to workers (both men and women) aged at least 67. A minimum contribution period of 20 years is required. Deferred retirement is possible (as well as being incentivized via actuarial calculations) up to the age of 71 years.[11] For workers fully included in the NDC system, a further condition applies: retirement before 71 years is allowed only in cases where the pension equals at least 1.5 times the old-age social allowance mentioned above – about EUR 650 per month (the ‘pension value threshold’).

More recently, between 2015 and 2019, problems of adequacy have become more evident. The new early retirement option was set up in 2017, as a consequence of the mounting contestation initiated by trade unions and some political parties (both left and right) over the 2011 reform. Firstly, a financial advance pension (*anticipo pensionistico*, APE) allows individuals to take out a loan from a financial institution backed by future pensions, provided they have reached age 63 with 20 years of contributions. In effect, this mechanism acts as an early-retirement scheme. The Reform (supported by the left-of-centre government headed by Matteo Renzi) also includes the 'social advance pension' (social APE), a separate early-retirement scheme targeting some vulnerable groups. The pensionable age for this scheme is fixed at 63 years with between 30 and 36 years of contributions.

The government listed a set of 'arduous and hazardous' jobs which allowed retirement with more favorable conditions. For these categories, the automatic link between life expectancy and the pensionable age is not applied. In the meanwhile, some far right-wing, left-wing and populist movements voiced their aim of dismantling the 2011 pension reform to lower the legal pensionable age. In 2019, the Di Maio-Salvini reform introduced several measures along the path opened by the 2016-2018 reforms. The two most important innovations were the early retirement scheme ‘quota 100 pension’ (*pensione quota 100*) and the ‘citizenship pension’ (*pensione di cittadinanza*). Introduced as a pilot measure for three years (2019-2021), the quota 100 pension makes it possible to retire before reaching both the legislated pensionable age (currently 67) and the contributory period for early retirement (42 years and 10 months for men, 41 years and 10 months for women), subject to fulfilment of a combined contributory (38 years minimum) and age (62 years minimum) requirement (38+62=100) (Natali, 2019).

11) Only five years of paid contributions are required at this age.

Minimum income guarantees for the older persons in Italy

The old-age social allowance (*assegno sociale*) constitutes the main redistributive component of the pension system. It is financed through general taxation and provides flat-rate, income-tested modest social assistance benefits (the yearly amount is EUR 5977).[12] Though important, this scheme is not able to actually lift beneficiaries out of poverty[13]and this affects pension adequacy.

While the old-age social allowance scheme was set up in 1995 to replace older schemes, the latter are still in operation for older cohorts of pensioners. These include the social pension and the supplement for contributory pensions under a certain threshold (*integrazione al minimo*). In 2020, about one million people had access to the social pension allowance, while less than three million were beneficiaries of the supplement for contributory pensions (Baldini et al, 2020).

The citizenship pension, introduced in 2019, should contribute to reducing the large proportion of low-income pensioners by providing a means-tested monthly benefit of EUR 630 – plus EUR 150 as housing benefit – for a single individual, resident in Italy for at least ten years, aged 67 and above, with an annual equivalized income below EUR 9360 (European Commission, 2021a). However, eligibility criteria are extremely stringent, and this has reduced the number of potential applicants (Natali, 2019).

In the last few years, the EU has often stressed the need to implement the cutbacks already passed and use the savings to promote other social policies that are underdeveloped in Italy. Within the framework of the European Semester, Country-Specific Recommendations (CSRs) in 2018 and 2019 were focused on the reduction of the share of old-age pensions in public spending to create space for other social spending (Guardiancich and Natali, 2021). In the meantime, the pension reform process has restarted as a consequence of the expected termination of the pilot initiatives of the Conte Government (the above-mentioned

---

12) EU citizens and lawfully resident third-country nationals are both entitled to benefits. For a single person, the income threshold to be eligible for the old-age social allowance is EUR 5824.91 per year. To be eligible, people must have been residing continuously in the country for at least 10 years.

13) The absolute poverty line calculated by ISTAT is EUR 780 per month for a single-member household in 2019.

Pensione quota 100) and the need to address some long-term challenges. The transitional phase of application of the so-called *Quota 100* will end at the end of 2021 and will be replaced by measures aimed at categories of persons with arduous work. The details, however, are all to be defined.[14)]

Another issue on the agenda is the need to increase turn-over in public administration, with possible consequences for pension policy. In March 2021, the Government and trade unions (CGIL, CISL and UIL) signed the 'Pact for the innovation of public work and social cohesion', an agreement that consists of six articles: contract renewals for the three-year period 2019-2021; online work; revision of professional classification systems; staff training; trade union participation systems; and occupational welfare. The Pact marks the first collaboration between the Draghi government and the trade unions to give a boost to the reform of public administration. The government has declared the intention to allow for earlier retirement in the public sector, while speeding up the process for hiring new generations of employees with skills to address the challenges the country will face in the near future – above all the technological transition. Italian policymakers have clearly linked these priorities with the need to help the effective implementation of the National Recovery and Resilience Plan in the context of the EU Recovery Plan adopted in December 2020 to boost the recovery in response to the Covid-19 pandemic.

Poverty in old age in Italy

On average, Italy has high pension expenditure that ensures a high level of income maintenance in old age. In 2019, the ratio between the median disposable income of older people and that of those aged 18-64 was 101 per cent, against 90 per cent in the EU. The aggregate replacement ratio (ARR) was also significantly higher in Italy (73 per cent) than in the EU (57 per cent) (European Commission, 2021b).

---

14) Among the hypotheses proposed in the debate, the so-called Quota 102 for earlier retirement would require 64 years of age (indexed to life expectancy) and 38 years of contributions, of which no more than 2 figurative years (excluded from the calculation of maternity, military service, voluntary redemptions). Trade unions have tried to re-launch the hypothesis of Quota 41 with the possibility of retirement once you reach 41 years of contributions for all types of jobs. The trade unions also propose – in order not to return to the Fornero Law as it is – the flexible retirement age.

Yet, despite the high level of public spending, there are persistent problems concerning pension adequacy and inequalities. The first problem has to do with the replacement ratio for women. Although in 2019 the ARRs for both men and women were above the EU average, there was an 18 p.p. gap between men and women, compared with a 5 p.p. gap only in the EU. This is consistent with the level of the gender gap in pension income.

Moreover, the pension system design provides modest protection against poverty. Although in Italy older people are better off compared with their younger counterparts, in 2019 the AROPE rate (19.8 per cent) was above the EU average (18.5 per cent). The weaker condition of older women with regard to poverty is also evident, with the AROPE equalling 22.8 per cent (vs 16.1 per cent of men). Furthermore, as for the severe material deprivation (SMD) rate, the situation has been deteriorating since the sovereign debt crisis: in 2019, the SMD rate was 6.7 per cent compared with 4.8 per cent in the EU.[15)]

Analysis of the variation between 2008 and 2019 allows us to grasp the overall efficacy of the Italian pension system in ensuring economic security in old age. In fact, on the one hand, statutory pensions have become more effective in improving retirees' income conditions compared with younger people – the relative median income ratio has actually increased from 89 per cent (2008) to 101 per cent (2019). This is consistent with at least two parallel developments in the last decade: first, the limited growth of wages and severe increase of poverty as a result of the prolonged great recession phase (2008-2014) in Italy; and the increase in pension levels due to the maturation of DB schemes for the self-employed and those with longer working lives.

15) AROPE levels are higher for those aged 75 and over (21 per cent) than for those aged 65 and over (20.2 per cent), and the same holds true for SMD figures – 7.6 per cent (75+) vs 7.2 per cent (65+), with particularly high levels for women (8.5 per cent and 7.7 per cent respectively) – demonstrating an overall improvement in retirees' income conditions.

3.3 Slovenia

The Slovenian pension system

The Slovenian pension system is a single-pillar, social insurance system with Bismarckian roots. The first pillar is a PAYG one. It is uniform, and mandatory for all employed people and other people generating income from employment or other gainful activity (Table 6 below). Thus, the self-employed are also insured against all risks and pay a joint contribution rate of 24.35 per cent from their assessed income. Most of the non-standard work contracts are covered by social security insurance, and the same or similar contribution rates apply for workers on permanent full-time employment contracts. Also, non-working people may join the system on a voluntary basis and supplementary pension schemes are present. The latter consist of mandatory schemes for public employees and those employed in hazardous or arduous occupations, as well as various collective voluntary schemes organized by employers. They cover 58 per cent of all employees.

Table 6. Slovenian Pensions

	Pension system	Residence-based pension	Contributory minimum pension	Social assistance cash benefits for older people
Slovenia	Single-pillar (Bismarckian)		Minimum pension (*Najnižja pokojnina*)	Supplementary allowance (income supplement), from age 63 (women) or 65 (men) (*Varstveni dodatek*)

Source: European Commission (2021a)

The first Pension and Disability Insurance Act was adopted in the Republic of Slovenia in 1992. In this Act, length of employment was not sufficient for retirement; the criterion of age also had to be met: 55.5 years for men and 50.5 years for women. The basic pension was set at 85 per cent of the salaries received by the retired person in his/her period of active employment (Motoh, 2021).

The pension system was amended in 2000, and then again in 2013. The New Pension and Disability Insurance Act (ZPIZ-1) increased the retirement age to 58. The basic pension was set at 72.5 per cent of the average salary, calculated after 18 years of contributions (raised from the previous 10). The 2000 reform also established a three-pillar system of pension funds, with voluntary second-pillar (collective) and third -pillar (individual) schemes. The New Pension and Disability Insurance Act (ZPIZ-2) of 2013 shaped the pension system in line with three pillars still, while aiming to increase the effective retirement age. The legislated pensionable age was gradually equalized at 65 years, from 63 years for men and 61 years for women in 2012. Since 2013, the minimum age requirement for early retirement has risen from 58 years to 60 years. Deductions for early retirement amount to 0.3 per cent per month for retirement prior to the age of 65. The accrual rates for later retirement were increased from 1.36 per cent for women and 1.28 per cent (in the year 2021) for men to 3 per cent per additional year for up to three years. A deferred pension is thus allowed and is not limited in time.

Minimum income guarantees for the older persons in Slovenia

As well as in the other countries under scrutiny, efforts to increase the long-term financial sustainability of the pension system were pursued in parallel with the attempt to improve poverty prevention. In Slovenia, the minimum pension – a typical contributory minimum pension – is provided through the minimum pension assessment base that is fixed at 76.5 per cent of the national average net salary. The minimum pension is calculated on the base of 40 years of contributions (qualifying period). From 1 October 2017, the more recent Act Amending the Pension and Disability Insurance increased the guaranteed old-age and disability pension to EUR 500 per month for pensioners meeting full retirement conditions (European Commission, 2021b).[16] This increase ensures that pensioners receive basic social security, at least to the extent that they no longer have to apply for the income supplement to increase their income above their (current) pension level (see below). Majcen (2017) estimated that 46 per cent of all pensioners with a pension between €400-500 would benefit from the increase in the minimum pension. The 'income supplement' benefit is for those with a 40-year pension qualifying period. It tops up cash social assistance by providing resources to cover living costs that arise over longer periods of time, such as maintaining/repairing the dwelling or replacing durables.

16) The amendment is estimated to have increased pension expenditure to €3.3 million in 2017 and €13.3 million in 2018 (Majcen, 2017).

Poverty in old age in Slovenia

Compared with the EU average, the Slovenian pension system produces lower ARRs (43 compared with 57 per cent)[17] and lower median relative incomes (83 compared with 90 per cent). The Slovenian AROPE rate for older people is higher than the EU average. This is due to especially high rates for women in Slovenia. The proportion of older people in Slovenia experiencing severe material deprivation is close to the EU average. This reflects an overall high material standard of living in Slovenia, particularly compared with eastern European EU Member States. A relatively high material standard of living of older people in Slovenia is additionally confirmed by the average share living in overcrowded households (3.9 per cent in Slovenia compared with 4.8 per cent in the EU), and a much lower housing cost overburden rate (4.9 per cent in Slovenia compared with 10 per cent in the EU).

Between 2008 and 2019, the incomes of older people relative to the rest of the population increased only slightly. This was mainly due to the impact of the economic crisis on the earnings of working-age people; as a result, the effect of the pension indexation freeze (one of the financial consolidation measures) and revisions in social assistance benefits were relatively mitigated. As for the AROP rate, it decreased by 2.7 and 3.6 p.p. for the age groups 65+ and 75+, respectively, mainly due to a decreased AROP for women. The improvement in SMD (Severe Material Deprivation) for both genders may be explained by changes in the demography of pensioners as well as a higher share of 'old-age pensioners' (i.e. people receiving an old-age pension) among all pensioners (who include people receiving a disability pension or a survival pension).

As for the self-employed and non-standard workers, the adequacy of their pensions constitutes a serious problem in particular.[18] In fact, relatively short

17) As the Slovenian pensions are virtually exempt from personal income tax and payment of social security contributions, the aggregate gross replacement ratio has to be interpreted with caution. The net aggregate replacement ratio would, therefore, be a much better indicator.

18) The minimum insurance base for the self-employed was EUR 870 in 2016, while the average insurance base from which they paid their social security contributions was EUR 1,074. Furthermore, most self-insured pay the lowest employed minimum contribution. It is evident from the comparison with the average Slovenian gross salary of the same year, EUR 1,558, that the self-employed will, on average, gain substantially lower pensions than those with an employment contract.

insurance periods have negative consequences for the long-term social security of workers on fixed-term contracts. If unable to earn a decent pension, they will live in poverty in their old age. However, some revisions based on the ‘all work counts’ principle have increased social security for non-standard workers. For example, for workers on civil contracts and students performing student work, the future total pension insurance period has been increased, which will result in higher pensions.

3.4 The UK

The UK pension system

The UK has a multi-pillar system combining one of the least generous state systems in the 'developed world’ with one of the ‘most developed’ voluntary arrangements (see Schulze and Moran, 2007). The *first pillar* provides mandatory public basic pensions. Benefits are flat-rate, low-level, financed by social contributions known as National Insurance, and managed by the state. People who earn below a certain minimum do not pay into (or contribute to) National Insurance; above that minimum, people contribute directly. In that respect, the first programme (*Basic State Pension*) is flat-rate and means-tested. Basic benefits, moreover, are not related to retirement: they can be received even if the insured individual is still active. The main goal of the first pillar is thus to prevent poverty among older persons through low benefits.

Up to 2016, further pillars were based on the so-called *‘contracting-out’* method (already introduced in the 1950s). Employees had the possibility to choose the pension scheme into which they pay social contributions. Up to the recent reforms, it could be public or private: the former is administered by the state and is of a PAYG type. The latter may consist of occupational funds organized at the company level or individual funds managed by private insurance companies. Private (occupational or individual) pension schemes are fully-funded and increasingly of a DC type. The benefit level is the consequence of contributions paid, with no major re-distributive effects. Thanks to important fiscal incentives and public subsidies, private schemes are very common (especially the occupational ones).

Table 7. UK Pensions

	Pension system	Residence-based pension	Contributory minimum pension	Social assistance cash benefits for older people
United Kingdom	Multi-pillar (Beveridgean)		State pension	State pension credit – guarantee credit, from age 63 Universal winter fuel payment, the Christmas bonus(£10) exemption from prescription charges, as well as assistance from local authorities in the form of housing benefit, council tax support and the provision of free bus passes

Source: European Commission (2018)

Reforms in the last years have changed the pension system considerably. A contributory Basic State Pension (BSP) for those reaching state pension age before 6 April 2016 and a New State Pension (NSP) for those reaching state pension age thereafter were introduced. With the introduction of the NSP, people are no longer able to accrue qualifying years to an additional state pension while working prior to state pension age. Earnings-related pensions are in most cases private pension arrangements that are not provided as part of the state benefit system. They fall into two broad types: occupational pension schemes (pensions set up by an employer for employees) and personal pensions (individual retirement plans possibly facilitated by the employer).

Minimum income guarantees for the elderly in the UK

Britain's recent pension reforms were inspired by the findings of the Pensions Commission (Turner), whose reports (2004, 2005) reviewed the demographic challenge and its consequences (see Whiteside, 2016). Several key problems were identified. Firstly, UK pensions are too complex, making it hard for citizens to plan retirement. Secondly, the BSP is too low. Thirdly, too few people are covered by supplementary pensions, whether DB or DC, and the residual state second pension creates further administrative complexity and does not offer value for money.

The New State Pension (NSP), introduced in April 2016, is a contributory pension in the sense that the final amount of NSP paid to an individual depends on the number of contributions made (or credited) before reaching State Pension age (SPa) (PPI, 2021). The NSP is a flat rate pension payable once an individual reaches SPa. Subject to having made the same number of contributions, individuals will receive the same level of benefit, irrespective of the size of their contributions. An individual pensioner with a complete contribution record of 35 years or more is eligible at their SPa to receive the full NSP of £179.60 a week (2021/22). There are 28 activities that can qualify someone for the State Pension without their having to pay contributions. Credit will be given if, for instance, an individual is entitled to Statutory Sick Pay or Statutory Maternity, Paternity or Adoption Pay, Jobseekers' Allowance, Employment and Support Allowance, or Carer’s Allowance. Contribution rules are complex; there are a number of ways in which contributions can be made or credited. For example, individuals who are self-employed pay a different level than individuals who are employed, and people can make voluntary contributions to fill gaps in their contribution record up to a certain level (6 years) though this can be different for different age. For people reaching SPa on or after 6 April 2016, 35 years of contributions are necessary to qualify for a full New State Pension. A minimum of 10 qualifying years are necessary to get any NSP (ibidem).

In addition to the State Pension, there are several means-tested benefits that pensioners may be eligible for, depending on their circumstances. Pension Credit is the main means-tested benefit. It consists of the Guarantee Credit (GC) currently paid to those aged 66 and above. People (or households) become eligible for GC if other sources of income do not reach a certain level. If claimed, Guarantee Credit provides a safety net of a minimum level of income. Its effect is highly redistributive: the benefit is paid from taxes that are related to income and only paid to those on low income. GC entitlement can be higher for disabled people, people with caring responsibilities or people with a mortgage.

Further means-tested benefits are available to old-age people in the UK. Housing Benefit and Council Tax Reduction are means-tested benefits available to both pensioners and people under the pensionable age, though working-age people will receive support for housing costs from Universal Credit if they are new claimants. Although they are not part of the first tier of pension provision in the UK, they are included here because they are important benefits that make up a retirement income for many older people.

Housing Benefit (HB) is paid to people on low incomes who rent their homes. There is no set amount a person may receive, though there are caps on different household types. HB is designed to help with housing costs, including rent and some accommodation-related service charges, and is paid to renters who claim the benefit once they have been assessed as being eligible. Not everybody that is eligible claims Housing Benefit. Official estimates show that, in 2018/19, 14 per cent of around 1.4m pensioner households who were eligible did not take up their benefit. A further benefit is represented by the Council Tax Reduction (CTR): it is a rebate scheme to provide help with up to 100 per cent of an individual's Council Tax. Local councils design their own scheme. In 2009/10 between 31 and 38 per cent of pensioner households who were eligible did not take up their benefit. Pensioners receive other, non-pension benefits that could be considered as part of the first tier of provision: benefits individually assessed for specific purposes, for example, Attendance Allowance; universal benefits for all or most people at a certain age, for example, free TV licenses (only for those over 75 years old in receipt of Pension Credit from August 2020) and Winter Fuel Payments (Finn and Goodship, 2014).

Poverty in old age in the UK

The number of older people at risk of poverty (AROP) declined significantly after 1998/1999, and again after 2007/2008, but there has been a slight rise in the most recent period. There remains a gender gap – in 2015/2016, the AROP rate for the 65+ group was 14.4 per cent for men and 19.4 per cent for women. The AROP rate also varies with age – it is 17.1 per cent for the 65+ group and 21.4 per cent for the 75+ group. The per centage of pensioners aged 65 and over in severe material deprivation according to Eurostat is 1.2 per cent (almost identical to that observed in 2008); the proportion living in material and social deprivation is about three times higher (3.2 per cent) (European Commission, 2018).

The most debated issue in UK for the future adequacy of pension benefits is about indexation. For the BSP and the NSP, there is a statutory requirement to index at least in line with earnings. The legislative requirement is that the standard minimum guarantee in Pension Credit is increased at least in line with earnings. However, in recent years where this would have meant that the increase in the standard minimum guarantee would be less than the cash increase in the full rate of the BSP, there has been an above-indexation increase to meet that cash value increase in the BSP.

The OECD report Preventing Ageing Unequally (OECD, 2017) highlighted three main challenges for the future adequacy of UK pensions. Firstly, lower-educated 50-64-year-olds are much less likely to be in work, especially women. Secondly, bad health and obesity are major reasons why people leave the labor market early. Thirdly, many older people with long-term care needs have to pay high costs.

A further problem is related to the non-take-up of Pension Credit. Non-take-up is an enduring problem of means-tested benefits. Much effort was made to increase the take-up of PC after it began in 2001, with varying degrees of success. The latest estimates are that nearly two-fifths (39 per cent) of those eligible are failing to claim. As stressed by Finn and Goodship (2014), among the reasons for this limited use of minimum protection are: the complexity of the design, eligibility for, and objectives of, the individual benefits; the limited administrative capacities of the delivery agencies; and the attitudes, circumstances and cultures of different claimant groups (e.g. perceived stigma).

SECTION 4. COMPARATIVE ANALYSIS OF MINIMUM PENSION IN EUROPE

This concluding section provides some initial evidence from the comparative analysis of the four countries under scrutiny. We largely refer to the secondary literature that has shed light on the recent evolution of minimum income schemes for older persons across Europe (see Ebbinghaus, 2020). In what follows, we first refer to policy outputs: the design of the four pension systems (Denmark, Italy, Slovenia, UK) analysed above. Then we focus on the outcomes of these pension systems, their capacity to alleviate poverty and deprivation in older age.

In terms of policy outputs, public pensions differ in terms of their institutional design (Goedemé, 2013; Goedemé and Marchal, 2016): Beveridgean basic pensions provide flat-rate benefits to all residents (based on contribution years or residence period) with some means-tested targeted benefits and social allowances, whereas Bismarckian pensions often provide a minimum social pension (for those with enough contribution years) or rely on targeted welfare, be it income-tested guaranteed benefits or means-tested social assistance. For a minimum pension (or social pension, if existent), the number of required contributory years is relevant. This might be particularly problematic for women with very few working years (due to care-related breaks), the long-term unemployed, and first-generation migrants who arrived late in their career in their host country. This is confirmed by the four countries under scrutiny: Denmark and the UK provide minimum income guarantees that in principle should cover a large part of the population. Italy and Slovenia base their strategy on contributory minimum pensions.

Secondly, all the countries have a broad set of policy measures that mix minimum pension schemes with means-tested social assistance programs (Table 8 below). All the countries under scrutiny have increased the complexity of minimum protection for older persons, through a combination of contributory and non-contributory schemes, basic and means-tested benefits, social allowances, etc. This complexity is often used to reach different target groups and different profiles at risk of poverty and exclusion. Yet the same complexity is referred to as a challenge for the adequacy of the pension systems. Complex institutions may lead to disincentives to ask for protection (see the UK) and/or may have unintended consequences (e.g. in terms of redistribution of resources across groups; see Italy). On top of this, while the present study refers only to monetary transfers, it is important to look at social services. The latter play a key role in alleviating poverty risks, and may alter the pension system's capacity to eradicate forms of social exclusion among older persons.

Thirdly, universal minimum protection in old age is increasingly being replaced by means-tested schemes. Even Nordic countries – Denmark in our sample – have progressively abandoned pure universal protection in favor of more complex systems where means tests are diffused. The latter are seen by policymakers to have key advantages: they cost less than universal schemes (more meagre budget) and they are more focused on the target. Yet – as outlined by the literature – means testing may be extremely difficult to manage from an administrative point of view, and increase management costs. What is more, it can generate stigma for potential beneficiaries. The UK provides ample evidence of this.

Table 8. Pensions and old age poverty in the four countries under examination

	Minimum income benefits	**Protection level (coverage rate x benefit level as a % of average wage)**	**Expenditure on pensions (% GDP, 2018)**	**AROPE (2019)**	**AROP (2019)**	**SMD (2019)**
Denmark	Residence-based pension Social assistance cash benefits for older people	Basic (17%), target (88×18%)	12.3%	10.0%	9%	1.3%
Italy	Contributory minimum pension Social assistance cash benefits for older people	Min. (32×19%), target (22%)	15.8%	19.8%	16.2%	6.7%
Slovenia	Contributory minimum pension Social assistance cash benefits for older people	Target (17×31%), min. (2×13%)	9.8%	20.5%	18.6%	3.9%
United Kingdom	Residence-based pension Social assistance cash benefits for older people	Basic (16%), target (27×20%), min. (10%)	11.0%	18.0%	17.1%	1.2%

Source: European Commission, 2018, 2021a, 2021b; Eurostat

Notes: AROPE=At-risk-of-poverty or social exclusion, 65+ (%).

AROP=At-risk-of-poverty rate, 65+ (%).

SMD=Severe material deprivation, 65+ (%).

AROPE, AROP and SMD for the United Kingdom refer to 2016.

Expenditure on pensions includes disability pension, early retirement due to reduced capacity to work, old-age pension, anticipated old-age pension, partial pension, survivors' pension and early retirement for labor market reasons.

As for the outcomes of minimum income schemes for older persons, their capacity to address poverty risks depends on some key factors. Firstly, it depends on the coverage of these schemes and the benefit level. In Beveridgean systems with basic pensions, the benefit level (% average earnings) is important to reduce poverty risks: British (16 per cent) and Danish (17 per cent) pensions are particularly low (see Table 8, based on EU and OECD data). In many cases, income-tested guarantees or means-tested targeted benefits are needed to lift people out of severe poverty: 17 per cent of British pensioners receive such targeted benefits (35 per cent of average earnings) and nearly 88 per cent of Danish pensioners (18 per cent of average earnings).

But the adequacy of minimum income protection for older persons also depends on coverage. The Danish case is characterized by a low level of poverty (according to OECD and EU standards), with quasi-universal coverage by minimum income schemes for older persons and a key role played by means testing. The UK has a medium level of poverty that is associated with lower levels of coverage of minimum income schemes (compared to Denmark). Here a peculiar problem is the low take-up ratio. As stressed above, this low level is shaped by institutional complexity; low administrative capacities; and the perceived stigma of demanding support. Bismarckian countries, such as in Southern and Eastern Europe, have minimum pensions in addition to targeted ones. Among Southern European countries, these are particularly widespread in Greece and Portugal, while only one-third of Italian pensioners receive these minimum pensions (34 per cent). Poverty is also only at a medium level. Slovenia has medium levels of poverty, with low coverage of minimum income schemes for older persons.

If we compare policy input (level of public spending), output (type of income guarantee schemes) and outcome (poverty rates), it seems that Beveridgean systems perform better in poverty alleviation than Bismarckian schemes. Denmark performs particularly well, while Italy has a mix of high spending and medium poverty rates. Broad and transversal issues that affect all the countries, irrespective of the type of minimum income scheme, are about institutional complexity, that tends to make the analysis and the administration of minimum income protection of the elderly difficult and ineffective; problems of take-up; specific sources of poverty risks that tend to increase and need further protection (e.g. women; migrant workers; non-standard employment contracts; the grey economy). Effective protection is loosely correlated with the level of pension spending. Evidence collected throughout the paper shows that the design of minimum protection is as important as the level of monetary transfers. Italy, for instance, is a big pension spender, but both poverty rates and inequality are high (much higher than in Denmark). The latter spend much less than Italy on pensions.

The European cases at the core of this comparative analysis show the increased importance of minimum income protection in old age. This is the effect of cost-containment, the progressive ageing of the population, and persistent, if not growing, inequalities in the labor market. In Europe minimum income protection for older persons will probably stay at the top of the agenda for many years.

REFERENCES

Andersen J. G. (2011), Denmark: The Silent Revolution Towards a Multipillar Pension System. In B. Ebbinghaus (ed.). *In The Varieties of Pension Governance: Pension Privatization in Europe* (pp. 183-209). Oxford University Press.

Baldini, M., Mazzaferro, C., & Stefano, T. (2019). La Pensione Di Cittadinanza. Un'occasione Persa?.

Bonoli, G. (2003). Two Worlds of Pension Reform in Western Europe. *Comparative Politics, 35*(4) 399-416.

De la Porte, C., & Natali, D. (2014). Altered Europeanisation of Pension Reform in the Context of the Great Recession: Denmark and Italy Compared. *West European Politics, 37*(4), 732-749.

Ebbinghaus, B. (2020). Multiple Hidden Risks for Older People: The Looming Pension Crisis Following this Pandemic. *Journal of European Social Policy Blog, 30.*

European Commission. (2018). *Pension Adequacy Report: Current and Future Income Adequacy in Old Age in the EU. Volume 1*. Luxembourg: Publications Office of the European Union.

European Commission. (2021a). *Pension Adequacy Report: Current and Future Income Adequacy in Old Age in the EU. Volume 1*. Luxembourg: Publications Office of the European Union.

European Commission. (2021b). *Pension Adequacy Report: Current and Future Income Adequacy in Old Age in the EU. Volume 2*. Luxembourg: Publications Office of the European Union.

Figari, F., Matsaganis, M., & Sutherland, H. (2008). The Effect of Minimum Pension Schemes and Recent Reforms to Them on the Financial Well-Being of Older People. *ISER-University of Essex, Athens University of Economics and Business.*

Finn, D., & Goodship, J. (2014). Take-up of Benefits and Poverty: an Evidence and Policy Review. *JRF/CESI Report.*

Goedemé, T. (2013). Minimum Income Protection for Europe’s Elderly: What and How Much has been Guaranteed during the 2000s?. *In Minimum Income Protection in Flux* (pp. 108-136). Palgrave Macmillan, London.

Goedemé, T., & Marchal, S. (2016). Exploring a Blind Spot in Comparative Pension Reform Research: Long-term Trends in Non-Contributory Pensions in Europe. *International Journal of Social Welfare, 25*(2), 161-175.

Guardiancich, I. (2016). *Don't Fix What Ain't Broke. Options for Kosovo – Reform of Pensions Systems in Transition Countries.* Kosovar Stability Initiative. 10.13140/RG.2.2.19442.09926

Guardiancich, I., & Natali, D. (2021). German and Italian Pensions: Similar Roots, Different Reform Paths, Comparable Trajectories?. *German Politics,* 1-19.

Hinrichs, K., & Jessoula, M. (Eds.). (2012). *Labour Market Flexibility and Pension Reforms: Flexible Today, Secure Tomorrow?.* Springer.

Jessoula, M., & Raitano, M. (2017). Italian Pensions from “Vices” to Challenges: Assessing Actuarial Multi-Pillarization Twenty Years on.

Korpi, W., & Palme, J. (1998). The Paradox of Redistribution and Strategies for Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries. *American Sociological Review*, *63*(5), 661-687.

Kvist, J. (2019). *Early Retirement for Worn-out Workers: A Major Election Topic in Denmark.* Brussels: European Commission.

Marx, I., Salanauskaite, L., & Verbist, G. (2013). *The Paradox of Redistribution Revisited: And that it May Rest in Peace?.* Schanburg: Institute of Labor Economics.

Majcen, B. (2017). *Slovenia Increases Minimum Old-Age and Disability Pension.* Brussels: European Commission.

Motoh, E. (2021). Slovenia Social Briefing: Pension System in Slovenia.

China-CEE Institute, Weekly briefing, 41(3).

Natali, D. (2019). Pensione di Cittadinanza, Quota 100 e tagli alle pensioni d'oro: come cambiano le politiche pensionistiche. In E. Innocenti, E. Rossi, and E. Vivaldi. (eds.), *Quale reddito di cittadinanza? Criticità e prospettive delle politiche di contrasto alla povertà*. Bologna: Il Mulino, 199–218.

Natali, D., & Terlizzi, A. (2021). The Impact of Covid-19 on the Future of Pensions in the EU. *ETUC SociAll Project 2018/08 Thematic Report,* 44-57.

OECD. (2017). *Preventing Ageing Unequally.* Paris: OECD.

Ploug, N. (2012). The Danish Flexicurity Model and Old Age Protection. *In Labour Market Flexibility and Pension Reforms* (pp. 182-202). Palgrave Macmillan, London. https://doi.org/10.1057/9780230307605_7

Pension Policy Institute. (2021). *The Pensions Primer: A Guide to the UK Pension System.* London: Pension Policy Institute.

Raitano M. (2018). Italy: Para-subordinate workers and their social protection, in OECD (eds.), *The Future of Social Protection: What works for non-standard workers?* (pp. 145–170). OECD Publishing, Paris. https://doi.org/10.1787/9789264306943-en

Schulze, I., & Moran, M. (2007). United Kingdom: Pension Politics in an Adversarial System. In E. M. Immergut (Ed.), *The Handbook of West European Pension Politics* (pp. 49–96). Oxford Univ. Press. https://madoc.bib.uni-mannheim.de/21158/

Whiteside, N. (2017). Britain's Pension Reforms: A New Departure?. *The New Pension Mix in Europe, Brussels: PIE Lang,* 177-200.

2021 Policy Research Paper

A Comparative Study of ASEM Partners' Pension Policy

First Pulished 2021

ASEM Global Ageing Center
03188 13th Floor of Seoul Global Center Building, 38, Jong-ro, Jongno-gu, Seoul, Republic of Korea
TEL. 02-6263-9800
FAX. 02-6263-9808
Homepage. www.asemgac.org

NEMOLAB
TEL. 02-2633-1308
FAX. 02-6442-2015

ISBN: 979-11-977595-0-5 90330

ISBN 979-11-977595-0-5

ASEM Global Ageing Center

03188 13th Floor of Seoul Global Center Building, 38, Jong-ro, Jongno-gu, Seoul, Republic of Korea ASEM Global Ageing Center
TEL. 02-6263-9800 FAX. 02-6263-9808 www.asemgac.org