

## **Preliminary draft**

Statement by Sergei Zelenev, Division for Social Policy and Development, UN/DESA at the panel discussion at the Second Regional Intergovernmental Conference on Ageing

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Ladies and gentlemen,

It is a pleasure and a privilege for me to address this distinguished panel on social security and old age employment. The issues of social security and social protection were extensively highlighted in the Madrid International Plan of Action and needless to say, they remain firmly on the national agendas of the ECLAC countries. Income security provided through various means plays an important, perhaps vital role in society and is part of a foundation of economic prosperity and social cohesion.

Since Madrid, the number of older persons worldwide continues to grow and issues of social protection and pensions and access to health care have become very prominent in public policy discussions everywhere, and no longer only in developed countries. Income security measures have come to the fore in the ECLAC region more recently, despite a long tradition of social security in the region which in some countries dates back to the beginning of the 20<sup>th</sup> century. One of the reasons of this renewed attention is that economic reforms undertaken during the 90s have largely missed the income security requirements of older persons. It has become clear, however, that relying solely on traditional family support in old age is becoming less realistic and even risky given the changing family structures and changing living arrangements of older persons around the world. So the insecurity of older persons has actually increased. It is a fact of life that in many countries where the pension coverage does exist, rarely are pensions indexed to inflation while the coverage is low. Under such circumstances, the low level of pensions becomes inadequate to cover even the immediate needs of the retirees. Particularly affected are those who live alone as well as older women who maybe automatically condemned to an old age spent in poverty. All these are complex issues where moral and

financial dimensions are closely interwoven, and where solidarity considerations cannot be overlooked and neither can issues of financial sustainability.

In many countries Governments do take measures to develop social protection schemes and improve insurance coverage. When financially possible, non-contributory benefits or social pensions are extended to older persons. Since a very substantial share (approximately 80 per cent of older persons in developing countries) lack adequate income security, the development of schemes that complement traditional forms of security in old age that are provided by family or community becomes more urgent than ever.

Of course, financial sustainability, as well as insurance coverage, provision of social pensions and non-contributory schemes, very much depends on country circumstances. Many countries are facing budgetary constraints and would like to avoid excessive costs and moral hazards of such schemes, but at the same time they cannot also disregard the plight of millions of older persons without adequate income who would be condemned to poverty and destitution without appropriate government action to provide income support.

Dialogue at all levels on the feasibility and benefits of expanding social protection schemes continues in most countries in the region and arguments in favor of such expenditures have gained more attention and support. It is obvious that along with access to health care income support constitutes an important pillar of anti poverty measures. In the face of relatively small public budgets as well as a range of competing national priorities, governments are considering various instruments that can improve the well being of young and older generations, bringing intergenerational perspectives into their considerations, rather than focusing on one particular socio-demographic group. Importantly, more and more often, social protection is seen as an investment in a country's economic future as well as the cost effective way of fighting poverty. I am not even talking about some ethical and moral dimensions of this discourse which are also obvious.

The transformations that took place in the labour market have also affected social protection regimes. It is well known that in the ECLAC region, fully funded pension funds have engaged mostly salaried workers. But one cannot ignore the plight of millions who are in the informal sector. People there are completely uninsured while the workforce there accounts for approximately 47 per cent of the labour force in the region. There is evidence that even traditional social insurance schemes for civil servants and other salaried workers that are pay-as-you-go and administered by governments, are being negatively impacted by the increase in the dependency rate and out-migration from the region. Migration plays a pretty controversial role and is reducing contributions from active workers who are seeking higher relative salaries in jobs abroad. Out-migration is further accelerating the increase in dependency rates of pay-as-you-go systems. In this context, one of the options for governments is to explore the portability of pension schemes among migrant workers and the feasibility of creating life-insured mechanisms and other forms of long-term savings for retirement that could be paid directly through remittances.

Social security in broad terms is definitely a human right and the Universal Declaration of Human Rights of 1948 addressed it as such (article 22). However, social security and social protection schemes have socio-economic functions as well, and also could be seen as a necessity to an efficient market economy, bringing social stability, economic development and social cohesion. That is why the ILO global campaign for social security coverage, which includes the development of a system of basic universal pensions for old age, is one of the salutary initiatives since Madrid. It is encouraging that the number of bilateral agencies and donor organizations supporting the use of social insurance as a development tool has been growing.

While recent public debates have been centered on provision of income support and care to older persons and the quest for the best arrangements in these areas, older persons should not be seen only as dependent and passive care receivers. They play an important role within their families and communities, providing vital care to younger generations as

well as other dependents including older persons themselves. Older people continue to participate actively in family dynamics and in sharing generational responsibilities as well as providing support. Understanding these dynamics, as well as the needs and resources of individuals, families and communities may be crucial for prudent design of ageing policies taking intergenerational dimensions into account.

One has to admit that there is widespread global inequality in the availability of and access to social protection in old age. Contrary to developed countries, particularly in the European Union area, many developing countries do not provide social protection for all of those reaching a statutory retirement age and fall far-short of universal coverage. Unfortunately, during the 90s many large scale cutbacks in benefits or even the dismantling of public programmes became prevalent in many countries. Efforts to introduce reforms and adjustments to pension and healthcare problems are understandable since they are geared at achieving financial stability and ensuring that programmes continue to deliver to future generations. But those efforts should be taken in conjunction with broader considerations, and the need to reduce vulnerability should not be overlooked.

Another important issue of our discussion today is the issue of older workers and changing labour markets. It is a known fact that ageing of the population has major implications for the labour force and the status of older workers. In many countries, a tendency to encourage all the workers to leave the labour force through early retirement has been reversed and steps have been taken to discourage early retirement and to motivate people to work longer. Concerns of pension liabilities, and very substantial old age dependency ratios, impending skills gaps and potential labour force shortages have created a momentum towards the elimination of a mandatory retirement age and the extension of the number of working years. Around the world, there is a push for labour market reform and efforts to increase the number of older workers, along with promoting their employability. These efforts are more pronounced in some regions in comparison to others. In the European region for example, the prime concern is to reverse the trend toward early retirement and to introduce more flexible programmes geared at managing

the ageing labour force. This issue, however continues to be quite contentious. There is no one-size fits-all approach here and increasing the retirement age should be undertaken only gradually when workers can have adjust to it and still have an option of early retirement with discounted benefits.

Latin America and the Caribbean region faces a lot of difficult options in the context of the present pension discourse. While there are efficiency gains in the fully private pension system, this system has high transaction costs. Another consideration is that after the privatization drive in the 90s, the extent of coverage has not expanded and the number of workers covered under the pension or healthcare schemes has not increased. It is very troubling that according to some estimates more than 50 per cent of the labour force lacks any coverage at all and when people retire they do not have pensions. Any serious illness under such circumstances becomes not only a health hazard but also a financial disaster.

The Madrid Plan of Action provided an important inspiration for numerous policy reforms, promoting a more harmonious relationship between development and demographic change. Making social protection, including retirement income support, work effectively for all older persons remains a challenge but it could be also seen as an imperative. While cost consideration may be very important in the context of social protection in general, and social protection of older persons in particular, these financial considerations cannot be viewed in isolation and taken into account without discussing the social cost to society in the absence of such programs. In a wider policy discourse when options of social protection are weighted against other policy goals, considerations based on economic efficiency alone cannot be considered sufficient and should not represent a goal but rather a starting point in the quest for solutions based on equity and social justice.

Thank you.













