

Non-contributory pension systems in Latin America and the Caribbean

Towards solidarity with sustainability

ALBERTO ARENAS DE MESA
CLAUDIA ROBLES

Editors

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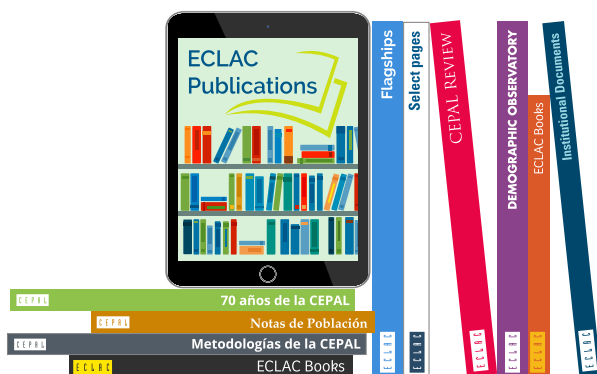
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Alberto Arenas de Mesa

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Foreword

As we posited in the recent special issue of the *CEPAL Review* commemorating the seventy-fifth anniversary of the Economic Commission for Latin America and the Caribbean,¹ there is an urgent need to change the development model as the region is in a development crisis manifested in three mutually reinforcing traps: low growth; high inequality and low social mobility; and weak institutional and governance capacities.

Added to these and other structural gaps is the fact that despite the announced end of the global public health emergency caused by the coronavirus disease (COVID-19) pandemic in 2023, closing one of the most complicated chapters of recent history, the region continues to struggle with the short- and long-term repercussions of various origins.

The short-term impacts are the result of cascading shocks such as the disruption of global value chains; inflation and rising interest rates in 2021 and 2022, which have raised international financing costs; the war in Ukraine since 2022; and war and tensions in the Middle East more recently. The long-term ones are related to trends such as demographic change, the climate crisis, technological transformations and changes in geoeconomics and geopolitics. Gordon Brown, Mohammed El-Erian and Michael Spence argue that this is a new normal, which can be described as a “permacrisis”, as the title of their recent book suggests.²

¹ Economic Commission for Latin America and the Caribbean (ECLAC), *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, 2024.

² Brown, G., M. El-Erian and M. Spence, *Permacrisis: A Plan to Fix a Fractured World*, Simon & Schuster, 2023.

What is undeniable is that in a world marked by volatility, uncertainty and cascading shocks with short- and long-run effects compounded by a host of social divides carried over from the past, one of the great transformations needed in development models is making economic and social systems more resilient to these trends, and central to this agenda are social protection systems, and specifically, pension systems.

The ongoing demographic transition towards an increasingly ageing population will pose challenges for current and future social protection systems. This transition will increase demand on health services and pension systems, as well as requirements for comprehensive care and other policies. In addition, high levels of informal employment—which affects in every two workers in the region—hinder access to quality jobs that provide social protection, which has a cross-cutting effect on opportunities for labour inclusion and for advancing towards economies with more innovation and higher productivity given the obstacles that informality poses for productive transformation, investment, and the adoption of technology.

All these challenges make it critical to put social investment that is strategically focused on consolidating universal, comprehensive, sustainable and resilient social protection systems at the centre of the region's development strategies.

This book analyses precisely one of the policies that can make a substantive contribution in this regard, helping to significantly improve the situation of those who have suffered from inequalities accumulated over a lifetime and which have been exacerbated by recent developments. Non-contributory pension systems are a core policy element of an agenda that is centred on the universalization of social protection systems and progress towards a welfare state. They are also important in helping to reduce the gender inequalities that run deep in our region in a reflection of the unequal distribution of paid and unpaid work between men and women.

As discussed in this book, the expansion of non-contributory pension systems over the last two decades is one of the main public policy innovations in the region, and indeed one of the most significant in the area of social protection. In the period 2000–2022, the coverage of these systems increased by 27.6 percentage points, from a mere 3.4% of the population aged 65 and over in 2000 to 31.0% of that population in 2022, as data from 23 countries of Latin America and the Caribbean show.

It is crucial to analyse the current situation and the possibilities for expanding non-contributory pension systems in the context of strengthening pension schemes, in view of the civilizational imperative of making progress on eradicating poverty in old age and, thus, implementing the 2030 Agenda for Sustainable Development, in particular Goal 1. The

estimates presented in this book show that progress in this direction is feasible when the social investment in these systems is gradual and geared towards solidarity and sustainability.

These estimates suggest that progress in eradicating poverty among older persons in the region could require public spending on non-contributory pension systems equivalent to 1.1% of GDP in 2035. Given the fact that regional public expenditure on non-contributory old-age pensions rose from 0.15% of GDP in 2000 to 0.42% of GDP in 2021, the extra effort needed would not be substantial. Providing coverage for 40% of the region's older persons with these systems is, therefore, primarily an institutional and political economy challenge, consistent with the State's commitment to build a society that recognizes the contribution of all individuals over the life cycle.

Non-contributory pension systems also play a vital role in achieving other objectives, including income security and protection and the reduction of inequalities in old age. Taken together, they are key to the architecture of our countries' social protection systems and to the broader objectives of strengthening welfare states and transforming development models in the region.

José Manuel Salazar-Xirinachs
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Introduction

*Alberto Arenas de Mesa
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In the twenty-first century, the expansion of non-contributory pension systems for older persons has been one of the main developments in the construction of social protection architectures in Latin America and the Caribbean, a region characterized by a high level of labour informality and large divides and inequalities, in particular in pension systems. The first non-contributory old-age pension system in the region was created in Uruguay in 1919, with 13 other countries of Latin America and the Caribbean following suit in the twentieth century (Arenas de Mesa, 2019).¹ The coverage of these pension systems is estimated to have increased by 27.6 percentage points over the past two decades (between 2000 and 2022). Thus, in 2000, non-contributory pension systems in Latin America and the Caribbean covered 3.4% of the population aged 65 and over, totalling just over one million older persons, but by 2022 coverage had expanded to 31% of this population, or 19.6 million older persons.² These systems comprise

¹ According to the information available, these countries are Antigua and Barbuda, Argentina, the Bahamas, Barbados, Brazil, Chile, Costa Rica, Cuba, Ecuador, Guyana, the Plurinational State of Bolivia, Saint Kitts and Nevis and Saint Vincent and the Grenadines.

² This figure was calculated by taking the coverage of the population aged 65 and over in the non-contributory pension systems of 23 countries of the region for which information is available. These coverage figures were added together and the result was divided by the population of Latin America and the Caribbean aged 65 and over. The following countries were considered: Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Trinidad and Tobago and Uruguay. The administrative estimates presented in this publication are based on information available as of December 2023, excepting the estimate of the coverage of non-contributory pension systems in Latin America and the Caribbean, for which the information was that available as of February 2024.

non-contributory old-age or disability pensions covering older persons and those encompassing both situations simultaneously. In 2023, 28 of the 33 countries in Latin America and the Caribbean had non-contributory pension systems with an old-age component,³ which are the focus of this book, reflecting spectacular growth over two decades of expansion. At the time of going to press, only five countries in the region were without such systems.⁴

In this context, non-contributory pension systems have been established almost everywhere as a priority strategy for eradicating extreme poverty and poverty in old age. Their spread across the region has extended the horizon of possibilities in debates on social protection with respect to at least two points connected with its design: first, the implementation of a regular pension system providing access to non-contributory social protection for at least part of the population of older persons living in poverty, irrespective of their employment record; and, second, the transition in some cases to ever-increasing coverage of these systems in the countries amounting even to universality or near-universality in certain paradigmatic cases, such as the Renta Dignidad Universal Old-age Income in the Plurinational State of Bolivia (created in 2008), the Old Age Pension (Universal) in Guyana (created in 1994), the Pension for the Well-being of Older People in Mexico (created in 2019) and the Universal Guaranteed Pension in Chile (created in 2022). This goes together with the debate on increasing the sufficiency of non-contributory pensions, which is very heterogeneous in the region, providing a basis for identifying minimum amounts that would have to be provided to eradicate poverty among older persons. These three elements in combination inform the discussion about the levels of coverage and sufficiency to be provided in non-contributory pension systems, the institutionalization of these systems to guarantee fundamental social rights, and the construction of universal and sustainable pension systems in the region. Thus, non-contributory pension systems are helping to set an increasingly ambitious standard for the role of social protection and the State in achieving the individual and collective (public) objectives of pension systems (Barr and Diamond, 2008; Mesa-Lago, 2008; Arenas de Mesa, 2019).

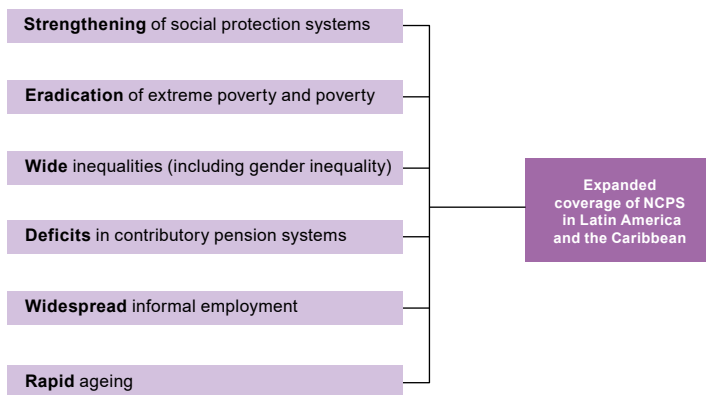
³ According to information from the ECLAC Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>. This database contains information on the non-contributory pension systems of 25 countries in Latin America and the Caribbean. No historical information is available for the non-contributory pension systems that currently exist in Dominica, Jamaica and Suriname. Coverage estimates are based on administrative information provided by the countries and incorporated into the database and on ECLAC/United Nations (2019).

⁴ These countries were, according to available information, Grenada, Haiti, Honduras, Nicaragua and Saint Lucia. Honduras is evaluating the creation of a non-contributory pension system (see chapter III and VIII).

All this raises certain questions. What explains the upward trend in the coverage of non-contributory pension systems? What are their main characteristics? And how are they integrated with the pension and social protection systems that are being reformed and constructed in the region?

First, the expansion of non-contributory pension systems needs to be understood as part of the strengthening of social protection systems in the region, a core policy in the countries' contemporary welfare architectures. The region's social protection systems have been increasingly and substantially reinforced, especially since the early 2000s, contributing to poverty reduction. In particular, the coverage of non-contributory social protection programmes, including conditional transfer programmes and non-contributory pension systems, has grown during this period, as has that of labour inclusion policies, (Rofman and Oliveri, 2011; Abramo, Cecchini and Morales, 2019; Robles and Holz, 2024) (see diagram 1). The growth of this non-contributory social protection coverage is partly explained by the high levels of poverty and the large social protection gaps affecting the most vulnerable population.

Diagram 1
Latin America and the Caribbean: factors in the expansion of the coverage of non-contributory pension systems (NCPS)



Source: Prepared by the authors.

In 2001, 44.1% of the Latin American population was poor and 12.2% extremely poor. By 2014, the proportions had fallen, with 27.7% of the population living in poverty (a drop of 16.4 percentage points) and 7.8% in extreme poverty (a reduction of 4.4 percentage points). Over the same period, poverty among persons aged 65 and over fell from 29.4%

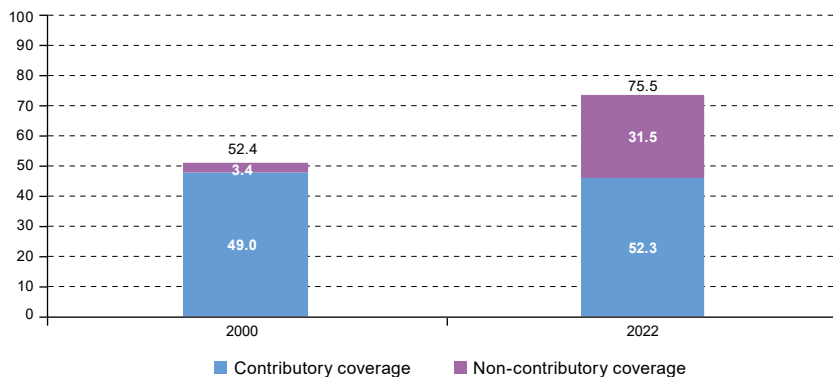
to 15.9% (a reduction of 13.5 percentage points) and extreme poverty from 7.2% to 4.3% (a decline of 2.9 percentage points).⁵ Thus, poverty among older persons fell 46%, or by almost half from its level at the turn of the century, while total poverty declined by 38% between 2001 and 2014, or just over a third. The proportionately larger reduction in old-age poverty is largely explained by the increase in the coverage of pension systems, especially in countries that have created new non-contributory pension systems, notwithstanding the preponderant role played by the sufficiency of pensions provided by the countries' contributory systems.

Second, the expansion of non-contributory pension systems is related to the large shortfalls in the region's contributory systems. Taking Latin America, the information available for 17 countries at the turn of the millennium showed that pension system asset coverage (i.e. the percentage of the economically active population aged 15 and over contributing to pension systems) was just over one third (34.9%), with 69 million people covered. This coverage peaked in 2014 at 48.4%, while in 2021 it stood at 45.7%, equivalent to 139 million people paying into some pension system (Arenas de Mesa, Robles and Vila, 2024). These data reflect the low pension contribution capacity of workers in the region, given the scale of informality and the design and institutional structure of the pension systems themselves. It is therefore not surprising to find large pension system coverage gaps affecting people aged 65 and over in Latin America at the turn of the century: in 2000, only 52.4% of people aged 65 and over (i.e. just over half this population, or 15 million people) were receiving some kind of pension. Contributory pensions were the predominant component, extending to 49.0% of this population. By 2022 this coverage had risen to 75.5% of people aged 65 and over in Latin America, equivalent to 46.4 million people. In the latter year, 52.3% of the population aged 65 and over were in receipt of contributory pensions, while 31.5% of this population were in receipt of non-contributory pensions (see figure 1).

Shortcomings in contributory pension coverage, which have been partially remedied by non-contributory pension systems, are combined with those in the sufficiency of pension system entitlements. The situation as regards the sufficiency of entitlements in the region is mixed. In 2021, the findings of household surveys in 14 countries showed that 21.5% of people aged 65 and over received pensions below the poverty line (Arenas de Mesa, Robles and Vila, 2024).

⁵ According to ECLAC information based on CEPALSTAT [online] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en>.

Figure 1
Latin America (18 countries):^a contributory, non-contributory
and total pension coverage,^b ages 65 and over, 2000 and 2022
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; ECLAC, “Latin America and the Caribbean: population estimates and projections. 2019 revision”; United Nations, *World Population Prospects 2019* [online] <https://population.un.org/wpp2019/>.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

^b Total pension coverage is not equal to the sum of contributory coverage and non-contributory coverage. This is because in some countries, individuals may simultaneously receive both contributory and non-contributory pensions. While this was not seen in 2000, it was the case in 2022, especially, since a number of the region’s countries have moved towards universal coverage of non-contributory pensions and a portion of the recipients also have access to contributory pension systems.

Thus, non-contributory pension systems have had to deal with the structural shortcomings of contributory pension systems, exacerbated both by the series of structural reforms promoting individually funded systems that were implemented in a number of countries during the 1980s and 1990s, and by the increased challenges facing pay-as-you-go systems in the region (ECLAC, 2018; Arenas de Mesa, 2019; Mesa-Lago, 2022).

Third, the expansion of non-contributory pension systems has also been driven by the high levels of labour informality in the region. Informality is a persistent structural feature of Latin American and Caribbean labour markets. According to ECLAC estimates, almost one in every two workers was in informal employment in 2022 (ECLAC, 2023). Labour informality leaves workers vulnerable as regards income, working conditions, access to employment rights and social protection coverage, especially when it comes to pensions (Abramo, 2021; Espejo, 2022). Given these characteristics of the labour market and the shortfalls in contributory social protection coverage, non-contributory pension systems have stepped in to reduce gaps in old-age pension coverage and sufficiency.

Fourth, the expansion of non-contributory pension system coverage has been hastened by pressure from the dynamics and speed of population ageing in Latin America and the Caribbean (ECLAC, 2022b). Whereas in 1950 the region had 5.4 million people aged 65 and over, equivalent to 3.2% of the total population, by 2022 there were 60.7 million people in this age group, representing 9.2% of the regional population. This age category is expected to increase to 81.7 million people by 2030, equivalent to 11.7% of the total population, a percentage that is forecast to double to 22.9% by 2060, when the region will have 172.1 million people aged 65 and over. By 2060, the region will have approximately 2.8 times as many people aged 65 and over as in 2022 (ECLAC/United Nations, 2022). Preparing pension systems for the magnitude of these challenges will undoubtedly require further increases from the current levels of coverage and sufficiency of non-contributory pension systems, thereby consolidating an institutionally robust and financially sustainable social pension framework as part of the countries' national pension systems.

In summary, considering the extent of their coverage of the older population and their near-ubiquitousness, this book argues that non-contributory pension systems have become an effective, high-priority public policy in the effort to eradicate old-age poverty and to address the challenges posed by inequalities, particularly gender inequalities, in the region. These systems have thus become one of the main policies of contemporary social protection systems in the region. For this reason, it is essential to create them where possible in countries where they do not yet exist and to strengthen and expand them in those where their coverage or sufficiency is still limited. Their leading role in the countries' welfare architecture makes it imperative to examine in detail the role that these systems play within social protection and pension systems, their target population, the constituent elements of their institutional framework and design, and their financial sustainability, as well as the main challenges confronting them and ways in which they can be strengthened in the countries of the region.

The aim of social protection systems is to ensure income levels that are adequate for people's well-being and provide access to social services and decent work (ECLAC, 2020). The coronavirus disease (COVID-19) pandemic demonstrated the importance of strong, universal, comprehensive, sustainable and resilient social protection systems for dealing with a context of tight sanitary restrictions and an economic crisis that in Latin America and the Caribbean led to a protracted and ongoing social crisis with effects in the medium term (ECLAC, 2022a; Arenas de Mesa and Cecchini, 2022; Arenas de Mesa, 2024).

The series of critical situations that the region and the world are going through only reinforces the urgency of strengthening these social protection systems. This will provide the countries with the policy tools

they need to eradicate the risk of poverty, reduce inequality and create mechanisms of universal orientation that enable older persons, and in many cases their families, to cope with evolving social risks on a basis of solidarity, while at the same time developing the skills needed for a changing society (Robles and Holz, 2024). In this context, non-contributory pension systems directly help to consolidate income protection levels, in particular for older persons who have not been able to make contributions or have not paid in enough to contributory pension systems over their working lives, and therefore lack contributory coverage under these instruments. It should be noted that in some countries, non-contributory pension systems include people with disabilities, who are often particularly affected by the lack of income protection. This book reviews such systems when their conditions provide for access by older persons with disabilities, it being understood that the social protection of persons with disabilities requires specific treatment that is certainly more extensive than can be provided through the pension system (Bietti, 2023).⁶ In the region, the design of these non-contributory entitlements often makes it an explicit access requirement that recipients not be participating in the labour market (Bietti, 2023). Such requirements should be reconsidered with a view to creating virtuous synergies and so moving towards comprehensive social protection mechanisms that make social and labour market inclusion and income protection viable in the context of a more complex structure of social risks and the structural transformations now accumulating globally (Robles and Holz, 2024). In any case, the challenge of taking a synergistic approach to old-age and disability provision is one the region must face given current ageing patterns.

As this publication argues, although priority in access to non-contributory pensions should be given in a first stage to people living in extreme poverty and poverty, their coverage should evolve to other stages in which it is also extended to people who, although not poor, are at

⁶ As the Non-contributory Social Protection Programmes Database in Latin America and the Caribbean shows, there is a set of non-contributory pensions for persons with disabilities that do not include older persons among their target populations, since they have a lower age requirement. The coverage estimates in figure 1, which are discussed further in chapters II and III, include non-contributory pension schemes for persons with disabilities that are open to older persons in cases where it is not possible to distinguish between pensions for older persons and pensions for persons with disabilities for some or all years, or that explicitly allow access by this population. These situations apply to the Non-contributory Pension Programme in Argentina, the Continuous Benefit Programme in Brazil, the Assistance Pension (PASIS) and the Basic Solidarity Disability Pension in Chile, the Social Assistance Regime in Cuba, the Pension for Persons with Disabilities (supplementing the Human Development Grant) in Ecuador, the solidarity pensions of the Subsidized Regime in the Dominican Republic, the Non-Contributory Assistance Pension in Saint Kitts and Nevis and non-contributory pensions for older persons and persons with disabilities in Uruguay. The term used in this book for these benefits is “non-contributory disability pensions”, although there are countries that use the term “non-contributory invalidity pensions”, traditionally associated with the invalidity entitlements of contributory pension systems.

risk of poverty because of their level of vulnerability and who do not have access to pensions, or at least adequate ones. Here, the book argues that the creation of non-contributory pension systems has led to the establishment of infrastructure and institutions that have a vital role to play in the expansion of these systems' coverage or indeed that of other entitlements in the social protection system. This was clearly reflected in the emergency responses to the COVID-19 pandemic, as shown in chapter I.

In this way, non-contributory pension systems contribute systematically to the attainment of pension system objectives, namely the eradication of extreme poverty and poverty in old age and the provision of minimum and adequate levels of income at this stage of life for those whose contributory pensions are inadequate. Non-contributory pension systems also play a direct role in reducing inequalities in the region by remedying gaps in the coverage and sufficiency of pension systems, thereby reducing the exposure of older persons depending on their income level and employment history. Their design can also incorporate specific mechanisms to address different axes of social inequality, such as gender inequalities (e.g. by providing age-differentiated access or including mechanisms for recognizing time spent on unpaid care as equivalent to a pensions contribution period), ethnic inequalities (e.g. by generating special systems for members of Indigenous Peoples or using criteria tailored to an intercultural approach) and territorial and disability-related inequalities, among others, as determined by the matrix of social inequality in the region (ECLAC, 2016). In practice, the data collected in this book show that non-contributory pensions form a particularly large proportion of the pensions received by women and contribute to the reduction of inequalities in their access to pensions. This is also true of members of Indigenous Peoples and populations of African descent, and likewise of older persons who have lower incomes and live in rural areas, which contributes to the reduction of the structural inequalities affecting them.

To achieve the objectives mentioned above through non-contributory pension systems, it is necessary to pay special attention to the gaps and inequalities exhibited by the countries of the region with a view to implementing social protection and pension systems that are truly sustainable in each of their three constituent dimensions: coverage, sufficiency and financial sustainability (Arenas de Mesa, 2019). These elements must be central to the design of non-contributory pension systems. First, it is essential to achieve guaranteed levels of coverage for all key instruments to ensure that well-being is protected when critical situations arise. Complementarily, in countries where this has not been achieved, there needs to be progress in incorporating these instruments by consolidating formal coverage of such policies. This includes both traditional instruments, which form part of social security policies and

are linked to people's labour inclusion, and non-contributory instruments. Second, if adequate levels of social protection are to be achieved, it is crucial for these instruments to be of high enough quality, as reflected in appropriate levels of sufficiency, and be able to at least meet the basic necessities of life in a critical situation. Third, the associated financial sustainability is a criterion that is essential for ensuring the effective and continuous implementation of these instruments. This book also argues that the region is at a crux where, in strengthening social protection systems, it can guide and strengthen the design of non-contributory pension systems on the basis of these considerations and dimensions to ensure their sustainability.

To these criteria must be added the gender dimension as an aspect of sustainable systems capable of progressively eradicating poverty and effectively reducing inequalities in the region (Arenas de Mesa, Robles and Vila, 2024). The main characteristics of the labour market in the region include a high level of informality and low female participation (ECLAC, 2023). A further factor is women's longer life expectancy than men's, which generates greater demand from women for inclusion in non-contributory pension systems. Coverage figures for these systems indicate that 60% of their entitlements go to women, thereby narrowing the coverage and income gaps between men and women, reducing gender inequality and bringing increasing levels of solidarity to old-age pension systems (Arenas de Mesa, 2019).

So what are non-contributory pension systems, and what sets them apart from the other types of non-contributory entitlements, such as cash transfers, that exist in the countries?

Non-contributory pension systems are a component of the pension system and play a fundamental role in protecting income and providing financial security in old age by contributing on the basis of a systemic, comprehensive logic to the fulfilment of pension system objectives.

Non-contributory pension systems play an important role in several pension system objectives. A priority objective is the prevention and eradication of extreme poverty and poverty (Aguila and others, 2013; Hernani-Limarino and Mena, 2015; Martínez and others, 2020; Dethier and others, 2010). Their solidarity-based financing makes it possible to provide for levels of well-being that would otherwise go uncovered for millions of older persons in the region. The best scenario is one in which the contributory and non-contributory systems reinforce each other to achieve these objectives.

In the twentieth century, the incipient development of social protection included the creation of social assistance programmes involving non-contributory transfers, including non-contributory pensions. The

increase in the coverage of non-contributory pension systems prompted a transition that involved the transformation of pension programmes into systems. This systemic character can be seen in their transformation into regular forms of provision in social protection systems, underpinned by special legal frameworks that have given them greater predictability in the countries where they have been established, with a well-defined institutional structure and, in particular, growing integration with contributory pension systems for the purpose of consolidating and strengthening progress on coverage and income protection for the older population. Pension systems are made up of contributory and non-contributory components, the latter providing cash transfers with the aim of securing incomes and living standards, progressively eradicating extreme poverty and poverty, and reducing inequality in old age, which makes them a fundamental component of social protection systems. Contributory pension systems also pursue these objectives, and one of their key objectives is intertemporal redistribution of consumption to ensure adequate incomes in old age. This is why it is essential to apply a systemic logic in the analysis of non-contributory pension systems (see chapter X).

In this context, the expansion of non-contributory pension systems in the region has thrown up a number of challenges, including the question of how they are to be coordinated with other programmes in social protection systems and how they should be linked to or integrated with contributory pension systems. The latter is essential for the development of pension systems, something that also depends on progressive reinforcement of a social institutional framework for non-contributory pension systems.

Non-contributory pension systems provide social protection for people with restricted earning capacity against the risks of old age and disability. Access to these pension systems is decoupled from pension contributions made over the active stage of a person's life cycle and may be provided to people who have never made such social security contributions or who have contributed but whose pensions from the contributory system are insufficient to at least keep them out of poverty or extreme poverty (Bertranou, Solorio and Van Ginneken, 2002; Altamirano and others, 2018; Arenas de Mesa, 2019). When the scope of non-contributory pension systems is conceived from a perspective that is not oriented exclusively towards the poor population but looks beyond this to a rights-based approach, the importance of linking these systems closely to contributory pension systems can be appreciated. The basis for this linkage is a strengthened institutional framework for social security, with solid social information systems and close coordination between pension and social services agencies so that older persons lacking adequate income in old age can be proactively identified.

One thing that distinguishes the entitlements paid by non-contributory pension systems from other cash transfers, besides their going mainly to the older population, is their regularity and predictability: they are not subject to the vagaries of countries' political administration but are assumed to be permanent entitlements and, increasingly, to form part of integrated pension systems. Accordingly, they are set apart from the logic of time-limited entitlements or transfers and encompassed by the logic of regularity characterizing pension systems in the countries. They also generally deliver modest, standardized amounts to the recipient population (Bertranou, Solorio and Van Ginneken, 2002; Arenas de Mesa, 2019).

The design of non-contributory pension systems is not uniform, however, and their expansion is not necessarily driven by hegemonic views about their contribution to the debate on social protection systems. The undeniable determinants of low contributory pension coverage, which include high occupational informality, a demographic transition that involves rapid ageing, and gender inequalities arising, among other factors, from the unequal social organization of care and the distribution of paid and unpaid work, are conditioning and increasing the demand for non-contributory pension systems in the region. This is consistent with the need to pursue the expansion of contributory coverage, which is closely tied to greater financial sustainability for social protection systems,⁷ higher-quality pension system entitlements and a sounder and fairer basis for social and labour inclusion in a context of profound transformations that are conditioning the future of social protection (Robles and Holz, 2024).

So what place should non-contributory pension systems have in the social protection landscape?

In keeping with a rights-based approach, this book argues that it is important to move towards increasingly universal pension systems in which access to an old-age pension for all must be guaranteed and enshrined by one of the components (contributory or non-contributory) of pension systems. At the same time, it must be a matter of priority to move towards systems that are more comprehensive and whose components are more closely linked, in order to achieve higher levels of contributions and formalization during people's working lives. The regional experience reviewed in this publication shows a number of ways to advance on both fronts. On the one hand, there is a set of universal systems, and there are also systems that prioritize different populations in their coverage but

⁷ According to Álvarez and others (2020), estimates for eight Latin American countries between 2016 and 2065 indicate that a 1 percentage point increase in the formality rate would increase contributions to social security (pension and health) systems by the equivalent of 0.04% of GDP for Mexico and Peru, 0.05% for Colombia, 0.06% for Paraguay, 0.08% for Ecuador, 0.1% for Uruguay and 0.15% for Argentina.

that, given the high coverage of contributory pension systems in some countries of the region and their coordination with the latter, achieve the overall coverage levels of universal or near-universal pension systems. In some cases, such as Brazil, Mexico and the Plurinational State of Bolivia, these advances have been accompanied by a constitutional requirement to guarantee the social right to a pension (ECLAC, 2018). On the other hand, there are non-contributory pension systems that are at an early stage of development and have low levels of coverage.

Accordingly, it is essential to consolidate contributory systems that provide larger pensions, complemented by non-contributory pension systems to guarantee income protection for all older persons. In this way, with an integrated design, non-contributory pension systems can complement contributory systems by making up contributions, for example, in cases where it has not been possible for people to make them themselves or where there are large pension contribution gaps resulting from unpaid care work in the home or from labour market conditions. These latter situations create great social vulnerability, both in pay-as-you-go systems, when people do not meet the minimum contribution requirements, and in fully funded schemes, where the final pensions obtained may be far from adequate if saving levels are low. At the heart of these designs is the pursuit of pension system sustainability, which requires a balance to be struck between the goal of adequate coverage with a universal orientation and adequate coverage in a context of financial sustainability (Arenas de Mesa, 2019).

The concept of solidarity is a very well-established one in the field of non-contributory social protection and thus in non-contributory pension systems. This is in addition to its central role in the reduction of inequalities originating in the labour market, which are addressed in the design of both the contributory and non-contributory components of pension systems. One aspect of solidarity is the use of mechanisms to correct gender inequalities, which make it imperative to reinforce pension systems with a strengthened public role and endogenous solidarity mechanisms (Arenas de Mesa, Robles and Vila, 2024). It is important to stress that mechanisms for mainstreaming solidarity in pension systems are not the exclusive prerogative of non-contributory pension systems. Given how great the challenges facing the region and the world are, it will be increasingly essential to strengthen solidarity mechanisms in contributory and non-contributory pension systems in a concerted way.

From this perspective of integration, the book argues for the need to give non-contributory pension systems a place within broader pension systems on their own merits, separately from the (conditional)

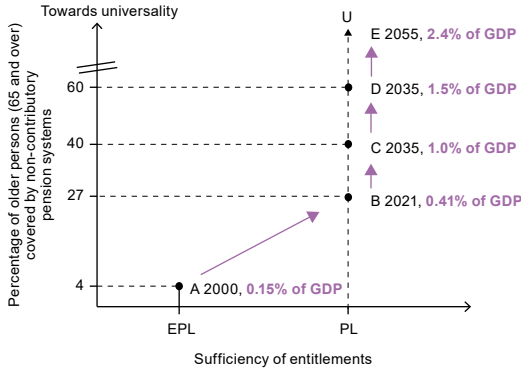
transfer programmes present in the region, which have their own specific functions and a more diverse and broader target population. In practice, this means that the implementation of non-contributory pension systems needs to be closely tied to the social information systems and social registries recipients that are often maintained by social development ministries and equivalent bodies in the countries. Such social information systems are essential for prioritizing the actual and possible coverage of non-contributory pension systems at any given time, in accordance with the standards established by the rights-based approach and its principles of equal and uniform treatment, progressiveness, social participation, and governance and accountability (Robles and Santos Garcia, 2023).

There is a need to move beyond non-contributory pension system designs involving weak social security institutions that are detached from national pension systems, and at the same time to strengthen the requisite intersectoral coordination and linkages. Thus, one of the main challenges is to transition from non-contributory pension programmes to non-contributory pension systems, distinguishing measures that (in the case of programmes) are exclusively aimed at fulfilling a subsidiary and external role with respect to pension systems for the alleviation of old-age poverty from what is entailed in a transition towards systems that are fully integrated into pension systems, with robust social security institutions and guaranteed, predictable and regular coverage and sufficiency.

Lastly, the book also addresses the debate on the universalization of non-contributory pension systems as opposed to models in which coverage generally has greater degrees of prioritization depending on the financial resources available and the economic management that drives and supports these non-contributory social protection systems. In this context, the book aims to provide some initial guidelines for strengthening these systems in the light of their levels of development, distinguishing between countries with broad or universal coverage, those with limited or incipient coverage and those that do not yet have non-contributory pension systems. To this end, some key stages in the implementation process and the reforms involved are first identified, along with the role of the different instruments and what is required to develop them. This includes: (i) the considerations that determine their design in view of the levels of coverage and sufficiency sought and financial sustainability to make them viable; (ii) institutional mechanisms and social information systems, including the social registries and digital processes associated with their implementation, with tools for inter-institutional coordination within the State and between its different levels; (iii) the legal instruments required to institutionalize them; (iv) elements associated with their consolidation and financial sustainability; and (v) the elements of political economy involved in this process.

In this context, and given the incidence of old-age poverty in 2022, estimated at 16.2% of the population aged 65 and over,⁸ the persistent gaps in pension access among this population and the high levels of informality in the region, it is suggested that coverage should be provided to older persons in the first two quintiles of the income distribution (i.e. the poorest 40% of the population). This coverage target must be accompanied by pension sufficiency levels sufficient to meet the basic needs of those receiving non-contributory pensions (i.e. to bring their incomes up to the poverty line) (see figure 2).

Figure 2
Latin America and the Caribbean: evolution of non-contributory pension systems and strategic relationship between non-contributory pension systems coverage, spending and the sufficiency of entitlements for people aged 65 and over, 2000, 2021, 2035 and 2055^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; ECLAC, “Latin America and the Caribbean: population estimates and projections. 2019 revision”; United Nations, *World Population Prospects 2019* [online] <https://population.un.org/wpp2019/>.

Note: EPL, extreme poverty line; PL, poverty line.

^a The figure shows the relationship between coverage and sufficiency of non-contributory pension systems, including the actual and estimated cost (expressed as percentages of GDP) for each year in the period under consideration.

The information available and the estimates presented in this book show that this composition is viable in consideration of coverage, sufficiency and financial sustainability criteria, among other factors, given that 10 of the 14 Latin American countries included in an exercise presented in chapter IX had non-contributory pension coverage of less than 40% of the population aged 65 and over in 2021. At the same time, 4 of these 14 countries (Brazil, Chile, the Dominican Republic and

⁸ Information for 18 Latin American countries provided by ECLAC on the basis of household surveys in the countries, Household Survey Data Bank (BADEHOG).

Uruguay) provided entitlements above the poverty line. It should be noted that social investment in non-contributory pensions amounted to 0.15% of GDP in Latin America and the Caribbean in 2000, whereas two decades later, in 2021, it stood at 0.42% of GDP. The book provides estimates for the attainment of this composition of coverage (40%) and sufficiency of entitlements (poverty line) in countries that have not achieved them, as well as recommendations for increasing coverage and sufficiency in those that have. Estimates indicate that public spending on non-contributory pension systems equivalent to 1.1% of GDP by 2035 would enable decisive progress to be made in eradicating old-age poverty in the region. These figures clearly do not represent a constraint in terms of financial sustainability, but rather show that the challenges will lie in managing the political economy so that it can support the allocation of these financial resources to non-contributory pension systems and building up social security institutions so that they are able to implement increases in the coverage and sufficiency of pension entitlements for the poor population aged 65 and over (Arenas de Mesa, 2020; see chapter IX).

The book has three parts in addition to this introduction. The first part offers conceptual considerations and a review of the main debates and characteristics of the evolution of non-contributory pension systems in the region. Chapter I focuses on providing a conceptual framework for non-contributory pension systems, starting with their objectives and their importance in the context of pension systems in general. It presents the background to their creation around the world and the different types of non-contributory programmes that exist. It also analyses the situation of these systems in European countries and in Latin America, a region characterized by high levels of informality, weak institutions and low levels of coverage and sufficiency. It looks at the current debate on the expansion of non-contributory pension systems in the context of the pandemic and post-pandemic period, and addresses their relationship with the rights-based and gender equality approach. Lastly, it examines challenges and opportunities for the expansion of these systems, considering their specificity and key approaches to achieving universality, comprehensiveness, sufficiency and sustainability.

Chapter II discusses the main features of the design of non-contributory pension systems in the region, identifying how their expansion has combined specific characteristics as regards access mechanisms and the levels of coverage, sufficiency and financial sustainability of their entitlements. Chapter III provides an overview of non-contributory pension systems in the region, presenting their main indicators and describing their broader impact on other dimensions of the well-being of older persons, including their effects on poverty reduction.

The second part of the book focuses on the analysis of selected countries whose non-contributory pension systems exhibit varying degrees of development. Chapter IV analyses the experience of universal non-contributory pension systems by examining the cases of Chile, Mexico and the Plurinational State of Bolivia. It describes the main non-contributory pension programmes in each country: the Universal Guaranteed Pension in Chile, the Pension for the Well-being of Older People in Mexico and *Renta Dignidad* in the Plurinational State of Bolivia. Their background and operational characteristics are discussed and their results analysed. Lastly, the chapter concludes with reflections and recommendations for strengthening the role of universal pensions and the way these are coming to play a vital role in pension and social protection systems.

Chapter V discusses the experience of non-contributory pension systems in Argentina, in a context where the contributory pension system has high coverage and there is a wide range of mechanisms to address the risk of poverty in old age. In line with these characteristics, recommendations for strengthening the design of these systems are provided.

Chapter VI introduces the case of Peru's non-contributory pension system, which includes programmes for older persons and people with disabilities, in the context of the structural deficits affecting the contributory pension system in this country. In addition to analysing the current situation of these systems, it provides policy recommendations and proposals for strengthening the non-contributory pension system and coordinating it with the contributory system.

Chapter VII deals with the non-contributory pension system in the Dominican Republic, which is at an early stage of development. In particular, the background to the system is described, including a detailed analysis of its implementation and operation, its position within the institutional framework of the social protection system and its integration with that system. In addition to a review of the performance of the pension system, recommendations are made for strengthening the non-contributory pension system, including institutional considerations and options for expanding coverage on a basis of progressiveness.

Chapter VIII focuses on the Honduran pension system, mainly analysing the opportunities that exist for the creation of a non-contributory pension system. While reviewing the background of the pension system and of different initiatives that have been presented for the creation of a non-contributory pension system, it offers scenarios and alternatives for the implementation of a system of this nature in the country.

In the third part of the book, lastly, chapter IX focuses on estimating possible and viable perspectives, based on a logic of financial sustainability, for the expansion of non-contributory pension systems

in Latin America, exploring their possible consequences for poverty eradication and the reduction of inequality in old age. Chapter X discusses future challenges for non-contributory pension systems and offers final reflections and recommendations, highlighting the importance of guaranteeing old-age incomes with a universal coverage orientation. It also emphasizes the key role that non-contributory pensions will play in the region, especially in the context of the social impacts that have persisted since the COVID-19 pandemic and the current situation of low growth, high levels of poverty and high inequality in the region. The argument is made that non-contributory pension systems need to guarantee rights and progressively improve economic security for the older population, be integrated with contributory pension systems and be able to sustainably meet their commitments in respect of coverage and sufficiency of entitlements, so that old-age poverty can be eradicated within a framework of financial sustainability.

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Part 1

**Conceptual framework and overview
of non-contributory pension systems
in Latin America and the Caribbean**

Chapter I

Non-contributory pension systems in comprehensive pension models: conceptual framework, background, challenges and opportunities in the current context

*Camila Arza
Claudia Robles
Alberto Arenas de Mesa*

Introduction

The purpose of pension systems is to protect incomes and provide financial security to older persons, those with disabilities and survivors. This is achieved by paying entitlements that replace employment income after retirement and redistributing resources within and between generations to provide financial security, prevent poverty and reduce inequality. These objectives are interconnected, and the design of the system determines the balance between them in a way that reflects social and political priorities in each country (Barr and Diamond, 2012).

Over the course of the twentieth century, the Latin American countries created and developed pension systems based on a contributory public pay-as-you-go model. Starting in the 1980s, a series of structural reforms reoriented some of these systems towards fully funded and privately administered schemes (Mesa-Lago, 1985 and 2004).

Although some countries in the region implemented non-contributory pensions during the first half of the twentieth century, in most cases this is a relatively recent policy. In a number of the region's countries, programmes have progressively evolved into non-contributory pension systems (see the introduction and chapter III). This development has consolidated the role of non-contributory pensions in the pension system and made them a central component of old-age financial protection policies (Bertranou, Solorio and Van Ginneken, 2002; Rofman, Apella and Vezza, 2013; Arenas de Mesa, 2019; Arza, 2019) and of social protection systems.

The expansion of non-contributory pensions has been motivated, among other factors, by the major challenges of coverage and sufficiency affecting contributory pension systems in the region, especially fully funded schemes, and is essential for progress towards the goal of eradicating old-age poverty (Arenas de Mesa, 2020; Arenas de Mesa, Robles and Vila, 2024). In analysing these systems, however, various considerations must be weighed, such as their contribution to income protection in old age and the reduction of inequalities in access to pension systems, including gender inequalities; their role as part of what should be integrated and comprehensive pension systems, in conjunction with contributory pension systems; and the extent to which they satisfy social security principles, including universality of access, sufficiency of entitlements, financial sustainability, solidarity and income redistribution, and equal and uniform treatment.¹

To contribute to the analysis of these issues, the present chapter focuses on the conceptual design elements and comparative experience of non-contributory pension systems as a fundamental component of a universal, comprehensive, sustainable and resilient pension system. First, the objectives of non-contributory pensions and their position in the pension system architecture are presented. Second, the most important aspects of the design of non-contributory pension systems are analysed. Third, the experience of other regions of the world with such systems is explored. Lastly, consideration is given to the gender dimension, which needs to be mainstreamed in the contributory and non-contributory systems using mechanisms that can be identified in the experience of the countries.

¹ Arenas de Mesa (2019) notes that these principles, as well as those of comprehensiveness, unity, State responsibility and efficiency, and participation in management, can be inferred from the 1944 Declaration of Philadelphia and the Social Security (Minimum Standards) Convention, 1952 (No. 102) and various other conventions and recommendations of the International Labour Organization (ILO). See Mesa-Lago (2008) for further background.

A. Non-contributory pension systems: conceptual aspects

Pension systems use multiple instruments to replace income, prevent poverty and provide for the financial security of older persons, with two main components for achieving this, a contributory one and a non-contributory one (see table I.1). In practice, countries combine the components in different ways within each system, assign more or less weight to one or the other and attempt different degrees of redistribution. In some countries, for example, non-contributory pensions are a central component of the pension system, while in others they are part of welfare programmes with little or no connection to the contributory system.

Table I.1
Pension system components: objectives, eligibility and entitlement types

	Contributory system	Non-contributory system	
Main objective	Replacing employment income	Guaranteeing incomes, eradicating old-age poverty and contributing to the reduction of inequality	
Eligibility conditions and requirements	Categorical conditions: minimum age, disability, survivorship (widowhood) Contributory requirements: number of years of contributions (pay-as-you-go systems), accumulated savings (funded schemes)	Categorical conditions: minimum age or disability; citizenship or years of residence; sex, ethnic or racial origin, place of residence, etc. Socioeconomic conditions: level of income, access to contributory pensions, assets owned (by the individual or family, as the case may be)	
Most common entitlement types	Contributory pensions (i) Entitlements related to income or final earnings (pay-as-you-go system) (ii) Entitlements related to contributions made (e.g. notional accounts) (iii) Entitlements based on individual saving (fully funded schemes)	Basic pensions (i) Minimum pension: for those who receive small pensions and meet the contribution requirements (ii) Basic pension: for everyone who meets the contribution requirements	Non-contributory pensions (i) Universal pension: for the whole of the older population (ii) Targeted pension: (a) categorical targeting (rural population, Indigenous population, people living in certain areas, etc.) (b) socioeconomic targeting (poor, low-income or vulnerable population, those without pensions)

Source: Prepared by the authors.

In contributory systems, pensions are funded and entitlement to them is conferred by contributions and payroll deductions made over the course of people's working lives, with the State also contributing in some cases. Their core objective is to provide financial security by replacing income after retirement and in the event of specific risks, such as disability and survival. Thus, they provide pensions proportional to taxable wages

that enable people to maintain a fairly stable standard of living once they retire from the labour market and no longer receive a wage. The main sufficiency indicator for these systems is the replacement rate (i.e. the extent to which pensions replace pre-retirement employment income).

Table I.1 presents, in simplified form, the different types of contributory pensions provided by these systems, depending on the situation. Earnings-related pensions are the most common type in public systems and are usually based on people's wages and years of contributions over the course of their working lives. In contrast, pensions based on individual saving under the fully funded scheme are calculated not from a predetermined replacement rate but upon retirement from the savings accumulated by each person in his or her individual account as a product of the contributions made and the returns on these. Schemes of this type tend to be privately run, although in some countries (the Plurinational State of Bolivia and Sweden) individually funded accounts are publicly managed, while in others (Costa Rica and Uruguay) there are individual saving systems in which public and private management coexist. Another design, based on the logic of individually funded schemes but without individual accumulation of funds, is the notional accounts system. In this type of scheme, pensions are calculated from lifetime contributions adjusted by an indicator identified in the regulations (e.g. the GDP growth rate) and for estimated life expectancy at retirement (Holzmann and Palmer, 2006; Holzman, Palmer and Uthoff, 2008).

To provide a minimum of financial security irrespective of previous earnings, prevent old-age poverty and contribute to the reduction of inequality, contributory pension systems also generally include basic entitlements that constitute a pensions social protection floor for all those who meet the contributory eligibility criteria. Thus, many public contributory pension systems provide a minimum pension and cap the highest pensions, thereby reducing inequality. Some contributory systems also provide basic pensions, these being flat-rate payments that are not linked to previous income but that, unlike non-contributory pensions, are available only to those who meet the contribution requirements. These payments are generally provided as a first component of the system, with proportional contributory benefits added in. Probably the oldest such pension is the Basic State Pension in the United Kingdom, whose amount depends on the number of years of contributions but otherwise is the same across all earnings levels (Bozio, Cradford and Tetlow, 2010).

Non-contributory pension systems are another component of the pension system. They have expanded rapidly in Latin America and the Caribbean over the past two decades as a way of dealing with the low coverage and insufficient entitlements of contributory systems.

Non-contributory pension systems play a vital role in financial security in old age and contribute, on the basis of a systemic, comprehensive logic, to the fulfilment of the social objectives of pension systems: guaranteeing incomes, advancing towards the eradication of extreme poverty and poverty among older persons and those with disabilities, and reducing inequality.

The most common type of entitlement in non-contributory pension systems is the old-age pension, which is paid to people over a certain age who meet the citizenship or residence and, in some cases, socioeconomic status requirements. Within non-contributory pension systems, many countries also provide disability entitlements for people with severe or permanent disabilities, granted usually for life and irrespective of age.

These systems are becoming increasingly important in the face of high or rising informality in various regions of the world, and especially in the countries of the global South. In countries where women's labour market participation rates are still low, these systems also help to narrow the gaps in coverage and income between men and women, reducing gender inequality and promoting solidarity (Arenas de Mesa, 2019).

Experiences and lessons learned in Latin America and the Caribbean are relevant for the development of these systems globally. Starting with Uruguay, which created the region's first non-contributory pension system in 1919, there are several paradigmatic examples that evince a shift from a focus that was narrower in terms of coverage, centring on the extremely poor, to broad and near-universal or universal coverage, as in Chile and Mexico. Increased coverage in several countries of the region is one factor that has spurred the transition away from programmes and their transformation into systems (see the introduction and chapter III). The expansion of non-contributory pension systems has also created new challenges, including those of coordinating them with other components of social protection systems and integrating them with contributory pension systems. It has also been essential to build an institutional framework capable of fulfilling multiple functions, including: (i) design of the system; (ii) management, administration and timely delivery of entitlements; (iii) oversight and supervision; (iv) financial management; and (v) digital transformation.

B. Design aspects of non-contributory pension systems

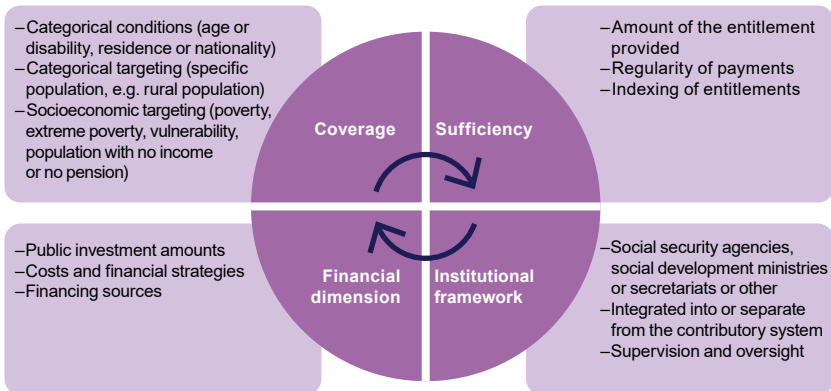
Non-contributory pension systems are playing an increasingly important role in alleviating old-age poverty in the countries of the global South by providing income protection for people who lack the record of continuous, formal and remunerated employment required to obtain a

contributory benefit. Non-contributory pensions provide entitlements that are decoupled from people’s employment history and generally financed out of fiscal resources. Some authors have described them as pillar zero (World Bank, 1994; Gill and others, 2004) or as the first tier of the pension system, alongside other redistributive entitlements in the contributory system (such as basic and minimum pensions) (OECD, 2021).

In countries with a high incidence of informal working, where contributory pensions reach only part of the population (as is the case in most Latin American and Caribbean countries), non-contributory pensions are a fundamental component of any comprehensive pension system. Globally, it is estimated that only 53.7% of the labour force (and 32.5% of the population over the age of 15) make wage contributions to a pension system (ILO, 2021). The rest of the population comprises millions of informal, rural and family workers and caregivers (mainly women) who, for the most part, will not have access to a contributory pension when they reach retirement age. This unprotected population is particularly numerous in African, Asian and Latin American and Caribbean countries, where informality and insecure employment prevail, especially among lower-skilled workers.

There is a wide variety of non-contributory pension systems in the world. The four main aspects by which they can be characterized are: (i) coverage (access conditions); (ii) sufficiency of entitlements; (iii) the financial dimension; and (iv) the institutional framework (see diagram I.1). Although a common feature of all non-contributory pensions is that no prior employment or contributions history is required to access them, they do not all target the same population.

Diagram I.1
Characteristics of non-contributory pension systems



Source: Prepared by the authors.

Where eligibility conditions are concerned, non-contributory pensions may be either universal or targeted. In both cases, people must meet certain categorical conditions (i.e. belong to some pre-established category) to qualify for entitlements, generally including a minimum age (for old-age pensions) or a certain degree of disability, as well as a minimum number of years of residence or citizenship of the country. These requirements, found in all non-contributory pension systems, determine the population universe the programme is designed for. Many of these systems also apply some form of targeting. A first type of targeting is categorical targeting, which selects the population by groups and directs entitlements to specific populations (e.g. rural people, people living in settlements or Indigenous people).

In the second place, socioeconomic targeting directs entitlements to people who both meet the categorical conditions and lack other pensions, have low incomes or are in poverty (see chapter II). Thus, it is possible to distinguish different types of non-contributory pension systems depending on whether or not they apply socioeconomic targeting (prioritization). First, universal non-contributory pensions are entitlements which are not socioeconomically targeted but which the whole population qualifies for simply by meeting the categorical conditions (e.g. all persons aged 65 and over). In Latin America and the Caribbean, such entitlements are found in Guyana (Old Age Pension (Universal)), Mexico (Pension for the Well-being of Older People) and the Plurinational State of Bolivia (Renta Dignidad). In Chile, although the Universal Guaranteed Pension (PGU) is not a pure universal entitlement, given that a socioeconomic eligibility criterion is applied, it is close to universal since it only excludes the highest-income 10% of the population. Moreover, a pension reform currently under discussion would extend the coverage of PGU to 100% of the population aged 65 and over (see chapter IV).

A variety of targeting criteria and instruments are used to direct socioeconomically targeted non-contributory pensions to the poorest population (prioritization), potentially generating different levels of coverage. Socioeconomic targeting may be carried out by income testing, means testing, poverty testing or affluence testing. The lack of a contributory pension can also be used as a targeting criterion, so that entitlements are provided to anyone who does not have another type of pension. When targeting is very narrow, only the extremely poor population has access to entitlements; when broad and designed to exclude only the highest-income population, it can include the low- and middle-income strata, which broadens coverage. The Chilean PGU is such a programme, as it includes the entire population in the bottom 90% of the income distribution.

While targeting instruments have been refined, they always involve a margin of error, depending on the design and the State's implementation capacities. As with any targeted entitlement, two types

of errors can affect the selection of non-contributory pension recipients: errors of inclusion (when entitlements are granted to people who do not meet the requirements) and errors of exclusion (when people who do meet the requirements and form part of the system's target population are left out). When pensions are universal or targeted on the basis of a categorical or easily identifiable condition (e.g. receipt of a contributory pension), these types of errors are minimized, as the eligibility criteria are simple to determine. The challenge is greater when pensions are targeted by income, poverty level or vulnerability. Identifying household income can be difficult, especially when it is composed of unstable, variable and unrecorded incomes. In practice, exclusion errors also depend on the social institutional frameworks of the pension system, its ability to implement targeting and the financial resources available to meet needs.

While the access conditions determine the potential coverage of a non-contributory pension system, the sufficiency of its entitlements determines the degree of protection and financial security it can generate, as well as its distributive capacity and ability to alleviate old-age poverty. Unlike contributory pensions, whose entitlements are linked to an individual's previous earnings or accumulated savings, non-contributory pensions generally pay out at a flat rate (i.e. the same amount for everyone).² This amount is usually determined ad hoc by each country, depending on policy priorities, including those relating to the eradication of old-age poverty, and financial constraints. In a few countries, the amount is set in relation to some other benchmark, such as the minimum wage (Brazil) or the value of the contributory minimum pension (Argentina).

The sufficiency of non-contributory pensions varies greatly from country to country. In general, their amounts do not exceed the contributory minimum pension and are sometimes even below the poverty line (see chapters II and III). Non-contributory pension systems operate as a basic economic protection mechanism, especially for people who have worked in informal occupations in the labour market. Globally, of the 112 non-contributory pension programmes identified in the HelpAge International social pensions database (2018), more than a third (41) provided entitlements of less than US\$ 50 a month and only 28, most of them in high-income countries, provided entitlements of US\$ 300 or more a month. Moreover, 27 programmes (out of 108 for which data were available) provided entitlements below the extreme poverty line (HelpAge International, 2018).

Another important aspect associated with the sufficiency of non-contributory pensions more broadly concerns the goods and services of various kinds that are available to older people free of charge or at subsidized

² An exception is the Plurinational State of Bolivia, where the amount of *Renta Dignidad* is higher for those without a contributory pension (see chapters II and IV for further details).

prices. This aspect is often overlooked, but is particularly important in old age, when certain costs can take up a substantial share of people's income, examples being housing and heating costs in the case of older people living alone, transport costs and the costs of medical attention, medicines and care services. It is thus essential to design comprehensive care policies and systems for providing older persons with access to care, especially in view of the expected increase in demand for long-term care associated with population ageing (ECLAC/UN-Women, 2022; Montes de Oca, 2023; Rossel, 2023). When provided without charge or subsidized by the State, such entitlements form part of the larger package of financial protection in old age alongside the regular income provided by pension systems.

As regards the financial dimension, the level of public spending that countries devote to these programmes varies widely and reflects the differences in coverage and sufficiency mentioned above, with very substantial effects on the sustainability of non-contributory pension systems (see chapter IX). In practice, the protective capacity of non-contributory pensions depends on there being sufficient financial resources to fully cover the target population with sufficient entitlements. It is not uncommon in countries where financial resources are insufficient for there to be waiting lists for the allocation of new entitlements and for many potential recipients to be left out (so-called "exclusion errors" owing to financial constraints).

Unlike contributory pensions, which are financed in whole or in part out of workers' and companies' contributions and payroll deductions (and in some cases, such as in Mexico, on a tripartite basis with some public funding), non-contributory pensions are generally financed out of general resources from the public treasury that are included in the country's public budget. Some countries also have specific taxes for particular programmes, an example being *Renta Dignidad* in the Plurinational State of Bolivia, which is financed mainly through the Direct Tax on Hydrocarbons. While non-contributory pensions are not usually financed out of pension system contributions, there are countries where a portion of the funding for the non-contributory system is based on internal solidarity, an example being Costa Rica, where it is drawn from payroll contributions to the Social Development and Family Allowances Fund (FODESAF).³

Lastly, the institutional structure of non-contributory pension systems is based on public administration, which may be carried out by different agencies. The overall stewardship of the system is usually

³ Under article 15 of Act No. 8783 of 2009, which reformulates Act No. 5662 of 1974 on Social Development and Family Allowances, FODESAF is financed via an allocation in the country's ordinary annual budget and contributions from employers in the public and private sectors, who must pay FODESAF an amount equivalent to 5% of their total payroll each month.

the responsibility of ministries or secretariats of labour, social security, or social development and inclusion. Some non-contributory systems that provide disability pensions come under the health ministry. The implementing agency in charge of running the system may be a department of the institution responsible or an autonomous agency.⁴ The share-out of responsibilities between different government departments may be an indication of the main orientation given to the programme (e.g. as a basic pension or as a poverty alleviation policy) and the degree of integration with the contributory pension system.

Countries are increasingly using multiple instruments to provide financial security in old age. In some cases, these instruments are integrated components of a single pension system that includes, for example, contributory and non-contributory benefits designed to protect an unequal population with very diverse employment and earnings situations and track records. A central challenge for pension systems is to integrate these multiple components in a way that ensures their effectiveness, minimizes gaps, favours equal treatment and protects the most vulnerable. An integrated system is a system that serves and meets the needs of all equitably, with a coherent and inclusive structure.

In practice, however, many countries have poorly integrated systems in which contributory and non-contributory pensions move on separate tracks, with different actors, institutions and regulations. The two systems often belong to completely different administrative structures with little communication and coordination between them on policy strategies, design and implementation. Some non-contributory old-age entitlements are part of other social welfare programmes (such as cash transfers) that are independent of the pension system and its entitlements. In these cases, people have to go to different offices and carry out separate procedures to access entitlements designed to cover the same social risk (e.g. old age or disability), depending on whether they are covered by the contributory or non-contributory system.

The absence of an integrated design can result in coverage gaps, distributional inequities, inefficiency in resource allocation, overlap of functions and administrative structures, and the amplification of exclusion and inclusion errors. An example of this is the large vulnerable informal population that does not qualify as poor or extremely poor for the purpose of accessing non-contributory entitlements, but does not meet the contribution requirements for pension system entitlement either. The coverage gap affecting this population, caught in the middle as it is

⁴ There are also rarer cases where implementation is carried out by private companies (e.g. in the Plurinational State of Bolivia before the creation of the Public Management Body for Long-Term Social Security).

between the poor and informal population and upper-middle-income groups with a formal work history, may reflect design flaws in a segmented pension system that was conceived piecemeal and does not fully reflect the nature of the Latin American labour market.

In effect, some pension systems are not adequately geared towards providing financial security to people who have participated in the formal market for too short a time to meet the requirements of the contributory pension system. In pension systems that require a minimum number of years to qualify for a contributory benefit, for example, those who have accrued some years but not reached the minimum may be left out altogether, in the same way as those who have no contribution history at all. An integrated system, on the other hand, allows these intermediate situations to be addressed with basic, solidarity and contributory pensions. An example of an integrated system is the Chilean system following the 2008 reform (Arenas de Mesa, 2019). In this case, the solidarity pension system supplemented the contributory system, so that a balance was struck between basic social protection and income replacement.

C. Comparative experiences from other regions of the world

Non-contributory pensions have a long history around the world, but their role in old-age financial protection strategies varies greatly between countries: while in some they are a central component of the pension system, in others they are more residual entitlements, with low coverage and low sufficiency. The Scandinavian countries, Australia and New Zealand pioneered the introduction of universal non-contributory pensions as a central plank of the social protection architecture. Such non-contributory pensions were created very early in these countries, predating contributory systems, and formed the basis of a universalist system of financial protection in old age. Iceland and Denmark created their first non-contributory pensions in 1890 and 1891, respectively, followed by New Zealand (1898), Australia (1900) and Sweden (1913) and, somewhat later, Norway and Finland (1936 and 1937, respectively) (Palacios and Knox-Vydmanov, 2014; Böger and Leisering, 2017; HelpAge International, 2018). Most of these entitlements were initially targeted at the low-income population and expanded over time into universal pensions. In the process, the countries also built up contributory pension systems with the aim of providing a better wage replacement rate, whether under the public system, the occupational system or, more recently, supplementary private individual saving systems.

In Latin America, by contrast, contributory pension systems have been the main (and were long the only) component of systems of financial protection in old age. In the pioneering countries, pension programmes had a particularist approach and were initially targeted only at certain occupational groups, generally those with the most political or economic power, before being extended to the rest of the formal wage-earning population (Mesa-Lago, 1978). In general, non-contributory pensions were created a number of years later in the form of welfare entitlements targeted at the most vulnerable population. The first countries to establish non-contributory pensions were Uruguay (1919), Argentina (1948), Brazil, Chile and Costa Rica (1974) and Cuba (1979). Until the late 1990s, however, both the effective coverage of these programmes and the levels of public spending they entailed were limited (Bertranou, Solorio and Van Ginneken, 2002). It was during the 2000s that they markedly increased their coverage, in the context of an expansion of social policy in Latin America (Arza and others, 2022; Arza, 2019; ECLAC, 2018; Arenas de Mesa, 2019) (see chapter II). Although non-contributory pensions continue to be residual programmes in some countries, with narrow targeting, small budgets and low coverage, and are unavailable in five countries, in others they have expanded greatly. Non-contributory pensions have also shown progress recently in a number of countries in Central Asia and sub-Saharan Africa. The pioneer was South Africa, which created the Older Persons Grant in 1927. This was initially only available to the white population but was extended to the rest of the population in 1944, although it was not until 1996 that parity of entitlements and conditions was achieved (HelpAge International, 2018). Namibia followed a similar path, only later, with an old-age pension introduced for the white population in 1949 and extended to the entire population only in 1992. Another pioneer was Mauritius, whose non-contributory Basic Retirement Pension was created in 1950 and became universal in 1958. In all three cases, coverage of the over-60 population is estimated at more than 70% (HelpAge International, 2018).

In recent decades, non-contributory pensions have become increasingly important in pension systems around the world.⁵ In many countries of the global South, including much of Latin America and the Caribbean, informal employment and the low coverage of contributory systems prompted a reorientation of financial protection policies for older persons or those with severe disabilities towards such systems.

In Europe, reforms to contributory pension systems (in contexts of ageing and austerity) and the rise of insecure and non-standard employment also renewed the role of non-contributory pensions in

⁵ See Filgueira and Manzi (2017) for a comparative analysis of pension systems around the world.

the financial protection of the most vulnerable population in old age.⁶ Most European countries offer some form of targeted entitlement for older people who do not have the employment and contribution history needed to access an adequate pension in the contributory system.⁷ In the Scandinavian countries, the most common option are universal pensions, which determine eligibility by years of residence in the country.

Following a long universalist tradition, five European countries (Denmark, Estonia, Finland, the Kingdom of the Netherlands and Sweden) have a public pension that is universal or targeted at the population of retirement age without contributory pension entitlement, thus ensuring that all older people are covered regardless of their employment history. Moreover, these pensions are relatively generous, representing a significant share of older people's income, and are the main plank of the pension system in these countries. In January 2019, for example, the universal public pension in the Kingdom of the Netherlands was some 1,215 euros per month and Denmark's pension was about 847 euros per month. Finland's and Sweden's entitlements were also around these values (European Commission, 2021a).

The integration of contributory and non-contributory pensions is another prominent feature of the Scandinavian model. In Finland, for example, the public system has three entitlements, two of which are non-contributory pensions financed by taxes and provided according to years of residence and the amounts received by each person from other components of the pension system. The third is a proportional contributory pension designed to replace income and organized by occupation. The non-contributory pension is reduced for those receiving contributory pensions (and those receiving contributory pensions above a maximum amount are not entitled to the non-contributory pension).

The Kingdom of the Netherlands also combines multiple entitlements, with a different model in which the public pension is universal (it does not exclude those with other pensions). In addition, there is a system of occupational pensions, administered by companies and trade unions, which are geared towards income replacement and to which most wage earners are entitled as a result of collective bargaining.⁸ These pensions are organized using a variety of systems that include pay-as-you-go, individually funded and collectively funded schemes. The universal public pension is based on years of residence⁹ and can be

⁶ Except where otherwise stated, the source of information for the European country data cited in this section is European Commission (2021a and 2021b).

⁷ This is the case for Belgium, Bulgaria, Czechia, Cyprus, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Portugal, Slovakia, Slovenia and Spain.

⁸ There are voluntary private pensions for the self-employed.

⁹ The entitlement is reduced by 2% for each year of non-residence between the ages of 15 and 65.

combined with employment and with other pensions, with 70% of its cost being financed by payroll contributions and the rest from budgetary resources. Its broad coverage and generous amount make it a central plank of financial security in old age, and in 2018 it accounted for almost half (46%) of the total income of people aged 65 and over. People who do not qualify for a full universal pension (because they have not been continuously resident in the country) and have no other income can obtain a top-up.

In Sweden, the pension system includes a guaranteed pension, based on years of residence,¹⁰ for those who have a very low contributory pension or none. This is combined with two compulsory publicly administered contributory pensions, one proportional to income and one based on individual saving. In addition, there are occupational pensions organized by economic sector and set by collective bargaining between trade unions and employers. Lastly, there are two targeted components for those who do not qualify for the guaranteed pension (e.g. because they lack years of residence in the country): the housing supplement and older persons' income support.

Denmark also combines and integrates multiple components (a compulsory public one and a voluntary private one). The compulsory public system consists of a basic pension and a funded pension. The public pension is universal, non-contributory, residence-based and tax-financed. It is the largest component of the system and accounts for almost two thirds of the pension income of the older population. It comprises two parts: a basic part and a top-up that depends on other income (from employment, capital or pensions). In contrast, the funded pension is more limited: although 90% of pensioners receive it, it represents approximately 10% to 25% of the amount of the universal public pension.¹¹

Most European countries, though, have a targeted non-contributory pension for the low-income population. The scope and generosity of these programmes vary widely. In countries such as Belgium, France and Luxembourg, entitlements are relatively generous, while elsewhere the amounts are more limited. Given the wide coverage of contributory pensions in these countries, the role of targeted non-contributory pensions in the old-age protection architecture tends to be more limited, with coverage generally below 5% of the population. Some countries also provide supplementary cash transfers to cover specific expenses, such as housing (Denmark, Finland, Greece and Sweden), or for older people living alone (Estonia) and for those over 70 (Italy).

¹⁰ A person must have been resident for 40 years (between the ages of 25 and 65) to receive the full pension, which is reduced in proportion to the number of years of non-residence.

¹¹ Data from 2016.

The centrality of old-age minimum income guarantees in European social policy has been reinforced in recent decades. Reforms to contributory pension systems, undertaken to maintain financial sustainability in a context of ageing, have made them less generous and individualized some of the risks of financing for old age. As a result of these reforms, people will need to have longer and more continuous working lives to obtain adequate benefits (European Commission, 2021a).

In this context of austerity, minimum and non-contributory pensions have become more important to ensure a basic standard of living for all older people, especially those with discontinuous work histories and low incomes who do not receive sufficient entitlements in the contributory system. Some countries have strengthened this provision by expanding coverage, establishing better indexation mechanisms or creating new programmes. Many reforms since the 2008 global financial crisis have focused on improving basic pensions. Between 2017 and 2020, around half of all European countries implemented reforms to improve minimum pension guarantees by introducing new pensions, increasing existing ones or creating non-contributory bonuses and top-ups. One example is Italy, which in 2019 established a new targeted non-contributory pension of 630 euros (plus a 150 euro housing supplement) for everyone aged 67 or over with at least 10 years' residence in the country and income below 9,360 euros a year. There were also more restrictive reforms. For example, in 2017 Denmark made access to the full universal pension conditional on a longer period of residence, and in 2019 Belgium introduced stricter controls on residence for minimum pension recipients.

As regards the experiences of African and Asian countries, non-contributory pensions are particularly necessary in these regions, given the high incidence of informal employment. Informal workers are not registered with the social security system, do not make contributions and are therefore not entitled to a contributory pension. In some cases, own-account employment, rural work (especially subsistence farming and seasonal work), family work and domestic work are excluded from general social security schemes or have extremely low levels of effective coverage.

In Asia, a number of countries have distinguished themselves over recent decades by the wide coverage of their non-contributory pension schemes. Thailand was one of the pioneers: its non-contributory pension was extended in 2009 and now reaches more than 8 million people (70% of the population aged 60 and over in 2018). Another noteworthy case is China, which in 2009 created a non-contributory pension (initially for the rural population but extended in 2011 to the urban population) that covers around 148 million people (71% of the population aged 60 and over). Several countries in Central Asia and West Asia have universal

pensions, or pensions targeted at the population with no other provision, and coverage levels are very high (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan). In South Asia, two other countries that have established guaranteed pensions with near-universal coverage are Maldives and Nepal (HelpAge International, 2018).

In sub-Saharan Africa, as mentioned above, countries such as Mauritius, Namibia and South Africa pioneered the implementation of universal non-contributory pensions in the first half of the twentieth century. Later, extensive non-contributory pension schemes were also introduced in the Seychelles (1979), Botswana (1996), Lesotho (2004), Eswatini (2005) and Cabo Verde (2006). In general, these are countries which have very low contributory pension coverage and where the modest non-contributory pension is the only entitlement received by the vast majority of the population (HelpAge International, 2018).

D. The role of non-contributory pension systems during the coronavirus disease (COVID-19) pandemic

During the COVID-19 pandemic, non-contributory pensions were a particularly important guarantee of regular income for the older persons who faced the greatest health risks in the event of infection with the virus. Having a guaranteed income facilitated social distancing by reducing the need to go out to work. The institutional frameworks of the non-contributory pension systems that existed before the pandemic were also important in managing social policies during the crisis. Many countries used these structures to rapidly deliver emergency entitlements to vulnerable populations. Like cash transfer programmes, some non-contributory pension systems provided additional entitlements to their recipients during this period.

Adjustments to non-contributory pensions in response to the economic and social effects of the COVID-19 pandemic¹² have been identified in at least 14 countries of Latin America and the Caribbean (see table I.2). Most of these measures consisted in bringing forward the delivery of cash transfers, goods or services under existing programmes. Such adjustments were made in the Bahamas, Brazil, Costa Rica, Guyana, Mexico, Paraguay, the Plurinational State of Bolivia and Peru.

¹² On the basis of Economic Commission for Latin America and the Caribbean (ECLAC), COVID-19 Observatory in Latin America and the Caribbean [online database] <https://www.cepal.org/en/subtopics/covid-19>; "Social protection measures to confront COVID-19" [online] <https://dds.cepal.org/observatorio/socialcovid19/en/listamedidas.php>.

Table I.2
Latin America and the Caribbean (14 countries): emergency measures involving non-contributory pension systems in response to the COVID-19 pandemic, announced between 1 March 2020 and 31 August 2022

Region/Country	Name of measure	Type of measure
Latin America		
Argentina	Extraordinary payment to pensioners	New action or service in an existing programme or measure
Bolivia (Plurinational State of)	Annual Renta Dignidad bonus	Advance payment of cash transfers under an existing programme
Brazil	Advance payment of entitlements under the Continuous Benefit Programme (BPC)	Advance payment of cash transfers under an existing programme
Colombia	Older Adults Social Protection Programme (Colombia Mayor)	Increase in cash transfers under an existing programme
Costa Rica	Advance payment of pensions under the Non-contributory Regime	Advance payment of cash transfers under an existing programme
Ecuador	Pension for older adults and pension for persons with disabilities	Increase in cash transfers under an existing programme
Mexico	Older Adult Welfare Pension Programme	Advance payment of cash transfers under an existing programme
Paraguay	Food Pension for Older Adults Living in Poverty	Advance payment of cash transfers under an existing programme
Peru	Pensión 65 non-contributory pensions and CONTIGO (two advance payments)	Advance payment of cash transfers under an existing programme
The Caribbean		
Bahamas	Advance pension payment	Advance payment of cash transfers under an existing programme
Guyana	Advance payment of the Old Age Pension (Universal)	Advance payment of cash transfers under an existing programme
	One-off cash grant for pensioners, beneficiaries of public assistance and people with disabilities	New programme or measure
Jamaica	COVID-19 Allocation of Resources for Employees (CARE) social pension grant	New programme or measure
Suriname	General Old-age Provision (AOV)	Increase in cash transfers under an existing programme
Trinidad and Tobago	Temporary income support to older persons whose applications are outstanding	New programme or measure

Source: Economic Commission for Latin America and the Caribbean (ECLAC), COVID-19 Observatory in Latin America and the Caribbean [online database] <https://www.cepal.org/en/subtopics/covid-19>; "Social protection measures to confront COVID-19" [online] <https://dds.cepal.org/observatorio/socialcovid19/en/listamedidas.php>; International Labour Organization (ILO), "Panorama de la protección social en América Latina y el Caribe: tendencias de la seguridad social con foco en los sistemas de pensiones y la seguridad económica de las personas mayores", *Panorama Laboral en América Latina y el Caribe 2022*, Lima, 2022; and official information from the countries.

Some countries also made conditions more flexible to ensure continuity of entitlements during lockdown (e.g. by implementing digital procedures) or even to expand coverage. In Brazil, the eligibility threshold for the Continuous Benefit Programme (BPC) was raised from a quarter to half a per capita minimum wage during the pandemic, and applicants on the waiting list were paid an advance on entitlements for three months. In Trinidad and Tobago, food support was provided to people who had

applied for the Senior Citizens' Pension and were awaiting a decision. Again, many of the emergency transfers that were created included recipients of non-contributory pensions as part of the eligible population (e.g. the Family Basket in the Plurinational State of Bolivia, the Family Protection Voucher in Ecuador and the Universal Family Voucher in Peru). In Chile, households with at least one person receiving a non-contributory pension (the Basic Solidarity Old-age Pension or Basic Solidarity Disability Pension) were able to receive the Emergency Family Income (IFE) without having to apply (ECLAC, 2023a).

Several countries provided for extra payments or increases in their non-contributory pensions. In Colombia, Ecuador and Suriname, emergency measures included increasing the transfer amounts of existing programmes, while in Guyana and Jamaica new programmes were identified. In Argentina, an extraordinary bonus was paid in March 2020 to everyone receiving a non-contributory pension. In Ecuador, recipients received a temporary increase in bonuses and pensions provided by the Ministry of Economic and Social Inclusion of six bimonthly payments of US\$ 15 from December 2020. Colombia provided 15 additional transfers to recipients of the Colombia Mayor programme, while Peru made a double payment in advance to recipients of the *Pensión 65* National Solidarity Assistance Programme and the National Programme of Non-contributory Pensions for Persons with Severe Disabilities Living in Poverty (CONTIGO) and Trinidad and Tobago made additional transfers for a period of three months to recipients of the Disability Assistance Grant (ECLAC, 2023a). Some of these measures are highlighted in table I.2.

The role played by non-contributory pension systems and other non-contributory cash transfers during the COVID-19 pandemic underlined the importance of the progress made in developing these entitlements over the previous two decades, including in crisis contexts. In particular, it highlighted the contribution of the institutional framework created around non-contributory pension systems and the resilience these provide to the social protection system as a whole when such situations arise. According to information from the Economic Commission for Latin America and the Caribbean (ECLAC), the behaviour of poverty and extreme poverty between 2019 and 2020 looks different when the results for the total population and for the population aged 65 and over are analysed.¹³ While poverty increased by 2.6 percentage points and extreme poverty by 1.9 percentage points for the total population between the two years, the increases for older persons were much lower at 0.7 percentage

¹³ Information for 18 countries of Latin America and the Caribbean based on the Household Survey Data Bank (BADEHOG) and CEPALSTAT [online database] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en>.

points and 0.8 percentage points, respectively. This shows the mitigating role played by social protection, and by access to non-contributory pension systems in particular, among the older population in contexts of crisis.

E. The gender dimension and the recognition of care work

The gender dimension is crucial for analysing the growing centrality of non-contributory pension systems, given its cross-cutting importance in the analysis of the different factors contributing to the expansion of these systems in Latin America and the Caribbean: (i) a demographic situation marked by rapid population ageing and the feminization of old age, given that women have a greater life expectancy than men; (ii) a labour market with high levels of informality closely related to persistent gender inequalities; (iii) low labour market participation by women, associated with the sexual division of labour, which results in women taking on most unpaid care work in households; and (iv) deficits in contributory pension systems, which are linked to the previous point (see chapter X). With shorter and less continuous working lives, lower labour force participation rates and lower wages, many women reach retirement age without having built up a contributions record sufficient for them to access a pension in the contributory system. Non-contributory pensions help to bridge this gap by at least partially offsetting the negative impact on pensions access of time spent on unpaid care work. It is therefore essential for the gender equality approach to be mainstreamed in the design of non-contributory pension systems, which may mean drawing on lessons from existing mechanisms in contributory pension systems, such as the care credits detailed below.

While contributory pension coverage is usually higher for men, this is not the case for non-contributory pensions, and in some countries coverage is actually higher for women, reflecting the importance of these pensions for gender equality (ECLAC, 2018 and 2022). For example, according to the 2021 data presented in chapter III, the coverage of non-contributory pension systems is higher on average for women than for men in nine Latin American countries. In Chile, an estimated 22.6% of women aged over 65, compared with 9.8% of men, received non-contributory pensions in 2021. In other countries that also have extensive non-contributory pension systems, such as Costa Rica, Ecuador, Mexico and Paraguay, the coverage rate is similar for men and women, or somewhat higher for women.

The importance of non-contributory pensions for women is also evident in many European countries. In those where non-contributory pensions are intended for everyone lacking access to another pension

(or receiving very low contributory benefits), coverage is heavily skewed towards women. In Sweden, 47.5% of women, compared to 15.8% of men, receive the guaranteed pension, while in Finland 44.4% of women receive this type of entitlement, compared to 26.3% of men. The coverage of non-contributory pensions targeted by socioeconomic level is generally much lower, although here too the proportion of women receiving them tends to be higher than the proportion of men. In Belgium, 5.8% of women and 3.8% of men receive the guaranteed minimum income for older persons; in Ireland, 15.5% of women and 11.5% of men receive the State Pension; and in Cyprus, 20% of women and less than 1% of men receive the non-contributory pension (European Commission, 2021a).

Gender gaps in the labour market not only affect access to a contributory pension, but also influence the pension amount. When pensions are calculated on the basis of previous wages, contributions or accumulated savings, gender gaps in labour force participation, employment and wages translate into lower entitlements for women. Pension system reforms, which have progressively tightened the link between contributions and entitlements (e.g. with individual saving systems), have tended to transfer gender inequalities from the labour market to pensions more directly, highlighting these gaps.

To compensate for gender gaps, some countries have implemented care credits that benefit women with children in the calculation of contributory pensions. These instruments recognize time spent caring for children (usually between a few months and several years) as an effective contribution period. They are generally for women only and are intended to mitigate gender gaps in pensions resulting from interruptions to or curtailment of women's careers due to care work. In some cases, they are linked to periods of maternity or caregiving leave, and in others they include a post-leave period. In certain systems, the State actually pays into the social security or pension fund, while in others the credit simply takes the form of recognition for pension calculation purposes (Arza, 2017a). Care credits are distributive tools that, while usually insufficient to eliminate gender gaps, can reduce them by directing resources towards women and improving their pension entitlements.

The ability of care credits to close gender gaps depends on their design, including eligibility conditions and the amounts involved. Where eligibility is concerned, the first important point is who is targeted (e.g. whether all women can apply or only women workers in the formal sector or in specific occupations). A second point is whether the entitlement requires there to have been a break in employment or overlaps with years of contributions actually paid. In Europe, the former is common, while the care credits that exist in Latin America do not require a break from work. The ability of these

instruments to compensate for gender gaps in pensions also depends on how generous they are, for example in the length of time provided for (how many months of contributions are credited for each child), whether income caps are applied when the credit is calculated, and the reference basis for the calculation. When the credit is a fixed amount or based on a minimum wage, it tends to be more redistributive but provides less compensation for work breaks to women earning above the minimum wage.

Work breaks due to maternity are taken into account in the calculation of pensions in 109 of the 190 countries for which global data are available. In most cases, it is the period of maternity or parental leave that is recognized, whether or not actual contributions are made during that period. In a smaller but growing number of countries, a longer recognition period is established for pension calculation purposes to compensate for the reduction in pension entitlements associated with maternity, for example when women leave the labour force or reduce their working hours to devote themselves to care (World Bank, 2023).

Virtually all European countries have some mechanism for recognizing work breaks for childcare, during and after maternity leave (Horstmann and Hülsman, 2009; Arza, 2015; European Commission, 2021a). Credits are granted subject to certain conditions that vary from country to country, for periods ranging from 6 months (Croatia) to 10 years (Germany, under certain conditions), and are calculated on different income bases, such as actual income, median income or some other predetermined amount. In countries with universal pension systems based on residence, such as Denmark and the Kingdom of the Netherlands, periods of care do not affect pension entitlement and therefore do not need to be offset in this way.

Some of the countries that pioneered the implementation of care credits are Germany, Norway and Sweden, which have been providing these entitlements for at least four decades (Jankowski, 2011). Many countries have recently strengthened and expanded these programmes, partly in response to the needs of pension systems that more and more closely reflect each individual's employment history and penalize those who interrupt their careers to devote themselves to caregiving (Arza, 2015). The scope and generosity of care credits vary widely. Some countries, such as Germany, provide entitlements for very long periods (up to 10 years), and others, such as France and Sweden, allow families to choose between multiple care credit options according to their preferences (Arza, 2017a).

The German pension system works with points which each person accumulates on the basis of his or her wage and contribution record. Workers caring for a child aged 0–3 years receive one point per year (equivalent to the entitlement of a worker on the average wage), which is added to the points

earned through their actual contributions to determine their pension on retirement. Parents in paid employment with children between 3 and 10 years of age can receive an additional credit that increases pension entitlement by up to 50% during this period, which particularly helps those in part-time or low-wage employment. Those who are not in paid employment and have two or more children (at least one under the age of 10) are entitled to a care credit equivalent to up to one third of a pension point. Since 2002, there has also been a year-end care contribution made by the State for the Riester supplementary individual saving pension (Arza, 2017a).

In France, lower-paid female workers who receive family entitlements (such as family leave) can obtain care credits of up to three years per child, based on the minimum wage. Higher-earning women workers in full-time employment, meanwhile, can be granted a reduction in the number of years of contributions needed to qualify for a full pension of up to two years per child. Lastly, pensioners who have three or more children are eligible for a retirement bonus consisting of a 10% increase in the pension payable under the scheme.

In the Swedish public system (which combines notional accounts and individual funding), three types of childcare-related pension credits are paid by the government. Credits are calculated on people's income following the birth of their child. For those whose income falls or who have no income at all after the birth, the credit can be calculated on the basis of their actual income the previous year or 75% of average earnings, whichever is most beneficial to them. Those with the same or a higher income after the birth are given a credit calculated on a base income that is the same for everyone (OECD, 2021).

In general, all care credits in European pension systems currently require a break in employment and partially offset the cost of this break for the future pension. In Belgium, Finland, Hungary and Italy, the baseline is the previous wage, which allows a relatively stable contribution record to be maintained during the break in employment. However, only 80% of the previous wage is considered in Finland and 70% in Hungary (Horstmann and Hüßman, 2009; Arza, 2017a). In Austria and Germany, on the other hand, the calculation is based on an amount that is the same for everyone, which is a more progressive approach in distributional terms, but may provide only partial compensation in the case of medium to high earners. Some countries have adopted mixed strategies. In Poland, for example, the State pays contributions for periods of childcare on the basis of the minimum wage and previous earnings (with a cap). Only in universal systems based on years of residence rather than contributions (Denmark and the Kingdom of the Netherlands) do career breaks not affect the public pension, although they may affect supplementary contributory pensions (European Commission, 2021a).

In several European countries, more recent reforms have also incorporated better provision for the recognition of unpaid care in pension calculations, via both care credits and direct pension top-ups. In 2016, Spain introduced a maternity top-up that adds between 5% and 15% to the value of the pensions of women who have had two or more children. In at least 10 European countries, actions were taken during the period 2017–2020 to improve benefits linked to care for children or other family members with care needs. In 2019, Poland established an additional tax-financed benefit called Mother 4+ that is paid to women who have raised four or more children and have no pension entitlement or receive pensions below the minimum. In 2018, Croatia recognized a six-month contribution period for each biological or adopted child, and in 2020, Slovenia introduced a one-year care credit for up to three children (European Commission, 2021a).

Credits for caring for other family members are less common, but are available in at least three European countries: Austria, Czechia and Germany. In 2020, Bulgaria and Lithuania extended the conditions under which those caring for people with disabilities can claim care credits for the calculation of their pensions.

These instruments have been developed more recently in Latin America and the Caribbean. Currently, at least four countries in Latin America recognize an extra contribution period for each child to improve the entitlements mothers receive from the pension system (see table I.3). Chile and Uruguay introduced this instrument in 2008, followed by the Plurinational State of Bolivia in 2010 and Argentina in 2021 (Yáñez, 2010; Aguirre and Scuro, 2010; Arza, 2017b; Mesa-Lago, 2022). In all four cases, the credit is targeted at mothers. In Argentina, it is higher for children with disabilities, reflecting the greater demand for care that these cases entail, but it does not include entitlements for the care of other family members. In no case is a break from work a requirement. In Argentina, the Plurinational State of Bolivia and Uruguay, the benefit simply consists in an extra period added to the contributions record at retirement, regardless of whether or not the person was in the labour market during that period. This facilitates implementation and makes it possible to take account not only of breaks in employment but also of other impacts that care has on people's careers and pensions, such as part-time jobs, reduced opportunities for promotion and advancement, and possibly informality, given the more flexible hours that care work necessitates. In Chile, the credit per child involves a transfer from the State to the individual account for each live birth or adopted child at the end of the recipient's working life, which augments the fund on which the pension is calculated.

Table I.3
Latin America (4 countries): child credits in pension systems

	Recipient	Employment break required?	Credit per child	Legal basis
Argentina	Mothers ^a	No	12 months per biological child, 24 months per adopted child 12 extra months in the case of disability 24 extra months for beneficiaries of the Universal Child Allowance (AUH)	Decree No. 475/2021, art. 1 (2021)
Bolivia (Plurinational State of)	Mothers ^a	No	12 months (up to three children)	Act No. 65, art. 77 (2010)
Chile	Mothers aged 65 and older. The entitlement is granted for each live birth or adopted child and for recipients who have lived in the country for at least 20 years, and for 4 of the last 5 years preceding the request	No	18 months, 10% of the minimum wage plus yield	Act No. 20255, arts. 74–79 (2008)
Uruguay	Mothers ^a	No	12 months, based on beneficiary's actual wage (up to five children)	Act No. 18395, art. 14 (2008)

Source: Prepared by the authors, on the basis of V. Amarante, M. Colacce and P. Manzi, “La brecha de género en jubilaciones y pensiones: los casos de Argentina, Brasil, Chile y Uruguay”, *Gender Affairs series*, No. 138 (LC/L.4223), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2016; V. Amarante and V. Tenenbaum, “Caregiver pension credits for women: recent experience in Uruguay”, *Social Policy and Administration*, vol. 52, No. 6, Hoboken, Wiley, 2018; C. Arza, “Pension reforms and gender equality in Latin America”, *UNRISD Research Paper*, No. 2012-2, Geneva, United Nations Research Institute for Social Development (UNRISD), 2012; “Non-contributory benefits, pension re-reforms and the social protection of older women in Latin America”, *Social Policy and Society*, vol. 16, No. 3, Cambridge, Cambridge University Press, 2017; F. Marco, “La nueva ola de reformas previsionales y la igualdad de género en América Latina”, *Gender Affairs series*, No. 139 (LC/L.4225), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2016; World Bank, “Women, Business and the Law Data 2023”, Washington, D.C., 2023 [online] <https://wbl.worldbank.org/en/wbl-data>; and national legislation.

^a Mothers entitled to a contributory pension (Argentina and Uruguay) or a Solidarity Old-age Pension (Plurinational State of Bolivia) once the non-contributory child credit owed to them is factored in.

F. Challenges and opportunities in the expansion of non-contributory pension systems: key approaches for greater sustainability

The coverage of non-contributory pension systems has increased very substantially in Latin America and the Caribbean over the past 20 years (see chapter III). If this trend continued, these entitlements would cover an average of 40% of the population aged 65 and over by 2030 (Arenas de Mesa, 2019), which would represent an excellent opportunity to move forward with the effort to eradicate poverty and reduce inequality in old age (see chapter IX).

Considering the global experience described in this chapter and the lessons that can be drawn from it, there are at least four factors that suggest it is necessary and timely to continue this process of expanding non-contributory pension systems in the region: (i) the demographic transition, which entails rapid ageing, with a consequent increase in the share of the older population; (ii) the characteristics of the labour market, which presents high occupational informality throughout the region; (iii) the low coverage of contributory pension systems; and (iv) the low financial and fiscal cost (in relative terms) of these entitlements. To these must be added the persistent gender inequalities and other manifestations of social inequality in the region. As this chapter has shown, non-contributory pension systems can play a very important role in reducing inequalities in access to pension systems, in conjunction with measures that can be incorporated into contributory pension systems and that mainstream gender equality and a universalism sensitive to differences. This should also be linked to efforts to strengthen social protection systems as a whole and to strategic components that help reduce the gender inequalities which arise over the life cycle and manifest themselves in pension systems, including the expansion and consolidation of comprehensive care policies.¹⁴

In the region, rapid ageing will mean the population aged 65 and over increasing in size and importance in the coming decades, which will substantially augment the demands on both contributory and non-contributory pension systems. In addition, analysis of labour market characteristics indicates that one in every two employed persons is working informally (ECLAC, 2023b), foreshadowing greater demand for non-contributory pensions. These two trends suggest that the current constraints on contributory pension systems in respect of both coverage and the sufficiency of entitlements will persist and in some cases worsen over the coming decades. They are very likely to lead to increased pressure on non-contributory pension systems, especially from women, who have a longer life expectancy and lower labour force participation than men (Arenas de Mesa, 2019).

The expansion of non-contributory old-age pension systems over the past 20 years has entailed an increase in public spending equivalent to 0.27% of GDP. If this trend continued, it would be entirely feasible, financially and fiscally, to increase the coverage of non-contributory pension systems among the population aged 65 and over and progress towards the goal of eradicating old-age poverty and reducing inequalities, especially income and gender inequalities among the older population throughout the region (Arenas de Mesa, 2020).

¹⁴ On this point, see, for example, the Santiago Commitment (ECLAC, 2023c).

In this context, the social protection approach to non-contributory pension systems involves adopting a universal perspective, providing sufficient entitlements and ensuring that these systems are comprehensive in their provision, integrated with contributory pension systems, resilient to crises, and sustainable, especially in financial terms. These are the characteristics that the countries of the region should look to as they implement or strengthen non-contributory pension systems (see chapter X).

Lastly, one of the main challenges in the effort to continue expanding non-contributory pension systems is to strengthen their social security institutional frameworks. Investing in this dimension is essential to ensure that old-age poverty eradication goals are met. The social institutional framework and governance of non-contributory pension systems will be crucial in ensuring that the good results achieved in the region are maintained and for harnessing and incorporating the changes that the technological transformation will bring in social protection and in these systems.

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Chapter II

Comparison of the design of non-contributory pension systems in Latin America and the Caribbean

Camila Arza

Introduction

After more than two decades of expansion, and over a century since the creation of the first non-contributory pension in Latin America and the Caribbean, 28 of the region's 33 countries currently have at least one pension of this type. This chapter makes a comparative analysis of the design of non-contributory pensions in 25 countries for which information is systemized in the Non-contributory Social Protection Programmes Database in Latin America and the Caribbean, of the Economic Commission for Latin America and the Caribbean (ECLAC, 2023).¹ The chapter reviews the development path of these programmes throughout the region, highlighting the major boost they received during the first two decades of the

¹ The database does not yet contain information on three other countries that have non-contributory pensions (Dominica, Jamaica and Suriname); and Grenada, Haiti, Honduras, Nicaragua and Saint Lucia have not yet implemented such entitlements, according to the available information.

twenty-first century. It compares their main characteristics, including coverage, entitlement amounts and institutional framework; and it highlights the heterogeneity of design and scope prevailing among the countries of the region.

A. The development of non-contributory pension systems in Latin America and the Caribbean

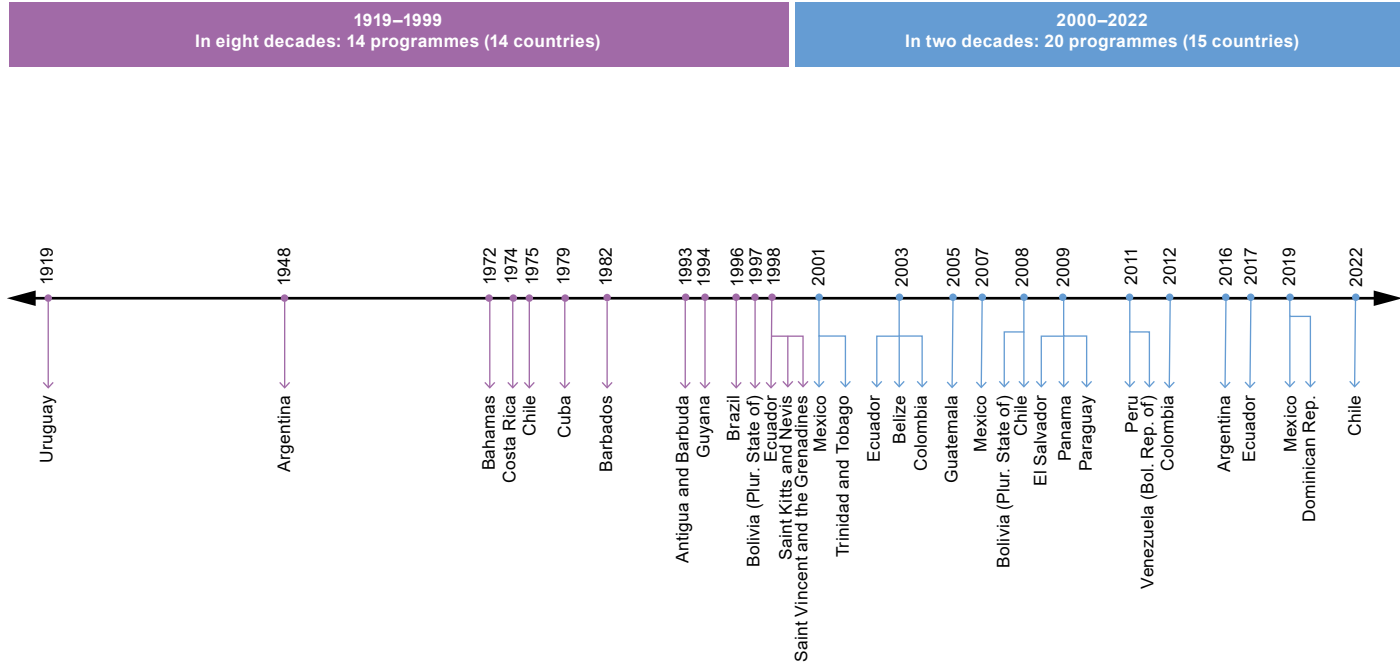
Although the main component of Latin American pension systems has been the contributory system from the outset, non-contributory pensions also have a long history in some countries. The first non-contributory pension programme was created in Uruguay in 1919, and the second was rolled out in Argentina in 1948. Another four countries created programmes of this type in the 1970s: the Bahamas in 1972, Costa Rica in 1974, Chile in 1975 and Cuba in 1979 (see diagram II.1). Several other countries joined this trend in the 1980s and 1990s by implementing new non-contributory old-age or disability pensions, generally targeted to the low-income population. The coverage of these programmes, which varies from one country to another, remained relatively sparse until the first decade of the twenty-first century, when a rapid and pronounced expansion process began throughout the region.

Two countries —Brazil and the Plurinational State of Bolivia— anticipated this regional trend and launched expansionary processes in the 1990s. In Brazil, this was framed by the new Constitution of 1988 (Alves and others, 2009). In 1993, the Organic Law of Social Assistance² created the Continuous Benefit Programme (BPC), which was implemented in 1996, replacing the Lifetime Monthly Income programme that had been in force since 1974.³ The reform maintained the targeted nature of the non-contributory entitlement, but expanded its coverage and increased its amount. The age of eligibility for the entitlement was set at 65 years (instead of 70 in the previous programme), and the requirement for 12 months of social security contributions was abolished. In addition, access to the entitlement was extended to any eligible family member (not just to the head of the family, as in the previous system). The monthly amount was doubled from half of a minimum wage to one minimum wage (Delgado and Cardoso Jr., 2005; Schwarzer and Ferreira de Santana, 2013; Schwarzer and Querino, 2002).

² Act No. 8.742 of 7 December 1993.

³ This entitlement had a 12-month contribution requirement, so it is not analysed here.

Diagram II.1
**Latin America and the Caribbean (25 countries): creation of non-contributory
old-age (or old-age and disability) pensions, 1919–2022^a**



Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>.

^a The non-contributory pension systems of Dominica, Jamaica and Suriname are not included, because the data needed for inclusion in the Non-contributory Social Protection Programmes Database in Latin America and the Caribbean are not available.

The Plurinational State of Bolivia was also a pioneer in establishing broad-based non-contributory pensions (see chapter IV). In 1996, as part of the privatization of the contributory pension system, the *Bonosol* solidarity bond was created as a non-contributory entitlement for persons aged over 65 (Müller, 2009; Aponte and others, 2006). This consisted of an annual lifetime entitlement for which anyone born before 1974 was eligible upon reaching 65 years of age. The programme was to be financed from the profits of privatized firms. The entitlement was intended only for the population that had reached the age of 21 when the firms in question were privatized and was therefore designed to expire over time. The first payment was made in 1997; but, between 1998 and 2002, the programme was suspended and replaced by the *Bolivida* programme, with lower entitlement levels. *Bonosol* was reinstated in 2023 and operated until 2008 when it was replaced by the *Renta Dignidad* universal old-age pension, a new broader-scope universal entitlement that was designed as a stable component of the social protection system.

Several Caribbean countries (Antigua and Barbuda, Bahamas, Barbados, Guyana, Saint Kitts and Nevis, and Saint Vincent and the Grenadines) also created new non-contributory pension programmes or expanded existing ones during the 1990s (see diagram II.1). In that period, however, many countries focused more on structural reform of the contributory system and the creation of individual capitalization schemes, than on expanding non-contributory pensions. Given the concern to avoid potential disincentives to contribution and individual savings, the non-contributory pension systems that already existed in these cases tended to maintain strict access conditions, low coverage rates and small budgets, which were insufficient to fill the coverage gaps.

In the decade of 2000, a sustained expansion of non-contributory pensions began in the region, with new programmes being created and the coverage of existing ones being expanded (Rofman, Apella and Vezza, 2013; Arza, 2019; Arenas de Mesa, 2019). The State played a more active role in the provision of social protection for older persons and persons with disabilities, prioritizing the inclusion of those who did not have a contributory entitlement. In many countries, non-contributory pensions became a central component of the economic protection system in old age. In some cases the expansion aimed at universal coverage, with systems being implemented that were designed not only to provide economic assistance to the older-age population living in poverty or extreme poverty, but also to guarantee basic coverage for all or most older persons.

Also in that decade, eight countries (Belize, Colombia, El Salvador, Guatemala, Mexico, Panama, Paraguay and Trinidad and Tobago) created new non-contributory old-age (or old-age and disability) pensions; and three countries (Chile, Ecuador and the Plurinational State of

Bolivia) replaced existing programmes with alternatives designed to be more inclusive. In the following decade and since, eight countries have made progress in this direction. Three of them (the Bolivarian Republic of Venezuela, the Dominican Republic and Peru) created new non-contributory pensions; and another five (Argentina, Chile, Colombia, Ecuador and Mexico) replaced or complemented their existing programmes with new ones offering improved coverage or sufficiency.

Chile was one of the first countries in the region to establish a non-contributory pension (the Assistance Pension in 1975); and it was also one of the first to move towards universal coverage. In 2006, it launched a reform process aimed at improving the performance of the pension system in terms of coverage, sufficiency and equity; and this culminated in the adoption of a new law in 2008. One of the key innovations of this reform was the creation of a solidarity pillar to provide minimum pension guarantees to the entire population in the lower 60% of the income distribution. More recently, in 2022, this solidarity pillar was replaced by a new entitlement, the Universal Guaranteed Pension (PGU), which currently covers the entire population, except for the wealthiest 10% (see chapter IV). Alongside the Chilean experience, the paradigmatic cases of the Plurinational State of Bolivia, through *Renta Dignidad*, and Mexico, with the Pension for the Well-being of Older Persons, play a key role in revealing potential paths towards the universalization of non-contributory pensions.

With the creation of new programmes, several countries also improved the sufficiency of the entitlements. For example, in Ecuador, the Pension for Older Adults has existed since 2003 and pays US\$ 50 per month to persons living in poverty. In 2017, the *Mis Mejores Años* pension was created, paying a monthly amount of US\$ 100; and most of the entitlements currently in force correspond to this pension. This has raised the average entitlement to US\$ 98.9, which is almost equal to the poverty line.

In some countries, non-contributory pension reforms sought to improve support for persons in situations of extreme economic vulnerability and, particularly, in the case of disability risks. Thus, during the decade of 2000, several countries created new non-contributory pensions for persons with severe or permanent disabilities. Costa Rica launched the Poverty and Disability Programme in 1999, and was followed by Panama with the Guardian Angel Programme created in 2009, Ecuador with the Joaquín Gallegos Lara Bond in 2010, the Plurinational State of Bolivia with the Solidarity Income programme in 2013 (replaced in 2018 by the Monthly Allowance for Persons with Severe and Very Severe Disabilities)⁴ and Peru with the National Programme of Non-contributory Pensions for Persons with Severe Disabilities Living in Poverty (CONTIGO), in 2017.

⁴ Act No. 977 of 2017.

As a result of this expansionary process, some countries in the region have achieved close to universal total coverage (considering both contributory and non-contributory systems). In doing so, two main strategies can be discerned. In Argentina, Brazil and Uruguay, for example, most people receive entitlements from the contributory system. This partly reflects a higher degree of labour formality, the early development of pension institutions and the existence of facilities for gaining a retirement pension with few or no actual contribution requirements (such as the Rural Pension in Brazil and the Pension Moratoriums programme in Argentina).⁵ In these three countries, non-contributory pensions have low coverage rates because the gap left by the contributory system is relatively small. The other four countries in the region that cover close to 100% of the older-age population are Chile, Guyana, Mexico and the Plurinational State of Bolivia. In Guyana, Mexico and the Plurinational State of Bolivia, the contributory system leaves a very wide gap, and full coverage is achieved through universal non-contributory pensions.

B. Comparative design features of non-contributory pensions in Latin America and the Caribbean

The design, scope and impact of non-contributory pensions in Latin America and the Caribbean vary widely. Table II.1 presents the main characteristics of the non-contributory old-age and disability pension programmes of the 25 countries analysed in this chapter, in terms of their duration, the risk covered, the targeting, the type of entitlement provided and the results in terms of coverage. A total of 46 programmes are included, of which 38 are currently in force, and eight operated in the past but have now been replaced by new ones.

This section focuses on three dimensions of the design of non-contributory pensions:⁶ (i) coverage (access conditions); (ii) amount; and (iii) institutional framework (including the integration of non-contributory pensions into the national pension systems). These factors determine the degree of protection that the pension schemes can provide and their effects on poverty and inequality.

⁵ The Pension Moratoriums programme made access to contributory pensions more flexible by allowing persons of retirement age who did not have the necessary contributions to gain access a pension, from which monthly deductions would subsequently be made to compensate for the contributions due. Between early 2006 and mid-2010, about 2.45 million new retirements were registered under this programme, and coverage increased from 62% to 85% of the retirement-age population (see Arza, 2012).

⁶ The financial sustainability dimension of pension systems is discussed in depth in chapter IX.

Table II.1
**Latin America and the Caribbean (25 countries): non-contributory pensions
 (old-age and disability) by year of creation and type^a**

Country	Programme ^a	Start and end year (as applicable)	Risk covered (old age or disability) ^b	Targeting (targeted or universal) ^c	Requires not having contributory pensions?	Type of entitlement ^d	Coverage of pension recipients (aged 65 and older) ^e (Percentages)
Antigua and Barbuda	Old-age Assistance Programme (OAP)	1993	OA	Targeted	Yes	Flat	<10
	People's Benefit Programme (PBP)	2009	D	Targeted	No	Flat	
Argentina	Non-contributory Pension Programme	1948	OA + D	Targeted	Yes	Flat	<10
	Universal Pension for Older Adults (PUAM)	2016	OA	Targeted	Yes	Flat	<10
Bahamas	Old-age Non-contributory Pension (OANCP)	1972	OA	Targeted	Yes	Flat	<10
	Disability assistance (IA)	1972	D	Targeted	No	Flat	Not applicable
Barbados	Non-contributory Old-age Pension (NCOAP)	1982	OA	Targeted	Yes	Flat	<10
Belize	Non-contributory Pension Programme (NCP)	2003	OA	Targeted	Yes	Flat	<10
Bolivia (Plurinational State of)	<i>Bonosol</i> solidarity bond	1997–2007	OA	Universal	No	Flat	>75
	<i>Renta Dignidad</i> universal old-age pension (RD)	2008	OA	Universal	No	Variable	>75
	Solidarity Income programme	2013–2017	D	Universal	No	Flat	Not applicable
	Monthly Allowance for Persons with Severe and Very Severe Disabilities (BMPDGyMG)	2017	D	Targeted	No	Flat	Not applicable
Brazil	Continuous Benefit Programme (BPC)	1996	OA + D	Targeted	Yes	Flat	10–30

Country	Programme ^a	Start and end year (as applicable)	Risk covered (old age or disability) ^b	Targeting (targeted or universal) ^c	Requires not having contributory pensions?	Type of entitlement ^d	Coverage of pension recipients (aged 65 and older) ^e (Percentages)
Chile	Assistance Pension (PASIS)	1975–2008	OA + D	Targeted	No	Variable	10–30
	Basic Solidarity Old-age Pension	2008–2021	OA	Targeted	Yes	Flat and variable ^f	10–30
	Basic Solidarity Disability Pension	2008	D	Targeted	Yes	Flat	Not applicable
	Universal Guaranteed Pension (PGU)	2022	OA + D	(Quasi-) universal	No	Variable	>75
Colombia	Old-age Social Protection Programme	2003–2012	OA	Targeted	No ^g	Variable	10–30
	<i>Colombia Mayor</i> programme (PCM)	2012	OA	Targeted	No	Flat	10–30
Costa Rica	Non-contributory Scheme for Basic Pensions (RNC)	1974	OA	Targeted	Yes	Flat	10–30
	Poverty and Disability Programme	1999	D	Targeted	Yes	Flat	Not applicable
Cuba	Social Assistance Regime (RAS)	1979	OA + D	Targeted	Yes	Variable	<10
Dominican Republic	Solidarity pensions of the Subsidized Regime (PSRS)	2019	OA + D	Targeted	Yes	Flat	<10
Ecuador	Solidarity Bond	1998–2003	OA	Targeted	No	Flat	No information
	Pension for Older Adults	2003	OA + D	Targeted	Yes	Flat	<10
	Joaquín Gallegos Lara Bond (JGL)	2010	D	Targeted	No	Flat	Not applicable
	Pension for Persons with Disabilities	2003	D	Targeted	No information	Flat	Not applicable
	<i>Mis Mejores Años</i> pension (PMMA)	2017	OA	Targeted	No information	Flat	10–30
	<i>Toda Una Vida</i> pension	2019	D	Targeted	No information	Flat	Not applicable

Country	Programme ^a	Start and end year (as applicable)	Risk covered (old age or disability) ^b	Targeting (targeted or universal) ^c	Requires not having contributory pensions?	Type of entitlement ^d	Coverage of pension recipients (aged 65 and older) ^e (Percentages)
El Salvador	<i>Nuestros Mayores Derechos</i> (NMD)	2009	OA	Targeted	Yes	Flat	<10
Guatemala	Older Adult Economic Contribution Programme (AEAM)	2005	OA	Targeted	Yes	Flat	10–30
Guyana	Old-age Pension (universal) (OAPU)	1994	OA	Universal	No	Flat	>75
Mexico	Food pension for persons over age 68 residing in Mexico City	2001–2018	OA	Universal (Mexico City)	No	Flat	<10 ^h
	Older Adults Pension, formerly the 70 and over programme	2007–2018	OA	Targeted ⁱ	No	Flat	51–75
	Pension for the Well-being of Older Persons (PBPAM) Pension for the Well-being of Persons with Permanent Disabilities (PBPDP)	2019	OA + D	Universal	No	Flat	>75
Panama	Guardian Angel Programme (PAG)	2013	D	Targeted	No	Flat	Not applicable
	Special Cash Transfer Programme for Older Adults (120 at 65)	2009	OA	Targeted	Yes	Flat	31–50
Paraguay	Food pension for older adults living in poverty (PAAM)	2009	OA	Targeted	Yes	Flat	51–75
Peru	“Pension 65” National Solidarity Assistance Programme	2011	OA	Targeted	Yes	Flat	10–30
	National Programme of Non-contributory Pensions for Persons with Severe Disabilities Living in Poverty (CONTIGO)	2017	D	Targeted	Yes	Flat	Not applicable

Country	Programme ^a	Start and end year (as applicable)	Risk covered (old age or disability) ^b	Targeting (targeted or universal) ^c	Requires not having contributory pensions?	Type of entitlement ^d	Coverage of pension recipients (aged 65 and older) ^e (Percentages)
Saint Kitts and Nevis	Non-contributory Assistance Pension (NCAP)	1998	OA + D	Targeted	Yes	Flat	<10
Saint Vincent and the Grenadines	Non-contributory Assistance Age Pension (NAAP)	1998	OA	Targeted	No	Flat	<10
Trinidad and Tobago	Disability Assistance Grant (DAG)	1997	D	Targeted	No	Flat	Not applicable
	Senior Citizens' Pension (SCP), formerly the Old-age Pension	2001	OA	Targeted	Yes	Variable	51–75
Uruguay	Non-contributory old-age and disability pensions (PVI)	1919	OA + D	Targeted	Yes	Flat	<10
Venezuela (Bolivarian Republic of)	<i>Gran Misión en Amor Mayor</i>	2011	OA	Targeted	No	Flat	10–30

Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; and administrative data from the countries.

^a No information was available for Dominica, Jamaica or Suriname. No non-contributory pension programmes were identified in Grenada, Haiti, Honduras, Nicaragua and Saint Lucia.

^b OA: provides old-age entitlements only; D: provides disability entitlements only; OA+D: provides both old-age and disability entitlements.

^c Targeted: applies a socioeconomic selection criterion (poverty, vulnerability, income ceiling or receipt of a contributory pension). Universal: is available to the entire population that meets the categorical access conditions without socioeconomic targeting. Chile's PGU is classified as quasi-universal, since it covers the entire population except for the wealthiest 10%.

^d Flat: the transfer amount is the same for all individuals. Variable: the amount varies according to whether the recipient receives a contributory pension, their place of residence or poverty level, among other criteria.

^e The coverage rate refers to 2021 or the latest year for which information is available. In the case of discontinued programmes, the percentage corresponds to their last year of validity. Only information on non-contributory old-age pensions is included; in the case of non-contributory disability pensions, coverage is not calculated for the population aged 65 years or older.

^f Starting in 2019, the amount of Chile's Basic Solidarity Old-age Pension varies according to age.

^g In Colombia's Old-age Social Protection Programme, the lack of a non-contributory pension is not a requirement but a prioritization criterion.

^h The coverage of the food pension for persons over age 68 residing in Mexico City refers to the percentage of the total national population.

ⁱ Mexico's Older Adults Pension includes the requirement of not having a contributory pension above a predetermined amount.

1. Coverage: towards more inclusive systems

Most non-contributory pension programmes in Latin America deliver targeted entitlements. However, since the early years of the 2000 decade, there has been a shift from narrowly targeted programmes of limited coverage, which were characteristic of the 1980s and 1990s, to programmes with more inclusive access conditions that provide entitlements with broader targeting criteria, or even universal access.

Although the binary classification of programmes in terms of access conditions is useful for distinguishing those that use some type of socioeconomic selection from those that only apply categorical access conditions (such as age, disability and place of residence), the degrees of targeting in socioeconomically targeted programmes vary widely, depending on the criteria used. These may be restricted exclusively to the population living in extreme poverty, or else they may also include the vulnerable population or even part of the middle class. An example was Chile's Solidarity Pension System, established in 2008 and recently replaced by PGU. Along with other entitlements incorporated in the solidarity pillar, this provided old age and disability support to everyone in the lowest 60% of the income distribution.

Currently, four countries in Latin America and the Caribbean (Chile, Guyana, Mexico and the Plurinational State of Bolivia) have universal or quasi-universal non-contributory pensions. In Chile, PGU, which was created in 2022, is quasi-universal, targeting the entire population except for those in the highest 10% of the income distribution (see chapter IV). Apart from these cases, most non-contributory pensions in the region apply socioeconomic targeting, albeit with a variety of criteria reflected in coverage rates, which also vary widely from country to country.

Table II.2 shows the distribution of countries by type of targeting (socioeconomic or universal) and the effective coverage of their non-contributory old-age pensions as a percentage of the population over 65 years. Universal non-contributory pensions have very broad coverage by definition, because they target all of the population, or nearly all of it. In the case of non-contributory pensions with some degree of socioeconomic targeting, effective coverage also depends on the size of the target population (for example, how many people aged over 65 are living in poverty in the country). Since non-contributory pensions aim to fill the coverage gaps left by the contributory system, their scope often also depends on the coverage rate of that system. The greater the coverage of the contributory system, the lower the non-contributory coverage rate tends to be (as exemplified by Argentina and Uruguay, two countries with high contributory and low non-contributory coverage rates).

Table II.2
Latin America and the Caribbean (25 countries): distribution of non-contributory old-age pensions, by coverage rate and type of targeting, 2021 or latest year for which information is available

Coverage (Percentage of the population aged 65 years and over)	Socioeconomic targeting ^a	Universal ^b
<10	Antigua and Barbuda: Old-age Assistance Programme Argentina: Non-contributory Pension Programme and PUAM Bahamas: Old-age Non-contributory Pension Barbados: Non-contributory Old-age Pension Belize: Non-contributory Pension Programme Cuba: Social Assistance Regime Dominican Republic: solidarity pensions of the subsidized regime El Salvador: <i>Nuestros Mayores Derechos</i> Saint Kitts and Nevis: Non-contributory Assistance Pension Saint Vincent and the Grenadines: Non-contributory Assistance Age Pension Uruguay: non-contributory old-age and disability pensions	
10–30	Brazil: Continuous Benefit Programme(BPC) Colombia: <i>Colombia Mayor</i> programme Costa Rica: Non-contributory Scheme for Basic Pensions Ecuador: <i>Mis Mejores Años</i> pension Guatemala: Older Adult Economic Contribution Programme Peru: "Pension 65" National Solidarity Assistance Programme Venezuela (Bolivarian Republic of): <i>Gran Misión en Amor Mayor</i>	
31–50	Panama: Special Cash Transfer Programme for Older Adults (120 at 65)	
51–75	Paraguay: food pension for older adults living in poverty Trinidad and Tobago: Senior Citizens' Pension	
>75		Bolivia (Plurinational State of): <i>Renta Dignidad</i> Chile: PGU Guyana: Old-age Pension (universal) Mexico: Pension for the Well-being of Older Persons

Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>.

^a Pensions for which a socioeconomic selection criterion is applied (poverty, vulnerability, income ceiling or receipt of a contributory pension).

^b Pensions available to anyone who meets the categorical conditions, without socioeconomic targeting. This group also includes Chile's PGU, which only excludes the 10% of the population with the highest incomes.

Most non-contributory pension systems cover less than 10% of the population aged 65 years and over. Such is the case of 11 of the 25 old-age programmes included in table II.2. In another seven, coverage is between 10% and 30%. All of these programmes apply socioeconomic targeting. Only two targeted programmes achieve coverage of over 50% (non-contributory pensions in Paraguay and in Trinidad and Tobago). Universal pensions have the highest coverage of all, since they target all, or nearly all, of the population by design. In the four countries in the region that have programmes of this type (Chile, Guyana, Mexico and the Plurinational State Bolivia), coverage is over 75% of the population, and close to 100% in all of them except Chile.

Among the categorical access conditions, residency or citizenship requirements are particularly prominent, along with age of access in the case of old-age pensions. Non-contributory pensions usually require a fixed residence in the country at the time of applying for the entitlement, in addition to a minimum previous residency period. In some cases, residency requirements differ for citizens and foreign nationals. For example, in Guyana the requirement is to have been a citizen for at least 10 years or to have 20 years' residency in the country (ECLAC, 2023). Accessing PUAM in Argentina requires being a citizen, or else being naturalized with 10 years of residency, or a foreign national with 20 years' residency in the country.⁷ Chile and Uruguay, in contrast, establish a common requirement for all recipients. In Uruguay, eligibility for the non-contributory old-age and disability pension requires at least 10 years' residency in the past 20 years.⁸ In Chile, access to PGU requires at least 20 years' residency, whether or not continuous, starting at age 20, and at least four years' residency in the five years immediately preceding the application.⁹

In terms of the age of access, most non-contributory pensions specify an age around 65 years, which is a relatively common parameter also for contributory pension systems. Figure II.1 shows the distribution of the countries in groups by age of access. While the regional average is 64.3 years, the age of access in 15 of the 26 programmes analysed is 65 years. Six countries with non-contributory pensions require ages over 65 years: Argentina (Non-contributory Pension Programme), El Salvador (*Nuestros Mayores Derechos*) and Uruguay (non-contributory old-age and disability pensions), accessible at 70 years of age; Barbados (Non-contributory Old-age

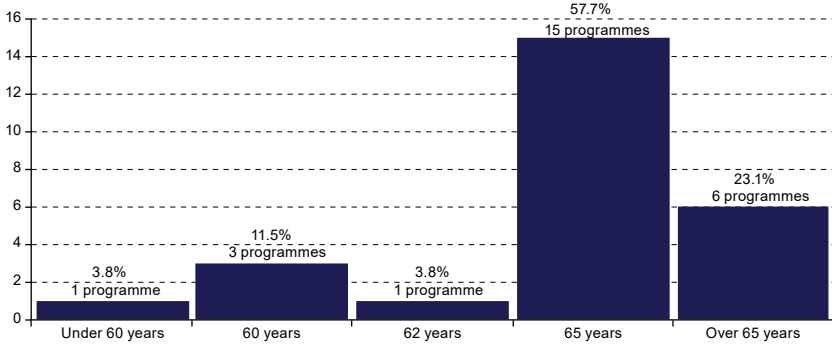
⁷ See National Social Security Administration, "Tramitar la Pensión Universal para Adulto Mayor (PUAM)" [online] <https://www.argentina.gob.ar/servicio/tramitar-la-pension-universal-para-adulto-mayor-puam>.

⁸ See Social Security Bank, "Pensión por vejez" [online] <https://www.bps.gub.uy/20540/pension-por-vejez.html>.

⁹ See ChileAtiende, "Pensión Garantizada Universal (PGU)" [online] <https://www.chileatiende.gob.cl/fichas/102077#:~:text=A%20contar%20del%201%20de%20abril%20de%202023%2C,la%20Pensi%C3%B3n%20Autofinanciada%20de%20Referencia%20%28PAFE%29%20de%20PGU.>

Pension) and Belize (Non-contributory Pension Programme), accessible at 67 years of age;¹⁰ and Saint Vincent and the Grenadines (Non-contributory Assistance Age Pension), accessible at 81 years of age).¹¹ At the other extreme, five programmes have access ages below 65 years, the lowest being the *Colombia Mayor* programme, at 54 years for women and 59 for men. In addition to Colombia, three other countries have different access ages for women and men: the Bolivarian Republic of Venezuela (55 and 60 years, respectively), Belize (65 and 67 years) and Cuba (60 and 65 years).

Figure II.1
Latin America and the Caribbean (25 countries): distribution of ages of access to non-contributory old-age pension systems, 2021 or latest year for which information is available
(Number of programmes and percentages)



Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>.
Note: Includes the non-contributory old-age pensions listed in table II.1 (26 programmes in 25 countries). Three countries have a lower entry age for women, but the age for men is shown here.

2. Entitlement amount

The entitlement amount is a key element of the design of non-contributory pension systems, because it directly affects both the degree of economic protection that these pensions provide and their capacity to achieve two of their main objectives: avoiding poverty in old age and redistributing income. The amount of the entitlement is usually specified in the legislation regulating the programme; in just a few cases it is associated with a benchmark value. For example, in Brazil, the Continuous Benefit Programme (BPC) is legally equivalent to one minimum wage. In Argentina, PUAM is also based on a reference value: it is equivalent to

¹⁰ In Belize, the age of eligibility for women is 65 years.
¹¹ The minimum age of eligibility is movable, since individuals who were more than 47 years old on 5 January 1987 (that is 81 years or older in 2021) can gain access.

80% of the minimum retirement pension of the contributory system and is indexed regularly to this entitlement. In most cases, entitlements are paid every month, but in a few cases they are paid on a weekly or bimonthly basis. Among the pensions analysed, only *Bonosol* (the first non-contributory pension of the Plurinational State of Bolivia, which is no longer in force) was paid annually (ECLAC, 2023).

Some countries allow non-contributory pensions to be combined with the entitlements of the contributory system. Examples are countries that have universal non-contributory pensions which, since they target the entire population irrespective of any other income or entitlements the recipients may receive, in practice allow the entitlement to be combined with other pensions or income sources. In contrast, non-contributory pensions with some degree of socioeconomic targeting tend to exclude persons who already have another entitlement, since they aim to fill the gap left by the contributory system, in particular for the vulnerable population. The available information confirms that this is the case with 19 of the 26 non-contributory old-age pensions that are currently operating (see table II.1).

The amounts of non-contributory pensions in Latin America and the Caribbean vary widely. Figure II.2 shows the current monthly entitlement in dollars of 32 non-contributory pensions for which data are available, recognizing the provision of a higher level of sufficiency if there is more than one programme, and separating old-age entitlements (see figure II.2A) from disability entitlements (see figure II.2B). More than half of the non-contributory old-age pensions shown (13 out of 24) pay less than US\$ 100 per month. The highest-value entitlements are provided in Uruguay, the Bahamas, Argentina, Chile and Brazil; but in no case does the non-contributory pension exceed US\$ 300 per month. In eight countries, non-contributory pensions are even lower than US\$ 2 per day (Cuba, Colombia, Peru, Belize, El Salvador, Guatemala, the Plurinational State of Bolivia, and Saint Vincent and the Grenadines).

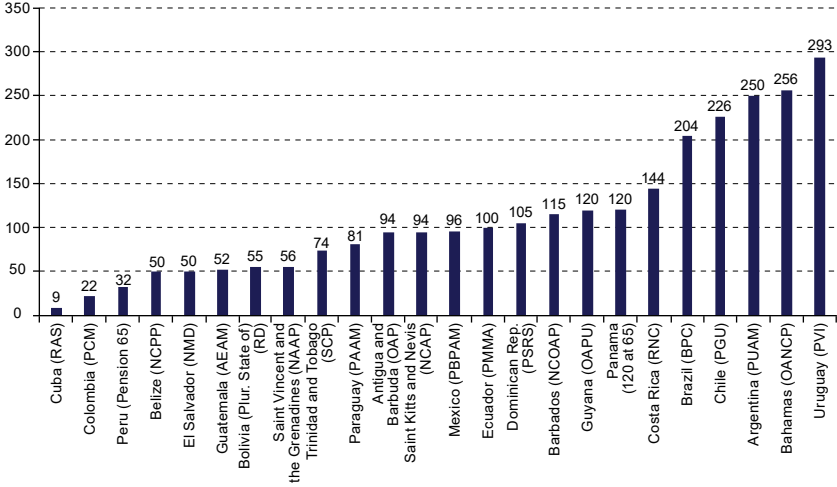
In some countries, the amount of the entitlement is variable, depending, for example, on whether the recipient also has a contributory pension. An example is *Renta Dignidad* in the Plurinational State of Bolivia, the amount of which is reduced by 25% for persons who receive a contributory pension.¹² In some cases, the non-contributory pension varies by income level. In Trinidad and Tobago, the amount of the Senior Citizens' Pension depends on the income of the older person claiming it,¹³ and in Chile (PGU) the amount is reduced for persons in the ninth decile according to the amount of the pension received.

¹² See article 3 of Act No. 3791 of 2007 [online] http://www.silep.gob.bo/norma/3827/ley_actualizada.

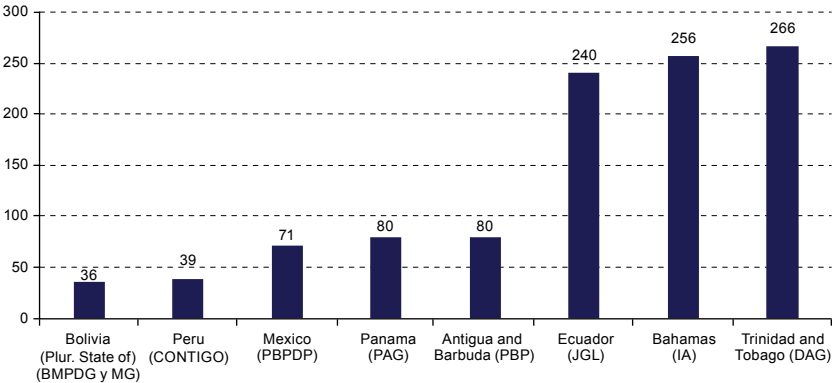
¹³ Individuals earning less than US\$ 517 receive the full amount.

Figure II.2
Latin America and the Caribbean (24 countries): monthly value of non-contributory pensions, 2021 or latest year for which data are available^a
(Dollars)

A. Old-age entitlements^b



B. Disability entitlements



Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>.

Note: The acronyms and abbreviations used to refer to entitlements in this figure are listed with their full names in table II.1.

^a Data are for 2021, except as follows: Chile, Mexico and the Dominican Republic (2022); Barbados, Belize, Colombia, Panama and Saint Vincent and the Grenadines (2020); Antigua and Barbuda and the Plurinational State of Bolivia (2018); and the Bahamas (2013).

^b When more than one non-contributory old-age pension is operating in a country, the one with the highest value is shown.

Given the insufficiency of pension amounts in many countries, it is clear that receiving a non-contributory pension may not be enough to stay out of poverty, let alone guarantee a sufficient level of economic security in old

age.¹⁴ Moreover, since most entitlements are targeted and incompatible with the receipt of individual or family income above a certain limit (in some cases, these pensions can be received only by persons that have no other income or assets of their own), the low level of the entitlement may even risk generating a poverty trap that keeps recipients at low levels of income and well-being. It is therefore essential to guarantee the sufficiency of entitlements and to adjust the amounts so as to afford a basic food basket at least, since, for many people, this is the only income they will receive in old age. It is also essential to ensure that entitlements are indexed appropriately to maintain their purchasing power over time, especially in countries with high inflation rates.

Table II.3 shows the distribution of countries by coverage rate and entitlement amount. Countries with low coverage rates include those with the lowest and others with comparatively high entitlements (Bahamas and Uruguay). Chile's PGU is located in the bottom right of the table because it combines the broadest coverage with the highest level of sufficiency. Close behind are Brazil, Guyana, Costa Rica and Panama, all of which provide broad coverage and entitlements above the regional average. The country with the highest non-contributory pension in dollar terms is Uruguay; but this has very low coverage owing to the high coverage of the contributory system. Colombia, Peru and the Plurinational State of Bolivia, in contrast, provide high coverage, but are left wanting in terms of sufficiency. In short, as discussed in depth in chapter III, many entitlements are woefully insufficient.

Table II.3
Latin America and the Caribbean (23 countries): monthly amount of non-contributory old-age entitlements by coverage of eligible recipients (aged 65 years and over), 2021 or latest year with available information
(Dollars)

Amount of entitlement (Dollars per month)	Coverage (Percentage of persons aged 65 years and older)		
	Less than 10%	10%–50%	More than 50%
9–50	Belize: Non-contributory Pension Programme Cuba: Social Assistance Regime El Salvador: <i>Nuestros Mayores Derechos</i>	Colombia: <i>Colombia Mayor</i> programme Peru: "Pension 65". National Solidarity Assistance Programme	
51–100	Antigua and Barbuda: Old-age Assistance Programme Saint Kitts and Nevis: Non-contributory Assistance Pension	Ecuador: <i>Mis Mejores Años pension</i> Guatemala: Older Adult Economic Contribution Programme	Bolivia (Plurinational State of): <i>Renta Dignidad</i> Mexico: Pension for the Well-being of Older Persons Paraguay: food pension for older adults living in poverty Trinidad and Tobago: Senior Citizens' Pension

¹⁴ For an analysis of the sufficiency of non-contributory entitlements, relative to the poverty line and their evolution, see chapter III.

Amount of entitlement (Dollars per month)	Coverage (Percentage of persons aged 65 years and older)		
	Less than 10%	10%–50%	More than 50%
101–200	Barbados: Non-contributory Old-age Pension	Costa Rica: Non- contributory Scheme for Basic Pensions Panama: Special Cash Transfer Programme for Older Adults (120 at 65)	Guyana: Old-age Pension (universal)
201–250	Argentina: Non-contributory Pension Programme and PUAM Dominican Republic: solidarity pensions of the subsidized regime	Brazil: Continuous Benefit Programme (BPC)	Chile: PGU
251–293	Bahamas: Old-age Non-contributory Pension Uruguay: non-contributory old-age and disability pensions		

Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>.

3. Institutional framework

The administration of non-contributory pensions encompasses the institution that issues the policy guidelines, the executing agency that puts the policy into practice, the entity that registers the recipients and the agency that supervises and oversees the system. While, in many cases, a single agency combines the first three of these functions, other countries have specific units or State agencies with a degree of autonomy to fulfil each function. Of the currently active non-contributory pension programmes for which information is available (see table II.4), 12 are located in the Ministries of Labour and social security institutions; 13 are administered by Ministries of Social Development or equivalent agencies; and the remaining seven operate under public agencies of other types, such as Ministries of Health (this is generally the case with disability pensions). In terms of supervision, in Latin America these programmes are usually subject to the comptroller-general or audit offices in each country. The exceptions are Chile, Costa Rica and the Dominican Republic, where supervision is maintained by the comptroller bodies in conjunction with additional specialized supervision by pension superintendencies.

Table II.4
Latin America and the Caribbean: non-contributory pensions by risk covered
and responsible agency, 2021 or latest available year

Responsible agency	Risk covered		
	Old age	Old age and disability	Disability
Ministries of Labour, social security and pension administration institutions, or similar	Argentina: PUAM	Cuba: Social Assistance Regime	Chile: Basic Solidarity Disability Pension
	Antigua and Barbuda: Old-age Assistance Programme	Saint Kitts and Nevis: Non-contributory Assistance Pension	
	Belize: Non-contributory Pension Programme	Uruguay: non-contributory old age and disability pensions	
	Bolivia (Plurinational State of): <i>Renta Dignidad</i>		
	Chile: PGU		
	Colombia: <i>Colombia Mayor</i> programme		
	Costa Rica: Non-contributory Scheme for Basic Pensions		
Guatemala: Older Adult Economic Contribution Programme			
Ministries of Social Development or other social inclusion and welfare agencies	Guyana: Old-age Pension (universal)	Argentina: Non-contributory Pension Programme	Ecuador: Joaquín Gallegos Lara Bond
	Panama: Special Cash Transfer Programme for Older Adults (120 at 65)	Brazil: Continuous Benefit Programme (BPC)	Panama: Guardian Angel Programme
	Peru: "Pension 65" National Solidarity Assistance Programme	Ecuador: Pension for Older Adults and <i>Mis Mejores Años</i> pension	Peru: CONTIGO
	Trinidad and Tobago: Senior Citizens' Pension	Mexico: Pension for the Well-being of Older Persons and Pension for the Well-being of Persons with Permanent Disabilities	Trinidad and Tobago: Disability Assistance Grant
	Venezuela (Bolivarian Republic of): <i>Gran Misión en Amor Mayor</i>		
Another	Bahamas: Old-age Non-contributory Pension		Antigua and Barbuda: People's Benefit Programme
	El Salvador: <i>Nuestros Mayores Derechos</i>		Bahamas: disability assistance
	Paraguay: food pension for older adults living in poverty		Costa Rica: Poverty and Disability Programme
	Saint Vincent and the Grenadines: Non-contributory Assistance Age Pension		

Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>.

When the agency responsible for non-contributory pensions is also in charge of contributory pensions, the two entitlements are more likely to be integrated into a national pension system. The coexistence of both systems in the same space makes it easier to design and implement policy in a coordinated manner. However, in some cases, non-contributory pensions are tied more closely to poverty reduction policies than to pension policy; and they may even form part of conditional cash transfer programmes for families living in poverty. For example, in Ecuador, the non-contributory pension—the Pension for Older Adults—was originally a complement to the Human Development Bond, the main cash transfer programme for families in the country. In 2019, the *Mis Mejores Años* pension was created as part of the allowances and pensions delivered by the Ministry of Economic and Social Inclusion.¹⁵

Some countries created non-contributory pensions either to complement the contributory system and thus achieve universal coverage, or else to provide a basic universal entitlement within the national pension system. In such cases the non-contributory pensions are often administered by the institutions that are responsible for the contributory pension system, which can then promote an integrated policy with contributory and non-contributory components. On the other hand, when the objective is oriented more towards assisting the population living in poverty, administration is more likely to be assigned to the Ministries of Social Development and equivalent agencies. This enables them to manage these pensions in the framework of non-contributory social protection policies that are also targeted to other vulnerable groups.

C. Final thoughts

Non-contributory pensions have expanded dramatically in the region, especially in the decades of 2000 and 2010. Whereas 14 non-contributory pension programmes were created in the entire twentieth century, 19 new programmes were launched in just over two decades of the twenty-first century—either from scratch or else to replace pre-existing programmes and thus improve coverage and sufficiency. Currently, 28 countries in Latin America and the Caribbean provide non-contributory pensions, and some of them have achieved universal old-age coverage. This is undoubtedly one of the most important changes in the region's social protection systems (Arenas de Mesa, 2019).

This chapter provides an overview of the design of non-contributory pensions in Latin America and the Caribbean, by identifying both common patterns and regional diversity. The analysis focuses on three

¹⁵ See [online] <https://www.inclusion.gob.ec/que-tipos-de-bonos-y-pensiones-entrega-el-mies/>.

dimensions: coverage, entitlement amounts and institutional design. There is great diversity in the region in relation to these three dimensions of institutional design.

Access conditions are the key factor determining coverage levels and the capacity of non-contributory pensions to fill the gaps in the contributory system. Although most non-contributory pensions were created as welfare entitlements targeted to the poor or extremely poor, the regional trend has been to apply increasingly inclusive targeting criteria. Some countries, such as Chile, Guyana, Mexico and the Plurinational State of Bolivia, opted for universal or quasi-universal entitlements, accessible to all (or nearly all) of the older-age population; and they moved very quickly towards universal old-age coverage. Others, such as Argentina, Brazil and Uruguay, have also managed to cover the vast majority of the older-age population, with different models and combinations of contributory and non-contributory coverage. However, in many other countries in the region, non-contributory pensions remain narrowly focused and of sparse coverage, leaving a wide gap to be bridged.

The amount of the entitlements determines the protective capacity of the system and the extent to which it manages to stave off poverty both in old age and in situations of disability. Unlike contributory pensions, where the amounts depend on factors such as the recipient's work and contribution records, in non-contributory pensions, entitlements usually pay a pre-established uniform amount. These vary widely and in many cases are very modest, which jeopardizes the protective capacity of the system.

Although the expansion of non-contributory pensions has undoubtedly been an outstanding social-protection achievement in the twenty-first century, there is still a long way to go. In countries where progress remains laggard, it is essential to improve both coverage and sufficiency, to guarantee the necessary financing, and to articulate non-contributory pension systems both with contributory systems and with the social services that are essential for older persons and persons with disabilities (in particular, health services and care systems).

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Chapter III

Overview of non-contributory pension systems in Latin America and the Caribbean: analysis of their evolution and their role in old-age economic security

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Claudia Robles
Alberto Arenas de Mesa¹*

Introduction

This chapter considers the current situation and recent evolution of non-contributory pension systems in Latin America and the Caribbean, in terms of their coverage and the sufficiency of the corresponding entitlements, on the basis of the information available in the region.² It also reviews the role that these systems have played in reducing levels of poverty and extreme poverty in old age, and in various dimensions

¹ The authors are grateful to Nincen Figueroa, Research Assistant in the Social Development Division of ECLAC, for his substantive contribution in preparing this chapter; as well as to Helena Cruz Castanheira, Population Affairs Officer, CELADE-Population Division, and Francis Jones, Population Affairs Officer, ECLAC subregional headquarters for the Caribbean, for the information provided.

² As chapter IX specifically addresses the financial sustainability of non-contributory pension systems and their future challenges, that analysis is not included in this chapter.

of inequality. The aim is to highlight the important contribution made by non-contributory pension systems in moving towards the eradication of old-age poverty, as part of the process of strengthening the pension systems, including their reforms, and social protection in the region (Mesa-Lago, 2008; Barr and Diamond, 2008). This objective is aligned with the approach of various instruments approved in subsidiary bodies of the Economic Commission for Latin America and the Caribbean (ECLAC).³ The chapter also provides a detailed description of the challenges that these systems continue to face in achieving this aspiration.

The analysis presented draws on administrative sources compiled by ECLAC⁴ and household surveys in which it is possible to identify information on non-contributory pension systems.⁵ The analysis is framed by the social inequality matrix in Latin America, which recognizes the coexistence of various structuring axes of

³ Among its lines of action, the Regional Agenda for Inclusive Social Development, adopted in the framework of the Regional Conference on Social Development in Latin America and the Caribbean, urges countries to advance in consolidating the guarantee of a basic level of income for all, prioritizing those living in poverty and extreme poverty, considering appropriate coverage and amounts of income transfers, including non-contributory pensions for older persons and persons with disabilities (ECLAC, 2020). Meanwhile, the Montevideo Consensus on Population and Development, adopted at the first session of the Regional Conference on Population and Development in Latin America and the Caribbean, includes agreement on the need to extend social protection and social security systems, with a gender perspective, which, in turn, includes fostering allowances and services aimed at improving quality of life, economic security and social justice for older persons (ECLAC, 2013).

⁴ The administrative data come from the ECLAC Non-contributory Social Protection Programmes Database in Latin America and the Caribbean, which provides quantitative and qualitative information on conditional transfer programmes, non-contributory pensions and labour inclusion programmes implemented in the countries of the region (see [online] <http://dds.cepal.org/bpsnc>). The analyses contained in this chapter, based on these administrative data, consider the receipt of non-contributory pensions by persons aged 65 and over, whether old-age pensions or, in specific cases, also incorporating the coverage of disability pensions for older persons in the region's countries.

⁵ In 2021, household surveys made it possible to disaggregate or estimate contributory and non-contributory coverage among older persons in 11 of the region's countries, considering the following non-contributory pension systems: the *Renta Dignidad* universal old-age pension in the Plurinational State of Bolivia; the Continuous Benefit Programme (BPC) in Brazil; the Basic Solidarity Old-age Pension in Chile; the *Colombia Mayor* programme in Colombia; the Non-contributory Scheme for Basic Pensions in Costa Rica; the Pension for Older Adults and Pension for Persons with Disabilities in Ecuador; *Nuestros Mayores Derechos* in El Salvador; the Pension for the Well-being of Older Persons in Mexico; the Special Cash Transfer Programme for Older Adults (120 at 65) and the Guardian Angel Programme, in Panama; the food pension for older adults living in poverty in Paraguay; and the "Pension 65" National Solidarity Assistance Programme in Peru (for further background on these non-contributory pension systems, see annex III.A1). The analyses performed in this chapter, based on special tabulations of household surveys, consider information on non-contributory old-age and disability pensions, where the latter cover persons aged 65 and older, in other words the older-age population.

social inequality that are manifested in the different domains of social development in the region. These axes, which include inequalities on the basis of gender, ethnicity, race, territory and life cycle, along with socioeconomic level, “concatenate over the life cycle and intersect and reinforce each other, and this gives rise to a wide range of factors of inequality and discrimination” (ECLAC, 2016, p. 17). These factors are analysed in terms of access to the pension system, emphasizing older persons’ access to the non-contributory system.

A. Non-contributory pension systems in Latin America and the Caribbean: trend in coverage and sufficiency of entitlements

1. Expansion of the coverage of non-contributory pension systems and consequent reduction of the gap in pension system access

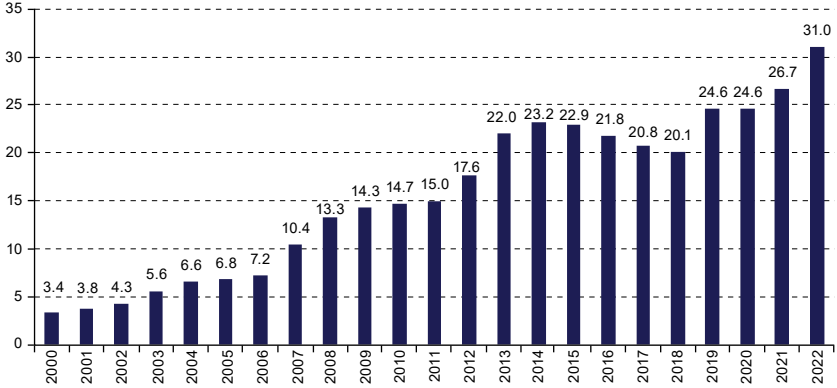
As noted in the introduction, non-contributory pension systems have expanded dramatically in the region, especially in the first two decades of the twenty-first century. This represents one of the most significant recent changes in the coverage of social protection systems in the region. In 2000, 14 Latin American and Caribbean countries had a non-contributory pension system aimed at mitigating the risk of a lack of income in old age,⁶ with coverage amounting to 3.4% of persons aged 65 years and older (see figure III.1). In 2021, 28 countries had such a system; and, according to information available for 23 countries, 31.0% of persons aged 65 years and older in the region were covered.⁷ Details of these non-contributory pension systems can be found in annex III.A1.⁸

⁶ These countries were: Antigua and Barbuda, Argentina, Bahamas, Barbados, Brazil, Chile, Costa Rica, Cuba, Ecuador, Guyana, Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Vincent and the Grenadines and Uruguay.

⁷ The Bolivarian Republic of Venezuela, Dominica, Jamaica, Saint Vincent and the Grenadines, and Suriname are excluded from the coverage calculation owing to a lack of information.

⁸ Table III.A1.1 contains information for 25 countries that have non-contributory old-age pension systems. Owing to a lack of information, the non-contributory pension systems of Dominica, Jamaica and Suriname are not included. The table also includes information for three countries that have systems targeted to persons with disabilities, as an articulated or independent component of the non-contributory old-age pension systems, but which also cover persons aged 65 and older, since not all non-contributory disability pensions are accessible to older persons in the region. For further information, see Economic Commission for Latin America and the Caribbean (ECLAC), Non-Contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/inicio>.

Figure III.1
Latin America and the Caribbean (23 countries):
coverage of non-contributory pensioners,
2000–2022^{a b}
(Percentages of population aged 65 years and over)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division, “Estimaciones y proyecciones de población a largo plazo 1950–2010: revision 2019” and United Nations, World Population Prospects 2019 [online] <https://population.un.org/wpp2019/>.

^a Weighted average. The graph displays information on non-contributory pension systems for the following countries: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Mexico, Panama, Paraguay, Peru, Plurinational State of Bolivia, Saint Kitts and Nevis, Trinidad and Tobago, and Uruguay.

^b For years in which there is no coverage data, but the non-contributory pension system is operating, the values are imputed according to the following rule: if missing values are found at the start or end of the series, the first or last value is repeated up to three times; and the Akima (1970) interpolation method is used to complete intermediate missing values. If the age of access to non-contributory entitlements is younger than 65 years and age-specific coverage data is not available, this is calculated by multiplying the total reported coverage by the share of the population aged 65 years and older in the target population. No imputations are made if the non-contributory pension system has not been operating.

As shown in figure III.1, the coverage of non-contributory pensioners, defined as the percentage of the population aged 65 year and over in receipt of a non-contributory pension, can be divided into three phases regionwide, between 2000 and 2022. The first phase spans 2000–2014 and is characterized by the significant growth of non-contributory pension systems in the region. Total coverage expanded from 3.4% to 23.2% of the population aged 65 years and older, with new systems being created in 12 countries: Belize, Bolivarian Republic of Venezuela, Colombia, Dominica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay, Peru, and Trinidad and Tobago. At the end of this stage, 26 of the region’s countries

had a non-contributory pension system. This period witnessed the creation or inclusion of non-contributory systems that are incorporated into pension systems as part of structural reforms. Examples include the *Renta Dignidad* universal old-age pension (2008) in the Plurinational State of Bolivia, which replaced *Bonosol* and the Solidarity Pension System (2008) in Chile, which replaced the Assistance Pension. Other programmes, such as non-contributory pensions in Ecuador, increased their coverage incrementally.

The second phase runs from 2015 to 2018, when the coverage of non-contributory pensioners declines from 23.2% to 20.1% of the population aged 65 years and older regionwide. This stage includes fiscal consolidation processes in Colombia, Ecuador and Mexico, which involve public expenditure cuts, with potential implications for the coverage of non-contributory pension systems.⁹ In the case of Chile, however, the coverage of non-contributory pensioners declined because of the increase in the number of individuals who registered to participate in the contributory pension system, which is also a requirement for accessing key policies introduced in the 2008 pension system reform, such as the Child Allowance or the Supplementary Solidarity Payment (see chapter 4).

The third and final phase, which lasts from 2019 to 2022, is a new expansionary period, with average coverage growing to 31.0% in 2022, driven by expansions in the non-contributory pension systems of Chile, Mexico and the Plurinational State of Bolivia, which are near-universal. In the Caribbean subregion, however, coverage receded in Antigua and Barbuda, the Bahamas, Barbados, Belize, Saint Kitts and Nevis, and Trinidad and Tobago, while Guyana maintained universal coverage (see table III.1). The decline in coverage can be explained by various factors, including the increase in the effective coverage of the pension system in some countries (Antigua and Barbuda, Barbados, the Bahamas and Saint Kitts and Nevis) (Quashie and Jones, 2023) (see box III.1) and the establishment of stricter requirements for accessing non-contributory pension systems. Meanwhile, new systems were created and implemented in Jamaica and the Dominican Republic, whereas in Chile and Mexico the existing non-contributory pension systems were replaced by the Universal Guaranteed Pension and the Pension for the Well-being of Older Persons, respectively.

⁹ Public expenditure was cut by 1.5 percentage points of GDP in Colombia, by 3.6 percentage points in Ecuador and by 0.84 points in Mexico (ECLAC, 2018b).

Table III.1
Latin America and the Caribbean (25 countries):
coverage of non-contributory pensioners, 2000–2022
(Percentages of population aged 65 years and over)

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Antigua and Barbuda	13.0	11.5	10.7	9.5	8.4	7.3	6.5	5.5	4.6	3.7	2.9	2.4	1.9	1.5	1.2	0.8	0.8	0.6	0.5	0.3	0.3	0.3	0.3
Argentina	1.2	1.1	1.1	1.1	1.7	1.7	2.1	2.2	1.9	1.6	1.2	1.0	0.8	0.6	0.5	0.3	0.2	1.4	2.3	3.1	4.6 ^a	5.5 ^a	6.5 ^a
Bahamas	23.7	21.9	20.0	18.2	16.7	14.9	13.8	12.5	11.9	11.0	9.8	9.1	8.2	7.7	7.0	6.2	5.8	5.4	5.1	4.5	4.5	4.5	4.5
Barbados	38.1	38.1	38.1	34.5	31.0	27.7	24.7	21.9	19.3	16.8	14.5	12.6	10.8	9.5	8.2	6.8	5.6	6.5	6.0	5.6	5.2	5.2	5.2
Belize				22.5	22.5	22.5	24.1	31.4	39.7	35.1	31.1	28.2	25.1	22.1	18.9	16.3	13.9	12.2	10.8	8.7	7.4	6.2	5.1
Bolivia (Plurinational State of)	76.4	79.1	91.2	100.0	100.0	100.0	100.0	85.5	91.3	91.4	90.8	90.4	91.1	91.6	91.9	92.3	92.8	93.0	93.8	94.0	93.8	91.8	90.0
Brazil ^b	4.2	4.7	5.7	6.2	8.4	9.3	10.0	10.6	11.3	11.8	12.0	12.1	12.2	12.2	12.1	11.8	11.7	11.6	11.3	10.8	10.6	10.5	11.1
Chile	13.5	13.2	12.8	12.2	11.7	12.2	12.8	13.6	23.0	24.8	24.5	23.7	23.1	22.1	21.3	20.3	19.5	18.8	18.3	17.6	17.0	16.7	75.8
Colombia				3.8	4.4	4.4	5.0	8.9	9.4	9.9	9.4	11.6	12.9	21.6	24.0	22.8	22.3	21.3	20.6	21.5	21.3	20.3	19.6
Costa Rica	19.1	19.6	21.1	19.1	18.5	16.9	15.8	14.9	15.4	15.6	15.5	15.3	15.0	14.7	14.7	14.7	14.7	14.8	14.7	14.9	15.0	15.0	15.4
Cuba ^a	...	...	...	...	7.9	7.8	9.4	9.3	9.0	7.2	4.2	3.7	3.1	2.9	2.9	2.9	2.9	3.2	3.0	2.8	3.2	5.2	5.2
Dominican Republic ^a																				0.1	0.9	1.4	1.9
Ecuador ^b				33.7	31.2	29.1	26.3	31.1	33.7	43.8	56.4	58.8	62.4	58.2	53.4	48.7	42.5	37.3	32.4	28.2	27.1	25.7	22.2
El Salvador										1.0	1.0	2.0	2.9	3.2	3.6	3.5	3.4	3.0	3.6	3.8	3.8	3.6	3.6
Guatemala							3.7	3.7	3.7	12.8	17.0	17.2	17.0	16.5	15.8	15.2	14.2	13.7	13.0	12.9	12.7	13.7	16.7
Guyana	...	...	...	...	...	...	...	...	...	...	100.0	100.0	100.0	100.0	99.3	96.2	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Mexico								16.4	28.4	30.3	30.1	29.8	41.2	63.1	68.5	67.9	62.7	56.6	54.1	81.5	81.8	93.7	100.0
Panama										25.3	34.1	34.2	33.5	32.6	32.0	42.5	41.2	40.1	38.7	36.2	34.1	32.5	31.5
Paraguay										0.3	0.3	8.3	15.8	27.8	38.2	38.8	39.0	50.1	50.5	51.4	53.9	60.8	65.7
Peru												1.9	11.2	13.5	19.2	20.7	20.5	21.9	21.2	21.1	20.3	20.3	22.0

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Saint Kitts and Nevis	20.3	21	21.9	22	22	21.8	20.7	19.1	17.8	17.6	16.5	14.2	12.9	12	11.3	10	8.9	7.8	6.6	5.7	5.2	5	4.9
Saint Vincent and the Grenadines	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	7.0	...	...	...	...	...
Trinidad and Tobago ^c	85.2	85.2	84.9	84.3	81.6	81.2	79.9	80.6	78.2	76.9	78.0	76.7	75.1	72.8	69.7	69.8	67.6	65.6	63.7	63.8	64.5	61.8	
Uruguay ^a	6.0	5.7	5.7	5.5	5.5	5.6	5.8	6.0	6.3	6.6	6.9	6.9	6.7	6.8	6.7	6.7	6.4	6.0	6.0	5.9	5.9	5.9	5.8
Venezuela (Bolivarian Republic of)											16.5	16.5	15.7	15.1	14.5	15.2	...	...	...	...	...	...	...
Latin America and the Caribbean ^d	3.4	3.8	4.3	5.6	6.6	6.8	7.2	10.4	13.3	14.3	14.7	15.0	17.6	22.0	23.2	22.9	21.8	20.8	20.1	24.6	24.6	26.7	31.0
Latin America ^e	3.4	3.6	4.1	5.5	6.5	6.8	7.2	10.5	13.4	14.5	14.8	15.1	17.8	22.3	23.6	23.3	22.1	21.1	20.4	25.0	25.0	27.1	31.5
The Caribbean ^f	1.8	8.8	8.8	8.9	8.8	8.5	8.5	8.4	8.6	8.3	11.3	11.4	11.3	11.2	10.7	10.4	10.6	10.8	10.8	10.7	10.7	11.1	11.1

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division, “Estimaciones y proyecciones de población a largo plazo 1950–2010: revisión 2019” United Nations, World Population Prospects 2019 [online] <https://population.un.org/wpp2019/>; N. Quashie and F. Jones, “The ageing Caribbean: 20 years of the Madrid Plan of Action”, *Studies and Perspectives series*, No. 111 (LC/TS.2022/225-LC/CAR/TS.2022/5), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

Note: The data start from the creation of non-contributory entitlements. An empty cell means that the non-contributory pension system did not exist in that country in the year in question. Three dots indicate that no information is available for the year in question.

^a The coverage calculation includes information in which it is impossible to disaggregate the coverage of old age and disability pensions received by persons aged 65 years and older.

^b As from 2019, includes the coverage of the *Mis Mejores Años* pension, together with the coverage of the Pension for Older Adults.

^c The information is based on the Database of Non-Contributory Social Protection Programmes in Latin America and the Caribbean, and on Quashie and Jones (2023).

^d Considers coverage of the non-contributory pension systems of 23 countries of Latin America and the Caribbean as a percentage of the population aged 65 years and older in the region. The Bolivarian Republic of Venezuela, Dominica, Jamaica, Saint Vincent and the Grenadines, and Suriname are excluded owing to a lack of information. For years without coverage data, values are imputed according to the following rule: if missing values are found at the start or end of the series, the first or last value is repeated up to three times; and the Akima (1970) interpolation method is used to complete intermediate missing values.

^e Considers coverage of the non-contributory pension systems of 16 Latin American countries as a percentage of the population aged 65 years and older in Latin America. The countries are: Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

^f Considers coverage of the non-contributory pension systems of seven Caribbean countries as a percentage of the population aged 65 years and older of the Caribbean. The countries are: Antigua and Barbuda, Bahamas, Barbados, Belize, Guyana, Saint Kitts and Nevis, and Trinidad and Tobago.

As shown in table III.1, in 2000–2022 the greatest expansions of coverage occurred in Chile and Mexico, where the non-contributory pension systems have progressed towards universality (see chapter IV), and in Paraguay, which has also achieved a pronounced increase in coverage in a very short time since the system was created. These countries are followed by Colombia and Peru, which have been extending the coverage of their non-contributory pension systems, and by the Plurinational State of Bolivia, which already had broad coverage when it implemented its non-contributory system (see chapter IV). As noted in the introduction and in chapter I, only five of the region's countries do not yet have a non-contributory pension system, according to available information: Grenada, Haiti, Honduras, Nicaragua and Saint Lucia.

Box III.1

The Caribbean: non-contributory pension system coverage and expenditure

The Caribbean countries have designed a variety of strategies to protect incomes and establish minimum incomes to eradicate old-age poverty, in the framework of the Madrid International Plan of Action on Ageing, under the agreement to prioritize older persons and, at the same time, to establish and promote programmes that enable workers to gain access to basic social protection entitlements. In this context, the establishment and expansion of non-contributory pension systems has varied greatly between individual countries, in terms of their existence, coverage and sufficiency.

The Caribbean countries increased the coverage of contributory pension systems for older persons across the board between 2008 and 2018. Nonetheless, this varies greatly between countries, and the situation of non-contributory pensions is very different. Countries with the highest contributory coverage rates, of around 80% or more, include Antigua and Barbuda, the Bahamas, Barbados, and Saint Kitts and Nevis. In contrast, countries such as Belize, Grenada, Guyana, Jamaica, Saint Lucia, and Trinidad and Tobago have coverage rates of around 50%, and in some cases as low as 25%, of the older-age population. These low coverage rates are explained partly by high levels of informality and low female labour participation rates.

In the Caribbean countries, the coverage of non-contributory pensions is significantly lower than that of contributory systems —and, in some cases, non-existent. Non-contributory pension coverage retreated in all countries between 2008 and 2018, except for Guyana, which has the highest coverage rate and where pensions for persons aged 65 years and older are universal and deliver the same amount to all recipients. In contrast, the non-contributory pension in Trinidad and Tobago is targeted by socioeconomic level, and the amount varies according to the income received by the individual in question. Nonetheless, about two-thirds of the older-age population qualifies for this pension. Given the increase in contributory coverage, older persons in countries such as Antigua and Barbuda, Barbados and Saint Kitts and Nevis increasingly rely on non-contributory pensions. However, there are still some Caribbean countries that do not have non-contributory pension systems, such as Grenada and Saint Lucia. In Belize, Grenada and Saint Lucia, pension coverage is still very deficient and leaves much of the older-age population without income protection.

In terms of expenditure on the different pension systems in the Caribbean countries, as is also true of coverage, spending on contributory pensions has been rising across the board. In contrast, expenditure on non-contributory systems has remained at very low levels, with little growth over time. Again, the only countries that depart from this trend in terms of non-contributory pension spending are Trinidad and Tobago (about 2% of GDP) and Guyana (over 1% of GDP).

Source: N. Quashie and F. Jones, "The ageing Caribbean: 20 years of the Madrid Plan of Action", *Studies and Perspectives series*, No. 111 (LC/TS.2022/225-LC/CAR/TS.2022/5), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

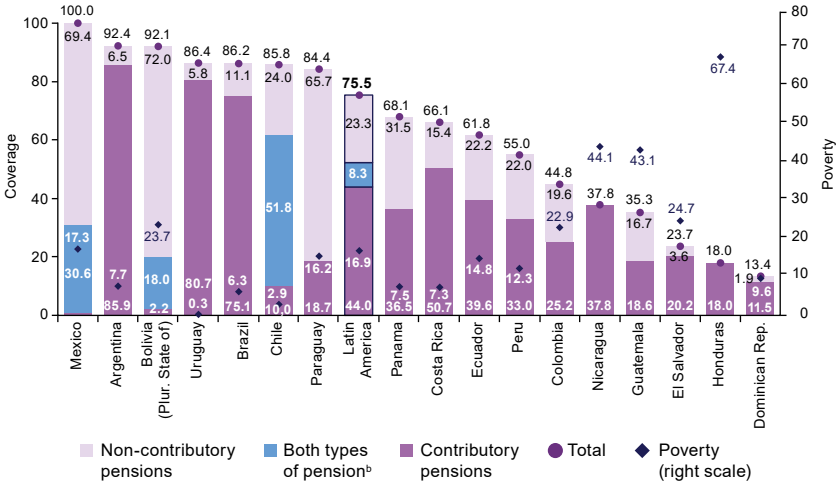
In Latin America, non-contributory pension systems have helped expand overall pension coverage, even to the point of achieving universal or high coverage rates, through various channels (see figure III.2). In countries with coverage of pensioners above the regional average, there are two ways of extending coverage: by fostering the creation of universal or high-coverage non-contributory pension systems or by growing the contributory system. These polar cases reveal how the different components of pension systems are integrated and illustrate the various solutions that can be implemented to solve the problems of pension system coverage in the region's countries.

Firstly, there is a group of countries that are moving in the direction described by installing universal non-contributory pension systems. These include Chile, Mexico and the Plurinational State of Bolivia (see chapter IV). Secondly, countries such as Argentina, Brazil¹⁰ and Uruguay are seeking explicitly to close the gaps that persist by incorporating a non-contributory pension system, despite having high levels of basic contributory coverage (see chapter II). This is done in close relation with the contributory system, in some cases with explicit interaction. In other cases, the non-contributory system is introduced as part of structural reforms to the pension systems, as occurred with pension reforms in Costa Rica in 1974, Chile in 2008 and the Dominican Republic in 2001. Thirdly, there are countries that have much lower contributory coverage and have incorporated a non-contributory pension system during this century, with varying levels of coverage and not necessarily harmonized with the contributory alternative. This group includes Colombia, Ecuador, Panama, Paraguay and Peru. Fourthly, there are countries in which non-contributory pension systems are subsumed in welfare policies aimed at eradicating poverty, as in Guatemala and El Salvador. The case of Ecuador was similar in that the non-contributory pension system was originally a component

¹⁰ The non-contributory coverage in Brazil shown in figure III.2 does not include the Rural Pension, which is considered a semi-contributory entitlement. According to ECLAC estimates, in 2021, the Rural Pension covered 31% of persons aged 65 year and over in the country.

coordinated with the Solidarity Bond and, later, the Pension for Older Adults, and new programmes were later added to move towards a system of entitlements.¹¹

Figure III.2
Latin America (17 countries): contributory, non-contributory and total coverage of pensioners in old age, and poverty,^a 2022 or latest year with available information
(Percentages of population aged 65 years and over)



Source: Prepared by the authors, on the basis of administrative data from the countries; Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database - Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: 2019 revision" and United Nations, World Population Prospects 2019 [online] <https://population.un.org/wpp2019/>.

^a The poverty data for the population aged 65 years and older refer to 2022, except for the cases of Colombia, Honduras and the Plurinational State of Bolivia, which refer to 2021, and Guatemala and Nicaragua, which refer to 2014.

^b Percentage of persons aged 65 years and older who receive contributory and non-contributory pensions simultaneously.

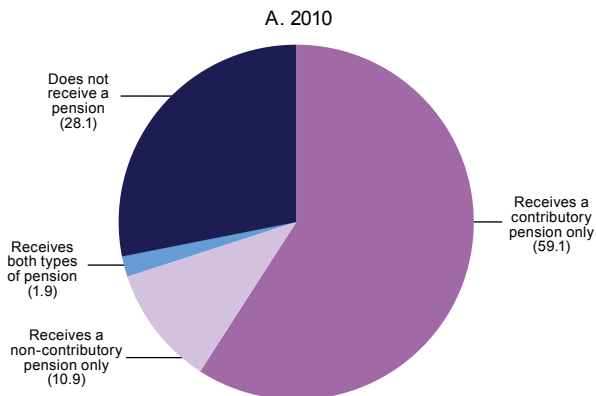
As shown in figure III.2, except for the Dominican Republic, in all countries where the overall pension system covers less than 50% of the population aged 65 years and older, the proportion of older persons living in poverty is above 20%. The highest levels of old-age poverty are in countries that have not implemented non-contributory pension systems (Honduras and Nicaragua). Among countries in which total coverage of this population group is more than 50%, only in the Plurinational State of Bolivia does poverty exceed 20%. Moreover, the countries in which the contributory coverage of pensioners is above the regional average are

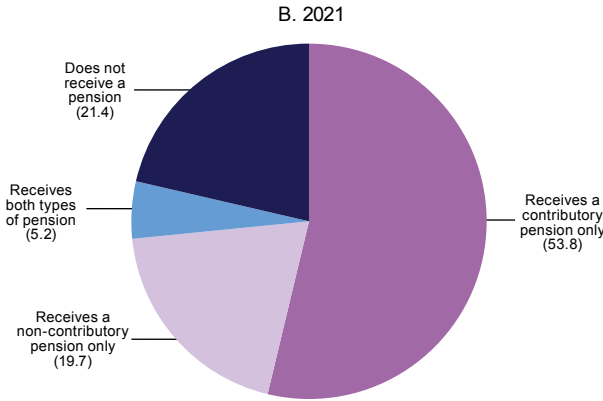
¹¹ The Ministry of Economic and Social Inclusion of Ecuador currently provides the following entitlements that can cover persons 65 years of age and older: the Pension for Older Adults, the *Mis Mejores Años* pension and the Pension for Persons with Disabilities.

those with the most developed social security systems. These are referred to as “pioneers” in the Mesa-Lago (2008) classification and have the lowest rates of old-age poverty, at less than 10% of the respective population. This reaffirms the need to strengthen the contributory and non-contributory components of pension systems simultaneously.

The importance that non-contributory pension systems have acquired is revealed by an analysis of the change in the percentage distribution of these systems over time within overall pension systems (see figure III.3). According to data from household surveys for nine countries in which it is possible to identify the different types of coverage in 2010 and 2021, the proportion of the population aged 65 years and older receiving a non-contributory pension (either exclusively or in addition to a contributory entitlement) increased by 12 percentage points between 2010 and 2021, from 12.8% to 24.9%. At the same time, the proportion of that population group who do not have access to a pension dropped by 7 points from 28.1% to 21.4% over the same period. According to administrative data from the countries (included in the Non-contributory Social Protection Programmes Database in Latin America and the Caribbean), in 2022 there were 19.4 million pensioners in Latin America covered by non-contributory pension systems, representing 41.8% of the total number of pensioners among the population aged 65 years and older (see chapter X). This share and its trend also reflect the articulated and systemic logic that the contributory and non-contributory components need to acquire in the countries as gateways to the pension system for older persons.

Figure III.3
Latin America (9 countries):^a distribution of population aged 65 years and over, by pension system access channel
(Percentages)





Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Data for 2010 are for seven countries: Chile, Costa Rica, Ecuador, Mexico, Panama, Paraguay and Plurinational State of Bolivia. Data for 2021 are for nine countries: Brazil, Chile, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Paraguay and Plurinational State of Bolivia.

2. Contribution made by non-contributory pension systems to reducing gender inequalities in the region¹²

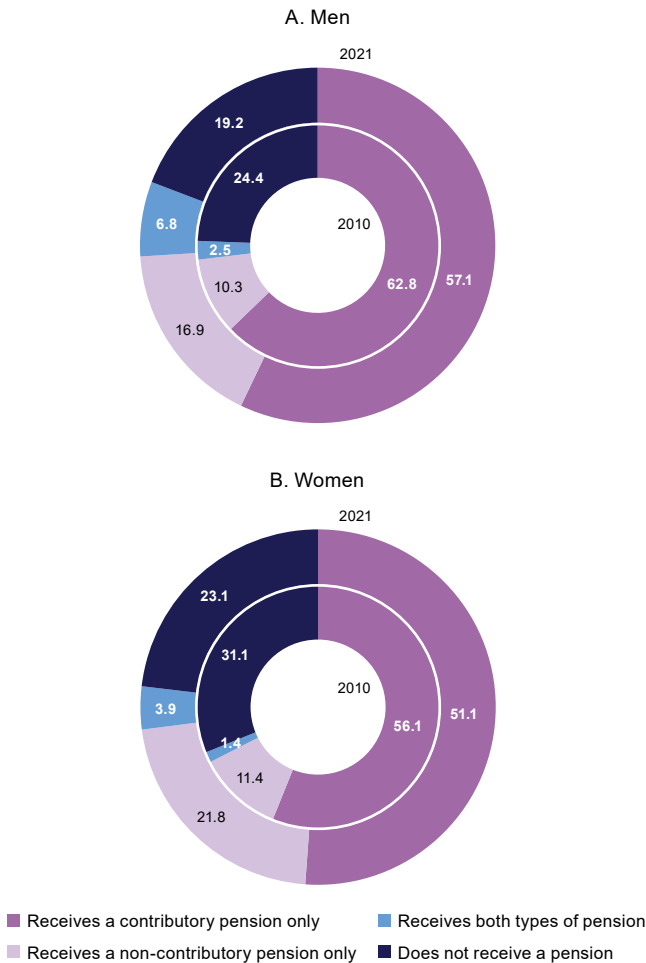
The introduction of non-contributory pension systems in the region has helped to reduce inequalities in pension access. This can be seen in the case of gender inequalities, and also in other manifestations of social inequality in the region, including socioeconomic level, territory of residence and ethnic or racial affiliation. The reduction is revealed when analysing the evolution of access to pensions through different channels and among different groups of the older-age population in 2010 and 2021, using household survey data.

Firstly, gender inequalities have decreased significantly as a result of the increased coverage of non-contributory pension systems. As shown in figure III.4, the number of people who access the system through contributory pensions exclusively has declined, among both men and women, while in both cases the proportion receiving both contributory and non-contributory pensions has increased. The proportion of older women who lack access to a pension of any kind decreased by 8 percentage points, compared to a 5.2 percentage point reduction in the case of men. Moreover, the proportion of women accessing the pension system through the non-contributory channel exclusively rose by 10.4 percentage points compared to a 6.6-point

¹² Other dimensions of gender inequalities in pension access, such as the amount of the pensions received, can also be analysed. As non-contributory pension systems provide an entitlement that does not vary between men and women, this point is not addressed in the chapter.

increase among men. Thus, while in 2010 the proportion of older women who had access to a pension, either contributory or non-contributory, was 6.7 percentage points lower than that of men, by 2021 this gap had narrowed to 4.0 points.

Figure III.4
Latin America (9 countries):^a distribution of population aged 65 years and over, by pension system access channel and sex, 2010 and 2021 (Percentages)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Data for 2010 are for seven countries: Chile, Costa Rica, Ecuador, Mexico, Panama, Paraguay and Plurinational State of Bolivia. Data for 2021 are for nine countries: Brazil, Chile, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Paraguay and Plurinational State of Bolivia.

An analysis of the percentage distribution of persons receiving non-contributory pensions in the countries for which household survey data are available reveals the role that these systems have played in increasing access to pensions among older women in the region. Whereas in 2010, older women accounted for 55.6% of the total number of people receiving non-contributory pensions, by 2021 the proportion had risen to 57.9% (see figure III.5).

Figure III.5
Latin America (9 countries):^a distribution of population aged 65 years and over receiving non-contributory pensions, by sex (Percentages)

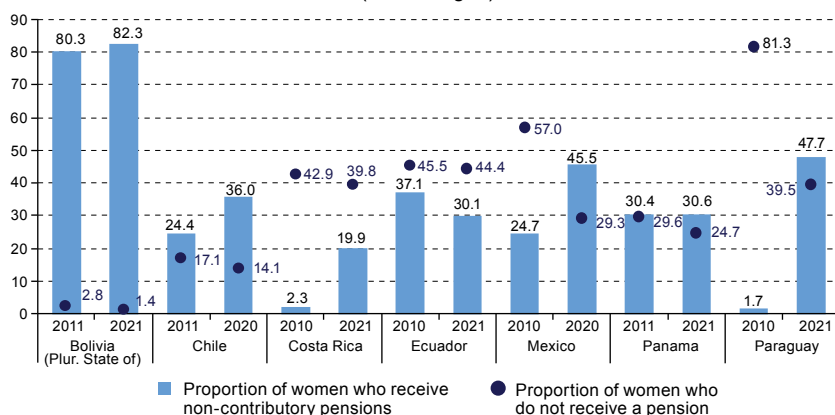


Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Data for 2010 are for seven countries: Chile, Costa Rica, Ecuador, Mexico, Panama, Paraguay and Plurinational State of Bolivia. Data for 2021 are for nine countries: Brazil, Chile, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Paraguay and Plurinational State of Bolivia.

It is also important to consider the increase in the number of women aged 65 years and older who receive a non-contributory pension, relative to those who do not receive any pension at all. As figure III.6 shows, in all countries in which the coverage of non-contributory pensioners increases in this population group, the proportion of women excluded from the pension system declines, thereby revealing a relation between the two variables. In Ecuador, where there is a reduction in this coverage, the proportion of women outside the pension system remains practically unchanged.

Figure III.6
Latin America (7 countries): women aged 65 years and over without access to pension system and women aged 65 years and over who receive non-contributory pensions, around 2010 and 2021
(Percentages)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

Administrative data available for nine Latin American countries in 2021 show that more than a third (34.5%) of older women had access to a pension through the non-contributory system, compared to 32.9% of men (see table III.2). In Chile, the proportion of older women who had access to a non-contributory pension was double that of men. The largest expansion between the date on which each non-contributory pension system began and 2021 occurred in Mexico, where coverage increased by 79.5 percentage points in the case of women. However, most Latin American and Caribbean countries do not have gender-specific administrative data. This is a priority issue that social security institutions need to address, in order to make progress in designing public policies that reduce gender inequality in the countries of the region.

Table III.2
Latin America (9 countries): coverage of non-contributory
pensioners, by sex, 2000–2021
(Percentages of population aged 65 years and over)

Men	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Latin America ^a	3.7	4.3	4.5	4.9	6.0	6.4	6.9	12.1	16.1	18.4	18.6	18.6	21.9	27.1	28.5	28.4	25.8	24.0	21.9	29.5	29.5	32.9	
Brazil	5.2	6.3	6.7	7.7	9.9	10.7	11.4	12	12.6	13.1	13.3	13.2	13.2	13.1	12.8	12.6	12.3	12	11.1 ^b	10.2	10.1	10.2	
Chile	14.4	14.3	13.9	13.3	12.8	13.2	16.1	16.1	16.1	16.8	17.2	16.6	15.8	15.1	14.1	13.4	12.7	12.0	11.4	10.9	10.3	9.8	
Costa Rica	19.3	21.1	21.7	19.4	18.5	16.8	15.6	13.4	14.2	14.4	14.5	14.1	13.7	13.2	13.0	12.8	12.7	12.7	11.9 ^b	11.0	11.1	10.9	
Ecuador				...	...	...	...	...	...	44.7	56.6	59.9	61.6	56.5	51.3	60.9	39.8	35.0 ^b	30.2 ^b	25.4	31.9	24.3
Guatemala						...	...	...	...	...	...	...	...	16.6	15.9	15.5	14.3	13.8	13.0 ^b	12.9 ^b	12.8 ^b	13.7 ^b
Mexico								18.3	31.6	33.2	31.9	32.1	44.4	58.7	63.7	62.6	56.9	50.6	45.5	77.9	77.9	91.9	
Paraguay										...	...	...	...	27.6 ^b	39.0	39.7	39.6	50.9	51.2	51.9	54.5	60.9 ^b
Peru														...	13.0	18.1	19.7	19.4	20.5	19.9	20.0	19.4	19.5
Uruguay ^c	5.6	5.5	5.4	5.4	5.6	5.7	5.9	6.1	6.4	6.7	6.9	7.2	7.1	7.1	7.2	7.2	6.9	6.7	6.4	6.5	6.5	6.4	

Women	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Latin America ^a	3.7	4.1	4.3	4.6	5.6	6.2	6.9	11.4	15.3	16.4	16.5	16.6	19.4	30.0	32.0	31.8	30.3	28.5	26.8	31.9	31.5	34.5
Brazil	4.8	5.7	6.0	6.7	8.9	9.9	10.7	11.4	12.1	12.7	12.9	13.0	13.1	13.3	13.3	13.2	13.1	12.9	12.1 ^b	11.4	11.3	11.6
Chile	14.7	14.4	14.0	13.3	12.7	13.4	18.7	19.4	27.4	30.4	30.5	29.5	28.9	27.9	27.1	26.1	25.3	24.5	24.1	23.5	22.9	22.6
Costa Rica	19.8	19.0	21.1	19.3	19.0	17.4	16.2	16.3	16.3	16.5	16.4	16.1	15.8	15.6	15.7	15.8	15.9	16.1	17.6 ^b	19.0	19.5	19.6
Ecuador				...	...	...	...	...	...	42.9	56.1	57.5	62.1	58.4	54.3	38.6	44.2	39.6 ^b	35.0 ^b	30.4	23.0	26.8
Guatemala						...	...	...	...	...	...	...	...	16.1	15.4	15.0	13.9	13.5	12.8 ^b	12.7 ^b	12.6 ^b	13.5 ^b
Mexico								15.3	26.6	28.6	27.9	28.4	39.6	69.0	76.0	77.2	71.5	65.0	60.8	83.9	83.9	94.8
Paraguay										...	...	...	...	27.1 ^b	37.1	38.0	38.2	49.1	49.6	50.7	53.3	59.8 ^b
Peru													...	13.6	19.7	21.5	21.2	22.5	21.8	21.8	21.1	20.9
Uruguay ^c	6.3	6.0	5.8	5.7	5.6	5.6	5.7	5.9	6.2	6.5	6.8	7.0	6.8	6.6	6.6	6.5	6.4	6.0	5.7	5.6	5.6	5.5

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division, "Estimaciones y proyecciones de población a largo plazo 1950–2010: revisión 2019" and A. Arenas de Mesa, *Los sistemas de pensiones en la encrucijada: desafíos para la sostenibilidad en América Latina*, ECLAC Books, No. 159 (LC/PUB.2019/19-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2019.

Note: An empty cell indicates that the non-contributory pension system does not exist in that country in the corresponding year. Three dots indicate that no information is available for the year in question.

^a Weighted average.

^b Owing to the lack of information for the years indicated, the coverage of men and women is estimated by making an imputation between the years for which information is available.

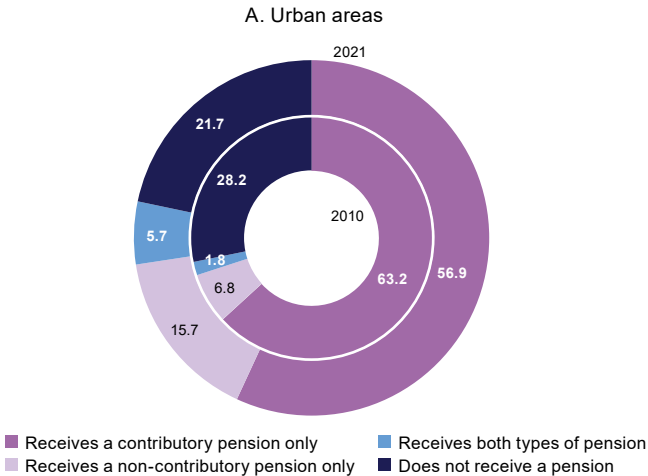
^c The coverage of men and women in the disability component of Uruguay's non-contributory old-age and disability pensions is estimated by making an imputation of the recipients of these pensions who are more than 65 years old, according to the gender distribution of the entitlement.

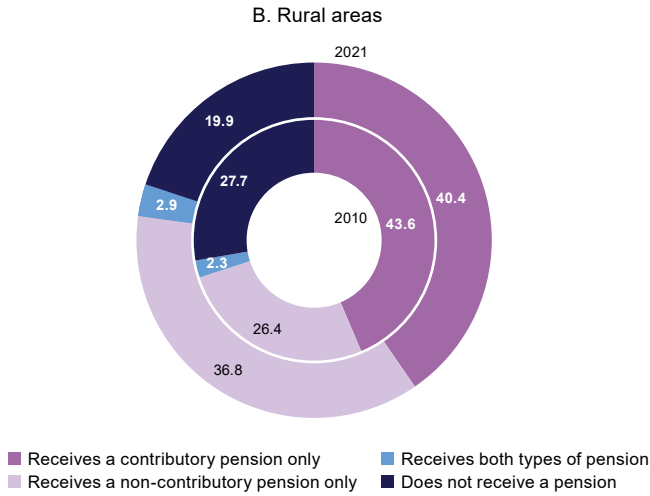
3. Contribution of non-contributory pension systems to reducing inequalities

The reduction of inequalities in pension-access resulting from an expansion of the coverage of non-contributory old-age pensions can also be seen by analysing data from the household surveys of nine Latin American countries, according to the variables of urban or rural residence and socioeconomic level. Here again, there was a reduction in the coverage of contributory pensions in all of the population groups analysed in the years reviewed (see figures III.7 and III.8). The reduction is steeper in the case of the older persons belonging to the highest per capita income decile, amounting to almost 8 percentage points.

The proportion of older persons who access the pension system through the non-contributory channel exclusively increased by 10.4 percentage points in rural areas, compared to 8.9 percentage points among people living in urban zones. Between 2010 and 2021, the proportion of the older-age population who lack a pension in old age declined by 7.8 percentage points among those living in rural areas, compared to a 6.5-point decrease among older persons living in urban zones, which represents a very sharp reduction in territorial inequalities.

Figure III.7
Latin America (9 countries):^a distribution of population aged 65 years and over, by pension system access channel and area of residence, 2010 and 2021
(Percentages)

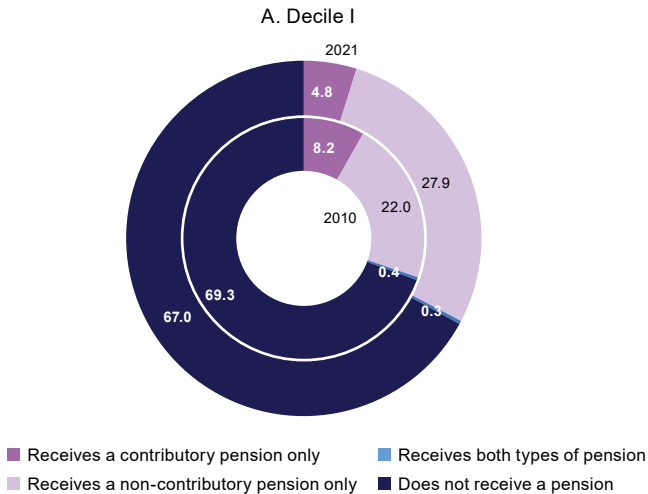


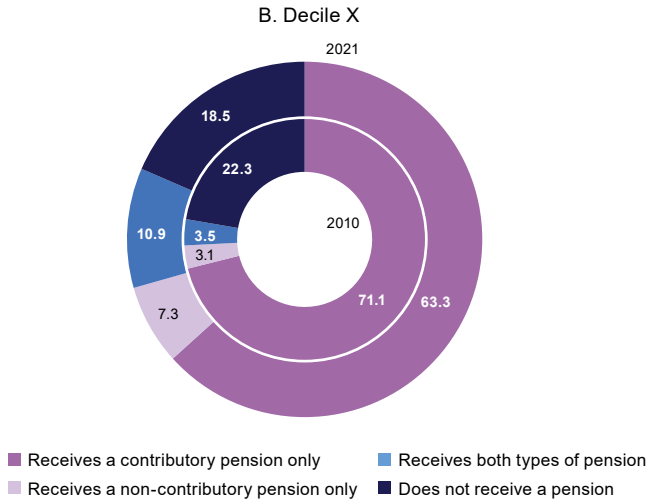


Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Data for 2010 are for seven countries: Chile, Costa Rica, Ecuador, Mexico, Panama, Paraguay and Plurinational State of Bolivia. Data for 2021 are for nine countries: Brazil, Chile, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Paraguay and Plurinational State of Bolivia.

Figure III.8
Latin America (9 countries):^a distribution of population aged 65 years and over, by pension system access channel and per capita income decile, 2010 and 2021
(Percentages)





Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

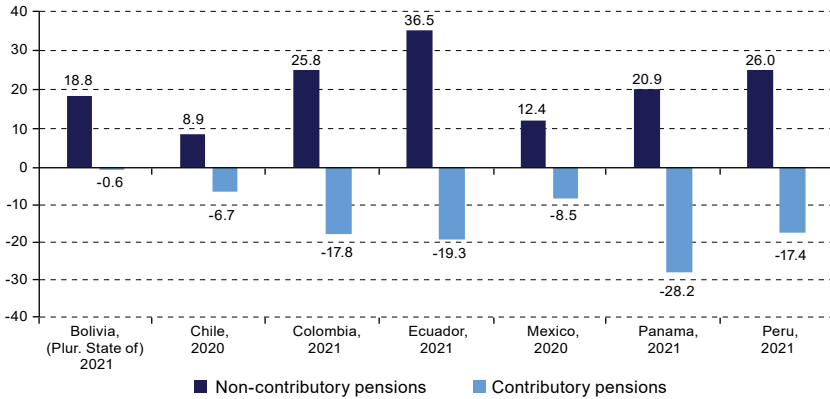
^a Data for 2010 are for seven countries: Chile, Costa Rica, Ecuador, Mexico, Panama, Paraguay and Plurinational State of Bolivia. Data for 2021 are for nine countries: Brazil, Chile, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Paraguay and Plurinational State of Bolivia.

Nonetheless, the proportion of the older-age population accessing the pension system by some channel in 2021 was 48.5 percentage points lower in the lowest income decile than in the highest decile. This gap has remained practically unchanged since 2010, when it was 47.1 percentage points. In the countries analysed, only one third of older persons in the lowest income decile would have had access to an old-age pension in 2021.

Lastly, it is worth analysing the role played by non-contributory systems in reducing the disparities in pension access between Indigenous Peoples and Afrodescendants, relative to older persons who are neither Indigenous nor Afrodescendent. Figures III.9 and III.10 report household survey data for countries that make such disaggregation possible. In 2021, the gaps in access to pensions through the contributory channel were maintained in all countries, to the detriment of the Indigenous and Afrodescendent populations. Nonetheless, the relationship was reversed in the case of non-contributory pensions. In Ecuador, among Indigenous Peoples, the proportion of the population with access to these pensions was up to 36.5 percentage points higher than that of those who were neither Indigenous nor Afrodescendent (see figure III.9). The only

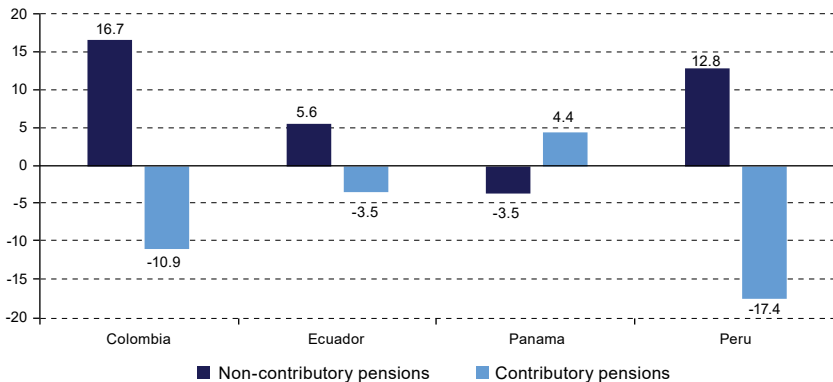
exception is Afrodescendants in Panama, for whom contributory coverage is higher, and non-contributory coverage lower, than for the population that is neither Indigenous nor Afrodescendent (see figure III.10).

Figure III.9
Latin America (7 countries): disparity in receipt of contributory and non-contributory pensions between Indigenous Peoples and persons who are neither Indigenous nor Afrodescendent, around 2021
(Percentage points)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

Figure III.10
Latin America (4 countries): disparity in receipt of contributory and non-contributory pensions between Afrodescendants and persons who are neither Indigenous nor Afrodescendent, 2021
(Percentage points)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

B. Sufficiency of the entitlements paid in non-contributory pension systems

As indicated in the introduction to this chapter, non-contributory pension systems play a key role in eradicating old-age poverty and ensuring adequate levels of income for the older-age population, as well as in reducing inequalities (OECD/IDB/World Bank, 2014; ILO, 2018; ECLAC, 2018a). This section analyses the sufficiency, relative to the poverty line, of the entitlements granted by non-contributory pension systems, in order to identify the degree to which they enable progress toward the aforementioned objectives.

1. Increases in the sufficiency of non-contributory pension entitlements, albeit with mixed trends across Latin America

An analysis of the information available for 14 Latin American countries¹³ shows that the value of the entitlement in each country has increased by 11 points on average over the last decade, from covering 81% of the poverty line in 2010 to 92% in 2022. The lowest entitlement was equivalent to 19% of the poverty line in 2010 and had risen to 21% by 2022, while the highest entitlement fluctuated between 203% and 218% of the poverty line over the same period (see figure III.11).

Table III.A1.2 in the annex shows the same data by country. In 2010–2022, the countries with the lowest and highest average entitlement relative to the poverty line are Colombia and Brazil, respectively. The largest increases occurred in Uruguay, Ecuador, Chile and Mexico, in that order, as a result of either an increase in the amount of the entitlement, or the creation of new programmes with higher entitlements. In Ecuador, in 2017 the *Mis Mejores Años* pension was created, paying US\$ 100, double the US\$ 50 provided by the Pension for Older Adults. This increase in entitlements occurred alongside a reduction in the coverage of Ecuador's non-contributory pension system.

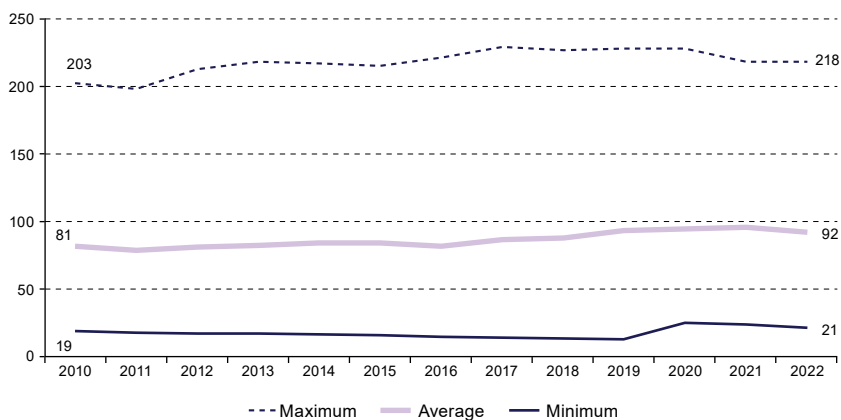
In 2010–2022, the level of entitlements as a proportion of the poverty line increased in just eight of the 14 countries that have information available and programmes currently running. In contrast, the amount

¹³ This analysis is based on administrative data from Latin American countries that have non-contributory pension systems and poverty lines standardized by ECLAC for the years in question.

of the entitlement decreased in Costa Rica, the Dominican Republic, El Salvador, Panama, Paraguay and Peru. In Brazil and Uruguay the amount was always above the poverty line. In Brazil, this is explained by the constitutional provision that requires the minimum pension (contributory and non-contributory) to match the minimum wage.

Figure III.11

Latin America (14 countries): minimum and maximum entitlements of non-contributory pension systems, simple regional average, 2010–2022
(Percentages of poverty line)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Household Survey Data Bank (BADEHOG).

Note: The series contains data from Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay. The poverty line is constructed on the basis of the Household Survey Data Bank (BADEHOG). In cases where the entitlement values are not obtained for a given year, they are replaced by the most recent previous value. In the case of the poverty line, a linear interpolation is made if the missing value is between two other values; in extreme cases where the missing value is not between two missing values, it is replaced by the closest valid value up to two years apart.

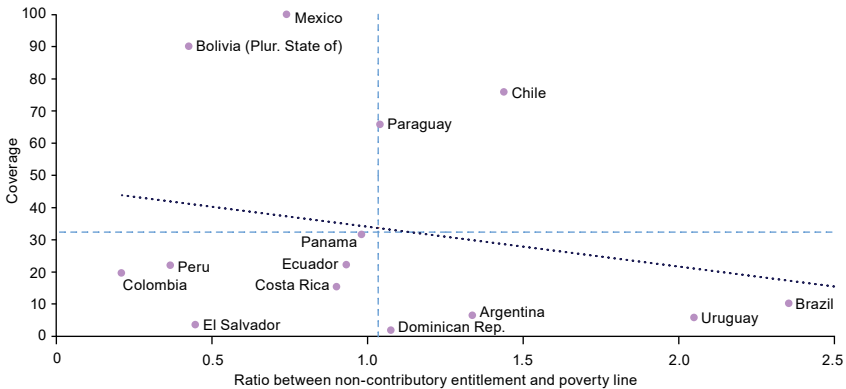
The information available for the countries of Latin America (see table III.A1.2) reveals three situations with respect to the levels of sufficiency achieved by the non-contributory pension systems in 2022. In a first group of countries (Colombia, El Salvador, Peru and the Plurinational State of Bolivia) the level of entitlements is less than half of the poverty line. In a second group (Costa Rica, the Dominican Republic, Ecuador, Mexico, Panama and Paraguay), sufficiency is between this value and one poverty line. Lastly, only Argentina, Brazil, Chile and Uruguay have entitlements above the poverty line.

2. Relation between coverage and sufficiency: an analysis of the challenges faced by the countries

Figure III.12 shows the relation between coverage and the sufficiency of entitlements in non-contributory pension systems for 14 of the region's countries. In general, this relation is negative, reflecting the challenges involved in financing the commitments inherent to non-contributory pension systems. Four groups of countries can be identified:

- (i) Those in which coverage and sufficiency are both below average: Colombia, Costa Rica, Ecuador, El Salvador, Panama and Peru.
- (ii) Those with above-average coverage and below-average sufficiency: Mexico and Plurinational State of Bolivia.
- (iii) Those with below-average coverage and above-average sufficiency: Argentina, Brazil, the Dominican Republic, and Uruguay.
- (iv) Those in which coverage and sufficiency are both above average: Chile and Paraguay.

Figure III.12
Latin America (14 countries): relation between coverage and sufficiency of entitlements in non-contributory pension systems, around 2022
(Percentages of older-age population and ratio between non-contributory entitlement and poverty line)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Household Survey Data Bank (BADEHOG).

The foregoing grouping of countries could generate a variety of conceptual discussions and policy options. Countries in the first group could increase their levels of coverage and sufficiency considerably,

in conjunction with contributory coverage rates and through strategic planning that would enable such an expansion.¹⁴

The second group of countries have above-average coverage levels, tending towards universality in Mexico and the Plurinational State of Bolivia, but with sufficiency levels in 2022 that are still below average. As shown in chapter IV, in recent years Mexico has increased its sufficiency levels considerably, which would place this country among those with above-average coverage and sufficiency.

The third group includes Argentina, Brazil and Uruguay, which have relatively limited non-contributory coverage but high levels of contributory coverage (see figure III.2). This reveals a path towards the universalization of pension systems by making the two components more mutually complementary, as shown in section III.A. This group also includes the Dominican Republic, which is starting to implement a non-contributory system (see chapter VII), having defined a sufficiency level based on national parameters from the outset.

The fourth and last group consists of Chile and Paraguay, of which the former took a step forward by creating the Universal Guaranteed Pension—a quasi-universal non-contributory entitlement that provides significantly higher levels of coverage and sufficiency than those identified in the Basic Solidarity Old-age Pension (see chapter IV).

C. Effects of non-contributory pension systems on poverty and well-being of older persons in Latin America

This section considers the effects of non-contributory pension systems in Latin America on levels of poverty and extreme poverty and on other crucial dimensions of the well-being of older persons. Firstly, the results presented are based on the trends of poverty and extreme poverty indicators using standardized ECLAC surveys for the countries of the region. Secondly, findings from studies based on experimental or quasi-experimental identification methodologies are reported,¹⁵ to identify the effects that non-contributory pension systems have had on other dimensions of well-being, including consumption, labour inclusion and health.

¹⁴ Chapter VI reports simulations in this regard for the case of Peru and chapter IX addresses 17 Latin American countries. In both cases, proceeding with these increases is shown to be fiscally feasible.

¹⁵ With the recent emergence of better sources of management information, and in the context of the “credibility revolution” (Angrist and Pischke, 2010), empirical identification strategies have been designed to assess second-order effects on other variables. Previously, these variables were only addressed theoretically or through general equilibrium models.

1. Effects on poverty and extreme poverty of implementing non-contributory pension systems

Drawing on the different countries' poverty and extreme poverty series, the following paragraphs describe the trend of these indicators in the case of persons aged 65 years and older,¹⁶ and relate this to the introduction of non-contributory pension systems in nine of the region's countries between 2003 and 2012.¹⁷ The choice of the countries and period is not random, since the subset includes half of the Latin American countries that have a non-contributory pension system; and the period studied is that in which more non-contributory pension systems are created or reformed in this subregion. To this end, the average poverty rates of these countries are compared in the seven years¹⁸ both before and after the implementation of non-contributory pension systems; and the potential effects on extreme poverty and poverty in the region are evaluated. Although this analysis does not make it possible to measure the direct impact of non-contributory pension systems on poverty, since it is impossible to isolate other effects that could also affect its trend, it does enable this relation to be approximated.¹⁹

Using the methodology described above, it can be seen that poverty among persons aged 65 and older declines by nearly 10 percentage points following the introduction of non-contributory pension systems in the countries considered (see figure III.13). The effect occurs mainly in the first four years after implementation and then fades. This is because non-contributory pension systems are generally implemented gradually, mostly for financial reasons. For example, Chile's 2008 pension reform included a four-year transition process, in which entitlements were increased during the first two years and coverage was expanded for four years (Arenas de Mesa and others, 2008).

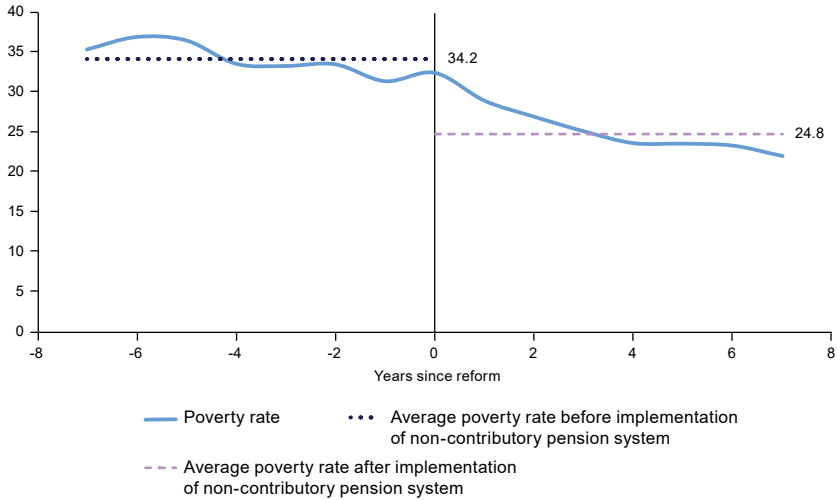
¹⁶ On the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

¹⁷ The selected countries, which implemented reforms by creating or modifying their non-contributory pension systems around 2007, are the Plurinational State of Bolivia (2007), Chile (2008), Colombia (2012), Ecuador (2003), El Salvador (2009), Mexico (2007), Panama (2009), Paraguay (2009) and Peru (2011). In the cases of Chile and Colombia, the existing systems were replaced by new programmes.

¹⁸ A seven-year period was chosen in order to observe a trend before and after the implementation of a reform, according to the availability of information from the selected countries. It should also be noted that the creation of non-contributory pension systems implies gradual implementation over time.

¹⁹ Chapter IX includes a complementary analysis based on special tabulations of household surveys in the region's countries, showing poverty levels with and without considering non-contributory pension system entitlements.

Figure III.13
Latin America (9 countries):^a average poverty rate among persons aged 65 years and over in the seven years before and after implementation of non-contributory pension systems
(Percentages)



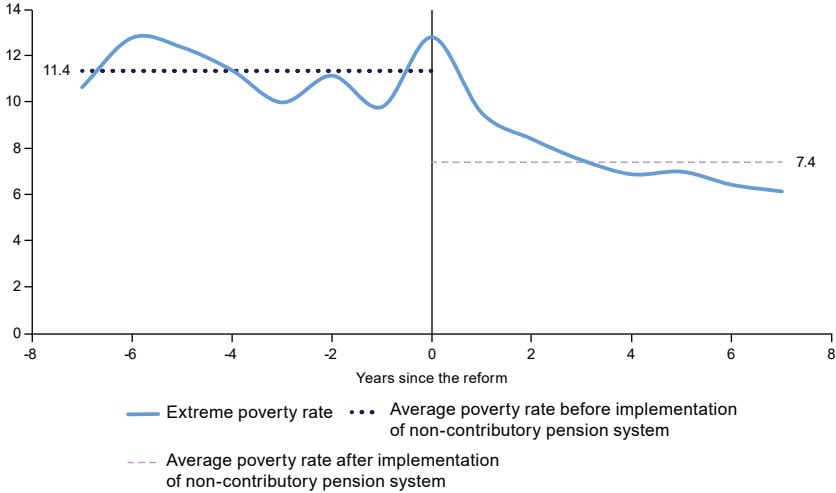
Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Non-contributory pension systems were implemented in the countries and years indicated, as follows: Chile, 2008; Colombia, 2011; Ecuador, 2003; El Salvador, 2009; Mexico, 2007; Panama, 2009; Paraguay, 2009; Peru, 2011; and Plurinational State of Bolivia, 2007. For the years in which poverty statistics for persons aged 65 years and over are not available, the missing values were interpolated linearly.

In the case of extreme poverty, the analysis reveals a reduction by about 4 percentage points following implementation of the non-contributory pension systems. Here again, the main effect occurs in the first four years after implementation, after which the declining trend continues, but at a slower pace, as occurred with the poverty rates (see figure III.14).

Non-contributory entitlements also have an effect on total poverty. Considering a universe of 14 of the region’s countries, Cecchini, Villatoro and Mancero (2021) show that the simple average poverty rate in 2017 decreases by 0.9 percentage points, and the extreme poverty rate falls by 0.8 points. These authors show that the relative impact of non-contributory pension systems on total poverty varies across countries, according to differences in the amount of the corresponding entitlements, the breadth of their coverage and the quality of programme prioritization.

Figure III.14
Latin America (9 countries):^a average extreme poverty rate among persons aged 65 years and over in the seven years before and after implementation of non-contributory pension systems
(Percentages)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Non-contributory pension systems were implemented in the countries and years indicated, as follows: Chile, 2008; Colombia, 2011; Ecuador, 2003; El Salvador, 2009; Mexico, 2007; Panama, 2009; Paraguay, 2009; Peru, 2011; and Plurinational State of Bolivia, 2007. For the years in which poverty statistics for persons aged 65 years and over are not available, the missing values were interpolated linearly.

2. Effects of non-contributory pension systems on other dimensions of well-being

a) Literature on the potential indirect effects of non-contributory pension systems on income and consumption

In addition to the analyses based on household surveys, the literature is conclusive as to the effect that non-contributory pension systems have on reducing poverty and extreme poverty, and on increasing non-labour income and household consumption among the older-age population. A detailed review of these issues can be found in Abramo, Cecchini and Morales (2019), which compiles data showing that non-contributory pension systems increase the income and consumption of the households in which they are received. Examples include the following: in the case of *Renta Dignidad* in the Plurinational State of Bolivia, monthly per capita income and consumption increased among recipient households, and the incidence of moderate poverty and

subjective poverty declined (Escobar, Martínez and Mendizábal, 2013). In Chile, Joubert and Todd (2011) find that the creation of the Solidarity Pension System reduced old-age poverty and improved incomes among women. In Mexico, Galiani, Gertler and Bando (2016) report that average consumption increased among rural households containing persons aged 65 years and older who are recipients of the Older Adults Pension (formerly the 70 and over programme); and in El Salvador, Martínez and others (2020) estimate an increase in household food consumption. Other studies report increases in household consumption and income following the introduction of non-contributory pension systems in Latin America (Bando, Galiani and Gertler, 2020 and 2022).

b) Literature on the potential effects of non-contributory pension systems on labour inclusion

The potential effects of non-contributory pension systems on labour inclusion, especially labour participation, have been debated in numerous studies, with varied results being reported. The effects can be divided into two categories: (i) the effect on the pension recipients in the household; and (ii) the effect on the other members of the household in which the pension is received. In the first case, there is broad consensus that the higher the non-labour income, the lower the labour participation rate of the person receiving it. The literature shows that, in general, older persons reduce their labour participation and are more likely to retire when they, or their households, receive non-contributory pensions.²⁰ As a proportion of older persons presumably remain at work owing to the lack of a pension, the receipt of a non-contributory pension could translate into an increase in their well-being. In a review of 17 studies conducted in eight countries, Abramo, Cecchini and Morales (2019) find that receiving non-contributory pensions reduces the labour supply of the recipients in 69% of cases. Similar data exist for non-contributory systems in Brazil (Carvalho, 2008; Oliveira, Kassouf and Aquino, 2017), El Salvador (Martínez and others, 2020), Mexico (Galiani, Gertler and Bando, 2016; López-Ortega and Aguila, 2022), Paraguay (Bando, Galiani and Gertler, 2022), Peru (Bando, Galiani and Gertler, 2020), and the Plurinational State of Bolivia (Hernani-Limarino and Mena, 2015).

In contrast, data on the effect on household members are varied (Abramo, Cecchini and Morales, 2019; Juárez, 2010; Martínez and others 2020; Galiani, Gertler and Bando, 2016). In an analysis of different evaluations made of non-contributory pensions in the region, Abramo,

²⁰ The non-contributory pension systems studied in the literature target the population living in poverty or extreme poverty, so the effects apply to this population.

Cecchini and Morales (2019) find that half of them report negative effects on the employment of working-age individuals living in households where these entitlements are received. Effects on the labour participation of persons in households receiving non-contributory pensions also vary between men and women. For example, Juárez and Pfitze (2014) find that, in Mexico, the Older Adults Pension reduces labour participation among male recipients but has a smaller effect on women. Similarly, Juárez (2010) shows that in Mexico City, the effect of the Older Adults Pension increases the labour participation of 18–59 year-olds belonging to the household when the pension recipient is a man but reduces their participation if the recipient is a woman, since women tend to share their income with younger cohorts in multigenerational households.

There is also evidence that these programmes can reduce child labour. For example, Abramo, Cecchini and Morales (2019) find that these systems have statistically significant effects in reducing child labour in five countries, as is also the case of the Continuous Benefit Programme (BPC) in Brazil (Oliveira, Kassouf and Aquino, 2017). A reduction in child labour has also been associated with *Renta Dignidad* in the Plurinational State of Bolivia (Canelas and Niño-Zarazúa, 2022).

c) Literature on the potential effects of non-contributory pension systems on health

Non-contributory pension systems can also have effects on the health of entitlement recipients, in terms of both mortality and quality of life. In relation to the former, the implementation of non-contributory pension systems can increase life expectancy. In the case of Chile, for example, Miglino and others (2023) find that the mortality rate among recipients decreases by 2.7 percentage points. In Peru, Valderrama and Olivera (2023) find that the probability of dying drops by 11.4 percentage points, on average, among eligible individuals, in the years analysed. In terms of well-being, the data reveal a substantial improvement in older persons' perceived state of physical and mental health, and also in their functional capabilities. Galiani, Gertler and Bando (2016) and Bando, Galiani and Gertler (2020 and 2022) find that non-contributory pension systems have positive effects on the mental health of recipients in Mexico, Paraguay and Peru, as measured by a reduction in the Geriatric Depression Scale scores, of 9.11%, 6.9% and 8.68%, respectively (Bando, Galiani and Gertler, 2022). They also report a reduction in the perceived difficulty of performing daily tasks in Mexico, and a perception of better health and less illness in Paraguay. In addition, Martínez and others (2020) detect an increase in medical care in El Salvador, where the recipients of non-contributory pensions display significantly higher probability of having attended a medical appointment in the last 30 days.

D. Concluding remarks

As shown in this chapter, non-contributory pension systems have expanded very significantly in Latin America and the Caribbean over the last two decades, to the point where all but five of the region's countries now have systems of this type. In 2022, 31.0% of persons aged 65 years and older had access to non-contributory pensions regionwide —31.5% in the case of Latin America but significantly lower at 11.1% in the Caribbean countries. Overall, these systems have evolved continuously throughout the process, with new systems being created and others being strengthened.

Analyses based on administrative data and household surveys in the countries of the region show that non-contributory pension systems have important effects in several areas. Firstly, they contribute to reducing the proportion of older persons who are excluded from the pension system; and, as indicated in the introduction, they have grown much more strongly than contributory pension systems over the last two decades. Secondly, they generate significant reductions in gender, territorial, income, ethnic and racial inequalities. Thirdly, they have a major effect on poverty levels among older persons, which is extremely important when planning strategic progress towards the goal of eradicating poverty among this population group. Non-contributory pension systems vary in terms of their levels of coverage and sufficiency, two of the dimensions of sustainability analysed in this chapter.

The results also show various possible pathways to universalizing access to pension systems in the region. While some countries choose to universalize non-contributory pensions through universal or quasi-universal systems, others complement total pensioner coverage, which is already high through contributory pensions, with non-contributory pensions of more limited coverage. There is also a group of countries that have planned the coverage of the non-contributory pension system by prioritizing the population living in poverty or extreme poverty, or on the basis of available resources, where the transition from programmes to non-contributory pension systems poses greater consolidation challenges.

Achieving universal coverage and adequate levels of sufficiency for the pension system as a whole is a key objective for the coming decades, in terms of strengthening non-contributory pension systems, particularly given the challenges that will be posed by the transformations unfolding in technology, demographics and the world of work.

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Table III.A1.1
Latin America and the Caribbean (25 countries): characteristics of non-contributory pension systems, 2021^a

Country	Programme name and start year	Monthly amount, latest year available (Dollars)	Pension for		Old-age components				Disability components				
			Old age	Disability	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Percentage of the population over 65 years of age)	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Number of entitlements provided to the disabled population)	Other target populations
Antigua and Barbuda	Old-age Assistance Programme (1993)	94 (2018)	X	X	In the case of old age, 65 years of age or older in 1993	Low income (less than 5,000 Eastern Caribbean dollars per year); residence (15 years for citizens and 20 years for foreigners, prior to the date of application)	0.00 (2018)	0.32 (2020)	60 years	The same as for older persons and, in addition, blind persons and persons with severe disabilities who are unable to generate an independent income	n.d.	n.d.	-
	People's Benefit Programme (2009)	80 (2018)	-	X	n.a.	n.a.	n.a.	n.a.	n.d.	Vulnerability; low income (less than 300 Eastern Caribbean dollars per household); citizenship	0.13 (2011)	215 (2018)	-
Argentina	Non-contributory Pension Programme (1948)	169 to 214 (2021)	X	X	70 years	Low income; residence (5 years of continuous domicile for Argentine or naturalized persons, and 40 years of continuous domicile for foreigners)	0.001 ^b (2021)	1.36 (2021)	18 to 64 years old	Same as for older persons and, in addition, disability of 76% or more and permanent disability	0.55 ^b (2021)	1 077 490 (2021)	Women with seven or more children, benefited by special laws, chosen by a national legislator
	Universal Pension for Older Adults (2016)	307 (2022)	X	-	65 years old	Vulnerability; citizenship; residence (minimum of 10 years for naturalized persons and 20 years for foreigners prior to application); not in paid employment, except for those affiliated to the social mono-taxation regime	0.2 (2021)	4.18 (2021)	n.a	n.a	n.a	n.a	-

Country	Programme name and start year	Monthly amount, latest year available (Dollars)	Pension for		Old-age components				Disability components				Other target populations
			Old age	Disability	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Percentage of the population over 65 years of age)	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Number of entitlements provided to the disabled population)	
Bahamas	Old-age Non-contributory Pension (1972)	287 (2020)	X	-	65 years old	Vulnerability; citizenship; residence; work history (worked as employee or self-employed for at least 12 consecutive months during the last 15 years)	0.04 (2019)	4.46 (2019)	n.a	n.a	n.a	n.a	-
Barbados	Non-Contributory Old-age Pension (1982)	460 (2021)	X	X	67 years old	Vulnerability; residence (12 years since fortieth birthday or an aggregate of 20 years since eighteenth birthday for citizens, and 15 years since fortieth birthday, or an aggregate of 20 years since eighteenth birthday for permanent residents)	0.09 (2020)	5.2 (2020)	18 years old	Same as for older persons and also for those of low income (less than 30 Barbadian dollars per week); blind or signing deaf persons	n.d.	n.d.	-
Belize	Non-contributory Pension Programme (2003)	50 (2021)	X	-	Women: 65 years of age Men: 67 years or age	Vulnerability; permanent residence	0.04 (2021)	6.19 (2021)	n.a.	n.a.	n.a.	n.a.	-
Bolivia (Plurinational State of)	Renta Dignidad universal old-age pension (2008)	47 to 55 ^c (2021)	X	-	60 years	n.a.	1.71 (2021)	91.73 (2021)	n.a.	n.a.	n.a.	n.a.	-
	Monthly Allowance for Persons with Severe and Very Severe Disabilities (2017).	36 (2020)	-	X	n.a.	n.a.	n.a.	n.a.	n.d.	n.d.	0.03 (2020)	42 366 (2020)	-
Brazil	Continuous Benefit Programme (BPC) (1996)	204 (2021)	X	X	65 years old	Extreme poverty	0.32 (2021)	10.54 (2021)	n.d.	Same as for older persons and, also those with long-term disabilities	0.39 (2021)	2 568 857 (2021)	-
Chile	Basic Solidarity Old-age Pension and Basic Solidarity Disability Pension (2021)	Old age: 208-223 ^c Disability: 208 (2021)	X	X	65 years old	Vulnerability (belonging to the first three quintiles of the income distribution); residence (20 years)	0.36 (2021)	16.69 (2021)	18 to 65 years old	Vulnerability (belonging to the first three quintiles of the income distribution); residency (5 years)	0.15 (2021)	182 344 (2021)	-

Country	Programme name and start year	Monthly amount, latest year available (Dollars)	Pension for		Old-age components				Disability components				
			Old age	Disability	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Percentage of the population over 65 years of age)	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Number of entitlements provided to the disabled population)	Other target populations
Colombia	<i>Colombia Mayor</i> programme (2012)	21 (2021)	X	-	Women: 54 years Men: 59 years	Extreme poverty (covered by levels 1 and 2 of the Potential Social Programme Recipients Identification System (SISBEN))	0.14 (2021)	20.3 (2021)	n.a.	n.a.	n.a.	n.a.	-
Costa Rica	Non-contributory Scheme for Basic Pensions (1974)	132 (old age) 171 (disability) (2021)	X	X	65 years of age	Vulnerability	0.36 (2021)	15.02 (2021)	Under 65 years of age	Vulnerability; loss of 66% of income owing to a disability	0.20 (2021)	42 373 (2021)	Widows between 55 and 65 years of age, widows under 55 years of age with children aged under 18 years, or between 18 and 21 years of age who are studying or not working, orphans under 18 years of age or between 18 and 21 years of age who are studying or not working, persons living in extreme poverty
Cuba	Social Assistance Regime (1979)	9 to 11 ^c (2017)	X	X	Women: 60 years Men: 65 years	Vulnerability	0.009 ^b (2021)	5.18 (2021)	n.d.	Vulnerability; disease or disability	0.002 ^b (2021)	46 597 (2021)	Mothers on unpaid leave to care for sick or disabled children; orphans aged 17 years who are in school; families under the financial protection of the deceased worker; families of young men called to military service who are the sole or partial family breadwinner; workers undergoing long-term treatment; pensioners with dependants

Country	Programme name and start year	Monthly amount, latest year available (Dollars)	Pension for			Old-age components			Disability components				Other target populations
			Old age	Disability	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Percentage of the population over 65 years of age)	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Number of entitlements provided to the disabled population)	
Ecuador	Pension for Older Adults	50 (2021)	X	-	65 years old	Older persons, aged 65 years and over, previously qualified with a score above 3067905 points in Social Register, until their information is updated and their welfare level verified. Persons without contributory insurance	0.01 (2020)	0.58 (2021)	n.a.	n.a.	n.a.	n.a.	
	Pension for Persons with Disabilities (2003)	50 (2021)	-	X	n.a.	n.a.	n.a.	n.a.	18–64 years old	Same as for the Pension for Older Adults Disability of 40% or more, as determined by the national health authority (National Council for the Equality of Disabilities (CONADIS))	0.002%	2 303 (2021)	
	Toda Una Vida pension (2017)	100 (2021)	-	X	n.a.	n.a.	n.a.	n.a.	18–64 years old	Disability equal to 40% or more, determined by the national health authority (National Council for the Equality of Disabilities (CONADIS))	0.1%	93 111 (2021)	
	Mis Mejores Años pension (2017)	100 (2017)	X	-	65 years old	Older persons identified as living in extreme poverty and poverty according to the current Social Register	0.36 (2020)	25.14 (2021)	n.a.	n.a.	n.a.	n.a.	
	Joaquín Gallegos Lara Bond (2010)	240 (2021)	-	X	n.a.	n.a.	n.a.	n.a.	All ages	Valid disability card or certificate. Certificate of illness	0.11 (2021)	40 380 (2021)	Persons in a critical socioeconomic condition, with severe disabilities, catastrophic diseases; or orphans, and children under 14 years of age with HIV/AIDS

Country	Programme name and start year	Monthly amount, latest year available (Dollars)	Pension for		Old-age components				Disability components				Other target populations
			Old age	Disability	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Percentage of the population over 65 years of age)	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Number of entitlements provided to the disabled population)	
El Salvador	<i>Nuestros Mayores Derechos</i> (2011)	50 (2021)	X	-	70 or 60 years of age, depending on the component	Vulnerability	0.06 (2021)	3.57 (2021)	n.a.	n.a.	n.a.	n.a.	
Guatemala	Older Adult Economic Contribution Programme (2005)	52 (2021)	X	X	65 years of age	Vulnerability; nationality	0.08 (2021)	13.74 (2021)	65 years old	Same as for older persons and, in addition, psychological, physical or sensory disability	n.d.	n.d.	-
Guyana	Old-age Pension (universal) (1944)	120 (2021)	X	-	65 years of age	Citizenship (previous 10 years); residence (20 years)	1.64 (2021)	100 (2021)	n.a.	n.a.	n.a.	n.a.	-
Mexico	Pension for the Well-being of Older Persons (2019)	79 (2021)	X	-	65 years of age	Persons aged 65 years and older, Mexican nationals by birth living in Mexico, and foreign nationals with more than 25 years of residence	0.57 (2021)	93.72 (2021)	n.a.	n.a.	n.a.	n.a.	-
	Pension for the Well-being of Persons with Permanent Disabilities (2019)	69 (2021)	-	X	n.a.	n.a.	n.a.	n.a.	0–29 years old for children and young people; 30–64 years old for persons living in Indigenous or Afro-Mexican communities; persons subject to a high or very high degree of marginalization	Geographical: priority is given to persons living in areas classified as Indigenous, areas subject to a higher degree of marginalization, or areas with high rates of violence. Categorical: persons who meet the eligibility criteria of age, permanent disability and geographical location, according to the following order of preference: (i) children and young people; (ii) Indigenous People; and (iii) non-Indigenous adults	0.06 (2021)	990 834 (2021)	(i) Children and young people from 0 to 29 years of age; (ii) Indigenous People from 30 to 64 years of age; and (iii) Adults from 30 to 67 years of age

Country	Programme name and start year	Monthly amount, latest year available (Dollars)	Pension for		Old-age components				Disability components				Other target populations
			Old age	Disability	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Percentage of the population over 65 years of age)	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Number of entitlements provided to the disabled population)	
Panama	Special Cash Transfer Programme for Older Adults (120 at 65) (2009)	120 (2021)	X	-	65 years old	Vulnerability; residence	0.28 (2021)	32.49 (2021)	n.a.	n.a.	n.a.	n.a.	-
Paraguay	Food pension for older adults living in poverty (2009)	81 (2021)	X	-	65 years old	Poverty	0.57 (2021)	60.78 (2021)	n.a.	n.a.	n.a.	n.a.	Veterans of the Chaco War and their descendants, families of military and police personnel who died on active service
Peru	"Pension 65" National Solidarity Assistance Programme (2011)	32.2 (2021)	X	-	65 years old	Vulnerability	0.11 (2021)	20.29 (2021)	n.a.	n.a.	n.a.	n.a.	-
Dominican Republic	Solidarity pensions of the Subsidized Regime (2019)	104.9 (2021)	X	X	60 years	(i) On demand; (ii) geographical; (iii) categorical, based on eligibility criteria, including lack of resources based on a socioeconomic assessment using an indirect (proxy) means test	0.016 (2021)	1.36 (2021)	Any	Persons with disabilities defined as those who are permanently unable to perform productive work, or who have suffered a reduction of at least 50% in their capacity to work, who cannot guarantee their subsistence, and who are not entitled to any other pension from the Dominican Social Security System (SDSS)	n.d.	n.d.	Persons with disabilities, irrespective of age; widowers of spouses receiving solidarity old-age pensions; single mothers with minor children in their care
Saint Kitts and Nevis	Non-contributory Assistance Pension (1998)	94 (2020)	X	X	62 years old	Vulnerability; citizenship; residence (ordinary)	0.03 (2020)	5.2 (2020)	16 to 62 years old	Same as for older persons and also: persons with disabilities who are unable to work	0.02 (2021)	104 (2021)	-

Country	Programme name and start year	Monthly amount, latest year available (Dollars)	Pension for			Old-age components			Disability components				Other target populations
			Old age	Disability	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Percentage of the population over 65 years of age)	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Number of entitlements provided to the disabled population)	
Saint Vincent and the Grenadines	Non-contributory Assistance Age Pension (1998)	56 (2020)	X	-	80 years	Low income (less than the non-contributory pension); residence (on the date of application, for at least 5 of the last 8 years, and for at least 25 years since the applicant's twentieth birthday); employment history (having been actively employed for a significant period prior to 5 January 1987); not engaged in gainful employment	0.03 (2021)	6.96 (2017)	n.a.	n.a.	n.a.	n.a.	-
Trinidad and Tobago	Senior Citizens' Pension (2001)	74 to 518 ^a (2021)	X	-	65 years old	Low income (less than the non-contributory pension); residence (20 years prior to the date of application (any period of absence cannot exceed 5 years in aggregate during the preceding 20 years) and having been in the country for at least 50 years)	2.79 (2021)	67.63 (2021)	n.a.	n.a.	n.a.	n.a.	-
Uruguay	Non-contributory old age and disability pensions (1919)	293 (2021)	X	X	70 years	Low income (less than non-contributory pension); citizenship; geographical (Uruguayans residing in Brazil or Argentina within 5 km of the border with Uruguay); residence (15 years continuous for foreigners)	0.12 ^b (2021)	6.0 (2021)	15 years or more	Same as for seniors and in addition: Severe disability or illness that prevents them from undertaking paid work	0.38 ^b (2021)	39.64 (2022)	-

Country	Programme name and start year	Monthly amount, latest year available (Dollars)	Pension for		Old-age components				Disability components				Other target populations
			Old age	Disability	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Percentage of the population over 65 years of age)	Minimum age of eligibility	Eligibility condition	Expenditure, latest year available (Percentage of GDP)	Coverage, latest year available (Number of entitlements provided to the disabled population)	
Venezuela (Bolivarian Republic of)	<i>Gran Misión en Amor Mayor</i> (2011)	...	X	X	Women: 55 years Men: 60 years	Low income (less than minimum wage); citizenship; residency (foreigners with legal residence in the last 10 years)	n.d.	n.d.	n.d.	Same as for older persons and in addition: Disability or illness that prevents them from being self-employed	n.d.	n.d.	-
Total	34		29	20									

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>.

Note: n.d.: no data; n.a.: not applicable.

^a Only incorporates disability programmes that include an old age component.

^b The costs of the old age and disability components are calculated as a proportion of total programme expenditure according to each component's percentage of total coverage.

^c A range of values is presented because the amount of the entitlement received depends on the receipt of a contributory pension or the characteristics of the recipient.

Table III.A1.2
Latin America (14 countries): sufficiency of non-contributory pension entitlements, average, 2010–2021
(Proportion of the poverty line)^a

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Increase between 2010 (or first data available) and 2022 (Percentage points)
Argentina ^b	87.9	95.9	104.4	107.4	99.7	120.6	104.1	126.9	103.6	97.2	99.2	108.0	104.8	16.9
Bolivia (Plurinational State of) ^c	32.0	30.2	29.0	33.6	34.9	33.6	32.2	35.0	34.7	39.8	43.2	42.6	42.5	10.6
Brazil	202.5	197.9	212.7	217.9	216.7	214.9	221.3	229.2	226.4	227.7	227.8	218.3	218.3	15.8
Chile	85.6	84.7	85.2	84.0	83.1	82.9	81.0	91.8	98.7	120.0	113.4	132.7	129.5	43.9
Colombia	18.6	17.9	17.3	17.0	16.5	15.7	14.4	13.9	13.5	13.0	24.9	23.7	21.1	2.5
Costa Rica	104.5	99.4	95.2	93.4	92.8	91.6	96.2	94.5	92.8	95.6	95.8	93.9	84.1	-20.4
Dominican Republic											124.2	104.9	94.5	-29.6
Ecuador ^d	41.0	39.0	53.0	51.7	49.9	47.9	46.9	46.7	70.6	83.1	85.6	93.2	89.7	48.8
El Salvador	50.6	48.8	47.2	46.7	46.0	46.0	45.9	45.7	45.2	45.0	45.0	45.0	40.5	-10.1
Mexico	27.2	27.0	24.9	26.0	26.6	25.4	25.1	23.8	22.5	50.2	47.0	59.0	60.0	32.8
Panama	99.9	96.0	90.8	86.2	101.8	102.7	100.5	99.0	98.8	98.9	98.4	98.0	95.2	-4.7
Paraguay	99.5	92.5	99.2	95.0	99.4	97.9	101.2	100.1	100.3	102.1	100.3	92.2	98.0	-1.5
Peru		48.6	46.9	45.5	44.1	42.5	41.1	39.9	39.5	38.7	37.9	36.5	33.6	-15.0
Uruguay	127.3	142.5	143.7	167.4	179.9	172.5	154.0	181.6	196.5	204.5	175.9	178.7	180.8	53.4
Simple average ^e	81.4	78.5	80.7	82.5	83.9	84.2	81.8	86.8	87.9	93.5	94.2	94.8	92.3	10.9
Lowest entitlement	18.6	17.9	17.3	17.0	16.5	15.7	14.4	13.9	13.5	13.0	24.9	23.7	21.1	2.5
Highest entitlement	202.5	197.9	212.7	217.9	216.7	214.9	221.3	229.2	226.4	227.7	227.8	218.3	218.3	15.8

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>. Poverty line reported by the Economic Commission for Latin America and the Caribbean (ECLAC), based on the Household Survey Data Bank (BADEHOG).

Note: An empty cell indicates that the non-contributory pension system does not exist in that country in the corresponding year.

^a If there is no updated poverty line for a specific year, the value closest to the reference year is considered.

^b As of 2016, the weighted average of the population covered by the entitlements of the two programmes in force in the country is calculated: the Non-contributory Pension Programme and the Universal Pension for Older Adults.

^c The weighted average between the entitlements of recipients who receive contributory pensions and those who do not is calculated, since this system offers differentiated entitlements.

^d As of 2017, the weighted average entitlement is calculated relative to the population covered by the Pension for Older Adults and the *Mis Mejores Años* pension.

^e Where information on the amount of entitlements for a given year is missing, it is replaced by the most recent previous value. In the case of the poverty line value, a linear interpolation is made if the missing value is between two values; in extreme cases in which the missing value is not between two missing values, it is replaced by the closest valid value up to two years apart.

Part II

**Case studies: the progressive strengthening
of non-contributory pension systems
as a component of comprehensive
pension systems**

Chapter IV

Building universality in the coverage of non-contributory pension systems: the experiences of the Plurinational State of Bolivia, Chile and Mexico

*Juan Ignacio Vila
Pablo Yanes¹*

Introduction

Non-contributory pension systems have been developed, among other reasons, as a vital response to the challenges of providing old-age financial security in countries with diverse socioeconomic contexts. However, the countries have been approaching this goal in a variety of ways, and various system designs have resulted. As noted in chapters II and III, while there are countries where coverage and sufficiency are still very limited, in other cases intermediate points are being approached on both variables, with a greater or lesser degree of linkage to contributory pension systems. At the same time, in the quest to give older persons access to social protection, several countries in the region have explored

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approaches aimed at expanding non-contributory pension system coverage towards universality, with a right to an old-age pension for all. This diverse spectrum of approaches and levels of integration highlights the heterogeneity of non-contributory pension system implementation in the region and provides a valuable insight into the different models adopted to address the challenges of financial security in old age.

Three countries in Latin America currently have non-contributory pension systems with high coverage, reaching more than 70% of the population of older persons: the Plurinational State of Bolivia, Chile and Mexico. The present chapter focuses on these countries, which have made considerable efforts to establish non-contributory pension systems with the aim of extending entitlements to population segments previously excluded from social protection and contributing to the reduction of extreme poverty and poverty. The chapter explores the coverage, sufficiency and expenditure dimensions of these systems, their design and institutional framework and their results in reducing poverty among older persons.

By exploring local contexts in detail, the chapter examines the strategies and policies implemented in these countries to establish non-contributory pension systems that aspire to universality, recognizing the heterogeneity of their demographic and economic contexts and the degree to which their social protection systems have been consolidated. It examines the factors behind the adoption of these systems, the goals set and the results achieved. It also seeks to document the political economy aspects and the implementation processes followed in the different countries so as to highlight the lessons learned and thus identify best practices that can inspire other countries in the effort to create sustainable non-contributory pension systems and effectively protect the rights of older persons.

The chapter is divided into four sections. Section A looks at the situation in the Plurinational State of Bolivia, considering the social security programmes that have been the cornerstones of the evolution of social protection in the country: the *Bonosol* solidarity bond and the *Renta Dignidad* universal old-age pension. *Bonosol*, introduced in 1997, provided older persons with an annual entitlement that was funded with financial resources from the privatization of public enterprises in the late 1990s and that helped to alleviate their financial situation. Subsequently, in 2008, the country introduced *Renta Dignidad*, a non-contributory pension programme for older persons that provides monthly support. Both programmes have had a positive impact, reducing poverty and improving the quality of life of vulnerable populations in the Plurinational State of Bolivia and strengthening the country's commitment to social inclusion.

Section B analyses the case of Chile and the evolution of non-contributory pensions in the country, from the Assistance Pension (PASIS) to the Solidarity Pension System (SPS) and the Universal Guaranteed Pension (PGU). These pensions have played a key role in expanding coverage for

older persons and have helped to set a course towards universal non-contributory social protection. Since the implementation of PASIS in 1975, progress has been made towards greater coverage, initially concentrating on the country's lower-income population. With the creation of SPS in 2008, both the coverage and the sufficiency of entitlements were improved by raising the income thresholds covered and increasing the amounts, thus reaching a larger segment of the older population. The introduction of PGU in 2022 unified entitlements and provided a basic pension to the vast majority of older persons. Despite its progress in terms of coverage and the institutional set-up of social protection, PGU poses financial sustainability challenges as the population ages and fiscal pressures increase. This shows that progress is also needed in terms of strengthening the contributory component of the pension system and linkages between the two components in the overall system design.

Section C explores the case of Mexico, where the non-contributory pension programme has undergone substantial changes, moving since the end of 2018 from a situation where a universal and unconditional system of local scope (Mexico City) coexisted with different targeted programmes at the federal level to a system of national coverage, universal and unconditional in character, with explicit guarantees and rights for older persons set out in the country's constitution. This radical change has transformed public transfers and had a substantial impact on the lives of older persons. Its origin goes back to the programme implemented in Mexico City, which pointed the way to the essential features of what is now an entitlement for everyone over the age of 65 in the country. The original scheme, the food pension for persons over age 68 residing in Mexico City, which was implemented by the government of the Federal District (now Mexico City) and remained in effect for two decades, demonstrated that it was possible to build a non-contributory pension system in the country. The programme was implemented progressively in Mexico City, starting in the most deprived areas. This occurred in a context where universal, unconditional transfers went against the then-prevailing trend of targeted and conditional transfer programmes. The second programme, the Older Adults Pension (formerly the 70 and over programme), was the first national programme in Mexico and was launched largely in response to the wide acceptance of the programme implemented in Mexico City. A fundamental difference is that the Mexico City programme achieved entitlement status in 2003, while the federal programmes remained just that and were never considered for recognition as a right. Both, however, focused on the importance of financial security in old age and the need to channel increasing amounts of public resources for this purpose. Between 2003 and 2008, there were three legislative processes in Mexico City to give the pension the status of a social right, something that was finally achieved with the support of a variety of political forces. In 2020, at the national level, the pension was incorporated into the constitution as a right, and in

2021, the age of eligibility was lowered to 65 for the entire population. This process illustrates the evolution of social policy in Mexico, with a focus on universal rights and guarantees for older persons.

Following the presentation of these case studies, section D offers some conclusions about the experience of the three countries and relevant lessons learned for other initiatives being implemented in the region.

A. Plurinational State of Bolivia: the first country to move towards a universal non-contributory pension system in the region

1. Introduction

The pension system in the Plurinational State of Bolivia has undergone a complex evolution since its establishment in 1956. Although originally based on universality and solidarity, the system faced financial and other challenges that led to its privatization in 1997. The implementation of the *Bonosol* solidarity bond, financed from the earnings of partially privatized State-owned enterprises, was a milestone in the creation of universally oriented non-contributory pension systems in the region, but it faced problems of sustainability. Subsequent reforms, such as the introduction of the *Renta Dignidad* universal old-age pension in 2007 and the 2010 ban on social security privatization, have sought to address these challenges. However, difficulties remain in respect of the sufficiency of entitlements and the reduction of inequalities, highlighting the need for an ongoing commitment to social protection and the constant adaptation of programmes to ensure a dignified and poverty-free old age for all.

(a) Background

The Plurinational State of Bolivia created its pension system in 1956 as a pay-as-you-go system based on six core principles: (i) universality, (ii) solidarity, (iii) unified administration, (iv) economy, (v) timeliness and (vi) efficiency. Despite these aims, the system faced financial challenges which, together with other factors, led to its privatization in 1997 (Bonadona, 2004). This was initially resisted by trade unions and experts at the Ministry of Labour, Employment and Social Security and the Ministry of Health and Sports. However, union opposition was softened by the implementation of a universal entitlement financed via a savings fund drawn from the earnings of partially privatized State-owned enterprises, which led to *Bonosol* (Ortiz and others, 2019; Ticona, 2010). This entitlement was intended for people aged 65 and over but was limited to cohorts born before 1975, in recognition of their contribution to the construction of the privatized State-owned enterprises rather than as an approach to old-age protection (Álvarez, 2019). One of the main problems faced by *Bonosol* was that it targeted a specific set of cohorts, which impaired its continuity.

Annual *Bonosol* entitlements were initially US\$ 247 but decreased to US\$ 72 in 1998 and then to a low of US\$ 64 per year in 2001. Despite this large decrease, coverage was high, reaching about 85% of the target population in the early years of the programme. In 2007, the non-contributory pension system was reformed with the creation of *Renta Dignidad*, a programme aimed at alleviating poverty in old age. The reform expanded coverage by lowering the eligibility age to 60. Payments shifted from an annual to a monthly basis, with differentiated amounts depending on whether or not recipients were receiving contributory pensions. This reform was due to the insufficiency of the sources of financing for *Bonosol* because of the lack of profit withdrawals by privatized companies, combined with the nationalization of some of these companies and the need to find permanent sources of funding to ensure financial sustainability (Müller, 2009). In 2008, payments were US\$ 27.60² for people without contributory pensions (known as *no rentistas*) and US\$ 20.60³ for those with contributory pensions, so that the contributory and non-contributory pension systems were partially integrated. In addition, the financing of the system was strengthened by increased contributions to the collective fund from hydrocarbon revenues (UNDP/ILO, 2011). In respect of institutional design, the programme is the responsibility of the Pension and Insurance Supervisory and Oversight Authority of the Plurinational State of Bolivia, while the institution charged with making payments is the Public Administration for Long-term Social Security, the Bolivian pension system's administrative body.

In 2013, the Solidarity Income programme, a non-contributory pension scheme for persons with severe and very severe disabilities, was created. The programme initially covered 17,069 people and provided a monthly entitlement of US\$ 12.10, amounting to US\$ 145 per year. Funding for this programme is channelled through the National Solidarity and Equity Fund administered by the Ministry of Health and Sports (Genuzio, 2014). In 2017, the programme was transformed into the Monthly Allowance for Persons with Severe and Very Severe Disabilities, and the amount increased to US\$ 36.20. Spending on this entitlement, which reached 42,366 people in 2020, increased from 0.01% of GDP in 2012 to 0.03% of GDP in 2020.⁴

Given the history of social security privatization in the 1990s and 2000s, a proposal was made to reform the system once again. The shift in the conception of the pension system in the country is reflected in the fact that the Constitution of 2010 prohibited the privatization of social security, and in December 2010 the Plurinational Legislative Assembly passed a law introducing a new pension system reform, which entered into force in 2011 (Mesa-Lago, 2011). This reform entailed the mandatory transfer of workers' funds from the private administration to the public system, which initially remained under private management (Mesa-Lago, 2014). The Bolivian

² See ECLAC (2023).

³ See ECLAC (2023).

⁴ See UDAPE (2022).

pension system—the Comprehensive Pension System— currently consists of three subsystems. The first comprises two non-contributory programmes, namely *Renta Dignidad* and the Monthly Allowance for Persons with Severe and Very Severe Disabilities, financed from the country’s general revenues and hydrocarbon rents. The second is a fully funded system administered by a public entity, and the third is a semi-contributory system financed by individuals through a progressive payroll tax, used to finance minimum contributory entitlements, and State contributions. From 2010 to 2023, workers’ contributions continued to be administered by pension fund administrators. In 2023, however, that responsibility passed to the public entity, marking the start of the new system envisaged by the 2010 legislation. This prolonged transition is explained by the problems that the Bolivian State has faced in implementing the management system needed to administer accounts. In the original project, the Public Administration for Long-term Social Security was expected to become operational in 2016 (Arenas de Mesa, 2019), but successive extensions via regulatory amendments delayed the start date to 2023.

On the basis of administrative data, Arenas de Mesa, Robles and Vila (2024) calculate that the coverage of contributory pensions among the population aged 65 and over in the Plurinational State of Bolivia was 20.8% in 2021,⁵ and total coverage in the same population was 94.7%. Contributory coverage is skewed towards the highest quintiles: in the period 2010–2021, coverage in the first, second and fifth quintiles averaged 0.3%, 2.8% and 46.8%,⁶ respectively. Regarding contributions, 17.4% of the economically active population pays into the pension system. With respect to sufficiency, Calderón (2022) indicated that the average contributory pension was US\$ 380 per month, while the non-contributory monthly pension provided by *Renta Dignidad* was US\$ 47 for those who received a contributory pension and US\$ 54.90 for those who did not (ECLAC, 2023). These findings show that the pension system relies mainly on the non-contributory component, given the low coverage of contributory pensions and contributions. The main design elements of the non-contributory pension system and its outcomes are analysed in the below sections from a comprehensive sustainability perspective, following the approach of Arenas de Mesa (2019). This approach analyses the outcomes of non-contributory pension systems by focusing on three areas: coverage, sufficiency of entitlements and financial sustainability.

(b) Coverage and financial sustainability

The coverage of the non-contributory pension system in the Plurinational State of Bolivia has been high since its inception, as the system was designed with a universal orientation and is therefore based

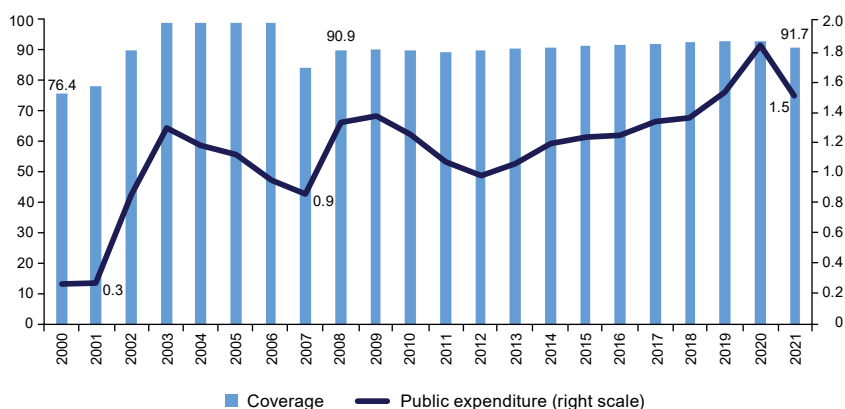
⁵ It is important to note that 19% of the population thus covered receive non-contributory pensions from *Renta Dignidad* as what are known as *rentistas* (people who also receive a contributory pension).

⁶ Calculated on the basis of special tabulations of the 2011, 2016, 2019 and 2021 household surveys from the Household Survey Data Bank (BADEHOG).

on universal transfers. This was reflected in high initial coverage in 1997, which was maintained at the beginning of the twenty-first century and continued to increase until it extended to all older persons aged 65 and over between 2003 and 2006. In 2007, however, coverage rates declined, owing to financial sustainability problems arising from the funding mechanisms established for *Bonosol*.

Subsequently, with the implementation of *Renta Dignidad* as a replacement for *Bonosol*, coverage increased and stabilized at around 90% of the target population. In terms of expenditure, a steady increase can be observed, from 0.3% of GDP in 2000 to 1.5% of GDP in 2021. The greatest public expenditure was in 2020, since programme users were provided with a food basket in response to the coronavirus disease (COVID-19) pandemic, resulting in spending equivalent to 1.9% of GDP (see figure IV.1).

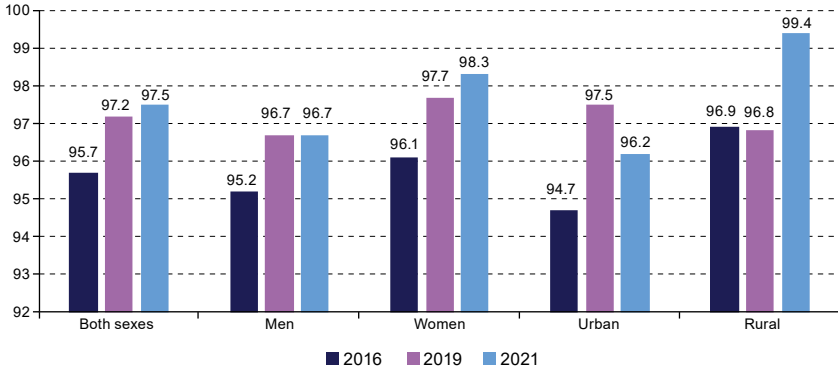
Figure IV.1
Plurinational State of Bolivia: non-contributory pension system coverage and public expenditure, 2000–2021
 (Percentages of people aged 65 and over and percentages of GDP)



Source: Prepared by the authors, on the basis of Ministry of Economy and Public Finance of the Plurinational State of Bolivia, “Boletines”, La Paz [online] https://www.economiayfinanzas.gob.bo/boletines?title=&field_viceministerio_target_id=31&type_1=All&field_gestion_value=; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, “Population estimates and projections: Excel tables. Revision 2019” and United Nations, *World Population Prospects 2019*, New York, 2019 [online] <https://population.un.org/wpp2019/>.

As for the coverage of the non-contributory pension system, a breakdown by gender and area of residence shows that it tends not to fall much below the universal levels offered by the system. Coverage is notably higher among women than among men, indicating that the non-contributory pension system helps to mitigate the gender inequalities in the labour market. As for area of residence, both urban and rural areas have coverage rates above 95%. Strikingly, rural coverage was 99.4% in 2021, surpassing the urban rate of 96.2% (see figure IV.2).

Figure IV.2
Plurinational State of Bolivia: people aged 65 and over receiving a non-contributory pension, by sex and area of residence, 2016, 2019 and 2021
(Percentages)

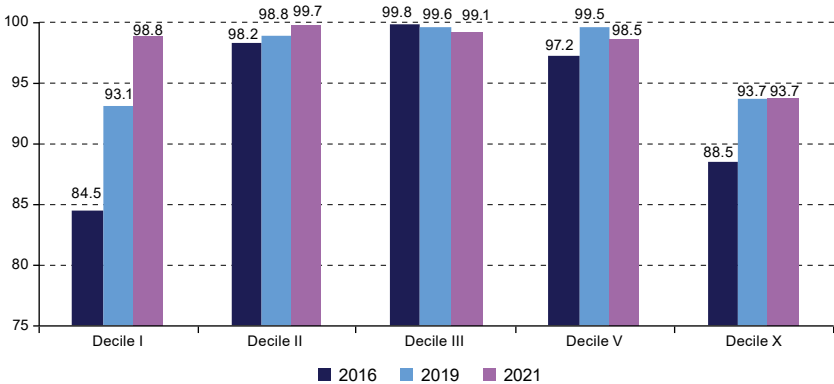


Source: Prepared by the authors, on the basis of National Institute of Statistics, 2016, 2019 and 2021 household surveys; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

Note: Only information for *Renta Dignidad* is included.

When the distribution of coverage by per capita income decile is explored, a substantial increase of more than 14 percentage points (from 84.5% to 98.8%) is observed in the coverage of the first decile between 2016 and 2021. The increase was 5 percentage points among older persons belonging to households in the highest income decile, where coverage rose from 88.5% to 93.7% over the period (see figure IV.3).

Figure IV.3
Plurinational State of Bolivia: people aged 65 and over receiving a non-contributory pension, by income decile, 2016, 2019 and 2021
(Percentages)



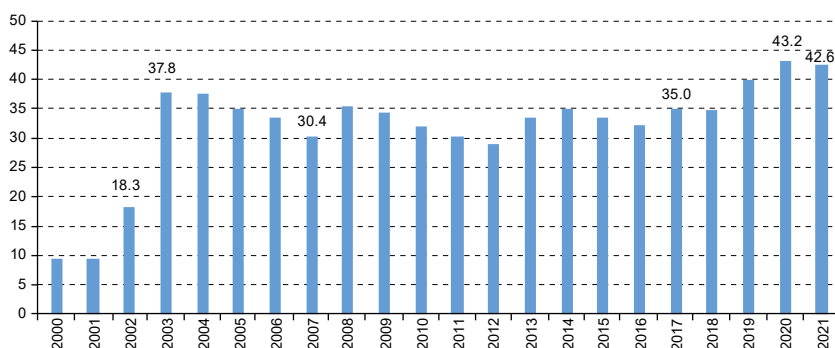
Source: Prepared by the authors, on the basis of National Institute of Statistics, 2016, 2019 and 2021 household surveys; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

Note: Only information for the *Renta Dignidad* programme is included.

(c) Sufficiency of entitlements

With regard to the sufficiency of the entitlements provided by the non-contributory old-age pension system in the country, an analysis of their average value relative to the poverty line shows a substantial increase from 2002 onward, with the ratio rising from 18.3% to 37.8%, followed by a steady decline to 30.4% by 2007. Since 2008, and with the implementation of *Renta Dignidad*, there has been a continuous increase in the ratio. This increase was gradual during the period 2008–2017, reaching 35% by 2017. The value of the amount transferred peaked at 43.2% of the poverty line in 2020 (see figure IV.4). Despite the improvement in sufficiency in recent years, the challenge of increasing the value of the non-contributory pension system in the Plurinational State of Bolivia remains substantial (Ticona, 2010) and becomes especially clear when the value is analysed in relation to the income deficit of the poor population.⁷ An exercise carried out using information from household surveys shows that the entitlement was equivalent to 38% of this deficit in 2015 and ranked among the lowest of all the countries with information available (Cecchini, Villatoro and Mancero, 2021).

Figure IV.4
Plurinational State of Bolivia: ratio between the value of the average non-contributory pension and the poverty line,^a 2000–2021



Source: Prepared by the authors, on the basis of Ministry of Economy and Public Finance of the Plurinational State of Bolivia, “Boletines”, La Paz [online] https://www.economiayfinanzas.gob.bo/boletines?title=&field_viceministerio_target_id=31&type_1=All&field_gestion_value=; Economic Commission for Latin America and the Caribbean (ECLAC), CEPALSTAT [online database] https://statistics.cepal.org/portal/cepalstat/dashboard.html?lang=en&indicator_id=3333&area_id=930.

^a Poverty lines estimated by the Economic Commission for Latin America and the Caribbean (ECLAC) for regional comparisons.

The trend of expenditure, coverage and sufficiency of the entitlements in the non-contributory pension system has generally been upward for all three variables analysed. This reflects the increasing consolidation and maturity of the system in terms of prioritizing potential

⁷ The income deficit is the gap between monthly per capita household income and the poverty or extreme poverty line.

recipients and steadily increasing the amount of the entitlements. The following section presents an analysis of the effects that this system has had on two indicators: the reduction of poverty among older persons and the percentage of older persons receiving pensions below the poverty line.

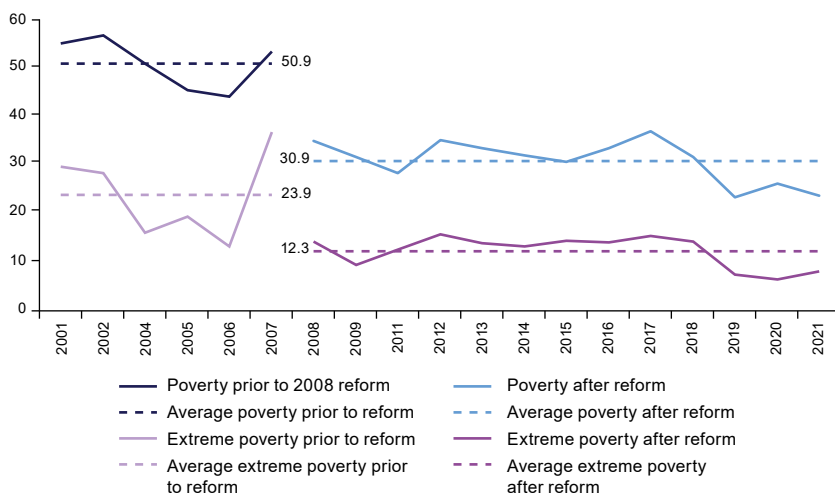
2. Impact of the non-contributory pension system on poverty reduction and the sufficiency of entitlements

(a) Effects of the non-contributory pension system in terms of reducing old-age poverty

The main objective of non-contributory pension systems is to combat old-age poverty (Barr and Diamond, 2006). Although it is not possible to isolate the effect of the Bolivian system from that of other possible variables and programmes introduced in the period and establish a causal relationship, household survey data from the Plurinational State of Bolivia show that the introduction of *Renta Dignidad* coincided with a substantial reduction in poverty and extreme poverty among older persons (aged 65 and over). In the case of poverty among older persons, the average for the period 2001–2007 was 50.9%, a figure that decreased to 30.9% in the period 2008–2021 following the introduction of *Renta Dignidad* in 2008. This represents a reduction of 20 percentage points. Extreme poverty among older persons decreased by just over 10 percentage points, from 23.9% to 12.3%, between 2001 and 2021 (see figure IV.5). This underlines the substantial effect of the introduction of *Renta Dignidad*, together with the implementation of continuous parametric adjustments which increase the value of entitlements, in terms of reducing poverty and extreme poverty in old age. The effect is particularly evident from 2017 onward, with the ratio of the amount of the entitlement to the poverty line showing a substantial increase of 7 percentage points. These findings are in line with the those of other studies assessing poverty reduction since the implementation of *Renta Dignidad*. The study by Escobar, Martínez and Mendizábal (2013) which uses a quasi-experimental regression discontinuity methodology to compare poverty among those who were in the 55–59 cohort in 2011 and therefore did not have access to the non-contributory pension programme, on the one hand, to poverty in the 60–65 cohort, which did receive it, on the other hand. That study finds a decrease in poverty of 13.5 percentage points and of 18.0 percentage points in households that include older persons and are located in urban areas. Arenas de Mesa, Robles and Vila (2024), for their part, give results for 13 countries in the region using microsimulations. In the case of *Renta Dignidad*, they indicate that poverty among older persons would have been 13.5 percentage points higher in 2021 if they had not received non-contributory pensions. Similarly, Cecchini, Villatoro and Mancero (2021) indicate that, in 2015, the non-contributory pension system

in the Plurinational State of Bolivia was responsible for a 1.4 percentage point (7.8%) reduction in poverty and a 1.1 percentage point (3.0%) reduction in extreme poverty among the total population.

Figure IV.5
Plurinational State of Bolivia: evolution and average rates of poverty and extreme poverty among people aged 65 and over before and after the implementation of *Renta Dignidad*, 2001–2021
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), CEPALSTAT [online database] https://statistics.cepal.org/portal/cepalstat/dashboard.htm?lang=en&indicator_id=3333&area_id=930.

Note: Simple averages.

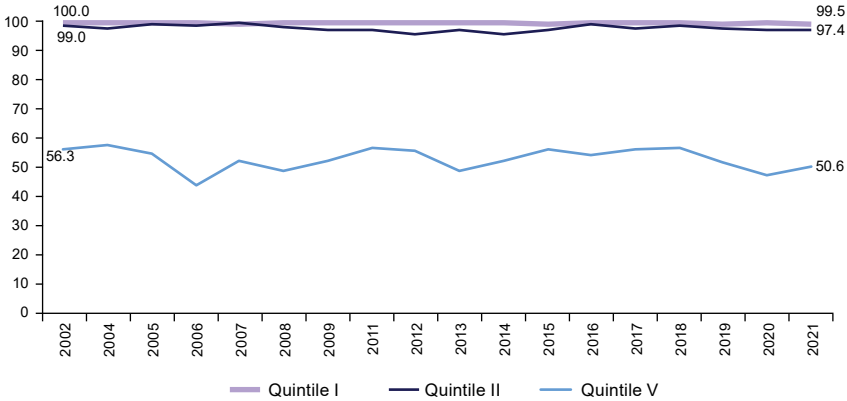
(b) Effects of *Renta Dignidad* on the sufficiency of the pension system

This section examines the effects that the implementation of *Renta Dignidad* may have had on the proportion of older persons with a total pension income, including contributory and non-contributory pensions, below the poverty line, considering different dimensions of social inequality, such as income level, gender and area of residence.

Although the introduction of *Renta Dignidad* was very important because of the high coverage achieved, the level of entitlements has been too low to bring about a substantive change in the proportion of older persons with pensions below the poverty line in the country. This can be observed, for example, in an analysis of this indicator between 2002 and 2021 among older persons in the first two income quintiles and those in the highest income quintile (see figure IV.6). In both cases, the proportion of people aged 65 and over with pensions below the poverty line holds

fairly steady, exceeding 95% among those belonging to households in the first and second income quintiles and hovering around 50% among those in the fifth income quintile. Contributory pension coverage in the first and second quintiles averaged 0.3% and 2.8%,⁸ respectively, during the period 2011–2021. This, coupled with the fact that the average non-contributory entitlement was below the poverty line, partly explains the low sufficiency. Again, contributory pension coverage among older persons belonging to the fifth income quintile averaged 46% for the same period, which explains the lower proportion of older persons with pensions below the poverty line in this group.

Figure IV.6
Plurinational State of Bolivia: older persons receiving total pension income^a below the poverty line, by income quintile, 2002–2021
(Percentages)



Source: Prepared by the authors, on the basis of National Institute of Statistics, 2016, 2019 and 2021 household surveys, Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Includes contributory and non-contributory pensions.

When gender inequalities and area of residence are considered, more marked effects are observed (see table IV.1). Analysis of the effects the year after *Renta Dignidad* was introduced (2008) shows a decrease in the incidence of total pension income below the poverty line in all the dimensions analysed, with a decline of 4 percentage points nationally. When differentiated by sex, this proportion is found to have decreased by 3.5 and 4.1 percentage points for men and women, respectively, which again shows a contribution to the reduction of gender inequalities. Lastly, when differentiated by area of residence, the proportion is found to have decreased by 4.6 and 3.3 percentage points in urban and rural areas, respectively.

⁸ Calculated on the basis of the 2011, 2016, 2019 and 2021 household surveys from the Household Survey Data Bank (BADEHOG).

Table IV.1

Plurinational State of Bolivia: people aged 65 and over receiving total pension income^a below the poverty line, by area of residence and sex, before and after implementation of *Renta Dignidad*, 2002–2020
(Percentages and percentage points)

	Total	Urban	Rural	Men	Women
Years with measurements immediately before and after the reform					
Pension income below the poverty line (2007)	82.8	71.4	93.8	77.2	87.2
Pension income below the poverty line (2008)	78.8	66.8	90.5	73.7	83.1
Difference	-4	-4.6	-3.3	-3.5	-4.1
Averages for all years available before and after the introduction of <i>Renta Dignidad</i>					
Average before introduction (2002–2007)	83.2	71.2	94.8	78.1	87.4
Average after introduction (2007–2020)	80.0	68.4	94.1	74.7	84.7
Difference	-3.2	-2.8	-0.6	-3.4	-2.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Includes contributory and non-contributory pensions.

With regard to the medium-term effect, a comparison of the proportion of older persons with total pension income below the poverty line for the periods 2002–2007 and 2008–2021 —before and after the introduction of *Renta Dignidad*— shows a decrease for all the population groups included in table IV.1. The proportion fell by 3.2 percentage points nationally.

3. Final reflections

Analysis of the evolution and results of the non-contributory pension system in the Plurinational State of Bolivia reveals a progressive trend towards universality, especially after the privatization of the pension system in 1997. The implementation first of *Bonosol* and then of *Renta Dignidad* achieved high levels of coverage among the population aged 65 and over. Public spending on these programmes has steadily increased, demonstrating a commitment to non-contributory social protection.

The introduction of *Renta Dignidad* has helped to reduce old-age poverty and extreme poverty in the country, suggesting that the programme has been successful in its main objective of alleviating poverty among the older population. However, sufficiency remains a challenge. While the amount of the entitlement has increased in relation to the poverty line, it has not been possible to make substantial inroads into the proportion of people receiving pensions below that line.

This trend could be explained by the combination of low non-contributory pensions and limited contributory coverage in the Plurinational State of Bolivia. Also, when the results are disaggregated, such as by gender, socioeconomic status and area of residence, the effects of the non-contributory pension system on the different groups are found to be limited. This points to the need for a more comprehensive approach to the

challenges facing the non-contributory system in the country, in conjunction with the challenges of coverage and sufficiency of entitlements affecting the contributory system.

The path towards universality in the Plurinational State of Bolivia has been marked, among other factors, by political economy challenges and the need to find sustainable sources of funding to ensure programme continuity and, especially, to increase the sufficiency of the entitlements of the non-contributory pension system. For all the progress made, major challenges remain. The task of raising replacement rates and ensuring that entitlements are sufficient to lift people above the poverty line remains difficult. It is therefore necessary to strengthen the contributory system and implement labour inclusion policies that foster increased formality in the labour market while seeking mechanisms to strengthen the system's performance and reduce inequalities between the sexes and by area of residence.

In summary, this case shows that it is possible to move towards universal coverage in the non-contributory pension system, even in challenging economic and political circumstances. Improving the sufficiency of entitlements and overcoming the gender and socioeconomic inequalities that persist in the pension system remain challenges. A sustained commitment to social protection and the continuous adaptation of programmes are essential to ensure that older persons in the Plurinational State of Bolivia can enjoy a dignified and poverty-free old age.

B. Chile: the challenges of achieving universal coverage, sufficiency and financial sustainability in the non-contributory pension system

1. Introduction

Chile is one of the countries in Latin America and the Caribbean that implemented a non-contributory pension system 50 years ago, in the form of the Assistance Pension (PASIS) (1975), covering very poor people who generally did not participate in the labour market and did not qualify for a contributory pension. This system was strengthened by the reform to the civilian contributory pension system in 1981, which led to the establishment of a fully funded scheme. This reduced the public sector role in contributory pensions in terms of coverage (Gana, 2002), although this was not the case with regard to expenditure, as the transition costs were extremely high. Arenas de Mesa (2005) and the Presidential Advisory Council for Pension Reform (2006) estimate that the fiscal deficit averaged 5.7% of GDP for the period 1981–2004, of which 3.9% of GDP was accounted for by the transition costs associated with the operating deficit of the public pension system and the *bono de reconocimiento* credited to those switching from the public to the private system. Subsequently, a

decision was taken to strengthen the non-contributory pension system in response to problems of sufficiency and limited coverage in the contributory system,⁹ reflected, according to the Presidential Advisory Council for Pension Reform (2006), in falling replacement rates and the fact that 46% of self-financed pensions were going to be below the minimum pension. Part of the 2008 pension reform was the creation of the Solidarity Pension System (SPS), which, among other measures, extended the coverage of the non-contributory pension system to the poorest 60% of the population and created a set of entitlements aimed at reducing gender inequalities, improving replacement rates and covering the risks of disability and old age (Arenas de Mesa, 2010). Later, in 2022, the Universal Guaranteed Pension (PGU) was created. In sum, Chile's non-contributory pension system has comprised the following three programmes:

- (i) Assistance Pension (1975–2008)
- (ii) Solidarity Basic Pension (2008–2022)
- (iii) Universal Guaranteed Pension (2022 to date)

2. Assistance Pension

The non-contributory pension system in Chile has a long history. PASIS originally comprised two non-contributory entitlements, for old age and disability, targeted at people aged 65 and over and people of working age (between 18 and 64) with disabilities, respectively. Later, in 2004, a third entitlement, targeted at mental disability in children and adolescents, was added.

Regarding the target population and coverage, Decree Law No. 869 of 1975 established that people with lower incomes who did not have a contributory pension would be eligible for the non-contributory entitlement. It also established that a person would be deemed “in need” if their per capita family income was below 50% of the minimum guaranteed pension paid by the contributory pension system. As regards coverage, the total entitlements provided by the programme depended on budgetary constraints at any given time, and there was no specific coverage target. Coverage was limited by the stipulation that only one PASIS could be received per household.

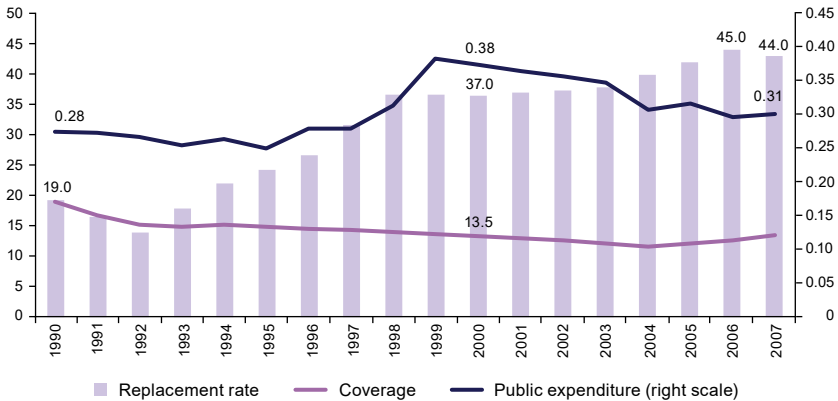
As regards the programme's systems for prioritizing recipients, various instruments were used over the period of its implementation, depending on the state of advancement of social protection information systems. The Social Assistance Committee (CAS) and CAS-2 systems began to be used in the late 1970s as targeting instruments to allocate entitlements, and the social protection scorecard was used starting in 2006. In addition, it became a legal requirement that recipients' eligibility be reviewed every

⁹ These problems were common to both the private and public systems. Various projections at the time showed the problems of sufficiency that would affect the system (Vargas, 2018).

three years to check that the conditions were being met. Entitlement applications were decentralized, with regional governments involved in allocation, responsible for processing applications and acting as a point of contact with potential recipients. Supervision of the allocation and payment process was the responsibility of the Office of the Superintendent of Social Security, with support from the Institute of Social Security Standardization (now the Social Security Institute) for the payment of entitlements. Pensions were financed through the National Welfare Pension Fund, which depended on general central government revenues, and they were implemented through the Institute of Social Security Standardization.

Regarding results, figure IV.7 shows the evolution of coverage among people aged 65 and over, public spending as a percentage of GDP and the replacement rate, defined as the value of the entitlement relative to the poverty line in Chile between 1990 and 2007. Analysis shows that coverage was around 20% in the early 1990s, and the replacement rate was about the same, while public spending on PASIS was about 0.3% of GDP. Coverage followed a downward trend from 2000 but reversed course in 2004, so that it had risen to 13% by 2007. Public expenditure was 0.38% of GDP in 2000 and 0.31% of GDP in 2007. Lastly, with respect to sufficiency, the replacement rate increased to 37% in 2000. It continued to trend upward for the rest of the decade, peaking at 45% in 2006 and 44% in 2007.

Figure IV.7
Chile: Assistance Pension coverage among people aged 65 and over, public expenditure as a proportion of GDP, and sufficiency of the amount of the entitlement as a proportion of the poverty line (replacement rate), 1990–2007
(Percentages and percentages of GDP)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2019"; United Nations, *World Population Prospects 2019*, New York, 2019 [online] <https://population.un.org/wpp2019/>; Ministry of Social Development and Family of Chile/United Nations Development Programme (MDSF/UNDP), *Evolución de la pobreza 1990-2017: ¿cómo ha cambiado Chile?*, Santiago, 2020.

3. Solidarity Basic Pension

SPS was created as part of the 2008 pension reform. Together with other factors, the diagnosis and projections produced in 2006 by the Presidential Advisory Council for Pension Reform, which highlighted the limited coverage and sufficiency of the pension system, were fundamental to the rationale of the proposed pension reform. One reason was the inability of the fully funded scheme to meet a large part of the expectations for both the coverage and, especially, the sufficiency of entitlements (Mesa-Lago, 2022). The objectives of the 2008 pension reform were to reduce old-age poverty, increase coverage —especially among young people and women— and increase replacement rates (Presidential Advisory Council for Pension Reform, 2006). To achieve these objectives, a series of measures were implemented in relation to coverage and sufficiency that would also strengthen the non-contributory pension system, and PASIS and the State minimum pension guarantee were replaced by SPS.

(a) Design and implementation of the Solidarity Pension System

Political economy was a significant challenge in the creation of SPS given the Chilean context, where any major reform to the fully funded scheme could generate a major backlash from political sectors that looked askance at any change to the model established in 1981 (Arenas de Mesa, 2010). However, the implementation of a subsystem complementing the system of individual accounts meant that this could enjoy broad support, thus dealing with the main point on which consensus was lacking (Maldonado and Palma, 2013).

In 2008, Act No. 20255 created SPS, which provided old-age and disability entitlements to complement the fully funded scheme (Bentancor, 2020). The new system provided the following entitlements: the Basic Solidarity Old-age Pension (PBS), the Solidarity Pension Supplement (APS) and the Basic Solidarity Disability Pension (PBSI). These entitlements had different target populations: PBS was non-contributory, and only those not in receipt of a contributory pension were eligible for it. APS was provided depending on the level of contributory pension obtained (people obtaining pensions above the Maximum Pension with Solidarity Supplement (PMAS) were excluded). PBSI, meanwhile, targeted working-age people with disabilities who did not have access to a contributory pension, with the same restrictions regarding prioritization and the value of the pension. No specific tax was raised to fund the SPS, which was financed from general revenues. However, a Pension Reserve Fund was established within the framework of the 2006 fiscal responsibility law, together with measures to modernize institutional capacities so as to sustain the functioning of this system (Arenas de Mesa, 2010).

Regarding PBS (old age), the eligibility requirements, according to Act No. 20255, were as follows:

- (i) To be at least 65 years of age at the time of applying.
- (ii) To belong to a household in the poorest 60% of the population.
- (iii) To be able to show at least 20 years' continuous or discontinuous residence in Chile, counting from the applicant's twentieth birthday until the time of applying for the entitlement, and also to have lived in the country for at least 4 years in the 5 years prior to the application. The calculation of years of residence included time spent outside Chile as a political exile for persons covered by article 2 of Act No. 18994 and registered with the National Office of Return, and time spent abroad when employed on diplomatic missions, consular representations and other official functions of the country.
- (iv) To have no entitlement to a pension under any other pension scheme.

The requirements are the same for APS, with the exception of point (iv); instead, the stipulation is that any pension received must be lower than PMAS.

The greatest changes with respect to PASIS relate to both the coverage and the sufficiency of entitlements. When the characteristics of the two programmes are compared in terms of application procedures, entitlement and targeting, it can be seen that PBS represents a significant improvement over PASIS. For one thing, the application process is now centralized and local governments do not play a role, as they did with PASIS. Regarding entitlement, access no longer depends on budgetary constraints; instead, there is a system where prioritization is individual, and explicit promises of coverage guarantee that those meeting the eligibility requirements are entitled to a pension. Lastly, targeting shifts from a territorial to an individual basis.

The 2008 pension reform also changed the institutional structure for allocating and paying the pensions. The application process is now centralized through a new public institution, the Social Security Institute, and the prioritization instruments have been modified. As regards oversight, the programme is no longer under the purview of the Office of the Superintendent of Social Security; implementation is now supervised by the Office of the Superintendent of Pensions, a newly created political and administrative unit, which is part of the Office of the Undersecretary of Social Security at the Ministry of Labour and Social Security. SPS was financed from general government revenue, but resources from the Pension Reserve Fund could be used. Table IV.2 summarizes the main differences between the two systems.

Table IV.2
Chile: comparison of prioritization and eligibility structures
in the non-contributory pension system

Category	PASIS	PBS
Centralized or decentralized	Decentralized	Centralized
Individual or territorial targeting	Territorial	Individual
Programme-specific allocation algorithm	No	Yes
Eligibility review	Yes, every three years	Yes, every three years
Autonomous supervisory institution	Yes, Office of the Superintendent of Social Security	Yes, Office of the Superintendent of Pensions

Source: Prepared by the authors, on the basis of Ministry of Labour and Social Security, "Decreto Ley 869", Santiago, 1975; "Decreto 23. Aprueba el Reglamento del Sistema de Pensiones Solidarias establecido en la Ley N° 20255", Santiago, 2008; Office of the Superintendent of Social Security, "Circular N° 2384: Pensiones asistenciales. Imparte instrucciones respecto de la aplicación del Decreto Supremo N° 26, de 2007, del Ministerio del Trabajo y Previsión Social", Santiago, 2007; Office of the Superintendent of Pensions, "Resolución Exenta N° 155. Fija fórmula matemática del cálculo del puntaje de focalización previsional", Santiago, 2010.

Another major difference is in the prioritization instruments. The final version of PASIS employs a general algorithm to identify poverty using the score on the social protection scorecard, while PBS uses the technical targeting instrument. This is an instrument for prioritizing allocation among applicants on the basis of the needs of the programme's target population, who in this particular case were over-65s, requiring it to be modified. One of the main differences is the method used by the two instruments to construct households. While the social protection scorecard takes into account the family group with whom the potential recipient lives, the entitlements associated with SPS only take account of descendants who could be recipients of survivors' pensions (i.e. the spouse, children under 18 and children over 18 but under 24 years of age who are students attending regular elementary, secondary, technical or higher education courses).¹⁰ Administrative data are used to calculate household income, which represents an improvement on the PASIS prioritization system's use of self-reported income data, now used only as a last resort. The dependency level of the household is also considered and is automatically adjusted as the age of household members rises.

With regard to the value of the entitlements, PBS and PBSI provided a fixed amount that was updated every 12 months for inflation. The old-age APS, meanwhile, provided a differentiated amount that depended

¹⁰ Act No. 20255 adds, however, that potential recipients may apply for persons with the following status relative to them to be included in their household, provided they share in the household budget:

- (i) The mother or father of their children, not included in the category of spouse.
- (ii) Children with disabilities aged over 18 and under 65.
- (iii) Parents if aged over 65.

on whether the base pension¹¹ that individuals received was lower or higher than the PBS amount. If lower, the pension was supplemented up to the value of PBS, and if higher, a supplementary amount was added, calculated from the value of PBS, the value of PMAS and the base pension. This structure allowed coverage to be provided against the risks of old-age poverty and survival (Vidal, 2019).

SPS was implemented gradually over three years until the anticipated level of entitlements and coverage was attained. Table IV.3 shows how the proportion of the target population to be covered and the value of PBS evolved until the system was fully operational in mid-2011. The value of PBS increased from US\$ 103 to US\$ 169 (an increase of 23% in real terms on PASIS), while the coverage of the target population to be prioritized increased from 40% to 60% over the same period.

Table IV.3
Chile: coverage and value of the Basic Solidarity Old-age Pension, 2008–2011

Period	Value of PBS (Current dollars) ^a	Value of PMAS (Current dollars) ^a	Poorer population covered (Percentages)
1 July 2008 to 30 June 2009	103	120	40
1 July 2009 to 31 August 2009	138	221	45
1 September 2009 to 30 June 2010	143	286	50
1 July 2010 to 30 June 2011	155	408	55
1 July 2011 onward	169	551	60

Source: Prepared by the authors, on the basis of S. Bernstein (ed.), *El sistema chileno de pensiones*, Santiago, Office of the Superintendent of Pensions, 2010; Office of the Superintendent of Social Security, “Nota ciudadana N° 3: aniversario del sistema de pensiones solidarias”, Santiago, 2019.

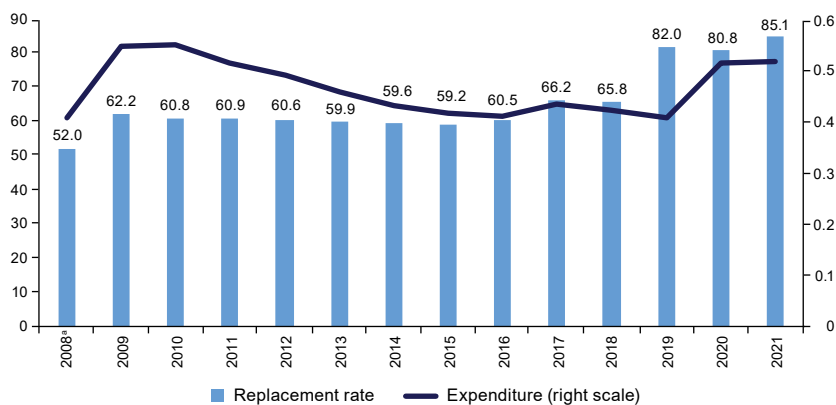
^a Using the average market exchange rate for the dollar in each period, as provided by the Central Bank of Chile.

Once the pension reform was implemented in 2008, there were no parametric changes in coverage or the level of entitlements until 2017, when a series of parametric reforms to SPS were initiated, prior to its replacement in 2022. These changes were reflected in coverage, sufficiency and public spending. Figure IV.8 shows the evolution of public spending on PBS. It grew during the implementation phase until it reached 0.55% of GDP in 2010, then decreased steadily to 0.41% of GDP in 2016. This was followed by an increase in 2017, 2020 and 2021 as a result of legislative changes to PBS that led to an increase in the amount of the entitlements. Figure IV.8 also shows that, before the parametric reforms of 2017, the replacement rate increased between 2008 and 2009 and then declined steadily until 2016. A number of changes in the value of the pensions were made in

¹¹ The base pension is defined in Act No. 20255 as the sum of applicants’ self-funded pension of reference plus any survivors’ pensions that they receive. The self-funded pension is defined as the pension to which applicants are entitled under the fully funded scheme as at the date upon which they obtain a pension.

2017, increasing the replacement rate. The value of PBS then reached an amount equivalent to 66% of the poverty line. Subsequently, from 2019, the entitlement value was increased with age and the replacement rate rose to 82%. Lastly, in 2021, while the creation of PGU was under discussion, the replacement rate increased again to 85% of the poverty line.

Figure IV.8
Chile: public expenditure and value of the Basic Solidarity Old-age Pension as a proportion of the poverty line (replacement rate) and related public spending, 2008–2021
(Percentages and percentages of GDP)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; poverty line for 2008–2016 comes from Ministry of Social Development and Family of Chile/United Nations Development Programme (MDSF/UNDP), *Evolución de la pobreza 1990-2017: ¿cómo ha cambiado Chile?*, Santiago, 2020; poverty line for 2017–2021 is taken annually in December from Ministry of Social Development and Family of Chile (MDSF), “Valor de la Canasta Básica de Alimentos y líneas de pobreza: informe mensual”, Santiago.

Note: The replacement rate for 2008 is calculated as the ratio between the value of the entitlement and the geometric average of the two-year annual increase in the nominal value of the poverty line from 2006 to 2009.

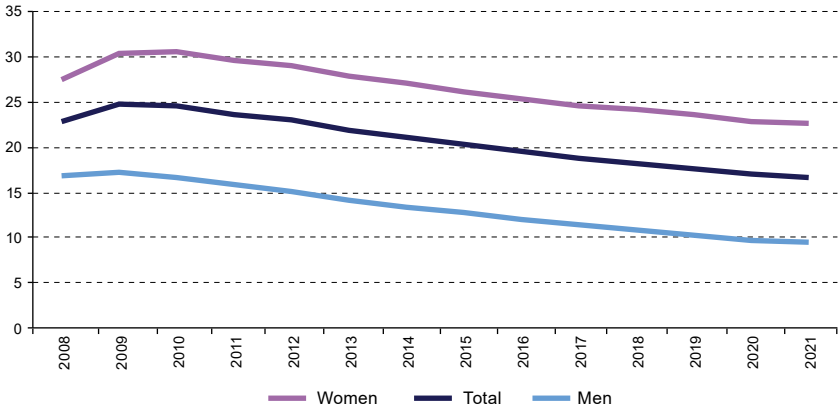
^a Expenditure associated with PASIS between January and June 2008 is added in.

PBS coverage (see figure IV.9) peaked at 24.8% in 2009, then declined steadily to 16.7% in 2021. There were two reasons for this. First, SPS allocated APS to contributory system affiliates, and affiliation only required a person to have made a single payment to the contributory pillar. This led to an increase in contributory coverage and not necessarily to an increase in non-contributory coverage.¹² Second, the affiliation rate among the cohorts receiving a pension after the reform was higher than among those receiving one beforehand, given the incentive for affiliation

¹² Using information from the Office of the Superintendent of Pensions, it can be calculated that old-age APS coverage was 0.29% in December 2008 and 46% in December 2021.

created by the 2008 reform with the introduction of a Child Allowance. This entitlement is a lump sum equivalent to 2.4 times the minimum wage paid into a woman’s individual account for each child (biological or adopted), with the requirement that she be affiliated to the contributory system. This may have encouraged greater participation by women in the system, as reflected in their affiliation rate, which rose from 63% in 2008 to 70% in 2021.¹³ Nonetheless, non-contributory coverage remains considerably higher among women than among men. Whereas in 2008 this coverage was 10.6 percentage points higher for women than for men, by 2021 it was 13.0 percentage points higher. This is explained by labour market inequalities, which continue to affect women more than men, excluding them to a greater extent from access to a contributory pension and acceptable sufficiency levels.

Figure IV.9
Chile: coverage of the Basic Solidarity Old-age Pension
among people aged 65 and over, by sex, 2008–2021
(Percentages)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, “Population estimates and projections: Excel tables. Revision 2019” [online]; United Nations, *World Population Prospects 2019*, New York, 2019 [online] <https://population.un.org/wpp2019/>.

(b) Results of the creation of the Solidarity Pension System

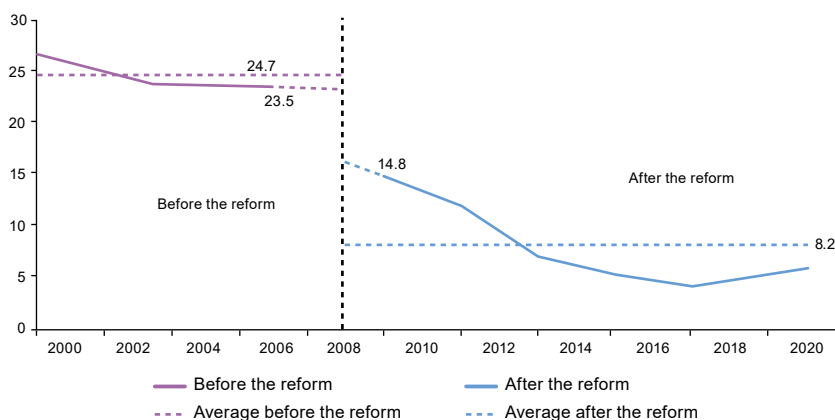
As has been seen, the creation of SPS as part of the 2008 pension reform in Chile represented a far-reaching overhaul of non-contributory protection for older persons and those with disabilities. It also had

¹³ Calculated on the basis of Office of the Superintendent of Pensions and ECLAC/United Nations (2022).

substantive impacts in different areas. It is worth analysing the effects on poverty among older persons and the sufficiency of the pensions received by them, as well as second-order effects on the labour market and recipients' well-being.

Poverty among people aged 65 and over averaged 24.7% between 2000 and 2006, before the reform. After the reform, taking the longer period from 2008 to 2020, poverty among the population aged 65 and over averaged 8.2%. It is possible to establish that old-age poverty fell by 8.7 percentage points between the 2006 and 2009 measurements alone, while if the entire period between 2000 and 2020 is taken, it fell by 16.5 percentage points (see figure IV.10). This means that there was a marked decline in old-age poverty after the implementation of SPS. Although old-age poverty declined more for men than for women, analysis of the situation before and after the implementation of SPS reveals a very large reduction in the poverty gender gap (see table IV.4). This finding is borne out by other studies showing the effects of SPS on poverty reduction. Using microsimulations, Cecchini, Villatoro and Mancero (2021) show extreme poverty and poverty in the total population falling by 0.7 and 2 percentage points, respectively, in 2017. Data from the Centre for Longitudinal Surveys and Studies (CEEL, 2017), meanwhile, show that without APS and PBS, poverty among the older population would have been 14.1% rather than 5.9%.

Figure IV.10
Chile: evolution of poverty among people aged 65 and over, 2000–2020
(Percentages)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

Table IV.4
Chile: decline in poverty among people aged 65 and over,
by sex and evolution of the gender gap, 2006–2020

	Total	Men	Women	Gender gap (Percentage points)
Years with measurements immediately before and after the reform				
Poverty in 2006 (Percentages)	23.5	24.4	22.9	1.5
Poverty in 2009 (Percentages)	14.8	15.3	14.4	0.9
Difference (Percentage points)	-8.7	-9.1	-8.5	
Averages for all years available before and after the reform				
Average before the reform (2000–2006) (Percentages)	24.7	26.3	23.5	2.8
Average after the reform (2009–2020) (Percentages)	8.2	8.5	8.0	0.5
Difference (Percentage points)	-16.5	-17.8	-15.5	

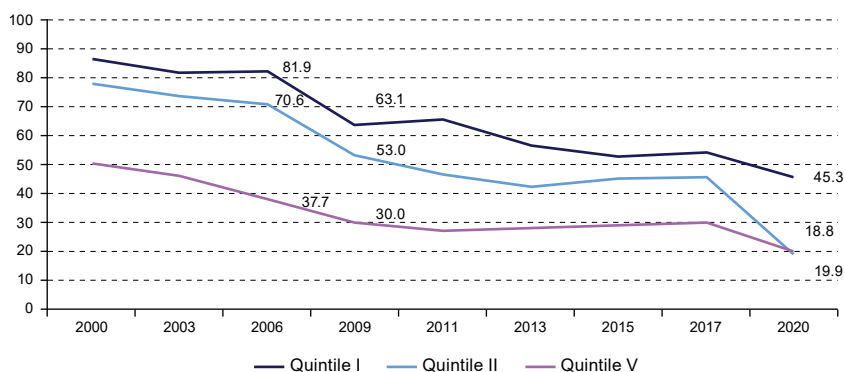
Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

At the same time, the proportion of older persons receiving total pension income below the poverty line, including contributory and non-contributory pensions, fell further among people in the lowest income quintile than among those in the second quintile and the highest (fifth) quintile. Between 2006 and 2009, this proportion fell by 18.8 percentage points among older persons in the first income quintile, 17.6 percentage points in the second income quintile and only 7.7 percentage points in the highest income quintile. Again, when the period from 2006 to 2020 is taken, the implementation of PBS can be seen to have led to an even greater reduction in this proportion among older persons in the second income quintile (51.8 percentage points), while the reduction was 36.6 percentage points in the first income quintile and 17.8 percentage points in the fifth quintile (see figure IV.11). This shows the broader impact that non-contributory components have had on the pension system, not only among older persons living in the greatest poverty, but right across the income distribution.

Drawing on the analysis of the behaviour of this indicator by sex and area of residence, table IV.5 shows that the proportion of older persons with total pension income below the poverty line fell considerably more in rural areas than in urban areas for all income quintiles, both immediately and in the medium term. If this effect is analysed by sex, there is found to be a larger reduction in the proportion of older women than men with pensions below the poverty line for all income quintiles. This again underlines the importance of extending the coverage and sufficiency of non-contributory pensions for the reduction of gender inequalities in

this area.¹⁴ It also reflects the importance of increasing the replacement rate of the pension system as a whole, considering also the key role of the contributory component in bringing about a step change towards more solid levels of income protection in old age.

Figure IV.11
Chile: people aged 65 and over receiving total pension income below the poverty line, by income quintile, 2000–2020
(Percentages)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

Table IV.5
Chile: decrease in the population aged 65 and over receiving total pension income below the poverty line after implementation of the Solidarity Pension System, by quintile, area of residence and sex

Effects by area of residence	Rural			Urban		
	Quintile I	Quintile II	Quintile V	Quintile I	Quintile II	Quintile V
Years with measurements immediately before and after the reform						
Pensions below the poverty line 2006 (Percentages)	83.8	70.9	45.3	83.1	69.5	37.3
Pensions below the poverty line 2009 (Percentages)	32.5	15.2	12.8	77.0	64.1	30.5
Difference (Percentage points)	-51.3	-55.7	-32.5	-6.1	-5.4	-6.8

¹⁴ In the years following the reform, there was a slight increase in the percentage of older men in the fifth income quintile with pensions below the poverty line. This can be explained by the updating of the mortality tables in 2009, showing an increase in life expectancy, and by the decrease in long-term interest rates; both changes negatively affected the value of new self-funded pensions for those who obtained a pension through annuities and for programmed withdrawals. This lowered pensions overall. Since men in the fourth and fifth quintiles would tend to be more excluded from SPS, given the prioritization of people belonging to the poorest 60% of households, this population can be expected to be the most prone to pension adjustments resulting from the change in the mortality tables.

Effects by area of residence	Rural			Urban		
	Quintile I	Quintile II	Quintile V	Quintile I	Quintile II	Quintile V
Averages for all years available before and after the reform						
Average before the reform (2000–2006) (Percentages)	81.4	71.7	43.6	86.4	76.2	43.8
Average after the reform (2009–2020) (Percentages)	26.9	12.4	13.2	68.0	51.7	27.5
Difference (Percentage points)	-54.5	-59.3	-30.4	-18.4	-24.5	-16.3
Effects by sex	Men			Women		
	Quintile I	Quintile II	Quintile V	Quintile I	Quintile II	Quintile V
Years with measurements immediately before and after the reform						
Pensions below the poverty line 2006 (Percentages)	70.6	53.0	24.1	91.7	85.3	47.5
Pensions below the poverty line 2009 (Percentages)	56.1	43.4	24.8	69.0	61.1	33.9
Difference (Percentage points)	-14.5	-9.6	0.7	-22.7	-24.2	-13.6
Averages for all years available before and after the reform						
Average before the reform (2000–2006) (Percentages)	73.9	59.3	31.6	91.6	86.1	53.5
Average after the reform (2009–2020) (Percentages)	49.2	33.5	22.3	61.7	48.5	30.9
Difference (Percentage points)	-24.7	-25.8	-9.4	-29.9	-37.7	-22.6

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

The introduction of PBS in Chile has also been analysed for its impact on other dimensions of older persons' well-being besides income. Thus, for example, it has been found that the implementation of PBS increased life expectancy at the age of entry into the programme. Using administrative data for Chile, Miglino and others (2023) find that four years after implementation, recipients of PBS were 2.7 percentage points less likely to have died. Data from different surveys indicate that increased food intake and visits to health centres are important factors in reducing mortality.

The 2008 pension reform, and in particular the creation of SPS, thus served to increase the coverage and improve the sufficiency of the Chilean pension system, and to enhance the quality of life of recipients. It also provided guarantees and entitlements to groups previously excluded from the pension system, such as women and persons with disabilities. Many of the people concerned received entitlements directed at them for the first time. This is particularly striking in the case of women and the consequences that receipt of the entitlement has had in terms of economic autonomy and improved levels of well-being. Special consideration should be given to the change brought about by PBS relative to the eligibility rules of PASIS, which only allowed one pension per household (Arenas de Mesa, 2010). Thus, the effects of PBS in recognizing and reducing gender inequalities deserve to be highlighted.

4. Universal Guaranteed Pension

PGU arose in a context where it was difficult to proceed with a structural reform of the pension system in Chile, despite three efforts in this direction, the latest of which is currently under discussion.

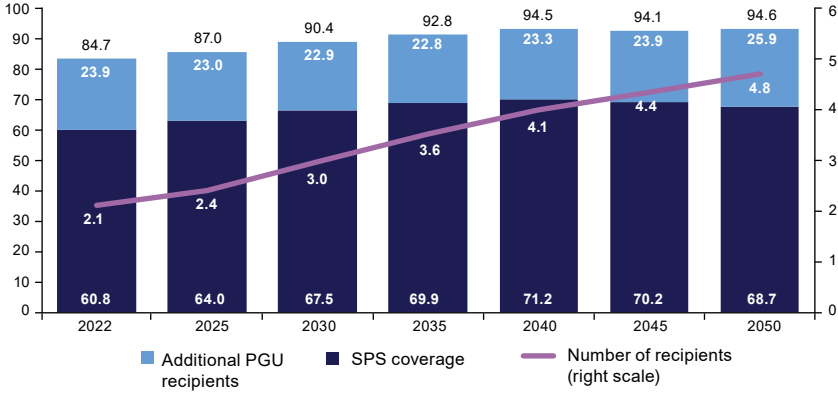
The only issue on which there has been political consensus is the continuous improvement of the Chilean non-contributory pension system, in relation to both the coverage and the sufficiency of entitlements. In February 2022, a first step towards the universalization of PBS, and SPS as a whole, was taken by extending it to the nine lowest income deciles, initially of the population over the age of 65 and later of the total population, and renaming it the Universal Guaranteed Pension (PGU).¹⁵ The monthly pension value is equivalent to US\$ 225 and is provided on top of any self-funded pension from the contributory pillar. The PGU entitlement is a substantial change from what was provided by SPS: instead of providing two old-age pensions (PBS and APS), it is paid at a flat rate for the eight lowest income deciles and decreases according to the amount of the recipient's pension in the ninth decile.

Another substantial change has been the improvement in the prioritization system. Given the extension of coverage to 90% of the older population, instead of seeking to identify the poorest 60% of the entire population, the prioritization algorithm was modified so that it excluded the wealthiest 10% of the population aged 65 and over (Becerra and others, 2022). In addition, the maintenance of information sources means that the inputs for the prioritization calculation are based only on administrative data collected by the State, without much user involvement. Users only have to apply for the entitlement, which speeds up allocation and improves their experience.

The implementation of PGU was supposed to have a substantial expansion in coverage and public spending. Regarding coverage, Chile's Budgetary Affairs Bureau calculated in 2021 that the total number of PGU recipients would be 2,145,663 in 2022, an increase of 604,783 people or 23.7 percentage points in coverage, giving total coverage of 84.7% (Pension Advisory Council, 2021). By 2035, total coverage was expected to be 92.8% of the target population or 3.5 million recipients, and by 2050, coverage was forecast to be 94.6% of the target population or 4.7 million older persons (see figure IV.12).

¹⁵ The specific requirements are: (i) to be aged 65 or older; (ii) not to be among the wealthiest 10% of the population; (iii) to have resided in Chile for at least 20 years (continuously or otherwise) since the age of 20; (iv) to have resided in Chile for at least 4 of the 5 years prior to the application; (v) to have no pension entitlement or to have a base pension lower than the maximum pension established; and (vi) not to be affiliated to the pension systems of the Chilean Armed Forces or Carabineros (the National Defence Pension Fund or the Carabineros de Chile Pension Administration). See [online] <https://www.chileatiende.gob.cl/fichas/102077-pension-garantizada-universal-pgu>.

Figure IV.12
Chile: projected coverage of the Universal Guaranteed Pension as a proportion of the population aged 65 and over, and number of recipients, 2022–2050
(Percentages and millions of people)



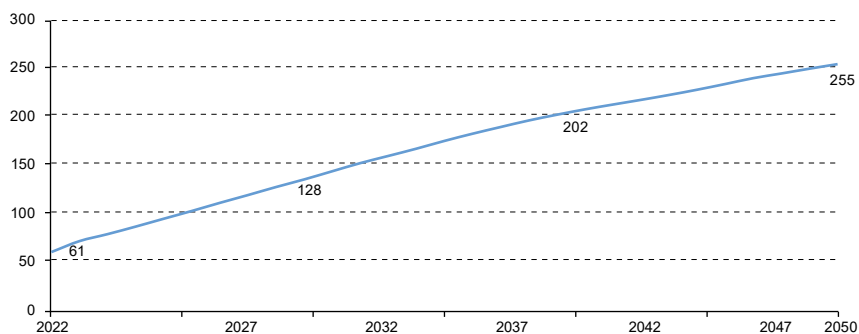
Source: Prepared by the authors, on the basis of Pension Advisory Council, “Análisis de los efectos del proyecto de ley que crea Pensión Garantizada Universal y modifica cuerpos legales que indica”, Santiago, 2021; United Nations, *World Population Prospects 2019*, New York, 2019 [online] <https://population.un.org/wpp2019/>.

Where public spending is concerned, the Budgetary Affairs Bureau of the Ministry of Finance estimated that the implementation of PGU in 2022 would mean additional spending of 61% over the amount planned for SPS. Spending is expected to have to be 128% higher by 2030 and 202% and 255% higher by 2040 and 2050, respectively (see figure IV.13). In its project analysis, the Autonomous Fiscal Council assumed an average increase in this investment of about 0.9% of GDP for the period 2022–2050. It also recommended seeking new sources of financing and reducing and abolishing certain tax exemptions (CFA, 2022). Thus, as part of the search for new funding sources, the implementation of PGU under Act No. 21419 was financed by an increase in the capital gains tax, the abolition of special credits for housing construction and purchases, and the application of a value added tax to services that were exempt prior to the reform.

In 2022, the first year of PGU implementation, the total spending of the programme was equivalent to 1.55% of GDP. In terms of coverage, it reached 75.9% of people aged 65 and over. Analysis of its implementation by sex shows that coverage encompassed 82.1% of women aged 65 and over and 68.4% of men in the same age group. As regards sufficiency, the flat-rate entitlement was worth 88.9% of the national poverty line (see table IV.6). According to information from ECLAC, poverty among people aged 65 and over was 3.2 percentage points lower in 2022 than in 2020, which can be partly explained by the implementation of PGU.

Figure IV.13

Chile: projected additional spending on the Universal Guaranteed Pension relative to projected spending on the Solidarity Pension System, 2022–2050
(Percentages)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>.

Note: The indicator is calculated as projected spending for year t divided by projected SPS spending for 2022, minus 1. It is then multiplied by the ratio of projected PGU spending in 2022 to actual spending.

Table IV.6

Chile: coverage of the Universal Guaranteed Pension among people aged 65 and over, by sex, expenditure and sufficiency, 2022

Indicator	Value
Spending (Percentage of GDP) ^a	1.6
Coverage (Percentage of the population aged 65 and over)	75.8
Coverage (Percentage of women aged 65 and over)	82.1
Coverage (Percentage of men aged 65 and over)	68.4
Value (Percentage of the poverty line) ^b	88.9

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Ministry of Social Development and Family of Chile (MDSF), “Valor de la Canasta Básica de Alimentos y líneas de pobreza: informe mensual”, Santiago, December 2022.

^a The cost of SPS is added to the expenditure. This is because PGU was initiated for SPS recipients in 2022.

^b Poverty lines obtained from MDSF (2022).

The short law on PGU was introduced in 2022 (Act No. 21.538) and passed on 23 January 2023, amending Act No. 21.419. Under this amendment, to be eligible for the non-contributory pension, older persons must not belong to a household in the wealthiest 10% of Chile’s total population rather than its 65-and-over population, as when PGU was originally created. With this new stipulation, the number of recipients increased by 70,000. At the time of writing, the administration of President

Gabriel Boric is making a third attempt to reform the pension system (Office of the Minister and Secretary General of the Presidency and others, 2022), including an increase in the value of PGU from 193,917 pesos (US\$ 225) to 250,000 pesos (US\$ 285).

5. Final reflections

The history of the non-contributory pension system in Chile reveals how challenging it is to move towards universal pension systems on a basis of solidarity and sustainability and highlights the role played by a strengthened social pension system framework. Over the course of three programmes and almost half a century of evolution, the non-contributory pension component has gradually adapted to remedy the shortcomings of the pension system as a whole by developing entitlements of increasing coverage and sufficiency.

Chile was the first country to fully privatize its contributory pension system, and the non-contributory system arose there, among other reasons, in order to address the sufficiency problems arising from this reform as the fiscal costs of the pension transition diminished (Arenas de Mesa, 2019). This created a challenge for the future financial sustainability of the system, exacerbated by its quasi-universal nature and the projected ageing of the population. Consequently, it is possible to anticipate growing fiscal pressure in the implementation of the non-contributory pension system. In the Chilean context, it is urgent to supplement the non-contributory pension system with a reinforced contributory component and to strengthen the overall sustainability of the system.

As the sufficiency and coverage of the entitlement have increased, the growing impact of the non-contributory pension system in reducing poverty among older persons has become apparent, as has a decline in the proportion of older persons with total pension income below the poverty line.

Another important aspect of the evolution of the non-contributory pension system in Chile is its strengthened and robust social pension institutions, designed to sustain a system that requires a minimum level of citizen interaction. This is reflected in the way entitlements are prioritized and allocated, with shortened waiting times between application and the granting of entitlements. This achievement is particularly impressive in the regional context, especially in view of the transition from territorial targeting and decentralized allocation to centralized and individual-based allocation, which fosters greater equity and efficiency in spending. Thanks

to this institutional framework, the establishment of the non-contributory pension system in Chile has become one of the country's most robust State policies, transcending the logic of individual governments.

A crucial challenge is to make adjustments in the non-contributory system so that gender gaps are closed more effectively. The differentiated design of the non-contributory and semi-contributory components of SPS meant that women received higher levels of entitlements than men by default, which significantly reduced gender disparities. However, the flat-rate approach of PGU limits its ability to correct these gender inequalities as effectively as before. This is one of the unresolved challenges for Chile's non-contributory pension system, and for overall pension design, and it underscores the need to strengthen the contributory component of pensions as part of the discussions about structural reform. There is still a need, then, to find consensus and create social and fiscal covenants that generate greater sustainability and solidarity in the contributory and non-contributory systems; in the meantime, the inadvisability of having a pension policy that concentrates the functions of insurance and redistribution and the burden of correcting labour market outcomes in the non-contributory pension system alone have been clearly demonstrated.

C. Mexico: universal coverage for the older population

1. Introduction

Mexico's system of non-contributory pensions (or, differently put, of pensions funded by indirect contributions drawn from general taxation) for older persons is among those with the highest coverage in the region, and its sufficiency is growing. In 2023, there were more than 10 million people on the register of recipients, with effective coverage of over 90% of the population aged 65 and over. Moreover, it is no longer just a programme, but is now recognized as an entitlement by article 4 of the country's constitution. The size of its budget, representing 1.16% of GDP in 2023, makes it the Mexican government's largest social transfer expenditure item by far.

In 2023, the Pension for the Well-being of Older Persons consisted of a monthly transfer amount of 2,400 pesos (equivalent to US\$ 135),¹⁶ paid bimonthly via a bank card issued by the public bank (Banco del Bienestar)

¹⁶ Estimated at an average exchange rate of 18 pesos to the dollar.

or in cash for the unbanked population. The intention is that, once all branches of Banco del Bienestar have been built and are operational (there are currently 2,093 of 2,700 branches planned for the end of the current administration), payments will be made universally by bank card.

This pension is universal; the eligibility requirements are to be at least 65 years old and to have Mexican nationality by birth or naturalization. It is not subject to any conditionality or reciprocal consideration and it is provided on an individual and lifelong basis. In addition to the monthly transfer, there is an entitlement to a one-off payment equivalent to the amount of the monthly transfer for a designated representative upon the death of the pension recipient.

The administration of the basic pension is centralized in the Secretariat of Welfare of the Federal Government, which has local offices in the country's 32 States.

2. The long road to universality and the creation of a right

The construction of this new entitlement in Mexico has been a 20-year process, dating back to the 2000–2006 administration of the government of the Federal District (now Mexico City), headed by Andrés Manuel López Obrador, who is currently the President of Mexico. One of the first measures of the Federal District government was to implement what was then the food pension for people over age 70 residing in Mexico City. This programme, which originally covered everyone over 70 who was a resident of the city, with the age of eligibility later lowered to 68, consisted of an individual, unconditional and universal transfer, initially of 700 pesos, but with a lower bound of half a minimum wage each year.

It took three years to implement it in Mexico City before universality was achieved, following a logic of territorially based progressivity: the 1,352 territorial units were classified by degree of deprivation (very high, high, medium, low and very low), and the pension was implemented in that order until universality was achieved at the end of 2003.

Not only was a universalist programme launched, but a debate was opened on the direction of social policy at a time when targeted and conditional cash transfer programmes prevailed. In this social policy framework, the Mexico City government put a different approach to cash transfers on the public agenda: universal, unconditional transfers which, as will be seen, were subsequently recognized as a new social right. The implementation of the food pension for people over age 70 residing in Mexico City (at that time the Federal District) was a turning point in the reinstatement of the universalist aspiration for the country's social policy on the public agenda.

The pension for older persons in Mexico City, now implemented nationwide, was clearly based on a logic of financial security, and from the outset its principles were conceptually related to those of the mooted basic income or universal citizen's income, since it was universal, unconditional, individual and lifelong.

Among the most important aspects of the Mexico City experience were its transition from a programme to an entitlement and the establishment of a minimum entitlement to at least half the minimum wage. As has been documented (Yanes, 2013), there were three attempts in Mexico City over just five years (2003–2008) to legislate for the pension for older persons to have the status of a social right. This could not be done in the first half of 2003 because the opposition parties did not allow the passage of the bill to reform the Older Adults Act. In the second half of 2003, when the composition of the Legislative Assembly had changed, the Head of Government tabled a bill recognizing the right to a pension for everyone over 70 years of age living in the city, which was passed by the votes of the governing party alone, with the opposition parties abstaining and no dissenting votes.

In 2008, however, a new bill to reduce the pension age from 70 to 68 was unanimously supported and passed. This means that, in a short space of time, legislative deadlock gave way to majority approval with the opposition abstaining and then, five years later, to unanimous approval. What Fleury and others (2011) have called an *ex post* consensus was formed. This is likely to be the route followed by other innovative and disruptive social policy measures. The long process of building a new social entitlement is highly instructive with regard to the political economy of social policy.

The process that began in Mexico City in 2000 led to the implementation of cash transfer programmes for older persons at the federal government level too. Thus, differing stances at different levels of government gave way to positive emulation and a quest for upward convergence, a race to the top as opposed to the usual race to the bottom, which led to the federal government and the government of Mexico City creating a growing mass of resources for older persons.

This productive tension between levels of government meant that the different programmes, both at the federal level and in Mexico City, were oriented towards expanding coverage, improving sufficiency and lowering the age of incorporation. To give an idea of the impact at the federal level of the process that began in Mexico City, in 2003 the federal government created a programme for older adults in rural areas; in 2007,

the 70 and over programme was implemented with expanded coverage; and in 2013, this programme was changed to the Older Adults Pension and the qualifying age was lowered to 65.

However, the differences in approach between the federal programme and the subnational one persisted throughout this time, since the former was never universal and the latter had slightly higher entitlements. At the end of 2018, with the advent of President López Obrador's government, the Pension for the Well-being of Older Persons was created, closing a cycle of progressive implementation that had begun two decades earlier.

There were also new elements. One was the recognition of this pension as a constitutional right, with article 4 of the constitution being amended in 2020 to stipulate that people over 68 years of age are entitled to a non-contributory pension from the State in accordance with the terms established by law, and that in the case of Indigenous and Afro-Mexican people, this entitlement will be provided from the age of sixty-five (Chamber of Deputies of Mexico, 2024). Upon implementation of this new social right, however, the age of incorporation was lowered to 65 in 2021 for the entire population, not just Indigenous and Afrodescendent people.

3. Expanded coverage and progressivity of the entitlement

During the phase that began in 2019, there have been two stages in the implementation of the basic pension. In the first, between 2019 and 2021, there was a drive to extend coverage (including lowering the age of eligibility to 65 across the board), while in the second, between 2022 and 2024, the planned focus has been on increasing sufficiency, with a substantial increase in the amount of the entitlement (see table IV.7). A central issue is the differential impact of the pension on women and men, since coverage is higher for women than for men, as can be seen in table IV.7, although it is very high for both. For many women historically excluded from labour markets and social protection, this is the only free, individual, certain, regular and permanent source of income at their disposal.

Thus, the monthly amount of the entitlement increased by 21.5% in three years (2019–2021) —by 24.2% between 2021 and 2022 and by 24% between 2022 and 2023— and is planned to rise by 25% between 2023 and 2024. Overall, this means that the pension value will have grown from 1,275 pesos per month to 3,000 pesos per month between 2019 and 2024 (see figure IV.14), an increase of 135% in five years, which represents a major change in the sufficiency of the basic pension and a substantial budgetary effort.

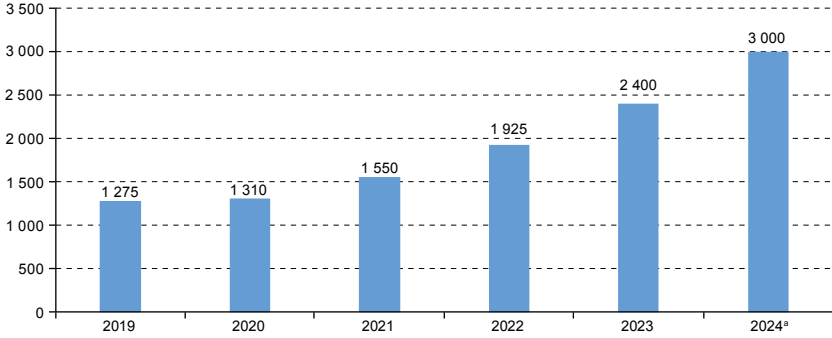
Table IV.7
Mexico: budgetary evolution and population coverage of the Pension
for the Well-being of Older Persons, 2019–2024

	2019	2020	2021	2022	2023 ^a	2024 ^a
Budget						
Pesos	114 799 146 657	129 350 335 993	150 614 350 805	238 014 726 042	339 341 571 798	424 176 964 748
Percentage of GDP	0.46	0.55	0.59	0.84	1.16	1.33
Number of people covered						
Actual	8 001 916	8 264 956	9 632 383	10 936 764	...	...
Women	4 476 239	4 603 031	5 354 413	...	...	...
Men	3 525 677	3 661 925	4 277 970	...	...	...
Indigenous people	680 108	...	923 217	...	...	...
Planned	8 860 421	8 533 061	10 321 914	10 321 914	...	...
Coverage (Percentages of the population aged 65 and over)						
Planned	93.64	84.15	100.00	97.45	...	...
Actual	81.46	81.78	93.72	100.00	...	...
(Percentages of the female population aged 65 and over)	83.93	83.93	94.77	...	...	...
(Percentages of the male population aged 65 and over)	77.90	77.90	91.88	...	...	...

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Secretariat of Welfare, “Histórico informes trimestrales” [online] <https://www.gob.mx/bienestar/documentos/historico-informes-trimestrales?tab=>.

^a Figures for 2024 are projections.

Figure IV.14
Mexico: monthly amount of the Pension for the Well-being of Older Persons, 2019–2024
(Pesos)

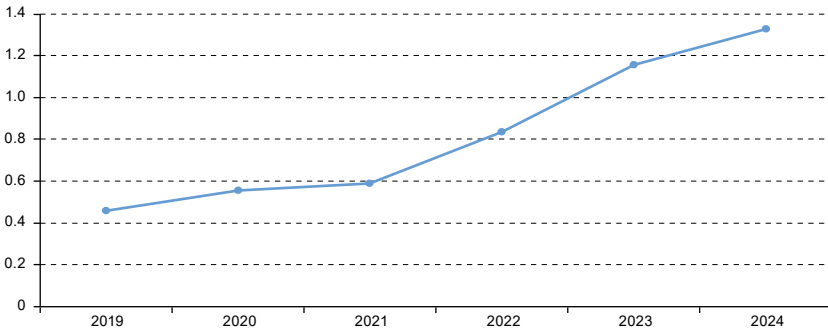


Source: Prepared by the authors, on the basis of Secretariat of Welfare, “Acuerdo por el que se emiten las Reglas de Operación del Programa Pensión para el Bienestar de las Personas Adultas Mayores, para el ejercicio fiscal 2023”, *Diario Oficial de la Federación*, Mexico City, 30 December 2022.

^a The 2024 figure is a projection.

Even more significant has been the evolution of the expenditure of the programme relative to GDP. The base pension represented 0.46% of GDP in 2019, but had already exceeded 1 point of GDP by 2023 (1.16%) and is expected to cost 1.33% in 2024, representing rapid growth and a ratio of a magnitude that no social protection programme in Mexico has ever attained before (see figure IV.15). This means that the budget for the pension will have almost tripled as a proportion of GDP in six years, something that is likewise unprecedented in the country.

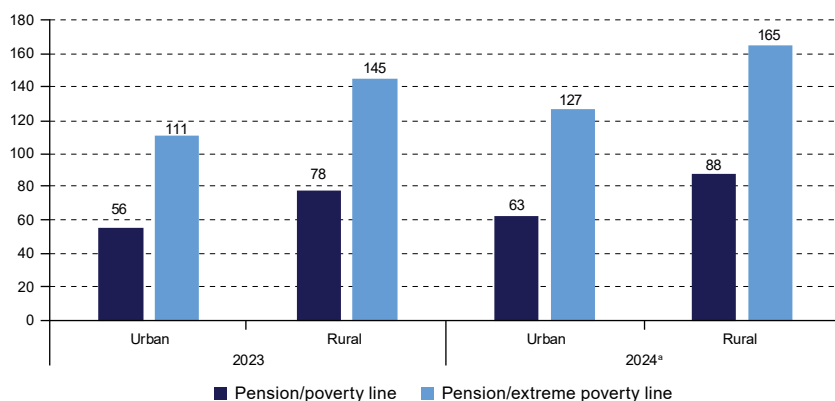
Figure IV.15
Mexico: spending on the non-contributory pension as a share of GDP, 2019–2024
(Percentages)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Secretariat of Welfare, “Histórico informes trimestrales” [online] [https://www.gob.mx/bienestar/documentos/historico-informes-trimestrales?tab=.](https://www.gob.mx/bienestar/documentos/historico-informes-trimestrales?tab=)

Again, going by the income poverty lines of the National Council for the Evaluation of Social Development Policy (CONEVAL), the amount of the pension in 2023 represented 145% of the rural extreme poverty line, 111% of the urban extreme poverty line, 78% of the rural poverty line and 56% of the urban poverty line (see figure IV.16).

Figure IV.16
Mexico: amount of the Pension for the Well-being of Older Persons relative to the urban and rural income poverty lines, 2023 and 2024
(Percentages)



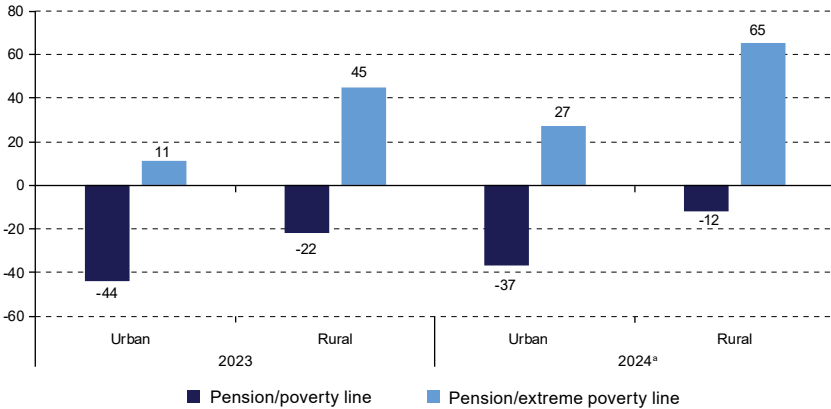
Source: Prepared by the authors, on the basis of the National Council for the Evaluation of Social Development Policy (CONEVAL).

^a The figures for 2024 are estimates.

The ratios are expected to change positively in 2024, when they should be 165% of the rural extreme poverty line, 127% of the urban extreme poverty line, 88% of the rural poverty line and 63% of the urban poverty line. This could result in urban and rural extreme income poverty among people aged 65 and over tending to zero in 2024 and income poverty among older persons falling to historic lows.

Overall, since 2023, the pension amount has exceeded the urban and rural extreme poverty lines by 11% and 45%, respectively, and the gap is expected to widen further in 2024. The gap between the pension amount and the poverty line has been narrowing in urban areas, falling to 44 percentage points in 2023, and is expected to be 37 percentage points in 2024. In rural areas, the gap was 22 percentage points in 2023 and is expected to be only 12 percentage points in 2024 (see figure IV.17).

Figure IV.17
Mexico: difference between the amount of the Pension for the Well-being of Older Persons and the urban and rural income poverty lines, 2023 and 2024
(Percentages)



Source: Prepared by the authors, on the basis of the National Council for the Evaluation of Social Development Policy (CONEVAL).

^a The figures for 2024 are estimates.

4. The COVID-19 pandemic and the Pension for the Well-being of Older Persons

While measurements of poverty showed an increase in all social groups and territories in the context of the pandemic, there was one exception, as the 2020 CONEVAL measurement reported a decrease in poverty of 5.3 percentage points among people aged over 65. This is important because the National Survey of Household Income and Expenditure used to make the calculation was conducted between August and November 2020 (i.e. at the height of the COVID-19 pandemic). This measurement revealed that people aged over 65 were the only group in which income poverty not only did not rise but actually fell during the pandemic (CONEVAL, 2022a).

It is worth pointing out the role that the Pension for the Well-being of Older Persons played during the pandemic; as a permanent policy designed and implemented before the crisis, it already had an established budget and a nationwide structure, enabling income to be channelled quickly to older persons, who were also a major source of support for their families and households. One of the main measures taken during the pandemic was to bring forward pension payments by up to four months to maintain a flow of cash income to households.

Thus, the Pension for the Well-being of Older Persons, understood as a structural shift and not just an emergency measure, became an

important tool for dealing with a critical situation. Its implementation entailed a change in structure that also made it possible to cope with the emergency.

An even more significant transformation is that, while emergency measures introduced in the context of the pandemic have been abolished or suspended in many countries of the region, social transfers in Mexico have been maintained and are tending to grow substantially, at least where the Pension for the Well-being of Older Persons is concerned. A clear manifestation of this is the fact that the pension, as has been seen, is projected to represent 1.33% of GDP by 2024 (up from 0.46% of GDP in 2019).

5. Strengths of the Pension for the Well-being of Older Persons: an assessment by the National Council for the Evaluation of Social Development Policy

Since 2007, when the federal government, as has been seen, launched different cash transfer programmes aimed at older persons,¹⁷ CONEVAL has conducted 22 evaluations, in addition to designing monitoring and evaluation forms. Three of these were issued in 2020, 2021 and 2022, when the programme became a universal entitlement.

In 2020, CONEVAL singled out the following as strengths of the Pension for the Well-being of Older Persons:

- The pension was made a constitutional right.
- The pension was made universal by establishing age as the sole eligibility criterion, and priority was given to people living in Indigenous municipalities and localities in the country.
- The pension amount was increased, contributing to the social well-being and equality of the older population.
- In the rules of operation, the coverage of the population belonging to Indigenous Peoples was expanded by adding 10,583 localities to the 620 Indigenous municipalities included in 2019.

Beginning in 2020, CONEVAL noted the following as an opportunity:

- The programme aims to gradually increase the number of pensions paid through bank accounts to foster greater financial inclusion in this population group (CONEVAL, 2020).

¹⁷ The programme for older adults over age 70 in rural areas, the 70 and over programme, the Pension for Older Adults and the Pension for the Well-being of Older Persons. See Rubio and Garfias (2010) for an exhaustive history of these programmes.

The following year, in its monitoring and evaluation scorecard, CONEVAL identified the following strengths:

- The pension amount was increased, contributing to the social well-being and equality of the older population.
- The 2021 rules of operation changed the criteria for identifying the target population, allowing the programme to serve a larger number of people (CONEVAL, 2021).

In its 2022 scorecard, CONEVAL highlighted the following strengths:

- The amount of support was adjusted for inflation, helping to improve the social protection situation of older persons.
- The rules of operation include Afro-Mexican older persons in accordance with the reform of article 4 of the constitution in relation to the right to a pension. This helps to close socioeconomic inequality gaps by raising the profile of the Afro-Mexican older population and improving its social protection situation.

It also issued a recommendation with significant implications:

- Adjust the pension amount to reflect the income poverty lines established by CONEVAL (2022b).

In summary, the CONEVAL appraisals and the recommendations summarized above are consistent with the evolution of the Pension for the Well-being of Older Persons in the period 2020–2023 and that projected for 2024: expansion of coverage, recognition as an entitlement, protection of purchasing power, increase in the amount, growing banking penetration and progressive closing of the gap between the amount of the pension and the rural and urban extreme poverty lines (already achieved) and the urban and rural poverty lines (ongoing).

6. Final reflections

The Pension for the Well-being of Older Persons is a turning point for cash transfer policies in Mexico and, most probably, the region. This is because the entitlement has switched from being targeted to universal, conditional to unconditional, temporary to lifelong, having been converted in the process from a programme into a right, with a shift from inertial budget growth to substantial increases that have raised what was a small pension to one paying more than the urban and rural extreme poverty lines and closing in on the urban and rural poverty lines, and with an accompanying transition from low to high bank penetration.

This has created very considerable challenges. The first is financial. As has been pointed out, the cost of the basic pension has now exceeded 1 percentage point of GDP, and the outlook is for its budgetary requirements to grow, both because of the increase in the number of people entitled to it as a result of the demographic transition under way, and because the amount will at least have to be updated in line with inflation in subsequent years.

A large budget is needed to provide stable and predictable financing for the pension; in other words, the non-contributory pension system (or system of social transfers with contributions paid indirectly through general taxation, as it might also be described) needs to consolidate its financial sustainability. So far, the strong expansion of cash transfers in Mexico, especially to older persons, has been based on budgetary re-engineering that has generated savings and created scope for intrabudgetary transfers to finance programmes and new social entitlements. However, the need for a medium- and long-term perspective, with permanent revenues for permanent expenditures, is on the horizon.

The debate on the financial sustainability of non-contributory pensions, or pensions funded by indirect contributions based on general taxation, is not new in Mexico. Following its early implementation in the Federal District (now Mexico City) in 2000, there was a public dispute in which certain actors repeatedly proclaimed that it was financially unsustainable and predicted bankruptcy for the public finances. This never happened, and the pension continued to be implemented and expanded in subsequent years, although there was a slowdown in the incorporation of new recipients, with growing waiting lists in the second decade of the century. This was resolved once the pension for older persons became a national programme and, shortly afterwards, an entitlement.

Nonetheless, the expenditure represented by the Pension for the Well-being of Older Persons (1.33% of GDP for 2024) indicates a need for a permanent financing strategy that goes beyond savings, re-engineering or intrabudgetary reallocations.

Another major challenge is the status of the basic pension in social policy, understood as a complex whole. By a very wide margin, this pension is the Mexican State's largest non-contributory or general taxation-funded cash transfer. From the point of view of social policy with a lifetime perspective, however, there has been a growing divergence between the amounts allocated to older persons and those going to children, precisely the age group in which the incidence and severity of poverty are greatest.

Following the successful implementation of a robust and substantial universal pension, the time seems to have come for Mexico to balance this with increasingly substantial direct cash transfers for children. This would undoubtedly lead to a noticeable acceleration of poverty reduction in the country.

Despite being a subnational initiative, the food pension for persons over age 70 (and later 68) residing in Mexico City had a national impact and became a nationwide social right. In 2019, moreover, Mexico City launched the *Mi Beca para Empezar* programme, a quasi-universal programme for children consisting of a cash transfer for every child (not household) enrolled in the city's public education system.

In November 2022, the programme was recognized as a constitutional right in article 8 of the Mexico City constitution, which states that in Mexico City, all children enrolled in public elementary schools will be entitled to the Child Well-being Grant (Government of Mexico City, 2022).

Its coverage is very broad, as it includes all children enrolled in the public system, from preschool to the secondary level. By 2023, it had coverage of more than 1,200,000 children. Although the amount of the transfer is still modest (650 pesos per child), the budget for it increased by 70% between 2019 and 2023.

As with older persons, then, it is likely that Mexico City is nurturing a system of cash transfers for children with broad coverage, recognized at the local level as an entitlement, that will influence national debates by offering a way to improve social protection policies for children and close the gap in the amounts and coverage of cash transfers by age group.

In view of all this, it can be said that the Pension for the Well-being of Older Persons, because of its conceptual approach, its status as an entitlement, its amount and its coverage, constitutes a robust, long-term measure in the implementation of new social protection policies, as well as representing a firm step towards the construction, development and strengthening of the welfare state that consolidates strategies for advancing inclusive social development with a rights-based perspective in Mexico. It is a source of inspiration for new far-reaching, high-impact initiatives.

D. Conclusions

As has been highlighted in this chapter, the experiences described reveal different ways of advancing towards universality in non-contributory pension systems, with important lessons for the regional debate on the issue. In the Plurinational State of Bolivia, for example, the design of a universal entitlement began as a measure linked to pension reform.

Initially conceived as compensation for privatization, over time the policies that form part of the non-contributory pension system became an integral part of the Bolivian pension system. In Chile, the path to universality was more gradual. The process was undertaken during a dictatorship and consolidated during the past 30 years of democratic governments. With each reform, the technical design was improved, paving the way for higher levels of protection and social investment for older persons and coverage that is currently around 76% of this population. Whereas the establishment of a universal pension in the Plurinational State of Bolivia was a process devised from the outset with this end in view, lasting more than two decades, in Chile it has taken 49 years to develop the non-contributory pension system. However, the first steps towards a system of a quasi-universal scope can be traced back to the first administration of President Bachelet, with the decision to establish the Solidarity Pension System two decades ago.

A remarkable case is that of Mexico, where a robust, universal system of non-contributory pensions was established in less than two decades. This system set a fundamental precedent in Mexican cash transfer policies by moving from targeting to universality and from budget dependency to a lifelong State commitment as an entitlement.

These examples show that it is possible to move towards universality in a sustainable way in terms of meeting coverage and sufficiency commitments, and with the necessary financial sustainability. This requires strengthened institutions and efficient management of a political economy that creates the conditions for the agreements needed to implement these designs. One of the problems traditionally faced by such systems is the challenge of sustaining a medium- and long-term commitment, which means finding stable sources of financing. Considering that the universalization of a non-contributory pension system in the short run generally entails a major fiscal effort, the cases of the countries analysed indicate that these efforts can be carried out within a reasonable time frame, without the need for structural reforms in tax revenues, but using budget resources instead. Of the cases studied, for example, only the PGU reform in Chile required a tax reform as part of the legislative process, while in the other cases financing was carried out gradually. This demonstrates that universal non-contributory pension systems are a viable possibility from a financial sustainability perspective.

A salient fact is that the three countries analysed here have sound regulatory frameworks to support the development of these systems. In the cases of Mexico and the Plurinational State of Bolivia, these frameworks have constitutional status and recognize a duty for the State to provide a universal right to a non-contributory pension, in the first case, and a retirement income, in the second.

The challenging political and economic conditions involved in operating non-contributory pension systems can be justified by highlighting the great effectiveness of these programmes in reducing old-age poverty and, to some extent, in bringing down the proportion of people receiving a pension below the poverty line in Chile and the Plurinational State of Bolivia, as analysed. The political economy considerations involved in implementing non-contributory pension systems also make such implementation viable considering the difficulties involved in reforming contributory systems, allowing a solid foundation to be laid for economic security in old age.

The cases reviewed include systems that have consolidated key instruments necessary to keep them operational. As illustrated for Chile and Mexico, the incorporation of technology into non-contributory pension systems facilitates access to these systems and entitlement applications by potential recipients. Moreover, the improved availability and frequency of information on recipients, combined with increasing banking penetration of the population, has amplified the role of information technologies in social protection and the efficient functioning of pension systems.

However, there are also major challenges to be faced. First, since non-contributory pension systems aspire to universality and good coverage, problems of financial sustainability or inadequate resources may arise. Countries need to strike a balance between the two dimensions in their social and fiscal contracts, not least with a view to further increasing sufficiency levels.

Second, it is important to note that, although the non-contributory pension systems analysed in this chapter have not specifically addressed the gender dimension or the ethnic and racial dimension as part of their original design, the reduction of gender inequalities, in particular in coverage, is an outcome to be expected given that these pension systems are succeeding in incorporating traditionally excluded people. In Mexico, in particular, special attention has been paid to the incorporation of members of Indigenous peoples and Afrodescendent populations, revealing a particular concern to reduce structural inequalities in the pension system. There is scope to strengthen cross-cutting consideration of gender, ethnic and racial inequalities and those arising from other axes of social inequality in the design of non-contributory pension systems with a universalist orientation in the region, thereby contributing to the attainment of an often-overlooked objective of pension systems and to the goal of ensuring that no one is left behind.

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Chapter V

Argentina: the situation of non-contributory pension systems and the challenges confronting them

Martín Cherkasky Rappa¹

Introduction

The Argentine pension system provides entitlements to the majority of older persons, and there is extensive coverage of people whose ability to work is limited or who are socially vulnerable. In 2023, 92% of people aged 65 and over were in receipt of a pension, and coverage of households with older members drawing at least one pension was 96%.² That same year, the national non-contributory pension system was actively paying some 1.2 million entitlements to socially vulnerable people with disabilities and more than 260,000 to mothers of seven or more children. Overall, non-contributory pensions represent 19% of all pensions and entitlements paid by the Argentine social security system (see table V.1).

¹ The author is grateful for the comments and suggestions of Martín Abeles, Director of the Economic Commission for Latin America and the Caribbean (ECLAC) office in Argentina, Anahí Amar and Soledad Villafañe, staff members, and Clara Saavedra, technical assistant at the same office.

² Estimates are based on the continuous Permanent Household Survey of the National Institute of Statistics and Censuses (INDEC).

Table V.1
Argentina: structure of the pension system and entitlements paid,
June 2023

Regime and sector			Number of current entitlements	Share by entitlement type (Percentages)
National Social Security Administration	Contributory	General ^a	2 626 693	27.1
		Special	239 416	2.5
		Provincial police	47 815	0.5
	Semi-contributory	Pension Moratoriums programme	3 891 450	40.2
	Non-contributory	Universal Pension for Older Adults (PUAM)	289 102	3.0
		Old age	782	0.0
		Disability	1 188 900	12.3
		Mothers of seven or more children	266 458	2.8
		Special pensions and ex gratia pensions for former combatants and their dependants and survivors	84 241	0.9
		Untransferred provincial and municipal funds and occupational funds	858 090	8.9
Armed forces and national security forces			186 006	1.9
Total			9 678 953	-

Source: Prepared by the author, on the basis of Ministry of Labour, Employment and Social Security (MTEySS), Boletín Estadístico de la Seguridad Social (BESS) [online] <https://www.argentina.gob.ar/trabajo/seguridadsocial/bess>.

^a Includes general and differential regimes, domestic workers, self-employed workers, and affiliates of the Single-tax Regime and the Social Single-tax Regime.

Extensive coverage, and individual entitlements whose minimum levels have generally been higher than the cost of the basic food basket, explain why poverty is low among older persons in comparison with other age groups. In the first half of 2023, the poverty rate was 13% among people aged 65 and over, as measured by the National Institute of Statistics and Censuses (INDEC) of Argentina, whereas the same indicator for the other end of the dependent population (children and adolescents aged under 14) was 56%. The contrast is also great when the extreme poverty rate is compared: it was only 2% among older persons in the same period, whereas among children and adolescents it was 14%.

The social indicators observed in the older population in mid-2023 resulted from the implementation of a number of non-contributory entitlements of various kinds, targeted at people who did not qualify for the contributory regime. The drop in contribution density resulting from the rise in informal working and unemployment between the 1990s and the early 2000s, together with the introduction of stricter eligibility requirements for contributory entitlements, meant that an increasing number of people were unable to access an entitlement under the

contributory pension system. This situation, which actuarial projections indicated would intensify, was reversed by two policies that complemented an existing non-contributory old-age pension. The first was the Pension Moratoriums programme, under which outstanding contributions were paid off to complete the legally required 30 years of contributions. The innovative feature of the programme was that it allowed people to regularize these contributions even while receiving an entitlement from the contributory scheme. Implemented in 2005, it brought pension system entitlement coverage to over 90%. It also closed two major eligibility gaps that had existed until then: the gender gap and the income stratum gap. The main beneficiaries of this policy were women who had paid only some contributions or none at all because they had been engaged in unpaid domestic and care work or informal paid employment. The second policy, launched in 2016, was the Universal Pension for Older Adults (PUAM), a non-contributory entitlement designed to provide a more stable and predictable mechanism for people with incomplete contributions, for an amount equivalent to 80% of the minimum pension under the contributory scheme. PUAM also played a decisive role in sustaining high levels of coverage, but to a greater extent among men, for whom the Pension Moratoriums programme was not implemented under the same conditions as for women. In 2021, a contributions waiver in recognition of care work was introduced, likewise with the aim of narrowing gaps in contributory pension eligibility: it operates by reducing the number of years of minimum contributions required for women with children to access a pension.

Although these policies aimed at people with insufficient contributions have been effective in increasing the coverage of the system and improving income indicators among older persons, there are several institutional aspects under discussion that pose major challenges for the non-contributory pension system, especially with labour informality on the rise (ECLAC/ILO, 2023) and projections showing an increase in the old-age dependency ratio over the coming years. The first aspect being discussed is what eligibility conditions should be established and how large a non-contributory entitlement can be afforded if high and stable levels of coverage are to be combined with an income floor that exceeds the amount required to meet basic needs, thereby eradicating extreme poverty and poverty among the population aged 65 and over. Disagreements on these points have led to the Pension Moratoriums programme coexisting with PUAM. While the main advantage of the former for recipients is that it pays a higher pension after the first few years (equivalent to the minimum contributory pension, as opposed to 80% of that amount in the case of PUAM), the advantage of the latter is that it is a more stable and predictable mechanism whose conditions do not have to be periodically

renewed. The second aspect being debated is the design of a contributory system which currently only rewards the contributions of those who are able to pay them for the minimum 30 years required by law. Some analysts argue for a new system that would separate a universal non-contributory pillar from a complementary contributory pillar allowing everyone to add income proportionally without the requirement of a minimum number of years of contributions, in a way that took account of the whole of their working lives (Mera, 2022; Rofman, 2021).

Leaving aside pensions under the Pension Moratoriums programme (which also covers people without contributions, but maintains a contributory logic), numerically the largest non-contributory social security entitlements in Argentina are those paid to the socially vulnerable population under 65 years of age: working-age people with disabilities and mothers of seven or more children. There is also another set of special non-contributory pensions provided in recognition of services rendered to society or as compensation entitlements for victims of State action. This group includes some pensions granted under special laws, which apply in a smaller number of cases, but which are also under discussion because of the inequities they represent for the system as a whole.

Following this introduction, the present chapter consists of three sections dealing with the different entitlements paid by non-contributory pensions in Argentina. Section A reviews the institutional characteristics of each type of non-contributory pension currently in operation in the country, together with recent changes. Section B presents the results of these policies in three dimensions of analysis: coverage of the target population, sufficiency in relation to the poverty line, and the financial sustainability of the pension system. As a final reflection, section C analyses the main challenges confronting the Argentine pension system, in particular as regards non-contributory pensions.

A. Non-contributory pensions in Argentina

This section examines the institutional characteristics and historical evolution of non-contributory pensions in Argentina. For this purpose, they are divided into two groups: non-contributory old-age pensions and all other non-contributory pensions in the social security system. A number of aspects are analysed for each type of entitlement, including the target population, citizenship-related eligibility conditions, income- or inheritance-related conditions, compatibility with other pension system entitlements, the possibility of the entitlement being transferred to family members upon the recipient's death, and calculation of the amount of the entitlement.

1. Non-contributory old-age pensions

In Argentina, there are three types of policies associated with pension coverage for older persons: (i) the old-age pension of the Non-contributory Pension Programme, (ii) the Pension Moratoriums programme and (iii) PUAM. Although all these policies are designed to provide an income floor and protection for older persons who have not made the minimum contributions required by current legislation, only the old-age pension of the Non-contributory Pension Programme and PUAM can be strictly classified as non-contributory pensions, since the Pension Moratoriums programme, as will be seen below, is a payment plan conferring eligibility for an entitlement under the contributory scheme.

The Non-contributory Pension Programme is an entitlement created in 1948,³ at a time when the social security system in Argentina was being expanded on a mass scale. This entitlement was targeted at socially vulnerable older persons and was thus never intended to be universal. The requirements established by the legislation exclude households with older persons where someone is already receiving a social security entitlement or which have assets or income of some other kind that provide a livelihood. In its original form, it also excluded older persons whose close relatives could provide financial support, since the policy was conceived in a welfarist spirit for a labour market with a high rate of formal wage employment in which the universe of older persons to be covered was very limited. The age of eligibility for the entitlement was originally 60 but was raised to 65 by the 1973 amendment and to 70 in 1993. This entitlement currently establishes as a citizenship requirement that recipients must be native or naturalized Argentines who have been resident in the country for at least 5 years or foreigners with at least 40 years' residence, and it pays an amount equivalent to 70% of the minimum retirement pension established in the contributory pension system. As will be seen in section B, the coverage of this entitlement is very low, with just 782 recipients in mid-2023.

A sharp decline in the coverage of the contributory system and the limited universe reached by the old-age pension resulted in a change in pension policy for older persons in the 2000s. In 2001, the coverage of the pension system as a whole was 72% of the population aged 65 and over, whereas in 1994 it had been 78%.⁴ The low density of contributions by people registered in the social security system pointed to the possibility of this trend intensifying in the following years. This evolution was explained by changes in the labour market in the 1990s, which intensified with the economic crisis

³ Act No. 13478 of 1948 as amended by Act No. 20267 of 1973, Act No. 24241 of 1993 and Decree No. 432/1997 of 1997.

⁴ The estimates for the period 1980–2002 come from Rofman and Oliveri (2011), who based them on the INDEC intermittent Permanent Household Survey.

of 2001 and 2002: the prolonged period of high unemployment and labour informality reduced the contribution density of a large segment of the population. The 1993 pension reform increased the minimum number of qualifying years of contributions from 20 to 30, exacerbating the problem.

In response to this situation, a set of regulations approved between 2004 and 2006 gave rise to the Pension Moratoriums programme, which granted pension eligibility to people who had not paid the minimum number of contributions and which drove the sharp increase in the number of people receiving pensions in the years that followed. The Pension Moratoriums programme had a legal precedent in a 1995 scheme to facilitate payment of pension contribution arrears (Act No. 24476), which covered a period prior to October 1993 and whose main purpose was to raise revenue. The innovative feature of the Pension Moratoriums programme, launched in the mid-2000s with the aim of expanding coverage rather than raising revenue, was that it allowed recipients to pay off their contribution arrears at the same time as they received the pension, in instalments that could be deducted from the latter (Decree No. 1454/2005). The policy laid down two requirements for joining the Pension Moratoriums programme and starting to receive a pension: to be of the minimum retirement age (60 for women and 65 for men) and to finish paying off contributions that could not be entered as arrears to make up the legally mandated minimum of 30 years' contributions. This second requirement derived from the fact that the Pension Moratoriums programme was a payment plan for contributions left unpaid up until 1993. The policy conferred eligibility on those who had not made enough years of contributions to qualify for a contributory entitlement, but at the same time established the existence of a debt to the system during the first five years, when the amount of the contributions required to complete the legally mandated total was deducted. One difficulty with this policy was that the conditions had to be renewed so the number of years that could be entered in the payment plan was not reduced: the period for regularizing contributions was extended to 2003 in 2014, and again to 2008 in 2023.

The Pension Moratoriums programme was conceived as a temporary emergency measure, and accordingly PUAM was created in 2016 (Act No. 27260) as a non-contributory entitlement for people unable to make the minimum number of years of contributions, with a view to generating a coverage mechanism that would have a lower long-term fiscal cost. To be eligible for PUAM, people (men and women alike) must be at least 65 years old and Argentine by birth, naturalized with at least 10 years' residence in the country or foreigners with at least 20 years' residence. It was established that the amount of the entitlement would be equivalent to 80% of the minimum retirement pension and that it would not create an entitlement to a follow-on pension for the spouse or dependant upon the

death of the recipient. The regulations issued subsequent to the approval of PUAM by the Argentine Congress narrowed its scope. One change was that it was declared incompatible with any working activity, except under the Social Single-tax Regime (for vulnerable self-employed people). A second modification was the introduction of means testing for applicants, in accordance with the requirements of the moratorium introduced in 2014 (Act No. 26970). Actual application of PUAM has been limited in its early years, since the Pension Moratoriums programme was extended shortly after its approval. Although its implementation provided a mechanism for those paying few or no contributions, people of retirement age or with only a few years left to complete the minimum contributions required by the contributory regime were left unserved.⁵

PUAM represents a change in coverage policy in several respects. In the first place, it is a permanent mechanism for pension inclusion that does not have to be renewed regularly like the Pension Moratoriums programme. Secondly, it seeks to reinforce the principle of proportionality of pension contributions by making a greater distinction between those who have met the requirement of 30 years' contributions and those who have not, with the aim of creating incentives for formalization and encouraging people to contribute to the system.⁶ A third important feature is that PUAM provides an entitlement equivalent to 80% of the minimum retirement pension (lower than the pension accessed through the Pension Moratoriums programme after the first few years), which implies lower purchasing power for older persons in a situation of income vulnerability. This aspect is important in the debate over the different policy options because this type of non-contributory entitlement should be able to provide an income floor in excess of basic needs (the poverty line). In the fourth place, it reduces the cost of maintaining high pension coverage in the long run, since the entitlement pays less than would be received under the Pension Moratoriums programme, requires a minimum age of 65 for both men and women (the latter are the main beneficiaries of the programme, for which they are eligible from the age of 60) and, unlike the pensions obtained under the programme, does not transfer to the spouse in the event of the pensioner's death.

Table V.2 compares the three coverage policies of the Argentine pension system for people with incomplete contributions, in accordance with the set of dimensions mentioned above.

⁵ For example, someone who had made 25 years of contributions at retirement age was entitled to the same pension as someone who had not paid into the system at all.

⁶ The idea of establishing incentives for formalization was based on the assumption, which is not generally a valid one in many countries of the region, including Argentina, that the decision to make contributions is personal and voluntary. In practice, most people who have been unemployed or in informal employment, and likewise women engaged in unpaid household work, are constrained by structural limitations (Arenas de Mesa, 2019).

Table V.2
Argentina: policies on coverage of non-contributory and semi-contributory pensions for people with an incomplete contribution record

Dimension of analysis	Old-age pension of the Non-contributory Pension Programme	Pension Moratoriums programme	PUAM
Type of entitlement	Non-contributory	Semi-contributory	Non-contributory
Amount of entitlement	70% of the minimum contributory pension	100% of the minimum contributory pension ^a	80% of the minimum contributory pension
Minimum age requirement	70	60 for women and 65 for men	65
Means testing	Yes	Not included in 2005, but included since 2014	Yes
Transfer of the entitlement on the death of the recipient	No	Yes	No
Number of entitlements being paid in June 2023	782	3 891 450	289 102

Source: Prepared by the author, on the basis of National Social Security Administration, “Jubilaciones y pensiones” [online] <https://www.anses.gob.ar/jubilaciones-y-pensiones>; Ministry of Labour, Employment and Social Security (MTEySS), Boletín Estadístico de la Seguridad Social (BESS) [online] <https://www.argentina.gob.ar/trabajo/seguridadsocial/bess>; Ministry of Justice, “Información legislativa y documental (InfoLEG)” [online] <http://www.infoleg.gob.ar/>.

^a The amount of the entitlement could be up to 80% of the minimum contributory pension in the first five years if deductions for contributions arrears are taken into account.

2. Other non-contributory pensions in the pension system

The largest non-contributory pensions in the Argentine pension system are of two types not associated with older persons: (i) disability pensions and (ii) pensions for mothers of seven or more children. There is also another set of more specific non-contributory pensions with fewer recipients, including those created by special laws, ex gratia pensions and pensions for former combatants in the South Atlantic conflict and their dependants and survivors.

The non-contributory disability pension is an entitlement that can be claimed by people who have health problems or some disability that reduces their capacity to work, and who are in a situation of social vulnerability. This pension was created in 1973⁷ as an extension of the old-age pension for people who are not of retirement age but who have a diminished capacity to work. Unlike other non-contributory entitlements, it is not lifelong but is paid only while the causes of disability persist, these being defined as a pathology or injury that reduces working capacity by 76% or more. The legislation requires the disability to be accredited by presentation of an official medical certificate and a socioeconomic evaluation to be carried out by the National Agency for Disability. Those receiving the pension are entitled to work formally as employees or to be registered in the General Regime or Single-tax Regime in force

⁷ Act No. 20267 of 1973 amended article 9 of Act No. 13478 of 1948 creating the old-age pension.

since 2023 (Decree No. 566/2023). Regarding citizenship requirements, the person must be Argentine by birth or naturalization or a foreigner with a minimum of 10 years' residence in the country in the case of adults and 3 years in the case of children and adolescents. This pension is not compatible with the Universal Child Allowance or Pregnancy Allowance, and another condition in the case of children and adolescents is that they must not have relatives who are legally obliged to provide them with financial support. The amount of the entitlement is equivalent to 70% of the minimum retirement pension (see table V.3).

Table V.3
Argentina: disability pension

Dimension of analysis	Characteristics of the policy
Target population	People who have a diminished capacity to work and are socially vulnerable
Eligibility conditions	Argentine by birth or naturalization or a foreigner with at least 10 years' residence (3 years for minors)
Means testing	Must not possess assets or income sufficient for subsistence
Compatibility with other entitlements	Not compatible with the Universal Child Allowance or Pregnancy Allowance
Entitlement transferable on death of pensioner	No
Amount of the entitlement	Equivalent to 70% of the minimum retirement pension

Source: Prepared by the author, on the basis of National Social Security Administration, "Pensión No Contributiva por Invalidez" [online] <https://www.anses.gov.ar/jubilaciones-y-pensiones/como-obtener-mi-pension/como-obtener-una-pension-no-contributiva-pnc/pension-no-contributiva-por-invalidez>; Ministry of Justice, "Información legislativa y documental (InfoLEG)" [online] <http://www.infoleg.gov.ar/>.

Note: The specific laws regulating the disability pension are Act No. 13478 and Act No. 20267, together with other complementary regulations.

The pension for mothers of seven or more children is a lifelong entitlement in effect since 1990 (Act No. 23746 and Decree No. 2360/1990), and women with this number of children are eligible irrespective of age or marital status. Eligibility for the entitlement is subject to a number of citizenship requirements, among them that the woman must be Argentine by birth or naturalization or a foreigner with at least 15 years' residence. It is means tested to reach the most vulnerable population: the recipient must not have assets, income or resources of any other kind that would enable her and her family to subsist, nor must she have relatives obliged to maintain her. Her income is deemed inadequate when total household income is no more than twice the minimum pension. As for compatibility with other social security entitlements, she may not be in receipt of the Family Allowance, the Social Protection Pregnancy Allowance or any other contributory or non-contributory retirement pension or standing entitlement provided under any social security scheme, with the exception of the *Alimentar* food card⁸ since

⁸ The *Alimentar* card is an income supplement that covers the basic food basket.

2021. As regards spouses or cohabitants, the legislation stipulates that they may be in receipt of a social security entitlement but not an old-age or disability pension. In the event of the recipient's death, the entitlement can be transferred to other family members under certain conditions: to the spouse if he is unable to work and was dependent on the recipient, to children under the age of 18 or to children aged 18 or over with disabilities. The amount of the pension for mothers of seven or more children is equivalent to the minimum pension under the contributory system (see table V.4).

Table V.4
Argentina: pension for mothers of seven or more children

Dimension of analysis	Characteristics of the policy
Target population	Mothers of seven or more children in a situation of vulnerability
Eligibility conditions	Argentine citizen by birth or naturalization or a foreigner with at least 15 years' residence
Means testing	Must not possess assets or income sufficient for subsistence
Compatibility with other entitlements	Only compatible with the <i>Alimentar</i> card entitlement
Entitlement transferred on death of pensioner	To the spouse if he is unable to work and was dependent on the recipient, to children under 18 years of age or to children over 18 with a disability (no maximum age limit)
Amount of the entitlement	Equivalent to the minimum retirement pension

Source: Prepared by the author, on the basis of National Social Security Administration, "Pensión No Contributiva para Madre de 7 hijos" [online] <https://www.anses.gov.ar/jubilaciones-y-pensiones/como-obtener-mi-pension/como-obtener-una-pension-no-contributiva-pnc/pension-no-contributiva-para-madre-de-7-hijos>; Ministry of Justice, "Información legislativa y documental (InfoLEG)" [online] <http://www.infoleg.gov.ar/>.

Note: The specific legislation regulating the pension for mothers of seven or more children consists of Act No. 23746 and Decree No. 2360/1990, together with other supplementary provisions.

Non-contributory pensions created by special laws encompass a heterogeneous set of entitlements for older persons, people of working age, and children and adolescents. They have certain characteristics that differentiate them from the entitlements of the General Regime, and the rationale for them is either merit or compensation to which victims of State action are entitled. It is because of these differences in treatment with respect to the General Regime, both in eligibility conditions and in entitlement amounts, that they are classified as exceptional schemes (Rofman, 2021).

Among the non-contributory pensions granted in recognition of services rendered to society are those received by former presidents and vice-presidents, Supreme Court judges, so-called aviation and Antarctic pioneers, secular priests, holders of certain ecclesiastical positions, former combatants in the South Atlantic conflict and their dependants and survivors, and immediate family members of the first conscripts called

up to the Argentine Army and Navy in 1896 and 1898. The group of non-contributory pensions based on merit and contributions to society also includes those granted to Nobel Prize winners, Olympic or Paralympic medallists and recipients of national prizes for science, literature and the visual arts. Pensions granted as compensation to victims of State action include the one for relatives of the disappeared and former political prisoners of the last military dictatorship. There is also a non-contributory pension for transplant recipients and those on a transplant waiting list, which is similar to a disability pension.

These non-contributory pensions are financed out of general taxation and are mostly compatible with other entitlements up to a certain limit. For the pension granted to Olympic and Paralympic medallists, for example, income from all sources is capped at five minimum pensions, and for priests the cap is two minimum pensions.

Most of these non-contributory pensions can be transferred to the recipient's spouse or children up to the age of 18 or with disabilities for an amount equivalent to 75% of the original entitlement. The only entitlements which cannot be passed on to family members are pensions for secular priests, holders of certain ecclesiastical positions, relatives of missing persons and transplant patients. Entitlements linked to awards or recognition for some achievement (those for Olympic and Paralympic medallists, science, literature and visual arts prize winners and aviation pioneers) can only be passed on to the spouse.

With regard to the amount of these entitlements, they fall into three groups. The first consists of pensions calculated on the basis of the recipient's pay when employed or that of a comparable position. This group includes pensions for presidents and vice-presidents, Supreme Court judges and holders of certain ecclesiastical positions, for which the salary of Supreme Court judges or national judges of first instance, as the case may be (see table V.5), is taken as the standard. This group also includes the pension for Antarctic pioneers, which takes the additional remuneration for people serving in Antarctica as a standard. The second group consists of pensions calculated on the basis of the national public sector pay scale. This includes the pension for former political prisoners. A third group is that of pensions whose value is based on the minimum pension. In this group are pensions for those who have received awards or recognition for some achievement and those for secular priests, relatives of the disappeared of the last military dictatorship, survivors of conscripts in the first army and navy call-ups, former combatants in the South Atlantic conflict and their dependants and survivors, aviation pioneers and those who have received or are on a waiting list for a transplant.

Table V.5
Argentina: non-contributory pensions granted under special laws

Beneficiaries	Eligibility conditions	Transfer after death	Amount of the entitlement	Legislation
Former presidents and vice-presidents	To have held the post	75% of the pension to the spouse or children aged up to 18	Supreme Court judge's salary for presidents and 75% of that amount for vice-presidents	Act No. 24018 of 1991
Former Supreme Court judges	To have held the post for four years and reached the age of 65, or have served for 30 years or 20 years under reciprocity schemes	75% of the pension to the spouse or children aged up to 18 or with a disability	Supreme Court judge's salary	Act No. 24018 of 1991
Nobel Prize winners	To have obtained the Nobel Prize	75% of the pension to the spouse or 50% to children aged up to 18 or with a disability	No information	Act No. 19211 of 1971
Olympic or Paralympic medallists	To have placed first, second or third (Olympic medallists from the age of 50 and Paralympic medallists from the age of 40)	75% of the pension to the spouse	First place: three times the minimum contributory retirement pension Second place: twice the minimum contributory retirement pension Third place: the amount of the minimum contributory retirement pension	Act No. 23891 of 1990 Act No. 25962 of 2004
Recipients of national prizes for science, literature and the visual arts	To have obtained one of a number of national awards stipulated by the legislation	75% of the pension to the spouse	Five times the minimum contributory retirement pension	Act No. 16516 of 1964 Act No. 18748 of 1970 Act No. 22462 of 1981
Aviation pioneers	People recognized as such by the legislation	75% of the pension to the spouse	Three times the minimum contributory retirement pension	Act No. 18559 of 1970 Act No. 21620 of 1977
Antarctic pioneers	Members of the first Argentine expeditions to reach the South Pole	To the spouse or children aged up to 18 or with a disability	70% of the additional pay for those serving in the Antarctic	Act No. 26008 of 2004 Act No. 26907 of 2013

Beneficiaries	Eligibility conditions	Transfer after death	Amount of the entitlement	Legislation
Secular priests	Catholic secular priests with 5 years' service aged at least 65	Not transferable to family members	The amount of the minimum contributory retirement pension	Act No. 22430 of 1981
Holders of certain ecclesiastical positions	Archbishops, bishops, auxiliary bishops and military deputy vicars who cease to hold these offices for reasons of age (from 75) or disability	Not transferable to family members	For archbishops and bishops, 70% of a national first instance judge's salary; for auxiliary bishops and military deputy vicars, 60% of this	Act No. 21540 of 1977
Relatives of disappeared persons	Spouses or children, siblings or parents, when incapacitated for work, of victims of enforced disappearance before 10 December 1983	Not transferable to people who do not meet the eligibility conditions	The amount of the minimum contributory retirement pension	Act No. 23466 of 1986 Act No. 23690 of 1989 Act No. 26267 of 2007
Survivors of conscripts in the first army and navy call-ups in Argentina	Survivors of the first conscripts to be called up to the Argentine Army and Navy in 1896 and 1898	To the spouse or unmarried, widowed, or divorced or separated daughters	Three times the minimum contributory retirement pension	Act No. 14125 of 1952 Act No. 21689 of 1977
Former political prisoners	Persons detained for political, trade union or student-related causes up to 10 December 1983	To the spouse or children aged up to 18 or with a disability	Salary of category D level 0 in the National Public Employment System	Act No. 26913 of 2013
Transplant patients	People who have received or are on the waiting list for transplants	Not transferable to family members	70% of the minimum contributory retirement pension	Act No. 26928 of 2013
Former combatants in the South Atlantic conflict and their dependants and survivors	Combatants and civilians in support roles between 2 April and 14 June 1982	Dependent parents, spouse, cohabiting partner, children who are minors or have a disability	Three times the minimum contributory retirement pension	Act No. 23848 of 1990

Source: Prepared by the author, on the basis of National Social Security Administration, "Jubilaciones y pensiones" [online] <https://www.anses.gov.ar/jubilaciones-y-pensiones>; Ministry of Justice, "Información legislativa y documental (InfoLEG)" [online] <http://www.infoleg.gov.ar/>.

B. Results of these policies

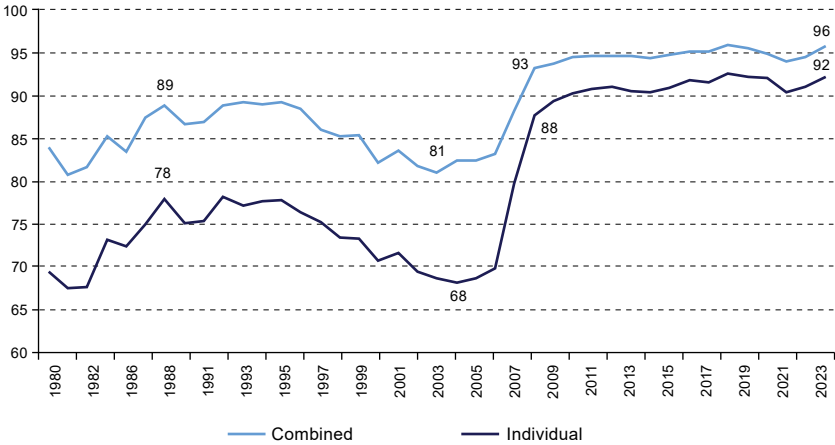
This section analyses the evolution of three dimensions of non-contributory pensions discussed in the book: coverage of the target population, sufficiency of entitlements in relation to the poverty line, and financial sustainability. For this last dimension, revenue sources and aggregate expenditure are considered.

1. Coverage

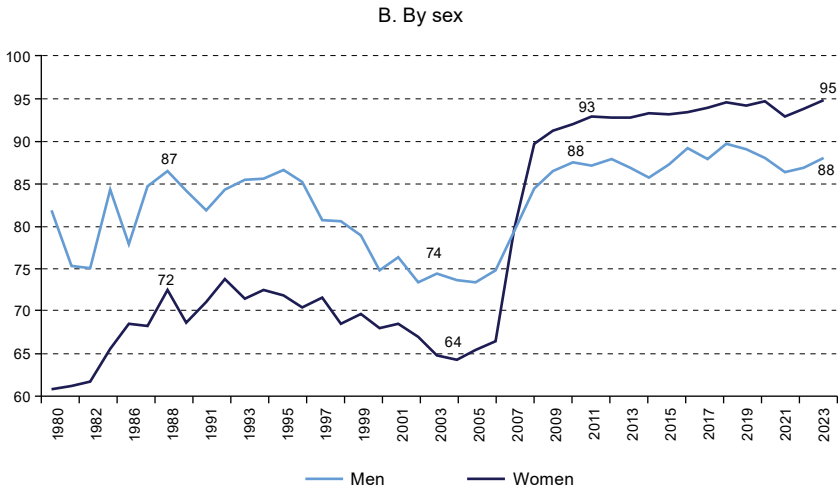
Argentina’s pension system has virtually universal coverage among older persons. In the first quarter of 2023, 92% of people aged 65 and over were in receipt of some retirement entitlement, a figure that rises to over 96% when considering the coverage of households with at least one person in that age group receiving a retirement income or pension (see figure V.1).⁹ These high levels of coverage, in a country where a considerable proportion of people do not manage the minimum contributions required for a contributory pension, are explained by the implementation of the three measures mentioned in section A: the old-age pension of the Non-contributory Pension Programme, the Pension Moratoriums programme and PUAM.

Figure V.1
Argentina: coverage of pensioners among people aged 65 years and over, 1980–2023
(Percentages)

A. Individual and household (combined)



⁹ Estimates based on the INDEC Permanent Household Survey.



Source: Prepared by the author, on the basis of National Institute of Statistics and Censuses of Argentina (INDEC) and R. Rofman and M. Oliveri, “La cobertura de los sistemas previsionales en América Latina: conceptos e indicadores”, *Serie de Documentos de Trabajo sobre Políticas Sociales*, No. 7, Buenos Aires, World Bank, 2011.

Note: Coverage is defined as the percentage of the population aged 65 and over receiving some kind of pension entitlement (contributory or non-contributory). The estimates for the period 1980–2002 come from Rofman and Oliveri (2011) and are based on the INDEC Permanent Household Survey. Estimates for the period 2003–2023 are based on the INDEC continuous Permanent Household Survey. Data for 2023 refer to the first quarter.

Historically, pension coverage in households with older persons was usually high, being close to 90% until the early 1990s. This extensive coverage was based on a contributory system that reached most households thanks to low unemployment, a high incidence of registered wage work and a family structure characteristic of the post-war period (which was most prevalent among the middle and higher classes), consisting of a man receiving a wage to meet household expenses and a woman in charge of unpaid domestic and care work. This household set-up, in which the family wage received by the man created entitlement to a family pension, is the reason for the wide gap in the coverage of the pension system depending on whether it was measured by households or by individuals: while the coverage of households with older persons was almost 90% in the mid-1980s, the coverage of older persons was 78%. Many of the women who received pensions did so as widows; women receiving pensions as a result of their contributions to the system were fewer (Arza, 2012; Bertranou, 2003). During this period, the old-age pension of the Non-contributory Pension Programme created in the 1940s went to a small universe of households that received no contributory entitlements and could prove that they had no other income or family support to cover their expenses.

Between the 1990s and the early 2000s, there were major changes in the labour market that affected the scope of the pension system, especially on the contributions side. The unemployment rate rose above 20% and the incidence of informality increased among the employed. As a result, by 2004 the coverage of the pension system in households with older persons had fallen to 81% and the coverage of individuals to 68%. The low contributions density of people registered in the social security system was a warning sign that this trend was likely to intensify in the following years. In the period 1994–2004, only 20% of those in formal employment had made contributions to the social security system for more than 80% of potential years, and 50% had a contribution density of less than 32% (MTEySS, 2005). Projections indicated that, with this contributions record, the proportion of people covered by the pension system would fall from 69% in 2005 to 44% in 2025, and that retirement pensions as a share of total social security entitlements would fall from 55% in 2005 to 40% in 2050 (MTEySS, 2005).

Between 2003 and 2005, a set of measures was implemented to provide access to a retirement entitlement for people who had not made enough contributions to qualify for a contributory pension. In 2003, budgetary restrictions on the provision of old-age pensions were eased, which led to a 126% increase in the number of old-age pensions between that year and 2007, from 40,996 to 92,652. The Pension Moratoriums programme was also implemented in 2005. This policy was the biggest factor in enabling people with insufficient contributions, and indeed many who had never paid into the system, to receive a pension. By 2010, when pension coverage among those aged 65 and over had surpassed 90%, the number of pensions being paid under the Pension Moratoriums programme was 2.4 million, accounting for 43% of the total.¹⁰

The Pension Moratoriums programme significantly reduced the socioeconomic and gender gaps in the coverage of the population aged 65 and over.¹¹ The largest increases in the coverage rate between 2004 and 2010 were in the lowest income deciles (Calabria and Rottenschweiler, 2015). While coverage increased by 24.1 percentage points overall between 2004 and 2010, it rose by 41.2 percentage points in the first decile and

¹⁰ The number of pensions was obtained from Boletín Estadístico de la Seguridad Social (MTEySS, 2023).

¹¹ See Arza (2012) for a more detailed analysis of the impact of the Pension Moratoriums programme on the distribution structure of entitlement. According to this author, the policy reduced gender and income gaps, reversed the previous bias by educational level and meant that certain structural measures of poverty, such as housing quality, were no longer significant in explaining coverage levels.

31.3 percentage points in the second decile. By contrast, coverage rose by 16 percentage points in the ninth decile and only 6.8 percentage points in the tenth decile (Calabria and Rottenschweiler, 2015). Over the same period, women's pension coverage rose from 64% to 92%, while men's rose from 74% to 88% (Calabria and Rottenschweiler, 2015).¹² Thus, the coverage gap, derived from labour market inequalities and the care economy (the disproportional distribution of unpaid work within households), was inverted for the population aged 65 and over. Whereas 75% of women with a pension in 2015 had entered the system through the Pension Moratoriums programme, only 43% of men had. The number of these pensions continued to increase, rising to some 4 million in 2023 and accounting for a 40% share of total social security entitlements.¹³ The expansion of this policy among people with insufficient contributions was the reason why the share of the old-age pension of the Non-contributory Pension Programme declined from 2007 onward, so that by 2023, as noted, there were only 782 recipients.¹⁴

From 2016, PUAM also contributed to the maintenance of high levels of coverage among older persons, albeit with certain limitations, since the Pension Moratoriums programme were extended at the same time. In 2023, there were a total of 289,102 PUAM pensions, while in the previous year, one in every four people receiving a pension without having paid the minimum number of contributions required by law did so through PUAM and three under the Pension Moratoriums programme. Following the creation of PUAM in 2016, the renewed Pension Moratoriums conditions targeted women, which is why most new PUAM pensions were given to men: in mid-2023, 90% of PUAM pensions were being paid to men (see figure V.2A). Figure V.2B shows that most people receiving a pension under the Pension Moratoriums programme and PUAM in 2022 had fewer than five years' contributions: the share was 54% for the former and 83% for the latter.

Of the remaining non-contributory pensions, the largest are welfare pensions for people with some disability and for mothers of seven or more children. Both have grown considerably since 2004, when a number of budgetary restrictions on these entitlements were lifted.¹⁵ The number of disability pensions increased from 80,593 in 2003 to some 1.2 million

¹² Estimates based on the INDEC Permanent Household Survey.

¹³ This figure includes pensions for people retiring under the Pension Moratoriums programme

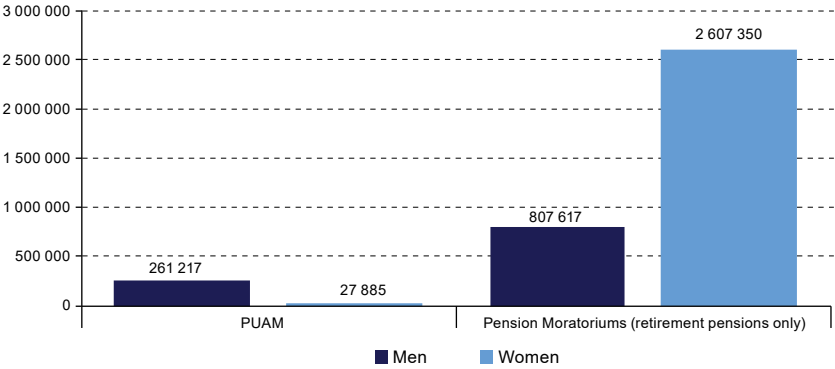
¹⁴ The number of pensions was obtained from Boletín Estadístico de la Seguridad Social (MTEySS, 2023).

¹⁵ The 1998–2003 budget laws set limits on the number of non-contributory pensions: new ones could only be granted on condition that the number already being paid was reduced by an equivalent amount. Act No. 25827 of 2003, which approved the budget for 2004, contained no restrictions on non-contributory pensions (Mallardi and Fernández, 2019).

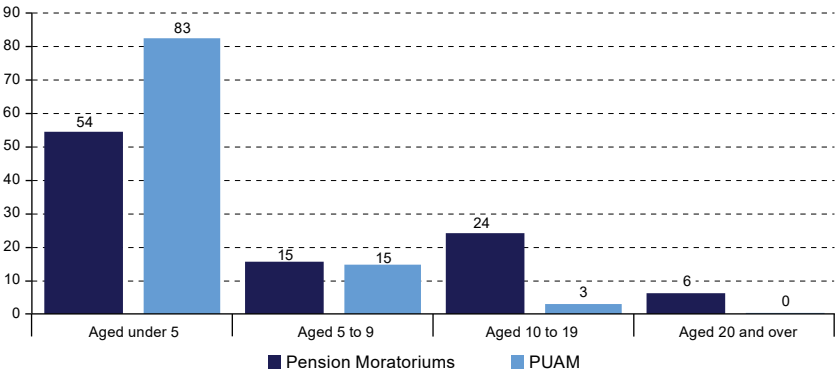
in 2023, and that of pensions for mothers of seven or more children from 57,900 in 2003 to 266,458 in 2023. The former mainly go to people below retirement age with some disability that impairs their capacity to work, predominantly men. All other non-contributory schemes were paying a total of 84,241 pensions in mid-2023: 48,075 ex gratia pensions, 21,446 pensions for former combatants in the South Atlantic conflict and their dependants and survivors, and 14,720 pensions under special laws (see figure V.3).

Figure V.2
Argentina: social security entitlements provided by semi-contributory systems (Pension Moratoriums programme) and non-contributory systems (PUAM)

A. Current pensions, by sex, June 2023
 (Units)

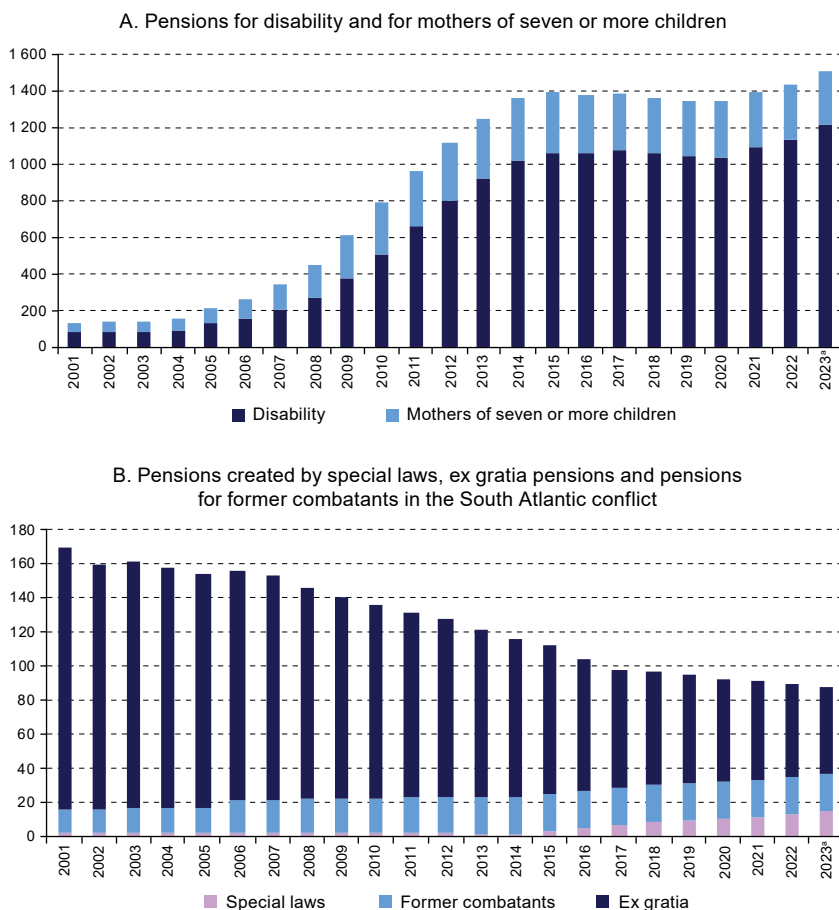


B. Pensions granted, by recipients' years of contributions, 2022
 (Percentages)



Source: Prepared by the author, on the basis of Ministry of Labour, Employment and Social Security (MTEySS), Boletín Estadístico de la Seguridad Social (BESS) [online] <https://www.argentina.gob.ar/trabajo/seguridadsocial/bess>.

Figure V.3
Argentina: numbers of recipients of the Non-contributory Pension Programme,
by pension category, 2001 to June 2023
(Thousands)



Source: Prepared by the author, on the basis of Ministry of Labour, Employment and Social Security (MTEySS), Boletín Estadístico de la Seguridad Social (BESS) [online] <https://www.argentina.gob.ar/trabajo/seguridadesocial/bess>.

Note: Information is for the total number of non-contributory pensions. Since April 2019, the number of pensions suspended each year because of non-compliance with any of the conditions established by law has been published separately. The number of suspended non-contributory pensions in mid-2023 was approximately 3% of the totals shown in these charts.

^a The 2023 figures are for June.

2. Sufficiency

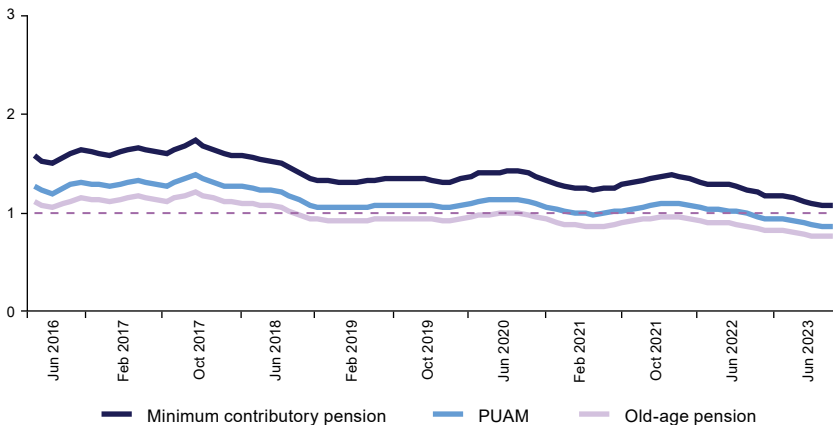
In Argentina, poverty among older persons is the lowest of any age group. In the first half of 2023, the poverty rate among people aged 65 and over, as measured by INDEC, was 13%, while the rate was 56% for people aged up

to 14, 47% for people aged 15 to 29 and 35% for people aged 30 to 64. It is owing to the pension system that older persons are better off, both because of its almost universal coverage and because most participants receive a minimum contributory entitlement above the poverty line.

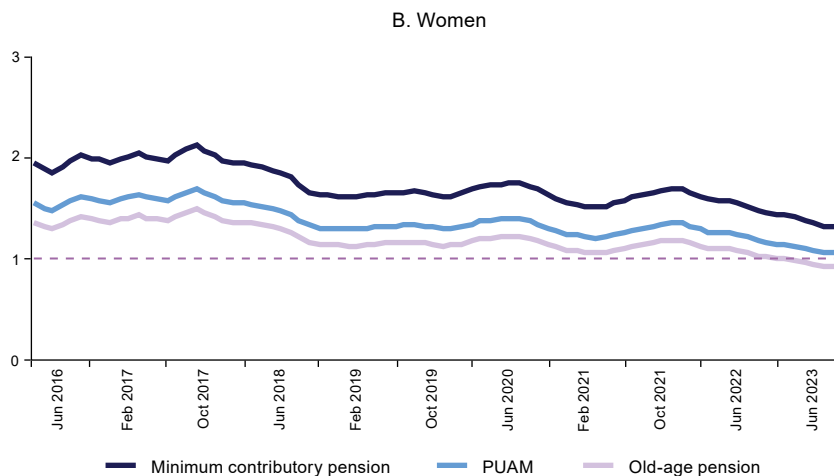
The amount of the PUAM entitlement (equivalent to 80% of the minimum contributory pension) has also tended to be slightly higher than the total cost of the basic basket for older persons in recent years. Between 2016 and 2022, PUAM represented 1.1 times the total value of the basic basket for men aged 61 to 75 and 1.4 times for women in the same age range (see figure V.4). However, at least two aspects of the pension system entitlement floor deserve consideration. The first is that the PUAM entitlement was left below the poverty line for men as a result of the economic crisis Argentina has been experiencing for more than a decade, a development that was compensated for by implementing a set of non-automatic emergency top-up payments. The second aspect concerns a broader discussion on the desirability of having a special poverty measure for older persons that takes into account differences in care and health expenditures compared to other age groups. This measure should include coverage under the Comprehensive Medical Care Programme of the National Institute of Social Services for Retirees and Pensioners available for older persons to access basic health services, medicines¹⁶ and home care.

Figure V.4
Argentina: sufficiency of pensions for older persons (aged 61–75) in relation to the total basic basket, by sex, January 2016 to June 2023
(Ratio between the pension amount and the value of the basic basket)

A. Men



¹⁶ In 2023, the Institute covered 100% of medicine costs for a selection of priority drugs and between 50% and 100% of all other medicines, depending on the type of pathology.



Source: Prepared by the author, on the basis of Ministry of Economy, Portal de Datos Económicos [online] <https://www.economia.gob.ar/datos/>.

In the case of welfare pensions for disability, targeted at a section of the population that is outside the labour market, sufficiency has been more affected by the economic situation in recent years, insofar as the entitlements go to an age group with a higher calorie intake and higher consumption of other goods and services making up the poverty basket. Between 2016 and mid-2023, the pension represented 0.8 times the total basic basket for men aged 30 to 60 and one total basic basket for women in the same age range. The deterioration in real incomes was likewise compensated for by implementing a set of income top-up payments of a temporary emergency nature.

3. Financial sustainability

Public expenditure on strictly non-contributory pensions in Argentina (i.e. excluding the Pension Moratoriums programme) is small as a proportion of GDP relative to other national public sector expenditure items. If all non-contributory pension schemes in the national system are added together, expenditure is less than 1% of GDP, and more than three quarters of this spending is accounted for by disability entitlements (0.53% of GDP) and the payment for mothers of seven or more children (0.16% of GDP). This level and composition of non-contributory pension expenditure is associated with the limited scope PUAM has had in terms of providing access to a pension for older persons with insufficient contributions because of the extension of the Pension Moratoriums programme mentioned in section B.1. Even so, PUAM expenditure has shown a slight upward trend in recent years because of the inclusion of men, for whom

the conditions of the Pension Moratoriums programme were not renewed in the same way as for women. Of the other non-contributory pensions, there was a slight reduction in the share of expenditure on entitlements for former combatants in the South Atlantic conflict and their dependants and survivors, pensions for former political prisoners and ex gratia pensions (see table V.6).

Table V.6
Argentina: public spending on non-contributory pensions, 2019–2022
(Percentages of GDP)

	2019	2020	2021	2022
PUAM	0.08	0.11	0.11	0.13
Disability	0.59	0.60	0.53	0.53
Mothers of seven or more children	0.19	0.24	0.19	0.16
Former combatants in the South Atlantic conflict and their dependants and survivors	0.05	0.05	0.04	0.04
Former political prisoners	0.01	0.01	0.01	0.01
Ex gratia	0.04	0.04	0.03	0.03
Other non-contributory pensions	0.02	0.00	0.00	0.00
Total	0.96	1.05	0.91	0.90

Source: Prepared by the author, on the basis of Ministry of Economy, “Datos abiertos” [online] <https://www.presupuestoabierto.gob.ar/sici/datos-abiertos>; National Social Security Administration, “Estado financiero” [online] <https://www.anses.gob.ar/estado-financiero>; National Institute of Statistics and Censuses of Argentina (INDEC).

Public expenditure on non-contributory pensions is financed from the revenues of the National Social Security Administration, including social security contributions and general revenue taxes allocated to the national system. Tax resources specifically earmarked for the pension system are a distinctive feature of the Argentine system and originate in the reforms of the 1990s, when the creation of a privately funded system resulted in the loss of some of the contributions used to finance the entitlements of the public pay-as-you-go system operating at the time.¹⁷ In this context, a significant portion of proceeds from taxes, including value added tax (VAT), income tax and national revenues available for distribution to the provinces were diverted to the pension system (Cetrángolo and Grushka, 2008). These allocations have been modified over the past two decades, and in 2023 the resources received by the National Social Security Administration included 11% of VAT on exports net of refunds,¹⁸ 28.7% of the fuel tax, 70% of the taxation component of the Single-tax Regime and 100% of its social security component,

¹⁷ According to Bertranou and others (2011) and Feldman, Golbert and Isuani (1986), there were also allocations of tax resources to the pension system to cover financial imbalances prior to the 1990s (the first instance dates from 1948).

¹⁸ Of this 11%, 93.73% goes to National Social Security Administration expenditure and the remaining 6.27% to the provinces whose pension funds have not been transferred to the national government.

100% of the emergency surtax on cigarettes, 100% of the tax on bank deposits and withdrawals (known as the “cheque tax”) and 70% of the Tax for an Inclusive and Solidary Argentina.¹⁹

The financial result of the system as a whole in 2022 (the latest available figure) was a deficit of 2.8% of GDP, with the gap being covered by central government transfers (see table V.7). This deficit includes other National Social Security Administration expenditure items, among them contributory and non-contributory family allowances (1.2% of GDP in 2022), health services for older persons via the Comprehensive Medical Care Programme (0.2% of GDP in 2022), emergency income measures for vulnerable sectors implemented since the outbreak of the coronavirus disease (COVID-19) pandemic (0.2% of GDP in 2022, with a peak of 1.8% of GDP in 2020) and other National Social Security Administration social entitlements and outlays, some of which have no specific allocation. These figures highlight the fiscal constraints on the Argentine pension system going forward.

Table V.7
Argentina: financial result of the social security system, 2018–2022^a
(Percentages of GDP)

	2018	2019	2020	2021	2022
Resources	8.0	7.4	7.7	6.8	6.9
Contributions	5.0	4.6	4.5	4.1	4.2
Tax resources	2.6	2.6	2.8	2.7	2.7
Other	0.3	0.2	0.4	0.0	0.0
Expenditure	10.7	10.5	13.6	9.9	9.7
Contributory entitlements	4.6	4.5	5.1	4.1	3.9
Semi-contributory entitlements	2.6	2.6	2.9	2.3	2.2
Non-contributory entitlements	1.0	1.0	1.1	0.9	0.9
Family allowances	1.3	1.2	1.4	1.2	1.2
Comprehensive Medical Care Programme of the National Institute of Social Services for Retirees and Pensioners (health services)	0.3	0.3	0.3	0.2	0.2
Emergency measures ^b	0.0	0.0	1.8	0.1	0.2
Operating and capital expenses	0.2	0.1	0.1	0.1	0.1
Other entitlements and expenses	0.8	0.8	1.0	0.9	0.9
Financial result	-2.7	-3.2	-5.9	-3.1	-2.8

Source: Prepared by the author, on the basis of Ministry of Economy, “Datos abiertos” [online] <https://www.presupuestoabierto.gob.ar/sici/datos-abiertos>; National Social Security Administration, “Estado financiero” [online] <https://www.anses.gob.ar/estado-financiero>; National Institute of Statistics and Censuses of Argentina (INDEC), “Agregados macroeconómicos (PIB)” [online] <https://www.indec.gob.ar/indec/web/Nivel4-Tema-3-9-47>.

^a The sum of the partial figures may not match the total because of rounding.

^b Measures taken since the start of the COVID-19 pandemic to assist socially vulnerable people, enterprises and workers, including the Labour and Production Emergency Assistance Programme, the Emergency Family Income and income support.

¹⁹ This is a tax on foreign currency purchases created by Act No. 27541 of December 2019. According to the legislation, 70% of the proceeds of this tax are to be used to finance the programmes run by the National Social Security Administration and the entitlements provided by the National Institute of Social Services for Retirees and Pensioners.

C. Challenges and final reflections

This chapter has presented two types of non-contributory pensions provided by the Argentine pension system: those for older persons and those paid as part of the welfare system or under special laws. Although the former represented only 16% of the total number of non-contributory entitlements in mid-2023,²⁰ they are the ones that present the greatest challenges for the future, given the limited ability of policies such as the Pension Moratoriums programme to provide an access mechanism that is more stable and predictable over time.

To put the importance of semi-contributory and non-contributory entitlements for older persons into perspective, it should be considered that, in 2022, 7 out of every 10 pensioners accessed their pensions under the Pension Moratoriums programme or PUAM because they did not meet the minimum contribution requirements set by law. Within that group, 61% of people had paid fewer than five years' worth of contributions. There are two additional factors that could increase the pressure on the system of non-contributory pensions for older persons in the future. One is the increasing share of substandard and vulnerable employment over the past decade of economic stagnation in Argentina: in the second quarter of 2023, half of those in work had jobs that paid either no social security contributions or minimal contributions under schemes for the self-employed.²¹ The other factor is the increase in the old-age dependency ratio: according to projections by the Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, the number of older persons in Argentina for every 100 people of working age will rise from 27 to 56 between 2023 and 2065.²²

Discussions about the need to introduce changes in the Argentine pension system in the light of the challenges mentioned above can be grouped into two dimensions. The first dimension relates to the design of the system's institutional architecture. One topic in this debate is the need for a redesigned general national system for older persons that homogenizes the multiple regimes coexisting in the country, including the contributory, semi-contributory and non-contributory general national system, the special national systems, the differential national systems and the systems of the provinces that did not transfer their funds to the national system in the 1990s. Some specialists suggest that this unified system should be built around two components: a universal non-contributory component to which eligibility would be conferred by citizenship criteria alone and which would provide core social security entitlements for all older persons, and a

²⁰ This figure is for strictly non-contributory entitlements and therefore does not include pensions paid under the Pension Moratoriums programme.

²¹ Estimates based on the 2023 INDEC Permanent Household Survey.

²² The older persons group includes the population aged 60 and over, and the working age group includes the population aged between 15 and 59.

contributory component (mandatory or voluntary) to supplement the former on the basis of contributions made during people's working lives (Mera, 2022; Bertín and Rofman, 2021). This institutional design would sustain high levels of coverage, reduce the inequities arising from the existence of multiple regimes with differences in eligibility conditions and calculation methods, and make entitlements more proportional to the income people have earned during their working lives, especially for those who have made contributions but not attained the minimum number of years established by law. The authors cited point out that the current system only rewards the contributions of those who complete the minimum of 30 years, which is the requirement that determines whether a person is entitled to a non-contributory or a contributory retirement pension.

A second dimension of the debate concerns the parameters of the system, which are what ultimately determine its coverage, sufficiency, stratification and financial sustainability. A crucial aspect here is the right level for a non-contributory entitlement with wider coverage that is better coordinated with the contributory system and, in particular, the criteria to be prioritized. A number of authors have already identified the sources of inequality in the social security system, associated both with the multiplicity of schemes and the parameters shaping them (Veza and Rofman, 2021; Cetrángolo and Grushka, 2020; Rofman, 2021). One fact that illustrates the stratification of entitlements in the national system, owing largely to the existence of special schemes with higher replacement rates than the General Regime, is that the highest 10% of retirement pensions in the national system cost as much as the lowest 50%, which are at or just above the minimum: each stratum accounted for about 30% of total pension spending in mid-2023.²³ This reflects the fact that the average pension paid to the top 10% of recipients is equivalent to more than five minimum pensions.²⁴

In view of the income vulnerability affecting older persons with inadequate contributions who only qualify for the minimum pension (half of all participants receive a pension barely equal to the poverty line)²⁵ and of the fiscal constraints on the country (where spending on old-age pensions in the national system costs 7.2% of GDP), a redesigned non-contributory pension system with reformulated parameters would have to be able to prioritize the maintenance of universal coverage with a non-contributory entitlement floor higher than the minimum subsistence level established by the poverty line, beginning by altering the features that exacerbate the stratification of entitlements, such as the higher replacement rates in some non-standard regimes.

²³ This refers to the contributory scheme, which also includes pensions paid under the Pension Moratoriums programme.

²⁴ Estimates based on data from the Boletín Estadístico de la Seguridad Social (MTEySS, 2023).

²⁵ Excluding income support payments provided in special circumstances.

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Chapter VI

Peru: opportunities to strengthen the non-contributory pension system

*Noelia Bernal Lobato*¹

Introduction

This chapter analyses the non-contributory pension system in Peru and considers various options for expanding and strengthening it. Firstly, it provides background on the contributory system —describing its institutional framework and coverage, the sufficiency of its entitlements and the financial-sustainability challenges it faces. This analysis makes clear the importance of strengthening the non-contributory pension system in Peru. Based on these conclusions, the chapter then reviews the scope and sufficiency of the non-contributory system, as well as the fiscal commitment that it currently demands. The chapter notes that expanding and strengthening the non-contributory system requires a comprehensive analysis to be made of the pension system as a whole, and that any weakening of the contributory system is bound to affect the non-contributory component.

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The main challenge faced by the contributory component is its sparse coverage. The data presented in this study show that, in 2021, only three out of every 10 workers were effectively making contributions for their retirement. Other workers mostly have informal jobs or are self-employed, which means they do not have to be included in the contributory system—a situation that needs to be addressed specifically (Bernal, 2022). A second challenge is the insufficiency of the pensions actually paid, in both the public and the private components. Although various parametric reforms have made the National Pension System (SNP) more sustainable, they have not improved the sufficiency of the entitlements. The quality of the entitlements provided by the Private Pension System (SPP) is also poor (declining replacement rates over time, currently varying between 31% and 35%). In addition, policies have been implemented that further diminish the sufficiency of the pensions, such as the possibility of withdrawing funds in full even at early retirement ages. The deteriorating sufficiency of public and private pensions is worrying because it could exacerbate fiscal pressures on the non-contributory component in the medium term.

Strictly speaking, the non-contributory component is not a pension system as such, but is based on two social programmes that provide unconditional entitlements to individuals who have not made social security contributions: the National Solidarity Assistance Programme (*Pensión 65*) and the National Programme of Non-contributory Pensions for Persons with Severe Disabilities Living in Poverty (*CONTIGO*). The *Pensión 65* programme is run by the Ministry of Development and Social Inclusion (MIDIS); it was created in October 2011 and provides a monthly amount of 125 soles (approximately US\$ 35),² paid every two months, to persons over 65 years of age who are not enrolled in any contributory system and are living in extreme poverty. The *CONTIGO* programme, also administered by MIDIS, was created in August 2015 and pays 150 soles (US\$ 42) per month to persons with severe disabilities who are also living in poverty.

Although the coverage of both programmes has expanded considerably, there are still opportunities for improvement, including in terms of the institutional framework and the sufficiency of the entitlements. Accordingly, this study proposes three ways to expand and strengthen them: (i) create and strengthen a solidarity component and integrate it with the contributory component; (ii) gradually expand coverage, starting with older persons who are not in a situation of extreme poverty; and (iii) increase the entitlement amounts.

² An exchange rate of 3.6 soles per dollar (May 2022) was applied, as informed by the Central Reserve Bank of Peru.

This study consists of four sections in addition to this introduction. The first outlines the background and institutional framework of the Peruvian pension system, considering both the contributory and the non-contributory components. It then makes a detailed analysis of the coverage, sufficiency and financial sustainability of the contributory pension system. This aims to analyse its scope, the sufficiency (or insufficiency) of the pensions it pays, the fiscal commitment it represents, and elements that could potentially be included later in a more comprehensive design of the system, including its non-contributory component. The second section describes non-contributory pensions and the extent to which they interact with the contributory system; and it analyses the non-contributory component's outcomes in terms of coverage, sufficiency and financial sustainability. It also compares the characteristics of the non-contributory entitlements paid in Peru with those of other countries in the region. This is followed by a review of the specific literature on the effects of non-contributory pension systems, and a presentation of the results of two potential policies or scenarios through which coverage and entitlement amounts could be increased. The third section formulates policy recommendations to expand and strengthen the non-contributory pension system and improve its interaction with the contributory system. The fourth and final section presents final thoughts.

A. Description of the pension system in Peru

The Peruvian pension system has two components: contributory and non-contributory. The contributory component encompasses all pension regimes in which the worker has to make contributions to gain entitlement to a pension. This is further subdivided into the public pension system and the private pension system (SPP). In the former, the main regime applicable to civilian workers is the National Pension System (SNP), which was created by Decree Law No. 19990 in 1973 and is administered by the Pension Normalization Office (ONP). Other pension regimes in the public system include the *Cédula Viva* scheme for civil servants, which was established by Decree Law No. 20530 and created in 1974, although based on older legislation. This regime is currently administered by the Ministry of Economy and Finance (MEF) and is closed to new affiliations.³ In contrast, the private (SPP) system was created in 1992 by Decree Law No. 25897 and is administered by private pension fund management companies known as AFPs.

³ There is also the pension system for military and police personnel, created through Decree Law No. 19846 in 1972 and administered by the Police Military Pension Fund (CPMP).

The non-contributory component is administered by MIDIS. It is not a system as such, but comprises two social programmes. The first is the *Pensión 65* social programme (created in 2011),⁴ which pays a non-contributory pension to older persons who do not receive a pension from another scheme and are living in conditions of extreme poverty.⁵ The second programme, *CONTIGO*, was created in 2015 and provides a non-contributory pension to persons who have a severe disability and are living in either poverty or extreme poverty.

The National Pension System (SNP) operates as a pay-as-you-go, defined-benefit system, in which the contributions collected from today's workers are used to pay pensions to today's retirees and other recipients. However, as noted in section A.3, although the situation has improved in recent years, the contributions collected are generally insufficient to cover the entire pension payroll, and the State has to make up the difference. Affiliates of SNP make contributions equivalent to 13% of their wage. Those who contribute for at least 20 years are entitled to receive a regular pension when they reach retirement age, which is 65 years for both men and women. However, they also have the possibility of claiming early retirement pensions, provided they have made contributions for at least 25 years. SNP affiliates can also claim proportional pensions with just 10 or 15 years of contributions, as described in detail below. The pension is received as a defined benefit for life in 14 instalments per year in amounts ranging from 500 soles (minimum) to 893 soles (maximum) (US\$ 137 and US\$ 245, respectively).⁶

The private pension system is individually funded, with each worker's contributions being paid into a personal account, for the purpose of accumulating capital to finance a pension upon retirement. The pension received depends on the amount contributed during the individual's working life, augmented by the return earned in the individual account. Unlike SNP, there is no minimum pension.⁷ However, as described below, since 2015 the system has allowed affiliates to withdraw 95.5% of the balance of their individual account in a lump

⁴ Through Supreme Decree No. 081-2011-PCM.

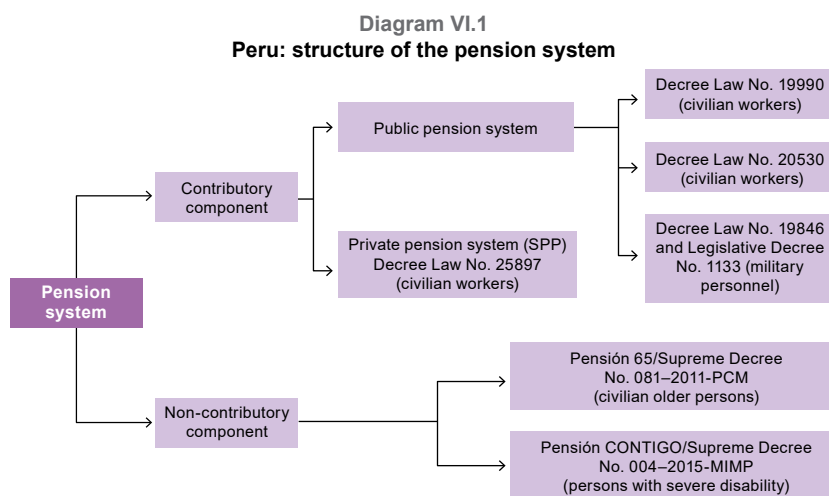
⁵ Classification made at the household level through the Household Targeting System (SISFOH).

⁶ An exchange rate of 3.6 soles per dollar (May 2022) was applied, as informed by the Central Reserve Bank of Peru.

⁷ The private pension system includes an exceptional minimum pension established by Act No. 28991. This is awarded to workers who were affiliated to SNP but decided to transfer when SPP was created. The requirements consist of being of retirement age and having at least 20 years' contributions. The minimum pension is funded from the contributions of the Individual Capitalization Account (CIC) and the Recognition Bond (if the person in question has one). If these resources are insufficient, the State guarantees the pension through Supplementary Minimum Pension Bonds.

sum, upon retirement. The retirement age is 65 years (for women and men alike), but workers can retire earlier if they accumulate sufficient capital to cover at least 40% of their average income of the last 120 months. The worker's contribution consists of 10% of income, plus a disability and survival insurance premium and administration fees that depend on each AFP.⁸

Diagram VI.1 outlines the contributory and non-contributory subsystems that comprise the Peruvian pension system.



Source: Prepared by the author.

1. Coverage

(a) Coverage of pension system assets (contributors)

In Peru, the contributory pension subsystems are obliged to cover formal employees (those with an employment contract). In contrast, self-employed workers (whether formal or informal) do not have to join any subsystem. Thus, the evolution of contributory coverage is closely related to the trend of formal employment. Table VI.1 shows the coverage of pension system assets (contributors) in the different contributory subsystems and formal employment in 2000–2021.

⁸ As of December 2022, the Office of the Superintendent of Banks, Insurance Companies and AFPs (SBS) charged an average variable commission of 1.57% and an average insurance premium of 1.74%.

Table VI.1
Peru: effective coverage (EAP) of the pension system, by subsystem,
and formal employment, 2000–2021^a
(Percentages)

Year	Total	National Pension System (SNP)	Private Pension System (SPP)	Other ^b	Formal employment ^c
2000	14.1	4.0	9.0	1.1	
2001	13.7	3.5	9.2	1.2	
2002	13.7	3.4	9.3	1.1	
2003	15.6	3.4	1.2	2.0	
2004	15.1	3.3	9.7	2.1	13.2
2005	14.8	3.4	9.4	2.1	12.6
2006	15.1	3.6	9.5	1.9	14.0
2007	16.8	3.9	1.0	1.9	15.4
2008	17.8	5.2	1.7	1.9	16.0
2009	19.6	5.9	1.9	1.9	17.4
2010	21.1	6.9	1.4	1.9	17.5
2011	22.4	7.5	13.1	1.8	18.7
2012	25.1	8.2	15.1	1.8	24.8
2013	26.4	9.4	15.2	1.8	25.2
2014	26.6	9.5	15.3	1.9	25.8
2015	27.7	9.8	15.9	1.9	25.9
2016	28.1	9.7	16.5	1.9	26.5
2017	27.5	9.1	16.4	1.9	26.6
2018	27.5	8.9	16.7	1.9	26.3
2019	28.2	8.9	17.5	1.8	26.1
2020	29.8	8.2	19.6	2.1	23.3
2021	29.6	8.4	19.3	1.9	22.1

Source: Prepared by the authors, on the basis of Superintendencia of Banking, Insurance, and Private Pension Funds (SBS), Private Pension System, Pension Normalization Office, Police Military Pension Fund (CPMP) and World Bank, “Labor force, total – Peru” [online] <https://data.worldbank.org/indicator/SL.TLFTOTL.IN?locations=PE>.

^a Represents the total number of contributors as a percentage of the economically active population (EAP).

^b Includes the Police Military Pension Fund (CPMP) and that of Decree Law No. 20530.

^c On the basis of the National Household Survey (ENAH0). Workers are classified as informal if they are not covered by the social security system or if their employer is not registered in the National Tax System.

The coverage indicator used in this section is defined as the number of contributors relative to the economically active population (EAP), and thus indicates the proportion of workers who are actually contributing for their retirement.⁹ The information used to construct this indicator is obtained from administrative sources (SPP statistical bulletins and ONP and ONP Virtual statistical tables).¹⁰

⁹ Although this measure is more appropriate than the number of affiliates relative to total EAP, it is still insufficient. The indicator only reports coverage at a precise moment in time, because there is no certainty that workers who are currently contributing will continue to do so in the future, or that they will do so permanently (Forteza, Lucchetti and Pallares-Miralles, 2009). Nor is it possible to know whether workers who are not currently contributing will do so again and how often they will do so.

¹⁰ See [online] <https://onpvirtual.pe/#/Inicio>.

In general, table VI.1 shows that only a small percentage of the economically active population is covered by the pension subsystems: in 2021, just three out of every 10 workers were effectively contributing for their retirement. While the proportion had risen in 2000–2021, it fell back in 2021 in the wake of the coronavirus disease (COVID-19) pandemic. Disaggregating the data by subsystem shows that SPP covers more dependent workers than SNP (19% versus 8%, respectively, in 2021). It is also clear that SPP coverage has grown steadily throughout the period analysed, while SNP coverage has declined since 2016.

The greater coverage of SPP and its rising trend are explained mainly by the fact that it is designed so that formal workers enter this subsystem by default, and disaffiliation is not allowed. In fact, given the low level of enrolment in this system in the 1990s, Act No. 26504 of 1995 established that (unaffiliated) formal workers who do not indicate which subsystem they wish to belong to within 10 days of the start of their employment relationship are automatically enrolled in SPP. Similarly, disaffiliation from SPP (and transfer to SNP) is exceptional and only allowed in very specific cases. In contrast, affiliation to SNP is an active process in which the worker must expressly state his or her decision to belong to this system. In this case, disaffiliation is allowed, so workers can subsequently switch to SPP. These factors likely explain why SNP coverage is lower than that of SPP.

The reduction in the proportion of workers contributing to SNP since 2016 could be a result of the reforms implemented in the private subsystem (Act No. 30425), which have since offered workers the possibility of withdrawing 95.5% of their total individual fund on retirement and of taking retirement early. For some individuals, the possibility of obtaining greater liquidity at the time of retirement may have made this system more attractive than SNP (see section A.2).

The other contributory schemes, that of Decree Law No. 20530 and the Police Military Pension Fund (CPMP), covered just 1.9% of workers between them in 2021.¹¹

(b) Coverage of pensioners

Table VI.2 reports the trend of the indicator of contributory coverage of liabilities, in other words, the proportion of persons aged 65 and over who were receiving a contributory retirement pension in each subsystem, in 2000–2021. In general, the proportion of older persons receiving a contributory pension has decreased significantly over time, dropping from

¹¹ This percentage is low because the regimes in question cover small population groups: civil servants and police and military personnel. Moreover, the regime governed by Decree Law No. 20530 has been closed to new affiliations since 2004 (Act No. 28449).

43% in 2000 to 24% in 2021. Similarly, although SNP covers more older persons than SPP and other regimes, its coverage has also declined sharply. While in 2000 this system provided pensions to 20% of older persons, the figure has dropped to 14% in recent years. The reduction in SNP coverage reflects the fact that many workers transferred to SPP in the 1990s and have therefore retired, or will retire, affiliated to this subsystem. Furthermore, since SPP is the default affiliation option, its coverage can be expected to increase while SNP coverage will stabilize and not grow significantly.

Table VI.2
Peru: contributory coverage of pensioners (persons aged 65 and over), by subsystem, 2000–2021
(Percentages)

Year	Total	National Pension System (SNP) ^a	Private Pension System (SPP) ^b	Other ^c
2000	42.7	20.3	0.4	22.1
2001	40.5	19.0	0.5	21.0
2002	40.2	19.7	0.5	19.9
2003	41.4	18.9	0.6	21.9
2004	41.4	18.6	0.7	22.1
2005	32.8	18.7	0.7	13.4
2006	32.0	18.3	0.7	12.9
2007	30.6	17.4	0.8	12.5
2008	28.8	16.3	0.8	11.6
2009	27.7	15.9	0.9	11.0
2010	27.1	15.4	1.0	10.7
2011	26.7	15.1	1.1	10.5
2012	26.5	14.9	1.2	10.3
2013	26.1	14.6	1.4	10.2
2014	27.0	14.5	1.5	11.0
2015	26.1	14.5	1.7	9.9
2016	26.1	14.6	1.6	10.0
2017	25.9	14.5	1.5	9.9
2018	25.6	14.4	1.4	9.8
2019	25.4	14.4	1.4	9.6
2020	24.8	13.9	1.3	9.5
2021	24.4	13.7	1.2	9.5

Source: Prepared by the authors, on the basis of National Institute of Statistics and Informatics (INEI), Superintendence of Banking, Insurance, and Private Pension Funds (SBS), Private Pension System, Pension Normalization Office, Police Military Pension Fund (CPMP) and World Bank, "Labor force, total – Peru" [online] <https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?locations=PE>.

^a The figure refers to the number of persons receiving a retirement or old-age pension.

^b The figure refers to pensioners who receive legal retirement pensions (65 years of age and over). It does not include persons who take early retirement, or affiliates who have withdrawn 95.5% of their funds.

^c Includes the Police Military Pension Fund (CPMP) and that of Decree Law No. 20530; in this case the total number of pensioners is used.

The contributory coverage of liabilities in the private system encompassed just 1.23% of older persons in 2021. Coverage had increased from 2002 to 2015, but then retreated between 2016 and 2021, after the entry into force of Act No. 30425 allowing 95.5% of individual SPP funds to be withdrawn at the time of retirement.¹² Moreover, under current regulations, individuals who seek to withdraw their funds lose the SPP pensioner status, which explains the decrease in the numerator of the indicator in table VI.2.¹³ This type of policy is highly detrimental to the coverage of the private system, by turning it into merely a savings scheme rather than a pension system.¹⁴

The coverage of pensioners in the other contributory schemes, that of Decree Law No. 20530 and CPMP, encompassed 10% of older persons in 2021, which is well below the 22% coverage that both subsystems reported in 2000.¹⁵

2. Sufficiency of the entitlements

This section analyses the sufficiency of the SNP and SPP contributory entitlements, mainly using two indicators for 2000–2021: the replacement rate (measured as the ratio between the retirement pension and the average wage in each subsystem);¹⁶ and average retirement pensions relative to the poverty line estimated by the National Institute of Statistics and Informatics (INEI). The information is obtained from SPP statistical bulletins and from the ONP and ONP Virtual statistical tables.

¹² In April 2016, the Congress of the Republic adopted Act No. 30425, which allows AFP affiliates to withdraw 95.5% of the retirement funds they have accumulated by their sixty-fifth birthday. This enables the affiliate to cash in the return generated during the contribution period. The remaining 4.5% of the fund is transferred to Peruvian Social Security (EsSalud), to maintain health entitlements.

¹³ See Superintendencia of Banking, Insurance, and Private Pension Funds (SBS), “Entrega de hasta el 95.5 % del Fondo de Pensiones” [Delivery of up to 95.5% of the Pension Fund] [online] <https://www.sbs.gob.pe/usuarios/informacion-de-pensiones/otros-beneficios-del-spp/entrega-de-hasta-el-955-del-fondo-de-pensiones>.

¹⁴ This withdrawal does not necessarily have to occur at the legal retirement age of 65 years, but can be made earlier, if the requirements for early retirement are met. The total value of funds managed by SPP decreased by 2.5% in nominal terms between 2016 and 2021.

¹⁵ The reduction in the share of these subsystems is explained mainly the closure of the regime governed by Decree Law No. 20530, which means that the number of pensioners will dwindle to zero at some point in the future. This would also explain the reduction in the total coverage of pensioners between 2000 and 2021. In contrast, the coverage of pensioners by CPMP, which remains open to new enrolments, has been increasing slightly. Nonetheless, the possibilities for growing the coverage of this subsystem are limited since it was designed especially for police and military personnel.

¹⁶ The average SPP pension is calculated as the average of regular pension payments (payments accrued and made only in the reported month, excluding reimbursements to regularize preliminary pensions). In the case of SNP, the average cash entitlements are multiplied by a factor resulting from distributing the year’s 14 instalments over the 12 months in which they are paid.

The analysis shows that, in 2000–2021, the average replacement rate was 55% in SNP compared to 46% in SPP. Although both replacement rates have declined over the period studied, the trend is not uniform. In the case of SNP, the rate fell from over 60% in 2000 to 44% in 2021, whereas the SPP replacement rate dropped from almost 80% in 2001 to just 35% in 2021.

A comparison of the pensions paid relative to the poverty lines shows that the average pensions of both systems, SNP and SPP, are above the poverty line—almost twice as high in the case of SNP and three times in the case of SPP. However, despite these positive comparisons, the ratio between entitlements and the poverty line is declining in both cases. The average SNP pension represented 2.7 times the poverty line in 2007, but had fallen to 1.95 times in 2021. The ratio between the minimum pension and the poverty line displays a similar trend, falling from 1.7 times the poverty line in 2007 to 1.4 in 2019 and 1.3 in 2021. In the private subsystem, the average SPP pension represented 3.5 times the poverty line in 2007, but had dropped to 3.1 times in 2021.¹⁷

This decrease in the indicator values means that the entitlements are becoming less sufficient in terms of purchasing power, and are converging towards the poverty line. The reasons for this differ between the subsystems. In the case of SNP, the parametric reforms implemented over the years, to curb public spending and make the system financially sustainable, had the effect of reducing the sufficiency of the entitlements.¹⁸ A recent reform that had the opposite effect was the approval of proportional pensions in 2021 through Act No. 31301 and its regulation, Supreme Decree No. 282-2021-EF. This legislation makes it possible to award special pensions to workers who have made a minimum number of years of contributions, but without completing the 20 years needed to access the regular entitlement. Specifically, all contributors, whether retirees or current contributors, who are 65 years of age or older and can attest to 10–14 years of contributions are entitled to a proportional pension of 250 soles per month (around US\$ 69); and those with 15–19 years of contributions can claim 350 soles per month (about US\$ 96). Proportional pensions represent a significant improvement to the coverage and sufficiency of SNP entitlements, since, given the high

¹⁷ The data presented here show the behaviour of this ratio considering the average (mean) pension. An analysis based on the median instead of the mean could produce a different ranking of the sufficiency of SNP and SPP pensions.

¹⁸ The first is the parametric reform of replacement rates in Act No. 27617 of 2002, which reduced these rates for new generations of retirees (affiliates over 55 years of age would receive a basic pension equal to 50% of their last remuneration, while for younger affiliates the rate would be reduced gradually by 5 percentage points every five years until it reached a level of 30%). Other parametric reforms that were implemented include a lowering of the maximum pension and a reduction of the average remuneration used to calculate the pension (Bernal and others, 2008). Another factor that explains the insufficiency of SNP pensions is the low rate of growth of the minimum pension, which has been increased only twice in the last 23 years (in 2001, through Act No. 27617, and in 2019, through Supreme Decree No. 139–2019-EF).

levels of labour informality in Peru and the number of self-employed workers, many people are unable to contribute for 20 years. In the past, they were excluded from SNP protection.

In the case of SPP, the decreasing sufficiency of the entitlements and declining replacement rates reflect the system's lack of capacity to finance consumption in old age, as it has matured. This is worrying because, contrary to expectations when it was created, the private subsystem currently not only has sparse coverage but also pays insufficient pension amounts. Instead of strengthening the system, recent policies have damaged it and are turning it into a savings system that no longer provides pensions. This is exemplified by the possibility of withdrawing 95.5% of the SPP individual fund at the time of retirement (approved through Act No. 30425 of 2016). Data from SPP statistical bulletins show that, in 2018–2021, 98% of retirees in one year decided to withdraw almost their entire pension fund, with just 2% opting for a life annuity. Even more worrying is the fact that more than 70% of these retirees decided to retire using one of the various early retirement schemes, at 50–64 years of age. Another policy that detracts from the sufficiency of SPP pensions is the fund withdrawal facilities that the Peruvian Government introduced during the coronavirus disease (COVID-19) pandemic.¹⁹ These withdrawals are bound to reduce pension sufficiency when the many affiliates who withdrew their funds retire. According to the information provided in the SPP statistical bulletins up to 2021, 5.7 million workers (69% of affiliates) have withdrawn part or all of their funds, amounting to 65,942 million soles (about 3.7% of gross domestic product (GDP) in 2021).²⁰ In the medium term, this deterioration in the sufficiency of private pension entitlements could generate fiscal pressures to provide minimum or proportional pensions to workers who withdrew their funds, or else increase the demand for non-contributory pensions.

¹⁹ On 1 April 2020, Emergency Decree No. 034–2020 was issued, allowing SPP affiliates to make an exceptional withdrawal of up to 2,000 soles from their individual capitalization account (CIC), provided that, up to 31 March 2020, the affiliate did not have mandatory pension contributions credited to his/her account for at least six consecutive months. On 6 April of that year, Act No. 31017 was adopted, which allowed 25% of the accumulated funds to be withdrawn (provided these did not exceed the equivalent of 3 taxation units (*unidades impositivas tributarias* – UITs) or 14,850 soles). On 13 April, a new emergency decree (No. 038-2020) again facilitated the withdrawal of up to 2,000 soles from affiliates' individual accounts. These procedures continued to be applied throughout the pandemic, owing to the strict health measures adopted by the Government to restrict economic activity. Following the last emergency decree, three additional laws were adopted allowing for exceptional withdrawals of up to 4 UITs: Act No. 31068 of 4 November, 2020; Act No. 31192 of 6 May, 2021; and Act No. 31478 of 21 May, 2022.

²⁰ Another policy that diminishes the sufficiency of SPP entitlements is the level of fund management commissions charged by the AFPs. The higher the commissions, the less the amount of savings accumulated in people's accounts. Bernal and Olivera (2020) investigated the negative impact of commissions on pension wealth following the adoption of Act No. 29903 (exogenous change) in Peru.

3. Financial sustainability

Total public expenditure on the contributory pension payroll varied between 1% and 4% of GDP in 2000–2021,²¹ trending up between 2000 and 2003, before gradually dropping to the current levels of around 1% to 2% of GDP. This decrease is explained mainly by the closure of the Decree Law No. 20530 regime in 2004 and the parametric reforms implemented in SNP. The individual subsystems in which the most has been spent relative to GDP are SNP and that of Decree Law No. 20530. On average, 1.3% of annual GDP was spent in the former scheme and 1.1% in the latter. In contrast, an annual average of no more than 0.1% of GDP has been spent on SPP.

The declining trend of total spending on contributory pensions is corroborated in the study by Bernal (2020), which makes a detailed analysis of the financial sustainability of the different subsystems in Peru. It also presents projections of public expenditure until 2075, and discusses the need for parametric reforms, particularly in the police-military pension regime. The study also reports other indicators that afford a better idea of the relative importance of total public spending on pensions, and argues that most of the contributory schemes in Peru are financially sustainable (except for the police-military regime). In another international comparative study, Arenas de Mesa (2020) ranks Peru as spending the fourth smallest share of GDP on pensions in the region, and classifies the contributory system as having a relatively low risk of becoming financially unsustainable.

This suggests the existence of fiscal headroom and an opportunity for pension reforms to expand coverage of the contributory system and also increase non-contributory coverage, which is currently very sparse, as described below.

B. Non-contributory pensions

1. National Solidarity Assistance Programme (*Pensión 65*) and the National Programme of Non-contributory Pensions for Persons with Severe Disabilities Living in Poverty (*CONTIGO*)

Strictly speaking, Peru does not have a non-contributory pension system, but instead two social programmes that provide entitlements without requiring contributions, namely: *Pensión 65* and *CONTIGO*.

²¹ Includes expenditure in respect of the SNP payroll, SPP recognition bonds, pensions in the Military Police Pension Fund, and the Decree Law No. 20530 payroll.

(a) National Solidarity Assistance Programme – Pensión 65

The *Pensión 65* non-contributory scheme is a national solidarity-based assistance programme administered by MIDIS.²² The programme was created in October 2011 and pays a monthly pension of 125 soles (US\$ 35, since January 2012) on a bimonthly basis to low-income persons over 65 years of age living in extreme poverty,²³ who are not enrolled in any contributory pension system.²⁴ As of December 2021, cash subsidies were being paid to 568,599 older persons in extreme poverty in 1,874 of the country's districts; and by 8 June, 2023, coverage had grown to 627,942 users nationwide.²⁵

(b) National Programme of Non-contributory Pensions for Persons with Severe Disabilities Living in Poverty (CONTIGO)

In addition to the entitlement paid by the *Pensión 65* programme, another non-contributory pension is *CONTIGO*. This national programme, created on 11 August 2015 by the Ministry of Women and Vulnerable Populations, pays a monthly pension of 150 soles to persons with severe disabilities living in poverty. In late 2016 it had a total of 14,625 recipients across 14 of Peru's departments.

In March 2017, Supreme Decree No. 008-2017-MIDIS, placed the programme under MIDIS administration. Supreme Decree No. 303-2019-EF approved the transfer of budgetary resources, making it possible to double the number of users to 39,890, spread across Peru's 24 departments. By late

²² The *Pensión 65* regulator is the Institutional Control Body, which is tasked with programming, executing and evaluating the internal control activities of the programme's administrative, technical and financial management, pursuant to Act No. 27785. The chief of this agency reports administratively and functionally to the Office of the Comptroller General of the Republic, as established in the *Pensión 65* Organization and Functions Regulation (ROF).

²³ The Household Targeting Index (IFH) is the criterion used to decide whether or not a person is in a situation of extreme poverty. It is calculated for each household by the Household Targeting System (SISFOH), as a weighted sum of a set of variables for each person at the household level. If the final result is below a certain threshold, the household is classified as being in extreme poverty.

²⁴ The fifty-fourth final provision of Act No. 31638, the Fiscal Year 2023 Public Sector Budget Law, authorized an exceptional economic subsidy of 50 soles in addition to this entitlement.

²⁵ According to Executive Directorate Resolution No. D000114-2023-MIDIS/P65-DE. Information provided by MIDIS shows that this coverage represents 74% of the programme's target population. According to Executive Management Resolution No. D000012-2023-MIDIS-P65-DE, on the development of complementary interventions of the National Solidarity Assistance Programme (*Pensión 65*), the programme organizes a series of intersectoral actions to promote healthy, participatory and productive ageing. The first category includes actions that promote affiliation to comprehensive health insurance, the strengthening of health promotion and self-care, and the prevention and early detection of diseases, with timely referral and care in health services. The participation element includes actions of technical assistance to local governments to institutionalize interventions aimed at restoring ancestral practices and knowledge (productive know-how), enterprises and products. The third pillar includes coordinated actions related to literacy and digital literacy programmes and productive actions, including in the area of financial education.

2020, the coverage of *CONTIGO* had grown by 85% relative to its 2019 level, to reach 74,105 persons with severe disabilities living in either poverty or extreme poverty. The programme currently provides a pension of 300 soles every two months to its recipients.²⁶

2. Interaction with the contributory pension system

Institutionally, the non-contributory programmes are completely separate from the contributory system. In terms of legal scope, Supreme Decree No. 006-2012-MIDIS establishes that the *Pensión 65* programme is a responsibility of the Council of Ministers and forms part of the MIDIS operational programme and institutional budget. Moreover, MIDIS must coordinate the operational administration of *Pensión 65* with local governments, ONP, the National Identification and Civil Registry (RENIEC), the Superintendency of Banking, Insurance and AFPs (SBS) (for identification, registration, affiliation and notification of users), and Banco de la Nación (for payments). In practice, however, MIDIS administers the non-contributory system without necessarily coordinating with ONP or SBS, so the two systems are not genuinely interlinked (Altamirano and others, 2019).

3. Analysis of outcomes

(a) Coverage

This section addresses the coverage of the pension system, defined as the number of programme recipients relative to either the total population aged 65 and over, or the total number of persons with disabilities, as the case may be.

In terms of the coverage of *Pensión 65*, table VI.3 reports a significant increase between 2012 and 2014 (from 11% to 20%), and has maintained a clearly rising trend since the programme's creation. Initially, *Pensión 65* only covered older persons in 1,555 of the country's districts; but, in 2017 there were already recipients in all 1,874 districts in the 24 departments (MIDIS, 2017a). Most of the programme's pensioners live in rural and outlying urban areas; and, in nearly all cases, their eligibility was established using information from the Household Targeting System (SISFOH). The same programme identifies recipients who are also living in extreme poverty but whose data do not appear in SISFOH, or who do not disclose their real situation.

²⁶ See [online] <https://www.gob.pe/contigo>.

Table VI.3
Peru: coverage of the total, non-contributory and contributory pensioners (persons aged 65 and over), 2012–2021
(Percentages)

Year	Total	National Solidarity Assistance Programme (Pensión 65) ^a	Total contributory ^b
2012	37.6	11.1	26.5
2013	39.4	13.3	26.1
2014	46.0	19.0	27.0
2015	46.3	20.2	26.1
2016	46.5	20.4	26.1
2017	47.8	22.0	25.9
2018	46.6	20.9	25.6
2019	46.4	21.0	25.4
2020	45.1	20.3	24.8
2021	44.7	20.3	24.4

Source: Prepared by the authors, on the basis of Superintendence of Banking, Insurance, and Private Pension Funds (SBS), Private Pension System, Pension Normalization Office, Police Military Pension Fund (CPMP), Economic Commission for Latin America and the Caribbean (ECLAC), and Ministry of Development and Social Inclusion of Peru, InfoPENSION [online database] <https://info.pension65.gob.pe/infopension/indexCO.php>.

^a *Pensión 65* coverage is calculated relative to the population over 65 years of age. Data on the *CONTIGO* programme are not included in this table, as the programme serves persons with disabilities irrespective of age.

^b Includes coverage of the National Pension System (SNP), the Private Pension System (SPP), the Police Military Pension Fund (CPMP) and Decree Law No. 20530.

In contrast, the coverage of the *CONTIGO* programme increased significantly between 2019 and 2020 (from 2% to 4% of the total number of persons with severe disabilities). As with *Pensión 65*, the *CONTIGO* coverage indicators have risen steadily since the programme's creation, gathering pace after its transfer to MIDIS, and particularly in the last two years of the reference period.²⁷

A gender breakdown of *Pensión 65* coverage shows that, in aggregate terms, women represent a larger proportion of those receiving the entitlement (see table VI.4). On average, the difference between the shares of the two groups is 10 percentage points over the years studied. The proportion of women pensioners grew slightly during the review period, from 53.6% in 2013 to 55.6% in 2021, with the share of men retreating from 46.4% to 44.4% in the same period.

²⁷ The coverage of *CONTIGO* is calculated relative to the total population with disabilities, using data obtained from the 2012 and 2022 National Specialized Survey on Disability. From 0.03% in 2015, coverage increased to 0.26% in 2016, 0.88% in 2017 and 1.18% in 2018. In 2019, it reached 2.35%, then rose to 4.29% in 2020 and stabilized at 4.27% in 2021.

Table VI.4
Peru: recipients of the National Solidarity Assistance
Programme (*Pensión 65*) by gender, 2013–2021
(Percentages)

Year	Women	Men
2013	53.6	46.4
2014	54.8	45.2
2015	55.0	45.0
2016	55.1	44.9
2017	55.4	44.6
2018	55.5	44.5
2019	55.5	44.5
2020	55.7	44.3
2021	55.6	44.4

Source: Prepared by the authors, on the basis of Ministry of Development and Social Inclusion of Peru, InfoPENSION [online database] <https://info.pension65.gob.pe/infopension/indexCO.php>.

Table VI.5 reports the distribution of *Pensión 65* recipients by age group. Most are individuals of between 70 and 74 years of age, who represent about 30% of the total number of pensioners in the period analysed. The second largest group consists of 75–79 year-olds, who account for about 24% of the programme's coverage. The 65–69 year age group, which in 2013 represented 20%, had shrunk to 8% in 2021. The first three age groups attained their peak coverage share around 2017, before declining slightly, while the share of the last three groups has been increasing steadily.

Table VI.5
Peru: recipients of the National Solidarity Assistance
Programme (*Pensión 65*) by age group, 2013–2021
(Percentages)

Year	65–69 years of age	70–74 years of age	75–79 years of age	80–84 years of age	85–99 years of age	100 years of age or more
2013	20.3	27.5	24.9	16.6	10.6	0.1
2014	23.7	28.4	22.5	15.4	9.9	0.1
2015	24.1	27.6	22.4	15.2	10.6	0.1
2016	20.4	28.0	23.0	16.6	11.9	0.1
2017	18.8	28.3	23.5	16.8	12.6	0.1
2018	16.1	28.7	24.1	17.4	13.5	0.2
2019	14.1	28.8	24.8	17.6	14.5	0.2
2020	9.6	29.3	25.8	19.1	15.9	0.2
2021	8.3	27.7	26.5	19.8	17.5	0.3

Source: Prepared by the authors, on the basis of Ministry of Development and Social Inclusion of Peru, InfoPENSION [online database] <https://info.pension65.gob.pe/infopension/indexCO.php>.

Lastly, an analysis of the distribution of *Pensión 65* programme coverage by geographic area shows that approximately 95% of recipients are located in rural areas and outside the Lima department (see table VI.6).

Nonetheless, the coverage of older persons living in Lima grew between 2013 and 2021. In the latter year, about 94% of *Pensión 65* recipients were living in other departments, and the remaining 6% in Lima. The departments with the highest average shares in the period analysed include Puno (11.1%), Cajamarca (11%), Piura (7.68%), Cusco (7%) and Ayacucho (6.4%).

Table VI.6
Peru: recipients of the National Solidarity Assistance Programme (*Pensión 65*) by geographic area, 2013–2021
(Percentages)

Year	Lima department	Other departments
2013	2.9	97.1
2014	4.3	95.7
2015	5.0	95.0
2016	5.5	94.5
2017	5.9	94.1
2018	6.3	93.7
2019	6.4	93.6
2020	6.5	93.5
2021	6.5	93.5

Source: Prepared by the authors, on the basis of Ministry of Development and Social Inclusion of Peru, InfoPENSION [online database] <https://info.pension65.gob.pe/infopension/indexCO.php>.

In the case of *CONTIGO*, MIDIS (2020) reported a total coverage of 73,811 pensioners as of June 2020, of whom approximately 45% are women. It is also estimated that 51% live in rural areas and 10% belong to Indigenous Peoples. A breakdown by age group reveals a larger share of persons between 30 and 64 years of age, while those aged 65 and over are the least represented. In terms of economic classification, 77% of recipients of the non-contributory pension system are living in extreme poverty and 23% in poverty.

(b) Sufficiency of the entitlements

To analyse the sufficiency of the entitlements paid by *Pensión 65* and *CONTIGO*, relative to the basic consumption basket, table VI.7 displays the ratio between the monthly non-contributory entitlements and the value of the poverty and extreme poverty lines.²⁸ Although the monthly amount transferred by *CONTIGO* (150 soles) is slightly higher than that of *Pensión 65* (125 soles), both are below the poverty line; so the entitlements received would not cover the cost of an individual basic food basket.

²⁸ The poverty and extreme poverty lines are defined as throughout the document.

Table VI.7
Peru: ratio between the amount of non-contributory pensions
and the poverty and extreme poverty lines, 2012–2021

Year	Poverty line		Extreme poverty line	
	National Solidarity Assistance Programme (<i>Pensión 65</i>)	National Programme of Non-contributory Pensions for Persons with Severe Disabilities Living in Poverty (<i>CONTIGO</i>)	National Solidarity Assistance Programme (<i>Pensión 65</i>)	National Programme of Non-contributory Pensions for Persons with Severe Disabilities Living in Poverty (<i>CONTIGO</i>)
2012	0.44		0.83	
2013	0.43		0.81	
2014	0.41		0.78	
2015	0.40	0.48	0.74	0.89
2016	0.38	0.46	0.71	0.85
2017	0.37	0.44	0.68	0.82
2018	0.36	0.44	0.68	0.82
2019	0.36	0.43	0.67	0.80
2020	0.35	0.42	0.65	0.79
2021	0.33	0.40	0.62	0.75

Source: Prepared by the authors, on the basis of National Institute of Statistics and Informatics (INEI), Superintendence of Banking, Insurance, and Private Pension Funds (SBS), Private Pension System and Pension Normalization Office.

In 2012, when the *Pensión 65* programme was created, the amount paid was equivalent to almost 80% of the extreme poverty line, but still less than 50% of the non-extreme poverty threshold. Since the amount of the pension has remained unchanged since its inception, the ratio between the value of the entitlement and the poverty lines has deteriorated further between 2012 and 2021. In the latter year, *Pensión 65* covered just 30% of the level of the poverty line and 60% of the extreme poverty line.²⁹

In the case of *CONTIGO*, when the programme was created in 2015 the pension amount (150 soles) was not far below the extreme poverty line of 169 soles, and represented about half of the poverty line. However, as in the case of *Pensión 65*, the gap between the entitlement amounts and the poverty lines has widened; and, in 2021, *CONTIGO* covered just 40% of the poverty threshold and 75% of the extreme poverty line.

(c) Financial sustainability

Supreme Decree No. 081-2011-PCM, which created the *Pensión 65* social programme, specifies that the programme is financed through tax revenues. Supreme Decree No. 004-2015-MIMP states that *CONTIGO* is also financed in this way.

In terms of the financial sustainability of *Pensión 65*, table VI.8 shows public spending on non-contributory pensions as a percentage of GDP in 2012–2021. As coverage has expanded year by year, public expenditure

²⁹ In 2023, however, an additional cash subsidy of 50 soles was awarded to *Pensión 65* recipients (approved in Act No. 31638: Fiscal Year 2023 Public Sector Budget Act).

has also grown. Spending increased from just under 400 million soles in 2012 (0.07% of GDP) to around 1.2 billion soles in 2021 (0.13% of GDP). The amount spent on the *CONTIGO* programme is much less because it targets a smaller population, namely persons with disabilities (0.01% of GDP in 2019 and 2020, and 0.02% in 2021). In total, public spending on non-contributory pensions is well below that of the contributory component (1.43% of GDP).

Table VI.8

Peru: public expenditure on non-contributory pensions of the National Solidarity Assistance Programme (*Pensión 65*) and contributory pensions, 2012–2021
(Percentages of GDP)

Year	Total	National Solidarity Assistance Programme (<i>Pensión 65</i>)	Total contributory ^a
2012	1.92	0.07	1.85
2013	1.84	0.08	1.76
2014	1.91	0.11	1.80
2015	1.63	0.12	1.51
2016	1.57	0.11	1.45
2017	1.55	0.11	1.44
2018	1.72	0.11	1.60
2019	1.72	0.11	1.60
2020	1.91	0.14	1.76
2021	1.57	0.13	1.43

Source: Prepared by the authors, on the basis of Superintendence of Banking, Insurance, and Private Pension Funds (SBS), Private Pension System, Pension Normalization Office, Economic Commission for Latin America and the Caribbean (ECLAC), and Ministry of Development and Social Inclusion of Peru, InfoPENSIÓN [online database] <https://info.pension65.gob.pe/infopension/indexCO.php>.

^a The contributory total includes spending executed in the following subsystems: Private Pension System (SPP), National Pension System (SNP), Police Military Pension Fund (CPMP) and Decree Law No. 20530.

In terms of the financial sustainability of the non-contributory pension systems, it is firstly important that they have an independent budget line and a sovereign fund to underpin their future financing, to prevent them from becoming hostage to each year's budget and the trend of public finances (Altamirano and others, 2019). Secondly, with respect to future *Pensión 65* spending projections, Bernal (2020) shows that spending will not exceed 0.75% of GDP in 2075, if current conditions persist, that is if the entitlement in real terms and eligibility confined to persons living in extreme poverty are maintained. Thus, although spending on this programme has increased since its creation, it is still not at a high level, so there would be room to improve both coverage and sufficiency.

Section B.3(f) of this chapter analyses public expenditure under different scenarios for improving the coverage and sufficiency of the *Pensión 65* programme in 2023–2035, ranging from a conservative scenario to one of universal coverage. The different assumptions make it possible

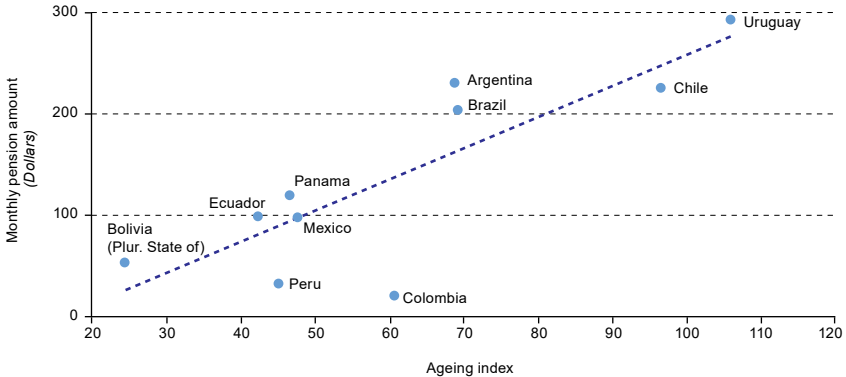
to estimate spending in various years to increase the coverage of older persons. The results show that it is possible to improve the coverage and sufficiency of the non-contributory pension significantly, with even less expenditure than in the contributory systems. Total projected expenditure varies between 0.16% of GDP in the current (most conservative) scenario and 1.1% of GDP with universal coverage.

(d) International comparison

The amount paid by the *Pensión 65* non-contributory programme, at just US\$ 32 per month, is the second smallest in the range of non-contributory pensions in the Latin American countries shown in figure VI.1.³⁰

In principle, this could be explained by Peru’s low population ageing index, at just 46 persons aged 60 and over for every 100 aged under 15 years (the third lowest ratio of all countries analysed). Figure VI.1 displays a positive correlation between each country’s ageing index and the amount of the non-contributory pension. Nonetheless, the non-contributory pensions in Ecuador and Panama, which have ageing indices similar to that of Peru, clearly have much higher monthly entitlements (US\$ 100 and US\$ 120, respectively).

Figure VI.1
Latin America (10 countries): population ageing index^a
and the amount paid by non-contributory pensions, 2021^b
(Index and dollars)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>.

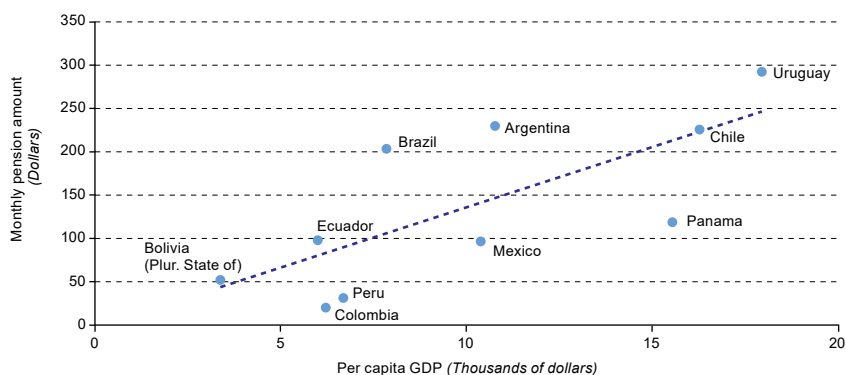
^a The ageing index is defined as the number of persons aged 60 and over per 100 persons under 15 years of age.

^b For information on the non-contributory pension systems considered in the countries included in the figure, see Non-contributory Social Protection Programmes Database of Latin America and the Caribbean, and chapters II and III of this document.

³⁰ The additional special subsidy granted in 2023 is not included.

Figure VI.2 shows that the amount of the *Pensión 65* non-contributory pension paid in Peru is less than that of other countries that have similar per capita GDP levels. Specifically, the Plurinational State of Bolivia and Ecuador provide higher entitlements, even though their per capita GDPs are lower than that of Peru. Moreover, Brazil, which has a per capita GDP that is not much greater than Peru's, pays a pension of US\$ 204 per month to older persons, which is more than six times the amount paid in Peru.

Figure VI.2
Latin America (10 countries): per capita GDP and amount
of non-contributory pensions, 2021^a
(Thousands of dollars and dollars)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; CEPALSTAT [online database] <https://statistics.cepal.org/portal/cepalstat/index.html?lang=en>.

^a For information on the non-contributory pension systems considered in the countries included in the figure, see Non-contributory Social Protection Programmes Database of Latin America and the Caribbean, and chapters II and III of this document.

Similarly, relative to GDP, public expenditure on the *Pensión 65* programme is one of the lowest among non-contributory pensions in the region. Even in countries where the entitlements paid in 2021 are similar to those of Peru, such as Mexico and Colombia, expenditure on non-contributory pensions is greater, because the programmes in question have broader coverage.

The proportion of the target population covered in Peru is also relatively small. Compared to countries with similar contexts that pay non-contributory pensions to older persons, Peru has one of the lowest coverage rates —just 20% of persons over 65 years of age.

In conclusion, although Peru has one of the lowest rates of ageing in Latin America and the Caribbean, both the amount of the non-contributory pension and total spending on it as a percentage of GDP, and also the coverage of the target population, are low relative to the equivalent

indicators in countries with similar demographics. This, together with the fact that the amount of the *Pensión 65* programme entitlement has not changed since its creation and barely attains the level of the extreme poverty line, shows that, comparatively speaking, there is still significant room for a substantial improvement in the coverage and sufficiency of the non-contributory entitlements.

(e) Existing evaluations

The economics literature has studied the impact of non-contributory pensions on the Peruvian older-aged population, analysing the effect of this type of transfer on a variety of variables such as mental health, hours worked, consumption, poverty levels, inequality, and health indicators related to nutrition and the well-being of older persons.

Specifically, Bando, Galiani and Gertler (2020) employ a clustered regression discontinuity design, with the eligibility threshold resulting from SISFOH as the cut-off point, to evaluate the effects of the *Pensión 65* programme on several variables pertaining to older persons and households. The authors found that receiving a non-contributory pension improved the mental health of older persons, as measured by the geriatric depression index; and it decreased the number of hours spent in paid work. Moreover, households that received the transfer increased their consumption by 40%. The results of the *Pensión 65* programme are similar to those of the Older Adult Welfare Pension in Mexico.

Based on a regression discontinuity design with a Tobit estimation (to overcome the problem of selection bias), Torres and Salinas (2016) found that the *Pensión 65* entitlement was negatively associated with hours worked by older persons in their main activity. This is consistent with Bando, Galiani and Gertler (2020), who obtained similar findings by applying a regression discontinuity design, varying the fixed effects at the individual or cluster level.

Using non-linear regressions, Olivera and Zuluaga (2014) detected a reduction in poverty from 48.5% to 23.7% after introducing a non-contributory pension in Peru, although the impact is greater in rural areas. Nonetheless, the effect on inequality is modest. With respect to possible changes in behaviour, the authors show that the probability of joining a contributory pension system decreases by 8% for men and 18% for women.

Lastly, Bernal, Olivera and Suhrcke (2022) evaluate the impact of receiving the *Pensión 65* entitlement on health indicators measuring the nutrition and well-being of older persons. The authors use data from the Older Persons Health and Well-being Survey (ESBAM), which

was designed and conducted specifically to evaluate the effects of the programme. The methodology of the study uses a regression discontinuity design, which exploits the discontinuity around the *Pensión 65* eligibility threshold, for households with at least one person aged between 65 and 80 years. The authors find that, in general, a small cash transfer can have significant effects on health, specifically on nutrition-related indicators for older persons. Positive effects include a reduction in the prevalence of anaemia, especially among women, and improvements in nutrition-related mortality risk.

(f) Estimation of costs and analysis of the impact of increasing the coverage and amount of non-contributory pensions in Peru

This section analyses public spending under different scenarios for improving the coverage and sufficiency of the *Pensión 65* programme in 2023–2035. The various scenarios make it possible to estimate expenditure to increase the coverage of older persons and the sufficiency of the entitlements in different years. They range from a base scenario (the current conditions of *Pensión 65*) to one of universal coverage, with intermediate scenarios covering the poorest 40% or 60% of older persons in the country, depending on the policy targets that may be proposed.

This chapter uses ECLAC projections for the case of Peru, based on data obtained from the 2021 National Household Survey (ENAHO).³¹ Three scenarios are considered: (i) maintenance of the current coverage and amount of the entitlement (base scenario); (ii) short-term improvement of coverage, which expands relatively quickly to cover 40% of older persons in poverty, while the amount rises to the level of the extreme poverty line; and (iii) long-term improvement of coverage, which is gradually extended to 100% of older persons (universal coverage), with the entitlement rising to the level of the extreme poverty line.³² The first scenario is conservative and makes it possible to project public spending under the current *Pensión 65* rules. The results show that there is still substantial fiscal space available to considerably improve the coverage and sufficiency of the pension. Accordingly, the second and third scenarios are presented, in which the entitlement is raised to the level of the extreme poverty line. The entitlement increase is significant because the non-contributory pension has not been increased since its

³¹ See Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

³² The value of the ECLAC poverty line may not coincide with that estimated at the national level, since the figures in question are used for the purposes of regional comparison.

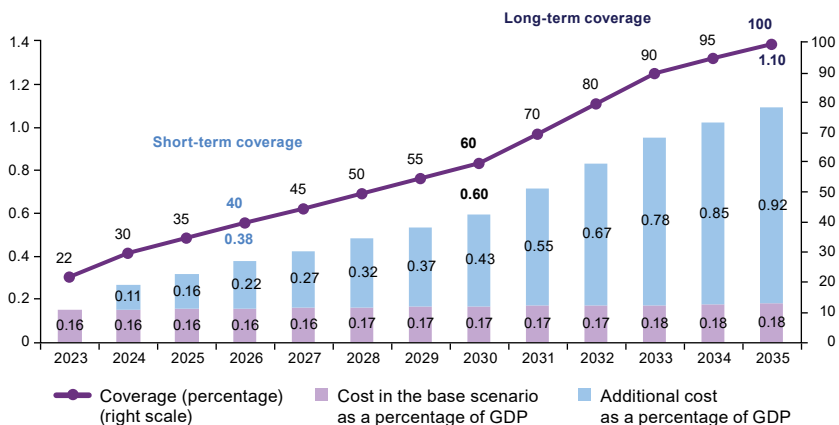
creation in 2012 and has lost purchasing power (it currently represents just 62% of the extreme poverty line). The second scenario would seek rapidly to reach the poorest 40% of the older population that is currently not receiving a pension. The third scenario involves a gradual increase in coverage over time to encompass 100% of older persons, irrespective of their economic situation.

The projections correspond to 2023–2035. To analyse the results on different time horizons, four years are taken as a reference: 2023 as the starting point, 2026 as the short-term horizon, 2030 as the medium-term horizon, and 2035 and beyond as the long-term horizon. For each scenario, the coverage of the non-contributory pension is assumed to increase gradually from the lowest income group (first decile) to cover the least poor decile in each scenario (in the first scenario, up to the second decile; in the second, up to the fourth or sixth decile, as the case may be; and in the third, up to the tenth —thus covering the entire population over 65 years of age). This makes it possible to estimate the cost of attaining universal coverage in various years during the reference period, according to the policy targets that may be set. In addition, the following assumptions are made: GDP is projected to grow at a constant rate of 2% per year, and estimations of the impact on poverty and inequality assume a constant population based on the 2021 ENAHO.

The results of the three scenarios are illustrated in figure VI.3. The base scenario shows that spending represents 0.16% of GDP in 2023 and grows very little over the different time horizons until it reaches 0.18% of GDP in 2035. This is consistent with the assumption of constant coverage of 22% of older persons and an entitlement equivalent to the average recorded in 2022. In the second scenario —short term coverage improvement— it is possible to roughly double *Pensión 65* coverage by 2026, with an additional expenditure of just 0.22% of GDP relative to the base scenario. This would mean a total expenditure of 0.38% of GDP in that year. Under this scenario, the coverage of the non-contributory pension rises gradually from the first decile to cover the fourth poorest decile of the population over 65 years of age, with a transfer equivalent to the extreme poverty line. A variant of this scenario could be to reach 60% coverage of the older-age population in 2030, with a transfer equivalent to the extreme poverty line. Achieving this would require an additional expenditure of 0.43% of GDP over the expenditure involved in maintaining the current *Pensión 65* rules, with a total cost of 0.6% of GDP in that year. The third and last scenario shows that, to achieve universal coverage in 2035, that is, to provide a transfer equivalent to the extreme

poverty line to all older persons irrespective of whether or not they are in poverty, the additional cost would be 0.92% of GDP, and the total cost would amount to 1.1% of GDP.

Figure VI.3
Peru: estimation of the cost of raising the amount of the National Solidarity Assistance Programme (*Pensión 65*) to the level of the extreme poverty line for all older persons, 2023–2035
(Percentages and percentage of GDP)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG); Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2022" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>.

Table VI.9 shows the effects of the different scenarios on poverty, extreme poverty and inequality. Firstly, in the base scenario with a transfer equal to the average recorded in 2022 and a coverage rate of 22%, the poverty and extreme poverty rates among older persons would be 12.9% and 1.6%, respectively. Taking 2030 as the reference year, the Gini coefficient of the population in this base scenario would be 0.412. In contrast, according to the scenarios described above, a transfer equivalent to the extreme poverty line, in which coverage expands as illustrated in figure VI.3, would reduce the poverty and extreme poverty rates among older persons by 5.5 and 1.1 percentage points, relative to the base scenario, to levels of 7.4% and 0.5%, respectively. Lastly, under these scenarios, the Gini coefficient in 2030 would be 0.409, representing a significant reduction in inequality among the older-age population compared to the base scenario.

Table VI.9

Peru: impact of the expansion of coverage and increase in sufficiency of the National Solidarity Assistance Programme (*Pensión 65*) for persons aged 65 and over on the incidence of poverty and extreme poverty in this age group and on the Gini coefficient
(Percentages)

	Incidence of poverty among persons aged 65 and over	Incidence of extreme poverty among persons aged 65 and over	Gini coefficient in 2030
Base scenario: fixed coverage and average entitlement amount of the <i>Pensión 65</i> National Solidarity Assistance Programme in 2022	12.9	1.6	0.412
Scenarios for improving coverage in the short and long terms: increase in coverage to 40% in 2026, 60% in 2030 and 100% in 2035 and amount equal to the extreme poverty line.	7.4	0.5	0.409

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

Note: The estimations are based on data provided by the National Household Survey (ENAHO) 2022.

C. Recommendations for creating and strengthening a non-contributory pension system in Peru

1. Alternatives for strengthening non-contributory pensions

Based on the foregoing analysis, three proposals are made for strengthening non-contributory pensions in Peru. Naturally, there are important factors that need to be considered before implementing the proposals, such as fiscal space and the interaction with the contributory system.

Firstly, similar to the reform implemented in Chile in 2008, it is recommended to create and consolidate a non-contributory pension system and integrate it into the overall pension systems. In Peru there are already two basic programmes covering the risks of old age and disability: (i) *Pensión 65*, which pays a pension to persons aged 65 and over living in extreme poverty who have never contributed for their pension (many of whom live in rural areas); and (ii) *CONTIGO*, which awards a non-contributory pension targeted to persons with severe disabilities living in poverty. It is therefore suggested that the non-contributory pension system be formally created and integrated into the contributory pension system. The central aim of this system would be to improve coverage for workers in the lowest deciles of the income distribution. Its creation should be supported by institutional leadership to strengthen it and generate adequate financing over time.

Secondly, the poverty classification based on SISFOH criteria should be used, rather than the extreme poverty criterion. This would entail making the eligibility criterion for *Pensión 65* more flexible and aligning it with those of other programmes, such as *CONTIGO* and the free-of-charge Comprehensive Health System (SIS), which use the poverty criterion to establish recipient eligibility.

This would be equivalent to increasing the coverage of *Pensión 65* gradually to cover all persons aged 65 and over living in poverty. The estimates presented in the impact analysis section confirm that a gradual increase in *Pensión 65* coverage could reduce the level of poverty in this population segment significantly. Inequality among the older-age population would also decline. It is important to note that coverage would expand gradually and would not necessarily mean an excessive increase in public expenditure.

Lastly, it would be worth evaluating the possibility of increasing the monthly amount of the *Pensión 65* entitlement (125 soles or US\$ 35 per month) to at least the same as the *CONTIGO* entitlement (150 soles or US\$ 42 per month). Another important alternative could be to index the pension amount to the inflation recorded in the last 10 years, and to consider the possibility of adjusting non-contributory pensions in line with inflation every 12 months for persons living in poverty. This would make sense because, as shown in the previous sections, both the amount of the non-contributory pension and total spending on it as a percentage of GDP (and coverage of the target population) are relatively low compared to their equivalents elsewhere in the region. Moreover, the amount of the *Pensión 65* entitlement has not been changed since the programme was created and barely reaches the level of the extreme poverty line. As public spending on contributory pensions is also relatively controlled, there is fiscal headroom to improve the results of the non-contributory entitlement.

2. Proposals for interlinkage with the contributory components

Interlinkage between the contributory and non-contributory components of the pension system in Peru would make it possible to consolidate moves to strengthen the system as a whole. It would also enhance comprehensive sustainability, by expanding coverage rates and improving sufficiency on a pre-planned basis, while also making it more financially sustainable. Achieving this involves, among other things, harmonizing entitlements in the non-contributory system, planning a coverage increase to align with the current levels of coverage and sufficiency of the system as a whole. It also involves creating a mechanism to harmonize the contributory and non-contributory entitlements, thus also helping to strengthen

contributory coverage. Institutional design is fundamental in this process and may require greater interaction between the institutions involved in implementing the pension system.

In the short term, the integration of the different actors involved in the payment and allocation of non-contributory entitlements needs to be improved. The Chilean pension system is an example of this (see chapter IV). In this case, system governance is the responsibility of the Ministry of Labour and Social Security, which is responsible for the political oversight, design and evaluation of the system, supported by the Budget Affairs Bureau. In contrast, the Social Security Institute, which reports to the Ministry of Labour and Social Security, is responsible for the payment, assignment of entitlements and registration of recipients. For this purpose, it acts on instructions from the Office of the Superintendent of Pensions, so that the measures adopted by the Social Security Institute abide by the regulations and circulars issued by the Ministry of Labour and Social Security and Office of the Superintendent of Pensions. The entitlements are allocated with support from the Ministry of Social Development and Family, which gathers the socioeconomic data used by the Social Security Institute to calculate the allocation algorithm. This arrangement shows that it is possible to integrate the social protection ministries in different ways and increase system-wide interlinkage. This could be useful for the Peruvian case.

Three proposals can be formulated to harmonize the non-contributory and contributory components, the implementation of which will depend partly on the different institutions.

The first of these involves better interlinkage and coordination between MIDIS and ONP. As noted above, the Peruvian pension system could be better organized from an institutional standpoint. For example, single user-service windows could be created to allow entitlements to be paid and applications made in both ONP and the municipalities and *Pensión 65* offices. Thus, through agreements, older persons could complete the procedures and receive entitlements in both institutions. This would increase communication and coordination between the two institutions and improve the user experience.

The second, more complex, proposal involves the agency responsible for the public pension system taking over the functions associated with the non-contributory system. This would mean that both the application and the administration of the *Pensión 65* and *CONTIGO* recipient register, as well as the logistics of paying the entitlement, would be transferred to the entity responsible for the latter system, which would be tasked with keeping the register up to date and ensuring that the cash transfer reaches all recipients. This does not mean, as mentioned in the context of the

Chilean example, that MIDIS would cease to be involved in the operation of the system (as it would continue to administer the household targeting system, which determines eligibility); but instead that the functions currently being performed would be reorganized.

The third proposal for interlinkage is the most far-reaching and would require an institutional overhaul of the Peruvian pension system. It consists of creating a new institutional framework, so that the administration of all the pension subsystems that currently exist (public, private and non-contributory) would be centralized in a single public agency. Under this arrangement, the new entity would be responsible for designing pension policy, implementing reforms to non-contributory entitlements, managing the application for non-contributory pensions and the recipient register, and paying pensions.

D. Final comments

This chapter has analysed the coverage, entitlement sufficiency and financial sustainability of the pension system as a whole, focusing on the non-contributory system.

The main challenges detected in the contributory system are its sparse coverage, the insufficiency of the pensions paid (both the public and the private components), and the adoption of policies that have further eroded the sufficiency of the entitlements. It is important to take this deterioration into account because it will generate greater fiscal pressure in the medium term, so social security funds need to be set up to finance it.

In the non-contributory system, the *Pensión 65* and *CONTIGO* programmes are not interconnected; they operate as social programmes rather than as a system, and depend solely on MIDIS, with no interaction with the contributory system. Both entitlements are relatively new, so there is ample room to enhance their characteristics, such as the entitlement amount and the eligibility criteria. Since these programmes were created, the value of the pensions has remained unchanged, which has meant a loss of purchasing power over time. Even when created, the amount paid by *Pensión 65* was not sufficient to purchase a basic food basket.

This study makes three recommendations for expanding and strengthening these non-contributory pensions. First, a solidarity pillar should be created, strengthened and integrated with the contributory system. The central objective of this new non-contributory pension system would be to improve coverage for workers in the lowest deciles of the income distribution. Naturally, this must be accompanied by institutional leadership to strengthen it and generate adequate financing over time.

Secondly, poverty, rather than extreme poverty, should be used as the criterion for participation in the *Pensión 65* programme (as is the case of the *CONTIGO* programme). This recommendation could be used to expand the coverage of the non-contributory pension system to reach all persons aged 65 and over living in poverty. The estimations presented in the impact analysis section show that, if coverage is initially extended to older persons in poverty (with a cash transfer equal to the extreme poverty line), poverty levels in this group would drop sharply, inequality would be reduced, and the increase in public expenditure would not be excessive.

The third recommendation is to raise the monthly amount of *Pensión 65* to at least the same as *CONTIGO* (150 soles per month, or US\$ 42), or else update the amount according to the inflation recorded over the last 10 years.

The analyses made in this study of the indicators of public expenditure and financial sustainability of the system as a whole, and for each contributory subsystem by Bernal (2020), together with the comparison with other countries in the region, show that Peru's pension system generally involves relatively controlled total public expenditure and has good financial sustainability in most of its contributory regimes (except for the police-military regime). Accordingly, there is fiscal space to advance in implementing pension reforms to expand coverage, which is quite sparse.

Lastly, as noted in section C.2, greater integration of the contributory and non-contributory systems is essential for harmonizing measures to expand coverage in both systems and, if possible, to integrate them into the processes of comprehensive reform of the Peruvian pension system.

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Chapter VII

Dominican Republic: progress and challenges in implementing the non-contributory pension system

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Introduction¹

In 2001, the Dominican Republic pension system underwent a structural reform to replace the old pay-as-you-go system with an individually funded system managed by the private sector. This process entailed transitioning from a system that only covered certain central government workers and private employees, subject to a wage ceiling, to one without

¹ Preparation of this chapter formed part of the technical assistance provided to the National Social Security Council of the Dominican Republic, within the ECLAC-BMZ/GIZ project “Recover better: overcoming the COVID-19 pandemic consequences in Latin America and the Caribbean” and is partly based on the document “Avances y desafíos en la implementación del sistema de pensiones no contributivo en la República Dominicana” (Delgado, Figueroa and Vila). The authors are grateful for valuable information contributed to the study and comments by Pedro Alcántara, Director of Old Age, Disability and Survivor Insurance Policies of the National Social Security Council (CNSS) of the Dominican Republic. They are also grateful for contributions made by Ernesto Espíndola, of the Social Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC), in preparing the simulations included in the study.

such restrictions. The changes introduced by Act No. 87-01 also included the creation of two additional regimes: the subsidized contributory regime, which has not yet been implemented, and the subsidized regime, which began operating through a pilot programme in 2019 after regulations had been approved in 2013. The entitlements of this regime are currently in a phase of consolidation.

Despite the reforms introduced by the law creating the Dominican Social Security System (SDSS), the pension system still faces major social protection challenges. Data from the 2022 National Continuous Labour Force Survey (ENCFT) show that 9.1% of persons aged 65 years and older were living in poverty and 1.7% were in extreme poverty.² In terms of access to a pension, the data show that 25.4% of older persons depend exclusively on their work, 49% of the population aged 65 years and older rely on the income of other household members, and just 11.3% live on their pensions. The latter small proportion is evidence that the pension system excludes most workers, especially the self-employed, workers in rural areas, persons engaged in unpaid care work and the most vulnerable.

Given this situation, implementation of the subsidized regime through (non-contributory) solidarity pensions would make it possible to reduce poverty and vulnerability among persons aged 65 years and over. It could also embrace those who are excluded, explicitly or implicitly, from the right to social security in old age. Administrative challenges notwithstanding, the estimations made in this chapter show that expanding the coverage of solidarity pensions to approximately 25% of persons aged 60 years and over, from its 2023 level of 2.8%, could reduce poverty by 6.5 percentage points and cut extreme poverty among this age group by 1.6 percentage points, based on 2022 data.

This chapter is divided into four sections in addition to this introduction. The first outlines the main precursors of the Dominican Republic pension system and the results achieved by the contributory regime in recent years. The second section analyses the functioning and results of the subsidized regime (the solidary-based non-contributory pensions), while the third considers the potential effects and costs of expanding the coverage of the subsidized regime in various scenarios. The fourth and final section sets forth conclusions and a number of recommendations for strengthening the non-contributory pension system in the Dominican Republic.

² Information obtained from the Household Survey Data Bank (BADEHOG).

A. History of the Dominican Republic pension system

1. Current structure

The Dominican Republic pension system, as currently designed, is regulated by Act No. 87-01 of 2001, which created SDSS. Several historical legal instruments account for the composition of the various pension funds that coexist today. The Dominican Republic pension system has its origin in the pensions for army personnel, established by Act No. 79 of 1846. In 1930, the adoption of Act No. 17, on the Retirement of the Armed Forces of the Dominican Republic, created an institution that later became the Retirement Board and Pension Fund of the Armed Forces. In 1980, the Social Security Institute of the Armed Forces and the National Police was created, financed with contributions from the Government and funds from the Retirement Board and Pension Fund. In 2001, the National Police established its own institute, and the military institute was rebranded as the Social Security Institute of the Armed Forces. For the civilian sector, Act No. 1896 of 1948 consolidated the contributory system and created the Dominican Social Security Institute (IDSS), tasked with covering the risks of illness, maternity, disability, old age and death, which would later be replaced by SDSS. The various regulations that govern public sector pensions include Act No. 5185 of 1959 for civil servants; Act No. 6343 of 1962 for Central Bank employees; Act No. 66-97 of 1997 for teachers of the National Teachers' Welfare Institute; Act No. 340-98 of 1998 for legislators through the Social Security Institute of Members of the Dominican Congress; Decree No. 241-01 of 2001 for the National Police through the National Police Social Security Institute; and resolution No. 2003-93 of 1993 for staff of the Autonomous University of Santo Domingo. Each regulation establishes its own requirements and entitlements, reflecting the diversity of the country's overall pension system.

The chief objectives of SDSS are to contribute to improving the quality of life and reducing poverty and social inequalities; and to increase social protection for the population against old age, job loss and occupational hazards, among other risks. It comprises all public, private and mixed public-private institutions that undertake primary or secondary activities in the social security domain. In terms of operation, the law states that SDSS is organized as a single system encompassing affiliation, contribution and a service provision plan. All Dominican citizens and legal residents in national territory are entitled to join the system. In terms of its financing, the system consists of three regimes: the contributory regime, the subsidized contributory regime and the subsidized regime. The law provides that each regime will be funded separately, in modalities that reflect the nature and contributory capacity of the Dominican citizens and Government. The

first regime covers wage earners in the public and private sectors, along with employers; it is financed jointly by workers and employers, the latter including the government. The second is intended to protect professional, independent technical and self-employed workers with an average income of at least the minimum wage; it is financed through worker contributions and a government subsidy to compensate for the absence of an employer. The third regime encompasses self-employed workers with incomes that are unstable and below the minimum wage, as well as employees and persons with disabilities; its funding comes mainly from the Dominican State. The regulations also establish that the institutions governing SDSS must ensure the financial balance and sufficiency of the entitlements envisaged.

In terms of the social institutional framework, responsibility for the organization and operation of SDSS is dispersed across 10 entities, as follows: (i) the National Social Security Council (CNSS), which is tasked with directing and managing SDSS, including establishing the policies necessary for operational control, inter-agency coordination, guaranteeing entitlements to recipients, and institutional development to underpin the system's financial sustainability; (ii) the Social Security Treasury, which collects and distributes SDSS contributions and administers the unified information system; (iii) the General Directorate of Information and Defence of Social Security Affiliates, a public agency tasked with providing guidance, information and protection for recipients; (iv) the Office of the Superintendent of Pensions (SIPEN); (v) the Office of the Superintendent of Health and Labour Risks; (vi) the National Health Service; (vii) pension fund administrators; (viii) health risk administrators; (ix) health service providers; and (x) entities that fulfil complementary social security functions as their main activity.

The implementation of Act No. 87-01 aimed to reform not only the pension system, but also the health system and protection against occupational hazards. This chapter focuses on old-age pensions and, in particular, on the solidarity pensions of the subsidized regime.³ With regard to pensions, the aforementioned law implemented a structural reform by closing the public pay-as-you-go (PAYG) system to new affiliations and by establishing an old-age pension system funded through the accumulation of capital in individual accounts under private management (Mesa-Lago, 2021).⁴ The law specifies that the pension system is intended to replace the loss or reduction of income owing to old age, death, disability, unemployment in old age, and survival. In particular, it provides for a mixed benefit structure,

³ As this volume focuses on non-contributory pensions for older persons, this chapter does not analyse the entitlements provided by this regime to single mothers and persons with disabilities.

⁴ The law stipulates that the pension systems established in Acts No. 1896 of 1948 and No. 379 of 1981 remain in effect for pensioners, retirees and affiliates who are in the process of retirement, but does not allow the entry of new contributors.

in which a personal account for each affiliate is combined with a social solidarity fund. The latter provides the amount needed to complete the minimum pension for lower income workers who have made 300 months' contributions but have not accumulated enough in their personal account to finance a minimum pension. Additional contributions are also envisaged for the purpose of obtaining supplementary entitlements.

The SDSS entitlements include old age, disability and survivor pensions in the three funding regimes. The contributory regime was rolled out in February 2003, and its first contributions were received in June of that year (SIPEN, 2018). For this purpose, Act No. 87-01 established mandatory affiliation to pension fund administrators that manage individual capitalization accounts⁵ in the case of contributing workers and employers, of up to 45 years of age, who receive regular income from the firm and contributed to IDSS.⁶ Meanwhile, workers over 45 years of age and persons of any age working in the public sector, including in autonomous and decentralized institutions, could choose to remain in the PAYG system. The same applies to IDSS pensioners, State pensioners and retirees, and Social Security Institute of the Armed Forces and the National Police retirees. Thus, the Dominican contributory regime consists of a fully funded scheme administered by pension fund administrators; a special individualized PAYG system (pertaining to the Central Bank, Banco de Reservas de la República Dominicana and the National Teachers' Welfare Institute); and a special PAYG system that is not administered by the General Directorate of Retirement and Pensions. The latter encompasses the following entities: the Social Security Institute of Members of the Dominican Congress, the Retirement Board and Pension Fund of the Armed Forces, the Autonomous University of Santo Domingo Pension Plan and the Central Electoral Board. This multiplicity of institutions and systems makes it difficult to consolidate the country's pension system into an overall framework and results in pensions that are segmented by work categories. Lastly, the process of transition between systems has recently been modified. CNSS resolution No. 527-07 of 2023 allows all workers who were active under the state PAYG system before the implementation of Act No. 87-01 to either return or remain in that system. This resolution excludes the special PAYG systems that are not administered by the General Directorate of Retirement and Pensions.⁷

⁵ Article 80 of Act No. 87-01 provides that pension fund administrators are constituted as financial companies under the laws of the Dominican Republic. Their sole purpose is to manage the personal accounts of their affiliates, invest the pension funds and administer the pension system entitlements under social security principles.

⁶ CNSS resolution No. 545-01 of 2022 adapts the age interpretation to 44 years and one day.

⁷ According to SIPEN (2023), only 5,257 private sector workers (0.1% of the economically active population (EAP)) were contributing to the pay-as-you-go (PAYG) system as of September 2023.

According to SIPEN, as of September 2023, a total of 2,103,843 workers (encompassing 39.2% of the economically active population (EAP)) were paying into the contributory regime.⁸ Of these, 1,943,866 (36.2% of EAP and 92.4% of all contributors) were contributing to pension fund administrators. The rest of the population in the labour market paid into the individualized PAYG system (120,609 individuals or 2.2% of EAP), through the Ministry of Finance (25,749 individuals or 0.5% of EAP) and into the collective PAYG system (13,619 individuals or 0.3% of EAP).⁹ In the same period, SIPEN reported that the following seven pension fund administrators were operating in the country: Atlántico, Crecer, JMMB BDI, Popular, Reservas, Romana and Siembra (SIPEN, 2023). In the same period, the General Directorate of Retirement and Pensions (DGJP, 2023) reported a total of 198,504 pensioners, 137,127 of whom had civil pensions, 36,486 had solidarity pensions and 24,891 were pensioners of the National Police.¹⁰

Although it has been established by law, the subsidized contributory regime is yet to be implemented. Among the various reasons and difficulties cited, Palacios (2003) notes that, when the reform was proposed, it was unclear what level of subsidy would be granted, or what levels of affiliation it would attract. Moreover, according to SIPEN (2018), the regime could not be implemented owing to the difficulty of calculating the average income of the workers, the tax burden that this entails, the vagueness of the affiliation system and the absence of incentives for self-employed workers to join.¹¹

⁸ The calculation of EAP is based on estimates from the Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC (ECLAC/United Nations, 2022).

⁹ Non-individualized PAYG data do not include information on affiliates of the pay-as-you-go pension fund administrators pertaining to the Congress of the Republic (Social Security Institute of Members of the Dominican Congress), the Autonomous University of Santo Domingo or the Central Electoral Board.

¹⁰ Throughout this chapter, estimations of the coverage of pensioners (pension recipients) are based on the demographic projections of CELADE-Population Division of ECLAC (ECLAC/United Nations, 2022).

¹¹ A major initiative to advance the subsidized contributory regime was the creation of the pilot plan to include domestic workers in SDSS (CNSS resolution No. 551-08 of 2022). That plan was approved at the same time as Ministry of Labour resolution No. 14-2022 on the adoption and harmonization of measures for compliance with the Domestic Workers Convention, 2011 (No. 189) of the International Labour Organization (ILO). This requires an employment contract to be entered into—preferably in writing—and submitted to the Ministry of Labour, stipulating that working hours should not exceed eight hours per day and 44 hours per week and a minimum wage established by the National Wage Council (CNS). However, in June 2023 the Constitutional Court declared Ministry of Labour resolution No. 14-2022 unconstitutional, subject to appeal, arguing, among other things, that the resolution establishes legal and pecuniary obligations that are not in the Labour Code. In view of this ruling, the Government must seek alternatives to progress the implementation of the subsidized contributory regime. See Constitutional Court, “Sentencia TC/0402/23”, Santo Domingo, 2023 [online] <https://www.tribunalconstitucional.gob.do/consultas/secretar%C3%ADa/sentencias/tc040223/>.

Lastly, although operating regulations for the subsidized regime were approved in 2013, its implementation only began in 2019 with the launch of a pilot programme. This established that the target individuals would be those classified by the Unified Recipients System (SIUBEN) as persons with a life quality index rating of 1 or 2 and designated by the municipalities (Mesa-Lago, 2021).¹² The law specifies the following as entitled to this benefit: persons of any age with a severe disability, persons over 60 years of age with insufficient resources to provide for themselves, and unemployed single mothers with minor children in similar conditions to those of the previous groups (but with no age requirements for the mother). The entitlement will be publicly funded, and the amount will correspond to 60% of the public minimum wage indexed to the consumer price index (CPI).

2. Old-age poverty and economic autonomy of older persons in the Dominican Republic

Although the implementation of SDSS was intended to overcome the shortcomings of the previous system, the country still faces major challenges in guaranteeing universal coverage and protecting older persons from the risks of poverty in old age. As of 2022, 9.1% of persons aged 65 years and older were living in poverty. The incidence of poverty was higher among women (9.5%) and persons living in the South region (12.1%). Extreme poverty affected 1.7% of the population in 2022, with higher rates among men (1.8%), people living in rural areas (2.2%) and people in the South (2.6%) (see table VII.1).

While poverty rates among persons aged 65 years and older are significantly lower than those of the population at large, analysis of data from the 2022 ENCFT reveals the diversity of situations faced by older persons in terms of access to different income sources. In 2022, 49% of persons aged 65 years and older had no pension or income from work, nor assets or remittances from abroad. As a result, they were wholly dependent on income provided by other household members (see table VII.2). Lack of economic autonomy impairs the capacity of older persons to make decisions about the resources that provide for their well-being and can also diminish their capacity for self-determination.¹³

¹² The Unified Recipients System (SIUBEN) measures poverty through an analysis of households based on housing structure, household characteristics and data on household members. The life quality index is used to rank households on a scale of 1 to 4, with 1 and 2 representing the most vulnerable households. This multifactor index assigns scores to each household ranging from 0 to 100, such that a score close to 0 indicates greater vulnerability and a score close to 100 a better quality of life.

¹³ Etxeberria (2014) defines self-determination as making free decisions based on what one wants and achieves for oneself according to one's own projects.

Table VII.1
Dominican Republic: persons aged 65 and older living in poverty and extreme poverty, by gender, geographical area and region, 2022
(Percentages)

		Poor			Non-poor
		Total	In situations of extreme poverty	In situations of poverty	
Total		9.1	1.7	7.4	90.9
Gender	Men	8.6	1.8	6.8	91.4
	Women	9.5	1.6	7.8	90.6
Geographical area	Urban	9.0	1.6	7.4	91.0
	Rural	9.4	2.2	7.2	90.6
Region	Greater Santo Domingo	8.2	1.5	6.6	91.9
	North or Cibao	8.1	1.4	6.7	91.9
	South	12.1	2.6	9.5	87.9
	East	11.0	2.1	8.9	89.0
Persons in poverty		20.4	5.1	15.2	79.6
Households in poverty		15.0	3.6	11.4	85.0

Source: Prepared by the authors, on the basis of Central Bank of the Dominican Republic, Continuous National Labour Force Survey (ENCFT) 2022; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

Lack of economic autonomy among women (59.3%) is 24 percentage points higher than among men, reflecting the persistent gender inequalities that affect this population. It is also higher among persons in the lowest income quintile (69.5%). Moreover, 25.4% of individuals aged 65 years and older depend solely on the income they earn from work —a situation that is more common among men (40.1%) and among persons rural dwellers (28.5%) and in the East region of the country (27.4%). Remittances from abroad are the only source of income for 8.1% of all persons aged 65 years and older, but the figure is higher among women (11.1%), residents of the North or Cibao region (12.3%) and households in the fourth income quintile (9.1%).

Lastly, special tabulations of the 2022 ENCFT reveal that an estimated 11.3% of older persons live exclusively on a pension, the proportion being higher among men (12.6%), urban dwellers (12.6%) and residents of the East zone of the country (14.9%). This trend can also be discerned among persons belonging to households in the highest income quintile (17.9%).

Table VII.2
Dominican Republic: main source of income of persons aged 65 years and older, by gender,
geographical area, region and household income quintile, 2022
(Percentages of total income)

		Pension	Pension and labour income	Pension and other income (capital gains and remittances)	Labour income without a pension	Property income without a pension or labour income	Remittances from abroad	No labour income, no pension, no remittances from abroad	Total
	Total	11.3	1.9	1.4	25.4	3.1	8.1	49.0	100
Gender	Men	12.6	3.4	1.2	40.1	2.7	4.2	35.8	100
	Women	10.2	0.7	1.6	13.9	3.3	11.1	59.3	100
Geographical area	Urban	12.6	2.0	1.6	24.7	3.3	8.0	47.9	100
	Rural	5.7	1.5	0.7	28.5	2.0	8.1	53.6	100
Region	Greater Santo Domingo	13.9	2.8	1.9	26.8	2.8	5.2	46.5	100
	North or Cibao	8.7	0.9	0.8	23.4	2.7	12.3	51.2	100
	South	9.4	1.4	1.7	25.8	4.0	6.7	51.0	100
	East	14.9	3.1	1.1	27.4	3.7	4.0	45.8	100
Household income quintile	Quintile I	4.1	0.4	0.2	18.4	0.7	6.7	69.5	100
	Quintile II	6.4	0.7	0.3	22.0	2.5	6.7	61.6	100
	Quintile III	9.2	0.8	0.9	25.5	2.4	8.2	52.9	100
	Quintile IV	13.6	2.4	1.8	25.5	3.6	9.1	44.0	100
	Quintile V	17.9	3.9	2.8	30.9	4.6	8.6	31.4	100

Source: Prepared by the authors, on the basis of Central Bank of the Dominican Republic, Continuous National Labour Force Survey (ENCFT) 2022; Economic Commission for Latin America and the Caribbean (ECLAC); Household Survey Data Bank (BADEHOG).

Economic autonomy correlates closely with poverty levels among persons aged 65 years and older. Less economic autonomy owing to loss or reduction of income means a higher incidence of poverty in this population group. The data show that while 1.3% of persons who were receiving a pension and other income were in poverty in 2022, the equivalent proportion among persons aged 65 years and older with no labour income and no pension or remittances from abroad was 13%. Of those who received a pension only, 3.3% were living in poverty. Thus, expanding the coverage and increasing the sufficiency of entitlements to reduce poverty levels among persons aged 65 years and older and promote their economic autonomy is one of the key challenges facing the Dominican pension system.

3. Pension-system results

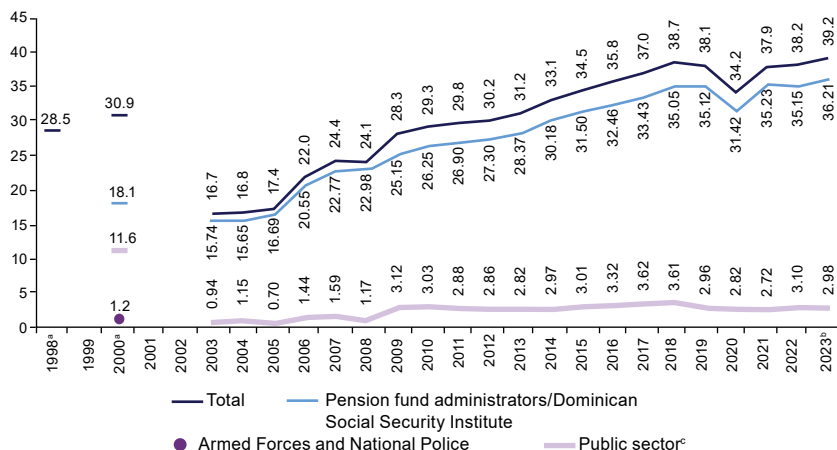
According to SIPEN (2018), the Dominican pension system is formed by individual capitalization funds (managed by pension fund administrators), which coexist with the PAYG system (IDSS), the PAYG fund of the General Directorate of Retirement and Pensions of the Ministry of Finance, covering civil servants and public employees; individualized PAYG plans (the Banco de Reservas replacement fund, the Central Bank replacement fund, the National Teachers' Welfare Institute, the Autonomous University of Santo Domingo, the Social Security Institute of Members of the Dominican Congress, the Central Election Board); special plans for members of the Armed Forces and the National Police; a solidarity fund; and a number of complementary plans, most of which are also PAYG. In general, PAYG and individually funded institutions are segregated by work category, with public sector workers having access to PAYG systems and most private sector workers affiliated to individual capitalization schemes. This system incorporates the Social Solidarity Fund, which is financed by 0.4% of the wages of workers who contribute to a pension fund administrator. It is intended to complete the minimum pension for workers who have made 300 months of contributions but whose individual account is too small to finance the minimum pension.

To provide an understanding of the current panorama of the pension system in the Dominican Republic, this section briefly analyses its results in terms of coverage and sufficiency, based on data from ENCFT and administrative information available from various institutions. The first subsection describes the effective coverage of the pension system (persons who contribute to the system as a percentage of EAP) and the coverage of pensioners (recipients), while the second addresses inequalities in entitlement sufficiency levels.

(a) Coverage

The coverage of the Dominican Republic’s contributory pension system has expanded significantly in recent years. Whereas 16.7% of EAP were contributing to the pension system in 2003, the proportion had risen to 39.2% in 2023. According to the World Bank (2001), 28.5% of persons between 18 and 60 years of age were contributing to a pension plan in 1998. Subsequently, Palacios (2003) estimated that 30.9% of EAP was contributing to the pension system in 2000. This percentage was distributed across the following affiliations: 18.1% to IDSS, 11.6% to the public sector (central government and decentralized entities) and 1.2% to the Armed Forces and National Police (see figure VII.1). One possible explanation for the increase that occurred in the period analysed is that IDSS excluded workers earning wages above a predefined ceiling, which is why the coverage of the PAYG system was always low but increased following the structural reform of 2001.

Figure VII.1
Dominican Republic: workers aged 15 years and older contributing to pension fund administrators, 2000–2023^a
(Percentages of the economically active population)



Source: Prepared by the authors, on the basis of Office of the Superintendent of Pensions (SIPEN), “Estadísticas previsionales de cotizantes”, *Estudios*, Santo Domingo, September 2023; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, “Population estimates and projections: Excel tables. Revision 2022” [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; World Bank, “Dominican Republic poverty in a high-growth economy (1986–2000)”, *Report*, No. 21306-DR, Washington, D.C., 2001; R. Palacios, “Pension reform in the Dominican Republic”, *Social Protection Discussion Paper Series*, No. 29140, Washington, D.C., World Bank, 2003.

^a Data for 1998 correspond to World Bank (2001) and those for 2000 to Palacios (2003). There is no information on the effective coverage of the pension system (EAP) in 1999, 2001 or 2002.

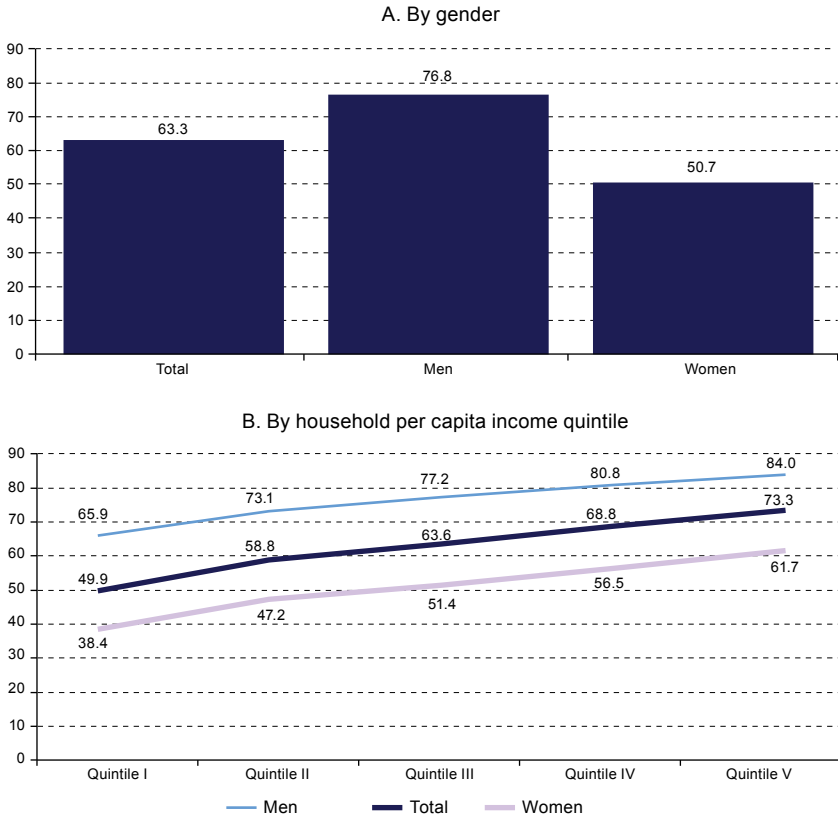
^b Data for 2023 are preliminary figures from SIPEN (2023) based on contributors as of September 2023.

^c Public sector data correspond to the individualized pay-as-you-go (PAYG) systems of the Central Bank, Banco de Reservas and the National Teachers’ Welfare Institute, pensions under the Ministry of Finance and non-individualized PAYG, all according to the SIPEN report (2023).

The inequalities prevailing in pension system coverage are partly a reflection of inequities in the labour market. Although, in 2022, the overall labour participation rate was 63.3%, this conceals significant gender inequalities: 76.8% among men, compared to just 50.7% in the case of women (see figure VII.2A). The low female participation rate is usually associated with the unequal distribution of paid and unpaid work and with the disproportionate unpaid care burden borne by women.

In the Dominican labour market, this situation particularly affects the most vulnerable households. For example, only 38.4% of working-age women in the lowest income quintile were participating in the labour market, compared to 61.7% of those in the highest quintile (see figure VII.2B).

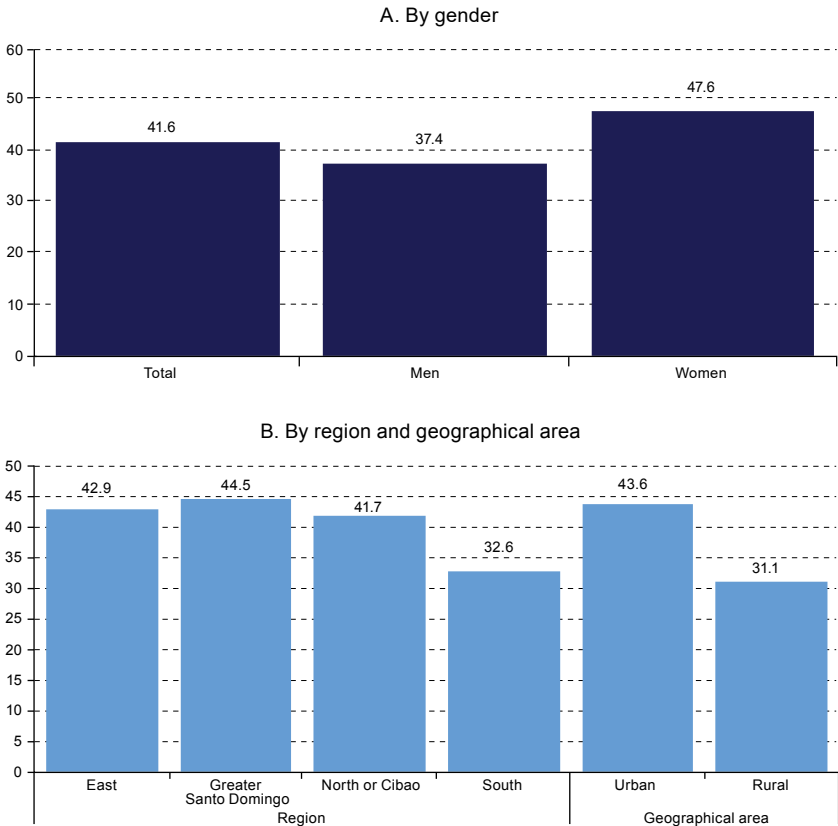
Figure VII.2
Dominican Republic: labour participation rate of the population, 2022
(Percentages)



Source: Prepared by the authors, on the basis of Central Bank of the Dominican Republic, Continuous National Labour Force Survey (ENCFT) 2022; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

An analysis of 2022 ENCFT data reveals the various dimensions that affect workers’ access to the pension system in the Dominican Republic. Territorially, for example, 32.6% of workers in the South region were affiliated to a pension fund administrator, in contrast to 44.5% in Greater Santo Domingo (see figure VII.3). There is also a considerable difference between rural dwellers (31.1%) and persons living in urban areas (43.6%). Disaggregating the data by gender shows that 47.6% of employed women are affiliated, compared to 37.4% in the case of men, but it should be noted that the female labour participation rate is 26.1 percentage points lower than the male rate.

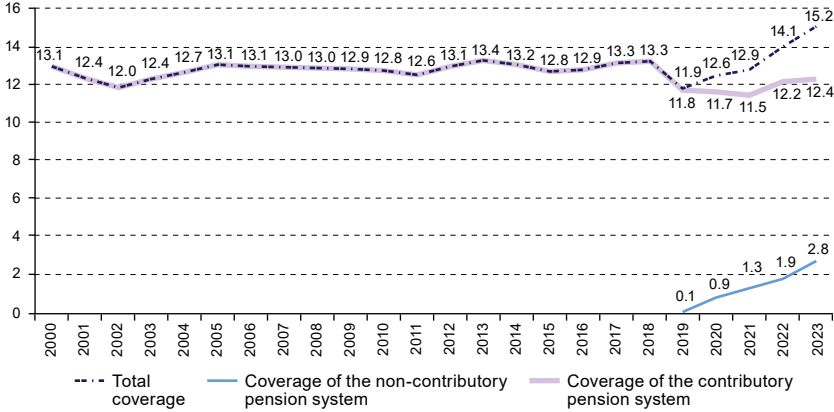
Figure VII.3
Dominican Republic: employed persons affiliated to a pension system (pension fund administrators), 2022
(Percentages of the employed population)



Source: Prepared by the authors, on the basis of Central Bank of the Dominican Republic, Continuous National Labour Force Survey (ENCFT) 2022; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

The coverage of pensioners has increased since 2000, from 13.1% in that year to 15.2% in 2023. This reflects changes in pension policies and, in particular, the implementation of solidarity pensions with a coverage of 0.1% in 2019 and 2.8% in September 2023 (see figure VII.4).

Figure VII.4
Dominican Republic: coverage of contributory,^a non-contributory and total pension recipients (persons aged 60 years and older), 2000–2023^{b,c}
(Percentages)



Source: Prepared by the authors on the basis of Central Bank of the Dominican Republic, Continuous National Labour Force Survey (ENCFT) 2022; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG); for the coverage of solidarity pensions in 2022, General Directorate of Retirement and Pensions, “Boletines” [online] <https://www.dgjp.gob.do/boletines/>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, population estimates and projections: Excel tables. Revision 2022” [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; United Nations, World Population Prospects 2022, Online Edition [online] <https://population.un.org/wpp/>.

^a The series representing the coverage of the contributory pension system does not include information on the number of National Police pensioners because historical data on this subsystem are lacking.

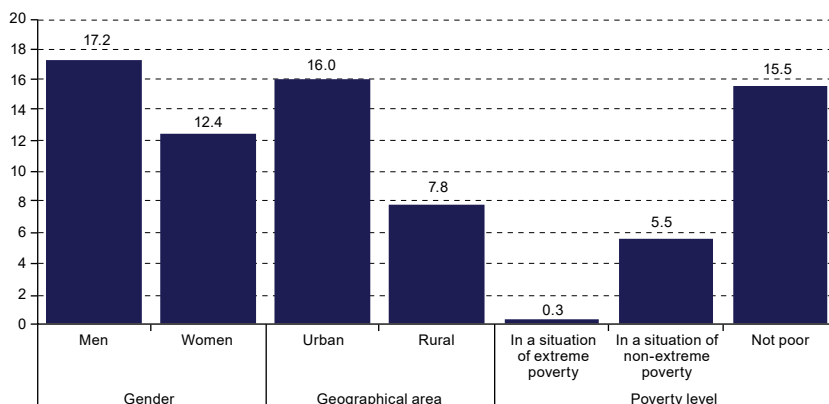
^b Information up to 2017 is based on Arenas de Mesa (2019). From 2017 onward, the series was compiled on the basis of the Quarterly Statistical Bulletin of the General Directorate of Retirement and Pensions of the Ministry of Finance. For missing years, a linear interpolation was used.

^c The coverage of persons aged 60 and over was calculated using the population data from CELADE-Population Division and disaggregations from the Quarterly Statistical Bulletin of the General Directorate of Retirement and Pensions of the Ministry of Finance, to estimate the population of pensioners aged 60 and over in the corresponding year. In particular, it drew on the distribution of pensioners from the Bulletins of 2019 to 2023 (September).

Although the ENCFT 2022 data afford a general characterization of the pensioner population, the coverage estimated from this data source differs from that obtained from administrative records. Nonetheless, as it is a representative survey of the entire Dominican population, it reveals a number of inequalities. Figure VII.5 shows that the proportion of women who receive a pension is 4.8 percentage points lower than that of men (12.4% compared to 17.2%, respectively). It also shows that the

proportion of pensioners living in rural areas, at 7.8%, is 8.2 percentage points less than those in urban areas (16%). The proportion of pension of pension recipients living in poverty is significantly lower than among the rest of the population (0.3% extremely poor and 5.5% non-extremely poor) (see figure VII.5).

Figure VII.5
Dominican Republic: pension recipients (aged 65 years and older), by gender, geographical area and poverty level, 2022
(Percentages)



Source: Prepared by the authors, on the basis of Central Bank of the Dominican Republic, Continuous National Labour Force Survey (ENCFT) 2022; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

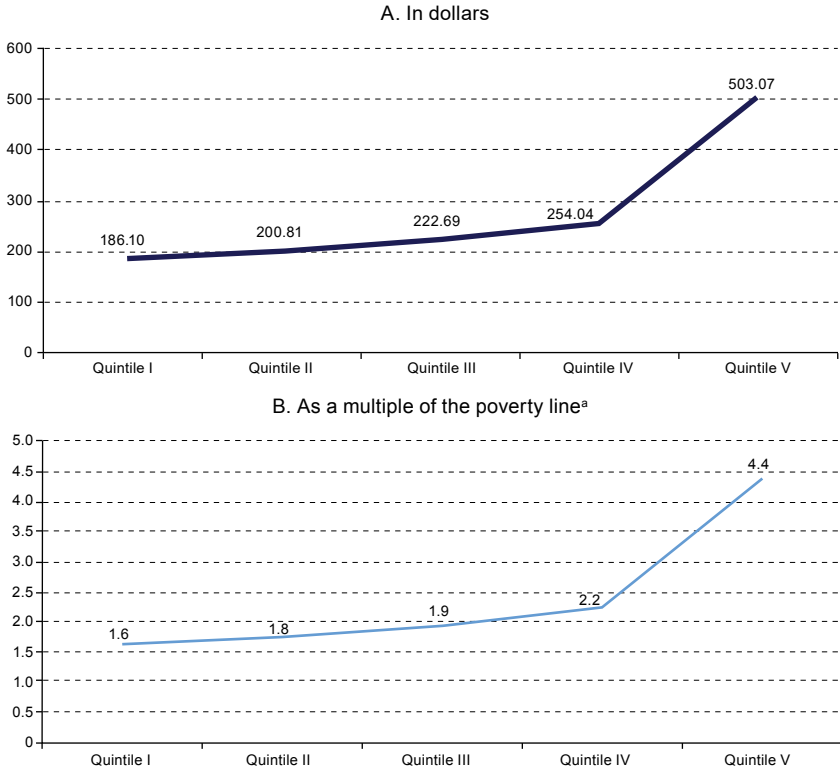
(b) Sufficiency of entitlements: inequalities

One of the guiding principles of social protection systems concerns the sufficiency of the entitlements they provide. Analysis of this is essential to ensure the economic well-being of the corresponding recipients and to reduce poverty levels and social inequalities in old age. It is also directly related to the financial sustainability of the pension systems. It should be noted that, thus far, the only persons receiving pensions in the Dominican Republic are affiliates of the PAYG systems described in the previous sections, whereas the first pension fund administrator contributors are expected to retire in 2033.

In terms of the sufficiency of pension system entitlements, ENCFT data show that the average pension in the PAYG systems was approximately 18,228 Dominican pesos (RD\$), equivalent to US\$ 331 per month in 2022. The figure is slightly higher for women than for men (RD\$ 20,497, or US\$ 372, compared to RD\$ 17,843, or US\$ 325) and significantly higher for urban residents than for rural dwellers

(RD\$ 19,517, equivalent to US\$ 355, as against RD\$ 15,469 or US\$ 281). Analysis of the data by household per capita income quintiles shows that pensioners in households belonging to the lowest per capita income quintile receive an average pension of RD\$ 10,231 (US\$ 186), while those in the highest quintile receive 2.7 times that amount (RD\$ 27,657, or US\$ 503) (see figure VII.6.A)

Figure VII.6
Dominican Republic: average pension among pensioners aged 65 years and older, by household per capita income quintile, 2022



Source: Prepared by the authors, on the basis of Central Bank of the Dominican Republic, Continuous National Labour Force Survey (ENCFT) 2022; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a The poverty line in 2022 corresponds to US\$ 115 for urban areas and US\$ 100 for rural areas.

Although the data show that pension amounts are above the poverty line in all income quintiles, there are profound differences in degrees of sufficiency between these groups. While the average pension of persons aged 65 years and older exceeds the poverty line by 1.6 times in households belonging to the lowest income quintile, it is 4.4 times

higher than that threshold in the highest income households. This means that persons in the lowest income quintiles are more vulnerable to possible external shocks or price increases; and it underscores the importance of addressing the needs of the most vulnerable segments of the pension population specifically, not only in terms of coverage but also the sufficiency of the pensions received.

In short, although the proportion of contributors to the pension system increased between 2001 and 2023 (see figure VII.1), this reflects changes in the parameters, specifically the elimination of the wage ceiling that IDSS used to impose. Although the pension amounts paid exceed the poverty line and, therefore, have a level of sufficiency that enables the recipients to face the risk of falling into poverty, there are significant inequalities between income quintiles. Moreover, as of 2023, there were no pensioners in the new contributory regime, so the data on pensioners correspond exclusively to the PAYG system. Nonetheless, according to projections by the Ministry of Economy, Planning and Development included in the report *Informe final: determinantes de las pensiones* of 2018, the replacement rates for the first pensioners of the pension fund administrator regime will be 24% and 21% for men and women, respectively (Jiménez and Mendieta, 2018), which suggests future challenges concerning the sufficiency of the contributory system.

B. Non-contributory pension system in the Dominican Republic

The subsidized pension system is being constructed through the implementation of (non-contributory) solidarity pensions. Although these were created in 2001, their enabling regulations were approved in 2013 and implementation did not start until 2019. This process has lasted 18 years, during which time the framework of social policy institutions was reformed and social protection programmes were implemented. This provided the government with tools and experiences that could be useful for implementing and expanding the subsidized regime.

1. Background

Alongside Act No. 87-01 of 2001, which created SDSS, reforms were made to the social institutional framework, and social protection programmes were created, including conditional and unconditional transfers. These represent a relevant precursor to the Dominican Republic's non-contributory pension system.

In the social policy domain, Act No. 352-98, on the protection of ageing persons, was adopted in 1998. Among other things, this created the National Council of the Ageing Person, a governing body tasked with defining and executing policies related to the older-age population.¹⁴ In order to manage social policies efficiently, the Social Policies Office was created in 2001 (Decree No. 28-01 of 2001). This reform process intensified following the economic crisis of 2003, which led to a 0.4% reduction in gross domestic product (GDP), a 74% exchange rate devaluation and an inflation rate of 42.7% (ECLAC, 2004). As a result of this crisis, in 2005 an agreement was reached with the International Monetary Fund (IMF) which imposed restrictions on investment in the social sectors. It is in this context that Decree No. 1554-04 was issued, eliminating a number of social programmes and transferring the functions, assets and liabilities of 14 institutions and programmes to different agencies and creating the Social Protection Programme to protect the population in situations of extreme poverty and social vulnerability. This decree also created SIUBEN, tasked with geographical and individual targeting, and the Administrator of Social Subsidies which established a mechanism for paying subsidies through the *Tarjeta Solidaridad* electronic solidarity debit card (Ñopo and Barinas, 2021).

In 2005, Decree No. 536-05 created the Solidarity programme as part of the Social Protection Network. This programme established two unconditional cash transfers (BonoGas and BonoLuz) and three conditional cash transfers: *Comer es Primero* (Eating is First), the School Attendance Incentive and support for persons aged 54 years and older who were neither working nor receiving a pension. The latter entitlement amounted to RD\$ 400 every two months (equivalent to US\$ 8 per month). In 2012, the public sector minimum wage was RD\$ 5,019, so the amount granted was equivalent to just 8% of that figure.¹⁵ However, Act No. 87-01 established that the amount of the solidarity pension should be equal to 60% of the public sector minimum wage (article 65 of Act No. 87-01). According to Ñopo and Barinas (2021), the number of recipients of this transfer increased from 47,762 in 2005 to 85,564 in 2019, with an expenditure of 0.009% of GDP in the latter year. The authors also identify two problems with the system. The first consists of the exclusion of persons who are vulnerable to poverty, since escaping from poverty means that the participants lose not only the pension but also the entitlement to subsidized family health insurance, so they must

¹⁴ The National Council of the Ageing Person also provides day-care services and permanent centres, according to the method of providing training and recreation services, but these have very sparse coverage. For reference, the day-care homes served 504 people and the permanent centres served 346 in March 2023 (CONAPE, 2023b).

¹⁵ RD\$ 200 per month.

start making co-payments for medical services. The authors note that this can create a poverty trap, by providing incentives for individuals to remain in poverty, since a small improvement in their living conditions means a loss of pension income and higher private health expenditures. The second problem is that allocation of the entitlements by SIUBEN contained significant inclusion and exclusion errors. The authors estimate that 67.9% of households in the lowest income quintile did not receive any subsidy from the Progressing with Solidarity (PROSOLI) programme, while 13.6% of households in the highest quintile received the subsidy from six components of the programme.

The PROSOLI programme was established by merging the *Solidaridad* and *Progresando* programmes in 2012 through Decree No. 488-12. It serves as the Government's main strategy for poverty reduction by increasing the levels of social protection to the poorest and most vulnerable families in the country. In particular, this programme sought to integrate poor families into a comprehensive development process. Its entitlements included cash transfers that contributed to the recipients' food and nutritional security. Lastly, based on Decree No. 377-21 of 2021, PROSOLI is rebranded as *Supérate* (Improve Yourself) consisting of eight components, as follows: (i) educational inclusion; (ii) health, food security and emergency support; (iii) economic inclusion; (iv) housing; (v) identify yourself (*Identificate*); (vi) care; (vii) *Supérate Mujer* (the Improve Yourself component for women); and (viii) family support (OPSD, 2022).

2. Solidarity pensions of the subsidized regime¹⁶

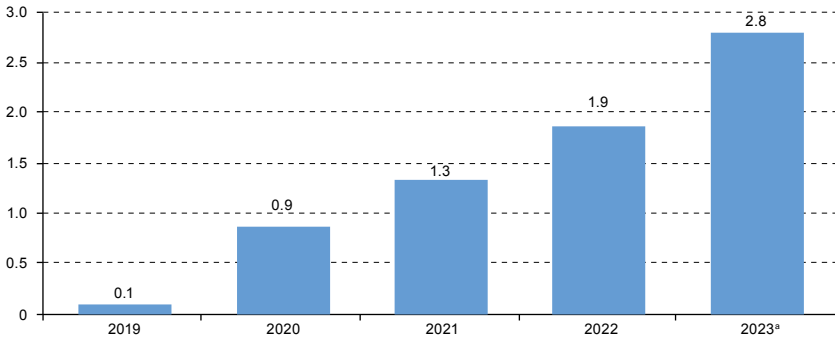
The subsidized regime was implemented 12 years after its creation through Act No. 87-01. This was done through Executive Decree No. 381-13 of 2013, which defined the procedure for granting solidarity pensions in the subsidized regime. Other resolutions specifying the implementation mechanisms were also issued by CNSS (for example, CNSS resolution No. 327-03 of 2013). The regulation identifies the following as recipients of solidarity pensions: persons with disabilities; persons over 60 years of age with income below 50% of the minimum wage; unemployed single mothers; and the spouses, daughters and sons of a deceased solidarity pension recipient. It also ratifies the amount of the solidarity pension as 60% of the public sector minimum wage and the requirement that the

¹⁶ This section discusses the results reported in Figueroa and others (2023), "Comentarios a la propuesta de protocolo para la selección de beneficiarios y entrega de pensiones solidarias en el régimen subsidiado" —a technical note prepared as part of technical assistance provided by ECLAC to CNSS of the Dominican Republic, within the activities of the ECLAC-BMZ/GIZ project "Recover better: overcoming the COVID-19 pandemic consequences in Latin America and the Caribbean".

entitlement include an extra pension payment at Christmas and that it be adjusted in line with the consumer price index (CPI) and increases in the average minimum wage.

According to General Directorate of Retirement and Pensions data, as of September 2023, the Dominican Republic’s solidarity pension system covered 36,487 people through pensions for persons over 60 of age, single mothers and persons with disabilities.¹⁷ In the case of the population aged 60 years and older (see figure VII.7), coverage tripled in the period analysed, from 0.9% of the population in this age group in 2020 to 2.8% in September 2023.

Figure VII.7
Dominican Republic: coverage of solidarity pensions
under the subsidized regime, 2019–2023
(Percentage of persons aged 60 years and over)



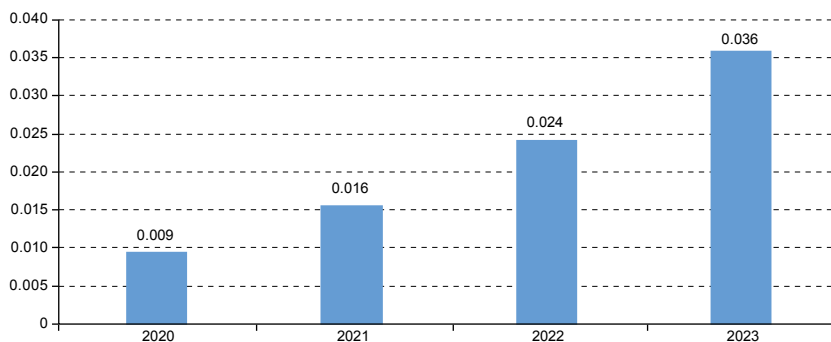
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of General Directorate of Retirement and Pensions, “Boletines” [online] <https://www.dgjp.gob.do/boletines/>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, “Population estimates and projections: Excel tables. Revision 2022” [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; United Nations, World Population Prospects 2022, New York, 2022 [online] <https://population.un.org/wpp/>; National Council of the Ageing Person (CONAPE), “Gestión de pensiones solidarias para el Adulto Mayor”, Santo Domingo, 2023 [online] <https://datos.gob.do/dataset/gestion-de-pensiones-solidarias-para-el-adulto-mayor>.

^a Data as of September 2023 based on the July–September 2023 edition of Quarterly Statistical Bulletin of the General Directorate of Retirement and Pensions of the Ministry of Finance of the Dominican Republic and CONAPE “Gestión de pensiones solidarias para el Adulto Mayor”, Santo Domingo, 2023 [online] <https://datos.gob.do/dataset/gestion-de-pensiones-solidarias-para-el-adulto-mayor>.

As occurred in the case of coverage, public spending on solidarity pensions increased incrementally, from 0.009% of GDP in 2020 to 0.036% in 2023 (see figure VII.8). Nonetheless, it still absorbs a small share of GDP and remains below the regional average for this type of programme.

¹⁷ Data from CNSS indicate a total of 58,529 pensions paid as of December 2023.

Figure VII.8
Dominican Republic: public expenditure on solidarity pensions
in the subsidized regime, 2020–2023
(Percentages of GDP)



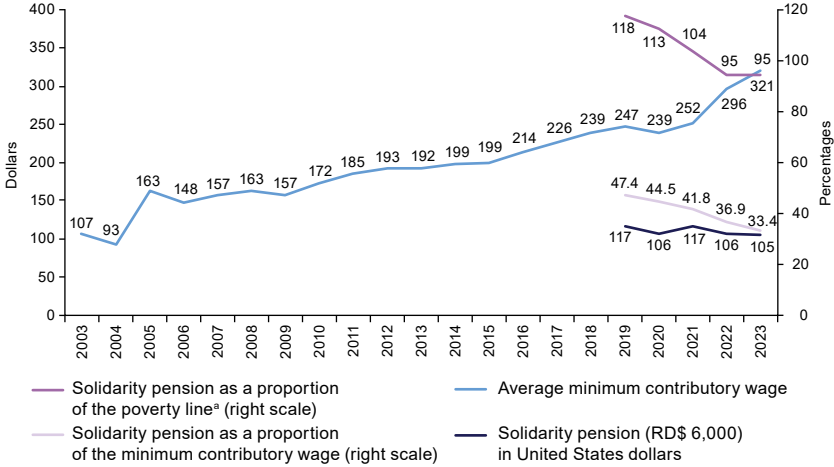
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of General Directorate of Retirement and Pensions, “Boletines” [online] <https://www.dgjp.gob.do/boletines/>; National Council of the Ageing Person (CONAPE), “Gestión de pensiones solidarias para el Adulto Mayor”, Santo Domingo, 2023 [online] <https://datos.gob.do/dataset/gestion-de-pensiones-solidarias-para-el-adulto-mayor>.

^a Data as of September 2023 based on the July–September 2023 edition of Quarterly Statistical Bulletin of the General Directorate of Retirement and Pensions of the Ministry of Finance of the Dominican Republic and CONAPE, “Gestión de pensiones solidarias para el Adulto Mayor”, Santo Domingo, 2023 [online] <https://datos.gob.do/dataset/gestion-de-pensiones-solidarias-para-el-adulto-mayor>.

In terms of the sufficiency of the entitlements, the regulations governing solidarity pensions state that the entitlement must be equal to 60% of the public sector minimum wage, which is equivalent to RD\$ 10,000. In the subsidized regime, the obligation established in article 65 of Act No. 87-01 to adjust the amount annually in line with CPI has not been addressed. Although solidarity pensions must be based on the public sector minimum wage, their sufficiency relative to the amounts received by pensioners in the contributory regime is compared to the average minimum contributory wage. Since 2019, the value of solidarity pensions has been held at RD\$ 6,000 (US\$ 117.1), while the minimum contributory wage in that year was RD\$ 12,654 (US\$ 246.9). So, the solidarity pension was then equivalent to 47.4% of the average minimum contributory wage. While the amount of the solidarity pension was unchanged in 2023, the average minimum contributory wage had risen to RD\$ 17,970.15 (US\$ 320.9).¹⁸ Thus, the solidarity pension was equivalent to 33.4% of the minimum contributory wage in that year, representing a loss of value relative to the pensions paid in the other regimes (see figure VII.9).

¹⁸ The data for 2023 correspond to the January–October average, according to information available when this chapter was being written.

Figure VII.9
Dominican Republic: average minimum contributory wage and amount of solidarity pensions as a proportion of the minimum contributory wage and the poverty line, 2003–2023
(Dollars and percentages)



Source: Prepared by the authors, on the basis of Office of the Superintendent of Pensions (SIPEN, 2023).
^a The 2023 poverty line corresponds to 2022 data.

Until 2021, the amount of solidarity pensions was above the poverty line,¹⁹ but its level of sufficiency has declined significantly since 2022. Thus, if the sufficiency of the entitlement were matched by a coverage rate that would make it possible to close the major gaps that currently exist in the pension system, the potential contribution of this pension to the goal of eradicating poverty in old age could be strengthened.

3. Solidarity pensions implementation process

The process of implementing and awarding solidarity pensions involves multiple stages and requires approval by several institutions. The regulations governing the procedure for awarding solidarity pensions, defined in Decree No. 381-13 of 2013, require applicants to submit the solidarity pension evaluation request form (FORM-PS01), which must be approved by the respective Provincial Development Council, ensuring its validation with SIUBEN, to verify the socioeconomic evaluation and notify SIPEN. The entity that awards solidarity pensions is CNSS, which, based on the life quality index calculated by SIUBEN, in conjunction with the number of inhabitants and poverty level, assigns the number of

¹⁹ The amount of the solidarity pension is RD\$ 6,000, equivalent to approximately US\$ 105.

solidarity pensions to be granted at the provincial and municipal levels. The National Social Security Board must inform the Provincial Development Councils and notify SIPEN of the process. The Ministry of Finance pays the solidarity pensions electronically.

The award process comprises four stages and involves nine institutions coordinated through CNSS (see table VII.3). In the first stage, entitlements are awarded on the basis of an estimation of potential recipients in each province, using demographic, economic and social variables to assign budget quotas. The provincial socioeconomic conditions are determined by SIUBEN through its information system. In the second stage, the potential recipients apply through specific access points at the different SDSS institutions and local government offices in which the application is made.

Table VII.3
Dominican Republic: institutions participating in the awarding of solidarity pensions under the subsidized regime

Process	Institutions	Description
Estimation of potentially eligible persons per province	Ministry of Economy, Planning and Development General Directorate of Retirement and Pensions of the Ministry of Finance General Directorate of Budget Single System of Recipients (SIUBEN)	The number of quotas assigned is evaluated according to poverty criteria at the provincial level
Interaction with citizens and receipt of applications	National Council of the Ageing Person National Council on Disability General Directorate of Information and Defence of Social Security Affiliates Local Governments	Potential recipients apply for access to entitlements
Selection of recipients	General Directorate of Retirement and Pensions of the Ministry of Finance. General Directorate of Information and Defence of Social Security Affiliates	Potential recipients are assessed for compliance with access requirements
Awarding of entitlements, payment and registration	General Directorate of Retirement and Pensions of the Ministry of Finance General Directorate of Information and Defence of Social Security Affiliates National Social Security Council Provincial Development Councils	The entitlement is assigned and paid

Source: Prepared by the authors, on the basis of information from the National Social Security Council (CNSS).

The third stage evaluates whether the applicants satisfy the conditions for access to the pension according to the specific rules defined for each entitlement. In the case of the disability entitlement, applicants have to prove that they are unable to support themselves, that they do

not depend directly on another person, whether or not affiliated to SDSS, or that they do not receive another pension, whether contributory or non-contributory (CNSS, 2020, article 3). In the case of the old-age entitlement, applicants must be over 60 years of age and have income below 50% of the national minimum wage. In the case of the entitlement for unemployed single mothers with minor children, the recipients must have no income. Lastly, in the case of the survivor entitlement, the recipients must satisfy the conditions specified in article 66 of Act No. 87-01.

In the fourth and final stage, the entitlement is granted through a decree issued by the Executive Branch (President of the Republic). The role of the provincial development councils in this stage has been almost non-existent because they are not convened, and, in practice, they are excluded by regulation. Although article 3 of Act No. 176-07, creating Provincial Development Councils in the Dominican Republic, states that they must be formed in each province of the country, this had not happened when this chapter was being written. Accordingly, CNSS becomes the entity responsible for implementing and paying (non-contributory) solidarity pensions.

The regulation defined by Decree No. 381-13, governing the process of awarding solidarity pensions states that the entitlement quotas must be allocated centrally, but the process of applying for them is done in close contact with the local level. This means that the awarding of the solidarity pension at the provincial level requires the signature of the Provincial Development Council chairperson, the provincial governor, a representative of one of the local churches participating in the Council, and a provincial deputy of a party other than that of the government. In addition, the municipal level must serve as custodian of the case files and forward them with approval to Provincial Development Councils. The process requires a high degree of coordination to be effective. However, resolution No. 581-02, published on December 14, 2023, is currently in force and regulates this process, stating that CNSS manages the processing of solidarity pensions with collaboration from public institutions and provincial and municipal authorities, pursuant to Act No. 87-01.

By considering various dimensions that could be included in an analysis of mechanisms for implementing non-contributory pension systems in the region (see annex VII.A1), it is possible to formulate preliminary recommendations for strengthening the selection and delivery process. In the future, consideration could be given to awarding solidarity pensions based solely on the socioeconomic criterion rather than by quotas. This would enhance the programme through a rights-based approach, since award at the individual level would allow the entire

population to access the entitlement, irrespective of their zone of residence. This would require robust social information systems and registers of potential recipients, to enable this prioritization to be performed in accordance with coverage and sufficiency standards to be defined, with high levels of transparency for effective governance of the systems and based on the required levels of financial sustainability.

It is also necessary to guarantee transparency and public awareness of the socioeconomic evaluation criteria. The regulations state that quotas are assigned according to the individual's level of poverty, his or her municipality of residence and the number of people receiving the solidarity pension who live in that municipality. The dimensions considered in the SIUBEN life quality index could be specified in the pension regulations or the protocol documentation.²⁰ It is also important that the algorithms used to prioritize access consider the characteristics of the individual and his or her context (income, family group, residency and health), to ensure appropriate award of entitlements using a rights-based approach.

Lastly, it is important to simplify the process through which the population gains access to solidarity pensions. The operating regulations of the systems in various countries provide two types of access channel. The first uses lists of potential candidates, drawn up using data obtained from the integration of information systems, to identify the population that satisfies the access conditions. These lists are delivered to the institution administering the programme, which is tasked with locating the candidates and inviting them to apply. The second channel requires the individual to apply directly to the institutions responsible for the programmes, to receive the entitlements. In the Dominican Republic, the solidarity pension regulations require direct application by individuals, since no prior reference list is produced; instead, an estimate is made to allocate quotas and budgets in each province. In this framework, the process of potential access to the entitlement could be complemented with the database of persons covered by the family health insurance of the subsidized regime, as an initial source for identifying the target population for these entitlements. This would make it possible to complement SIUBEN data on potential pension recipients while expanding its coverage. Legal tools could thus be used to expand the base of preselected individuals to identify programme users.

²⁰ Although the dimensions considered in the algorithm do not appear in the pension regulations, they are established in the Regulations of the Subsidized Regime and in Act No. 87-01, which creates the Dominican Social Security System. They correspond mainly to geographical criteria and poverty levels.

It would also be advisable to use digitalized and interoperable social registers that provide access to data protection and privacy. To this end, there are international instruments and recommendations that can be analysed and incorporated in the specific case of the Dominican Republic, to improve communication with potential transfer recipients and facilitate access to the entitlements.

C. Estimation of the costs and effects of increasing solidarity pension coverage

This section presents a simulation of the cost of an increase in the coverage of solidarity pensions and its potential effects in terms of reducing poverty and inequality. For this purpose, a three-phase expansion of coverage was defined: the first, from 2023 to 2026, in which coverage would be increased by 3 percentage points per year; the second, from 2026 to 2029, with an increase of 2 points per year; and the third, from 2030 to 2035, with an annual coverage increase of 1 percentage point. By the end of the third phase, in 2035, 25% of persons aged 60 and over would be covered by a non-contributory pension in an amount equivalent to the poverty line.

The following simulation methodology would be applied: first, older persons are ranked in ascending order according to their per capita income; and, for each year, those with the highest poverty levels are selected as a percentage of the total target population. This percentage is taken as the coverage target for that year. For example, if coverage for year “t” is 10%, persons over 60 years of age belonging to the poorest 10% of the population would be selected to receive the entitlement. Then, to simulate the effect on poverty, household per capita income including the entitlement is calculated to assess whether or not the household is still in poverty. The total cost of such an increase in coverage is also estimated as a percentage of GDP.²¹ It should be noted that the current expenditures and coverage of the simulation are based on information on solidarity pension spending published by the Ministry of Finance.²² As of September 2023, expenditure was estimated at 0.036% of GDP and coverage at 2.8% of the total population of persons aged 60 years and older.

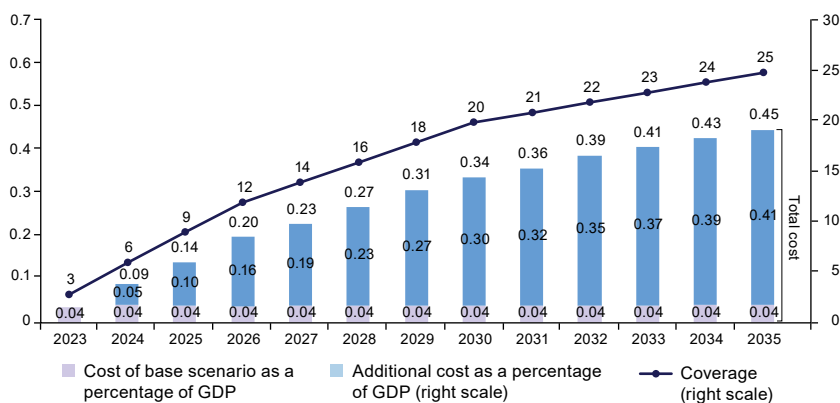
Considering the data and methodology outlined above, the simulation shows the total and additional cost (relative to the amount currently invested in implementing the solidarity pension) of covering

²¹ GDP is assumed to grow by 2% per year.

²² The expenditure data are sourced from the Bulletins of the General Directorate of Retirement and Pensions (DGJP). See [online] <https://www.dgjp.gob.do/boletines/>. Coverage data for 2023 are estimated based on CONAPE (2023c) and DGJP (2023).

the poorest 25% of persons aged 60 years and older in 2035. The total cost would amount to 0.45% of GDP and would entail an additional cost equivalent to 0.41% of GDP (see figure VII.10).

Figure VII.10
Dominican Republic: estimated cost of increasing solidarity
pension coverage to 25% in 2035, 2023–2035
(Percentages of GDP and of persons aged 60 and over)



Source: Prepared by the authors, on the basis of Central Bank of the Dominican Republic, Continuous National Labour Force Survey (ENCFT) 2022; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

To measure the effect of expanding the coverage of the entitlement on the incidence of poverty and inequality, relative to the levels reported in the 2022 ENCFT, table VII.4 displays the results of a simulated progressive expansion of the coverage of solidarity pensions, to 6%, 9%, 12% and 25% of the population aged 60 and older. By increasing coverage from the poorest 2.8% to the poorest 6% of this population group, poverty is reduced from 9.1% to 5.6%, and extreme poverty is cut from 1.7% to 0.2%. Given the amount of the transfer, this coverage level achieves the maximum possible reduction in extreme poverty, indicating that the extreme poverty rate of 0.2% would be maintained for all coverage rates of 6% or more. In the case of (non-extreme) poverty, given the amount of the transfer envisaged, the maximum possible reduction occurs when coverage reaches the level of 12%, which implies an incidence of 2.6%. The Gini inequality coefficient decreases from 0.381 to 0.369 when coverage attains 25% of the population aged 60 years and older. Indicators of the incidence of poverty and extreme poverty, as well as the Gini coefficient, decline most sharply in the first year in which the expansion is implemented.

Table VII.4
Dominican Republic: effects of an increase in the projected coverage of solidarity pensions on poverty, extreme poverty and inequality among persons aged 60 years and over, 2022
(Percentages and index)

Coverage of solidarity pensions in 2022 and expansion scenarios among persons aged 60 years and older	Incidence of poverty among persons aged 60 years and over	Incidence of extreme poverty among persons aged 60 years and older	Gini coefficient (total population)
2022			
1.9	9.1	1.7	0.381
Coverage expansion scenarios			
6.0	5.6	0.2	0.377
9.0	3.4	0.2	0.375
12.0	2.6	0.2	0.374
25.0	2.6	0.2	0.369

Source: Prepared by the authors on the basis of Central Bank of the Dominican Republic, Continuous National Labour Force Survey (ENCFI) 2022; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG); for the coverage of solidarity pensions in 2022, General Directorate of Retirement and Pensions, "Boletines" [online] <https://www.dgjp.gov.do/boletines/>; Latin American and Caribbean Demographic Centre (CELADE) - Population Division of ECLAC, population estimates and projections: Excel tables. Revision 2022" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; United Nations, World Population Prospects 2022, Online Edition [online] <https://population.un.org/wpp/>.

D. Concluding thoughts

The 2001 reform of the Dominican Republic pension system made a structural change by implementing a scheme of privately administered individual capitalization accounts for the contributory regime. Another key feature of this reform was creation of the subsidized contributory and subsidized regimes, with a view to extending the coverage of the pension system to persons subject to higher levels of vulnerability and less access to the contributory pension system. While the subsidized contributory regime has not yet been implemented, the subsidized regime, which constitutes the non-contributory pension system, took 12 years to be regulated and 18 years to come on stream.

Twenty years after the creation of the new contributory regime, while coverage has increased, it still remains very sparse. Despite increased coverage of workers who contribute to the pension system, there are still considerable gaps in covering the whole population and preventing poverty in old age. The pension system does not cover half of the country's population, which explains the low proportion of persons aged 65 years and older who have access to a contributory pension. Nor does it respond to the challenge of pension exclusion arising from gender inequalities, considering the major deficits in women's labour market participation

(50.7% in 2022). However, at the time of writing this chapter, there were no pensioners under the fully funded scheme, since the first affiliates have not yet completed the 360 contributions needed to obtain a pension. This postpones analysis of the sufficiency of the entitlements of the individually funded system until that requirement is met in 2033. However, according to projections by Jiménez and Mendieta (2018), the replacement rates for contributors to the fully funded scheme will be very low; and this will pose major sufficiency and fiscal sustainability challenges in the future.

Another significant challenge facing the Dominican Republic pension system is to guarantee the economic autonomy of persons aged 65 years and older. The sparse coverage of the contributory pension system means that most people in this age group are economically dependent on other members of their households and thus lack economic autonomy. In addition, a large proportion of older persons still depend on their labour income, particularly men and residents of rural areas. This makes it imperative to strengthen the subsidized pension regime, in order to expand the coverage of the non-contributory pension system progressively and thus guarantee the population's right to a pension and protect them from the risk of poverty in old age.

The subsidized regime, as implemented, establishes the participation of at least nine institutions in selecting recipients and awarding solidarity pensions. It seeks to involve local governments in multiple stages of the process, which poses a number of challenges. It is important to evaluate the effectiveness of this process in terms of institutional costs and to clearly communicate the requirements for accessing the subsidized regime, since a person may meet the socioeconomic requirements but be excluded because there are no access quotas in his or her locality. It is also important to review the amount of the solidarity pension and comply with the periodic adjustment to CPI established in Act No. 87-01, which would prevent the real value of the entitlement from eroding.

The simulation exercise described in this chapter evaluates the increase in coverage of solidarity pensions from the current estimated proportion of around 2.8% of the population aged 60 years and older to 25% of this age group. Assuming that the current value of the entitlement were maintained, this coverage expansion would result in a 6.5 percentage point reduction in poverty and a 1.6 point cut in extreme poverty. In terms of cost, with the increased coverage, in 2035 the programme would require an additional 0.41% of GDP, which is less than the average expenditure on non-contributory pension programmes in the region in 2021 (see chapter IX). Expansion of the subsidized regime is both institutionally and financially feasible; and increasing its coverage would provide security and economic autonomy to older persons and contribute to reducing poverty in

old age. The expansion of solidarity pensions would allow progress to be made in constructing a universal, comprehensive, sustainable and resilient non-contributory pension system in the Dominican Republic.

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Annex VII.A1

Table VII.A1.1
Latin America (5 countries): comparative table of protocols and regulations
for the operation of non-contributory pension systems

Country	Year	Dimension 1	Dimension 2	Dimension 3	Dimension 4				
					Access channels, payment and forms				
Dimensions		Centralized or decentralized coordination	Individual or territorial focus	Programme-specific award algorithm	Application channel including search for pre-selected users	Form to be completed by the applicant	Number of forms	Online payment channel	Mechanisms to facilitate access for persons with disabilities or in a situation of dependency ^a
Chile	2007	Decentralized	Territorial	External	No	Yes	2	No	No
	2022	Centralized	Individual	Internal	Yes	Yes	1	Yes	No
Colombia	2015	Decentralized	Territorial	Internal	Yes	No	0	No	Yes
Dominican Republic	2020	Decentralized	Territorial	External	No	Yes	1	Yes	No
	2023	Decentralized	Territorial	External	No	Yes	1	Yes	No
Mexico	2017	Decentralized	Territorial	External	Yes	Yes	4	Yes	Yes
	2023	Centralized	Individual	External	Yes	Yes	1	Yes	Yes
Peru	2012	Centralized	Territorial	External	Yes	Yes	1	No	No
	2020	Centralized	Individual	External	Yes	Yes	1	Yes	Yes

Source: Ministry of Labour and Social Security of Chile, “Decreto Ley 869: establece régimen de pensiones asistenciales para inválidos y ancianos carentes de recursos”, *Diario Oficial de la República de Chile*, Santiago, 1975; Office of the Superintendent of Social Security (SUSESO), “Circular 2384”, Santiago, 2007; Office of the Superintendent of Pensions, “Decreto Supremo N° 52, de fecha 8 de junio de 2022, que aprueba el Reglamento del Beneficio de Pensión Garantizada Universal establecido en la Ley N° 21.419”, Santiago, 2022; Internal Revenue Service (SII), “Resolución 25 exenta”, Santiago, 2022; Ministry of Labour of Colombia, “Programa de Protección Social al Adulto Mayor – Hoy Colombia Mayor. Manual operativo”, *Anexo Técnico*, No. 2, Bogota, 2015; Secretariat of Social Development, “Acuerdo por el que se emiten las Reglas de Operación del Programa Pensión para Adultos Mayores para el ejercicio fiscal 2018”, *Diario Oficial de la Federación*, Mexico City, 2017; Secretariat of Welfare, “Acuerdo por el que se emiten las Reglas de Operación del Programa Pensión para Adultos Mayores para el ejercicio fiscal 2023”, *Diario Oficial de la Federación*, Mexico City, 2022; Ministry of Development and Social Inclusion of Peru, “Decreto Supremo N° 081–2011-PCM”, Lima, 2011; “DG-MEINS - Memoria Anual 2014”, Lima, 2014; “Resolución Ministerial N° 274–2017-MIDIS”, Lima, 2017; “Decreto Supremo N° 012–2020-MIDIS”, Lima, 2020; “Decreto Supremo N° 048–2014-PCM-Errotas”, Lima, 2014; “Decreto Supremo N° 048–2014-PCM”, Lima, 2014; “Decreto Supremo N° 015–2012-MIDIS”, Lima, 2012; “Decreto Supremo N° 006–2012-MIDIS”, Lima, 2012; “Decreto Supremo N° 001–2012-MIDIS”, Lima, 2012; National Social Security Council (CNSS), *Reglamento de pensiones*, Santo Domingo, 2020; *Reglamento del Régimen Subsidiado*, Santo Domingo, 2019; National Congress of the Dominican Republic, “Ley No. 87-01 de 2001 que crea el Sistema Dominicano de Seguridad Social”, *Gaceta Oficial de la República Dominicana*, No. 10086, Santo Domingo, 9 May 2001.

^a Specific mechanisms are put in place to facilitate access to non-contributory pension systems for persons with disabilities or in a situation of dependency, as established exclusively in the regulations.

Chapter VIII

Honduras: challenges of constructing a non-contributory pension system

Manuel Delgado

Introduction¹

The Honduran pension system faces various challenges in achieving one of its main objectives, namely preventing poverty in old age. According to the 2021 Permanent Multipurpose Household Survey (EPHPM), an estimated 68.0% of persons aged 65 years and older were living in poverty and 34.5% were in extreme poverty.² Moreover, 69.0% of

¹ This chapter was prepared as part of the technical assistance provided to the Social Development Secretariat of Honduras. It forms part of the activities of the ECLAC-BMZ/GIZ project titled “Recover better: overcoming the COVID-19 pandemic consequences in Latin America and the Caribbean” and is based in part on the document “Opportunities and options for the creation of a non-contributory pension system in Honduras” (Delgado Chavarría, 2024). The author is grateful for the valuable information contributed to the study and comments made by Rafael del Cid, Director of the Honduran Centre for the Study of State Policies in the Social Development Secretariat, and María Elena Quilodrán. He is also grateful for the contribution made by Ernesto Espíndola, of the Social Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC).

² The document produces special tabulations from the 2019 and 2021 Permanent Multipurpose Household Survey (EPHPM) of Honduras, standardized for regional comparison purposes by the Economic Commission for Latin America and the Caribbean ECLAC in the Household Survey Data Bank (BADEHOG). Since ECLAC calculates poverty and extreme poverty figures based on a common methodology (ECLAC, 2023b), there may be differences between the official country figures and those published by ECLAC. Estimations were made up to October 2023. An update of EPHPM in BADEHOG, performed in 2024, estimated the poverty rate among older persons in Honduras at 67.4%.

individuals in this age group did not have a pension or a wage, which meant they were totally dependent on the income of other household members. While 21.0% stated that work was their only income source, just 10.0% of persons aged 65 years and older obtained income from a retirement or old-age pension.

The Honduran pension system is one of the most recently established in Latin America. It is challenged on multiple fronts, including fragmentation into different social security institutions, insufficient coverage of the working population and the low level of the entitlements that it provides. In addition, the demographic transition means that the country will face major problems in achieving long-term sustainability should it fail to take advantage of the demographic dividend. To date, there are no programmes or policies in Honduras that guarantee income security for older persons who do not have access to a contributory pension.

This chapter analyses the current pension system in Honduras and possible scenarios for expanding the social safety net, by creating a non-contributory pension system. It argues that it is essential to formulate a policy to progressively eradicate poverty in old age and improve the living conditions of older persons. Creation of such a system means providing a regular (monthly) entitlement, harmonized with the national pension system, while overcoming the practice of providing time-limited bonuses to address temporary poverty and vulnerability problems. This entails consolidating an institutional framework that is suited to a system with these characteristics in Honduras, allocating a sustainable budget to finance it and establishing a gradual implementation and expansion strategy according to affordable levels of coverage and sufficiency over time. Honduras is one of the five countries in Latin America and the Caribbean without such systems, and the country's high levels of old age poverty make their creation an urgent matter.³

The chapter is divided into five sections in addition to this introduction. The first section briefly describes the ageing process and the situation of old-age poverty in Honduras, while the second analyses the contributory pension system in terms of its precursors, coverage and sufficiency. The third section summarizes the key elements needed to establish a non-contributory pension system. The fourth calculates the costs of implementing a non-contributory system and, based on microsimulations, estimates its potential effects on poverty and inequality. The fifth and final section sets forth the main conclusions.

³ The other countries are Grenada, Haiti, Nicaragua and Saint Lucia.

A. Ageing and poverty in Honduras

As is the case in other countries in the region, Honduras is going through a process of demographic transition, the manifestations of which include falling fertility and mortality rates and declining population growth. Honduras is classified as a country in transition, which means that dependent segments of the population, especially children, will gradually decrease as a proportion of the total, and the old age dependency ratio will increase in the long term (Saad and others, 2012). These changes assume the existence of a demographic bonus, a period in which the working-age segment outpaces the dependent population. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the demographic bonus in Honduras will be one of the most prolonged in the region, lasting for 76 years and ending after 2040 (ECLAC, 2022). To take advantage of this period as an opportunity for stronger economic growth, it is necessary to invest in human capital and in generating new and better sources of employment and savings. At the same time, foundations must be laid to enable society to cope with higher rates of ageing in the long term. This section briefly reviews the process of population ageing in Honduras and the incidence of poverty among persons aged 65 years and older, as measured by the 2021 EPHPM.

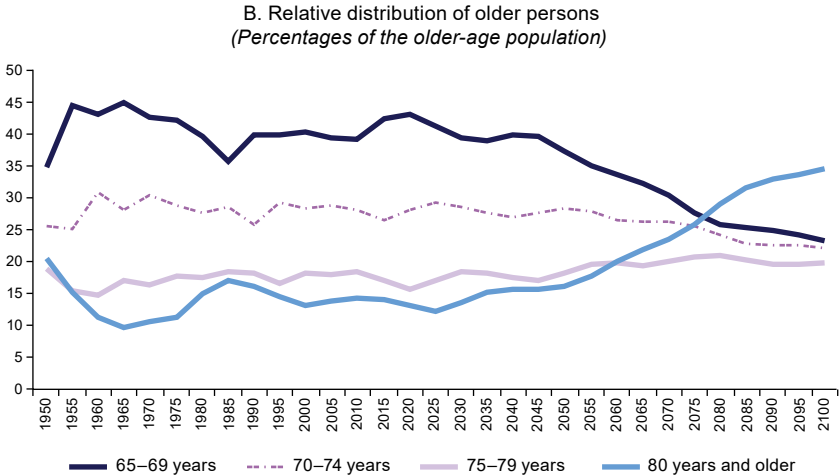
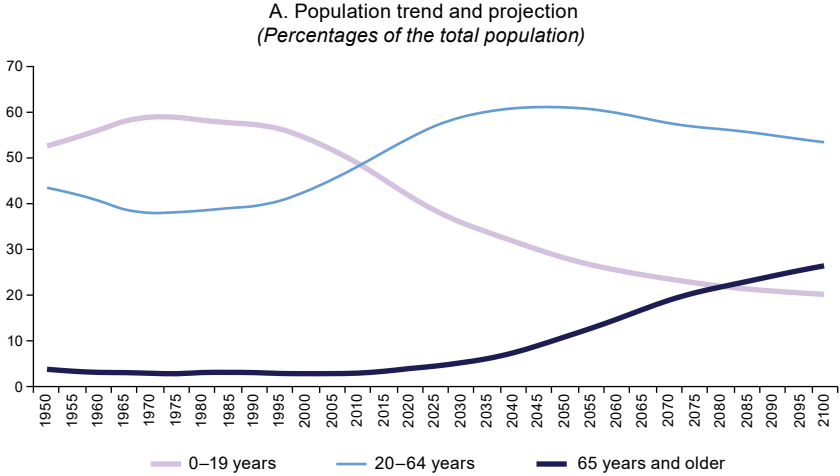
1. Persons aged 65 years and older⁴

The Pan American Health Organization (PAHO) and ECLAC consider Honduras to be in a moderate stage of ageing, along with Belize, Nicaragua, Paraguay and the Plurinational State of Bolivia (PAHO/ECLAC, 2023). Persons aged 65 years and older are projected to account for 4.7% of the total population in 2025, 5.4% in 2030, 14.9% in 2060 and 21.9% in 2080 (see figure VIII.1A). Moreover, the proportion of this age group who are at least 80 years old is set to grow from 12.3% in 2025 to 15.7% in 2040 and 20% in 2060 (see figure VIII.1B).

Population ageing poses challenges for protection, care, health and other policies. As Honduras is at a stage of moderate ageing and is obtaining dividends from the demographic bonus, public policies could be launched to enable it to adapt gradually to this new demographic reality.

⁴ The document uses population projections from ECLAC/United Nations (2022) and ECLAC (n.d.), which may differ from national statistics.

Figure VIII.1
Honduras: population projections, by age group,
1950–2100
(Percentages of the total and older-age populations)



Source: Prepared by the author, on the basis of Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2022" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>; Economic Commission for Latin America and the Caribbean (ECLAC), "Demographic and social. Demographic. Population. Total population, by sex (Thousands of persons, at mid-year)" [online] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en>.

2. Incidence of poverty among persons aged 65 years and older

The contributory pension system fails to prevent poverty in old age for most Hondurans. In 2021, 68.0% of persons aged 65 years and older were in poverty (see table VIII.1), with rates of 81.4% in rural areas and 64.2% in small cities. The incidence of extreme poverty among persons aged 65 years and older was also quite high, with 34.5% of individuals in this age group receiving incomes of less than the cost of the basic food basket. Extreme poverty is also very high in rural areas (46.6%).

Table VIII.1
Honduras: persons aged 65 years and older living in poverty,
by sex, geographical area and place of residence, 2021
(Percentages)

		Poor			Non-poor
		Total	Extreme poverty	Relative poverty ^a	
Persons aged 65 years and older		68.0	34.5	33.5	32.0
Sex	Men	67.1	34.1	33.0	32.9
	Women	68.7	34.9	33.9	31.3
Geographical area	Urban	57.9	25.3	32.6	42.1
	Rural	81.4	46.6	34.7	18.7
Place of residence	Central District	51.3	22.5	28.8	48.7
	San Pedro Sula	43.3	17.5	25.8	56.7
	Medium-sized cities	62.3	28.5	33.9	37.7
	Small cities	64.2	27.3	36.9	35.8

Source: Prepared by the author, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a The term "relative poverty" refers to the situation of persons whose income is more than the cost of a basic food basket but less than that of a basic shopping basket; in other words it enables them to meet their food requirements, but not the rest of their needs.

The majority (69.0%) of persons aged 65 years and older do not have a pension or a job that generates income, so they depend on the incomes of other household members (see table VIII.2). Thus, age-related loss of autonomy is compounded by a reduction in economic autonomy among older persons, which diminishes both their ability to make decisions about the resources that provide them with well-being and their capacity for self-determination.⁵ The lack of economic autonomy is greater among women (78.1%). On the other hand, 22.0% of persons aged 65 years and older depend on income from work, either exclusively

⁵ Etxeberria (2014) defines self-determination as the capacity to make free decisions based on what one wants, what one self-achieves in one's chosen projects.

or combined with pension income. This situation is more common among men (32.7%), residents of rural areas (25.4%) and individuals in the second poorest income bracket (quintile II) (26.3%). The proportion of people who live solely on a pension is higher among the top income group (quintile V) (22.5%) and residents of the Central District (21.7%).

Table VIII.2
Honduras: primary source of income of persons aged 65 years and older,
by sex, geographical area, place of residence and household
per capita income quintile, 2021
(Percentages)

		Pension only	Labour income and pension	Labour income only	No labour income or pension	Total
	Total	9.0	1.0	21.0	69.0	100
Sex	Men	9.0	0.9	31.8	58.3	100
	Women	8.9	1.0	11.9	78.1	100
Geographical area	Urban	15.1	1.4	17.7	65.8	100
	Rural	1.6	0.4	25.0	73.0	100
Place of residence	Central District	21.7	1.7	18.9	57.8	100
	San Pedro Sula	16.0	2.4	14.0	67.6	100
	Medium-sized cities	10.3	0.0	17.6	72.1	100
	Small cities	5.0	1.2	19.7	74.1	100
Household per capita income quintile	Quintile I	0.8	0.0	18.5	80.7	100
	Quintile II	3.6	0.6	25.7	70.2	100
	Quintile III	8.7	1.0	18.2	72.2	100
	Quintile IV	11.8	0.8	20.0	67.4	100
	Quintile V	22.5	2.8	23.0	51.8	100

Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

The coverage deficit of the Honduran pension system reduces its capacity to prevent poverty in old age and avoid the loss of economic autonomy among persons aged 65 years or more. Older persons participating in the labour market are also very likely to have low incomes because “they are employed in low-productivity sectors, and because their educational level is lower than that of younger workers” (Mason and Lee, 2011, p. 27).

It should also be noted that the coronavirus disease (COVID-19) pandemic and the category-4 hurricanes, Eta and Iota, all took a toll on the Honduran economy. These phenomena were followed by an annual economic contraction of 8.96% (IMF, 2023); and poverty and extreme poverty (persons of all ages) surged by 16.3 and 14.5 percentage points, respectively, between 2019 and 2021 (ECLAC, 2023a). This underscores the urgency of addressing poverty in Honduran households and, in particular, among the most vulnerable older persons.

B. Honduran pension system

1. Background

Honduras established its social security system through the Honduran Social Security Law (Decree No. 169, approved in October 1957 and published in Gazette (*Gaceta*) No. 1653 of 12 December 1957. However, this law was rendered ineffective when the new Constitution of the Republic came into force; and it was not until May 1959 that Legislative Decree No. 140, the Social Security Law, created the Honduran Social Security Institute (IHSS) (Zablah, 2014). The Institute was tasked with covering the risks of illness, maternity, workplace accident and occupational disease, disability, old age, death and involuntary unemployment. Private sector workers and public employees, including those of autonomous, semi-autonomous and decentralized State entities, were required to be affiliates (Martínez, 2003). Lastly, the health system started to operate in 1962, followed by the pension system in 1969.

Following the creation of IHSS, four additional social security institutes were established to cover workers in different categories. The first was the National Teachers Social Security Institute, created following strikes and pressure from teachers' organizations, which resulted in the National Teachers Retirement and Pensions Law being adopted in 1970. The second was the National Government Staff and Employees Retirement and Pensions Institute, which was created in 1971, following adoption of the Government Employees and Staff Retirement and Pensions Law, and began operations in 1976. The third was the Military Pension Institute, which was created in December 1971 through Decree No. 14, which entered into force in June 1972 and established a special social security regime for the Armed Forces. Lastly, in 1989, the Social Security Institute of Employees of the National Autonomous University of Honduras was created. This does not have its own law but was established through article 59 of the Charter of the National Autonomous University of Honduras (Decree No. 209-04). The Honduran pension system consists of these five public pension institutions, with IHSS providing the broadest coverage.

The global financial crisis and political instability in the country, led to a reform of the public pension institutions being launched in 2009. In that year, economic growth in Honduras dropped from 4.0% to 1.9%, international remittances declined by 12.3%, and the public sector deficit came in at 4.6%. In 2010, the new government implemented a tax reform and signed a stand-by arrangement with the International Monetary Fund (IMF). In this context, a reform was proposed to reduce the fiscal contingency arising from the pension system. In the same year, actuarial studies of the National Teachers Social Security Institute and the National Government Staff and Employees

Retirement and Pensions Institute, conducted by the National Commission of Banks and Insurance Companies, found that the actuarial deficit of these institutions amounted to 27% and 12% of GDP, respectively.⁶ The actuarial studies made it possible to conclude that the capital reserves and future contributions would be insufficient to finance the future pension payments. This is explained by the low accumulated amount of contributions, the short mandatory contribution period (10 years for both institutions), the early retirement age (50 years voluntary minimum age in the case of the National Teachers Social Security Institute and 58 years in the case of the National Government Staff and Employees Retirement and Pensions Institute), the expansion of entitlements without increasing income, the low returns earned by the capital reserves, abuses of the system owing to exceptional retirements and high administrative costs (IDB, 2011, pp. 2 and 3).

An actuarial analysis of three of the five state pension institutes conducted by the International Labour Organization (ILO) reveals aspects of the financial sustainability of the pension system in Honduras. In the case of the IHSS scheme covering disability, old age and death, ILO (2014b) notes that the technical reserves will run out by 2046, and that the design of IHSS poses difficulties in terms of pension sufficiency. It recommends modifying the policy of contribution ceilings to prevent the value of pensions from continuing to decline in the medium and long terms. The same analysis notes that the reforms implemented in the National Government Staff and Employees Retirement and Pensions Institute are headed in the right direction, since replacement rates will rise to 62.3% by 2050. This would enable the Institute to operate within relatively reasonable funding parameters. However, the reserves will start to decline from 2070 onwards and will likely be exhausted in 2089, so close actuarial monitoring is recommended to stabilize the level of reserves in the long term (ILO, 2014b, p. 17). Similar results were obtained in the case of the National Teachers Social Security Institute; the recent reforms would allow for a replacement rate of 62.3% by 2050, but reserves would start to decrease as from 2045 and would be exhausted in 2057. Consequently, close actuarial monitoring is again required to stabilize reserves in the long term.

2. Current situation

The Honduran pension system is based on a highly exclusive labour market offering few formal job opportunities. The administrative records of the pension institutions show that just 19.8% of the economically active population (EAP) aged 15 years and older contributed to the pension system in 2022 (see table VIII.3).

⁶ The actuarial deficit is an indicator of the solvency, sustainability and financial soundness of a pension system. It shows the need to improve financial management and should not be considered as a short-term debt.

Table VIII.3
Honduras: active contributors to public funds according to administrative records, 2017–2022
(Number of persons and percentages of EAP aged 15 years and older)

	Honduran Social Security Institute (IHSS)	National Teachers' Social Security Institute	National Government Staff and Employees Retirement and Pensions Institute	Military Pension Institute	Social Security Institute of Employees of the National Autonomous University of Honduras	Total contributors in public funds	EAP aged 15 years and older
Number of persons							
2017	598 590	77 649	46 618	43 740	6 128	772 725	3 636 817
2018	614 096	82 946	45 506	44 293	7 821	794 662	3 741 606
2019	617 879	62 814	51 082	48 548	7 262	787 585	3 844 639
2020	592 433	64 245	50 247	48 134	7 123	762 182	3 944 802
2021	631 379	65 151	52 109	51 340	6 903	806 882	4 042 251
2022	637 334	65 477	60 297	47 644	6 845	817 597	4 137 503
Percentage of EAP aged 15 years and older							
2017	16.5	2.1	1.3	1.2	0.2	21.2	100
2018	16.4	2.2	1.2	1.2	0.2	21.2	100
2019	16.1	1.6	1.3	1.3	0.2	20.5	100
2020	15.0	1.6	1.3	1.2	0.2	19.3	100
2021	15.6	1.6	1.3	1.3	0.2	20.0	100
2022	15.4	1.6	1.5	1.2	0.2	19.8	100

Source: Prepared by the authors, on the basis of Honduran Social Security Institute (IHSS), "El IHSS en cifras 2005-2022" [online] <https://www.ihss.hn/index.php/el-ihss-en-cifras-2005-2022/>; Central Bank of Honduras, *Honduras en cifras 2019-2022*, Tegucigalpa, 2023, for figures pertaining to the National Teachers' Social Security Institute, the National Government Staff and Employees Retirement and Pensions Institute, the Military Pension Institute and the Social Security Institute of Employees of the National Autonomous University of Honduras; and Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2019" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>, for EAP figures.

Table VIII.4
Honduras: active contributors to public pension funds according to administrative records, by sex, 2019–2022
(Number of persons and percentages of EAP aged 15 years and older)

	Honduran Social Security Institute (IHSS)	National Teachers' Social Security Institute	National Government Staff and Employees Retirement and Pensions Institute	Military Pension Institute	Social Security Institute of Employees of the National Autonomous University of Honduras	Total contributors in public funds	EAP 15 years and older
Women							
<i>(Number of persons)</i>							
2019	256 013	45 617	30 271	6 590	3 675	342 166	1 427 766
2020	244 353	46 648	29 808	6 552	3 573	330 934	1 474 105
2021	262 488	47 357	30 834	6 897	3 483	351 059	1 518 623
2022	265 092	47 484	36 998	7 165	3 452	360 191	1 561 522
Percentage of the female EAP aged 15 years and older							
2019	17.9	3.2	2.1	0.5	0.3	24.0	100
2020	16.6	3.2	2.0	0.4	0.2	22.5	100
2021	17.3	3.1	2.0	0.5	0.2	23.1	100
2022	17.0	3.0	2.4	0.5	0.2	23.1	100
Men							
<i>(Number of persons)</i>							
2019	361 866	17 197	20 811	41 958	3 587	445 419	2 416 873
2020	348 080	17 597	20 439	41 582	3 550	431 248	2 470 697
2021	368 891	17 794	21 275	44 443	3 420	455 823	2 523 628
2022	372 242	17 993	23 299	40 479	3 393	457 406	2 575 981
Percentages of the male EAP aged 15 years and older							
2019	15.0	0.7	0.9	1.7	0.1	18.4	100
2020	14.1	0.7	0.8	1.7	0.1	17.5	100
2021	14.6	0.7	0.8	1.8	0.1	18.1	100
2022	14.5	0.7	0.9	1.6	0.1	17.8	100

Source: Prepared by the authors, on the basis of Honduran Social Security Institute (IHSS), “El IHSS en cifras 2005-2022” [online] <https://www.ihss.hn/index.php/el-ihss-en-cifras-2005-2022/>; Central Bank of Honduras, *Honduras en cifras 2019-2022*, Tegucigalpa, 2023, for figures pertaining to the National Teachers' Social Security Institute, the National Government Staff and Employees Retirement and Pensions Institute, the Military Pension Institute and the Social Security Institute of Employees of the National Autonomous University of Honduras; and Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, “Population estimates and projections: Excel tables. Revision 2019” [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>, for EAP figures.

Although there is no official publication that systemizes and presents social security administrative records in a uniform manner, table VIII.3 provides an approximation based on data from IHSS and the Central Bank of Honduras. Administrative records show that IHSS is the institute with the largest number of contributors (accounting for 78% of contributors on average from 2017 to 2022), and in 2022 it covered 15.4% of the economically active population. It is followed by the National Teachers Social Security Institute (1.6%), the National Government Staff and Employees Retirement and Pensions Institute (1.5%), the Military Pension Institute (1.2%) and, lastly, the Social Security Institute of Employees of the National Autonomous University of Honduras (0.2% of EAP).

A gender breakdown of the data shows that, in 2022, EAP coverage in the case of women was 23.1%, 5.3 percentage points higher than the male rate of 17.8% (see table VIII.4). IHSS, the National Teachers Social Security Institute, the National Government Staff and Employees Retirement and Pensions Institute and the Social Security Institute of Employees of the National Autonomous University of Honduras all cover a larger proportion of women in the economically active population than men, although the number of female IHSS contributors is 71.2% of the male equivalent. These differences reflect the fact that women's labour participation rate is low, so the female EAP is only 60.6% of its male counterpart.⁷

In addition to administrative records, the pension system can be studied through EPHPM. Although the sample and the expansion factors of this survey are not designed to measure the coverage of the pension system, differences in coverage between distinct population groups can be analysed. The most salient of these is territorial inequality: special tabulations made from the 2019 EPHPM show that 32% of EAP aged 15 years and older in the Central District and 33% in San Pedro Sula contributed to the pension system, compared to just 5% in rural areas. The labour market is also more exclusive of women, for while the proportion of women contributing to the pension system is 4 percentage points higher than that of men, their labour participation rate is only 46%, compared to the male rate of 84%. This reflects the substantial barriers that women face in accessing the paid labour market, associated with the persistence of gender inequalities in the distribution of paid and unpaid work.

In the 2019 EPHPM, women who were economically inactive were asked why they were not participating in the labour market. Among the three main responses, 66.8% cited the need to perform

⁷ In 2022, the economically active population consisted of 1,561,522 women and 2,575,981 men.

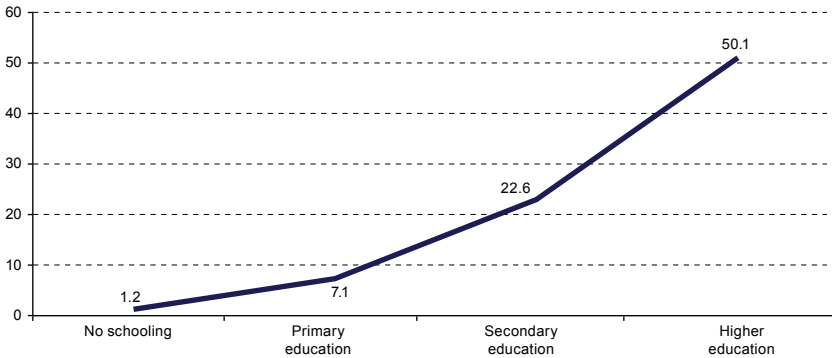
household chores, 15.4% gave study reasons and 6.7% blamed old age. On the other hand, when men who reported being out of the labour market were consulted, 42.0% cited study reasons, 16.2% serious problems and 13.8% old age. This shows that tasks associated with unpaid care work in the home are the main factors preventing women from participating in the paid labour market and, thus, from accessing the pension system.

In general, 53.5% of workers are employed in sectors that are not required to contribute to the pension system: 41% are self-employed, 9.9% are unpaid and 2.7% are domestic workers. These asymmetries generate high levels of inequality in the pension system. While 26.1% of workers in the highest income quintile contribute to this system, the figure is just 0.9% in the lowest quintile (see figure VIII.2B). This exclusion also reflects the level of education attained by the individuals in question, since the proportion of contributors declines as their education level decreases (50.1% of workers with higher education contribute to the pension system, compared to 22.6% of those with secondary education completed, 7.1% of those who had completed primary school, and just 1.2% of those with no level of schooling completed) (see figure VIII.2A).

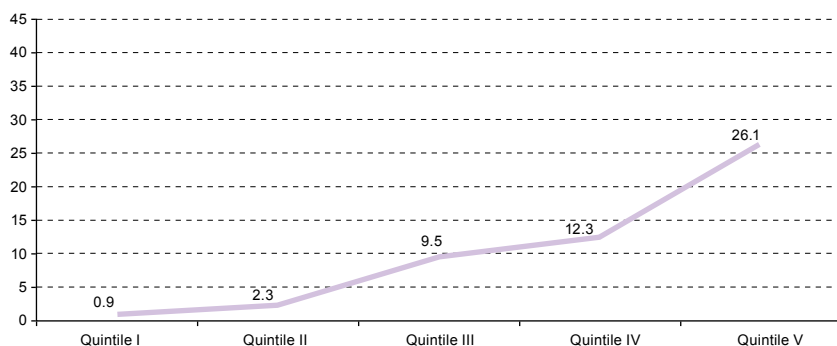
The Honduran public pension system is a pay-as-you-go (PAYG) model. However, public institutions display wide disparities in contribution rates, entitlements and eligibility requirements for old-age pensions.

Figure VIII.2
Honduras: effective pension system coverage (EAP)
(Percentage of EAP aged 15 years and older)

A. By education level completed, 2019



B. By household per capita income quintile, 2021



Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2019 and 2021; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

In addition to inequality in the coverage of the social security system, there are also disparities in contribution rates. According to ILO, the contribution made by workers affiliated to IHSS in 2012 was 11.7% and was distributed as follows: 8% for sickness and maternity, 3.5% for disability, old age and death, and 0.2% for professional risks. In contrast, the amount paid by workers contributing to the National Government Staff and Employees Retirement and Pensions Institute was 19%, rising to 25% in the case of workers contributing to the Military Pension Institute (personnel of the Armed Forces, the National Police and the Fire Department, among others). In the case of workers contributing to the National Teachers Social Security Institute, the rate was 19% for teachers in the public sector and 18% for those in the private sector (ILO, 2012b).

The small proportion of EAP aged 15 years and older who contribute to the pension system means that relatively fewer older persons (aged 65 years or more) receive a pension. According to the administrative records of the five pension institutes, only 20.4% of persons aged 65 years and older received an old-age pension in 2021 (see table VIII.5).⁸ The institute granting the most pensions was IHSS, covering 10.8% of the population aged 65 years and older, followed by the National Government Staff and Employees Retirement and Pensions Institute (4.2%), the National Teachers Social Security Institute (4.0%) and, to a lesser extent, the Military Pension Institute (1.0%) and the Social Security Institute of Employees of the National Autonomous University of Honduras (0.4%). According to Bosch, Melguizo and Pagés (2013), an average of 41% of persons aged 65 years and older were receiving a contributory pension in the countries reviewed in 2011, with Honduras being the country with the lowest coverage (Bosch, Melguizo and Pagés, 2013, p. 37).

⁸ In the case of IHSS, this figure also includes persons who receive a widow's pension.

Table VIII.5
Honduras: coverage of pensioners among persons aged 65 years and older, 2017–2021
(Number of persons and percentages)

	Honduran Social Security Institute (IHSS)	National Teachers' Social Security Institute	National Government Staff and Employees Retirement and Pensions Institute	Military Pension Institute	Social Security Institute of Employees of the National Autonomous University of Honduras	Total pensioners in public funds	Persons 65 years of age and older
Number of old-age pensioners							
2017	31 083	17 372	14 416	2 400	1 492	66 763	361 685
2018	32 724	17 991	15 263	2 459	1 487	69 924	380 052
2019	36 542	18 343	16 795	4 051	1 534	77 265	399 029
2020	41 841	18 492	17 292	4 200	1 548	83 373	416 729
2021	47 181	17 314	18 146	4 475	1 556	88 672	431 476
Proportion of pensioners among persons aged 65 years and older							
2017	8.6	4.8	4.0	0.7	0.4	18.5	100.0
2018	8.6	4.7	4.0	0.6	0.4	18.4	100.0
2019	9.2	4.6	4.2	1.0	0.4	19.4	100.0
2020	10.0	4.4	4.1	1.0	0.4	20.0	100.0
2021	10.9	4.0	4.2	1.0	0.4	20.6	100.0

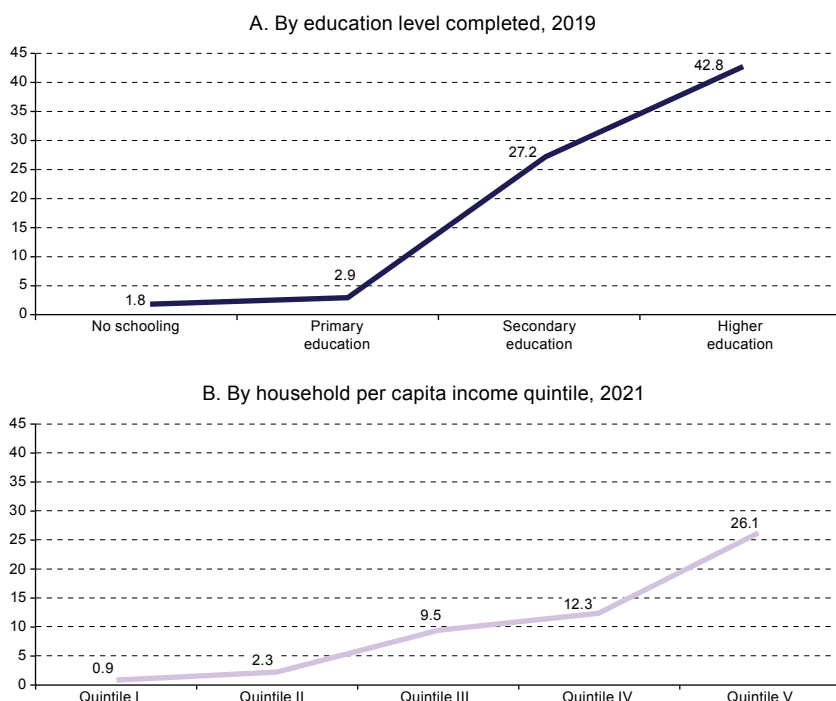
Source: Prepared by the authors, on the basis of Honduran Social Security Institute (IHSS), "El IHSS en cifras 2005-2022" [online] <https://www.ihss.hn/index.php/el-ihss-en-cifras-2005-2022/>; Central Bank of Honduras, *Honduras en cifras 2019-2022*, Tegucigalpa, 2023, for figures pertaining to the National Teachers' Social Security Institute, the National Government Staff and Employees Retirement and Pensions Institute, the Military Pension Institute and the Social Security Institute of Employees of the National Autonomous University of Honduras; and Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2022" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/excel-tables>; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>; Economic Commission for Latin America and the Caribbean (ECLAC), "Demographic and social. Demographic. Population. Total population, by sex (Thousands of persons, at mid-year)" [online] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en..>, for population figures.

^a Figures declared by the IHSS for old age and widowhood.

Once again, EPHPM is used to analyse inequalities in pensioner coverage among different groups. The first of these is territorial. According to the 2021 EPHPM, only 3% of persons aged 65 years and older living in rural areas had a contributory pension, compared to coverage rates of 26.3% in the Central District and 21.2% in San Pedro Sula.

Access to pensions also varies by education and income level. According to the 2019 EPHPM, only 1.8% of persons aged 65 years and older who had not completed any education level had a pension, compared to 42.8% of those who had completed higher education.⁹ Similarly, special tabulations made from the 2021 EPHPM show that just 0.9% of persons aged 65 years and older in the lowest income quintile had a pension, compared to 26.1% of those in the highest quintile (see figure VIII.3).

Figure VIII.3
Honduras: coverage of pensioners among persons aged 65 years and older
(Percentages)



Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2019 and 2021; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

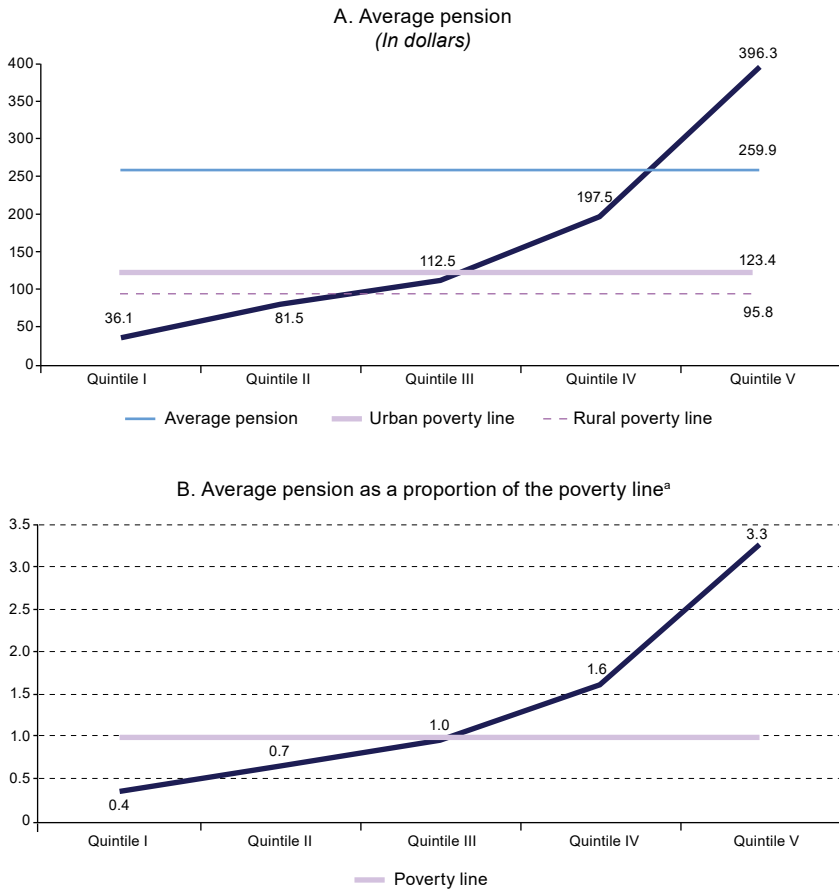
⁹ The administrative records do not make it possible to disaggregate pensioners by education level, which is an advantage of the Permanent Multipurpose Household Survey (EPHPM). Since the education variable is not available in the 2021 EPHPM, data from the 2019 EPHPM were used for this disaggregation.

Another key factor in pension system analysis is the sufficiency of the entitlements provided. This is measured by the replacement rate, which relates the value of the pension to the labour income earned by individuals before retirement. As indicated by ILO (2012b), legal replacement rates vary between the five public institutes. For IHSS, the legal replacement rate ranges from 50% to 80%, while the National Government Staff and Employees Retirement and Pensions Institute establishes a minimum of 250 lempiras and a maximum of 90%. In the case of the National Teachers Social Security Institute, the minimum value is 1,000 lempiras and the maximum is 90%, while in the case of the Military Pension Institute, the replacement rate ranges from 65% to 95%. Lastly, for the Social Security Institute of Employees of the National Autonomous University of Honduras, the minimum and maximum replacement rates are 5,000 and 50,000 lempiras, respectively. Altamirano and others (2018) calculated that, in Latin America and the Caribbean, (effective) replacement rate for workers with 100% contribution density was 39.8% in the case of defined contribution systems, and the average for Honduras was 68% (Altamirano and others, 2018, p. 29).

A progressive feature of PAYG systems is that they tend to provide a higher replacement rate to workers with lower wages. In the case of Honduras, Altamirano and others (2018) calculated the effective replacement rate of workers earning the equivalent of 75% of the average wage at 68%, compared to 31% among those who earned three times the average wage. Lastly, those earning five times the average wage had an effective replacement rate of 18% (Altamirano and others, 2018, p. 36).

Despite higher replacement rates for low-wage workers, in absolute terms the level of pensions is generally quite low and unequal. According to IHSS records, the average old-age pension, which was 870.73 lempiras per month (US\$ 49.0) in 2003, increased to just 4,404.55 lempiras in 2022 (US\$ 178.8). The 2021 EPHPM, however, reports a higher average of 6,285.71 lempiras, equivalent to US\$ 259.9 (see figure VIII.4). Although EPHPM also includes the remainder of the pension institutes, the real value of the pension could be overestimated since this is not the objective of the survey's sample design. Despite the higher average value, EPHPM reveals great inequality across socioeconomic groups: in 2021, pensioners in the lowest income quintile received an average pension of 872.78 lempiras (US\$ 36.1) while those in the highest quintile received 12 times more on average, at 9,585.10 lempiras (US\$ 396.3). Lastly, the average pension reported in EPHPM was equivalent to 2.2 times the poverty line; yet the pension of the poorest quintile was barely equivalent to 0.4 of that level, and that of the second quintile to 0.7. While pensioners in the third quintile had a pension equal to the poverty line, only pensioners in the fourth and fifth quintiles received more than that. In short, the pension system also displays significant deficits in terms of preventing poverty among contributors, by paying pensions below or close to the poverty line, so that individuals who live solely on their pensions are highly vulnerable to poverty.

Figure VIII.4
Honduras: average pension received by pensioners aged 65 years and older, by household per capita income quintile, 2021



Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2019 and 2021; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a The poverty line is equivalent to the cost of a basic shopping basket; in other words it is the total poverty line.

Many Latin American countries have established non-contributory pension systems that are harmonized with the contributory systems, with the aim of preventing poverty in old age (Arenas de Mesa, 2019). These systems play a key role in increasing the autonomy of older persons and are fully aligned with the ILO Social Protection Floors Recommendation, 2012 (No. 202), which urges member states to “establish and maintain, as applicable, social protection floors as a fundamental element of their national social security systems” (ILO, 2012a). This recommendation includes the following four essential guarantees: (i) access to essential health

care; (ii) basic income security for children; (iii) basic income security for persons in active age; and (iv) basic income security for older persons. The following section explores options for moving towards the creation of a non-contributory pension system in Honduras focused on older persons.

C. Key elements for defining a non-contributory pension system in Honduras

This section reviews four key issues that need to be considered when defining a non-contributory pension system in Honduras: (i) the precursors of existing non-contributory programmes in the country; (ii) the objective and potential spillover effects of a non-contributory pension programme; (iii) the target population of the programme and strategies to universalize its coverage; and (iv) the potential amounts of a non-contributory pension system and the associated costs.

1. Precursors of non-contributory programmes

In recent years, several conditional transfer programmes have been implemented in Honduras with the aim of guaranteeing basic income security to families with children and adolescents. These include the different phases of the Family Allowance Programme, the 10,000 Bonus, the Better Life Bonus Programme and the Solidarity Network Programme. The target population of these programmes consisted of families living in poverty or extreme poverty. It is important to consider this background when defining appropriate mechanisms for implementing a non-contributory pension system in the country.

Data from the 2019 EPHPM show that the Better Life Bonus Programme covered just 10% of households. On average, households received 258.6 lempiras per month (US\$ 10.5 in 2019), equivalent to 14.2% of household income, and the entitlement was granted mainly to households with children and adolescents, as the incidence of poverty in this group was higher than in other households. The transfer was made irrespective of the number of children and adolescents in the household, subject to the fulfilment of different health, education and nutritional requirements.¹⁰

¹⁰ Under the Better Life Bonus Programme, transfers were made to households that met at least one of the following requirements: (i) households with children aged 0 to 5 years; (ii) households with pregnant women or women who had recently given birth; and (iii) households with children and adolescents aged 6 to 18 years attending school (a later version of the program covered the population aged 7 to 18 years). Co-responsibility for health and nutrition involved growth and development check-ups for children aged 0 to 5 years, prenatal care for pregnant women, and attendance at health care check-ups by women who had recently given birth. Co-responsibility in education referred to the enrollment of boys and girls in basic education and verification of 80% quarterly attendance. It is important to note that the Programme payments were made quarterly and sometimes over a longer period. There is no information on how households used the funds in question.

The Programme selected participants progressively through a proxy means test, which collects data from the Single Socioeconomic Record, measuring household access to certain productive assets and services. In 2019, the Programme covered 20.7% of households in extreme poverty, 6.2% of households in relative poverty, and just 3.5% of households that were not in a poverty situation (see table VIII.6).

Table VIII.6
Honduras: proportion of households that participated in the Better Life Bonus Programme and value of the entitlement, by poverty status, 2019
(Percentages, lempiras, and percentages of household income)

	Households that participated in the Programme (Percentages)	Average value of bonus received (Lempiras)	Average value of the bonus as a percentage of household income
Households in poverty	15.2	264.37	16.1
Extreme	20.7	234.43	18.6
Relative	6.2	260.38	2.5
Households that were not in poverty	3.5	262.85	2.2

Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras. Permanent Multipurpose Household Survey 2019; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

A territorial analysis of the Better Life Bonus Programme shows that coverage was greater in the poorest departments. In the department of Lempira, which had the country's highest poverty rate (83.1% of households living in poverty), Programme coverage was 28.8%. In Intibucá, with the second highest poverty rate at 76.3%, coverage was 35.9%. Lastly, in the department of La Paz, where 76.2% of households are in poverty situations, programme coverage was 24.8%. The coverage levels achieved by the Programme suggest potential coverage and sufficiency thresholds for a non-contributory pension in Honduras targeted to the population living in poverty.

In April 2022, the government restructured the State Secretariats through Executive Decree No. PCM-05-2022, which created the Social Development Secretariat and abolished the former Secretariat of Development and Social Inclusion. The National Social Sector Information Centre became the Social Development Observatory, which was responsible for implementing the Single Socioeconomic Record and maintaining the Honduran Beneficiary Information and Registration System. The decree also created the Solidarity Network Programme as a deconcentrated entity of the Social Development Secretariat, tasked mainly with implementing conditional cash transfers in 2,007 selected villages.

ILO (2020) analysed the institutional response in terms of social protection available to older persons in Honduras and provided strategic information for the design of a non-contributory pension system along these lines. The report noted progress made in social protection from the legal standpoint, but also the need for adequate mechanisms to coordinate services, entitlements and specific programmes for non-contributory social protection (ILO, 2020). It recommended using the *Vida Mejor* platform to expand social protection programmes. It also argued that, as this was a platform organized to administer monetary entitlements (conditional cash transfers) and continuous services targeted to different population groups, it was highly likely that its institutional framework and structure could be used as a starting point to design the management of entitlements and services specifically for the older-age population (ILO, 2020). The report also listed five public entitlements and provisions targeted to the older population in 2017: (i) solidarity-based food supply; (ii) care centres for older persons; (iii) subsidized shelters; (iv) flu vaccine; and (v) monthly transfers of 500 lempiras (US\$ 21.46) to 856 older persons. The latter programme was launched between 2014 and 2015 with 636 people and uses the Gijón risk scale to award entitlements. Approximately a third of the recipients were identified by the Office of the First Lady or the Office of the Governor, through the Single Participants Register.

ILO (2020) then proposed a monetary entitlement that would provide a basic income, harmonized with health, social assistance, labour, education and housing policies, as a contribution to preventing and reducing multidimensional poverty and social inequalities (ILO, 2020). It recommended using just three criteria to access the programme: age, place of residence and poverty status. It also evaluated two pension amounts: 700 lempiras per month (equivalent to US\$ 30.7 at 2016 prices), based on international experiences, or 1,400 lempiras per month (equivalent to US\$ 61.3 at 2016 prices), an amount that approximates to the average per capita value of the urban and rural poverty lines and represents 50% of the average pension of the IHSS scheme covering disability, old age and death.¹¹ Paying a pension of 700 lempiras to persons aged 65 years and older would then have had an annual cost of 4.827 billion lempiras, equivalent to 0.86% of GDP. If the age of eligibility was 60 years and older, the annual cost would have been 6.911 million lempiras, equivalent to 1.23% of GDP.

¹¹ The report initially mentions a pension of 1,500 lempiras, but all scenarios refer to 1,400 lempiras. The document does not explain the reason for the change.

In contrast, a pension of 1,400 lempiras per month awarded to persons aged 65 years and older would have cost 9.653 billion lempiras, equivalent to 1.72% of GDP, rising to 13.821 billion lempiras, equivalent to 2.46% of GDP, if granted to persons of at least 60 years of age. According to ILO calculations, the proportion of households in poverty could decrease from 60.9% to 54.3% with a pension of 700 lempiras, and to 52.4% in the case of 1,400 lempiras (ILO, 2020).

2. Fundamentals for a non-contributory pension system in Honduras

The chief objective of a non-contributory pension system should be to guarantee basic income security for older persons and thus, in conjunction with other government actions, contribute to reducing poverty in old age. Poverty is not solely a monetary phenomenon but multidimensional, and the deprivations of old age are experienced in specific ways, such as the absence of care in the event of loss of autonomy, the lack of specialized health services for older persons, the lack of decent housing and habitat, and deprivations in terms of security, access to culture and education, among other basic rights. The establishment of a non-contributory pension system is fundamental for preventing and eradicating poverty, vulnerability and social exclusion among the older- age population. This should be complemented with other policies and programmes to improve the older population's general well-being in its multiple dimensions and guarantee all their rights.

As discussed in detail in chapter III, a non-contributory pension system can have major effects in terms of reducing gender inequalities, stimulating the local economy and increasing the development of human capacities.

3. Progressive guarantee of basic income security for older persons in Honduras

A non-contributory pension system that aspires to be universal should target all persons aged 65 years and older. However, acknowledging fiscal constraints, the system can use mechanisms to gradually incorporate the population requiring a non-contributory pension and thus move progressively towards guaranteeing basic income security, starting with persons living in poverty. Priority should be given to the most vulnerable population, that is those who do not have access to a contributory pension and whose income is below the poverty line. Data

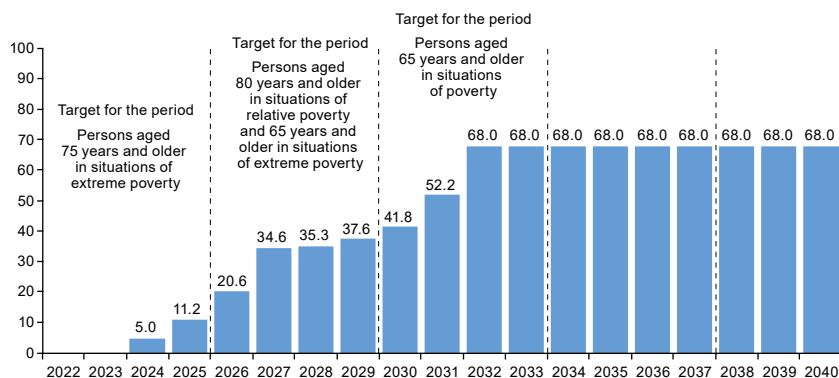
from the 2021 EPHPM, adjusted to CEPALSTAT population projections, show that 68.0% of the 435,162 persons aged 65 years and older living in Honduras are in a poverty situation.

This section evaluates two scenarios. In the first, the non-contributory pension is awarded only to individuals living in poverty. It starts with older persons living in extreme poverty and expands progressively until it covers all persons aged 65 years and older in poverty. In the second scenario, the only criterion is not having a contributory pension, and the eligible age is lowered successively until the entire population aged 65 years and older is covered within 15 years. In a later stage of implementation of this system, these criteria can be revised to increase the sufficiency of the pensions paid, particularly considering the situation of persons who receive small contributory pensions.

The first scenario requires a mechanism to identify the population living in poverty. Most conditional transfer programmes assess the socioeconomic situation of households through a proxy means test, similar to that used by the Single Socioeconomic Record. Applying this method assumes that the Record covers the entire population. In the medium term, it is important to strengthen the social register in the country and include municipalities by providing a characterization form to standardize the information collected and enable efficient and effective registration of the population.

This data collection usually entails administrative costs similar to those of a census (teams visit all households in the country, application of the form, evaluation of conditions and selection of participants); and it may be impossible to obtain all of the information in a single year. To meet this challenge, progressive implementation in three stages is proposed: (i) prioritization of persons aged 75 years or over living in extreme poverty and implementation over a two-year period until 2025, which would make it possible to cover 11.2% of the population aged 65 years and older; (ii) incorporation of persons aged 65 years and older in extreme poverty and those aged 80 or over in relative poverty, and implementation over a four-year period spanning 2026–2029, to increase coverage of the population aged 65 years and older to 37.6%; and lastly (iii) incorporation of persons aged 65 years and older in both extreme and relative poverty over a four-year period from 2030 to 2033, when coverage would attain 68.0% of the population aged 65 years and older (see figure VIII.5). From 2034 onwards, the participating population will vary according to the demographic growth rate and the participants' mortality rate; but in relative terms, coverage of 68.0% of persons aged 65 years and older will be maintained. These stages are proposed taking fiscal constraints into account; but, if funds are sufficient, the stages could be shortened and adjusted to the additional resources that become available.

Figure VIII.5
Honduras: progressive implementation of a non-contributory pension system
for persons aged 65 years and older living in poverty, 2022–2040
(Percentages covered)



Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, “Population estimates and projections: Excel tables. Revision 2022” [online <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>]; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>; Economic Commission for Latin America and the Caribbean (ECLAC), “Demographic and social. Demographic. Population. Total population, by sex (Thousands of persons, at mid-year)” [online] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en>; Household Survey Data Bank (BADEHOG).

At all stages it is important to prioritize older persons living alone, those with severe disabilities and those belonging to Indigenous and Afro-Honduran Peoples.

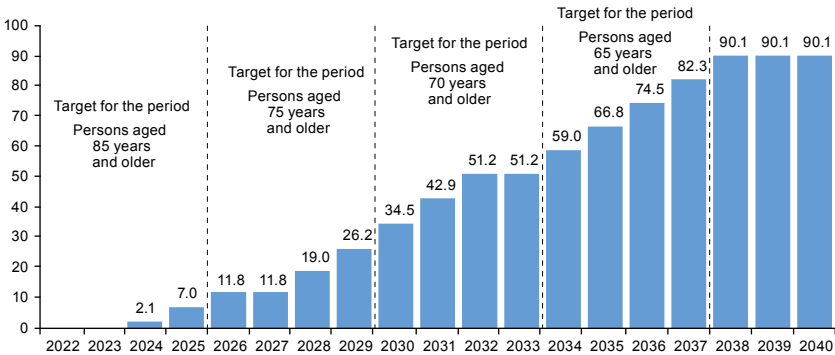
In the second scenario, the poverty status restriction is eliminated, and programme eligibility is by age range, thus avoiding the cost of collecting socioeconomic data to identify older persons in situations of poverty. This scenario is consistent in a context in which old age poverty affects two thirds of the target population and there are high rates of poverty vulnerability.¹² Although incorporating participants on the basis of age would mean accepting a potential inclusion error (participants who are not in a situation of poverty or vulnerability), the cost of including this segment of the population may be lower than that of conducting censuses with socioeconomic data on all households to identify a very small group.

¹² Households that are vulnerable to poverty have an income slightly above the poverty line but could be pushed into poverty by a macroeconomic or idiosyncratic shock. Based on IMF data (Menkos, 2021), the Central American Institute for Fiscal Studies estimates that 33.2% of the Honduran population is vulnerable in this sense. Stampini and others (2015) estimate that 38% of the population of Latin America was vulnerable to poverty in 2013. In 2019, 90.6% of the population of Honduras had incomes inferior to three times the per capita poverty line (which includes the low income, low income non-poor and lower-middle income strata) and were therefore considered highly vulnerable to a crisis (ECLAC, 2019).

It is proposed to consider only persons aged 65 years and older who do not receive a contributory pension. Given that the estimations are based on EPHPM, for the cost projections the aim would be to attain coverage of 90.1% of the population aged 65 years and older, who, according to that survey, would not have pension coverage in old age.

According to this rationale, figure VIII.6 presents a proposal for expanding the coverage of a non-contributory pension system for Honduras in four stages. The first stage consists of incorporating all persons of at least 85 years old who do not have a contributory pension, which would cover 7.0% of persons aged 65 years and older. The second stage would extend coverage to persons of at least 75 years, covering 26.2% of older persons; while the third stage would cover persons of at least 70 years old, encompassing 51.2% of the older-age population. The fourth and last stage would incorporate persons aged 65 years and older who do not have a contributory pension to attain coverage of 90.1% of the population aged 65 years and older by 2038. From that year onwards, the population covered will vary according to the demographic growth rate and the participant mortality rate; but in relative terms, coverage of 90.1% of the population aged 65 years and older will be maintained, which is the population that does not have a contributory pension, according to the 2021 EPHPM.

Figure VIII.6
Honduras: progressive implementation of a non-contributory pension system for all persons aged 65 years and older who do not have a contributory pension, 2022–2040
(Percentages covered)



Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, “Population estimates and projections: Excel tables. Revision 2022” [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>; Economic Commission for Latin America and the Caribbean (ECLAC), “Demographic and social. Demographic. Population. Total population, by sex (Thousands of persons, at mid-year)” [online] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en>; Household Survey Data Bank (BADEHOG).

This system would only require proof of residence (for example, a minimum number of years of residency in the country could be considered to access the non-contributory pension system), the age of the participants and, as indicated above, that they do not receive a contributory pension; in other words, it could be a process subject to demand from citizens. The duration of each stage could be adapted to the fiscal spaces available; and the population would be given a clear set of rules for accessing the non-contributory pension system, as well as the guarantee of inclusion.

4. Amount of the non-contributory pension

The present analysis assumes a non-contributory pension of 1,500 lempiras, which is close to the simple average of the amounts of non-contributory pensions implemented in Central American countries and Mexico (Delgado Chavarría, 2024). The poverty lines adjusted by ECLAC are used to compare this amount with the monetary poverty indicators. In 2021, a pension of 1,500 lempiras (equivalent to US\$ 60) would have covered 50.3% of the per capita urban basic food basket (or poverty line) and 64.7% of the rural equivalent.¹³ This amount would also cover 113.3% of a basic food basket, or the urban extreme poverty line, and 141.6% of the per capita rural basic food basket. Lastly, a useful indicator for assessing the sufficiency of the non-contributory pension is the average poverty gap among the poor. This indicator calculates the average income that a household in poverty needs to be able to attain the poverty line.¹⁴ In 2021, the average shortfall was 1,409.29 lempiras in urban areas and 1,380.99 lempiras in rural areas. Accordingly, a non-contributory pension of 1,500.00 lempiras would cover the entire gap in urban areas (106.4%) and in rural (108.6%) areas. Here again, as more fiscal resources become available, the non-contributory pension should gradually approach the value of a market consumption basket (see table VIII.7).

Table VIII.7

Honduras: relation between the non-contributory pension of 1,500 lempiras and the poverty and extreme poverty lines, 2021
(Lempiras and percentages)

	Urban areas	Rural areas
Transfer amount	1 500.00	1 500.00
Poverty line	2 983.37	2 317.26
Transfer as a proportion of the poverty line (Percentages)	50.3	64.7

¹³ The IMF exchange rate (2023) of 25 lempiras per dollar is used for 2023.

¹⁴ The poverty gap indicator is one of the Foster, Greer and Thorbecke poverty indices, and measures the average gap between the income of persons living in poverty and the level of the poverty line (or extreme poverty line). Expressed in percentage terms, it can be calculated relative to the poverty line (a basic shopping basket) or the extreme poverty line (a basic food basket).

	Urban areas	Rural areas
Average per capita income gap among persons living in poverty	1 409.29	1 380.99
Transfer as a proportion of the gap (Percentages)	106.4	108.6
Extreme poverty line	1 324.33	1 059.34
Transfer as a proportion of the extreme poverty line (Percentages)	113.3	141.6
Average per capita income gap among persons living in extreme poverty	630.10	525.44
Transfer as a proportion of the gap (Percentages)	238.1	285.5

Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

D. Estimation of the costs of the proposal and analysis of its effects in terms of reducing poverty and inequality

This section is divided into two parts. The first calculates the annual cost of implementing a non-contributory pension system under the two scenarios and their respective stages, as described in the previous section. The second part uses the 2021 EPHPM to simulate the effect of the non-contributory pension on household income. The simulation assumes that there is no external shock that could modify the effects of the non-contributory pension, either positively or negatively.

1. Estimation of the cost of implementing a non-contributory pension system

The cost of the first scenario is calculated using the coverage targets shown in figure VIII.5, in other words: persons aged 75 years and older in extreme poverty in the first stage; all persons aged 65 years and older in extreme poverty and persons who are at least 80 years old living in relative poverty in the second stage; and all persons aged 65 years and older in poverty (extreme and relative) in the third stage.

The cost estimation takes four design elements into account: (i) each participant will receive a non-contributory pension of 1,500 lempiras (equivalent to US\$ 60) per month, which will be adjusted for inflation at a rate of 4% per year; (ii) the administrative cost (including financial, staff hiring, office and running costs incurred by the Social Development Secretariat to implement the system) is estimated at 5% of the annual budget of the non-contributory pension; (iii) on average, the estimated cost of preparing a socioeconomic record form to classify households by

poverty status is 460 lempiras per participant;¹⁵ and (iv) a GDP growth rate of 3% is used to project the cost, which is close to the average annual growth rate recorded in 2009–2019.¹⁶

The cost estimation is presented in table VIII.8, which shows that the target of covering all persons aged 65 years and older living in extreme poverty in 2027 would cost an estimated 0.36% of GDP, while covering all persons aged 65 years and older living in poverty would cost 0.88% in 2032. Overall, the cost of achieving the programme's targets is spread over four government terms: the first would cost 0.11% of GDP in 2025, when all persons aged 75 and over in extreme poverty would be covered; the second would cost 0.42% of GDP in 2029, when all persons aged 65 years and older in extreme poverty and persons aged 80 and over in relative poverty would be covered; and the third would amount to 0.88% of GDP in 2032, when all persons aged 65 years and older in either extreme or relative poverty would be covered. At the end of the respective government period, the cost of covering this population would amount to 0.93% of GDP in 2033, given the natural population growth that will be maintained over time.¹⁷

The second scenario eliminates the targeting cost but increases the number of people covered. The cost of the first stage, that is coverage of persons aged 85 and over who do not have a contributory pension (without targeting by poverty status), would be equivalent to 0.07% of GDP. Increasing coverage to persons aged 75 and over would cost 0.30% of GDP, rising to 0.72% of GDP per year when coverage is extended to persons aged 70 and over, and to 1.43% of GDP when covering the population aged 66 and over. Lastly, coverage of all persons aged 65 years and older who do not receive a contributory pension would cost 1.66% of GDP in 2038, which would remain approximately constant in the following years (see table VIII.9).

Figure VIII.7 summarizes the cost of implementing each of the two scenarios presented in this section. These scenarios make it possible to stagger the costs of the programme until the coverage targets are met in the future. In the first scenario, the cost is 0.88% of GDP in 2033, once the population aged 65 years and older in a poverty situation is covered. In the second scenario, the cost rises to 1.66% of GDP in 2038, once the population aged 65 years and older who do not have a contributory pension, according to the 2021 EPHPM, are covered.

¹⁵ The cost of direct completion of the household socioeconomic evaluation questionnaire is provisionally estimated at US\$ 19 per person (at 2021 prices). This includes sending a team to visit all households in the department that include a person aged 65 years or older, establishing the algorithm to evaluate socioeconomic status, and selecting the target population.

¹⁶ For reference, the average growth rate in 2009–2019 was 3.1% (ECLAC, n.d.).

¹⁷ From 2033 onwards, new participants in the non-contributory pension system will be persons who attain 65 years of age and are living in poverty. The number of participants will decrease only through mortality. This natural population growth would generate a cost equivalent to about 1.36% of GDP in 2040.

Table VIII.8
Honduras: cost of implementing a non-contributory pension of 1,500 lempiras^a
for all persons aged 65 years and older living in poverty
(Millions of dollars and percentages)

Population group incorporated annually	Monthly cost	Annual direct cost	Administrative costs (5% of the direct cost of non-contributory pensions and US\$ 19 per person)	Total annual cost	Total annual cost (Percentages of GDP)	Coverage of the population aged 65 years and older (Percentages)	Year
	<i>(Millions of dollars)</i>						
First stage							
1. Persons aged 80 years and older living in extreme poverty	1.4	17.0	0.5	17.5	0.05	5.0	2024
2. Persons aged 75 years of age and older living in extreme poverty	3.5	41.7	1.2	42.9	0.11	11.2	2025
Second stage							
3. Persons aged 70 years and older living in extreme poverty	7.0	83.5	2.3	85.8	0.21	20.6	2026
4. Persons aged 65 years and older living in extreme poverty	12.7	152.8	4.1	156.9	0.36	34.6	2027
5. Persons aged 90 years and older living in relative poverty	14.1	169.0	4.5	173.5	0.37	35.3	2028
6. Persons aged 80 years and older living in relative poverty	16.3	195.2	5.1	200.3	0.42	37.6	2029
Third stage							
7. Persons aged 75 years and older living in relative poverty	19.6	234.7	6.0	240.7	0.48	41.8	2030
8. Persons aged 70 years and older living in relative poverty	26.7	320.0	8.0	328.0	0.64	52.2	2031

Population group incorporated annually	Monthly cost	Annual direct cost	Administrative costs (5% of the direct cost of non-contributory pensions and US\$ 19 per person)	Total annual cost	Total annual cost (Percentages of GDP)	Coverage of the population aged 65 years and older (Percentages)	Year
Third stage							
9. Persons aged 65 years and older living in relative poverty (the total population of this age group living in poverty is covered).	37.8	453.8	11.1	464.9	0.88	68.0	2032
10. Persons aged 65 years and older living in poverty	41.0	492.5	11.9	504.4	0.93	68.0	2033
Persons aged 65 years and older living in poverty	44.5	533.6	12.6	546.2	0.98	68.0	2034
	48.1	577.2	13.4	590.6	1.03	68.0	2035
	52.7	632.2	14.1	646.3	1.09	68.0	2036
	57.6	690.7	14.8	705.5	1.15	68.0	2037
Persons aged 65 years and older living in poverty	62.7	752.9	15.5	768.4	1.22	68.0	2038
	68.2	818.9	16.2	835.1	1.29	68.0	2039
	74.1	889.0	17.0	906.0	1.36	68.0	2040

Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2022" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>; Economic Commission for Latin America and the Caribbean (ECLAC), "Demographic and social. Demographic. Population. Total population, by sex (Thousands of persons, at mid-year)" [online] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en>; Household Survey Data Bank (BADEHOG).

^a The amount of the non-contributory pension is adjusted for inflation at an annual rate of 4%.

Table VIII.9
Honduras: cost of implementing a non-contributory pension of 1,500 lempiras^a for all persons 65 years
of age and older who do not receive a contributory pension
(Millions of dollars and percentages)

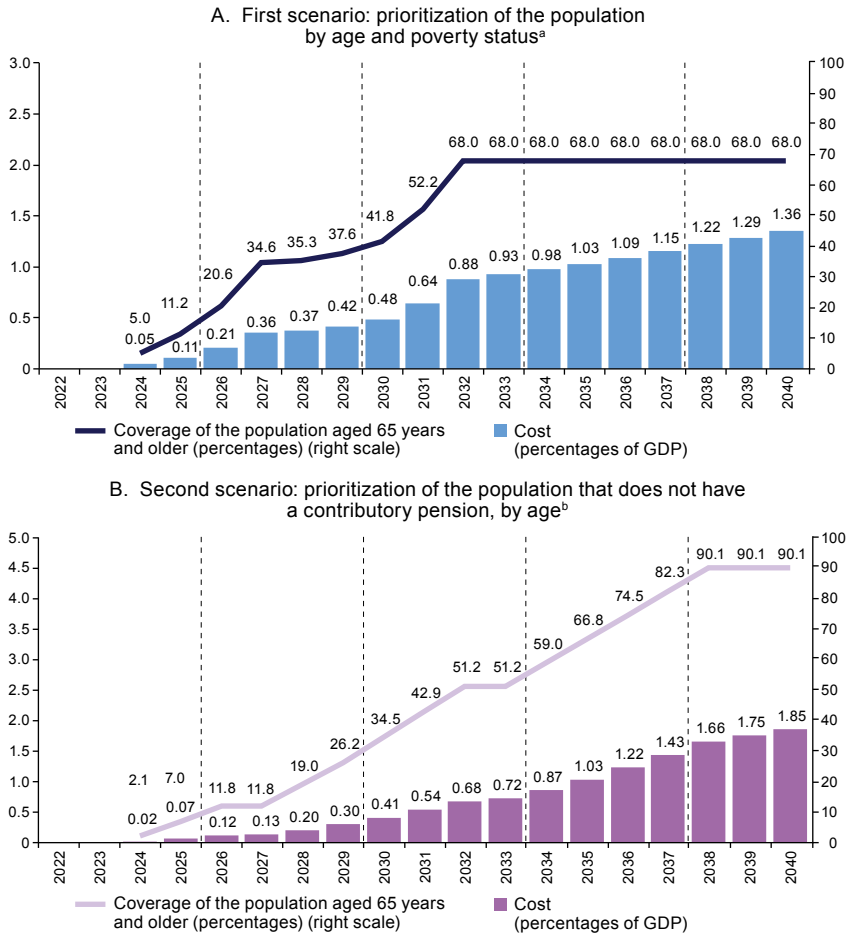
Population group incorporated annually	Monthly cost	Annual direct cost	Administrative costs (5% of the direct cost of non-contributory pensions <i>(Millions of dollars)</i>)	Total annual cost	Total annual cost <i>(Percentages of GDP)</i>	Coverage of the population aged 65 years and older <i>(Percentages)</i>	Year
First stage							
1. Persons aged 90 years and older	0.6	7.3	0.4	7.6	0.02	2.1	2024
2. Persons aged 85 years and older	2.2	25.9	1.3	27.2	0.07	7.0	2025
Second stage							
3. Persons aged 80 years and older	4.0	48.0	2.3	50.3	0.12	11.8	2026
4. Persons aged 80 years and older ^b	4.3	52.2	2.6	54.8	0.13	11.8	2027
5. Persons aged 77 years and older	7.6	91.1	4.6	95.7	0.20	19.0	2028
6. Persons aged 75 years and older	11.3	136.1	6.8	142.9	0.30	26.2	2029
Third stage							
7. Persons aged 73 years and older	16.2	194.1	9.7	203.8	0.41	34.5	2030
8. Persons aged 71 years and older	21.9	262.6	13.1	275.7	0.54	42.9	2031
9. Persons aged 70 years and older	28.4	341.0	17.1	358.1	0.68	51.2	2032
10. Persons aged 70 years and older ^b	30.8	370.1	18.5	388.6	0.72	51.2	2033
Fourth stage							
11. Persons aged 69 years and older	38.5	461.9	23.1	485.0	0.87	59.0	2034
12. Persons aged 68 years and older	47.1	565.5	28.3	593.8	1.03	66.8	2035
13. Persons aged 67 years and older	57.6	691.5	34.6	726.1	1.22	74.5	2036
14. Persons aged 66 years and older	69.5	834.2	41.7	875.9	1.43	82.3	2037
Fifth stage							
15. Persons aged 65 years and older	82.9	995.2	49.8	1 045.0	1.66	90.1	2038
Persons aged 65 years and older	90.2	1 082.4	54.1	1 136.5	1.75	90.1	2039
Persons aged 65 years and older	97.9	1 175.1	58.8	1 233.9	1.85	90.1	2040

Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2022" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>; Economic Commission for Latin America and the Caribbean (ECLAC), "Demographic and social. Demographic. Population. Total population, by sex (Thousands of persons, at mid-year)" [online] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en>; Household Survey Data Bank (BADEHOG).

^a The amount of the non-contributory pension is adjusted for inflation at an annual rate of 4%.

^b For 2027 and 2033, the participant population group, adjusted for growth, would be incorporated gradually over two years in order to facilitate a progressive cost increase.

Figure VIII.7
Honduras: cost of implementing a non-contributory pension programme
according to two prioritization scenarios
(Percentages)



Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, “Population estimates and projections: Excel tables. Revision 2022” [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>; Economic Commission for Latin America and the Caribbean (ECLAC), “Demographic and social. Demographic. Population. Total population, by sex (Thousands of persons, at mid-year)” [online] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en>; Household Survey Data Bank (BADEHOG).

Note: The dividing lines represent successive periods of government.

^a In this scenario non-contributory pensions are delivered exclusively to persons living in poverty throughout the specified periods. Coverage in the first period encompasses all persons aged 75 and older in extreme poverty; in the second period, all persons in extreme poverty and persons aged 80 years and older in relative poverty; in the third, all persons aged 65 and older in poverty (extreme and relative), with this coverage being maintained in the ensuing periods.

^b In this scenario all persons who lack access to a contributory pension are covered. In the first stage, persons aged 85 years and older who are in this situation are covered; in the second, persons aged 75 and older; in the third, persons aged 70 years and older; in the fourth, persons aged 66 years and over; and lastly, persons aged 65 and over.

2. Microsimulation of the potential effects of a non-contributory pension system

The effects on poverty of implementing a non-contributory pension can be analysed through microsimulations to evaluate the effects of a public policy on individuals, with either an ex ante or an ex post analysis. In this case, an ex-ante simulation is performed to evaluate the effect of the policy on poverty and inequality. The microsimulation methodology used is based on the work of Bourguignon, Ferreira and Leite (2002), who simulated the effects on well-being and behaviour of a series of alternatives for the *Bolsa Escola* conditional transfer programme in Brazil.

Microsimulations make it possible to model distributional effects and assume a partial equilibrium, which is one of the main differences from general equilibrium models. This methodology consists of using a household survey or microdata to generate information on counterfactual household incomes with the various non-contributory pension alternatives. These counterfactual incomes make it possible to estimate the poverty rate or the Gini coefficient if the non-contributory pension programme were to cover the entire target population.

This section uses a simulation that ignores changes in the labour market (for example, in the proportion of persons aged 65 years and older who leave the labour market because they have a non-contributory pension); and it only analyses the direct effects on poverty and inequality during the first year of implementation.

Table VIII.10 displays the results of simulating the implementation of a non-contributory pension system under the first scenario, that is awarding a non-contributory pension to all persons aged 65 years and older who are in situations of poverty or extreme poverty. Under this scenario, the incidence of poverty among older persons is reduced by 15.7 percentage points, from 68.0% to 52.3% over a period of nine years. The intensity of poverty also declines, as the difference between the income of persons living in poverty and the poverty line (the poverty gap) narrows. Among persons aged 65 years and older, the shortfall would narrow from 0.5587 to 0.4073. In the case of persons aged 65 years and older in extreme poverty, represented in the last two columns of table VIII.10, the non-contributory pension would have a much greater impact. By including the population aged 75 and over living in extreme poverty, the incidence of extreme poverty among older persons would decrease by 9 percentage points; whereas by attaining persons aged 80 years and over living in poverty, extreme poverty would be reduced by 19.1 percentage points. In total, the first scenario would reduce the incidence of extreme poverty among persons aged 65 years and older by 19.2 percentage points, from 34.5% to 15.3% over a nine-year period.

Table VIII.10
Honduras: effects of awarding a non-contributory pension to persons aged 65 years and older on poverty, extreme poverty
and the income gap of persons living in poverty and extreme poverty, under the first costed progressive implementation scenario^a
(Percentages and poverty lines)

	Poverty		Extreme poverty	
	Incidence of poverty ^b (Percentages)	Income gap among persons living in poverty ^c (Multiples of poverty lines)	Incidence of extreme poverty ^b (Percentages)	Income gap among persons living in extreme poverty ^c (Multiples of the extreme poverty line)
Initial situation without a non-contributory pension	68.0	0.5587	34.5	0.5435
Additional population group incorporated ^d				
Persons aged 80 years and living in extreme poverty	67.4	0.5216	29.7	0.5060
Persons aged 75 years and older living in extreme poverty	66.9	0.4919	25.5	0.4702
Persons aged 70 years and older living in extreme poverty	66.5	0.4562	20.4	0.4126
Persons 65 years and older living in extreme poverty	66.2	0.4180	15.5	0.3380
Persons aged 90 years and older living in poverty	65.8	0.4169	15.5	0.3380
Persons aged 80 years and older living in poverty	63.5	0.4095	15.4	0.3387
Persons aged 75 years and older living in poverty	60.8	0.4093	15.4	0.3387
Persons aged 70 years and older living in poverty	57.6	0.4047	15.3	0.3393
Persons aged 65 years and older living in poverty	52.3	0.4073	15.3	0.3393

Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2022" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/excel-tables>; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>; Economic Commission for Latin America and the Caribbean (ECLAC), "Demographic and social. Demographic. Population. Total population, by sex (Thousands of persons, at mid-year)" [online] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en>; Household Survey Data Bank (BADEHOG).

^a The estimations are based on data obtained from by the Permanent Multipurpose Household Survey 2021.

^b The figures represent the incidence of poverty or extreme poverty among the population aged 65 years and older when the indicated population groups are covered.

^c The figures represent the income gap among persons living in poverty or extreme poverty relative to the poverty and extreme poverty lines, respectively, when the different population groups indicated are covered.

^d The population groups that are incorporated gradually into the programme and receive the non-contributory pension, maintaining the groups already incorporated in each case. These estimates do not consider the population projections used to estimate the cost.

Table VIII.11 reports the results of the simulation of implementing a non-contributory pension system under the second scenario—that is, awarding a non-contributory pension to all persons aged 65 years and older who do not receive a contributory pension, regardless of their poverty status and in accordance with the targets proposed in figure VIII.6. First, by assigning the non-contributory pension to persons aged 85 and over who do not have a contributory pension, the incidence of poverty among persons aged 65 years and older is reduced by 3.1 percentage points. Then, including persons aged 75 years and older reduces it by an additional 3.5 points. Subsequently, by including persons aged 70 years and older, the incidence of poverty among older persons is reduced by an additional 3.3 percentage points. Lastly, by covering all persons of at least 65 years of age, poverty in this group is reduced by an additional 5.6 points. In total, the incidence of poverty among persons aged 65 years and older would be reduced by 15.5 percentage points, from 68.0% to 52.5% in 14 years. Moreover, the poverty gap narrows from 0.5587 to 0.4067 for persons aged 65 years and older; in other words, not only is the number of persons living in poverty reduced, but the depth of poverty also declines. As in the first case, the effects of the second scenario would be greater in reducing extreme poverty, as shown in the last two columns of table VIII.11. In total, the non-contributory pension would reduce extreme poverty among persons aged 65 years and older by 20.9 percentage points, from 34.5% to 13.6% in 14 years.

The microsimulations also make it possible to analyse the redistributive effect of implementing a non-contributory pension system. Table VIII.12 shows the quintile distribution of contributory pension recipients and potential recipients of the proposed non-contributory pension. The fact that 69.6% of pensioners in the contributory pension system are concentrated in the fourth and fifth quintiles, indicates its highly regressive nature. The first scenario of granting a non-contributory pension is more egalitarian, since 63.3% of the participants correspond to the first two quintiles and 8.1% to the fourth and fifth quintiles. In the second scenario, which is also progressive, 46.7% of the participants are concentrated in the first two quintiles, 38.1% in the third and fourth quintiles and 15.2% in the fifth.

Table VIII.11
Honduras: effects of awarding a non-contributory pension to persons aged 65 years and older on poverty, extreme poverty and the income gap of persons living in poverty and extreme poverty, under the second costed progressive implementation scenario^a
(Percentages and poverty lines)

	Poverty		Extreme poverty	
	Incidence of poverty ^b (Percentages)	Income gap among persons living in poverty ^c (Multiples of poverty lines)	Incidence of extreme poverty ^b (Percentages)	Income gap among persons living in extreme poverty ^c (Multiples of the extreme poverty line)
Initial situation without a non-contributory pension	68.0	0.5587	34.5	0.5435
Additional population group incorporated^d				
Persons aged 85 years of age and older	64.9	0.5439	29.1	0.4500
Persons aged 75 years of age and older ^a	61.4	0.4892	23.0	0.4099
Persons aged 70 years of age and older ^a	58.1	0.4456	18.1	0.3625
Persons aged 65 years of age and older ^a	52.5	0.4067	13.6	0.2976

Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2022" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>; Economic Commission for Latin America and the Caribbean (ECLAC), "Demographic and social. Demographic. Population. Total population, by sex (Thousands of persons, at mid-year)" [online] <https://statistics.cepal.org/portal/cepalstat/dashboard.html?theme=1&lang=en>; Household Survey Data Bank (BADEHOG).

^a The estimations are based on data obtained from by the Permanent Multipurpose Household Survey 2021.

^b The figures represent the incidence of poverty or extreme poverty among the population aged 65 years and older when the indicated population groups are covered.

^c The figures represent the income gap among persons living in poverty or extreme poverty relative to the poverty and extreme poverty lines, respectively, when the different population groups indicated are covered.

^d The population groups that are incorporated gradually into the programme and receive the non-contributory pension, maintaining the groups already incorporated in each case. These estimates do not consider the population projections used to estimate the cost.

Table VIII.12
Honduras: distribution of participants in the contributory pension system and the non-contributory pension system, in two scenarios, by income quintile
(Percentages)

	Persons aged 65 years and older	Contributory coverage of pensioners (persons aged 65 years and older) ^a	Non-contributory pension recipients: first scenario ^b	Non-contributory pension recipients: second scenario ^c
Quintile I	21.9	1.8	32.1	24.1
Quintile II	21.2	8.8	31.2	22.6
Quintile III	20.4	19.7	28.6	20.4
Quintile IV	18.2	23.2	8.1	17.7
Quintile V	18.3	46.4	0.0	15.2
Total	100	100	100	100

Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a The data correspond to the Permanent Multipurpose Household Survey (EPHPM) 2019.

^b In this scenario non-contributory pensions are delivered exclusively to persons living in poverty throughout the specified periods. Coverage in the first period encompasses all persons aged 75 and older in extreme poverty; in the second period, all persons in extreme poverty and persons aged 80 years and older in relative poverty; in the third, all persons aged 65 and older in poverty (extreme and relative), with this coverage being maintained in the ensuing periods.

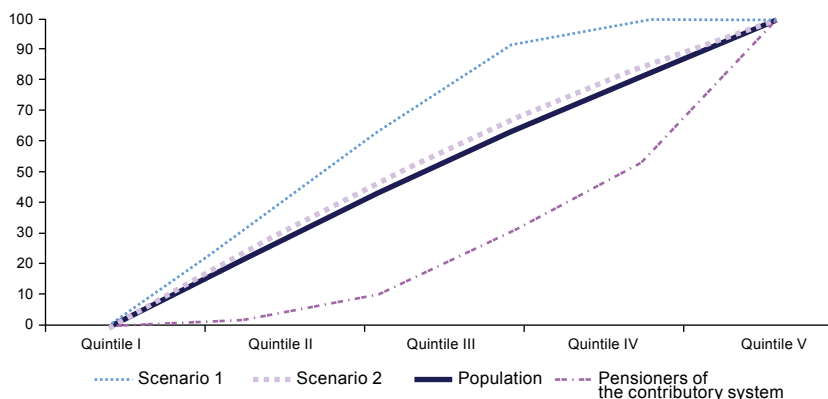
^c In this scenario all persons who lack access to a contributory pension are covered. In the first stage, persons aged 85 years and older who are in this situation are covered; in the second, persons aged 75 and older; in the third, persons aged 70 years and older; in the fourth, persons aged 66 years and over; and lastly, persons aged 65 and over.

Figure VIII.8 shows the distribution of the two non-contributory pension implementation scenarios compared to the contributory system. The solid line represents equal distribution. Both the first and second scenarios are above this line. However, the second scenario is closer to equal distribution, whereas the first scenario is more progressive. In contrast, the contributory system, as currently operated, is regressive.

To measure the effects on income inequality, the change in the Gini coefficient is calculated for each scenario. If a non-contributory pension of 1,500 lempiras is awarded to older persons in poverty (scenario 1), the Gini coefficient decreases by 0.072 points, from 0.615 to 0.543 after a reduction of 0.056 points in the first stage, an additional 0.010 points in the second and 0.006 in the third (see table VIII.13).

If a non-contributory pension of 1,500 lempiras is awarded irrespective of poverty status (second scenario), a similar effect on inequality is obtained, since the Gini coefficient declines by 0.069 points, from 0.615 to 0.546 when covering all persons aged 65 years and older who do not have a contributory pension (see table VIII.14).

Figure VIII.8
Honduras: simulation of the redistributive effect of the two scenarios
for incorporating the non-contributory pension system^a
(Percentages)



Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

Note: The “population” is shown for reference, indicating an equitable distribution of resources.

^a The information on contributory passive coverage (65 years and older) are obtained from the Permanent Multipurpose Household Survey 2019. Simulations are made according to data from the 2021 Survey.

Table VIII.13
Honduras: simulation of the effect on the Gini coefficient of awarding
a non-contributory pension to persons aged 65 years
and older living in poverty, 2021
(Index with values ranging from 0 to 1, where 0 = no inequality and 1 = maximum inequality)

	Gini coefficient	95% confidence interval ^a
Initial situation	0.615	0.574 0.685
Additional population group incorporated^b		
Persons aged 80 years and older living in extreme poverty	0.562	0.519 0.616
Persons aged 75–79 years living in extreme poverty	0.559	0.518 0.628
People aged 70–74 years living in extreme poverty	0.555	0.515 0.619
Persons aged 65 and 69 years of age living in extreme poverty	0.551	0.504 0.603
Persons aged 90 years and older living in poverty	0.551	0.511 0.604
Persons aged 80–89 years living in poverty	0.549	0.514 0.622
Persons aged 75–79 years living in poverty	0.548	0.511 0.619
Persons aged 70–74 years living in poverty	0.546	0.502 0.602
Persons aged 65–69 years living in poverty	0.543	0.505 0.633

Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a The intervals were calculated using the bias-corrected option.

^b Population groups that are incorporated gradually into the programme and receive the non-contributory pension, maintaining the groups already incorporated in each case.

Table VIII.14

Honduras: simulation of the effect on the Gini coefficient of awarding a non-contributory pension to persons aged 65 years and older who do not receive a contributory pension, 2021

(Index with values ranging from 0 to 1, where 0 = no inequality and 1 = maximum inequality)

	Gini coefficient	95% confidence interval ^a	
Initial situation	0.615	0.574	0.685
Additional population group incorporated^b			
Persons aged 85 years and older	0.564	0.529	0.626
Persons aged 75 years and older	0.558	0.518	0.636
Persons aged 70 years and older	0.552	0.516	0.613
Persons aged 65 years and older	0.546	0.507	0.598

Source: Prepared by the authors, on the basis of National Institute of Statistics of Honduras, Permanent Multipurpose Household Survey 2021; Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a The intervals were calculated using the bias-corrected option.

^b Population groups that are incorporated gradually into the programme and receive the non-contributory pension, maintaining the groups already incorporated in each case.

In short, the implementation of a non-contributory pension system targeted to persons in poverty has a greater effect on reducing poverty among persons aged 65 years and older, than a non-contributory pension system of universal coverage for older persons who do not have contributory pensions. By targeting the older population in poverty, the programme would reduce old-age poverty by 15.7 percentage points and extreme poverty by 19.2 points, with a cost equivalent to 0.88% of GDP in 2032. In contrast, awarding a non-contributory pension to all who do not have a contributory pension would reduce old age poverty by 15.5 points and extreme poverty in old age by 20.9 points, but at a cost of 1.66% of GDP in 2038. Similar results are observed in terms of reducing inequality, as the targeted non-contributory pension reduces the Gini coefficient by 0.072 points, whereas the non-contributory pension with universal coverage reduces it by 0.069 points. While the non-contributory pension for persons living in poverty may be the most cost-effective option in terms of reducing poverty and inequality, it might exclude vulnerable people who, in the face of a macroeconomic crisis or a natural disaster, could fall into poverty without a social safety net to protect them. In this context, the targeted non-contributory pension system should have the flexibility needed to incorporate more people as household economic conditions change.

E. Conclusions and recommendations

The Honduran contributory pension system has considerable shortcomings in terms of preventing poverty among the population in old age. Addressing this situation requires greater institutional responsiveness to the rapid

demographic changes that are foreseen. This is reflected in the system's sparse coverage of the economically active population and, therefore, the small proportion of persons aged 65 years and older accessing a contributory pension. Compounding this low coverage rate is the fragmentation of the system into four public institutions and a complementary optional regime, which entails different rules for different groups of workers.

Another shortcoming of the Honduran contributory pension system is that it does not adapt to the reality of the labour market but, on the contrary, reproduces its inequities. The country's formal labour market suffers from major gender inequalities. Only 46% of women participate in the labour market and 66.8% of those who do not participate state that this is due to household chores and care work that do not guarantee a pension in old age. The contributory pension system also does not offer options, or provides sparse coverage, to the sectors that generate the most employment in the country —self-employment, agriculture, micro and small enterprises and domestic work— and also in the case of informal workers. Honduras' contributory pension system does not include any of these categories, and there are no public policies aimed at increasing its coverage or adapting it to the country's labour market.

The gender inequalities that characterize the labour market are therefore reproduced, as most women lack access to the system's entitlements owing to low rates of labour participation and the fact that unpaid domestic and care work in the home is not recognized.

The sparse coverage of the contributory pension system means that most persons aged 65 years and older are economically dependent on other members of their households and, consequently, lack economic autonomy. Moreover, a significant proportion (22.0%) of older persons still depend on their labour income, mainly in the case of men and rural dwellers. For these reasons, the poverty and extreme poverty rates among persons aged 65 years and older amount to 68.0% and 34.5%, respectively.

The large gaps that exist in the coverage of the contributory pension system prevent sufficient pensions from being provided to everyone aged 65 years and older, and this is compounded by the limited capacity of the Honduran labour market to generate decent work opportunities that guarantee the right to social security. It is therefore proposed to establish a non-contributory pension system in Honduras, which would not be linked to the labour market and would offer a non-contributory pension with the aim of preventing poverty in old age. This type of system has been implemented in other parts of the world, with positive results in terms of reducing old-age poverty, as well as positive indirect effects on food security and the autonomy of older persons, while also improving the human capacities of other household members.

Microsimulations were performed to determine the effects of implementing a non-contributory pension system in Honduras, under two scenarios. In the first, awarding a non-contributory pension to persons aged 65 years and older who are in poverty situations would reduce the incidence of poverty in old age by 15.7 percentage points and the Gini coefficient by 0.072 points (from 0.615 to 0.543). This strategy would be implemented in three stages: in the first, 11.2% of persons aged 65 years and older would be covered at an annual cost equivalent to 0.11% of GDP; in the second, coverage would increase to 37.6% at a cost of 0.42% of GDP; and in the third, these figures would increase to 68.0% and 0.88% of GDP, respectively, in 2032. Alternatively, awarding a non-contributory pension to all persons aged 65 years and older who do not have a contributory pension would reduce the incidence of old-age poverty in by 15.5 percentage points and reduce inequality, as measured by the Gini coefficient, by 0.069 points. Coverage of 90.1% of persons aged 65 years and older would be achieved at an annual cost of 1.66% of GDP. These results show that a non-contributory pension system targeted on the population living in poverty (first scenario) would be more cost-effective, although this evaluation should consider the magnitude of poverty that exists among older persons in Honduras, and the importance of protecting this population against critical events that could have repercussions on their well-being.

In addition to proceeding to implement this system, it is suggested that other alternatives be defined that could contribute to expanding contributory coverage in the country, such as the “monotax” system for self-employed workers and the extension of pension coverage to domestic workers. These measures could bring additional contributors into the system, reduce the significant gender inequalities and raise minimum pensions to levels of sufficiency that at least exceed the cost of the basic food basket. It is also necessary to consolidate the policies of the Honduran social protection system, including comprehensive care policies. The promotion of co-responsibility in unpaid care work would increase women’s participation in the regulated labour market. It is also necessary to strengthen training measures to improve workers’ skills and generate formal jobs with guaranteed access to the contributory social protection system.

In this context, a non-contributory pension system should form part of a set of comprehensive policies for older persons. Its design and implementation should be accompanied by the strengthening of specialized health, housing and education policies. Such policies will contribute to the well-being of people in their multiple dimensions.

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Part III

**A strategy for moving towards sustainable,
solidarity-based non-contributory
pension systems: final reflections**

Chapter IX

Financial sustainability for the expansion of non-contributory pension systems and the eradication of old-age poverty

*Alberto Arenas de Mesa
Ernesto Espíndola
Juan Ignacio Vila*

Introduction

Income protection is a substantive factor and a priority of social protection systems in Latin America and the Caribbean, in particular at either end of the life cycle (i.e. childhood and old age). This is due to the greater vulnerability and lower earning capacity of these population segments compared with other age groups, among other factors (Santos Garcia, Fariás and Robles, 2023). In these circumstances, pension systems, in particular non-contributory pension systems, have become a crucial public policy tool in the effort to eradicate poverty and extreme poverty in old age and provide economic security.

The sustainability of social protection is central to the design and implementation of public policies for reducing poverty and inequality in the region. Social protection, and pension systems in particular, are sustainable when they are able to fulfil their mandates and commitments to current and future generations in respect of coverage, sufficiency of

entitlements and financial sustainability. Ensuring that pension systems are sustainable enhances the capacity of the social protection system to reduce poverty in the region (Arenas de Mesa, 2024).

Financial sustainability is central to the sustainability of pension systems, in particular non-contributory pension systems, because they are financed from public resources, and this, with other factors, determines and conditions the coverage and sufficiency of the entitlements they can provide to the older population. The financial sustainability of non-contributory pension systems is thus directly linked to fiscal space and fiscal sustainability in the countries in the region (Arenas de Mesa, 2019). In a decade of low growth, fiscal stringency and high levels of poverty, non-contributory pension systems are vital to efforts to reduce inequalities and guarantee the rights of older persons.

One of the most important transformations this century as regards pension systems and the effort to increase the coverage of non-contributory social protection programmes in the region has been the creation of non-contributory pension systems and the expansion of their coverage. Whereas only 14 of the 33 countries in Latin America and the Caribbean had non-contributory pension systems in 2000, this figure had increased to 28 countries by 2023. Thus, non-contributory pension coverage of the population aged 65 and over grew from 3.4% to 31.0% between 2000 and 2022 (see chapter III). This translated into an increase in public spending from 0.24% of gross domestic product (GDP) in 2000 to 0.51% of GDP in 2021. In two decades, public spending on such schemes increased by 0.27 percentage points of GDP and coverage expanded to more than 19 million people, many of whom were lifted out of extreme poverty or poverty.

The expansion in the coverage of non-contributory pension systems in the region has been possible in part because the financial commitments involved have been financed out of the annual budget flow in each country, and therefore no structural tax reforms have been needed to achieve sustainable financing. The characteristics of the labour market (high levels of informality and jobs without social protection) and the demographic transition (rapid population ageing) are two of the main dimensions driving potential growth in the coverage of non-contributory pension systems, both of which will affect financial sustainability.

With respect to the characteristics of the labour market, some 50% of people participating in it in the region do so informally (ECLAC, 2023). This figure confirms that demand from the population aged 65 and over for access to non-contributory pension systems will only increase, that in most cases this pension will be older persons' only source of income and that, owing to both employment and demographic factors, the majority

of recipients will be women. The demographic transition and rapid population ageing will be another factor driving up the demand that the region's pension systems, in particular non-contributory pension systems, will have to meet (see section IX.A).

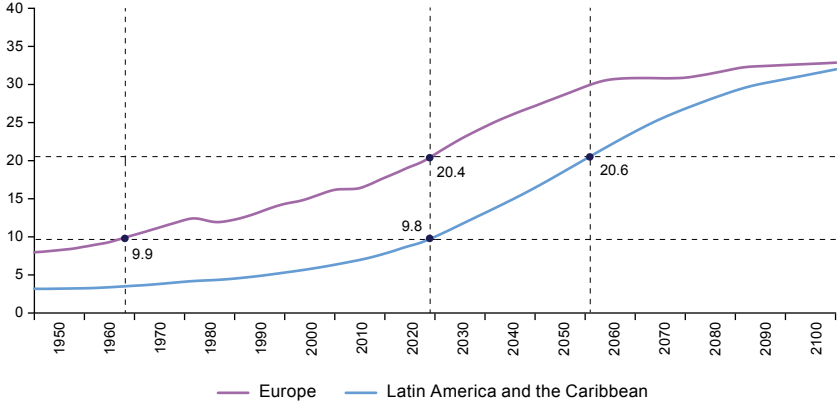
This chapter focuses on the financial sustainability of non-contributory pension systems. Section A examines the rapid ageing of the region's population and the potential demand for non-contributory pension system coverage that the demographic transition may generate. Section B draws on the Economic Commission for Latin America and the Caribbean (ECLAC) Non-contributory Social Protection Programmes Database in Latin America and the Caribbean to present the public expenditure series for non-contributory pension systems in 24 countries of the region between 2000 and 2021. Section C projects public spending on non-contributory pension systems to 2035 and 2055 under different scenarios for pension coverage and sufficiency of benefits. Section D estimates the effects of non-contributory pension systems in reducing poverty and inequality, and section E presents some concluding remarks and reflections.

A. Rapid population ageing in the region: the rise in demand for non-contributory pension systems

Latin America and the Caribbean is facing a demographic transition characterized by rapid population ageing. In this context, pension systems are becoming increasingly important in terms of both social policy needs and their substantial effects on welfare provision and the fiscal situation. This phenomenon is also of increasing political importance because of the large number of people involved (Huenchuan, 2013; IDB/OECD/World Bank, 2015; ECLAC, 2022).

A better perspective on population ageing and its scale in the region can be obtained by comparing it to average ageing in the European countries. Estimates indicate that in 2024, people aged 65 and over will represent 9.8% of the population of Latin America and the Caribbean and 20.4% of the population of Europe. While in Europe the demographic transition, understood as growth from 10% to 20% in the proportion of the population aged 65 and over, took 57 years (from 9.9% in 1967 to 20.4% in 2024), it is estimated that in Latin America and the Caribbean this age group will increase from 9.8% of the total population in 2024 to 20.6% in 2054, confirming that the region's demographic transition will be characterized by rapid ageing (see figure IX.1).

Figure IX.1
Latin America and the Caribbean (33 countries) and Europe
(48 countries and territories):^a population aged 65 and over
as a share of the total population, 1950–2100
(Percentages)



Source: Prepared by the authors, on the basis of United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>.

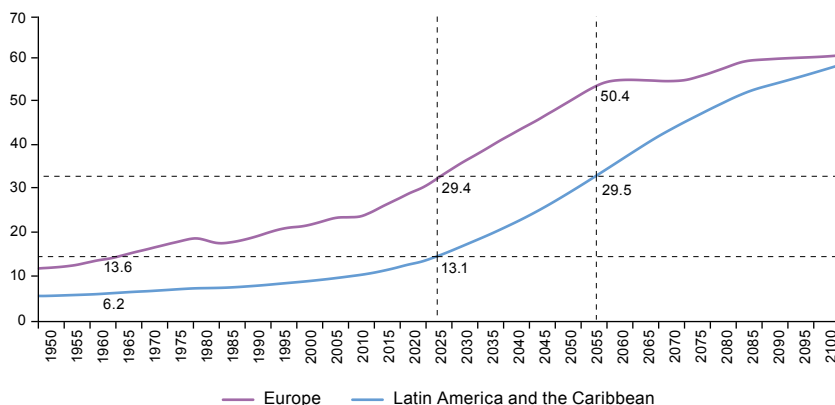
^a Albania, Andorra, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Gibraltar, Greece, Guernsey, Hungary, Iceland, Ireland, Isle of Man, Italy, Jersey, Kingdom of the Netherlands, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Montenegro, North Macedonia, Norway, Poland, Portugal, Republic of Moldova, Romania, Russian Federation, San Marino, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine and the United Kingdom.

Rapid population ageing is the main demographic phenomenon in the region and will be of particular importance for the financial sustainability of pension systems, especially non-contributory pension systems.

One of the main objectives of pension systems is to achieve adequate coverage, with the ultimate goal of universality. The bulk of people who will potentially need the coverage of a pension system belong to the older population. Since this group of people, generally aged 65 and over, requires pensions and other consumer goods and services, one of the demographic indicators most commonly used in the design and evaluation of pension systems is the demographic dependency ratio. The total demographic dependency ratio is the ratio of the theoretically dependent population (younger and older persons) to the working-age population (potential workers). This indicator can be broken down into the youth dependency ratio (younger persons relative to the working-age population) and the old-age dependency ratio, which is defined as the ratio of older persons (65 and over) to the working-age population (aged 15 to 64).

In 1960, the ratio of the population aged 65 and over to the population aged 15 to 64 was 13.6% in Europe and 6.2% in Latin America and the Caribbean. By 2020, these ratios had increased to 29.4% and 13.1%, respectively. According to population projections for 2050, the old-age dependency ratio will have risen to 50.4% in Europe and 29.5% in Latin America and the Caribbean (see figure IX.2).

Figure IX.2
Latin America and the Caribbean (33 countries) and Europe
(48 countries and territories):^a demographic dependency ratio between
older persons (aged 65 and over) and the working-age population
(aged 15 to 64), 1950–2100
(Percentages)



Source: Prepared by the authors, on the basis of United Nations, *World Population Prospects 2022*, New York, 2022 [online] <https://population.un.org/wpp/>.

^a Albania, Andorra, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Gibraltar, Greece, Guernsey, Hungary, Iceland, Ireland, Isle of Man, Italy, Jersey, Kingdom of the Netherlands, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Montenegro, North Macedonia, Norway, Poland, Portugal, Republic of Moldova, Romania, Russian Federation, San Marino, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine and the United Kingdom.

This estimate of older persons' demographic dependency in the region by 2050 is very similar to the figure for Europe in 2020. While the ageing process in Europe took about 60 years, it is expected to be considerably faster in Latin America and the Caribbean, taking about 30 years (Huenchuan, 2013). Demographic projections confirm that, within a very short period of time (equivalent to one generation), the region should reach a level of ageing similar to that of Europe in 2020. However, it is very likely that the financial resources to address this phenomenon in Latin America and the Caribbean will be much smaller than those available in Europe in 2020 to finance social protection in old age (Arenas de Mesa, 2019).

As mentioned, population ageing is occurring faster in the countries of the region than it did in developed countries in the past (ECLAC, 2022), which means that the Latin American and Caribbean countries will have less time to adapt to the consequences of this demographic phenomenon. This will increase pressure on social protection systems (both health and pensions), and on non-contributory pension systems, in particular. There will be particular challenges for financial sustainability, as the rise in the population aged 65 and over will increase both public expenditure and the need for more adequate entitlements.

To cope with the rapid demographic transition, which is unprecedented in the region, the countries will have to plan ahead and negotiate new social and fiscal covenants that make it viable to implement public policies addressing poverty and the potential lack of social protection (in particular that resulting from the low coverage of contributory pension systems), while ensuring the financial sustainability of pension systems. Non-contributory pension systems have a key role to play in addressing this challenge (Arenas de Mesa, 2019).

B. Public expenditure on non-contributory pension systems in Latin America and the Caribbean over the period 2000–2021

By 2023, 28 of the 33 countries in Latin America and the Caribbean had non-contributory pension systems. This is a very major advance, considering that only 14 countries of the region had such systems in 2000. The ECLAC Non-contributory Social Protection Programmes Database in Latin America and the Caribbean contains information on public expenditure and non-contributory social protection coverage in the countries of the region. This information includes data on non-contributory pension systems in 25 countries.¹

Public spending by non-contributory pension systems on old-age and disability entitlements in Latin America and the Caribbean averaged 0.51% of GDP in 2021. When only non-contributory old-age pensions for persons aged 65 and over are considered, public expenditure was 0.42% of GDP in 2021 (see tables IX.1 and IX.2).

¹ The Non-contributory Social Protection Programmes Database in Latin America and the Caribbean contains information on the non-contributory pension systems of Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Trinidad and Tobago and Uruguay. Up-to-date coverage information is available for 23 countries, while up-to-date information for expenditure on these systems is available for 24 countries. See [online] <https://dds.cepal.org/bpsnc/home>.

Table IX.1
Latin America and the Caribbean (25 countries): public expenditure on non-contributory
old-age and disability pensions, 2000–2021
(Percentages of GDP)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Antigua and Barbuda	0.05	0.04	0.04	0.04	0.04	0.04	0.03	0.03	0.02	0.02	0.02	0.15	0.02	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00
Argentina	0.23	0.23	0.23	0.23	0.23	0.23	0.28	0.36	0.41	0.55	0.60	0.69	0.87	0.95	0.97	1.05	0.97	0.99	0.90	0.86	0.99	0.86
Bahamas	0.18	0.18	0.18	0.17	0.16	0.14	0.13	0.14	0.14	0.15	0.15	0.15	0.14	0.14	0.13	0.12	0.12	0.12	0.11	0.10	0.10	0.10
Barbados	0.32	0.35	0.37	0.57	0.50	0.42	0.34	0.29	0.26	0.25	0.25	0.21	0.15	0.19	0.14	0.11	0.11	0.10	0.12	0.08	0.09	0.09
Belize	-	-	-	0.06	0.09	0.10	0.09	0.09	0.18	0.18	0.15	0.14	0.12	0.11	0.09	0.08	0.07	0.06	0.05	0.05	0.05	0.04
Bolivia (Plurinational State of)	0.27	0.27	0.86	1.31	1.19	1.13	0.96	0.86	1.34	1.38	1.26	1.08	0.99	1.07	1.20	1.25	1.26	1.36	1.37	1.54	1.85	1.52
Brazil	0.17	0.20	0.23	0.26	0.30	0.35	0.40	0.42	0.44	0.51	0.52	0.52	0.57	0.59	0.61	0.66	0.73	0.76	0.75	0.75	0.78	0.71
Chile	0.38	0.37	0.36	0.35	0.31	0.32	0.30	0.31	0.41	0.55	0.55	0.51	0.49	0.46	0.43	0.42	0.41	0.43	0.42	0.41	0.52	0.52
Colombia	-	-	-	n/i	n/i	n/i	n/i	n/i	0.15	0.15	0.15	0.15	0.07	0.13	0.12	0.14	0.13	0.12	0.12	0.12	0.16	0.14
Costa Rica	0.29	0.28	0.35	0.31	0.26	0.56	0.38	0.65	0.89	0.64	0.47	0.49	0.47	0.47	0.46	0.45	0.46	0.44	0.44	0.45	0.50	0.45
Cuba	n/i	n/i	n/i	0.04	0.04	0.04	0.05	0.04	0.04	0.04	0.03	0.02	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01
Dominican Republic	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.00	0.01	0.02
Ecuador	-	-	-	0.49	0.46	0.39	0.39	0.74	0.72	0.89	0.95	1.03	0.98	0.90	0.77	0.64	0.51	0.41	0.37	0.45	0.59	0.58
El Salvador	-	-	-	-	-	-	-	-	-	0.00	0.02	0.04	0.05	0.08	0.08	0.08	0.07	0.07	0.07	0.07	0.08	0.08
Guatemala	-	-	-	-	-	n/i	0.13	0.13	0.13	0.13	0.14	0.13	0.12	0.11	0.11	0.10	0.10	0.09	0.09	0.08	0.08	0.08
Guyana	n/i	n/i	n/i	n/i	n/i	n/i	0.58	0.58	0.58	0.57	0.55	0.58	0.69	0.87	0.93	0.91	1.21	1.23	1.31	1.35	1.97	1.64
Mexico	-	-	-	-	-	-	-	0.05	0.08	0.10	0.10	0.09	0.11	0.15	0.21	0.21	0.19	0.17	0.15	0.49	0.60	0.65
Panama	-	-	-	-	-	-	-	-	-	0.15	0.38	0.26	0.27	0.23	0.27	0.32	0.34	0.32	0.32	0.30	0.37	0.30

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Paraguay	-	-	-	-	-	-	-	-	-	-	0.00	0.03	0.13	0.22	0.29	0.38	0.36	0.43	0.50	0.52	0.58	0.57
Peru	-	-	-	-	-	-	-	-	-	-	-	0.05	0.05	0.08	0.12	0.13	0.12	0.13	0.12	0.12	0.14	0.12
Saint Kitts and Nevis	0.15	0.14	0.14	0.15	0.13	0.12	0.10	0.09	0.08	0.09	0.09	0.08	0.07	0.06	0.06	0.06	0.05	0.05	0.04	0.04	0.04	0.04
Saint Vincent and the Grenadines	0.12	0.11	0.12	0.16	0.14	0.13	0.13	0.12	0.12	0.12	0.11	0.11	0.10	0.10	0.09	0.08	0.07	0.06	0.05	0.04	0.04	0.04
Trinidad and Tobago	-	0.99	1.23	1.04	1.01	0.99	0.89	0.92	0.93	1.55	1.52	1.93	1.80	1.67	1.58	2.02	2.82	2.56	2.52	2.73	3.24	3.20
Uruguay	0.46	0.47	0.46	0.41	0.38	0.39	0.40	0.40	0.41	0.44	0.46	0.46	0.47	0.47	0.48	0.49	0.49	0.50	0.53	0.53	0.55	0.50
Venezuela (Bolivarian Republic of)	-	-	-	-	-	-	-	-	-	-	-	n/i	0.25	n/i	0.48	0.98	n/i	n/i	n/i	n/i	n/i	n/i
Latin American and Caribbean average ^{a,b}	0.24	0.30	0.38	0.40	0.35	0.36	0.33	0.35	0.39	0.39	0.38	0.38	0.38	0.39	0.40	0.42	0.46	0.45	0.45	0.46	0.56	0.51
Latin American average ^a	0.30	0.30	0.41	0.40	0.40	0.43	0.37	0.40	0.46	0.40	0.40	0.37	0.38	0.40	0.41	0.42	0.41	0.42	0.41	0.42	0.49	0.44
Caribbean average	0.16	0.30	0.35	0.31	0.30	0.28	0.29	0.28	0.29	0.37	0.36	0.40	0.39	0.39	0.38	0.42	0.56	0.52	0.53	0.55	0.69	0.64

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>.

Note: Data for years in which there is no expenditure information are imputed by the following rule: if the missing values are at the beginning or end of a series, the first or last value is repeated up to three times; to fill in missing values within a series, Akima interpolation is used and only actual expenditure observations are considered.

A dash (-) indicates that there was no non-contributory old-age pension programme that year.

N/i: no information.

^a Does not include the Bolivarian Republic of Venezuela.

^b No information is available on programmes in Dominica, Jamaica or Suriname.

Table IX.2
Latin America and the Caribbean (25 countries): public expenditure on non-contributory
old-age pensions for persons aged 65 and over, 2000–2021
(Percentages of GDP)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Antigua and Barbuda	0.05	0.04	0.04	0.04	0.04	0.04	0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00
Argentina	0.03	0.03	0.03	0.04	0.04	0.05	0.06	0.05	0.05	0.03	0.03	0.02	0.02	0.01	0.01	0.01	0.03	0.05	0.08	0.11	0.11	0.20
Bahamas	0.11	0.10	0.10	0.09	0.09	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.06	0.06	0.05	0.05	0.05	0.04	0.04	0.04	0.04	0.04
Barbados	0.31	0.34	0.37	0.55	0.49	0.41	0.34	0.29	0.26	0.24	0.25	0.20	0.14	0.18	0.14	0.11	0.11	0.10	0.12	0.08	0.08	0.08
Belize	-	-	-	0.06	0.09	0.10	0.09	0.09	0.18	0.18	0.15	0.14	0.12	0.11	0.09	0.08	0.07	0.06	0.05	0.05	0.05	0.04
Bolivia (Plurinational State of)	0.27	0.27	0.86	1.31	1.19	1.13	0.96	0.86	1.34	1.38	1.26	1.08	0.99	1.07	1.20	1.24	1.25	1.34	1.37	1.54	1.85	1.52
Brazil	0.17	0.20	0.23	0.26	0.30	0.35	0.40	0.42	0.44	0.51	0.52	0.52	0.57	0.59	0.61	0.66	0.73	0.76	0.75	0.75	0.78	0.71
Chile	0.17	0.17	0.16	0.16	0.14	0.14	0.13	0.14	0.23	0.36	0.36	0.34	0.33	0.31	0.30	0.29	0.28	0.30	0.29	0.28	0.36	0.36
Colombia	-	-	-	n/i	n/i	n/i	n/i	n/i	0.08	0.08	0.08	0.08	0.04	0.07	0.06	0.07	0.07	0.06	0.06	0.06	0.08	0.07
Costa Rica	0.12	0.11	0.15	0.12	0.11	0.10	0.08	0.14	0.21	0.23	0.23	0.21	0.20	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.21	0.20
Cuba	n/i	n/i	n/i	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Dominican Republic	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.00	0.01	0.01
Ecuador	-	-	-	0.47	0.44	0.38	0.38	0.68	0.66	0.79	0.81	0.81	0.79	0.69	0.58	0.47	0.36	0.27	0.23	0.29	0.38	0.38
El Salvador	-	-	-	-	-	-	-	-	-	0.00	0.02	0.02	0.03	0.05	0.06	0.06	0.05	0.05	0.05	0.05	0.06	0.06
Guatemala	-	-	-	-	-	n/i	0.13	0.13	0.13	0.13	0.14	0.13	0.12	0.11	0.11	0.10	0.10	0.09	0.09	0.08	0.08	0.08
Guyana	n/i	n/i	n/i	n/i	n/i	0.58	0.58	0.58	0.58	0.57	0.55	0.58	0.69	0.87	0.93	0.91	1.21	1.23	1.31	1.35	1.97	1.64
Mexico	-	-	-	-	-	-	-	0.05	0.08	0.10	0.10	0.09	0.11	0.15	0.21	0.21	0.19	0.17	0.15	0.45	0.55	0.59
Panama	-	-	-	-	-	-	-	-	0.00	0.15	0.38	0.26	0.27	0.22	0.25	0.29	0.31	0.29	0.29	0.27	0.33	0.28

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Paraguay	-	-	-	-	-	-	-	-	-	-	-	0.03	0.13	0.22	0.29	0.38	0.36	0.43	0.50	0.52	0.58	0.57
Peru	-	-	-	-	-	-	-	-	-	-	-	0.05	0.05	0.08	0.12	0.13	0.12	0.13	0.12	0.11	0.13	0.11
Saint Kitts and Nevis	0.14	0.12	0.13	0.13	0.11	0.10	0.08	0.07	0.06	0.07	0.07	0.06	0.05	0.05	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.03
Saint Vincent and the Grenadines	0.12	0.11	0.12	0.16	0.14	0.13	0.13	0.12	0.12	0.12	0.11	0.11	0.10	0.10	0.09	0.08	0.07	0.06	0.05	0.04	0.04	0.04
Trinidad and Tobago	-	0.99	1.23	1.04	0.93	0.87	0.76	0.79	0.78	1.34	1.28	1.69	1.58	1.44	1.37	1.78	2.47	2.23	2.20	2.38	2.81	2.79
Uruguay	0.19	0.18	0.18	0.16	0.15	0.15	0.16	0.16	0.16	0.18	0.18	0.18	0.18	0.18	0.18	0.19	0.19	0.19	0.19	0.20	0.21	0.19
Venezuela (Bolivarian Republic of)	-	-	-	-	-	-	-	-	-	-	-	n/i	0.25	n/i	0.48	0.98	n/i	n/i	n/i	n/i	n/i	n/i
Latin American and Caribbean average ^{a,b}	0.15	0.22	0.28	0.31	0.28	0.29	0.26	0.26	0.27	0.31	0.31	0.29	0.28	0.29	0.31	0.35	0.36	0.35	0.36	0.37	0.45	0.42
Latin American average ^a	0.16	0.16	0.23	0.32	0.30	0.29	0.26	0.26	0.28	0.30	0.32	0.26	0.25	0.26	0.28	0.29	0.28	0.29	0.29	0.31	0.36	0.33
Caribbean average	0.14	0.29	0.33	0.30	0.27	0.29	0.26	0.25	0.26	0.33	0.31	0.36	0.35	0.35	0.34	0.38	0.50	0.47	0.48	0.50	0.63	0.58

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>.

Note: Data for years in which there is no expenditure information are imputed by the following rule: if the missing values are at the beginning or end of a series, the first or last value is repeated up to three times; to fill in missing values within a series, Akima interpolation is used and only actual expenditure observations are considered.

A dash (-) indicates that there was no non-contributory old-age pension programme that year.

N/i: no information.

^a Does not include the Bolivarian Republic of Venezuela.

^b No information is available on programmes in Dominica, Jamaica or Suriname.

A review of public spending by geographical area shows that spending on non-contributory old-age and disability pensions in the Caribbean increased from 0.16% of GDP in 2000 to 0.64% of GDP in 2021. This increase is partially explained by the fact that a large share of subregional outlays are concentrated in high-spending countries, such as Guyana and Trinidad and Tobago, which spend 1.64% and 3.2% of GDP, respectively. Expenditure in the other Caribbean countries analysed is lower and has tended to decline. This is partly because the design of some programmes sets ceilings on entitlements coverage. Antigua and Barbuda's Old-age Assistance Programme, which targets people who were 65 or over in 1993, and Saint Vincent and the Grenadines' Non-contributory Assistance Age Pension, which targets people who turned 47 on or before 5 January 1987, are two examples (see table IX.1).

In the case of Latin America, public non-contributory pension spending, including old-age and disability entitlements, increased from 0.30% to 0.44% of GDP between 2000 and 2021 (see table IX.1). This public spending has been characterized by expansion in the coverage of such programmes in the subregion, which spread from 7 countries in 2000 to 18 countries in 2021. Excluding spending on non-contributory disability pensions and old-age pensions for the population aged under 65, public spending by non-contributory pension systems on old-age entitlements (population aged 65 and over)² shows a similar trend, rising from 0.16% of GDP in 2000 to 0.33% of GDP in 2021 (see table IX.2).

In Latin America, public spending on non-contributory old-age pensions is particularly high in the Plurinational State of Bolivia, where it stood at 1.52% of GDP in 2021. Among other factors, this result is explained by the decision to implement a universal non-contributory pension system. In the same year, spending on non-contributory old-age pensions was also high in Argentina (0.86% of GDP) and in Brazil (0.71% of GDP). In Mexico, this expenditure was 0.59% of GDP in 2021. According to projections based on the universalization of coverage and increased entitlement levels, public expenditure on non-contributory old-age pensions in Mexico is expected to increase to 1.33% of GDP in the 2024 budget (see chapter IV).

² "Old-age entitlements" refer to non-contributory entitlements of whatever kind provided to the population aged 65 and over.

C. Projections for public spending on non-contributory pension systems in Latin America by 2035 and 2055

Given the paucity of official statistical series for public expenditure on non-contributory pension systems in the region's countries, publications and projections dealing with the financial effects and expenditure commitments of pension systems (in particular the non-contributory component) are unsurprisingly few.

One important exception is a working paper published by the International Monetary Fund (IMF, 2018) that presents projections for public spending on contributory pension systems based on a scenario without pension reforms or parametric adjustments to contributory pension systems, but taking account of rapid population ageing in the region. The results of this study project public spending on contributory pension systems of 4.3% of GDP in 2030 and 6.9% of GDP in 2065.

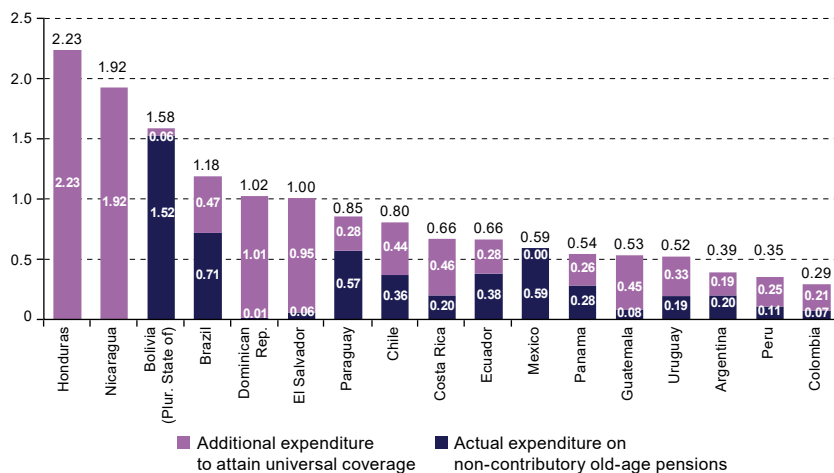
Both current and projected public spending on contributory pension systems is higher in the countries of the Organisation for Economic Co-operation and Development (OECD) than in the region. According to the projections presented by OECD, its member countries will spend 10.9% of GDP on contributory pensions in 2065, exceeding the public spending on pensions projected by IMF for Latin America that year by 4 percentage points of GDP (IMF, 2018; OECD, 2017).

This section presents public expenditure projections for non-contributory pension systems in Latin America.³ Among other factors, making such projections is crucial for the sustainability of these systems, since the rights they guarantee are permanent for both current and future generations. In these circumstances, estimating the financial commitments of non-contributory pension systems is one of the main challenges in the effort to achieve the financial sustainability needed to eradicate extreme poverty and poverty among people aged 65 and over. Both the coverage of people in the first two or three income quintiles and the sufficiency of entitlements in terms of securing a level of income in old age close to or above the extreme poverty line or poverty line depend on financial sustainability (Arenas de Mesa, 2005 and 2020).

The first scenario presented in this section and the respective estimates deal with the additional public expenditure needed for non-contributory pension systems to achieve universal coverage of people aged 65 and over in the Latin American countries with a pension equivalent to the poverty line or the entitlement paid in each country to people currently not receiving any pension, if this is equal to or higher than the poverty line (see figure IX.3).

³ See Plamondon and others (2002) for a detailed review of actuarial projection methodologies and Arenas de Mesa (2019) for an application of these methodologies with similar objectives.

Figure IX.3
Latin America (17 countries): expenditure on non-contributory old-age pension systems and additional expenditure to cover the entire population aged 65 and over, 2021
(Percentages of GDP)



Source: Prepared by the authors, on the basis of A. Arenas de Mesa, C. Robles and J. Vila, "El desafío de avanzar hacia la sostenibilidad de los sistemas de pensiones en América Latina", *Social Policy series*, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2024, in press; Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2019" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>; and administrative data from the respective countries.

The countries where spending is expected to be higher are Honduras and Nicaragua, since they still lack a non-contributory pension system. In the case of Honduras, the Secretariat of Social Development is discussing a social protection policy that includes the potential creation of a non-contributory pension system (see chapter VIII).

The Dominican Republic (see chapter VII) and El Salvador are good examples of countries in the region which have a non-contributory pension system but where coverage is low and the additional expenditure required to achieve universal coverage therefore greater. At the other extreme are Mexico and the Plurinational State of Bolivia, which are well on the way to universal coverage and where the additional expenditure required is therefore relatively small (0.1% of GDP or less).

As mentioned, the financial sustainability of non-contributory pension systems depends on coverage commitments, the sufficiency of entitlements and the availability of financing sources. On the basis of the evolution of coverage and sufficiency over the past 20 years, projections

of public spending on non-contributory pension systems were produced with different scenarios for the expansion of coverage and sufficiency of entitlements to 2035 and 2055.

In this way, three scenarios were constructed. Scenario A envisages the coverage of non-contributory pension systems rising to 40% of the population aged 65 and over by 2035 and 100% (universal) by 2055. The value of current entitlements is assumed to be constant. Scenario B assumes that coverage increases as in scenario A and that the value of entitlements is equivalent to the extreme poverty line or the poverty line. Lastly, scenario C assumes that coverage increases to 60% by 2035 and 100% by 2055 and that the value of entitlements is equal to the extreme poverty line or the poverty line (see table IX.3).

Table IX.3
Latin America (17 countries):^a projections of public expenditure
on non-contributory pension systems for the population aged 65 and over,
by increase in coverage, 2035 and 2055
(Percentages of GDP and of the population aged 65 and over)

	Extreme poverty line		Poverty line	
	2035	2055	2035	2055
A. Pension of constant value with coverage increasing to 40% by 2035 and 100% by 2055 ^b				
Expenditure	0.7	1.6	0.8	1.9
Coverage	40.0	100.0	40.0	100.0
B. Pension equal to the extreme poverty line or poverty line and coverage rising to 40% by 2035 and 100% by 2055				
Expenditure	0.8	1.7	1.1	2.4
Coverage	40.0	100.0	40.0	100.0
C. Pension equal to the extreme poverty line or poverty line and coverage rising to 60% by 2035 and 100% by 2055				
Expenditure	1.0	1.7	1.5	2.4
Coverage	60.0	100.0	60.0	100.0

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2019" [online] <https://www.cepal.org/en/subtopics/demographic-projections/latin-america-and-caribbean-population-estimates-and-projections/population-estimates-and-projections-excel-tables>.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay. For Honduras and Nicaragua, which do not have non-contributory pension systems, initial coverage is taken as 0%, rising in accordance with the scenarios described, with pensions equivalent to the countries' poverty or extreme poverty lines.

^b In scenario A, since there are countries that do not have a non-contributory pension system, the value of the entitlement for these countries is the value of the poverty or extreme poverty line, as appropriate.

The results for scenario A show that, if coverage were to increase gradually to 40% by 2035, public spending on non-contributory pension systems in Latin America would rise from 0.41% of GDP in 2021 (see table IX.2) to 0.70% of GDP in 2035 (see table IX.3). The effect of the increase in the coverage of non-contributory pension systems, driven by

demographic factors among others, would be equivalent to an additional 0.3 percentage points of GDP by 2035 (i.e. a level of expenditure that is manageable over the next 10 years).

In scenario B, with a pension equivalent to the extreme poverty line and 40% coverage, public expenditure on non-contributory pension systems would be 0.8% of GDP by 2035. In other words, guaranteeing incomes equivalent to the extreme poverty line for people aged 65 and over would make it possible to move towards the eradication of extreme poverty. This would mean additional spending of 0.4 percentage points of GDP by 2035, on top of the 0.41% of GDP spent in 2021. This is a financially viable public policy, and the objective could therefore be achieved given a willingness to make annual budget allocations to non-contributory pension systems, with the guarantee of financial sustainability.

Lastly, in the cases where entitlements are equal to the poverty line and coverage increases to 40% and 60% by 2035, public expenditure on non-contributory pension systems in 2035 would range from 1.1% of GDP (40% coverage, scenario B) to 1.5% of GDP (60% coverage, scenario C) (see table IX.3).

These scenarios confirm the financial viability of progressing towards the eradication of extreme poverty and poverty in old age in the region. In the case of poverty, eradication will depend on its level in each country, which is why two coverage scenarios (40% and 60%) have been considered. On average, a target of between 1.0% and 1.5% of GDP over 10 years is financially feasible in Latin America. New social and fiscal covenants will be vital for progress in this direction, so that non-contributory pension systems achieve a combination of coverage and sufficiency of entitlements that can drive poverty eradication in the region.

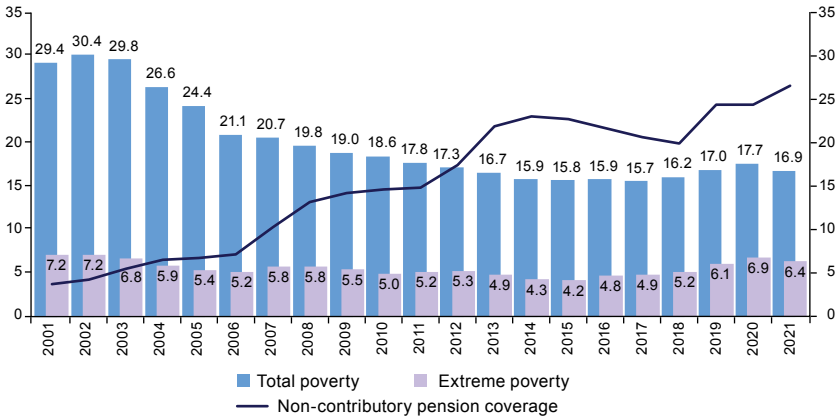
D. Effects of non-contributory pension systems on poverty eradication and the reduction of income inequality

The effects of non-contributory pensions paid to people aged 65 and over on per capita income growth (and, in particular, the reduction of the monetary poverty rate) and on changes in income distribution will now be analysed. This analysis is based on household surveys, in which only 10 of the region's countries (Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia) include general information on per capita income and it is possible to distinguish income from public transfers, including income from non-contributory pension systems.⁴

⁴ The information available is from 2020 for Chile and Mexico and 2021 for the remaining countries.

The first two decades of the twenty-first century were characterized by a large reduction in poverty in the region, from 45.3% in 2002 to 29.1% in 2023 (ECLAC, 2023), although this decline began to slow in 2015 and was temporarily reversed during the COVID-19 pandemic. There was also a decline in extreme poverty, albeit of a lesser magnitude. In this context, poverty and extreme poverty among people aged 65 and over also declined, from lower levels and at a faster rate. While the incidence of poverty among the general population fell by just under 30% between 2002 and 2021 and the incidence of extreme poverty declined slightly over the same period, poverty among older persons almost halved (from 30.4% to 16.9%) (see figure IX.4). Although to a lesser extent and with significant setbacks in the past five years, extreme poverty in this age group also fell (from 7.2% to 6.4%). The creation and expansion of non-contributory pension systems in Latin America may thus have had a major impact on the reduction of poverty, extreme poverty and inequality among the older population. This may be one reason why the results are better for this age group than for the population as a whole.

Figure IX.4
Latin America and the Caribbean (23 countries):^a evolution of poverty, extreme poverty and non-contributory pension system coverage among people aged 65 and over, 2001–2021
(Percentages)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; CEPALSTAT [online] <https://statistics.cepal.org/portal/cepalstat/index.html?lang=en>; *Social Panorama of Latin America and the Caribbean, 2023* (LC/PUB.2023/18-P/Rev.1), Santiago, 2023.

^a The figures on the incidence of poverty and extreme poverty are for 18 countries: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay. Coverage includes 23 countries: Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia, Saint Kitts and Nevis, Trinidad and Tobago and Uruguay.

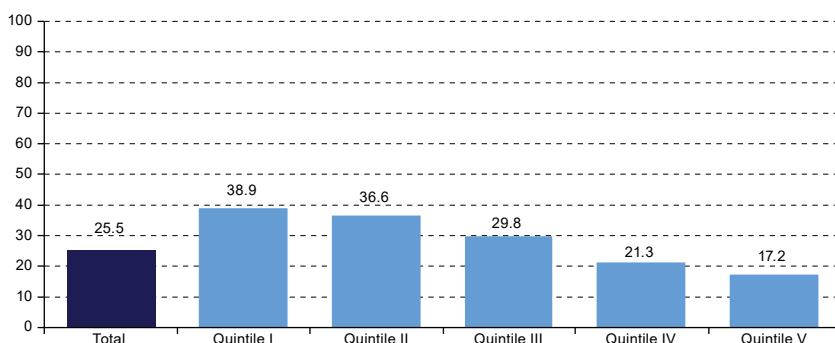
Around 2021, people aged 65 and over constituted about 10% of the total population in the set of countries analysed. Because of their own and their households' characteristics, people in this age group tend to have higher per capita incomes than the population average. Thus, while older persons represented only 4.4% of the population in the lowest per capita income quintile, the proportion was close to 7.0% in the second quintile and was 14.4% in the highest quintile. Looking at the 10 countries with comparable surveys, around 6.5 million people aged 65 and over were poor in 2021 (13.4% of people in this age group) and 1.7 million were extremely poor (3.5% of older persons). The incidence of poverty in the total population of the 10 countries analysed was more than twice as high as in the population aged 65 and over, while the incidence of extreme poverty was 2.5 times as high.

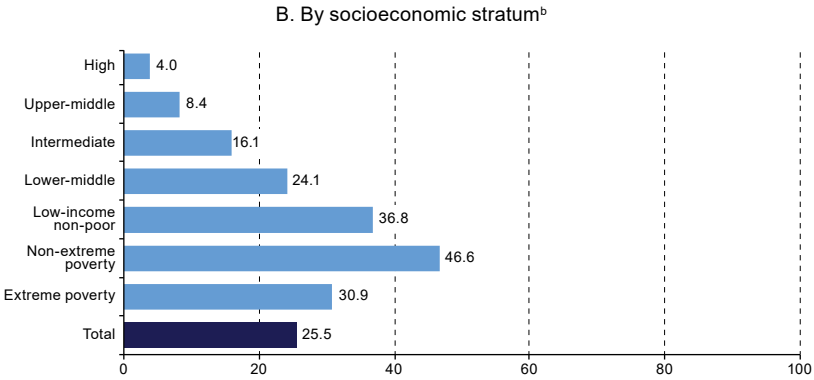
In 2021, the coverage of non-contributory pension systems among the older population (aged 65 and over) in the set of countries analysed was 26.7% (some 16 million people), and since the objective of these is to provide incomes and access to social protection for people on the basis of old age or disability status, the recipients would be expected to be mainly in the lower income segments (see figure IX.5).

In this group of countries, coverage amounted to almost 39% of older persons in the lowest-income 20% of the population (first quintile) and almost 37% in the second quintile, before gradually declining to just over 17% of older persons in the richest quintile. Since older persons are not concentrated in the lowest-income quintiles, as noted above, 4.1 million of the 12.4 million older persons receiving a non-contributory pension around 2021 in the 10 countries analysed are found to have belonged to the poorest 40% of the population, which represents only 33.6% of the older population receiving this entitlement.

Figure IX.5
Latin America (10 countries):^a non-contributory pension system coverage
of people aged 65 and over, around 2021
(Percentages)

A. By per capita income quintile





Source: Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG); *Social Panorama of Latin America, 2019* (LC/PUB.2019/22-P/Rev.1), Santiago, 2019.

^a Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia.

^b People in the low strata have per capita incomes below 1.8 poverty lines, while those in the lower-middle strata have incomes of up to 3 poverty lines, those in the middle strata of up to 6 poverty lines and those in the upper-middle strata of up to 10 poverty lines. See ECLAC (2019) for details.

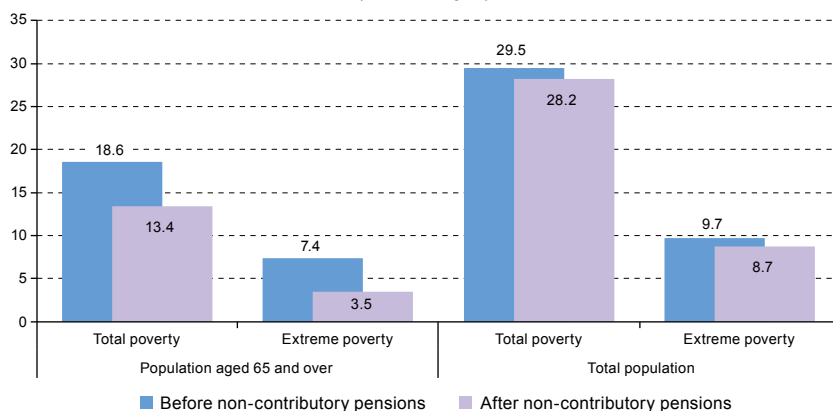
It is important to consider that non-contributory pension systems face similar problems to other non-contributory social protection programmes, including difficulties in identifying and locating people in hard-core poverty and delivering non-contributory entitlements to them; obstacles related to the geographical isolation or remoteness from urban centres of families in this situation; problems with identity registration and the collection of socioeconomic information; potential beneficiaries' limited knowledge about the programmes on offer and State action in general; and others. Although these groups are part of the target population, non-contributory pension systems struggle to achieve their maximum impact among the most disadvantaged population.

Figure IX.5.B shows indeed that, in the 10 countries of the region analysed, the coverage of people aged 65 and over living in extreme poverty is about 31%, while the coverage of those in poverty is just under 47%, after which coverage decreases up the socioeconomic scale.

Non-contributory pension systems can significantly alter the socioeconomic status of older persons and their families, lifting them out of poverty or extreme poverty and greatly improving their levels of well-being. In the set of countries with information available, 2.5 million people aged 65 and over moved out of poverty as a result of receiving a non-contributory

pension. In relative terms, this meant a decline of slightly more than 5 percentage points in the incidence of poverty in this age group (see figure IX.6). Again, although the reduction of extreme poverty benefited fewer older persons in absolute terms and was somewhat less than 4 percentage points after the non-contributory pension, it meant that more than half of all older persons in extreme poverty moved out of that situation (1.9 million people aged 65 and over).

Figure IX.6
Latin America (10 countries):^a incidence of extreme poverty and poverty
in the population aged 65 and over and the total population, before
and after receipt of non-contributory pensions, around 2021
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia.

The tendency for extreme poverty to fall by proportionately more than total poverty was observed in almost all the countries, with particularly substantial gains in Costa Rica, Panama, Paraguay and the Plurinational State of Bolivia. Chile is the only exception, as proportionally total poverty fell by slightly more than extreme poverty (see table IX.4). In the four countries mentioned and Ecuador, more than two thirds of older persons in extreme poverty were lifted out of it by the non-contributory pension they received. More than a third of older persons who left extreme poverty because of a non-contributory pension also left poverty (some 60% or more in Brazil, Costa Rica, Ecuador and Panama, which reflects the sufficiency of the benefit).

Table IX.4
Latin America (10 countries):^a incidence of extreme poverty and poverty, and Gini coefficient before and after receipt
of non-contributory pensions in the population aged 65 and over and the total population, around 2021
(Percentages and index values)

Country	Year	Extreme poverty rate		Total poverty rate		Non-contributory pensions as a share of income	Total Gini coefficient		Gini coefficient of non-contributory pensions ^b
		Before non-contributory pensions	After non-contributory pensions	Before non-contributory pensions	After non-contributory pensions		Before non-contributory pensions	After non-contributory pensions	
		Percentages					Index values		
Population aged 65 and over									
Bolivia (Plurinational State of)	2021	23.6	6.5	37.2	23.7	13.8	0.524	0.455	-0.053
Brazil	2021	4.6	2.3	9.1	6.3	1.9	0.495	0.477	-0.693
Chile	2020	3.4	2.0	11.6	5.9	7.4	0.442	0.396	-0.336
Colombia	2021	14.1	8.5	27.3	22.9	2.2	0.555	0.534	-0.502
Costa Rica	2021	4.8	1.2	13.8	7.3	2.9	0.518	0.489	-0.591
Ecuador	2021	9.1	2.9	25.5	14.8	5.8	0.511	0.465	-0.470
Mexico	2020	9.9	4.5	31.6	23.8	7.4	0.492	0.459	-0.050
Panama	2021	8.2	1.7	16.8	7.5	3.4	0.582	0.548	-0.536
Paraguay	2021	12.3	3.3	30.8	16.2	2.6	0.457	0.436	-0.440
Peru	2021	5.3	2.0	17.9	13.2	8.6	0.523	0.463	-0.329
Total ^c		7.4	3.5	18.6	13.4	5.6	0.510	0.472	-0.400

Country	Year	Extreme poverty rate		Total poverty rate		Non-contributory pensions as a share of income	Total Gini coefficient		Gini coefficient of non-contributory pensions ^b
		Before non-contributory pensions	After non-contributory pensions	Before non-contributory pensions	After non-contributory pensions		Before non-contributory pensions	After non-contributory pensions	
		Percentages					Index values		
		Total population							
Bolivia (Plurinational State of)	2021	12.1	9.9	30.9	29.0	2.4	0.426	0.418	-0.010
Brazil	2021	9.4	8.3	25.7	24.3	0.8	0.544	0.537	-0.519
Chile	2020	5.0	4.5	16.0	14.2	1.8	0.485	0.475	-0.269
Colombia	2021	15.9	15.0	36.1	35.4	0.5	0.532	0.528	-0.364
Costa Rica	2021	4.7	3.7	19.0	17.3	0.9	0.509	0.501	-0.482
Ecuador	2021	8.8	7.6	30.4	28.5	1.2	0.474	0.466	-0.397
Mexico	2020	10.2	9.2	38.7	37.4	1.4	0.457	0.452	0.017
Panama	2021	7.1	5.7	17.3	15.6	0.9	0.526	0.519	-0.447
Paraguay	2021	7.3	6.0	23.1	20.9	0.5	0.429	0.426	-0.321
Peru	2021	4.7	4.2	20.0	19.3	1.2	0.455	0.447	-0.377
Total ^c		9.7	8.7	29.5	28.2	1.2	0.484	0.477	-0.317

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia.

^b The Gini coefficient for non-contributory pensions was calculated by ranking people by per capita income from lowest to highest excluding these pensions. In income concentration analyses, this index theoretically ranges from 0 to 1. However, in an analysis of the redistributive impact of an income stream forming part of total (per capita) income, this specific stream may be distributed progressively with respect to that total income and be above the diagonal representing equity, which is reflected in negative index values. In this case, the theoretical range of the index is between -1 and 1.

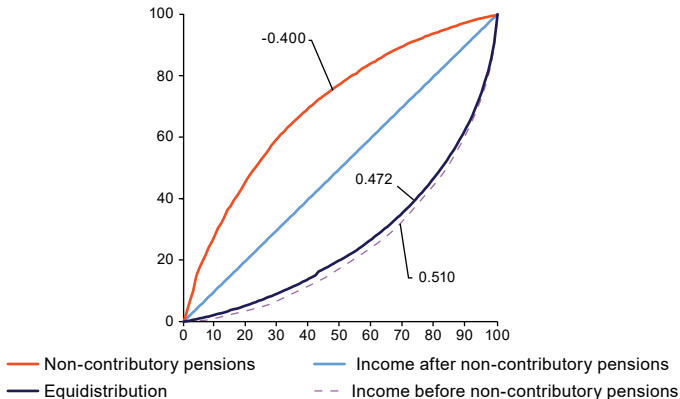
^c Weighted average of poverty and extreme poverty levels. The totals for non-contributory pensions as a share of income and the Gini coefficients are simple averages.

Predictably, the effect of non-contributory pension systems in reducing poverty and extreme poverty in the total population was relatively small (about 1 percentage point), since only 25% of households in the countries analysed included one or more people aged 65 and over among their members (ranging from about 20% in the Plurinational State of Bolivia to 31% in Uruguay). These results are similar to those obtained by Cecchini, Villatoro and Mancero (2021) and also evince a proportionally larger reduction in extreme poverty. In Paraguay and the Plurinational State of Bolivia, the effects of non-contributory pensions in reducing poverty and extreme poverty in the total population were slightly more significant. Extreme poverty fell by 2.2 percentage points in the Plurinational State of Bolivia, while in Paraguay there was a similar decline in total poverty.

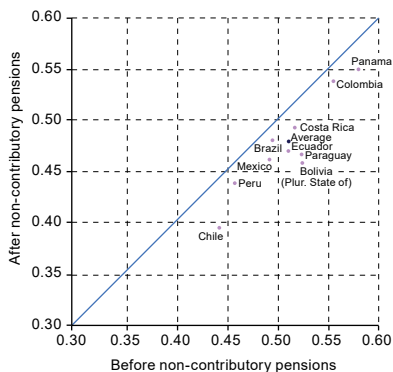
Social income protection through a non-contributory pension also has an effect on income inequality. The size and sign of this effect depend both on the significance of the transfer relative to other income and on the position of its recipients in the income distribution. Thus, a non-contributory pension targeted primarily at those with lower incomes is likely to reduce previous levels of inequality and one targeted at those with higher incomes to increase them. This can be seen graphically by comparing the Lorenz curves of incomes before and after non-contributory pensions and the distribution of the incomes generated by these pensions, as illustrated in figure IX.7A for the simple average of the countries analysed.

Figure IX.7
Latin America (10 countries):^a income distribution among persons aged 65 and over before and after receipt of non-contributory pensions, and expenditure on such pensions by per capita income percentile,^b around 2021

A. Redistributive effect of non-contributory pensions
(Cumulative percentages)



B. Gini coefficient before and after non-contributory pensions, by country
(Index values from 0 to 1)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Household Survey Data Bank (BADEHOG).

^a Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia.

^b The Gini coefficient for expenditure on non-contributory pensions was calculated by ranking people by per capita income from lowest to highest without counting these pensions.

The overall effect of non-contributory pension systems in reducing the high levels of income concentration that characterize the region is quite low. The rate of change ranges from -0.8% (Colombia and Paraguay) to -2.2% (Chile), with the Gini coefficient decreasing by an average of 1.5%, from 0.484 to 0.477 (see table IX.4). This is mainly because non-contributory pensions are targeted at a specific population group that represents a low proportion of the total population.

When the analysis considers only the population group aged 65 and over, the positive effects of non-contributory pension systems in reducing income inequality are clearly visible. Thus, if the per capita income of people aged 65 and over before the receipt of non-contributory pensions is taken, the average Gini coefficient of the 10 countries analysed showed a high concentration of income, with a value of about 0.510 around 2021. Since this distribution is highly regressive, the Lorenz curve obtained is below the diagonal. That year, the distribution of non-contributory pension expenditure (or, from the point of view of older persons and their households, non-contributory pension income) was progressive in absolute terms (hence the negative coefficient)⁵ because it tended to be concentrated among the lowest-income older persons (red line in figure IX.7A), with a simple average of -0.400. However, given that it only represented an average increase of 5.6% in per capita income, its

⁵ See ECLAC (2006, 2008 and 2010) for the characteristics of the progressivity and regressivity analysis and the methodology for decomposing the Gini coefficient by income or expenditure.

ability to reduce inequality in the income distribution of older persons was relatively limited: it reduced the Gini coefficient by 8%, to 0.472 (see figure IX.7A, solid black line).

The reduction was most marked in Ecuador (-9%), Peru (-11%) and the Plurinational State of Bolivia (-13%). While in Ecuador and Peru the transfer had a highly progressive effect on the Gini coefficient (-0.470 and -0.329, respectively), in the Plurinational State of Bolivia it was close to equidistribution (-0.053) owing to the high levels of coverage of the non-contributory pension provided by the *Renta Dignidad* programme, which pays all recipients the same. In the case of the Plurinational State of Bolivia, the large reduction in income distribution inequality among older persons was also due to the fact that non-contributory pensions accounted for a larger share of household income than in other countries, increasing it by almost 14% on average (see table IX.4).

The information presented in this section shows the major effect that non-contributory pension systems have in reducing poverty and extreme poverty among people aged 65 and over and their families. Likewise, because of their characteristics and purpose, non-contributory pensions reduce the concentration of income among the older population, albeit the change in the overall distribution is limited because their coverage is for a population segment (people aged 65 and over) that represents a small proportion of the total population.

These results clearly show how important it is for the coverage and sufficiency of the entitlements provided by non-contributory pension systems to be sustainable (i.e. for the majority of older persons on lower incomes to be eligible for entitlements and for these to be high enough to generate real improvements in the well-being of older persons and to reduce the large gaps that arise from the primary distribution of income).

E. Final reflections

Non-contributory pension systems are at the centre of the debate on non-contributory social protection in the region. The various transformations under way (demographic, digital, productive, climatic and employment-related, among others) pose different challenges for social protection systems, in particular pension systems. The future of social protection will be conditioned, among other factors, by these transformations and by a reconfigured social risk structure (Robles and Holz, 2024). Among other public policies aimed at older persons, non-contributory pension systems will be increasingly used in the region (ILO, 2022; Arenas de Mesa, 2024).

In this context, the creation and extension of non-contributory pension systems have generated the largest increase in the coverage of social protection systems in the region this century. In 2022, 19.4 million (41.8%) of the 46.4 million pensioners in Latin America were in receipt of a non-contributory pension. This, coupled with the sufficiency of non-contributory entitlements, has consolidated these systems as an efficient public policy instrument for advancing towards the eradication of extreme poverty and poverty and the reduction of inequality in Latin America.

According to household survey data from 10 countries, the incidence of extreme poverty among the population aged 65 and over was 3.5% in 2021, compared to 9.7% for the total population.⁶ Had the income from non-contributory pension systems not been available, extreme poverty in this age group would have been more than twice as high, at 7.4% of the population aged 65 and over (see figure IX.6).

Continuing to increase the coverage and sufficiency of non-contributory pensions appears to be an efficient policy measure for advancing towards poverty eradication, particularly among people aged 65 and over. Estimating the financial (fiscal) effects and finding sources of funding to ensure the financial sustainability of non-contributory pension systems will be a major challenge.

The conclusion from the exercise presented in this chapter is that it is possible to move towards the eradication of income poverty among the population aged 65 and over in Latin America over the next 10 years. For this, it is necessary to pursue public policies that increase both the coverage and the sufficiency of the entitlements provided by non-contributory pension systems. It is estimated that, to move towards the eradication of extreme poverty, these policies would require average expenditure equivalent to 0.8% of GDP by 2035, with a range from 1% to 1.5% in the case of poverty. If public spending on non-contributory old-age pension systems, which was 0.41% of GDP in 2021, were increased by about 0.1% of GDP per year, the targets for combating extreme poverty could be met by 2030. If this annual spending increase were maintained, the equivalent level of spending required to progress towards the eradication of old-age poverty would be achieved by 2035 (see table IX.3).

Ensuring financial sustainability to extend non-contributory pension systems with a view to poverty eradication in the region is an efficient and financially viable public policy. Achieving the level of public spending required by non-contributory pension systems is feasible, both because of the consensus around the fight against old-age poverty

⁶ Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia.

and because of the potential to build strategies that make such a public policy financially sustainable. The greatest challenge probably concerns the capacity of the social institutions responsible for pension systems, in particular non-contributory pension systems, to move ahead and implement a public policy like the one proposed (Arenas de Mesa, 2019).

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Chapter X

The future of non-contributory pension systems in Latin America and the Caribbean

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Claudia Robles¹*

Introduction

In Latin America and the Caribbean, non-contributory pension systems have become one of the main instruments of social protection systems, particularly non-contributory ones. The scale of their presence and their growing coverage provide an opportunity and a starting point for the universalization of social protection in the region. This chapter details seven lessons from the region's experience with the expansion of non-contributory pension system coverage, together with four of the main challenges. It is essential for this experience to be analysed and systematized, considering its importance for the effort to universalize pension system coverage and eradicate old-age poverty and its contribution to strengthening universal, comprehensive, sustainable and

¹ The authors would like to thank Isabel Jacas for her contributions to this chapter.

resilient social protection systems in the region. Accordingly, the chapter concludes with seven proposals for strengthening non-contributory pension systems in Latin America and the Caribbean.

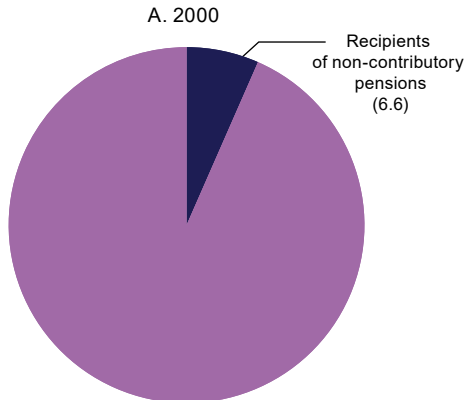
A. Non-contributory pension systems and solidarity in old age

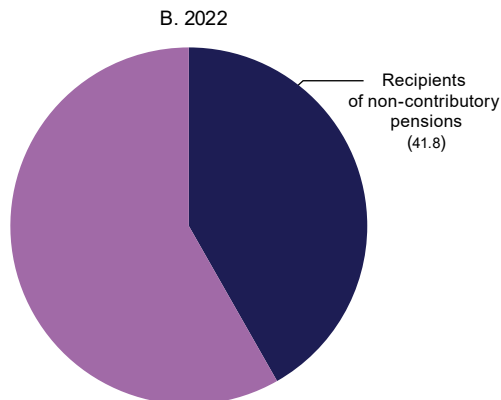
1. Key lessons learned about non-contributory pension systems

As figure X.1 shows, the expansion in the coverage of non-contributory pension systems in Latin America over the past two decades has been impressive. Whereas 6.6% of pensioners aged 65 and over were covered in 2000, by 2022 the figure was 41.8%. In other words, 4 out of every 10 pensioners aged 65 and over receive an entitlement from non-contributory pension systems, and it is estimated that this proportion will continue to climb in the region.

Against this background, the present chapter will now describe a number of lessons that can be drawn from the region’s experience in substantially expanding the coverage and sufficiency of entitlements and implementing strategies that have increased the financial sustainability of non-contributory pension systems.

Figure X.1
Latin America (16 countries):^a recipients of non-contributory pensions as a proportion of all pensioners aged 65 and over, 2000 and 2022
(Percentages)





Source: Prepared by the authors, on the basis of administrative data from the respective countries; Economic Commission for Latin America and the Caribbean (ECLAC), Non-contributory Social Protection Programmes Database in Latin America and the Caribbean [online] <https://dds.cepal.org/bpsnc/home>; Latin American and Caribbean Demographic Centre (CELADE)-Population Division of ECLAC, "Population estimates and projections: Excel tables. Revision 2019"; and United Nations, *World Population Prospects 2019*, New York, 2019 [online] <https://population.un.org/wpp2019/>.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay, in the case of the 2000 data. The data for 2022 also include Cuba.

(a) It is possible to gradually increase both the coverage and the sufficiency of entitlements

So far this century, the expansion of non-contributory pension system coverage has been combined with an increase in the sufficiency of entitlements. Analysis of average figures for Latin America shows sustained increases in both dimensions. In 2000, non-contributory pension system coverage was only 3.4% of the population aged 65 and over; in terms of sufficiency, the average entitlement amounted to 72% of the poverty line (about one extreme poverty line). By 2022, coverage had increased to 31.5%, and increases in the sufficiency of entitlements had brought the average up to 92% of the poverty line in the region (see chapter III).

This shows that it is possible to gradually increase the coverage and sufficiency of entitlements. It is important to note that this process takes time, since the increases were recorded over two decades. Understanding non-contributory pension systems as components of pension systems (alongside contributory pension systems) that play a key role in guaranteeing rights and protecting income in old age establishes a conception of them as permanent systems of non-contributory social protection. For this, provision must be made to increase both the coverage and the sufficiency of entitlements for current and future generations, something that requires financial sustainability and a sound institutional framework for social security capable of implementing these public policies (Arenas de Mesa, 2024) (see chapter IX).

(b) Financial sustainability for non-contributory pension systems is feasible

Financial sustainability is central to the sustainability of pension systems, in particular non-contributory pension systems, as these are (mainly) financed from public resources, and this, among other factors, determines and conditions the coverage and sufficiency of the entitlements that can be provided to the older population. The financial sustainability of non-contributory pension systems is directly linked to the fiscal sustainability of the region's countries (Arenas de Mesa, 2019). In a decade of low growth, fiscal stringency and high levels of poverty and inequality, non-contributory pension systems are essential for progress in eradicating poverty and reducing inequalities and for the safeguarding of rights in old age.

Looking at the first two decades of this century, public spending on non-contributory pension systems allocated to the population aged 65 and over in Latin America and the Caribbean increased from 0.15% of GDP in 2000 to 0.42% of GDP in 2021. This means that, on average, the financial resources allocated to non-contributory pension systems increased by 0.27 percentage points of GDP, and coverage increased by more than 19 million people aged 65 and over as a result (see chapter IX). The relatively low levels of social investment needed to raise the coverage and sufficiency thresholds of entitlements make these pension policies financially viable and thus allow non-contributory pension systems to be successfully expanded and progress to be made in eradicating poverty and reducing inequalities in the region.

The financial sustainability of non-contributory pension systems in the countries of the region has been possible mainly because the permanent public spending commitments of these systems have been financed from the annual budget flow and there has therefore been no need for structural tax reforms or major fiscal adjustments to finance increases in coverage and sufficiency. This does not mean that permanent fiscal commitments to non-contributory pension systems are not important, especially if the aim is to eradicate old-age poverty and universalize social income protection among the older population (see chapter IX).

(c) It is essential to have a consolidated institutional framework for social security

The institutional framework for social security is the set of rules, operational, financial, human and technological resources and organizational structures on which social security policies and especially contributory and non-contributory pension systems are based and by which they are managed. It is a component of the broader social institutional framework on which the management of pension systems is based, and it is characterized by the specific function and purposes for which it is responsible. The institutional framework for social security

has its own characteristics in each country and is among the key elements for the successful implementation of social security policies that promote inclusive social development (ECLAC, 2023b).

The organizational dimension of a pension system's institutional framework can be divided into three areas: (i) the design of pension policy, which includes the completion of coverage and sufficiency studies, analysis of the fiscal and social effects and the design of potential reforms (by ministries of labour and social welfare or their equivalents); (ii) regulation and oversight (by pension superintendencies); and (iii) administration and management of pension systems (by the public institutions responsible, among other functions, for managing and collecting contributions, calculating, granting and paying entitlements and dealing with citizens) (Arenas de Mesa, 2010). In the region, these areas of the organizational dimension are not sufficiently well demarcated or established in the public institutional framework, as the functions concerned are usually carried out by one or two public bodies. Among other steps required to consolidate the institutional framework for social security, these dimensions need to be separated to ensure the institutional strength necessary for functions to be properly performed (Arenas de Mesa, 2019).

In the case of non-contributory pension systems, this institutional framework becomes particularly complex. Besides the institutions mentioned, social development ministries or equivalent entities also play a leading role in the region. In some cases, these institutions are responsible for the administration and management of non-contributory pension systems, including the identification of potential recipients by various criteria. In other cases, social development ministries are involved with social security entities in the management of various stages in the implementation of non-contributory pension systems. The link between the entities managing non-contributory pension systems and those managing contributory systems does not conform to any one rule, as they are related in some cases and quite unrelated in others. Consolidating this link is essential if non-contributory pension systems and pension systems are to be progressively strengthened in the region.

Possible institutional shortcomings in non-contributory pension systems can limit the potential to meet the objectives of protecting incomes, eradicating poverty and reducing inequalities in old age. Investing in the institutional framework for social security is tantamount to strengthening the sustainability of non-contributory pension systems in the region. Strengthening and consolidating the institutional framework for social security contributes to progress in the creation, implementation and expansion of non-contributory pension systems. In addition, a robust institutional framework for social security makes it possible to establish social agreements and manage the political economy dimension with a view to attaining the coverage and sufficiency thresholds needed to progressively eradicate poverty and reduce inequalities.

(d) Progress can be made towards universal coverage with financial sustainability

There are three countries in Latin America with non-contributory pension systems that have moved towards universal coverage: Chile, Mexico and the Plurinational State of Bolivia (see chapter IV). In the Plurinational State of Bolivia, universal coverage was linked to a pension system reform centred on privatization, and mechanisms were found to finance the non-contributory pension system. Guaranteed universal coverage was accompanied by a low level of sufficiency of entitlements and was achieved about five years after the implementation of the non-contributory pension system.

Mexico is a special case in the region, having taken less than two decades to implement a universal system of non-contributory pensions that currently covers 95% of the population aged 65 and over. This system was a milestone for the guarantee of rights and came to be recognized as a constitutional entitlement, with financial sustainability achieved through a budgetary programme in the general national budget.

In Chile, the path to universality has been more gradual, with the development of the non-contributory pension system spanning two decades. The 2008 structural reform of the pension system included a substantial increase in the coverage of the non-contributory component to include older persons belonging to the poorest 60% of households. In 2022, the Universal Guaranteed Pension was created, providing 90% coverage of the older population. A pension reform bill currently being debated in the National Congress envisages increasing the coverage of the non-contributory pension system to 100% within five years of the reform being approved.

The increase in coverage of the non-contributory pension system in Chile, tending towards universalization, has three important characteristics that should be highlighted: (i) financial sustainability, since a Pension Reserve Fund was created to guarantee contributory and non-contributory entitlements; (ii) gradual implementation, involving transitional arrangements that gave institutions time to adapt, among other factors; and (iii) sufficiency of entitlements, which were linked initially to the extreme poverty line and then to the poverty line with a view to eradicating old-age poverty (Arenas de Mesa, 2019).

These examples show that it is possible to move towards universal coverage with financial sustainability. This certainly requires a long gestation, especially when the aim is to implement universal systems with entitlements that are high enough for progress to be made in eradicating poverty and reducing inequality. At the same time, as pioneering countries with high levels of contributory coverage (Mesa-Lago, 2008) and more limited levels of non-contributory coverage have shown in the

region, it is also possible to achieve universal pension coverage with a non-contributory system designed to close the gaps in the contributory system. As mentioned, both paths require a strengthened institutional framework for social security and efficient management of the political economy to achieve the wide social agreements needed for such public policy strategies to be implemented.

(e) Non-contributory pension systems make social protection systems more resilient in crises

In an era of climatic, demographic, digital, productive and social transformations, discussing resilience is a very concrete way to address the multidimensional challenges facing the Latin American and Caribbean countries, which are caught in a trap of low growth and high levels of poverty and inequality. Addressing this situation with a strategy inspired by inclusive social development, among other factors, requires universal, comprehensive, sustainable and resilient social protection systems.

The concept of resilience lends itself to various approaches and uses. In particular, it is applied to the analysis of the ways in which people and communities interact with unexpected changes in their environment, and to the design of public policies. Resilience can be understood as a process, a capacity or an outcome. The meaning of the term encompasses the ability both to recover from and to adapt to events and describes a capacity of individuals, communities, organizations and institutions. These events may be connected to long-term processes or protracted crises, a particularly important aspect when talking about the resilience of the poor and vulnerable (ECLAC, 2021).

Social institutions play a central role in risk mitigation, impact containment and recovery from crises. They also perform a strategic function in fostering the social and institutional resilience of social protection systems so that they can cope with present and future risks. The importance of this twofold resilience is the rationale for a number of lines of action devised with a view to attaining the Sustainable Development Goals, which include increasing the response capacity of public institutions and the resilience of populations affected by humanitarian, social and economic crises and disasters (ECLAC, 2023b).

In recent years, the meaning and uses of the concept of resilience have been developed more and more. In the face of the crisis caused by the COVID-19 pandemic, the resilience conferred by non-contributory pension systems on social protection systems, in particular non-contributory social protection systems, became plain to see (see chapter I). Social protection systems need to be universal, comprehensive, sustainable and resilient, and non-contributory pension systems are increasingly consolidating this last characteristic (ECLAC, 2021; Arenas de Mesa, 2024).

(f) Inequalities, in particular gender inequality, can be reduced by non-contributory social protection systems

In the twenty-first century, the debate on ways to achieve women's autonomy and gender equality has taken centre stage. Including the gender dimension in public policy design is a basic and fundamental requirement for this, and non-contributory pension systems are no exception.

The gender dimension, among other factors, is particularly important in the design of non-contributory pension systems in the context of the rapid population ageing observed in the region. Because women have a longer life expectancy than men, they account for a larger proportion of people aged 65 and over and are experiencing population ageing at a faster rate. This demographic process is known as the "feminization of ageing".

Another important element is the persistence of gender gaps in the labour market. Women participate to a greater extent in unpaid work and to a lesser extent in the workforce, with a labour participation rate of 51.9%, compared to 74.5% for men. This translated into a gender gap of 24.6 percentage points in 2022 (ECLAC, 2023a).

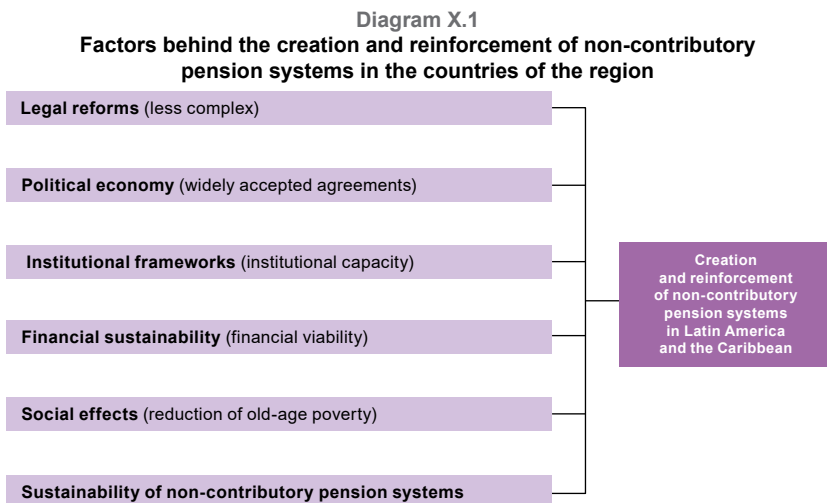
These two phenomena (the feminization of ageing and women's lower labour force participation) will lead to greater demand from women aged 65 and over for access to the entitlements of non-contributory pension systems. Among the background information presented in this book, it is noted that almost 60% of all non-contributory entitlements in Latin America and the Caribbean go to women (see chapter III). Besides reducing gender inequalities, the empirical information available shows that non-contributory pension systems have a very large effect in reducing territorial, socioeconomic and ethnic or racial inequalities in access to pension systems (see chapter III). In this context, non-contributory pension systems can reduce income gaps and structural inequalities in old age, including gender inequalities.

(g) Creation, reform and reinforcement of non-contributory pension systems in the region is explained by a set of verifiable factors in the countries

Six factors that explain the creation and progressive reinforcement of non-contributory pension systems in the region can be identified:

- (i) **The legal reforms** made by the countries to non-contributory pension systems have been less complex than the reforms to contributory pension systems, making it possible to consolidate the development of these systems and endow them with stability over time;

- (ii) **The political economy** considerations associated with non-contributory pension systems mean there has been a capacity to reach wide agreements on the urgency of providing effective social protection to older persons (i.e. considerations of this type have contributed to the creation and expansion of these systems);
- (iii) As has been reiterated throughout this document, **institutional frameworks for social policy** are crucial to the creation and expansion of non-contributory pension systems, and the countries have had the social institutional capacity to drive the creation of and reforms to these systems;
- (iv) **The financial sustainability** of these systems is paramount, and the fiscal and financial efforts involved in creating or strengthening them must be viable, which means that the moderate financial effect of non-contributory pension systems has been an asset in the effort to expand them;
- (v) **The social effects** generated by non-contributory pension systems in terms of reducing poverty and inequality in old age show that their impact is positive and make the continued expansion of their coverage viable;
- (vi) Taken together, these factors will be the basis for achieving **non-contributory pension system sustainability**, understood as a balance between the dimensions of coverage, sufficiency and financial sustainability (see diagram X.1).



Source: Prepared by the authors.

2. Main challenges for non-contributory pension systems

(a) Achieving minimum thresholds of coverage and sufficiency

As mentioned, non-contributory pension systems in Latin America covered 31.5% of the population aged 65 and over in 2022. As regards sufficiency, entitlements averaged 92% of the poverty line (see chapter III). Regional averages may mask different realities, as coverage and sufficiency vary widely among the countries of the region.

Given the heterogeneous levels of poverty among older persons in the region, one of the main challenges for non-contributory pension systems is to combine minimum thresholds of coverage and sufficiency. If the goal is progress in eradicating extreme poverty and poverty, the combination of certain levels of coverage and sufficiency of entitlements is crucial to achieving the economic and social objectives of non-contributory pension systems.

The minimum thresholds for progress in eradicating old-age poverty are a combination of coverage of the first two income quintiles in old age (i.e. some 40% of the population aged 65 and over) with a level of entitlements equivalent to the poverty line.

It is important to note that the minimum thresholds for each country will depend on the incidence of poverty among the population aged 65 and over. Achieving the combination mentioned here is therefore likely to be more difficult in countries with lower levels of development and income.

(b) Creating or expanding non-contributory pension systems in the region

As mentioned, 28 of the 33 countries in Latin America and the Caribbean have non-contributory pension systems. The countries where such systems have yet to be created or expanded are Haiti, Honduras and Nicaragua in Latin America and Grenada and Saint Lucia in the Caribbean.² In addition to these five countries, which share the challenge of creating a non-contributory pension system, there are two countries of the region where the challenge is to expand current coverage, standing at less than 2% of the older population in 2021. These are Antigua and Barbuda (0.3% coverage) and the Dominican Republic (1.4%) (see chapter III).

In these countries, the main challenge is to create or expand non-contributory pension systems. In general, the main constraints on progress in this direction are institutional shortcomings in the social and welfare sphere. Consequently, the areas of the institutional framework requiring strengthening relate to the availability of: (i) a legal framework that makes it possible to create and then expand the non-contributory

² Countries where no non-contributory pension system was identified during the preparation of this study.

pension system; (ii) a public institution designated in the legal framework as responsible for the management and administration of the non-contributory pension system, with the capacity to implement it; (iii) human resources with the capacity to design, plan and manage the expansion of coverage and the sufficiency of entitlements; (iv) information systems (social registers) that, among other functions, serve to properly manage the allocation of entitlements; and (v) budgetary capacity for the financial and management control of the non-contributory pension system.

(c) Jointly addressing the numerous obstacles to poverty eradication through non-contributory pension systems

Non-contributory pension systems protect incomes and provide economic security for people in old age. They are also an efficient public policy tool for progress in eradicating poverty among the older population.

The eradication of poverty in old age requires, among other factors, that older persons living in poverty receive an entitlement from the non-contributory pension system that brings their incomes up to or above the poverty line. Consequently, entitlements must be permanent and sufficient (at least equivalent to the poverty line) to ensure that the population aged 65 and over has access to incomes of this level or higher. The region is characterized by great heterogeneity in this area, and achieving high enough levels of sufficiency in non-contributory pension systems remains a significant challenge for a great many countries (see chapter III).

Achieving this objective requires a combination of measures, including the following: (i) amending the social contract to include income protection in old age; (ii) managing the political economy of the change of social contract and the creation and expansion of non-contributory pension systems; (iii) promoting the sustainability of non-contributory pension systems, which require financial sustainability to guarantee the coverage and sufficiency of entitlements; and (iv) strengthening the institutional framework for social security to manage non-contributory pension systems and thereby move towards the social and economic objectives set.

For progress in eradicating poverty and reducing inequalities in old age in Latin America and the Caribbean, strategies must consider the multiple challenges faced by non-contributory pension systems in the social, economic, financial, institutional and political spheres.

(d) Simultaneously strengthening both contributory and non-contributory pension systems

Among the main factors behind the large expansion in the coverage of non-contributory pension systems in Latin America and the Caribbean so far this century are the shortfalls in the coverage and, in particular, the sufficiency of the entitlements provided by contributory pension systems.

Contributory pension systems present a variety of deficiencies in the region (Mesa-Lago, 2008 and 2021; Bosch, Melguizo and Pagés, 2013; ECLAC, 2018; Altamirano and others, 2018; Arenas de Mesa, 2019). While the expansion of non-contributory protection is partly a consequence of these, non-contributory pension systems by their nature do not have the capacity to perform all the functions and take on all the challenges of contributory systems. In particular, non-contributory pension systems need to be developed in a way that is integrated with and complementary to contributory pension systems. It is thus crucial, for example, to calibrate the design of non-contributory systems so that they do not generate distortions or disincentives in contributory systems, but rather can be coordinated synergistically with them, fostering the extension of contributory coverage, which is essential to pension system sustainability. In their operation, it is also essential to simultaneously reinforce endogenous and intergenerational solidarity, meaning that associated with redistributive mechanisms within the contributory pension system, which may include transfers between men and women, between the healthy and the sick, between younger and older persons, and between those with higher and lower incomes, and likewise exogenous solidarity, meaning the solidarity embodied in the financing that society as a whole provides to ensure sufficient levels of income in old age under the non-contributory system.

Non-contributory pension systems have a universal orientation to guarantee the rights of older persons, but they should do so by complementing, not replacing, contributory pension systems.

B. Strategic policy proposals for the future of non-contributory pension systems in the region

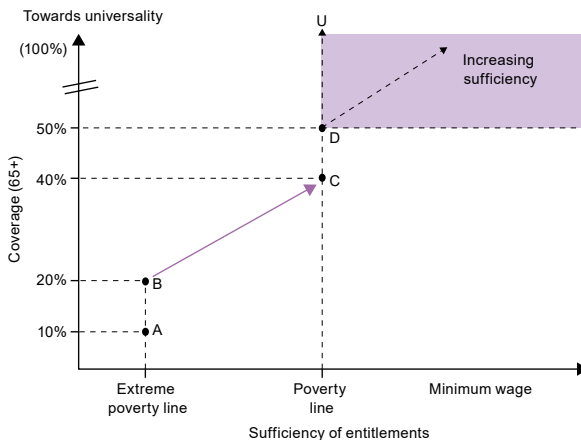
1. Implementing strategies for the eradication of old-age poverty

Extending the coverage of non-contributory pension systems appears to be an effective public policy measure for making progress with the eradication of extreme poverty and poverty, especially among the population aged 65 and over. In the context of the Sustainable Development Goals, in particular target 1.1 (eradicate extreme poverty for all people everywhere by 2030), the coverage of non-contributory pension systems in the region needs to be increased to at least 40% of the population aged 65 and over by 2030. Estimating the financial impact and financial sustainability of these measures is crucial to achieving this Goal.

That means determining the desirable coverage and sufficiency thresholds for the different stages in the strengthening of non-contributory pension systems, in the light of the experience acquired. Moreover, a planned expansion of the coverage and sufficiency of entitlements will be needed to ensure financial sustainability so that these social guarantees can be made permanent.

The combination of specific coverage and sufficiency levels will determine the measures to be taken in the fight against poverty. Figure X.2 shows different combinations of pension coverage and sufficiency. Point A represents the initial combination in a non-contributory pension system, with coverage of 10% of the population aged 65 and over and entitlements equal to the extreme poverty line. Considering the trajectory observed in the region, this would be a scenario for the start of a non-contributory pension system in countries with low or zero coverage. There are numerous challenges at this stage, most notably those related to the institutional framework for social security.

Figure X.2
Strategies for progressive poverty eradication among older persons:
combinations of coverage and sufficiency in the entitlements
of non-contributory pension systems



Source: Prepared by the authors.

Once the non-contributory pension system has been created, the strategy should be to move to point B (i.e. to increase coverage from 10% to 20% of the older population) (see figure X.2). In most countries of the region with this level of coverage and a pension equivalent to the extreme poverty line, the results in reducing extreme poverty in old age should become apparent in the short term.

In countries with medium coverage levels, the strategy should be to move from point B to C (see figure X.2) —in other words, to increase the coverage and sufficiency of entitlements simultaneously. Point C would mean almost all the countries being able to move towards the eradication of extreme poverty and poverty. This is particularly important in view of the great heterogeneity in the levels of sufficiency achieved by the various non-contributory pension systems in the region and the major challenges they face. Achieving this combination of coverage and sufficiency requires strategies that combine political economy, financing and institutional elements. These are thus quite elaborate strategies, and many of them require legal reforms and the development of new social contracts. On average, movement from point B to point C has taken more than two decades in the countries of the region where it has occurred.

Points D (50% coverage and an entitlement equivalent to the poverty line) and U (universal coverage and an entitlement equivalent to the poverty line) in figure X.2 represent strategies that can be implemented in countries with a higher level of development and require changes in the financing structure and a strong political commitment to universalization. The main challenge of this strategy relates to the financial sustainability of universal coverage. Achieving this goal in the countries that have made progress in this direction in the region, such as Chile and Mexico (see chapter IV), may indeed take about two decades.

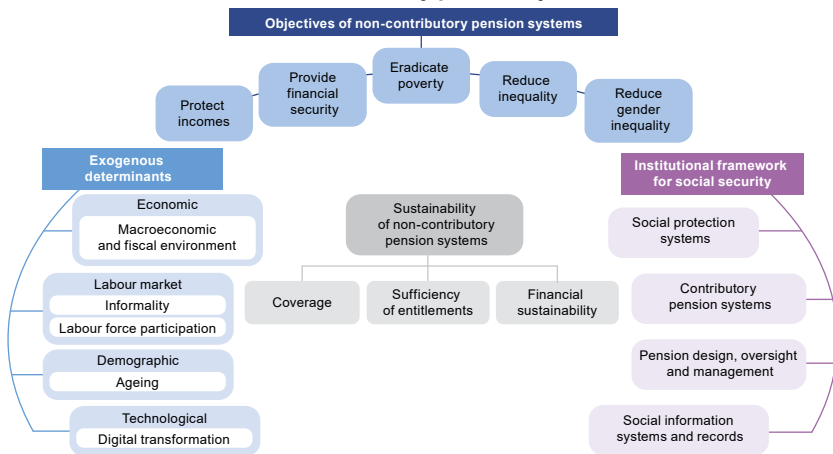
2. Making non-contributory pension systems sustainable: a core requirement for guaranteeing rights

Pension system sustainability is a concept linked to the ability to fulfil social protection mandates and commitments towards current and future generations. It includes three dimensions that need to be addressed simultaneously: coverage, sufficiency of entitlements and financial sustainability. Striking a balance between these three dimensions and ensuring that success in one is not achieved at the expense of the others is essential for pension systems to be sustainable (ECLAC, 2018; Arenas de Mesa, 2019).

It is not enough for pension systems to be financially sustainable, because if there are deficiencies in the other two dimensions, the system will not be truly sustainable. Chile's pension system is a case in point: although the individually funded mechanism is financially sustainable, there is a substantial shortfall in the sufficiency of entitlements in old age. This has led to various reforms and fuelled the debate on the ultimate design of the Chilean pension system. At the time of writing, a pension reform bill is being debated (Arenas de Mesa, 2020; ECLAC, 2018; Arenas de Mesa, Robles and Vila, 2024).

The analysis of non-contributory pension system sustainability illustrates the need to consider the performance of these systems in terms of coverage, sufficiency and financial sustainability and thus their ability to achieve their objectives in relation to a set of exogenous determinants and, in particular, endogenous conditions largely determined by the characteristics of the institutional framework for social security. The objectives of non-contributory pension systems include guaranteeing certain levels of income, providing financial security, contributing to poverty eradication and reducing inequalities, including gender inequality, in old age. The sustainability of non-contributory pension systems is central to achieving these objectives. In most countries of the region, the financing of entitlements and the administration of non-contributory pension systems are public, and funding generally comes from general revenues. Public spending by non-contributory pension systems is based on commitments regarding the coverage (number of people covered) and sufficiency (level) of entitlements, which condition their financial sustainability. These policy decisions (coverage and sufficiency) are made by public institutions, usually in coordination with and as a complement to the contributory component of the pension system. Moreover, the sustainability of non-contributory pension systems is conditioned by exogenous factors (the macroeconomic, fiscal and labour market environment) and by demographic and digital transformations that together create a framework for the financing of and potential demand for coverage and sufficiency of non-contributory pensions (see diagram X.2).

Diagram X.2
Context and determinants of the sustainability
of non-contributory pension systems



Source: Prepared by the authors.

Sustainability is at the heart of the management, expansion and scope of non-contributory pension systems. Striking a balance between the three dimensions of sustainability in the functioning of a non-contributory pension system is crucial for securing rights in old age, progressing towards the eradication of poverty and decisively tackling inequality in the region.

3. Strengthening the institutional framework for non-contributory pension systems

Institutional deficiencies, among other factors, constrain potential pension system reforms to create or expand non-contributory pension systems in the region. Investing human, legal, technological and financial resources in strengthening the institutional framework of non-contributory pension systems is equivalent to strengthening the sustainability of pension systems, in particular non-contributory pension systems.

It is essential to point out that the institutional challenges transcend the existence of public bodies responsible for the administration and supervision of non-contributory pension systems. Although these public institutions are very important for the functioning of non-contributory pension systems, they are only part of the institutional framework involved in the organizational dimension. Other dimensions that also require strengthening and investment are: (i) the legal and regulatory dimension; (ii) the technical and operational dimension; and (iii) the financial dimension (ECLAC, 2023b).

A number of challenges arise in the technical and operational dimension, including the need for robust social information systems to establish transparency and accountability mechanisms for the allocation of entitlements and to manage the growing digital transformation of social protection, particularly its non-contributory component. Strengthening these systems is also crucial because of the increasingly important role played by social registers in the timely identification of non-contributory pension system recipients. The digitalization of social protection systems presents a number of opportunities and challenges that will affect non-contributory pension systems in this area and pension systems as a whole.

The reinforcement of social institutions makes it possible to increase accountability and transparency and improve the public management of non-contributory pension systems, which facilitates improvements to coverage and the sufficiency of entitlements. It is also vital for cementing inter-institutional coordination mechanisms, which are particularly important in the case of non-contributory pension systems in the countries of the region. Furthermore, a consolidated institutional framework for social security enables and facilitates both the implementation of pension

system reforms and the ability to ask society to make a greater contribution in the effort to achieve the objectives, guarantee the rights and ensure the sustainability of the non-contributory pension system.

4. Promoting solidarity in old age: the core of non-contributory pension systems

From a demographic point of view, people at either end of the life cycle (childhood and old age) are classified as dependent population groups. Among other factors, this is because they do not participate in the labour market and the vast majority of them have no earnings of their own. The most vulnerable and dependent population groups are the priority of social protection systems. Non-contributory pension systems not only protect the income of the older population, but also provide the solidarity that the social contract needs to be sustainable.

It is very important to emphasize solidarity in pension systems, particularly given high levels of uncertainty in the face of ongoing transformations and the reconfiguration of the risk structure (Robles and Holz, 2024). As the regional pension experience has shown, it is not advisable to address such risks and transformations on the basis of an individual logic, because this would only worsen current levels of inequality and vulnerability and limit opportunities for inclusive and sustainable social development in the region. Solidarity is not exclusive to non-contributory pension systems, since it is also required in contributory pension systems, in accordance with the normative framework of social security principles (Mesa-Lago, 2008). The expansion of contributory coverage through systems that make the strengthening of endogenous solidarity mechanisms viable is essential to ensure sustained progress with social protection for older persons in the face of rising financial pressures due to the functioning of labour markets and the region's demographic trajectory. In the medium term, as the coverage and sufficiency of entitlements increase, non-contributory pension systems will provide income protection in old age in a way that is integrated with and complementary to contributory pension systems.

Reflection on how to strengthen solidarity in the design of pension systems, especially the non-contributory component, requires careful consideration of its potential contribution to the reduction of inequalities in pension access in the region, particularly gender inequalities. The attainment of rising levels of solidarity in pension systems and their effects on these inequalities can also be understood in terms of recognition of the rights of people traditionally excluded from these systems. In Latin America and the Caribbean, such exclusion is largely explained by structural gender inequalities in the labour market and in the distribution

of paid and unpaid work in households. Providing people with access to non-contributory pension systems is a way of redeeming a long-standing debt that has historically characterized the region in this area and of recognizing their contribution to society as a whole.

Setting thresholds for the coverage and sufficiency of entitlements and implementing them in a way that is financially sustainable and consistent with the main goals of non-contributory pension systems in respect of poverty and inequality will make it possible to consolidate systems that sustainably enhance solidarity in old age. This requires the consolidation of a social contract in these areas, with full agreement on the collective safeguards guaranteed in particular societies. These two properties, solidarity and sustainability, characterize non-contributory pension systems and are oriented within the framework of the normative principles of social security and social protection systems.

5. Consolidating the transition from non-contributory pension programmes to systems

In the twentieth century, the incipient development of social protection included, among other initiatives, the creation of social assistance programmes in which non-contributory transfers were financed by the public sector.³ These programmes included: (i) conditional transfers; (ii) family transfers; and (iii) non-contributory pensions (see chapter I). This residual vision of social protection, centred on non-contributory transfers aimed at the extremely poor, was the beginning of non-contributory pension systems in some countries of the region.

In 2000, only 3.4% of the population aged 65 and over had access to non-contributory pension systems in the region, and indeed non-contributory pensions were not high on the social welfare agenda. The regional debate on pension systems focused on the implementation and creation of new contributory pension models. Between 1992 and 2005, under the influence of the radical Chilean experiment with individual capitalization in 1980, 10 structural pension system reforms were implemented in Latin American countries (ECLAC, 2018).

Since 2008, the region has been characterized by a new trend in social security design and the reforms implemented. During this time, there has been a tendency to reinstate the principle of solidarity at the heart of social security proposals and to create contributory and non-contributory solidarity instruments and systems as key elements in the development of pension systems in the region (Ortiz and others, 2018; Arenas de Mesa, 2019).

³ The concept of social protection was discussed at length at the United Nations World Summit for Social Development held in Copenhagen in March 1995 and was incorporated into the final report (United Nations, 1995).

Another factor has been the debate generated by the recommendations of the International Labour Organization (ILO, 2012) regarding social protection floors, resulting in a range of guaranteed social protection transfers and essential services aimed at reducing poverty and social exclusion.

In this search for new pension system models that would depart from the individually funded schemes, non-contributory pension systems were expanded on a complementary basis (in respect of both the coverage and the sufficiency of entitlements), and the transition from non-contributory welfare pension programmes to the establishment of non-contributory pension systems in pension systems began. In addition, non-contributory pension systems were integrated with contributory pension systems in some countries to consolidate and strengthen the growth in coverage and income protection in old age.

The expansion of non-contributory pension systems has created a number of challenges in the region. These include the challenge of coordinating them with other non-contributory social protection programmes and linking or integrating them with the contributory component of pension systems. A transition has thus been going on, away from the logic of limited, targeted programmes designed for specific situations and towards non-contributory pension systems with a logic of continuous and periodic rights and entitlements, linked and coordinated with contributory pension systems. This transition is crucial for the development and consolidation of pension systems in the region. At the same time, the coordination between contributory and non-contributory systems should include a strategic vision for increasing the sustainability of pension systems, progressively strengthening them with a view to attaining universal coverage and combining different mechanisms in the interests of solidarity.

Accordingly, the non-contributory pension systems to be implemented in the countries of the region should have the following basic characteristics: (i) a universal orientation, grounded in a logic of rights and guaranteed access to pension systems; (ii) sufficient entitlements of a level equivalent to or above the poverty line; (iii) a comprehensive approach in their design; (iv) integration with contributory pension systems; (v) resilience in the face of a changing risk structure; and (vi) sustainability, including financial sustainability.

6. Moving towards universal social protection

Among other topics, the Regional Agenda for Inclusive Social Development (ECLAC, 2020), agreed at the third session of the Regional Conference on Social Development in Latin America and the Caribbean in 2019 by social development and equivalent authorities from the countries of the region,

identified four main axes of action. The first of these establishes that social protection systems must be universal and comprehensive in order to eradicate poverty and significantly reduce inequalities.

The concept of universality means the inclusion of everyone in social protection systems. Universal coverage is a social security principle included in the Beveridge Report (Beveridge, 1942) and endorsed by ILO and the Economic Commission for Latin America and the Caribbean (ECLAC) in different documents (ILO, 2001, 2011 and 2021; ECLAC, 2000, 2006 and 2021). ECLAC argues that “universality does not obviate the need to exercise certain degrees of selectivity, and cannot be extended to levels of protection that are unaffordable; degrees of solidarity must be commensurate with the demands of social integration and with the structure of income distribution; and efficiency cannot be understood solely in microeconomic terms but must ultimately mean the capacity to maximize social objectives with scarce resources” (ECLAC, 2000, p. 13).

Differentiated provision does not contravene the principle of the universality of rights. On the contrary, it can enhance their exercise and reduce inequalities. However, it is essential for social protection policies to be oriented towards universality and for prioritization to be treated as an instrument only, in order to avoid a reductionist view of social policy as being aimed solely at the poor or extremely poor (Arenas de Mesa and Cecchini, 2022).

In this context, non-contributory pension systems form part of social protection and have a universal rights-based orientation, which is observed in the vast majority of the region's countries. Effective universal coverage has been achieved for these instruments in only two countries, namely Mexico and the Plurinational State of Bolivia. Chile is well on the way to this goal, with increasing levels of sufficiency in the entitlements provided. In both Chile and Mexico, the process of increasing coverage took around two decades and was made possible by a number of factors, notably: (i) the political will to increase the coverage of non-contributory pension systems in order to eradicate old-age poverty; (ii) a consolidated institutional framework for social security that had the necessary capabilities to achieve the goal of universal coverage; and (iii) financial sustainability based on the allocation of resources via the respective public budgets.

Making the coverage of non-contributory pension systems universal is a possible strategic route. However, there are other avenues towards the eradication of old-age poverty. A group of Latin American countries has shown that it is possible to reach close to universal levels of coverage for pension systems by combining advances with contributory and non-contributory coverage. When this comprehensive perspective is adopted, it must be ensured that the design of non-contributory pension

systems is conducive to this coordination while at the same time contributing to formalization strategies that allow workers to access the entitlements of the contributory pension system. Non-contributory pension systems can be designed without setting requirements that debar workers who also access the contributory pension system. This is particularly important for workers whose contributory pension income is below the poverty line. Strengthening the coverage of contributory pensions is an imperative for promoting standards of decent work and full labour inclusion in the region. The information available does not suggest that the receipt of non-contributory pensions might discourage such inclusion; on the contrary, in some cases it could enhance it and also contribute to other key dimensions of well-being (see section III.C).

In the *World Social Protection Report 2020-22*, ILO (2021) argued that social protection was at a crossroads and that countries could follow either a “high road” of investing in their social protection systems to move towards universality or a “low road” of minimalist provision. The future of social protection will be conditioned by many ongoing fiscal, productive, climatic, demographic, technological and other transformations and crises. However, the social protection of the future, centred on people and their rights, will be closer to the high road described by ILO and will have a social contract with a universal rights orientation. In this scenario, strengthening non-contributory pension systems makes it possible to bring forward this future.

7. Pursuing new social compacts to strengthen non-contributory pension systems with a view to eradicating poverty and reducing inequality

Social protection for older persons, especially through contributory and non-contributory pension systems, will be one of the main drivers of public policies for older persons in the region over the coming decades.

Growing social demands for progress towards an effective social protection system in the region will require a new social compact centred on the sustainability of social protection systems. Establishing a new social compact involves a major institutional, social and political exercise, in which the management of the political economy plays a key role. Constructing this covenant will make it possible to develop a social protection model focused on rights and solidarity with a view to progressively eradicating poverty and reducing inequality, in pursuit of a society that consolidates collective projects in preference to individual ones (ECLAC, 2014).

The essence of social protection in old age, in particular non-contributory pension systems, is a collective approach to dealing

with financial insecurity in old age. The social compact that provides financial security in old age is at the heart of the social commitments and promises of non-contributory pension systems. The sustainability of this social promise will require linkage and the construction of a new social compact that supports the expansion of non-contributory pension systems and guarantees the financial sustainability of their operations in the countries of the region (Arenas de Mesa, 2020).

In summary, part of this social compact is to determine the levels of well-being to be guaranteed to people over the life cycle, with an emphasis on the situation of people at either end of it, as part of an intergenerational social covenant. From a rights-based perspective, it is essential to mainstream a sense of urgency in interventions aimed at these segments of the population. In particular, given rapid population ageing and the institutional framework already forged in the process of creating and expanding non-contributory pension systems in the region, eradicating old-age poverty is a priority and an achievable goal. This will make it possible to build societies in which the risks associated with old age are addressed collectively, in order to construct new welfare architectures that progress towards universality with solidarity and sustainability at their core.

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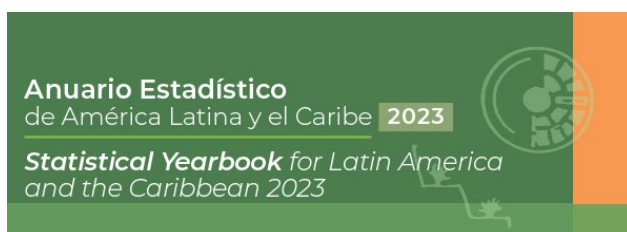
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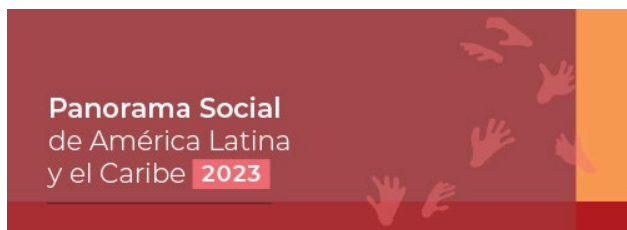
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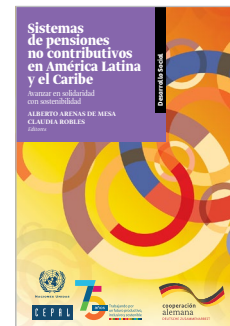


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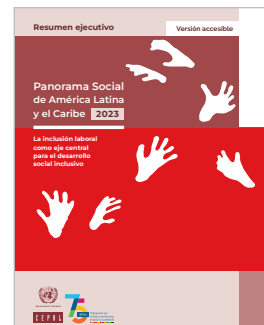
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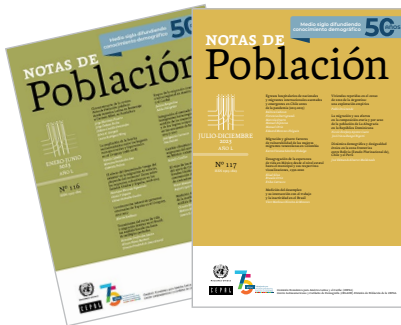
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Non-contributory pension systems in Latin America and the Caribbean

Towards solidarity with sustainability

ALBERTO ARENAS DE MESA
CLAUDIA ROBLES

Editors

Social Development

The expansion of non-contributory pension systems in the region has been one of the major milestones in the development of social

protection architecture in a context of high levels of informal labour, rapid population ageing, and significant gaps and inequalities, including gender inequalities. Non-contributory pension systems have expanded substantially in the twenty-first century, approaching a coverage rate of 3 in 10 persons aged 65 years and over in Latin America and the Caribbean in 2022.

Establishing non-contributory pension systems and strengthening those that already exist in the countries of the region can decisively contribute to the civilized objective of eradicating poverty in old age, helping to significantly reduce inequalities and to ensure protected levels of income during this phase of life.

This publication proposes a collective approach to addressing the risks associated with old age, one that focuses on building revitalized architecture for well-being to advance towards universal coverage centred on sustainability and solidarity. The achievement of sustainable non-contributory pension systems is foundational to the pursuit of solidarity and the full exercise of rights in old age.

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