

Pension watch

Briefings on social protection in older age



Briefing no. 7

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Pensions, poverty and wellbeing

The impact of pensions in South Africa and Brazil, a comparative study

by Armando Barrientos and Peter Lloyd-Sherlock

Key lessons

- Pensions in South Africa and Brazil have had a significant impact on reducing poverty among older people and their households. In both countries, non-contributory pensions function more as an income transfer to poorer households rather than individual retirement income.
- Social pensions can serve as a useful tool for the social inclusion of older people and contribute to aspects of wellbeing, including social relations.
- The wider contributions made by older people is significant. For example, a quarter of those surveyed in South Africa and a third in Brazil said they were in a position to substantially help other household members in their daily lives.
- Analysis of household poverty status between 2002 and 2008 shows a high incidence of movement in and out of poverty. Twenty-three per cent of households in Brazil and 43 per cent in South Africa changed their poverty status over the six-year period.
- Both countries have achieved broad-coverage pension systems that reach the majority of older people who are living in poverty. In this respect, they set themselves apart from many of their neighbours. It is interesting to note that both countries followed a different path and distinct model to achieve this outcome.
- The positive effects of pension income on older people's wellbeing are strongly shaped by the wider economic and public policy context. The economic context influences the fiscal space available to sustain and increase the value of pensions, as well as labour market opportunities for household members, young and old. Supportive public policy initiatives have included the provision of cash transfers to other household members, various aspects of health policy, and pension credit schemes.

Introduction

Brazil and South Africa are leading countries in their respective regions in ensuring extensive coverage of pensions, and particularly social pensions.¹ This briefing summarises the main findings from longitudinal research on ageing, wellbeing and development, and the role of social pensions in the two countries.

The research team first came together from 2001 to 2003 to work on a project comparing the role of non-contributory pensions in Brazil and South Africa, using household survey data from 2002. The main reason for comparing these two countries was that they had remarkably similar pension programmes, in terms of both their reach and the value of benefits. This gave us the opportunity to assess the effects of broadly similar pension programmes in very different developmental and cultural settings.

From 2008 to 2011, the team came together again to follow up the first project with a study focusing on ageing, wellbeing and development in the same two countries. We set out to examine the wellbeing, livelihoods and social inclusion of older people in Brazil and South Africa with a view to throwing light on linkages with broader development. The impact of social policies – especially pension provision – on the wellbeing of older people has been a concern of the team members throughout the two phases of the research.²

Methodology

The survey included a questionnaire covering approximately 1,000 households containing older people in each country, as well as more detailed in-depth interviews. Lacking the resources to study nationally representative samples, the team chose particular groups and locations to examine how older people's experiences varied, within as well as across countries. In South Africa, the study groups were 'Africans' and 'Coloureds' living in Cape Town, and Africans living in rural districts of a former homeland. In Brazil, we selected older people living in poor neighbourhoods of Rio de Janeiro, as well as older people in rural and urban districts in the poor north-eastern state of Bahia.

The longitudinal nature of the research provided a unique opportunity for a comparative study of the dynamics of ageing over time and across countries.³ Households visited as part of the first study were revisited during the second so that we could assess changes over time.

Pensions and development in South Africa and Brazil: the policy environment

In 2002, South Africa and Brazil both had substantial, well-established pension programmes that reached the vast majority of older people, including those living in rural areas. South Africa's pension system mainly consisted of a non-contributory social pension scheme, which paid out benefits to men over 65 and women over 60. These benefits were notionally means-tested, but in practice were provided on a universal basis to older people lacking other forms of pension support. The situation in Brazil was somewhat more complicated, with broader coverage of contributory pensions combined with a quasi-non-contributory pension covering most retired rural workers, and a separate programme of means-tested benefits for people aged 67 and over in urban areas.⁴ Nevertheless, all pensions in Brazil – including the contributory pensions – were significantly subsidised by the government.⁵

Despite the differences between Brazil and South Africa's pension systems, there were remarkable similarities in terms of their coverage and the value of basic pensions. In both cases, they reached approximately 80 per cent of people at eligible ages and paid out a minimum rate of US\$3 per day.⁶ This high rate of coverage is reflected in the experiences of our study groups (see Figure 1).

Between 2002 and 2008, both countries enjoyed economic growth, although Brazil's performance was notably stronger. In each case, economic success coincided with a political leadership that was committed to upgrading welfare programmes. This included reductions in the minimum age for social pensions, as well as substantial increases in the value of benefits.⁷ In the case of Brazil – where pension levels are tied to the minimum wage – the real value of the basic pension rose by 42 per cent. In South Africa, it rose by 18 per cent. Table 1 gives an overview of the current pension systems (2010-11).

1. Barrientos A, "New strategies for old-age income securities in developing countries", in Bhaskaran S and Sushuma G (eds), *Financial inclusion for the aged: issues and strategies*, Hyderabad, ICFAI University Press, 2009, pp.100-115; Barrientos A, "Social pensions in low-income countries", in Holzmann R, Robalino D and Takayama N (eds), *Closing the coverage gap: the role of social pensions and other retirement income transfers*, Washington DC, The World Bank, 2009, Chapter 5; Lloyd-Sherlock P, "Simple transfers, complex outcomes: the impacts of pensions on poor households in Brazil", *Development and Change*, 37, 2006, pp.969-995; Lloyd-Sherlock P, *Population ageing and international development: from generalisation to evidence*, Bristol, The Policy Press, 2010.

2. Barrientos *et al*, 2003

3. Barrientos A, and Lasso de la Vega C, *Assessing wellbeing and deprivation in later life: a multidimensional counting approach*, Working Paper 151, Manchester, Brooks World Poverty Institute (BWPI), 2011; Barrientos A, and Mase J, *Poverty transitions among older households in Brazil and South Africa*, Working Paper 150, Manchester, BWPI, 2011.

4. Eligibility for the rural pension is based on a history of working in the rural sector, not on any previous contributions to the social insurance system.

5. Barbosa ED, "The Rural Social Insurance Programme", in United Nations Development Programme (UNDP), International Labour Organization (ILO), Special Unit for South-South Cooperation (SU/SSC), *Successful social protection floor experiences*, UNDP, 2011, pp.81-98.

6. Rofman R, and Lucchetti L, *Pension systems in Latin America: concepts and measurements of coverage*, Washington DC, The World Bank, 2006. Available at: http://siteresources.worldbank.org/INTLACREGTOPLABSOCPRO/Resources/Pension_Coverage_in_LAC.pdf (accessed 9 November 2011); Woolard I, Harttgen K, and Klasen S, "The evolution and impact of social security in South Africa", Southern Africa Labour and Development Research Unit, University of Cape Town, 2010, available at: <http://erd.eui.eu/media/BackgroundPapers/Woolard-Harttgen-Klasen.pdf> (accessed 13 December 2011).

7. In South Africa, the minimum pension age for men was lowered from 65 to 63 during the study period. In Brazil, the age for the means-tested social pension was lowered from 67 to 65.

Figure 1. Coverage of pensions and benefits among study households – Brazil and South Africa, 2008

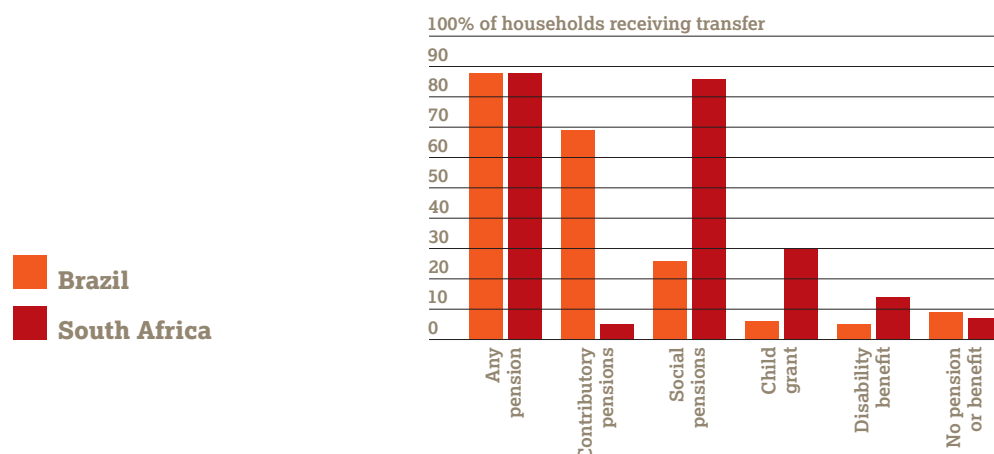


Table 1. Overview of pension schemes, values and coverage in Brazil and South Africa

	Programme	Eligibility criteria	Value of pension (2011)	Number of benefits awarded	Approx coverage (% of population 60+)*
Brazil	Contributory pension funds*	Aged 60+ (women) or 65+ (men), or based on period of employment	Varied, minimum is 545 Reais – US\$318**	9,480,540	46%
	Rural pension (Previdência Social)	Aged 55+ (women) or 60+ (men). More than 15 years of employment in the rural sector	545 Reais – US\$318**	5,851,554	28%
	Means-tested social pensions (BPC and RMV)	Aged 65+. Means test on per capita household income		1,660,446	8%
Total				16,992,540	83%
South Africa	Contributory pension	Variable	Variable	1,100,000	28%
	Old age grant (social pension)	Aged 60 and over. Means-tested on income of individual beneficiary and partner (if married), but not on other household members	1,140 Rand – US\$199**	2,686,838	69%
Total				3,786,838	97%

* Note that due to the fact that different pensions have different ages of eligibility (some below 60 years), these figures only give a rough impression of coverage.

** Currency converted to international US\$ using PPP rates from the Penn World Tables version 7.0 June 2011.

Sources: South African Social Security Agency, *Beneficiaries numbers by grant types* (as at April 2011), available at: www.sassa.gov.za/STATISTICAL-REPORTS-654.aspx (accessed 13 December 2011); Ministério da Previdência Social, *Social security statistics bulletin: June 2010*, available at: www.mpas.gov.br/arquivos/office/4_100825-153725-137.pdf (accessed 13 December 2011); Instituto Brasileiro de Geografia e Estatística, *Resultados preliminares do universo do censo demográfico 2010*, available at: www.ibge.gov.br/home/estatistica/populacao/censo2010/resultados_preliminares/preliminar_tab_uf_zip.shtm (accessed 13 December 2011); Statistics South Africa, *Mid-year population estimates 2011*, July 2011, available at: www.statssa.gov.za/publications/statsdownload.asp?PPN=p0302&SCH=4986 (accessed 13 December 2011); van den Heever A, "Pension reform and old age grants in South Africa", 2007, available at: www.eldis.org/assets/Docs/42168.html (accessed 13 December 2011).

At the same time, there was a substantial extension of other benefit programmes, particularly child grants for the poor. A higher proportion of South Africans in our survey received child grants in 2008 (see Figure 1). This is because South African households were larger than the Brazilian ones studied, and were more likely to include children.

Among rural African households, 40 per cent received child grants and, in many cases, these grants were paid directly to older grandparents who were responsible for the daily care of their young grandchildren.

While there were many similarities between the two countries, there were also important differences that affected older people. For example, the official unemployment rate in South Africa was around three times the rate in Brazil, limiting economic opportunities for older people and younger family members alike. And disease patterns varied sharply between the two countries, with South Africa having significantly higher HIV prevalence than Brazil, for instance. A key question for our research was how far similar pension provision could over-ride the impact of these wider contextual effects on poverty and wellbeing among older people.

Pensions, poverty and economic security

Figure 2 below demonstrates that most older people shared their pension benefits with other household members. This means that the potential benefits of the pension were felt by a much larger section of the population. In the case of South Africa, for example, as many as 20 per cent of the population were living with a pensioner in 2002, and might therefore have benefited from pooling of household income. This does not include any sharing of pension income with relatives and others beyond the household.

Figure 2. Pension sharing, 2002.
“How much of your pension and your own money can you keep for your own personal consumption?”*

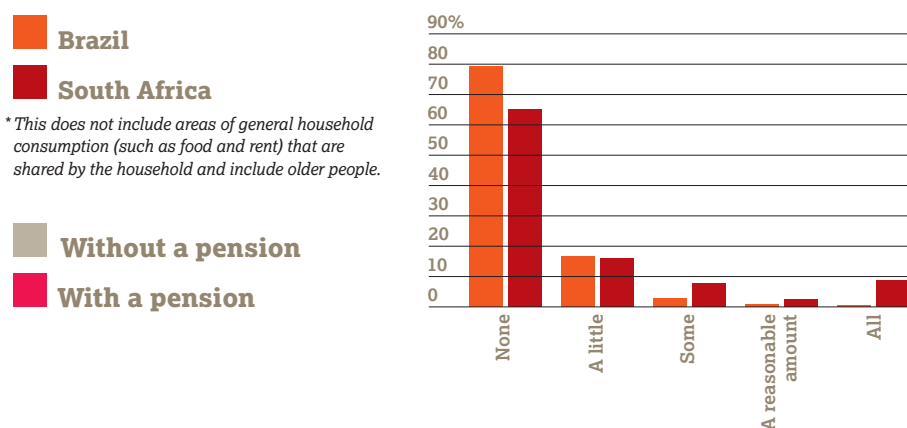
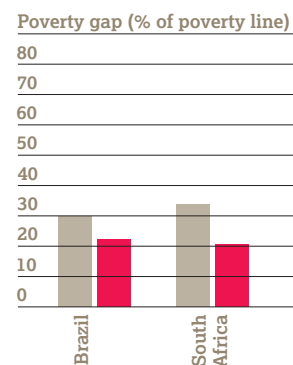


Figure 3. Poverty gap measures with and without non-contributory pension income, 2002⁸



High rates of income pooling mean that the pension benefit should be understood as a contribution to household income, rather than to an older individual. Figure 3 shows the effect of pensions on household poverty in 2002. It demonstrates that pensions significantly reduced the “poverty gap” experienced by older households (that is, the intensity of poverty). Despite this, over 20 per cent of pensioner households in each country still fell below the poverty line.

Between 2002 and 2008, there was a sharp fall in poverty among Brazilian pensioner households. This was mainly due to the 42 per cent increase in the real value of the minimum pension, as well as increased employment opportunities for other household members. In South Africa, the picture was more complex. Despite an increase in the value of the pension, there was a slight overall rise in income poverty, although older people’s access to basic services did improve. This rise in poverty was partly because South African pensioner households were larger than the Brazilian ones, and so the economic gains of increased benefits were shared among more household members. These international comparisons also show how the wider economic context modifies the effects of pensions on older people and their households.

Comparing households included in both surveys (66 per cent of those studied in 2002) reveals that their economic situation was highly changeable. Table 2 shows that for Brazil, a total of 23 per cent of households shifted in or out of poverty between 2002 and 2008. Of these, 20 per cent moved out of poverty, and 3 per cent fell into poverty. Without the income from non-contributory pensions, the overall percentage of poor households in 2008 would rise from 9 to 16 per cent. In South Africa, the situation was notably more unstable,

8. Adult equivalent household income per capita.

with 43 per cent of households shifting in or out of poverty. Worryingly, 29 per cent of survey households who had not been poor in 2002 had fallen into poverty by 2008/9, despite receiving a pension. This shows that when wider livelihood opportunities are limited, pensions are insufficient for bringing multi-person households out of poverty, although they do reduce the intensity of poverty.

Table 2. Comparing the poverty status for the survey households, 2002 to 2008/9

		Not poor 2008/9	Poor 2008/9
Brazil	Not poor 2002	71%	3%
	Poor 2002	20%	6%
South Africa	Not poor 2002	41%	29%
	Poor 2002	14%	16%

Other aspects of older people’s wellbeing: where do pensions fit in?

Taken together, the 2002 and 2008 surveys show that social pensions had a significant effect on the income and poverty status of households containing older people. But it is also helpful to go beyond financial issues to consider wider aspects of older people’s wellbeing, including their overall life satisfaction, as well as satisfaction with particular issues such as health and social relations. Figure 4 shows high levels of satisfaction among older people in both Brazil and South Africa in 2008. In South Africa, only 22 per cent of older people reported that they were either dissatisfied or very dissatisfied, falling to just 7 per cent in Brazil. The lower scores for South Africa may reflect elements of the wider socio-economic environment, such as higher rates of unemployment and HIV prevalence. Nevertheless, there had been a sharp rise in life satisfaction scores since 2002, when only 25 per cent of older people were either satisfied or very satisfied with their situation. There was also a significant increase in satisfaction scores from 2002 to 2008 among study households in Brazil.

Figure 5 looks at various aspects of older people’s wellbeing. A strikingly high proportion of respondents reported that they were either very satisfied or satisfied with family relations, respect shown to them by others, and living conditions. Predictably for an older population, satisfaction with health status is considerably lower in each country. Separate data demonstrate the wider contributions made by older people. For example, a quarter of those surveyed in South Africa and a third in Brazil said they were in a position to substantially help other household members in their daily lives.

Figure 4. Life satisfaction among respondents aged 60 and over, 2008

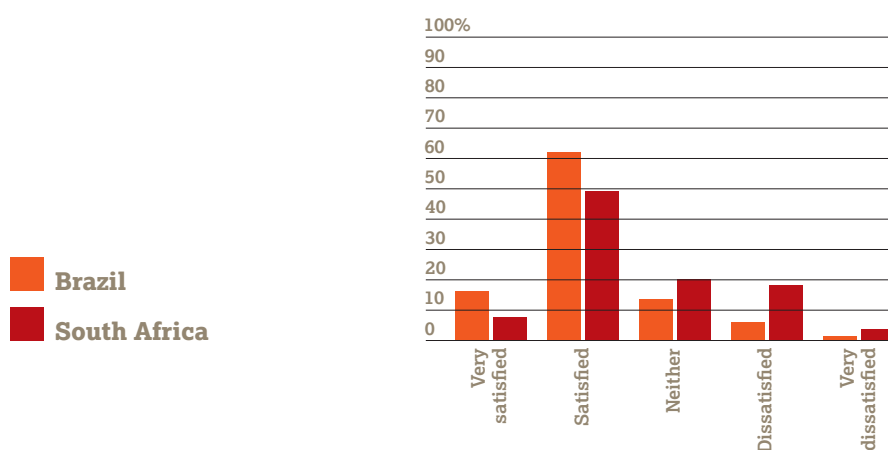
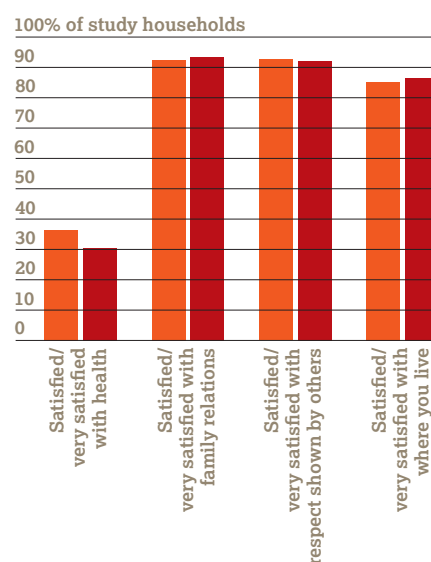


Figure 5. Proportion of households reporting satisfaction with social relations and living conditions, 2008/9



Our survey data reveal a positive picture of older people's wellbeing, but how much of this is due to pension policy and how much is down to other issues? These effects would be easier to assess if comparisons could be made with a developing country where most older people do not receive a pension. There are, however, indirect indications that pensions have played an important role in this positive story in both countries. In South Africa, a high share of pension income was spent on purchasing food for the household, which is likely to have enhanced older people's health status and their standing with other relatives. In Brazil, pension income was sometimes used to contribute towards health expenditure, and some older people had used their pensions as security for low-interest loans to meet the costs of upgrading infrastructure and housing. Nevertheless, the relationship between pension benefits, household relations and wellbeing is highly complex, and every case is unique. The following case studies, taken from in-depth interviews, give a flavour of this diversity.

Case studies: Brazil

“We could pay off our debts.”

Albertina is 93 years old and lives with her daughter, Maria, aged 66, and two young grandchildren in the small town of Salobrinho, in the north-eastern state of Bahia. Albertina first received a social pension in 1998, when she was already aged 83. Maria was able to claim the rural pension when she turned 65: “I was able to sort it all out in just a few days and the payments started straight away.” They receive a *Bolsa Familia* (family grant) for the youngest grandchild.

When Maria started to receive her pension, their situation improved dramatically. “It made us so happy. We'd been struggling to manage with just the one pension... We could pay off our debts and bought things for the house.” Despite this, Maria is worried about how the family will manage on a single pension when Albertina dies.



“Now I can manage my own money.”

Maria is 75 years old and lives in the village of Sambaituba, 20 miles from the city of Ilhéus. From an early age, she worked on local sugar cane plantations, and later as a cleaner. Maria started to receive a social pension when she was 67. Her husband also received a social pension, but died four years previously. She says that, surprisingly, she is now in a better financial position: “My financial situation is better now, since he died. In the past, I used to go to the bank, collect my money and put it straight into his hands. He was in charge of it, but he wasted it all in the bar... Now I can manage my own money. There's more than enough to buy a few clothes to go to visit my daughter's family for a few days.” Maria also uses some of the pension money to help her daughter out with food, and she has been able to make some home improvements.

Positive and negative adaptations to old age

Augustina (68) and Manoel (73) live in the working-class neighbourhood of Novo Iguaçu in Rio de Janeiro. Manoel used to work as an animal trainer, and receives a contributory pension worth about double the value of the basic social pension. Augustina also receives a social pension in her own name. According to Augustina: “We're not as well off as we used to be, so we have to keep an eye on our money. We're careful to live within our means, not to get into difficulty.”

Manoel is diabetic but refuses to be treated; he is depressed and says he feels “useless” now that he no longer works. Maria has a much more positive outlook. She looks after her health, spending more than half her pension on blood pressure medication, and still works on an occasional basis mending clothes for neighbours. “I may be retired, but I've never been one for sitting still.” She also helps out in a local shop: “It's not for the money, really... More of a hobby... When I'm there, I can meet my friends or read a magazine.”



Case studies: South Africa

“It’s all we have to live on, now my children are gone.”

Sophie (68) and Lizio (68) live in Topu village, in the Eastern Cape. Sophie had five children, but none of them are still alive. She has a number of surviving grandchildren, but none of these are in contact with her. Her relationships with her children were limited, since several had moved away to find work and her eldest son was “in and out of prison”. Her last child died four years previously: “I don’t know what it was. People say she had ulcers and a headache.”

Lacking family support, Sophie and Lizio have been left to fend for themselves. They own a small plot of land but are not strong enough to farm it: “It’s my eyes. I cannot see well. I lose strength, my knees get weak and my ankles are sometimes painful, and sometimes I just fall over.” Their two social pensions are their only means of support. More than half of the pension money is spent on basic food items, and they also use it to pay for essential medication from a local clinic. Sophie sets aside a small part of the pension to make contributions to a funeral fund; having a dignified burial is very important to her.

“I receive more money now. The pension is better.”

Aida is 63 years old and lives in a former African township district of Cape Town. She spent most of her life working as a domestic cleaner for wealthy white families elsewhere in the city, but her health deteriorated. In 2001 she was diagnosed as hypertensive, diabetic and arthritic, and was forced to stop work. Aida was awarded a means-tested disability benefit, which had the same value as the social pension. When she reached 60, this benefit was automatically converted into a social pension.

She shares her small house with her husband, who also receives a social pension, and four adult children and a granddaughter. Two of her grandchildren work on a casual basis in nearby shops. Another receives a child grant, but Aida administers it on her behalf. She and her husband both feel more financially secure than when they were in work. They use part of the pension money to take out loans to buy furniture and to cover the costs of sending their granddaughter to school. Aida receives food and clothes on a regular basis from a daughter who now lives in Johannesburg. Three days a week, Aida helps out at a local church soup kitchen, preparing food for local unemployed people.

“Just the basics.”

Thomas is 66 years old and lives in a Coloured township of Cape Town. He used to work in a furniture factory, remaining with the same firm until he retired, aged 55. He initially received unemployment insurance, but this stopped when he started to receive a social pension, at the age of 65. His wife, who worked in a clothing factory, was able to retire and obtain a social pension when she was in her early 60s. Despite receiving these two pensions, Thomas feels that they are much less well-off than they used to be and that life is a struggle: “You get your [pension] money and you go to a shop and you come back with nothing, all your money is gone. Just the basics.”

Thomas has various health problems, including diabetes, and receives medication free of charge from a nearby government clinic. Despite this, he has little faith in government doctors, so prefers to pay for private consultations, which he struggles to afford. His three children live locally and he now has nine grandchildren and four great-grandchildren. They come to visit him and his wife once or twice a month, but he is reluctant to ask his children for financial help.

HelpAge International helps older people claim their rights, challenge discrimination and overcome poverty, so that they can lead dignified, secure, active and healthy lives.

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Conclusion

Data from six different groups of older people, in two countries at two different times, all consistently show that social pensions have a significant impact on the income and poverty status of older people and their households. In the absence of pension income, households with older people are likely to be significantly poorer, less resilient, and less well-integrated economically. In both countries, non-contributory pensions function more as an income transfer to poorer households rather than a retirement income for individuals.

It is useful to combine indicators based on per capita income with other aspects of wellbeing, including reported satisfaction and multi-dimensional indices. Together, they have the potential to provide robust and comprehensive insights into temporal and geographical variations in older people's wellbeing. Our survey data provide indirect evidence that social pensions do not just enhance older people's economic standing, but also contribute to other aspects of their wellbeing, including their social relations. As such, they can serve as a useful tool for the social inclusion of older people.

Despite ageing six years over the study period, the older people we surveyed reported a general improvement in their wellbeing. South African respondents reported improvements in life satisfaction, despite a marginal increase in income poverty. This finding challenges negative depictions of population ageing, which portray progression through later life in terms of declining wellbeing.

Our analysis of changes in household poverty status for both countries shows a high incidence of transitions between 2002 and 2008, and differences in the incidence and direction of transitions across the two countries. Focusing on per capita household income and on the South Africa survey sample, nearly one-sixth of all households managed to move out of poverty by 2008; but almost one-third of all households had fallen into poverty by 2008. For the Brazil sample, close to one in five of all households moved out of poverty by 2008; and around one in ten fell into poverty by 2008. Brazil's stronger performance reflected substantial rises in pension benefits and a generalised improvement in economic performance.

Key issues for policy makers

Despite some similarities between their social pension programmes, Brazil and South Africa have adopted different models of social security. Their success in promoting the wellbeing of older people in disadvantaged settings shows that there is no single "best practice" approach. Older people's wellbeing is closely linked to wider national contexts of economic performance, labour market conditions and social policy. But two clear lessons emerge from the success of the models used by Brazil and South Africa. The first is coverage: both countries have managed to improve the wellbeing of older people by providing pensions that reach the vast majority of poor and vulnerable households. The second is that benefit levels matter: the relative improvement in the wellbeing of older people in Brazil between the two surveys, for example, appears to be strongly linked to the significant increase in the value of the pension.

Find out more:

www.pension-watch.net

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Information on the research project is available from the project website: www.sed.manchester.ac.uk/research/ageingandwellbeing/index.htm

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