Pension watch

Briefings on social protection in older age

Briefing no. 10

Contents

1 Key lessons
1 Introduction
2 What role for a social pension?
4 Targeting
7 Options for expansion
8 Conclusion

Social protection for older Kenyans:

Options for implementing the National Social Protection Policy

Key lessons

- **A social pension will be essential in order to guarantee a minimum income in old age for all Kenyans, which is an objective of the National Social Protection Policy (NSPP).**
- **The NSPP's emphasis on efficiency and cost-effectiveness could imply that a social pension should be targeted only at the poorest older people. Yet there are questions around how compatible this approach is with the political, social and institutional context of Kenya. Meanwhile, analysis suggests that poverty targeting may actually be less efficient at reducing poverty than more universal approaches.**
- **A universal social pension provides the most practical design in the short term, while the government could consider approaches such as pensions testing in the future, when administrative systems become stronger and contributory pensions increase in coverage.**
- **The ideal scenario for a universal social pension may not be affordable immediately, but there are relatively low-cost options that could act as a first step to expansion over the coming years.**
- **Conservative estimates suggest that, despite the gradual ageing of Kenya's population, the costs of a universal pension scheme would remain stable or even fall over the next 30 years.**

Introduction

There has been growing recognition in Kenya in recent years that social protection is essential for achieving poverty reduction and inclusive growth. Over the last decade, numerous schemes have been put in place by the Government of Kenya, including the Orphans and Vulnerable Children Cash Transfer (OVC-CT), the Older Person's Cash Transfer (OPCT), the Urban Food Subsidy Programme (UFSP-CT) and the Cash Transfer Programme to Persons with Severe Disabilities (CT-PWD). In 2010, a commitment to social protection was enshrined in Kenya's Constitution, which now asserts the "right for every

HelpAge International
age helps

person… to social security" and "binds the State to provide appropriate social security to persons who are unable to support themselves and their dependants".[1] Most recently, in May 2012 a new policy on social protection was passed as an Act of Parliament.

The National Social Protection Policy (NSPP) recognises many of the existing initiatives in Kenya, but also their inadequacy. Two of the core challenges outlined in the policy are the huge gaps in coverage of social protection and the fragmentation in existing systems. In response, the policy sets out a range of measures in relation to social assistance, social security and health insurance. The policy also includes proposals outlining how the government can prioritise expansion of social protection. These include a short- to medium-term goal of establishing a "minimum social protection package" as defined in the African Union Social Policy Framework (2008), while planning longer-term actions in line with the concept of a social protection floor.[2]

Social protection in old age emerges as a key theme throughout the policy, including proposals in relation to social assistance and social security. The policy defines social assistance as non-contributory benefits focused on reducing poverty and vulnerability, and social security as contributory benefits aimed at maintaining the income of individuals. For old age, the vision of the social assistance (non-contributory) side is seen as consisting of "a benefit, grant, or pension payable to the older persons on either a targeted or universal basis". This is what is commonly described internationally as a "social pension".[3] For the social security (contributory) side the focus is "a compulsory contributory scheme, possibly provided by the NSSF [National Social Security Fund], while occupational retirement schemes and voluntary social insurance/security schemes will also provide pension benefits to their beneficiaries".[4]

The NSPP represents a move towards a vision of a comprehensive pension system, yet various questions remain unanswered. It is unclear what would be the relative role of non-contributory and contributory pensions in guaranteeing that all Kenyans have a minimum income in old age, and which should be prioritised. Similarly, there is limited discussion of how the two sides of the pension system would fit together as both are set to expand in coverage. A related issue is how a social pension would be targeted. The policy outlines a universal pension as a longer-term measure, while the short- to medium-term priority is that "older people… will enjoy income security through pensions and transfers granted at least up to the poverty line level". This appears to suggest that a social pension would initially be targeted only at older people who are poor.

The intention of this briefing paper is to contribute to the discussion about how to take the NSPP forward, with a focus on the role of a social pension in guaranteeing income security in old age. In the context of the ambiguity of the recommendations for the pension system, this paper offers reflections on three key questions. First, what would be the role of a social pension in the context of other efforts to extend contributory pension coverage in Kenya? Secondly, if a social pension is to be implemented, how should it be targeted in order to ensure effectiveness and integration with contributory schemes? Thirdly, what affordable options exist to expand a social pension in Kenya, and how can the cost be sustained over time?

What role for a social pension?

Kenya has historically faced major challenges in extending the coverage of contributory pensions, and there is little prospect that existing approaches can significantly close the coverage gap in the near future. Currently, fewer than one in ten older people in Kenya receive any kind of pension, and only 15 per cent of the labour force are covered by a pension scheme.[5] The NSPP makes proposals in relation to a number of contributory schemes in Kenya, including the National Social Security Fund (NSSF) – a scheme principally aimed at workers in the formal sector – and the Public Sector Pension Scheme. However, reforms to existing contributory schemes will not be able to overcome two major issues in Kenya: first, the largely informal nature of Kenya's labour market and, second, high levels of poverty and vulnerability. These mean that most Kenyans not only lack the financial resources to make regular contributions to a pension scheme, but also have no way of accessing such schemes. The recently introduced Mbao Pension Plan aims to overcome the issue of informality by creating a way for workers in small and medium enterprises to make voluntary savings for old age. Nevertheless, as described in Box 1, there are limits to the reach of the scheme and the extent to which it can provide income security to its members. It will also be of no benefit to today's older people who have already missed the opportunity to save for old age. It is important to emphasise that this issue is not unique to Kenya, and wealthier regions such as Latin America have faced similar challenges. Despite significant efforts put into extending contributory pensions for many decades, in most countries fewer than half of older people receive a pension.[6]

1. Government of Kenya, *Kenyan constitution*, 2010

2. For description of minimum package of social protection see African Union, *Social Policy Framework for Africa*, Addis Ababa, 2008; for description of social protection floor see ILO, *Social Protection Floor for a Fair and Inclusive Globalization*, Geneva, 2011

3. A social pension is defined as a government-provided regular non-contributory cash transfer to older people

4. Ministry of Gender, Children and Social Development, *National Social Protection Policy*, 2011, p.3

5. Ministry of Gender, Children and Social Development and HelpAge International, *Older Persons Cash Transfer Feasibility Assessment Report: Lessons and options for expansion,* 2013 (forthcoming)

6. Rofman R and Oliveri M L, *Pension Coverage in Latin America: Trends and Determinants*, World Bank, Washington DC, 2012

Box 1: The Mbao Pension Plan

The Mbao Pension Plan is a voluntary savings programme to help people save for retirement, introduced in 2009. It is aimed particularly at people working in medium and small enterprises, so aims to extend pension coverage to informal sector workers. The programme is implemented by the Retirement Benefits Authority (RBA), Kenya's pension regulator. There is clear indication of high demand for such a savings product with membership having reached 4 million by 2012. There are, however, inherent limitations to the reach of the programme, and the extent to which it will help members achieve income security in old age.

Coverage: despite the relatively low minimum contribution rates (KSh20 per day, equivalent to USD0.24) this will still be unaffordable for the very poorest Kenyans.

Adequacy: the low daily contribution and flexibility of the scheme may mean that savings are small. Pension benefits are given as a lump sum and not annuities, meaning the plan will not provide a regular income in old age. Lump sum benefits can also be withdrawn after 18 months, so many members may never save for old age. More broadly, the security of members' savings is dependent on returns from investment by the private sector in the long term. If returns are poor then this will ultimately pose a risk to individual members of the scheme, or government.

For more information on the Mbao pension plan visit the RBA website: www.rba.go.ke/component/content/article/81

A social pension is therefore essential to expanding pension coverage. No country has achieved universal pension coverage without including non-contributory elements, and for countries facing levels of poverty and informality similar to those present in Kenya, social pensions have been particularly important. On the continent as a whole, the countries with the highest pension coverage are in Southern Africa, and this is largely a result of social pensions that cover all, or most, citizens over a specified pensionable age. While wealthier countries such as Mauritius, South Africa and Namibia were pioneers in this respect, much poorer countries such as Swaziland and Lesotho have recently joined them. There have been similar experiences in other regions. Nepal is a lower income country than Kenya, but manages to sustain a universal pension for people over 70. Similarly, despite being the poorest country in South America, Bolivia's universal social pension means it has the highest coverage rate in the region.[7]

A social pension is not a new idea in Kenya, and various proposals have been made in recent years. A number of reports by the Retirement Benefits Authority have recommended a social pension as key to reforming the pension system and extending coverage.[8] In 2005, a World Bank and International Monetary Fund assessment recognised that "poverty among old-age retirees [in Kenya] should be addressed by the introduction of a non-means-tested social safety net or universal pension."[9] There has also been support for a social pension from civil society groups. HelpAge Kenya – a national civil society organisation – has made numerous calls for expanded social pension coverage and has run annual campaigns between 2007 and 2012 where older people have engaged government and political parties on the issue. Most recently, in June 2011, a motion for a universal pension of KSh2,000 for everybody over 60 was passed by the Kenyan parliament.[10]

A social pension would have a major impact on the wellbeing of the most vulnerable and excluded older people. While currently only covering a small population, the experience of the existing social pension in Kenya – the OPCT – provides examples of the wide range of positive impacts that could be expected from an expanded social pension. These are summarised in Box 2. HelpAge International also simulated the impacts on national poverty of an expanded social pension. Findings were that a universal pension of KSh2,000 to everybody over 60 would lead to a reduction of 4 percentage points in the national poverty rate, from 45.9 per cent to 41.9 per cent. This would equate to over a million people being lifted out of basic needs poverty, which would be a huge success considering that poverty actually increased between 1997 and 2005/06.[11]

7. Rofman R and Oliveri M L, *Pension Coverage in Latin America: Trends and Determinants*

8. Keizi L K, *Can universal pension help in reducing poverty in old age in Kenya?,* Retirement Benefits Authority, Nairobi, 2007; Nyakundi D B, *Pension coverage in Kenya: legal and policy framework required to enhance pension coverage in Kenya,* Retirement Benefits Authority, Nairobi 2009

9. International Monetary Fund (IMF) and World Bank, *Kenya: Financial Sector Assessment*, IMF and World Bank, Washington, D C, 2005

10. Standard Digital, "Elderly to get Sh2,000 cash handout", www.standardmedia.co.ke/?incl=SendToFriend&title=Elderly%20to%20get%20Sh2,000%20cash%20handout&id=2000037210&cid=37&articleID=2000037210 (16 June 2011)

11. Ministry of Gender, Children and Social Development and HelpAge International, *Older Persons Cash Transfer Feasibility Assessment Report: Lessons and options for expansion*

Box 2: Lessons from the Older Person's Cash Transfer (OPCT)

The OPCT is a cash transfer of KSh2,000 a month targeted at older people living in poor households.

An impact assessment by HelpAge International found a wide range of positive impacts of the programme:

Food security: **recipients were more than ten percentage points more likely to eat three meals a day than non-recipients.**

Health: **recipients were more likely than non-recipients to have bought medicine in the six months preceding research (88 per cent compared to 74 per cent).**

Dignity: **recipients were more likely to report feeling appreciated and supported by their families and communities and to feel less lonely than non-recipients.**

Families and communities: **nearly one in ten recipients reported that the OPCT had enabled them to help others – either within their household or in the wider community – for example through paying school fees, contributing to welfare groups, employing casual workers or helping friends and family.**

Note: at the time of the impact assessment the OPCT had a lower benefit level of KSh1,500 a month.

Source: Ministry of Gender, Children and Social Development and HelpAge International, *Older Persons Cash Transfer Feasibility Assessment Report: Lessons and options for expansion*

Targeting

If a social pension is seen to be a priority for Kenya, a central question is who should be eligible to receive it. In particular, should a pension be given to all Kenyans over a certain age, or targeted only at older people who are poor? Kenya is a country with relatively limited resources so it is logical that social protection should aim to prioritise the poorest people. The NSPP emphasises the need for cost-effectiveness and efficiency and states that programmes should have an impact on the poorest and most vulnerable. Intuitively, this might suggest that an optimal approach would be to target just the poorest older people, yet on closer inspection this approach is associated with a variety of shortcomings.

Despite the logic for targeting the poorest, there are questions around how compatible this approach is with the political, social and institutional context in Kenya. Poverty targeting depends on individuals identifying themselves as poor, which can be a humiliating and disempowering process. This potentially clashes with the NSPP's stated aim that "the overarching goal of social protection is to ensure that all Kenyans live in dignity". Meanwhile, measuring poverty and vulnerability always involves a degree of subjectivity that results in various challenges in the process of identifying recipients. First, the people who are "correctly" identified often don't match with local perceptions of who is in most need of support. This has been the case in the implementation of the OPCT and has created unease and even social unrest between recipients, non-recipients and programme administrators.[12] Secondly, uncertainty about why certain individuals are eligible and others are not undermines transparency and can provide fertile ground for corruption. Together these issues can undermine the political acceptability of the programme. As one MP stated in a parliamentary debate on the OPCT: "Just scrap it because we find it hard to explain to constituents why one gets it yet a neighbour does not."[13] Finally, targeting the poorest inevitably adds a level of administrative complexity that can stretch the capacity of central and local authorities. This has been one of the major issues in the implementation of the OPCT and other poverty-targeted cash transfers in Kenya, despite the programmes still being relatively small scale.

Furthermore, it is not clear that targeting the poorest is any more efficient at reducing poverty than a more universal approach. As a result of a broad range of issues, including those listed above, poverty targeting is usually far from accurate, even in relation to a scheme's own poverty criteria. Where there has been statistical analysis of programmes in Kenya it has revealed significant exclusion errors. A study of the OVC-CT found that although the programme targeted the poorest fifth of orphans and vulnerable children, only 24 per cent of actual recipients fell within this group.[14] This is in spite of the fact that the OVC-CT has received significant technical support and has high administrative costs. Box 3 presents a cost-benefit analysis that applies these errors to social pension scenarios, finding that targeting the poor could actually be less efficient at reducing poverty than simple universal targeting.

12. Ministry of Gender, Children and Social Development and HelpAge International, *Older Persons Cash Transfer Feasibility Assessment Report: Lessons and options for expansion*

13. Daily Nation, "MPs criticise elders' fund", www.nation.co.ke/News/politics/-/1064/1261974/-/8c3lvy/-/index.html (26 October 2011)

14. Ward P A et al., *Cash Transfer Programme for Orphans and Vulnerable Children, Kenya, Operational and Impact Evaluation,* 2007-2009, Oxford Policy Management, 2010

Box 3: The inefficiency of poverty targeting

Recent analysis by HelpAge International used household data to simulate the relative impact on poverty of two social pension scenarios: one targeting the poor, the other given universally. The poverty-targeted option targeted the poorest fifth of older people over the age of 60, with a benefit of KSh2,000 (USD23.2) a month, the universal option targeted all older people over a higher age of eligibility (70 years) and with a lower benefit of KSh1,000. Both scenarios would cost slightly under 0.5 per cent of Kenya's GDP. The parameters of the two scenarios are listed in Table 1.

Table 1: Parameters of two social pension scenarios (2010)

	Eligible age group	% of age group targeted	Transfer level	Assumed admin costs	Total cost (% of GDP)*
Scenario 1 (poverty-targeted)	60+	21%	2,000	15%	0.44%
Scenario 2 (universal)	70+	100%	1,000	5%	0.47%

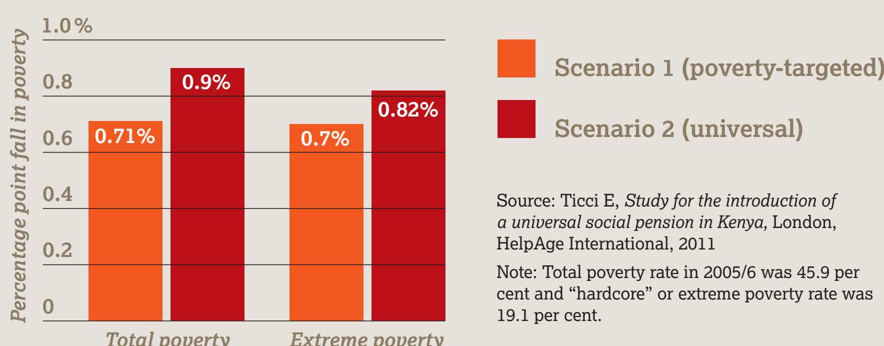
* Authors' calculations using data from IMF, *World Economic Outlook Database,* October 2010; Kenya National Bureau of Statistics (KNBS), *2009 Kenya Population and Housing Census, Volume I C: Population Distribution by Age, Sex and Administrative Units,* Nairobi, KNBS, 2010 and Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2008 Revision.*

Note: Size of target group for poverty-targeted transfer is 21 per cent in order to align with statistical analysis of the OVC-CT.

In order to reflect real world targeting errors, the poverty-targeted scenario used benefit distribution observed in the OVC-CT – a cash transfer where statistical analysis has been undertaken. For the universal pension it was assumed that everyone over 70 received the benefit, which reflects the success of universal pensions in reaching the vast majority of intended recipients. The poverty-targeted scenario was assumed to have higher administrative costs (at 15 per cent of the value of the transfers) than the universal scenario (5 per cent) which is in line with evidence of relative administrative costs of poverty targeting.

Figure 1 presents the relative impact of both scenarios on national poverty. The universal pension option is actually found to have a greater impact on poverty and would result in a reduction in the national poverty rate of 0.9 percentage points, compared to 0.71 percentage points with a poverty-targeted scenario. This would be equal to an additional 70,000 people lifted out of poverty compared to the poverty-targeted scenario. While the cost of the universal scenario is 6 per cent higher, this does not explain the increased impact, which is 26 per cent higher in the case of total poverty. The greater impact is likely due to a combination of high exclusion errors and increased administrative costs of the poverty-targeted scenario, which reduces the proportion of the budget reaching beneficiaries.

Figure 1: Impact of universal and poverty targeted transfers on national poverty rates



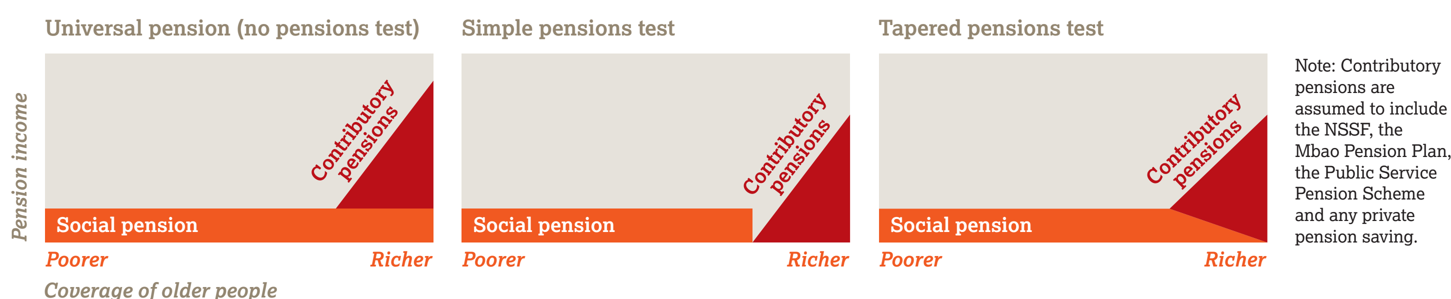
Source: Ticci E, *Study for the introduction of a universal social pension in Kenya,* London, HelpAge International, 2011

Note: Total poverty rate in 2005/6 was 45.9 per cent and "hardcore" or extreme poverty rate was 19.1 per cent.

These issues suggest an expanded social pension should use simpler and more universal eligibility criteria. An alternative to poverty targeting would be to look to models of social pensions already implemented in other African countries such as Botswana, Lesotho, Mauritius, Namibia, South Africa and Swaziland that give social pensions to citizens above a set age, principally on the basis of residency/citizenship. Such a scheme would strongly depend on categorical targeting, which has been found to work relatively well in the implementation of the OPCT. One important consideration for categorical targeting is that identifying the age of older people would rely on Kenya's National Identity Card, which does not have universal coverage. That said, coverage of the card is relatively high, and this issue is part of a wider need to strengthen the civil registration system. Large-scale cash transfers – such as those in Bolivia – have actually been shown to catalyse this process.[15]

Despite the challenges of targeting the poorest older people, there are options Kenya could consider for reducing the entitlement of relatively well-off people to a social pension. One way of doing this could be to link eligibility of a social pension to receipt of other pensions. This approach of "pensions testing" is much more manageable than poverty targeting and relatively common in social pensions. It can be done in various ways. Countries such as El Salvador, Lesotho, Nepal and Vietnam simply exclude individuals receiving other pensions from their social pensions, while Bolivia reduces the benefit by 25 per cent. Chile, the Maldives and Sweden gradually decrease social pension entitlements in accordance with other pension income received – so-called "tapered" pensions testing.[16] The advantage of pensions testing is that it is relatively simple and transparent to implement compared to poverty targeting. Figure 2 presents a simplified representation of how these different options might look within the Kenyan pension system.

Figure 2: Approaches to pensions testing



However, taking into consideration incentive issues, weak administrative information and limited cost-saving rationale, a pensions test is likely to be premature in Kenya. First, a risk of pensions testing is the creation of perverse incentives that would undermine efforts to avoid fragmentation within the pension system. By providing a benefit conditional on an individual not having saved for a pension, it is possible that individuals would conclude it would be better not to save at all. This is especially an issue when receipt of a contributory pension completely excludes an individual from a social pension, or when contributory and non-contributory benefits are comparable in value. This situation could arise with the Mbao Pension Plan, where pension benefits saved by low-income informal sector workers are likely to be modest. A second broader issue relates to administrative systems. The current social security system in Kenya – including the NSSF – has faced significant administrative challenges in terms of record keeping, and it is currently difficult to obtain clear data on coverage. This would not provide a strong foundation for a system where non-contributory and contributory benefits would need to be strictly linked, especially if the link was tapered. A third issue is that NSSF and Mbao pensioners receive lump sum benefits (rather than annuities) that cannot be clearly linked to monthly social pension income. Finally, the low coverage of existing pensions puts in doubt the cost-saving rationale for any kind of pensions test. With fewer than 10 per cent of Kenyans receiving a contributory pension, savings would be minimal, especially considering the additional administrative costs.

A universal social pension thus appears to be the optimal design for Kenya in terms of integrating non-contributory benefits into the pension system. In such a system all individuals over a specified age would receive a benefit regardless of any other savings they have. In *Averting the Old Age Crisis,* the World Bank highlighted this as one of the major benefits of a universal pension, namely that it "avoids the disincentive to work and save inherent in means-tested plans". A universal pension could have the opposite effect by encouraging younger people to prepare for older age so as not to rely on government assistance alone. As such it would avoid fragmentation and provide a strong foundation to the pension system.

15. McPherson A, *Challenges and opportunities for age verification in low- and middle-income countries,* London, HelpAge International, 2011

16. HelpAge International, Social Pensions Database and Knowledge Centre, www.pension-watch.net

Options for expansion

Identifying the best option for an expanded social pension in Kenya will need to take into account the adequacy of the benefit, and what is an appropriate age of eligibility. There is no internationally agreed definition of what constitutes a minimum level of income security in old age and it is ultimately something that is defined at the national level. Stakeholder consultation is required to better understand what is acceptable in the Kenyan context, but some useful benchmarks already exist. Both the existing OPCT and the proposal outlined in the 2011 parliamentary motion have used the benefit level of KSh2,000 (USD23.2) per month. The impacts described in Box 2 – while the benefit level was actually KSh1,500 – suggest that a KSh2,000 benefit would have an important impact on the lives of recipients, while by international standards it emerges as relatively high as a proportion of average income (GDP per capita). Lower life expectancy in Kenya suggests that ideally a social pension would have a relatively low age of eligibility. The eligibility age of 65 in the OPCT and proposal of age 60 within the parliamentary motion of 2010 reflect this.

Nevertheless, what might be considered the optimal parameters need to be balanced against affordability. Investment in a social pension must fit realistically within potential increments in fiscal space within the Government of Kenya's budget and be balanced against other government priorities.[17] This may mean that compromises need to be made on the benefit level and age of eligibility in the short term. This is an approach that has been taken in other countries that have introduced social pensions. Bolivia, for example, introduced its universal pension in 1997 for people over 65, then reduced the age of eligibility to 60 in 2008.[18] Nepal's social pension started at the age of 75, reduced to age 70 in 2008 and now discussion is underway to reduce the age of eligibility to 65.[19] If Kenya does choose such an approach, it would be important to set a roadmap for expansion to a more appropriate age of eligibility for the demographic context.

An assessment of cost suggests that options exist for introducing a universal pension that could be financially feasible in the near future. Table 2 presents the costs of scenarios for a universal pension based on varying ages of eligibility and transfer levels. To make the current model of the OPCT universal – KSh2,000 to people over 65 – would cost 1.34 per cent of GDP, which is similar to other social pensions in countries such as South Africa and Namibia. A universal social pension of KSh2,000 for everyone over 60 – as proposed by the 2011 parliamentary motion – would be higher at 1.93 per cent of GDP. Such costs may be affordable for Kenya, but would likely be unreasonable for the country to take on board from one year to the next. Nevertheless, lower cost options exist which could be a reasonable stepping stone. A universal pension of KSh1,000 (USD11.6) to everyone over 70, for example, would cost just 0.47 per cent of GDP. This would constitute a major scaling up of spending on the current OPCT – KSh12 billion (USD148 million) compared to KSh1 billion (USD12 million) in the 2011/12 budget – but does not appear to be completely unrealistic. The cost is also relatively modest when compared to spending in other sectors that are far less pro-poor, for example, the Public Sector Pension Scheme that costs the government 1.6 per cent of GDP annually.

17. Newson L and Walker Bourne A, *Financing social pensions in low- and middle-income countries,* HelpAge International, London, 2011

18. Ticona Gonzales M, "The Dignity Pension (Renta Dignidad): A Universal Old-age Pension Scheme" in ILO and WHO, *Sharing innovative experiences: Successful social protection floor experiences,* New York, UNDP, 2011

19. Ministry of Gender, Children and Social Development and HelpAge International, *Older Persons Cash Transfer Feasibility Assessment Report: Lessons and options for expansion*

Table 2: Cost of universal pension scenarios (2010, current prices)

Transfer level, KSh (per cent of the international poverty line)	Eligible age group	Cost		
		Per cent of GDP	KSh (billions)	USD (millions)
1,000 (64%)	60+	0.97%	24.3	301.84
	65+	0.67%	16.8	208.79
	70+	0.47%	11.9	147.55
1,500 (96%)	60+	1.45%	36.4	452.77
	65+	1.00%	25.2	313.18
	70+	0.71%	17.8	221.33
2,000 (128%)	60+	1.93%	48.5	603.69
	65+	1.34%	33.6	417.58
	70+	0.94%	23.7	295.10

Source: Ministry of Gender, Children and Social Development and HelpAge International, *Older Persons Cash Transfer Feasibility Assessment Report: Lessons and options for expansion,* 2013 (forthcoming)

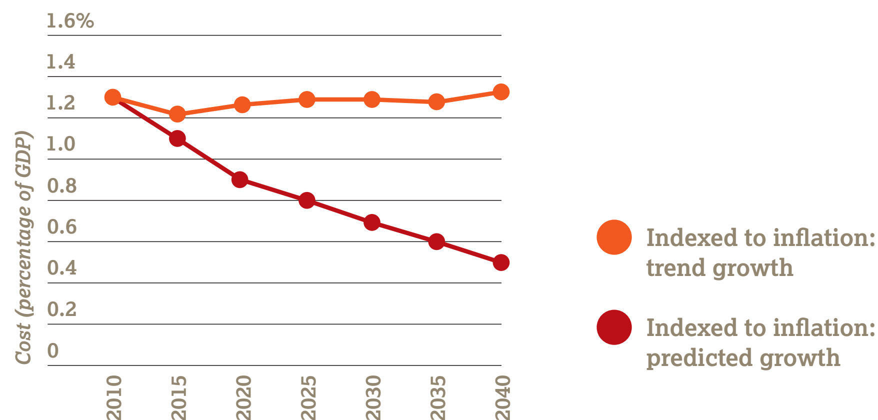
Note: International poverty line used is USD1.25 (PPP) per day. Figures are from HelpAge International's Pension Calculator at www.pension-watch.net/pensions/about-social-pensions/about-social-pensions/pensions-calculator/

Projections show that, in spite of gradual population ageing, the cost of a social pension could be kept stable over time. Over the next 40 years, Kenya is predicted to witness an ageing of its population which – according to projections by HelpAge – could mean the population over 60 increases from 5 per cent today, to over 10 per cent in 2050.[20] However, the future cost of a social pension will be influenced by a range of factors beyond the size of the recipient population, in particular, how the benefit level is indexed over time and how fast the economy grows.

Figure 3 presents two potential scenarios for the projected cost of a universal pension where the value would be indexed to inflation. Such indexing does not yet systematically take place in existing cash transfer programmes in Kenya, but would ensure that a benefit retains its real value and purchasing power over time. Cost here is influenced by economic growth rates (of GDP per capita), so two scenarios are used: (a) "trend growth" in line with Kenya's economic performance from 2000-2010 and (b) "predicted growth" in line with IMF projections from 2011-2015. The figure shows that, even in a less optimistic growth scenario, the cost of a universal pension would remain sustainable, with a significant decrease in cost over time in a higher-growth scenario.

20. Ministry of Gender, Children and Social Development and HelpAge International, *Older Persons Cash Transfer Feasibility Assessment Report: Lessons and options for expansion*

Figure 3: Projected cost of a universal pension, 2010-2040 (KSh2,000 for people 65+)



Source: Ministry of Gender, Children and Social Development and HelpAge International, *Older Persons Cash Transfer Feasibility Assessment Report: Lessons and options for expansion*

Conclusion

The decision about how and when to extend a social pension in Kenya will ultimately be one that needs to be taken by the Government of Kenya, balancing an array of other social protection and non-social protection priorities. This paper comes up with three broad conclusions to support an evaluation of the options: first, if the government is to guarantee income security in old age in the short to medium term, a social pension will be an essential part of the picture. Despite worthwhile initiatives such as the Mbao Pension Plan and reform of the NSSF, international evidence and experience of the Kenyan context tell us that there are major limits to how far contributory pensions can extend coverage. Second, increasing the efficiency of Kenya's social protection system is not a strong rationale for targeting the poorest. As a result of high exclusion errors and greater administrative costs, a poverty-targeted social pension may actually be less effective at reducing poverty than a universal social pension with the same costs. A universal social pension would also have significant benefits in terms of promoting equity and dignity, and providing a strong foundation for the contributory elements of the pension system. Finally, although what might be considered the ideal scenario for a social pension may not be fiscally possible straightaway, there are a number of relatively low-cost options available that could act as a bridge to a more generous and expansive scheme. Projections over time show that these could be sustained, even in the context of an ageing population.

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

HelpAge International
PO Box 70156
London WC1A 9GB, UK

Tel +44 (0)20 7278 7778
Fax +44 (0)20 7387 6992

info@helpage.org
www.helpage.org

Copyright © 2012 HelpAge International
Registered charity no. 288180

Written by Charles Knox-Vydmanov, Rhiannon Leon and Andrea McPherson, HelpAge International
Front page photo: HelpAge Kenya
Design by **TRUE** www.truedesign.co.uk
Print by **Park Lane Press**
Printed on Corona Offset, 100 per cent recycled, NAPM and Blue Angel accredited

Any parts of this publication may be reproduced without permission for non-profit and educational purposes unless indicated otherwise. Please clearly credit HelpAge International and send us a copy of the reprinted sections.

ISBN 1 872 590 75 6

Funded by:

Find out more:
www.pension-watch.net