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Old-Age Poverty and Social Pensions in Kenya

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Protecting the elderly from the risk of poverty is a large challenge in any developing country. Although Kenya has a relatively small proportion of its current population over the age of 55, these individuals and the members of their households remain among the most vulnerable members of the society. The poverty rate among older persons is, by any of the standard measures, greater than that of the population at large. And the poverty rate of the elderly increased between 1994 and 1997 (the period for which there are household survey data available).

These poverty rates have various secondary consequences. There is a high rate of grandparents caring for children because of the HIV/AIDS epidemic. This exposes children to the consequences of old age poverty. A higher proportion of children living in elderly headed households are poorer than for the average. Also, children living in these households have lower rates of school attendance than others.

The current pension system in Kenya is very limited: only about 3% of the elderly population report the receipt of any pension income. One of the potential alternative approaches to expansion of the pension system in Kenya would be the introduction of a non-contributory social pension that provided a benefit to all persons who attained a specified retirement age. These types of arrangements are generally seen as one of the few feasible alternatives in settings characterized by very high rates of poverty among the elderly and low rates of employment in the formal economy. Such factors limit the capacity of many formal retirement systems to achieve broad coverage even if participation is mandatory when people work.

There are a variety of key design parameters that dictate the nature and feasibility of any system of social pensions. The most important include the age of eligibility, the size of the benefit and the extent to which other eligibility criteria, such as means testing, are applied. The study by Kakwani, Son and Hinz (KSH hereafter) (2006) provides some initial observations on the feasibility of a non-contributory social pension. It offers preliminary assessments of the costs and potential poverty outcomes among the elderly in relation to the two main design parameters of benefit levels and age requirements.

The most basic questions regarding the feasibility and outcomes of a social pension system are the number of pension beneficiaries and the expected benefit level under alternative budget scenarios. The KSH study finds that if a pension program had been designed to reach elderly 55 years and older, there would have been more than 1.5 and 1.7 million beneficiaries in 1994 and 1997, respectively. Such a universal pension scheme would have cost 1.16% and 1.38% of GDP in 1994 and 1997, respectively.

Increasing the size of the benefit will increase the capacity of a social pension to alleviate poverty. But where to set the benefit level is primarily based on political economy and fiscal feasibility. One way to evaluate the alternatives is to estimate the 'efficiency' of expenditures. This is defined as the percentage change in poverty as a ratio to the total costs of a pension program. This enables one to focus resources on a specific target group, and would lead to a greater reduction in poverty.

KSH evaluates the cost efficiency of alternative pension programs in reducing national poverty in Kenya. It suggests that providing the benefit only to the poor elderly would result in the maximum reduction in poverty in relation to cost.

On the whole, the KSH study indicates that a non-contributory social pension could be implemented within a feasible range of costs. These could be as low as a little less than 1% of GDP, or could rise to about 3% of GDP if the benefit were increased to the equivalent of 50% of per capita national income. These expenditures need to be considered in the context of both the share of revenues that would be required for such a program and the poverty reduction that could be achieved.

Reference:

Kakwani, N., H. H. Son, and R. Hinz (2006) . "Old-Age Poverty and Social Pensions in Kenya", Working Paper No. 24, International Poverty Centre, Brazil.

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