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Labor Market and Social Security in an Aging Society: The Case of the Andean Region

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I. Introduction

The economic and social advances achieved by the Latin American countries during the second half of the XX Century reflected, among other aspects, in a sustained diminishing of mortality and fertility, and the extension of life expectancy. These changes also brought a progressive decrease of children proportion and the increase in the adults and older adults with respect to the total population. Along the last 50 years, their total population tripled and the number of older adults five-folded and reached 40 million.

Although the Latin American population trend to aging is something general, the intensity of the process differs among countries; the beginning of the demographic transition, its speed and the mechanisms that provoked it, are the factors responsible for these differences.

One basic aspect of aging is related to the old age population's conditions of life. In this field its participation in the distribution of benefits of the economic and social system has especial importance. One first sign is that the rate of activity of older adults in Latin America –lower to the one of the groups in working age– is quite superior to the one observed in the industrialized countries. At the end of the 90's, seven out of each men with 60 years or more were still part of the economically active population (CEPAL 2001); such a high labor participation rate makes clear that old age people need to get an income for their daily surviving. A factor that presses in such direction is the weakness of the social security systems, due to the limited coverage or to the relatively low amounts of their retirement pensions. These restrictions suggest that the advancements that lead to a growing proportion of old age population were gestated among societies that apparently were not prepared to face their consequences. Naturally, these societies have the commitment of granting the necessary means for the subsistence of the ones who have contributed along their working life, and also to do everything possible so that the option between working or enjoy the right to a pension really be something willful.

In order to observe what is happening in the countries of the Andean Region, this document describes the working conditions and social protection of workers age 55 and over. Its main objectives are: i) describe the older adults' labor participation trends, ii) observe the coverage of social security and identify the main sources of income of the older adult, iii) establish the impact of social security's incentives over some results of the labor market, and iv) establish some general principles that can be put in practice by the social security institutions when establishing this kind of programs.

The paper is divided in four sections. Section I is the Introduction; Section II analyses the Labor Market for Older Adults starting from graphic presentation of

statistics, evidences obtained from recent family surveys -2002 and 2003-¹. Section III presents the Older Adult's Income Protection Sources where are analyzed coverage and the different sources of income for older adults. Section IV presents the Conclusions.

II. Labor Market for Older Adults

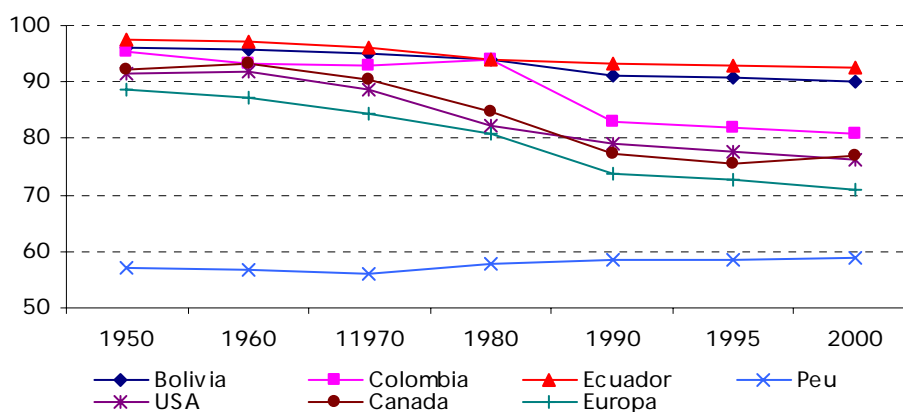
II.1 Trends in Labor Force of Older Adults in the Andean Region

Since the end of the sixties until the beginning of the eighties, industrialized countries have shown a decreasing trend in de labor force participation rate (LLF) among older adults. Gruber and Wise (2004) identify several factors associated to the decline in the LFP rate of older, which mainly include: higher social expenditure, a decrease in the percentage of people engaged in agriculture, and more developed social security programs. Likewise, they also find in that in these countries the relation is stronger for men than for women.

Figure 1.1 shows the evolution of the labor participation rate for men older than 55; it is presented in three panels according to the different age sub-groups that were considered: a) 55-59 years, b) 60-64 years, and c) 65 years and over.

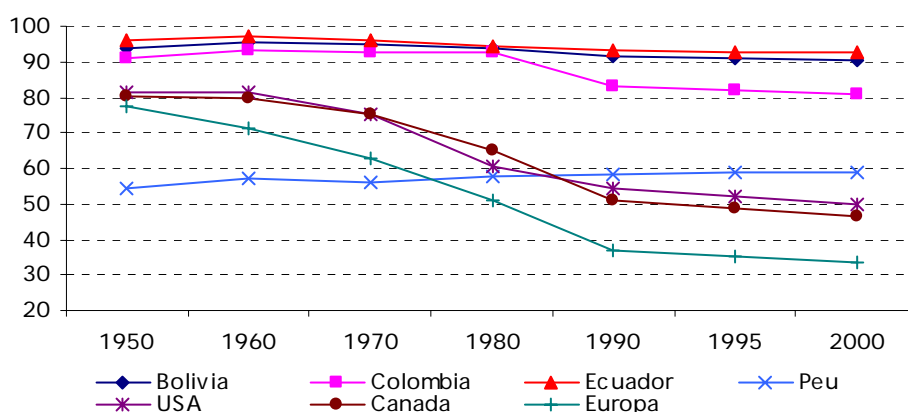
Figure 1.1
Labor Force Participation Rate
Older Adults, Men

a) Older Adults, 55-59 years

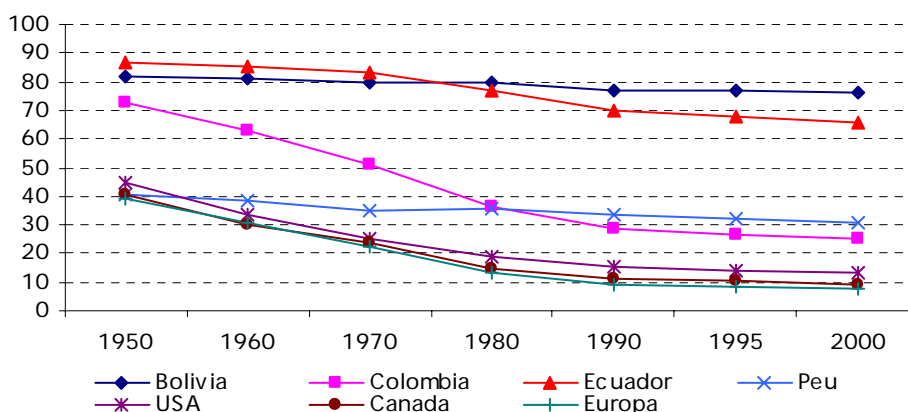


¹ Different graphics or tables of this paper make reference to the following family surveys: *Encuesta de Mejoramiento de Condiciones de Vida*, INE, Bolivia (2002) and *Encuesta Nacional de Hogares*, INEI, Peru (2003).

b) Older Adults, 60-64 years



c) Older Adults, 65 years and Over



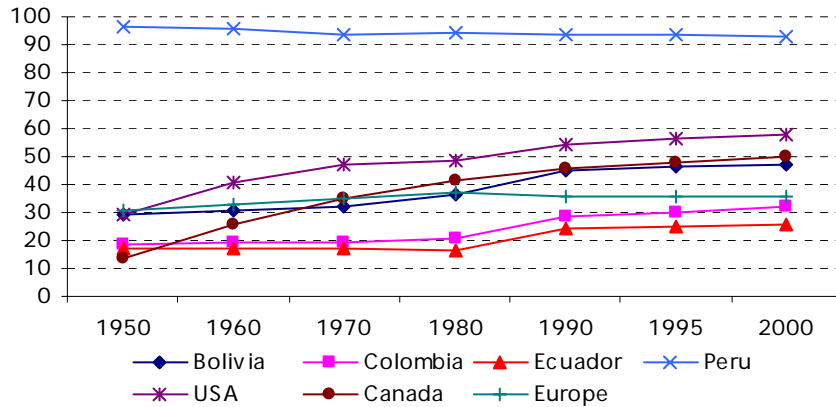
Source: ILO, several years.

Thus, it is observed that in the Andean Region, the LPR for the cohorts of 55-59 and 60-64 follows a decreasing trend, as happens in the industrialized countries, with rates that vary between 90 and 70%; however, Peru shows a trend very different from the rest of these countries, since the participation rate for the group of 55-59 fluctuates around 60%, and presents a growing trend through the time. This same trend can be observed for the group of 60-64 years; it is important to stress that for both age groups the country that has the highest labor participation rate is Ecuador. In the case of the group of 65 years and more, it is observed that in Ecuador and Colombia the trend is decreasing, but the participation rate of Ecuador varies between 80 and 70%, while in Colombia is between 70 and 20%. Once again, the exception is Peru that presents growing labor participation rates.

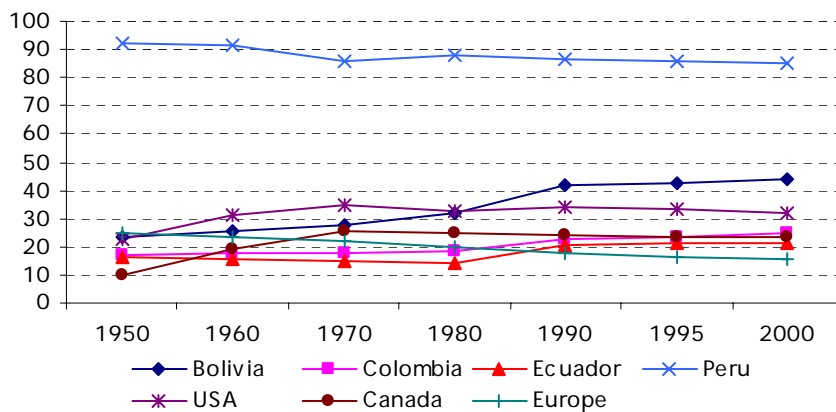
With respect to the trend of women's labor participation rate in the region, it is observed that except in Peru, this has been growing since 1970, according to Figure 1.2. Likewise, the figure shows that there are high levels of labor participation for older adults. In Bolivia and Peru, at present more than 40% of women older than 65 years are economically active.

Figure I.2
Labor Participation Rate
Older Adults, Women

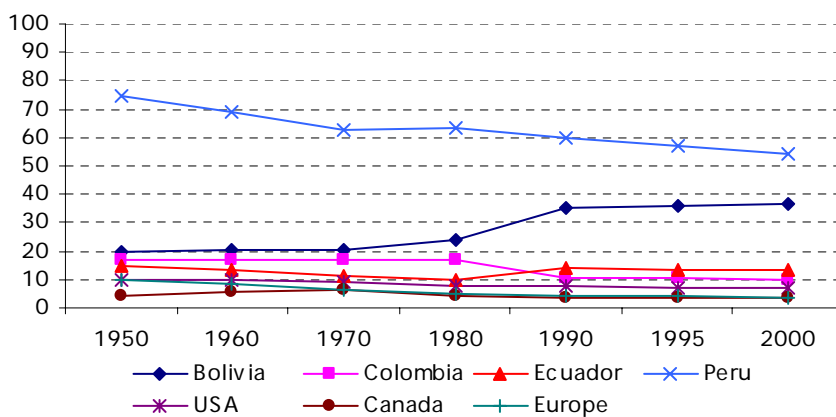
a) Older Adults, 55-59 years



b) Older Adults, 60-64 years



c) Older adults, 65 years and Over



Source: ILO, several years.

Therefore, it is possible to accept that in this region are observed high labor participation rates for older adults, even for those in the age group of 65 years and

more. It is also important to identify which are the facts that determine that older adults stay employed, and analyze what are the labor conditions that they face; thus, in the following section are presented some relevant statistics got from family surveys in Bolivia and Peru.

II.2 Characteristics of Work around the Retirement Age

It is likely that among younger individuals there might be some that decide to continue working since they are in the most productive stage of their lives. However, in the countries of the Andean Region it is observed that there is a considerable ratio of older adults that continue in the economic activity. The fact that an older adult reaches the official age of retirement does not mean that his retirement be immediate. There are a series of facts that determine the moment in which individuals left the labor market, and these have to do, among other things, with the productive structures of the countries and the social security policies.

The purpose of this section is to describe the labor conditions faced by older adults in Bolivia and Peru. Such labor conditions are described through statistics on their employment condition, the existence of a secondary job, the length of their day's work (measured by the number of hours worked), the economic sector and their occupational category.

Employment Condition

Table II.1 presents the work condition by gender for the population of 15 years and more. In both countries it is observed that most men continue employed, although in Bolivia the proportion is higher than in Peru. For older adults it is observed that the percentage of employed men diminishes as we observe older age groups. On the other hand, for women it is observed that their participation in the labor market is smaller in relation to men; however, it follows the same trend. The "inactive" category gets great importance in the case of women and their age, since the proportion of inactive women increases when age is higher, arriving to around 60% for the cohort of 65 years and more. With respect to unemployment, this represents less than 4% in Bolivia –in all cohorts and for both sexes– in the case of Peru it is higher, although smaller than 4% for the ones older than 65 years. As it is observed, more than 50% of the population older than 55 stays active, and this indicates that they have low income levels, or that the retirement pension is very low.

Table II.1
Employment Condition by Age Group in the Andean Region
(percentage)

		Men		Women	
		Bolivia	Peru	Bolivia	Peru
Employed	15-54	80.4	77.3	56.4	58.9
	55-59	89.9	89.5	65.1	61.1
	60-64	85.6	79.1	53.8	52.5
	65+	67.4	55.9	40.1	36.7
Unemployed	15-54	2.8	6.0	3.7	6.6
	55-59	0.7	6.6	0.9	5.4
	60-64	1.7	5.2	0.7	2.9
	65+	0.7	3.7	0.2	1.1
Inactive	15-54	16.8	16.7	39.9	34.5
	55-59	9.4	3.9	34.1	33.5
	60-64	12.7	15.7	45.5	44.7
	65+	31.9	40.4	59.7	62.1

Source: Own elaboration using data from household surveys.

Occupational Category

In industrialized countries it is identified a noticeable difference between the population in working age and the older adults in terms of activity condition and occupational category. In most developing countries it is observed that, as long as workers get older, they tend to be self employed.

In order to observe what happens in the Andean Region, Table II.2 shows the working population according to their occupational category. Statistics allow us to observe that both in Bolivia and Peru is observed the behavior previously mentioned, since as long as workers get older, it is higher the trend to be self employed.

Consequently, an adequate social protection policy must take into account that in these countries exist an important proportion of older adults y ages near to retirement and who are self employed.

Table II.2
Employment Status by Age Group in the Andean Region
(percentage)

		Bolivia	Peru
Salary workers	15-54	35.9	34.5
	55-59	21.9	22.4
	60-64	10.5	17.9
	65+	7.5	7.3
Self-employed	15-54	36.2	36.7
	55-59	53.2	49.7
	60-64	67.3	55.9
	65+	64.0	63.2
Other ^{1/}	15-54	27.9	27.3
	55-59	24.9	28.8
	60-64	22.2	26.2
	65+	28.5	29.5

Note: 1/In Bolivia this category includes: employer, family worker without payment, member of a cooperative and household worker. In Peru includes: employer, family worker without payment and household worker.

Source: Own elaboration using data from household surveys.

Secondary Job

One can expect that older adults, who continue working, do it because they live in poor or less developed countries where the income distribution is not fair and the social security coverage is quite low. The above statistics show a strong trend of older adults to continue working, and therefore it might be expected that in these countries also there is a significant percentage of workers with one or more jobs additional to the main one.

Thus, Table II.3 shows that in Bolivia and Peru around 9.5% of individuals older than 65 years have a secondary job, and it is not observed that the importance of having an additional job has a significant diminishment when observing the percentage through the different age groups.

Table II.3
Importance of Secondary Job in the Andean Region
(percentage)

	Bolivia	Peru
15-54	10.5	14.4
55-59	11.9	14.5
60-64	12.3	13.1
65+	9.6	9.3

Source: Own elaboration using data from household surveys.

Working Hours

Table II.4 shows that in Bolivia and Peru exists a strong trend to work full time; in Bolivia more that 50% of the population in all age groups considered, work 40 hours and more. In Peru, there are similar results, although percentages are smaller. Thus, evidence show that there may exists inflexibility of the labor market with respect to working hours for the older adult in these countries, and as we will see forward, the economic conditions do not allow that individuals work only part time. Therefore, it would be convenient to promote policies which allow flexibility with respect to working hours, so that as long as the worker grows old there may be a transition to well remunerated part time works that is, that retirement must not be an all-or - nothing decision.

Table II.4
Weekly Working Hours in the Andean Region
(percentage)

		Bolivia	Peru
1-20	15-54	16.0	19.1
	55-59	11.6	15.8
	60-64	15.0	20.6
	65+	19.4	25.8
21-39	15-54	19.4	27.3
	55-59	21.8	28.7
	60-64	21.3	28.7
	65+	28.0	35.3
40+	15-54	64.6	53.6
	55-59	66.6	55.5
	60-64	63.7	50.8
	65+	52.6	38.9

Source: Own elaboration using data from household surveys.

Economic Sector

Results in Table II.5 show that in Bolivia there is a highest proportion of persons in working age in the service sector, while most older adults work in agriculture and livestock. An important fact is that more than 70% of the population of 65 years and more work in this sector. Results show that Peru is a country which population is mainly devoted to agriculture and livestock. The results of the table show that more than a third of the population of all ages works in this sector.

Table II.5
Younger Workers and Older Adults by Economic Sector in the Andean Region
(percentage)

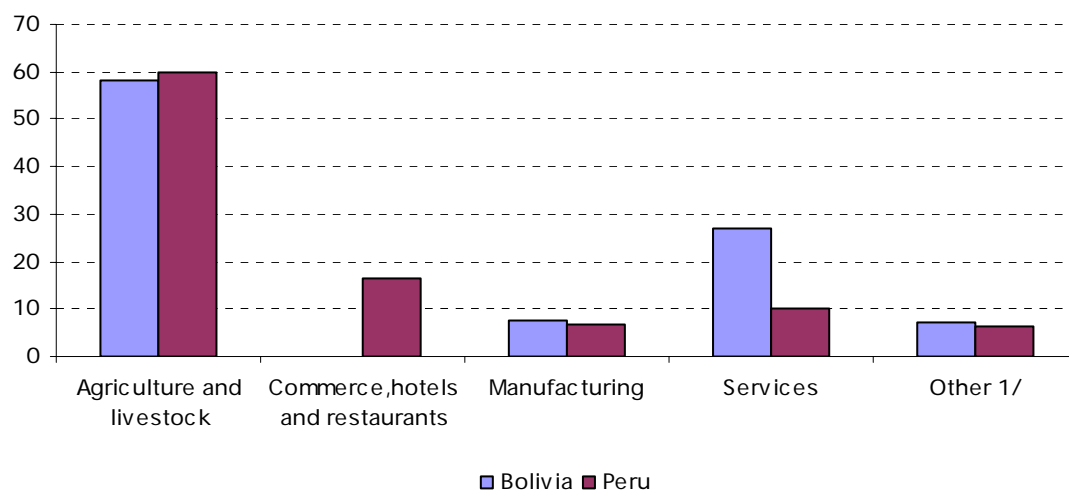
		Bolivia	Peru
Agriculture and livestock	15-54	35.1	35.9
	55-59	45.4	49.3
	60-64	54.9	57.9
	65+	71.2	69.8
Commerce, hotels and restaurants	15-54	N.A	20.5
	55-59	N.A	17.7
	60-64	N.A	18.0
	65+	N.A	14.3
Manufacturing	15-54	12.6	9.7
	55-59	13.1	7.5
	60-64	5.2	7.7
	65+	4.6	6.0
Services	15-54	38.6	22.8
	55-59	30.4	16.3
	60-64	33.1	8.3
	65+	20.2	6.6
Other ^{1/}	15-54	13.6	11.0
	55-59	11.2	9.2
	60-64	6.9	8.0
	65+	4.1	3.3

Notes: N.A. Not available. Bolivia survey does not provide data for this item. 1/ Includes building, mining, electricity and water, transportation, storage and mail

Source: Own elaboration using data from household surveys.

Figure II.1 shows that the sector where the older adult population concentrates is agriculture and livestock; 60% of the population in both countries works in agricultural activities.

Figure II.1
Older Adults and Economic Sector
 (percentage)



Note: 1/ Includes building, mining, electricity and water, transportation, storage and mail
Source: Own elaboration using data from household surveys.

It is a fact that individuals who work in agricultural or livestock activities continue doing it even when they are older adults; likewise this sector is one of those that have less access to social security.

III. Older Adult's Income Protection Sources in Countries of the Andean Region

The available data show that a significant proportion of older adults stay in the labor market, and that the lack of coverage of social security and the relatively low amounts of retirements and pensions are some of the factors behind this permanence. Nevertheless, some of them are compelled to retire due to health problems and others because of the lack of employment. When older adults do not have the possibility of getting a labor income, they begin to depend on the savings they generated during their active life and on the social resources available.

In general, there have been recognized three main income sources for this sector of the population: social programs, individual savings and family transfers. In the item of social programs are clearly distinguished those granted by the social security systems, that were created as an answer to the diminishment in the labor capacity that comes with age and provokes that older adults need external resources to finance their consumption. Until the first part of the XX Century, the mechanism had been through family networks. However, the emergence of modern labor markets created the need to develop a social mechanism that in some degree replaced the family element, since the highest social and geographical mobility as well as the

industrial cycles made that families were in risk of poverty due to unemployment or because it is difficult to save in the long run.

Thus, one of the main objectives of the social security programs is to grant a source of monetary income in old age to replace the income got through the labor participation (contributive programs), or as a tool to help reducing poverty (non contributive programs).

III.1 Social Security and Coverage of Older Adults

The objective of this section is to present in detail the level of coverage that exists in the countries of the Andean Region. Table III.1 shows the rates of coverage for the population older than 65 years, by sex and zone for the four countries of this Region. The results show low levels of coverage in the regions, since only Peru is over 20% in this sub-group. The genre inequities also reach prevision that is consistently lower in the case of women also due to a lack of previous labor participation.

It is also important to mention that the ratio of older adults receiving social security benefits is higher in the cities than in the rural stratus, and this is so because the pension systems are linked to contributions in a context of formal labor markets, and consequently coverage has an urban nature (Rofman 2005).

Table III.1
Rates of Coverage for the Population of 65 Years and Over
(percentage)

		Bolivia	Colombia	Ecuador	Peru
Coveraged rates for adults aged 65+	Beneficiaries/ Pop. of 65+	14.7	18.6	15.2	23.7
Covered EAP of 65+ by sex	Men	16.1	22.9	17.3	27.7
	Women	12.7	13.1	10.8	14.6
Covered EAP of 65+ by geographic	Urban	24.4	27.2	22.2	34.2
	Rural	5.1	6.2	4.9	4.0

Source: Rofman (2005).

On the other hand, as we can see in Figure III.1 in some countries the benefits received by older adults through the social programs have a very significant role when analyzing coverage. However, in the respective surveys, the non contributive programs such as the Bonosol in Bolivia and the Human Development Bonus in Ecuador not always are classified as social security benefits and are considered as transfers or subsidies².

² Bonosol is an annuity benefit granted by the government to the Beneficiaries of Capitalization registered in the Solidarity Account, and is paid to individuals of 65 years and more. The Human Development Bonus is a program created in April 2003, in which were reunited the Solidarity Bonus and the Scholarship, and is a monetary transfer conditioned to school attendance and to the periodical health check ups of the children of mothers benefited with the Solidarity Bonus and of those mothers registered in the Selection and

In the case of Bolivia it is observed that the inclusion of the Bonosol will rise the coverage rate from 14 to 72%, since this program is almost universal. The impact in Ecuador is not so big, since the Human Development Bonus has less reach, and therefore the coverage rate will increase from 15.2 to 34%. In the case of Peru, it extends from 23.7 to only 26.2%.

Figure III.1
Social Security Coverage, Adults aged 65 and Over
(percentage)



Source: Own elaboration using data from household surveys and Rofman (2005).

As we have seen, in these countries coverage is low, and therefore the social security systems do not allow older adults to accumulate the necessary resources to guarantee a decent retirement. For this reason, it could be said that the high participation of older adults in the labor force do not necessarily responds to a voluntary decision.

III.2 Income Sources for Older Adults' in the Andean Region

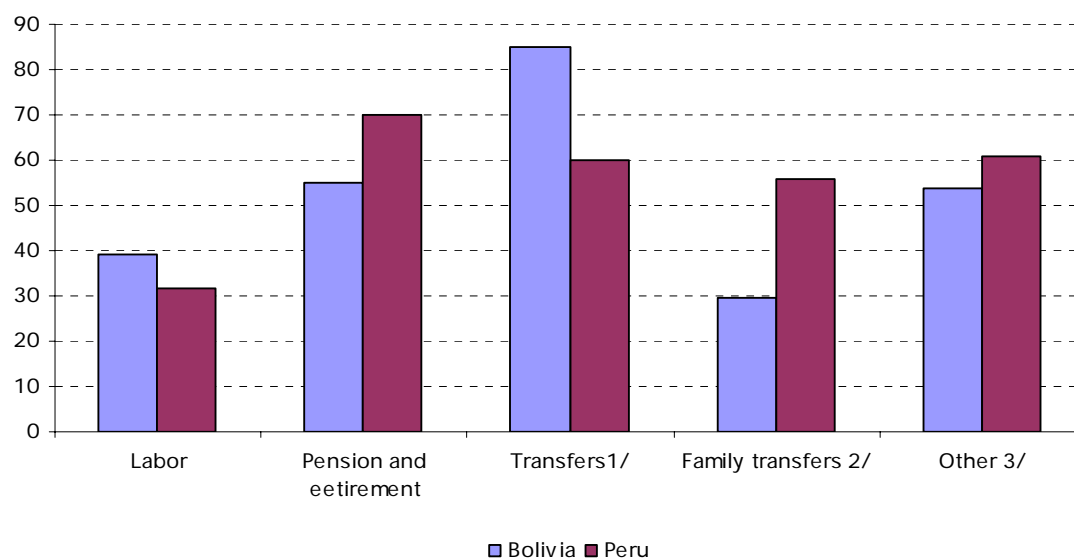
The previous section showed that a high ratio of older adults does not receive social security benefits. In front to the lack of income derived from social security, ¿which are the social protection networks of older adult in Bolivia and Peru?

Figure III.2 shows in a general way the percentage of older adults with 55 years and more who have different income sources: labor income, pension and retirement income, family transfers and other kind of income –that basically includes accident insurance, inheritances, indemnities, chance games, and Christmas and vacation bonus. It is observed that the most important source in both countries in the labor income –more than 50% of the older adult population gets incomes for this concept. As it was mentioned before, in Bolivia, besides including the governmental programs the

Identification of Beneficiaries of Social Programs Project (SELBEN in Spanish) who are part of the families in the two first quintiles as it is stated in the welfare index draw up by the SELBEN.

transfer item includes the Bonosol, and for this reason it is observed that an important proportion of older adults report this kind of income.

Figure III.2
Older Adults' Income Sources
 (percentage)



Notes: 1/ Includes pension and transfers of public and private institutions, remittances and other family transfers. 2/ Corresponds to the percentage of older adults who report not receiving some individual income source from the family they live with. 3/ Includes income for accident insurance, inheritance, indemnities, random games, Christmas and vacation bonus.

Source: Own elaboration using data from household surveys.

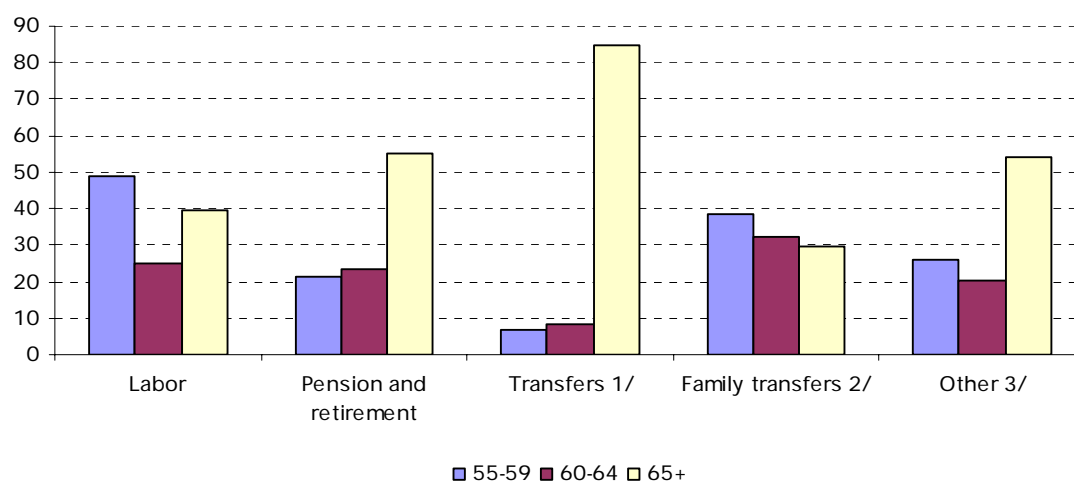
Family transfers are still an important income source for older adults, and although it is a cultural phenomenon, it is partly due to the faults of the social programs in general, that keep older adults among one of the most vulnerable groups of society.

Figure III.3 allows observing how changes the importance of the different income sources according to the age sub-groups. In Bolivia 40% of older adults in the group of 65 years and more receive labor income, while in the group of 55-59 years almost 50% receive it. The income for family transfers is the one that presents less change when observing it for the different age sub-groups, and the transfers which include the Bonosol and some subsidies, are more important for the older than 65 years –around 80% gets incomes for this concept.

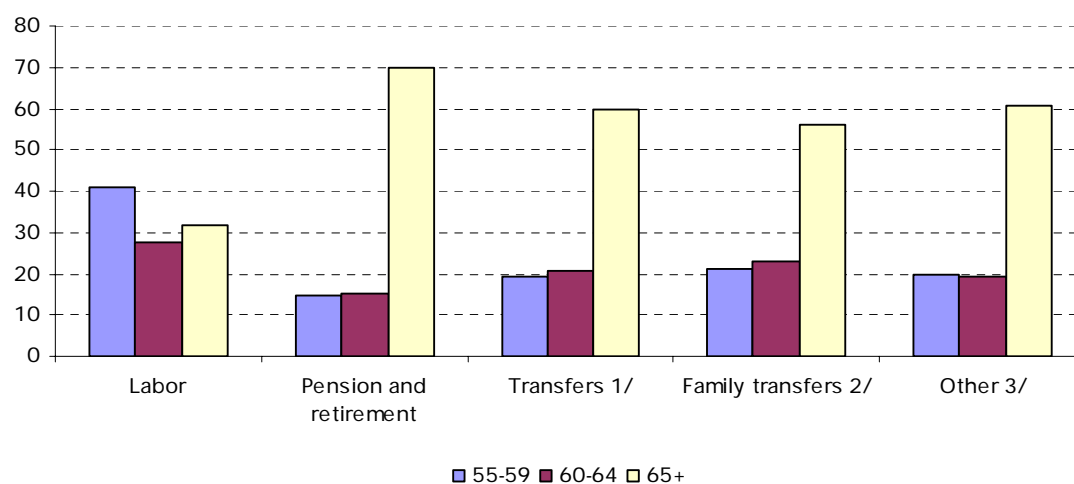
In Peru is observed that 30% of older adults in the group of older than 65 years gets a labor income, and it is not seen a significant change with respect to the group of 55-59 years, where around 41% receive it. However, the importance of incomes from pensions, transfers, family transfers and other kind of incomes becomes more important as we observe the oldest groups, and more than 50% of older than 65 years are covered by these sources.

Figure III.3
Older Adults' Income Sources by Age Group
 (percentage)

a) Bolivia



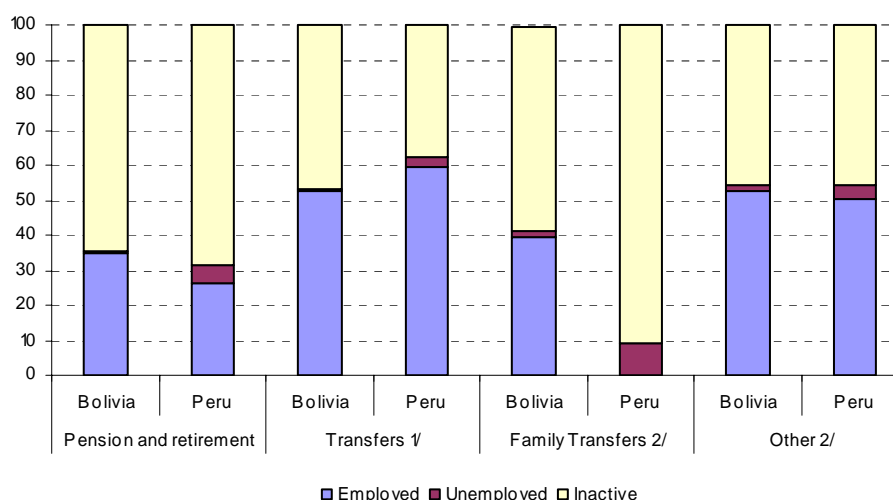
b) Peru



Notes: 1/ Includes pension and transfers of public and private institutions, remittances and other family transfers. 2/ Corresponds to the percentage of older adults who report not receiving some individual income source from the family they live with. 3/ Includes income for accident insurance, inheritance, indemnities, random games, Christmas and vacation bonus.

Source: Own elaboration using data from household surveys.

Figure III.4
Older Adults' Income Source by Employment Status
 (percentage)



Notes: 1/ Includes pension of transfers from public and private institutions, remittances and other family transfers. 2/ Corresponds to the percentage of older adults who report not receiving any individual income source from the family they live with. 3/ Includes income for accident insurance, inheritance, indemnities, chance games, Christmas and vacation bonus.

Source: Own drawing-up with data from family surveys.

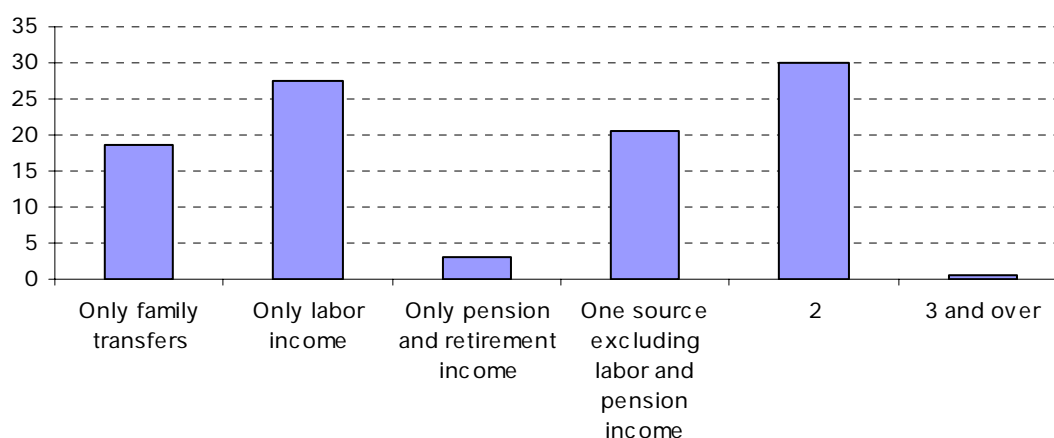
Figure III.4 allows analyzing the composition of the income in accordance to the employment status and is possible to see the similarities that exist between these two countries, since excluding the unemployed; the employed and inactive older adults receive similar percentages from each income source.

As can be expected, in the case of pension and retirement, inactive older adults are the ones who receive the highest percentage. It is observed in both countries that more than 50% of inactive population gets incomes from this source.

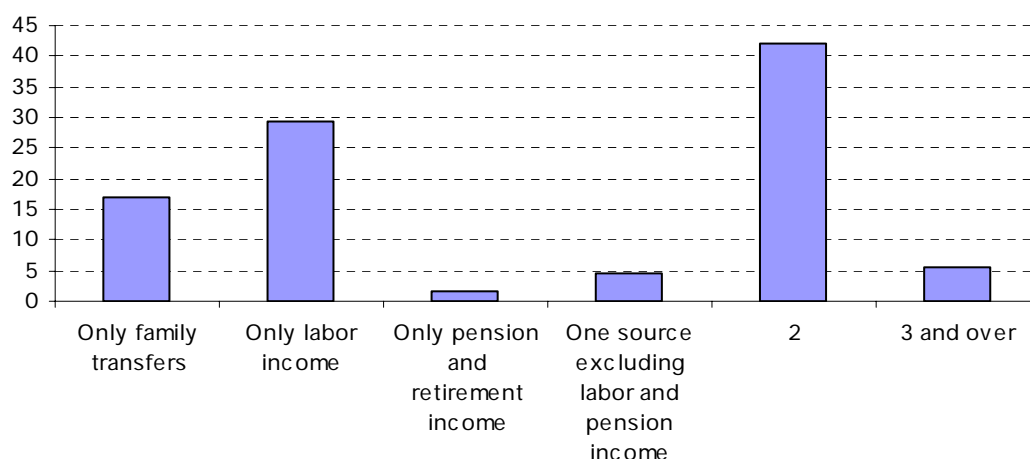
Figure III.5 presents the ratio of older adults by number of income source. An important fact that outstands in this figure is that in both countries less than 5% of older adults have as unique income source a retirement pension or pension, while around 30% has as only income source what gets from his job. Likewise, stands out that between 15 and 18% of older adults in these countries live only from family transfers.

Figure III.5
Number of Income Sources of Older Adults
 (percentage)

a) *Bolivia*



b) *Perú*



Note: Categories in figure are excluding. The total of older adults who reported to get only one income source were divided in individuals who receive i) only family transfers, ii) only labor income, iii) only income from pension and iv) just one source except labor and pension.

Source: Own drawing-up with data from family surveys.

From the results observed in Figure III.2, it is observed that in Bolivia 36% and in Peru 7.2% of individuals who receive a pension report it as its only income source. This indicates that it seemed that the amounts received as pension and/or retirement is not enough to keep consumption during old age. It is necessary a future analysis to recognize the importance of the size of the household, the education level and other factors in the decision to stay in the labor market.

IV. Conclusions

It is observed that in the countries of the Andean Region exist very low levels of coverage, making evident the difference between men and women and between the population of rural and urban zones. Due to this, is necessary to make great efforts to widen the coverage and the access to social security in order to allow that the older adult population may have access to the benefits of the social programs which allow them to count on with enough resources to guarantee a decent retirement.

Besides extending coverage and improve incomes granted by retirement and pensions, must be considered the labor policies for older adults so to achieve a gradual transition from full time job to part time day's work, in such a way that this does not have a negative impact in the income they get, but above all that the decision of continue working does not be a *take it or leave it decision*.

Finally, it must be also considered that in countries where not all older adults have access to pensions because social security is not universal, family grants alternative income sources and takes care of them. Thus, something important to consider in the countries is that it must be achieved that public policies and the family may complement among them, and it is expected that social security promotes this relation.

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