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Social Security Coverage around the World: The Case of China and Mexico

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In recent years, Mexico, China, and India have made significant reforms with the aim of extending social security coverage to a larger fraction of their elderly population. This has been done through the introduction and expansion of programs that have a noncontributory component. The largest of these programs have targeted the least economically advantaged populations. In the case of India, the Indira Gandhi National Old Age Pension Scheme provides benefits to those 60 and older living under the poverty line. In China, the New Rural Pension Scheme provides benefits to those from rural areas (who tend to be poorer), while in Mexico, the Programa de Pensión para Adultos Mayores provides benefits to those who do not have other sources of pension income.

For China and Mexico, we explore recent trends in social security coverage levels and correlates using several waves of two surveys from the family of international Health and Retirement studies: the Chinese Health and Retirement Longitudinal Study (CHARLS) and the Mexican Health and Aging Study (MHAS).

In the four years following 2011, the proportion of individuals 70 and older in China who receive public pensions increased from 33.5 percent to 68 percent. A similar pattern was experienced by Mexico, albeit not as rapidly. Once we account for both contributory and noncontributory programs, the proportion of individuals 70 and older who are covered increased from 33 percent in 2002 to 56 percent in 2012.

The characteristics of the covered population have changed dramatically over the years studied in this report. In 2011, the first wave of the data for China, those among the older population who were covered by a public pension tended to be the ones with higher educational attainment, living in urban areas, with urban hukou, and a history of salaried employment. Only four years later, those same variables were negative predictors of social security coverage. Similarly, in 2002 in Mexico, those covered by public pensions were mostly those receiving benefits from the contributory systems and, therefore, were those who had worked for sufficiently long periods

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of time in the formal private or public sectors. By 2015, the majority of public pensioners were those receiving benefits through noncontributory programs, many of them living in rural areas and with lower education levels.

Separately for each survey wave, we estimated logistic regression models in which the dependent variable is an indicator of "receiving a public pension" and the regressors include education, marital status, and other demographic predictors of employment, as well as rough indicators of work history. Variables that were positive predictors in the first wave of MHAS and CHARLS become negative or insignificant significant predictors by the last wave of analysis. Thus, we find a very fast transformation, where the labor market has been "decoupled" from the coverage of public pensions.

The new programs in China and Mexico, however, are not perfect substitutes for the traditional contributory pensions. The basic payments from these programs equal about 4.2 percent and 5.2 percent respectively of the average benefits for those with contributory pensions. As a result, and unlike for the case of coverage probability, a very strong relationship remains between socioeconomic status and labor market history on the one hand, and the pension income amounts on the other. This relationship was almost unchanged across waves.

These patterns are apparent in our findings from our modeling and our projections under alternative scenarios. We find that, for example, even a rapid transformation of the labor market would not significantly change the proportion of who is covered by a pension program, but would substantially increase average pension amounts. By the same token, increasing the population shares with secondary education would not largely change the coverage patterns in Mexico or China, but would substantially raise the average pension income in both of them.

These results imply that, though the introduction of noncontributory programs has brought about dramatic changes resulting in coverage rates that do not depend on growth in labor market opportunities, the latter is still an important factor affecting elderly populations' level of benefits and economic security.

A future version of this report will include data on India.

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