



ENSURING INCOME SECURITY IN OLD AGE FOR ALL JORDANIANS

BUILDING A COMPREHENSIVE
PENSION SYSTEM THAT
LEAVES NO-ONE BEHIND

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August 2025

DEVELOPMENT

PATHWAYS

Executive summary

The Jordanian National Strategy for Older Persons (2025-2030) commits Jordan to: *“Introduce a minimum income in old age for all older people by offering a non-contributory pension that complements other state pensions.”* This is a paradigm shift in social security policy in Jordan since it will be the first national scheme guaranteeing universal coverage. It brings Jordan into line with many other countries: globally, 93 countries provide pensions to over 90 per cent of their older citizens, while 46 low- and middle-income countries already offer every citizen an old age pension. Some are much poorer than Jordan, such as Nepal, Lesotho and Timor-Leste. In the Arab region only Oman and Tunisia provide all citizens with a guaranteed pension in old age.

Jordan’s population is rapidly ageing. Over-60s will comprise 10 per cent of the population in 2030 and 18 per cent by 2050. Currently, 45 per cent of older people are unable to access income support while the design of the system is strongly biased against women. It is essential that a comprehensive old age pension system is established as soon as possible. If not, in the future a growing number of older people will be living without income security. Many families are already obliged to financially support older people, meaning they have less to invest in their own children and productive activities. If the gaps in the pension system are not addressed, further pressure will be placed on working families while poverty will be exacerbated.

It is financially and technically feasible for Jordan to introduce a non-contributory pension in 2026, financed from general government revenues. There is a wide range of options. A modern pension system should be multi-tiered, enabling citizens to enjoy the guarantee of a minimum income through a tax-financed pension (Tier 1) – which could be known as a Senior Citizens’ Benefit (SCB)– while those in employment who contribute to social insurance would receive an additional amount (Tier 2). Instead of providing a flat-rate universal pension, one option would be to ‘benefit-test’ the old age pension by gradually withdrawing the tax-financed Tier 1 Senior Citizens’ Benefit from those receiving another state pension, essentially the Social Security Corporation’s (SSC) pension or a legacy civil service or military pension.

To ensure the financial viability of the pension, the Senior Citizens’ Benefit could be introduced gradually with a meaningful, but modest, transfer value. A feasible option could have the following design parameters:

- **Age of eligibility:** The SCB could commence in 2026 with a higher age of eligibility – at 75 years– and gradually fall over time to 70 years in 2030 and 65 years in 2035. A number of countries have followed a similar approach, which has the advantage of reducing the initial cost significantly.
- **Transfer value:** The transfer value could be set initially at JD50 per month, which is in line with both the median value for similar pensions globally and the current transfer provided to older people by the National Aid Fund (NAF). It could be gradually withdrawn from those with an SSC or legacy pension at a tapering ratio of 10:1. In other words, for every JD10 received from another state pension, recipients would have JD1 deducted from the SCB. Therefore, those with pensions above JD500 per month would not receive anything from the SCB.

The initial cost of the Senior Citizens’ Benefit in 2026 would be low, at only 0.19 per cent of Gross Domestic Product (GDP), or JD78 million (or JD59 million if the tapering ratio were reduced to 5:1). Assuming an annual economic growth rate of 3 per cent, when the age of eligibility falls to 70 years in 2030, the cost would rise to 0.35 per cent of GDP (JD156 million) and then to 0.63 per cent of GDP in 2035 (JD329 million) once the age of eligibility falls to 65 years. By 2040, the cost would have increased to only 0.67% of GDP. On average, between 2026 and 2040, Jordan would only have to find an additional 0.034 per cent of GDP each year, a very marginal cost. If the economy were to grow at the

5.6 per cent target rate for the Economic Modernisation Vision (EMV), the level of investment required in 2040 would be only 0.45 per cent of GDP. Other countries much poorer than Jordan currently invest much more in their tax-financed pensions: for example, Nepal invests 1.7 per cent of GDP, Lesotho 1.9 per cent of GDP and Timor Leste 2.1 per cent of GDP.

The introduction of the SCB would have significant impacts, once fully rolled out:

- Standards of living among recipients and their household members would increase by 18% while among the poorest households the increase would be 36 per cent.
- The poverty rate among over-65s would fall by 47 per cent.
- Based on international experience, older persons would spend much of their income on their grandchildren, supporting child development (for example, in South Africa, children living with pensioners are up to 5 centimetres taller than other children due to enjoying better diets; and, in Brazil, the pension has closed the enrolment gap among secondary school age children by 20 per cent). In addition, working families would also be able to spend more of their own income to support their children's development.
- All Jordanians would have the opportunity to live their final years in dignity. The autonomy derived from enjoying a personal income would be particularly important for older women.
- The health of older people – both physical and mental – would improve, reducing demand, and costs, within the health system
- The spending by older people would stimulate local markets, creating opportunities for local entrepreneurs, while stimulating the national economy, indirectly generating more jobs. Research has indicated that investments in pensions have similar impacts on economic growth as infrastructure investments.
- The introduction of universal old age pension coverage would be a very popular innovation. Trust in the state among citizens would be strengthened, promoting social stability.

The least that a modern state can do for its citizens is to guarantee income security for everyone in old age. Jordan has already committed, in the National Strategy for Older Persons, to providing this income security through the introduction of a Senior Citizens' Benefit. The Senior Citizens' Benefit would be simple to design and implement, and cash could drop into recipients' accounts within a year from the Government taking the decision to introduce the scheme.

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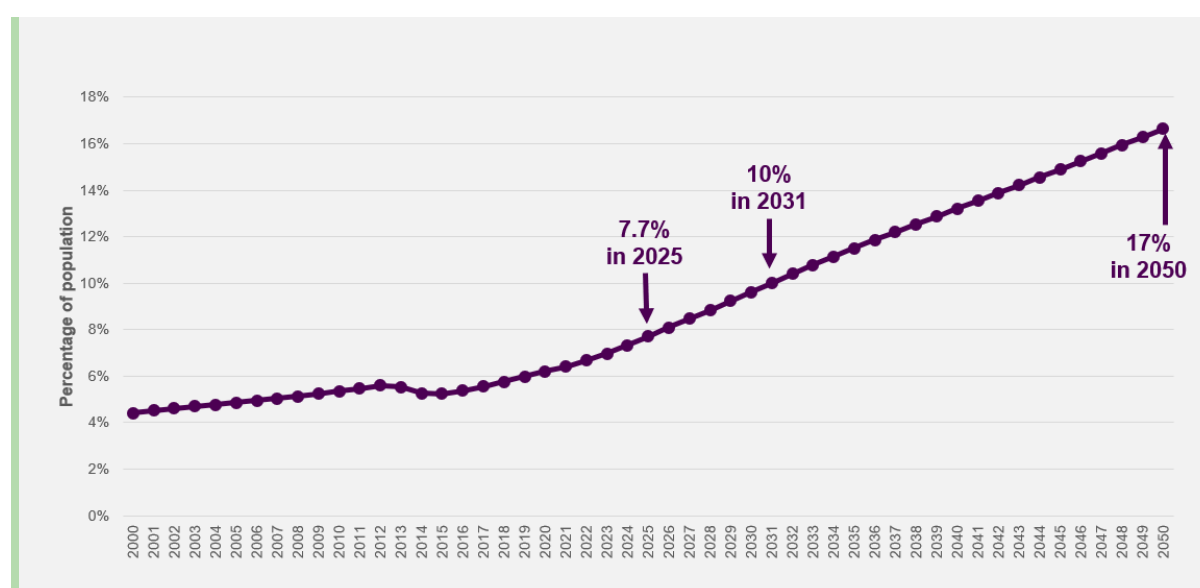
Acronyms

CES-D	Center for Epidemiological Studies Depression
CGE	computable general equilibrium
DHS	Demographic and Health Survey
DOS	Department of Statistics
EMV	Economic Modernisation Vision
FAO	Food and Agriculture Organisation
HIES	Household Income and Expenditures Survey
IADL	Instrumental Activities of Daily Living
ILO	International Labour Organisation
IMF	International Monetary Fund
ISSA	International Social Security Association
GDP	Gross Domestic Product
JD	Jordanian Dinar
NAF	National Aid Fund
PIP	Poverty and Inequality Platform
SCB	Senior Citizens' Benefit
SSC	Social Security Corporation
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific

1 Introduction

Jordan is ageing rapidly. As Figure 1-1 shows, while almost 8 per cent of the population are over 60 years of age in 2025, by 2050 the proportion will increase to 17 per cent. While it is positive that life expectancy is increasing, the ageing of the country is happening in a context of widespread low and insecure incomes. Many families with financial care responsibilities for their older parents are struggling to provide them with adequate support. Unless steps are taken to guarantee income security to all Jordanians in old age, there is a significant risk that many people will live their final years in poverty. Families that are left to care for older people by themselves also find that they struggle to support their own children, thereby hindering child development.

Figure 1-1: The proportion of Jordan's population over-60 years, between 2000 and 2050



Source: UN DESA World Population Prospects (2024 revision)

Therefore, it is essential that Jordan establishes a comprehensive old age pension system that guarantees all Jordanians with a minimum income in old age. As New Zealand's Minister of Finance declared, in 2003: *"The ability to retire in a degree of personal comfort, without worry and with dignity, is the least that citizens can expect in a modern, developed economy."*¹ Yet, almost half of older Jordanians are unable to access an old age pension, meaning that they live their final years in financial insecurity which impacts negatively on their wellbeing and that of their families.

The absence of an effective comprehensive pension system in Jordan will, over time, reduce the ability of the country to tackle poverty. As Jordan ages and a growing proportion of the adult population is unable to work or gain adequate incomes, poverty rates will naturally increase compared to a situation in which all older people are guaranteed a minimum income that significantly reduces their risk of living in poverty. A growing older population without income security is also a threat to economic growth as the demographic dividend that the country has enjoyed from its youthful population recedes.

¹ Willmore (2006).

Introduction

Achieving universal old age pension coverage should be a policy priority for all countries, including Jordan. A comprehensive old age pension system benefits all citizens, not just older people, since everyone hopes to reach old age. By ensuring that everyone has access to an old age pension, the Government would reduce the financial burden on families who are responsible for providing financial support to those older people currently without access to a state pension. Many of these families are struggling financially and, if this financial burden is removed, they will be able to increase their investment in their children and/or productive activities.

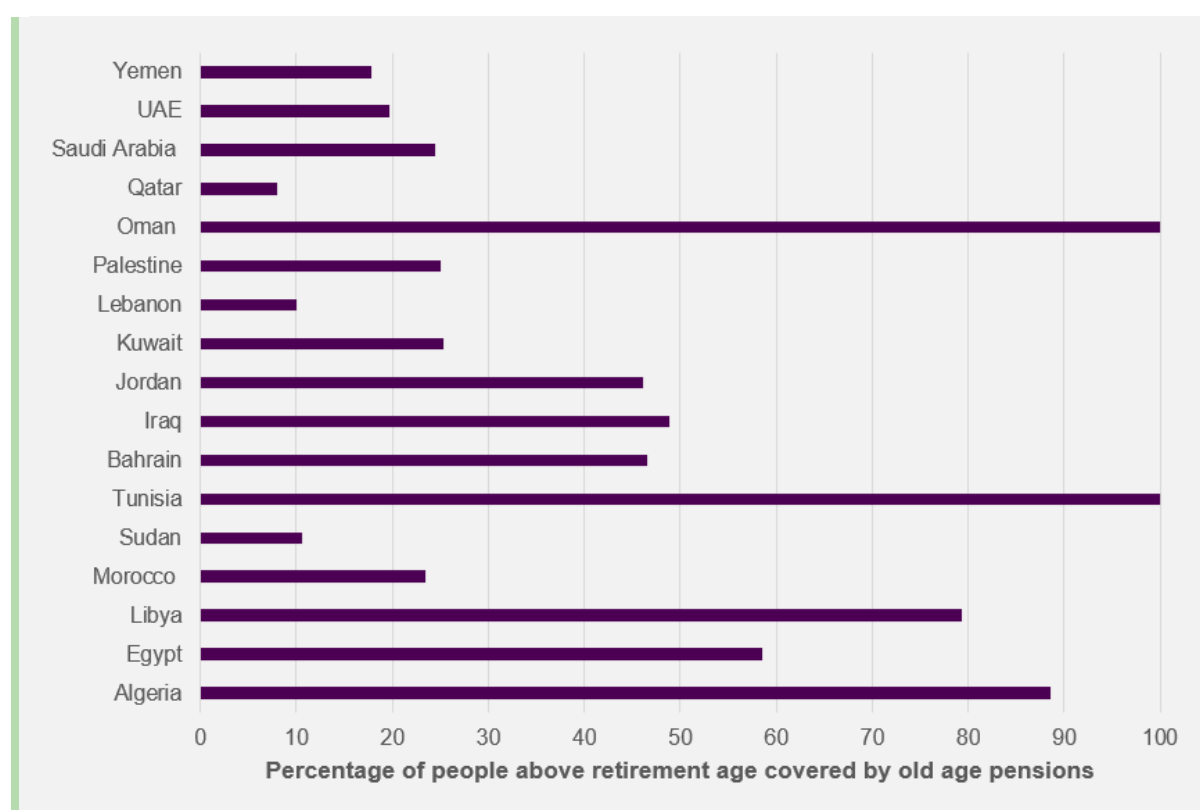
Comprehensive old age pensions are almost always the first lifecycle social security scheme introduced by countries. The Jordanian National Strategy for Older Persons (2025-2030), approved by Cabinet, has already endorsed the introduction of a non-contributory pension financed from general taxation that would offer universal pension coverage for older Jordanians. It states, in the first sub-goal of Strategic Objective 1: *“Introduce a minimum income in old age for all older people by offering a non-contributory pension that complements other state pensions.”* This is in line with the right to social security for all members of society and the right to security in old age, which have already been endorsed by Jordan in the Universal Declaration of Human Rights and other international rights conventions.

This paper begins, in Section 2, by describing the global experience with comprehensive old age pension systems while Section 3 describes the current system in Jordan. Section 4 outlines a potential design of an old age pension system in Jordan that would guarantee a pension to all citizens on reaching old age. Section 5 examines the cost of introducing a tax-financed pension, while Section 6 outlines the potential coverage of the scheme and Section 7 looks at its potential impacts. The paper concludes in Section 8.

2 Global experience with comprehensive old age pension systems

Globally, 93 countries cover over 90 per cent of their older citizens with pensions.² While universal pension coverage is the norm in high-income countries, currently 46 low- and middle-income countries already offer every citizen an old age pension.³ Some are much poorer than Jordan, such as Nepal, Lesotho and Timor-Leste. As Figure 2-1 shows, in the Arab region only two countries currently provide all citizens with a guaranteed pension in old age: Oman and Tunisia. Oman established its universal pension system in January 2024 by providing all citizens over 60 years of age with a minimum guaranteed pension, financed from general government revenues.

Figure 2-1: Coverage of older people by old age pensions in the Arab region



Source: International Labour Organisation (ILO) (2024).

The aims of a comprehensive old age pension system are threefold:

- To ensure that all citizens can retire in a degree of comfort and dignity as a result of being guaranteed a minimum level of income in old age;
- To enable those who can save during their working lives by investing in a contributory pension scheme, such as the SSC, to enjoy a higher standard of living in old age; and,

² ILO (2024).

³ Sibun and Seglah (2024).

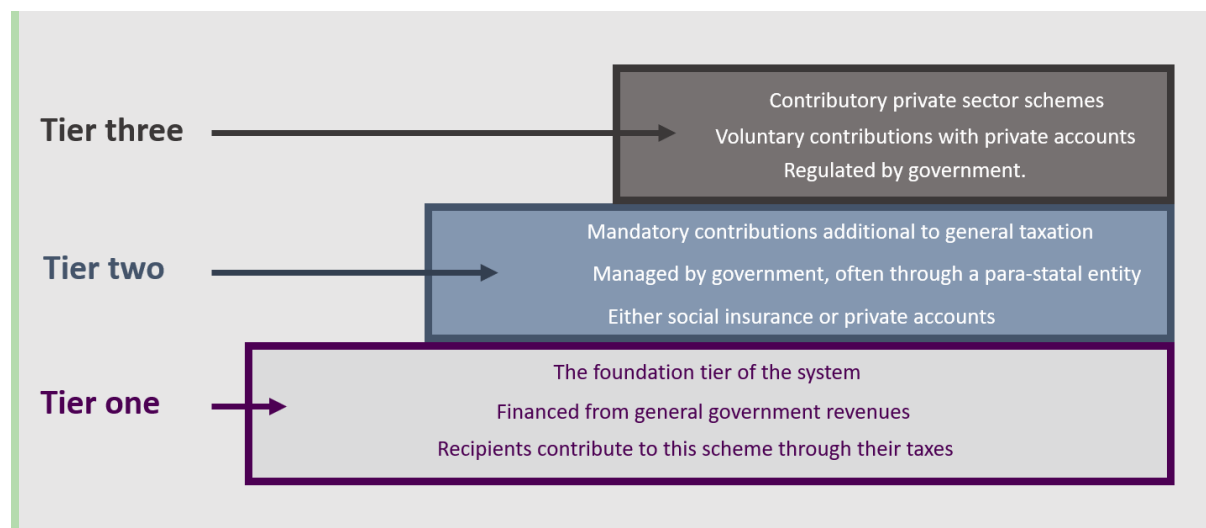
- To insure citizens against the [welcome] risk of living long lives, by ensuring that they enjoy a regular and predictable income until they die.

The most effective and, indeed, only means of providing a guaranteed minimum income throughout old age is via a pension financed from general government revenues. Such schemes are often referred to as ‘social pensions.’ They are also commonly called ‘non-contributory pensions’ although the term is misleading since recipients have often contributed during their lives through the tax system for these pensions (with direct and/or indirect taxes).⁴ In this paper, they will be referred to as **tax-financed pensions**.

The most effective means of providing a pension in old age above the minimum guaranteed by the state is through a contributory pension, such as through the pension offered by the SSC. The SSC pension is financed from the contributions that employees and employers have made during someone’s working life, which is converted into a pension following retirement.

Well-designed pension systems are multi-tiered. There are three basic tiers, as illustrated by Figure 2-2.

Figure 2-2: The three basic tiers in a multi-tiered pension system



Source: Authors’ depiction.

Below is a more detailed description of each tier:

- **Tier 1** is a pension financed from general government revenues. It should be considered the foundation of the pension system as it guarantees everyone a pension.
- **Tier 2** is financed by contributions from employers and employees and, in Jordan, comprises the contributory pension provided by the Social Security Corporation. The key feature of this tier is that the contributions are **mandatory** for all those in employment although, in practice, in Jordan, this largely applies to those in formal employment.
- **Tier 3** comprises voluntary contributory schemes, often through schemes managed by employers. The role of government is largely to regulate these schemes. Some voluntary schemes are implemented by the agencies delivering Tier 2 mandatory pensions, such as

⁴ See McClanahan (2019).

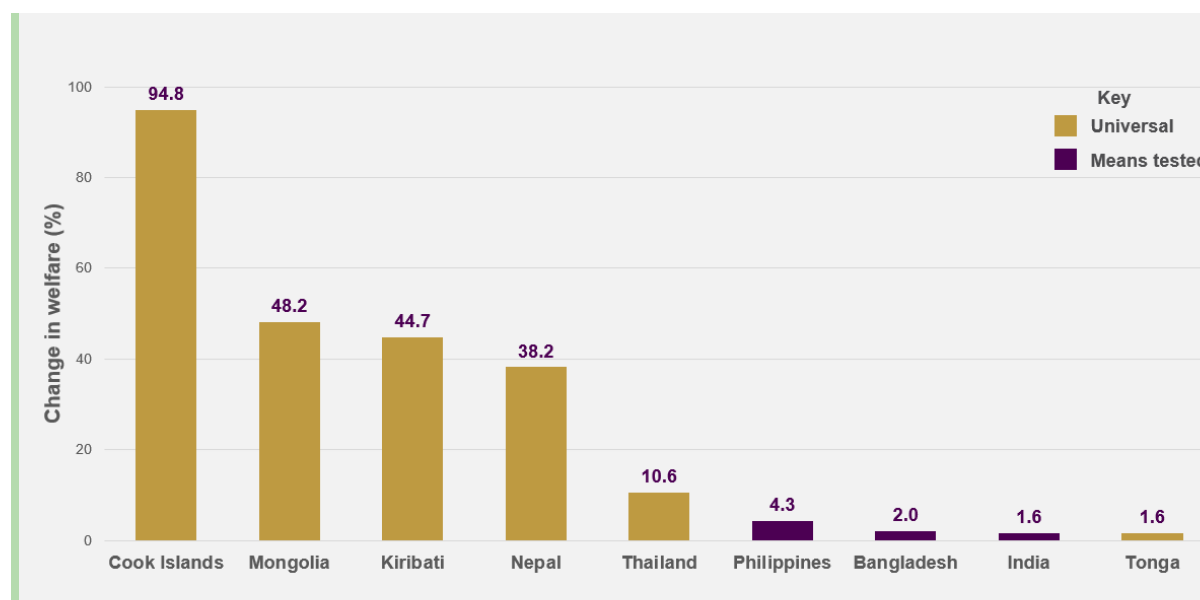
through the SSC. Within Jordan, there are also voluntary pensions for certain professional groups.

While a Tier 1 pension is essential for a well-functioning pension system – as this is the only means of guaranteeing universal coverage – this is not the case for Tiers 2 and 3. For example, New Zealand's pension system comprises only Tiers 1 and 3, as there is no mandatory contributory pension.⁵

2.1 Global evidence on the impacts of old age pensions

Tax-financed Tier 1 pensions can have significant impacts on consumption among older people, if well-designed. As Figure 2-3 shows, the pensions offering universal coverage in the Cook Islands, Kiribati, Mongolia and Nepal have increased per capita household consumption across households with over-60s by between 9 per cent (in the Cook Islands) and 46 per cent (in Mongolia). However, benefits targeted at older people living in poverty – such as in Bangladesh and India – have minimal impacts, due to their low coverage, targeting errors and low transfer values.⁶

Figure 2-3: Increase in household per capita consumption/income among older people 60+ due to tax-financed Tier 1 pension across selected countries in the Asia-Pacific region^{7,8}



Source: Bangladesh HIES 2016, Cook Islands HIES 2015-16, India IHDS-II 2011-12, Kiribati HIES 2019-20, Mongolia HIES 2021, Nepal AHS 2015-16, Philippines FIES 2023, Thailand SES 2018, Tonga HIES 202.

Universal pensions are very pro-poor. As Figure 2-4 shows for Nepal's Tier 1 pension, the greatest increase in consumption among recipients is among the poorest pensioners. Those pensioners in the poorest 10 per cent of recipients receive average increases in per capita consumption of almost 200 per cent, meaning that their consumption is almost tripled. In contrast, the increase in consumption

⁵ While it is compulsory for employers to enrol new employees in a contributory pension scheme, employees can opt out. The government oversees one contributory pension scheme – KiwiSaver – largely as a competitor to private sector pension funds to encourage them to maintain the efficiency and effectiveness of KiwiSaver.

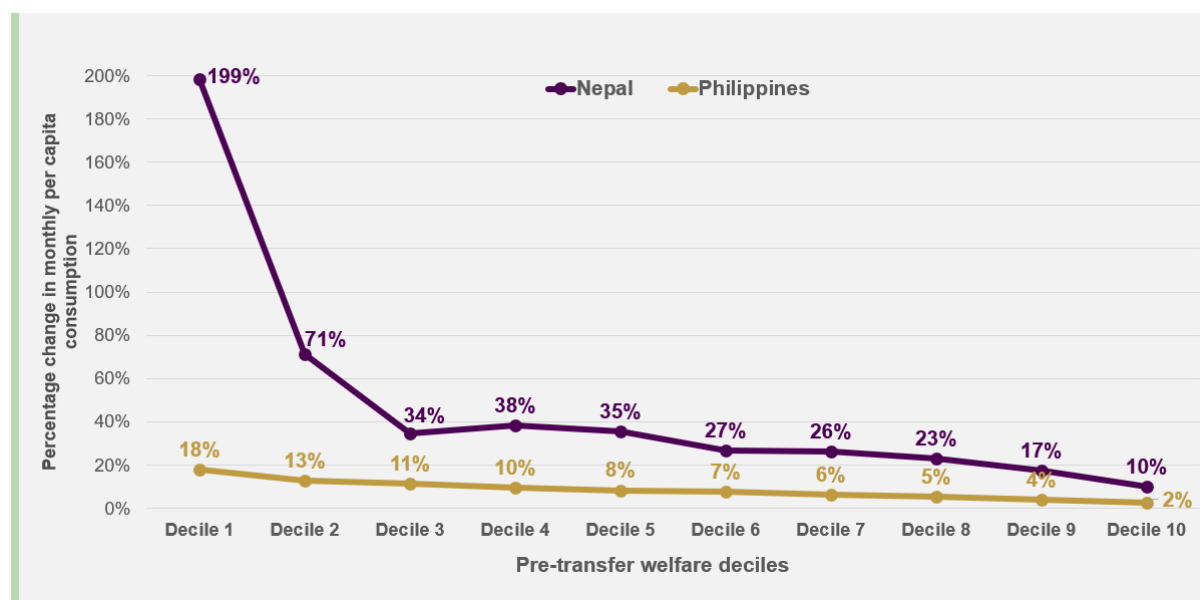
⁶ Another study in India found similar low increases in consumption, with an average increase of 5.5 per cent (Unnikrishnan and Imai 2020).

⁷ The welfare aggregate used for the analysis is household per capita income for Philippines and household per capita consumption for the other countries.

⁸ For Tonga and Cook Islands, 90 per cent coverage was assumed.

among the poorest 10 per cent of recipients due to the Philippines Tier 1 pension – which is targeted at the poorest members of society – is much lower, at only 18 per cent.

Figure 2-4: Increase in per capita consumption across the welfare distribution among recipient households of Nepal’s and the Philippines’ Tier 1 old age pension

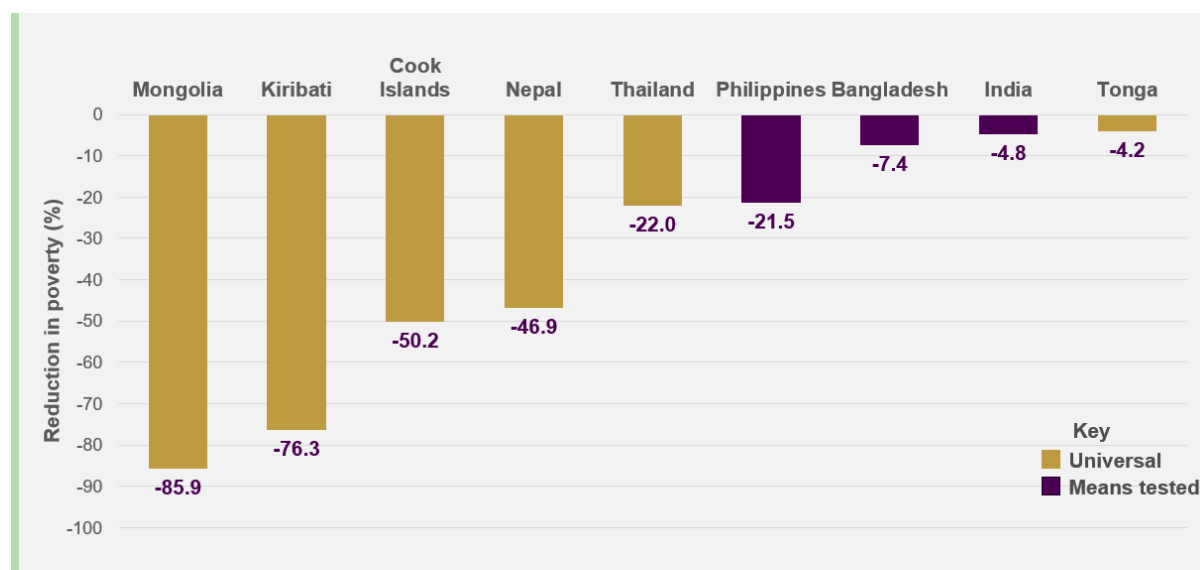


Source: analysis of Nepal’s AHS 2015-16 dataset and Philippines FIES 2023.

The increases in consumption resulting from Tier 1 pensions translate into poverty reduction. Figure 2-5 shows the impacts on the poverty rates of older people of different Tier 1 pensions across Asia.⁹ Pensions offering universal coverage have much larger impacts on poverty reduction than poverty-targeted pensions due to reaching many more older people with higher value pensions. In Mongolia, for example, the poverty rate among older people falls by 86 per cent as a result of the pension and by 68 per cent in Kiribati and 53 per cent in Nepal. In contrast, in the means-tested pensions in Bangladesh and India, the reduction in the poverty rate is only around 11 per cent.

⁹ For comparative purposes, a poverty line equivalent to 60 per cent of median consumption/income has been used.

Figure 2-5: Impacts of tax-financed Tier 1 pensions on poverty rates of older people 60+, across selected countries in the Asia-Pacific region [using a relative poverty line of 60 per cent of median welfare variable]¹⁰



Source: Bangladesh HIES 2016, India IHDS-II 2011-12, Kiribati HIES 2019-20, Mongolia HIES 2021, Nepal AHS 2015-16, Cook Islands HIES 2015-16, Philippines FIES 2023, Thailand SES 2018, Tonga HIES 2021.

Old age pensions can have significant impacts on the health and wellbeing of older people. In China, the tax-financed pension was found to reduce incidents of hypertension by 21 percentage points while the probability of being affected by instrumental activities of daily living (IADL) limitations was reduced by 11 percentage points.¹¹ Another study in China found that disability rates fell by 3.2-percentage points.¹² China's pension has also reduced health inequalities among rural pensioners by 39 per cent.¹³ In fact, two studies have shown how China's tax-financed pension has reduced mortality rates among older people by 6 percentage points over a 3 year period in one study and by 2.2 percentage points in another.¹⁴ In Korea, the reduced mortality rates found among pensioners were explained by reductions in the rate of suicides.¹⁵

In China there is evidence of delays in the cognitive decline of older people. Pensioners were found to have improved cognitive function scores, with increases in their mini-mental state examination scores of more than 2 percentage points, with the probability of good cognitive function increasing by 18 percentage points.¹⁶

There is good evidence of even low value tax-financed pensions driving improvements in the mental health of older people. In Korea, its pension brought about an 8-9 per cent reduction in depressive symptoms, as measured by Center for Epidemiological Studies Depression (CES-D) scores while, in

¹⁰ In the case of Mongolia, it has been assumed that the transfer value of the tax-financed pension has been received by all recipients of the social insurance pension, given that the latter is subsidised by taxes.

¹¹ Cheng et al (2016).

¹² Huang and Zhang (2016).

¹³ Yuan et al (2022).

¹⁴ Cheng et al (2016); Huang and Zhang (2016).

¹⁵ Pak (2020).

¹⁶ Cheng et al (2016)

China, one study found a 3-percentage point fall in CES-D scores, while another measured a 40 per cent decrease in the prevalence of depressive symptoms among older adults.¹⁷

There is good global evidence that pensions can strengthen the relations of older people with their families as they may be viewed more as contributors than a burden. In Nepal, for example, pensioners reported improved social relationships, with more frequent interactions and strengthened connections with friends and family, including their adult children. This was particularly the case in rural areas where family ties tended to be stronger.¹⁸

Global evidence demonstrates that investing in a comprehensive old age pension system also has significant secondary benefits. Of particular importance are the benefits for children that derive from their grandparents enjoying a guaranteed source of income. On the one hand, families can reduce their financial support to their elderly parents and invest more in their own children; but, on the other hand, because of the special relationship that exists between grandparents and grandchildren, pensioners tend to spend a high proportion of their pensions on their grandchildren. For example, in Brazil and South Africa, over 80 per cent of pensioners share most of their pensions with others.¹⁹

There is good evidence that the financial support provided by pensioners to grandchildren has resulted in significant positive impacts on children. For example, in South Africa, children living with pensioners are up to 5 centimetres taller than other children due to enjoying better diets; in Brazil, the enrolment gap among secondary school age girls has been closed by 20 per cent; and, in Bolivia, school enrolment rates are 8 percentage points higher among children living with pensioners while child labour falls by 50 per cent among children living with pensioners; and, in Uganda, there was improvement in weight-for-height which resulted in 10 per cent increase in the number of meals consumed by children aged 0-5 years.²⁰ In the long-term, the children benefiting from pensions will become a more productive labour force, thereby contributing to economic growth

While policymakers often view old age pensions as a cost, in reality they play a key role in strengthening economic growth. This can happen through a range of pathways.²¹ Four key pathways are outlined below.

Building the nation's human capital

As discussed above, older people often use their pensions to support their grandchildren while families can reduce their financial support to their elderly parents and, as a result, invest more in their children. This can strengthen child development while building the human capital stock of countries which delivers a more highly skilled workforce.

Stimulating the economy by generating demand

Older people spend the cash they receive from their pensions which can broaden markets for entrepreneurs. There is good evidence globally that if cash is injected into communities through social security schemes, it can generate multipliers. The cash received in households circulates through local communities as it is invested in small businesses, spent in local shops and markets, or provides short-term employment, thereby creating more dynamic local economies. A range of studies in Africa by the Food and Agriculture Organisation (FAO) (2016) have found multipliers of between 1.3 and 1.8,

¹⁷ Pak (2020); Comploj et al (2024); Cheng et al (2016).

¹⁸ HelpAge International (2009).

¹⁹ Barrientos and Lloyd-Sherlock (2011).

²⁰ Case (2001), de Carvalho Filho (2008), Mendizábal and Escobar (2013), and Brook et al (2016)

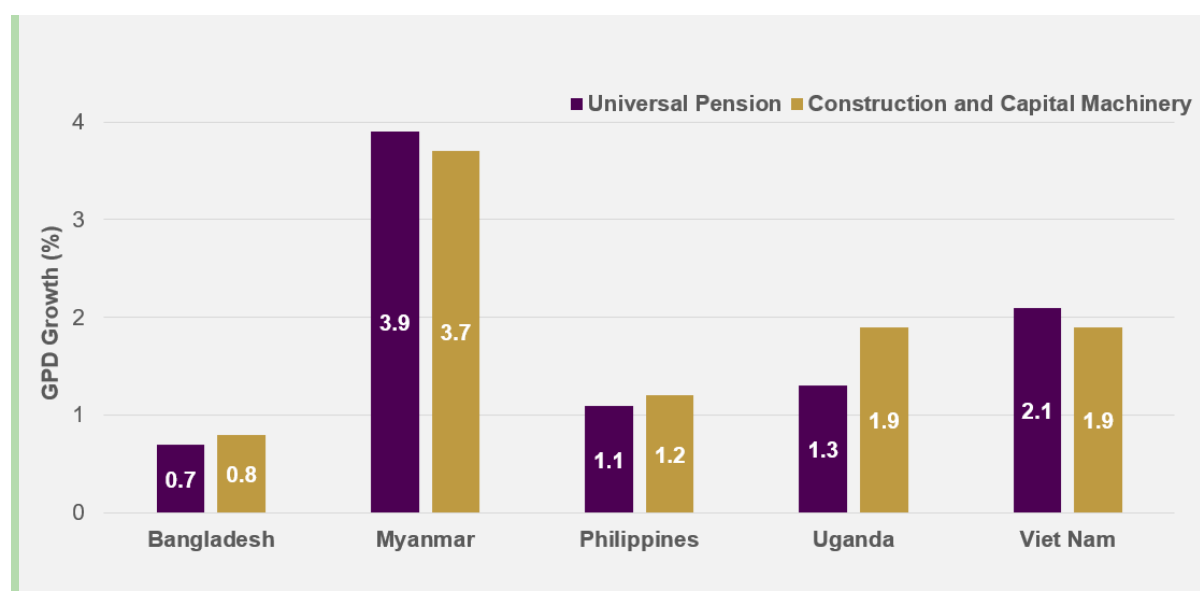
²¹ Kidd and Tran (2017).

meaning that each dollar given to recipients generates an additional US\$0.30 and US\$0.80 as it circulates within communities. In Mexico, Sadoulet et al (2001) found local multipliers of between 1.5 and 2.6. A range of other studies across countries as diverse as Brazil, Mexico, Namibia and Uganda have also demonstrated similar boosts to local economies.²²

Old age pensions have the same impacts. Indeed, because older people are more likely to purchase local produced goods, the impacts may be greater: in Vietnam, for example, recipients of the Tier 1 pension use their income to purchase food locally, implying a positive increase in the amount sold by local producers;²³ and, in Thailand, a study of the Old Age Allowance found that 53 per cent of total income from the pension circulates within the community, while only 17 per cent flows out.²⁴

Not only can local communities become more dynamic, but pensions also increase demand at a national level and stimulate economic growth. Simulations using computable general equilibrium (CGE) models across Asia have found that pensions can generate as much impact on economic growth as investments in infrastructure, as shown by Figure 2-6. This is in line with findings on the impacts of similar social security benefits globally.²⁵

Figure 2-6: Potential impacts of old age pensions and construction/capital machinery on economic growth using CGE analysis



Source: Khondker (2014; 2015; 2017a; 2017b; 2019a; 2019b); and, Schanzenbach et al., (2016).

Supporting investments in income generating activities and access to employment

There is strong global evidence of older people and their household members using pensions to invest in micro-enterprises.²⁶ In Bangladesh, despite the very low transfer value of its pension, a study found that 15 per cent of pensioners – mainly women – invested their money in income-generating

²² Examples include: Brook et al (2016); Llewellyn and Kuss (2017); Devereux (2001); Ministério do Desenvolvimento Social e Combate à Fome (2007); Landim (2009); and, Barrientos and Sabates-Wheeler (2009).

²³ Samson (2012).

²⁴ Suwanrada and Leetrakul (2014).

²⁵ Hanson (2010); Ananat and Garfinkle (2024); and, Cardoso et al (2025).

²⁶ Kidd and Tran (2017).

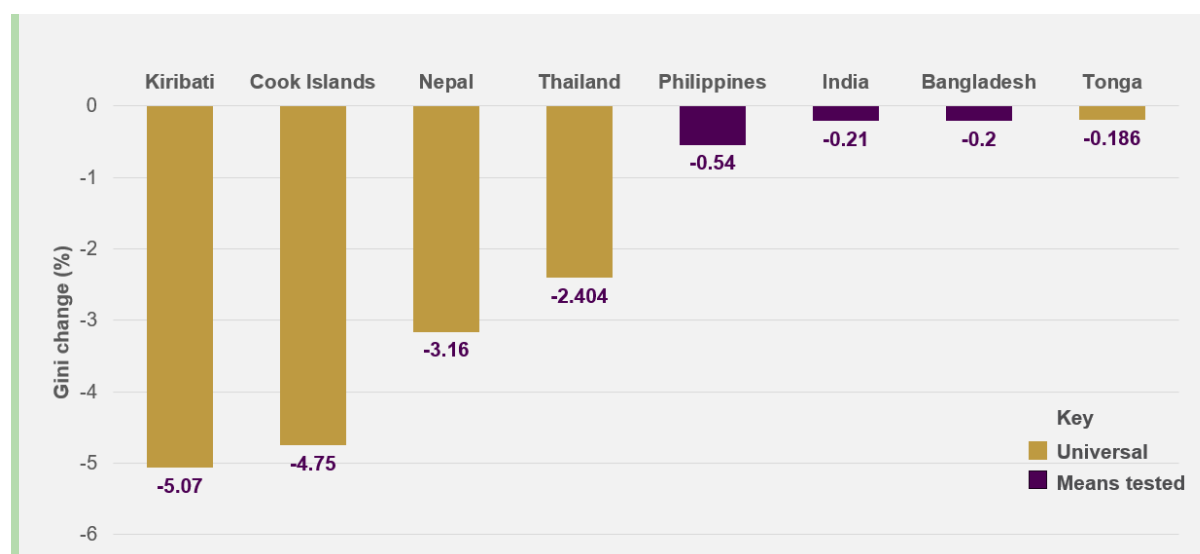
activities.²⁷ And, in Nepal, another study found that pensioners invested an average of 7 per cent of their pension in income generating activities (when the pension value was much lower than today).²⁸ With higher value pensions, the effects on household level investments would likely increase.

Reductions in inequality and potential impacts on economic growth

The International Monetary Fund (IMF) argues that greater equality promotes higher economic growth. They have demonstrated that income inequality has a positive effect on economic development until the Gini index reaches 0.27, at which point inequality has a negative impact, becoming more severe as inequality increases.²⁹ The IMF have also found that, while a one percentage point increase in the income share of the top 20 per cent of the population is associated with a reduction in GDP of 0.08 percentage points in the following five years, a one percentage point increase in the income share of the bottom 20 per cent leads to a 0.38 percentage point rise in economic growth.³⁰

Tax-financed Tier 1 pensions can have significant impacts on inequality. However, as shown by Figure 2-7 the level of impact depends on the design of the pension. Impacts are much larger in countries with universal coverage schemes while means-tested pensions have minimal impact. This is largely due to the higher levels of expenditure on universal pensions and their greater coverage of the poorest members of society (as well as those on middle, but still low, incomes), which result in a greater redistributive effect. This is enhanced by the fact that universal pensions require higher levels of taxation which, in most societies, is likely to fall mainly on those near the top of the welfare distribution.

Figure 2-7: Impacts of tax-financed Tier 1 pensions on inequality (Gini Co-efficient)



Source: Bangladesh HIES 2016, India IHDS-II 2011-12, Kiribati HIES 2019-20, Nepal AHS 2015-16., Cook Islands HIES 2015-16, Philippines FIES 2023, Thailand SES 2018, Tonga HIES 2021.

United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) (2015) has argued that “...inequality could threaten the [Asia and Pacific] region’s economic dynamism, sow the seeds of

²⁷ Ahmed et al (2008).

²⁸ HelpAge International (2009).

²⁹ Grigoli (2017).

³⁰ Dabla-Norris et al. (2015).

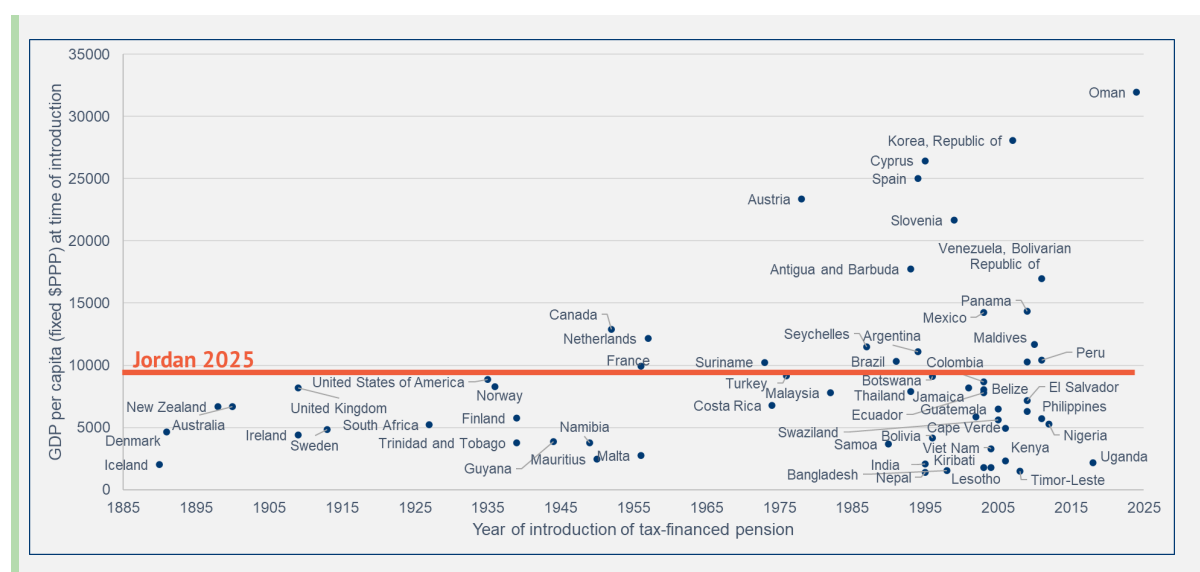
economic crisis, and undermine the sustainability of economic growth.” Therefore, if countries wish to promote economic growth, investing in pensions that impact on inequality could play a role.

Universal old age pensions could play an important role in building trust in the state. Historically, the provision of universal public services has been a core driver of greater trust in the state and, therefore, stronger national social contracts.³¹ In contrast, poverty benefits – including poverty-targeted Tier 1 pensions – can undermine trust in the state, especially given that they cannot be accurately delivered to those who are eligible. With stronger national social contracts, people will be more willing to pay taxes to finance universal public services, including pensions. With higher revenues, governments will be in a better position to invest in its population and infrastructure which will also help generate greater economic growth.

2.2 The wealth of countries when they introduced their tax-financed pensions

The first tax-financed pension commenced in 1890 in Iceland, with many countries introducing similar schemes over time. As indicated by Figure 2-8, many countries were poorer than Jordan when they introduced their tax-financed pensions, including many high-income countries. This indicates that Jordan should be able to introduce an effective tax-financed Tier 1 pension for all citizens, assuming that the political will is there.

Figure 2-8: The years when countries commenced their tax-financed Tier 1 pensions and the relative wealth of the country when the scheme was introduced



Source: Authors elaboration based on Palacios and Knox-Vydmanov (2014), International Social Security Association (ISSA) country profiles, Sibun and Seglah (2024), and various national sources.

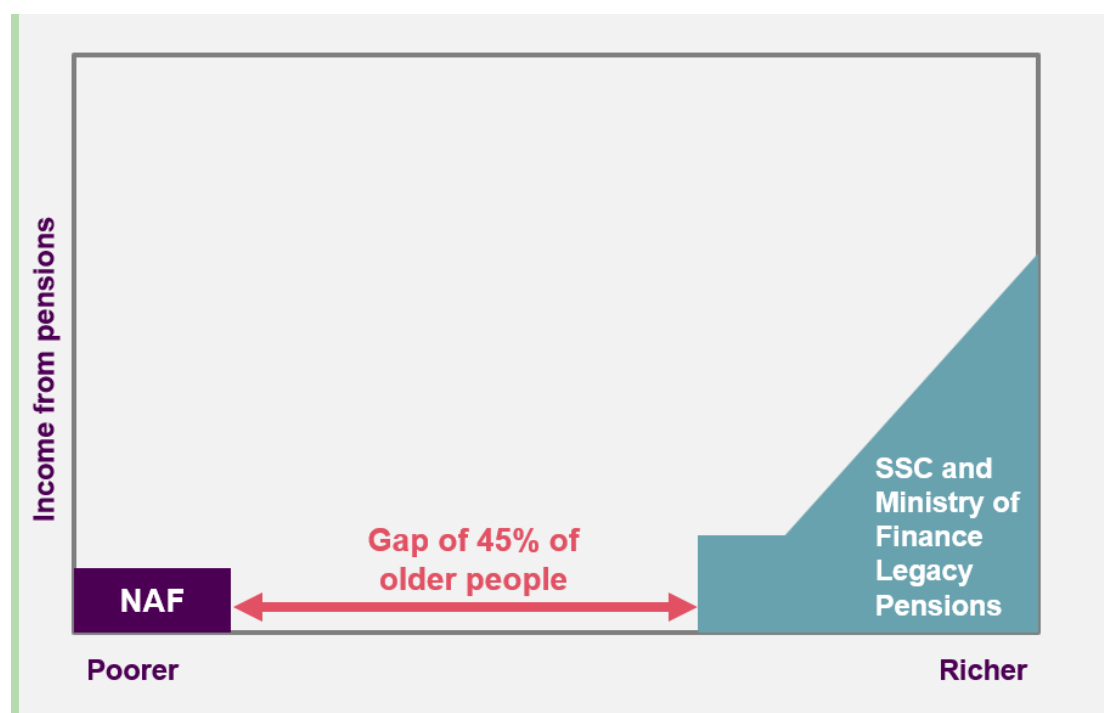
The following sections outline the feasibility of providing all Jordanians with a guaranteed minimum pension as well as the potential impacts. The first section describes the current pension gap among Jordanians before the following sections outline the design of the proposed scheme and its potential impacts.

³¹ Ministry of Finance, Sweden (2017); Rothstein (2018); Kidd et al (2020).

3 The current old age pension system in Jordan

Jordan's current old age pension system is bifurcated: it offers social assistance – through the NAF – to older people living in poverty while those working in the formal economy receive contributory pensions mainly through the Social Security Corporation (SSC) as well as legacy pensions for former public servants and military personnel which can be passed on to their survivors when they pass away. As a result, according to the Department of Statistics (2023) around 45 per cent of all Jordanians aged 65 years and above are unable to access any form of income support in old age, largely because they were unable to contribute to the SSC during their working lives.³²

Figure 3-1: Depiction illustrating the design of Jordan's current old age pension system

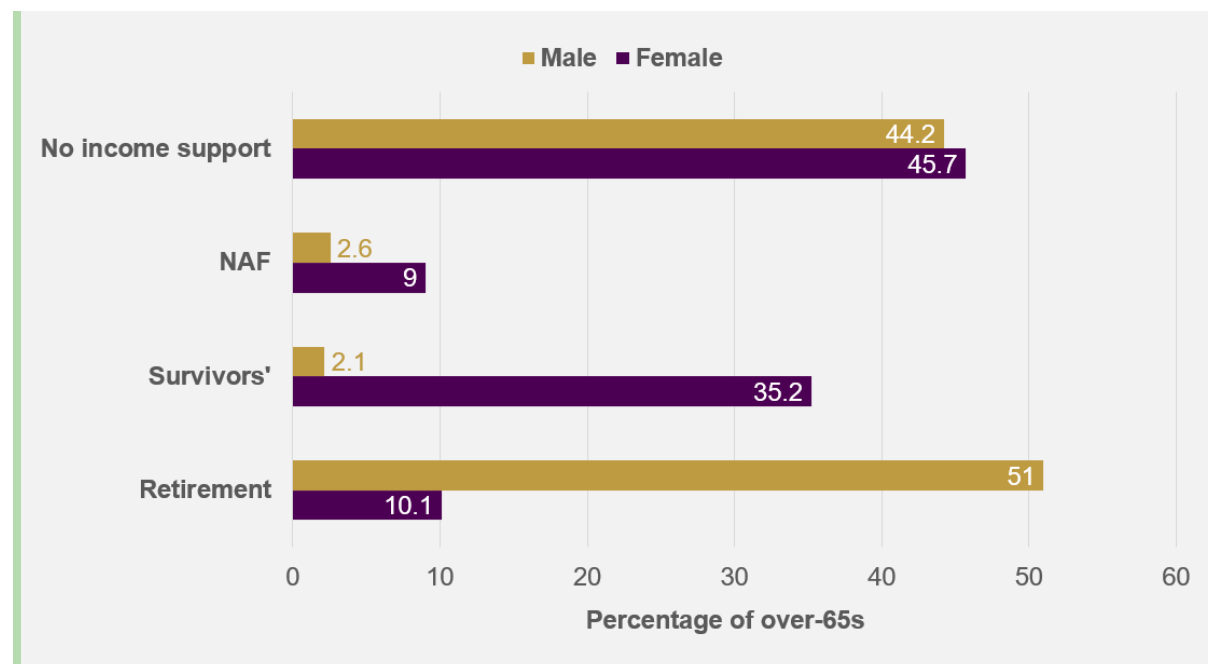


Source: Authors' design.

As Figure 3-2 shows, many of those without pensions are women who spent their working lives caring for children and families but, because these contributions to society have not been recognised, they remain without an old age pension (unless it has been inherited from their husbands as a survivors' pension). Around 6.4 per cent of the older population are provided with income support by the NAF, although most are women. The provision of income support by the NAF to older people is reducing as the NAF moves away from directly supporting older people and persons with disabilities to providing household poverty benefits.

³² Among all older people in Jordan the coverage gap is 54 per cent (DoS 2023). There are also a small number of older people who receive pensions from professional organisations or local government.

Figure 3-2: The pension gap and types of income support received by older female and male Jordanians aged 65 years and over



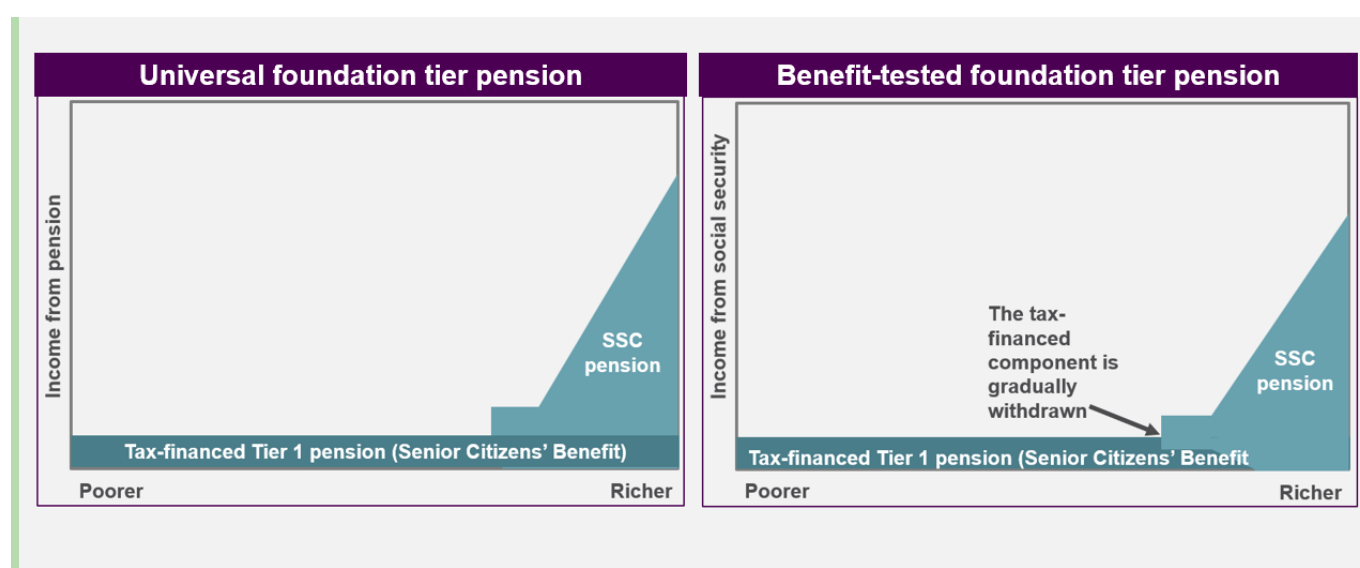
Source: Department of Statistics (DoS) (2023).

4 Proposed design of the Senior Citizens' Benefit

There are two design options that would guarantee every Jordanian an old age pension, in line with the commitment in the Jordanian National Strategy for Older Persons, as illustrated by Figure 4-1:

- The first option is to provide every older person with a flat rate Tier 1 pension – called a Senior Citizens' Benefit – that is financed by general government revenues and would act as the foundation tier of the system; and,
- The second option is to 'benefit-test' the old age pension by gradually withdrawing the tax-financed Tier 1 benefit from those who are in receipt of another form of state pension (essentially the SSC pension or a legacy civil service or military pension).

Figure 4-1: Two potential designs of the pension system that offer universal coverage



According to the World Bank (1994), the flat rate universal Senior Citizens' Benefit would have important advantages: *"Administratively, this is the simplest structure, with the lowest transaction costs, for the public pillar - an important advantage in developing countries with limited institutional capacities and incomplete record-keeping systems. It avoids the disincentive to work and save inherent in means-tested plans. Its universal coverage helps ensure that the poverty reduction objectives are met [and] provides a basic income for all old people."* The universal Senior Citizens' Benefit is also likely to be regarded by citizens as the fairest and most popular option since it treats everyone equally and recognizes the contributions that everyone has made to the tax system across their lives. However, the universal Senior Citizens' Benefit is more costly than the benefit-tested option.

Therefore, to reduce the overall cost of the Senior Citizens' Benefit, the proposal below is based on a benefit-tested option. The Senior Citizens' Benefit would be gradually withdrawn from those in receipt of another state pension at a ratio of 10:1 (in other words, for every JD10 that they receive from the other state pension, they would lose JD1 from the Senior Citizens' Benefit).

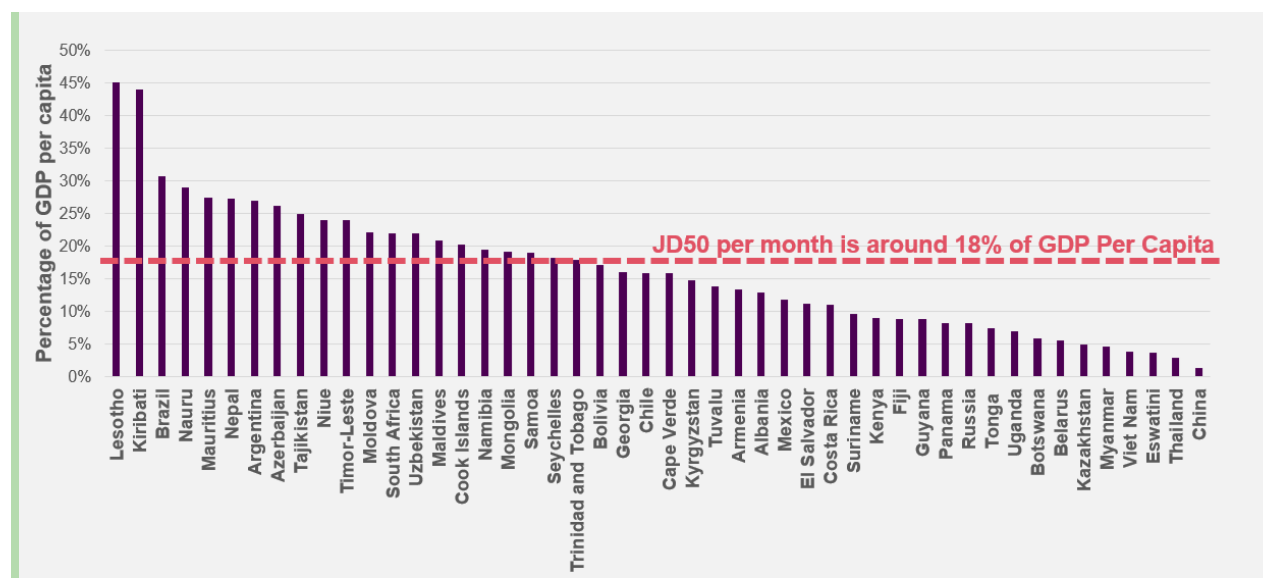
Transfer value of the Senior Citizens' Benefit

The cost of the proposed benefit is further reduced by offering a relatively low value Senior Citizens' Benefit of JD50 per month. This is in line with the amount currently provided by the NAF to older people and, indeed, as Figure 4-2 demonstrates, when measured as a percentage of GDP per capita,

Proposed design of the Senior Citizens' Benefit

it is around 18 per cent of GDP per capita which is in line with the median value of universal, benefit-tested or high coverage tax-financed pensions in low- and middle-income countries. For those receiving another state pension, with a tapering rate of 10:1, only those with pensions below JD500 per month would receive a portion of the Senior Citizen's Benefit. For example, those receiving a pension of JD250 per month would receive an additional JD25 per month from the Senior Citizens' Benefit.

Figure 4-2: Value of tax-financed pensions as a percentage of GDP per capita across low- and middle-income countries with universal, benefit-tested or high coverage pension systems



Source: Development Pathways tax-financed pension database

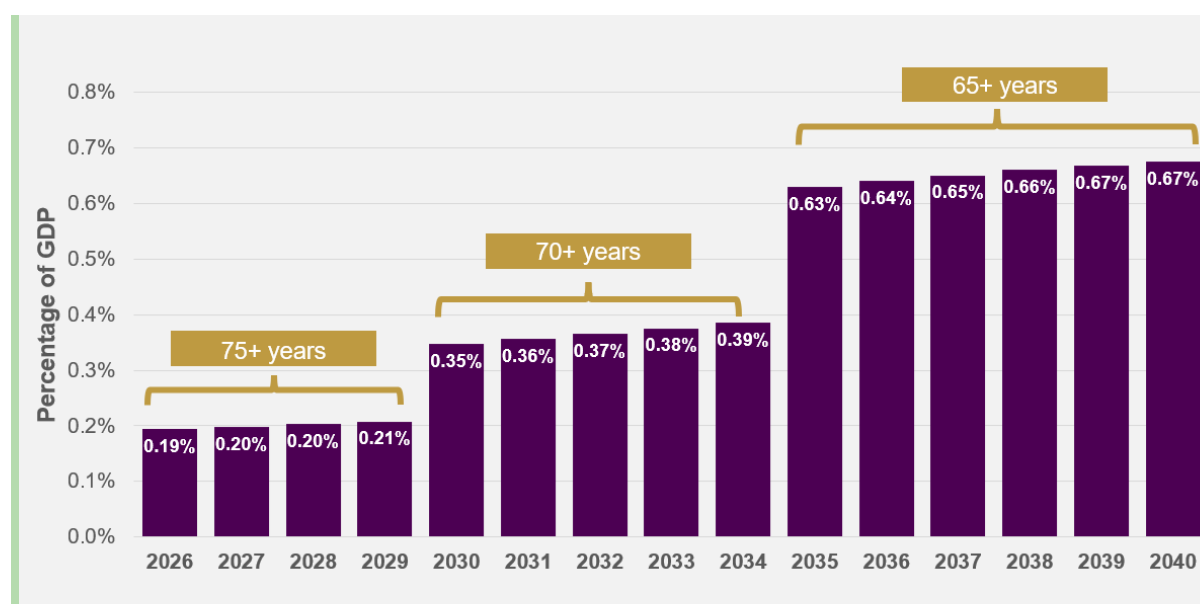
Age of eligibility of the Senior Citizens' Benefit

While it would be preferable to introduce the Senior Citizens' Benefit with a lower age of eligibility so that more older people could receive support, it is proposed that, to reduce the initial cost, the Senior Citizens' Benefit could commence in 2026 with a higher age of eligibility – of 75 years and above – and gradually fall over time to 70 years in 2030 and 65 years in 2035. By commencing with a higher age group, the most vulnerable older persons with the greatest likelihood of experiencing a disability and least capability of working would be prioritised. Other countries have followed a similar strategy. For example, the initial age of eligibility for Nepal's tax-financed pension was 75 years and, over time, this gradually reduced to 68 years; similarly, in the Philippines the tax-financed pension commenced with an age of eligibility of 77 years and, over a period of 6 years, it fell to 60 years.

5 Overall cost of the proposed Senior Citizens' Benefit

The annual level of investment required for the Senior Citizens' Benefit up to 2040, expressed as a percentage of GDP, is set out in Figure 5-1. The initial cost in 2026 would be low, at only 0.19 per cent of GDP. When the age of eligibility falls to 70 years in 2030, the cost would rise to 0.35 per cent of GDP and then to 0.63 per cent of GDP in 2035 when the age of eligibility falls to 65 years. By 2040, the cost would have increased only marginally to 0.67 per cent of GDP. Between 2026 and 2040, Jordan would only have to find each year, on average, an additional 0.034 per cent of GDP, a very marginal cost. If the economy were to grow at the 5.6 per cent target rate for the EMV, the level of investment required in 2040 would be only 0.45 per cent of GDP.

Figure 5-1: Level of investment required for the Senior Citizens' Benefit up to 2040, as a percentage of GDP³³



Source: Authors' analysis

As discussed earlier, given that older people who are direct beneficiaries of the NAF would be transferred to the pension, the net cost of the system would be 0.18 per cent of GDP in 2026 and 0.66 per cent of GDP in 2040. Further, if a tapering rate of 5:1 were used, the cost in year 1 would fall to 0.16 per cent of GDP in 2026 and 0.48 per cent of GDP in 2040. Taking into account the NAF beneficiaries who would be transferred to the Senior Citizens' Benefit, with a 5:1 tapering rate the net cost would be 0.15 per cent of GDP in 2026 and 0.47 per cent of GDP in 2040.

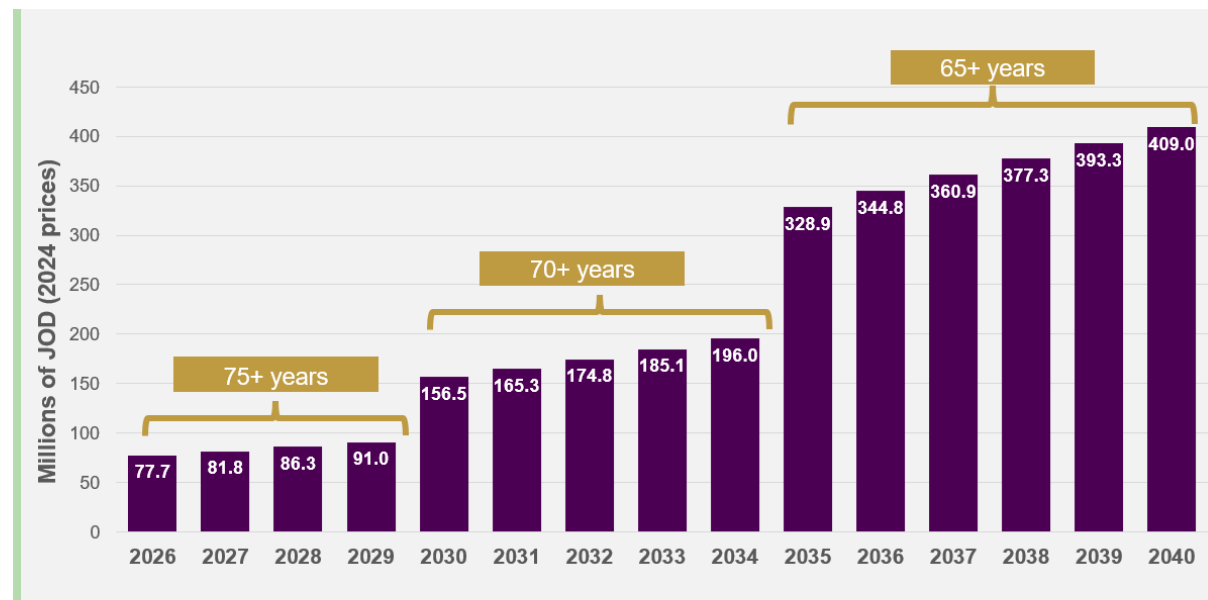
The level of investment required for the Senior Citizens' Benefit, expressed in Jordanian Dinar, is set out in Figure 5-2. In 2026, the cost would be only JD77.7 million although it would rise to JD409 million by 2040 at which point the economy would be 60 per cent larger, assuming GDP growth of 3 per cent per year, and 139 per cent larger assuming GDP growth in line with the EMV's target of 5.6 per cent

³³ The cost estimates are based on indexing the Senior Citizens' Benefit to inflation so that it retains its purchasing power and with a GDP growth rate in line with the IMF's predictions for growth in Jordan for the next 5 years, at 3 per cent per year.

Overall cost of the proposed Senior Citizens' Benefit

per year. Once the cost of the NAF recipients are taken into account, the costs would fall to JD73 million in 2026 and JD398 in 2040 (and with a tapering rate of 5:1, those costs would be JD58.5 million in 2026 and JD282 in 2040). Therefore, as indicated above, when assessed as a percentage of GDP, the Senior Citizens' Benefit would be very affordable.

Figure 5-2: Level of investment required for the Senior Citizens' Benefit up to 2040, in Jordanian Dinar (in 2024 prices)

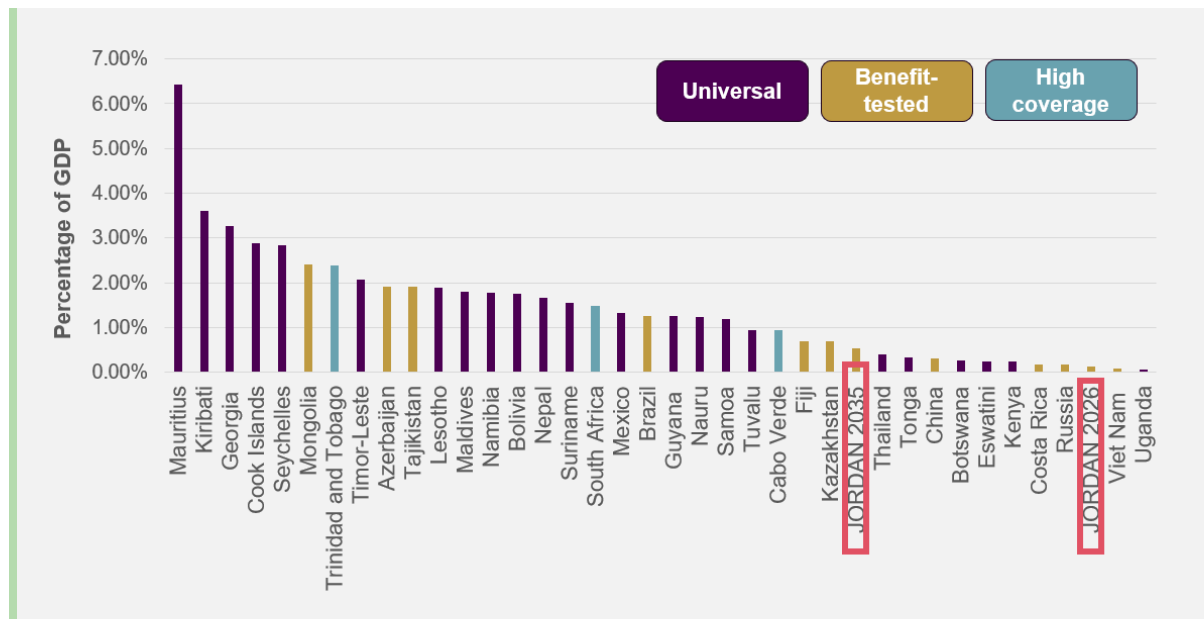


Source: authors' calculations.

When compared with universal, benefit-tested and high coverage tax-financed Tier 1 benefits in other low- and middle-income countries, the overall cost of the Senior Citizens' Benefit would be relatively low. As Figure 5-3Error! Reference source not found. shows, in 2026 the Senior Citizens' Benefit would be one of the lowest cost tax-financed pensions across low- and middle-income countries, just slightly higher than the cost of Uganda's pension and below that of Kenya and Eswatini. By 2035, the cost would still be below the median cost in low- and middle-income countries and well below that of many others, including much poorer countries such as Nepal, Lesotho and Timor-Leste.

Overall cost of the proposed Senior Citizens' Benefit

Figure 5-3: The cost of universal, benefit-tested and high coverage tax-financed Tier 1 benefits across low- and middle-income countries compared to the costs in Jordan



Source: Development Pathways' pension database

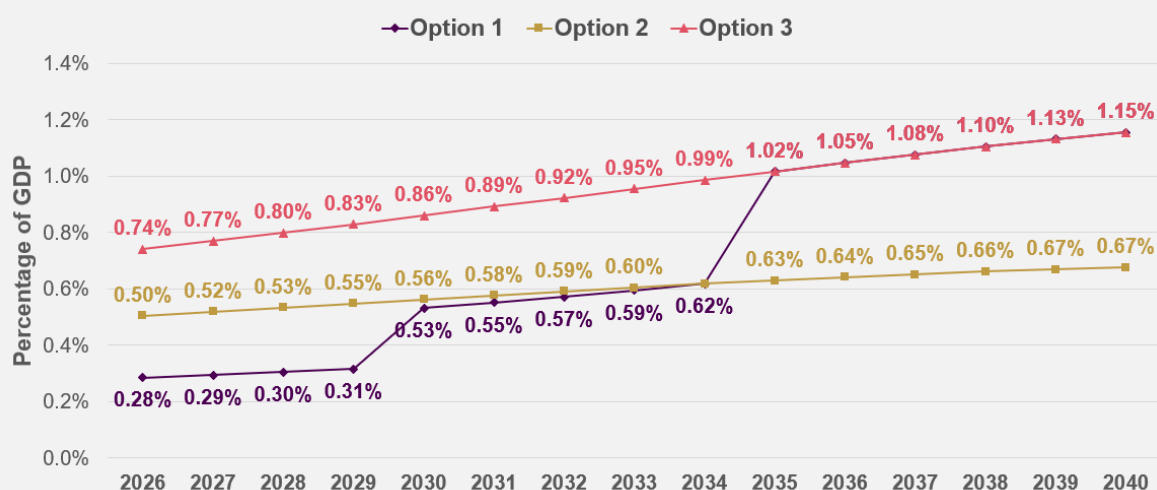
Box 5-1: The level of investment required for alternative, more ambitious, options for the Senior Citizens' Benefit

The proposal presented in this paper for the Senior Citizens' Benefit is only one option among many. Jordan could be more ambitious and introduce a higher cost option. Three options are presented in **Error! Reference source not found.** They are all based on a monthly benefit of JD50 per year and are:

- **Option 1:** Follow the same model in the proposal but provide a flat rate benefit to every Jordanian over 75 years in 2026, with the age of eligibility falling in line with the main proposal.
- **Option 2:** Provide a benefit-tested Senior Citizens' Benefit to everyone over 65 years of age in 2026 and make no further adjustments to the age of eligibility; and,
- **Option 3:** Provide a flat rate benefit to every Jordanian over 65 years of age in 2026 and make no further adjustments to the age of eligibility.

While the three options are higher cost than the main proposal in the paper, they have the advantage of being more popular with citizens and would have greater impacts on individual and family wellbeing, as well as on national level indicators such as poverty, inequality, economic growth and trust in government.

Figure 5-4: The level of investment required for alternative options for introducing a Senior Citizens' Benefit, compared to the main proposal, as a percentage of GDP

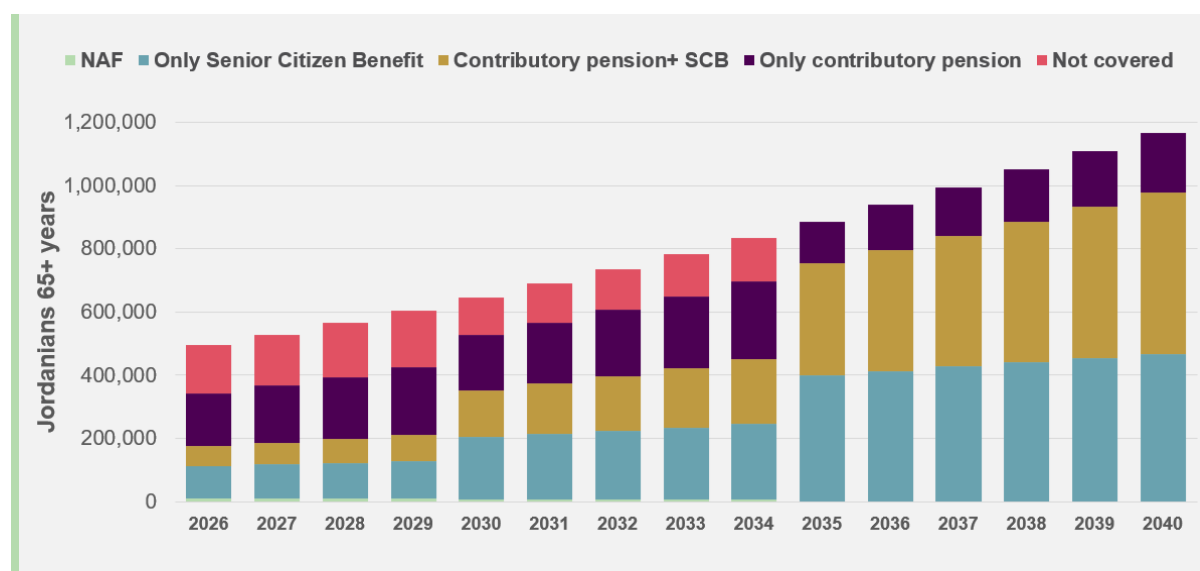


Source: Authors' calculations

6 Coverage of the proposed pension system

With the introduction of the Senior Citizens' Benefit, the coverage of older persons by the pension system would gradually increase. Currently, only 177,000 of Jordanians over-65 years access a pension – including the NAF benefit for older people – which is the equivalent of 55 per cent of all Jordanians over-65 (DoS, 2023). However, as shown in Figure 6-1, with the introduction of the benefit-tested 75+ Senior Citizens' Benefit that would increase to 341,000 pensioners over-65 (or 69 per cent of those aged 65+) and the number and proportion would gradually grow over time to reach 885,000 over-65s in 2035, which would be 100 per cent of the total. Further, once the Senior Citizens' Benefit is fully rolled out to everyone over 65 years of age, 18 per cent of the population would be living in a household with a pensioner and, therefore, benefitting indirectly.

Figure 6-1: Number of over-65s in receipt of a pension each year, following the introduction and expansion of the Senior Citizens' Benefit

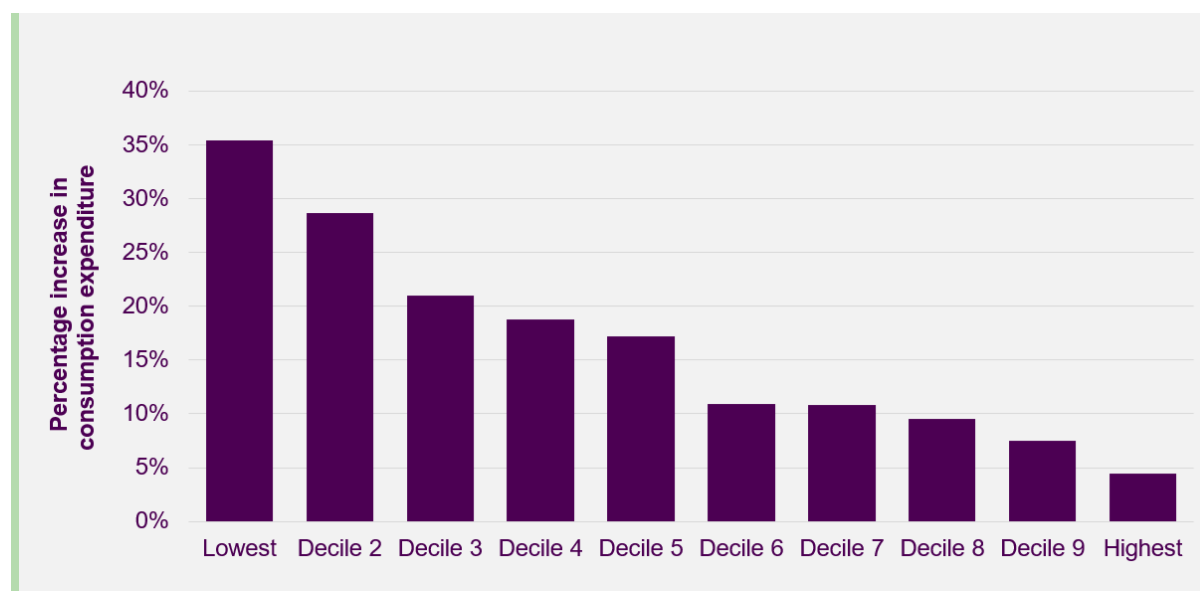


Source: Authors' calculations based on the 2023 Demographic and Health Survey database, SSC data and DoS (2023).

7 Impacts of the introduction of the proposed Senior Citizens' Benefit

The introduction of the Senior Citizens' Benefit would have significant impacts on the wellbeing of recipients and, indirectly, on the members of their household. The average increase in household per capita consumption – that is across all household members – would be 18 per cent once the Senior Citizens' Benefit is rolled out to everyone over 65 years of age. As Figure 7-1 shows, the Senior Citizens' Benefit would be very pro-poor, with the largest impacts among the poorest households: for example, among the poorest decile of households, the Senior Citizens' Benefit would increase per capita consumption by 36 per cent.

Figure 7-1: Increase in per capita household consumption among households that include a full recipient of the Senior Citizens' Benefit, once it is rolled out to everyone aged 65+



Source: Authors' calculations based on the Demographic and Health Survey (DHS) 2023 dataset and consumption distribution from the World Bank Poverty and Inequality Platform (PIP) extracted from the HEIS 2010 dataset.

Once the Senior Citizens' Benefit is fully rolled out to everyone over 65 years of age, it would reduce the relative poverty rate among over-65s by 47 per cent, a very significant reduction. Similar programmes globally have demonstrated comparable impacts. For example, the introduction of an old age pension in Brazil led to a reduction in the poverty rate of older persons from 52 per cent to 6 per cent, although the transfer value, as a percentage of GDP per capita, is much higher than that proposed for Jordan.³⁴

As indicated by the global evidence, the introduction of a Senior Citizens' Benefit that guarantees all older people a minimum income would have a range of additional benefits. All Jordanians would have the opportunity to live their final years in dignity and with the autonomy derived from enjoying a personal income, which would be particularly important for older women. In Brazil and South Africa, as a result of accessing pensions, only 7 per cent and 22 per cent of older persons were dissatisfied

³⁴ Dethier et al (2011)

with life.³⁵ As indicated above, access to pensions would likely improve the mental and physical health of older people, as has been found in countries such as China, Lesotho, Korea, Mexico, Uganda, South Africa, and Kyrgyzstan.³⁶ There is also good evidence globally of older people and their household members using their pensions to engage in productive activities.³⁷

However, there are likely to be a range of indirect impacts. As indicated above, children living with pensioners are likely to enjoy an increase in wellbeing which, based on international evidence, could include better diets, a greater likelihood of attending and performing better at school, and a reduction in child labour. The injection of cash into communities across the country will create larger markets, benefitting entrepreneurs with increased investments, indirectly generating jobs, increasing consumption, and contributing to higher economic growth. Importantly, the provision of a minimum pension to all citizens would be very popular and contribute to strengthening trust in the state and greater social stability.

³⁵ Barrientos and Lloyd-Sherlock (2011).

³⁶ Nyanguru (2007), Aguila et al (2018), Salinas-Rodríguez et al. (2014), Huang and Zhang (2016), Cheng et al (2016), Chen et al (2016), Comploj et al (2024), Kidd (2016), Aguila et al (2018), Pak (2020), Galiani et al (2016), Case (2001), and Ren et al (2023).

³⁷ Martinez (2004), Devereux (2011), Kidd (2016), Gelders and Athias (2019), Paul-Majumder et al (2008), and Help Age International (2010).

8 Conclusion

Around 45 per cent of older Jordanians are unable to access an old age pension. Yet, the guarantee of income security in old age should be the minimum that a modern society offers to its citizens. Many countries that are much poorer than Jordan have already achieved this minimum objective. The introduction of a comprehensive old age pension system offering income security for every citizen in old age should be a core component of His Majesty's aims to modernise Jordan. In coming years, a guaranteed old age pension will become even more important given the rapid ageing of the population. If action is not taken now, the burden of care that is currently placed on many Jordanian families will become increasingly heavy.

The paper has shown that a minimum income guarantee in old age for all Jordanians could be introduced within a year, if the political will is there. A monthly pension of JD50 per month could be provided initially to everyone over-75 years who does not have another form of state pension at a cost of only 0.19 per cent of GDP. Over a period of 9 years the age of eligibility could be reduced to 65 years of age, with the cost rising to no more than 0.63 per cent of GDP. This is significantly less than many poorer countries are already spending on their tax-financed old age pension systems. Over time, the value of the pension could be increased. The impacts of the tax-financed pension would be significant, reducing the relative poverty rate among over-65s by 47 per cent. It would also lift the burden that is currently placed on the many Jordanian families who have been left to provide financial support to their elderly parents. While a pension may seem to be only a cost to the State, global experience has shown that it can also contribute to economic growth. Indeed, universal pension coverage should be regarded as a critical component of His Majesty's Economic Modernisation Vision.

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