



Aging and Financial Inclusion: An Opportunity

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Front cover John Rae for Accion



Foreword

Incomes for older people are unpredictable and varied, and a variety of financial services could support the strategies older people employ to make ends meet. Financial services providers, however, are cautious about their engagement with older people because of concerns about financial capability, income instability, and physiological issues. At the same time, social pensions, while quickly growing in reach, are currently inadequate to meet the needs of older people. These realities are challenging, but they also signal market opportunities that the financial sector has the potential to address. Effective solutions will be found in cooperation between the public and private sector, in creative design of financial services, in early interventions to encourage participation in long-term saving and contributory pensions, and in a continued commitment to knowledge-sharing between the financial services sector, older persons' associations, and support organizations.

This report presents the findings of the joint project on aging and financial inclusion from the Center for Financial Inclusion at Accion (CFI) and HelpAge International with support from the MetLife Foundation. The project was prompted by the demographic review carried out as part of CFI's Financial Inclusion 2020 project, which drew attention to the rapidly aging global population and to the immediate challenges aging poses, particularly in middle income countries. CFI joined forces with HelpAge because of HelpAge's deep knowledge about global aging issues. We intend for this project to be useful for those who work on the issue of aging, for financial services providers, for policymakers and other government stakeholders, and for support organizations.

The purpose of this report is to highlight the barriers and opportunities related to financial

services in older age and throughout the aging process, a relatively neglected area of study. The report draws on literature from across the globe, but largely focuses on middle income countries, in particular Latin America, and includes a spotlight on Colombia. The report incorporates information gathered from two direct sources: first, an online poll of experts from the financial services sector and second, focus group research with older people in Colombia. The Colombia spotlight illustrates many of the points made in the main body of the report. It also provides a consumer perspective, especially from lower income people, on the extent to which older people in Colombia currently interact with formal financial services and know about the services on offer. While the Colombia case study contributes important insights to this debate, it is important to remember that every context is different.

This report charges policymakers and providers to consider older people as an increasingly important market segment whose needs are differentiated from those of younger adults. It suggests that, in keeping with advocacy that HelpAge has carried out for many years, social pensions can and should provide an essential floor for income during later life. Yet it recognizes that nearly all older people will need to put in place varied income strategies for themselves beyond pensions, and for that private financial services are an essential part of the solution.

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HelpAge International

What Is Older Age and Why Does it Matter?



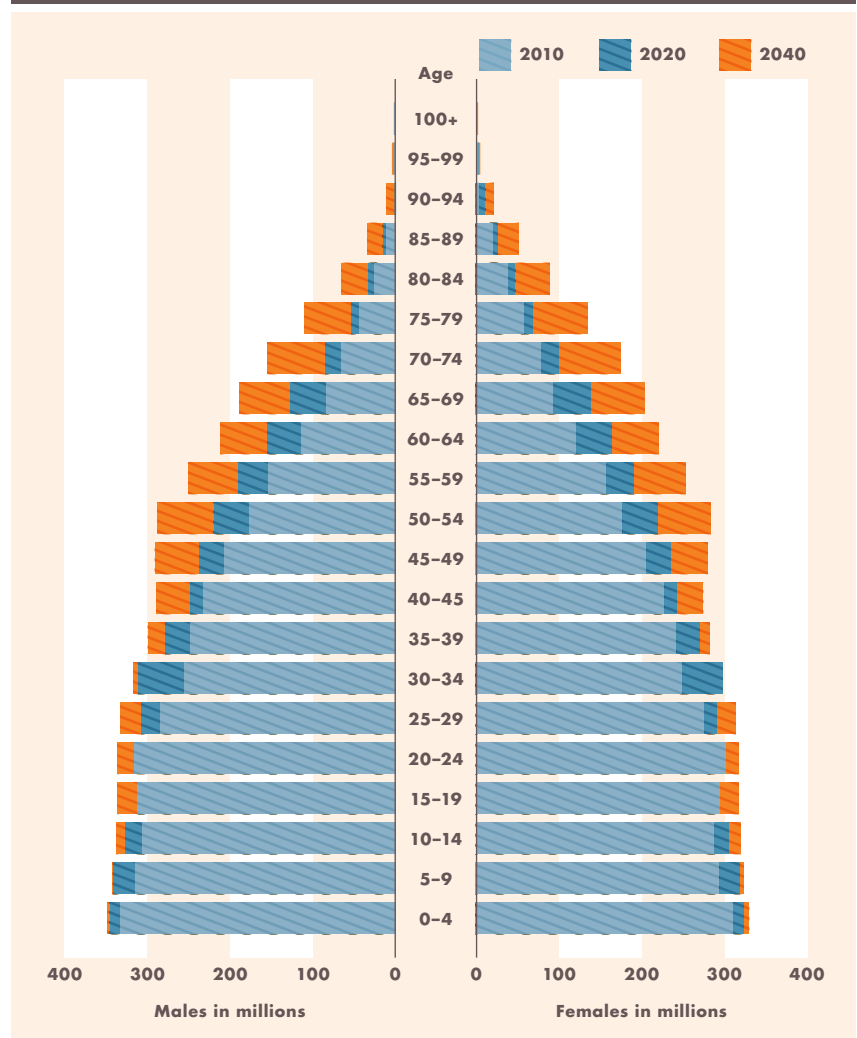
Aging is an important dimension of global change, and not only for wealthy countries. Increasingly, middle income countries are facing rapidly aging populations, and in the near future aging will be an issue for lower income countries as well. Within 15 years, there will be 1.3 billion people over age 60 in the world, constituting 13 percent of the global population. Over 60 percent of these older women and men will live in low and middle income countries. In fact, even by 2020 the number of people over the age of 65 will have surpassed the number of people under age 5.¹

As fertility drops and lifespans lengthen, the global population pyramid changes shape. Most of the growth in world population during the next three decades will occur among middle-aged and older adults (see Figure 1).²

Aging is advancing fast in developing countries, even in countries with large populations of young people (see Figure 2). For example, while it took the U.K. 80 years to increase the 60+ population from 7 to 20 percent of the total, the same proportional shift will take place in Thailand in just over 30 years. This pace of change requires immediate responses in terms of culture, social structure, economics, and policy. For the global community it is not an option to leave unused the talent and skills of people above any arbitrary age. Sustainable development for a rapidly changing population profile requires visionary courage and bold changes in mindsets. Population aging also means that the consumer market is changing rapidly, and businesses will need to adapt. In the words of Albert Einstein, “We cannot solve our problems with the same thinking we used when we created them.”

FIGURE 1

World Population Pyramids (2010, 2020, 2040)



Source United Nations, *World Population Prospects 2012* (New York: United Nations, 2012).

But who is old? The answer differs by culture, context, and individual. For instance, even though life expectancy is only seven years less in China than in France, the Chinese believe that old age typically begins at age 50, while the French say it is age 71.³ In addition, there could be physical and mental differentiation between someone at 50 and at 80.⁴ And two people of the same age in the same society could have very different profiles depending, for example, on their educational attainment. The UN has set a chronological age of 60, while the World Health Organization sets 50 as the beginning of old age. Definitions of old age matter because they determine not only societal expectations, but also the entitlements provided by governments and others to individuals in older age.

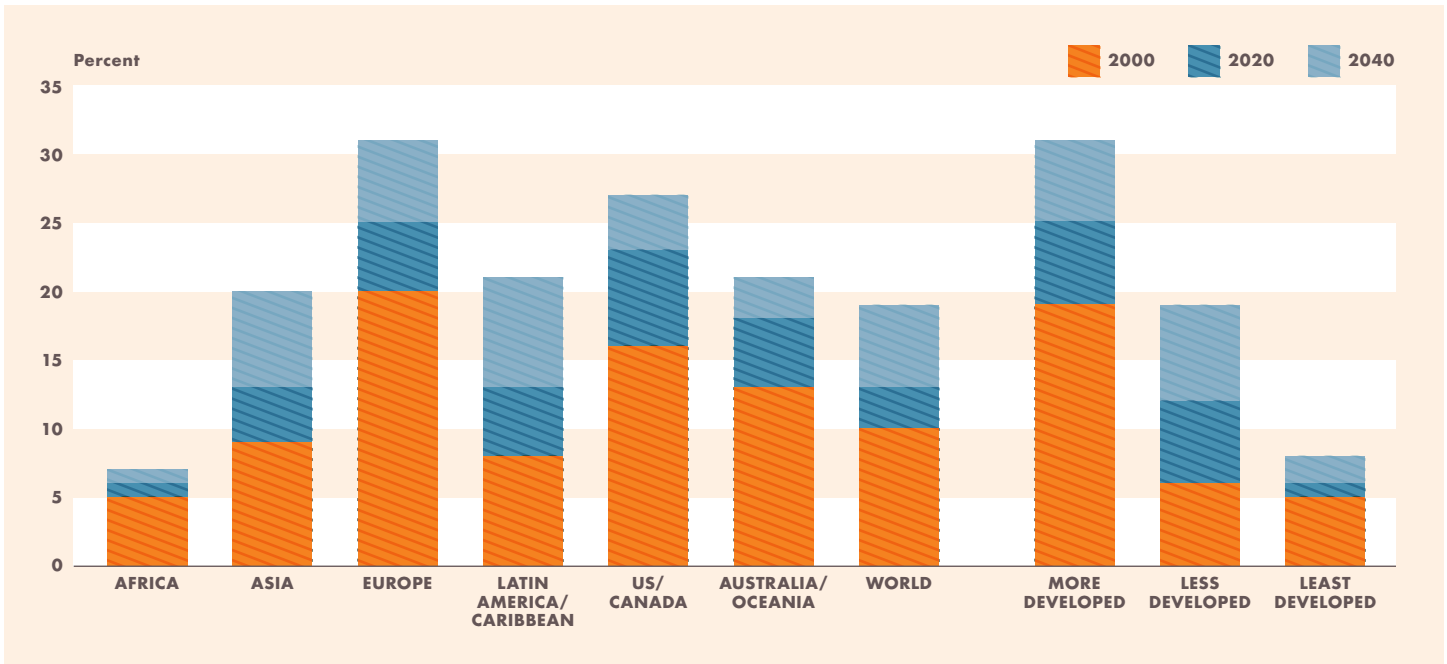
There are no inevitable biological markers that link to chronological age. In daily life, we often define old age not by years but by the

changing roles we occupy in our families and societies and our ability to actively engage in society. As life expectancy increases globally and every cohort of older people is fitter, better educated, and healthier than the previous one, the idea of a homogenous mass of ‘older people’ becomes not only irrelevant but harmful if it provokes homogenous responses. Age is not a proxy for health, cognitive function, or disability. Aging is multidimensional and therefore highly context- and even individual-specific.

Gender is a significant determinant of well-being in old age. Women face greater challenges in older age than men. Part of this is due to longevity. Women, on average, live five years longer than men,⁵ and the global population of older people is significantly skewed toward women. They must maintain their income streams for a longer time, and their vulnerability increases with age. They

FIGURE 2

Percent of the Population Over Age 60 (2000, 2020, 2040)



Source United Nations, *World Population Prospects 2012* (New York: United Nations, 2012).

are much less likely to be employed in the formal sector and are therefore less likely to have a pension or formal work later in life. In some contexts, the current generation of older women is less literate than older men.⁶ In Mexico and Honduras, for example, literacy rates are between 8 and 6 percent lower for women 65 years and older than for men in that age bracket. In Guatemala, the gap is 23 percent.⁷ Lack of basic literacy affects the ability to earn an income and access services, including financial ones.

Because they often marry men older than themselves and have longer average lifespans, many women spend their older years as widows.⁸ In countries without equal land rights a woman may not be guaranteed her property when her husband dies. Older women often continue as family caregivers, whether full- or part-time. Such unpaid work is essential to families and important in societies; for example, it often enables younger women to access labor markets.

Income Strategies in Later Life

Rapid population aging creates challenges and opportunities that demand a response from both public and private actors. Effective responses will be grounded in a deep understanding of the economic, social, and even physiological status of older people. In this report, we lay out a portrait of the income strategies people in developing countries use to sustain themselves in later life. We focus on the population at the base of the pyramid—the poor and near-poor—though much of what we report may apply to the lower stratum of the middle class as well.

In high income economies the traditional image of older age involves a comfortable retirement from working life, sustained by a decent income from pension savings accumulated over the life course. In such economies, this picture is accurate for a substantial fraction of the population. However, for most people in low and middle income countries, especially at the base of the pyramid, comfortable, leisured retirement is not a realistic picture. Multiple sources of sustenance include pensions, family, friends,

Gender is a significant determinant of well-being in old age. Women must maintain their income streams for a longer time, and their vulnerability increases with age. They are much less likely to be employed in the formal sector and are therefore less likely to have a pension or formal work later in life.

employment, small business, assets, and savings. Some people rely mainly on one of these sources, but many draw upon several sources to secure an income stream that is often varied and unpredictable. Many of these sources are undocumented and informal.

In its previous work, HelpAge has used a concept of ‘pathways to income security’ consisting of four broad segments:

- ▣ Broader social protection and public welfare
- ▣ Pensions (public, private, and hybrid)
- ▣ Work and employment
- ▣ Informal family and kinship support

We continue to use these breakdowns, and we add savings and assets as relevant pieces of the income puzzle.

Although income, alongside good health and the ability to participate in society, is consistently identified as central to well-being in older age,⁹ there are few globally comparable data sources detailing income in older age. Lack of data means that the situation of older people is often invisible or misunderstood. Significant progress has been made in filling this evidence gap, but much of it focuses on one source at a time. For example, pension coverage is monitored through work undertaken by HelpAge, the International Labor Organization, and the World Bank.¹⁰ A recent initiative, the National Transfer Accounts research program,

is beginning to provide insights into how different generations produce, consume, share resources, and save for their future in a number of countries.

Data on employment and self-employment disaggregated by age are less readily available. For example, Labor Force Surveys collect data for all people of so-called ‘working age’ (based on country definitions), but data are rarely analyzed for people ages 65 and older. A variety of other national surveys, such as household income and expenditure surveys and agricultural censuses, collect information about the income, employment, and land and property ownership of household members, but data are often not disaggregated by age and are further limited by the large informal economies in many low and middle income countries that pose a challenge for data collection.

Insights into income strategies are available from some studies, although without cross-country standardization of methods and definitions, generalizations remain tentative. World Bank/Government of Colombia research in Colombia revealed that among people ages 60 and older, 22 percent relied primarily on government pensions, 21 percent on family and friends, 12 percent on non-financial assets, and 11 percent on work.¹¹ Continued work may be particularly concentrated among the ‘younger old,’ or non-standardized studies may simply return different results; research results from Externado University, Colombia, found that almost 50 percent of people between ages 60 to 69 continue to work.¹² Tanzanian national data show family and remittances as the primary source of income for older people (66 percent) with work second (35 percent), and pensions a distant third (5 percent—multiple responses were allowed).¹³

For many of today’s cohort of older people, the speed of change in the last 30 years creates an increasing gap between expectation and reality, particularly with increasingly connected nation states and financial markets,

the international movement of people, and technology and innovation. While individuals may plan for a secure income in older age, they are often at the mercy of greater forces. As a result, people may find themselves relying on income strategies they did not anticipate using, which may also mean that they are less well-off than they expected. Thus, in Colombia, when people under age 60 were asked how they plan to subsist in their later years, the most frequent responses were own savings and work. However, when asked about the sources they actually use, those over age 60 mentioned family and government pensions most often.¹⁴

Financial Services and Aging

Social security systems play a major role in sustaining people in later life. However, in many low and middle income countries, these systems are currently far from adequate, and social security will always be one among multiple strategies. This is where financial services can help.

A major role of financial services in aging is to facilitate the basic income strategies that people use to survive, including those strategies that originate in younger years to prepare people for later life. Financial services also play an important role in managing day-to-day variations in income and expenses, including emergencies, which differ somewhat for older people than they do for younger people.

If income strategies in later life involve multiple sources, so too must financial services provide multiple solutions—for income management, self-employment and business, facilitation of payments between family and friends, and emergencies. The financial services community can address the market needs of older people with access to credit, savings, insurance, and payment services. Older people today have financial services needs that remain unmet, and as more people reach higher age brackets, the market for such services will grow to substantial proportions.

Pensions and Savings

2

Pension Coverage at the Base of the Pyramid

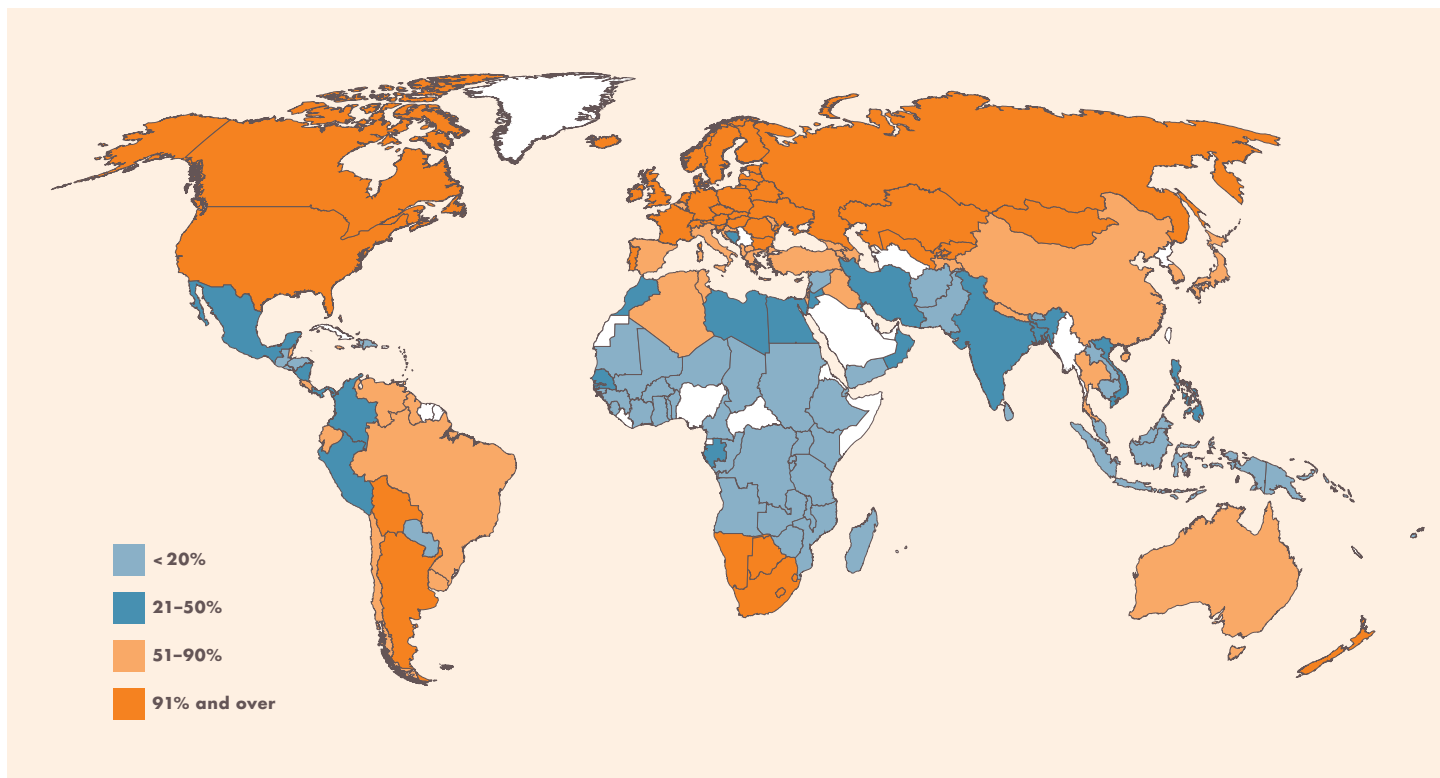
We begin our investigation with pensions, based on the premise that a pension that supplies some level of reliable income should be available to all people. Economist Nicholas Barr identifies three common goals for pensions: “to prevent the individual from being impoverished in old age; to allow the individual to redistribute income from their younger self to their older self; and to act as a form of insurance against the individual outliving their life expectancy.”¹⁵ For the vast majority of lower income people in developing countries, especially those in the informal sector, pensions are not available or insufficient to meet these goals.

Pensions have become much more widespread around the world in recent decades, including both traditional contributory pensions (public and private) and non-contributory social pensions (government pensions provided to people who did not pay in). However, coverage is unequal across regions. While nearly 90 percent of older people above statutory retirement age in developed economies receive some sort of pension, in Latin America and the Caribbean the figure is 56 percent, for Asia and the Pacific it is 47 percent, and in Africa it is 21 percent (see Figure 3).¹⁶ Population coverage is only part of the story however. Pension adequacy matters, too. For all but the wealthy, pension income is generally insufficient to meet all expenditure needs in older age. In Colombia, for example, where less than one-quarter of people over age 65 receive a pension,¹⁷ the majority of older people who continue working do so out of financial necessity.¹⁸

When pensions were first designed 125 years ago, the models rested on high participation rates in formal employment, and therefore high participation in the tax system. It was expected that economic development would pull the majority of workers into the formal economy, and systems were designed around formal employment. However, the informal economy has not gone away. Almost all agricultural workers and an estimated 51 percent of non-agricultural workers in Latin America are informally employed.¹⁹ In East and Southeast Asia, the regional average is 65 percent, and it is as high as 73 percent in Indonesia.²⁰

As a result, major portions of the labor force in countries with large informal populations make no contributions to a pension scheme (see Figure 4). For informal workers and the self-employed whose incomes are often irregular, unpredictable, and small, it is difficult to make the fixed, regular payments pension systems require. And it is not surprising to learn that many people do not know the procedures for making such contributions directly even when they exist. On the supply side, informality is also a considerable practical challenge to payment collection and the administration of a contributory scheme, resulting in high costs relative to the size of contributions.

During demand-side research in Mexico City and Lima, Peru, close to half of workers who were not contributing to a formal pension scheme said it was because they had too little money or because their earnings were too irregular.²¹ In a survey of informal workers in Tajikistan and Kyrgyzstan, 69 percent said

FIGURE 3**Percent of Older People above Statutory Retirement Age Receiving a Pension (Latest Available Year)**

Source International Labor Organization, Share of population above the statutory pensionable age receiving an old-age pension (Geneva: International Labor Organization, 2014).

they do not pay into their countries' social insurance funds.²² Past episodes of persistent high inflation and hyperinflation, particularly in Latin America, have also contributed to a culture that does not view pensions as an important old age strategy.

Social Pensions

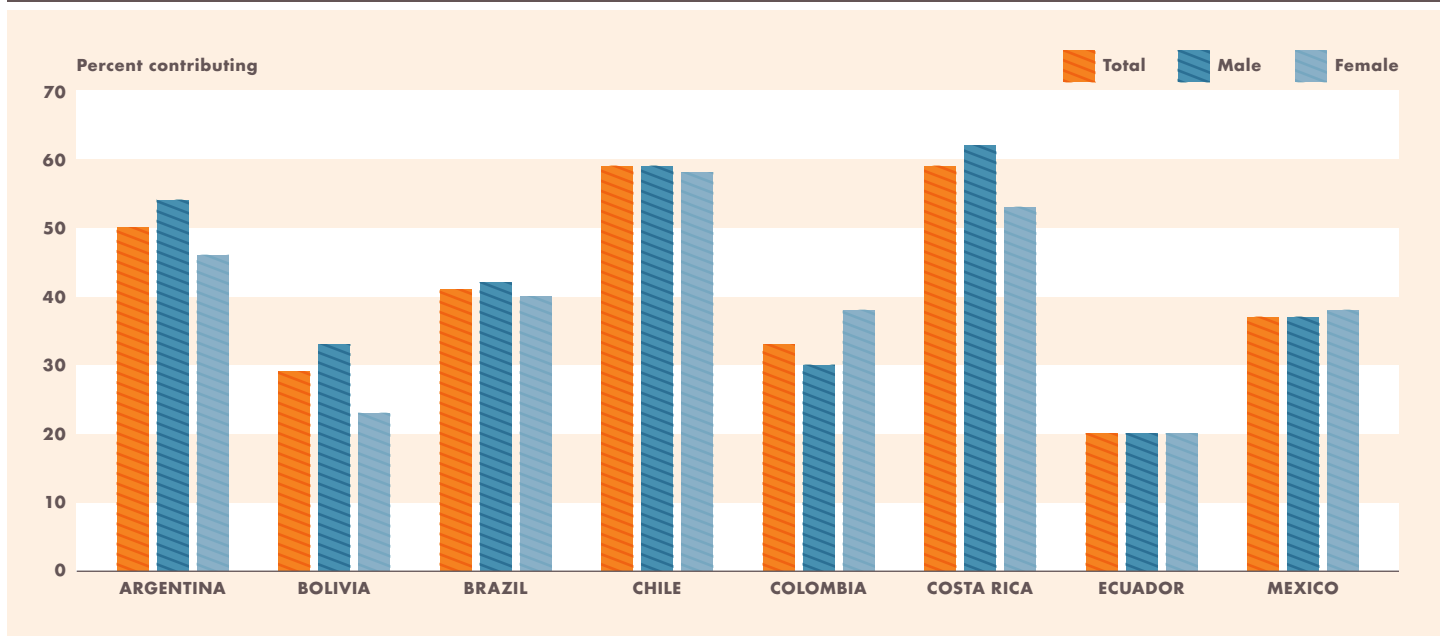
To provide some income for those without years of formal employment, governments began to implement non-contributory, or 'social pensions.' These schemes were originally designed as welfare, using general government revenues, for what was assumed to be a small minority unlikely to join contributory pension schemes. They typically targeted the very poor. However, in recognition of the persistence of the informal economy, poverty, and growing inequality, some social pension schemes have been expanded to cover more informal

workers. Others have not been reformed, leaving a large group in the middle who are not poor enough to qualify for social assistance nor wealthy enough (or suitably employed) to contribute to a formal pension scheme.

For those who receive them, social pensions play an important role in providing a basic and predictable income in older age. They may make the difference between absolute penury and basic survival. HelpAge has long been an advocate for countries extending social pensions to more of their populations, and we continue that clarion call in this report. The extension of social pensions as part of a 'social protection floor' has gained significant recognition from the G20, EU, IMF, World Bank, and OECD, as well as in the Post-2015 Development Agenda.²³ A social protection floor describes a system that guarantees income security and access to basic services

FIGURE 4

Percent of the Labor Force Ages 15–64 Actively Contributing to a Pension Scheme (Latest Available Year)



Source International Labor Organization, *Social Pensions Database* (Geneva: International Labor Organization, 2014).

across the life course, based on the principle of universality of protection.²⁴ In June 2012 over 150 countries endorsed a new recommendation on social protection floors at the International Labor Conference in Geneva.

Many governments are prioritizing non-contributory pension schemes for people who cannot contribute to a pension scheme as the fastest and simplest way to provide at least a minimum level of support to more people.²⁵ The number of governments introducing tax-financed social pensions de-linked from an individual’s work history has doubled over the last 20 years (see Figure 5).²⁶ Much of the success of pension systems that have achieved higher coverage has come from efforts to include low-income and informal workers into the pension system (both through non-contributory schemes or initiatives such as savings matches), rather than expecting these workers to move to formal employment.

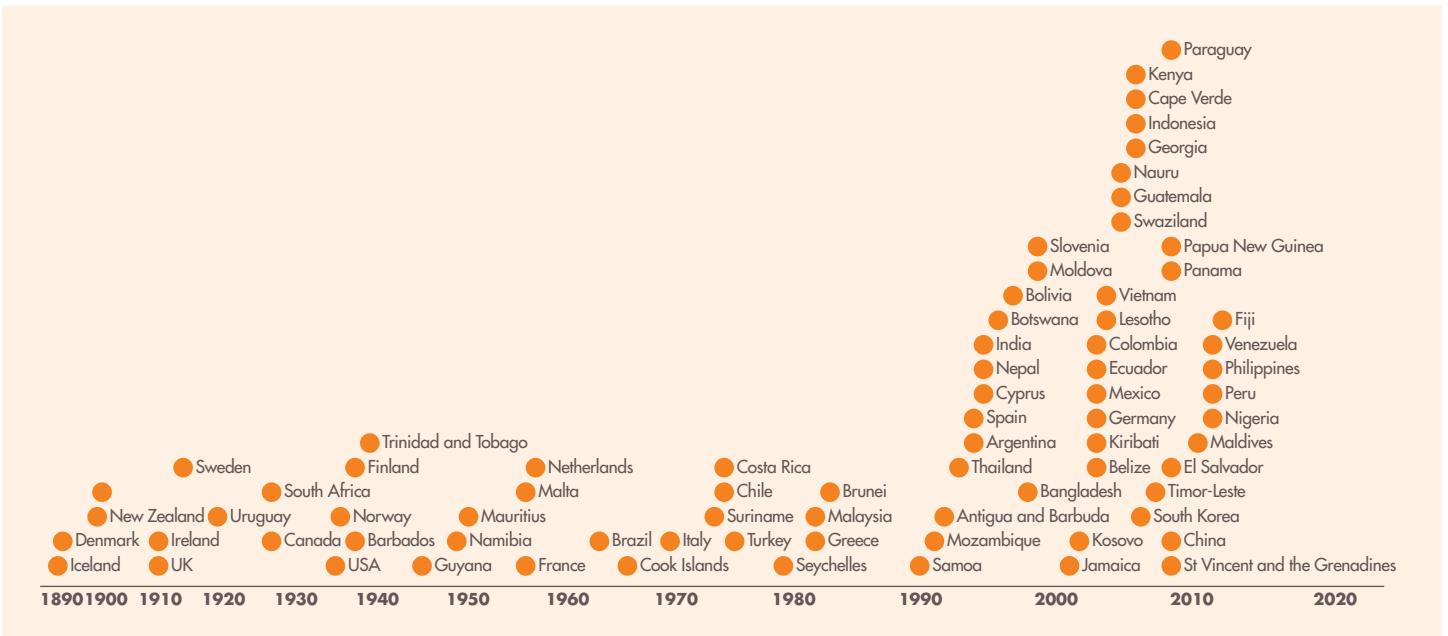
Nevertheless, since the benefit level of social pensions is often too small to secure an adequate standard of living, most people need

“Social pensions are now seen by all the principle actors as an integral part of old-age income security in all countries.”

HelpAge International, *Achieving Income Security in Old Age*

FIGURE 5

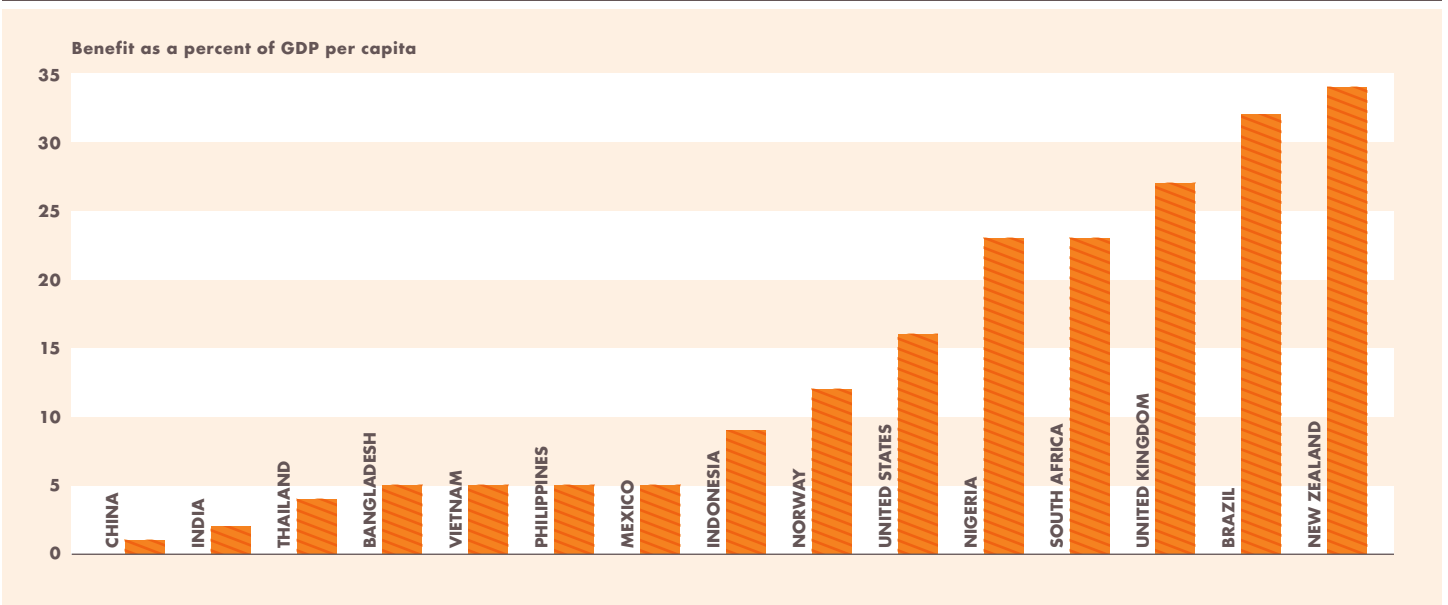
Increase in Social Pension Schemes (1890-present)



Source HelpAge International, *Social Pensions Database* (London: HelpAge, 2014).

FIGURE 6

Social Pension Benefit as a Percent of GDP per Capita (Latest Available Year)



Source HelpAge International, *Social Pensions Database* (London: HelpAge, 2014).

multiple strategies for maintaining income in older age. The adequacy of pension benefits is highly varied across countries (see Figure 6), and there is no global consensus on an adequate benefit level. The definition of an adequate benefit level is nationally determined and based on social, cultural, and economic issues, as well as the objective of the scheme. Many countries with higher pension benefit levels (such as New Zealand) started out with a minimum benefit level and over time built a system to maintain a certain standard of living using integrated contributory and non-contributory pension pillars.

Can Lower Income People Save for Old Age?

Given that coverage of social pensions is currently limited and that in most cases, social pensions are not intended to fully cover expenses, individuals are well-advised to save for themselves. Many do, though few are able to amass a store of savings over their lifetimes to serve as a source of income in older age. Many people, especially those operating primarily in the informal sector, save in-kind rather than in financial form. Households headed by older people are likely to have more assets compared with younger households, having had a longer time to accumulate them.²⁷ However, older people may also be more likely to be income-poor despite owning assets, unless their assets, such as agricultural land, real estate, or vehicles, can be rented out. A World Bank study found assets to be a source of income in old age for 14 percent of people interviewed in Colombia (see Part II, Colombia Spotlight).

Ownership of land and property is still far more likely to be concentrated among higher income strata rather than constituting a realistic option for people living on lower incomes, in spite of land reform in many low and middle income countries. Furthermore, the practice of selling land and property to pay for expenses related to old age is less common in low and middle income countries, and assets are more likely to be inherited by younger generations rather than sold for cash. Women may be particularly disadvantaged

by this arrangement, as their access to land and property is often secured through their husbands. Nevertheless, property can provide a basis for intergenerational reciprocity, whereupon adult children take care of their older parents in a ‘generational contract’ in exchange for inheritance of land or property.²⁸

We come now to the question of whether governments and/or private financial services providers can create structures that assist people in making regular contributions of their own that can be paid out in older life. Public policy has rarely incentivized informal workers and the self-employed to save long-term, possibly because cost-effective incentives and facilitating structures have been dismissed as too hard to design or unlikely to yield sufficient savings to make a difference. This should change.

Standard contributory systems are under stress, and policymakers may prioritize efforts to shore up existing systems. In China a new program allows people who work longer to receive a higher pension rate when they retire. The system maximizes workforce productivity and recognizes that people have different abilities as they age. Initial results from this recently implemented program show that a significant number of people are choosing to delay retirement, particularly in urban areas in jobs with low physical demands.²⁹ Shifts in retirement age to correspond with increasing longevity are an important way to buy the greater financial flexibility needed to enable other reforms, such as extending coverage to lower income people.

Care in design is essential, however. Attempts in Latin America to relieve pressure on public systems by shifting responsibility to individual pension savings accounts actually resulted in decreased coverage by a large number of pension systems over the last two decades.³⁰ Part of the problem was the wall of taxes and benefits involved in crossing to a private system, which were not progressively graduated according to income levels.

In our investigation of existing efforts to encourage long-term contributions by lower income people alongside social pensions, we have found few large-scale examples but

Matched Savings Programs

Matched savings programs increase participation in the formal pensions system by incentivizing saving through a financial match to contributions—from either employers or government. In some contexts, programs also involve other tangible incentives such as preferential tax treatment, prefunded benefits, or benefits before retirement age. Most importantly matched savings programs can especially be helpful for people who have irregular and unpredictable incomes throughout their life course or are predominantly engaged in the informal sector.

In Peru, where most micro and small enterprises do not participate in contributory pensions, the government has proposed to subsidize employee salaries (up to 50 percent in some cases) if employers offer a matched savings for employees earning close to minimum wage. Implementation of this initiative is awaiting a decision on a standardized definition of minimum wage.

In Mexico in 2006, as part of the Oportunidades human development program, there was a proposal to match the savings of Mexicans between the ages of 30 and 69 up to MXP\$50 per month. With the maximum savings and an equal match from the government, program participants would receive MXP\$1,000 per month starting at age 70. Seven million people would have been eligible. However, because of doubts regarding whether people would participate given their income level, the program was not implemented.

quite a number of experiments. These efforts fall into three basic approaches that deserve further experimentation and support:

- Revising public pension design to be more compatible with and encourage own savings (e.g., savings matches)
- Developing convenient collections strategies to facilitate small contributions
- Facilitating private pensions for lower income people (micropensions)

Making Public Pensions More Compatible With Own Savings

A healthy approach to the problem of financial security in older years will require public-private cooperation to create incentive structures that encourage savings. Public systems, especially social pensions, should

not discourage the pursuit of multiple income sources, including both own savings and continued work. It is not good policy to disincentivize peoples' efforts to better their own standards of living.

In many cases, only people without private savings or a contributory pension are eligible for social pensions. The non-contributory pension scheme in Mexico, for example, excludes individuals who already receive contributory pensions. While this might help to direct resources to the poorest people, it creates barriers to pension contributions by those who are moderately poor and near-poor.³¹ If social pensions are well integrated into the overall pension system, however, they do not crowd out savings but can increase savings and investment, as has been noted in several countries including Bolivia, Brazil, and South Africa.³²

Chile carried out a reform of its pension system in 2008 that introduced a Basic Solidarity Pension (PBS) for individuals who have not made contributions, and a Solidarity Pension Contribution (APS) for individuals who have made contributions, but whose pension fund falls below a defined threshold. The APS is a progressive system in which the amount received gradually diminishes as the amount of the self-funded pension increases and allows the total old-age pension to grow along with savings funded by individuals.³³

Two years ago, to increase contributions among those living in poverty, the Colombian government introduced a program called Programa de Subsidio al Aporte en Pensión (PSAP), which allowed those below the poverty line to access a subsidy of 20 percent of their contributions at the maturity of the pension fund. By encouraging even low income recipients to contribute, PSAP stretches limited social pension funds.³⁴

It may also be a sensible use of public subsidies to incentivize long-term savings through matched savings accounts (see Box 1).

Facilitating Regular Contributions

While the preceding section discussed incentives for saving, practical questions on collecting savings must also be considered. Small, frequent contributions must be cost-effective for both the saver and the service provider. Fortunately, innovations in payments

technologies are bringing down the cost of managing many small contributions even as they make contributions more convenient for savers. Mexico's contributory pension system has set up voluntary contributions at 7-Eleven stores to enable participation at a convenient service point that many people already frequent. While these points of service are primarily concentrated in urban areas at present, they are a step toward wider availability.

The much-heralded process of shifting government to person (G2P) payments to electronic means creates a payments bridge to millions of people that could just as well work in reverse (P2G). For people with transactions accounts through banks, mobile phones, or insurance companies, the way is opened for informal workers and the self-employed to contribute to public pensions and for private pension providers to tap this market by offering micropensions.

Micropensions

Private pensions for people at the base of the pyramid—micropensions—have been the subject of limited, but still notable, work in the past decade. Micropensions are primarily associated with microinsurance or microfinance organizations that have regular interactions with customers and which facilitate frequent, routine collection of small amounts. Micropensions have been slow to develop because they require a very long pilot phase to prove viability, but organizations including MicroPension in India, Invest India, REDCAMIF in Latin America, Enviu in Ghana, and World Granny's Global Pension and Development Network are working to develop business models for micropensions. A uniquely designed micropension program in India, Gift-A-Pension, allows employers of domestic workers to set up and contribute to pensions on behalf of their household employees.

The only micropension program in Central America, run by REDCAMIF, has found that while almost all the prospective savers they speak with recognize the need for long-term saving, few know how to do so in formal mechanisms. The program has found great success in its pilot phase in terms of program take-up, and is currently being rolled out.

One of the greatest challenges for micropensions is to generate trust that the

If social pensions are well integrated into the overall pension system, they do not crowd out savings but can increase savings and investment, as has been noted in several countries including Bolivia, Brazil, and South Africa.

financial institution will still be there when the contributor is older and that her account will retain its value. Since micropensions rely on contributions collected over years, users must be confident that they will see their funds in later life. Therefore, they require stable, well-trusted providers and regulatory oversight. MicroPension in India, for example, uses microfinance institutions (MFIs) as its distribution channel. The MFIs deposit contributions in the government pension system, and the 900,000 participants receive individual statements from the government pension fund itself. While many micropension programs have yet to reach scale, this approach could be an exciting space to watch.

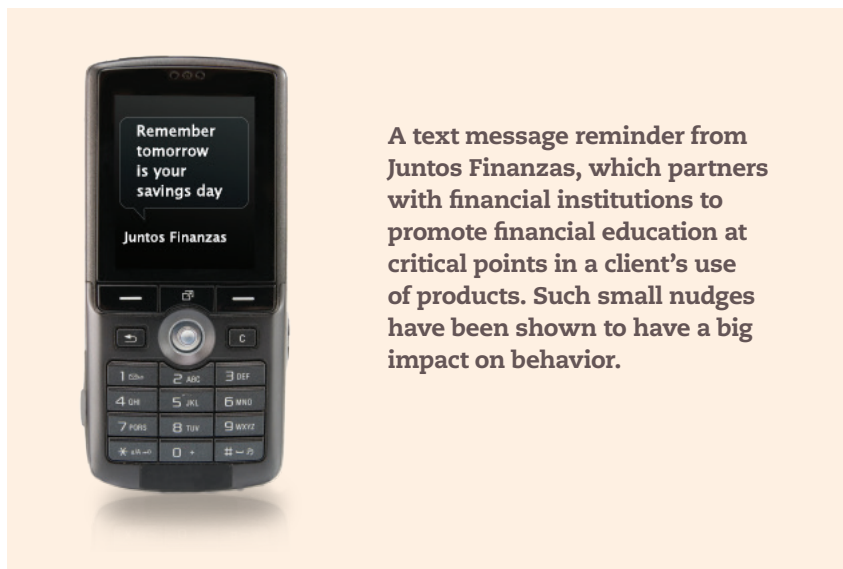
Connecting Pensions and Financial Services

For many older people, pensions are their only contact with formal financial services. In fact, the presence of public pension programs explains much of the variation in access to bank accounts around the world for people above age 65.³⁵ The presence of pensions presents significant opportunities for increased access to and use of financial services. In other words, pensions can be an on-ramp to financial inclusion.

Overwhelmingly, the experts who attended our roundtable on aging and financial inclusion in Colombia in November 2014 saw opportunities for specific supportive financial services—money transfers, enterprise and consumer credit, long-term savings products,

FIGURE 7

A Savings Reminder Built into Customer Engagement



A text message reminder from Juntos Finanzas, which partners with financial institutions to promote financial education at critical points in a client's use of products. Such small nudges have been shown to have a big impact on behavior.

Source Juntos Finanzas (2015).

and insurance—to be linked to pensions in order to expand the range of financial tools older people can access.

Bundling financial services with pensions necessitates partnerships between public and private sector players. If governments provide the pension systems, the private sector must still create adequate links. But policies must facilitate these links, and in some cases this may involve rethinking basic assumptions. In some countries, for example, pension policy is built around the assumption that benefits are (or even should be) used immediately rather than saved in a bank account.

Most directly, pensions can be associated with a basic bank account. Linked to additional services, pensions could be used as collateral for credit, for automatic payment of loan installments or insurance premiums.

Creating a Savings Culture

Creating a culture of saving is critical to increasing the preparedness of a country for its population entering older years, especially given the predisposition to favor the present in some cultural contexts³⁶ and the exposure of low-income people to shocks

that deplete savings. This task falls on all shoulders—governments, non-governmental organizations, and financial service providers.

When asked what products older customers needed, more of our global supply-side survey respondents mentioned savings than pensions.³⁷ Older people who composed our Colombian focus group participants from all income levels reported saving for the future, even if they are doing so in-kind or informally. However, the older people we talked with were frustrated that they were not saving enough. One study reported that the type of saving mattered. In Colombia, 85 percent of households with children were saving for the children's future, while only 41 percent of households were saving for older age.³⁸

Providers can leverage new opportunities and insights that 'nudge' people toward saving, especially drawing on insights from behavioral economics. Juntos Finanzas, for example, has prompted greater savings among account holders in Colombia, Mexico, and Tanzania through customized text messages that remind account holders to save and encourage regular, rather than occasional, saving (see Figure 7). The U.K. government has built in nudges into formal systems, such as 'opt-out' contributory pensions where the default option is to contribute to a pension directly from a paycheck.

Government institutions and support organizations have a big role to play in strengthening the savings culture, helping to encourage long-term saving as an essential part of asset management across the life course. People should hear about the importance of saving at an early age—through public service advertisements and in classroom education.

Aval Consulting in Ecuador trains people to think about the future based on a life course approach. In one government-funded module, they split participants into age groups and ask them the amount they need to live on in their older years. Facilitators then break down this amount in terms of the amount people need to save today to make that financial security possible. Aval Consulting reports that people are often surprised at how much they need to save to reach their financial goals, but once they have a financial savings goal, they are motivated to make it work and create an action plan to save for the future.

Supporting Self-Employment, Family Support, and Other Coping Strategies

3

Employment and Self-Employment

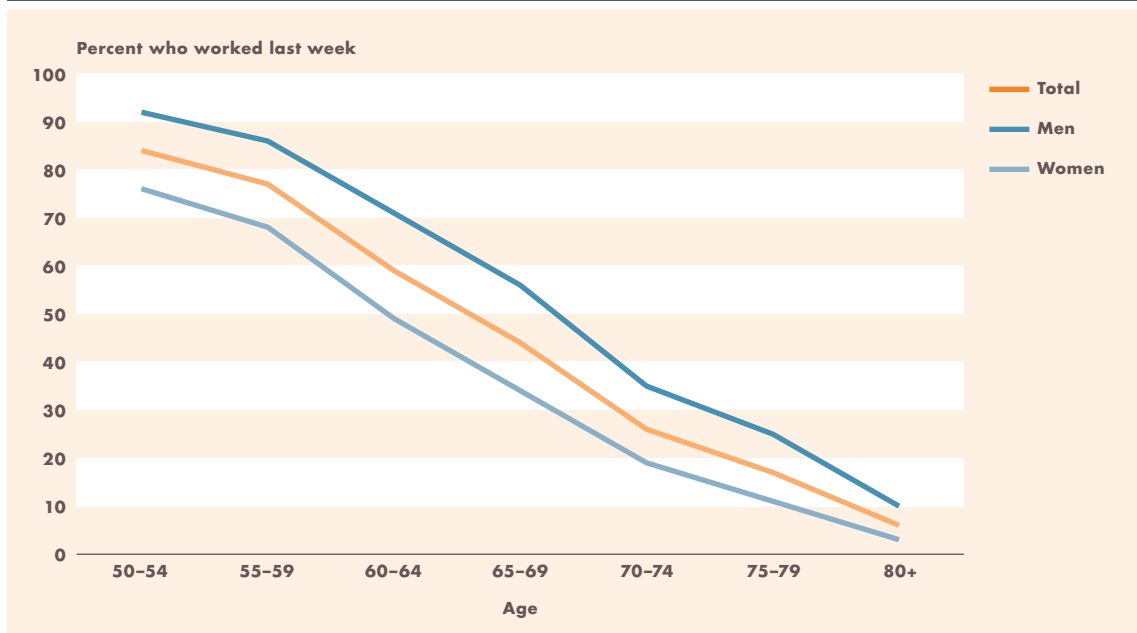
In low and middle income countries the majority of older people continue to work. For example, national level data illustrate that in Thailand a substantial proportion of people throughout their 60s and early 70s remain in the workforce (see Figure 8). A lack of data on formal and especially informal employment in many countries is likely to contribute to the perception that older people do not work.

Work in later life requires access to appropriate and supportive financial services,

products, and information. But it also calls for governments to play a strong role in reducing age discrimination in the labor market, tackling negative attitudes around work in older age and providing opportunities for older people to reskill and train. Much of the focus of employment policy is on building the financial capability and human capital of younger people, yet older people also have the right to decent jobs and financial services to enable them to continue working as long as they can and want to, and it is sensible public policy to support them.

FIGURE 8

Percent of Older People Who Worked in the Previous Week, Thailand (2011)



Source John E. Knodel, Vipap Prachuabmoh, and Napaporn Chayovan, "The Changing Well-being of Thai Elderly: An Update from the 2011 Survey of Older Persons in Thailand." PSC Research Report No. 13-793 (2013).

Self-Employment and Access to Credit

Because of age discrimination in the labor market, the presence of a national retirement age, and physical changes often associated with the aging process, older people may often find themselves unable to obtain formal employment. Although legislation exists in some countries on age discrimination in the workplace, negative attitudes toward older workers remain a significant barrier for older people.³⁹ Opportunities for education and re-training in later life can also be limited, with many adult education programs setting age limits at 35 or 40 years.⁴⁰

Operating a microenterprise or small business is therefore an important alternative in later life, bypassing a hostile labor market, even for those with previous formal employment. Self-employment can also allow an older person to change from a strenuous job to one that is less physically demanding or requires fewer hours of labor. And of course, many people who have been self-employed throughout their lives continue to farm or operate their businesses in their later years.

Financial tools could—and should—be available for older people who are self-employed. Among the financial services providers who responded to our online poll, about one-quarter stated that they have services that are particularly tailored to older adults. This figure is higher than we expected, and underscores an opportunity that some providers may now be recognizing.

Eliminating or Restructuring Age Caps

However, we found that older people have special difficulty accessing credit from formal financial institutions due to age caps. In the absence of other objective information on which to base credit or insurance decisions, some providers rely on age as a proxy for risk. Over two-thirds of the providers we surveyed reported that an age cap is used in the approval process for at least one of the products they offer, and most felt that age was a legitimate eligibility factor. In India many institutions apply an upper age limit (or age cap) of 55 years,⁴¹ regardless of individual requirements or capabilities, and despite the fact that life expectancy in India at age 60 is 16 years for men and 18 for women.⁴² Some microfinance institutions in Bangladesh have an age limit of

55, although they state that this can be relaxed if ‘physical condition is exceptional.’⁴³

Our online poll of providers shows caps around the world that are poorly related to actual life expectancy (see Figure 9). In nearly all cases, the credit cut-off was far lower than life expectancy for a person at age 60 in the relevant country. The average gap was nearly 15 years, suggesting that many people live for well over a decade without being able to access credit. One insurance company and several financial institutions in Colombia reported that the age cap is slowly rising but still remains in place in the absence of more complete data about clients.

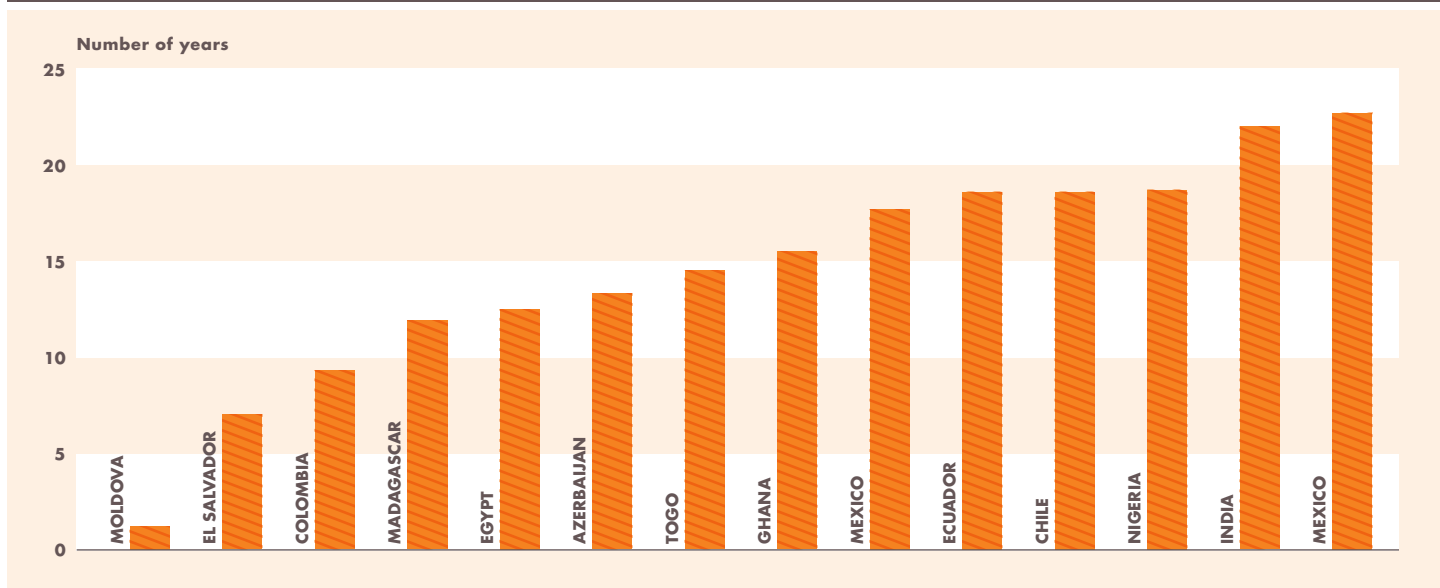
Blanket age caps are a form of discrimination. They are not morally defensible and they represent a missed market opportunity, given evidence of longer lives and continued economic activity among the post-retirement-age population, not to mention wide individual variation. At a minimum, age caps need to be adjusted to current demographic realities. Perhaps they can be done away with altogether.

The source and authority for the caps remains obscure. In interviews with providers, we found that the insurance cover financial institutions hold precluded lending to people above a designated age. We wondered whether the risk of aging could simply be dealt with by higher pricing for insurance coverage and passed on to consumers through interest rates, but providers in countries that employ low interest rate caps report that this solution is not a viable option.

The appeal of age as an indicator of creditworthiness is that it is objective and easy to ascertain. Nevertheless, this proxy is not a fair or accurate picture of creditworthiness, particularly for ‘thin file’ people who are applying for credit for the first time in older age. The many experiments in using alternative data to identify good credit risks could take up the task of finding alternatives to age caps. In addition, the standard credit analysis techniques of individual microlending could be adjusted to take characteristics of aging into account and give a more accurate assessment of creditworthiness. Allowing co-signers on loans could leverage social connections and spread risk. There are many possibilities once attention is turned to this challenge.

FIGURE 9

Gap in Years Between Institution-Reported Age Cap and Life Expectancy (2014)



Source Center for Financial Inclusion, “Online Survey of Aging and Financial Inclusion” (Washington, DC: Center for Financial Inclusion, 2014), United Nations, *World Population Ageing 2013* (New York: United Nations, 2013). Age cap data are based on self-reported responses from financial institutions in each market. Where there were multiple age caps reported, an average was taken.

Family and Social Networks

Throughout history, adult children have been seen as the main source of financial support in older age, and today they still continue to provide an important level of support, even in the presence of shrinking family sizes and increased migration. The majority of older people in low and middle income countries live with other family members and may also receive financial and in-kind support. In Bolivia, for example, 61 percent of older people live with children and other relatives, 25 percent with their partner or spouse, and only 14 percent live alone.⁴⁴ Family support also has an important gender dimension, with a larger proportion of older women than men relying on support from families, especially in light of women’s relative lack of pension enrollment.

In some countries, factors such as conflict and HIV have dramatically changed family living arrangements. There is evidence of an increase in ‘missing-generation’ households where one or more of the middle generation is absent, or where grandparents are the sole caretakers of grandchildren. In Dominica, 48

percent of primary school children and 36 percent of secondary school students were found to reside with their grandparents while their parents were working in the United States.⁴⁵ Rather than entering a period of life when they could rely on others, many older people gain new caregiving responsibilities. An older person’s income may therefore not be used only for the individual’s consumption, but is also a contribution to household resources. In general, individuals undertake a variety of reciprocal monetary and non-financial exchanges within families. Decisions on work and retirement will depend very much on household living arrangements and the capacity of different household members.

Labor migration (both internal and international) and population aging have increased rapidly in the last two decades. The result is a growing number of geographically separated families, with older members remaining in the home country or in rural areas. For example, it is estimated that as many as 4.2 million Colombians live abroad, and many of these migrants have parents

and older relatives in Colombia.⁴⁶ A similar separation of families occurs inside countries as a result of rural-urban migration. One-third of Colombians above age 59 live in rural areas, compared with 25 percent of the population as a whole, creating a rural/urban divide to aging.⁴⁷ In Argentina, the latest agricultural census shows an increase in the farming population over age 55 from 14 to 18 percent between 1988 and 2002, with a corresponding 6 percent decrease in the population under 44.⁴⁸

Enhancing International and Domestic Money Transfers

The increasing reliance of many older people and their families on remittances from migrant family members places particular urgency on the development of reliable, affordable, convenient, and age-friendly money transfer channels.

In 2011, the World Bank reported that over U.S. \$300 billion in international remittance payments were received by people in developing countries.⁴⁹ The infrastructure for international remittances has improved, and large, established remittances companies are now competing with nimble start-ups. Costs in the highest volume corridors, such as U.S.-Mexico, have fallen dramatically.

There is also significant movement in the payments infrastructure within countries. Success stories like M-Pesa, MTN Mobile Money, Tigo Cash, and Airtel have proven that even with small transfer amounts a mobile payments infrastructure can be profitable, while increasing security for customers. The growth of payments systems within countries is limited by the environment for electronic payments and mobile money. In its 2014 *Global Microscope on Financial Inclusion*, the Economist Intelligence Unit found huge variability across countries in the policy and infrastructure environment for mobile payments. In Latin America, for example, growth may be much slower than in Africa in part because of less permissive policies for mobile innovation.⁵⁰ Latin America has been relying more on agent banking than mobile to increase the ubiquity of money transfer outlets.

From the user perspective, a limitation of remittances is that their timing can be unreliable, although research suggests that

remittances sent by internal labor migrants tend to be more reliable and consistent than those sent by international migrants.⁵¹ There are many possible reasons for this, related to the mode of delivery or steadiness of the sender's income. However, the most likely reason is the greater separation of the immigrant from his or her family, as remittances tend to decrease in amount and regularity as immigrants spend more years abroad.⁵² In such situations, remittances may only amount to 'survival remittances' or be used in emergency situations such as urgent health care or hospitalization.⁵³

Financial Management— Day-to-Day and in Emergencies

Expenditures in Older Age

Expenditures in older age differ widely depending on social norms, cost of living, and availability of public and private services. In brief, they are similar to expenses throughout the lifecycle with two exceptions: health-related expenses and family financial obligations. Household survey analysis from Bolivia provides an example of the types of expenditures made by low income older people (see Figure 10). By far the majority of expenditures are on food, with expenditures on health also featuring highly.

Expenditures by older people often contribute to broader household expenses such as food, utilities, investment in business or productive assets, or school fees for younger household members.

While household survey data provide a useful snapshot of expenditures, they do not capture the one-off shocks which may affect households and individuals. Shocks can be macro, such as changes in food prices, or individual, such as illness.⁵⁴ While shocks happen to people of all ages, health-related shocks are more likely in older age.⁵⁵ Moreover, it may be more difficult for older people to adjust their financial management strategies to cope with shocks if they are living on fixed incomes or are unable to increase the amount of work they do.

In its work with older people, HelpAge has discovered that people are more at risk during natural (and manmade) disasters.

Aid distribution mechanisms often rely on people standing in lines or approaching a distribution point. For older people with lower mobility, these can be problematic.⁵⁶ Having a wide social network can help older people to weather emergencies, as can electronic means of distributing payments such as remittances from family in other places.

Expenditures on social and cultural events also play an important role in older age. Remaining part of important social and cultural occasions can help to maintain the social networks which can be called upon in times of need, or simply to reduce isolation. Many older people also worry about end of life and the cost of funerals.⁵⁷ Consequently, expenditures on rituals to prepare for the end of life, or saving for funeral costs, may feature among outgoing costs in some parts of the world.

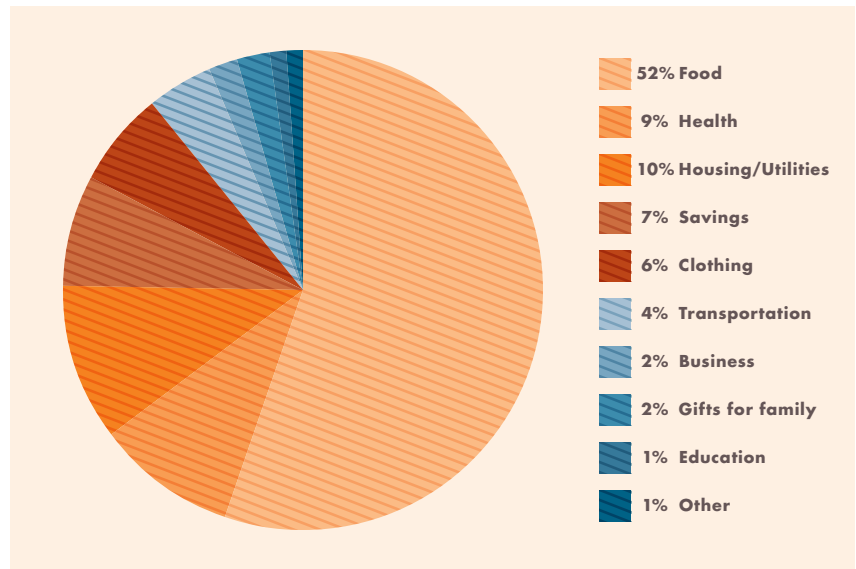
Basic Savings and Credit for Financial Management and Emergencies

When faced with the task of meeting expenditure requirements using irregular and multi-source incomes, older people can turn for financial management assistance to basic savings, credit, and insurance if they are available. However, participation rates in such services among older people at the base of the pyramid remain low. Throughout the developing world less than 50 percent of older people have an account at a formal financial institution, and in all regions older people are less likely than adults in their middle years to have an account (see Figure 11).⁵⁸ Many of the existing accounts are not actively used as money management tools, but primarily as mechanisms for receiving payments such as pensions. In some cases, accounts are used as vehicles to pay utility bills.

Short-term loans are also important consumption-smoothing tools. In Colombia, many respondents in the lower income strata described resorting to *gota a gota*, an informal loan typically associated with criminal activities such as drug-trafficking or smuggling. Respondents reported using this informal loan at least once to cope with emergencies, as *gota a gota* provided cash on the same day without conditions. It was used only in dire circumstances, with the knowledge that such lenders charge very high

FIGURE 10

Expenditures of Older People, Bolivia (2013)⁵⁹



Source Federico Escobar Loza, Sebastián Martínez Wilde and Joel Mendizabal Córdoba, *El Impacto de la Renta Dignidad* (La Paz: Unidad de Análisis de Políticas Sociales y Económicas, 2013). The expenses listed here were calculated on average, and therefore do not add to 100 percent.

interest and are reputed to employ violence at times in collecting late payments. Small loans from microfinance institutions that can be distributed quickly could serve to meet emergency needs associated with financial shortfalls and income unpredictability.

Consumer loans can be tailored to the needs of older people. Some Colombian respondents reported that their utility company offered them a consumer loan on appliances, spreading payments for washers and dryers over multiple utility bills. Social transfers, such as social pensions, have also been shown to facilitate access to credit by providing a guarantee that the beneficiary will have a regular income from at least one source.⁶⁰ In Australia, Good Shepherd Microfinance's no-interest loan scheme supports people receiving public benefits to borrow for lump sum expenses ranging from car repair to the purchase of computers for schools. It was designed in recognition of the difficulty people on small fixed incomes such as social pensions face in paying for large one-time expenses.

Insurance and Risk Mitigation

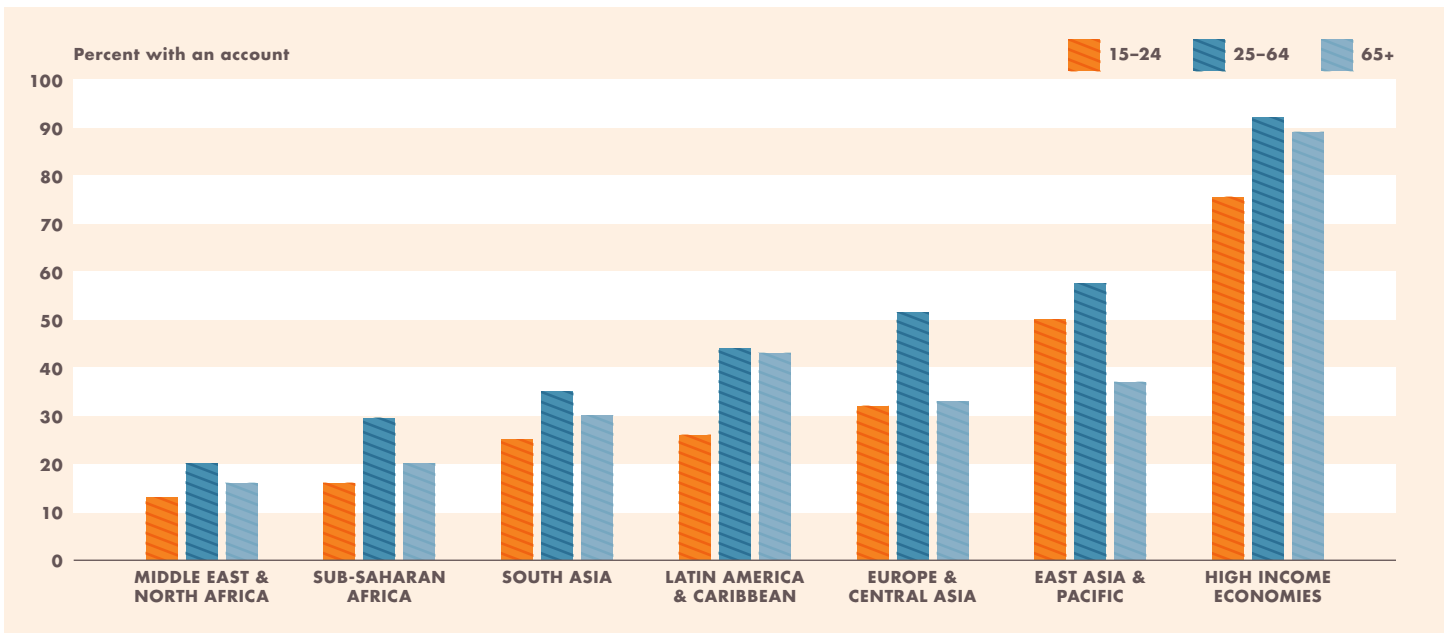
Several insurance companies and NGOs, in collaboration with national governments, are piloting micro-insurance schemes characterized by low premiums and limited coverage aimed at lower income individuals who cannot access mainstream insurance.⁶¹ There are limited data on the extent to which older people can access micro-insurance, and it is important to design micro-insurance products in a way that provides genuine value relative to premiums.⁶² Nevertheless, efforts to bundle insurance products with existing products have found high uptake. In Colombia, some insurance companies promote uptake through door-to-door sales with financial education.

MetLife reports that some utility companies offer life insurance (backed by insurance companies) for a few extra dollars on the utility bill per month.

Finally, a proper funeral is important for older people in many parts of the world. Funeral insurance and burial funds offer a way

FIGURE 11

Account Penetration by Region and Age Group (2011)



Source Asli Demirguc-Kunt and Leora Klapper, "Measuring Financial Inclusion: The Global Findex Database," Policy Research Working Paper 6025 (Washington, DC: World Bank, 2012).

for older people to relieve some of the anxiety associated with funeral expenses. To cite one example, in the Philippines, older people pay monthly contributions to a community-based program supported by a local NGO. The NGO holds the money in a bank account and records the contributions. When a member dies, the family receives a lump sum to pay for the funeral. The maximum age for joining is 55, and members must not have been diagnosed with a terminal illness at the time of joining.⁶³ Elsewhere, funeral insurance is increasingly available and affordable through technology-enabled delivery channels. In South Africa, schemes start as low as R35 (U.S. \$3) per month and are sold through many shopping outlets.

While some would say that older people are not insurable given life expectancy, we see evidence that other at-risk populations do receive insurance. In sub-Saharan Africa, many insurance companies are able to insure HIV-positive populations, albeit often at a higher premium.

The liquidity of assets is a crucial factor in dealing with major shocks. While livestock, tools, or vehicles may be relatively easy to sell quickly, land and property take longer, and, once sold, may reduce a household's quality of life or ability to earn an income. Financial services institutions can structure short-term loans or encourage short-term savings so that one emergency will not cause financial instability. Our demand-side research on Colombia indicates that families are instrumental in smoothing consumption during emergencies, and in severe emergencies, the wider community often steps in to help. Increased accessibility and infrastructure for payments can facilitate family and community help in emergencies, especially when long distances are involved. For lower income people, financial communities such as informal or formally supported savings and credit groups can be very helpful in financial management and risk mitigation.

Health Care Financing

Nearly all older people will have to deal with a health emergency—either their own or that of someone close to them. Moreover, chronic illness is an increasingly important reality in developing nations, and the availability and affordability of drugs for chronic conditions can

Making the case for health care financing to consumers is not difficult—many people are aware of the likelihood of a health emergency in their older years. However, providing services sustainably is much harder, especially at the base of the pyramid.

be a significant burden.⁶⁴ There is an enormous need for health care financing.

Making the case to consumers is not difficult—many people are aware of the likelihood of a health emergency in their older years. However, providing services sustainably is much harder, especially at the base of the pyramid. Colombia, for example, has introduced a differentiated system of health insurance through which the wealthier and formally employed make contributions during their working lives via social security while people on lower incomes receive health insurance subsidized by the state. Those of middle incomes pay an amount that gradually increases according to income. This has created almost universal coverage, with more than 23 million poor and vulnerable people now having access to health services.⁶⁵

The micro-insurance community has begun to experiment with low-cost insurance that covers the most frequently experienced health costs and sometimes even preventive services. MicroEnsure offers inexpensive health insurance in Tanzania in cooperation with an existing healthcare system, including yearly check-ups for clients over age 50.⁶⁶ MicroEnsure's health insurance product in India covers the six most frequently experienced treatable diseases, and insurance premiums are only a few dollars per year. While this kind of solution does not cover all health-related expenses, it does reduce the likelihood that an emergency will place an older person into financial jeopardy.

4

Removing Age-Based Barriers to Financial Inclusion

Use of financial services can become more difficult with physiological changes including gradual hearing loss, changes in vision, and slower reaction times. However it is important to remember that chronological age is not a good indicator of a person's health and that these changes can be experienced at different stages and with different levels of severity.

Such changes can affect access to financial services, particularly if older people are not seen as 'desirable' customers, and products are not specifically targeted through the most appropriate channels. For example, misunderstanding the communication needs of people with hearing or vision impairments can perpetuate stereotypes around older age. Hearing-impaired older people may be labeled as 'confused' because they didn't hear fully and then be seen to respond 'inappropriately'.⁶⁷

In our survey of financial services providers, one of the most frequently cited barriers to older adults adequately accessing and using financial services was lack of patience by providers. Survey participants were asked to describe an older person they know who lacks access to or is unable to adequately use financial services. They frequently described providers as not having the time to work with older people. Negative attitudes and myths about older people or lack of understanding of the diverse needs of older people may be significant barriers to financial inclusion in older age.

Poor communication about products and services not only leads to older people lacking knowledge of what financial services are

available to them, but can also make them more susceptible to fraud and abuse. For example, in South Africa, there have been cases where recipients of the Old Age Grant were fraudulently signed up to funeral schemes or micro-loans; in other cases mobile money agents pressured older people to purchase goods from their shops before agreeing to help them access mobile money accounts.⁶⁸ Such actions are made possible when recipients lack awareness about products and processes. Consumer protection and appropriate channels for making complaints about financial services providers are particularly important. Developing appropriate channels for complaints and support means understanding the way older people are most comfortable to communicate.

A decline in physical mobility can be experienced in older age, particularly if an older person has a history of manual labor or poor nutrition. For older people who are affected by mobility issues, travelling to bank branches, agents, or ATMs can pose a challenge. The experts who attended our roundtable on aging and financial inclusion in Colombia saw lack of financial services infrastructure, especially in rural areas, as a particular barrier to financial inclusion for this group. This trend is often compounded by the perception that older adults cannot easily learn to use new technology—a common myth which arose during our online poll with financial services professionals.

While older people may be among those least likely to own a mobile phone,⁶⁹ research shows

A growing number of mobile phone adaptations cater to specific physiological needs that can accompany older age, such as amplified sound, high-contrast displays, and larger text sizes. The proliferation of smartphones will make such accommodation easier.

that they still use mobile money services. They may borrow or pay to use a phone, or they may get help. In Tanzania for example, older people reported that they saw the benefits of mobile money and were eager to use it themselves, but had not had the opportunity to learn.⁷⁰ Investment in teaching older people to use mobile financial services could lower product cost for providers over the long-term and open up the market. Despite the value of technology-enhanced financial services for older people, such services are rarely marketed with their specific needs in mind. A growing number of mobile phone adaptations cater to specific physiological needs that can accompany older age, such as amplified sound, high-contrast displays, and large text sizes.⁷¹ The proliferation of smartphones will make such accommodations easier.

Proof of identity can be a significant barrier to accessing financial services at any age, and can particularly affect older age cohorts. Many of today's older people were born before the development of comprehensive civil registration systems. In Thailand for example, older people have faced regional and ethnic disadvantages in accessing government services due to lack of identification documents.⁷² Financial institutions could accept alternative forms of identity such as baptism, vaccination, public works, or voter registration cards⁷³ and leverage flexible 'know your customer' laws where possible.

Finally, self-exclusion can be a motive for not using financial services. For example, a family member may already have a bank

account, or an individual may not trust in services and institutions because of previous bad experiences. Or indeed older people may assume that they will be refused a financial product because of their age, so do not even approach a financial services institution. Exclusion is highly context-specific, underscoring the need for flexible policies that respond to the reality on the ground.

Prioritizing Financial Capability

Efforts to prioritize financial inclusion must include products appropriately tooled to older people. Financial capability interventions can be built into product design, giving people the option to, for example, go digital with existing products and facilitate learning on alternative platforms. Financial education can involve governments using existing avenues of information such as local branches of older persons' associations or older persons' networks, which commonly work at a community level in a familiar style and language. Local radio and community information sessions are important oral channels for disseminating information for non-literate groups and reaching people with visual impairments. Alternative formats for written information about products and financial institutions include large print, pictures, symbols, and plain language.⁷⁴

At the same time, products designed for the older market segment may need to be adjusted to take into account acquired impairments and the legacy of lower education and literacy. The good news here is that adaptations to

Client trust must be earned. Providers who prioritize customer care for older people can go a long way to earning trust.

accommodate these needs are likely to benefit a large number of younger clients as well.

Earning Trust

One of the top issues that emerged from our expert roundtable on aging and financial inclusion in Colombia was the issue of trust as a barrier to older people accessing financial services. Long-term savings and contributory pension systems also require a great deal of trust. For example, although in the former Soviet Union lack of trust in institutions is highly prevalent after the collapse of the system in the early 1990s, in China, where the banking sector has not experienced shocks, trust is not such a concern.

Client trust must be earned, and customer service tailored to the specific needs of older adults is a start. Barclay's, for example, trains all of its staff in being sensitive to older people, making sure to greet them at the door, asking if they would rather sit than wait in long lines, and verbally explaining changes in their services.⁷⁵ Providers who prioritize customer care for older people can go a long way to ensuring trust.⁷⁶

Consumer protection figures importantly in the design of pension services, whether we are talking about preserving the stability of the institutions that hold long-term savings or about electronic distribution of pension benefit payments to new and lower-income customers. In South Africa, for example, the company responsible for electronic delivery of the social pension, Cash Paymaster Services,

is a subsidiary company of Net One, a company that offers microfinance products and mobile phone services. Net One has been accused of using its access to social pension beneficiaries to market other products to vulnerable groups, with little regard for client protection.

Recognizing that older people may be more susceptible to mistakes and abuse in financial services, it is especially important to ensure that consumer protection extends to older customers. This could mean ensuring that complaints mechanisms are friendly and easy to access. It certainly means high vigilance whenever benefit payouts are at stake to ensure that they reach their intended beneficiaries and that those beneficiaries are not subsequently targeted by aggressive or fraudulent sales pitches.

For all savings and pension instruments, especially in countries with high inflation rates, adequate interest rates are an important component to proving the worth of such products to consumers. With high inflation, currency changes, and national economic shocks, consumer trust in financial tools and the formal financial system can be severely eroded (as in Latin America throughout the latter part of the 20th century). Maintaining trust and proving the usefulness of savings products requires interest rates that at least come close to matching inflation. Deposit insurance and related guarantees in case of a banking crisis are important to facilitate trust in financial instruments.

Priority Actions

5

This report has described older people as a growing market segment with distinct financial service needs that arise from their multiple and varied income strategies. We hope that our portrait will spur readers to action, both as a social and moral imperative and because of the opportunity aging presents. In this section we distill the essential action-oriented messages for decision-makers in government, financial service providers, and social service organizations, all of whom have important roles to play in financial inclusion for people as they age.

1. Improve data on income sources and financial services used by older people.

Data collection on incomes in old age should include all the multiple sources older people actually use, and should work with definitions standardized across countries.

2. Support the goal of universal pension coverage by integrating social pensions, own savings, and contributions to pensions, and improve compatibility with other income strategies.

- Prioritize the extension of social pensions to close the coverage gap as quickly as possible.
- Leverage the distribution of social pensions to increase financial inclusion through electronic payments, starting with stored value and transfers.
- Eliminate disincentives to saving for older age by avoiding ‘cliffs’ in social pension design.
- Develop electronic payment systems to enable those working in the informal sector to contribute to pensions throughout their lifetimes.
- Offer well-designed matched savings and related programs to create incentives for long-term savings or contributions to pension plans.
- Microfinance institutions and other providers serving the base of the pyramid should continue to experiment with micro-pensions.

3. Make credit more accessible to older people.

- Eliminate or raise age caps.
- Offer emergency loans against pensions.

4. Deepen existing financial products used by older people and design new ones.

- Reduce the cost and increase the convenience of domestic and international money transfers to facilitate family remittances.
- Micro-insurance, including life and funeral insurance, can reach many more people.
- Although health insurance should be a major priority, the gap between need and coverage with effective products is especially large and requires much experimentation.
- Increase delivery channels; empower older people to use digital channels.

5. Financial education and consumer protection

- Invest in financial awareness so that older people understand the options that exist for them to benefit from financial services.
- Financial education efforts should address life course issues, especially to encourage younger people to begin planning for their later years.
- Consumer protection systems should be especially vigilant to ensure that pension payouts do not provide opportunities for fraud and abuse.

Many of the priorities mentioned here will require cooperation between the public and private sectors. In some cases, such as the connection of pensions to electronic payments, this cooperation will take the form of public-private partnerships. In others, it will require dialogue and careful design.

Finally, we return to our beginning. Aging populations bring both the necessity for public action and a wide range of market opportunities. The challenges and the opportunities are emerging rapidly. It is now time for those involved with financial inclusion to make the adjustments in their outlooks and priorities that will be needed to craft adequate responses.

Spotlight on Colombia

This section presents findings from a country case study on financial inclusion and aging. The Colombia case study is used for illustrative purposes to provide a more detailed consumer perspective on income strategies and financial services in older age, in recognition of the lack of systematic data on this subject. The Colombia case study draws on existing secondary literature as well as original demand-side research using focus group discussions and participatory research approaches with older people from a diversity of ages and income levels. Research locations were selected to provide perspectives from a variety of contexts—including urban and rural, Afrocolombian, and indigenous, and those directly affected by the conflict or with high levels of internal displacement, as well as locations unaffected by the conflict. This includes locations in Valle del Cauca, Cauca, Distrito Capital, and Cundinamarca.

Profile of Aging in Colombia

According to UNDESA, 9 percent of the population in Colombia was 60 years or older in 2013. This proportion is projected to increase to 12 percent by 2020 and to 20 percent by 2040 (see Figure 12). These figures mirror aging trends in other middle income countries. Colombia's population of 5 million internally displaced persons particularly influences the financial inclusion context, given that many displaced older people lack identity cards, property, have lost their source of livelihood, and are socially excluded in other ways.

Twenty two percent of older people live in households classified as poor, but the proportion of individual older people who are poor increases to 46 percent when their incomes are analyzed. This highlights that while the basic needs of older people, such as

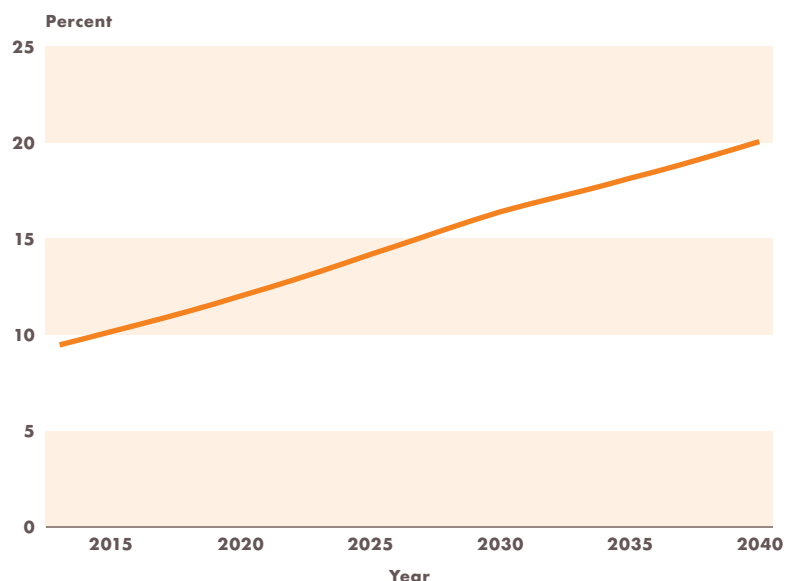
food and shelter, are often met through general household resources, older age is associated with a lack of independent income. For older people living in rural Colombia the situation is more pronounced as the incidence of poverty is approximately 15 percent higher than for older people living in urban Colombia.

Income Strategies in Older Age in Colombia

As is commonly found in other middle income countries, Colombians rely on a variety of strategies to secure an income in older age. A

FIGURE 12

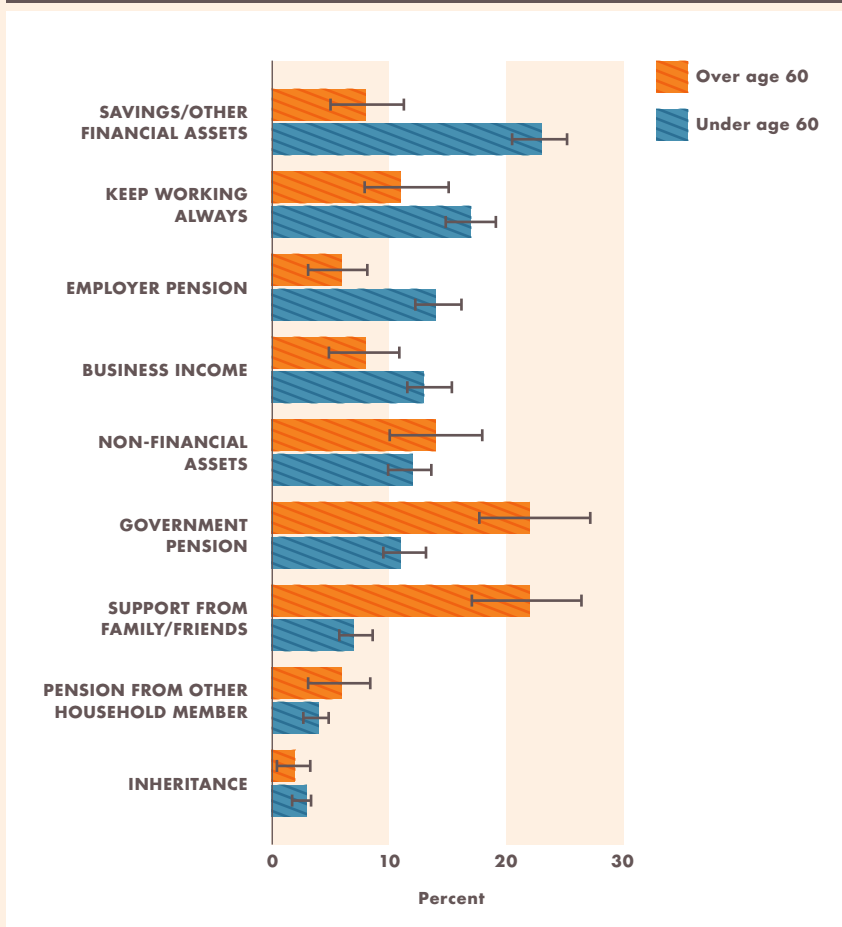
Percent of Population Ages 60 Years and Older, Colombia (2013–2040)



Source: United Nations, *World Population Prospects 2012* (New York: United Nations, 2012).

FIGURE 13

Strategies to Cover Old-Age Expenses, Colombia (2013)



Source: Rekha Reddy, Miriam Bruhn, and Gongyan Tan, *Financial Capability in Colombia: Results From a National Survey on Financial Behaviors, Attitudes, and Knowledge* (Washington, DC: World Bank, 2013).

nationally representative survey carried out by the World Bank and the Government of Colombia asked people both over and under age 60 about their expenses (see Figure 13). The survey revealed that respondents over the age of 60 relied mostly on government pensions and support from family and friends. The survey report does not provide detailed information about how ‘government pensions’ or ‘employer pensions’ were defined in the questionnaire. However Colombia’s pension system actually has a number of elements including: a government-managed contributory scheme, a scheme for government employees, a scheme for low income workers which matches contributions, as well as employer schemes and

private pension funds. There is also a social program, Colombia Mayor, which provides cash transfers to the poorest older people (see Box 2).

According to analysis of 2009 household survey data by Rofman and Oliveri, 23 percent of people ages 65 and older receive a pension. Approximately three-quarters of the population are not covered by any pension scheme and rely on other strategies to secure an income in older age. Pensions are least likely to feature among old age income strategies for older people in the lowest income quintiles (see Figure 14).

Within the under-60 group, approximately 25 percent are actively contributing to a pension scheme, either through an employer or the government. A further 25 percent planned to cover expenses in old age primarily with savings and other financial assets. According to Rofman and Oliveri, the proportion of the population currently contributing to a pension scheme is slightly higher at around 30 percent. Again, the distribution of contributors across the population is a more important issue, as less than 10 percent of the population in the lowest income quintile is contributing to a pension scheme, compared with approximately 65 percent in the highest income quintile (see Figure 15).

In the World Bank/Government of Colombia study, people under age 60 were asked about their plans, while the over-60s were asked about actual use of income sources. The responses were surprisingly different. While government pensions and family/friends were by far the most important sources named by over-60s, the top two sources named by under-60s were savings/own assets and work. Two explanations for the discrepancy come to mind, and both are likely at play. First, as behavioral economists have shown, people often think unrealistically about the future. Perhaps respondents envision saving up a tidy nest egg and supplementing income from savings with a little part time work. When the older years arrive, however, their savings are inadequate and they fall back on family and government benefits.

Another explanation is that the results reflect cohort differences. Rapid changes in Colombian economy and society during the past few decades mean that different age cohorts have grown up with different expectations. For example, reliance on family

and friends of those over age 60 (more than 20 percent compared with less than 10 percent in the group below age 60) was the expected norm when the older cohort were growing up, whereas individual responsibility for future old age expenses, such as through savings or contributory pensions, may be increasingly the norm in Colombian society today.

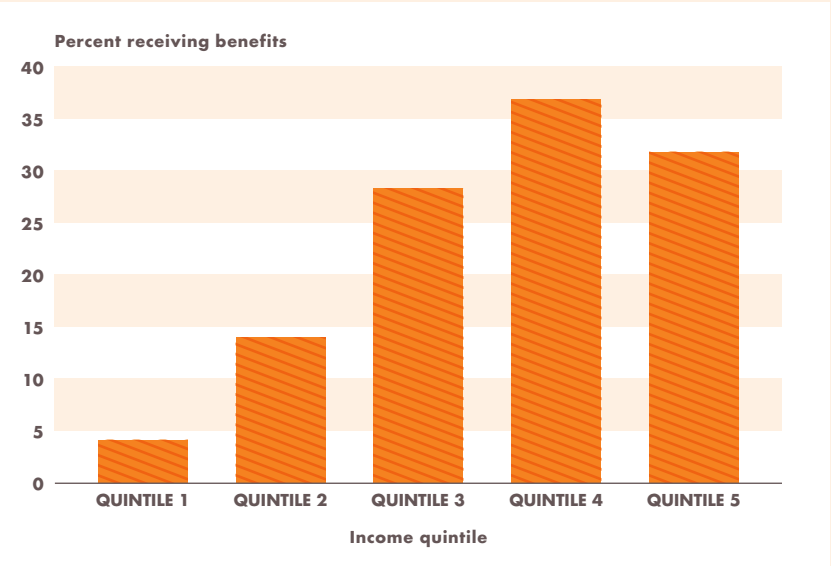
Work and non-financial assets were the next most commonly reported income strategies for persons over age 60. This finding is confirmed by research from Externado University, Colombia, which finds that nearly 50 percent of older people between ages 60 and 69 continue to work compared with nearly 80 percent between the ages of 45 and 59. Labor force participation decreases to just over 20 percent of older people in the group ages 70 and older, which is expected, as health issues are more likely to increase and capacity to work to decrease. When disaggregated by gender, the difference is more pronounced with labor participation rates for older women approximately half those of older men. This trend may reflect lower labor force participation rates among this generation of women due to social norms prevalent when they were younger. At the same time, labor force surveys often do not capture the informal and sometimes unpaid work carried out by women.

Most of the participants in our demand-side research reported that they continued to work, and needing to work was more common for the lower income groups. In contrast, higher income respondents were less likely to continue working, relying instead on pensions from formal employment and families with resources to support them. Some older people in the middle income groups had access to a pension, but the amount was inadequate to meet their needs and so they also continued to work or receive contributions from their children.

The research participants who were still working undertook a variety of informal activities. Women tended to sell products from catalogues (such as cosmetics or lingerie), produce items for sale such as pastries or homewares (embroidered tablecloths, fabrics, etc), or carry out domestic work for pay such as childcare, cleaning, or ironing clothes. Men tended to seek day labor, particularly in agricultural work.

FIGURE 14

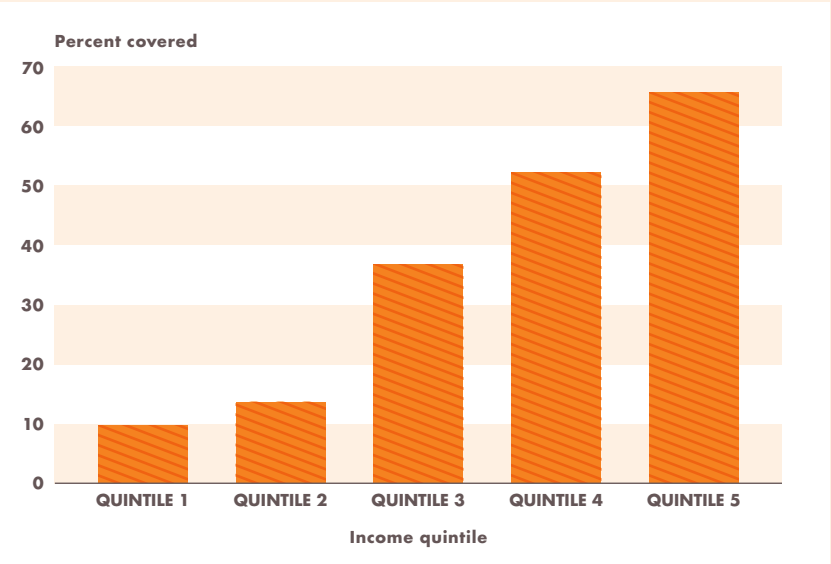
Pension Coverage Rates for Population Ages 65 and Older, by Household Income per Capita, Columbia (2009)



Source Rafael Rofman and Maria Laura Oliveri, *Pension Coverage in Latin America: Trends and Determinants*, Discussion Paper No. 1217 (Washington, DC: World Bank, 2012).

FIGURE 15

Pension Coverage rates for Employed Population, by Household Income per Capita, Columbia (2009)



Source Rafael Rofman and Maria Laura Oliveri, *Pension Coverage in Latin America: Trends and Determinants*, Discussion Paper No. 1217 (Washington, DC: World Bank, 2012).

Colombia Mayor

Colombia Mayor is a social program designed to support people without access to formal social security. The program has a scheme for people under age 60 on low incomes. The program provides government match funding so individuals can save for older age, and a scheme of cash transfers to older people living in poverty. The program is financed from a ‘Solidarity Fund’ that collects 1 percent from those earning more than four times the minimum wage, as well as from the Treasury. Despite Colombia Mayor’s growth over the last few years and plans for future expansion, 600,000 older people are currently on the waiting list and many more older people are unaware of the program. Furthermore, the benefit level of the cash transfer is low at less than 5 percent of the average income—only U.S. \$32 per month.

Colombia Mayor is paid in cash via 1,800 paypoints through non-banking networks such as money transfer agents, which charge 4 to 5 percent per transaction. These entities are used in remote areas, in poor neighborhoods, and shops, and can get closer to marginalized communities than traditional banks. Beneficiaries are notified about the payday via the radio and community and have 15 days to collect their money from a specific paypoint.

Research respondents in Colombia who received Colombia Mayor said that it helped them to pay rent and services, which at least guaranteed them a “roof.” However, they had doubts about the system of classification according to income, whereby older people were excluded from the program if their son or daughter had health insurance, or if they had an asset such as a TV or radio.

However the research participants said their income generation opportunities had decreased with older age, due to lower ability to perform certain activities, exclusion from employment focused on younger people, and receiving lower pay than younger people for the same work. Older people in the lower income groups were particularly affected by internal displacement which had forced them to live in areas where they could not apply their knowledge or skills and had limited opportunities to learn new skills. The death or disappearance of adult children also meant that many displaced older people were taking care of grandchildren.

All research participants in the lower to middle income groups said they were

willing to work. Older men often preferred to be employed rather than to start their own business, while the older women often wanted to initiate new enterprises, link to markets, and learn how to manage their money better. Many wanted to develop an enterprise but couldn’t because they could not access capital. One woman reports, “I’m not working, but if I had a little capital, I could buy chicken legs, beef, and bananas here at a cheap price and then sell them in the Pacific towns at three or four times the price. And I could bring back fish to sell at the fairs. Strength and desire do not fail me, it’s the money that I lack” (Woman, 69, Aguablanca). None of the older people who were working said they had plans to stop working. They see it as impossible.

The Colombia Demographic Health Survey 2010, a nationally representative survey, reports that 70 percent of Colombians who continue to work are self-employed. Self-employment is frequently the only option when faced with age discrimination in the labor market. Lower literacy and education among older cohorts in Colombia, compared with younger age groups, can also contribute to decreased work opportunities. While approximately 20 percent of Colombians above the age of 59 are illiterate, only 7 percent of the adult population as a whole are illiterate. Similarly, while only 22 percent of older people have secondary education, the current secondary school participation rate is almost 80 percent.

Interaction with Financial Services

Among the participants in our research, financial inclusion and income were correlated, linked to education, skills, and the extent that an individual is connected with the formal sector and systems. Individuals with higher incomes tended to be working in (or retired from) the formal sector and in turn were more likely to use formal financial services. Research respondents from the highest income strata, who earned a decent income in their younger years, all had access to pensions and health insurance, and some had credit and debit cards. Some used banks to pay utility bills.

In contrast, those on lower incomes were more likely to be working in the informal sector and less likely to use formal financial services. Education and literacy levels were lower, and general awareness of both formal financial

services and government social programs was highly variable. In many cases, awareness was dependent on the existence of programs or services in their locations. For example some of the research respondents were clients of NGO microcredit organizations, some received benefits from Colombia Mayor, and some qualified for free housing, but this was not the case across all research participants.

This trend is not entirely surprising, and it also plays out among people under age 60 who are preparing for older age. For example, the World Bank/Government of Colombia survey referred to earlier also reports different responses for formal and informal sector workers (see Figure 16). More than 50 percent of informal sector workers have no financial provision for older age and only around 20 percent have full provision. In comparison, nearly 40 percent of formal workers reported having full provision for older age, while only 35 percent had none. Women were also much less likely than men to have finances set aside for old age.

Approximately three-quarters of the Colombia research respondents described not being able to access formal financial services. Many older people simply did not know that services and products existed, highlighting an information gap for this consumer group. Many of those who did know about these services had not attempted to access them due to misconceptions and fear about how the products operate along with assumptions, based on hearsay, that they would not qualify, not because they had tried and been refused.

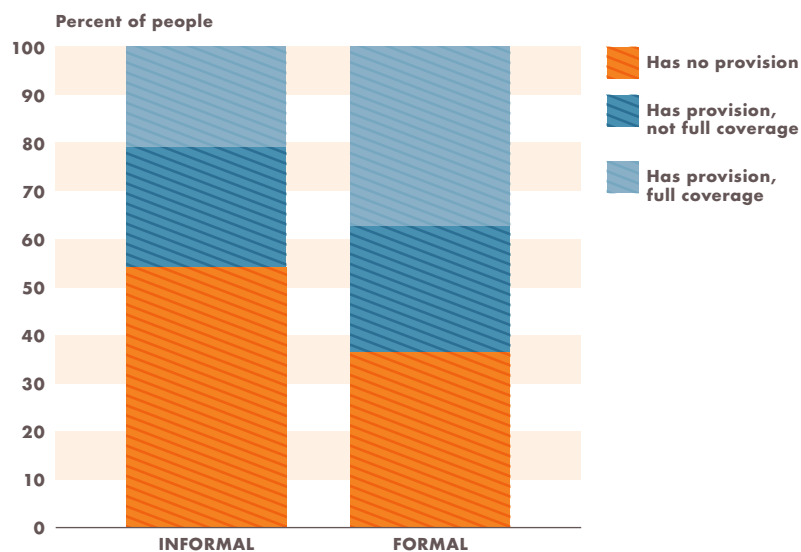
Obtaining credit from formal institutions was seen as particularly difficult in older age, even among the highest income strata. Respondents believed this was related to opinions of the financial institutions' staff about their ability to repay in older age, even though age was never explicitly given as a reason for refusal of credit. Even in the cases where older people in the higher income strata could obtain credit, they were discouraged by the high premiums on credit insurance. Our supply-side research in Colombia suggested that financial institutions set age caps on eligibility requirements for borrowers because institutional operating insurance does not cover disbursement of credit to people above a particular age. While the exact source of

exclusion may vary by institution, age limits seem to be an important factor keeping older people from accessing credit.

Research participants who had accessed credit reported that they were clients of institutions that offered more flexible eligibility requirements. Some of the higher income research respondents had obtained credit through the power company Codensa, which provides credit up to age 72. Some were clients of Banco Agricola and Banco de la Mujer, two financial institutions offering more flexible terms. Banco Agricola does not require credit history and provides initial and ongoing advice and support on safe borrowing in relation to an individual's ability to pay. Banco de la Mujer requires commercial or personal references and proof of payment of utilities.

The demand-side research in Colombia found that many research respondents had a clear idea of the importance of saving, and the majority of older people across all income levels were saving. Others said the income they earned from irregular day labour made saving impossible: *"I'm no longer of working age so what I earn in a day I spend immediately, there is nothing left to save"* (Older man, preferred not to give age, Tabio). Some research respondents said that they were often paid in kind therefore could not save in money: *"You go out in the streets looking for work, and do what you can. You get paid in kind and will go home with some fruits and vegetables"* (Woman, 66, Tomato). Some research respondents reported that they were saving for an emergency and to "fulfill a dream," such as a road trip, almost like a 'rite of passage' in older age. However many of the savings tended to be consumed by a health emergency rather than used for the road trip.

Those in the lower income strata did not use the formal financial system for short-term saving because of the minimum requirement needed to open a savings account (between U.S. \$15–25), high fees, and low interest. Small amounts of cash were instead stored in a safe place in the home. Older women were seen to be the savers in the family (albeit through informal mechanisms) and usually had a small amount of cash available in an emergency such as COP 200,000–500,000 (U.S. \$97–242). Many research respondents also viewed saving as a broader concept than just cash, relating it to investing in tools, machinery, and other assets.

FIGURE 16**Percent of Old-Age Expenses Among People Under Age 60, by Employment, Colombia (2013)**

Note “Informal” and “formal” refer to the sector in which respondents work.

Source Rekha Reddy, Miriam Bruhn, and Congyan Tan, *Financial Capability in Colombia: Results From a National Survey on Financial Behaviors, Attitudes, and Knowledge* (Washington, DC: World Bank, 2013).

Although unable to access formal financial institutions, some research participants reported being part of local rotating savings and credit groups with other older people. These groups offered an alternative to the barriers associated with the formal financial sector.

An important finding from the Colombia case study was the difference in access to the formal financial system between the savings and credit groups that had and had not received training and support. The groups that had received financial education and training on business topics had less fear of the formal financial system. They had started or improved productive activities and were accessing credit. In contrast, the groups that had little training still distrusted the formal financial system and felt unable to meet the demands attached to micro-loans. This demonstrates that older people can benefit from financial education and business training and that savings and credit groups can provide a bridge to more formal services.

Programs such as Colombia Mayor also have the potential to contribute to financial inclusion by linking excluded groups to formal financial services and offering complementary products, including services offered by the non-banking networks such as money transfer agents that distribute the benefits in rural areas and marginalized communities not reached by banks. Use of non-bank distributors is particularly useful for increasing the inclusion of older people who are excluded due to geographic location or mobility.

However, the impact of Colombia Mayor on increasing financial inclusion is currently limited in its present form. For example, while the program has grown in size over the last few years, and there are plans for future expansion, 600,000 older people are currently on the waiting list, and many more are unaware of the program. Furthermore, the payment modalities are not conducive to saving or financial planning. Beneficiaries are required to collect their money from a specific paypoint within 15 days of being notified, rather than having the flexibility to access their funds from any agent as is the arrangement with mobile money accounts.

Information and support seem to be critical factors in increasing access to financial services. In order to reach out to marginalized older people and increase their awareness of available products and services, it is important to understand the channels for communication they commonly use. Existing avenues of information may include local branches of Older Persons’ Associations or Networks which commonly work at community level in a style and language that is familiar. Local radio and community information sessions are important oral channels for non-literate groups and people with visual impairments.

This spotlight on Colombia highlights that older Colombians rely on a variety of strategies to secure an income in older age. These strategies vary across income groups, with those in higher income groups more likely to have income from pensions and family, while those in lower income groups are more likely to continue working, often in irregular, unpredictable jobs. Such insights demonstrate the need for an approach to financial services that recognizes interconnections both across generations and across the individual’s own life course.

Methodology for the Issue Report

ANNEX

1

As the project team began to review the existing research on older age and financial inclusion in developing countries we found that the library is slim. Most sources that highlight financial inclusion for older people are directed at high income countries, or, if addressed to developing countries mainly focus on pension systems. An additional body of research considers physiological issues associated with older age. None of these sources, however, adequately answered the question of the challenges and opportunities of providing financial services to older people at the base of the income pyramid.

To pursue these questions, therefore, we turned to a variety of sources, starting with publicly available data from the United Nations on global demographic change and projected rapid aging in middle income economies. Country-level surveys, primarily from Latin America, provided important information on the income strategies that older adults use in different contexts. Financial inclusion data came from a variety of national and international sources, including the World Bank and national surveys, and reveal the existing inadequacy of financial services.

Original Research

In addition to already available sources, the project team carried out new research during July and August 2014.

▣ **Supply-side.** CFI conducted an online poll of the many financial service providers, support organizations, and policymakers in CFI's community regarding their engagement with older people and the issue of aging.

The survey sample of 350 was self-selected from a population of over 8,000, and while the population included a diversity of stakeholders, the sample itself was made up primarily of providers themselves. The population included endorsers of the Smart Campaign, Financial Inclusion 2020 project stakeholders, Microfinance CEO Working Group members, and Microcredit Summit Campaign members. The results were used to better understand the supply-side perspective on aging and financial inclusion. A copy of the survey and results can be seen in Annex 2.

▣ **Demand-side.** A team of two researchers from HelpAge conducted participatory research and focus groups in Colombia to better understand the income strategies and expenditure needs of older people. The research also provided evidence on the range of financial services available to older people in both rural and urban areas, and included a diversity of ages and income levels. Participatory research techniques were chosen to mitigate power relations between the researchers and participants, to provide a benefit to the participants through information-sharing and awareness-raising, and to provide multiple venues and opportunities for participants to share their experiences. The groups undertook a variety of role-plays, pictorial representations, creative exercises, and opportunities for reflection. The HelpAge researchers conducted 11 sessions, yielding a rich set of recordings, notes, and photographs for analysis.

Online Supply-Side Questionnaire

Name, position, organization, and contact information:

I am a part of a... *

- Financial services provider
- Support organization
- Investor
- Foundation or aid agency
(e.g. development banks, bilateral institution, multilateral institution)
- Government or regulatory body
- Research or academic organization
- Private company
- Student
- Other:

The primary geography in which I operate is...

- North America, Western Europe, Australia
- Sub-Saharan Africa
- Central America and the Caribbean
- South America
- South Asia
- East Asia and the Pacific
- Eastern Europe and Central Asia
- Middle East and North Africa
- Other:

I work primarily in or related to issues concerning financial services.

- Yes **92%**
- No **8%**

My organization provides financial services directly to older adults.

- Yes **64%**
- No **36%**

Do you keep track of the ages of your customers?

- Yes **81%**
- No **19%**

Please explain your answer.

Does your organization ask for customer age in application materials?

- Yes **88%**
- No **12%**

Does your organization track ages of customers in its IT system?

- Yes **63%**
- No **37%**

If you answered yes to either of the above questions, how is this information used? (That is, are people over a certain age automatically excluded from being eligible for a product?)

In your opinion, should age be part of the eligibility requirements?

- Yes **71%**
- No **29%**

Please explain the reasons for your answer.

Is age a consideration in the approval process for any products you offer?

- Yes **67%**
- No **33%**

Are older women treated differently than older men in the approval process?

- ☑ Yes **12%**
- ☑ No **88%**

Please describe how age is used in the approval process. (For example, for which products is age used, in what ways is age considered, etc.)

Should age be a consideration in the approval process?

- ☑ Yes **69%**
- ☑ No **31%**

Please explain the reasons for your answer.

Are there any regulatory barriers to offering products to older adults?

- ☑ Yes **26%**
- ☑ No **74%**

Please explain your answer. (Include references to the specific country regulatory environment to which you refer here, and specific regulations if possible)

Do you offer any products or services that are tailored to older adults in particular?

- ☑ Yes **26%**
- ☑ No **74%**

Please explain your answer.

What, in your opinion, are the top three challenges facing older clients as customers of financial services?

- 1. Health/illness/mortality 45%**
- 2. Income and work 39%**
- 3. Financial capability/literacy 35%**

What are the top three financial products that older adults need?

- 1. Insurance 57%**
- 2. Credit 57%**
- 3. Savings 42%**
- 4. Pensions 22%**

Do you, personally, know an older adult that has had inadequate access to or use of financial services? Or are you an older adult that has had inadequate access to or use of financial services? Please describe the issues encountered. (No need to include a name, but please include demographic information like country, gender, and occupation)

Common responses:

- ☑ Lack of access to services (esp. credit)
- ☑ Unfair treatment from staff
- ☑ Lack of trust in financial institutions

Are you aware of any regulations that create barriers to older adults accessing or using financial services?

Please explain the specific market contexts for such regulations.

Common responses:

- ☑ Age caps
- ☑ Credit life insurance for older people

Is there anything else that you would like to add?

How urgent is the issue of financial inclusion and aging? 5.4

Not at all urgent 1 2 3 4 5 6 7 8 Very urgent

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