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Income development, poverty and pension distribution among older people : recent OECD evidence

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Three questions addressed

1. What were the broad changes in age-specific relative income levels over the past two decades?
2. Did old-age poverty continue to decline?
3. How did the “income package” of older persons evolve recently?

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Conclusions

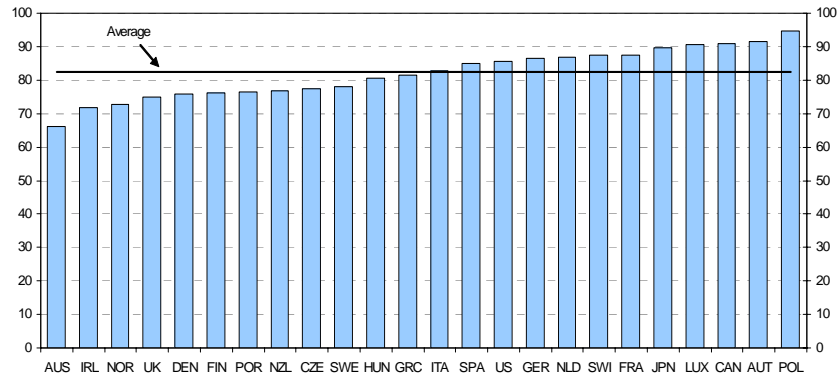
- Recent evidence suggests a need to reconsider longer-term income trends for older people
- Disposable incomes of older persons are no longer increasing faster than those of younger age groups, as they did in the past
- Income poverty among the older generation is rising again in a number of countries, reversing the trend of many years
- The current distribution of private pensions and capital income contribute to inequality among senior citizens

A caveat

- Recent evidence based on OECD study on income distribution and poverty (2005), comparing 1980s up to early 2000 – no newer data available
- Caveat: disposable income used as benchmark – but “income” is not the same as “well-being”:
 - it excludes financial assets
 - it excludes housing wealth
 - it disregards in-kind transfers, e.g. health care
 - it does not capture differences in leisure time and work-related expenses
- Typically, these items are more important for older people. The following indicators therefore underestimate well-being and living standards of elderly

Incomes of older persons 10 to 30 percent below those of the total population

Disposable mean income of persons aged 66 and over, relative to mean income of the total population, around 2000

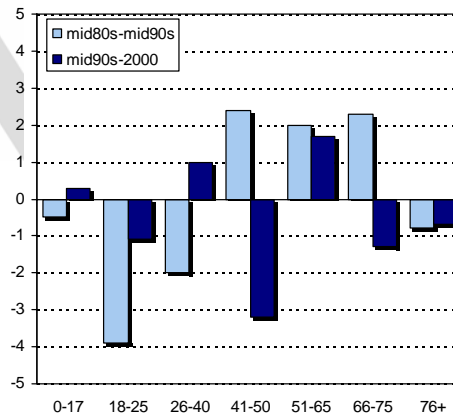


Source: OECD 2005

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Age-specific income trends in recent years differed from those in the late 1980s/early 1990s

Percentage point changes in age-specific relative income levels, OECD average



Source: OECD 2005

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However, diversities across countries are large

Changes in relative income levels for younger and older senior citizens, mid-1980s to mid-1990s and mid-1990s to 2000

	mid-80s to mid-90s		mid-90s to 2000	
	66-75	76+	66-75	76+
Australia			=	=
Austria	+++	=	+	+++
Canada	+++	+++	---	-
Czech Republic			+++	+++
Denmark	+	+	+	=
Finland	=	=	=	---
France	+++	=	---	+
Germany (old Länder)	+	=	+	=
Greece	-	---	+	+++
Hungary			---	+
Ireland	---	---	=	---
Italy	+++	+++	=	---
Japan	-	---	=	=
Luxembourg	+++	-	---	=
Netherlands	-	-	=	+
New Zealand	---	+	+	-
Norway	+++	=	-	=
Poland			+	---
Portugal			=	+
Spain	-	=	---	---
Sweden	+	+++	---	---
United Kingdom	+++	+	-	-
United States	-	---	=	=
OECD	+	=	=	=
	2.3	-0.8	-1.3	-0.7

Source: OECD 2005

Note: The table shows percentage point changes in income levels of older age groups relative to the total population.

+++ (---) denotes an increase (decrease) of more than 5 percentage points.

+ (-) denotes an increase (decrease) between 2 and 5 percentage points.

= denotes an increase (decrease) of less than 2 percentage points

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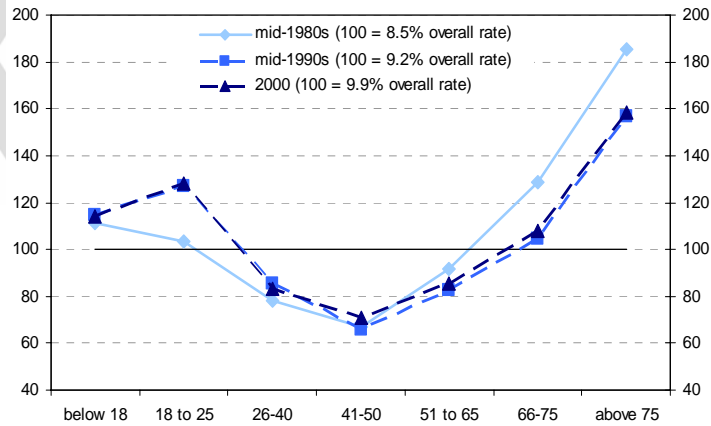
Summarising relative income developments

- Relative incomes of youths (18 to 25) continued to fall as in the previous decade, but at a much lower pace. Relative incomes of children (people aged less than 18) remained virtually stable over the whole period
- Prime-age adults (aged 41 to 50) experienced significant losses in relative income in the second half of the 1990s, which exceeded the gains of the preceding decade.
- Persons in later working-life, or early retirement (51 to 65) experienced further improvements in their relative incomes.
- Older persons age 66 to 75 recorded a decline in their relative income, which contrasts with sizeable gains in the previous decades, while the relative position of persons aged 76 and over continued to decline marginally
- Across countries, recent trends are quite diverse for the very elderly, with substantial increases in relative incomes in Austria, the Czech Republic and Greece, but large falls in Finland, Ireland, Italy, Poland, Spain and Sweden.

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The significant improvement in old-age poverty came to an halt

Age-specific poverty risks (poverty rate of entire population = 100),
OECD average



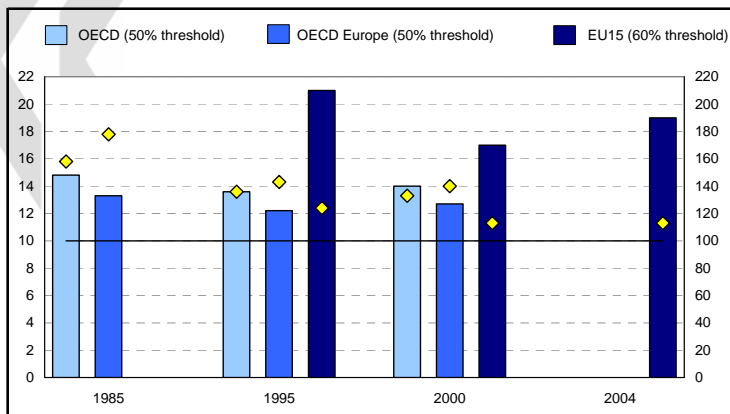
Source: OECD 2005

Note: Relative poverty risk defined as age-specific poverty rate divided by total poverty rate *100.

Poverty rates defined as percentage of persons below 50% of median disposable income of the entire population

Similar trends in OECD and European region

Income poverty rates (columns, left-hand scale) and relative poverty risk
(diamonds, right-hand scale) for older persons, OECD and European region

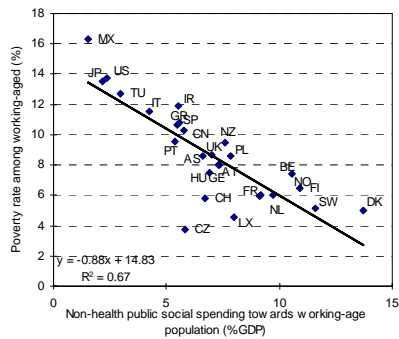


Source: OECD 2005 and EU (2006), Income and living conditions – pensions indicators

Note: Relative poverty risk defined as income poverty rate of older people divided by total income poverty rate *100.

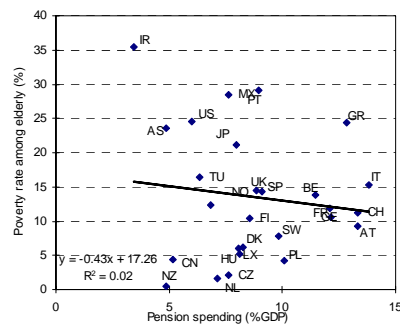
Public transfers and poverty: retirement-age and working-age population

Social non-health spending and relative income poverty among the working-age population



Source: OECD 2005

Public pension spending and poverty among the retirement-age population



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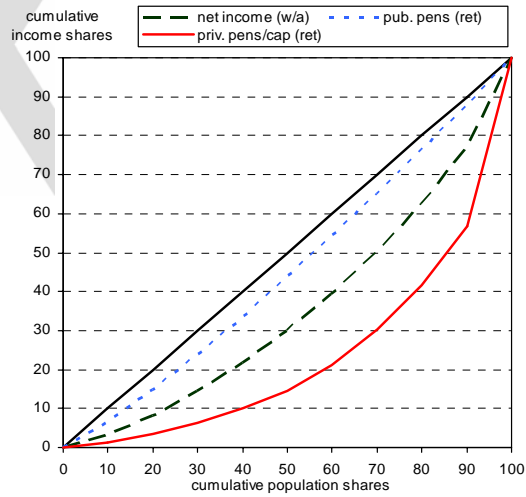
Summarising poverty developments

- During the 1980s and early 1990s, a poverty population which used to be disproportionately elderly changed to one which is more weighted towards younger households with children
- However, this trend did not continue further, as poverty rates of both the total and the retirement-age population increased since the mid-1990s.
- Again, country experiences were diverse, with almost as many countries experiencing a decline in old-age poverty recently (e.g. Austria, Norway and some of the new EU members) as those witnessing increases (e.g. Australia, Ireland, Spain).
- The relative poverty risk of persons aged 66 to 75 is not higher than for the total population, while it is 1.6 times higher for persons aged 76 and over.

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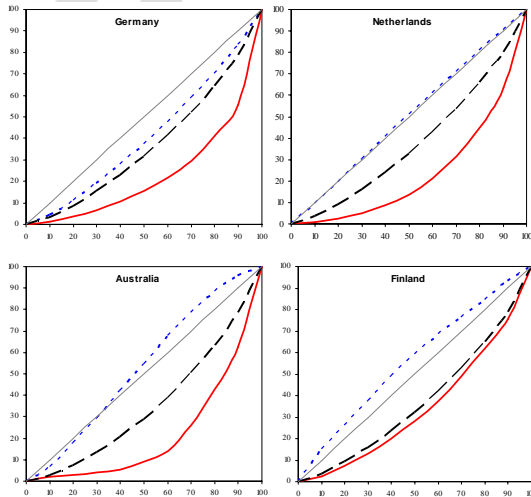
Public pensions are distributed more equally than other income sources of older people

Distribution of public pensions, capital income and private pensions for the retirement-age population, and net income for the working-age population, OECD average, 2000



Source: OECD 2005

Pension distribution: five country clusters



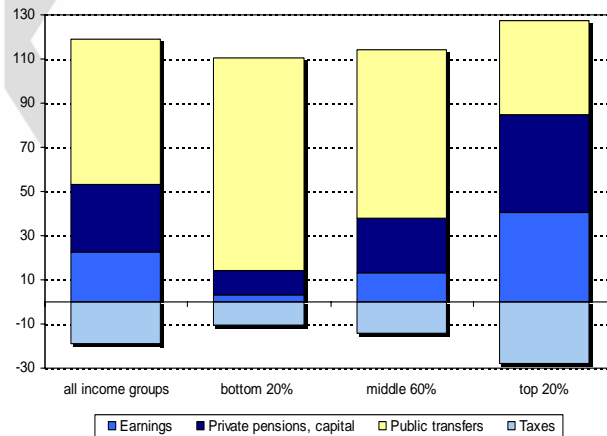
- 1) Pension distribution follows net earnings: Fra, Ger, Grc, Ita, Lux, Por, Spa, Swi, Swe
- 2) Pension distribution follows 45°-line: Can, Den, Net, Nzl, UK
- 3) Pension distribution between 1) and 2): Hun, Pol, Nor, US
- 4) Pension distribution middle-income biased: Aus, Cze, Irl, Jpn
- 5) Progressive pension distribution: Fin

Source: OECD 2005

Note: The data plot cumulative shares of public and private pensions (including capital) for the elderly and net earnings for the working-age population against cumulative population shares.

A balanced mix of income streams only at the top of the income distribution

Income composition of the elderly, by income groups, OECD average around 2000



Source: OECD 2005

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How did the “income package” of older persons evolve recently?

- Over the recent years, the share of private pensions and capital incomes in total incomes of the elderly slightly increased in about half the OECD countries
- However, with the exception of Finland, the increase in private pension and capital income shares affected primarily richer and/or middle income groups.
- Public transfers continue to account for almost all of the disposable income of the bottom quintile of the elderly population and close to 80% of the incomes of the middle income classes.
- For the promotion of diversifying incomes in old-age, careful policies are needed to avoid a further impetus to rising old-age income inequality.

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More information

- OECD (2005), *Society At a Glance : OECD Social Indicators* (www.oecd.org/els/social/indicateurs/SAG)
- OECD (2005), Förster and Mira d'Ercole, « *Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s* », Working Paper no.22 (www.oecd.org/els/workingpapers)
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