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What are the prospects for the standard of living of retirees?

Living standards in old age: Current outcomes and future prospects

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What constitutes an "adequate" income in old age is a contentious issue. The scope of the debate encompasses both the analysis of older peoples' incomes and fundamental questions in the design of retirement-income systems.

A broad definition of adequacy is analysed in section 1 of this paper. Here, incomes of older people (aged over 65) are compared with population incomes. This section also sets out data on income sources of older people and explores trends in retirement incomes. The data presented here are a broad measure of "adequacy".

Section 2 focuses on older people with low incomes, presenting data on old-age poverty in Organisation for Economic Co-operation and Development (OECD) countries. This analysis embodies a narrower definition of "adequacy": it compares older people's incomes a poverty line rather than comparing their living standards, on average, with the population as a whole. In addition to overall figures, the prevalence of poverty is compared between men and women.

Section 3 looks forward to explore how the patterns of incomes and poverty of older people might change in the future as a result of social and economic change, and pension reforms.

Section 4 concludes and looks at the policy implications of the paper's main findings.

¹ Monika Queisser is Head of Social Policy and Edward Whitehouse leads the pension team in the OECD's social policy division. This paper uses the analysis in the special chapter on "Incomes and poverty of older people" in the most recent edition of *Pensions at a Glance* (OECD, 2009). In turn, this draws the database underlying the recent report on inequality and poverty, *Growing Unequal?* (OECD, 2008).

The views expressed are those of the authors alone: they commit neither the OECD nor any of its member governments.

1. Incomes of older people

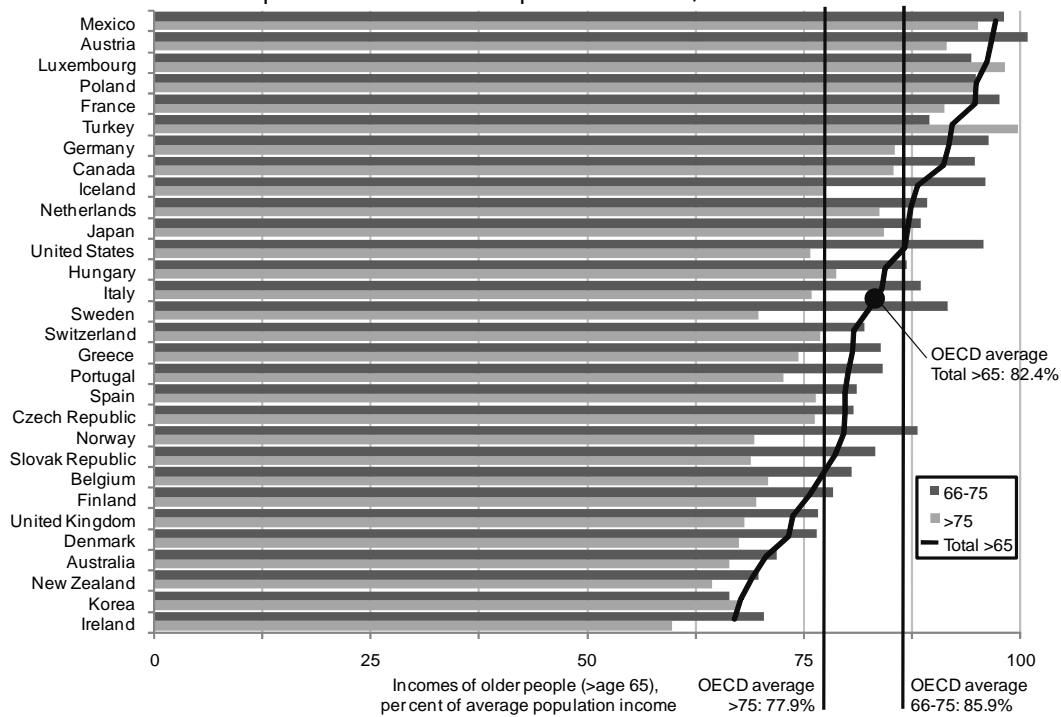
Incomes are measured from the data in national household surveys,² carried out in the mid 2000s. They are calculated, following standard methods:

- Income comprises earnings, self-employment income, income from capital (dividends, interest etc.), rental income and public transfers (such as retirement, family, unemployment, housing and disability benefits).
- The measure used is "disposable" income, i.e., net of personal income taxes and social security contributions.
- Incomes are aggregated on a household basis and household members assumed to share resources.
- Total household income, divided among household member(s), is "equivalised" to adjust for differences in household size. For example, the OECD's adjustment effectively says that two people can live as cheaply as approximately 1.4 people living alone.

Figure 1 shows that incomes of older people, aged over 65, were, on average, 82.4% of population incomes in the mid 2000s (the black line). But there is significant variation between countries. Average income of all over 65s is the highest in Mexico and Austria, at around 97% of population incomes, compared with just 66% in Ireland. Other countries with relative low incomes of older people – between two-thirds and three-quarters of the population average – are Australia, Denmark, Finland, Korea, New Zealand and the United Kingdom. At the opposite end of the scale, France, Luxembourg and Poland all have older people's incomes of around 95% of the national averaged equivalent household disposable income. Near to the OECD average are Hungary, Italy, Sweden, Switzerland and the United States.

² See OECD (2008). Table 1.A1.1 for information on the surveys used, the time that data were collected and adjustments made to the data.

Figure 1. Relative incomes of older people
Equivalent household disposable income, mid-2000s



Note: countries are ranked by the relative incomes of all aged over 65.

Source: OECD (2008), Figure 2.4.

There is some relationship between the incomes of older people and public expenditure on old-age benefits, especially when account is taken also of differences between countries' demographic situation. A 10 per cent increase in public expenditure is associated with a 1.5 percentage point increase in older people's relative incomes, conditional on the old-age dependency ratio.

The precise design of retirement-income systems also has an effect. For example, Australia, Ireland, New Zealand and the United Kingdom all have low relative incomes for old people and mandatory old-age provision that is focused on adequacy rather than replacing a certain level of former earnings. But the same is true of Canada and the United States, which have above average old-age incomes relative to the population.

Austria, France, Luxembourg and Poland have – for the current generation of retirees, at least – large public, earnings-related pensions and they have among the highest relative incomes in old age. But Finland and Spain have a similar pattern of pension entitlements and yet relative incomes of older people are below the OECD average. Korea's low old-age incomes are primarily because the public pension scheme was only introduced in 1988, so current retirees have little or no entitlements.

What are the implications of these results (based on equivalent disposable incomes) for a comparison of living standards in retirement compared with those during working life? There are other factors that need to be taken into account when interpreting the statistics:

- Retirees do not bear the costs of working: commuting, clothing, meals, etc.

- Housing costs can be very different for people of pension and working age. Many or most retirees in OECD countries own their own homes. Unlike people of working age, older home owners have generally paid off their mortgages.³
- Older people generally have greater financial wealth than people of working age. Although the income from dividends and interest on financial assets is included in disposable income, asset values are not. Many people draw down these assets to support consumption in retirement.⁴
- The focus on cash incomes publicly provided goods and services, such as healthcare, housing and social services, which can be particularly important for older people.⁵

All of these effects on the relative economic well-being of older people are, unfortunately, hard to capture. But they must be borne in mind when interpreting the statistic that older people's incomes are 82.4% of the population's, on average in OECD countries.

Do the "older old" have the lowest incomes?

The bars in Figure 1 show the results separately for two groups of older people: aged 66-75 and aged over 75. On average across the OECD, the "younger" old have incomes of nearly 86% of the population average while, for the "older" old (aged 75+), this figure is just 78%. Again, there is significant variation. The largest age differences in pensioners' incomes are found in Iceland, Ireland, Norway, the Slovak Republic, Sweden and the United States. The older old have larger incomes than the younger old in Korea, Luxembourg and Turkey and only slightly lower in Mexico and Poland.

There are many reasons why relative incomes of the older old are lower than those of the younger old. First, there is a *cohort* or generational effect. Nearly all OECD countries have some form of earnings-related pension provision. When the over 75s retired, their wages were on average around 10%-25% lower in real terms than average earnings when the 66-75 age group retired. This will be reflected in earnings-related benefits. Where real earnings have been growing very rapidly in recent years – in Ireland and Spain, for example – there will be larger age differentials in relative incomes. This is one of the main reasons for the large differences between incomes of the two age groups in Ireland and the Slovak Republic, for example.

Secondly, there is a pure *age* effect due to the way pensions in payment are indexed to allow for changes in costs and standards of living. (The cohort effect comes from the fact that pensions of new retirees are growing in line with age growth; the age effect occurs because of the way the relative value of the pension evolves after retirement.) Indexation policies and practices have changed over time (see below). However, most OECD countries now index pensions in payment to prices, protecting the purchasing power of pensions in payment. Again, however, countries that have seen rapid increases in real earnings – such as Ireland, the Slovak Republic and Spain – will also have seen a strong decline with age in relative incomes during retirement.⁶ In contrast, Luxembourg, indexes pensions to average earnings.

³ OECD (2008). Figure 10.1.

⁴ OECD (2008). Chapter IV.10 shows the distribution of wealth by age for seven countries. Disney and Whitehouse (2003) discuss alternative measures of economic well being that take account of wealth.

⁵ OECD (2008). Chapter IV.9 analyses the distribution of publicly provided services.

⁶ See Whitehouse (2009a) for an analysis of pension-indexation policy and related issues.

This policy is one reason why incomes of the oldest old are higher than those of the 66-75 age group.

Thirdly, there is a *compositional* effect. For obvious reasons, the group of the older old consists mainly of people with systematically longer-than-average life expectancy. Women, for example, are expected to live 5.7 years longer than men.⁷ Women therefore predominate among the old, making up 53% of 66-75 year olds and 60% of the over 75s on average in OECD countries. They will tend to have lower pensions in their own right than men, because of lower wages, shorter hours and longer breaks in their careers. Many, of course, will be widows, and so their circumstances will depend on the provisions for survivors' benefits. The largest age differences in old-age incomes (in Iceland, Norway, Sweden and the United States) are probably due mainly to rules for survivors' pensions.

Another compositional effect arises because richer people tend to live longer than poorer people do.⁸ In higher-income OECD countries, this effect is rather small and socio-economic differences in mortality during retirement are much smaller than for people of working age. Nevertheless, the fact that poorer men tend to die earlier than most women and richer men means that there are many widows at older ages who were married to men with low pensions and so they have low survivors' benefits. The impact of socio-economic mortality differentials is greater in lower-income OECD countries. In Turkey, for example, people with low incomes in their working lives were often not covered by the pension system. So, as richer people live longer, more of the over 75s have a pension entitlement, hence the significantly higher incomes of over 75s than the 66-75 age group. Similar effects are at work in Korea and Mexico.

What are the sources of older people's incomes

Public transfers – in the form of earnings-related pensions, resource-tested benefits, etc. – make up 60% of older people's incomes on average in the 27 OECD countries shown in Figure 2. The over 65s are most reliant on the state for their incomes in France and Hungary: 85% of their incomes come from public transfers. Around three-quarters or more of old-age income is also state-provided in Austria, Belgium, the Czech and Slovak Republics, Luxembourg and Poland.

At the other end of the spectrum, public transfers are just 15% of average old-age income in Finland. However, this is because the mandatory occupational plans are here included as capital income, whereas the national accounts and *Pensions at a Glance* treat these schemes as part of the public sector. The share of old-age income derived from public transfers is also very low in Korea: this is because the public pension scheme was only established in 1988. Public transfers also provide less than half of old-age income in Australia, Canada, Japan, the Netherlands, the United Kingdom and the United States.

In the east-Asian OECD countries, work – employment and self-employment – provides a very large proportion of income of the over 65s: 44% in Japan and 59% in Korea. Income from work also accounts for around a quarter or more of old-age incomes in another six economies: the Czech Republic, Greece, Iceland, Portugal, Spain and the United States. In some cases, this probably reflects the fact that many people have not had full contribution histories in the public pension scheme and so keep on working to make up for these gaps. In

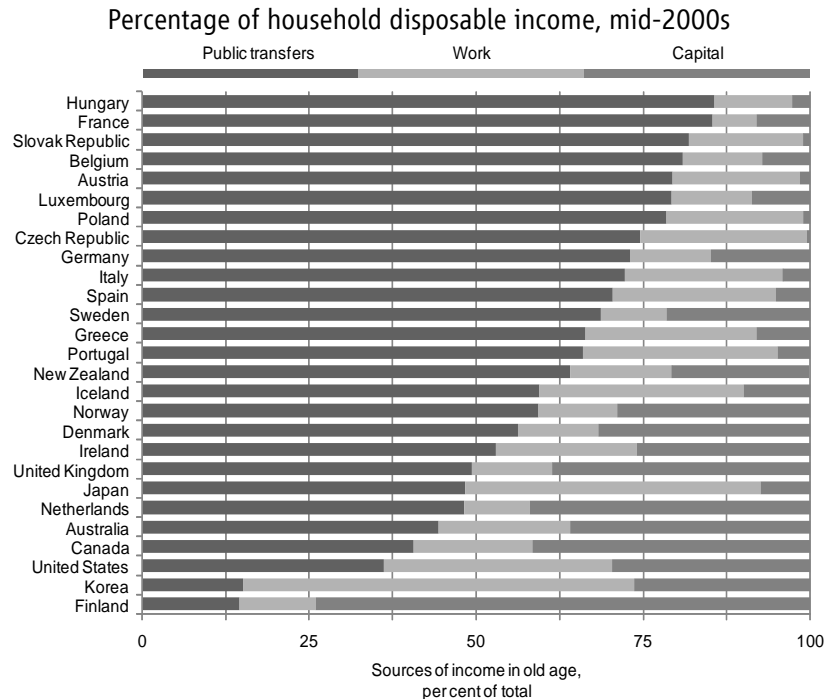
⁷ See the indicator of "Life expectancy" in Part II of OECD (2009).

⁸ See Whitehouse and Zaidi (2008) for a survey of the literature and new evidence on socio-economic differences in mortality of older people in Germany, the United Kingdom and the United States.

Iceland and the United States, the normal pension age is above age 65. In contrast, income from work accounts for less than 10% of older incomes in France, the Netherlands and Sweden.

Income from capital – mainly in the form of private pensions – plays the largest role in providing old-age incomes in Australia, Canada, Denmark, the Netherlands, the United Kingdom and the United States (Finland apart, for the reasons set out above). In these countries, capital income accounts for around 30% or more of older people's incomes.

Figure 2. Sources of incomes of older people



Note: income from work includes both earnings (employment income) and income from self-employment. Capital income includes private pensions as well as income from non-pension savings.

Source: OECD (2009), Figure 2.3.

It is important to bear in mind that the data are average values for older people as whole. The composition of incomes varies enormously across the income distribution: poorer older people derive income almost exclusively from public transfers, while private pensions and other capital income play a more significant part only among richer pensioners.⁹ As the role of the latter sources of retirement income has been growing, this may give further impetus to rising inequality of incomes in old age.

2. Old-age income poverty

For the purposes of international comparison, the OECD treats poverty as a relative (rather than an absolute) concept. It is relative in two senses of the word. First poverty is measured against a yardstick dependent on median household incomes. Secondly, the poverty thresholds are country-specific, so poverty is measured against prevailing norms for living standards in a particular country at a particular time. This means that a person classified poor in a prosperous OECD country will have a higher income than many of the non-poor in other

⁹ See Förster and Mira d'Ercole (2005) and Disney and Whitehouse (2001). Chapter 7, for example.

countries that are less prosperous overall. The general approach of measuring poverty relative to a proportion of median income, adopted by the OECD for its cross-country analysis, is widely used elsewhere: for example, in the rates of poverty risk in the framework of the European Union's social reporting system.

Recent analysis (OECD, 2008), sets the threshold for poverty at 50% of median, equivalised household disposable income. People with incomes below this level are counted as "income poor".¹⁰

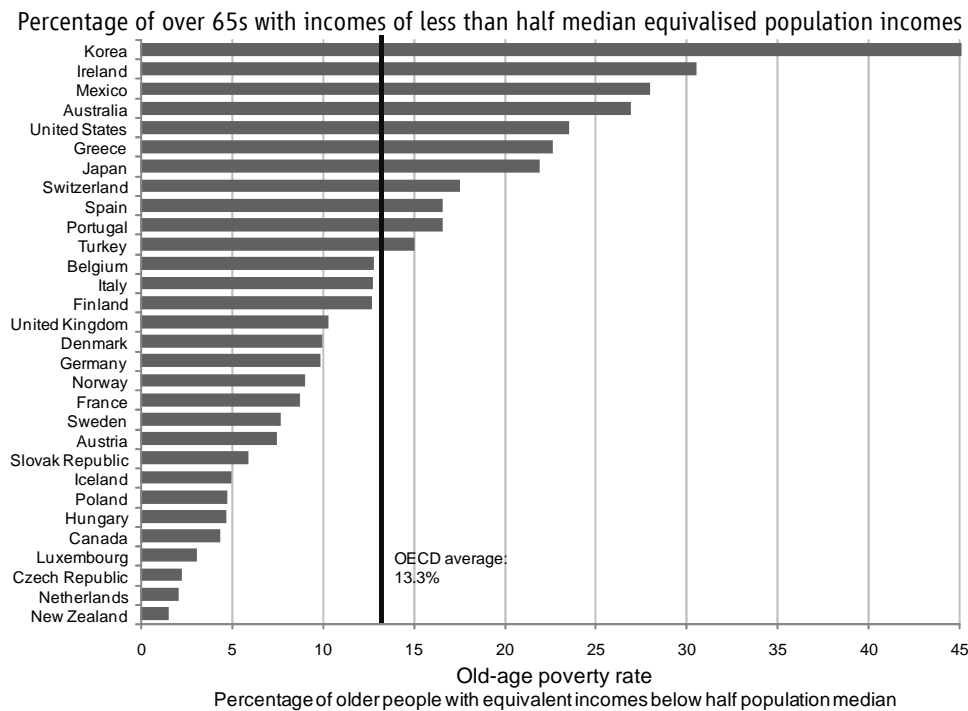
In the mid-2000s, 13.3% of older people (aged over 65) were income poor on average in OECD countries. The old-age poverty rate was much the highest in Korea, at 45% (see Figure 3). Other countries with a high poverty rate for older people – above 20% – are Australia (27%), Greece (23%), Ireland (31%), Japan (22%), Mexico (28%) and the United States (24%). There is a group of countries clustered a little above the average for OECD countries: Portugal, Spain, Switzerland and Turkey, with 15-18% of older people living in poverty. Just below the OECD average are Belgium, Finland and Italy. The eight countries with the fewest poor old people – with income poverty rates of less than 5% – are Canada, the Czech Republic, Hungary, Iceland, Luxembourg, the Netherlands, Poland and New Zealand.

One of the main drivers of differences in old-age poverty rates is the level at which old-age safety-net benefits are set. In Australia, for example, the full age pension in 2005 was Australian Dollar (AUD)12,700 a year, lower than the poverty threshold of AUD14,770 for a single person.¹¹ The difference between the two is larger in Ireland: Euro (EUR)8,870 for the basic pension and EUR10,775 for the poverty threshold. In both countries, there are many people clustered around the income level of these programmes, which are 86% of the poverty threshold in Australia and 82% in Ireland. This explains why these countries have among the four highest old-age poverty rates.

¹⁰ OECD (2008), Annex 5.A1 shows the thresholds for low income for different family types in both national currencies and US dollars (at purchasing-power-parity exchange rates).

¹¹ Benefit levels for 2005 are taken from the OECD information; the country profiles in Part III of OECD (2009) give values for 2006. The level of poverty thresholds for 2005 is taken from OECD (2008). Table 5.A1.1.

Figure 3. Old-age income poverty rates, mid-2000s



Source: OECD income distribution database. See OECD (2008), *Growing Unequal?* Table 5.3.

In contrast, the basic pension in New Zealand, of New Zealand Dollar (NZD)16,100 a year in 2005, was much higher than the poverty threshold of NZD13,040 for a single person. In the Netherlands, the basic pension was just a little under the poverty threshold of EUR11,500 in 2005. Given that coverage of these schemes is near universal (because they are residency-tested), it is unsurprising that old-poverty rates are the lowest in these two countries.¹²

Are older people more likely to be poor?

One explanation for the pattern of old-age poverty described above may lie in the fact that incomes are distributed less equally in some countries than others during working lives and that this persists into retirement. Figure 4 compares rates of income poverty of older people (on the vertical axis) with those of the population as a whole (horizontal axis). Thus, countries above the line have higher old-age poverty than the population as a whole. In countries below the line, the old are less likely to be poor. There is indeed a strong, positive correlation between old-age and general poverty, but there remain many cross-country differences in the relationship between the two.

On average in OECD countries, the population poverty rate – of 10.6% – is below the old-age poverty rate – of 13.3%. Older people are less likely to be poor than the population as a whole in 11 countries. The difference is particularly large in Canada, New Zealand and Poland, where population poverty rates are in the 10%-15% range while poverty of the over 65s is 5% or less. Older people are also significantly less likely to be poor in the Czech Republic, Luxembourg and the Netherlands.

¹² Box 2.1 of OECD (2009) and Pearson and Whitehouse (2009) provide more detailed data on the level and coverage of basic, resource-tested and minimum retirement benefits.

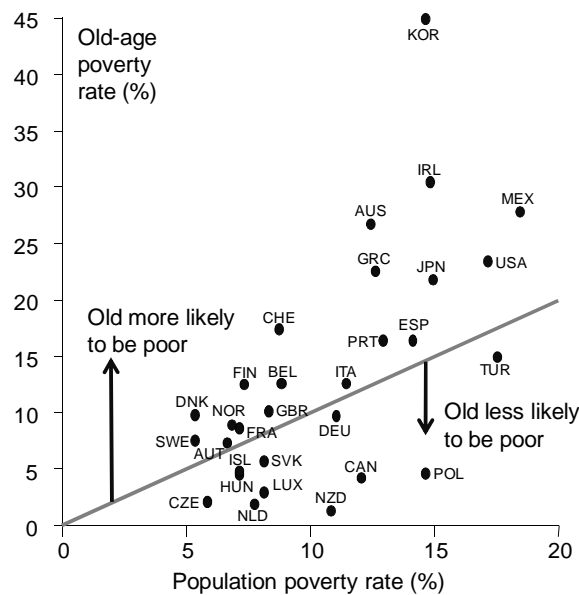
Of the 19 OECD countries where old-age poverty is relatively more widespread, the difference between poverty rates of the over 65s and the population is fairly small in six of them: France, Italy, Norway, Spain, Sweden and the United Kingdom. However, the differences are large in eight countries. Korea again stands out, with three times as many of the over 65s living in poverty as the population as a whole. In Australia, Ireland and Switzerland, old-age poverty rates are double those of the population, and the differences are also significant in Greece, Japan, Mexico and the United States.

As discussed above, one of the main drivers of these cross-country differences lies in the level and coverage of safety-net benefits. This explains relatively low risk of poverty of older people in Canada, Luxembourg, the Netherlands and New Zealand. Similarly, the much higher poverty risk of older people relative to the population occurs in countries with weaker safety nets. In addition to Australia and Ireland (discussed above) safety-net benefits are worth only around 34% of the poverty threshold in Greece, 53% in Japan and the United States and 75% in Switzerland.

It is important to remember that these figures are based on measures of income poverty. Alternative measures of poverty, looking at people's access to basic needs, provides a rosier picture of poverty risks in old age in many countries.¹³

Figure 4. Income poverty rates of older people and the population, mid-2000s

Percentage with incomes of less than half median equivalised population incomes



Source: OECD (2008), Tables 5.1 and 5.3.

Are older women more likely to be poor than older men?

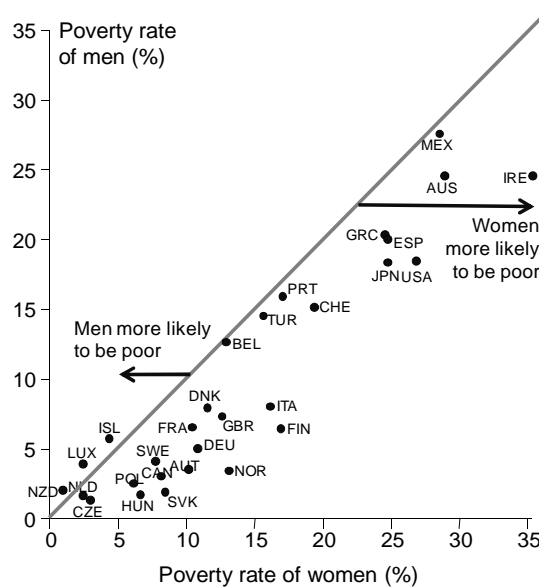
Older women generally have a much higher poverty rate than older men in OECD countries. On average, older women have a poverty rate of around 15%, compared with around 10% for older men. The only exceptions are in three countries with low overall poverty rates for older people: Iceland, Luxembourg and New Zealand (Figure 5). In Luxembourg and New Zealand, this probably reflects the fact that social pensions (minimum and basic, respectively) are

¹³ See Box 2.2 in OECD (2009) and OECD (2008), Chapter III.7.

among the four highest relative to average earnings in their economies. However, in a further five countries, the poverty rate for older women is only a little larger (one percentage point or less) than for men: Belgium, Mexico, the Netherlands, Portugal and Turkey. The largest differences between old-age poverty for men and women are in Ireland, Finland and Norway, where poverty rates for women are 10 percentage points higher than for men. The differences are also large and significant in Austria, Italy, Japan, the Slovak Republic and the United States.

Figure 5. Income poverty rates of older people by sex, mid-2000s

Percentage with incomes of less than half median equivalised population incomes



Source: OECD (2008), Figure 5.6.

3. Looking forward

This paper has analysed the economic situation of today's older people, looking at the level of their incomes and the extent of old-age poverty. Today's retirement incomes depend on the rules of pension systems in the past and on pensioners' job and earnings history. This underlines the long time horizon involved in analysing pensions. This begs the question of how the position will look in 20 or 40 years' time, when today's prime-age and younger workers will be retiring. The experience of these generations of current workers will look very different from those of their parents and grandparents for three reasons: social change, economic change and pension reforms.

Changes in societies and economies

The most significant economic and social change has been the changing role of women. As discussed above, the older people whose incomes are analysed in this paper entered the labour market in 1940 or earlier. This was a period when the family model of the single, male breadwinner was strong. Today, the gap between the sexes in employment has narrowed. Women now start a family later: the average age when mothers had their first child in 1970 was 24, compared with nearly 28 in 2005. Young women in 1970 had an average of 2.7 children, in contrast with just 1.65 in 2005. Women now have fewer children, give birth later and spend less time out of the labour market caring for children.

The gap between the sexes in pay has also fallen, as a result of anti-discrimination legislation, changing social attitudes, smaller gender differentials in education and qualifications, and longer working hours for women. The result of this change is that, generation by generation, more women will earn pensions in their own right and their value will be greater. The pattern of lower old-age incomes and wider old-age poverty of women observed among today's retirees should be less stark in the future.

Another social change affecting women has been the rise in divorce. Whilst a few countries allow for pensions to be split between couples on divorce, even these rules are relatively recent. Many women moving into retirement in coming years will no longer be able to rely on survivors' benefits, for example. More widespread divorce has made lone parenthood more prevalent. Lone parents tend to have low incomes because of caring responsibilities and lack of affordable child care.

Turning to the economy, many countries experienced persistent, long-term unemployment into the 1990s. Labour markets have much improved in recent years. However, the ongoing economic crisis seems likely to have a strong impact, in the short-term at least. The financial crisis, too, will have profound implications for many retirees over the next 5-10 years.¹⁴

Changes in pension systems

Pension systems have also been subject to change in recent times, affecting most OECD countries.¹⁵ The analysis here focuses on the impact of these changes on the pension entitlements of individuals with different levels of earnings. This is, in part, a stylised exercise: it asks, what would the pension entitlements of a worker entering the labour market in 2006 have been, had pension reform not taken place? It then compares this with the results for the same individual under the current rules, including any changes that are being phased in. If there have been multiple reforms, the analysis aims to show the cumulative effect of changes.

Table 1 presents the results for replacement rates: the ratio of pension during retirement to earnings when working. It shows these in gross and net terms (after taxes and contributions). Results are provided for three earnings levels: 50%, 100% and 150% of the economy-wide average. The 20 countries shown in the table can be divided into four groups.

First, one of the key motives for pension reform has been to improve the long-term financial sustainability of pension systems. Eight countries have achieved this through ***across-the-board cuts*** in benefits, which apply equally (or almost equally) to low, middle and high earners alike. This applies to Austria, Finland, Germany, Italy, Japan, Korea, Portugal and Turkey. Gross pension entitlements for people under the reformed rules will be an average of 22% lower for full-career workers than under the pre-reform rules in these countries. The largest cuts, of around 40% will be in Korea and Portugal, with more modest changes of 10-25% in the rest of this group.

A second group of countries has also cut benefits but these reforms have ***protected low earners*** from all or most of the reduction in benefits. This group comprises France, Mexico and Sweden. The reform in Mexico, for example, will cut pensions by 50% for average earners compared with less than 25% for low earners (with half-average earnings). The cuts for average earners in France and Sweden are approximately 20%, but they are only around 5% for low earners.

¹⁴ See "Pension systems during the financial and economic crisis" in OECD (2009) and Whitehouse (2009*b*).

¹⁵ See Whitehouse *et al.* (2009); OECD (2009), Part I.3 and OECD (2007), Part II.1.

The third set of countries has moved towards a *stronger pension-earnings link*, the opposite direction of the second group. In Hungary, Poland and the Slovak Republic, the redistributive features of the new pension system are much smaller than the previous one. Pensions for low earners will be cut substantially: by 25% in Poland and 13% in the Slovak Republic. The cuts for average earners will be small: less than 5%. High earners (at 150% of average earnings) will receive higher pensions under the new rules than they would have done under the old. In Hungary, replacement rates are higher after reform at all earnings levels, but the increase in pension is greater for higher earners.

Finally, countries with *higher pensions* after reform make up a fourth group. In Australia and Norway, this is because private pensions have been made mandatory. Previously, private pensions had broad coverage in both countries, but this measure will ensure that many low-to-middle income workers are now covered by private pensions. In New Zealand, the pension age was increased but the level of benefit was unchanged. In the Czech Republic and the United Kingdom, pension ages will also be increased, but this will allow people to build up larger pension entitlements. In addition, the United Kingdom's public, earnings-related pension scheme will gradually move to a flat-rate benefit. Low earners will see a large increase in benefits – nearly 25% – while the gains for low and middle earners will only be around 4%. In Belgium, the higher replacement rate arises under the standard assumption of retirement at the normal pension age (of 65) due to an increased pension bonus paid to people who work between 62 and 65.

Table 1. *Impact of pension reforms on individual entitlements*

Gross and net replacement rates under pre- and post-reform rules, per cent

Individual earnings :	Gross replacement rate						Net replacement rate					
	Pre-reform			Post-reform			Pre-reform			Post-reform		
	0.5	1	1.5	0.5	1	1.5	0.5	1	1.5	0.5	1	1.5
Australia	46.2	23.1	15.4	67.0	41.6	33.1	55.3	30.4	21.8	80.2	53.1	41.8
Austria	90.0	90.0	85.9	80.1	80.1	76.4	98.4	99.2	95.1	90.5	90.3	86.3
Belgium	54.8	40.4	31.4	58.1	42.0	32.5	74.2	62.1	50.6	78.7	63.7	51.7
Czech Republic	72.1	45.0	32.9	79.2	49.7	36.4	86.7	58.1	44.6	95.3	64.1	49.4
Finland	69.9	66.2	65.2	66.5	56.2	56.2	75.9	71.4	72.4	73.2	62.4	63.8
France	64.7	64.7	58.4	61.7	53.3	48.5	79.7	78.2	70.8	76.2	65.7	60.2
Germany	47.9	47.9	46.5	43.0	43.0	42.6	56.4	66.6	66.4	59.2	61.3	60.3
Hungary	69.9	57.7	53.6	76.9	76.9	76.9	85.9	83.2	79.1	94.3	105.5	99.2
Italy	90.0	90.0	90.0	67.9	67.9	67.9	99.1	99.1	99.2	74.8	74.8	77.1
Japan	56.5	40.6	35.3	47.1	33.9	29.4	55.8	41.0	37.0	51.4	38.7	33.9
Korea	100.0	69.3	56.0	64.1	42.1	33.6	105.9	74.9	61.6	68.8	46.6	38.7
Mexico	72.5	72.5	72.5	55.3	36.1	34.5	73.4	76.5	83.2	56.0	38.0	39.6
Norway	62.5	51.9	41.9	66.2	59.3	49.8	80.4	62.0	52.3	76.7	69.3	60.6
New Zealand	77.5	38.7	25.8	79.3	41.1	29.0	77.5	38.7	25.8	79.3	41.1	29.0
Poland	81.2	62.9	56.8	61.2	61.2	61.2	97.1	76.9	69.7	74.4	74.9	75.0
Portugal	91.3	89.9	88.5	54.8	53.9	53.1	106.1	112.0	110.8	63.7	69.6	72.0
Slovak Republic	65.0	58.9	39.3	56.4	56.4	56.4	76.4	75.9	52.2	66.3	72.7	74.9
Sweden	82.5	78.6	76.5	76.6	61.5	75.6	84.5	80.3	81.9	79.3	64.1	81.2
Turkey	107.6	107.6	107.6	86.9	86.9	86.9	150.0	154.4	157.9	121.2	124.7	127.1
United Kingdom	41.1	29.7	20.6	51.0	30.8	21.3	51.9	39.8	28.3	63.8	40.9	29.2

Source: OECD pension models. See also OECD (2007), Pensions at a Glance, Part II.1.

4. Conclusions

There are large differences in the economic well-being of older people in OECD countries. In some of them, older people's incomes are, on average, almost the same as the population as a whole, once differences in household size is taken into account. In others, older people have to get by on incomes of just two-thirds of the population average. The proportion of pensioners living in income poverty varies even more. In some countries, old-age poverty is virtually non-existent, while in others more than 40% of older people are poor. Even in countries with relatively low numbers of poorer pensioners overall, there are still pockets of old-age poverty, particularly among the oldest old, women and those living alone.

The findings are summarised in Table 2, which compares poverty rates and relative incomes of older people. At the top right are six countries with low rates of poverty and high old-age incomes. Yet these countries have radically different pension systems. At the other end of the spectrum lie Australia, Korea and Ireland, which have low old-age incomes and high poverty rates. Greece, Japan Portugal, Spain, Switzerland and the United States also have high old-age poverty rates, but incomes of older people are towards the middle of the distribution. In Belgium, Denmark, Finland, Norway and the United Kingdom, relative incomes of older people are low while poverty rates are towards the middle of the range. France, Germany and Turkey also have mid-range poverty rates for older people, but high old-age incomes overall.

These findings are at least suggestive of policy directions. Low incomes and high poverty of older people indicates that governments might consider redistribution from the working age population to retirees. Indeed, since the OECD income-distribution data were collected in the mid 2000s, Korea and Ireland have already taken steps in this direction and Australia is reviewing its policy. In contrast, there is a weaker case for redistribution from workers to pensioners in countries with middle or high old-age incomes. However, in countries that combine this with middle or high levels of old-age poverty, there might be a case for greater targeting of old-age pensions on people with low retirement incomes. Nevertheless, there are, of course, many other considerations to take into account in designing pension policy.

Table 2. Summary: old-age poverty rates and relative incomes of older people

Relative incomes of older people	Old-age poverty rates		
	High	Medium	Low
High	Mexico	France, Germany, Turkey	Austria, Canada, Iceland, Luxembourg, Netherlands, Poland
Medium	Greece, Japan, Portugal, Spain, Switzerland, United States	Italy, Sweden	Czech Republic, Hungary
Low	Australia, Ireland, Korea	Belgium, Denmark, Finland, Norway, United Kingdom	New Zealand, Slovak Republic

Looking forward, social and economic change – especially the changing role of women – will have a major impact on future incomes and poverty of older people. Pension reforms will also affect the adequacy of incomes in old age. Countries that have cut benefits across-the-board are likely to see lower pensioner incomes and greater poverty in the future, unless individuals make up for these cuts with voluntary retirement savings.¹⁶ Average old-age incomes may well fall in countries which protected low earners from cuts, but this policy means that pensioner poverty will not be affected by reform. In the countries that moved to a stronger

¹⁶ See Antolín and Whitehouse (2009) and OECD (2009), section I.4.

pension-earnings link, average incomes of the old may increase, but the lack of redistribution in the new pension systems means that pensioner poverty may be higher. Finally, the group that increased mandatory retirement provision should naturally see higher incomes in old age, particularly among low earners.

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