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Poverty Risks for Older People in EU Countries – An Update

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Poverty prevention remains a fundamental plank of EU pension policies

Pension policy in EU countries strives to meet two fundamental objectives. The first is to facilitate provision of adequate levels of retirement incomes so as to ensure that people do not face a risk of falling into poverty in their old age. The second objective is the income replacement: to ensure that pension incomes mirror to a certain extent the living standards achieved during working lives. These policy objectives are pursued through a multitude of national pension schemes that differ in their design, scope, coverage and re-distributional elements. The schemes are governed by public, quasi-public or private agencies and these governance arrangements are subject to reforms in current times. In addition, in many countries, separate tax-financed social assistance schemes supplement pension incomes for the objective of poverty prevention for older people.

In pursuing the poverty prevention objective, a particular challenge for pension policy has always been to ensure that groups experiencing non-standard employment patterns during working age attain adequate levels of retirement incomes. Such groups include those people whose working lives show patterns of engagement in part-time and temporary work, significant career interruptions for unemployment or inactivity, or child-care related gaps in their employment record. To date, although policy measures to mitigate the resultant labour market disadvantages have been prevalent in many national pension systems in EU countries, their efficacy is debatable: *sometimes, the difference between a medicine and a poison is the dose in which it appears.* While such redistributive measures redress the balance of pension income deficiency for these groups, the drawbacks in the form of disincentives to work and savings have been in practice hard to avoid. The very measures designed to help such groups lead to a policy and institutional setup that harms both them and future generations of such types.

What constitutes adequacy of pension income?

Turning to questions of pension income, a key issue is what constitutes adequacy of pension incomes? Two considerations impinge on this issue, each in line with the fundamental planks of pension policy mentioned above.

- How does the income of the current generation of older people fare in comparison to that of the current generation of working age population?
- And, how do older people fare in retirement in comparison to their own living standards during working lives?

Regarding the former consideration of the relative situation of older people, one of the indicators that can be reliably measured from the data available is **relative poverty**, analysed in this policy brief. For the consideration of the income replacement, the indicators of prospective replacement rates of workers who enter the labour force during 2006 are derived using micro-simulation analysis, and they are analysed in detail elsewhere (see, e.g., the work of the Indicators Sub-Group of the Social Protection Committee, as well as that of OECD).

Poverty risk statistics make use of the country-specific poverty thresholds, and the levels and purchasing power of these thresholds differ across EU countries. The data source is the 2008 EU-SILC for almost all results reported. The EU-SILC survey is the most suitable data source for comparative statistics of poverty risks across EU countries.

A pertinent issue is what constitutes poverty? For the purpose of comparisons across EU countries, poverty is almost always a relative concept. A widely accepted measurement approach has been to use household income as the measure of well-being, and counts poor individuals as those living in households where equivalised disposable income is below the threshold of 60% of the national equivalised median income. Given the arbitrary nature of the poverty threshold in use, and the fact that having an income below this threshold is just one indication of having a low standard of living, this indicator is referred to as a measure of at-risk-of-poverty. This approach is adopted in all European Commission's recent reports, which also uses the same data source, EU-SILC, as used here. As a complement to these monetary indicators, a new indicator, the material deprivation rate, has now been added to the list of indicators to monitor poverty and social exclusion at the EU level, and this has also been used in this policy brief.

Two important implications of the monetary poverty approach need to be kept in mind. First, poverty thresholds in use are country-specific as they use the *national* median income as their basis. Thus, the levels and purchasing power of these poverty lines differ across countries. Take the example of a comparison between Poland and Spain: the poverty line in use in Spain is more than three times as high as used in Poland. The implication is that many of 'poor' persons in Spain will have more disposable income than the income of many non-poor persons in Poland. Second, the poverty risk among older people for some countries will be high because the incomes of their working age populations have observed an unprecedented growth in the recent past. This situation arises in particular for Spain (prior to the recent economic crisis). The steady growths in the incomes of older people in these countries nonetheless leave them still relatively worse off as the rest of the population in those countries have observed comparatively higher rises in incomes.

Annex A1 provides further discussion on the methods used in measuring relative poverty, their strengths and limitations, and also reports on differences in the poverty thresholds across countries. The issues are also discussed at greater length elsewhere (see, e.g., Zaidi, 2008).

As for the data source, the research reported here makes use of the statistics made available by Eurostat, derived in almost all cases from the 2008 EU-SILC dataset, which provides income data for 2007.

The discussion in this policy brief is organised in four parts. *First*, results on the risks of poverty among older people are analysed. *Second*, patterns of poverty across subgroups of older people are discussed, including analysis of poverty differentials across men and women of different age cohorts, as well as the trends in older people poverty risks. *Third*, analysis of other facets of poverty is being done, using the material deprivation rate as the alternative indicator. *Finally*, some conclusions are drawn in view of analysis undertaken in this brief.

1. Risk of poverty among older people in EU countries

One out of five of all older people are at risk of poverty in EU countries. This constitutes about 16 million older people living in EU countries to be at risk of poverty.

Using the definitions mentioned above, results for the survey year 2008 show that about 19% of all older people in EU member countries are at risk of being 'poor'. In the context of this study, an older person is someone who is aged 65 or more, mainly for the fact that these people have reached the most usual statutory retirement age of 65 observed across many EU countries. Altogether, as shown in Table 1, about 16 million older people are at risk of poverty, approximating one-in-five of all 85 million older people living in EU countries.

Table 1: Proportion and number of older people (65+) at risk of poverty in the EU countries, using 60% of the median as the poverty threshold, 2008

Country	At risk of poverty rate (65+, in %)	Total population (65+, in 1000s)	Poor population (65+, in 1000s)
Latvia	51	391	199
Cyprus	49	98	48
Estonia	39	230	90
Bulgaria	34	1,323	450
United Kingdom	30	9,844	2,953
Lithuania	29	533	155
Spain	28	7,520	2,106
Romania	26	3,206	833
Finland	23	875	201
Greece	22	2,090	460
Malta	22	57	12
Portugal	22	1,850	407
Belgium	21	1,820	382
Ireland	21	479	101
Italy	21	11,946	2,509
Slovenia	21	327	69
Denmark	18	853	154
Sweden	16	1,608	257
Austria	15	1,425	214
Germany	15	16,519	2,478
Poland	12	5,131	616
France	11	10,506	1,156
Netherlands	10	2,415	241
Slovak Republic	10	647	65
Czech Republic	7	1,513	106
Luxembourg	5	68	3
Hungary	4	1,624	65
EU 27	19	84,898	16,329
EU15	20	69,818	13,621
NMS12	18	15,080	2,708

Note: At-risk-of-poverty rates are calculated as the proportion of persons living in households with an equivalised income below the poverty threshold, which is set at 60% of the national median equivalised income. Countries are ranked, from top to bottom, in decreasing order of income poverty risk rates of people of retirement age. The income concept used is that of household disposable income (after social transfers), adjusted for household size by the modified OECD equivalence scale.

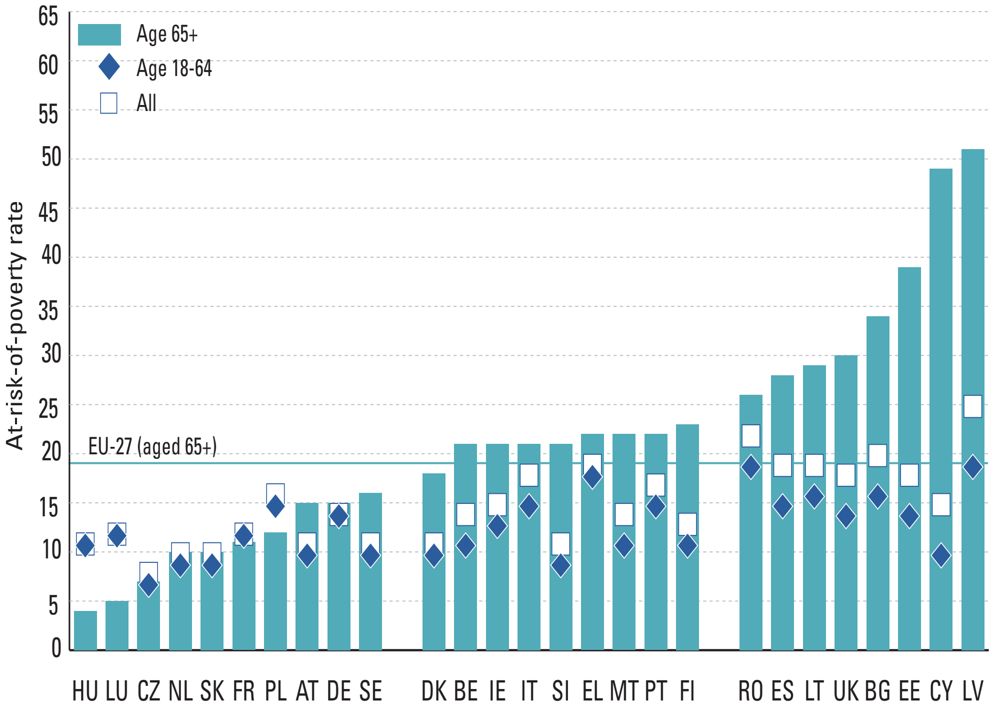
Source: EU-SILC 2008 for all countries, except Bulgaria and Romania (National Household Budget Surveys). Results are drawn from EUROSTAT's statistical database; date of extraction around 10 January 2010. This data source is used for all poverty statistics presented in this policy brief, unless otherwise stated.

Differences across countries are captured by using three groupings of countries, and Latvia and Cyprus standing out with the highest at-risk-of-poverty rates for older people.

Figure 1 highlights the variations observed across countries. Results are brought together so as to allow the poverty risk rates for three population groups – older people (aged 65+), working age people (aged 18-64) and the overall population – to be presented and contrasted across 27 EU Member States. The country-by-country variations observed are broadly captured by the following three groupings of countries:

1. **Lower-than-average at-risk-of-poverty rates (16% or less):** Ten countries fall in this category: Hungary (4%), Luxembourg (5%), the Czech Republic (7%), the Slovak Republic (10%), the Netherlands (10%), France (11%), Poland (12%), Germany (15%), Austria (15%) and Sweden (16%).
2. **Close-to-average at-risk-of-poverty rates (18-23%):** Nine other countries show older persons' poverty risk rates close to the EU average of 19%: Denmark (18%), Belgium (21%), Ireland (21%), Italy (21%), Slovenia (21%), Greece (22%), Malta (22%), Portugal (22%) and Finland (23%).
3. **Higher-than-average at-risk-of-poverty rates (more than 25%):** This cluster of countries has eight countries, with Lavia and Cyprus standing out among the EU countries with the highest at-risk-of-poverty rates for older people (51% and 49%, respectively). Other countries with a higher-than-average at-risk-of-poverty rate for older people are Estonia (39%), Bulgaria (34%), the United Kingdom (30%), Lithuania (29%), Spain (28%) and Romania (26%).

Figure 1: At-risk-of-poverty rates among people of retirement age (65+), working age (18-64) and the total population, using 60% of the median as the poverty threshold, 2008



In countries with higher-than-average poverty risk rates among older people, the corresponding rates for the working age population (age 18-65) are considerably lower. For example, working age poverty risk rates in Latvia, Cyprus and Estonia are about half of poverty risk rates observed for older people. In contrast, in countries where older people poverty risk rates are low, the poverty risk rates for working age people are generally the same or higher. The higher poverty risk rate for the working age population is observed only for Hungary, Luxembourg and Poland. Among many of the countries, a gap of notable magnitude is observed in the poverty risk rates between these two age groups. The differential is highest in Cyprus, 38 percentage points, followed by Latvia (31 p.p.) and Estonia (24 p.p.).

Some specifics of the results presented in Table 1 will help explain these results better. Take, for example, the first group of countries where the older people poverty risk rate is lower than average.

Low poverty risk for older people is partly a reflection of a mature and generous system of basic pension incomes, and partly due to large redistributive elements in the earnings-related pension benefits, such as those available in the form of guaranteed minimum pensions.

- Within this group, the low poverty risk rate among older people for some countries is a reflection of a mature, generous and redistributive system of pension benefits: the Netherlands, Luxembourg, Austria, France and Sweden will fall in this category. For example, the Netherlands provides a strong social safety net in the form of a basic pension, which is paid at a single rate, regardless of people's other resources. Moreover, the basic pension is payable to older people subject only to a residency test. Thus, those who had disruptive labour market careers are not affected in their full entitlement of the basic pension if they have lived in the country during their working age. The amount of basic pension is also reasonably generous: it is close to 31% of average earnings (in the Netherlands).
- Then, there are other countries within this low poverty risk rate grouping where there are other factors that underlie a low poverty risk rate among older people. For example, pension levels in four Eastern European countries – the Czech Republic, Hungary, Poland and the Slovak Republic – are not high, but older people fare better in comparison to the general conditions of low income observed in the country. Low poverty risk rates among older people in these four countries are partly due to large redistributive elements inherent in the guaranteed minimum pensions in some of these countries. These low poverty risk rates among older people are also an indication of a lower level of income inequality across older and younger groups of the population. Thus, low poverty among older people in these countries is partly a statistical artefact as an indication of the country-based relativity inherent in the poverty definition.

Taking the example of higher-than-average group of countries, the element of relativity in the poverty definition can be further explained.

- Poverty risk rates among older people for some of these countries are revealed to be high because the incomes of their working age populations have observed an unprecedented growth in the recent past. This is particularly true for Spain. Thus, despite the fact that pension incomes of older people have observed some real-term improvements – either because younger cohorts are retiring with better coverage of and returns from pension schemes, or due to real-term rises in the minimum guaranteed level of incomes older people are entitled to – older persons in Spain are nonetheless classified as being in a high poverty group. Thus, what has caused the classification of high poverty to attach to those of pension age in the modern-day Spain is largely due to improvements in the comparator group – the working age population.

Other perspectives on the profile of older people poverty can also be analysed using the data available in the Eurostat database, and the following analytical questions are relevant:

- How do poverty risk rates differ across older men and women?
- How do the younger cohorts of older persons (aged 66-74) fare in comparison to the oldest cohorts (75 or more)?
- What are the underlying trends in the poverty risk rate for older persons and how they compare with those for children?
- What other facets of poverty among older people, such as the material deprivation, are relevant?

These issues are addressed in more detail in the next section.

2. Profile of poverty among older people in EU countries

Gender and age dimensions are crucial in understanding poverty differentials across subgroups of older people.

Gender has been structurally ingrained in pension systems since their inception – mostly because of the expectation that women would leave paid employment on marrying and take on home responsibilities. Husbands were the sole breadwinners of the family, and the pension systems were structured around this immutable paradigm. Spousal pension rights for women existed but they were generally derived on the back of their husbands' working careers.

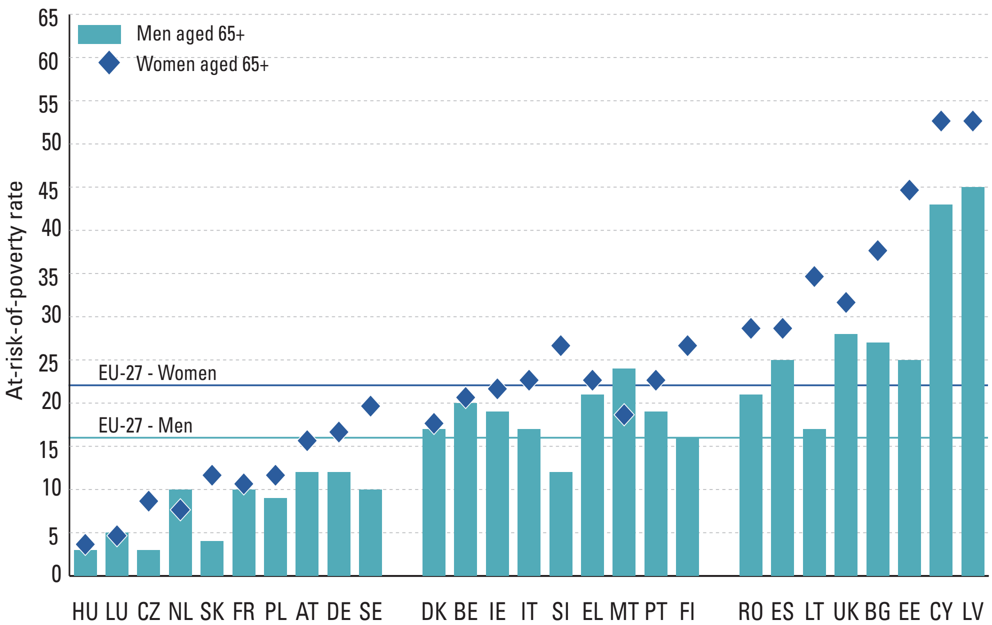
For present purposes, what is noticeable is that in the process such systems contained built-in work disincentives for women in general and mothers in particular. These perverse incentives meant longer durations of labour market absences for women and, subsequently, also affecting their employment and career prospects. This structural bias, followed by successive corrective measures to mitigate its impact, reflects on the low pension income experience of current generations of older women. Not surprisingly, as the results presented below show, women experience a much higher risks of poverty in old age than men of the same age.

Countries with above average overall poverty risk for older people have noticeably higher poverty risk for older women. This is particularly the case in three Baltic countries – Latvia, Estonia and Lithuania – and also in Romania and Bulgaria.

The different experiences of poverty for older men and women are captured by Figure 2. Older women in general have a much higher poverty risk compared to older men. On average, older women have a poverty risk rate of about 22% as compared to an older men poverty risk rate of about 16%. The exception to this result is observed only in seven countries with low or average overall poverty risk rates for older persons: Hungary, Luxembourg, the Netherlands, and France, and Denmark, Belgium and Malta. All countries with above-average overall poverty risk rates for older persons have noticeably higher poverty risk rates for women than for men (exceptions are Spain and the UK).

The above result is all the more striking when it is compared with the corresponding poverty risk rates for the equivalent working age cohorts. Female poverty risk rates are in most cases broadly equivalent with those of the males (see Table A.1, Annex A2). Obviously, the two groups of men and women belong to different generations, but it reflects the fact that the relative risk of poverty for older women increases in their old age.

Figure 2:
At-risk-of-poverty rates among men and women of retirement age (65+), using 60% of the median as the poverty threshold, 2008



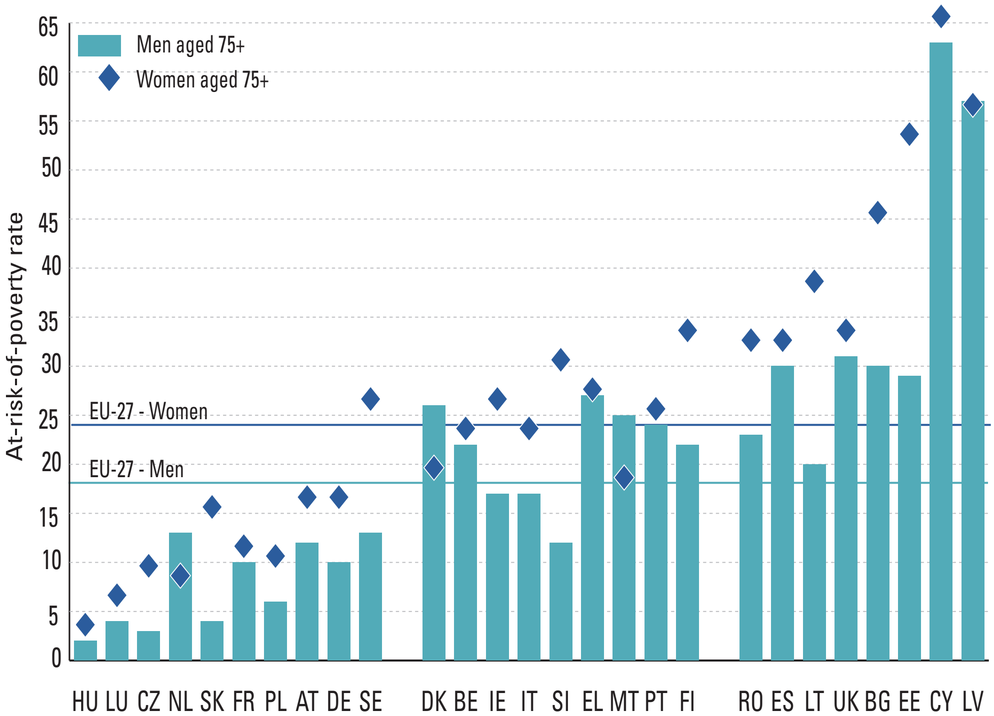
Partly mirroring the above results is the fact that the oldest age cohorts, aged 75+, have a higher poverty risk rate than those aged 65-74. This is principally because women dominate the oldest age cohort, as – on average – women live longer than men. One added reason for the high risk of poverty attaching to the oldest age cohort – who joined labour markets in the 1950s and 1960s – is that during this period pension systems coverage was rather low for most groups. Many pension systems were in their infancy and the coverage of the population increased piecemeal during subsequent periods. Thus, when pension systems matured, they offered greater opportunities to a larger group of working age people to be affiliated with a formal mechanism to put aside savings for their old age. Another explanation is that in many countries the indexation of pension benefits with prices only led to pension benefits lagging behind the general evolution of incomes. Another compositional counteracting effect arises because richer people tend to live longer than poorer people do.[1]

Note 1: See Whitehouse and Zaidi (2008) for a survey of the literature and new evidence on socio-economic differences in mortality of older people.

On average, in EU27, almost 24% of all women aged 75+ have a risk of falling in poverty. In the majority of countries with higher-than-average poverty risk rates for older persons, the risk for poverty for the oldest women cohort is strikingly high (in excess of 40%).

One critical question is whether, and how, this low pension income situation for older women is likely to change in the future. Three issues of relevance need to be considered here.

Figure 3: At-risk-of-poverty rates among men and women of age group 75+, using 60% of the median as the poverty threshold, 2008



- *Firstly*, the 'male breadwinner model' is on the decline in most European countries. The educational and labour market performances of younger women have been improving. Thus, future cohorts of older women are likely to have had longer working careers as well as higher pension incomes in their own right.
- *Secondly*, pension systems in many countries have been slow to react to these social and economic changes observed in the lives of modern women. Many pension systems still redistribute in favour of women to correct for labour-market disadvantages, and this generates structural work disincentives. Striking the right balance between giving women higher pension rights through redistribution or a system based purely on individual entitlements is difficult. Nonetheless, pension reforms in many countries have moved towards increasing the statutory retirement age for women and also towards improving inbuilt work incentives. It is therefore likely that these changes will have the positive impact of longer working careers, and improved pension rights, for future generations of older women.
- *Thirdly*, although women in general are bridging the gender employment gap and also reducing the gender pay gap, it is nonetheless possible that some women will remain disadvantaged in the labour market. This is principally due to the fact that women still bear disproportionately greater burdens of care responsibilities. This is true despite the fact that pension credits are provided to mothers against absences from the labour market arising for reasons of family care (for a discussion, see Zaidi, Gasior and Zólyomi, 2010). Recent pension reforms in many EU countries have highlighted the requirement of a longer duration of employment as a prerequisite for full pension entitlements (for a discussion, see OECD, 2009; Zaidi and Grech, 2007). Such reforms will have a dampening impact on pension entitlements of those women who continue to have a disruptive working career.

Modernisation of pension policies in EU countries requires striking a right balance between giving women higher pension rights through redistribution and improving inbuilt work incentives for their larger working careers.

Given the seemingly conflicting trends discussed above, and on the assumption that more and more women are likely to have pensions in their own right, the risk of poverty among older cohorts of women in future is likely to be lower.

Trends in older people poverty risks over the last five years show mixed results

The rate of poverty increase or decrease for older persons over time clearly adds important detail to the body of knowledge on the poverty risk of older persons. The Eurostat statistical database provides credible information on short-term trends (over the five-year period 2004-2008). However, for Romania and Bulgaria, there is a break in the data series, meaning that the use of a newer data-set, or methods, restricts overtime comparability in these two countries. These results are presented in Table A.2 (Annex A2), and further highlighted in Figure 4.

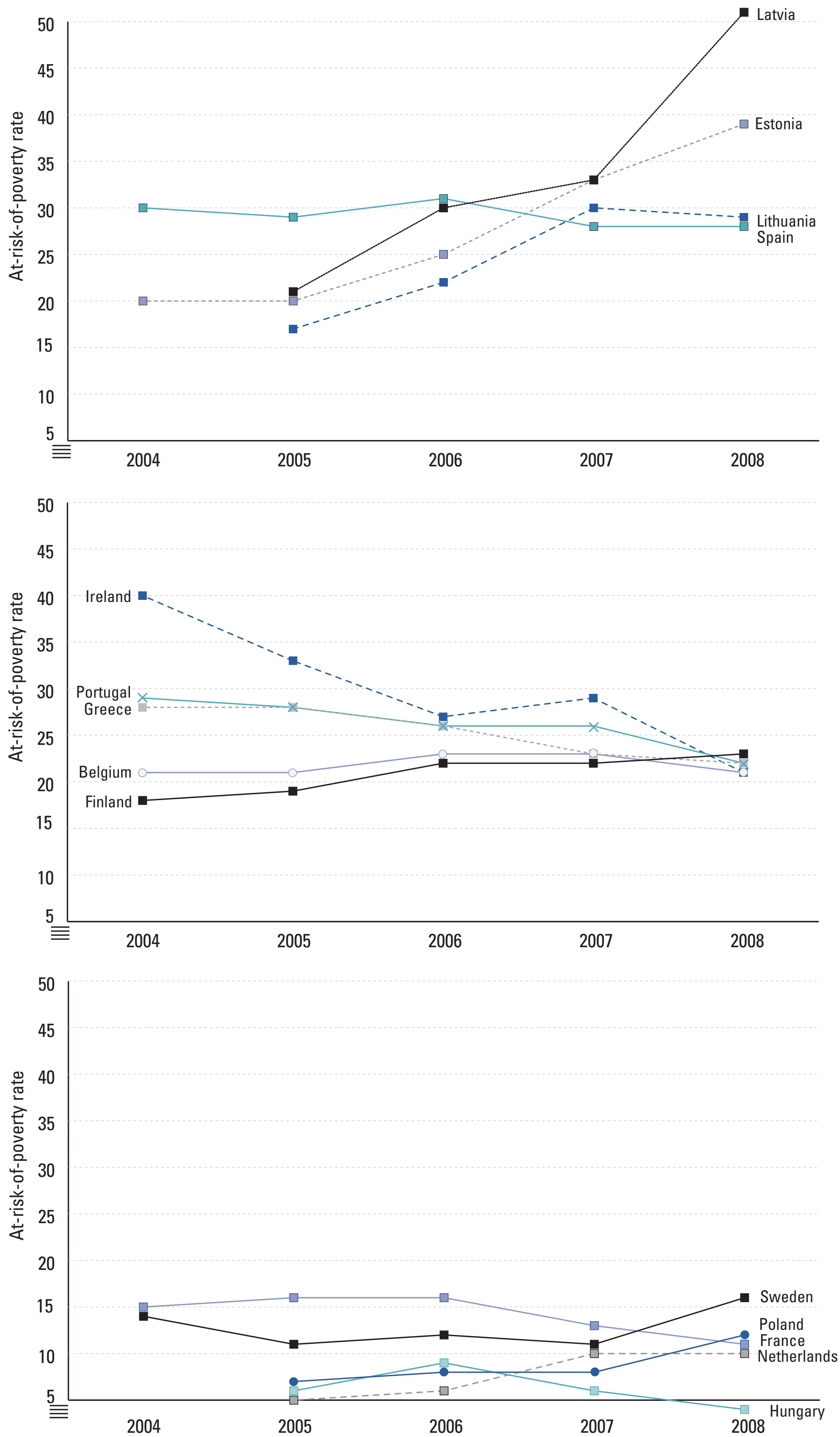
The first panel reports the results of countries that exhibited a higher-than-average at-risk-of-poverty rate in the latest year (2008). With the exception of Spain, all these countries experienced a rising risk of poverty for older people during the period 2005-2008. The most notable rise in the poverty risk for older people is observed in the three Baltic countries: Latvia, Estonia and Lithuania. The rise is most dramatic in Latvia: from 21% in 2005 to 51% in 2008. For Estonia, the poverty risk for the older population has risen from 20% during 2005 to 39% during 2008. For Lithuania, the corresponding rise has been from 17% in 2005 to 30% in 2007, followed up by a fall to 29% in the next year (partly attributed to the introduction of non-contributory social pensions in 2005-06 for those with inadequate contributory record). Spain experienced a decline in the poverty risk for older people, and this is partly due to the fact that minimum pensions rose substantially during the period in question. The same trend is observed for Cyprus, where the basic pension rose by almost 5% in real terms for this period; also a special allowance was introduced in 2002 benefiting low income pensioners.

For the majority of EU countries, there is no significant change in the poverty risks for older people over the past five years. The notable exceptions are the three Baltic countries, where poverty risks for older people increased considerably, and Ireland and Portugal, where poverty risks declined noticeably.

For the group of countries that has a close-to-average at-risk-of-poverty rate for the older population during 2008, mixed trends are observed. The most notable result is observed for Ireland (see the second panel of Figure 4): it went through a drastic decline in the poverty risk for the elderly over the past five years (2004-2008). This trend is a direct result of the fact that all forms of state pensions increased substantially over this period, in excess of growth in gross earnings. In particular, non-contributory and widowers' pensions increased considerably, reaching close to 32% of average earnings in 2007 and closing the gap between the contributory and non-contributory pension to only about 4.5%. Portugal also observed a notable decline in the poverty risk for the older population during the period 2004-2008: from 29% to 22%. This is partly due to the fact that a means-tested solidarity supplement to pensions (Complemento Solidário para idosos) was introduced during 2006. Belgium experienced a decline late in this period, and this can be attributed to the fact that the minimum income guarantee for retirees (GRAPA – Garantie de revenue aux personnes agées) increased in 2007. For the majority of EU countries in this grouping, there is no significant change in the poverty risk for older persons during the period 2004-2008.

Hungary (in the third panel) also shows a notable decline in the poverty risk for older people, but only during the period 2006-2008. This trend can be linked to the introduction of the 13th monthly pension, which alongside other changes raised the real value of pensions by 15-20% in the period in question. France and Austria also experienced a falling poverty risk for the older population during the latest years. In Austria, this trend can be linked to a more substantial increase in the minimum pension top-up for this time period; also, for those living in Vienna, social assistance rose in line with the minimum pension top-up and benefited low income pensioners.

Figure 4:
Trends in at-risk-of-poverty rates for older people, for selected countries in the three country-groupings used in Table 1, period: 2004/05 – 2008



How do trends for poverty risks compare for older people and children?

There are also concerns about how older people poverty situations in EU countries contrast with those for younger age groups. In Figures 5a-5b, the at-risk-of-poverty trends for the older population (65+) and that for children (0-17) are summarised. Here, results are reported only for those countries that observed a clear change in older people's risk of poverty.

Figure 5a includes results for four countries in which there had been a clear rise in the at-risk-of-poverty rate for older people during the last five years: Estonia, Lithuania, Latvia and Finland. Results show that the older people's relative economic position in these countries deteriorated during the period in question. In Estonia and Lithuania, the poverty risk for older people increased while it was falling for children. For Latvia and Finland, the rise in the poverty risk for older people has been much greater than the rise in poverty risks for children.

Figure 5a:
Poverty risk trends compared between older people and children, for countries that observed a rise in older people poverty risks during the period between 2004/05 and 2008

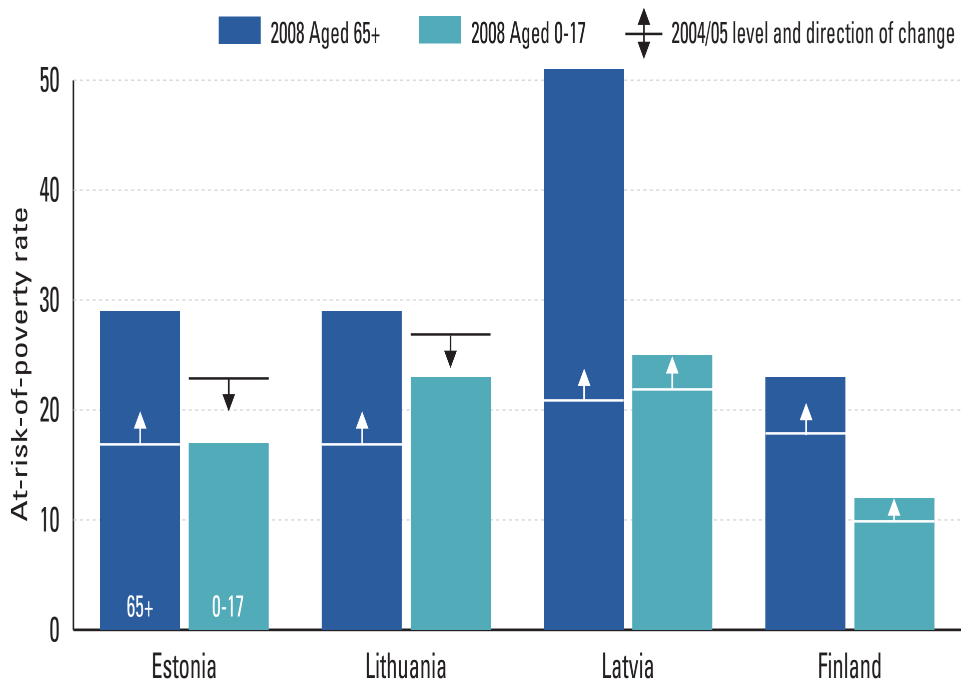
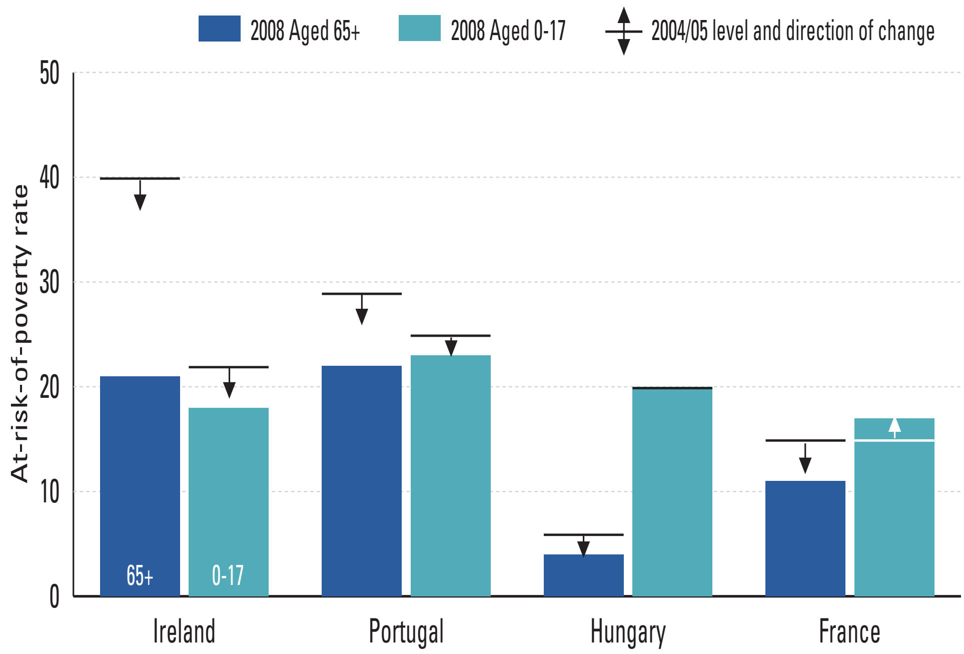


Figure 5b reports results for those countries that observed a decline in the poverty risk for older people during the period in question, namely Ireland, Portugal, Hungary and France. For these countries, the relative economic position of older people improved, since the decline in the poverty risk for older people exceeded that for children.

Figure 5b:
Poverty trends compared between older people and children, for countries that observed a fall in older people poverty risks during the period between 2004/05 and 2008



3. Other facets of poverty among older people in EU countries

Material deprivation rate provides a different ranking across EU countries

The Indicators Sub-Group of the Social Protection Committee at the European Commission, has recently adopted the "Material Deprivation Rate" indicator, so as to complement the monetary measures of living standards with some non-monetary measures in monitoring poverty and social exclusion at EU level. This indicator offers a more absolute approach to reflect on incapacity to afford some items which are considered desirable or even necessary by most people to have adequate living standards. It is defined as the "enforced" lack of at least three of the following nine items:

1. ability to face unexpected expenses;
2. ability to pay for one week annual holiday away from home;
3. existence of arrears (mortgage or rent payments, utility bills, or hire purchase instalments or other loan payments);
4. capacity to have a meal with meat, chicken or fish every second day;
5. capacity to keep home adequately warm; and
6. possession of a washing machine, a colour TV, a telephone or a personal car (4 items).

Results presented in Table A.3 show that, on average, 16% of the older population in EU27 could be considered materially deprived during 2008. This result compares favourably to the at-risk-of-poverty rate for the same subgroup at the EU level: 19%. Also, on average, only about one third of the older population that is at-risk-of-poverty was also disadvantaged by material deprivation. Thus, out of 16 million older people identified as at risk of poor, only about 5 million are also materially deprived. Not surprisingly, there are wide variations across countries with respect to the proportion of those who are materially deprived and also face the risk of monetary poverty.

On average, about 16% of older population in EU27 is considered materially deprived. Also, on average, only about one third of the population that is income poor was also disadvantaged by material deprivation. Thus, out of 16 million older people identified as at risk of being poor, only about 5 million were also materially deprived.

- For a group of countries, the monetary poverty risk is nearly the same as the material deprivation rate. This is true in many of the Eastern European countries. In Bulgaria, 96% of the population at risk of poverty is also materially deprived. The corresponding rates in Romania, Poland and Latvia are somewhat lower, 74%, 70% and 69%, respectively. Hungary and Slovakia are two other countries with a considerably higher proportion of those who are at risk of poverty and also materially deprived (about 60%).
- On the other end of the spectrum, the UK and Spain offer the largest contrast between monetary poverty and material deprivation for the older population: the at-risk-of-poverty rate is around 30%, whereas the material deprivation rate is only about 5%. Finland and Belgium also show large differences between the two indicators.

Figure 6 realigns the ranking of the EU countries on the basis of the material deprivation rate. The most striking result is that many of the Eastern European EU Member States stand out as more often materially deprived than the EU15 bloc of countries. The biggest differences between the two indicators are observed for the older population in Poland, Slovakia and Hungary. These results raise doubts about the validity of the at-risk-of-poverty rate for the Eastern European countries, especially the one adopting the 60% of the national median as the poverty line. Cyprus and Estonia, and also the UK and Spain, are on the other end: the material deprivation rate is considerably lower than the at-risk-of-poverty rates.

Results can also be analysed using the measure of the consistent poverty rate, which is a subset of the monetary poverty risk and the material deprivation. The consistent poverty rates are lower in all countries, but most notably in Sweden, the UK, Spain, Estonia, Hungary and Slovakia.

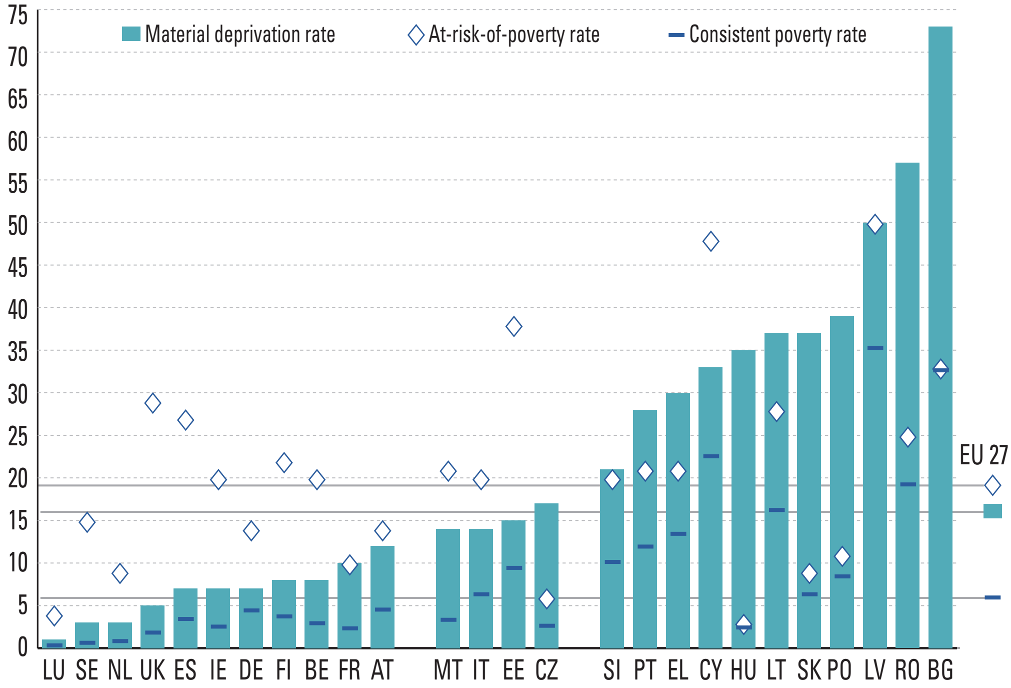


Figure 6: Material deprivation rate as well as at-risk-of-poverty rate and consistent poverty rates among people of retirement age (65+), 2008

4. Conclusions

This policy brief provides the latest evidence on how EU countries differ in terms of poverty risks for older people (aged 65 years and over). Results derived from the latest EU-SILC data for 2008 show that, on average, older people face a higher poverty risk rate (19%) than the working age population (15%). The highest poverty risk rates for older people were observed in Latvia (51%), Cyprus (49%), Estonia (39%) and Bulgaria (34%), and the lowest in Hungary (4%), Luxembourg (5%) and the Czech Republic (7%). No single explanation can be meaningfully employed to explain this differentiation across countries. That said, countries with low poverty risk rates for older people generally have a good social safety net in the form of a basic pension (e.g. the Netherlands) and/or they offer strong redistribution in the earnings-related contributory pension schemes (e.g. Austria).

The overlapping group of single elderly women and the oldest age cohort 75+ have, in general, a much higher poverty risk rate compared to other subgroups of older people. The low pension income for older women is mainly due to the fact that their working lives experienced patterns of employment which have generally low coverage of pension scheme affiliation, and also they had childcare related gaps in their employment record. Another explanation is that in many countries the indexation of pension benefits with prices only led to pension benefits lagging behind the general evolution of incomes.

There is also interest in how risks of poverty among older people contrast with those for younger age groups, especially children. In general, poverty risks for older persons had not risen for many countries during the last five years, with the important exception of three Baltic countries and the neighbouring Finland. The rise is most dramatic in Latvia, followed by Estonia and Lithuania. In Estonia and Lithuania, the poverty risk for older people increased while it was falling for children. For Latvia and Finland, the rise in the poverty risk for older people has been much greater than the rise in poverty risks for children. Four countries observed a decline in the poverty risk for older people during the period in question, most notably Ireland, but also Portugal, Hungary and France. For these countries, the relative economic position of older people improved, since the decline in the poverty risks for older people exceeded that for children. These countries observed, in general, a more substantial rise in non-contributory social pensions during the period in question.

In view of financial sustainability concerns linked with various forms of pension generosity in EU countries, recent pension reforms in many EU countries have tightened the eligibility conditions (especially for early retirement) and scaled down the level of pension benefits and their growth (in relation to wages). Thus, in the absence of extending working careers and greater private personal savings, it is feared that future generations of older persons will be more often poor than the rest of the population. The next policy brief will provide a glimpse into the future, by using the simulation results on the evolution of pension incomes, as provided by the European Commission and OECD. These results will analyse how reforms in some countries have made pension systems less redistributive (e.g. in Poland, Hungary and Slovakia) whereas other countries (such as the United Kingdom, Belgium, Germany, France and Finland) have strengthened the protection of low wage-earners in their reformed system.

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Annex A1: A synopsis of poverty definition and its measurement

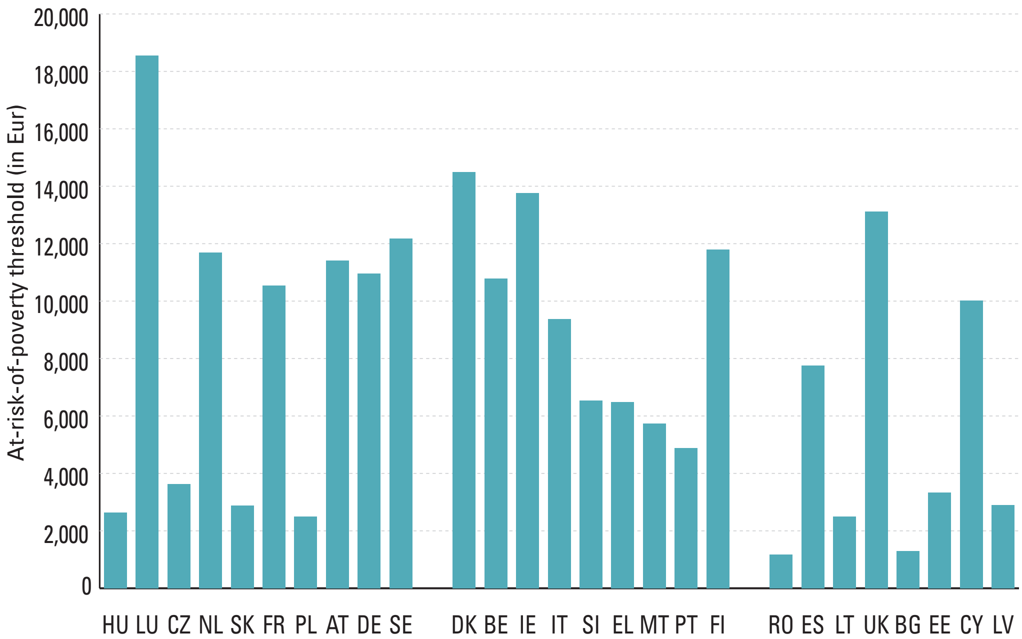
The poverty definition adopted in this study is the relative country-specific poverty measure: this views poverty in a nationally defined social and economic context. It is commonly measured as the percentage of population with cash income less than some fixed proportion (say, 60%) of national median income. Such relative poverty measures are now commonly used as the official poverty risk rate in EU countries. The measurements are usually based on a household's yearly cash income and frequently take no account of household wealth, or inequality of resource distribution that may exist within a household. Household income includes earnings, transfers and income from capital, as well as the imputed rent for owner-occupied households, and is measured here net of direct taxes, social security contributions and interest on mortgages paid by households.

The data reported here are collected in the EU-SILC surveys that apply common conventions and definitions to collect unit record data. EUROSTAT supply detailed cross-tabulations of these results in their statistical database.

Some qualifications for results presented in this report are in order. The estimates of the elderly poverty risk rates are very sensitive to some of the measurement methods adopted. First, as the old-age pension is often the main (or only) income source for the elderly, their cash income is typically clustered around the prevailing pension rates. This leads to the high sensitivity of poverty estimates to small changes in the income threshold used. Second, estimates of relative ranking older people sub-groups are often very sensitive to the equivalence scale used.

Household income data have other limitations as well. The EU-SILC survey is often seen to be underreporting income, especially that from self-employment. Also, they do not include the consumption value of durables or additional costs such as health insurance. Moreover, the incomes of the current generation of older people reflect the pension rules of the past, and much has changed recently. Analysis will need to be undertaken so as to see how reforms impact upon the pension entitlement of the future retirees and thus analyse the prospects of poverty of older people in the future.

Figure A.1: At-risk-of-poverty thresholds across EU countries, for single person households (in Euro), 2008



Source: EU-SILC 2008, Eurostat.

Annex A2: Statistical tables

Table A.1: At-risk-of-poverty rates among subgroups of retirement age (65+; 65-74 and 75+), working age (18-64) and the total population, 2008

Country	*18-64*			*65+*			*65-74*			*75+*			*All*		
	Total	*Male*	*Female*	*Total*	*Male*	*Female*	*Total*	*Male*	*Female*	*Total*	*Male*	*Female*	*Total*	*Male*	*Female*
Latvia	20	19	20	51	45	54	46	36	51	58	57	58	26	23	28
Cyprus	11	9	13	49	43	54	38	29	45	65	63	67	16	14	18
Estonia	15	15	15	39	25	46	32	22	39	48	29	55	19	16	22
Bulgaria	17	16	18	34	27	39	30	25	33	40	30	47	21	20	23
UK	15	14	16	30	28	33	27	25	31	33	31	35	19	18	20
Lithuania	17	16	17	29	17	36	25	15	33	34	20	40	20	18	22
Spain	16	15	17	28	25	30	23	20	26	33	30	34	20	18	21
Romania	20	20	20	26	21	30	23	20	27	30	23	34	23	22	24
Finland	12	13	11	23	16	28	16	11	22	31	22	35	14	13	14
Greece	19	18	19	22	21	24	17	16	20	28	27	29	20	20	21
Malta	12	10	13	22	24	20	22	23	20	22	25	20	15	14	15
Portugal	16	15	17	22	19	24	19	15	21	25	24	27	18	18	19
Belgium	12	11	13	21	20	22	18	18	19	24	22	25	15	14	16
Ireland	14	13	14	21	19	23	19	21	19	24	17	28	16	15	16
Italy	16	15	18	21	17	24	20	17	23	22	17	25	19	17	20
Slovenia	10	11	10	21	12	28	17	12	25	26	12	32	12	11	14
Denmark	11	11	11	18	17	19	14	10	17	23	26	21	12	12	12
Sweden	11	11	11	16	10	21	10	7	14	22	13	28	12	11	13
Austria	11	10	12	15	12	17	14	12	16	16	12	18	12	11	13
Germany	15	15	16	15	12	18	16	13	18	14	10	18	15	14	16
Poland	16	17	16	12	9	13	14	11	14	10	6	12	17	17	17
France	13	12	13	11	10	12	10	10	11	12	10	13	13	13	14
Netherlands	10	10	10	10	10	9	9	7	8	11	13	10	11	11	11
Slovakia	10	9	10	10	4	13	9	4	10	12	4	17	11	10	12
Czech Republic	8	7	9	7	3	10	6	3	9	8	3	11	9	8	10
Luxembourg	13	12	14	5	5	6	3	6	4	7	4	8	13	13	14
Hungary	12	12	12	4	3	5	4	4	5	4	2	5	12	12	12
EU 27	15	14	15	19	16	22	16	14	20	22	18	24	17	16	17

Table A.2: Trends in at-risk-of-poverty rates for retirement age people, 2004/05-2008

Countries	2004	2005	2006	2007	2008
Latvia	:	21	30	33	51
Cyprus	:	51	52	51	49
Estonia	20	20	25	33	39
Bulgaria	16	18	20	23 (b)	34
United Kingdom	:	26	28	30	30 (p)
Lithuania	:	17	22	30	29
Spain	30	29	31	28	28
Romania	17	17	19	31 (b)	26
Finland	18	19	22	22	23
Greece	28	28	26	23	22
Malta	:	21	19	21	22
Portugal	29	28	26	26	22
Belgium	21	21	23	23	21
Ireland	40	33	27	29	21
Italy	21	23	22	22	21
Slovenia	:	20	20	19	21
Denmark	17	18	17	18	18
Sweden	14	11	12	11	16
Germany	:	14	13	17	15
Austria	17	14	16	14	15
Poland	:	7	8	8	12
France	15	16	16	13	11
Netherlands	:	5	6	10	10
Slovakia	:	7	8	8	10
Czech Republic	:	5	6	5	7
Luxembourg	8	8	8	7	5
Hungary	:	6	9	6	4
EU27		19 (s)	19 (s)	20	19
EU25	18 (s)	19	19	19	19 (p)
EU15	19 (s)	20	20	21	20 (p)

Source: EU-SILC 2008 for all countries, except Bulgaria and Romania (National Household Budget Surveys). Results are drawn from EUROSTAT's statistical database.

Note: (b) = break in the data series; (s) = Eurostat estimate; : = not available, (p) = provisional value.

Table A.3: Material deprivation rate by poverty status for retirement age people, and 'consistent' poverty, 2008

Country	At-risk-of-poverty rate, %	Material deprivation rate, %	Material deprivation rate among those at-risk-of-poverty	Consistent poverty (material deprivation and at risk of monetary poverty)
Bulgaria	34	73	96	33
Romania	26	57	74	19
Latvia	51	50	69	35
Poland	12	39	70	8
Lithuania	29	37	56	16
Slovak Republic	10	37	63	6
Hungary	4	35	61	2
Cyprus	49	33	46	23
Greece	22	30	61	13
Portugal	22	28	54	12
Slovenia	21	21	48	10
Czech Republic	7	17	37	3
Estonia	39	15	24	9
Malta	22	14	15	3
Italy	21	14	30	6
Austria	15	12	30	5
France	11	10	21	2
Finland	23	8	16	4
Belgium	21	8	14	3
Spain	28	7	12	3
Ireland	21	7	12	3
Germany	15	7	29	4
United Kingdom	30	5	6	2
Sweden	16	3	4	1
Netherlands	10	3	8	1
Luxembourg	5	1	6	0.3
EU 27	19	16	30	6

Note: Material deprivation rate is defined as the enforced lack of at least three of the nine following items:

- ability to face unexpected expenses,
- ability to pay for one week annual holiday away from home,
- existence of arrears (mortgage or rent payments, utility bills, or hire purchase instalments or other loan payments),
- capacity to have a meal with meat, chicken or fish every second day,
- capacity to keep home adequately warm,
- possession of a washing machine, a colour TV, a telephone or a personal car (4 items)

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