Old-age Poverty in OECD Countries and the Issue of Gender Pension Gaps

Introduction

The main objectives of pension policies are to provide an adequate level of retirement income to prevent people from falling into poverty after retiring. In addition, the replacement rate should be high enough to enable pensioners to enjoy a comparable living standard to that of their working lives. Factors like changes in pension systems, the financial crisis and demographical change have recently put strong pressure on pension policies. People experiencing non-standard employment during working age in particular are facing a higher risk of poverty than others. Women interrupting their working career to bear and raise children tend to fall into this category more often than men. This leads to the assumption that old-age poverty is a bigger issue for female retirees than for their male counterparts.

In the context of old-age poverty, a person is considered old if s/he is aged 65 years or over, since this is the most usual statutory retirement age observed in many OECD countries. Furthermore, people are counted as being at risk of living in poverty if their equalized disposable income is below 60 percent of the national median equalized disposable income (after social transfers) (DICE Database 2013). However, it is important to bear in mind that these poverty thresholds are country-specific since they are based on national median incomes. A poor person in Switzerland, a country with a relatively high poverty threshold, still has more disposable income than a non-poor person in Hungary, a country with a relatively low poverty threshold. Moreover, if the working-age population has recently experienced a high growth rate, the retirees will be counted as at risk of growing poor sooner than previously.

Poverty in old-age compared to general poverty

Figure 1 shows the old-age at-risk-of poverty rates compared to the total at-risk-of poverty rates in certain OECD countries in 2011. While the mean at-risk-of poverty rate for old people and the mean at-risk-of poverty rate for the total population are quite similar (15.9 percent vs. 15.8 percent), the variance is high and the rates differ considerably between certain countries.

The countries can be clustered into three groups:

1. The old-age poverty rate exceeds the mean total poverty rate (old-age at-risk-of poverty rate is 20 percent or higher):
   This group includes Portugal, Belgium, Spain, Slovenia, the United Kingdom, Greece, Croatia, Switzerland, Bulgaria and Cyprus.
2. The old-age poverty rate is approximately as high as the mean total poverty rate (old-age at-risk-of poverty rate is 13 percent to 19 percent):
   The following ten countries fall into this category: Estonia, Romania, Germany, Poland, Denmark, Austria, Italy, Malta, Sweden and Finland.
3. The old-age poverty rate is lower than the mean total poverty rate (old-age at-risk-of poverty rate is 11.1 percent or lower):
   Iceland and Hungary have the lowest rate of old-age poverty, other countries in this group are Luxembourg, the Slovak Republic, the Netherlands, the Czech Republic, Latvia, Lithuania, France, Ireland and Norway.

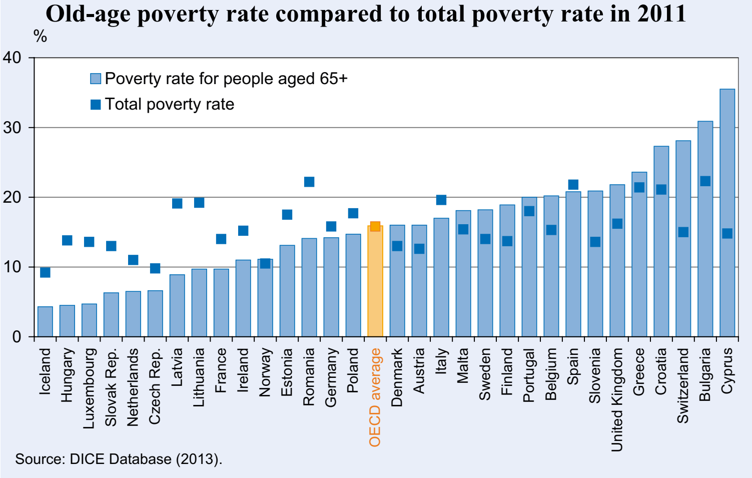
As data from the DICE Database (2015c) show, most countries in group 3, in which the old-age at-risk-of poverty rate is lower than the mean at-risk-of poverty rate, provide some sort of basic pension of a uniform amount. This is the case for Iceland, Luxembourg, the Netherlands, the Czech Republic, Lithuania, Ireland and Norway. These safety nets are mostly based on residence or citizenship in the country or on age, but are independent of earnings. This is also true for Estonia, Poland, Denmark and Malta in the second group, and Switzerland and the UK in the first group. One can think of many reasons why old-age poverty is still high in countries like the UK and Switzerland. One reason is the initially high level of income in these countries. The at-risk-of poverty threshold in Switzerland, for instance, is far higher than in other countries, resulting in high at-risk-of poverty rates of retirees, even if their income is much higher than in most other OECD countries.

The other countries in which the old-age at-risk-of poverty rate exceeds the mean total at-risk-of poverty rate have pension systems mainly based on earning-related pensions. Additionally, individual retirement schemes play a key role in some of these countries. Interestingly, these countries also tend to have an additional, means-tested old-age income security programme, which offers a certain pension amount if the means of the family or individual in question fall under a designated level. As evidence shows, these payments do not provide an income that prevents people from living at risk of poverty.

Old-age poverty by gender

Not only does the at-risk-of poverty rate differ by age, but also by gender. Figure 2 shows the difference between female and male at-risk-of poverty rates across OECD countries. As can be clearly seen, with the exception of Malta, Iceland and the Netherlands, the old-age at-risk-of poverty rate of women significantly exceeds that of men in most countries. Examining the relationship between old-age poverty in general and gender gaps in old-age poverty, there does not appear to be any distinctive pattern (while in Bulgaria, poverty in general and the gender poverty gap are both at an above average level, for example, Belgium has a high total old-age poverty and a small gender poverty gap).

Figure 1



There are several possible explanations for the systematically higher female old-age poverty rate. First of all, the older generation of women faces some drawbacks because such women commonly lived in a traditional family model where the man was the sole breadwinner (Zaidi 2010). In this generation, women started to raise a family earlier and had more children. This led to interruptions of employment-participation for longer periods (or even a total abandonment of employment). Not only did the older generation of women spend less time in paid work, they also earned less than younger women today. Additionally, women are more likely to work part-time and are overrepresented in occupations that are less well-paid than those of men (OECD 2012). Moreover, the female pensionable age is lower than the retirement age for men in most OECD countries. In 2011, average effective age of retirement of men was 62.3 years, versus an average of 60.8 years for women[1] (DICE Database 2015b).

These factors lead to women having significantly shorter careers. This constitutes a problem in retirement, since pension-benefits are often earnings-related (OECD 2012). Replacement rates are generally lower than earnings during working life (ranking from 37 percent in Croatia to 78 percent in Luxembourg) (DICE Database 2015a). Thus, the gender inequality of pensions in old-age tends to be caused more by gender differences in the labour market and life expectancy than by the structure of the pension system.

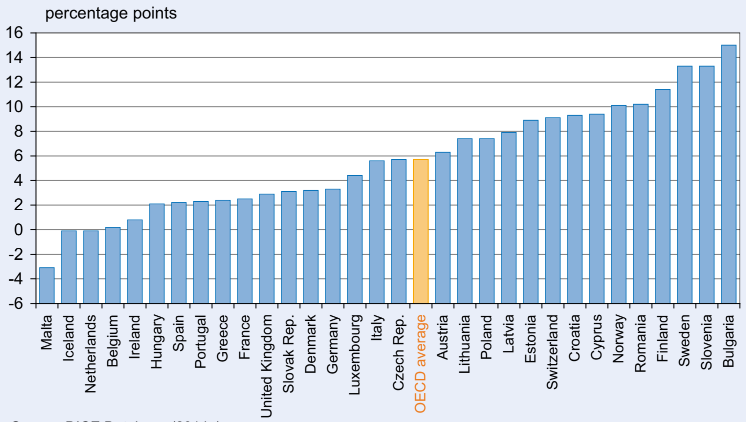
This poverty effect is reinforced by the fact that women tend to live longer than men. In 2011, female life expectancy at birth averaged 82.8 years across OECD countries, whereas male life expectancy was 5.6 years lower at 77.2 years (DICE Database 2014b). First of all, a longer retirement period is usually related to higher healthcare costs, reducing the money left for daily expenses. Furthermore, especially in defined contribution pension systems, the amount of savings needs to be spread over a longer period than for men. Moreover, there is evidence that elderly persons living alone are more likely to be at risk of poverty than retirees living in couples. On average, the old-age income poverty for singles is 14.5 percent higher than that of couples (DICE Database 2014c). The higher life expectancy of women increases the likelihood of them becoming widowed, living alone, and being forced to rely on low survivor's benefit (OECD 2012).

Another important factor leading to the old-age poverty of women is the rising divorce rate. In some OECD countries, pension sharing in case of divorce is allowed, but it is not widespread. Without the existence of their own pension rights, the rising divorce rate is increasingly forcing women to rely on old-age safety nets.

[1] OECD estimates based on the results of national labour force surveys, the European Union Labour Force Survey and, for earlier years in some countries, national censuses.

Figure 2

Difference between female and male old-age poverty rate in 2012



Source: DICE Database (2014a).

What will female poverty rates in old-age look like in the future? Zaidi (2010) offers several suggestions. First of all, it must be taken into account that the education and employment rates of women increase in most European countries. This is likely to change female employment perspectives in the future. Nevertheless, traditional pension systems still redistribute in favour of women to correct for employment disadvantages. This creates work disincentives for women. One big challenge for pension policies is to strike the right balance between redistribution by giving women higher pension rights and a system based purely on individual entitlements. It is nevertheless likely that countries will adjust their pension systems to modern women's lives. Nevertheless, even in countries where the gender employment gap and the gender pay gap have been reduced, disadvantages for women may persist in the labour market.

Conclusion

To conclude, poverty in old-age is widespread in our sample of OECD countries, especially when looking at female poverty. The main causes of gender income inequality in retirement are career interruptions due to childbirth and the lower earnings of women. The higher life expectancy of women also leads to poverty if they are left to live alone in their old-age. Even if younger women earn more pension entitlements in the future, inequality is still an important issue. However, the different country specific poverty thresholds should be kept in mind when drawing conclusions from the data presented. Moreover, institutions are very important in this context, since a good institutional framework can compensate for the drawbacks faced by old people, and especially women.

Pension systems thus have to account for these drawbacks by integrating adequate survivor benefits and features like minimum pension payments (OECD 2012). Another frequently discussed policy is the gender equality of pensionable ages in order to allow women a longer period of employment. Moreover, child care and family support policies are of increasing importance to enable women to reconcile family and work (OECD 2012).

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