Pension Systems and Income Inequality among the Elderly around the World

CROSS-NATIONAL DATA CENTER in Luxembourg

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INPARR International Research Seminar:

Consistency amid Complexity: Navigating the Future of Pensions and Retirement

Paris, OECD, June 6, 2018

Outline of the presentation

1) Research perspective ➡ 2) Data analyst perspective ➡ 3) Policy advice

Theoretical framework & main findings own work

Comparable indicators & awareness of cross-national differences

Bring together expertise in research/data/policy fields (mechanisms pensions/family policy & labour markets)

1) Research perspective

- Theoretical framework for an 'ideal' pension system design.
  (Myles 1989, OECD (PAAG) 05-15, OECD 2008 , World Bank 1994)
- Differences in (welfare) state ideology: liberal vs. conservative vs. social-democratic (Esping-Andersen 1990) / liberal vs. coordinated (Hall & Soskice 2001).
- Cross-national variation in pension systems and pension income mix.
  (Korpi & Palme 1998, Behrendt 2000, Yamada & Casey 2002, OECD 2001)
- *New social risk* groups require modified pension system design.
  (Armingeon and Bonoli 2006; Taylor-Gooby 2004)

→ Evaluate and explain inequalities in pension income of the elderly.

1) Research perspective

RQ 1: Why is there cross-national variation of income received by the elderly?

RQ 2: What implications do different institutional pathways of pension systems have for the income situation?

RQ 3: What role do non-public pension systems play in the income-mix and for the development of inequalities?

RQ 4: Which developments can be observed in the public-private income mix and generosity of the pension system?

➡ Approach: Comparative cross-national study of pension outcomes from a historical welfare state tradition perspective.

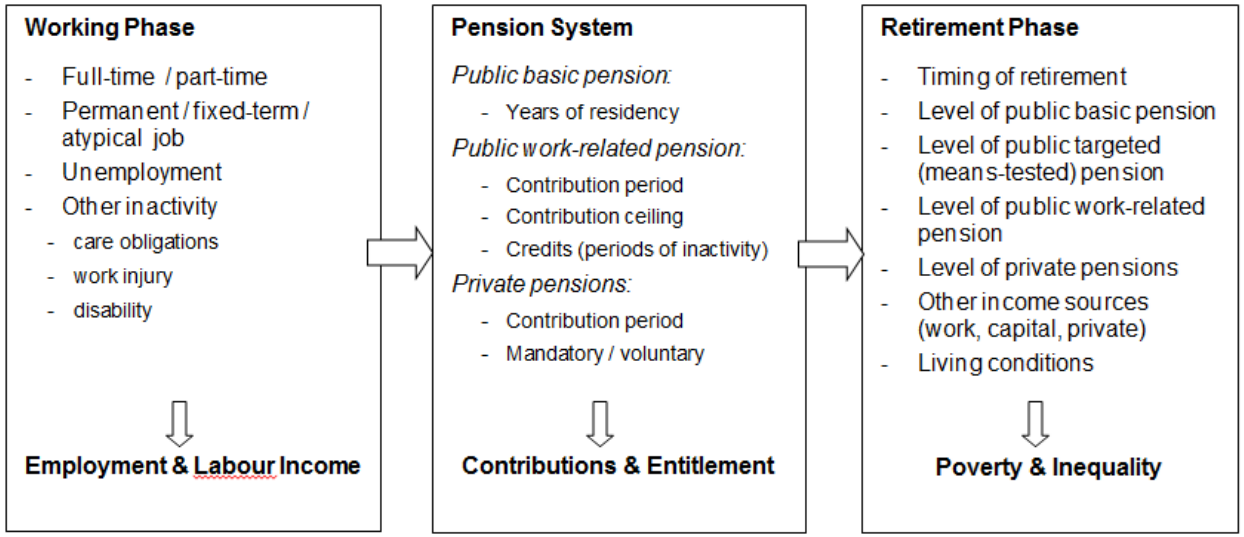
'Small-N' analysis: Most Similar System Design

1) Research perspective

- What is new? - Comprehensive analytical framework for analysing pension system design and pension outcomes. (Part I: Theoretical framework - Chapters 1,2,3)

3 dimensions:
- Pension system characteristics
- Individual labour market attachment
- Living arrangements

➡ Stylised model of retirement income



Source: Neugschwender (2016: p29); Ebbinghaus and Neugschwender (2011: p392), adjusted.

1) Research perspective

Finding 1: In Western European societies pension systems are the major explanatory factor for pension income inequality and reproduction of pre-retirement inequality.

But pension system characteristics vary in a comparative cross-national perspective.

Various actors are involved in pension system design (state, employers, financial institutes).

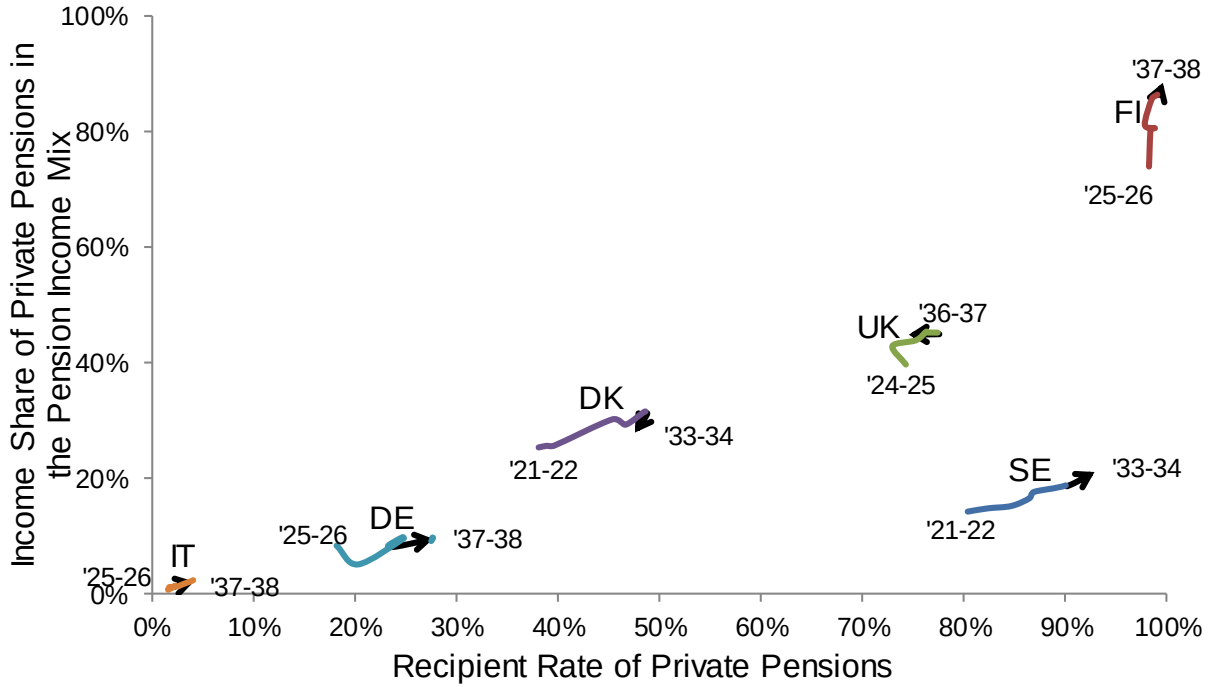
The degree of involvement of these actors follows different state traditions.

➡ As a result, pension systems create cross-national differences with respect to poverty prevention (*pension adequacy*) and income maintenance (*income replacement*).

1) Research perspective

Finding 2: Public (mandatory) first-tier schemes left different scope for development of complementary second-tier schemes.

- a) depending on the public pension system tradition complementary second-tier schemes have been *crowded out/in*.

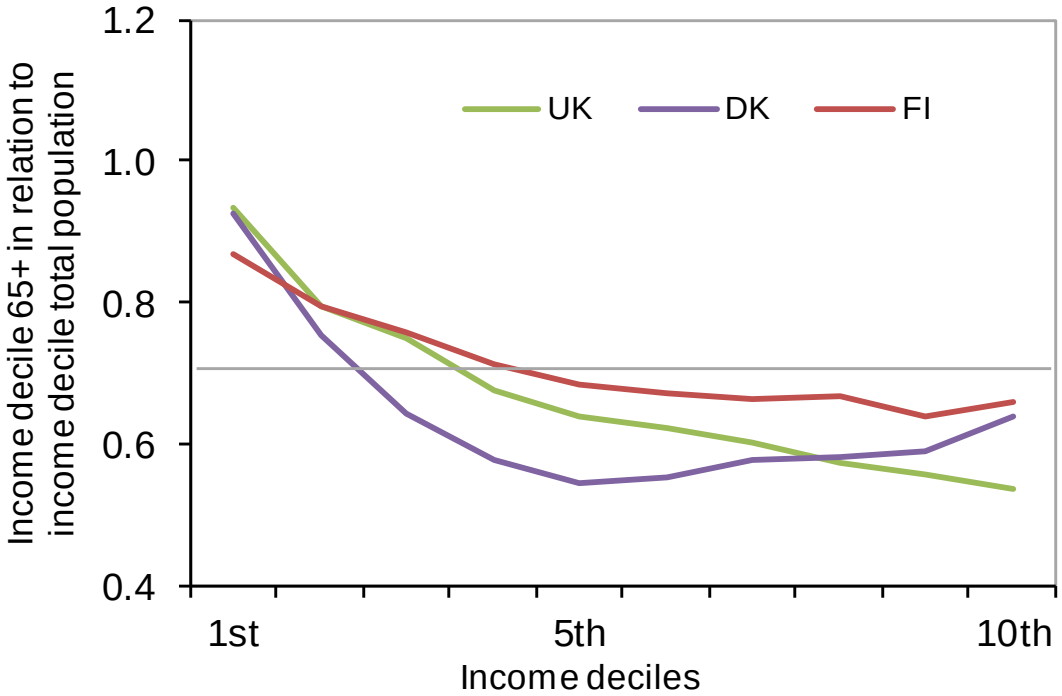


Source: Neugschwender (2016: p122); own calculations based on Luxembourg Income Study (LIS) Database.

1) Research perspective

Finding 2: Public (mandatory) first-tier schemes left different scope for development of complementary second-tier schemes.

- b) voluntary second-tier schemes create selective coverage, as they are not considered equally important, or are a financial burden for low to medium income earners.

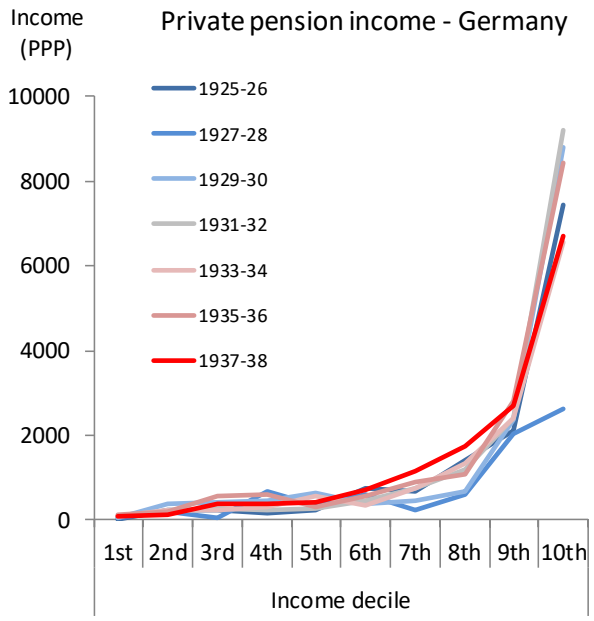


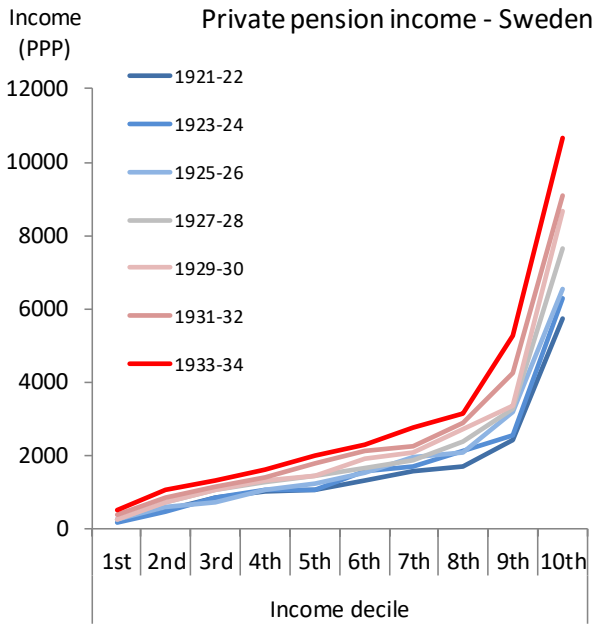
Source: Neugschwender (2016: p90); own calculations based on Luxembourg Income Study (LIS) Database.

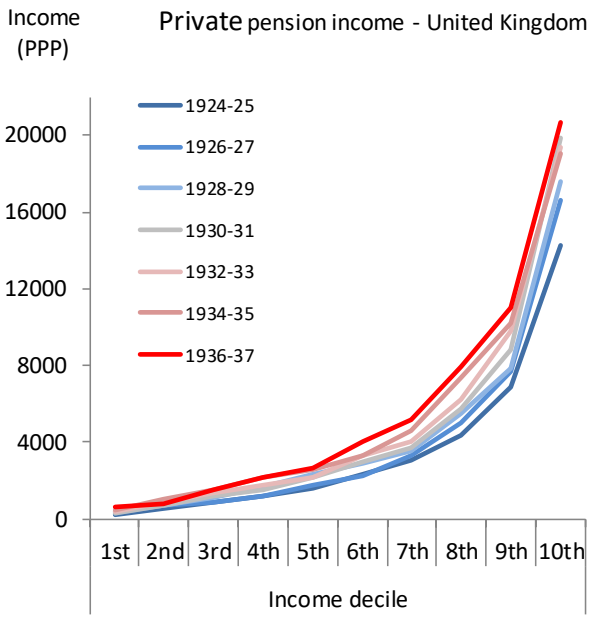
1) Research perspective

Finding 2: Public (mandatory) first-tier schemes left different scope for development of complementary second-tier schemes.

- c) contribution ceilings create both under-protection and over-protection.

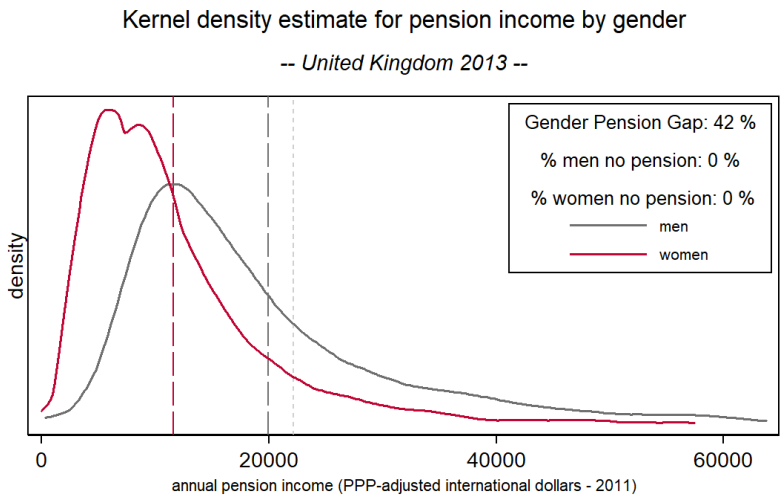


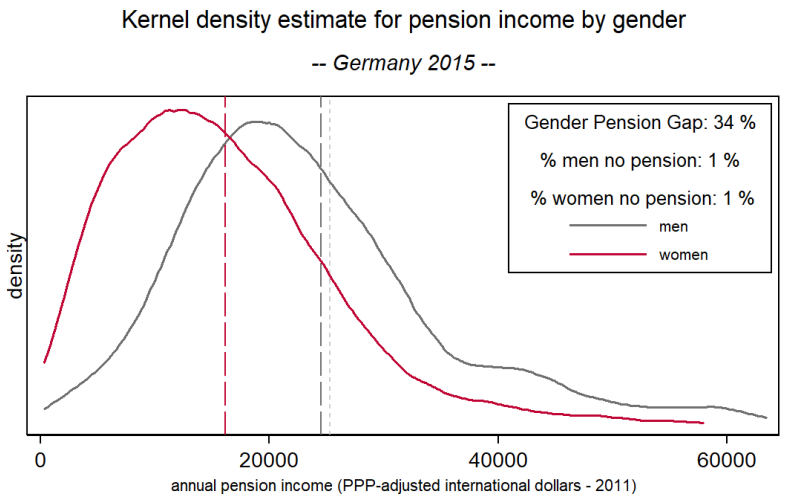


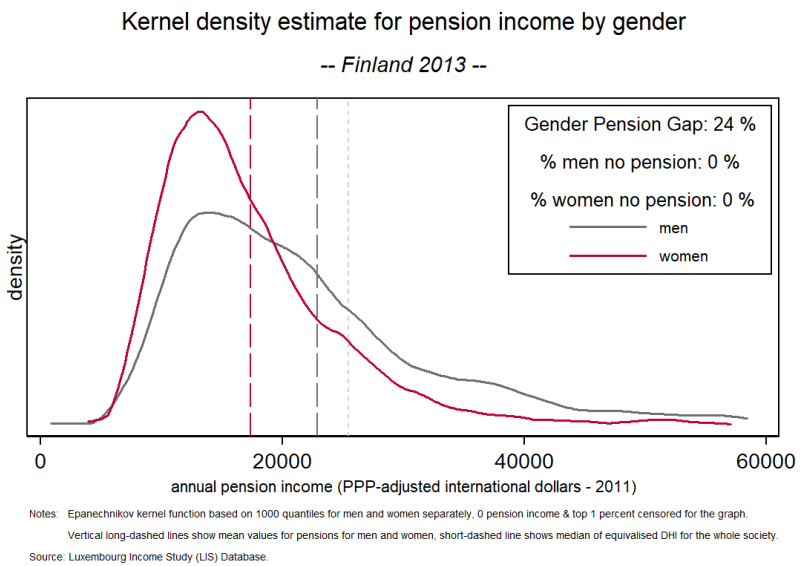


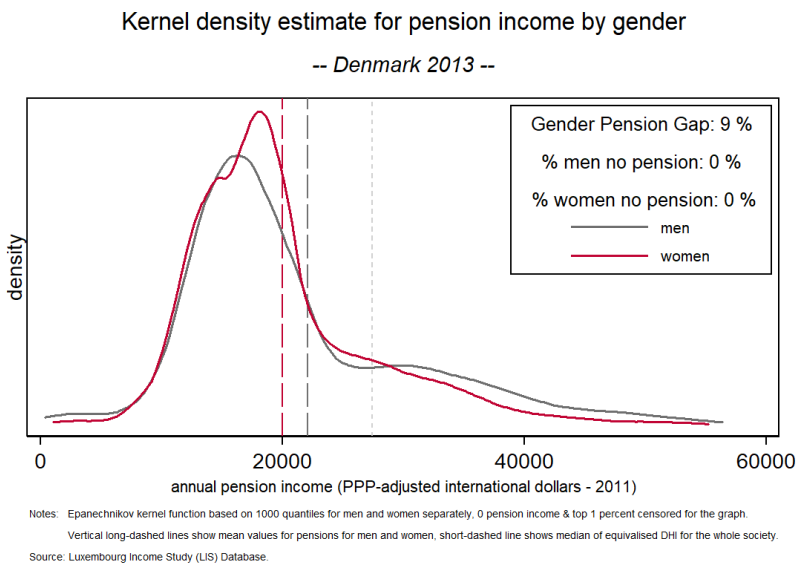
Source: Neugschwender (2016: p127/8); own calculations based on Luxembourg Income Study (LIS) Database.

2) Data analyst perspective









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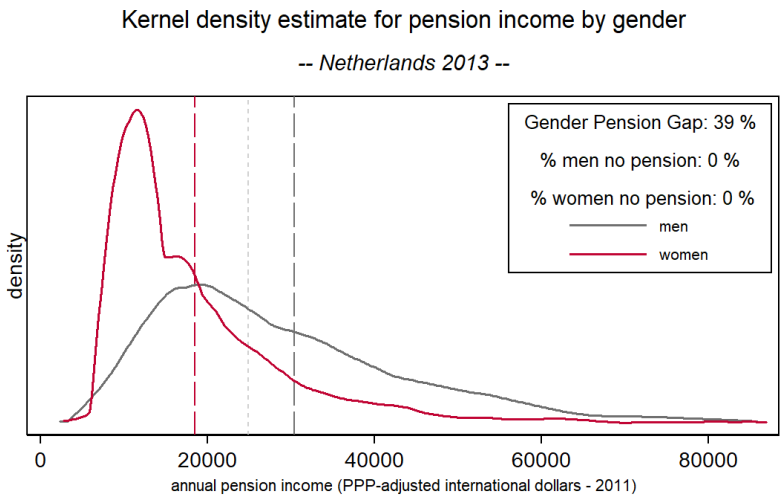

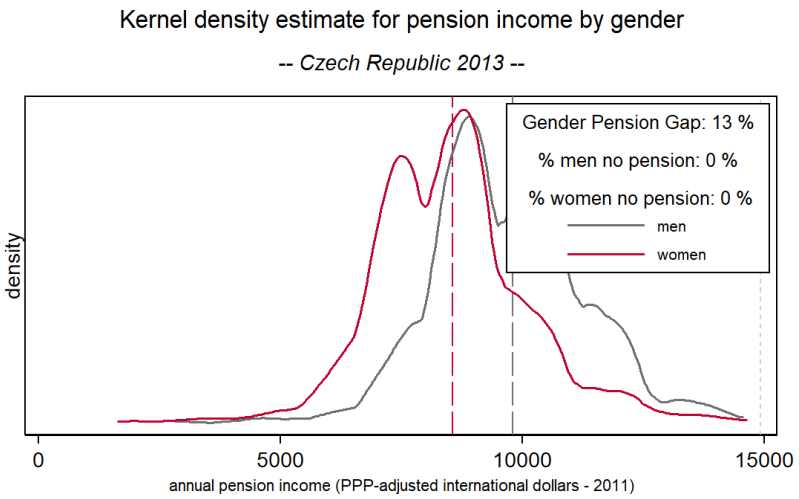

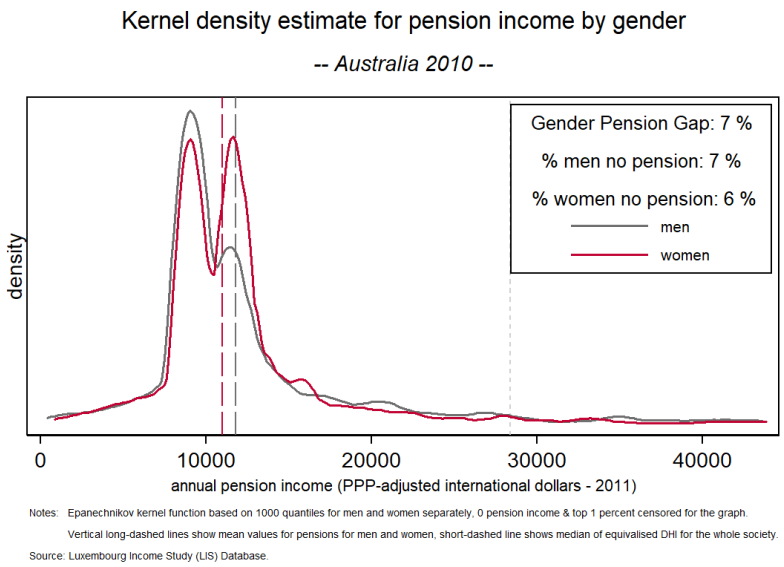

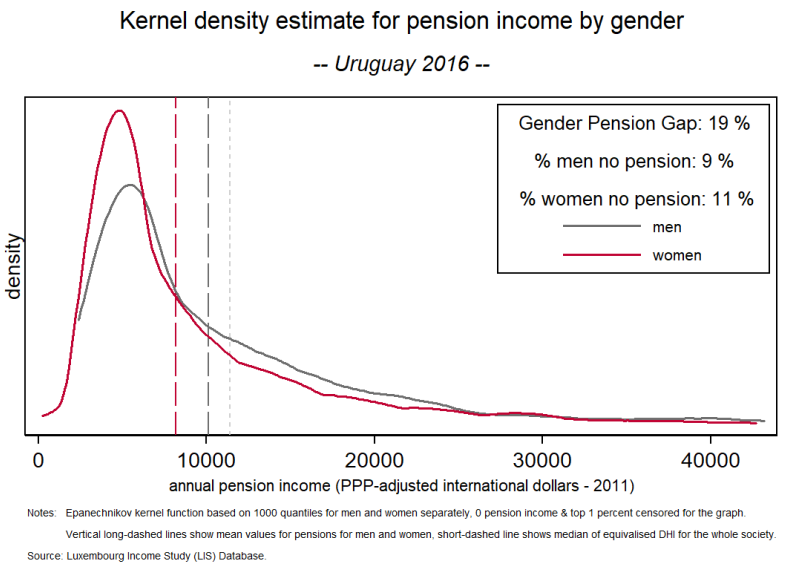

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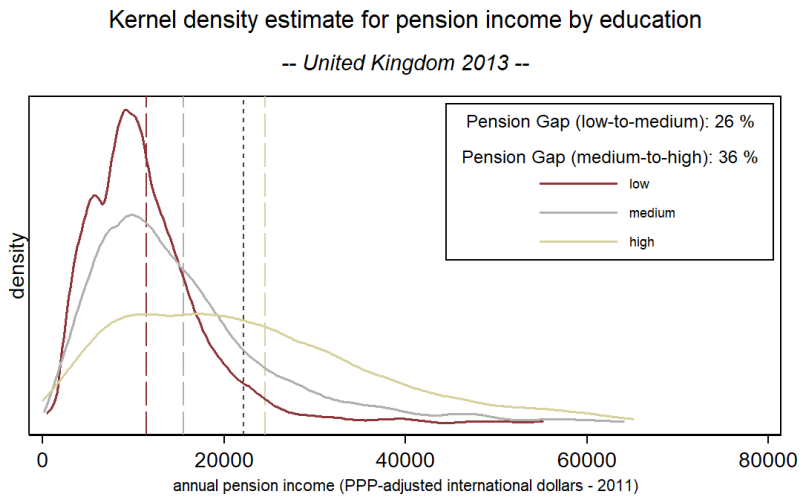
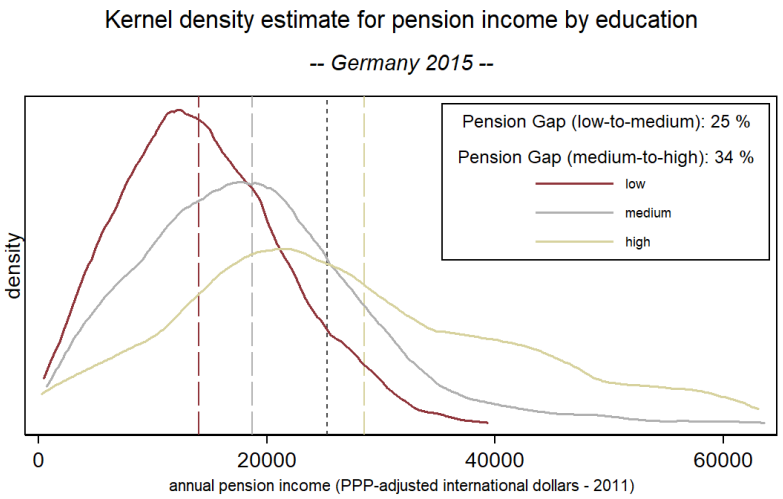
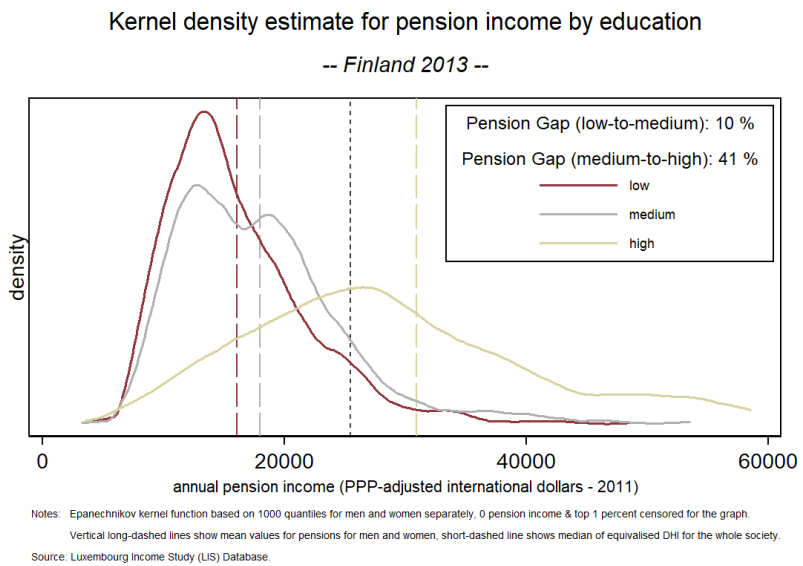
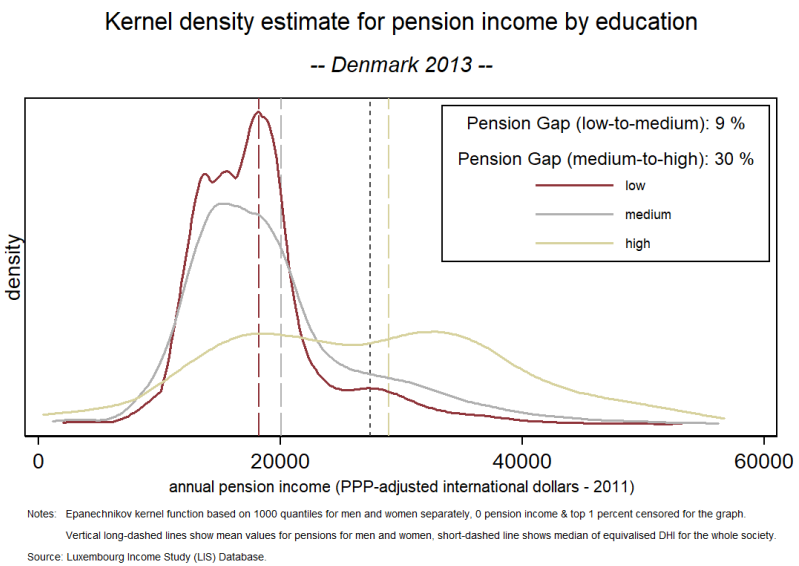
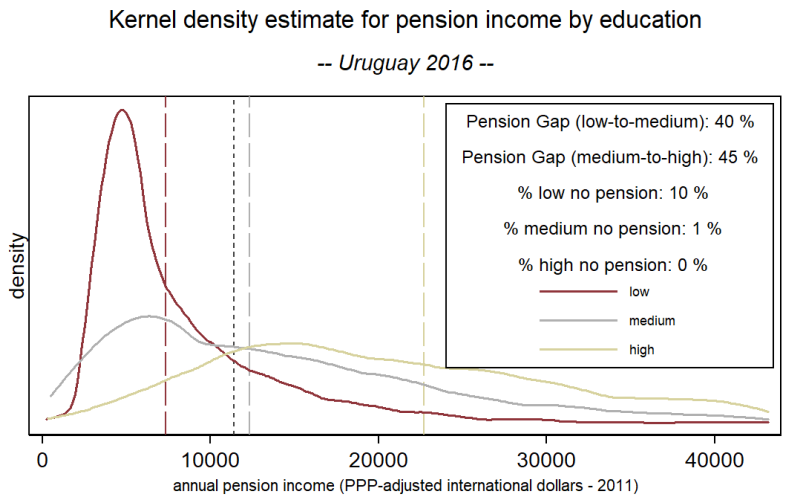


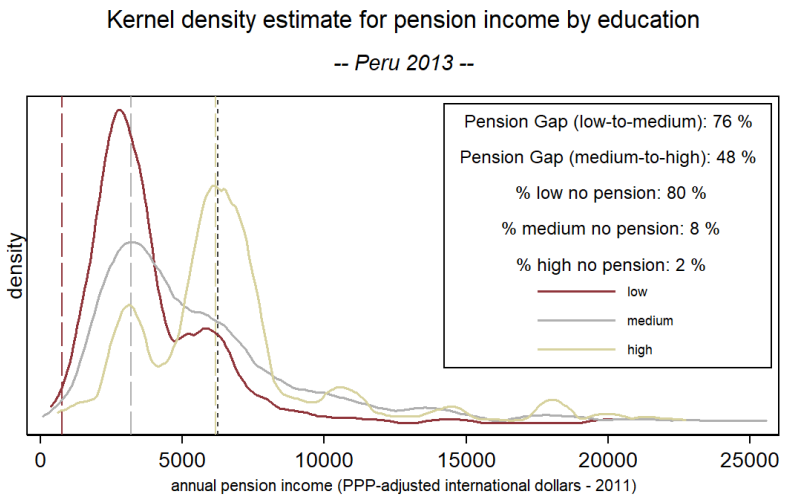


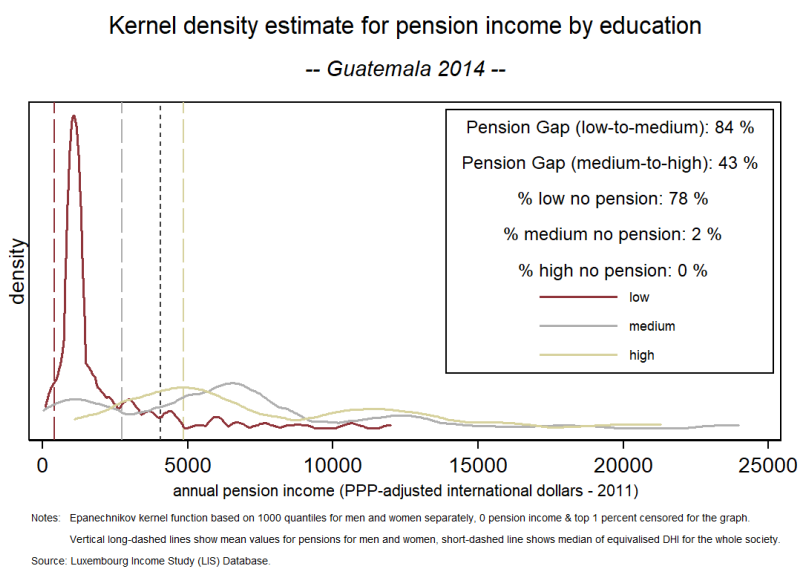


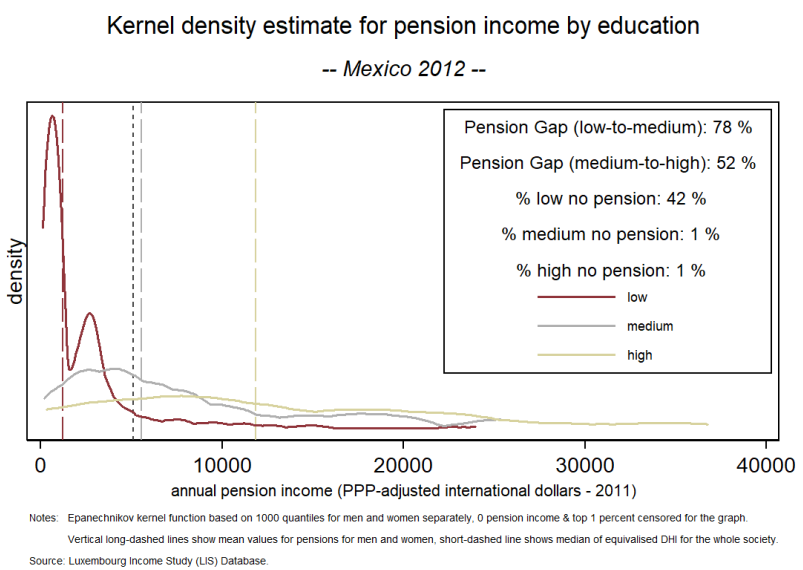


2) Data analyst perspective









3) Policy advice

a) strong variation in historical paths of pension systems

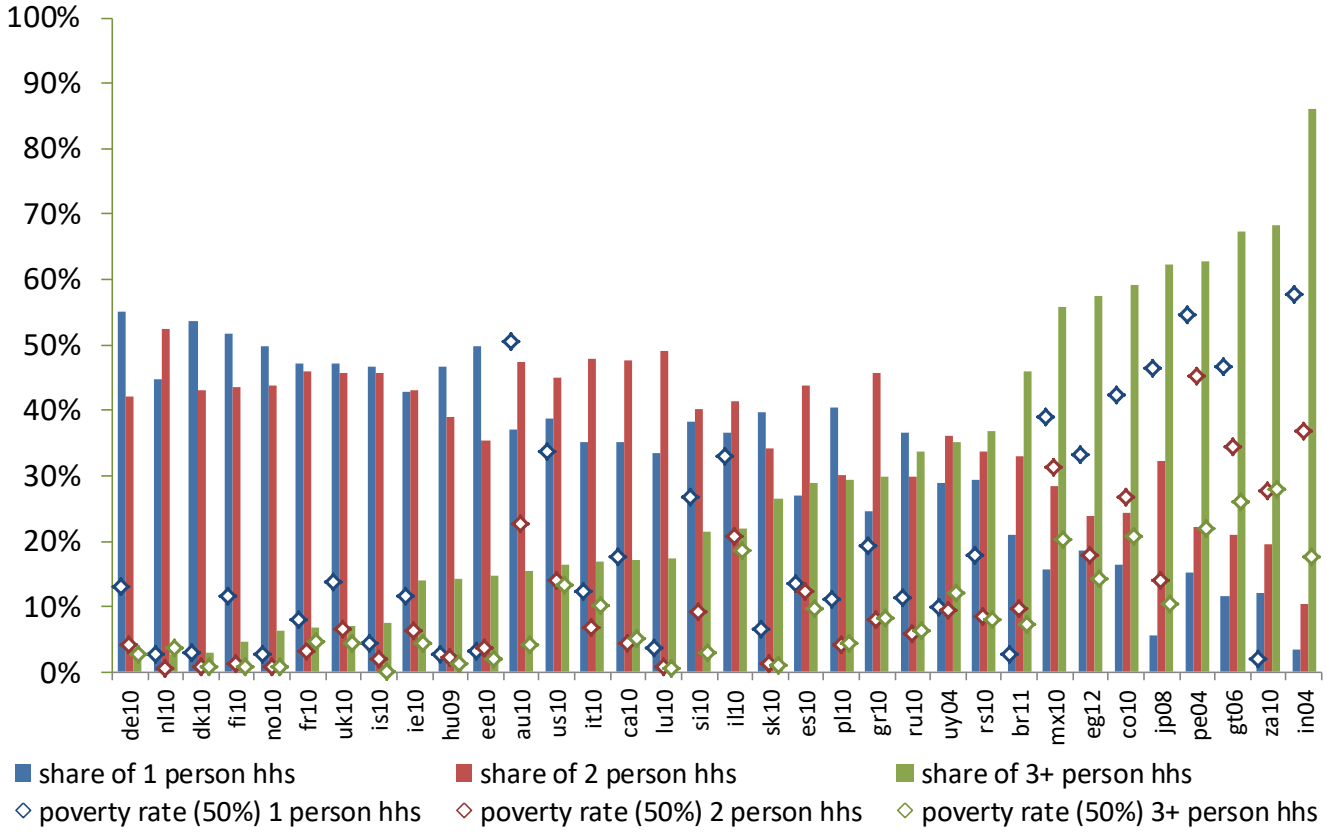
Denmark	Sweden	United Kingdom	Germany
- basic pension (citizenship) - basic pension supplement (income tested) - *ATP* (working hours)	- (basic pension), since 1999 guaranteed pension - (*ATP* (earnings-related pension)) - since 1999 *Income Pension* (earnings-related pension)	- basic pension (years in employment) - *Pension Credit* (means-tested) - *SERPS/S2P* (earnings-related pensions) or …	- social assistance for the elderly - *GRV* (earnings-related pension)
- *Labour Market Pensions* (collective agreements)	- various private and public sector schemes (collective agreements)	… contracting out to occupational /personal pension (voluntary decision)	- earnings-related pension (partially via collective agreements) & state subsi-dised personal pensions
collectivist path but still maturing (low recipient rate)	collectivist path matured (high recipient rate)	individualist/ firm-based path matured (selective)	'topping-up' individualist path (low recipient rate)

social assistance | public pillar | occupational & personal pillar

3) Policy advice

b) strong variation in living arrangements & risk of poverty

Living arrangements by household size & poverty rates (65+)



Source: Neugschwender (2016: p41); own calculations based on Luxembourg Income Study (LIS) Database.

3) Policy advice

- Pension reform measures of earnings-related pensions change very slowly future pension outcomes (→*'forward looking'* pension system design).
- But in the meanwhile social contexts are changing (post-industrialism, labour market participation of women, reconciliation of work/family, divorce & single parenthood, ageing societies).
- Employment career interruptions (unemployment, disability, child raising) can lead to substantial interruptions of contribution periods, if no credits are foreseen.
- Labour market stratification/occupational segregation are major challenges for individualised old-age provision (means-tested vs. earnings-related pension).
- Contribution years vary by gender (4.9 years – EC: Pension Adequacy Report 2018), occupation, education level.
- Contributions should pay off, guaranteeing pension adequacy and income replacement (but, avoid wrong incentives).

3) Policy advice

The 'ideal' pension system:

- Bridge between labour market attachment, living arrangements, and stable (individualised) saving for old age and risk protection.
- Protection of 'insiders' and 'outsiders'.
- Redistribution to those in need.
- Close interaction between public, occupational, personal pension schemes (subsidise redistribution mechanisms in occupational/personal schemes?).

→ Two goals: poverty prevention and (mandatory) income maintenance.

There is a lot to be learned from jointly discussing & assessing policy scenarios across policy fields (→re-think social protection from a wider perspective).

Social protection among the elderly not only mirrors individual employment careers and savings choices, but also interacts strongly with outcomes of other policy fields.

Priority: reduce gender pay gap New challenge: education pay gap?

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Thank you!

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https://inequalityoldage.wordpress.com

CROSS-NATIONAL DATA CENTER in Luxembourg

Paris, OECD
06-Jun-18

INPARR International Research Seminar:
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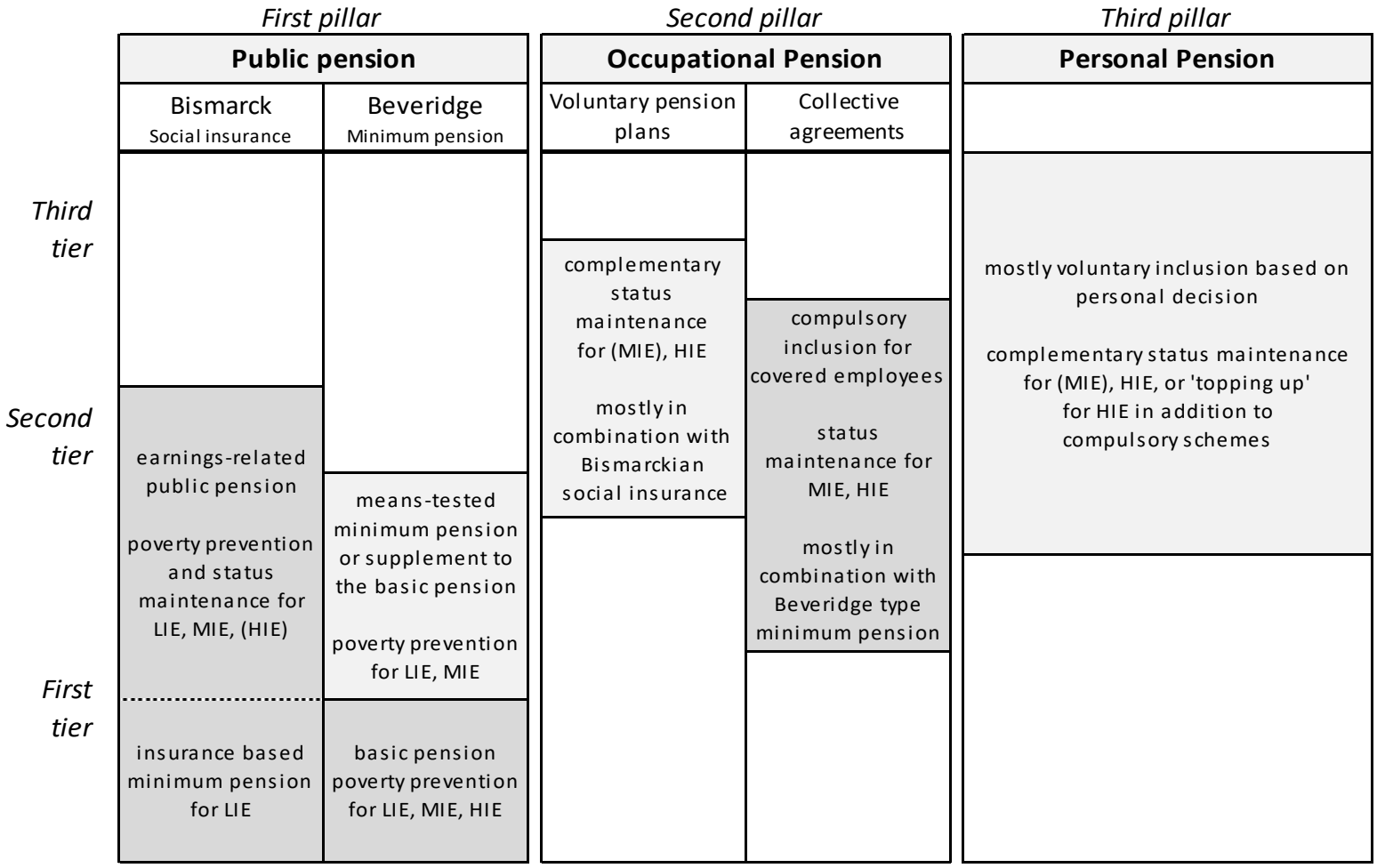
Pension pillars and pension income tiers



Notes: LIE=low-income earner; MIE=medium-income earner; HIE=high-income earner.
Light grey schemes refer to selective coverage; dark grey schemes refer to comprehensive coverage.

Source: Neugschwender (2016: p15).

Main characteristics of the pension system and public-private income mix

Denmark

by pillars
- tradition of public pension: *Beveridge*
- structure of occup. pension: *labour contracting*

by tiers
- poverty prevention: *basic minimum pension*
- status maintenance: *(public)+occupational*

by income source
- share of public pension: *medium-high*
- share of private pension: *low-medium*
- recipient rate of private pension: *low-medium*

Germany

by pillars
- tradition of public pension: *Bismarck*
- structure of occup. pension: *voluntary+(labour contracting)*

by tiers
- poverty prevention: *none; social assistance*
- status maintenance: *public+(occupational)*

by income source
- share of public pension: *high*
- share of private pension: *low*
- recipient rate of private pension: *low*

United Kingdom

by pillars
- tradition of public pension: *Beveridge*
- structure of occup. pension: *contracting out*

by tiers
- poverty prevention: *targeted minimum pension*
- status maintenance: *public+occupational+personal*

by income source
- share of public pension: *medium*
- share of private pension: *medium*
- recipient rate of private pension: *high*

Sweden

by pillars
- tradition of public pension: *Beveridge+Bismarck*
- structure of occup. pension: *labour contracting*

by tiers
- poverty prevention: *guaranteed minimum pension*
- status maintenance: *public+occupational+(personal)*

by income source
- share of public pension: *high*
- share of private pension: *low*
- recipient rate of private pension: *high*

Finland

by pillars
- tradition of public pension: *Beveridge*
- structure of occup. pension: *mandatory by law*

by tiers
- poverty prevention: *targeted minimum pension*
- status maintenance: *occupational*

by income source
- share of public pension: *low*
- share of private pension: *high*
- recipient rate of private pension: *high*

Italy

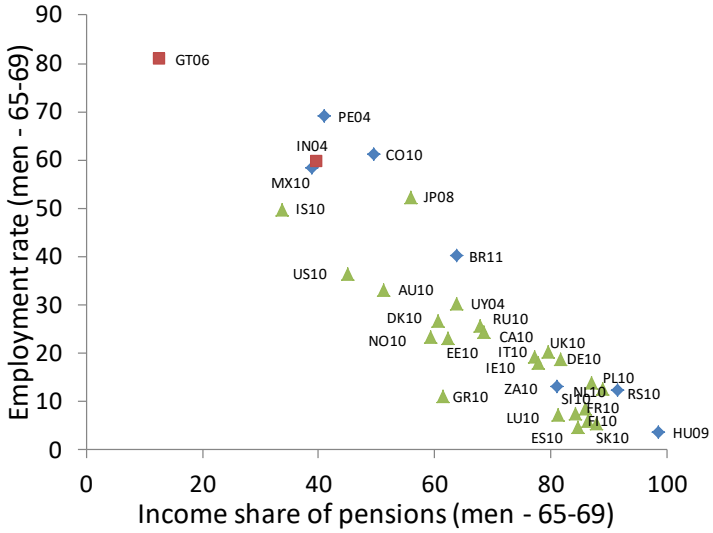
by pillars
- tradition of public pension: *Bismarck*
- structure of occup. pension: *voluntary*

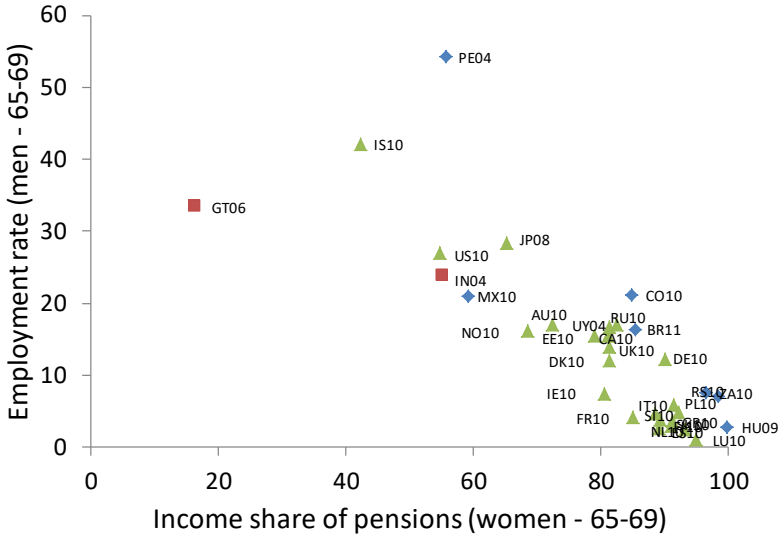
by tiers
- poverty prevention: *income-tested minimum pension*
- status maintenance: *public*

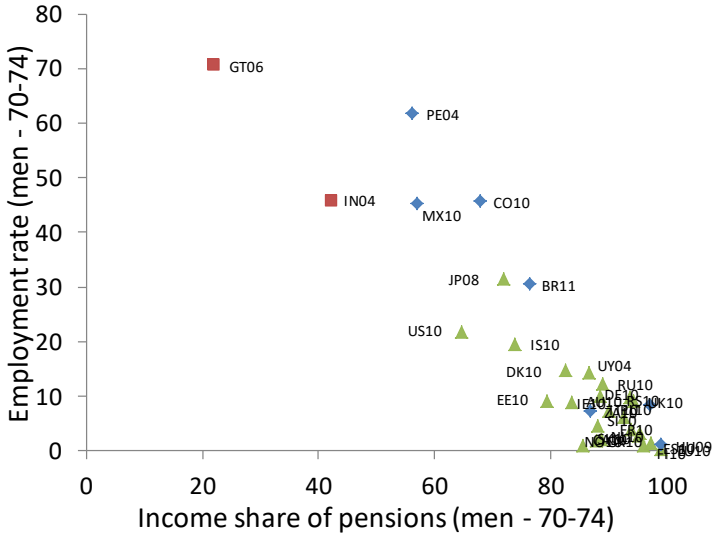
by income source
- share of public pension: *high*
- share of private pension: *marginal*
- recipient rate of private pension: *marginal*

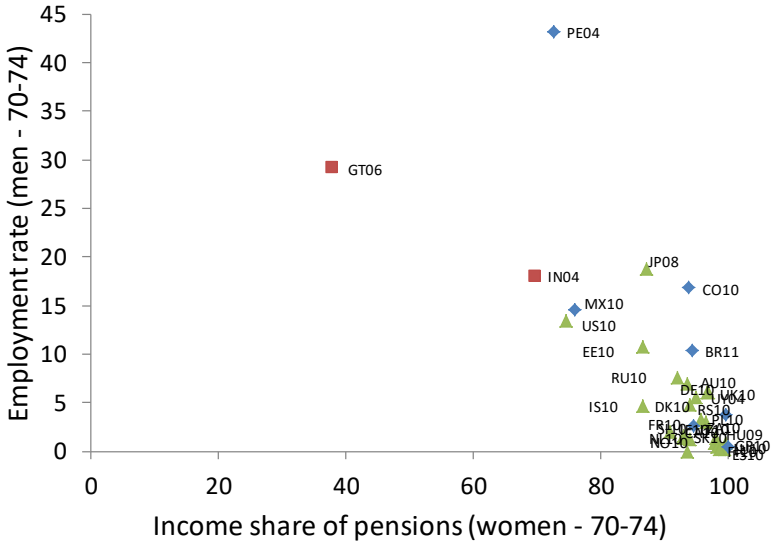
Sources: Neugschwender (2016: p71); Behrendt (2000); Ebbinghaus and Gronwald (2011); Rein and Turner (2004); OECD (2007).

Labour market attachment and pension income (65+)









Sources: Neugschwender (2016: p49); own calculations based on Luxembourg Income Study (LIS) Database.