WORKING PAPER
Executive Summary
NOVEMBER, 2004, WP # 2004-25

center for
retirement
research
at boston college

SLIDING INTO POVERTY? CROSS-NATIONAL PATTERNS OF INCOME SOURCE CHANGE AND INCOME DECAY IN OLD AGE

BY JAMES M. WILLIAMSON AND TIMOTHY SMEEDING

This paper is about the way that "retirement" income packages change as people age and the adequacy of those incomes at older ages. We use the rich detail of incomes for cohorts of the aged in five nations, afforded by the Luxembourg Income Study project, to investigate the changes in the level and composition of the incomes of those born early last century.

Previous research has shown that the oldest old, especially older widows, divorcees, and especially single women living alone, have the highest chance of poverty in all nations. As cohorts age, the pattern of lower incomes (relative to younger cohorts) and higher poverty is extant in most rich nations. We also know from United States and German panel data studies that widowhood is a major cause of elder women poverty. But we also know that, by design, some national old-age benefit systems are able to better maintain the relative incomes of the aged in general and older women in particular as people age. How and why these changes in incomes at older ages take place is, however, not well known or understood.

Nations have different rules for adjusting public old age benefits for price or wage changes, and many nations have floors for income protection which are indexed differently than other types of old age benefits. In some nations, benefit levels change when demographic events occur (death of a spouse, changes in household composition for survivors, divorce) or as a result of earlier demographic events (e.g., for time spent not at paid work, but in raising children). Occupational pensions behave still differently than do social retirement schemes, where the choice of survivor options, indexing beyond retirement age, and other features differ within as well as between nations. A better understanding of how these complicated changes in income packages take place over time and across nations is the main goal of this paper.

We find that social retirement and other social transfer benefits make up a large percentage of the income mix of the oldest old across all five countries in our study, and the importance of these benefits grew as a source of total disposable income as our synthetic cohorts aged. Social retirement benefits accounted for nearly 60 percent of the income for those who receive these benefits and in the oldest cohort receipt is close to 100 percent.

The income figures from private sources also tell a story about the changing role of labor earnings and private wealth in an older woman's income package. As we would expect, labor earnings as a source of income fell for the youngest cohort (years 1920-1929) as it aged. When the cohort was under 60 it had a labor force participation rate that was slightly above 60 percent, but it declined steadily as the cohort aged past 65. The older cohorts in our study had already aged past 65 and therefore had low levels of labor force participation when we began observing them. For the few older women who still worked, labor earnings made up one-half of total disposable personal income (DPI); a pattern that was true for all countries but Sweden.

Occupational pension income was a much more important income source for the youngest women in our study. It accounted for approximately 40 percent of DPI, and receipt ranges from 60 to 75 percent at its highest. The value of occupational pensions to women's incomes in the United States relative to the other countries of our study remained constant over the three panels, aside from the outlier values from Australia. The oldest cohort of women relied on occupational pension income for a smaller percentage of their DPI, but only 40 percent received any income from this source.

Finally, interest, rent, and dividends played a minor role in the financial status of older women. One factor responsible for the relatively low value of property could be that much wealth is held in the form of housing. Another is health events that required large out-of-pocket spending.

It is also evident that homeowners are falling into poverty at a lower rate than renters, and in many cases, even rising out of poverty. In the United States and Australia, the trend in poverty increased for both, but accelerated faster for renters. On the other hand, poverty rates declined for homeowners and renters in Canada. Whether homeownership provides income security to older women or rather older women with higher incomes are just more likely to own their home is a question for further study.

In the end we found the countries with the best record on poverty, Canada and Sweden, were the countries that had instituted higher replacement rates for their social transfers programs, albeit for different reasons. In Sweden, the reason was a long-term labor force attachment and combined tiers of social retirement. In Canada, the explanation was their social retirement benefits programs. The institution of the Guaranteed Income Supplement (GIS) in Canada effectively created a floor below which incomes for older adults could not fall. Finally, the exercise of changing the poverty thresholds provided evidence that targeted transfers to help the very poor can achieve large results. If governments raise the incomes of the very poor by 10 percent, in the case of very old women, poverty can be reduced by 25 percent.

CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

Fulton Hall 550, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808
phone 617.552.1762 fax 617.552.1750 crr@bc.edu www.bc.edu/crr