European Comparative Research on Ageing conference, June 23-4th 2006, Vechta, Germany

Pension Poverty: Who is vulnerable and why?

Jay Ginn

Centre for Research on Ageing and Gender
Sociology Department
University of Surrey, Guildford
j.ginn@surrey.ac.uk

Pension systems: Wider than welfare

1. **<u>Who is vulnerable?</u>**
   Pension systems influence older people's

- poverty rates
- inequalities - income distribution
- security
- dignity

2. **<u>Why do pension inadequacy and inequality persist?</u>**
   Challenging 'orthodox' pension policies

- Privatisation not necessary
- Erodes solidarity
- Adverse financial effects, within countries and globally

  (R. Minns and others)

Social Division of Welfare

Three sources of welfare (Titmuss, 1955):

1. State provision -social insurance
2. Occupational -employer schemes
3. Fiscal -tax relief

- Different social groups rely on these three
- The balance affects how economic resources are distributed among older people

At risk of low personal income in later life

- Women, especially those who raised children alone, and carers
- Men who raised children or were carers
- Ethnic minorities
- Working class (also die sooner)
- Seasonal, insecure workers
- Disabled, long-term sick

<u>Examples</u> from Britain's older population:

- Women's median income = 57% of men's (65+)
- Asian women's " = 17-36% of white men's (60-69)

Vulnerable groups mainly rely on state pensions

Poverty rates and gender inequality vary across EU countries

– depends on social policies

How low income affects older people - Britain

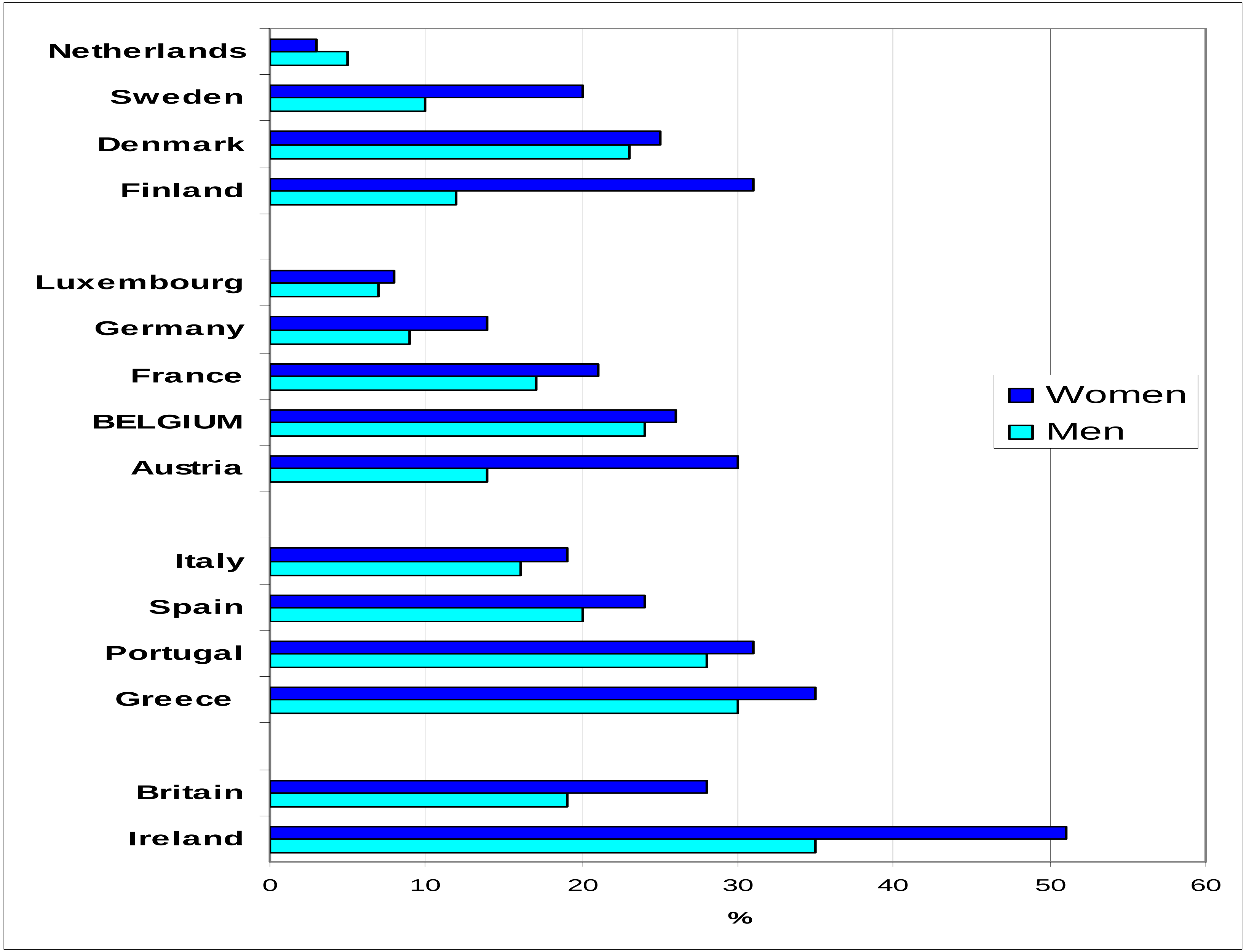
1. Half of pensioners are poor enough to need means-tested benefits
2. Half said they had no new clothes in the past year
3. 91% of lone pensioners and 53% of couples have no car
4. 28% cannot go to social activities because of lack of transport
5. 10% were judged to be malnourished
6. 31,600 died due to cold in winter 2004-5 (excess deaths)

Britain is a wealthy society but socially divided:

Pensioners living on low incomes are often socially excluded, financially insecure, and feel a lack of dignity

1. Pensions Commission 2004
2. Grey Matters: Growing old in deprived areas 2005
3. Help the Aged 2004
4. Office for National Statistics
5. Malnutrition Advisory Group 2006
6. Office for National Statistics

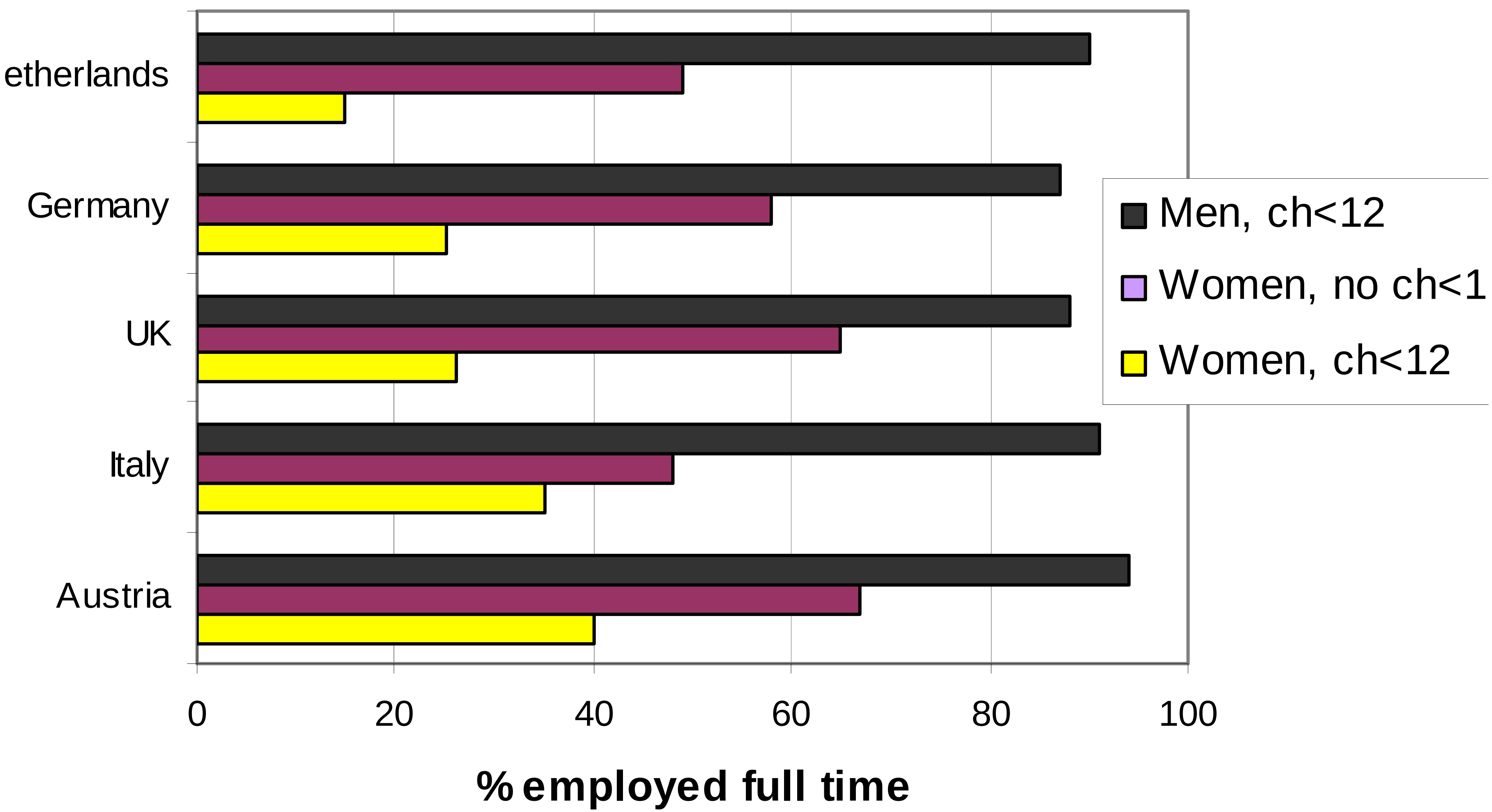
% women and men in poverty, age 65+, 2002



CEC 2003

Full time employment

Men and women aged 20-49 by parental status



EU15: Women-friendly features in state schemes

1. **Flat rate**

UK	- Home Responsibilities Protection
Ireland	- Homemakers Scheme
Netherlands	- universal pension, full if 40 yrs residence
Denmark	- universal tax-funded pension, full if 40 yrs

(level of flat rate pension is especially important for vulnerable groups)

2. Earnings-related

Credits for childcare in most social insurance schemes

Credits for eldercare as well in some

Not enough but better than private schemes

Poverty measurement is problematic

a) **Measuring household income** obscures women's personal poverty (*household income shared equally among members and adjusted for household size)*

b) **Processing data in different ways**. Figures produced by Eurostat gave Britain highest pensioner poverty rate - 39%

Re-worked during 2002 at the insistence of the British government

Revised figures gave a reduced poverty rate

Reported poverty rate for British population aged 65+:

	Men	Women	All
1998	32	45	~ 39% (Eurostat, 2001)
1998	-	-	21% (CEC 2003, revised figure)
2002	19	28	~ 24% (CEC 2003)

SO CAUTION NEEDED!

c. **Poverty relative to what?**

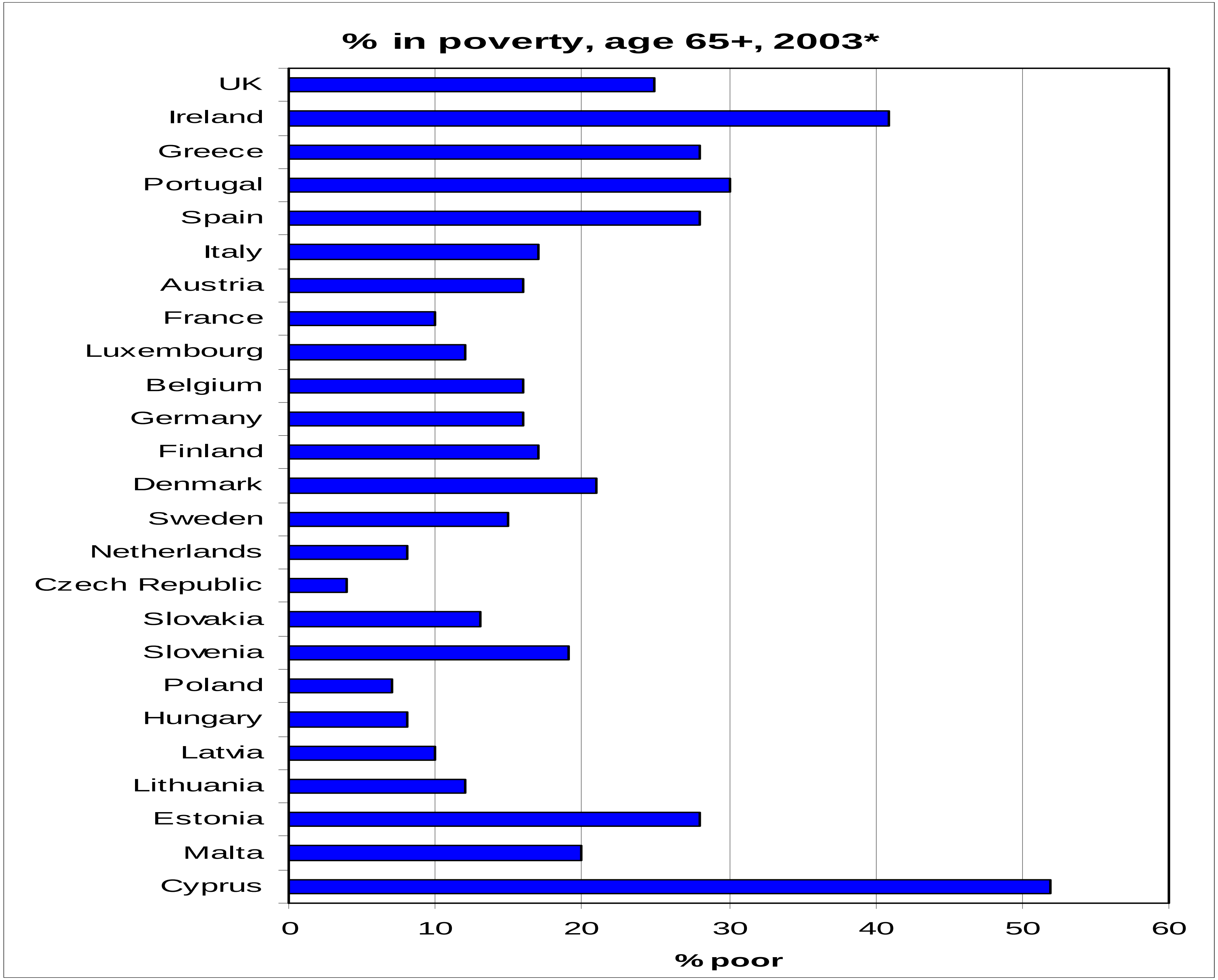
Poverty – relative to what?

Main EU poverty threshold for individuals
= <60% of national median income

Therefore, a low poverty rate for older people tells us little about their absolute standard of living

Should EU also record income of older people in each country relative to EU average income?

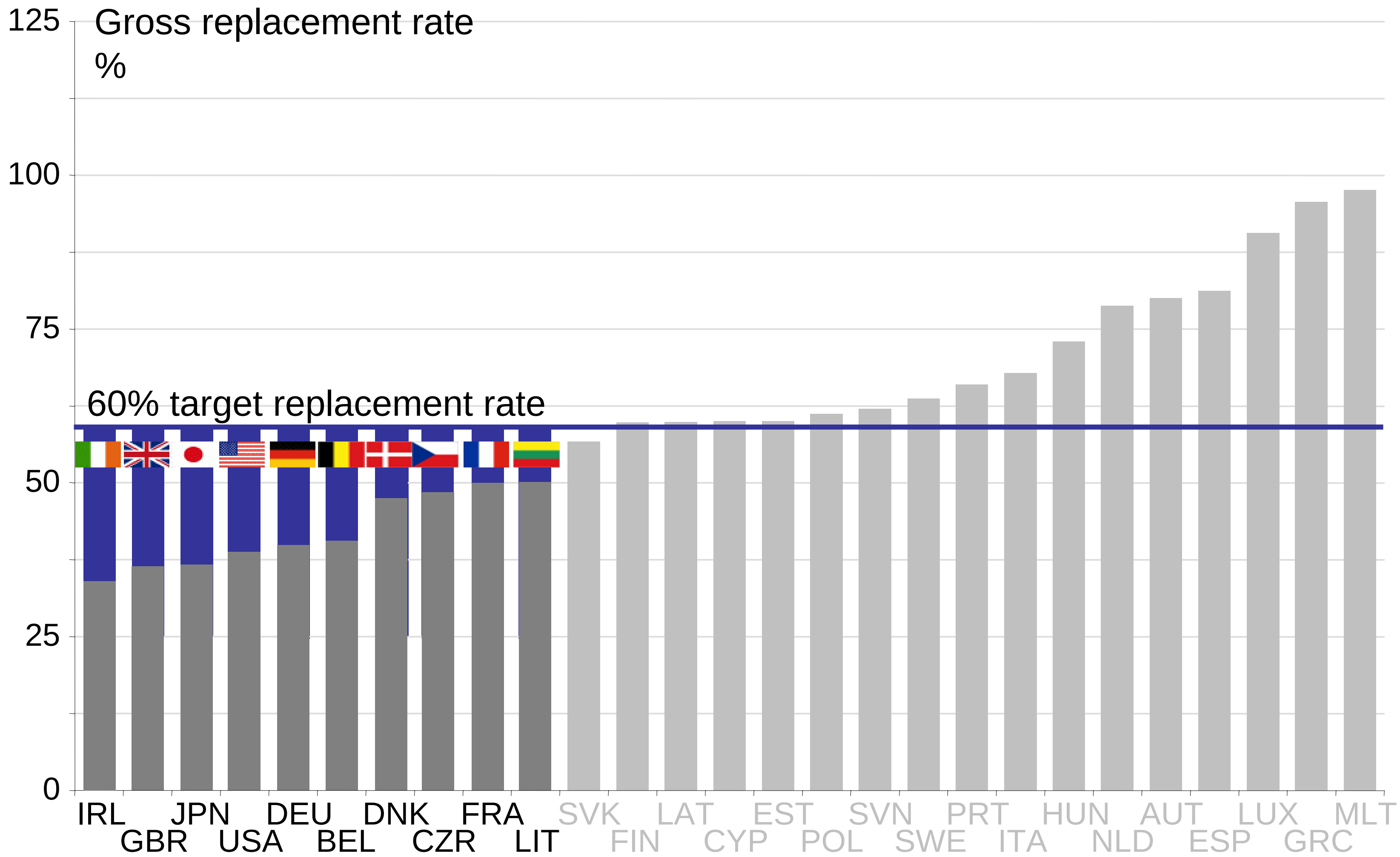
Replacement Rate - income relative to previous wages – is also important. It's surprisingly low in some rich countries



Source: European Observatory on the Social Situation (2005), Figure 1.9

* except FR NL SE LV LT HU PL SL (2002); IT PT (2001); MT (2000)

Gross replacement rates and ‘pension gap’ for average earner



Pearson, OECD 2006

2. Why do pension inadequacy and inequality persist?

Pension reforms follow OECD/World Bank script

- **Cuts in state pensions**
  - reduced indexing
  - longer duration required for full pension

- **Resources diverted towards private pensions**
  - social insurance contributions diverted to private pension schemes.
  - also tax subsidies for saving in private schemes

- **Employers changing from defined benefit (DB) to defined contribution (DC) schemes –** market risk transferred to workers

Move from state welfare towards occupational and fiscal welfare

How to compensate for decline in state pensions?

Working longer and private pensions

Source : Stylised illustration from ISG results on gross replacement rates

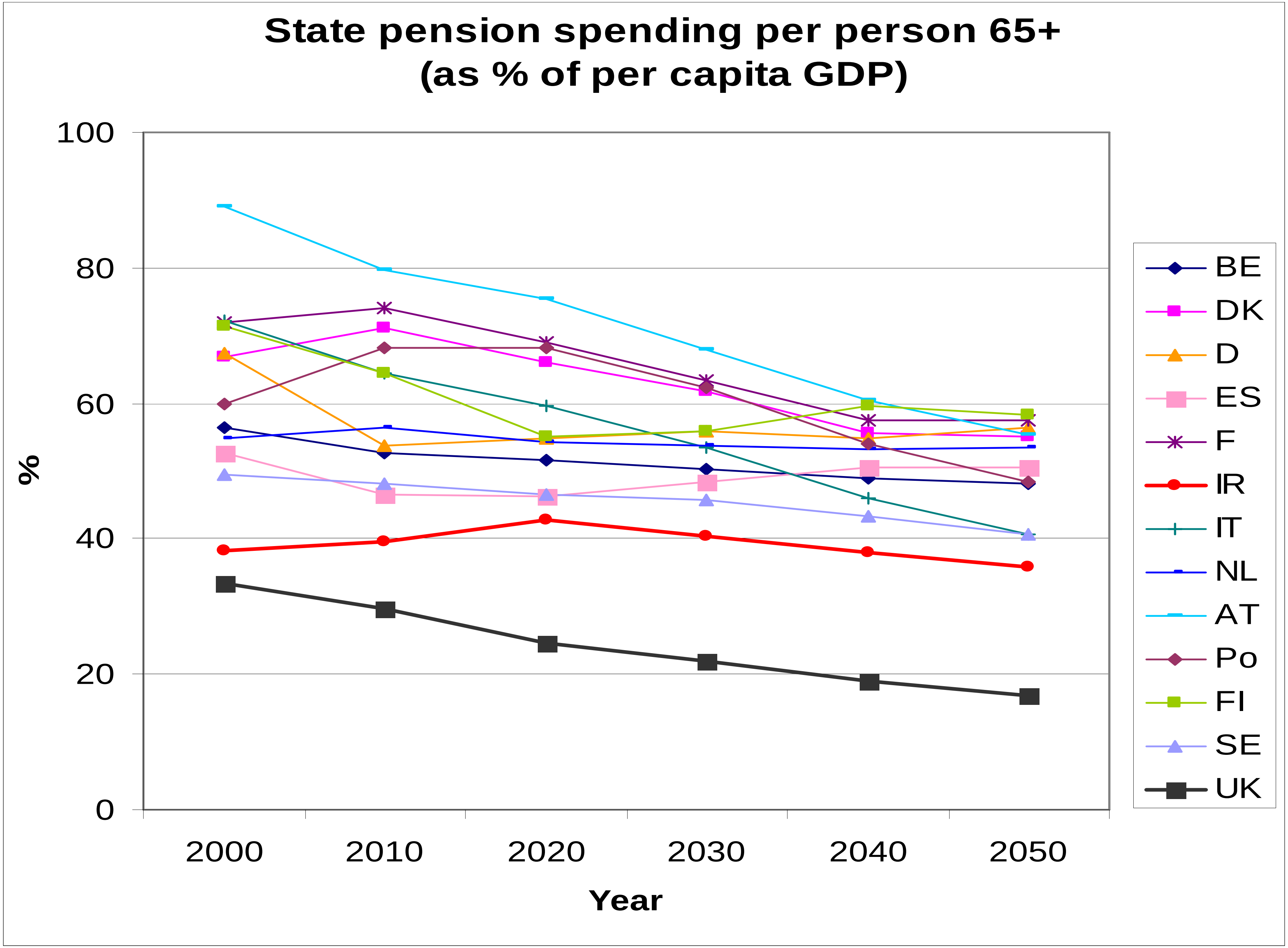
Paserman. 2006 Social Protection Unit. EC

CEE countries – pension privatisation 1998-2005

Employee contributions partly diverted from public to private pensions for younger workers (optional for older)

	HUN	POL	LAT	BUL	CRO	EST	LIT	SLO
Yr of reforms	1998	1998	1999	2001	2002	2002	2004	2005
Private pens	Mand for new	Mand to 29*	Mand to 29	Mand to 42	Mand to 39	Mand to 18	Option	Mand for new
Contributions								
Employee	8%	9%	~10%	~5%	2.5%	2%	5%	9%
Employer	0	0	0	incl.	2.5%	4%	0	0
% enrolled	59	80	45	57	72	63	48	?

*Age thresholds for mandatory contribution to private pension apply to year of reform
NDC=Notional Defined Contribution (quasi-actuarial formula as in Sweden)
Source: K. Mueller



Hughes and Stewart 2000

Orthodox view

(World Bank, ECOFIN, many EU governments, most economists):

A. Existing state pensions are unsustainable due to population ageing and declining support ratio

B. Reducing state pensions and expanding the role of private pensions until they are dominant – the Anglo-American model - solves this problem

C. Private pensions increase national savings and hence economic growth

D. They encourage self-reliance

Pensions Orthodoxy Challenged

Academic comparative research:

Social gerontologists, social policy analysts and some economists refute the 4 claims made in the conventional view

(J. Stiglitz, **R. Minns**, A.Walker, J.Myles, P.Pierson, G.Bonoli…)

Events have tarnished the image of private pensions:

- Fraud (Maxwell, 1990s)
- Incompetent management of funds (Equitable Life)
- Mis-selling of private (personal) pensions (1980s/1990s)
- Stock market collapse (2000-2004)
- Final salary schemes in deficit or collapse (UK and US)
- Retreat of employers from pension provision
- Increasingly employees bear the cost and the risk

A. ‘State pensions are unsustainable with population ageing’

<u>Minns and others:</u>

- ‘Apocalyptic demography’ emphasises age ratios, not economic activity
- Employment rates are higher than in the past (especially among women), so economic support ratio only declines modestly
- Boomer bulge is temporary (peak 2030-2040)

<u>Mullan (2001) and Tomorrow’s Company</u> (2005)

- Rising productivity will absorb the modest fall in support ratio, as in past.

  The average worker will be 2x as productive in 2045, assuming 1.75% pa rise in productivity

<u>Esping-Andersen (1999)</u>

- Fertility is responsive to social policy, so may be stabilised eg Sweden

A. 'State pensions are unsustainable with population ageing'

Taylor (2000) and Myles and Pierson (2001)

- Rising cost of social insurance is partly due to early exit from employment.
- Better employment opportunities for older workers would help.

(40% of those aged 50-65 in UK seeking work cannot find a job)

Blimes and Stiglitz 2006

Direct cost of Iraq war to US =$750bn
Total cost =$1864bn

Tony Blair's projected pension = £123,000pa, cost £25 million

Money is available when there is political will

Sinfield (2000)

UK subsidy to private pensions is 1/3 cost of state pensions in UK.
Over half the benefit goes to top 10% of earners

B. ‘Funding solves the problem of population ageing’

Crawford (economist):

‘Funded and unfunded pensions alike have to be provided out of …contemporary real resources which pension funding cannot alter’ (1997:39)

Minns:

- Funded pensions, like unfunded, are adversely affected by increasing longevity
- When baby-boomers liquidise their assets (ie sell their stocks and draw their annuities) the effect *will be to reduce stock prices and annuity rates*

C. ‘Funding increases savings, hence growth’

Feldstein (US, pro-privatisation):

- Social Security (PAYG) has reduced national savings (1974 on).
- Without extra savings, the case [for privatisation] falls (1997)

Lesnoy and Leimer (US, against):

- Feldstein’s calculation based on a computer error.
- No conclusions can be drawn about effect of Social Security on savings (1987)

Hughes (Ireland, against):

- ‘The balance of evidence does not show that ….funded …pensions significantly increase [savings] (2000)
- Many cannot afford to save. Those who can save switch between pensions and other forms

C. 'Funding increases savings, hence growth'

UK Pensions Commission (2005)

- **90% of new investment funds come from corporate profits, not savings**

Minns (2006):

- **National productive industry may be unable to absorb extra funds or to provide a high return. A glut of savings depresses interest rates, eg Japan**

- **Extra saving means reduced spending on goods and services, limiting economic growth**

- **The search for highest returns leads to investment in risky markets eg Argentina.**

Pension fund assets=43% of world GDP.

- **Expanding pension funds: 'footloose capital', stock market inflation.**
- **Faster transaction speed and churning increase volatility.**
- **Stock market panics damage emerging economies even more than those that are developed.**
- **Pension funds promote take-overs, threatening workers' jobs**

D. Private pensions encourage self-reliance

- An ideological position, with moral overtones
- Implies reliance on social insurance is irresponsible
- Ignores adverse impact of private pensions on the vulnerable (women, other carers, ethnic minorities, sick, low paid) who cannot save
- At odds with solidaristic values of EU population

Pension Privatisation: Why?

Is pension privatisation a sensible response to population ageing?

Are there other reasons why privatisation is preferred by policymakers and their advisors?

'***Arguments for privatisation …are political arguments for changing the distribution of costs and benefits' (Willmore 1998)***

Who Gains from Pension Privatisation?

Minns:

- Financial Institutions (banks and insurance companies) charge fees for fund management, administration and dealing
- Corporations obtain cheaper capital.
- Governments gain money in the short term by selling public assets to pension funds (privatisation of rail, coal, healthcare etc)
- Governments use private pensions to legitimate cuts in state pensions
- International government organisations (World Bank, IMF) achieve expansion of capital markets and influence over economic policies
- Trade unions advocate occupational (private funded) pensions as deferred wages. Although the pensions are not guaranteed, unions cling to their role as negotiators of a fringe benefit

Who loses?

Most workers

- Market risk – both DB and DC pension schemes can fail (Enron, World.com, Equitable Life etc.)
- Charges in DC pensions for management and dealing
- Charges for arranging annuity

Vulnerable groups

- No compensation for caring periods
- Tax relief mainly benefits high paid men
- Lower annuity rates for women in DC pensions
- Cuts in state pensions bear hardest on low paid
- Privatisation reinforces women's pension disadvantage

'The stock market model of social\welfare widens this [class divide] and exacerbates conflict within and between generations, classes and workers' (Minns, 2006: 11).

.

Sustaining state pensions

- **Removing subsidies** for private pensions would release resources to spend on state pensions

  (tax relief is expensive, unnecessary and reinforces gender gap)

- **Better employment opportunities** for women and for all those aged 50-65 would increase revenue

  (need to end age and sex discrimination in employment/training)

- **Adequate independent state** pensions for women would allow phasing out of spouse and survivor pensions

Conclusions

- Comparative research has challenged the orthodox view – that population ageing justifies the World Bank reform model
- Such reforms will magnify the pension disadvantage of vulnerable groups (women, carers, the low paid)
- If there is a pensions crisis, it is a crisis of too many older people in poverty and insecurity, now and in future
- Alternative pension and labour market policies are possible

Thank You

Jay Ginn
Centre for Research on Ageing and Gender
Sociology Dept, Surrey University, Guildford,UK
j.ginn@surrey.ac.uk

Some useful references

Minns, R. (2001) The Cold War in Welfare; Stock markets versus pensions

Short version: Minns. R. (2006) Too Many Grannies? Private pensions, corporate welfare and growing insecurity

Toporowski, J. (2000) The End of Finance. Capital market inflation, financial derivatives and pension fund capitalism

Mullan, P. (2000) The Imaginary Time Bomb. Why an ageing population is not a social problem

Hughes, G. and Stewart, J. (2000) Pensions in the European Union: Adapting to economic and social change

Ginn, J. 2003) Gender, Pensions and the Lifecourse. How pensions need to adapt to changing family forms, Bristol: Policy Press

Ginn, J. Street, D . and Arber, S. (eds) (2001) Women, Work and Pensions. International issues and prospects, Buckingham: Open University Press.