



POLICY BRIEF AUGUST 2006

EUROPEAN CENTRE · EUROPÄISCHES ZENTRUM · CENTRE EUROPÉEN

Poverty of Elderly People in EU25

by *Asgar Zaidi*

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The Project was supported by the European Commission under the Community Action Programm to Combat Social Exclusions

¹ Neither the European Commission nor the organisations with which researchers are affiliated with carry any responsibility towards data used and interpretations made here in this document.

This policy brief on the elderly poverty in EU25 reviews the situation with respect to poverty of current populations of elderly people living in 25 EU Member States. It sets out the base situation against which progress towards poverty reduction and social inclusion of the elderly is to be monitored.¹ In the second policy brief on the same topic, we will provide an analysis of the possible impacts of recent pensions reforms on the *future* populations of the elderly.

How do we measure poverty amongst elderly?

We restrict ourselves to the ‘monetary’ aspects of personal well-being, using income as the measure of the financial personal resources. In order to achieve consistency and international comparability of poverty statistics, the EUROSTAT New **CRONOS** database has been our main data source for the statistics. The Eurostat database is constructed using surveys such as the European Community Household Panel (ECHP), the EU Statistics on Income and Living Conditions (EU-SILC) survey and various national household budget surveys. In spite of the differences of data sources, Eurostat has made every effort to use harmonised methods so as to insure the maximum comparability between definitions and concepts used in the different countries, and thus these poverty statistics provide the best possible comparative information on elderly poverty at the EU25 level. Note, however, that these datasets include only private households, and exclude population groups such as those living in sheltered housing and institutions providing nursing and living care.²

² For detailed discussion on concepts and methods used in measuring elderly poverty, see Zaidi, Makovec, Fuchs, Lipszyc, Lelkes, Rummel, Marin & De Vos (2006) “Poverty of Elderly People in EU25”, Report submitted to the European Commission.

What do we find?

In the early years of the 21st century, about 13 million elderly people are at risk of poverty in 25 EU member States, amounting to as many as one-in-six of all 74 million elderly people living in EU. These results are calculated by using the 60% of median income poverty threshold for each respective country. As is shown in Table 1, Cyprus, Ireland, Spain, Portugal, Greece and the United Kingdom are identified as the countries with the highest poverty risk for the elderly population. The new Member States are largely countries with the lowest risk of elderly poverty – the average poverty risk for the elderly in EU15 (19%) is more than twice as high as that observed for the elderly of the new Member States (9%).

The above findings should be viewed with an understanding that the poverty thresholds against which the poverty situation in a country is measured are derived from the value of the national median income (standardised so as to take account of composition of households). Thus, the low poverty risk for the elderly in the new Member States is a reflection of the fact that the elderly income situation is not very different from that of the younger population. Another critical difference between the EU15 States and the 10 new Member States (NMS10) is that the life expectancy at birth in the NMS10 is about 6 years less than that in the EU15. While those aged 65+ are 17% of the population in the EU15 and just 13.6% in the EU10, the EU10 spend 10.9% of GDP on pensions, compared to 10.6% spent by the EU15. And, more crucially, the proportion of those aged 80+ is 2.6% in the NMS10 compared with 4.3% in the EU15.

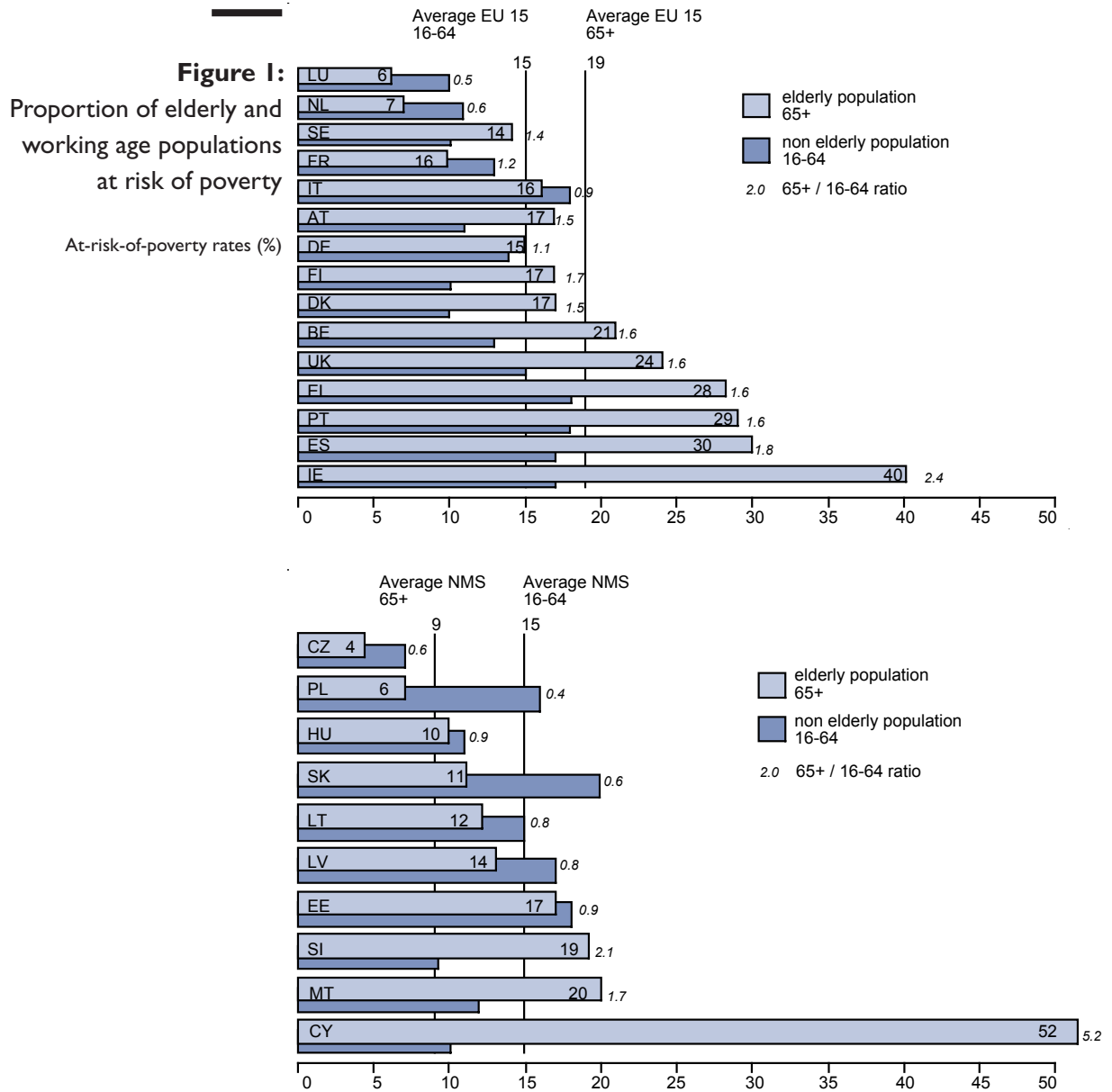
Table I:		Country	Year	at-risk-of-poverty rate (%)	Poor pop. (000)
Proportion and number of elderly population (aged 65 and above) at risk of poverty in the EU Member States, using 60% of median income as the poverty line		Cyprus	2003	52	44
		Ireland	2003	40	176
		Spain	2003	30	2,112
		Portugal	2003	29	504
		Greece	2003	28	539
		United Kingdom	2003	24	2,268
	Source:	Belgium	2003	21	370
	Eurostat's New Cronos Database	Malta	2000	20	9
	Notes:	Slovenia	2003	19	56
	The year refers to the income year.	Austria	2003	17	213
		Denmark	2003	17	135
		Estonia	2003	17	37
		Finland	2003	17	135
		France	2003	16	1,561
		Italy	2003	16	1,743
		Germany	2003	15	2,167
		Latvia	2003	14	52
		Sweden	2003	14	215
		Lithuania	2003	12	61
		Slovakia	2003	11	68
	Hungary	2003	10	156	
	Netherlands	2003	7	154	
	Luxembourg	2003	6	4	
	Poland	2003	6	294	
	Czech Republic	2002	4	57	
	EU 25	2003	18	13,350	
	EU 15	2003	19	12,156	
	New Member States	2003	9	902	

What is the relative poverty risk for the elderly?

The results reported in Figure 1 compare the poverty risk for the elderly (65+) and the working-age individuals (aged 16-64), using the 60% of median income threshold. It also shows the relative poverty risk ratio of the elderly, calculated by dividing the at-risk-of-poverty rate of the elderly by that of the population aged 16-64.

In 14 out of all 25 member countries, the elderly populations are more often at risk of being poor in comparison to the working-age populations. The relative risk of elderly poverty is particularly high in Cyprus, Ireland and Slovenia; in these countries the at-risk-of-poverty rates for the elderly are more than twice as high as the at-risk-of-poverty rates for the population aged 16-64. In Spain, Malta, Denmark, Finland, Portugal, Greece, the United Kingdom and Belgium, the elderly are between 1.5 and 2 times as likely to be at risk of poverty, compared to the population aged 16-64. In Poland, the Czech Republic, Slovakia, Lithuania, Latvia, the Netherlands and Luxembourg, the elderly are better protected against the risk of poverty than the working-age individuals. In these countries, the at-risk-of-poverty rates for the elderly are less than 80% of the at-risk-of-poverty rates for the working-age individuals. In all countries categorised as the highest at-risk-of-poverty rate for the elderly (in Table 1), the elderly are clearly more vulnerable than the working-age individuals in each country. In all countries with low at-risk-of-poverty rates for the elderly, the relative poverty risk ratio for the elderly is less than one.

It remains to be seen to what extent this ranking of EU member countries is related to differences in the generosity of pension and social assistance systems in place in the various countries. This is a subject matter which we address in our second policy brief “Pension Policy in EU25 and its Possible Impact on Elderly Poverty”.



Are there any differences across men and women?

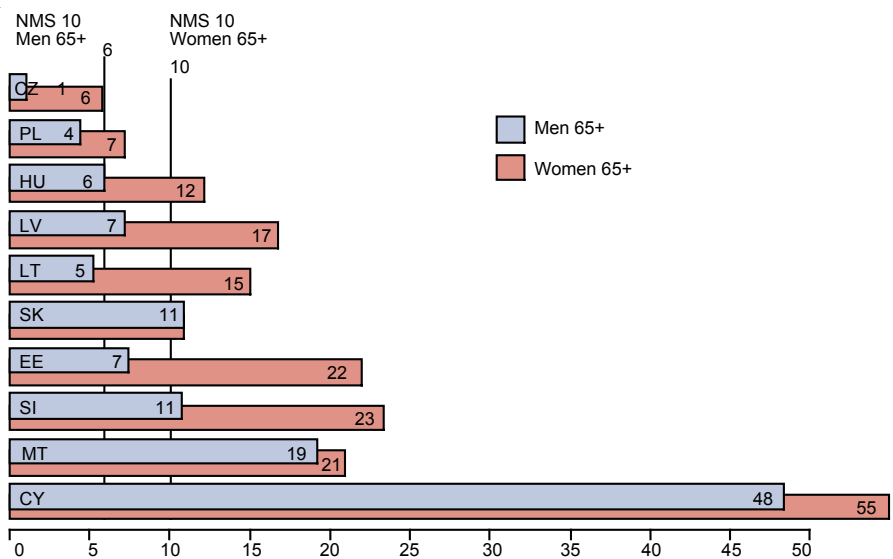
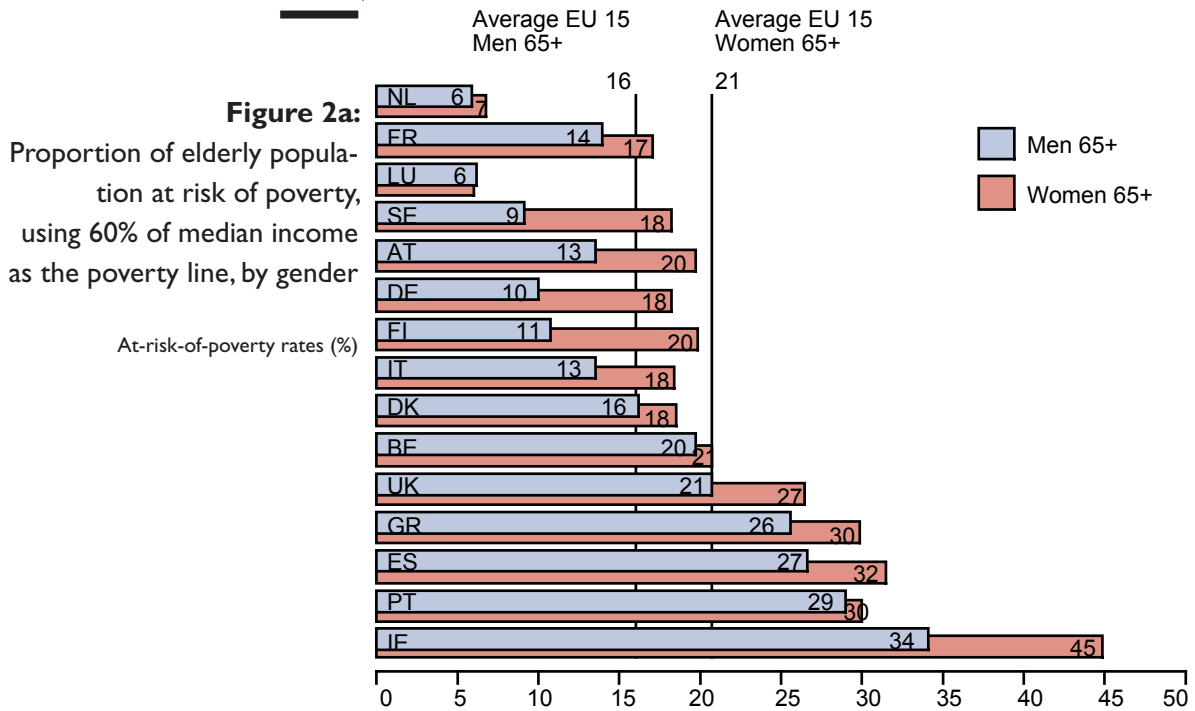
Results depicted in Figure 2a show the differential poverty risks of male and female elderly, and results in Figure 2a also subdivide men and women between those aged 65-74 and those aged 75+. The latter figure is only available for the EU15 countries.

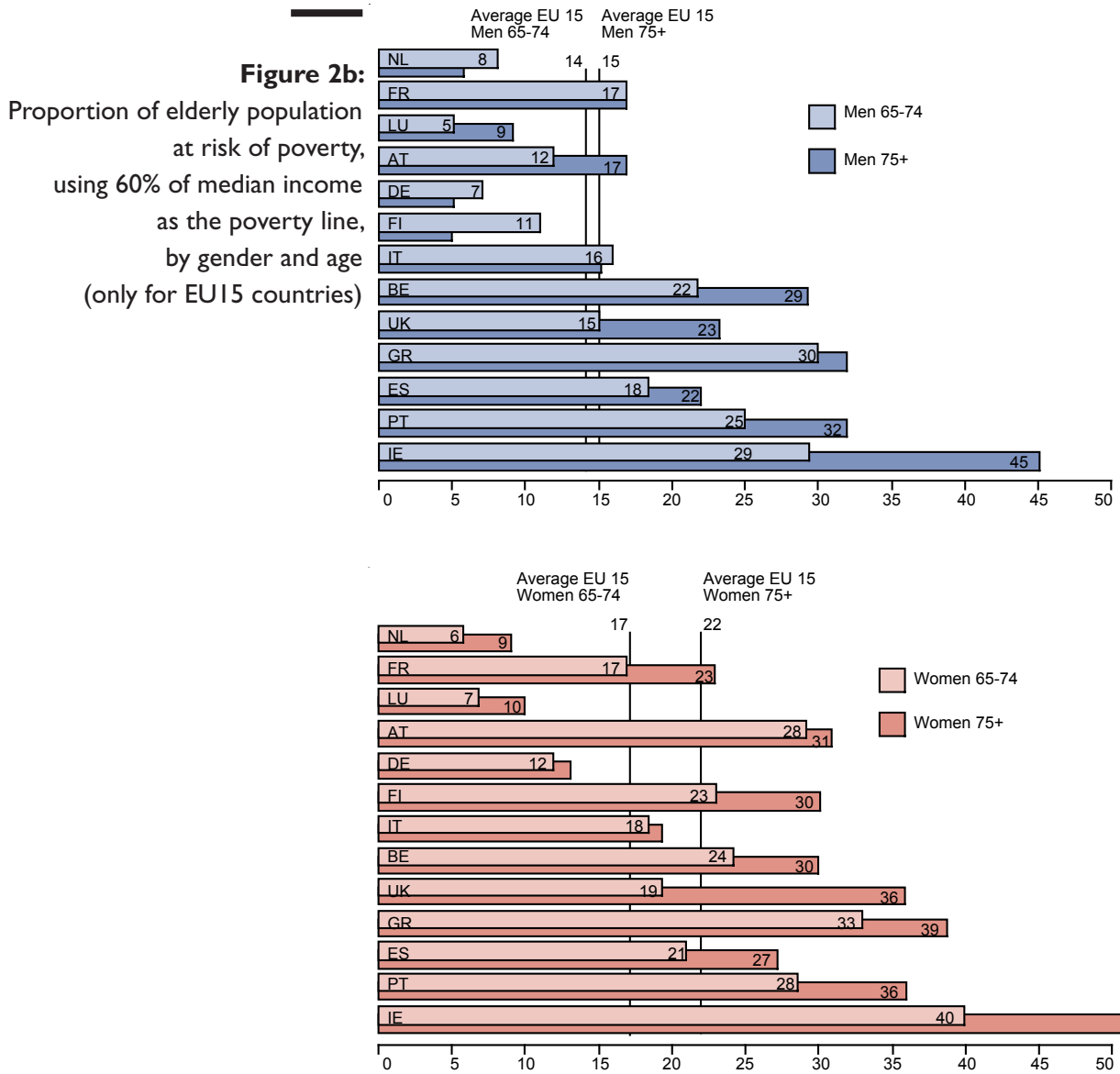
In the majority of countries, the poverty risk is clearly higher for female elderly, more so in EU15 (21%) than in the new member countries (10%). In general, it can be seen that the poverty risk is higher for female elderly than for male elderly, and that the females aged 75 and over show the highest at-risk-of-poverty rates. Female elderly are more than twice as often at risk of being poor than male elderly in Sweden and in the former Eastern European member countries of Slovenia, Estonia, Lithuania, Latvia, Hungary and the Czech Republic. With more than 10 percentage point difference, Ireland, Slovenia and Estonia also show a considerable gap between the at-risk-of-poverty rates for elderly males and females. On the other hand, in Portugal, Spain, Belgium, Malta, Denmark, France, Slovakia, the Netherlands and Luxembourg, the differences between the at-risk-of-poverty rates of male and female elderly are relatively small.

On average, the at-risk-of-poverty rate for male elderly in the NMS10 is just 6%, compared to 10% for females in these Member States, 16% for male elderly in EU15 and 21% for female elderly in EU15. Note here that these and all the other results reported here are based on a country-specific relative poverty threshold, and the relative rankings of countries and population subgroups will change if a single poverty threshold is applied across all 25 countries.

The females aged 75 or more show the highest at-risk-of-poverty rate of the four groups considered on the basis of gender and age. In all EU15 countries except for the Netherlands, the subgroup of females aged 75 or above shows the highest at-risk-of-poverty rate of the four groups considered. With 63% the at-risk-of-poverty rate for females aged 75+ is particularly high in Ireland. In addition, Greece, Portugal, the United Kingdom, Austria and Finland show at-risk-of-poverty rates of at least 30% for females aged 75+. Next to the Netherlands, Germany and

Luxembourg show the lowest at-risk-of poverty rates in this group. For males aged 75+, at-risk-of-poverty rates of 30% or more are only found in Ireland, Greece and Portugal, of which only the former two also have high at-risk-of-poverty rates for females aged 65-74 and only Greece has an at-risk-of-poverty rate of 30% for males aged 65-74.





The synthesizing conclusions are ...

It can be surmised that the high poverty risk for females aged 75+ is related to the high proportion of widows in this age group. To the extent that younger cohorts of females will be more likely to be entitled to pensions related to their own earnings once they retire, the high poverty risk in this group may gradually become a thing of the past. Obviously, whether or not this will happen depends on the national pension systems as well as the long-term trends in the country-specific labour market participation patterns. These results also point to the problems linked with the adequacy of survivors' benefits that are currently available in the national pension systems. Moreover, the indexation of pension benefits with prices (instead of earnings) in the majority of countries also leads to an erosion of the value of pension benefits relative to the median. Since women live longer than men, the erosion of the value of pensions during old age will affect women more than men. One significant policy development is that many countries have recently embarked on a further strengthening of their targeted minimum pension and social assistance schemes – this will have a positive impact on the reduction of poverty amongst the elderly, although the stigma associated with the means-tested benefits often induce non-take-up of such benefits.

A word of caution here is that the current period of pension reforms in the majority of EU countries is driven mainly by increased concerns for the impact of ageing and a need for fiscal consolidation. A common trend is that the pension benefits drawn from the public pension systems are on the decline, and thus the average public pension benefit ratio has dropped in the majority of the countries. Moreover systematic reforms have changed the nature of pension provision from defined benefit type provisions to defined contribution type provisions. In general, the changes are resulting in a more restrictive redistribution in favour of the lower income individuals. Thus, in the absence of a behavioural response towards greater savings and more work during working lives, the risk of poverty for future elderly populations in EU countries will increase.



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