A decomposition of differences in the living standards of active population and retirees in Europe

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Compared to the other European countries, France is in a relative good position regarding the living standards of the elderly population (65 +) compared to the whole population. In 2009, the median relative income ratio of the 65 years and older compared to the 0-64 years old equals 96 % in France compared to 88 % in Germany, 89 % in Italy, 80 % in the United-Kingdom and 77 % in Sweden. This indicator is one of the three primary indicators used in the monitoring of pension adequacy (the other two are the aggregate replacement ratio and the at-risk-of-poverty rate of elderly people). They are included in the Pension indicators portfolio of the Pensions strand of the Open Method of Coordination (Council of the European Union, 2012).

The reasons for this favorable position of the French elderly people and the stability of this position during the last decade, contrary to the other Member States, are not completely explored (Cohen-Solal and Lelièvre, 2002, Tsakloglou, 1996). We propose in this article an analysis of the French situation compared to a selection of countries, the nearest neighbors of France (Germany, Italy, Belgium and Spain), United Kingdom and countries with a high level of social protection (the Netherlands, Denmark, Finland and Sweden).

The analysis is performed using EU-SILC 2009. The methodology consists in a breakdown of the median relative income ratio of elderly people into several components. The objective is to assess the contribution of different factors to the overall gap in the indicator between countries. Three groups of factors are identified. First of all, we introduce socio-demographic structures that vary a lot between countries (living arrangements of the elderly, age structure of the 65 years old and over, marital status) (Iacovou and Skew, 2010). The other set of factors refer to income taxes and contributions, which could affect differently elderly and active population. We also take the contributions to individual private pension plans into account. They are in general treated as saving while they could lower the living standards of the active population if considered. Then, the last factor covers incomes. We identify the role of pensions, distinguishing by gender - to assess the impact of different labor market participation of women - , and the role of other types of resources.

Comparing the median relative income ratio of elderly people raises some methodological issues: the choice of the reference population (0-64 years old instead of 25-64 years old, 65 years and older instead of retired population), the type of incomes considered (Frick et al., 2010), and the coverage of the different income sources in the different Members States.

The decomposition results confirm the importance of the differences in pension levels in explaining the differences in the median relative income ratio between France and the countries considered. The contribution of the differences in pension levels is especially high regarding the comparison with Belgium, UK, Denmark and the Netherlands. They play a less significant role when the comparison is made with Sweden and Italy. But, beyond the role of pensions, the decomposition also highlights the

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contribution of the different compulsory levies on elderly and active population. In general, those on the elderly population compared to those on the active population are higher in France than in Germany, Belgium, UK or in the Netherlands. This reduces the difference in the indicator considered between France and these countries. Indeed, a lower taxation on the elderly compared to the active population raises the living standard of the former and then, raises the relative median income ratio. Lastly, the socio-demographic structures play a minor role in explaining the differences.

References