

# The association between age and subjective economic hardship across the income distribution in Europe

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## Abstract

Poverty measures are important policy tools for guiding policymaking. However, there is controversy over which poverty measures ought to be used. In particular, not all who are poor feel poor and vice versa. We focus on one aspect of this unclarity: people tend to feel less poverty in older age despite lower income. This is a mirror image of the well established 'satisfaction paradox' according to which older people with low income are unexpectedly satisfied with their finances. The phenomenon will be referred to as "the paradox."

We examine the associations between subjective poverty, income and age internationally in Europe. We also examine the role of savings and home ownership in explaining the paradox. The following research questions are asked: 1) how do the subjective and objective economic well-being differ between age groups and European countries; 2) are there welfare institutions or policies that can decrease inequality in subjective economic well-being beyond increases in income; and 3) are the contemporary measures of relative poverty appropriate? The second question is additionally important because, in the context of ageing societies and pressure to cut social expenditures, and possible requirements to cut down consumption due ecological boundaries, alternative ways to enhance subjective economic well-being become relevant.

Our article consists of two parts: a wide literature review and an empirical section. The empirical section uses the 2020 EU-SILC survey and its ad-hoc module on over-indebtedness, consumption and wealth.

The literature review highlights three possible roles that income can have in people's lives: (1) income as a symbol of status, (2) as a buffer against unexpected hardships, and (3) as satisfier of physical and psychosocial needs. In its first role, the relationship between income and happiness is moderated by comparison to others. Literature review also highlights (4) the role of the ways in which the income is earned on subjective economic well-being, (5) national institutions moderating the relationship between income and subjective economic well-being, as well as (6) the role of the less considered personal maturation over the lifecourse.

This literature survey questions the sufficiency of the contemporary hypothesis to explain the phenomenon. The contemporary hypothesis is the "adequacy-gradient hypothesis": balance of resources with respect to needs gets better with age

(Mirowsky & Ross, 1999). Usually, it is suggested that needs shrink with ageing due to adaptation. The survey highlights that it may not only be about balance of resources versus needs; but about age-dependent capabilities in turning the resources into well-being.

The empirical section focuses on (2), the role of income and wealth in buffering against unexpected hardships and also examines whether the adequacy gradient hypothesis is sufficient in explaining the paradox.

It is shown that, in general, the paradox exists in Europe; and that savings explain the paradox in part. House ownership and the existence of mortgage do not contribute much to the paradox beyond savings though old people tend to more often own their homes without mortgage. The results are robust to alternative specifications. Behind this overall picture, there is, however, large variation between countries at all steps of the analysis. The paradox, and the ability of savings to explain it, both vary between countries. Additionally, when subjective health is controlled for, the paradox surprisingly reappears also in the overall picture, again with large variation between countries.

The results on the ability of savings to explain the paradox call into question poverty measures focused solely on income; imply that poverty has a lot to do with whether one has resources to buffer against unexpected shocks instead of home ownership; and suggest that national policies aimed at poverty reduction ought to support the existence of personal savings. It also suggests that savings play a role in the satisfaction paradox.

However, because savings or house ownership do not explain the paradox fully, the results suggest the need to expand the contemporary explanation for the paradox: the adequacy-gradient hypothesis. The fact that the explanatory power of savings was sensitive to controlling for subjective health questions some of the results of the article and flies at the face of many of the hypotheses arising from the literature and begs for further explanation.