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

Ilari Ilmakunnas, Finnish Centre for Pensions, ilari.ilmakunnas@etk.fi
Joonas Uotinen, Finnish Institute for Health and Welfare, joonas.uotinen@thl.fi
Maria Vaalavuo, Finnish Institute for Health and Welfare, maria.vaalavuo@thl.fi
<table>
<thead>
<tr>
<th>JU0</th>
<th>Huom! 20 min / esitys + 10 min keskustelu</th>
</tr>
</thead>
<tbody>
<tr>
<td>JU0 0</td>
<td>Nyt 23 mins</td>
</tr>
<tr>
<td>JU0 1</td>
<td>Remind about the paradox form time to time</td>
</tr>
</tbody>
</table>
Poverty measures are important policy tools for guiding policymaking. However, controversy over which poverty measures ought to be used. In particular, not all who are poor feel poor and vice versa (Mahmood, 2019). Why is this? We focus on one aspect of this unclarity: people tend to feel less economic hardship in older age despite lower income (Mirowsky & Ross 1999; Berthoud, 2009).
Research Questions

• Topic: The paradoxical observation that in particular the old tend to feel less economic hardship despite lower income.

• RQ1: Does the paradox differ between different income groups in Europe?

• RQ2: Can the paradox be explained by wealth (savings, home ownership, debt)?

• RQ3: How does this paradox differ between European countries?
Revise these; now add first question as they differ between countries or what differs?
Literature review

• Quite wide literature review on income-SWB relation and age-related development of personality. Some main points:

• Contemporary hypothesis: adequacy-gradient hypothesis: balance of resources with respect to needs gets better with age (Mirowsky & Ross, 1999).

• Either needs decrease (adaptation; Hansen et al. 2008) or resources increase (wealth, Hansen et al. 2008).

• The old theory may be insufficient
  • Blind to capabilities in turning resources into well-being such as maturation of personality and related shifts in values towards prosociality (e.g. Sheldon & Kasser, 2001); or state-subsidized health services.
  • Needs/resources constant; but well-being increases.

• We focus on resources: do savings and wealth explain the paradox (due data)? This would support the adequacy-gradient hypothesis.
Data

• EU-SILC 2020; ad-hoc module on over-indebtedness, consumption and wealth (cross-sectional).
• Subjective economic hardship: "Thinking of your household’s total monthly or weekly income, is your household able to make ends meet, that is, pay your usual expenses?" with response scale: 1) With great difficulty, 2) With difficulty, 3) With some difficulty, 4) Fairly easily, 5) Easily, and 6) Very easily
• Dichotomization: 1=subjective economic hardship (1-3); 0 = no SEH (4-6).
• Savings: ability to maintain the standard of living using savings for: 1) no savings, 2) less than 3 months, 3) 3-6 months, 4) 6-12 months, and 5) over 12 months.
• Home ownership: 1) owner of the dwelling, no mortgage, or free accommodation 2) owner having mortgage, and 3) other.
• Debt: Number of loans excluding mortgage of main residence: 1) no loans, 2) one loan, and 3) two or more loans.
• Income = equivalized disposable household income. Income categorized into income quintiles throughout.
• Age categorized into 4 groups: 18-35, 36-49, 50-64, 65+.
Results: paradox by income group?

- Probability of experiencing economic hardship by age and income groups
- Logistic regression of SEH on country FEs, age, gender, income quintile and inc quint*age
- Paradox equally for all income groups
- No interaction inc*age -> drop the interaction in further analyses
Results: wealth explains the paradox?

- The Age+income model is the same, without interaction.
  - (All models have gender, country FEs; and se’s clustered by country.)
- The most is explained by adding savings;
  - tenure status and loans add a bit to lifting the economic hardships upwards among the elderly.
  - Paradox largely explained.
- Most hardship among 50-64 year-olds perhaps because wealth becomes more important as retirement approaches?
  - Across different wealth and income groups, on average the 50-64 year-olds experience most hardship; they need it the most?
What control vars did these models have? Country Fes, gender?

Country Fes at least according to methods

Standard errors are clustered by country
Recap & discussion

RQ1: Does the paradox differ between different income groups in Europe?
• The paradox was experienced equally in all income quintiles

RQ2: Can the paradox be explained by savings and housing wealth (ownership, mortgage, rent)?
• The paradox was largely explained by savings and not so much by housing wealth or debt. The old have accumulated savings resulting in lower amount of subjective poverty.

RQ3: How does this paradox differ between European countries?
• Not presented; but there was variation. Paradox seemed more pronounced in countries where people felt less SEH overall such as the Nordics.

The results
• 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;
• Suggest that the adequacy-gradient hypothesis is sufficient in explaining the paradox to a large extent;
• and suggest that national policies aimed at poverty reduction ought to support the existence of personal savings.
Robustness checks

• Instead of categories 1-3 as experiencing hardship; only categories 1-2 experiencing hardship (‘great difficulties’ or ‘difficulties’ not ‘some difficulties’)

• The analyses were also conducted using linear probability models (LPM) instead of logistic regression models.

• Largely similar results.

• How about different method of equivalization as subjective equivalence scales tend to indicate greater returns to scale from bigger households and age covaries with household size?
Discussion

• Espanet: How do the results discuss with the recent proposal that because the elderly fare better with given income, they could have less from public policies?

• The results suggest it is not that they fare better with given income; but they have more (liquid) savings. Undermines the suggestion a bit. Question becomes: should they have less because they have more savings and therefore fare better? Perhaps they ought to be allowed to enjoy their savings gained over lifetime.

• Perhaps reorients policies towards those without savings at least.
• Thank you!