

International comparison of poverty amongst the elderly

RPRC *PensionBriefing* 2009-1

This *PensionBriefing* examines some New Zealand implications of a 2008 OECD report *Growing Unequal? Income Distribution and Poverty in OECD Countries*

In summary

New Zealand Superannuation is one of the simplest, most generous Tier 1 pension systems in the world. A 2006 New Zealand government report found that the over 65s have amongst the lowest levels of 'hardship' of all the social groups measured. Now, a 2008 OECD report has shown that New Zealand is one of three OECD countries with the lowest levels of poverty amongst those of retirement age. New Zealand Superannuation and relatively high rates of home ownership are the main reasons for this.

New Zealand Superannuation underpins living standards of over 65s

New Zealand Superannuation (NZS) is one of the simplest, most elegant Tier 1¹ pension schemes in the world. It is also one of the most generous. One way of comparing generosity is to express a country's Tier 1 pension as a percentage of per capita Gross Domestic Product (GDP). New Zealand Superannuation for a single person living alone is 46% of New Zealand's per capita GDP while the Tier 1 pension for a single person in Iceland is 10%, in the UK is 13% and in the US is 17%. In a different type of country (by stage of development) Namibia's is 16%, Bolivia's 26%, Western Samoa's is 22% and Kosovo's 50% (Willmore, 2007).²

Access to NZS is relatively open, although there are some complexities with those who have lived overseas and who have acquired foreign pension rights; also with those who leave New Zealand after having qualified to receive NZS. On satisfying two modest residency qualifications (at least 10 years' residence after age 20 with at least five years after age 50), all New Zealanders are entitled to receive NZS from age 65 at one of the following rates (current at 1 April 2009):

- **Couple** (both entitled): \$28,457 a year before tax (a net 66% of the net national average wage) – this is divided equally and paid to each as their own entitlement;
- **Single sharing accommodation**: \$17,382 a year before tax (the net amount is 60% of the couple's net rate);

¹ A **Tier 1** pension is usually available to all citizens but often has a contribution or working period qualification (an incomplete record can see lower than full entitlements paid). The Tier 1 benefit is almost always a pension that is paid until the recipient dies. **Tier 2** arrangements are compulsory schemes, usually employment-based that either live on top of Tier 1 or that are integrated in some way with Tier 1 (such as in Australia, Chile). **Tier 3** schemes are either work-related saving schemes (such as KiwiSaver or subsidised employer schemes) or any other way of saving for retirement (paying off a home mortgage, building a business, buying shares, bank deposits etc).

² See <http://www.pensionreforms.com/Preview.aspx?228> for a summary of the report and access to the full report.

- **Single living alone:** \$18,854 a year before tax (the net amount is 65% of the couple's net rate).

Compared with many equivalent overseas Tier 1 pension schemes, NZS is simple and relatively generous.

MSD report - 2006

The Ministry of Social Development's (MSD) report, *New Zealand Living Standards 2004* (Jensen, Krishnan, Hodgson, Sathiyandra & Templeton, 2006)³ examined the living standards of different groups by looking at what people had and were consuming, their various forms of recreation and social participation, their household amenities and perceptions of wellbeing. It did not use income as a measure of hardship, but set out to create an index of living standards.

For the population as a whole, the MSD's 2006 report found that about a quarter of New Zealanders were facing some hardship, with about 8% in severe hardship. However, for the old (age 65+), the report found a much lower risk of hardship – in fact, the lowest risk of all the measured groups. Only 8% of the older age group had any form of hardship with about 2% experiencing severe hardship.

Whereas in most countries, older women have markedly disadvantaged relative living standards, the same is generally not true for older men and women in New Zealand (Jensen et al., 2006, p. 130).

OECD report - 2008

The OECD's report, *Growing Unequal? Income Distribution and Poverty in OECD Countries*, published in October 2008, looked at many cross-national comparisons for relative measures of income and wealth in 30 OECD member countries.

International comparisons of incomes, wealth, poverty and other economic measures are difficult and must be treated with caution. There are many ways of measuring poverty - *relative income poverty*, *absolute poverty levels*, or the *headcount ratio* that counts the number in poverty (the *frequency of poverty*). Yet another measure is the amount by which the mean income falls below the poverty line, measured as a percentage of the poverty threshold (the *poverty gap*).

Relative income poverty among the older populations is an appropriate measure for developed countries. It provides an indication of how that age group might experience living in those countries in relation to local living standards.

The OECD report on the position of those of "retirement age" used an income of 50% of the median equivalised household disposable income at (OECD, 2008, p. 126). It is, of course, possible to use other percentage levels – 60% of median income is often used in New Zealand⁴. The RPRC will look at this issue in more detail in a separate *Pension Briefing*.

³ See <http://www.pensionreforms.com/Preview.aspx?89> for a summary of the report and access to the full report.

⁴ Choosing a higher percentage of the median disposable income, like 60%, would make a big difference to the New Zealand numbers. "Poverty rates for the 65+ are close to zero when a 50% threshold is used but 37% using a 60% threshold." (Perry, 2008)

While the OECD report looks at different groups across the 30 countries compared, this *PensionBriefing* focuses just on the results for the oldest group – those of retirement age.

The Appendix to this *PensionBriefing* reproduces Table 5.3 from the OECD report (p. 140). It looked at the position of citizens of retirement age in the mid-2000s and compared them with the equivalent numbers a decade earlier. The table's highlights are:

1. New Zealand is at the top

New Zealand is one of the three countries that show an overall incidence of poverty in the “mid 2000s” amongst all people “of retirement age” of about 2% (rounded up from 1.53% in New Zealand's case). The other two countries are the Czech Republic and the Netherlands. That places New Zealand at the top of the international comparison. Only 13 of the 30 countries had poverty rates of less than 10% amongst all those of retirement age. The average amongst all 30 countries was 13%.

2. Poverty levels extensive in some countries

There are seven countries where the poverty levels amongst all those of retirement age exceeded 20% and two cases where the proportion was exceptionally high - Korea at 45% and Ireland at 31%.⁵

3. General improvement

Over the decade between the “mid-1990s” and the “mid-2000s” there was an average fall in the percentage points of poverty incidence of 0.7 across all 30 countries. The stand-out improvers over the decade were Turkey (-8.1), Norway (-6.8), Greece (-6.6) and the Czech Republic (-6.5).

However, there were some backward steps over the decade as well – most notable in this group were Ireland (18.8 percentage points worse), Finland (+5.3) and Australia (+4.6).

In New Zealand's case, there was a small step backward for the whole group of retirement age – from 1.3% to 1.5%.

4. Cross-Tasman comparison

New Zealand's retirement income system is often compared unfavourably with Australia's. The OECD report shows that Australia has one of the highest levels of poverty amongst all people of retirement age in the 30 countries covered. At 27%, Australia ranks fourth behind the poorest performers, Korea (45%), Mexico (28%) and Ireland (31%).

5. Households “with a head of retirement age”

Paragraphs 1 to 4 covered all people of retirement age in the 30 countries. The table in the Appendix also shows the position for households where the “head” is of retirement age, but where both partners in a couple are not necessarily over 65.

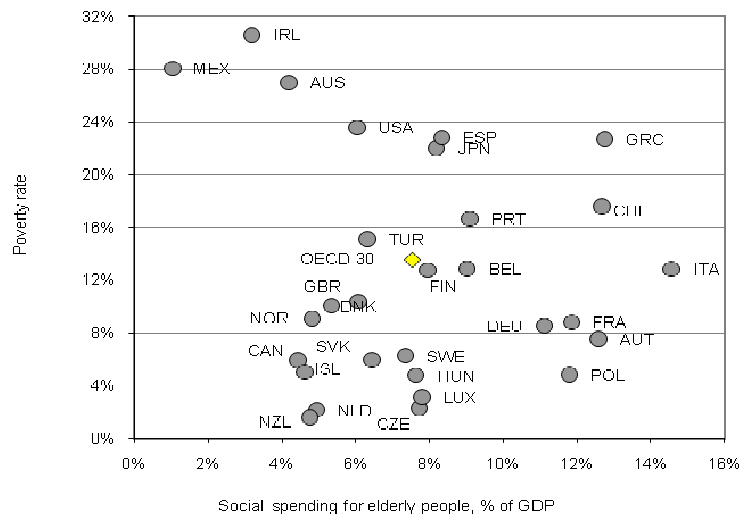
⁵ Poverty amongst older Irish residents has averaged 29% over the 20 years to 2008 (TASC/Pension Policy Research Group, 2008). See <http://www.pensionreforms.com/Preview.aspx?224> for a summary of the report and access to the full report.

New Zealand is either at the top or very near the top across the different groups measured. These results indicate that New Zealand’s overall policies seem to be functioning well, both for those “of retirement age” who are and are not working, and both for those who are single and those who are couples. In the “Not working” category, New Zealand was on its own at the top of the 30 countries. It is also top equal with the Netherlands for “singles”; and top equal with Hungary, Norway and Sweden for “couples”.

The worst performers for the “Not working” category (arguably the most important group for a *retirement* income system) were Korea at 69%, followed by - in order – Mexico (39%), Ireland (36%), the United States (34%), Spain and Australia (both 32%) and Greece (31%).

The following scattergram from the OECD report (p. 143) compares poverty and spending levels across the 30 countries for people of retirement age:

Poverty rates and social spending amongst those of retirement age – mid-2000s



Note: Poverty rates based on a threshold set at half of median household disposable income. ... Social spending for people of retirement age is the sum of outlays for old-age and survivors’ benefits. Social spending is expressed in percentage of GDP at factor costs. Data on poverty rates refer to the mid-2000s for all countries; data for social spending refer to 2003 for all countries except Turkey (1999).

Conclusions from cross-country comparisons are difficult but the chart’s overall message is interesting. New Zealand shows up lowest on the “poverty rate” scale but is also part of a group of countries with the lowest proportion of GDP as “social spending for elderly people”. Australia shows a notable contrast – about the same level of “social spending” (4.2% for Australia vs. 4.8% for New Zealand) but a large disparity in poverty rates (26.9% for Australia vs. 1.5% for New Zealand).

Our comments

The OECD table in the Appendix shows New Zealand’s apparent success in poverty-prevention among the elderly in the mid-2000s. Using 60% (rather than 50%) of the median disposable income would make a large difference to the numbers. The OECD report did not look at this alternative for those “of retirement age”.

Since the mid 2000s, the situation will have changed for all countries. For example, the global economic meltdown has significantly reduced values of financial investments, but

that is likely to have affected older New Zealanders less than in other countries, where retirement incomes are more dependent on private provision.

The OECD report illustrates that the most significant difference between New Zealand and the other 29 OECD countries is the simple, generous NZS. New Zealand's Tier 1 pension is not only a relatively large amount, more than fully protected against inflation⁶, it also has modest qualifying conditions and is paid, unlike most equivalent arrangements, without regard to the pensioner's working life, income or contributions.

In 2008, the MSD updated its 2004 living standards survey of all groups in New Zealand. When this is published later in 2009, it will be interesting to see what has changed and whether recent anecdotal comments about the increasing difficulties faced by some older people have substance.

If one of the state's obligations is to protect its vulnerable older citizens from poverty, the OECD report shows that other countries might learn something from New Zealand.

References

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⁶ Over the long term, increases in wages (on which NZS is based) should exceed increases in the cost of living (inflation).

Appendix

Table 5.3. Poverty rates among the elderly and people living in households with a retirement-age head by household characteristics (from *Growing Unequal?*)

Poverty among:	- people of retirement age		- households with a head of retirement age									
	Mid-2000s	Point change since mid-1990s	All		Working		Not working		Singles		Couples	
			Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s
Australia	27	4.6	27	5.6	4	3.2	32	5.4	50	-4.8	18	9.8
Austria	7	-5.7	8	-6.0	7	5.3	9	-7.6	16	-11.6	4	0.2
Belgium	13	-3.5	12	-2.3	4	-0.6	13	-3.7	17	-6.8	10	0.1
Canada	6	2.9	7	3.2	2	0.7	10	4.8	16	7.3	4	1.8
Czech Republic	2	-6.5	3	-5.8	[..]	[..]	3	-6.2	6	-19.1	2	0.5
Denmark	10	-2.1	10	-2.2	2	0.6	12	-2.3	17	-4.4	4	0.3
Finland	13	5.3	14	5.9	11	7.7	14	5.5	28	12.5	4	2.3
France	9	-3.0	9	-2.1	1	-5.9	9	-1.4	16	0.2	4	-2.4
Germany	9	-2.0	8	-1.6	2	-4.7	9	-1.2	15	0.2	5	-1.8
Greece	23	-6.6	21	-7.0	7	-10.5	31	-3.1	34	-4.5	18	-7.1
Hungary	5	-2.5	5	-2.9	[..]	[..]	5	-5.2	11	-6.9	1	-2.7
Iceland	5	..	5	..	3	..	7	..	10	..	2	..
Ireland	31	18.8	25	..	5	..	36	..	65	..	9	..
Italy	13	-2.3	13	-2.1	3	0.4	17	-4.5	25	-7.5	9	-1.2
Japan	22	-1.0	21	-1.1	13	-1.8	30	-7.6	48	-7.9	17	-1.5
Korea	45	..	49	..	35	..	69	..	77	..	41	..
Luxembourg	3	-1.8	3	-1.6	[..]	[..]	4	-5.4	4	-5.6	3	-6.4
Mexico	28	-4.6	23	-8.6	19	-9.1	39	-7.9	45	-5.9	21	-9.2
Netherlands	2	0.7	2	0.8	2	1.1	2	0.7	3	-0.1	2	1.3
New Zealand	2	0.2	4	2.5	1	-3.8	2	1.6	3	2.1	1	-0.1
Norway	9	-6.8	9	-7.1	1	-1.1	10	-7.9	20	-13.8	1	-2.1

Table 5.3. (continued) Poverty rates among the elderly and people living in households with a retirement-age head by household characteristics												
Poverty among:	- people of retirement age						- households with a head of retirement age					
	- people of retirement age		All		Working		Not working		Singles		Couples	
	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s	Mid-2000s	Point change since mid-1990s
Poland	5	..	6	..	6	..	6	..	6	..	6	..
Portugal	17	-1.1	20	-4.6	5	-4.6	25	-1.0	35	-4.8	16	-2.0
Slovak Republic	6	..	[.]	[.]	[.]	[.]	7	..	10	..	3	..
Spain	17	-1.1	27	-4.3	12	-4.3	32	23.3	39	32.7	24	12.6
Sweden	6	2.6	6	1.1	3	1.1	7	3.2	13	5.8	1	0.5
Switzerland	18	4.3	18	-1.8	[.]	[.]	[.]	[.]	24	6.1	15	3.4
Turkey	15	-8.1	18	-4.1	20	0.6	16	-16.4	38	-6.2	17	-4.0
United Kingdom	10	-2.1	10	-0.8	1	0.1	12	-2.5	17	-0.9	7	-1.3
United States	24	2.9	24	3.2	9	1.4	34	5.0	41	3.0	17	3.2
OECD	13	-0.7	14	-0.7	7	-1.2	17	-1.4	25	-1.6	9	-0.4

Note: Poverty thresholds are set at 50% of the median income of the entire population. Data for mid-2000s refer to around 2000 for Japan and Switzerland. Data for changes refer to the period from the mid-1990s to around 2000 for Austria, Belgium, Czech Republic, Denmark, France, Ireland, Portugal and Spain (where 2005 data, based on EU-SIIC, are not comparable with those for earlier years). [.] indicates that the sample size is too small. Data based on cash income (see note 13 for the implications of this).

Source: Computations from OECD income distribution questionnaire.