



The Economic Situation of Older Cohorts in Europe

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1 Key Issues, Main Findings and Policy Implications

All European populations undergo a process of population ageing which will accelerate during the next two decades (Lutz et al. 2008): the number of aged people will grow at an increasing pace, both in absolute terms and relative to the population in the age of economic activity. This acceleration is mainly due to the coming retirement of the baby-boom cohorts (the 2009 *Demographic Monitor* gives more information for the member-countries of the EU; also Mamolo and Scherbov 2009).

The expected increase in the number of aged people requires further adequate and timely amplification of relevant policies. Policy enforcement on its side requires a sound knowledge base about the economic, social, financial, and health situation of the aged people. This report aims to contribute to the accumulation of this knowledge by providing a descriptive statistical analysis of the economic situation of the aged in the EU countries. The main focus is on the financial and economic situation of elderly people in an international perspective. This paper informs about the gross income of the aged, their assets and house ownership, level of education, perceived assessment of the financial situation of the household, and health. Future research will look at a complementary topic: the economic situation of the baby boom cohorts in Europe.

We enrich the analysis by differentiating the main variables of interest by key demographic characteristics of the population, such as age groups, sex, partnership situation and number of children. Thus we achieve a descriptive overview of the economic situation of the aged with an accent on their demographic characteristics at the time of survey. We use SHARE data, wave 2004.

The main findings include:

- Gross equivalent income is considerably higher in the northern European countries and Switzerland as opposed to southern Europe. This income is less equally distributed across the age-groups in the Scandinavian countries (and to lesser degree in Switzerland and Germany) than in southern Europe, with income declining considerably for the more advanced age groups. The strong age gradient for the northern European countries should not be overemphasised as the gross income measure does not yet factor in redistributive taxes and transfers.
- The distribution of gross household income by partnership status shows that those living in a partnership tend to have the highest incomes in almost all European countries, reflecting the (greater) scope for earning and the benefits from household sharing.
- Whereas in northern Europe the share of poor households tends to be higher among those without children, the opposite is true for southern Europe. In the absence of support a larger number of children is prone to depress the household's earning capacity and their scope to gather pension entitlements and other wealth as sources of income when old. While this reflects the situation in southern Europe, the fact that the opposite is true for the Scandinavian countries speaks for the presence of strong family support—policy-based or other—even in the 1960s to 1980s.

- The ratio of pension income to earnings (among those who receive both) is very low in Scandinavia, suggesting weak retirement incentives, whereas the opposite is true for Austria, France and Belgium. This is to some extent reflected in the employment rates (in particular of those aged 60-69), the exception being Switzerland.
- Imputed rents from housing properties are also considered. They tend to be higher in southern Europe, reflecting the fact that southern European households hold a larger share of their net worth in the form of real assets (mostly property) as opposed to financial assets. While this may reflect culture-specific attitudes towards living arrangements (own housing or not), it also reflects different states of markets. In those countries in which a market for rental property is poorly developed, households must hold real assets by default. Likewise the practice of accumulating financial wealth (especially in form of more sophisticated assets) is likely to vary across countries. For most countries, the net worth is decreasing with age. While again there may be cohort aspects, it may also reflect to some extent a tendency of the elderly towards down-spending their wealth and/or passing it on even while they are alive. The considerable levels of net wealth for the oldest (80+) found e.g. in Switzerland, France and the southern European countries do to some extent reflect residual real assets but possibly also a desire to leave bequests, which is particularly true as far as the residual holdings of financial wealth in Switzerland and Italy are concerned. Down-spending is significant in the northern European countries, the Netherlands, Germany and Austria and even concerns real wealth. In these countries the oldest-old move into residential property—indeed to a considerable extent into residential nursing homes.
- Employment rates tend to be highest in northern Europe and lowest in southern Europe and Austria, in particular as female employment is concerned. Apart from the Nordic countries, Switzerland (and Greece), employment rates tend to decline sharply for ages 60+, being close to nil in all countries for the age groups above 70+. The relatively low degree of female employment among the older age groups especially in southern Europe is reflected in the data on employment status. In Spain more than 60 per cent of females were never employed, followed by Greece, Italy and the Netherlands, with 40 per cent. In Sweden and Denmark, in contrast, this share lies well below 5 per cent.
- Poverty (in terms of income) amongst the aged, as measured by the share of households holding less than half of the median income is most pronounced in Switzerland at 25 per cent and followed by most other countries at around 20 per cent, with only Greece and Belgium (around 17 per cent) and Sweden (around 12 per cent) having significantly lower rates. If portrayed by the number of children, the distribution of poverty is somewhat ambiguous. Lowest poverty rates tend to apply for those with 1-2 children. While in Switzerland, Italy and Germany poverty is most pronounced amongst those with 3+ children, in Sweden, Denmark and Belgium this holds for people without any children.
- Income inequality, as measured by the Gini coefficient, tends to be higher among the elderly than the whole population. Nevertheless, it exhibits expectable differences across countries, with inequality being lowest in the Scandinavian countries while being relatively high in Belgium, Italy, Spain, France and Switzerland. Remarkably, the low Gini coefficients found for

Denmark and Sweden suggest that the high income inequality across cohorts identified there is swamped by relatively low (as compared to the other countries) inequality within age-groups. Generally, the Gini coefficients tend to vary somewhat more across countries than they do across age-groups within countries. Gini-coefficients exhibit more variance by the number of children. Especially in France, Spain and the Netherlands (and to lesser extent in Italy) income inequality increases with the number of children, whereas in Denmark the reverse is true. For the other countries, no clear picture emerges.

- Where net worth is taken as the point of reference, poverty and inequality are considerably larger in all countries. This reflects the regularity that wealth is far less equally distributed than income. Surprisingly, wealth-related poverty and inequality is distributed very differently across countries. More analysis is needed to understand where the differences arise from.
- When asked about a subjective assessment of their economic situations a number of expected patterns emerge. By far the largest numbers of households report financial hardship in southern Europe, the reverse being true for the Nordic countries, the Netherlands and Switzerland. In all countries, females are more prone to report financial hardship. More surprisingly, the gender bias does not seem to vary systematically with 'culture'. For instance, while females are likely to take on very similar roles in Sweden and Denmark, the gender bias is amongst the highest in Sweden with the opposite being true for Denmark.
- The rates at which financial hardship is reported decreases for the higher income tertiles. Notably, however, amongst southern European countries hardship is reported by about 40+ percent of households even within the highest income tertile. It is unclear whether this reflects an unsatisfactory economic situation in these countries overall or a reporting bias.
- There is relatively little variation in reporting across age groups. In sum there is a tendency towards a somewhat poorer assessment of financial well-being in the middle age groups. This may reflect difficulties in coping with lower income immediately after retirement while still having significant expenditures. A lower propensity to report hardship at the highest ages may then reflect a decline in real expenditure or a psychological response of lower ambition. Subjective hardship tends to be the lowest amongst those living in partnerships, this being more pronounced in the Scandinavian countries and the least pronounced in southern Europe. In all but the southern European countries there is little variation in reporting behaviour across the numbers of children. In southern Europe hardship is reported significantly more amongst those with 3+ children.
- We complement the analysis of economic status by income with a portrayal of the health status of the elderly. SHARE considers both objective (>2 chronic diseases, ADLs) and subjective measures. Typically, the latter are highly correlated with the former. As expected, health declines with age within all countries. This holds for objective and subjective measures alike (with the one irregularity the oldest-old in Switzerland report better health than the age group 70-79). Also in line with previous evidence, women tend to be in poorer health than men, a result which of course reflects their greater number in the oldest age groups with the poorest states of health.

Policy implications:

- Patterns across Europe show that southern European countries differ significantly in many respects from the other countries. The differences are mainly in economic and in cultural aspects as well as in the prevalent welfare regime. Economically, the aged in these countries are poorer and maintain different 'portfolios' i.e. composition of net wealth. Culturally, the southern European countries are known for the dominance of familism in family relations (Esping-Andersen 1999). Family relations are built on strong ties that support close intergenerational connections. Thus elderly persons may rely on old-age support by the families of their children. Moreover, the aged envisage this support and they accumulate assets which will be bequeathed in reciprocity to the expected old-age care. Usually the bequests refer to housing. Policies therefore need to be specific with respect to the prevalence of diverse cultural norms.
- The low level of employment in all countries, particularly at age 60-69 shows that there is a significant potential for meeting the Lisbon strategy and fulfilment of the EC's aim to increase employment among the aged, as stated in the "White paper" from 2006. However, a significant proportion of the aged have maintained a male-breadwinner model of distribution of labour in the family at an earlier age, when this model of gender relations was dominant in most of Europe. This is the model where the man works and the woman doing mainly household chores. Our findings show that women's employment rates are considerably lower than those of the men. It is likely to assume that this gender gap is due to the wide-spread traditional division of labour in the family. If so, it will be difficult to promote active labour market participation among elderly women who have had only limited employment experience in the past. These policies will benefit from the concurrent policies directed towards a higher gender balance among the old-age involvement in labour. Active participation of old-age women can be achieved with a strengthening of gender equality and gender equity which bears specific attention to this age span. Self-realisation, personal autonomy and satisfaction from labour are concepts which are age-neutral, although these ideational aspects are more frequently spelled out when adult age is considered. Although 'gender mainstreaming' is age-neutral as well, its relevance to old-age is apparent and its enforced application with respect to elderly persons' participation in the labour market is desirable.
- With increasing age, income and net worth declines. The oldest-old are those with the lowest incomes and lowest levels of net worth. The fact that the very old possess less net wealth does not mean they live poorly: society and/or their descendant families take care of them. The decline in the wealth of the old people is more due to the transfer of assets to their children and grandchildren in view of the reciprocally expected care when old-age disability intensifies. With prolongation of life and particularly of healthy life it can be expected that elderly persons will postpone the transfers of their assets to later ages. Thus the life stage when the aged live from their own assets lengthens, given that retirement age remains the same as today. This longer life stage need not be as comfortable as it has been in the past. Longer life in retirement means a longer burden for the welfare and for the family. This trend may raise problems related to intergenerational equality and solidarity and about social cohesion or social exclusion. It also means a longer life with income lower than the amount received during the working years. To improve the situation the aged may wish to prolong their working life. This trend will thus be to the benefit of policies aimed at active participation in employment and society.

2 Data

An international comparative analysis relies on the availability of comparable data. The “Survey of Health, Ageing and Retirement in Europe” (SHARE) is the first European dataset that includes data on individual life circumstances for the growing group of older persons in Europe. SHARE was created to follow the English Longitudinal Survey of Ageing (ELSA) and the American Health and Retirement Survey (HRS). Understanding ageing and how it affects individuals in the diverse cultural settings of Europe is the main task of SHARE (Börsch-Supan et al. 2005, p. 8). SHARE is a “multidisciplinary enterprise with a strong emphasis on looking always from at least three angles: economics, health, and social networks” (Börsch-Supan et al. 2005, p. 18). The data include accurate cross-national information on economic circumstances, health, well-being and integration into family and social networks for the following twelve countries: Austria, Belgium, Denmark, France, Germany, Greece, Israel, Italy, the Netherlands, Spain, Sweden and Switzerland. SHARE is designed as a longitudinal dataset with a biennial survey schedule. The first wave of data collection was carried out between 2004 and 2006, the second wave in 2006/07 and the third in 2008/09. SHARE expanded and the second wave included three new accession countries, namely Ireland, Poland and the Czech Republic.

SHARE is based on probability samples in all participating countries and represents the non-institutionalised population aged 50 and older. The first wave comprises data on an unweighted total of 31,115 individuals in 21,176 households in twelve countries. The weighted average response rate for the first wave is 61.6%, and the within-household response rate is 85.3% (Börsch-Supan and Jürges 2005). Comparisons with three prominent other European surveys—i.e. the quarterly European Union Labour Force Survey (EU LFS), the European Community Household Panel (ECHP) and the European Social Security Survey (ESS)—show that the key statistics on employment, income, education and health are very similar and rarely statistically different (Börsch-Supan et al. 2005). SHARE is a reliable dataset and contains all essential elements on the population aged 50 and above in Europe.

The current study includes data of the first wave only and covers eleven European countries. We do not include Israel in this study. At this stage, data of the second wave are not included in the report because important generated economic variables on the household levels were not yet available. For this reason we are unable to analyse changes in the economic situation through time and therefore comparisons across cohorts can be drawn only in a cross-sectional perspective.

The following country codes are used in the figures: AT=Austria, BE=Belgium, CH=Switzerland, DK=Denmark, ES=Spain, FR=France, GE=Germany, GR=Greece, IT=Italy, NE=Netherlands, SE=Sweden.

Throughout the paper we differentiate the economic variables of the household by several demographic characteristics. These include:

Age. Four age groups are examined: 50-59, 60-69, 70-79 and 80+. The last age group comprises the oldest-old persons whose number is expected to increase considerably during the forthcoming decades as indicated by all population projections. In addition, the delineation of the oldest-old

allows for a better focus on the age group 70-79 which is also of specific attention: at this age individuals practically do not work for income anymore but are in better health than those aged 80+.

The average age of exit from the labour force in 2004 is close to 60 both for men and women (Eurostat 2002), although the official retirement age is 65 in almost all countries concerned. We therefore preferred to use age 60 as a boundary of age groups and not age 65. Having each age group be 10 years wide also makes the data more compatible.

Partnership status. Four states are included: with partner, independently of whether the respondent is married with this partner or lives in a consensual union; separated, independently of whether the respondent is divorced or separated from a consensual union; widowed; and never in partnership.

Number of children. The examination of this variable led to the study of three groups: respondents who have no children, those who have one or two children and those who have three or more children.

Weights calibrating against the population totals of four age groups by two genders are applied in all estimates.

3 Annual gross equivalent income per capita (ppp-adjusted)

SHARE measures annual gross income (before taxation). It includes earnings, pensions, transfers, and capital income that is derived for example from interest or dividends. Moreover, received rent payments and imputed rents are incorporated in the income variable as well (see Section 2.3 for a detailed list of income components). The SHARE team has elaborated useful income variables which are used in the present analyses. Particularly important is the use of the ppp-income (purchasing power parity-adjusted income), estimated following the OECD approach. Generally, the income variables coded in SHARE have to be regarded as approximate values, mainly for two reasons: first, the data were collected through personal interviews and respondents might have given incorrect numbers for certain reasons; second, when respondents did not indicate their exact amount of income, additional questions were asked to establish the level of income within a certain interval, and in this case the figures refer to approximate values. Nevertheless, the applied procedure is very efficient and produces reliable information, which otherwise would not have been collected. Moreover, sophisticated imputation procedures were applied and unusual values as well as possible outliers were eliminated from the original data (Brugiavini et al. 2005). Nevertheless, SHARE is based on a sample and although weights calibrate for age and gender (Klevmarcken et al. 2005), biases due to further characteristics like education might exist. Despite these constraints, the economic variables of this dataset are a valuable resource for analyses and international comparisons. SHARE includes a variety of measures for the financial situation of older persons, including objective ones like income, assets, payments received from renting housing properties and private means as well as a subjective measure reflecting financial constraints. In this paper we used generated variables and imputations and established a proper equivalent ppp-income per capita that takes into account all household members. For this purpose we used the following formula:

$$\text{Equivalent income per capita} = \text{HH income} / [(\text{HH size} - 1) * 0.5 + 1]$$

The respondent is weighted with 1 and every other person in the household (HH) is weighted with 0.5. This definition follows the one applied by the OECD and also by Eurostat (Eurostat 2002) where, however, a child present in the household was given a weight of 0.3 while for adults the weight was 0.5. In our case we assign a weight of 0.5 to children as well, since the number of children still living in the interviewed households is negligible.

Especially older cohorts are characterised by low female employment rates and a prevailing male-breadwinner model which resulted in high degrees of women's financial dependency on their husbands. The following example illustrates the importance of analysing per capita income, instead of individual income: On the one hand, consider a never-married woman who receives a low level of retirement payments; on the other hand, a husband with relatively high pension and his wife who left the labour market after the birth of their first child and therefore receives only very low retirement payments. In both cases, the woman receives a low retirement pension. But for the evaluation of the financial situation, the married woman should be regarded as belonging to a couple household as she will benefit from her husband's retirement pension as well.

The sample design of SHARE is a great advantage for analysing the per capita income since detailed information not only on the respondent but also on the partner was collected, allowing the construction of financial indicators at the individual level and per capita levels.

Any comparisons based on mean absolute income may be biased because of the non-uniform distribution of the income over the population. The distribution is, as has been frequently observed with other data, skewed to the right, i.e. the right tail of the distribution is considerably longer than the left tail because a small number of respondents may have a considerably larger income than the majority of the population. In order to avoid the impact of the skewed income distribution on the mean value of income we make use of the *median* instead of the mean. Since in skewed distributions the mean is larger than the median, with few exceptions we avoided the expression of the median in terms of money units; instead we make use of *relative* income, i.e. we express the value of the median with respect to a pivot value which is chosen according to the particular analysis. It either refers to the median value within each country, thus allowing to establish and compare between countries the income distribution across demographic groups (age, partnership status, number of children) but not the level of income. Alternatively, it refers to the median value across all countries, thus allowing for cross-country comparisons of income within each demographic group.

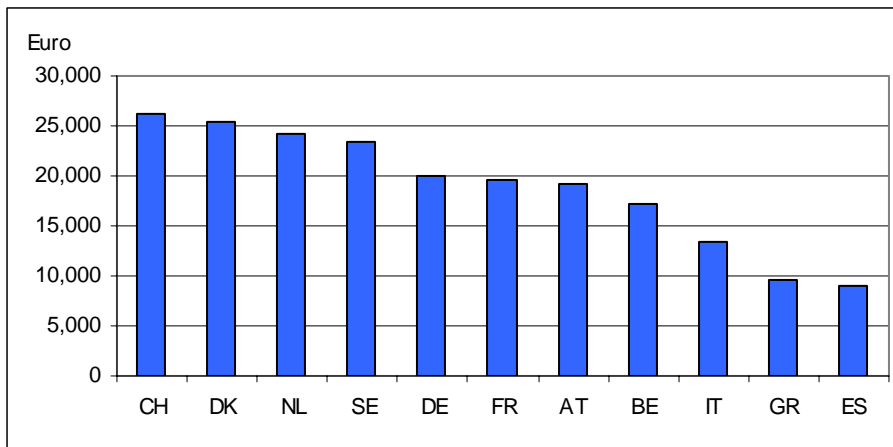
3.1 Median income by country

Figure 2.1 displays general information about the gross annual median income, equivalent per household member, in terms of equivalent Euros in the 11 countries analysed in this report. The highest level is observed in Switzerland, closely followed by Denmark; these are the only two countries where income is higher than 25,000 Euros. Three countries are considerably below this level: Greece, Italy and Spain, where the median income is below 50% of that in Switzerland, while income in the Netherlands and Sweden is close to that observed in Switzerland and Denmark.

Median income differs in Europe along three regions: it is lowest in southern Europe, highest in two Nordic countries, Switzerland and the Netherlands and average in several countries situated in western and central Europe.

This observation serves as a basis for the further exploration of income and assets in the present paper. Indeed, income plays a key role in the support of consumption at old age, but the role of life-long accumulated assets may not be neglected. In our international comparisons it is crucial to also consider the distribution of income by age, by partnership status and by the number of children, as well as income components (see Section 2.3).

Figure 2.1: Median income of countries, ppp-adjusted, per equivalent household member



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

3.2 Relative income by demographic characteristics

The purpose of this section is to show how income is correlated to socio-demographic characteristics such as age, partnership status and number of children. The advantage of SHARE over other European surveys (e.g. EU-SILC, the European Union Statistics on Income and Living Conditions) is that data are collected in a completely standardised way across countries (Christelis et al. 2009).

- By age groups

Figures 2.2 and 2.3 describe the relative income by four age groups: 50-59, 60-69, 70-79 and 80+. Figure 2.2 gives the differentiation in income across age groups within a country; the income is relative with respect to the median over the above four age groups in this country. The country median is normalized to 100 points. Comparisons among age groups are thus feasible within one country, but age groups cannot be compared across countries. However; age differentials in one country can be compared to those in other countries. The differentiation across age groups refers to the respondents' age.

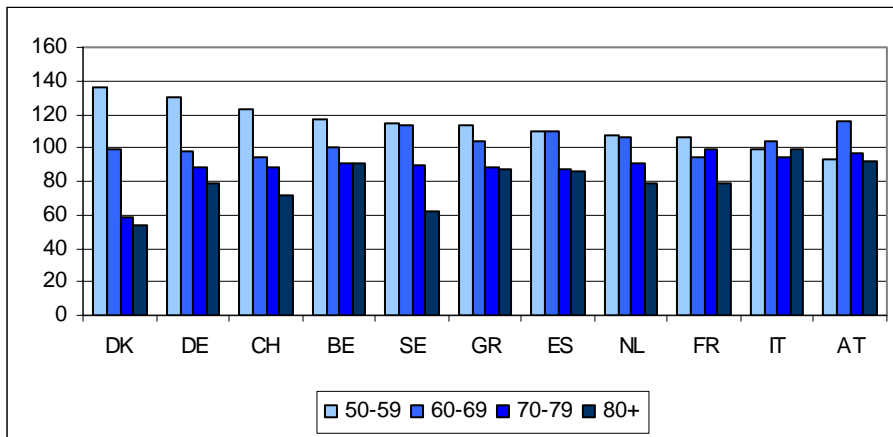
In most countries the younger the age group, the higher the median income of the age group. There are two exceptions: Austria and Italy. In Italy the deviation from the average level of 100 is small, i.e. income is homogeneous across ages. In Austria uniformity across ages is also observed with the exception of the relative income of respondents aged 60-69 which is higher than that in the other three age groups. In fact, Austria is a specific exception: it is the only country where the 50-59 year olds have a substantially lower income than those aged 60-69.

The countries with the highest relative income Denmark, Sweden, Switzerland, and to a lesser extent the Netherlands along with Germany, exhibit the highest margin in the level of income by

age. In Denmark the gap between the highest medium income (of the persons aged 50-59 years) and the lowest medium income (of the persons aged beyond 80) is the largest by far and amounts to unexpected 80 points. In Germany and Sweden this difference amounts to approximately 50 points.

Since the SHARE data refer to gross income we may not conclude directly from these data that income inequality across age is higher in Denmark than it is in Italy. Actual retirement in Denmark proceeds at higher ages than in other countries, hence a higher proportion of respondents in the age group 60-69 receive earnings from labour. Additionally, in Denmark there is substantial redistribution through taxes and transfers so that net income becomes more homogeneous.

Figure 2.2: Income by four age groups relative to country-specific median income

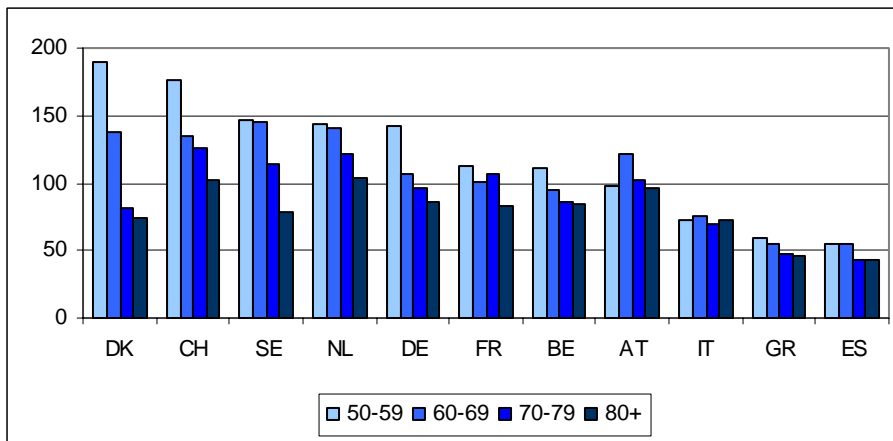


Remark: Each country-specific total median income is normalized to 100 points.
Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Figure 2.3 presents levels of income across age groups this time relative to the overall median income level for each age group in the 11 countries. This allows to compare the relative income in one and the same age group across countries.

The highest relative income of persons aged 50-59 is observed in Denmark and Switzerland, followed closely by Sweden, Germany and the Netherlands. It is more than three times higher than the income of the people in Greece or Spain who are at the same age. However, the relative income of the Danes aged above 70 is considerably lower when compared with the same-age population in other countries; it is comparable only to that observed in the southern European countries. This is surprising in as far as one would expect that high median income in Denmark (overall) relative to most other countries is reflected within each age-group. The same holds for the observation about the relatively low income of the Swedish oldest-olds (80+) as compared to oldest-olds in the other countries. Again, these observations hold for gross income and will not necessarily hold for net income.

Figure 2.3: Income by age groups relative to the median income over all countries



Remark: Median income over all countries equals 100 points.

Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

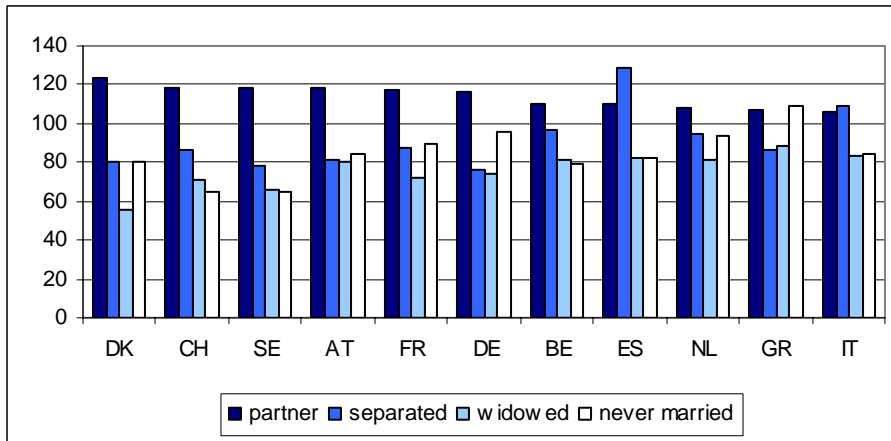
- By partnership status

Partnership status is a crucial aspect and determines living arrangements, daily living, social as well as financial embedding. Figure 2.4, constructed similarly to Figure 2.2, gives the relative median income by partnership status. The results are comparable among partnership states within a country, but not across countries.

People living with a partner achieve the highest median income as compared to people who are separated, widowed, or in any other form of partnership status. The level of the median income of persons who live in a partnership (110–120%) does not change much among the countries: being in a partnership gives approximately the same advantage in all countries with respect to the concept of the equivalent household income per person, relative to persons in another partnership status. Apparently, when two partners are present in the household, it is likely that each one of them contributes with a certain income to the household budget. Thus the equivalent household income per person increases.

Separated people are frequently showing up the second-highest income. Widowed people have the lowest median income in several countries. The comparable small group of singles, i.e. never-married persons currently living without a partner, has also relatively low income as compared to those in partnership, separated or widowed. In general, our results clearly show that older persons living as a couple have a much better financial situation compared to their peers living without a partner. Although at first sight Spain seems to be an exception with the highest per capita income among the separated, it has to be pointed out that this group comprises only five per cent of all interviewed Spaniards and therefore represents a minority among older persons in Spain.

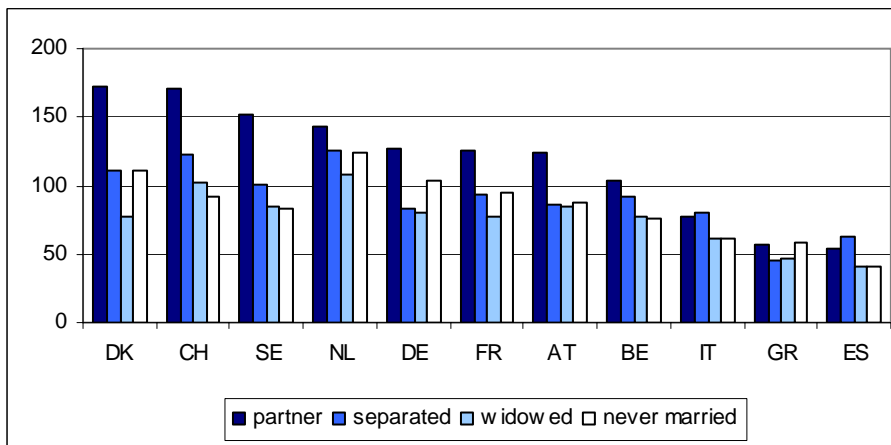
Figure 2.4: Income by partnership status relative to country-specific median income



Remark: Each country-specific median income equals 100 points.
 Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Figure 2.5 (constructed similarly to Figure 2.3) gives the median income by partnership status relative to all countries. The difference among the countries becomes apparent where the state of having a partner is considered. Couples are richest in the two Nordic countries, Switzerland and the Netherlands. Three central European countries form the middle group: Germany, France and Austria, and couples in the southern European countries are the poorest. The differences in the other partnership states are of the same pattern, although less pronounced.

Figure 2.5: Income by partnership status relative to the median income over all countries



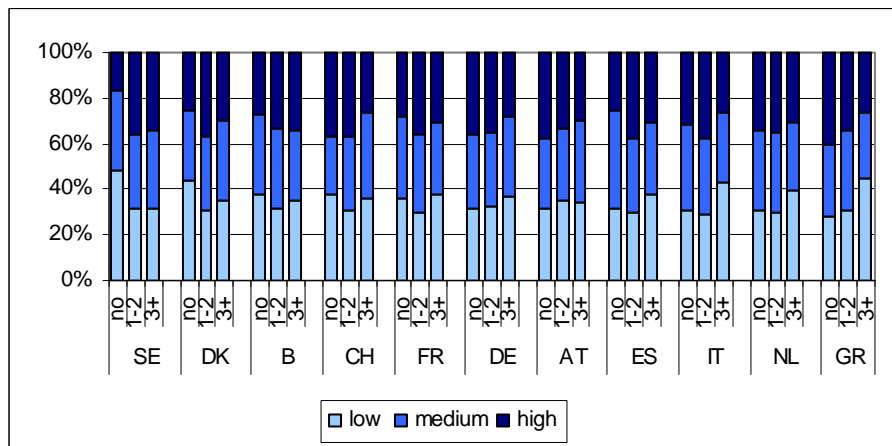
Remark: Median income over all countries equals 100 points.
 Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

- By number of children

The analysis in this section is based on the use of *tertiles* for the income distribution, i.e. the range of income is divided into three equally wide groups. Respondents are then divided into three groups according to the income they have: those below the first income tertile (respondents with low income), those between the first and the second tertile (medium income) and those above the second tertile (high income). The number of children is: none, one or two and three or more.

Figure 2.6 shows the percentage of people belonging to the three income groups by the number of children.

Figure 2.6: Income tertiles by number of children and countries



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

The results indicate that in Sweden the proportion of high-income people with no children is lower than the proportion of high-income people who have at least one child. A similar observation holds for Denmark. The observation for Greece shows the opposite: the higher the number of children, the higher the proportion of people with low income. This pattern can be observed in several other countries where respondents with three or more children are compared with those who have one or two children. Thus the number of children is correlated with a certain level of income inequality.

How can these differences be explained? A likely explanation is based on the important role of the direct income effect and opportunity costs, following fundamentals of the economic theory of fertility (Becker 1981). When people have more children, they need to spend more time at home and therefore at least one of the partners will have less time to enter the market for paid work. Hence income might decline when the number of children increases. However, the support provided by well-elaborated family policies should compensate for the opportunity costs. Parents will then be able to work for pay and hence accumulate higher assets at advanced age. When the effect of the opportunity costs on childbearing is low, the effect of the direct income effect increases. The generous family policies in the Nordic countries are well known and this explains the pattern described above. Similar policies are not as generous in the southern European countries and hence the high effect of the opportunity costs in these countries offsets the income effect.

3.3 Income components

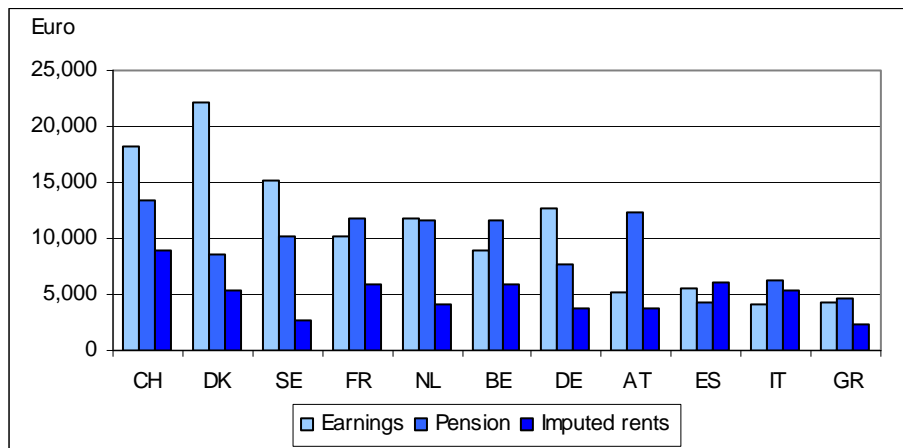
In this chapter, we take a closer look at the composition of income of older Europeans. The generated income variable used in this paper includes the following components:

- *Labour earnings* from employment and self-employment, annual amount;
- *Pensions*: Annual old-age pension, early or pre-retirement pension, disability insurance, unemployment benefit, survivor pension from partner, invalidity pension, war pension, private pensions;
- *Capital income*: Interest from bank accounts, bonds, stocks, shares, mutual funds;
- *Other sources*: Annual other HH members' gross income from other sources, life insurance, health insurance, alimony, regular charities;
- *Imputed rent*: received from housing properties and imputed rents for households that report not to pay full rent because they are owner-occupied, annual amount;

Since the components 'other sources' and 'capital income' turned out to be very small, we excluded them from our further analysis.

The median of the earnings for all elderly persons in a country equals 0, i.e. more than 50% of elderly persons did not declare any income from employment or self-employment. For this reason we discuss here the mean earnings, a small number of outliers with unusually high income were excluded to avoid distortions. Figure 2.7 shows the components of the mean income in each country.

Figure 2.7: Mean income by components and countries



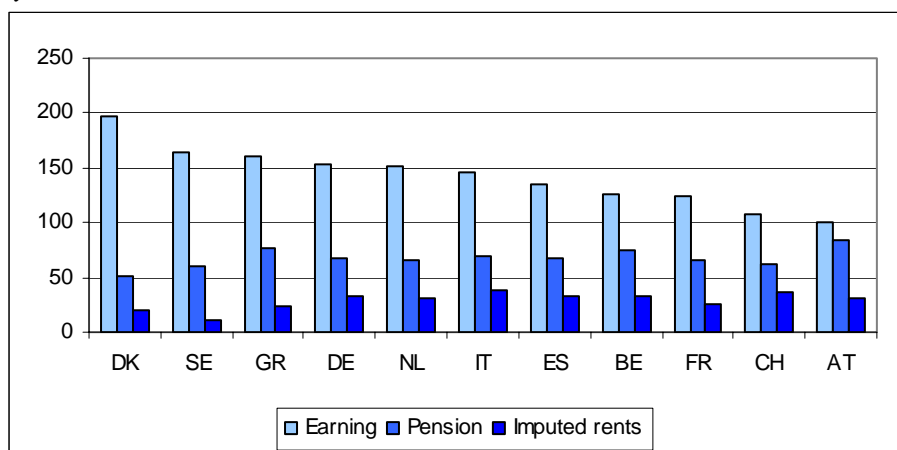
Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Earnings are very high in Denmark, as well as in Switzerland, and Sweden where earnings are above 15,000 equivalent Euros. The lowest level of earnings is observed in the three southern European countries and Austria. However, in Austria the resources from pensions are rather high. Imputed rents received from housing properties are highest in Switzerland and lowest in Greece, the value of imputed rents certainly depends much on the prevailing housing market.

In order to get a better picture of the income component distribution that does not depend on the shortcomings of an indicator like the mean we constructed medians for each income component related only to those respondents who have declared that they receive such an income. For example the median of the earnings is estimated for respondents who declared that they receive some earnings either from employment or from self-employment. The medians for the pensions and for the imputed rents were estimated analogously. This method disregards cases where a respondent has more than one income. In addition, the medians of the income components are presented in a magnitude relative to the median of the sum of these components taken to equal 100.

The relative medians of the income components are presented in Figure 2.8. In Denmark the median of those who receive earnings is nearly twice as large as the median of total income. However, the median of pensions and imputed rent in this country is very low, indicating a low replacement rate. The replacement rate, defined as the ratio between earnings and pensions, constitutes an important determinant of retirement decisions. For many countries, the relationship between the relative level of earnings and pensions is that a decline in earnings is accompanied by an increase in pensions. This suggests a clear-cut ordering of countries according to their replacement rates and thus the retirement incentives. Austria is the country where the two levels come closest together. This suggests a clear-cut ordering of countries according to their replacement rates and thus the retirement incentives. In fact, Austria is the only country where the two levels are even close to each other. This observation induces an explanation about the early age of transition to retirement in this country: after retirement income does not drop considerably.

Figure 2.8: Relative median of income components of respondents who receive this income, by countries



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

4 Net worth and assets (ppp-adjusted)

Financial assets, real estate and other assets can be of key importance to the well-being of older persons. These assets can be accumulated through the working life for the purpose of being used for consumption in old age. Individuals accumulate savings for retirement, or alternatively they may purchase real estate which can be rented, so that rents can provide for their living when retired. Yet another option is the investment in bonds and stocks whose dividends will also be used for consumption after retirement. Thus when income declines, wealth accumulated in financial and real assets may provide for a reasonable well-being in old age. Unlike income which can be only current, assets inform about the potential future consumption. The availability of assets reflects the scope to shift consumption into the future.

Financial assets include bank accounts, bonds, stocks and shares, mutual funds, retirement accounts, contractual savings for housing and life insurances. Real assets include private residences and also vehicles and business ownership. Assets can bring financial support in terms of interest on savings and bonds, dividends from stocks and rent on housing. Beyond assets, the SHARE data also contain information on liabilities which includes mortgages and debts. The fact that SHARE collects data both on income and wealth—while other surveys like EU-SILC do not address wealth—is important for getting a multifaceted picture of the financial situation of older persons in Europe.

Net worth is defined as the sum of financial and real assets, minus liabilities. This section describes in detail the net worth of the respondents: it represents their actually available assets, i.e. the actual wealth of the households of older people, net of any liabilities. A general view is also given on the main components of net worth: net financial assets and real assets net of any liabilities on them.

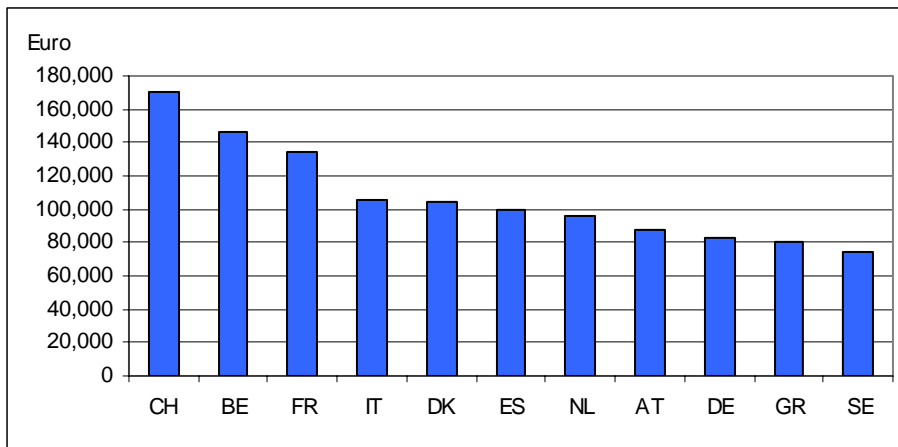
Respondents were asked about the value of each asset they had. For example they were asked about the approximate price of their residence when the latter was owned by a member of the household.

4.1 Relative level of net worth and net assets by country

Figure 3.1 displays the median of the net worth by countries. In Switzerland the net worth is around 170,000 equivalent Euro. The lowest value is observed in Sweden, less than 80,000 Euro. How can this large difference be explained?

The magnitude of the net worth depends on a number of factors. On the measurement side: the measures of net worth are ppp-adjusted, and the high prices in Sweden and Denmark decrease their gross worth; the same is true for Switzerland but this country remains in the lead. On the substantive side: welfare regimes determine the saving behaviour of the aged. In the Nordic welfare regimes, generous public transfer policies aim at securing an even transition of citizens from one stage of the life cycle to the other and at the same time achieving intergenerational justice. This feature of the welfare states makes people feel secure when getting old even if their own wealth is not sufficient to cover market prices for health care and living. In Sweden and Denmark, elderly people with a low net worth are likely to expect support by the state. So they do not opt for large-scale investment in financial or real assets that would be necessary to cover their needs were public transfers not as generous.

Figure 3.1: Median net worth by countries



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

In other countries family ties are traditionally strong and intergenerational support is traditionally available. In these countries savings for old age can be seen as savings for bequests; these downward intergenerational transfers at older age are paralleled by upward transfers in the form of support and care. Such strong family ties prevail in the southern countries.

Net worth can better be understood by taking a look at its main components. Figure 3.2 gives the ppp-adjusted net financial assets (gross financial assets minus financial debts excluding mortgages and other debts related to real assets). Figure 3.3 displays the net real assets (real assets minus any debts on them). All three figures express magnitudes in terms of medians; the reader is reminded that medians of components do not necessarily sum up to the medians of the whole, and for this reason the sum of the two types of net assets does not sum up to the net worth.

Figure 3.2: Median net financial assets

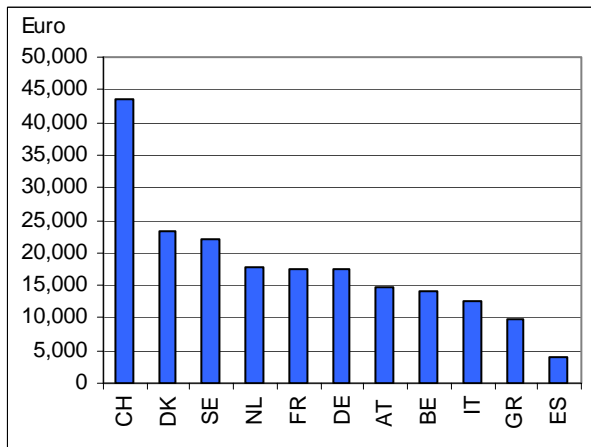
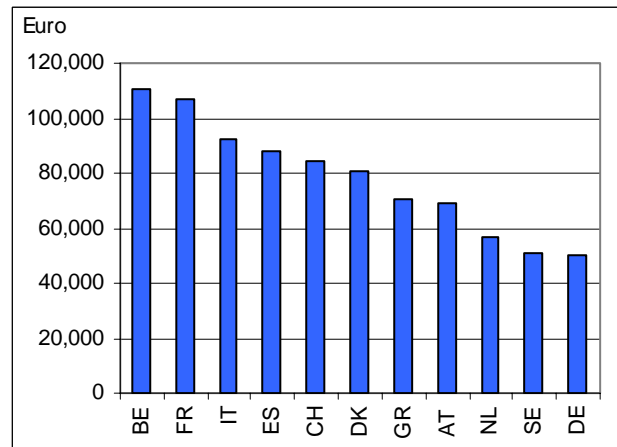


Figure 3.3: Median net real assets



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

The net financial assets are considerably lower than the net real assets in each country; even in Switzerland where financial assets are higher than elsewhere they make up only half of the net real assets. Respondents from the southern European countries have the lowest financial assets. This could be expected as a result of the relatively lower income in these countries which restricts the accumulation of financial assets. However their net real assets are not as low. To explain the cross-country differences in asset structure we consider the cultural and economic environment in which the ageing people build their portfolios.

Financial assets are with high liquidity: bank accounts can be drawn; stocks and bonds can be sold in short time period. Real assets require more time until they are sold and thus turn into financial assets which can then be redirected to savings or used for other purposes or rising needs. Financial assets are much more subject to short-term economic cycles and crises. Thus on account of quick liquidity they are subject to a larger economic risk. Hence, in overall, elderly persons tend to have portfolios where assets with lower liquidity prevail and thus uncertainty and risk are minimised.

Portfolios differ among groups of countries. The aged in the three southern European countries Italy, Greece and Spain keep lowest levels of net financial assets though their net real assets are relatively higher. However, culture may again play an important role: the prevalence of familism in these countries induces preferences to private housing and other real assets which the aged can leave as bequests to the younger generation while expecting a reciprocal care in old age.

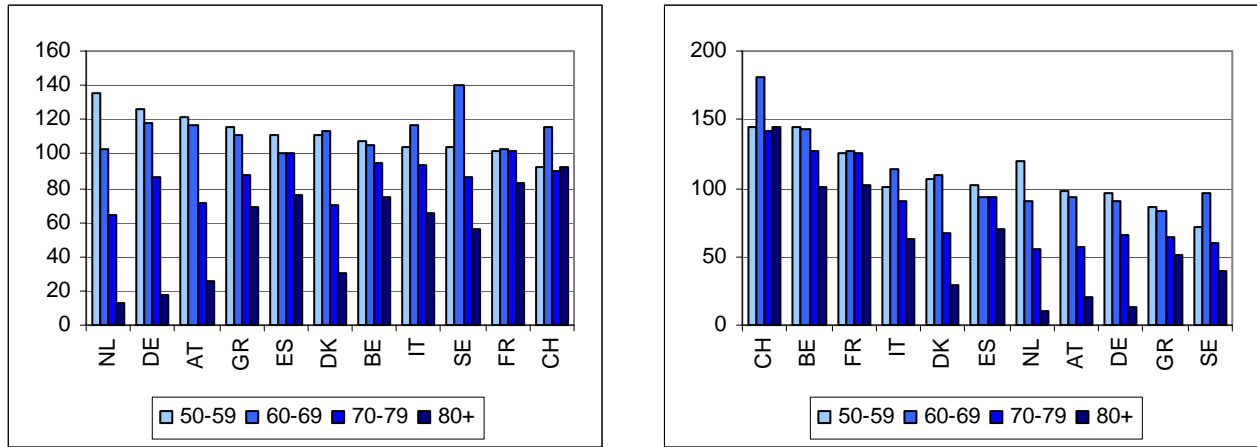
It is indicative to analyse the components of the financial and real net assets. Using medians was found unconvincing because the median for some key components was equal to 0. That is, more than 50% of the population do not have any assets in this component at all, while a small part of rich respondents possess wealthy amounts of financial and particularly of real assets. The distribution of assets across the population is therefore a topic of high significance which we will address in research subsequent to the one reported in this draft.

4.2 Net worth and assets by age groups

The descriptive analyses further informs about the distribution of net worth across age groups. Figure 3.4(a) gives the distribution by age groups compared to the median of 100 points within a country. The figure clearly shows a large margin in the distribution of net worth over age groups in all countries (the margin is smaller in France and Switzerland and existent for only one age group): net worth declines drastically with the increase of age. It is unlikely that the decline is due to the accumulation of more wealth among the younger cohorts; most likely with the advancement of age older people either transfer their wealth to their offspring or simply use it up.

Figure 3.4(b) shows the distribution of net worth by age groups when the median of 100 points refers to all countries and all age groups. The margin across age groups remains evident. The oldest-old respondents (aged 80+) in the Netherlands, Austria and Germany possess very little wealth as compared to the other countries, and Sweden and Denmark follow close. Although Austria and Germany do not have the same welfare regimes as the other cited countries, their policies still provide a certain amount of security to the aged who prefer to make transfers before reaching the oldest stage in the life course.

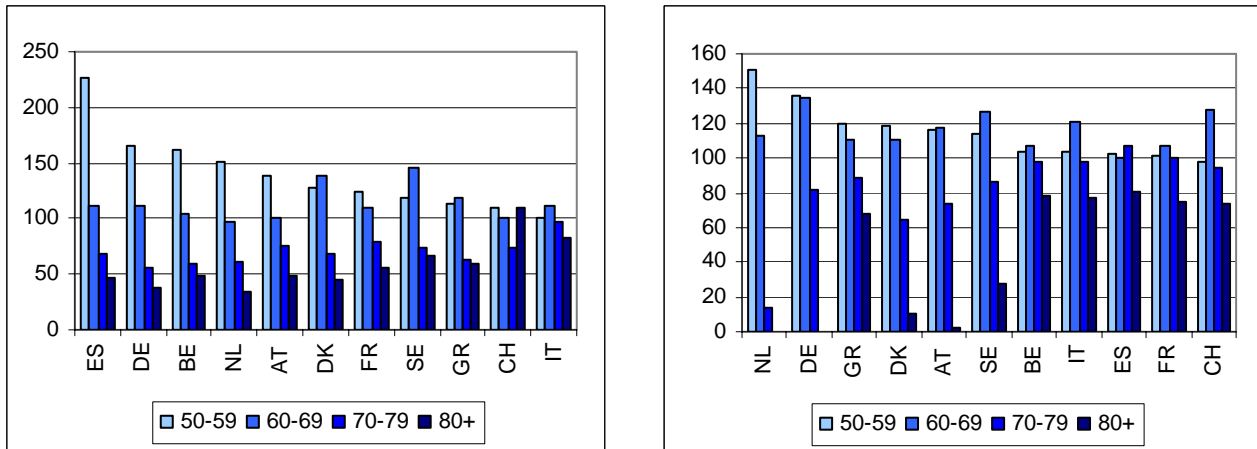
Figure 3.4: Median net worth by age groups relative to country-specific total median net worth (a) and total median net worth over all countries (b)



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Figure 3.5 presents the relative medians by age groups within a country of the net financial assets (Figure 3.5.a) and net real assets (Figure 3.5.b). Countries are ordered along the magnitude of the assets in the first age group. These figures show how portfolios differ among respondents in increasing ages.

Figure 3.5: Medians of net financial (a) and real assets (b) by age groups, relative to the total median in a country



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

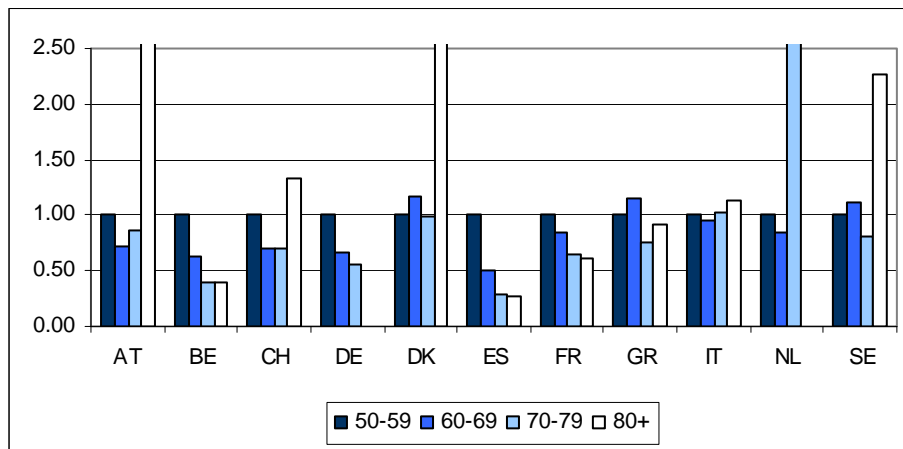
Financial assets are higher among respondents aged 50-59, with the exception of Sweden, and they are about equal to the assets of those aged 60-69 in three other countries. It is likely that the sizes of bank accounts decline with ageing. For real assets the main point of diversion is age 70: older respondents dispose of considerably fewer assets than the younger respondents.

Both net financial assets and net real assets decline drastically with increasing age. The decline of financial assets is not as drastic among respondents in Italy and Switzerland, and the decline in the (relative) net real assets is moderate only in Belgium, and it is a little larger in Spain and France. However, in all countries the lowest levels of both types of assets are observed among respondents aged 80+.

In the light of ever shorter remaining life expectancy at advancing ages, the maintenance of assets, in particular of financial assets, beyond ages 80+ indicates a desire to leave bequests. This desire appears to be particularly pronounced in Italy and Switzerland, where both financial and real assets are safeguarded up to the highest ages.

How does the portfolio change with the advancement of age? This change can be examined by looking at the ratio of the financial to the real assets. This ratio is presented by Figure 3.6 below; the ratio at age 50-59 is equal to 1.0 in each country.

Figure 3.6: Ratio of financial to real assets, by age groups and countries



Remark: The ratio at age group 50-59 equals 1.0.

Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

The ratio was found very large at ages 70 and above as compared to the ages below 70 for Austria and Denmark and for Sweden. The values for the age group 80+ in Austria and Denmark go beyond the figure; their large values are due to the drastically small amount of real assets in these countries at this age group. I.e. real assets declined drastically with the increase in age in these three countries as compared with financial assets. A similar but much more moderate change is evident in Switzerland. Old people in these countries seem to prefer to keep their financial assets more than they want to keep their real assets.

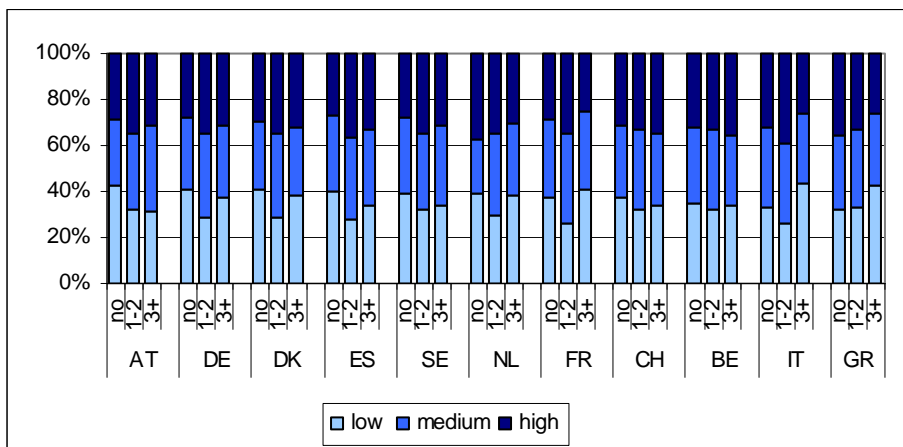
In Belgium, Denmark, Spain and France the ratio declined with the advancement of age. In these countries old people give preference to real assets. Again, this distinct and divergent development of portfolio structure with age is likely to reflect distinctions in the property market. In countries that rely on house ownership, there is simply no way to divest from real assets with advancing age, whereas in countries with a well-developed rental market old people can and do move into rented accommodations (presumably as these are smaller, better situated in terms of infrastructure and easier to maintain).

An explanation of these portfolio preferences requires a detailed examination of market liquidity, risk-taking and cultural patterns, particularly those related to intergenerational transfers and provision of old-age family support. One specific reason for the decline in net real assets can be a contract with a private person or specialised institution for complete old-age care till the end of life, covered by the price of an old person’s own dwelling. Indeed, in a number of countries (e.g. in Germany if long-term care needs to be funded out of social benefit payments) the eligibility to public long-term care support requires the down-spending of all private wealth (for an overview of long-term care arrangements see OECD 2005).

4.3 Net worth and number of children

The next comparison of net worth is done by the number of children (Figure 3.7). The net worth is presented in tertiles. The distribution by number of children in the lowest tertile has a ‘U’ shape: the proportion of persons in this tertile who have one or two children is lower than those who have none or 3+ children. People with many children have relatively higher family expenditures and hence are less able to accumulate wealth into old age. This association can be explained in alternative ways. One explanation is that people with many children are more family-oriented than career-oriented and hence their labour input would hardly bring them a high income (Vitali et al. 2009, discuss this issue in a comparative European perspective). Alternatively, some people with many children might have been willing to pursue a working career but childrearing might have prevented them from fulfilling their aims. Additional research is necessary to discriminate between these two and possibly other cases.

Figure 3.7: Relative net worth by number of children



Data source: SHARE 2004 Release 2.0.1, weighted data, authors’ own calculations.

4.4 Intergenerational transfers

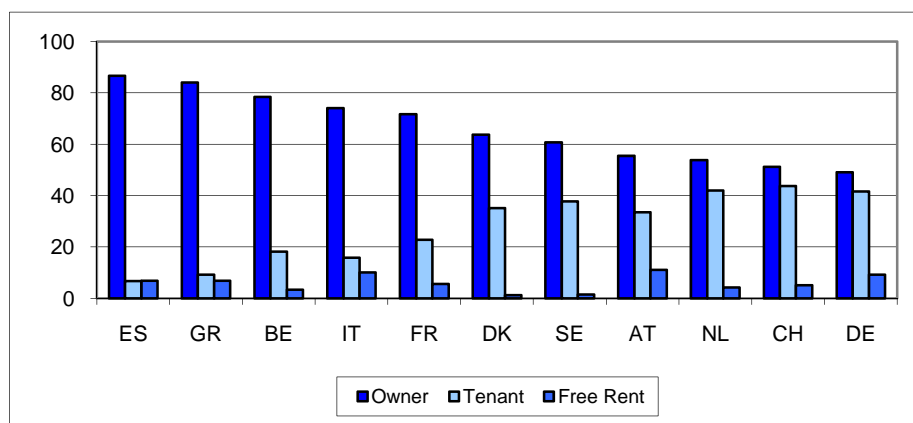
Regarding the financial situation and the number of children, the aspect of intergenerational transfers should be mentioned. In a comparative study of financial transfers and social support based on SHARE, Albertini, Kohli and Vogel (2007) find a common transfer pattern with a net downward flow from the older to the younger generations, both by inter vivos financial transfers and by social support. The authors conclude that “transfers from the elderly parents to their children are much more frequent and also usually much more intense than those in the opposite direction”. The positive balance decreases with age but even those over the age of 70 clearly remain net givers. Moreover, their results demonstrate that country-specific transfer patterns follow the typology of welfare regimes. Their findings show that transfers from parents to children are less frequent but more intense in southern Europe than in the Nordic countries, with the continental European countries being somewhere in between.

Künemund and Vogel (2006) discuss the plausibility of the ‘crowding out’ hypothesis that predicts a displacement of family support in response to the expansion of the welfare state. Using a comparative approach, they test whether the financial and instrumental support that elderly persons receive from their adult children varies systematically with the generosity in public expenditure, which might be expected according to the crowding-out assumption. Although a theoretical discussion of motives for private intergenerational transfers suggests a limited potential of crowding out, their results indicate that welfare state regimes do not crowd out the family commitment. These results are in line with those of Motel-Klingebiel et al. (2005).

5 House ownership

Ownership of one's dwelling is part of the real assets and hence of the wealth of the household. Figure 4.1 displays the percentage distribution of house owners, tenants and people living rent-free by country. In all countries about 50% or more of the respondents own their dwelling. This percentage is especially high in the southern European countries. The relative levels of net financial assets in these countries, described in Section 3, are low (Figure 3.2) while net real assets are relatively high (Figure 3.3). This is particularly evident for Spain and Italy, where the net worth is high (Figure 3.1). As the main component in the real assets, housing in these countries compensates to some extent the relatively low income and fewer accumulated financial assets.

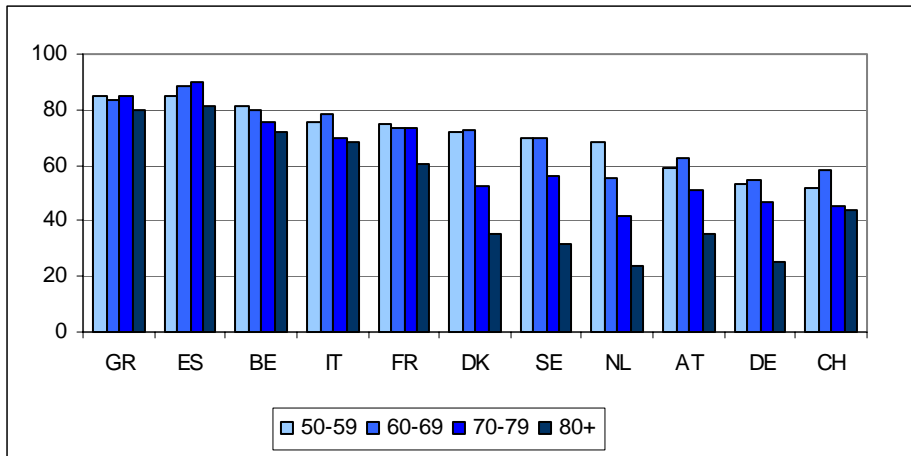
Figure 4.1: Type of housing



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Dwelling owners prevail among the younger age groups (Figure 4.2). However the differences across age groups are small in southern Europe and large elsewhere. There is a curious regularity: the larger the number of tenants in a country (Figure 4.1), the lower the number of owners in the older age groups. This regularity is clearly observed in Denmark, Sweden, the Netherlands, Austria, Germany and Switzerland. The regularity might be explained by the fact that older people sell their houses or transfer them to their children and move to live as tenants in smaller dwellings.

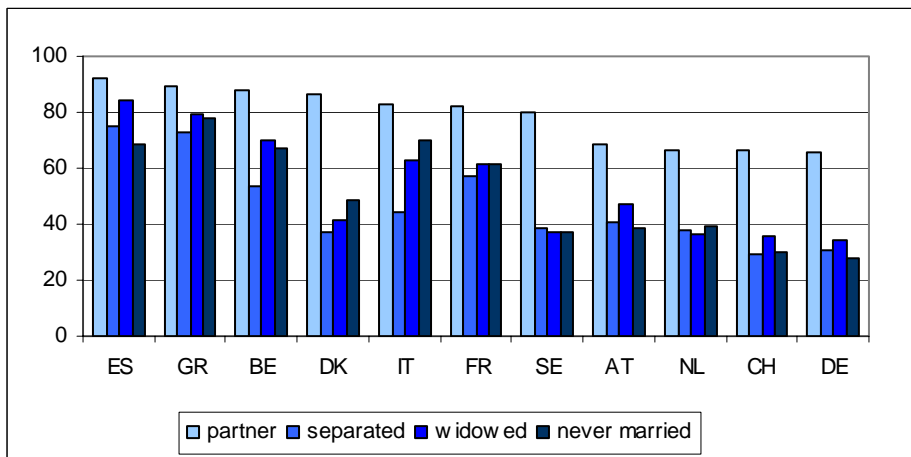
Figure 4.2: Owners by age group



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Figure 4.3 shows that most of the dwelling owners are living with a partner: the shares are between 66% in Germany and 92% in Spain. In those countries where most people live in self-owned dwellings (Spain and Greece, see Figure 4.1) the differences among the four partnership states are smaller. Apparently single people prefer to live as tenants or together with the families of their children rather than occupy a separate dwelling on their own.

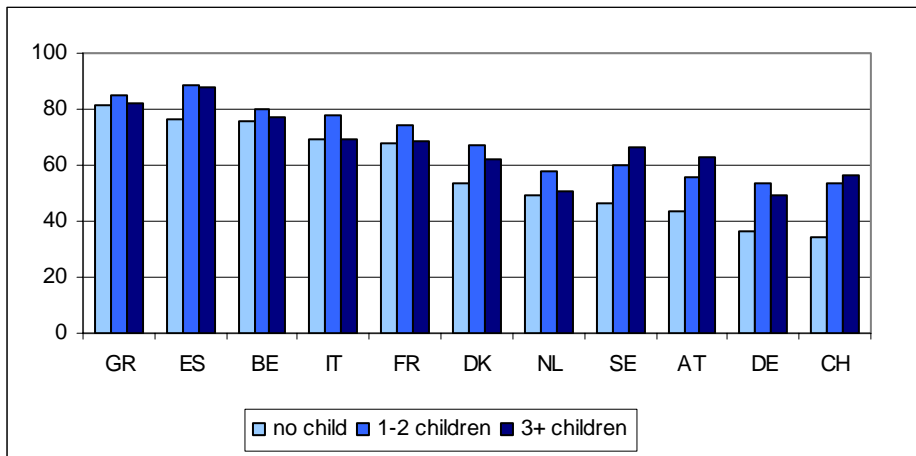
Figure 4.3: Owners by partnership status



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Figure 4.4 displays the percentages of owners among the groups with different numbers of children. Ownership is lower among persons without children. In most countries most owners are among those with 1-2 children and the least among those with no child. The share of owners among people with 3 or more children is higher only in Switzerland, Austria and Sweden.

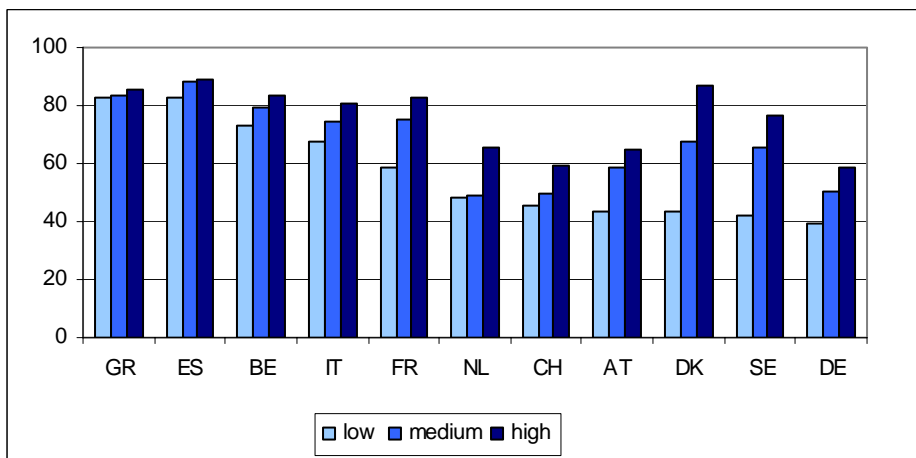
Figure 4.4: Owners by number of children, in per cent to all respondents with the corresponding number of children



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

As shown in Figure 4.5, the higher the income tertile, the higher is the share of dwelling owners in this tertile. The largest differences are observed in Denmark and Sweden, the smallest (again) in the southern European countries.

Figure 4.5: Owners by relative income

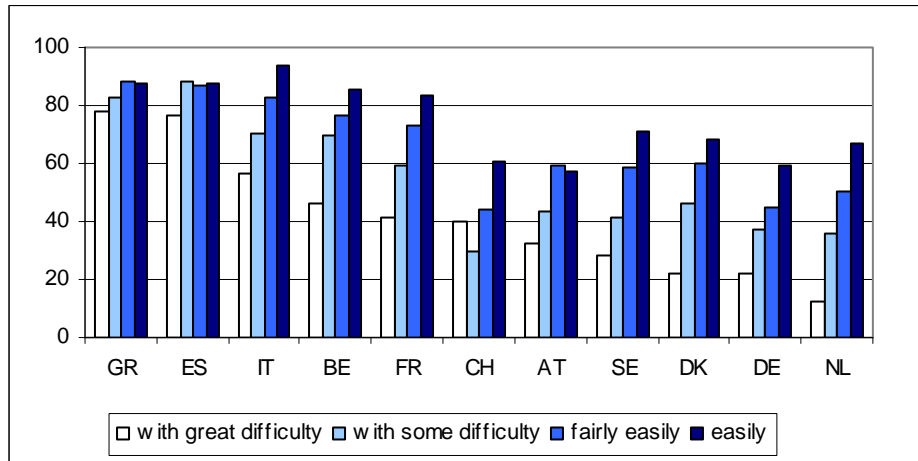


Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Figure 4.6 informs about house ownership by the subjective assessment of the economic situation of the household. The latter is discussed in detail in Section 7. Switzerland is the only country where people whose households experience great difficulties in making ends meet own their dwelling

more often than those with only some difficulties. Elsewhere the general tendency is that the easier it is for households to make ends meet, the more frequent the proportion of house owners.

Figure 4.6: Owners by financial constraints



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

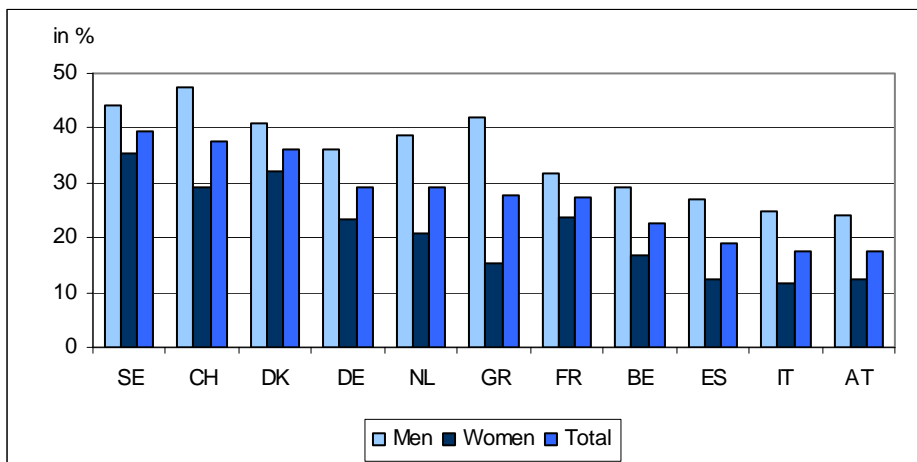
6 Employment status

This section informs about the respondents' employment status which is a key characteristic in understanding income and accumulation of assets. The variation in retirement behaviour, old-age labour force participation and disability-benefit recipiency rates across European countries is striking, retirement patterns are complex and multiple due to different institutional arrangements (see e.g. Kohli et al. 1991). Based on SHARE data, Börsch-Supan and colleagues (2009) analyse the role of institutions and health in European patterns of work and retirement and conclude that “institutional differences in welfare systems almost exclusively drive the distribution and the age pattern of labour-force participation and retirement” (Börsch-Supan et al. 2009). While health is an important determinant of earlier retirement within each country, it does not explain the large cross-national variation. Countries with relatively easy access to generous early retirement benefits generate high prevalence of early retirees (typically southern countries, but also Austria and France) (for a survey on early retirement see Fenge and Pestieau 2003). In countries in which other exit routes are easily accessible (e.g. through disability and unemployment benefits), these alternative routes replace the normal or early retirement pathways (e.g. in the Netherlands and in Denmark). The authors detect unused labour capacities especially in Austria, Italy and France where many healthy individuals are not in the labour force.

6.1 Employment rates

The following figures show employment rates by gender, age groups and partnership status. Figure 5.1 shows that the total employment rate is highest in Sweden (39%) and lowest in Austria (17%). Men's rates are persistently higher than women's across all countries. The highest difference is observed in Greece with 27 percentage points, and the smallest in France with 8 percentage points. The differences are due to some extent to the lower age at retirement for women in some countries; however a dominant reason is likely to be the prevalence among older persons of the traditional male-breadwinner model where the man works for pay and the woman's primary task is to care for the household.

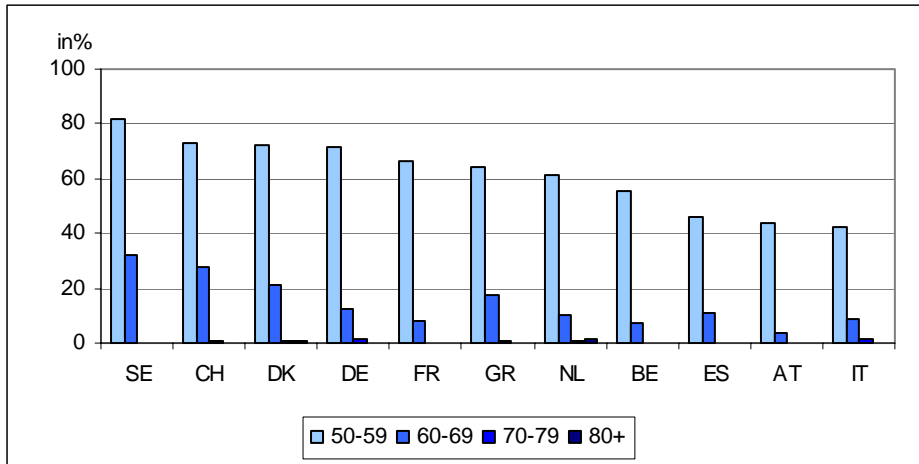
Figure 5.1: Employment rates by gender



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Employment rates by age group are shown in Figure 5.2. They are highest for 50-59 year olds, significantly smaller for 60-69 year olds and hardly observable for the two oldest age groups. Apparently this distribution is closely linked to the prevalent age at retirement which is 65 and the actual age of exit from the labour force which is around 60 for the whole of the EU.

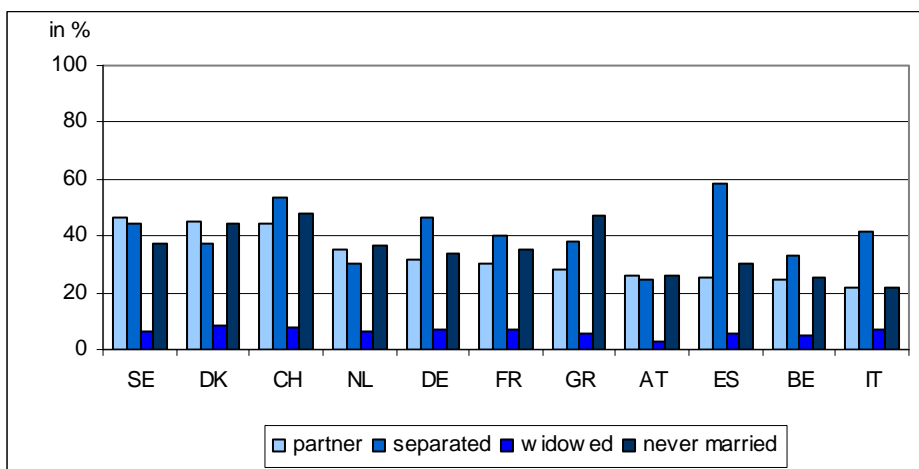
Figure 5.2: Employment rates by age group



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Regarding partnership status, separated people have the highest employment rate in the majority of countries. The difference is larger in the southern European countries, particularly in Spain but also in Germany. The employment rate of widowed people is lower, and this is very likely to be an age effect; however small numbers do not allow a definite conclusion.

Figure 5.3: Employment rates by partnership status



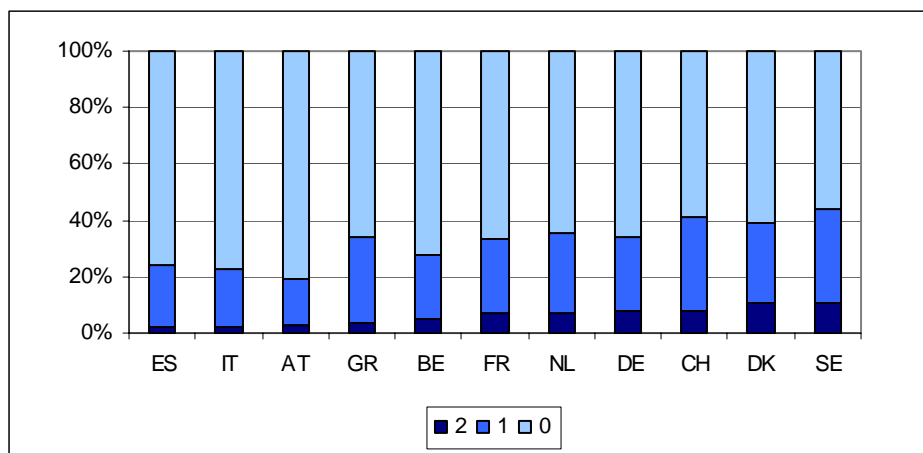
Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

The relatively lower employment rate among persons who live with a partner can be due the division of labour in the household: one partner works and the other (usually the woman) might stay at home to care for the household chores.

6.2 Number of employed household members

Figure 5.4 tells about how many people per household are still (self-)employed. In the whole dataset there is no household with more than 2 employed members, therefore there are only three categories: 0, 1 and 2.

Figure 5.4: Structure of households by number of (self-)employed household members



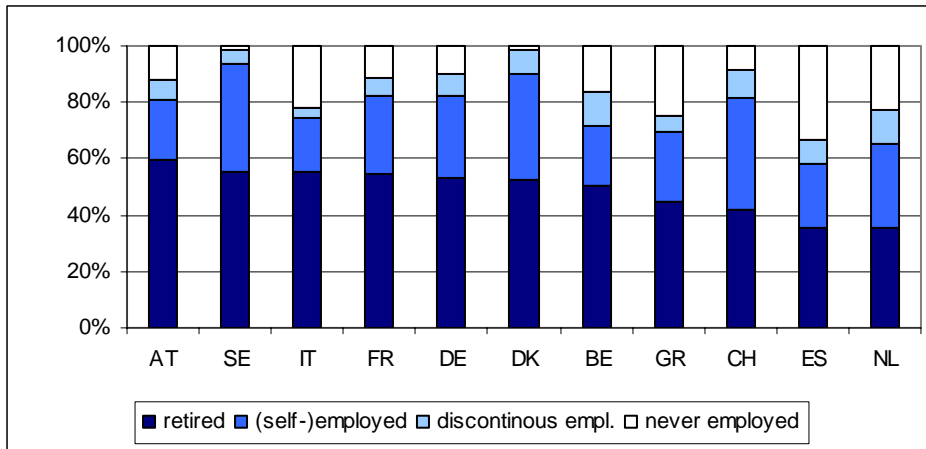
Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

In all countries the majority of households do not have any member who is still active in the labour market. In Sweden, Switzerland and Denmark this share is the smallest, correspondingly 56%, 59% and 61%. Between 16% (Austria) and 33% (Switzerland and Sweden) of the households have one member who is still employed. Sweden (11%) and Denmark (10%) are the two countries with the highest shares of households with 2 employed persons.

6.3 Employment status

Figure 5.5 shows the structure of employment status in four categories: (self-)employed, retired, discontinuous employment or temporarily away from work, and never employed. In Sweden and Denmark there are hardly any people who have never been employed, while the share of this group ranges from 9-33% in the other countries and is the highest in the southern European countries. In general, the largest groups are retired people, followed by (self-) employed.

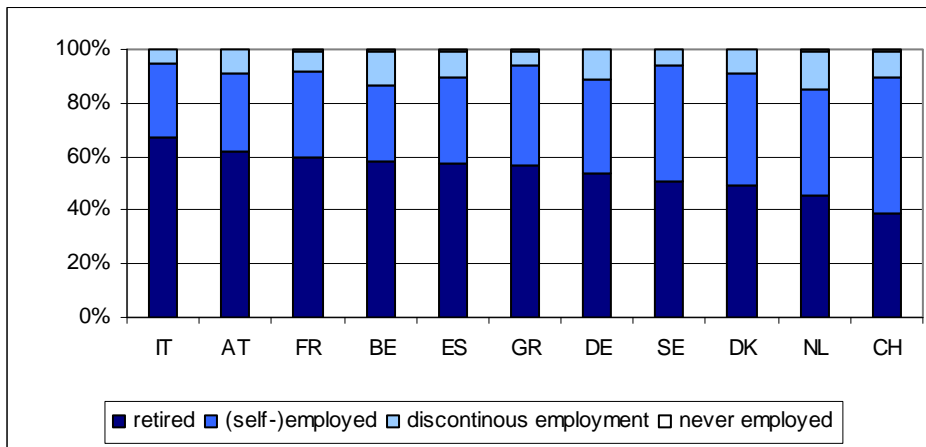
Figure 5.5: Employment status



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

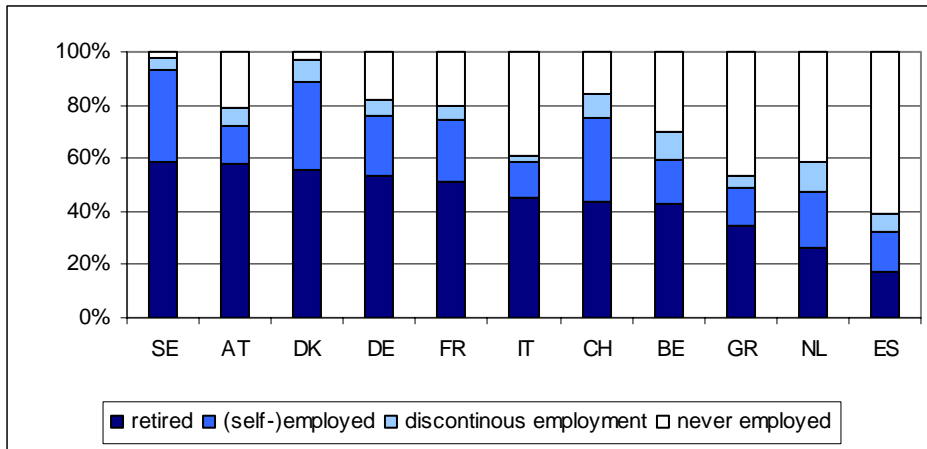
Figure 5.6 and Figure 5.7 show the employment status for men and women. The most striking difference is the share of people who have never been employed: for men it is close to zero in all countries. Never-employed women are few only in Denmark and Sweden, below 6%; they are around 10% in Austria, France, Germany and Switzerland and considerably higher in the remaining countries. In Spain more than 60% of all women reported that they had never been employed!

Figure 5.6: Employment status of men



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Figure 5.7: Employment status of women



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

7 Poverty, income and wealth inequality

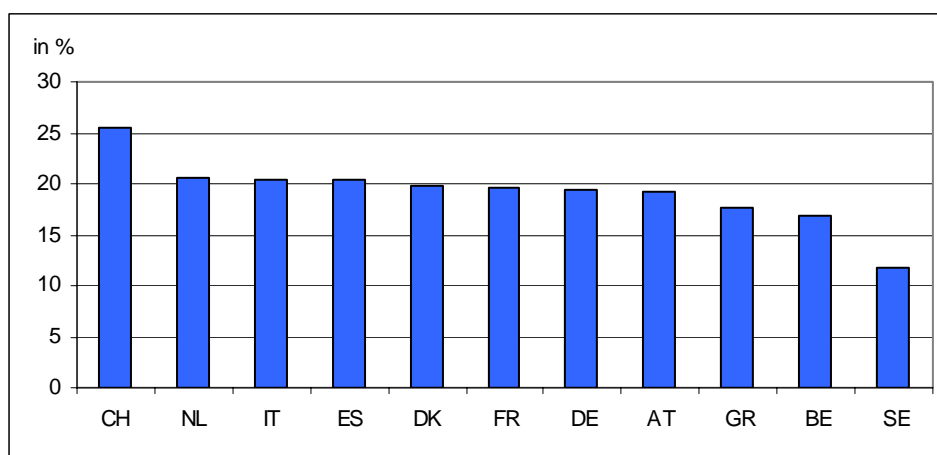
Poverty is usually addressed with respect to several components: insufficient financial potential to purchase goods that are necessary for a decent life, social exclusion and exclusion from social networks, external to any individual reasons for using or not using health and social care. In this report we restrict the analysis to financial poverty. It is common to define financial poverty as the left tail of a cumulative distribution of the population by the level of income. The exact boundary that delineates the right tail is conditional since there are no strict rules for its definition. Frequently 50% or 60% of the median are used, i.e. persons whose income is lower than 50% (or 60%) of the median income are considered as poor.

Median income in general should refer to the total population in working life. When this median is available it will be possible to evaluate poverty among the aged in comparison with the whole population. Since the SHARE respondents are aged 50 and above these data do not fit for the estimation of the median of income over the whole population. Lyberaki and Tinios (2005) provide correction factors for the SHARE countries whose application takes into consideration the average income of the whole country's population; correction factors by age groups are also available. However, we take a different approach. We examine *relative poverty*, i.e. by comparing the aged without reference to the whole population. Thus we get a better picture on the differentiation of the elderly population with respect to income. In our case poverty, defined with respect to the gross median income of elderly persons, is measured as 50% of the median.

7.1 Poverty

Figure 6.1 informs that the proportion of population living in poverty, as defined above, is highest in Switzerland, where more than 25% of the aged have a gross yearly income that is below 50% of the median income in this country. In seven countries the population experiencing poverty is around 20% of the total, and it is lower only in Greece, Belgium and particularly in Sweden.

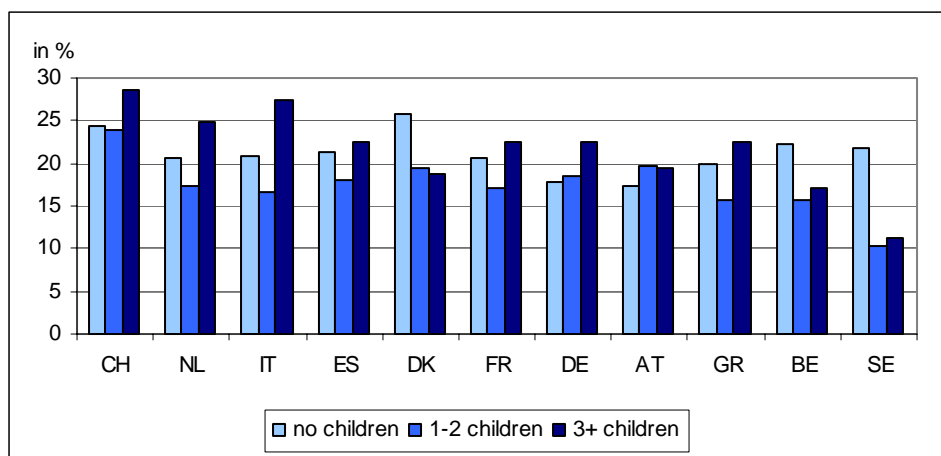
Figure 6.1: Poverty by country



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Figure 6.2 informs about the level of poverty among the country populations differentiated by the number of children they have. It is not surprising to find that poverty is relatively higher among those elderly who have three or more children, except for Austria, Denmark, Sweden and to some extent Belgium, and in Sweden only 11% out of all respondents who have 3+ children can be classified as poor. In the latter three countries a relatively higher proportion of persons who have no children experience poverty. In none of the countries are persons with one or two children relatively poorer than either those with no children or those with three or more children.

Figure 6.2: Poverty by number of children



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

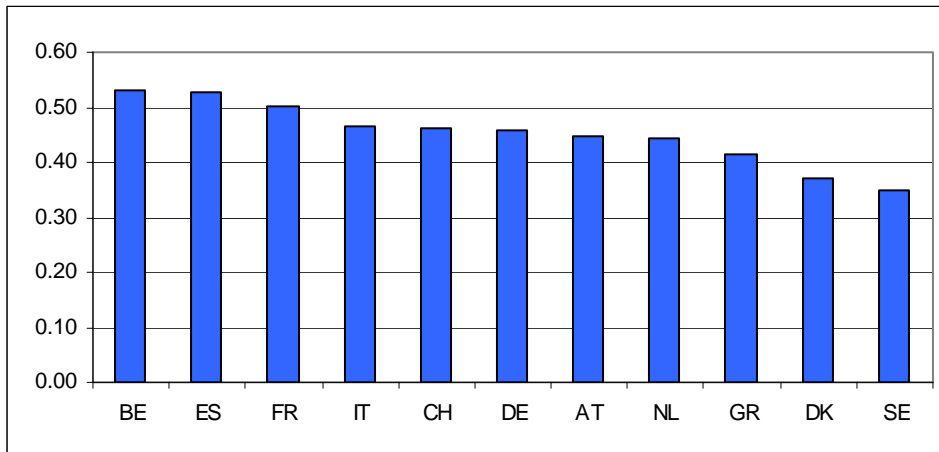
7.2 Income inequality

Poverty defined as 50% of the median income informs about the left tail of the distribution of the population by level of income. In this sub-section we analyse the whole distribution using the Gini coefficient as a synthetic measure. This coefficient measures the uniformity of a distribution and can take on values from 0 to 1. A lower Gini coefficient indicates higher income equality. The extreme values are interpreted as follows: a value of 0 would correspond to perfect equality, while a value of 1 could be observed if only one person received income and all others had no income.

According to the OECD data for the year 2000, the Gini coefficients for several of the SHARE countries are as follows: Austria 0.25, Denmark 0.23, Germany 0.28, Netherlands 0.25, France 0.27, Italy 0.35. Figure 6.3 displays the Gini coefficients based on SHARE data. Apparently the SHARE data report a considerably higher income inequality for the country samples of persons aged 50+, as compared with the OECD data which refer to the population in working age. How can these differences be explained? The different timing of the estimates (the SHARE data refer to 2004) is an unlikely explanation because inequality does not change all that quickly in time, although recent estimates suggest that it is on the rise as of the 1990s (Atkinson 2002). Three

arguments can be identified. The first is immediate, namely the OECD figures reflect disposable income after taxes and transfers were applied to effect redistribution. Second, the sampling procedure and field work might have had their effect. Third, the composition of the income of elderly persons might cause a rise in the Gini coefficient; indeed, the income of older people comprises labour income and pensions in larger shares while the share of pensions among the whole population in the age of activity is very low. Like in the case of poverty, we discuss the Gini coefficient only within the framework of the SHARE project and do not make comparisons with other estimates.

Figure 6.3: Gini coefficient by country

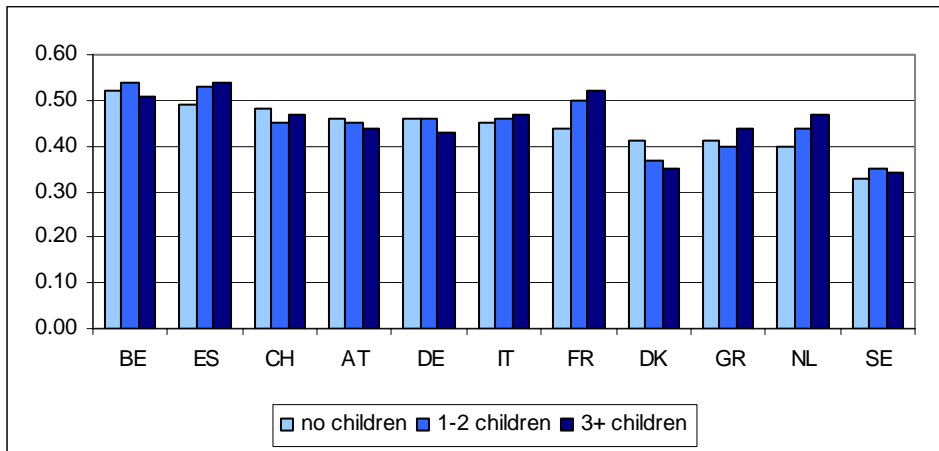


Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Income inequality as revealed by the Gini coefficient is lowest in Sweden, as was the case with the poverty. This country is in fact well known for the high level of achieved egalitarianism with respect to income. The aged in Denmark also enjoy a low level of income inequality, although poverty in this country was found to be around the average among the SHARE countries. Income inequality is highest in Belgium, Spain and France.

Income inequality by number of children (Figure 6.4) changes among the countries without a specific pattern. In Spain, France and the Netherlands inequality is higher among respondents with a higher number of children, while in Austria and Denmark the inverse relationship holds. Inequality is not very large in most of the countries.

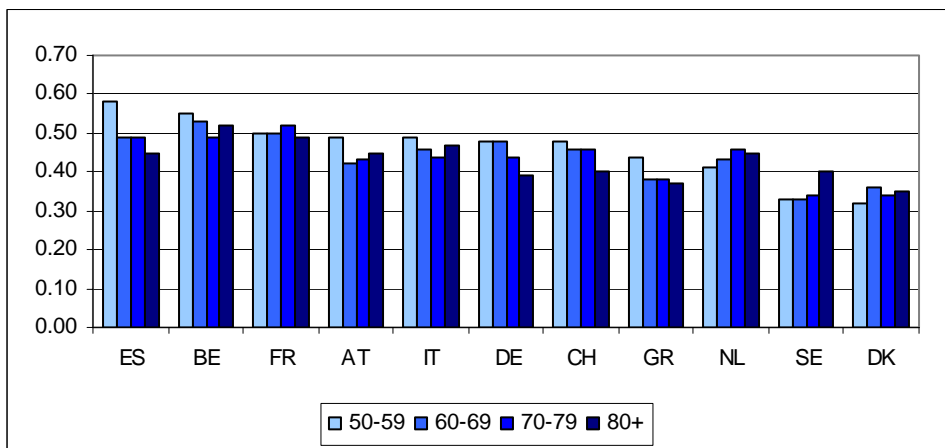
Figure 6.4: Gini coefficient by number of children



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Where age groups are considered (Figure 6.5), income inequality is larger among those aged 50-59 in Spain, Austria and Greece. The main reason is that in these countries people retire earlier in life and therefore there is a considerable number of persons whose main income are pensions while the majority have their main income from employment.

Figure 6.5: Gini coefficient by age group

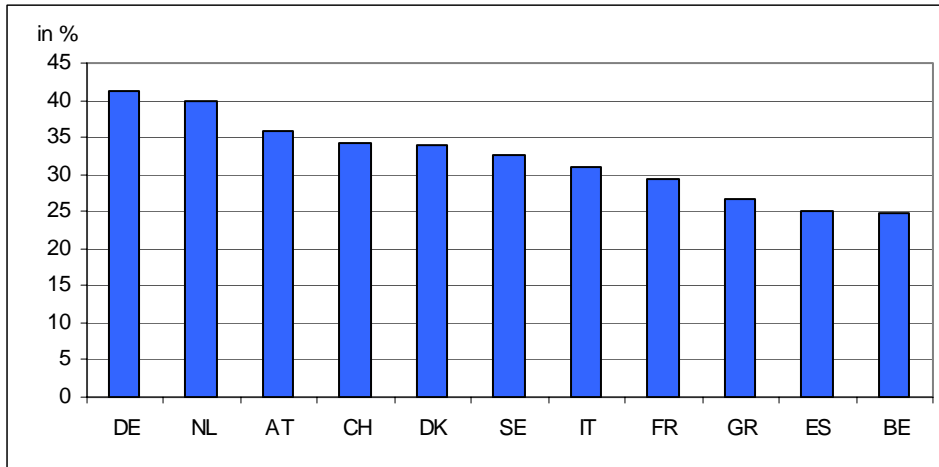


Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

7.3 Poverty and inequality of the wealth

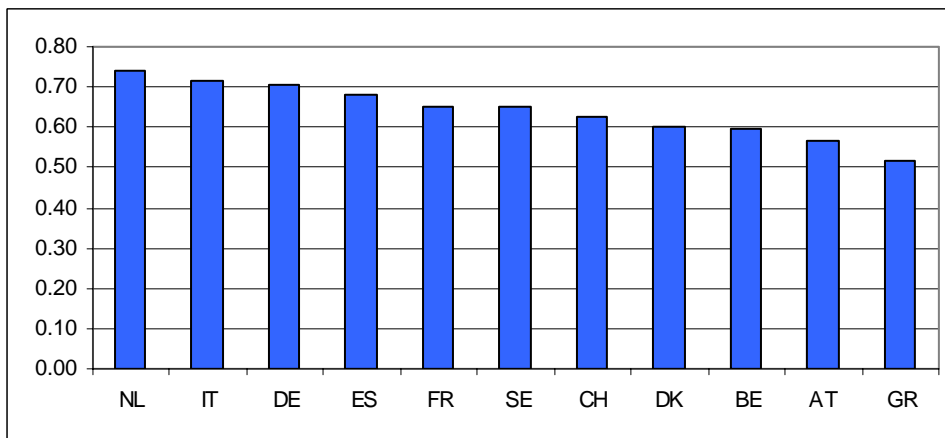
Where net worth is taken as the point of reference, poverty (Figure 6.6) and inequality (Figure 6.7) are considerably larger in all countries. This reflects the well-known regularity that wealth is far less equally distributed than income. Surprisingly, wealth-related poverty and inequality is distributed very differently across countries. More analysis is needed to understand where the differences arise from.

Figure 6.6: Poverty (net worth) by country



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Figure 6.7: Gini coefficient (net worth) by country



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

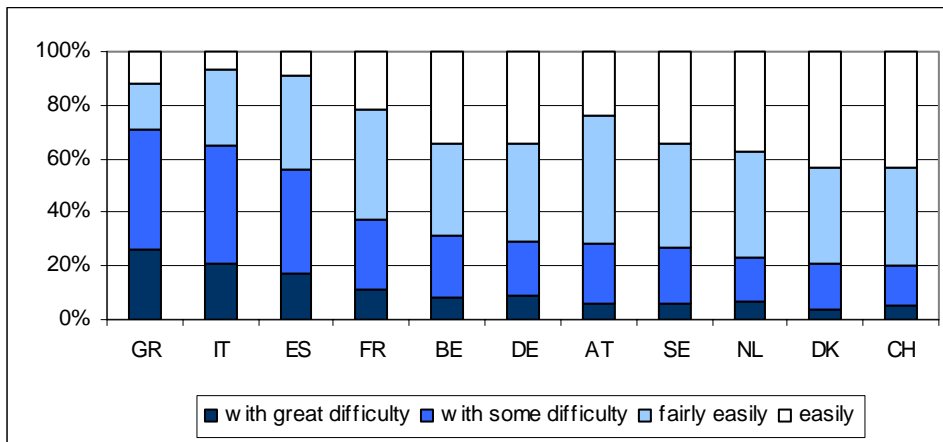
8 Subjective assessment of the economic situation of the household

In order to know if the amount of income and assets is enough for living, respondents were asked about their subjective evaluation to what extent their household was “able to make ends meet”. The answers to the question were: “with great difficulty”, “with some difficulty”, “fairly easily” and “easily”. Perceived income adequacy is a useful indicator part of one’s economic well-being and an especially important indicator for understanding the financial capacities of older people as income tends to decline in late life, due to retirement, whereas health-related expenses tend to rise, insurance coverage notwithstanding. Subjective income is an important undertaking for social policy and can add to better assess the ability of older clients to meet their financial needs and maintain independent community-based living. The self-rated economic status is a robust indicator of financial capacity in older age and can be used by practitioners to gain meaningful information (Litwin and Sapir 2009).

8.1 Assessment in general

Figure 7.1 presents the subjective views of respondents on the financial situation in their households. There is a north-south divide in the subjective financial constraints that people have to face: while in Denmark, the Netherlands and Sweden the share of people reporting to have at least some difficulty lies between 20% and 27%, in Greece, Italy and Spain this goes up to 56%-70%. Switzerland is the only exception being the country whose respondents are best satisfied with the financial situation in their households.

Figure 7.1: Responses to the question whether the household is able to make ends meet, by country, in percentage



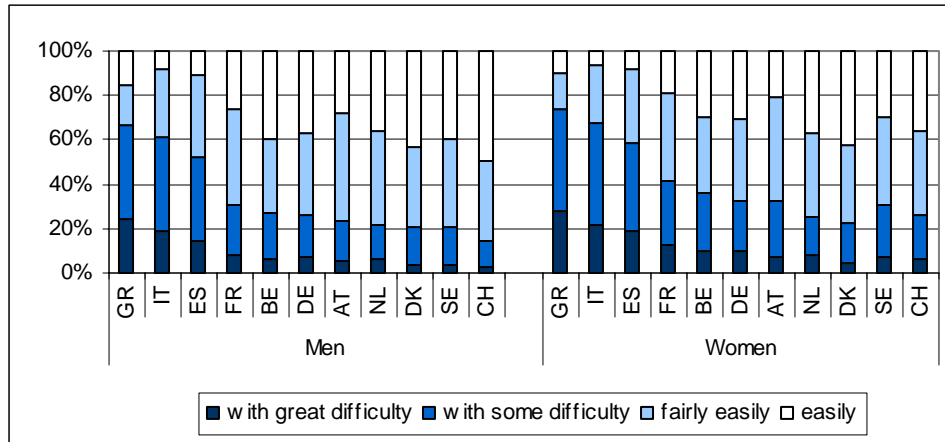
Data source: SHARE 2004 Release 2.0.1, weighted data, authors’ own calculations.

8.2 Assessment by gender

Figure 7.2 displays the subjective financial constraints by gender. While the north-south divide stays the same, women’s perception of their financial constraints is worse than men’s in all countries. The largest gender differences are observable in Switzerland, France and Sweden (10-12 percentage points), the smallest in Denmark (2), the Netherlands (3) and Germany (6 percentage

points). This is interesting inasmuch as the gender bias does not seem to be related much to ‘culture’. Assuming that working women have a relatively strong role as income earners both in Sweden and in Denmark, it could be expected that they would take on a similar attitude as the men (and at any rate a similar attitude across countries), which they do indeed in Denmark but not in Sweden. Likewise, in cultural terms, it is hard to see where the considerable differences between Switzerland and France on the one hand and Germany and the Netherlands on the other arise from.

Figure 7.2: Responses to the question whether the household is able to make ends meet, by country and gender, in per cent

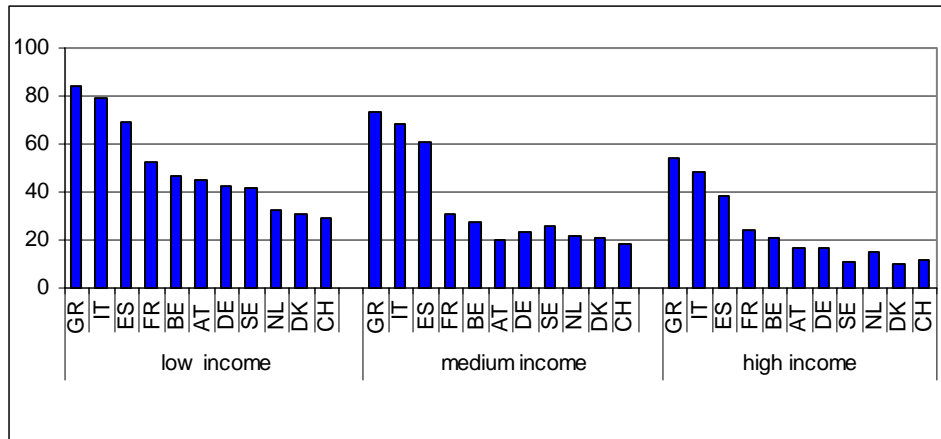


Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

8.3 Assessment by income tertiles

It is interesting to compare perceived income adequacy by different levels of income. Figure 7.3 shows the percentages of all respondents per country who claim their household has some or great difficulty in making ends meet, within groups of income tertiles. Not surprisingly, respondents within the lowest income tertile face financial difficulties more often than respondents in the highest tertile. Respondents from the three southern European countries declare the worst financial situation in each one of the three income groups. Our analysis reveals that in these three countries, even a substantially high proportion (40% to 50%) of persons with comparable high income report financial difficulties. Moreover, a remarkable low proportion of low-income groups in the Netherlands, Denmark and Switzerland report financial distress.

Figure 7.3: Respondents with (great) difficulty in making ends meet by income tertiles

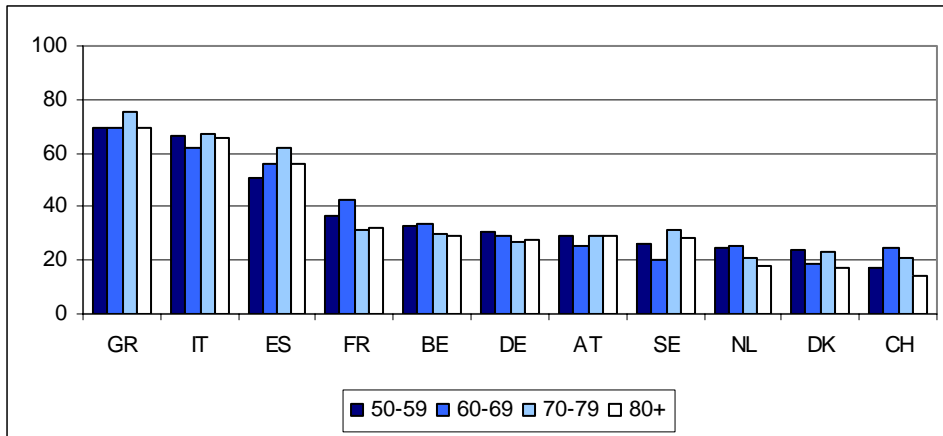


Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

8.4 Assessment by age group

There is no general pattern observable for all countries when age groups are compared by their difficulties in making ends meet (Figure 7.4). However, higher shares can frequently be noticed among the two middle age groups. Intuitively, this makes sense. Immediately after retirement people usually experience a (sudden) drop in income but are still rather active spenders for supporting their children, for travel, etc. This induces a tight financial situation. As from then on consumption (and general expenditure) tends to decline with advancing age this gradually relaxes financial stress for the oldest old. Analyses by Litwin and Sapir (2009) suggest that the oldest-old may underestimate financial difficulties as older people frequently express high levels of income satisfaction, sometimes even unreasonable. They present two other explanations for this phenomenon. One points to the accumulation of wealth that offsets a decrease in income in old age, allowing elderly individuals to maintain their standard of living from alternative sources. Another explanation might stem from cognitive dissonance theory saying that having lower incomes may lead older people to change their interpretation of how much is needed to get by (Litwin and Sapir 2009). The tendency of persons aged 80 years and more to underestimate financial difficulty has to be kept in mind when oldest-old respondents say that they are able to make ends meet. Moreover, we argue that the decrease in financial stress for the oldest-old might also reflect a psycho-social state of 'acceptance': Thus, the oldest-old have grown accustomed to being unable to live on their own means or to living on tight means, as health is much more important then. However, just after retirement individuals may still seek to come up to the norm applied to younger cohorts, which is being able to live on your own (and if possible generous) means.

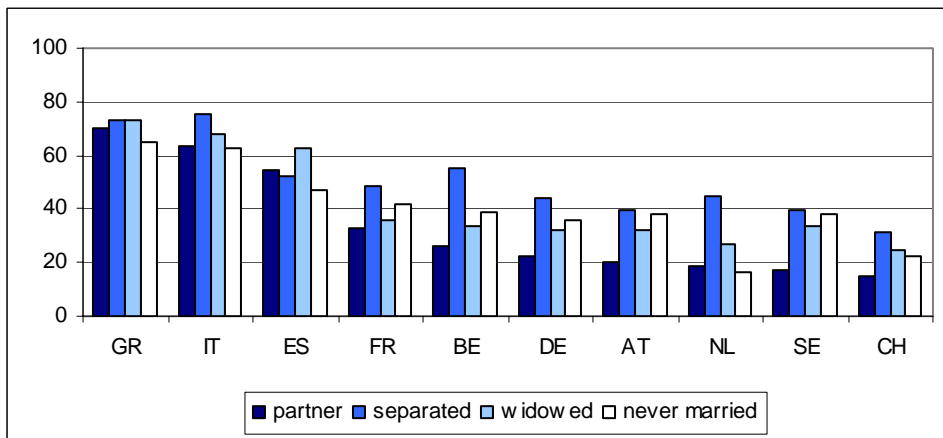
Figure 7.4: Respondents with (great) difficulty in making ends meet by age group



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Figure 7.5 presents results for different partnership status. In all countries except for Spain, separated people respondents most often face difficulties in making ends meet. The least problems are reported by those living with a partner—again, Spain is the only exception. It is also worth mentioning that widows and widowers in western and northern European countries report about financial constraints less often than in southern countries.

Figure 7.5 Respondents with (great) difficulty in making ends meet by partnership status

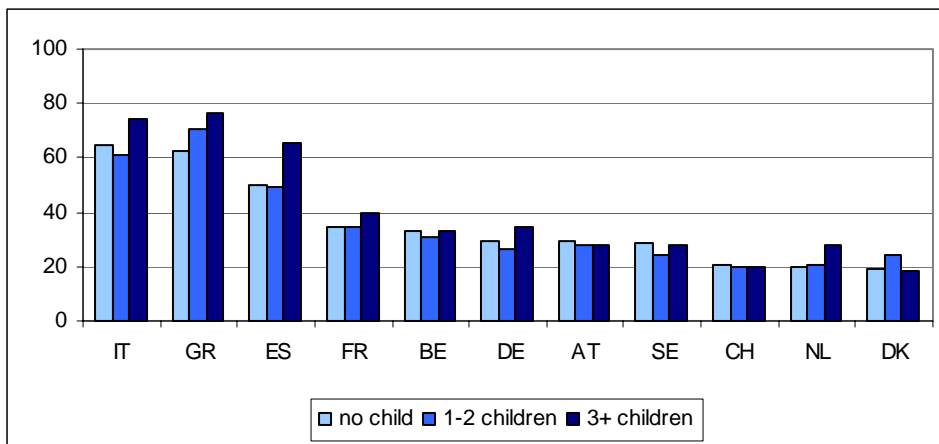


Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

8.5 Assessment by number of children

The relation between number of children and financial constraints is displayed in Figure 7.6. In the southern countries Spain, Greece and Italy, respondents with three or more children report about difficulties more often than those with fewer children. The same is true—to a lower extent—for France, Germany and the Netherlands. The number of countries where people with no children more often claim to have difficulties than those with 1-2 children is quite balanced with countries where the opposite is true. In any case, the difference between both groups is quite small.

Figure 7.6 Respondents with (great) difficulty in making ends meet by number of children



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

9 Health

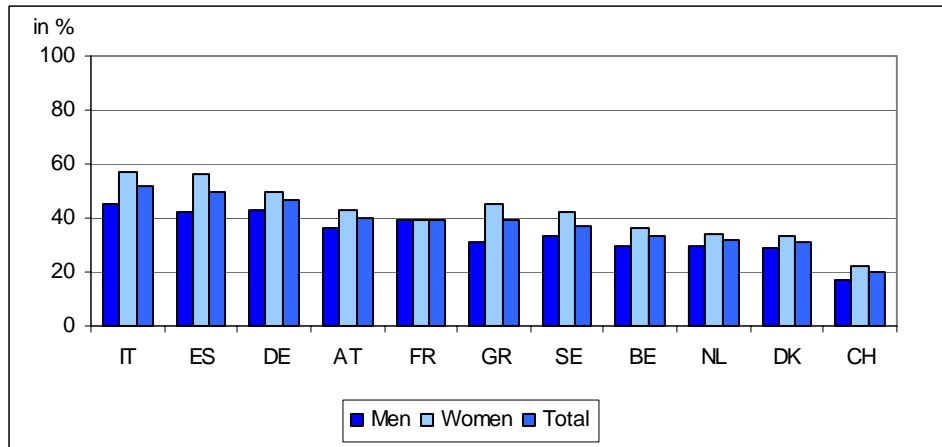
Health is certainly one of the main aspects of ageing and the collected accurate information on physical health, linked with economic and social information provides a perfect basis for research. SHARE contains a broad range of different health measures, like self-reported general health, self-reported diagnosed chronic conditions or medications, symptoms as well as limitations included in the “Activities of Daily Living” (ADL) and “Instrumental Activities of Daily Living” (IADL). Further aspects of health, such as mental health, measures of physical capacity (hand grip strength and gait speed), body mass index (BMI) and health care are also covered in detail, allowing research on age-related health and morbidity from different angles. In this report we concentrate on self-perceived health, chronic diseases and limitations with regard to activities of daily living.

9.1 Self-perceived health

Self-reports of general health have proved to be useful indicators of an individual’s health (Idler and Benyamini 1997, Jürges 2007). For assessing self-perceived health, respondents have been asked how they rate their general health on a five-step scale ranging from “very good” to “very bad”. We dichotomised this variable and distinguished between persons who reported (very) good health on the one hand and individuals who rate their health as less than good (i.e. with fair, bad or very bad health). Here we concentrate on the latter.

According to their own evaluation, between 20% (in Switzerland) and 52% (in Italy) of persons aged 50 years and more perceive their health as less than good (Figure 8.1.). Except for France, the findings reflect that men report a better health, but have a lower life expectancy than women (Case and Paxson 2005). Although self-reported health is an essential indicator, it is a subjective measure and might reflect cultural differences. Based on SHARE, Jürges (2007) decomposed cross-national differences in self-reported health into parts explained by difference in ‘true’ health, measured by diagnosed conditions and measurements, and parts explained by cross-cultural differences in response styles. He finds that Danish and Swedish respondents tend to overrate their health whereas Germans tend to underrate it but concludes that cross-country variations are not eliminated by different reporting styles. In light of these findings, the proportions of older persons with less than good self-perceived health across Europe might partly be produced by cross-national differences. Nevertheless, it has to be stressed that self-assessed health is a valuable indicator for true health. Moreover, the personal component of this measure is valuable, because it is not only important how physicians evaluate a person’s health, it is also crucial for individuals how healthy they feel.

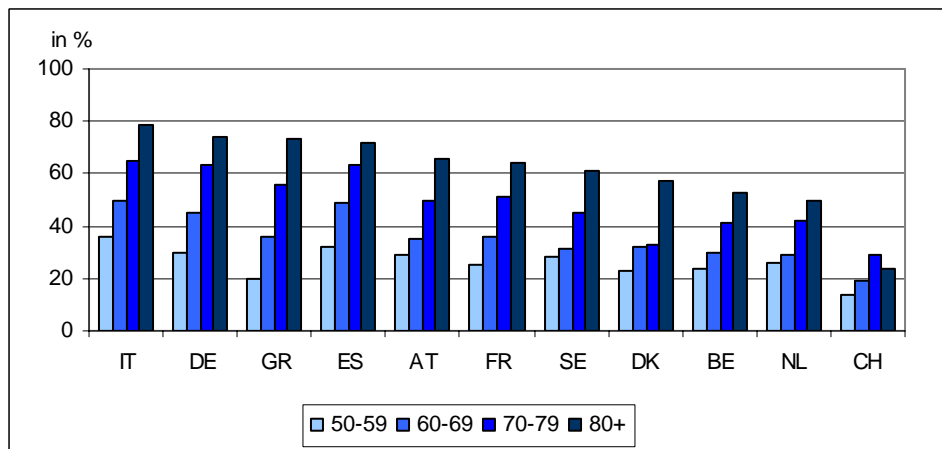
Figure 8.1: People with less than good self-perceived health by gender



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

Age is certainly an important determinant of health, and Figure 8.2 visualises differences by age groups. In general, the youngest age group has the best perception of their health and the share of those who evaluate their health as less than good increases with age. The only exception of this age/health relation is Switzerland, where the 80+ group claims to have a better health than those aged 70-79 years. However, this surprising result is most likely to be caused by the small number of respondents aged 80 years and more. In Italy, Germany, Greece and Spain, between 70 and 80 per cent of persons aged 80 years and more rate their health as not good, and also in the remaining countries the majority of oldest-old persons rate their health as less than good. A common finding is that older respondents tend to have a milder view of their health, i.e. they tend to rate their health better than otherwise comparable younger respondents (Groot 2000; Jürges 2007). In view of this observation, the decline in self-reported health with age may underestimate the true decline in health which may even be more pronounced.

Figure 8.2: People with less than good self-perceived health by age group



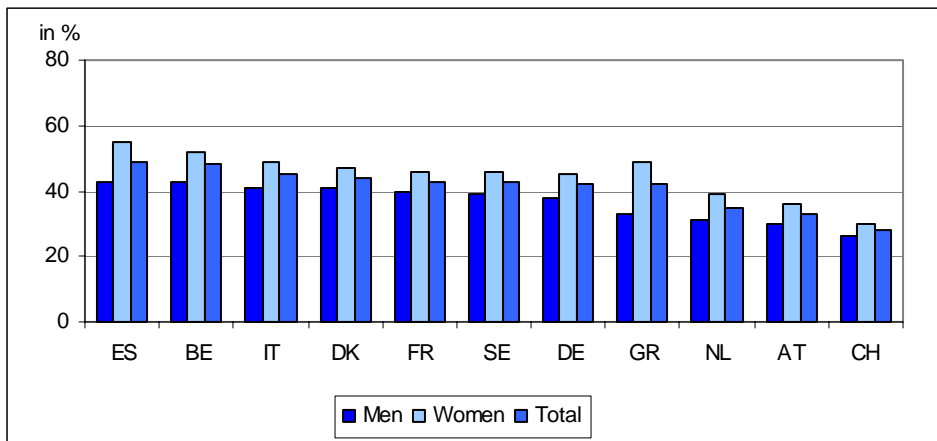
Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

9.2 Chronic diseases

The prevalence of chronic diseases is a further aspect in portraying health. SHARE respondents were also asked whether they had ever been diagnosed with a chronic disease during their lifetime and whether they had ever been bothered by physical symptoms lasting at least six months, choosing from 14 diseases and 11 described symptoms (Mackenbach et al. 2005). In this report, we focus on the total number and give the share of persons who report more than two chronic diseases.

Figure 8.2 shows the prevalence of self-reported chronic diseases for men and women as well as both sexes combined. As expected, clear gender differences are observed with women reporting multiple chronic diseases about ten percentage points more often than men. The difference is biggest in Greece (16 percentage points) and lowest in Switzerland (4). For the majority of countries, cross-national differences are comparable small.

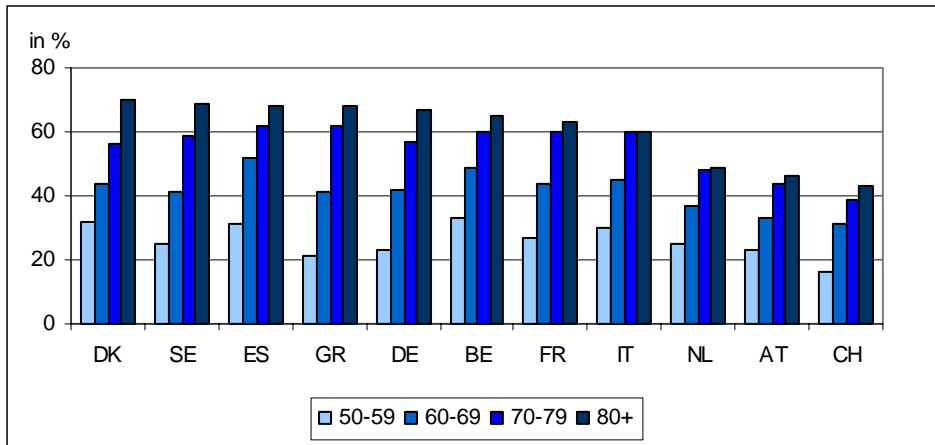
Figure 8.2: People with 2 or more chronic diseases by gender



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

The association between age and the prevalence of multiple chronic diseases is shown in Figure 8.2. It is observed across Europe, with remarkable cross-national differences.

Figure 8.2: People with 2 or more chronic diseases by age group



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

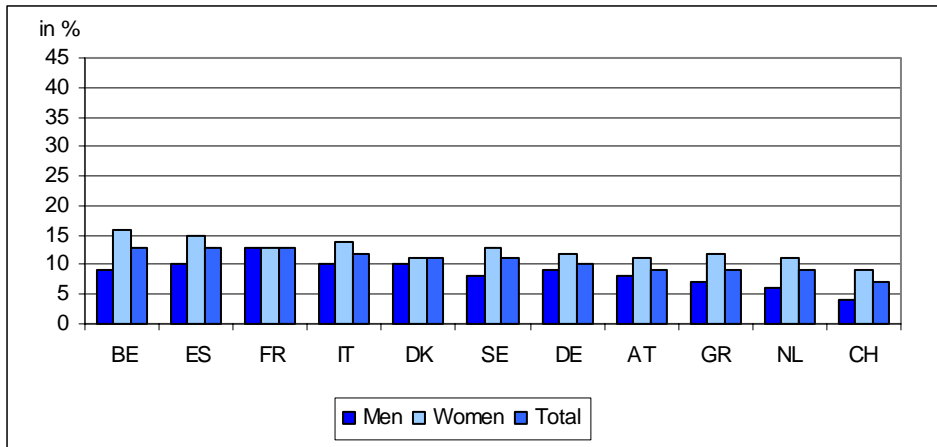
9.3 Limitations in activities of daily life (ADL)

The third dimension of health discussed here refers to limitations regarding the ability to engage in the typical physical activities of daily life, more exactly “Activities of Daily Living” (ADL)—which include dressing, getting in and out of bed, eating, etc.¹ Physical functioning reflects the ability of individuals to perform normally in society and to manage everyday living, and older adults who have difficulty with ADLs often require personal assistance from relatives, friends, or neighbours to carry out these important tasks.

ADL limitations are highest in Belgium, Spain, Italy and France with a level of 13% among persons aged 50 years and more. Figure 8.3 shows a comparison of sexes. As with chronic diseases, men claim less often to face limitations than women. Only in France, no gender differences are observed.

¹ We do not report on limitations in “Instrumental Activities of Daily Living” (IADL) such as preparing meals, shopping, making phone calls, etc. which are also available in the data.

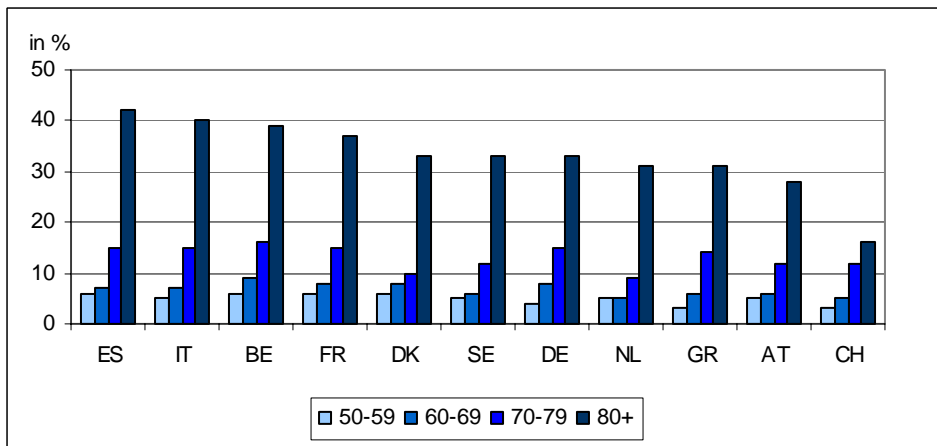
Figure 8.3: People with one or more ADL limitation by gender



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

The proportion of people with at least one ADL limitation grows with age (Figure 8.4). While in all countries except Belgium the shares of the first three age groups are at, or stay below, 17%, for the group of 80+ these shares are between 28% and 42% (except for Switzerland: 16%).

Figure 8.4: People with one or more ADL limitation by age group



Data source: SHARE 2004 Release 2.0.1, weighted data, authors' own calculations.

A differentiation by family status reveals that widowed persons are most affected with one or more ADL limitation, the same holds for chronic diseases (results not shown here).

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