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Article

Risk of Poverty among Older People in EU Countries

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RISK OF POVERTY AMONG OLDER PEOPLE IN EU COUNTRIES

RADOSLAW ANTCHAK AND
ASGHAR ZAIDI¹

Introduction

The financial crisis has affected the age profile of poverty in European Union (EU) countries considerably. The poverty rate increased among children, youths and working-age adults, but it decreased among the elderly. Before the crisis, the elderly was one of the groups with the highest incidence of poverty risk in many countries. Although the poverty risk among the elderly was already falling prior to the 2007/08 crisis, their fall was accelerated during the crisis, partly as a result of the buffer they experienced from their stable pension income benefits. For instance, as an effect of the crisis, youths became the most vulnerable group (OECD 2015, pp. 111).

The data source for the results presented in this paper is exclusively the survey on income and living conditions (abbreviated as EU-SILC). The EU-SILC was launched in 2003 and expanded in 2005 to cover all (then) 25 member states.

The EU-SILC provides annual data on income distribution, poverty, social exclusion and other living condition variables. The surveyed population includes all private households.

The results presented in this paper cover the data collected between 2005 and 2014 (since each year collects income data for the previous fiscal year, this data cover the income period from 2004 to 2013).

There were several reasons for this shift in poverty risk between age groups. The major reasons include growing unemployment, falling labour income and relatively intact pension incomes. The older people had the safety net of pension incomes, and those older workers who were still working had the safety of long-term contracts and labour market protection.

In this paper, we analyse the issue of the financial situation of older people in relation to macroeconomic indicators by reviewing poverty trends over the last ten years (between 2005 and 2014). The broad objectives of our research are:

- What is the poverty risk of the older population in the 28 EU countries compared to that of other age groups?
- How did changes in macroeconomic indicators (such as unemployment and GDP change) influence changes in poverty rates?
- Is the gender gap in poverty rates still dominant?
- What is the relationship between monetary poverty and material deprivation?

We work with the widely-used concept of relative poverty, which counts poor individuals as those living in households where equivalised disposable income is below the threshold of 60% of the national equivalised median income. The relative poverty measure has important limitations, notably that thresholds are country-specific and that the poverty of a certain group might be the result of the changing income position of another group (further discussion on methodology is covered in Zaidi 2010).

Key findings

The analysis presented in this paper highlights that the stability of pension income benefits provided a buffer for the elderly against the adverse impact of the financial crisis that started during 2007/2008.

In 2014 over 16 million older people (age 65+) were at risk of poverty in the 28 member states of the European Union. This is a slightly lower number than in 2008, despite the fact that the population aged 65 and over grew during that time by approximately 6.5 million (partly due to the inclusion of Croatia as the 28th new member State). The head-count measure shows that close to 18% are categorised as poor. This indicator has been stable since the beginning of the 21st century, which is not surprising given the relative nature of the at-risk-of poverty indicator. The full list of indicators and size of population per country is presented in Table 1.



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A significant variation is observed across countries, especially for those with high and very high rates of the indicator. For the purpose of capturing these differences, countries can be grouped into three categories:

Lower-than-average at-risk-of-poverty (below 15%): There are eight countries in this category: Luxembourg (6%), the Netherlands (7%), France (10%), Denmark (10%), Czech Republic (11%), Spain (13%), Ireland (13%) and Slovak Republic (13%).

Close-to-average at-risk-of-poverty (between 16% and 21%): Ten countries fall into this category: Austria (16%), Sweden (17%), Finland (17%), Belgium (17%), Germany (17%), Hungary (18%), Poland (18%), United Kingdom (19%), Slovenia (20%), Italy (20%) and Portugal (21%).

Higher-than-average at-risk-of-poverty (23% and higher): Here we have nine countries: Greece (23%), Malta (23%), Cyprus (27%), Croatia (30%), Lithuania (32%), Romania (34%), Estonia (35%), Latvia (39%) and Bulgaria with a very high rate of 48%.

The same grouping was used to analyse the poverty of older people in 2008 (covering income from 2007), i.e. before the effects of the crisis were visible. The crisis had a different effect on different countries, and this is reflected in at-risk-of-poverty rates.

- Five countries, which were ascribed to the lowest group in 2008, are still in the lowest group: Luxembourg, the Netherlands, France, the Czech Republic and Denmark.
- Three countries moved from “lower-than-average” to the category “close-to-average” (Sweden, Germany and Hungary), with only a slight increase in the poverty rate, hence their movement was rather connected with the decreased EU-average.

Table 1

Proportion and number of older people (65+) at risk of poverty in the EU countries, using 60% of the median as the poverty threshold, 2014

| Countries | At-risk-of-poverty rate (65+, in %) 2014 | At-risk-of-poverty rate (65+, in %) 2008 | Poor population (65+, in 1000s), 2014 |
|-------------------------------|--|--|---------------------------------------|
| Bulgaria | 47.8 | 65.5 | 677 |
| Latvia | 39.3 | 58.8 | 148 |
| Estonia | 35.0 | 40.9 | 83 |
| Romania | 34.0 | 49.2 | 1 106 |
| Lithuania | 31.9 | 39.9 | 173 |
| Croatia | 29.7 | - | 219 |
| Cyprus | 27.2 | 49.3 | 29 |
| Malta | 23.3 | 26.0 | 17 |
| Greece | 23.0 | 28.1 | 505 |
| Portugal | 21.1 | 27.7 | 438 |
| Italy | 20.2 | 24.4 | 2 618 |
| Slovenia | 20.1 | 24.4 | 64 |
| United Kingdom | 19.3 | 28.5 | 2 167 |
| Poland | 18.2 | 26.9 | 1 020 |
| Hungary | 18.1 | 17.5 | 282 |
| Germany | 17.4 | 15.5 | 2 828 |
| Belgium | 17.3 | 22.9 | 322 |
| Finland | 17.0 | 23.9 | 176 |
| Sweden | 16.5 | 15.5 | 314 |
| Austria | 15.7 | 21.2 | 236 |
| Slovak Republic | 13.4 | 21.9 | 102 |
| Ireland | 13.0 | 22.5 | 76 |
| Spain | 12.9 | 26.2 | 1 050 |
| Czech Republic | 10.7 | 12.5 | 191 |
| Denmark | 10.4 | 18.6 | 108 |
| France | 10.1 | 14.1 | 1 128 |
| Netherlands | 6.9 | 9.7 | 191 |
| Luxembourg | 6.4 | 5.4 | 5 |
| European Union (28 countries) | 17.8 | - | 16 271 |
| European Union (27 countries) | 17.7 | 23.3 | 16 052 |
| European Union (15 countries) | 16.3 | 20.9 | 12 161 |

Source: EU-SILC 2014 (income data refers to 2013).

- The next three countries achieved the shift to “lower-than-average” from “close-to-average”: the Slovak Republic, Ireland and Spain; it is worth underlining that the rate for Spain was cut by half during that time.
- Only one country – the United Kingdom – managed to decrease the poverty rate from “higher-than-average” to “close-to-average”.

Most of the countries kept the same relative position as in 2008, despite changes in the poverty rate. This is especially true for countries in the “higher-than-average” group. In all of these countries, we observe a de-

crease in at-risk-of-poverty rates, but they still have the highest rates in Europe.

To summarise, between 2008 and 2014 the situation of older people improved in most EU countries, with significant efforts made in Spain and Ireland. The situation only deteriorated in three countries (Sweden, Hungary and Germany), with a slight increase in the poverty rate (whereas the average rate for 27 member states, excluding Croatia, decreased by 5.6 percentage points).

In 2014, the situation of the older population was better than that of the working age population (18–64 years old) in most EU countries (see Figure 1). The at-risk-of-poverty rate for the working population was only lower than that for the older population in six countries, i.e. in Bulgaria, Latvia, Estonia, Lithuania, Croatia and Malta, although the difference between the rates for those two groups is small. The situation of older people is much better vis-a-vis that of the working age population in countries with a low at-risk-of-poverty rate: Luxembourg, the Netherlands, France, Denmark, Spain and Ireland. However, we also observe a huge gap between the two age groups in Hungary, Italy and Greece (with the EU's highest rate of at-risk-of-poverty for people aged 18–64 years old). By contrast, in 2008 the situation of older people was only better than that of the working age population in four countries, namely: Hungary, Luxembourg, France and Poland.

Poverty risk and macroeconomic indicators

The point of interest is therefore the change in the economic situation of the older and working age population, and how this is connected with the economic crisis. Hence, we analyse the relationship between at-risk-of-poverty and main economic indicators: the percentage

Figure 1

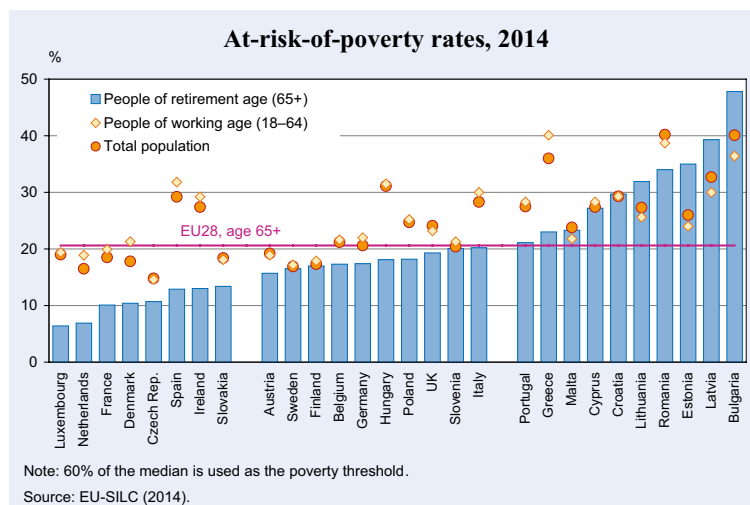
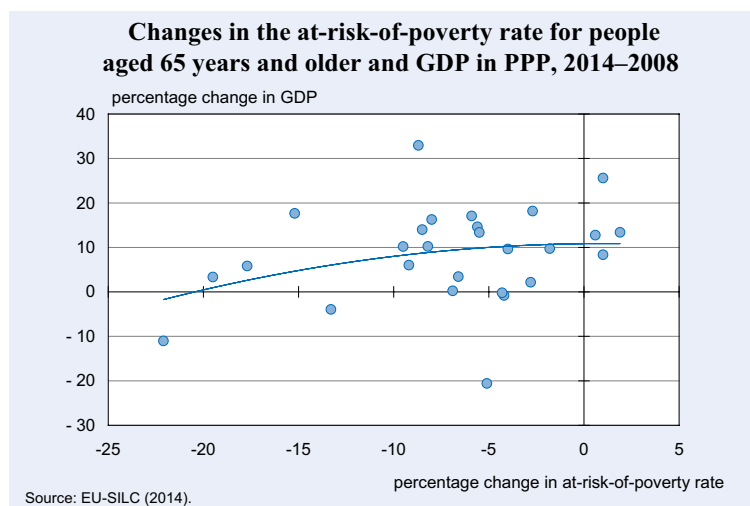


Figure 2

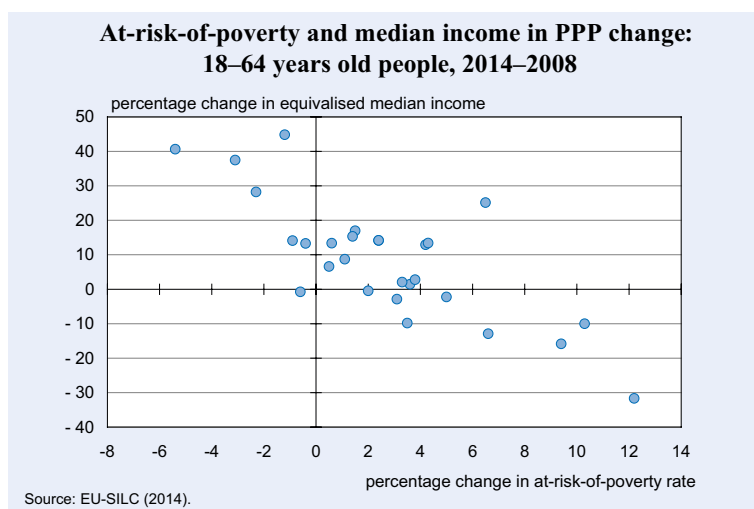


change of a country's GDP, and changes in its unemployment rate, as well as equivalised income.

The Pearson correlation coefficients between the changes in the at-risk-of-poverty rate for the older population and economic indicators was rather weak or moderate: 0.28 for GDP (in Purchasing Power Parity (PPP)) change, -0.35 for median equivalised income (in PPP) change and -0.41 for unemployment rate change. It can therefore be said that the macroeconomic effects of the crisis had a moderate influence on the financial situation of older people.

The effects of the crisis had a more prevailing influence on the working age population. The Pearson correlation coefficient between changes in the at-risk-of-poverty rate

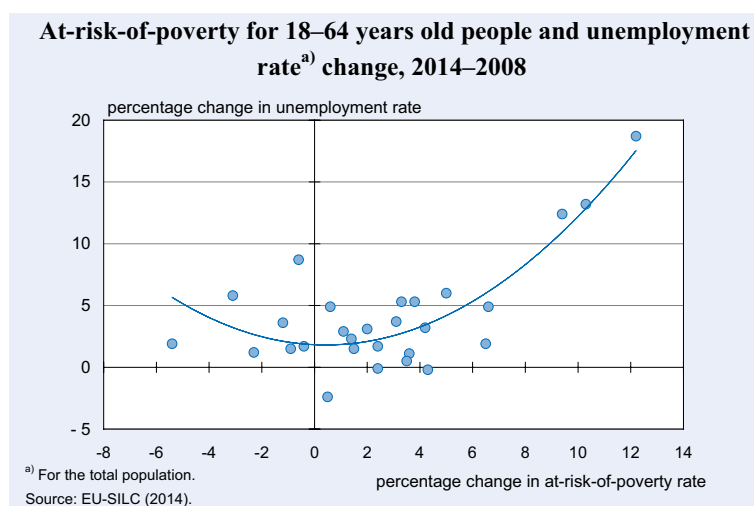
Figure 3



and the unemployment rate was -0.62, total GDP (in PPP) 0.68, and median equivalised income (in PPP) -0.78 (see Figure 2).

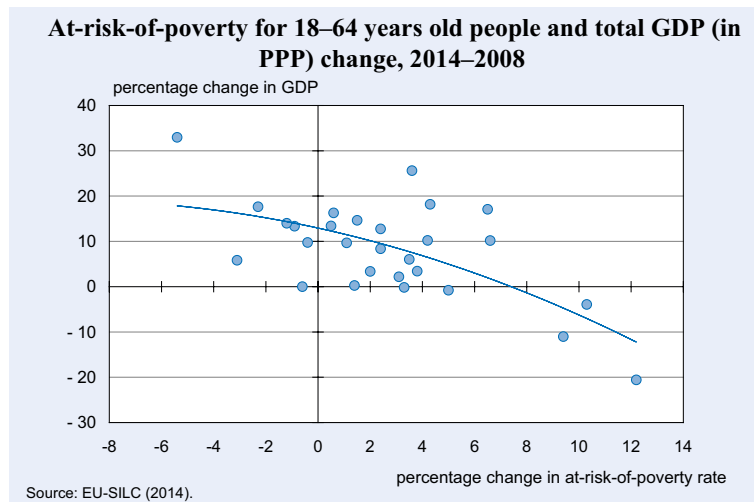
The relationship between changes in poverty and median income is straightforward (see Figure 3). In those countries where the median income decreased between 2008 and 2014, the at-risk-of-poverty rate increased. This is particularly visible for countries such as Greece (-32% decrease of median income), Cyprus, Spain and Ireland. In those countries where median income increased (the Slovak Republic 45%, Poland 41%, Bulgaria 38% and Romania 28%), the poverty rate decreased. There are also some outliers, as Estonia, Malta or Denmark, where both the poverty rate and median income increased.

Figure 4



The relationship between the at-risk-of-poverty and the unemployment rate is positive, i.e. the higher the unemployment growth, the higher the change in the at-risk-of-poverty rate (see Figure 4). We observe the highest growth in the unemployment rate (between 2008 and 2014) in Greece, Spain and Cyprus. The risk of poverty for the working age population also increased significantly in those countries. In the countries where the poverty risk decreased, the unemployment rate increased slightly. We also observe cases where the poverty risk for the working age population decreased, despite the increase in the unemployment rate, especially in Bulgaria, Romania, Poland and the Slovak Republic.

Figure 5



The correlation between GDP growth and poverty risk is nega-

tive: generally, the higher the GDP growth, the lower the risk of poverty (see Figure 5). Total GDP between 2008 and 2014 has only dropped in five countries (and only by a fraction in Slovenia and Italy) and the risk of poverty has increased in those countries. It is especially visible for Greece and Cyprus. In most of the countries with the highest GDP growth (Poland, Romania, the Slovak Republic and Austria), the risk of poverty was lower than in 2008. However, we also observe an increase in the at-risk-of-poverty rate in countries with GDP growth above the EU-average: Belgium, Denmark, Estonia, Lithuania, Ireland, Luxembourg, Hungary, Malta and Sweden. There is also the special case of Bulgaria, where the poverty rate has decreased, despite very weak GDP growth (below EU-average).

In short, we may say that the macroeconomic effects of the crisis affect the financial situation of the working age population, but have limited influence on the older population. Therefore, in 2014 people aged 65 and over can be considered as relatively less vulnerable than their working age counterparts.

Patterns of poverty across subgroups of older people

The financial situation of older women differs considerably from that of older men. This is the result of the structural assumption embedded in pension systems and the labour market. Women were expected to leave paid employment after marrying or – at least – for the period of childcare. Therefore, women's situation was affected by their lower pension contributions and eventually resulted in lower income in old age. Not surpris-

ingly, the risk of poverty for older women is greater than the risk for men, although the gender gap in poverty has been quite stable since the beginning of the 21st century.

In 2014 the risk-of-poverty for female population was 20%, for older males it was 15%. In every EU country the rate for women is higher than the corresponding rate for men. However, there are countries where this difference is rather small (e.g. Luxembourg, Belgium and Denmark), whereas there are others with a huge gender bias (e.g. Estonia, Latvia and Lithuania).

The first group mainly features countries with a low at-risk-of-poverty rate, such as Luxembourg, Belgium, Denmark, Malta, the Netherlands, Spain and France, where the gap is below three percentage points. We generally observe the highest gap among countries with high poverty risk, such as Estonia, Latvia, Lithuania, Romania and Bulgaria. However, there are also countries with a low or average poverty rate and a huge gap between the rates for men and women, such as Sweden, Finland and Slovenia. A significant gender gap in those three countries was also observed in 2008.

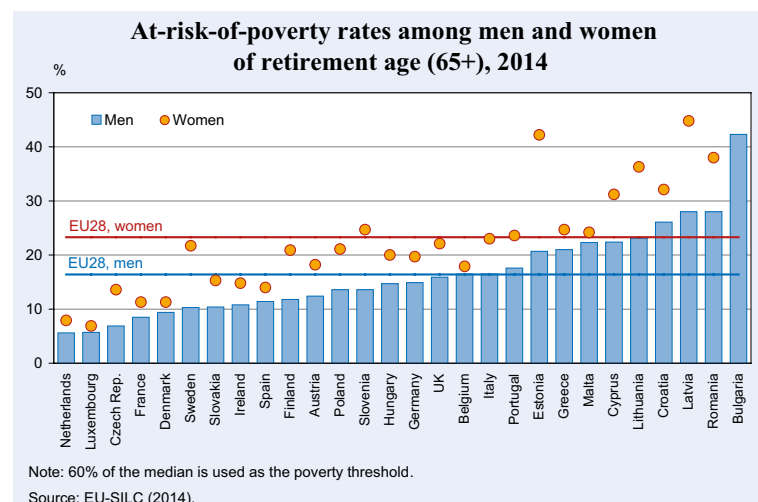
The poverty risk and the gender gap for the older population are even greater than for people aged 65 and over. The EU-average rate for men aged 75 years and over is 15%, while the corresponding rate for women is 22% (see Figure 6).

In all countries we observe a higher poverty risk for women aged 75 years and over. In some countries the gender gap amounts to almost 20 percentage points (e.g. Estonia: 24% for men and 44% for women). In six coun-

tries, the poverty risk for older women is close to or above 40%, and in two countries (Latvia and Bulgaria) it is close to 50%, implying that every second elderly woman is in danger of living in poverty. Generally, the countries can be categorised as having a low or a high gender gap in the same way as the rate for the population aged 65+. Therefore we can say that the gap in the poverty risk between the sexes increases upon retirement age, and is even greater after that age.

The poverty risk gender gap in older cohorts is far greater than

Figure 6



that in the working age population. For the core working age population (25–54 years old) this difference is close to one percentage point (for 65 and over: five percentage points). In all countries gender gaps for the working age population are smaller than those for the older population. In 12 out of 28 member states, the poverty risk is actually higher for men. Interestingly, a higher poverty risk for men aged 25–54 is observed in countries with the highest risk for women aged 65 and over (mainly Eastern Europe), and in Scandinavian countries (Sweden, Denmark and Finland).

Trends in poverty risks for the elderly over the last ten years

Changes in the poverty risk of elderly persons over time add important details to the body of knowledge on poverty for the elderly. The Eurostat statistical database now enables us to analyse trends for a ten year period, between 2005 and 2014. During that time, the poverty risk for the total population (average for 27 EU member states) decreased slightly (from 25.8 to 24.4, reaching its lowest value of 23.3 in 2009).

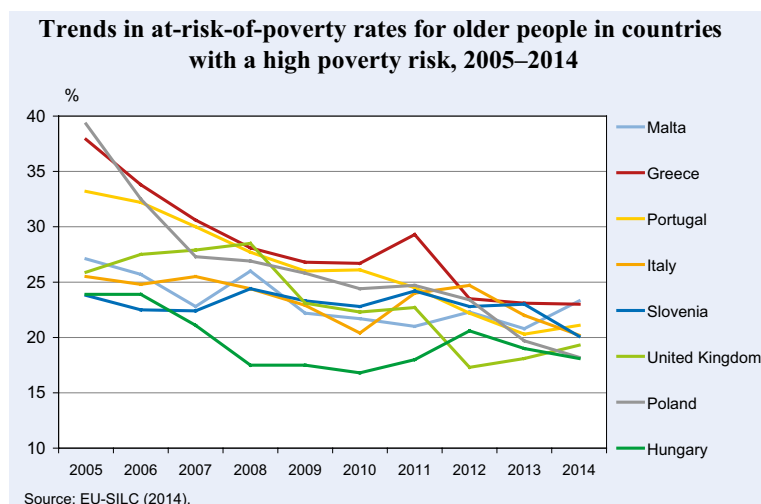
The extent of the change was dramatic for older people (65 years and over). This population experienced a significant improvement in the financial situation as the indicator for at-risk-of-poverty decreased by almost eight percentage points, from 25.5 to 17.7. The latter figure is the lowest rate in the ten-year period but the decreasing trend is constant, which means that the situation of older people is improving year by year.

The decrease in the poverty rate was especially meaningful for new member states (12 East European countries), where it dropped from 42% to 24%. This resulted from the rapid economic development of those countries, although the decrease in the population of 18–64 year-olds in new member states (from

Figure 7



Figure 8



40 to 28) was slower, which proves that the development in new member states was not accompanied by a reduction in social protection for the elderly.

The detailed results for all EU countries are presented in Figures 7–10. In this analysis we applied country groupings based on at-risk-of-poverty rates in 2014. This enabled us to examine trends over the last ten years and observe how different countries achieved their current positions.

The first panel reports the results of those countries that exhibited high at-risk-of-poverty rates (see Figure 7). In this group, we have three countries with the highest drop in the poverty risk: Cyprus (-27 percentage points (p.p.)), Bulgaria (-26 p.p.), and Romania (-24 p.p.). The

Figure 9

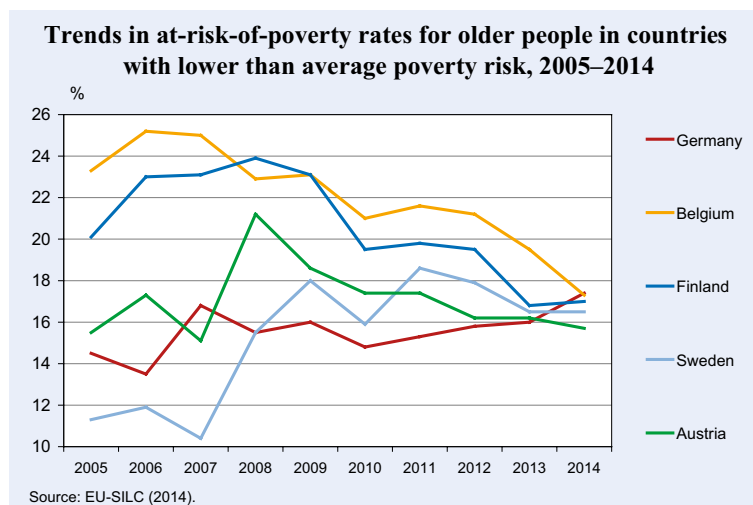
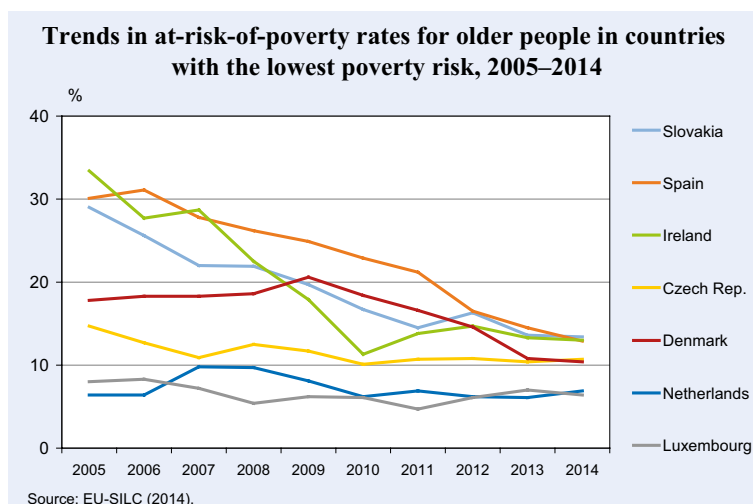


Figure 10



next three countries also experienced a significant decrease (however, for Croatia data are available for the period from 2010 to 2014). The only exception is Estonia, where the poverty risk increased from 29% to 35%.

In this group of countries, we can observe the striking effects of economic and social policy during that period (Figure 7). Although the starting point for countries such as Estonia and Latvia was quite different, after ten years they reach the same level. It is also worth noting here that despite huge efforts, the risk of poverty in countries like Bulgaria, Romania or Latvia is still much higher than the EU-average.

In the second group we classify countries with a risk of poverty above the EU-average (18%) and below

25% (see Figure 8). This cluster is highly diversified in terms of geographical location and in the level of the indicator at the starting point (the lowest and the highest value for 2005 were 24% and 39%). However, the common feature is the decrease in the poverty risk over time (Figure 8).

The scope of the decrease, however, varied for different countries. In Poland the poverty risk decreased by an impressive 21 percentage points. A significant fall was also observed in Greece and Portugal. Other countries experienced only a slight decrease, especially in Malta and Slovenia, where the poverty risk dropped by just four percentage points.

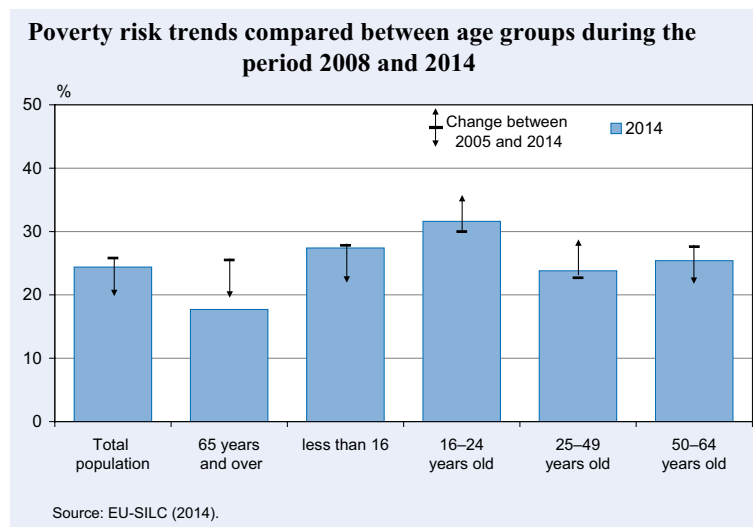
In the third cluster, we grouped countries with a poverty risk slightly below the EU-average (see Figure 9). These countries, although almost on the same level in 2014, had different starting points. Hence, some of them experienced an increase and some saw a decrease in the at-risk-of-poverty rate.

Two countries with lower values in 2014 than in 2005 are Belgium and Finland. In both cases the value of the indicator was quite stable between 2005 and 2012 and a significant drop was only observed for the years 2013 and 2014.

An unlikely situation was seen in Germany and Sweden. Both countries are among the few countries where the poverty risk for older people increased between 2005 and 2014: by five p.p. in Sweden and by three p.p. in Germany. Sweden saw a sharp increase in 2008 and the indicator maintained its higher value up to 2014. In Germany, a spike was observed in 2007. In both cases the increase took place before the effects of the financial crisis could be noted.

The exceptional case in this cluster is Austria, which also experienced a sharp increase in the poverty rate in

Figure 11

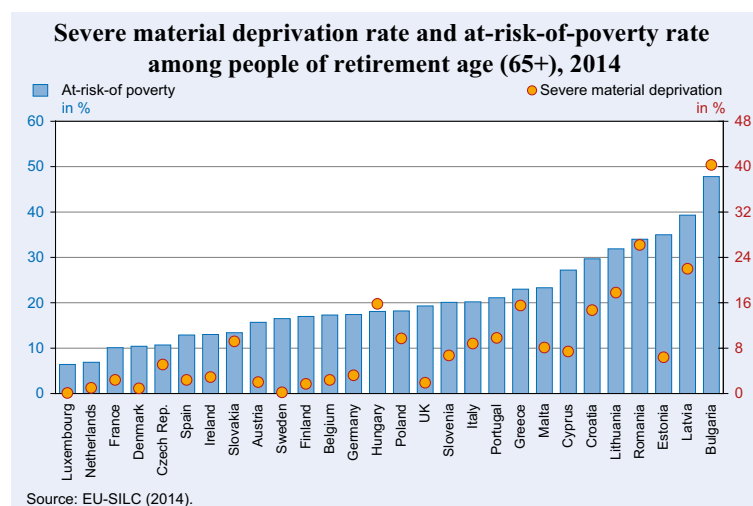


2008, but managed to decrease this rate, which eventually returned to its 2005 level by 2014.

This group of countries therefore features developed, old member states with a rather low poverty risk, but with different policy approaches towards the poverty among the elderly over time.

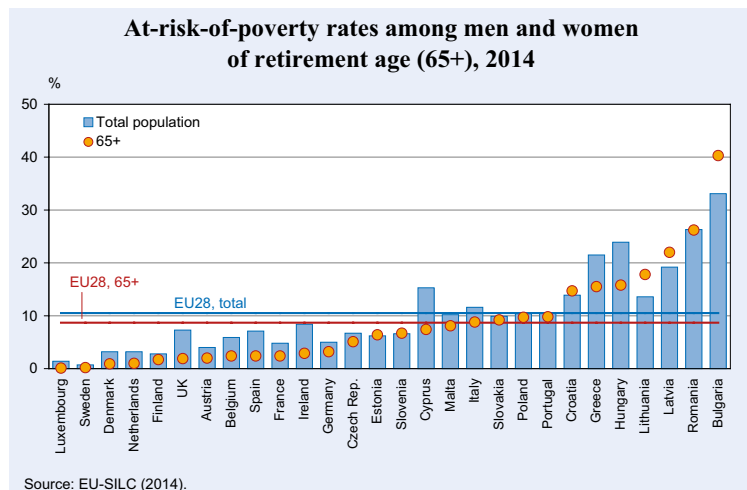
The last group includes countries with the lowest rate of poverty risk (all below 15%) (see Figure 10). This is a very diverse group taking into account the starting point (year 2005) and the trend developed over time.

Figure 12



Ireland, Spain and the Slovak Republic had higher than average at-risk-of-poverty rates in 2005. Since then, they have experienced a sharp and continuous decline in their indicator levels. The financial crisis and its effects on GDP and unemployment did not influence the declining trend in poverty risk in those countries, even if their macroeconomic indicators were diverse (e.g. -4% GDP growth in Spain, +14% GDP growth in the Slovak Republic).

Figure 13



The second set of countries in this cluster are those that moderately decreased their poverty risk, but had a starting point that was already little below EU-average. They include: France (-8 p.p. between 2005 and 2014), Denmark (-7 p.p.) and the Czech Republic (-4 p.p.). France and the Czech Republic experienced a gradual decline in the poverty risk, whereas Denmark saw a slight increase until 2009, followed by a sharp decline (especially in the years 2012–2013).

The last two countries in this cluster are Luxembourg

and the Netherlands – both of which boast the lowest poverty risk for older people for the whole period of 2005–2014 (although with fluctuations). Respective rates for those countries never exceeded 10%, which suggests a stable and efficient policy against poverty among the elderly.

In the last ten years we have witnessed an unprecedented decline in the poverty risk for the elderly, which is now significantly lower than in 2005. Economic changes over the last ten years have a different impact on different age categories (see Figure 11).

The at-risk-of-poverty rate for the total population also decreased in the last ten years, but only by 1.3 p.p. The poverty risk for children was stable during that period. The population close-to-retirement age (50–64 years old) saw a 2.2 percentage point improvement.

The core working age population, by contrast, appeared to be most vulnerable during the years 2005–2014. The poverty risk for persons 16–24 years old increased by 1.6 p.p. and for 25–49 years old it rose by 1.1 p.p.. This, however, is not the whole story for these groups. Both of them experienced a decline in poverty risk between 2005 and 2009, before risk started to grow again. The rate between 2009 and 2014 therefore increased for the population of 16–24 year-olds by 3.7 p.p. and for 25–49 year-olds by 3.0 p.p..

It is worth mentioning that the trend in poverty risk was similar for all age groups: with a decline between 2005 and 2009 and an increase after 2009, but the working age population still did not return to the levels seen in 2005.

Analysis of other facets of poverty

As a supplementary measure for a financial poverty indicator, the EU-SILC database uses the indicator of “material deprivation”. This indicator measures the percentage of the population that cannot afford at least three of the following items:

- to pay their rent, mortgage or utility bills;
- to keep their home adequately warm;
- to face unexpected expenses;
- to eat meat or proteins regularly;
- to go on holiday;
- a television set;
- a washing machine;

- a car;
- a telephone

For the purpose of our analysis, we employed the indicator of severe material deprivation rate, defined as the enforced inability to pay for at least four of the above-mentioned items (see Figures 12 and 13).

The ranking of countries according to severe material deprivation is similar to the ranking for the at-risk-of-poverty rate. Bulgaria, Romania and Latvia have the highest rate of severe material deprivation, while Luxembourg, the Netherlands and Denmark have the lowest level for both material deprivation and poverty risk. There are significant differences, however, in the case of a few countries. In Estonia a high percentage of older people is at risk of poverty, whereas only few experience severe material deprivation. This also holds true for Cyprus and Malta. On the other hand, we have countries such as Hungary and (to a lesser extent) the Slovak Republic, where the poverty risk is rather moderate or low, but material deprivation is high.

Conclusions

One of the outcomes of the development in the last ten years was a significant improvement in the (relative) financial situation of older people, which is confirmed by the drop in the at-risk-of-poverty rate for this group.

In 2014 this was the age group with the lowest poverty risk. This confirms that the social policies aimed at supporting older vulnerable groups have proven successful. However, not necessarily as a result of these policies, the group with the highest risk of poverty is currently young adults (16–24 years old).

The shift between age groups is visible in almost every EU member state. In 2008, the situation of older people was better than that of the working age population in just four countries. In 2014, the at-risk-of-poverty rate for the working population was lower than for the elderly in just six countries.

Changes in the macroeconomic indicators as a depiction of the crisis had the most serious impact on the financial situation of the working age population, but the same economic downturn had a limited impact on the older population’s financial status. We observed a weak correlation between changes in the at-risk-of-poverty rate, and GDP growth, and changes in unemployment and

median income in the case of the population aged 65 and over. The effects of the crisis are visible only for the working age population.

Despite significant progress in the economic emancipation of women, we still observe a gender gap in poverty rates. The risk of poverty for older women is greater than the same risk observed for older men. What is more striking is that this gender gap in poverty has been quite stable since the beginning of the 21st century, with the rate for women remaining higher than that for men in every EU country. The gender gap for poverty risk in the oldest age cohorts (age 75+) is greater than that observed for the age group of 65+ as a whole, although it still remains lower than that observed for the working age population.

Over the last ten years, the indicator for at-risk-of-poverty for the elderly has decreased by almost eight percentage points, from 25.5 to 17.7 percent. The decrease in the poverty rate was especially strong in the new member states, and particularly in Cyprus, Bulgaria, Romania and Poland. Poverty rates increased in just three countries (Sweden, Estonia and Germany). The biggest efforts in the reduction of poverty rates made over the last ten years were seen in Cyprus, Bulgaria, Romania, Poland and Ireland, mainly due to strengthening of minimum income guarantees in these countries.

There is a strong positive relationship between the monetary poverty risk and material deprivation. Some special cases, which require further analysis, were Estonia (with a high poverty risk, but low material deprivation) and Hungary (an average poverty risk, but high material deprivation).

The analysis presented in this paper highlights that the stability of pension income benefits provided a buffer for the elderly against the adverse impact of the financial crisis that started during 2007/2008. By contrast, the working age population was disproportionately affected by the crisis. This paper does not examine the mechanisms behind this change in any detail, or how the subsequent changes during the austerity period affected the financial situation of the elderly. In many countries like Greece, Spain and Portugal, many public services were cut during the post-crisis austerity period, which affected the older population worse than the working age population. Of particular relevance to older people were the cuts observed in the health and social care services, which were important, but not the focus of this paper.

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