

Technical Team to the Pensions Working Group

Research Report

Determining Adequacy. Supplementary Paper to the Final Report of the Pensions Working Group

Pensions Strategy Group (Malta) Research Series

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Determining Adequacy

**Supplementary Paper to the Final Report of the Pensions Working Group
Supplementary Paper No 7**

Prepared by the Technical Team to the Pensions Working Group

Date: 30th June 2005

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01. Introduction

This paper attempts to define 'adequate' in order to guide the Pensions Working Group in the determination of an adequate replacement rate within a sustainable pensions system.

The definition for adequacy applied is that presented by the Watts Committee in the United States in 1980:

"Adequacy affords full opportunity to participate in contemporary society and the basic options it offers."

The needs of pensioner types presented in this Report represent hypothetical and not actual households. It is pertinent to underline that few households have identical needs and preferences. For example some older households manage happily without a car, for others, car ownership is a necessity.

The Family Budget Unit of the University of York defines that there are six key questions that need to be asked in constructing an adequacy budget for pensioners.

- What items to include.
- What quantities of those items.
- What quality.
- What price.
- What lifetimes should be attributed.
- Where to price the times.

In 1998 the Family Budget Unit broke new ground by determining Budget Standard Costs which are standard throughout the United Kingdom and Variable Costs which are not. It proposed the following Budget Structure:

Budget Standard Expenditures	Variable Expenditures
Food	Housing
Clothing	Fuel / Electricity / Petroleum
Personal Care	Transport (with and without a car)
Household Goods	Health
Household Services	Insurances
Leisure	Debts / fines / maintenance orders
	Job related costs
	Seeking Work costs
	Pets
	Alcohol
	Tobacco
	Charitable donations.

The articulation of this Report draws heavily on the premises, concepts and methodologies adopted by the Family Budget Unit of the Social Policy Research Unit of the University of York and Age Concern England in the report titled 'Modest But Adequate: A Reasonable Living Standard for Households Aged 65 Years to 74 Years'. This acts as the main and key source for this document. The data applied to determine the adequate level for the different profiles of pensioners created is based on the Household Budgetary Survey 2000, developed by the National Statistics Office and published in 2003, (2,586 households – 127,970 persons).

02 Establishing Adequacy Levels for Different Pensioner Profiles

02.1 The Pensioner Profiles

This study will attempt to determine adequacy levels for the following pensioner profiles:

- Single Woman.
- Single Male.
- Married Couple.

The articulation of the adequacy levels are drawn up for pensioners between the ages of 65 years and 80 years. The 65 year age level is selected on the basis of projecting the adequacy level onto the proposed pension system. The level of 80 years is chosen to reflect age expectancy.

02.2 The Budget Standard Costs

02.2.1 Food Budgets

The budgets presented here attempted to depict a healthy diet for older people with the aim of providing enough food to satisfy the recommended intakes of all nutrients, meet guidelines for health eating, be palatable and reflect consumer preference.

The budgets are based on food purchasing profiles issued in the UK in terms of the National Food Survey. Expenditure is shown in Malta Lira in terms of an annual basis.

	Single Man	Single Woman	Married Couple
Bread and cereals	175	496	240
Meat and meat products	222	187	322
Fish and seafood	71	62	98
Eggs, milk, dairy products, oils and fat	165	143	255
Fruit, sugar, jam, honey, chocolate and confectionery	105	133	206
Vegetables	148	106	181
Other Food Products	21	14	30
Beverages	171	125	232
	1,078	1,266	1,564

02.2.2 Clothing

The aim of this expenditure item is to ensure that a pensioner is able to provide for sufficient clothing to maintain a varied choice, assuming a weekly laundering cycle, clothes for all seasons, casual and activity clothing, smart outfits, holiday clothing and special occasion clothing.

	Single Man	Single Woman	Married Couple
Main Clothing	99	23	13
Underwear	35	26	61
Sewing and knitting materials	6	9	10
Clothing Accessories and other Apparel	11	2	5
Footwear	36	49	86
	187	109	175

02.2.3 Personal Care Budgets

The personal care budget contains a range of items considered necessary for the physical, psychological and social well being of older people. Vitamins and mineral supplements are not included as these, in most cases, are superfluous to a nutritionally adequate diet. Personal hygiene items include essentials required to maintain a healthy living such as shampoo, etc. Health care includes basic needs such as basic off the shelf medicines, paracetamol, etc. Personal Accessories includes items such as a modest selection of jewellery, umbrellas, shopping trolley, etc.

	Single Man	Single Woman	Married Couple
Healthcare	158	155	332
Personal Hygiene	0	21	37
Personal Accessories	66	59	124
Cosmetics	15	1	4
	239	236	497

02.2.4 Household Goods

The household goods budget allows for basic amounts of furniture, furnishings and equipment as necessary.

	Single Man	Single Woman	Married Couple
Furniture	0	36	92
Floor coverings, curtains, lampshades	3	35	15
Textiles	20	13	19
Kitchen and hardware	6	25	35
Stationery and paper goods	2	2	8
Toilet paper, cleaning materials and products	<i>included in 02.2.3</i>	<i>included in 02.2.3</i>	<i>included in 02.2.3</i>
	32	111	169

02.2.5 Household Services

Household services are limited to basic activities. The use of the phone and post is expected to be high as these provide mediums for elderly people to interact with friends, children and grand children. Internet as a medium of communication is expected to become the norm in the future.

	Single Man	Single Woman	Married Couple
Postage	12	6	14
Telephone Expenses	89	76	128
Cleaning Services	0	0	1
Internet Services	7	0	8
	108	82	151

02.2.6 Leisure

Leisure should provide a health promoting balance between physical exercise, social activities and relaxation. Regular exercise promotes good health which is important for older people. Reading, watching television and listening to music are complementary relaxing pastimes.

	Single Man	Single Woman	Married Couple
Audio Visual Equipment	25	16	39
Open Air Recreation	0	0	8
Recreational sporting and cultural activities (excluding gaming and lotteries)	55	51	87
Books, newspapers and periodicals	61	55	99
Hobbies	17	1	8
	158	123	241

02.3 The Variable Costs

02.3.1 Housing: Owner

Elderly persons who own houses will have a variable cost related to the up-keep of the house together with costs related to heating, electricity and water.

	Single Man	Single Woman	Married Couple
Materials for repair and maintenance of dwelling	31	70	71
Maintenance of dwelling and repair services	81	277	303
Refuse and sewage collection	0	0	1
Water and electricity bills	94	84	125
Other services relating to dwelling	0	2	1
Gas and liquid fuels	18	22	26
	224	455	527

02.3.2 Housing: Tenant

Elderly persons who are tenants will have rent as a standard cost together with costs related to heating, electricity and water.

	Single Man	Single Woman	Married Couple
Refuse and sewage collection	0	0	1
Water and electricity bills	94	84	125
Rent	22	29	44
Gas and liquid fuels	18	22	26
	134	135	196

02.3.3 Households without a Car

Elderly persons without a car will depend on the use of public transport. Data from the Household Budgetary Survey is not available. Expenditure is assumed at 2 trips a day for 220 days at Karta Anzjan costs.

	Single Man	Single Woman	Married Couple
Public Transport	44	44	70

02.3.4 Households with a Car

Elderly persons with a car will have VRT and licence costs as standard costs and variable costs relating to fuel, service, etc. Data from the Household Budgetary Survey is not available. Expenditures assumed are the normal road licence, fire and theft insurance on a vehicle assured at Lm15 per month petrol, one service annually.

	Single Man	Single Woman	Married Couple
Fuels, lubricants and maintenance	50	50	50
Petrol	145	145	200
Insurance	65	65	65
Road Licence	40	40	40
	300	300	355

02.3.5 Health Costs

Statistics demonstrate that health costs escalate once a person passes 65 years of age. The majority of healthcare in Malta is free. All the same people tend to use their GP even though prescriptions can be obtained from the general hospital and the regional health centres.

Certain health costs are chargeable unless a person is classified as having chronic illness or is eligible for low-income concessions. Moreover, given that pharmaceuticals need to be collected from the general dispensary at St Luke's Hospital elderly people may prefer to incur the cost of basic pharmaceuticals rather than go through the inconvenience of travelling to St Luke's Hospital.

	Single Man	Single Woman	Married Couple
Medicines	100	82	137
Pharmaceutical Products and Equipment	0	1	7
Dental Services	0	9	10
Paramedical Services	0	3	25
Hospital Services	0	15	35
Other Medical Services	58	46	119
	158	158	333

02.3.6 Pets

Elderly people at times turn to pets to keep them company. Pets incur expenses related to veterinary services and pet food.

	Single Man	Single Woman	Married Couple
Pet Food	43	16	14
Veterinary Fees	0	0	4
	43	16	18

02.3.7 Smoking

Cigarettes are expensive – irrespective whether one is a light or heavy smoker. For a pensioner the decision to maintain this habit is perhaps more difficult than an income earner as the decision to finance the habit requires a trade off against an other expenditure from their pension income.

	Single Man	Single Woman	Married Couple
Cigarettes	65	10	89
	65	10	89

02.3.8 Alcohol

Costs of alcohol reflect a real expenditure for most households and are an accepted part of today's lifestyle.

	Single Man	Single Woman	Married Couple
Alcohol	71	55	114
	71	55	114

03. Establishing Required Budgets to Meet Adequate Life Style

03.1 Fixed Costs Budgets

	Single Man	Single Woman	Married Couple
Food Budgets	1,078	1,266	1,564
Clothing	187	109	175
Personal Care	239	236	497
Household Goods	32	111	169
Household Services	108	82	151
Leisure	158	123	241
	1,802	1,927	2,797

03.2 Budget Profiles by Variable Costs

03.2.1 House Owner

	Single Man	Single Woman	Married Couple
Fixed Costs	1,802	1,927	2,797
House Owner Costs	224	455	527
	2,026	2,382	3,324

03.2.2 Owner + Public Transport

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Public Transport	44	44	70
	2,070	2,426	3,394

03.2.3 Owner + Public Transport + Health Costs

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Public Transport	44	44	70
Health	158	158	333
	2,228	2,584	3,727

03.2.4 Owner + Public Transport + Health Costs + Pet

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Public Transport	44	44	70
Health	158	158	333
Pets	43	16	18
	2,271	2,600	3,745

03.2.5 Owner + Public Transport + Health Costs + Pet + Smoking

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Public Transport	44	44	70
Health	158	158	333
Pets	43	16	18
Smoking	65	10	89
	2,336	2,610	3,834

03.2.6 Owner + Public Transport + Health Costs + Pet + Alcohol

	Single Man	Single Woman	Married Couple
House Owner	2,026	2382	3,324
Public Transport	44	44	70
Health	158	158	333
Pets	43	16	18
Alcohol	71	55	114
	2,342	2,655	3,859

03.2.7 Owner + Public Transport + Health Costs + Pet + Smoking + Alcohol

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Public Transport	44	44	70
Health	158	158	333
Pets	43	16	18
Smoking	65	10	89
Alcohol	71	55	114
	2,407	2,665	3,948

03.2.8 Owner + Car + Health Costs + Pet + Smoking + Alcohol

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Car	300	300	355
Health	158	158	333
Pets	43	16	18
Smoking	65	10	89
Alcohol	71	55	114
	2,663	2,921	4,233

03.2.9 Owner + Car + Health Costs + Pet + Alcohol

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Car	300	300	355
Health	158	158	333
Pets	43	16	18
Alcohol	71	55	114
	2,598	2,911	4,144

03.2.10 Owner + Car + Health Costs + Pet + Smoking

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Car	300	300	355
Health	158	158	333
Pets	43	16	18
Smoking	65	10	89
	2,592	2,866	4,119

03.2.11 Owner + Car + Health Costs + Pet

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Car	300	300	355
Health	158	158	333
Pets	43	16	18
	2,527	2,856	4,030

03.2.12 Owner + Car + Health Costs

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Car	300	300	355
Health	158	158	333
	2,484	2,840	4,012

03.2.13 Owner + Car

	Single Man	Single Woman	Married Couple
House Owner	2,026	2,382	3,324
Car	300	300	355
	2,326	2,682	3,679

03.2.14 Tenant

	Single Man	Single Woman	Married Couple
Fixed Costs	1,802	1,927	2,797
Tenant Costs	134	135	196
	1,936	2,062	2,993

03.2.15 Tenant + Public Transport

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Public Transport	44	44	70
	1,980	2,106	3,063

03.2.16 Tenant + Public Transport + Health Costs

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Public Transport	44	44	70
Health	158	158	333
	2,138	2,264	3,396

03.2.17 Tenant + Public Transport + Health Costs + Pet

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Public Transport	44	44	70
Health	158	158	333
Pets	43	16	18
	2,181	2,280	3,414

03.2.18 Tenant + Public Transport + Health Costs + Pet + Alcohol

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Public Transport	44	44	70
Health	158	158	333
Pets	43	16	18
Alcohol	71	55	114
	2,252	2,335	3,528

03.2.19 Tenant + Public Transport + Health Costs + Pet + Smoking

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Public Transport	44	44	70
Health	158	158	333
Pets	43	16	18
Smoking	65	10	89
	2,246	2,290	3,503

03.2.20 Tenant+ Public Transport + Health Costs + Pet + Smoking + Alcohol

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Public Transport	44	44	70
Health	158	158	333
Pets	43	16	18
Smoking	65	10	89
Alcohol	71	55	114
	2,317	2,345	3,617

03.2.21 Tenant + Car + Health Costs + Pet + Alcohol

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Car	300	300	355
Health	158	158	333
Pets	43	16	18
Alcohol	71	55	114
	2,508	2,591	3,813

03.2.22 Tenant + Car + Health Costs + Pet + Smoking

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Car	300	300	355
Health	158	158	333
Pets	43	16	18
Smoking	65	10	89
	2,502	2,546	3,788

03.2.23 Tenant + Car + Health Costs + Pet

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Car	300	300	355
Health	158	158	333
Pets	43	16	18
	2,437	2,536	3,699

03.2.24 Tenant + Car + Health Costs

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Car	300	300	355
Health	158	158	333
	2,394	2,520	3,681

03.2.25 Tenant + Car

	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Car	300	300	355
	2,236	2,362	3,348

03.3 Overview

03.3.1 House Owner

Variations	Single Man	Single Woman	Married Couple
Owner	2,026	2,382	3,324
Owner+ Public Transport	2,070	2,426	3,394
Owner+ Public Transport + Health Costs	2,228	2,584	3,727
Owner+ Public Transport + Health Costs + Pet	2,271	2,600	3,745
Owner+ Public Transport + Health Costs + Pet + Smoking	2,336	2,610	3,834
Owner+ Public Transport + Health Costs + Pet + Alcohol	2,342	2,655	3,859
Owner+ Public Transport + Health Costs + Pet + Smoking + Alcohol	2,407	2,665	3,948
Owner + Car + Health Costs + Pet + Smoking + Alcohol	2,663	2,921	4,233
Owner + Car + Health Costs + Pet + Smoking	2,592	2,866	4,119
Owner + Car + Health Costs + Pet + Alcohol	2,598	2,911	4,144
Owner + Car + Health Costs + Pet	2,527	2,856	4,030
Owner + Car + Health Costs	2,484	2,840	4,012
Owner + Car	2,326	2,682	3,679
Average	2,375	2,692	3,850

03.3.2 Tenant

Variations	Single Man	Single Woman	Married Couple
Tenant	1,936	2,062	2,993
Tenant+ Public Transport	1,980	2,106	3,063
Tenant+ Public Transport + Health Costs	2,138	2,264	3,396
Tenant+ Public Transport + Health Costs + Pet	2,181	2,280	3,414
Tenant+ Public Transport + Health Costs + Pet + Smoking	2,246	2,290	3,503
Tenant+ Public Transport + Health Costs + Pet + Alcohol	2,508	2,591	3,813
Tenant+ Public Transport + Health Costs + Pet + Smoking + Alcohol	2,317	2,345	3,617
Tenant + Car + Health Costs + Pet + Smoking + Alcohol	2,508	2,591	3,813
Tenant + Car + Health Costs + Pet + Smoking	2,502	2,546	3,788
Tenant + Car + Health Costs + Pet + Alcohol	2,508	2,591	3,813
Tenant + Car + Health Costs + Pet	2,437	2,536	3,699
Tenant + Car + Health Costs	2,394	2,520	3,681
Tenant + Car	2,236	2,362	3,348
Average	2,299	2,391	3,534

03.4 Conclusion

Table below concludes by defining an expenditure average across all combinations presented above, concluding with a final average. This covers both house owners and tenants, calculated across the combinations of households (single man, single women and married couple).

Expenditure average across all combinations

	Single Man	Single Woman	Married Couple
House Owner Average	2,375	2,692	3,850
Tenant Average	2,299	2,391	3,534
Final Average	2,337	2,542	3,692

It must be noted that these figures should not be used as conclusive due to the small sample-base used to aggregate some individual values in the Household Budgetary Survey (2000).

It is recommended that Government uses this exercise to develop a specific survey to serve as a means of establishing an adequate threshold.

Nonetheless it is recommended that a strong focus should be placed on establishing the method as a whole. The sample design should be based on a series of focus groups from different sectors of society with each focus group hosting a number of representatives from different locations across the Maltese Islands. This will ensure that spending patterns are correctly mapped against Malta's regions.