

9

Income And Asset Levels Of Older People

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9

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Key findings

- The average weekly household disposable income is €767 but around half live on under €400 per week.
- About one in eight older people have weekly disposable incomes of €1,000 or more.
- Older people who had professional or managerial jobs have significantly higher incomes in retirement than the general population largely due to occupational pension schemes and higher levels of financial assets.
- State pensions are the most important source of income among older people in Ireland and make up around two-thirds of gross income for those aged 65 and over.
- Around 26% depend on state transfers as their sole source of income.
- A majority (about 70%) own their home and have finished paying off their mortgage. The median self-valuation of current residence is €300,000 for those with tertiary education. This is just under twice the median self-reported house value amongst those with only primary education.
- Savings and financial assets (other than property) vary with level of education from an average of €14,000 for those with primary education to €60,000 for those with tertiary education.

9.1 Introduction

Before the establishment of social welfare systems in Western European countries around the beginning of the 20th century, increasing age was often associated with vulnerability to poverty as the ability to work waned and incomes fell. Charles Booth's key insight from his survey of 'Life and Labour of the People in London' (1) was that the onset of old age and inability to work was the primary cause of poverty in that period and this contributed to the Old Age Pensions Act in Britain in 1908. State pensions changed this completely and with the wider availability of occupational pensions in the second half of the last century, older age is no longer as marked by low income and poverty. Nonetheless, retirement from work is still associated with a reduction in income and, for many in Irish society, dependency on the state pension. The incomes of older people tend, therefore, to be lower than incomes in the younger population and income variation among older people compared to the younger population is lower (2).

Recent Irish governments have increased state pension rates more steeply than the rates of other social welfare payments and pension rates have been protected so far in the recent recession. This has meant that the real incomes of older people increased significantly over the economic boom. At the same time though, wage incomes have been growing faster than state pensions leading to a growing gap between the incomes of pensioners and those in paid work (3, 4). Variation in income among older people in Ireland is lower than among younger age groups, but some older people are better-off than others. The main income of a majority of older people is the state pension but an increasing proportion of older people have an occupational or private sector pension as well. These vary in value, depending on the person's life and work history. To understand this variation it is necessary to understand the way in which education, work life mobility and Irish history interact. People who left school before the advent of free secondary education in Ireland (1967) were far more likely to leave with a primary education only and far less likely to enter third level education (5). As average levels of education have increased so has the necessity of higher education for the attainment of higher occupational and professional positions (6). This means that level of educational attainment has become increasingly important for incomes in old age and the probability of having an occupational pension.

Studies of quality of life across a large number of countries consistently show that a person's level of income and material resources strongly affects their overall satisfaction with life and well-being (7, 8). This chapter shows how income varies across the older population in Ireland and what factors may influence this. This chapter unfolds as follows: section 9.2 describes the calculation of disposable income used in the sections that follow; section 9.3 describes the average level of income among people aged 50 and over in Ireland. This section also examines variation in the household incomes of older people in Ireland and how this compares to the distribution of income in the general population as found in the EU Survey on Income and Living Conditions (EU-SILC). Section 9.4 analyses the factors that explain the distribution of income across the households in the TILDA survey such as the level of current employment in the household and the occupational position of its members before retirement. Section 9.5 examines the composition of income packaging found among the TILDA sample, i.e. the combination of employment, social welfare and occupational pension income typical across households and how this varies by other factors. Section 9.6 examines the level and type of financial assets held among TILDA households in terms of home ownership, estimated house values and other financial assets/liabilities.

9.2 Calculation of income and other technical issues

The measure of gross income used in this chapter is the sum of current labour income, pension income, social transfers, asset income and income from irregular sources.

Labour income consists of employee income from the respondent's main job in the past 12 months including all types of overtime, commission, bonuses, share options and so on. Labour income also includes the gross profit from self-employment (coded to zero for losses) for self-employed people as well as pre-tax farm income for those engaged in farming. Pension income is made up of both regular and lump sum income from occupational and private schemes. Social welfare payments made to the respondent, income from assets and irregular income (for example, redundancy payments, gambling winnings) are also included in our measure of gross income.

Disposable income, net of taxes and social insurance contributions was calculated taking into account household structure, pension contributions, tax credits and other aspects of the tax system.

To take household size into account when measuring living standards, household disposable income is equivalised. Equivalisation creates a weighted average of household income for household members. The weights take economies of scale in consumption into account. For example, a single person, living on their own would generally require less electricity than a two person household. However, one would expect the single person's electricity consumption to be more than half as much as the couple's. Different equivalisation weighting schemes are used across the world, however this chapter uses the scheme commonly used in Ireland where the head of household is assigned a value of 1, all subsequent adults are each assigned a value of 0.66 and children are assigned a value of 0.33. These values are summed together to form an equivalating factor and the total household disposable income is then divided by the equivalating factor to give equivalised disposable income.

There are two major drawbacks in the approach taken to estimating household income. Firstly, the individual gross incomes of household members other than the respondent (and their partner, if they have one) are not observed. Typically, these earners would be the adult children of the respondent. Therefore, household income may be understated. It is difficult to estimate the degree of understatement. However it should be noted that about one-third of households have at least one child living at home. Of those households with children living at home, about two-thirds have at least one child working. Unfortunately, we cannot take their contribution to household income into account.

Secondly, where the partner of a respondent has decided not to participate in the survey, one cannot observe their income and thus cannot calculate either gross or disposable household income. This applies to about 1600 respondents who had to

be excluded from the analysis in this chapter. In about 60% of these cases, the non-participating partner is male. It is not possible to discern the extent to which this non-response biases the results. However, it should be noted that the educational attainment of people whose spouse did not respond is nearly identical to the educational attainment of those where their spouse did respond. This suggests that the non-response is more likely to be at random and have less of a bias on the results than if the non-response were non-random.

A further 3000 individuals were excluded as these respondents and/or their spouses had not given enough information for their disposable income to be accurately calculated. The process for calculating disposable income requires information from the respondents. For example, respondents must give responses in relation to different sources of income or their living arrangements. If they or their spouses refuse to answer a question or do not know the answer, it is not possible to calculate their after-tax disposable income. The cost of having an accurate estimate of disposable income is that observations with missing information have to be set aside in the analysis.

In the interests of having internally valid results, the tables and figures used in Chapter 9 are based on a fixed sample size with complete information on all of the variables (income related and otherwise) considered. Thus the relationships found in different tables or graphs in this chapter are based on the same sample and are not conditional on the availability non-missing data.

Table 9.1 shows a comparison of mean disposable income for certain sub-groups as measured by TILDA and EU-SILC. It should be noted that the EU-SILC data refers to 2009 and TILDA was collected during late 2009 and during all of 2010. The average disposable income for all groups is higher in EU-SILC. This is to be expected as the economy contracted over time.

9.3 The distribution of income in the population aged 50 and over

Figure 9.1 shows the distribution of disposable household income measured in Euro per week; the incomes of people aged 50 and over estimated using TILDA is represented by the columns in the chart and the population aged 25 to 49, using data drawn from the EU-SILC survey, is represented by the line across the chart.

EU-SILC is the EU reference source for comparative statistics on income distribution and living conditions. The survey is carried out on an annual basis in 31 European Countries. The Irish survey is carried out by the Central Statistics Office on a nationally representative sample of 6000 households in Ireland. Most of the questions relating to income that are used in TILDA are the same as those in EU-SILC.

Table 9.1: Mean disposable income of adults aged 65 and over (Euro per week). A comparison of EU SILC and TILDA

	EU SILC 2009	TILDA	
	Mean	Mean	95% CI
Average Annual Disposable Household Income*			
65-74	652	630	(543-717)
75 and over	477	378	(353-403)
All 65 and over	572	506	(458-553)
Average Annual Disposable Equivalised Income**			
65-74	429	456	(392-519)
75 and over	354	308	(285-330)
All 65 and over	398	389	(351-428)

*Averaged over Households **Averaged over Individuals

Note: The 50-64 age group are not included in this table.

A large proportion of households including people aged 50 and over (around 29%) have incomes between €201 and €300 per week with the second most common group at €401 to €500 per week. These groups represent the large proportion of the older population on contributory and non-contributory state pensions. In 2010, the year in which the majority of the data were collected, the contributory old age pension was a maximum of €230 which when combined with the dependent person's allowance of €206 in that year produces the two big groups in the distribution.

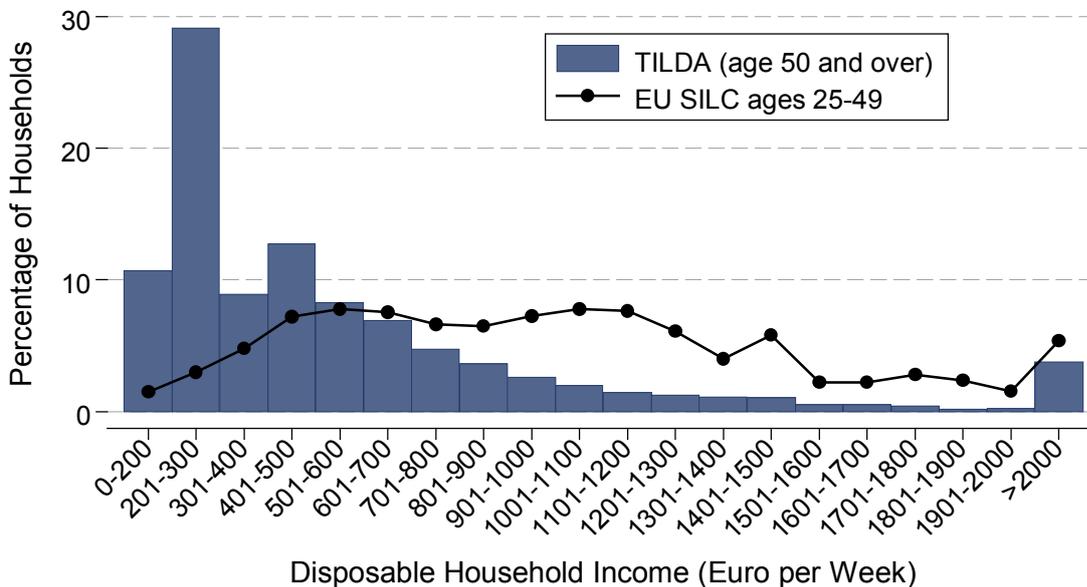
The vast majority of those over the age of 65 in Ireland receive these pensions, and so incomes are more homogeneous among older people than among the younger population where sources of income are more varied.

The average household disposable income of people aged 50 and above is €767 per week, significantly below the €995 of those aged 25 to 49 in 2009 (the last year for which income data from EU-SILC are available at the time of writing). This is unsurprising given that the largest income categories among the younger population in Figure 9.1 are those between €601 and €1,000 a week compared to the big groupings between €201 and €500 among older people. However, this does not mean that all older people in Ireland are dependent upon the state pension. Figure 9.1 shows that 13% of those aged 50 and above have a net or disposable income of more than €1000 a week and that 4% have a disposable income of €2,000 or more a week.

What implications does the distribution of income among older people have for the proportion at risk of experiencing income poverty? Since being 'at risk of poverty' in Ireland is measured relative to a poverty threshold set at 60% of median

individual income (that is 60% of the person's income who is half way up the income distribution of the general population if all incomes were ranked), this depends upon the position of older people relative to younger age groups. According to the 2009 SILC survey (9) just under 10% of people aged 65+ were at risk of income poverty compared to 12% among those aged between 18 and 65. However, as shown in (9), the proportion at risk of poverty has decreased significantly from 30% in 2003. The decrease has occurred largely because old age pensions rose faster than other benefits in the mid-2000s and have not subsequently decreased unlike employment incomes and other social welfare benefits. In 2009 the 'at risk of income poverty' line for a single person was €231, down from €239 in 2008. Stable state pension levels combined with falling incomes in the working age population have dramatically lowered the proportion of older people at risk of poverty¹.

Figure 9.1: The distribution of disposable household income (Euro per week)



9.4 Explaining variability in the incomes of older people

Section 9.3 showed that there was less income variability among people aged 50+ compared to those aged 18 to 49 because of the importance of the old age pension among this group. Nonetheless, the incomes of older people do vary and TILDA can provide insights into the factors that explain this.

¹ It is not possible to carry out a direct analysis of the 'at risk of poverty' rate using TILDA alone. This is because the threshold is defined as 60% of the median income from the general population in the year in which the data are observed. This is not available in TILDA.

9.4.1 Income by age groups

Figure 9.2 shows the median household (un-equivalised) and equivalised disposable income by the age of the respondent. Median weekly household disposable income declines from €558 amongst those aged 50-64 to €321 for those aged 75 or over. However, when income is equivalised the gap between age groups is much reduced. The median equivalised income for those aged 50-64 is €290, the median for those aged 65-74 is €315 and the median for those aged 75 or over is €259. The medians for equivalised income between the different groups are very similar because equivalisation produces a per household member measure of income. Given that older age groups are more likely to be living on their own (for example, if their partner has passed away) and younger age groups are more likely to have children still living with them, the equivalised amounts are very similar despite the un-equivalised amount being different.

Figure 9.2: Median household income and equivalised income by age (Euro per week)

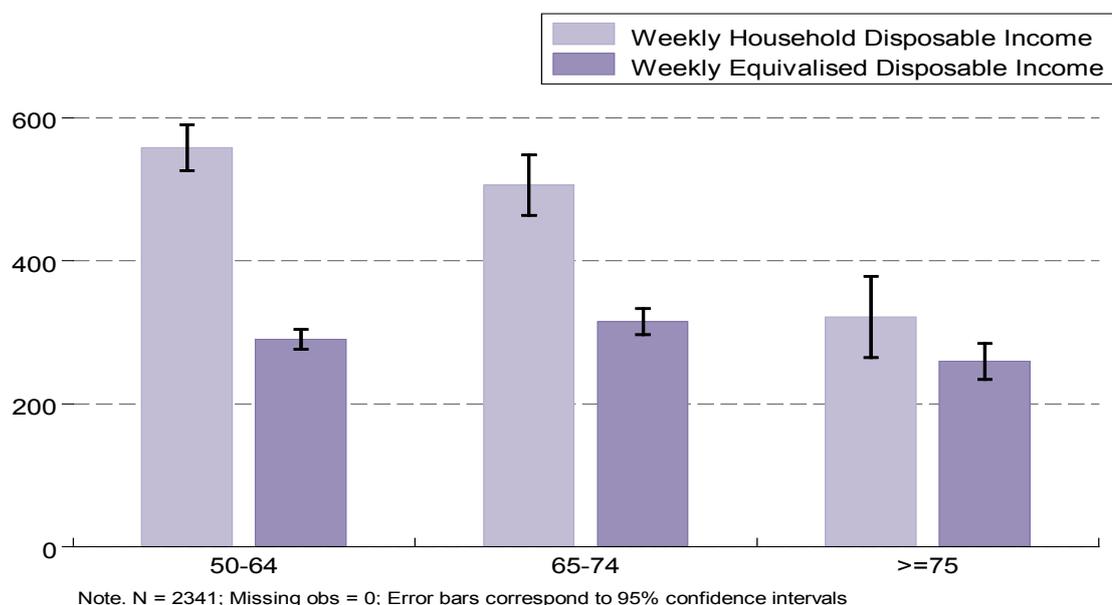
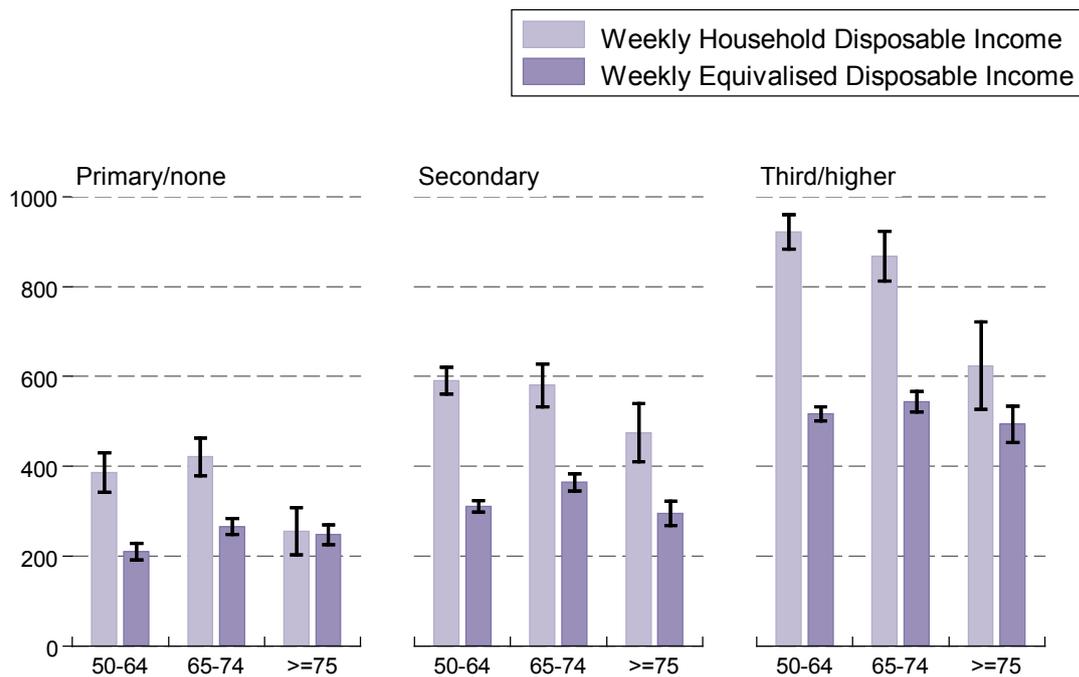


Figure 9.3 shows how the relationship between income and age varies by education. The largest absolute decline in income amongst older age groups is greatest for those with tertiary education where median household disposable income is €922 for those aged 50-64 and is €624 for those aged 75 and over. Expressing income of those aged 75 and over as a percentage of those aged 50-64, there is a 33% decline in income for those with tertiary education. This is approximately the same as the relative decline in incomes between those aged 50-64 (€386) and those aged 75 and over (€255) for those with primary education. For those with secondary education, the median household disposable income for those aged 50-64 is €591 and for those aged 75 and over it is €474.

Figure 9.3: Median household income and equivalised income by age (Euro per week)



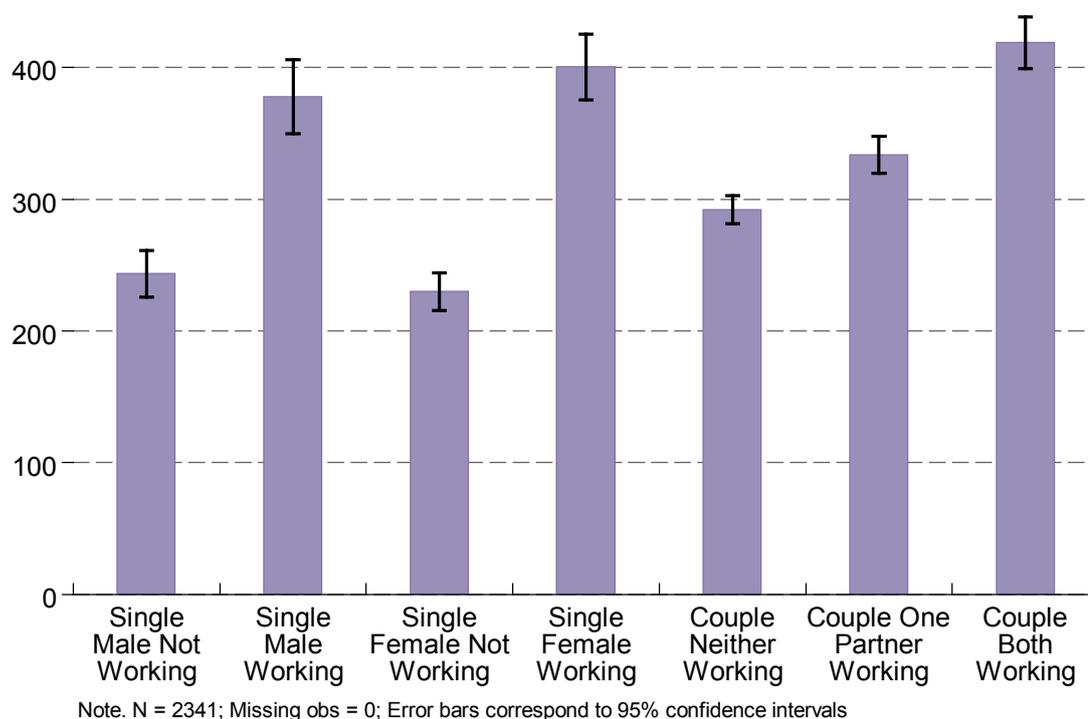
Note. N = 2341; Missing obs = 0; Error bars correspond to 95% confidence intervals

Once again, equivalisation significantly reduces the differences in median incomes across different age groups due to the different composition of households. This is true for each education group. For those with primary education, equivalised income ranges between €210 and €266 depending on age group. For those with secondary education, median equivalised income ranges between €296 and €364. For those with tertiary education, median equivalised income ranges between €494 and €543 depending on age group.

9.4.2 The number working in household

Figure 9.4 shows that one of the primary drivers of household income is the number of adults in the household who are working. Controlling for the number of adults in the household through equivalisation of incomes, couple households where one partner works have higher incomes than those where neither works. However, single households where the householder works and couple households where both work have significantly higher incomes. Interestingly there does not appear to be large differences in income between single men and single women conditional on their work status.

Figure 9.4: Median equivalised disposable household income by household type (Euro per week)



9.4.3 Income by years of service of retirees

State and occupational pension income will vary in proportion to years of service whilst working. Figure 9.5 shows that the equivalised household income of retirees does not increase significantly between those who never worked or those who worked for up to 30 years but is significantly higher for those who worked between 31 and 40 years. The fall in incomes among those with 41+ years of service reflects the fact that these individuals left school earlier and had lower occupational attainment on average than those with 31 to 40 years of service.

9.4.4 Income by years since retirement

Time since retirement is also important as shown in Figure 9.6. Those most recently retired have the highest household incomes, partially because they are likely to have working spouses in the household but also because levels of savings and lump sum payments are depleted over time. Figure 9.6 suggests that the rate of depletion stabilises roughly 10 years after retirement.

Figure 9.5: Median equivalised disposable income of retirees only by years of service (Euro per week)

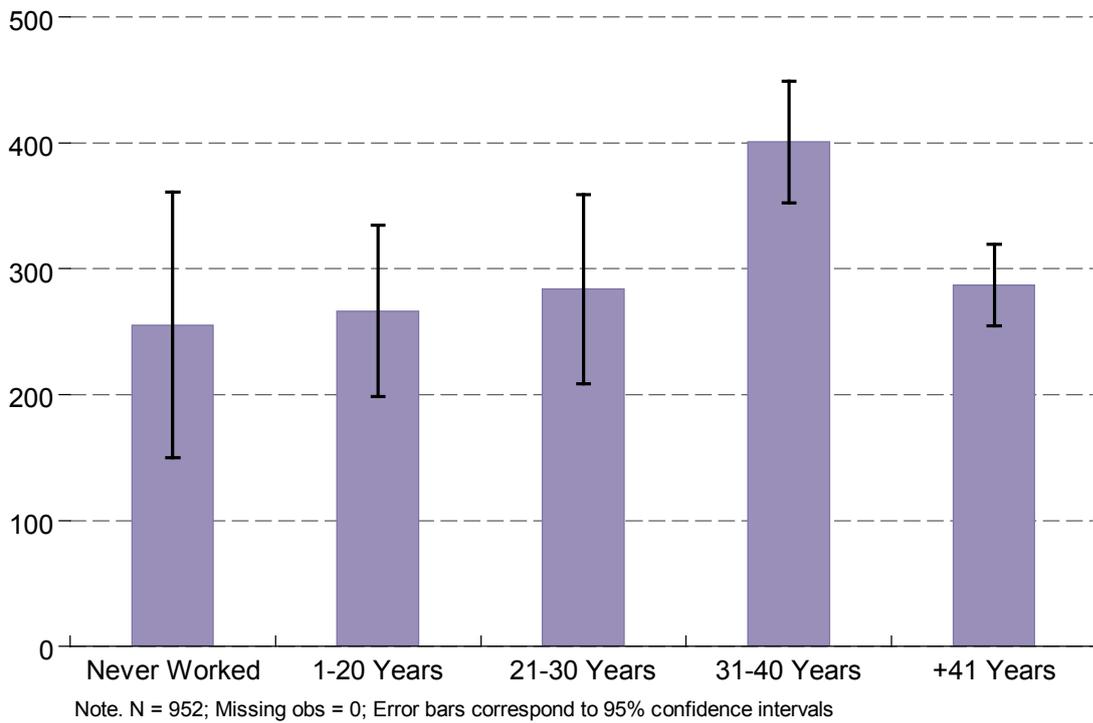
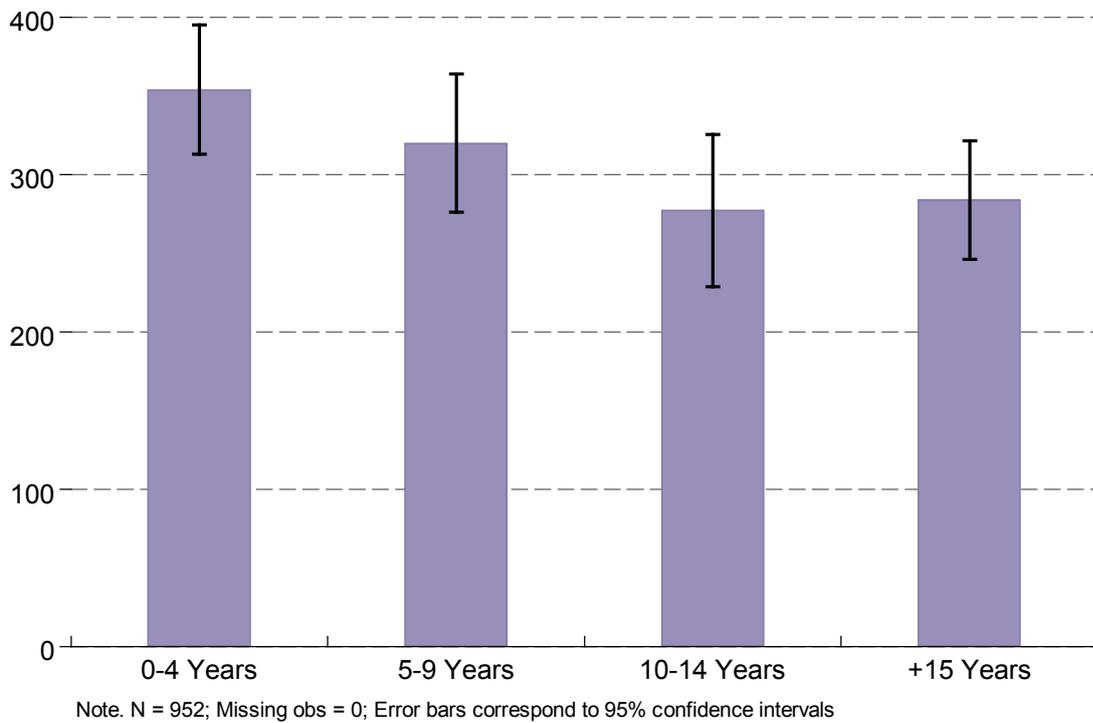


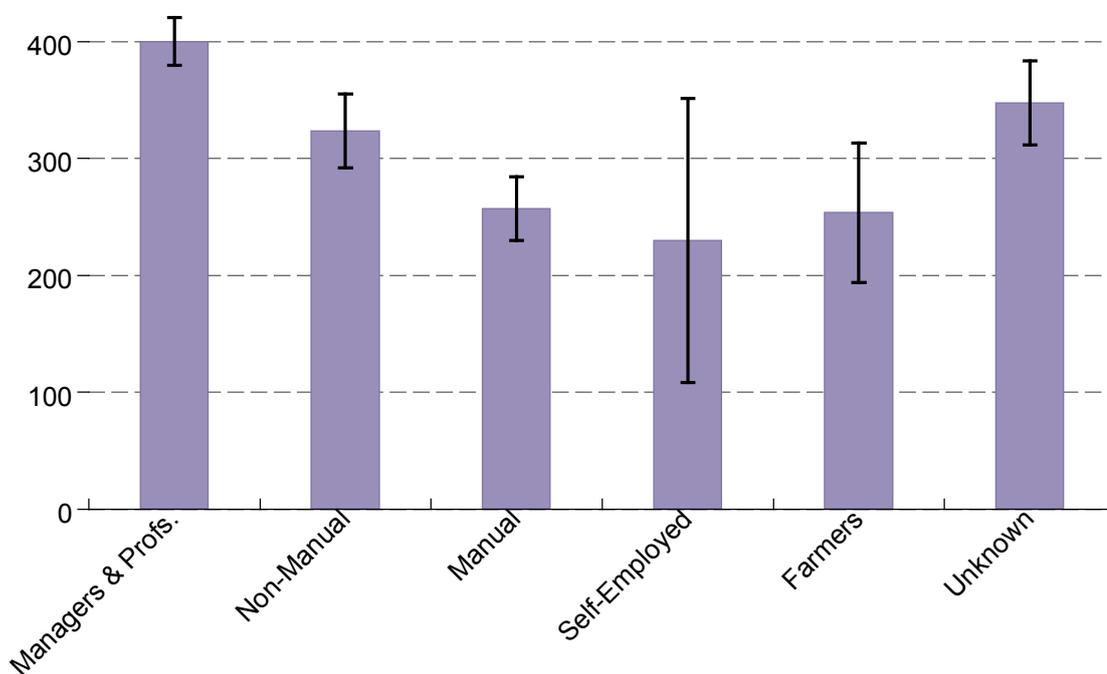
Figure 9.6: Median equivalised disposable income of retirees only by years since retirement (Euro per week)



9.4.5 Income by former occupation and level of education of retirees

The previous section demonstrated that time elapsed since retirement and years of working before retirement influence post-retirement income. The type of job that the person had during their period in paid employment may also affect pension income and savings. The effect of socio-economic group (SEG) on income in retirement is shown in Figure 9.7. Having been in a profession or in a managerial position is associated with the highest income levels in retirement with income lower in those who had a manual occupation compared to non-manual occupations. Although the median income of the previously self-employed is lower than the median income of manual employees, the confidence interval is wider because of the larger variability among this group. For example, the group includes the self-employed plumber or electrician alongside the owner of a company with a thousand employees. The large standard error for those previously self-employed could also be explained by the small number of observations in this category which arose as currently retired respondents had to volunteer, unprompted by the questionnaire, that they were self-employed rather than be asked about self-employment directly as is the case with respondents currently working.

Figure 9.7: Median equivalised disposable income of retirees only by socioeconomic group of their former occupation (Euro per week)



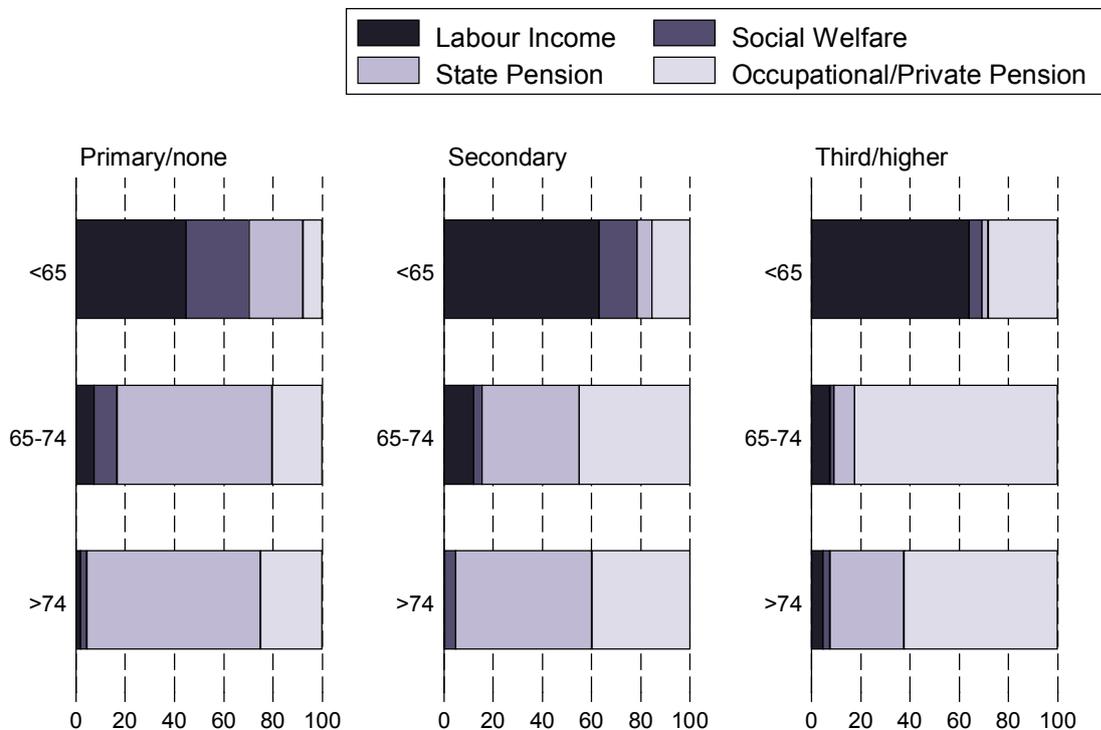
Note. N = 952; Missing obs = 0; Error bars correspond to 95% confidence intervals

Consistent with the higher pension incomes seen in professional groups, it was also found that the median equivalised disposable income of those with tertiary (third level) education is €552, which is significantly higher than those with primary (€254) or secondary education (€322).

9.5 Sources of income

TILDA respondents were asked about the different sources that made up their overall income. Respondents were asked about levels of income from various sources, and each of these was classified as being labour income, social welfare, state pension or occupational pension. Figure 9.8 gives the proportion of each household's 'income package' made from different sources by the age and educational attainment of the individual. Looking across the different educational levels, income from paid work or 'labour income' makes up a majority of the total income of those aged less than 65. Pension incomes contribute to total income here because some respondents will have retired partners. Among those aged 65-74 the proportion of income from state pensions is over 60% and increases to over 75% among those aged 75 and over. The proportion of income from state pensions decreases with increasing educational attainment.

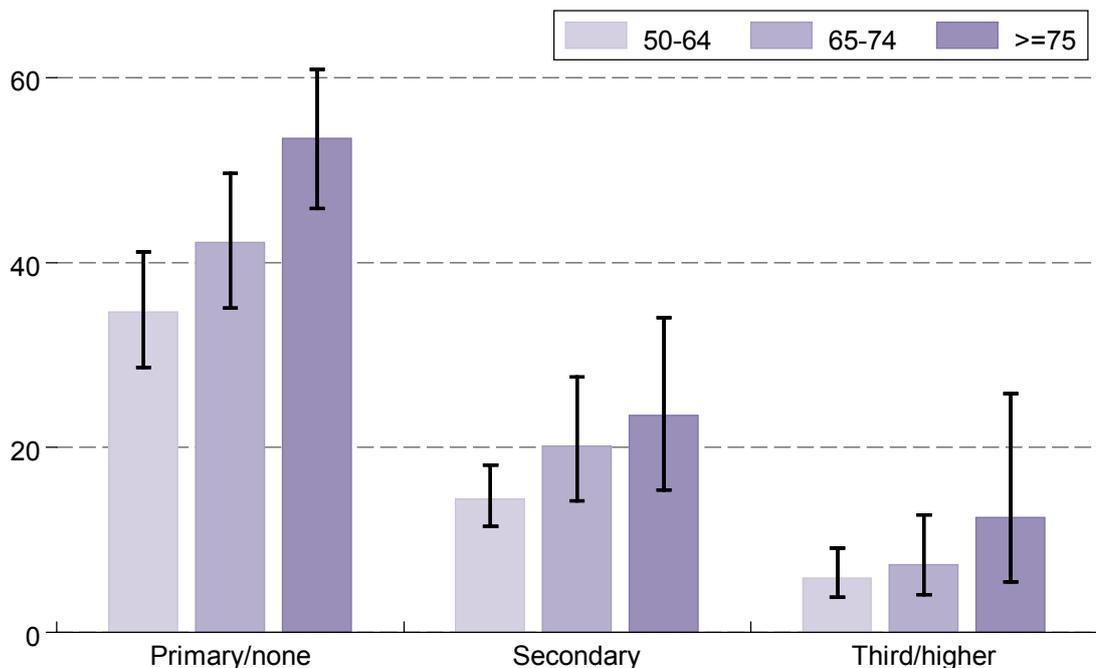
Figure 9.8: The distribution of sources of gross household income by age and education



As level of education increases, the proportion of income from occupational pensions (including public sector pensions) or private pensions also increases, reaching over 70% of the total among those aged 65+ with third level education. As described earlier, these groups are more likely to have had professional and managerial occupations that generally include an occupational pension although the proportion has been falling in recent years (10). It is also important to note that the measure of income used in this chapter includes lump sum payments so the proportion of income coming from occupational pensions would be high for those who have such a pension.

Figure 9.9 shows the proportion, by age group and highest educational attainment, of those whose only source of income comes from state transfers. Here, state transfers include the contributory and the non-contributory state pensions as well as other state assistances, allowances and benefits. It is striking that, regardless of age group, the proportion of those who depend solely on state transfers is considerably higher amongst the least educated group. In that group, around 35% of people aged 50-64 have state transfers as their only source of income. This rises to just over half for those aged 75 years and older. For those with secondary education, the proportion solely depending on state transfers in each age group is less than half that of the corresponding age group with primary education. For those with tertiary education, the proportion of those with only state transfers as a source of income is 6% for the youngest and middle age group and rises to 12% for the oldest group.

Figure 9.9 Proportion (%) by age and education of those whose sole source of income comes from state transfers



Note. N = 2338; Missing obs = 3; Error bars correspond to 95% confidence intervals

9.6 Asset holdings of older people

TILDA has collected information on the asset holdings of older people in Ireland. Income levels and asset holding are both key economic variables. However, for older people, assets are particularly important. As people withdraw from the labour market as they age, they may need to rely on savings and other asset holdings, in addition to any pension entitlements, to maintain their standard of living into the future. Savings and other assets can also provide a financial buffer to deal with adverse unexpected events such as a serious illness requiring expensive treatment. A final motive for holding assets could be to provide financial assistance to family members or indeed, to provide an inheritance to family members or others. This subsection first examines housing tenure and self-valuations of current residences and then moves on to discuss other forms of asset wealth as well as debt. It concludes with a brief discussion of the relationship between assets and income.

9.6.1 Housing tenure and house valuations

As can be seen in Figure 9.10, the majority of older people own their own home outright. This finding is constant across education groups. A significant minority (16% to 32% depending on education level) of those aged less than 65 are still paying off a mortgage but this proportion becomes negligible amongst those aged over 65. This is true regardless of education level. The proportion renting on the private market is very small (3%-6%) across different age and education groups. The "Other" category includes individuals living in the homes of their children. The proportion in this group is small (on average about 2%) but is largest amongst the very oldest age groups (5%-7% amongst those aged 75 and over). The proportion of respondents renting from local authorities is concentrated amongst those who left education after primary school (9% - 25% depending on age group) and is under 10% for other education groups.

Information on the self-valuations of property was collected by TILDA, however, it should be noted that at the time of data collection the property market was falling or stagnant and so the valuations of respondents may not have been an accurate reflection of the actual current value of their homes. The likelihood that a person makes any or an accurate prediction of the value of their home may depend on a number of factors. For example, if the respondent has adult children who bought a home in recent years, they may be more aware of the state of the property market.

Keeping in mind the issue of the difficulty of valuation of homes in the current economic climate, the median self-valuation is €200,000 amongst those who own their own home (including those paying off mortgages). Figure 9.11 shows how this varies by education level: the median for those with tertiary education is €300,000 and the median for those with primary education is €170,000 and for those with secondary education the median is €200,000.

Figure 9.10: Housing tenure by age group and highest educational attainment

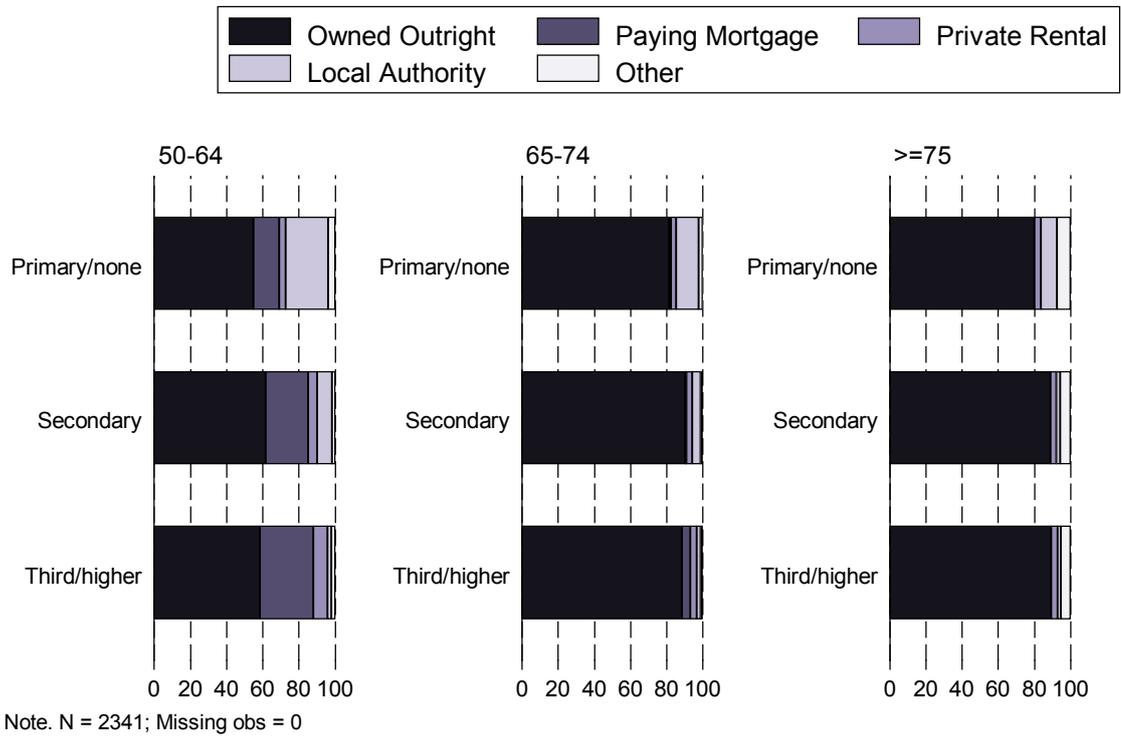
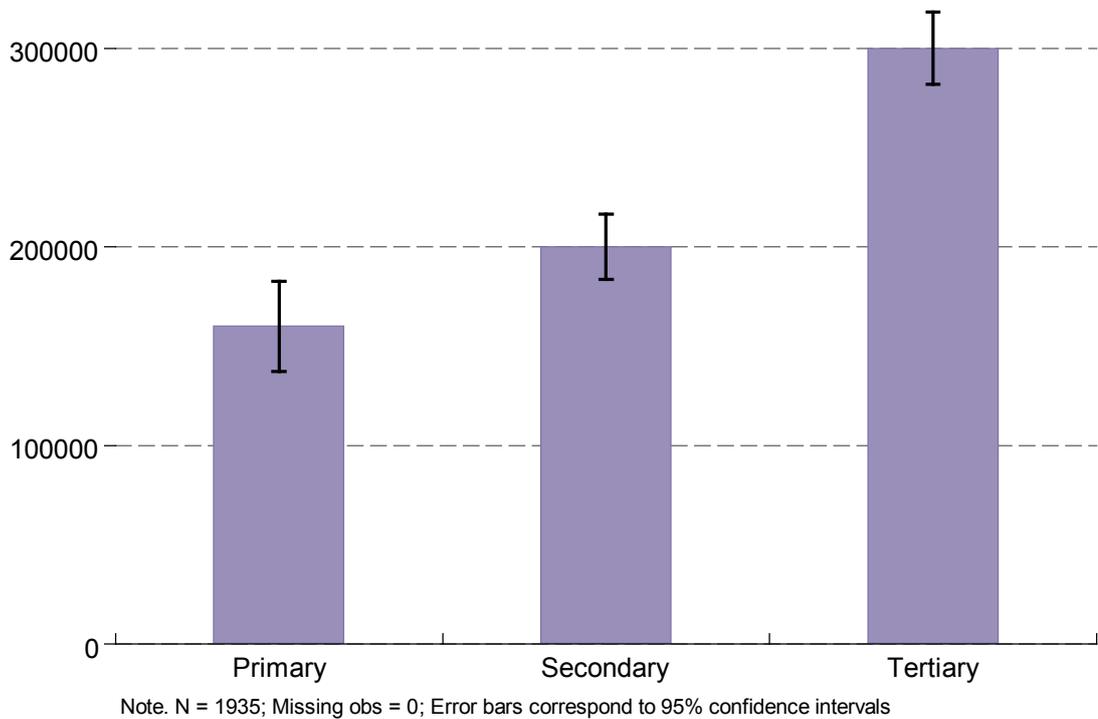


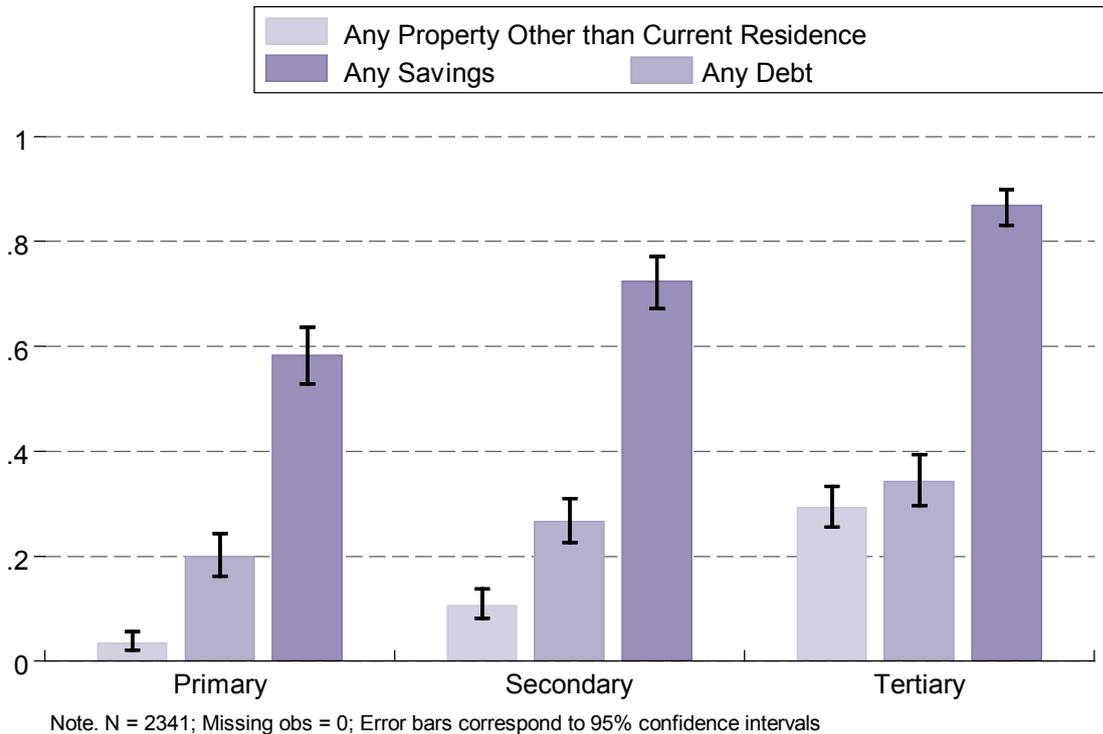
Figure 9.11: Median of current valuations of private residence by highest educational attainment



9.6.2 Ownership of property other than current residence

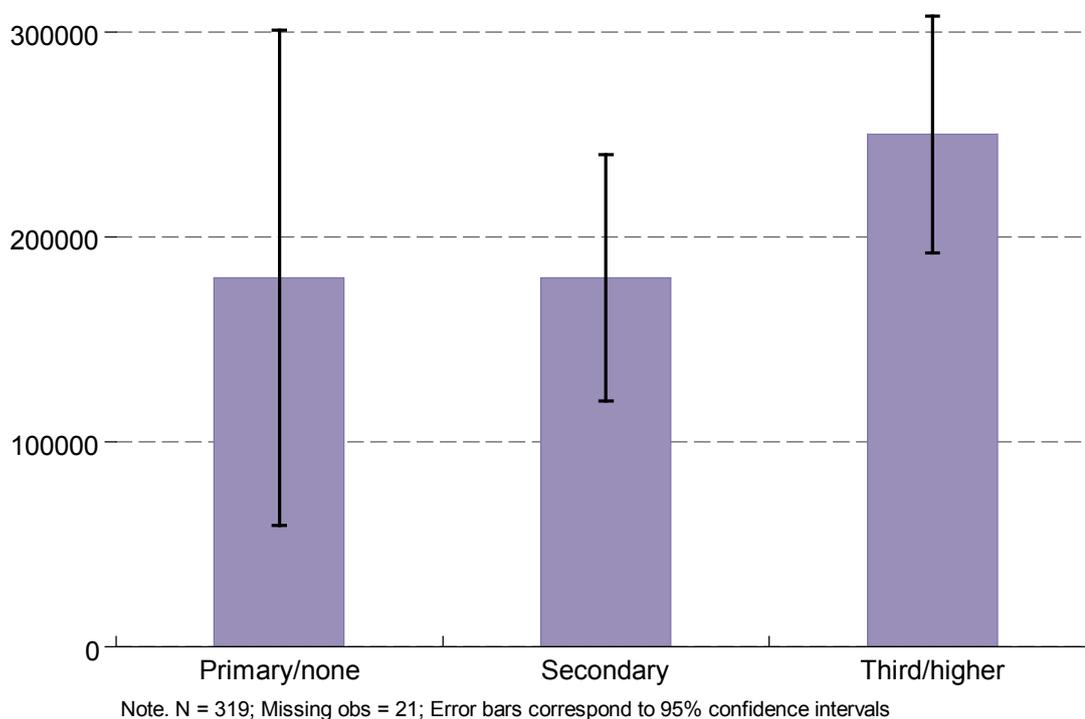
Around 13% of older people own a residential property that is not their main residence. Property other than current residence includes houses, apartments and holiday homes but excludes time shares. The proportion owning property other than their current residence varies considerably over education groups. Figure 9.12 shows that around 30% of those with tertiary education own at least one such property compared with 15% for those with secondary level education and just 5% for those with primary education.

Figure 9.12: Proportion with property other than current residence, debt or savings by highest educational attainment



Although the date at which respondents purchased the property is not known nor the price they purchased at, it is probable that at least some invested during the property bubble and are possibly in negative equity. The problem of negative equity may, therefore, not be confined to younger people and may even be more problematic for older people who may have been planning to cash in on their property investments in the near future and cannot sit out the property slump in the same way that younger people can. The median self-estimated value of properties other than current residence is €200,000. Figure 9.13 shows that the median varies across education group with the median property value of the primary educated group being €180,000 (the very wide confidence interval reflecting the small number of observations in this group), €180,000 for those with secondary education and €250,000 for those with tertiary education.

Figure 9.13: Median value of property (other than current residence) by highest educational attainment (Euro)



9.6.3 Savings levels among older households

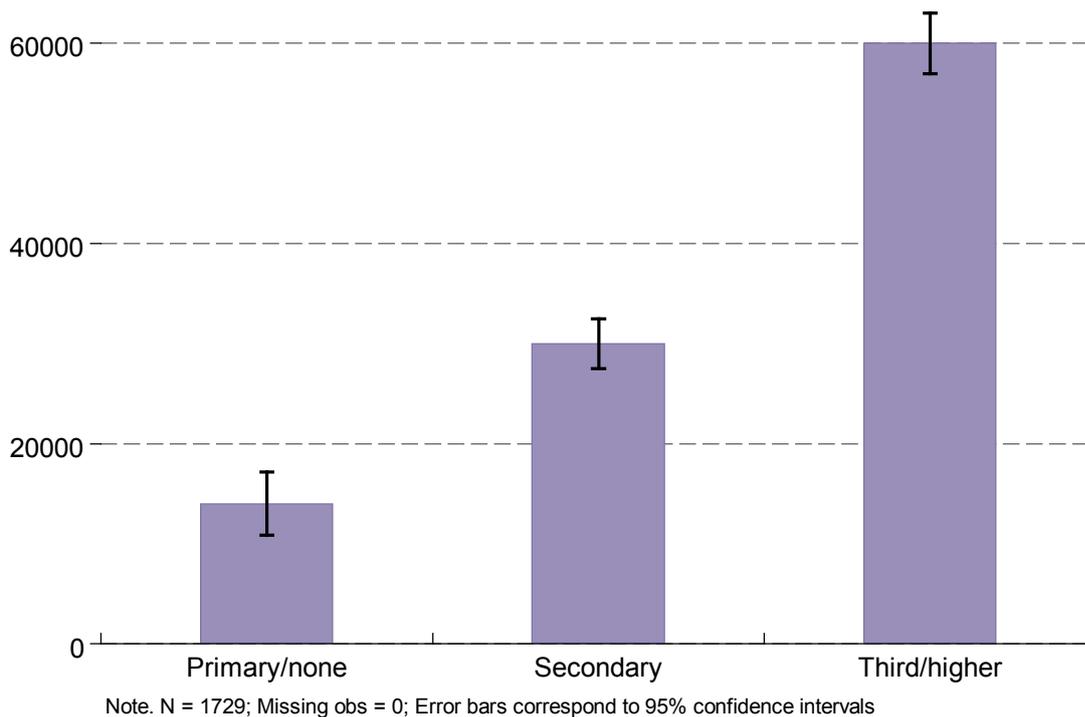
Figure 9.12 also shows that the proportion of those with any savings (held in savings or deposit accounts) or other financial assets (including bonds, mutual funds or shares, but excluding future pension entitlement) is just under 60% of people with primary education, around 76% for those with secondary education and around 85% for those with tertiary education. Figure 9.14 shows that the median level of wealth holdings varies by the highest level of educational attainment within the household. Households with primary education have median holdings of €14,000, less than half of the holdings of older people with secondary education (€30,000) and less than a quarter of the median savings of those with tertiary education (€60,000).

9.6.4 Debt levels

Figure 9.12 also shows that roughly one-fifth of the older population have some debt that does not include mortgages on their primary residences. TILDA respondents were asked their level of debt on property other than current residence, debt on cars and other vehicles, overdue bills (phone, electricity, heating), overdue credit cards/store card bills, other loans (from bank, building society or other financial institution), debts to relatives or friends and so on. Figure 9.15 shows that the

probability of a household having debt differs by the level of education: households that have higher levels of education are more likely to be in debt. Around a fifth of those with primary education are in debt. Around 28% of those with secondary education are in debt and about a third of those with tertiary education are in debt. Figure 9.15 shows that conditional on being in debt, the median level of debt for those with primary education is €6,000 and the median level for those with either secondary or tertiary education is €10,000.

Figure 9.14: Median level of savings or other financial assets by highest educational attainment (Euros)

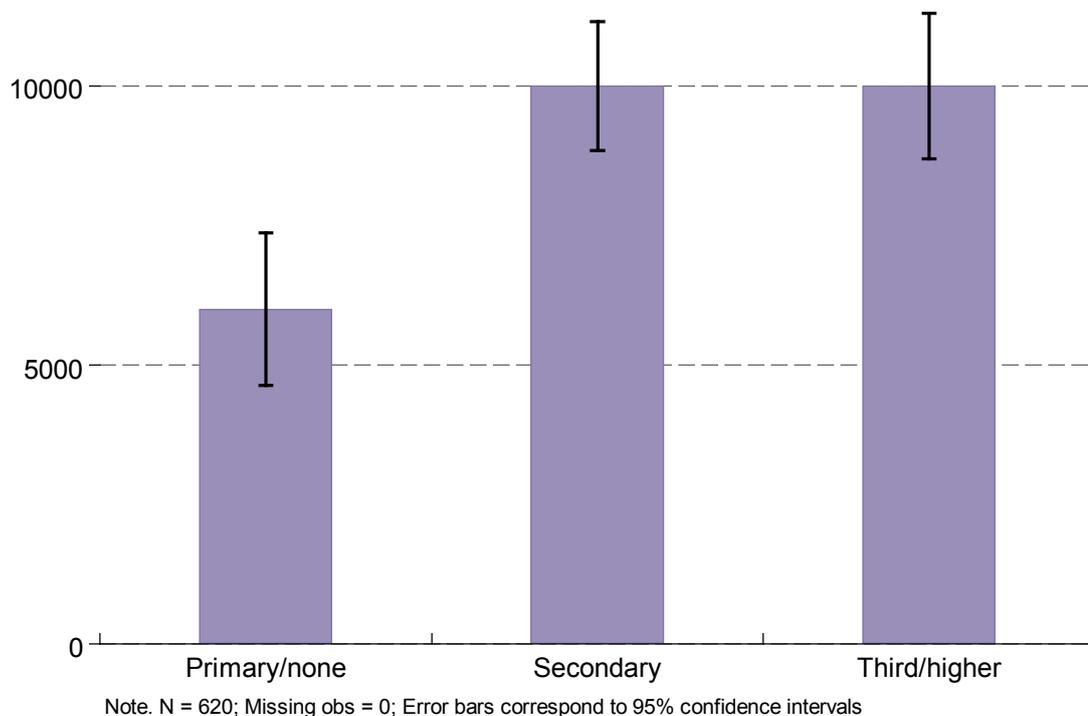


9.6.5 Relationship between income and assets

There is widespread belief that older people are ‘income poor but asset rich’ compared with younger people. Unfortunately, it is not possible to compare asset holdings by income levels of older people with those of younger people due to lack of a comparable dataset on younger people. However, an analysis of TILDA alone is still informative. Figure 9.16 shows the relationship between income and net assets. For each income group, median net assets are positive (or zero in the case of assets other than current residence for the lowest income group). Figure 9.16 shows that individuals with higher weekly disposable income have higher asset holdings. However, the relationship is less pronounced when we count the value of owner-occupied property alone, to the exclusion of second or subsequent homes. The median value of owner occupied residential property net of mortgage for the lowest income group is around €100,000. This rises to over €330,000 for the highest income

group. However, when we look at other types of assets (that is, not the value of the respondent's home) the relationship is different. Asset holdings still rise with income level, but it is important to note that the median net asset holding for those in the lowest income group, while still positive, is very small (c. €3,000).

Figure 9.15: Median level of debt by highest educational attainment (Euro)

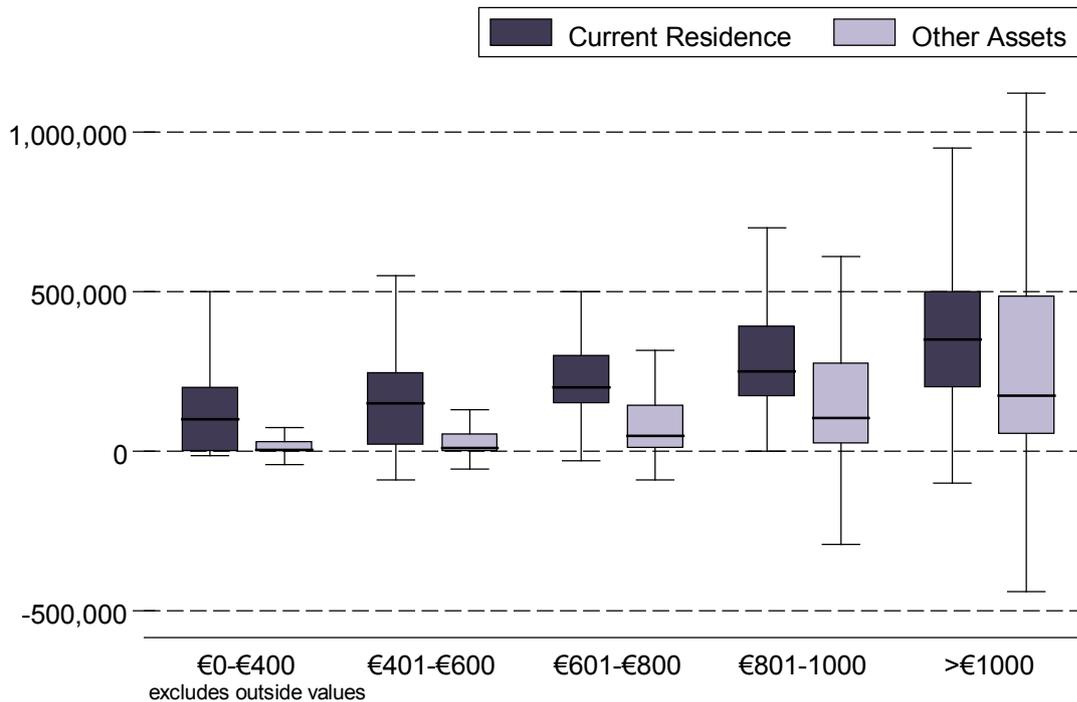


9.7 Conclusions

This chapter has focused on income, wealth and assets among older people in Ireland and examined some of the factors that influence the distribution of these variables across older people. Age, educational attainment, household structure, labour supply and occupation are all related to income levels and asset holdings.

There is considerable heterogeneity amongst old people in terms of income. While 1 in 8 people aged 50 or over have an income of €1,000 or more a week, around 30% live on between €201 and €300. Educational attainment is a stronger determinant of income than age within this group and a very large proportion of those with primary education are dependent on state transfers as their only source of income. Thus a 'one size fits all' approach to social welfare policy would ignore that different groups would be affected differently by policy changes.

Figure 9.16: Median net assets by level of weekly household disposable income (Euro)



With respect to home ownership, there is less heterogeneity between education groups, with the vast majority owning their own home. However, the self-valuations of these homes vary by education level and there is diversity amongst older people with respect to owning other types of assets. Those with higher educational attainment are much more likely to have bought a property other than their own home and may realise losses as a result of their investment over the next number of years. At least some of these second or subsequent homes could have been bought during the housing boom using life savings or pension lump sums. Due to their age, this group of better educated older people may not have the option of waiting for property prices to rise again when there is a resolution to the current banking and property crisis.

This chapter highlights that certain groups of people aged 50 and over are in a more precarious financial position than others. In particular, those with lower socio-economic status (measured here by level of education) are in a much less comfortable position in relation to wealth. They have lower incomes and are much less likely to have savings or other liquid financial assets that could be drawn from during old age.

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