Research Brief

Inequalities in Old Age: The Impact of the Recession on Older People in Ireland, North and South.
Ageing in Ireland, North and South.

Ageing population – ROI
- At the 2006 census, there were 468,000 people aged 65+ (11% of the population)
- By 2041, there will be 1.4 million aged 65 and over (22% of the population).
- Life expectancy at birth is 76.8 years for men and 81.6 years for women.
- 95% of men and women aged 70 and over rate their health as very good (19%), good (50%) or fair (26%).
- 9.1% of people aged 65 and over are still in employment (Q2 2009).

Ageing population – NI
- In 2008, there were 248,500 people aged 65+ (14% of the population)
- In 2041 the 65+ age group is projected to make up 24% of the population
- Life expectancy is 76.3 years for men and 81.3 years for women.
- 66% of people aged 70 and over rate their health as good (25%) or fairly good (42%).
- 9% of men aged 65 and women aged 60+ are still in employment (Q2 2009).

Pension Policy in Ireland, North and South.

Pensions and Income Key policy drivers – ROI
- Following a green paper consultation, a National Pensions Framework was issued in March 2010.
- It sets out the key developments for the future of pension provision in ROI, including:
  - Mandatory social welfare coverage in retirement will continue, although the system will be simplified to a total contributions approach. The aim is to maintain a level of 35% of average earnings.
  - State pension age will increase to 66 in 2014, 67 in 2021 and 68 in 2028.
  - Employees will be automatically enrolled into a pension scheme with matching employer contributions as well as a state contribution through tax relief.
  - A single level of tax relief, 33%, will be contributed by the state to existing workplace and personal pensions.

Pensions and Income Key policy drivers – NI
- Social security and pensions are technically transferred matters to the NI Assembly, but have parity with Great Britain.
- The Department for Work and Pensions sets pensions policy in the UK while delivery of pensions in NI is the responsibility of the Department for Social Development. Major reforms are being undertaken, including:
  - Restored link between the state pension and earnings.
  - A new savings vehicle aimed at lower earners, called the National Employment Savings Trust (NEST).
  - A duty on employers to automatically enrol all eligible workers into a workplace pension scheme and provide a minimum contribution of 3%. These measures are due to take effect in 2012.

Source: McGill, P. Illustrating Ageing in Ireland North and South: Key Facts and Figures, Belfast: Centre for Ageing Research and Development in Ireland, 2010
The challenge of pensioners who are at risk of poverty is a major one. This research briefing highlights the factors that put pensioners at risk of poverty and some of the inequalities between groups. It is based on findings from a research project funded under CARDI’s Grants Programme. The purpose of the study was to analyse the impact of the recession on older people in Northern Ireland (NI) and the Republic of Ireland (ROI) and the extent to which inequalities within the older population have been affected by the economic crisis.

Key findings

- Pensioners in NI face a significant risk of poverty: in 2008/09 23% of people aged 65+ were below the 60% median income level (after housing costs) compared with 16% in the UK. Single pensioners living alone have a 28% risk of poverty.

- The number of single pensioners at risk of poverty in NI has risen by 10,000 (57%) in the last six years and pensioner couples by 8,000 (26%).

- The rate of pensioners in ROI at risk of poverty has fallen to 11.1% in 2008 but they depend heavily on the State pension for their income and cuts such as the ending of the Christmas Bonus are likely to cause hardship.

- Older women across the island of Ireland have a higher risk of poverty than men.

- Women receive fewer and lower occupational pensions than men. The evidence suggests that the gap is growing.

- Tax relief on pension contributions is heavily skewed towards the wealthier.

- Older people across Ireland are worried about reduced or frozen incomes, higher taxes, cuts in services and charges for services that are now free.

- In the ROI pension plans lost 38% of their value in 2008 (OECD, 2009)
Main findings

North-South comparisons

At risk of poverty

In ROI between 2004 and 2008, the proportion of people aged 65 and over at risk of poverty has more than halved dropping from 24.7% to 11.1%. The percentage in consistent poverty has followed a similar trend, declining from 3.2% in 2004 to 1.3% in 2008. However in NI, the risk has increased. Between 2002/3 and 2008/9, the number of pensioner couples at risk has increased from under 27,000 to nearly 35,000 (26% increase). At the same time the number of single pensioners at risk has increased from just under 18,000 to over 28,000 (57% increase).

These figures clearly show that pensioners in NI face a significant risk of poverty. The recession may have exacerbated the situation.

While the numbers at risk of poverty in ROI have been decreasing, the costs of services and healthcare are in danger of increasing as a result of the economic downturn. Moreover pensioners in ROI depend heavily on State pensions to keep them out of poverty and there is a danger that changes such as abolishing the Christmas bonus (a drop of 2% in their income) could increase the risk of poverty. Already the State pension for a single female aged 70+ in ROI is €29.36 per week less than the minimum essential budget calculated by the Vincentian Partnership (2009).

Relying on the state pension

The Joseph Rowntree Foundation (2009) found that two-fifths of single pensioners and a fifth of pensioner couples in NI have no income other than the state retirement pension and state benefits – more than double the proportions of those in Great Britain (GB).

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1 Measured or missed: Poverty and deprivation among older people in a changing Ireland, a report by Mary Daly for Older and Bolder, suggests that there are questions to be raised about how well current measures in ROI reveal the degree of poverty and deprivation among older people.
Over 70% of those in the lowest income quintile have no pension. At the younger age range very few have pensions and from 35 to 65 some two fifths of all age groups have no pension.

The State pension for a single person is £97.65 per week in NI and pensioners with no other income can claim pension credit of up to £35 to top up their income. However, it is means tested and the application process is complicated. In addition they are entitled to a winter fuel allowance of £125.

A single pensioner living alone in ROI, with allowances, receives €254 per week; this is €92 (57%) more than his or her counterpart in NI (€162, the equivalent of £132). For a couple the difference is even greater; the couple in ROI receive €437 per week, making them €188 per week (75%) better off than couples in NI on €249 (£203).

Two factors to be added to the scales, though, are that pensioners in NI have free use of the National Health Service and that the cost of living there is lower.

**Median household incomes**

Overall median household incomes of older people are lower in NI than ROI by an average of £3,200 per year for single people (£62 per week) and £20 per week for couples. In recent years, the proportion of older people in poverty has fallen in ROI, largely due to a substantial increase in pension rates, but has continued to increase in NI. While NI scores better on a few indicators, the evidence suggests that living standards of older people in ROI are higher than in NI. Some of the 25 indicators from the full report are summarised in Table 1.

<table>
<thead>
<tr>
<th></th>
<th>NI single</th>
<th>NI couple</th>
<th>ROI single</th>
<th>ROI couple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owns home outright</td>
<td>59%</td>
<td>74%</td>
<td>75%</td>
<td>93%</td>
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<tr>
<td>Pensioners’ gross median household income</td>
<td>£11,196</td>
<td>£24,021</td>
<td>€19,839</td>
<td>€34,854</td>
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<tr>
<td>household income (2007)</td>
<td>(£14,425)</td>
<td>(£25,342)</td>
<td></td>
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<td>Equivalised¹ gross household incomes</td>
<td>£8,806</td>
<td>£11,920</td>
<td>€12,932</td>
<td>€16,857</td>
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<tr>
<td>Unable to keep accommodation warm</td>
<td>9.4%</td>
<td>11.4%</td>
<td>4.7%</td>
<td>1.4%</td>
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<tr>
<td>Cannot afford to have friends round</td>
<td>21.0%</td>
<td>15.0%</td>
<td>8.4%</td>
<td>5.1%</td>
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<tr>
<td>Cannot afford week’s holiday</td>
<td>36.1%</td>
<td>33.9%</td>
<td>14.7%</td>
<td>14.9%</td>
</tr>
<tr>
<td>Cannot afford to replace worn out furniture</td>
<td>27.0%</td>
<td>22.3%</td>
<td>15.1%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Cannot afford hobby or leisure activity</td>
<td>15.6%</td>
<td>11.0%</td>
<td>2.9%</td>
<td>5.0%</td>
</tr>
</tbody>
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Table 1: Comparison of living standards of pensioners in Ireland (selected indicators)


¹ The exchange rate used for 2007 is €1 = £0.727 (at 24 Dec 2007)
² Equivalence scales: Equivalence scales are used to calculate the equivalised household size in a household. Although there are numerous scales, we focus on the national scale in this report. The national scale attributes a weight of 1 to the first adult, 0.66 to each subsequent adult (aged 14+ living in the household) and 0.33 to each child aged less than 14. The weights for each household are then summed to calculate the equivalised household size.

Equivalised income: Disposable household income is divided by the equivalised household size to calculate equivalised disposable income for each individual, which essentially is an approximate measure of how much of the income can be attributed to each member of the household. This equivalised income is then applied to each member of the household. (EU-SILC 2008, CSO 2009, p98)
Male-female
Differences exist between men and women in their risk of poverty and larger gaps apply between couples and single people. The Minimum Income Standard (MIS) was assessed in 2009 (Smith et al) in NI as £130 per week for a single male, £151 for a single female and £206 for a couple. The gap between the MIS and the actual State pension was £16 for a couple, £35 for a single male and £55 for female pensioners.

Gender differences are one of the most pervasive inequalities in pension provision and the gender gap appears to be widening rather than getting smaller. In the UK 30% of women reaching retirement age are entitled to a full State pension compared with 85% of men. A study by Scottish Widows (2007) found that 35% of women of working age do not have a pension compared with 22% of men. A Prudential study (2009) showed that women retiring in 2010 can expect to receive an average pension of £12,200 while men can expect £19,600 and that the difference has been increasing. As a result, women in retirement are at a greater risk of poverty, particularly single women.

Haves and have-nots
People’s incomes in retirement reflect the inequalities in incomes during working life. To compound inequalities in incomes and pensions, the tax relief on pension contributions is heavily skewed towards the better off under both the UK and Irish tax systems. In the UK, nearly £10 billion, or one quarter of all the pension tax relief, goes to the top 1% of earners. In ROI, over €8 out of every €10 of tax relief goes to taxpayers in the top one-fifth of the income distribution.

Public-private
People who work in the public sector will be at less risk of poverty in retirement. Some 300,000 public sector workers and 90,000 pensioners in ROI benefit from occupational pension schemes. In the UK, 94% of public sector workers’ have defined benefit pensions compared with only 11% of private sector workers. As these public sector schemes are defined benefit, the recession has not had an impact on the individual workers pensions. With most private sector schemes being defined contribution, the individuals bear the investment risk and the market falls will affect their pensions more.

Since pensions reflect previous earnings, differences between public and private sector workers will persist in Ireland as a whole. In ROI public sector earning are 19.2% higher than in the private sector and in NI the difference is wider at 27.7%.

Older People’s Voices
A survey of advisors on money matters suggests that the impact of the recession on older people has been very unequal. People who saved and invested in property or bank shares were hardest hit while people on basic State pensions alone have been least affected to date.

Many people appear to have reduced their contribution to pension funds or withdrawn their funds, with the result that more people in future may be relying on the State pension.
One advisor summed up the impact the recession has had on older clients quite unequivocally:

“The fear is definitely worse in the older clients. They have stopped spending in general other than for essential items. More importantly they are the sector that are most worried about the solvency of the banks. A great number have moved their money from conventional deposit accounts where they used to earn a little interest to the post office where they will make little or nothing. Indeed a number have taken their money from the banks and probably now hold it in cash in their homes which is clearly very dangerous.”

A common message to emerge from focus groups carried out during the study was that the recession is having a significant impact. Small or frozen pensions, reduced income from savings and inadequate benefits, combined with the rise in the cost of living, means many people will struggle financially. However, while there is a degree of resilience among some older people, others have suffered greatly from the recession - the prospect of a comfortable old age had been ruined by the crash in property and bank shares and the prospects of work opportunities are poor.

What is evident is that there is considerable fear amongst older people across Ireland in terms of reduced incomes, higher taxes, cuts in services and charges for services that are currently free:

“One of the big worries at the moment is looking ahead and the context of not so much, not even my children who are now in their forties, but their children, my grandchildren and what the prospects for them are for the future.”

**Policy implications**

**Protecting at risk pensioners**

The central policy implication from the study is that certain groups of pensioners in NI and ROI are at a greater risk of poverty and the state and private pension systems need to protect those most at risk.

Most older people, especially women, depend on the State pension to survive. In NI in particular, the level of the pension is very low. Increases in the amount paid each week would have a positive impact on the living standard of older people and reduce the risk of poverty.

Poverty and living standards for older people must be seen in a much broader context than their incomes. Both in NI and ROI there are worries about the quality of health, transport, price of food and fuel and long-term care services and pensioners fear that their position will worsen as charges and stealth taxes are introduced and as public spending cuts take effect.

In addition, the research highlighted that action is needed in coming years to ensure that people can build up their own pensions, free from the risk of a crash in property and equity values as they come to retirement. Financial incentives are needed particularly for lower-paid private sector workers.
Fixing inequalities

There are important implications for taxation arising from the fact that tax relief on pensions disproportionately benefits the wealthier. In the UK, one quarter of all the pension tax relief goes to the top 1% of earners. In ROI, over €8 out of every €10 of tax relief goes to taxpayers in the top one-fifth of the income distribution.

The top civil servants in both NI and ROI benefit from generous defined benefit pensions which carry no investment risk and are funded from the public purse. This raises the issue of whether or not it is equitable for lower paid private sector workers, who have generally inferior pensions where they bear all of the investment risk, to fund these public sector pensions through their taxes.

However, the biggest inequality in pensions is between the people who rely solely on the state pension system compared to those who have either occupational pensions or private pensions. Public policy needs to address this by improving the state pension for those who cannot afford another pension, and encouraging people could save into a private pension but do not do so to prepare for their retirement.

References

Joseph Rowntree Foundation Monitoring Poverty and Social Exclusion in Northern Ireland (2009)
McGill, Paul, Illustrating Ageing in Ireland North and South: Key Facts and Figures (2010)
Northern Ireland Statistics & Research Agency (annual series). Family Resources Survey
Northern Ireland Statistics & Research Agency (annual series). Households Below Average Incomes
Older and Bolder, Measured or missed: Poverty and deprivation among older people in a changing Ireland (2010)
Prudential, Class of 2010 Retirement Survey (2010)

4 The National Pensions Framework in ROI attempts to address this inequality by closing the old public sector scheme to new members and introducing a more sustainable system. The Hutton Commission report in the UK has also suggested similar changes.