VIVRE AU LUXEMBOURG

INSTEAD CEPS

Chroniques de l'enquête PSELL-3/2007

N° 59 - Juin 2009

The economic position of the elderly in Luxembourg in a cross-national perspective

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In many countries, the elderly population is a growing demographic group due to declining fertility and increasing life expectancy. This is also the case in Luxembourg where the biggest population increase from 2001-2008 can be attributed to those 60 years of age and older (about 11% compared to 10% for 20-59 and 6% for those less than 20). The population of elderly men (60 and over) increased by about 16% and that of elderly women by 8% in these years (STATEC). Projections indicate that the size of the elderly population will be further increasing and as a result more pressure will be put on the pension system. This note examines the economic well-being of the elderly in Luxembourg and compares it to findings for a selection of countries (Canada, France, Germany, Italy, Sweden and United States). It also points to possible economic vulnerabilities of the elderly in Luxembourg.

In many countries, private assets are playing an increasing role in buffering life uncertainties as rich economies have been experiencing a shift of risk from the State to the households brought about by restraining welfare states and falling job security. For the elderly, another possibility to finance their retirement is to draw on their life-long savings (i.e., their wealth) either through selling their assets or taking out loans secured by the value of their former investments. We start by looking at the economic position of the elderly by analyzing total annual household disposable income corrected for household size[1]. To allow for cross-country comparisons monetary values are expressed in one single currency for one year[2].

Income

We examine the median[3] level of income for elderly households defined as those 65 and over and compare it with that of all households in the country. We find that in our selection of countries, the elderly in Luxembourg have the highest annual median equivalized income, at about 26 000 euros. Elderly households in Luxembourg are followed by those in the United States, Canada, France and Germany, United Kingdom, Sweden and Italy. In all countries, income of the elderly is in the range of 78% (in Sweden) to 93% (in the United States) of that of all households. Those in Luxembourg are at the higher end with having 92% of median income of all households at their disposal.

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Wealth

Another source of economic well-being for the elderly is their wealth, which consists of their assets and liabilities. Assets can be financial (deposit accounts, stocks, mutual funds) or non-financial such as the value of the main residence or investment property. The value of equity accumulated in the home could serve as security in times of economic hardship. One can sell one's home and begin renting while using the money from the sale to finance current consumption. Another option to finance consumption using the value of one's' home is to downsize (sell one's house and purchase a smaller house) or to take out loans using the accumulated equity in the house as collateral.

Homeownership is quite high in Luxembourg among the elderly (85% in 2007) and also among the rest of the population (74% see Berger 2004 for details). The homeownership rate of the elderly is comparable to countries with very well developed credit markets such as Canada and the United States and 20 percentage points higher than in neighboring countries such as Germany. The estimated median value of the home net of debt, referred to as "home equity[4]" in the graph, gives an indication of the potential source of security that elderly and other demographic groups could rely on during times of economic hardship. It is about 214 000 euros for Luxembourg, which is about 8 times the median annual income for the elderly. In Germany it is also quite high at 160 000 representing 12 times the annual income. Yet, only half the population in Germany is able to tap into this income source as only 54% of households are homeowners. In addition, research has found that the loan market is not as well developed in Germany as in other countries making it more difficult to access home equity. In Canada and the US the net value of the home is quite low compared to income.

1 *Standard in the literature is to equivalize income or in other words to control for the household size. We do this by dividing total personal income at the household level by the square root of the number of people in the household. We do not take account of people's age.*

2 *This is done by first adjusting values by purchasing power parities (PPPs) to take account of differences in the cost of living across countries. Since some data come from years prior to 2007 we then inflate the values using the appropriate price indices and present results in 2007 EUR for all countries.*

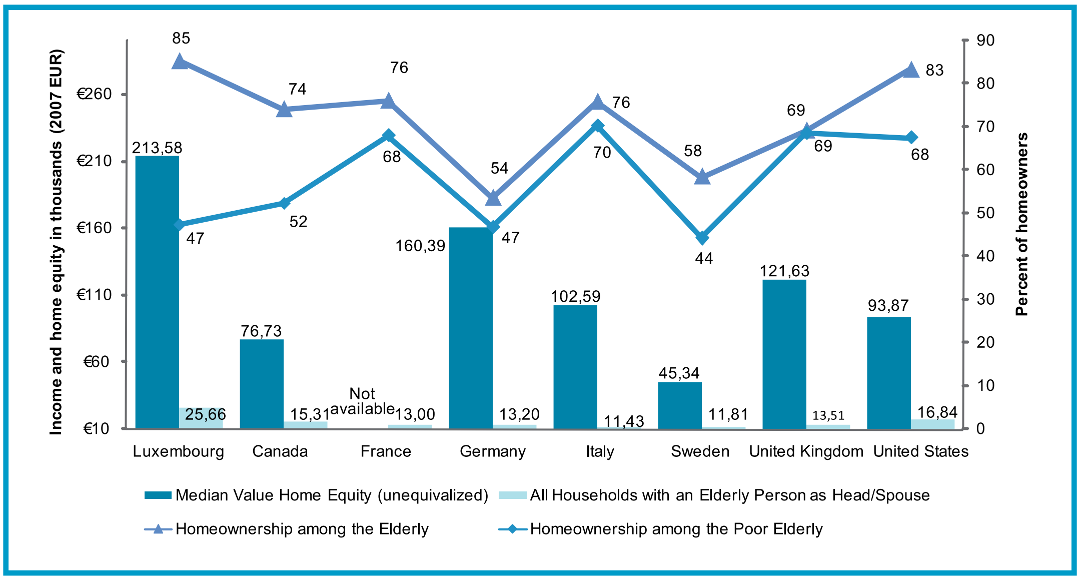
3 *The median is the value separating the top 50% of the values from the bottom 50% of the values..*

4 *Although there is wide consensus that income values should be "equivalised" (see above), there is far less agreement whether this should be done in the case of wealth. As a result, home equity values presented here have not been equivalized.*

Income, wealth and poverty in perspective

We now look further down the economic distribution to examine the interplay between income, poverty and assets. Policy concerns for the elderly are concentrated on adequacy and security in retirement and assets are an important part of this security. It should be noted though that according to the Luxembourg Income Studies (LIS) Key Figures[5] (and confirmed by other sources) the poverty rate[6] of the elderly in Luxembourg is among the lowest in the world and the poverty threshold according to which households are classified poor and non-poor is among the highest in the world. In terms of asset holdings, we see that compared to other countries, the poor in relative terms do not fare so well in Luxembourg. Actually, the homeownership rate among the poor elderly is among the lowest in the countries under consideration. In addition, it is about 40 percentage points lower than for the elderly population as a whole, which is the biggest difference among the countries that we observe. Median equivalised income for the poor is about 12 000 euros. The value of home equity is still quite high for income poor households that own their house. This finding could indicate that the 4% of elderly households in Luxembourg who are “income poor” according to the OECD definition are in a particularly precarious situation compared to the non-income poor or homeowners.

Median equivalized income and unequivalized home equity for elderly households (65+) and homeownership rates



Source : PSELL-3/2007, CEPS/INSTEAD, STATEC and EU-SILC data 2006 Author’s calculations and Sierminska et al. (2006) from Luxembourg Wealth Study data.

5 *http://www.lisproject.org/key-figures/key-figures.htm*

6 *Given that the purpose of this note is to compare Luxembourg not only with a few EU countries but also with two non-EU countries (Canada and US), the definitions we have used are different from those generally used at the EU level. This is true for the equivalence scale we have used here (see above) and the poverty threshold which is set here at 50% of the equivalized median household income of the whole population (in line with standard OECD practice) as opposed to 60% in the “poverty risk” EU definition. According to the OECD definition, in 2007 the poverty rate in Luxembourg is 8% for the whole population and 4% for the elderly whereas these figures are respectively 14% and 7% according to the EU definition.*

Sources :

- Berger, Frédéric “Le patrimoine immobilier des ménages : qui possède quoi ?,” Population & Emploi No 4, Octobre (2004)
- Sierminska, Eva, Andrea Brandolini & Timothy Smeeding “Cross National Comparison of Income and Wealth Status in Retirement: First Results from the Luxembourg Wealth Study”, Luxembourg Wealth Study Working Paper no. 2 (2006)

ISSN : 1813-680X

La source de données : Le PSELL-3 (*Panel Socio-Economique Liewen zu Lëtzebuerg*) est une enquête qui a été lancée en 2003 auprès d’un échantillon représentatif de la population résidant au Luxembourg. Grâce à la méthodologie mise en oeuvre pour sa réalisation, les résultats issus de cette enquête effectuée auprès d’un échantillon initial de quelque 3500 ménages (9500 individus) constituent des estimations précises des chiffres concernant l’ensemble de la population. Le PSELL-3 sera réalisé chaque année par le CEPS/INSTEAD, en collaboration avec le STATEC. Il s’inscrit dans le programme statistique *EU-SILC* de l’Union Européenne (*European Union - Statistics on Income and Living Conditions*) destiné à connaître les revenus et conditions de vie des personnes et des ménages dans les différents Etats membres. Plus d’infos : www.ceps.lu/vivre.

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