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CROSS-NATIONAL COMPARISON OF INCOME AND WEALTH STATUS IN RETIREMENT: FIRST RESULTS FROM THE LUXEMBOURG WEALTH STUDY (LWS)

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Considerable progress has been made in reducing poverty and economic insecurity among individuals ages 65 and older in most rich countries over the past fifty years. Older persons are increasingly able to live long and relatively healthy lives free of poverty in relatively secure social and economic situations, and are increasingly less likely to share accommodations with their adult children or to rely on them for direct economic support in old age. Indeed most resource transfers between generations now go from elders to children and not vice versa as was more or less the case in the United States before 1960. Still, older persons' income poverty has not been eradicated, especially in the English-speaking nations; and women's poverty status in old age is still a major concern in most rich societies.

However, how does the U.S. experience compare to that of other nations? So far, most of what we know about elder poverty and well being in cross-national context has been derived from the Luxembourg Income Study (LIS) data. In order to most effectively design a system to further reduce poverty and increase economic security, we need to know more about how older persons live and what other sources of economic support they might have, over and above their annual incomes.

This paper provides a first glance at the role of income and wealth in comparing economic security of older persons in the United States in cross-national perspective. We compare our elders to those in six other rich OECD countries (Canada, Finland, Germany, Italy, Sweden, and the United Kingdom). These countries have diverse social policy systems, with respect to both social insurance and public assistance, and they have very different patterns of private wealth holding. The paper is based on a new source of wealth micro data, known as the Luxembourg Wealth Study (LWS).

In the paper, we first develop a comparable definition of wealth and net worth across nations and then focus our efforts on the inter-country variation in the composition of income and asset packages for those 65 and over, with respect to the main sources in each package. We examine the structure of income and wealth holdings and their joint distribution; income and asset poverty of the elderly; the importance of home ownership in providing security for the elderly; differences in wealth by education; and we provide an initial glimpse at wealth and income inequality in a comparative perspective.

We find that the four legs on the American income stool are shaped quite differently from those in other countries. U.S. elderly households on average rely much less on public social retirement pensions and much more on earnings and asset accumulations than do their counterparts elsewhere. While they are on average wealthier than their counterparts in other rich countries and have less liquid asset poverty, U.S. elders also have the highest variance in these financial assets. Thus low-income American elder households are also wealth disadvantaged with respect to liquid assets, though a substantial fraction own their own homes, again with varying values.

Wealth is correlated with education, but home ownership is more or less universal among most elder households in all nations, save Germany. The value of these homes is an issue that deserves much more attention as homes provide both a growing store of value as an investment and a flow of below market cost housing services. While issues related to the maintenance cost of owned housing (property taxes, utilities, and other non-mortgage cost) and fungibility of housing wealth in comparative context need to be resolved, owned homes are probably the most important sources of wealth for most elder households in all the nations we study.

Promoting greater levels of home ownership can therefore provide additional real economic support in old age. As home values increase among the old, we need to identify better and more reliable methods, such as reverse-annuity mortgages or borrowing against the value of their own homes, so that cash-poor but housing-rich older Americans can access these assets to meet their everyday needs. These arrangements are not going to be enough to help the income and asset poor in the United States today, simply because their home equity is too low. But they may well help the next generation of older Americans cope with longer lives and low savings. While such financial devices are beginning to make headway in the United States, they are still not widespread. And they have made hardly any progress in the other rich nations studied here.

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