WORKING PAPER

Executive Summary

center for
retirement
research
at boston college

POVERTY AND INCOME MAINTENCE IN OLD AGE:
A CROSS-NATIONAL VIEW OF LOW INCOME OLDER WOMEN

By Timothy M. Smeeding and Susanna Sandstrom

Great strides have been made in reducing poverty among the elderly in most rich countries over the past 40 years. But pensioner poverty has not been eradicated, especially in the Anglo-speaking nations, more so, women's poverty status in old age is a concern in all rich societies. In fact, due to demographic and other policy changes, pensioner poverty may rise again in the coming decades. This paper looks at elder poverty using the Luxembourg Income Study (LIS) database and examines how different societies deal with these issues.

Poverty among younger pensioners is no longer a major policy problem in most rich nations. Rather, poverty in old age is almost exclusively an older women's problem. Poverty rates among older women change with changes in living arrangements more than with age. Differing national experiences in social transfer and anti-poverty programs provide a rich source of information for evaluating the effectiveness of various social policies among the elderly.

We find that the minimum old age benefit for a single person from the combined social retirement/ social safety net package, however they are structured, is an important determinant of poverty. The level of the safety net benefit varies considerably across countries. If a nation has a low minimum benefit package, poverty rates will be high. The nation which stands out most clearly in such comparisons is the United States, which has the least generous minimum benefit level of all the nations, far below the next nearest country, the United Kingdom.

Whether the safety net and social insurance systems are integrated and/or the presence of liquid asset limitations make a big difference for the overall antipoverty effectiveness of social spending on the aged. Canada and the United Kingdom, for example, offer a basic quasi-universal pension topped up by an income-tested pension received by over 30 percent of all pensioners.

On the other hand, the United States does not have a specific income guarantee within Social Security. It has, however, only a special minimum benefit for those who work for many years at low wages. In contrast, the SSI program does offer a minimum guarantee, but it serves only about one twenty-fifth as many aged persons as Social Security, and it suffers from both low take-up rates and asset tests.

The Canadian case is particularly instructive in each of these comparisons. Canada has managed to achieve much greater poverty reduction among seniors while spending much less on social retirement programs than other rich countries (and slightly more than the United States). The reason is that Canada spends a lot on the near-universal Old Age Security and income-tested Guaranteed Income Supplement (GIS)

program, with no asset test and a relatively simple annual application process which permits an income test integrated with income tax filing so as to avoid both stigma and take-up issues. Thus in effect, the GIS 'tops up' the Canadian Pension Plan—the social insurance component of the Canadian system. Over 90 percent of the eligible Canadian elderly participate in GIS compared to about 60 percent elder participation in SSI in the United States. Canada allocates close to 9 percent of its total tax and transfer retirement income spending on GIS, while the United States allocates less than 2 percent.

In 20 years time, older women will look very different from older women today, mainly because of their earnings histories and their different demography. Many will have good occupational pensions and partners who have similar benefits. But not all women of the baby boom cohort will benefit equally from their labor market experience. Poverty rates among older women are, and will likely be, highest among the divorced, widowed and never married women. And these are groups whose prevalence within the elder population will rise significantly over the next decades.

The current and future challenge will be retirement benefit systems that guarantee minimum standards of living for very elderly women, especially those who are survivors, divorcees, or who have never been married. Cutting Social Security benefits will raise older women's poverty. These benefits are also unlikely to increase in future years in real terms once eligibility is taken up. Hence, integrating an income tested benefit for those who at older ages who have nothing else to rely on seems to be an important future part of the anti-poverty effectiveness system for older women.

CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

Fulton Hall 550, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808
phone 617.552.1762   fax 617.552.1750   crr@bc.edu   www.bc.edu/crr