COMPOUNDING INEQUALITIES OVER THE LIFE COURSE
EVIDENCE FROM OECD’S PREVENTING AGEING UNEQUALLY REPORT

Christian Geppert
Economist, Pensions and Population Ageing
Directorate for Employment, Labour and Social Affairs
OECD
All age groups are worried about the adequacy of their pensions

Percent of respondents listing “Financial security in old age” as one of the top three greatest long-term (beyond the next decade) risks to themselves or their immediate family, 2018

Note: Respondents were asked to identify the three greatest risks to themselves or their immediate family from a list of five risks. Respondents had the option of selecting zero, one, two, or three risks. Respondents grouped here by age.
OECD report Preventing Ageing Unequally

• Assesses how ageing and inequality trends are interacting

• Shows that inequalities compound over the life course

• Puts forward a policy agenda to prevent, mitigate and cope with unequal ageing
ON AVERAGE, INCOME AND HEALTH HAVE IMPROVED FROM ONE GENERATION TO THE NEXT
Substantial real income gains from one cohort to the next, at least until recently

Age-cohort pattern of real disposable income, OECD average, 2010 USD PPP

Source: OECD (2017) - Preventing Ageing Unequally, Fig. 3.5.
Note: The chart is based on Luxembourg Income Study data of 20 OECD countries. To limit the biases from the unbalanced nature of the panel data then obtained, the series shown in the chart are derived for each cohort from specification with country and age fixed effects.
Extra years of life expectancy largely in good health

Total gains in life expectancy at birth in 2000-2015

Source: OECD (2017) - Preventing Ageing Unequally, Fig. 2.6.
Note: The chart is based on data from WHO (2016) – Global Health Observatory. Health-adjusted life expectancy is defined as the number of years that people can expect to live in “full health” by taking into account years lived in less than full health due to disease and/or injury.
YET, ALSO INCOME INEQUALITY HAS RISEN
Inequality at a given age is higher today than in the past in most OECD countries

Income Gini index by cohort and age group

Source: OECD (2017) - Preventing Ageing Unequally [Fig. 3.18] based on Luxembourg Income Study data.
Inequality at a given age is higher today than in the past in most OECD countries

Income Gini index by cohort and age group

Source: OECD (2017) - Preventing Ageing Unequally [Fig. 3.18] based on Luxembourg Income Study data.
Inequality at a given age is higher today than in the past in most OECD countries.

Income Gini index by cohort and age group

Source: OECD (2017) - Preventing Ageing Unequally [Fig. 3.18] based on Luxembourg Income Study data.
Inequality at a given age is higher today than in the past in most OECD countries.

Income Gini index by cohort and age group

Source: OECD (2017) - Preventing Ageing Unequally [Fig. 3.18] based on Luxembourg Income Study data.
Inequality at a given age is higher today than in the past in most OECD countries

Income Gini index by cohort and age group

Source: OECD (2017) - Preventing Ageing Unequally [Fig. 3.18] based on Luxembourg Income Study data.
Inequality at a given age is higher today than in the past in most OECD countries

Income Gini index by cohort and age group

Source: OECD (2017) - Preventing Ageing Unequally [Fig. 3.18] based on Luxembourg Income Study data.
Inequality at a given age is higher today than in the past in most OECD countries

Source: OECD (2017) - Preparing Ageing Unequally [Fig. 3.18] based on Luxembourg Income Study data.
As a result: Poverty risks have shifted from the old to the young on average

Relative poverty rates by age group since the mid-1980s in 18 OECD countries

OECD-18 average

Source: OECD (2017) - Preventing Ageing Unequally [Figure 3.9] based on OECD Income Distribution Database.
HEALTH AND EARNINGS INEQUALITIES COMPOUND
People in bad health work less and earn less at all ages

Panel A. Employment rate by gender, age and self-reported health

Panel B. Normalised hourly earnings by gender, age and self-reported health

Note: OECD calculations from microdata on 24 OECD countries.
Bad health reduces men’s lifetime earnings substantially (and less so for women)

Impact of health on lifetime labour earnings by education levels

Average across countries, 100 = Lifetime earnings for a man in good health with a medium education level

Note: OECD calculations from microdata on 24 OECD countries.
RISKS OF RISING INEQUALITY AT OLDER AGES
Large pass-through from wage to pension inequality

Change in the Gini index of pensions for a 1 percentage point increase in the Gini index of wages

Note. Simulations based on common earnings distribution across countries and a shift from a wage Gini of 0.35 to 0.38. Source: Preventing Ageing Unequally (Fig. 1.20) based on the OECD pension model.
Future pensions for low-income earners will be low in many countries

Net projected pension replacement rate from mandatory schemes for a full-career worker, in % of last earnings

Source: OECD (2017) – Pensions at a Glance [Figure 1.8].
Marked life expectancy gaps between the low-educated and the high-educated

Difference in life expectancy between high and low educated groups at ages of 25 and 65
Males, around 2011, in years

Source: OECD (2017) - Preventing Ageing Unequally [Fig. 1.2] based on OECD estimates.
POLICIES TO ADDRESS UNEQUAL AGEING
OECD Recommendations on Policies to Address Unequal Ageing

Need for life-course policy packages based on 3 pillars

PREVENT INEQUALITIES BEFORE THEY BUILD UP AND COMPOUND

POLICIES TO ADDRESS UNEQUAL AGEING

MITIGATE ENTRENCHED INEQUALITIES

COPE WITH INEQUALITY AT OLDER AGES
Conclusion

• Insufficient income and larger old-age inequality among future retirees are major challenges
• Population ageing will magnify these challenges
• Inequalities start early in life and compound over the life course
• Policies must prevent inequalities before they build up, mitigate existing inequalities and cope with inequalities at older ages
• Higher statutory retirement ages are important but will not keep the relative size of the labour force from falling
Thank you for your attention!
Addendum: Inequality at a given age is higher today than in the past in most but not in all OECD countries.

Income Gini by cohort and age groups, selected OECD countries

Panel A. United States
Panel B. Slovak Republic
Panel C. Spain
Panel D. Ireland

Source: OECD (2017) - Preventing Ageing Unequally based on Luxembourg Income Study data.
Higher statutory retirement ages are important but will not keep the relative size of the labour force from falling.

The normal retirement age is defined as the age at which a full-career worker entering the labour market at age 20 can receive a full pension, averaged across genders.


Note: Unweighted OECD country averages.