Inequality in Older Couple Households

October 3, 2018

Berlin

Siobhan Austen

*Women in Social and Economic Research (WiSER),

School of Economics and Finance,

Curtin University,

Australia.

WiSER

Women in Social & Economic Research

Introduction

- **The economic issues confronting older couple households are growing in importance**
    - We are growing in number and living longer in retirement; &
    - Policy shifts have increasingly shifted the responsibility for paying for retirement and health and aged care onto individuals.
- **The issues for older women in couple households are especially important**
    - With the shift to private retirement incomes, many women reach old age financially dependent on a spouse; &
    - Many women outlive their spouse.
    - Thus, the arrangements couples put in place for later life have large implications for women's well-being in particular.
- **The literature on intra-household issues has thus far focused on working-age couple households**
    - There is an important need now to also 'open the black box' relating to intra-household issues in older couple households.

Our Study: "Inside the Blackbox: Intra-household Resource Allocations of Older Couples" (2017-19)

- **Great team** (of economists, statisticians and legal scholars):
  - Monica Costa, Susan Himmelweit, Helen Hodgson, Jaslin Kalsi, Astghik Mavisakalyan, Rhonda Sharp, Ross Taplin + Ray Broomhill.

- **Big Research Questions**
  - How is the ownership, control and management of resources distributed in older couple households?
  - What is the role of institutional variables, including those related to gendered social norms and the legal framework?
  - What are the links between unpaid labour and the entitlements of men and women in older households?
  - How can the research findings be effectively translated into policy and budget processes that will enhance gender equality and promote the wellbeing of older people?

- **A Mixed-Methods Approach**
  - Quantitative analysis based heavily on the Housing, Income and Labour Dynamics in Australia (**HILDA**) survey and the Survey of Income & Housing (**SIH**)
  - Qualitative data collection and analysis (30 sets of interviews with older couples)
  - Feminist Action Research into political, policy and budgetary processes relevant to older couple households.

The Policy Context of Our Study

- **Australia's retirement income systems features a 3 Pillars Approach**:

  - A targeted government **Age Pension**
  - Mandated contributions to individual **superannuation** accounts since 1992 (now 9.5% of earnings; predominantly defined contribution vs defined benefit accounts; the system is still less than fully mature)
  - Generous tax concessions to **private retirement savings** and superannuation

- **Current policy aims to increase the importance of superannuation and reduce reliance on the Age Pension**
  - This is likely to shift the distribution of ownership of financial resources in older couple households in men's favour.

- **The policy presumption is that household superannuation assets will be pooled and shared**
  - There are currently few controls on how these assets can be used by their owners.

How much economic inequality is there within couples?

Measures of the Level of Intra-Household inequality in Income and Assets in <u>Older</u> Australian Couple Households, 2015-16

a. Browning et al: the share of household income or assets 'owned' by the female partner, $(\frac{X_f}{X_m + X_f})$;

b. Fuchs: the average income or assets of women in couple households, compared to men, $(\frac{\bar{X}_f}{\bar{X}_m})$.

	Income	Assets
Browning	43.6%	45.9%
Fuchs	68.9%	76.9%
Haddad and Kanbur	0.25	0.39

c. Haddad and Kanbur: the difference between the higher and lower income spouse's share of household income or assets:

$$HK = \frac{|X_1 - X_2|}{X}$$

d. Woolley: the difference between the measured level of inequality using individual- vs household-based measures of income and assets

Income and Asset Inequality in Older Australian Couple Households, 2015-16

45+ and retired   AP recipients   Other retirees

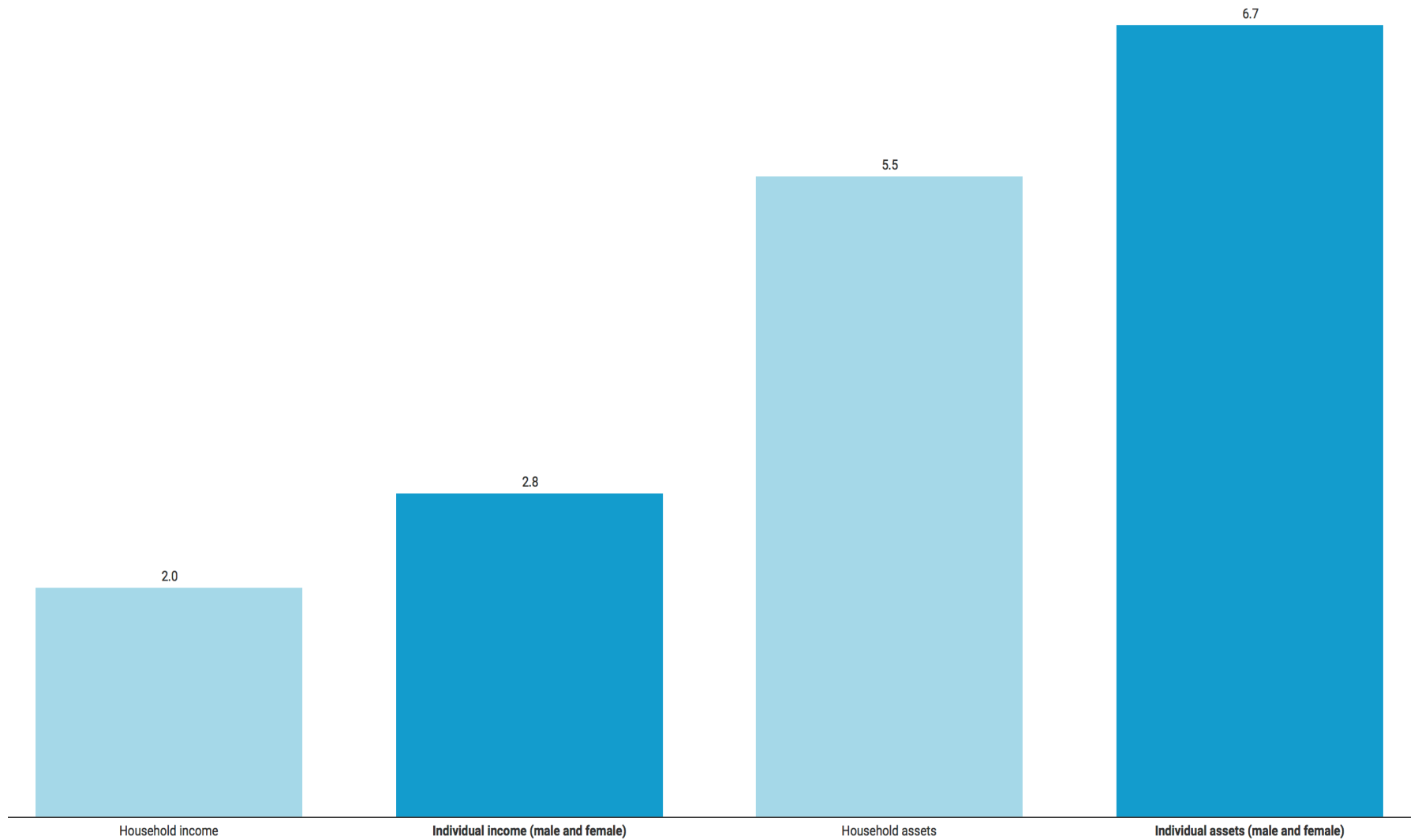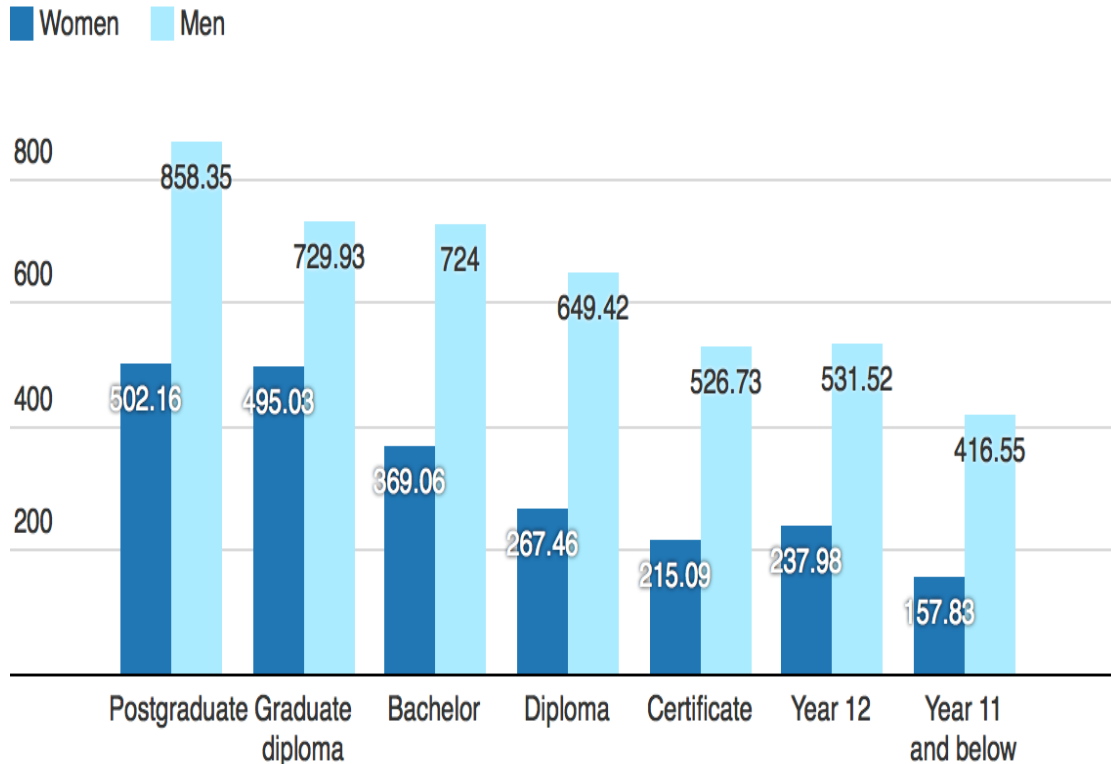Household income: 2.0
Individual income (male and female): 2.8
Household assets: 5.5
Individual assets (male and female): 6.7

https://www.datawrapper.de/_/pCUVC/

What shapes the within-household distribution of resources?

Median long-term earnings of Australian women and men in couple households, by educational category

■ Women ■ Men

Category	Women	Men
Postgraduate	502.16	858.35
Graduate diploma	495.03	729.93
Bachelor	369.06	724
Diploma	267.46	649.42
Certificate	215.09	526.73
Year 12	237.98	531.52
Year 11 and below	157.83	416.55

sum of annual earnings for 2001-2015 ('000)

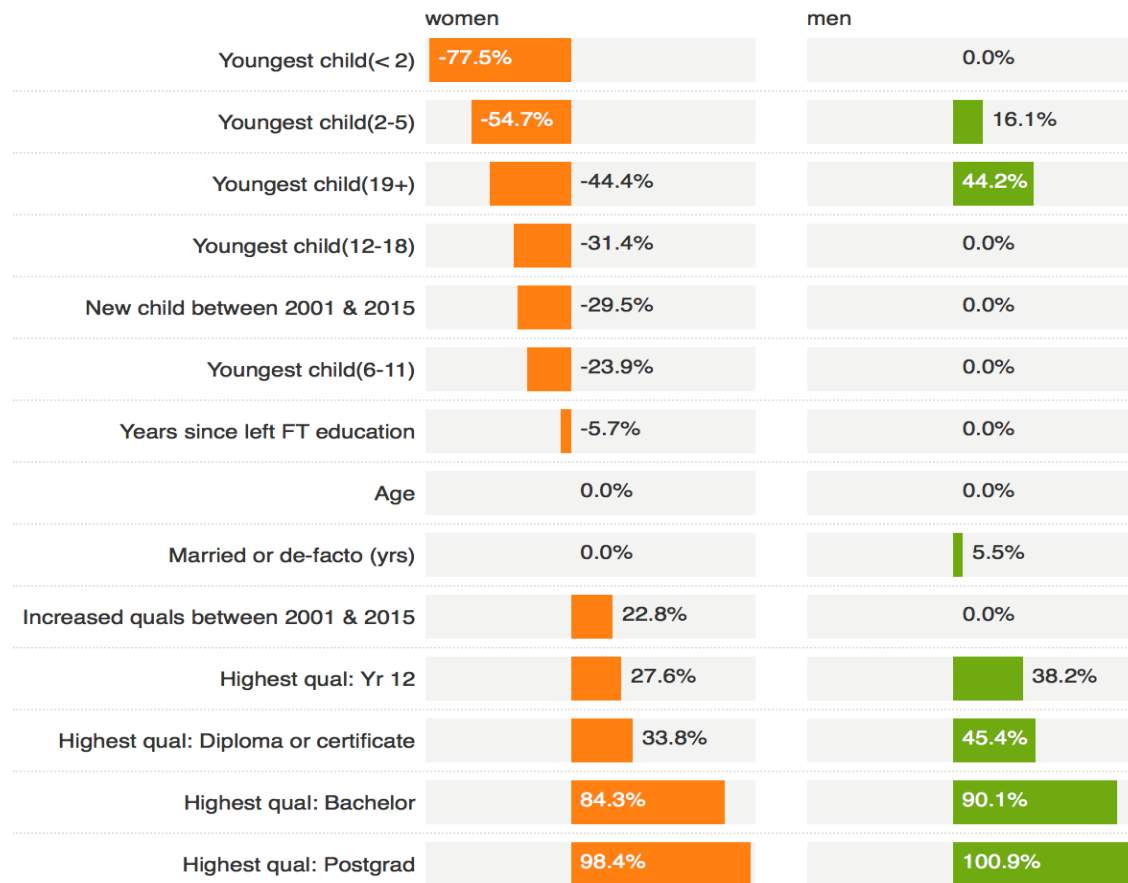Source: authors' calculations from HILDA data

1. In an earnings-based retirement income system, the level of intra-household inequality in older couple households will be largely determined by the degree of inequality in labour-market earnings (hence by gaps in wage rates, participation and paid work hours pre-retirement).

https://datawrapper.dwcdn.net/o2DRb/2/

2. In male breadwinner regimes, the level of intra-household inequality in labour market earnings strongly reflects the distribution of the paid and unpaid work associated with parenting

3. Gaps in long-term earnings play out significantly in the level of intra-household inequality in superannuation wealth.

➢ Regression analysis of the determinants of the female share of superannuation wealth in the household show a dominant role for the female share of long-term earnings

Percentage Change in the Long-Term Earnings of Australian Men and Women, by Contributory Factor

	women	men
Youngest child(< 2)	-77.5%	0.0%
Youngest child(2-5)	-54.7%	16.1%
Youngest child(19+)	-44.4%	44.2%
Youngest child(12-18)	-31.4%	0.0%
New child between 2001 & 2015	-29.5%	0.0%
Youngest child(6-11)	-23.9%	0.0%
Years since left FT education	-5.7%	0.0%
Age	0.0%	0.0%
Married or de-facto (yrs)	0.0%	5.5%
Increased quals between 2001 & 2015	22.8%	0.0%
Highest qual: Yr 12	27.6%	38.2%
Highest qual: Diploma or certificate	33.8%	45.4%
Highest qual: Bachelor	84.3%	90.1%
Highest qual: Postgrad	98.4%	100.9%

Results of OLS regression of log long-term earnings, summed over 2001-15
Source: authors' calculations from HILDA data

https://datawrapper.dwcdn.net/uR1hq/5/

How does inequality change over historical time?

We examine how changes in women's involvement in paid work and changes in the RIS have affected the evolution of inequality in older couple households

We compare the observed change in inequality in older couple households between 2012 and 2016 with the change that would have obtained in a number of counterfactual situations:

a) where the mean and distribution of women's income remained constant.

b) the correlation of men's and women's incomes within households also remained unchanged.

c) the mean level and distribution of the incomes of Age Pensioners and other retirees remained unchanged.

$$CV_h^2 = (S_m^2 CV_m^2 + S_f^2 CV_f^2 + 2\rho_{mf} S_m S_f CV_m CV_f)$$

Income Inequality for Men and Women in Older Couple Households, Australia, 2011-12 to 2015-16

	Age Pensioners			Other Retirees			All Households		
	p90/p10	p50/p10	CV^2	p90/p10	p50/p10	CV^2	p90/p10	p50/p10	CV^2
Men									
2011-12	2.55	1.25	0.277	8.50	3.52	0.449	3.58	1.35	0.489
2015-16	2.60	1.37	0.276	14.90	6.49	0.509	3.58	1.44	0.476
% change 12-16	1.8%	9.0%	0.0%	75.3%	84.3%	13.4%	0.0%	6.5%	-2.7%
Women									
2011-12	2.08	1.31	0.190	15.55	5.44	0.595	3.20	1.60	0.355
2015-16	2.41	1.45	0.197	71.32	25.40	0.732	3.42	1.79	0.385
% change 12-16	16.1%	10.2%	3.6%	358.6%	366.7%	23.0%	7.0%	11.9%	8.5%
Households									
2011-12	2.04	1.24	0.164	5.05	2.29	0.333	2.65	1.32	0.303
2015-16	2.09	1.33	0.132	7.55	3.43	0.432	2.62	1.39	0.310
% change 12-16	2.2%	6.9%	-19.8%	49.4%	49.7%	29.5%	-1.0%	5.4%	2.2%

The impact on household income inequality in older couple households of changes in women's income, Australia, 2011-12 to 2015-16

	ACTUAL	SIMULATED			
	(1)	(2)	(3)	(4)	(5)
	Actual (CV^2)	Hold mean income & dispersion constant (CV^2)	% Difference (2/1)	Hold mean income, dispersion & correlations constant (CV^2)	% Difference (4/1)
2011-12	0.276				
2015-16	0.283	0.284	0.4%	0.275	-2.8%

The impact on household income inequality in older couple households of changes in the incomes of Age Pensioners and other retirees, Australia, 2011-12 to 2015-16

	ACTUAL	SIMULATED			
	(1)	(2)	(3)	(4)	(5)
	Actual (CV^2)	Hold mean & dispersion of AP income constant (CV^2)	% Difference (2/1)	Hold mean & dispersion of other retirees' income constant (CV^2)	% Difference (4/1)
2011-12	0.304				
2015-16	0.310	0.384	19.2%	0.236	-24.1%

How does the distribution of resources within households relate to individuals' values, wellbeing, and behaviour?

Lundberg & Ward-Batts (2000)*:* When a woman has greater bargaining power in the household than her partner, the household will accumulate more wealth **pre-retirement**.

- *Idea:* Because women are typically younger and have longer life expectancy than their partners they will have a greater interest in retirement savings
- *Empirical evidence*: Mixed - her measured bargaining power is found to be positively correlated with household net worth in some studies (e.g. Lundberg & Ward-Batts 2000) but negatively in others (e.g. Gibson et al 2006).
- *Some issues*:
  - ➤ Assumes that retirement assets are pooled and shared and that net worth is the product of the voluntary decisions of the individuals concerned
  - ➤ Longevity is simply linked to gender, based on evidence of women's greater *average* life expectancy (i.e. the influence of longevity expectations is not tested for)
  - ➤ Bargaining power is only measured via the intra-household gap in earnings, education and age

Our 'alternative' proposition is that a person who is concerned about provisioning for old age will be concerned not only with the total level of household wealth but also with their ability to access and control this wealth.

- ➢ Household wealth that is legally owned by one's partner is likely to be of less value/ offer less economic security than an equivalent (or perhaps lower) level of wealth that she owns herself (contra to the pooling hypothesis).

- ➢ Thus, if/when a person has control over decision making within their household they are likely to invest in retirement assets that they will own.

We examine the relationship between decision-making control, longevity and retirement savings behaviour using pooled data on pre-retirement mixed sex couple households from the HILDA Wealth modules for 2002, 2006, 2010 and 2014.

- We measure the distribution of control over the allocation of household resources with data on who makes the decisions on 'savings, investment, and borrowing'

- We include direct measures of the different longevity expectations of the partners in each household

- We measure retirement savings with data on each partner's personal contributions (as a % of earnings) to their superannuation account.
  - ➢ This enables us to captures the elements of retirement savings that are within the person's control.

Results

	(1)	(2)	(3)	(4)
	share she contributes	share she contributes	share he contributes	share he contributes
she decides	1.76	3.05	-5.52**	-5.75*
	(3.35)	(4.62)	(2.23)	(3.24)
shared decision	2.10	5.37	-1.15	-0.77
	(2.67)	(3.34)	(1.49)	(2.00)
her age	2.85*	5.64**		
	(1.63)	(2.76)		
her age squared	-0.02	-0.05*		
	(0.02)	(0.03)		
her income	0.14***	0.16***		
	(0.03)	(0.04)		
his age			6.12***	9.15***
			(2.07)	(3.53)
his age squared			-0.05***	-0.08**
			(0.02)	(0.03)
his income			0.04***	0.05***
			(0.01)	(0.02)
longevity difference favouring her		0.10		-3.60
		(2.89)		(2.42)
no longevity difference		3.34		0.37
		(2.41)		(1.78)
N	1464.00	805.00	1469.00	852.00

We use a tobit specification to account for the DV's range being constrained between 0 and 100.

Models (1) and (3) exclude the measures of longevity expectation, whilst (2) and (4) include them.

Income and age are included in the set of controls to account for their influence on both the incentive and opportunity to make contributions to superannuation

Results

	(1)	(2)	(3)	(4)
	share she contributes	share she contributes	share he contributes	share he contributes
she decides	1.76	3.05	-5.52**	-5.75*
	(3.35)	(4.62)	(2.23)	(3.24)
shared decision	2.10	5.37	-1.15	-0.77
	(2.67)	(3.34)	(1.49)	(2.00)
her age	2.85*	5.64**		
	(1.63)	(2.76)		
her age squared	-0.02	-0.05*		
	(0.02)	(0.03)		
her income	0.14***	0.16***		
	(0.03)	(0.04)		
his age			6.12***	9.15***
			(2.07)	(3.53)
his age squared			-0.05***	-0.08**
			(0.02)	(0.03)
his income			0.04***	0.05***
			(0.01)	(0.02)
longevity difference favouring her		0.10		-3.60
		(2.89)		(2.42)
no longevity difference		3.34		0.37
		(2.41)		(1.78)
N	1464.00	805.00	1469.00	832.00

We observe a correlation between decision-making control and saving for one's own retirement, especially amongst men

We do not detect an influence on retirement savings stemming from longevity expectations

To what extent are economic resources shared in couples?

- Our finding that men's retirement saving is sensitive to their control over financial decision-making in the household is not consistent with a proposition that retirement assets are always pooled and shared
  - Rather, it would appear that individuals are aware that ownership affects their ability to control the use of retirement assets.

How does the distribution of resources within households relate to individuals' values, wellbeing, and behaviour?

- We can detect the influence of self-interest, but the fact that we do not detect the same pattern for women implies that this does not necessarily translate into prioritizing savings (relationships with children, and housing, might be judged as more important to outcomes in old age)
- We fail to detect an influence of longevity expectations on retirement savings behavior.
  - This suggests a possible need to re-think the logic behind many existing economic studies of retirement savings behaviour.

What are the implications of inequalities for social policy and family law?

- Currently inequality, inc intrahh ineq is lower among older couples than wacs due a. to AP and b. recent incr in earnings ineq % on AP; effects of inc earnings ineq still to filter thru

- Survivor spouse pension and life insurance

- Current challenge of raising awareness about intrahh issues among policy actors

- Not planning