

# INCOME ADEQUACY IN RETIREMENT: EVIDENCE FROM THE IRISH LONGITUDINAL STUDY ON AGEING (TILDA)

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# Report examines adequacy of income in retirement

**Present at-risk-of-poverty rate for pensioners is low (11%), but concerns future cohorts not adequately prepared**

- Lower growth and returns on savings
- Decline of Defined Benefit pensions

**Will those approaching the state pension age (SPA) have adequate income in retirement?**

**Which groups will be most at risk of inadequate incomes?**

# Existing research

## Research & policy here focused on replacement rates

$$rr = y_{SPA} / y_{SPA-t}$$

- e.g. Bercholz et al. (2019) Nivakoski (2014); Nivakoski & Barrett (2019); Government's Pensions Roadmap 2018–2023
- Coherent rationale given aim of smoothing consumption
- ... but earnings volatile & often peak in years before retirement

## We assess multiple indicators of adequacy

- Consider both replacement rate & poverty-line benchmarks
- Poverty-line benchmarks relate income adequacy to minimum resources needed to buy essential goods and services

# Data & methodology

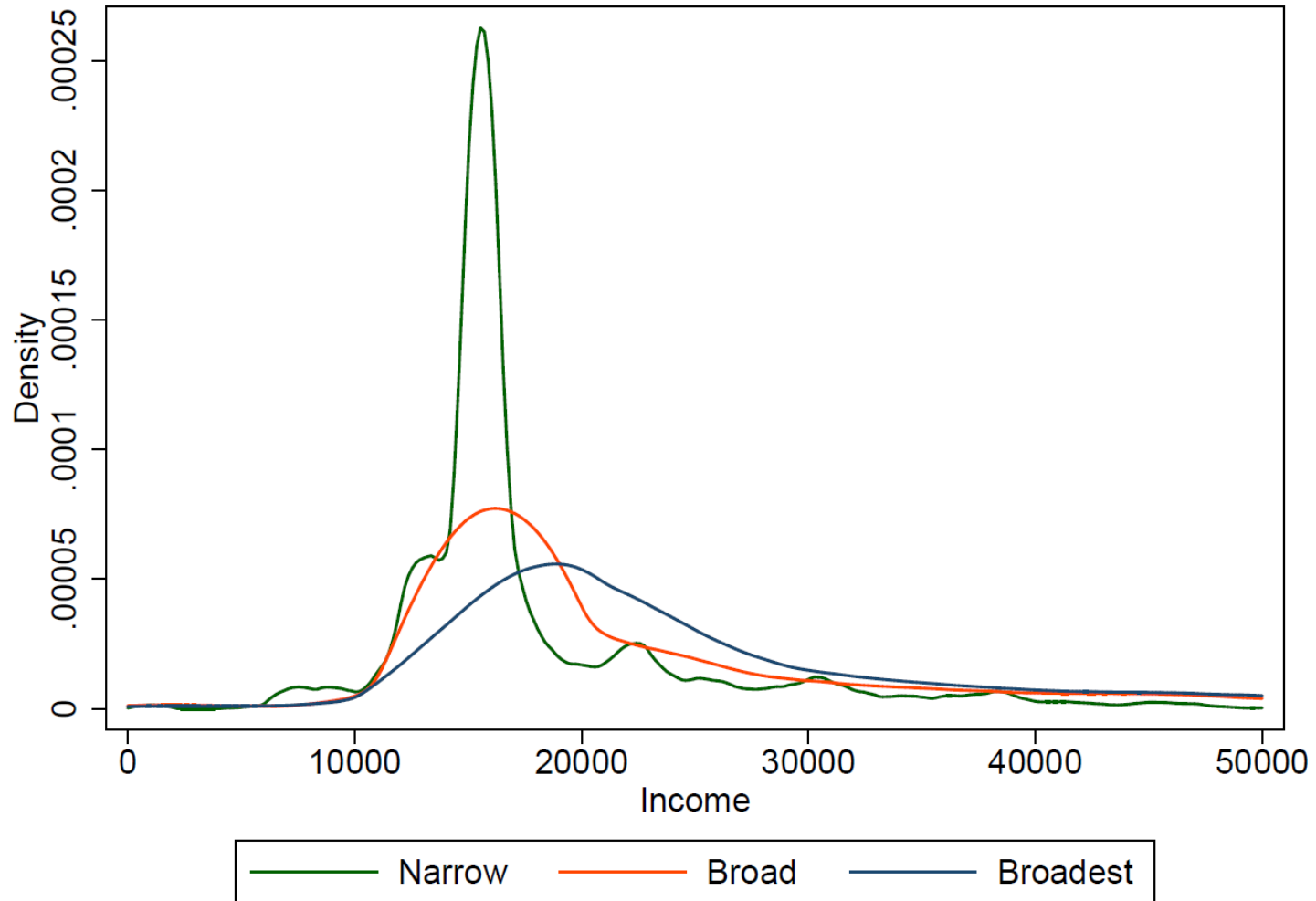
## Use TILDA data to calculate likely income in retirement for those approaching the State Pension Age (60-65 now)

- Cohort born 1955-60 expecting to retire between 2022 & 2027
- Assume everyone working continues to do so until they retire at age 67, with earnings rising in line in forecast wage growth
- Full technical details contained in appendix of paper

## Consider three measures of income

1. Narrow: income from state, occupational & personal pensions
2. Broad: ... + annuitised value of net financial assets
3. Broadest: ... + half annuitised value of primary residence

# Broadly defined income is more widely dispersed



# Consider a range of adequacy benchmarks

## Three based on replacement rate approach

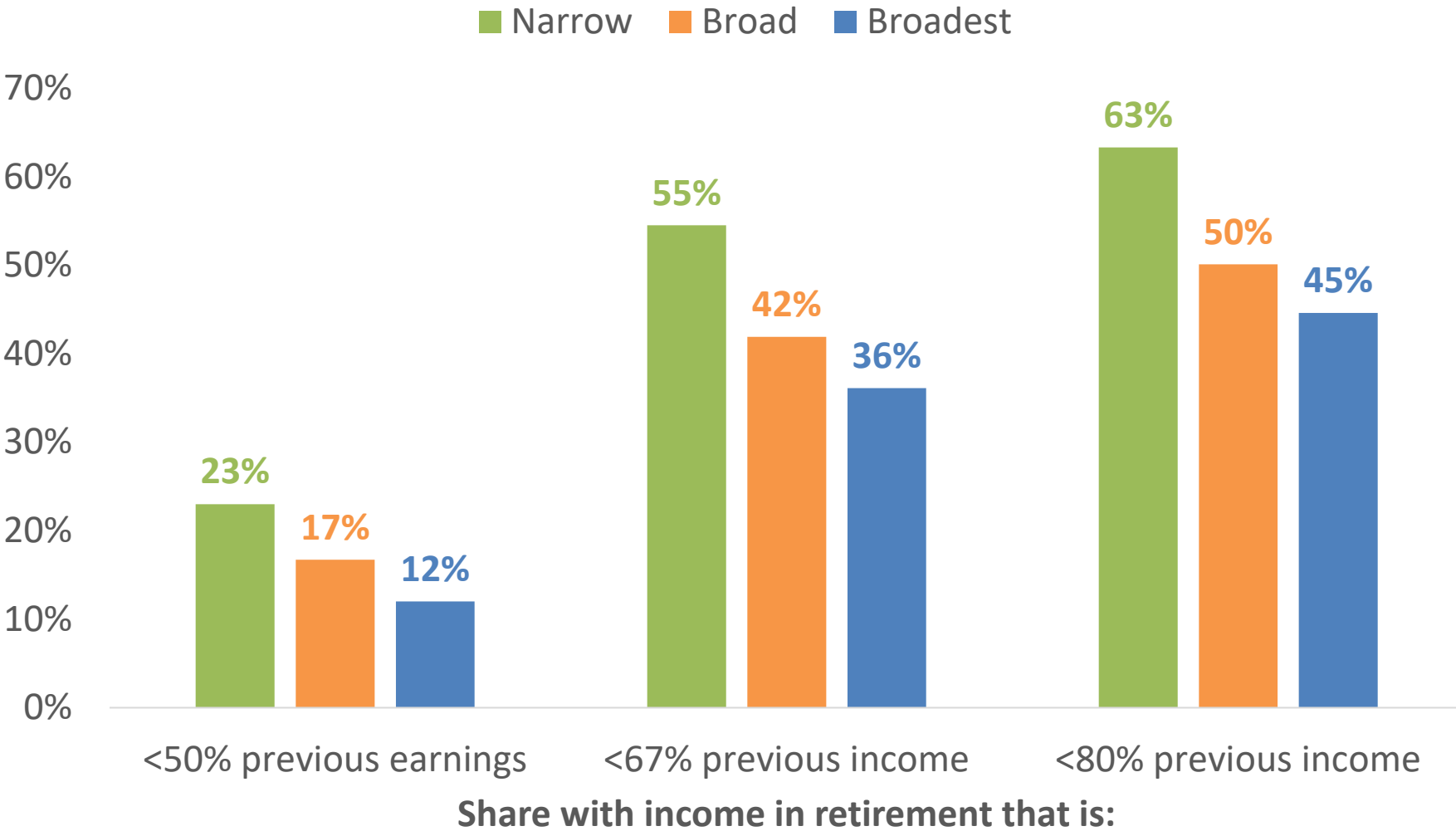
1. 50% of pre-retirement **earnings** (if earnings>0)
2. 67% of pre-retirement household **income**
3. 80% of pre-retirement household **income**

## And three based on poverty-line approach

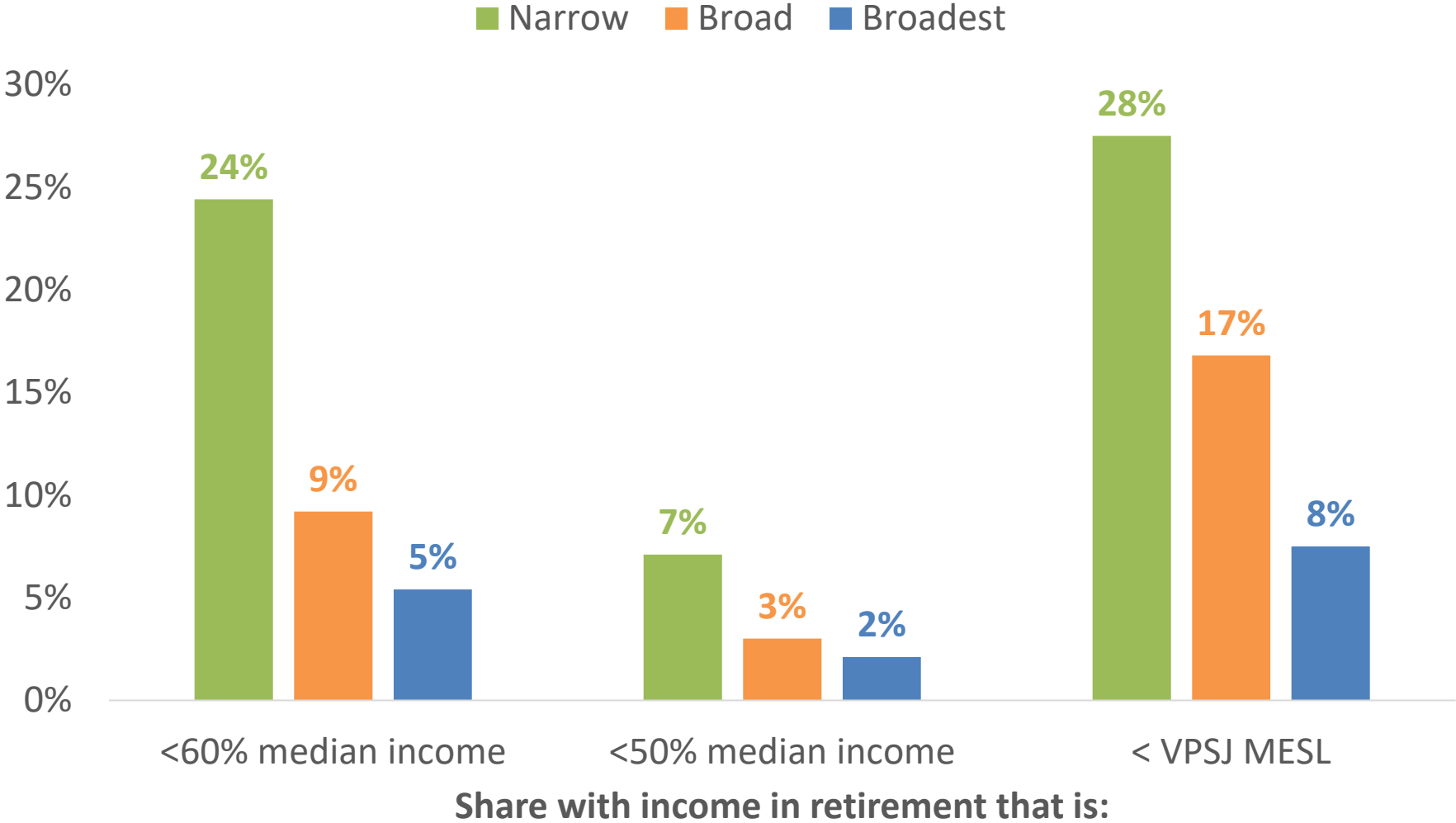
1. 60% of median household income (official at-risk-of-poverty line)
2. 50% of median household income (OECD at-risk-of-poverty line)
3. VPSJ Minimum Essential Standard of Living (MESL):

	Urban (pw)	Rural (pw)
Pensioner living alone	€250.05	€314.02
Pensioner couple	€315.38	€387.46

# Few replace large share of pre-retirement income

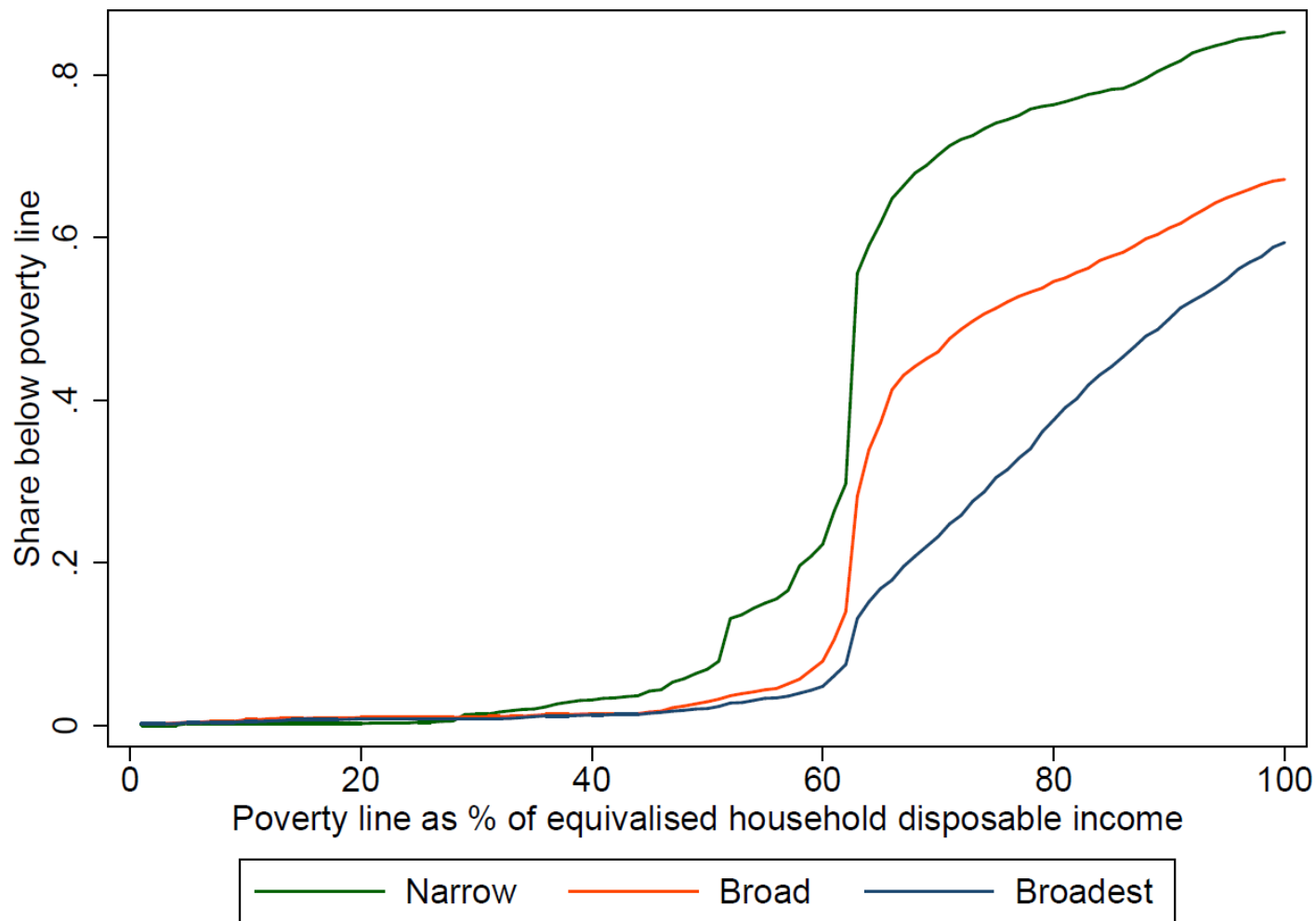


# ... but few will be at-risk-of-poverty either





... though these sensitive to where threshold set



# Measures suggest quite different groups are at risk

**Those at risk of having inadequate income in retirement using replacement rate benchmarks are more likely to:**

- have higher education
- live in a non-farming household (when assets included)
- live alone in the years approaching retirement

**Those at risk of having inadequate income in retirement using poverty line benchmarks are more likely to:**

- have lower secondary-education or less
- live alone in the years approaching retirement

# Conclusions

## **On all measures, those living alone are at greater risk of having inadequate income in retirement**

- Suggests Living Alone Increase may be well targeted instrument for addressing concerns about income adequacy in retirement

## **Those at-risk-of-poverty may be overlooked by income inadequacy targets that are based on previous earnings**

- These to the forefront of government policy in recent decades

## **Need for more explicit discussion about inherent trade-offs involved in meeting replacement rate benchmarks**

- More saving for retirement comes at the expense of lower living standards during working life when needs might be high