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LIVING STANDARDS IN RETIREMENT: ACCEPTED INTERNATIONAL COMPARISONS ARE MISLEADING – A REVISED VIEW BASED ON GERMAN AND AUSTRALIAN WEALTH DATA

Authors: Joachim R. Frick (DIW Berlin) and Bruce Headey (DIW Berlin & Melbourne Institute, University of Melbourne)

Accepted international assessments of living standards in retirement rely on comparisons of *pension incomes* (OECD, 2005). These assessments conclude that European countries with long standing contributory national pension schemes, which relate retirement incomes to previous earned incomes, provide retirees with much higher living standards than liberal Anglo countries in which many citizens rely on flat-rate old age pensions. The OECD, in particular, is critical of the low replacement rates (ratio of retirement to working income) and low ‘adequacy’ of retirement incomes in the liberal Anglo democracies.

Comparisons based on pension incomes are potentially misleading because the living standards of retirees depend on their total economic resources, and particularly their *total wealth (net worth)*, not just on pension incomes. The political economies of different countries, especially their tax and pension regimes, offer quite different opportunities for wealth accumulation. Other things equal, high contributions to national pension schemes impose significant opportunity costs. They reduce opportunities to accumulate wealth via home ownership and household savings.

The paper illustrates these issues with wealth data recently collected in the German and Australian Socio-Economic Panels Surveys (SOEP, HILDA). Germany has a long established national pension scheme, while two-thirds of retired Australians rely on a flat-rate old age pension. OECD and other international sources claim that German retirees are much better off than Australians, and that pension incomes are more equally distributed. But the panel data tell a more complicated story. It is clear that Germans have far higher pension incomes, but their net worth is lower due to lower rates of home ownership, share ownership and private savings. By converting the future income flows of retirees and combining them into ‘stock’ or wealth measures (Gruber and Wise, 1999), we attempt valid estimates/projections of likely living standards. The revised comparisons indicate that retirees in the two countries are likely to have about the same living standards, with similar distributions.

Sources and methods

Sources: 2002 wealth modules in the SOEP and HILDA panels. The HILDA data have been modified to enable exact comparisons to be made with SOEP.

Methods: future income flows are combined with net worth into ‘stock’ measures in which all values are discounted back to time zero. This approach to ‘social security wealth’ was pioneered by Gruber and Wise (1999).

References

Gruber, J. and Wise, D.A. (1999) *Social Security and Retirement Systems Around The World*. Chicago, Univ. of Chicago Press.

OECD (2005) *Pensions At A Glance: Public Policies Across OECD Countries*. Paris, OECD.