# O2 - STUDY ON THE INFLUENCES ON FINANCIAL DECISION MAKING

ACTIVITY LEADER: FLAVIA CODA MOSCAROLA

OBJECTIVES

- Gain a greater understanding of needs and characteristics of FINKIT end users:
  - Women 55-64
  - Older people 65+

- By exploring the elements and the determinants of their financial vulnerability through:
  - A) Official statistics, survey data and literature
  - B) Interviews to:
    - social workers/volunteers and
    - (potential) end users
 - C) A specific survey on savings behaviour of French older people
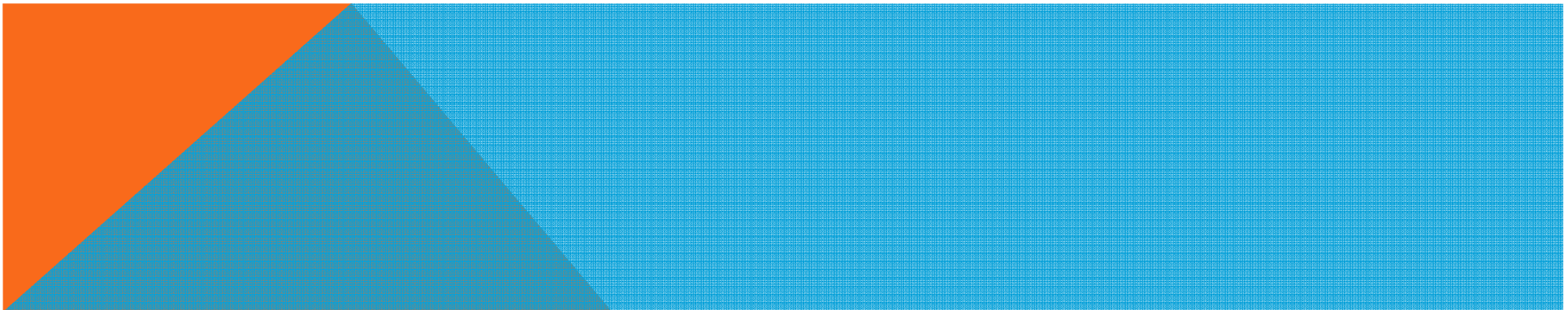
O2 (A) – ONE FACE ONE RACE?

OLDER PEOPLE ECONOMIC VULNERABILITY IN FRANCE, ITALY, PORTUGAL AND SPAIN

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OBJECTIVES

- Define the conditions of vulnerability

- Elicit the potential sources of economic vulnerability for our target groups

- Analyse the defences/instruments that individuals have to cope with them

- (Try to) quantify how many individuals can be considered vulnerable in our target groups according to the different definitions of vulnerability provided
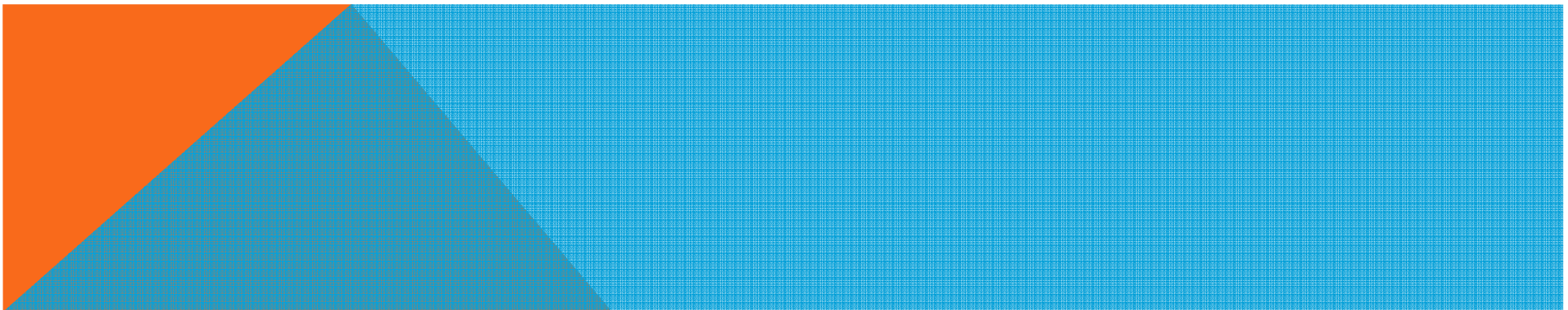
FOCUS

Two target groups:

- people aged 65+: they live a life phase characterized by a progressive general deterioration in the physical and mental capacities that makes them fragile

- women aged 55-64: potentially still active in the labour market, but often out of it for different reasons (among them cultural). Their fragilities are mostly related to their low labour market participation and their lack of autonomy in the management of their economic resources

**Four countries: FR, IT, SP and PT**
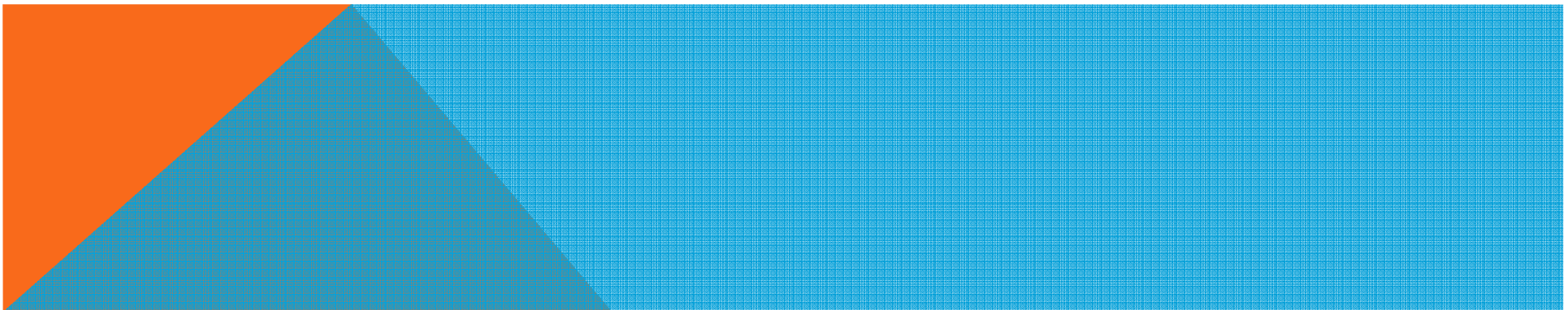
ECONOMIC VULNERABILITY MEASURES

❑ Contemporary measures informing about current deprivation status
- Tools: static contemporary indexes (official statistics)
  - Risk of poverty rates
  - Deprivation rates
 - Capability of making ends meet

❑ Ex-ante, dynamic, individual specific measures focused on down side risk and accounting for the material and personal resources the older people can use in order to cope with risks
- Tool: index developed by Indranil et al. (2011) accounting for:
  - Risks: income volatility, health and disability, frauds
  - Means to cope with these risks: wealth, cognitive abilities and financial literacy, family support
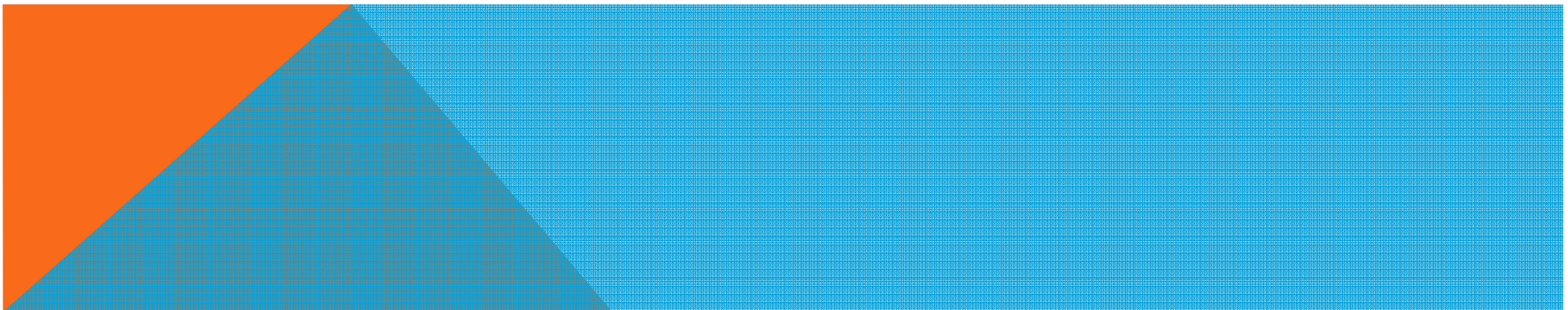
EV– STANDARD DEFINITIONS
## 1. AT RISK OF POVERTY RATES
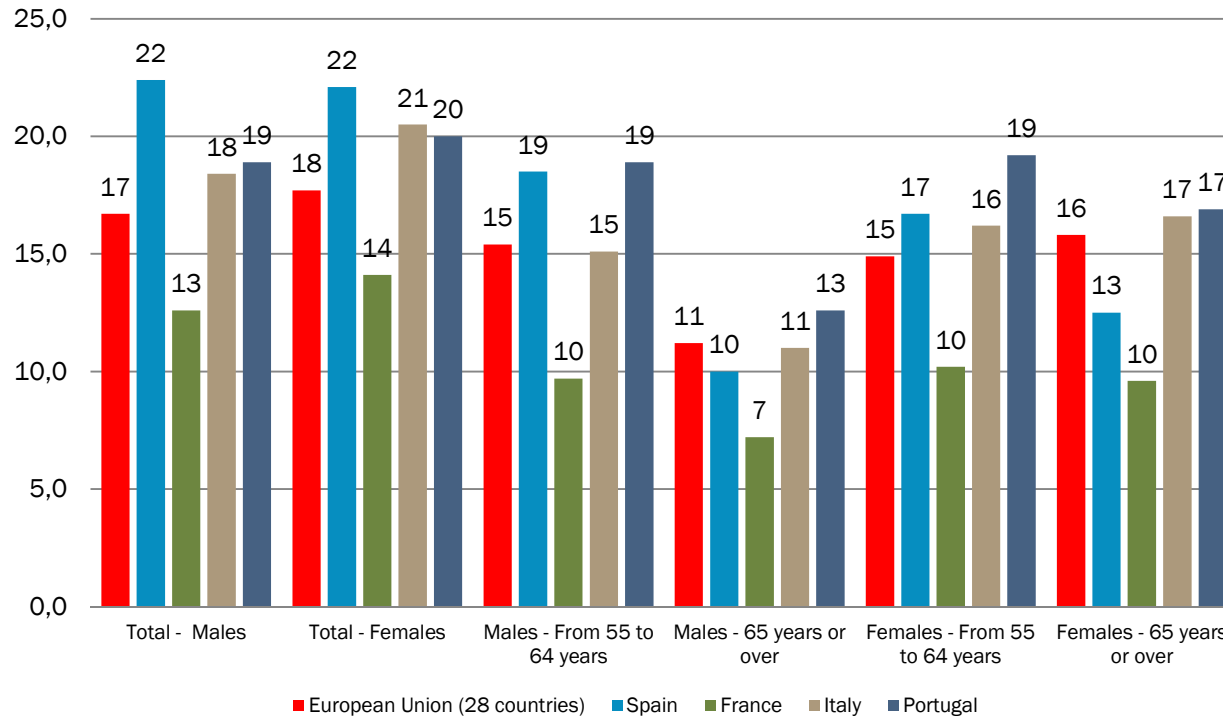
- **PovRates** range from **13 to 22%** in the overall population
- SP, IT, PT above EU(28) average
- **among 65+** : more well-off (pension income)
- **among 55-64**: PovRates g.t. EU28 in SP and PT
- Social transfers* reduce significantly PovRates (-10 pp.)

Source: Eurostat, 2014

* pensions are not considered as social transfers

The Eurostat at-risk-of-poverty rate is the share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers.

2. SEVERE MATERIAL DEPRIVATION RATES
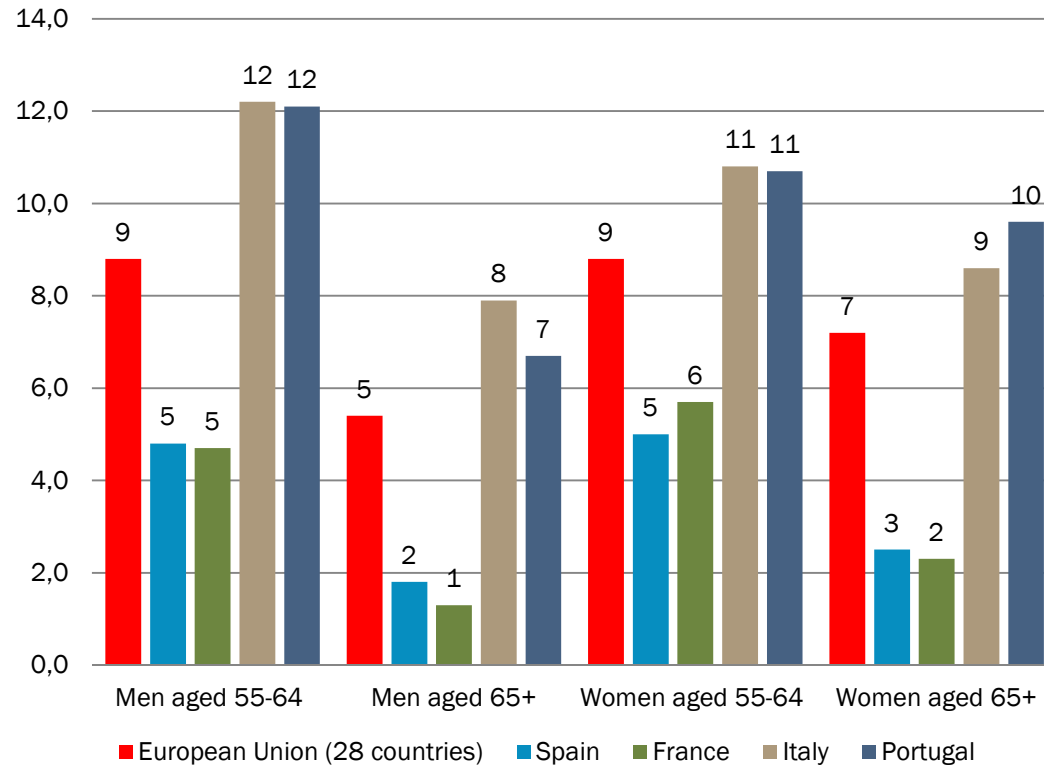
Source: Eurostat, 2014

- DeprivRates sensibly **lower than poverty rates**
- IT and PT: Higher DeprivRate than EU 28 (at all age classes)
- **Among 55 – 64**: 11%-12% in IT and PT, about 5% in FR and SP
- **Among 65+**: roughly 9% in IT and PT and 2.4% in FR and SP
    - Higher among women
    - Higher among singles

Chart data (European Union (28 countries), Spain, France, Italy, Portugal):

	EU (28)	Spain	France	Italy	Portugal
Men aged 55-64	9	5	5	12	12
Men aged 65+	5	2	1	8	7
Women aged 55-64	9	5	6	11	11
Women aged 65+	7	3	2	9	10

According to Eurostat, the severe material deprivation rate (DeprivRate) represents the proportion of people living in households that cannot afford at least four of the following nine items: mortgage or rent payments, utility bills, hire purchase instalments or other loan payments;
one week's holiday away from home; a meal with meat, chicken, fish or vegetarian equivalent every second day; unexpected financial expenses defined as the country-specific monthly income poverty threshold for a one person household in the year; a telephone (including mobile telephone); a colour TV; a washing machine; a car; and heating to keep the home sufficiently warm.

3. SEVERE INABILITY OF MAKING ENDS MEET
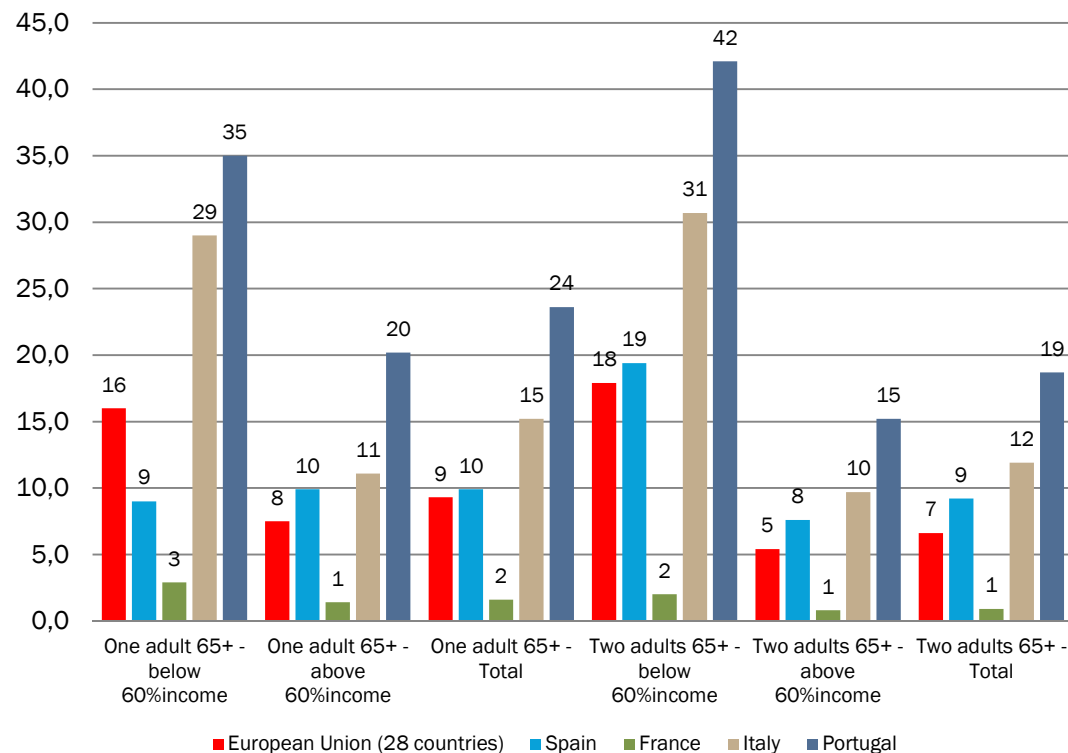
Source: Eurostat, 2014

- **Subjective** indicator
- **Wide variability** across countries: very high levels in PT and IT, very low in FR
- **Among 65+ below poverty line:** More severe in PT (42 %) and IT (31%) w.r.t. EU 28 (18%), SP (19%) and FR(2%)
- **Among 65+ above poverty line:** percentages drops by half
- Two-adults households are normally more well off, except of those ones below poverty level.

This information is based on the self-reported difficulty of the household to make ends meet and provides a measurement of poverty in terms of the household's experienced feeling of poverty. The graph reports the statistics on households making ends meet with great difficulty.

VULNERABILITY INDEX 2 (VI2) - DESCRIPTION

According to Ligon and Schechter (2003), the household's perception of well-being depends not just on household's average income or expenditures, but also on the risks it faces. Here we describe the three main risks affecting our target population:

- ## Income uncertainty

  - The capability of smoothing consumption over the life cycle is influenced by the income uncertainty.

- ## Health and disability

  - Jurges (2015) finds that in European countries the average amount of out-of pocket expenditures for medical care or care related to illness amounts to 645 euro per person aged 50+.

- ## Frauds

  - The cognitive deficiency paradigm (McGhee, 1983) states that consumers with limited ability to process information are more vulnerable to market frauds.
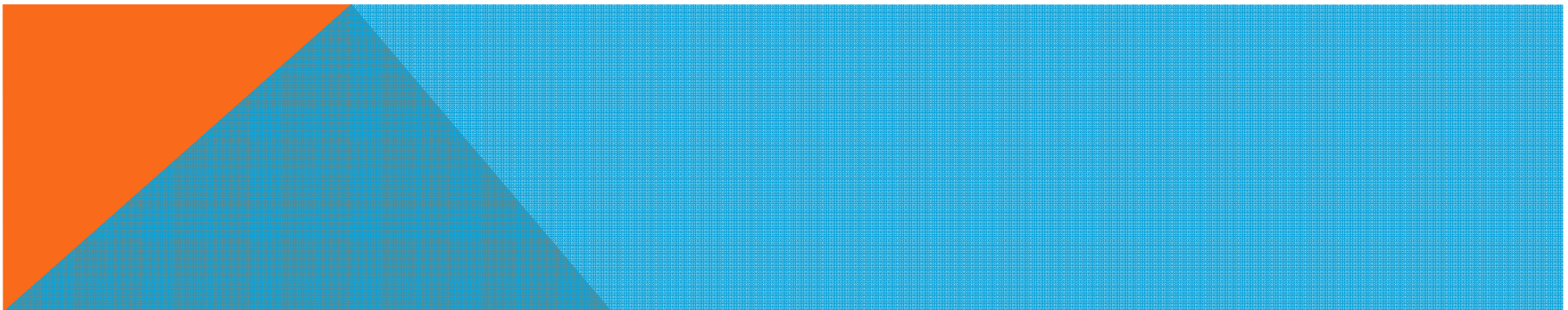
VI2 – RISKS – INCOME UNCERTAINTY

Table - Job status: older people aged 65+ (<u>above</u>) and women 55+ (<u>below</u>)

Current job situation (65+)	France	Italy	Spain	Portugal
Retired	**94,0%**	**75,6%**	**68,6%**	**81,2%**
Employed or self-employed	0,9%	1,3%	1,5%	4,1%
Permanently sick or disabled	0,3%	2,3%	2,8%	1,5%
Homemaker	4,2%	18,9%	24,0%	11,3%
Other	0,6%	1,9%	2,9%	1,9%
Total	100%	100%	100%	100%

| *Current job situation (women 55+)*	France	Italy	Spain	Portugal
Retired	**69,2%**	**46,5%**	**35,1%**	**52,5%**
Employed or self-employed	17,7%	12,4%	14,1%	18,9%
Permanently sick or disabled	2,5%	2,9%	4,5%	2,2%
Homemaker	7,6%	35,0%	38,5%	19,9%
Other	2,9%	3,3%	7,8%	6,5%
Total	100%	100%	100%	100%

Source: our elaboration on SHARE wave 5.

- Overall low income uncertainty in our target populations

- Two clear patterns: in FR and PT high number of retirees and low number of homemakers; in IT and SP the opposite

- **Among 65+:**
  - Retired are 94% in FR, 81% in PT, 76% in IT and 69% in SP.
  - Homemakers are 24% in Spain, 19% in IT, 11% in PT and 4% in FR
  - Employed and self-employed account for a small share of the population
  - the main source of income is pension income, which is certain almost by definition.

- **Among women 55+:**
  - Lower percentages of retired w.r.t. 65+: 69% in FR (still very high), 52% in PT, 46 % in IT and 35% in SP
  - Homemakers are 38% in Spain, 35% in IT, 20% in PT and 8% in FR
  - Employed or self-employed are about 12%-19%

VI2 – RISKS –HEALTH AND DISABILITY

Graph - Fraction of the target population recording catastrophic
out-of pocket (OOP) expenses

Source: our elaboration on SHARE wave 5.
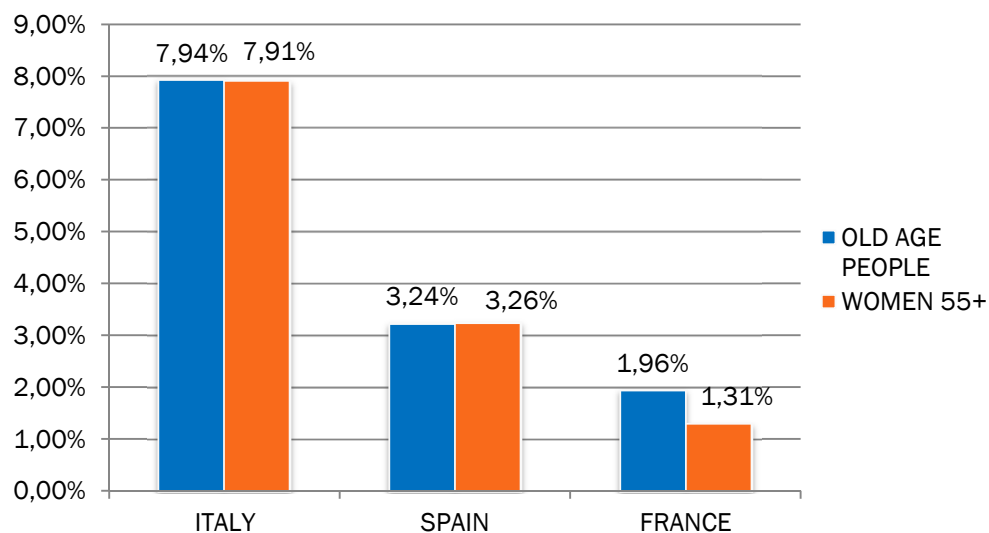
- In EU27 at the age of 65: life expectancy is about 20 years; healthy life years are 8.5

- FR and SP +2/1.5 healthy life years; PT and IT -1.5/1 years w.r.t. EU27.

- **catastrophic out-of-pocket health expenditures (OOP)**: very high in IT (8% in both target groups), low in SP (3%) and FR (2%-1%)

- OOP for different services: e.g. dental care in IT, hospitalization in SP.

- dissatisfaction with healthcare system: IT 35%, FR 18%, SP 10%.

- **LTC expenses are mostly in charge of households (at least in IT), but we lack estimates of LTC -OOP expenses**. In FR,SP, PT?

Catastrophic out-of-pocket health expenditures are those expenses exceeding 15 % of net annual household income (Jurges, 2016 and Wyszewianski, 1986)

VI2 – RISKS – FRAUDS

- Lee and Soberon-Ferrer (1997) found that age, education and marital status influence consumer vulnerability, while gender and race do not, and income only marginally

- In IT, in 2011 the number of larcenies reported to the authorities among older people aged 65+ were 255,040, of which 143,586 males and 111,454 females (Istat, 2011)

- **House break-ins** are the most common kind of robbery among older people aged 65+ and women aged 55+ in IT

- **Informatics frauds** and crimes are less common among older people, but if we compare Italian data on computer use (Eurostat, 2011) we get that informatics frauds are particularly widespread among our target populations

- Data for FR, SP, PT?
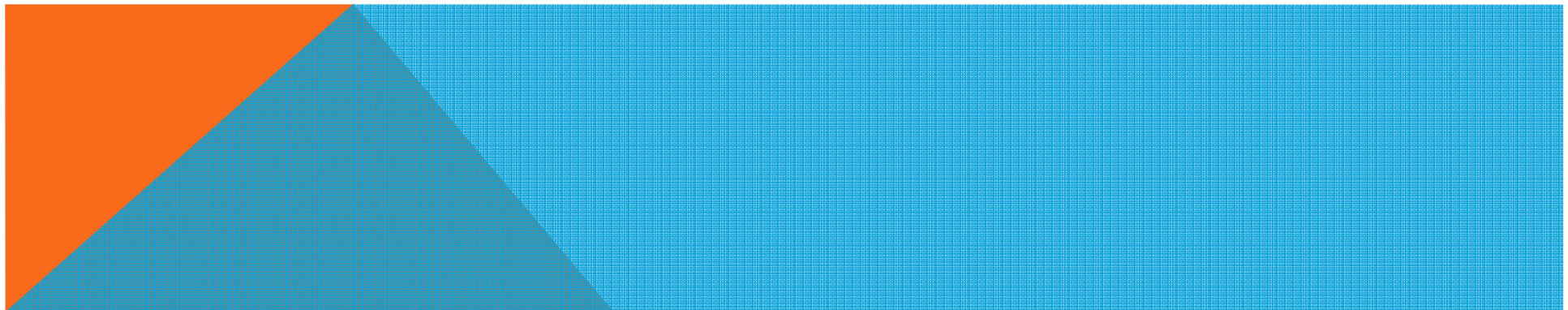
VI2 – DEFENSES AGAINST RISKS – WEALTH (I)

| Composition of wealth	France	Italy	Spain	Portugal
House	61.2%	78.4%	81.1%	68.9%
Other real estate	5.6%	5.7%	5.8%	7.6%
Bank account	27.6%	11.7%	11.7%	20.9%
Insurance	4.0%	0.2%	0.1%	0.1%
Mutual funds	0.8%	0.6%	0.3%	0.7%
Bonds	0.1%	1.6%	<0.1%	<0.1%
Stocks and shares	0.6%	0.1%	0.7%	0.4%
Goverment corporate bonds	0.1%	1.6%	<0.1%	<0.1%
Firm	0.1%	0.3%	0.2%	0.9%

Source: our elaborations on SHARE wave 5 (wave 4 for PT).

- Wealth as a tool for consumption smoothing (life-cycle model).

- High wealth levels (65+, median):
  - **IT 200,000€;**
  - **FR 157,000€;**
  - **SP 129,000€;**
  - **PT 80,000€.**

- However, wealth is largely invested in illiquid assets. Very **high share of wealth invested in house(s)**: **81%in SP**, 78% in IT, 69% in PT, **61% in FR**.
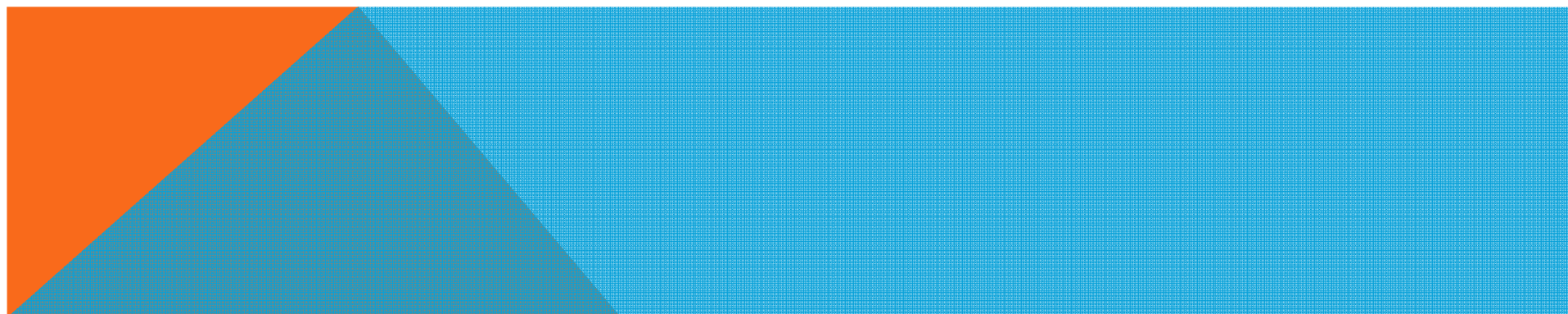
VI2 – DEFENSES AGAINST RISKS – WEALTH (II)

Income decile	France	Italy	Spain
1	35,619€ (19,702€)	51,854€ (106,268)	51,513€ (11,660€)
	0 (0)	0 (0)	0 (0)
	18% (6%)	32% (47%)	49% (20%)
2	45,036€ (34,519€)	88,477€ (156,125€)	113,646€ (95,859€)
	0 (0)	0 (158,986€)	0 (67,780€)
	31% (21%)	45% (80%)	44% (80%)
3	178,311€ (151,634€)	147,746€ (94,944€)	118,098€ (143,135€)
	142,462€ (161,457€)	105,990€ (0)	83,976€ (116,633€)
	65% (77%)	70% (39%)	72% (89%)

- For each country, (except PT, not in SHARE wave 5) the table reports for the first 3 income deciles:
  - **mean housing wealth,**
  - **median housing wealth,**
  - **% of households with positive housing wealth**

- Homeownership is so widespread that the mean is g.t. zero also for the first two income deciles.

- Women 55+ are richer: median housing wealth g.t. zero in IT and SP from second income decile on.

Source: our elaborations on SHARE wave 5. Population aged 65+. Data for women aged 55-64 in parenthesis.

VI2 – DEFENSES AGAINST RISKS – CAPABILITIES (I)

- Cognitive abilities (writing, reading, memory)
  - Dixon et al. (2004) documented that aging is associated with a decline in the ability to perform several cognitive tasks
  - Cristelis et al. (2010), using SHARE data, found that the propensity to invest in stocks is strongly associated with cognitive abilities
  - McGhee (1983) provided evidence that consumers with limited ability to process information are more vulnerable to market fraud
  - Both target groups seem to **overrate their own capabilities** (FR in particular): only 20% declare to be inadequate
  - E.g. when effectively tested on memory, only 23% of people 65+ (and 31% of women 55+) were able to remember more than 5 words (out of 10).
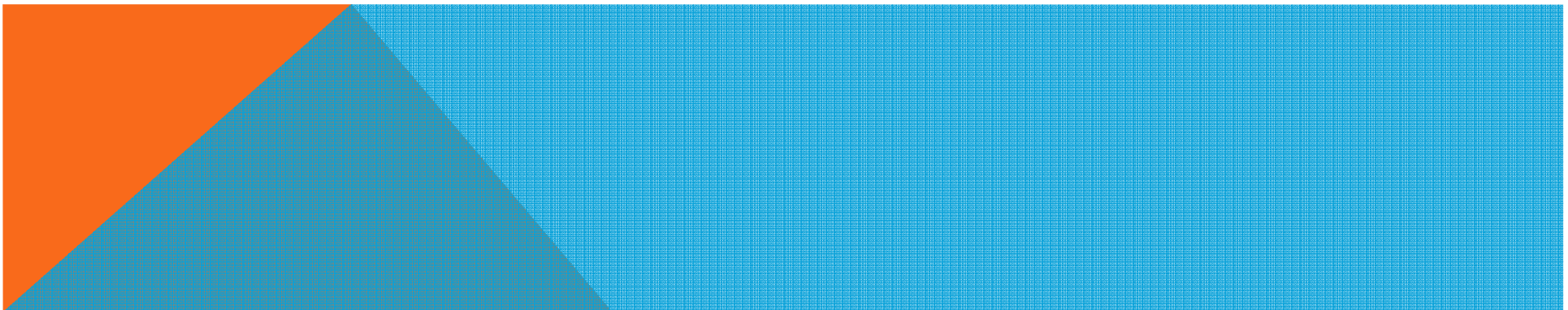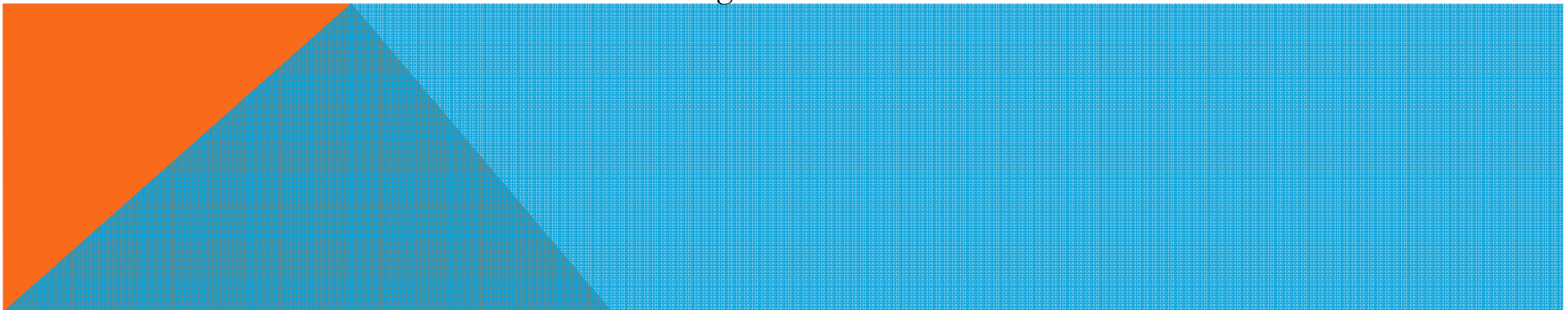
VI2 – DEFENSES AGAINST RISKS – CAPABILITIES (II)

- Financial literacy (FL)

  - FL increases the likelihood of investing in the stock market; positively related to retirement planning; link between FL and household wealth (van Rooij, Lusardi and Alessie, 2014; Lusardi and Mitchell, 2007)

  - FL rates vary across the EU: peaks in Scandinavian countries, UK and the Netherlands (over 65%); lowest performances in Mediterranean countries: **52%** in FR, **49%** in SP, **37%** in IT, **26%** in PT (S&P Global Fin. Lit. Survey, 2014)

  - Women appear to be less knowledgeable than men, but more "reflective"

  - Evidence from SHARE wave 5:

    - ✓ In the "interest compounding" test, older people 65+ and women 55+ show lower results than the total population

    - ✓ IT performs better than SP and PT: 26.1% for older people 65+ and 24.5% for women 55+, while in SP and PT percentages are lower than 20%

    - ✓ For FR and PT data are missing

VI2 – DEFENSES AGAINST RISKS – SOCIAL SUPPORT

- Mediterranean countries are known to have strong family ties

- The picture we get from SHARE is:
  - Around **20%** of households with members aged 65+ in FR, IT and SP received assistance from outside the household in the last year (**16.5%** in PT)
  - The **same trend**, although with lower frequencies (**15%**), is recorded by those families including at least one woman over 55
  - In nearly **50%** of cases, the first person providing assistance is one of the **children** (in SP more than 60%)

- Percentages for women 55+ are lower, probably because they might need less personal care since they are on average younger

- We are looking for other data and statistics
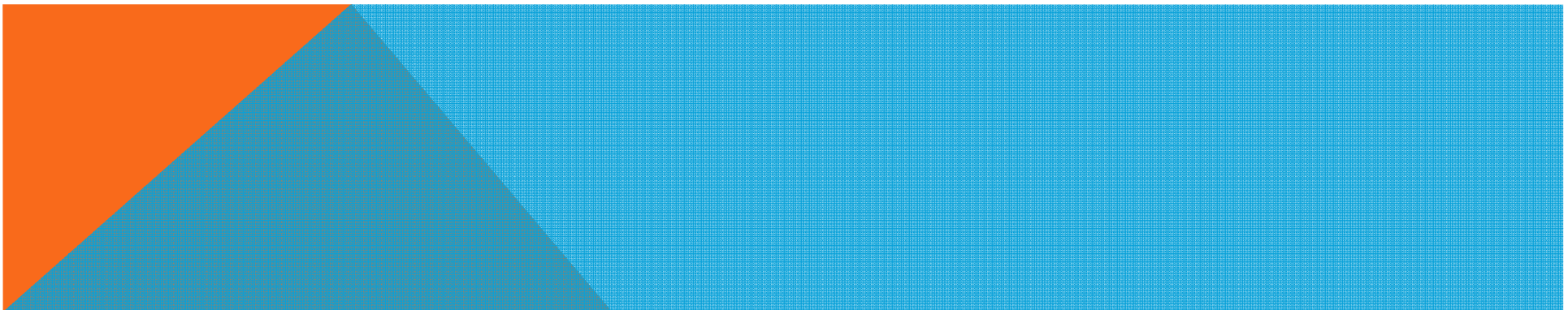
A NEW (TAILOR-MADE) INDEX FOR OUR ANALYSIS?

- People incapable of making ends meet (using SHARE)?

- People incapable of facing unexpected expenditures (Lusardi et al. 2011)?

- **People in lowest income deciles with positive wealth?**

- People in lowest income deciles with positive wealth and limited financial literacy (low score in test on compounding interest rate)?

- People in lowest income deciles with positive wealth, limited financial literacy (low score in test on compounding interest rate) and low family support?

Reference:
Lusardi, Schneider, and Tufano (2011), Financially Fragile Households: Evidence and Implications, Brookings Papers on Economic Activity