

# The Many Dimensions of Economic Vulnerability. The Cases of Older People in France, Italy, Portugal and Spain

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# Contents

1.	Introduction	1
2.	Economic vulnerability – standard definition	2
	2.1 Poverty rates	2
	2.2 Severe material deprivation	5
	2.3 Capability of making ends meet	6
3.	Economic vulnerability – advanced measures	8
	3.1 The main risks and their economic impact on the individuals' lives	8
	3.2 Older people capabilities to cope with risks	19
4.	Conclusions	26
Re	ferences	28

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### 1. Introduction

The recurrent economic and financial crises occurred in the last decades have, on the one hand, progressively translated on individuals many risks and responsibilities that before were covered by the State; and, on the other hand, reduced the economic resources available to large shares of the population. As a consequence, an increasing share of people is likely to incur in the risk of having to sustain (progressively higher) expenditures for services previously provided by the welfare system with their own (increasingly scarce) resources, potentially falling in a condition of economic vulnerability.

How can we help them? And, in particular, how can we help the share of population composed by older people? The FINKIT project tries to answer these questions and, in particular, promotes economic and financial education as a key tool to prevent the economic vulnerability. Indeed, FINKIT aims at testing whether some basic knowledge of the key concepts of home economics, economics of the family and wealth management can be helpful to social workers or volunteers to improve the wellbeing of their assisted older people.

As a preliminary preparatory work, this report aims to describe the needs and characteristics of the older people and to provide a survey of the incidence among them of the different forms of economic vulnerability. It focuses on two specific target groups - people aged 65+ and women aged 55-64 - and covers four European countries (the ones involved in the Finkit project): France, Italy, Spain and Portugal.

Vulnerability is a very difficult condition to be defined. Beside official statistics still identifying vulnerability as contemporary deprivation status of households (measured with static indexes); economic, sociologic and gerontologist literature progressively converged on a different general opinion as clearly described by Indranil et al. (2011): "First, a good measure of vulnerability has to be an ex-ante measure in the sense it should inform us about potential deprivations in the future. Vulnerability is different from other measures of ill-being in essence for being a dynamic concept that anticipates the loss of future income today. Second, a reasonable measure of vulnerability thus has to focus on down side risk. Third, vulnerability is an individual specific concept since each individual views risk differently and therefore same shortfalls in income may reflect different levels of vulnerability. This difference is also reflected in the fact that for same levels risk households do undertake different coping strategies. A one size fits all framework may not be appropriate in this context". In line with this reasoning, it is worth analyzing not only the income or consumption levels currently observed in our target population but also the risks with the most serious economic effects older people can incur in; and the material and personal resources older people can use in order to cope with them.

In this report we start by providing the main classical indexes of economic vulnerability and then, in the attempt to comply with the requirements of the most recent studies about vulnerability, we first analyze older people income uncertainty, health and disability risks, widowhood and frauds risks; and then we try to understand to what extent the older people are able with their own material and personal means to minimize their economic impact.

The following evidences emerged from our analysis. First, people aged 65+ are almost all retired and their potential economic vulnerability basically origins from the progressive general deterioration in

their physical and mental capacities. Health and long term care services are increasingly financed out of pocket and can weigh heavily on older people financial wellness. Women aged 55-64, instead, are still potentially active in the labour market, but often out of it for different reasons (among them cultural) and their fragilities are mostly related to their low labour market participation and their lack of autonomy in the management of their economic resources.

Second, the vulnerability rates greatly vary according to the different definitions of vulnerability adopted: are higher when considering the self-perceived incapability of making ends meet and lower when looking at the severe material deprivation.

Third, from a cross-country comparative perspective, we found evidence of two clusters. The first groups Portugal and Italy and shows generally high vulnerability rates. The second is represented by France and, at the opposite, is characterized by (totally different and) generally lower vulnerability levels. Spain on average collocates in the mid-way between the two.

Fourth, the FINKIT program can be more effective if it can address a (final target) population of income poor (first two income deciles) but wealth rich individuals, that is financially vulnerable individuals who could possibly be better off with an enhanced awareness of their financial position and a higher level of knowledge of the possibilities that the market is offering to improve their economic welfare. According to our estimates, due to the high homeownership rates in all the countries analysed, such category represents about 15% of the older people 65+ in Fr, 12% in IT, 16% in SP, and 12% in PT; while among women 55+ denotes the 13% in FR, 12% in SP, 11.5% in IT and 10.4% in PT.

The remaining of the report is structured as follows. Section two classifies IT, FR, PT and SP according to the Eurostat standard indexes of vulnerability: percentage of individuals with per capita income below the 60 per cent of the median, deprivation index and self-assessed capability of making ends meet. Section three analyses the main economic risks older people face and their capability to cope with them. Section four builds up on the survey work done in the previous sections and concludes by trying to identify and characterize the specific vulnerable population addressed by FINKIT.

# 2. Economic vulnerability – standard definition

In the economic literature, poverty indexes, often measured over some relatively short period of time (a year, a quinquennial), are widely used as a proxy of material well-being of the household. Eurostat for example provides yearly statistics on poverty rates and material deprivation in their official bulletins. In this section we provide a ranking of our target countries with respect to relative poverty rates, material deprivation and severe difficulties in making ends meet. We use Eurostat data referred to the year 2014 and we compare the four countries position with the average in overall Eu-28 and Eu-15 countries.

#### 2.1 Poverty rates

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

in graph 2.1, for the overall population and then separately for people aged 65+ and in the age range 55-64.

PovRates show a high yearly variability and in the recent years followed an increasing trend as an effect of the economic and financial global crisis. IT, SP and PT are among the countries that suffered the effects of the crisis most. Considering the overall population in these countries, the most updated PovRates (referred to the year 2014, see graph 2.1) are higher than the Eu 28 and Eu 15 average, ranging from 18 to 22 per cent. FR shows instead lower rates (13 per cent), which have remained almost constant in the last ten years, except for a small increase between 2011 and 2013. Explanations for low poverty levels in France, together with the inequality decline in the last decades, have to be found in changes in labor market and in high levels of social transfers. The men's full-time gross wages inequality has declined by 10% since 1985, and the consequence is that the 10% of the poorest French population displays an income per year which is 25% higher than the average one in the OECD countries. Moreover, employment rates for people with low levels of education have increased, differently from most of the OECD countries. For what concerns social transfers, the French spending on unemployment subsidies and family benefits is particularly high, accounting for one third of the household income. These large welfare programs have had a positive impact on poverty trends, especially for people near retirement age (51 to 65 years) and, together with pensions, for those aged 65+ (OECD 2008).

The negative effects of the crisis are more evident among people still active in the labour market whose income is more linked to the market performances, while, at the opposite, are lower among pensioners. Indeed, PovRates among the older people aged 65+ in FR, IT, SP and PT are lower than the overall population PovRates (FR 9 VS 13, IT 13 VS 20, SP 11 VS 22, PT 17 VS 20) and very close, if not lower (France), to the EU 28 and 15 average. PovRates among the men aged 55-64 are generally higher than for 65+; for women, instead, we do not find substantial gaps between these age groups. PovRates among 55-64 are higher than the Eu 28 and EU 15 average in Spain and Portugal, while lower in Italy and France.



Graph 2.1 - At risk of poverty rates (PovRates), by age and gender (percentage points) - year 2014

Source: At-risk-of-poverty rate by poverty threshold, age and sex (source: SILC) [ilc\_li02], Eurostat Database, Last update: 07-06-2016, extracted on 17/06/2016.

<u>PovRates among women are slightly higher than among men</u> in all the age groups as a consequence of their lower participation in the labour market and their poorer careers. Such a gap – that appears to be common to all countries – is particularly relevant among people 65+ (FR 9.6 VS 7.2, IT 16.6 VS 11.0, SP 12.5 VS 10.0, PT 16.9 VS 12.6).

The Eurostat PovRate before social transfers measures a hypothetical situation where social transfers are absent (pensions are not considered as a social transfer). The comparison with the standard PovRate highlights the effectiveness of the welfare policies in reducing poverty. The average reduction in PovRates is about 10 percentage points, but it decreases to 3-4 percentage points among males and females aged 65+. Individuals aged 54-65 are the ones that benefit the most from social transfers. Minor differences are observed between genders.





Source: Difference between ilc\_li10 and ilc\_li02, Eurostat Database, Last update: 07-06-2016, extracted on 17/06/2016.

Finally, from table 2.1 it is also possible to highlight <u>that 65+ singles are normally more likely to fall</u> <u>below the poverty line compared to the coupled peers</u>. If we compare 65+ singles households with the overall households' sample, we can notice that this group is more vulnerable than the overall population. Spanish 65+ people represent an exception to this trend as couples report a much higher at risk of poverty rate than singles.

Country	Total	One adult 65+	Two adults, at least one 65 +	
European Union (28)	17.2	21.1	10.2	
Spain	22.2	7.3	13.0	

France	13.2	13.0	5.9
Italy	19.4	22.8	10.6
Portugal	19.5	22.5	13.1

Source: At-risk-of-poverty rate by poverty threshold and household type - EU-SILC survey [ilc\_li03], Eurostat Database, Last update: 14.07.16, extracted on 26.07.16.

#### 2.2 Severe material deprivation

Literature extensively pointed out that income based measures can poorly capture vulnerability. Severe material deprivation is a more objective measure of deprivation as focuses on a list of essential commodities and facilities the household cannot afford (Guio et al., 2010). Panel data confirm that, over a three years period, only about 50 per cent of the persistently income-poor have relatively high deprivation levels in each year. In particular, those countries with the highest levels of income and more generous welfare state arrangements tend to display the weakest degree of association between current income and relative deprivation (Nolan and Whelan, 2010).

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;
- the heating to keep the home sufficiently warm.

<u>The DeprivRates are sensibly lower than the PovRates</u> - in particular in Spain and France -meaning that not all the people falling below the "at risk of poverty threshold" are actually unable to afford at least 4 out of the 9 items mentioned above. In 2014, severe material deprivation involves nearly 11 per cent of the population aged 55-64 in Portugal and 10 per cent in Italy versus about 5 per cent in France and Spain. In the age group 65+, material deprivation affects instead 9.8 per cent of the population in Portugal and 8.8 per cent in Italy while only 2.4 per cent in Spain and France. DeprivRates in Italy and Portugal are largely above the Eu28 and Eu15 average, for both the age group 55-64 and 65+ (see graph 2) and this gap between PT and IT and the average Eu is particularly striking.

As for the gender gap, in the older class of the population women are recording higher deprivation rates in all countries. In the age group 55-64, material deprivation is instead higher among men in both Spain and Portugal.

Over the period 2008 – 2014 DeprivRates and PovRates show up an overall increasing trend, however not common to all age-classes. People aged 65+ in France, Italy, Spain and Portugal have seen heterogeneous evolution in DeprivRates while PovRates have been constantly declining

overtime. On the other hand, 55-64 years group saw the material deprivation rate rising a lot in Italy, Spain and Portugal (where at-risk-of-poverty rates rose as well), while it has been quite constant in France, where PovRates decreased.



Graph 2.3 - Severe material deprivation rate as a percentage of the population, by gender and sex

Moreover, the data suggest that single individuals<sup>1</sup> 65+ are more often subject to severe material deprivation than families with at least one of the components over 65. This is probably due to economies of scale: a household which can (most likely) count on two incomes would be able to afford a washing machine, for instance, much easily than a single individual.

#### 2.3 Capability of making ends meet

Another common approach to measure the general financial condition of households is to ask how easily they can make ends meet. This measure provides a subjective assessment of the economic position of households and it better captures the negative feeling of people, their discouragement and lack of perspectives for the future. However, in turn, it can be deeply affected by personal conditions as depression status and reveal a situation that cannot be enhanced simply by improving the economic situation of the household<sup>2</sup> (Adena et al., 2015).

Here we provide the Eurostat statistics related to households that declared to make ends meet with great difficulty (HardEndsMeetRate). Unfortunately we have data at household level and we can only observe the position of individuals with the head of the household (younger or) older than 65+.

Source: Severe material deprivation rate by age and sex [ilc\_mddd11], Eurostat Database, Last update: 07-06-2016, extracted on 15/06/2016.

<sup>&</sup>lt;sup>1</sup> Statistics made at households level.

<sup>&</sup>lt;sup>2</sup> A comparison between HardEndsMeetRate and PovRate must be cautious, as the two indexes are computed at different levels (household vs individual) and HardEndsMeetRate is reported only distinguishing between one adult aged 65 or over and two adults with at least one aged 65 or over. HardEndsMeetRate is not systematically higher or lower than PovRate, while the ranking of the four countries we are analysing remains the same as for PovRate. What really changes in HardEndsMeetRate is the variability across countries - much larger compared to PovRate - which might be explained by the subjective nature of the variable, meaning that people when asked may tend to overstate their situation (positively or negatively) due to feelings and/or psychological factors.

Statistics are reported by household size (single and couples with no dependent children) and by income (below and above the risk of poverty threshold).

As visible form graph 2.4, the <u>indicator is highly variable across countries</u>. The HardEndsMeetRate is again more severe in Portugal and Italy than in the average of the EU 28 countries: in these countries 42 and 31 per cent of the at-risk of poverty population with two adults declare to have great difficulties in making ends meet versus 18 per cent of the EU 28 countries. Spain and France, at the opposite, rank below the average with respectively 20 and 2 per cent. Among people not at risk of poverty these percentages drop by a half.

On average, two adults' households are in better conditions than single-adult households. However if we consider households with income below the poverty line, the percentage of households that have great difficulties in making the ends meet is higher among two-adults households than among singles in all countries except France. The percentage of women who had a professional activity and who therefore receive a pension at retirement is higher in France than in other countries. Hence two-retired adults have more frequently two sources of income, a reason that might explain why they do not declare more difficulties to make ends meet than retired singles. However, it should be stressed that subjective indicators of financial difficulties derived from self-assessment and by surveyed are difficult to compare across countries. For example, it was documented that although the proportion, for the same level of debt, a smaller proportion of surveyed declare to be in financial difficulties in the UK than in other countries (OEE, 2008).



Graph 2.4 - Capability of making ends meet below and above poverty level - 2014

Source: Inability to make ends meet (source: SILC) [ilc\_mdes09], Eurostat Database, Last update: 06-06-2016, extracted on 15/06/2016.

# 3. Economic vulnerability – advanced measures

Despite their current income levels and capability of making ends meet, many older people are exposed to serious economic risks that can threaten their future economic well-being as income risks, health and long-term care (expenditures) risk and frauds.

Indeed, according to Ligon and Schechter (2003) the household sense of well-being depends not just on its average income or consumption level but on the risk it faces as well, especially among less well-off and risk-averse families. Quoting directly Ligon and Schechter (2003) "a household with very low expected consumption expenditures but with no chance of starving may well be poor, but they still might not wish to trade places with a household having a higher expected consumption but greater consumption risk."

In line with this reasoning, the first step for estimating vulnerability would be to characterize consumption levels and estimate consumption profiles in order to "predict consumption" levels and variability for the future. The second step would be to find the best way to summarize the consequences of such a consumption variation, i.e. the reduction in household welfare due to the risk in household consumption expenditures.

In this report we do not have proper instruments to estimate a vulnerability index defined in this way. However we can try to say something about vulnerability according to this new definition by describing the main economic risks the older people face and their ability to cope with them. Such an analysis will be the focus of the following subsections.

#### 3.1 The main risks and their economic impact on the individuals' lives

The increase in longevity is actually one of the great achievements of the 20th century, and it is strictly related with income levels and nutrition, environment quality and access to health care. The life expectancy has risen significantly across the European Union in the last decades. Among the 28 EU member states, in 2014 it reached 80.9 years at birth (while the same indicator was 78.4 years in 2004) and 20 years at the age of 65 (it was 18.3 years in 2004).

Our target countries rank first with respect to the other EU countries and characterize for more pronounced differences between males and females. <u>The life expectancy at the age of 65 in France,</u> <u>Spain, Italy and Portugal reaches respectively 22, 21.5, 21.2 and 20.2 years versus the EU-28 average of 20</u>. The gender gap, which is in favour of women, is particularly large in France and Spain, respectively 4.3 and 4.2 year, while the EU-28 average is 3.4 years. Interestingly, the gender gap has been observed to decrease in the last decades, while an education gap emerged: the gap in the life expectancy of educated versus less educated in Spain is indeed about 5 years (OECD data).



Graph 3.1 -Life expectancy at age 65 by gender

Source: Healthy Life Years [hlth\_hlye], Eurostat Database, Last update: 22-04-2016, extracted on 26-0-2016.

Life expectancy for women aged 55 has also increased proportionally. Among the European Union member states, the longevity indicator was 26.4 in 2004 and reached 28.2 years in 2014. Again, <u>France displays the highest level - 32.8 years - but all the target countries show indicators which are above the EU-28 average: 32.5, 31.9 and 31 years, respectively for Spain, Italy and Portugal.</u>



Graph 3.2: Life expectancy for women aged 55

Source: Healthy Life Years [hlth\_hlye], Eurostat Database, Last update: 22-04-2016, extracted on 26-06-2016.

Besides being unequivocally a good attainment, a longer life implies:

1. The need to smooth consumption along a longer time span.

2. A higher probability of spending a certain number of years as a widow/er with the consequent psychologic, economic and practical negative implications.

3. A higher probability of spending a high number of years in bad health and disability and indeed being in need for help.

4. A progressive deterioration in the cognitive capabilities that are important, among other things, to recognise and avoid frauds and to be able to manage properly her/his own wealth.

In other terms, longer life expectancy amplifies the main economic risks the target population can incur in: namely the income risk, the health and disability risks and the fraud risk. In all the four countries analyzed these risks are largely insured by the welfare state<sup>3</sup>. However (a non-irrelevant) part of the risk is still in charge of the individuals as we will discuss in the next sections.

# 3.1.1 The income uncertainty

The capability of smoothing consumption over the life cycle is influenced by the income uncertainty. Using the most recent wave of SHARE survey<sup>4</sup> we can explore the job status and the income composition of our target group population in order to infer the degree of uncertainty. However, we can anticipate that, in all the target countries, the main source of income of the target population is pension income which is by definition certain, even if it remains true that those with a life-time of poorly paid, part-time, insecure or informal employment are most susceptible to a dramatic fall in their income at retirement (see for example Gunnarsson, 2002).

# People aged 65+

Looking at the job status (Table 3.1), <u>two trends clearly emerge: France and Portugal display a high</u> <u>number of retirees</u> – respectively 94% and 81.2% of the 65+ population - <u>and a low number of</u> <u>homemakers</u> - respectively 4.3% and 11.3% - <u>while the opposite holds for Italy and Spain</u>. Thus, in the latter countries retirees are 75.6% and 68.6% and homemakers are 24% and 18.9% respectively. Employed people aged 65+ (employed and self-employed) account for a small share of the sample in all the four countries: the highest percentage is displayed by Portugal (4.1%), followed by Spain (1.5%), Italy (1.3%) and France (0.9%).

<sup>&</sup>lt;sup>3</sup> For sake of completeness we have included in the Appendix a more extensive description of the public coverage of income, health and long-term care risks provided by Italy and France. Such a description has been curated by the researchers of the Italian and French teams; while the Portuguese and Spanish teams decided not to contribute.

<sup>&</sup>lt;sup>4</sup> SHARE stands for Survey of Health, Ageing and Retirement in Europe. It is a multidisciplinary and crosssectional panel database of micro data on health, socio-economic status and social and family networks of more than 123,000 individuals aged 50+ from 20 European countries.

<sup>-</sup> France: computations done on 1,840 observations

<sup>-</sup> Italy: computations done on 1,746 observations

<sup>-</sup> Spain: computations done on 2,111 observations

<sup>-</sup> Portugal: computations done on 610 observations

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%

Table 3.1 - Current job situation (SHARE)

Source: Our elaborations on SHARE data, wave 5.

<u>The job situation mirrors the income situation</u>. In our SHARE sample of 65+, <u>people with no income</u> are 18.6% in Italy<sup>5</sup>, 20.1% in Spain<sup>6</sup>, 2% in France<sup>7</sup> and 24.2% in Portugal<sup>8</sup>. Among those with a positive income, more than 90% perceive a pension income (see table 3.2). Pensions are mostly linked to the individuals' past working and contributory history; however, in all the four countries analysed older people with no income can benefit from old-age allowances from a certain age on. These allowances are means-tested and linked to the household income<sup>9</sup>. France displays the highest average (median) pension level among our countries of interest: 19,000 (15,000) euro per year versus 12,000 (10,800) euro in Italy, 11,000 (9,400) in Spain and 9,600 (5,600) in Portugal.

Table 3.2 - Income	composition	for older	people	aged 65	<b>;</b> +
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Income composition	Italy France		Spain	Portugal
Pension	97.25%	97.66%	96.71%	92.07%
Private annuities	0.24%	0.71%	0.53%	0.74%
Employment income	1.55%	1.15%	1.84%	4.25%
Self-employment income	0.96%	0.48%	0.96%	2.94%

Source: Our elaborations on SHARE data, wave 5.

<sup>&</sup>lt;sup>5</sup> Computations done on 2,393 observations.

<sup>&</sup>lt;sup>6</sup> Computations done on 3,430 observations.

<sup>&</sup>lt;sup>7</sup> Computations done on 2,388 observations.

<sup>&</sup>lt;sup>8</sup> Computations done on 1,005 observations.

<sup>&</sup>lt;sup>9</sup> In Italy, the "Assegno Sociale" amounts to 5,830.76 Euro per year for single pensioners and 11,661.52 Euro per year for families, and a similar amount is provided in Portugal with the "Pensao Social de Velhice (PSV): 5,498.76 Euro per person aged before 70 and 5,938.56 for those aged 70+. In France, the "Allocation de solidarité aux personnes agées (Aspa)" is considerably higher: it amounts to 9,609.6 Euro for single pensioners and to 14,819.9 Euro for couples, while the "Pension no Contributiva de Jubilacion" amounts to 8,905.40 Euro for Spanish single pensioners and 10,988.60 Euro for couples.

Labour income (employment plus self-employment) accounts for a small share of the total income, with percentages in France, Italy and Spain never greater than 3% (1.63%, 2.5% and 2.8% respectively). Portugal is the only country where labour income exceeds 7%. These shares follow the opposite ranking of pension income: the country with the highest level of pension income (France) has the lowest percentage of labour income (1.63%); the country with the lowest values for pension (Portugal) has the highest percentage of labour income (7.19%). The (residual) share of private annuities (life insurance, personal private pension, alimony, charities and long-term care insurance) is everywhere negligible (always less than 1%).

From SHARE statistics we can infer that <u>income risk among 65+ is generally low</u>. <u>The category more</u> <u>exposed is the one of the homemakers</u>. Most of them declare a zero income and, as they presumably rely on their partner or spouse's income, for them income risk is strictly connected with their spouse survival. Indeed, for them <u>widowhood risk translates into income risks</u> as survivor pensions are only a fraction of the deceased full spouse's full pension/income<sup>10</sup>. The risk of becoming widow/er increases with age, and is mainly faced by women due to their longer life expectancy. In Italy widowed women are 3,277,807 and constitute 43.5% of the total women aged 65+, whilst widowed men are 636,672, being only 11.2% of all men aged 65+ (Demo.Istat, 2015). Similar percentages are observed for Spain (45.1% and 12.7%) and France.

Finally, an additional source of income can derive from capital which can be highly volatile especially in case of investment in shares. <u>Capital income is owned by less than 9% of households in Italy and less than 7% in Spain; in France it seems instead more popular, as 23% of the population declares to make some income from capital.</u> The mean and median values of capital income range between 2,800-3,700€ and 500-700€ respectively (on average less than 4% of the total income). However, these results should be interpreted with caution due to the high non-response rate to the questions related to capital income in the SHARE survey. The very high non-response rate in Portugal even prevents us from the computations of any statistics.

#### Women aged 55+

In this second target group the composition of income is less unbalanced toward pensions, since we are dealing with younger individuals.

We find evidence of the <u>same patterns emerged for people 65+</u>. Retired women are 70% of the population in France, about 50 % in Portugal (52.5%) and Italy (46.5%), while only 35.6% in Spain. In Italy and Spain homemakers make up for a consistent share of the sample, while in France and Portugal they account for 7.6% and 19.9%. The share of workers ranges between 12.4% (in IT) and 18.9% (in PT).

<sup>&</sup>lt;sup>10</sup> The survivor pension amounts to the 60% of the pension of the spouse in Italy and Portugal, and 54% in France. Differently, in Spain it is computed as the 52% of the regulatory base - determined as the best average on the contribution base during 24 consecutive months taken over the last fifteen years before the death occurred - up to 70% if some requirements are met (e.g. if the widow/widower's pension is the primary or sole source of income).

Current job situation (women 55+)	France	Italy	Spain	Portugal
Retired	69 <mark>,2</mark> %	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%

Table 3.3 - Current job situation (SHARE)

Source: Our elaborations on SHARE data, wave 5.

The percentage of women with no income is around 30% in Italy (31.1%<sup>11</sup>), Spain (34.2%<sup>12</sup>) and Portugal (33.9%<sup>13</sup>); while it is only 6.3%<sup>14</sup> in France. Among income earners, the share of pension income on total income is very high - around 80% in all countries analysed, see table 3.4. France still displays the highest average (median) pension - 15,400 (12,600) euro per year - followed by Italy with 10,900 (8,900) euro per year, Spain with 9,400 (8,200) euro per year and Portugal with 7,900 (4,500) euro per year.

Table 3.4 - Income	composition	for women	55+
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Income composition	Italy	France	Spain	Portugal	
Pension	83.42%	78.99%	83.31%	80.49%	
Private Annuities	0.67%	0.63%	0.65%	0.79%	
Employment income	14.2%	18.83% 12.82%		16.41%	
Self-employment income	1.71%	1.55%	3.22%	2.31%	

Source: Our elaborations on SHARE data, wave 5.

Women 55+ labour income makes up for a wider percentage of total income with respect to  $65+ - \frac{1}{100}$  from 16% in Spain to 20.4% in France. Almost the totality of these earnings comes from employment income, which is perceived as less risky and uncertain compared to self-employment. The highest earnings are found in France and Italy (16,000-15,000€ for the median and 17,500-17,800€ for the mean respectively<sup>15</sup>), while the lowest in Spain and Portugal (9,100-6,000€ for the median and 10,200-8,900€ for the mean respectively<sup>16</sup>). Corresponding values for self-employment income are not reported due to insufficient number of observations. Private Annuities are not popular for this second target as well, and account in all countries for a share lower than 1%.

Again, capital income has been so far excluded from computations and has been not summed to total income. Also in this case missing responses and refusals to answer were extremely high. Overall

<sup>&</sup>lt;sup>11</sup> Computations done on 2,164 observations.

<sup>&</sup>lt;sup>12</sup> Computations done on 2,292 observations.

<sup>&</sup>lt;sup>13</sup> Computations done on 991 observations.

<sup>&</sup>lt;sup>14</sup> Computations done on 2,224 observations.

<sup>&</sup>lt;sup>15</sup> Computations done on 411 and 208 observations respectively.

<sup>&</sup>lt;sup>16</sup> Computations done on 260 and 114 observations respectively.

the incidence of capital income on total household income is always below 5% for France, Italy and Spain, while such computations were not possible in Portugal.

# 3.1.2 The health and disability risk and its economic implications

To try to provide a picture of the health and disability risks the older population incurs in, we resort to Eurostat statistics about the number of expected healthy years at different ages. According to the Eurostat definition, this statistical indicator is based on age-specific prevalence (proportions) of the population in healthy and unhealthy conditions and age-specific mortality information. A person in healthy conditions is someone without illnesses implying limitations in functional activities and without disabilities. Across the European Union member states, the average number of expected healthy years<sup>17</sup> at birth is 62 years versus a life expectancy of 81 years, while decreases to 8.6 years for both males and females aged 65 versus a life expectancy at the same age of 20 years (Eurostat, 2014).

Despite the general evidence of a positive correlation between life expectancy and number of healthy life years, we do observe a higher variability in both indicators across member states (graph 3.3 shows the statistics related to the age 65). For example, at the age of 65, France and Spain register a life expectancy of 21 years – about 2 years higher than the EU average - and an expected number of remaining healthy years about 9/10 – the EU 27 average is 8.5. Portugal and Italy show a life expectancy of 19/20 and an expected number of remaining healthy years about 7/8.



Graph 3.3 - Relationship between life expectancy (LE) and healthy life years (HLY) at the age of 65

Source: OECD (2014).

<sup>&</sup>lt;sup>17</sup> Eurostat definition: The indicator of healthy life years (HLY) measures the number of remaining years that a person of specific age is expected to live without any severe or moderate health problems. The notion of health problem for Eurostat's HLY is reflecting a disability dimension and is based on a self-perceived question which aims to measure the extent of any limitations, for at least six months, because of a health problem that may have affected respondents as regards activities they usually do., http://ec.europa.eu/eurostat/cache/metadata/en/hlth\_hlye\_esms.htm.

Comparing the expected number of healthy years with the life expectancy at 50 and 65 (see graph 3.4) three considerations emerge. First, women are more at risk of spending longer time in a condition of disability than men in all European countries. Second, despite their relatively high longevity, <u>Italian and Portuguese people are more at risk of spending a longer percentage of their lives in a condition of disability than the EU average; while the opposite is observed for France and Spain.</u> More specifically, for men, at the age of 50 the number of expected healthy life years as a percentage of the remaining life expectancy is 58 per cent in EU 28 countries, slightly higher (about 60 per cent) in France and Spain, about 53 and 50 per cent in Italy and Portugal. For women, at the age of 50 the number of expected bealthy life expectancy is 50 per cent in EU 28 countries, slightly higher than 50 per cent in France and Spain, about 45 per cent in Italy and 35 per cent in Portugal. Third, <u>at the age of 65, the percentage of healthy life years with respect to the remaining life is about 10 percentage points lower than at the age of 50 in all European countries.</u>



Graph 3.4 - Healthy life years in percentage of life expectancy, by age and gender

Source: Healthy Life Years [hlth\_hlye], Eurostat Database, Last update: 22-04-2016, extracted on 21-06-2016.

Unfortunately, comparable age profiles of medical and LTC expenditures and the related information about their financing are not available. However OECD statistics reveal that in Italy, France, Portugal and Spain the majority of the public health spending, excluding long-term care component, is financed by the government or by the social security system. The remaining part is financed by private insurance and out-of pocket expenditures.

In particular, private health insurance covers 14 per cent of costs in France and less than 6 per cent of costs in Italy, Spain and Portugal. While <u>out-of pocket health expenditures are low in France</u> – where they reach about 8 per cent of the total expenditures - <u>and higher in Italy, Spain and Portugal</u> - in which they reach 19, 22 and 32 per cent of the total expenditures (OECD, 2014, page 129) respectively. <u>In terms of share of final household consumption out-of pocket medical spending</u>

#### 16 | Finkit Report

grasps the 4.7 per cent in Portugal, the 2.9 per cent in Italy and Spain and the 1.5 per cent in France (see graph 3.5).

Graph 3.5 - Out-of-pocket medical spending as a share of final household consumption, 2012 (or nearest year)



Note: This indicator relates to current health spending excluding long-term care (health) expenditure. Source: OECD Health Statistics 2014, http://dx.doi.org/10.1787/health-data-en.; Eurostat Statistics Database and WHO Global Health Expenditure Database for non-OECD countries.

OECD statistics about LTC expenditures - that instead comprises both health and social support services to people with chronic conditions and disabilities needing care on an on-going basis<sup>18</sup> - are less detailed than health care statistics and from the OECD (2013) report we can infer only that <u>in</u> France and Portugal a significant share of LTC services is funded from public sources, while privately-funded LTC expenditure - and in particular, out-of pocket expenditures - <u>plays a relatively large role</u> in Spain (about 0.4% of GDP). OECD LTC Statistics for Italy are not available.

<sup>&</sup>lt;sup>18</sup> Based on the System of Health Accounts (SHA), the health component of LTC spending relates to nursing and personal care services (i.e. assistance with activities of daily living, ADL) and it covers palliative care and care provided in LTC institutions or at home. On the contrary, LTC social expenditure primarily covers assistance with instrumental activities of daily living (IADL).



Graph 3.6 - Long-term care public expenditure (health and social components), as share of GDP, 2011 (or nearest year)

Note: The OECD average only includes the 11 countries that report health and social LTC. Source: OECD Health Statistics 2013, <u>http://dx.doi.org/10.1787/health-data-en</u>.

Using SHARE data, Jurges (2015) found that in European countries the average amount of out-of pocket expenditures<sup>19</sup> for medical care or care related to illness – which include deductibles paid, direct payment to health care providers and co-payments (no insurance premium and contributions) - amounts to about 650 euro per person aged 50+.

We have replicated the analysis focusing on our target population (Portugal did not participate in the last survey), and we have found that, in Italy, people aged 65+ have to face an annual average out of the pocket individual expenditure of 645 Euro, and 706 Euro per year for women 55. Spanish and French older people are subject to a much lower average out of pocket individual expenditures (297 and 272 Euro per year) and women 55+ even less (275 and 281 Euro per year).

Following Jurges (2015) we explore also <u>the share of households which faces</u> <u>catastrophic out-of</u> <u>pocket health care expenses</u> – i.e. when out of the pocket expenses overcome 15 per cent of the net annual household income (see e.g. Wyszewianski 1986). Using SHARE data, we have found that, <u>in</u> <u>Italy it reaches nearly 8 per cent of the households 65+</u> (composed by both older people aged 65+) and almost the same fraction of families counting at least one female component 55+. In France and

<sup>&</sup>lt;sup>19</sup> The author defines: "Out-of-pocket (OOP) expenses are costs of health care that are not paid for or reimbursed by "third party payers", i.e. the national health system or a public or private health insurer, and that are thus borne by the patient him- or herself. Patients typically pay out-of-pocket for treatments or drugs that are not covered (e.g. because they are too expensive, or because they are not effective) or only partially covered (i.e. patients make co-payments). Insurance contracts also often stipulate a certain deductible, that is, patients pay the full costs of their treatment up to some amount. Only if costs exceed this amount, the health insurance or national health systems pays for the treatment, fully or partially". The statistics provided include the out of the pocket expenditures sustained for doctor visits, medication, dental care, periods spent at the hospitals and staying in nursing homes

<u>Spain the national healthcare systems provide instead higher protection to the older fraction of the population</u>. Thus, the share of households which faces catastrophic out-of pocket health care expenses in France is less than 2 per cent among households 65+ and 1.3 per cent for households with a woman 55+, while in Spain is roughly 3.3 per cent for both target groups.



Graph 3.7 - Fraction of the target population recording catastrophic out of the pocket expenses

Source: Our elaborations on SHARE data Wave 5

The satisfaction level in the national healthcare system partially mirrors the catastrophic out-of pocket health care expenses levels. Indeed, the percentage of people dissatisfied about their health care insurance is 35 per cent in Italy, 18 per cent in France and 10 per cent in Spain.

# 3.1.3 The frauds risk and its economic consequences

Sociological literature explains consumer vulnerability - defined as "the inability to adequately understand fraudulent claims" (Soberon-Ferrer, 1997) – with the cognitive deficiency and social interaction paradigms. The cognitive deficiency paradigm (McGhee, 1983) states that consumers with limited ability to process information are more vulnerable to market frauds, while the social interaction paradigm explains consumer vulnerability based on asymmetry of social relationships – stating that in a society in which coexist dominant and underprivileged groups (different socioeconomic status), the latter ones are more vulnerable to frauds - (Marxian analysis and social exchange theory) and social isolation (activity theory) – which suggests that isolated consumers, because of a lack of social interaction, may be unaware of normative beliefs related to fair treatment in the market.

Based on these theories, different hypotheses regarding the influences of sociodemographic variables on consumer vulnerability to market fraud were developed. Among the sociodemographic variables, the study by Lee and Soberon-Ferrer (1997) highlighted that age, education, and marital status influence consumer vulnerability, while the role of income is marginal and the ones of gender and race non statistically significant.

These findings provide supporting evidence for the cognitive deficiency paradigm and activity theory but reject the hypotheses developed from the asymmetry of social relationships. Older, less educated, widowed, divorced, or single consumers were found to be most vulnerable to unfair business practices and may need special protection.

Unfortunately, we do not have detailed statistics at European level to provide a picture of the vulnerability levels of target groups to frauds. The few data collected at national level highlight that many older people are victims of frauds (see for example Istat data for Italy). Among the different kinds of robberies, <u>house break-ins are the most common</u>, because older people are weaker, both from a physical and cognitive point of view, and spend more time within their dwellings. Women aged 55+ are consistently less targeted for robberies, but, again, break-ins are the most common ones. Informatics frauds and crimes are less common among older people but just because their limited use of the personal computer. Conditional on them using a computer, the incidence of frauds like Phishing (which means trying to obtain, by electronic communication, personal information of a victim pretending to be a trustworthy entity) is instead very high.

#### 3.2 Older people capabilities to cope with risks

According to Chambers (1989), 'Vulnerability has two sides: an external side of risk, shocks and stress to which an individual or household is subject; and an internal side which is defenselessness, meaning a lack of means to cope without damaging loss'.

Against the major risks listed in the previous sections, the older people have three potential defense arms: the wealth that can be made liquid and used to contrast any kind of income loss or adjunctive expenses; the personal abilities of managing properly their wealth and choosing the most appropriate strategies to face adversities and avoid frauds; the informal support of spouse, children and relatives.

In order to provide a portrait of the older people condition with respect to these aspects, in the next subsections we will describe their wealth levels and composition, their cognitive and technological abilities and their financial literacy levels, and their inter- and intra-household support.

#### 3.2.1 Wealth and wealth composition

According to the life cycle theory, individuals save to be able to smooth consumption over their life cycle irrespectively of income variability and unexpected shocks. The easiest way to cope with expenditures uncertainty is to rely on accumulated wealth.

Italy, France, Portugal and Spain have high saving rates (Rocher & Steirle, 2015<sup>20</sup>). Among the EU countries, in the time series 1995-2012, Italy comes after Belgium and Germany, showing the third highest value (around 16%), immediately followed by France, Spain and Portugal. <u>If we focus on the old people aged 65+</u>, from SHARE survey we see that Italy is the country with the highest median and <u>mean accumulated wealth (200 thousand) followed by France with (157 thousand and 172 thousand)</u>, Spain (129 thousand and 162 thousand) and Portugal (80 thousand and 102 thousand).

<sup>&</sup>lt;sup>20</sup> Data based on Eurostat. Please note that these data refer to the entire population, not only older people 65+.

Wealth	France <sup>22</sup>	Italy <sup>23</sup>	Spain <sup>24</sup>	Portugal <sup>25</sup>
Median	157,000€	200,000€	128,000€	80,000€
Mean	171,000€	200,000€	163,000	102,000€

Table 3.5 - Total wealth at the household level (SHARE) – older people aged 65+<sup>21</sup>

Source: our elaborations on SHARE wave 5 (wave4 for Portugal).

The possibility to use wealth in case of need strictly depends on whether wealth is liquid or illiquid. Wealth composition is then, *ceteris paribus*, crucial. <u>The portfolio of Europeans in definitely</u> <u>unbalanced in favour of illiquid assets</u>, mainly housing. The housing wealth (house of residence+ other real estate) accounts for 86%-89% of the total wealth in Italy and Spain, 70 per cent in France and 65 per cent in Portugal. Indeed, homeownership is very high in Spain (91.7%) and Italy (82.5%) and a bit lower in Portugal (76.4%) and France (71.3%).

	Housing wealth (main + second dwellings)	Bank accounts	Private pension wealth	Life insurances (face value)	Mutual funds	Stocks	Bonds	Firms
France	69.6%	22.4%	3.7%	3.0%	0.7%	0.4%	0.1%	0.4%
Italy	85.8%	11.1%	<0.1%	<0.1%	0.5%	0.2%	2.1%	0.3%
Portugal*	65.0%	30.1%	2.4%	0.7%	0.7%	1.0%	0.3%	0.5%
Spain	89.2%	12.0%	0.9%	0.1%	0.2%	0.5%	<0.1%	0.3%

Table 3.6 - Wealth composition at the household level

Source: our elaborations on SHARE data wave5, wave4 for PT.

Financial wealth accounts for the remaining part of total wealth. Bank account is possessed by the large majority of individuals in the sample (around 80% in Portugal and Italy, and more than 90% in France and Spain). France stands for the very high popularity of life insurances, 39.3% of older people households have one. Indeed, individuals can save throughout their life in life insurance products for different purposes (prepare for retirement, savings for medium or long-term plans or transfer of assets...). The main reason to hold a life insurance product is to benefit from the very low taxation on savings: the sum invested in life insurance contracts are not liable to inheritance tax unless the amount received by the beneficiary exceeds  $\leq 152,500$ , when a withholding tax becomes payable at the rate of 20%. After eight years of holdings, individuals can redeem all or part of the capital free of tax. In addition, it is a flexible product which allows individuals to make payments or withdraw their

<sup>&</sup>lt;sup>21</sup> Values are the results of households' self-assessment, therefore they might differ from real market values.

<sup>&</sup>lt;sup>22</sup> Computation done on 613 observations.

<sup>&</sup>lt;sup>23</sup> Computation done on 704 observations.

<sup>&</sup>lt;sup>24</sup> Computation done on 402 observations.

<sup>&</sup>lt;sup>25</sup> Computation done on 187 observations.

capital whenever they want. Finally, returns of life insurance contracts used to be higher than traditional bank saving accounts.

High income households are normally richer; however in the countries in which homeownership is more widespread, (unsurprisingly) the correlation between income levels and wealth levels is weaker. From table 3.7 we can observe that homeownership is so common across the population that in IT, SP and PT median housing wealth of people in the first income quartile is already greater than zero. The percentage of people with positive housing wealth in France is, in most cases (always at low income deciles), lower than those in Italy and Spain, reflecting French lower homeownership rate.

Income deciles		France	Italy	Spain	Portugal
1	Median per capita income	9946	8511	7501	3600
	Median housing wealth	0	52995	69980	40000
	% positive housing wealth	35.2%	57.8%	61.0%	58.2%
	Ν.	244	268	164	79
2	Median per capita income	17085	13425	12033	6600
	Median housing wealth	130591	158986	116633	52000
	% positive housing wealth	69.6%	80.8%	82.2%	67.1%
	Ν.	250	276	180	73
3	Median per capita income	25475	19649	17043	14400
	Median housing wealth	189950	211981	149290	82500
	% positive housing wealth	85.1%	91.1%	87.9%	68.4%
	Ν.	222	246	140	76
4	Median per capita income	100656	78630	92249	48000
	Median housing wealth	251683	211981	209940	80000
	% positive housing wealth	84.5%	84.0%	86.5%	79.5%
	N.	239	262	155	73

Table 3.7 – Median income, median housing wealth (in euro, ppp) and percentage of households with positive housing wealth by income quartiles

Source: our elaborations on SHARE data wave 5 for FR, IT and SP; on wave 4 for Portugal. The statistics for Portugal are computed on a very limited number of observations due to the high number of missing values for income.

As for women 55+, our second target group of end-users – we don't see any significant difference from the age group 65+ except for a slightly higher average value of the wealth.

#### 3.2.2 Abilities and literacy

The everyday life requires people to face a large variety of situations which demand intellectual effort and flexibility. Managing wealth and planning expenses are among the most complex decisions that individuals are expected to take. Needless to say, the older fraction of the population might find difficulties in doing that. The decline in cognitive capacities with age is well documented in the

medical literature: a large amount of evidence suggests that aging is associated with a decline in the ability to perform several cognitive tasks (Dixon et al., 2004). In addition, to cope with economic and financial decisions some basic financial and economic literacy and technological skills are often required. Therefore, to assess the ability of the target population to cope with complicate situations on daily basis, the next subsections analyse their performances in memory tests, their technological abilities and their average financial literacy level.

#### Memory and technological skills

In this section we analyse self-perceived and objective abilities in memory and individuals' technological skills. We use SHARE data (Wave 5 for IT, FR and SP and Wave 4 for PT). In all countries, target populations seem to overrate their own level of cognitive abilities; those who answered "poor" are less than 20% of the sample. French people seem to be much more confident than the rest of the sample, while Portuguese are the less self-confident (see table 4.7).

	Italy	France	Spain	Portugal
People 65+				
Excellent	6.7	3.5	1.6	4.3
Very good	11.5	11.3	9.3	10.2
Good	39.6	45.3	38.2	37.0
Fair	29.3	33.1	35.7	40.3
Poor	12.9	6.8	15.2	12.4
Total	100	100	100	100
Women 55+				
Excellent	8.3	3.5	1.6	3.5
Very good	13.3	11.6	11.1	8.3
Good	39.8	47.8	40.4	35.5
Fair	27.0	31.6	33.2	39.3
Poor	11.6	5.6	13.7	13.4
Total	100	100	100	100

Table 3.8 - Self-rated memor	v capabilities level	Old age peop	ole (65+).	percentages
	y cupublices iever	Old use peop	one (00 · ),	percentages

Source Share – Wave 5 / Wave 4 for Portugal.

An overall overconfidence in memory capabilities is recorded in the population of women over 55 as well. Again, Portugal counts the higher percentage of people rating their skills poor, while France shows the highest level of confidence. However, when the memory capacity was tested across the four countries – by submitting a set of ten words to be remembered – just 23 per cent of the over 65 people on average were able to remember more than 5 words. A few minutes later the respondents were asked to remember the same words and the results were even less satisfactory; this percentage indeed dropped to less than 9 per cent. The same is observed for women over 55, on average 31 per cent of the sample could remember more than 5 words, but a few minutes later such value halves. For the sake of completeness it is due to mention that French people confirmed much better results in both rounds of questions, although the reduction in the scores of the second round has been marked.

For what concerns technological skills, table 3.9 <u>highlights a generalized scarce use of computer and</u> <u>a widespread lack of confidence in using it</u>. Only <u>French people show a higher confidence</u> with technology. Moreover, one third of old age French people and 45 per cent of French women 55+ declared to have been using internet in the previous seven days, while no more than 12 per cent of Italian and Spaniard older people and no more than 20 per cent of Italian and Spaniard women 55+ have done it.

		People 65+			Women 55+	
Rate	Italy	Spain	France			
Excellent	1.4%	0.5%	1.6%	1.4%	0.6%	2.0%
Very good	1.7%	1.0%	3.6%	2.8%	1.8%	3.7%
Good	5.7%	5.0%	19.2%	7.7%	8.2%	26.3%
Fair	8.2%	9.5%	14.5%	10.4%	13.0%	17.3%
Poor	19.7%	23.3%	16.2%	19.1%	23.2%	15.2%
Never used a computer	63.3%	60.6%	44.8%	58.6%	53.2%	35.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
N. of Respondents	2,722	3,897	2,463	2,218	3,129	2,291

#### Table 3.9 - Computer skills

Source: Our elaborations on Share – Wave 5. Portugal is not included in Wave 5 and Wave 4 does not provide technology related information.

#### Financial literacy and numerical skills

The study "Financial Literacy around the World: Insights from the Standard & Poor's Ratings Services" provides information on financial literacy levels in a wide number of countries. It is based on the Standard & Poor's Ratings Services Global Financial Literacy Survey (S&P Global FinLit Survey26) and highlights that only 33% of adults worldwide can be considered financially literate. This means that around 3.5 billion adults globally, most of them in developing countries, lack an understanding of basic financial concepts.

Financial literacy rates vary widely across the European Union. In Eu, on average, financial literate adults are about 52% of the population, with peaks in Scandinavian countries, UK and the Netherlands (over 65 per cent). <u>As for our four countries, financial literate adults are 52 per cent in France, 49 per cent in Spain, 37 per cent Italy and only 26 per cent Portugal. Portugal ranks among the countries with the lowest literacy rates in the European Union.</u>

- Interest compounding;
- Inflation;
- Risk diversification.

<sup>&</sup>lt;sup>26</sup> The information on financial literacy is based on questions added to the Gallup World Poll survey. More than 150,000 nationally representative and randomly selected adults in more than 140 economies were interviewed during the 2014 calendar year. The surveys were conducted face-to-face in economies where less than 80 % of the population has access to a telephone or is the customary methodology. The target population consists of the entire population aged 15 and above, aside from prisoners and soldiers. Financial literacy was measured using questions assessing basic knowledge of four fundamental concepts in financial decision-making:

Knowledge of interest rates;

Empirical evidence confirms a persistent international gender gap in financial literacy (Lusardi & Mitchell, 2011): in most cases, <u>women are less knowledgeable than men</u>. However, women are not only less likely to answer the questions about financial topics correctly, but <u>they are more likely to state that they do not know the answers</u>, compared to men.

We do not have direct information about the financial literacy levels of our target populations. However, SHARE survey tests numeracy skills in our four countries and <u>numeracy is a good proxy for</u> <u>financial literacy</u> (Lusardi and Mitchell, 2011). Numeracy is tested by asking to the interviewed people 5 different questions. These questions aim at eliciting the solve subtractions, the understanding of sales discount, fractions, percentages and compounding interest rate (see box 4.1).

#### Box 3.1 - Economy related numeracy tests

Test 1 – Recursive subtraction

In the first test intervieews were asked to recursively subtract 7 from a number, starting from 100.

# Test 2 – Half price

In the second test the question raised was: "In a sale, a shop is selling all items at half price. Before the sale, a sofa costs 300. How much will it cost in the sale?"

#### Test 3 – Fractions

The third test was about fractions as well and raised the question: "A second hand car dealer is selling a car for 6,000. This is two-thirds of what it costs new. How much did the car cost new?"

#### Test 4 – Percentage

Test number four concerned the computation of percentages, the problem proposed was: "If the chance of getting a disease is 10 per cent, how many people out of 1000 (one thousand) would be expected to get the disease?"

Test 5 – Interest compounding

This test aimed to assess the ability of the interviews with interest compounding by presenting a simple case: "Let's say you have 2000 in a savings account. The account earns ten per cent interest each year. How much would you have in the account at the end of two years?"

	IT		SP		FR		PT	
% of right answers	65+	w55+	65+	w55+	65+	w55+	65+	w55+
Test2: Half price	53.1	57.9	44.0	48.0	46.9	65.4	56.5	61.4
Test3: Fraction	45.9	45.2	21.3	20.5	49.1	44.3	33.0	32.7
Test4: Percentage	60.1	60.7	50.1	53.2	64.0	70.1	55.3	49.6
Test5: Interest compounding	26.1	24.5	15.0	10.7	17.9	7.4	19.5	19.0

Table 3.10 – Numeracy skills

Source Share – Wave 5 / Wave 4 for Portugal.

By looking at the average results of the four countries analysed (see table 3.10) we noticed that the performance of the interviewed people is on average good (above 50 per cent) in the tests on sales discount and percentage, more poor in fractions and interest compounding. In particular, interest compounding is one of the fundamental test used to measure financial literacy level and indeed, its discussion is worth a bit more attention. The percentage of the older people providing a right answer to the question about the compounding interest rate is 26 per cent in Italy, 19.5 per cent in Portugal, 17.9 per cent in France and only 15 per cent in Spain. If we use if as a proxy for the financial literacy level of the population we can infer that the financial literacy among the older people is lower than among the generality of the population.

<u>Women, on average, score worse than the total population</u> (especially in the subtraction tests) except for the test on sales discount; and people 65+ score worse than women 55+. However, the difference between old age people and the whole sample  $^{27}$ - as well as the difference between women 55+ and the whole sample of women – is not really marked.

Yet, there are very large differences across countries and tests; France on average displays much higher scores than Italy, Portugal and Spain (the last three countries are reported in decreasing order with respect to their tests' scores) in the tests on fractions and percentages. In the tests on sales discount and compounding interest rates it is instead Italy that outperforms. According to the responses' accuracy Spanish and Portuguese older people seem to be provided with less numeracy skills than Italians and French old age people. The same holds for women 55+, in particular Spanish women are constantly underperform peers from other countries.

#### 3.2.3 Informal help

In the last part of their life, people often incur in a progressive deterioration of their physical and mental status that obliges them to rely on the external help coming from public institutions, volunteers, relatives or friends. National Social Security Systems provide different level of assistance to people, but normally conditioned to disability status and focused on medical services. The answer to the needs of non-medical assistance is instead frequently left to the private initiative and, especially in Southern European countries, in the past, this has meant for individuals in need to rely heavily on the informal help provided by relatives (Coda Moscarola, 2013). Things are now gradually changing. Despite the general beliefs of a very strong familyism in southern European countries, the safety net currently provided by relatives and friends in the analyzed countries does not appear to be very strong, and this undoubtedly makes older people more vulnerable with respect to the consequences of the major lifetime negative events.

<sup>&</sup>lt;sup>27</sup> Individuals aged 50+.

Table 3.11 shows the fraction of families with all members over 65 receiving help from outside the household in the SHARE survey. Such a percentage is unexpectedly quite low and reaches about the 20 per cent among people aged 65+. Nearly half of the times, the first person providing assistance is one of the children. The same trend, although with lower frequencies (15 per cent), is recorded by those families including at least one woman over 55. In Spain children are more committed in helping parents than in the other countries of the sample.

	Italy		Spain		France		Portugal	
	65+	Women 55+	65+	Women 55+	65+	Women 55+	65+	Women 55+
Help from outside the household	20.5%	16.1%	20.8%	16.2%	20.3%	15.1%	16.5%	14.8%
From Children	47.9%	45.6%	63.5%	60.8%	48.6%	46.7%	53.0%	46.9%
Frequency: Daily	49.4%	50.0%	52.1%	51.0%	26.5%	24.8%	34.4%	36.2%
Weekly	37.7%	33.8%	37.0%	36.2%	40.6%	38.5%	36.1%	31.9%
Monthly	9.9%	10.0%	3.9%	6.9%	14.7%	16.1%	8.2%	8.7%
Less often	3.1%	6.3%	4.2%	5.6%	17.6%	19.9%	21.3%	23.2%
Help outside the household	16.3%	22.1%	7.9%	10.7%	19.3%	26.3%	13.5%	18.4%
To Children	19.8%	15.5%	16.8%	15.2%	17.2%	15.1%	23.4%	21.3%
Frequency: Daily	35.8%	38.7%	35.5%	36.0%	17.5%	16.5%	27.3%	25.6%
Weekly	34.0%	29.3%	16.1%	14.0%	31.6%	25.3%	36.4%	41.0%
Monthly	15.1%	13.3%	12.9%	16.0%	19.3%	20.9%	18.2%	23.1%
Less often	15.1%	18.7%	22.6%	18.0%	31.6%	36.3%	18.2%	5.1%
N. of households in the sample	1,654	2,191	2,362	3,096	1,735	2,296	707	1,004

#### Table 3.11 - Social support outside the households

Source Share – Wave 5 / Wave 4 for Portugal.

The share of households delivering assistance to non-cohabitant is higher in France than in every other country and this holds for both the target groups analyzed. Spanish families, on the other hand, seem to be the ones less prompt to help someone outside the domestic walls. In interpreting this evidence, however, one can account for the lower cohabitation rates among French households with respect to the Spanish ones. Quite interesting it is the fact that the children receiving help are not more than 20 per cent of the total number of people being helped by such families (with both members over 65 or counting at least one woman 55+).

# 4. Conclusions

The previous sections highlighted many potential sources of vulnerability in the older population. The aging process brings along physical vulnerability, often followed by economic fragility, especially when the social and household safety-nets are not strong enough.

Fortunately, this is not the case for the vast majority of the older people currently living in the analyzed countries. Indeed, the welfare state of these countries confirms - notwithstanding the stringent budget constraints and the increasing share of services' costs in charge of assisted peopleits role of protection against the major negative events of life: it provides the older people retired from work with a safe flow of pension income and with health and long term care services of which it covers most of the related expenses. The poverty rates observed among the older people are currently low, even lower than among the general population, and the elderly population is characterized for a sensible percentage of individuals with a positive accumulated wealth that can be used as a buffer in case of needs.

Nevertheless, this objectively good attainment does not seem to match the difficulties perceived by the older people in making ends meet. As a potential reason for that, we claim that their wealth often appears to not be well managed, because frequently invested in one illiquid asset only, mainly the house of residence.

If we consider that older people in the analyzed countries demonstrate to have on average still good cognitive abilities but low levels of financial literacy, income poor-house rich people – individuals that besides being income poor (first two income deciles) can count on a (small) positive wealth to manage - seem the ideal target for a program like FINKIT. In particular, the FINKIT tools could be advantageous for them for two orders of considerations. First, only people with some accumulated wealth and still good cognitive abilities can be receptive towards new stimuli to better manage their wealth. Second, people with some wealth are ideal targets for economic and market frauds, while some basic economic and financial literacy competencies and advice can help them to ward off these risks. These considerations can be easily extended also to the female population aged 55+ that basically differentiate itself from the older people aged 65+ only because its higher incidence of homemakers without an income flow (but this strictly follows from the fact that social pensions are recognized to people only when they are 65 or older).

According to our estimates, <u>FINKIT final target population defined in the above mentioned way</u> (people in the two lowest income deciles with a positive wealth) represents about 15% of the older people 65+ in Fr, 12% in IT, 16% in SP, and 12% in PT. It instead groups the 13% of the female population 55+ in FR, 12% in SP, 11.5% in IT and 10.4% in PT. People captured by this definition are not the very poor segment of the population who necessarily need social transfers; they are instead individuals that could possibly be better off with an enhanced awareness of their financial position and a higher level of knowledge of the possibilities that the market is offering.

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