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Where are Pensioners in the Income Distribution?

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SUMMARY

Pensioners (those aged 65 years and above) comprise almost 12% of the population of the Republic of Ireland. However, they are far from a homogeneous group, differing by health, wealth, income and marital status among other things. In this Research *inBrief*, we examine pensioners under just one of these headings – income.

Understanding the nature, shape and composition of the income distribution, and of particular groups within it, is an important component of our understanding of society and the appropriateness of various policy options. In the context of considerations of policy changes (to taxes, welfare payments and free or subsidised public services) it is useful to ground considerations in an understanding of the incomes experienced by these groups in society.

Larger versions of the income distribution charts are available on the NERI website.

KEY POINTS

- In 2012 the average gross income for a pensioner household was €27,725 almost €25,000 less than the national average of €52,265.
- Average gross household income figures differ when decomposed by household size; with single person pensioner households recording an average income of €17,830 and two person households recording a figure of €36,605.
- For the most part pensioners sit in the middle of the income distribution (above the bottom 20% but below the top 40%).
- Overall, 60% of pensioners are in the bottom half of the income distribution while 40% are in the top half.

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Research for new economic policies

Pensioners (those aged 65 years and above) comprise almost 12% of the population of the Republic of Ireland. However, they are far from a homogeneous group, differing by health, wealth, income and marital status among other things.

In this Research *inBrief* edition, we examine pensioners under just one of these headings – income. The analysis derives from an examination of the microdata from the Central Statistics Office's (CSO) Survey on Income and Living Conditions (SILC).

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Pensioners and the Data

We examine pensioners both at a household level and at an individual level. For households, two classifications are considered. First, adults aged 65 years and above who live alone and second, two adult households where at least one is aged 65 years and above. Looking at pensioners in this way captures most pensioner households although it does miss some pensioners living in households with three or more adults.

As the same amount of disposable income allows households of different sizes to enjoy notably different lifestyles (a single pensioner household with €30,000 is very different to a pensioner couple on the same amount), we also adjust the income data to calculate a per person household income using the national equivalence scale (see CSO 2014:28). This allows an examination of income at an individual level for all those aged 65 years and above.

Like all survey data sources, the SILC dataset, and consequently any analysis drawn from it, is subject to some caveats. In particular, income surveys tend to experience lower response rates from high income households. Similarly, successful sampling can be challenging among low-income households and minorities while those in institutions are excluded from the sample. However, despite these drawbacks, the SILC data offers the most detailed and comprehensive insight into the patterns of income in Ireland – a feature which makes it ideal for this analysis.

This edition uses the most recently available SILC data which is for the year 2012 (released during 2014). The data captures income information for a representative sample of 11,891 individuals in 4,592 households. The data includes a probability weight variable to correct for under-representation and non-response and these weights are used in the analysis below. The collected income data is reconciled by the CSO with tax and welfare records in an attempt to ensure its accuracy.

Income Concepts

The distribution of two income concepts are examined in the analysis. These are: ***Gross Income***: comprising the flow of cash and non-cash income from pensions, employee earnings, self-employment earnings, property income, investment income and all forms of welfare entitlements; and ***Disposable Income***: comprising Gross Income minus income taxes and levies and minus social insurance (PRSI) contributions. Both these income concepts are useful as the former captures the overall sum of income a household receives and is often used for classifying them (less than €50,000 etc.). The latter, disposable income, captures the amount of post-tax and transfer income households have to live off; essentially what is in their pockets to spend.

The Gross Income Distribution

Chart 1 details the gross income distribution of pensioner households in 2012. The graph shows the number of these households with different income levels, grouped in €1,000 income bands. The height of the bars represents the number of households in each of these groups. In 2012 the mean income for these households was

Chart 1: Ireland's Gross Household Income Distribution – Pensioner Households, 2012

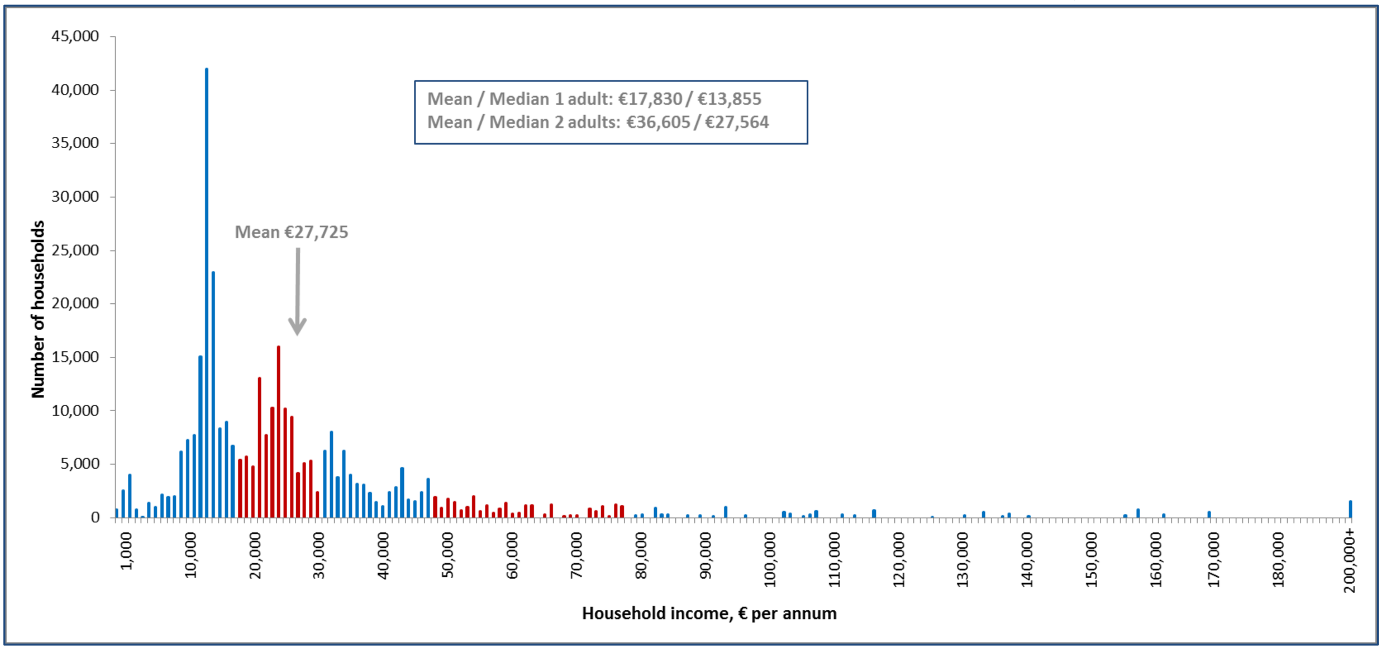
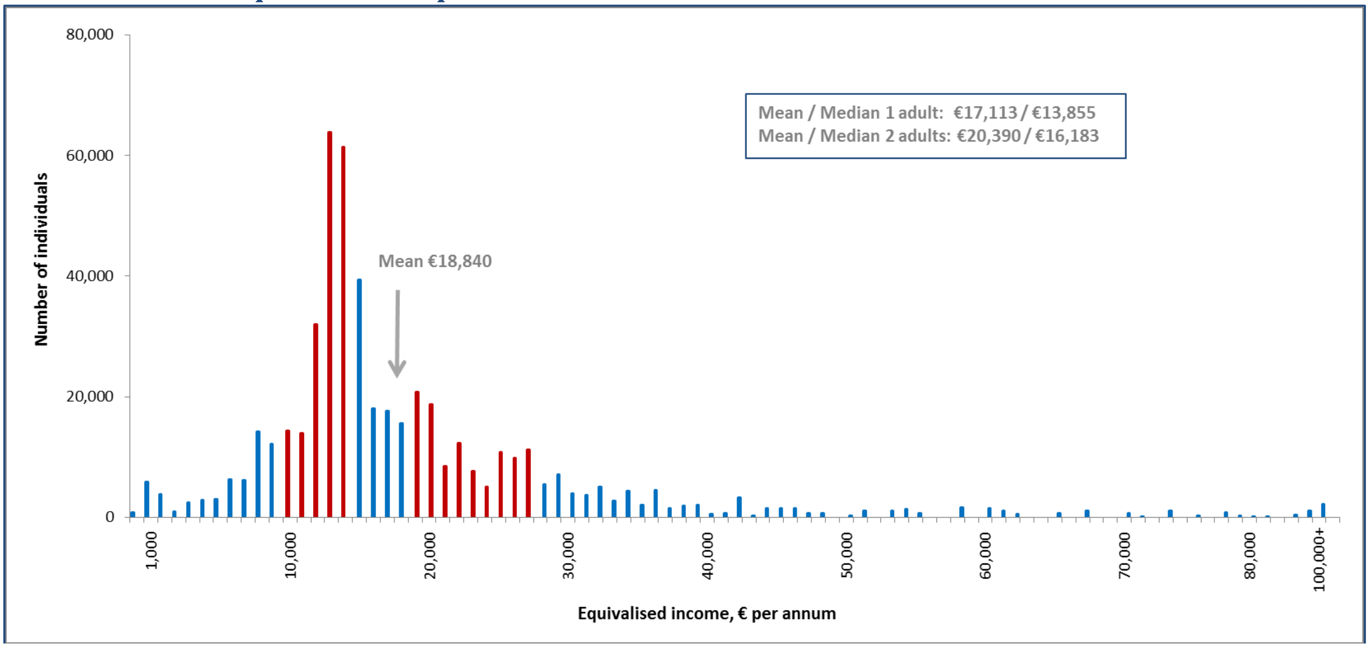


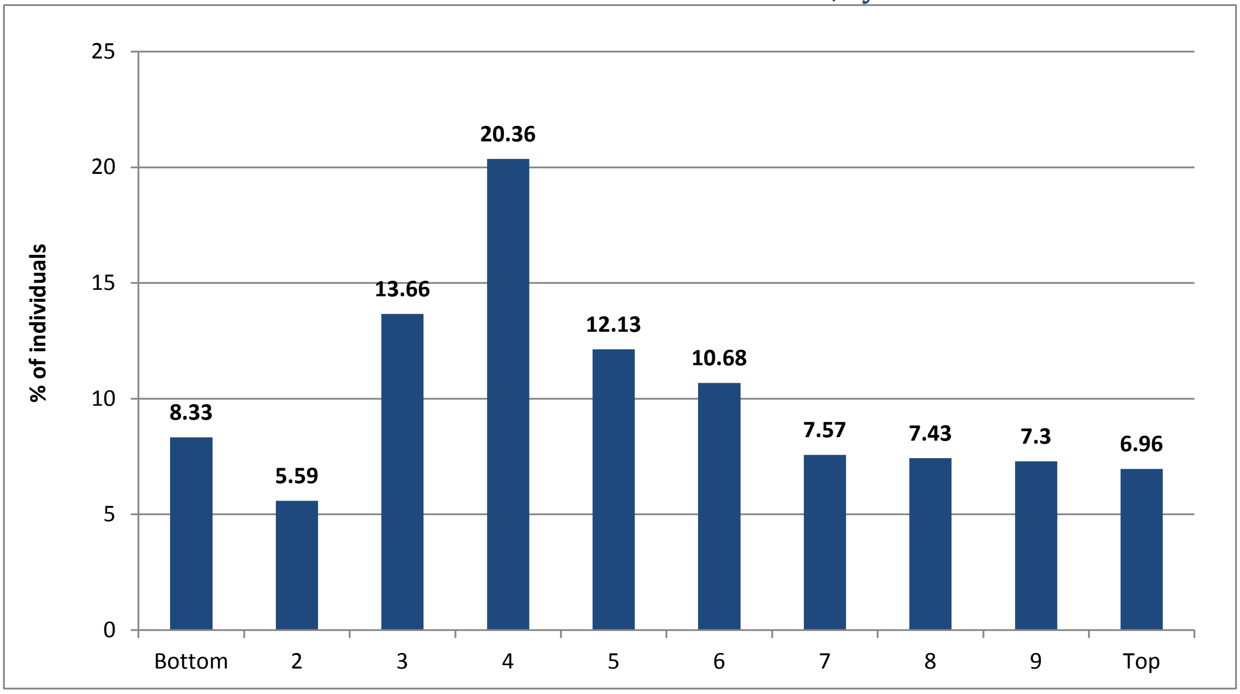
Chart 2: Ireland's Equivalised Disposable Household Income Distribution – Pensioner Households, 2012



€27,725 almost €25,000 less than the national average of €52,265. Average gross household income figures differ when decomposed by household size; with single person pensioner households recording an average income of €17,830 and two person households recording a figure of €36,605. As the chart shows, the income distribution is highly skewed, with more than 67% of households having an income below the (mean) average. Unsurprisingly, the highest numbers of households are recorded for income levels in and around the rates of the old-age pension.

Chart 1 also divides these households into quintiles of the overall income distribution. The first quintile comprises the 20% of households in society (not just pensioners) with the lowest incomes, the second quintile comprises the next 20% of households ordered by income and so on. In the chart, the alternately-shaded sections represent these different quintiles. As can be seen, the pensioner distribution is concentrated across the first three quintiles in a range of income from €10,000 to €40,000.

Chart 3 Distribution of Pensioners in the Irish Income Distribution, by decile in 2012



The Disposable Income Distribution

The distribution of household disposable income is outlined in ***Chart 2*** where this data has been adjusted for household size. Overall, the equivalised household income distribution is spread over a narrower range (€0-€100,000) with a mean income for pensioner households of €18,840 (the national average is €20,856). Most income is concentrated between €8,000-€25,000 with the top 20% of pensioners having an equivalised disposable income above €26,000 in 2012.

Finally, ***Chart 3*** plots the location of pensioners (individuals aged 65 years and above) across the income deciles (equivalised gross income). As this distribution is generally used to assess the distributive impacts of policy changes, it is informative to identify where pensioners are located within that distribution.

Again, the pattern highlights both the similarities and difference among pensioners. For the most part pensioners sit in the middle of the income distribution, above the bottom 20% but below the top 40%. Overall, 60% of pensioners are in the bottom half of the income distribution while 40% are in the top half.

Conclusion

Discussion on policy options, their potential and their impact, is often framed in the context of the income distribution. Yet, in many cases an understanding of the precise nature of that distribution is limited. This *inBrief* is intended to highlight and make accessible information on where one large group in Irish society, pensioners, fit in. Unsurprisingly, they are a group spread across the income distribution – covering low, high and middle income levels.

In establishing this distributive picture, we hope to facilitate a broader understanding of income in Ireland so that current and future policy assessments can take a more detailed account of whom and how many are at different points of the income distribution.

Reference

Central Statistics Office (2014), *Survey on Income and Living Conditions 2012,* Dublin, Stationery Office.

This Research *inBrief* is based on a presentation by the author to the Trinity College Dublin (TCD) Pension Policy Research Group (PPRG) on 9th January 2015.