CIRCLE
Care and Income Redistributive Cycles in the Lives of Europeans

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Axis 4: Federal public strategies

Summary

The overarching aim of the CIRCLE project is to provide new cross-country empirical evidence of the impact of the interaction between economic and demographic changes and welfare systems on the distribution of resources, rights and responsibilities between generations. The project takes **two major redistributive flows** into account as it explores the effects of the ongoing economic and demographic changes on: **1)** the **intergenerational distribution of income** and 2) the **intra-household informal insurance of care and income risks in Europe**.

The CIRCLE project has been executed by three academic partners from three different EU countries: Italy, Spain and Belgium. The coordinator is professor Elsa Fornero from the Center for Research on Pensions and Welfare Policies (CeRP, Italy). The two partner institutions are the Department of Economics from the Universidad de Alcalá (UAH, Spain), and the Centre for Social Policy of the Universiteit Antwerpen (UA-CSB, Belgium). This report focuses on the BELSPO-funded contribution of UA-CSB, which covers the following four topics: (1) long-term trends in the level and adequacy of non-contributory minimum income provisions for persons above legal retirement age; (2) vertical and horizontal equity effects of the taxation of pensions in Europe; (3) intergenerational solidarity within multigenerational households; and (4) the impact of career interruptions and career-break facilities on late-life employment outcomes. All four topics were analysed empirically for a large set of European countries.

With respect to the first topic, we have contributed to the debate on the fairness of **minimum income provisions** (MIP) **from an intergenerational point of view**, by comparing long-term trends in the level and adequacy of non-contributory minimum income provisions of persons at active age to those for persons above the legal retirement age. We use hypothetical household simulations, and more specifically the newly developed MIPI-HHoT database, which has been developed using the hypothetical household function HHoT (*Hypothetical Household Tool*) of the EUROMOD microsimulation model. The EU has identified minimum income protection as one of the routes towards a more social Europe in its European Pillar of Social Rights, stressing the policy relevance of the last safety net. We observed substantial variation in design and adequacy of MIP for the elderly. While earlier research found relatively positive trends in terms of adequacy of MIP for the elderly throughout the 1990s and 2000s, this appears to be far less the case for the decade studied here. While MIP for active age working individuals improved over the past decade, this has been far less the case for non-working individuals at active age and for the elderly. These results suggest a shift in policy orientation: the focus of countries appears to have been on increasing the gap between MIP for the non-working and the working of active age, thus increasing financial incentives to work. In terms of deservingness, it may be surprising that also for the elderly we find this lagging behind (be it less pronounced). Means-tested MIP schemes are likely to grow in importance as access to insurance-based schemes is tightened. This is true for MIP schemes for the non-working of active age, as there are indications that access to unemployment insurance benefits is made more stringent. But also access to contributory pensions depends on minimum contribution periods. In such a context policy makers do well to continuously assess the adequacy of the means-tested schemes. They should not solely take account of the means-

tested minimum benefits themselves, but also assess the extent to which they can be combined with other benefits, such as housing and heating allowances.

Income in old age is determined not only by the pension system, but also by the tax system. Yet there is relatively little research that analyses how the interaction between both systems influences outcomes of poverty and inequality in old age. In this part of CIRCLE we have unravelled the **vertical and horizontal equity effects of the taxation of pensions in Europe**. We have integrated key principles of pension and tax systems in a conceptual framework, and then investigated empirically how the vertical and horizontal equity principles are put into practice, and how these principles align with the objectives of pension systems. In order to measure the tax burden on pension incomes and how it impacts on inequality and poverty for the EU-27 countries and the United Kingdom, we use the European tax-benefit model EUROMOD model. Our results indicate that in general the tax system functions as a social policy tool for pensioners. However, there is considerably heterogeneity across countries in terms of the degree of vertical equity, i.e. the changes in inequality and poverty for pensioners due to the tax system, and the degree of horizontal equity, i.e. the extent to which income from old age and from work are treated in a different way. Our results highlight that the position of pensioners in the income distribution is an important driver of the results regarding tax progressivity. In addition, while pension income is granted preferential treatment in nearly all countries, the existence of tax expenditures in other policy fields can (and do) impact the extent to which the principle of horizontal equity between pensioners and employees is maintained or violated. The results highlight the importance of studying the tax and pension system jointly. Given the complex interactions, changes in, for example, minimum income protection policies might generate important changes in the effects of the tax system. Also the reverse applies: changes in the tax treatment of old age incomes may generate adverse poverty outcomes if pension levels are left unchanged. Similarly, our results show that the interplay between tax expenditures in different fields might yield unexpected results. These effects are likely to go unnoticed if the focus is only on one specific field, giving further relevance to undertaking a comprehensive analysis of the effects of possible changes in tax and/or benefit systems. Finally, there is scope for policy makers to further clarify the main aim of granting tax expenditures to certain types of income. While it is possible to gauge how tax expenditures regarding pension benefits affect old-age poverty and inequality, it is challenging to establish whether and to what extent such effects are intended.

With respect to the intrahousehold informal insurance of care we investigated **intergenerational solidarity within multigenerational households** (MGHs), and assessed how the formation of these households is related to poverty risks. MGHs combine different income sources; typically child benefits and working income from the side of the child and its parents, and pension income from the side of the elderly. Previous research on extended families has generally focused on implications for labour supply and time spent on informal and formal care. However, the direct impact of the formation of MGHs on financial means and poverty risks has been largely neglected. The empirical analysis on the financial solidarity within MGHs is performed on the data of EU Statistics on Income and Living Conditions (EU-SILC) 2013. We set up a framework to identify the direction of financial solidarity within MGHs, i.e. is it 'pro-child' or pro-elderly'. The results from the analysis on the direction of financial solidarity, show that MGHs are predominantly 'pro-child'. Therefore, the subsequent empirical poverty analysis focuses on child poverty and its specific relation to elderly income in MGHs. In order to identify how being part of an MGH affects child poverty, we present a set of logistic regressions. In addition, we perform a simulation analysis of the resource-sharing assumption, thereby testing the impact of changing the equal-sharing assumption that is standard practice in so-called pre-post analysis (i.e. we assess what child poverty would be if there were no income from the elderly in the household). We calculate several pre-post scenarios, in which we change either the income shared by the elderly or the equivalence scale. The results indicate that the formation of MGHs operates mainly as solidarity from older to younger generations. Although not designed for this purpose, pensions thereby also serve as a function to alleviate child poverty in these countries where MGHs are most prevalent. MGH formation is a short-term 'coping strategy', often directly related to inadequate social protection safety nets. Policy-makers should consider the short-term beneficiary impact of pensions on child poverty when implementing pension reform, and strengthen the social protection safety nets to alleviate child poverty.

The final topic concerns the **impact of career interruptions and career-break facilities on late-life employment**. This study assesses whether the availability of institutional arrangements facilitating a better work-life balance for men and women in early- and mid-life employment has a positive effect on labour force participation after age 50. The analysis covers the EU countries based on SHARELIFE data, collected in 2008-2009 and applies longitudinal micro-econometric techniques, including survival analysis. The empirical analysis has revealed that short work interruptions do not have negative consequences on mothers' absolute or relative earned income in later life. Indeed, in all the countries considered it is longer work interruptions (of one year or more), or a failure to return to work completely that have the largest impact on mothers' long-term economic wellbeing. However, there are some important exceptions to this general rule: mothers in Sweden and Denmark, in fact, are largely unaffected by the length of work interruptions, both in absolute and in relative terms. These results support our hypothesis that the negative effect of work interruptions will be more modest in countries where the welfare state effectively decommodifies its citizens. Indeed, our results suggest that countries with mixed or low support – in terms of pension schemes or maternity leave − partially fail to limit mothers' long-term income penalties.

Keywords

Intergenerational redistribution, Intra-household insurance, Taxation, Welfare policies

More information can be found on the CIRCLE-website:

https://circle-cerp.carloalberto.org/