Chapter 1

Introduction

1.1 Preamble

The ageing process begins at the moment of birth and ends at death. While ageing, we experience a distinctive lifecourse trajectory, and yet we can identify some common stages of life. Shakespeare, in his seven ages of man, identified life stages ranging from the 'mewling and puking' babe to a rather graphically, if negatively, portrayed 'sans teeth, sans eyes, sans taste, sans everything' old person (*As You Like it*, Act II). Hinduism identifies four life stages – from early age, at which to pursue chaste studentship, through to the age at which signs of ageing appear – when a man has seen the sons of his sons. Rowntree (1902) was amongst the first social scientists to formalise the concept of alternating life stages and the economic and social attributes of these stages – ranging from early childhood (where economic dependency is a given) to the time when the man is too old to work (and thus at risk of being in poverty).

So, we all begin in childhood, and face the experiences of adolescence and coming of age, and of growing old. By passing through all these different phases of life, and accumulating life experiences along the way, we end up living in old age. The focus of research undertaken in this book is the old-age phase of life, and this emphasis on the subgroup of older people is motivated by some stylised facts of our contemporary world:

- *Rising longevity*: It is less unusual nowadays to make it through to old age, a fact largely attributable to a combination of advances in public health (e.g. water purification and improved sanitation), medical technology (e.g. treatment of heart and lung diseases) and improving standards of living (e.g. better nutrition). This rise in human life

expectancy is rated, quite justifiably, as one of the most remarkable advances of recent times. Thus, the fact that we spend an increasingly longer time of our life in older age makes it more important to gain a holistic understanding of the level of the economic and social resources available to us in old age and of the dynamics of resources during this phase of later life.

• *Interlinkage with earlier phases of life*: The dual systems of social insurance and social assistance in modern welfare states play an important role in determining older people's entitlements to pension rights. Individual entitlements in old age are, in general, linked with experiences during earlier phases of life, such as the labour market association, marital association with someone in the labour market, child and adult care responsibilities, and residence in the country. Thus, an evaluation of personal welfare in old age offers us insights into how differential experiences of earlier phases of life and their treatment by the welfare system impact upon resources available in old age.

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• *Current environment of population ageing*: During the latter part of the past century, the trend in longevity has been accompanied by a drop in fertility rates, a factor attributable largely to advances in the emancipation of women. Together, these trends continue to shift the distribution of the population in most developed countries in such a way that the ratio of elderly to non-elderly people, and therefore the average age of the population, is rising. Nor are these trends likely to abate in the near future, so that societies experiencing this demographic shift – commonly referred to as ageing societies – now face new challenges, new policy directions. In this environment, a substantive research focus on older people's resources is imperative so as to design effective social and economic policies to guard against the unprecedented rise in public social expenditures and avoid the moral hazard of poverty in old age.

With these broad motivations in mind, we can now identify specific research questions addressed in the book.

I.   Multidimensional perspective on older people's well-being: how is the information base on older people's personal resources enriched when economic and health well-being are measured by adopting a multidimensional perspective?

II. Income experience in old age: what is the income experience *during* old age, and what factors are associated with income dynamics during the ageing process in the old-age phase of life?

III.   Comparative perspective on income dynamics in old age: what is the relative importance of various individual attributes and life events in determining the income experience of older people who live in different systems of social insurance and social assistance provision?

Next (in Section 1.2), we provide a description of these research questions, which define the three research themes under which empirical research pursued in this book is organised.

Before we embark on this research, a wide range of definitional, conceptual and methodological issues must also be resolved. Within the context of research on the well-being of older people in ageing societies, we need to set out:

- How do we define old age?
- What do we mean by ageing societies?
- What concepts or theoretical approaches will define our understanding of well-being?
- What empirical methods are to be adopted in measuring well-being?
- What datasets to use?
- How best to summarise results and draw out conclusions for policymakers?

In Section 1.3, we provide the most essential base definitions: the definition of older people used throughout the book and an explanation of what do we mean by 'ageing societies'. These initial definitions will become a component of the first part of this book '*Part I: Setting the Context*', which sets out the broader context for all the empirical work carried out in the book and it also includes Chapters 2-4. In Chapter 2, we assess the relative strengths of various conceptual approaches to measure personal well-being of older people, and in Chapter 3 we outline specific methodology for the purpose of its empirical implementation. This information base is further strengthened by a schematic description of the British social insurance and social benefit system in Chapter 4. In the subsequent parts of the book, '*Part II: Empirical Findings*' (Chapters 5-8) performs the empirical analyses, and '*Part III: Conclusions*' (Chapter 9) draws out policy-relevant conclusions and also reports on possible extensions of research performed in the book.

The remainder of this chapter is organised in five sections. Section 1.2 outlines the three themes of research pursued in this book. Section 1.3 provides the definitions of (i) older people and (ii) the ageing societies. Section 1.4 outlines the datasets used in the book, and Section 1.5 provides the overview of the whole book.

1.2 Three themes on well-being of older people

In line with the research questions outlined above, the research undertaken in this book can be broadly categorised into three different themes or perspectives on the well-being of older people:

I.   *Multi-dimensional* analyses of older people's well-being;

II. *Dynamic perspectives* on economic well-being during old age; and

III. *Cross-national comparisons* of income dynamics during old age.

We outline the motivations behind the choice of these three themes in this chapter before addressing each theme separately in separate parts of the book.

Theme I: Multidimensional perspective on well-being

Income-based analyses of older people's economic well-being, while important, capture a partial picture of older people's welfare during old age. In old age, factors such as health, housing, and social support become ever more important in determining the personal well-being of older people, and these factors almost invariably have financial implications not captured by an analysis of income status alone. Given the fact that advancing age and physical frailty is closely associated with the onset of ill health and disability, which are both debilitating and costly, it is crucial to understand how the health status of older people relates to and impinges on their economic welfare. Multidimensional analysis sets out to capture these insights and the research reported in this book adopts the multidimensional approach by using economic well-being as the base dimension of older people's well-being and then extending it to well-being with respect to health. This focus on multidimensionality forms *the first theme* of the book.

Theme II: Income experience in old age

The economic well-being of older people has to date been most often measured by a snapshot that reports on income in a single period (see e.g. DSS 2000; Disney and Whitehouse 2001; Zaidi et al. 2006). This practice is only revelatory of the actual circumstances of the population insofar as old age is presumed as a static phase of life, i.e. both household circumstances and

income receipt remain invariable throughout old age. This belief or assumption is only justified when the majority of the population is dependent only on static sources of income and the duration of this phase of life is rather brief. However, this is increasingly no longer the typical experience for people living in developed countries; particularly in Great Britain and the Netherlands, where increasing reliance is placed on diverse sources of income[1] that may lose their value over time and also we continue to observe gains in life expectancy.

    This shift in sources of income in old age, and the fact that people now spend a significantly longer time in this phase of life, makes it likely that older people observe significant changes in their income during old age. It is therefore crucial to extend analyses beyond the 'snapshot' type and provide a dynamic picture of the older people's personal welfare. We argue that the dynamic analysis of income provides a better perspective on the economic well-being of the older population and helps us identify processes that generate changes in it. This dynamic analysis of income of older people defines *the second theme* of the book.

Theme III: Comparative perspective on income dynamics

In developing the second theme, this study uses as its starting point the case study of Great Britain, performing empirical analyses within a specific social insurance and social benefit system. However, older people can be expected to face a different extent of income risks when they live in different institutional environments of provision of pension and social benefits. This hypothesis is tested in our work on comparison of income dynamics amongst older people in Great Britain and the Netherlands.

    The comparative aspect of income experience of older people brings in the crucial analytical question: how do different old-age social security systems *mitigate* the income risks associated with various lifecourse transitions that older people experience. Thus, the principal objective of this comparative work is to investigate the relative importance of individual attributes and lifecourse events in determining the income experience of older people who live in different systems of old-age social provisions. These comparative analyses of income experience of older people define *the third theme* of the book.

1.3 From perception to definition

It is necessary to be clear from the outset about what we mean by 'old age' and 'older people'. This will define the population to be studied in this book. Next, we describe what we mean by 'ageing societies'. These base definitions will apply throughout the book.

1.3.1 Older people

When is someone old? Although the question seems simple, yet there is no universally accepted age above which a person is considered 'old'. The choice most researchers make depends on the nature of the research issue in question rather than on some abstract conception of old age.

There are at least three definitions of old age that are in use in the social gerontology and economics-of-ageing literature.

- *Subjective definition*: The first, very common, definition is based on each individual's own assessment of his or her labour market activity and/or health status.
- *Functional definition*: The second definition uses objective information on people's functionings (e.g. the labour market status, whether receiving pension, and/or physical and mental functionings they can perform).
- *Pension entitlement*: The third definition uses the chronological age (e.g. the statutory retirement pension age at which an individual becomes entitled to retirement and old-age social benefits) to define the onset of the old-age phase.

Both the first and second definitions approximate an entry into the old-age period of life at the time of retirement from the labour market or deterioration in health status. For reasons discussed below, this book makes use of the last definition, whereby an entry into the old-age phase of life is approximated by the chronological age at which people become entitled to the old-age pension. This starts at 65 for men and 60 for women in Great Britain. Any such chronological demarcation of old age has a clear implication: old age starts at a fixed age for all people of the same gender, irrespective of their labour market status (e.g. retirement status), state of health (e.g. physical frailty) and family status (e.g. widowed).[2] Thus, regardless of age, tremendous heterogeneity exists from individual to individual.

One vital advantage of the chronological age definition is that age is by definition an *exogenous* attribute of individuals, whereas other indicators of ageing are *endogenously* determined. Adoption of this definition also allows us to capture diversity within older populations, in terms of labour market activity, health status and income (i.e. the *endogenous* variables).[3] This choice also enables us to provide important policy-relevant information for the statistical group identified as 'pensioners' (DSS 1998 and 2000; DWP 2003). Moreover, this choice is free from negative biases that arise from common myths and misconceptions about ageing and older people, such as the perception that older people are likely to be frail, ill or disabled, and may thus be a burden on communities and societies.

Having defined the subgroup of our interest, we illustrate the societies (or countries) within which we seek to perform the analyses of older people's well-being.

1.3.2 Ageing societies

As mentioned above, during the past two decades, the average age of the population is rising in most developed countries. There are two factors behind these trends.

The *first* factor for an ageing population is increasing life expectancy. Looking at the specific example of the United Kingdom, the increase in life expectancy in recent years has been dramatic, particularly for men. Between 1981 and 2002, life expectancy at age 50 increased by four and a half years for men and three years for women. For those aged 65 or older, the extra years of life were three years and two years, respectively. In 2002, women who were aged 65 could expect to live to the age of 84, while men could expect to live to the age of 81. Projections suggest that life expectancies at these older ages will increase by a further three years or so by 2020.[4] In most other developed countries, the changes in life expectancy observed were similar to that observed in the UK, although some countries (e.g. Japan) have observed a sharper rise in life expectancy in recent years.[5]

The *second* factor for an ageing population is declining fertility rates. Looking at the OECD countries, we observe that in 1950 fertility rates were between 2.0 and 3.0 in France, Germany, Japan and the United Kingdom and between 3.0 and 4.0 in Australia, Canada, New Zealand, and the United States. By 1995 they had fallen below the replacement rate of 2.1 in all these

countries. The UN medium scenario projections are that fertility rates will remain below the replacement rate through 2020 in all these countries.[6]

Together, these two trends are shifting the demographic structure of the population so that a greater fraction of the population will be formed by older population. Between 2000 and 2020, the relative size of the population aged 65 or older in the United Kingdom is projected to increase from 16% to 19.8%, whereas Germany and Japan will observe a much sharper increase (from 16.4% to 21.6%, and from 17.1% to 26.2%, respectively). In 2020, about one-fifth of the population in most of the developed countries will be aged 65 or older.[7] The societies that are experiencing these trends are referred to as ageing societies in this book.

The ageing of populations is affecting the older-person support ratio (i.e. the number of persons aged 15-64 years per older person aged 65 years or older), which is falling in both developed and developing countries, having important implications for social and health-care programmes required for older populations. Therefore, one vital question is: how prepared are these societies to meet the challenges posed by an ageing population? The response is often considered unsatisfactory, mainly for the fact that developments in social and economic policies and institutions have been lagging behind the gains in human longevity and health. Mainly for this reason, social gerontologists referred to the period of the 1990s as a period of *structural lag* (Riley and Riley 1994). This gap between understanding the needs and resources of ageing people, and providing the necessary policy response, will most likely have an adverse impact on the well-being of older people (National Research Council 2001; Evandrou et al. 2001).

1.4 Datasets in use

The datasets used in the empirical part of the book (Chapters 5-8) are:
- For all empirical results reported on *Theme I* (Chapter 5), the ninth wave of the British Household Panel Survey (BHPS), carried out in 1999, is used. This is because the 1999 survey contains the most relevant information for health as well as income data required for our empirical analysis.
- For all research on *Theme II* (Chapters 6 and 7), this book makes use of the first ten waves of the BHPS. The net income data used in the book are made available by Bardasi, Jenkins and Rigg (2003).

- As with previous themes, for all British results on *Theme III* (Chapter 8), the BHPS is used. For the Netherlands, we make use of the Dutch Socio-Economic Panel (SEP, 1991-1997) survey, which was made available during the author's visit to the Center for Economic Research (CentER), Tilburg University, The Netherlands. Thus, for the comparative analyses, we use only the first seven waves of the BHPS.

1.5 Book overview

The book is organised into three parts.
- *Part I: Setting the Context* (Chapters 1-4) provides the context for the empirical research. Chapter 2 discusses conceptual approaches to well-being, focussing on the concept of economic well-being, and reinforced by health as an additional dimension. Chapter 3 deals with issues linked with the empirical implementation of the economic well-being using income, and provides discussion of what income data are desirable for the purpose of measuring older people's economic well-being. It also discusses the income and health data available in the chosen dataset of the British Household Panel Survey. Chapter 4 provides a description of the British social insurance and social assistance system.
- *Part II: Empirical Findings* (Chapters 5-8) performs the empirical work. Chapter 5 focuses on *the first theme* of the book, carrying out multi-dimensional analyses of the well-being of older people, using health and income as individual dimensions and then performing multidimensional measurement using the two base dimensions. Chapters 6 and 7 (*the second theme*) document and model income dynamics in old age. Chapter 6 reports, using detailed bivariate analysis, on income mobility in old age in Great Britain. Chapter 7 extends this analysis by modelling income dynamics and thus identifying economic and demographic events that trigger income mobility in old age. Chapter 8 is concerned with *the third theme* of the book, and provides results on how patterns and triggers of income mobility differ across Great Britain and the Netherlands.
- *Part III: Conclusions* (Chapter 9) provides the synthesizing discussion and reports on the implications of research carried out in the book for public policies towards the social safety net in old age.

Notes

1   See e.g., Blake (2000), Disney (2000), Zaidi and Grech (2007) and OECD (2007) for details on current reforms in the pension system and their implications.

2   See Arber and Evandrou (1993) for a discussion of lifecourse transitions that lead to old age.

3   Mainly for these reasons, the panel constituted by the U.S. National Institute on Aging – to provide recommendations for an international research agenda in meeting the challenge of population ageing – has also used a chronological demarcation of age categories to define the elderly (National Research Council 2001: 2). However, they use a slightly different definition as they refer to all those who are aged 65 or more as 'elderly'.

4   cf. Table 5.1 in National Statistics (2004).

5   For a discussion on life expectancy gains observed in other countries, see Zaidi and Sidorenko (2008).

6   See United Nations Demographic Indicators, 1950-2050 (data diskette, 1998 revision), medium estimate.

7   For more discussion, see Marin and Zaidi (2007).