



# OECD Centre for Opportunity and Equality

Evidence-based, policy-oriented research on inequalities

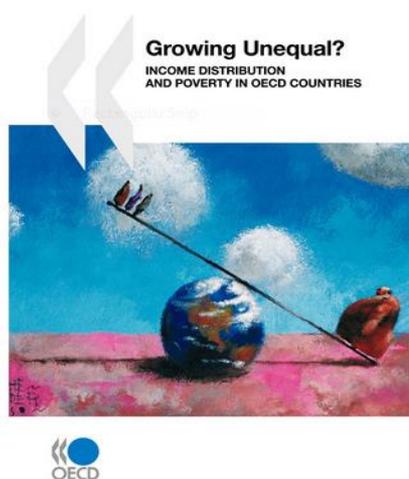
## What Does International Experience Tell us about Inequality and Social Insurance?

Mark Pearson, Deputy Director  
Employment, Labour and Social Affairs, OECD

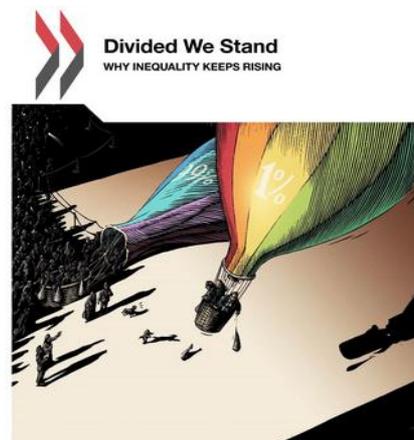


- “Rising income inequality is the defining challenge of our times” (President Obama, US)
- “Inequality can no longer be treated as an afterthought. We need to focus the debate on how the benefits of growth are distributed” (A. Gurría, OECD)
- “Reducing excessive inequality is not just morally and politically correct, but it is good economics” (C. Lagarde, IMF)

**2008**



**2011**



**2015**

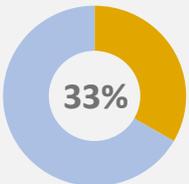


# “In It Together”: the bottom lines



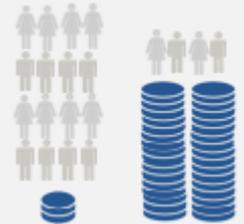
Inequality has **reached record highs** in most OECD countries

It is not only about poverty, it is about the **bottom 40%**



The rise in **non-standard work** contributed to higher inequality

High **wealth concentration** limits investment opportunities

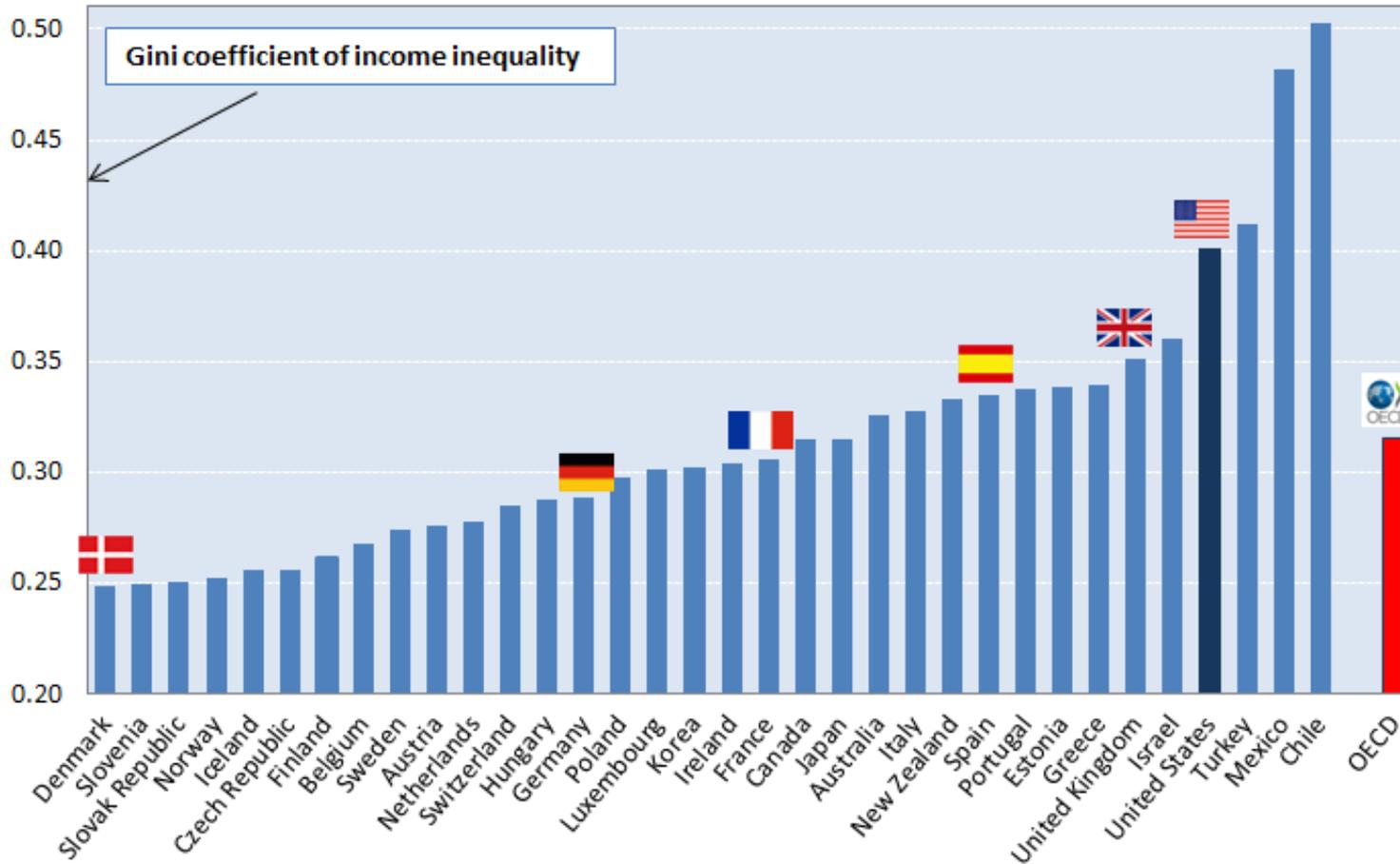


Rising inequality **drags down economic growth.** **Social mobility** is lowered

More **women** in the workforce means less household income inequality



# Large country differences in levels of income inequality



Source: OECD Income Distribution Database ([www.oecd.org/social/income-distribution-database.htm](http://www.oecd.org/social/income-distribution-database.htm))

Note: the Gini coefficient ranges from 0 (perfect equality) to 1 (perfect inequality). Income refers to cash disposable income adjusted for household size. Data refer to 2013 or latest year available.

# It is not just about income: wealth is much more unequally distributed



Share of income and wealth going to different parts of the income and wealth distribution, respectively, around 2013

	 OECD		 USA	
	income	wealth	income	wealth
top 10%	25%	50%	29%	76%
next richest 50%	55%	47%	55%	24%
bottom 40%	20%	3%	16%	0%

Source: OECD (2015), "In It Together"

<http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>

OECD wealth questionnaire and ECB-HFCS survey and OECD Income Distribution Database [www.oecd.org/social/inequality.htm](http://www.oecd.org/social/inequality.htm)

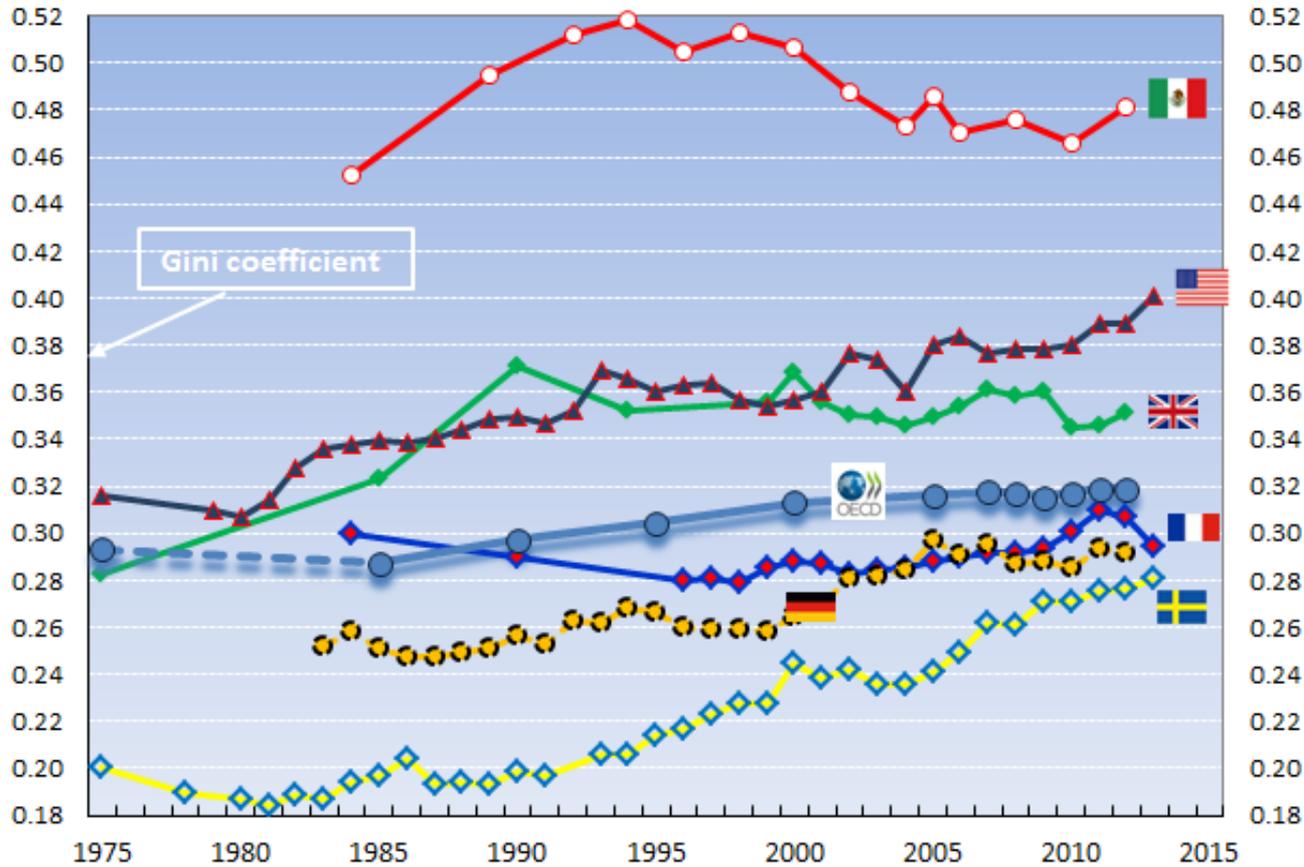
Note: Income refers to disposable household income, corrected for household size. Wealth refers to net household wealth.



# Rather than continuous long-term trends, “episodes” of inequality increases



## Long-term trends in inequality of disposable income



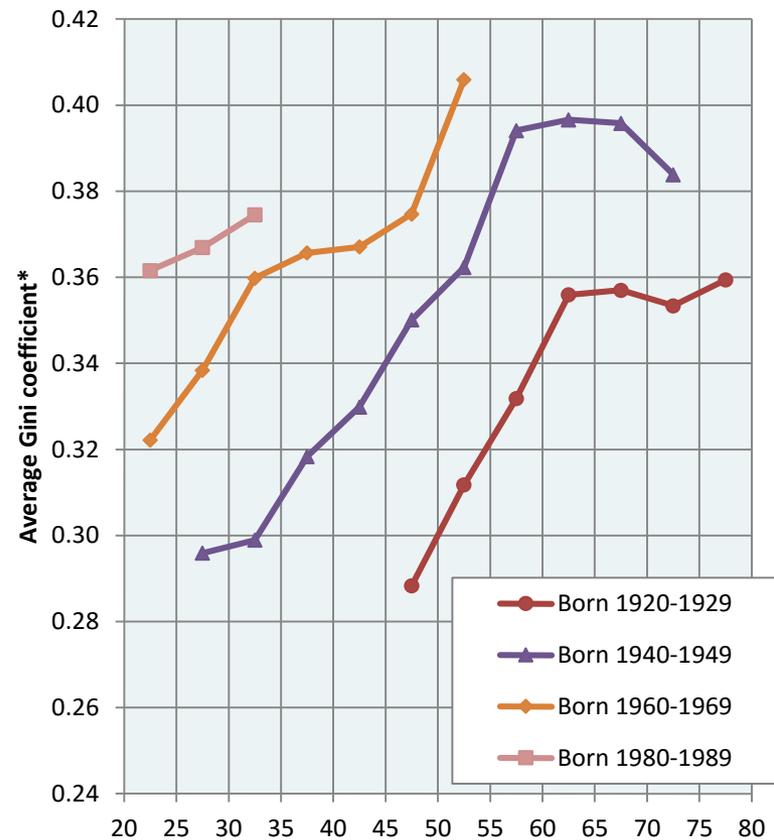
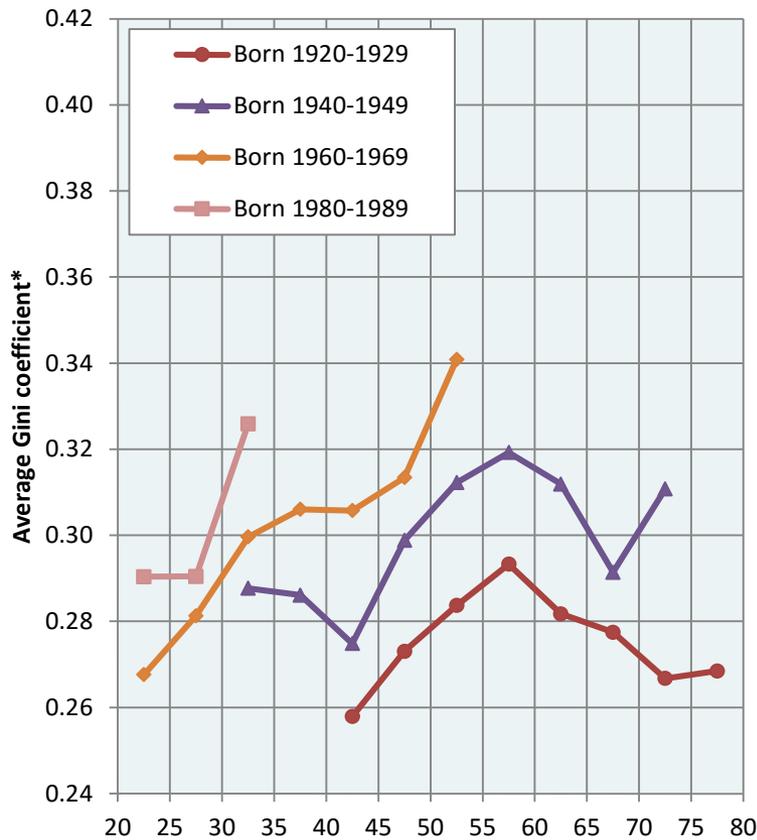
Source: OECD (2015), “In It Together”, <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm> OECD Income Distribution Database, [www.oecd.org/social/income-distribution-database.htm](http://www.oecd.org/social/income-distribution-database.htm)

Note: Income refers to disposable income adjusted for household size.





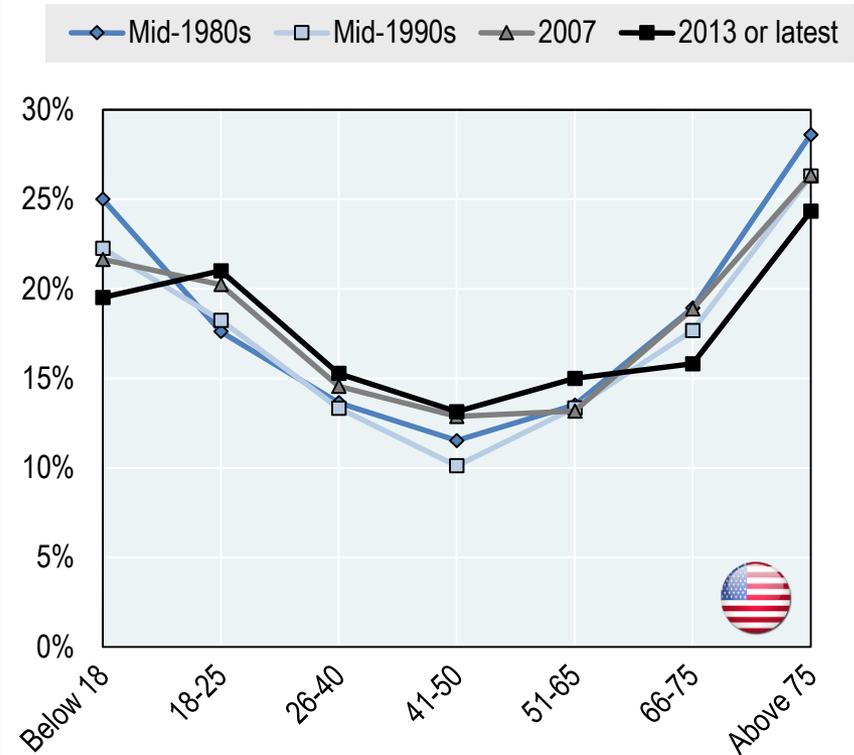
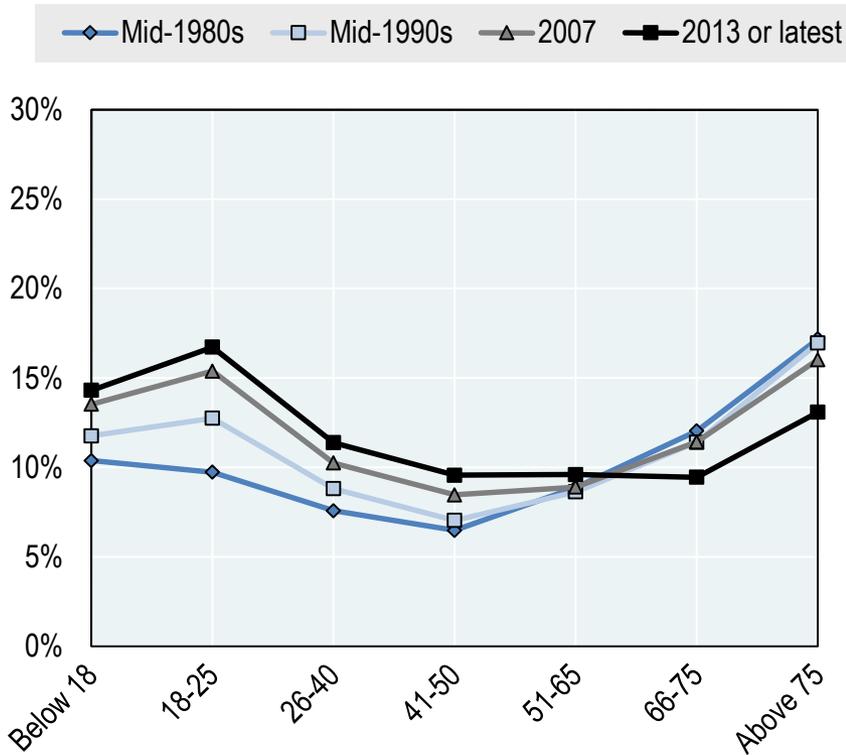
## Gini coefficients by age group across cohorts OECD average (left panel) versus USA (right panel)



# Poverty rates fell for the elderly but remain high in the USA, especially for the 75+



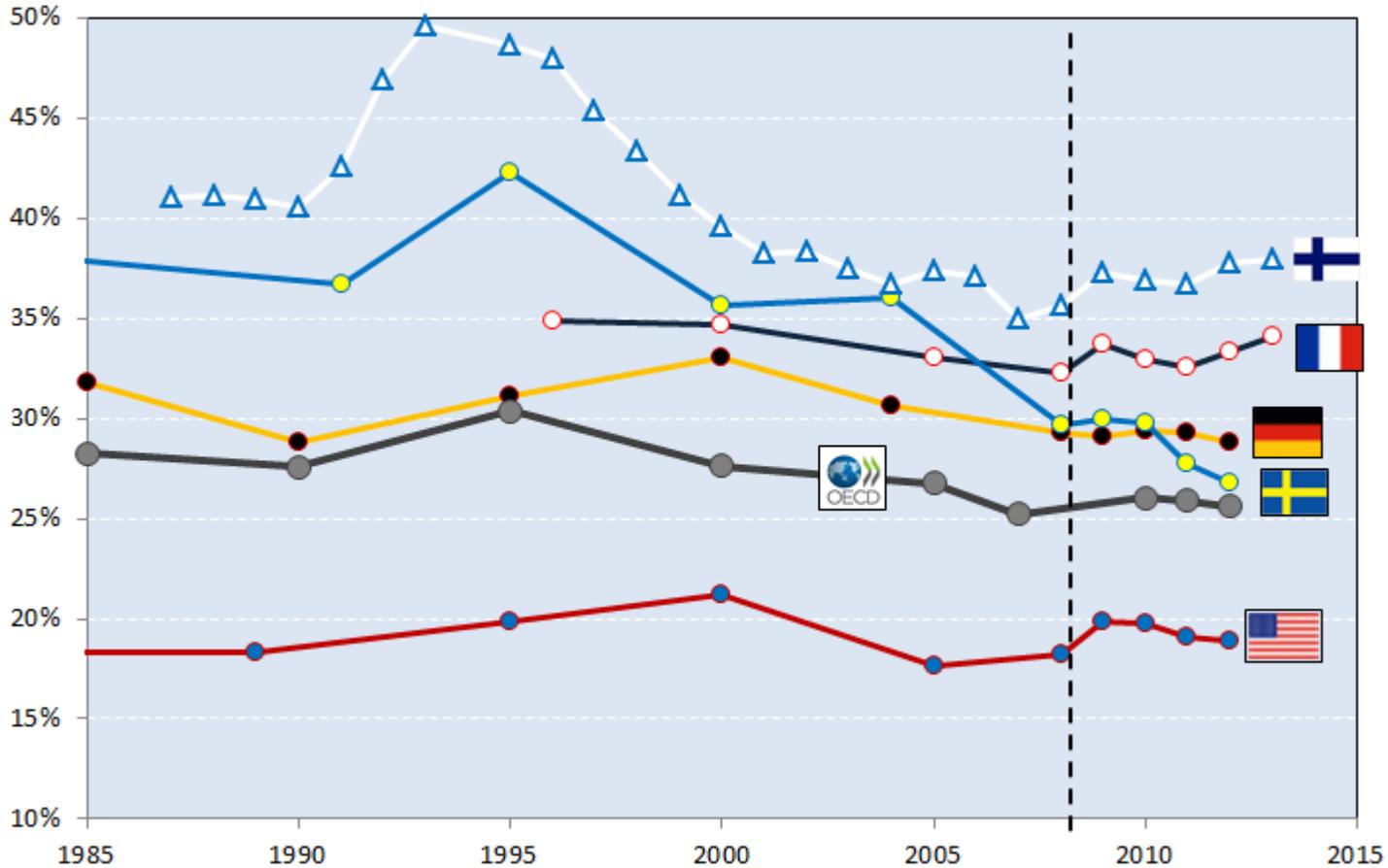
Poverty rates for each age group  
OECD average (left panel) versus USA (right panel)



# Redistribution became weaker in most countries until the onset of the crisis



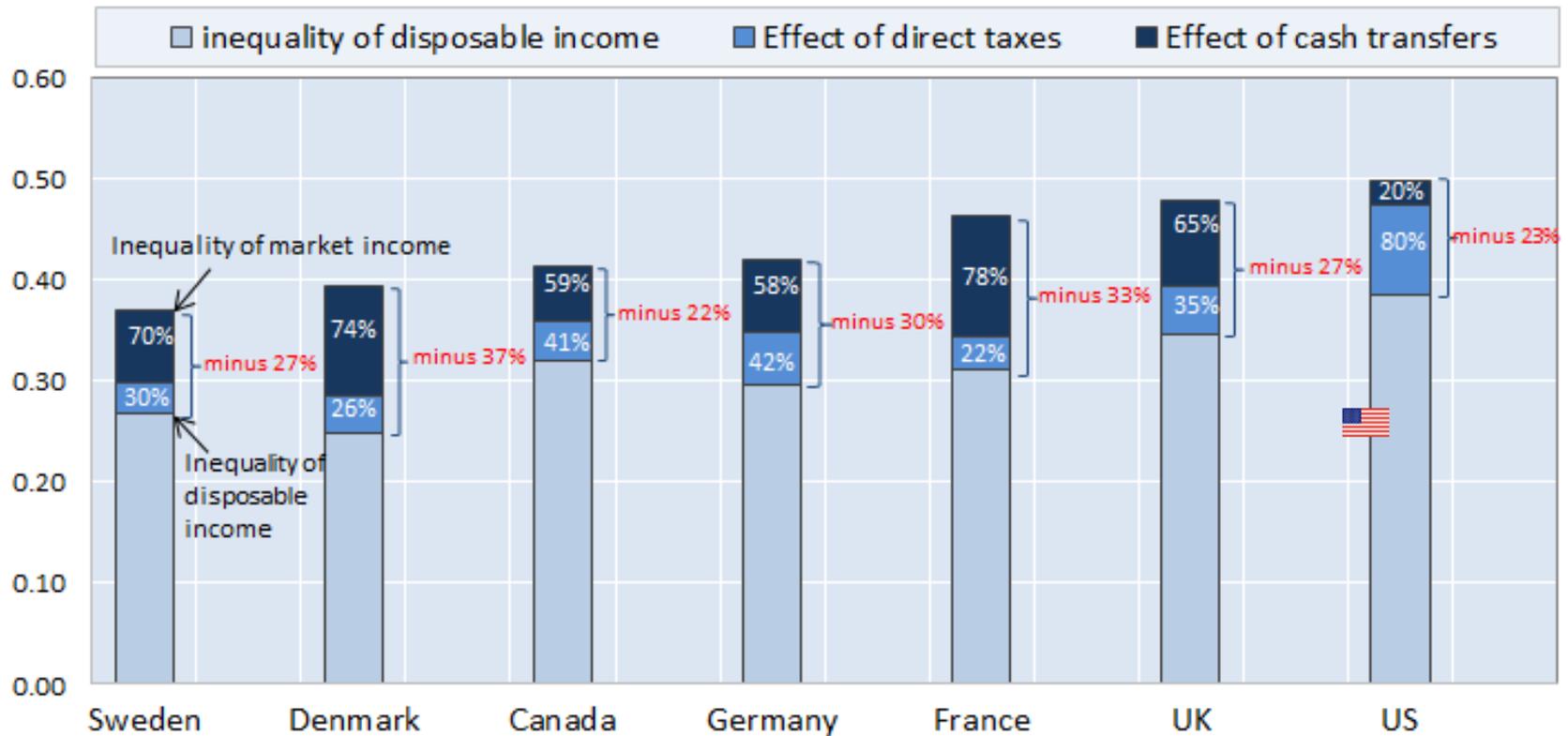
## Trends in market income inequality reduction, working age population



# Cash transfers do more redistribution than taxes, except in the United States



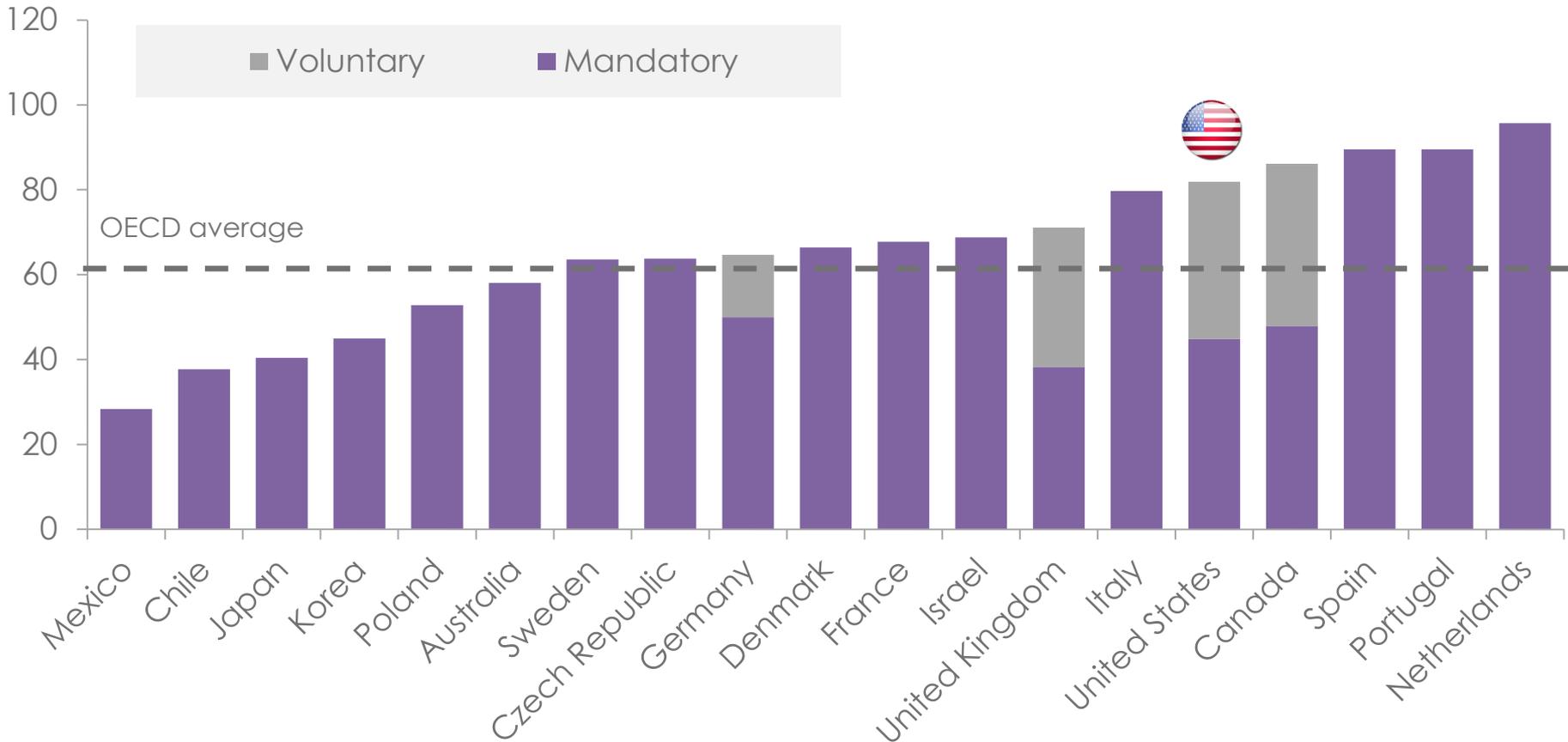
Respective redistributive effects of direct taxes and cash transfers, 2011



# Full career workers might have above average replacement rates, if they have voluntary pensions

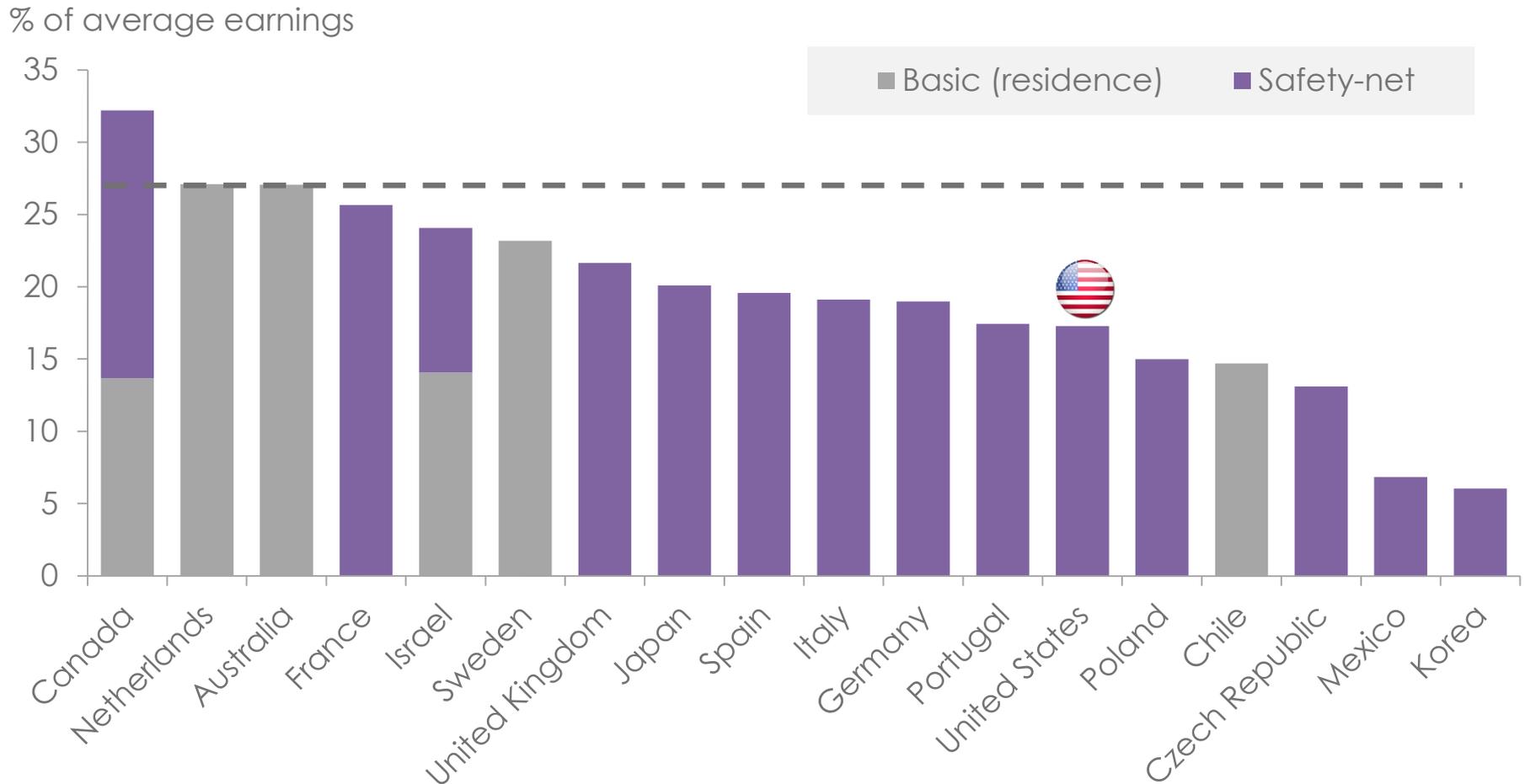


Net pension replacement rates for average earners, % of individual earnings



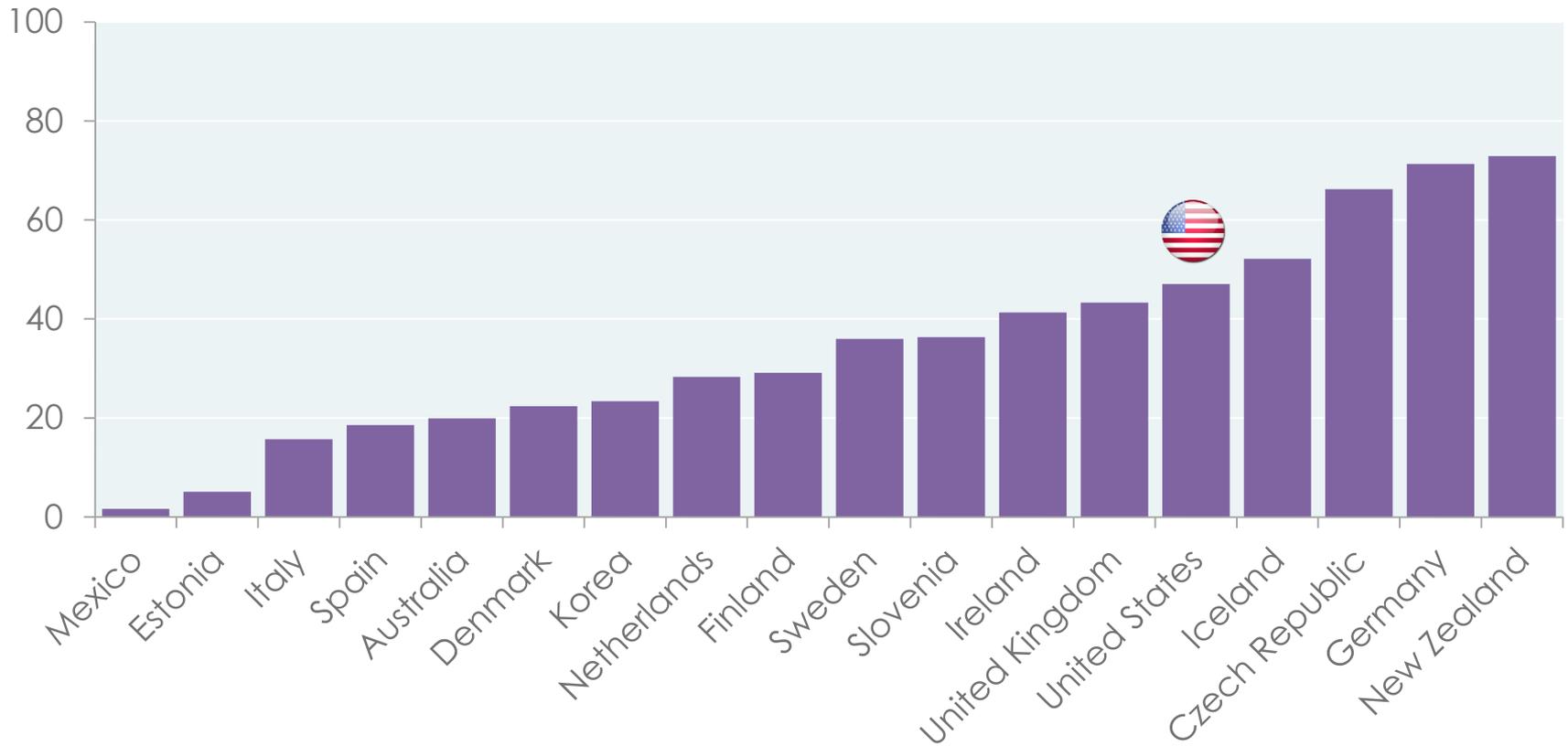


## Value of first-tier benefits as a percentage of average earnings



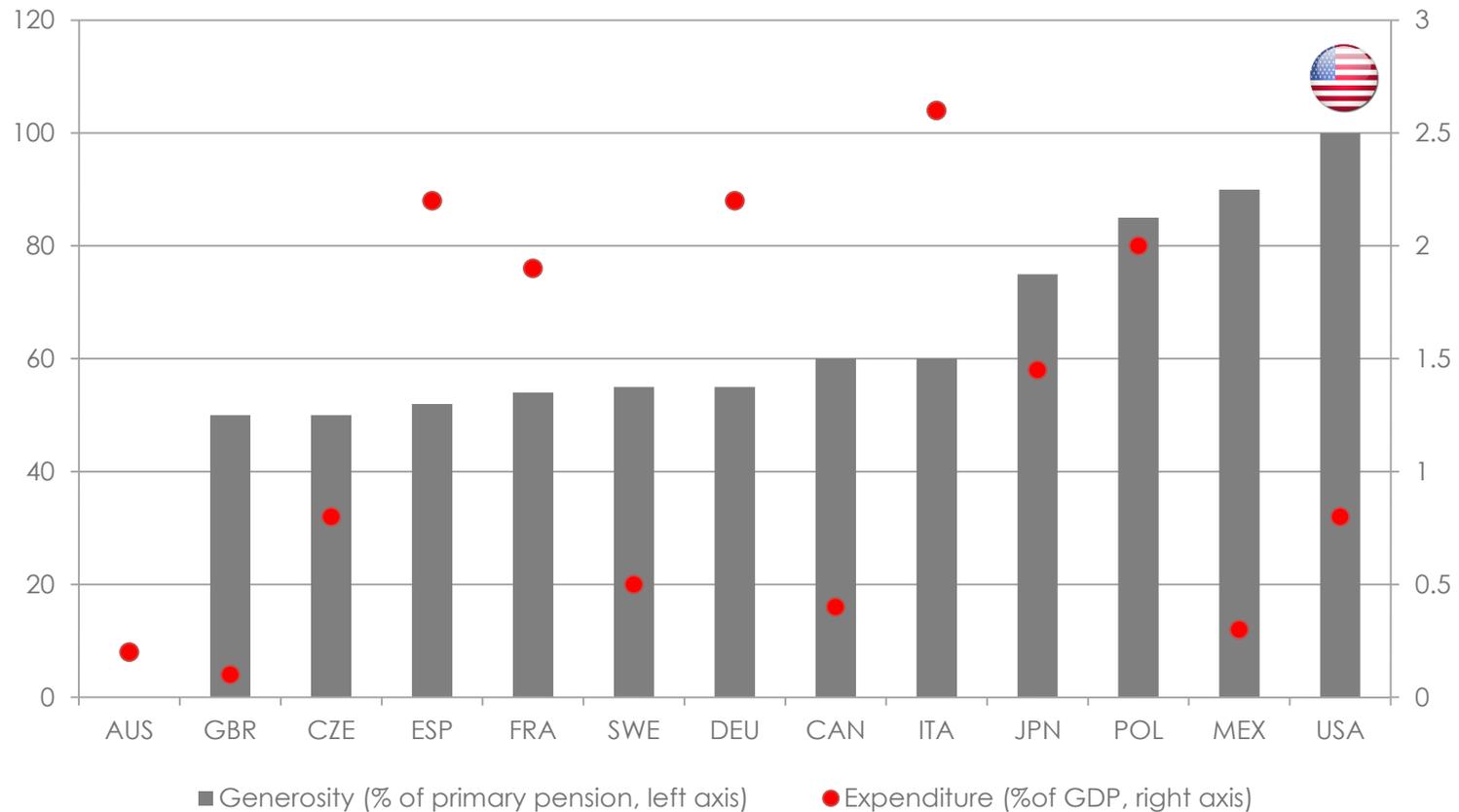


## Coverage of private pension schemes as a percentage of those aged 15-64, 2013





## Survivors' pensions as a % of primary pensions and public expenditure on survivors' pensions



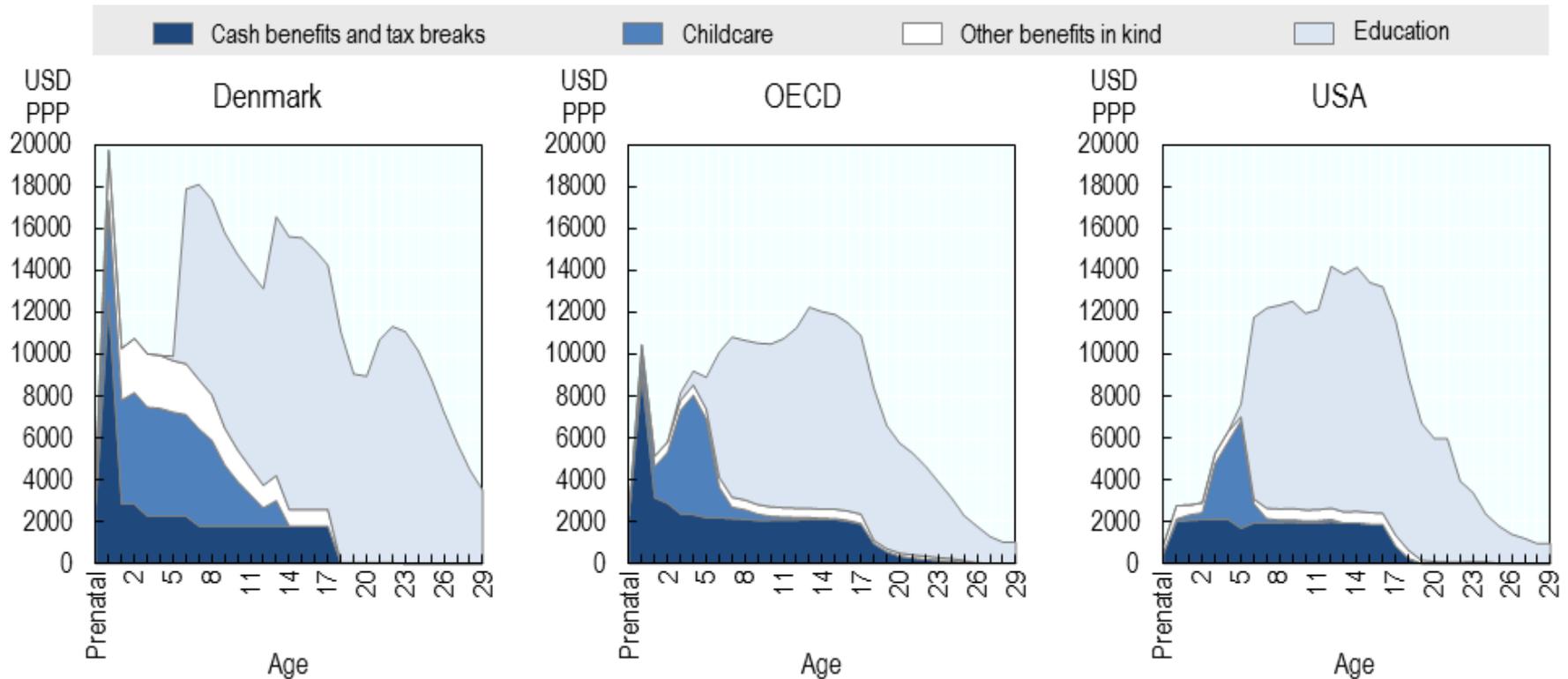
Source: Whitehouse, E.R. (2013), "Adequacy and Sustainability of Pension Systems: Evidence from Europe", OECD Social, Employment and Migration Working Paper, OECD Publishing; James, E. (2009), "Rethinking Survivor Benefits", World Bank, Social Protection and Labor Discussion Paper, No. 928.



1. Half of all countries have **raised the statutory retirement** age: to increase by 1.5 years on average
2. Direct **cuts in pensions** rare: Indirect cuts were more frequent via less generous indexation, tighter targeting
3. Increase in **targeted benefits** (eg Ireland, Japan, Luxembourg) and reduction in the impact of career breaks on pensions (eg France, Germany, Canada)
4. More **financial incentives to work longer** and greater flexibility to combine work and pensions (eg Australia, Austria, Canada, Norway, Sweden)
5. **Extend coverage** through softer eligibility conditions (eg Japan), new targeted benefit (eg Korea), matching contributions/auto-enrolment of voluntary schemes (eg New Zealand, Canada, UK), new scheme (MyRA in the USA)
6. **Higher contributions** in DC schemes (eg Australia, Israel, Norway, UK)



## Average social spending by age of child in USD PPP, 2011



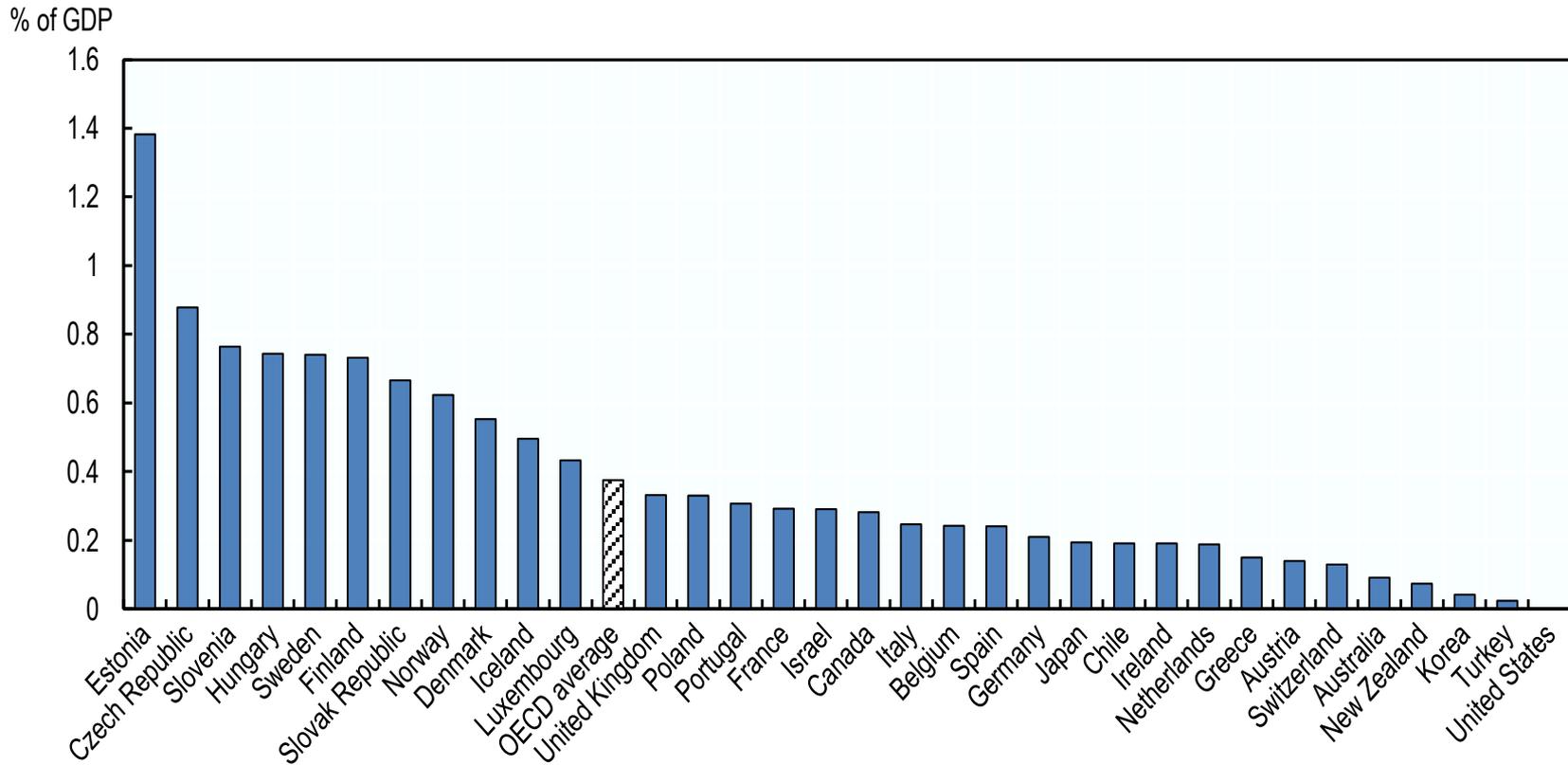
Note: The spending profile for the United States includes public spending on the Earned Income Tax Credit (EITC), which is largely paid to working families with children

Source: OECD Family Database

# The U.S. is the only OECD country without national paid parental leave



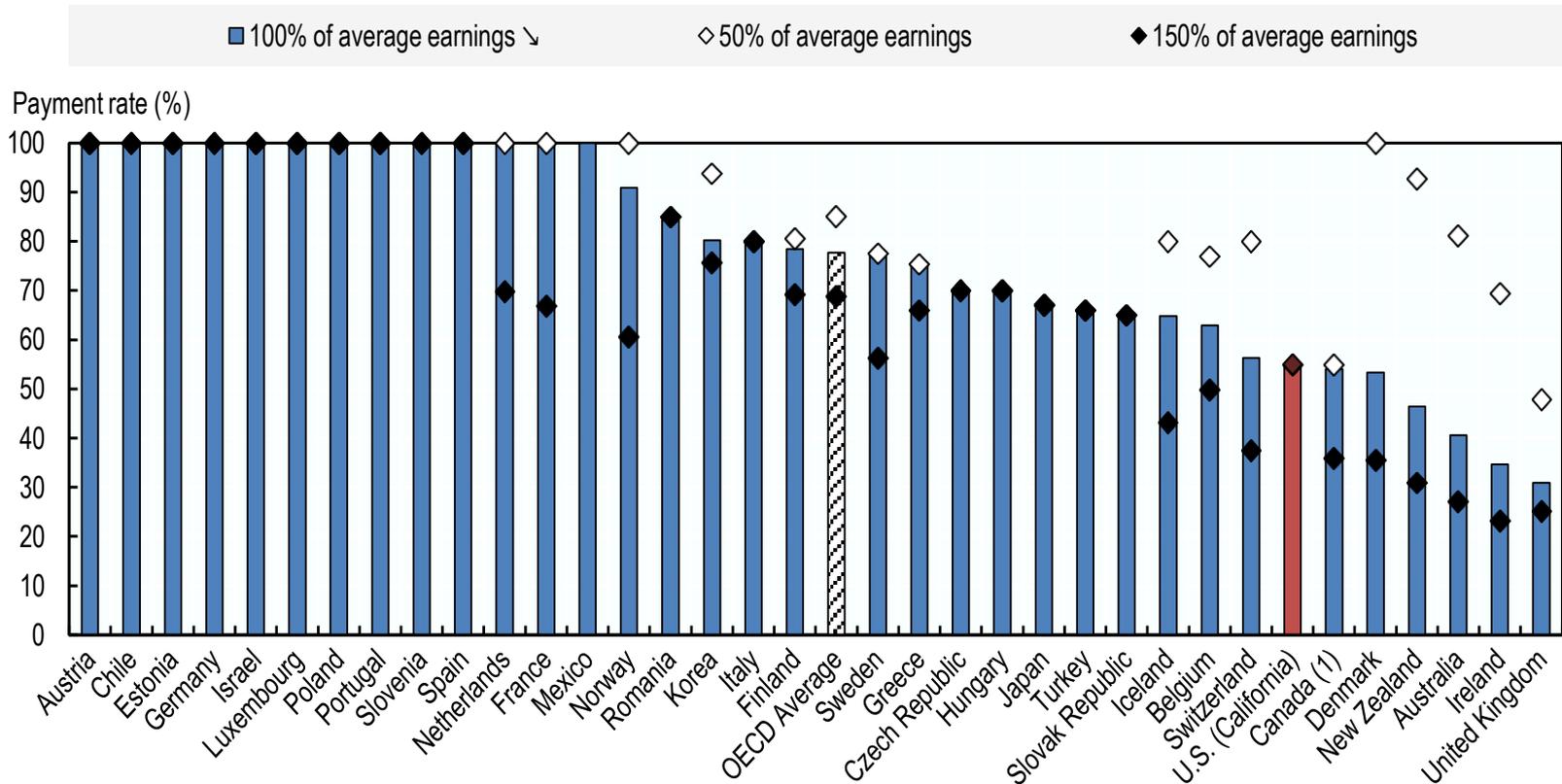
Public expenditure on maternity, parental and paternity leave, as a % of GDP, 2011



# Leave payment rates in California compare well with maternity payment rates in other Anglophone countries



Proportion of previous gross earnings replaced by maternity benefit across paid maternity leave (short-term disability insurance and paid family leave for California), by level of earnings, 2013

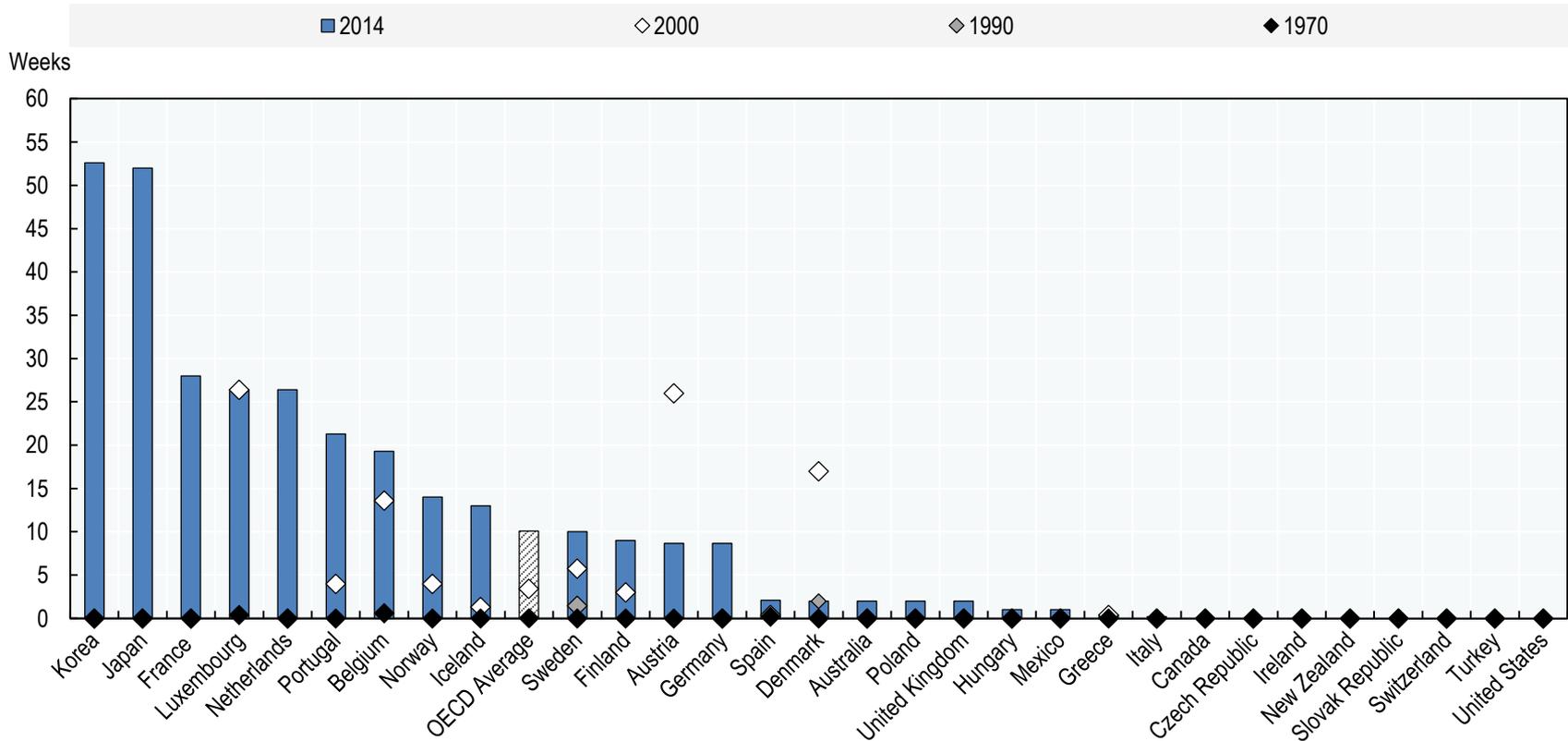


Source: OECD Family Database and data provided by the State of California, Employment Development Department, the "Disability Insurance and Parent Leave Weekly Benefit Amounts" schedule for 2013

# In the past 15 years, about 1/3 of OECD countries have increased fathers' leave



## Length of paid leave reserved for fathers, 1970, 1990, 2000 and 2014 In weeks



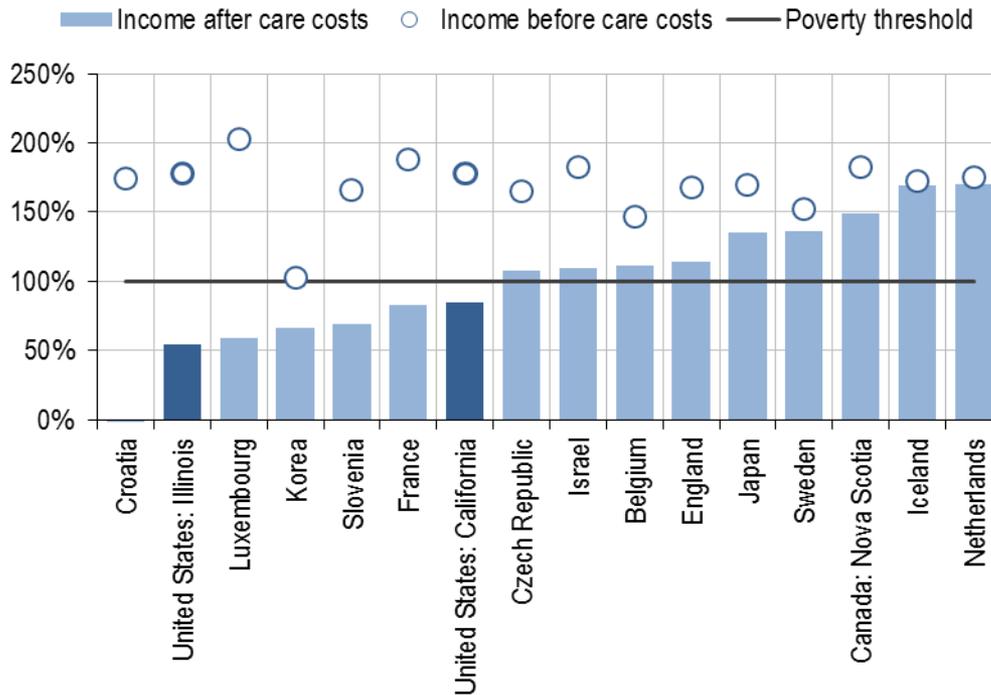
Source: OECD Family Database

Note: Information refers to entitlements to paternity leave, 'father quotas' or periods of parental leave that can be used only by the father and cannot be transferred to the mother, and any weeks of sharable leave that must be taken by the father in order for the family to qualify for 'bonus' weeks of parental leave.



## Home care

Disposable income as a proportion of the poverty threshold for over-65s with median income receiving home care for moderate needs (2014 estimates)



### The situation in the United States

- People **not protected from poverty risks**
- Medicaid provides a safety net guaranteeing a minimum level of remaining income
- But in many states this is well below the relative poverty threshold

### What other countries are doing...

#### Comprehensive coverage

- e.g. Netherlands and Sweden
- Out-of-pocket payments low for everyone
- No one pushed into poverty by care costs
- High public expenditure ~3-4% GDP

#### England

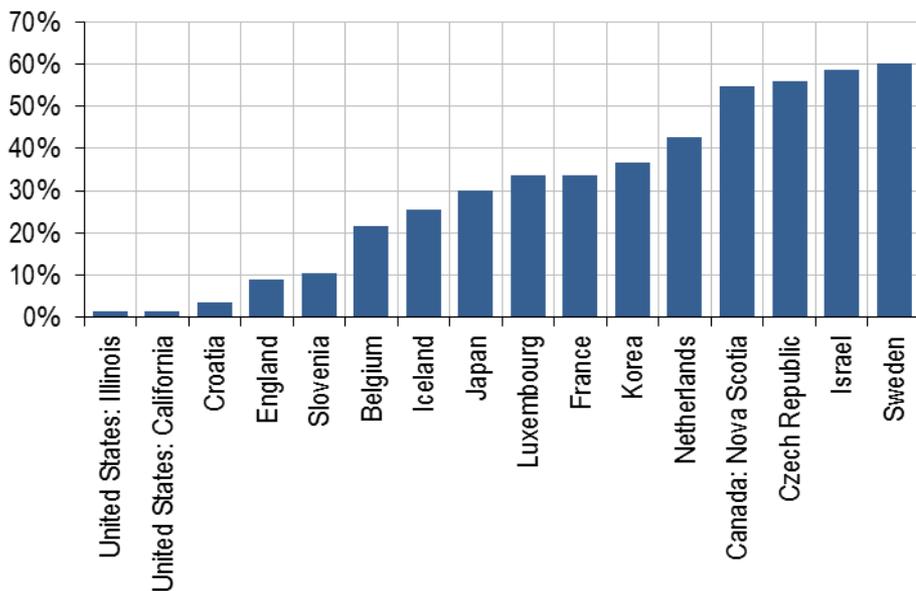
- Similar system to the US but higher income guarantees just above poverty threshold
- People who *qualify for social care* are protected from poverty risks
- Lower public expenditure ~1% GDP



## Institutional care

### Proportion of income remaining after care costs

for over-65s with median income receiving institutional care for severe needs (2014 estimates)



A number of countries effectively set a level of “pocket money” that people in institutional care are allowed to keep – but **the US is the least generous.**

	Pocket money per month (2014)	% median over-65 income
Illinois	\$33	1.4%
California	\$38	1.6%
Croatia	kn 100	3%
England	£108	9%
France	€96	10%
Luxembourg	€442	13%
Iceland	kr 74,696	26%
Netherlands	€662	39%



## England: managing budgets cuts and providing universal coverage

- Considering adding universal element to safety net system
- Plans delayed due to tight fiscal climate
- Budget cuts have led to services being restricted to those with most severe needs

## Netherlands: containing increasing public spending

- Very comprehensive coverage
- Public spending has risen quickly in recent years and is the highest in the OECD
- Major reforms aim to contain costs without undermining protection
- Focus on involving families more in care

## Slovenia: simplifying the system and providing more protection

- System currently fragmented with some gaps in coverage
- Major reforms aim to simplify multiple benefits and provide more comprehensive coverage
- Public spending expected to increase

## Japan: managing rising costs in the world's oldest society

- Social insurance scheme introduced in 2000
- Comprehensive coverage: at least 80-90% of the cost of care
- Cost have risen since introduction
- People with lower-level needs moved to prevention scheme to try to contain costs



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