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Less is More? 20 years of changing minimum income protection for old Europe's elderly

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ABSTRACT

Over the past two decades, pension reforms have been at the top of the agenda of social policy makers in Europe. In many countries, these reforms have resulted in less generous public pensions. At the same time, minimum income protection for the elderly has received attention from policy makers, but much less so from social policy researchers. Therefore, in this paper, I explore how benefit levels of non-contributory minimum income schemes for the elderly have evolved between 1990 and 2009 in 13 'old' EU member states. Building on two new cross-national and cross-temporary comparable datasets on minimum income protection in Europe, it is shown that over the past 20 years the erosion of the principal safety net of last resort for elderly persons has been limited. Moreover, in a substantial number of European countries a deliberate policy of large increases in minimum income benefits has been pursued, leading to a remarkable convergence of relative benefit levels.

JEL: H55, I38, J26

Keywords: European Union, elderly, minimum income protection, social assistance, basic pension, conditional basic pension, social pension, minimum pension, minimum benefit, benefit level, convergence

Over the past 20 to 30 years, current and projected increases in public pension spending have led to the implementation of widely documented pension reforms in the North, East, South and West of Europe (e.g. Natali, 2008; Fultz, 2004; Immergut et al., 2007; Hinrichs, 2000; Bonoli and Palier, 1998; Kangas et al., 2010; Müller, 2002; Bonoli and Palier, 2007; Holzmann et al., 2009; Ebbinghaus, 2011). Authors have mainly focused on the politics of pension reform and its results in terms of changes to the main public pension scheme and the public-private mix in old-age provision. As has been observed by Zaidi et al. (2006: 3), "[a] common trend is that the pension benefits drawn from the public pension systems are on the decline, and thus the average public pension benefit ratio has dropped in the majority of the countries. Moreover systematic reforms have changed the nature of pension provision from defined benefit type provisions to defined contribution type provisions. In general, but with exceptions, this type of change is likely to shift more risks towards individuals [...], with a more restrictive redistribution in favour of the lower income individuals." (see also Grech, 2012) Unfortunately, in the literature on pension reforms, less attention has been paid to changes in minimum income protection schemes for Europe's elderly (some exceptions can be found in Immergut et al., 2007; and Pearson and Whitehouse, 2009).

In this article, I contend that the limited attention paid to minimum income protection for the elderly is unjustified because (1) it is an important element in alleviating poverty in old-age, (2) it is likely to become more important in the future, and (3) trends in minimum income protection may be very different from trends in overall pension reform. Therefore, I explore how non-contributory minimum income schemes for the elderly have evolved over the past 20 years in 13 'old' EU Member States. On the basis of two new data sources, particular attention is paid to trends in benefit levels and the number of beneficiaries, two key variables which determine the poverty-reducing impact of minimum income schemes.

The article is structured as follows. In the first two sections I provide more background information on the research question and propose a terminological clarification with regard to different types of non-contributory minimum income schemes for the elderly. In the next section, I sketch an overview of non-contributory minimum income schemes targeted at the elderly in the early 1990s. Subsequently, I shortly discuss the CSB-MIPI and EuMin data sets which I will use in the following section to document developments in minimum income schemes targeted at the elderly over the past twenty years. In the last analytical section the question is asked whether benefit generosity has converged in the EU15. The article concludes with a discussion of the implications of the findings.

1. Background

Although non-contributory minimum income schemes targeted at the elderly have largely been neglected in the literature on pension reforms, a focus on minimum income guarantees is justified for an interrelated set of reasons. First, the provision of adequate levels of retirement incomes to ensure that elderly people do not face a risk of falling into poverty should be one of the core objectives of pension policy, as has been emphasised at the Laeken European Council in 2001 and confirmed in 2006 (European Commission, 2010a: 16; cf. Eckardt, 2005: 253-254; 2006: 10-11)[1]. Recently, this has been re-confirmed by the European Commission (2010b) in its Green paper on the future of pension reforms. Minimum income guarantees are a crucial part of old-age income provision in terms of alleviating poverty in old age, especially for persons with 'incomplete' careers or low earnings throughout their working lives (e.g. European Commission, 2006: 56). Therefore, a good understanding of the dynamics of minimum income protection is not only relevant for evaluating whether pension policy invests sufficiently in meeting one of its core objectives, but also for explaining cross-national and cross-temporary differences in old-age poverty.

Second, in a substantial number of countries minimum income guarantees for the elderly are likely to become more important in the future due to a tendency in recent pension reforms to re-strengthen the link between contributions and benefits, a growing reliance on defined-contribution (private) pensions, a projected fall in public pension replacement rates in a good deal of EU member states, a growing reliance on price indexation as well as improved benefit levels of the minimum income guarantees themselves (Meyer et al., 2007; European Commission, 2009: 27-28; e.g. European Commission, 2005; OECD, 2009; Whitehouse et al., 2009; Zaidi et al., 2006; Monacelli, 2007). As a result, a good understanding of the dynamics of minimum income protection in the past, may be helpful to better foresee and comprehend the future.

Third, there are good reasons to assume that the dynamics of reform of non-contributory minimum income protection schemes are different from contributory earnings-related pension schemes. This is not only because both types of schemes tend to serve a different purpose (crudely poverty avoidance, respectively income maintenance), but also because reforms to minimum income benefits tend to affect current pensioners whereas pension reforms to contributory schemes tend to be implemented with long phase-in periods (and affect a different group of voters). Hence, there is no reason to assume that changes to minimum income protection schemes have gone in the same direction as overall pension reforms.

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1 Of course, the importance of this goal has varied over time and across countries, Germany is an example in point, see Berner (2005: 16-17).

For these reasons, in the next sections I will track the changes to non-contributory minimum income schemes in 13 'old' EU member states, mainly focusing on those aspects which tend to most directly affect the poverty-reducing capacity of minimum income benefits: the mode of access and the level of benefits.

2. Types of minimum income schemes

Before discussing the evolution of minimum income schemes for the elderly, it is helpful to clearly define different types of minimum income protection schemes. As is also the case for other areas of social policy, the Babylonian swamp of minimum income schemes for the elderly is populated by many different terms which may denote the same type of benefit as well as similar terms which are used to indicate very different types of schemes. In order to overcome these language problems, I follow the categorisation introduced by Goedemé (2012). On the basis of the mode of access (i.e. eligibility criteria) *non-contributory* minimum income guarantees targeted at the elderly can be subdivided into at least three types: basic pensions, conditional basic pensions and social pensions.

Basic pensions are demogrants or universal benefits (cf. Perrin, 1967; Deleeck and Cantillon, 1986). They are granted to all citizens above a certain age, regardless of other sources of income. However, other conditions – especially with regard to residence history – may apply, both for establishing eligibility and defining the benefit level. Similar to basic pensions, **conditional basic pensions** are granted to all citizens above a certain age. In contrast to basic pensions, the level of conditional basic pensions is reduced depending on the level of other (public) pension income in order to top up total (public) pension income to a pre-defined level. In several cases eligibility and the level of the benefit is also dependent on the residence history of the claimant. The third category consists of categorical means-tested **social pensions** targeted at the elderly. Administratively, social pensions may be part of a general social assistance scheme or can be part of the public pension system. Eligibility depends on a means test which takes, apart from pensions, also other income sources into account. Sometimes a minimum residence record of several years before submitting the claim is required.

In addition to these minimum benefits, in a majority of EU member states *contributory* minimum income guarantees are available to the elderly such as contributory minimum pensions and means-tested pension supplements. Finally, in several European countries the general social assistance scheme remains the typical formal safety net of last resort for elderly without sufficient pension entitlements.

3. Origins and situation in the early 1990s

Apart from a few exceptions, guaranteed minimum incomes ensured as a right to all persons above a certain age are a relatively recent phenomenon. What is remarkable however, is that in nearly all EU15 countries, the elderly were the first category in the population which was covered by a modern minimum income protection scheme. Only later on, general or categorical social assistance schemes have been added in order to cover the entire population.

A few governments initiated minimum income protection regardless of past contributions and targeted at the elderly well before the Second World War. Denmark (1891), France (1905) Sweden (1913) as well as the UK (1908) and Ireland (1908/1924) all developed in the late 19th – early 20th century (partly) means-tested benefits targeted at the elderly[2]. However, they – and Denmark in particular – did not provide a minimum income guarantee in its modern sense (i.e. as a right), differences between local communes (Denmark, France) persisted, and relatively important levels of discretion aimed at distinguishing between the deserving and non-deserving poor continued to exist (Nørgaard, 2000: 193-195; Baldwin, 1990: 69-71; Petersen, 1990: 71-72; Overbye, 1997: 102-104; cf. ILO, 1936a: 284-286). Moreover, the level of benefits was very low, mainly aimed at supplementing income from work (Myles, 1984: 16). Nevertheless, the development is remarkable, as it took (large segments of) the elderly out of the field of the very stigmatizing poor relief of the day. In addition, this evolution contrasts sharply with what happened in most of Continental and Southern Europe. In the latter parts of Europe, public contributory pensions have been introduced as an answer to old-age poverty (cf. Palme, J., 1990), leaving elderly without sufficient entitlements until the second half of the 20th century behind. By the early 1990s, every EU15 country guaranteed some form of non-contributory minimum income to its elderly population. At the start of the 1990s three different groups can be discerned in function of the main non-contributory minimum income scheme for the elderly: basic pension countries, countries with social pensions, and social assistance countries.
In the late 1940s and the mid-1950s Sweden (1946/1948), Denmark (1956), Finland (1956) as well as the Netherlands (1957) converted means-tested minimum income schemes targeted at the elderly into non-contributory basic pensions. The latter were not intended to be the final safety net for the elderly, but rather constituted the cornerstone of the

[2] Some of the measures were also targeted at the disabled and not only at the elderly. The British Old-Age pension Act of 1908 has been implemented in the Irish Free State only in 1924 (Palme, J., 1990: 43). Sweden is a somewhat ambivalent case, as the principal part of the 1913 pension reform consisted in the introduction of universal insurance.

new public pension systems (Palme, J., 1990; Overbye, 1997; Myles, 1984; Kapteyn and de Vos, 1999). At the start of the 1990s, a part of the basic pension was means-tested in Denmark and tested against other pension income in Finland and Sweden. Importantly, in all countries entitlement to and the level of the benefit strongly depended on the number of years of residence, which meant that especially for migrants the general social assistance scheme remained the safety net of last resort. Nonetheless, the principal non-contributory minimum income scheme targeted at the elderly consisted of the basic pension.

In nearly half of the EU15 countries, modern categorical social pensions have been introduced as the public safety net of last resort for the elderly. In France (1956), Belgium (1969), Italy (1969), Portugal (1974) Greece (1982) and Spain (1991), these minimum income schemes developed before the general social assistance scheme for the total population (insofar as the latter has been developed afterwards) and were from the start a categorical means-tested scheme targeted at the elderly, with its own institutional design, separate from other social assistance initiatives (cf. Eardley et al., 1996; Immergut et al., 2007; Horusitzky et al., 2005; Overbye, 1997; Matsaganis et al., 2003; Deleeck et al., 1980: 34-37; Cantillon et al., 1987: 98-101; Denaeyer, 1969; Augris and Bac, 2009: 23-24; Nauze-Fichet, 2008; Sacchi and Bastagli, 2005). In Spain some non-contributory means-tested benefits targeted at the elderly existed from before 1991 which are since then subject to a long phasing-out period (*Pensiones Asistenciales* and *Subsidio de garantía de ingresos mínimos*) (Arriba and Moreno, 2005: 160-167), but they were discretionary and not based on specific rights such that claimants could not appeal against their denial (Chuliá, 2007: 533). Although Ireland also developed categorical social assistance targeted at the elderly, it stands somewhat apart from the other countries. In contrast to the continental and Southern European countries, Ireland was much later in introducing contributory pensions. As a result, the means-tested scheme implemented in 1924 remained much more relevant for income provision in old age than in other EU countries and became one of the most important of the many Irish categorical social assistance schemes (cf. Eardley et al., 1996).

In the third group of countries, in the early 1990s, the main safety net of last resort for the elderly was the general social assistance scheme. Although with a large difference in timing, both the United Kingdom (1908) and Luxembourg (1960) first introduced categorical means-tested minimum income schemes for the elderly before generalising these schemes to the entire population (respectively in 1948 and 1986) (National Statistics, 2005: 2-3; Atkinson, 1991: 120; Eardley et al., 1996: 254-255). In contrast, in West Germany (1961/1962) and Austria (1970s), from the start modern minimum income protection for the elderly consisted of the general social assistance scheme, even though for some specific groups of elderly persons categorical schemes had been introduced in the inter-war period. In both countries, social assistance has a strong regional dimension, and even more so in Austria than in Germany (ILO, 1936a: 344-346; 1936b: 58-62; Knoll, 1955; Bahle et al., 2011; Lampert, 1980: 409-416; Böhme, 2005: 7-9; Eardley et al., 1996: 161-162). Whereas in Germany the benefit rates were defined by the regions, but within a national upper and lower limit set by federal law, social assistance was fully defined at the regional level in Austria resulting in large differences between regions (e.g. with regard to benefit levels, means tests, and the requirement to pay back received benefits if possible) (Schmid, 2008: 7-9; Leibetseder and Kranewitter, 2010; Bahle et al., 2011: 53-57; Pfeil, 2001: 49-50; Fuchs, 2007: 9-11). In East Germany, people had to wait until the re-unification for the first modern social assistance scheme with a legal right to social assistance. In spite of the unification, several differences with the 'old *Länder*' remained until 1996 (Hockerts, 1994; cf. Hanesch et al., 1994: 120-121; Willing, 2008: 386-388). Remarkably, in Austria, Germany and the United Kingdom long-term beneficiaries such as persons above the legal retirement age were entitled to 'above-normal' benefit levels (Eardley et al., 1996: 45, 164-167; Schmid, 2008: 28; Evans and Williams, 2009: 99-101; 172-175; Glennerster, 2007: 258-259). On top of these higher rates, in four Austrian regions (Burgenland, Carinthia, Upper Austria and Vienna) additional top ups were provided to the elderly (Pfeil, 2001: 219-225; Fink and Grand, 2009: 15; Fuchs, 2007: 11-12)[3].

In addition to these non-contributory minimum income schemes (basic pensions, social pensions, general social assistance and a conditional basic pension), in most countries other types of *contributory* minimum income guarantees have been introduced. In Belgium, Spain, France, Greece, Luxembourg, Portugal and the United Kingdom large groups of pensioners are protected either by minimum pensions or flat-rate pensions. In addition, similar to the Austrian *Ausgleichszulage*, Italy *(Integrazione al Trattamento Minimo*) and Spain (*Complementos de Mínimos de Pensiones de la Seguridad Social*) provided hybrid pension supplements which were both dependent on past contributions and a means test (Matsaganis et al., 2003; Arriba and Moreno, 2005; Sacchi and Bastagli, 2005; Monacelli, 2007). A detailed overview of the pension systems in the EU15 countries and the pension reforms implemented since the early 1980s can be found in Immergut et al. (2007).

4. Two new data sources

The main focus of the analysis that follows is on the generosity of non-contributory minimum income schemes. This will be illustrated by the

[3] Furthermore, in the United Kingdom elderly persons aged 80 and over with a limited contributory state pension could, since 1971, fall back on the category D pension, a conditional basic pension (Perry, 1986: 171; Blake, 2003).

evolution of gross benefit levels in constant prices and in comparison with the average gross wage. Data on gross benefit levels and average gross wages are derived from the Herman Deleeck Centre for Social Policy Minimum Income Protection Indicators dataset (CSB-MIPI). A detailed description of assumptions, procedures, strengths, weaknesses and an overview of the national experts involved in the project can be found in Van Mechelen et al. (2011). Due to data limitations, the evolution of gross benefits is discussed from 1992 until 2009. The figures on benefit levels refer to 'maximum' gross benefits for elderly couples, i.e. the level of the minimum income guarantee that elderly couples would receive if they would have no other income apart from the minimum income guarantee (such as housing benefits, income from work or other pension income)[4]. In addition, if relevant, it is assumed that beneficiaries have a complete residence record. CSB-MIPI also includes model family simulations of net benefit levels to which I will occasionally refer. These model family simulations take also non-discretionary housing benefits, taxes and social contributions into account.

In addition, minimum income dynamics are illustrated by the number of beneficiaries of the non-contributory minimum income schemes. These data are derived from the Dataset on Minimum Income Protection in Europe (EuMin), compiled at the Mannheim Centre for European Social Research (MZES) (Bahle et al., 2011). Unfortunately, the database does only cover a selection of years for the 1990s. For the Nordic countries, the Netherlands, Italy and Greece I build on administrative sources to complete the database. The number of beneficiaries usually refers to the situation on December 31st of each year.

Table 1 provides a detailed overview of the schemes included in the analysis. Given that in Luxembourg no special provisions exist for the elderly (within the general social assistance scheme) and that in Austria these are defined at the regional level, the latter two countries are not included in the discussion that follows. When a new minimum income scheme is introduced, in many cases this only applies to new beneficiaries entering the scheme. In these cases, gross benefit levels refer to the new scheme, whereas caseloads refer to the total number of beneficiaries of both the old and the new non-contributory minimum income scheme.

[4] In principle the figures are based on yearly amounts divided by 12. In the case of Italy amounts correspond to the *pensione sociale* including pension supplements for persons below the age of 70 and from 1996 onwards to the *assegno sociale*.

Table 1: Overview of minimum income schemes included in the analysis

	1990	1991 – 1994	1995	1996 – 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 – 2009
BE	Gewaarborgd Inkomen voor Bejaarden (SP)						Inkomensgarantie voor ouderen (SP)						
DE	Sozialhilfe (GSA)								Grundsicherung im Alter und bei Erwerbsminderung (SP)				
DK	Folkepension (BP+SP)												
ES		Pensión no Contributiva de Jubilación (SP)											
FI	Kansaneläke (BP + CBP)			Kansaneläke (CBP)									
FR	Minimum Vieillesse (SP)												Allocation de solidarité aux personnes âgées (SP)
GR	OGA for the uninsured (SP)												
IE	Old-Age Pension (Non-Contributory) (SP)											State Pension (Non-Contributory) (SP)	
IT	pensione sociale (SP)		Assegno sociale (SP)										
NL	Algemene Ouderdomswet (BP)												
PT	Pensão social de velhice (SP)											Complemento Solidário para Idosos (SP)	
SE	Folkpension (BP) + Pensionstillskott (CBP)								Garantipension (CPB)				
UK	Income Support (GSA)				Minimum Income Guarantee (SP)				Pension Credit (Guarantee) (SP)				

Notes: BP: basic pension; CBP: conditional basic pension; SP: social pension; GSA: general social assistance

Source: CSB-MIPI (Van Mechelen et al., 2011).

5. Trends in non-contributory pensions

By the end of the 1980s, under the pressure of fiscal imbalances and population ageing, in nearly all EU15 countries the trend towards extending and increasing pension rights had come to an end. At the same time, cost containment became the principal purpose of pension reform. Nevertheless, as we will see, the dynamics of reform have sometimes been very different in the area of non-contributory minimum income protection for the elderly. In the text that follows, I make a distinction between three different groups of countries, which I will discuss one after another. The first group consists of countries with a basic pension scheme. Given that basic pensions were in the early 1990s the foundation of the public pension system, in these countries major pension reforms affected almost by definition these schemes. This is very different in countries in which either a social pension or the general social assistance scheme (with special provisions for the elderly) constitutes the main formal safety net of last resort for elderly persons. Within this group, for ease of presentation, a distinction is made between countries with very strong growth in gross benefit levels and countries with moderate growth and declining benefit levels.

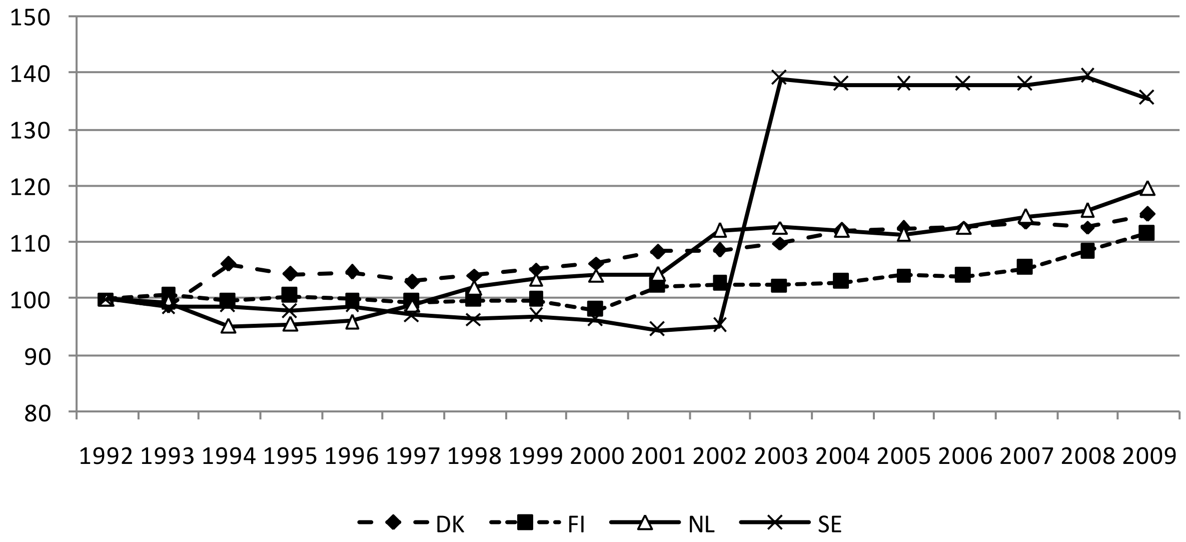
5.1. Basic pension countries

In contrast to the minimum income protection schemes in other countries, basic pensions are the cornerstone of the pension system in the Nordic countries and the Netherlands. Over the past 20 years, basic pension schemes have been radically reformed in Finland and Sweden. Finland was the first country to convert its basic pension into a pure conditional basic pension. From 1996 onwards the national pension was entirely tested against other public pension income, with a phase-out period until 2001 (cf. Social Insurance Institution (2002: 97), see also Table 2). Notably, whereas until 2000 benefit levels were in real terms still at their level of the mid-1960s (Kangas, 2007: 283), from 2001 onwards they have been gradually increased. Also in Sweden the basic pension has been replaced with a conditional basic pension (the *Garantipension*). As a consequence, since 2003 the number of beneficiaries has been halved (cf. Table 2). In addition, its gross level was increased in order to compensate for the abolishment of a tax allowance (launched in 1999). Consequently, in net terms, benefit levels increased much less (CSB-MIPI, own calculations). Given that the level of (conditional) basic pensions depends on the number of years one has resided in the country, people with a limited residence record could end up with a relatively low (conditional) basic pension. In the early 2000s, Sweden and Finland were the first of the four basic pension countries to introduce a social pension targeted at the elderly without a sufficient residence history (mainly immigrants). At least in Sweden this led to a significant decrease in the number of elderly social assistance beneficiaries, even though in both countries the number of beneficiaries of the new social pension is relatively low (less than 1 per cent of the population aged 65 and over (EuMin database))[5].

Less radical changes in the area of minimum income provision for the elderly have taken place in Denmark and the Netherlands. In the early 1990s Denmark increased the weight of the means-tested component of the basic pension by slightly increasing the means-tested part and decreasing the basic amount of the basic pension as well as by re-introducing a 'high-earnings test' in 1994 (Overbye, 1997: 107, 112). In addition, in 1994, the Danish *Folkepension* became liable to taxation (NOSOSCO, 1997: 97), and similar to Sweden, gross benefit levels increased, although net benefit levels did not (CSB-MIPI, own calculations). The level of benefits and access to the scheme were improved ten years later. First, a means-tested supplementary benefit (the so-called pensioners' cheque) was introduced in 2003 (OECD, 2009: 185). One year later, the retirement age was lowered from 67 to 65 years, which led to a substantial increase in the number of beneficiaries (e.g. Green-Pedersen (2007: 470), see also Table 2). Over the past 20 years, reforms of the Dutch *Algemene Ouderdomswet* have been limited to the individualisation of benefits, applied since 1994 (Kapteyn and de Vos, 1999: 276). As can be seen from Figure 1, in all four countries benefit levels did not increase much in the 1990s. In Sweden and the Netherlands they even slightly decreased in real terms due to a temporary suspension of indexation (Anderson, 2007: 730-731; Palme, M. and Svensson, 1999: 368). Although gross benefit levels increased in real terms during the 2000s, relative to average gross wages, benefit levels (strongly) declined in the Nordic countries and slightly increased in the Netherlands (see Table 3). In net terms, in all four countries minimum benefit levels lost ground to couples living on average male and average female earnings (CSB-MIPI, own calculations).

5 In 2011, the Finnish Special Assistance for Immigrants has been abolished. Since then, Finland has introduced a new conditional basic pension (the Guarantee Pension, *Takuueläke*), of which the benefit level is not dependent on the residence history. It co-exists with the national pension (*Kanseläke*), but has a higher benefit level and somewhat different pension test (Kela, 2011).

Figure 1: The evolution of gross basic pension levels for couples, in constant prices, 1992-2009



Source: CSB-MIPI version 2/2011 (Van Mechelen et al., 2011); Consumer price index: before 1996: Laborsta, from then on: HICP from Eurostat (last accessed on April 1 2011), own adaptations and calculations.

In 1997 Overbye (1997: 110-111) explained the evolution of basic pension countries. All of them first introduced universal means-tested benefits. Due to rising affluence, the number of citizens increased who paid for means-tested pensions without being likely to benefit from them in the future. As a result, means tests were made more generous or abolished altogether. Provided the public pension was their main source of income in old-age, further increases in the average standard of living implied that a growing section of voters could expect a dramatic drop in their income level when they reached retirement. In the absence of well-developed markets of private pension insurance, this increased the demand for public second-tier earnings-related pensions. However, once mandatory second-tier public (or occupational) pensions were well in place, much of the popular pressure for a high flat-rate minimum pension evaporated. In order to contain rising public expenditures as a result of earnings-related schemes, it became necessary to test increases in the tax-financed national pension at least against income from the new second-tier pension schemes, or to replace the national pension with various types of means-tested pension supplements, which are cheaper ways to provide a minimum pension guarantee. In addition, once income-testing becomes more important for the national pension, the number of persons who receive a national pension declines, and so does the number of voters dependent on it.

It seems that over the past 20 years, except for the Netherlands, the basic pension countries have further followed the path described by Overbye: Finland (1996) and Sweden (2003) converted their basic pensions into pension-tested benefits whereas means-testing was extended in Denmark with regard to the basic amount, and in the form of pension supplements. As earnings-related pensions were private (occupational) in the Netherlands and Denmark, the rationale for radically reforming the basic pension scheme in the direction of a conditional basic pension was much weaker in these countries than in Finland and Sweden. By limiting the indexation of benefit levels (the Netherlands and Sweden), increasing the means-tested component (Denmark) and increasing taxation on pensions (Denmark and Sweden), the relative cost of these schemes has also been kept under control.

Table 2: Number of beneficiaries of old-age non-contributory minimum income schemes as a percentage of the population aged 65 and over, 1992-2009

	1992	1995	1998	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Basic pension countries													
DK		88.8		89.3	89.5	89.7	89.8	92.7	99.4	101.6	101.9	101.6	101.0
FI	103.1	104.1	103.0	100.8	65.4	64.0	62.1	60.2	58.1	56.8	53.7	55.8	54.4
NL	107.0	107.5	107.9	108.4	108.8	109.2	110.2	111.0	111.6	111.8	112.5	113.2	113.8
SE		103.2		104.7	105.0	105.5	57.9	56.4	54.4	52.6	50.7	48.4	46.4
Strong growers													
BE	7.1	6.7	5.9	5.5	5.3	5.8	5.7	5.4	5.1	4.9	4.9	4.9	5.2
GR		2.1	2.0	2.2	2.4	2.6	2.7	2.9	3.0	3.1	3.2	3.2	3.3
IE	28.0	25.1	22.9	21.4	20.8	20.2	19.7	19.0	18.5	21.1	20.9	20.4	19.9
PT	9.0	5.8	4.4	3.4	3.2	3.1	2.8	2.5	2.3	3.1	5.0	10.5	13.9
UK	13.4	14.6	14.0	13.1	13.4	13.9	14.0	18.9	19.5	19.6	19.4	18.9	18.6
Moderate growth and decline													
DE	0.7	1.3	1.3	1.4	1.4	1.3	2.2	2.1	1.9	1.9	2.0	2.1	2.0
ES	1.1	3.0	3.4	3.4	4.0	4.0	4.0	3.9	3.9	3.8	3.7	3.5	3.4
FR	13.2	11.2	9.0	8.0	7.4	6.8	6.4	6.2	6.0	5.8	5.6	5.5	5.5
IT	8.4	7.6	6.9	6.5		7.0	6.8	6.8	6.8	6.7	6.6	6.6	6.6

Notes: In the basic pension countries the ratio may be higher than 100 per cent due to early retirement pensioners (FI), beneficiaries living abroad, or younger partners receiving a supplement (NL) being included in the numerator. [1]UK: number of beneficiaries aged 60 and over as a percentage of all persons aged 60 and over. Only beneficiaries in Great Britain taken into account. [2]IT: break in series in 2001.

Source: EuMin (Bahle et al., 2011). DK: NOSOSCO, various years. FI: Kela on line database (last accessed January 2012). SE: Pensionsmyndigheten on line database (last accessed February 2012). NL: CBS on line database (last accessed January 2012). IT: ISTAT (2002), INPS and ISTAT, yearly reports on social security and social assistance.

Table 3: Gross non-contributory benefit for an elderly couple as a percentage of the average gross male wage

	1992	1994	1996	1998	2000	2002	2004	2006	2008
Basic pension countries									
DK	91	90	83	76	73	72	74	70	65
FI	45	45	42	40	38	39	36	35	35
NL	42	39	40	44	43	46	46	45	45
SE	45	45	42	39	36	35	49	47	46
Strong growers									
BE	36	34	34	34	33	39	40	42	47
GR	10	17	16	17	21	23	26	27	35
IE	42	42	42	43	43	46	47	51	
PT	36	35	38	39	41	40	41	89	95
UK	29	30	29	28	28	31	32	32	33
Moderate growth and decline									
DE	25	24	18	18	17	19	18	21	20
ES	35	34	34	34	35	37	33	34	
FR	47	46	46	46	46	44	43	42	41
IT	39	37	35	35	41	43	42	41	40
Average	40	40	38	38	38	40	41	44	45

Notes: Breaks in series: BE 2001, DE 2002, ES 2003. Figures for 2008 in case of ES and IE not shown because of break in series in that year.

Source: CSB-MIPI version 2/2011 (Van Mechelen et al., 2011), own calculations.

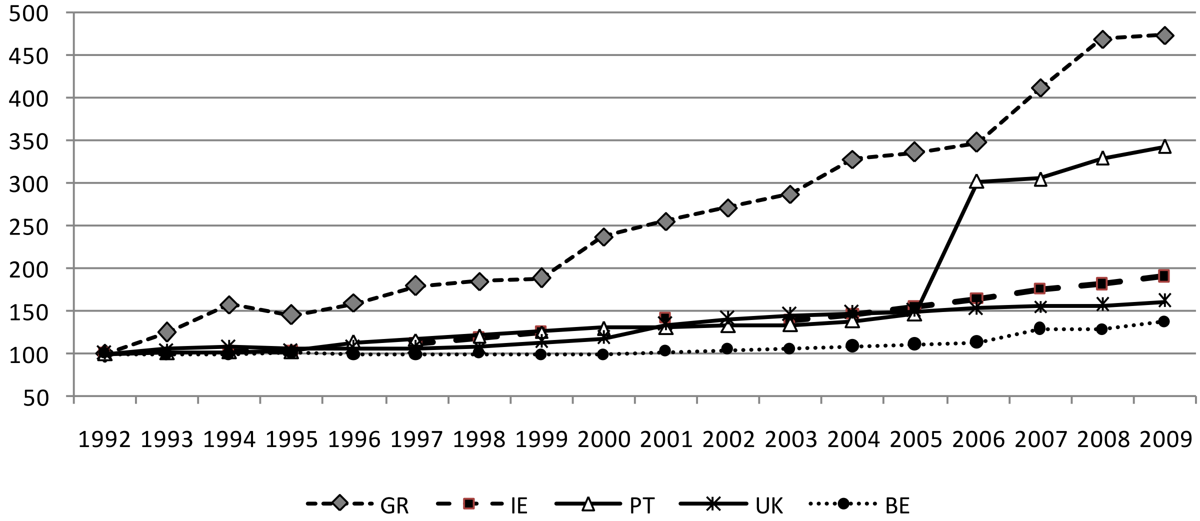
5.2. Strong growers

The previous group of countries differs strongly from the other EU15 countries in at least two important respects: First, the minimum income schemes in place at the start of the 1990s were the main building block of the public pension system. Second, given their function within the broader pension system, changes to the mode of access, level and structure of basic pensions potentially affected many more persons than changes to minimum income schemes in the countries which are discussed in this subsection and the next (cf. Table 2).

In five EU15 countries gross benefit levels have strongly increased in real terms over the past twenty years. In three of them (Portugal, the United Kingdom and Belgium), means-tested minimum income schemes have been thoroughly reformed. Benefit increases have been most spectacular in Greece and Portugal where gross benefit levels have more than tripled. Benefit levels have grown less spectacularly, but nonetheless remarkably, in the United Kingdom (plus 60 per cent) and Belgium (plus 37 per cent). With benefit increases of 100 per cent, Ireland is somewhere in between.

Whereas the increases in gross benefit levels in Portugal and Ireland have been accompanied by the introduction of a new social pension, this is not the case for Greece. In Greece, apart from the lowering of the eligible age from 68 to 65 in 1993, the structure of the OGA scheme for the uninsured remained unchanged (Eardley et al., 1996: 186; Matsaganis, 2005). Nonetheless, the level of benefits was spectacularly increased and more than quadrupled in 20 years' time. In the same period the number of beneficiaries more than doubled, even though it remained relatively low as a percentage of all persons aged 65 and over (cf. Table 2). In Portugal, from the mid-1990s onwards, the Portuguese government started to rapidly increase gross benefit levels of the social pension, which were generally recognised to be too low (Capucha et al., 2005: 228; Chuliá and Asensio, 2007: 631). This trend was further accelerated in 2006, when the Portuguese government aimed at increasing benefit levels to the level of the European at-risk-of-poverty threshold (equal to 60 per cent of the median equivalent net disposable household income) through the gradual implementation of a new social pension. In 2006, the *Complemento Solidário para Idosos* was first implemented for persons aged 80 and over. The age limit has been gradually lowered to 65 years in 2009 while gross benefit levels have been further increased, resulting in a sharp increase in the number of beneficiaries (cf. Table 2). Similar to Portugal, also in Ireland the mid-1990s marked the start of a continuous increase in gross benefit levels. As part of the first National Anti-Poverty Strategy (1997-2007), both contributory and non-contributory pension levels were strongly increased (Russell et al., 2010: 5-6). This was further reinforced with the introduction of the State pension (Non-Contributory) which replaced the Old-Age pension (Non-Contributory). Although the benefit structure is largely the same, the means test was reformed and benefit levels further increased, leading also to an increase in the number of beneficiaries of about 15 per cent in 2006. Similar to the situation in Greece and Portugal, also in Ireland benefit levels have grown faster than the average wage (cf. Table 3).

Figure 2: The evolution of minimum income levels for couples in countries where benefit levels have strongly increased, in constant prices, 1992-2009



Source: CSB-MIPI version 2/2011 (Van Mechelen et al., 2011); Consumer price index: before 1996: Laborsta, from then on: HICP from Eurostat website (last accessed on April 1 2011), own adaptations and calculations.

In the United Kingdom and Belgium gross benefit levels increased less strongly than in Greece, Portugal and Ireland. Nonetheless, also in these countries benefit levels grew faster than the average gross wage – at least during the 2000s (less so in the United Kingdom than in Belgium, cf. Table 3). Until 1999, the United Kingdom did not provide a separate minimum income scheme targeted at the elderly apart from the Over 80 Pension (or Category D Retirement Pension). Instead, general social assistance provided some additional top-ups for the elderly, which over time increased faster than the basic social assistance rate. In 1999 the Minimum Income Guarantee has been implemented, a categorical scheme for the elderly which replaced the general Income Support and was administrated separately by the Pensions Agency. It retained most elements of Income Support, but gross benefit levels were further increased, although additional premiums for the very old were abolished. An even bigger change has been implemented in 2003 with the introduction of the Pension Credit. The Pension Credit consists of two means-tested schemes. The first part, the Guarantee Credit, is available to all persons aged 60 and above and replaces the previous Minimum Income Guarantee[6]. In order to remove disincentives to saving, persons aged 65 and over can now – possibly on top of the Guarantee Credit – apply for the Savings Credit if they have some modest savings (cf. Glennerster, 2007: 258-259; Evans and Williams, 2009: 99-101; 172-

[6] The pensionable age for the Pension Credit will be gradually increased from 2010 onwards (cf. http://pensions.direct.gov.uk/en/state-pension-age-calculator/home.asp, last accessed January 2011).

175). Since November 2009, the means test disregards a higher level of savings. Figure 2 shows the gross level of the maximum benefit elderly persons could claim from respectively Income Support, the Minimum Income Guarantee and the Guarantee Credit. In 20 years' time, the value of these minimum income guarantees has increased with over 60 percent in real terms while since the introduction of the Guarantee Credit, the number of beneficiaries has grown with more than a third (cf. Table 2).

In contrast, in Belgium the 1990s were characterised by constant gross benefit levels and the start of a gradual increase in the entitlement age for women from 60 years in 1996 to 65 in 2009 (in accordance with the increasing entitlement age for the public earnings-related pension schemes). Gross benefit levels started to improve only in 2001, to reach a 37 per cent increase by 2009. At the same time, in 2001 a new social pension was implemented, which – among others – was associated with a less strict means test, as well as with increased benefit levels. Whereas in the 1990s benefit levels were still equal to general social assistance levels, the new benefit was associated with large increases on top of the price indexation, with the aim of increasing it to the level of the at-risk-of-poverty threshold. From 2006 onwards, a 2-yearly evaluation of supplementary indexation on top of inflation became even legally binding – even though the new Government Agreement of 2011 scaled down the budget for these increases (Goedemé et al., 2012).

5.3. Moderate growth and decline

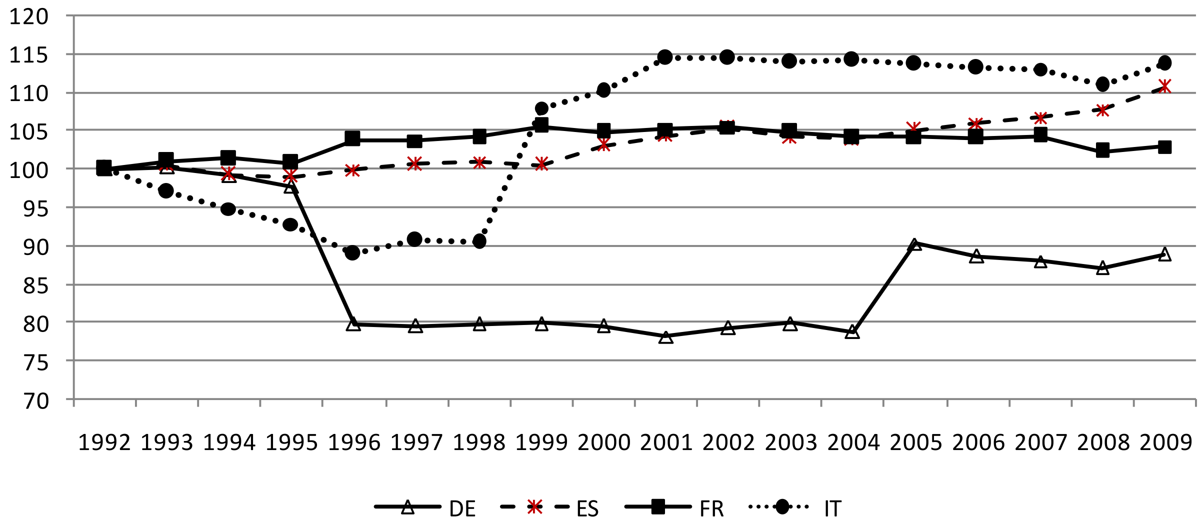
In the third group of countries, gross benefit levels have increased only moderately or even declined in real terms over the past 20 years. In comparison with average gross wage growth, social pension benefits were around the same level at the end of the 2000s as they were in the early 1990s in Italy and Spain (mainly due to slow wage growth) whereas in France and (West) Germany benefit levels have not kept up with wage growth over the past 20 years.

Germany is the only EU15 country in which benefit levels by the end of the 2000s were lower than at the start of the 1990s – at least for elderly persons living in the old *Länder*. Until 1995, (West German) elderly social assistance beneficiaries could benefit from a supplement as a part of the general social assistance scheme. However, in 1996, this supplement was limited to the ill and disabled, which meant for a substantial part of the elderly that the maximum gross benefit lost 20 per cent in real terms. In East Germany, only in 1990 a modern social assistance scheme was introduced, tailored to the characteristics of the West German *Bundessozialhilfegesetz*, which was integrally implemented in January 1991 as a result of the re-unification of Germany. Nonetheless, some important differences between East and West remained in place until

1996. For instance, benefit levels were lower and the supplements for the elderly and unemployable were not allocated in the new German States (cf. Hanesch et al., 1994: 120-121; Willing, 2008: 386-388). In 2003 a new means-tested minimum income scheme was set up, separately for the elderly and disabled, with a different, less stringent means test. The introduction of the new scheme has led to an increase of more than 60 per cent in the number of beneficiaries. Still, this number remains low by international standards (cf. Table 2). Only in 2005 benefit levels were increased again, but remained below the West German level of the early 1990s. However, for old-age people living in the new German states minimum income protection improved remarkably: given that elderly persons never have been entitled to the old-age supplements, means-tested benefits were at the end of the 2000s well above their level in 1991.

Also in Italy, gross benefit levels decreased in real terms in the first half of the 1990s by lack of indexation of the so-called social top-ups to the basic amount (i.e. the *maggiorazioni sociali*). In 1993 the means test of the social pension was changed from an individual to a couple basis, which meant that especially women have suffered a reduction in the social pension if their husband's income was too high for them to qualify (Eardley et al., 1996: 236). The minimum income protection scheme was further reformed in 1995 as part of the Dini pension reform, when the *pensione sociale* was replaced with the *assegno sociale* for all new entrants to the scheme. Benefits were higher than the *pensione sociale*, but supplements were abolished and a stricter means test was introduced, leading to a further decrease in the number of beneficiaries (Table 2). Finally, in the aftermath of the Prodi reform of 1997, benefit levels were strongly increased between 1999 and 2001, to remain more or less constant in real terms until the end of the 2000s. Since 2002, persons aged 70 and over can benefit from increased supplements (Monacelli, 2007; Sacchi and Bastagli, 2005; Ferrera and Jessoula, 2007).

Figure 3: The evolution of minimum income levels for couples in countries with weakly growing or declining benefit levels, in constant prices, 1992-2009



Source: CSB-MIPI version 2/2011 (Van Mechelen et al., 2011); Consumer price index: before 1996: Laborsta, from then on: HICP from Eurostat website (last accessed on April 1 2011), own adaptations and calculations.

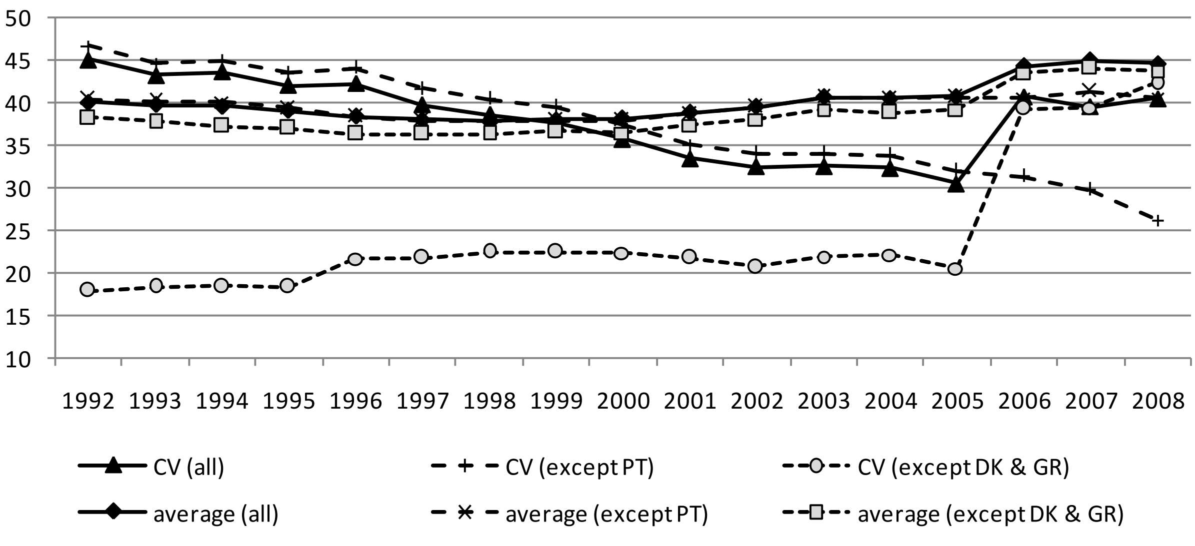
In the two other countries, the evolution of gross benefit levels followed a more gradual pattern. Spain implemented a proper social pension only in 1991 (Chuliá, 2007). Since 1995 benefit levels were linked to the level of social security benefits and indexed to prices. Apart from gradual increases from 1999 onwards, the *Pensión de jubliación no contributiva* has not been reformed over the past 20 years. Meanwhile, the number of old-age beneficiaries has increased until 2004 to some four per cent of the population aged 65 and over, after which it slightly decreased again (cf. Table 2). Also in France benefit levels remained more or less constant in real terms over the past 20 years, even though in 2007 the old *minimum vieillesse* was replaced with a new, integrated means-tested benefit. With the new scheme, the dual structure of the old benefit was abolished and, in contrast to the old scheme, non-married partners were treated as a couple. Since its introduction in 1956, the number of beneficiaries of the *minimum vieillesse* has continuously declined as a result of improved coverage by social insurance schemes (Augris and Bac, 2009: 25-27). This trend has been continued over the past two decades, but slowed down since the early 2000s (cf. Table 2).

6. A story of convergence?

Given the many different trends in gross benefit levels, one may wonder whether benefit levels have converged or rather diverged. This question is relevant, as European policy makers and several civil societies have argued in favour of a European minimum income benefit (Vandenbroucke et al., 2012; Goedemé and Van Lancker, 2009). There are many obstacles for the harmonisation of minimum income schemes, though, and a major one is the wide divergence in current benefit levels (cf. Goedemé, 2012). However, if a trend of convergence can be observed, such a project of harmonisation of minimum income schemes may become more realistic in the future.

There are several ways to compare benefit levels, and a common way to do so, is by expressing them as a percentage of average earnings (e.g. OECD, 2011: 108-109). Advantages of this indicator are that it gives some idea of the redistributive capacity of benefits (instead of simply the purchasing power across very different economies and times), and that long-term time series are available (in contrast to median disposable household income, for instance). However, time series breaks are inevitable, as well as cross-national methodological differences (details can be found in Van Mechelen et al., 2011: 37-38). Nevertheless, given the consistency of the results presented in Figure 4, it is most likely that a rather strong convergence has taken place over the past two decades. If the exceptional increases in gross benefit levels in Portugal at end of the 2000s would be ignored, the coefficient of variation has nearly halved between 1992 and 2008. However, convergence has been largely reversed in 2006 if the strong growth in the Portuguese social pension is taken into account (only fully implemented in 2009).

Figure 4: Convergence in gross non-contributory pensions for elderly couples as a percentage of gross average male wages

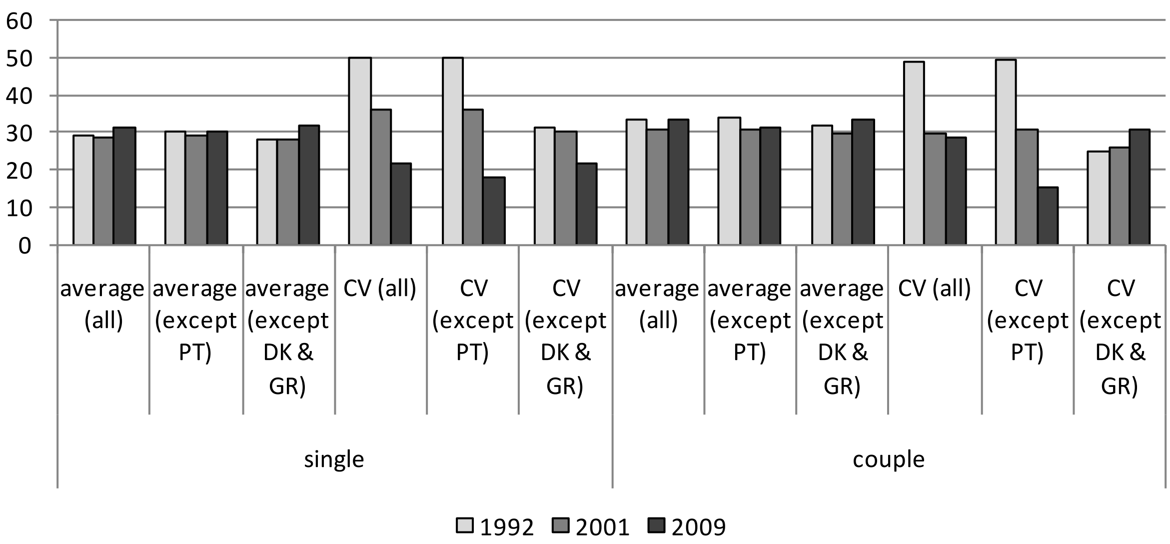


Notes: coefficient of variation (CV) expressed as a percentage. Breaks in series: BE 2001, DE 2002, ES 2003 & 2008, IE 2007. Time series stops in 2008 due to missing data for some countries.

Source: CSB-MIPI version 2/2011 (Van Mechelen et al., 2011), own calculations.

During the 1990s, convergence has primarily been driven by the strong decline in the generosity of the Danish basic pension and the strong increase in benefit generosity of the Greek social pension. From the 2000s onwards, the convergence process is much more diffuse: Denmark continues to downwardly converge to the average, a pattern which can also be observed for France. At the same time, Greece, Belgium, the United Kingdom and several other countries (further) catch up. In other words, whereas during the 1990s, convergence has primarily been driven by declining generosity in a single country (Denmark) and increases in another (Greece), divergence at the end of the 2000s has been primarily driven by exceptional increases in benefit generosity in Portugal (cf. Figure 4). Similar observations can be made if net benefit levels (which take account of taxes, social contributions and non-discretionary housing benefits) are compared to the net income of a couple earning an average male and an average female wage. The important difference is that for singles, convergence continued during the 2000s, whereas for couples convergence halted in the same period (if the new social pension in Portugal is included in the analysis, cf. Figure 5). In any case, the fact that the inclusion or exclusion of a few countries from the analysis can result in rather different conclusions regarding convergence trends, means that one should be rather cautions with drawing too strong conclusions about convergence processes in the area of non-contributory pensions in the old EU Member States.

Figure 5: Convergence in net non-contributory pensions for elderly singles / couples as a percentage of the (equivalent) net income of a couple earning the average male and average female wage



Notes: CV = coefficient of variation. Finland missing for 1992 (if Finland is excluded for 2001 and 2009, results do not substantially change). In the case of elderly singles, amounts are equivalised using the modified OECD equivalence scale.

Source: CSB-MIPI version 2/2011 (Van Mechelen et al., 2011), own calculations.

7. Conclusion

Pension reforms of the past twenty years will generally lead to lower public pensions and a shift of risks towards future pensioners in many countries. Over the same period, most EU15 countries introduced important changes to their non-contributory minimum income schemes for the elderly – the principal safety net for elderly people with low (pension) income. However, there is no common trend towards less generous non-contributory minimum income schemes. On the contrary, in a substantial number of countries generosity was strongly improved. Except for West Germany, over the past 20 years gross benefit levels at least kept pace with inflation, and improved quite dramatically in Greece, Portugal, Ireland, the United Kingdom and Belgium. If benefit levels are compared to average wages, a general pattern of convergence can be observed, which in the 1990s was primarily driven by declining generosity in Denmark and increasing benefit generosity in Greece. By the end of the 2000s, the strongly increasing generosity of the Portuguese social pension resulted in a new divergence of gross benefit levels. At the same time, several countries substantially reformed their non-contributory minimum income schemes. Most notably, Finland and Sweden converted their basic pension into a conditional pension, leading to a substantial decrease in the number of beneficiaries, whereas Denmark, Portugal and the United Kingdom improved access to their schemes, either by lowering the minimum age of eligibility (Denmark), or by changing means tests and improving benefit levels (Portugal, United Kingdom). Also many other countries introduced new non-contributory minimum income schemes, even though this did not lead to considerable increases in the number of beneficiaries.

The observed evolution with regard to non-contributory minimum income schemes for the elderly brings up three important questions. First, it remains to be seen whether the fiscal and economic crisis will not dramatically reverse the observed trend of fast increasing benefit levels, especially in countries like Greece, Portugal and Ireland. Second, given that in many cases non-contributory minimum income schemes seem to evolve differently from overall pension reforms, the question remains as to what are the key drivers and conditions for reforms to these minimum income schemes. At first sight, obvious factors such as the type of minimum income scheme, the number of beneficiaries and the initial level of the benefit do not seem to offer fruitful ground for explaining all of the patterns observed in this study. Alternatively, it could be asked whether and to what extent improvements in non-contributory minimum income protection are sometimes used to make decreases in the generosity of public pensions politically more palatable, a mechanism which has for instance been observed for the Spanish pension reform of 1985 (Chuliá, 2007: 526-528). Third, currently, for many countries it is not very clear how and to what extent changes to non-contributory minimum income schemes have affected poverty rates (Figari et al. (2008, 2011) provide a first comparative analysis). Nonetheless, if non-contributory minimum income schemes really will become more important in the future, a good understanding of their impact on elderly poverty should be a first priority for further research.

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