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Eliciting Individual Preferences and Attitudes for Reforming the Old Age Social Welfare System

Abstract

Pension systems have recently been under scrutiny because of the expected population ageing threatening their sustainability. This paper's contribution to the debate is from a political economic perspective as it uses data from a Choice Experiment to investigate individual preferences for an alternative state pension scheme. Even though very few persons are well informed about the pension system, we observe a kind of homogeneity as regards the way public pension benefits should be provided. Estimation results suggest that individuals' value orientation is an important determinant of their preferences. Respondents' income determines which degree of redistribution is preferred. However, preferences according to age are in contradiction with what is suggested in theory.

As far as we know, this paper represents the first attempt to elicit people's preferences for reforming the state Irish pension system using stated preferences techniques.

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Introduction

The implementation of pension systems has been one of the most important achievements in terms of social policy in the developed world during the twentieth century. However, discussions on the "pension crisis" have rapidly emerged due to demographic and budgetary pressures. Similarly, Ireland is preparing to face important demographic challenges from increased longevity and fertility declines. However, the Irish population is still relatively young with under 12 % of the population aged 65 or over and about 40 % of the population aged 25 or under. Besides, the income of pensioners is an important determinant of the discussion as they almost only count on pension benefits for their earnings. This same age group has witnessed high poverty rates in the past and a majority of pensioners would be at risk of poverty without these transfers (see Prunty 2007; O'Donoghue 2002). Life expectancy is expected to continue rising in the future¹, which is likely to put pressure on the ability of the Irish pension scheme to redistribute income from the younger to the older generation. This makes inevitable the need to reform the pension system in order to deal with financial sustainability. The system is also likely to run into political unsustainability as promises have been made to certain generations as regards their pension rights and these must be honoured, otherwise leading to important discontents.

Pension reforms are needed in almost all European countries and indeed, they are on the political agenda of most of the governments. However in practice, the

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implementation of the reform process is slow, especially because of the political dimension of the issue and the likely willingness of citizens to maintain the current pension arrangements. If, as suggested by Brooks and Manza (2007), people's preferences have an important impact on the welfare state policy, then it is a crucial issue to elicit individuals' attitudes and opinions towards a possible reform of the actual pension system.

In this paper, our first objective is to value people's preferences regarding the current Irish state pension system, its potential reform options and the degree of redistribution it implies. A further objective is to check whether identifiable disagreements over the pension system can emerge in accordance with theoretical expectations. Specifically, as reviewed by Galasso and Profeta (2002), the self-interested argument is the most advanced by political economy theory to account for people's support for a particular pension scheme.

In order to do this we make use of "Stated Preference" questionnaire techniques. Our paper heavily lies on van der Heijden et al. (1997), Boeri et al. (2001), Delaney and O'Toole (2006) and van Groezen et al. (2009).

The remainder of this paper is organized as follows. The second section briefly describes the Irish state pension scheme. Section three summarizes some of the empirical and theoretical literature about attitudes regarding redistribution and the pension system. In a fourth section, the stages in the development of the survey questionnaire and the random sample are described. In section five, we present some results concerning preferences for redistribution. In sections six, seven and eight, several qualitative attitudinal statistics give an idea about respondents' pension preferences and the extent to which personal characteristics are significant determinants of these preferences. Finally, the last section concludes.

Context of the Study: The Irish Pension System in an Ageing Society

The pension system in Ireland is typical of the Anglo-Saxon type. It is a multi-pillar system composed of two main parts: a State-Run Social Welfare system; and a Voluntary Supplementary Pension system.

The first pillar is mandatory, relatively small and based on the PAYG principle. It consists of flat rate social insurance payments and means-tested social assistance payments, the latter are provided to residents above 66 years which income falls below a means-test. Flat rate pensions are instead provided to all people entitled to pension benefits and who have filled contributory conditions. State pensions in Ireland account for about 90% of the income of more than 60% of the retired population.

The public pension system includes three components:

- A State pension (Contributory), available from age 66;
- A State Pension (Transition), available from age 65; and,
- A survivor's pension.

All are flat rate payments that vary slightly based upon contribution history but independent of earnings, with additional payments for dependants (persons living alone and old people over 80 years of age). These are supplemented by means-tested benefits, financed through taxation for those not covered by the insurance system. These are nevertheless declining due to the progressive extension of coverage since 1974.

The second and third pillars (occupational and individual) ensure the replacement function of the pension system with private benefits being related to past earnings. Supplementary schemes are administered by employers and/or private companies. Together, the second and third components of the Irish pension system cover almost half of the workforce.

A key component of Ireland's pension strategy is to increase the number of individuals who are covered by supplementary pensions. The government is also reviewing its incentives policy which is revealed being not enough effective, while costly to the government.

Today, the greatest challenges to the Irish pension system are the risk of poverty among the elderly and population ageing. The system being designed on a PAYG basis, it is highly dependent on changing demographics and labour market trends. It is nevertheless acknowledged that Ireland has a longer period, than its counterparts European countries, to prepare for a transition from low to high old age dependency ratios. Yet, financial and political sustainability of the Irish pension scheme is also challenged by maturing of the system, specific problems inherent both to the public and private pillars, *etc*, all these factors call for setting up a framework to reform the system.

Unless addressed by adequate pension reform, this can undermine the ability of the Irish pension system to fulfil its main objectives, notably redistributing income, which can put pensioners in a higher risk of poverty and inequality. Indeed, an increase in the population of the elderly can result in lower income replacement levels and higher poverty if the productivity gains are not large enough (Baroni and O'Donoghue 2010).

The recent pension policy debate in Ireland has seen a number of documents published in order to tackle the financial sustainability of the system. Several reports (especially governmental) and academic research papers have been published. These aim at presenting an overview of the Irish pension system and possible alternatives as regard policy options for reform. One example is the Green Paper on Pensions (2007) which offers a review of the future costs implications of different potential policy options concerning pension provision. Several issues have been emphasised, among which the sustainability of the current system against the demographic challenges that are expected to be exacerbated in the future. Even though these reports have covered a wide range of issues, people's opinion regarding the future of the pension system have rarely been taken into consideration. This last point is true not only for Ireland, but also for most of the other European countries.

Demand for Redistribution and Pensions

In the face of demographic ageing, authorities have several policy options to reform the pension system. Measures implying different degrees of redistribution can be implemented. Similarly, there may be various attitudes towards reforming the pension system.

Political economy models of social security, with the seminal work by Browning (1975), emphasize the role of age in shaping preferences. According to that framework, younger individuals prefer to pay a smaller share of their income for public pensions as they have more time than older individuals to invest in privately managed pension systems and can benefit from higher returns from investing in the capital market. The

older segment of the working age group and pensioners instead prefer a higher contribution rate to the pension system as they are more likely to benefit from public pension benefits in shorter times and payroll taxes are sunk cost. In the same spirit, following Pierson (1994), individuals who benefit the most from the PAYG pension system should be against any retrenchment measures that would result in lower pension benefits.

Income may also be an important explanatory variable as the different potential systems imply different degrees of redistribution from high income to low income individuals. Education can also play a significant role as highly educated individuals may have a higher knowledge of pension and market issues and thus be able of making better financial decisions. This statement is consistent with the findings of Boeri et al. (2001) where the degree of opting out from public pensions increases with income and education whereas it decreases with age.

In general, there are a number of hypotheses advanced by economics to explain demand for redistribution. Schwarze and Härpfer (2007) summarize these hypotheses into three arguments:

- The inequality aversion argument implying that governments respond to these altruistic preferences by implementing tax-financed transfer policy (Schwarze and Härpfer 2003);
- The efficiency argument which posits that individuals are willing to pay to reduce the risk associated with their *ex ante* income distribution because they may be risk averse;
- The self interest argument which considers that egoistic pecuniary motives are a major determinant of individual preferences (see Meltzer and Richard 1981; Esping-Andersen 1985 and Iversen 2005). However, both on the theoretical and empirical grounds, the median voter hypothesis has often been questioned (Fong 2001; Kenworthy and McCall 2008).

Recently, stated preferences techniques have been introduced to analyze preferences for redistribution. Corneo and Grüner (2002) assess the support for income redistribution through the analysis of the explanatory power of three effects: the “public values effect”, the “social rivalry effect” and the “homo economicus effect” in shaping individuals’ preferences. The authors find empirical evidence that all three effects induce support for redistributive policies. However, egoistic pecuniary motives are a major determinant in explaining individuals’ support for redistribution. Ravallion and Lokshin (2000) find the same result from another data source. On the contrary, Fong (2001) finds little evidence that self interest is an important determinant of demand for redistribution, whereas social preferences are more important.

In the field of distributive preferences for pension programs, a strand of the literature has developed recently to analyze preferences concerning pensions. Boeri et al. (2001) use Stated Preferences methods to analyze a survey carried out in France, Germany, Italy and Spain about possible pension reforms. The authors find that citizens are aware of the unsustainability of the PAYG pension system but they lack information about the costs. Van Groezen et al. (2009) analyze the determinants of people’s preferences for particular kinds of pension provision (public, occupational and private) in 15 European

countries. The authors find that it is not much individual characteristics that shape people's opinions towards the preferred pension system type, but national effects and the desire to maintain the status quo. Lynch (2006) tests whether individuals who benefit from pension systems will be against the retrenchment of the State and will favour the status quo in twelve European countries. The author doesn't find strong support to that hypothesis.

Delaney and O'Toole (2006) examine preferences for specific forms of redistribution in Ireland and find support to the self-interested preferences. Delaney and O'Toole (2007) analyze the determinants for government expenditures and its size in Ireland. Among respondents, a majority was in favour of "same level of government spending and taxation". Further, respondents were almost all supporting extra spending on health and education, whereas the support for increases in social welfare expenditure was lesser.

Data from the attitudinal questionnaire presented in this paper allow answering several of the questions raised above.

The Survey Data

Data and Questionnaire Design

The survey questionnaire² is composed of an attitudinal questionnaire and a socio-economic questionnaire. The final survey has been the result of several stages of testing including individual interviews, a pilot test exercise and one focus group composed of participants from the general public.

In the attitudinal questionnaire, we surveyed the opinions of citizens in Ireland on their welfare state in general and on old age pension provision in particular, political behaviour, risk aversion and preferences for time. The socio-demographic questionnaire contains information about social, economic and household details of the respondents.

Sampling Design, Response Rate and Representativeness of the Sample

The sampling strategy was designed so as to obtain a representative sample of the Irish population. The questionnaires were administered using door-to-door interviews. In most cases, and in accordance with respondents' wishes, the questionnaires were dropped off and collected according to an arranged time.

The sampling approach for the survey followed a two-stage procedure. Sampling was first stratified according to the two principle Irish areas classification: Urban/Rural. The sample size for each area was calculated according to the proportions of populations living in urban and rural areas as shown by national statistics. The second stage involved the choice of locations that are representative of the Irish population in terms of age, gender and socio-economic status.

The survey was administered to a representative sample of 498 respondents drawn from the adult Irish population entitled to vote. At the end, 326 questionnaires were ready to analyze. The overall response rate of the survey was 65 per cent.

Table 1 shows the sample age ranges proportions as compared to the national proportions. Comparing our results to the different age populations relative to the population over 15 years shows that the age group that is the best represented is the

population over 70 years of age. The age ranges 25-34 years and 35-49 years are underestimated as compared to the national adult population, while the remaining age groups are rather slightly overestimated.

As we can see in the Table 1, around 23 per cent of all persons questioned are in the 35-49 years age range, which is the largest percentage of any of the age groups. 21 per cent and 14 per cent are in the age brackets 18-24 years and 60-69 years respectively. Only 10 per cent of respondents are over 70 years of age.

The majority of respondents are male: 52 per cent against 47.5 per cent female. 47 per cent of the persons interviewed have attained at least a recognized third level education level, 40 per cent have a leaving certificate or equivalent and 12 per cent a junior or inter certificate or lower. Among respondents, 51 per cent are married and 32 per cent are single. 27 per cent of respondents are private sector employees, 14 per cent are public sector employees, 17 per cent are retired and 17 per cent are students. 63 per cent of respondents live in a household where the main income source is employment, which is the largest proportion of all sources of income, 11 per cent of respondents belong to a household that relies mainly on public pensions for its income and 8 per cent on social welfare. The main personal characteristics are summarized in Table 2.

The largest proportion of respondents (28.5 per cent) belongs to a household earning between €20,000 and €40,000 a year before taxes and 22 per cent to a household earning between €40,000 and €60,000 a year.

Results I: Distributional Preferences and the Welfare State

Pension systems insure redistribution through two channels: within and between generations. Redistribution is based on the idea that markets fail to generate income redistribution in an equal and socially acceptable way (Mulligan and Sala-i-Martin 2004). Pension systems being inherently redistributive, preferences to the way pension benefits are provided are directly linked to preferences to redistribution in general and the welfare state. Demand for redistribution by the state has recently drawn much attention in the empirical literature. Corneo and Grüner (2002), Rehm (2005) and Schwarze and Härpfer (2007) have notably used survey data to assess whether it is the government responsibility to reduce income differences and have studied the determinants of these preferences. In this context, in the present subsection, we turn to evaluating the Irish citizens' opinion for broader questions related to the inequality perception and redistribution by the state.

Specifically, we asked people to disclose their opinion about the statement “differences in income in Ireland are too large”. As shown by Table 3, more than 41 per cent of respondents strongly agree with that statement, followed by 33 per cent that chose the option “slightly agree”. Only four per cent of respondents strongly disagree with this statement.

A second question was included to test how people would react to income inequality. 39.5 per cent are in favour of less inequality and more tax and only 13.5 per cent choose the option more inequality and less tax. 19 per cent of respondents think that the situation should remain the same.

The last question concerns people's attitudes regarding the statement "It is the responsibility of the government to reduce the differences in income". As shown by Table 3, the most important proportion (36 per cent) of individuals strongly agree with the fact that it is a governmental responsibility to reduce income inequality.

Finally, individuals were asked their perception about conflicts between different groups in society. They were asked to rank each conflict on a scale going from very strong conflicts to no conflicts. A greatest proportion of respondents (40 per cent) think that there are strong conflicts between the rich and the poor. Concerning the conflict between young and old, 51.5 per cent of respondents say that there are not very strong conflicts (Table 4).

Results II: Are People Informed about the Irish Pension System?

One of the issues emphasized in the empirical literature concerning willingness to reform pensions, especially by Boeri et al. (2001) and Boeri and Tabellini (2005), is related to the role that people's knowledge and information about pensions have in shaping their preferences and acceptance for various directions of reform. For instance, Boeri and Tabellini (2005), in an opinion poll conducted in Italy, find that respondents that are more informed about the costs and functioning of the Italian pension system are more willing to accept reforms consisting of increasing the retirement age and/or cutting pension benefits.

In order to assess the degree of knowledge about the Irish pension system, respondents were asked two questions (Table 5). What comes out from these answers is that the general level of knowledge is low. Indeed, to the question "How well informed are you about the way the State Irish pension system operates?" the greatest proportion (32 per cent) is somewhat informed followed by 28.5 per cent of respondents that chose the option "not at all informed". To the question "Can you make a reasonable estimate about the level of your (likely) retirement income?" the most important proportion of respondents, almost 34 per cent, chose the "No idea" option. This result joins the results from Boeri et al. (2001). Even if the questions are not that comparable³, they lead to the same conclusion of misinformation. In Boeri et al. (2001), Italy is the only country where individuals were found to be well informed about their pension system.

In order to shed light on the characteristics of respondents that influence their degree of knowledge about the pension system, Table 6 shows the results of one ordered logit estimation, which aim is to link the respondents' personal characteristics to their knowledge about pensions. Given the way variables are specified, positive estimated coefficients correspond to lower level of knowledge.

Results confirm that more informed individuals tend to be the. The coefficient associated with age is negative and significant at the one per cent significance level. This finding may be explained by the "single mindedness" of the elderly and the fact that out of work individuals have more time to spend thinking and discussing about issues such as pensions⁴. Respondents which main source of income comes from public pensions are also likely to be better informed than the rest of the population. Unemployed and students however tend to be not very well informed about the State Irish pension scheme, these two variables are nevertheless not very significant. Income also explains people's knowledge about public pensions as the richest (respondents

belonging to a household earning more than € 80000/year) tend to be more informed as the associated parameter is negative and significant at the 10 per cent significance level. Similarly, individuals that choose to save for old age are more informed than respondents displaying the other spending behaviours, the associated parameter is negative and significant at the one per cent level. Respondents that prefer keeping extra money for rainy days also tend to be more informed but at a lower degree. Finally, respondents who benefit from a private pension benefit are also more informed. On the contrary, respondents' which saving behaviour is precautionary tend to be less informed about the way the state pension system operates.

Results III: Attitudes to Pensions' Goals and Likely Future Reforms

What pension system is preferred by the majority? Respondents were presented with various questions concerning their opinion about the characteristics of the Irish pension system as well as potential directions of reforms. These set of questions allow us to elicit demand for redistribution through the PAYG pension system, and to investigate the underlying value orientations of the respondents concerning pensions' issues. A further interest is normative and concerns the political feasibility and desirability of policy reform on pensions.

How Should State pension Benefits be Provided in Ireland?

To the question: how should State pension benefits be provided in Ireland? 41 per cent of respondents are in favour of a higher pension benefit for the poor (equivalent to a means-tested system) and 37 per cent are in favour of the same pension benefit for everyone (universal system). Only 20 per cent of individuals are in favour of an earnings-related pension system.

This is an interesting result as it at least suggests that the fundamental principle of pension provision in Ireland, that is the Beveridgean principle of the Anglo-Saxon type, seems to be the one preferred by citizens.

To shed light on these findings, we apply an ordered logit estimation to the dependent variable: how should state pension benefits be provided in Ireland? Results are shown in Table 7. Results are quite consistent with what we would expect. The old are more likely to favour a means-tested pension scheme. This effect is significant at the 10 per cent significance level. Retired tend to favour an earnings-related system. This result is not coherent with the finding related to age but could be explained by collinearity. The unemployed are however more likely to favour a universal or means-tested pension system. This result is as expected and is significant at the five per cent significance level. All marital status presented in the estimation tend to favour the most intra-generational redistributive system. On the contrary, the likelihood of prioritizing earnings-related provision of benefits increases with the annual household income of the respondent. This last effect is highly significant confirming the pecuniary self-interested hypothesis. Individuals who get income from self-employment are also more likely to favour the earnings-related public pension scheme. The associated parameter is significant at the five per cent level. Supporters of Fianna Fail, the Labour party and the green party tend to favour the means-tested system. All effects are significant at the five per cent significance level.

What Pension Reform is the Most Popular?

Privatizing social security has been and is still a subject of great interest (Kay 1999; Brooks 2005). Discussions turned around the ability of private pension schemes to redistribute income between and within generations, the impact of shifting from an unfunded to a funded system on saving and the performance of private retirement accounts to deal with market uncertainty. Recently, some papers dealt with preferences with regard to the privatization of social security. For example, Devroye (2003) finds that low income American families are less in favour of privatizing social security than the other socioeconomic groups. A more explicit empirical treatment of the question is found in van Groezen et al. (2009).

In order to tackle the likely preferences of the Irish citizens as regards a potential shift to a more privately managed pension system, respondents were presented with three options to deal with demographic ageing. The solution that seems to be the most popular is the one consisting of increasing the retirement age, a parametric reform that induces a reduction in the size of the public pension pillar, followed very closely by saving more for retirement. The solution that is the least popular is that the government spends more on pensions (Table 8).

Results IV: Perception of Pension Principles

Self interest is often presented as being the most important determinant of people's attitudes and opinions regarding the pension system. In this regard, the age of the respondent, as well as its income level, are important determinants of the way he or she perceives the pension system.

To gain insight into these hypotheses, respondents were asked how they agree with three pension principles, namely, "it is individual responsibility to save for old age", "it is the government responsibility to provide each pensioner with a pension benefit" and "the way pensions are provided in Ireland should remain the same". The largest proportion of respondents (36 per cent) strongly disagree with the principle that it is an individual responsibility to save for old age. 47 per cent of respondents strongly agree with the fact that it is the government responsibility to provide each pensioner with a pension benefit. Finally, 41 per cent of respondents slightly agree that the way the pension benefit is provided in Ireland should remain the same, and 31 per cent of respondents strongly disagree with this statement.

The general idea from these questions is that the status quo is not the preferred option, still a great majority of individuals thinks it is the government responsibility to provide each pensioner with a state pension benefit. Globally, respondents don't seem to prioritize reducing the role of the PAYG pension system. This suggests that respondents are not willing to move to a funded pension system but rather keep a system similar to the actual one, potentially with different levels of its public parameters.

A similar question is included in van Groezen et al. (2009) who find that a majority of respondents prefer public pensions in 15 European countries. However, preferences vary according to the country in question. While in Spain a majority of individuals favour public pensions, the majority in Germany, Netherlands and Finland have preferences for occupational pensions.

In order to investigate the determinants of people's preferences regarding the pension system principles above, we apply three ordered logit models to three dependent variables, where respondents are asked to say if they strongly agree, slightly agree, slightly disagree or strongly disagree with the three statements presented above. Tables 9, 10 and 11 show the estimation results of the regressions.

As shown in Table 9, the old tend to favour individual responsibility to save for old age. This result is surprising as we expect the oldest to prefer government intervention in providing pension benefits, which is also what is shown in Table 10 below. Similarly, male and people in good health are more likely to prioritize individual responsibility to save for old age. The associated parameters are significant at the five per cent significance level. Respondents whose main source of income comes from social welfare tend to disagree with individual responsibility to save for old age, the corresponding parameter is positive and significant at the one per cent significance level. The same result holds for all other income sources, which is not as expected. Individuals belonging to household earning less than € 60000 a year also tend to disagree with that statement. This last result is as expected.

Concerning the state responsibility to provide pension benefits, it is shown in Table 10 that the older the respondent, the more he/she is likely to strongly agree with the fact that it is the state responsibility to provide each pensioner with a pension benefit. This effect is negative and significant at the one per cent significance level. The same result holds for private sector employees, public sector employees and self-employed which associated parameters are negative and significant at the one per cent level. On the contrary, respondents from the highest income band tend to strongly disagree with that statement. The associated parameter is positive and significant at the one per cent significance level. This last result supports the self interested argument, whereby individual preferences are driven by their pecuniary situation. Supporters of Fine Gael tend to disagree with the statement that it is the state responsibility to provide pension benefits. The same result holds for respondents that prefer keeping money for old age and those who are risk neutral. All associated parameters are positive and significant at the one per cent significance level.

As shown in Table 11, the older the individual, the more he/she is likely to disagree with the fact that pensions should remain the same in Ireland. This result suggests that the old should be against maintaining the status quo, which is contrary to the predictions of the theory, and notably Pierson (1994). This result is however not significant. Individuals belonging to a household having an annual income above € 40000 tend to agree with the statement that the way pension benefits are provided should remain the same. Both supporters of Fianna Fail and Sinn Fein tend to agree with maintaining the status quo. Finally, respondents who prefer keeping money for rainy days, for old age and risk neutral individuals tend to disagree with maintaining the status quo.

Results V: The Discrete Choice Experiment

The demand for public pension reform is assessed through using and extending a particular stated preferences method: choice experiment; conducted to value individuals' preferences regarding the parameters of the Irish public pension system, through an evaluation of alternative pension systems (means-tested, universal or

earnings-related) as a function of the system attributes and individuals' characteristics and attitudes.

The selected choice specific attributes are used to specify the utility of each pension alternative presented for valuation. We begin by running a Conditional Logit model, with only regressors the attributes of choices and the square values of cost, poverty, low pension and high pension (Table 12). All coefficients are different from zero at the 1 percent significance level with the exception of the square value of poverty and of the attribute retirement age. The signs of the attributes are as expected. A higher level of the low pension increased the probability that a pension scheme alternative would be chosen, as did the high pension but at a much lower magnitude. Greater poverty and higher cost reduced the choice probability of choosing the associated state pension scheme. A retirement age above the existing one also decreased the probability of the option to be selected. This last effect is however not significant. In this respect, changes in the retirement age appear to have no influence on respondents' choices. Variables indicating low pension squared and high pension squared are negative and significant at the 1% level, but very small in magnitude. This means that utility increases with benefits up to a certain level but then starts decreasing. The general idea from these first results is that individuals are in favour of an expansion of the state pension system.

In order to take into account respondents' heterogeneity, we run different discrete choice models to four identified groups: young-below median income; young-above median income; old-below median income; and, old-above median income. Table 13 gives the estimation results of the four simulations.

The estimated coefficients for the high income-old generation are all of the expected sign, but only three variables: the high pension benefit, its squared value and the cost are significant at the 1% level. Poverty rate is significant at the 5% level. The estimated coefficients for the low income-old generation are also all of the expected sign, apart from the retirement age which is positive. The low pension benefit and its squared value are significant at the 1% level. The high pension benefit and its squared value are significant at the 5% level. All the other estimates are not significant. The estimated coefficients for the high income-young generation are of the expected sign. However poverty rate, its squared value and the retirement age are not significant. Finally, the estimated coefficients for the low income-young generation are all of the expected sign apart from the retirement age which is positive. All the variables are significant apart from the squared value of poverty, the squared value of cost and the retirement age.

Summary and Policy Conclusions

The descriptive analysis from attitudinal and socio-demographic information gathered provided a wealth of information concerning people's distributional attitudes and general opinion about the role of the pension system in redistributing income. Furthermore, a first idea about potential sources of taste variability among respondents has also been emphasized.

What emerges from the analysis of the attitudinal questionnaire is that people believe in the role of the state in reducing inequalities and redistributing income, both from the younger to the older and from the richer to the poorer. There also seems to be a high tendency towards inequality aversion among all groups in society. These general

distributional attitudes are also prevalent in the field of pensions as a majority of respondents view provision of pension benefits by the state as a way to reduce poverty among the elderly. Concerning the pension system in particular, the majority of respondents are likely to favour a system in the Beveridgean tradition. Maintaining the current pension scheme doesn't seem however to be the most preferred alternative, yet, the government responsibility in providing pensioners with pension benefits is important for the persons interviewed.

From this analysis, it also appears to be cleavages around various issues along age and income dimension. Notably, the old are much more informed about issues related to the pension system in Ireland than the younger. On the other hand, income also plays a differentiator role as preferences regarding the way to provide pension benefits change between the different income groups.

The use of a discrete choice experiment in order to assess the determinants of people's attitudes towards the public pension system is a novelty in the empirical literature; it further provides interesting results as poverty aversion seems to play a crucial role in preferences. Estimation results have shown that poverty and inequality aversion indeed affect individuals' utility and their demand for redistribution. All individuals, regardless of age and income are poverty averse and a higher poverty among the elderly decreases utility at an important degree. While the evaluation of the levels of pension benefits depends on age and income of respondents, cost and poverty are independent.

One next objective of the study is to derive implicit prices for the pension-specific selected attributes and to investigate individuals' preferences heterogeneity in Willingness to Pay (WTP) for pension reforms using more sophisticated specifications (for example the random parameter logit model) in the estimation of the random utility models.

Abid and O'Donoghue (2010) use the political choice model from the choice experiment to study the impact of "politically sustainable" pension system alternatives on the income of the elderly and cost for the government using a dynamic microsimulation framework.

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Notes

1. For population projections in Ireland, see CSO (2009)
2. The questionnaire is available upon request to authors.
3. In Boeri et al (2001), individuals were asked two questions about the contribution rate to the system and the balance of the PAYG pension scheme.
4. Mulligan and Sala-i-Martin (1999)

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Tables

Table 1: Proportions of the different age ranges in the total population (sample and national proportions)

Area	Age range						Total
	18 to 24	25 to 34	35 to 49	50 to 59	60 to 69	70 or more	
Urban							
Number of respondents	54	31	36	32	28	19	200
Percentage in the total sample of the same age range	78.26	62.00	48.65	58.18	60.87	59.38	61.35
Rural							
N° of respondents	15	19	38	23	18	13	126
Percentage in the total sample of the same age range	21.74	38.00	51.35	41.82	39.13	40.63	38.65
Total							
N° of respondents	69	50	74	55	46	32	326
Percentage in the total populatio sample	21.17	15.34	22.7	16.87	14.11	9.82	100
National proportions in the population aged 15 years and over (%)	18.75	21.40	26.61	14.00	9.63	9.61	100
National proportions in the total population (%)	14.92	17.04	21.18	11.14	7.67	7.65	100

Table 2: Background Characteristics

	Frequency	Percent
Largest source of income for the household		
income from employment	206	63.19
income from public pension	36	11.04
Education level		
recognised third level education	153	46.93
leaving certificate or equivalent	130	39.88
junior or inter certificate or lower	40	12.27
Gender		
male	170	52.15
female	155	47.55
Generation of the respondent		
young	159	48.77
middle-aged	115	35.28
old	52	15.95
Annual household income		
No answer	18	5.52
less than €20000	48	14.72
between €20000 and €40000	93	28.53
between €40000 and €60000	72	22.09
between €60000 and €80000	50	15.34
more than €80000	45	13.80
Employment status		
private sector employee	88	26.99
Public sector employee	46	14.11
self-employed	35	10.74
retired	55	16.87

student	54	16.56
Marital status		
Married or living with a partner	166	50.92
single	103	31.6

Table 3 : Attitudinal profile of the respondents

	Frequency	Percent
<i>Differences in income in Ireland are too large...</i>		
strongly agree	135	41.41
slightly agree	108	33.13
strongly disagree	13	3.99
slightly disagree	27	8.28
agree nor disagree	21	6.44
<i>Overall, would you be in favour of...</i>		
less inequality and more tax	130	39.88
more inequality and less tax	44	13.50
An unchanged amount of taxes and same level of inequality	62	19.02
<i>It is the responsibility of the government to reduce the differences in income...</i>		
strongly agree	118	36.20
slightly agree	97	29.75
strongly disagree	42	12.88
slightly disagree	29	8.90
neither agree nor disagree	18	5.52

Table 4: In all countries, there are differences or even conflicts between different social groups. In your opinion, in Ireland, how much conflict is there between...

	Very strong conflicts	Strong conflicts	Not very strong conflicts	There are no conflicts
	Percent	Percent	Percent	Percent
Poor people and rich people	11.35	39.88	38.04	4.6
The working class and the middle class	1.23	23.93	53.37	14.42
Management and workers	22.09	39.26	26.99	3.99
Public sector workers and private sector workers	7.98	32.21	34.05	11.35
Young people and older people	2.45	18.1	51.53	18.4

Table 5: Knowledge about pensions

Knowledge about the State pension system

Frequency

Percent

How well informed are you about the way the State Irish pension system operates?			
	Very well informed	56	17.18
	Somewhat informed	105	32.21
	Not too informed	72	22.09
	Not at all informed	93	28.53
Total		326	100
Estimate about the level of the pension benefit			
Can you make a reasonable estimate about the level of your (<i>likely</i>) retirement income?			
	No answer	3	0.92
	Don't know	1	0.31
	Good idea	90	27.61
	Reasonable idea	68	20.86
	Vague idea	54	16.56
	No idea	110	33.74

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Total	326	100
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Table 6: Knowledge about the functioning of the State Irish pension system (Ordered Logit)

How well informed are you about the way the State Irish pension system operates?

- 1- Very well informed
- 2- Somewhat informed
- 3- Not too informed
- 4- Not at all informed

Explanatory variables	Coefficient	P>z
Age	-0.056 ***	0.000
Unable to work through illness	0.333	0.653
Retired	0.076	0.900
Unemployed	0.849	0.150
Student	0.683	0.134
Working in the home	-0.550	0.324
Other	0.179	0.885
Income from public pension	-1.270 **	0.042
Income from private pension	0.359	0.727
Income from Social Welfare	-0.693	0.237
Belonging to a household earning more than € 80000/year	-0.703 *	0.065
Prefers keeping extra money for rainy days	-0.644 **	0.031
Prefers saving extra money for old age	-2.059 ***	0.000
Precaution saving	1.032 ***	0.001
Has private pension	-1.231 ***	0.000

Log likelihood = -273.24813

Notes: * significant at 10%; **significant at 5%;***significant at 1%

Reference category: working, receiving income from employment, belonging to a household earning below 80 000euros/year, having short term spending behaviour, neutral to risk and doesn't have private pension benefit.

Table 7: What explains the pension benefit choice? (Ordered Logit)

According to you, how should State pension benefits be provided in Ireland?

- 1- The poor receive a higher pension benefit
- 2- Everyone has the same pension benefit
- 3- The pension is proportional to past earnings

Explanatory variables	Coefficient		P>z
Age	-0.022	*	0.085
Unable to work through illness	0.252		0.717
Retired	1.103	*	0.062
Unemployed	-1.909	**	0.036
Main source of income from employment	0.636		0.199
Main source of income from self employment	1.278	**	0.048
Annual household income between € 60000 and € 80000	0.646		0.137
Annual household income more than € 80000	1.745	***	0.000
Married or living with a partner	-0.827	*	0.087
Single	-0.962	*	0.088
Widowed	-0.756		0.278
Would vote for Fianna Fail	-0.657	**	0.049
Would vote for Labour party	-1.040	**	0.039
Would vote for Green Party	-1.114	**	0.049
Would vote for Sinn Fein	-1.059		0.182
Would vote for Progressive Democrats	-1.232		0.223

Log likelihood = -195.35915

Notes: * significant at 10%; **significant at 5%;***significant at 1%

Reference individual is: working or student, has other sources of income than employment, belonging to a household earning less than 60000euros/year, divorced/separated.

Table 8: Ranking of pension policy options to deal with population ageing

In case of higher proportion of the elderly in the total population, how important are the following options for you? Please **rank** the following propositions from **1** (most important for consideration) to **3** (least important for consideration)

	Most important for consideration	fairly important for consideration	Least important for consideration
	Percent	Percent	Percent
People will have to work longer	36.5	34.05	26.07
The state will have to spend more on pensions	25.46	28.83	42.33
People will have to save more for their retirement	35.28	33.44	27.91

Table 9: Individual responsibility to save for old age (Ordered Logit)

It should be left entirely to the individual responsibility to save for its old age

1- Strongly agree

2- Slightly agree

3- Slightly disagree

4- Strongly disagree

Explanory variables	Coefficient		P>z
Old (more than 65 years)	-1.175	*	0.078
Male	-0.659	**	0.036
Very Good health	-1.065	**	0.016
Good health	-0.558		0.216
Main source of income from employment	2.638	**	0.014
Main source of income from self employment	2.555	**	0.027
Main source of income from public pension	2.535	**	0.024
Main source of income from Social Welfare	3.700	***	0.003
Main source of income from returns on saving or other assets	0.728		0.706
Main source of income from support from relatives, family members	2.438		0.122
Main source of income from dividends	3.451	**	0.020
Annual household income between € 20000 and € 40000	0.966	*	0.061
Annual household income between € 40000 and € 60000	1.535	***	0.009
Annual household income between € 60000 and € 80000	0.920		0.150
Annual household income greater than € 80000	0.468		0.471
Number of elderly living in the household	0.221		0.025
Married or living with a partner	1.063	**	0.048
Single	1.363	**	0.019
Widowed	0.795		0.343
Junior or inter certificate or lower	1.442	**	0.025
Would vote for Green Party	-0.939		0.108

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Prefers keeping extra money for rainy days	0.638	*	0.053
Prefers saving extra money for old age	1.288	*	0.073

Log likelihood = -215.30422

Notes: * significant at 10%; **significant at 5%;***significant at 1%

Reference individual is: young, female, not in a good health, having income from private pension, belonging to a household earning less than 20000euros/year, divorced/separated, having at least a leaving certificate, supporting any other party than green party, prefers not saving.

Table 10 : State responsibility in providing pensions (Ordered Logit)

It should be the State responsibility to provide each pensioner with a pension benefit

1- Strongly agree

2- Slightly agree

3- Slightly disagree

4- Strongly disagree

Explanatory variables	Coefficient	P>z
Age	-0.040 ***	0.010
Private sector employee	-2.581 ***	0.000
Public sector employee	-2.916 ***	0.000
Self-employed	-2.515 ***	0.001
Unable to work through illness	-2.291 **	0.031
Unemployed	-1.790	0.119
Student	-2.084 **	0.046
Other employment	2.570	0.193
Main source of Income from public pension	-1.059	0.170
Main source of Income from private pension	-3.272 *	0.051
Annual household income between € 20000 and € 40000	0.760	0.232
Annual household income between € 40000 and € 60000	1.190 *	0.081
Annual household income between € 60000 and € 80000	0.887	0.246
Annual household income more than € 80000	2.621 ***	0.001
Divorced/separated	0.899 *	0.088
Leaving certificate or equivalent	-1.139 ***	0.004
Junior or inter certificate or lower	-0.595	0.382
Would vote for Fianna Fail	0.789	0.086
Would vote for Fine Gael	1.351 ***	0.010
Would vote for Labour party	-0.288	0.658
Would vote for Green Party	-1.284	0.142
Would vote for Progressive Democrats	-1.729	0.179

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Prefers saving extra money for old age	2.713	***	0.000
Risk neutral	1.357	***	0.002

Log likelihood = -149.1001

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%

The reference individual is retired or working in the home, having other income sources than pensions, having an annual household income lesser than 20000, euros, not divorced or separated, having less than a leaving certificate or equivalent, and risk averse.

Table 11 : Preferences for the status quo (Ordered Logit)

The way pensions are provided in Ireland should remain the same:

- 1- Strongly agree
- 2- Slightly agree
- 3- Slightly disagree
- 4- Strongly disagree

Explanatory variables	Coefficient		P>z
Age	0.016		0.161
Annual household income between € 20000 and € 40000	-0.417		0.411
Annual household income between € 40000 and € 60000	-1.353	**	0.014
Annual household income between € 60000 and € 80000	-1.773	***	0.004
Annual household income more than € 80000	-1.140	**	0.049
Single	-0.661		0.119
Divorced/separated	-0.871	**	0.040
Leaving certificate or equivalent	-0.597	*	0.064
Junior or inter certificate or lower	-0.781		0.175
Would vote for Fianna Fail	-0.681	**	0.041
Would vote for Sinn Fein	-1.614	**	0.051
Would vote for Progressive Democrats	-1.040		0.254
Prefers keeping extra money for rainy days	1.093	***	0.003
Prefers saving extra money for old age	1.822	***	0.008
Risk neutral	0.945	**	0.017

Log likelihood = -250.19587

Notes: * significant at 10%; **significant at 5%;***significant at 1%

The reference individual belongs to a household earning less than 20000euros/year, is married or widowed, has a recognized third level education, has short term spending behaviour and is risk averse

Table 12: Baseline specification

Actual Choice	CL1	CL2	CL3	CL4
State pension benefit for a low income individual	0.136 (6.38)**	0.148 (4.97)**	0.165 (7.25)**	0.013 (3.12)**
Low pension-squared	-0.0002 (-6.08)**	-0.0002 (-4.37)**	-0.0003 (-6.63)**	
State pension benefit for a high income individual	0.012 (5.71)**	0.037 (5.87)**	0.037 (5.88)**	0.003 (1.11)
High-pension-squared	-0.00001 (-7.27)**	-0.00003 (-7.07)**	-0.00003 (-7.08)**	
Poverty rate among the elderly poverty-squared	-11.078 (-3.88)**	-17.486 (-4.79)**	-16.775 (-5.36)**	-4.254 (-3.28)**
Cost for an average worker	-0.149 (-4.32)**	-0.459 (-5.76)**	-0.452 (-5.67)**	-0.039 (-1.14)
Cost-squared	0.0013 (3.60)**	0.002 (5.70)**	0.002 (5.59)**	
Retirement age	-0.016 (-0.94)	-0.020 (-1.08)	-0.022 (-1.33)	-0.041 (-2.39)*
Alternative 2		1.179 (4.96)**		
Alternative 3		1.099 (4.37)**		
Alternative 4		1.026 (4.03)**		
Alternative 1 (current situation)			-0.912 (-4.18)**	
Means-tested pension alternative				-0.605 (-1.77)
Universal pension alternative				0.292 (1.44)
Earnings-related pension alternative				-1.219 (-2.84)**
log likelihood	-3022.21	-3012.12	-3013.40	-3048.10
Value of z statistics in parentheses; * significant at 5%; **significant at 1%				

Table 13: Estimation Results for Four Groups Differentiated by Age and Income

Variable	over 65 years & above median income	over 65 years & below median income	Below 65 years & above median income	Below 65 years & below median income
State pension benefit for a low income individual	0.138 (1.85)	0.242 (2.73)**	0.132 (4.07)**	0.126 (3.80)**
Low pension-squared	-0.0002 (-1.80)	-0.0005 (-2.62)**	-0.0002 (-3.79)**	-0.0002 (-3.67)**
State pension benefit for a high income individual	0.023 (3.14)**	0.019 (2.20)*	0.011 (3.44)**	0.010 (2.84)**
High-pension-squared	-0.00002 (-3.05)**	-0.00002 (-2.45)*	-0.00001 (-4.67)**	-0.00001 (-3.86)**
Poverty rate among the elderly	-22.741 (-2.32)*	-6.006 (-0.51)	-4.098 (-0.95)	-16.667 (-3.65)**
poverty-squared	36.524 (0.97)	-27.450 (-0.55)	-16.023 (-0.94)	28.869 (1.62)
Cost for an average worker	-0.322 (-2.80)**	-0.221 (-1.54)	-0.118 (-2.25)*	-0.118 (-2.15)*
Cost-squared	0.002 (1.83)	0.001 (1.05)	0.001 (2.12)*	0.001 (1.75)
Retirement age	-0.051 (-0.87)	0.043 (0.66)	-0.040 (-1.55)	0.006 (0.26)
log likelihood	-262.91	-212.40	-1340.08	-1180.32
Value of z statistics in parentheses; * significant at 5%; **significant at 1%				