Employment-related benefits are one important way to provide economic security to the middle class in their old age.

The Economic Well-Being of the Elderly: Past, Present, and Future

The economic well-being of the elderly as a group is now equal to or greater than that of the nonelderly as a result of a large and sustained decrease in poverty among people over age 65 during the past 20 years. In 1986, the elderly’s per capita money income before taxes averaged $12,074—a gain of nearly 30 percent in this group’s purchasing power since 1970.

Although to be old is no longer to be poor, substantial pockets of economic insecurity and near poverty still exist among the elderly, particularly among older women. In 1986, more than 53 percent of all single elderly women living alone had money incomes below $7,880 ($150 a week, or 150 percent of poverty). In addition, a substantial number of low-income elderly persons are heavily dependent on Social Security as the major source of their economic sustenance and are financially vulnerable to high medical expenses, rising housing costs, and related contingencies.

Tomorrow’s elderly will, on average, be better off than today’s. But the economic situation of today’s lower middle-income retirees is unlikely to change. While some short-term measures may improve their overall economic situation, major changes in the federal Old-Age, Survivors, Disability, and Hospital Insurance program and other policies aimed at this group are unlikely because of the budgetary deficit and generational equity concerns.

To provide more substantial long-term economic security for the elderly during the next century, middle-aged, middle-income persons will need to do more for themselves during their working years to ensure that they will have adequate resources available for their retirement. Employment-related benefits are one important way to provide long-term economic security to the middle class in their old age.
Introduction

Although the average elderly person in America is now living at a level of economic well-being equivalent to that of a nonelderly person, several sources of economic insecurity remain. The major economic insecurities faced by today’s lower-income elderly can only be alleviated tomorrow and beyond by the development of far-sighted, long-term public policy instruments and by the cooperation of employers, government, and middle-aged workers. There is little hope that the types of measures needed to promote future financial economic security among the elderly who are at risk will be developed during the next decade. While some short-term measures could improve the overall economic situation among lower-income elderly, the days of massive windfall changes in Old-Age, Survivors, Disability, and Hospital Insurance (OASDHI) policy are likely over. Changes such as those that occurred in the 1970s are constrained by both the current budgetary deficit and generational equity concerns, given the long-term OASDHI budget picture and the high level of poverty among children.

Well-targeted, low-cost interventions, such as the provisions contained in the Medicare Catastrophic Coverage Act of 1988 to extend Medicaid coverage and to reduce spousal impoverishment caused by nursing home expenses, are helpful but do not get to the heart of the long-term problem. To provide more substantial long-term economic security to the elderly, middle-aged persons need to do more for themselves now so that they will have more resources when they reach retirement age during the next century. Employment-related benefits are one important way to provide long-term economic security to the middle class in their old age.

Measuring the Economic Well-Being of the Elderly

Economists generally argue that disposable personal income is the single most important indicator of economic well-being at any point in time. Income is measurable, meaningful, and concrete. Cross-sectional, survey-based, money-income data are regularly available to researchers from, for example, the U.S. Department of Commerce’s Current Population Survey (CPS). Although less readily available, longitudinal panel microdata sets, such as the Michigan Panel Study of Income Dynamics (PSID), allow researchers to follow individuals and their changing economic circumstances over time.

Table 1

<table>
<thead>
<tr>
<th>Resource Flows to and from Individuals and Families</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Traditional or Regular Income</strong></td>
</tr>
<tr>
<td>• Salaries, wages, interest, rent, dividends</td>
</tr>
<tr>
<td>• Public cash transfers</td>
</tr>
<tr>
<td>• Private cash transfers, such as pensions and alimony</td>
</tr>
<tr>
<td><strong>Additions</strong></td>
</tr>
<tr>
<td>Wealth and Loans</td>
</tr>
<tr>
<td>• Wealth contributions (cash or in-kind) above dividends, interest, rent (counted above), including implicit rent on owner-occupied homes and realized income from capital gains, plus loans received</td>
</tr>
<tr>
<td><strong>Regular In-Kind Payments Received</strong></td>
</tr>
<tr>
<td>• Public in-kind transfers for health care, food, housing, heating</td>
</tr>
<tr>
<td>• Business (employment-related) or charity in-kind transfers received on a regular basis</td>
</tr>
<tr>
<td>• Continuing transfers of time or services from relatives, such as dependent care</td>
</tr>
<tr>
<td><strong>Intermittent Transfers Received</strong></td>
</tr>
<tr>
<td>• Gifts from relatives, including inheritances and bequests</td>
</tr>
<tr>
<td>• Cash settlements, such as insurance</td>
</tr>
<tr>
<td>• One-time transfers of time or services from relatives</td>
</tr>
<tr>
<td><strong>Subtractions</strong></td>
</tr>
<tr>
<td>• Gifts (cash or goods given to others)</td>
</tr>
<tr>
<td>• Extraordinary costs to meet basic needs</td>
</tr>
<tr>
<td>• Debt repayment</td>
</tr>
<tr>
<td>• Time or services given to others</td>
</tr>
<tr>
<td>• Mandatory contributions through taxes</td>
</tr>
<tr>
<td>• Resources set aside for own future needs</td>
</tr>
</tbody>
</table>

Although money income is a useful measure of economic well-being, final consumption is usually of more interest. Two factors need to be considered when converting income estimates into consumption estimates. First, economic responsibilities, tax liabilities, and work-related expenses can vary substantially among families, depending on the number and ages of family members and the occurrence of extraordinary needs, such as large medical bills for acute or chronic care. Second, many resources of considerable economic value, such as homeownership and medical insurance, affect consumption but not money income. Thus, two families with similar money incomes could have very different levels of economic well-being, and two families that might generally be judged as having similar levels of economic well-being might have very different levels of money income.

These limitations can be partially overcome by estimating the income value of nonmoney economic resources and by adjusting measures of income to reflect families’ differing tax burdens, responsibilities, and needs. The most commonly employed and generally accepted method of adjusting for differences in family size and age is to adjust a family’s income by using adult “equivalence scales”; that is, by dividing the income of a given size and age unit by the relative number of equivalent adults.

Other factors that affect measured economic well-being should also be reflected in measures of economic status. Ideally, all of the resources and transactions listed in table 1 should be considered in any assessment of economic well-being. In practice, data and measurement constraints limit our ability to include all of these items.

The first group of resources in table 1 constitutes the traditional definition of money income, which is generally confined to payments made in cash to the family regularly or at least periodically. But other additions to and subtractions from income normally are ignored. For instance, knowledge of an elderly person’s financial wealth adds an important dimension to the sense of his or her economic well-being. Although income measures are intended to capture the stream of returns to most wealth, these returns may be variable or unrealized and are thus not reflected well in annual or panel income measures.

One major return to a common form of wealth among the elderly—the implicit rent (or net imputed return) on equity in a home—is usually not captured at all. Even when returns to wealth such as interest, rents, and dividends are included in income, they are greatly underreported, and there are systematic biases related to age and income (Radner, 1987). Finally, even a good estimate of the income flow from wealth is liable to underestimate the economic benefits (or costs) from the presence (absence) of wealth holdings, because these holdings provide a form of insurance that can be drawn upon in times of need.

Health and related care from a spouse is usually the most important in-kind transfer that an older person receives, apart from services covered by insurance.

The most important type of public and private in-kind transfer received by the elderly is health care. While this insurance coverage may not be complete, it is valuable. Health and related care from a spouse is usually the most important in-kind transfer that an older person receives, apart from services covered by insurance. However, relatives not in the nuclear family often care for elderly family members as well. Disabled elderly persons often need help with basic needs, which they sometimes must purchase from others when help is not available.

Occasional transfers of resources, either in cash or in-kind, add yet another dimension to the measurement
issue. Income surveys generally instruct respondents not to report sporadic inflows on the grounds that a one-time infusion of cash or goods does not produce the same benefit as the same amount received in regular payments. Nonetheless, a particularly large one-time payment, such as a down payment on a home or help with college tuition, can help a family over many years. Such a transfer permanently increases the well-being of the family member who receives it. Similarly, much of the elderly’s growing wealth will at some point trickle down to their offspring and other relatives. In the meantime, it is set aside to meet extraordinary needs; for example, for home or institutional nursing care at some future point.

While none of the various income measures used in this discussion capture total resource flows to and from individuals and families, the measures presented in the next section attempt to move beyond traditional income to include taxes, income in-kind, implicit rent, and the value of realized capital gains. Where possible, they are also adjusted for differences in economic responsibilities, using equivalence scales. However, they are not adjusted for some needs, such as that of the frail elderly for assistance with basic activities. While the income basis of each specific comparison is further clarified from section to section, it is useful to have the ideal overall measure of resource flows in table 1 in mind for comparison purposes.

Economic factors such as income, wealth, and material needs capture only a part of individuals’ total well-being. Clearly, health status is a large component of well-being, particularly for the elderly and the disabled. Measures of economic well-being ignore the effect of acute or chronic disease on well-being. Economic measures do not take account of the elderly’s reduced functioning or decreased ability to perform the basic

### Table 2

<table>
<thead>
<tr>
<th>Income Concept</th>
<th>All Households with Members Aged 65 or over</th>
<th>All Households with Members Aged 75 or over</th>
<th>Single Women Aged 65 or over</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ratios of Means</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money income before taxes(^b)</td>
<td>0.81</td>
<td>0.72</td>
<td>0.51</td>
</tr>
<tr>
<td>Expanded income(^c)</td>
<td>1.05</td>
<td>0.94</td>
<td>0.72</td>
</tr>
<tr>
<td><strong>Ratios of Medians</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money income before taxes(^b)</td>
<td>0.67</td>
<td>0.57</td>
<td>0.43</td>
</tr>
<tr>
<td>Expanded income(^c)</td>
<td>0.99</td>
<td>0.88</td>
<td>0.70</td>
</tr>
<tr>
<td><strong>Ratios of Per Capita Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money income before taxes(^b)</td>
<td>0.97</td>
<td>0.88</td>
<td>0.92</td>
</tr>
<tr>
<td>Expanded income(^c)</td>
<td>1.25</td>
<td>1.14</td>
<td>1.23</td>
</tr>
</tbody>
</table>


\(^a\)Adjusted incomes were computed by using the U.S. Census Bureau’s poverty line equivalence scale to transform unadjusted income. The average household size for the nonelderly was 2.91 persons, as compared to 1.91 for all households with a person aged 75 or over, 1.81 for the age-75-or-over group, and 1.00 for single women aged 65 or over.

\(^b\)Money income before taxes is the traditional U.S. Census Bureau measure of income used to generate annual income and poverty statistics.

\(^c\)Expanded income adds realized capital gains; employer-provided benefits in the form of health insurance; noncash transfers in the form of health insurance (Medicare, Medicaid); food stamps; and public housing. It also subtracts federal and state income taxes and payroll taxes. Medicare and Medicaid are measured at their fungible value, that is, they are counted as income only to the extent that they free up resources over and above basic food and housing requirements that could have been spent on health care. Expanded income also includes a measure of the implicit rental income of owner-occupiers by applying a 7.4 percent rate of return to the net equity in owned homes and subtracts property taxes owed on these homes. For a full explanation, see source cited in this table.

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activities of daily life. About 28 percent of those aged 75–84 and almost one-half of those aged 85 or over have such limitations (Keenan, 1989). These adverse components of well-being should be kept in mind.

**Trends in Elderly Individuals’ Well-Being**

The increased well-being of the elderly as a group over the past 20 years is now a well-documented fact. In 1986, the per capita money income of persons aged 65 or over before taxes averaged $12,074—a gain of nearly 30 percent in this group’s purchasing power from 1970. Moreover, the 1986 average was more than twice the level of the poverty threshold for an elderly person ($5,255) (U.S. Department of Commerce, 1988).

**Causes of Change**

Since the early 1970s, the elderly have experienced both a faster increase in average money income and a faster reduction of officially measured income poverty than the nonelderly (Radner, 1987; U.S. Department of Commerce, 1988; Duncan and Smith, 1988; Smolensky, Danziger and Gottschalk, 1988). The elderly’s increased relative position is partly due to the slow growth in the incomes of younger families, as high rates of inflation in the 1970s and the severe recession in the early 1980s took their toll. The automatic wage indexing of new benefits and price indexing of benefits by Old-Age, Survivors, and Disability Insurance (OASDI) helped the elderly relative to the nonelderly during this period. This change was not an isolated U.S. phenomenon; in fact, it occurred to an even greater extent in Canada and the United Kingdom (Smeeding and Torrey, 1989).

A recent report by the U.S. Bureau of the Census allows comparisons of expanded income among subgroups of the elderly and comparisons of mean, median, and per capita income (table 2). Because the income distribution for elderly and nonelderly is skewed, mean (or average) family income is higher than median family income. For instance, cash income for all households with a member aged 65 or over had a mean value of $24,564 in 1986 but a median value of $14,922 (U.S. Department of Commerce, 1988). Thus, the median allows the “middle” family in the distribution of the elderly population to be compared with its counterpart among the nonelderly, whereas the mean measures the average position regardless of the skewness of the two populations. Per capita incomes are also useful because they reflect the amount of available income per person within a household. This growth in per capita income has increased the elderly’s ability to live alone. In 1950 less than 30 percent of all widows aged 65 or over lived alone, whereas by 1986, 71 percent of all elderly widows did so (U.S. Congress, 1988b).

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**On a per capita basis, the elderly have expanded incomes that are a full 25 percent above those of the nonelderly.**

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Comparisons of the elderly’s income with the nonelderly’s income based on these data indicate that on an expanded income basis—adjusting for differences in family size—the mean and median ratios of incomes of all elderly persons to all nonelderly persons are 1.05 and 0.99, respectively. On this basis, the elderly as a group are now essentially as well off as the nonelderly as a group, confirming an earlier finding by Hurd (1989) and Smeeding (1989). On a per capita basis, the elderly have expanded incomes that are a full 25 percent above those of the nonelderly. However, persons aged 75 or over and single elderly women living alone are still living at an adjusted cash income level somewhat below the economic status of the nonelderly. Elderly persons aged 75 or over live in units with adjusted expanded incomes (including implicit rent) that are 88 percent to

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1 See footnote c to table 2 for definition.
94 percent as high as those of the nonelderly, depending on whether the mean or the median is used to make the comparisons. However, the typical elderly woman living alone has a level of adjusted income only 70 percent to 72 percent as high as that of the nonelderly.

The average wealth status of today’s elderly is equally impressive. Mean 1984 net worth for households with a head aged 65 or over was $102,770 (Lamas and McNeill, 1985). Even while excluding home equity, net worth in 1984 averaged $62,875 for those aged 65 or over and $52,795 for those over age 75 (Lamas and McNeill, 1985). Adjustments for survey underreporting would increase these estimates by as much as 50 percent (Wolff, 1985). In contrast, median wealth estimates are only about 60 percent of mean values, balancing out the underreporting bias (Wolff, 1985; Moon and Smeeding, 1989) and indicating a substantial degree of inequality in the distribution of wealth among the elderly.

Perhaps the most comprehensive and accurate study of family income trends over the past 15 to 20 years was recently compiled by the Congressional Budget Office (CBO). Traditional measures of unadjusted median cash family income indicate that it declined by approximately 4 percent during the period from 1970 to 1986. In contrast, using a family-size adjusted family income (AFI) measure similar to that used in table 2 (see note a), CBO found that median incomes for all families and unrelated individuals grew by about 60 percent during the same period. The difference in these trends is due to declining family size.

While CBO was unable to include taxes or in-kind income in its report, the differences in income change for various groups is striking. Elderly childless families and elderly unrelated individuals experienced nearly 50 percent increases in real income, despite starting from a much lower base. Nonelderly childless families and single persons, however, experienced only a 20 percent increase in real income. Much of this rapid growth among the elderly is directly attributable to increased Social Security benefits. Among all retired Social Security recipients, on average real benefits increased 57 percent (Congressional Budget Office, 1988). Families with children experienced only a 13 percent increase in income, while incomes of single-parent families were nearly flat, rising by only 4 percent from 1970 to 1986.

In summary, these overall income trends indicate that the elderly as a group have reached or gone beyond parity with the nonelderly. Before the 1960s, to be old was, in most instances, to be poor. Thanks in large part to the rapid growth of Social Security, the incomes of the elderly have increased by one-half since 1970. The growth in the value of homes, the rising stock market, and high real interest rates in the 1980s have led to improved wealth status among the elderly. But the variance in economic well-being among the elderly also needs attention.

Variance in Well-Being

Despite these average gains, the key factor in investigations of the economic status of the elderly is their heterogeneity. As Quinn (1987) has written:

Never begin a sentence with “The elderly are . . .” or “The elderly do . . . .” No matter what you are discussing, some are, and some are not; some do, and some do not. The most important characteristic of the aged is their diversity. The average can be very deceptive, because it ignores the tremendous dispersion around it. Beware of the mean.

The major contributor to the rising economic status of the elderly is the changing nature of this group. New entrants to the elderly group, those just reaching age 65, have, on average, higher income and wealth than persons leaving the group, that is, those who die in any given year. Data from Census Bureau surveys conducted in 1979 and 1984 show that the average income and net worth of persons aged 65 to 69—two completely different groups of individuals—increased by 47.5 percent and 37.6 percent, respectively, over this five-year period (Lamas and McNeill, 1985). On the other
Chart 1
Trends in Official Poverty Rates among the Old, the Young, and All Persons

<table>
<thead>
<tr>
<th>Year</th>
<th>Aged</th>
<th>Children</th>
<th>All Persons</th>
<th>Adults</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>36%</td>
<td>20%</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>1963</td>
<td>34%</td>
<td>18%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>1967</td>
<td>32%</td>
<td>16%</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>1971</td>
<td>30%</td>
<td>14%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>1975</td>
<td>28%</td>
<td>12%</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>1979</td>
<td>25%</td>
<td>10%</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>1983</td>
<td>21%</td>
<td>8%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>1987</td>
<td>18%</td>
<td>6%</td>
<td>5%</td>
<td>3%</td>
</tr>
</tbody>
</table>


hand, the income and net worth of the group aged 65 to 69 in 1979, who were subsequently aged 70 to 74 in 1984, increased by only 13.5 percent and 14.4 percent, respectively. Consequently, average incomes increase at a faster rate when reported for the elderly as a group than they would if reported for a specific cohort of elderly individuals who were followed over time.

Ross et al. (1987) indicate that successive cohorts of the elderly (those born between 1890 and 1910) had increasingly higher ratios of unadjusted money income to needs between 1950 and 1980. But their data also indicate a decrease in that ratio of income to needs for each of these cohorts as it aged (Duncan and Smith, 1988). Using data from the PSID to follow a set of specific elderly families from 1969 to 1979 and beyond indicates that income-to-needs ratios fall after retirement for elderly couples, particularly for widows (Burkhauser and Duncan, 1988). Between 1969 and 1979, older persons who remained intact as couples throughout the period experienced a drop of 23 percent in their ratio of money income to needs from one year prior to retirement to two years after retirement. The income-to-needs ratio for this same group fell by another 27 percent during the next six years, leaving the average retired couple just 50 percent as well off seven to eight years after retirement as they were one year prior to retirement. The situation is worse for survivors of retiring couples over this period. Seven to eight years after retirement, their income-to-needs ratio...
had holdings of only $16,489, on average, while the top 5 percent still held $441,290.

◆ Poverty

Perhaps the most noteworthy social policy accomplishment of the past 30 years is the large and sustained decrease in poverty among the elderly. Two useful points of comparison with the elderly in this context are the changing poverty status of children—the other major dependent group in society—and the poverty status of nonelderly adults. Estimates of the percentage of persons defined as officially poor by the U.S. government suggest that poverty rates for elder Americans have fallen while those of families with children have increased since 1969 (chart 1). In fact, poverty rates of

<table>
<thead>
<tr>
<th>Percentage of Poverty</th>
<th>All Persons</th>
<th>All under age 18</th>
<th>All under age 6</th>
<th>In female-headed households</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Definition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>13.6%</td>
<td>20.5%</td>
<td>22.1%</td>
<td>53.3%</td>
</tr>
<tr>
<td>125</td>
<td>18.2%</td>
<td>25.8%</td>
<td>27.8%</td>
<td>56.2%</td>
</tr>
<tr>
<td>150</td>
<td>22.9%</td>
<td>31.1%</td>
<td>33.3%</td>
<td>59.5%</td>
</tr>
</tbody>
</table>

| **Expanded Definition**|             |                 |                |                           |
| 100                   | 10.3%       | 16.0%           | 18.2%          | 45.7%                     |
| 125                   | 14.9%       | 22.6%           | 25.0%          | 51.7%                     |
| 150                   | 19.9%       | 29.5%           | 32.2%          | 57.6%                     |

| **Percentage Reduction:** |             |                 |                |                           |
| **Current to Expanded** |             |                 |                |                           |
| 100                   | 24.2%       | 21.9%           | 17.6%          | 14.3%                     |
| 125                   | 18.1%       | 12.4%           | 10.0%          | 8.0%                      |
| 150                   | 13.1%       | 5.1%            | 3.3%           | 3.2%                      |


a “In female-headed households” includes all children under age 18 living in a family headed by a woman.
b Female living alone includes all female unrelated individuals aged 65 or over who are living alone.
c Current (or “Census”) definition of income includes all forms of cash income except for realized capital gains gross of taxes.
d Expanded definition includes all forms of cash income (including capital gains) and noncash income from subsidized medical insurance (employer, Medicare, Medicaid), and food and housing (including implicit rent), net of federal and state income taxes and payroll taxes. Medical transfers are counted at their “fungible value,” that is, the market value once basic food and shelter needs have been taken into account and at zero value if they have not. Food and housing subsidies are counted at their market value.
e Percentage reduction is calculated as current definition minus expanded definition divided by current definition times 100.
the elderly have been lower than those of children since 1974 and lower than the overall national rate since 1983. In 1987, the poverty rate among the elderly was at 12.2 percent (the lowest rate ever recorded and less than one-half the 1969 rate of 25.3 percent), while that of children was 20.0 percent (a slight decrease from the 21.8 percent high of the 1969 to 1987 period, recorded in 1983, but one-third larger than the 13.8 percent rate of 1969). However, the poverty rate of the aged still exceeds that of nonaged adults by about one percentage point.

At the 100-percent-of-poverty level, the elderly had a poverty rate in 1986 of 12.2 percent, which is below the overall national average (13.6 percent) and more than 8 percent below the rate for all children (20.5 percent). But at the 150-percent-of-poverty level, the elderly’s low-income rate of 28.0 percent is only about three points below that of children (31.1 percent) and more than five points above the overall rate (22.9 percent). Single elderly women living alone and children in single-parent families have the highest rates of deprivation within both groups at any given level of poverty. Thus poverty among the elderly is more closely aligned with sex than with age.

Adjusting for taxes and income in-kind (expanded definition panel) improves the poverty status for all groups. The elderly’s poverty rates in 1986 fall to 5.7 percent using the expanded income definition, compared with 16.0 percent for children and 10.3 percent for the entire populace. Elderly widows living alone have an expanded income poverty rate of 12.2 percent. In contrast, the overall poverty rate falls by 24 percent when the expanded definition is used, while that among children falls by only 20 percent. These findings are consistent with recent research indicating that the material well-being of the low-income elderly is substantially higher than that of younger families (Mayer and Jencks, 1988).

This improvement is not realized by the large medical care transfers received by the elderly. The 1986 Census Bureau report does not count the impact of medical transfers at market value for persons with low incomes. Instead, it uses an entirely new “fungible value” method to determine the effect of medical benefits on poverty. It only counts medical benefits as income for families that have enough other resources to meet basic food and shelter requirements. For most poor elderly persons

At the 100-percent-of-poverty level, the elderly had a poverty rate in 1986 of 12.2 percent, which is below the overall national average (13.6 percent) and more than 8 percent below the rate for all children (20.5 percent).
this means that Medicare and Medicaid have little impact on poverty for purposes of the Census Bureau data.

A still different picture of poverty among elderly persons and children can be derived from following specific families over the 10-year period from 1969 through 1979 (Burkhauser and Duncan, 1988). While overall U.S. poverty rates were in the 11 percent to 13 percent range, 29 percent of children and 35 percent of elderly women were likely to be poor at least once during this period. A larger proportion of elderly (10 percent) than of children (7 percent) were likely to be among those who remained in poverty for six or more of the 10 years studied. Consistent with the cross-sectional data in chart 1, both children and elderly persons were more likely to experience poverty than the adult nonelderly groups.

**The Near Poor**

Although poverty rates among the elderly dropped considerably in the 1980s, mainly as a result of rising Social Security benefit levels, many of those heavily dependent on Social Security as a source of income were moved only a short distance beyond the poverty line. Near poverty among the elderly has decreased only slightly since 1970 or 1980, compared with the official poverty rate. Among elderly women householders (largely, single women living alone) the percentage who are near poor actually increased between 1970 and 1987. Even when noncash benefits were taken into account, nearly 20 percent of elderly women living alone had incomes below 125 percent of poverty. The average couple’s Social Security benefit was more than enough to keep them from poverty. Additional income from earnings, savings (property income), or private pensions explains why elderly couples are still likely to have the lowest near-poverty rates among the elderly. Social Security alone was enough to raise the average retired couple’s income to just above the near-poverty threshold. However, if one spouse dies and the retired worker is left alone, the average benefit is not enough by itself to keep that person from near poverty. The poverty lines implicitly assume that a single elderly person needs 79 percent of the income of an elderly couple to be nonpoor, while Social Security benefit rules provide retired workers with 67 percent of the joint amount due a couple on the death of the non-beneficiary spouse.

The situation is even more perilous for elderly survivors (widows or widowers) whose average Social Security benefit is barely enough to keep them at the poverty line. If the average elderly widow had only Social Security in 1987, she was just at the poverty line. In order to escape near poverty as well, this woman would have needed to have enough other income, such that Social Security was less than 80 percent of total income (an important fraction to remember). The average elderly widow living alone who relied on Social Security benefits for 80 percent or more of her income in 1987 was among the 13.1 percent of all such women who found themselves near poor, but not officially poor, in that year.

**The ’Tweeners**

The large number of elderly lower middle-income persons (about 20 percent of all persons aged 65 or over and almost 40 percent of elderly single persons living alone) who live on incomes of between 100 percent and 200 percent of the poverty line are in many ways the least well off and most economically insecure persons among the elderly. In 1988, this group lived on money income in the range of $5,700 to $11,400 for single persons and $7,200 to $14,400 for couples. Within this income range, those at highest risk of economic misfortune are dubbed the “’tweeners” because they are caught in the middle: not well enough off to be financially secure while at the same time not poor enough to qualify for the means-tested safety net.

The ’tweeners are subject to several sources of economic insecurity: unexpected inflation, acute or long-term medical costs, and/or high dependence on Social Security. Many have experienced the death of their spouse (which often means loss of private pension...
support and reduced Social Security). Paradoxically, the only way that these persons can improve their well-being is to spend themselves down to penury in order to qualify for the means-tested safety net (Medicaid, Supplemental Security Income (SSI), and food stamps) that will in many cases make them more economically and financially secure than they were as ’tweens.

Reliance on any one source of income—even if it is Social Security—can be a sign of economic dependence and insecurity.

Social Security

Among the elderly’s various sources of income, the one thought to be most secure is Social Security. However, reliance on any one source of income—even if it is Social Security—can be a sign of economic dependence and insecurity.

The Congressional Research Service estimates indicate that the overwhelming share of income for those in the lower-income ’tweeners range (those with welfare ratios of 1.0 to 1.99) comes from Social Security, with means-tested benefits (SSI) of some importance among the poor (the lowest welfare ratio group, those below 1.0) (U.S. Congress, 1988a). Across these income ranges, the groups most likely to have Social Security income and the groups most likely to be dependent on it as a source of income lie in the ’tweeners range.

Although Social Security was originally designed to provide only part of total retirement income, it has apparently become the primary income source for many of the oldest elderly. Too often, aged couples with both private pensions and Social Security experience the death of the male beneficiary. Widows with poor Social Security earnings histories whose husbands did not select joint survivor options for private pensions find that not only do private pension benefits stop but survivor benefits are usually only two-thirds of Social Security benefits for couples. Given the nearly five-year shorter life expectancy for males compared with females at age 65, these dynamics result in a growing number of very elderly low-income widows who are heavily reliant on survivors’ insurance as the major source of their cash income.

Nonmoney Income: Medical Care and Housing

The two largest sources of nonmoney income among the elderly are housing and health care benefits (Smeeding, 1989; U.S. Department of Commerce, 1988). Food stamps are important to the poorest elderly persons, while Medicare, Medicaid, and other health care subsidies, public housing, and implicit rent on owner-occupied homes are more important among others. The level and distribution of these benefits are very important to the lower-income ’tweeners’ economic security.

Health Care

Overall expenditures on acute health care for the elderly (excluding long-term care) reached $4,200 per person by 1984 (Waldo and Lazenby, 1984). The elderly paid about 36 percent of this amount either directly or via private health insurance premiums. The rest was covered by Medicare, Medicaid, veteran’s health care, or employer subsidies for retiree health care insurance. While the average poor elderly person paid about 12 percent of income for health care in 1984, the poor and near poor spent more than 16 percent (even though Medicaid helped the poorest of these). The wealthiest elderly spent less than 2 percent of their incomes on health care in the same year (Moon, 1983). In 1986, 12 percent of the elderly spent 20 percent or more of their income on acute health care (Feder, Moon, and Scanlon, 1987). In 1961, before Medicare,
As of the date of this publication, Congress was debating a number of proposals that would amend or repeal the Medicare Catastrophic Coverage Act of 1988. While the provisions of this bill (P.L. 100-360) will gradually limit out-of-pocket expenses for Medicare covered services up to about $2,000 per year, such a sum is still a high fraction of income for an elderly person with an income of $8,000 to $10,000 per year. Expenses for eyeglasses, hearing aids, and dental care are among the items not covered by Medicare and hence not by the catastrophic cap.  

The role of housing in generating nonmoney income is very important to the elderly.  

Housing

The role of housing in generating nonmoney income is very important to the elderly. More than 80 percent of all elderly households receive some form of in-kind housing income that shields them from substantial rental housing costs or unexpected change in those costs (Smeeding, 1986). The large majority of these (75 percent) own their own homes and received implicit rents that averaged $3,120 per year in 1986 (U.S. Department of Commerce, 1988). The other 5 percent either live in public housing or pay no cash rent.

However, housing costs among unsubsidized elderly renters and among some owners are higher and more volatile than those facing most elderly owners or subsidized renters. In 1985, about 5 percent of all elderly owners spent at least one-third of their money

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\text{\footnotesize 2 As of the date of this publication, Congress was debating a number of proposals that would amend or repeal the Medicare Catastrophic Coverage Act of 1988.} 
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incomes on housing costs (unpublished data from the Survey of Income and Program Participation (SIPP)). But the unsubsidized renter is economically vulnerable to rising rents and utility bills as well as to a substantially higher real cost of living.

◆ The Risk of Needing Long-Term Care

The three specific risks mentioned above are not the only sources of economic insecurity that the elderly may experience. Nursing home and related long-term care costs are responsible for the largest share of health care costs for the elderly population. In 1986, more than 80 percent of the elderly’s out-of-pocket medical bills in excess of $2,000 were for nursing home care (Rice and Gabel, 1987). Nursing home costs in 1984 averaged about $1,500 per month or $18,000 per year (Waldo and Lazenby, 1984). Moon and Smeeding (1989) argue that, with the exception of patients who stay less than three months, the average nursing home stay is just over two years. Individuals with less than $36,000 could be deemed at risk of catastrophic outlays for long-term care costs if they are not poor enough to qualify for Medicaid or do not have high enough nonasset incomes to afford this level of expense.

What resources should be counted against this potential cost? The answer to this question is not simple, particularly for elderly couples. In order to meet the cost of long-term care, both assets and incomes (e.g., Social Security) can be used. But to what extent can a single person rely on home equity conversion to liquidate part of his or her home? How much income (and assets) can an elderly person safely use without impoverishing his or her spouse, even given larger income and other asset set-asides in the recent catastrophic health care legislation? How plentiful and prevalent are life insurance policies on elderly adults, particularly male spouses? While there are no firm answers to these questions, recent Congressional Research Service analyses using SIPP data indicate that median total net worth among the elderly—even among those aged 85 or over—could pay for two years or more of nursing care (U.S. Congress, 1988a). But excluding home equity, the median net worth of the remaining (mainly financial) assets of the elderly is not enough to assure payment for the costs of spending more than one year in a skilled nursing facility for those aged 65 to 79, and would be even less adequate for those aged 80 or over. Tabulations from this same data set indicate that less than 10 percent of the elderly with money incomes between 100 percent and 200 percent of the poverty line had $36,000 per person in nonhousing assets, while only about 45 percent had enough assets, including a home, to reach the $36,000 per person level.

◆ Multiple Causes: The ’Tweeners

Having determined the number of elderly families (or persons) in each of the situations for which there are data, calculation of the incidence of these sources of risk is straightforward. While any one of these conditions of economic insecurity could perhaps be withstood with little economic pain, combinations of them (for example, two or more) would almost surely create an insecure and unstable economic state for affected households. An elderly household with a modest cash income that relies heavily on Social Security cannot withstand the cumulative effects of high medical care and housing costs, not to mention the costs of an extended stay in a skilled nursing facility. In other words, disproportionate numbers of the elderly in lower middle-income ranges will be vulnerable to one or more of the following three major sources of economic insecurity:

- reliance on Social Security alone for 65 percent or more of income;
- Medicare as the only health care subsidy; or
- renting at full market value.

The lower middle-income groups with welfare ratios between 1.0 and 2.0, including elderly households with cash incomes of approximately $5,000 to $12,000 in 1984, constitute the ’tweeners. Within this lower middle-income elderly group, the ’tweeners are subject to two or more sources of income insecurity because they live between the two groups who, for completely
opposite reasons, are better protected against these economic insecurities—those with low incomes and those with high incomes.

Approximately one in six elderly persons (18 percent, or 4.84 million) were ‘tweeners in 1984. That is, one in six elderly persons were neither poor nor upper class and faced at least two of the three sources of economic insecurity (table 4). In contrast, only 35 percent of the poor and 32 percent of the upper-income groups faced these same insecurities. Comparable data limited to all persons aged 75 or over show 23.2 percent to be ‘tweeners, whereas among women aged 75 or over almost one-quarter (24.5 percent) are economically insecure. Consideration of the level of assets necessary to ensure this group against destitution in the case of an extended nursing home stay would probably add another 10 percentage points to these estimates and subject most ‘tweeners to at least three sources of insecurity.

Simultaneous high average total incomes, relatively low poverty rates, and significant numbers of insecure ‘tweeners among the elderly are not contradictory. In general, tax and transfer policies benefit the elderly much more than any other group. Virtually all elderly persons benefit from Social Security, including Medicare. In addition, the poor receive substantial means-tested and cash-in-kind transfers, while the well-to-do receive enough additional sources and amounts of income to leave them comfortably well off. Among the lower middle-income elderly, the ‘tweeners basically get Social Security and Medicare. Other than these benefits, the ‘tweeners are largely excluded from the nonmoney income system. They are more likely to rent unsubsidized private dwellings, less likely to have non-Medicare health care subsidies or to be prepared for the financial stress of extended long-term care, and are more likely to rely on Social Security as the primary source of their incomes than are any other group.
Tomorrow’s Elderly

Recent evidence from the 1950 to 1980 censuses (Smolensky et al., 1988) and from wealth surveys taken between 1962 and 1984 (Wolff, 1985; Avery et al., 1984) indicate that the next generation of elderly, that is, those who will reach age 65 between 1990 and 2000, will be even better off than today’s elders. This age group (aged 25 to 35 in 1960) has had the good fortune to be in their prime working years during the period of maximum earnings growth of the prosperous 1960s, to find the value of their homes soaring during the inflation of the 1970s, and to be in the maximum liquid asset position to most fully capture the high real interest rates and stock market boom of the early to mid 1980s. Indeed, individuals born in the 1930s have been dubbed the “good times” generation by demographer Carl Harter. This generation is more likely to have a greater fraction of long-term two-earner families and hence a larger share of persons receiving higher average amounts of private pensions and larger entitlements to Social Security benefits than any preceding generation. Based on these average indicators, and even discounting a continued stock market boom into the next decade, tomorrow’s elderly will, on average, be better off than today’s.

On the other hand, there is little reason to expect that the economic situation will differ much, if at all, for today’s cohort of younger retirees who will be tomorrow’s old-old. Poverty among the elderly should continue to fall as public policy concentrates scarce resources on those with the lowest money incomes. But near poverty will most likely remain high among the oldest old. Unless deliberate policy action is taken to alleviate the insecurities of the lower middle class, the circumstances of the 20 percent to 30 percent of the economically insecure elderly known as the ‘tweeners will remain about the same as they are today. These individuals will continue to be caught in the middle.

Policy Prescriptions

The important measures that need to be taken to help alleviate economic insecurity for tomorrow’s elderly need to begin today. Moreover, they will require the cooperation of businesses, workers, and government. By the end of this century, the shrinking number of new labor market entrants is likely to lead employers to begin to devise changes in pension plans and other retirement provisions to encourage valuable workers to stay on the job longer. Workers who prefer to control their own destiny in terms of retirement, retirement income security, and health care security will need to begin today to take the steps to provide that security in the near future (Hurd, 1989; Duncan and Smith, 1989).

Several policies might help to begin this effort. In the realm of retirement income security, continued enforcement of pension guarantees by the Pension Benefit Guaranty Corporation and related agencies is needed to ensure the fiscal integrity of employment-related pensions. The current savings and loan crisis is evidence enough of the public consequences of poor regulatory control. As the growing number of dual-earner families become secure dual private pension families, the specter of impoverished widowhood will become less frequent among the very old. To supplement employment-related pension plans, public policy might trade a higher limit on tax-free contributions to supplemental retirement accounts for tighter provisions against early withdrawal of funds.

In the realm of health care cost protection, two measures might be highly useful. First, the current “no-win” situation faced by retiree health care plans for acute care needs to be resolved. Clear rules that allow employers (and employees) to prefund plan expenses and that clearly specify their integration with public (Medicare, veteran’s health care) insurance plans, should be considered. Second, private insurers and employers need to continue to work out flexible, realistic, actuarially fair long-term care insurance policies that can be offered to employees in their late 40s and early 50s. If coupled with tax deferral provisions and employer sponsorship, such vehicles might provide true long-term security against medical-economic catastrophe for tomorrow’s elderly.
Finally, and perhaps most importantly, the long-term economic security of the OASDHI system, and of our national economy more generally, will rely heavily on the physical and educational development of today’s children. Wise economic investments in health, education, and related areas for disadvantaged children can have a substantial positive payoff but only if these investments reach the children at an early age. The United States has a higher rate of poverty among children than that which existed in eight other major industrialized countries at the turn of the decade (Smeeding and Torrey, 1988). According to a recent paper (Dooley, 1989), the poverty rate of Canadian children, using U.S. income cutoffs in 1986, was less than 9 percent, compared with 20 percent in the United States. If the Social Security system is going to change in the near future, perhaps a “C” (for “children”) should be added to the acronym OASDHI (Sugarman, 1988). Investment today in the human capital development of tomorrow’s work force should be a high priority. Otherwise, no matter how much is set aside today, the economic status of tomorrow’s elderly will be poor indeed.

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