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How Much Will Your Income Drop After Age 65?

WASHINGTON, DC—Will Americans have to live on less after they turn age 65? It often depends on how much your income was before you turned age 65, according to a new report by the nonpartisan Employee Benefit Research Institute (EBRI).

That report, which analyzes the household income five and 10 years prior to age 65 with household income five and ten years after age 65, for two groups of workers in 2000 and 2010, found that those in the bottom half of the income distribution experienced no drop in income after they reached 65: In fact, the bottom-income quartile actually experienced an *increase* in average household income in excess of 150 percent of their pre-65 income after age 65 during the study period.

On the other hand, the average post-65 to pre-65 income ratio dropped steadily as pre-65 household income rose: Higher-income groups had significantly less post-65 income as a percentage of their pre-65 income than did the lower-income groups: specifically, while the bottom-income quartile experienced post-65 to pre-65 income ratios in excess of 150 percent, the top-income quartile reported only about 60 percent of their pre-65 income after turning age 65.

The EBRI report explains that the primary reason for the disparity is that Social Security replaces a higher proportion of low-wage earners' income, and that when spousal benefits are taken into account, the total income after age 65 might exceed the pre-65 labor earnings of single-earning households. That is not generally the case for higher-income workers.

“This difference in the post-65 to pre-65 income ratios can be explained to a large extent by the progressivity of Social Security benefits and helps underline the significance of the program in providing a secure retirement income foundation—especially for the low-income groups,” said Sudipto Banerjee, EBRI research associate and author of the report. “Since higher-income households experience a significant drop in household income after age 65, they should be prepared to make necessary adjustments when they turn age 65.”

The full report is published in the September issue of *EBRI Notes*, “How Does Household Income Change in the Ten Years Around Age 65?” online at www.ebri.org

EBRI used data from the University of Michigan's Health and Retirement Study (HRS), the most comprehensive national survey of older Americans sponsored by the National Institute on Aging. EBRI tracked the income of two HRS groups over a period of 10 years, one ages 55–59 (inclusive) in 2000, and whose marital status was unchanged in 2010 when they were ages 65–69; and another who

were in an age range expanded by five years (ages 55–64 in 2000), and whose marital status was unchanged in 2010 when they were ages 65–74.

EBRI’s analysis considered household income pre- and post-65 income levels, rather than utilizing the income-replacement rate which focuses on pre- and postretirement income levels because ,in a large number of households, at least one member continues to work after age 65, and in some cases there is a significant age disparity between spouses. “Limiting the analysis of retirement income to truly retired households only could result in ignoring households who, ironically, might be delaying retirement due to insufficient income,” explained Banerjee.

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