

The Post-65 Shift in Household Income Sources

With a growing number of Americans aging into retirement, a new analysis by the nonpartisan Employee Benefit Research Institute (EBRI) finds that not only the amount but the sources of income shift after age 65.

The EBRI analysis, using data from the University of Michigan’s Health and Retirement Study (HRS), the most comprehensive national survey of older Americans, found that the income composition of top earners who had not undergone a change in marital status goes through a fundamental change after they reach 65.

As might be expected, all income groups that had not undergone a change in marital status experienced shifts in income sources after age 65. For the bottom-income quartile, a single component constituted the majority of the income: In 2000 (ages 55–59), it was labor income (51.4 percent), and in 2010 (ages 65–69) it was Social Security income (56.7 percent). However, for the top-income quartile, labor income in 2000 was the primary source (61.3 percent) of income, but by 2010, income was spread much more evenly across different components.

	Quartile 1		Quartile 2		Quartile 3		Quartile 4	
	2000	2010	2000	2010	2000	2010	2000	2010
Labor	51.4%	18.8%	72.1%	25.7%	73.0%	29.9%	61.3%	29.8%
Capital	15.5	6.0	13.8	9.6	16.9	9.5	26.2	21.8
Pension/Annuity	9.7	9.2	7.6	13.3	4.8	17.6	3.6	14.1
Social Security	8.5	56.7	1.7	44.9	0.7	37.1	0.3	27.7
Others	14.9	9.2	4.8	6.5	4.7	5.9	8.5	6.6

Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

For the lowest earners, the predominance of a single (albeit different) component remains constant—but they also experience a fundamental shift in income composition in the sense that their primary source of income changes from labor to Social Security. While this suggests that the progressivity of Social Security works as intended, it also shows that the lowest earners are heavily reliant on Social Security.

As for upper-income households, the analysis suggests that they should be prepared to make more adjustments, either spending or other lifestyle adjustments, than the bottom-income group as they cross the age 65 threshold.

More information about the study can be found in the September *EBRI Notes* article, “How Does Household Income Change in the Ten Years Around Age 65?” online here.

http://www.ebri.org/pdf/notespdf/EBRI_Notes_09_Sept-13_WBS-RepRts2.pdf

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