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Notes

AT A GLANCE

2013 Health and Voluntary Workplace Benefits Survey: Nearly 90% of Workers Satisfied With Their Own Health Plan, But 55% Give Low Ratings to Health Care System, *by Paul Fronstin, Ph.D., EBRI, and Ruth Helman, Greenwald & Associates.*

- Asked to rate the U.S. health care system, a majority of workers describe it as poor (21 percent) or fair (34 percent). Thirty-one percent consider it good, while only a small minority rate it as very good (12 percent) or excellent (2 percent). Dissatisfaction with the health care system appears to be focused primarily on cost.

- The 2013 Workplace Benefits Survey (WBS) and the 1998–2012 Health Confidence Survey (HCS) find that the percentage of workers rating the health care system as poor doubled between 1998 and 2006 (rising from 14 percent to 32 percent); however, more recently that percentage has fallen slightly.

- In contrast to the ratings for the health care system overall, workers' ratings of their own health plans continue to be generally favorable. One-half (51 percent) of those with health insurance coverage are extremely or very satisfied.

- While 46 percent of workers indicate they are extremely or very confident about their ability to get the treatments they need today, only 28 percent are confident about their ability to get needed treatments during the next 10 years, and just 19 percent are confident about this once they are eligible for Medicare.

How Does Household Income Change in the Ten Years Around Age 65?, *by Sudipto Banerjee, Ph.D., EBRI*

- Those in the bottom half of income distribution did not experience any drop in income after they reached 65. In fact, due to Social Security, the bottom-income quartile actually experienced an increase in average household income after 65 during the study period. For the top income quartile, the large drops in labor and capital income were not offset by the increase in Social Security or pension/annuity income.

- The post-65 to pre-65 income ratio dropped steadily with income—higher-income groups had less post-65 income as a percentage of their pre-65 income than did the lower-income groups. The bottom-income quartile experienced post-65 to pre-65 income ratios in excess of 150 percent, compared with about 60 percent for the top-income quartile.

2013 Health and Voluntary Workplace Benefits Survey: Nearly 90% of Workers Satisfied With Their Own Health Plan, But 55% Give Low Ratings to Health Care System

By Paul Fronstin, Ph.D., Employee Benefit Research Institute, and Ruth Helman, Greenwald & Associates.

Introduction

Three years after passage of the Patient Protection and Affordable Care Act of 2010 (PPACA), implementation of many of its provisions and delay of others, the majority of workers continue to give low marks to the U.S. health care system, though the vast majority are satisfied with their own health plans.

This paper examines public opinion with respect to various aspects of the United States health care system using data from the 2013 EBRI/Greenwald & Associates Health and Voluntary Workplace Benefits Survey (WBS) as well as from the 1998–2012 EBRI/Greenwald & Associates Health Confidence Survey (HCS). The WBS and HCS examine a broad spectrum of health care issues, including workers' satisfaction with health care today, their confidence in the future of the health care system and the Medicare program, and their attitudes toward benefits in the workplace.

The U.S. Health Care System

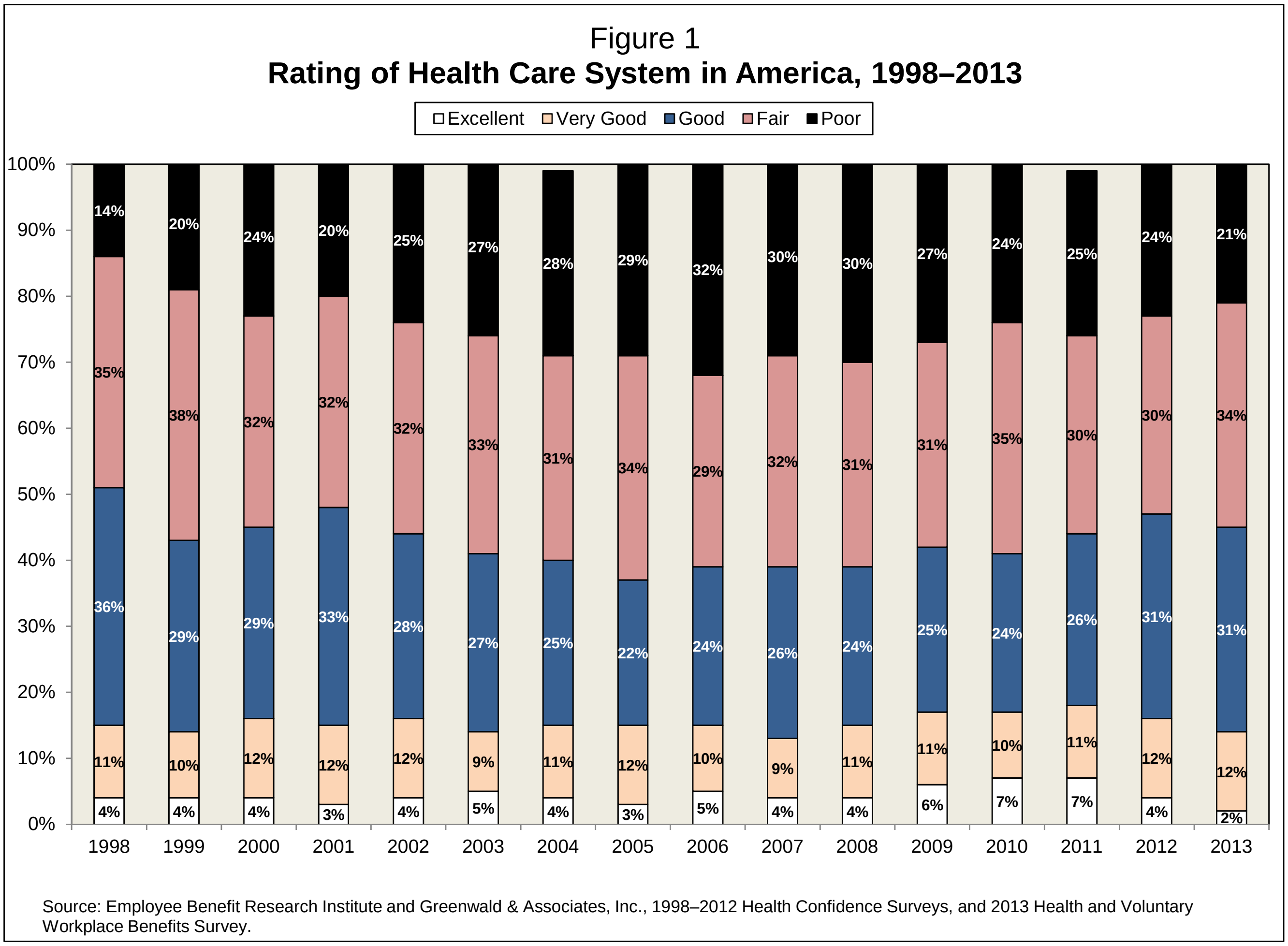
Health care is not the issue that the majority of workers consider to be the most pressing in the United States today. The 2013 WBS finds they are most likely to identify the economy (39 percent) when asked about the most critical issue, though health care (17 percent) is the second most critical issue named.[1] Nevertheless, three years after passage of PPACA and implementation of a number of provisions in the legislation, dissatisfaction with the U.S. health care system remains widespread.

When asked to rate the health care system, a majority of workers describe it as poor (21 percent) or fair (34 percent). Thirty-one percent consider it good, while only a small minority rate it as very good (12 percent) or excellent (2 percent) (Figure 1). The 2013 WBS and the 1998–2012 HCS find that the percentage of workers rating the health care system as poor doubled between 1998 and 2006 (rising from 14 percent to 32 percent); however, that percentage has fallen slightly more recently. Between 2006 and 2013, the percentage of workers reporting that the health care system was fair or poor slipped from 61 percent to 55 percent.

Confidence in the Health Care System

Confidence about various aspects of today's health care system has also remained fairly level, both before and after the passage of PPACA. According to the 2013 WBS, nearly one-half (46 percent) of workers report being extremely or very confident that they are able to get the treatments they need (Figure 2). There was what appears to be a sharp decline between 2012 and 2013 (from 56 percent to 46 percent), but that is due to a change in the way the data is collected, which is described in more detail in the appendix. One-third (33 percent) report being somewhat confident that they are able to get the treatments they need, and 20 percent are not too (14 percent) or not at all (6 percent) confident.

Confidence in having enough choices about who provides medical care also was fairly steady between 2012 and 2013 (The change between 2012 and 2013 may be due to a change in the way the data is collected). In 2013, 1 in 4 workers (39 percent) was extremely or very confident that they have enough choices about who provides their medical care. Thirty-five percent were somewhat confident, and 27 percent was either not too (20 percent) or not at all (7 percent) confident.



However, confidence about the health care system decreases as workers look to the future. While 46 percent of workers indicate they are extremely or very confident about their ability to get the treatments they need today, only 28 per-cent are confident about their ability to get needed treatments during the next 10 years, and just 19 percent are confident about this once they are eligible for Medicare (Figure 3). Similarly, 39 percent are confident they have enough choices about who provides their medical care today, but only 24 percent are confident about this aspect of the health care system over the next 10 years, and just 16 percent are confident that they will have enough choices once they are eligible for Medicare. Finally, 25 percent of workers say they are confident they are able to afford health care without financial hardship today, but this percentage decreases to 18 percent when they look out over the next 10 years and to 16 percent when they consider the Medicare years.

Workers continue to be generally confident that their employers or unions will continue to offer health insurance in the future. In 2013, 28 percent of workers report that they are extremely confident their employers or unions will continue to offer coverage, 37 percent are very confident, and 28 percent are somewhat confident (Figure 4). In 2013, only 6 percent are not too confident and 2 percent are not at all confident that their employers or unions will continue to offer health insurance.

Satisfaction

In contrast to the ratings for the health care system overall, workers' ratings of their own health plans continue to be quite favorable. One-half (51 percent) of those with health insurance coverage are extremely or very satisfied

Figure 2

Confidence in Selected Aspects of Today's Health Care System, 2002–2013

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Ability to Get Needed Treatments												
Extremely Confident	20%	17%	16%	22%	22%	20%	17%	22%	26%	22%	23%	14%
Very Confident	33	34	36	37	31	32	32	36	32	35	33	32
Somewhat Confident	35	36	33	31	31	33	35	28	25	27	30	33
Not Too Confident	7	7	9	4	7	6	6	8	7	9	8	14
Not at All Confident	5	6	6	6	8	9	10	6	11	7	7	6
Enough Choice About Who Provides Medical Care												
Extremely Confident	18%	12%	12%	15%	14%	12%	13%	18%	21%	17%	15%	12%
Very Confident	24	27	27	32	25	29	26	29	25	33	32	27
Somewhat Confident	38	40	40	36	41	38	36	33	32	32	32	35
Not Too Confident	13	11	10	10	7	9	12	11	10	7	7	20
Not at All Confident	8	10	10	8	13	12	12	9	12	11	13	7
Ability to Afford Health Care Without Financial Hardship												
Extremely Confident	14%	12%	11%	13%	10%	13%	10%	13%	18%	13%	13%	8%
Very Confident	22	17	24	22	19	18	18	21	20	22	19	17
Somewhat Confident	33	34	34	34	33	32	29	29	25	29	33	29
Not Too Confident	13	16	11	13	14	18	16	13	13	15	12	30
Not at All Confident	18	21	19	19	23	20	26	23	25	21	23	17

Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2002–2012 Health Confidence Surveys, and 2013 Health and Voluntary Workplace Benefits Survey.

Figure 3

Confidence in Selected Aspects of the Health Care System, Today, During the Next 10 Years, and Once Eligible for Medicare, 2013

	Today	During Next 10 Years	Once Eligible for Medicare (among those not currently eligible)
Ability to Get Needed Treatments			
Extremely Confident	14%	9%	6%
Very Confident	32	19	13
Somewhat Confident	33	35	36
Not Too Confident	14	26	29
Not at All Confident	6	12	16
Enough Choice About Who Provides Medical Care			
Extremely Confident	12%	8%	5%
Very Confident	27	16	11
Somewhat Confident	35	33	30
Not Too Confident	20	30	37
Not at All Confident	7	13	17
Ability to Afford Health Care Without Financial Hardship			
Extremely Confident	8%	6%	5%
Very Confident	17	12	11
Somewhat Confident	29	29	30
Not Too Confident	30	33	34
Not at All Confident	17	20	20

Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2013 Health and Voluntary Workplace Benefits Survey.

Figure 4

Confidence That Employer or Union Will Continue to Offer Health Insurance, Selected Years, 2000–2013

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Extremely Confident	31%	29%	28%	29%	37%	-	-	29%	-	32%	24%	30%	35%	28%
Very Confident	40	36	35	32	27	-	-	30	-	31	31	30	23	37
Somewhat Confident	24	25	27	25	24	-	-	30	-	24	31	23	27	28
Not Too Confident	3	5	7	8	7	-	-	6	-	5	8	9	10	6
Not at All Confident	2	4	3	6	5	-	-	6	-	8	7	8	6	2

Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2000–2012 Health Confidence Surveys, and 2013 Health and Voluntary Workplace Benefits Survey.

Figure 5

Satisfaction With Current Health Plan, 1998–2013

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Extremely Satisfied	13%	11%	12%	11%	11%	12%	13%	15%	15%	16%	14%	0%	22%	22%	17%	12%
Very Satisfied	36	38	34	40	40	36	33	38	34	35	37	36	35	37	36	39
Somew hat Satisfied	38	40	42	38	37	43	38	36	39	37	35	30	33	29	33	37
Not Too Satisfied	8	7	8	7	7	8	11	8	7	4	8	8	7	6	9	8
Not at All Satisfied	4	4	4	4	6	2	5	3	4	7	5	5	3	6	5	2

Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 1998–2012 Health Confidence Surveys, and 2013 Health and Voluntary Workplace Benefits Survey.

Figure 6

Satisfaction With Selected Aspects of Health Care Received in Past Two Years, 1998–2013

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2102	2013
Quality of Medical Care Received																
Extremely Satisfied	14%	11%	10%	12%	12%	13%	13%	12%	16%	15%	15%	19%	20%	18%	17%	14%
Very Satisfied	35	35	36	39	39	38	40	39	34	35	33	38	40	38	40	36
Somew hat Satisfied	33	33	38	33	37	33	32	35	36	38	39	32	29	31	31	31
Not Too Satisfied	5	5	6	5	4	5	5	3	4	4	5	4	5	4	3	9
Not at All Satisfied	1	4	4	2	1	2	2	6	5	4	5	4	3	4	5	5
Not Applicable	12	13	7	9	7	10	9	4	5	5	4	3	4	5	4	7
Cost of Health Insurance																
Extremely Satisfied	11%	5%	8%	9%	8%	7%	10%	7%	4%	5%	5%	4%	7%	4%	5%	4%
Very Satisfied	15	15	13	17	16	14	14	17	9	10	11	16	13	12	13	9
Somew hat Satisfied	30	33	30	27	27	26	28	34	28	31	30	29	29	32	25	23
Not Too Satisfied	18	18	19	17	17	18	14	16	17	20	16	17	17	19	19	26
Not at All Satisfied	14	13	22	17	24	22	22	21	38	31	33	30	31	31	33	30
Not Applicable	14	16	10	12	8	14	13	6	4	3	5	3	4	2	5	8
Health Costs Not Covered by Insurance																
Extremely Satisfied	6%	4%	4%	6%	4%	4%	5%	7%	4%	5%	4%	6%	6%	4%	4%	3%
Very Satisfied	13	13	12	15	13	14	10	13	9	8	9	11	11	11	9	8
Somew hat Satisfied	28	31	30	27	27	25	28	28	30	32	30	24	22	28	30	19
Not Too Satisfied	16	19	18	16	20	21	17	18	19	20	18	22	15	19	16	25
Not at All Satisfied	19	14	24	23	27	24	27	22	32	30	28	31	38	31	33	35
Not Applicable	17	18	12	13	9	13	13	12	7	6	10	7	8	7	8	10

Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 1998–2012 Health Confidence Surveys, and 2013 Health and Voluntary Workplace Benefits Survey.

with their current plans, and 37 percent are somewhat satisfied (Figure 5). Only 10 percent say they are not too (8 percent) or not at all (2 percent) satisfied.

Dissatisfaction with the health care system appears to be focused primarily on cost. Satisfaction with health care quality continues to remain fairly high, with 50 percent of workers saying they are extremely or very satisfied with the quality of the medical care they have received in the past two years, 31 percent somewhat satisfied, and 14 percent not too (9 percent) or not at all (5 percent) satisfied (Figure 6). In contrast, just 13 percent are extremely or very satisfied with the cost of their health insurance plans, and only 11 percent are satisfied with the costs of health care services not covered by insurance.

The Cost of Health Care

About six in 10 workers (61 percent) with health insurance coverage report having experienced an increase in health care costs in the past year, roughly in line with the historical findings (Figure 7). In response, workers continue to report they are changing the way they use the health care system. Nearly 80 percent say these increased costs lead them to try to take better care of themselves, and 70 percent indicate they choose generic drugs more often (Figure 8). More than one-half also say they go to the doctor only for more serious conditions or symptoms (61 percent), talk to the doctor more carefully about treatment options and costs (53 percent), and delay going to the doctor (53 percent).

The rising cost of health care also causes many workers to encounter financial difficulties. Among those experiencing cost increases in their plans in the past year, 32 percent state they have decreased their contributions to retirement plans, and more than half (57 percent) have decreased their contributions to other savings as a result (Figure 9). Two in 10 (22 percent) also report they have had difficulty paying for basic necessities such as food, heat, and housing, while 38 percent say they have had difficulty paying other bills. More than one-quarter (27 percent) say they have used up all or most of their savings, 33 percent have increased their credit card debt, and 16 percent report that they have borrowed money.

Endnotes

[1] It is followed by the federal budget deficit (14 percent), education (11 percent), and unemployment (11 percent). Five percent of workers consider terrorism and national security to be the most pressing issue, and 4 percent report it to be immigration.

Appendix—The 2013 WBS

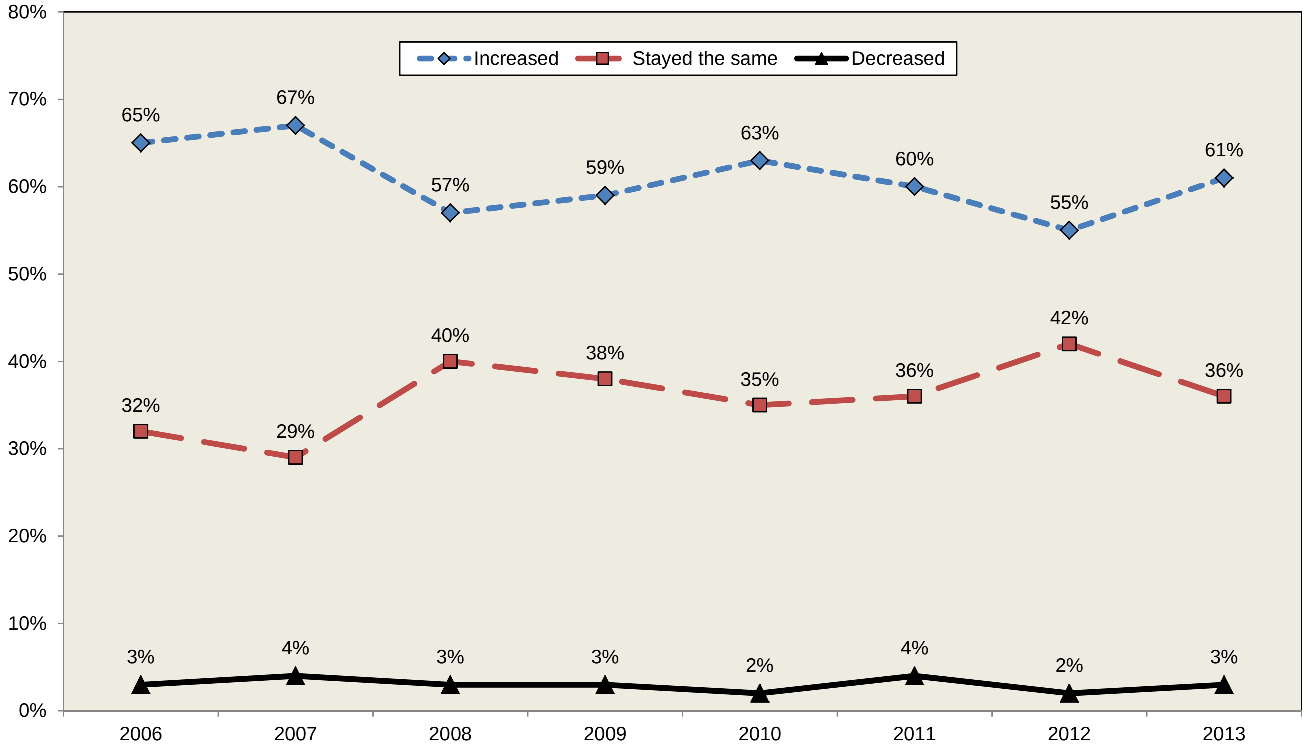
These findings are part of the 2013 EBRI/Greenwald & Associates Health and Voluntary Workplace Benefits Survey (WBS), which examines a broad spectrum of health care issues, including workers' satisfaction with health care today, their confidence in the future of the health care system and the Medicare program, and their attitudes toward benefits in the workplace. The survey was conducted online June 11–20, 2013, using the Research Now consumer panel. A total of 1,014 workers in the United States ages 21–64 participated in the survey. The data are weighted by gender, age, and education to reflect the actual proportions in the employed population.

Data in this paper from the EBRI/Greenwald & Associates Health Confidence Survey (HCS) may differ from those published previously as the data have been recut from the total adult population to match the survey population of the WBS: workers ages 21–64. In addition, comparisons of 2013 data with data from prior years should be viewed with caution due to the move from telephone to online data collection in 2013.

No theoretical basis exists for judging the accuracy of estimates obtained from non-probability samples such as the one used for the WBS. However, there are possible sources of error in all surveys (both probability and non-probability) that may affect the reliability of survey results. These include imperfect sampling frames, refusals to be interviewed and other forms of nonresponse, the effects of question wording and question order, interviewer bias, and screening. While attempts are made to minimize these factors, it is impossible to quantify the errors that may result from them.

The WBS is co-sponsored by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan, public policy research organization, and Greenwald & Associates, Inc., a Washington, DC-based market research firm. The 2013 WBS data collection was funded by grants from nine private organizations. Staffing was donated by EBRI and Greenwald & Associates. WBS materials and a list of underwriters may be accessed at the EBRI website: www.ebri.org/surveys/hcs/

Figure 7
Percentage of Individuals with Private Insurance Reporting an Increase or Decrease in Premiums or Cost Sharing, 2006–2013



Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2006–2012 Health Confidence Surveys, and 2013 Health and Voluntary Workplace Benefits Survey.

Figure 8

Changes in Health Care Usage Resulting from Cost Increases, Among Those Experiencing Increase in Costs, 2006–2013

	2006	2007	2008	2009	2010	2011	2012	2013
Try to take better care of yourself	78%	79%	80%	85%	82%	79%	84%	79%
Choose generic drugs more often	80	78	67	70	65	62	69	70
Go to the doctor only for more serious conditions or symptoms	59	69	57	60	55	57	53	61
Talk to the doctor more carefully about treatment options and costs	59	66	58	59	56	54	56	53
Delay going to the doctor	48	57	43	41	40	42	48	53
Switch to over-the-counter drugs	38	42	33	31	24	31	32	37
Look for cheaper health insurance	26	30	23	21	22	25	18	25
Not fill or skip doses of your prescribed medication	24	29	20	21	20	20	22	25
Look for less expensive health care providers	24	34	26	20	23	24	20	24

Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2006–2012 Health Confidence Surveys, and 2013 Health and Voluntary Workplace Benefits Survey.

Figure 9

Shifts in Resources Resulting From Cost Increases, Among Those Experiencing Increase in Costs, 2006–2013

	2006	2007	2008	2009	2010	2011	2012	2013
Decrease your contributions to a retirement plan, such as a 401(k), 403(b), or 457 plan, or an IRA	38%	35%	34%	35%	34%	31%	37%	32%
Decrease your contributions to other savings	53	55	56	54	60	57	60	57
Have difficulty paying for basic necessities, like food, heat, and housing	27	27	23	27	24	21	27	22
Have difficulty paying for other bills	38	37	33	36	34	31	43	38
Increase your credit card debt	23	22	24	25	25	23	24	33
Use up all or most of your savings	32	27	22	25	25	24	28	27
Borrow money	21	14	16	21	19	11	15	16

Source: Employee Benefit Research Institute and Greenwald & Associates, Inc., 2006–2012 Health Confidence Surveys, and 2013 Health and Voluntary Workplace Benefits Survey.

How Does Household Income Change in the Ten Years Around Age 65?

By Sudipto Banerjee, Ph.D., Employee Benefit Research Institute

Introduction

This study constructs a measure similar to the traditional replacement rate: a post-65 to pre-65 income ratio, comparing the household income five and ten years prior to age 65 with that of household income five and ten years after age 65. While similar to the traditional replacement rate in terms of construction, it is different in one crucial aspect: The current measure does not necessarily compare pre and post *retirement* income, rather it compares pre and post 65 incomes. The reasons for this distinction are discussed below, but in a nutshell, in a large number of households at least one member continues to work after age 65, part-time in many cases, and may not fully retire until sometime after the traditional retirement age of 65. Limiting the analysis of retirement income to retired households would result in ignoring such households, who, ironically, might be delaying retirement because of insufficient income. Consequently, the current study analyzes the post-65 to pre-65 income ratios that households experience and how they vary across the retired population.

Data

The data for this study come from the University of Michigan's Health and Retirement Study (HRS), the most comprehensive national survey of older Americans. HRS, a biennial survey sponsored by the National Institute on Aging, started in 1992 with primary respondents who are at least 50 years old, along with their spouses, irrespective of the spouses' ages. Successive surveys have added younger cohorts once they reach age 50. HRS is a panel survey, which enables researchers to study changes in income, wealth, health, and other factors over time for the same group of individuals. This study tracks the income of two such groups over a period of 10 years:

- *Group One:* 1,465 individuals who were ages 55–59 (inclusive) in 2000, and whose marital status was unchanged in 2010 when they were ages 65–69.
- *Group Two:* 3,358 individuals 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.

For both groups, household income was first recorded in Survey Year 2000[1] and then again in Survey Year 2010 to determine their post-65 to pre-65 income ratios. All income numbers are presented in constant 2010 dollars. Households with annual incomes of more than $1 million were dropped from the sample to reduce the potential bias resulting from outliers. As mentioned above, the selection of the groups did not take into account the labor-force status (e.g., working full-time, part-time, retired, etc.) of the individuals for a couple of reasons: First, the study used household income, rather than individual income, to determine the post-65 to pre-65 income ratios rates, and in households where spouses have different labor-force statuses (one may be working and the other may be retired), it would be arbitrary to classify them as working or retired households. Second, retirement is not irreversible: People can start or return to work, part-time in many cases, after retirement. It was not clear whether it would be more accurate to classify these households as working or retired. So, the study used age 65 as a benchmark to serve as a proxy for transition into retirement. It is possible that some individuals did not experience any change in labor force status between the two survey years. However, Appendix A shows how the composition of household members working for pay changed between 2000 and 2010 for Group One.

Post-65 to Pre-65 Income Ratios for Those Ages 55–59 in 2000 (Group One)

Figure 1 shows the average and median (mid-point) household income for Group One in 2000 and 2010. This group had an average household income of $111,177 in 2000 when they were ages 55–59. Average household income dropped to $78,437 in 2010 when they were ages 65–69. During the same period, this group's median household income dropped from $88,002 to $54,839. The 2010 average and median income levels represent 70.6 percent (average) and 62.3 percent (median) of income reported in 2000. This represents a drop of more than 29 percent in average household income and almost 38 percent in median household income as households aged from 55–59 to 65–69.

Figure 2 shows the distribution of the post-65 to pre-65 income ratio for Group One. More than 42 percent in Group One had a post-65 to pre-65 income ratio of 80 percent or above. On the other hand, nearly 14 percent had a post-65 to pre-65 income ratio of less than 30 percent while more than a quarter (26.3 percent) had a post-65 to pre-65 income ratio of 50–80 percent. But the distribution of the post-65 to pre-65 income ratio does not show which households had higher or lower ratios; to answer that, these ratios for different income quartiles must be analyzed separately.

Average Post-65 to pre-65 Income Ratios and Income

Figure 3 reports the average and median household income as well as the average post-65 to pre-65 income ratio for each income quartile. The income quartiles are based on income reported in 2000. The result that stands out from Figure 3 is that, post-65 to pre-65 income ratio fall steadily with income: The bottom (first) income quartile received 156.4 percent of their 2000 income, while those in the top (fourth) income quartile received only 58.7 percent of their 2000 income. The second and third quartiles had average post-65 to pre-65 income ratios of 100.1 percent and 80.5 percent, respectively.

But this does not mean that the relative positions of these households in the income-distribution changed between 2000 and 2010. Households in the bottom-income quartile in 2000 were still there in 2010, but they were the only income group that experienced an increase in average household income (both average and median). For these households, average household income increased from $25,378 in 2000 to $36,613 in 2010, although the increase in median household income was much less, from $26,055 to $27,761.

It is not entirely clear what factors led to the increase in average income for households in the bottom quartile. One possible reason could be, as shown in Appendix A, that only 24 percent of households in the bottom quartile were dual-earning households in 2000, but in 54 percent of these households, both members claimed Social Security benefits in 2010. For low earners, Social Security replaces a higher proportion of their labor earnings, and adding spousal benefits to that might exceed the labor earnings of single-earning households.

All the other income quartiles experienced drops in their average and median household incomes between 2000 and 2010. The drop was the smallest for those in the second quartile: Their average household income dropped only from $61,987 to $60,533, down about 2 percent. The two upper-income quartiles experienced much larger drops in their income. For example, average household income for the top-income quartile dropped from $221,251 in 2000 to $123,184 in 2010, down about 44 percent. The corresponding drop in median was from $188,352 to $100,523, down about 47 percent.

Income Component Shifts

To discover why the lower-income households retain most of their income level while higher income households experience large drops, the study took a closer look at the income components of these households and recorded how they changed over time. Figures 4A and 4B show how the different components of income—labor, capital, pension/annuity, Social Security, and others—shifted between 2000 and 2010. Figure 4A breaks down the average

Figure 1

Change in Household Income (2010 $s) for Group One

Age	Average	Median
55–59 (2000)	$111,177	$88,002
65–69 (2010)	78,437	54,839
2010/2000	70.6%	62.3%

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

Figure 2

Distribution of Post-65 to Pre-65 Income Ratio

Post-65 to Pre-65 Income Ratio	Percentage	Cumulative Percentage
<30%	13.98%	13.98%
>=30% & <50%	17.43	31.42
>=50% & <80%	26.32	57.73
>=80%	42.27	100

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

Figure 3

Post-65 to Pre-65 Income Ratios for Different Income Quartiles Based on 2000 Household Income (2010 $s) for Group One

2000 Income Quartile	2000 Income		2010 Income		Avg. Post-65 to Pre-65 Income Ratio
	Average	Median	Average	Median	
1	$25,378	$26,055	$36,613	$27,761	156.4%
2	61,987	62,489	60,533	49,520	100.1%
3	103,722	102,570	83,761	66,527	80.5%
4	221,251	188,352	123,184	100,523	58.7%

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

Figure 4A

Sample 1: Change in Average Income from Different Sources, by Income Quartile Based on 2000 Household Income (2010 $s) for Group One

	Quartile 1		Quartile 2		Quartile 3		Quartile 4	
	2000	2010	2000	2010	2000	2010	2000	2010
Labor	$15,323	$9,133	$44,627	$18,888	$75,893	$30,710	$131,505	$48,000
Capital	3,161	3,656	8,462	9,397	17,661	10,665	60,313	31,412
Pension/Annuity	2,495	5,710	4,954	7,785	4,960	12,600	8,395	15,625
Social Security	1,992	15,081	963	19,941	647	20,521	550	19,775
Others	2,405	3,031	2,979	4,520	4,559	9,262	20,486	8,370

Figure 4B

Sample 1: Change in Share of Income from Different Sources, by Income Quartile Based on 2000 Household Income (2010 $s) for Group One

	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).

income of these households by these components, and Figure 4B shows how the share of these components in household income changed between 2000–2010.

To keep things simple, the following discussion focuses on the top- and bottom-income quartiles. For the bottom-income group (Quartile One), labor income ($15,323)—or income from work—was the largest component in 2000. That had changed by 2010, when Social Security income was the largest component for this group, with average Social Security income of $15,081. So, for the bottom-income quartile, household labor income was almost entirely offset in retirement by household Social Security income. Labor income in 2010 for this group ($9,133), which experienced a 40 percent drop from 2000, was the second-largest income component.

The changes for the top-income quartile were very different. Labor income remained the top income component in both 2000 and 2010, even though labor income for this group dropped 63 percent, from $131,505 to $48,000. So, labor income dropped much more for the top-income quartile and none of the other income components came close to matching their labor earnings in 2000. The average Social Security income in 2010 for the top-income quartile was $19,775, which made it that quartile's third-largest income component, after capital income ($31,412).

Figure 4B shows how the share of different components of income changed for different income quartiles between 2000 and 2010. Again, to keep things simple, the discussion focuses only on the top and bottom quartiles. For the bottom-income quartile, in both years, a single component constituted the majority of the income. In 2000, it was labor income (51.4 percent), and in 2010 it was Social Security income (56.7 percent). For the top-income quartile, labor income in 2000 was the primary source (61.3 percent) of income, while that and capital income combined constituted 87.5 percent of their total income. But by 2010, income was spread much more evenly across different components for the top-income quartile, with the combined share of labor and capital income slipping to 51.6 percent.

This suggests that the income composition of top earners goes through a fundamental change after they reach 65: They not only experience a higher loss in income, but also experience a significant shift in their income composition. Even if their relative position in the income distribution does not change, they should be prepared to make more adjustments (spending or other lifestyle adjustments) than the bottom-income group as they move into retirement. On the other hand, 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. On one hand, this suggests that the progressivity of Social Security works as intended, but on the other hand it also suggests that the lowest earners are heavily reliant on Social Security.

Post-65 to Pre-65 Income Ratios for Those Ages 55–64 in 2000 (Group Two)

The goal of constructing a larger sample to calculate these ratios was to verify that the findings from Group One were not limited merely to the sample analyzed and held true for larger groups as well. The findings from Group Two described below confirmed that. Figure 5 shows the average and median household incomes for Group Two in 2000 and 2010. For this group, average household income dropped from $104,014 in 2000 to $73,871 in 2010, down 29 percent. The 2010 average and median household incomes were 71 percent and 65.8 percent of 2000 average and median household incomes, respectively.

Figure 6 shows the distribution of the post-65 to pre-65 income ratio for Group Two. Similar to Group One, close to 43 percent in Group Two had a post-65 to pre-65 income ratio of 80 percent or above, 12.5 percent had a post-65 to pre-65 income ratio of less than 30 percent and more than a quarter (27.4 percent) had a post-65 to pre-65 income ratio between 50–80 percent. This shows the distribution of post-65 to pre-65 income ratio in Groups 1 and 2 was nearly identical.

Figure 7 reports the average and median household income as well as the average post-65 to pre-65 income ratio for each income quartile. Here the discussion is focused on the similarities between Group One and Group Two. In Group Two, the bottom-income quartile experienced an increase in average household income from $21,527 to $32,464, and that quartile's average post-65 to pre-65 income ratio was 162.6 percent (in Group One, the corresponding number was 156.4 percent). In Group Two, the top-income quartile experienced a drop in average household income from $208,966 to $121,573 (down almost 42 percent), with an average post-65 to pre-65 income ratio of 63.1 percent. The top-income quartile in Group One had a post-65 to pre-65 income ratio of 58.7 percent. This shows that all the broad conclusions from Group One remain unchanged for Group Two.

Finally, figures 8A and 8B show how the different components of income (such as labor, capital, pension/annuity, and Social Security) changed between 2000 and 2010 for Group Two. Since Group Two includes a higher proportion of older people than Group One, average labor income in 2000 for those in the bottom-income quartile in Group Two was lower than Group One, but it was still the largest component of household income. Also, because they were older than Group One, Group Two's share of Social Security income in 2010 (63.9 percent) was higher than it was for Group One (56.7 percent). The top-income quartile in Group Two had a similar experience as its counterpart in Group One: In 2000, 86.9 percent of that quartile's total household income came from labor and capital income (compared with 87.5 percent for Group One), and in 2010, these two categories counted for only 46.3 percent of their household income (vs. 51.6 percent for Group One). However, in 2010, Social Security income was the major share of household income for top earners in Group Two.

Conclusion

This study analyzes the post-65 to pre-65 income ratio of two groups of households observed over a period of 10 years, from 2000 to 2010. It shows how these ratios vary across income groups and analyzes the change in income composition to explain the variation in these ratios.

The results suggest that people in the bottom half of income distribution did not experience any drop in income after they reached 65. In fact, due to Social Security, the bottom-income quartile actually experienced an increase in average household income after 65. However, the top half of the income distribution experienced a drop in income as they crossed 65. But this did not change the relative position of the households in the income distribution, which is to say that the lowest-income households in 2000 remained in that category in 2010, while households with the highest income in 2000 also remained there a decade later.

The average post-65 to pre-65 income ratio dropped steadily with income— which is to say that higher-income groups had less post-65 income as a percentage of their pre-65 income than did the lower-income groups. The bottom-income quartile experienced an average post-65 to pre-65 income ratio in excess of 150 percent, compared with about 60 percent for the top-income quartile.

The primary reason that the bottom-income quartile did not experience any post-age-65 drop in household income was income from Social Security, which replaced most of the lost earnings from labor. However, this was not the case for the top-income quartile: Prior to age 65, that quartile's income was highly concentrated in labor and capital earnings, and the loss in these categories after 65 was not fully offset by an increase in any other income component.

This difference in 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, though not just for those groups. The policy implication of the study is that since higher-income households experience a significant drop in household income in retirement, they should be prepared to make necessary spending adjustments when they leave the work force.

Figure 5
Change in Household Income (2010 $s) for Group Two

Age	Average	Median
55–64 (2000)	$104,014	$78,940
65–74 (2010)	73,871	51,937
2010/2000	71.00%	65.80%

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

Figure 6
Distribution of Post-65 to Pre-65 Income Ratio

Post-65 to Pre-65 Income Ratio	Percentage	Cumulative Percentage
<30%	12.45%	
>=30% & <50%	17.21	29.66
>=50% & <80%	27.4	57.07
>=80%	42.93	100

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

Figure 7
Post-65 to Pre-65 Income Ratios for Different Income Quartiles (based on 2000 Household Income) for Group Two

2000 Income Quartile	2000 Income		2010 Income		Avg. Post-65 to Pre-65 Income Ratio
	Average	Median	Average	Median	
1	$21,527	$23,046	$32,464	$25,485	162.6%
2	54,185	53,774	55,280	43,383	100.3%
3	91,258	90,906	70,800	60,045	78.4%
4	208,966	173,964	121,573	86,766	63.1%

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

Figure 8A
Sample 2: Change in Average Income from Different Sources, by Income Quartile based on 2000 Household Income (2010 $s) for Group Two

	Quartile 1		Quartile 2		Quartile 3		Quartile 4	
	2000	2010	2000	2010	2000	2010	2000	2010
Labor	$9,706	$4,975	$32,889	$13,672	$59,747	$20,371	$115,824	$40,732
Capital	2,866	4,021	8,038	7,579	14,840	9,628	63,991	32,831
Pension/ Annuity	2,835	4,541	6,680	9,798	8,976	12,951	10,170	16,732
Social Security	3,925	16,395	3,826	19,678	2,679	22,354	4,692	22,295
Others	2,193	2,531	2,749	4,551	5,015	5,493	17,575	8,980

Figure 8B
Sample 2: Change in Share of Income from Different Sources, by Income Quartile based on 2000 Household Income (2010 $s) for Group Two

	Quartile 1		Quartile 2		Quartile 3		Quartile 4	
	2000	2010	2000	2010	2000	2010	2000	2010
Labor	38.70%	10.80%	60.30%	20.00%	65.00%	22.40%	58.40%	25.20%
Capital	14.7	6.4	14.7	9.2	16.2	10.3	28.5	21.1
Pension/ Annuity	11.8	9.8	12.4	16.0	10.1	18.9	5.2	16.2
Social Security	19.3	63.9	7.4	48.4	3.1	42.9	0.8	31.6
Others	15.5	9.0	5.2	6.5	5.6	5.4	7.1	5.9

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

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Endnotes

[1] The household income recorded in HRS corresponds to the previous calendar year. As a result, the 2000 and 2010 survey reports income for the years 1999 and 2009, respectively.

Appendix A

Composition of Household Members in Group 1 Working in 2000 and 2010 and Receiving Social Security Income in 2010

	Working in 2000	Working in 2010	Receiving SS in 2010
Quartile 1 (lowest)			
None	27.31%	62.73%	7.75%
One Member	48.71	29.15	38.24
Both Members	23.99	8.12	54.01
Quartile 2			
None	10.29	44.78	3.24
One Member	37.06	42.69	31.62
Both Members	52.65	12.54	65.14
Quartile 3			
None	5.82	43.14	6.45
One Member	28.25	37.54	28.23
Both Members	65.93	19.33	65.32
Quartile 4 (highest)			
None	4.47	38.57	11.86
One Member	29.33	38.57	26.95
Both Members	66.2	22.86	61.19

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

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Notes

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