CENTER on AGING
at American Institutes for Research

Issue Brief APRIL 2014

The Changing Economic Status of Seniors

Marilyn Moon

Questions about improving the financial well-being of older Americans are important both for tracking progress over time and for addressing policy issues concerning key programs for senior citizens. Recently, attention has focused on who is prospering in the challenging economic times the U.S. has faced in this early part of the 21st century. Are seniors faring better than younger families?

An analysis of this question requires an examination of income and other data that go beyond aggregate statistics. With some important caveats, the economic status of older Americans has improved over time and relative to younger individuals in the last 10 years. But most seniors' standards of living remain quite modest even after accounting for resources beyond incomes.

Examining measures of economic status is more than an academic discussion: Numerous recent columns and articles in the popular press have suggested that it is time to make substantial changes in programs such as Social Security and Medicare in light of improvements in the well-being of seniors.[1,2] Inevitably, information on how older Americans' well-being has changed as compared to that of younger individuals and families will be considered in the debate over whether government programs benefiting older Americans should change. So now is also the time to examine what we know about income and other data that can inform this debate.

The most accessible and commonly used measure of economic status is income—the annual flow of resources that families and individuals rely upon to meet current needs. The definition of income is reasonably standardized and accessible from a variety of surveys and other sources. Most of the analysis below relies on examining income changes over time.

Still, some adjustments are needed in comparing information across time and among various groups. One is access to other resources besides income. For example, accumulated wealth allows people to draw on additional resources beyond income to meet current needs. Benefits available "in kind," such as health care benefits for older Americans, are not included in traditional measures of income but clearly add to financial security. Both of these are resources more often attributed to older rather than younger families. On the other hand, younger families have the advantage of being able to draw on "human capital"—taking on a second or third job to supplement income or returning to school to hone skills and earn more over time.

Further, the needs of families and individuals vary by age. Younger families tend to be larger than families where the head is aged 65 or older. And younger families face greater costs of transportation and work-related expenses. On the other hand, older families and individuals have much higher burdens from the costs of health and long-term care. In practice, finding one satisfying measure of economic status is difficult, and, to some extent, the notion of a "fair" comparison across age groups depends upon subjective measures. Nonetheless, it is useful to examine what the data show and to look beyond some of the most aggregate measures that pundits use for evidence.

Income as the Major Indicator

Many different ways exist to examine data on how incomes are changing over time—and consequently many different potential interpretations are possible about who is prospering or not in these hard economic times. From 2002 through 2012, median per capita income—that is, the level of income of someone in the middle of the income distribution—fell after adjusting for inflation from $28,222 to $26,989.[3] (Note that using per capita income helps to standardize for differences in family size across age groups.) Stated another way, the purchasing power of income for a typical American declined over that decade. And if one looks back even further to 1997, per capita median income (in 2012 dollars) was $26,821, just slightly ahead of the level in 2012. That is, in 2012, income (after controlling for inflation) was still less than the level achieved 15 years earlier. These figures certainly warrant concern. The stagnation in economic well-being as measured by income reflects the impact of two severe recessions and the fact that recovery from these downturns has been extremely slow.

Of interest here is whether some age groups within the population did better than others. As Table 1 indicates, younger individuals experienced a rise in income from 1997 to 2002, reflecting the recovery after the recession of 2001. But median income growth stagnated from 2002 to 2007, declining by 2.1 percent, and then fell as a result of the Great Recession that technically ended in 2009. (Averages would tell a more optimistic story because they overweight the impact of those at the top of the income distribution who did very well over this period.)

TABLE 1. Median per capita income and change in median per capita income, adjusted for inflation, by age group, 1997–2012

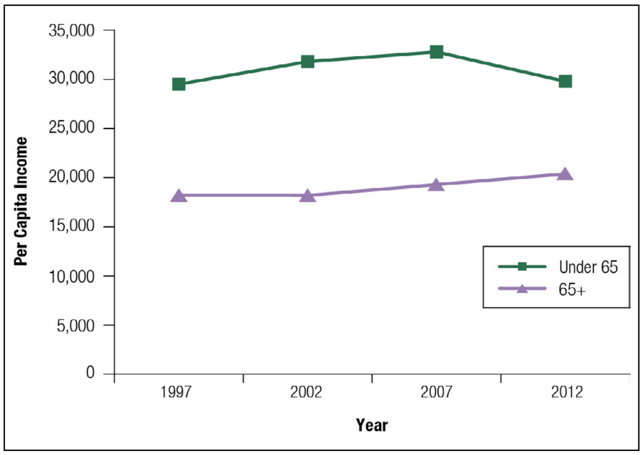
	Median per capita income				Change in median per capita income		
Age Group*	1997	2002	2007	2012	1997–2002	2002–2007	2007–2012
<65	29,502	31,805	32,787	29,788	7.8%	3.1%	-9.1%
≥65	18,230	18,190	19,294	20,380	-0.2%	6.1%	5.6%

* Constant in each period.
SOURCE: CPS Published Data

For individuals aged 65 and older, the story is quite different. The period between 1997 and 2002 was one of decline for this age group—likely reflecting the drop in the value of assets and resulting income streams from assets over this period when the "dot com bubble" burst. But the next two periods saw substantial improvements for this older group. From 2002 to 2012, median income for individuals 65 and older rose from $18,184 to $20,380, a 12 percent increase. Social Security benefits rose modestly over that decade, while wages stagnated for younger people. Overall, seniors weathered the past 15 years in better shape than those younger than 65 (see Figure 1).

That is not the end of the story, however. Looking beyond the more aggregate statistics to better understand what has happened to the incomes of older Americans' incomes is crucial. When examining changes in median incomes for people 65 and older, we see that three sets of factors are influencing the data. First, income changes from year to year for specific individuals. But, in addition, two other changes combine to bolster measured income growth for the 65-and-older population. Each year, more than 2.5 million people turn 65 and "join" the older population. Most have higher incomes on average than those just a few years older. Historically, their wages were higher, they remained in the labor force longer (since the 1990s), and their income from wealth is higher. Finally, at the same time, a slightly smaller group of individuals dies each year and leaves the 65-and-older population. Those decedents tend to be older and have substantially lower median incomes. These two changes in the composition of the age group combine to help increase median income over time. (As the "baby boom" turns 65, this trend will accelerate for the next two decades.)

FIGURE 1. Change in median per capita income, 1997–2012, by age group (adjusted for inflation)



SOURCE: CPS Published Data.

The impact of changes in age composition are appropriate to take into account when, for example, policy makers want to know the level of resources of people 65 and older at any one point in time. When many of us think about an aging population, however, we imagine specific individuals as they move through the life course. What happens to people who are age 65 in 2002 when they reach age 75 in 2012? This analytical starting point helps us determine what factors may affect people's incomes over time. For example, are high health care costs reducing savings and income for individuals, making them more vulnerable as they age? If so, looking at income changes for a *particular cohort* of older people rather than considering *all* those older than 65 at one point in time is crucial. The conclusion reached can change dramatically simply by posing the question differently.

Table 2 looks at five-year age groups of the population in two ways. The first set of numbers provides information on incomes for people of specific ages in each period. For instance, it compares people aged 55 to 59 in 1997 with those in that same age range in 2002. The table tells us whether each new group of 55-to-59-year-olds is improving its economic status, reflecting, for example, the fact that wages and other sources of income historically tend to rise over time. The alternative age breakdown is by cohort. In this case, we are comparing the income of people aged 55 to 59 in 1997 to those who are 60 to 64 in 2002 (and by 2007 are 65 to 69). Seeing incomes fall in this latter case is not surprising, particularly as people retire from the labor force.

TABLE 2. Median per capita income, adjusted for inflation, 1997–2012

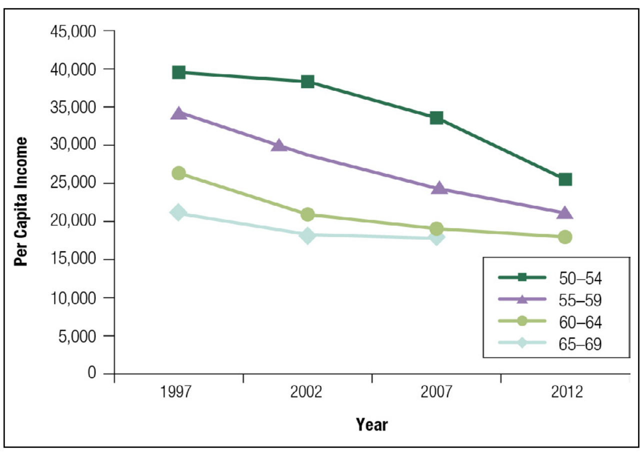
	1997	2002	2007	2012
Age Group*				
50–54	39,537	40,725	40,946	36,760
55–59	34,315	38,323	39,886	36,640
60–64	26,310	28,699	33,581	30,866
65–69	21,044	20,916	24,340	25,498
70–74	18,586	18,274	19,041	21,085
≥75	17,009	17,166	17,777	17,953
Cohort: Age in 1997				
50–54	39,537	38,323	33,581	25,498
55–59	34,315	28,699	24,340	21,085
60–64	26,310	20,916	19,041	17,953
65–69	21,044	18,274	17,777	—
70–74	18,586	17,166	—	—
≥75	17,009	—	—	—

* Constant in each period.
SOURCE: CPS Published Data

As expected, the two measures differ substantially. Although income levels of 60-to-64-year-olds improve steadily across each five-year period, as a cohort their income drops dramatically. As Figure 2 shows, from 1997 to 2012, incomes declined more than 30 percent for the group aged 60 to 64 in 1997, indicating that their economic status did not hold up over time. As the cohort aged, incomes fell each year. From looking at other studies, we know that health care costs may have forced individuals to dip into their savings, not all pensions are inflation-proof (although this period saw very low inflation), and individuals who can't work more are hard-pressed to compensate for various losses elsewhere.

These changes can be seen in more detail in Table 3, which shows the percentage change in income between each five-year period by the two different ways of looking at age groups. The impact of withdrawing from the labor force also shows up in the steeper declines for the younger cohorts as they reach 65 (in 2007 for the 55-to-59-year-olds and in 2002 for the 60-to-64-year-olds).

FIGURE 2. Change in median per capita income, 1997–2012, by age cohort (adjusted for inflation)



SOURCE: CPS Published Data.

Before we celebrate how well off seniors are, then, it is important to understand that what we are really seeing is affected by the favorable change in membership that occurs over time when we measure the 65-and-older age group. That is, the numbers look very good in Table 1, partly because seniors were shielded from the vagaries of labor force challenges that have occurred over the last 15 years, but also because each year, those who died were much less well off at the time of death than those who newly turn 65. As the new 65-year-olds "replace" poorer decedents, the median income level attributed to the age group is affected. Depending upon what it is we wish to measure, we will get very different answers. Comparisons over time in the status of the 65-and-older group are not particularly representative of the change in economic status of specific elderly individuals, but they do tell us about how well off the whole group is over time.

TABLE 3. Change in median per capita income, adjusted for inflation, 1997–2012

	1997–2002	2002–2007	2007–2012
Age Group*			
50–54	3.0%	0.5%	-10.2%
55–59	11.7%	4.1%	-8.1%
60–64	9.1%	17.0%	-8.1%
65–69	-0.6%	16.4%	4.8%
Cohort: Age in 1997			
50–54	-3.1%	-12.4%	-24.1%
55–59	-16.4%	-15.2%	-13.4%
60–64	-20.5%	-9.0%	-5.7%
65–69	-13.2%	-2.7%	—

* Constant in each period.
SOURCE: CPS Published Data

The Special Issue of Defined Contribution Retirement Plans and Income

For most Americans, traditional, defined benefit pension programs that provide retirees with a specific annual payment have been replaced by defined contribution programs that leave retirees with a stock of assets to manage during retirement. When individuals retire under defined contribution plans, they can take their benefits either as annuities or lump sum distributions (or a combination of the two).

These defined contribution assets supplement recipients' incomes but may be consumed in ways that do not show up in traditional income measures, for example, when people make one-off withdrawals as needed. (When people convert their assets into annuities, this should be captured in income figures, but many people do not choose to buy annuities.) Thus, if a measure of economic well-being focuses only on income, it may understate economic status for people with defined contribution assets. And this can be particularly confusing in comparing groups over time because defined contribution plans were relatively small until employers began to favor them in the 1990s.[4] Indeed, numerous analysts have criticized income measures for their failure to note these resources.[2]

To what extent does this new type of pension system distort incomes as some people have suggested? First, many Americans do not participate even if plans are offered to them. And most Americans who do participate do not have substantial balances in these plans. The overall median account balance for individuals in their 60s in 2009 was $144,004.[5] And that amount is substantially lower for individuals with lower levels of income.[6] It is simply not the case that low-income people are well off once these retirement benefits are added to income because this group has scant access to resources from retirement benefits.

With defined contribution plans in the picture, looking at both the assets of older Americans and their incomes is even more important to gauge this group's economic well-being, but it will not substantially raise the economic status of those with low incomes.

Other Components of Economic Well-Being

Assets. Research on the economic well-being of seniors usually recognizes that factors such as the assets that older individuals and families can use to supplement current flows of income also need to be considered. Indeed, many casual observers of these issues often assert that although older Americans may have low incomes, they often have substantial assets. (And, as noted above, the increase in reliance on defined contribution plans makes it even more important to consider assets.) In practice, however, people who study assets and income have found that assets are even more unequally distributed than income; very few families with low incomes have a cushion of stocks and bonds.

One recent study estimated wealth in two forms: savings that can be readily translated into resource flows and housing assets, which generally are treated as a stock that's hard to convert into an income stream.[7] The median level of per capita savings totaled $61,400 in 2013, while the one-fourth of the population aged 65 and older with the lowest amount of savings had $11,300 or less. Moreover, there is a strong correlation between low assets and low incomes. As expected and shown in Table 4, the one-third of the population with the lowest *incomes* had median savings of $11,450. People with incomes above 400 percent of the federal poverty level had median savings of $220,150. But even when the amounts are high, people must manage these assets to provide a stream of support over many years.

TABLE 4. Per capita income, savings, and home equity of Medicare beneficiaries, 2013

	Share of total Medicare population	Income (median)	Savings (median among all beneficiaries)	Home equity (median among all beneficiaries)
Total	100%	$23,500	$61,400	$66,700
Federal poverty level				
<200% FPL	33%	$12,250	$11,450	$21,900
200–400% FPL	30%	$23,050	$54,950	$63,250
400% FPL or more	38%	$49,500	$220,150	$111,650

SOURCE: Urban Institute/Kaiser Family Foundation analysis, 2013

Historically, some researchers have created measures of economic status that calculate the extent to which individuals can draw on assets, effectively converting them into resource flows.[4,8] These analyses yield results similar to what financial advisers suggest that people use as a simple rule of thumb for determining how much of savings to safely consume each year. Such advisers usually recommend that people not withdraw more than 4 percent of their savings in any given year in order to maintain a reasonable flow of resources over time (and in recent years that recommendation has been more in the range of 3 percent).[9] Using the estimates above, that would mean that someone who had saved $61,400 should supplement their incomes with no more than about $2,456 in withdrawals from savings each year. For someone with the median amount whose income is less than 200 percent of the federal poverty level (or about $23,000 in income), the maximum annual supplement would be less than $500.

For most seniors, savings will not be able to substantially raise their economic well-being. And those who do have substantial savings tend to already be well off in terms of income.

Health Care Benefits. Enrollment in Medicare and Medicaid substantially helps older Americans meet their financial needs. For example, in 2012, Medicare covered an average of $12,103 in acute care spending for the 97 percent of people aged 65 and older that it serves.[10] And the Medicaid program, while restricted to those with very low incomes or very high expenses, is also a substantial benefit for those it covers.

The challenge is how to take the value of these benefits into account in thinking about economic well-being, especially when comparing older to younger families. The most naïve and misleading approach would be to simply add these benefits to current income. However, a substantial literature documents why this is not a valid strategy.[11] In-kind benefits, such as health care services, do not contribute in the same way to well-being as do cash resources, which can be used for many purposes. Would we assume that a 65-year-old with Medicare benefits is $12,000 better off than someone aged 64 who otherwise has similar income? And if that 64-year-old has employer-provided insurance, how would we take that into account?

Also consider that older Americans have substantially higher out-of-pocket health care costs than younger individuals do. Medicare covers only about 65 percent of the costs of acute care services for its beneficiaries.[12] An analysis of spending by household finds that in 2012 Medicare households spent about $4,722 out of pocket, or 13.9 percent of average income for this group. In comparison, younger households spend just 5.2 percent of income on health, reflecting both higher average incomes and lower health spending.[13] Any comparisons of age groups should take that difference into account if insurance coverage is to be added as part of a measure of economic status.

When we try to measure how much economic status has improved over time for older Americans, including health care benefits in the measure raises additional concerns. Because the cost of health care has risen much faster than other forms of consumption, adding in health care spending would overstate the increase in economic status over time. Individuals would essentially be no better off in terms of the ability to consume goods and services because health benefits remain the same even while their reported dollar value rises rapidly. In fact, because out-of-pocket costs are also increasing faster than incomes, rising health care costs effectively lower economic well-being.

On the other hand, finding ways to recognize the important contribution that health care (and other in-kind benefits such as food stamps and housing assistance) can offer to individuals is important. Particularly for people with the lowest incomes and the fewest assets, health benefits have given seniors access to services that they previously did not have and have likely contributed to the improvement in life expectancy that has occurred since Medicare and Medicaid began in 1966.

Debt. Finally, another element of economic well-being is how much debt individuals and families hold across the life span. Holding debt is a reasonable strategy to help smooth out consumption over time. For example, mortgages allow younger individuals to own homes and benefit from a standard of living that would not be possible if they had to wait for homeownership until they could fully pay for their home. But common advice says that most seniors should not hold much debt, that they should be spending accumulated assets rather than paying interest on debt. In recent years, the debt holdings of seniors have risen considerably.[14] This burden may be somewhat an artifact of the state of the economy because the last year of data in the studies was 2010; nonetheless, there appears to be an upward trend in both the number of people incurring debt and the average level of debt for those who have it.

Conclusion

When thinking about policy going forward, it is also important to consider what the future may hold for older Americans. The study by Jacobson and others[7] looked toward what the status of income and assets for the elderly would be in 2030 and also concluded that growth will be quite modest except among those with the highest levels of income and asset holdings.

Making comparisons of economic well-being either across various age groups or through time is difficult. The economic status of older Americans has improved over time and relative to younger individuals in the last 10 years. But this age group's standard of living is not unambiguously high and we should not expect substantial improvement in the future. This guarded outlook for the economic status of seniors should be carefully considered when analyzing potential policy changes in Social Security and Medicare.

NOTES

1. Robert Samuelson, "We Need To Stop Coddling the Elderly." *The Washington Post,* November 3, 2013. (accessed January 2014).
2. Sylvester J. Schieber and Andrew G. Briggs, "Biggs and Schieber: Retirees Aren't Headed for the Poor House." *The Wall Street Journal,* January 23, 2014. (accessed January 2014).
3. U.S. Bureau of the Census. *Current Population Survey.* https://www.census.gov/cps/ (accessed January 2014).
4. R. L. Clark, R. V. Burkhauser, M. Moon, J. F. Quinn, and T. M. Smeeding. (2004). *The Economics of an Aging Society* (Malden, MA: Blackwell Publishing, 2004).
5. Employee Benefit Research Institute. "401 (k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009." EBRI Issue Brief #350, 2010. (http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=4707 accessed January 2014).
6. Howard M. Iams and Patrick J. Purcell, "The Impact of Retirement Account Distributions on Measures of Family Income." *Social Security Bulletin,* Vol. 73, No. 2, 2013.
7. Gretchen Jacobson, Jennifer Huang, Tricia Neuman, and Karen E. Smith, *Income and Assets of Medicare Beneficiaries, 2013–2030* (The Henry J. Kaiser Family Foundation). http://kff.org/medicare/issue-brief/income-and-assets-of-medicare-beneficiaries-2013-2030/ (accessed January 2014).
8. M. Moon, The Measurement of Economic Welfare: Its Application to the Aged (New York: Academic Press, 1997).
9. Eilene Zimmerman, "4% Rule for Retirement Withdrawals Is Golden No More." *The New York Times*, May 14, 2013. http://www.nytimes.com/ (accessed January 2014).
10. Board of Trustees, 2013 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (Washington, DC: U.S. Government Printing Office).
11. Constance F. Citro, and R. Michaels. *Measuring Poverty: A New Approach (1995).* (The National Academies Press). http://www.nap.edu/catalog.php?record_id=4759. Note that much of this discussion has been contained in research around the development of alternative poverty definitions. The size of the average Medicare benefit is larger than the income of someone right at the poverty cutoff. But it makes no sense to assume that someone with no other income is not poor simply because she is covered by Medicare.
12. Medicare Payment Advisory Commission. *Medicare Payment Policy: Report to the Congress.* Washington, DC, March 2013.
13. Juliette Cubanski, C. Swoope, A. Damico, and P. Neuman, *Health Care on a Budget: The Financial Burden of Health Spending by Medicare Households* (The Henry J. Kaiser Family Foundation). http://kff.org/medicare/issue-brief/health-care-on-a-budget-the-financial-burden-of-health-spending-by-medicare-households/ (accessed January 2014).
14. Karamcheva, Nadia. (2013). Is Household Debt Growing of Older Americans? Urban Institute. *Older Americans' Economic Security.* No 22 January 2013

ABOUT THE AUTHOR

Marilyn Moon, Ph.D., is an Institute Fellow at AIR and director of its Center on Aging. She is a nationally known economist and expert on Medicare, aging, consumer health issues, and health care financing. She has served as a senior fellow at the Urban Institute, a public trustee for the Social Security and Medicare trust funds, and chaired the Maryland Health Care Commission.

FUNDING

The Center on Aging is funded by American Institutes for Research.

ABOUT AIR

AIR is one of the world's largest behavioral and social science research and evaluation organizations. Our overriding goal is to use the best science available to bring the most effective ideas and approaches to enhancing everyday life. For us, making the world a better place is not wishful thinking. It is the goal that drives us. Our mission is to conduct and apply the best behavioral and social science research and evaluation towards improving peoples' lives, with a special emphasis on the disadvantaged.

CONTACT AIR

Kathleen Edmunds Cyr
Center on Aging
American Institutes for Research
1000 Thomas Jefferson Street, NW
Washington, DC 20007
301.592.2163
kcyr@air.org

AIR®
AMERICAN INSTITUTES FOR RESEARCH®