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Economic Status of the Elderly in the United States

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Abstract:
American elders saw sharp gains in their incomes and declines in poverty during the 1960s and 70s and have had smaller gains since. Updated poverty measures show that seniors are as likely as children to be poor. When Social Security and pensions are converted to asset values, a typical household approaching retirement in 2007 had net worth of $676,500. Social Security was the largest part (44 percent) and home equity was second (20 percent). The collapse of the housing bubble and the meltdown in the stock market in 2008-2009 significantly eroded asset values. U.S. elders are more likely to be poor than are elders in other OECD countries. The United States faces a smaller challenge from an aging society because our workforce is growing and our Social Security promises are smaller. Small changes in revenues and benefits could securely pay for Social Security and improve benefit adequacy for vulnerable elders.

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INTRODUCTION

This paper provides an overview of the economic status of the elderly in the United States. We first compare older and younger Americans in terms of median household incomes and poverty over time, and then consider how updated measures of poverty affect conclusions about the economic well-being of older Americans. We then examine the roles of particular sources of income – Social Security, pensions, earnings, and asset income – in supporting older Americans today. Retirement income replacement rates – tools to assess how well retirees are able to maintain their pre-retirement standard of living – are covered next. Wealth holdings of American households, such as retirement accounts, home equity, and total net worth, are analyzed using the 2007 Survey of Consumer Finances and subsequent ballpark estimates of how the market collapse and housing debacle in 2008/09 eroded these resources. We then view prospects for the economic well-being of retirees in the future, drawing on a retirement risk index developed by the Retirement Research Center at Boston College and official projections of Social Security's long-term future. The paper concludes by comparing the United States with other industrialized nations in terms of the economic well-being of our older citizens and our prospects for meeting the fiscal challenge of an aging society.

ELDERS AND YOUNGER FAMILIES OVER TIME

How has the economic security of seniors changed relative to that of younger families over the past several decades? This section briefly reviews trends in household median income and poverty by age.

Change in Median Income of Households

We consider median incomes of households over nearly four decades – from 1969 through 2007 – by age, taking account of household composition. We first compare married couples without children by age to see how elders compare with their younger counterparts. We then compare men and women living alone, again by age, to see how elders in one-person households compare with their younger counterparts. Finally, families with children under age 18 are included, for comparison with childless households, to see how families with children fared over the nearly four decades since 1969. All median incomes are expressed in 2007 dollars and hence are adjusted for inflation (Table 1).

Table 1

Median Income of U.S. Households, 1969, 1989, 2007 (in 2007 dollars) by Presence of Children under Age 18, Marital Status and Age of Householder

Household Type	Median Income			Percent Change		
	1969	1989	2007	1969-1989	1989-2007	1969-2007
All households	$43,700	$48,360	$50,000	11	3	14
Couples: no children under 18						
Under age 40	50,160	67,060	73,000	34	9	46
Age 40-64	57,680	77,160	82,600	34	7	43
Age 65 and older	24,120	38,630	42,390	57	10	73
One-person households						
Men under age 65	31,570	36,810	34,400	17	-6	9
Men age 65 and older	11,810	18,880	22,310	60	18	89
Women under age 65	21,050	30,100	30,000	43	a/	42
Women age 65 and older	9,280	15,050	15,790	62	5	70
Families with children under 18						
Married couples	54,780	66,880	76,630	22	15	40
Unmarried men	44,600	45,780	45,200	3	-1	1
Unmarried women	21,580	23,320	28,380	8	22	32

Tabulations of the March Supplement to the U.S. Census Bureau 2008 Current Population Survey by staff of the National Academy of Social Insurance.
a/ Less than ½ of 1 percent.

Amongst married couples without children, the elderly had the largest percentage gain in median income (73 percent since 1969). Yet, their income remains far below that of younger couples. Elderly couples' median income of $42,390 in 2007 was barely more than half that of their younger counterparts ($73,000 for those under age 40 and $82,600 for those ages 40-64).

Amongst one-person households, seniors also showed large gains in median income since 1969. Yet, their incomes remain well below those of their younger counterparts. Among men living alone in 2007, seniors had median income of $22,300 compared to $34,400 for younger men. Senior women living alone had median income of $16,000, barely more than half that of younger women living alone, $30,000.

Families with children fared differently depending on the marital status and sex of the householders. Married couples with children saw real incomes rise at roughly the same rate (and level) as did non-elderly couples without children. Median income for two-parent families with children rose by about 40 percent between 1969 and 2007. At $76,630, their median income was in the same ballpark as that of couples under age 65 without children. Amongst unmarried women with children, median income rose by about one third since 1969. Yet their median amount of $28,340 in 2007 remained far below that of couples with children ($76,630) and of unmarried men with children ($45,200).

Most of the income gains for the elderly occurred during the 1970s. The gains were due in large part to legislated increases in Social Security benefits. Congress enacted *ad hoc* benefit increases that took effect in 1970, 1971, 1972, and 1974, and then indexed benefits to keep pace with inflation (Clark & Quinn, 1999). Driven by real increases in Social Security benefits in the 1970s and by a greater percentage of the elderly being eligible for benefits, total incomes of seniors rose by roughly 60 percent between 1969 and 1989. Increases since then have been more modest.

Changes in Poverty Over Time

Poverty among the elderly was widespread during the Great Depression, estimated to have exceeded 50 percent in 1934 (Altman, 2005). The Social Security Act of 1935 brought immediate grants to states to support needy seniors and families with children. The same law created the social insurance program (Old-Age and Survivors Insurance, or Social Security) to prevent seniors from falling into poverty in the future. By 1959, the first year in which the Bureau of the Census officially counted the poor, 35 percent of elders were poor.

Poverty among older Americans declined in the 1960s and 1970s for the same reasons as their median incomes rose: more of them had worked long enough in covered jobs to qualify for Social Security benefits, and the level of these benefits was increased by Congress. The elderly poverty rate dropped to 25 percent in 1970 and to 15 percent in 1975, then gradually declined to about 10 percent in 2000, where it has hovered since. Engelhardt and Gruber (2006) found that the increase in Social Security benefits between 1967 and 2000 can explain all of the decline in elderly poverty during this period. They conclude that higher benefits have led some elderly people to live independently rather than with family members, and that the effect of Social

Security in reducing poverty would have been even more dramatic in the absence of these changes in living arrangements.

While just one in ten elders is officially counted as poor, many elders have incomes just above the poverty threshold. Those with incomes below 125 percent of the poverty threshold are characterized as ‘near poor’. Certain demographic groups are more likely to be poor or near-poor than others. Among seniors, 28 percent of unmarried women, 33 percent of African-Americans and 28 percent of Latinos were poor or near-poor in 2007 (Table 2). Moreover, poverty in old age is, in large part, a women’s issue (Schulz, 2001), as roughly seven out of ten elderly poor and near poor are female (U.S. Social Security Administration, 2010). Unmarried women of color have particularly high poverty rates.

Poverty among children under 18 also dropped sharply during the 1960s from 27 percent in 1959 to an all-time low of 14 percent in 1973. After that, childhood poverty gradually rose and hovered around 20 percent during much of the 1980s and the first half of the 1990s. Childhood poverty gradually declined to 15-16 percent at the turn of the century, but was back up to 18 percent in 2008.

Table 2

Percent of Elders Who are Poor or Near Poor, 2007, by Marital Status, Sex and Ethnicity

Characteristics	Percent	
	Poor	Poor or near poor
All persons 65 and older	6	16
Married	4	8
Unmarried men	12	21
Unmarried women	18	28
White	8	14
Black	23	33
Hispanic	17	28

Source: U.S. Social Security Administration (2009).

The welfare reform law of 1996 ended Aid to Families with Dependent Children and replaced it with Temporary Assistance for Needy Families. The new program set a five-year lifetime limit on receipt of federally funded cash assistance, imposed strong work requirements, and allowed states to impose sanctions reducing or denying benefits to families who fail to comply with these requirements (Gabe, 2009). Many other policies that sought to improve economic security for families with children did not translate directly into reductions in poverty as officially measured. This occurred in large part because many of those provisions – the Earned Income Tax Credit, Food Stamps, housing assistance, and expanded eligibility for health coverage through Medicaid and the Children’s State Health Insurance Program – are not counted in the official poverty measures (Blank & Greenberg, 2008). We turn next to issues in defining and measuring poverty.

MEASURING POVERTY OR ADEQUACY

U.S. Social Security Administration researcher Mollie Orshansky (1963, 1965) developed the original methodology for counting poor people in the United States. She set the poverty threshold at three times a subsistence food budget for a family of four because the average family of three or more spent one-third of their after tax income on food, according to the 1955 Household Food Consumption Survey. Her groundbreaking efforts were based on the best data available in the early 1960s. Since then, the thresholds have been updated only for inflation. They do not reflect changes in expenditure patterns or food costs. Ruggles (1990) and Schwarz (2005) replicated Orshansky's methods with more recent data and concluded that the poverty line would be about 70 percent higher if more recent data were used. When the poverty line for a family of four is compared to the median income of such families, we find that the poverty line has fallen from just under 50 percent of median income in the early 1960s to 28 percent in 2007 (Blank & Greenberg, 2008).

National Academy of Sciences Recommendations

In response to a request from Congress, the National Academy of Sciences convened a group of experts to update and improve the measurement of poverty. Its 1995 report (Citro & Michaels, 1995) recommended a broader definition of necessary expenditures (that includes food, housing, out-of-pocket health care expenses, child support expenses, and work-related expenses such as transportation and childcare) and a more refined measure of income (that takes into account taxes, tax credits, and in-kind benefits such as such as food stamps and housing subsidies).

The Census Bureau is using the new measure on an experimental basis, and New York City is using it to assess progress toward reducing poverty. For 2008, the new measure resulted in a slight increase in the count of Americans who are poor – 16 percent instead of 13 percent (Table 3). Childhood poverty declined slightly (from 19 percent to 18 percent), reflecting the net effect of counting in-kind benefits as income and counting necessary expenses associated with children, while poverty among seniors increased sharply (from 10 percent to 19 percent), due in large part to recognition of out-of-pocket health spending as a basic necessity.

Table 3

Poverty Rates: Official and NAS Measures United States, 2008; New York City, 2006

Area and Age	Official Measure	NAS Measure
United States, 2008		
All Ages	13	16
Under age 18	19	18
Age 18-64	12	14
Age 65 and older	10	19
New York City, 2006		
All Ages	18	23
Under age 18	27	27
Age 18-64	14	20
Age 65 and older	18	32

Sources: U.S. Census Bureau (2009) and Center for Economic Opportunity (2008).

When New York City used the new methods to count its poor, 23 percent of the city's residents were found to be poor in 2006. They included 27 percent of the city's children and 32 percent of its elders (Center for Economic Opportunity, 2008). Finding that seniors were as economically vulnerable as children (or even more so), Mayor Bloomberg, who had previously pushed for cuts in programs for the elderly, initiated pilot programs for older residents that would reduce taxi costs, provide free bus service to get to grocery stores and offer legal aid to those at risk of eviction from their homes (Yen, 2009).

Relative Poverty

The Organization for Economic Cooperation and Development (OECD) defines poverty relative to a society's current living standards, using a threshold that is 50 percent of median income (after taxes and benefits) for households of similar size. This relative standard reflects a concern for social integration and cohesion by defining poverty as the inability to afford the basic elements of a lifestyle that is typical in one's society. Hence this measure tracks growth in wages, not just prices. By this measure, the 17 percent of Americans who were poor in 2005 included 21 percent of children, 24 percent of elders, and 15 percent of other adults (OECD, 2008). In brief, both the updated U.S. poverty measures and the OECD measures of relative poverty find that older Americans are as likely as (or even more likely than) children to experience economic deprivation.

Making Ends Meet: An Economic Security Threshold

Wider Opportunities for Women (WOW) is developing a new Elder Economic Security Standard Index to measure the minimum income older adults need to remain secure, given prevailing costs where they live. Different budgets apply to elders based on their living arrangements, health status, and geographic location. The national average index provides a benchmark for economic security to compare with official poverty thresholds. While the poverty threshold for a person living alone was $10,400 in 2008, the WOW measure finds that an older American in good health living alone would need about $16,300 to make ends meet if she or he owned a home mortgage-free. A renter in good health would need more, about $20,250, while a homeowner still paying off a mortgage would need about $24,000 to make ends meet (Wider Opportunities for Women, 2009). These standards are tools for policymakers and advocates to use in assessing priorities in support of economic security for seniors. They suggest that incomes well above the poverty threshold are needed to make ends meet and age in place. At the same time, updated measures of poverty show that many American elders have incomes below subsistence levels.

COMPONENTS OF INCOME OF THE ELDERLY TODAY

This section examines the composition of the income of the elderly and the role of various sources in the economic status of the elderly today. What are the respective roles of Social Security, pensions, earnings from work, and asset income in undergirding the finances of today's seniors? Do these sources fill different roles for upper and lower income elders? To what extent do recipients of Social Security rely on these benefits for most of their income? How does reliance on Social Security differ between married couples and unmarried beneficiaries? How does it differ among racial and ethnic groups? This section addresses these questions drawing on data from the annual income supplement to the Current Population Survey.

How Many Elders Receive Key Sources of Income?

Social Security is the foundation of income for almost all older Americans: about nine in ten elders receive it (Table 4). Employer-sponsored pensions – including private pensions and payments from public plans for government employees – are less common. Roughly half of married couples have pension income, as do about one-third of unmarried elders. Income from assets includes interest, dividends, rental income, and income from estates or trusts. About two-thirds of married couples have some income from assets, as do nearly half of unmarried men and women. For many, asset income is small. Earnings and self-employment income are important sources of income for those who are still working. About four in ten married elderly couples and 16 percent of unmarried elders had earned income in 2008. Supplemental Security Income (SSI), which provides means-tested payments to those with very low income and limited asset holdings, is received by about 5 percent of unmarried elders and two percent of married elderly couples. The maximum federal SSI payment for an older person living alone in 2009-2010 is $674 a month, which amounts to about 75 percent of the official poverty guidelines.

How do Shares of Income Differ by Income Level?

Income 'shares' represent the fraction of the aggregate dollars of income for a group that comes from a particular source. For example, Social Security represented 37 percent of the aggregate dollars of income received by all aged couples and unmarried individuals in the 2008 Current Population Survey (U.S. Social Security Administration, 2010).

Table 4

Percent Receiving Sources of Income, 2008;
Couples and Unmarried Persons Age 65 and Older

Type of Income	Total	Married Couples	Unmarried Persons
Percent receiving:			
Social Security	87	88	86
Pensions – total	41	49	35
Public employee pensions	15	18	13
Private pensions	28	35	23
Income from assets	54	66	47
Earnings from work	26	41	13
Supplemental security income	4	2	5

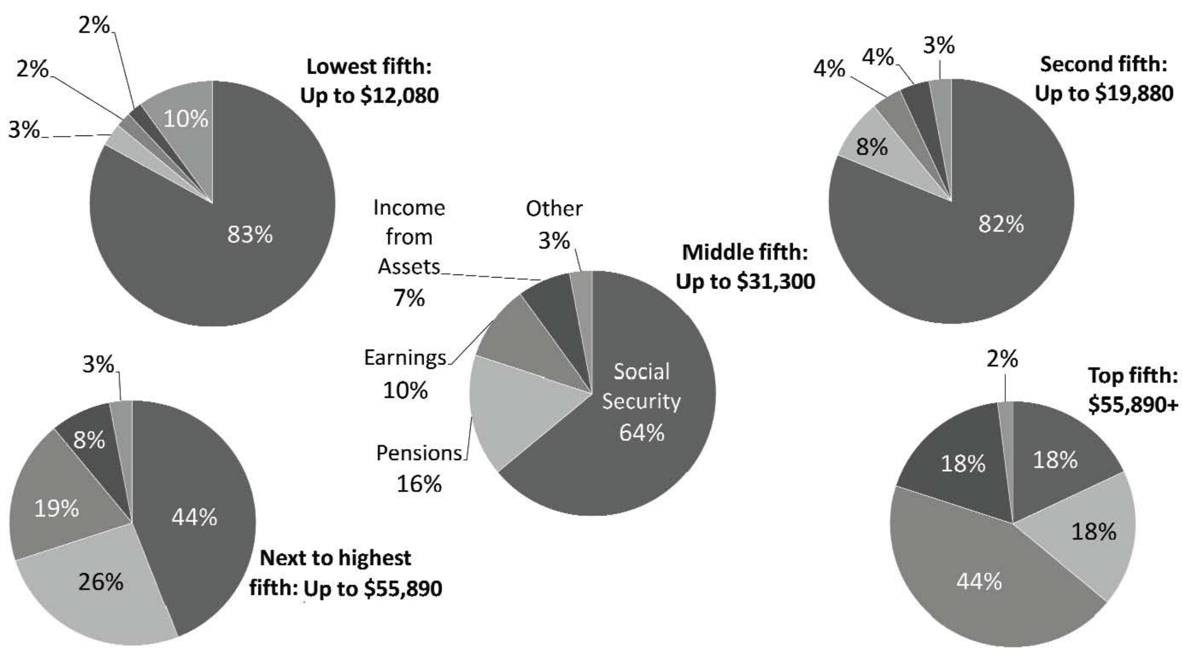
Source: U.S. Social Security Administration (2010).

The shares of various sources differ markedly by the size of household income. In Figure 1 elders are divided into five equal groups (quintiles) based on their total incomes. Each pie chart shows the share of the group's total income that comes from each source.

Social Security is an important share of income for middle- and upper-middle income elders as well as for low-income retirees. Those in the bottom two-fifths of the income distribution (with incomes below $19,880) received more than 80 percent of their total income from Social Security in 2008. Those in the middle income group (between $19,880 and $31,300) received nearly two thirds of their income from Social Security; pensions were their next largest source at 16 percent of the total. Those in the next-to-highest income group (with between $31,300 and $55,890) relied on Social Security for nearly half their income (44 percent) while pensions were their second largest source and earnings from work were third. Only in the top income group (with incomes over $55,890) was Social Security not the largest source of income. Because most high-income elders were not yet fully retired, earnings from work were their largest source of income. When and if they do retire, their incomes might come in relatively equal shares from Social Security, pensions, and income from assets – the proverbial "three-legged stool" of retirement income. For all other income groups, Social Security is far more important than pensions or asset income in supporting older Americans.

Figure 1. ***Shares of Income from Specified Sources by Income Quintile, 2008***

Married Couples and Unmarried Persons Age 65 and Older



Source: U.S. Social Security Administration (2010), *Income of the Population 55 and Over*, 2008.

Who Relies on Social Security for Most of Their Income?

In contrast with 'shares' of income, 'reliance on Social Security' counts the fraction of recipients who rely on their benefit for half or more of their total income. Grad and Foster (1979) reported the first estimates of this measure more than 30 years ago. In 1976, just over half of elderly couples (56 percent) and nearly three-quarters of elderly unmarried recipients (73 percent) received half or more of their total income from Social Security. Similar proportions of beneficiaries rely on Social Security today (see Table 5). Reliance on Social Security is greater among communities of color and among the unmarried – widowed, divorced, separated, or never married. Beneficiaries without spouses who relied on Social Security for at least half of their incomes made up 82 percent of Hispanic and of Asian elders, 77 percent of African American elders, and 72 percent of white elders.

Table 5

Reliance on Social Security for Half or More of Total Income, 2008
Married-Couple and Unmarried Beneficiaries by Race and Ethnicity

Percent relying on benefits for half or more of total income	Total	Married Couples	Unmarried Persons
All beneficiaries	64	52	73
African Americans	71	54	77
Hispanics	74	61	82
Asian Americans	68	53	82
White (non-Hispanic)	63	51	72

Source: U.S. Social Security Administration (2010).

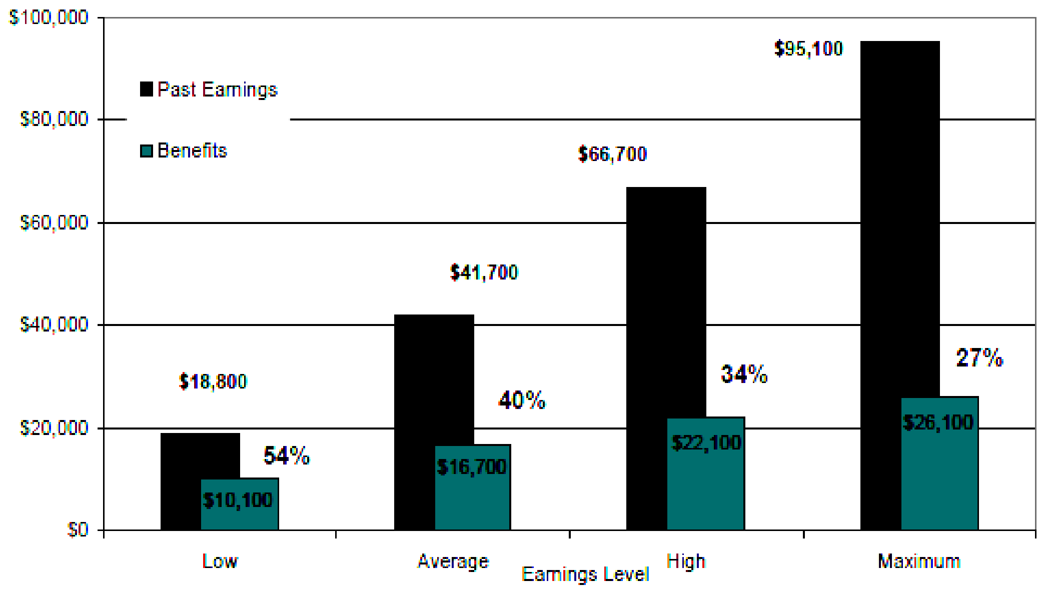
RETIREMENT INCOME REPLACEMENT RATES

To assess how well income in retirement will allow a worker to maintain his or her prior standard of living, financial advisors often use replacement rates, i.e. a ratio of retirement benefits to pre-retirement earnings. Because some expenses are reduced or eliminated in retirement (such as taxes on wages, work-related expenses, and saving for retirement), experts generally advise that replacement of 70 to 80 percent of prior earnings could produce a comparable standard of living (Fidelity Research Institute, 2007; Palmer et al., 2008).

Social Security Replacement Rates Today

Social Security is designed to provide a foundation of retirement income that will be supplemented by pensions and savings. It has a progressive benefit formula that replaces a larger share of past earnings for low earners than for high earners. This feature recognizes two realities: first, low earners need higher levels of wage replacement in order to meet basic needs; and second, low earners are less likely to have been covered by an employer-sponsored retirement plan or to have discretionary income to save over their working lives. Figure 2 shows replacement rates for four hypothetical 65 year olds retiring in 2009 with different lifetime earnings histories (Board of Trustees, 2009). For the illustrative average earner, benefits replace 40 percent of average lifetime earnings.

Figure 2. ***Social Security Benefits Compared to Past Earnings, 2009***
Illustrative Low, Average High, and Maximum Earner Retiring at Age 65



Source: Board of Trustees 2009. Low earnings are 45 percent of the average wage; high earnings are 160 percent of the average wage.

Actual retirees often do not fare as well as these illustrative replacement rates suggest, for two reasons (Thompson, 1994). First, many retirees incur reductions in their benefits because they claim them early. Benefits claimed at 62 (the earliest eligibility age) are reduced by 25 percent below the level payable at the full-benefit age, which is 66 for people born between 1943 and 1954. The full-benefit age will gradually rise to 67 for those born in 1960 and later. Then, benefits claimed at age 62 will be reduced by 30 percent. Second, many retirees do not have steady work histories like those assumed for the illustrative workers. Women, in particular, are likely to experience gaps or spells of reduced hours of work while caring for young children, aging parents or other relatives. Those breaks in employment would generally cause retirees to receive lower benefits than would similar earners with steady work. Another measure of the typical Social Security benefit in relation to earnings is the average retired worker benefit ($13,860) as a percent of the average earnings of all workers ($42,040), which was 33 percent in 2009. Clearly, if workers need 70 to 80 percent of their prior earnings to maintain their standard of living, Social Security provides only a foundation.

Counting Pensions in Replacement Rates

Munnell and Soto (2005) have estimated replacement rates for retiree households using the Health and Retirement Survey. They take account of income from pensions and financial assets as well as Social Security. Replacement rates are generally higher for retiree households with pensions in addition to Social Security. Replacement rates differ depending on how the retirees' pre-retirement income is counted (Table 6).

Table 6

Median Replacement Rates for Households by Marital Status, Pension Status, and Measure of Pre-retirement Income

Income in Numerator	Married Couples		Unmarried Persons	
	Without Pensions	With Pensions a/	Without Pensions	With Pensions
Denominator = Career average wage-indexed earnings + return on financial assets b/				
Retirement benefits (SS + pensions)	43	63	46	70
Retirement benefits + financial assets c/	55	74	58	86
Denominator = CPI-indexed high 5 of last 10 years earnings + return on financial assets				
Retirement benefits (SS + pensions)	34	52	33	56
Retirement benefits + financial assets	45	60	44	67

Source: Munnell & Soto (2005).
a/ Pensions include defined benefit plans and defined contribution plans.
b/ Return on financial assets in the denominator includes income from stocks, bonds, savings and checking accounts, and certificates of deposit before retirement.
c/ Assumes that all financial assets (listed in b/ above) are turned into life annuities to provide income in retirement.

The first measure of pre-retirement income uses average earnings over the entire career (indexed to wage levels near retirement), plus pre-retirement income from financial assets, such as interest and dividends. With this measure, married couples without pensions had a median replacement rate of 43 percent from Social Security alone, while couples with pensions had a median replacement from Social Security and their pensions of 63 percent. Comparable figures for unmarried retirees were a 46 percent replacement rate for those with only Social Security and 70 percent for those with pensions in addition to Social Security. A broader measure of retirement income shown in Table 6 converts all financial assets – checking and savings accounts, stocks, bonds, certificates of deposit, and so forth – into annuitized income in retirement. This assumption raises median replacement rates by about 10 percentage points. This estimate assumes that retirees devote all their liquid assets to retirement annuities, leaving no cushion to cover emergencies or other unexpected costs.

The alternative measure of pre-retirement earnings uses the high five of the last 10 years of earnings before retirement (instead of career average earnings) to more closely reflect living standards in the decade before retirement. With this measure of higher pre-retirement earnings, replacement rates are lower – about 10 to 15 percentage points lower than those cited above. Munnell and Soto (2005) concluded that about two-thirds of recent retirees were entering retirement in pretty good financial condition, with replacement rates in the 65-75 percent threshold range of adequacy. But they also saw several reasons for caution. First, the one-third of households without pensions is not faring well. Second, over time, the replacement rates of those with private pensions will decline, for these are rarely if ever indexed for inflation. Third, the replacement rate estimates assume that people buy life annuities with their defined-contribution retirement accounts, yet few do. And finally, the retirement income landscape is changing for future retirees in ways that reduce the adequacy of both Social Security and private retirement plans.

Social Security Replacement Rates in the Future

Without a change in current Social Security law, 65-year-old retirees will get less adequate net wage replacement from Social Security in coming decades than has been the case for retirees over the past 25 years (Table 7). The replacement rates for a medium earner retiring at age 65 in 1986 and

Table 7

Social Security Replacement Rate for Illustrative Average Earner at age 65, 1986, 2005, 2030

Year	Replacement Rate (percent)	
	Gross	After Part B
1986	42	41
2005	42	39
2030	36	32

Source: Munnell & Sass (2006).

2005 were about 41 and 39 percent, respectively, after deducting from Social Security benefits premiums for Medicare Part B, which pays for doctors' bills. By 2030, the net replacement rate for a similar 65-year-old retiree will drop to about 32 percent. Reasons for this decline include the legislated increase in the 'full-benefit age' for receiving Social Security benefits and rising Medicare premiums that are deducted directly from Social Security benefits. Social Security benefit reductions already in law, and rising Medicare premiums mean that benefit increases would be needed just to maintain the net Social Security replacement rates retirees have experienced over the past 25 years (Munnell & Sass, 2006; Reno, 2007).

The Shift to Defined Contribution Plans

About half (49 percent) of all workers under age 65 in the United States participate in some kind of employer-sponsored retirement plan (Purcell, 2009). That portion has remained relatively stable over the past 30 years. Yet the nature of these plans has shifted markedly. In the early 1980s, employers started moving away from traditional pensions – or defined benefit plans – to defined contribution plans, like those authorized under section 401(k) of the Internal Revenue Code. By law, tax-favored defined benefit pension plans are required to offer benefits to retirees in the form of monthly benefits for life, or annuities. In contrast, 401(k) type plans give the worker a lump sum payout when he/she leaves a job, which he/she can either take in hand or roll over into a tax-favored individual retirement account (IRA) or a tax-favored account with another employer. Upon retirement, 401(k) plans give the worker the option of receiving a lump-sum payout as well.

While coverage under 401(k) plans is growing, recent studies find that workers fail to take full advantage of them to achieve retirement security. In particular, workers may postpone joining the plan; contribute less than the optimal amount; fail to adequately diversify their investments; invest too much in the employer's company stock; borrow from their plan and thus forego asset appreciation; and cash out accumulations when they change jobs (Munnell, 2007). To assess the role of employer-sponsored retirement plans on the future well-being of retirees requires a look at the size of retirement savings accounts of American households.

WEALTH HOLDINGS IN 2007 AND LOSSES IN 2008/09

Asset holdings are an increasingly important component of economic security for seniors as more retirement plans take the form of individual savings accounts rather than contractual benefit promises from employers. This section examines the retirement savings account accumulations of working households, the role of homeownership, and the net worth of U.S. households based on the most recent findings of the 2007 Survey of Consumer Finances. We then cite estimates of how the stock market meltdown and collapse of the housing market in 2008/09 affected the wealth of American households.

Retirement Savings Accounts

Altogether just over half (53 percent) of all households have some funds set aside in tax-favored retirement savings accounts, which include employer-sponsored defined contribution accounts, individual retirement accounts (IRAs), and Keogh plans for the self-employed for the householder or spouse. For households which had such accounts, the median value was $45,000 in 2007. Households approaching retirement had larger accumulations. The median value for account holders aged 55 to 64 was $100,000 (Table 8).

Table 8
Household Retirement Savings Account Balances by Age, 2007
Defined Contribution Accounts, IRAs and Keogh Plans

Age of Householder	Number of Households (in thousands)	Percent with Accounts	Mean Value of Accounts	Median Value of Accounts
All households	116,122	54	$148,580	$45,000
Under age 35	25,148	45	$25,280	9,600
35 to 44	22,745	58	81,310	37,000
45 to 54	24,120	66	156,120	63,000
55-64	19,564	62	271,920	100,000
65 and older	24,545	41	207,320	60,800

Source: Purcell (2009).

The mean value of accounts was much higher than the median ($272,000 compared to $100,000 for 55 to 64 year olds) indicating that retirement account wealth is highly concentrated at the top. The median is the amount where half of account holders have more and half have less. If households with a zero account balance are included (38 percent of 55-64 year-olds), then fully 69 percent of all households aged 55 to 64 had less than $100,000 in retirement account savings in 2007 (Pilon, 2009; Purcell, 2009). Purcell estimates that with an accumulation of $100,000 a 65-year-old man could buy a life annuity (with no inflation protection and no provision for dependents or survivors) of about $700 a month, based on interest rates current in April 2009. Because women live longer than men, the same sum would buy a 65-year-old woman a smaller annuity (about $650).

The concentration of retirement savings accounts at the top of the distribution becomes a concern as employers, workers, and the federal government rely increasingly on them – together with Social Security – to serve as the twin pillars of retirement income security over the long term, replacing the traditional three-legged stool of Social Security, occupational defined benefit pensions and individual savings. In 2007 the long-term costs of the subsidy provided by the federal government for such retirement plans was $135 billion (U.S. Office of Management and Budget, 2009). According to the Urban-Brookings Tax Policy Center, roughly 70 percent of these subsidies go to those in the top 20 percent of the income distribution, and almost half go to the top 10 percent (Eisenbrey, 2008).

Household Net Worth

Household net worth represents the value of all of a household's assets minus its liabilities. The Survey of Consumer Finances is the leading source of data on household wealth. It defines net worth as financial assets plus nonfinancial assets (e.g. the value of vehicles, residences, and businesses), minus debt (Bucks et al., 2009). Household net worth rises with age as workers accumulate retirement savings, home equity and other assets over their lifetimes (Table 9). For many elder households, the home is the most important asset.

Table 9

Household Net Worth and Homeownership, 2007
Families by Age of Householder

Age	Median Net Worth	Percent			Median	
		Owning Home	With Debt on Home	Debt-free Home	Home Value	Home Debt
Total	$120,300	69	49	20	$200,000	$107,000
Under 35	11,800	41	37	3	175,000	135,000
35-44	86,600	66	60	7	205,000	128,000
45-54	182,500	77	65	12	230,000	110,000
55-64	253,700	81	55	26	210,000	85,000
65-74	329,400	85	43	43	200,000	69,000
75 and older	213,500	77	14	63	150,000	40,000

Source: Bucks et al. (2009).

Homeownership

Home ownership increases with age; just over eight in ten households headed by a person between the ages of 55 and 74 are homeowners. After age 75 the homeownership rate declined slightly to 77 percent as some elders may move to other living arrangements at advanced ages. Many seniors are still paying off debt on their homes. About half of homeowners aged 65-74 still had home debt in 2007. The median home value for homeowners aged 65-74 was $200,000, while the median debt for the half of those homeowners who were still paying for their homes was $69,000. In 2007, as in prior years, the home remained the main asset of most households approaching retirement.

The critical role of the home in the asset holdings of typical households approaching retirement is shown in Table 10. Munnell et al. (2009) estimate the wealth for households aged 55 to 64 using the mean value for the middle 10 percent of such households.

Table 10
Wealth of a Typical Household Approaching Retirement*, 2007

Source of Wealth	Amount in Dollars	Percent Distribution: Total Wealth	Percent Distribution: Wealth Other than Defined Benefits
Total wealth	$676,500	100	---
Wealth other than defined benefits:	$255,500	38	100
Primary house	138,600	20	54
Business assets	15,900	2	6
Financial assets	29,600	4	12
401(k), IRA and other retirement savings	50,500	7	20
Other non-financial assets	21,000	3	8
Defined benefits:	$421,000	62	--
Social Security	298,900	44	--
Other pension plans	122,100	18	--

Source: Munnell, Golub-Sass, & Muldoon (2009).
* "Typical household approaching retirement" refers to the mean value for the middle 10 percent of households headed by a person aged 55-64.

Total wealth excluding the value of defined benefits amounted to $255,500 for this typical household. Home equity (the value of the home minus debt on the home) accounted for just over half that wealth, while retirement savings accounts and other financial assets made up about one third. If expected lifetime payments from Social Security and defined benefit pensions are expressed as asset values for this typical household, then total wealth rises to $675,500 and Social Security is the largest component of that wealth (44 percent), while the home is the second largest component (20 percent) and defined benefit pensions rank third (18 percent).

The Financial Crisis and the Housing Bubble

The latest data from the Survey of Consumer Finances (SCF) are for 2007, before the market fell and the housing bubble burst in 2008/09. The next round of SCF data will be collected for 2010 and likely become available early in 2012. In the meantime, what are scholars estimating to be the impact of the economic downturn on the status of retirees now and in the future?

Using SCF data from 2007 and national price indices, Bosworth and Smart (2009) simulated the size and distribution of wealth losses from the 2008/09 financial crisis. They found that the collapse of the housing market triggered a broad decline in asset prices that greatly reduced the wealth of all categories of households. Older households mitigated their real estate and stock market losses with Social Security and defined benefit pensions. Yet, no demographic group was left unscathed. Bosworth & Smart (2009, p. 1) concluded that:

> Prior to the financial crisis, our study and others had concluded that the current baby-boom cohort of near retirees were surprisingly well-prepared for retirement compared with similarly aged households over the past quarter century. Unless there is a strong recovery of asset values in the next few years, that favorable assessment is no longer true.

They continue (p. 17):

> Since younger families have a larger share of their net wealth in housing and hold larger mortgages as a share of home value, they typically suffered a larger percentage loss in net worth. In contrast, older households were hit harder by the decline in stock prices. Overall … [o]lder households lost much of their presumed gains relative to earlier cohorts, and they will have less time to recover.

By projecting housing and stock values, Rosnick and Baker (2009) estimated three possible scenarios about how baby boomers' wealth changed between 2004 and 2009. They concluded that the "loss of wealth due to the collapse of the housing bubble and the plunge in the stock market will make baby boomers far more dependent on Social Security and Medicare than prior generations" (p.2).

Munnell et al. (2009) assessed the role of 401(k) plans after the 2007 Survey of Consumer Finances in light of the collapse of financial markets in 2008, which spread to the real economy in 2009. They estimated that 401(k) balances lost about 30 percent of their value in the 12 months following the market peak in October 2007. Moreover, employers, faced with declining revenues and the prospect of laying-off workers, cut back on their 401(k) matching or suspended matching altogether (Munnell & Soto, 2010).

OUTLOOK FOR THE FUTURE

This section examines how the financial crisis and housing market collapse have put more American at risk of falling far short of maintaining their pre-retirement standards of living in retirement. These projections assume no changes in Social Security beyond the scheduled increase in the full benefit age that is phasing in. Stories in the popular media raise questions about the capacity of the system to pay scheduled benefits. What do official Social Security projections show for the future? What sorts of policy changes would be needed to ensure that it remains in long-term financial balance? What options could be adopted to improve the adequacy of benefits and what would they cost?

Households at Risk After the Crises

The Center for Retirement Research at Boston College has developed a National Retirement Risk Index to estimate how many retirees in the future are at risk of falling short of maintaining their pre-retirement living standards. The index was constructed using the 2004 Survey of Consumer Finances to estimate how many households are on track to maintain their living standards in retirement. Similar tabulations from prior versions of the triennial Survey of Consumer Finances reveal that the fraction of households at risk had risen – from 30 percent in 1989 to 43 percent in 2004. Updating the index with the 2007 Survey of Consumer Finances showed little change in the overall index. But updating the index to reflect the housing market collapse and financial market meltdown after 2007 brought a sharp and unprecedented increase in the portion of households at risk. By the end of the second quarter of 2009, the combined effect of declining retirement accounts and home equity, declining interest rates, and the continuing increase in the Social Security full benefit age meant that 51 percent of households were estimated to be at risk of falling more than 10 percent short of maintaining their living standards in retirement (Munnell, et al., 2009). Because middle and upper income households hold more assets, they experienced greater losses (Table 11). When viewed by age cohort, younger groups (late boomers and Generation Xers) are at greater risk than are early boomers.

Table 11

Percent of Households 'At Risk' by Income Group and by Cohort, 2004, 2007, and 2009

	2004	2007	2009
All	43	44	51
By Income			
Low Income	53	57	60
Middle Income	40	40	47
High Income	36	35	42
By Age Cohort			
Early Boomers	35	37	41
Late Boomers	44	43	48
Gen Xers	49	49	56

Source: Munnell, Webb, & Golub-Sass (2009).

These estimates assume that Social Security will continue to pay benefits as called for in the law – including phasing in the increase in the full benefit age to 67 for persons born in 1960 and later – a change that gradually lowers benefits. Yet, some policymakers are calling for further cuts in future benefits to balance program finances. What is the financial outlook for Social Security, and what can be done to address it?

Social Security in the Future

Social Security trustees assess its future finances every year using updated assumptions about birth and death rates, wage and price growth, employment, interest rates and so forth. Recognizing the great uncertainty of 75-year forecasts, they project three scenarios: low-cost; high-cost; and intermediate. The intermediate scenario is considered the best estimate and is the most often used. In 2009, it showed that Social Security has been running surpluses for 25 years and will have surpluses in each of the next 14 years (2010-2023). Reserves, held in federal government bonds are projected to grow to $4.3 trillion by the end of 2023. After 2023, reserves will have to be gradually drawn down to pay benefits. By 2037, without changes, reserves will be depleted. Income coming in to the fund after 2037 will cover about three fourths of benefit payments due then.

The long-range actuarial deficit is 2.0 percent of taxable payroll. This means that to close the 75-year financing gap solely with a contribution rate increase would require raising the rate paid by workers and employers from 6.2 to 7.2 percent, which would yield a combined increase from 12.4 to 14.4 percent, or 2.0 percent of payroll.

In a recent report, *Fixing Social Security: Adequate Benefits, Adequate Finances,* the National Academy of Social Insurance examined a variety of policy options to improve the adequacy of benefits for vulnerable groups such as: the oldest old (those over age 85); widowed spouses of low-income couples; retirees (usually women) with low benefits because of gaps in paid work while they cared for children; and low-paid, long-service workers whose benefits fall short of meeting the poverty line (Reno & Lavery, 2009). The report also examines 18 different options to increase program revenues in the future to levels that would securely finance current benefits and pay for benefit improvements, if desired.

By exposing the vulnerability of average Americans to the risks of a market economy, the financial crisis shines a new light on the critical role of Social Security in maintaining economic security for elders. The next and final section of this paper examines how the United States compares with other industrialized countries in the economic well-being of our elders and our capacity to meet the financial challenges of an aging society.

INTERNATIONAL COMPARISONS

In the sixth edition of this *Handbook*, Schulz and Borowski (2006) discussed pension reforms in other countries and how the push for "privatization" of retirement benefits has worked out. In this section we compare the economic status of the aged in the United States with that of elders in other industrialized countries and assess the challenge of financing pensions for aging societies both here and abroad.

Comparing Well-being of the Aged

Indicators of the relative well-being of elders include prevalence of poverty, the level at which Social Security benefits replace prior earnings, the role of employer-sponsored pensions, and out-of-pocket health-care spending.

For cross-national comparisons we use the OECD definition of relative poverty; that is, spendable income of less than 50 percent of the median for households of similar size. By this measure, 24 percent of U.S. seniors are poor. That is nearly twice the average poverty rate across 30 OECD countries (13 percent). This U.S. poverty rate looms particularly high relative to Canada and key Western European countries (Table 12).

Social Security replacement rates in the United States are modest when compared with those in other OECD countries. Replacement rates for the 30 countries studied are calculated for low-, average-, and high-wage workers, using each country's benefit formula. Of the 30 countries studied, U.S. replacement rates ranked fourth from the bottom for low earners (at 50 percent), fifth from the bottom for average earners (at 39 percent), and ninth from the bottom for high earners (at 28 percent) (OECD, 2005a, 2005b). In contrast, average replacement rates for the 30 nations were 72 percent for low earners, 57 percent for average earners, and 49 percent for high earners.

Table 12

Elderly Poverty Rate and Shares of Income from Key Sources: Six Countries, Mid-2000s

Country	Percent Poor	Shares of Income			
		Public Benefits	Work	Capital	Total
Canada	4	41	18	42	100
Sweden	6	69	10	22	100
France	9	85	7	8	100
Germany	10	73	12	19	100
United Kingdom	10	49	12	39	100
United States	24	36	34	30	100

Source: OECD (2009b).

Income from employer-sponsored retirement plans, personal savings, and earnings from work supplement Social Security and other public benefits in other countries as well as in the United States. Table 12 shows shares of aggregate income of elders from public benefits (Social Security and public assistance), earnings from work, and income from capital, which includes employer-sponsored pensions and returns on individual savings. In the aggregate, U.S. elders rely less on public benefits and more on earned income and income from capital than is the case in Canada and key Western European countries. But when we consider the distribution of employer sponsored pension income, we find that it is highly skewed toward the top in the United States.

The average annual pension income in the top quintile ($16,000) was about 150 times the average for the bottom quintile ($100) for the years 2004-06 (Employee Benefit Research Institute, 2010). Those in the bottom three-fifths of the income spectrum received less than about $1,700 a year. Based on these findings, Baily and Kirkegaard (2009) concluded that the seeming inability of the voluntary U.S. employment-based pension system to expand much beyond the top income echelons is a powerful reminder that there are few if any effective voluntary replacements for the Social Security system to provide retirement income to the majority of Americans (p. 436).

In brief, employer-based pensions in the United States do not alleviate the problem of low replacement rates from Social Security for low- and moderate earners. The highly-skewed distribution of employer-based pensions together with low-replacement rates from Social

Security suggest that in the coming decades the top quintile of the aged in the United States stands to fare much better than its counterparts in most other OECD countries, while the lower quintiles are likely to fare worse (Baily and Kierkegaard, 2009).

Health care is largely free for retirees in many OECD countries. Despite the existence of Medicare and Medicaid, older Americans pay far more out-of-pocket than do their counterparts in other OECD countries (OECD, 2009b). A recent study by the Employee Benefits Research Institute (Fronstin et al., 2009) found that:

> men retiring at age 65 in 2009 will need anywhere from $68 ,000 to $173,000 in savings to cover health insurance premiums and out-of-pocket expenses in retirement if they want a 50-50 chance of being able to have enough money, and $134,000 to $378,000 if they prefer a 90 percent chance. With their greater longevity, women will need more: a woman retiring at age 65 in 2009 will need anywhere from $98,000 to $242,000 in savings to cover health insurance premiums and out-of-pocket expenses in retirement for a 50-50 chance of having enough money, and $164,000 to $450,000 for a 90 percent chance. (p. 9)

These estimates do not include the cost of long-term care, which in several OECD countries is covered by social-insurance or other (non-means-tested) government programs (Lundsgaard, 2005).

Challenge of Aging Societies

How does the U.S. demographic outlook compare to that of other OECD countries? While the number of older Americans is growing, the share of our future population over-age-65 will not be as large as in many other OECD countries because the number of younger Americans is also growing due to higher fertility rates and more net immigration than is experienced in most other OECD countries. Americans aged 65 and older are projected to increase from about 13 percent of the population today to about 21 percent by 2050. In contrast, Germany and Japan are already coping with aging populations of 20 and 23 percent, respectively. By 2050 seniors are projected to make up 26 percent of the population in Canada, 32 percent in Germany, and 40 percent in Japan (OECD, 2009a). The growing number of older Americans still poses a challenge to funding the U.S. Social Security system. Mitigating this demographic shift are two other U.S.

developments. First, even though the U.S. standard retirement age over the next 50 years is scheduled to remain about average in the OECD and to reach 67 by 2027, the effective retirement ages in the United States for men and women are higher than elsewhere – fourth and fifth highest, respectively, among OECD countries (Baily & Kirkegaard, 2009). Since the mid-1980s, labor force participation among older Americans has been increasing (Quinn, 2002). Second, as already noted, Social Security benefits are modest by international standards and, as discussed earlier, U.S. replacement rates will decline in the future as the age for full-benefit receipt rises to 67.

The best summary measure of the affordability of a society's Social Security system is expenditures as a share of the country's Gross Domestic Product (GDP). The U.S. Social Security program in 2009 amounted to about 4.8 percent of GDP, a share that is projected to rise to 6.2 percent in 2035 after all the baby boomers have retired, and then stabilize at about 5.8 percent of GDP for the rest of the next 75 years (Board of Trustees, 2009). Many of our trading partners spend considerably more on their Social Security programs today than is projected for the United States in the future (Table 13). Peterson Institute economists Baily and Kirkegaard (2009) concur:

Table 13

Social Security Spending as a Share of GDP in 2005, Selected OECD Countries

Country	Percent of GDP
Austria	12.6
Canada	4.5
Finland	8.4
France	12.4
Germany	11.4
Japan	8.7
Sweden	7.7
United Kingdom	5.7

Source: OECD (2009c).

> The United States – with only a moderately poor fiscal starting point, moderate current costs of pension provision, low levels of future pension promises, […] and only moderate demographic pressure […] is in the category of OECD countries that can expect to be only moderately affected. This is an important point when trying to filter the occasionally overly gloomy commentary regarding the outlook for the U.S. economy and its future ability to provide for its retiring baby-boomers. Most OECD countries face more immediate and severe future challenges to the sustainability of their [public] pension systems than does the United States. (p. 90)

In summary, the United States faces a modest financial challenge to ensure that scheduled Social Security benefits will be maintained (or even improved) in the long-term future. By international standards, the United States has higher rates of poverty among elders and provides lower levels of wage-replacement from Social Security. The recent financial crisis exposes the vulnerability of American workers and retirees to losses in private sector savings, pensions, home equity and employment earnings. Those losses shed a bright light on the critical importance of ensuring an adequate foundation of economic security through social insurance.

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