The Poverty Status of Older Americans: How You Measure It Matters

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Official Poverty

- Official poverty measure compares cash income to a threshold that varies by number of adults and children in the household. Thresholds are lower for older families (65+) and based on food expenditures*3 from 1955.

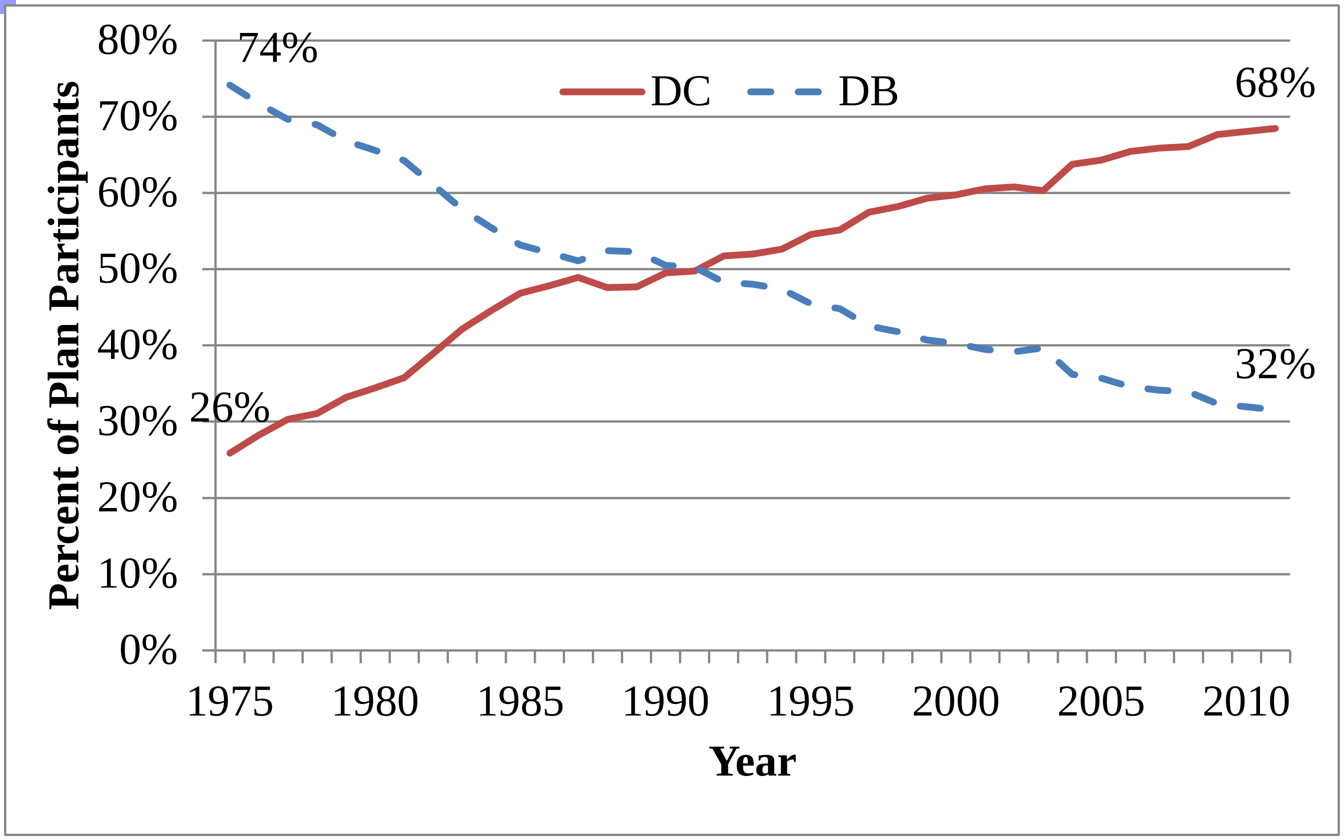
- Official poverty does not include noncash benefits, does not account for nondiscretionary expenses, and does not account for local cost of living that varies substantially for different localities.

- National Academy of Science (1995) recommended updating the official poverty measure to better account for benefits and expenses.

Supplemental Poverty

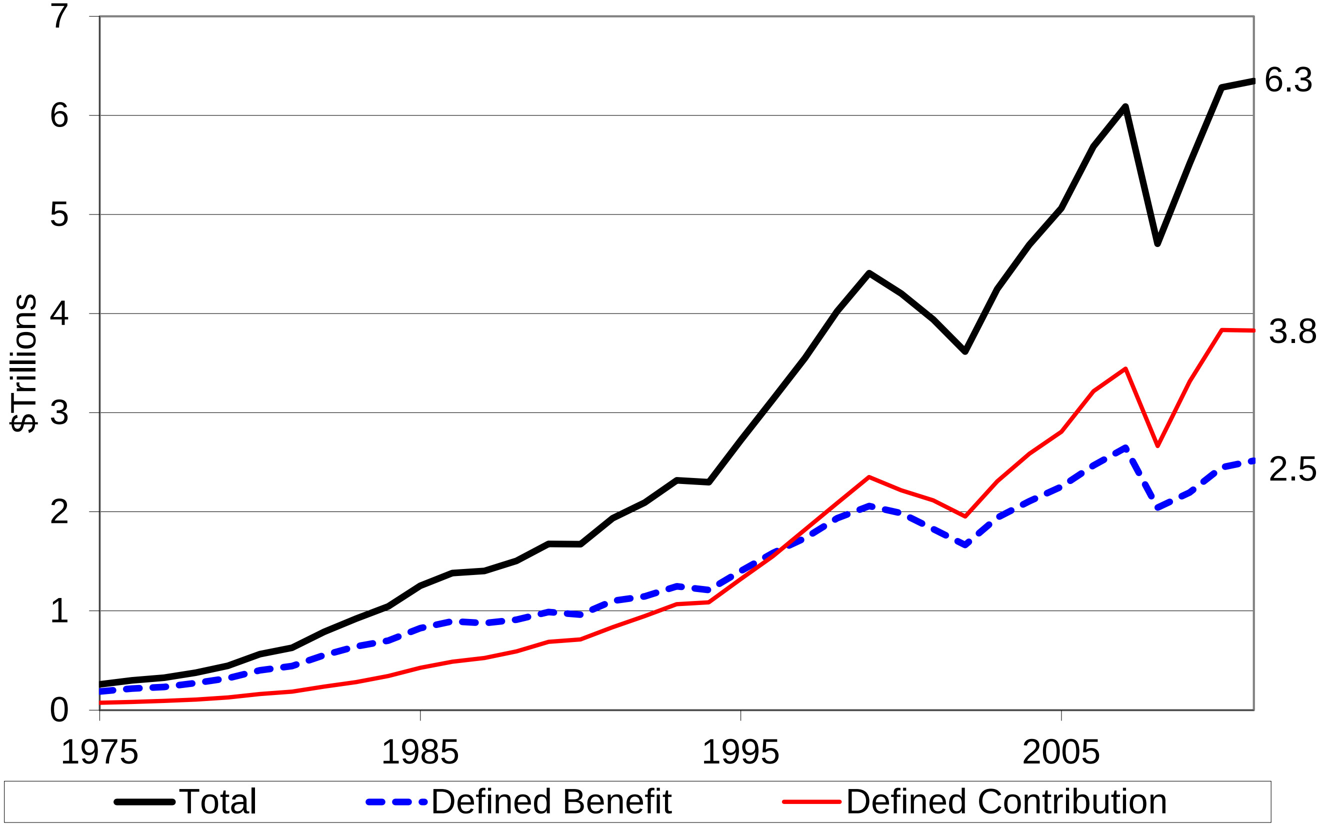
- For the last 3 years, the Census Bureau has calculated a Supplemental Poverty Measure (SPM) that:
  - updates the poverty thresholds based on median household expenditures that account for local area cost of living,
  - adds noncash benefits to income,
  - and subtracts taxes, child care and work expenses, and out-of-pocket medical spending.

Share of pension participants with DB plans has declined over time, while the share with DC plans has grown



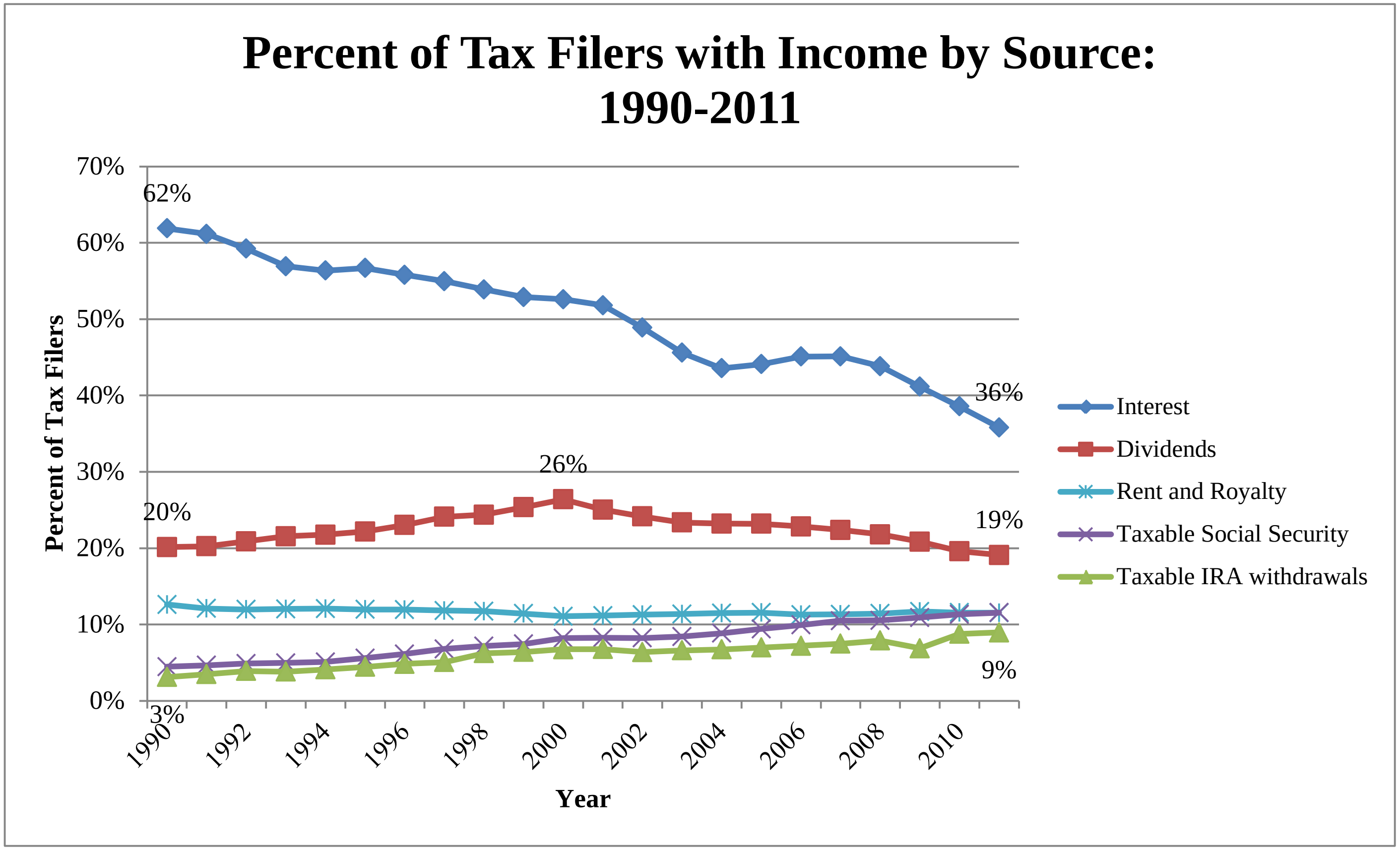
Source: Department of Labor Form 5500 (2013).
Private Pension Plan Bulletin Historical Tables and Graphs

DC plan assets now exceed DB plan assets



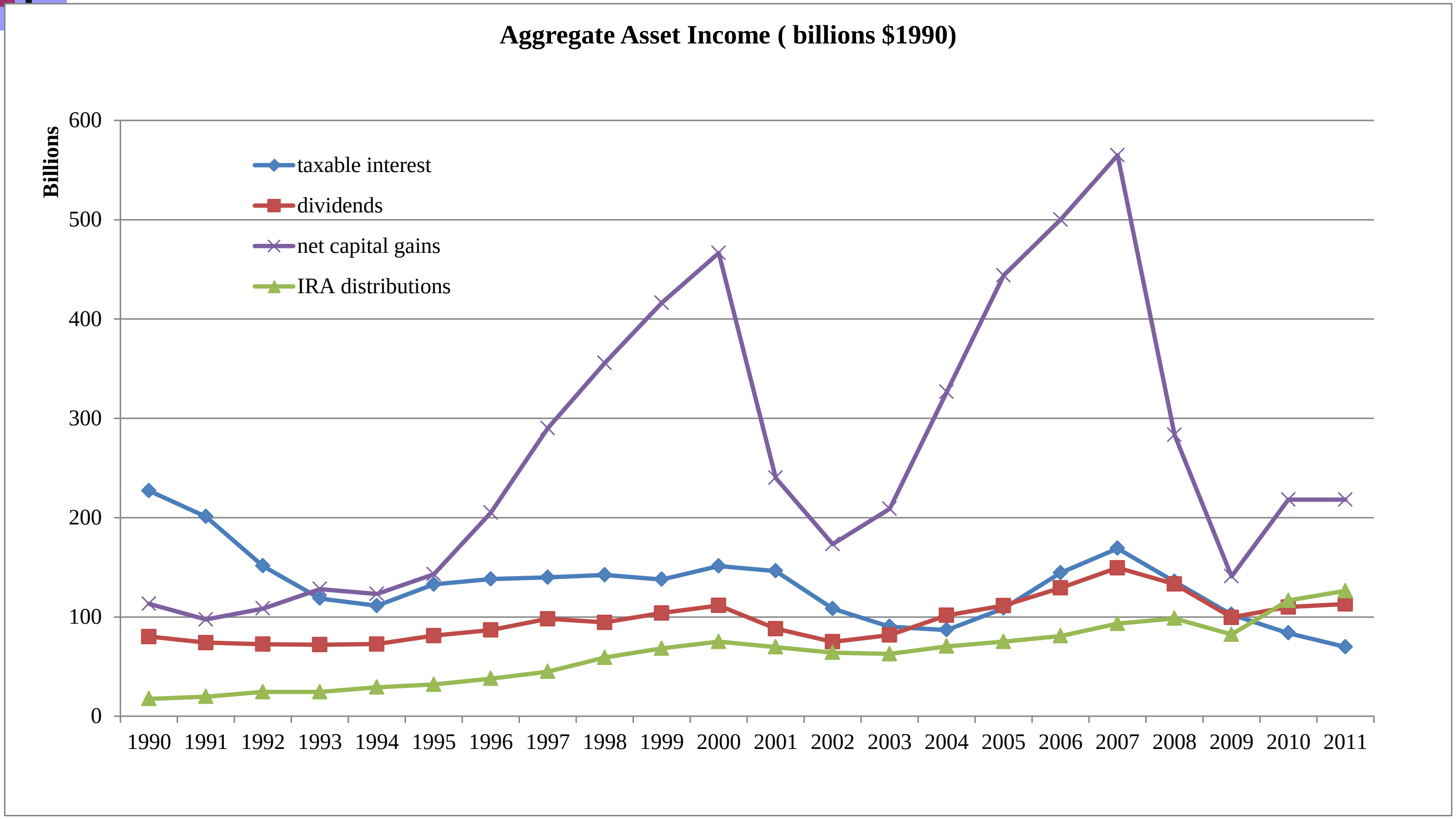
Source: Department of Labor Form 5500 (2013).
Private Pension Plan Bulletin Historical Tables and Graphs

Share of tax filers with interest and dividend income has decline while the share of tax filers with IRA withdrawals has increased



Source: Authors' calculations from Statistics of Income (table A).

Taxable IRA withdrawals now exceed taxable interest and dividend income.



Source: Authors' calculations from Statistics of Income (table A).

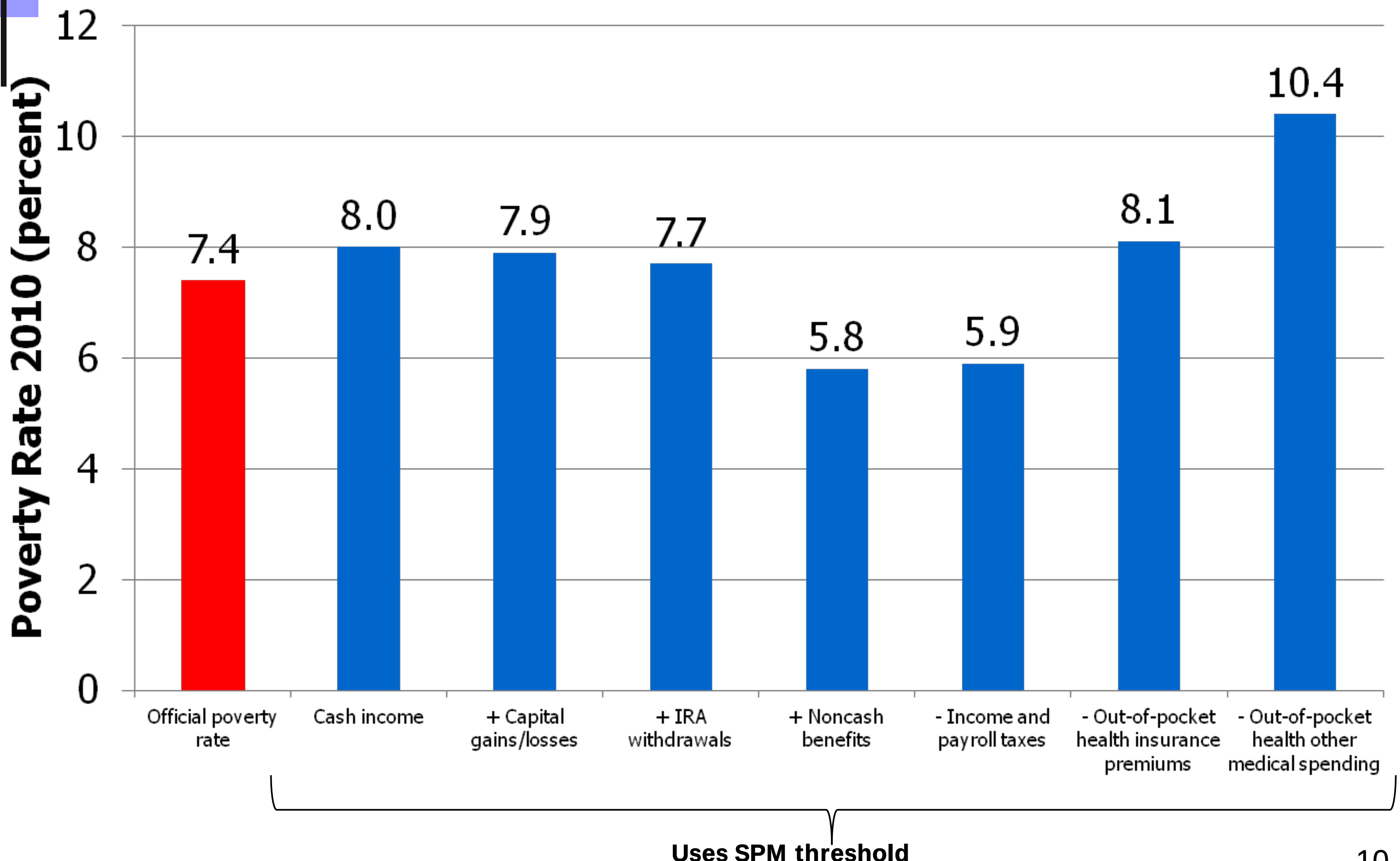
Research Questions

- The SPM does not include assets--including the rising amounts saved in retirement accounts.
- How will accounting for housing and financial assets change poverty rates among older Americans (age 65+)?
- How is poverty expected to change in the future comparing the official poverty rate, the SPM, and alternative measures that account for assets?

Data and Methods

- MINT starts with 2004 and 2008 SIPP data linked to Social Security administrative earnings and benefit data through 2010.
- For individuals born 1926 to 1979, MINT projects:
  - Marital changes, mortality, disability, and retirement.
  - Sources of cash income, capital gains and losses, IRA withdrawals, noncash benefits, taxes, out-of-pocket medical expenses, and health insurance premiums.
  - Housing equity, financial assets, retirement accounts.
  - Accounts for shifts in pension type, increase in Social Security FRA, rise in delayed benefit claiming, growth in health insurance premiums and medical costs.

Just changing the threshold increases poverty from 7.4 to 8 percent. Adding MOOP increases it to 10.4 percent.



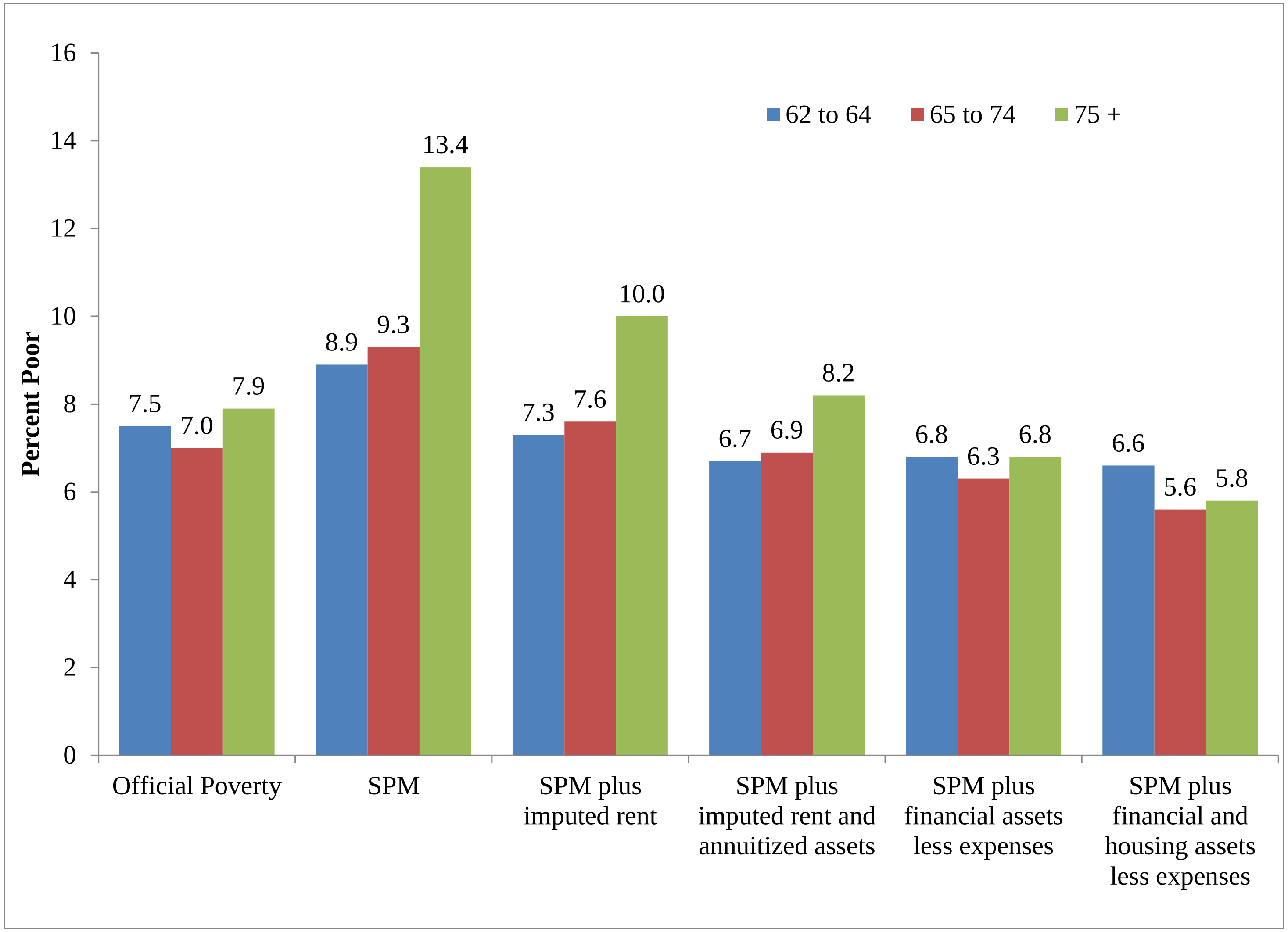
Now add resources from assets

- One reason people save is to support consumption in retirement.
- Subtracting MOOP from income without accounting for the assets that families saved to support that spending overstates need.
- We measure poverty using 4 alternate measures of resources that include assets.

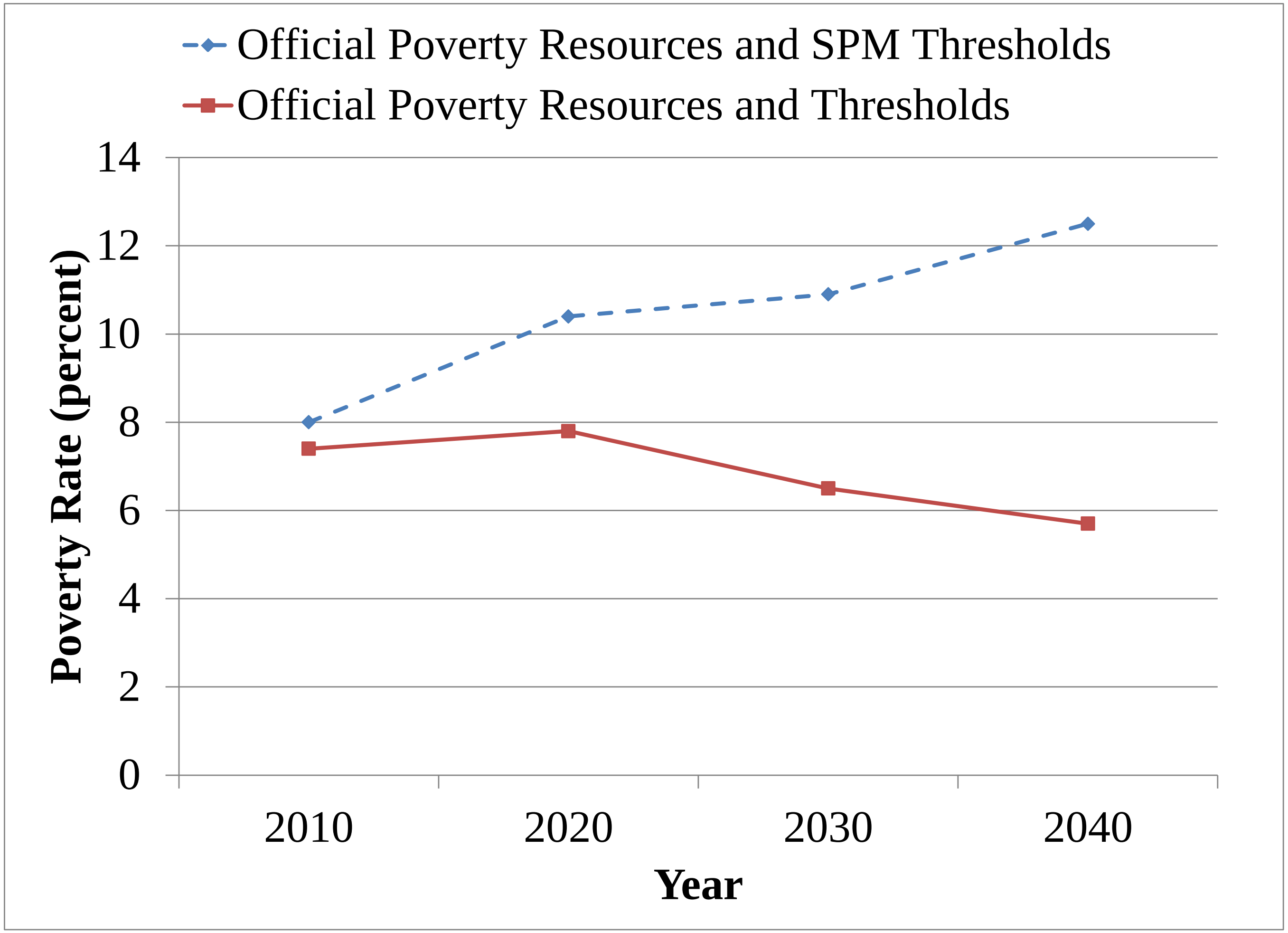
Four alternate measures (compared to renter SPM thresholds)

- 1) Add imputed rental income (3% return on equity, recognizes differential equity in homes)
- 2) Replace asset income with annuitized asset income (annuity measure provides a return on assets and return of principal).
- 3) Subtract expenses from assets (recognize that families use assets to smooth consumption).
- 4) Subtract expenses from assets and home equity (recognize that homes are a valuable resource).

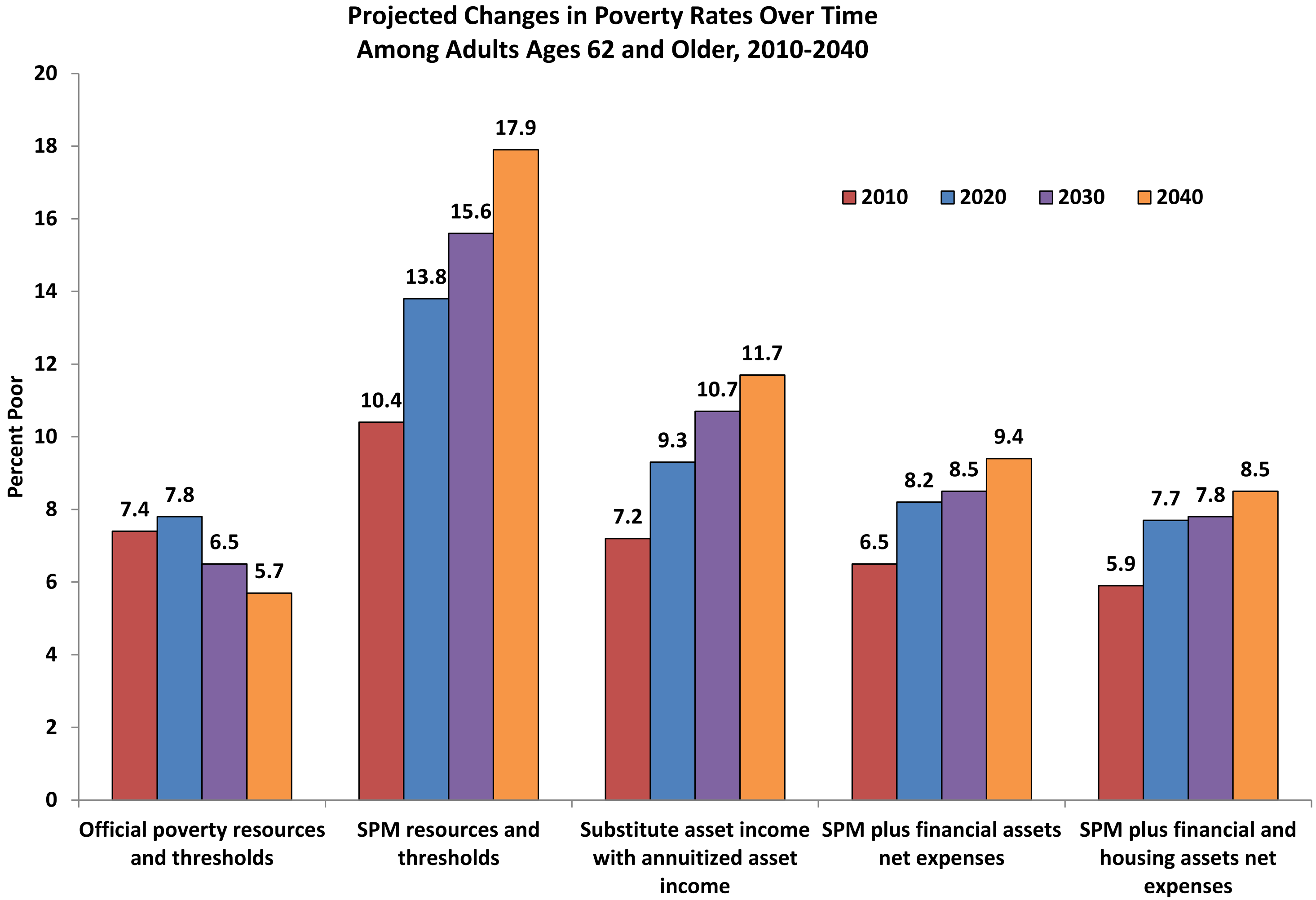
SPM measures that account for assets lower poverty rates in 2010, especially for the oldest group.



Independent of any changes in resources, projected official aged poverty rates fall over time, while SPM poverty rates rise



Even accounting for assets, elderly poverty is projected to increase in the future (in contrast to the official poverty rates). However, poverty rates are much lower.



Conclusions

- Most researchers and policymakers agree that the official poverty rate is outdated and does not accurately measure poverty in the United States, particularly for older Americans who face ever rising health care costs.
- The SPM measurement approach overstates the poverty rates of older adults because it omits the asset holdings that older families have accumulated.
- This omission will become an increasingly large problem over time as fewer seniors enter retirement with DB pensions that pay benefits as annuities and more enter retirement with DC plans whose assets and income flows are missing from the current SPM.
- Even poverty measures that include assets show that poverty rates for seniors will increase over time as rising medical costs, higher income taxes, aging boomers, and the reduction in Social Security replacement rates due to the increase in the full retirement age put downward pressure on future family retirement incomes.

Policy Recommendations

- CPS (the official source for poverty) does not collect assets.
- Questions about assets should be added to the CPS survey.
- Even bracketed measures of financial assets, retirement account assets, and home equity to the CPS would inform policymakers about available resources for both young and old.
- Asking measures of assets could also improve self-reports of asset income on the CPS.
- Even broad measures of assets would provide researchers and policymakers with some information for better judging need than no information at all.
- Adding some measure of assets to the CPS is increasingly important given the increasing prevalence of retirement account pensions.