Introduction

- **Aging Seminar Series**
  - Focus on important issues regarding Aging Policy and their implications for Congress

- **Previous Aging Seminars:**
  - Long-Term Care Financing and Issues for Policy Makers
  - Family Caregiving For Older Americans

- **Future Aging Seminars** will focus on health care, aging of the workforce, housing and supportive services, Social Security and other public policy issues.
Today’s topic

*Income and Wealth of Older Americans*

Patrick Purcell, Specialist in Income Security, Domestic Social Policy Division, CRS

Overview of presentation

- Demographic Trends
- Total Household Income
- Sources of Income
- Employment
- Poverty among the Elderly
- Household Wealth
- Policy Issues
- Policy Options
Sources of data

- Population projections: Census Bureau
- Income: Current Population Survey (Census Bureau)
- Wealth: Survey of Income and Program Participation (Census Bureau)

People 65 and Older are 12.4% of the U.S. Population (1 person in 8).
Population Trends

- Aging of the “baby boom” (the 78 million people born from 1946 to 1964)
- Lower birth rates after 1964
- Increasing life expectancy

- Result: the elderly population will grow faster than the number of children and the number of non-aged adults.
By 2030, 1 in 5 Americans will be 65 or older, the same as Florida today.

Projected Distribution of the U.S. Population, by Age, 2010 to 2050

Sources of income

- The main sources of income among elderly households are:
  - Earnings (especially for those under age 70),
  - Social Security,
  - Pensions (including IRAs and 401(k) plans),
  - Asset income (interest, dividends, and rent),
  - Public assistance (SSI, TANF, general assistance),
  - Other income (including transfers from relatives).
Elderly households have lower median income than the nonelderly.

- Median total income of elderly households is about half that of nonelderly households.

- Elderly households are less likely to have earnings.

- Most elderly households are smaller households with only one or two members.

Median Household Income

- Median household income among elderly households is lower among:
  - Single householders,
  - Less educated householders,
  - Black and Latino householders,
  - Female householders, and
  - Householders aged 80 and older.

### Median Household Income

**Median Household Income in 2007, Householder or Spouse Age 65+**

<table>
<thead>
<tr>
<th>Category</th>
<th>Median Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Married</td>
<td>$19,722</td>
</tr>
<tr>
<td>Married</td>
<td>$45,036</td>
</tr>
<tr>
<td>College Graduate</td>
<td>$33,980</td>
</tr>
<tr>
<td>Some College</td>
<td>$26,888</td>
</tr>
<tr>
<td>High School Grad</td>
<td>$18,230</td>
</tr>
<tr>
<td>Less than 12 years</td>
<td></td>
</tr>
<tr>
<td>Hispanic</td>
<td>$23,400</td>
</tr>
<tr>
<td>Black</td>
<td>$21,184</td>
</tr>
<tr>
<td>White</td>
<td>$30,975</td>
</tr>
<tr>
<td>Women</td>
<td>$23,400</td>
</tr>
<tr>
<td>Men</td>
<td>$38,222</td>
</tr>
<tr>
<td>80+</td>
<td>$20,995</td>
</tr>
<tr>
<td>70-79</td>
<td>$28,797</td>
</tr>
<tr>
<td>65-69</td>
<td>$43,159</td>
</tr>
</tbody>
</table>

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[Image source: Congressional Research Service]
Sources of Income vary with total household income.

- Households in the top income quartile receive substantially greater shares of total income from **earnings**, **assets**, and **pensions** than lower-income households.

- Households in the bottom two income quartiles households receive most of their income from **Social Security**.

The top income quartile gets 47% of income from earnings.
The second quartile receives 25% of income from earnings.

Elderly in the third quartile get 2/3 of total income from Social Security.
Elderly in the 4th quartile get $5 out of $6 of income from Social Security.

- 2007 Household Income of less than $16,244
  - Asset Income: 3%
  - Pensions: 5%
  - Public Asst.: 4%
  - Other Income: 1%
  - Earnings: 3%
  - Social Security: 84%

Social Security Income

- Social Security is the most important single source of income among elderly households.
  - 89% of elderly households received Social Security income in 2007.
  - 59% of recipient households received more than half of their income from Social Security in 2007.
  - 29% of recipient households received 90% or more of their income from Social Security in 2007.
  - Median household Social Security income in 2007 was $15,012 among elderly recipient households.
70% of elderly households receive less than $20,000 from Social Security.

**Householder or Spouse Age 65+**

<table>
<thead>
<tr>
<th>Household Income from Social Security in 2007</th>
<th>Percentage of households age 65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $5,000</td>
<td>4%</td>
</tr>
<tr>
<td>$5,000 to $9,999</td>
<td>16%</td>
</tr>
<tr>
<td>$10,000 to $14,999</td>
<td>29%</td>
</tr>
<tr>
<td>$15,000 to $19,999</td>
<td>21%</td>
</tr>
<tr>
<td>$20,000+</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Pension Income**

- Fewer than half of elderly households had income from **pensions** in 2007.
  - 30% of elderly households had private-sector pensions.
  - 15% of elderly households had public-sector pensions.

- Median household income from private-sector pensions was **$8,052**.

- Median household income from public-sector pensions was **$17,400**.
Most households with pensions received less than $20,000 in 2007.

Income from Assets

- Most elderly households receive some income from assets (interest, dividends, rent)

- In 2007, 57% of elderly households received some income from assets.

- Most households that receive income from assets receive relatively small amounts.

- Median asset income of elderly households receiving such income in 2007 was $2,254.
Receipt of Income from Assets rises with total household income.

Employment after Age 55

- Employment is highest between the ages of 25 and 54.
- In 2007, 9 out of 10 of men aged 25 to 54 were employed, as were 3 out of 4 women aged 25 to 54.
- Among those aged 55 to 61 in March 2008, 73% of men and 63% of women were employed.
- Among people aged 65 to 69, 33% of men and 26% of women were employed in March 2008.
### Employment Rates

**Employment Rates by Age, March 2008**

<table>
<thead>
<tr>
<th>Age</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>55-61</td>
<td>73%</td>
<td>63%</td>
</tr>
<tr>
<td>62-64</td>
<td>52%</td>
<td>41%</td>
</tr>
<tr>
<td>65-69</td>
<td>33%</td>
<td>26%</td>
</tr>
<tr>
<td>70+</td>
<td>14%</td>
<td>8%</td>
</tr>
</tbody>
</table>

The percentage of households with earnings falls sharply after age 65.

- **56%** of households headed by persons aged 65 to 69, had earnings in 2007, as did
- **34%** of households headed by persons aged 70 to 79, and
- **15%** of households headed by persons aged 80 and older.
Workers’ total earnings decline with age due to lower wages, fewer hours.

Poverty Among the Elderly

- The percentage of elderly in poverty fell from 35% in 1959 to 15% in 1975, due mainly to increases in Social Security coverage and benefit amounts.

- The elderly poverty rate has been about 10% since the mid-1990s.

- The elderly poverty rate in 2007 (9.7%) was lower than the poverty rate among children under 18 (18.0%) and adults aged 18 to 64 (10.9%).
Elderly poverty rates remain high among some groups.

Total Household Wealth

- In contrast to median household income, which is lower for elderly households than for nonelderly households, median household wealth is higher for elderly households than among nonelderly households.

- This is partly due to higher rates of home ownership among elderly households, and also because they have had longer to save.
What is “total wealth”?

- Home equity
- Equity in other real estate
- Business equity
- Bank accounts and money market funds
- Stocks, bonds, and mutual fund shares
- IRAs, Keogh accounts, retirement accounts
- Net equity in vehicles
- Equity in other assets

Total Household Wealth is higher for the elderly than the nonelderly.
Total Wealth of the Elderly

- Among households headed by persons aged 65 and older, total household wealth is lowest among households headed by persons aged 80 and older.
Total wealth is higher among home owners.

- In 2005, 64% of nonelderly households and 78% of elderly households owned or were purchasing their homes.

- Among both elderly and nonelderly households, total household wealth is greater for home owners than for those who do not own their homes.

Total wealth of home owners

![Bar chart showing total wealth of households with home equity, 2005.](chart.png)
Home equity in 2005

- Median home equity of home owners under age 65 was $92,000.

- Median home equity of home owners 65 and older was $140,000

Home equity is higher among elderly than nonelderly households.
Financial Wealth: Total wealth minus home equity

- 94% of nonelderly households and 93% of elderly households have wealth other than home equity (here called “financial wealth”).
- In 2005, the median financial wealth of nonelderly households with any kind of financial wealth was $25,200.
- The median financial wealth of elderly households with any kind of financial wealth was $32,590.

Financial Wealth of Households

![Financial Wealth Distribution Chart]

| Total Financial Wealth of Households, by Age, 2005 (Households with Any Financial Wealth) |
|----------------------------------|------------------|------------------|
| Percentile of Financial Wealth   | Under 65         | 65+              |
| 25th percentile                  | $25,200          | $32,590          |
| 50th percentile                  | $120,506         | $147,460         |
| 75th percentile                  | $147,460         | $147,460         |

$0  $20,000  $40,000  $60,000  $80,000  $100,000  $120,000  $140,000  $160,000

41

42
Financial Wealth of the Elderly

- Among the 93% of elderly households with financial wealth, the median amount of their financial wealth in 2005 was:
  - $45,733 for households headed by persons aged 65 to 69,
  - $36,300 for households headed by persons aged 70 to 79, and
  - $21,530 for households headed by persons aged 80 and older.

Financial Wealth of Households Age 65+, 2005

<table>
<thead>
<tr>
<th>Percentile of Financial Wealth</th>
<th>Household Financial Wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>25th percentile</td>
<td>$7,000</td>
</tr>
<tr>
<td>50th percentile</td>
<td>$45,733</td>
</tr>
<tr>
<td>75th percentile</td>
<td>$203,446</td>
</tr>
</tbody>
</table>

Percentile of Financial Wealth

- $6,208 65 to 69
- $5,288 70 to 79
- $21,530 80+
- $100,000 75th percentile
- $158,493 75th percentile
- $96,275 75th percentile
Retirement Account Balances

- 55% of nonelderly households and 37% of elderly households had a retirement account (IRA, Keogh, or 401(k) account) in 2005.
- In 2005, the median retirement account balance of nonelderly households with a retirement account was $35,000.
- The median retirement account balance of elderly households with a retirement account was $50,000.
Among the 37% of elderly households that had an IRA, 401(k), or other retirement account, the median balance in 2005 was:

- **$65,000** among households headed by persons aged 65 to 69.
- **$49,000** among households headed by persons aged 70 to 79, and
- **$32,000** in households headed by persons aged 80 and older.
Policy Issues

- Social Security faces a long-term funding shortfall
  - Benefits will exceed revenue beginning in 2041.
- Pensions: Only about half of all workers under 65 are in an employer-sponsored retirement plan, unchanged since the 1970s.
- The proportion of workers with defined benefit pensions continues to fall (now only 20%).
  - Fewer future retirees will have an annuity as the default form of retirement income.

Policy Issues

- Issues related to defined contribution plans, such as 401(k) plans.
  - Only about 75% of eligible employees enroll.
  - Participants often contribute too little and fail to diversify their investments.
  - Few 401(k) plans offer annuities and few employees opt for an annuity when it is available.
  - Fewer protections for surviving spouse than in DB plans which offer joint and survivor annuities.
  - Investment risk and market volatility.
Policy Issues

- Medicare and out-of-pocket health expenses:
  - Medicare pays for much of the health care used by older persons, but other costs must be met by other insurance or out-of-pocket.

- Long-term Care Expenses
  - Medicare pays for few LTC services
  - Medicaid is available only to low-income elderly.
  - Private long-term care insurance is expensive.

Policy Options

- Social Security and Medicare reforms may include both tax increases and benefit reductions.

- The future of defined benefit plans in the private sector is likely to continue to be determined by the competitive pressures that businesses face.

- Options for long-term care include expanding incentives to buy private long-term care insurance or a social insurance/payroll tax approach
Policy options

- Modifying defined contribution plans:
  - Automatic IRAs and low-cost DC plans for small employers to encourage sponsorship
  - Automatic enrollment and automatic contribution escalation.
  - Life-cycle funds provide automatic diversification.
  - Investment education and investment advice.
  - Fee disclosure.
  - Encourage availability of annuities.
  - Clarify fiduciary duties of plan sponsors.

What can you do?
Aging Seminar Series:
Income and Wealth of Older Americans

Domestic Social Policy Division
Congressional Research Service

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