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## **Aging Seminar Series: Income and Wealth of Older Americans**

Domestic Social Policy Division  
Congressional Research Service

November 19, 2008



### **Introduction**

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- **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

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### ***Income and Wealth of Older Americans***

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## Overview of presentation

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

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## Sources of data



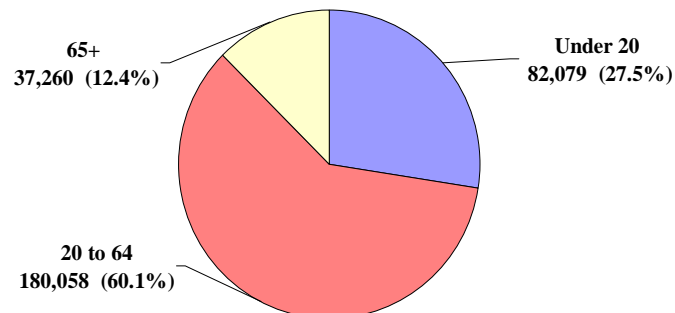
- Population projections: Census Bureau
- Income: Current Population Survey (Census Bureau)
- Wealth: Survey of Income and Program Participation (Census Bureau)

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



Resident U.S. Population, by Age, 2006  
(in thousands)



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## Population Trends



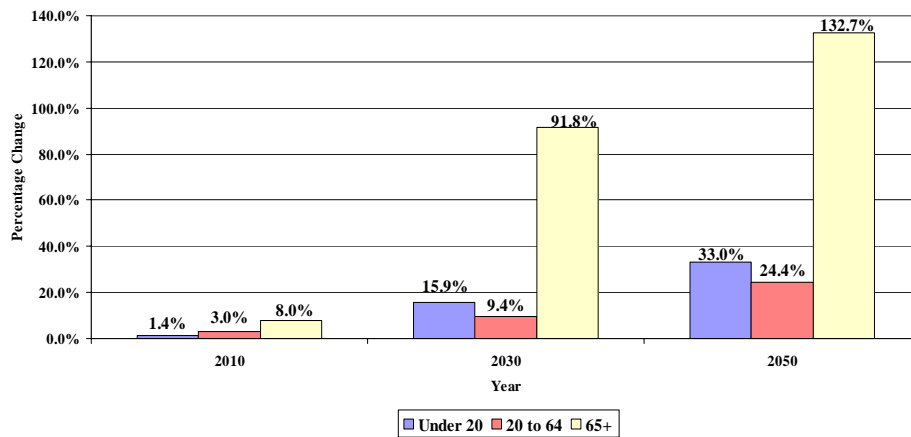
- Aging of the “baby boom” (the 78 million people born from 1946 to 1964)
- Lower birth rates after 1964
- Increasing life expectancy
  
- Result: the elderly population will grow faster than the number of children and the number of non-aged adults.

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## Population growth to 2050



Projected Percentage Change in U.S. Population, by Age, 2006 to 2050

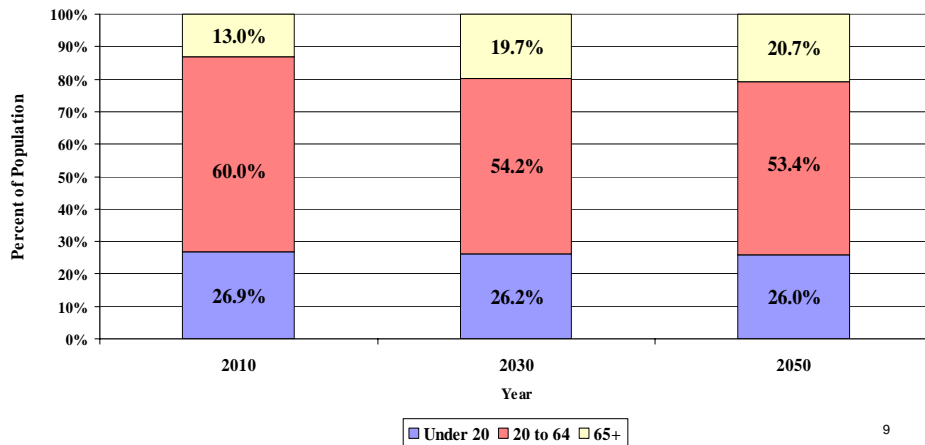


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**By 2030, 1 in 5 Americans will be 65 or older, the same as Florida today.**



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



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## 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).

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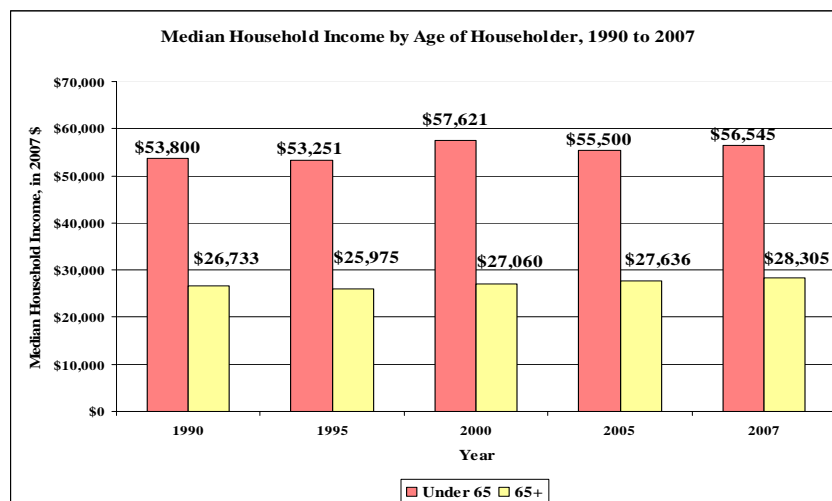
## Elderly households have lower median income than the nonelderly.



- 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.

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## Median income of elderly and nonelderly households 1990 to 2007.



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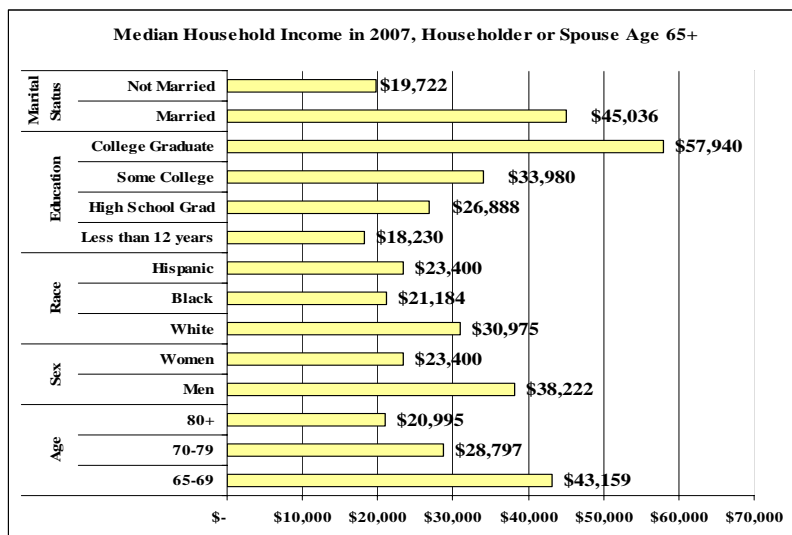
## Median Household Income



- 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.

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## Median Household Income



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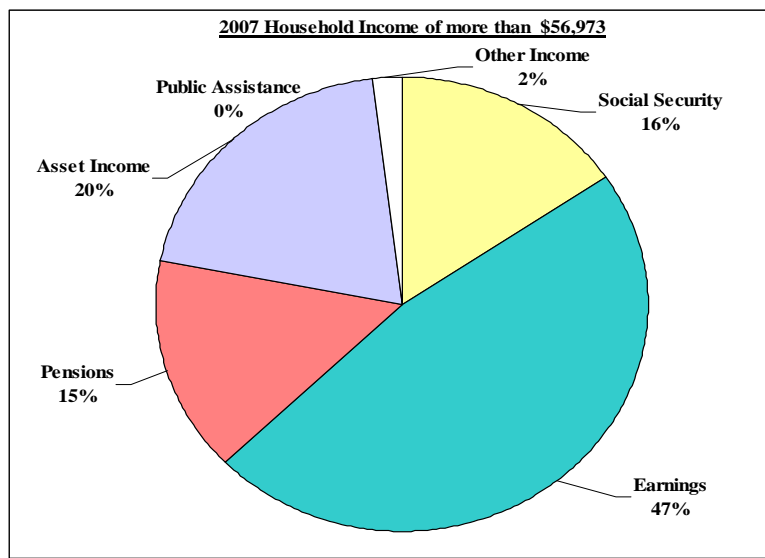
## Sources of Income vary with total household income.



- 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 receive most of their income from **Social Security**.

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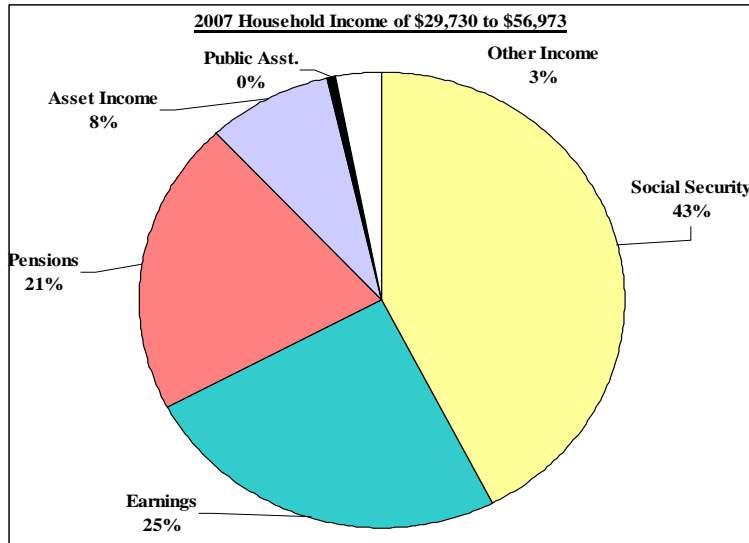
## The top income quartile gets 47% of income from earnings.



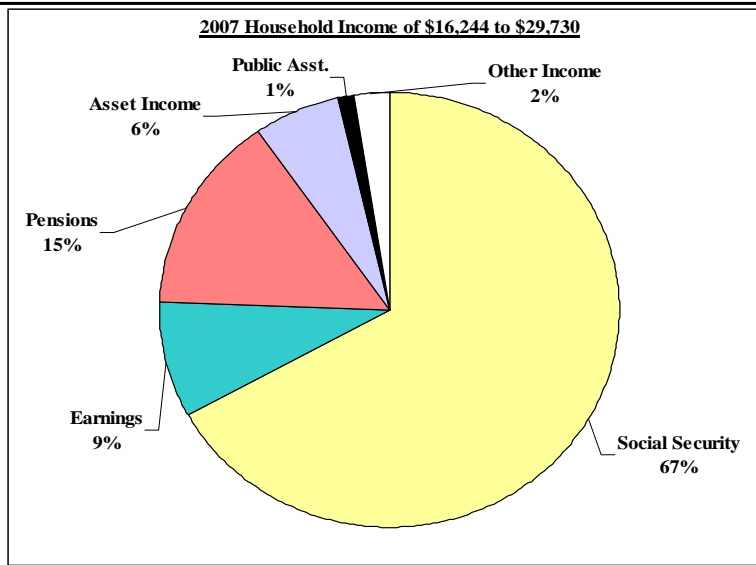
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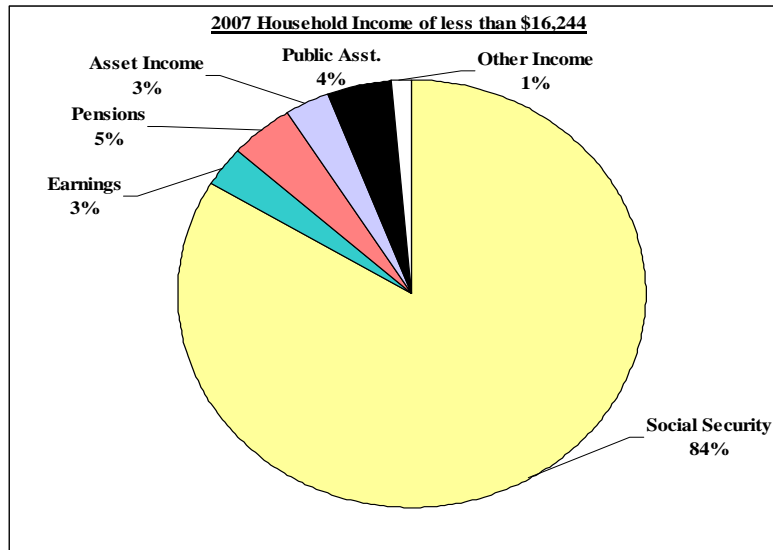
## The second quartile receives 25% of income from earnings.



## Elderly in the third quartile get 2/3 of total income from Social Security.



## Elderly in the 4<sup>th</sup> quartile get \$5 out of \$6 of income from Social Security.

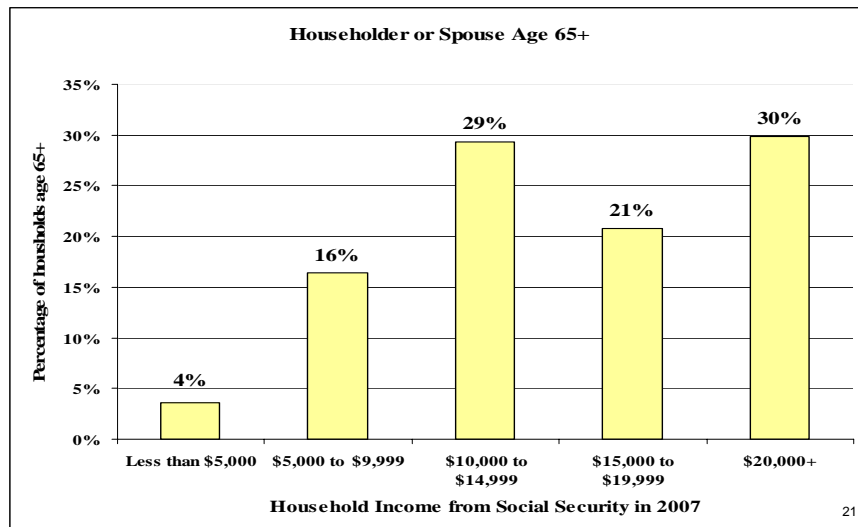


## Social Security Income



- 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.

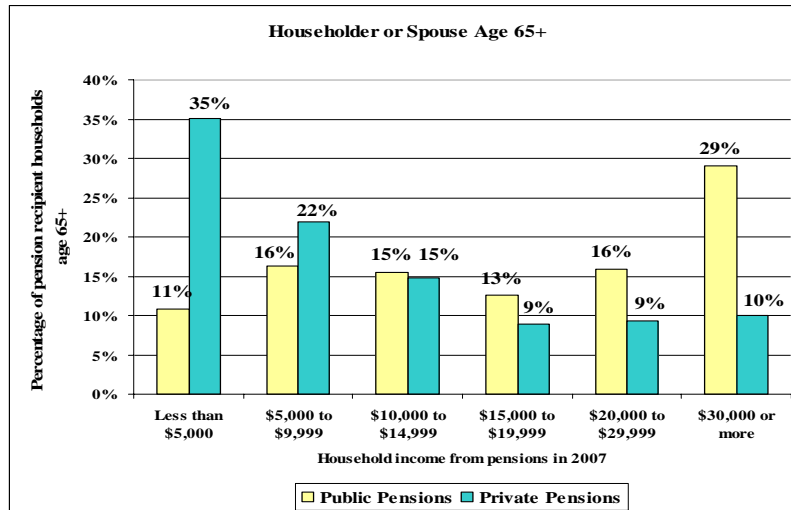


## Pension Income



- 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.



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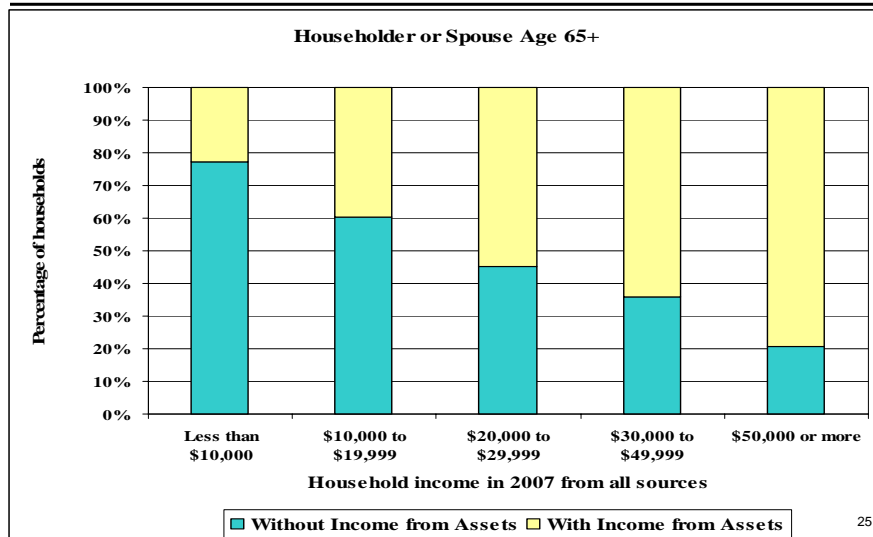
## Income from Assets



- 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**.

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## Receipt of Income from Assets rises with total household income.

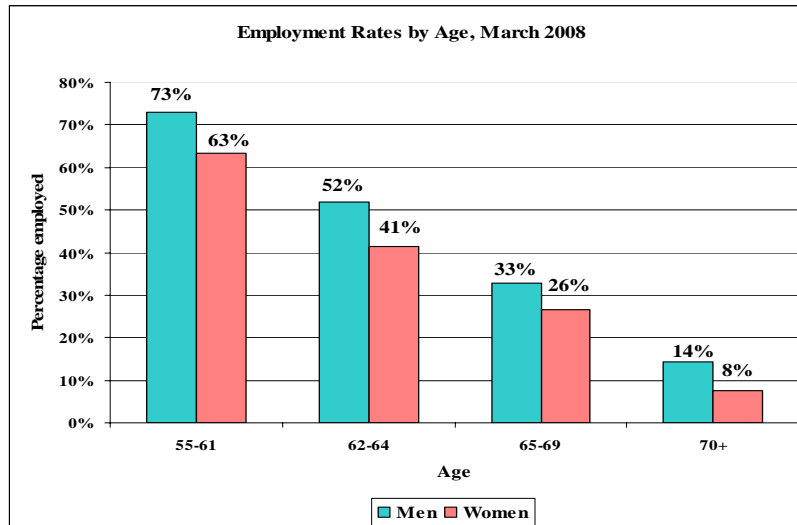


## Employment after Age 55



- 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



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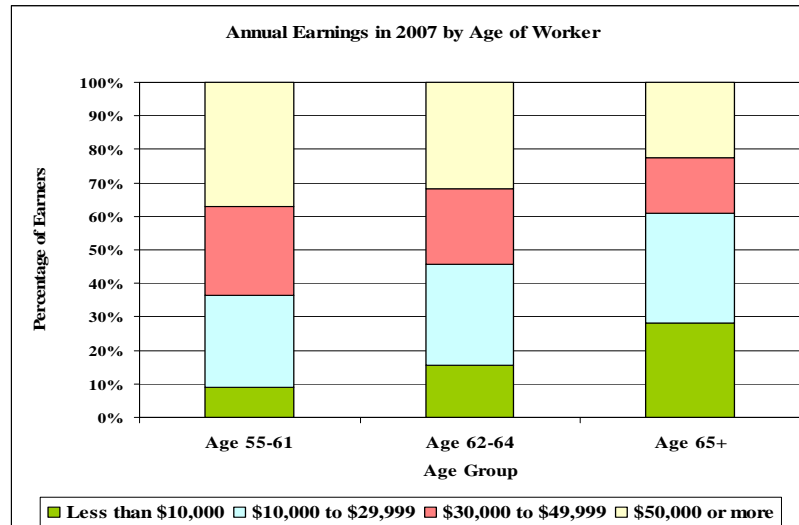
## The percentage of households with earnings falls sharply after age 65.



- **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.

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## Workers' total earnings decline with age due to lower wages, fewer hours.



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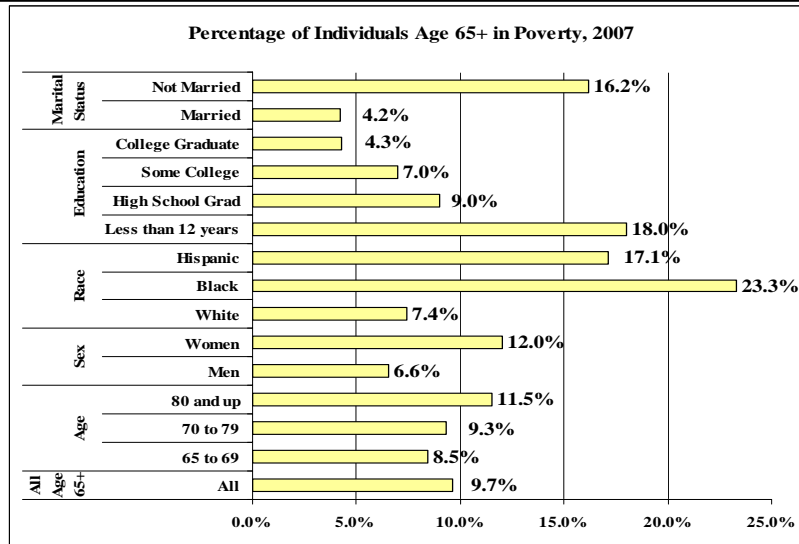
## Poverty Among the Elderly



- 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%**).

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## Elderly poverty rates remain high among some groups.



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## 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.

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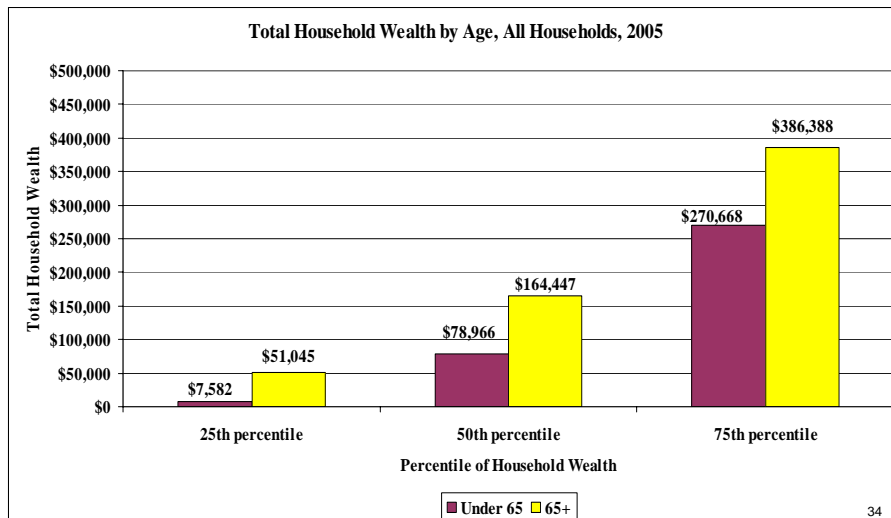
## What is “total wealth”?



- 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

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## Total Household Wealth is higher for the elderly than the nonelderly.



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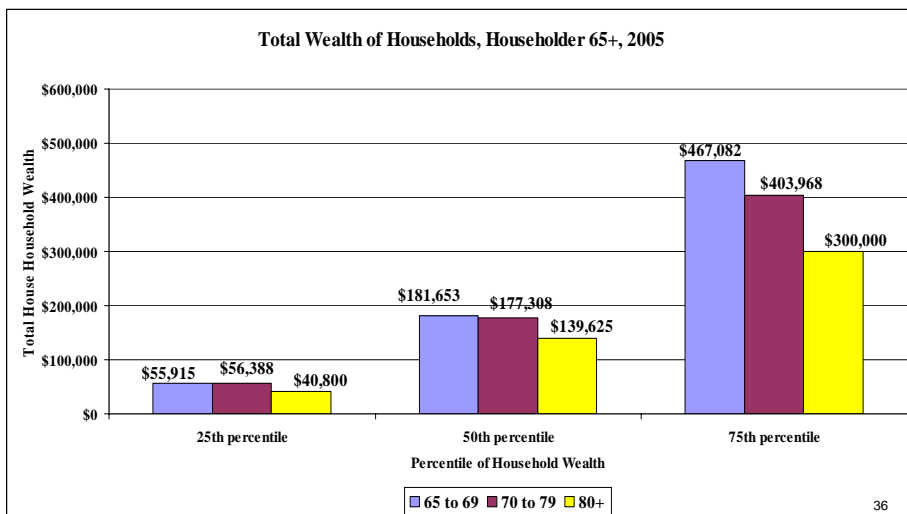
## Total Wealth of the Elderly



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

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## Total Wealth of the Elderly



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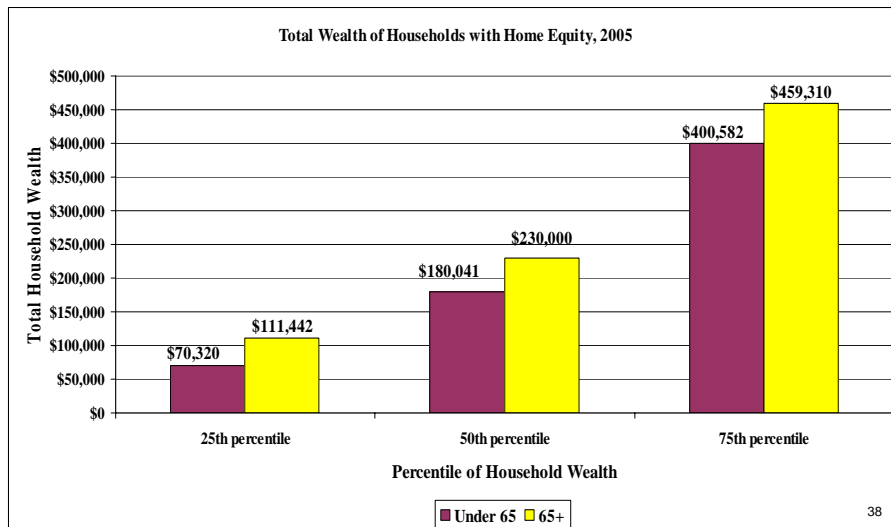
## Total wealth is higher among home owners.



- 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.

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## Total wealth of home owners



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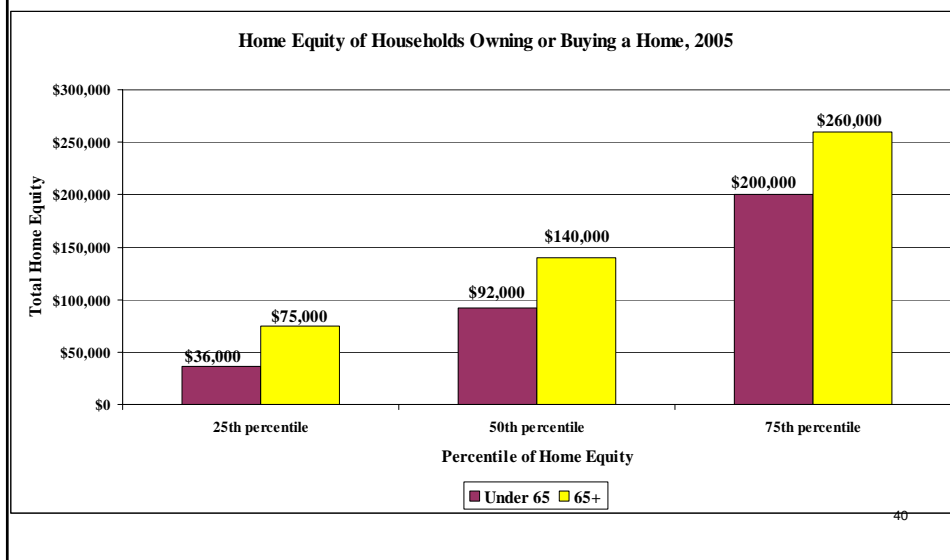
## Home equity in 2005



- Median home equity of home owners under age 65 was **\$92,000**.
- Median home equity of home owners 65 and older was **\$140,000**

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## Home equity is higher among elderly than nonelderly households.



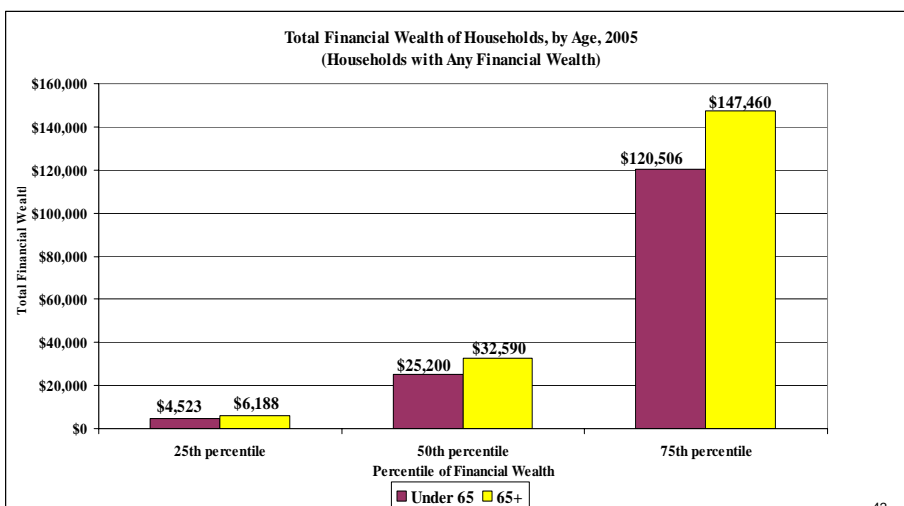
## Financial Wealth: Total wealth minus home equity



- **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**.

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## Financial Wealth of Households



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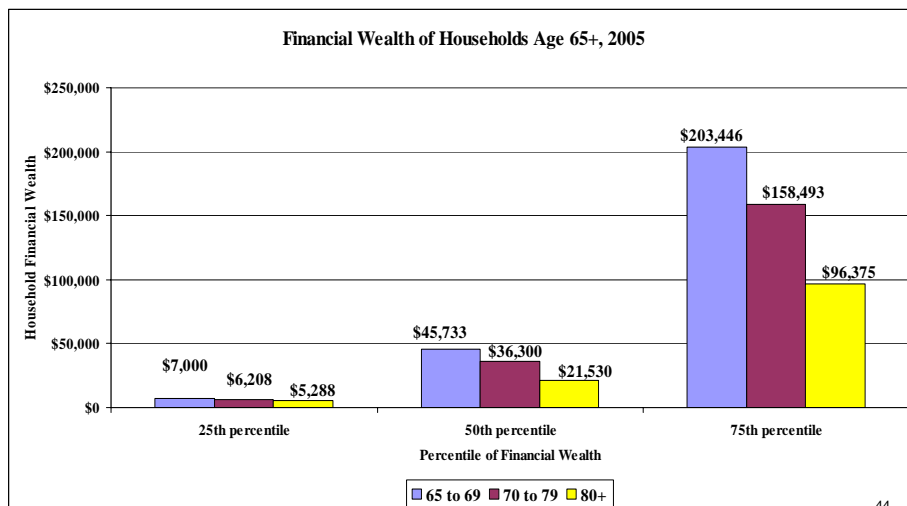
## Financial Wealth of the Elderly



- 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.

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## Financial Wealth of the Elderly



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## Retirement Account Balances



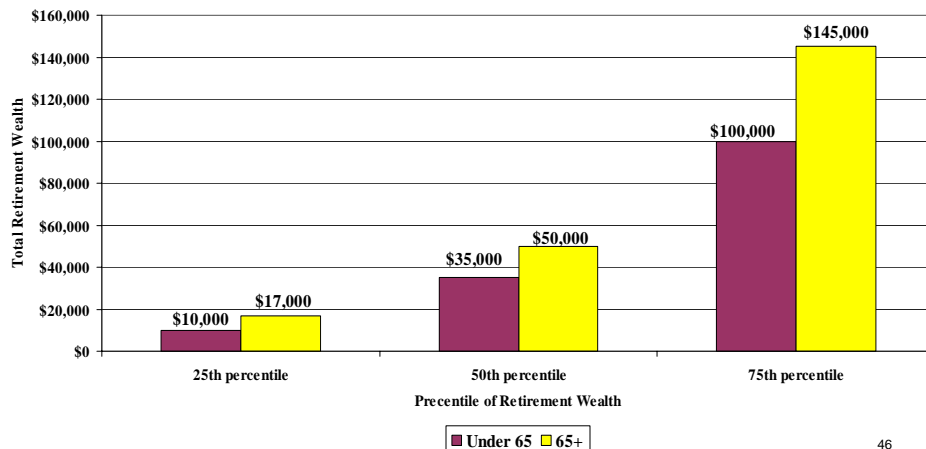
- **55%** of nonelderly households and **37%** of elderly households had a retirement account (IRA, Keogh, or 401(k) account) in 2005.
- In 2005, the median retirement account balance of **nonelderly** households with a retirement account was **\$35,000**.
- The median retirement account balance of **elderly**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

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## Retirement Account Balances



Retirement Account Balances, Households with One or More Accounts, 2005



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## Retirement Account Balances



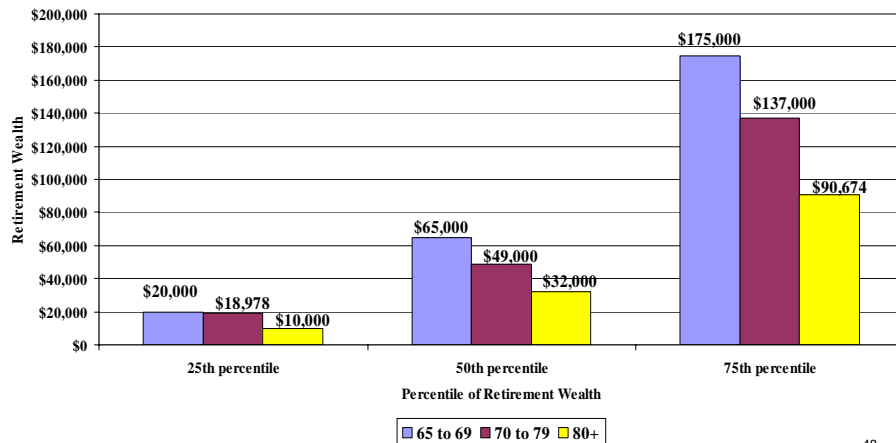
- Among the **37%** of elderly households that had an IRA, 401(k), or other retirement account, the median balance in 2005 was:
- **\$65,000** among households headed by persons aged 65 to 69,
- **\$49,000** among households headed by persons aged 70 to 79, and
- **\$32,000** in households headed by persons aged 80 and older.

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## Retirement Account Balances



Retirement Account Balances, Households Age 65+, 2005



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## 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.

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## 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.

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## 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.

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## 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

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## 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.

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## What can you do?



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## Income and Wealth of Older Americans

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