

CRS Report for Congress

Income and Poverty Among Older Americans in 2007

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Summary

Older Americans are an economically diverse group. In 2007, the median income of individuals aged 65 and older was \$17,382 but incomes varied widely around this average. One-fourth of Americans 65 or older had incomes of less than \$10,722 in 2007, while another one-fourth had incomes of \$32,160 or more. As Congress considers reforms to Social Security and the laws governing pensions and retirement savings plans, it may be helpful to examine how changes to one income source would affect each of the others, and thus the total income of older Americans.

Older persons receive income from a variety of sources, including earnings, pensions, personal savings, and public programs such as Social Security and Supplemental Security Income. Using data from the March 2008 *Current Population Survey*, this report describes the number of elderly individuals and households receiving income from each of these sources and the distribution of income across individuals and households.

Retirement benefits from Social Security and pensions are the most common sources of income among the aged. In 2007, Social Security paid benefits to 86% of individuals aged 65 and older and to 89% of households in which the householder or the householder's spouse was 65 or older. Social Security is also the largest single source of income among the aged. Sixty-nine percent of Social Security beneficiaries aged 65 or older received more than half of their income from Social Security in 2007. For 41% of elderly recipients and 29% of elderly households, Social Security accounted for more than 90% of total income in 2007. One-third of people aged 65 and older, and fewer than one-half of elderly households, received income from a private or public pension in 2007. Among individuals aged 65 or older who reported income from a government pension, median pension income was \$16,629. Among recipients of private pensions, the median pension received in 2007 was just \$7,200.

Many Americans prepare for retirement by saving and investing some of their income while they are working. Of the 36.8 million Americans aged 65 and older who were living in households in 2007, 18.9 million (51%) received income from assets, such as interest, dividends, rent, and royalties. Most received small amounts of income from the assets they owned. Of individuals aged 65 or older who received income from assets in 2007, half received less than \$1,585. Of households with a householder or spouse aged 65 or older, 57% percent received income from assets in 2007. Among these households, median income from assets in 2007 was \$2,254.

Earnings are an important source of income for older Americans, especially those under age 70. Although there was a trend toward earlier retirement from about 1960 to 1985, over the past 20 years more Americans have continued to work at older ages. In 2007, median earnings of individuals aged 55 to 64 who worked were \$37,000, while the median earnings of workers aged 65 to 69 were \$25,000. Among all workers 65 and older, median earnings in 2007 were \$20,000. Poverty among those aged 65 and older has fallen from one in three older persons in 1960 to less than one in ten today. Although the overall rate of poverty is relatively low, it remains high for women, minorities, the less-educated, and people over age 80.

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Income and Poverty Among Older Americans in 2007

Introduction

This report describes the income and poverty status of the 36.8 million Americans aged 65 and older who were living in households in 2007.¹ Older persons receive income from a variety of sources, including earnings, pensions, personal savings, and public programs such as Social Security and Supplemental Security Income. The substantial variation in the number of people receiving income from each source and the amounts they receive from each source are the main topics of this report. Using data from the March 2008 *Current Population Survey*, this report describes the number of elderly individuals and households receiving income from earnings, pensions, Social Security, assets, veterans' benefits, public assistance, and other sources. It also describes how the proportion of total income received from each source differs between high-income individuals and households and low-income individuals and households.

In addition to looking at sources and amounts of income, the report examines the income of the elderly relative to the federal poverty thresholds. In 2007, 9.7% of Americans 65 and older had family incomes below the federal poverty thresholds of \$9,944 for a single person and \$12,550 for a couple. The 2007 poverty rate for Americans 65 and older was lower than both the poverty rate for the population 18 to 64 years old (10.9%) and the poverty rate among children under age 18 (18.0%).²

Although income is an important measure of a person's economic well-being, it is not the only such measure, nor is it always the best one. Individuals with the same cash income may have significantly different levels of financial assets or other forms of wealth. Some own their own homes while others rent. Some receive non-cash benefits from their former employers, such as fully or partially paid health insurance, while others have to pay for health services or insurance out-of-pocket. The federal and state governments also provide many non-cash benefits and services such as Medicaid, Food Stamps, and the Low-Income Home Energy Assistance Program that improve the financial circumstances of lower-income families, but which do not show up in measures of cash income. Finally, some older Americans live with family members or receive considerable non-financial assistance from their families, while others live alone and pay someone to perform household chores or to provide personal care services. Even with these limitations, however, the amount of

¹ This number does not include approximately 1.6 million elderly who live in nursing homes.

² U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States, 2007*; P60-235, Table 3, p. 13, [<http://www.census.gov/prod/2008pubs/p60-235.pdf>].

income that older Americans receive is an important measure of their ability to purchase the goods and services that contribute to their economic well-being.

The Data

The findings in this report are based on data collected in the March 2008 *Current Population Survey (CPS)*, conducted by the Bureau of the Census. The March 2008 CPS consisted of interviews with approximately 75,900 households, comprising a representative sample of the civilian, non-institutionalized population of the United States. Each March, the survey includes detailed questions on sources and amounts of income received during the previous calendar year. The CPS is widely used by researchers in government, academia, and the private sector, and it is the source of the official statistics published annually by the Census Bureau on median family income, the number of Americans living in poverty, and the number of people without health insurance. Like any survey, the CPS is subject to error. *Sampling error* occurs if the households selected to participate in the survey are not representative of the population. *Non-sampling error* occurs if survey participants provide inaccurate information or if their responses are incorrectly recorded.

Individual Income and Household Income

Income figures in this report are shown both for individual persons and for households. Individuals are classified by the individual's age. One-person households are classified according to the age of the householder. Married-couple households are classified by the age of the older of the householder or the householder's spouse. This differs from the Census Bureau's methodology, which classifies households by the age of the householder. The methodology adopted by CRS has the advantage of including in the count of elderly households all households in which *either* the householder or the householder's spouse is 65 or older. The number of persons in poverty is based on the Census Bureau's poverty thresholds, the family's income, and the number of persons in the family.³

Median Individual and Household Income

In 2007, 96.5% of individuals aged 65 and older had income from one or more sources. The median total income of these individuals was \$17,382. (See **Table 1.**) Of all households in which either the householder or the householder's spouse (if present) was 65 or older, 98.9% had income from one or more sources, and the median income of these households was \$29,730. (See **Table 2.**) In general, because more than one member of a household may have income from one or more sources, elderly households were more likely to have income from each source, and had greater income from each source, than elderly individuals. For example, 34.7% of households in which the householder or householder's spouse was 65 or older had income from earnings, and the median earnings of those households were \$30,000. In contrast, just 19.7% of individuals aged 65 or older had income from earnings in

³ Family income differs from household income in households in which more than one family resides or in which a family resides with other unrelated individuals.

2007, and the median earned income of these individuals was \$20,000. Because most individuals aged 65 and older receive Social Security, the proportion of elderly households that had income from Social Security in 2007 was only slightly higher than the percentage of elderly individuals with Social Security income. Eighty-nine percent of households in which the householder or householder's spouse was 65 or older had income from Social Security, as did 86% of individuals aged 65 or older. However, the median Social Security income of elderly households that received Social Security was 26% greater than the Social Security income of individual recipients. Median household Social Security income was \$15,012, while median individual Social Security income was \$11,922.

Elderly households also were more likely than elderly individuals to have received income from private pensions, public pensions, and assets. In 2007, 14.5% of households in which the householder or householder's spouse was 65 or older received income from public-sector pensions, compared to 10.9% of individuals aged 65 and older. Elderly households with public-sector pension income had median pension income of \$17,400, compared to \$16,629 among elderly individuals with public pension income. Thirty percent of households in which the householder or householder's spouse was 65 or older received income from private-sector pensions, compared to 23% of individuals aged 65 and older. Elderly households with private-sector pension income had median pension income of \$8,052, compared to \$7,200 among elderly individuals with private pension income. Fifty-seven percent of elderly households had income from assets (mainly interest, dividends, and rent) in 2007 compared to 53.5% of individuals aged 65 and older. Among elderly households with asset income, the median amount of asset income was \$2,254, whereas among elderly individuals with asset income, the median amount of asset income was \$1,585.

Relatively few elderly individuals and households received income from veterans' benefits, public assistance, or other income sources in 2007. Just 3.8% of elderly households and 2.7% of elderly individuals received income from veterans' benefits, which consist mainly of veteran's compensation for service-related disabilities and veterans' pensions for indigent elderly veterans. Among elderly households that received income from veterans' programs, the median amount received in 2007 was \$9,000; among elderly individuals with income from veterans' benefits, the median amount received in 2007 was \$8,400.

In 2007, 4.8% of elderly households and 3.3% of elderly individuals received income from public assistance, which consists mainly of Supplemental Security Income, Temporary Assistance for Needy Families, and state general assistance. Among elderly households that received income from public assistance programs, the median amount received in 2007 was \$5,376; among elderly individuals with income from public assistance, the median amount received in 2007 was \$4,776.

In 2007, 5.4% of elderly households and 3.2% of elderly individuals received income from other sources, including unemployment compensation, workers' compensation, and other unidentified sources. Among elderly households that received income from these sources, the median amount received in 2007 was \$4,800; among elderly individuals with income from other sources, the median amount received in 2007 was \$4,000.

**Table 1. Percentage of Older Individuals with Income in 2007,
Mean and Median Amounts, by Source**

	Age					
	Total, 55+	55 to 64	Total, 65+	65 to 69	70 to 79	80+
Total individuals (in thousands)	70,092	33,302	36,790	11,165	15,776	9,849
Percentage reporting no income	5.0	6.5	3.5	3.7	3.6	3.3
Total income						
Percentage with any income	95.0	93.5	96.5	96.3	96.4	96.7
Mean total income (\$)	36,754	46,223	28,449	35,823	26,627	23,033
Median total income (\$)	22,800	33,000	17,382	21,841	16,722	15,648
Earnings						
Percentage with earnings	42.8	68.4	19.7	35.1	17.3	6.0
Mean earnings (\$)	46,088	49,422	35,591	39,485	29,849	36,225
Median earnings (\$)	33,000	37,000	20,000	25,000	15,600	18,200
Social Security						
Percentage with Social Security	53.0	16.8	85.8	78.1	88.5	90.1
Mean Social Security (\$)	12,014	11,425	12,119	12,273	11,934	12,260
Median Social Security (\$)	11,802	10,722	11,922	11,922	11,802	11,922
Public pensions						
Percentage with public pensions	8.7	6.4	10.9	10.9	11.0	10.6
Mean public pension (\$)	23,531	26,445	21,991	25,231	21,904	18,358
Median public pension (\$)	18,000	22,000	16,629	19,200	17,000	14,400
Private pensions or annuities						
Percentage with private pensions	15.9	8.3	22.8	19.6	23.7	24.8
Mean private pension (\$)	12,809	16,475	11,605	14,137	11,088	10,135
Median private pension (\$)	8,388	12,000	7,200	9,500	7,200	6,288
Income from assets						
Percentage with asset income	52.4	53.5	51.3	52.3	51.8	49.7
Mean asset income (\$)	7,366	6,413	8,265	9,120	8,128	7,473
Median asset income (\$)	1,301	1,011	1,585	1,601	1,800	1,375
Veterans' benefits						
Percentage with veterans' benefits	2.5	2.4	2.7	2.1	2.2	4.1
Mean veterans' benefit (\$)	11,880	12,579	11,322	11,558	12,494	10,160
Median veterans' benefit (\$)	8,532	8,544	8,400	8,532	10,248	6,480
Public assistance^a						
Percentage with public assistance	3.2	3.2	3.3	3.3	3.0	3.5
Mean public assistance (\$)	6,174	7,105	5,335	5,650	5,108	5,311
Median public assistance (\$)	6,120	7,440	4,776	4,800	4,416	4,800
Other income^b						
Percentage with other income	4.2	5.4	3.2	3.5	3.2	2.8
Mean other income (\$)	8,421	8,319	8,576	9,010	8,255	8,550
Median other income (\$)	4,344	4,400	4,000	3,588	3,984	4,800

Source: Congressional Research Service (CRS) analysis of the March 2008 *Current Population Survey*.

a. Includes Supplemental Security Income, Temporary Assistance for Needy Families, and state general assistance.

b. Includes unemployment compensation, workers' compensation, and income from unidentified sources.

**Table 2. Percentage of Older Households with Income in 2007,
Mean and Median Amounts, by Source**

	Age					
	Total, 55+	55 to 64	Total, 65+	65 to 69	70 to 79	80+
Total households (in thousands)	46,185	20,702	25,483	7,164	10,847	7,472
Percentage reporting no income	1.2	1.2	1.1	1.1	1.1	1.1
Total income						
Percentage with any income	98.8	98.8	98.9	98.9	98.9	98.9
Mean total income (\$)	61,393	79,521	46,682	62,193	45,365	33,719
Median total income (\$)	40,689	60,491	29,730	42,214	30,522	21,928
Earnings						
Percentage with earnings	56.4	83.1	34.7	56.2	33.7	15.4
Mean earnings (\$)	66,262	76,455	46,417	54,967	39,135	39,679
Median earnings (\$)	49,000	60,000	30,000	38,000	25,000	24,513
Social Security						
Percentage with Social Security	59.0	22.4	88.8	80.4	91.5	92.9
Mean Social Security (\$)	16,017	13,513	16,530	16,362	17,265	15,619
Median Social Security (\$)	14,400	12,072	15,012	15,282	15,600	14,022
Public pensions						
Percentage with public pensions	12.0	8.8	14.5	14.5	15.5	13.2
Mean public pension (\$)	25,778	29,260	24,054	27,139	24,704	19,706
Median public pension (\$)	19,960	24,000	17,400	19,800	19,200	14,400
Private pensions or annuities						
Percentage with private pensions	22.1	12.1	30.2	27.1	32.1	30.7
Mean private pension (\$)	13,895	17,362	12,771	15,461	12,520	10,877
Median private pension (\$)	8,940	12,000	8,052	10,000	8,272	6,900
Income from assets						
Percentage with asset income	57.8	59.0	56.8	57.0	57.4	55.8
Mean asset income (\$)	10,639	9,184	11,869	13,970	11,826	9,871
Median asset income (\$)	2,000	1,600	2,254	2,400	2,490	1,928
Veterans' benefits						
Percentage with veterans' benefits	3.8	3.7	3.8	3.5	3.3	5.0
Mean veterans' benefit (\$)	12,147	12,866	11,579	11,238	12,583	10,841
Median veterans' benefit (\$)	8,544	8,400	9,000	7,200	10,248	7,740
Public assistance^a						
Percentage with public assistance	5.1	5.6	4.8	4.9	4.9	4.5
Mean public assistance (\$)	6,748	7,362	6,163	6,452	5,984	6,144
Median public assistance (\$)	6,600	7,284	5,376	5,400	4,800	6,000
Other income^b						
Percentage with other income	7.4	9.9	5.4	6.6	5.3	4.5
Mean other income (\$)	8,346	7,810	9,144	9,437	8,714	9,467
Median other income (\$)	4,480	4,344	4,800	4,140	4,200	6,000

Source: Congressional Research Service (CRS) analysis of the March 2008 *Current Population Survey*.

Note: Households are grouped according to the age of the older of the householder or householder's spouse.

a. Includes Supplemental Security Income, Temporary Assistance for Needy Families, and state general assistance.

b. Includes unemployment compensation, workers' compensation, and income from unidentified sources.

Sources of Income by Income Quartile

Figures 1 through 4 show the percentage of total income from each source received by all individuals aged 65 and older with any income in 2007. For example, **Figure 1** shows that among individuals with total income in the highest 25% among all persons aged 65 and older — those with 2007 income of more than \$32,160 — 37% of total income came from earnings, 21% of income came from pensions, 21% of income came from assets, 19% of income came from Social Security, less than 1% of income came from public assistance, and 2% came from other sources. Thus, among elderly individuals in the highest income quartile, 79% of total income came from earnings, pensions, and assets.

In contrast, among elderly individuals whose income in 2007 was in the lowest income quartile for people 65 and older — those with income of less than \$10,722 — 2% of all income came from earnings, 3% of income came from pensions, 4% of income came from assets, 84% of income came from Social Security, 6% came from public assistance, and 1% came from other sources. (See **Figure 4**.) Among individuals in the lowest income quartile, just 9% of total income came from earnings, pensions, and assets. **Figure 2** and **Figure 3** show that Social Security comprised 55% and 83%, respectively, of income received by individuals aged 65 and older in the second and third income quartiles in 2007.

Figures 5 through 8 show the percentage of total income from each source received by all elderly households with any income in 2007. For example, **Figure 5** shows that among elderly households with total income in the highest 25% among all households in which either the householder or householder's spouse was 65 or older — those with 2007 income of more than \$56,973 — 47% of all income came from earnings, 15% of income came from pensions, 20% of income came from assets, 16% of income came from Social Security, less than 1% of income came from public assistance, and 2% came from other sources. Thus, among elderly households in the highest income quartile, 82% of total income came from earnings, pensions, and assets.

In contrast, among elderly households whose income in 2007 was in the lowest income quartile for households in which the householder or spouse was 65 or older — those with income of less than \$16,244 — 3% of all income came from earnings, 5% of income came from pensions, 3% of income came from assets, 84% of income came from Social Security, 4% came from public assistance, and 1% came from other sources. (See **Figure 8**.) Among households in the lowest income quartile, 11% of total income came from earnings, pensions, and assets. **Figure 6** and **Figure 7** show that Social Security comprised 43% and 67%, respectively, of income received by elderly households in the second and third income quartiles in 2007.

Figure 1. Sources of Individual Income, Top Quartile, Age 65+

2007 Individual Income of More Than \$32,160

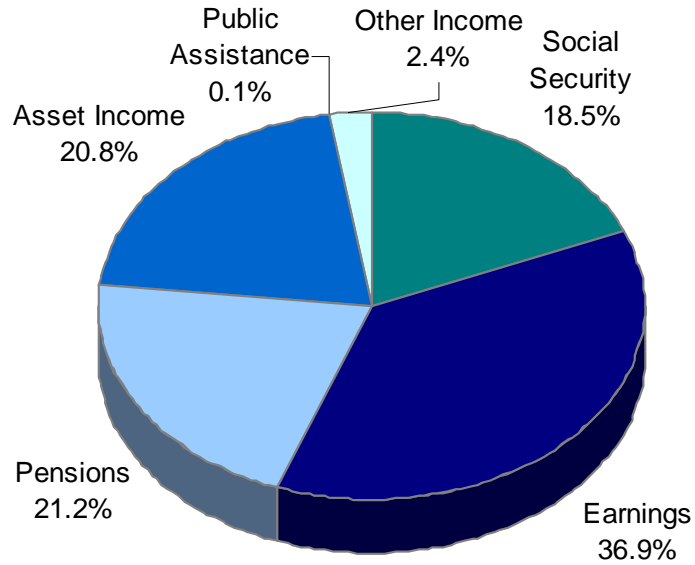
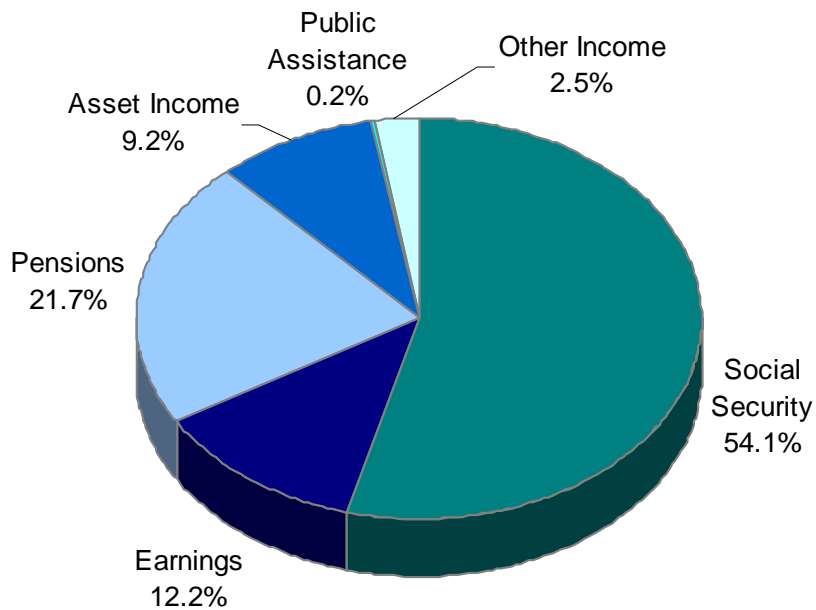


Figure 2. Sources of Individual Income, Second Quartile, Age 65+

2007 Individual Income of \$17,382 to \$32,160



Source: Both figures from CRS analysis of the March 2008 *Current Population Survey*.

Figure 3. Sources of Individual Income, Third Quartile, Age 65+

2007 Individual Income of \$10,722 to \$17,382

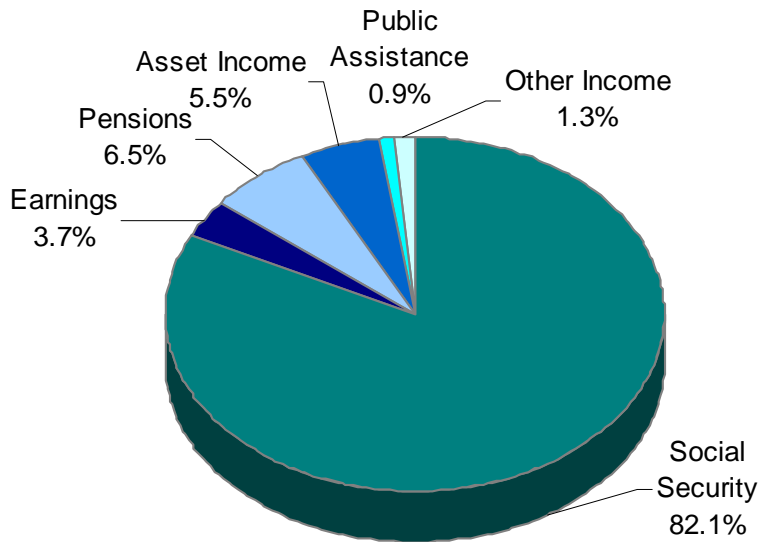
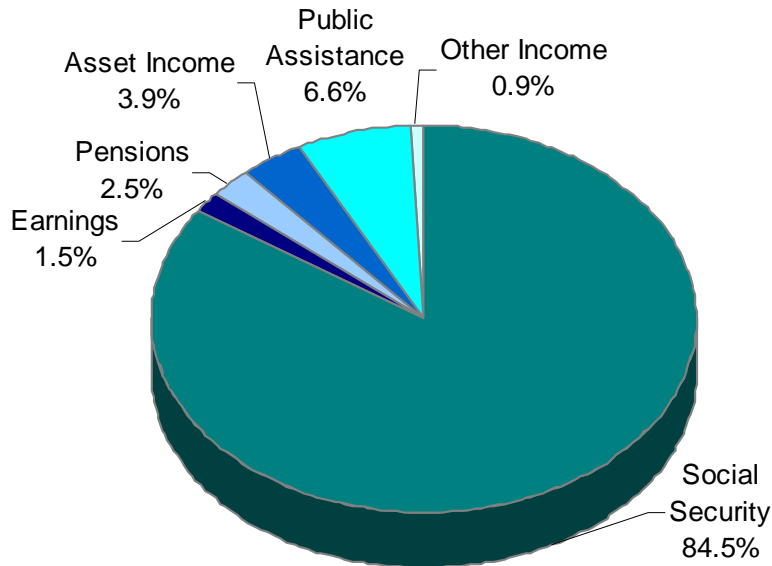


Figure 4. Sources of Individual Income, Bottom Quartile, Age 65+

2007 Individual Income of Less Than \$10,722



Source: Both figures from CRS analysis of the March 2008 *Current Population Survey*.

Figure 5. Sources of Household Income, Top Quartile, Age 65+

2007 Household Income of More Than \$56,973

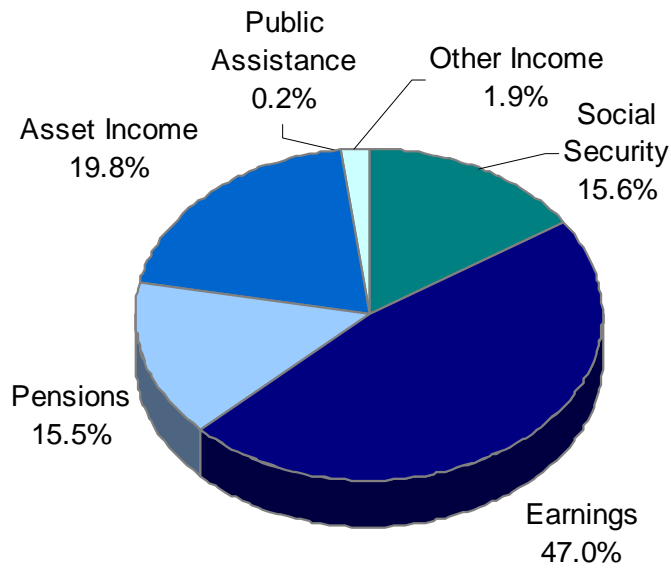
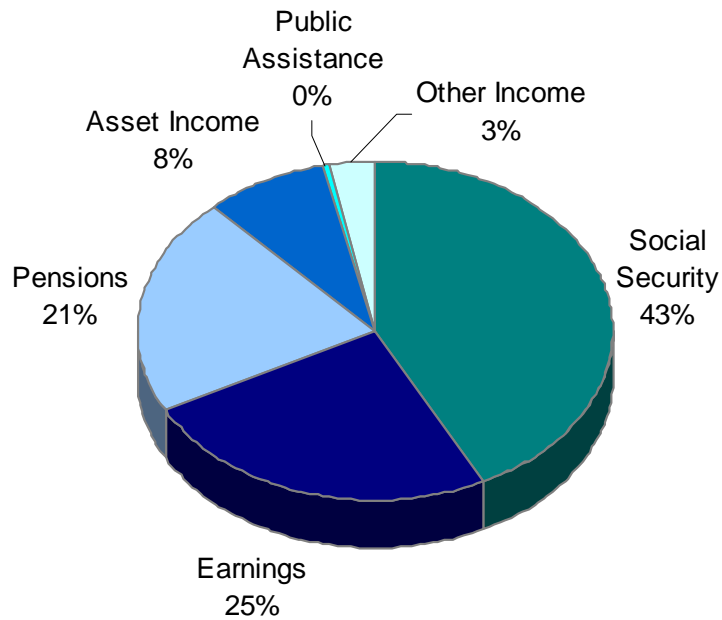


Figure 6. Sources of Household Income, Second Quartile, Age 65+

2007 Household Income of \$29,730 to \$56,973



Source: Both figures from CRS analysis of the March 2008 *Current Population Survey*.

Figure 7. Sources of Household Income, Third Quartile, Age 65+

2007 Household Income of \$16,244 to \$29,730

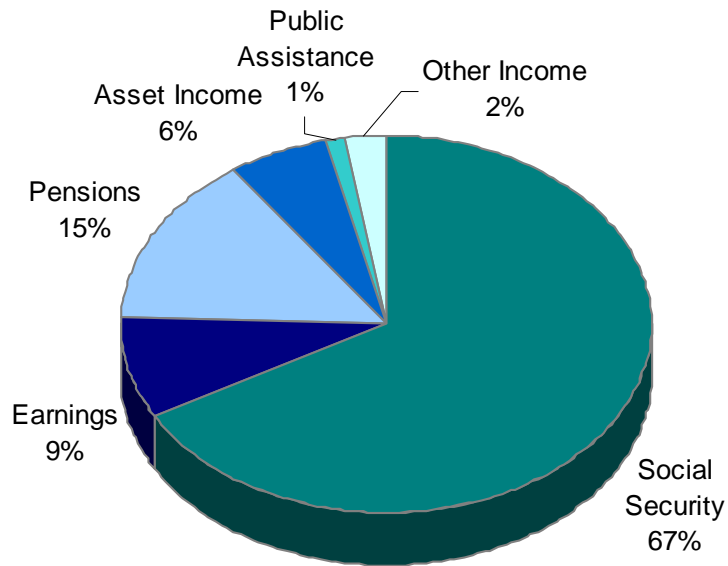
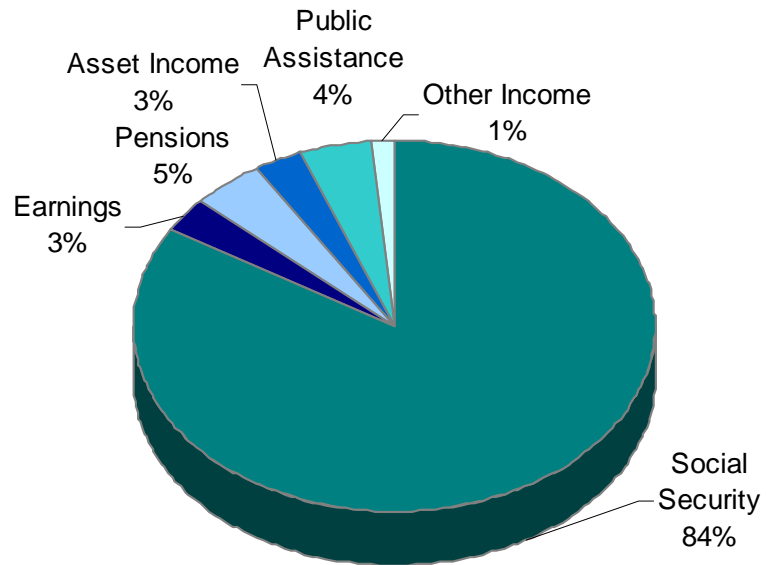


Figure 8. Sources of Household Income, Bottom Quartile, Age 65+

2007 Household Income of Less Than \$16,244



Source: Both figures from CRS analysis of the March 2008 *Current Population Survey*.

Median Individual and Household Income by Demographic Characteristics

Income received by the elderly varies significantly by age, sex, race, education and marital status. **Figure 9** shows that in 2007, individuals between the ages of 65 and 69 had a median income of \$21,841 while those who were 80 or older had a median income of \$15,648. Men 65 and older had a median income of \$24,142, while women 65 and older had a median income of \$13,877. The median income of older African Americans, \$13,104, was 71% of the median income of older white Americans — \$18,537. The median income of older Americans increases substantially with their educational level. Those without high-school diplomas had a median income of \$12,200 in 2007, whereas college graduates had a median income of \$34,593. The median income of married individuals aged 65 and older — \$18,448 — was \$2,026 higher than the median income of single individuals aged 65 and older.

Figure 10 shows the median income of households in which either the householder or the householder's spouse was aged 65 or older.⁴ In 2007, the median income of households in which the householder was between the ages of 65 and 69 was \$43,159. Households in which the householder was 80 or older had a median income of \$20,995. Elderly households with a male householder had a median income of \$38,222, while households with a female householder had a median income of \$23,400. The median income of elderly households in which the householder was African American was \$21,184, just 68% of the median income of elderly households with a white householder. Elderly households in which the householder did not have a high-school diploma had a median income of \$18,230 in 2007, while elderly households headed by a college graduate had a median income of \$57,940. The median income of married-couple households with a householder or spouse aged 65 or older was \$45,036 in 2007, more than twice the median income of elderly households in which the householder was not married (\$19,722).

⁴ In Figure 10, the demographic traits are those of the individual who was designated as the householder on the CPS.

Figure 9. Median Individual Income by Demographic Traits, 2007

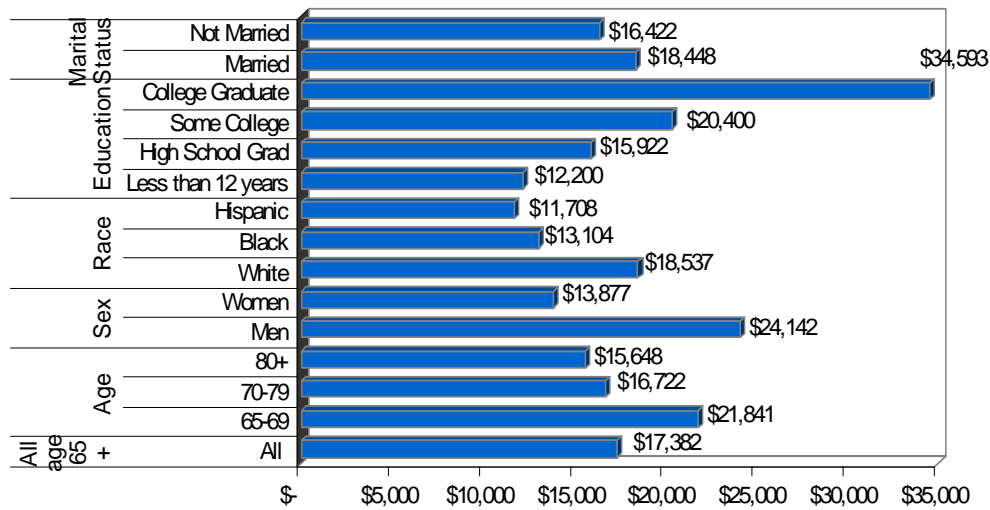
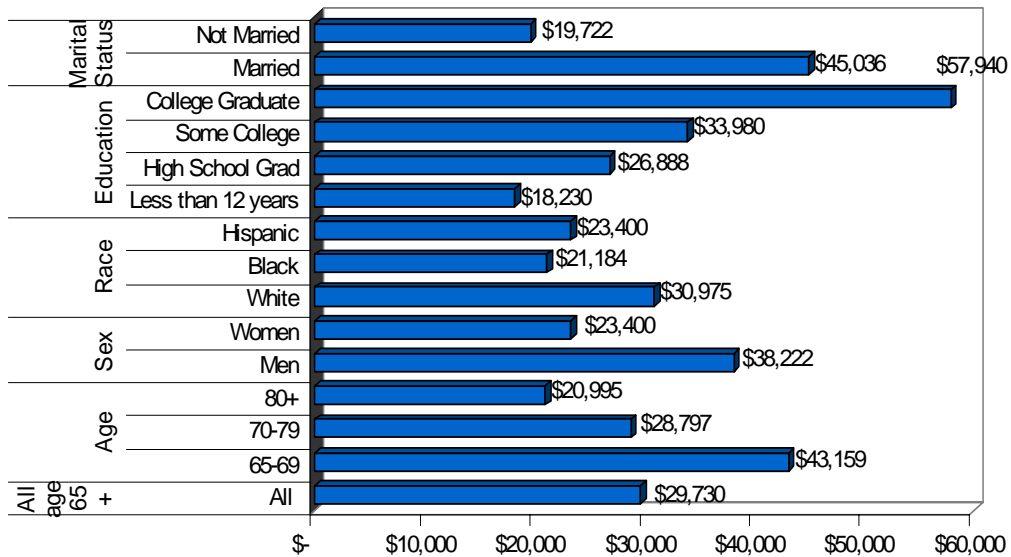


Figure 10. Median Household Income by Demographic Traits of Householder, 2007



Source: Both figures from CRS analysis of the March 2008 *Current Population Survey*.

Income from Retirement Benefits

Social Security

Retirement benefits from Social Security are the most common source of income among Americans aged 65 and older. In 2007, Social Security paid benefits to 86% of individuals aged 65 and older and to 89% of households in which the householder or householder's spouse was 65 or older. Social Security is the largest single source of income among the aged. In 2007, 68.5% of Social Security beneficiaries aged 65 or older received more than half of their income from Social Security, and 59.3% of elderly households that received Social Security benefits received more than half of their total household income from Social Security. (See **Table 3** and **Table 4**.)

For 40.6% of elderly individual recipients, Social Security accounted for more than 90% of their income in 2007. Among elderly households receiving Social Security, 29% received 90% or more of their total household income from Social Security. Although Social Security is an important source of income for a majority of the elderly, the benefit amounts paid by Social Security are relatively small compared with many recipients' pre-retirement incomes. According to the Social Security Administration, Social Security retired worker benefits replace approximately 55% of the earnings of a career-long low-wage earner, 41% of the earnings of a career-long average-wage earner, and 27% of the earnings of a career-long high-wage earner.

Average monthly Social Security benefits in 2008 are \$1,079 for a retired worker and \$1,761 for an elderly couple. As **Figure 11** shows, 37% of all individual beneficiaries received less than \$10,000 from Social Security in 2007, and just 7% received more than \$20,000 in Social Security benefits. Because many elderly households have more than one beneficiary, the amount of Social Security benefits received by households with at least one beneficiary is higher than the amount received by individual recipients. In 2007, 20% of elderly beneficiary households received less than \$10,000 from Social Security, while 30% of households received Social Security benefits totaling more than \$20,000. (See **Figure 12**.)

Table 3. Social Security as a Percentage of Individual Income Among Recipients Aged 65 and Older in 2007

Percent of Income from Social Security	Recipients (thousands)	Percent of Recipients
Less than 10%	894	2.8
10% to 19%	2,057	6.5
20% to 29%	2,138	6.8
30% to 39%	2,289	7.2
40% to 49%	2,574	8.2
50% to 59%	2,487	7.9
60% to 69%	2,150	6.8
70% to 79%	1,992	6.3
80% to 89%	2,162	6.9
90% to 99%	3,992	12.6
100% of income	8,820	28.0

Source: CRS analysis of the March 2008 *Current Population Survey*.

Note: In 2007, 31.6 million people aged 65 or older received income from Social Security, and 5.2 million elderly people had no Social Security income.

Table 4. Social Security as a Percentage of Household Income Among Recipient Households of Those Aged 65 and Older in 2007

Percent of Income from Social Security	Households (thousands)	Percent of Households
Less than 10%	799	3.7
10% to 19%	2,044	9.5
20% to 29%	2,054	9.5
30% to 39%	1,965	9.1
40% to 49%	1,919	8.9
50% to 59%	1,943	9.0
60% to 69%	1,742	8.0
70% to 79%	1,477	6.8
80% to 89%	1,466	6.8
90% to 99%	2,260	10.5
100% of income	3,932	18.2

Source: CRS analysis of the March 2008 *Current Population Survey*.

Note: In 2007, 21.6 million households in which the householder or the household's spouse was 65 or older received Social Security, and 3.9 million elderly households had no Social Security income.

Figure 11. Social Security Income of Individuals Aged 65+, 2007

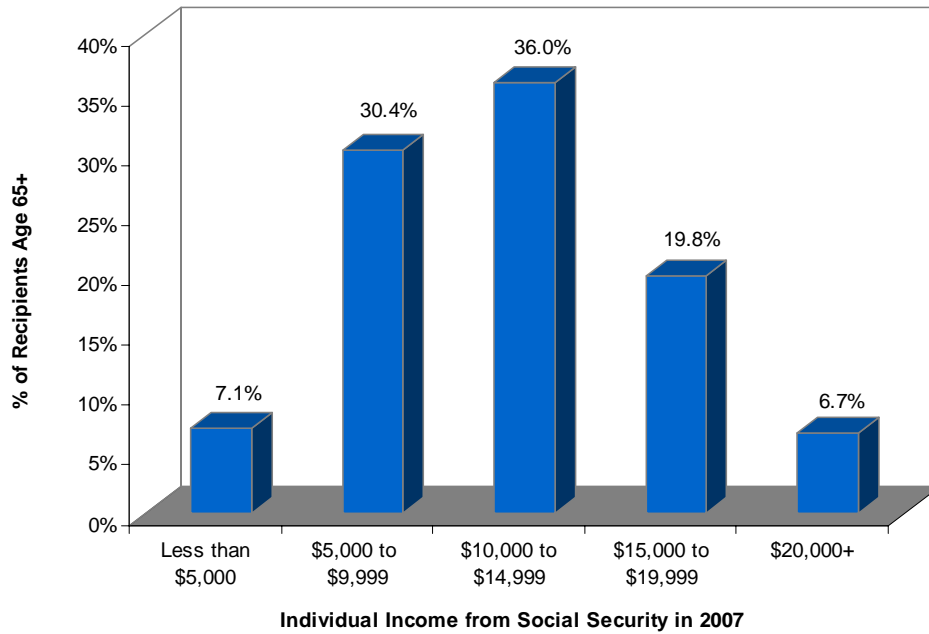
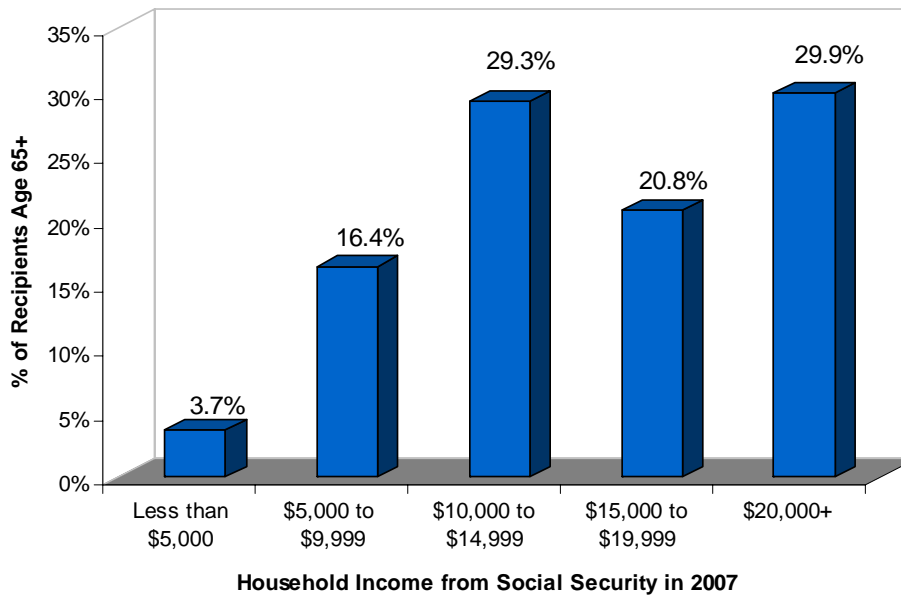


Figure 12. Social Security Income of Households Aged 65+, 2007



Source: CRS analysis of the March 2008 *Current Population Survey*.

Pension Income

Since the late 1970s, the proportion of American workers who participate in employer-sponsored retirement plans has remained fairly stable at about half of the workforce. The Department of Labor's *National Compensation Survey* reports that in March 2008, 51% of all private-sector workers participated in an employer-sponsored retirement plan of some kind. However, a point-in-time snapshot of pension participation is a poor indicator of who will receive pension income in retirement. Some workers not covered by a pension plan today may have earned a pension at a previous job, or they may earn a pension benefit in the future. Others who are currently participating in a pension plan may never fully vest in their pension benefit, or they might take their accrued benefit as a lump sum before retirement and spend all or part of the distribution.

To receive pension income in retirement, an individual must remain a participant in the plan long enough to earn a pension benefit and must not spend the accrued benefit before retirement. In 1986, Congress shortened the maximum vesting period (the length of time it takes to earn a pension benefit) from 10 years to 5 years, thus making it easier for employees whose employer sponsors a pension to earn a benefit under the plan.⁵ On the other hand, many employers offer separating employees the opportunity to take their accrued retirement benefit as a lump-sum distribution. Most defined contribution plans, such as those authorized under §401(k) of the Internal Revenue Code, and some defined benefit plans permit departing employees to take a lump-sum distribution. Many employees roll these distributions into another employer-sponsored retirement plan or into an individual retirement account, but some spend all or part of the distribution, thus reducing their future retirement income.⁶

In 2007, 12.1 million people aged 65 and older — 34.7% of that age group — received income from a private or public pension.⁷ Of these people, 4.0 million had income from a public-sector pension — that is, from previous employment in the federal, state, or local government — and 8.4 million received income from private-sector pension plans.⁸ Together, the federal, state, and local governments account for only about one-seventh of all jobs in the United States. In 2007, for example, just 14% of all workers in the United States were employed by the federal, state, and local

⁵ *Tax Reform Act of 1986*, P.L. 99-514. The *Pension Protection Act of 2006* (P.L. 109-280) further reduced the maximum vesting period in many plans to three years.

⁶ See CRS Report RL30496, *Pension Issues: Lump-Sum Distributions and Retirement Income Security*, by Patrick Purcell.

⁷ As reported here, “pension income” includes payments from a company or union pension, payments from a federal, state, or local government pension, military retirement pay, regular payments from an annuity or paid-up insurance policy, and regular payments from an IRA, Keogh account, or a §401(k)-type account. As defined on the CPS, pension income does not include lump-sum distributions from pension plans. To the extent that individuals receive lump-sum distributions from plans and later draw on those amounts to supplement their income, the CPS understates individual and household income from pension plans.

⁸ These numbers sum to 12.4 million. About 300,000 people had both types of pension.

governments. Nevertheless, *one-third* of pension recipients aged 65 and older received income from government-sponsored pension plans in 2007.

The disparity between the percentage of jobs that are in the government sector and the percentage of retirees with government pensions is accounted for mainly by two factors, both of which make it more likely that a government employee will earn a pension benefit than will a worker in the private sector. First, more government jobs than private-sector jobs offer pension benefits to their employees. According to the Department of Labor, in March 2008, 89% of state and local government employees worked at jobs that offered retirement benefits, compared to 61% of employees in the private sector. Second, government employees tend to stay in their jobs longer than private-sector workers, making it more likely that the government employee will fully vest in the pension benefits he or she has earned. The Department of Labor reports that in January 2008, the median tenure of government workers with their current employer was double the median tenure of workers in the private sector. Public-sector employees had a median tenure of 7.2 years, while private-sector workers had a median tenure of 3.6 years.⁹

Public-sector employees not only are more likely to receive a pension in retirement than are workers in the private-sector; they also receive larger pensions than those who worked in the private sector. Among the 4.0 million people aged 65 and older who reported income from a government pension in 2007, the median annual amount was \$16,629. Twenty-nine percent of people receiving a public-sector pension had pension income of less than \$10,000 in 2007, while 25% reported pension income of more than \$30,000. (See **Figure 13**.) Among the 8.4 million people aged 65 and older who reported income from a private-sector pension in 2007, the median annual amount was \$7,200. Sixty percent of private pension recipients reported that their pension income was less than \$10,000 in 2007 and 8% reported pension income of more than \$30,000.

Among the 3.7 million elderly households that reported income from a government pension in 2007, the median annual amount was \$17,400. Twenty-seven percent of households receiving a public-sector pension reported that their pension income was less than \$10,000 in 2007; 29% reported pension income of more than \$30,000. (See **Figure 14**.) Among the 7.7 million elderly households that reported income from a private-sector pension in 2007, the median annual amount was \$8,052. Fifty-seven percent of households with private pension income reported that their pension income was less than \$10,000 in 2007, and 10% reported pension income of more than \$30,000.

⁹ U.S. Bureau of Labor Statistics, news release USDL 08-1344, *Employee Tenure in 2008*, September 26, 2008, at [<http://www.bls.gov/news.release/tenure.nr0.htm>].

Figure 13. Individual Income from Pensions in 2007

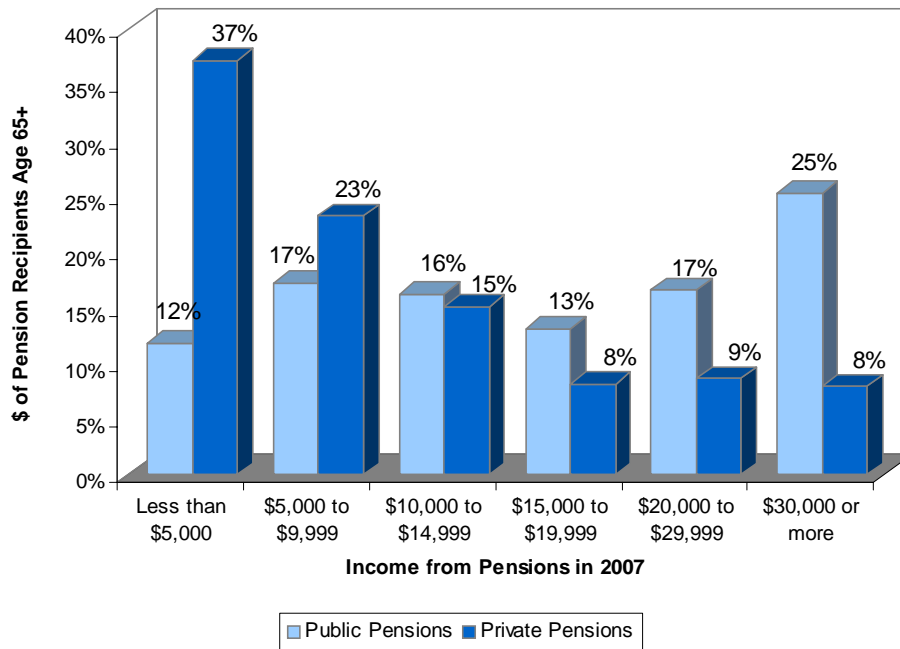
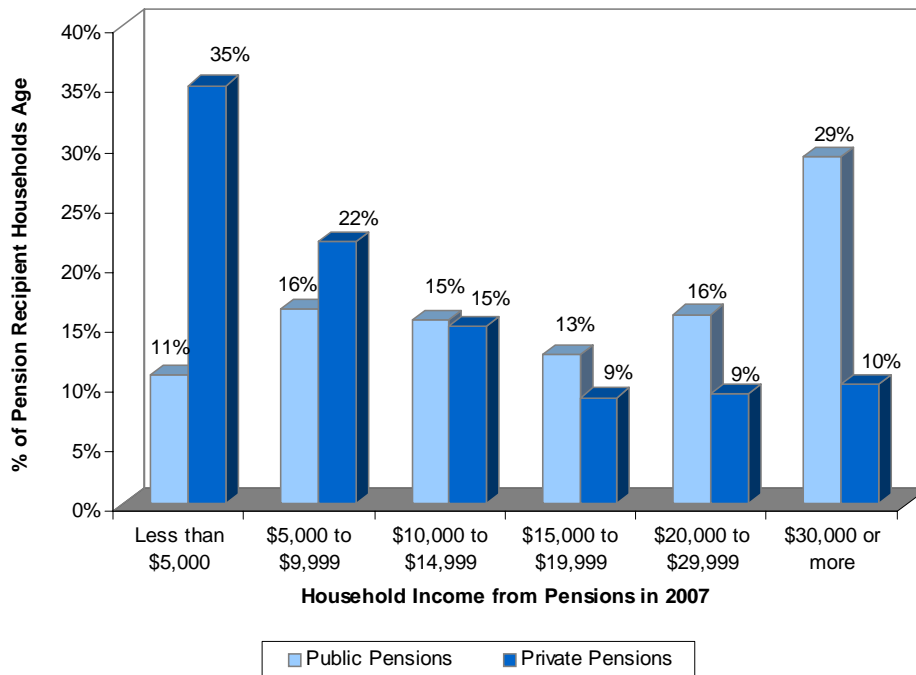


Figure 14. Household Income from Pensions in 2007



Source: CRS analysis of the March 2008 *Current Population Survey*.

Two Types of Pension Plans

Over the past 25 years, there has been a shift in the distribution of retirement plans and of plan participants from *defined benefit* plans to *defined contribution* plans. A defined benefit or “DB” plan usually pays as a lifelong annuity based on the employee’s length of service and average salary. Most DB plans are funded entirely by employer contributions and investment earnings. Defined contribution or “DC” plans are much like savings accounts maintained by employers on behalf of each participating employee. The employer contributes a specific dollar amount or percentage of pay, which is invested in stocks, bonds, or other assets. The employee usually contributes to the plan, too. In a DC plan, it is the employee who bears the investment risk. At retirement, the balance in the account is the sum of all contributions plus interest, dividends, and capital gains — or losses. The account balance is usually distributed as a single lump sum. Many large employers recently have converted their traditional DB pensions to hybrid plans that have characteristics of both DB and DC plans, the most popular of which has been the *cash balance plan*. In a cash balance plan, the benefit is defined in terms of an account balance. The employer makes contributions to the plan and pays interest on the accumulated balance. However, these account balances are merely bookkeeping devices. They are not individual accounts owned by the participants. Legally, therefore, a cash balance plan is a defined benefit plan.

Income from Assets

Many Americans prepare for retirement by saving and investing some of their income while they are working. Of the 36.8 million Americans aged 65 and older who were living in households in 2007, 18.9 million (51%) received income from assets, such as interest, dividends, rent, and royalties. Most received small amounts. Half of those who had income from assets in 2007 received less than \$1,585. The data displayed in **Figure 15** show that low-income individuals were less likely to have received income from assets. Among individuals aged 65 and older whose total income in 2007 was less than \$10,000, 30% had asset income. In contrast, of those whose total income was more than \$50,000, 83% had asset income.

Of the 25.5 million households in which either the householder or the householder's spouse was aged 65 or older in 2007, 14.5 million (57%) received income from assets. Most households received relatively small amounts of income from assets. Half of the elderly households that had income from assets in 2007 received less than \$2,254. The data displayed in **Figure 16** show that low-income households were less likely to have received income from assets. Among elderly households that had total income in 2007 of less than \$10,000, 23% had asset income. On the other hand, of the households with total income of more than \$50,000, 79% had asset income.

Figure 15. Percentage of Individuals Aged 65 and Older with Income from Assets in 2007, by Total Individual Income

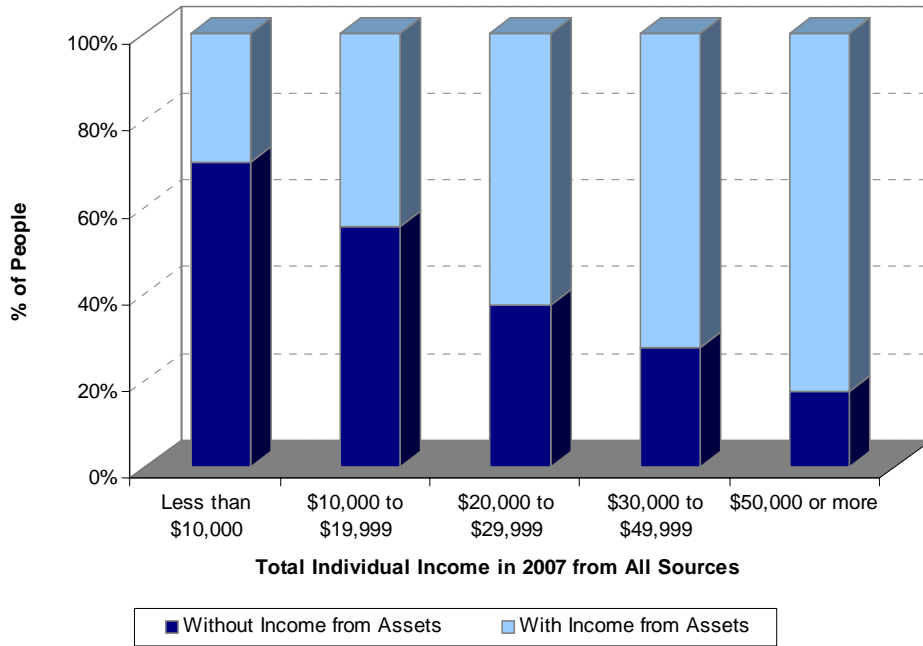
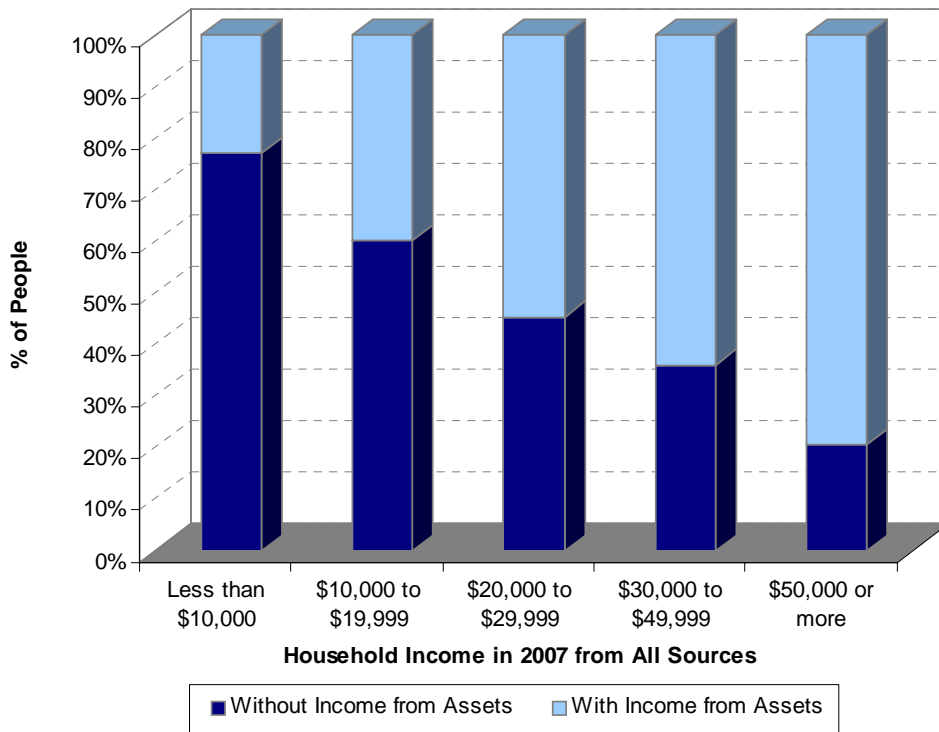


Figure 16. Percentage of Households Aged 65 and Older with Income from Assets in 2007, by Total Household Income



Source: Both figures from CRS analysis of the March 2008 *Current Population Survey*.

Median income from assets also differed between the lower-income and higher-income elderly. Among people aged 65 and older with total annual income under \$10,000 in 2007, 30% received asset income and the median amount of asset income was only \$338. For individuals with total annual incomes of more than \$50,000, 83% had asset income, and their median asset income in 2007 was \$14,416. (See **Table 5**.) Among households in which the householder or spouse was 65 or older with total annual incomes under \$10,000 in 2007, 23% received income from assets, and the median amount of asset income they received was \$219. Among elderly households with total annual incomes of more than \$50,000, 79% received asset income, and their median asset income in 2007 was \$9,000. (See **Table 6**.)

Table 5. Income from Assets, Individuals 65 and Older, 2007

Total Income, 2007	Number of People (thousands)	Percent with Asset Income	Mean Asset Income	Median Asset Income
Less than \$10,000	7,897	29.8	\$888	\$338
\$10,000 to \$19,999	12,184	44.6	1,947	726
\$20,000 to \$29,999	5,647	62.6	3,726	1,799
\$30,000 to \$39,000	3,084	71.1	5,618	2,280
\$40,000 to \$49,999	1,770	74.5	8,611	4,000
\$50,000 or more	4,903	82.6	26,320	14,416
All persons with any income¹⁰	35,485	53.2	\$8,265	\$1,585

Table 6. Income from Assets, Households 65 and Older, 2007

Total Income, 2007	Number of Households (thousands)	Percent with Asset Income	Mean Asset Income	Median Asset Income
Less than \$10,000	2,215	22.7%	\$814	\$219
\$10,000 to \$19,999	6,058	39.8	1,355	400
\$20,000 to \$29,999	4,418	54.7	2,937	1,285
\$30,000 to \$39,000	2,991	63.0	4,401	2,014
\$40,000 to \$49,999	2,133	65.4	6,116	2,844
\$50,000 or more	7,384	79.4	24,584	9,000
All persons with any income¹¹	25,199	57.4	\$11,869	\$2,254

Source: Both tables from CRS analysis of the March 2008 *Current Population Survey*.

¹⁰ Of 36.790 million individuals aged 65 and older in 2007, 35.485 million (96.5%) reported income from one or more sources and 18.889 million (51.3%) reported income from assets.

¹¹ Of 25.483 million households with a householder or spouse aged 65 and older in 2007, 98.9% had income from any source and 4.476 million (56.8%) had income from assets.

Earned Income

Although some people continue to work into their 60s and beyond, labor force participation rates begin to drop after about age 55. Although there was a trend toward earlier retirement from about 1960 to 1985, the trend for the past 20 years has been that more Americans have continued to work at older ages.¹² In March 2008, 73% of men and 63% of women between the ages of 55 and 61 were working either full-time or part-time. Of those between the ages of 62 and 64, 52% of men and 41% of women were employed. Among 65 to 69-year olds, 33% of men and 26% of women were employed in March 2008. Although the share of older Americans who work declines rapidly after age 65, **Figure 17** shows that 14% of men and 8% of women who were age 70 or older in March 2008 were still working.

Despite the trend to longer working lives, people are progressively less likely to work as they pass age 55 and the average annual earnings of those who continue to work begin to decline at about the same age. This can be attributed to decreases in both wages and the number of hours worked.¹³ In 2007, the median earnings of workers aged 55 to 61 were \$38,500, while median earnings of workers aged 62 to 64 were \$31,000. For those aged 65 or older who were working, median earnings were \$20,000 in 2007. **Figure 18** shows the decline in workers' annual earnings as they age. At the top of the earnings scale, 37% of workers aged 55 to 61 earned \$50,000 or more in 2007, while only 23% of those aged 65 and older had earned income totaling more than \$50,000 in that year. In contrast, while only 9% of Americans aged 55 to 61 who worked in 2007 had total earnings of less than \$10,000, 28% of workers aged 65 and older had earnings of \$10,000 or less.

¹² Joseph Quinn, "Retirement Trends and Patterns Among Older American Workers" in Stuart Altman and David Shactman (eds.), *Policies for an Aging Society* (Baltimore: Johns Hopkins University Press, 2002), pp. 293-315.

¹³ For more information on the labor force participation of older workers, see CRS Report RL30629, *Older Workers: Employment and Retirement Trends*, by Patrick Purcell.

Figure 17. Employment Rates by Age and Sex, March 2008

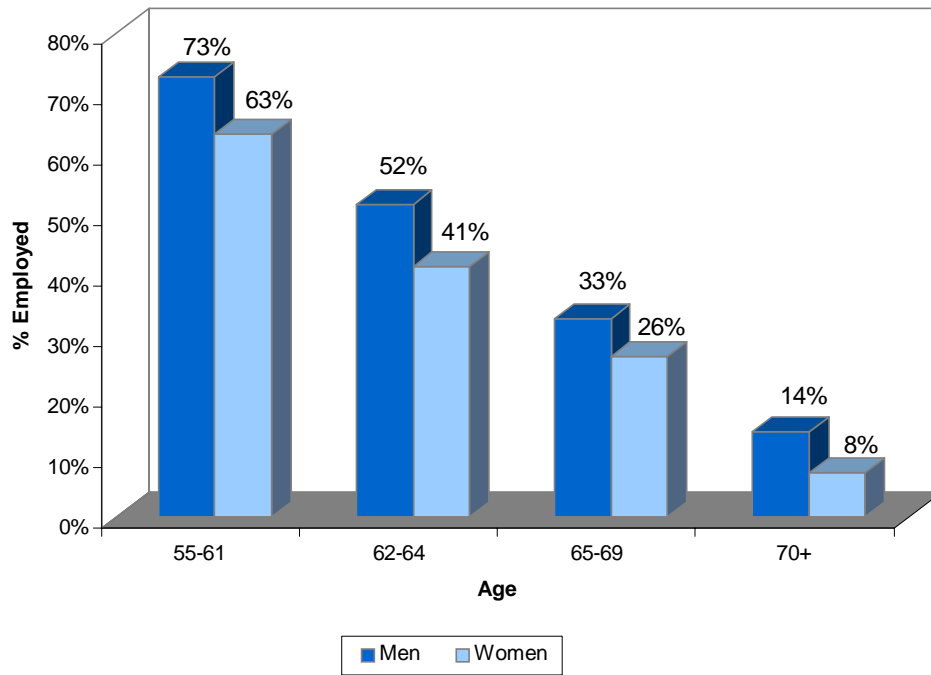
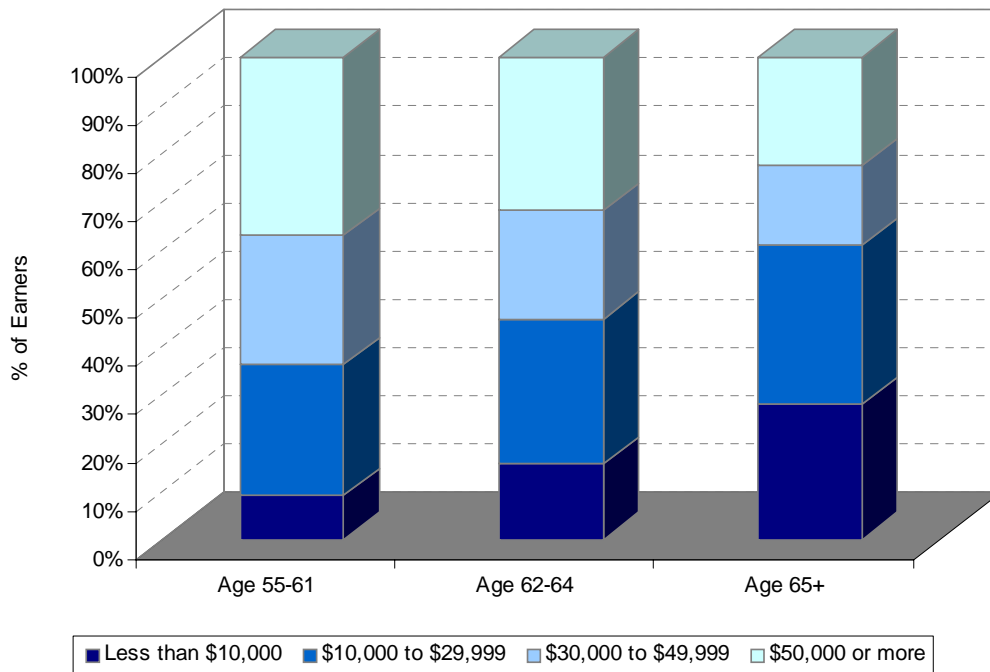


Figure 18. Earned Income, by Age, 2007



Source: Both figures from CRS analysis of the March 2008 *Current Population Survey*.

Poverty

Poverty among the elderly has decreased dramatically over the past five decades. In 1959, the poverty rate among Americans aged 65 and older was 35%. Largely due to increases in Social Security benefits, the elderly poverty rate fell to about 15% by 1975. The percentage of older Americans in poverty has stayed steady at roughly 10% since the mid-1990s. Although a smaller percentage of the elderly are in poverty than are people under 65, almost 3.6 million Americans aged 65 and older had family incomes below the federal poverty threshold in 2007.¹⁴

Although the poverty rate for all persons aged 65 and older was 9.7% in 2007, the poverty rates among women, minorities, single individuals, those with low education, and the oldest old were higher. (See **Figure 19**.) Twelve percent of women aged 65 and older were in poverty in 2007 compared with only 6.6% of men. Because women live longer, the number of poor older women in 2007 (2.5 million) was more than twice the number of poor older men (1.0 million). Poverty rates are especially high among minorities. In 2007, nearly one-quarter of elderly African-Americans and more than one-sixth of elderly Hispanics were in poverty. About 80% of all older Americans identify themselves as white. Thus, although only 7.4% of older white Americans were poor, poor whites comprised 60% of all poor elderly in 2007.

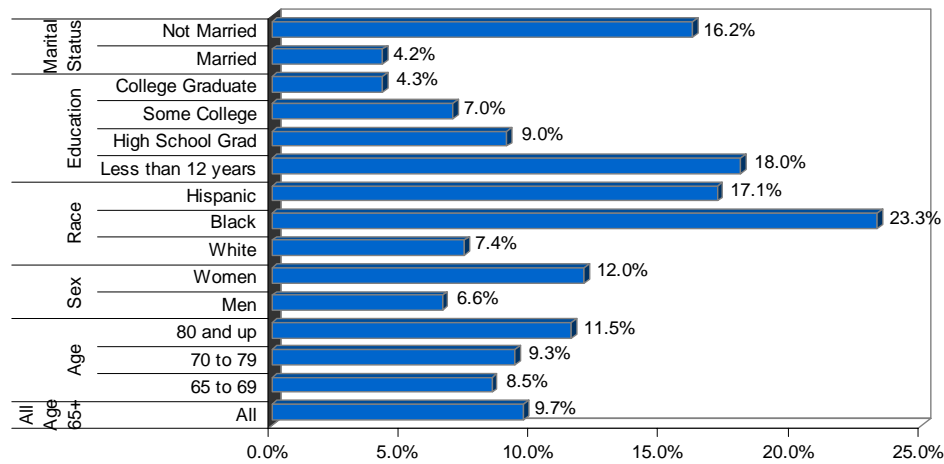
Older individuals with low education also had high poverty rates. Eighteen percent of those without a high school education had family incomes below the poverty line in 2007 compared with only 4.3% of those with a college degree. There is a significant difference in the poverty rates of married persons and single elderly individuals. Married couples, who often have more than one source of income, had a poverty rate of only 4.2% in 2007. In contrast, 16.2% of unmarried individuals aged 65 and older had incomes below the poverty threshold in 2007. The oldest Americans had the highest poverty rates. Among individuals 80 and older, 11.5% were poor in 2007, compared with 8.5% of those between the ages of 65 and 69.

The Near-Poor

Many older Americans have family incomes that put them just above the official poverty threshold. In 2007, only 9.7% of people aged 65 and older had incomes below the poverty thresholds of \$9,944 for an individual and \$12,550 for a couple; however, another 13% of Americans aged 65 and older had family incomes between 100% and 149% of the poverty threshold. Also, whereas 11.5% of persons age 80 and older had incomes below the poverty threshold, another 17.4% of people age 80 and older had family incomes between 100% and 149% of the poverty threshold in 2007.

¹⁴ The official poverty threshold in 2007 for a single person aged 65 or older was \$9,944. The poverty threshold for a couple in which at least one member was 65 or older was \$12,550. See *Poverty Thresholds 2007*, available at [<http://census.gov/hhes/www/poverty/threshld/thresh07.html>].

Figure 19. Percentage of Individuals Aged 65 and Older in Poverty, 2007



Source: CRS analysis of the March 2008 *Current Population Survey*.

Conclusion

Americans aged 65 and older receive income from a variety of sources. Although Social Security benefits, pensions, and income from assets are the most common income sources, earnings also are important, especially for those under age 70.

There are large disparities in the amounts and types of income that older Americans receive. Income from assets in the form of interest and dividends, for example, make up a significant percentage of the aggregate income of the elderly population. However, most elderly individuals receive only modest amounts of interest and dividend income, whereas a relatively small number of people receive large amounts of income from these sources. Social Security is both the largest source of aggregate income among the elderly and the biggest single source of income for a majority of Americans aged 65 and older. Compared to the great disparity in interest and dividend income, there is relatively little difference between the average monthly Social Security benefit and the highest monthly benefit. This is because the Social Security benefit formula limits the maximum amount paid to a retired high-wage earner to about 150% of the amount paid to a career-long average-wage worker.

Social Security and public assistance together provide more than 90% of all income for the poorest 25% of the elderly population. These public programs have contributed greatly to reducing poverty among the elderly. The reduction in poverty among older Americans is one of the most significant public policy successes of the past half-century. Poverty among those aged 65 and older has fallen from one in

three older persons in 1960 to fewer than one in ten today. Although the overall rate of poverty is relatively low, it remains high for women, minorities, the less-educated, single persons, and those over age 80.