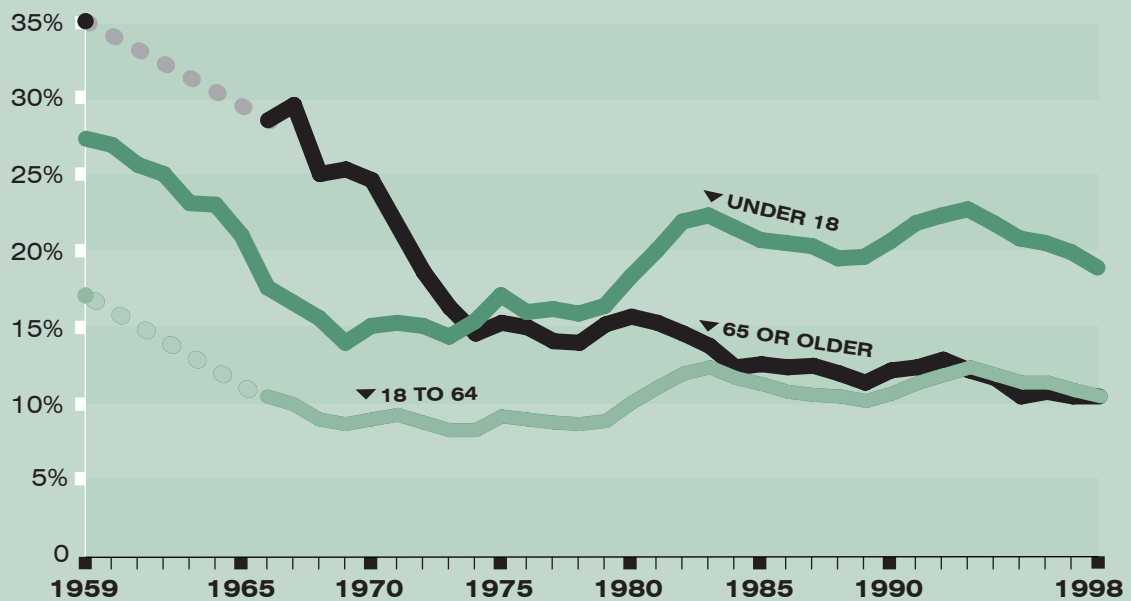


# Economics

## Poverty

The official measure of poverty is based on a family's annual money income. To determine who is poor, the U.S. Census Bureau compares family income with a set of poverty thresholds, which vary by family size and composition. Persons identified as living in poverty are at risk of having inadequate resources for food, housing, health care, and other needs.

### Percentage of the population living in poverty, by age group, 1959 to 1998



Note: Dashed lines indicate years for which data are not available. See page 64 for a description of the measurement of poverty.

Reference Population: These data refer to the civilian noninstitutional population.

Source: March Current Population Survey.

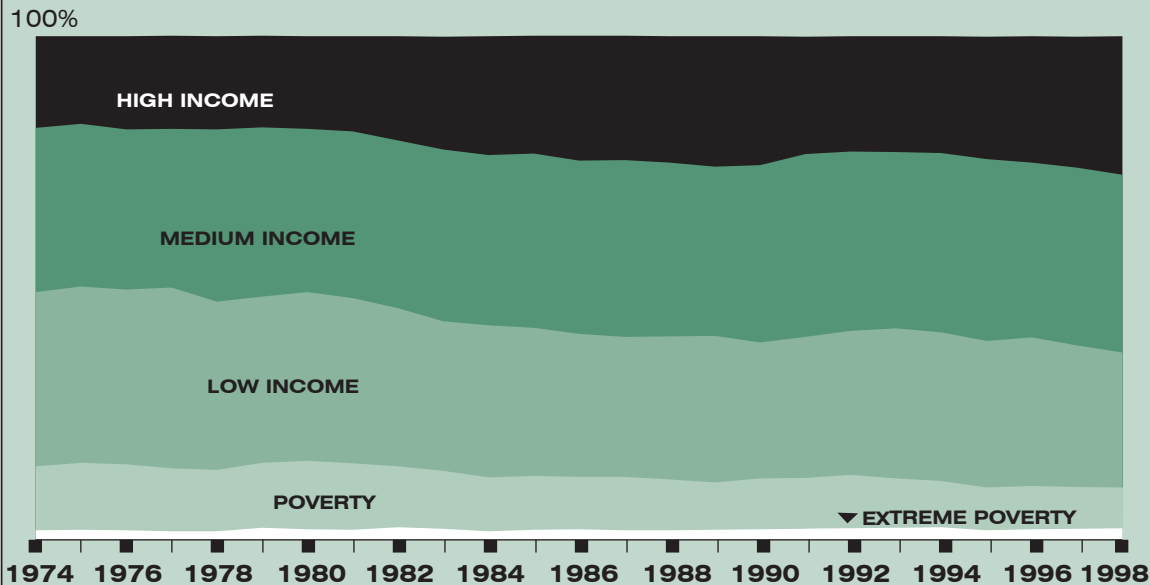
- In 1959, 35 percent of persons age 65 or older lived in families with money income below the poverty line. By 1998, the percentage of the older population living in poverty had declined to 11 percent.
- The relative poverty rates of the older population (age 65 or older), persons of working age (age 18 to 64), and children (under age 18) have changed dramatically. In 1959, older persons had the highest poverty rate (35 percent), followed by children (27 percent), and working-age persons (17 percent). By 1998, an equal percentage of the older population and working-age persons lived in poverty (11 percent), while the poverty rate of children remained at a relatively high level (19 percent).
- Among older Americans, the poverty rate is higher at older ages. In 1998, poverty rates were 9 percent for persons ages 65 to 74, 12 percent for persons ages 75 to 84, and 14 percent for persons age 85 or older.
- Among the older population, poverty rates are higher among women (13 percent) than among men (7 percent), among the nonmarried (17 percent) compared with the married (5 percent), and among minorities compared with non-Hispanic white persons. In 1998, divorced black women ages 65 to 74 had a poverty rate of 47 percent, one of the highest rates for any subgroup of older Americans.<sup>10</sup>

Data for this indicator can be found in Tables 6a and 6b on pages 63 and 64.

## Income Distribution

**T**he percentage of persons living below the poverty line does not give a complete picture of the changing economic situation of older Americans. Analyzing the income distribution of the population age 65 and older provides important insights into the economic well-being of this population.

### Income distribution of the population age 65 and older, 1974 to 1998



Note: The income classes are derived from the ratio of the family's income to the family's poverty threshold. Extreme poverty is less than 50 percent of the poverty threshold. Poverty is between 50 and 99 percent of the poverty threshold. Low income is between 100 and 199 percent of the poverty threshold. Medium income is between 200 and 399 percent of the poverty threshold. High income is 400 percent or more of the poverty threshold.

Reference population: These data refer to the civilian noninstitutional population.

Source: March Current Population Survey.

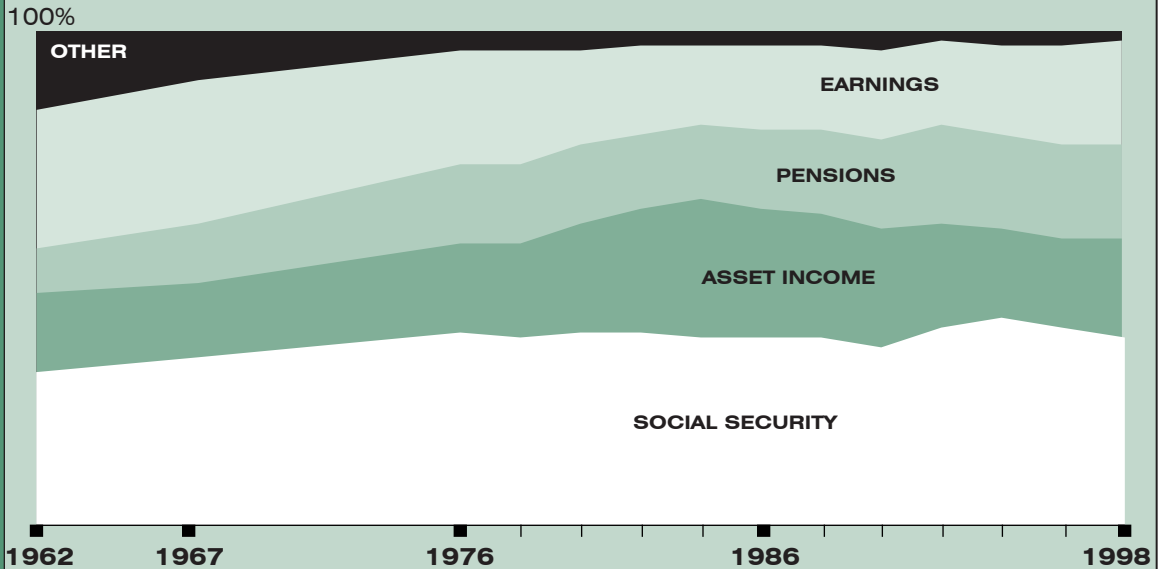
- Since 1974, the percentage of older persons in extreme poverty has been fairly constant at around 2 percent. The percentage in poverty declined from 13 percent in 1974 to 8 percent in 1998. The percentage of older persons in the low-income group declined from 35 percent in 1974 to 27 percent in 1998. The medium- and high-income groups together accounted for half of all older persons in 1974, but accounted for almost two-thirds of older persons in 1998.
- In 1998, persons with medium income made up the largest share of older persons by income group (35 percent). Equal shares of older persons were in families with low and high income (27 percent).
- In 1998, persons age 75 or older were as likely as those ages 65 to 74 to be extremely poor, more likely to be poor or low-income (40 percent, compared with 27 percent), and less likely to be medium- or high-income (58 percent, compared with 70 percent).<sup>11</sup>

*Data for this indicator can be found in Table 7 on page 65.*

## Sources of Income

**M**ost older Americans are retired from full-time work. Social Security was developed as a floor of protection for their incomes, to be supplemented by other pension income, income from assets, and to some extent, continued earnings. Over time, Social Security has taken on a greater importance to many older Americans.

### Distribution of sources of income for the population age 65 and older, 1962 to 1998

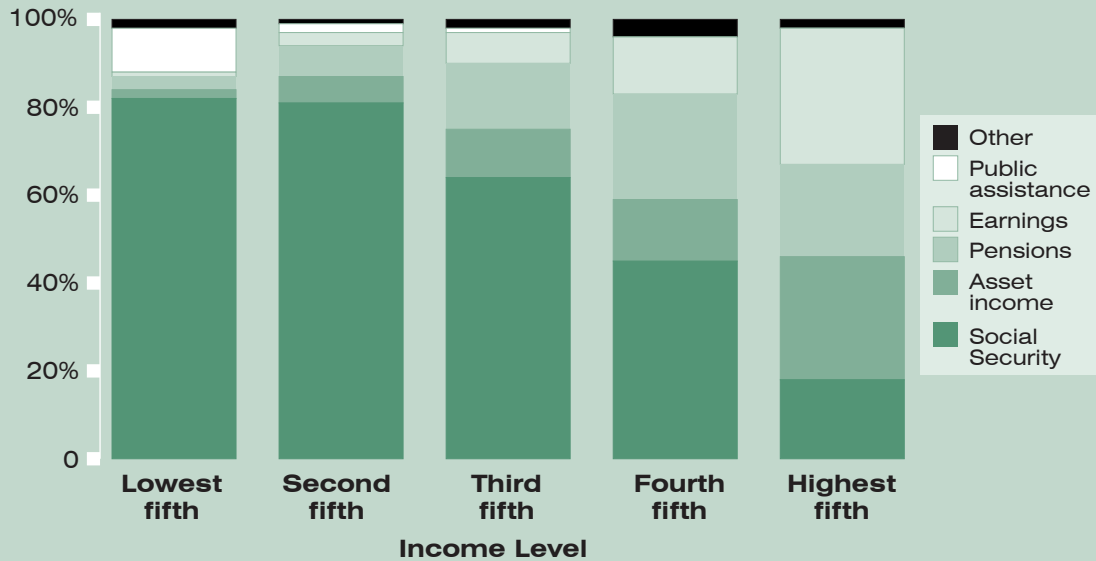


Reference population: These data refer to the civilian noninstitutional population.

Source: March Current Population Survey; Survey of the Aged and Survey of Demographic and Economic Characteristics of the Aged.

- Since the early 1960s, the proportion of income for older Americans derived from Social Security and pensions has increased, and the proportion from earnings has declined. The share of income from assets peaked in the mid-1980s and has generally declined since then.
- In 1998, Social Security benefits provided about two-fifths of the income of older persons; and asset income, pensions and personal earnings each provided about one-fifth of total income.
- Pension coverage expanded dramatically in the two decades after World War II, and private pensions accounted for an increasing proportion of income for older persons during the 1960s and early 1970s. Since then, the coverage rate has been stable at about 50 percent of all workers on their current jobs.<sup>12</sup>
- There has been a major shift in the type of pensions provided by employers, from defined-benefit plans (in which a specified benefit amount is typically paid as a lifetime annuity), to defined-contribution plans such as 401(k) plans (in which the amount of the future benefit varies depending on investment earnings). In 1975, only 6 percent of private sector employees depended primarily on defined-contribution plans for their employer-sponsored pension. By 1994, this had increased to 21 percent. Over the same period, primary coverage under defined-benefit plans fell from 39 percent to 24 percent.<sup>13</sup>

### Sources of income among persons age 65 or older, by income level, 1998



Reference population: These data refer to the civilian noninstitutional population.  
 Source: March Current Population Survey.

■ Among older Americans in the lowest fifth of the income distribution, Social Security accounts for 82 percent of income, and public assistance accounts for another 10 percent. For those whose income is in the highest income category, Social Security and pensions each account for about a fifth of income, and asset income and earnings each account

for about 30 percent of total income.

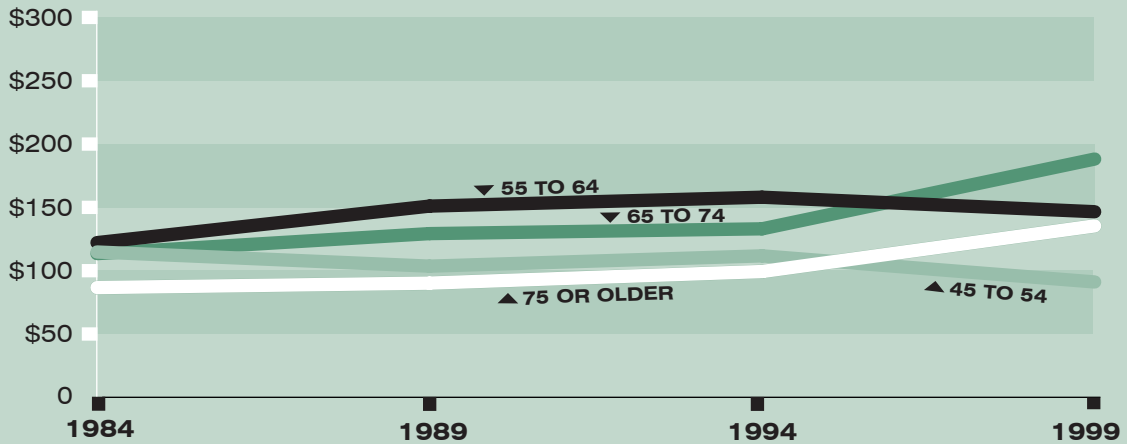
■ For persons age 85 or older, Social Security and assets account for a larger proportion of total income, and earnings and pensions a smaller proportion, compared with persons ages 65 to 69.<sup>14</sup>

*Data for this indicator can be found in Tables 8a and 8b on page 66.*

## Net Worth

**N**et worth (the value of real estate, stocks, bonds and other assets minus outstanding debts) is an important indicator of economic security and well-being. Greater net worth allows a family to maintain its standard of living when income falls because of job loss, health problems, or family changes such as divorce or widowhood.

### Median household net worth by age of head of household, in thousands of 1999 dollars, 1984 to 1999



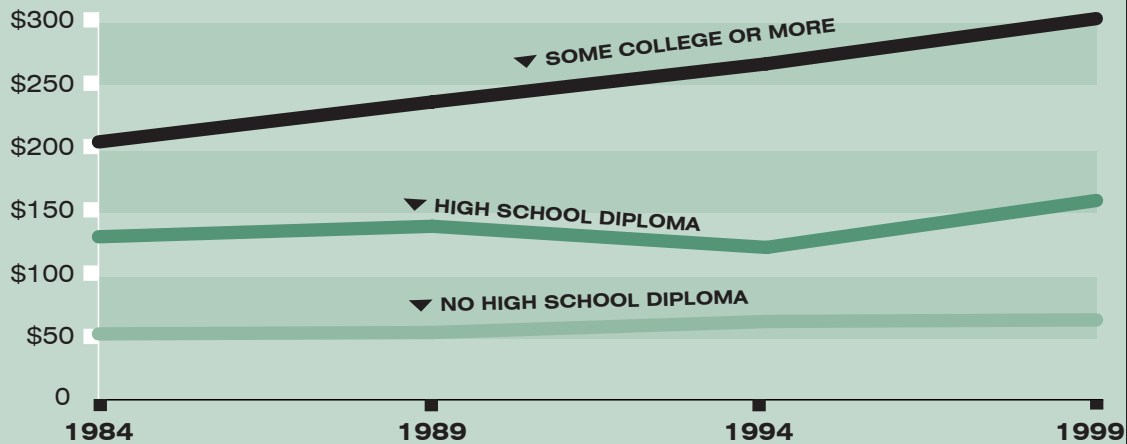
Note: Net worth data exclude the present value of future pension payments for persons nearing retirement.

Reference population: These data refer to the civilian noninstitutional population.

Source: Panel Study of Income Dynamics.

- Between 1984 and 1999, the median net worth among households headed by persons age 65 or older increased by 69 percent, while the median net worth for households headed by persons ages 45 to 54 declined by 23 percent over the same period. Although there is general agreement that net worth among households headed by older persons has increased over time, different data sources disagree about the size of this increase.<sup>15</sup>
- Most striking is the disparity in net worth between black and white households headed by older Americans. In 1999, median net worth among older black households was estimated to be about \$13,000, compared with \$181,000 among older white households.

**Median household net worth by educational attainment of head of household age 65 or older, in thousands of 1999 dollars, 1984 to 1999**



Note: Net worth data exclude the present value of future pension payments among persons nearing retirement.

Reference population: These data refer to the civilian noninstitutional population.

Source: Panel Study of Income Dynamics.

■ In 1999, household heads age 65 or older with at least some college reported a median household net worth more than four times that of heads of household without a high school diploma.

■ Between 1984 and 1999, the median net worth for households headed by persons

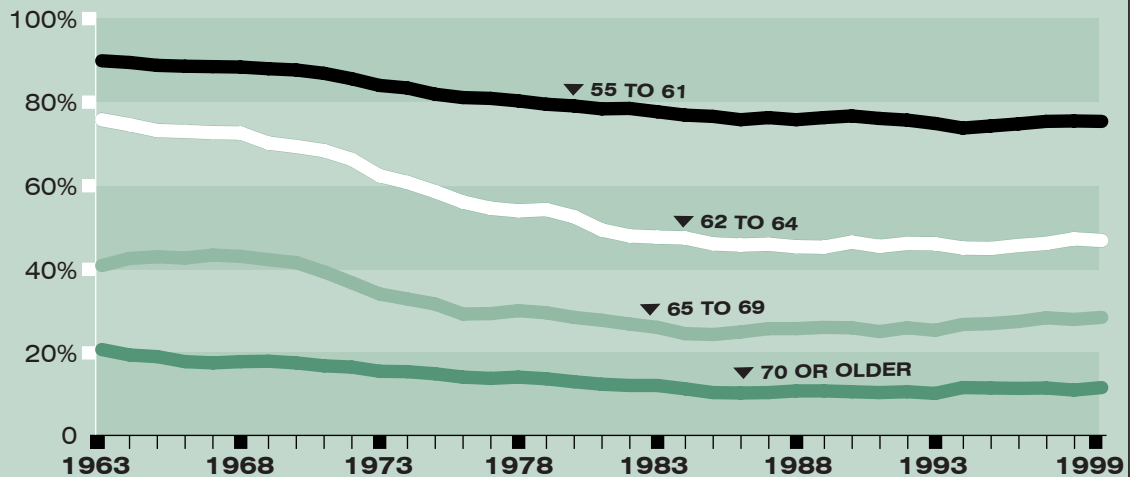
without a high school diploma increased by only 21 percent, compared with a 48 percent increase among households headed by persons with at least some college.

*Data for this indicator can be found in Table 9 on page 67.*

## Participation in the Labor Force

**T**he labor force participation rate is the percentage of a group that is in the labor force—that is, working (employed) or actively looking for work (unemployed). Some older Americans work out of economic necessity. Others may be attracted by the social contact, intellectual challenges, or sense of value to the community that work often provides.

### Labor force participation rates of men age 55 or older, by age group, annual averages, 1963 to 1999



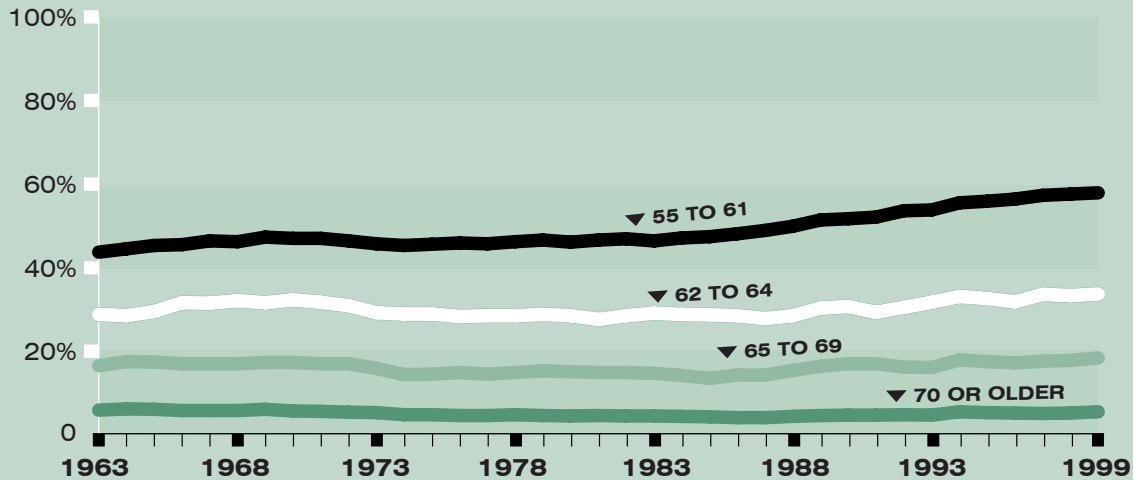
Reference population: These data refer to the civilian noninstitutional population.  
Source: Current Population Survey.

- Between 1963 and 1999, labor force participation rates declined from 90 percent to 75 percent among men ages 55 to 61, and declined from 76 percent to 47 percent among men ages 62 to 64. The participation rate for men age 70 or older declined from 21 percent in 1963 to less than 12 percent in 1999. Most of these declines occurred prior to 1980.
- The decline in labor force participation before the 1980s has been attributed to several factors. The youngest age of eli-

gibility for Social Security benefits was dropped from 65 to 62 in the early 1960s. Greater wealth also allowed older Americans to retire earlier.<sup>16</sup> The more recent stability of participation rates has been explained by the elimination of mandatory retirement laws, liberalization of the Social Security “earnings test” (the reduction of Social Security benefits as earnings exceed specified amounts) and gradual increases in the delayed retirement credit for Social Security beneficiaries.<sup>17</sup>



### Labor force participation rates of women age 55 or older, by age group, annual averages, 1963 to 1999



Reference population: These data refer to the civilian noninstitutional population.  
Source: Current Population Survey.

- In contrast to the rates for men, labor force participation rates have risen among most women age 55 or older during recent decades. The increase was greatest among women ages 55 to 61. Rates have been stable at about 5 percent among women age 70 or older.
- Labor force participation rates for older women reflect changes in the work experience of successive generations of women. Many women now in their 60s and 70s did not work outside the home when they were younger, or they moved in and out of the labor force.<sup>18</sup> As new cohorts of women approach older ages, they are participating in the labor force at higher rates than previous generations. As a result, in 1999, 58 percent of

women ages 55 to 61 were in the labor force, compared with 44 percent of women ages 55 to 61 in 1963. The labor force participation rate increased from 29 percent to 34 percent among women ages 62 to 64.

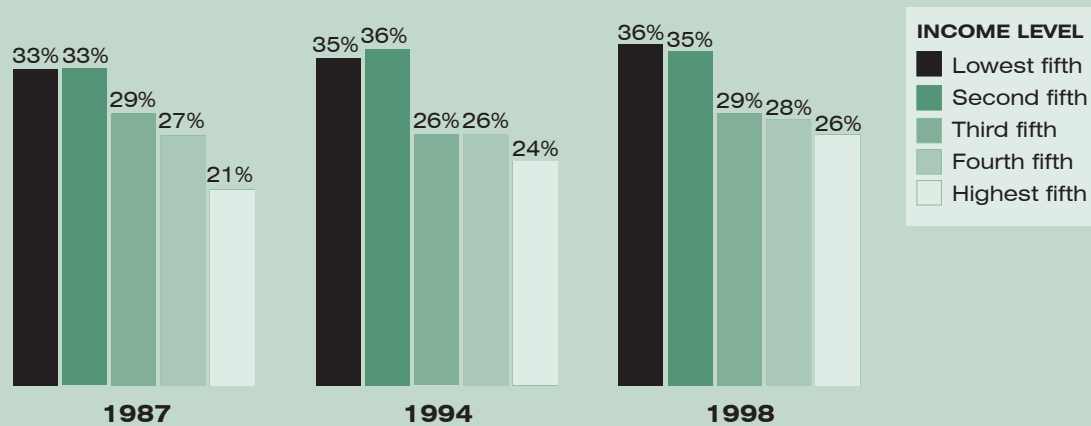
- As a result of the decline in men's labor force participation and the stability or increase in women's participation, there has been a substantial narrowing of the difference in labor force participation between men and women. Among persons ages 65 to 69, the gap between men's and women's rates in 1999 was 10 percentage points, compared with 24 percentage points in 1963.

*Data for this indicator can be found in Table 10 on page 68.*

## Housing Expenditures

**M**ost older people live in adequate, affordable housing,<sup>19</sup> but some older Americans need to allocate a large proportion of their total expenditures to housing. When housing expenditures comprise a relatively high proportion of total expenditures, less money is available for health care, savings, and other vital goods and services.

### Percentage of total annual expenditures allocated to housing costs in households headed by persons age 65 or older, by income level, 1987, 1994, and 1998



Note: Housing expenditures include mortgage payments (principal interest, property taxes, and insurance), rent, and utilities.

Reference population: These data refer to the resident noninstitutional population.

Source: Consumer Expenditure Survey.

- Between 1987 and 1998, the percentage of expenditures devoted to housing rose slightly among households headed by older Americans in all but the middle income category, which remained the same.
- In 1998, households with the lowest level of income spent an average of \$4,686 on housing while households with the highest level of income spent \$10,119 on average for housing.
- The burden of housing costs relative to all expenditures declines as income increases.

es. Among households headed by persons age 65 or older, those with income in the bottom fifth of the income distribution in 1998 allocated an average of 36 percent of all expenditures to basic housing. That proportion fell to 29 percent for those in the middle income fifth, and to 26 percent for those in the top fifth of the income distribution.

*Data for this indicator can be found in Table 11 on page 69.*