

Economics

Indicator 7: Poverty

Indicator 8: Income

Indicator 9: Sources of Income

Indicator 10: Net Worth

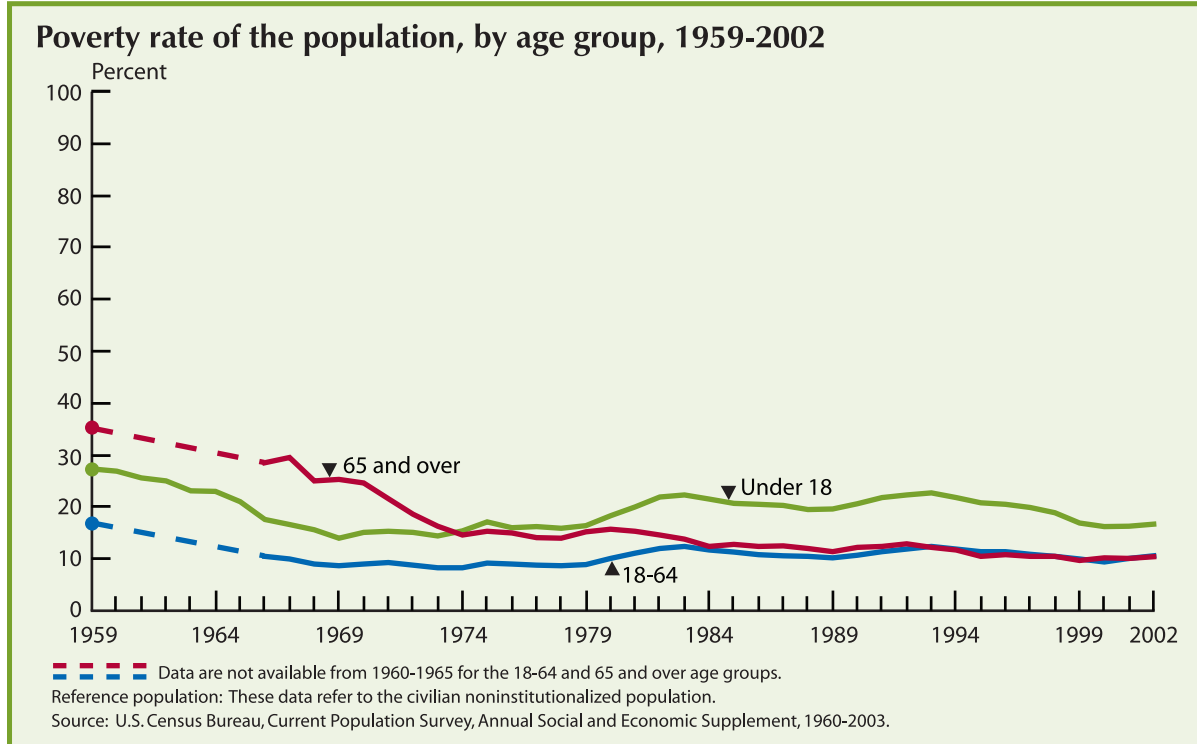
Indicator 11: Participation in the Labor Force

Indicator 12: Housing Expenditures

INDICATOR 7

Poverty

Poverty rates offer one way to evaluate economic well-being. The official poverty definition is based on annual money income before taxes and does not include capital gains and noncash benefits. To determine who is poor, the U.S. Census Bureau compares family income (or an unrelated individual's income) with a set of poverty thresholds that vary by family size and composition and are updated annually for inflation. People identified as living in poverty are at risk of having inadequate resources for food, housing, health care, and other needs.



- ◆ In 1959, 35 percent of people age 65 and over lived below the poverty threshold. By 2002, the proportion of the older population living in poverty had decreased dramatically to 10 percent.
- ◆ Relative levels of poverty among the different age groups have changed over time. In 1959, older people had the highest poverty rate (35 percent), followed by children (27 percent) and those in the working ages (17 percent). By 2002, the proportions of the older population and those of working age living in poverty did not differ (about 10 percent each), while 17 percent of children lived in poverty.
- ◆ Poverty rates differed by age and sex among the older population. Older women (12 percent) were more likely than older men (8 percent) to live in poverty in 2002. People age 65-74 had a poverty rate of 9 percent, compared with 12 percent of those age 75 and over.
- ◆ Race and ethnicity are related to poverty among the older population. In 2002, older non-Hispanic whites were far less likely than older blacks and older Hispanics to be living in poverty—about 8 percent compared with 24 percent of older blacks and 21 percent of older Hispanics (not a statistically significant difference between the latter two groups). Older non-Hispanic white and black women had higher poverty rates than their male counterparts.

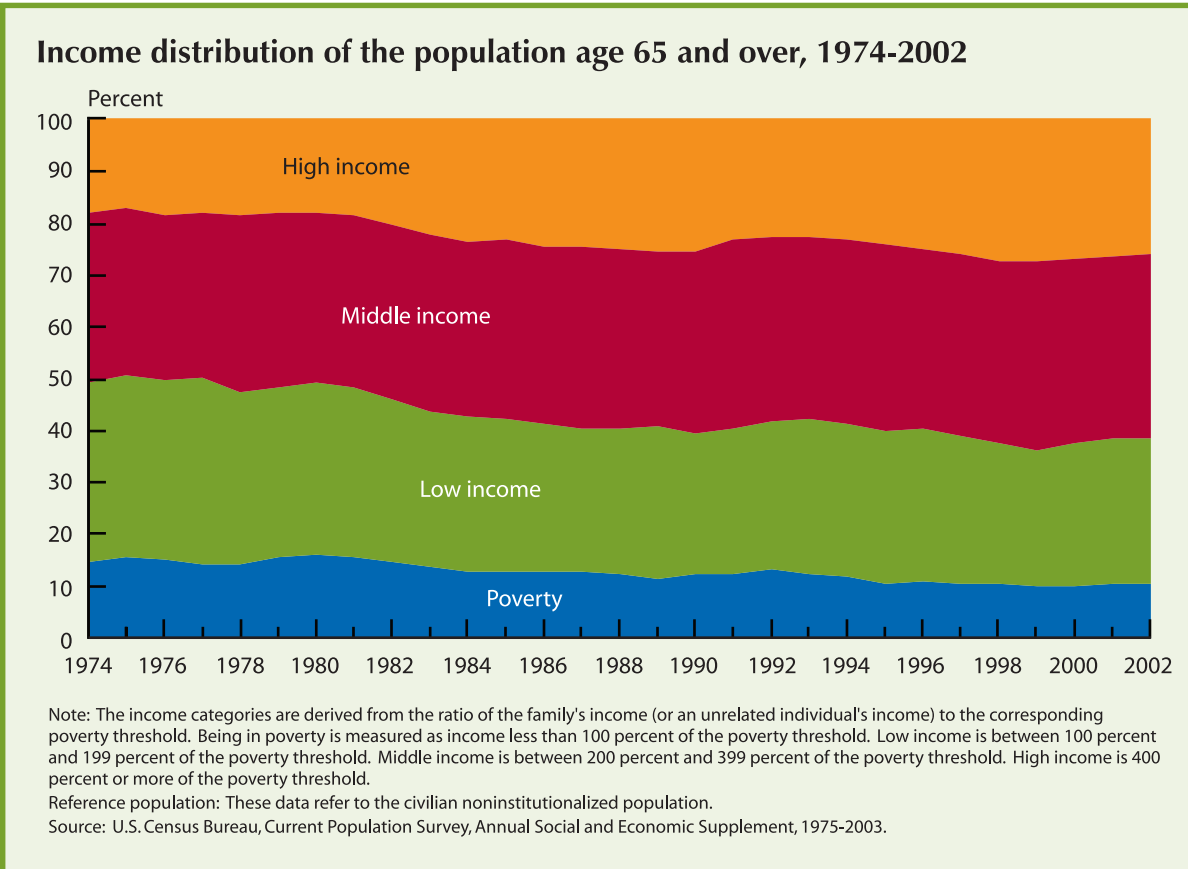
Data for this indicator's chart and bullets can be found in Tables 7a and 7b on pages 75 and 76.



INDICATOR 8

Income

The percentage of people living below the poverty line does not give a complete picture of the economic situation of older Americans. Examining the income distribution of the population age 65 and over and their median income provides additional insights into their economic well-being.



- ◆ Since 1974, the proportion of older people living in poverty and in the low-income group has generally declined so that, by 2002, 10 percent of the older population lived in poverty and 28 percent of the older population were in the low-income group.
- ◆ In 2002, people in the middle income group made up the largest share of older people by income category (35 percent). The proportion with a high income has increased over time. The proportion of the older population having a high income rose from 18 percent in 1974 to 26 percent in 2002.
- ◆ The trend in median household income of the older population has also been positive. In 1974, the median household income for older people was \$16,882 when expressed in 2002 dollars. By 2002, the median household income had increased to \$23,152.⁶

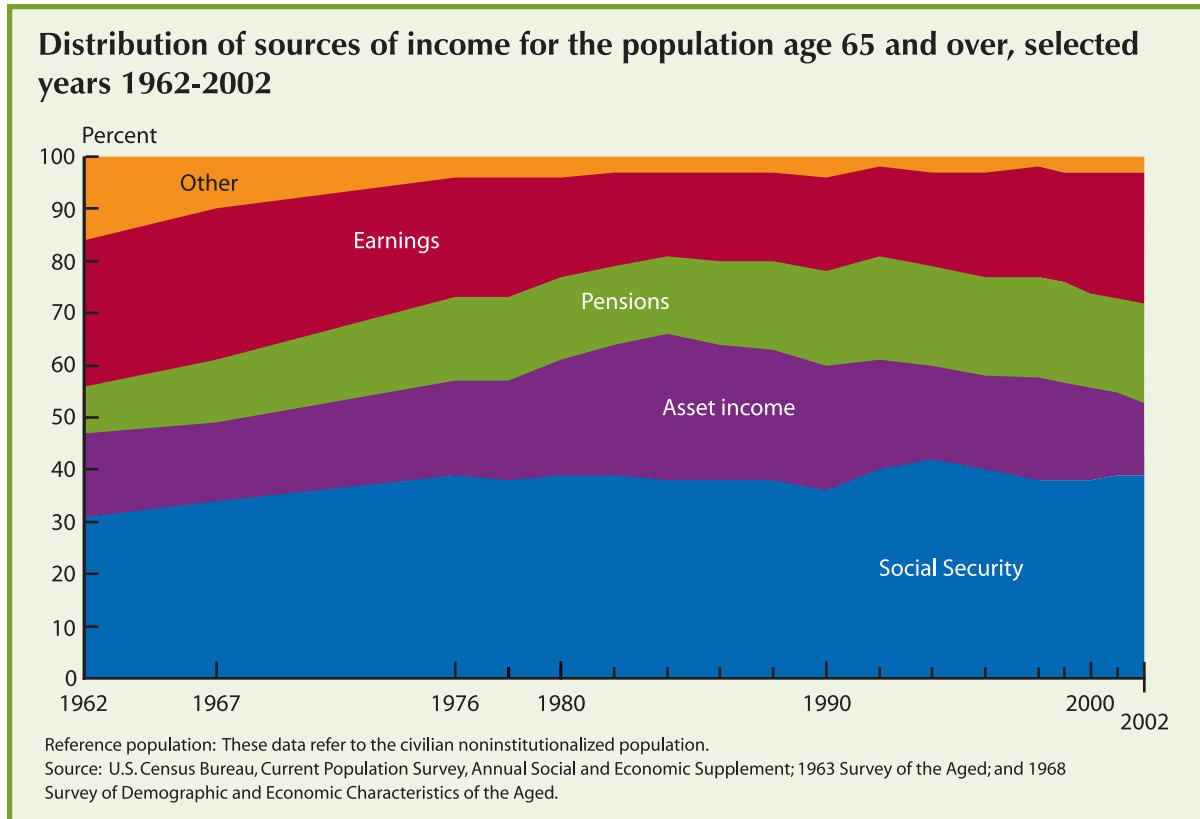
Data for this indicator's chart and bullets can be found in Table 8 on page 77.



INDICATOR 9

Sources of Income

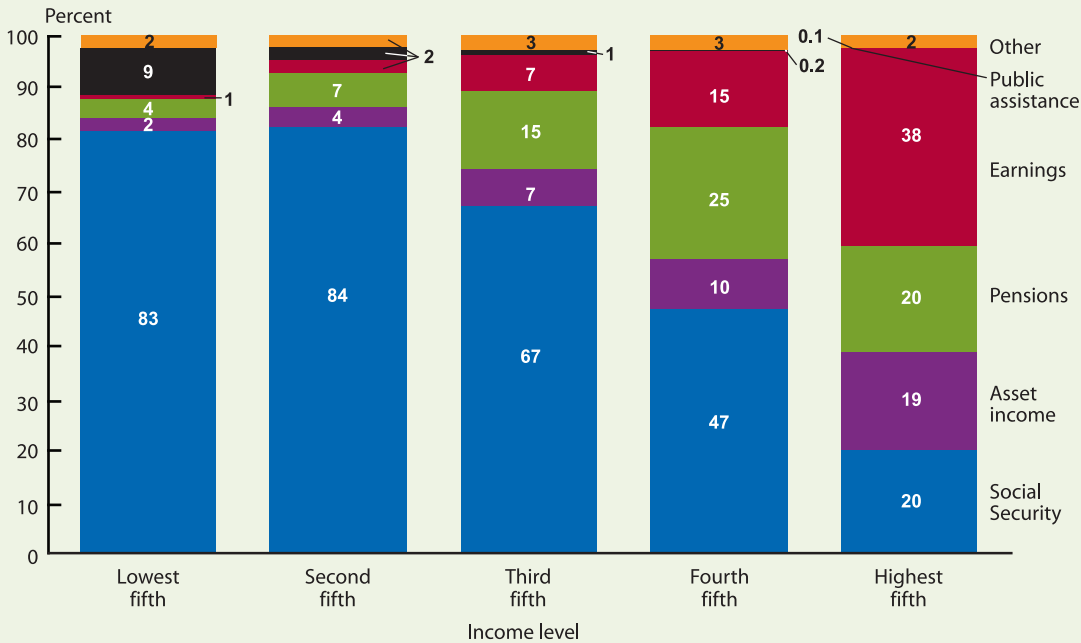
Most older Americans are retired from full-time work. Social Security was developed as a floor of protection for their incomes, to be supplemented by other pension income, income from assets, and to some extent, continued earnings. Over time, Social Security has taken on a greater importance to many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



- ◆ Since the early 1960s, Social Security has provided the largest share of aggregate income for older Americans. The share of income from pensions increased rapidly in the 1960s and 1970s and more gradually since then. The share of income from assets peaked in the mid-1980s and has generally declined since then. The share from earnings has had the opposite pattern—declining until the mid-1980s and generally increasing since then.
- ◆ In 2002, aggregate income for the population age 65 and over came largely from four sources. Social Security provided 39 percent, earnings accounted for 25 percent, pensions provided 19 percent, and asset income accounted for 14 percent.
- ◆ Pension coverage expanded dramatically in the 2 decades after World War II, and private pensions accounted for an increasing proportion of income for older people 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.^{7,8}
- ◆ There has been a major shift in the type of pensions provided by employers, from defined-benefit plans (in which a specified 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). Employers increasingly offer defined-contribution plans to employees. The percentage of workers



Sources of income for the population age 65 and over, by income quintile, 2002



Reference population: These data refer to the civilian noninstitutionalized population.
 Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement.

with a pension plan who have defined-benefit coverage has decreased from 80 percent in 1985 to 33 percent in 2003.^{9,10} Over the same period, participation in defined-contribution plans increased from 41 percent to 51 percent. In recent years, a growing number of employers have converted their defined-benefit plans to cash balance plans. Cash balance plan participation has increased nearly fourfold between 1997 and 2000, from 6 percent to 23 percent.^{11,12}

◆ Among older Americans in the lowest fifth of the income distribution, Social Security accounts for 83 percent of aggregate income,

and public assistance accounts for another 9 percent. For those whose income is in the highest income category, Social Security, pensions, and asset income each account for about one-fifth of aggregate income, and earnings account for the remaining two-fifths.

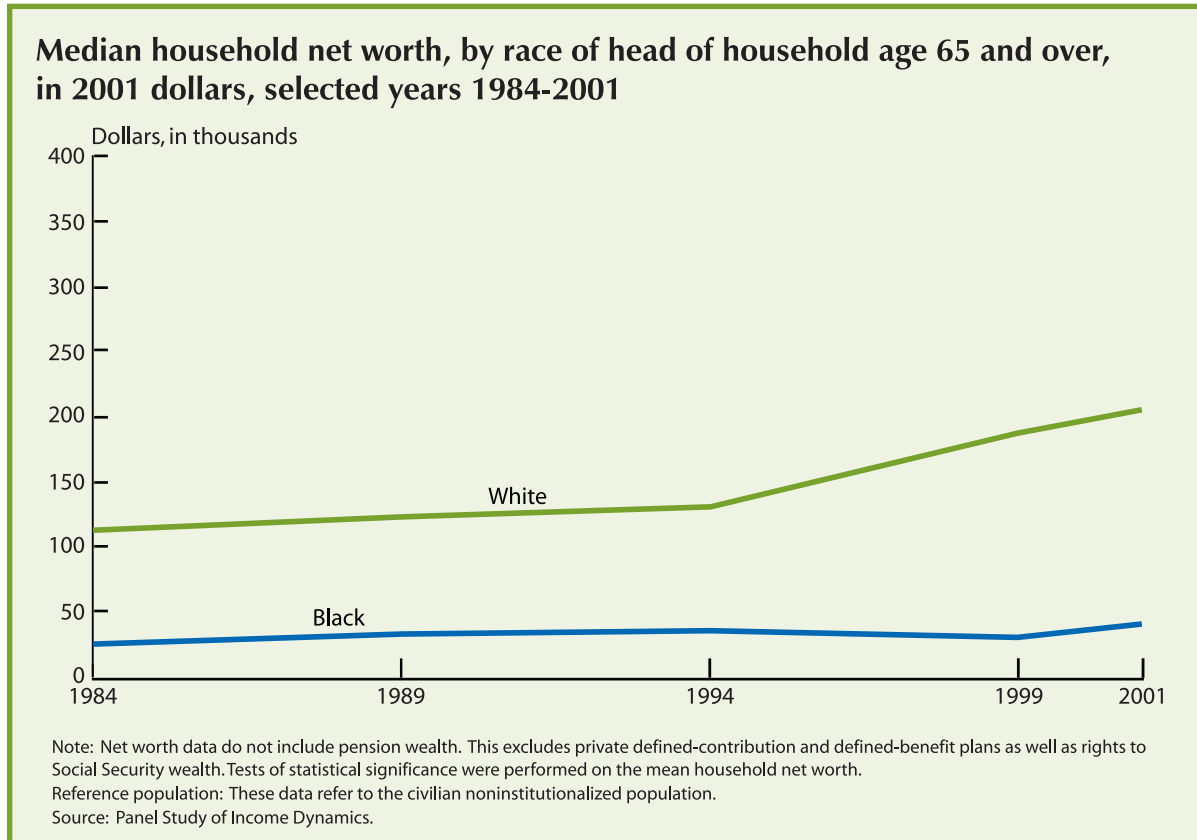
◆ For the population age 80 and over, Social Security and asset income account for a larger proportion of aggregate income and earnings a smaller proportion, compared with the population age 65-69.¹³

Data for this indicator's charts and bullets can be found in Tables 9a and 9b on page 78.

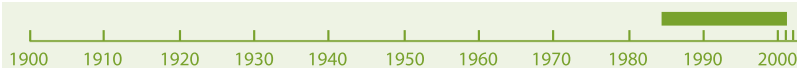
INDICATOR 10

Net Worth

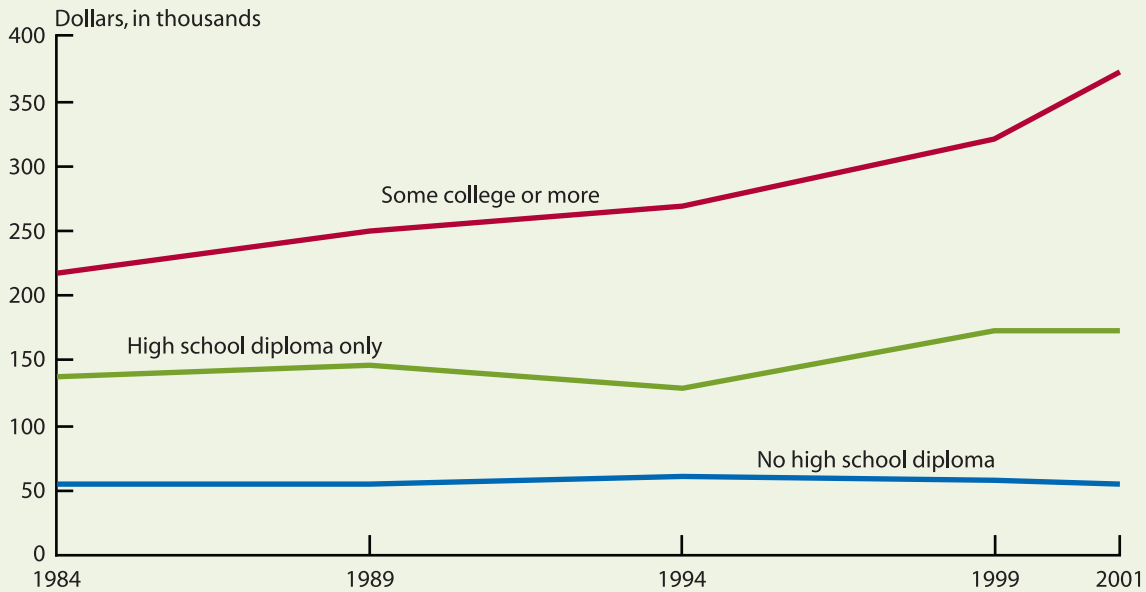
Net worth (the value of real estate, stocks, bonds, and other assets minus outstanding debts) is an important indicator of economic security and well-being. Greater net worth allows a family to maintain its standard of living when income falls because of job loss, health problems, or family changes such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



- ◆ Between 1984 and 2001 the median net worth of households headed by white people age 65 and over increased 81 percent from \$113,400 to \$205,000. The median net worth of households headed by black people age 65 and over increased 60 percent from \$25,600 to \$41,000.
- ◆ Although the rate of growth of wealth between 1984 and 2001 has been substantial for both older black households and older white households, large differences continue to exist, with the median net worth of older white households (\$205,000) five times larger than older black households (\$41,000).
- ◆ In 2001, the median net worth of households headed by married people age 65 and over (\$291,000) was more than twice that of households headed by unmarried people (\$100,800) in the same age group.
- ◆ Overall, between 1984 and 2001 the median net worth of households headed by people age 65 and over increased by 82 percent (from \$98,900 to \$179,800).



Median household net worth, by educational attainment of head of household age 65 and over, in 2001 dollars, selected years 1984-2001



Note: Net worth data do not include pension wealth. This excludes private defined-contribution and defined-benefit plans as well as rights to Social Security wealth. Tests of statistical significance were performed on the mean household net worth.
Reference population: These data refer to the civilian noninstitutionalized population.
Source: Panel Study of Income Dynamics.

- ◆ In 2001, households headed by people age 65 and over with some college or more reported a median household net worth (\$360,500) more than six times that of households headed by older people without a high school diploma (\$57,300).
- ◆ Between 1984 and 2001, the median net worth of households headed by people age 65 and

over without a high school diploma increased by only 4 percent while the median net worth of households headed by people with some college or more increased by 67 percent.

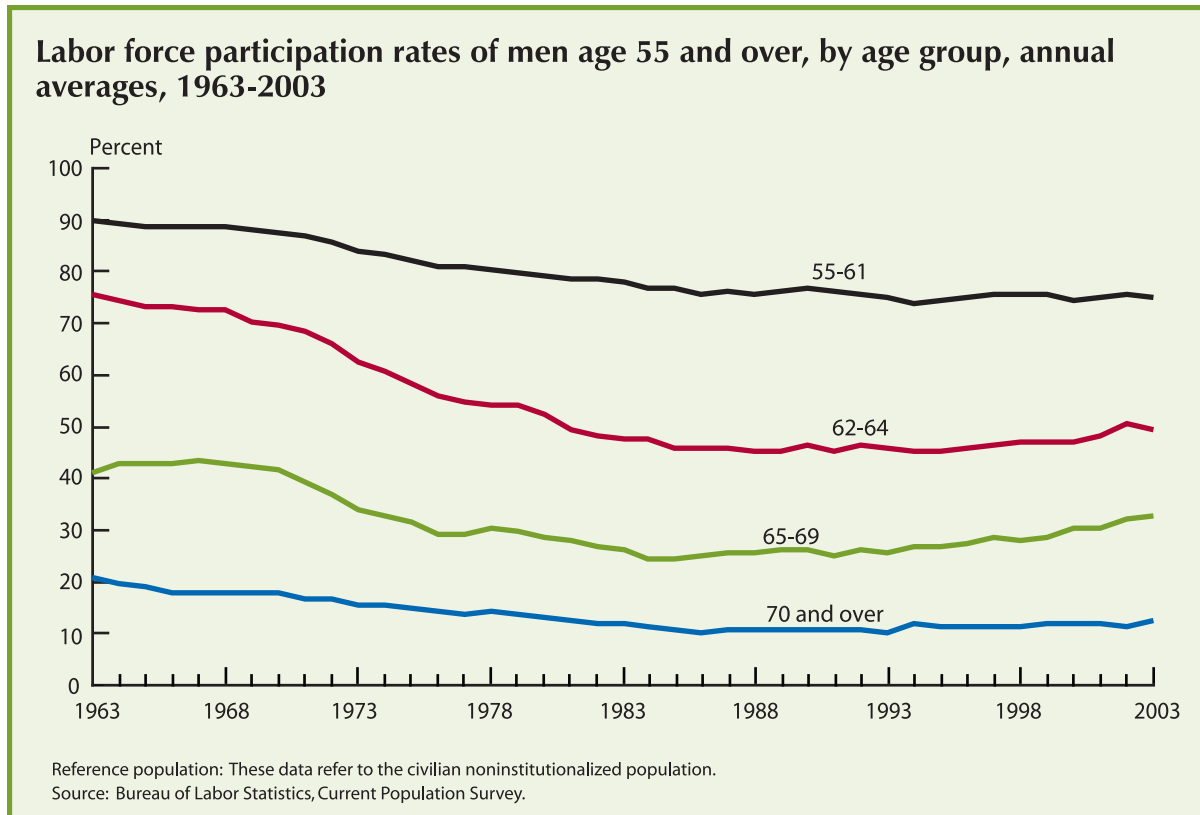
Data for this indicator's charts and bullets can be found in Table 10 on page 79.



INDICATOR 11

Participation in the Labor Force

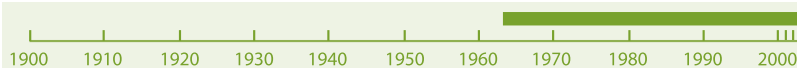
The labor force participation rate is the percentage of a group that is in the labor force—that is, either working (employed) or actively looking for work (unemployed). Some older Americans work out of economic necessity. Others may be attracted by the social contact, intellectual challenges, or sense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



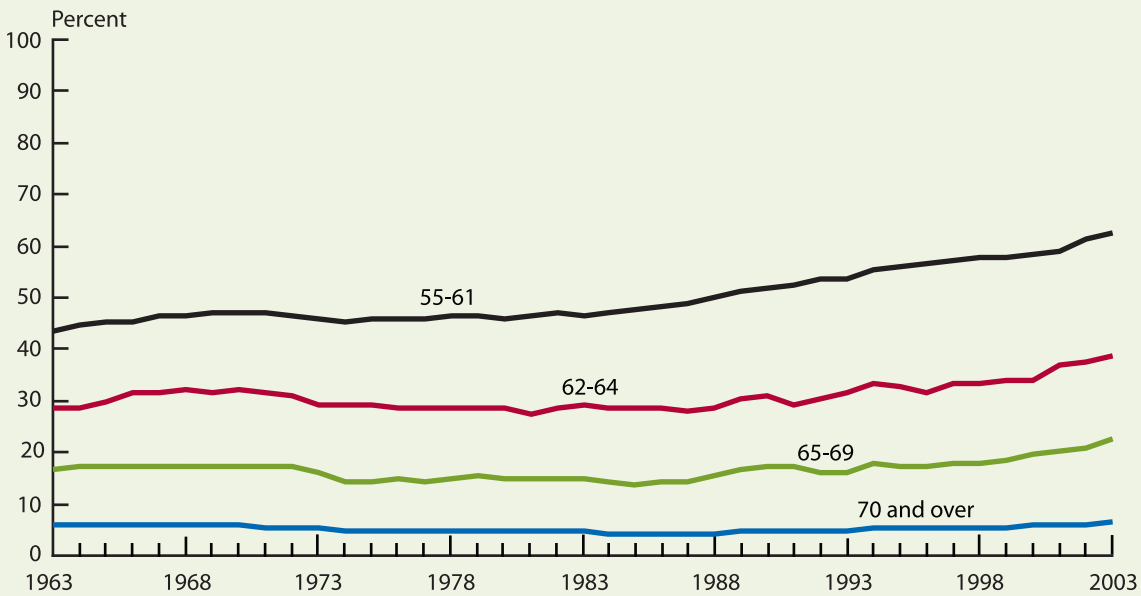
- ◆ Between 1963 and 2003, labor force participation rates declined from 90 percent to 75 percent among men age 55-61. Over this period, participation rates declined from 76 percent to 50 percent for men age 62-64 and from 21 percent to 12 percent for men age 70 and over. For all of these groups, most of these declines occurred prior to 1980.¹⁴
- ◆ The decline in labor force participation among older men before the 1980s has been attributed to several factors. The youngest age of eligibility for Social Security benefits was reduced from 65 to 62 in the early 1960s. Greater wealth also allowed older Americans to retire earlier.¹⁵ The more recent stability of participation rates has been partially 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.¹⁶

- ◆ While men age 65-69 also have experienced an overall decline in labor force participation over the past 4 decades, this group has gradually increased its participation rate in more recent years. Men age 65-69 experienced declines in labor force participation similar to the other older age groups prior to the early 1980s, then saw their participation level off between 1983 and 1993 with rates in the 24 percent to 26 percent range. Since then, their participation rate has increased to nearly 33 percent in 2003.



Labor force participation rates of women age 55 and over, by age group, annual averages, 1963-2003



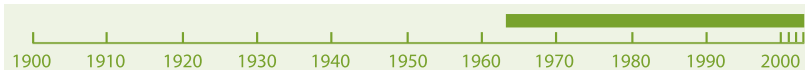
Reference population: These data refer to the civilian noninstitutionalized population.
Source: Bureau of Labor Statistics, Current Population Survey.

- ◆ Labor force participation rates have risen among most women age 55 and over during the past 4 decades. The increase has been largest among women age 55-61, from 44 percent in 1963 to nearly 63 percent in 2003. In recent years, the increase in participation rates for women age 55-61, 62-64, and 65-69 has been somewhat larger.
- ◆ 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. 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 2003, nearly 63 percent of women age 55-61 were in the labor force, compared with 44 percent of women age 55-61 in 1963. Over the same period, the labor force participation rate increased from 29 percent to 39 percent among women age 62-64 and from 17 percent to 23 percent among women age 65-69.

- ◆ The difference between labor force participation rates for men and women has narrowed over time. Among people age 55-61, for example, the gap between men's and women's rates in 2003 was 12 percentage points, compared with 46 percentage points in 1963.

Data for this indicator's charts and bullets can be found in Table 11 on page 80.

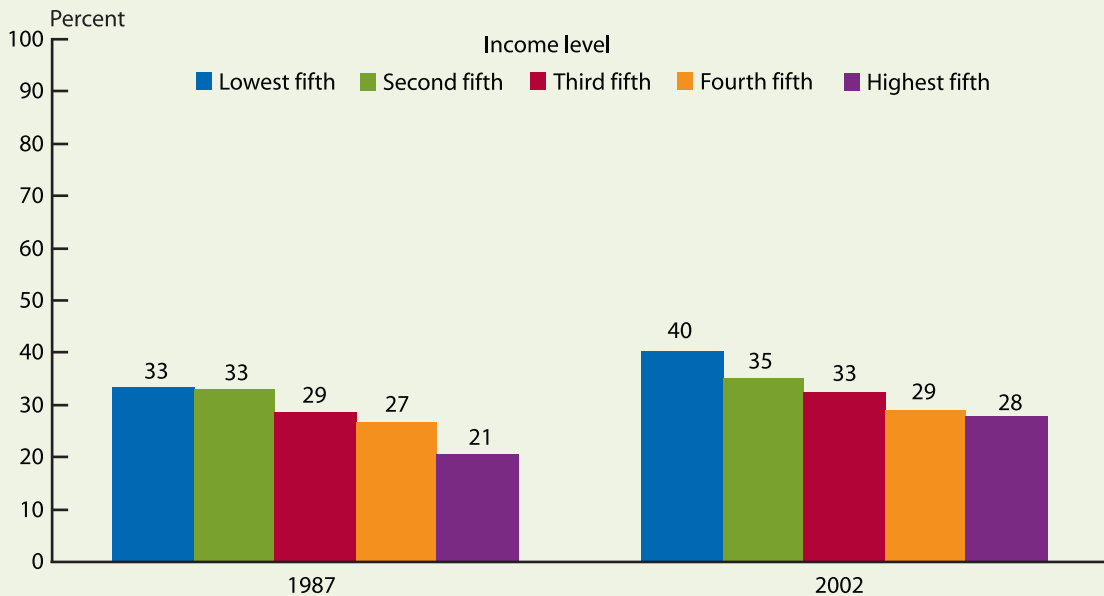


INDICATOR 12

Housing Expenditures

Most older people live in adequate, affordable housing,¹⁷ but some older Americans are allocating 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 people age 65 and over, by income level, 1987 and 2002



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

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

Source: Bureau of Labor Statistics, Consumer Expenditure Survey.

- ◆ The burden of housing costs relative to all expenditures declines as income increases. Among households headed by people age 65 and over, those with income in the bottom fifth of the income distribution in 2002 allocated an average of 40 percent of all expenditures to basic housing. That proportion fell to about 33 percent for those in the middle income fifth and to 28 percent for those in the top fifth of the income distribution.
- ◆ In 2002, households in the lowest income group spent an average of \$5,116 on housing. This compares with an average of \$11,544 spent on housing by those in the highest income group. The 12 percentage point difference in the share spent on housing between the lowest and highest income groups is similar to that measured in 1987 (i.e., 33 percent compared with 21 percent).
- ◆ Between 1987 and 2002, the percentage of expenditures devoted to housing rose among households headed by older Americans in each of the five income groups.

Data for this indicator's chart and bullets can be found in Table 12 on page 81.

