91st Congress } COMMITTEE PRINT
1st Session }

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

A WORKING PAPER

PREPARED BY A TASK FORCE

FOR THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

MARCH 1969

Printed for the use of the Special Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE
26-216 O WASHINGTON : 1969

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March 24, 1969.

PREFACE

The U.S. Senate Special Committee on Aging is now preparing for hearings which bear the title of this Working Paper: "Economics of Aging: Toward a Full Share in Abundance."

This document presents information on matters that will undoubtedly come under discussion at the hearings. While this Working Paper expresses the informed views of the distinguished task force members, its findings may differ from those ultimately determined by the committee. In addition, task force participants themselves have reserved the prerogative of revising this Paper if later evidence warrants.

Nevertheless, publication of this study is an important and timely event. As no other document has yet done, it states a fundamental truth:

The economic problems of old age are not only unsolved for today's elderly, but they will not be solved for the elderly of the future—today's workers—unless this Nation takes positive, comprehensive actions going far beyond those of recent years.

And it asks two questions worthy of careful attention by a concerned society:

"As a Nation, what do we intend for ourselves when aged and what for those who are already old?

"How are older people, now and in the future, to share in our economic abundance?"

Such questions cannot be answered simply by adding a few dollars to monthly social security payments, or by making modest improvements in our private pension plans.

What is needed now is an honest, hard look at today's inadequacies and failures in light of trends now clearly visible:

—More Americans are spending more years in retirement.

—The widening difference in income between members of the labor force and those in retirement.

—Rising health care costs.

—Pressures upon fixed income by many other factors, including inflation.

We should organize our knowledge about retirement income, and we should identify our areas of ignorance or inadequate interpretation. With this document, the Senate committee can begin a new phase of its work toward such ends.

This brief statement would be incomplete without a word of thanks to the task force members, who enthusiastically responded to my request for their help by contributing knowledge and thought. Special gratitude goes to Miss Dorothy McCamman, consultant for this study. Her interest in policy questions raised here is deep, springing from years of work with Government agencies and from earlier service with this committee. Without her hard work and long experience, this Working Paper could not have been written.

Harrison A. Williams, Jr.,
Chairman, U.S. Senate Special Committee on Aging.

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

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ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

FACTS AND FINDINGS

THE TASK FORCE REPORT IN BRIEF

I. Americans living in retirement are suffering from an income gap in relation to younger people. And as the gap widens, low income continues to be the Number One problem facing most of our 20 million persons 65 years or older, as well as other millions just a few years younger.

—The "gap" is widening: Median income of families with an aged head was 51 percent of that for younger families in 1961, but only 46 percent in 1967.

—Three out of 10 people 65 and older—in contrast to one in nine younger people—were living in poverty in 1966, yet *many of these aged people did not become poor until they became old.*

—An additional one-tenth of our aged population was on the poverty borderline.

—About five in 10 families with an aged head had less than $4,000 income in 1967; about one in five was below $2,000.

—Of older people living alone or with nonrelatives in 1967, half had incomes below $1,480, and one-fourth had $1,000 or less.

—Even the level of living set by the Bureau of Labor Statistics in its Retired Couple's Budget is well beyond the means of most older people, especially for those who retired years ago. The average social security benefit of a couple retiring in 1950 met half the BLS budget cost then, but today it meets less than one-third.

—Unemployment and early retirement among the 60 to 64 population are creating problems that demand much the same attention as that required by the population aged 65 and over.

II. More Americans are spending more years in retirement periods of indeterminate length and uncertain needs, causing a mounting strain on resources they had when they began retirement. For an ever-rising proportion of women—most of them widows—the problem is especially severe.

—Half of all people now 65 and over are about 73 or older. In the years ahead, the increase will be particularly great at the oldest ages. With the population 65 and older projected to rise 50 percent between 1960–85, the population 85 and older may double.

—Increasingly, the rising population of widows is attempting to live independently, even if independence is purchased at the price of poverty.

—Our "retirement revolution" reflects two trends: at one end an increase in the number of very old aged; at the other, earlier departure from the labor force.

III. Unless positive action is taken, the economic position of persons now old will deteriorate markedly in the years ahead.

—National economic growth, while putting added dollars into pockets of the working group, increases pressures on the retiree. A rise in earnings of 4 percent annually—a not unrealistic assumption in view of recent performance—means consumption levels would approximately double in two decades, placing those on fixed income at a seriously deepening disadvantage in the marketplace.

—Earnings drop as advanced age further curtails already limited earnings opportunities. (In comparison to the age group 65–72, only half as many men 73 and over and a third as many women worked in 1962, and the earnings of the oldest workers were significantly lower.)

—Assets are reduced—in some cases, exhausted. Homeownership—the most important asset of the elderly—becomes especially difficult to maintain with advanced age, mounting taxes and other rising costs.

—Medical needs and the costs of meeting these needs rise with declining health. The rise in these costs is only partly met by Medicare, which covered 35 percent of health costs of the aged in 1967.

—Inflation erodes already inadequate incomes over longer retirement periods. (An annual rise of only 2 percent will reduce the purchasing power of fixed incomes by 18 percent after one decade and by 33 percent after two decades.)

IV. Today's inadequacies in retirement income—and the policies and trends that perpetuate them—should be of direct concern not only to our population of aged and aging Americans, but also to those in middle age or younger. Most parents today face a common problem: How can they allocate earnings to meet current obligations to their family and still have something left over for retirement?

—The margin for saving—the excess of income over consumption expenditures—has been small for most families during most years of the worklife, especially for workers in the less skilled occupations.

—In addition, with an outlook for sustained economic growth, how realistic is it to expect today's workers voluntarily to forego consumption in order to save for the years ahead when this requires that they *significantly reduce their present standard of living to provide adequately for an uncertain and "distant" old age?*

V. Projections and various studies indicate that Social Security, private pensions, and other forms of retirement income are not improving fast enough to reverse or significantly counter present economic trends.

—The overwhelming proportion of people retiring today receive total pension income—from both public and private pensions—which is only 20 to 40 percent of their average earnings in the years prior to retirement.

—Of families retiring in the next decade and a half, it has been projected that almost 60 percent of those with preretirement earnings between $4,000 to $8,000 will receive pension income of less than half these earnings.
—Projections to 1980 indicate that about half the couples and more than three-fourths of the unmarried retirees will receive $3,000 or less in pension income. And these projections use relatively liberal assumptions with respect to increases in private and public benefit levels.
—The same projection found that more than two-thirds of retired couples could be expected to receive less than $3,000 in social security benefits in 1980.
—Even under earlier projections, now known to be too optimistic, only a third to two-fifths of all aged persons in 1980 were expected to have income from private group pensions.
—In addition, private pensions cover less than half the work force and this coverage is concentrated among higher paid workers; those in the greatest need in old age will be least likely to receive these pensions.
—Early retirement is a developing trend that could seriously impede attempts to improve the income position of future aged populations. (In recent years, more than half of the men retiring have done so before age 65.)
—Among the proposed methods of raising the incomes of the aged population are various proposals for improved pensions, constant purchasing bonds, tax relief, increased public services, and improved welfare payments. No single proposal, however, can be expected to have a significant impact unless tied to broad policy decisions.

VI. Facing what must be recognized as a worsening retirement income crisis, the Nation must take positive, comprehensive actions going far beyond those taken within recent years. The Nation faces these basic policy issues:

—What is an adequate level of income for retired persons?
—What part in attaining this level should be played by governmental programs, by voluntary group action, and by individual effort?
—Is the economic problem of aging a temporary problem that requires a different solution or a different "mix" of solutions for today's aged than for those reaching old age in the future?

CONCLUSIONS

The task force has not attempted to enumerate and evaluate the many policy alternatives that have been recommended to deal with the economic problems of the aged. There are, however, a number of important conclusions which we feel are supported by the statistics summarized here and discussed more fully in the Report:

- **Low income in old age is *not* a transitional problem that, given present trends, will solve itself.**

Unless action is taken now, most aged will not have sufficient income to provide in retirement "A healthful, self-respecting manner of living which allows normal participation in community life."

- **The Social Security system has failed to keep up with the rising income needs of the aged.**

To a large extent social security benefit increases in the past have resulted, not from legislation with the purposeful intent of tapping a greater part of the rising national product for old people, but rather as a secondary result of attempts to deal with the severe and potentially explosive hardship problems facing many older people. In consequence, these past efforts have been aimed primarily at maintaining the economic status of the aged at some minimal standard or subsistence level in the face of rising prices.

- **Sufficient evidence now exists to spotlight certain special economic problems of the aged which compound the general problem of low income. Among the areas identified for immediate congressional attention are:**
  - (*a*) Income maintenance of widows—a particularly disadvantaged group.
  - (*b*) Health needs and rising medical costs.
  - (*c*) Problems associated with homeownership and taxation.
  - (*d*) Employment opportunities in old age.
  - (*e*) Implications of early retirement trends.

Simultaneously, congressional attention should be directed to (1) the various techniques for measuring and projecting the income needs of the aged population and to their use in decision making and (2) the appropriateness of methods now used or proposed for use in the adjustment of retirement benefits to changing conditions.

- **A reasonable definition of adequacy demands that the aged population, both now and in the future, be *assured* a share in the growth of the economy.**

If old age is to be more than a period when people decline and die, some way must be found whereby the aged, who have helped in the past to provide the basis for rising living standards, are guaranteed a share in some of the "harvested fruits". What this requires is a substantial transfer of income from the working to the retired population in order to improve the *relative* economic status of the aged.

- **Such assurance can *best* be provided, or can *only* be provided, through governmental programs, particularly the social insurance system of OASDHI, which carry commitments for future older Americans—the workers of today—as well as for this generation of the aged.**

The financial soundness of the Social Security system depends, essentially, on the Government's taxing powers which, in a vigorously growing economy, permit great flexibility to meet changing retirement needs. And retirement needs *are* changing as expectations rise and as American families increasingly begin to evaluate the adequacy of their retirement income in relation to their standard of living prior to retirement.

- **Private group pensions and personal savings—tailored as they are to individual needs, preferences, and financing ability—will continue to be essential supplements to basic social security benefits in the future. The Government should explore and lend support to various methods of promoting and encouraging such supplementary sources of retirement income.**

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

CHART SECTION

This section presents through charts some of the facts and findings that shaped the Task Force Report. Here, in brief, is the story told by the charts.

Low income continues to be the number one problem of older people, and the problem becomes greater as they grow older.

—The social security benefit payable to a couple who retired in December 1950—despite periodic adjustment—would now purchase a much smaller fraction of the BLS "moderate" budget than at the time of retirement (Chart A).

—Six in 10 widows and other aged women living alone are below the SSA poverty line. Their numbers have increased, reflecting a desire to live independently even at the price of poverty (Chart B).

—The gap between the median income of younger and older people has widened in recent years (Chart C).

—For the December 1954 retiree, adjustments in social security benefits never quite caught up with price rises until the increase effective early in 1968—and then only momentarily (Chart D).

Even with the important protection of Medicare, many older people have mounting medical bills that must be paid out of pocket.

—Medicare met 35 percent of all health care expenditures for the aged in its first year, fiscal year 1967 (Chart E).

—Health care expenditures in that year averaged $486 per aged person, about 2¾ times the average for younger persons (Chart F).

—Of this $486, public programs including Medicare financed $286, leaving $200 for private financing. In the year before Medicare, the total per aged person was $423, of which $294 was financed privately (Chart G).

If present trends are permitted to continue, today's workers will face the same problem of inadequate income in retirement.

—Given the present pension structure, a majority of the aged in 1980 will have income from public and private pensions that is below any reasonable level of adequacy (Chart H).

—For most workers retiring in the two decades 1960–80, pension income will be less than half of past earnings (Chart I).

—Early retirement seriously reduces the proportion of earnings replaced by pension income (Chart J).

—For most workers during most of the working lifetime, the excess of income over expenditures leaves little margin for saving (Chart K).

A RISING GAP - *SOCIAL SECURITY BENEFIT AND MODERATE STANDARD OF LIVING FOR RETIRED COUPLES*

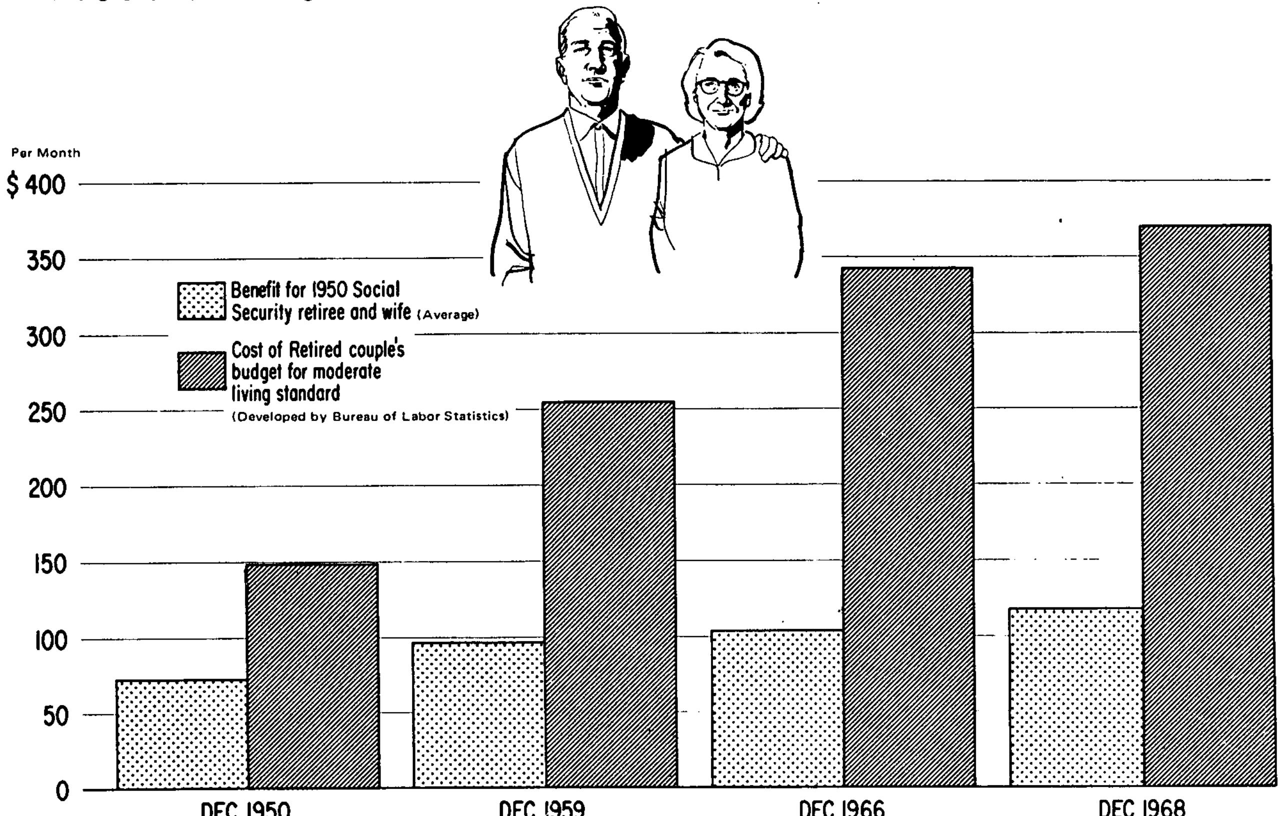


Chart A

CHART A. A RISING GAP—SOCIAL SECURITY BENEFIT AND MODERATE STANDARD OF LIVING FOR RETIRED COUPLES

SOURCE OF DATA: "OASDHI Benefits, Prices, and Wages: Effect of 1967 Benefit Increase," by Daniel N. Price, *Social Security Bulletin*, December 1968, page 32.

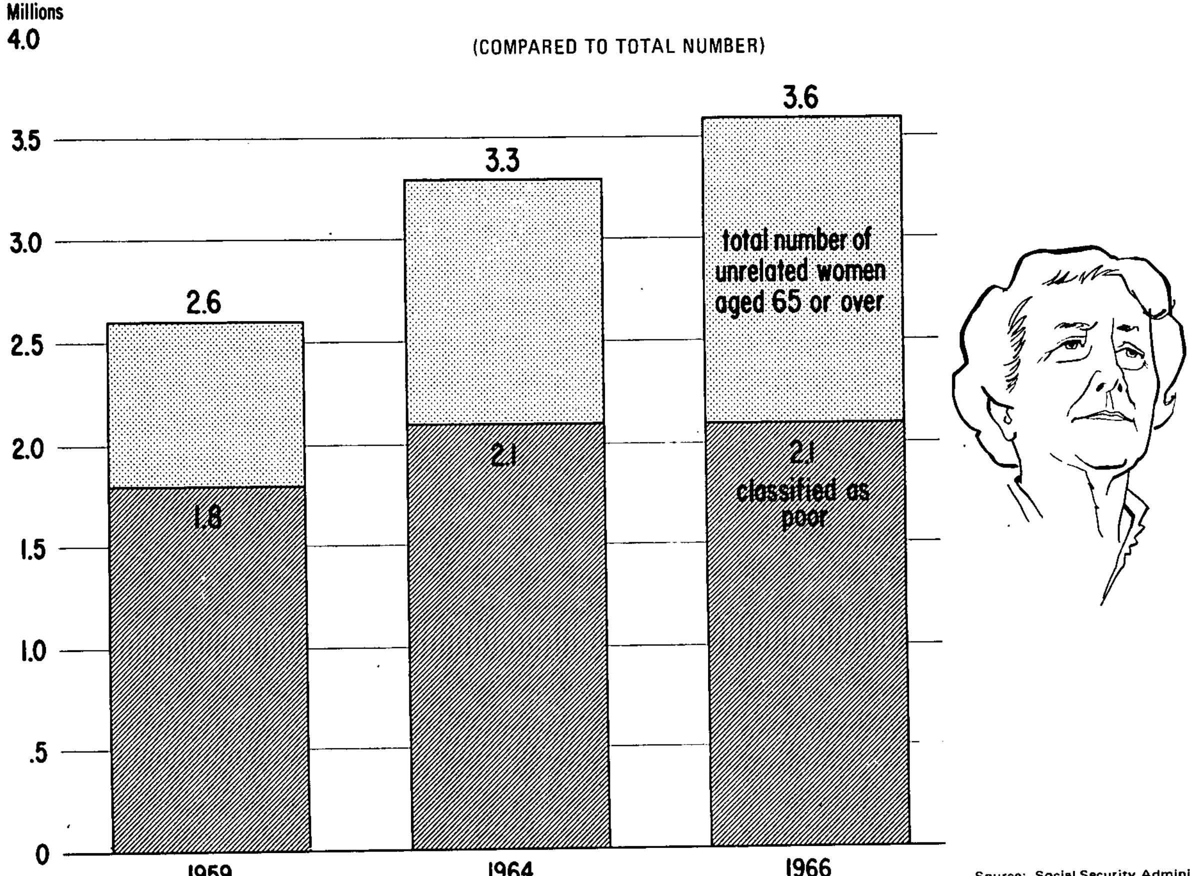
TECHNICAL NOTE: The Retired Couple's Budget for a Moderate Living Standard, developed by the Bureau of Labor Statistics, is intended to represent a measure of what retired couples themselves consider an appropriate level of living. It provides for the maintenance of health and social well-being, and participation in community activities. The retired couple is defined as a husband age 65 or older and his wife, self-supporting, living independently in an urban area, and enjoying fairly good health.

The cost of this monthly budget for couples living in rented dwellings in 18 cities was: $149 in December 1950; $255 in December 1959; and $344 in December 1966; (the 1966 budget study was the first in the series to include data for homeowners and comparison with earlier studies is therefore limited to renters). Of the increase in costs between 1950 and 1966, about half has been attributed by the BLS to higher standards of living and half to advances in prices for the goods and services in the budget. Adjustment of the 1966 figure by the increase in the Consumer Price Index would bring the cost to $370 in December 1968.

The worker who retired late in 1950 received a social security benefit that averaged $49.50; addition of 50 percent for a wife would raise this average to about $75, or half the cost of the elderly couple's budget at that time. Legislative increases would have raised this benefit to $98 by December 1959 and to $104 by December 1966. The increase resulting from the 1967 Social Security Amendments brought the benefit to $118, somewhat less than one-third of the cost of the budget for a moderate standard of living. (Had the average benefit for a couple been used—rather than 150 percent of the average payable to all retired workers—the dollar figures would have been slightly higher for each year. But the widening gap between the benefit and the budget cost would have been the same.)

THE FINDINGS: The average social security benefit payable to an elderly couple who retired in December 1950—even though it has been adjusted over the years—would now purchase a significantly smaller fraction of the Retired Couple's Budget for a Moderate Standard of Living than at the time of retirement. (See discussion, pp. 13–14.)

AGED WOMEN LIVING ALONE IN POVERTY



Source: Social Security Administration

Chart B

CHART B. AGED WOMEN LIVING ALONE IN POVERTY

SOURCE: Social Security Administration estimates reported in "Counting the Poor: Before and After Federal Income-Support Programs," by Mollie Orshansky, U.S. Joint Economic Committee *Compendium*, part II, table 4, page 188.

TECHNICAL NOTE: The index of poverty developed by the Social Security Administration is admittedly far from generous. It uses as its core the economy food plan of the Department of Agriculture. The index adds twice this amount to cover all family living items other than food. Except to allow for rising prices, it has not been adjusted for changes since 1959. The dollar amount used to determine the poverty line for an aged person living alone was $1,565 in 1966.

Using this index, 1.8 million aged women lived alone in poverty in 1959. They accounted for as much as 71.5 percent of the 2.6 million aged women classified by the Bureau of Census as unrelated females in 1959. By 1966, the number of aged unrelated women had climbed to 3.6 million. The number counted poor through use of the Social Security Administration's poverty index had increased to 2.1 million, but the proportion had dropped to 59.3 percent.

Data are not yet available to show the improvement that resulted from the 1967 Social Security Act Amendments.

THE FINDINGS: Widows and other aged women living alone are particularly disadvantaged economically. Six out of every 10 of them have incomes below the poverty line. The number of aged women living alone in poverty has increased in recent years, reflecting the desire to live independently even at the price of poverty. (See table 4 and discussion, pp. 14–16.)

THE INCOME GAP BETWEEN OLDER AND YOUNGER PEOPLE IS WIDENING

Trend in Median Money Income 1960-67

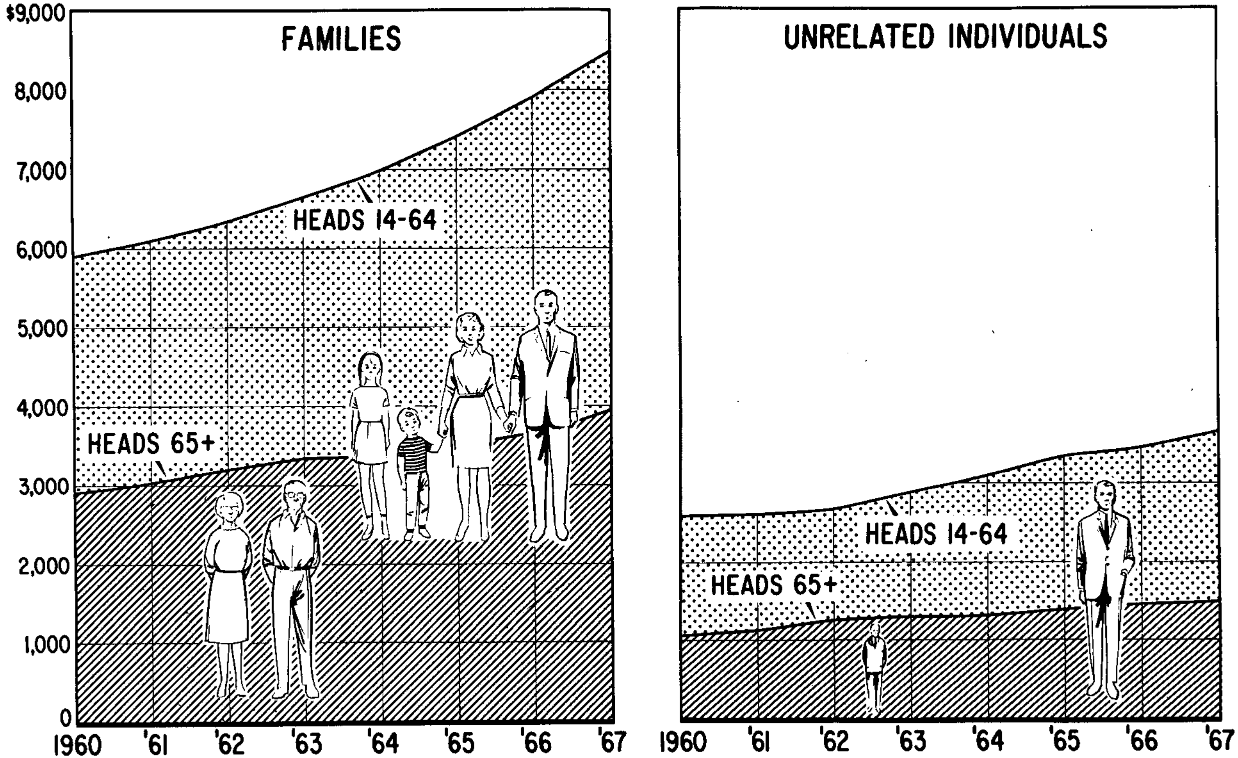


Chart C

Source: Bureau of the Census

CHART C. THE INCOME GAP BETWEEN OLDER AND YOUNGER PEOPLE IS WIDENING

SOURCE: Unpublished data from the U.S. Bureau of the Census shown in table 5, prepared by the Administration on Aging, U.S. Department of Health, Education, and Welfare.

TECHNICAL NOTE: For purposes of comparing the incomes of different age groups, the median (the amount which divides the distribution in half) is more appropriate than the mean or arithmetical average (which is heavily weighted upward by a few cases of very high incomes).

THE FINDINGS: The gap between the median income of younger and older people has been widening in recent years. The median income of families with a head age 65 or older dropped from 50.6 percent of the median of younger families in 1962 to 46.2 percent in 1967. The decline for older unrelated individuals has been even sharper, from 47.2 percent in 1962 to 40.5 percent in 1967. (See table 5 and discussion, p. 17.)

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RISING PRICES OUTDISTANCE SOCIAL SECURITY BENEFITS

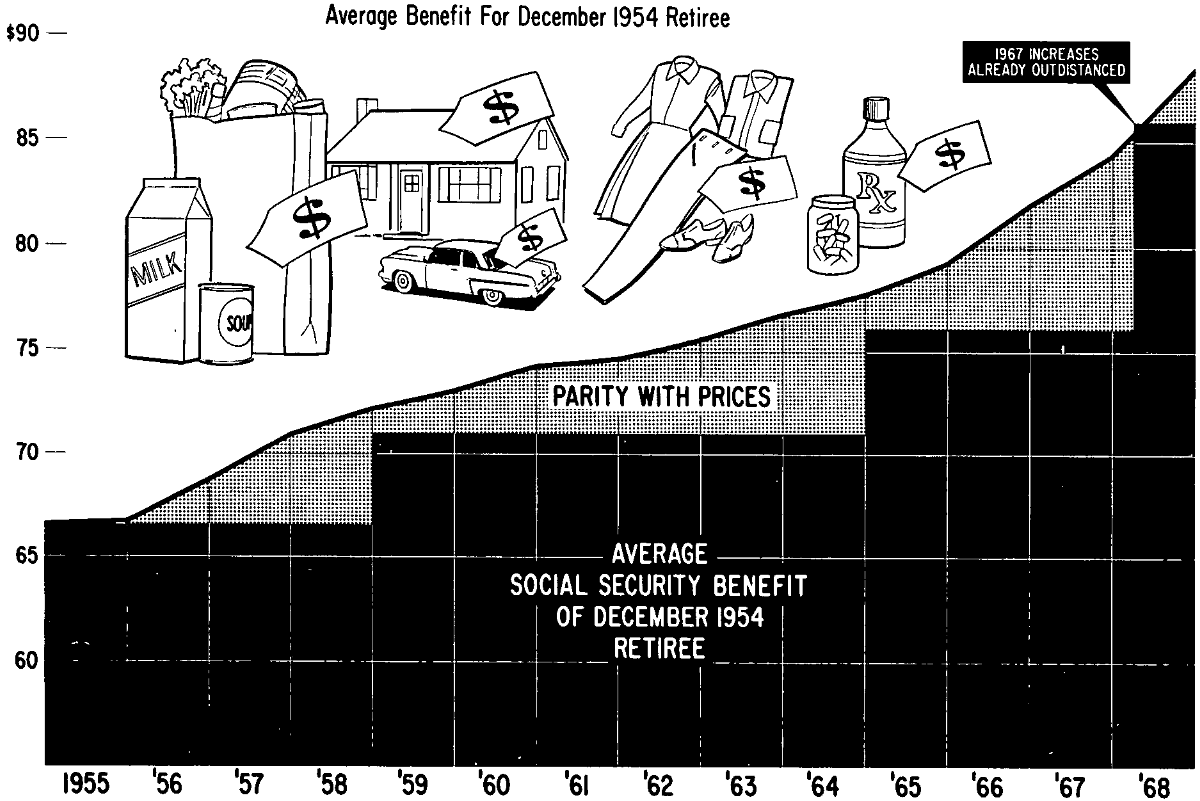

Chart D

Source: Social Security Bulletin, Dec. 1968

CHART D. RISING PRICES OUTDISTANCE SOCIAL SECURITY BENEFITS

SOURCE: "OASDHI Benefits, Prices, and Wages: Effect of 1967 Benefit Increase," by Daniel N. Price, *Social Security Bulletin*, December 1968, table 1, page 29.

TECHNICAL NOTE: Following the 1967 amendments—which raised benefit checks received in March 1968—the Social Security Administration analyzed the increases made by these and earlier amendments to determine to what extent they protect the retired worker against erosion of the purchasing power of his benefit. The Bureau of Labor Statistics' Consumer Price Index (CPI) is the measure of price changes used in this review. The analysis led to this conclusion:

"OASDHI retirement benefits have been increased to the point where thay have regained for the time being the purchasing power of the amount received by all workers at the time they came on the rolls."

The extent to which benefits have lagged behind price rises between adjustments and the extent to which the adjustment corrects for the rise varies, depending on when the retired worker came on the rolls. Charted are data for the December 1954 retiree—the most extreme example of the lag.

The average monthly benefit paid to the worker who retired in December 1954 was $66.60; (the chart point for "Parity with Prices" therefore also begins at this point). His benefit stayed at this level through 1958 while the price level edged upward. Effective in January 1959, his benefit was increased to $71, about a dollar less than the amount needed to achieve parity with prices. He continued to receive the $71 benefit over the next 6 years until the increase effective in January 1965 raised it to $76. By that time, the benefit would have needed to be $77.80 to have the same purchasing power it had had when he came on the rolls. It was not until the increase effective early in 1968 that his benefit caught up with rising prices. Barely caught up, since his benefit became $85.90 at the time when the amount needed for parity with prices was $85.40. And only momentarily, because parity with prices would have required a benefit of $88.50 by the end of the year.

THE FINDINGS: For some retirees, the adjustments in social security benefits over the years have been too little and too late to catch up with rising prices. (See table 10 and discussion, pp. 24–25.)

THE ROLE OF MEDICARE IN FINANCING HEALTH CARE EXPENDITURES FOR THE AGED DURING ITS FIRST YEAR (FY 1967)

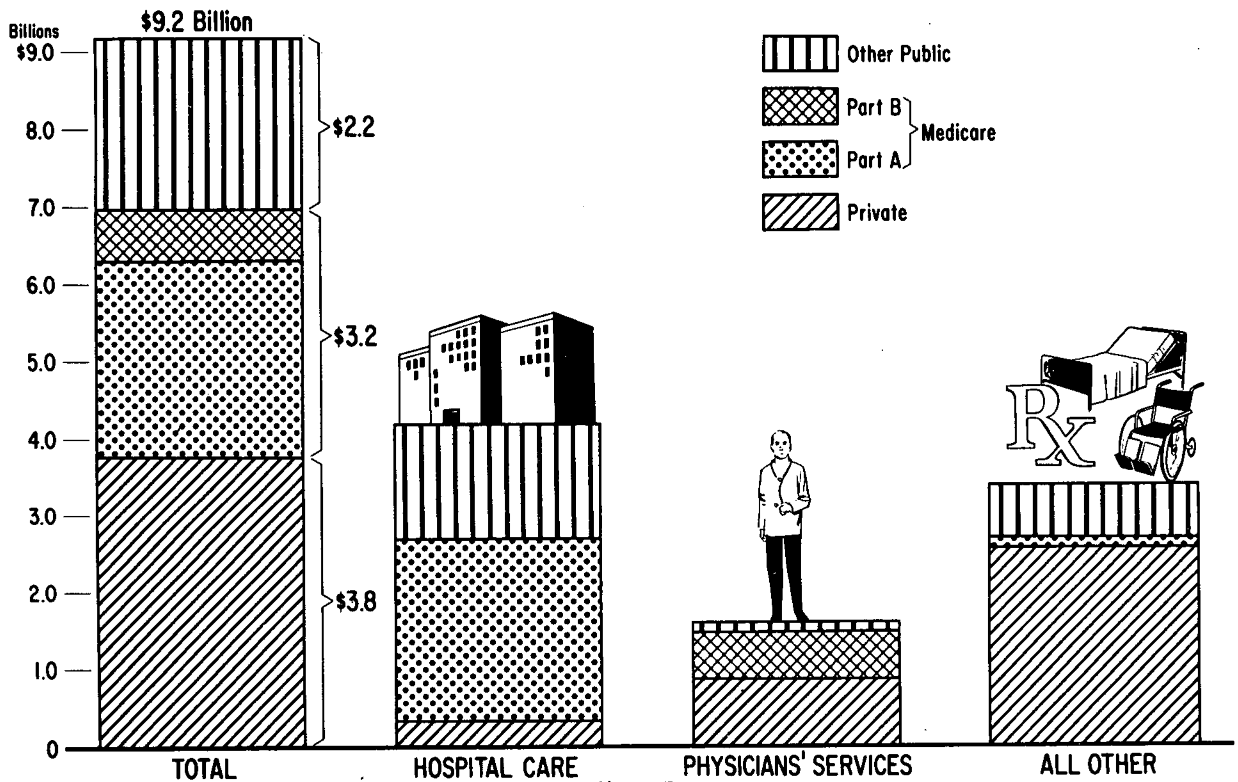

Chart E

Source: Social Security Bulletin, August 1968

CHART E. THE ROLE OF MEDICARE IN FINANCING HEALTH CARE EXPENDITURES FOR THE AGED DURING ITS FIRST YEAR

SOURCE: "Personal Health Care Expenditures of the Aged and Nonaged," by Dorothy P. Rice, Arne Anderson, and Barbara S. Cooper, *Social Security Bulletin*, August 1968, table 3, page 22.

TECHNICAL NOTE: Personal health care expenditures include all expenditures for health and medical care services received by individuals. Excluded are expenditures for medical-facilities construction, medical research, public health activities not of direct benefit to individuals (that is, disease prevention and control), and some expenses of philanthropic organizations. These data also exclude the net cost of insurance (the difference between health insurance premiums and benefits paid) as well as administrative expenses of several public programs.

Of the $9.2 billion in expenditures for the aged in fiscal year 1967, a total of $3.2 billion—or 34.6 percent—was expended under the public program of Medicare. In the distribution by source of funds, all expenditures under Medicare are classified as "public" even though the aged individual pays a monthly premium for Part B Medical Insurance. This serves to understate the amount financed by private funds and to overstate the public share.

The $626 million expended for physicians' services under Medicare in fiscal year 1967—its first year of operation—do not fully reflect the charges incurred under the program because there is a considerable lag between the time a patient visits a physician and the time the carrier receives payment from the trust fund for such a visit. (There are indications that incurred charges accruing under Part B Medical Insurance in fiscal year 1967 amounted to an estimated $1.1 billion instead of the $644 million actually expended; this would raise the proportion of total expenditures that were attributable to Medicare to roughly 37 percent.)

Public expenditures other than those under the Medicare program were largely through public assistance programs, commonly called Medicaid.

The category "all other" includes expenditures for dentists' and other professional services, drugs and drug sundries, eyeglasses and appliances, nursing-home care, and other health services.

THE FINDINGS: Medicare benefits paid in the first year of operation totaled $3.2 billion, 35 percent of the estimated personal health care expenditures of $9.2 billion for all people 65 and older. Of expenditures for hospital care, 57 percent was through the Medicare program. (See table 7 and discussion, pp. 20–23.)

AVERAGE HEALTH CARE EXPENDITURES PER PERSON

Aged & Younger, Fiscal Year 1967

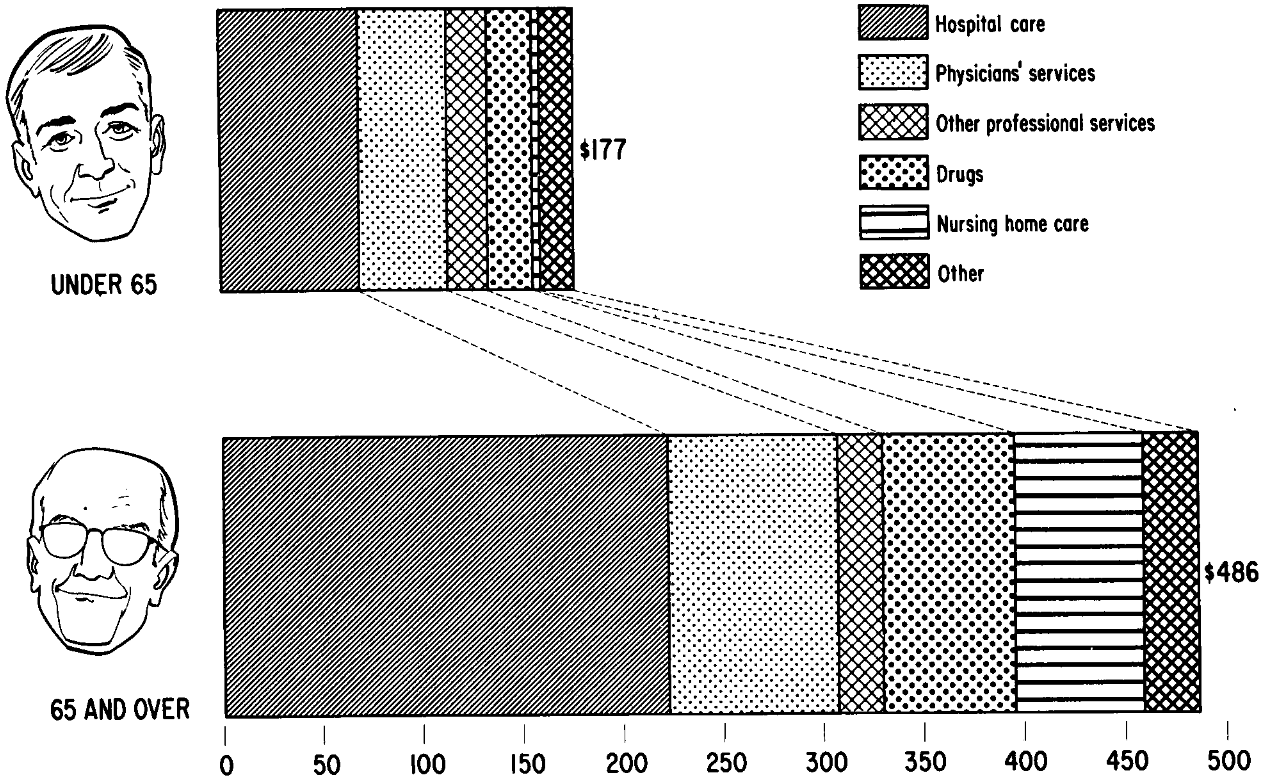

Chart F

Source: Social Security Bulletin, August 1968

CHART F. AVERAGE HEALTH CARE EXPENDITURES PER PERSON: AGED AND YOUNGER

SOURCE: "Personal Health Care Expenditures of the aged and Nonaged," by Dorothy P. Rice, Arne Anderson, and Barbara S. Cooper, *Social Security Bulletin*, August 1968, table 2, page 21.

TECHNICAL NOTE: Personal health care expenditures include all expenditures for health and medical care services received by individuals. Excluded are expenditures for medical-facilities construction, medical research, public health activities not of direct benefit to individuals (that is, disease prevention and control), and some expenses of philanthropic organizations. The data also exclude the net cost of insurance (the difference between health insurance premiums and benefits paid) as well as administrative expenses of several public programs.

The category "other professional services" includes expenditures for dentists' services and other professional services. The category "other health services" includes expenditures for eyeglasses and appliances and other health services.

THE FINDINGS: Personal health care expenditures in fiscal year 1967 averaged $486 per person 65 and older, about 2¾ times the average for younger persons ($177). The two age groups differ considerably in the average spent for the various types of medical care. For hospital care and for drugs, per capita expenditures of the aged are about three times those of younger people. The widest disparity is for nursing-home care; $64 was spent for the average aged person, compared with only about $2 per person under age 65. (See table 8 and discussion, pp. 20–23.)

HEALTH CARE EXPENDITURES PER AGED PERSON BY SOURCE OF FUNDS

FY 1966 and 1967 (Before and after Medicare)

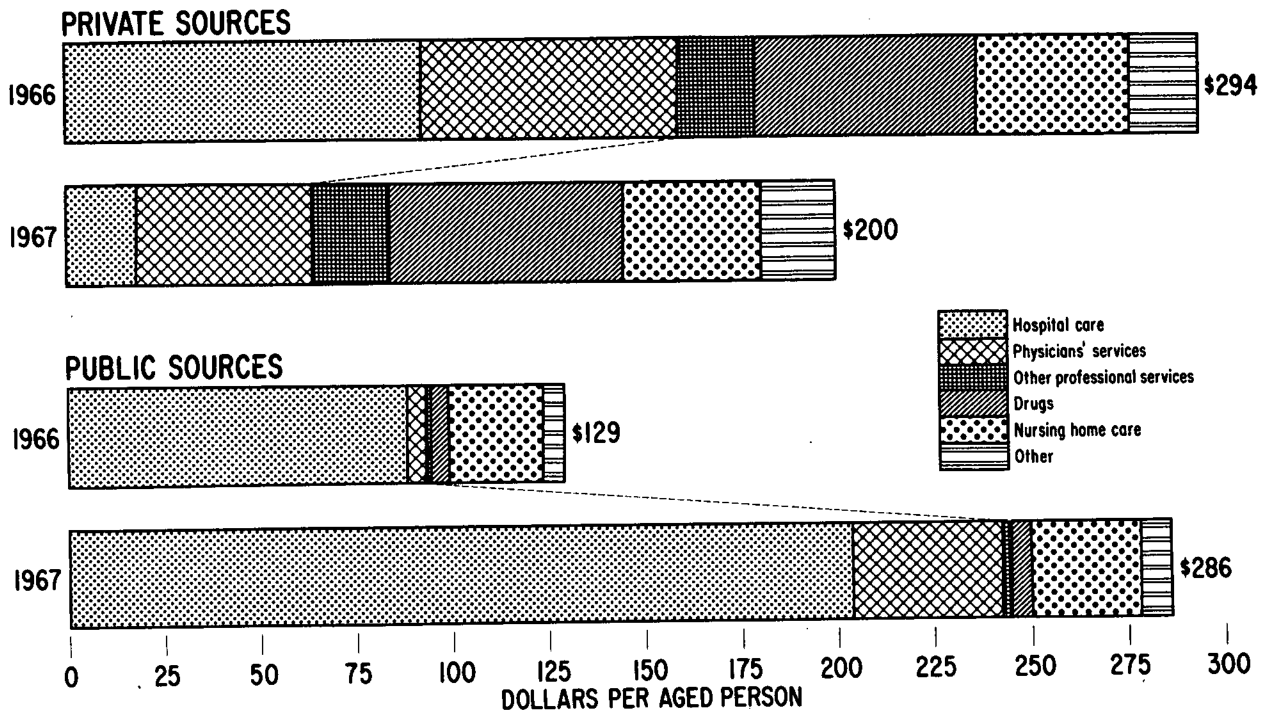

Chart G

Source: Social Security Bulletin, August 1968

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CHART G. HEALTH CARE EXPENDITURES PER AGED PERSON, BY SOURCE OF FUNDS

SOURCE: "Personal Health Care Expenditures of the Aged and Nonaged," by Dorothy P. Rice, Arne Anderson, and Barbara S. Cooper, *Social Security Bulletin*, August 1968, table 2, page 21.

TECHNICAL NOTE: Personal health care expenditures include all expenditures for health and medical care services received by individuals. Excluded are expenditures for medical-facilities construction, medical research, public health activities not of direct benefit to individuals (that is, disease prevention and control), and some expenses of philanthropic organizations. The data also exclude the net cost of insurance (the difference between health insurance premiums and benefits paid) as well as administrative expenses of several public programs.

In classifying health care expenditures by source of funds, the Social Security Administration attributes to public sources all expenditures made through *public programs*. Thus, all expenditures under Medicare are classified as "public," even though the aged individual pays a monthly premium for Part B Medical Insurance.

The category "other professional services" includes expenditures for dentists' services and other professional services. The category "other health services" includes expenditures for eyeglasses and appliances and other health services.

THE FINDINGS: The average health care expenditure per aged person in fiscal year 1967 was $486, nearly 15 percent more than in fiscal year 1966. Primarily as the result of Medicare, the portion financed from public funds rose markedly in the first year of operation—from $130 per aged person in fiscal year 1966 to $286 in fiscal year 1967. There was a less sharp drop—from $294 per capita to $200—in expenditures classified as from private sources. (See table 8 and discussion, pp. 20–22.)

1980 PROJECTIONS OF PUBLIC AND PRIVATE PENSIONS

About half the couples below $3,000 and more than half the singles below $2,000

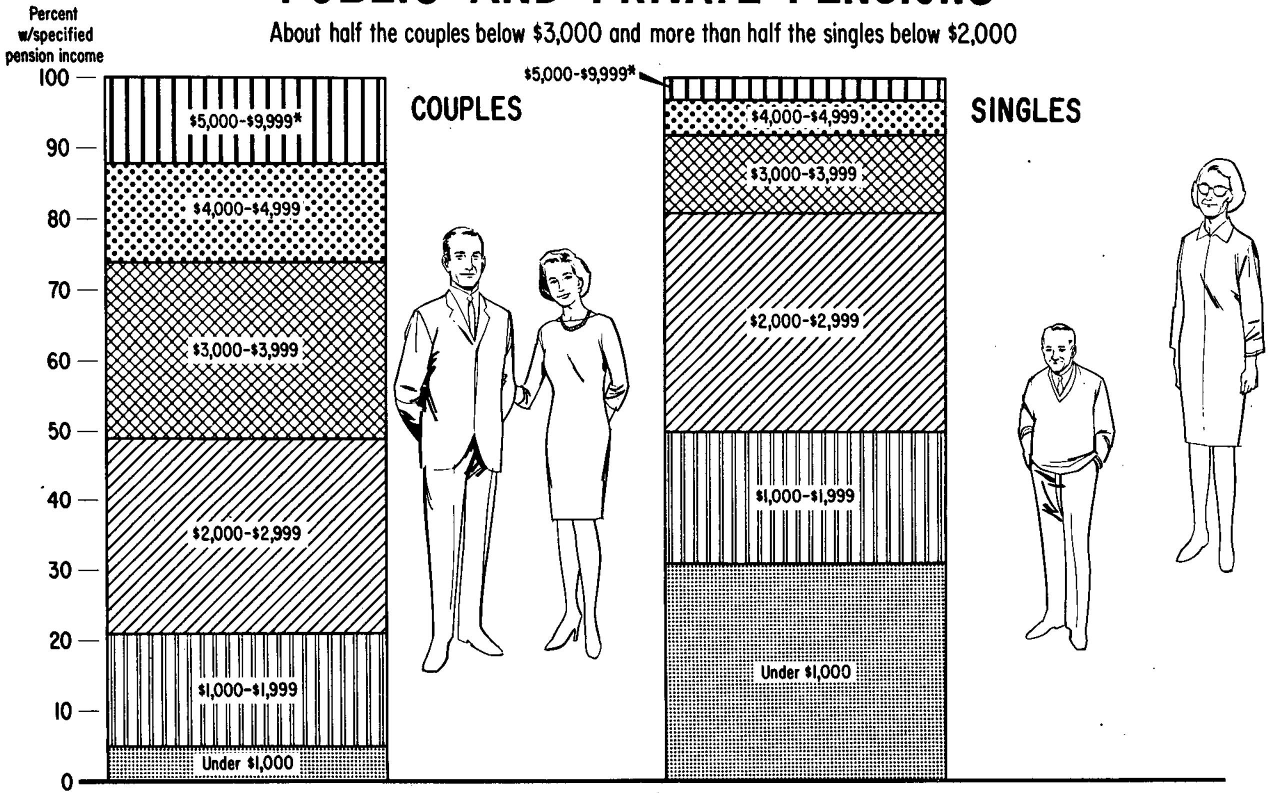

Chart H

*$10,000 and over = less than 0.5%

Source: Research Report No. 24, Social Security Administration

CHART H. 1980 PROJECTIONS OF PUBLIC AND PRIVATE PENSIONS

SOURCE: "The Economic Status of the Retired Aged in 1980: Simulation Projections," by James H. Schulz, *Research Report* No. 24, Office of Research and Statistics, Social Security Administration, U.S. Department of Health, Education, and Welfare, January 1968, table 9, page 64.

TECHNICAL NOTE: This study uses a high-speed computer and the simulation technique to make projections of income from pensions (both public and private) in 1980. Beginning with a large sample of the U.S. population in 1960, the study identifies all married couples where the husband is 45 through 60 years of age and all unmarried individuals 45 through 60 years of age. These individuals are then "aged" 20 years through a "life process" model which simulates the activities that have an important influence on pensions (labor force exit and entry, job change. pension coverage, vesting, and unemployment), as well as the probability of death in each particular year, for each individual.

This simulation technique makes possible the combination of a large number of characteristics, each with specified probabilities of occurrence, for a large number of individual cases. The probability of the accuracy of the projection can thus be increased. At the same time, the differential effect of alternative assumptions and alternative program changes can be tested.

The assumptions made to project retirement benefits payable under the Social Security system are quite liberal. For example, the simulation assumes a rise in social security benefits (based on average creditable wages) of 4 percent annually—a much higher rate of increase than has been voted by the Congress in the past.

Private pensions are assumed to increase at an average annual rate of 3 percent.

The study also adjusts for the general rise in earnings in the economy and individual worker wage changes due to seniority, skill, and age factors.

THE FINDINGS: Given the existing institutional pension structure and certain minimum assumptions with regard to these institutional arrangements in the next decade and a half, a majority of the aged in 1980 will have pension income below any reasonable level of adequacy. Pension income will be below $3,000 for about half the couples, and below $2,000 for more than half the single individuals. (See discussion and table 11, p. 27.)

FOR MOST RETIREES, PENSION INCOME WILL BE LESS THAN HALF OF PAST EARNINGS

Projected Ratio at Retirement of Public and Private Pensions to Preretirement Earnings

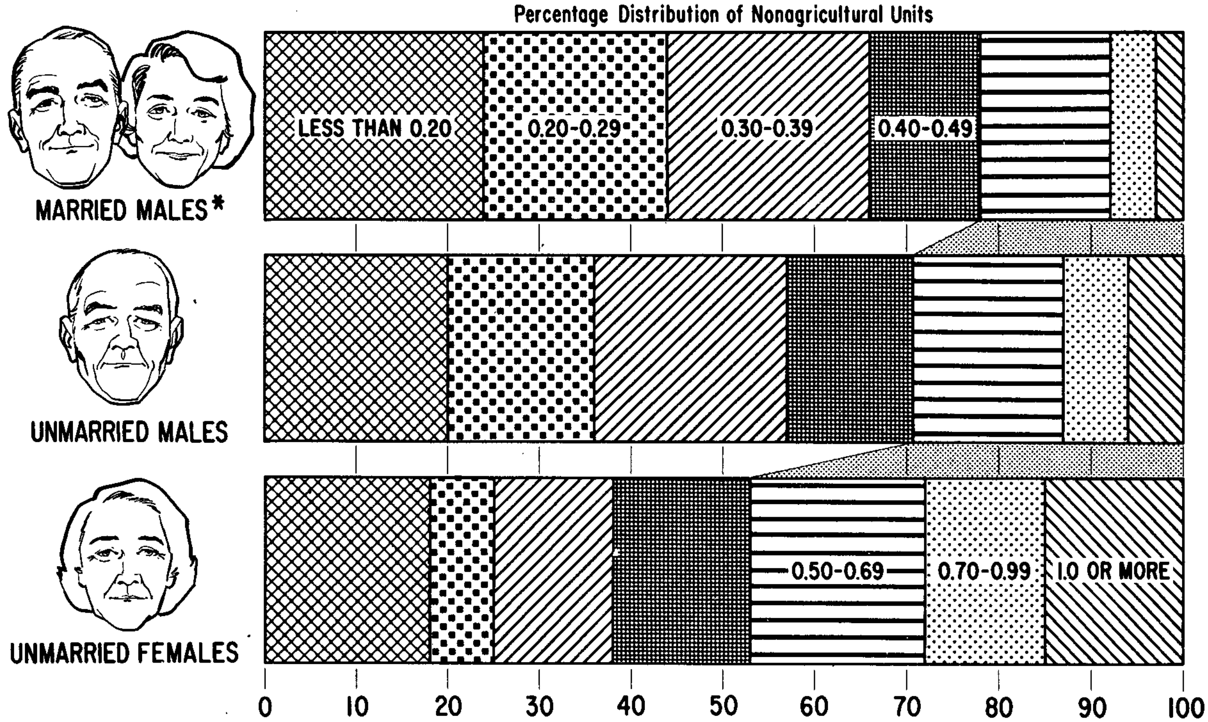

Chart I

*Ratios exclude the supplementary social security benefit for the wife

Source: U.S. Joint Economic Committee Compendium, Part II, p. 254

CHART I. FOR MOST RETIREES, PENSION INCOME WILL BE LESS THAN HALF OF PAST EARNINGS

SOURCE: "Aged Retirement Income Adequacy—Simulation Projections of Pension-Earnings Ratios," by James H. Schulz, U.S. Joint Economic Committee *Compendium*, part II, table 5, page 254.

TECHNICAL NOTE: The projection is made through the simulation model described under Chart H. During the simulation, earnings histories are kept for each individual. Using an average of earnings during the 5 years prior to retirement, P/E ratios (the ratio of public and private pensions to preretirement earnings) have been projected for workers retiring between 1960 and 1980.

The ratios charted for married males exclude the supplementary social security benefit for the wife. Inclusion of the wife's benefit—equal to one-half the husband's benefit—raises the P/E ratios. Inclusion of any preretirement earnings of the wife in total preretirement average earnings lowers the P/E ratios. The net result is an improvement in the P/E ratios for couples. (See table 12(c) on p. 29 for the ratio, by preretirement earnings group, when the wife's benefit and earnings are included.)

The fact that some workers have P/E ratios close to or greater than 1 is explained, for the most part, by the minimum benefit provisions for low-wage workers in most public and private pension systems. (The effect of these minimum benefit provisions is shown in table 12 where P/E ratios are tabulated by the preretirement earnings group of the pension recipient.)

That the ratios are somewhat higher for women than for men reflects their lower earnings: the minimum benefit provisions are more likely to have an effect and the provisions relating to maximum creditable earnings, less likely.

THE FINDINGS: Of workers retiring before 1980, approximately three-fourths of the males and one-half of the unmarried females have projected P/E ratios that are less than 0.50. Nearly one-quarter of the married males have a projected P/E ratio of less than 0.20. (See discussion and tables, pp. 28–29.)

EFFECT OF EARLY RETIREMENT

Projected Ratio of Public and Private Pension Income to Preretirement Earnings

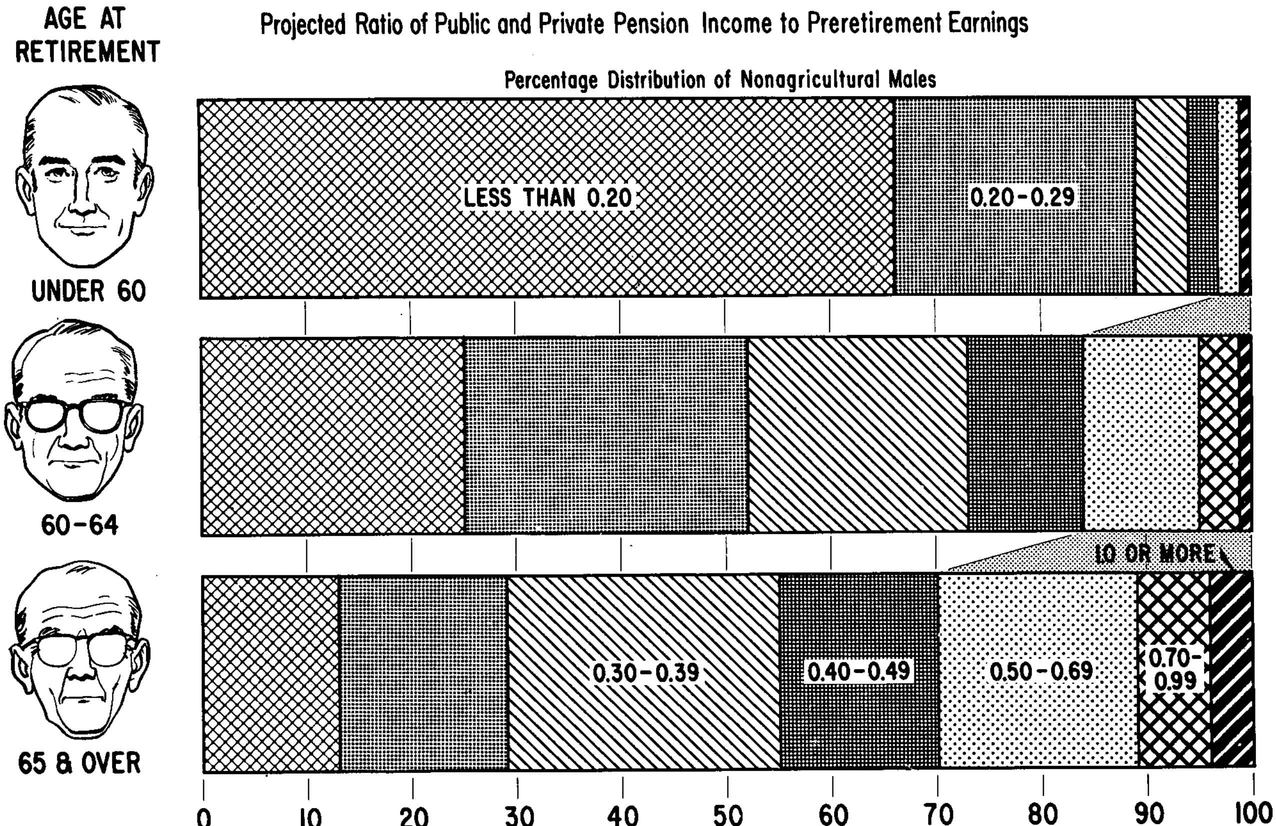

Chart J

Source: Joint Economic Committee Compendium, Part III, p.167

CHART J. EFFECT OF EARLY RETIREMENT

SOURCE: "'Early Retirement' Trends and Pension Eligibility Under Social Security," by James H. Schulz, U.S. Joint Economic Committee *Compendium*, part III, table 8, page 167.

TECHNICAL NOTE: Projections were made through a modification of the simulation model described under Chart H.

As part of a broad study of pension income adequacy in the future, preliminary findings are available to assess the effect of early retirement on the amount of wage replacement provided by pensions. Again, the P/E ratio is the ratio of the total of public and private pension income to average annual earnings during the 5 years prior to retirement. The data relate to married males who were age 45 to 60 in 1960.

The projection introduces a moderate upward trend in the male retirement rates between 1960 and 1980. This trend is based on BLS projections of participation rates for older males. Social security retirement benefit eligibility at age 62 is assumed available for men after 1962.

THE FINDINGS: The replacement ratios for men retiring before age 60 are much lower than for those retiring at the "normal" retirement age of 65 or more. Only about 3 percent of those retiring before age 60 are projected to have a replacement of 50 percent or more of their average annual earnings from pension income. In contrast, almost one-third of those retiring at age 65 or after are projected to have a replacement above 50 percent. (See table 14 and discussion, p. 32.)

THE MARGIN FOR SAVINGS, 1960-1961

Excess or Deficit of Average Annual Income (after taxes) over Average Annual Expenditures by Age and Occupation

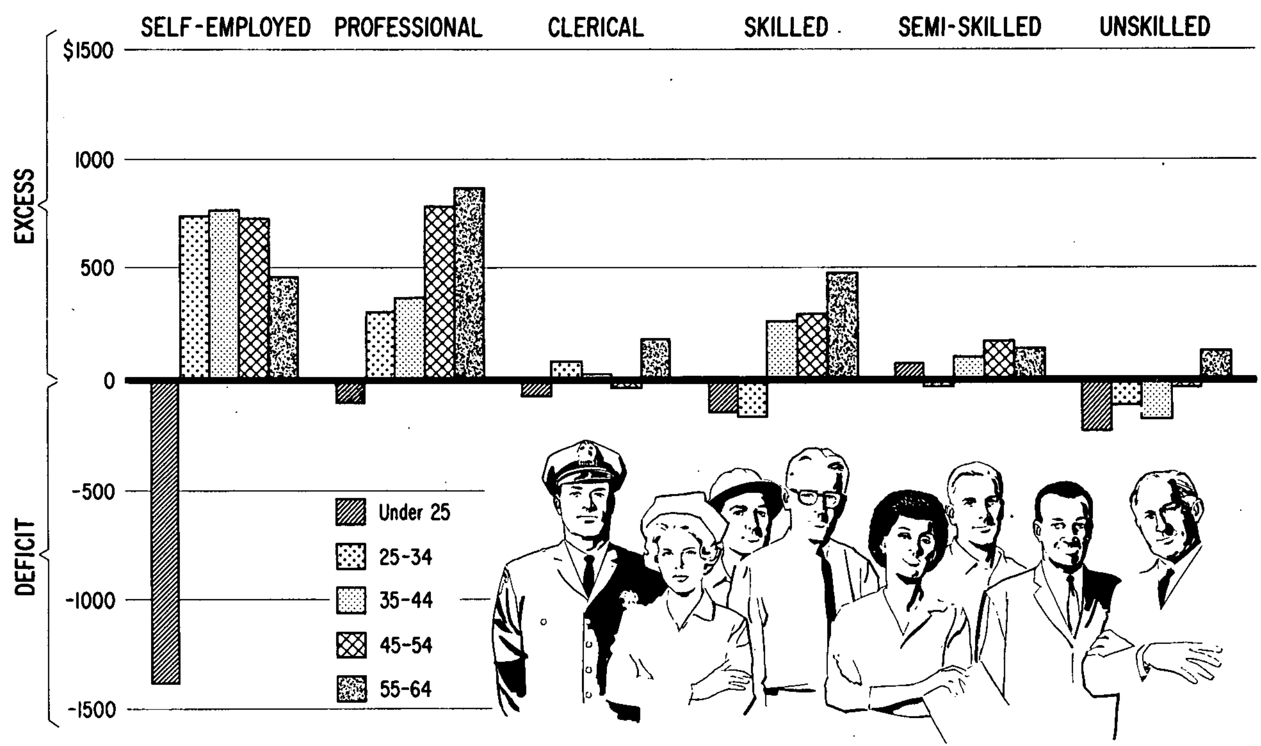

Chart K

Source: Based on BLS Report No. 237-B

26–216 O—69——5

CHART K. THE MARGIN FOR SAVINGS, 1960–61

SOURCE: Based on BLS Report 237–8, analyzed in "Lifetime Earnings and Income in Old Age," by Juanita M. Kreps and Donald E. Pursell, U.S. Joint Economic Committee *Compendium*, part II, pages 261–264.

TECHNICAL NOTE: Data used are from the Bureau of Labor Statistics study of Consumer Expenditures and Income in 1960–61. For several occupations at different ages of the family head, estimates are available of the 1960–61 average annual money income after taxes and of the 1960–61 average annual expenditures for current consumption and outlays for durables. This chart shows the annual excess or deficit of average income over average expenditures for each of the age cohorts in these occupations.

Since the amount of this excess or deficit is estimated from cross-sectional data, it does not of course reveal the financial picture of a particular family as it progresses through worklife. Nor—since it is based on averages—does it reveal the excess or deficit for a particular family in that occupation and age group. For example, the self-employed under age 25 had an average money income of $4,528 and an average expenditure of $5,912. This is shown on the chart as a deficit of $1,384, an amount that looks completely unreasonable unless interpreted as the difference between two averages based on all self-employed families in the age group.

THE FINDINGS: Annual incomes exceed expenditures of the self-employed and professional workers' families for most of the age cohorts, leaving sources of savings at practically all stages of worklife. Semi-skilled workers also have a small margin for saving. For clerical and skilled workers, expenditures are barely balanced by income in total, with the years of slight deficits roughly matched by years of small savings. In the case of unskilled workers, no balance of income with expenditure is achieved except by the 55 to 64 age group. (See table 15 and discussion, p. 35.)

ECONOMICS OF AGING: TOWARD A FULL SHARE IN ABUNDANCE

TASK FORCE REPORT

Introduction

Every American—whether poor or rich, black or white, uneducated or college-trained—faces a common aging problem: How can he provide and plan for a retirement period of indeterminate length and uncertain needs? How can he allocate earnings during his working lifetime so that he not only meets current obligations for raising children and contributing to the support of aged parents but has something left over for his own old age?

The economic situation of the aged today speaks ill of the solutions to this problem in the past. But people now old were hampered in their efforts to prepare for their future by two world wars, a major depression and lifetime earnings which were generally low. The important question persists: What are the prospects for the future aged?

As a Nation, what do we intend for ourselves when aged and what for those who are already old? How are older people, now and in the future, to share in our economic abundance?

PART ONE

CHARACTERISTICS OF THE AGED POPULATION

Certain facts are needed as a frame of reference for consideration of the economic position of the aged, now and in the future.[1] Who are the people now 65 and older? How is the aged group changing? What are the population characteristics that help to explain low incomes in old age?

Every tenth American is 65 or older. Certainly, there are about 20 million aged individuals. Fewer than 9 million are men and more than 11 million are women.

The rate of growth in the population 65 and older has slackened in recent years. In contrast to a 3.0 percent annual rate of increase for the decade 1950–60, the rate has averaged just under 2 percent during the Sixties.

Projections for the decade ahead indicate a growth rate for the aged population about the same as the rate for the total population. The ratio of the population aged 65 and over, consequently, is expected to remain nearly a constant proportion (about 18 percent) of the population in the "working ages" of 20–64 through 1985.

The population 65 and older is not a homogeneous group at any given date; the composition of the group is constantly shifting.

On the average day, roughly 3,900 people will celebrate their 65th birthday but about 3,080 already past 65 will die, a net increase of 820 a day. In the course of a year, this means a net increase of 300,000. In the course of 5 years, 35 percent of the population 65 and older are new additions to this age group.

The aged population is getting older. Half of all people now 65 and older are about 73 years old or over. Of every 100 older persons today, 63 (almost two-thirds) are under 75; 31 (almost one-third) are between 75 and 85; and 6 are 85 or over.

In the years ahead, the growth in the aged population will be particularly great at the highest ages. The population 85 and older may nearly double over the years 1960 to 1985, in comparison to a 50 percent projected increase for the total population 65 and older.

More of the aged in the future will be women, and most of these women will be widows. Women 65 and older already outnumber men by a ratio of 134 to 100 and this disproportion is expected to rise to 150 to 100 by 1985.

[1] The facts used here have been drawn primarily from *A Profile of the Older American*, by Herman B. Brotman, Administration on Aging, U.S. Department of Health, Education, and Welfare. The Task Force is indebted to Mr. Brotman for his assistance in providing data more recent than those in his published analysis and for his helpful advice.

A majority of all women 65 and older are now widows. The greater longevity of women—another 16 years at age 65 in comparison to 13 years for the men—coupled with the fact that women usually marry men somewhat older, accounts for an increasingly heavy preponderence of widows in the older population, especially at the higher ages. Widows now number 6.2 million; by 1985, the number will soar to more than 8 million.

Because of the high proportion of widows, fewer than 4 in 10 women 65 and older—but more than 7 in 10 of the men—are married and living with the spouse.

Most aged persons live independently in homes they own. Nine out of every 10 older men and almost 8 in 10 women live in their own households either as heads or wives of heads of the household. Of the rest, the majority are in the household of a member of their family rather than in an institution. At the time of the 1960 census of housing, about 70 percent of the households headed by older people occupied homes owned by a member of the household.

Their educational level reflects their advanced age. Half never went beyond elementary school. Nearly 17% are illiterate or functionally iliterate. Only 1 in 20 is a college graduate.

A growing proportion of retirees will have older parents still living. The ratio of persons aged 80 and over to those aged 60 to 64 was 34 per 100 at the time of the 1960 census and is expected to double—reaching 67 per 100—by the end of the century.

Also, as our population grows older, more people outlive their children. Probably as many as one-fifth of all older people today never had children or had children who preceded them in death.

The population aged 60-64—now 8.2 million people—demands much the same attention as that given to the population aged 65 and over. Early retirement from the labor force is becoming increasingly common and is all too often an involuntary and unplanned retirement, with an impact no different than that on persons over the traditional retirement age of 65.

PART TWO

ECONOMIC POSITION OF OLDER PEOPLE TODAY

AMOUNT AND SOURCES OF MONEY INCOME

Low income is still a major problem for older people despite improvement over the years in the money incomes of the aged population.

In 1967, only half of all families with a head 65 and older received as much as $3,928; nearly one in five had incomes below $2,000 (table 1). Of the older people living alone or with nonrelatives, half had incomes no larger than $1,480; one in four had as little as $1,000 or less.

Incomes of older persons have been rising, mostly as the result of fitful improvements in retirement payments. In 1967, however, the median income of families with an aged head was barely half that of younger families. The contrast was even greater for individuals; widows and other older people living alone or with nonrelatives had a median income only two-fifths as large as that of younger individuals.

The income distributions of those under and over age 65 vary markedly. Of the 7.1 million families with an aged head in 1967, almost 10 percent, or 700,000, had incomes under $1,500, as compared with 3 percent of the younger families. Almost 37 percent of the older families had incomes of less than $3,000; this was more than four times the proportion (8 percent) of younger families.

At the other end of the scale, 13.5 percent of the older families—about 950,000—had incomes of $10,000 or more. Almost 38 percent of the younger families had incomes of $10,000 and above.

Of the 5.1 million aged unrelated individuals—many of them widows—a quarter or 1.3 million had 1967 incomes of less than $1,000 and another quarter had incomes between $1,000 and $1,500. Only one quarter of the younger individuals—relatively half as many—had incomes below $1,500. Less than a tenth of the older individuals, but more than a third of the younger, had incomes of $5,000 or more in 1967.

TABLE 1.—*Distribution of Families and Unrelated Individuals by Money Income in 1967* [1]

	Families				Unrelated individuals			
	Distribution		Cumulative		Distribution		Cumulative	
	Heads 14 to 64	Heads 65 and over	Heads 14 to 64	Heads 65 and over	14 to 64	65 and over	14 to 64	65 and over
Number (in thousands)	42, 764	7, 070			8, 048	5, 066		
Median income	$8, 504	$3, 928			$3, 655	$1, 480		
Percentage distribution:								
Total	100. 0	100. 0			100. 0	100. 0		
Under $1,000	1. 8	3. 7	1. 8	3. 7	16. 0	25. 0	16. 0	25. 0
$1,000 to $1,499	1. 2	5. 8	3. 0	9. 5	8. 3	26. 0	24. 3	51. 0
$1,500 to $1,999	1. 5	9. 2	4. 5	18. 7	6. 3	15. 0	30. 6	66. 0
$2,000 to $2,499	2. 1	10. 2	6. 6	28. 9	6. 1	9. 3	36. 7	75. 3
$2,500 to $2,999	1. 8	8. 0	8. 4	36. 9	5. 2	5. 6	41. 9	80. 9
$3,000 to $3,499	2. 6	7. 7	11. 0	44. 6	6. 6	4. 2	48. 5	85. 1
$3,500 to $3,999	2. 5	6. 4	13. 5	51. 0	4. 9	2. 7	53. 4	87. 8
$4,000 to $4,999	6. 0	9. 5	19. 5	60. 5	10. 2	3. 5	63. 6	91. 3
$5,000 to $5,999	7. 9	7. 3	27. 4	67. 8	10. 0	2. 4	73. 6	93. 7
$6,000 to $6,999	8. 6	6. 3	36. 0	74. 1	8. 0	1. 5	81. 6	95. 2
$7,000 to $7,999	9. 5	5. 1	45. 5	79. 2	5. 7	1. 1	87. 3	96. 3
$8,000 to $8,999	9. 0	4. 1	54. 5	83. 3	3. 6	. 8	90. 9	97. 1
$9,000 to $9,999	7. 7	3. 2	62. 2	86. 5	2. 2	. 5	93. 1	97. 6
$10,000 to $14,999	24. 8	7. 7	87. 0	94. 2	4. 8	1. 3	97. 9	98. 9
$15,000 to $24,999	10. 4	4. 3	97. 4	98. 5	1. 5	. 8	99. 4	99. 7
$25,000 and over	2. 6	1. 5	100. 0	100. 0	. 6	. 3	100. 0	100. 0
Head year-round, full-time worker:								
Percent of total [2]	76. 4	15. 4			52. 6	8. 0		
Median income	$9, 368	$7, 418			$5, 390	$3, 859		

[1] By age groups (14 to 64 and 65 and over). Data are estimates derived from the March 1968 survey of a national probability sample of households; they are subject both to sampling variability and to errors in response and nonreporting.
[2] Excluding Armed Forces.

Source: Bureau of the Census, as supplied by Administration on Aging, Social and Rehabilitation Service, Department of Health, Education, and Welfare, January 1969.

Low income in old age is closely associated with a decline in earnings.

This is all too clear from the data in table 1. Of the older families, 15 percent were headed by a year-round, full-time worker; their median income was $7,418, nearly double the median for all aged families. Of the unrelated individuals, 8 percent were full-time workers throughout the year and their median income of $3,859 was much more than twice that of all aged individuals.

Clearly, earnings during worklife have an important bearing on the adequacy of income in old age. But even among the minority who continue to work during old age, earnings decline drastically with advanced age as changes in the nature and extent of work take place.

The population 65 and older has an aggregate income of about $45 billion a year. The aggregate amount can be misleading, however, unless it is recognized that nearly $1 out of every $3 is in the form of earnings, a source which contributes nothing to the income of the overwhelming proportion of all older people.

Employment is still the largest single source of income for the aged group, despite the fact that four out of every five older persons are not in the labor force and that the other one in five tends to concentrate in part-time and low-paid jobs.

Earnings accounted for 32 percent of the aggregate money income of all persons aged 65 or over and their spouses, according to the Social Security Administration's 1963 survey.[2] Social security benefits ran a close second, contributing 30 percent. Railroad retirement and government employees' retirement benefits added 6 percent, and private pensions another 3 percent. Thus, two-fifths of the aggregate was in the form of retirement benefits. The aged group received 15 percent of all income through assets—income from interest, dividends and rents. Public assistance and veterans' benefits accounted for 5 percent and 4 percent, respectively.

Over the years, the proportion contributed by earnings has been declining sharply, with the drop offset by the increasing importance of social security benefits. In 1958, for example, when the aggregate was an estimated $25–30 billion, earnings were possibly as much as 40 percent of the total and social security benefits as little as 22 percent. (*Background Paper on Income Maintenance*, 1961 White House Conference on Aging, June 1960, p. 7)

Social security benefits are the major source of income for most older persons.

At the end of 1968, about 16½ million people 65 or older were drawing cash social security benefits under the OASDHI program. More than one million others are eligible for benefits except that they—or their spouses—have not yet retired. Persons currently receiving bene-

[2] Findings of the Social Security Administration's 1963 Survey represent the most comprehensive source of information about the incomes of the aged and have been used extensively throughout this *Report*. These findings are presented in detail in *The Aged Population of the United States, the 1963 Social Security Survey of the Aged,* by Lenore A. Epstein and Janet H. Murray, U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, *Research Report* No. 19.

fits or eligible to do so on retirement make up 92 percent of the total population over 65.

Social security benefits paid at the end of 1968 averaged $98.90 a month for the retired aged worker, $51.20 for the spouse, and $86.50 for the aged widow.

As a measure of the important role of the social security benefit in maintaining income, the 1963 survey of the Social Security Administration found that a large number of beneficiaries had little cash income besides their benefit. In 1962, about one-third of the nonmarried beneficiaries received less than $150 in money income other than benefits during the entire year. One-fifth of the couples had less than $300 in addition to their benefits. There had been little improvement in this respect since 1957, when the income of beneficiaries had last been studied.

For the population aged 62 and older, the Social Security Administration's 1963 survey provides information that highlights the income differences that are associated with age and beneficiary status.

When the age group 62–64 is compared with the two older groups, it is immediately apparent that the nonbeneficiaries aged 62–64 are, in the main, regular members of the labor force (table 2). Earnings represented close to nine-tenths of the total income of the couples and non-married men in this grouping. Even among the non-married women, 70 percent had worked in 1962, so that earnings represented more than four-fifths of the total income of the group.

TABLE 2.—*Median Income; and Earnings and Retirement Benefits* [1] *as a Percent of Aggregate Money Income, by Age and OASDHI Beneficiary Status, 1962*

Beneficiary status	Median income			Earnings as percent of aggregate income			Retirement benefits as percent of aggregate income		
	Age 62–64	Age 65–72	Age 73+	Age 62–64	Age 65–72	Age 73+	Age 62–64	Age 65–72	Age 73+
Married couples [2]	$5, 200	$3, 340	$2, 325	82	45	27	7	34	49
Beneficiaries [3]	2, 470	2, 900	2, 430	48	25	26	38	48	51
Nonbeneficiaries	5, 900	4, 750	1, 680	89	76	18	2	9	36
Nonmarried men	1, 775	1, 765	1, 165	75	39	14	15	38	51
Beneficiaries [3]	1, 265	1, 610	1, 260	4	13	14	74	64	63
Nonbeneficiaries	2, 685	2, 000	860	87	66	9	7	11	22
Nonmarried women	1, 610	1, 280	885	62	27	10	20	42	36
Beneficiaries: [3]									
Retired	1, 220	1, 455	1, 120	34	23	18	56	53	54
Widowed	1, 350	1, 285	960	10	8	5	63	58	50
Nonbeneficiaries	2, 205	855	720	83	45	7	2	9	10

[1] OASDHI benefits, other public retirement benefits (but not veterans' benefits) and private group pensions.
[2] With at least 1 member aged 62 or over.
[3] Excludes part-year and parent beneficiaries.

Source: *The Aged Population of the United States, The 1963 Social Security Survey of the Aged,* tables 3.19 and 3.20, pp. 304–305.

It is equally clear that those who claimed reduced benefits before they reached age 65 did so because they needed the income from the benefit. Their incomes were lower than for beneficiaries aged 65–74 except in the case of widows (for whom there is no reduction at age 62).

For each classification by marital and beneficiary status, median incomes were smaller for the 73-and-over group than for the 65–72 age group. The disparity was substantial, however, only for couples and non-married men not drawing social security benefits: for couples, $4,750 compared with $1,680; and for the non-married men, $1,980 compared with $860. These figures clearly reflect the fact that employment provided three-fourths of the income of the non-beneficiary couples aged 65–72 but only 18 percent for the older ones; the corresponding figures for the non-married men were 66 and 9 percent. Presumably most of the workers aged 65–72 could have drawn social security benefits were it not for their employment, but those aged 73 and over were apparently not eligible.

Widows and other non-married women who were not on the beneficary rolls were the most seriously disadvantaged of all groups with respect to cash income. Moreover, those aged 65–72 were not much better off than those who were older. Their median cash incomes were $855 and $720.

Among the beneficiaries aged 65 and over, those under age 73 were somewhat better off than the older ones. The median income for beneficiaries 65–72 exceeded the median for beneficiaries 73 and over by about 20 percent in the case of couples and 30 percent in the case of the non-married groups. Differences in favor of the younger units might be expected for a number of reasons. First, the benefits of the younger units generally started later and consequently were based on employment at higher average earnings. Second, they not only could have been expected to have had higher assets when they retired but they would have had less time to use up the assets with which they entered retirement—an action that often reduces current income in later years. Third, they presumably have an advantage in the current labor market over older persons.

Each of these reasons apparently played a role in producing the somewhat higher incomes for the younger of the two groupings because the percentage distributions of aggregate income for the two groupings were not significantly different. Earnings made up the same proportion of aggregate income for each of the two age groupings in the case of beneficiary couples (about one-fourth) and non-married men beneficiaries (one-seventh). The proportion coming from interest, dividends and rents was no larger for beneficiaries aged 65–72 than for those 73 and older. The proportion from retirement benefits (mostly OASDHI benefits) was about the same, close to half in the case of couples, slightly more for retired non-married women and approaching two-thirds for the non-married men.

Perhaps the most significant differences were found among the two groups of aged widowed beneficiaries. Those aged 65–72 had a median income of $1,285, with 58 percent of the aggregate coming from retirement benefits and 4 percent from such sources as private individual annuities and contributions by relatives. For the widowed beneficiaries aged 73 and over, the median was $960 and the corresponding proportions were 50 percent and 16 percent. Income from interest, dividends and rents accounted for about the same share of the total income of the two groups of widows: 21 percent for those aged 65–72 and 23 percent for the older ones.

Of the "retired" aged 65 and older—those who did not work in 1962—only three-tenths of the couples and fewer than one-tenth of the unmarried had incomes of $3,000 or more.

These findings—again from the 1963 Social Security survey—are summarized in table 3.

TABLE 3.—*Size of Money Income for Persons 65 and Older Who Did Not Work in 1962*

Money income	Married couples	Unmarried men	Unmarried women
BENEFICIARIES			
Total percent	100	100	100
Under $1,000	5	29	45
$1,000 to $2,999	64	65	49
$3,000 to $4,999	20	5	3
$5,000 and over	10	1	2
Median income	$2,410	$1,320	$1,095
NONBENEFICIARIES			
Total percent	100	100	100
Under $1,000	16	58	70
$1,000 to $2,999	58	35	26
$3,000 to $4,999	17	4	3
$5,000 and over	9	2	1
Median income	$1,805	$885	$710

Source: *The Aged Population of the United States, The 1963 Social Security Survey of the Aged*, table 3.4.

ASSETS

For most older people, the major asset—often the only asset—is the home they own. Assets readily available for daily living are meager, especially for the aged with the lowest income.

Financial assets amounted to less than $1,000 for 37 percent of the couples and for more than half of the unmarried men and women, according to the 1963 Social Security survey.

Almost all aged persons have saved for their retirement years and accumulated some resources in the form of liquid assets, equity in their home or other real estate, etc. Persons in the retirement ages have more financial assets and less debt than the population generally.

Two estimates of asset holdings of the aged in 1962 are available, as follows:

	Federal Reserve Board estimate	Social Security Administration estimate
Average assets:		
Total	$30, 008	$15, 109
Liquid assets and marketable securities	4, 957	3, 783
Median assets:		
Total	9, 860	5, 840
Liquid assets and marketable securities	950	570

The two estimates of asset holdings by the aged would be expected to differ because the surveys differ, not only in definitions, but in the unit surveyed. The survey unit used in the Social Security Administration's study produces a lower value of assets because each aged couple or nonmarried person is treated as a separate unit; in the Federal Reserve Board survey, data for such persons who are members of a family—and these are the older persons who have the least assets—are pooled with data for the family unit.

Regardless of which dollar amounts are used, the major asset of older people is the owned home—not readily convertible to cash for daily living—and the lower the income, the lower the assets.

The hope that assets are an important potential for improving the income situation of today's older population has focused attention on the possibility of raising incomes through conversion of assets into income prorated over the remaining life expectancy.

Data from the Social Security Administration's 1963 survey provide a measure of such potential income. Each unit's assets were assumed to be capable of earning a 4-percent rate of return. The principal and appropriate interest amounts were then divided over the expected remaining years of the unit's life in equal annual sums so that the assets would be exhausted at the end of the period. The annual amount computed in this way was added to current money income (less income actually received from assets).

Use of this procedure obviously ignores the question of the feasibility or desirability of this form of asset management for the individual; particularly unrealistic, for example, is the conversion of the owned farm or other business holdings into prorated assets.

The effect on median income of assuming that assets are converted into life annuities may be summarized as follows:

Unit	Actual income	Potential income	
		Excluding home equity	Including home equity
Married couples	$2, 875	$3, 130	$3, 795
Nonmarried men	1, 365	1, 560	1, 845
Nonmarried women	1, 015	1, 130	1, 395

The median potential income is about 10 percent greater than actual income when home equity is excluded and a little more than 30 percent greater when home equity is included. Reflecting the fact that asset holdings are larger at the higher income levels than at the lower, the addition of distributed assets to income increases the inequality of the income distribution. Of those with income of less than $3,000, fewer than one in four had asset holdings great enough to shift their income into a higher $1,000 interval.

Use of potential income other than the home equity would still leave more than a third of the aged couples and about two-thirds of the nonmarried aged with insufficient income to live independently at the BLS "modest but adequate" budget standards for that period.

INCOME NEEDS

The fact that older people have lower incomes than younger persons is not in itself proof that these incomes are inadequate. Nor is the fact that older people spend considerably less than younger people proof that their needs are that much less.

Older persons have lesser needs for some items, such as clothing. For those who are retired, work-related expenses—for example, costs of transportation to and from the job, meals away from home, social security taxes and union dues—are either completely eliminated or sharply reduced. The cost of raising and educating children—an expenditure that for years dominates most family budgets—is also usually ended. Furthermore, since they are more likely than younger persons to own their homes free and clear, they may be able to stretch a given income further than those who must pay rent or are still making payments on the mortgage. Their age entitles them to income tax benefits not available to those who have not yet reached age 65. On the other hand, their medical expenses are considerably higher than those of younger people. They can do less for themselves as physical ability decreases and may therefore have to incur higher expenses for maintaining the home if they live independently or for various forms of institutional care. Because they have more free time, their recreational costs could be higher.

According to the best expenditure data available, older people—who have about half the income of the younger—also spend about half as much as do younger people. However, the proportions of their total expenditures going to various types of goods and services differ considerably. Older consumers followed a pattern similar to low-income groups in general. For instance, the older units spend proportionately more on food, housing, household operation, and medical care than do the younger units.

Smaller expenditures by older consumers in many categories reflect their low-income position rather than lack of need for the goods or services. A recent survey showed that 84 percent of the households headed by younger persons owned an automobile but only 56 percent of the older households. Moreover, older households tended to own older automobiles. But if younger and older households at the same income level were compared, most of the differences disappeared. This survey also checked on ownership of major appliances such as washing machines and dryers, refrigerators, TV sets, dishwashers, air conditioners, etc. In every category except refrigerators, a significantly lower proportion of older households than of younger households reported owning such appliances.

One measure commonly used in assessing the adequacy of incomes to meet needs is the BLS Retired Couple's Budget for a moderate living standard. For the majority of the aged population, even this "moderate" level is well beyond their means.

A moderate standard of living for a self-supporting, retired couple in U.S. urban areas in the autumn of 1966 required an annual expenditure of $3,869. (*Retired Couple's Budget for a Moderate Living Standard*, U.S. Department of Labor, Bureau of Labor Statistics, Bulletin No. 1570–4.)

The couple was defined in the Bureau of Labor Statistics study as a husband, age 65 or older, and his wife, self-supporting, living independently, enjoying fairly good health, receiving hospital and medical care protection under Medicare, and occupying a mortgage-free home.

In 1966, there were 4.2 million elderly husband-wife couples not on farms. How many had to make do on less than $3,869 is not yet known. Two out of five of them (1.9 million) had less than $2,675 for the year. Obviously then, the majority would find the level BLS designates as "moderate" well beyond their means.

> Indeed, among all families with an elderly head (including those with three or more members, units generally better off than elderly couples because of the income added by young employed adults), median income in 1966, as reported to the Bureau of the Census, was 6 percent lower than the BLS-priced budget. (*Social Security Bulletin*, October 1968, p. 3.)

Although no budget designed specifically for elderly persons without a spouse has been priced by BLS, an equivalence scale developed by the Bureau suggests that an elderly person living alone in a city would need about $2,130. Again, the number who had less than this amount is not known, but as many as two-thirds of all aged unrelated individuals not on farms had incomes below $1,900 in 1966.

The average social security benefit payable to an elderly couple who retired in December 1950—even though adjusted over the years—would now purchase a significantly smaller fraction of the Budget than at the time of retirement (Chart A).

Another measure of the inadequacy of the incomes of older people is in the large numbers with income below the poverty line as defined by the Social Security Administration.[3] Persons aged 65 and over continue to have a higher poverty rate than any other age group.

Three out of every 10 people 65 and older—in contrast to one in nine younger people—were living below the poverty line in 1966. Another one-tenth of the aged population was on the border of poverty. Nearly two-thirds of the aged poor are women.

Widows and other aged women living alone are particularly disadvantaged.

Six out of every 10 of them have incomes below the poverty line. In fact, the number of poor women living alone has actually increased over the years—from 1.8 million in 1959 to 2.1 million in 1966—a reflection of the increasing number who live independently even at the price of poverty (table 4 and Chart B).

[3] The measure used as counting the aged as poor in 1966 was $1,975 for an elderly couple not on a farm and $1,565 for an aged person alone. The amounts used in classifying aged persons as "near poor" were $2,675 for a couple and $1,900 for unrelated individuals.

TABLE 4.—*Trends in Poverty: Percent of Persons with Income below the SSA Poverty Index, by Age, 1959 to 1966*

[Numbers in millions]

Age	1959			1964			1966		
	Total persons, number	Poor		Total persons, number	Poor		Total persons, number	Poor	
		Number	Percent		Number	Percent		Number	Percent
All ages	176. 5	38. 9	22. 1	189. 7	34. 1	18. 0	193. 4	29. 7	15. 4
Under 18 [1]	63. 7	16. 6	26. 1	69. 4	14. 9	21. 4	69. 8	12. 5	17. 9
Families with male head	58. 2	12. 6	21. 7	62. 3	10. 5	16. 9	62. 5	8. 0	12. 9
Families with female head	5. 5	4. 0	72. 6	7. 1	4. 4	62. 6	7. 4	4. 5	60. 6
18 to 64 [2]	96. 8	16. 4	16. 9	103. 0	13. 8	13. 4	105. 7	11. 9	11. 2
65 or over	15. 9	5. 9	37. 2	17. 4	5. 4	30. 8	17. 9	5. 4	29. 9
In families	12. 1	3. 4	28. 4	12. 8	2. 6	20. 5	13. 0	2. 7	20. 5
Unrelated individuals	3. 8	2. 5	68. 1	4. 6	2. 8	59. 3	4. 9	2. 7	55. 3
Men	1. 1	. 6	59. 9	1. 3	. 6	47. 9	1. 3	. 6	44. 0
Women	2. 6	1. 8	71. 5	3. 3	2. 1	63. 7	3. 6	2. 1	59. 3

[1] Never married children in families.
[2] Includes ever-married persons under age 18.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey. (U.S. Joint Economic Committee *Compendium*, part II, p. 188.)

That persons aged 65 or older continue to have a higher poverty rate than any other age group is especially significant in the light of the greater emphasis in public programs on providing income in old age than at earlier stages.

The number of aged counted as poor in 1966 numbered 5.4 million, the same number as the count of aged poor two years earlier, and only half a million less than the count in 1959. In 1966, the 1.2 million aged couples in poverty represented one in five of all families counted poor; in 1959, these couples had accounted for only one in six of the total. While the financial fate of the aged living alone in 1966 was better than it once had been, it still spelled poverty for the majority (55 percent).

As compared with the situation in 1959 when aged unrelated individuals accounted for fewer than one-fifth of all households tagged poor, in 1966 every fourth household in poverty was that of an aged person living alone.

Again, this highlights the problem of the aged widow and other unrelated women. In 1959, there were 2.6 million of them, 1.8 million (71.5 percent) of whom were below the SSA Poverty Index. By 1966, the number of such persons had increased to 3.6 million, and the 2.1 million who were poor represented 59.3 percent of this larger group.

Two out of every five couples and two out of every three individuals had incomes below the "near poor" level in 1966.

Data are not yet available to show the effects of the 1967 Social Security amendments in reducing the proportion of aged people who live in poverty. At the time the amendments were enacted, it was estimated that 800,000 older persons would be moved out of poverty by the benefit increases to begin as of February 1968.

PART THREE

INCOME OF TODAY'S AGED IN PERSPECTIVE

In relation to the younger population, the median income of the older population has dropped in recent years.

The median income of families with an aged head dropped from 50.6 percent of the median of younger families in 1962 to 46.2 percent in 1967. The decline for older unrelated individuals has been even sharper, from 47.2 percent in 1962 to 40.5 percent in 1967 (table 5 and Chart C).

TABLE 5.—*Trend in Median Money Income of Families and Unrelated Individuals, 1960–67* [1]

Period	Families			Unrelated individuals		
		Heads 65-plus			65-plus	
	Heads 14 to 64 (amount)	Amount	Percent of 14 to 64	14 to 64 (amount)	Amount	Percent of 14 to 64
1960	$5,905	$2,897	49.1	$2,571	$1,053	41.0
1961	6,099	3,026	49.6	2,589	1,106	42.7
1962	6,336	3,204	50.6	2,644	1,248	47.2
1963	6,644	3,352	50.4	2,881	1,277	44.3
1964	6,981	3,376	48.4	3,094	1,297	41.9
1965	7,413	3,514	47.4	3,344	1,378	41.2
1966	7,922	3,645	46.0	3,443	1,443	41.9
1967	8,504	3,928	46.2	3,655	1,480	40.5
Percent change:						
1960–67	+44.0	+35.6		+42.2	+40.6	
1962–67	+34.2	+22.6		+38.2	+18.6	
1960–61	+3.3	+4.4		+.7	+5.0	
1961–62	+3.9	+5.9		+2.1	+12.8	
1962–63	+4.9	+4.6		+9.0	+2.3	
1963–64	+5.1	+.7		+7.4	+1.6	
1964–65	+6.2	+4.1		+8.1	+6.2	
1965–66	+6.9	+3.7		+3.0	+4.7	
1966–67	+7.3	+7.8		+6.2	+2.6	

[1] See footnote, table 1, p. 6.

Source: Bureau of the Census, as supplied by the Administration on Aging, Social and Rehabilitation Service, Department of Health, Education, and Welfare, January 1969.

In relation to the income a given older person had before retirement, he has suffered a substantial drop.

One study finds that the ratio of retirement income to income for the year before retirement was only one-quarter or less for one-third of the retirees.[1]

[1] See p. 236 of Part II, U.S. Joint Economic Committee *Compendium*.
The U.S. Joint Economic Committee *Compendium* to which reference is made throughout this *Report* is "Old Age Income Assurance", A Compendium of Papers on Problems and Policy Issues in the Public and Private Pension System, submitted to the Subcommittee on Fiscal Policy of the Joint Economic Committee, Congress of the United States, December 1967; Part I: General Policy Guidelines, Part II: The Aged Population and Retirement Income Programs, Part III: Public Programs, Part IV: Employment Aspects of Pension Plans, Part V: Financial Aspects of Pension Plans, and Part VI: Abstracts of the Papers.

The significance of the decline in income for an age group as it moves into retirement status has been summarized as follows:

> The crucial question is, what change takes place in the incomes of a given age group as it moves into retirement status? When we say that between 1949 and 1959 the income of the male 'aged' increased 55 percent, we are really not talking about the same intact population. In reality, the median income of men aged 55 to 64 in 1949 was $2,366, but by 1959 the same men (minus those who died, etc.) experienced not an increase in their median income but a decrease.
>
> More specifically, the best data available on this point are provided by the Bureau of the Census, in its January 1961 report on 1959 incomes. The median income of men born in March 1895 and earlier was $1,710 in 1949; 10 years later, the median income of the same group had *decreased* 8 percent, to $1,576. These figures, moreover, are in current dollars and not constant ones: an analysis using constant 1959 dollars would reveal that this group of men suffered an approximate 33 percent *decrease* in real income from 1949 to 1959, while during the same period of time the real median income for men aged 24 to 34 in 1949 *increased* by approximately 57 percent; for men aged 34 to 44 in 1949, the increase was approximately 34 percent. (*Action for the Aged and Aging*, S. Report No. 128, Subcommittee on Problems of the Aged and Aging, U.S. Senate Committee on Labor and Public Welfare, 1961, pp. 71–72.)

Moreover, unless positive action is taken, the economic position of persons NOW OLD will deteriorate still further in the years ahead.

Some of this deterioration is relative to the economic position of the younger population. The income gap between the retired group and the working group will widen in a period of national economic growth. With more years spent in retirement, this gap becomes even more significant.

The retirement life span for couples is now approximately two decades: a man with a wife several years younger who retires at age 65, must now count on providing for himself and his wife for 13 years followed by another 6 or 7 years for his widow. Over a period of this length, the consumption level enjoyed by younger workers would approximately double, assuming earnings rise at a rate of 4 percent annually—a not unrealistic assumption for the years ahead.

Some of this deterioration is relative to the individual's income position at the time of retirement.

A basis for evaluating the decline in income during retirement is provided by comparing the Social Security Administration's 1963 survey data for beneficiaries who were entitled before 1956 with data from the 1957 survey. Although the amount of their social security benefits had been raised during the intervening years to help ward off a more rapid deterioration in their economic situation, beneficiaries who had been entitled before 1956 had less *real* income in 1962 than 5 years earlier. Their income from other sources had decreased. The median income from sources other than benefits had decreased by 23 percent for married couples, 19 percent for retired men, 34 percent for retired women, and by as much as 83 percent for the aged widows. The longer a beneficiary is on the rolls, the more unfavorable his income position becomes when compared with the income position of persons more recently retired.

The causes of this further decline in already inadequate retirement incomes—the major threats to economic security in old age—can be identified as follows:

(1) Earnings drop as advanced age further curtails already limited employment opportunities.

Earnings—as measured by the 1963 survey of the aged—accounted for only 27 percent of the aggregate income of couples aged 73 and over, whereas earnings amounted to 45 percent of the aggregate for those aged 65–72. The contrast between the two age groups was even sharper for the nonmarried (who are on the average older than the couples) : 14 percent as against 39 percent for the men, and 10 percent as against 27 percent for the women (table 2 above).

In comparison to the age group 65–72, only half as many men aged 73 and over and a third as many women worked in 1962. The earnings of the oldest workers averaged only three-fifths as much as the earnings of workers aged 65–72, reflecting the predominantly part-time nature of the jobs of the older group (table 6).

TABLE 6.—*Average Earnings of Workers Aged 65 and Over, by Sex and Work Experience, 1962*

Work experience and age	Males		Females	
	Percentage of aged population	Average earnings	Percentage of aged population	Average earnings
Usually full-time jobs: [1]				
65 to 72	30.9	$3,775	9.9	$2,132
73 and over	10.4	3,022	2.8	1,131
Usually part-time jobs:				
65 to 72	15.9	969	9.7	652
73 and over	12.5	765	3.1	525
All workers:				
65 to 72	47.0	2,835	19.6	1,410
73 and over	22.9	1,803	5.8	806

[1] 35 or more hours a week.

Source: *Social Security Bulletin,* June 1964; tables 4 and 5, p. 5.

In interpreting these data, it must be remembered that the earnings of the age group 73 and older were not held down by the social security retirement test—a test which undoubtedly causes some retired beneficiaries under age 73 to limit their earnings.

(2) Assets are reduced—in some cases, exhausted—leaving less income from this source.

For most aged people, the owned home is the most significant asset and they hold on to these homes despite advancing age. The 1963 Social Security survey found that aged widows entitled in 1955 or earlier were the only group with a significant drop in homeownership from 1957 to 1962. These widows were older, on the average, than other beneficiaries and with advancing age, more likely to share a relative's home.

Financial assets of the couples and nonmarried women who had been entitled to benefits as early as 1955, declined from 1957 to 1962. The decrease in 1962 dollars was 15 percent for couples, 20 percent for retired women and 11 percent for aged widows. Nonmarried men, on the other hand, increased their holdings substantially, possibly by surrendering life insurance policies or selling their homes or other real estate.

(3) Medical needs and the cost of meeting these needs rise with declining health.

The enactment of Medicare, the program of hospital and other medical benefits starting in July 1966, has made an important contribution to the economic security of older Americans. The average value of social security benefits was estimated to increase by 12 percent when acount is taken of the addition of Medicare (Memorandum of January 3, 1968, from Secretary Gardner to the President). Medicare benefits paid in fiscal year 1967 totaled $3.2 billion, 35 percent of the estimated personal health care expenditures of $9.2 billion for all persons 65 years and over (table 7 and Chart E). The value of Medicare in freeing older people from fear of the heaviest costs of illness—especially the costs of hospitalization—and in relieving younger people from the need to finance these costs for elderly parents is beyond measure.

TABLE 7.—*Estimated Amount and Percentage Distribution of Personal Health Care Expenditures for the Aged, by Source of Funds and Type of Expenditure, Fiscal Year 1967*

Source of funds	Total	Hospital care	Physicians' services	All other [1]
	Amount (in millions)			
Total	$9, 156	$4, 188	$1, 602	$3, 366
Private	3, 774	348	864	2, 562
Public	5, 382	3, 840	738	804
Medicare	3, 172	2, 406	626	140
Hospital insurance (Pt. A)	2, 508	2, 395	----------	113
Medical insurance (Pt. B)	664	11	626	27
Other public	2, 210	1, 434	112	664
	Percentage distribution			
Total	100. 0	100. 0	100. 0	100. 0
Private	41. 2	8. 3	53. 9	76. 1
Public	58. 8	91. 7	46. 1	23. 9
Medicare	34. 6	57. 4	39. 1	4. 2
Hospital insurance (Pt. A)	27. 4	57. 2	----------	3. 4
Medical insurance (Pt. B)	7. 3	. 3	39. 1	. 8
Other public	24. 1	34. 2	7. 0	19. 7

[1] Includes expenditures for dentists' and other professional services, drugs and drug sundries, eyeglasses and appliances, nursing-home care, and other health services.

Source: *Social Security Bulletin*, August 1968; table 3, p. 22.

In fiscal year 1967, the health care expenditures per aged person averaged about 2¾ times those of persons under age 65. Hospital costs accounted for a large part of the difference (table 8 and Chart F). The impact of Medicare in shifting some of the heavy costs for the aged from private to public sources is apparent from Chart G.

TABLE 8.—*Estimated Per Capita Personal Health Care Expenditures, by Type of Expenditure, Source of Funds, and Age, Fiscal Years 1966 and 1967* [1]

Type of expenditure	Fiscal year 1966			Fiscal year 1967		
	Total	Private	Public	Total	Private	Public
	All ages					
Total	$184.89	$144.02	$40.87	$206.31	$143.44	$62.87
Hospital care	71.76	45.41	26.35	84.15	43.23	40.91
Physicians' services	45.27	42.29	2.98	48.11	41.35	6.76
Other professional services [2]	19.44	19.04	.41	20.29	19.64	.66
Drugs and drug sundries	25.40	24.57	.83	26.92	25.85	1.07
Nursing-home care	7.00	4.06	2.94	8.15	3.75	4.41
Other health services [3]	16.01	8.65	7.37	18.69	9.62	9.06
	Under age 65					
Total	160.39	128.65	31.74	177.39	137.57	39.82
Hospital care	60.46	40.50	19.96	69.87	45.81	24.06
Physicians' services	42.56	39.81	2.75	44.29	40.89	3.40
Other professional services [2]	19.31	18.97	.34	20.06	19.57	.49
Drugs and drug sundries	21.59	21.15	.43	22.94	22.27	.67
Nursing-home care	1.18	.45	.73	2.36	.41	1.95
Other health services [3]	15.30	7.77	7.54	17.87	8.63	9.25
	Age 65 and over					
Total	423.41	293.72	129.69	485.91	200.29	285.62
Hospital care	181.81	93.23	88.58	222.26	18.47	203.79
Physicians' services	71.68	66.49	5.19	85.02	45.85	39.17
Other professional services [2]	20.74	19.72	1.03	22.55	20.33	2.23
Drugs and drug sundries	62.60	57.85	4.75	65.38	60.45	4.94
Nursing-home care	63.68	39.21	24.47	64.16	35.98	28.18
Other health services [3]	22.90	17.23	5.67	26.53	19.21	7.32

[1] Based on Bureau of the Census estimates of midfiscal year data for total population, including Armed Forces overseas.

[2] Includes expenditures for dentists' services and other professional services.

[3] Includes expenditures for eyeglasses and appliances and other health services.

Source: *Social Security Bulletin*, August 1968; table 2, p. 21.

It is important to assess the achievements of Medicare in relation to the needs of an aging population in a changing economy, as well as to recognize Medicare's impact on the practice of medicine and the cost of medical care.

There can be no dispute over these facts:

(*a*) The prices of medical services have risen faster than the prices of other consumer goods and services. Since 1966, the consumer price index for medical care, and especially for hospital costs, has been rising at an accelerated rate:

Consumer Price Index (1957–59=100)

	June 1966	December 1968
All items	112.9	123.7
Medical care	127.0	149.1
Hospital daily charge	164.2	239.3
Physicians' fees	128.0	149.1

(*b*) With advancing age, older people have more physical disability that results in higher medical care costs (table 9).

TABLE 9.—*Indicators of Increasing Disability and Medical Needs with Advancing Age*

Indicator	Age group		
	45 to 64	65 to 74	75 and over
Disability:			
Percent with 1 or more chronic conditions	65.8	80.4	87.4
Percent with chronic conditions that limit activity	19.8	42.6	60.5
Percent unable to carry on major activity	2.8	9.7	23.7
Bed disability days per person per year	7.2	11.1	19.4
Days of restricted activity per person per year	22.3	34.2	46.1
Physician visits: Number per person per year	5.0	6.3	7.2
Hospitalization:			
Discharges per 1,000 persons	147.9	181.3	195.6
Days per 1,000 persons	1,627	2,284	2,487
Average length of stay	11.0	12.6	12.7
	45 to 64	65 and over	
Drugs:			
Number of drug acquisitions per person per year	6.6	11.4	
Average cost per purchase	$4.10	$4.00	
Annual cost per person	$31.80	$50.20	

Source: "Age Patterns in Medical Care, Illness, and Disability, July 1963-June 1965," National Center for Health Statistics, Series 10, No. 32; and "Cost and Acquisition of Prescribed and Nonprescribed Medicines, July 1964–June 1965," NCHS, Series 10, No. 33.

(*c*) At the oldest ages, the need is especially great for the types of health care not covered by Medicare, notably long-term nursing home care (as distinct from post-hospital care in an extended-care facility) and drugs. At least half of all nursing home patients, for example, are aged 80 or older (in comparison to a median age of about 73 for the whole population 65 and older). A recent survey of nursing home patients found this age distribution: 12 percent, under age 65; 18 percent, aged 65–74; 41 percent, aged 75–84; and 29 percent, 85 and older (National Center for Health Statistics, Series 12, No. 2).

The increase in drug costs with advanced age is apparent from the following: aged persons who were unable to carry on any major activity (24 percent of those aged 75 and over in contrast to 10 percent of those aged 65–74) needed 21.7 prescriptions per year on the average at an annual cost of $88.97.

(*d*) Because Medicare requires that the individual meet half the cost of Part B by means of a premium payment (as well as paying the deductibles and co-insurance), the inflation of medical prices constantly adds to the problems encountered by the low income aged person in paying his own way. This situation will exist as long as the financing of Part B is geared to monthly premiums paid by the aged beneficiary rather than on a payroll tax spread over the rising earnings of the working population.

These facts have resulted in a problem that is basic to the economic security of the elderly population: Despite the important protection now provided by Medicare, increasing numbers of older people may have to pay ever larger amounts out-of-pocket to get the medical care they need. More may have to resort to the uncertain and uneven protection provided by State Welfare programs (Medicaid).

(4) Inflation erodes already inadequate retirement incomes, and this erosion continues over a longer retirement period.

While economists may disagree over the accuracy of present price indicators and over the causes and controls of inflation, there can be no disagreement as to the impact that real price increases have on fixed value assets and on fixed income sources not subject to adjustment; even an annual rise of only 2 percent will reduce purchasing power by 18 percent after one decade and by 33 percent after two decades.

The impact of inflation on retired persons will vary, depending in large part on the kinds of assets held and on the sources of income. But age has deprived most older people of the best weapon for fighting inflation—employment and participation in rising earnings levels.

For the aged group as a whole, the distribution of the aggregate income of the aged—discussed above—provides a clue to the overall impact of price rises. This impact has been described as follows:

> Based on an estimated 1968 annual purchasing power of over $40 billion among persons past 65, a 4-percent inflation would produce purchasing power loss to these citizens of roughly $1.6 billion per year. A 5-percent inflation would cost them over $2 billion per year. (Minority Views, p. 157 of *Developments in Aging, 1967*, U.S. Senate Special Committee on Aging.)

Without minimizing the seriousness of the threat of inflation to retirement incomes, the following facts must also be recognized:

(a) Earnings, which usually more than keep pace with a rise in living costs, constitute the largest single source of income for the population 65 and older—about a third of the $40–$45 billion aggregate estimated for 1968. If earnings are subtracted from the aggregate, the "vulnerable" portion becomes less than $30 billion. The potential purchasing power loss then becomes $1.2 billion per year with a 4-percent inflation rate and $1.5 billion with a 5-percent rate.

(b) The proportion of the aggregate income of the older population that comes from Social Security is fast catching up with the share from earnings—30 percent at the time of the Social Security survey. Through past legislative enactments, the benefits have been adjusted sooner or later, to more than correct for the rise in cost of living for most beneficiaries (table 10). That for some the increase has been too little, as well as too late, is apparent from Chart D.

TABLE 10.—*OASDHI Benefits for Worker Retiring in Specified Years: Average Monthly Benefit Amount Awarded, Amount Payable after General Benefit Increases, and Amount Needed to Maintain Parity with Prices and Wages, 1950–68*

December	BLS consumer price index (1957–59=100)	Wage index [1] (1957–59=100)	Average monthly benefit amount for— September–December 1950 retiree: Actual	September–December 1950 retiree: Amount [2] needed to maintain parity with— Prices	September–December 1950 retiree: Amount [2] needed to maintain parity with— Wages	December 1954 retiree: Actual	December 1954 retiree: Amount [2] needed to maintain parity with— Prices	December 1954 retiree: Amount [2] needed to maintain parity with— Wages	December 1959 retiree: Actual	December 1959 retiree: Amount [2] needed to maintain parity with— Prices	December 1959 retiree: Amount [2] needed to maintain parity with— Wages	September–December 1965 retiree: Actual	September–December 1965 retiree: Amount [2] needed to maintain parity with— Prices	September–December 1965 retiree: Amount [2] needed to maintain parity with— Wage
1950 [3]	87.1	76.7	[4] $49.50	$49.50	$49.50									
1951	92.2	78.8	49.50	52.40	50.90									
1952 [3]	93.0	83.9	55.70	52.90	54.20									
1953	93.6	84.2	55.70	53.20	54.30									
1954 [3]	93.2	88.1	60.70	53.00	56.90	$66.60	$66.60	$66.60						
1955	93.5	93.9	60.70	53.10	60.60	66.60	66.80	71.00						
1956	96.2	98.9	60.70	54.70	63.80	66.60	68.80	74.80						
1957	99.1	97.6	60.70	56.30	63.00	66.60	70.80	73.80						
1958 [5]	101.0	102.0	60.70	57.40	65.80	66.60	72.20	77.10						
1959 [3]	102.3	107.1	65.00	58.10	69.10	71.00	73.10	81.00	[6] $84.90	$84.90	$84.80			
1960	103.9	103.9	65.00	59.10	67.10	71.00	74.30	78.50	84.90	86.30	82.40			
1961	104.5	112.8	65.00	59.40	72.80	71.00	74.70	85.30	84.90	86.80	89.50			
1962	105.8	115.2	65.00	60.10	74.30	71.00	75.60	87.10	84.90	87.80	91.40			
1963	107.6	119.3	65.00	61.20	77.00	71.00	76.90	90.20	84.90	89.30	94.60			
1964	108.8	127.2	65.00	61.80	82.10	71.00	77.80	96.20	84.90	90.30	100.90			
1965 [3]	111.0	133.3	69.60	63.10	86.00	76.00	79.30	100.80	90.90	92.20	105.70	[6] $99.70	$99.70	$99.70
1966	114.7	135.2	69.60	65.20	87.30	76.00	82.00	102.20	90.90	95.20	107.20	99.70	103.10	101.20
1967	118.2	140.3	69.60	67.20	90.50	76.00	84.50	106.10	90.90	98.10	111.30	99.70	106.20	105.00
1968 [3] [5]	119.5	141.2	78.70	68.00	91.00	85.90	85.40	106.70	102.80	99.20	112.00	112.70	107.40	105.60

[1] Based on BLS data for average spendable weekly wages for production workers (no dependents) in manufacturing industries.

[2] Calculated by increasing the benefit awarded by the percentage rise in the price or wage index since the date of award.

[3] Benefits increased under amendments to the Social Security Act.

[4] Average monthly benefit amount for workers who qualified under the insured-status provisions of the 1939 amendments.

[5] For 1958, November data; for 1968, March data.

[6] Includes amount before reduction for those whose benefits are subject to actuarial reduction due to early retirement. Excludes disability insurance conversions and transitionally insured workers.

Source: *Social Security Bulletin*, December 1968, p. 29.

PART FOUR

OUTLOOK FOR FUTURE GENERATIONS OF THE AGED

Identified here are major trends—some well established, others developing—that are important in evaluating the outlook for the future.

Given present trends, inadequate income will still be a problem plaguing future generations of aged people.

Poverty of the aged will NOT disappear. The existing pension system—public and private—can be expected to produce a sizeable shift upward in the distribution of penson income for aged persons. But this shift will still leave a majority with pension incomes that are below any reasonable level of adequacy.

A recent simulation projection [5] of income in old age concludes that in 1980 about half the couples and more than three-fourths of the unmarried retirees will receive $3,000 or less in annual pension income, both public and private; 86 percent of the unmarried aged could expect to receive less than $2,000. Three-fourths of the couples would receive pension incomes of $4,000 or less and only one in eight would have more than $5,000 (Chart H and table 11).

TABLE 11.—*Projected Total Pension Income Distribution for Retired Couples and Unmarried Individuals, 1980* [1]

(Percentage distribution)

Total pension income	Couples	Unmarried units
Total	100	100
Less than $1,000 [2]	5	32
$1,000 to $1,999	16	19
$2,000 to $2,999	28	31
$3,000 to $3,999	25	11
$4,000 to $4,999	14	5
$5,000 to $9,999	12	3
$10,000 and over	(3)	(3)

[1] Pension income includes benefits from Social Security, private pensions (including State and local plans), and Federal retirement programs.
[2] Includes units without pensions.
[3] Less than 1 percent.

Note.—Totals may not sum to 100 percent due to rounding.

Source: Social Security Administration *Research Report* No. 24; 1968, table 9, p. 64.

[5] First findings of the Simulation Projection are reported in "The Economic Status of the Retired Aged in 1980: Simulation Projections," by James H. Schulz, *Research Report* No. 24 of the Social Security Administration, U.S. Department of Health, Education, and Welfare, January 1968. Other findings used in the Task Force *Report* appear in the U.S. Joint Economic Committee *Compendium.*

More important, we can expect that increasing numbers of American families will begin to evaluate the adequacy of their retirement income in relation to their standard of living prior to retirement.

Using this standard of evaluation, present trends in the development of private and public methods of providing retirement income indicate an economic problem of major proportions: Vast numbers of Americans, accustomed to participating in the prosperity of a growing economy, face the prospect of having to restrict their retirement living to take account of the sharp drop in the financial resources available during the so-called "golden years".

The same simulation study has projected the ratio of income from both public and private pensions to preretirement earnings (the P/E ratio) for workers retiring between 1960 and 1980. Using average earnings for the 5 years prior to retirement as a measure of preretirement earnings, approximately three-fourths of the males and one-half of the unmarried females have projected P/E ratios that are less than 0.50. the P/E ratios, shown in Chart I, are as follows:

Projected ratio at retirement of total pension income to preretirement earnings for nonagricultural units

[Percentage distribution]

Ratio	Married males [1]	Unmarried males [2]	Unmarried females [3]
Less than 0.20 [4]	24	20	18
0.20 to 0.29	20	16	7
0.30 to 0.39	22	21	13
0.40 to 0.49	12	14	15
0.50 to 0.59	9	10	11
0.60 to 0.69	5	7	8
0.70 to 0.79	4	5	7
0.80 to 0.99	1	2	6
1 or more	3	6	15
Total [5]	100	100	100

[1] Ratios exclude the social security supplementary benefit for wife and her earnings.
[2] Widowed or never married.
[3] Never married only.
[4] Includes persons receiving no pension but some earnings.
[5] Totals may not sum to 100 percent due to rounding.

Source: U.S. Joint Economic Committee *Compendium*, Part II, p. 254.

The fact that some workers have P/E ratios close to or greater than 1 is explained, for the most part, by the minimum benefit provisions for low-wage workers in most public and private pension systems. The effect of these minimum benefit provisions is shown in table 12 where P/E ratios are tabulated by the preretirement earnings group of the pension recipient.

Table 12 also permits a comparison of the P/E ratios for married males, excluding the wife's earnings and her supplementary social security benefit, with the P/E ratio for the couple. The P/E ratio is raised by inclusion of the wife's benefit—equal to one-half the husband's benefit—but lowered by inclusion of any preretirement earnings she may have had. The net result is an improvement in the P/E ratios for couples. Nevertheless, only about two-fifths of the couples with preretirement earnings of $4,000 to $8,000—and a much smaller proportion of those with higher earnings—will receive pension income of as much as 50 percent of preretirement earnings.

The relatively low P/E ratios are due principally to three factors: (1) Low levels of private and public benefits; (2) large numbers of workers retiring early with reduced pension benefits; and (3) the average taxable earnings for social security benefit purposes (which are subject to a ceiling) are lower than actual preretirement earnings.

TABLE 12.—*Projected[1] Ratio at Retirement of Total Pension Income[2] to Preretirement Earnings by Preretirement Earnings Group*

(Percentage distributions)

Ratio	Average preretirement earnings[3]: Less than $3,000	$3,000 to $3,999	$4,000 to $4,999	$5,000 to $5,999	$6,000 to $7,999	$8,000 to $9,999	$10,000 to $11,999	$12,000 to $15,999
(a) Nonagriculture married males								
Less than 0.20[4]	(5)	9	15	13	15	28	29	43
0.20 to 0.29	9	14	21	17	16	31	28	25
0.30 to 0.39	9	21	23	35	29	18	21	19
0.40 to 0.49	16	18	20	14	13	11	11	8
0.50 to 0.69	30	20	14	17	19	7	9	3
0.70 to 0.99	11	12	5	3	6	3	3	1
1 or more	23	6	3	1	1	0	0	0
Total[6]	100	100	100	100	100	100	100	100
(b) Nonagriculture unmarried females								
Less than 0.20[4]	23	5	5	5	9	9	22	17
0.20 to 0.29	4	7	6	22	21	29	39	25
0.30 to 0.39	8	17	15	19	21	31	17	33
0.40 to 0.49	10	20	23	18	20	17	17	8
0.50 to 0.69	18	37	31	27	25	10	4	8
0.70 to 0.99	17	11	11	7	5	5	0	4
1 or more	22	4	8	2	0	0	0	4
Total[6]	100	100	100	100	100	100	100	100
(c) Nonagriculture couples								
Less than 0.20[4]	(5)	3	10	4	9	16	12	20
0.20 to 0.29	2	6	14	9	16	19	23	28
0.30 to 0.39	8	19	18	28	19	22	24	22
0.40 to 0.49	15	9	12	16	16	20	21	15
0.50 to 0.69	21	38	28	31	25	20	14	14
0.70 to 0.99	13	8	11	8	12	4	4	1
1 or more	40	17	7	3	2	1	1	0
Total[6]	100	100	100	100	100	100	100	100

[1] Projected through Simulation Model described in Social Security Administration *Research Report No. 24*.
[2] Social Security, private, and/or Government employee pensions.
[3] Average of 5 years prior to retirement.
[4] Includes persons receiving no pension income but with some earnings.
[5] Less than 1 percent.
[6] Totals may not sum to 100 percent due to rounding.

Source: U.S. Joint Economic Committee *Compendium*, Part II, pp. 255–6.

Early retirement is a developing trend that could seriously counteract other trends serving to improve the income position of future aged populations.

More men are retiring early. During recent years, more than half of the men retiring did so before age 65. How much of this early retirement is voluntary, and how much is due to a lack of job opportunities for older men is not now known.

Of all currently payable social security benefits awarded to men each year, the proportion of reduced benefit awards has increased from 58 percent in the fall of 1962 to 70 percent in 1966 (table 13).

TABLE 13.—*Number of OASDHI Retirement Benefits Awarded to Men, with and without Reduction for Early Retirement, 1960–66*

[In thousands]

Period	Regular awards [1]			Awards moving to payment status [2]	Reduced benefit awards as percent of	
	Total	Not reduced	Reduced		All currently payable regular awards	All awards moving to payment status
1960	515	515	-------	594	----------	----------
1961 (Jan.–July)	302	302	-------	876	----------	
1961 (Aug.–Dec.)	482	203	279		58	32
1962	722	299	423	837	59	51
1963	592	239	353	675	60	52
1964	524	200	324	601	62	54
1965	518	198	319	601	62	53
1966	491	146	345	668	70	52

[1] Excludes (1) conditional and deferred awards and (2) conversions and transitionally insured awards.

[2] Currently payable regular awards plus estimate of those originally awarded as conditional or deferred that have moved to payment status. (Conditional or deferred awards are those suspended immediately following determination, chiefly because of earnings of the retired worker. Since September 1965, most conditional and deferred awards have been made primarily for the purpose of assuring eligibility for hospital insurance benefits.)

Source: Social Security Administration Research and Statistics Note No. 20, 1967.

At the time of the Social Security Administration's 1963 survey, it was clear that those who had settled for the reduced benefit did so because they needed the benefit, not because they were seizing the opportunity to retire early on an adequate pension. In short, their limited earnings made even a reduced retirement benefit attractive. Except among widow beneficiaries (for whom there was no reduction), those who claimed social security benefits before attaining age 65 were much less likely than the other beneficiaries to have income from assets. Fewer of these early retirees had private pensions, even though the growth of private pension plans might lead one to expect that a larger proportion of each successive age cohort reaching retirement would have rights to a private pension. The fact that the proportion with private pension income was lower than in the age group 65–72 but more of their aggregate income was contributed by pensions, highlights the heterogeneity of the beneficiaries who draw benefits before age 65, some of them to enjoy early retirement on adequate incomes but many to eke out retirement on reduced benefits and little else.

More workers—especially younger workers—"plan" to retire before age 65.

Surveys in 1963 and 1966 showed the following increase in the proportion who reported that they were planning to retire before reaching age 65:

Age of family head	1963 surveys	1966 surveys
35 to 44	25	43
45 to 54	23	33
55 to 64	21	22

Source: P. 239 of U.S. Joint Economic Committee *Compendium*, Part II.

A smaller proportion of the population aged 65 and older is expected to be in the labor force; earnings will represent relatively less of the income of the aged population.

There is every reason to expect that the downward trend in the labor force participation rate of older men will continue. Between 1920 and 1960, the participation rates of men 65 and older had declined from 57.1 percent to 32.3 percent. There was a further sharp drop to 26.9 percent by 1965.

The 1969 *Manpower Report* of the President projects a further decline, as follows:

[In percent]

Year	Total	Male	Female
1965 (actual)	17.1	26.9	9.5
1975	15.5	23.4	9.8
1980	14.9	21.8	9.9

Average earnings tend to be lower for aged workers, even for those working in full-time jobs. Older people still employed in many occupations are those who—often handicapped by the relatively low educational level of their generation—did not move up into higher paying occupations. Others who leave their lifetime work—voluntarily or involuntarily—become employed at lower paying jobs. Research by Kreps, Ferguson and Folsom on the industrial composition of older-worker employment contributes these findings in explanation of the drop in earnings:

> Apparently, the older person's opportunity for finding or retaining a job is greater in those industries that are growing less rapidly than the National average (or are actually declining), or in Services, which is the lowest paying non-agricultural sector. (*Employment, Income and Retirement Problems of the Aged*, Edited by Juanita M. Kreps, Duke University Press, 1963, p. 130.)

The 1965 *Report of the Secretary of Labor on the Older American Worker* offers further evidence of the decline in employment opportunities resulting from age discrimination. Approximately half of all private job openings were barred to applicants over age 55. Even in firms reporting that it was not the policy to discriminate against older workers, fewer than 3 percent of all workers hired during the period surveyed were aged 55–64; only a fraction of a percent were aged 65 and older (page 7).

Hence, realistic assessment of labor force conditions gives little hope that the economy will generate enough job opportunities to solve the income problem of older people, especially the oldest of them, now or in the years ahead. In the Nation's War on Poverty, emphasis has been placed on well-paying jobs as the best path out of poverty. But some other path must be found for the aged population.

Early retirement (plus any further increase in life expectancy) allocates a greater number of years to retirement and increases the cost of income maintenance of the aged population.

Incomes during this lengthened period will be lowered because of: one, the reduction in social security and other pension benefits that accompanies early retirement; two, the fact that any assets accumulated for retirement must be spread over a greater number of years; and three, inflation of the price level further erodes the purchasing power of available money incomes. The income gap between the retiree and the worker will become ever wider during this lengthened period.

A study of pension income adequacy in the future illustrates the effect that early retirement can have on reducing the amount of wage replacement provided by pensions—public and private—after retirement (table 14 and Chart J). The replacement ratios for men retiring before age 60 were much worse than those for men retiring at the "normal" age of 65 or more. For example, only about 3 percent of those retiring before age 60 are projected to have a replacement of 50 percent or more of their average annual earnings from pension income. In contrast, a little less than one-third of those retiring at age 65 or after are projected to have a replacement above 50 percent (page 167 of U.S. Joint Economic Committee *Compendium*, Part III).

TABLE 14.—*Projected*[1] *Ratio of Total Pension Income*[2] *to Preretirement Earnings*[3] *for Retired Nonagricultural Males*[4]

[Percent distribution]

Ratio	Age at retirement		
	Less than 60	60 to 64	65 or over
Less than 0.10	16	6	3
0.10 to 0.19	50	19	10
0.20 to 0.29	23	27	16
0.30 to 0.39	5	21	26
0.40 to 0.49	3	11	15
0.50 to 0.59	1	5	12
0.60 to 0.69	1	4	7
0.70 to 0.79	0	3	5
0.80 to 0.89	0	1	2
1.0 or more	1	1	4
Total	[5] 100	100	100

[1] Projected through Simulation Model described in Social Security Administration *Research Report No. 24*.
[2] Social Security, private pension, and/or Government employee pension.
[3] Average of 5 years prior to retirement.
[4] Married males only.
[5] Totals may not sum to 100 percent due to rounding.

Source: Joint Economic Committee *Compendium*, Part III, p. 167.

The possibility of a reversal in the trend toward early retirement cannot be ignored. As compared to today's older population, workers who reach old age in the future will undoubtedly have higher educational achievement and can be expected to have better health status; a higher proportion will be non-production workers. We question whether there is presently sound ground for believing that they will want to accept patterns of early retirement or even retirement at the ritualistic figure of 65. In other words, work and retirement patterns that have characterized the past few decades will not automatically be extended into the future.

Furthermore, the social and economic costs of increased numbers of persons in their sixties who are no longer in the labor force, may lead to a search for alternatives to their retirement. Population projections for the near future indicate that the age group 65 and older will remain a more or less constant fraction of the age group 20 through 64—the so-called "working age" group. It is often concluded from these projections that the economic costs of supporting the nonworking population will not be increased solely by a rising proportion of older people in the total population. With early retirement, the ratio is changed and the conclusion must be re-examined.

The pension policies of government and private industry clearly influence the retirement decisions of workers. Increased attention must therefore be directed to the social and economic implications of such policies and to the search for other solutions.

Early retirement on permanently reduced pension benefits is not the only solution to the problem of a rising number of unemployed older workers. In fact, there is increasing recognition that this is at best a palliative rather than a cure.

The resulting retirement income may be seriously inadequate—a step backward in the War on Poverty. The cost of supporting the nonworking population rises and there is a loss in real output resulting from the reduction in the labor force. By institutionalizing a lower age for initial eligibility for retirement benefits, the average age for retirement may be pushed lower and employment opportunities for older workers adversely affected.

Other solutions that more directly attack the basic problem merit serious consideration. These include: (1) improvement in public and private disability coverage and provisions; (2) institution of extended unemployment compensation benefits for older workers; and (3) job retraining—together with a vigorous labor market sustained by appropriate monetary-fiscal policy.

The developing recognition of the need to plan for retirement serves to accentuate the increasing uncertainty about what one is planning FOR.

Our Nation's aged population is growing older. But no one now middle-aged can predict how long he will live in retirement, even without any medical breakthroughs that could greatly extend life;

nor can a husband predict how long his widow will outlive him or what medical care needs for chronic and long-term illness he may need to finance out-of-pocket instead of through the governmental program that now concentrates on protection against short-term illness in old age; or what value his savings will have or at what rate it will be safe to use them up.

The individual's attempts to provide for his own old age are further complicated by the fact that there is no clear public policy as to the minimum income, if any, that society intends for all its members, including the aged. Nor is there any indication of the extent to which nonworking groups are to share in the fruits of economic growth.

PART FIVE

POTENTIALS FOR IMPROVING THE ECONOMIC SITUATION OF THE AGED

In the light of recent trends, what changes might occur that would improve the economic situation of persons who reach old age in the future? What are the possible solutions to the low-income problem of today's aged? Let's raise several possibilities and examine them.

PERSONAL SAVINGS

First, given the expectation of sustained prosperity, there could be significant changes in personal savings.

The retiree of the future will have had more working years in which income can be expected to exceed consumption requirements.

The questions are: How much of this excess will go into savings? How much purchasing power will these savings have decades hence when the worker retires? What are the potentials of proposals for converting savings into income which can be spread over the retirement period? How can voluntary savings be encouraged?

If past performance is a guide, private savings cannot be expected to contribute significantly to raising the level of income in old age. The earnings levels leave only a small excess of income over consumption expenditures for most families during worklife.

In the absence of longitudinal studies, the data in table 15 contribute to an understanding of the potential excess or deficit of family expenditures in relation to the income of different age groups in various occupational categories. The findings for 1961–62 (shown in Chart K) may be summarized as follows:

Annual incomes exceed expenditures of the self-employed and professional workers' families for most of the age cohorts, leaving sources of savings at practically all stages of worklife. Semi-skilled workers, whose expenditures are below income for families in the middle and later years, also have a small margin for saving. For clerical and skilled workers, expenditures are barely balanced by income over the worklife, with the years of slight deficits roughly matched by years of small savings. In the case of unskilled workers, no balance of income with expenditure is achieved except by the 55–64 age group.

TABLE 15.—*Excess or Deficit of Average Annual Money Income (after Taxes) over Average Annual Expenditures, by Age and Occupation, 1960–61*

Age	Self-employed	Professional	Clerical	Skilled	Semi-skilled	Unskilled
Under 25	−$1,384	−$98	−$67	−$138	+$58	−$223
25 to 34	+740	+299	+72	−151	−16	−104
35 to 44	+765	+364	+7	+260	+95	−169
45 to 54	+735	+789	−11	+287	+165	−19
55 to 64	+461	+875	+179	+479	+131	+116

Source: Derived from data in BLS "Consumer Expenditures and Income", supp. 2, pt. A to Report 237-238, pp. 30-61 and BLS Report No. 237-238, pp. 30-34.

With an outlook for sustained economic growth, how realistic is it to expect today's workers voluntarily to forego consumption in order to save for the years ahead when these savings would maintain only a fraction of the worklife consumption level?

The following model illustrates the difficulties of setting aside savings out of current earnings to provide a given level of consumption in retirement.

The model, developed by Juanita M. Kreps and John O. Blackburn, Duke University, is described in detail in their statement prepared for a hearing of the Senate Special Committee on Aging ("Long-Range Program and Research Needs in Aging and Related Fields," Hearings before the Special Committee on Aging, U.S. Senate, Washington, D.C., Dec. 5 and 6, 1967, Part 1, Survey, pp. 59–60).

It assumes that income earners save systematically for their own retirement by setting aside that fraction of income necessary to provide a retirement level of consumption equal to the level *of that year.* The worker's income is rising at a rate of M per year. Upon retirement, he takes his savings (plus interest) and buys an annuity providing whatever annual income can be purchased for the remainder of his life.

But since the retiree's savings were accumulated during an earlier period when earnings were lower than those of the present generation of workers, he will begin his retirement consumption at only a fraction of the worker's level. Only if M is zero would he start at 100 percent of the worker's level (table 16a).

Furthermore, he will have a fixed payment per year during retirement, while persons in the labor force continue to enjoy rising incomes at rate M per year (table 16b).

TABLE 16(a).—*Consumption Expenditures of New Retirees as a Proportion of Consumption Expenditures of Workers, at Various Rates of Income Growth*

Rate of income growth (M)	Retirees' consumption (percent of workers' consumption)
0	100
0.01	77
0.02	60
0.03	48
0.04	35

TABLE 16(b).—*Retirees' Consumption after 5, 10, 15, and 20 Years of Retirement as a Proportion of Workers' Consumption (Income Growth Rates of 0.02 and 0.03)*

Years in retirement	Retirees' consumption (percent of workers' consumption)	
	0.02 rate of growth	0.03 rate of growth
0	60	48
5	52	41
10	45	36
15	39	31
20	33	27

Source: "Long-Range Program and Research Needs in Aging and Related Fields," hearings before the U.S. Senate Special Committee on Aging, pt. I, Survey, December 1967, p. 60. Testimony of Juanita M. Kreps and John O. Blackburn.

Thus, under these assumptions, an annual rate of saving aimed at providing retirement consumption equal to one hundred percent of current consumption during worklife would in fact provide only a fraction—perhaps one-half to two-thirds—of consumption during worklife, and this proportion only at the beginning of the retirement period. During the course of the retirement years, the retiree's level of consumption falls further still, perhaps to as little as one-fourth of that enjoyed by persons still at work.

Even if the retiree of the future has accumulated significantly higher assets, it is likely that a large part of these assets will be in the form of homeownership. It is also probable that—like today's retiree—he will be reluctant to draw on these assets because of uncertainties about the future.

It is to be expected that assets will be drawn upon in retirement; the basic purpose of accumulating assets during the working years is to have a supplementary source of income in old age. The problem confronting the retiree, however, is essentially this: at what rate is it safe to convert assets into income to ensure their lasting through his own lifetime and the lifetime of his widow?

The solution to the problem of planned use of assets would seem to revolve around these questions:

Is homeownership more of a burden than an asset for older people, in view of rising property taxes and costs of home maintenance?

What are the effects on older people—financially and psychologically—of proposals for planned conversion of assets into income over the remaining lifetime?

What are the potentials of proposals for setting up banks or other institutional mechanisms for converting assets to income? Would older people participate? Are the proposals feasible financially?

Constant Purchasing Power Bonds merit serious consideration as a potential method of increasing voluntary retirement savings.

From time to time, proposals have been made for the issuance of Government bonds that would keep their "real" value—that would increase the amount of principal payments according to change in the cost of living index. The proposals are sometimes suggested as a method of encouraging savings by the individual, and sometimes as an investment device for private pension plans and health and welfare funds.

Proponents give these reasons for issuance of government bonds with a guaranteed purchasing power:

> A constant purchasing power bond would have an important social function in allowing savers to protect themselves against the risk of inflation and in this respect would be an especially attractive form in which to hold long-term savings for old age.
>
> At present, there is no low-risk inflation hedge available to the public. Individual savers, pension funds and other investors can obtain a measure of protection against inflation by buying equities, but these investments are subject to other risks which many savers—especially savers who are unsophisticated and have only limited amounts to save—may not wish to assume.

Such bonds could actually reinforce a long-range anti-inflationary policy: if the Government has a choice of a loan by ordinary bonds or by index bonds, choice of the latter manifests the belief of the Government in stable prices. Thereby the public might be induced to expect adjustments in the same direction, a most important achievement in a stabilization program.

The validity of these arguments favoring Constant Purchasing Power Bonds should be weighed against the arguments in opposition—the financial implications of the Federal Government's assumption of an indeterminate liability resulting in an open-end commitment with respect to the Federal debt; the implied concession by the Government that neither Federal securities nor other fixed-payment obligations provide an effective means of building up financial reserves for retirement; the introduction of another "escalator clause" by the Government intensifies public belief that inflation is inevitable and reduces resistance to inflation, etc.

PRIVATE PENSION PLANS

Second, the expansion and broadening of Private Pension Plans could serve to raise the incomes of future retirees.

More of tomorrow's aged will receive income from private pensions. But there is no cause for complacency about this source of income in the future in view of a number of considerations.

Even under earlier projections now known to be too optimistic, only a third to two-fifths of all aged persons in 1980 were expected to have income from private group pensions.

Assuming a high employment economy and a continuation of the current interest in retirement along with no significant changes in the present legal framework affecting private pension plans, the 1965 Report to the President on Private Employee Retirement Plans uses these projections:

Year	Population 65 and over	Persons 65 or over and their dependent wives receiving private pensions: Number	Persons 65 or over and their dependent wives receiving private pensions: As percent of population 65 or over
	Millions	*Millions*	
1970	20.2	4.2	21
1975	22.6	5.6	25
1980	25.4	7.0	28

The fact that pension coverage is concentrated among higher paid workers will mean that those in the greatest need in old age will be least likely to receive private pensions.

The imbalance in the coverage by earnings level of 27 million persons covered by private pension plans (including some presently retired) has been summarized as follows:

Of employees earning $3,000 to $5,999 yearly, 26% have pension coverage

Of employees earning $6,000 to $9,999 yearly, 47% have pension coverage

Of employees earning $10,000 or more yearly, 52% have pension coverage. (Source: U.S. Joint Economic Committee *Compendium*, Part IV p. 98.)

In addition, virtually none of the thousands of private pension plans makes provision for adjusting the benefit of the retired worker to increases in living costs. And the usual plan provides very little protection for survivors.

A study by the Bureau of Labor Statistics of private pension plans under collective bargaining in 1962 revealed, for example, that only half of the plans surveyed even had a widow's benefit option; that to collect a widow's benefit under most of these plans, the covered worker had to die *after* retirement; and where the widow option actually existed, it was necessary for the worker to give up one-fifth of his pension in order to provide his wife with one-half of the reduced benefit. To give his widow a benefit equal to the *full* amount of the *reduced* benefit, the worker's pension was reduced by about a third. The result of these private pension provisions is to severely discourage use of the option.

What are the possibilities that changes in the existing private pension plan structure could significantly raise retirement incomes in the future? What kinds of change would be needed? What are the potentials for increasing private pension plan coverage and the vesting of benefits through new institutional arrangements—for example, a Federal program of voluntary supplemental group annuities with contributions fully and immediately vested and completely cumulative?

A recent study of pension adequacy found that a *large rise in the level of private pension benefits would be necessary to significantly increase the number of retired individuals living in relative prosperity.* In addition, because a significant number of retired units are not now covered by private pension plans and because large gaps in coverage are likely to continue to exist in the future, *many retired unit incomes would be unaffected by these private pension benefit increases.* (Source: Social Security Administration *Research Report* No. 24.)

TAX RELIEF, PUBLIC SERVICES AND WELFARE

Third, various proposals for tax relief, increased public services, and improved welfare payments might be used to raise the incomes of the aged population, especially those already old.

The role of these proposals in improving the income position of older people, now and in the future, is largely dependent on the basic policy decisions that will determine the level of income our Nation intends for its older people and the channels through which they receive this income.

Slightly more than 2 million aged people now receive Old-Age Assistance, over half of them as a supplement to social security benefits. Levels of assistance payments vary markedly from State to State, a variation far beyond that justified by any State differences in living costs. Many States meet only a portion of the level of need set under their own standards. Because of the large Federal financial stake in this State-administered program, national attention is increasingly directed to such questions as: should Old-Age Assistance be Federally-administered? If State-administered, should uniform Federal standards be required?

In the months ahead, it can be expected that Old-Age Assistance and other welfare programs will be carefully scrutinized. Attention will continue to be directed to the possibility of reducing reliance on welfare through efforts to develop self-support of the potentially employable, thereby preventing prolonged dependency. Important as these efforts are for the younger population, they hold little promise for the aged; older people are not likely candidates for self-support through gainful employment.

The issues around the question of tax relief cannot be stated in terms uniformly relevant throughout the Nation because they go far beyond the question of treatment under Federal income tax laws. It must be recognized, however, that in many parts of the country, the tax treatment of the incomes of aged persons and—perhaps more important—of their real property is a major issue at the State and local level.

SOCIAL SECURITY

Fourth, the Federal Social Security program (OASDHI) could be the means of improving the income position of the aged population. Without substantial improvements in benefits, however, the existing system will not solve the problem of low income in old age, to say nothing of improving the relative economic status of the retired population.

Almost all future retirees will receive social security benefits and these benefits will reflect the higher earnings of recent years. The following developments could nevertheless cause benefits to be lower than envisioned: (1) a high proportion of benefits are permanently reduced because they are claimed prior to age 65; and (2) a growing portion of the earnings of higher paid workers cannot be replaced by benefits, since rising wage levels out-pace the maximum earnings that are credited under Social Security (table 17). According to recent estimates of the Office of Research and Statistics, Social Security Administration, 27 percent of all four-quarter workers had earnings above the $7,800 maximum in 1968. In 1938, fewer than 5 percent had earnings above the maximum then in effect ($3,000).

TABLE 17.—*Reported Taxable Earnings as Percent of Total Earnings of Wage and Salary and Self-Employed Workers under OASDHI, 1951–66*

Year	Maximum earnings taxable and creditable	Taxable as percent of total: Wages and salaries	Taxable as percent of total: Self-employment earnings
1951	$3, 600	84. 0	57. 9
1952	3, 600	82. 8	59. 6
1953	3, 600	80. 7	58. 8
1954	3, 600	79. 6	60. 0
1955	4, 200	82. 6	64. 2
1956	4, 200	81. 2	62. 7
1957	4, 200	79. 8	61. 2
1958	4, 200	78. 3	61. 7
1959	4, 800	81. 6	62. 6
1960	4, 800	79. 9	63. 0
1961	4, 800	79. 3	62. 7
1962	4, 800	77. 7	59. 8
1963	4, 800	76. 4	58. 9
1964	4, 800	74. 4	56. 3
1965	4, 800	73. 7	49. 3
1966	6, 600	83. 0	57. 1

Source: *Social Security Bulletin* Annual Statistical Supplement, 1966, table 25.

A recent simulation projection using relatively liberal assumptions to project retirement benefits under social security found that more than two-thirds of retired couples could be expected to receive $3,000 or less in social security benefits in 1980 (Social Security Administration Research Report No. 24).

PART SIX

PUBLIC POLICY ISSUES AND THEIR IMPLICATIONS FOR IMPROVEMENTS IN SOCIAL SECURITY

Before defining the issues that relate to improvements in the Social Security system itself, it is necessary to recognize that certain basic public policy questions cut across the broad issue of economic security in old age.

- **What is an adequate level of income for retired persons? Adequate in relation to the individual's level of living before retirement? Adequate to keep the average older person from want and dependency? Adequate to permit participation in the Nation's rising standard of living?**
- **What part in attaining this level should be played by governmental programs, by voluntary group action and by individual effort? And of the public segment, what share should be financed through payroll taxes and what through general revenues? What level should be provided by governmental programs as a matter of right without a means test?**
- **Is the economic problem of aging a temporary problem that requires a different solution—or a different "mix" of solutions—for today's aged than for those reaching old age in the future?**

These are questions that have public policy implications far beyond the reach of this Task Force Report. The data assembled here, however, should be helpful in reaching decisions.

The Task Force has not considered or recommended any specific policies or legislative proposals. However, the Task Force does support the following premises which it feels should serve as guidelines with respect to basic public policy determinations:

(1) The facts clearly show that the basic problem of low income in old age is not a transitional problem that, given present trends, will solve itself in the foreseeable future.

(2) To the extent that older people are to be "assured" of adequate income, the assurance must come through governmental action. Private pension plans and voluntary savings provide a promise of income, not a guarantee.

(3) Since the income security of each generation of retirees derives basically from a claim on the current production of the working population, it would appear that the emphasis on alternative methods of financing this claim has been exaggerated.

(4) The accepted level of income adequacy should be flexible enough to permit older people to share in the growth of the economy.

This is in part a question of equity: "Whose growth is it?" Increases in productivity of the currently employed result—not altogether from their own efforts—but in large part because of the capital accumulations and advances in technology that derive from past efforts.

(5) The existing social insurance system is a fast and effective way to deliver an income assurance that carries commitments for the future as well as for the current generation of the aged.

Against these broad social policy issues, the specific issues related to the social insurance program would seem to be these:

(1) By how much should the general level of cash social security benefits be increased to provide a basic floor of protection?

(2) Should benefits be raised for special groups of beneficiaries, particularly for widows, for those now drawing the minimum benefit, and for those who will become entitled in the future who have had earnings significantly above the present maximum earning base that is credited for benefits?

(3) Should the eligibility age for benefits be lowered? Should benefits payable before age 65 be computed without an actuarial reduction?

(4) Should the test that results in the withholding of benefits because of earnings be liberalized? eliminated?

(5) Should benefit adjustments be made automatically or through legislative amendments? And should adjustment be to a level that merely preserves—or restores—purchasing power, or to a level that provides a share in the Nation's increased productivity?

(6) How appropriate are the available indexes, including the Consumer Price Index, as measures of the need for adjustment and the amount of adjustment in retirement benefits?

(7) What improvements are needed in Medicare benefits? Should the voluntary medical insurance portion (Part B) be financed—as is the hospital insurance portion (Part A)—through rising earnings of workers rather than through premiums paid by the aged?

(8) What role should general revenues play in the financing of the Social Security system?

PART SEVEN

CONCLUSIONS

The task force, although not attempting to enumerate and evaluate the many policy alternatives that have been recommended to deal with the economic problems of the aged, believes that the facts and projections assembled in this Report support the following important conclusions:

- **Low income is the Number One problem of today's aged population.**
- **Low income in old age is *not* a transitional problem that, given present trends, will solve itself.**

Unless action is taken now, most aged will not have sufficient income to provide in retirement "a healthful, self-respecting manner of living which allows normal participation in community life."

- **The Social Security system has failed to keep up with the rising income needs of the aged.**

To a large extent, social security benefit increases in the past have resulted, not from legislation with the purposeful intent of tapping a greater part of the rising national product for old people, but rather as a secondary result of attempts to deal with the severe and potentially explosive hardship problems facing many older people. In consequence, these past efforts have been aimed primarily at maintaining the economic status of the aged at some minimal standard or subsistence level in the face of rising prices.

- **Sufficient evidence now exists to spotlight certain special economic problems of the aged which compound the general problem of low income. Among the areas identified for immediate congressional attention are:**

(*a*) Income maintenance of widows—a particularly disadvantaged group.
(*b*) Health needs and rising medical costs.
(*c*) Problems associated with homeownership and taxation.
(*d*) Employment opportunities in old age.
(*e*) Implications of early retirement trends.

Simultaneously, congressional attention should be directed to (1) the various techniques for measuring and projecting the income needs of the aged population and to their use in decision making and (2) the appropriateness of methods now used or proposed for use in the adjustment of retirement benefits to changing conditions.

- **A reasonable definition of adequacy demands that the aged population, both now and in the future, be *assured* a share in the growth of the economy.**

If old age is to be more than a period when people decline and die, some way must be found whereby the aged, who have helped in the past to provide the basis for rising living standards, are guaranteed a share in some of the "harvested fruits." What this requires is a substantial transfer of income from the working to the retired population in order to improve the *relative* economic status of the aged.

- **Such assurance can *best* be provided, or can *only* be provided, through governmental programs, particularly the social insurance system of OASDHI, which carry commitments for future older Americans—the workers of today—as well as for this generation of the aged.**

The financial soundness of the Social Security system depends, essentially, on the Government's taxing powers which, in a vigorously growing economy, permit great flexibility to meet changing retirement needs. And retirement needs *are* changing as expectations rise and as American families increasingly begin to evaluate the adequacy of their retirement income in relation to their standard of living prior to retirement.

- **Private group pensions and personal savings—tailored as they are to individual needs, preferences, and financing ability—will continue to be essential supplements to basic social security benefits in the future. The Government should explore and lend support to various methods of promoting and encouraging such supplementary sources of retirement income.**

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