Understanding Elderly Poverty in the U.S.: Alternative Measures of Elderly Deprivation

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I. Introduction

There are two stories about the economic status of elderly people in the United States and both cannot be right. The first focuses on the great economic gains of the elderly in the last few decades, particularly compared to other age groups, and relies heavily on the official measurement of poverty.[1] That story is misleading because it fails to account for changes in food and health care spending, changes in living standards for the average household and geographic variation in costs of living. Other measures of elderly poverty are more accurate and by incorporating the cost of basic needs these measures tell another story, namely that the elderly face increasing economic insecurity and deprivation.

The "Great Recession" of 2008 – 2009 caused economic dislocation and more uncertainty across the board and only 13 percent of people approaching retirement age in 2011 reported feeling "very confident" that they will be able to "live comfortably" once they retire.[2] The rest are postponing retirement or planning to work after retirement. As the proportion of elderly in the U.S. population grows,[3] elderly economic issues are increasingly critical. This requires policy makers and groups that represent the interests of the elderly to understand and address elderly economic insecurity and vulnerability to deprivation. This report contributes to a broader understanding of elderly poverty and—with hope—better policy responses by examining the extent of elderly poverty using different poverty measures.

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[1] Taylor, Paul et al (2011). "The Old Prosper Relative to the Young: The Rising Age Gap in Economic Well-Being." Pew Research Center: http://www.pewsocialtrends.org/2011/11/07/the-rising-age-gap-in-economic-well-being/
[2] Employee Benefit Research Institute (2011). "2011 Retirement Confidence Survey:" http://www.ebri.org/pdf/surveys/rcs/2011/FS1_RCS11_Confidence_FINAL1.pdf
[3] U.S. Census Bureau (2004). "U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin." http://www.census.gov/ipc/www/usinterimproj/

The Current Nature of Elderly Poverty

Using the official federal poverty line (FPL) measure (used since the 1960s by the U.S. Census Bureau), 2010 elderly poverty rates are broken down to highlight which demographic characteristics are linked to being poor.[4] The findings using the FPL measure are that:

- Women are poorer than men.

- Poverty rates increase with age.

- Black and Hispanic men and women are poorer than whites of the same sex.

- Black and Hispanic women have the highest poverty rates of any demographic group.

- Elderly who live alone are poorer than elderly couples.

Four alternatives to the FPL measure are reviewed: 1) the OECD relative measure of poverty; 2) the U.S. Census Bureau's Supplemental Poverty Measure (SPM); 3) the Wider Opportunities for Women (WOW) and Gerontology Institute at the University of Massachusetts Boston's Elder Economic Security Standard Index (Elder Index); and 4) the Demos and Institute for Assets and Social Policy at Brandeis University's Senior Financial Stability Index (SFSI).

These measures show that the federal poverty line of 9% for the elderly is too low:

- The OECD (2011) relative poverty measure (those with incomes less than 50% of the median) finds a U.S. elderly poverty rate of 22.2% for the late 2000s[5]

- The U.S. Census Bureau's measure (SPM 2010) finds a 15.9% U.S. elderly poverty rate;[6] this measure also finds a greater number of near poor:[7] 34% instead of 22% using the federal poverty line[8]

- The WOW thresholds in the Elder Index (2010) are higher than the FPL threshold since basic costs of living for the elderly are between 150-200% of the federal poverty line[9]

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[4] U.S. Census Bureau (2011). "Current Population Survey, 2011 Annual Social and Economic (ASEC) Supplement." Washington: U.S. Census Bureau: http://www.census.gov/hhes/www/cpstables/032011/pov/new01_100.htm

[5] Organization for Economic Co-operation and Development (2011). "Income distribution and poverty database " OECD: http://www.oecd.org/els/social/inequality

[6] Short, Kathleen (2011), "The Research Supplementary Poverty Measure 2010: Current Population Reports." U.S. Census Bureau: http://www.census.gov/prod/2011pubs/p60-241.pdf

[7] The U.S. Census Bureau defines "near poor" as those with incomes at or below 150% FPL and SPM. These rates are only used here for comparison as it will be argued that 200% FPL is a more appropriate measure of the "near poor"

[8] DeParle, Jason, Robert Gebeloff and Sabrina Tavernise (2011). "Older, Suburban and Struggling, 'Near Poor' Startle the Census." The New York Times. November 18, 2011: http://www.census.gov/hhes/povmeas/methodology/supplemental/research/SpecialTabulation.pdf; and U.S. Census Bureau (2011). "Special Tabulation of Supplemental Poverty Measure Estimates." U.S. Census Bureau, Poverty-Experimental Measures: http://www.census.gov/hhes/povmeas/methodology/supplemental/research/SpecialTabulation.pdf

- The Demos and IASP SFSI measure (2008) counts 36% of the elderly as economically insecure, 40% as financially vulnerable[10]

Assessments of the "near poor" in the literature have ranged from 125-200% of the federal poverty line. These alternative poverty measures show that 200% FPL is the best threshold for "near poor" elderly. A 2010 demographic breakdown of elderly with incomes at or below 200% highlights how many elderly are vulnerable to economic hardship:[11]

- Over one third (34.6%) of the elderly have incomes at or below this threshold

- Near poor rates increase with age: for people over 75 the rate increases to 42%

- Black and Hispanic women fare the worst: for them the rates are almost 60%

Income levels are better understood when contextualized by basic costs of living. Using data from the 2010 Consumer Expenditure Survey[12], SCEPA finds the standard of living for elderly individuals:

At the Federal Poverty Line	At 200% Federal Poverty Line
➢ Less than $5/day for food	➢ Less than $8/day for food
➢ Under $400/ month for housing	➢ Approximately $650/month for housing
➢ Less than $4/day for transportation	➢ Less than $10/day for transportation
➢ Approximately $100/month for utilities	➢ Approximately $180/month for utilities
➢ Approximately $120/month for health care	➢ Approximately $260/month for health care

The Future of Elderly Poverty

Changing economic conditions and social policy are making the elderly more financially insecure:

- Employer sponsorship of health insurance for retirees and defined benefit (DB) pension plans has decreased.[13]

[9] Author's calculations based on the thresholds in: Wider Opportunities for Women and University of Massachusetts Boston (2011). "National Elder Economic Security Initiative." Washington DC: Wider Opportunities for Women: http://www.wowonline.org/documents/NationalFactSheetApril2011.pdf

[10] Meschede, Tatjana et al (2011). "From Bad to Worse: Senior Economic Insecurity on the Rise." Demos & IASP: http://iasp.brandeis.edu/pdfs/FromBadtoWorse.pdf

[11] U.S. Census Bureau (2011). "Current Population Survey, 2011 Annual Social and Economic (ASEC) Supplement." Washington DC: U.S. Census Bureau: http://www.census.gov/hhes/www/cpstables/032011/pov/new01_100.htm

[12] U.S. Bureau of Labor Statistics (2011). "Consumer Expenditure Survey." Washington DC: U.S. Bureau of Labor Statistics: http://www.bls.gov/cex/#tables

- Participation in and sponsorship of defined contribution (DC) pension plans which expose retirees to greater volatility in the stock market and to high fees have increased.[14]

- The financial burden of Medicare premiums has increased. Health care costs are projected to continue to increase and become an even greater strain on the incomes of the elderly.[15]

- The "Great Recession" of 2008 – 2009 has eroded asset values, increased unemployment, and put downward pressure on wages.

Demographic changes will also affect the number of elderly poor:

- Increasing life expectancies mean people have to stretch their resources further,[16] which is especially an issue for women.[17]

- The elderly are growing as a share of the total population.[18] Unless the poverty rate for the elderly dramatically decreases, the number of poor elderly will grow.

- The elderly most at risk of poverty will be growing as shares of the population: older women (over the age of 85), blacks, Hispanics, and those who have never been married.

Findings from the micro-simulation models MINT and DYNASIM, sponsored by the Urban Institute and the Social Security Administration, are reviewed to provide insight into future elder economic conditions. These reports find:

- Health care costs are projected to increase by over 100% by 2040[19]
  - Elderly poverty measures, which account for health care costs, show current (21.3% for 2010) and future (21.4% for 2040) elderly poverty rates far higher than FPL estimates and projections

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[13] Butricia, Barbara A. et al (2009). "The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Income of Boomers." The Urban Institute: http://www.urban.org/UploadedPDF/411831_disappearingbenefit_paper.pdf
[14] Hiltonsmith, Robbie (2010). "The Failure of the 401(K): How Individual Retirement Plans are a Costly Gamble for American Workers. Demos: http://www.demos.org/sites/default/files/publications/TheFailureOfThe401%28k%29_Demos.pdf
[15] Johnson, Richard W. and Corina Mommaerts (2010). "Will Health Care Costs Bankrupt Aging Boomers?" Urban Institute: http://www.urban.org/publications/412026.html
[16] Meschede, Tatjana et al (2011). "From Bad to Worse: Senior Economic Insecurity on the Rise." Demos & IASP: http://iasp.brandeis.edu/pdfs/FromBadtoWorse.pdf
[17] Meschede, Tatjana et al (2011). "Rising Economic Insecurity Among Senior Single Women." Demos & IASP: http://iasp.brandeis.edu/pdfs/SingleSeniorWomen.pdf
[18] U.S. Census Bureau (2004). "U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin." http://www.census.gov/population/www/projections/usinterimproj/
[19] Johnson, Richard W. and Corina Mommaerts (2010). "Will Health Care Costs Bankrupt Aging Boomers?" Urban Institute: http://www.urban.org/publications/412026.html

- The "Great Recession" will decrease average annual retirement incomes by about 4% or $2,300 at age 70[20]

- Projections of elderly poverty which only utilize the FPL decrease due to the price indexation of the FPL as opposed to the wage indexation of Social Security benefits
  - These decreases are misleading: if the FPL was wage-indexed, the elderly poverty rate would increase to 9.9% in 2020[21]

- There will be more losers than winners in the shift from defined benefit to defined contribution pension plans[22]

The Schwartz Center for Economic Policy Analysis (SCEPA) used the 2008 panel of the Survey of Income and Program Participation (SIPP) to make their own projections of vulnerability to poverty at age 65. SCEPA's projections differ from others as they do not assume that the elderly will continue to work after retirement age (65). These estimates show what percentage of the elderly will have to face deprivation or supplement their incomes through work or other means. Based on these projections:

- For current workers ages 50-64, when they reach age 65:

  - 12.9% will have incomes at or below 100% the federal poverty line

  - 35.3% will have incomes at or below 200% the federal poverty line

These projections indicate growing rates of poor and near poor at retirement age, which, coupled with a growing elderly population, would lead to large increases in economically vulnerable elders in the U.S. The results of this report are in and of themselves a red flag for policy makers to protect the growing number of elderly from a future of economic insecurity and vulnerability to deprivation.

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[20] Butricia, Barbara A., Richard W. Johnson and Karen E. Smith (2011). "The Potential Impact of the Great Recession on Future Retirement Incomes." Boston College, Center for Retirement Research: http://crr.bc.edu/working_papers/the_potential_impact_of_the_great_recession_on_future_retirement_incomes.html

[21] Butricia, Barbara A. et al (2002). "Projecting Poverty Rates in 2020 for the 62 and Older Population: What Changes Can We Expect and Why?" The Urban Institute: http://www.urban.org/UploadedPDF/410550_RRCpaperFINAL.pdf

[22] Butricia, Barbara A. et al (2009). "The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Income of Boomers." The Urban Institute: http://www.urban.org/UploadedPDF/411831_disappearingbenefit_paper.pdf

II. Vulnerability to Elderly Poverty: Gender, Race, Ethnicity, and Living Situation Matter

Any attempt to understand elderly poverty in the U.S. must start with the official federal poverty line (FPL) as the baseline. Drawing policy conclusions from this aggregate statistic would not, however, account for demographic characteristics linked to being poor. The aggregate elderly FPL rate for 2010 was 9%,[23] yet Figure 1 shows the large range of elderly FPL rates by gender, race/ethnicity, and age within this aggregate rate.

Figure 1: 2010 Official Elderly Federal Poverty Rates by Sex, Race/Ethnicity and Age

*Poverty rates are higher:
-for women compared to men within all race/ethnic categories
-as the elderly get older
-for blacks and Hispanics compared to whites

*For black females, their already high poverty rate between ages 65 and 74 jumps from 17.2% to 24.7% when they reach age 75
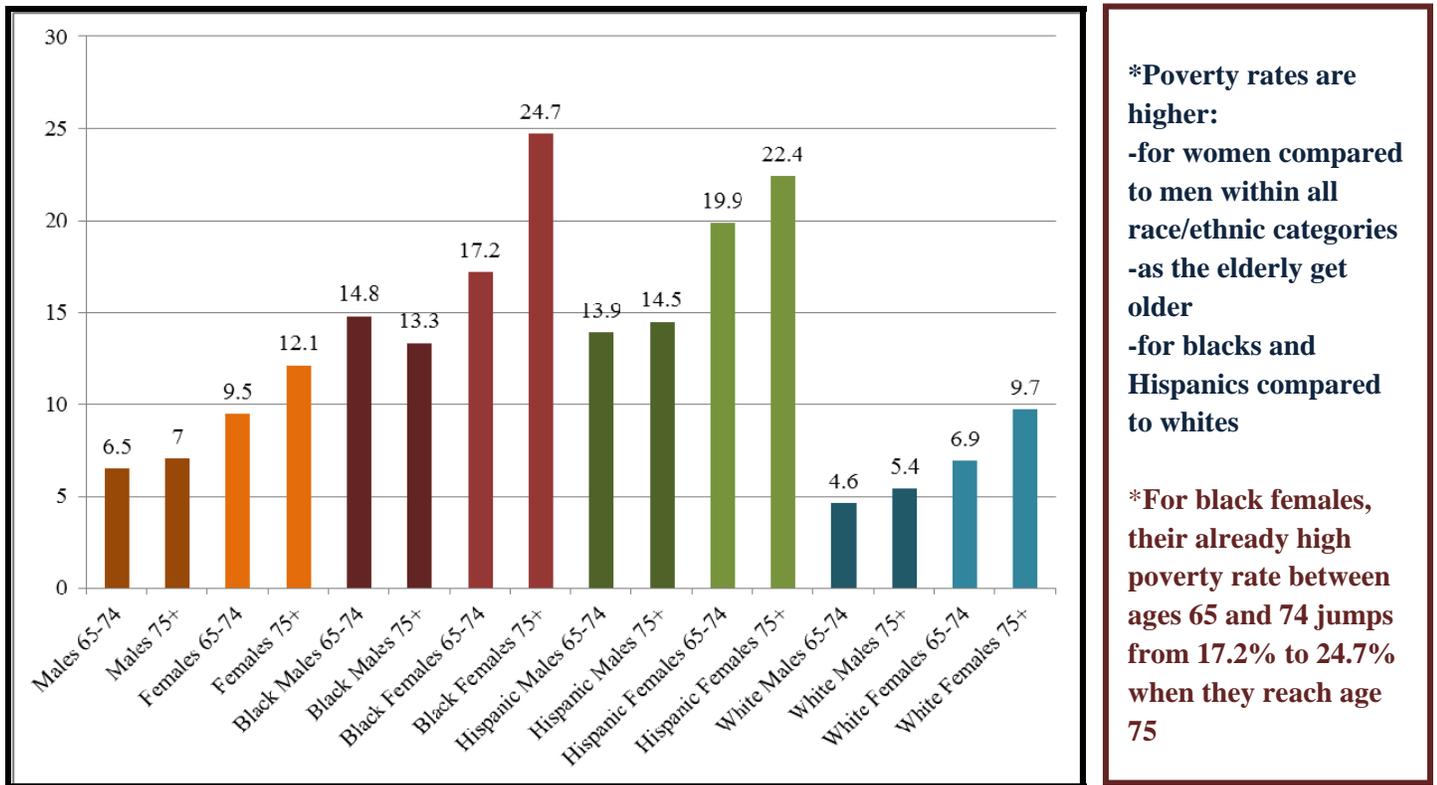
Source: U.S. Census Bureau (2011)[24]. Note: the poverty rates are for "Black alone" and for "Hispanic (any race)"

[23] DeNavas-Walt, Carmen, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau (2011). "Current Population Reports, P60-239, *Income, Poverty, and Health Insurance Coverage in the United States: 2011*." U.S. Government Printing Office, Washington, DC,2011: http://www.census.gov/prod/2011pubs/p60-239.pdf

[24] U.S. Census Bureau (2011). "Current Population Survey, 2011 Annual Social and Economic (ASEC) Supplement." Washington: U.S. Census Bureau: http://www.census.gov/hhes/www/cpstables/032011/pov/new01_100.htm

Elderly women are poorer than elderly men due to numerous socioeconomic factors:

- On average, women have lower earnings than men, and are more likely to work fewer years or part time in the paid workforce than men.

  - In 2010, women's median weekly earnings were 77 percent of men's median weekly earnings for full-time, year-round workers across all occupations.[25]

- Women have lower levels of Social Security benefits than men. Even though Social Security has a progressive benefit structure, this does not compensate for women's lower lifetime earnings (see Appendix).

- Within each race/ethnic group, elderly women have lower levels of pension, asset, and earnings income than men (see Appendix).

  - A 2010 study found that women have 64% less wealth than men.[26]

- Women live longer than men. In 2009, the life expectancy for men at 65 was 17.3 years, while for women at age 65 it was 20 years.[27] On average, women have to spread fewer resources over three more years than men.

- Unmarried women and women who live alone (Figure 2) are even poorer, as unmarried women over 65 have poverty rates three to four times higher than married women over 65.[28]

Black and Hispanic retirees are poorer than whites of the same sex due to numerous socioeconomic factors:

- Blacks and Hispanics have lower earnings, Social Security benefits, pension income, and asset income (see Appendix) compared to whites of the same sex.

  - In 2010, black men had median weekly earnings that were 74% of those of white men.
  - In 2010, Hispanic men had median weekly earnings that were 66% of those of white men.[29]

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[25] DeNavas-Walt, Carmen, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, P60-239, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*, U.S. Government Printing Office, Washington, DC,2011: http://www.census.gov/prod/2011pubs/p60-239.pdf

[26] Mariko Lin Chang (2010). *Shortchanged: Why Women Have Less Wealth and What Can Be Done About It*. New York: Oxford University Press.
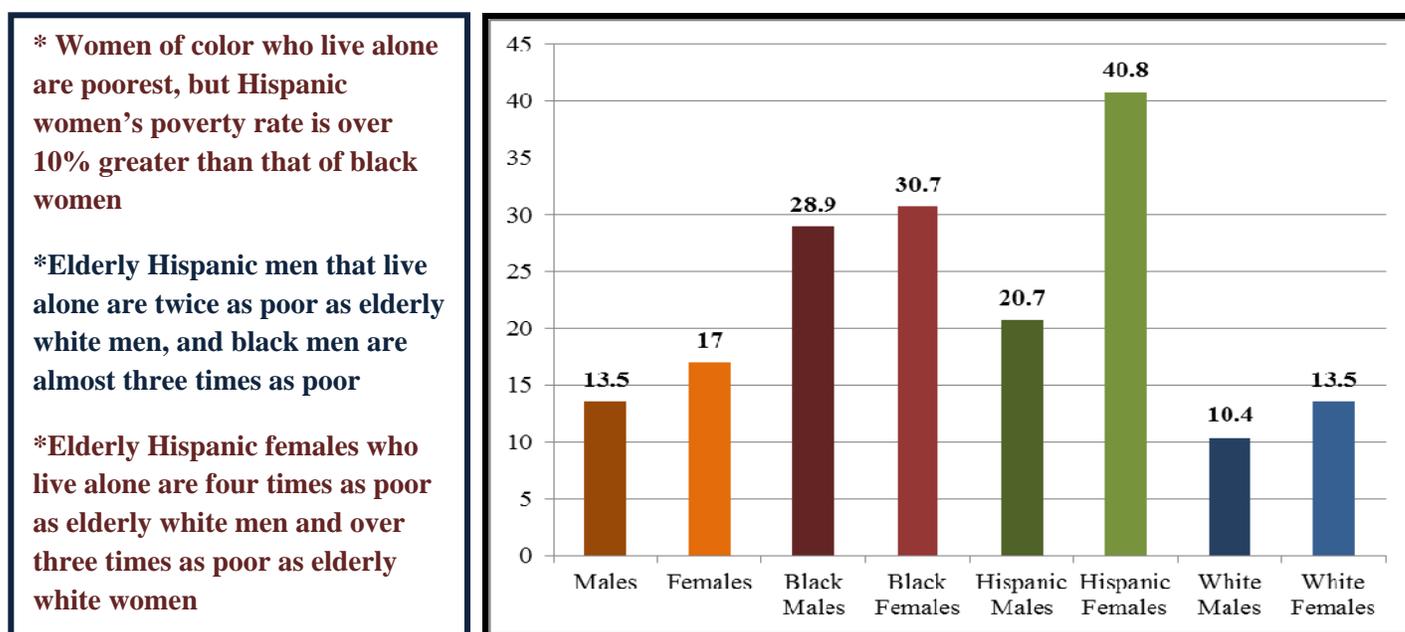
[27] U.S. Department of Health and Human Services (2011). "Deaths: Preliminary Data for 2009." National Vital Statistics Report, Vol. 59, No.4: http://www.cdc.gov/nchs/data/nvsr/nvsr59/nvsr59_04.pdf

[28] Butricia, Barbara A. and Cori E. Uccello (2006). "Wealthier Retirement for Boomer Women?" Global Generations Policy Initiative, Inc.: http://genpolicy.com/wordpress/wp-content/themes/spacio/pdfs/wealthier_retirement.pdf

[29] U.S. Department of Labor, U.S. Bureau of Labor Statistics (2011). "Highlights of Women's Earnings in 2010:" http://www.bls.gov/cps/cpswom2010.pdf

- Blacks and Hispanics have homeownership rates that are lower than whites, meaning a lower percentage can utilize home equity as a resource in their retirement. This in turn means that more elderly black and Hispanic people have to rent or pay a mortgage and spend a larger percentage of their income on housing.[30]

- Lower levels of financial assets also contribute to the greater vulnerability of black and Hispanic people to elderly poverty.[31]

Figure 2: 2010 Federal Poverty Rates for those over Age 65 who Live Alone by Demographic

* Women of color who live alone are poorest, but Hispanic women's poverty rate is over 10% greater than that of black women

*Elderly Hispanic men that live alone are twice as poor as elderly white men, and black men are almost three times as poor

*Elderly Hispanic females who live alone are four times as poor as elderly white men and over three times as poor as elderly white women

Source: U.S. Census Bureau (2011)[32]. Note: the poverty rates are for "Black alone" and for "Hispanic (any race)"

Race, ethnicity, and gender intertwine such that the highest poverty rates are for black women:

- Black and Hispanic women have lower wages than both white women or black or Hispanic men.

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[30] Meschede, Tatjana et al (2011). "The Crisis of Economic Insecurity for African-American and Latino Seniors." Demos & IASP: http://iasp.brandeis.edu/pdfs/InsecuritySeniorsOfColor.pdf
[31] ibid.
[32] Current Population Reports, Annual Social and Economic Supplement, POV01. Age and Sex of All People, Family Members and Unrelated Individuals Iterated by Income-to-Poverty Ratio and Race: http://www.census.gov/hhes/www/cpstables/032011/pov/new01_100.htm

- ➢ In 2010, black women had median weekly earnings that were 87% of those of white women, 94% of those of black men, and 70% of those of white men.[33]

- ➢ In 2010, Hispanic women had median weekly earnings that were 86% of those of white women, 91% of those of Hispanic men, and 60% of those of white men in 2010.[34]

- As black and Hispanic women find themselves on the lowest end of the earnings scale, they are also on the lowest end of the Social Security benefits scale, despite the progressive nature of the Social Security benefit formula (see Appendix).

- Black and Hispanic women also have lower levels of pension, asset, and earnings income than their male counterparts, and lower percentages of them have pension and asset income (see Appendix). The cumulative effect is that black and Hispanic women face greater vulnerability to elderly deprivation than any other population group.

- Black and Hispanic women that live alone face the highest poverty rates (Figure 2). The poverty rate for Hispanic females that live alone and are over 65 (40.8%) is almost four times that of white men (10.4%).

Age matters as a factor in elderly poverty rates:

- As retirees age they are less likely to have earnings income and more likely to have exhausted savings and asset income.

  - ➢ This is particularly an issue for women, given their longer life expectancies.[35]

- As an individual ages, they are also more likely to need living assistance and less able to afford the additional help. This is clearly seen in Figure 1, as poverty rates across all demographic groups (with the sole exception of black males) increase with age.

- Increases in the life expectancy of the elderly over time have meant that resources have to last longer. At the same time, health care and housing costs have increased and employer sponsorship of defined benefit pension plans has decreased. This means seniors face significant insecurity about whether or not their resources are sufficient to cover the duration of their lives after retirement.[36]

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[33] U.S. Department of Labor, U.S. Bureau of Labor Statistics (2011). "Highlights of Women's Earnings in 2010:" http://www.bls.gov/cps/cpswom2010.pdf
[34] ibid.
[35] Meschede, Tatjana et al (2011). "Rising Economic Insecurity Among Senior Single Women." Demos & IASP: http://iasp.brandeis.edu/pdfs/SingleSeniorWomen.pdf
[36] Meschede, Tatjana et al (2009). "Living Longer on Less: The New Economic (In)Security of Seniors." Demos & IASP: http://iasp.brandeis.edu/pdfs/LLOL%20Report.pdf

III. Beyond the Federal Poverty Line: Alternative Measures of Elderly Deprivation

The aggregate elderly federal poverty line rate has steadily declined in the last few decades, largely due to the role of Social Security (particularly because Social Security's benefits are indexed to wages while the federal poverty line is indexed to prices),[37] and has suggested overall improvements in the standard of living of those aged 65 and above. These improvements are a misinterpretation resulting from the methodology of the federal poverty line.

The methodology of the U.S. poverty measure differs from all other OECD countries, and has been the subject of numerous critiques arguing that it has become increasingly obsolete.[38] Developed in the early 1960s, the U.S. federal poverty line (FPL) measure calculated the lowest cost for adequate nutrition and multiplied this by three, as food composed a third of after tax spending for a family of three or more in 1955.[39] This threshold was then adjusted for the number of people in the household and whether or not household members were under or over 65 (lower thresholds were established for those 65 and older as it was assumed they have lower consumption needs).[40] Poverty rates are determined by comparing household income before taxes and transfers to the relevant FPL threshold. This methodology remains unchanged today and has merely been adjusted for inflation.

The methodology of the FPL has allowed for absolute comparisons of rates over time, but due to the methodology, these rates can at best provide only a minimum baseline for alternative poverty measures. There are several reasons for this:

- Food costs are now a much smaller share of total expenditures, something which is not reflected in price indexation[41]

- Overall expenditure patterns have changed such that the FPL does not reflect basic costs of living[42]

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[37] Englehart, Gary V. and Jonathan Gruber (2004). "Social Security and the Evolution of Elderly Poverty." National Bureau of Economic Research, Working Paper 10466.

[38] The most cited in the literature was conducted by the National Academy of Sciences (NAS): Citro, Constance F., and Robert T. Michael (1995). *Measuring Poverty: A New Approach.* Washington, DC: National Academy Press. For recent research using the NAS methodology and it's relation to the U.S. Census Bureau's Supplemental Poverty Measure: http://www.census.gov/hhes/povmeas/about/index.html

[39] Orshansky, M. (1965). "Counting the poor: Another look at the poverty profile." Social Security Bulletin, 28, 3-29.

[40] For 2010, the poverty threshold for individuals is $11,344 for those under 65 and $10,458 for those age 65 and above; for couples the thresholds are $14,602 for those under 65 and $13,180 for those 65 and above. U.S. Census Bureau (2011), Poverty Thresholds for 2010: http://www.census.gov/hhes/www/poverty/data/threshld/index.html

[41] U.S. Bureau of Labor Statistics (2011). "Consumer Expenditure Survey." Washington DC: U.S. Bureau of Labor Statistics: http://www.bls.gov/cex/#tables

[42] Reno, Virginia P. and Benjamin Veghte (2010). "Economic Status of the Elderly in the U.S." National Academy of Social Insurance, September 2010.

- The FPL threshold has eroded over time in relation to median income and in such a way that it does not reflect the rising societal standard of living (from 50% of median income in the 1960s to 28% in 2007)[43]

- Changes over time in tax rates and government transfers to certain groups affect incomes but are not accounted for[44]

- There is a large degree of variation in costs of living in different areas of the U.S. that affects whether or not households are vulnerable to poverty[45]

The FPL measure is particularly prone to underestimation of elderly poverty as it assumes lower consumption needs for those over 65 and assigns lower income thresholds. It is not consumption needs but expenditure patterns that determine income sufficiency and the elderly have had a larger increase in the financial burden of health care costs than other groups.[46]

Given all of these methodological shortfalls, this report reviews alternative methodologies that contribute to a broader, more accurate understanding of elderly poverty. Alternatives to the FPL measure are: the OECD relative poverty measure, the Supplemental Poverty Measure (SPM), the Elder Economic Security Standard Index (Elder Index), and the Senior Financial Stability Index (SFSI). All have relative strengths in understanding elderly poverty:

- The OECD measure is relative and therefore takes into account income inequality and the societal standard of living. This methodology allows comparisons with other OECD countries.

- The SPM uses current expenditure data to create thresholds, which reflect current costs of basic needs. Unlike the FPL, the SPM does not differentiate this threshold for those ages 65 and above.

- The Elder Index uses current expenditure data to define thresholds that are just sufficient for elderly costs of living without public assistance. Thresholds are then differentiated by individual/couple and renter/home owner. The Elder Index adjusts these thresholds geographically to account for variations in costs of living.

[43] Blank, R.M., & Greenberg, M.H. (2008). *Improving the Measure of Poverty*. Washington, DC: The Brookings Institution.
[44] Short, Kathleen (2011). "The Research Supplementary Poverty Measure 2010: Current Population Reports." U.S. Census Bureau: http://www.census.gov/prod/2011pubs/p60-241.pdf
[45] ibid.
[46] ibid.

- The SFSI differs in that it does not develop annual thresholds, but attempts to evaluate income adequacy over the lifespan of retirement. Expenditure data was used in the SFSI to create benchmarks for economic insecurity/security for five components.

The OECD Relative Measure of Poverty

The U.S. differs from other OECD countries in using an absolute measure of poverty, rather than a relative one. Measuring poverty should be relative to the societal standard of living. The relative elderly poverty rate used by the OECD gives us more information about inequality and sufficiency of resources. While expenditure patterns and standards of living vary across countries, U.S. elderly do not fare well compared to other OECD countries. The OECD measure defines poverty as those with incomes less than 50% of the median (after taxes and transfers) and is thus relative to the societal standard of living. According to OECD estimates for the late 2000s:

- 22.2% of those at retirement age in the U.S. are poor.[47]

- Out of 34 OECD countries, the U.S. has higher elderly poverty rates than all except for 6: Greece, Korea, Mexico, Estonia, Chile, and Australia.

- The U.S. rate is over 7 percentage points higher than the OECD average of 15%.[48]

The FPL methodology of indexation to prices has not kept up with the growth in median incomes. As a result, the elderly FPL rate has averaged less than half (the elderly FPL average was 9.3% from 2007 – 2010) of the OECD relative poverty rate of 22.2% for the late 2000s.

The original intent of the U.S. FPL thresholds was a measure that was relative to the societal consumption patterns. That the FPL would decline over time compared to median incomes and due to changing expenditure patterns was not lost on the designer of the FPL measure, Mollie Orshansky. In her work on poverty after her measure was adopted by the U.S. government, she indicated several times that the thresholds would need to be adjusted periodically for the changing social minimum that comes with a rising standard of living and for changing consumption patterns. Orshansky was part of several efforts to determine how and how often the FPL thresholds should be updated (beyond just price indexation), but these efforts led to no substantive changes. This is disconcerting, not least considering the following quote from Orshansky in 1966:

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[47]Organization for Economic Co-operation and Development (2011). "Income distribution and poverty database " OECD: http://www.oecd.org/els/social/inequality
[48] ibid.

"The difficulties in setting the poverty line are increased when the definition is to be used to measure progress over a span of time. Statistical nicety will be better served if the criterion selected remains invariant. The realities of everyday living suggest it cannot be—at least not for very long. Though the change in consumption patterns from any one year to the next might be miniscule, over the long run the upgrading that goes with the developing United States economy will be too great to be ignored. Research in consumer economics is not yet at a stage precise enough to specify just how long the long run is."[49]

Supplemental Poverty Measure (SPM)

In response to the debate about how to measure poverty and the criticisms leveled against the methodology of the FPL, an Interagency Working Group was formed by the U.S. government to create a Supplemental Poverty Measure (SPM). This measure was to be published annually by the Census Bureau and the Bureau of Labor Statistics. In designing this measure, the Working Group decided it would update the recommendations of the National Academy of Sciences in their 1995 report, *Measuring Poverty.*[50] This seminal report called for a more inclusive definition of both income and expenditures and a poverty threshold that is based on current expenditure data but adjusted for household size and geographic price variation. By this methodology, the threshold is based on basic needs (food, shelter, clothing, and utilities) expenditure data at the 33rd percentile of the distribution. Income should incorporate non-cash transfers from the government such as subsidies for school lunches, nutrition assistance, housing, and utilities. Once these in-kind benefits are added to cash income, expenditures on taxes, work-related expenses, transportation costs, childcare, and health care should be subtracted to assess the household's income. The SPM has deviated from the initial NAS recommendations in recognizing the importance of home ownership versus renting in determining whether or not an income level is sufficient. As such they have separate thresholds for homeowners both with and without a mortgage and renters.[51]

After publishing estimates using the NAS methodology since 1999, the Census Bureau made its first official release of the SPM in November 2011.[52] The SPM methodology led to significantly higher poverty rates for those over 65 compared to the official measure, with the elderly seeing the largest increases in their poverty rates of all age groups (some groups, such as children, blacks, renters, those living in rural areas, and those covered by public health insurance actually have decreased poverty rates under the SPM measure).

- The SPM finds 15.9%, over 6 million elderly, are poor; a 6.9 percentage point increase from the official elderly FPL rate of 9%.

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[49]Orshansky, Mollie (1966). "Social Security Bulletin." April 1966. In, Fisher, Gordon M. (1992). "The Development of the Orshansky Poverty Thresholds and Their Subsequent History as the Official U.S. Poverty Measure." U.S. Census Bureau: http://www.census.gov/hhes/povmeas/publications/orshansky.html#C2
[50] Citro, Constance F., and Robert T. Michael (1995). *Measuring Poverty: A New Approach*. Washington, DC: National Academy Press.
[51] Short, Kathleen (2011). "The Research Supplemental Poverty Measure 2010: Current Population Reports." U.S. Census Bureau: http://www.census.gov/prod/2011pubs/p60-241.pdf
[52] ibid.

- The SPM finds 34% of U.S. elderly are "near poor;" the FPL estimates 22%.

- This increase is partially attributable to the fact that the SPM thresholds do not differentiate age groups, while the federal poverty thresholds are lower for those over 65.

- The most significant factor in the increase in elderly poverty rates using the SPM methodology is medical expenses.

    ➢ If Medical out-of-pocket (MOOP) expenditures are excluded from the SPM measure, the poverty rate for those over 65 would decrease to 8.6%.

    ➢ MOOP has the largest effect on SPM poverty rates for those over 65, and is the most influential individual element of all elements included in the SPM measure across all age groups.

The results from the Supplemental Poverty Measure show that the FPL is particularly inept at assessing the economic circumstances of the elderly compared to other demographic groups.

The Elder Economic Security Standard Index (Elder Index)

Jointly developed by Wider Opportunities for Women (WOW) and the Gerontology Institute at the University of Massachusetts Boston in 2005, this index establishes a measure of elder economic security by determining a level of income that is sufficient to cover basic costs of living. This index adjusts this income level by geographic area, household characteristics (owning a home, both with and without a mortgage, and renting), health status, and level of care needed as these factors can lead to significant variations in cost of living for the elderly. Instead of defining a level that would define someone as "poor" or "in poverty," this measure defines a level that would provide adequate resources for the elderly to maintain an independent life. This index uses federal and state data sources on food, healthcare (including assisted living), housing, transportation, and other miscellaneous expenditures. The Elder Index excludes public assistance, providing an estimation of what is necessary for elder economic independence such that they would not have to rely on means-based public assistance programs. The idea is that this index offers a "no frills, bare-bones budget." In doing this, the Elder Index illustrates that there are many elderly Americans who do not have sufficient incomes to cover their basic costs of living who do not qualify as "poor" under the FPL definition.[53]

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[53] Russell, Laura Henze et al (2006). "The WOW-GI National Elder Economic Security Standard: A Methodology to Determine Economic Security for Elders." Gerontology Institute, John W. McCormack School of Policy Studies, University of Massachusetts Boston and Wider Opportunities for Women: http://www.wowonline.org/ourprograms/eesi/documents/FinalWOWGINationalMethodology.pdf

Figure 3 compares the 2010 average of the Elder Index—differentiated by whether they are owners (without mortgages) or renters—to the federal poverty line for both elderly individuals and couples. The differences between the thresholds show:

- Elderly renters have the highest costs of living and are most likely to be underestimated using the FPL:

  - For individuals, the Elder Index threshold is **almost double** the FPL ($20,326 and $10,458, respectively)

  - For couples, the Elder Index threshold is **over double** the FPL ($27,633 and $13,180, respectively).

- For elderly home owners without mortgages the thresholds are still **1.5 times greater** than the FPL thresholds:

  - For individuals there is a difference of over $5,000 ($16,145 compared to $10,458)

  - For couples there is a difference of over $10,000 ($23,751 compared to $13,180).

The results from the Elder Index show that a minimum standard of living, or near poverty, is 150-200% FPL, depending on housing costs.

Figure 3: Comparing Elderly Poverty Thresholds, the Elder Index and the Federal Poverty Line

	ELDER PERSON (Owner without a Mortgage)	ELDER PERSON (Renter)	ELDER COUPLE (Owner without a Mortgage)	ELDER COUPLE (Renter)
Elder Index (2010)	$16,415	$20,326	$23,751	$27,663
FPL (2010)	$10,458	$10,458	$13,180	$13,180

Source: U.S. Census Bureau (2011)[54] and Wider Opportunities for Women (2011)[55]

[54] U.S. Census Bureau (2011). "Poverty Thresholds." U.S. Census Bureau, Social, Economic, and Housing Statistics Division: Poverty: http://www.census.gov/hhes/www/poverty/data/threshld/index.html
[55] Wider Opportunities for Women and University of Massachusetts Boston (2011). "National Elder Economic Security Initiative." Washington DC: Wider Opportunities for Women: http://www.wowonline.org/documents/NationalFactSheetApril2011.pdf

Senior Financial Stability Index (SFSI)

To evaluate the economic security of the elderly over their lifespan post retirement, the Senior Financial Stability Index was developed by Demos and The Institute on Assets and Social Policy at Brandeis University in 2009[56]. The creation of this index was motivated by changing conditions in retirement incomes for the elderly population: the rising costs of both healthcare and housing, the decline of defined benefit pension plans in favor of defined contribution plans, and concerns about future Medicare and Social Security solvency.

As life expectancy increases and the share of the elderly in the population grows, an assessment of retirement resource adequacy over this increased lifespan post retirement is more than prudent. The SFSI uses data from the 2004 Consumer Expenditure to assess five components of elderly economic security: housing and healthcare costs, the amount of home equity and assets, and household budgets. There is a "standard" level and a "risk" level defined for each of these five components, with overall senior financial security/insecurity defined as whether or not there is asset security/insecurity plus security/insecurity in two other factors.

The SFSI for 2008 finds:

- 76% of those aged 65 and older were "not economically secure."[57]

- Of that 76%:

  - 36% are defined as "economically insecure," i.e. with inadequate resources for the duration of their retirement.

  - 40% are defined as "financially vulnerable," i.e. neither at risk nor secure.[58]

- The current level of economic deprivation for those aged 65 and older is over 25 percentage points (26.3) greater than the 9.7% found using the FPL for 2008.[59]

- The two elements of the SFSI methodology where retirees are most at risk are housing costs and amount of assets.

- Some groups of seniors are particularly vulnerable to economic insecurity: 52% of African Americans, 56% of Latinos, and 47% of females who live alone.

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[56] Meschede, Tatjana et al (2009). "Living Longer on Less: The New Economic (In)Security of Seniors." Demos & IASP: http://iasp.brandeis.edu/pdfs/LLOL%20Report.pdf
[57] Meschede, Tatjana et al (2011). "From Bad to Worse: Senior Economic Insecurity on the Rise." Demos & IASP: http://iasp.brandeis.edu/pdfs/FromBadtoWorse.pdf
[58] Ibid.
[59] U.S. Census Bureau (2011). "Historical Poverty Tables": http://www.census.gov/hhes/www/poverty/data/historical/people.html

Given their analysis of future trends affecting the elements of the SFSI, the authors predict that the state of elderly economic security will greatly deteriorate in future generations:

- Due to an ongoing trend of declining employer sponsorship of defined benefit pension plans and healthcare coverage for retirees, current retirees will have higher rates of coverage in both of these aspects than any generation of retirees to come.

- Future generations also face the risk of a cutback in Social Security benefits if there are not reforms to address the trust fund depletion estimated for 2042.

- The future of healthcare costs also weighs on the economic security of future generations of retirees as future out-of-pocket expenses for health care are projected to rise much faster than income and become an increasing financial burden.[60]

- The effects of the "Great Recession" are still unfolding, with more than likely negative effects on assets and labor market outcomes for future generations of retirees.

Overview of Poverty Measures

The alternative measures of elderly poverty provide a wide range of values. Figure 4 summarizes the range of values of all the alternative elderly poverty measures and three income levels associated with the FPL (100%, 150%, and 200%). Some points of interest arise from this pictorial. The FPL is at the bottom range of all poverty measures due to its methodology. The SPM falls between 100% and 150% of the FPL. The OECD measure of relative poverty is roughly equal to 150% of the FPL[61], which is also the lowest end of the Elder Index threshold of a "no frills bare-bones budget."[62] The upper end of the Elder Index threshold is approximately 200% of the FPL, which also closely corresponds to 150% of the SPM (which they define as "near poor"). The SFSI gives the highest value as it estimates vulnerability to poverty over the remaining lifespan of the elderly.[63]

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[60] Johnson, Richard W. and Corina Mommaerts (2010). "Will Health Care Costs Bankrupt Aging Boomers?" The Urban Institute: http://www.urban.org/publications/412026.html

[61] Note: the OECD measure is for the late 2000s, while the 150% FPL is for 2010

[62] Wider Opportunities for Women (2011): http://www.wowonline.org/documents/NationalFactSheetApril2011.pdf

[63] Note: the SFSI is for 2008, while the Elder Index, SPM, and FPL are for 2010

Figure 4: The Range of Rates/Thresholds Related to Elderly Poverty/Economic Sufficiency
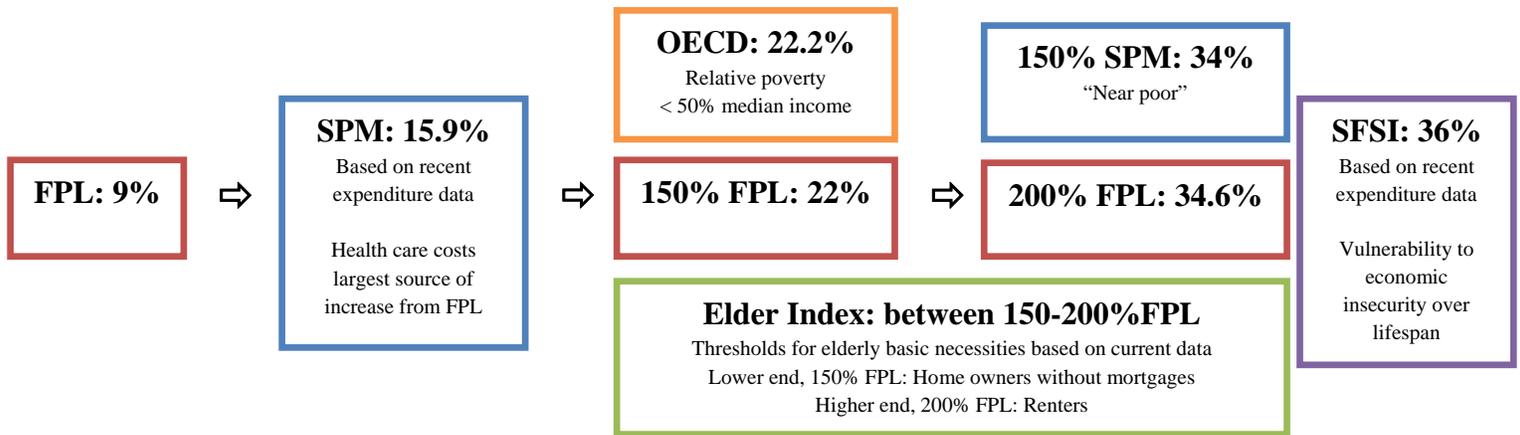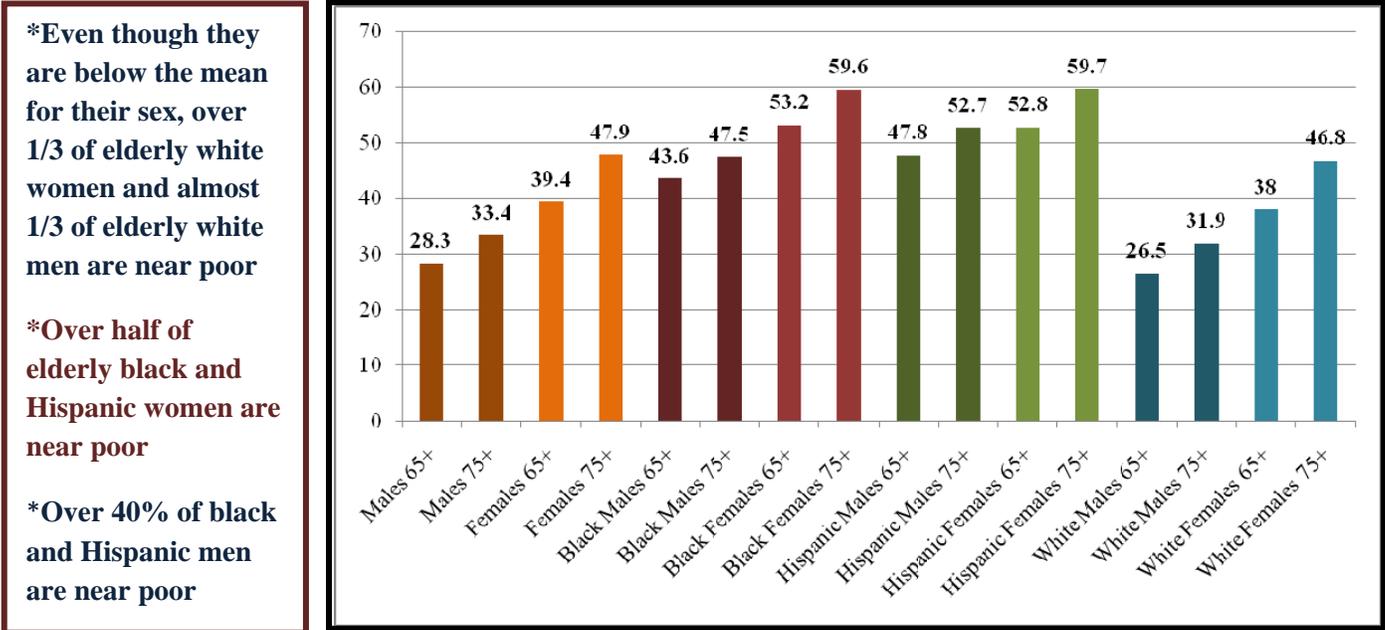

In the U.S. poverty literature, evaluations of the "near poor" have used income measures ranging from 125% to 200% of the FPL. The alternative poverty measures reviewed in this report support the use of 200% of the FPL as the best approximation of the population that is either poor or vulnerable to elderly poverty (in terms of deprivation, as seen in Figure 4). We will follow literature and refer to this income group as the near poor.[64] This is useful as the U.S. Census Bureau publishes statistics on those with incomes at or below 200% of the FPL by demographic, and this will also provide a useful benchmark for projections regarding future elderly vulnerability to poverty.

IV. Who are Old and Near Poor in the United States 2010

Over a third of U.S. elderly (34.6%) were poor or near poor in 2010, with incomes at or below 200% of the federal poverty line. Understanding elderly poverty requires going beyond aggregate statistics to examine what factors are instrumental to vulnerability. Figure 5 shows the breakdown by sex, race/ethnicity, and age for the elderly at this income threshold. As with the FPL rates, there is great disparity by race, ethnicity, age, and sex.

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[64] Note: This group includes those who have incomes at or below 200% FPL, so this would include those also defined as poor under the FPL methodology

Figure 5: Percentage of Elderly with Income at or below 200% of the Federal Poverty Line, 2010

<table>
<tr><td>

*Even though they are below the mean for their sex, over 1/3 of elderly white women and almost 1/3 of elderly white men are near poor

*Over half of elderly black and Hispanic women are near poor

*Over 40% of black and Hispanic men are near poor

</td><td>

</td></tr>
</table>

Source: U.S. Census Bureau (2011)[65]. Note: the poverty rates are for "Black alone" and for "Hispanic (any race)"

- Women are more likely than men to be near poor within each race/ethnic group.

- Elderly of a relatively advanced age are more likely to be near poor: for those 75 years and over, 42% have incomes equal to or less than 200% FPL.[66]

- Black and Hispanic men and women are more likely to be near poor than whites.

- Black and Hispanic women are still most likely to be near poor: for black and Hispanic women over the age of 75, the 200% FPL rate is close to 60% (59.6% and 59.7%, respectively).

- Living alone increases the likelihood of being near poor across all demographic group:

  ➢ On average the rate is 47.2% for elderly men and 60.2% for elderly women.

  ➢ For elderly black and Hispanic women who live alone, the rates approach 75% (72.2% and 74.9%, respectively).

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[65] Current Population Reports, Annual Social and Economic Supplement, POV01. Age and Sex of All People, Family Members and Unrelated Individuals Iterated by Income-to-Poverty Ratio and Race:
http://www.census.gov/hhes/www/cpstables/032011/pov/new01_100.htm
[66] U.S. Census Bureau (2011): http://www.census.gov/hhes/www/cpstables/032011/pov/new01_200_01.htm

V. The Federal Poverty Line and 200% Federal Poverty Line Standard of Living

To contribute to an understanding of elderly poverty, this report has thus far relied on rates and thresholds. Dollar values for basic needs communicate more clearly the standard of living at an income level. As the federal poverty line is still the basis of "need" for public assistance and provides the baseline for comparison, it is useful to see what this threshold translates to in terms of basic cost of living. Understanding what 200% of the federal poverty line translates to in purchasing power contextualizes the economic situation of the near poor elderly.

Figure 6 gives a breakdown of what elderly individuals with incomes at or below the FPL ($10,458) and 200% FPL ($20,916) would have to spend on basic costs of living: food, housing, utilities, transportation, and health care.[67] We use data from the 2010 Consumer Expenditure Survey (CES) for those 65 and over to calculate the shares of these elements in total expenditures for the relevant income brackets for the FPL and 200% FPL (for single households). As these elements composed different shares of total expenditures for those over 65 at the income levels, those with incomes at 200% of the FPL do not just spend double on each basic necessity as compared to those at the FPL.

Figure 6: Standard of Living for Elderly Individuals at FPL and 200%FPL

	FPL Standard of Living			200% FPL Standard of Living
Food	$1576/year	$131/month	**$4.31/day**	**< $8/day**
Housing	$4442/year		**$370/month**	**$650/month**
Utilities	$1263/year		**$105/month**	**$180/month**
Transportation	$1160/year	$97/month	**$3.18/day**	**$9/day**
Health Care	$1445/year		**$120/month**	**$260/month**

Source: Author's calculations based on the 2010 Consumer Expenditure Survey, Bureau of Labor Statistics

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[67] U.S. Census Bureau (2011), Poverty Thresholds for 2010: http://www.census.gov/hhes/www/poverty/data/threshld/index.html

The "FPL Standard of Living" breakdown of expenditures shows what limited resources the elderly would have to spend on a daily/monthly/yearly basis for basic necessities. A little over $4/day for food is a rather startling number when thought about in context to the price of food items, especially when eating out, but even when cooking at home. While housing prices are subject to a great deal of regional and urban/rural variation, $370/month is not a lot to spend in any region. As the elderly may have a harder time being mobile than younger segments of the population, $3.18/day for transportation also seems inadequate. Also, health care costs can see large spikes at times due to unexpected illness or accident, as can utility costs due to either seasonal variation in usage or volatility in oil and gas prices, leaving the elderly to face even more limited resources.

The standard of living of those with incomes at 200% of the FPL illustrates how far the federal poverty line underestimates the nature of elderly deprivation. Far from a life of extravagance, this income level seems necessary, but perhaps not sufficient (especially depending on where one lives) to maintain a non-deprived standard of living. Yet, as these are the "near poor" in our analysis, it is easy to see how one large unexpected expense could subject them to deprivation. What is at stake is adequate nutrition, whether or not they can afford medication and medical treatment, whether or not they are exposed to heat waves or go cold, and whether or not they can afford adequate shelter.

VI. Projections of Future Elderly Poverty Rates: DYNASIM and MINT

Given the current state of U.S. elderly poverty, the approaching demographic changes in population age structure, and concern about whether or not future retirees will have adequate economic resources, there have been many efforts to project future retirement incomes and evaluate their adequacy. The literature regarding the future situation of elderly economic security has almost exclusively relied on two micro simulation models, DYNASIM and MINT.

DYNASIM: The Dynamic Simulation of Income Model

DYNASIM was developed by the Urban Institute in the 1970s and later updated to DYNASIM2 and DYNASIM3 in order to accurately project the economic security of retirees. The projections are based on simulated events in three sectors: demography, economy, and policy (i.e. taxes and benefits). DYNASIM3 uses the 1990 and 1993 panels from the Survey of Income and Program Participation (SIPP) and matches this with the Panel Study of Income Dynamics (PSID), the Current Population Survey (CPS), and the Social Security Administration's (SSA) Summary Earnings Records (SER). DYNASIM3 is a complex conglomeration of longitudinal data sets, calculators, and models, including two micro-

simulation models, used to project demographic and economic outcomes for each individual in the sample.[68] It relies on the assumptions from the SSA's annual trustees report regarding economic growth, inflation, real wage growth, and labor force participation, as well as for demographic trends such as fertility and mortality.

In 2008, the Congressional Research Service released the report, "Social Security Reform: Possible Effects on the Elderly Poor and Mitigation Options."[69] While the intent of this report was more focused on comparing the effects on elderly poverty of four possible options for Social Security reform compared to the payable baseline that would come into effect in 2042,[70]it utilizes DYNASIM3 to make elderly poverty projections. Their results using DYNASIM3 project the elderly FPL rate to decline to 5% by 2042 if Social Security benefits are not cut. If Social Security is reduced to the payable baseline, the elderly FPL rate is projected to increase to 11% by 2042. Consistent with the current state of elderly poverty in the U.S., this report finds significant variation of future elderly poverty rate projections by sex, race/ethnicity, level of education, and marital status if Social Security benefit levels are maintained. Elderly women (6%) have higher projected poverty rates than elderly men (4%), elderly blacks (10%) and Hispanics (7%) have higher rates than whites (5%), the elderly with less education have higher rates than the more educated (10% at less than 12 years versus 2% for college graduates), and those elderly that are unmarried (13%), divorced (9%), and widowed (7%) have higher rates than those who are married (2%).

A 2010 report by the Urban Institute's Retirement Policy Program used DYNASIM3 to project the financial burden of health care costs from 2010 to 2040 on retirees, with particular attention to the looming retirement of the baby boomers born between 1946 and 1964.[71] Using the intermediate per capita cost growth rate for Medicare projected by the 2009 Medicare trustees report, this report projects that by 2040 median real out-of-pocket health care costs will increase by over 100%, from about $2,600 to $6,200 (in constant 2008 dollars). The projections for the mean real out-of-pocket health costs result in even higher figures, with the average cost in 2010 of $3,278 increasing to $7,832 in 2040 (again, in constant 2008 dollars). As they project that household incomes will not grow as fast as health care costs, the financial burden of health care costs will increase for those over 65 in the coming decades. The elderly will be spending 19% of their total income on health care costs in 2040, up from 10% in 2010. This report then uses these projections about health care costs and income to make projections about elderly poverty rates, both using the FPL measure (except that they annuitize asset values) and an experimental poverty measure based on the NAS methodology which subtracts out-of-pocket costs (including health care). Under the FPL, the poverty rate for those

[68] For a more detailed methodology of DYNASIM3: Favreault, Melissa and Karen Smith (2004). "A Primer on the Dynamic Simulation of Income Model (DYNASIM3)." The Urban Institute: http://www.urban.org/UploadedPDF/410961_DYNASIM3Primer.pdf
[69] Romig, Kathleen (2008). "Social Security Reform: Possible Effects on the Elderly Poor and Mitigation Options." Congressional Research Service: http://aging.senate.gov/crs/ss14.pdf
[70] The most recent report (2011) from the Social Security and Medicare Boards of Trustees now pushes that date up to 2036.
[71] Johnson, Richard W. and Corina Mommaerts (2010). "Will Health Care Costs Bankrupt Aging Boomers?" Urban Institute: http://www.urban.org/publications/412026.html

over 65 will steadily decrease, from 8.1% in 2010 to 6.9% in 2020, 5.8% in 2030, and 5.2% in 2040. However, under the NAS measure, which accounts for health care costs, the elderly poverty rate in 2010 would be 21.3%, which is then projected to decrease to 19.7% in 2020, only to then increase to 20.6% in 2030 and 21.4% in 2040. The results of this report are consistent with other studies that find elderly poverty rates to be higher when health care costs are included in the poverty measures.[72]

The Center for Retirement Research at Boston College utilizes DYNASIM3 in their report, "The Potential Impact of the Great Recession on Future Retirement Incomes," released in May 2011.[73] By creating and simulating a no-recession scenario and comparing that with a scenario which simulates the effects of the higher unemployment and lower wages that have been associated with the "Great Recession" thus far, this paper concludes that, on average, for future retirees at age 70, retirement incomes will be 4.3% lower per year ($2,300). They disaggregate the employment and wage effects and determine that this reduction in annual income for retirees is due almost entirely to the deleterious effects of the "Great Recession" on wage growth with the assumption that these ramifications will continue to negatively affect wages for decades. The groups whose retirement incomes will be particularly affected are those who were in their late 50s at the time of the financial crisis in 2008 due to the effects on Social Security benefits (which are indexed to wage growth) and the youngest workers who will have the most time in the labor market before retirement during which the employment and wage effects will be compounded.

MINT: Model of Income in the Near Term

The Division of Policy Evaluation at the Social Security Administration (SSA) developed MINT to compare the welfare effects of different proposals for Social Security Reform. It has been revised several times to the MINT5 version of 2007. Like DYNASIM, MINT uses SIPP data (although it uses the 1990 through 1996 panels), but matches this to SSA earnings and benefit data. MINT has a complex methodology that projects demographic and economic outcomes for each individual by a "nearest neighbor" matching procedure in the weighted sample. Assumptions for MINT5 are based on the 2008 SSA Board of Trustees report.[74]

In 2002, researchers from the Urban Institute and the Internal Revenue Service used SIPP data and MINT to project retirement incomes up to the year 2032[75]. They use these projections to analyze the different factors that will contribute to poverty rates of those 62 and

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[72] Butricia, Barbara A. et al (2008). "How Many Struggle to Get By in Retirement?" The Urban Institute: http://www.urban.org/UploadedPDF/411627_howmanystruggle.pdf
[73] Butricia, Barbara A., Richard W. Johnson and Karen E. Smith (2011). "The Potential Impact of the Great Recession on Future Retirement Incomes." Boston College, Center for Retirement Research: http://crr.bc.edu/working_papers/the_potential_impact_of_the_great_recession_on_future_retirement_incomes.html
[74] For a more detailed account of the MINT methodology, see Smith, Karen et al (2007). "Modeling Income in the Near Term 5." The Urban Institute: http://www.urban.org/UploadedPDF/411571_MINT5.pdf
[75] Butricia, Barbara A. et al (2002). "Projecting Poverty Rates in 2020 for the 62 and Older Population: What Changes Can We Expect and Why?" The Urban Institute.

older in the year 2020. They find that poverty rates will decline in the future, largely due to the price indexation of the federal poverty line as compared to the wage indexation of Social Security benefits. They predict that in 2020, the poverty rate for the elderly will decline to 4.2% under the federal poverty line; although they also make projections for a wage-indexed poverty line and under that scenario the poverty rate would increase to 9.9%. Their predictions are much lower than the previous rounds of projection using MINT (MINT1 compared to MINT3) due to the higher real wage growth in the 1990s than was projected by MINT1. This report shows the sensitivity of poverty projections to the FPL measure, as the rates for the elderly more than double if the poverty line was indexed to wages instead of prices. Poverty projections that only utilize the FPL are therefore very likely to project poverty statistics that greatly underestimate elderly deprivation.

The update to MINT5 that was released in 2007 contained updated projections regarding future income and poverty of those over the age of 62. As the projections were based on the FPL, the poverty rates were expected to decrease to 4.5% in 2020 and 2.6% by 2060. There is significant variation of poverty rates by race and ethnicity, although all groups see declines over time due to the nature of the FPL measure. In 2020, the poverty rates for white non-Hispanics over the age of 62 is 2.7% (1.2% in 2060), while for blacks it is 9.8% (4.2% in 2060) and Hispanics it is 10.8% (4.9% in 2060). Women have higher projected poverty rates than men, those that are never married, divorced or widowed have higher poverty rates than those who are married, and poverty rates increase as education levels decrease.

A 2009 study by the Retirement Policy Program at the Urban Institute used MINT5 to project the economic impact on the elderly of an accelerated shift from defined benefit (DB) pension plans to defined contribution (DC) pension plans.[76] As the trend over the past few decades has been a shift from DB to DC pension plans, there has been a shift of the responsibility for financial security from employers to individuals. The author finds that an overwhelming majority of individuals will experience negative rather than positive economic consequences if this trend were to accelerate, however, they expect these effects to be transitory and such that those at the front or tail end of the baby boomer demographic will fare the best in comparison to those in the middle, who will fare the worst.

VII. SCEPA Projections: Vulnerability to Poverty at Retirement Age

In order to evaluate the future economic situation of the elderly, the Schwartz Center for Economic Analysis (SCEPA) used data from the 2008 panel of the Survey of Income and Program Participation (SIPP) to project what percentage of future retirees would have incomes

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[76] Butricia, Barbara A. et al (2009). "The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Income of Boomers." The Urban Institute: http://www.ssa.gov/policy/docs/ssb/v69n3/v69n3p1.pdf

at or below 100% and 200% of the FPL at retirement age. Data from wave 3 (Retirement Expectations) and wave 4 (Assets and Liabilities, Real Estate, Stocks and Mutual Funds, Value of Business, Rental Properties, Interest Earning, and Other Financial Assets) of the 2008 SIPP panel were used to forecast final net worth (assets minus debt) and earnings for workers currently aged 50-64 when they reach age 65. Final net worth is annuitized based on average life expectancies for women and men. Final earnings are used to forecast Social Security benefits and defined benefit income (if the respondent had a DB plan) which are also annuitized and added to annuitized final net worth and compared to 100% and 200% of the FPL (minus $1,200 per year for Medicare part B premiums).[77]

SCEPA's projections differ from others in that they only look at workers and do not assume that people work after age 65, thus measuring the shortfall in economic adequacy for retirement. By focusing solely on workers, this sample likely excludes those at the very bottom (who either cannot or do not work) and at the very top (who do not have to work) of the income distribution. SCEPA's projections also do not yield results of the poverty rates of the total elderly population in a given year, but instead focus on forecasting incomes of workers aged 50-64 from 2010. The results of these projections indicate that over the next 15 years, as these workers reach age 65, 12.9% of them will have incomes at or below 100% FPL, while 35.3% of them will have incomes at or below 200% FPL (Figure 7).

Figure 7: SCEPA Projections of Incomes at or Below 100% and 200% of the FPL at Retirement Age

Current Age (2010)	100% FPL	200% FPL
50-64	12.9%	35.3%

SCEPA chose to use 200% FPL because, as discussed, it is a good estimate of the "near poor." As the methodologies of the alternative poverty measures covered in this report are complex and based on current expenditure patterns (which will change over time), it was most practical to use the 200% FPL of all the measures which assessed vulnerability to elderly deprivation. Over time, the simple methodology of price indexation will lead to declines in the FPL (and thus 200% FPL) compared to median wages and societal living standards.[78] Thus, 200% FPL projections will likely become more conservative estimates of the poor and near

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[77] For a more complete description of the methodology of the SCEPA projections please see: Ghilarducci, Teresa, Joelle Saad-Lessler, and Lauren Schmitz (2011). "Retirement Readiness in New York City: Trends in Plan Sponsorship, Participation and Income Security." Schwartz Center for Economic Policy Analysis.

[78] Social Security Administration (2011). "Why Will Poverty Decline for Social Security Beneficiaries Aged 62 and Older?" Social Security Administration, Office of Retirement Policy, Current Law Projections: https://www.socialsecurity.gov/retirementpolicy/projections/poverty-decline.html

poor in the future but still provide a good baseline for comparison. The FPL is at the very lowest end of elderly poverty estimates, but also provides a basis for comparison over time, so we include the projection for this income level as well.

Of current workers aged 50-64, there will be a higher percentage (12.9%) with incomes at or below 100% of the FPL at age 65 than the current population over age 65 (9%). This is not to say that these people may not supplement their incomes by choosing to work longer or by any other means, but at age 65, 12.9% of current workers in that age bracket will find themselves at or below an income level sufficient for a life without deprivation. The percentage of current workers age 50-64 that will have incomes at or below 200% of the poverty line (35.3%) is only slightly greater than that of the current population over the age of 65 (34.6%). Again, people may choose to continue working (if they are physically able or if there are jobs available) to supplement their income, but in the next 15 years over a third of those who reach retirement age will be vulnerable to elderly poverty. In order to understand what this will mean in terms of the number of elderly in the U.S. who are vulnerable to poverty, we must combine poverty projections with demographic projections.

SCEPA's projections do not show the declines of FPL poverty rates seen in the literature due to the assumption that workers do not continue to work after age 65 and therefore have lower levels of earnings income than assumed in DYNASIM and MINT projections. Assuming that the elderly will be able to work given the high levels of unemployment in the U.S. economy is not necessarily a realistic assumption nor is it a solution to the income inadequacy for retirement. SCEPA's projections lend further support to the argument that the economic situation of retirees is not going to get better; instead, trends in pensions, health care costs, asset values, employment, and wages indicate that the situation will likely get worse. Further, demographic changes in the age structure of the U.S. population will make the economic situation of the elderly one of growing concern.

IIX. Growing Numbers of U.S. Elderly: Vulnerability to Poverty Increases

Future poverty rates must be contextualized with the growing number of elderly. In the coming decades the number and share of those over 65 and over 85 will increase. According to projections from the U.S. Census Bureau (Figure 8), from 2010 to 2050:

- The number of people over 65 is projected to increase from approximately 40 million to 87 million.

- The share of those over 65 in the *overall* population will increase from 13% to 21%.

- The number of people over 85 will more than triple over this time period, from approximately 6 million to 21 million.

- The share of those over 85 in the *overall* population will increase from 2% to 5%.

- The share of those over 85 in the *elderly* population will see marginal decreases from 2010 to 2030 (from 15% to 13%) only to increase to almost a quarter of the elderly population by 2050 (24%).

Figure 8: Population Projections of the Elderly 2010 to 2050

Year	# over age 65 (thousands)	Share of 65+ in total population	# over age 85 (thousands)	Share of 85+ in total / 65+ population	# women 85+ (thousands)	Share of women 85+ in 65+ population
2010	40,243	13%	6,123	2% / 15.2%%	4,182	10.4%
2020	54,632	16.2%	7,269	2.2% / 13.3%	4,866	8.9%
2030	71,453	19.7%	9,603	2.6% / 13.4%	6,263	8.7%
2040	80,049	20.4%	15,409	3.9% / 19.2%	9,836	12.2%
2050	86,705	20.6%	20,861	5% / 24%	13,112	15.1%

Source: U.S. Census Bureau (2004)[79] and author's calculations

Population projections from the Pew Research Center reach similar results, with an estimated 19% of the U.S. population over 65 by the year 2050.[80] The Congressional Research Service also reaches comparable results, with their projections estimating that those over 65 will make up 17.9% of the total population in 2025 and 20.2% in 2050.[81]

Within the growing elderly population, the relative sizes of demographic groups that are particularly vulnerable to poverty will also be growing.

[79] U.S. Census Bureau (2004). "U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin."
http://www.census.gov/ipc/www/usinterimproj/
[80] Passel, Jeffrey S. and D'Vera Cohn (2008). "U.S. Population Projections: 2005-2050." Pew Research Center:
http://www.pewhispanic.org/files/reports/85.pdf
[81] Shrestha, Laura B. and Elayne J. Heisler (2011). "The Changing Demographic Profile of the United States." Congressional Research Service: http://www.fas.org/sgp/crs/misc/RL32701.pdf

- As poverty rates increase with age, the increase of those relatively older elderly (85+) as a share of the total and elderly population means greater vulnerability to poverty.

- There will continue to be more elderly women (over 10 million more women than men over age 65 in 2050), but particularly the share of women over 85 will increase (from 10% of those over 65 in 2010 to 15% in 2050, increasing from approximately 4 million to 12 million).[82]

- There will also be an increase in elderly women who have never married or are divorced (a disproportionate number of which are black women), who are particularly vulnerable to poverty.[83]

- The share of non-Hispanic whites in the elderly population will decrease, while the share of Hispanics will greatly increase (from 6% in 2005 to 17% in 2050).

- The share of black elderly is also projected to increase in the elderly population over this time period, from 8% to 12%.[84]

Blacks and Hispanics have far higher poverty rates than whites, a trend that may only get worse. A 2011 study by the Pew Research Center[85] found that white households have 20 times more wealth (assets minus debts) than black households and 18 times more wealth than Hispanic households. These wealth ratios are the highest seen since this data was collected 25 years ago, and has gotten worse since the "Great Recession." Also, black (35%) and Hispanic households (31%) were over twice as likely as white households (15%) to have negative wealth levels. As black and Hispanic households are less likely to have financial assets, it has primarily been the dramatic decline in the housing market that has driven the widening wealth ratios.

For the number of elderly in poverty to go down in the future given the growth rate of the elderly population, elderly poverty rates would need to dramatically decline. Whether or not these two will offset each other depends on the poverty measure used. As the FPL measure becomes more and more obsolete over time (indexation to prices is not indicative of changing cost of living and economic conditions), using this metric is not helpful to assess the future of elderly deprivation. The most relevant projection from the literature in this regard is the 2010 report from the Urban Institute[86], which uses DYNASIM3 to project poverty rates using the National Academy of Sciences (NAS) methodology. Their projections of poverty rates using

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[82] ibid.
[83] Tamborini, Christopher R. (2007). "The Never Married in Old Age: Projections and Concerns for the Near Future." Social Security Bulletin, Vol. 67, No.2, Social Security Administration: http://www.ssa.gov/policy/docs/ssb/v67n2/v67n2p25.pdf
[84] Passel, Jeffrey S. and D'Vera Cohn (2008). "U.S. Population Projections: 2005-2050." Pew Research Center: http://www.pewhispanic.org/files/reports/85.pdf
[85] Taylor, Paul et al (2011). "Twenty-to-One: Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics." Pew Research Center, July 2011: http://www.pewsocialtrends.org/files/2011/07/SDT-Wealth-Report_7-26-11_FINAL.pdf
[86] Johnson, Richard W. and Corina Mommaerts (2010). "Will Health Care Costs Bankrupt Aging Boomers?" Urban Institute: http://www.urban.org/publications/412026.html

this alternative measure stay relatively constant over time (21.3% in 2010, 19.7% in 2020, 20.6% in 2030, and 21.4% in 2040) meaning that the number of elderly in poverty will double in the next thirty years.

Figure 9: Projections of Elderly Poverty Rates and the Number of Elderly Poor

Year	NAS Poverty Rate, Age 65 and Above	# in Poverty, Age 65 and Above (in thousands)
2010	21.3%	8,571
2020	19.7%	10,763
2030	20.6%	14,719
2040	21.4%	17,130

Source: Urban Institute[87] and author's calculations from U.S. Census Bureau[88]

These demographic trends do not bode well for the future economic situation of the elderly. Growing numbers of elderly will be a strain on Social Security and Medicare, and those already vulnerable to elderly poverty will be increasing their shares in the population. Yet, the U.S. population will have still lower shares in their populations over 65 compared to other OECD countries and a lower percentage of GDP spent on Social Security and health care.[89] There is no excuse for U.S. policymakers to not address these demographic changes in a way that supports elderly economic security for all and prevents the number of elderly who are at risk of severe poverty.

IX. Summary and Implications

This report contributes to a better understanding of elderly poverty in the United States. Contrary to the story told using the federal poverty line (FPL) measure, the elderly face increasing economic insecurity and vulnerability to deprivation. The alternative poverty measures reviewed in this report have shown that measurements that include current expenditure patterns and costs of living for the elderly (particularly health care) yield far higher

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[87] Ibid.

[88] U.S. Census Bureau (2004). "U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin." http://www.census.gov/ipc/www/usinterimproj/

[89] Reno, Virginia P. and Benjamin Veghte (2010). "Economic Status of the Elderly in the U.S." National Academy of Social Insurance, September 2010: http://www.nasi.org/sites/default/files/research/Economic%20Status%20of%20the%20Elderly%20in%20the%20United%20States.pdf

estimates of elderly poverty than the FPL measure. The measures that look at those vulnerable to poverty (the "near poor") and income sufficiency over the lifespan of the elderly after retirement estimate that **over one third** of elderly Americans are at risk of impoverishment and deprivation.

To highlight groups that are vulnerable to falling into poverty, this report has reviewed the demographic breakdown of those with incomes at or below 100% and 200% of the federal poverty line. Socioeconomic disparities by race, ethnicity, and gender are compounded throughout pre-retirement years and in such a way that there is large variation in elderly FPL poverty rates and near poor rates. These disparities illustrate that informed policy must move beyond the aggregate FPL measure to focus on the issues that make certain groups particularly vulnerable. This will be increasingly necessary as those groups which are particularly vulnerable, such as Hispanics, blacks, and relatively older women (those over 75 and 85), will be growing as a share of the elderly population.

It is a resolute fact that the United States is facing a retirement crisis. The growing number of elderly resulting from the baby boomers' approaching retirement coupled with the effects of the "Great Recession," rising health care costs, and declining pensions demands policy intervention. As the work of SCEPA has highlighted, even those who work up until retirement age face considerable insecurity as to whether they will have sufficient economic resources over the span of their lives. This is counter to the very idea we consider self-evident to being American: that if we work hard we will be able to live well. The United States is failing its elderly; we must act to protect the growing elderly population from a future of great impoverishment and deprivation.

For Further Reading

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Methodological Issues with the United States' Poverty Measure

➢ Wage Indexation of Social Security vs. Price Indexation of FPL:

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Alternative Poverty Measures

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➢ Elder Economic Security Standard Index:

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APPENDIX: Mean Income and Percentage with Income Source, by Sex and Race/Ethnicity 2010

	SOURCE OF INCOME 2010, Mean Income Amount, $				
	Social Security	Pension	Assets	Earnings	SSI
Total Men 65+	15,231	20,255	7,804	47,357	6,325
White Men	15,445	20,228	8,057	48,361	6,454
Black Men	13,617	18,790	3,419	35,680	n/a
Hispanic Men	12,815	15,553	2,821	34,546	n/a
Total Women 65+	11,794	13,097	5,725	28,395	4,819
White Women	11,902	12,846	5,866	28,323	4,612
Black Women	11,064	15,835	3,111	28,802	4,795
Hispanic Women	9,605	13,829	2,741	25,178	4,602
	PERCENTAGE WITH INCOME SOURCE 2010				
	Social Security	Pension	Assets	Earnings	SSI
Total Men 65+	86.31	39.22	54.87	26.65	2.06
White Men	87.06	40.30	57.58	27.02	1.55
Black Men	83.39	32.05	30.39	21.26	n/a
Hispanic Men	77.85	21.19	27.93	28.90	n/a
Total Women 65+	88.62	23.46	50.74	16.78	3.42
White Women	89.67	23.84	54.52	16.81	2.55
Black Women	82.81	22.62	22.06	16.48	7.86
Hispanic Women	82.45	12.31	25.27	18.54	10.54

Author's Calculations from the U.S. Census Bureau (2011), The Annual Social and Economic Supplement to the 2010 Current Population Survey, "2010 Person Income Tables"

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