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Topics in Aging: Income and Poverty Among Older Americans in 2002

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Topics in Aging: Income and Poverty Among Older Americans in 2002

Summary

Older Americans are an economically diverse group. In 2002, the median income for individuals age 65 and over was $14,211, but incomes varied widely around this average. Thirty-one percent of Americans 65 or older had incomes of less than $10,000 in 2002, while 8% had incomes of $50,000 or more. Poverty among the elderly has decreased dramatically over the past four decades. In 1966, the poverty rate for those age 65 or older was almost 30%. Following large increases in Social Security benefits in the late 1960s and early 1970s, however, the elderly poverty rate fell dramatically, declining to less than 15% by 1974. In 2002, just 10.4% of Americans 65 and older had incomes below the federal poverty threshold.

Older persons receive income from a variety of sources, including earnings, pensions, personal savings, and public programs such as Social Security and Supplemental Security Income. Social Security is both the largest source of aggregate income among the elderly and the biggest single source of income for a majority of older Americans. More than half of all beneficiaries received less than $10,000 in Social Security benefits in 2002, and only 2% received more than $20,000 from Social Security. In 2002, 34% of people age 65 and older received income from a private or public pension. Among people age 65 and older who reported income from a government pension, the median annual amount was $13,824. Seventeen percent of government pension recipients reported that their pension income was less than $5,000, while 16% reported pension income of more than $30,000. Among people age 65 and older who reported income from a private-sector pension in 2002, the median annual amount was just $6,000. Forty-three percent of private pension recipients reported that their pension income was less than $5,000 and 5% reported pension income of more than $30,000.

Many Americans prepare for retirement by saving and investing some of their income while they are working. Of the 34.2 million Americans age 65 or older who were living in households in 2002, 19.3 million (56.5%) received income from assets, such as interest, dividends, rent, and royalties. Of individuals age 65 or older with total income of less than $20,000 in 2002, 48% had asset income, while of those with total income of more than $20,000, 78% had asset income. Most received small amounts of income from the assets they owned. Nearly half of those who received income from assets received less than $1,000 in 2002.

Earnings continue to be an important source of income for older Americans, especially those under age 70. Although there was a trend toward earlier retirement from 1964 to 1985, the trend over the past 20 years has been that more Americans have continued to work at older ages. In 2003, 77% of men and 70% of women age 55 were working either full-time or part-time. Among those age 65 in 2003, 38% of men and 26% of women were employed. In 2002, median earnings for individuals age 55-61 who worked were $32,000, while median earned income for workers age 62-64 was $25,000. For workers 65 and older, median earnings were $15,000. This report will be updated annually.

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Topics in Aging: Income and Poverty Among Older Americans, 2002

This report describes the income and poverty status of the 34 million Americans age 65 and older living in the community in 2002.[1] Older Americans are an economically diverse group. In 2002, the median income for individuals age 65 and over was $14,211, but incomes varied widely around this average. Thirty-one percent of Americans 65 or older had incomes of less than $10,000 in 2002, while 8% had incomes of $50,000 or more. Income of the elderly also varied by age, sex, and race. In 2002, individuals between the ages of 65 and 69 had a median income of $16,500 while those who were 80 or older had a median income of $13,100. Men 65 and older had a median income of $19,600, compared to just $11,500 for women. The median income of older African Americans — $10,800 — was just 72% of the median income of older white Americans — $15,060.

Older persons receive income from a variety of sources, including earnings, pensions, personal savings, and public programs such as Social Security and Supplemental Security Income. The substantial variation in the number of people receiving income from each source and the amounts they receive from each source are the main topics of this report. We describe both the number of elderly receiving income from each of 10 major sources and the extent to which income from each source is either concentrated at the high- or low-end of the income distribution or is more evenly distributed among the elderly population. Interest and dividends, for example, make up a significant percentage of the aggregate income of the elderly population, but while a relatively small number of people receive very large amounts of interest and dividend income, most elderly individuals receive only modest amounts of income from these sources. Social Security, on the other hand, is both the largest source of aggregate income among the elderly and the biggest single source of income for a majority of older Americans. Compared to interest and dividend income, there is less difference between the mean monthly Social Security benefit and the highest monthly benefit because the Social Security benefit formula limits the maximum amount paid to a retired high-wage earner to about 150% of the amount paid to an average-wage worker.

In addition to looking at sources and amounts of income, the report examines the income of the elderly relative to the federal poverty thresholds. Poverty among the elderly has decreased dramatically over the past four decades. In 1966, the poverty rate for those age 65 and over was almost 30%. Following increases in Social Security benefits mandated by Congress in the late 1960s and early 1970s, however, the elderly poverty rate fell significantly, declining to less than 15% by

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[1] This number does not include the approximately 1.6 million elderly who live in nursing homes and other institutional settings.

1974. In 2002, just 10.4% of Americans 65 and older had incomes below the federal poverty threshold. This was slightly lower than the poverty rate for the population 18 to 64 years old (10.6%) and much lower than the poverty rate among children under age 18 (16.7%).[2]

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

How We Counted Income

All income figures in this report are for *individual* elderly persons. Focusing on the income of individuals rather than families or households may overstate the resources available to some elderly and underestimate the resources available to others within the same family. For example, an elderly couple may receive a pension from a husband's former employer. The pension income would only be attributed to the husband and not his wife even though she may share in the benefits of that income. While the income figures may not reflect the total income available within a family, the advantage of this methodology is that it provides an accurate count of the number of older Americans who receive income from specific sources such as pensions or public assistance. To calculate poverty rates, however, we combined income for all family members before comparing it to the official federal poverty thresholds.[3]

The Data. The findings in the report are based on data reported in the March 2003 *Current Population Survey* (CPS), conducted by the Bureau of the Census. The CPS is a survey of approximately 100,000 households comprising a representative sample of the civilian, non-institutionalized population of the United States. Each March, the survey includes detailed questions on sources and amounts of income received during the previous calendar year. The CPS is widely used by researchers in government, academia, and the private sector, and it is the source of the official statistics published annually by the Census Bureau on median family income, the

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[2] U.S. Census Bureau, *Poverty in the United States, 2002*; P60-222, Table 2, p. 6.

[3] Calculations using the same survey and income categories but based on an *aged unit* — a mix of couples and individuals — can be found in the Social Security Administration's *Income of the Population 55 or Older*, at [http://www.ssa.gov/policy/docs/statcomps/].

number of Americans living in poverty, and the number of people without health insurance. Like any survey, the CPS is subject to error. *Sampling error* occurs if the households selected to participate in the survey are not representative of the population. *Non-sampling error* occurs if survey participants provide inaccurate information or if their responses are incorrectly recorded.

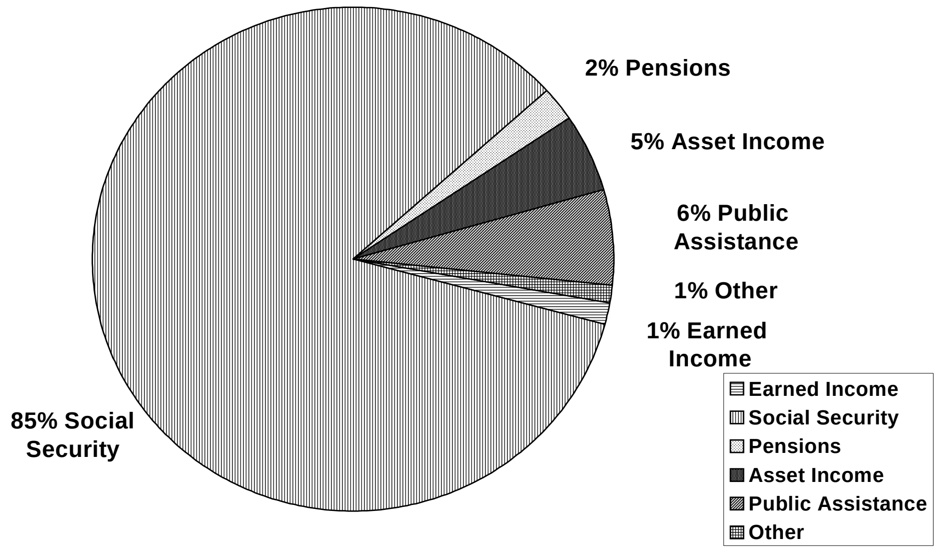
Total Income

The three-legged stool of personal savings, Social Security, and employer-sponsored pensions is a commonly used metaphor for the principle sources of retirement income. While useful as a metaphor, however, for many older Americans, at least one of the legs of the stool is missing. Those who continue to work after age 65 may rest comfortably on a four-legged chair while those without income from savings or pensions may balance precariously on a stool with only one leg. **Figure 1** and **Figure 2** illustrate this point for individuals in the top and bottom quarters of the income distribution. In 2002, 85% of the income received by elderly individuals in the bottom income quartile (those with less than $8,700 in total income) came from Social Security. For this group, less than 5% of their income came from savings and only 2% was received from pensions. Older Americans with higher incomes have more diversified sources of income. Only 21% of the income received by individuals in the top quartile of the income distribution in 2002 (those with $25,000 or more in income) came from Social Security. These individuals also were more likely to have wage income and to receive income from pensions and assets. They received, on average, three-fourths of their income from these three sources.

The average amount received in 2002 from each income source by people in the lowest and highest income quartiles is shown in **Figure 3**. Those in the poorest quarter of the elderly population received an average of $5,000 from Social Security, $84 from earnings, $144 from pensions, and $288 from assets. Older Americans in the top income quartile received on average $11,230 from Social Security, $16,917 from earnings, $12,813 from pensions, and $9,598 from assets. There are significant financial advantages from continuing to work past age 65. On average, members of the highest income brackets receive $1 out of $3 in income from working.

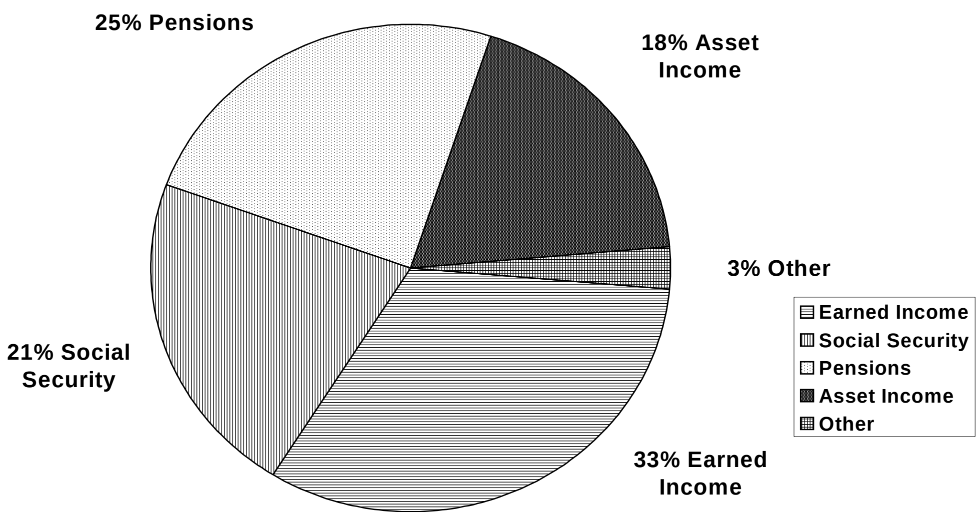
As discussed previously, both the sources of income and the amount received from each source differ among age groups. Older individuals are more likely to receive income from pensions and Social Security and are less likely to work. (See **Table 1**.) Comparing those age 80 and over to those age 65-69, for example, the older group received, on average, $8,000 less in earnings, $5,264 less in public pensions, and $2,660 less in private pensions. The older group received $648 more in Social Security and $310 more in asset income than their younger counterparts. Total income declined with age. Median total income was $16,508 in 2002 for persons 65 to 69 years old, $14,288 for those age 70 to 74, $13,625 for those age 75 to 79, and $13,079 for individuals age 80 or older.

Figure 1. Sources of Income in 2002, Lowest Quartile



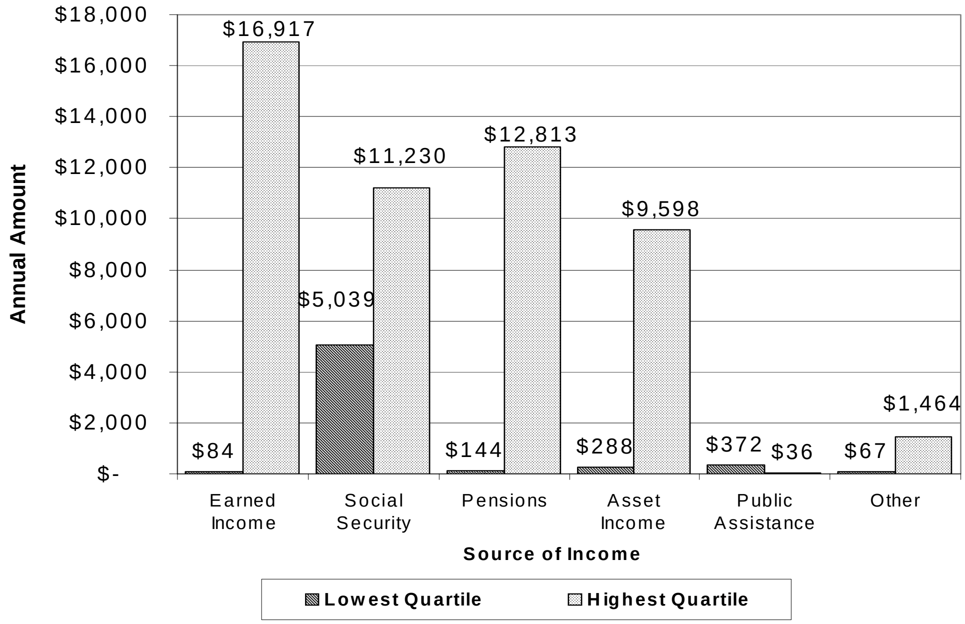
Source: CRS analysis of the March 2003, *Current Population Survey*.

Figure 2. Sources of Income in 2002, Highest Quartile



Source: CRS analysis of the March 2003, *Current Population Survey*.

Figure 3. Mean Income by Source in 2002, Lowest and Highest Quartiles



Source: CRS analysis of the March 2003, *Current Population Survey*.

Table 1. Percent of Older American Population with Various Sources of Income and Median Amount Received, by Age, 2002

Source of Income	Age				
	Total, 55+	Total, 65+	65-69	70-79	80 +
Earnings	39% $27,000	17% $15,000	33% $18,000	13% $12,000	5% $10,000
Social Security	57% $9,648	89% $9,864	84% $9,600	90% $9,648	92% $10,248
Public pensions	9% $15,600	11% $13,824	10% $17,268	12% $13,020	12% $12,000
Private pensions or annuities	17% $6,900	24% $6,000	21% $7,200	25% $6,000	24% $4,640
Income from savings	58% $800	57% $1,127	57% $906	57% $1,225	54% $1,216
Veterans' benefits	3% $5,279	3% $4,799	2% $7,799	3% $5,267	5% $3,599
Public assistance [a]	4% $4,644	4% $3,276	3% $4,152	4% $2,916	4% $3,504
Other income [b]	2% $4,920	2% $4,800	1% $4,400	2% $6,000	2% $4,000
No income	4%	3%	3%	3%	2%
Median total annual income	96% $17,748	97% $14,211	97% $16,508	97% $13,926	98% $13,079

Source: CRS analysis of the March 2003 *Current Population Survey*.

Notes: Less than 1%.

a. Includes mainly Supplemental Security Income, Temporary Assistance for Needy Families, and state general assistance payments.
b. Includes pension income from unidentified sources and other, unidentified sources of income.

Poverty

Although a smaller percentage of the elderly are in poverty than are those under 65, still nearly 3.6 million older Americans are poor.[4, 5] In the mid 1960s the poverty rate of those age 65 and older was nearly 30%. Largely due to increases in Social Security benefits, the poverty rate has fallen dramatically and stayed steady at roughly 10% since the mid 1990s.

While the poverty rate for those age 65 and over was 10.4% in 2002, the poverty rate among women, minorities, single individuals, and those with low education was much higher (see **Figure 4**). Over 12% of women age 65 and older were in poverty in 2002 compared to only 8% of men. Because women have longer life expectancies, the number of poor older women (2,451,000) is more than twice the number of poor older men (1,125,000). Poverty rates are especially high among minorities. In 2002, nearly one-quarter of blacks and one-fifth of Hispanics age 65 or older were in poverty. Nearly 85% of all older Americans identify themselves as white. Thus, the number of poor white elderly is higher than any other racial group. While only 8% of older white Americans are poor, poor whites comprise 65% of all poor elderly. Older individuals with low education also have high poverty rates. Nineteen percent of those without a high school education had incomes below the official poverty line in 2002 compared to only 5% of those with a college degree. Finally, there is a significant difference in the poverty rates of married and single elderly. Married couples, who often have access to more than a single source of income, have a poverty rate of only 5%. Seventeen percent, or 2.6 million, unmarried individuals had income of less than the official poverty threshold of $8,628 in 2002.[6]

Many older Americans have incomes which put them just above the official poverty threshold. In 2002, only 10.4% of people age 65 and over had income below the poverty threshold of $8,628 for an individual or $10,874 for a couple. A much higher percentage — one fourth of older Americans — had income below 150% of the threshold ($12,942 for an individual, $16,311 for a couple). Thirty-eight percent of people 65 and older had income less than twice the poverty threshold ($17,256 for an individual, $21,748 for a couple). The oldest Americans have the highest poverty rates. Nine percent of individuals between age 65 and 74 were poor compared with

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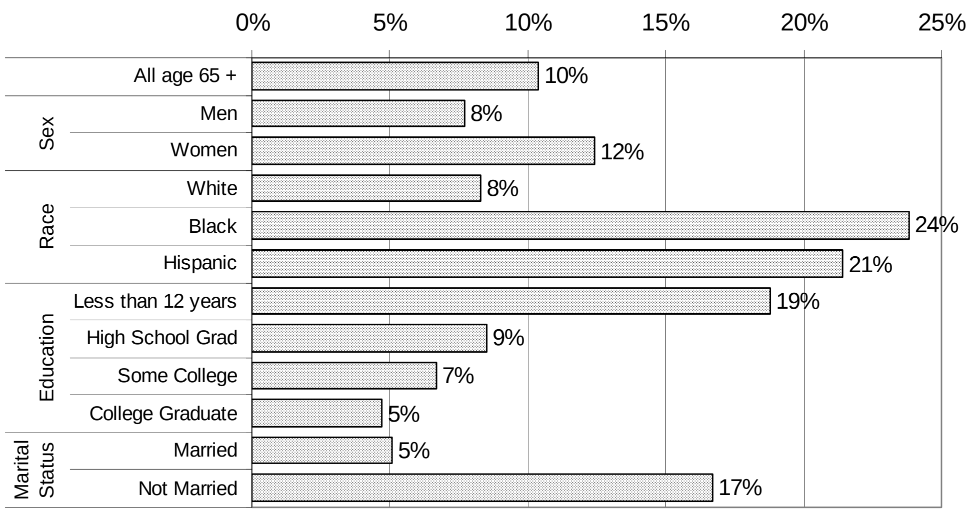
[4] This section compares total family income to the official poverty threshold of $8,628 for a single person age 65 and over and $10,874 for an elderly couple. Adjustments were made for elderly families with children under age 18. Note that the poverty thresholds are lower for elderly families than they are for those under age 65. See *Poverty Thresholds for 2002 by Size of Family and Number of Related Children Under 18 Years*, at [http://www.census.gov/hhes/poverty/threshld/thresh02.html].

[5] Note that there are two slightly different official government versions of the level of income at which one is considered poor. The first — and the one used in this analysis — is the poverty *threshold* which the Census Bureau uses to count the number of poor in the United States. The second, the poverty *guideline*, is used by the Department of Health and Human Services to set eligibility criteria for a number of federal programs.

[6] For more information, see CRS Report 95-1041, *Poverty in the United States: 2003* and CRS Report 95-1024, *Trends in Poverty in the United States*, both by Thomas Gabe.

12% of individuals age 75 and older. Nearly one-half of all Americans age 80 and over had incomes of less than twice the poverty threshold in 2002.

Figure 4. Percentage of People Age 65 and Older in Poverty in 2002



Source: CRS analysis of the March 2003 *Current Population Survey*.

Income from Retirement Benefits

Social Security.[7] Social Security is a social insurance program designed to protect workers, their dependent children, and surviving spouses in the event that a worker dies, becomes disabled, or reaches retirement age. Retirement benefits from Social Security are the most common source of income for the aged. In 2002, Social Security paid benefits to nearly 89% of those aged 65 or older. Social Security is the largest single source of income among the aged and provides more than half of all income for 69% of recipients 65 or older. For 39% of elderly recipients, Social Security contributes more than 90% of their income and for nearly one-quarter, it is the only source of income. (See **Table 2.**) While Social Security is an important source of income for a majority of the elderly, the benefit amounts paid by Social Security are relatively small compared to many recipients' pre-retirement income. The average monthly Social Security benefit in 2004 is $925 for a retired worker and $434 for a retired worker's spouse. As **Figure 5** shows, over half of all beneficiaries receive less than $10,000 per year and only 2% receive more than $20,000 per year. According to the Social Security Administration, Social Security retired worker benefits replace approximately 56% of the earnings of a career-long low-wage earner, 42% of the earnings of a career-long average-wage earner, and 27% of the earnings of a career-long high-wage earner.

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[7] For a complete description of the Social Security program, see the House Committee on Ways and Means, committee print, WMCP: 108-6, 2004, *2004 Green Book*, Chapter 1, at [http://waysandmeans.house.gov/media/pdf/greenbook2003/Section1.pdf].

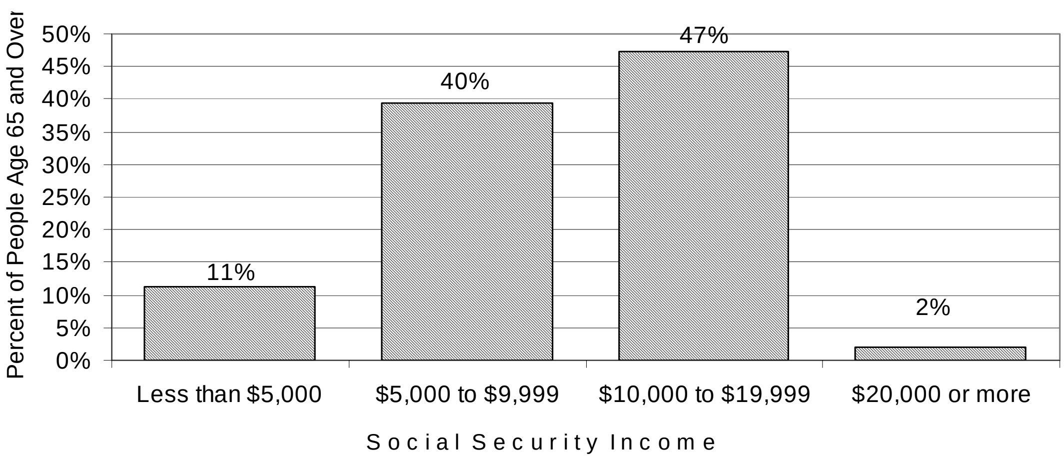
Table 2. Social Security as a Percentage of Income, 2002

Percent of Income from Social Security	Recipients (thousands)	Percentage of Recipients
Less than 20%	2,553	8.4%
20% to 39%	4,296	14.2
40% to 49%	2,516	8.3
50% to 69%	4,609	15.2
70% to 89%	4,545	14.9
90 to 99%	4,543	14.9
100% of income	7,330	24.1

Source: CRS analysis of the March 2003 *Current Population Survey*.

Note: In 2002, 30.4 million people age 65 or older received income from Social Security and 3.8 million people had no Social Security income.

Figure 5. Amount of Social Security Income in 2002



Source: CRS analysis of the March 2003 *Current Population Survey*.

Pensions. Since the late 1970s, the proportion of American workers who participate in employer-sponsored retirement plans has remained fairly stable at about half of the workforce. In 2002, 48% of wage and salary workers between the ages of 21 and 64 participated in employer-sponsored retirement plans; however, a point-in-time snapshot of pension participation is a poor indicator of who will receive pension income in retirement. Some workers not covered by a pension plan today may have earned a pension at a previous job, or they may earn a pension benefit in the future. Others who are currently participating in a pension plan may never fully vest in their pension benefit, or they might take their accrued benefit as a lump sum before retirement and spend all or part of the distribution.[8]

To receive pension income in retirement, an individual must remain a participant in the plan long enough to earn a pension benefit and must not spend the accrued benefit before retirement. In 1986, Congress shortened the maximum vesting period — the length of time it takes to earn a pension benefit — from ten years to five years, thus making it easier for employees whose employer sponsors a pension to earn a benefit under the plan.[9] On the other hand, many employers offer separating employees the opportunity to take their accrued retirement benefit as a lump-sum distribution. Most defined contribution plans — such as those authorized under section 401(k) of the Internal Revenue Code — as well as a growing number of defined benefit plans, now permit departing employees to take a lump-sum distribution. While many employees roll these distributions into another employer-sponsored retirement plan or into an individual retirement account, some spend all or part of the distribution and thereby reduce the income that will be available to them in retirement.[10]

In 2003, 11.6 million people age 65 and older — 34% of that age group — received income from a private or public pension.[11] Of this number, 3.9 million had income from a public-sector pension — i.e., from previous employment in the federal, state, or local government — and 8.0 million received income from private-sector pension plans.[12] Together, the federal, state, and local governments account for only about a sixth of all jobs in the U.S. In 2002, for example, only 15% of all workers in the United States were employed at all levels of government. Nevertheless, nearly one-third of pension recipients age 65 and older received income from government-sponsored pension plans. The disparity between the percentage of jobs that are in the government sector and the percentage of retirees with government pensions is accounted for mainly by two factors, both of which make it more likely

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[8] To *vest* in a pension or other benefit is to earn a legally enforceable right to receive it.

[9] *Tax Reform Act of 1986*, P.L. 99-514.

[10] See CRS Report RL30496, *Pension Issues: Lump-sum Distributions and Retirement Income Security*, by Patrick Purcell.

[11] As reported here, "pension income" includes payments from a company or union pension, payments from a federal, state, or local government pension, military retirement pay, regular payments from an annuity or paid-up insurance policy, and regular payments from an IRA, Keogh account, or a §401(k)-type account.

[12] These figures sum to 11.9 million people; however, about 300,000 people had both types of pension.

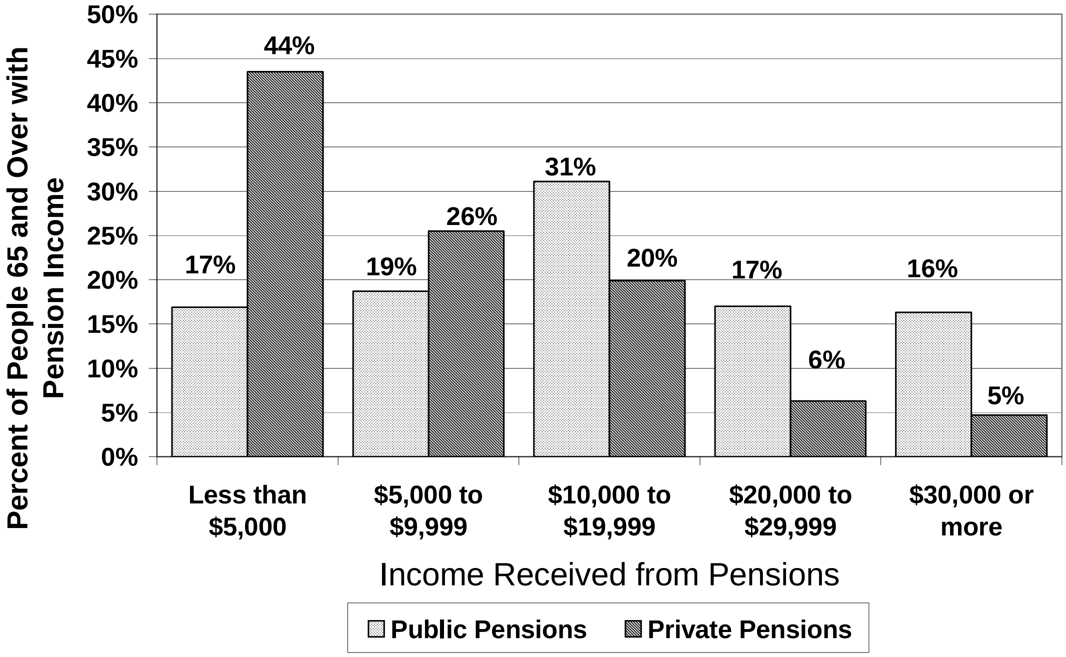
that a government employee will earn a pension benefit than will a worker in the private sector. First, more government jobs than private-sector jobs offer pension benefits to their employees. In 2002, for example, 84% of all government employees worked at jobs that offered retirement benefits, compared to just 55% of private-sector employees. Second, government employees tend to stay in their jobs longer than private-sector workers, making it more likely that the government employee will fully vest in the pension benefits he or she has earned. The Department of Labor reports that in 2002 government workers had a median tenure with their current employer of 6.5 years, while private-sector employees had a median tenure with their current employer of 3.0 years.

Public-sector employees not only are more likely to receive a pension in retirement than are workers in the private-sector; they also receive larger pensions than those who worked in the private sector. Among the 3.9 million people age 65 and older who reported income from a government pension in 2002, the median annual amount was $13,824. Seventeen percent of government pension recipients reported that their pension income was less than $5,000 in 2002, while 16% reported pension income of more than $30,000. (See **Figure 6.**) Among the 8.0 million people age 65 and older who reported income from a private-sector pension in 2002, the median annual amount was just $6,000. Forty-four percent of private pension recipients reported that their pension income was less than $5,000 in 2002 and 5% reported pension income of more than $30,000.

Two Types of Pension Plans

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

Figure 6. Income from Pensions in 2002



Source: CRS analysis of the March 2003 *Current Population Survey*.

Income from Assets

Many Americans prepare for retirement by saving and investing some of their income while they are working.[13] Of the 34.2 million Americans age 65 or older who were living in households in 2002, 19.3 million (56.5%) received income from assets (interest, dividends, rent, and royalties). Most received small amounts: nearly half of those who received income from assets received less than $1,000. The data displayed in **Figure 7** show that low-income individuals were less likely to have received income from assets. Of individuals age 65 or older with total income of less than $20,000 in 2002, 48% had asset income. In contrast, of those with total income of more than $20,000, 78% had asset income.

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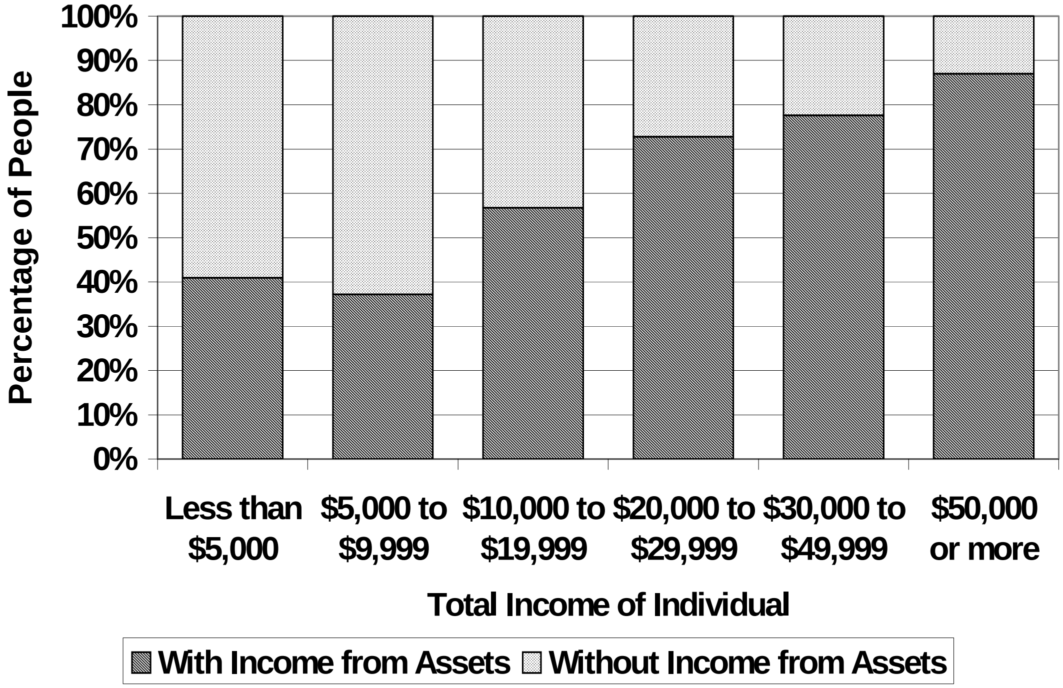
[13] In 2001, the median value of financial assets among families headed by a person between the ages of 65 and 74 that owned any financial assets was $51,400. The median for families headed by someone age 75 or older that owned any financial assets was $40,000. The median *net worth* of all families headed by a person between the ages of 65 and 74 was $176,300. The median *net worth* of all families headed by someone age 75 or older was $151,400. Net worth is the value of all assets (including a home) minus all liabilities. See Ana M. Aiscorbe, Arthur B. Kennickell, et. al., "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," at [http://www.federalreserve.gov/pubs/bulletin/2003/0103lead.pdf].

Figure 7. Percentage of People Age 65 and Older with Income from Assets, by Total Income in 2002



Source: CRS analysis of the March 2003 *Current Population Survey*.

Median income from assets also differed between the lower-income and higher-income elderly. Among the elderly with less than $5,000 in total income who had asset income in 2002, the median amount was only $247. (See **Table 3**.) Those with the highest total incomes were more likely to receive asset income and also received higher amounts. Over 85% of those with total incomes of $50,000 or more received asset income in 2002. Their median income from assets was over $9,800.

Table 3. Income from Assets Among People 65 and Older, 2002

Total Income, 2002	Number of People (thousands)	Percent with Asset Income	Mean Asset Income	Median Asset Income
Less than $5,000	2,156	41.0%	$662	$247
$5,000 to $9,999	8,202	37.2	929	342
$10,000 to $19,999	11,766	56.7	2,037	751
$20,000 to $29,000	4,834	72.8	3,832	2,000
$30,000 to $49,999	3,615	77.6	7,091	3,112
$50,000 or more	2,766	87.0	22,278	9,854
All persons with any income	**33,339**	**19,338**	**$5,378**	**$1,127**

Source: CRS analysis of the March 2003 *Current Population Survey*.

Work-Related Income[14]

Earnings. Many older Americans continue to work well past their 60th birthday. Although there was a consistent trend toward earlier retirement from 1964 to 1985, the trend for the past 20 years has been that more Americans have continued to work at older ages.[15] In 2003, 77% of men and 70% of women age 55 were working either full-time or part-time. Among those age 65 that year, only 38% of men and 26% of women were employed. While the share of older Americans who work declines rapidly after age 70, **Figure 8** shows that 17% of men and 15% of women who were 70 years old in 2003 were still working.

Americans are progressively less likely to work as they pass age 55 and the average annual earnings of those who continue to work begin to decline at about the same age. This decline can be attributed to two factors: decreases in wages and decreases in the number of hours worked.[16, 17] In 2002, the median earnings for

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[14] Because labor force participation rates begin to fall steadily beginning at about age 55, this section will include information on individuals age 55 and over rather than 65 and over.

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

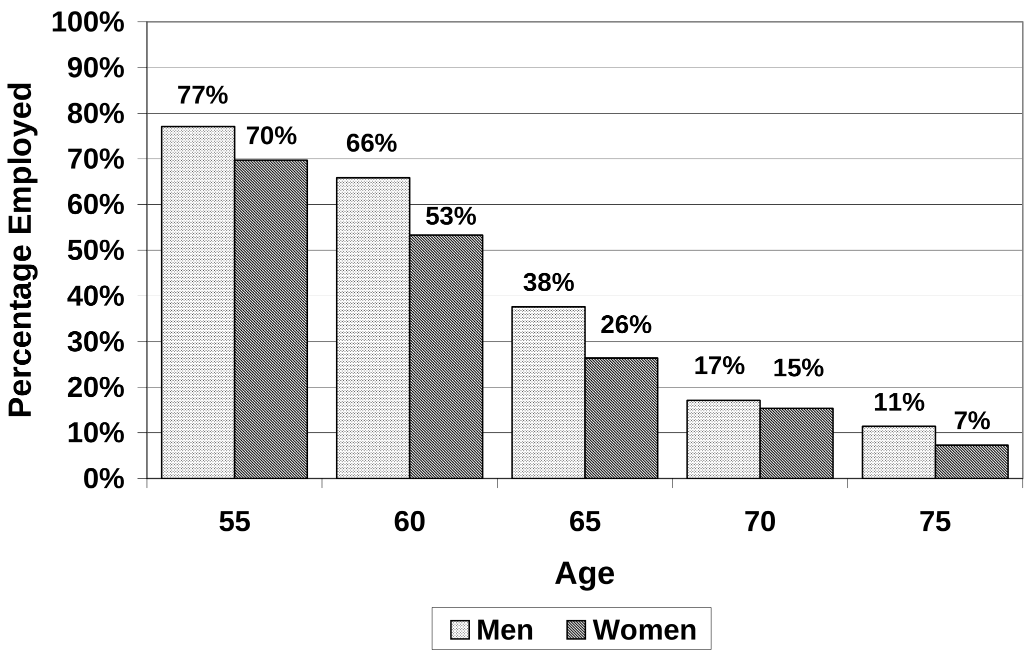
[16] As a worker ages, the likelihood that he or she will experience a decline in physical or cognitive capacity increases. Increases in the incidence of illness and disability are partly responsible for the decline in earned income that some workers experience as they pass age 55. For a discussion of the effects of aging on the ability to continue working, see C. Schooler, L. Caplan, and G. Oates, "Aging and Work: An Overview," in *Impact of Work on Older Adults*, K.W. Schaie and C. Schooler, eds. (New York: Springer Publishing, Inc., 1997).

[17] While nearly 80% of workers aged 55-61 worked 35 or more hours per week in 2002, only

(continued...)

individuals age 55-61 were $32,000 per year while median earnings for those age 62-64 were $25,000. For those over age 65 who continued working, median earnings were only $15,000 in 2002. **Figure 9** shows the decline in workers' annual earnings as they age. At the top of the earnings scale, nearly 30% of workers age 55-61 earned $50,000 or more in 2002, while only 15% of those age 65 or older had earned income totaling more than $50,000 in that year. In contrast, while only 6% of Americans age 55-61 who worked in 2002 had total earnings of less than $5,000, more than 20% of workers age 65 or older had earnings of $5,000 or less.

Figure 8. Employment Rates by Age and Gender, March 2003



Source: CRS analysis of the March 2003 *Current Population Survey*.

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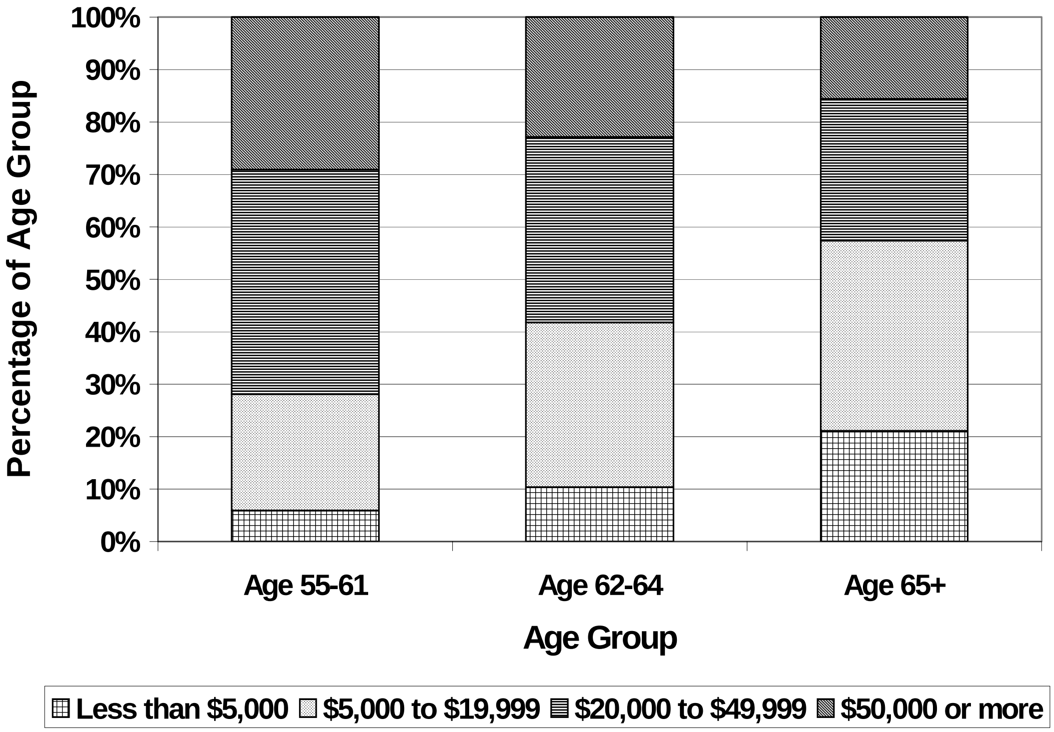
[17] (...continued)
half of workers age 65-69 and only one third of those age 70 and over worked full time. Conversely, 38% of those age 70 and over worked less than 20 hours per week, while only 7% of those age 55-61 did so. For more information on the labor force participation of older workers, see CRS Report RL30629, *Older Workers: Employment and Retirement Trends*, by Patrick Purcell.

Figure 9. Earned Income by Age, 2002



Source: CRS analysis of the March 2003 *Current Population Survey*.

Unemployment Compensation. Unemployment Compensation (UC) is provided through a joint federal-state system that provides temporary, partial wage replacement to active job seekers who are involuntarily out of work. In 2002, roughly 1.2 million individuals age 55 and older — about 2.1% of people in this age group — received income from unemployment insurance at some time during the year. Most received UC benefits for six months or less. The median amount of unemployment compensation received by these individuals was about $3,700.

Receipt of unemployment compensation decreases rapidly with age. About 4% of individuals age 55-61 received unemployment compensation in 2002, compared to 3% of those aged 62-64, and only 0.6% of individuals age 65 or older. One reason for this is that older workers are less likely to be unemployed than younger workers. Also, as workers age they are more likely to be eligible for other sources of income, such as pensions and Social Security. In addition, the unemployment benefit an individual receives usually is reduced by the amount of other income he or she receives.[18] This can make the UC benefit particularly small for those age 65 and

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[18] Federal law (P.L. 96-364) requires that when the earnings from an employer are used to calculate the UC benefit, the UC benefit must be reduced if retirement income is received (continued...)

over. In 2002, the median UC benefit for recipients age 65 and older was $2,520, and three-quarters of all individuals age 65 and over who received unemployment compensation received less than $5,000. Although older workers are less likely to be unemployed than younger workers, studies suggest that they take longer to find a new job. Consequently, older workers are more likely than younger workers to exhaust their UC benefits, which typically are limited to 26 weeks.[19]

Workers' Compensation. Workers' compensation provides income replacement and medical benefits to workers who become disabled by work-related injuries and diseases or, in cases of death, their dependents. Workers' compensation benefits are set by state legislatures and the benefit formulas differ from state to state. The benefit generally provides partial wage-replacement for temporary and partial disability, as well as long-term disability.[20] In 2002, 416,00 individuals age 55 and older received income through workers' compensation. While few individuals receive worker's compensation benefits after age 65, for those who do, it represents a substantial source of income. For the 125,000 people age 65 or over and who received benefits in 2002, the median benefit was $7,660.[21]

Income from Veterans' Compensation and Veterans' Pensions. Disabled veterans, their dependents, and survivors are eligible for an array of benefits including income support, medical services, educational benefits and housing assistance. In 2002, roughly 1.1 million Americans age 65 and over received supplementary income from two disability-based programs: the veterans' compensation and veterans' pensions program.

The veteran's compensation program provides payments for veterans with disabilities incurred or aggravated while in the Armed Forces. The compensation program provides payments to disabled veterans in amounts designed to compensate the veteran for loss of earnings capacity with veterans receiving higher amounts for more severe levels of disability. Veterans' pensions are provided through a separate program to wartime veterans and their survivors who have disabilities which are not related to or caused by military duties of the veteran but which render them unable

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[18] (...continued)
from that employer . States are permitted to reduce benefits on less than a dollar-for-dollar basis by taking into account the contributions made by the worker to finance the plan. Also, the requirement applies only to those payments made on a periodic (not lump-sum) basis. This is to ensure that a worker who retires does not also collect UC benefits from the job from which they retired. For more details see CRS Report 95-1180, *Unemployment Benefits Reduced by Pensions and Social Security: A Fact Sheet*, by Celinda Franco.

[19] See CRS Report RL32111, *Unemployment Compensation /Unemployment Insurance: Trends and Contributing Factors in UC Benefit Exhaustion*, by Julie Whittaker.

[20] For a more thorough discussion of workers' compensation programs, see the House Committee on Ways and Means, committee print, WMCP: 108-6, 2004, *2004 Green Book*, Chap. 15, [http://waysandmeans.house.gov/media/pdf/greenbook2003/WorkersComp.pdf].

[21] Figures include payments from employer-sponsored workers' compensation insurance.

to work.[22] The benefits are means-tested, that is, payments are decreased by the amount received from other sources such as Social Security, pensions, and income from a spouse. Pensions are not paid to veterans with substantial assets. Veterans' compensation and pension benefits are generally small amounts. In 2002, 51% of those who received veteran's benefits were paid less than $5,000. The median benefit was $4,799 or about $400 per month.

Income from Public Assistance

An estimated 1.3 million Americans age 65 or older receive public assistance income in 2002. Most received Supplemental Security Income (SSI), a federal program for low-income individuals who are aged, blind, or disabled. Some who were the caretaker relatives for dependent children received income through Temporary Assistance for Needy Families (TANF), which is jointly administered by the federal and state governments and pays benefits to low-income families with children. A small number of elderly received state general assistance payments for those in poverty. The median public assistance payment to recipients age 65 or older in 2002 was $3,276, or $273 per month.

The largest source of cash public assistance for the elderly is Supplemental Security Income (SSI). SSI is a means-tested program administered by the Social Security Administration. SSI provides monthly cash payments to eligible aged, blind, and disabled persons. Aged individuals and couples are eligible for SSI if their incomes fall below the federal maximum monthly SSI benefit. In 2002, the monthly standards were $552 for an individual and $817 for a couple. An individual does not have to be totally without income to be eligible for SSI benefits, but the income standards are significantly lower than the poverty threshold for both individuals and couples.[23] Eligibility for SSI is restricted to qualified persons who have resources of less than $2,000 for an individual or $3,000 for a couple. The resource limit for a couple applies even if only one member of a couple is eligible. Together, these income and asset limits restrict the number of people 65 and older who are eligible for SSI to less than half of the number who have incomes below the federal poverty threshold.

A state may choose to provide an optional supplement to Federal SSI payments. These supplements can help individuals meet needs which are not fully met by the federal payment. Each state determines whether it will make such a payment, to whom, and in what amount. Currently, all but six states have some form of SSI supplemental payment.[24]

[22] Veteran's pensions should not be confused with military retirement benefits — also called "retired pay" — which is paid to retired officers and enlisted personnel who have completed at least 20 years of service.

[23] In 2002, the poverty threshold for a single person age 65 or older was $719 per month. For a couple in which one or both people were over 65, the monthly poverty threshold was $906.

[24] Arkansas, Georgia, Kansas, Mississippi, Tennessee, and West Virginia pay no supplement.

Conclusion

Americans age 65 and older receive income from a variety of sources. While Social Security benefits, pensions, and income from assets are the most common income sources, income from work is also important, especially for those under age 70. Public assistance and other public programs play an important role in supporting many older Americans who otherwise would be living in poverty. The importance of each source of income varies across the income distribution. Public programs provide over 90% of all income for the poorest 25% of the population. This contrasts with the wealthiest 25% of the elderly population who receive over three-quarters of their income from earnings, pensions, and income from assets.

The reduction in poverty among older Americans is one of the most significant public policy successes of the past half-century. Poverty among those age 65 and older has fallen from one in three in the mid-1960s to one in ten today. While the overall rate of poverty is relatively low, it remains high for women, minorities, the less-educated, single persons, and those over age 80. As Congress considers reforms to Social Security and the laws governing pensions and retirement savings plans, it will be helpful to consider how changes to one income source may affect each of the others, and thus the total income of older persons. Future challenges will include maintaining the fiscal solvency of Social Security and Medicare and developing strategies in the public and private sectors to finance the increased need for long-term care services as the number of older Americans rises in the years ahead