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Topics in Aging: Income and Poverty Among Older Americans in 2005

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Debra Whitman
Specialist in the Economics of Aging
Domestic Social Policy Division

Patrick Purcell
Specialist in Social Legislation
Domestic Social Policy Division

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Summary

Older Americans are an economically diverse group. In 2005, the median income of individuals age 65 and older was $15,523, but incomes varied widely around this average. Twenty-seven percent of Americans 65 or older had incomes of less than $10,000 in 2005, while 11% had incomes of $50,000 or more. As Congress considers reforms to Social Security and the laws governing pensions and retirement savings plans, it may be helpful to examine how changes to one income source would affect each of the others, and thus the total income of older Americans

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. Using data from the March 2006 *Current Population Survey*, this report describes the number of elderly receiving income from each of these sources and the extent to which income from each source is either concentrated at the high end or low end of the income distribution or is evenly distributed.

Retirement benefits from Social Security and pensions are the most common sources of income among the aged. In 2005, Social Security paid benefits to 88% of Americans age 65 and older. Social Security is also the largest single source of income among the aged. Sixty-nine percent of Social Security beneficiaries age 65 or older receive more than half of their income from Social Security. For 40% of elderly recipients, Social Security contributes more than 90% of their income, and for one-quarter of recipients, it is their *only* source of income. In 2005, 35% 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 $15,000. Among recipients of private pensions, the median amount received in 2005 was just $6,840.

Many Americans prepare for retirement by saving and investing some of their income while they are working. Of the 35.5 million Americans age 65 or older who were living in households in 2005, 19.7 million (55%) received income from assets, such as interest, dividends, rent, and royalties. Most received small amounts of income from the assets they owned. Of all individuals age 65 or older who received income from assets in 2005, half received less than $1,087.

Earnings from work 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 about 1960 to 1985, over the past 20 years more Americans have continued to work at older ages. In 2005, median earnings of individuals aged 55-61 who worked were $35,000, while the median earned income of workers aged 62-64 was $28,000. Among workers 65 and older, the median earned income was $16,380. Poverty among those age 65 and older has fallen from one-in-three older persons in 1960 to one-in-ten today. While the overall rate of poverty is relatively low, it remains high for women, minorities, the less-educated, and people over age 80.

This report will be updated annually.

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Introduction

This report describes the income and poverty status of the 35.5 million Americans age 65 and older living in the community in 2005.[1] 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. Using data from the March 2006 *Current Population Survey*, this report describes 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 end or low end of the income distribution or is more evenly distributed among the elderly population.

In addition to looking at sources and amounts of income, the report examines the income of the elderly relative to the federal poverty thresholds. In 2005, 10.1% of Americans 65 and older had family incomes below the federal poverty thresholds of $9,367 for a single person and $11,815 for a couple. The poverty rate for Americans 65 and older was lower than both the poverty rate for the population 18 to 64 years old (11.1%) and the poverty rate among children under age 18 (17.6%).[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 employers — 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 with these limitations, 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.

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[1] This number does not include approximately 1.6 million elderly who live in nursing homes.

[2] U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States, 2005*; P60-231, Table 4, p. 14, [http://www.census.gov/prod/2006pubs/p60-231.pdf].

The Data. The findings in this report are based on data collected in the March 2006 *Current Population Survey* (CPS), conducted by the Bureau of the Census. The March 2006 CPS consisted of interviews with approximately 76,000 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 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.

How Income Was Counted

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, the income of all family members was combined before comparing it to the official federal poverty thresholds.[3]

Total Income

Both the sources of income and the amounts received from each source differ among elderly persons of different ages. For example, individuals 80 and older are more likely to receive income from pensions and Social Security and are less likely to have earned income than the elderly who are between the ages of 65 and 69. (See **Table 1**) Comparing those 80 and older to those aged 65 to 69, the older group received, on average, $10,000 less in earnings, $5,569 less in public pensions, and $3,612 less in private pensions. The older group received $458 more in Social Security than their younger counterparts and $350 more in asset income. Total income also declined with age. Median total income in 2005 was $17,934 for persons 65 to 69 years old, $15,338 for those aged 70 to 79, and $14,345 for individuals age 80 or older.

Personal savings, Social Security, and employer-sponsored pensions are sometimes referred to as the "three-legged stool" of retirement income. While this

[3] For information on long-term trends in the income of older Americans that were calculated for both individuals and households, see CRS Report RL33387, *Topics in Aging: Income of Americans Age 65 and Older, 1969 to 2004*, by Patrick Purcell and Debra Whitman.

term may be useful as a metaphor, for many older Americans, at least one of the legs of the stool is missing. **Figure 1** and **Figure 4** illustrate this point for individuals in the highest and lowest quartiles of the income distribution. In 2005, 87% of the income received by elderly individuals in the lowest income quartile (those with less than $9,600 in total income) came from Social Security. For this group, less than 4% of their income came from savings and only 3% was received from pensions. Older Americans with higher incomes had more diversified sources of income. In 2005, 20% of income received by individuals in the highest quartile of the income distribution (those with $28,130 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, in the aggregate, more than three-fourths of their income from these three sources. **Figure 2** and **Figure 3** show that Social Security comprised 57% and 82%, respectively, of income received by older Americans in the second and third income quartiles in 2005.

The average amount received in 2005 from each income source by people in the lowest and highest income quartiles is shown in **Figure 5**. Those in the poorest quarter of the elderly population received an average of $5,720 from Social Security, $62 from earnings, $171 from pensions, and $220 from assets. Older Americans in the highest income quartile received on average $12,091 from Social Security, $22,873 from earnings, $14,182 from pensions, and $10,881 from assets. There are significant financial advantages from continuing to work past age 65. On average, members of the highest income brackets received more than $1 out of $3 of their income from working.

Income received by the elderly varies significantly by age, sex, race, education and marital status. **Figure 6** shows that in 2005, individuals between the ages of 65 and 69 had a median income of $17,938 while those who were 80 or older had a median income of $14,366. Men 65 and older had a median income of $21,588, compared with $12,494 for women. The median income of older African Americans, $11,738, was 71% of the median income of older white Americans — $16,538. The median income of older Americans increases substantially with their educational level. Those without high-school diplomas had a median income of $10,910 in 2005 while college graduates had incomes nearly three times as high. Married individuals had median incomes $1,100 higher than single individuals.

Table 1. Percentage of Older Americans with Income in 2005, Mean and Median Amounts, by Source

	Age					
	Total, 55+	**55 to 64**	**Total, 65+**	**65 to 69**	**70 to 79**	**80+**
Total number of people (000s)	66,485	30,981	35,505	10,231	15,967	9,307
Percentage with no income	4.6	6.3	3.1	3.2	3.1	2.8
Earnings						
Percentage with earnings	40.9	67.5	17.8	32.0	16.2	5.0
Mean	$44,005	$46,913	$34,385	$39,194	$30,058	$24,600
Median	$30,000	$34,000	$16,380	$20,000	$13,920	$10,000
Social Security						
Percentage with Social Security	54.8	17.0	87.8	81.8	89.8	91.1
Mean	$10,957	$10,495	$11,035	$11,134	$10,907	$11,153
Median	$10,766	$9,938	$10,862	$10,680	$10,800	$11,138
Public pensions						
Percentage with public pensions	9.5	6.9	11.8	10.2	12.1	12.8
Mean	$21,715	$26,065	$19,502	$22,165	$19,175	$17,700
Median	$17,640	$22,800	$15,000	$18,769	$15,410	$13,200
Private pensions or annuities						
Percentage with private pensions	16.9	9.1	23.7	20.6	24.8	25.1
Mean	$11,940	$16,169	$10,513	$12,011	$10,854	$8,578
Median	$7,692	$11,700	$6,840	$9,000	$7,200	$5,388
Income from assets						
Percentage with income from assets	56.1	57.0	55.4	55.7	56.3	53.5
Mean	$5,632	$5,224	$5,999	$6,247	$5,892	$5,908
Median	$850	$670	$1,087	$900	$1,127	$1,250
Veterans' benefits						
Percentage with veterans' benefits	2.7	2.3	3.0	1.9	3.0	4.2
Mean	$11,785	$13,162	$10,849	$11,077	$11,369	$10,103
Median	$7,200	$9,000	$7,200	$6,468	$7,200	$6,600
Public assistance[a]						
Percentage with public assistance	3.4	3.5	3.4	3.6	3.3	3.5
Mean	$5,620	$6,616	$4,745	$5,132	$4,706	$4,380
Median	$5,400	$6,699	$4,200	$4,800	$4,080	$3,600
Other income[b]						
Percentage with other income	4.5	6.2	3.1	3.9	2.5	3.0
Mean	$8,081	$8,186	$7,894	$8,632	$6,588	$8,738
Median	$3,900	$4,277	$3,600	$3,458	$3,600	$3,600
Total Income						
Percentage with any income	95.4	93.7	96.9	96.8	96.9	97.2
Mean	$33,680	$43,478	$25,419	$31,594	$24,409	$20,384
Median	$20,138	$30,003	$15,523	$17,934	$15,338	$14,345

Source: The Congressional Research Service (CRS) analysis of the March 2006 Current Population Survey.

a. Includes mainly Supplemental Security Income, Temporary Assistance for Needy Families, and state general assistance.

b. Includes unemployment compensation, workers' compensation, and income from unidentified sources.

Figure 1. Sources of income, top income quartile, age 65 and up

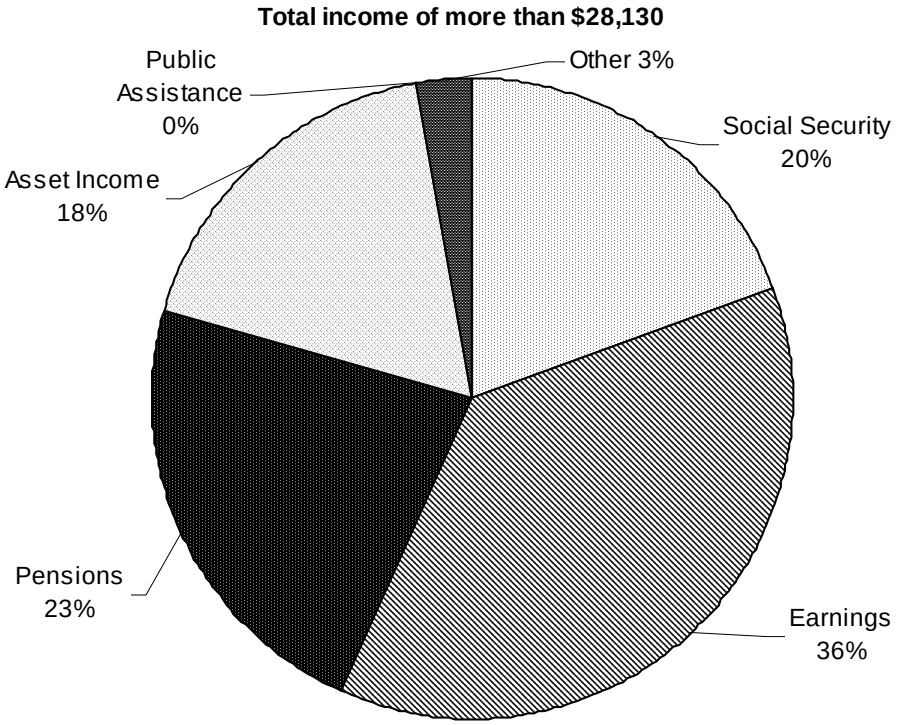
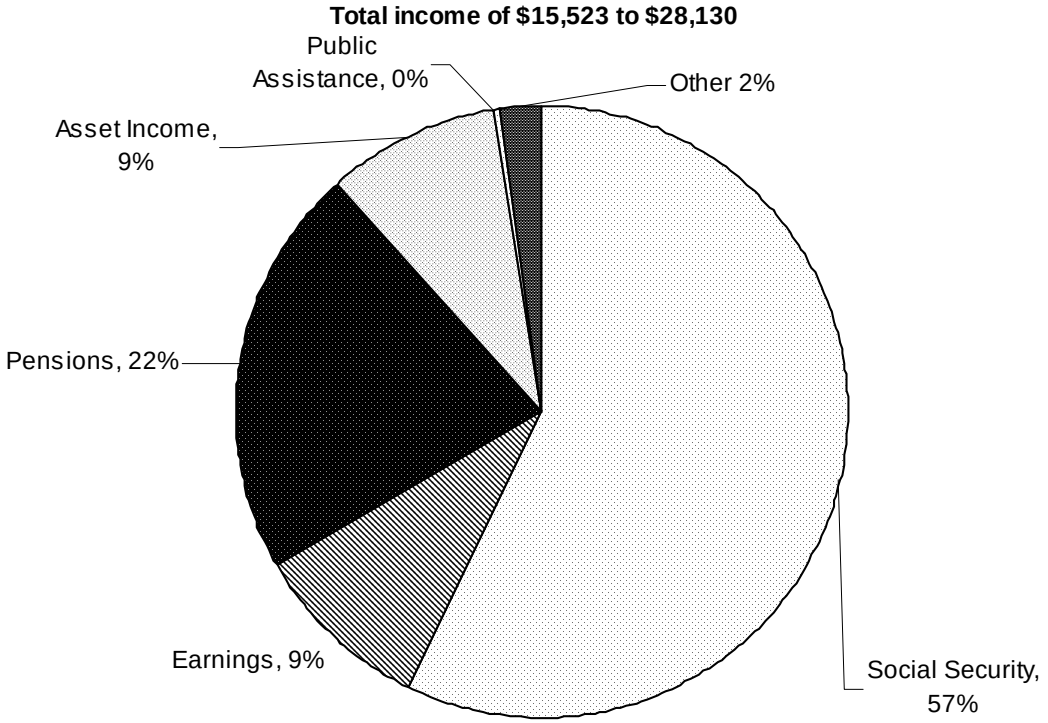


Figure 2. Sources of income, second income quartile, age 65 and up



Source: Both figures from CRS analysis of the March 2006 Current Population Survey.

Figure 3. Sources of income, third income quartile, age 65 and up

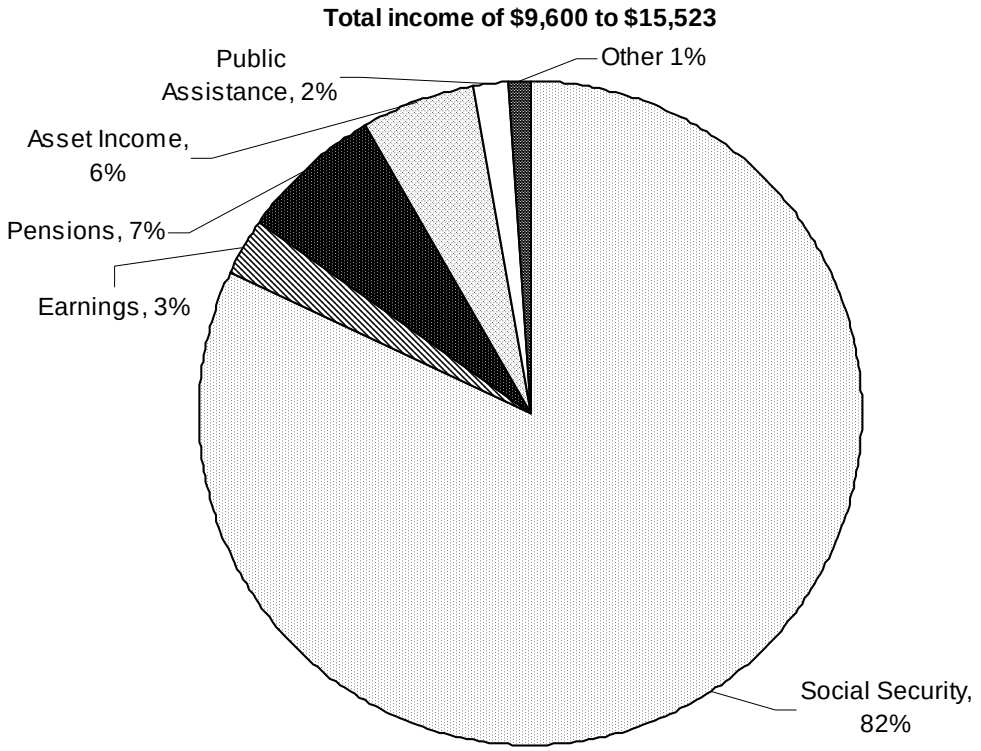
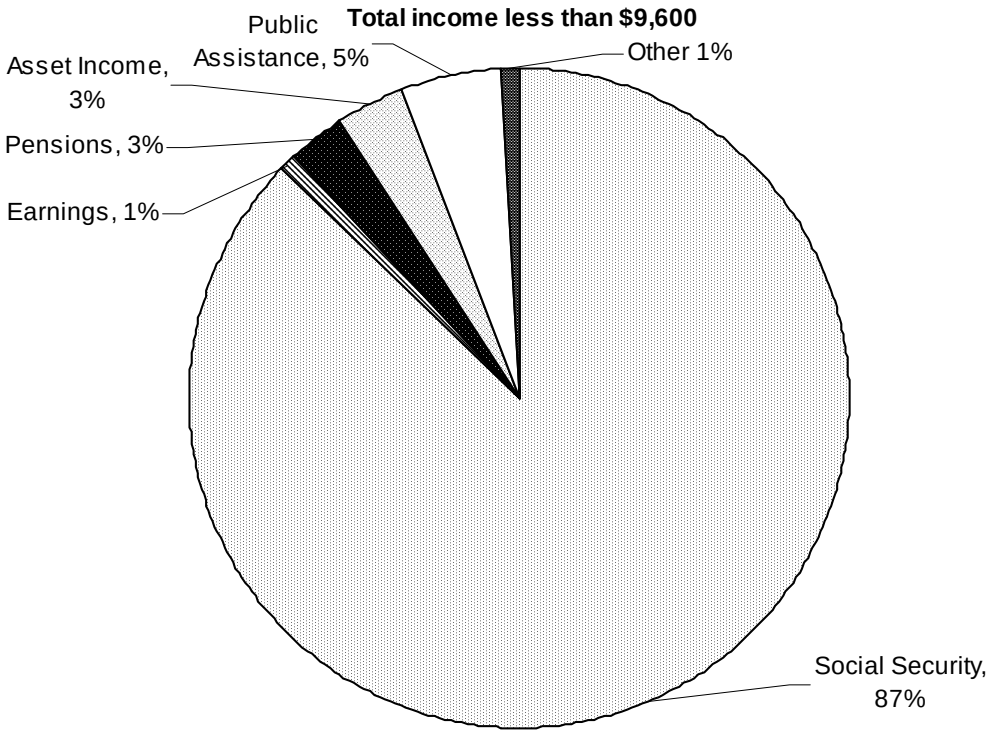


Figure 4. Sources of income, bottom income quartile, age 65 and up



Source: Both figures from CRS analysis of the March 2006 Current Population Survey.

Figure 5. Mean income by source and income quartile, 2005

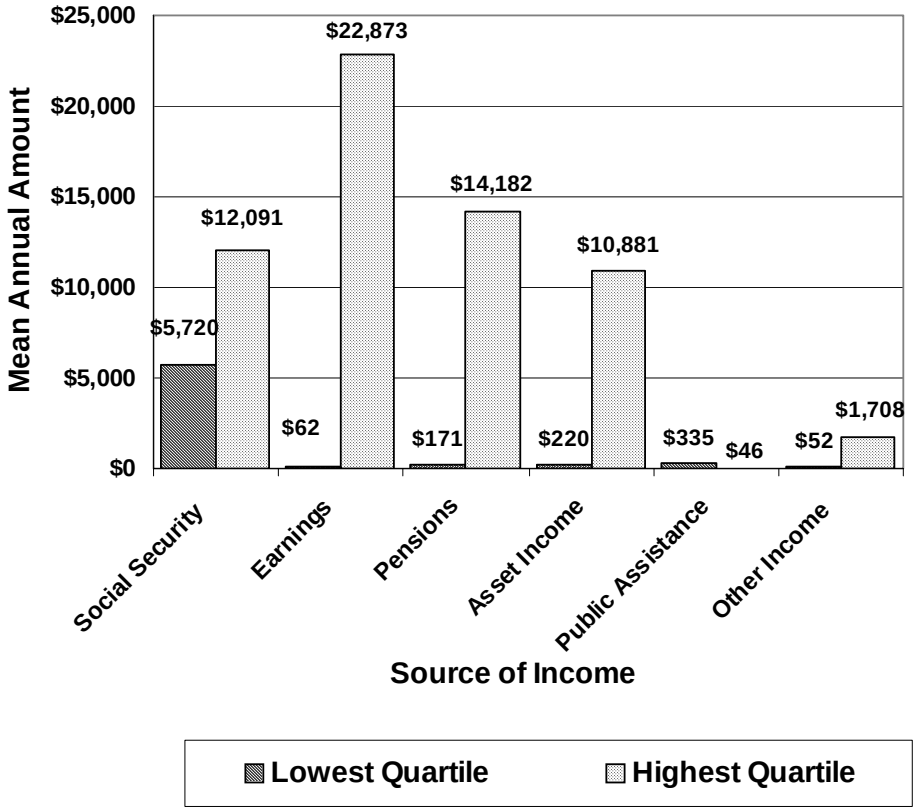
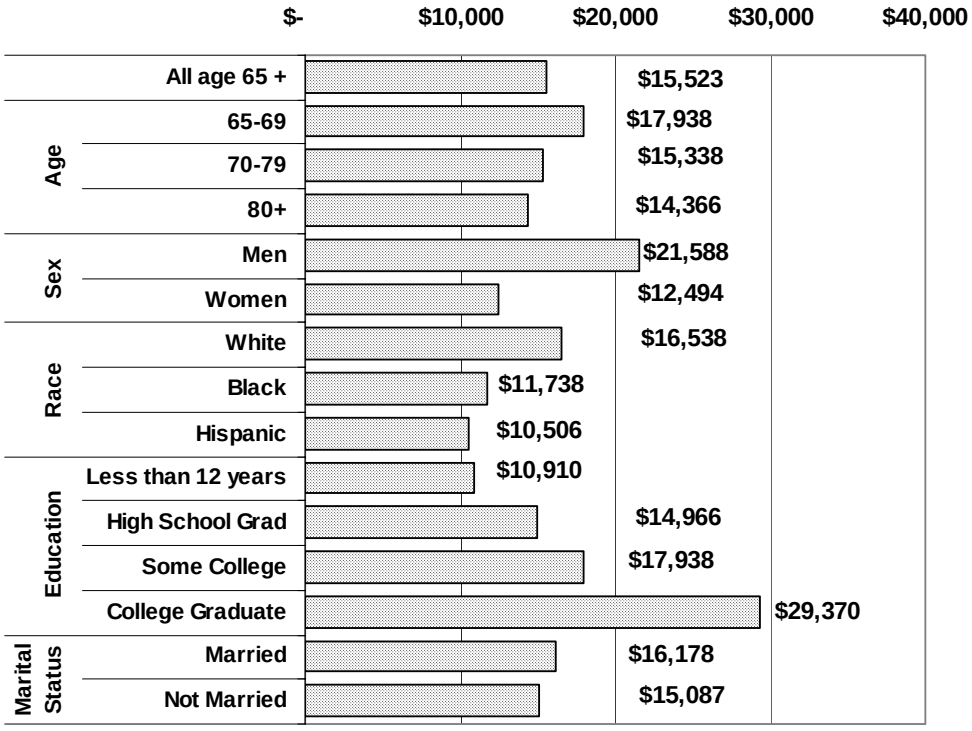


Figure 6. Median total income in 2005, by demographic group

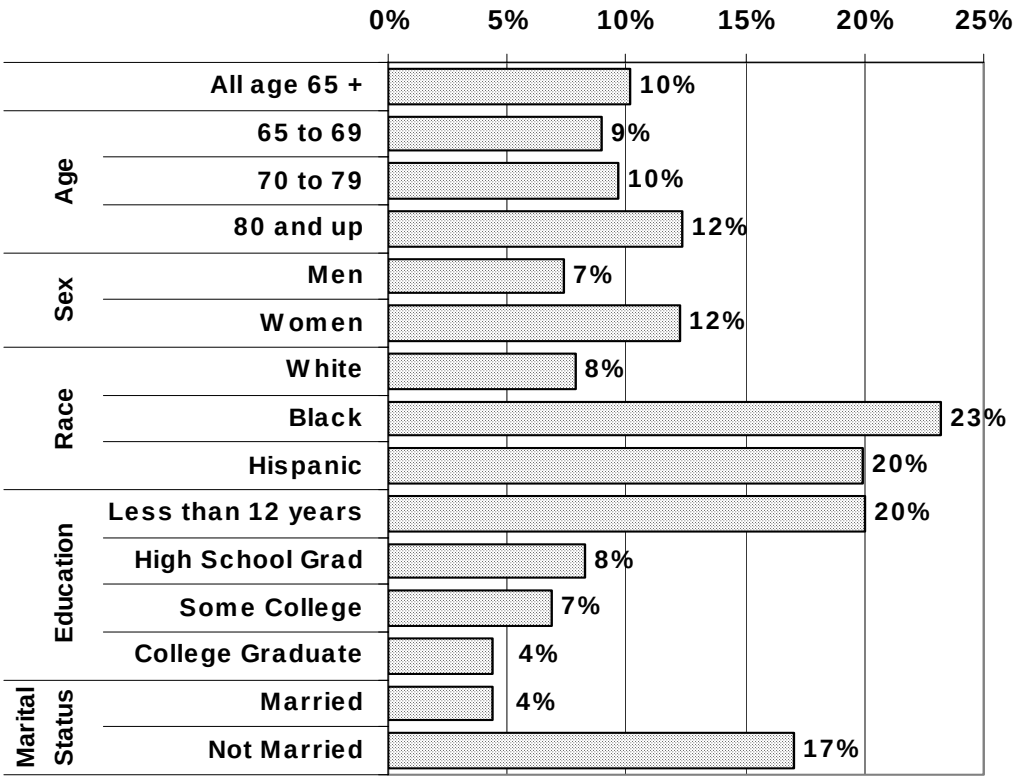


Source: Both figures from CRS analysis of the March 2006 Current Population Survey.

Poverty

Poverty among the elderly has decreased dramatically over the past four decades. In 1959, the poverty rate of those age 65 and older was 35%. Largely due to increases in Social Security benefits, the elderly poverty rate fell dramatically between the mid-1960s and mid-1970s, declining to about 15% by 1975. The percentage of older Americans in poverty has stayed steady at roughly 10% since the mid-1990s. Although a smaller percentage of the elderly are in poverty than are people under 65, in 2005, more than 3.6 million older Americans had family incomes below the federal poverty threshold.[4, 5]

Figure 7. Percentage of people age 65 and older in poverty



Source: CRS analysis of the March 2006 Current Population Survey.

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[4] This section combines the total income of each family member and compares it to the official poverty threshold based on the size of the family. The official poverty threshold in 2005 for a single person age 65 or older was $9,367. The poverty threshold for a couple in which at least one member was 65 or older was $11,815. See *Poverty Thresholds 2005*, available at [http://www.census.gov/hhes/www/poverty/threshld/thresh05.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 measure, the poverty *guideline*, is used by the Department of Health and Human Services to set eligibility criteria for a number of federal programs.

While the poverty rate for all persons age 65 and older was 10% in 2005, the poverty rates among women, minorities, single individuals, those with low education, and the oldest old were higher. (See **Figure 7**.) Twelve percent of women age 65 and older were in poverty in 2005 compared with only 7% of men. Because women live longer, the number of poor older women in 2005 (2.5 million) was more than twice the number of poor older men (1.1 million). Poverty rates were especially high among minorities. In 2005, nearly one-quarter of elderly African-Americans and one-fifth of elderly Hispanics were in poverty. About 81% of all older Americans identify themselves as white. Thus, while only 8% of older white Americans were poor, poor whites comprised 63% of all poor elderly in 2005. Older individuals with low education also had high poverty rates. Twenty percent of those without a high school education had family incomes below the poverty line in 2005 compared with only 4% of those with a college degree. There is a significant difference in the poverty rates of married persons and single elderly individuals. Married couples, who often have more than one source of income, had a poverty rate of only 4% in 2005. In contrast, 17% of unmarried individuals age 65 and older had incomes less than the official poverty threshold in 2005. The oldest Americans had the highest poverty rates. Twelve percent of individuals age 80 and older were poor in 2005 compared with 9% of individuals between the ages of 65 and 69. In addition, 45% of all Americans age 80 and older had family incomes of less than twice the poverty threshold in 2005. (Not shown in Figure 7.)

The Near-Poor. Many older Americans have family incomes that put them just above the official poverty threshold. In 2005, while just 10% of people age 65 and older had incomes below the poverty thresholds of $9,367 for an individual and $11,815 for a couple, 24% of older Americans had family incomes below 150% of the thresholds ($14,050 for an individual,$17,722 for a couple). Thirty-seven percent of people 65 and older had incomes less than twice the poverty thresholds ($18,734 for an individual, $23,630 for a couple).

Income from Retirement Benefits

Social Security[6]

Retirement benefits from Social Security are the most common source of income among the aged. 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. In 2005, Social Security paid benefits to 88% of Americans age 65 and older. Social Security is the largest single source of income among the aged. Sixty-nine percent of Social Security beneficiaries age 65 or older receive more than half of their income from Social Security. For 40% of elderly recipients, Social Security contributes more than 90% of their income, and for one-fourth of all recipients, it is their *only* source of income. (See **Table 2**) While Social Security is an important source of income for a majority

[6] 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].

of the elderly, the benefit amounts paid by Social Security are relatively small compare with many recipients' pre-retirement incomes. According to the Social Security Administration, Social Security retired worker benefits replace approximately 55% of the earnings of a career-long low-wage earner, 41% of the earnings of a career-long average-wage earner, and 27% of the earnings of a career-long high-wage earner. Average monthly Social Security benefits in 2006 are $1,002 for a retired worker and $1,648 for an elderly couple. As **Figure 8** shows, 44% of all beneficiaries received less than $10,000 from Social Security in 2005 and just 4% received more than $20,000 in Social Security benefits.

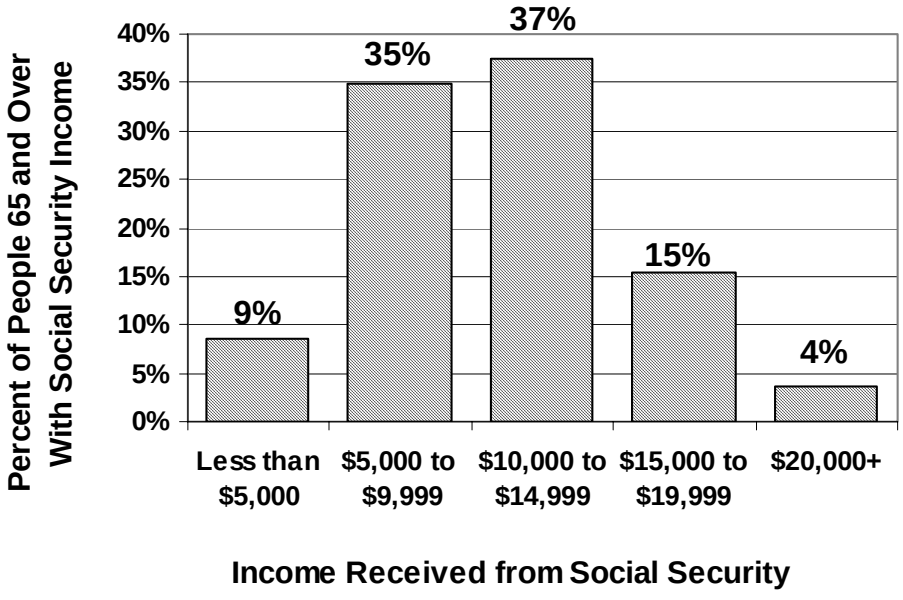
Table 2. Social Security as a Percentage of Income among Recipients Age 65 and Older in 2005

Percent of Income from Social Security	Recipients (thousands)	Percentage of Recipients
Less than 20%	2,603	8.4%
20% to 39%	4,510	14.5
40% to 49%	2,430	7.8
50% to 69%	4,848	15.6
70% to 89%	4,381	14.0
90 to 99%	4,560	14.6
100% of income	7,846	25.2

Source: CRS analysis of the March 2006 *Current Population Survey*.

Note: In 2005, 31.2 million people age 65 or older received income from Social Security and 4.3 million people had no Social Security income.

Figure 8. Amount of Social Security Income in 2005



Source: CRS analysis of the March 2006 *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 2005, 47% 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.[7]

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 10 years to 5 years, thus making it easier for employees whose employer sponsors a pension to earn a benefit under the plan.[8] 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 §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. Many employees roll these distributions into another employer-sponsored retirement plan or into an individual retirement account, but some spend all or part of the distribution, thus reducing their future retirement income.[9]

In 2005, 12.3 million people age 65 and older — 34.5% of that age group — received income from a private or public pension.[10] Of this number, 4.2 million had income from a public-sector pension — that is, from previous employment in the federal, state, or local government — and 8.4 million received income from private-sector pension plans.[11] Together, the federal, state, and local governments account for only about one-sixth of all jobs in the United States. In 2005, for example, only 16% of wage and salary workers between the ages of 21 and 64 — roughly one in six — were employed at all levels of government. Nevertheless, more than *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

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

[8] Tax Reform Act of 1986, P.L. 99-514. The Pension Protection Act of 2006 (P.L. 109-280) will reduce the maximum vesting period in most plans to three years.

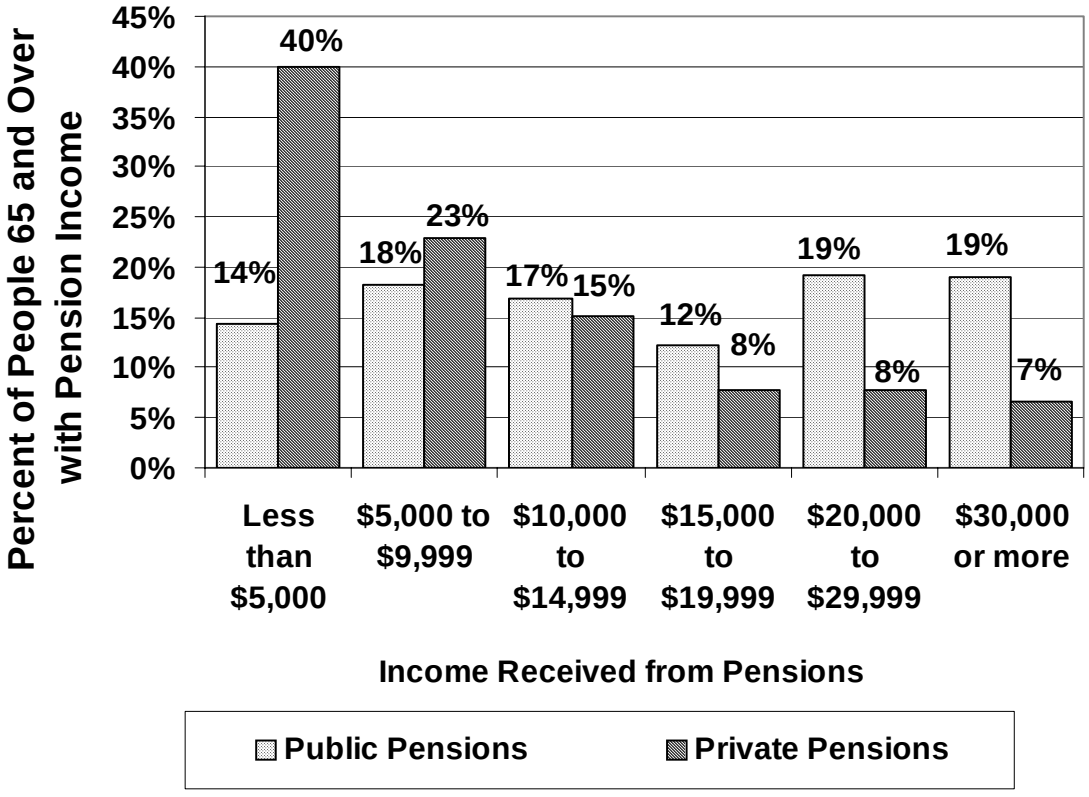
[9] See CRS Report RL30496, *Pension Issues: Lump-sum Distributions and Retirement Income Security*, by Patrick Purcell.

[10] 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.

[11] These numbers sum to 12.6 million. About 300,000 people had both types of pension.

government sector and the percentage of retirees with government pensions is accounted for mainly by two factors, both of which make it more likely 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 2005, for example, 84% of all government employees worked at jobs that offered retirement benefits, compared with 53% of private-sector employees whose employers sponsored retirement plans. 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 January 2006, the median tenure of government workers with their current employer was nearly double the median tenure of workers in the private sector. Public-sector employees had a median tenure of 6.9 years, while private-sector workers had a median tenure of 3.6 years.[12]

Figure 9. Income from public and private pensions in 2005



Source: CRS analysis of the March 2006 *Current Population Survey*.

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 4.2 million people age 65

[12] U.S. Department of Labor, Bureau of Labor Statistics, news release USDL 06-1563, *Employee Tenure in 2006*, Sept. 8, 2006, at [ftp://ftp.bls.gov/pub/news.release/tenure.txt].

and older who reported income from a government pension in 2005, the median annual amount was $15,000. Fourteen percent of government pension recipients reported that their pension income was less than $5,000 in 2005, while 19% reported pension income of more than $30,000. (See **Figure 9**) Among the 8.4 million people age 65 and older who reported income from a private-sector pension in 2005, the median annual amount was $6,840. Forty percent of private pension recipients reported that their pension income was less than $5,000 in 2005 and 7% 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 entirely by employer contributions and investment earnings. Defined contribution or "DC" plans are much like savings accounts maintained by employers 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.

Income from Assets

Many Americans prepare for retirement by saving and investing some of their income while they are working.[13] Of the 35.5 million Americans age 65 or older who were living in households in 2005, 19.7 million (55%) received income from assets (interest, dividends, rent, and royalties). Most received small amounts: half of those who had income from assets in 2004 received less than $1,087. The data displayed in **Figure 10** show that low-income individuals were less likely to have received income from assets. Among individuals age 65 or older whose total income in 2005 was less than $20,000, 45% had asset income. In contrast, of those whose total income was more than $20,000, 76% had asset income.

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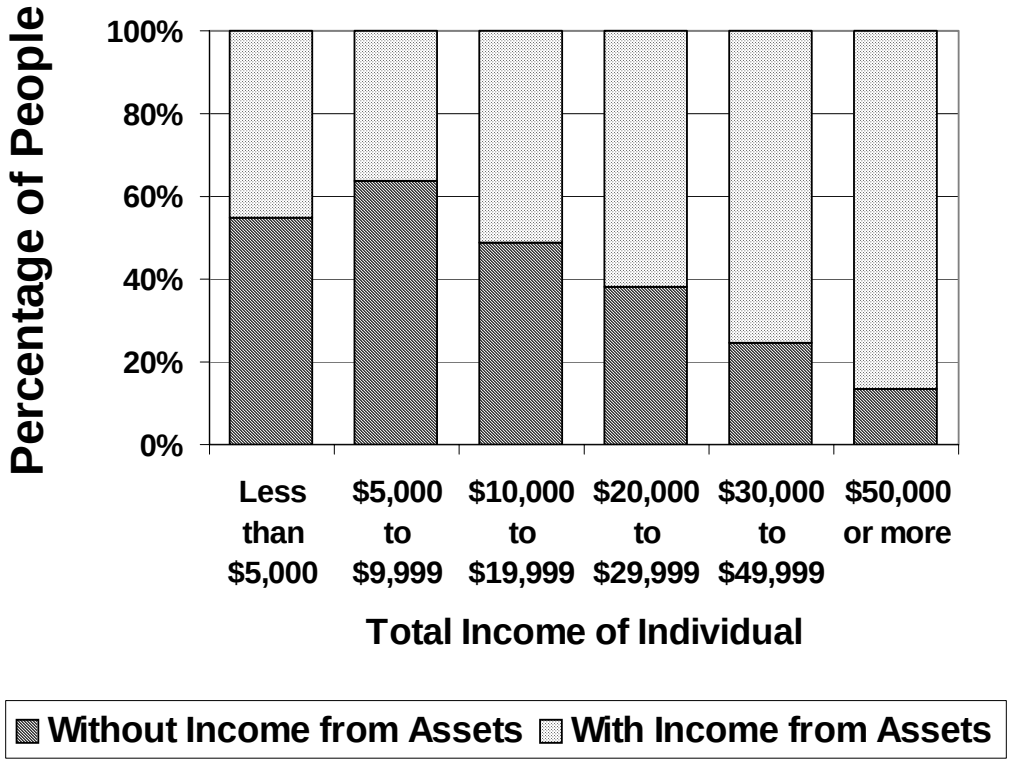
[13] In 2004, the median value of financial assets among families headed by a person between the ages of 65 and 74 that owned any financial assets was $36,100. The median for families headed by someone age 75 or older that owned any financial assets was $38,800. The median *net worth* of all families headed by a person between the ages of 65 and 74 was $190,100. The median *net worth* of all families headed by someone age 75 or older was $163,100. Net worth is the value of all assets (including a home) minus all liabilities. See Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," available at [http://www.federalreserve.gov/pubs/bulletin/2006/financesurvey.pdf].

Figure 10. Percentage of people age 65 and older with income from assets by total income in 2005



Source: CRS analysis of the March 2006 *Current Population Survey*.

Median income from assets also differed between the lower-income and higher-income elderly. Among people 65 and older with total annual incomes under $5,000, the median amount of asset income was only $182. For individuals with total annual incomes between $10,000 and $19,999 — accounting for more than one- third of all persons age 65 and older — the median amount of asset income in 2005 was $751. (See **Table 3**.) Those with the highest total incomes were more likely to have income from assets, and they also received higher amounts. More than 86% of those with total incomes of $50,000 or more received asset income in 2005. Their median income from assets was $9,003.

Table 3. Income from Assets Among People 65 and Older, 2005

Total Income, 2004	Number of People (thousands)	Percent with Asset Income	Mean Asset Income	Median Asset Income
Less than $5,000	1,720	45.1%	$140	$182
$5,000 to $9,999	7,457	36.3	755	310
$10,000 to $19,999	12,041	51.2	1,896	751
$20,000 to $29,000	5,309	68.8	3,491	1,300
$30,000 to $49,999	4,235	75.1	6,191	2,500
$50,000 or more	3,656	86.7	22,594	9,003
All persons with any income[14]	**34,418**	**57.1**	**$6,000**	**$1,087**

Source: CRS analysis of the March 2006 *Current Population Survey*.

Work-Related Income[15]

Earnings

While some Americans continue to work into their 60s and beyond, the labor force participation rate of older individuals drops dramatically as they age. Although there was a trend toward earlier retirement from about 1960 to 1985, the trend for the past 20 years has been that more Americans have continued to work at older ages.[16] In March 2006, 79% of men and 69% of women age 55 were working either full-time or part-time. Of those age 60, 66% of men and 54% of women were employed. Among 65-year olds, 41% of men and 26% of women were employed in March 2006. While the share of older Americans who work declines rapidly after age 65, **Figure 11** shows that 27% of men and 14% of women who were 70 years old in March 2006 were still working.

Despite the trend to longer working lives, people 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.[17, 18] In

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[14] Of 35.504 million individuals age 65 and older in 2005, 34.418 million (96.9%) reported income from one or more sources and 19.659 million (55.4%) reported income from assets.

[15] Because labor force participation rates begin to fall steadily beginning at about age 55, this section includes information on individuals age 55 and older rather than age 65 and older.

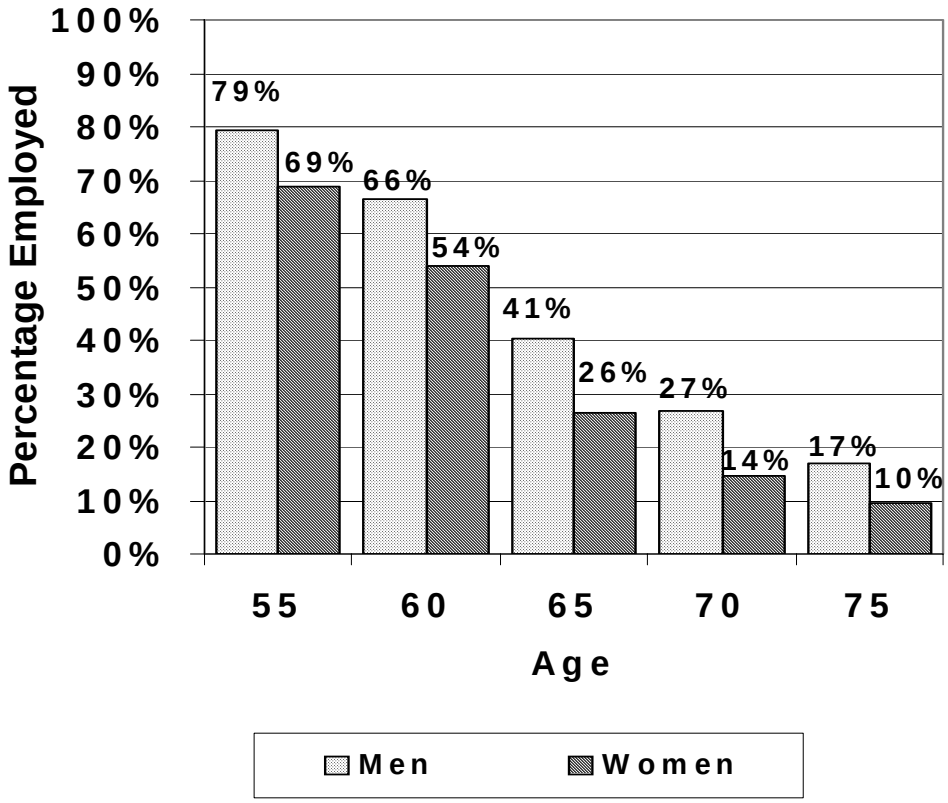
[16] Joseph Quinn, "Retirement Trends and Patterns Among Older American Workers" in Stuart Altman and David Shactman (eds.), *Policies for an Aging Society* (Baltimore: Johns Hopkins University Press, 2002), pp. 293-315.

[17] As a worker ages, the likelihood that he or she will experience a decline in physical or

(continued...)

2005, the median earnings of workers aged 55-61 were $35,000, while median earnings of workers aged 62-64 were $28,000. For those over age 65 who continued working, median earnings were $16,380 in 2005. **Figure 12** shows the decline in workers' annual earnings as they age. At the top of the earnings scale, 33% of workers aged 55-61 earned $50,000 or more in 2005, while only 19% of those age 65 or older had earned income totaling more than $50,000 in that year. In contrast, while only 10% of Americans aged 55-61 who worked in 2005 had total earnings of less than $10,000, 32% of workers age 65 or older had earnings of $10,000 or less.

Figure 11. Employment rates by age and sex, March 2006



Source: CRS analysis of the March 2006 *Current Population Survey*.

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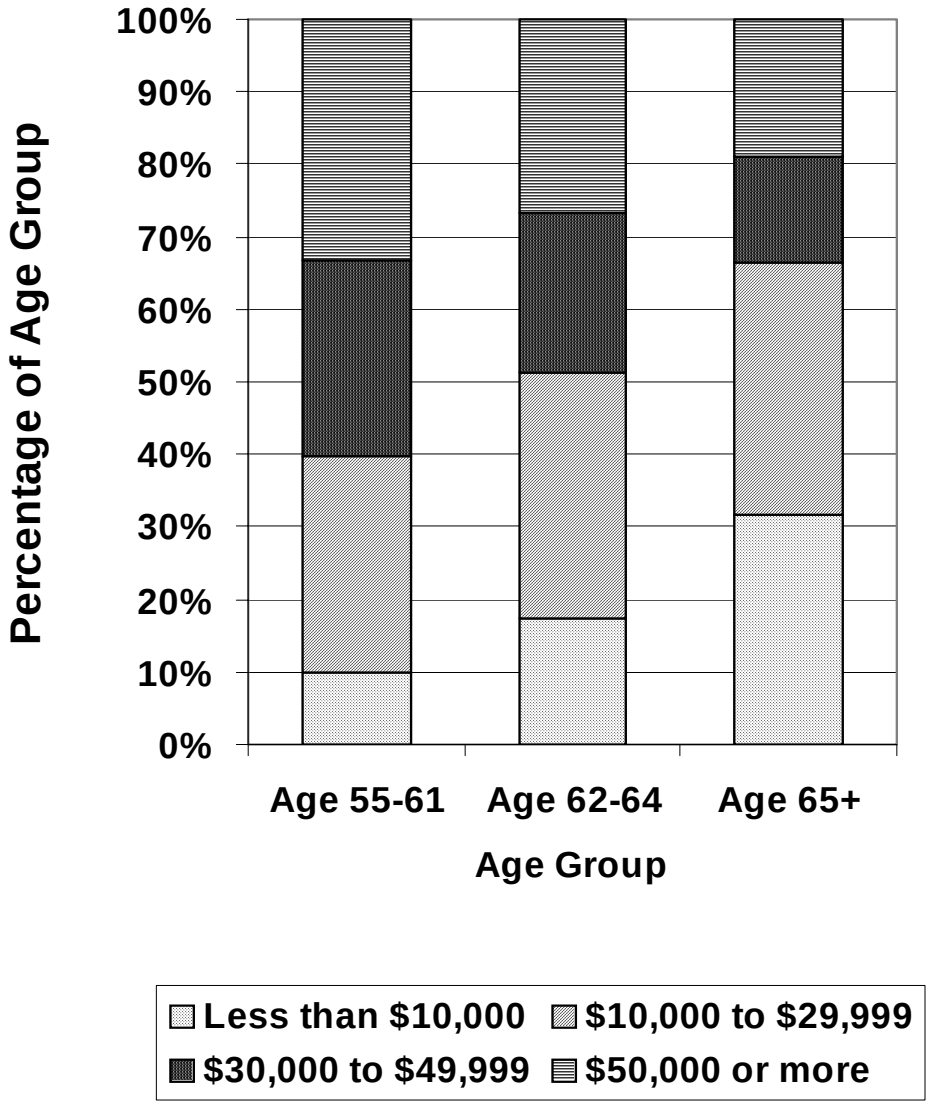
[17] (...continued)
cognitive capacity increases. Increased incidences of illness and disability are partly responsible for the decline in earned income that some workers experience after age 55. For a discussion of the effects of aging on the ability to continue working, see C. Schooler, L. Caplan, 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).

[18] While 72% of people aged 55-61 and 53% of those aged 62-64 worked either full-time or part-time in 2005, the employment rate was 32% among those aged 65 to 69 and 12% among people age 70 and older. Some 85% of workers aged 55-61 were employed full time in 2005, only 59% of workers aged 65-69 and 44% of workers age 70 and older worked full time. 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 12. Earned income by age, 2005



Source: CRS analysis of the March 2006 *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 2005, just over one million individuals age 55 and older — about 1.5% 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 individuals 55 and older was $2,800.

The percentage of individuals receiving unemployment compensation decreases with age. 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.[19] This can make the UC benefit particularly small for those age 65 and older. In 2005, the median income from UC benefits for recipients age 65 and older was $1,800, and three-quarters of all individuals age 65 and older who received unemployment compensation received less than $3,600. 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.[20]

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.[21] In 2005, 498,00 individuals age 55 and older received income through workers' compensation. While few individuals receive workers' compensation benefits after age 65, for those who do, it represents a substantial source of income. For the 148,000 people age 65 and older who received workers' compensation in 2005, the median annual benefit was $7,992.[22]

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 2005, 1.1 million Americans age 65 and older received supplementary income from two disability-based programs: the veterans'

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[19] 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 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 workers who retires do 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.

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

[21] 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].

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

compensation and veterans' pensions program. Taken together, the median veterans' compensation or pension benefit was $7,200 in 2005, or $600 per month. Three-quarters of recipients received compensation or pension benefits of $13,920 or less.

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. Higher benefits are paid for more severe disabilities than for less severe disabilities. 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 to work.[23] Veterans' pensions are means-tested: payments are decreased by amounts received from other sources such as Social Security, pensions, and income from a spouse. Pensions are not paid to veterans with substantial assets, and veterans' pension benefits are usually small amounts.

Income from Public Assistance

An estimated 1.2 million Americans age 65 or older received public assistance income in 2005. 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 of 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 from all sources to recipients age 65 or older in 2005 was $4,200, or $350 per month.

The largest source of cash assistance for the elderly is SSI. SSI is a means-tested program administered by the Social Security Administration which 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 2005, the monthly standards were $579 for an individual and $869 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.[24] 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

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[23] Veteran's pensions are means-tested benefits for low-income veterans, and should not be confused with military retirement benefits — also called "retired pay" — paid to retired officers and enlisted personnel who have completed at least 20 years of service. For this analysis, military retirement benefits are included as part of public pensions.

[24] In 2005, the poverty threshold for a single person age 65 or older was $780 per month. For a couple in which one or both people were over 65, the monthly poverty threshold was $985.

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 make some form of SSI supplemental payments.[25]

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, earnings also are important, especially for those under age 70.

There are large disparities in the amount and type of income that older Americans receive. Income from assets in the form of interest and dividends, for example, make up a significant percentage of the aggregate income of the elderly population. However, most elderly individuals receive only modest amounts of interest and dividend income and a relatively small number of people receive large 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 Americans age 65 and older. Compared to the great disparity in interest and dividend income, there is relatively little difference between the average monthly Social Security benefit and the highest monthly benefit. This is 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.

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 more than 90% of all income for the poorest 25% of the population. This contrasts with the wealthiest 25% of the elderly population who receive only one-fifth of their income from public programs.

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 older persons in 1960 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 may be helpful to consider how changes to one income source would affect each of the others, and thus the total income of older

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

Americans. 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