The Long-Term Economic (In) Security of Seniors

By Tatjana Meschede, Thomas Shapiro, and Laura Sullivan

Increasing longevity, weakening of pension incomes, and dramatically rising expenses for health care and housing are just a few examples of the changing conditions older Americans are facing today when planning for, entering into, and living out their retirement years. The traditional view of retirement security focuses on whether three complementary income sources (Social Security, pensions, savings) will cover living costs during retirement. A new measure called the Senior Financial Stability Index (SFSI) provides a wider lens for examining senior economic stability and vulnerability by including other factors such as housing costs, health-care expenses, household budgets, home equity, and household assets.[1] For each of these factors, commonsense and research-tested "security" and "risk" thresholds were established, creating an index anchored to a single, easily understood and interpreted metric. Figure 1 provides detail on the thresholds for each factor.

When we apply the SFSI to all senior households, we see that most (78 percent) of senior households are financially vulnerable (see Figure 2).[2] This risk is especially pronounced for single-senior households,

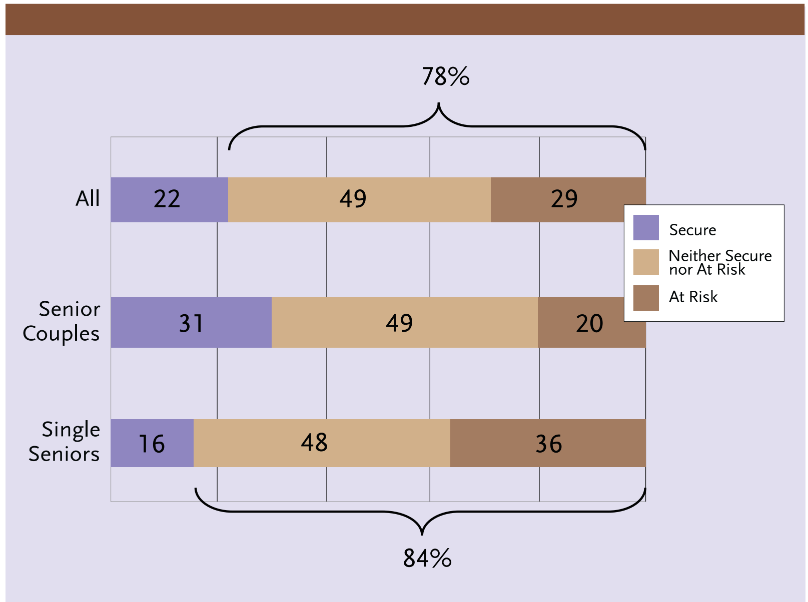
Figure 1. **Economic Security and Risk Thresholds for Each Component of the Senior Financial Stability Index (SFSI)**[3]

Factor	Standard for Senior Economic Security	Risk to Senior Economic Security
Housing	Housing consumes 20 percent or less of income	Housing consumes 30 percent or more of income
Health	Medical expenses, including supplemental health insurance, are less than 10 percent of total-before-tax income	Medical expenses, including supplemental health insurance, are 15 percent or more of total-before-tax income
Budget	$10,000 or more after annual essential expenses	Risk when budget at zero or negative after essential expenses
Home Equity	Home equity of $75,000 or more	Renter/no home equity
Assets	Net financial assets plus Social Security/pension income minus median expenses over life expectancy greater or equal to $50,000 for single seniors, $75,000 for senior couples.	Net financial assets plus Social Security/pension income minus median expenses over life expectancy equal to zero or less.
SFSI	**Asset secure PLUS security in at least two other factors**	**Asset fragile PLUS fragility in at least two other factors**

mostly older women, with 84 percent among them facing financial insecurity. Senior households of color fare even worse. Among African American and Latino senior households, most (91 percent) are facing long-term financial insecurity.

The components behind the SFSI help us understand why these seniors are at risk. The SFSI shows that more than half of all senior households (54 percent) do not have sufficient financial resources to meet median projected expenses, and that only 31 percent of senior households have budgets that allow for additional savings that can be tapped for larger and unforeseen expenses. Further, paying out-of-pocket health expenses, including costs for additional insurance coverage, is burdensome for four out of 10 senior households, and high housing costs put 45 percent of all seniors' budgets at risk. Many seniors are financially vulnerable because of a fundamental mismatch between income and costs of day-to-day expenses, some of them essential. Put simply, many seniors have too little income and face costs that are too high and rising.

Figure 2. **Overall Economic Security and Vulnerability of Seniors**



It is important to note that the current generation of Americans age 65 or older is better prepared for retirement than generations in the future will be. Younger families are experiencing declining employer-based retirement savings and rising debt. Thus, today's senior citizens represent a best case scenario of senior economic security for the foreseeable future.

Given the impending challenges for retirement security, we recommend policymakers focus on policies that impact households at different life stages in their retirement planning. By providing detail on the economic security status of older Americans, this work helps to identify retirement-related vulnerabilities for younger families and suggest the types of policy interventions that can help ensure their economic security in retirement. In order to rebuild the foundations of the social contract that promotes retirement security, policymakers need to promote asset-building opportunities throughout life, strengthen public social insurance programs, and control the growth of expenses for seniors.

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Endnotes

1 This article is based on a longer report titled Living Longer on Less: The Economic (In)Security of Seniors (January 2009) available at http://iasp.brandeis.edu/pdfs/LLOLReport.pdf. The Institute on Asset and Social Policy and Demos first used a multi-factor examination of economic stability and vulnerability in measuring the financial security of middle class households in the report: By A Thread: The New Experience of America's Middle Class, Demos/IASP, 2007.

2 The SFSI is constructed using data from the Consumer Expenditure Survey, U.S. Department of Labor, Bureau of Labor Statistics, 2004.

3 We used conservative assumptions when creating the SFSI and setting thresholds. For example, the index is not adjusted for changes in family composition (e.g., the death of a spouse, which often leaves the surviving spouse in a weaker economic position), for changes in inflation (instead we assume that the ratio of income to expenses remains stable over the life course of seniors), or for a worsening in health status which would prompt higher healthcare expenses. Further, seniors in long-term care institutions are not included in the calculations, thus eliminating households with largest healthcare expenses from these analyses.