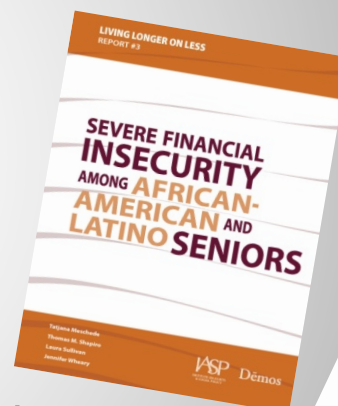
INSTITUTE ON ASSETS & SOCIAL POLICY
The Heller School for Social Policy and Management, Brandeis University

From Bad to Worse:
Senior Economic Insecurity on the Rise



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Today's Presentation

- Context: Past accomplishments and the changing retirement landscape
- Measuring senior economic (in)security.
- IASP research briefs:
  - ***From Bad to Worse: Senior Economic Insecurity is on the Rise*** (July 2011)
  - ***The Crisis of Economic Insecurity for African-American and Latino Seniors*** (September 2011)
  - Forthcoming research: ***Rising Economic Insecurity Among Senior Single Women*** (To be released October 31, 2011)
- Conclusions and policy recommendations

Senior Economic Security: Past Accomplishments

- Prospect of a secure retirement
  - Due to federal programs, such as Social Security and Medicare, poverty among the elderly declined
  - A secure retirement with incomes from three complementary sources (Social Security, pensions, and savings) became a common vision
  - Recent fundamental changes: longevity, weakening of pension incomes, and dramatically rising expenses

Background and Significance

- The "Great Risk Shift"
  - Increasing shift from "collective intermediaries - government, employers, large insurance pools -" to individual responsibility for security in later life (Hacker, 2006)
- Changing Retirement Landscape
  - Defined contribution plans (DC, e.g. 401K), created in the 1980s to supplement defined benefit pension plans (DB), have virtually replaced them.
    - *In 1983: Workers with pensions: 62% DB, 12% DC, 26% both*
    - *In 2004: Workers with pensions: 20 % DB, 63% DC, 17% both (Munnell and Perun, 2006).*
- Savings in DC plans are low
  - 1/3rd of U.S. households (predominantly African Americans, Latinos, and women) do not have any retirement savings (Bucks et al., 2009).
  - Only 13 percent of workers in 2011 feel confident they will be secure in retirement, down 14 points since 2007 (EBRI, 2011)

Assessing Senior Economic Security

- Federal poverty line underestimates the incidence of economic insecurity among older Americans.
  - Annual income $10,458 or less for singles
  - Annual income $13,194 or less for couples
- Our goal: Assess long-term economic security of seniors households age 65 and older.
- Compliment other approaches, e.g. the Elder Economic Security Standard and the BC Retirement Risk Index.
- We created the ***Senior Financial Stability Index (SFSI)*** which asses the capacity of senior households to make ends meet over the long-term.

Factors Included in the Senior Financial Stability Index

- The largest living expenses for older Americans are health and housing expenses;
- Household budgets measure the capacity of senior households to meet annual essential expenses;
- Home equity is the largest source of wealth, in particular for older Americans; and
- Household financial assets establish long-term stability.
- Advantage of this approach: presents and combines areas for policy intervention, combines incomes, assets, and expenses.

Housing Expenses

- Applying the Federal Department of Housing and Urban Development (HUD) criteria of housing affordability (30% or less of income)
- Households with housing expenses exceeding 30 percent of household income are economically insecure
- Households who spend 20 percent of household income or less are secure

Out-Of-Pocket Healthcare Expenses

- We use a commonly used threshold for underinsurance of healthcare expenses at 10 percent or more of income
- Senior households who spend 10 percent or less are secure
- Senior households who spend 15 percent or more for healthcare are economically insecure

Household Budget

- After deducting annual expenditures for essential expenses (food, transportation, clothing, housing, medical, etc) from household incomes
  - Negative household budgets pose a risk to long-term economic security, and
  - Households with annual additional funds of $10,000 or more, after essential expenses, are secure.

Home Equity

- Senior households who rent their home, and therefore do not have any home equity, are economically insecure
- Senior households with home equity of $75,000 or more are economically secure
- This amount supports just 2 years in an average priced assisted living community or 1 year of nursing home care.

Household Retirement Assets

- For each senior household, we project the amount of resources based on the three legs of retirement security over the expected lifespan and deduct from it estimated median expenses over the life course.
- Retirement asset insecurity is evident when this amount is negative.
- Asset security is set at $ 50,000 for single seniors and $75,000 for couples.

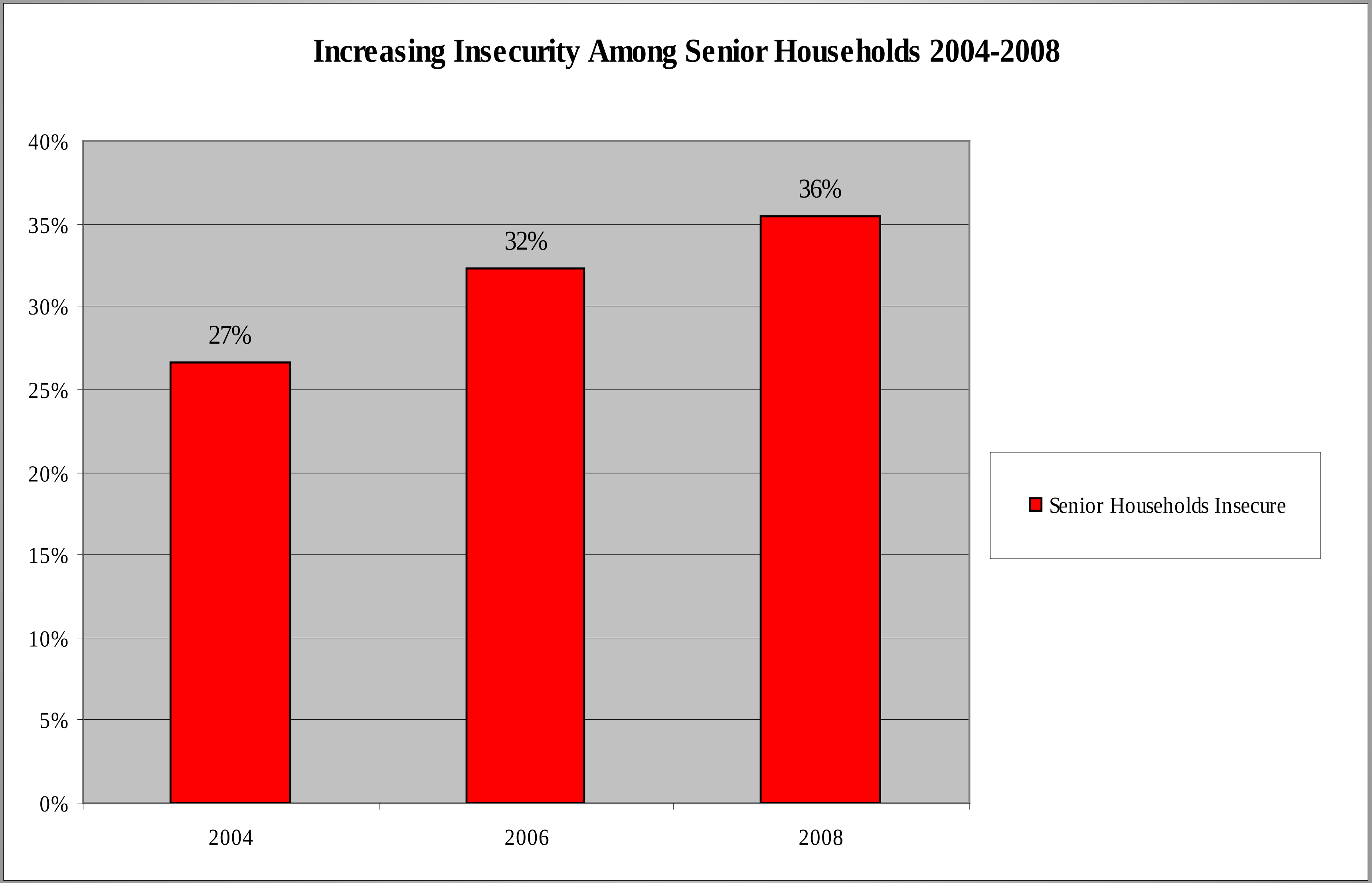
The Senior Financial Stability Index (SFSI)

- SFSI provides a single, easily understood and interpreted metric for overall financial stability/economic security and economic insecurity.
- Retirement asset security plus security in at least 2 other factors constitutes the threshold for ***overall economic security.***
- O***verall economic insecurity*** is set at retirement asset insecurity plus insecurity on at least two additional factors.

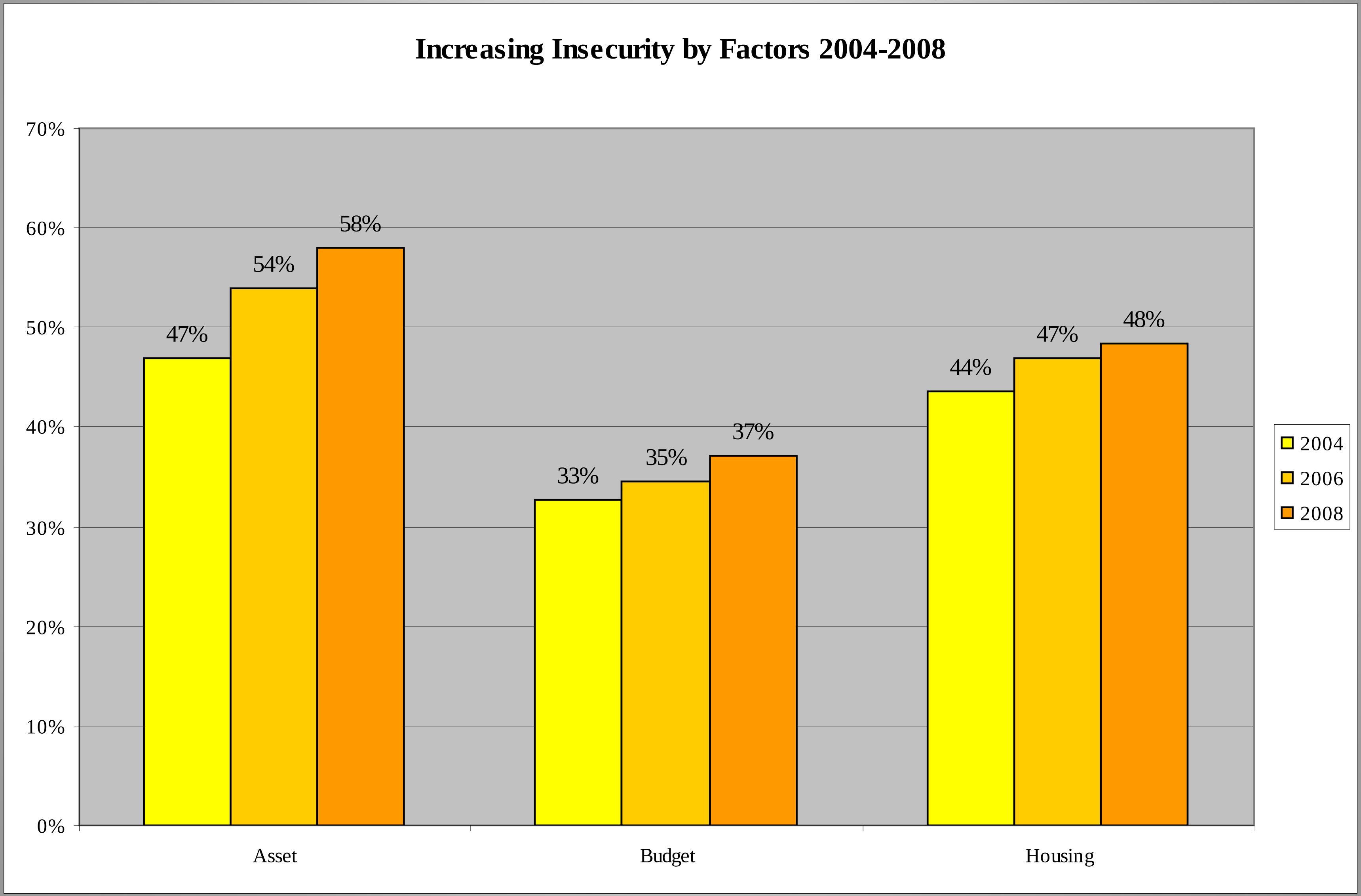
Data Sources

- Consumer Expenditure Survey, Bureau of Labor Statistics, supplemented with comprehensive asset data from the Health and Retirement Study
- Validated with other national data sets
- Sample: Both head of household and spouse 65 or older
- Conducted analyses separate for single and married senior households, senior households of color, and single older women.

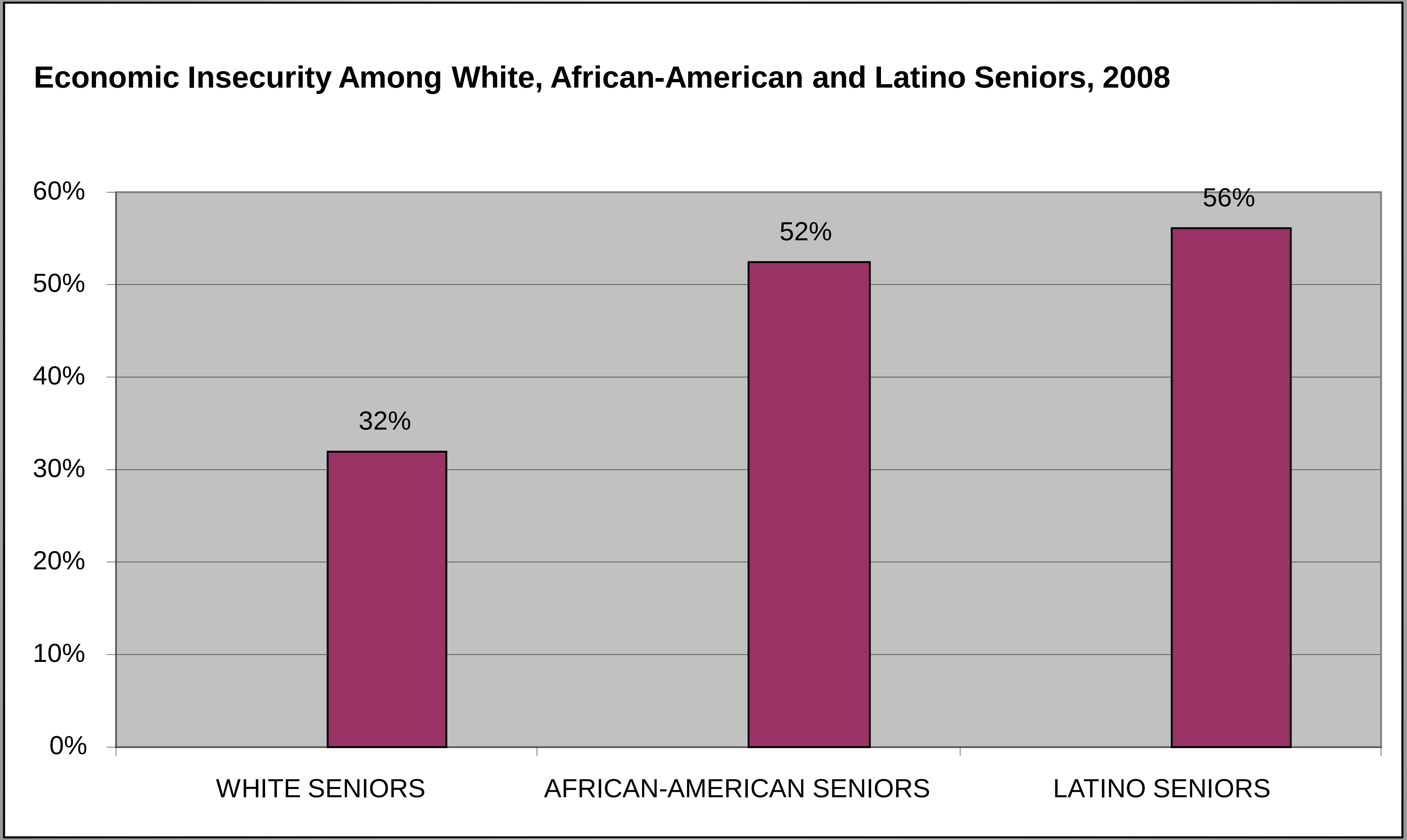
Key Findings:
Overall Senior Economic Insecurity is Rising



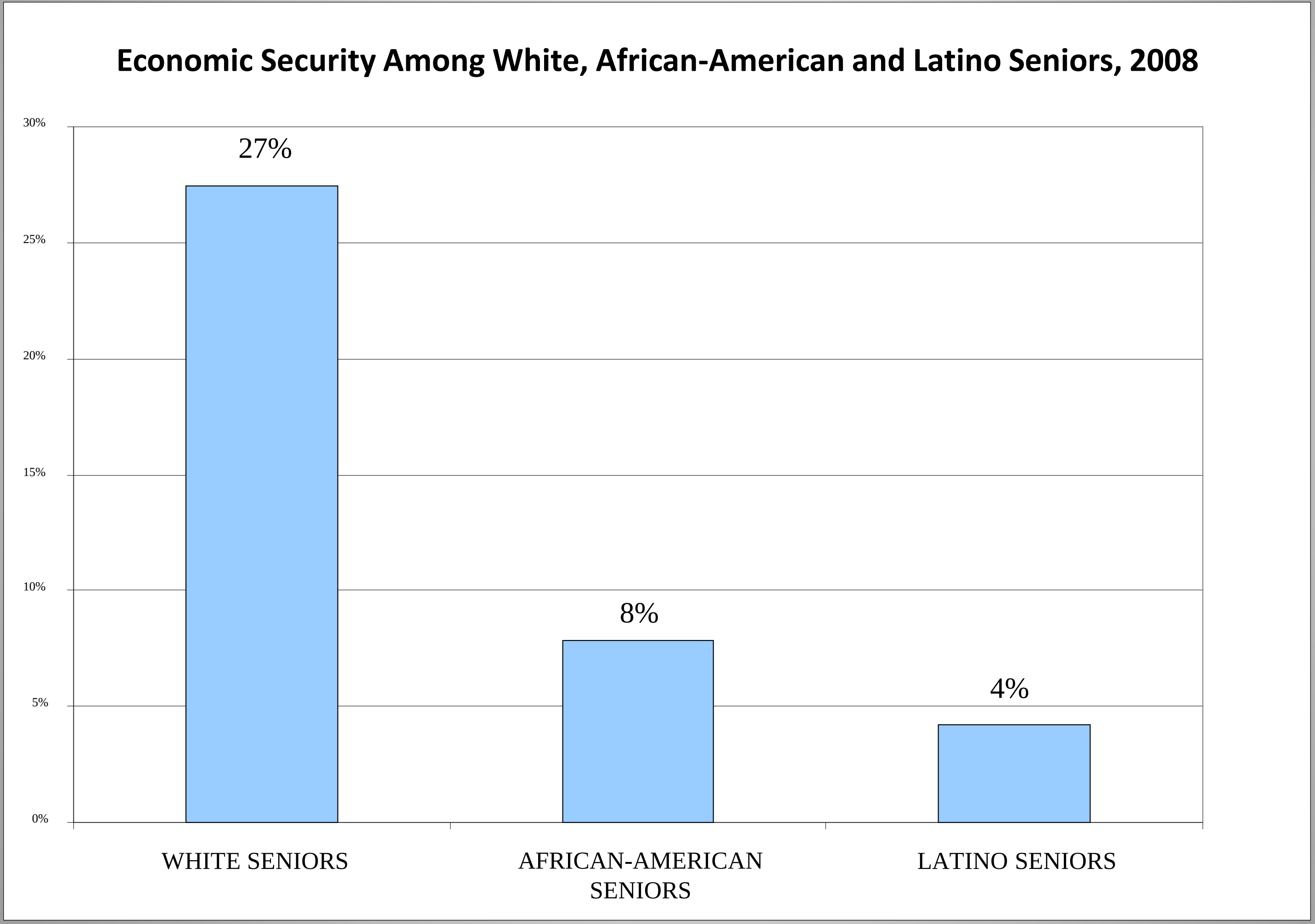
Lack of sufficient assets, fixed budgets, and rising housing costs are the major drivers of the increase in economic insecurity



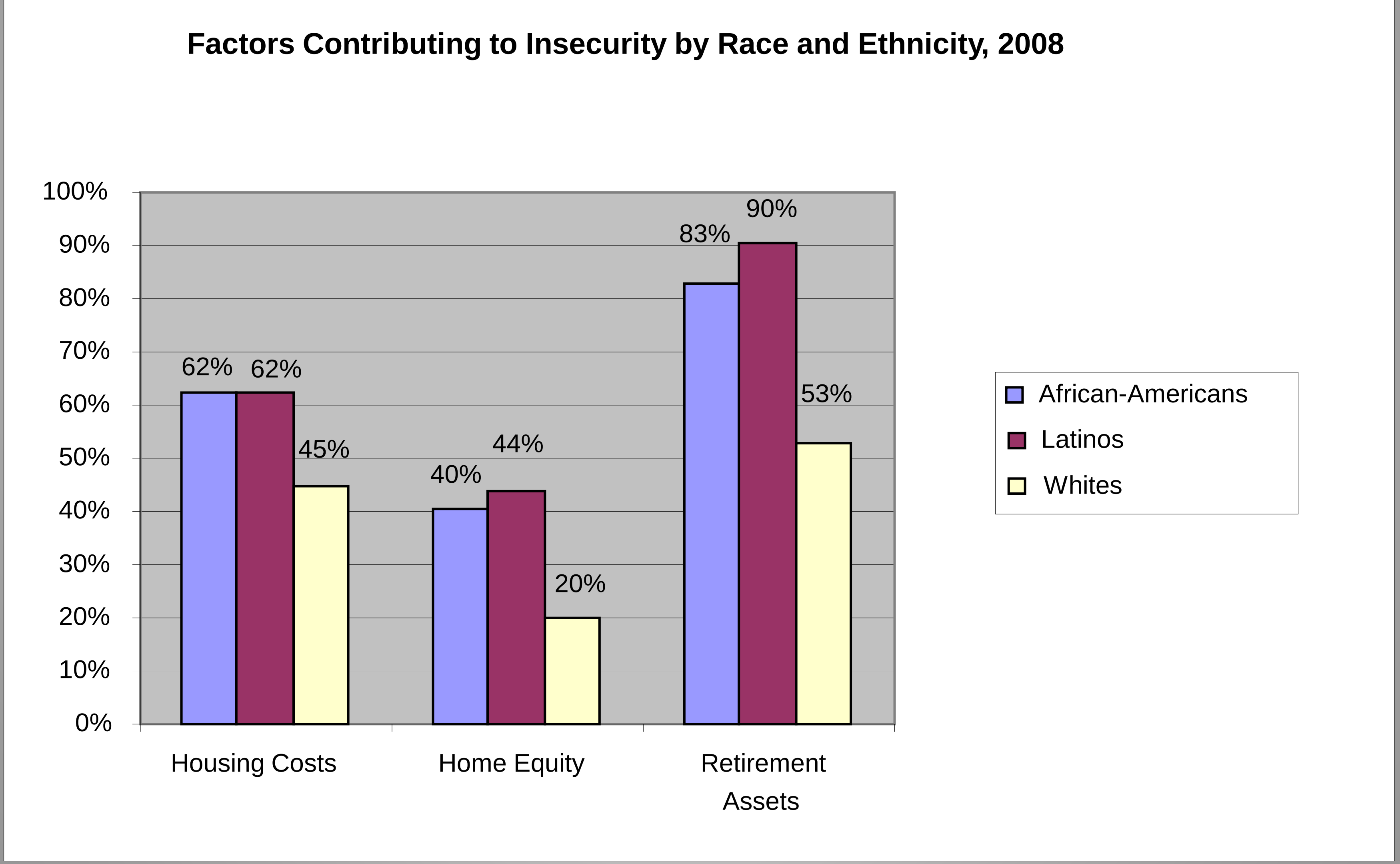
52% of African-American and 56% of Latino Seniors are Economically Insecure



For Seniors of Color, Economic Insecurity is the Norm, Security the Exception



Housing, Home Equity and Retirement Asset Insecurity by Race and Ethnicity, 2008



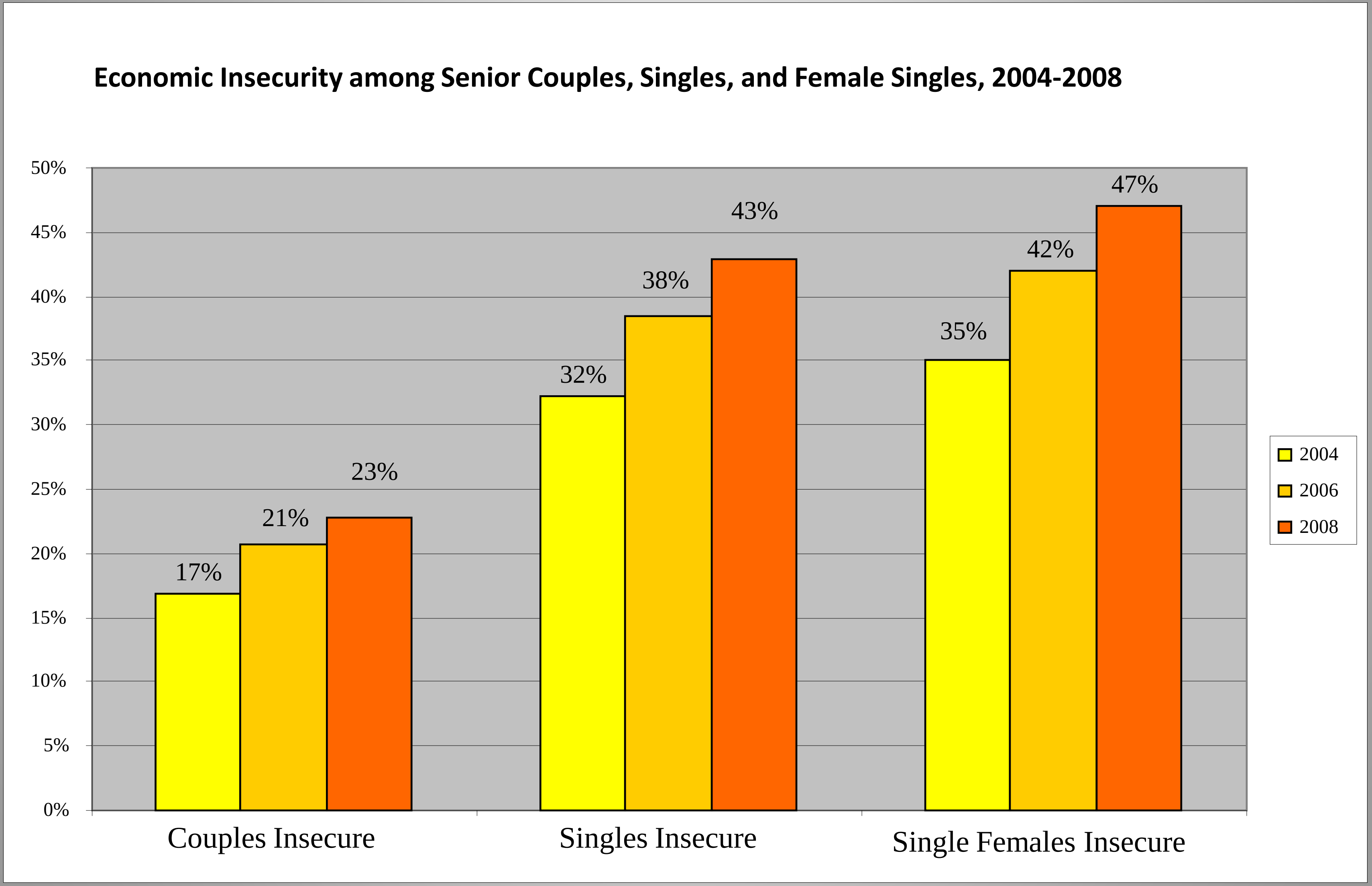
Seniors of Color

- Seniors of color today are experiencing the cumulative result of a lifetime of barriers to asset building, such as residential segregation, redlining and labor market discrimination.
- Historic Inequities
  - Overrepresentation in occupations not contributing to Social Security
- Pension Coverage Private Sector
  - 49% Whites
  - 38% African Americans
  - 27% Latinos

Preparing for Retirement

- Quotes from a field study:
  - “I doubt I will ever retire. I will have to hit the lottery to retire”. (AA couple facing foreclosure)
  - “I need to get back to working to pay into Social Security” (AA mother of 4 on SSI)
  - “We both have parents that we might inherit from ” (W middle income couple)

Economic Insecurity Among Senior Couples, Singles, and Female Singles (2004-2008)



Why are Women Less Prepared for Retirement?

- Women earn less than men.
- Women are more likely to work part-time.
- Women are more likely to take time off from employment for family care giving.

Discussion of Findings

- Mismatch of income and expenses
- Today's seniors represent a best-case scenario of having reached retirement under stronger Social Security, better employer-based benefits, and greater opportunities to avoid debt and build assets than future generations will experience
- Building asset wealth throughout the life-course is vital to a secure retirement

Select Policy Recommendations – Boosting Incomes and Assets

- ***Strengthen Social Security*** for vulnerable groups, such as life time low-income earners and people with sporadic attachment to the labor market due to care giving and other responsibilities.
- ***Strengthen Pension Provisions*** to ensure the stability of employer and employee investments.
- ***Enhance Asset Building Opportunities*** throughout the life course (e.g. savings, home ownership, financial literacy).
- ***Provide Flexible Employment*** for older workers.

Select Policy Recommendations – Reducing Expenses

- ***Address the Medicare Crisis*** as part of a revamping the entire healthcare system
- With the CLASS act no longer part of the 2010 Health care reform package, we need to revisit the need to ***Institute a Universal Long-Term Care Public Insurance Program*** to enable working adults the opportunity to plan for future long-term care needs, such as in-home services, adult day health or institutional care
- Expand programs that ***Reduce Housing Expenses*** for vulnerable seniors, such as utility assistance and rental housing vouchers

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Comments/Questions?

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The Senior Financial Stability Index

FACTOR	SECURE	INSECURE
Retirement 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.
Budget	$10,000 or more after annual essential expenses	Risk when budget at zero or negative after essential expenses
Health	Medical expenses, including supplemental health insurance, less than 10 percent of total before tax income	Medical expenses, including supplemental health insurance, 15 percent or more of total before tax income
Home Equity	Home equity of $75,000 and above	Renter/no home equity
Housing Costs	Housing consumes 20 percent or less of income	Housing consumes 30 percent or more of income
SFSI	Asset secure plus security in at least two other factors	Asset fragile plus fragility in at least two other factors