

BY A THREAD
REPORT #4

LIVING LONGER ON LESS: THE NEW ECONOMIC (IN)SECURITY OF SENIORS

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IASP

INSTITUTE ON ASSETS
& SOCIAL POLICY

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The Heller School for Social Policy and Management
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Acknowledgments

We like to thank a number of people who were instrumental in helping us create the Senior Financial Stability Index. Marty Liebowitz and Laura Sullivan helped conceptualize the index and provided valuable feedback on different report drafts. We are grateful to Virginia Reno, Phyllis Mutchler, and AARP researchers who reviewed the first draft of the Index, and Sarita Bhalotra and Walter Leutz who shared their feedback on the final draft. The authors would also like to thank the MacArthur Foundation for their current and future support of our work on the Senior Financial Stability Index.

The multi-factor approach to measuring economic security applied in this report builds on previous work on middle class economic security published by IASP and Dēmos.

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About the Institute on Assets and Social Policy

The Institute on Assets and Social Policy (IASP), a research institute at the Heller School for Social Policy and Management at Brandeis University, is dedicated to the economic well-being and social mobility of individuals and families, particularly those traditionally left out of the economic mainstream. Working in close partnership with state and federal policy makers, constituencies, grassroots advocates, private philanthropies, and the media, IASP bridges the worlds of academic research, government policy-making, and the interests of organizations and constituencies. IASP works to strengthen the leadership of policy makers, practitioners, and others by linking the intellectual and program components of asset-building policies.

Thomas M. Shapiro, Director

Tatjana Meschede, Research Director



About Dēmos

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world.

The Economic Opportunity Program addresses the economic insecurity and inequality that characterize American society today. The program offers fresh analysis and bold policy ideas to provide new opportunities for low-income individuals, young adults and financially-strapped families to achieve economic security.

Dēmos was founded in 2000.

Miles S. Rapoport, President

Tamara Draut, Vice President for Policy and Programs, Director of the Economic Opportunity Program

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Executive Summary

A just society treats seniors with dignity, respecting their purpose, independence, and contributions. Promoting lifelong sustainable well-being for seniors benefits all citizens and strengthens the nation. This report examines the long-term economic security of seniors, depicts current trends and suggests policies promoting the enduring well-being of seniors.

Security for seniors was built on the three-legged stool of retirement (Social Security, pensions, and savings) at the core of the social contract that rewards a lifetime of productivity. Economic security of seniors, however, is being challenged by two simultaneously occurring trends: a weakening of the three legs of retirement security income and dramatically increasing expenses, such as for healthcare and housing. These fundamental changes in the lives of older Americans make it not only more difficult for seniors to enter retirement with economic security but also to remain economically secure throughout retirement.

In light of these altering conditions, this report assesses how the social contract is holding up into the Twenty-First Century. Using national data¹ for seniors age 65 or above, we created the Senior Financial Stability Index (SFSI) to measure the long-term economic security of senior households throughout their retirement years. The fundamental components that frame economic stability for older Americans in the SFSI are Housing Costs, Healthcare Expenses, Household Budget, Home Equity, and Household Assets. These factors are critical because:

- ▷ Research documents that the largest living expenses for older Americans are housing and health expenses.
- ▷ Household budgets measure the capacity of senior households for meeting annual essential expenses.
- ▷ Research points to home equity as the largest source of wealth for all US citizens and in particular for older Americans.
- ▷ Financial household assets establish long-term stability.

The Senior Financial Stability Index finds that 78 percent of all senior households are financially vulnerable. That is, close to four of five senior households do not have sufficient economic security to sustain them through their lives. This risk is especially pronounced for single senior households—with 84 percent among them facing financial insecurity.

The data used in this report do not reflect the housing and stock market meltdowns and economic recession of 2008. This changing economic environment accentuates the challenges facing seniors today and highlights the importance of a comprehensive assessment of security. The SFSI provides a benchmark of the economic life prospects of older Americans and underscores areas of strength and vulnerability that public policy can address.

SOURCES OF ECONOMIC RISK

- ▷ More than half of all senior households (54 percent) do not have sufficient financial resources to meet median projected expenses based on their current financial net worth, projected Social Security, and pension incomes.
- ▷ Single seniors face an even more troublesome situation. Fifty-seven percent among them are at risk of financial crisis based on their projected assets. Forty-nine percent of senior couples face the same risk.
- ▷ Only one third of seniors (31 percent) have household budgets that allow for additional savings for larger and unforeseen expenses, and another third have no additional funds after paying for essential expenses.
- ▷ Paying out-of-pocket health expenses, including costs for additional insurance coverage, is burdensome for four out of ten senior households. With increased healthcare needs associated with older age, as well as cuts in medical provisions, these expenses will eat up an increasingly larger share of fixed budgets in senior households in the future.
- ▷ High housing costs put forty-five percent of all seniors' budgets at risk. Single seniors face even more pronounced challenges with more than half (55 percent) at risk with respect to their monthly housing expenses.
- ▷ Overall, more than half of all senior households are secure with respect to home equity due to the large number of homeowners among them, especially among senior couples. Single seniors are much more vulnerable in this area with three out of ten either not owning their home or holding a low amount of home equity.

FIVE FACTORS OF THE SENIOR FINANCIAL STABILITY INDEX (SEE ALSO TABLE 1 ON PAGE 8):

- ▷ **Housing Costs:** Households with housing expenses exceeding 30 percent of household income are economically at risk, and those who spend 20 percent or less are secure.
- ▷ **Healthcare Expenses:** Households who spend 15 percent or more for healthcare are economically at risk, and those who spend 10 percent or less are secure.
- ▷ **Household Budgets:** Budgets that are negative after expenditures for essential expenses pose a risk to economic security, and households with annual additional funds of \$10,000 or more, after essential expenses, are secure.
- ▷ **Home Equity:** Households who rent their home, and therefore do not have any home equity, are at risk, and households with home equity of \$75,000 or more, are economically secure.
- ▷ **Household Assets:** Project the amount of resources based on the three legs of retirement security income over the expected lifespan for each household and deduct from it estimated median expenses over the life course. Asset risk is evident when this amount is negative, and asset security is set at \$50,000 for single seniors, and \$75,000 for couples.

SFSI: Asset security (or risk) plus security (or risk) on at least two additional factors.

The current generation of Americans age 65 or older is better prepared for retirement than subsequent generations will be, primarily due to declining employer-based retirement savings and rising debt of younger families. Even with current trends that include dramatic cuts in defined benefit pension provisions, persistent increases in healthcare costs, increasing debt for seniors, the current housing crisis, and sharp declines in the stock market, today's senior citizens represent a best case scenario of senior economic security for the foreseeable future.

Our recommendations therefore focus on policies that impact households at different life stages in their retirement planning. Thus, while we report on the economic security status of older Americans, this work helps to identify retirement-related vulnerabilities for younger families and policy interventions designed to ensure their economic security in retirement.

POLICIES TO REBUILD THE FOUNDATION OF SENIOR ECONOMIC SECURITY

In order to rebuild the foundations of the social contract that promotes retirement security, policy approaches need to focus on income provisions and expense controls for seniors. Our policy recommendations on the income side of senior economic security include:

- ▷ **Strengthen Social Security**, especially for vulnerable groups. Not only does Social Security need to remain a secure source of financial support for all retirees, it should be strengthened for beneficiaries, particularly to ensure that those with lifetime employment in low wage work receive economically sustainable benefits. Strengthening the special minimum benefit to assure above poverty benefit levels is one example of a first step to achieve this goal.
- ▷ **Strengthen Pension Provisions**. With increasingly reduced worker access to pension plans and a marked shift from defined benefit to defined contribution plans, this leg of retirement security no longer holds its weight. Pension provisions need to be rebuilt by providing incentives for employer-based access to pensions and government interventions that secure the stability of existing pension benefits.
- ▷ **Expand Asset Building Opportunities for all Households Throughout the Life Course**, including access to, and automatic enrollment in, defined contribution pension plans, financial education, adequate income opportunities, matched savings accounts for those with lower incomes, and protection of assets (mostly housing wealth).
- ▷ **Provide Employment Flexibility** for seniors who desire and are able to remain in the work force. Examples include flextime and bundled work days; amount of time spent working, including job-sharing options; and career flexibility with various points of entry, exit, re-entry over a working career. When, where, and how to work, as well as what to receive for working are key to flexible work arrangements providing a better institutional fit for older workers and their continued productive employment.

Policy recommendations addressing the expense side of retirement security encompass:

- ▷ ***Address the Medicare Crisis*** as part of the larger national healthcare crisis. Healthcare costs, especially Medicare expenses, consume a prominent and growing proportion of the national budget. The need for building a more cost effective and equitable healthcare system can no longer be ignored. Without attention to healthcare access and affordability, progress in all other areas of retirement security will be negated.
- ▷ ***Institute a Universal Long-Term Care Public Insurance Program*** to protect against the cost of long-term care, as done in other countries, to mitigate economic risks associated with ill-health and long-term care needs.

Future retirees will be worse off, unless we attend to policies that grow and stabilize their resources for the future, and attend to the rising costs for seniors. Policymakers have an opportunity to reaffirm their commitment to ensure that elders have the resources to live without fear of poverty. Building on past commitments to our elders, we must strive to construct a new retirement security system of the Twenty-First Century that meets the needs of our diverse and aging population.

Introduction

The social contract for seniors in the Twentieth Century was based on the assumption that years of work should be rewarded with a retirement characterized by economic security. With the incorporation of Social Security, and newer programs such as Medicare, our society has continuously seen the contract grow and adapt to changing times. Promoting lifelong sustainable well-being for seniors benefits not only them but is a broader family policy for all citizens, thus strengthening the nation's stability. This report examines the long-term economic security of older Americans, depicts current trends, and suggests policies promoting long-term senior well-being.

The traditional conception of senior economic security builds on income support from three complementary sources: Social Security, pensions, and savings. Often referred to as the three-legged stool of retirement security, seniors have relied on income from these three sources as part of the social contract that rewards a lifetime of productivity with security, dignity, and respect in older age.

Economic security of seniors is being challenged by two simultaneously occurring trends: a weakening of the three legs of retirement security and dramatically increasing expenses, such as for healthcare and housing. These fundamental changes in the lives of older Americans make it more difficult for seniors to enter retirement with economic security as well as to remain economically secure throughout retirement.

Seniors are living longer than ever before, an average of 18 years after they reach age 65. This means that they need sufficient income and assets to meet essential needs, to be able to spend a modest amount above essential expenses, to manage unexpected costs such as healthcare expenditures or long-term care expenses, and to pass anything along to help children or grandchildren get a good start in life. These shifting realities also mean that many opt for working longer, if they have the opportunity to do so.

At a time when the economic resources of seniors must last more years, there is a dramatic shift in employer-provided pensions. Employer-based retirement coverage is declining, as employers continue to cut back costs among those who have employer-based pensions.² Even when private pensions are available to workers, they are increasingly less secure with the ongoing shift from defined-benefit to defined-contribution pensions. The current economic crisis clearly reveals the vulnerability of pensions.

In 1980, among private employees with pensions, the vast majority (83 percent) had defined-benefit pensions, which provide a guaranteed monthly income to retirees upon retirement. Workers with defined-contribution plans, however, have no such guarantee since the value of their retirement accounts may fluctuate due to changes in the value of their investments. By 2004, 89 percent of private workers with pensions had defined-contribution plans, while just 39 percent of workers had defined benefit plans.³

With the decline of guaranteed pension incomes for older Americans, more and more face economic uncertainty during their retirement years. Many employers are also cutting back on health benefits for retirees either by cutting them entirely, reducing covered benefits, shifting health insurance costs to current employees and retirees, or increasing out of pocket medical expenses. The proportion of companies who offer health coverage for retirees has declined from 66 percent in 1988 to 33 percent in 2007.⁴

The retirement and health systems that older Americans rely on, Social Security and Medicare, are becoming stretched by expanding numbers of beneficiaries. As baby boomers retire, there will be fewer workers paying Social Security taxes to support a growing number of retirees eligible for benefits. Medicare costs continue to rise much faster than inflation, the result of rapidly rising overall healthcare costs. Because today's retired workers, particularly blue collar workers, are more likely to have healthcare coverage and pension income under an employer-based retirement plan, the current generation of retirees is in a very real sense the best prepared generation for retirement that we will see for decades to come.

Subsequent generations will face even more severe challenges. From this perspective, this study of the economic security of seniors in 2004 paints a highly optimistic picture of the economic prospects that workers who are not yet 65 will face when they retire—if current trends in pensions and health coverage are not reversed.

The impact of the current housing crisis which has reduced the asset holdings of many households, and thereby reduced the largest asset of most retired households, will be seen many years down the road. An indication of the impending crisis is that the number of older Americans who are filing for bankruptcy has now reached record levels.⁵ The 2008 recession bodes a more uncertain future.

This report examines the economic security of senior households with members age 65 and above. While Social Security and Medicare have been successful in reducing abject poverty among seniors by providing a stable minimal source of income and health coverage for almost all people 65 and older, significant pockets of economic insecurity persist for many older Americans.

These economic challenges are immediately in front of the nation. Within the context of Social Security, Medicare, and the U.S. economy, this report provides evidence in three key areas:

- ▷ Description of the economic status of older Americans: Are senior households able to maintain economic well-being above the income poverty line to ensure long-term economic security; and how many are holding on by a thread, having difficulty even meeting essential needs?
- ▷ Analysis: Why are some seniors economically secure while others are vulnerable and living by a thread?
- ▷ Policies: Are there areas that can be strengthened through public policies to ensure the economic security of seniors?

SUBSEQUENT GENERATIONS WILL FACE EVEN MORE SEVERE CHALLENGES...IF CURRENT TRENDS IN PENSIONS AND HEALTH COVERAGE ARE NOT REVERSED.

Measuring Senior Economic Security

The Senior Financial Stability Index (SFSI) measures the economic capacity of older Americans over their lifetime. This approach differs from previous methods of measuring senior economic security. Traditionally senior economic security has been measured in relation to the prevailing federal poverty line. The poverty line is a snapshot in time that gauges the capacity for annual income to provide basics needed for minimal well-being. The life course approach of the SFSI moves the discussion to a more policy-relevant conversation about the capacity of older Americans to sustain an adequate level of economic well-being throughout every stage of their life.

SFSI offers a framework to assess the strengths and vulnerabilities of economic security among older Americans—and, importantly, helps to identify policy areas to strengthen well-being. In developing this concept, we identified essential factors for economic security and well-being, and set common-sense and research-tested thresholds while creating an index anchored to a single, easily understood and interpreted metric.⁶

The traditional view of retirement security focuses on three complementary income sources to cover living costs during retirement. These are Social Security, pensions, and savings.

The SFSI examines these resources but widens its lens to encompass other factors affecting economic stability and vulnerability:⁷ Housing Costs, Healthcare Expenses, Household Budgets, Home Equity, and Household Assets.

These five factors were selected for the following reasons:

- ▷ A body of research documents that largest living expenses for older Americans are housing and health expenses.
- ▷ Household budgets are important because they measure the capacity of senior households to meet annual essential expenses.
- ▷ Research points to home equity as the largest source of wealth for all U.S. citizens and in particular for older Americans.
- ▷ Financial assets establish long-term stability.

Our understanding of senior economic stability has come a long way. Previous efforts to examine senior economic security have focused on the self-sufficiency capacities of older Americans for short periods, typically regionally determined living expenses for one year. The Elder Economic Security Standard⁸ provides a benchmark for the capacity of seniors to meet a realistic level of basic expenses. The National Retirement Risk Index uses replacement rates comparing pre and post retirement consumption to assess whether assets and savings would support proportionate consumption levels during retirement.⁹

The SFSI extends this line of research by delivering a policy-relevant marker with significant implications for revitalizing America's social contract. By building financial assets and housing wealth into a longer-term, economic security calculation, SFSI **provides a benchmark of the life prospects of older Americans that underscores areas of strength and vulnerability that public policy can address.**

The Senior Financial Stability Index (SFSI)

The five components that comprise the Senior Financial Stability Index (SFSI) include measures for housing, health security, family budgets, home ownership and equity, and asset security. We used the 2004 Consumer Expenditure Survey to build this Index.¹⁰ The Consumer Expenditure Survey contains detailed information on household budgets as well as income and assets and other critical elements comprising the SFSI. In the analyses we include households in which all members are age 65 or older, excluding single seniors that live in multi-generational households. The data also do not contain information of elders in long-term care institutions.¹¹

Below we outline the rationale for each of the factors measured by the SFSI on a spectrum from economic security to risk.

TABLE 1: ECONOMIC SECURITY AND RISK THRESHOLDS FOR EACH FACTOR

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, LESS THAN 10 percent of total before tax income	Medical expenses, including supplemental health insurance, 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 above	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	<i>Asset secure PLUS security in at least two¹² other factors</i>	<i>Asset fragile PLUS fragility in at least two other factors</i>

HOUSING SECURITY AND RISK FOR OLDER AMERICANS

Housing costs are the largest expense, not only of seniors but for all U.S. households. The Department of Housing and Urban Development (HUD) has set guidelines that declare housing expenses at 30 percent or more of income as a financial burden. We adopt this standard for senior households. Senior households spending 30 or more percent of their total income on housing are at increased economic risk, as defined in the SFSI, whereas senior households spending 20 or less percent of their income on housing are housing secure.

HEALTH SECURITY AND RISK FOR OLDER AMERICANS

Rising medical expenses, chronic conditions that need medical attention, and anxiety regarding unforeseen medical issues are challenges for most senior households. Indeed, healthcare needs and healthcare costs rise considerably for older Americans. The SFSI health factor measures out-of-pocket medical expenses in relation to income. Although formally insured through Medicare, more and more healthcare needs and expenses that used to be covered now fall onto private family budgets. These out-of-pocket medical expenses include expenditures for supplemental health insurance, medical services and supplies, and prescription drugs.

For the purpose of the SFSI, a senior household is considered secure when the household spends less than 10 percent of its income on medical costs, the threshold used for assessing underinsurance in prior research.¹³ By contrast, median health expenses for working age families amount to two to four percent of family income. A senior household is at risk when the household's medical expense-to-income ratio is 15 percent or higher.¹⁴

BUDGET SECURITY AND RISK FOR OLDER AMERICANS

Most seniors rely on fixed incomes. As a result, their budgets have a smaller cushion than many younger households. In the SFSI, we calculate the household's total income and deduct its essential expenses, which include expenditures for housing, food, clothing, transportation, healthcare, personal care, education, and personal insurance.

We assess a senior household's annual budget as secure when it has a cushion of \$10,000 after essential expenditures. A cushion of \$10,000 provides a basis for common but non-essential expenses, and savings to meet unexpected expenses. Such unexpected expenses might include home repair, new appliances, car repair, and higher out-of-pocket essential expenses such as medical costs in case of illness, or large increases in the price of necessities such as heating fuel, gas, or medicine. The marker for budget security thus is a scant \$833 per month for a quality of life beyond basic necessities and a minimal safety net. A senior household is clearly at risk when it spends more than comes in, leaving the household with no additional resources to cover expenses that are not essential.

HOMEOWNERSHIP AND HOME EQUITY OF OLDER AMERICANS

Homeownership provides a backbone of economic security for older Americans, both for those who own their home with a mortgage and those who have paid off their mortgage. Typically, homeownership allows for stable and relatively fixed costs, as well as a potential source of equity. Especially if the home was purchased a long time ago and/or if the mortgage is paid off, housing costs may have been locked in at comparatively low rates.

Owning a home by itself does not provide more economic security. Equally important is the amount of home equity senior households hold as home equity is the largest asset for most senior households. It is the asset that many plan to use for assisted living or nursing home expenses. At age 65, a person has a 25 percent chance of entering a nursing home. At age 85, the majority of older Americans have long-term care needs. In 2005, the average annual cost of a private room in a nursing home was over \$74,000—ranging from a low of \$42,000 to a high of \$194,000¹⁵. Average monthly assisted living expenses are estimated to range from \$2,100-\$2,900 (not including application fees) with a large range among the different types of such communities.

Based on this information, we set the security threshold for the home equity factor at \$75,000 which would provide for just over two years in an average priced assisted living community or one year at a nursing home. Senior households are at risk on this factor if they do not own a home and therefore have no home equity. This is a conservative approach to setting economic security as most seniors require more than one or two years of long-term care.

ASSET SECURITY AND RISK FOR OLDER AMERICANS

Do older Americans have sufficient financial assets to support a moderate lifestyle during their remaining years of life (as projected by actuarial estimates)? Our asset calculation includes all financial assets such as savings, stocks, bonds and equity in real estate other than one's own home. In addition to these financial assets, we include the projected income for Social Security, pension and other retirement income over the expected life span for each household (for couples based on the age of the head of household). Home equity is not included in the asset measure because homeownership and home equity are a separate factor of the index. Further, we do not want to incorporate an assumption that families must sell their homes to provide for essential living expenses.

We used median total expenses for single seniors and senior couples as the measure of what seniors need to support themselves over their remaining years, thus defining a basic standard of living across income groups.¹⁶ After deducting the total sum of median expense estimates for all of the projected remaining years of life from each household's asset estimates, we set the thresholds for asset security and risk as follows. Asset security for senior households requires \$50,000 for individuals and \$75,000¹⁷ for couples for long-range economic security. Equivalent to about three years of expenses for these households, these amounts could cover more than three years of median total expenses above and beyond their actuarial life expectancy. This represents a crucial economic buffer given that, by definition, half of seniors will live beyond average life expectancy. A senior household therefore is worse off when there are no sufficient assets to cover the actuarial life span.

SENIOR ECONOMIC SECURITY AND RISK

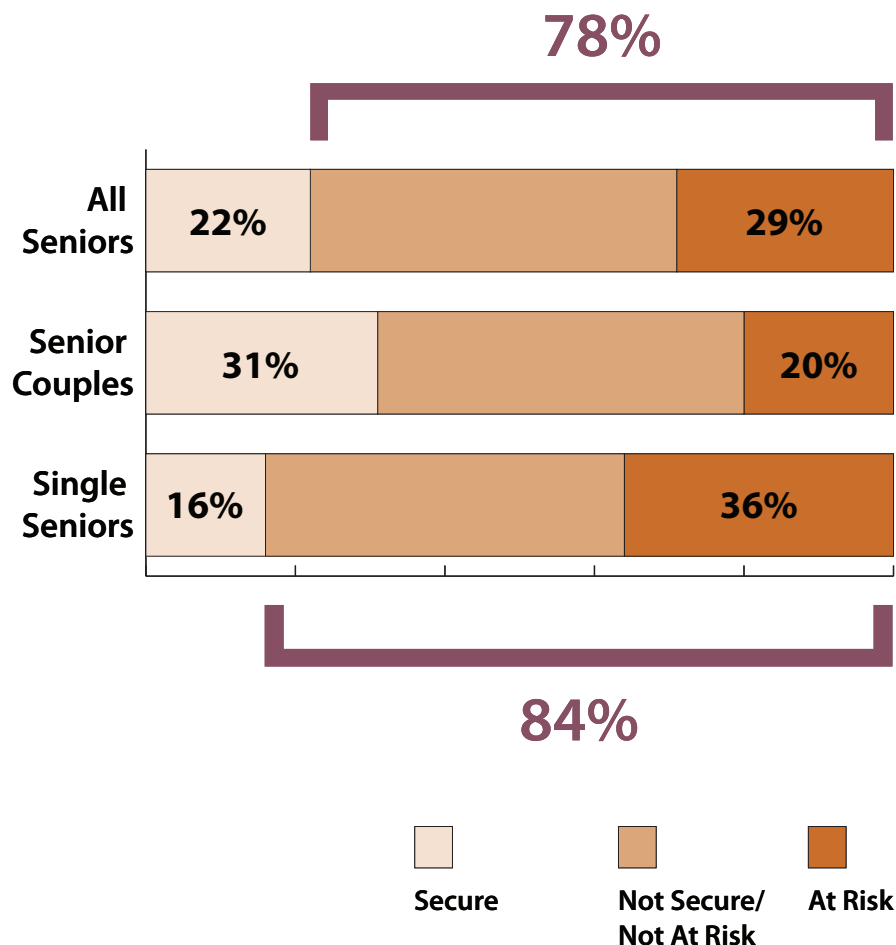
Overall *economic security* is established when a senior household is assessed as **asset secure** in addition to **security in at least two of the other** four factors. Asset security captures the three income legs of traditional retirement security, thus providing the foundation of economic stability for seniors. Accordingly, overall economic risk to senior households is established when these households are at risk based on the **asset factor** in addition to **at risk status in at least two additional factors**.

HOW SECURE ARE SENIORS?

According to the SFSI, only 22 percent of seniors meet the criteria for long-range economic security. More than one in four, or 29 percent, of all seniors are at risk and vulnerable.

The story for senior couples is better—31 percent are secure and 20 percent are at risk. For single seniors, the Index demonstrates less security and more risk—only 16 percent among them are secure while 36 percent of all single seniors are vulnerable and at risk of inadequate resources to sustain their older age life cycle.

FIGURE 1: OVERALL ECONOMIC SECURITY AND FRAGILITY OF SENIORS



Put in a larger perspective, the SFSI shows that 78 percent of seniors are not economically secure; that is, they are economically at risk or borderline (not secure and not at risk). This means that if present conditions continue, close to four out of five senior households do not have economic security sufficient to sustain them through their lives. This risk is especially pronounced for single senior households with 84 percent among them not reaching an adequate level of financial security. For senior couples, this rate is at 69 percent.

The SFSI thus pinpoints not only areas of vulnerability, but provides a fuller picture of economic security among senior citizens. The power of examining the long horizon of the later part of one's life course is illustrated by a comparison with the traditional, income-based poverty line.

According to official government data, 13 percent of older Americans live in poverty—SFSI demonstrates how the traditional poverty line vastly underestimates the life prospects of seniors as 29 percent are presently at risk as defined by the more comprehensive factors in the SFSI. In addition, another 49 percent are just getting by on a slender thread where an unforeseen crisis puts them at risk.

**IF PRESENT CONDITIONS CONTINUE,
CLOSE TO FOUR OUT OF FIVE SENIOR
HOUSEHOLDS DO NOT HAVE ECO-
NOMIC SECURITY SUFFICIENT TO SUS-
TAIN THEM THROUGH THEIR LIVES.**

Sources of Economic Security and Risk

Of the five factors that comprise the Senior Financial Stability Index, not surprisingly the **asset or wealth factor poses the greatest risk** for most seniors. This factor annuitizes current Social Security and pension incomes¹⁸ and adds current assets such as savings, property values (excluding one's own home), and investments. Such privately held assets are less important when Social Security and pensions provide adequate benefit levels for seniors and protections for long-term care expenses have been instituted. In fact, secure incomes of Social Security and defined-benefit pensions provide among the securest of economic resources given the volatility of other assets as has been demonstrated so clearly in the markets volatile markets of 2008. However, with more and more emphasis put on private savings, including 401(k) plans, assets have become increasingly more vital to fill the gap between Social Security income and living expenses.

With an average life expectancy of 83 years, at age 65 seniors need net financial assets, secure income such as Social Security, and/or home equity to provide economic security for 18 years, despite other income losses or increasing expenses. Absent of employment income, few seniors have total assets that can provide security for even a much smaller number of years.

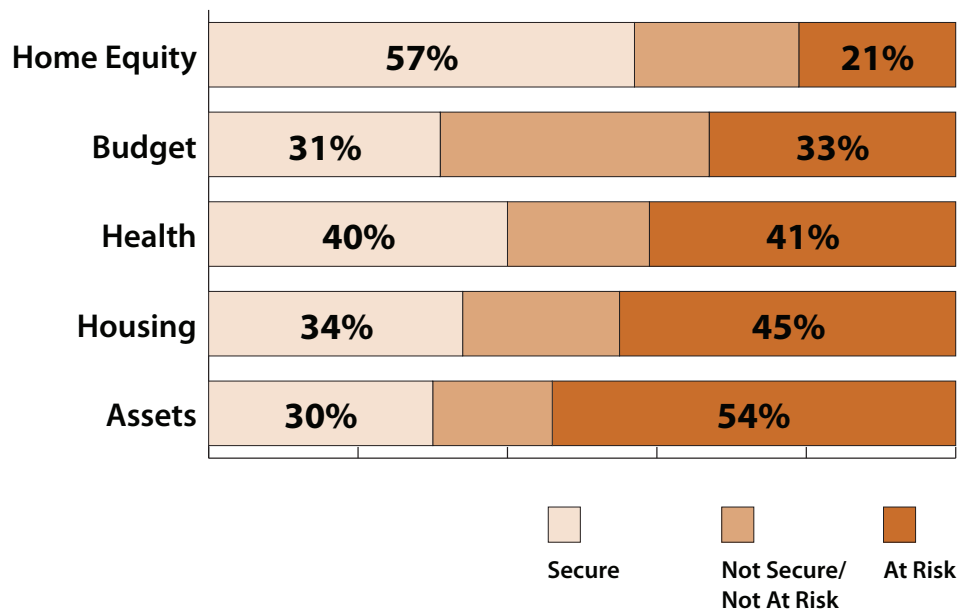
More than half of all senior households (54 percent) are at risk of not having sufficient financial resources to face median projected expenses based on their financial net worth and projected Social Security and pension incomes. Only 30 percent of senior household are secure with respect to their financial net worth, Social Security and pension assets, the three traditional legs of senior economic security, as captured by the asset risk factor.

- ▷ Overall, close to one third of seniors (31 percent) have budgets that allow for an additional cushion of savings for larger and unforeseen expenses. Another one-third have no additional funds after paying for essential expenses.

LIVING LONGER ON LESS

- ▷ Despite surprisingly high homeownership rates well above rates of younger families (71 percent for single seniors, 93 percent for couples), housing-related expenses are high. Forty-five percent of all seniors are economically at risk based on their housing expenses.
- ▷ Four out of ten senior households are at risk based on their current health expenses. With increased age, these expenses tend to increase as well, demonstrating that all households should expect costs to increase with age. Also, given the overall rising health costs in the U.S. system, healthcare premiums are rising disproportionately to income for seniors relying on fixed incomes, posing an even larger burden for senior economic security in the future.
- ▷ Home equity is the largest asset of seniors. Approximately half of all seniors have median home equity worth \$90,000 or more (pre-2008 housing values). Close to three in five of all senior households (57 percent) are secure with respect to home equity, and one in five is at risk.

FIGURE 2: SOURCES OF ECONOMIC SECURITY AND RISK



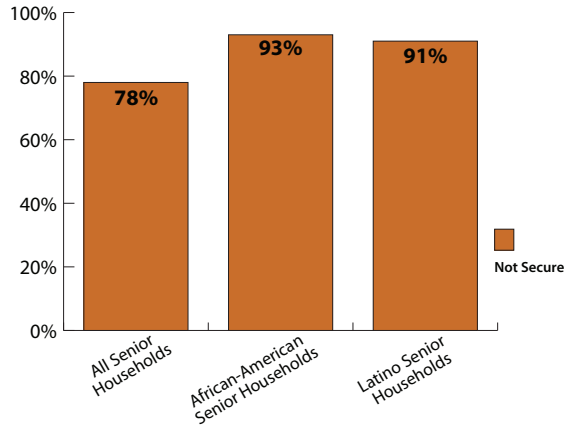
Greater economic hardship falls on single seniors. Single seniors are for the most part older (close to 40 percent age 80 or older) and more likely to be female (73 percent). This group also includes a higher proportion of African Americans and tends to have lower educational attainment.

Among the five SFSI factors, asset and housing for single seniors are especially troublesome. Fifty-eight percent of single seniors are at risk based on their assets, and 55 percent are at risk based on their housing expenses.

The budget factor yields the greatest security and risk gap between single and couple senior households. Only 19 percent of single seniors are budget secure as compared to 46 percent of senior couples.

As single seniors tend to be older, this points to the economic risk of older seniors, who are often women because women generally live longer than men. Subsequent analyses will focus on long-term economic security of older African-American and Latino senior households as well as older seniors. We already know this will be critically important as 93 percent of older African-American households and 91 percent of older Latino households are not economically secure as captured by the overall SFSI measure.

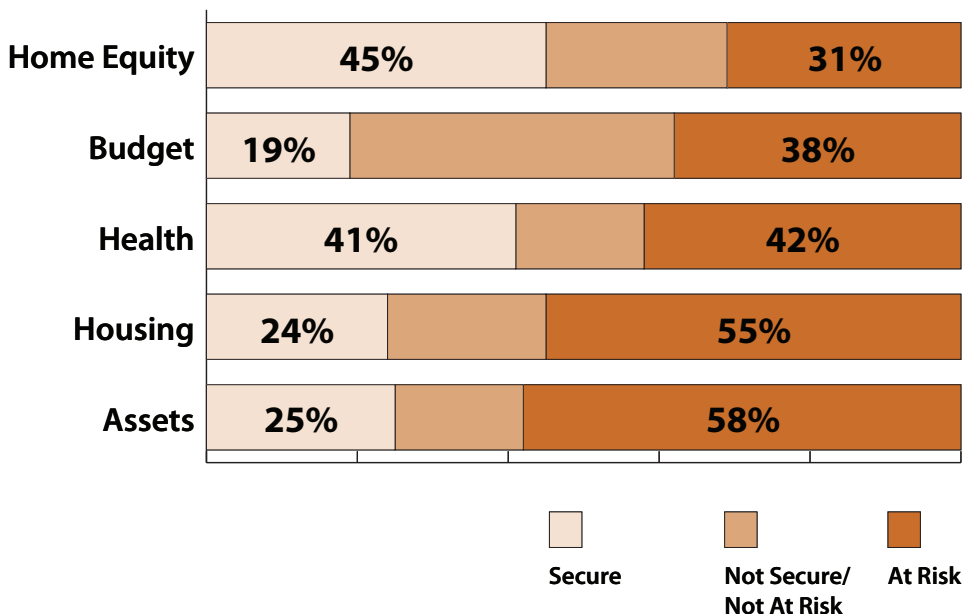
FIGURE 3: ECONOMIC SECURITY OF AFRICAN-AMERICAN AND LATINO SENIOR HOUSEHOLDS



AFRICAN-AMERICAN, LATINO, AND SINGLE FEMALE SENIOR HOUSEHOLDS ARE LEAST SECURE AND MOST AT RISK.

These compelling statistics reflect the realities of many seniors and demonstrate the roots of economic security and fragility—a fundamental mismatch between income and costs of essential and other day-to-day expenses. Put simply, many seniors have too little income and face costs that are too high and rising.

FIGURE 4: SOURCES OF ECONOMIC SECURITY AND RISK FOR SINGLE SENIORS



Policies to Strengthen the Foundation of Senior Economic Security

Many countries are undergoing demographic changes that are characterized by an increase in the proportion of older citizens. Unlike the years before the implementation of Social Security and Medicare in the United States, older U.S. citizens now have independent income sources and health insurance coverage, and therefore, much more participation in public life. The uncertainties of older life are mitigated by the risk-sharing policies of our social insurance programs that address unexpected life circumstances. One of the key advantages of Social Security and Medicare is the large risk pool (most everyone over 65) that no private plan can replicate.

Unable to keep pace with the trends described in this report, the brittle three-legged stool currently undermines senior economic security, and we need to rebuild the social contract for our current and future senior citizens. Our policy recommendations address a combination of income- and expense-related policies that together can reduce the economic risk for all seniors.

STRENGTHEN SOCIAL SECURITY

Social Security, which significantly reduced poverty among seniors when it was implemented, is the only strong (certain and inflation-adjusted) leg of the three-legged stool. It therefore continues to play a vital role in supporting the economic well-being of many older households.

Thirty-six percent of senior singles and 17 percent of senior couples rely solely on income from Social Security.¹⁹ Social Security provides at least three-quarters of income for low-income and poor elderly who have few other resources.²⁰ With Social Security as the only widely available income source that is guaranteed and adjusted for inflation, it needs to be strengthened and not further weakened by replacing it with private accounts that favor the more affluent.

In addition, Social Security benefit levels need to be adjusted to provide more adequate income for low-earning beneficiaries. For example, strengthening the special minimum benefit which was instituted in 1972 to ensure, at a minimum, poverty level Social Security income for low-wage workers but no longer provides benefits at this level, would be a first step to reducing economic risk for our elders. In addition, benefits could be strengthened by reviewing interactions between programs targeting low-income seniors, and increasing asset limits in means-tested programs to allow for reasonable amounts of savings for unexpected financial costs and emergencies.²¹

STRENGTHEN PENSION PROVISIONS

With fewer and fewer workers having access to pension plans and a marked shift from defined-benefit to defined-contribution plans, the employer-pension leg of retirement security no longer holds its weight. Pension provisions need to be rebuilt by providing incentives for employer-based access to pensions. Policymakers should keep in mind that longer range economic security is better anchored by defined-benefit provisions which provide guaranteed benefits for the rest of the beneficiary's life and do not require that the retiree stretch what has been saved in a 401(k) plan over an unknown period of time. Government interventions are also needed to secure the stability of existing pensions to ensure the stability of employer and employee investments.

ENHANCE ASSET BUILDING OPPORTUNITIES THROUGHOUT THE LIFE COURSE

Policies for seniors are in essence family policies. Most of us will be among the older population one day. Therefore, enhancements of asset building opportunities that support household asset-building and financial management across the life course are critical. These asset building opportunities should include:

- ▷ Access to and automatic enrollment in defined-contribution pension plans for all;
- ▷ Education on financial management throughout the life course as well as specifically for seniors;
- ▷ Adequate income opportunities;
- ▷ Matched savings accounts or IDAs that permit long-term savings for low-income populations; and
- ▷ Asset protection, mostly as it relates to housing wealth.

FLEXIBLE EMPLOYMENT DURING RETIREMENT

With increased life expectancies and economic insecurity in older age, more and more seniors opt to work during their early retirement years.²² Institutional and structural gaps interfere with the desire of many older workers to continue work but not necessarily full-time.

Flexible work arrangements offer older workers choices that are perhaps more appropriate to their desires, stage in the life course, and productivity for employers. Such arrangements might include scheduling flexibility, including flextime and bundled work days; amount of time spent working, including job-sharing options; and career flexibility with various points of entry, exit, and re-entry over a working career.

When to work, where to work, how to work, and what to receive for working are key to flexible work arrangements providing a better institutional fit for older workers and continued productive employment. Indeed, one study indicates that one in four older workers continue to work because their employer provided flexible work options.²³

ADDRESS THE MEDICARE CRISIS

Without attention to healthcare access and affordability, progress in all other areas of retirement security will be negated. Seniors are especially anxious about health risks and the volatility of healthcare costs. The U.S. healthcare system is one of the most expensive healthcare systems in the world, ironically achieving health outcomes that are often no better, and sometimes worse, than those in other countries. Like all healthcare costs, Medicare costs have risen and continue to rise disproportionately to other expenses. As such, Medicare reform needs to be addressed in the context of a reorganization of the overall healthcare system. The system needs to be restructured in order to curb current escalating costs and to provide health services to all citizens.

INSTITUTE LONG-TERM CARE INSURANCE

One of the major economic security threats to each U.S. citizen is the need for long-term care. Current policies require spending down assets in order to qualify for Medicaid, the only public program that provides coverage for such expenses in many cases. Private long-term care insurance programs are unaffordable for most. Federal long-term care insurance would spread the risk of needing long-term care among all U.S. citizens. A proposal put forward by Senators Kennedy and Harkin, the Community Living Assistance Services and Supports (CLASS) Act of 2007, addresses the need for a federal long-term care insurance program for all citizens.

Conclusions

Even though today's seniors present a best-case scenario, they face a bleak outlook based on the data presented here. Future retirees will be worse off, unless we attend to policies that grow and stabilize their resources for the future, while attending to the rising costs for seniors. Policymakers have an opportunity to reaffirm their commitment to ensure that elders have the resources to live without fear of poverty or economic insecurity. Building on past commitments to our elders, we must strive to construct a new retirement security system of the Twenty-First Century that meets the needs of our diverse and aging population.

Endnotes

1. U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, 2004.
2. Center for Retirement Research, Boston College, *Frequently requested data*. <http://crr.bc.edu/frequently-requested-data/frequently-requested-data.html> (accessed December 19, 2008).
3. Ibid.
4. Kaiser Family Foundation/HRET, *Employer Health Benefits 2007 Annual Survey*. Menlo Park: CA: Kaiser Family Foundation, 2007.
5. Deborah Thorne, Elizabeth Warren, and Teresa A. Sullivan, *Generations of Struggle*. Washington DC: AARP Policy Institute.
6. The complexity of this task requires a number of assumptions, which we will clarify in the text.
7. IASP and Dēmos first took the approach of creating a multi-factor examination of economic stability and vulnerability in measuring the financial security of middle class households. For more information on this work see, *By A Thread: The New Experience of America's Middle Class*, Dēmos/IASP, 2007.
8. Laura Henze Russell, Ellen A. Bruce, and Judith Conahan. *Elder Economic Security Initiative: The Elder Economic Security Standard for Massachusetts*. John W. McCormack Graduate School of Policy Studies, University of Massachusetts, Boston and Wider Opportunities for Women: Boston, MA, December 2006.
9. Center for Retirement Research, Boston College, *Special Projects: National Retirement Risk Index*. http://crr.bc.edu/special_projects/national_retirement_risk_index.html (accessed December 19, 2008).
10. We have been very careful to make the most conservative assumptions when creating the SFSI and setting thresholds. For example, we do not adjust for change of family composition (death of a spouse which most often leaves the surviving spouse in more constraint economic circumstances), we do not adjust for inflation due to our assumption that the ratio of income to expenses remains the same over the life course of seniors, and we do not assume a worsening in health status which would prompt higher healthcare expenses. Further, seniors in long-term care institutions are not included thus eliminating households with largest healthcare expenses from these analyses
11. Because those in long-term care institutions are not included in our estimates, our findings a slightly more optimistic as those in long-term care are most likely to have few assets and savings to cover long-term economic needs.
12. We also ran the data using the criteria for the full index Assets plus at least one other factor which yielded slightly higher levels of security and much higher levels of risk. We decided to base the Index on the more conservative approach of Assets plus two for overall economic security and risk.
13. Jessica S. Banthin and Didem M. Bernard, "Changes in Financial Burdens for Health Care National Estimates," *Journal of the American Medical Association*, vol. 296, no. 22 (December 13, 2006), pp. 2712-2719.
14. Please note that we expect to update the measurement of this factor when better data on supplementary Medicare coverage will be made available. However, capturing medical expenses will remain a critical part of this measure.
15. James H. Schulz and Robert H. Binstock, *Aging Nation: The Economics and Politics of Growing Older in America* (Westport, Conn.: Praeger, 2006).
16. We chose the median over the mean as the latter tend to be inflated by extreme values on the upper end.
17. Prior research identified that senior couples' budgets and financial needs are between 41 and 66 percent of that of single seniors. We therefore chose 50 percent as the middle ground to establish the asset threshold for senior couples.

18. By no means do we advocate for the privatization of Social Security. We annuitize Social Security as it presents income that is secured throughout the end of the life course.
19. Consumer Expenditure Survey, 2004, authors' calculations.
20. Barbara A. Butrica, *Older Americans' Reliance on Assets*. Opportunity and Ownership Facts, No. 10, Urban Institute: Washington DC, March 2008.
21. Laura Sullivan, Tatjana Meschede, and Thomas Shapiro, *Enhancing Social Security for Low-Income Workers: Coordinating an Enhanced Minimum Benefit with Social Safety Net Provisions for Seniors*, National Academy of Social Insurance: Washington DC, January 2009.
22. In 2008, about 36 percent of men age 65-69 remained in the work force, as compared to 25 percent just ten years earlier.
23. D. Parkinson, *Voices of Experience: Mature Workers in the Future Workforce*. Research Report New York, NY: The Conference Board, 2002.

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- ▷ *The Hidden Cost of Being African-American: How Wealth Perpetuates Inequality*, Thomas, Shapiro, (Oxford University Press, 2004)

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