



How Many Struggle to Get By in Retirement?

Barbara A. Butrica, Daniel Murphy, and Sheila R. Zedlewski

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A crosscutting team of Urban Institute experts in Social Security, labor markets, savings behavior, tax and budget policy, and micro-simulation modeling ponder the aging of American society.

The aging of America raises many questions about what's in store for future and current retirees and whether society can sustain current systems that support the retired population. Who will prosper? Who won't? Many good things are happening too, like longer life and better health. Although much of the baby boom generation will be better off than those retiring today, many face uncertain prospects. Especially vulnerable are divorced women, single mothers, never-married men, high school dropouts, and Hispanics. Even Social Security—which tends to equalize the distribution of retirement income by paying low-income people more than they put in and wealthier contributors less—may not make them financially secure.

Uncertainty about whether workers today are saving enough for retirement further complicates the outlook. New trends in employment, employer-sponsored pensions, and health insurance influence retirement decisions and financial security at older ages. And, the sheer number of reform proposals, such as personal retirement accounts to augment traditional Social Security or changes in the Medicare eligibility age, makes solid analyses imperative.

Urban Institute researchers assess how current retirement policies, demographic trends, and private sector practices influence older Americans' security and decision-making. Numerous studies and reports provide objective, nonpartisan guidance for policymakers.

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Abstract

This paper uses data from the 2004 Health and Retirement Study to demonstrate how the poverty rate of adults 65 and older changes using alternative resource and threshold measures. Results show that alternative poverty measures that account for health spending produce higher poverty rates than the official measure, even those that include the value of housing and financial assets. Poverty remains concentrated among singles (disproportionately women), blacks and Hispanics, and adults 85 and older regardless of how it is measured because these populations have relatively little housing equity or financial assets.

Executive Summary

Most researchers agree that the official measure of poverty in the United States does not provide a good benchmark for evaluating economic status. The official measure is based only on cash income and fails to include in-kind transfers, capital gains and losses, taxes, out-of-pocket health spending, the value of owner-occupied housing, or the potential income from financial assets. Also, the official poverty thresholds that define minimal needs, set back in 1963 and updated to changes in the CPI, do not capture current spending patterns. These shortcomings especially pertain to the older adult population because their resources, needs, and health expenses differ most dramatically from the assumptions reflected in the official poverty measure.

This paper provides a comprehensive assessment of the economic resources of adults age 65 and older. It shows the variation in poverty levels using the official measure and alternative measures that follow recommendations from the 1995 National Academy of Sciences panel on poverty measurement. All of the alternative measures include in-kind transfers, capital gains and losses, and taxes, and use more up-to-date thresholds. However, they differ in their treatment of out-of-pocket medical expenses, home equity, and financial assets. The analysis also compares the alternative measures with individuals' qualitative reports of well-being to assess the correspondence between the alternative poverty rates and individuals' own assessment of hardship.

The study uses data from the 2004 Health and Retirement Study (HRS), which includes a large, nationally representative sample of older adults and information about key resources and expenditures not commonly available in other surveys. The analytic sample includes adults age 65 and older living alone or with a spouse and no one else, because the HRS only provides full

income and expenditure information for the respondent and spouse. The study provides an up-to-date assessment of well-being and builds upon previous studies that have had to rely more on imputed estimates of key resources and expenditures.

The results show that poverty measures are quite sensitive to the resources included and the thresholds used to measure poverty, and they highlight the need to update poverty measures to better reflect the modern day economic resources and spending needs of older adults.

Key findings include the following:

- All of the alternative poverty measures that account for out-of-pocket health spending indicate higher poverty rates for older adults than the official measure, even the measures that include the value of housing and financial assets. Together they suggest that actual poverty rates were between 17 and 89 percent higher than the official poverty rate in 2003 and that between 0.3 and 1.5 million more older adults lived in poverty than the 1.8 million indicated by the official poverty measure.
- Although these alternative measures suggest higher poverty among nearly all demographic groups, poverty rates increase the most for men, whites, and married adults. These groups have relatively high health expenses and are more affected by the new thresholds that estimate higher costs for couples relative to single people than the official poverty thresholds do. (The 2003 threshold for couples is \$12,915 under the alternative measure compared with \$11,122 under the official measure, and the threshold for a single person is \$9,167 compared with \$8,825.)

- Poverty remains concentrated among single adults (disproportionately women), blacks and Hispanics, and adults age 85 and older regardless of how it is measured. For example, one in five older blacks and one in four older Hispanics live in poverty, even after adding all possible resources to their income. The same populations designated as poor using the official measure have relatively low home equity values and little potential to annuitize assets to improve their standard of living in retirement.
- The alternative measures also suggest that health care costs drive many more older adults into deep poverty (i.e., income below one-half the poverty threshold). For example, the share of older adults living in deep poverty increases from less than 1 percent to almost 4 percent when in-kind income, taxes, and out-of-pocket health expenses are considered and newer thresholds used.
- The alternative measures track qualitative measures of well-being, such as reports of difficulties paying bills, better than the official measure. For example, 47.8 percent of older adults who are classified as poor using alternative measures that account for health expenses report having extreme difficulty paying bills, compared with only 31.5 percent using the official measure.

Higher alternative poverty rates among older adults and especially high rates among some subgroups show the importance of protecting low-income older adults when considering reforms that reduce the cost of government programs for retirees. They also underscore the importance of considering new policies to boost the incomes of the poorest older adults. Medicare reforms that increase cost sharing should exclude the lowest-income older adults. Reforms to the Supplemental Security Income program that increase asset limits from levels set

back in 1972 should also be considered to allow more of the poorest older adults to gain eligibility. Policymakers must also think about incentives to increase private savings and pensions among low-income families so that more older adults have resources to augment their Social Security benefits. Policies that encourage older adults to delay retirement could also boost their incomes.

Introduction

Most researchers agree that the official measure of poverty in the United States does not provide a good benchmark for evaluating the economic status of older adults. The majority criticize the official measure because it fails to account for all sources of income, taxes, and nondiscretionary expenses (Citro and Michael 1995). Some argue that a poverty measure should also account for the value of owner-occupied housing and the potential income from financial assets (Wolff, Zacharias, and Kum 2007). Others point out that the thresholds (or equivalence scales) which define minimal needs standards in the official poverty measure no longer capture current spending patterns (Iceland 2005a). These criticisms especially pertain to the older adult population because their resources, needs, and health expenses differ most dramatically from the assumptions reflected in the official poverty measure.

The need to reduce Social Security and Medicare spending demands that we understand fully the economic status of older adults. Scheduled revenues will fail to cover Social Security and Medicare costs beginning in 2017 and 2007, respectively (Social Security and Medicare Boards of Trustees 2007). The Social Security surplus built up over the past two decades can be drawn down to delay Social Security insolvency until 2041. Medicare must be fixed sooner or draw on general tax revenues to finance greater shares of program costs over time, squeezing the government's ability to finance other parts of the federal budget (Steuerle 2007). Proposals to fix these programs often combine benefit cuts or increased cost sharing for older adults with measures that increase available revenues. It will be critical to target any benefit cuts and cost shares to older adults who have the ability to pay these new costs in retirement.

This paper provides a comprehensive assessment of the economic resources of adults age 65 and older. It shows the variation in poverty levels under several different measures, including the official measure, and compares the alternative measures with qualitative reports of well-being. The analysis uses data from the 2004 Health and Retirement Study (HRS) that includes a large, nationally representative sample of older adults and information about key resources and expenditures not commonly available in other surveys. The study provides an up-to-date assessment of well-being and builds upon previous studies that have had to rely more on imputed estimates of key resources and expenditures.

We find that poverty measures are quite sensitive to the resources included and the thresholds used to measure poverty. All of the alternative poverty measures that account for out-of-pocket health spending indicate higher poverty rates for older adults than the official measure, even those that include the value of housing and annuitized assets in income. Only the alternative measure that includes in-kind resources and after-tax income and uses new thresholds that are not adjusted for health spending produces a poverty rate about the same as the current official rate. The results also show that poverty is concentrated among single adults, blacks and Hispanics, and adults age 85 and older regardless of how it is measured. The same populations designated as poor using the official measure have relatively low home-equity values and little potential to annuitize assets to improve their standard of living in retirement. These same groups tend to rely on Social Security for a large share of their income and would be adversely affected by policies that would reduce benefits or increase Medicare cost shares for all seniors. Measures designed to improve solvency in the Social Security and Medicare benefit programs must take into account the limited retirement resources of the most vulnerable groups.

Background: Measuring the Well-Being of Older Adults

The “official” poverty measure considers people poor if their resources fall below a threshold. Resources include cash income from earnings (wages, salary, and self-employment), capital (i.e., business, rent, stocks and mutual funds, bonds, CDs and treasury bills, checking and savings accounts, and other assets), Social Security, pension income, unemployment compensation, workers compensation, veterans’ benefits, welfare, Supplemental Security Income (SSI), alimony, lump-sum income, and other income. The official poverty thresholds represent the approximate cost of a minimally adequate diet in 1963 multiplied by three to allow for other expenses (Orshansky 1963), adjusted for changes in the consumer price index (CPI) over time. They vary by family size, composition, and whether the family head is age 65 or older. Using this measure, the share of adults age 65 and older living in poverty has declined dramatically from more than one in three in 1959 to only one in ten in 2005 (Purcell and Whitman 2006; U.S. Census Bureau 2006).

But many argue that the official poverty measure does not paint an accurate picture of modern-day economic resources and spending needs. Family resources have changed considerably since 1963, especially as the government has increasingly focused on providing noncash benefits (such as food stamps and housing assistance) and refundable tax credits (such as the earned income credit) to assist low-income families. Also, the poverty thresholds fail to capture the growth since 1963 in housing, health, and other costs relative to food costs. For example, people today spend closer to one-sixth of their income on food rather than one-third (Iceland 2005a).

In 1995, a National Academy of Sciences (NAS) panel published a comprehensive review of poverty measurement in the United States that has since led to considerable related research. The Citro and Michael (1995) report recommended including “near-cash” sources of income in families’ resources; deducting taxes that reduce families’ disposable income; and deducting nondiscretionary expenditures from income, including out-of-pocket medical and work-related expenses. The NAS panel also recommended a new set of thresholds that represent spending on food, clothing, shelter, and utilities plus a modest amount for other expenses, based on data gathered in the annual Consumer Expenditure Survey (CEX) and adjusted for families of different sizes and types.

Research subsequent to the NAS panel’s recommendations has attempted to reproduce the measures using alternative data sets, and to go beyond the panel’s recommendations by considering the value of owner-occupied homes and the value of assets that could be annuitized to augment cash incomes.¹ While most of these studies have focused on alternative measures for the general population, a few have focused on the importance of different resource measures and thresholds for the population age 65 and older. For example, Johnson and Smeeding (2000), using the 1998 Current Population Survey (CPS), find that the choice of equivalence scale and treatment of imputed rent both have substantial effects on the level and composition of poverty among older adults, but the treatment of health care expenses has the largest effect of all. However, their analysis does not take financial wealth into account. Furthermore, it is based on

¹ Between 1995 and 2004, some 50 research papers on experimental poverty measures were written by researchers in government agencies, think tanks, and universities (National Academy of Sciences 2005). Many of these can be found on the Census Bureau web site at <http://www.census.gov/hhes/www/poverty/poverty.html> (accessed December 2, 2007).

imputations of out-of-pocket medical expenses rather than direct reports from respondents, since this information is not reported in the CPS.

Iceland (2005a) compares three measures of poverty—the official measure, the NAS measure (with out-of-pocket medical expenses), and a relative measure (one-half median after-tax family income adjusted for household size)—to subjective measures of well-being. His results show that relative measures of well-being do not line up well with some measures of hardship over the 1992–1998 period, especially for senior adults. And since there are well-known problems with the official poverty measure, he argues that the NAS poverty measure is the “single most informative income poverty measure because of its theoretical attributes and its empirical performance thus far.”

A recent study by Wolff, Zacharias, and Kum (2007) uses the CPS and is augmented by information on household wealth from the Survey of Consumer Finances (SCF) and information on time use from other surveys; these data are used to calculate a measure of well-being that includes income from housing and financial wealth and the value of household production. The authors compare the ratios of key income and resource measures for the elderly (age 65 and older) and the nonelderly, and conclude that the basic cash-income measure used in the official poverty measure “drastically understates elderly well-being.” The elderly have much higher values of income from wealth and higher net government expenditures (that include the cash value of government health insurance programs such as Medicare) than the nonelderly.

Hurd and Rohwedder (2006) use the 2002 HRS to measure poverty based on cash income (using the official measure) and consumption. They show that poverty among adults age 55 and older is lower in the HRS than in the CPS because HRS respondents better report their and their

spouses' income sources.² The authors also show that poverty is lower when based on consumption than when measured by cash income—pretax or posttax. They also find that being a homeowner decreases the odds of being poor when home-equity values (less insurance, maintenance, and property taxes) are taken into account.

In general, the research evidence shows that broader measures of resources enhance the well-being of adults age 65 and older relative to the official poverty measure and relative to their younger counterparts. Yet, until recently, there was no general agreement as to which resources should be included and how to measure their value. In 2004, a NAS workshop showed such broad support among the scientific community for the expanded measure of family resources that this recommendation required no further discussion (NAS 2005). The workshop also generally supported the NAS panel's recommended approach to setting the thresholds.³ Participants also broadly agreed that the poverty measure should account for out-of-pocket medical spending, but came to no clear consensus on how to incorporate these costs (Iceland 2005b). Including expected health spending in the thresholds received greater support than deducting actual out-of-pocket spending from income.⁴ Additionally, many workshop participants favored incorporating the value of housing in a new measure, but could not agree on the methodology to account for the flow of services that owners obtain from their homes.

² Hurd and Rohwedder (2006) exclude those living with adults other than a spouse from their analysis, because the HRS measure of income for noncore family members is limited to earnings plus "other income."

³ The group differed somewhat over the specifics of the threshold calculation. Many favored a "three-parameter" equivalence scale to adjust the thresholds for other family types, rather than the "two-parameter" equivalence scale originally recommended by the NAS panel. The three-parameter scale takes into account that children consume less, on average, than adults. It adds a decreasing dollar amount for each additional family member, so that the first child in a single-parent family increases the scale more than the first child in a two-parent family.

⁴ The 1995 NAS panel also considered capping medical out-of-pocket spending, but decided against it since "one cannot distinguish between discretionary expenditures and expenditures that are needed to restore health" (NAS 2005).

This study adds to the literature by producing alternative poverty measures for adults age 65 and older using the 2004 HRS. The advantage of these data over the CPS's is that they include detailed self-reported information on income, assets, and out-of-pocket medical expenses. The analysis starts by constructing a measure that reflects the consensus view that in-kind transfers should be added to cash income and taxes should be subtracted. Then it shows the sensitivity of poverty measures to alternative treatment of out-of-pocket health expenses, the valuation of owner-occupied housing, and the annuitization of financial and pension assets. Results compare the measures across demographic groups, show implications for the composition of poverty, and demonstrate how the measures compare with individuals' qualitative measures of well-being.

Data and Methods

This study uses the 2004 HRS and the RAND HRS Data File (a cleaned and easy-to-use file with imputations for missing values) to calculate alternative poverty measures for individuals age 65 and older. The HRS is a large, nationally representative survey of older Americans that collects detailed information on a wide range of subjects, including comprehensive income and asset information, basic demographic information, and detailed health and employment status. In 1992, the HRS began collecting data on a sample of adults born between 1931 and 1941 (ages 51 to 61) and their spouses of any age. This sample was interviewed in 1992 and every two years thereafter. Since that time, the HRS has added new samples to ensure that the survey remains a national representation of older adults and has continued to reinterview them every two years.

The 2004 HRS includes information on 20,129 respondents age 51 and older. The focus of our analysis is on adults age 65 and older who live alone or with only a spouse. As Hurd and

Rohwedder (2006) point out, the HRS only provides earnings and a single category of “other” income for adults other than the respondent and spouse. Also, the HRS only provides out-of-pocket health spending, which is a key variable for measuring poverty status, for the respondent and spouse. After dropping respondents under age 65, those living with people other than a spouse, and a few cases with missing data, our sample size is 7,883 persons (representing 26.9 million adults age 65 and older). All of the income values reported in the 2004 HRS represent cash income received in 2003, and poverty rates are calculated for 2003.

We use these data to calculate six measures of poverty that vary in their definitions of resources and thresholds. All of the measures of resources begin with basic cash income. We use the official poverty definition of cash income except we also add reported distributions from defined-contribution pension plans—an increasingly important source of cash income for adults age 65 and older.⁵ Below, we describe alternative resource measures that consider realized capital gains and losses, taxes, in-kind transfers, out-of-pocket medical expenses, imputed rental income, and the annuitized value of assets. We also describe the two different thresholds used with alternative resource measures that vary by whether they include expected out-of-pocket medical expenses.

Resource Measures

Table 1 shows the resources and expenses included in our six measures of poverty. The first measure (I) follows the official poverty measure and includes all forms of cash income for the respondent and spouse. The other five measures use the NAS expanded resource definition,

⁵ Distributions from pension plans were added to the HRS in 2002, but are not included in the current RAND HRS summary variable for cash income.

adding realized capital gains and losses and in-kind transfers (from food stamps and housing subsidies) and deducting payroll and income taxes. HRS respondents report the value of food stamps they receive. We calculate the value of housing subsidies using the fair-market rent less rent reported by those receiving a housing subsidy. The fair-market rent represents the average cost of a rental unit in the respondent's particular Census division, varying by the required

Table 1. Alternative Measures of Poverty, by Resources, Expenses, and Thresholds						
	Alternative Poverty Measure					
	I	II	III	IV	V	VI
Resources and Expenses						
Cash Income	X	X	X	X	X	X
Capital Gains/Losses		X	X	X	X	X
Income/Payroll Taxes		X	X	X	X	X
In-Kind Transfers		X	X	X	X	X
Out-of-Pocket Medical Expenses				X	X	X
Imputed Rental Income					X	X
Net Annuitized Assets						X
Threshold						
One Person	Official	NAS-1	NAS-2	NAS-1	NAS-1	NAS-1
< Age 65	\$9,573	\$9,167	\$9,304–\$10,740	\$9,167	\$9,167	\$9,167
Age 65+	\$8,825	\$9,167	\$10,004–\$11,399	\$9,167	\$9,167	\$9,167
Two People						
< Age 65	\$12,321	\$12,915	\$13,132–\$14,907	\$12,915	\$12,915	\$12,915
Age 65+	\$11,122	\$12,915	\$14,547–\$16,803	\$12,915	\$12,915	\$12,915

Source: U.S. Census Bureau (2005).

Notes: The thresholds are for 2003 to correspond with the 2004 Health and Retirement Study and the RAND HRS Data File, which report cash income received in 2003. NAS-1 and NAS-2 refer to the alternative thresholds that follow the recommendations of the National Academy of Sciences as reported in Citro and Michael (1995). NAS-1 excludes expected out-of-pocket medical expenses. NAS-2 includes expected out-of-pocket medical expenses and varies by age, health insurance (private, public, and uninsured), and health status.

number of bedrooms.⁶ We use a tax calculator available at the Urban Institute to calculate payroll and federal income taxes (Bakija 2005).⁷

⁶ We tabulate the U.S. Department of Housing and Urban Development's 2003 Fair-Market Rents County-Level Data File to obtain a weighted average fair-market rent for each Census division. Fair-market rents are available from the U.S. Department of Housing and Urban Development (2007). We assume that the respondent and spouse share a bedroom and that each additional person has a separate bedroom.

⁷ We do not include state income taxes because state of residence is not available on the public-use version of the HRS.

While all of the alternative measures begin with the NAS expanded resource definition, they vary in whether and how they treat out-of-pocket medical expenses, home-equity values, and financial balances (including defined-contribution pensions). Poverty measures II and III use the same resource definition and differ in whether the thresholds include expected medical expenses. Measures IV through VI all deduct out-of-pocket medical spending from the NAS expanded resource definition. The RAND HRS Data File provides a value for out-of-pocket medical spending including hospital stays, nursing homes, doctor visits, dental care, outpatient surgery, prescription drugs, home health care, and special facilities. Respondents are asked about health spending over the past two years, and we use one-half of their spending in this measure. We also add health insurance premiums to these out-of-pocket costs to match the concept used by the Census Bureau.

Poverty measures V and VI show how poverty changes when imputed rental income and annuitized asset values are added to income. We use a relatively straightforward measure for imputed rent by estimating the rate of return on home equity less taxes. The RAND HRS Data File provides the value of home equity (respondents report market value and mortgage debt), and the HRS provides information on property taxes. We assume that the rate of return on home equity would approximate that for high-grade municipal bonds (e.g., Standard & Poor's).⁸ The HRS does not include an estimate for home maintenance in the core survey, so our estimate of imputed rent will somewhat overstate the value of owner-occupied housing. This method of calculating home-equity value generally follows that used by the Census Bureau in their experimental measure of poverty (U.S. Census Bureau 1993).

⁸ This was 4.73 percent in 2003 (Council of Economic Advisers 2004).

Poverty measure VI also includes the annuitized value of defined-contribution pension balances and other financial assets, net of taxes. We use annuity factors based on life tables from the Social Security Office of the Chief Actuary to calculate the amount that individuals could receive if they annuitized these balances (Board of Trustees 2005). Annuity values vary by age and assume a 6 percent nominal rate of return on assets. We deduct regular annual income from financial assets and defined-contribution pension assets from the estimated annual annuity value, since these probably reflect an income stream derived from these assets.⁹ We also deduct taxes from the annuitized income derived from defined-contribution balances and the interest earned on financial assets.¹⁰

Thresholds (Equivalence Scales)

The different measures of resources described above are used with corresponding 2003 thresholds provided by the Census Bureau (table 1). The official poverty thresholds (measure I) assume that a single person age 65 or older requires about 92 percent as much income as a person under age 65 (\$8,825 compared with \$9,573), and that a couple requires 26 percent more than a single person (e.g, \$11,122 compared with \$8,825).

The NAS-recommended thresholds (NAS-1) include spending for a reference family of two adults and two children on food, clothing, shelter, and utilities and a modest adjustment for other needs, based on three-year average values from the CEX. The thresholds vary by size and

⁹ It is possible that some individuals report some spend-down of these assets in their 2003 incomes, in addition to income generated from the assets. To the extent that this is true, we will underestimate the potential annuitized values.

¹⁰ Since financial assets represent posttax savings, original balances would not be taxable. Also, since the 2004 HRS predates the growth in posttax Roth IRA savings, the assumption that all defined-contribution balances are taxable seems reasonable.

composition of family units, *but with no differential for persons over age 65*. The NAS-1 threshold indicates that couples need 41 percent more income than singles (\$12,915 compared with \$9,167), considerably higher than the 26 percent differential in the official measure. Consequently, the NAS-1 threshold is only 4 percent higher than the official poverty threshold for an older single person, but 16 percent higher for an older couple.

The third equivalence scale (NAS-2) adds “expected” out-of-pocket medical spending to family needs. The Census Bureau used data on health insurance premiums, copayments to medical providers, and other expenses such as over-the-counter medications from the CEX (averaged over 1997–1999 and adjusted by the CPI) and data from the 1996 Medical Expenditures Panel Survey to impute expected health expenditures by family size, the presence of elderly family members, health status of family members, and health insurance coverage (U.S. Census Bureau 2005). The NAS-2 thresholds are between 13 and 29 percent higher than the official measure for a single older person in 2003 and between 31 and 51 percent higher than the official measure for an older couple—depending on health status and health insurance coverage.

As noted earlier, there is broad agreement that out-of-pocket health spending should be included in poverty measurement, but no consensus on how it should be included. We show how poverty changes when expected out-of-pocket health spending is included in the thresholds and when actual out-of-pocket spending is deducted from resources. Poverty measure III uses the NAS-2 thresholds, and measures II, IV, V, and VI use the NAS-1 thresholds. We highlight the NAS-1 measure since it was recommended in the original NAS study and relies on self-reported health expenses. We expect that self-reported health expenses in the HRS provide a more accurate estimate of older adults’ health care needs than commonly used imputed values.

Older Adults' Resources and Nondiscretionary Spending¹¹

Older adults' family resources and the resources' average values differ tremendously by income level (table 2). Compared with higher-income older adults (defined as those in families with incomes at least two times the poverty level), the poor are less likely to have earnings (6.2 percent compared with 37.0 percent) and pension benefits (8.7 percent compared with 66.6 percent for defined-benefit income and 1.5 percent compared with 36.7 percent for defined-contribution pension income). On the other hand, the poor are more likely to have public transfers such as SSI or veterans' benefits (29.9 percent compared with 11.5 percent) and in-kind transfers such as food stamps or housing subsidies (40.9 percent compared with 0.9 percent). The poor also are less likely to pay taxes or to have medical expenses, income from imputed rent, or annuitized assets than nonpoor individuals. Still, around half have some imputed rental income (44.5 percent) and annuitized assets (55.5 percent), both sources of income not included in the official poverty measure.

The values of these components of income also vary tremendously by poverty status (panel B of table 2). For example, average family earnings for the small share of poor individuals with family earnings are only \$2,060, compared with \$41,858 for those with income at least two times higher than the poverty level. Average family pension benefits also rise dramatically with income. Average family private transfers, including alimony, are only \$1,528 for poor individuals, compared with \$43,506 for those with income at least two times higher than the

¹¹ As noted earlier, we restrict our sample to adults age 65 and older living alone or with a spouse and no one else. We use the term "older adults" to refer to our sample throughout the paper even though not all adults age 65 and older are included.

Table 2. Family Resources, Expenses, and Income of Adults Age 65 and Older in 2004, by Income Relative to the Official Poverty Level

	Income Relative to Official Poverty				
	Poor	1.0 < 1.5	1.5 < 2.0	>= 2.0	All
A. Percent with Source					
Earnings	6.2%	4.9%	14.7%	37.0%	29.4%
Capital Income	28.1	39.5	59.9	82.6	72.3
Social Security	89.0	99.4	98.4	97.3	97.1
Defined-Benefit Pension	8.7	23.1	46.7	66.6	56.2
Defined-Contribution Distribution	1.5	3.8	11.3	36.7	28.4
Public Transfers	29.9	8.9	6.5	11.5	11.9
Private Transfers	1.3	1.8	2.5	8.8	6.9
Capital Gains/Losses (Realized)	0.8	1.8	4.8	8.0	6.6
Income/Payroll Taxes ^a	4.7	25.4	76.6	95.0	79.9
In-Kind Transfers ^b	40.9	18.1	4.8	0.9	5.7
Out-of-Pocket Medical Expenses	74.9	88.8	94.5	98.4	95.4
Imputed Rental Income ^c	44.5	57.3	73.5	85.1	78.4
Net Annuitized Assets ^d	55.5	70.3	77.2	79.3	76.6
B. Average Values (Non-Zero Obs)					
Earnings	\$2,060	\$3,036	\$5,193	\$41,858	\$38,802
Capital Income	534	896	1,598	13,285	11,280
Social Security	6,380	10,472	13,125	17,512	15,641
Defined-Benefit Pension	1,857	2,721	4,301	23,867	21,108
Defined-Contribution Distribution	1,402	2,258	2,539	17,950	17,062
Public Transfers	2,277	3,037	5,147	12,824	9,914
Private Transfers	1,528	2,029	3,417	43,506	40,422
Capital Gains/Losses (Realized)	4,442	9,840	20,996	14,589	14,841
Income/Payroll Taxes ^a	540	322	581	12,249	10,692
In-Kind Transfers ^b	3,156	3,842	2,760	3,056	3,343
Out-of-Pocket Medical Expenses	3,557	4,008	5,644	8,572	7,760
Imputed Rental Income ^c	2,124	3,201	3,668	4,261	3,989
Net Annuitized Assets ^d	4,156	6,157	11,160	40,281	32,343
C. Average Values (All Obs)					
Earnings	\$127	\$149	\$763	\$15,489	\$11,398
Capital Income	137	340	875	10,484	7,779
Social Security	5,675	10,405	12,915	17,037	15,183
Defined-Benefit Pension	161	629	2,010	15,888	11,866
Defined-Contribution Distribution	21	85	287	6,583	4,841
Public Transfers	682	269	333	1,477	1,184
Private Transfers	20	36	86	3,822	2,801
Capital Gains/Losses (Realized)	33	180	1,014	1,167	973
Income/Payroll Taxes ^a	26	81	444	11,642	8,546
In-Kind Transfers ^b	1,289	695	133	26	190
Out-of-Pocket Medical Expenses	1,590	2,841	3,466	4,192	3,807
Imputed Rental Income ^c	1,542	2,254	4,127	7,036	5,882
Net Annuitized Assets ^d	2,246	4,160	7,805	29,862	23,145
D. Average Value of Alternative Resource Measures					
I	\$6,823	\$11,913	\$17,268	\$70,781	\$55,052
II and III	8,120	12,707	17,972	60,332	47,670
IV	6,530	9,866	14,506	56,140	43,863
V	8,072	12,120	18,633	63,176	49,745
VI	10,318	16,280	26,438	93,039	72,890
E. Share of Population					
	6.5%	10.6%	9.9%	72.9%	100.0%

Source: Authors' calculations using the 2004 Health and Retirement Study and the RAND HRS Data File.

Notes: The sample consists of 7,883 respondents (representing 26.9 million adults) age 65 and older who live alone or with a spouse and no one else.

^aIncome and payroll taxes are calculated using the Bakija (2005) tax calculator.

^bIn-kind transfers include food stamps and housing subsidies imputed using the fair-market rent for the region.

^cImputed rental income is the estimated rate of return on housing equity less property taxes.

^dNet annuitized assets is the annuitized value of defined-contribution pension balances and financial assets, net of taxes. See text for details.

poverty level. Annuitized assets (net of taxes) rise steeply with income among those with this asset, reflecting that individuals with higher family incomes have much greater financial assets.

Other components of income vary less by poverty status. For example, average family Social Security benefits rise much more gradually with income, reflecting the progressive tilt in the Social Security benefit formula. Family out-of-pocket medical expenses also vary less by income (\$3,557 for poor individuals compared with \$8,572 for higher-income individuals), presumably reflecting insurance protection against high expenses from Medicare and the supplemental plans more common among higher-income individuals. Finally, imputed rent does not vary considerably by income level among homeowners (\$2,124 for poor individuals compared with \$4,261 for higher-income individuals).

On average, older adults in poor families derive less from most of these sources than higher-income adults (panel C of table 2). Defined-benefit and defined-contribution pensions (\$182) contribute 2.7 percent and earnings (\$127) only 1.9 percent of family cash income (\$6,823) for poor individuals, while Social Security benefits (\$5,675) provide 83.2 percent. In contrast, individuals with incomes at least two times the poverty level receive 31.8 percent of their family cash incomes from pensions and 21.9 percent from earnings, but only 24.1 percent from Social Security.

Average family income for the alternative resource measures varies considerably from the basic cash-income measure used for measuring poverty (panel D of table 2). For example, the NAS's expanded resource definition (measures II and III) increases the average family income of poor adults age 65 and older from \$6,823 to \$8,120. Because out-of-pocket medical spending more than offsets the additions to income in the expanded resource definition (especially in-kind

transfers), average family income decreases to \$6,530 with measure IV. However, adding imputed rental values increases the average family income of poor older adults to \$8,072 (measure V), and adding annuitized assets further increases average family income to \$10,318 (measure VI). These additional income sources have a greater relative effect on average family income for the poor than they do for higher-income older adults. Relative to the cash income used in the official poverty measure (I), the fullest resource measure (VI) increases family income by 51 percent for poor individuals, but only 31 percent for individuals with income at least two times the poverty level.

The receipt of income sources and average amounts also varies by demographic group (table 3). Blacks and Hispanics receive in-kind transfers more often than whites (20.5 and 22.9 percent, respectively, compared with 4.1 percent), and divorced and never-married individuals receive in-kind transfers more often than married individuals (20.6 and 13.1 percent, respectively, compared with 1.8 percent). On average, in-kind transfers increase family income relatively little (\$665, or 2 percent, for blacks, for example). However, as shown above, these benefits can make an important difference for the subset of individuals in families receiving them.

Nearly all older adults have out-of-pocket health expenses (95.4 percent), although Hispanics report these much less often than others (78.6 percent). Average annual medical expenses reflect differences in spending as well as differences in family structure. That is, expenses reflect the total for the family unit, and couples will have higher expenses than singles, on average. Spending for Hispanics, widowed adults, and never-married adults falls significantly below the average for all older adults. Lower expenditures could reflect lower discretionary

Table 3. Family Resources and Expenses of Adults Age 65 and Older in 2004, by Personal Characteristics

	Resources and Expenses						
	Cash Income	Capital Gains/ Losses	Income/ Payroll Taxes ^a	In-Kind Transfers ^b	Out-of- Pocket Medical	Imputed Rental Income ^c	Net Annuitize Assets ^d
PERCENT WITH SOURCE							
ALL	100%	6.6%	79.9%	5.7%	95.4%	78.4%	76.6%
Age							
65–74	99.8	6.8	85.0	4.9	96.2	81.8	72.0
75–84	100.0	6.8	77.6	6.3	94.9	78.2	80.0
85+	99.6	4.6	63.8	7.4	93.4	62.3	86.9
Sex							
Male	99.8	7.0	85.4	3.4	96.1	81.8	75.6
Female	99.9	6.2	75.7	7.5	95.0	75.7	77.4
Race							
White, Other	99.9	7.1	82.5	4.1	96.5	80.1	79.4
Black	99.3	1.3	57.1	20.5	89.3	59.1	45.7
Hispanic	99.1	1.2	49.1	22.9	78.6	64.1	50.6
Marital Status							
Married	100.0	7.9	88.3	1.8	98.6	87.1	76.7
Divorced	99.4	5.2	65.2	20.6	87.2	55.5	66.3
Widowed	99.9	4.2	69.3	9.5	91.6	67.5	79.0
Never Married	98.9	6.3	45.3	13.1	87.7	58.5	76.2
Employment							
Self Works Only	100.0	6.8	99.7	2.5	96.4	81.0	73.8
Spouse Works Only	100.0	8.0	99.7	1.6	99.8	87.1	74.0
Both Work	100.0	8.1	99.7	0.2	99.8	85.2	67.9
No One Works	99.8	6.3	73.8	6.9	94.6	76.7	77.8
AVERAGE VALUES (All obs)							
ALL	\$55,052	\$973	\$8,546	\$190	\$3,807	\$5,882	\$23,145
Age							
65–74	66,978	1,111	11,600	156	3,948	6,387	16,872
75–84	45,347	944	5,905	216	3,722	5,630	24,307
85+	31,626	408	3,106	265	3,422	4,321	49,585
Sex							
Male	65,638	1,114	10,849	105	3,989	6,866	25,511
Female	46,830	864	6,757	256	3,665	5,118	21,308
Race							
White, Other	57,580	1,059	9,057	142	3,889	6,195	25,217
Black	31,894	79	4,060	665	3,194	2,095	1,339
Hispanic	24,970	130	2,162	710	2,603	3,656	3,084
Marital Status							
Married	71,548	1,270	11,682	46	4,598	7,275	24,713
Divorced	32,984	567	5,098	651	3,298	3,372	6,917
Widowed	27,489	421	3,208	352	2,457	3,817	24,274
Never Married	35,529	1,223	3,885	457	1,712	3,238	19,997
Employment							
Self Works Only	72,021	719	13,547	84	4,418	5,456	24,393
Spouse Works Only	86,077	1,258	16,049	54	5,427	6,494	19,934
Both Work	122,795	631	28,382	2	3,543	7,292	8,724
No One Works	45,490	1,004	5,901	231	3,563	5,809	24,078

Source: Authors' calculations using the 2004 Health and Retirement Study and the RAND HRS Data File.

Notes: The sample consists of 7,883 respondents (representing 26.9 million adults) age 65 and older who live alone or with a spouse and no one else.

^aIncome and payroll taxes are calculated using the Bakija (2005) tax calculator.

^bIn-kind transfers include food stamps and housing subsidies imputed using the fair-market rent for the region.

^cImputed rental income is the estimated rate of return on housing equity less property taxes.

^dNet annuitized assets is the annuitized value of defined-contribution pension balances and financial assets, net of taxes. See text for details.

health spending among these groups or greater public health insurance coverage (such as supplemental Medicaid coverage) that reduces out-of-pocket copayments and premiums.

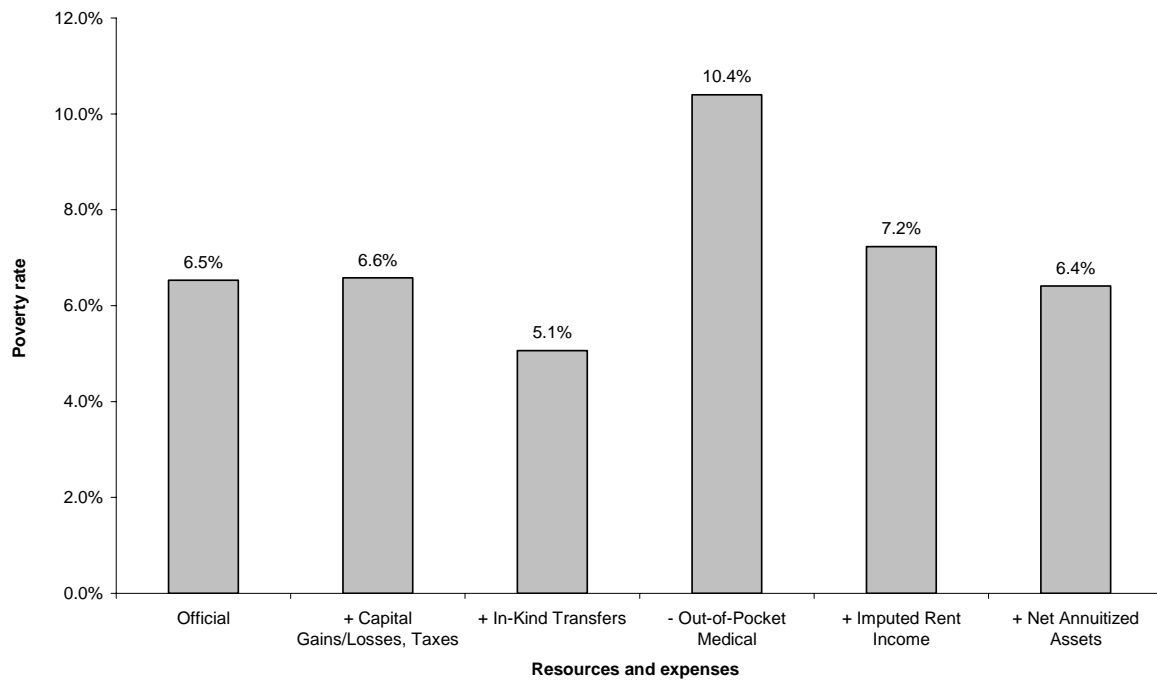
Imputed rental income also varies in important ways across demographic groups. The share of older adults with imputed rental income declines across age groups (81.8 percent of 65 to 74 year olds compared with 62.3 percent of those 85 and older). The result indicates that at advanced ages, some older adults sell their homes and downsize into a rental apartment as a result of widowhood or serious illness (Venti and Wise 2004). Correspondingly, average imputed rent values decline with age from \$6,387 for adults age 65 to 74 years old to \$4,321 for those age 85 and older. The share of older adults with imputed rental income also varies by race, with blacks and Hispanics much less likely to own homes than whites (59.1 and 64.1 percent compared with 80.1 percent). The lower homeownership rates partly explain why average imputed rent is only \$2,095 for blacks and \$3,656 for Hispanics, but over \$6,195 for whites. Of course, these values also reflect differences in home equity.

Blacks and Hispanics also have far fewer assets to annuitize. Half or fewer have family assets compared with 79.4 percent of whites, and their annuitized asset values are dramatically lower than whites'. Annuitized assets, on average, could contribute \$1,339 to retirement income for blacks and \$3,084 for Hispanics, compared with \$25,217 for whites. The potential contribution of annuitized assets is also extremely low for divorced seniors—only \$6,917 on average. As we explore below, these variations play an important role in determining poverty outcomes for subgroups using alternative resource and threshold measures.

Alternative Measures of Poverty

The alternative treatment of resources and expenses has important implications for the assessment of poverty among older adults (figure 1). Using the official measure, the HRS data suggest that 6.5 percent of older adults live in poverty.¹² The addition of capital gains (and losses) and deduction of income taxes increase poverty slightly to 6.6 percent, and the addition of in-kind transfers reduces the poverty rate for older adults to 5.1 percent. Subtracting out-of-pocket medical expenses dramatically increases poverty to 10.4 percent of older adults. Adding imputed rent income increases poverty to 7.2 percent, and adding net annuitized assets increases poverty to 6.4 percent.

Figure 1. Sensitivity of Official Poverty Rate to Alternative Resources and Expenses Among Adults Age 65 and Older in 2004



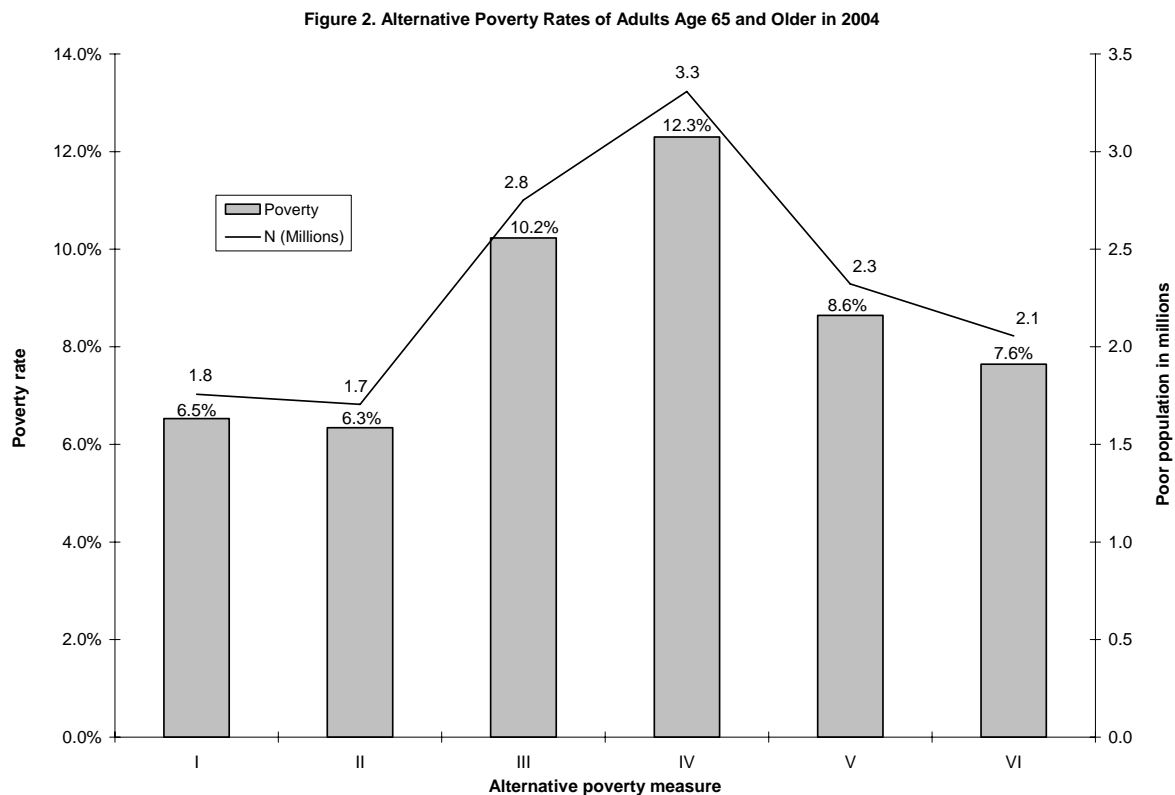
Source: Authors' calculations using the 2004 Health and Retirement Study and the RAND HRS Data File.

Notes: The sample consists of 7,883 respondents (representing 26.9 million adults) age 65 and older who live alone or with a spouse and no one else. Taxes are calculated using the Bakija (2005) tax calculator. In-kind transfers include food stamps and housing subsidies imputed using the fair-market rent for the region. Imputed rental income is the estimated rate of return on housing equity less property taxes. Net annuitized assets is the annuitized value of defined-contribution pension balances and financial assets, net of taxes. All measures use official Census thresholds and show how the cumulative additions and subtractions from income affect poverty. See text for details.

¹² The estimated rate is lower than 9.9 percent for an equivalent sample of adults age 65 and older living alone or with a spouse and no one else, using the official poverty definition and the March 2004 Current Population Survey (CPS) (based on calculations by the authors). As noted earlier, Hurd and Rohwedder (2006) also document that the HRS produces a lower poverty rate because of better reporting of income sources compared with the CPS.

Subsequent additions of imputed rent and annuitized assets moderate the influence of out-of-pocket medical spending, reducing poverty to 7.2 and 6.4 percent respectively.

Using the thresholds that reflect updated expense patterns, together with the alternative resource measures, further changes the estimated number of older adults living in poverty (figure 2). All but alternative measure II (accounting for capital gains/losses, in-kind transfers, and taxes, but not health spending) suggest that more older adults live in poverty than the official measure. Measure III, which uses higher thresholds reflecting an expected value of health expenses, indicates a 10.2 percent poverty rate, almost 4 percentage points higher than the official measure. Measure IV, which instead subtracts out-of-pocket health spending from



Source: Authors' calculations using the 2004 Health and Retirement Study and the RAND HRS Data File.

Notes: The sample consists of 7,883 respondents (representing 26.9 million adults) age 65 and older who live alone or with a spouse and no one else. See table 1 and text for a description of the alternative poverty measures.

income, indicates that 12.3 percent of seniors live in poverty, nearly 6 points higher than the official measure. The HRS estimates of actual out-of-pocket medical spending exceed the expected amounts incorporated in the NAS-2 threshold and lead to higher estimates of poverty. For example, family out-of-pocket health spending averages \$4,598 over all married individuals (see table 3), but the NAS-2 threshold allows only between \$1,632 and \$3,888 in out-of-pocket medical expenditures for couples age 65 and older.¹³

Measures V and VI, which add the imputed rent and the annuitized value of assets, still indicate that older persons experience greater poverty than suggested by the official measure. For example, measure VI, which includes the value of both housing and financial assets, increases poverty by 1.1 percentage points (7.6 percent compared with 6.5 percent). Taken together, the alternative poverty measures that account for health expenses imply that between 0.3 million and 1.5 million more older adults live in poverty than the 1.8 million indicated by the official poverty measure.

The alternative measures also change the poverty rates of subgroups (table 4). Using the official poverty measure (I), older black, Hispanic, and single adults (especially those never married) have much higher poverty rates than their counterparts. Over one-quarter of older Hispanic adults and one-fifth of older black adults fall below the official poverty threshold. One in five never-married older adults also fall below the official poverty threshold.

¹³ This is the difference between the NAS-2 and NAS-1 thresholds in table 1. For couples, this is between \$14,547 and \$16,803 minus \$12,915. Similarly, for nonmarried individuals, out-of-pocket health spending averages \$2,563 (not shown), yet the NAS-2 threshold allows only between \$860 and \$2,232 in out-of-pocket medical expenditures for singles.

**Table 4. Alternative Poverty Rates of Adults Age 65 and Older in 2004,
by Personal Characteristics (percent)**

	Alternative Poverty Measure					
	I	II	III	IV	V	VI
ALL	6.5%	6.3%	10.2%	12.3%	8.6%	7.6%
Age						
65–74	5.4	5.4	8.2	10.2	7.6	7.2
75–84	6.6	6.2	10.8	12.6	8.3	7.0
85+	11.8	11.2	18.4	21.4	15.0	11.9
Sex						
Male	3.9	4.4	7.2	9.2	6.8	6.3
Female	8.6	7.9	12.6	14.7	10.1	8.7
Race						
White, Other	4.8	4.8	8.5	10.7	7.1	6.0
Black	22.5	20.0	25.9	26.3	22.9	22.7
Hispanic	27.8	25.8	31.2	32.7	26.3	26.1
Marital Status						
Married	2.0	3.0	5.7	7.9	5.5	5.3
Divorced	17.3	13.0	18.7	20.5	16.2	15.5
Widowed	12.0	10.9	16.8	18.8	12.7	10.1
Never Married	20.8	14.9	19.6	20.9	15.4	14.6
Employment						
Self Works Only	1.5	1.6	2.2	4.0	2.8	2.5
Spouse Works Only	0.8	1.1	1.6	4.0	3.1	3.2
Both Work	0.0	0.0	0.2	0.7	0.7	1.2
No One Works	8.3	8.0	12.9	15.1	10.6	9.3

Source: Authors' calculations using the 2004 Health and Retirement Study and the RAND HRS Data File.

Notes: The sample consists of 7,883 respondents (representing 26.9 million adults) age 65 and older who live alone or with a spouse and no one else. See table 1 and text for a description of the alternative poverty measures.

The patterns within demographic groups look similar for alternative poverty measure II (i.e., the expanded resource definition with the NAS-1 thresholds that exclude health spending). However, poverty rates increase for married adults and decline for single adults, primarily because the new threshold increases by a much larger amount for two-person families than for singles. Poverty rates also decline significantly for blacks and Hispanics: single adults, blacks,

and Hispanics more often receive in-kind transfers, which are included in income under measure II.

Alternative poverty measure III, which uses the NAS-2 thresholds that include expected out-of-pocket medical expenses, produces higher poverty rates than measure II for all subgroups. However, poverty rates increase relatively more for whites (by 77 percent) than for blacks (by 30 percent) or Hispanics (by 21 percent), reflecting differences in expected medical costs that vary by age, health insurance coverage, and health status. Blacks and Hispanics are less likely to have out-of-pocket medical expenses (see table 3). And, they are more likely to have public health insurance coverage with lower out-of-pocket health expenses.

Alternative poverty measure IV, which subtracts out-of-pocket medical spending from income and uses NAS-1 thresholds without health spending, leads to significant increases in poverty rates for the majority of subgroups. Compared with measure II, which differs from measure IV only in that it does not deduct health spending from resources, poverty rates double for 75- to 84-year-olds (12.6 percent compared with 6.2 percent) and adults age 85 and older (21.4 percent compared with 11.2 percent). Rates more than double for men, whites, married adults, and adults in families with one earner—reflecting their relatively high out-of-pocket health spending. Still, rates for blacks, Hispanics, and single adults exceed those of other groups.

Adding imputed rental values to income (measure V) reduces poverty almost 4 percentage points (30 percent) relative to measure IV. This definition reduces poverty for adults age 75 to 84 by 4.3 percentage points (34 percent) and those age 85 and older by 6.4 percentage points (30 percent), somewhat more than the decline for adults age 65 to 74 (25 percent). Poverty

declines by 34 percent for whites, but only 20 percent for Hispanics and 13 percent for blacks, reflecting the differences in homeownership and housing equity discussed earlier.

Adding the annuitized value of financial and pension assets to resources (measure VI) further reduces poverty by 1.0 percentage point. This measure boosts income for seniors age 85 and older sufficiently to reduce their poverty rate to 11.9 percent, about the same as the official poverty measure. In part, the dramatic change is due to the large annuity values that can be received at this age, given the low remaining life expectancy.¹⁴ The addition of annuitized assets to the income of whites reduces their poverty rates by 1.1 percentage points (15 percent) relative to measure V, but has little effect on the poverty rates of blacks and Hispanics because they have relatively few assets. Including annuitized assets in income reduces poverty rates especially for widowed older adults relative to both measure V and the official poverty measure. This result reflects the assets of this group, as well as its high average age (and, therefore, high annuity values) relative to married individuals. But while annuitized assets could improve the well-being of widowed adults, their poverty rate still remains substantially higher than that for married adults.

Composition of Poverty

The composition of poverty by sex, race, and marital status changes somewhat across the six alternative measures (table 5). Using the official poverty measure, poor older adults tend to be female rather than male; white rather than black or Hispanic; widowed rather than married, divorced, or never married; and not working rather than working. Of course, these compositional

¹⁴ Of course, if older people were encouraged to annuitize more of their assets at younger ages, the decline in poverty would not be as large. The trade-off, however, would be a better standard of living throughout retirement.

factors tend to reflect the greater numbers of females, whites, widows, and retirees in the older population as well as their economic status.

Table 5. Composition of Poor Adults Age 65 and Older in 2004, by Alternative Poverty Measure (percent)							
	Share	Alternative Poverty Measure					
		I	II	III	IV	V	VI
ALL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Age							
65–74	51.6	42.9	41.2	44.2	42.9	45.4	48.9
75–84	37.9	38.0	39.8	37.2	38.7	36.2	34.6
85+	10.6	19.1	19.0	18.6	18.4	18.4	16.5
Sex							
Male	43.7	26.2	30.8	30.0	32.8	34.5	35.8
Female	56.3	73.8	69.2	70.0	67.2	65.5	64.2
Race							
White, Other	91.1	66.5	75.7	68.7	79.1	75.0	72.0
Black	5.5	19.0	13.9	17.4	11.8	14.6	16.4
Hispanic	3.4	14.5	10.4	13.9	9.1	10.4	11.7
Marital Status							
Married	61.1	18.7	34.1	29.3	39.0	38.9	42.0
Divorced	7.4	19.5	13.4	15.1	12.3	13.8	15.0
Widowed	28.7	52.9	47.1	49.2	43.9	42.3	37.8
Never Married	2.8	8.9	5.4	6.6	4.8	5.0	5.3
Employment							
Self Works Only	11.9	2.7	2.6	3.0	3.9	3.9	4.0
Spouse Works Only	7.7	1.0	1.2	1.3	2.5	2.7	3.3
Both Work	4.2	0.0	0.1	0.0	0.2	0.3	0.7
No One Works	76.2	96.3	96.1	95.8	93.4	93.0	92.1

Source: Authors' calculations using the 2004 Health and Retirement Study and the RAND HRS Data File.

Notes: The sample consists of 7,883 respondents (representing 26.9 million adults) age 65 and older who live alone or with a spouse and no one else. See table 1 and text for a description of the alternative poverty measures.

All the alternative poverty measures increase the share of poor who are male, white, or married. This result is primarily because the NAS poverty thresholds estimate a higher cost of needs for married couples relative to singles when compared with the official poverty thresholds. As a result, married individuals make up close to 20 percent of the poor population using the official measure, but 30 percent or more of the population using the alternative poverty

measures. And because males and whites are more likely than females, blacks, and Hispanics to be married at older ages, their representation among the poor also increases with the alternative poverty measures. When medical expenses are deducted from income (measures IV through VI), the share of poor married persons increases even further to about 40 percent, reflecting high out-of-pocket spending among married older couples.

Distribution of Income Relative to Poverty

The alternative measures also change the distribution of income relative to poverty (table 6). For example, the share of older adults in deep poverty (defined as those in families with incomes less than half of the poverty level) increases more than 4.5 times using the NAS measure with health expenses deducted from income (IV), compared with the official measure (I). Even after adding imputed rent and annuitized assets to resources (measures V and VI), the share of older adults in deep poverty triples in comparison with the official poverty measure. Moreover, all of the poverty measures show a greater share of low-income adults (defined as those in families with income less than two times the poverty level) than the official poverty measure—with the exception of measure VI that includes annuitized assets along with imputed rent and all other resources.

All the alternative measures lead to lower shares of men with income at least two times the poverty level, compared with the official definition. With one exception, the alternatives also lead to lower shares of women with income at least at two times the poverty level. Only measure VI, which includes annuitized assets, suggests that a higher share of women have incomes above two times the poverty level (70.3 percent compared with 66.4 percent). Although adding the

annuitized value of all assets improves the relative position of women, their economic status remains significantly below that of men.

Table 6. Distribution of Adults Age 65 and Older in 2004, by Alternative Poverty Measure and Income Relative to the Official Poverty Level (percent)						
	Alternative Poverty Measure					
	I	II	III	IV	V	VI
INCOME RELATIVE TO POVERTY						
All	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
< .5	0.8	0.9	1.2	3.7	2.6	2.4
.5 < 1.0	5.8	5.4	9.0	8.7	6.0	5.3
1.0 < 1.5	10.6	12.5	17.0	13.3	10.7	8.9
1.5 < 2.0	9.9	13.3	15.7	13.3	12.2	9.4
>= 2.0	72.9	67.8	57.1	61.0	68.5	74.1
Men	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
< .5	0.6	0.8	1.1	3.1	2.2	2.1
.5 < 1.0	3.3	3.6	6.1	6.1	4.6	4.2
1.0 < 1.5	7.1	8.9	13.1	9.9	7.6	6.5
1.5 < 2.0	7.6	11.1	14.6	12.1	10.1	8.3
>= 2.0	81.3	75.6	65.1	68.9	75.5	79.0
Women	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
< .5	0.9	1.0	1.4	4.1	2.9	2.6
.5 < 1.0	7.6	6.8	11.2	10.6	7.1	6.2
1.0 < 1.5	13.3	15.3	20.0	16.0	13.1	10.7
1.5 < 2.0	11.7	15.0	16.5	14.3	13.8	10.3
>= 2.0	66.4	61.8	50.9	55.0	63.1	70.3

Source: Authors' calculations using the 2004 Health and Retirement Study and the RAND HRS Data File.

Notes: The sample consists of 7,883 respondents (representing 26.9 million adults) age 65 and older who live alone or with a spouse and no one else. See table 1 and text for a description of the alternative poverty measures.

Poverty and Individual Assessments of Well-Being

Comparing the alternative poverty measures with subjective measures of well-being collected in the HRS can help us evaluate the measures' ability to capture self-reported economic need. The alternatives generally track individuals' assessments of well-being better than the official poverty

measure (table 7). For example, 47.8 percent of older adults who are classified as poor when health expenses are accounted for (measures III and IV) report having extreme difficulty paying bills, compared with only 31.5 percent using the official measure. In contrast, the prevalence of poverty among those reporting difficulty paying bills is only 33.0 percent when counting

Table 7. Alternative Poverty Rates of Adults Age 65 and Older in 2004, by Qualitative Measures of Well-Being (percent)						
	Alternative Poverty Measure					
	I	II	III	IV	V	VI
ALL	6.5%	6.3%	10.2%	12.3%	8.6%	7.6%
Difficulty Paying Bills						
Not at All	1.7	2.1	3.6	3.8	2.6	1.5
Not Very	3.4	3.3	6.8	9.3	6.0	4.8
Somewhat	6.5	8.4	17.0	21.1	15.8	13.2
Very	18.4	16.0	27.3	23.0	8.8	8.8
Extremely	31.5	43.6	47.8	47.8	33.0	35.3
Enough Money for Food						
Yes	5.8	5.7	9.4	11.3	7.8	6.8
No	20.9	18.3	24.5	32.3	25.1	24.2
Skip Meals (if not enough food)						
Yes	40.2	28.5	35.8	46.6	42.4	43.4
No	14.7	15.4	21.2	27.8	19.6	18.0
Depressed						
Yes	13.8	13.2	19.8	23.9	17.9	16.8
No	5.0	4.7	8.0	9.8	6.6	5.7
Retirement Satisfaction						
Very	3.7	3.3	6.3	7.7	4.7	4.0
Moderate	9.5	8.5	14.0	17.2	12.4	11.2
Not at All	16.3	17.7	26.3	32.3	25.6	24.8
Health Status						
Excellent/Very Good	3.8	3.8	5.8	7.2	4.4	3.9
Good	5.1	5.2	8.9	11.0	7.8	6.7
Fair/Poor	12.0	11.2	17.9	20.9	15.4	13.9

Source: Authors' calculations using the 2004 Health and Retirement Study and the RAND HRS Data File.

Notes: The sample consists of 7,883 respondents (representing 26.9 million adults) age 65 and older who live alone or with a spouse and no one else. See table 1 and text for a description of the alternative poverty measures.

imputed rental income (V) and 35.3 percent when counting annuitized assets (VI). Since imputed rental values and especially annuitized assets are not immediately available for spending, it is not

surprising that they do not track as well with qualitative measures of financial stress as the other measures do.

Similarly, alternative poverty measures III through VI generally line up better with assessments of having enough money for food than the official poverty measure does. For example, 20.9 percent of those saying they do not have enough to pay for food are poor using the official measure, compared with one-quarter or more using measures III through VI.

Considering broader measures of well-being among older adults, the alternative poverty rates III through VI are higher than the official poverty rates among those reporting depression, retirement dissatisfaction, and fair or poor physical health. Again, the alternative measure that deducts health spending from income but excludes imputed rent and annuitized assets (IV) lines up closest with those reporting these types of distress. For example, 32.3 percent of poor seniors expressing no satisfaction with retirement fall below the poverty level using measure IV, compared with 16.3 percent using the official poverty measure. The higher poverty rates among those reporting fair to poor health using the alternative measures IV through V (which deduct out-of-pocket health spending from income) likely reflect higher health care costs among those in worse health.

Summary and Implications

The dramatic decline in the official poverty rate of adults age 65 and older over the last four decades leads many to assume that reducing poverty among older adults need not be a priority. This general observation fails to recognize the deficiencies in the official measure of poverty in the United States. More contemporary measures that account for out-of-pocket health spending

as well as in-kind transfers, capital gains and losses, and income and payroll taxes in addition to basic cash income and whose thresholds reflect more current consumption patterns produce poverty rates 57 to 89 percent higher than the official rate. Although these alternative measures suggest higher poverty among nearly all demographic groups, they increase poverty the most for men, whites, and married adults because they have relatively high health expenses and are more affected by the new thresholds that estimate higher costs for couples relative to single people.

Alternative poverty rates are still 32 percent higher than the official measure even when the imputed rental value of housing is included in resources, and 17 percent higher when both the value of housing and financial assets are included. These two resources reduce poverty among whites much more than among blacks and Hispanics. Whites more often own these assets, and their assets have substantially higher values than blacks' and Hispanics'.

Poverty remains concentrated among blacks and Hispanics, single adults (disproportionately women), and individuals age 85 and older across all the poverty measures we calculate. For example, one in five older blacks and one in four older Hispanics live in poverty, even after adding all possible resources to their income.

The alternative poverty measures imply that between 0.3 million and 1.5 million more older adults live in poverty when out-of-pocket health spending is taken into account. These results highlight the need to update poverty measures so that they better reflect older adults' circumstances. We also show that the alternative measures track qualitative measures of well-being, such as difficulties paying bills, better than the official measure. The disparities in poverty rates between the official poverty measure and these alternatives also highlight the value of considering other measures of economic well-being such as the Elder Economic Security

Standard, which estimates the income required to meet daily living costs across different geographic areas (Russell and Bruce 2007).

Higher alternative poverty rates among older adults and especially high rates among some subgroups show the importance of protecting vulnerable groups when considering reforms that reduce the cost of government programs for retirees. They also underscore the importance of considering new policies to boost the incomes of the poorest older adults. Any Social Security reform debate must take into account that Social Security benefits account for over 80 percent of the cash income of poor and near-poor adults age 65 and older. Proposals such as progressive price indexing (i.e., indexing benefits by prices for high-income workers and by wages for low-income workers) would preserve scheduled increases in benefits for low-income retirees while cutting program costs. A new Social Security minimum benefit, enacted alone or as part of a larger reform package, also could protect the lowest-income adults (Favreault et al. 2007). Changes in Medicare policy that either increase out-of-pocket medical costs or premiums should exempt low-income enrollees, since higher out-of-pocket health care costs would lead to higher poverty rates among older adults.

The safety net for older adults also could be improved by reforming the SSI program. Increasing the asset limit to reflect changes in the cost of living since it was set in 1972 would help more older adults qualify. Increasing the maximum benefit to the poverty threshold would allow the program to fulfill its mission of protecting adults age 65 and older and adults with disabilities from economic hardship.

Policymakers should also think about changes that increase pension coverage and encourage more retirement saving among low-income workers. Broader coverage in defined-

contribution pension plans coupled with automatic enrollment would be a good beginning. Research shows that the take-up rate on 401(k) plans increases when employers automatically enroll workers (unless they specifically opt out) (Choi et al. 2004). Saving could also be encouraged by making the federal saver's credit¹⁵ refundable, so that low-income taxpayers without tax liability could benefit from it (Gale, Iwry, and Orszag 2005; Toder 2005).

Finally, retirement security could be improved by encouraging older adults to delay retirement. Butrica, Smith, and Steuerle (2007) find that people could increase their annual consumption at older ages by as much as 9 percent if they worked one more year and by 56 percent if they worked five more years. They also find that lower-income workers gain more from additional work than higher-income workers. Longer work lives could be encouraged by changing the Social Security actuarial adjustments to boost the rewards for working longer and the penalties for retiring younger, keeping total payouts actuarially neutral.

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¹⁵ The federal saver's credit matches low- and moderate-income workers' contributions to their retirement savings accounts with tax credits.

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