



## More Older Americans are Poor than the Official Measure Suggests

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The number of poor adults age 65 and older has declined dramatically since the official poverty rate was designed back in the 1960s. Today the federal government considers fewer than 1 in 10 older adults to be poor, compared with about 1 in 3 in the 1960s. These estimates show the share of people with insufficient income to meet basic living expenses, such as food and housing. However, substantial research shows that the official poverty measure no longer reflects the true resources or needs of older adults.

The lack of an accurate poverty measure for older adults hampers efforts to reform Medicare and Social Security, which face significant revenue shortfalls. Reform proposals often aim to reduce costs by combining benefit cuts with increased cost sharing for older adults. To target any cuts or increased costs to older adults with the greatest ability to pay, an accurate measure of economic well-being is critical.

### How Should We Measure Poverty?

In 1995 the National Academy of Sciences (NAS) recommended changing the way we measure poverty (Citro and Michael 1995). Researchers generally agree with their recommendation to update the thresholds that determine minimum needs. Recent Consumer Expenditure Survey data show that couples need 41 percent more income than singles to cover basic needs, rather than the 26 percent ratio used in the official thresholds. Also, adults age 65 and older require about as much to cover their basic needs as younger adults, not 92 percent as much as assumed in the official thresholds. As a result, the NAS panel recommended raising the needs thresholds by 4 percent for older singles (to \$9,167 in 2004, up from \$8,825) and by 16 percent for older couples (to \$12,915 from \$11,122).

Experts also agree with the NAS recommendations to change how income is determined. The official poverty rate considers only basic sources of cash income. The NAS proposed adding realized capital gains and losses and near-cash income, such as benefits from housing assistance and food stamps, and subtracting income taxes. The NAS expert panel also argued that nondiscretionary out-of-pocket medical expenses should be deducted from income because they limit individuals' ability to purchase other goods. This is particularly important for older adults because they have relatively high medical costs.

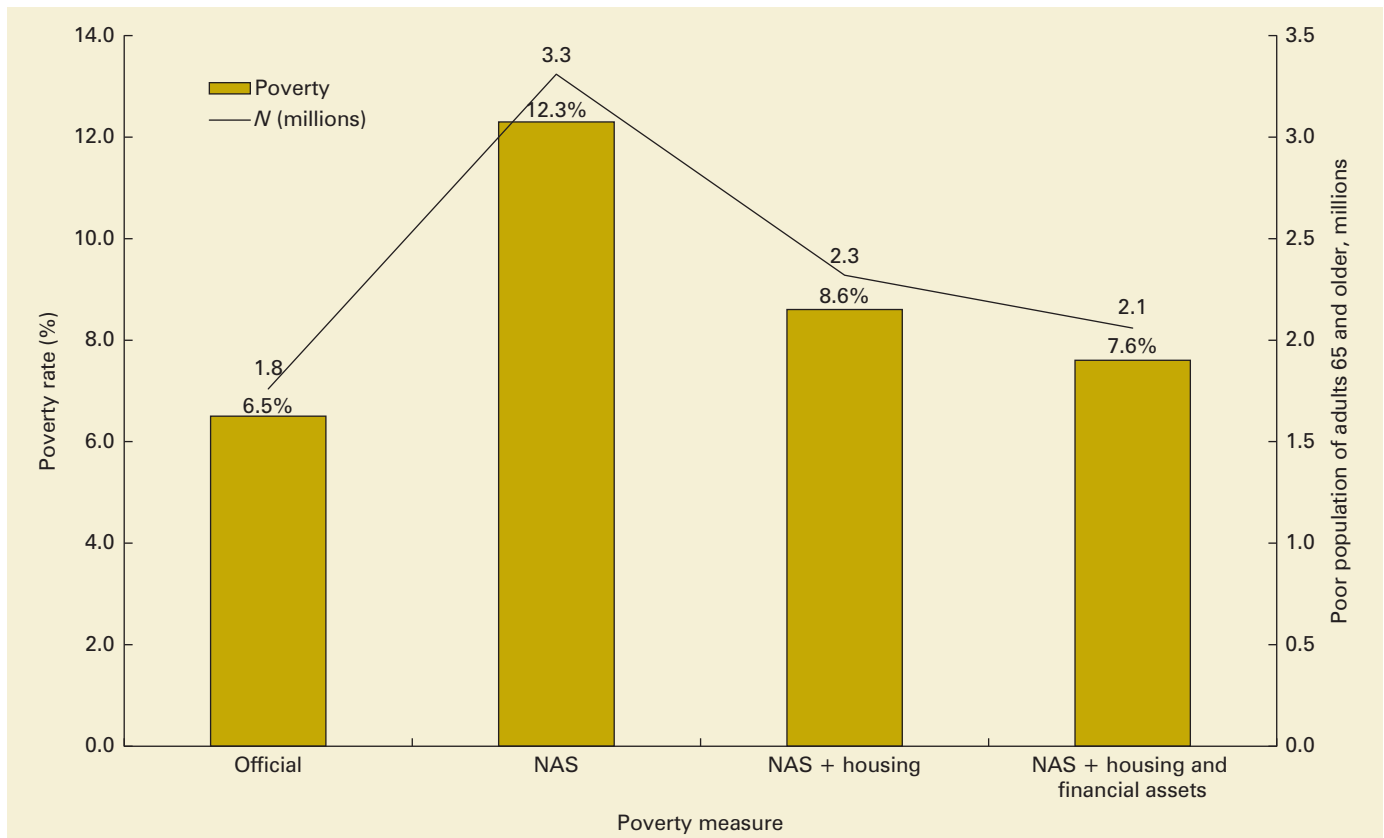
Other experts argue that the value of owner-occupied housing and financial assets should be considered as income, because older adults with home equity and financial assets could use these resources for consumption (Wolff, Zacharias, and Kum 2007). In two of our alternative poverty rates, we include estimates of the annual income derived from home equity and the annual stream of income that would be produced if financial assets were converted to annuities. These values are particularly important for measuring poverty among older Americans, since they tend to have more equity in their homes and own more assets than younger people.

### The Sensitivity of Poverty Rates to New Definitions

Alternative poverty measures, including those that include the value of all assets, show that more older adults live in poverty than the official measure indicates (figure 1). The NAS measure that accounts for all regular sources of income and deducts taxes and health expenditures indicates that 12.3 percent of older adults lived in poverty in 2004, rather than 6.5 percent as reflected in the official measure.<sup>1</sup> Adding the value of owner-occupied housing drops the rate back to 8.6 percent. Adding the annuitized value of assets further drops the rate to 7.6 percent, still more than a full percentage point above the official rate. The alternative poverty measures estimate that between 0.3 million and 1.5 million more older adults lived in poverty in 2004 than acknowledged by the official measure.

These results illustrate the need to update poverty measures. Poor older adults should be protected when we consider reforms to reduce the cost of government programs. Changes in Medicare policy that increase out-of-pocket medical costs or premiums should exempt low-income enrollees, since higher out-of-pocket costs would raise poverty rates among older adults. Changes in Social Security that scale back bene-

FIGURE 1. Alternative Poverty Rates of Adults Age 65 and Older in 2004



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

NAS = National Academy of Sciences poverty measure as implemented by the authors, using HRS data.

Notes: The sample consists of 7,883 respondents (representing 26.9 million adults) age 65 and older who live alone or only with a spouse. The official poverty measure compares cash income to thresholds established in 1963 (adjusted for inflation). The NAS measure adds realized capital gains and near-cash income, such as food stamps, to cash income, deducts income taxes, and uses thresholds updated to reflect more recent spending patterns for older adults. The NAS + housing measure includes the value of home equity less property taxes for homeowners, and the NAS + housing and financial assets measure adds the annuitized value of all financial asset holdings (such as defined contribution plan balances) to income.

fits must protect the lowest-income seniors, possibly through a new minimum benefit. A better measurement of poverty will identify these poor older adults and give us a more accurate and realistic picture of economic well-being in America.

## Notes

This is a short summary of Butrica, Murphy, and Zedlewski (2008). The authors wish to acknowledge Richard Johnson's comments on earlier drafts and funding from the Rockefeller Foundation to produce this summary.

1. Our estimate of the official poverty rate is lower than government estimates because we use data from the 2004 Health and Retirement Study, which collects better income information than the cen-

sus survey used by the government. For details see Butrica, Murphy, and Zedlewski (2008).

## References

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