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Older Americans' Reliance on Assets

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People think of retirement security as balancing on a three-legged stool, with income from assets, private pensions, and Social Security as the legs. Earnings, private transfers, and public transfers can boost retirement incomes, particularly when the three-legged stool is shaky. However, the degree to which people depend on each varies by income.

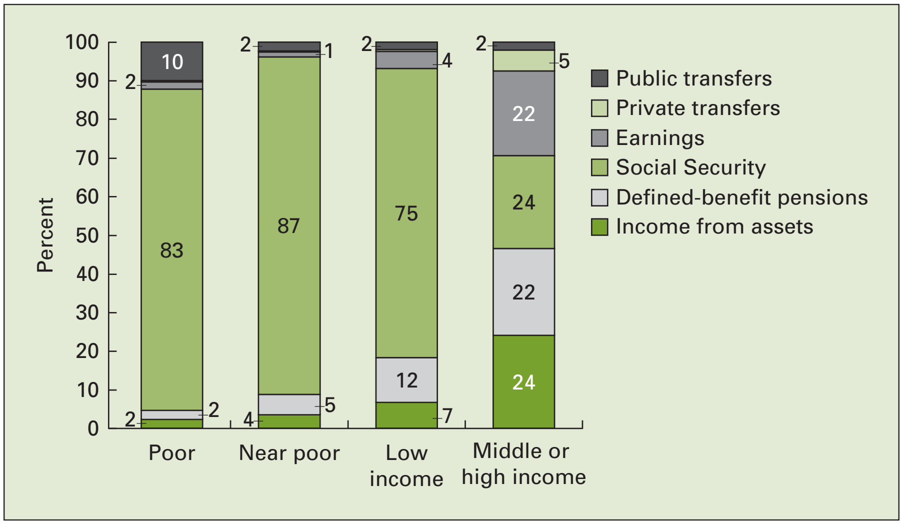
Despite growing awareness about the importance of saving for retirement, many elderly people cannot rely on their financial assets. Income from assets—defined as income from businesses, rentals, stocks and mutual funds, bonds, certificates of deposit and treasury bills, checking and savings accounts, other assets, and reported distributions from defined-contribution pension plans—represents only 2 percent of family income among poor adults, 4 percent among near-poor adults, and 7 percent among low-income adults (figure 1).[1] In contrast, income from assets comprises 24 percent of family income among middle- or high-income adults.

Traditional defined-benefit (DB) pensions might also be considered an asset because they provide lifetime benefits. Still, pensions provide little income for lower-income adults. As with financial assets, middle- or high-income adults are more likely to count on pensions.

Having few other income sources, lower-income adults rely heavily on Social Security. Like DB pensions, Social Security benefits provide lifetime payments. Unlike most DB pensions, they are indexed to inflation—their real value does not decline over time. Social Security benefits account for 83 percent of family income among poor adults, 87 percent among near-poor adults, and 75 percent among low-income adults. Fixing the system's long-term actuarial imbalance is especially critical for these groups since they have so few other assets. Reform likely will affect not just the level and distribution of Social Security benefits but individuals' reliance on other income sources, including income from assets. In contrast, changes to Social Security will have much less effect on middle- or high-income adults, who get only 24 percent of their income from Social Security.

Because their income is so lopsided toward Social Security, many poor older adults supplement it with public transfers such as Supplemental Security Income or veterans benefits. These comprise 10 percent of their income, compared with only 2 percent for middle- or high-income older adults. And while middle- or high-income older adults rely equally on income from assets, DB pensions, and Social Security, they use earnings and private transfers to raise their income even higher.

FIGURE 1. The Contribution of Income Sources to Average Family Income of Adults Age 65 and Older in 2004, by Income Status (percent)



Source: Percentages are based on the author's tabulations of the income sources reported in Butrica, Murphy, and Zedlewski (2008).

Notes

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1. Based on tabulations of the income sources reported in Butrica, Murphy, and Zedlewski (2008), which come from the 2004 Health and Retirement Study. Income status is defined by family income relative to the federal poverty level: poor (below 100 percent), near poor (100 percent to below 150 percent), low income (150 percent to below 200 percent), and middle or high income (at or above 200 percent).

Reference

Butrica, Barbara A., Daniel Murphy, and Sheila R. Zedlewski. 2008. "How Many Struggle to Get By in Retirement?" Washington, DC: The Urban Institute.

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