



Housing Costs and Financial Challenges for Low-Income Older Adults

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July 2015

Although the average income of older Americans has grown rapidly over the past few decades, many seniors continue to struggle financially. Only 18 percent of adults ages 65 and older work for pay (BLS 2015), so most must rely on government or employee benefits or their own savings. Nearly all older adults receive Social Security benefits, but the average 2015 monthly retirement payment is only \$1,300 (SSA 2015). Only about half of workers participate in employer-sponsored retirement plans (BLS 2014), and in 2013 half of households headed by adults ages 65 and older held less than \$45,000 in financial assets (Federal Reserve Board 2014). As a result, some older adults may lack enough income to meet their needs.

This brief examines the financial challenges confronting low-income older adults, with a focus on housing costs. It estimates the share of adults who have inadequate income, reports their income sources, and describes their spending patterns. Data come from the American Community Survey and the Consumer Expenditure Survey, two large, nationally representative household surveys fielded by the US Census Bureau. Based on these data, 14 percent of older adults—6.5 million people in 2013—do not have enough income to meet their needs. Most of their income comes from Social Security, and they spend much of it on housing.

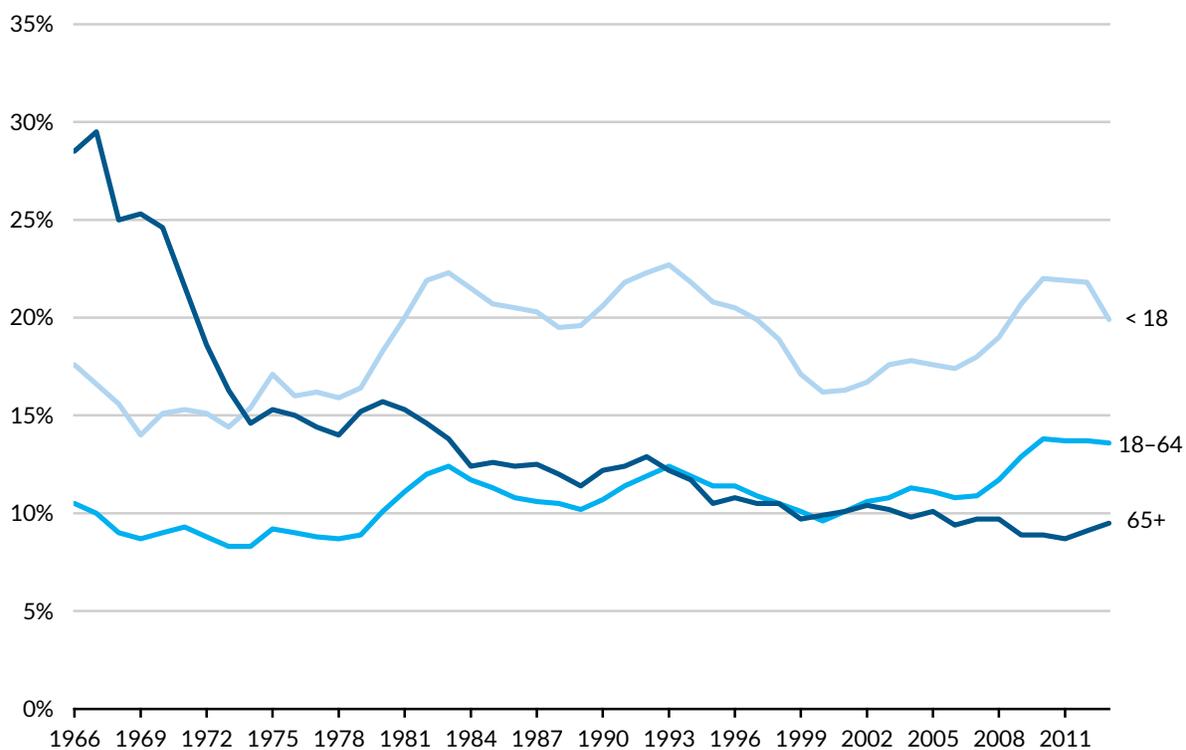
Who Receives Inadequate Income at Older Ages?

Older adults have made tremendous financial gains over the past generation. Between 1966 and 2013, the official poverty rate for adults ages 65 and older fell from 29 percent to 10 percent, a nearly two-thirds reduction (figure 1).¹ Over the same period, the poverty rate increased 27 percent for adults ages 18 to 64 and 11 percent for children younger than 18. Children are now twice as likely as older adults to live in poverty.

These income improvements came almost entirely from rapid growth in Social Security benefits, as the program became more generous in the 1970s and more older people spent much of their working lives in Social Security–covered employment (Engelhardt and Gruber 2004). The old-age poverty rate would have fallen even further if the share of older adults living with their children had held steady over time. Instead, more older adults are now living independently, relying solely on their own income.

FIGURE 1

Share of Individuals with Family Incomes below the Federal Poverty Level by Age, 1966–2013



Source: US Census Bureau (2014).

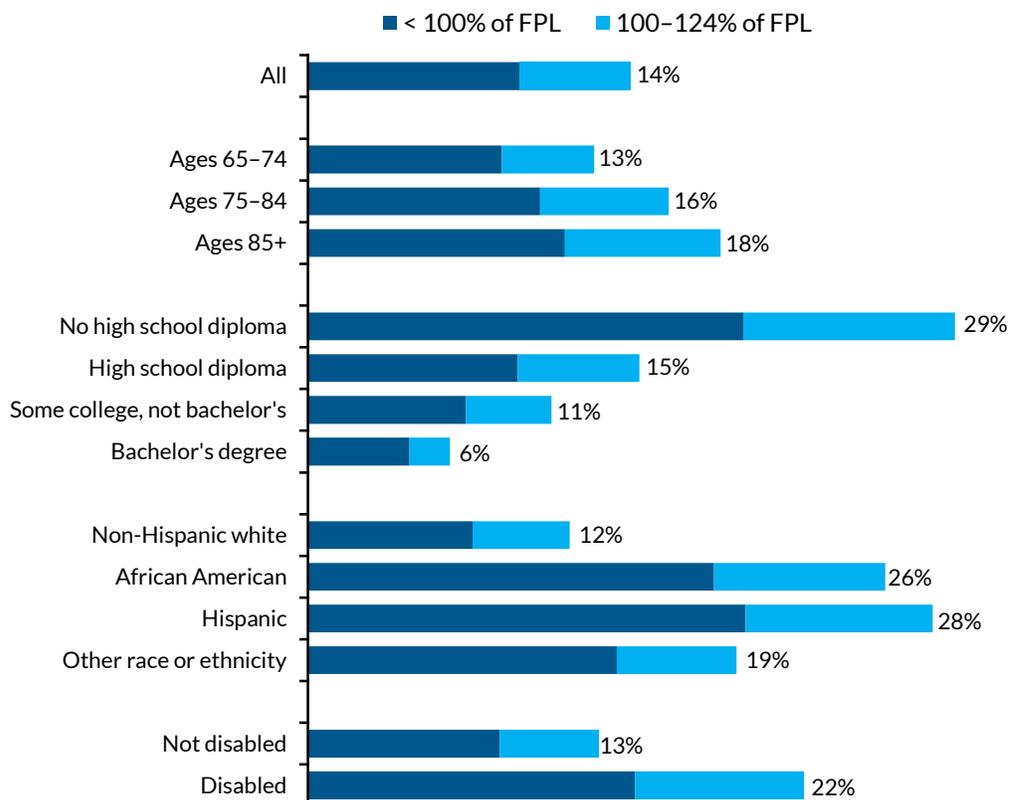
Despite the dramatic drop in the official poverty rate, many older adults continue to struggle financially. The 10 percent rate implies that 4.2 million Americans ages 65 and older live in poverty (DeNavas-Walt and Proctor 2014). Because the official poverty rate does not account for older adults' relatively high out-of-pocket medical spending, many more older adults lack enough income to meet their needs. The Census Bureau recently developed an alternative calculation, the supplemental poverty measure (SPM), that better gauges the number of families with inadequate incomes (Short 2014). Like the official measure, the SPM identifies families whose incomes fall below a specified needs threshold. But it expands the cash income measure to include noncash benefits, such as supplemental nutritional assistance, housing subsidies, and energy assistance. It also subtracts out-of-pocket medical expenses, work expenses, paid child support, and taxes while adding tax credits, such as the earned income tax credit. In addition, the SPM updates the poverty threshold to better reflect current household spending. In the official measure, the poverty threshold is three times the cost of a minimum-food diet in 1963, adjusted by changes in the consumer price index; that benchmark is now obsolete (Citro and Michael 1995).

The SPM reveals that more adults, but fewer children, live in families with inadequate incomes than the official rate shows. Poverty rates do not vary much by age under the improved measure, although older adults still fare better than younger people. Compared with the official rate, the SPM reduces the 2013 poverty rate for children from 19.9 percent to 16.4 percent; it raises the poverty rate for adults ages 18–64 from 13.6 percent to 15.4 percent and for adults ages 65 and older from 9.5 percent to 14.6 percent. The SPM implies that 6.5 million people ages 65 and older were impoverished in 2013. The share of the older 2013 population with cash incomes below 125 percent of the official federal poverty level (FPL) was about the same as the share in poverty under the SPM: 14.3 versus 14.6 percent. Thus, older adults with cash incomes below 125 percent of FPL are classified as having inadequate incomes.² This measure can be readily computed with household survey data, unlike the SPM.

The share of adults with inadequate incomes varies widely across the older population (figure 2). More than 25 percent of older Hispanics, African Americans, and adults without high school diplomas did not have enough income in 2013 to meet their needs. By contrast, only 12 percent of non-Hispanic whites ages 65 and older and 6 percent of older adults with bachelor's degrees had inadequate incomes. The share of older adults with inadequate incomes rises with age, and older adults with disabilities—defined as having difficulty living independently—are more likely to have inadequate incomes than those without disabilities. These differences largely reflect earnings differences earlier in life, because retirement incomes mostly depend on how much people earned during their working years. On average, non-Hispanic whites earn more than people of color, better educated workers earn more than those with limited education, and those who retired 20 or more years ago earned less (even after adjusting for inflation) than those who retired in the past few years. In addition, older people with difficulty completing basic personal care are more likely to be in their 80s or 90s and have limited education than those who are able to live independently (Johnson and Wiener 2006).

FIGURE 2

Share of Individuals Ages 65 and Older with Inadequate Family Incomes, 2013



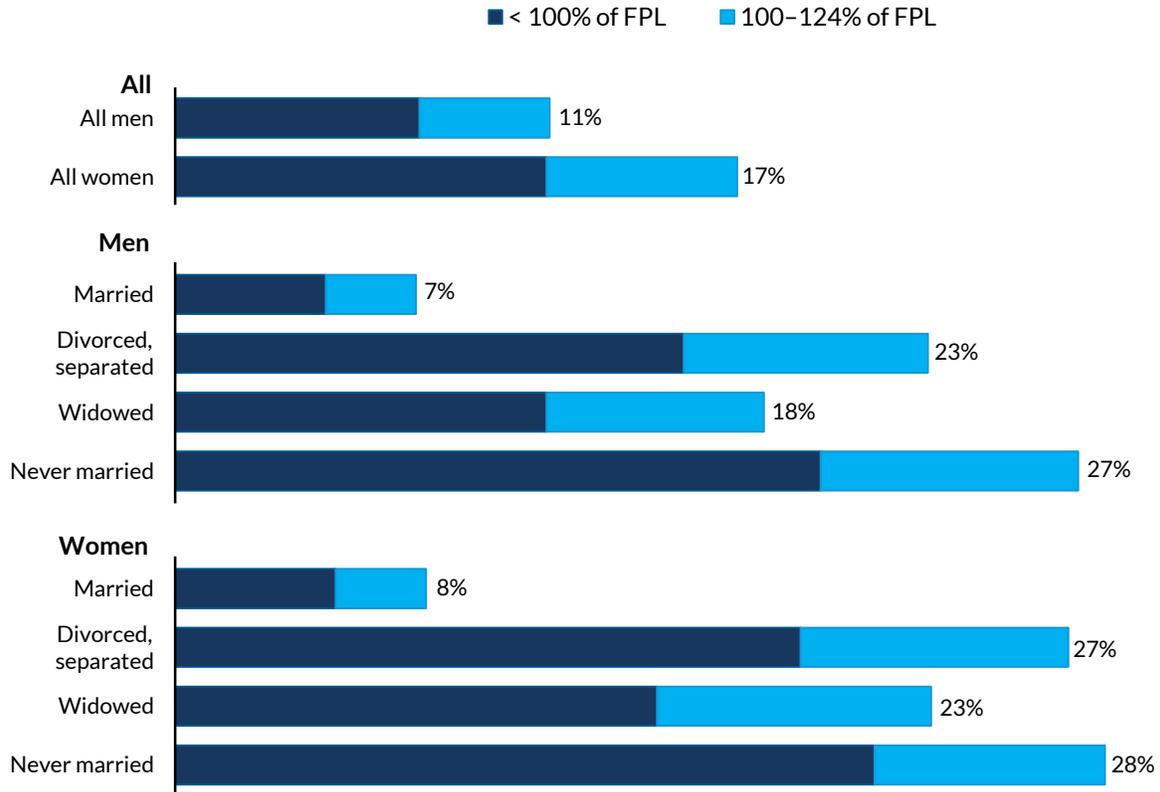
Source: Author's estimates from the 2013 American Community Survey.

Note: FPL = federal poverty level.

Women ages 65 and older are about 50 percent more likely to have inadequate incomes than their male counterparts (figure 3). This gap mainly reflects gender differences in marital status patterns at older ages. Only 47 percent of older women were married in 2013, compared with 73 percent of older men.³ Nearly all the marriage gap arises from women's longer life expectancies and thus their higher widowhood rates; 34 percent of older women were widowed in 2013, compared with only 11 percent of men. Poverty rates are much higher among widowed, divorced, and never-married older adults than their married counterparts. Among adults ages 65 and older, 27 percent of divorced women and 23 percent of widowed women had inadequate incomes in 2013, compared with 8 percent of married women.

FIGURE 3

Share of Individuals Ages 65 and Older with Inadequate Family Incomes by Sex and Marital Status, 2013



Source: Author's estimates from the 2013 American Community Survey.

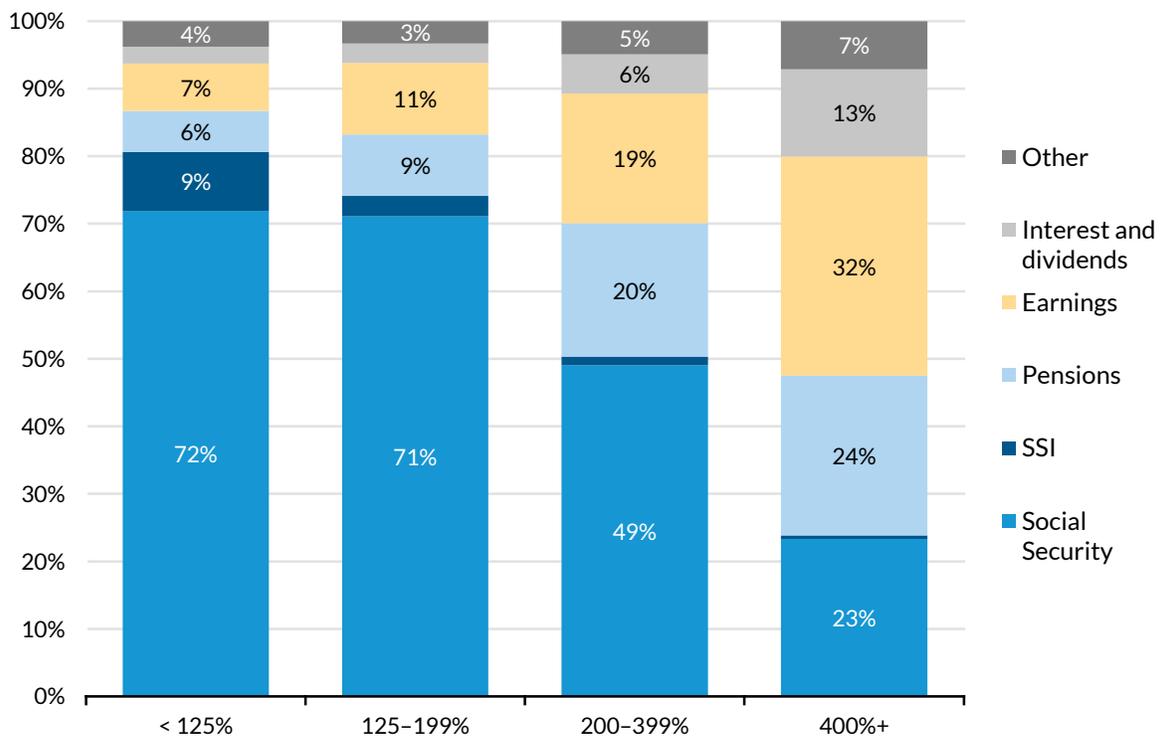
Note: FPL = federal poverty level.

Divorced and widowed women face higher poverty risks in old age than married women because women who become divorced or widowed generally have lower incomes before their marriage ends than those whose marriages remain intact, and because women generally forfeit at least some of their husband's income when the marriage ends (Weir, Willis, and Sevak 2002). Lower-income people are more likely to become widowed because they tend to have more health problems than higher-income people (Ettner 1996; Pavalko and Caputo 2013). Although Social Security survivor benefits aim to protect spouses financially when they become widowed, the surviving spouse receives only between one-half and two-thirds of the monthly benefit that the couple received when both were alive.⁴ Most retirees with defined benefit pensions from past employers choose options that continue payments to their surviving spouses, but surviving spouses usually receive only half as much as couples received when both spouses were alive (Johnson, Uccello, and Goldwyn 2005). These income declines push many widows and widowers into poverty; income needs fall by only about one-fifth (21 percent) when one spouse in a couple dies, according to the Census Bureau's official poverty calculations.⁵

Income Sources at Older Ages

Social Security is a crucial source of income for low-income older adults. In 2013, it accounted for 72 percent of the family income received by adults ages 65 and older with family incomes below 125 percent of FPL (figure 4). Supplemental Security Income, a government transfer program for low-income older adults and people with disabilities, accounted for another 9 percent of their income. Low-income older adults received little from employer-sponsored pensions, earnings, or investments. By contrast, Social Security accounted for only 49 percent of 2013 income for older adults with family incomes between 200 and 399 percent of FPL and only 23 percent of 2013 income for older adults with family incomes of 400 percent or more of FPL. These higher-income groups received substantial payments from earnings, employer-sponsored pensions, and investments.

FIGURE 4
Distribution of Income Sources by Family Income Relative to the Federal Poverty Level, 2013
Households headed by adults ages 65 and older



Source: Author's estimates from the 2013 American Community Survey.

Note: SSI = Supplemental Security Income.

Although low-income older adults receive most of their income from Social Security, their benefit amounts are low. Average annual Social Security income amounts to only \$8,100 for adults ages 65 and older with family incomes below 125 percent of FPL, compared with \$15,300 for those with family incomes between 125 and 199 percent of FPL and \$19,600 for those with family incomes between 200 and 399 percent of FPL. Monthly Social Security benefits are based on the average indexed monthly earnings received in covered employment during a retiree's highest-earning 35 years. Although the program replaces a larger share of earnings for those with limited lifetime earnings than for those with higher earnings, Social Security retirement benefits rise as lifetime earnings rise.⁶ Most retirees receiving small Social Security checks worked fewer than 35 years, often because of health problems or child care responsibilities, although some worked many years at low wages (Favreault 2010).

Some retirees receive limited Social Security benefits because they collected their benefits early. Retirees receive their full retirement benefit each month until they die if they begin collecting at the full retirement age (and they can receive a monthly bonus if they wait until after they reach the full retirement age to begin collecting). The full retirement age is 65 for people born before 1938, 66 for those born between 1943 and 1954, and 67 for those born after 1959. Retirees may begin collecting benefits as early as age 62, but Social Security permanently reduces the monthly benefits received.⁷ Many workers with limited education begin collecting benefits early, often because they have health problems or their jobs are physically demanding (Johnson, Karamcheva, and Southgate, forthcoming). Workers who did not complete high school are about 50 percent more likely than college graduates to begin collecting Social Security at age 62 (Haaga and Johnson 2012).

Low-income older adults receive little income from employer-sponsored pensions or investments. Few low-wage workers are able to accumulate enough savings to generate substantial interest and dividend income at older ages. In 2014, only 53 percent of workers, including 64 percent of full-time workers and 21 percent of part-time workers, participated in a retirement plan at their workplace (BLS 2014), and relatively few workers with a retirement plan earned low wages. Only 33 percent of full-time workers earning less than \$25,000 annually in 2010 participated in an employer-sponsored retirement plan, compared with 80 percent of full-time workers earning between \$50,000 and \$99,000 annually (Urban Institute 2014).

Household Spending at Older Ages

The Census Bureau's supplemental poverty measure highlights the importance of health care costs for older Americans. Adults use more health care services at older ages than younger ages. Medicare helps pay for much of the medical care received by adults ages 65 and older, but most beneficiaries must pay substantial premiums for physician services and prescription drug coverage. Medicare also requires beneficiaries to share the cost of most services, does not cap annual out-of-pocket payments, and excludes some important services, such as long-term services and supports and routine dental and vision care (Cubanski et al. 2014). As a result, households headed by adults ages 65 and older devoted 12 percent of their spending to health care in 2013, compared with only 6 percent for households headed by adults younger than 65.⁸

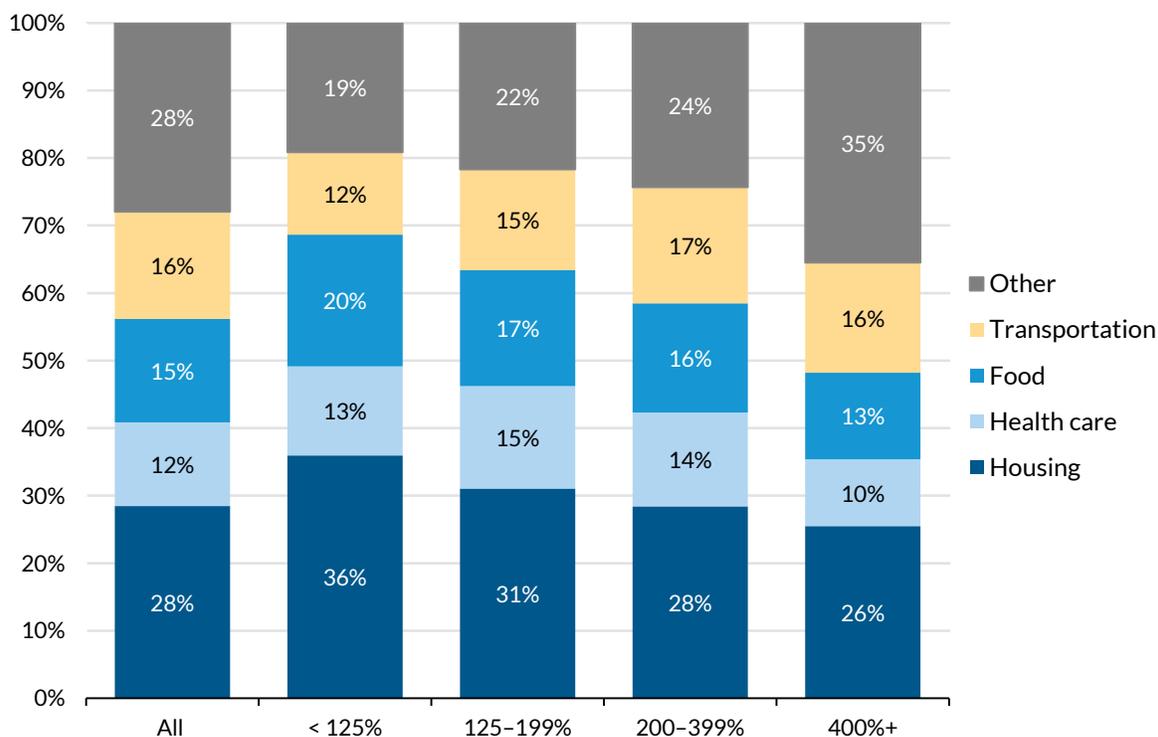
The single greatest financial risk that older people face is the possibility of developing disabilities and needing long-term services and supports, because this care is expensive and there are few financing options. The nationwide median cost of a year-long stay in a nursing home, in a semiprivate room, is \$80,000; it is much higher in certain parts of the country (Genworth 2015). The nationwide median cost for an hour of homemaker services is \$20, which translates to about \$14,000 a year for someone who receives 60 hours of services a month, the median amount (Johnson and Wiener 2006). Medicare does not usually pay for these services, and traditional health insurance doesn't either. Private long-term care insurance usually pays, but only 12 percent of adults ages 65 and older have coverage (Johnson and Park 2011). As a result, many older people who need long-term services and supports first turn to unpaid family help. When that's not enough, they turn to paid home care and then enter a nursing home. Older adults typically pay for these services out of pocket until their money runs out; then they go on Medicaid, which generally pays the entire cost but requires enrollees to turn over nearly all their income and assets.

Although health care costs attract most of the attention in discussions of older adults' financial security, older people spend much more on housing, which includes shelter (mortgage interest and charges, property taxes, home maintenance and repairs, rent, and homeowners' and renters' insurance) and utilities. In 2013, households headed by adults ages 65 and older devoted 28 percent of their spending to housing—more than twice as much as they spent on health care (figure 5). Older households also spent more on food and transportation than health care. Housing costs are especially significant for low-income older adults, who devoted 36 percent of their household expenditures to housing in 2013.

FIGURE 5

Distribution of Household Spending by Income Relative to the Federal Poverty Level, 2013

Households headed by adults ages 65 and older



Source: Author's estimates from the 2013 Consumer Expenditure Survey.

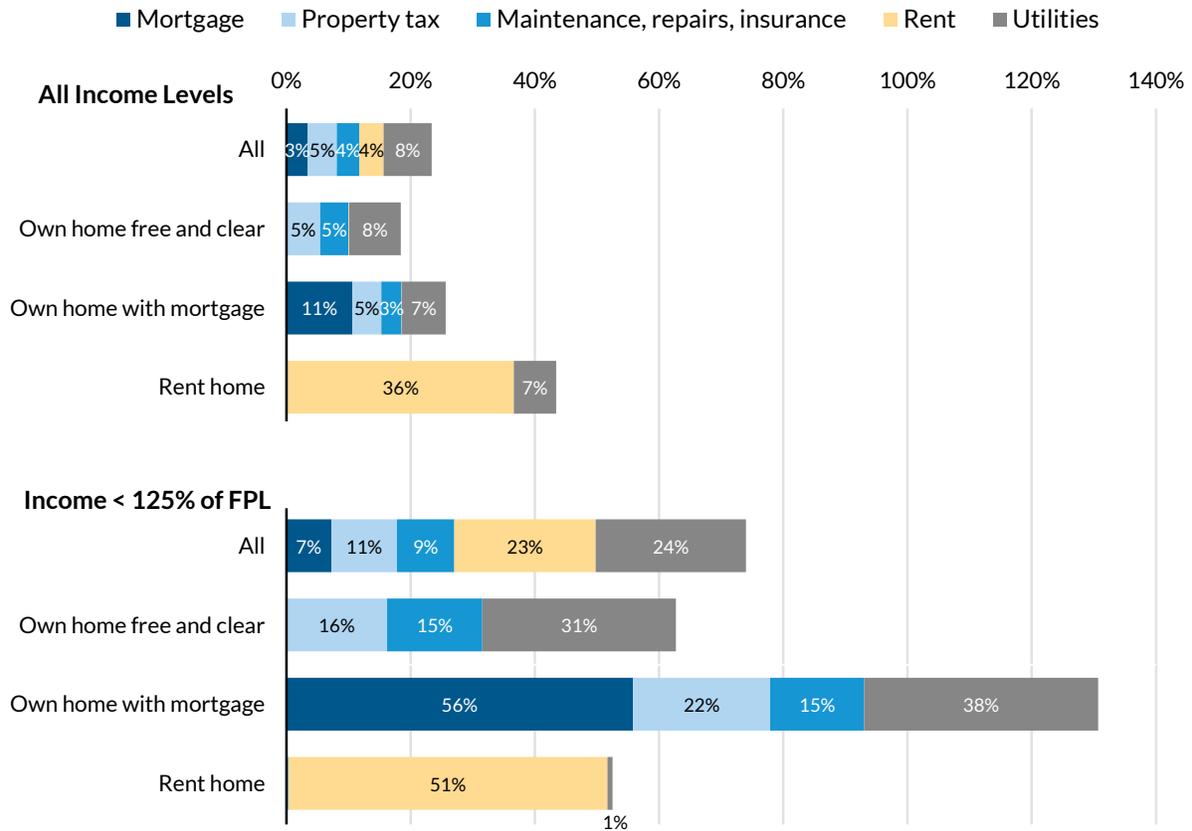
Notes: Housing includes expenditures on shelter (mortgage interest and charges, property taxes, home maintenance and repairs, rent, and homeowners' and renters' insurance) and utilities. Other includes expenditures on household operations, household furnishings and equipment, apparel, entertainment, reading materials, personal care products and services, education, tobacco, alcohol, cash contributions, personal insurance and pensions, and miscellaneous items and services.

Housing expenditures as a share of income are also high. Households headed by adults ages 65 and older spent 23 percent of their income on housing in 2013, including 8 percent on utilities (figure 6). Eighty-one percent of older households own their homes, and 58 percent of older households (72 percent of homeowners) own their homes free and clear.⁹ Homeowners with mortgages spend \$15,600 on housing costs, nearly twice as much as homeowners without mortgages. Renters spent \$10,800 on housing, only about two-thirds as much as homeowners with mortgages. However, renters devote a much larger share of their income to housing than homeowners with mortgages, because on average they receive barely half as much income. In 2013, older renters spent 43 percent of their income on housing, substantially more than the 30 percent cutoff commonly used to identify burdensome housing costs (Linneman and Megbolugbe 1992). Nonetheless, even older households who own their homes free and clear devote 18 percent of their incomes to housing, spending 8 percent on utilities, 5 percent on property taxes, and 5 percent on maintenance.¹⁰

FIGURE 6

Housing Costs as a Percentage of Family Income by Housing Tenure and Income, 2013

Households headed by adults ages 65 and older



Source: Author's estimates from the 2013 Consumer Expenditure Survey.

Notes: Family income is measured before taxes. FPL = federal poverty level. Unlabeled data points are less than 1 percent of family income.

Older households with incomes below 125 percent of FPL spent 74 percent of their income on housing in 2013. They were twice as likely to rent their home as all older households (38 percent versus 19 percent). Low-income older renters average only about half as much on rent a year as all older renters, but they devote a larger share of their income to housing costs—52 percent—because their incomes are so much lower. Older low-income homeowners devote even more of their income to housing than older low-income renters. The 50 percent of older low-income households that own their homes free and clear spend 62 percent of their income on housing, and the 12 percent with mortgages spend a staggering 131 percent of their income on housing. Low-income older homeowners with mortgages spend a slightly larger share of their income servicing their mortgage than renters spend on rent. But homeowners must also pay property taxes and maintenance and utilities expenses, which together cost more annually than their mortgage.

Conclusions

The Census Bureau's supplemental poverty measure indicates that 14 percent of Americans ages 65 and older in 2013 lacked sufficient income to meet their needs. Older African Americans, Hispanics, people who did not complete high school, people with disabilities, and unmarried adults are especially likely to face financial challenges. Older low-income adults rely mostly on Social Security, receiving little income from savings that they accumulated on their own or in the workplace. They devote much of their income to housing, even when they own their home free and clear, because utilities, maintenance, repairs, insurance, and property taxes cost about as much, on average, as rent. Low-income older households with mortgages spend even more on housing.

Housing costs can significantly reduce financial security at older ages. Seniors who spend more than half their income on housing spend significantly less on food and health care than their counterparts with lower housing expenses (Joint Center for Housing Studies of Harvard University 2014). The onset of mobility-limiting health problems at older ages creates additional housing-related financial concerns. To remain in their homes, seniors may need to make expensive home modifications, such as widening doorways or adding ramps to accommodate a wheelchair. High housing costs may also make it impossible for low-income seniors to qualify for Medicaid-financed home and community-based services when they develop disabilities. Only seniors with income below a certain threshold are eligible for services. The threshold varies by state, but it is generally below the federal poverty level, which may be too low for enrollees to pay rent, property taxes, and home maintenance costs (Johnson and Lindner, forthcoming). Raising federal funding for housing with supportive services or expanding federal rental assistance, which now helps only one in four low-income renter households (Center on Budget and Policy Priorities 2015), could benefit many low-income older adults.

Policy initiatives aimed at helping families cover health care expenses could also improve financial security at older ages. Although health care costs consume only a modest share of older households' income on average, some older adults with high medical or long-term care needs experience catastrophic costs. For example, 1 in 10 Medicare beneficiaries spent more than \$8,000 out of pocket on health care services and premiums in 2010 (Cubanski et al. 2014), and an estimated 17 percent of adults turning age 65 today will spend more than \$100,000 out of pocket on future long-term services and supports (Favreault and Dey 2015). Policy options such as capping out-of-pocket expenses for Medicare beneficiaries or creating a public insurance program to cover long-term services and supports could protect older adults from these financial risks.

Other policy initiatives could boost retirement incomes. Because retirement incomes depend on earnings earlier in life, expanding employment opportunities for low-skilled workers, perhaps through better federally funded workforce development programs, could improve financial security at older ages. Efforts to promote savings, especially for workers without access to employer-sponsored retirement plans, might have long-term payoffs. The Obama administration recently created the myRA program, which allows workers without access to an employer retirement plan to contribute to a retirement account through automatic payroll deductions. Since 2012, 17 states have introduced or

considered legislation that would mandate employer retirement plans, including automatic IRAs, for private-sector workers (Dorn, Hadley, and Zinter 2015). Expanding the saver's tax credit could also boost savings for people with limited resources. This federal program matches up to 50 percent of the first \$2,000 in retirement savings by low-income adults. The government contribution, however, comes as a nonrefundable federal income tax credit and thus does not benefit savers who do not earn enough to pay federal taxes. Providing a refundable tax credit would provide additional savings incentives.

Probably the most important step that Congress could take to improve financial security at older ages is to shore up Social Security's long-term finances, given the vital importance of the program to low-income seniors. Current projections indicate that beginning in 2033 Social Security will not collect enough revenue to make full payments to beneficiaries (Social Security Trustees 2014). Instead, taxes would be sufficient to pay only about three-quarters of scheduled benefits. Congress could close the financing gap with higher taxes and trimmed benefits. However, it is important to protect the benefits of low-income beneficiaries. In fact, Congress might consider raising benefits for retirees with limited lifetime earnings, such as by instituting a meaningful minimum benefit in Social Security or expanding Supplemental Security Income.

Notes

1. The Census Bureau classifies a family of two adults younger than 65 and two children as poor if its 2013 income falls below \$23,624. A two-person household headed by an adult age 65 or older is classified as poor if its 2013 income falls below \$14,081, while a person age 65 or older living alone is considered poor if his or her 2013 income falls below \$11,173.
2. In 2013, 125 percent of FPL was \$13,966 for an older person living alone and \$17,601 for an older couple.
3. The estimates in this paragraph are based on the author's calculations of 2013 American Community Survey data.
4. Married retirees may claim Social Security benefits based on their own lifetime earnings or their spouse's lifetime earnings. If they choose to collect based on their spouse's earnings, they receive half the spouse's benefit. When beneficiaries become widowed, they may choose to receive survivor benefits, equal to their spouse's full Social Security benefit, instead of benefits based on their own earnings. Thus, household Social Security benefits decline by one third when beneficiaries receiving spousal benefits become widowed. They decline by more than one third and as much as one half when beneficiaries receiving benefits based only on their own earnings become widowed.
5. The Census Bureau's official poverty computations assume that living costs decline sharply when people share living arrangements, so a couple living together needs only a little more income than one person living alone. Some experts, however, believe the Census Bureau overstates the savings from shared living arrangements (Citro and Michael 1995).
6. Only earnings below a certain threshold enter the earnings base used to compute average monthly earnings. That cap, set at \$118,500 in 2015, rises each year by the change in average national earnings. The earnings base is also indexed each year by the change in average national earnings. For people turning 62 in 2015, Social Security replaces 90 percent of the first \$826 in average indexed monthly earnings, 32 percent of the next \$4,154, and 15 percent of average indexed monthly earnings above \$4,980. Married beneficiaries (and divorced beneficiaries married for at least 10 years) may opt to receive Social Security benefits equal to half their spouse's (or ex-spouse's) benefit, instead of basing their benefits on their own earnings records, if that option generates higher payments.
7. Congress gradually increased Social Security's full retirement age over several years. Each birth cohort between 1938 and 1942 and between 1955 and 1959 faces a full retirement age that is two months later than that faced by the cohort born the previous year. Thus, the full retirement age is 65 years for people born in 1937 and 65 years and two months for people born in 1938. Similarly, the full retirement age is 66 years for people born in 1954 and 66 years and two months for people born in 1955. Compared to full monthly benefits, monthly benefits for age-62 retirees are permanently reduced by 20 percent for those facing a full retirement age of 65, 25 percent for those facing a full retirement age of 66, and 30 percent for those facing a full retirement age of 67.
8. These estimates are based on the author's computations from the 2013 Consumer Expenditure Survey.
9. These estimates are based on the author's computations from the 2013 Consumer Expenditure Survey.
10. On average, households headed by adults ages 65 and older who own their home free and clear spent \$3,730 a year on utilities, \$2,460 on property taxes, and \$2,060 on maintenance in 2013.

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Acknowledgments

This brief was funded by Housing Authority Insurance, Inc. (HAI, Inc.), to provide fact-based analysis about public and assisted housing. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission. Funders do not, however, determine our research findings or the insights and recommendations of our experts. The views expressed are those of the author and should not be attributed to the Urban Institute, its trustees, or its funders.

The author gratefully acknowledges valuable comments from Pamela Blumenthal and editorial assistance from Fiona Blackshaw and Elizabeth Forney.



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