The Averages Can Be Misleading: Older Americans and Poverty

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Abstract

In this commentary for *New York Times'* Room for Debate, Institute fellow Sheila Zedlewski explains that many of the nation's 41 million seniors live in or very near poverty and many have assets mostly tied up in their houses. Policy makers must be ever mindful of that diversity when considering changes in policy that would affect retirement income security.

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The Pew Research Center report issued on Monday paints an overly optimistic picture of the economic well-being of older Americans. Yes, average income and wealth have increased over the past several decades for adults age 65 and older, but averages often mislead. Older Americans are a varied lot, with complex needs, income and wealth patterns. As the Census Bureau reported on the same day, many more older adults live in poverty than previously thought, despite the gains made by some.

The Census Bureau's new poverty estimate counts more resources (such as the value of food stamps and tax credits), deducts out-of-pocket medical and other necessary expenses, and uses a more up-to-date measure of need than its official measure. The new way of measuring poverty increased the poverty rate for older Americans (from 9 to about 16 percent) mostly because seniors spend a lot on health care. The new poverty rate for older adults is about the same as for younger adults.

The Pew Research Center reports a rising age gap in economic well-being. Besides showing, not unexpectedly, that adults age 65 and older hold more wealth (home equity and net financial assets) than younger adults, the Pew study indicates that the gap has increased since 1984. And since 1967, income increased faster in older adult households than in younger homes.

While the Pew report presents important facts about older adults, it misses the diversity among this population. Many older Americans have incomes just above the official poverty line. One in three older Americans is low income (that is, income up to twice the poverty level), according to the official poverty measure. If we deducted their relatively high out-of-pocket health costs from their incomes, many would fall into poverty. Many other older adults age into poverty as their assets are depleted and the buying power of their retirement incomes shrinks with inflation.

The Pew report presents the "good news" side. Adults age 65 and older in 2009 held larger nest eggs than their predecessors primarily because many benefited from the run-up in housing prices. Even after the bubble burst in 2007, many seniors enjoyed significant growth in the value of their homes from the time of purchase. Of course, home equity is not easily converted into retirement income, and one in five older adults does not own a home.

The bottom line is that the nation's 41 million seniors are not all the same. Many live in or very near poverty and many have assets mostly tied up in their houses. Policy makers must be ever mindful of that diversity should they consider any changes in policy that would affect retirement income security.

Other Publications by the Authors

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