The Economic Status of the Oldest Old

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G AINS IN LIFE EXPECTANCY AND A TREND TOWARD earlier retirement in the last thirty years have combined to lengthen the time most older Americans spend in retirement. Not only does a longer retirement stretch the financial resources of survivors further, but the greater health needs and dependency associated with very old age place added burdens on the resources that are preserved for the last stages of life.

Much of the cost of health and long-term care for the elderly is now borne by taxpayers through the Medicare and Medicaid programs. In 1981, 59 percent of the personal health care expenditures for persons aged 65 and older came from these two sources (U.S. Senate. Special Committee on Aging 1984b, 372). However, the rapidly rising cost of these programs, fueled in part by the increasing concentration of the very old in the population, is encouraging a consideration of proposals to shift more of the cost of health care to the elderly themselves.

The prospect of shifting Medicare costs from younger taxpayers to older beneficiaries raises the question of whether the oldest and thus heaviest users of health services have the resources to bear these costs. This is a question with relevance not only to today's generation of

the oldest old, but to future generations of the very old who will be
an increasingly prominent part of our society.

Policy Questions

The most important question from a policy perspective is whether
the oldest old have the resources to pay a greater share of the high
health care costs they experience late in life, or whether they have
depleted their resources as they have aged, leaving them with little
margin for additional expenses.

The basic life-cycle hypothesis of savings suggests that the elderly
consume their resources as they age. According to life-cycle theory,
individuals accumulate assets during their working lives to finance
steady levels of consumption for the remainder of their expected life
spans (Modigliani and Brumberg 1954). The theory suggests that the
elderly spend their assets in retirement, leaving assets for bequests
only if the expected life span is overestimated.

Mounting empirical evidence suggests, however, that the resources
of the elderly may not be consumed as they age. Economists have
speculated that people either do not intend to consume all of their
resources in retirement, saving in part to leave bequests, or that they
are unwilling to consume them due to uncertainty about life expectancy
and the cost of retirement (Mirer 1979; Davies 1981; Menchik and
David 1983).

Unfortunately, there is no definitive evidence of the effect of age
on resources. Income and asset data on the oldest old come from
cross-sectional studies, enabling us to compare older and younger
groups of the elderly, but not to follow a group as it ages. We know,
for example, that persons aged 85 and older are more likely to be
poor than persons aged 65 to 84. We do not know, however, whether
this is more a result of the wage histories and life experiences of this
particular cohort, or of the aging process in general. Longitudinal
studies of retirement, which might help answer this question, have
not yet advanced retiring cohorts as far as age 85.

Studies of the income and resources of the very old are plagued
particularly by a lack of data on older populations. Published statistics
generally group individuals aged 65 and over or 75 and over together.
Because such a small proportion of the population is aged 85 and

older, no general population surveys have yet included a large enough sample in this age group to provide statistically reliable results, particularly when the analysis requires division of the sample across a number of subgroups. The Current Population Survey (CPS), which is the source of the data used for this paper, contains a sample of roughly 17,800 noninstitutionalized households headed by persons aged 65 and older, of whom only about 1,300 are aged 85 and older. While this sample size is sufficient for summary statistics on the population aged 85 and older, more detailed analysis is constrained by this size sample. Even with the younger age cutoffs sometimes used in this analysis, some researchers would argue that the CPS sample sizes for the oldest old are too small to assure reliable results. For this reason, the data and conclusions presented here should be considered suggestive and not definitive. In the future, greatly expanded sample sizes are needed to reliably assess the economic status of the population aged 85 and older.

This paper combines information on cash income, assets, and other economic resources from a variety of sources to provide an assessment of the economic status of the oldest old. The reliance on multiple sources and the limitations of small samples necessitate the use of three distinct age groupings for the older cohort: 75 and over, 80 and over, and 85 and over. Regrettably, the use of different definitions for the oldest age group may become confusing to the reader. The use of younger age cutoffs for the oldest group may also obscure some of the unique characteristics of those aged 85 and older and reduce some of the distinctions between the oldest and youngest groups. It is not expected, however, that the general conclusions from this analysis will be substantially biased by these limitations.

Income of the Oldest Old

Strictly on the basis of annual cash income, today's generation of the oldest old have substantially fewer resources than the young elderly. Not only is the median income of persons aged 85 and older substantially lower than the median for younger groups, but there is a much greater concentration of the oldest old in the lowest income ranges.

The median family cash income of persons in the oldest cohort (aged 85 and older) is less than three-quarters that of persons in the

youngest cohort (aged 65 to 74). Tabulations from the March 1984 Current Population Survey (CPS) show that in 1983 the median income of couples aged 85 and older was $11,988 compared to $17,798 for couples aged 65 to 74, and the median income of single persons aged 85 and older was $5,912 compared to $7,651 for persons aged 65 to 74 (see table 1).

The oldest old are also much more heavily concentrated in low income ranges than are the young elderly. The clearest indicator of this difference is the poverty rate. Persons aged 85 and older are nearly twice as likely to be poor or near poor as those aged 65 to 74. In 1983, 21.3 percent of persons aged 85 and older had incomes below the poverty level, compared to only 11.9 percent of persons aged 65 to 74. Another 22.4 percent of the oldest old had incomes between one and one-and-one-half times the poverty level compared to only 13.4 percent of the youngest group (see table 2).

The higher concentration of the oldest old at low income levels is apparent also from a comparison of the income distribution curves for younger and older groups. Figure 1, based on data prepared by Susan Grad from the March 1983 CPS, records a high concentration of the population aged 80 and older in the income range from $3,000 to $6,000, while the population aged 65 to 67 is fairly evenly distributed across the income range from $3,000 to $14,000 (Grad 1984).

Why is there such a substantial difference in the incomes of the older and younger cohorts? Two alternative hypotheses are plausible. The first is that income declines with age. The second is that the younger cohorts have earned better retirement benefits than their

TABLE 1

Median Incomes of Aged Persons and Couples by Age of Spouse or Person, 1983

Marital status	Age of person or spouse*		
	65–74	75–84	85+
Single persons	$ 7,651	$ 6,509	$ 5,912
Couples	17,798	14,155	11,988

Source: U.S. Senate. Special Committee on Aging 1984b.
* Families are included in an age category if the head or spouse is in the age group. This results in a duplicate count of couples with spouses in different age groups.

TABLE 2

Percent of Older Persons by Ratio of Income to Poverty Level and by Age Group, 1983

Ratio of income to poverty	Age of person		
	65–74	75–84	85+
< 100%	11.9%	16.7%	21.3%
100–124%	6.7	10.6	12.7
125–149%	6.7	9.6	9.7
Total < 150%	25.3	36.9	43.7

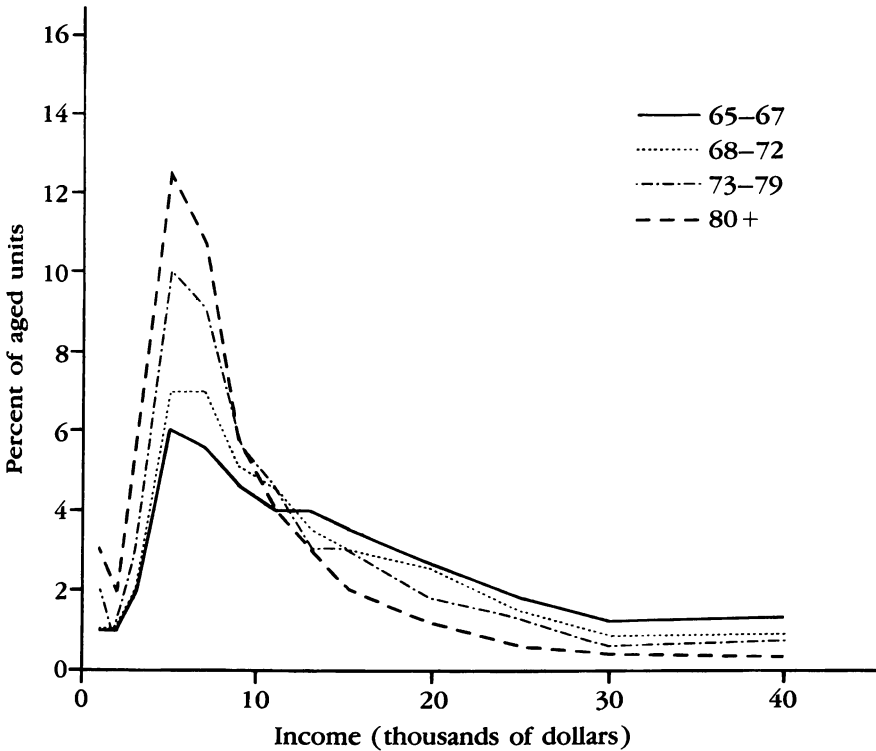*Source:* U.S. Senate. Special Committee on Aging 1984b.

FIG. 1.   Income distribution 1982—all units.
Source: Grad 1984.

predecessors. Of course, cross-section data provide no definitive basis for drawing conclusions on either point. However, there are some convincing clues that are worth noting.

First, there is good reason to believe that income declines with age. Two factors clearly contribute to this decline: changes in marital status, and changes in sources of income. Of the two, the change in marital status is more important.

Most of the difference between the income distributions of the oldest old and the youngest old appears to be attributable to the greater concentration of single persons in the oldest old population. The income distributions of different age groups of the single elderly are remarkably similar. Single elderly are heavily concentrated in low income ranges with a sharply peaked distribution quite similar to that of the oldest cohort (see figure 2). The distribution is only slightly more peaked for the older single persons than for the younger ones,
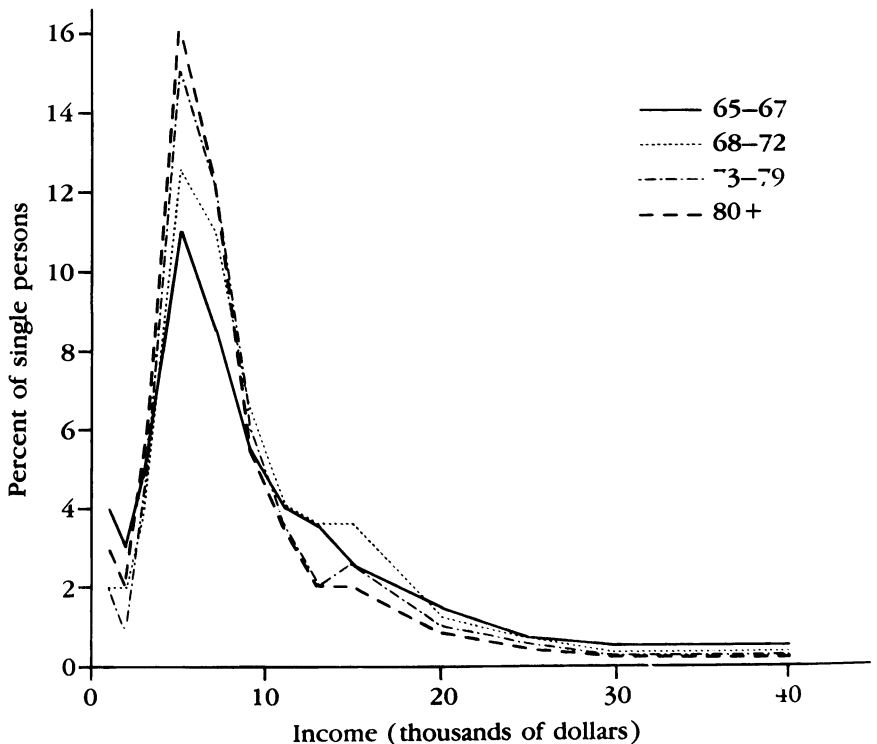

FIG. 2.   Income distribution 1982—singles.
Source: Grad 1984, table 11.

and for women than for men. However, these differences are minor. By contrast, the income distributions for elderly couples of all ages are much flatter. Again the distribution is only slightly more peaked for older couples than for younger ones (see figure 3).

The uniformity in the income distributions of single elderly of all ages and of elderly couples of all ages implies that marital status change, particularly due to the death of a spouse, is an important factor contributing to age cohort differences among the elderly. The marital characteristics of the younger and older cohorts of the elderly are substantially different. More than half (63 percent) of the population aged 65 to 74 are married, while nearly three-quarters (70 percent) of those aged 85 and older are widowed. Fifty-six percent of those in the cohort aged 85 and older are widowed women (U.S. Senate. Special Committee on Aging 1984b).
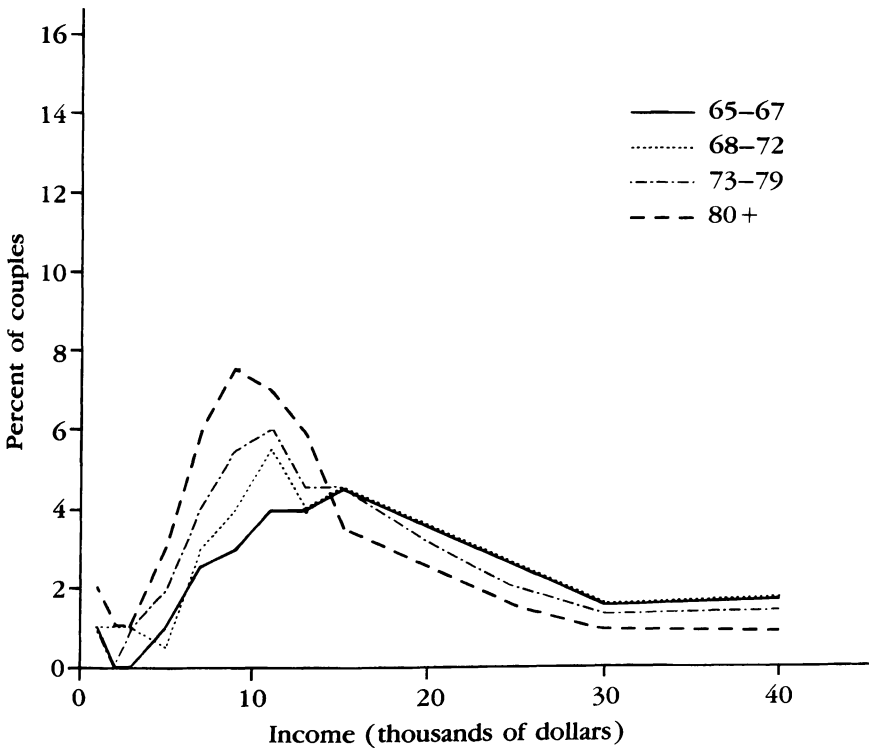

FIG. 3.   Income distribution 1982—couples.
Source: Grad 1984, table 11.

There are a number of ways in which the death of a spouse can precipitate a substantial loss of income, particularly for women who have not earned retirement benefits on the basis of their own work histories. For one, a surviving dependent spouse receives only two-thirds the Social Security benefits previously received by the couple. In addition, in the absence of joint-and-survivor benefits, pension annuities received by a retired worker are forfeited upon his death. Although joint-and-survivor benefits are gradually becoming more common, they are rare among current retirees, particularly among older cohorts. Finally, the death of a working older spouse will result in a loss of earned income. The net result is that widowed older women have a median income ($5,620) roughly one-third that of older couples ($15,130). Age is not a substantial factor for widowed older women. The median income of these women declines slightly with advancing age (see table 3).

Widowhood by itself, however, is not a sufficient explanation for lower incomes among the older age cohorts. Those who have survived as couples into the oldest ages also have lower average incomes ($11,988) than couples now entering the youngest cohorts of the elderly ($17,798) (see table 1). The difference in the amount of income received by various age groups appears to be associated also with a change in the composition of income. Older cohorts are more dependent on Social Security and asset income and less dependent on earned income than are younger cohorts (see figure 4). Earnings, in particular, disappear as a major source of income in the older cohorts. While the group aged 65 to 67 earns 35 percent of its total income, the group aged 80 and older earns only 4 percent of its income. Social Security takes

TABLE 3

Median Income of Aged Units by Age, Sex, and Marital Status, 1982

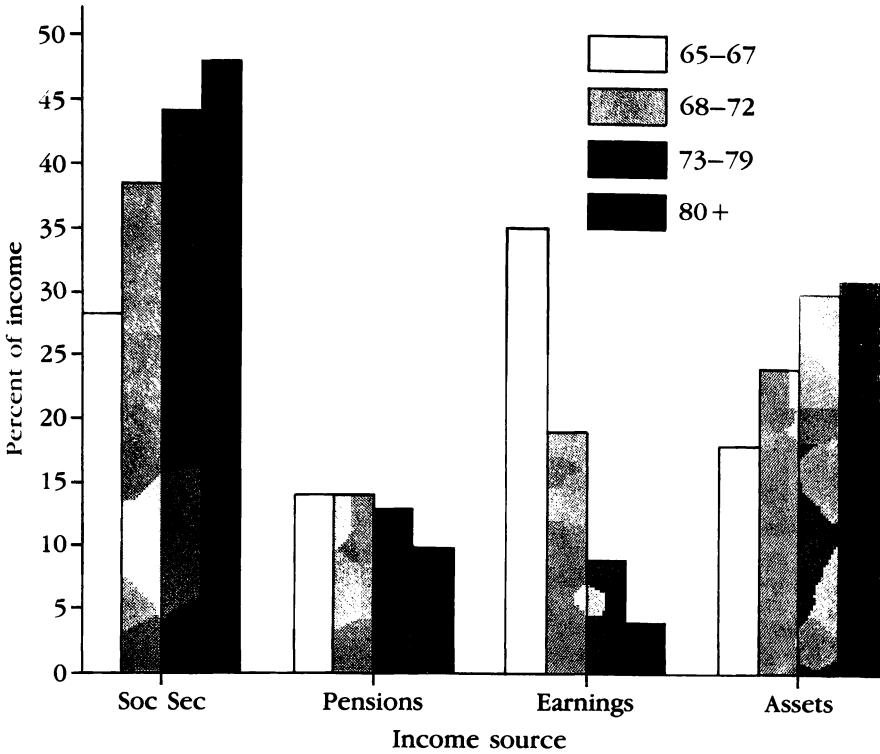| Marital status and sex	Age of aged unit			
	65–67	68–72	73–79	80+
Married couples	$17,930	$16,210	$13,900	$11,070
Unmarried men	8,840	7,400	7,160	6,250
Unmarried women	6,210	6,150	5,530	5,180

Source: Grad 1984, table 11.

FIG. 4.   Income sources 1982—aged units.
Source: Grad 1984, table 44.

the place of earnings, providing 48 percent of total income to the cohort aged 80 and older compared to only 28 percent of the total income received by the group aged 65 to 67 (see table 4). However, Social Security, pensions, and asset income do not fully replace lost earnings. In addition, average benefit levels from each of these sources are lower for the oldest group than for the youngest. Social Security benefits, for example, average $4,700 for beneficiaries aged 80 and older compared to $5,350 for those aged 65 to 67, many of whom receive reduced benefits because they still work (Grad 1984).

The decline in the median income of couples may also be attributable to erosion in the value of benefits as people age. For example, most pensions are not fully indexed for inflation, and lose real value with each passing year. In addition, if individuals draw down their assets in retirement, their income from assets will also decline. Thus, an increasing reliance on retirement and asset income and the declining

TABLE 4

Proportion of Aggregate Income of Aged Units by Income Source and Age
Group, 1982*

Income source	Age group			
	65–67	68–72	73–79	80+
Social Security	28%	38%	44%	48%
Private pension	7	7	7	6
Public pension	7	7	6	4
Earnings	35	19	9	4
Asset income	18	24	30	31
Public assistance	1	1	1	2
Other**	4	4	3	5

Source: Grad 1984.

 * An aged unit is either a married couple living together, one or both of whom are 65 or older, or an individual 65 or older who does not live with a spouse. Income of the unit is measured separately from the income of the family or household in which the unit lives.
 ** Other income sources include combined railroad retirement and Social Security payments and combined payments from private and public pensions as well as other unspecified sources.

role of earnings in the incomes of older cohorts may account, in part, for the lower income levels.

While it seems plausible that aging itself causes some erosion in income, the alternative hypothesis that younger cohorts have higher incomes because they have earned more substantial retirement benefits and accumulated more assets over their working lives than earlier generations of retirees may also be true. The first generation to spend a full working career covered under Social Security is reaching retirement age in the 1980s. This new cohort of retirees has also benefited from the growth of private pension coverage in the 1950s and 1960s, and from the postwar boom in real wages and disposable income. By comparison, those who are today aged 85 or older reached retirement age in the late 1950s or early 1960s, with relatively short periods of Social Security and pension coverage to their credit.

As the Social Security program and private pension plans have matured, each succeeding wave of retiring workers has received higher average benefits than the previous wave. For example, the average Social Security benefit paid to a worker retiring at age 65 increased in constant 1982 dollars from $4,762 in 1976 to $5,040 in 1982

(Social Security Administration 1983, table 41). In addition to the growth in retirement benefits, asset income has increased substantially causing an overall increase in the share of total income coming from assets. The median asset income for those aged 65 and older has increased in constant 1982 dollars from $868 in 1967 to $1,540 in 1982 (Bixby et al. 1975; Grad 1984). As a result, the share of aggregate income to aged units from assets has risen from 15 percent to 25 percent over the same period (Upp 1983; Grad 1984). Some of the growth in income from assets is the result of higher current yields from financial markets in recent years. It is also possible, however, that it reflects new generations of workers entering retirement with larger amounts of personal savings than previous generations.

If differences in the incomes of younger and older cohorts are largely explained by the erosion of income with advancing age, then succeeding generations of the very old are no more likely than the current generation to have sufficient cash incomes in old age. However, if the differences between the cohorts are largely the result of a growing sufficiency of resources in succeeding generations of retirees, then future generations of the very old may be increasingly able to bear a portion of their own health care expenses.

However, the prospects that succeeding generations of retirees might continue to have higher incomes relative to the standard of living than those of preceding generations may not be encouraging. In the near term there may well be an increase in the relative income of the oldest cohort as recent cohorts of new retirees with greater initial benefits pass into the oldest age groups. This relative increase, however, may be short-lived. Further gains in Social Security and pension income may not materialize for succeeding generations of retirees for several reasons. First, because Social Security and private pension plans are now reaching maturity, future intergenerational differences in relative benefits should no longer be as great. In the past, as these programs grew, each succeeding cohort received higher initial benefits relative to their wage histories. Now with full wage histories covered, absent a change in policy, initial benefits should generally be fixed in relation to preretirement wages. Second, Social Security and pension coverage of workers is not likely to expand greatly in the future. Social Security coverage is now nearly universal. Pension coverage, which grew rapidly with coverage of the manufacturing work force in the 1950s and 1960s, has actually declined slightly in recent years

due to the decline in manufacturing jobs and the growth in the less-well-covered service sector. Third, real wage losses in recent years may slow the growth in average wage histories of coming generations of retirees. These trends imply that there could be a leveling off or even a decline in the relative incomes of future generations of the elderly.

On the other hand, future benefit levels for the oldest old may continue to rise. More continuous labor force attachment and better earnings records for working women may raise future benefit levels for retiring women. In addition, continuing legislative efforts, such as the Retirement Equity Act of 1984, designed to increase pension receipt and improve benefits for divorced and widowed women, may redistribute pension income within future cohorts of retirees from couples to surviving spouses or from those with large pensions to those with small pensions. Changes of this nature could result in a more even income distribution and higher average income for those who survive into the oldest age groups.

Assets

While income may decline with age, life-cycle theory suggests that assets are converted to make up the loss and maintain level consumption after retirement, leaving those who live to the oldest ages with few remaining assets. Empirical evidence, however, has not generally supported this conclusion. Instead the evidence suggests a more complex picture of the use of assets.

Conclusions on the wealth of the elderly are limited, however, by the generally poor quality of the available asset data. First, wealth is usually imputed from reported asset income and is rarely measured directly. Second, most surveys of income are thought seriously to undercount asset income either because the questions do not clearly specify all forms of asset income or because respondents are hesitant to report certain types of asset income, particularly nontaxable types. With these caveats in mind, however, some interesting patterns are suggested by the data that are available.

The overwhelming majority of the elderly hold assets primarily in the form of home equity. In 1980, nearly 75 percent of persons aged 65 and older owned their own homes, and nearly 80 percent of these

owned their homes "free and clear." Home ownership is widespread among the elderly of almost all income levels and living arrangements (Struyk and Soldo 1980).

Financial assets are not nearly as widespread nor as evenly distributed as home equity. While many elderly have accumulated substantial financial assets, more of them have accumulated few or no assets by the time they reach retirement. Nearly one-third of the respondents aged 65 and older to the March 1983 CPS reported no income of any type from assets. Of those who did report income from assets, 31 percent received less than $500 a year, while another 28 percent received more than $5,000 a year (Grad 1984). A study of the estimated net wealth of various age groups in the population from a 1973 file of merged CPS and Internal Revenue Service tax-return data concluded that the distribution of wealth among the elderly was the most unequal of any age group. Over half of the households with heads aged over 65 in 1973 were found, then, to have no measured wealth. At the same time, the group aged 65 and older had the highest concentration (23 percent) of the top wealth holders (Greenwood 1983).

There is some evidence of asset stability among the aged from the asset data reported in the CPS. Tabulations by Grad (1984) of the March 1983 survey indicate that the proportion of elderly persons reporting asset income varies only a small amount among the age groups and that average amounts of reported asset income are also similar for each of these groups. A smaller percentage of older elderly than younger elderly report asset income, but the differences seem small. Roughly 70 percent of the younger group (aged 65 to 67) receive income from some asset compared to 65 percent of the oldest group (aged 80 and older). At the same time, the percentage of aggregate income attributable to assets increases substantially from 18 percent for the group aged 65 to 67 to 31 percent for the group aged 80 and older. However, a crude adjustment for the fact that median incomes of older cohorts are lower, results in average asset income amounts that appear to be similar for all groups aged 65 and older.

Since we expect each succeeding cohort of the elderly to have a higher average-wage history and a larger average accumulation of assets at retirement age, we expect younger cohorts to have greater asset income than older cohorts, even if the older cohorts have not spent down their assets. It is thus possible to interpret the similarity in

average asset income among the age groups as an indication of a
continuing accumulation of assets in old age. The evidence from the
CPS of asset stability is quite limited, however, and should be understood
as suggestive only. Larger samples and more precise methods for
measuring assets need to be employed before we will be able truly
to understand asset accumulation and spending patterns in old age.

Other Resources

The economic status of the elderly as a group is also influenced by
the value of in-kind benefits they receive and by the effect of tax
payments on their net income. These two factors work in opposite
directions. Noncash benefits provided by the government or by employers
improve an individual's economic status by reducing the demand on
cash income to purchase similar goods and services. Thus, they act
as a substitute for cash income. The elderly, because they no longer
work, receive largely government-provided noncash benefits. The most
significant benefit is Medicare hospital insurance provided without
regard to income to over 95 percent of the elderly. Only about one-
fifth of the elderly receive Medicaid, food stamps, subsidized housing,
or other means-tested benefits aimed at improving the economic status
of those with the lowest cash incomes (U.S. Senate. Special Committee
on Aging 1984a, 330).
     Tax payments, on the other hand, reduce the economic resources
of the elderly. Actually, the tax burden on the elderly is relatively
light due to four special tax provisions that enable them to receive
tax-free income or pay reduced taxes. Specifically, the elderly have
benefited from: (1) the exclusion from taxable income of Social Security,
railroad retirement, and veterans' pension benefits, although the Social
Security and railroad retirement exclusions were limited by legislation
enacted in 1983; (2) the additional exemption for all elderly taxpayers;
(3) the special elderly tax credit, targeted to relatively low-income
taxpayers; and (4) the one-time exclusion of capital gains from home
sales after age 55. In addition, those who are no longer earning income
are also not subject to the Social Security payroll tax.
     Although the tax and in-kind benefit effects work against each
other, they do not necessarily affect the same elderly individuals. In
fact, it is likely that the group receiving most of the means-tested

benefits pay little in income taxes, if they file returns at all. Thus, the combined effect of taxes and in-kind benefits most likely improves the economic status of those with the lowest incomes and reduces the economic status of those with the highest income. The question is whether the combination of taxes and in-kind benefits offsets the lower cash incomes of the oldest old and whether these factors advantage equally all age groups among the elderly.

In a broader context, it remains to be seen whether as the elderly age, lose spouses, and suffer declines in income their other resources enable them to maintain level consumption in old age. To answer this question, it is necessary to view the effects of taxes, in-kind benefits, assets, and cash income in combination and gauge the distribution of these combined economic resources among the old and young elderly.

Economic Status of the Old and Young Elderly

To assess the combined effect of the economic factors discussed above on the relative economic status of the oldest old, special tabulations were prepared for the Milbank Memorial Fund by ICF, Inc. (1984), using the March 1981 CPS. ICF derived measures of economic status under alternative income definitions by adding to the 1980 incomes reported by 13,000 elderly households sampled in the March 1981 CPS estimates of 1980 federal, state, and local tax payments, the "cash equivalent" value of in-kind benefits (i.e. Medicare, Medicaid, housing assistance, and food stamps), and the estimated annuity value of the equity value of owner-occupied housing and income-producing assets. Separate estimates were prepared on the population 65 to 74 years of age and 75 years of age and older, with 75 used as the lower limit for the older group due to sample-size limitations in the surveys used to develop the estimates of economic status.

The ICF data provide a unique opportunity to view the relative economic status of older elderly (in this case, those aged 75 and older). However, analysis of this type has limitations which could conceivably affect the reliability of the results. For example, the tax payments and home-equity values assigned to individual records were estimates based on assumptions developed by ICF. Since the assumptions were based on known characteristics of the age and income groups used in

this analysis, it is likely that the results are valid in the aggregate for these groups. However, the probability of error cannot be estimated.

The ICF data are designed to permit comparisons of the effect on the distributions of cash income of including various economic resources for one-person and two-person families headed by persons aged 65 to 74 and 75 and older. In order to estimate the potential for dissaving assets to finance retirement or health needs, nonhousing assets and home equity were converted to annuities at current market rates based on the age of the individual. The conversion to annuities is intended to yield an estimate of the annual income which could be derived from total assets if they were consumed evenly over the average remaining life span. It has the effect, therefore, of providing a higher annual flow to a person aged 75 and over than to a person under age 75 from an identical stock of assets.

This method of imputing income value to assets is controversial since its effects vary substantially depending upon the age of the individual. Critics of this method suggest that the value of home-ownership to the individual is the value of the service, measured by the imputed rent for equivalent housing. Imputed rent is not sensitive to the age of the individual. However, the method used by ICF is a more conservative approach in the context of this study since it yields a greater flow at older ages and thus weighs against finding fewer differences in the older resources between the age groups.

It is apparent from the ICF results, summarized in tables 5 and 6, that the most significant noncash factor affecting the income distribution of the elderly is the annuitization of home equity. With home equity excluded, the net effect of noncash factors on the income distributions for the two age groups and the relationship between the age groups is roughly halved (see table 5).

As expected, taxes and in-kind benefits in combination reduce the concentration of older persons at the extremes of the distribution (see table 5). The net result of the inclusion of taxes and in-kind benefits is that roughly one-sixth of those with cash incomes at the lowest levels rise into higher income brackets, and about the same proportion of those at the highest income levels drop into lower income brackets. These effects are similar for the groups aged 65 to 74 and 75 and older.

Converting assets other than home equity to annuities does not appear to change substantially the income distribution among the

TABLE 5

Percent Change in Size of Income Group Resulting from Addition of Cumulative Resources to Cash Definition of Income, 1980*

Income group	Effect of taxes		Effect of taxes, in-kind benefits		Effect of taxes, in-kind, flow of nonhousing assets		Effect of taxes, in-kind, flow of total assets	
	65–74	75+	65–74	75+	65–74	75+	65–74	75+
All Older Units								
<$6,000	0.7%	0.5%	−16.0%	−14.1%	−17.4%	−22.0%	−38.7%	−46.4%
$6,000–12,499	5.9	4.3	10.2	15.0	5.9	6.7	2.5	7.7
$12,500–24,999	7.2	0.6	14.1	14.6	16.3	28.1	30.4	70.2
$25,000+	−28.8	−25.4	−19.7	−17.5	−9.1	41.3	15.2	90.5
Single Persons								
<$6,000	0.2%	0.0%	−12.2%	−11.9%	−14.0%	−20.0%	−34.4%	−43.3%
$6,000–12,499	6.9	6.4	24.6	32.7	20.2	24.3	37.9	48.2
$12,500–24,999	−7.6	−9.6	1.0	1.2	20.0	53.0	61.0	133.7
$25,000+	−50.0	−41.2	−53.3	−35.3	−26.7	147.1	13.3	288.2
Couples								
<$6,000	1.9%	1.2%	−28.6%	−26.8%	−28.6%	−31.5%	−52.4%	−63.1%
$6,000–12,499	5.2	2.6	1.2	1.7	−3.1	−7.1	−19.6	−23.6
$12,500–24,999	10.1	4.5	16.9	18.8	15.8	18.1	25.1	46.3
$25,000+	−27.9	−22.1	−16.9	−14.8	−8.0	24.6	15.4	58.2

Source: ICF, Inc. 1984.
* Change in the distribution for each combination of resources relative to the distribution of pre-tax cash income.

TABLE 6

Percent Distribution of Old and Young Elderly by Income Group under Alternative Definitions of Income, by Family Type, 1980*

Income group	Pre-tax cash		After-tax cash		Post-tax cash, plus in-kind benefits		Post-tax cash, in-kind and nonhousing assets		Post-tax cash, in-kind and all assets	
	65–74	75+	65–74	75+	65–74	75+	65–74	75+	65–74	75+
All Older Units										
< $6,000	28.2%	44.0%	28.4%	44.2%	23.7%	37.8%	23.3%	34.3%	17.3%	23.6%
$6,000–12,499	32.3	32.6	34.2	34.0	35.6	37.5	34.2	34.8	33.1	35.1
$12,500–24,999	26.3	17.1	28.2	17.2	30.0	19.6	30.6	21.9	34.3	29.1
$25,000+	13.2	6.3	9.4	4.7	10.6	5.2	12.0	8.9	15.2	12.0
Single Persons										
< $6,000	54.9	64.9	55.0	64.9	48.2	57.2	47.2	51.9	36.0	36.8
$6,000–12,499	31.7	25.1	33.9	26.7	39.5	33.3	38.1	31.2	43.7	37.2
$12,500–24,999	10.5	8.3	9.7	7.5	10.6	8.4	12.6	12.7	16.9	19.4
$25,000+	3.0	1.7	1.5	1.0	1.4	1.1	2.2	4.2	3.4	6.6
Couples										
< $6,000	10.5	16.8	10.7	17.0	7.5	12.3	7.5	11.5	5.0	6.2
$6,000–12,499	32.6	42.4	34.3	43.5	33.0	43.1	31.6	39.4	26.2	32.4
$12,500–24,999	36.7	28.7	40.4	30.0	42.9	34.1	42.5	33.9	45.9	42.0
$25,000+	20.1	12.2	14.5	9.5	16.7	10.4	18.5	15.2	23.2	19.3

Source: ICF, Inc. 1984.

* This table provides separate percentage distributions under each definition of income. The definitions are cumulative; starting with pre-tax cash income, each subsequent set of columns shows the effect of adding an additional resource.

elderly. It should be kept in mind, however, that there is believed to be a substantial underreporting of asset income in the Current Population Survey. The CPS data on assets that are reported suggest that the sizes of the lower-income groups are relatively unaffected by the inclusion of assets in cash income. The highest-income group does increase substantially, but in most cases the increase is from a small base and reflects the addition of only a small proportion of the age group.

On the other hand, annuitizing home equity does appear to have a significant effect on the incomes of both young and old elderly. When all assets, including home equity, are counted in income, the lowest-income groups are reduced by roughly one-fourth to one-third, and the middle- and higher-income groups are increased substantially. The older cohort receives a greater income flow from the annuitization of total assets than the younger cohort due to the shorter life span over which they are expected to consume them.

In combination, the inclusion of taxes, in-kind benefits, and total annuitized assets in income eliminates much, but not all, of the difference in the distribution of cash income between the groups aged 65 to 74 and 75 and older (see table 5). Most of this narrowing in the gap is the result of including annuitized assets, particularly home equity, in the incomes of single persons. After all factors are counted, single persons of all ages remain substantially poorer than couples. While there is a slightly larger concentration of older single persons than younger single persons in the higher income groups, older couples remain more concentrated than younger couples in the lower income groups. The greater prominence of single persons in the population aged 75 and older causes the older group as a whole to remain somewhat poorer than the younger group. However, the differences between the age groups are less extreme after the inclusion of taxes, in-kind benefits, and assets than they are on the basis of cash income alone.

Differences in family size are a final factor affecting the relative economic well-being of the young and old elderly. The average oldest old person lives in a smaller family unit and thus can support the same living standard on less income than the young old. A comparison of the total economic resources of the young and old elderly in relation to the poverty rate provides an opportunity to make a final adjustment for differences in family size.

Although the gap in poverty rates between the old old and the young old is reduced by half when in-kind benefits and annuitized assets are counted, poverty rates remain about 25 percent higher among the old old after adjustments are made (see figure 5). Counting strictly cash income, 20 percent of those aged 75 and older were poor in 1980 compared to only 13 percent of those aged 65 to 74. With adjustments for in-kind benefits and assets, the poverty rate drops to 7 percent for those aged 75 and older and 5.7 percent for those aged 65 to 74. The percent of young- and old-old persons with incomes below 150 percent of poverty drops in similar fashion with the addition of other economic resources, although the remaining difference between the two groups is greater. With in-kind benefits and assets counted, 22.3 percent of the group aged 75 and older is one and one-half times below the poverty rate compared to only 17.3 percent of those aged 65 to 74 (see table 7).
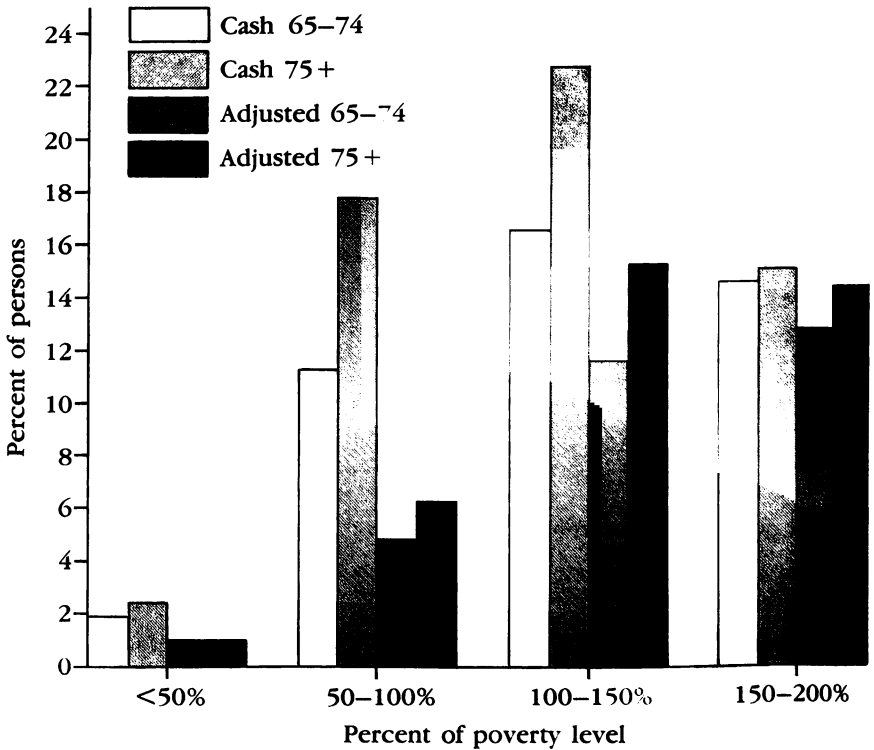

FIG. 5.   Percentage of persons above/below poverty, 1980.
Source: ICF, Inc. 1984.

TABLE 7

Percentage Distribution of Persons in Families Below and Above Poverty
Level Using Alternative Income Definitions, 1980

Ratio of income to poverty level	Pre-tax cash income		Pre-tax cash, plus in-kind benefits		Pre-tax cash, in-kind and annuitized assets	
	65–74	75+	65–74	75+	65–74	75+
Below:						
50%	1.9%	2.3%	1.4%	1.7%	0.9%	0.9%
75%	5.4	7.7	3.2	4.4	2.1	2.5
100%	13.0	20.0	8.6	13.0	5.7	7.0
125%	21.6	32.6	16.0	24.2	11.1	13.5
150%	29.5	42.7	24.3	36.2	17.3	22.3
200%	43.9	57.9	39.6	53.4	30.0	36.6

Source: ICF, Inc. 1984.

When all factors are counted, the current generation of older elderly
appears from this analysis still to have fewer economic resources than
the current generation of younger elderly. Several limitations in this
study prevent any definitive conclusion from these data. First, to the
extent that this study errs in imputing an income value for home
equity, it errs in the direction of overvaluing it for the older elderly.
If the value were instead considered to be the value of housing services
to the individual, much of the higher-income value for the old old
would disappear. Second, the 75 and older age group used in this
analysis most likely results in the very oldest age group having greater
resources than if a group 85 and older had been used. Future analysis
may well reveal substantially lower economic resources for those aged
85 and older than for those aged 75 to 84. Third, because all financial
assets were not measured in this analysis, the old elderly may appear
relatively poorer than they actually are. It is not known whether the
excluded assets were owned by those with low or high cash incomes.
Thus, it is not clear whether any bias was introduced into the income
distribution by their exclusion.

While the old elderly as a group have economic resources in addition
to income, these economic resources may not be readily available to
meet consumption needs. The old elderly, in particular, are dependent
on home equity for a large share of their economic resources. If home

equity could be converted, it would be the most significant factor raising the incomes of those with low cash income. However, home equity is a particularly illiquid asset for the oldest elderly. The ability to convert it to cash or an annuity is complicated by high costs which can be imposed by imperfect and fluctuating market conditions and the transaction itself. Older persons are also often unwilling for emotional reasons to leave homes they have lived in for years. In addition, the net income value of the sale of a home owned free-and-clear is reduced by increased rental or purchase costs for replacement housing.

Mobility and trading down of housing to free-up assets thus tends to be especially infrequent among the elderly. One recent study indicates that rather than reducing the equity in their homes, the elderly appear to accumulate more home equity as they age. Even among those who would benefit most from conversion, those with low incomes and relatively high home equity, there is little evidence that older persons convert these assets (Merrill 1984).

Conclusions

Those who survive to the oldest ages appear to have limited economic resources. Cash income is particularly low for the oldest old because they are now fully dependent on retirement income, receiving few or no earnings, and because many of them previously lost benefits with the death of a primary wage-earner spouse. In addition, because some of the cash income they continue to receive is not fully indexed for inflation, it has lost real value over the years. It is also likely that the current generation of old elderly reached retirement with lower real benefits than today's younger elderly.

Converting financial assets and home equity to income would offset part of the difference in cash income between the young and old elderly. Evidence suggests the elderly do not consume their assets during retirement. If these assets could be used to purchase annuities, roughly half of the income gap between the young and old elderly would be eliminated. However, asset reserves may not help the elderly with the lowest incomes. Financial assets are not broadly distributed among the elderly, and annuitizing these assets appears to do little to raise the economic status of the poorest groups. Home equity, which could help raise the incomes of many of the low-income elderly

is, at least for the present, generally illiquid, particularly for the oldest age groups.

Even with all economic resources counted, a substantial proportion of the elderly aged 75 and older have limited economic resources. Counting everything but housing, more than a third (34.3 percent) of the units headed by a person aged 75 or older had total resources worth less than $6,000 a year in 1980. With housing included, nearly a quarter (23.6 percent) of the units still had resources valued below this level (see table 5).

The predominance of single persons in the oldest cohorts offers one explanation for the lesser economic resources of the group aged 75 and older. Single older persons have a significantly lower economic status than married older couples. Again with all resources counted, more than a third (36.8 percent) of single persons aged 75 and older had resources valued at less than $6,000 a year in 1980 compared to only 6.2 percent of the couples aged 75 and older (see table 5). By contrast, the differences by age among singles and couples were quite small.

Over the next two decades, the relative economic well-being of the oldest cohort may improve as today's younger and more affluent cohorts of the elderly age. However, it is reasonable to expect this trend to be short-lived. Behind the current cohort of new retirees may come cohorts that relatively are no better off. These cohorts of future retirees may help to stabilize whatever trend there has been in the past for intergenerational differences in retirement income.

What capacity, then, do the old elderly appear to have for greater cost-sharing in their health and long-term care expenses? Medicare already imposes considerable cost-sharing on the elderly through premiums, deductibles, coinsurance, and excess charges. While cost-sharing does not vary with the income of the elderly, the poor and the old elderly pay a higher percentage of their health costs out-of-pocket due to a lack of coverage under gap-filling health plans. Surprisingly, only one-fourth of elderly poor Medicare enrollees are covered by Medicaid for these costs (U.S. Senate. Special Committee on Aging 1984a, 384). With rapidly rising health care costs, spending by the elderly for health care is also rising and consuming an increasing share of their income. Already people aged 65 and older pay about 29 percent of their medical bills (including about 44 percent of their long-term care bills), and this expense is estimated to consume about

14 percent of their income, up from 12 percent a few years ago (U.S. Senate. Special Committee on Aging 1984a, 384, 387, 428). Without any changes in public policy, it is likely that health care will become an increasing financial burden for the elderly in the near future.

Medical and long-term care costs for the oldest old are the highest of any of the elderly and yet the oldest old appear to have the fewest economic resources by all measures. Thus, cost-sharing measures could greatly affect the relative distribution of resources among the young and oldest old. Cost-sharing related to utilization would impose the greatest burden on the oldest old, since their use of medical and long-term care services is greatest. Cost-sharing allocated on a per capita basis, such as a premium increase, would be less burdensome to the oldest old but would still have a disproportionate effect on them since the greatest burden relative to income would be borne by the poorest elderly. Of all approaches, use of a means-tested per capita payment or an increase in the age of eligibility would allocate the smallest share of cost to the oldest old.

Understandably, the elderly appear reluctant to consume their financial assets and convert their home equity too rapidly as they age. Nevertheless, the resources they retain to their oldest ages provide only a limited and illiquid reserve against unanticipated expenses. Most of the oldest old have their assets in home equity, which is not easily converted to income when medical bills are due. Many of those with more liquid assets appear often to have quite limited amounts. Thus, the consequence of a public policy aiming to deplete the economic resources of the oldest old could well be self-defeating, forcing eventually an even greater reliance by this age group on publicly financed health care.

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