Introduction

The economic security of today’s elders and the coming baby boom generation should be of major concern to policy makers, aging service providers, and foundations. Every indication is that the baby boom generation will be in worse financial shape in their retirement than the present generation. In part, this is because of changes in workplace benefits that used to provide guaranteed pension income and retiree health care benefits. It is also because there will be so many boomers that they may overwhelm both entitlement and service delivery programs. Understanding the extent of the problem and the current programs that are in place to support elders in financially poor situations is necessary if we are to build the programs and policies that provide the economic security older individuals need to maintain dignity and health as they age. To understand who lacks economic security in retirement, it is useful to look at the different measurements of income security, as well as the sources of income and major expenses.

Measuring economic security in retirement

Poverty threshold (PTh): The most commonly used measurement of economic insecurity is the poverty threshold or as it is more commonly called, the poverty line. The poverty threshold is calculated by the U.S. Census Bureau each year. Households with income below the threshold are considered poor, and those above the threshold are not.

The methodology assumes the average household spends 1/3 of its budget on food, so the poverty level is calculated as three times a modest food budget. It also assumes that a household of people over 65 eat less than younger individuals so the poverty line for households over age 65 have a lower poverty line (ironically making some people poor until their 65th birthday when they can miraculously no longer be considered poor). These assumptions are no longer valid as food is closer to 13% of a household’s food budget.

Housing and health care expenses have grown much more than food and today take the biggest bite out of a household’s budget.

<table>
<thead>
<tr>
<th>2015 Poverty Thresholds (PTh)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size of Household</strong></td>
</tr>
<tr>
<td>1 person</td>
</tr>
<tr>
<td>2 people</td>
</tr>
</tbody>
</table>

Supplemental Poverty Measure (SPM): The Census Bureau, researchers and economists recognize that most households could not live at the poverty level without substantial government supports such as subsidized housing, Medicaid and food stamps. In response to these criticisms, the U.S. Census Bureau has calculated a Supplemental Poverty Measure (SPM). This measure uses the cost of food, shelter, clothing, and utilities plus incidentals to determine a measure of the amount needed to cover basic expenses.

Unlike the poverty guidelines, the SPM is not used to determine eligibility for program supports, but instead is intended to be used to measure the need of populations for research purposes. In determining who falls under or over the supplemental poverty measure, the U.S. Census Bureau considers not only the income of the household but also income supports such as subsidized housing, fuel assistance and nutritional assistance. Necessary expenses, such as child care and out of pocket medical expenses are also considered. This measure results in a much more realistic measure of hardship and shows elders with a higher poverty rate than the standard poverty measure. In 2013, the official poverty rate had 9.5% of those aged 65+ in poverty while the SPM had 14.6% of elders in poverty.
Number and Percentage of People in Poverty by Different Poverty Measures: 2013

<table>
<thead>
<tr>
<th>Age</th>
<th>Total # in 1,000s</th>
<th>PTh#</th>
<th>%</th>
<th>SPM#</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 18 years</td>
<td>74,055</td>
<td>15,089</td>
<td>20.4</td>
<td>12,177</td>
<td>16.4</td>
</tr>
<tr>
<td>18 to 64 years</td>
<td>194,833</td>
<td>26,429</td>
<td>13.6</td>
<td>29,987</td>
<td>15.4</td>
</tr>
<tr>
<td>65 years and older</td>
<td>44,508</td>
<td>4,231</td>
<td>9.5</td>
<td>6,507</td>
<td>14.6</td>
</tr>
</tbody>
</table>

Source: US Census Bureau

**Elder Economic Security Standard Index (Elder Index):** A third measure of hardship is the Elder Index, which measures the cost of living for people age 65+ living at a modest level without government supports. This measure considers housing, food, health care and transportation, as well as a factor for miscellaneous expenses. It is calculated on a geographically specific basis at the county level.

It is a measure against which individuals, policy makers and researchers can determine what income and supports are needed to bring seniors up to a modest standard of leaving. Like the other measures, it can be used to determine how many peoples’ incomes fall below the standard, showing the need for either increased income or government supports.

### The National Elder Index, 2011

<table>
<thead>
<tr>
<th>Monthly Expenses</th>
<th>Single Elder</th>
<th>Elder Couple</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Owner w/o Mortgage</td>
<td>Renter</td>
</tr>
<tr>
<td>Housing</td>
<td>$457</td>
<td>$769</td>
</tr>
<tr>
<td>Food</td>
<td>$243</td>
<td>$243</td>
</tr>
<tr>
<td>Transportation</td>
<td>$246</td>
<td>$246</td>
</tr>
<tr>
<td>Health Care (Good Health)</td>
<td>$381</td>
<td>$381</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$265</td>
<td>$265</td>
</tr>
<tr>
<td><strong>Total Monthly (Index) Expenses</strong></td>
<td><strong>$1,592</strong></td>
<td><strong>$1,904</strong></td>
</tr>
<tr>
<td><strong>Total Annual (Index) Expenses</strong></td>
<td><strong>$19,104</strong></td>
<td><strong>$22,848</strong></td>
</tr>
</tbody>
</table>
Income Sources

Retirement security is achieved when an individual’s income is sufficient to cover their expenses. Thus, to understand how to achieve economic security in retirement, we must examine both income sources and expenses, for insuring economic security can be achieved by either increasing one’s income, reducing one’s expenses or a combination of both.

Social Security: Social Security is the most important source of income for people over the age of 65. The National Academy for Social Insurance reported in 2012 that elders with income below $20,150 (about 40% of seniors) received more than 80% of their income from Social Security. The program is the bedrock of low-income seniors’ retirement security and a key part of middle class and even upper class seniors’ retirement security as well.

Social Security has a number of features that make it ideally suited to preserving economic security in retirement.

1. First and foremost, it is an almost universal social insurance program that covers 90% of people over the age of 65 in the United States.
2. It provides benefits as an annuity, paid monthly, which will continue over the entire life span of the individual. Thus, a person cannot outlive their benefit.
3. The benefit has a Cost-of-Living Adjustment (COLA) so that it goes up each year with the cost of living. This element is particularly important because one might spend upwards of 30 years in retirement.
4. It has a slight redistributive element. While higher income workers will receive a higher benefit than lower income workers, the lower income workers will receive a benefit that is a greater percentage of their former wages.

Social Security Reform: Social Security, however, is projected to have a deficit and be unable to pay the full benefits promised by 2034. Thus, some changes to the program will have to be made to keep it solvent after that date. Congress and the President will need to pass any changes to the program. Changes could include increases in taxes and revenue for the program, a decrease in benefits, a combination of the two, or radical restructuring. Because of the importance of this program, any changes that involve a reduction of benefits could have a significant impact on the retirement security of older adults.

Employer-based retirement plans: Historically, an employer-based retirement plan was called a pension, and it was given to workers who reached the age of 65 as a monthly benefit for the life of the retiree. These plans were called “defined benefit plans” because the salary and years of employment “defined” the amount of the benefit. These plans never covered more than half the workforce. Employers were not required to offer the plans, and many didn’t. In the past 25 years, however, many employers have dropped this type of plan, and new companies such as health insurers and high tech companies have not adopted them. Companies today are more apt to offer a “defined contribution plan” if they offer a pension. Below is a brief description of each type of plan.

Defined Benefit Plan: A defined benefit plan (DB) usually uses a formula based on the salary, years of service, and age of retirement to determine how much a retiree will receive. The benefit is typically given as a monthly annuity for the life of the retiree. In 1984, Congress passed a law requiring that plans offer a 50% survivor benefit to the spouse of the retiree. The benefits are guaranteed by the Pension Benefit Guarantee Corporation, a semi-governmental agency. In a defined benefit plan, the sponsoring employer contributes money to the pension plan and takes the risk that money is invested properly and will be sufficient to pay benefits when the time comes.
These plans lost favor, in part, because workers’ employment patterns changed. A life-time career with one company became less common. Companies became less interested in providing a benefit to a worker that had left their employment 20 or 30 years before. Today, it has become more common for companies with DB plans to offer a lump sum benefit to relieve it of the responsibility of paying the benefit over long periods of time.

**Defined Contribution Plan:** A defined contribution plan (DC) uses a formula that defines the amount of contribution an employer and/or employee will make to a retirement account for the employee. The most common DC plan is a 401(k) plan. The company promises to pay a certain amount of money (often a percentage of the worker’s salary) into a fund that will be available to the worker upon their retirement. Often the worker must contribute to the fund as a condition of the employer contributing. This is called a required match. If the worker does not contribute, the employer also will not contribute. In some cases, an employer may sponsor a DC plan and not contribute to it at all, in which case the account is fully funded by the employee. Such a design operates to the disadvantage of workers who do not contribute, often the lower-wage worker.x

DC plans are not guaranteed and may lose value as we saw in 2009 when stocks lost 37% of their value.xi DB plans also lost value, but the company bore the loss. The drop in 401(k) value was particularly devastating for current retirees drawing down their assets and people who had to retire while their accounts were low.

DB plans and DC plans both have advantages and disadvantages. The challenge now is to develop a plan that has the best of both worlds. Some of the best elements of a DB plan include a guarantee of benefits and payout over the life of the worker and possibly the spouse. Some of the best elements of a DC plan include increases in investment during retirement and portability between employers. A second challenge is to extend the offering of pension plans to more employees. Currently, only about ½ the full-time private sector workforce is even offered the opportunity to be covered by a plan.

<table>
<thead>
<tr>
<th>Chart comparing DB and DC plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Risks</strong></td>
</tr>
<tr>
<td><strong>DC Plan</strong></td>
</tr>
<tr>
<td><strong>DB Plan</strong></td>
</tr>
</tbody>
</table>

**Public Employer Plans:** 16% of the workforce is employed in government (state, local, or federal) agencies.xii These workers are primarily covered by DB plans. Recently, there has been an effort to undercut these plans as unaffordable or too generous because private sector workers don’t have these plans. It is very hard to generalize about public sector plans because there is a great deal of diversity, but to attack them because the private sector is doing an inadequate job of providing a secure retirement for their workers is an argument that, if successful, will result in more economic insecurity for retirees.
Personal Savings & Individual Retirement Accounts (IRA): The third leg of the retirement security stool after Social Security and pensions is personal savings. It is expected that individuals will save for their own retirement. However, the Government Accountability Office reports that in 2013, 41% of households between the ages of 55 and 64 had no retirement savings. These households had a low to moderate income with few other financial resources.

The federal government has tried to encourage savings for retirement by using favorable tax treatment for savings made to specially designated retirement funds. These accounts are called IRAs or Roth IRAs. IRAs can have several tax advantages. First, contributions may be tax deductible, reducing the saver’s taxes in the year they contribute. Second, any investment gains from the money in the IRA are either tax deferred (traditional IRA) or tax free (Roth IRA).

Tax deductions on contributions to a traditional IRA are available only to people who are low or moderate income (single under $70,000/yr or married under $116,000/yr) or do not have access to a workplace pension. Contributions to a Roth IRA are not tax deductible but have other tax advantages.

The investment gains in a traditional IRA will be tax-deferred which means that the saver will not pay any taxes on the capital gains, interest, or dividends which result from investment as long as the money stays in the account. However, when the money is withdrawn, and it must start to be withdrawn between age 59.5 and 70.5, the tax payer will pay taxes on whatever is taken out.

Because this is a significant advantage, it is limited to individuals who are low-to-moderate-income.

In 2015, the amount a person can put into an account each year was limited to $5,500 if you are under 50 years of age or $6,500 if you are over age 50. These personal savings vehicles differ from employer-sponsored plans in that their limits for contribution are lower, and they have less protections for the saver and the spouse. Very few workers contribute directly to an IRA. The vast majority of money held in IRAs have been rolled over from employer-sponsored pension, plans making pension plans the most important form of saving for retirement.

If you withdraw funds from a traditional IRA before age 59.5, you will not only have to pay taxes on the amount you withdraw, but you will also have to pay a penalty of an additional 10%. This provision is to discourage the funds from being used prior to retirement. Roth IRA funds can be withdrawn tax free if held for more than 5 years and used for specific purposes.

Work: The average retirement age is now 64 years old for men and 62 years old for women. In the past 15 years, the trend toward early retirement has shifted toward people working longer. Although a majority of people still retire at or before age 65, some people, either for necessity or satisfaction, are working longer. Thus, work is becoming a source of income for the younger old (age 65 to 70).

Working longer has been urged as a solution to many income retirement challenges. For every year a person works past age 65, they can continue to save and increase their savings; and their Social Security benefit is increased by about 7% (up to age 70). On all fronts, they will be in a stronger financial situation in retirement.

However, this solution has its limitations. First, many people cannot work due to disability, which increases with age. Secondly, finding a job if your job ended is more difficult for people over 55. And finally, work becomes less and less practical as a source of income in a person’s 70s and 80s.

Supplemental Security Income: The federal Supplemental Security Income (SSI) program provides a minimal cash benefit for very low income individuals who are blind, disabled, or age 65 and over. It is discussed later under major programs.

Major expenses for people 65+

We cannot understand retirement security by looking at income alone. It is just as important to understand the expenses a senior must incur to live modestly but comfortably. If the senior has no expenses because the expenses are all covered, he or she will need no income to be comfortable. Of course everyone has some expenses, but the level of expenses varies significantly by state and by circumstances. This section will explore the three largest expenses seniors must cover.
**Housing:** Housing is by far the largest expense for most seniors. According to the Elder Economic Security Standard, seniors who own their own house without a mortgage have the lowest housing costs. Renters who must rent on the current market have significantly larger expenses, while homeowners who are paying down a mortgage have, on average the most expensive housing costs. Where you live also has a large impact on your housing expenses. People living in the Northeast and on the West Coast have the highest housing costs. Federal and state governments have a variety of programs that offset the cost of housing (such as the low-income heating and energy assistance program) or provide subsidized housing for low-income seniors. However, unlike the health care programs discussed later, these housing programs are not entitlements, meaning that the government provides a set amount of funding for housing. If the need exceeds the amount of housing available, low-income seniors will be placed on waiting lists and will have to rent on the open market while waiting.

**Health Care:** Health care is the second largest expense for most people age 65 and over. Although Medicare provides coverage for almost all people over 65 years of age, out-of-pocket expenses, on average, accounts for 20% of a senior’s budget. This is because seniors can have significant out-of-pocket expenses for premiums, co-pays, and deductibles, even if they have Medicare and a medi-gap insurance policy.

- **Premiums** are the cost of the insurance product. Both Part B and medi-gap policies have premiums. One must pay the premium to be covered by the insurance.
- **Co-payments or coinsurance** are the expense that needs to be paid prior to using a particular service such as a doctor’s visit. Therefore, people who use more services pay more in co-pays.
- **Deductibles** are the amount of money that must be paid toward the service prior to the insurance covering an expense. For example, Medicare Part B in 2015 has a $147 deductible that is billed to the patient prior to Medicare covering the rest.

Medigap plans can be purchased to cover many of the expenses not covered by Medicare. However, even with Medicare coverage and a medigap plan, individuals will still have out-of-pocket costs for the premiums and services not covered by the plans.

**Long-term Care:** Long-term care expenses can be dramatic and overwhelm any budget except for the very wealthy. There is no significant protection against these expenses except for Medicaid, which is available only to people 65 and over with very little income and assets. Many people think that Medicare will cover long-term care expenses, but it covers only limited nursing home expenses and also relatively restrictive home health care. Long-term care expenses can exceed $100,000 a year for those elders in need of extensive care.

**Major Programs to support people 65 and over**

It has been estimated that over 40% of seniors could not afford to pay for basic necessities without the support of government programs. Three programs provide crucial support to elders. Two of them are available to only very low income seniors (Medicaid and SSI), and one is universal (Medicare).

**Medicare:** Medicare is a health insurance program for individuals age 65 years and over. One becomes eligible because either they or their spouse have worked at a job where they and the employer contributed through a payroll tax of 1.45% over a period of 10 years (not necessarily consecutive). This work history entitles both the worker and their spouse to Part A Medicare benefits when the worker or the spouse reaches age 65. They will also be eligible to purchase Part B insurance for a monthly premium which covers about 25% of the cost of the insurance. The other 75% is supported through general revenue of the federal government, making the Part B coverage highly subsidized. The premium goes up every year by a cost of living adjustment. In 2015 the premium was $104.90/month. The premium is higher for people who enroll after age 65 unless they were covered by another health insurance plan like an employer.
• **Part A** provides coverage primarily for hospitalization with some skilled nursing facility and hospice coverage. **Part A** has limitations on the number of days it will cover and has a high deductible (e.g. $1,260 per hospitalization in 2015).

• **Part B** provides coverage for doctor visits, durable medical equipment, ambulance services and some preventive care. xvi

• **Part C**, often referred to as Medicare Advantage, covers all of the services covered by **Part A** and **Part B** and often provides for more services as well. These plans may restrict the providers you can use or may have different co-payments based on the provider you use. The plan sets its own premiums and deductibles and may be less expensive than traditional Medicare. Typically, a Medicare Advantage plan will also have prescription drug coverage.

• **Part D** is a prescription drug plan that covers the cost of drugs on the plan’s formulary (list of covered drugs) after the payment of a coinsurance. **Part D** usually requires a separate premium.

**Medicaid:** Medicaid is the federal-state program that provides health insurance to low-income people age 65 and older (as well as younger people). People 65 and over also have an asset requirement that people under 65 don’t. Older individuals are limited to having no more than $2,000 in savings, and couples can have no more than $3,000 in savings. The federal government sets general eligibility guidelines, but states can expand eligibility and many do. Thus, there is a large variation in eligibility among states.

Medicaid was greatly expanded for the under 65 age group by the Affordable Care Act so that now individuals under age 65 with incomes at or below 138% of poverty are now covered in states that have adopted the Medicaid expansion. xvii (28 states have expanded Medicaid for the younger population with another exploring expansion.)

Medicaid should not be confused with Medicare, which is an almost universal program. About 6% of people 65 and over are on Medicaid compared to 93% on Medicare. xix Medicaid is a much more comprehensive health insurance program with no premiums or deductibles and small if any copayments. Medicaid covers most medically necessary services including hospitalizations, doctor visits, prescription drugs, nursing care both in a facility and the community as well as physical, occupational, and speech therapy. Dental care is provided in some states.

Medicaid pays for 60% of the nursing home care provided in the United States.xx Long-term care supports and services are a major cost for older individuals who become incapacitated. Those who are not poor can incur very large expenses and must spend down their assets to below $2,000 before receiving help from Medicaid.

**Supplemental Security Income (SSI):** SSI is a federal cash assistance program for blind, disabled, and 65+ low-income individuals that many states supplement. SSI provides a monthly check and automatic Medicaid eligibility for individuals and couples. In 2015 the federal assistance level is $733/month if you have no other income. If an individual has other income, the assistance is reduced dollar for dollar after the first $20 of Social Security or other “unearned income.” The asset limits are the same as Medicaid, $2,000 for an individual and $3,000 for a couple.

A state may supplement the assistance, but the asset limit is set by the federal government and cannot be raised by the states. In 2011, 44 states and the District of Columbia supplemented the income limits providing supplements ranging from a high of $156 to as low as $31.xx

Both Medicaid and SSI help only the very poor and elderly due to their restrictive eligibility guidelines. The application process can also be very complex and difficult for people who have cognitive problems or are easily overwhelmed with complicated documentation.
Threats to economic security

In addition to low income and high expenses, seniors face the threat of their income and assets being depleted by other factors. Below are three such threats that can deplete seniors’ income and assets.

Debt: 52% of head of households over age 65 have some sort of debt. The largest source of debt is a mortgage, which 29% of senior households hold. Credit card debt represents the next most common source of debt for seniors as 27% of senior households carry some credit card debt. Car loans are another source of debt, especially for younger seniors.

Credit card debt and car loans are of particular concern because of the high interest rates charged. Carrying large amounts of debt with high interest payments can drain a senior’s resources without providing any value.

Fraud: Financial fraud against older adults has been estimated to be as high as $2.9 billion in 2010. Financial fraud comes from both family members and strangers. Women are more likely to be victims of financial fraud, and it is the older individuals living alone who are the most at risk.

Older individuals are often targeted for fraud and scams for a variety of reasons. Retired individuals are home more often and thus targeted for telephone scams. They may be less sophisticated and knowledgeable about new technologies, and most problematically, they are more apt to suffer from diminished cognitive functioning. The National Council on Aging lists the ten most common scams that target seniors including health care scams, investment schemes, and funeral scams.

In 2010, the Office of Finance Protection for Older Americans was established within the federal Consumer Financial Protection Bureau to provide information to seniors on how to avoid financial scams and to their caregivers on managing someone else’s money. The Federal Trade Commission also provides information for older adults and investigates reported scams.

Fees and investment risks: For those elders with some money in a bank or in an investment vehicle such as a mutual fund, they must manage the money they have. Depending on the choices they make, they could lose money to fees or investment loss.

There are a variety of fees that can eat away at small savings. These fees are entirely legal but often go unnoticed. They include everything from late fees on a credit card bill to maintenance fees on checking accounts and fees charged on investments. Understanding these fees is very difficult for anyone but particularly difficult for those unschooled in financial matters. Also, understanding the fees may be of no help if there is not an alternative to avoiding the fees. One approach used by some states is to require banks to offer no-fee accounts for seniors and young people.

In addition to the fees, seniors must decide how to invest whatever savings they have. This challenge is particularly important because a person who-retires at age 65 can expect to live another 20 years and may live 35 years or more. Over time, money will lose its value to raising prices such that $100 today may be worth $50 or less in twenty years. At a minimum, money invested should at least keep up with the cost of living. Wisely invested, it should grow beyond the cost of living. The challenge is that investing for higher returns involves risk as well as the opportunity for growth.

In addition to knowing how to invest their money, older Americans must also know how much money they can reasonably withdraw from their savings. Planners often say that retirees face a number of risks in retirement; the risk of outliving their savings, the risk of losing money invested, and the risk of not withdrawing money they need.
Conclusion

Retirement security can mean many things to different people. It can be measured as a point in time to see if a household has enough income to cover its expenses, or it can be defined as having enough income to cover current expenses and a projection of having enough resources to cover future expenses. In either case, financial security for baby boomers will be more complex and challenging than for the present generation. Helping this generation successfully prepare for retirement will have a significant impact on the next generation, both in terms of available wealth and the structure and function of federal and state programs.
Footnotes

i. U.S. Census Bureau, https://www.census.gov/hhes/www/poverty/about/overview/measure.html


v. Ibid, page 5.


xi. Employee Benefit Research Institute, https://www.ebri.org/publications/ib/?fa=ibDisp&content_id=4192


