The Social Safety Net for the Elderly*

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Introduction:

When Lyndon Johnson declared a War on Poverty in 1964, the poverty rate was 19 percent, a rate deemed far too high for a nation with our wealth and resources. Yet far worse was the poverty rate for our population ages 65 or older which stood at 35 percent in 1959 (data for 1964 are not available), far higher than the rate for the non-elderly.[1] By almost any measure, the War on Poverty has been a success for the elderly. The official poverty rate for the elderly in 2010 was 9 percent, approximately one-quarter of what it once was and far lower than the poverty rate for children or non-elderly adults; rates that stand at 22 percent and 13.7 percent.[2] This dramatic success in reducing poverty among the elderly has spanned racial and ethnic groups and is evidenced even among the oldest-old. However, despite the impressive declines, there remain segments of the elderly population which experience disproportionally high risks of poverty. For example, the poverty rate for elderly women living alone is nearly 20 percent—an enormous improvement from the 1965 rate of 63.3 percent, but unquestionably higher than that for many other groups.

Although the war on poverty has produced stunning results for the elderly, these simple statistics tell only part of the story. For the elderly in particular, an income- based measure of well-being ignores many important factors. By some measures, the gain in well-being accruing to the elderly may be far less than the poverty rates indicate because items such as the soaring cost of health care are ignored. Conversely, the same numbers may mask even greater improvements in well-being because the availability of Medicare and Medicaid (see chapter xx), in-kind transfers such as food stamps (now called SNAP), and the increased prevalence of owner-occupied homes are also ignored. These programs and the proper measurement of poverty, as discussed below, factor into alternative poverty calculations based on broader income

[1]The poverty thresholds used by the U.S. Bureau of the Census were originally developed by Mollie Orshansky of the Social Security Administration (Orshansky, 1993, 1965). Here thresholds were based on the cost of feeding a family using the USDA's "economy food plan" and scaled for family size and ever since, for inflation. Because the thresholds are based on food consumption, poverty thresholds for the elderly were set lower than those for the non-elderly given their lower caloric needs, and this difference remains today. In 2011 (the most recent available) the poverty threshold for a single elderly person was $10,788 compared to $11,702 for a non-elderly individual. Note that the definition of poverty used by the U.S. Bureau of the Census differs from that employed by the U.S. Department of Health and Human Services whose guidelines do not vary by age.

[2] The experience of the elderly population over this time has been so different from that for the non-elderly population that a recent symposium article on "Poverty in America" (Hoynes, Page, Stevens, 2006) noted the differing trends for the two age groups and then, calling the progress for the elderly a success, focused its discussion exclusively on issues related to the non-elderly.

measures to varying extents and provide various assessments of the success of the war on poverty.

This chapter examines the income-related programs that have been established or significantly expanded since Lyndon Johnson's 1964 State of the Union speech. The chapter begins with a short history of income transfer programs available to the elderly prior to 1964 as these formed the basis for what came later and they inform our understanding of how new programs evolved. The chapter then focuses on the primary cash transfer programs---Social Security and Supplemental Security Income—that were, respectively, expanded and implemented in the decade following declaration of War on Poverty. Section 3 presents a discussion of what these programs mean to the well-being of the elderly and what aspects of well-being simple income-based measures of poverty miss. Section 4 notes what challenges remain and what areas future programs and research might best target. A final section concludes.

1. Resources of the Elderly Prior to the War on Poverty:

Social Security: The Social Security program has unquestionably played an enormously important role in improving the economic well-being of the elderly. Social Security was established in 1935 and throughout its decades of expansion (delineated below) the incomes of the elderly increased dramatically. Although it is impossible to say what incomes among those 65 or older would be without Social Security, it is clear that for low income elderly, the program improved their standard of living relative to what it would have been in its absence.

Social Security is an entitlement program but it is not means tested; rather benefits are accrued by all those who engaged in substantial covered employment over their work life and their spouses and dependents. The formula is, however, progressive with benefits for lower-income workers replacing a greater fraction of their earnings than for higher-income workers. Not only does Social Security comprise an important component of income, but as a life-time annuity it insures against longevity risk—the prospect of living longer than expected and depleting resources. Through this insurance mechanism, Social Security benefits are even more valuable than would be an actuarial equivalent lump sum received at retirement.

Social Security also provides important insurance benefits to spouses, widows, and dependents. Spouses who themselves are not covered through their own employment, or who have low benefits, are eligible for a spousal benefit of 50 percent of that of the covered worker. Furthermore, upon death of the covered spouse, the uncovered individual receives the full benefit to which the partner had been entitled. (Spouses who have their own Social Security benefit are entitled to the larger of the benefit based on their own earnings or 50 percent of their partner's benefit. And, if they outlive their partner, they receive the maximum of their benefit or 100 percent of the deceased partner's benefit.) Survivors of covered workers --widows (and widowers) and dependent children are entitled to survivor benefits even if the covered worker dies before he claims benefits.

Old Age Assistance: Means-tested programs for the indigent elderly pre-date the Social Security Act and stem back to the 1920s when some states began providing assistance to the poor elderly through Old Age Assistance Programs (OAA). By 1935, 28 states had OAA programs in place (Grundmann, 1985). Title 1 of the Social Security Act expanded these programs by providing federal matching funds to assist states in caring for their elderly. As the federal government increased its contributions, more states provided benefits and the generosity of such programs increased. [3]

However, even with generous federal support, OAA benefits and eligibility requirements varied widely across states. As early as the 1940s, there was concern on the part of the Social Security Administration about the disparity across states and the low level of benefits in some. As Grundmann (1985) notes, "In 1940…payments in states with the highest payment level were on the average about four times as high as in states with the lowest payment levels." Changes in the federal matching formula instituted in 1946 which provided for higher sharing rates for states with low benefits, resulted in a decline in these differences and higher benefits overall, yet differences were still large. In 1960, for example, maximum OAA benefits ranged from $40 per month in Mississippi to $275 in Washington State ($306 and $2,108 in 2010 dollars). (McGarry and Schoeni, 2000). States also varied in the extent to which they placed various restrictions and limitations on benefits such as relative responsibility clauses that required children to provide financial support their elderly parents, residency requirements limiting eligibility to those with a history of living in that state, and lien laws that allowed states to force the sale of a recipient's home at death to repay benefits. These restrictions likely limited participation as many elderly

[3] Although states were not required to have OAA programs, eventually all states did.

did not want to be a burden on their children or risk losing a family home. Finally, many programs were underfunded and even needy elderly could fail to receive benefits or receive reduced amounts. These issues led the federal government to expand its role in reaching out and aiding the poor both by increasing Social Security benefits as described below and eventually replacing these OAA programs with the federal Supplemental Security Income (SSI) program.

Well-being of the elderly: Along with earnings, savings, and help from family members, the public programs of Social Security and OAA were working to begin to improve the well-being of the elderly even prior to Johnson's war on poverty. Social Security in particular was expanding at a rapid pace. In 1950 at year end, 16.4 percent of the elderly population was receiving Social Security benefits and by 1965 the percent had risen to 75.2. (Grundmann,1985). Poverty rates for the elderly had also begun to fall, declining from 35.2 percent in 1959 to 28.5 percent in 1966[4]. (U.S. Bureau of the Census, 2011). However, some groups continued to face extraordinarily high rates of poverty and much more was needed. In 1964, 59 percent of single elderly living on their own were poor, as were 64 percent of elderly women living alone--both down from 68 and 71.5 percent in 1959 (Orshansky, 1967).

Even in these early stages of the Social Security program and prior to several subsequent expansions in generosity and coverage following the war on poverty, Social Security was an important source of income for the elderly. In 1962 Social Security comprised 31 percent of aggregate income for the elderly, with 36 percent of this population receiving some income from earnings. Public assistance was a small component of aggregate income but was received by 13 percent of the elderly (SSA, 2012). For those receiving OAA, the amounts were small. Median family income, among those receiving OAA benefits in 1973 (the last year of the state-run OAA programs) was just $1,851 ($9,091 in 2010 dollars), far below the poverty threshold for a single person let alone a married couple.

Thus while the programs launch by the Social Security Act had grown in importance over time, they left a large portion of the population in poverty. Poverty rates in 1966 were more than two and a half times greater among the elderly than among the population 18-64. And the incomes of the elderly, in general, were low. In 1962 the median income for married elderly couples was $20,759 (2010 dollars), while that for the unmarried was just $8,159 (SSA, 2012).

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[4] Rates for intervening years are not available.

For comparison, the poverty thresholds for the two groups were $13,180 and $10,458, indicating that the majority of unmarried elderly still suffered extreme financial hardship.[5]

Differences between whites and blacks were stark, but increases in Social Security coverage were helping to reduce these differences. In 1950, 21 percent of the elderly white population was receiving benefits from OASDI compared to 13 percent of the elderly black population. By 1962 these numbers had risen to 73 and 58 percent, a 3.5 fold increase for white elderly and a nearly 4.5 fold increase for blacks (Orshansky, 1964). Despite the convergence in the receipt of Social Security, incomes for elderly blacks remain far behind those of whites. In 1967 the median income for elderly blacks was $8,774 (2010 dollars) while that for whites was $12,417, a ratio of just 70 percent, yet this difference was less than for the population as a whole, suggesting that the progressivity of Social Security helped to reduced differences during the working years.

The 1965 Economic Report of the President defines poverty as "the inability to satisfy minimum needs" (Council of Economic Advisors, 1965). Thus factors other than income, such as homeownership and savings, ought to inform our assessment of well-being. Asset income is particularly important for the elderly as our lifecycle model calls for individuals to spend down savings to support themselves during retirement. In 1965, the median net worth for households headed by an elderly individual was $8,000, 70 percent more than the $4,700 for all households. Homeownership also plays an important role in contributing to resources. In 1965 over 60 percent of housing units were owner occupied (U.S Bureau of the Census, 1965) and the rate for the elderly is historically substantially higher than for the non-elderly.

In addition to formal sources of support from Social Security, OAA, earnings and assets, the elderly likely also received support from family. Such support was even mandated in many states by relative responsibility clauses in their OAA programs. Although data do not exist on the extent of familial cash support (or even support in kind such as caregiving or the provision of food), there is clear evidence that families assisted through shared housing. In 1940, just as Social Security was beginning to pay benefits, nearly 60 percent of elderly widows lived with their children. By 1960 this fraction had fallen to 40 percent, still a substantial amount (McGarry

[5]It should be noted that many of the governmental statistics are based on the Current Population Surveys which pertain to the non-institutionalized population. In 1960 3.8 percent of those 65 or older were in nursing homes (Congressional Budget Office, 19888). If these individuals are disproportionately low income, poverty rates may have be slightly higher than published figures indicate.

and Schoeni, 2000). Among all elderly individuals, the amount of shared residence was similarly high, with 45 percent of elderly living with relatives or unrelated individuals (CBO 1988). In sharing a home and thus resources, the financial situation of the elderly was better than it would have been if they living independently. Orshansky (1965) estimates that in 1963, an additional 10 percent of elderly individuals would be poor were it not for the income of the relatives with whom they share a home.

Although the OAA and Social Security programs established the precedent of government assistance to impoverished elderly, there were gaps in coverage and substantial numbers of elderly subsisted on pitifully low income—both because benefits were low and because many of those with low incomes were not receiving benefits. The low levels of benefits and the variation across states in both benefits and eligibility guidelines eventually led the federal government to expand its role in reaching out and aiding the poor both by increasing Social Security benefits as described below and eventually replacing these OAA programs with the Supplemental Security Income (SSI) program, administered by the Social Security Administration.

2. The War on Poverty Legislation since 1964:

The financial situation for the elderly at the time of Johnson's declaration of a War on Poverty was obviously poor bleak both in an absolute level and relative to that for the non-elderly. Not only were poverty rates extremely high, but the elderly had little hope of escaping to the ranks of the non-poor through education or employment, some of the principal tenets of the War on Poverty. Yet despite these difficulties, in many respects, the improvement in the financial status of the elderly is one of the great successes of the War on Poverty

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2.1 The Older Americans Act 1965: [6] For the elderly, a central element of Johnson's War on Poverty was the Older Americans Act (OAA).[7] This 1965 Act explicitly stated that it was the

[6] Although the Older Americans Act targeted individuals aged 60 or older, the discussion in this paper focuses on those ages 65 and over because age 65 is the age cut-off used in published statistics and in the vast majority of research on the elderly.

[7] The OAA also explicitly mentions "discriminatory personnel practices" and Johnson's 1967 State of the Union address repeated this goal. "We must eliminate by law unjust discrimination of employment because of age." Thus, although the Civil Rights Act of 1964 prohibited discrimination based on race, religion or sex but did not include age, the problem of age discrimination was raised early on by Johnson. In 1967 Congress passed the Age Discrimination in Employment Act that protected workers from age 40 to age 65 against discrimination in

responsibility of the government to “assist our older people to secure equal opportunity to the full and free enjoyment of the following objectives…” The objectives included “adequate income in retirement”, “suitable housing” and “no discriminatory personnel practices because of age.” The Act did not establish and specific income maintenance programs, but did provide for grants to be made to state and local agencies for various support services such as caregiver support, nutritional services, and social services. While these items likely greatly enhanced the well-being of the elderly, they would have had little direct effect on official poverty rates. Despite this emphasis, through its stated goal of ensuring adequate income for the elderly the OAA set the stage for increases in Social Security benefits and the establishment of SSI soon thereafter and demonstrated explicitly that the well-being of the elderly was an important national concern.

2.2 Social Security Increases since 1965: The number and fraction of elderly individuals eligible for Social Security benefits increased quickly during the first few decades of the program. By 1964, approximately 75 percent of the elderly population was receiving Social Security benefits and the average monthly benefit for retired workers was \$544.98 (\$2010). As seen in Figure 1, benefits soon began to increase dramatically. The 1965 amendments to the Social Security Act which launched the Medicare and Medicaid programs, also provided an across the board increase in benefits of 7 percent. In 1967, Johnson used his State of the Union address to call for additional increases in benefits as part of continuing the war on poverty, stating, “Let us insure that older Americans…share in their Nation’s progress” and proposing an increase of “at least 15 percent” for all those who were currently receiving benefits. Congress approved an increase of 13 percent on top of the initial 7 percent increase, along with other changes including increases in the minimum benefit. In signing the amendment Johnson noted that, “This means that 9 million people will have risen above the poverty line since the beginning of 1964.”[8]

The use of increased Social Security benefits to improve the economic welfare of older Americans accelerated in the years following the Johnson administration. The Tax Reform Act of 1969 increased Social Security benefits by 15 percent and a second increase of an additional

employment. Individuals ages 65 or older were included in 1986 with amendments extending the upper age until 70.

[8] http://www.presidency.ucsb.edu/ws/index.php?pid=28915#axzz1vMaLw9CE

10 percent was added in 1971. Congress again increased benefits in 1972, this time by 20 percent, for a total of nearly 52 percent (compounded) over the three years 1969-1972. This sharp rise is readily apparent in Figure 1—a percentage increase of nearly 100 percent from 1964 to 1972.

Finally, and partially in response to these continued ad hoc increases, Congress passed the Social Security Amendments of 1972, indexing social security benefits to the consumer price index (Myers, 1985). With indexation, retired workers were protected against an erosion of benefits due to inflation and not dependent on Congress implementing ad hoc increases, increases which may have been difficult to enact in times of economic downturn or when the Social Security trust fund came under financial pressure as it soon did.[9] Additional changes included an increase in the widows' benefit, and the establishment of a special minimum benefit to provide assistance to those with low earnings but significant attachment to the labor force. These changes directly targeted those who were often near or below the poverty line in old age, further strengthening Social Security's role in reducing poverty among the elderly.

2.3 The Supplemental Security Income Program:

Despite the growing generosity of the Social Security program, many elderly continued to have incomes below the poverty line. These impoverished elderly were often entitled to benefits from state-run Old Age Assistance programs, but these programs were criticized on many fronts, including the typically low benefits and the variation across states in both benefit levels and eligibility guidelines. In addition to raising benefits for Social Security beneficiaries, the 1972 amendments also replaced these state run OAA programs, with the federal Supplemental Security Income program or SSI. SSI provides a guaranteed annual income floor for the elderly, the blind, and the disabled. This federal program was part of Nixon's Family Assistance plan which also included a guaranteed annual income for the non-elderly poor—a concept which Congress rejected. The fact that a guaranteed income was successfully implemented only for the elderly, blind and disabled, is noteworthy. It attests to the nation's recognition that employment was not expected from these groups and that the government would provide assistance to help meet their needs if they could not. In addition to the income guarantee, those entitled to SSI

[9] An initial period of double indexation produced by benefit formula contained in the1972 amendments was corrected in 1977. See Myers et al. (1988) for an exceptionally detailed discussion of the benefit calculation and subsequent correction (http://www.nasi.org/usr_doc/Notch%20Report.PDF).

benefits are eligible for Medicaid and for food stamps (in most states), important in-kind benefits.

The federal SSI program first began paying benefits in 1974 with income guarantees of $140 per month singles and $210 for couples, these guarantees have been adjusted every year for increases in inflation; in 2012 they were $698 and $1,048. The value of the benefit is determined by subtracting countable income from the guaranteed amounts. There are, however, important disregards in determining countable income so in most cases a beneficiary's actual income is slightly higher than the guarantee. Disregards include the first $20 of unearned income (typically Social Security) and $20 of irregularly or infrequently received income, as well as the first $65 of earned income and 50 percent of any additional earned income. Notably, these disregards are defined in nominal dollars and have not increased since the program's inception.

In addition to the income requirements, there is also an asset test—to be eligible for SSI individuals must have assets below $2,000 and couples, below $3,000. Again there are important exclusions including life insurance, small sums for burial expenses, and importantly the value of an owner occupied home. These asset limits were initially set at $1,500 and $2,250—amounts which if increased for inflation would be $7,000 and $10,500 in 2012. So while the income guarantees themselves have kept up with inflation, in practice, the used of nominal amounts with respect to the income disregards and asset test set has made the program less generous over time.[10]

States have the option of supplementing the Federal SSI Guarantees. In 2011, all but six states (and the District of Columbia) had a supplemental program—although not always targeted towards the elderly and many of those for the elderly cover only those in some sort of assisted living facility. The maximum benefits of $1,039 for singles and $1,539 for married couples are in Alaska (Social Security Administration, 2012). While these amounts are above the poverty line for both single and married individuals, rarely are income guarantees that high.[11]

The number of elderly individuals receiving SSI benefits increased sharply in the first years of the program. In 1974, 1.865 million people were receiving benefits as aged recipients.

[10] There were several small changes in the first years of the program, including ad hoc increases in benefit levels before such levels were indexed, and the exclusion of the value of a home from countable assets passed in 1976 and burial plots valued at less than $1500 in 1982 (Trout and Mattson, 1984).

[11] Only five states have income guarantees above the poverty line for couples and just two for singles (with California's amount above the poverty line only for singles who are living without cooking facilities.)

This number peaked in 1975 at 2.3 million and was down to 1.185 million in 2009 (Trout and Mattson, 1984, Social Security Administration, 2011).

Despite low income levels, many of those who are eligible for SSI are not enrolled in the program. Several studies using a variety of data sets have consistently found participation rates of approximately 55 percent (Menefee et al. 1981; Warlick, 1982; McGarry 1996, 2002). This low participation rate is puzzling, particularly in the face of the numerous outreach programs that have tried, and by and large failed, to increase participation significantly (Comptroller General, 1976).[12] Explanations for the low participation include lack of knowledge or understanding about the program, an individual's perception that he is not in need of or entitled to benefits, and the stigma of receiving welfare have been posited. Studies attempting to address these issues suggest that stigma and the belief that one does not need assistance are important factors in explaining the low take up of benefits.[13] Thus, SSI could do more to alleviate poverty among the elderly if benefits were universally paid to those who qualify.

An alternative to SSI would a minimum Social Security benefit which would not be affected by this low rate of take-up. Social Security did contain such a provision and while Social Security benefits were increased in the 1960 and early 1970s the minimum benefit was increased as well, nearly doubling from 1967 to 1972. The difficulty in addressing poverty through increases in the minimum benefit is that there is no means testing for Social Security benefits, so individuals who had other resources and who had perhaps worked in uncovered employment for most of their lives, would benefit as well. In addition to SSI, the 1972 Social Security Amendments also established a *special* minimum benefit for those with low Social Security benefits despite substantial histories of covered employment. Both minimum benefits gradually disappeared as wages of contributing workers grew sufficiently qickly that regular benefits soon outstripped the legislated minimums (Myers, 1985).

[12] Attempts include special mailings from the Social Security Administration to those with low benefits who appeared likely to be eligible for SSI, "saturation" outreach efforts on television, radio and in newspapers, cash bounties to individuals who brought in eligible individuals who later enrolled, and door to door canvasing (Comptroller General, 1976).

[13] Meyer (2002) argues that the low participation rates are due to under-reporting of benefit receipt in surveys. However, the Social Security Administration itself has launched repeated outreach efforts to enroll eligible elderly suggesting that while some of the non-participation is likely indeed due to underreporting, there is substantial scope to increase the well-being of the poor elderly by expanding participation. Menefee et al. (1981) use the SSA Master Beneficiary file and find similarly low rates of non-participation.

3. What these Programs Mean for Well-Being:

3.1 Income and Poverty: Estimating the effect of Social Security and SSI on poverty rates is difficult as patterns of savings, labor force participation and living arrangements would all have been different in absence of the program or in the face of a different benefit schedule.[14] However, the effects on well-being are undoubtedly large and have grown in importance since the war on poverty began. The correlation between well-being and the large increases in Social Security benefits enacted in the late 1960s and early 1970 is readily apparent in the trend in poverty over time as is its continued role in income maintenance in the more recent period. Figure 2 illustrates that poverty rates for all age groups declined at a rapid rate throughout the 1960s as the War on Poverty gained steam, but poverty rates for the elderly continued to fall in the first half of the 1970s while rates for other groups remained constant. The poverty rate for the elderly has continued a very gradual decline and has avoided the uptick in poverty experienced by other age groups since the turn of the century with the downturns in the economy, the rise in unemployment, and cutback in spending on public assistance programs, while benefits for Social Security recipients have been protected because of the automatic indexation. Engelhardt and Gruber (2004) call the decline in poverty, "One of the most striking tends in elderly well-being in the twentieth century." They use an instrumental variables approach to assess the importance of Social Security income in driving the decline from 1967 until the year 2000, and conclude that the increased Social Security benefits explain nearly all the decrease in poverty.

While Social Security has improved the financial position of the elderly, SSI has also had an important effect. The transition from state OAA programs to the federal SSI program resulted in an immediate increase in income among the poorest elderly, with estimates suggesting that the median income of OAA recipients rose by one-third from 1973 to 1974 as recipients transitioned between programs. In addition, an estimated 2.8 million elderly people who did not qualify for benefits under state OAA programs were now eligible for assistance (Burke, 1974). SSI also appeared to reduce the stigma associated with welfare receipt that plagued state-run programs, thus benefiting participants and perhaps inducing a greater take-up rate (Tissue, 1978, Schieber, 1978).

However, because the federal SSI income guarantees, and those in most state supplemental programs, are below the poverty line, the effects on the poverty rate itself are

[14] Simply excluding Social Security from income yields estimated poverty rates for the elderly of nearly 50 percent (Sherman and Shapiro, 2005).

somewhat limited. Warlick (1982) estimates that in its first year, SSI was responsible for "… lifting one in of five out of poverty." With a poverty rate of 12.5 percent in 1974 (subsequent to the dramatic Social Security increase) that would correspond to a reduction of 2.5 percentage points. While the effect on poverty might be small, particularly relative to that of Social Security, SSI does have an important impact on the poverty gap.[15] McGarry (2002) finds that while SSI income reduces the poverty rate by just one percentage point, it reduces the poverty gap by nearly 30 percent, with other estimates much higher (Schieber, 1978).

Income for the elderly also rose dramatically, doubling in real terms from 1967 to 2010. Income for married couples increased from $22,021 to $44,718 while that for unmarried individuals increased from $8,526to $17,261 (2010$). In contrast, median household income for the country as a whole rose by just 21 percent.

As noted, Social Security played a key role as it comprised nearly 40 percent of income over much of this period, rising from 31 percent in 1962, peaking at a high of 42.1 percent in 1994 and since declining to 36.7 in 2010 (SSA, 2012). In contrast, the importance of SSI / public assistance has fallen dramatically over time from 2.7 percent in 1968 to 0.6 percent in 2008 (Purcell, 2009). However, among those receiving benefits from SSI, the amounts were significant, averaging $4,488 in 2008 dollars (Purcell, 2009).

Most striking is the difference in the importance of the various components across portions of the income distribution. As shown in Figure 5 those in the bottom 25 percent of the income distribution relied on Social Security 84 percent of income in 2008 but for just 20 percent for those in the top quartile (Purcell, 2009). In fact, in 2012 the Social Security administration estimates that benefits accounted for more than one-half of the income of 53 percent of couples and 74 percent of unmarried individuals, and an astounding 90 percent of income for nearly half of all unmarried individuals (SSA 2012b).

Public assistance payments (SSI) were obviously restricted to those with the very lowest incomes and even in the bottom quartile of income comprise only 6.5 percent of aggregate income (Purcell, 2009). For those who do receive benefits, however, they represent an important component of income. In 2010, average benefits among those receiving a non-zero amount were $405 per month. These beneficiaries are predominantly female (68 percent) and most have Social Security income as well (56 percent).

[15] The poverty gap is the amount of money needed to increase the incomes of all those in poverty to the poverty line.

The sharp declines in poverty for the elderly appear across racial and ethnic groups, but the initial patterns persist with whites having a distinct advantage. Figure 3 shows the trends in poverty rates from 1965 to 2010 for whites, blacks, and Hispanics.[16] While the differences across groups have narrowed greatly in absolute terms, they have changed little in relative terms; the ratio of the poverty rate for white to blacks is approximately 42 percent throughout. Not shown here because data are only available intermittently, are the shockingly high rates of poverty for some groups such as unmarried elderly black and Hispanic women, who in 1999 had poverty rates of 26.4 and 25.4 percent respectively, and particularly among the subgroups of women who were living alone, for whom the rates were 44 and 58 percent (CPS, 1999). Trends in median incomes show the same pattern, the median income for elderly whites rose from $12,417 ($2010) in 1967 to $27,214 in 2010, and increase of nearly 120 percent. Income for blacks rose from $8,774 to $16,463, or a change of 88 percent (SSA, 2012). Thus, while income for both groups improved dramatically, blacks fell further behind.

Thus, despite the amazing gains realized by the elderly since the inception of the War on Poverty, the composition of the poor remains largely unchanged—poverty is still more likely among elderly women relative to men, among blacks relative to whites, and unmarried relative to married individuals.

3.3 Other Factors Affecting Financial well-being: The dramatic change in poverty rates among the elderly observed throughout the 1960s and 1970s, suggests that the income support programs targeting this group have been successful in improving their economic-wellbeing. However, in many respects, the gains may be even greater than those based on simple comparisons income levels over time. Benefits from in-kind transfer programs, particularly those from Medicare and Medicaid are large and are discussed in the chapter by Katherine Swartz. In addition to these health insurance programs, low income elderly are also likely to be eligible for food stamps (now SNAP), home energy assistance (LIHEAP), and housing assistance. Other programs relating to nutritional services, elder rights, and community support services under the auspices of the Administration on Aging (now part of the Administration for Community Living) established by Johnson's Older Americans Act provide important benefits that are difficult to quantify.

[16] The poverty rate of non-Hispanic whites is nearly identical to those for whites alone, but the series does not start until 1974 and therefore misses much of the decline associated with the Social Security increases of the late 1960s and early 1970s.

In addition, the elderly consume very different consumption bundles / market baskets goods from non-elderly making a comparison using poverty thresholds based on food consumption alone, incomplete. For example, the elderly consume more medical care than the elderly, which is not considered in determining the poverty thresholds or their increase over time, but they also have medical insurance at greatly subsidized rates, which itself is missing from the determination of income. Similarly, the elderly are more likely to own their own homes, with home ownership rates of over 80 percent for those 65+ compared with rates between 50 and 60 percent for those in their 30s, but the implicit value of owner occupied homes is not included in income measures nor is the lower exposure to risk via increases in housing costs. The elderly have more time for home production and may therefore face a lower cost of living, but because of health issues may be constrained from tackling household chores or even completing regular errands such as grocery shopping. Driving or taking public transportation will become increasingly difficult with age; perhaps necessitating the need (expense) for taxicabs.

The Census's Supplemental Poverty Measure (SPM) explores the impacts of some alternative definitions of income, particularly the importance of out of pocket medical expenses and food stamp (SNAP) benefits, but many of the items listed above are not considered. Some of the changes included with the SPM lead to substantial changes in relative well-being both within and across demographic groups. For instance, changing income varying the inclusion of benefits from programs such as SNAP and LIHEAP and by subtracting payroll taxes has little effect on the poverty rate of the elderly. Unsurprisingly, subtracting out-of-pocket medical expenses from income has a dramatic effect on the well-being of the elderly, nearly doubling the poverty rate, but has far less of an effect for younger groups. Housing assistance also plays an important role for the elderly (Short, 2011). In an earlier series of experimental measures, the Census Bureau estimated poverty rates using various definitions of resources, some of which included the value of Medicare / Medicaid and that of an owner occupied home. Adding the value of non-cash transfers, including Medicare and Medicaid, lowers the poverty rate in 2003 from 10.2 to 8.1 percent but perhaps surprisingly, the largest change comes from imputing a value to owner occupied homes. This addition further decreases poverty to just 5.7 percent. For comparison, the poverty rate for those 18-64 falls from 10.8 to 8.5 with all additions / subtractions (Dalaker, 2005).

Also noteworthy is the definition of the poverty threshold. When the poverty line was established it was based on the cost of feeding a family of four and scaled for families of different sizes. The poverty line for the elderly was set below that for the non-elderly, based on the supposition that they needed fewer resources to attain the same level of well-being. As the AARP notes, if the same poverty line were used for the non-elderly as for the elderly the poverty rate be in 2008 would have been 11.5 rather than 9.7 percent (AARP, 2010).

3.4 Other changes in well-being: In this section I note some of the other less tangible improvements in the well-being of the elderly spurred on by the War on Poverty and arising in part from the increases in income illustrated above.

Living Arrangements: The rise in the income of the elderly, particularly in the lower part of the income distribution means that the elderly now have far more independence than they did prior to the expansion of the social support programs. In 1960, 40 percent of elderly widows lived with their children; by 1990, this figure had fallen to below 20 percent—continuing a trend started earlier in the century (McGarry and Schoeni, 2000). Although there has been some discussion as to whether this is due to changes in attitudes regarding coresidence (Kramarow, 1995; Ruggles, 1994) or changes in income (e.g. Michael, Fuchs and Scott, 1980), the most recent work indicates that Social Security played the primary role (McGarry and Schoeni, 2000; Engelhardt, Gruber and Perry, 2005). If the increase in income has allowed for greater independence, focusing on measures of poverty will miss some of the improvement in well-being. Furthermore, if a portion of this newfound independence is among those who have incomes below the poverty line but who can now afford to live in their own homes, strict measures of the fraction of the elderly who are poor will understate their gains in well-being (Schwartz, Danziger and Smolensky, 1984). Given the dramatic declines in poverty, however, the additional changes resulting from the changes in living arrangements likely comprise a relatively small component. Holden (1988) estimates that the decline in poverty among elderly women would have been about 3 percentage points greater in the period 1950-1980 if the patterns of living arrangements had not changed. The observed decline over this period was nearly 36 percent.

Length of Retirement: Although one of the stated objectives of the OAA was to eliminate age discrimination in the work place, with the goal of allowing older workers to avoid forced retirement, labor force participation of men is lower today than in 1965. In 1960, the labor force participation rate of men ages 65 or older was 33.1 percent. By 1990 it had fallen to 16.3 percent; it has since risen to 22.1 percent in 2010.[17]

This trend towards early retirement is consistent with a wealth effect of Social Security—individuals could afford to purchase more leisure and they did—although magnitude of the Social Security effect remains unclear (e.g. Boskin, 1977; Burtless and Moffitt, 1984; Burtless, 1986; Samwick, 1998; cites). An additional potential driver of the decline in labor force participation after age 65 is the value of Medicare. Not only is there a wealth effect accruing from the cash value of the insurance, but by separating health insurance from employment, Medicare allowed individuals to maintain insurance coverage despite the presence of pre-existing conditions and other issues that may make health insurance purchases in the private market prohibitive. The recent reversal of this trend in early retirement has also been attributed in part to changes in the Social Security program, particularly the increase in the Social Security full retirement age (Gustman and Steinmeier, 2009).

Length of life: Because Social Security is a defined benefit program, it insures individuals against longevity risk, providing guaranteed income for as long as they live and insuring a consumption floor at even the oldest ages. Over the same period that Social Security benefits increased, and retirement ages decreased, life expectancy increased, leading to a substantial increase in expected number of year of retirement which one estimate puts at an increase of just over five year from the period 1965-70 to 2005-2010 Gendell (2008). Because the changes in Social Security throughout the 1960s and early 1970s left unchanged the full retirement age, the rising life expectancy led to a substantial increase in the expected number of years for which an individual would collect Social Security as well as in the actuarial value of those benefits.

4. Future

The economic environment the elderly face is changing. In the past, most elderly had a secure source of income for as long as they lived. Social Security benefits were supplemented for many

[17] *http://www.bls.gov/mlr/1999/12/art1full.pdf* *http://www.bls.gov/emp/ep_table_303.htm*

with employer provided defined benefit pension plans which guaranteed income for life, often with some sort of (typically ad hoc) inflation adjustment. Recently there has been a dramatic shift from these defined benefit pension plans to defined contribution (DC) plans (such as 401K plans and IRAs). DC plans require individuals to manage their own investments over their working years and into retirement incurring additional risk with regard to the rate of return and the possibility of a down market or poor investment choices. Furthermore, because few individuals choose to annuitize their account balances at retirement and annuity markets are not well-developed, individuals also bear longevity risk in the possibility that they outlive their resources.

Exacerbating these risks is the low level of asset holdings of the elderly. Median non-housing asset holdings of households with a member age 65 or older was just xxxx in 20xx. The limited nature of asset holdings will become of greater importance as our elderly population continues to age. Individuals spend down their wealth holdings over their retirement years, and the longer this period lasts, the more likely it is that they will be exhausted. Returning to the HRS, assets among those 85 and older average just xxx, this despite mortality selection, in which those who survive to these advanced ages likely had substantially higher lifetime incomes than those who predeceased them.

These scant resources could easily be depleted by a health or other shock. Foremost among the health care risk is the risk of long term care. Nursing homes average over $75,000 per year, yet few elderly purchase coverage to protect against long-term care expenses, suggesting that these scarce resources could be quickly spent.

Thus, with investment, longevity, and long term care risks, the elderly are now exposed to substantial financial despite the significant gains and the future is uncertain. And, as the rising cost of health care and the recent economic downturn have demonstrated all too well, these risks are real. Many who rely on defined contribution pension plans have seen their nest-eggs shrink and what remains now generates little income given the very low rates of interest in the years following the recent recession. These changes emphasize the value of the annuity aspect of social security.

Policies to help the elderly deal with these risks are being explored. The recent Patient Protection and Afford Care Act contained a provision to launch a federal long-term care program (CLASS ACT) which has since been set aside because it was financially infeasible to enact as a self-sustaining insurance program. Other policies directed at the long-term care risk have provided for tax-advantaged long-term care insurance plans. Similarly, research in behavioral economics has led to proscribed changes in the defaults for pension plans. Plans are now required to enroll individuals unless they opt out. These changes have been implemented with the hope that they will lead to increased savings in 401ks and similar pension savings vehicles. Past legislation (ERISA and REACT) has addressed the disproportionately high rate of poverty among elderly women by changing the defaults in pension plans to make survivorship benefits the norm. Other changes regarding annuitization of defined contribution plan balances are being discussed.

5. Conclusion

The War on Poverty has been a tremendous success from the point of view of the well-being of the elderly. Social Security grew into a generous pension program that provides near universal coverage not only for workers but also for their spouses and dependent children. SSI provides additional income for those with low Social Security benefits or who not eligible for Social Security, and a variety of other social service programs offer assistance to the elderly poor. However, the future poses significant risks for the elderly as private pensions change to defined contribution plans, health care costs continue to increase, and we face likely reductions in Social Security and Medicare benefits.

Recent improvements in health and disability outcomes for the elderly (Freedman, Martin and Schoeni, 2002), a reversal of the trend towards early retirement, and the recognition in policy circles of the importance of encouraging and facilitating private savings all suggest that we are moving towards mitigating some of this risk despite the difficult economic circumstances.

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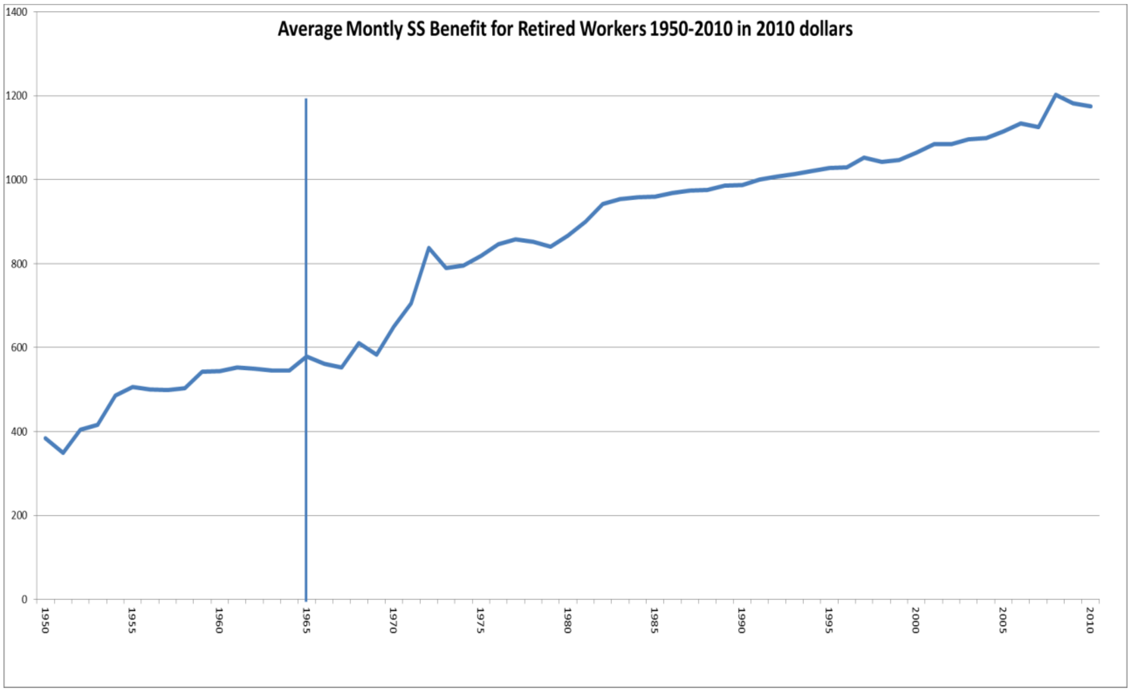
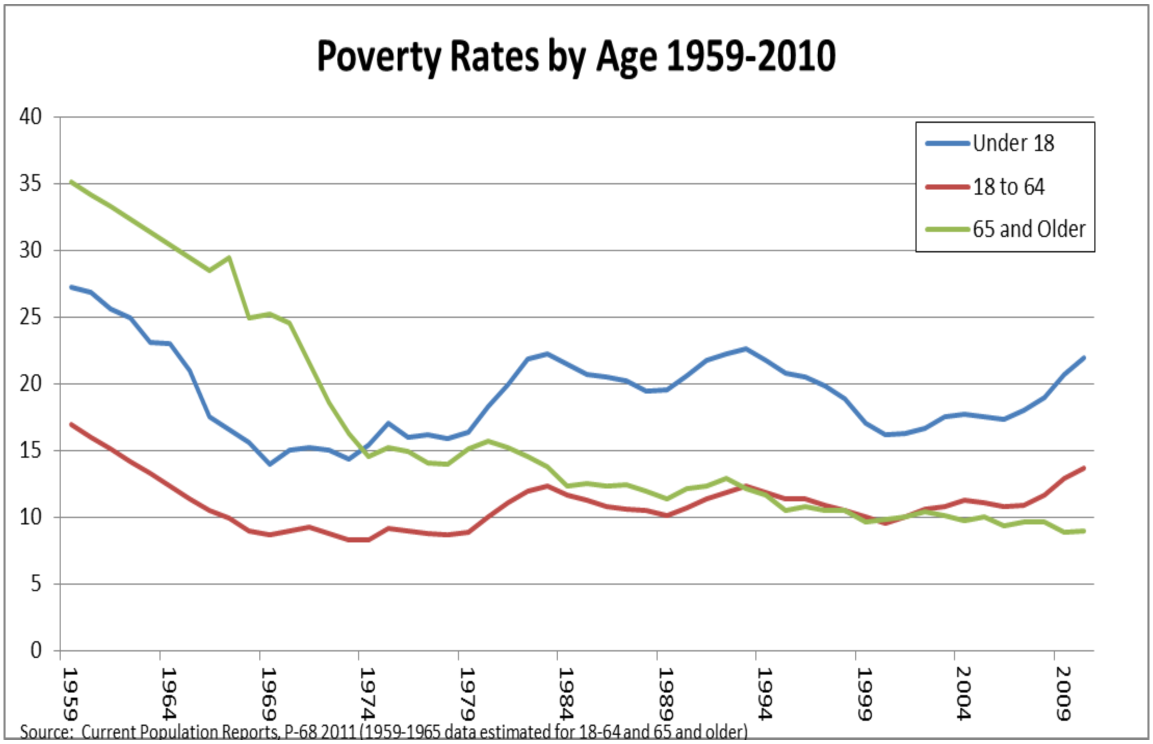
Figure 1



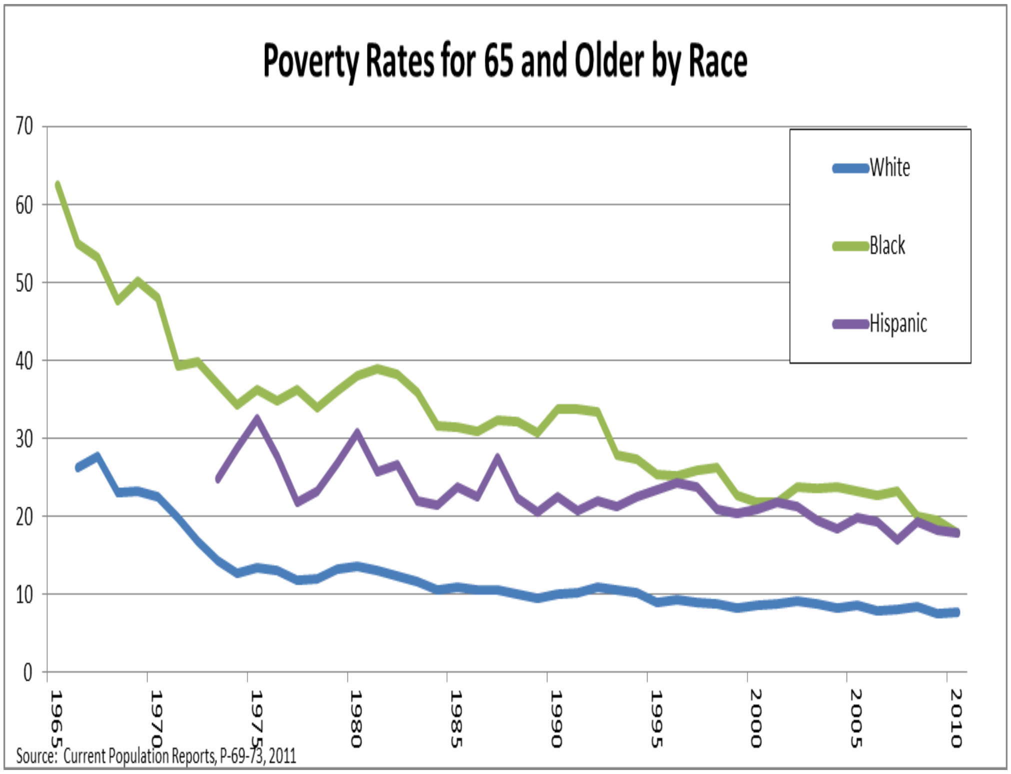
Source: Annual Statistical Supplement to the Social Security Bulletin, 2011 (SSA, 2012)

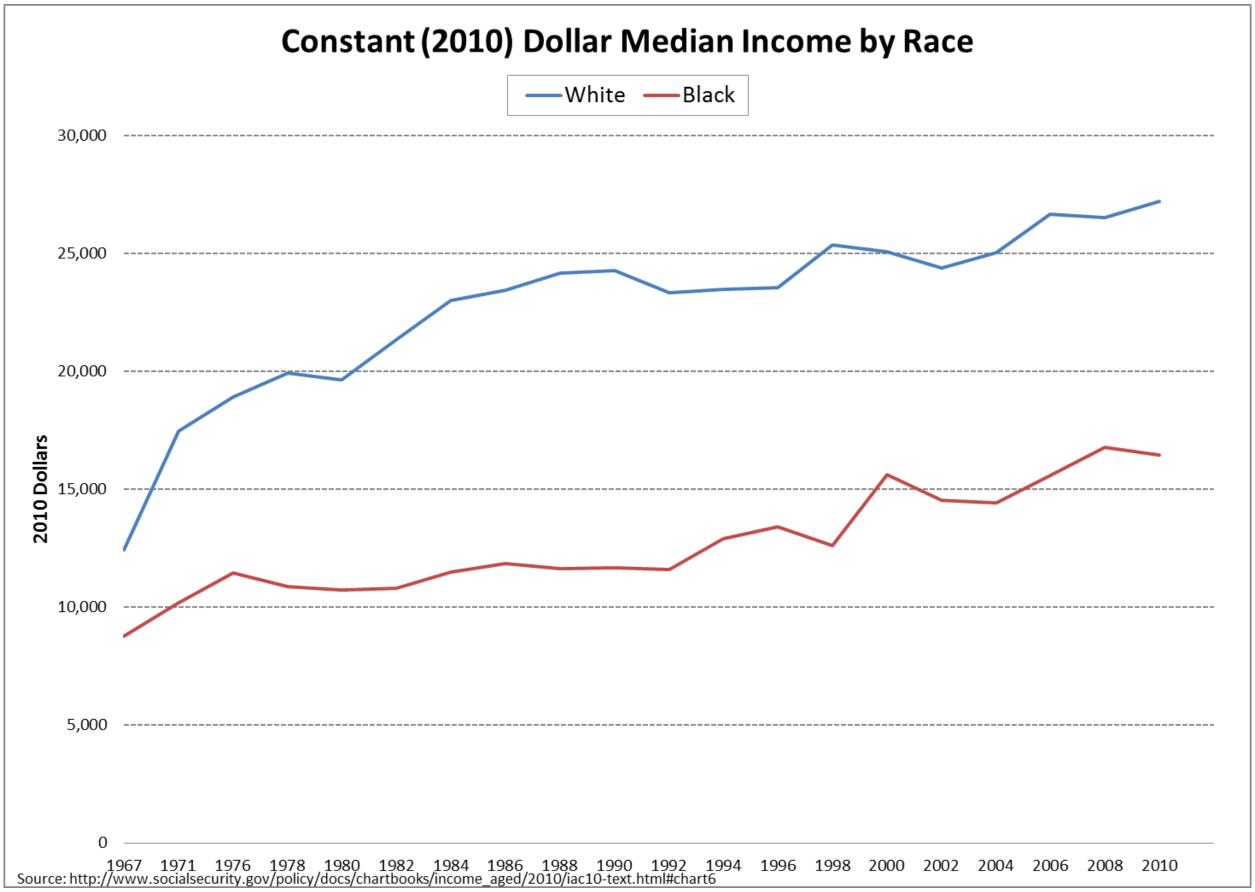
Figure 2



Poverty Rates by Age 1959-2010
40
35
30
25
20
15
10
5
0
Under 18
18 to 64
65 and Older
1959
1964
1969
1974
1979
1984
1989
1994
1999
2004
2009
Source: Current Population Reports, P-68 2011 (1959-1965 data estimated for 18-64 and 65 and older)

Figure 3 Poverty Rates by Race




Constant (2010) Dollar Median Income by Race
White
Black
30,000
25,000
20,000
15,000
10,000
5,000
0
2010 Dollars
1967 1971 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010
Source: http://www.socialsecurity.gov/policy/docs/chartbooks/income_aged/2010/iac10-text.html#chart6

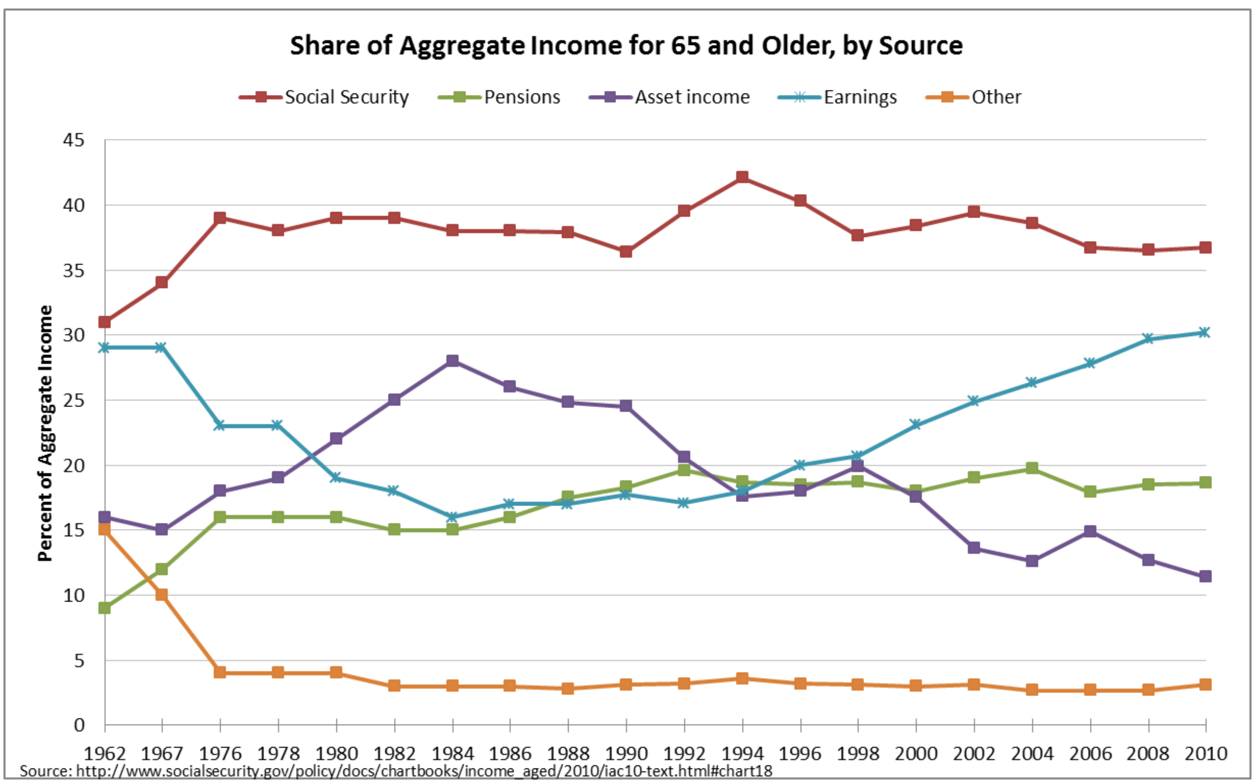
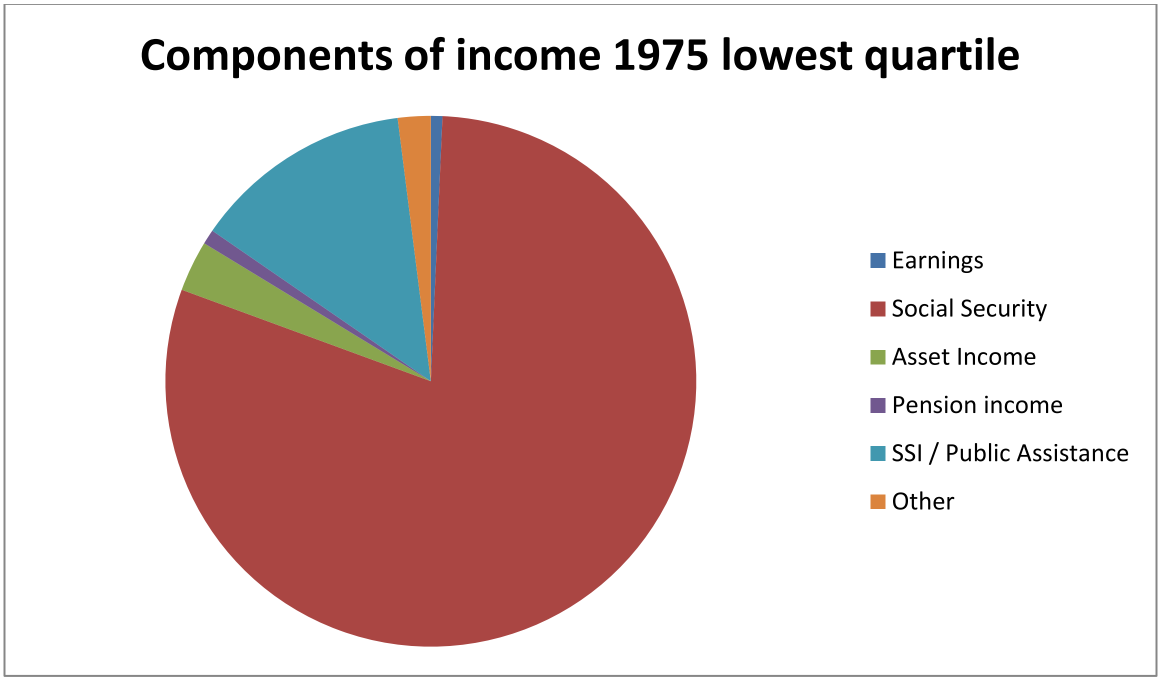

Share of Aggregate Income for 65 and Older, by Source
Social Security
Pensions
Asset income
Earnings
Other
45
40
35
30
25
20
15
10
5
0
Percent of Aggregate Income
1962 1967 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010
Source: http://www.socialsecurity.gov/policy/docs/chartbooks/income_aged/2010/iac10-text.html#chart18

Figure 5 Components of Income 1968 – 2008



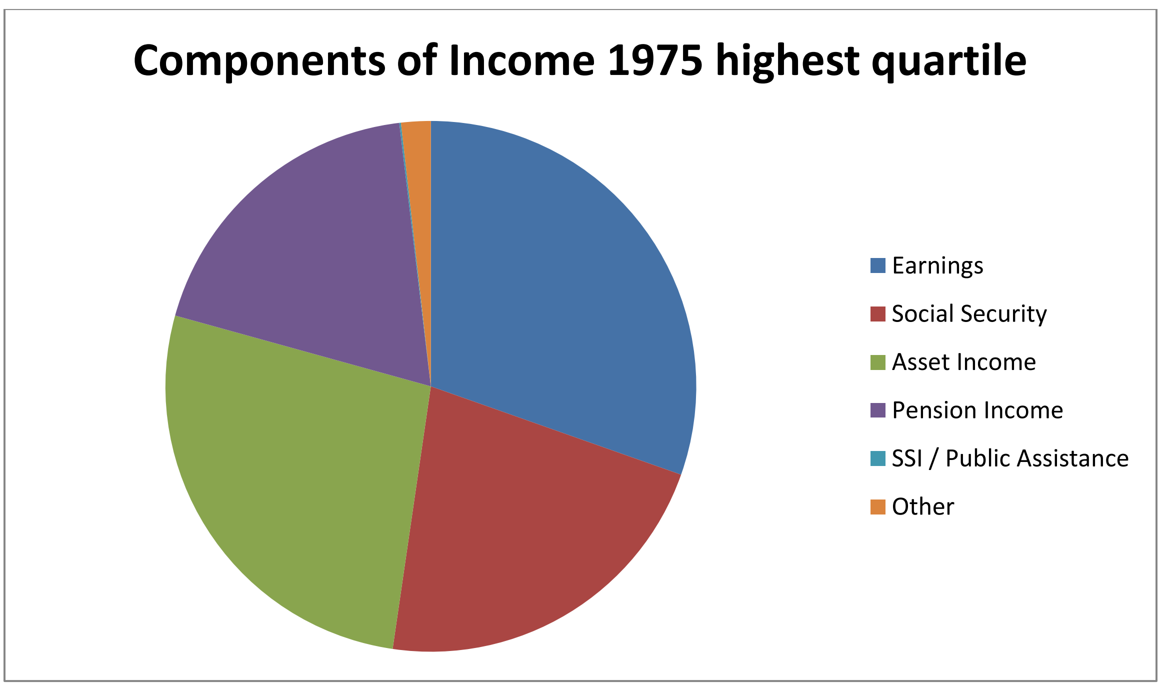
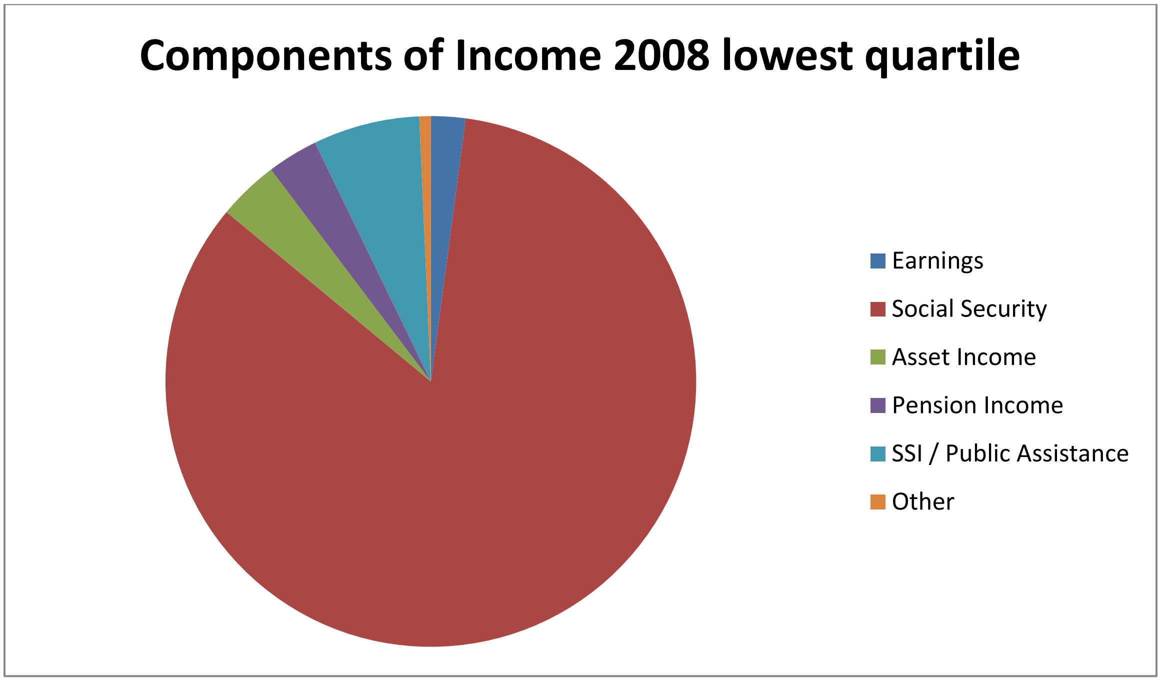
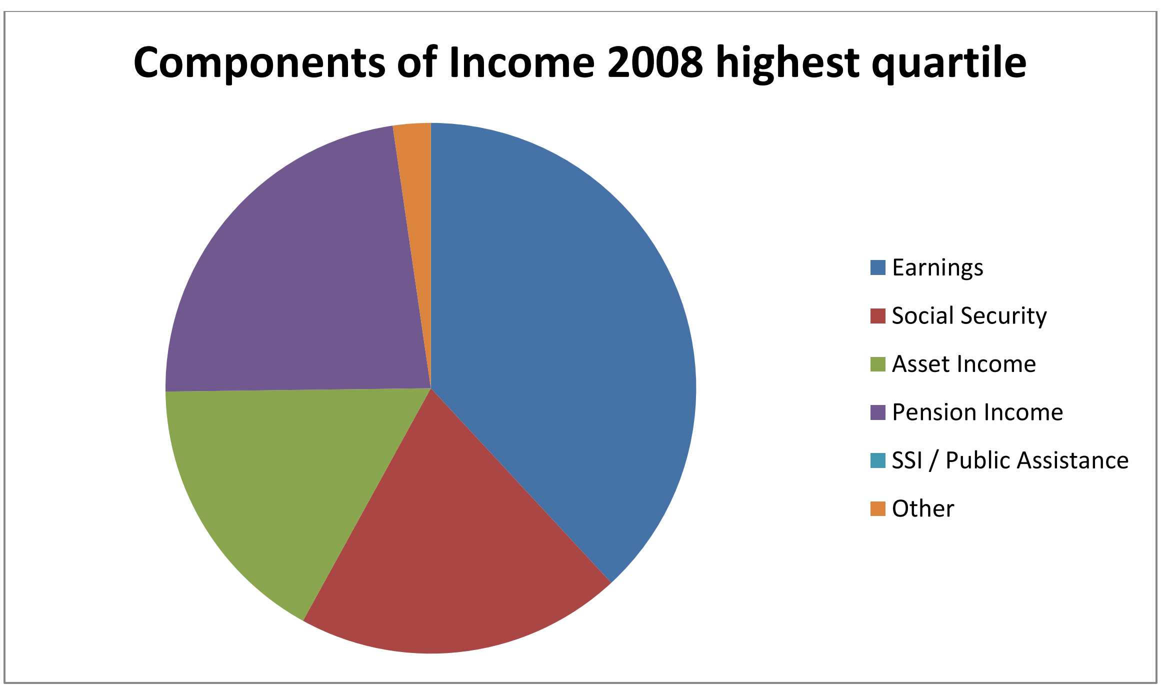
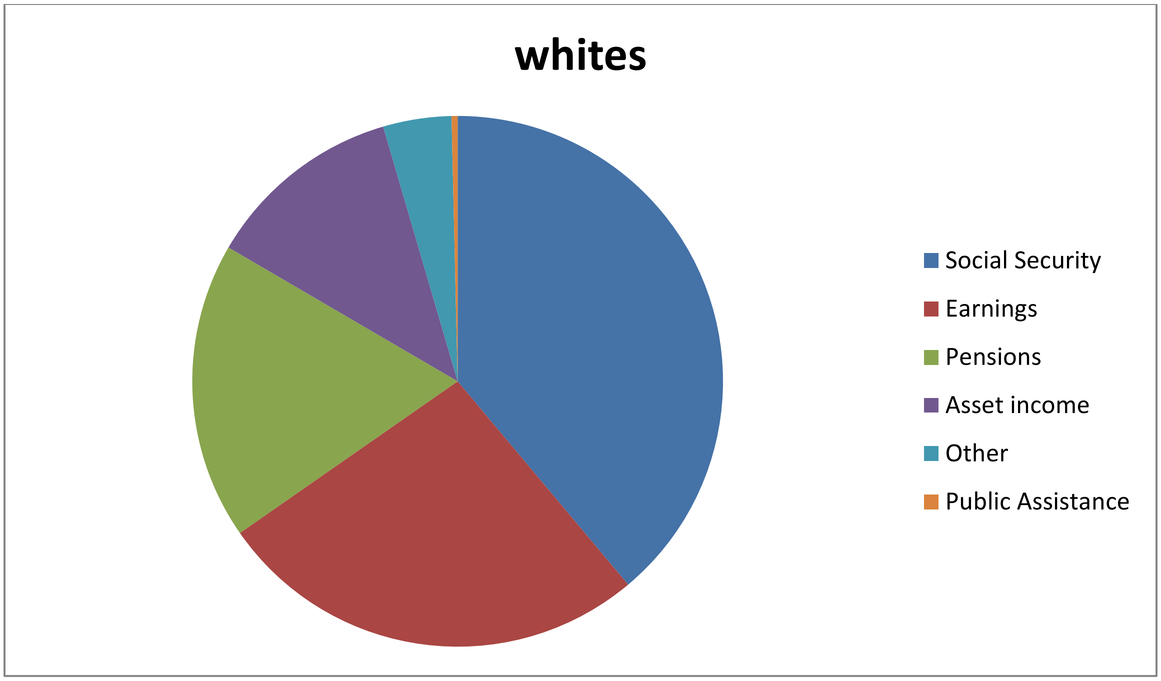
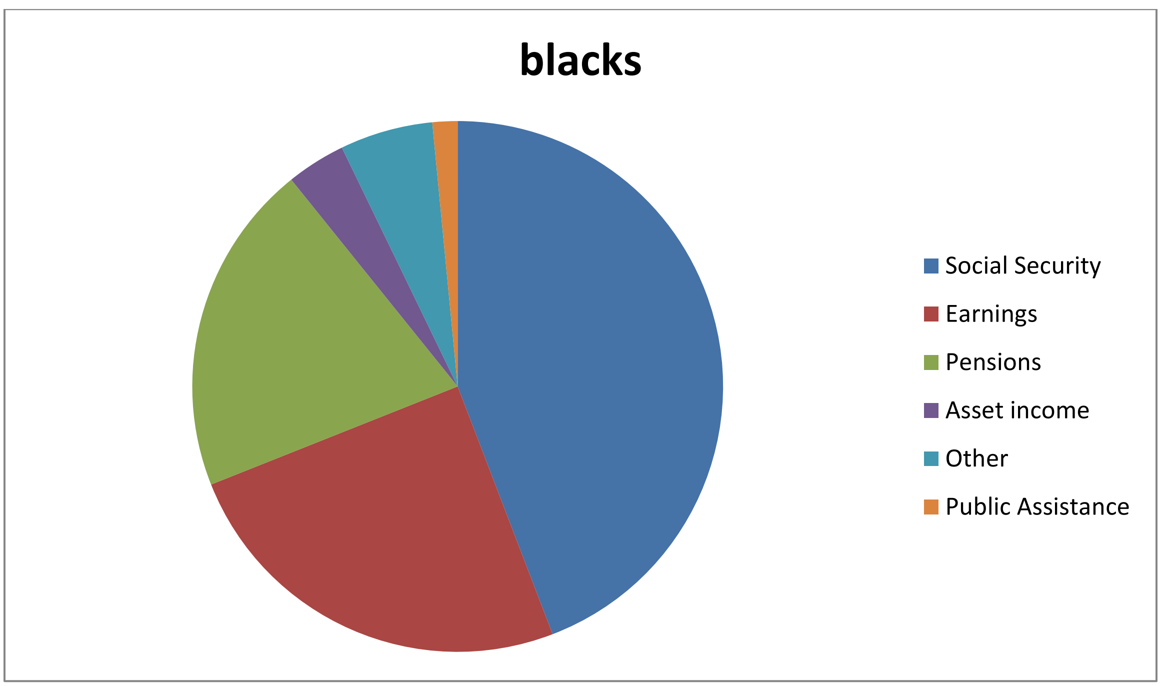


Figure 5 Components of Income 1968 – 2008






whites
Social Security
Earnings
Pensions
Asset income
Other
Public Assistance


blacks
Social Security
Earnings
Pensions
Asset income
Other
Public Assistance