

# WORKING PAPER

## *Executive Summary*

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## HOW MANY STRUGGLE TO GET BY IN RETIREMENT?

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Most researchers agree that the official measure of poverty in the United States does not provide a good benchmark for evaluating economic status. The official measure is based only on cash income and fails to include in-kind transfers, capital gains and losses, taxes, out-of-pocket health spending, the value of owner-occupied housing, or the potential income from financial assets. Also, the official poverty thresholds that define minimal needs, set back in 1963 and updated to changes in the CPI, do not capture current spending patterns. These shortcomings especially pertain to the older adult population because their resources, needs, and health expenses differ most dramatically from the assumptions reflected in the official poverty measure.

This paper provides a comprehensive assessment of the economic resources of adults age 65 and older. It shows the variation in poverty levels using the official measure and alternative measures that follow recommendations from the 1995 National Academy of Sciences (NAS) panel on poverty measurement. All of the alternative measures include in-kind transfers, capital gains and losses, and taxes, and use more up-to-date thresholds, but differ in their treatment of out-of-pocket medical expenses, home equity, and financial assets. The analysis also compares the alternative measures with individuals' qualitative reports of well-being to assess the correspondence between the alternative poverty rates and individuals' own assessment of hardship.

The study uses data from the 2004 Health and Retirement Study (HRS) that includes a large, nationally-representative sample of older adults and information about key resources and expenditures not commonly available in other surveys. The analytic sample includes adults age 65 and older living alone or with a spouse and no one else because the HRS only provides full income and expenditure information for the respondent and spouse. The study provides an up-to-date assessment of well-being and builds upon previous studies that have had to rely more on imputed estimates of key resources and expenditures.

The results show that poverty measures are quite sensitive to the resources included and thresholds used to measure poverty, and highlight the need to update poverty measures so that they better reflect the modern day economic resources and spending needs of older adults.

Key findings include the following:

- All of the alternative poverty measures that account for out-of-pocket health spending indicate higher poverty rates for older adults than the official measure, even those that include the value of housing and financial assets. Together they suggest that actual poverty rates were between 17 and 89 percent higher than the official poverty rate in 2003 and that between 0.3 and 1.5 million more older adults lived in poverty than the 1.8 million number indicated by the official poverty measure.
- Although these alternative measures suggest higher poverty among nearly all demographic groups, poverty rates increase the most for men, whites, and married adults because they have relatively high health expenses and are more affected by the new thresholds that estimate higher costs for couples relative to single people than the official poverty thresholds. (The 2003 threshold for couples is \$12,915 under the alternative measure compared with \$11,122 under the official measure, and the threshold for a single person is \$9,167 compared with \$8,825.)
- Poverty remains concentrated among single adults (disproportionately women), blacks and Hispanics, and adults age 85 and older regardless of how it is measured. For example, one in five older blacks and one in four older Hispanics live in poverty, even after adding all possible resources to their income. The same populations designated as poor using the official measure have relatively low home equity values and little potential to annuitize assets to improve their standard of living in retirement.
- The alternative measures also suggest that health care costs drive many more older adults into deep poverty (income below one-half the poverty threshold). For example, the share of older adults living in deep poverty increases from less than 1 percent to almost 4 percent when in-kind income, taxes, and out-of-pocket health expenses are considered and newer thresholds used.
- The alternative measures track qualitative measures of well-being, such as reports of difficulties paying bills, better than the official measure. For example, 47.8 percent of older adults who are classified as poor using alternative measures that account for health expenses report having extreme difficulty paying bills, compared with only 31.5 percent using the official measure.

Higher alternative poverty rates among older adults and especially high rates among some sub-groups show the importance of protecting low-income older adults when considering reforms that reduce the cost of government programs for retirees. They also underscore the importance of considering new policies to boost the incomes of the poorest older adults. Medicare reforms that increase cost-sharing could exclude the lowest-income older adults. Reforms to the Supplemental Security Income (SSI) program that increase asset limits from levels set back in 1972 should also be considered to allow more of the poorest older adults to gain eligibility. Policy makers should also think about incentives to increase private savings and pensions among low-income families so that more older adults have resources to augment their Social Security benefits. Policies that encourage older adults to delay retirement could also boost the incomes of older adults.

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