LIVING LONGER ON LESS IN MASSACHUSETTS:

THE NEW ECONOMIC (IN)SECURITY OF SENIORS

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IASP
INSTITUTE ON ASSETS & SOCIAL POLICY

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The Institute on Assets and Social Policy (IASP), a research institute at the Heller School for Social Policy and Management at Brandeis University, is dedicated to the economic well-being and social mobility of individuals and families, particularly those traditionally left out of the economic mainstream. Working in close partnership with state and federal policymakers, constituencies, grassroots advocates, private philanthropies, and the media, IASP bridges the worlds of academic research, government policy-making, and the interests of organizations and constituencies. IASP works to strengthen the leadership of policy makers, practitioners, and others by linking the intellectual and program components of asset-building policies..

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Acknowledgements

There are many individuals we owe our thanks to for supporting this research effort and the publication of the report. Foremost, we like to thank a number of people who were instrumental in helping us create the Senior Financial Stability Index. Marty Liebowitz, Virginia Reno, Phyllis Mutchler, AARP researchers, Walter Leutz and Sarita Bhalotra helped conceptualize and provided feedback at different stages of the index development.

The authors would also like to thank the Farnsworth Foundation for their current support of our work on the Massachusetts Senior Financial Stability Index.

The multi-factor approach to measuring economic security applied in this report builds on previous work on middle class economic security published by IASP and Dēmos.

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March 2009

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Executive Summary

The social contract for seniors in the 20th century was based on the prospect of a secure retirement during the later stages of each American's life-course. With the inception of federal programs, such as Social Security and Medicare, the contract grew and adapted to changing times. Due to these social investments, poverty among the elderly declined and a secure retirement with incomes from three complementary sources (Social Security, pensions, and savings) became a common vision and expectation for older adults in the United States. However, recent fundamental changes in the lives of older Americans, such as increasing longevity, weakening of pension incomes, and dramatically rising expenses for healthcare and housing have eroded the financial stability of the three-legged stool of retirement security. These shifts make it more difficult for seniors to enter retirement with economic security and to remain economically secure throughout retirement.

In light of these altering conditions, this report assesses how the social contract is holding up into the 21st century for seniors residing in Massachusetts by examining long-term economic security of senior households in the state. To measure long-term financial stability of senior households in the Commonwealth throughout their retirement years, we created a comprehensive multi-factor measure, the Massachusetts Senior Financial Stability Index (MSFSI). In developing this concept, we identified essential factors for economic stability and well-being, and set common-sense and research-tested thresholds while creating an index anchored to a single, easily understood and interpreted metric.[1] The fundamental components that frame economic stability for older Americans are Housing Costs, Healthcare Expenses, Household Budget, Home Equity, and Household Assets. These factors are critical because:

- ▹ Research documents that the largest living expenses for older Americans are housing and out-of pocket health expenses;
- ▹ Household budgets measure the capacity of senior households to meet annual essential expenses;
- ▹ Studies point to home equity as the largest source of wealth in the United States and in particular for older Americans; and
- ▹ Financial household assets establish long-term stability.

Taken together, these factors paint a broad picture of economic security, just as they each facilitate a drill down into individual sources of strength and vulnerability, identifying directions for policies.

The MSFSI is constructed from these five factors measured as follows (see also Table 1 on page 11):

Housing Costs: Households with housing expenses exceeding 30 percent of household income are economically at risk, and those who spend 20 percent or less are stable.

Healthcare Expenses: Households who spend 15 percent or more for healthcare are economically at risk, and those who spend 10 percent or less are stable.

Household Budgets: Budgets that are negative after expenditures for essential expenses pose a risk to economic security, and households with annual additional funds of $10,000 or more, after essential expenses, are secure.

Home Equity: Households who rent their home, and therefore do not have any home equity, are at risk, and households with home equity of $100,000 or more, are economically stable.

Household Assets: Project the amount of resources based on the three legs of retirement security income over the expected lifespan for each household and deduct from it estimated median expenses over the life course. Asset risk is evident when this amount is negative, and asset security is set at $ 50,000 for single seniors, and $75,000 for couples.

MSFSI: Asset stability (or risk) plus stability (or risk) on at least two additional factors

The Massachusetts Senior Financial Stability Index finds that **68 percent of all senior households in the state are financially vulnerable**. That is, close to seven in ten senior households do not have sufficient financial stability to sustain them through their lives. This risk is especially pronounced for single senior households – with 82 percent among them facing financial insecurity.

The data used in this report do not reflect the deep recession of 2008/09, characterized by collapsing stock and real estate markets. This changing economic environment poses steep challenges for seniors today and highlights the importance of a comprehensive assessment of security. The MSFSI provides a benchmark of the economic life prospects of Massachusetts seniors and underscores areas of strength and vulnerability that public policy can address.

SOURCES OF FINANCIAL STABILITY AND RISK FOR MASSACHUSETTS SENIORS

- More than two in five senior households (42 percent) in Massachusetts do not have sufficient financial resources (financial net worth, projected Social Security, and pension incomes) to meet median projected life time expenses.
- Single seniors face an even more troublesome situation with close to half (48 percent) at risk of financial crisis based on their projected assets.
- More than one third of Massachusetts senior households have no financial resources after paying for essential expenses.
- Paying out-of-pocket health expenses, including costs for additional insurance coverage, is burdensome for one quarter of Massachusetts senior households.
- Massachusetts' high housing costs put more than half of all senior households' budgets at risk. Single seniors, almost half of whom are renters, face even more pronounced challenges with close to three-quarters (73 percent) facing burdensome monthly housing expenses.
- Due to high home ownership, especially among senior couples, more than three in five of all Massachusetts senior households are secure with respect to home equity.

Even with these pronounced financial risks among them, the current generation of Massachusetts seniors is better prepared for retirement than subsequent generations will be, primarily due to declining employer-based retirement pensions and savings and rising debt of younger families. With present alarming trends that include dramatic cuts in defined-benefit pensions, persistent increases in out-of-pocket healthcare costs, increasing debt for those approaching retirement, the current housing crisis, and sharp declines in the stock market, today's senior citizens represent a best case scenario of senior financial stability for the foreseeable future.

Our recommendations therefore focus on policies that impact households at different life stages in their retirement planning. While we report on the long-term financial stability status of older Massachusetts residents, the analysis helps to identify life course-related vulnerabilities for younger families and policy interventions designed to ensure their economic security in retirement.

POLICIES TO ENHANCE ECONOMIC SECURITY FOR SENIORS IN MASSACHUSETTS

Our Massachusetts specific recommendations focus on the areas of economic risk for Massachusetts seniors including housing and out-of-pocket healthcare costs, asset building, home equity, and financial education.

ENCOURAGE BUSINESSES IN MASSACHUSETTS TO CREATE FLEXIBLE WORK ENVIRONMENTS

- Flexible employment opportunities need to be created for seniors who are able and would like to continue to work. Examples include but are not limited to flextime and bundled work days; amount of time spent working, including job-sharing options; and career flexibility with various points of entry, exit, and re-entry over a working career.

STRENGTHEN PROGRAMS AND POLICIES FOR VULNERABLE SENIORS

- ***Prevent Further Cuts in Senior Services***
  Counter-cyclical spending cuts are forcing vulnerable seniors to pay for new expenses that were formerly covered by the state; the economic stimulus package provides an opportunity to prevent further cuts and strengthen programs.

- ***Ensure Housing Options and Access to Subsidies for Renters***
  State policymakers need to promote the maintenance of existing affordable housing units for seniors and support access to rental subsidy programs which reduce the cost of rental housing. As existing properties in Massachusetts age and face possible conversion to market rate units, lawmakers will need to ensure that housing options for low-income older renters remain in place if we are to protect future low-income seniors, often single seniors, from housing insecurity.

PREPARE FOR RETIREMENT

- ***Institute Financial Education Programs for All Ages***
  Recognizing the importance of financial education for young households and first-time home buyers, financial education programs for adults planning for retirement and for seniors should be expanded to assist individuals and families to navigate the many choices that exist regarding their finances in later life. These types of programs are critical for empowering people of all ages to plan for long-term financial stability.

- ***Focus on Preparing Singles for Later Life***
  Single seniors, mostly older women, are most at risk for long-term economic insecurity. Programs on financial education need to educate women and couples about survivor pensions and how career and family choices impact retirement resources in order to help them plan for adequate financial resources for women and men should they survive their spouses.

IMPROVE QUALITY OF DATA SOURCES AT STATE LEVEL

- While our data source allows us to examine a sample of Massachusetts seniors, more complete information would be better suited to supply a fuller picture of financial stability of seniors. Data, such as those collected by state agencies, should be made available to capture the overall financial stability of senior households, and additional data collection resources should be identified.

COLLABORATE WITH FEDERAL POLICYMAKERS

In addition to our Massachusetts specific policy recommendations, we also urge state policymakers to collaborate with federal policymakers on substantive national policy changes for seniors. Important policy reforms that must be addressed at the federal level include:

- ***Strengthen Social Security.*** Not only do we need to make sure to continue this successful program, we also need to strengthen it for vulnerable groups, such as life time low-income earners and people with sporadic attachment to the labor market due to care giving and other responsibilities.

- ***Strengthen Pension Provisions.*** Government interventions are needed to secure the stability of existing pensions to ensure the stability of employer and employee investments.

- ***Address the Medicare Crisis*** as part of a revamping the entire healthcare system. Out-of-pocket healthcare costs, especially Medicare expenses, consume a prominent and growing proportion of the national budget. Without attention to healthcare access and affordability, progress in all other areas of retirement security will be negated.

- ***Institute Long-Term Care Insurance.*** Support proposals for long-term care insurance that would spread one of the major risks to economic security among all U.S. citizens.

Given the existing challenges for adults planning for retirement, future retirees will be worse off than today's elders, unless we attend to policies that grow and stabilize their resources for the future, and make efforts to limit the rising costs of crucial necessities for seniors. Policymakers have an opportunity to reaffirm their commitment to ensure that elders have the resources to live without fear of poverty. Building on past commitments to our elders, we must strive to construct a new retirement security system for the 21st century that meets the needs of Massachusetts' diverse and aging population so that they will be able to live longer, but not on less.

Introduction

The social contract for seniors that developed in the past century was based on the prospect of a secure retirement during the later stages of each person's life. The expectations underlying that contract were driven by the expansion of federal programs such as Social Security and Medicare and the mid-century growth in employer pension plans. The social contract for retirement security is modeled on a three-legged stool consisting of Social Security, employer pensions, and savings. However, recent fundamental changes in the lives of older Americans, such as increased longevity, disappearing pension incomes, and dramatically increasing expenses for healthcare and housing have greatly weakened the stability of this financial security stool for older adults. These emerging trends make it more difficult for seniors to enter retirement with economic security, as well as to remain economically stable throughout retirement.

Public policies need to respond to these changing conditions to renew the social contract and strengthen the stool of retirement security. The ability of individuals to plan for and attain retirement security and well-being is not only a benefit for them, but also strengthens all citizens and the nation. This report examines the long-term economic (in)security of seniors in Massachusetts, reveals current trends and suggests policies promoting their enduring well-being.

Massachusetts is a state with many valuable resources for its older residents, but is also a state which will face growing challenges as its population ages in the coming decades. While Massachusetts' residents overall are more educated and receive higher median incomes than U.S. residents as a whole, the high cost of living in the state leads many national standards to underestimate the exposure of residents to economic risk. For example, though the state-level poverty rate of 10 percent is lower than that of the country (13 percent), the official poverty measure masks important vulnerabilities in states such as Massachusetts where cost of living is much higher than in other regions.[2]

Further, Massachusetts ranks 12th in the nation for having the highest proportion of seniors but ranks very poorly based on the cost of living. The health care cost of living index for the state is estimated at 119 which, at a national average of 100, indicates that it is more expensive for seniors to utilize health services in Massachusetts than in the U.S. overall.[3] Utilities and housing expenses also rank well above the national average. A review of the impact of the high costs of these important basic necessities should be a part of any review of the economic status of Bay State seniors.

As a state with a higher percentage of seniors over age 65 than the national average (13.3 versus 12.6 percent), Massachusetts must be one of the leaders in adapting to the aging of our nation.[4] Projections suggest that by 2025, 18 percent of population of Massachusetts will be over 65.[5] As life spans grow and the Baby Boomers reach retirement age, the public and policymakers will need to adjust to changing needs and demands upon resources in society. These social changes will require new and innovative policies at the national, state, and local levels.

This report reveals that seniors in Massachusetts are financially vulnerable from a number of perspectives, despite the progress that was made throughout the last century. In order for policymakers to be able to develop policy solutions for vulnerable seniors in Massachusetts, they must have relevant, state-specific information about the resources and economic situations of older households in the state. Using a multi-factor approach to analyze the long-term financial stability of seniors in the state, this analysis helps to identify areas of economic stability and vulnerability. By looking at several key facets of the economic status of older households in Massachusetts, this report offers a new way to gauge the economic well-being of our seniors and presents evidence to guide new policy.

Through findings, analysis and recommendations, the report aims to answer the following questions:

- **Approach and Findings:** What is the long-range economic security level of seniors in Massachusetts? Do older adults in Massachusetts have sufficient resources to live with security today and throughout their lives?

- **Analysis:** What are the factors that lead to economic security and vulnerability for seniors in Massachusetts?

- **Recommendations:** What are the public policies that can be implemented to address vulnerabilities and build on sources of security?

The analysis of our sample of Massachusetts seniors reveals that a number of economic challenges face seniors in the Commonwealth; however, as will be seen, several public policy solutions are available to policymakers which may help to address existing economic burdens faced by older Bay State residents.

Measuring Senior Financial Stability in Massachusetts — A Multi-Factor Approach

Our analyses advance the conversation about the economic status of Massachusetts seniors from a discussion centered on the federal government poverty line or adequacy threshold, to a more policy-relevant conversation about the capacity of older adults to sustain economic well-being throughout their life course. The poverty line is a snapshot in time that gauges the capacity for annual income to provide basics needed for minimal well-being.

Our analyses, on the other hand, are based on a tool that measures the economic capacities of older Americans in several key areas over their life course, thereby, providing a more broad-based assessment of whether or not our social contact for seniors is holding up in these changing times. The Massachusetts Senior Financial Stability Index (MSFSI) allows us to identify causes of financial strength and vulnerability among elderly households—and, importantly, helps to identify policy areas to strengthen well-being. In developing this concept, we identified essential factors for economic security and well-being, and set common-sense and research-tested thresholds while creating an index anchored to a single, easily understood and interpreted metric.[6]

While discussions of retirement security generally focus on the three legs of the retirement security stool—Social Security, pensions, and private savings—the MSFSI incorporates these traditional resources as well as additional factors which have an important bearing on economic security in later life. The combination of five factors through which security can be measured, allows for a broader evaluation of security among older adults in the state. The five factors are: <u>Housing Costs</u>, <u>Healthcare Expenses</u>, <u>Household Budgets</u>, <u>Home Equity</u>, and <u>Household Assets</u>.

Existing research provided the basis for the selection of these factors. The five factors that are included were chosen because:

- Housing and healthcare are critical components of household spending for basic necessities and much existing research points to these two as the biggest expenses for seniors.
- Household budgets help to capture ability to meet basic consumption needs as well as cover any unforeseen expenses.
- Home equity is the primary source of wealth in the United States and is an especially important asset for older adults who have had more years to build equity.
- Financial assets and long-term secure income sources (such as Social Security and defined-benefit pensions) serve as crucial resources for long-term stability across the life course of older adults.

Our understanding of senior economic stability has come a long way. The Elder Economic Security Standard for Massachusetts[7] focuses on the annual self-sufficiency capacities of older Americans, typically regionally determined living expenses for one year, and thus provides a benchmark for the capacity of seniors to meet a realistic level of basic expenses.

The Massachusetts Senior Financial Stability Index (MSFSI) extends this line of research by delivering a policy-relevant marker with significant implications for revitalizing the social contract for our seniors. The inclusion of the five factors permits a more holistic assessment of financial stability by accounting for potential vulnerabilities caused by the increasing expenses of basic necessities as well as the security or risk provided by household resources. Additionally, our approach achieves a long-range estimation of security rather than focusing on a single point in time in order to look at the sustainability of seniors' household security. Unlike other approaches which look at the annual cost-of-living for seniors[8] or their ability to maintain a similar standard of living in retirement to that achieved during their working years,[9] our approach looks at the capacity of senior households to make ends meet over the long-term. The use of income, assets and expenses provides a more complete way to analyze the capacity to meet needs over time.

The MSFSI also gives a policy-relevant picture of security of older adults by pointing to sources of security and risk. From this perspective, the MSFSI helps policymakers identify and develop policies that move beyond efforts which simply seek to insure short-term adequacy of resources, but rather promote enduring financial stability for households. This analytic framework for Massachusetts can assist policymakers in developing targeted strategies for securing the long-term financial position of seniors in the state, even as the economic crisis threatens the economic security of many of the state's residents.

The Massachusetts Senior Financial Stability Index (MSFSI)

The MSFSI incorporates five factors which together provide an overall assessment of economic security among senior households that cannot be achieved by reviewing just one perspective or facet of economic well-being. By looking at housing costs, health expenses, household budgets, home equity and ownership, and asset equity, the MSFSI offers a new lens through which to analyze the economic security of seniors. For each factor, the MSFSI incorporates thresholds for both stability and risk that enable us to assess the security and vulnerability of each household with regard each of the factors. After measuring the stability and risk of households for all of the factors, the outcomes of the five factors are combined to measure the overall security of each household. The thresholds for each of the factors and the approach for combining the factors are outlined in the next section.

The analysis in this report focuses on one and two person households in Massachusetts in which all members are age 65 and above. Thus, multi-generational households and seniors living in nursing homes and other institutions are not part of the study sample. The methodology for the MSFSI builds on the Senior Financial Stability Index (SFSI) developed at the national level by the authors in collaboration with Dēmos. In the national analysis, the index was constructed using Consumer Expenditure Survey (CEX) data, which provide information on household income and assets as well as detailed information on household spending. The Survey of Income and Program Participation (SIPP) was utilized to conduct the state-level analysis of seniors in Massachusetts.[10]

Thresholds – What is Stability, What is Risk?

HOUSING COSTS AND SENIOR STABILITY AND RISK

Given the fact that secure housing is a critical necessity and the major expense for most households, housing affordability is a key factor in financial stability for people of all ages. Using the Department of Housing and Urban Development (HUD) threshold for housing affordability which suggests that **affordable housing should cost less than 30 percent of income**, the MSFSI definition for housing risk is 30 percent or greater of household income. Senior households who spend 20 percent or less on housing costs are stable in this factor.

HEALTHCARE EXPENSES AND SENIOR STABILITY AND RISK

The dramatic growth in the cost of healthcare in the United States is a crucial issue for the entire nation, particularly for seniors who have greater healthcare needs with advancing age. Despite the availability of Medicare for most seniors above age 65 and Medicaid for low-income elders, out-of-pocket expenses still present a burden for many older households, particularly if they do not have supplemental insurance. Thus, the MSFSI measures out-of-pocket expenses on healthcare among senior households. When healthcare expenses constitute **less than 10 percent of household income, a senior household is stable with respect to healthcare expenses**. When healthcare expenses are 15 percent or more of household income, the senior household is at risk.

HOUSEHOLD BUDGETS AND SENIOR STABILITY AND RISK

A financially stable household has sufficient income to pay for basic monthly essential expenses and can afford to cover the costs of some periodic non-essential expenses that are important to the maintenance of households and their members. Essential expenses for households include necessities such as housing, food, healthcare expenses, apparel, and transportation. Crucial expenditures that are not incorporated in our measure of essential expenses include such critical expenses as auto repairs, large home repairs, and unexpected health care costs due to medical problems. Thus, every household budget needs some cushion above essential expenses to be able to pay for these important expenses that can be unpredictable within individual households, but are likely to arise over time. To assess the adequacy of seniors' household budgets, we subtracted total household essential expenses from total household income, to gauge the ability of households to manage important non-essential expenses. When **a household has at least $10,000 annually, or just $833 per month above essential expenses, the household is budget stable** indicating that they have some cushion in their budget for necessary unexpected expenses. A household is at risk with respect to the budget factor if there is no money left over after paying for essential expenses, or the household's members are actually spending more on essential expenses than they have in income, suggesting they have a negative cash flow.

HOME EQUITY AND SENIOR STABILITY AND RISK

As the key asset for American households, homeownership remains an important part of financial stability, particularly among seniors who have higher rates of ownership than younger populations and have had more years to build equity. Despite the recent declines in the housing market, home equity continues to be a crucial part of economic stability for seniors. As the greatest source of wealth for most households, home equity is an important resource for older adults.

Older households are likely to require long-term care needs and home equity can be an important resource for households when seniors require more assistance in daily living than they are able to get in their own homes. With the chance of entering a nursing home increasing with age such that most seniors above age 85 have long-term care needs,[11] home equity can be a valuable resource for obtaining additional support. Given that the average price of a nursing home for one year is about $100,000 in Massachusetts[12] and few households have sufficient liquid assets to pay for extended care, home equity is an important resource to pay for long-term care and avoid having to give up all income and the majority of assets to qualify for Medicaid. To provide a buffer in case of long-term care needs, the threshold for **stability in home equity is $100,000 which would conservatively cover about two years of assisted living or one year in a nursing home in Massachusetts.**[13] Renters do not have access to home equity in times of need or when additional care is needed, and are therefore at risk in the home equity factor.

HOUSEHOLD ASSETS AND SENIOR STABILITY AND RISK

After retirement, and as work becomes more difficult with age, the key to financial security is having sufficient resources to meet moderate consumption needs for the remainder of life. The MSFSI asset factor incorporates a long-term estimate of financial assets which will provide retirement security for senior households. Assets and secure income sources such as Social Security and defined-benefit pensions are the primary sources of retirement income for older adults. However, many seniors do not have sufficient assets or pension income to make ends meet through their expected life course leaving seniors increasingly vulnerable as they age, particularly into their 80s and 90s. At age 65, half of men will live at least 17 more years, while for women life expectancy at age 65 is 20 years.[14] Long-term senior economic security requires that assets, Social Security, and pension income be sufficient to provide for the remaining lives of seniors.

Household assets include savings, stocks, bonds, and business and real estate investments other than one's own home. Since home equity is another factor in the MSFSI and we do not want to presume that home equity should be used for basic household expenses, home equity is not included in the asset factor. Projected Social Security and pension income for the expected lifespan of a household are combined with assets to create the asset factor which captures long-range financial resources. The asset factor is defined as the sum of assets and expected Social Security and pension income minus expected living expenses for the remaining life course. To estimate a moderate standard of living we assumed that Massachusetts senior households would need sufficient resources to meet the median consumption of senior households of equal size (one or two persons) in the Northeastern states. Since, by definition, half of all households will live beyond their life expectancy, a cushion of assets which could help to meet living expenses if household members have greater than expected longevity is needed for true long-range financial stability. **Asset stability for individuals is defined as $50,000 remaining after accounting for lifetime expenses for individuals and $75,000 for couples**. If there are not sufficient resources to meet moderate expenses for life expectancy, senior households are at risk.

OVERALL FINANCIAL STABILITY AND RISK

When a senior household is stable in the asset factor—which represents a critical measure of security in older age—and stable in at least two additional factors, the household is considered overall economically secure. Similarly, a household which is at risk in the asset factor plus two additional factors is deemed to be at risk economically.

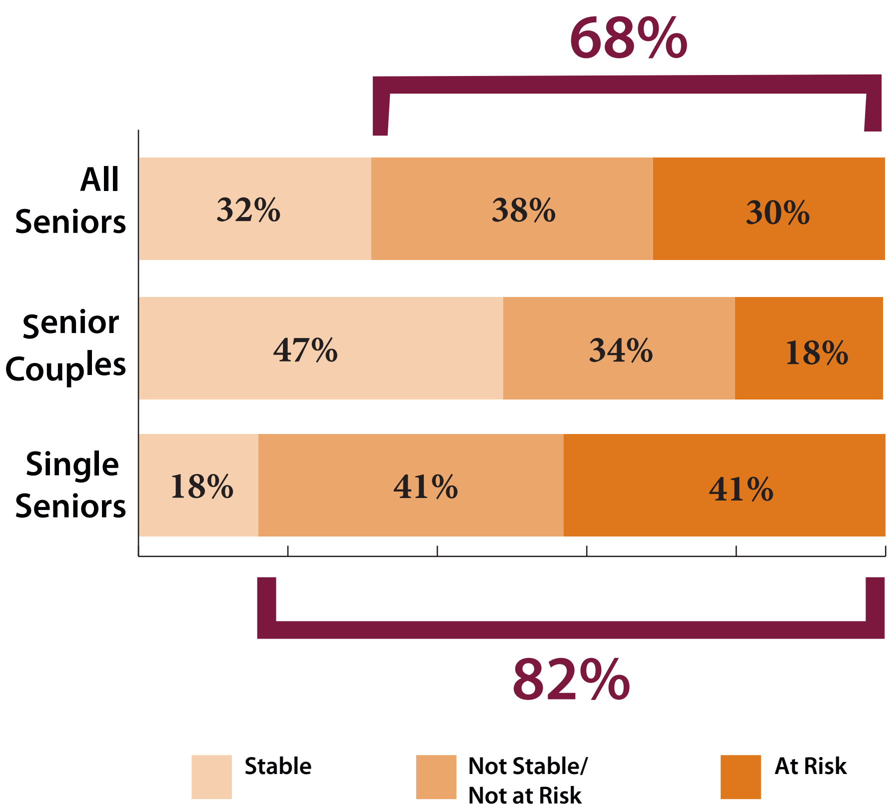
TABLE 1: FINANCIAL STABILITY AND RISK THRESHOLDS FOR EACH FACTOR

Factor	Standard for Massachusetts Senior Financial Stability	Risk to Massachusetts Senior Financial Stability
Housing Costs	Housing consumes 20 percent or LESS of income	Housing consumes 30 percent or MORE of income
Healthcare Expenses	Medical expenses, including supplemental health insurance, smaller than 10 percent of total before tax income	Medical expenses, including supplemental health insurance, 15 percent or MORE of total before tax income
Budget	$10,000 or MORE after annual essential expenses	Budget at zero or negative after essential expenses
Home Equity	Home equity of $100,000 and above	Renter/no home equity
Assets	Net financial assets plus Social Security/pension income MINUS median expenses over life expectancy GREATER or EQUAL to $50,000 for single seniors, $75,000 for senior couples.	Net financial assets plus Social Security/pension income MINUS median expenses over life expectancy EQUAL to zero or less.
MSFSI	***Asset secure PLUS security in at least two[15] other factors***	***Asset fragile PLUS fragility in at least two other factors***

Findings: How Secure are Seniors in Massachusetts?

Many senior households in Massachusetts face clear economic vulnerabilities, while others are able to make ends meet. The data reveal that 68 percent do not meet our standard for long-term financial stability. This means that close to seven in 10 senior households lack the means for sustained long-term security throughout their retirement years. Additionally, 30 percent of senior households are at risk indicating that they face long-term financial instability.

FIGURE 1. STABILITY AND RISK OF MASSACHUSETTS SENIORS



Couples are significantly better off than single seniors with almost half of couples secure and less than one in five at risk. For singles the reality is much more precarious. A comparison of senior single and couple households reveals that singles are twice as likely to be at risk compared to couples, while couples are more than twice as likely to be secure. Among single seniors, more than four in five do not have long-term security, and over two out of five are at risk.

Analysis: Sources of Financial Stability and Risk Among Bay State Seniors

The economic situation of senior households in Massachusetts is dependent on a variety of factors that are examined in our framework. By helping to reveal and breakdown the sources of stability and risk for older adults in the state, the analysis reveals where vulnerabilities lie among senior households.

For most of the five factors, very few senior households are in the middle. This narrow middle suggests that Massachusetts has a sizable population who are able to achieve the secure retirement our society hopes for its seniors; however, in the context of each factor, a large percentage faces significant financial burden in the area.

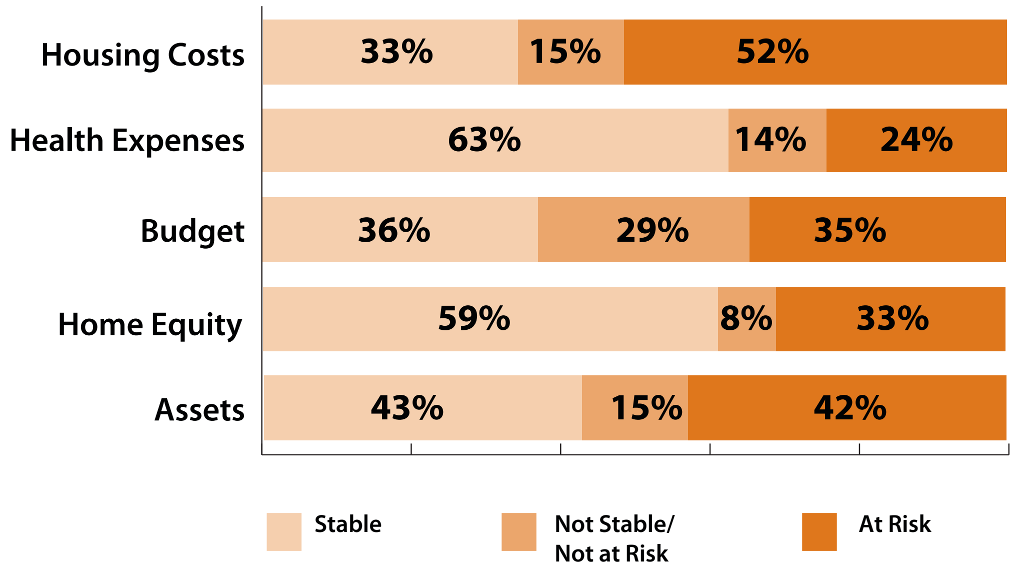
- While over two in five senior households (43 percent) do have adequate savings and pension income to meet median regional expenses for their expected life spans with a modest cushion to account for extended life, almost as many (42 percent) do not have adequate resources from these sources to even stretch to cover their average life expectancy.

- With relatively high housing values in the state, almost two-thirds of senior households have home equity above $100,000 that could mitigate unexpected expenses in later life, but one-third (almost all others) are renters or have no home equity. Among the owner households in our sample (67 percent of Massachusetts senior households), just 12 percent do not have sufficient equity to meet the security threshold for home equity. This reality suggests a clear divide in security between senior renters and owners in Massachusetts, in which owners are much better off than renters.

- More than one in three senior households (36 percent) has enough left over after paying for basic necessities each year to provide a stable cushion for unexpected expenses, but a similar portion (35 percent) have nothing left after covering essential expenses.

- Housing expenses are a significant burden for over half of senior households forcing older Bay State residents to cut back on other necessities in their budget.

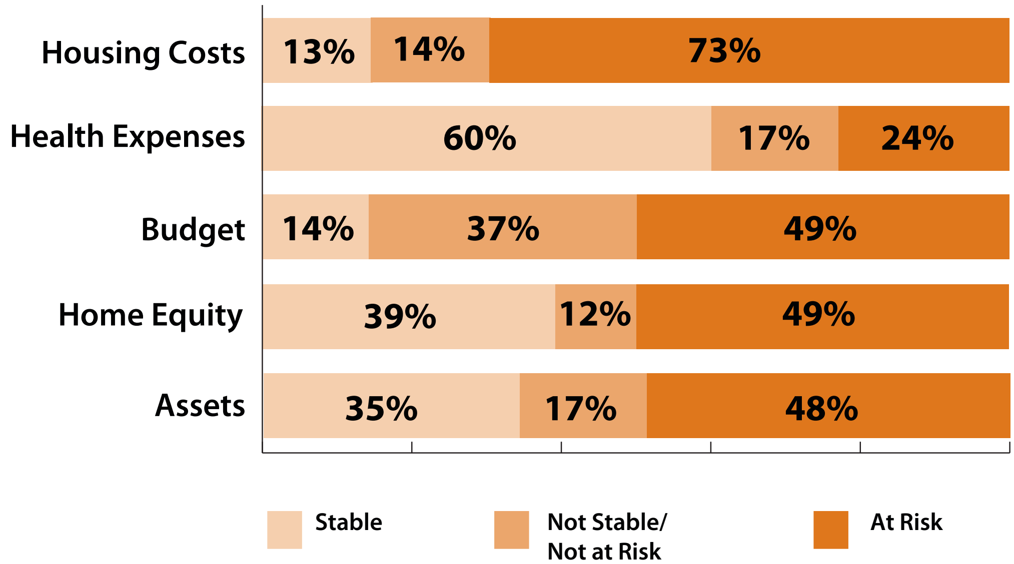
FIGURE 2. KEY FACTORS INFLUENCING STABILITY AND RISK FOR MASSACHUSETTS SENIORS



Given the high costs of housing in Massachusetts, policies to address housing affordability are crucial in the state. Especially among seniors, public housing is a crucial resource that helps to reduce costs. Nationally, almost two-thirds of the country's 14,000 public housing developments include seniors or disabled residents;[16] in our sample, a high percentage of Massachusetts seniors who do not own a home depend on public housing.

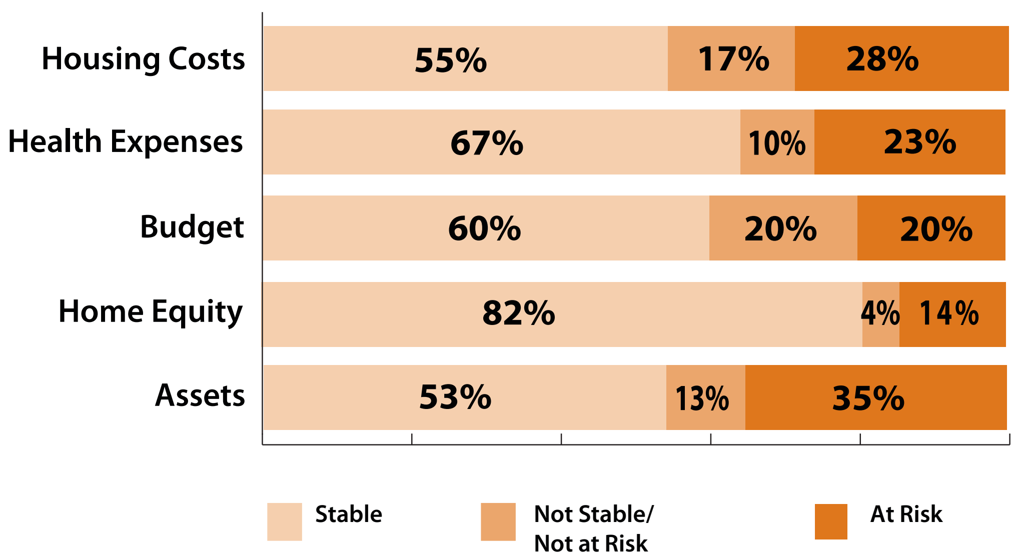
A closer look at the findings reveals that seniors who live alone are much more economically vulnerable than those living in households of two where resources can be shared. Approximately half of all single households in Massachusetts are at-risk in regards to assets, home equity, and budgets. Eighty-six percent do not meet the threshold for budget security revealing that singles have very little left over after paying for essential expenses. Housing is an especially burdensome expense for individuals who live alone and must cover rent, mortgage payments, and other housing expenses alone. While about half the senior singles in our sample are home owners, 85 percent of couples are owners, suggesting much more opportunity among couples for stability in terms of home equity and housing costs.

FIGURE 3. FACTORS OF STABILITY AND RISK FOR SINGLE SENIORS IN MASSACHUSETTS



The picture for two-person households looks much better than that for singles, with the majority of couple households meeting the thresholds for stability in all five factors. While these numbers may appear to suggest that the married and partnered portion of the Massachusetts senior population has a relatively secure economic outlook, when a spouse dies the surviving partner—often the female partner—finds herself in a much more vulnerable financial situation. Those who appear financially stable as part of a couple, have fewer resources as a surviving spouse.

FIGURE 4. FACTORS OF STABILITY AND RISK FOR SENIOR COUPLES IN MASSACHUSETTS



The Massachusetts senior singles in our sample are on average older than the household heads in our couple households and 74 percent of the single elders are women. Although there are fewer male single seniors, they are more secure than female singles, highlighting again the potential vulnerability of single women. Over time, individuals who may have appeared economically stable with a partner may face new vulnerabilities after the passing of a spouse. With the loss of a partner, Social Security benefits are reduced, pension resources diminish, and economies of scale that come with sharing a household with a partner are lost. This analysis suggests a role for policy in ensuring the safety net for older singles as well as helping individuals in couple households better prepare for the loss of a partner. Further, while there are no sufficient data for senior households of color for Massachusetts, our national data indicate that African American and Latino senior households face significantly more long-term stability risks, a fact that policies should address with respect to these households' preparation for retirement.

A more detailed analysis of the sources of income that provide the basic resources for household spending confirms that Social Security is absolutely essential to retirement for seniors in Massachusetts. In our sample of Massachusetts seniors, over half of households (56 percent) get half or more of their income from Social Security, while one in three elder households rely on Social Security for at least 75 percent of their income. The importance of Social Security in securing financial resources for basic necessities is especially visible for singles. Among older singles in the state, Social Security is absolutely crucial: 46 percent depend on Social Security for at least 75 percent of their income and one-third depend on the program for 90 percent or more of household income. As policymakers consider options for addressing the financial stability of seniors, the significance of Social Security must be a major consideration for policymakers at all levels of government.

Policy Recommendations to Reinforce the Foundation of Economic Security Among Massachusetts Seniors

Given the challenges and threats to financial security among seniors in Massachusetts, policy can play an important role in bolstering financial security for older residents of the state. Despite growing need, some state programs for seniors have already been cut, a trend that must be reversed.

The economic lives of seniors are shaped by their experiences throughout the life course—a reality which points to policy solutions that aim to bolster the security and asset development prospects of residents of the Commonwealth throughout the life course. Particular moments in the life trajectory can have lasting effects on economic security in later life. Thus, the following recommendations aim to promote asset building opportunities, programs, and policies which can help people of all ages build a more economically secure future as they age.

ENCOURAGE BUSINESSES IN MASSACHUSETTS TO CREATE FLEXIBLE WORK ENVIRONMENTS

- For personal and economic reasons, seniors will increasingly be looking for employment opportunities, while employers could be doing more to take advantage of the skills of an experienced workforce. Flexible employment opportunities need to be created for seniors who are able, would like or need to continue to work. Examples include flextime and bundled work days; amount of time spent working, including job-sharing options; and career flexibility with various points of entry, exit, re-entry over a working career. Flexible work policies also help parents to remain in the labor force, maintain income streams while balancing family responsibilities, and build assets for retirement in their later years.

STRENGTHEN PROGRAMS AND POLICIES FOR VULNERABLE SENIORS

- ***Prevent Further Cuts in Senior Services***
  Counter-cyclical spending cuts are forcing vulnerable seniors to pay for new expenses that were formerly covered by the state, just at a time when their household finances and retirement savings are facing greater uncertainty due to the economic crisis. For example, the Prescription Advantage program, a state program which provides supplemental drug coverage for seniors with Medicare prescription plans has been cut significantly to achieve budget savings for the state. In order for the seniors and the state's residents to be able to get by in these tough economic times, the state must resist the urge to further burden families with the new costs. The economic stimulus plan, which provides new funding to states for a variety of programs, provides an opportunity to strengthen valuable programs for older adults.

- ***Ensure Housing Options and Access to Subsidies for Renters***
  Many of our programs for seniors to reduce the burden of housing costs in the state target homeowners and help reduce the burden of property taxes, while programs for renters are accessible to fewer households. Our analysis reveals a significant gap between older owners and renters in Massachusetts in terms of security. Years of continual underfunding of housing programs at the federal level that help to reduce costs for renters has led to much

more demand for services than existing programs can provide. Many senior households living in subsidized rental units are facing possible increases in rent to market rate as the 30-40 year term restrictions on privately developed project-based rental assistance units expire. Also, many of the units administered by local public housing authorities are falling into disrepair which in some cases has resulted in their demolition. State policymakers should promote the maintenance and possible expansion of existing subsidized housing units for seniors as well as increase access to voucher programs for those in need. Lawmakers will need to ensure that housing options for low-income older renters remain in place if we are to protect future low-income seniors from housing insecurity.

PREPARE FOR RETIREMENT

- ***Institute Financial Education Programs for All Ages***
  Given the importance of both structural supports and individual empowerment, programs that help households to learn about their finances in preparing for retirement and manage their resources are crucial for long-term financial stability. Age-appropriate financial literacy education should be part of programs for youth, adults planning for retirement, and seniors to assist individuals and families to navigate the many choices that exist for financial planning. These types of programs are important for empowering people of all ages to be able to plan for long-term financial stability.

- ***Focus on Preparing Singles for Later Life***
  Single seniors, mostly older women, are most at risk for long-term economic security. Programs on financial education need to educate women and couples about survivor pensions and how career and family choices impact retirement resources in order to facilitate planning for adequate financial resources for women and men, should they survive their spouses.

IMPROVE QUALITY OF DATA SOURCES AT STATE LEVEL

- Our national analysis was conducted using the Consumer Expenditure Survey (CEX) which is a national survey that focuses on spending patterns and budgets of families. This state-level analysis uses the Survey of Income and Program Participation (SIPP), which has better information on asset holdings of families, but is weak on expenditures. The SIPP allows us to examine a sample of Massachusetts seniors, but the data is incomplete on some measures which we imputed using the CEX. State-level data, including those collected by state agencies, should be made available to capture the overall financial stability of senior households, and additional data collection resources and opportunities should be identified. An excellent example of longitudinal data that provides state-level information is the Wisconsin Longitudinal Study.

COLLABORATE WITH FEDERAL POLICYMAKERS ON SUBSTANTIVE NATIONAL POLICY CHANGES

Our national report highlights several federal policy changes that will be important to reinforce the economic security of current and future retirees.[17] These national policies should be promoted in combination with the state-level recommendations of this report in order to enhance the economic security of seniors in the state. Important policy reforms that must be addressed at the federal level include:

▹ ***Strengthen Social Security, especially for vulnerable groups***
Given the level of critical support that Social Security provides to Massachusetts seniors, state policymakers have a vital interest in working with federal policymakers to ensure the future of the program. Not only do we need to make sure to maintain this successful program—the strongest leg in the retirement security stool—as a secure income source for seniors, we also need to strengthen it for vulnerable groups, such as life time low-income earners and people with sporadic attachment to the labor market due to care giving and other responsibilities.

▹ ***Strengthen Pension Provisions***
As employer-based pensions have become less common and less secure with the shift from defined-benefit to defined-contribution pensions, bolstering the pensions system should be a policy goal. Government interventions are needed to secure the stability of existing pensions, provide incentives for more employers to offer pension benefits, and to ensure the stability of employer and employee investments.

▹ ***Control Escalating Healthcare Expenses***
Control the escalating healthcare expenses for seniors by addressing the Medicare Crisis as part of reform of the entire healthcare system. Healthcare spending, including Medicare and Medicaid expenses, consumes a prominent and growing proportion of the national budget. Without attention to healthcare access and affordability for families of all ages, progress in all other areas of retirement stability will be negated.

▹ ***Institute Long-Term Care Insurance***
The adoption of federal long-term care insurance would spread one of the major risks of financial insecurity among all U.S. citizens and would be a major step in reducing the financial burdens of long term care services.

Conclusions

Even though today's seniors present a best-case scenario in many ways compared to younger cohorts, many face real economic challenges based on the data presented here. Future retirees will be worse off, unless we attend to policies that grow and stabilize their resources for the future, and combat the rising costs of essential expenses for seniors. Policymakers have an opportunity to reaffirm their commitment to ensure that elders have the resources to live without fear of poverty. Building on past commitments to our elders, we must strive to construct a new retirement security system of the 21st century that meets the needs of Massachusetts' diverse and aging population.

The economic security of our seniors in Massachusetts should be of interest to all policymakers, community members and individuals who care about the welfare of the residents of the state. Postponing action is a recipe for increasing the economic vulnerabilities of current and future seniors. If you are not a senior today, you likely will be one in the future. Policy can help each of us prepare better for our later years, while providing structural supports which shape our options for retirement security. The recommendations presented in this report will help us to curtail growing insecurity among the elderly and reinforce our social contract for upcoming generations of Massachusetts seniors. Living longer on less should not be the only option we have for our retirement years. The time is now for policy to reverse unfavorable trends and to develop a new social contract for seniors that meets modern needs and goals.

Endnotes

1. The complexity of this task requires a number of assumptions, which we will clarify in the text.
2. U.S. Census Bureau, *State and County Quick Facts*. http://quickfacts.census.gov/qfd/states/25000.html (accessed February 22, 2008).
3. American Chamber of Commerce Research Association (ACCRA), *ACCRA Cost of Living Index (COLI)*. www.coli.org (accesses March 5, 2009).
4. Ibid.
5. Alicia H. Munnell et al., *The Graying of Massachusetts: Aging, The New Rules of Retirement, and the Changing Workforce* (Boston, MA: MassINC, June 2004). http://www.massinc.org/index.php?id=216&pub_id=8 (accessed March 5, 2009), p. 9.
6. The complexity of this task requires a number of assumptions which we will clarify in the text.
7. Laura Henze Russell, Ellen A. Bruce, and Judith Conahan, *Elder Economic Security Initiative: The Elder Economic Security Standard for Massachusetts* (Boston, MA: John W. McCormack Graduate School of Policy Studies, University of Massachusetts, Boston and Wider Opportunities for Women, December 2006).
8. Ibid.
9. Center for Retirement Research, Boston College, *Special Projects: National Retirement Risk Index*. http://crr.bc.edu/special_projects/national_retirement_risk_index.html (accessed February 22, 2009).
10. In order to obtain a larger cross section of Massachusetts seniors we combined data from the 2001 and 2004 panels of the SIPP. We used month four of Wave 9 of the 2001 panel and Wave 3 of the 2004 Panel, which cover the time periods of September-December 2003 and September-December 2004 respectively. All data from the 2001 panel was adjusted for CPI to account for the fact that the data was collected a year earlier than the data from the 2004 panel.
11. Robyn I. Stone, *Long-Term Care for the Elderly with Disabilities: Current Policy, Emerging Trends, and Implications for the Twenty-First Century* (New York, NY: Milbank Memorial Fund, 2000). http://www.milbank.org/reports/0008stone/LongTermCare_Mech5.pdf (accessed March 9, 2009).
12. Ari Houser, Wendy Fox-Grage, Mary Jo Gibson, *Across the States: Profiles of Long-Term Care and Independent Living*, 8th ed. (Washington, DC: AARP Public Policy Institute, 2009), p. 165.
13. Ibid.
14. Social Security Administration (SSA), *Actuarial Publications: Period Life Table*. http://www.ssa.gov/OACT/STATS/table4c6.html (accessed March 3, 2009).
15. We also ran the data using the criteria for the full index Assets plus at least one other factor which yielded slightly higher levels of security and much higher levels of risk. We decided to base the Index on the more conservative approach of Assets plus two additional factors for overall economic security and risk.
16. Douglas Rice and Barbara Sand, *Decade of Neglect has Weakened Federal Low-Income Housing Programs: New Resources Required to Meet Growing Needs* (Washington, DC: Center on Budget and Policy Priorities, February 2009), p. 3.
17. Tatjana Meschede, Thomas M. Shapiro, and Jennifer Wheary, *Living Longer on Less: The New Economic (In)Security of Seniors*, (Waltham, MA: Institute for Assets and Social Policy, Brandeis University and Dēmos, January 2009).

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BOOKS

- *The Hidden Cost of Being African-American: How Wealth Perpetuates Inequality*, Thomas, Shapiro, (Oxford University Press, 2004)

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