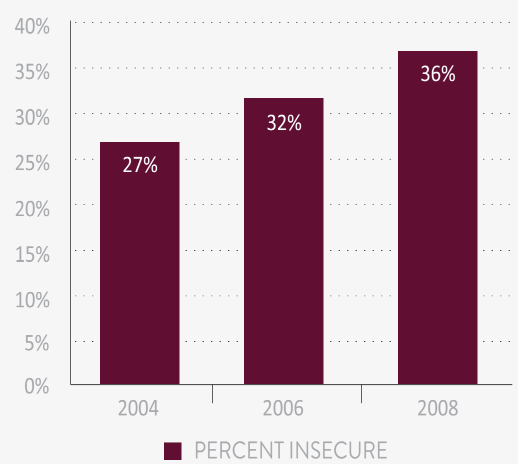
FROM BAD TO WORSE: SENIOR ECONOMIC INSECURITY ON THE RISE

Tatjana Meschede
Laura Sullivan
Thomas Shapiro

The fear of poverty and outliving one's resources is an increasingly common experience among today's senior citizens. For millions of American seniors this fear is justified. In only four years, the number of seniors at risk of outliving their resources increased by nearly 2 million households. Using the Senior Financial Stability Index, economic insecurity among senior households increased by one-third, rising from 27 percent to 36 percent from 2004 to 2008 (see Figure 1). This steady and dramatic increase occurred even before the full force of the Great Recession hit. With effects of the recession impacting all demographic groups, economic security of seniors has deteriorated further.

FIGURE 1. ECONOMIC INSECURITY AMONG ALL SENIORS 2004-2008



KEY FINDINGS

The Senior Financial Stability Index (SFSI) projects essential needs over the life course and assesses available resources to meet those needs. Analysis using the SFSI reveals dramatic increases in economic insecurity in recent years:

- Economic insecurity among senior households increased by one-third between 2004 and 2008, from 27% to 36%.
- Lack of sufficient assets, rising housing costs and fixed budgets not meeting essential expenses are the major drivers of the increase in economic insecurity.
- About half of all senior households of color and senior single women households are economically insecure.

THE SFSI WAS DEVELOPED AT THE INSTITUTE ON ASSETS AND SOCIAL POLICY IN 2008. THE FIRST PUBLISHED FINDINGS USING THE INDEX WERE PRESENTED IN THE 2009 REPORT, "LIVING LONGER ON LESS: THE NEW ECONOMIC (IN)SECURITY OF SENIORS," BY TATJANA MESCHEDE, THOMAS M. SHAPIRO, AND JENNIFER WHEARY.

Contrary to the popular belief that seniors have ample time and resources for a fulfilling retirement, objective measures show a dramatically different story. In fact, more than one of every three seniors (36 percent) is economically insecure today as measured by the Senior Financial Stability Index (SFSI, see more details on page 5). Combined with the 40 percent of senior households that are financially vulnerable (neither secure nor insecure according to the Senior Financial Security Index), **three-quarters of all senior households find themselves in an economically precarious position** with little or no buffer against financial ruin should they be faced with an unexpected illness or other traumatic life event.

THE TRENDS ARE CLEAR; THE COSTS ASSOCIATED WITH GETTING OLDER ARE RISING WHILE THE RESOURCES TRADITIONALLY AVAILABLE TO PAY FOR THESE "GOLDEN YEARS" ARE BECOMING EVER MORE TENUOUS.

Ultimately, the challenge of growing older today is one of balancing fixed or declining resources with rising costs and future unknowns—the inevitable but unknowable risks that lay down the road. The unknowns are many. Some come out of the blue, like a catastrophic illness or the death of a spouse, while others are consequences of our political environment and policy choices. For the many economically insecure seniors, experiencing just one of these possible risks tips the delicate balance from just making ends meet into economic hardship and poverty.

Being economically insecure means making tough choices every day between competing essential needs: Will I be able to buy food if I purchase my medications? If I ignore the leaky faucet again this month, will I be able to afford to heat my home in winter or use the A/C when the temperatures begin to rise? Ignoring the daily essentials can hasten traumatic health events, leading to expensive long-term hospitalizations or nursing home care.

These costs in turn are either born by family members, decreasing their economic prospects, or are passed along in the form of higher health costs and insurance premiums. Either way, we pay, as individuals and as a society.

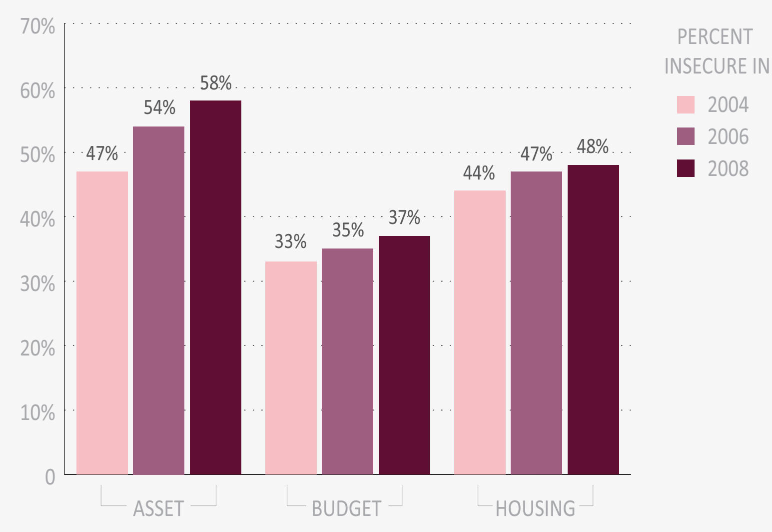
WHAT'S DRIVING THE TRENDS?

The trend toward increasing economic insecurity is driven by three factors: declining household assets, inadequate household budgets, and increasing housing costs (See Figure 2).

- **Retirement asset insecurity saw the highest percentage point increase over the four-year study period, with an 11 percentage point growth among those insecure (from 47 to 58 percent).**

In addition to being the factor in which the highest percentage of households are economically insecure, retirement assets are crucial to long-term economic security. Absent employment income, and with private savings such as 401(k) plans replacing defined benefit pension income streams, asset wealth has become increasingly vital to fill the gap between Social Security income and living expenses.

FIGURE 2. ASSET, BUDGET, AND HOUSING INSECURITY AMONG ALL SENIOR HOUSEHOLDS, 2004-2008



- **Thirty-seven percent of senior households in 2008 had a zero or negative budget balance after paying for essential needs.**

Budgets are increasingly stretched thin. Increasing costs of bare bones essentials, whether they are related to housing, healthcare, food, transportation or utilities, can rapidly reduce or deplete fixed income streams and asset wealth. A senior household is clearly economically insecure when it spends more than comes in, leaving the household with no additional resources to cover expenses that are not essential.

- **One in two senior households was financially burdened due to housing expenses according to the federal standard in 2008; meaning, 30 percent or more of their annual income was spent on housing. This number increased four percentage points in four years.**

While many seniors have equity in their homes, those who do not own and those with older homes that require substantial maintenance remain burdened by housing costs. The trends show that real household resources available to seniors were declining rapidly even before the largest effects of the recent recession were felt, and household expenses have become increasingly burdensome.

WHO IS CAUGHT IN THE TRENDS?

All seniors are affected by these trends but some groups are more vulnerable than others. Close to half (47 percent) of single female seniors are economically insecure, while more than half of all seniors of color do not have the resources required to support themselves over the remainder of their lives (See Figure 3).

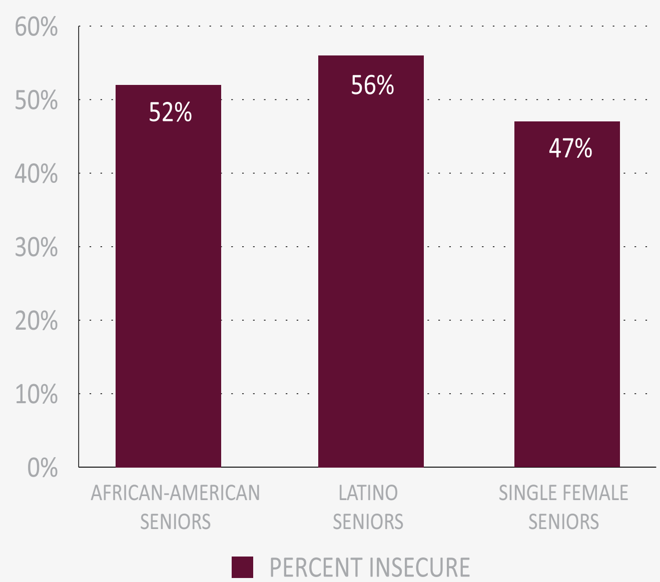
- **Fifty-two percent of African-American and 56 percent of Latino senior households are economically insecure.**

Historical inequalities in opportunities for work, education and even access to Social Security were the norm when today's seniors of color were entering the workforce. While we should not underestimate the progress that has been made to remedy such inequalities, their legacies remain. People of color remain less likely to receive pension benefits from their employers and most have very little, if any, asset wealth—a crucial factor for a secure retirement. These trends have long-term ripple effects that impact the ability of future generations to get ahead.

- **Older single women are particularly vulnerable, with 47 percent at risk of outliving their savings.**

While senior women can expect to live longer than men on average, their ability to amass adequate retirement resources is often limited. Thus, the often meager resources they do have must be stretched farther. Women still make less than men on average, are more likely to have extended interruptions in their careers to handle family caregiving duties, and are less likely than men to have family income from pensions. Social Security is critical for older women; many rely almost exclusively on Social Security benefits to make ends meet.

FIGURE 3. ECONOMIC INSECURITY AMONG AFRICAN AMERICAN, LATINO AND SINGLE FEMALE SENIORS



REVERSING NEGATIVE TRENDS: HOW CAN THE PROSPECTS FOR TOMORROW'S SENIORS BE IMPROVED?

Our findings show that many of America's current seniors struggle just to make ends meet, and their economic prospects are declining year after year. If current trends persist, we can expect the economic status of tomorrow's seniors to be even worse.

In addition to rising costs of essential needs, especially health care and housing, today's 50-year-olds are much less likely than current seniors to have a defined benefit pension that would provide a life-long secure income. Many of today's workers are not offered a retirement account of any kind, and for those who do have an employer-sponsored 401(k) or other defined contribution plan, most are woefully underfunded. Social Security remains the primary source of income for most retirees and is the only secure resource guaranteed to provide income throughout retirement for many households.

Although many of the challenges that we inevitably confront cannot be predicted, particularly as we grow older, the economic prospects of current and future seniors can be improved by strengthening those policies established to insure against such risks. Important steps can be taken to protect all of us against economic vulnerability during our "golden years." Discussions in Washington are dominated by those who believe the only way to reduce the deficit is by dramatically altering Medicare and Social Security. Already, cash-strapped states have reduced or eliminated funding for vital senior services that prevent or delay the need for more expensive hospitalizations and levels of care, such as adult day care and in-home services. Such actions will only worsen current trends and will further undermine the economic prospects of future seniors. The trends documented in this report are on the side of greater insecurity, not prosperity, but with policies and interventions designed to boost incomes and reduce expenses, the trends can be reversed.

Here's what we can do:

- Strengthen Social Security for vulnerable groups, such as low-income earners and those with sporadic attachment to the labor market due to caregiving and other responsibilities.

- Strengthen pension provisions to ensure the stability of employer and employee investments.

- Increase asset building opportunities throughout the life-course.

- Encourage flexible employment options for older workers to ease the transition to retirement.

- Support a strong Community Living Assistance Services and Supports program (CLASS Act) to enable working adults the opportunity to plan for future long-term care needs, such as in-home services, adult day health or institutional care.

- Expand programs that reduce housing expenses for vulnerable seniors, such as utility assistance and rental housing vouchers.

THE SENIOR FINANCIAL STABILITY INDEX (SFSI)

Unlike traditional measures of poverty (e.g. the federal poverty guideline), the SFSI recognizes that economic well-being is multifaceted and cannot be adequately measured by a single aspect of a household's resources. Thus, the SFSI incorporates five key factors that impact economic security: retirement assets, household budget, healthcare expenses, home equity, and housing costs. By this measure, a household is deemed to be secure if it meets the security threshold for the asset factor plus two of the four additional factors. Conversely, a household is insecure when it is insecure in the asset factor, as well as two other factors. Table 1 shows the thresholds on the secure to insecure continuum for each of the five factors of the SFSI.

Consumer Expenditure (CE) Survey data were primarily used for this analysis. However, the CE data were found to underestimate retirement assets; therefore Health and Retirement Study (HRS) data were substituted to predict asset wealth. This strategy, which differs from previous estimates in the "Living Longer on Less" series, offers a more conservative estimate of retirement asset security.

Inclusive of both the resources available to seniors and the largest expenditures, the SFSI offers a comprehensive framework to assess the strengths and vulnerabilities of economic security among older Americans over their life-course and illuminates policy areas that can strengthen (or undermine) their well-being.

TABLE 1. THE SENIOR FINANCIAL STABILITY INDEX

	THRESHOLDS FOR SENIOR ECONOMIC SECURITY	
FACTOR	**SECURE**	**INSECURE**
Retirement 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.
Budget	$10,000 or more after annual essential expenses	Insecure when budget at zero or negative after essential expenses
Health	Medical expenses, including supplemental health insurance, less than 10 percent of total before tax income	Medical expenses, including supplemental health insurance, 15 percent or more of total before tax income
Home Equity	Home equity of $75,000 and above	Renter/no home equity
Housing	Housing consumes 20 percent or less of income	Renter/no home equity
SFSI	Asset secure plus security in at least two other factors	Asset insecure plus insecurity in at least two other factors

ABOUT DĒMOS

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world. Dēmos was founded in 2000.

In 2010, Dēmos entered into a publishing partnership with The American Prospect, one of the nation's premier magazines focusing on policy analysis, investigative journalism and forward-looking solutions for the nation's greatest challenges.

ABOUT IASP

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 policy makers, 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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THIS RESEARCH IS SUPPORTED BY A GRANT FROM ATLANTIC PHILANTHROPIES AND IS THE FOURTH IN THE "LIVING LONGER ON LESS" SERIES OF REPORTS PROVIDING DETAILED ANALYSES ON RISING ECONOMIC INSECURITY AMONG AMERICAN SENIORS.

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DĒMOS
220 Fifth Avenue, 2nd Floor
New York, New York 10001
Phone: (212) 633-1405
Fax: (212) 633-2015
info@dēmos.org

MEDIA INQUIRIES
Tim Rusch
Communications Director
trusch@dēmos.org
(212) 389-1407

CONNECT WITH US
WWW.DEMOS.ORG

@DEMOS_ORG
FACEBOOK.COM/DEMOSIDEASACTION

IASP
INSTITUTE ON ASSETS & SOCIAL POLICY

INSTITUTE ON ASSETS & SOCIAL POLICY
Brandeis University
415 South Street, MS-035
Waltham , MA 02454-9110
phone (781) 736-8685

CONTACT
Tatjana Meschede
Research Director
meschede@brandeis.edu
(781) 736-8685