

Chapter 4. Economic Characteristics

Older people have different labor force participation patterns than younger people, and their work and retirement trends vary by age, sex, race, and Hispanic origin. This chapter discusses the economic characteristics of the older population in five sections: work and retirement, income, poverty, household wealth, and housing.

Work and Retirement

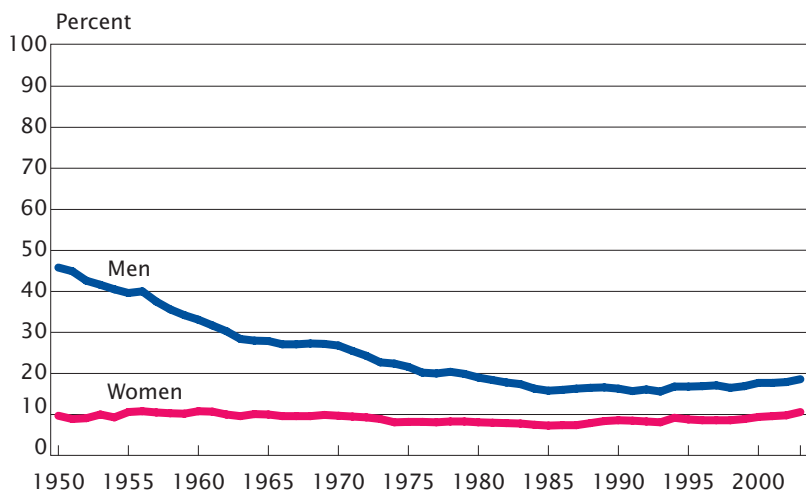
Labor Force Participation Trends

During the past half-century, for the U.S. population as a whole, labor force participation rates of men have fallen, while women's have increased (Fullerton, 1999).^{1, 2} The labor force participation rates of older men and women have also followed divergent trends.

¹ The Bureau of Labor Statistics defines the civilian labor force participation rate as the percentage of the civilian noninstitutionalized population aged 16 and over that is either employed or unemployed. People are classified as employed if they "(a) did any work as paid employees, worked in their own business or profession or on their own farm, or worked 15 hours or more as unpaid workers in an enterprise operated by a member of their family, or (b) were not working but had jobs from which they were temporarily absent." People are classified as unemployed "if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work." For more information on how the labor force components are defined, see Bureau of Labor Statistics, 2003a.

² Some economists maintain that labor force participation rates for older men began falling much earlier, such as in the late 19th century. For an example, see Costa, 1998.

Figure 4-1.
Labor Force Participation Rates for the Population Aged 65 and Over by Sex: 1950 to 2003



Note: The reference population for these data is the civilian noninstitutionalized population.
Source: Bureau of Labor Statistics, 2004a. For full citation, see references at end of chapter.

The percentage of men aged 65 and over who were in the labor force fell during the second half of the 20th century from 45.8 percent in 1950 to 18.6 percent in 2003 (Figure 4-1). The decline was not constant during this time. Between 1950 and 1985, the rate dropped 30 percentage points—from 45.8 percent to 15.8 percent—while from 1985 to 1993 it remained unchanged, and thereafter increased to 18.6 percent in 2003. Labor force participation rates for older women, on the other hand, changed so little that the apparent difference between the 2003 rate of 10.6 percent and the 1950 rate of 9.7 percent is not statistically significant.

Older men's and women's labor force participation rates have converged over the past decades. Figure 4-2 demonstrates the percentage-point difference between men and women for those aged 55 to 64 and those 65 and over. In 1950, the rate of men aged 55 to 64 was 59.9 percentage points higher than that of women in the same age group. Thirty years later, this gap had narrowed by about half, to a 30.8 percentage-point difference. By 2003, the gap was 12.1 percentage points.

The gender gap for workers 65 and over also narrowed from 1950 to 1990, with the 1990 gender difference (7.7 percentage points)

about one-fifth of the 1950 difference (36.1 percentage points). The gender gap did not change from 1990 to 2003.

Researchers point out that labor force participation decisions at older ages are influenced by many factors, such as macroeconomic trends, government policy, pension benefits, and similar factors that affect most individuals' personal financial situations. Fullerton and Toossi (2001, p. 27) explained the association between trends in men's labor force participation rates and the availability of pensions and disability awards:

Prior to 1980, the decreases in the labor force participation rates of older men reflect the increased availability of pensions and disability awards. The decrease in participation over the 1950–80 period for men 65 and older was 26.8

percentage points, with most of the decrease occurring in the 1950s. During the 1970s, the Social Security payments were over-adjusted for inflation and the decrease in labor force participation for men 65 and older was greater than that in the 1960s. The decrease in

participation was much lower in the 1980s, after the inflation adjustment procedure was changed. By the 1990s, participation increased for this group of older men.

Labor force participation rates for older men across race and

Table 4-1. **Gender Gap in Labor Force Participation Rates for the Older Population by Age: 1980 to 2003¹**

(In percentage points)

Age	1980	1990	2000	2003	
				Percentage point	90-percent confidence interval
65 and over	10.9	7.7	8.1	8.0	7.3–8.7
65 to 69	13.4	9.0	10.7	10.1	8.4–11.8
70 to 74	10.5	7.2	8.0	7.6	6.2–9.0
75 and over	6.3	4.4	4.5	4.2	3.5–4.9

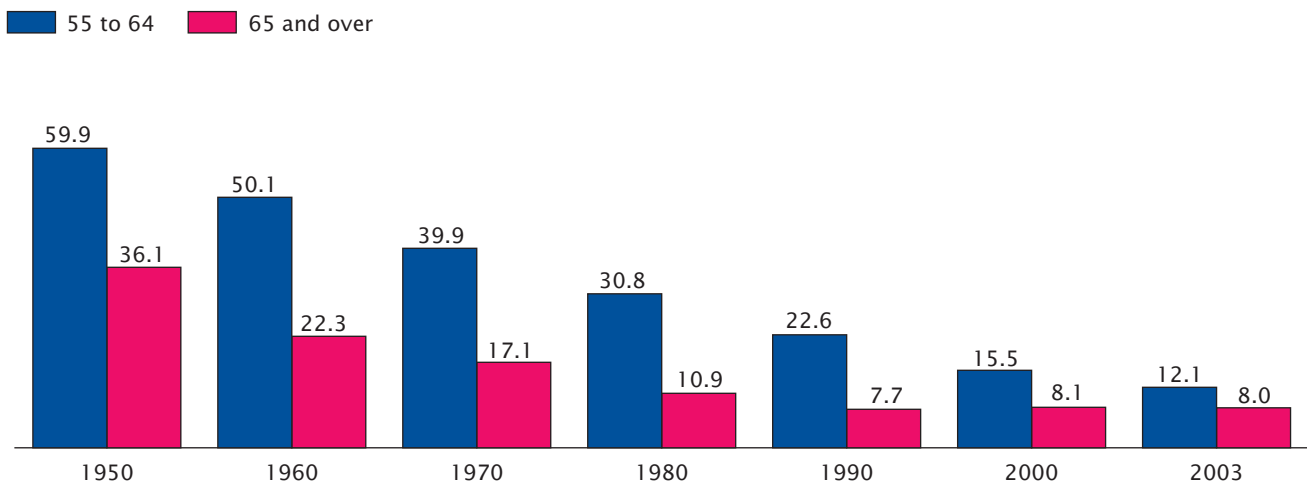
¹ The gender gap is the percentage-point difference (men minus women) in the labor force participation rate.

Note: The reference population for these data is the civilian noninstitutionalized population.

Sources: 1980 and 1990, Bureau of Labor Statistics (BLS), 2003c; 2000, BLS, 2003d; 2003, BLS, 2004a. For full citations, see references at end of chapter.

Figure 4-2. **Gender Gap in Labor Force Participation Rates by Age: 1950 to 2003¹**

(In percentage points)



¹ The gender gap is the percentage-point difference between men's labor force participation rate and women's labor force participation rate.

Note: The reference population for these data is the civilian noninstitutionalized population.

Sources: 1950 to 1990, Fullerton, 1999, Table 1; 2000, Bureau of Labor Statistics (BLS), 2003b; 2003, BLS, 2004a. For full citations, see references at end of chapter.

Hispanic-origin groups did not differ statistically in 2003. The same is true for older women, although older men had higher rates than older women for each group. In 2003, 18.7 percent of older non-Hispanic White men were in the labor force, compared with 10.8 percent of older non-Hispanic

White women.³ Similarly, 20.3 percent of older Asian men were

³ The term non-Hispanic White is used to refer to people who reported being White and no other race and who are not Hispanic. The term Black is used to refer to people who reported being Black or African American and no other race, and the term Asian is used to refer to people who reported being Asian and no other race. The use of single-race populations in this report does not imply that

in the labor force, compared with 8.7 percent of older Asian women (Table 4-2, Figure 4-3).

this is the preferred method of presenting or analyzing data. The Census Bureau uses a variety of approaches.

The term Hispanic is used to refer to people who are Hispanic or Latino. Hispanics may be any race.

Table 4-2.
Labor Force Participation Rates of the Population Aged 50 and Over by Age, Sex, Race, and Hispanic Origin: 1980 to 2003

(In percent)

Race and Hispanic origin	Men				Women			
	1980	1990	2000	2003	1980	1990	2000	2003
All Races								
50 to 54	89.3	88.8	86.8	86.0	57.8	66.9	74.1	74.7
55 to 59	81.7	79.9	77.1	77.6	48.5	55.3	61.2	65.5
60 to 64	60.8	55.5	54.8	57.2	33.2	35.5	40.1	45.3
65 and over	19.0	16.3	17.5	18.6	8.1	8.6	9.4	10.6
65 to 69	28.5	26.0	30.1	32.8	15.1	17.0	19.4	22.7
70 to 74	17.9	15.4	17.9	18.8	7.5	8.2	9.9	11.2
75 and over	8.8	7.1	8.0	8.3	2.5	2.7	3.5	4.1
Non-Hispanic White¹								
50 to 54	90.1	90.0	91.8	87.4	57.9	68.0	75.8	76.9
55 to 59	82.8	80.9	80.2	78.7	48.4	56.4	62.9	67.4
60 to 64	61.7	56.5	56.0	58.0	33.1	36.1	41.8	46.9
65 and over	19.1	16.8	17.9	18.7	8.0	8.5	9.5	10.8
65 to 69	28.6	26.8	30.6	33.4	14.9	17.2	20.0	23.6
70 to 74	18.2	15.8	18.2	19.5	7.5	8.0	10.4	12.0
75 and over	8.8	7.4	8.4	8.4	2.5	2.6	3.5	4.2
Black¹								
50 to 54	80.7	79.7	77.7	76.3	57.6	66.7	71.4	71.1
55 to 59	70.2	67.2	67.2	67.5	52.5	51.7	59.7	59.8
60 to 64	51.2	47.4	44.2	46.7	35.6	34.3	34.6	41.8
65 and over	16.8	13.0	14.2	17.0	9.9	9.9	9.9	10.3
65 to 69	25.3	19.1	21.5	28.1	18.7	17.7	19.0	21.2
70 to 74	16.2	14.2	14.1	16.2	7.9	9.8	7.5	8.3
75 and over	6.7	4.9	6.7	7.4	2.5	3.2	4.2	4.3
Asian and Others^{1,2}								
50 to 54	85.7	86.8	86.9	90.9	59.8	66.8	66.0	75.2
55 to 59	77.8	80.6	77.5	83.2	50.0	56.5	58.4	64.0
60 to 64	71.0	62.8	60.7	70.4	31.8	30.3	39.0	41.5
65 and over	22.5	15.1	19.3	20.3	8.5	8.9	8.5	8.7
65 to 69	30.2	25.0	35.9	37.6	17.0	14.6	13.7	19.0
70 to 74	26.5	11.1	17.4	13.1	2.5	7.6	7.4	5.3
75 and over	9.5	6.3	4.9	8.8	4.1	2.9	4.4	3.0
Hispanic (Any Race)								
50 to 54	91.5	86.4	85.6	83.3	55.7	53.9	66.1	60.7
55 to 59	84.0	78.0	79.3	77.1	39.6	46.3	48.6	55.8
60 to 64	57.7	52.8	56.6	57.5	28.0	31.1	32.2	35.6
65 and over	20.6	14.0	18.2	17.4	5.5	7.2	7.8	9.4
65 to 69	33.1	22.4	31.6	27.7	9.9	12.1	16.2	18.1
70 to 74	16.3	9.6	18.8	15.4	4.9	8.5	8.5	8.8
75 and over	7.4	5.6	8.3	9.1	0.7	1.3	3.0	2.8

¹ Data for 2003 are for single-race groups; i.e., people who reported only one race, and therefore are not comparable to data shown for previous years.

² Data for Asians and others include Asians and other race groups not shown in table; data for 2003 are for Asian alone, not Asian and others.

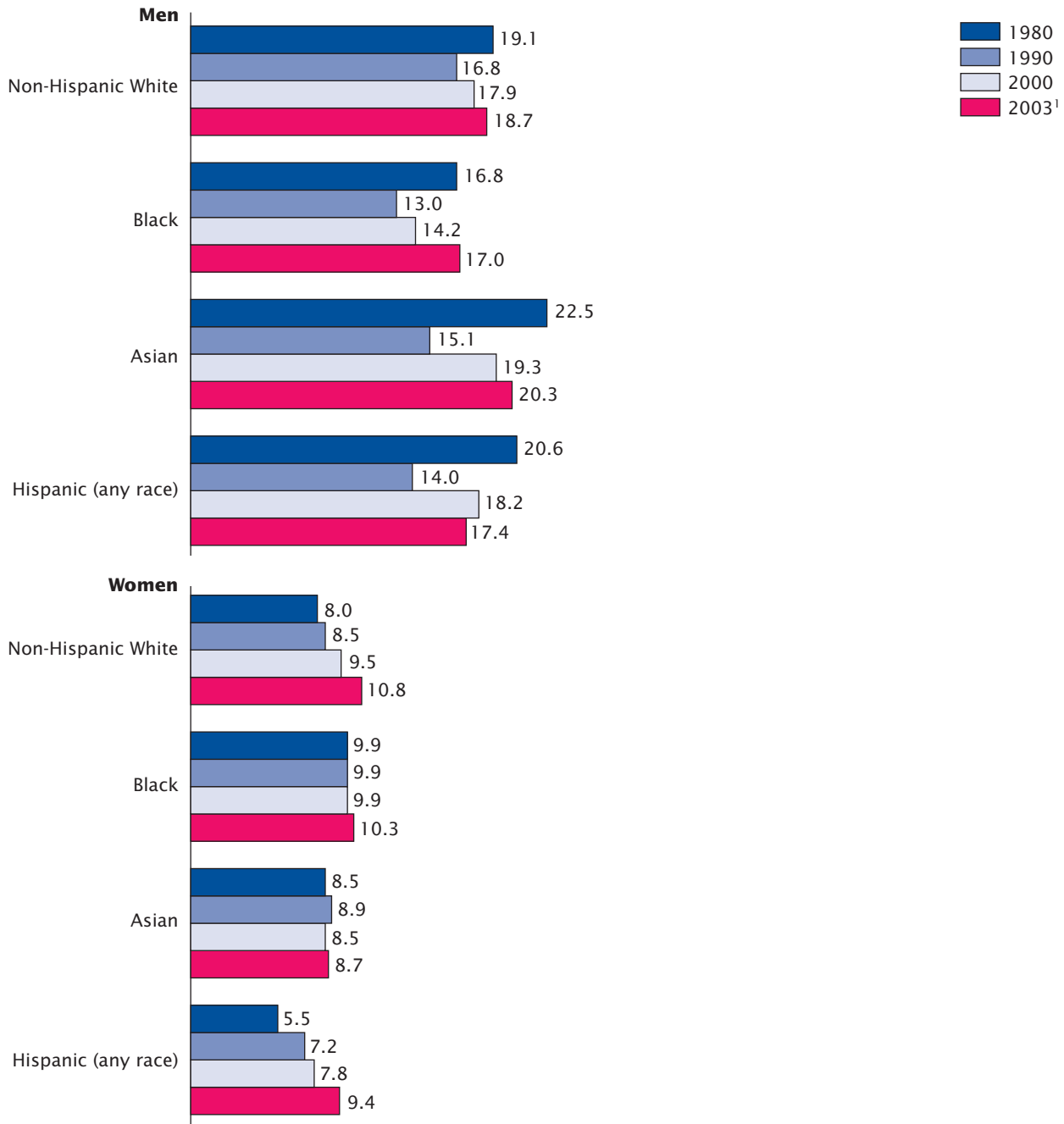
Note: The reference population for these data is the civilian noninstitutionalized population.

Sources: 1980 and 1990, Bureau of Labor Statistics (BLS), 2003c; 2000, BLS, 2003d; 2003, BLS, 2004a. For full citation, see references at end of chapter.

Figure 4-3.

Labor Force Participation Rates for the Population Aged 65 and Over by Sex, Race, and Hispanic Origin: 1980, 1990, 2000, and 2003

(In percent)



¹ Data for 2003 are for single-race groups; i.e., people who reported only one race, and therefore are not comparable to data shown for previous years.

Note: The reference population for these data is the civilian noninstitutionalized population.

Sources: 1980 and 1990, Bureau of Labor Statistics (BLS), 2003c; 2000, BLS, 2003d; 2003, BLS, 2004a. For full citations, see references at end of chapter.

Age Structure of the Labor Force

The age structure of the labor force changes over time. Figure 4-4 shows the distribution of the labor force by age in 1950, 2000, 2003, and 2020. In 1950, people aged 55 to 64 represented 12.3 percent of the labor force, and people 65 years and older accounted for 4.9 percent. In 2003, the labor force was younger; while the share of the labor force aged 55 to 64 did not differ statistically, at 11.8 percent, the proportion of older people (aged 65 and older) declined to 3.3 percent. Projections indicate that by 2020, when all Baby Boomers will be 55 years or older, people in the 55-to-64 age group will represent 15.3 percent of the labor force, and those in the 65-and-older age group will account for 5.0 percent.

The median age of the labor force is another indication of how old the workforce is and will be in the future. According to Fullerton and Toossi (2001), the median age of the labor force was 40.5 years in 1962, the highest level attained before the Baby Boomers entered the labor force. It dropped steadily until 1980, and since then it has been rising, to 36.6 in 1990 and 39.3 in 2000. The median age is expected to return to its 1962 level, 40.6 years, in 2010.

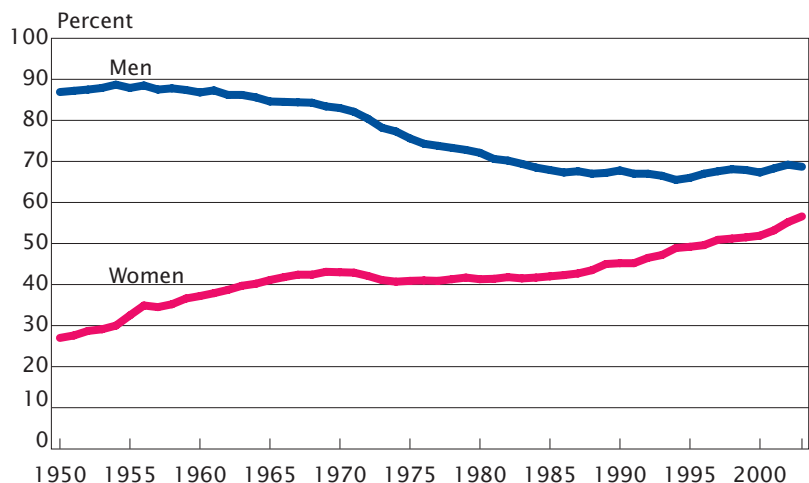
The labor force participation of the “near-old” population (people aged 55 to 64) can indicate early retirement trends and other work patterns. The labor force participation rate for men aged 55 to 64 dropped about 20 percentage points from 1950 to 2003 (Figure 4-5). During that time, it increased from 86.9 percent in 1950 to 88.5 percent in 1956, and then dropped to 68.7 percent in 2003.

Figure 4-4.
**Percent Distribution of the Labor Force by Age:
1950, 2000, 2003, and 2020**



Note: The reference population for these data is the civilian noninstitutionalized population.
Sources: 1950, 2000, and 2020, Toossi, 2002, Table 5; 2003, Bureau of Labor Statistics, 2004a. For full citations, see references at end of chapter.

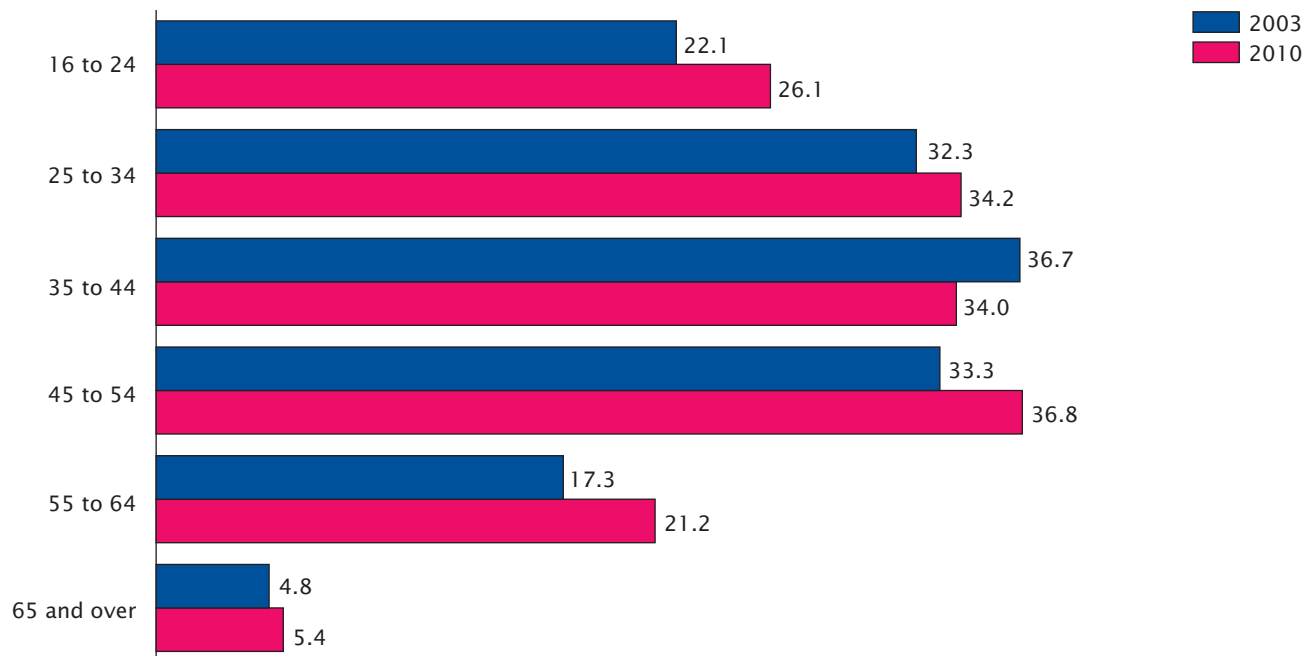
Figure 4-5.
**Labor Force Participation Rates for the Population
Aged 55 to 64 by Sex: 1950 to 2003**



Note: The reference population for these data is the civilian noninstitutionalized population.
Source: Bureau of Labor Statistics, 2004c. For full citation, see references at end of chapter.

Figure 4-6.
Civilian Labor Force by Age: 2003 and 2010

(In millions)



Note: The reference population for these data is the civilian noninstitutionalized population.

Sources: 2003, Bureau of Labor Statistics (BLS), 2004a; 2010, BLS, 2003a. For full citations, see references at end of chapter.

This pattern is different from that of the labor force participation rates for women aged 55 to 64, which has more than doubled from 1950 (27.0 percent) to 2003 (56.6 percent). There was little to no fluctuation in the 1970s (43.1 percent in 1969, 40.7 percent in 1974, and 41.7 percent in 1979), after which the rate increased to 56.6 percent in 2003.⁴

While the labor force participation rates for men aged 55 to 64 recently showed a downward turn and that of women increased, men still participate in the labor force at a higher rate than women. In 1950, 59.9 percentage points separated the labor force participation

⁴ The rate in 1979 does not differ from the rates in 1969 and 1974, while the rate in 1969 is higher than the rate in 1974.

rates of men and women in this age group (86.9 percent and 27.0 percent, respectively). That gap narrowed to 12.1 points in 2003 (68.7 percent for men and 56.6 percent for women), but men's rates were still higher. If the general trends of the past 50 years continue, the rates for men and women aged 55 to 64 may converge in the future.

In 2010, the Baby Boom cohorts will be aged 46 to 64 and will be the primary factor in the growth of the near-old and young-old working populations. As seen in Figure 4-6, the size of the labor force that is aged 45 to 54 and 55 to 64 (spanning the Baby Boom cohorts) will grow by 7.4 million people between 2003 and 2010. The fastest-growing labor force group, people aged 55 to 64, will increase

by over 20 percent by 2010. Although most other age groups will also increase over this same time period (with the exception of people aged 35 to 44 in the labor force, who are expected to see a decrease of 7.3 percent), none will experience an upsurge that rivals that of those aged 55 to 64.⁵ Their decisions about whether to work past age 65 will affect the age composition of the labor force.

Transitions to Retirement

The change from a full-time working career to complete retirement

⁵ The Bureau of Labor Statistics projects labor force participation rates of people aged 65 and older to increase from their 2000 levels of 12.8 percent to 14.0 percent in 2025 (Fullerton, 1999). For a brief debate on whether older people will work more or less in the future, see Steuerle and Carasso, 2001.

is not always accomplished at once; part-time employment or nontraditional work often bridges the move. This transition period can be called partial retirement, and researchers are recognizing it as an important component of an individual's work history. Bridge jobs (transitional stages between career employment and complete retirement) are becoming a more frequent part of the retirement process.⁶ Late-life work patterns take many forms, from a reduction in working hours to self-employment to reverse retirement (when a retired individual reenters the labor market).

Older workers give a variety of reasons for being employed. Many older workers work past full-retirement age because they enjoy their jobs. One study listed the following reasons why people of varying ages worked:

At ages 40–49, workers most often mention (in descending order) the need for money, their enjoyment of working, and the fact that work makes them feel useful. At ages 50–62, the most common reasons are the enjoyment of working and the fact that work makes people feel useful, followed by the need to make money. At age 62+, however, the need for money is a major reason for working for a much smaller percentage of workers; in this group, the enjoyment of working is the most frequently cited reason. (Leavitt, 1996, pp. 25–26.)

⁶ For more information on bridge jobs, see Quinn and Kozy, 1996.

Table 4-3.
Employment Status of the Population Aged 55 and Over by Age and Sex: 2003

(Numbers in thousands)

Age and sex	Total	Employed		Percent employed	
		Total	Percent of population	Full-time	Part-time
Men					
55 to 64	13,305	8,733	65.6	89.6	10.4
65 to 69	4,449	1,397	31.4	65.2	34.8
70 and over	10,047	1,188	11.8	53.3	46.7
Women					
55 to 64	14,423	7,866	54.5	76.1	23.9
65 to 69	5,142	1,119	21.8	50.7	49.3
70 and over	14,616	905	6.2	39.0	60.9

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: Bureau of Labor Statistics, 2004a. For full citation, see references at end of chapter.

Work Status of Older Workers

Table 4-3 shows the employed population aged 55 and older by age and sex in 2003. As shown in the previous section on labor force participation, the percentage of the population that is employed declines as age increases.⁷ In 2003, 65.6 percent of men and 54.5 percent of women aged 55 to 64 worked, compared with 11.8 percent of men and 6.2 percent of women aged 70 and older.

The proportion of older workers who work part-time increases with age for both men and women. Figure 4-7 illustrates the distribution of employed older workers by full-time and part-time work in 2003. The majority of employed men aged 55 to 64 worked full-time (89.6 percent), as did half of employed men aged 70 and older (53.3 percent). Similarly, 76.1 percent of employed women aged 55

⁷ Being employed is different from being in the labor force, which includes both employed and unemployed. Footnote 1 of this chapter defines labor force participation and the classifications of employed and unemployed.

to 64 worked full-time, compared with 39.0 percent of employed women aged 70 and over.

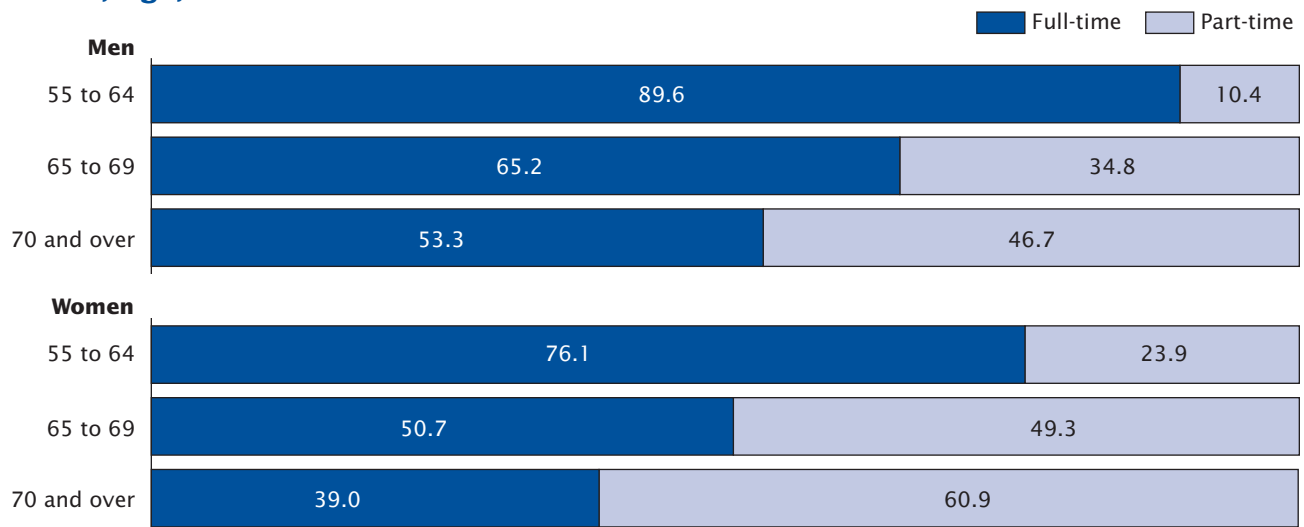
Occupations and Type of Employment

Occupations and type of employment also vary by age. After leaving a career job, many people choose to become self-employed, some turning to an activity that was previously a hobby, while others may work independently in their career field of expertise.⁸ Knapp and Muller (2000) found that older people are more likely than younger people to be engaged in certain kinds of alternative employment arrangements, such as being independent contractors, on-call workers, temporary help workers, and workers provided by contract firms. For example, they found that older workers made up a larger share of independent contractors (7.0 percent) than of workers in traditional arrangements (2.5 percent).

⁸ In the work and retirement literature, career jobs are often defined as full-time jobs held for at least 10 years (Quinn and Kozy, 1996).

Figure 4-7.

Percent Distribution of the Employed Population Aged 55 and Over by Employment Status, Age, and Sex: 2003



Note: The reference population for these data is the civilian noninstitutionalized population.
 Source: Bureau of Labor Statistics, 2004a. For full citation, see references at end of chapter.

Researchers have noted that self-employment in the United States increases with age (Quinn, 1997). In 2003, 10.3 percent of the working population aged 55 to 64 and 14.3 percent of workers 65 and

older were self-employed in non-agricultural industries, compared with 6.8 percent of workers aged 25 to 54 (Table 4-4).

Table 4-4, in which jobs are grouped into four employment

categories—private sector, public sector, self-employment, and agriculture—indicates that age and sex both play a role in the occupational distribution of the population at older ages. In 2003,

Table 4-4.
Employed Population Aged 25 and Over by Employment Type, Age, and Sex: 2003

Employment ¹	Total			Men			Women		
	25 to 54	55 to 64	65 and over	25 to 54	55 to 64	65 and over	25 to 54	55 to 64	65 and over
Numbers (in thousands)									
Total	97,108	16,587	4,601	52,015	8,730	2,583	45,092	7,858	2,018
Private wage and salary	74,503	11,433	3,084	40,826	6,063	1,672	33,676	5,370	1,412
Government wage and salary	14,623	3,076	560	6,168	1,331	270	8,455	1,745	290
Self-employed (non-agriculture)	6,637	1,709	660	4,026	1,063	418	2,611	646	243
Agriculture ²	1,345	368	296	994	272	223	350	96	73
Percent Distribution									
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Private wage and salary	76.7	68.9	67.0	78.5	69.5	64.7	74.7	68.3	70.0
Government wage and salary	15.1	18.5	12.2	11.9	15.2	10.5	18.8	22.2	14.4
Self-employed (non-agriculture)	6.8	10.3	14.3	7.7	12.2	16.2	5.8	8.2	12.0
Agriculture ²	1.4	2.2	6.4	1.9	3.1	8.6	0.8	1.2	3.6

¹ Unpaid family members are not included in this table.

² Agriculture includes wage and salary workers as well as self-employed workers.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: Bureau of Labor Statistics, 2004a. For full citation, see references at end of chapter.

a smaller proportion of workers 65 and older than those aged 55 to 64 worked in the public sector or the private sector, possibly due in part to early retirement opportunities from accrued pensions. On the other hand, a larger proportion of older workers than their younger counterparts were self-employed or worked in the agricultural sector. Older women were more likely than older men to work in both the private and public sectors but less likely to be self-employed or work in agriculture.

The distribution of workers in these occupational categories was not uniform across different age groups. The proportions employed in the private or public sectors were lower among older men than those aged 55 to 64, and the proportions that were in agriculture or were self-employed were higher. The proportions of women aged 55 to 64 and aged 65 and over employed in the private sector were not different, while a smaller proportion of the older group than the younger group was employed by the government. Similar to men, women aged 65 and over were more likely to be self-employed or work in agriculture than those aged 55 to 64.⁹

Researchers point out two complementary factors that explain the higher proportion of workers aged 65 and over that are self-employed (Quinn, 1997). First, people who are self-employed in their career

⁹ This discussion does not follow birth cohorts through time but looks at a snapshot picture of different age groups in 2003. It is assumed that these age cohorts do not follow different work patterns as they age, making it feasible to generalize about work trends as one cohort ages based on the work patterns of the slightly older cohort. The economy might influence work patterns of the older population, and variations such as business cycles are not incorporated into this analysis.

jobs tend to retire later than traditional wage and salary workers. Second, retirees often move into self-employment in their later years as a bridge job between career employment and complete retirement. For older workers who do not want to leave the labor force permanently, self-employment often allows greater flexibility of work arrangements and hours spent at work.

Research that looked extensively at bridge jobs and the type of worker who chooses a bridge job after leaving a career place of employment indicates that women are more likely than men to enter a part-time bridge job (Quinn and Kozy, 1996). Using data from the Health and Retirement Survey (HRS), these researchers found that bridge jobs are less common among Black women than either White or Hispanic women. For men, bridge jobs are more common among Hispanic men than among White or Black men.

Health, Wealth, and Education of Older Workers

Research has found that older workers are relatively healthy, prosperous, and well educated. A recent study found that “workers age 60 and older are half as likely as their nonworking counterparts to report that they are in fair to poor health. They are also almost two times more likely to report that they are in very good to excellent health” (Kilker and Summer, 2000, p. 3). This research also found that older workers have higher family incomes and financial assets than their nonworking counterparts.

Using data from the Current Population Survey (CPS), the HRS, and the Asset and Health Dynamics Among the Oldest Old (AHEAD), Haider and Loughran (2001)

affirmed that health plays an important role in determining whether one participates in the labor force at all ages, and this is true for older workers. Less-healthy older individuals tend to leave the labor force through retirement, disability, or death, which results in a healthier older working population. This study also found that people who remain in the workforce at older ages are likely to have higher levels of education. They noted that data from 1991 to 1999 showed that, on average, labor force participation rates for people aged 50 and older were 23 percent for high school dropouts and 62 percent for those with more than a college-level education.

A similar pattern emerged when looking at wealth. Haider and Loughran found that the median bequeathable wealth of the working population grows with the worker’s age, while the median bequeathable wealth of the nonworking population increases through ages 68 to 70 and then declines. By the ages of 77 to 79, the median bequeathable wealth of those who were working (\$226,500) was more than double that of those who were not working (\$112,300). Older workers may continue to contribute to their savings and pension plans, increasing their bequeathable wealth.

Labor force participation rates between the highest and lowest wealth quintiles grow increasingly disparate as age increases. At ages 65 to 67, the labor force participation is 23 percent in the lowest two quintiles and 26 percent in the highest two quintiles. At ages 77 to 79, they were 9 percent for the highest two quintiles and 5 percent for the lowest two. For older men aged 77 to 79, the difference was larger, at 15 percent compared with

5 percent. Haider and Loughran (2001, p. 11) observed, “noting that these quintiles represent equal population shares, it is evident that labor force participation becomes increasingly concentrated among the wealthiest individuals with age.”

Unemployment

The Bureau of Labor Statistics classifies people as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work (Bureau of Labor Statistics, 2002). A recent study using data from the Displaced Workers Surveys (DWS) found that 3-year average job loss rates for older workers declined during the 1980s, increased from the period of 1989 to 1991, and declined again slowly during the 1990s until the period of 1999 to 2001, when they increased again (Farber, 2003).

Chan and Stevens (2001), using data from the HRS, examined the employment patterns of workers 50 and older who had experienced an involuntary job loss. They found that losing a job at an older age tends to create a long unemployment spell and a low probability of returning to work.

Older people take longer than younger people to find work, and if they are displaced from their jobs, it is harder for older workers to find another job. Statistics show that by January 2002, less than half (49 percent) of all older workers displaced from January 1999 to December 2001 had found another job, compared with two-thirds (67 percent) of displaced workers aged 25 to 54 (Rix, 2003).

At 2 years after a job loss in their fifties, 61 percent of displaced men and 55 percent of displaced women were subsequently employed—compared with employment levels of 91 percent and 88 percent, respectively, for those who had not previously lost a job. When unemployed older workers find new employment following a job loss, the new jobs tend to be short-lived, or the postdisplacement employment spells tend to be short.

Age Discrimination

The Age Discrimination in Employment Act (ADEA) of 1967 explicitly prohibited age discrimination against people aged 40 to 65, with a few exceptions. Many amendments have since been added to this act.¹⁰ The Age Discrimination Act of 1975 expanded coverage to all programs or activities receiving federal assistance. In 1978, amendments extended the mandatory retirement age to 70, and in 1986 the upper age limit was removed entirely, prohibiting mandatory retirement based on age.

The effect of the ADEA legislation has been the subject of recent studies on older workers. Research shows that prior to the enactment of the ADEA, hiring discrimination against older workers as well as discrimination in promotions, training, and other areas was evident. Since the passage of age discrimination legislation at both the state and federal levels, evidence indicates that the ADEA and related acts have boosted the employment of older workers (Neumark, 2001).

¹⁰ For more information on the timeline of amendments to the 1967 Age Discrimination in Employment Act, see Neumark, 2001.

Although precise estimates of the incidence of age discrimination are not available, Rix (2003, p. 5) states that “age continues to work against many older men and women, as evidenced by the length of time it takes so many to find employment, the wage loss so many experience upon reemployment, and the size of court awards to victims of discrimination.”

Reasons for Retirement

The decision to retire is often affected by economic, social, familial, and health factors. Haider and Loughran (2001) found that nearly 25 percent of people retiring between ages 50 and 58 cited poor health as a “very important” reason for their retirement decisions, compared with 35 percent of those retiring between ages 59 to 61 (Table 4-5). This percentage declined to 13 percent for retirees aged 68 to 74 before increasing to 25 percent for those aged 75 and older. Few retirees aged 50 and over reported retiring because they did not like their work, while a larger proportion cited wanting to do other things or spending time with family as important reasons.

Using the HRS, Gustman and Steinmeier examined the effects of the stock market boom on retirement behavior and found that

... the extraordinary returns in the stock market in the late 1990s, which more than doubled stock prices and unexpectedly increased the value of a mixed portfolio by nearly 60 percent, increased retirement for the HRS sample of older workers by over 3 percentage points by the turn of the century and would have decreased the average retirement age by about a quarter of a year

if it had not been interrupted. The subsequent decline in the market, which nearly wiped out the gains that had been made during the preceding surge, effectively neutralized the effect of the preceding stock market gains on retirement. (Gustman and Steinmeier, 2002a, abstract.)

The 2003 Retirement Confidence Survey found that American workers' confidence in their ability to retire comfortably remains relatively high. The study also noted that many workers have not been affected by the stock market decline because they did not have much, if any, money invested in the stock market (Employee Benefit Research Institute [EBRI], 2003a).

Financial Status of Retired Older Men and Women

A recent study found that more working men (74 percent) than working women (69 percent) save for retirement, and men are better prepared and more likely to retire when the opportunity arises (EBRI, 2001). The study reported that men are more often employed in jobs that sponsor retirement plans than are women, such as in the manufacturing industry, which has a high retirement plan sponsorship rate (72.9 percent). Women tend to concentrate in services industries and wholesale/retail trade, both of which have lower retirement sponsorship rates (52.8 percent and 43.9 percent, respectively). In addition, according to this study, women usually receive lower retirement benefits. In 1999, women aged 65 and over received, on average, \$8,224 as pension income from an annuity and/or an employment-based pension plan, compared with \$14,046 paid

Table 4-5.
Reasons for Retirement for the Population Aged 50 and Over by Age: 2000¹

(In percent)

Age	"Forced" ²	Poor health	Wanted to do other things	Didn't like work	Spend time with family	"Forced," not family or health ³
50 to 58	38	24	25	4	32	15
59 to 61	40	35	30	9	36	9
62 to 64	31	18	27	7	34	13
65 to 67	28	16	29	5	37	13
68 to 70	28	13	25	5	31	18
71 to 74	31	13	19	4	26	16
75 to 79	40	25	14	4	27	19
80 and over	46	25	10	8	19	25

¹ Respondents were allowed to give more than one answer.

² Percentage of retirees who reported being forced to retire.

³ Percentage of retirees who reported being forced to retire but did not report family or poor health being important.

Source: Haider and Loughran, 2001, Table 12. For full citation, see references at end of chapter.

to their male counterparts. This disparity held true in relation to Social Security benefits as well, with an average monthly payment of \$905 for retired men and \$697 for retired women in 1999.

While women tend to trail men in retirement planning and retirement benefits, they tend also to outlive men and may spend a longer time in retirement. In 2000, women aged 65 had a life expectancy of 19.2 years, compared with 16.3 years for men aged 65 (National Center for Health Statistics, 2002).

The gap between men and women with retirement plans is narrowing. "Between 1989 and 1998, the percentage of employed women with a pension or retirement plan at their current job increased from 43 percent to 45 percent, compared with a decline from 53 percent to 52 percent for employed men," according to EBRI (2000, p. 1). Munnell et al. (2002) also observed this shift: between 1979 and 2000, while pension coverage declined for all men except those in the highest-earning quintile, par-

ticipation in pensions for women increased at all earnings levels. They noted that the sex differentials in coverage were caused by a combination of factors, including the decline in male workers' union membership and employment at large manufacturing firms; the rapid growth of 401(k) plans, which made employee participation in pension plans voluntary; female workers' improved earnings; larger numbers of women working full-time; and men's and women's different work patterns.

The increase in pension coverage for women can help to minimize the differences in pension wealth between men and women. One study found that for full-time wage and salary workers nearing retirement with pension coverage, the current job's median pension wealth was 76 percent greater for men than for women (Johnson et al., 1999). The gender gap in pensions is likely to narrow in the future as women's work experiences increasingly resemble those of men.

Married Couples and Retirement

Data from the HRS, which include information on health, employment, and family structure, and can be linked to Social Security and pension plan data, permit a more accurate calculation of retirement incentives (Coile, 2003). Because each spouse reports his or her labor history independently, researchers can obtain a better understanding of retirement decision-making within the household (Gustman and Steinmeier, 2002b).

Gustman and Steinmeier (2002b) found that the value each spouse places on being able to spend time with the other after retiring predicts the level of coordination in deciding when to retire, and this preference has a stronger impact on the wife than the husband. They also concluded that Social Security benefits affect couples' decisions about the timing of retirement.

This pattern of behavior differs when one spouse is forced to retire because of health problems or job displacement. If a spouse has a long-term health problem, the other spouse is less likely to retire. There was no evidence that care-giving demands encourage women or men to withdraw from the labor force (Pienta, 1997). On the contrary, the healthy spouse usually remains in the labor force to replace part of the earnings lost by the disabled worker, particularly when the couple is not yet eligible for Social Security retirement benefits (Johnson and Favreault, 2001).

Retirement Preparedness by Race and Hispanic Origin

Preparedness for retirement varies by race and Hispanic origin. The

2003 Minority Retirement Confidence Survey found that Hispanic workers tend to be the least confident about various financial aspects of retirement. Black workers are more confident than Hispanic workers but less confident than workers in general about having enough money for retirement, according to EBRI (2003b). The survey found that Black workers (59 percent) and Hispanic workers (50 percent) are less likely than workers in general (71 percent) to have saved for retirement.

Age at Retirement

While economists agree that the trends in retirement will continue to change, they do not always concur on the causes. Some economists claim that recent changes in public policy and in the private sector will encourage later retirement, while others contend that the rising incomes of older people and redefinitions of retirement lifestyles will promote earlier retirement (Costa, 1999; Quinn, 1999).

Quinn contends that the "era of earlier and earlier retirement has come to an end" (1999, p. 1) due to changes in public policy and the private sector that make working later in life more feasible. He argues that outlawing mandatory retirement is an example of public policy affecting retirement. Another example is Social Security "increasing the delayed retirement credit" so that workers are rewarded "for delaying initial benefit receipt past the normal retirement age" (1999, p. 5).

Other economists think the upswing in labor force participation among the older population is not permanent. Costa believes that "specific institutional details of private pension plans and of

Social Security systems are not the primary forces driving the long-run trend" (1999, p. 4). Some researchers suggest that since retirement is attractive and it has become a social norm, improvements in the health of older people coupled with a rise in their income mean the early retirement trend is unlikely to reverse.

Retirement of the Baby Boom Generation

From 1946 to 1964, about 75 million Baby Boomers were born in the United States. An additional 8 million born in other countries during these years immigrated to the United States. By 2008, the first of the Baby Boomers will turn 62, the earliest age at which an individual can collect Social Security benefits in retirement. A major retirement wave will likely arrive in 2011, when the first of the Boomers turn 65. By 2020, the number of adults aged 60 to 64 is projected to be nearly twice the number in 2000.

A 1999 survey by the American Association of Retired Persons (AARP) showed that nearly 7 in 10 Baby Boomers were optimistic about their retirement years. About 28 percent of Baby Boomer respondents reported that they were very optimistic, and 41 percent said that they were fairly optimistic about their retirement. The survey found that approximately one-quarter of Baby Boomers were not well prepared for their retirement, and the less affluent Boomers were less likely to be optimistic about their retirement than other respondents.

Other findings from the AARP survey address the Baby Boomers' expectations for retirement. Most believed that they will still be working during their retirement years—some for the sake of

interest and enjoyment, others for income. The Baby Boomers' definition of retirement included believing that they would not depend on their children. They reported counting on self-directed sources of income, such as IRAs, 401(k)s, savings, and investments, as well as Social Security, to fund their retirement (AARP, 1999).

Income

Figure 4-8 shows that total personal income for the population 65 and older comes largely from four sources. In 2001, Social Security payments accounted for 39 percent of their total personal income, earnings provided 24 percent, pensions accounted for 18 percent, and asset income generated 16 percent; 3 percent of income came from other sources. Gustman et al. (1997), using data from the HRS, found that Social Security and pensions accounted for more than 60 percent of total wealth for households in the 45th to 55th percentile of wealth holders, and almost half (47 percent) for those in the 90th to 95th percentile of wealth distribution.

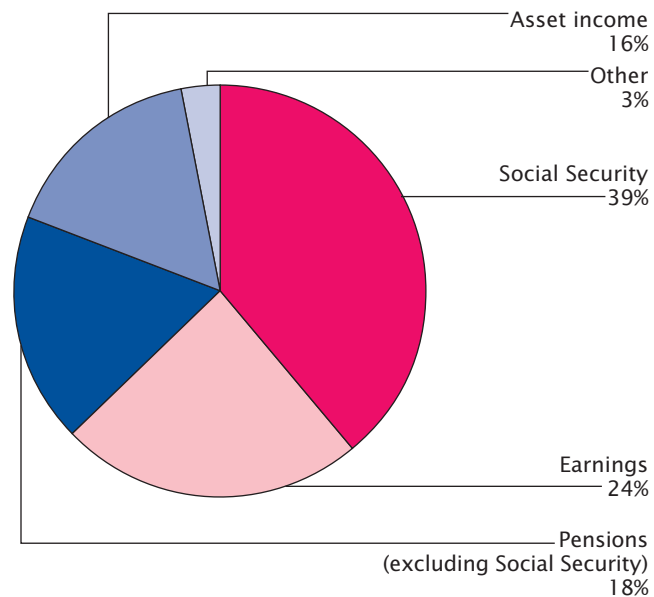
Social Security

Social Security continues to provide the largest share of aggregate income for the older population, and its proportion compared with the other major sources of income was higher in 2001 than 40 years earlier (Social Security Administration, 2003a). In 2001, Social Security paid benefits to 91 percent of people aged 65 and over, and was the only source of retirement income for many people aged 65 and over. Studies show that it has improved the economic status of older Americans over the past

Figure 4-8.

Personal Money Income for the Population Aged 65 and Over by Source: 2001

(Percent distribution)



Note: The reference population for these data is the civilian noninstitutionalized population. Source: Social Security Administration, 2003a, p. 21. For full citation, see references at end of chapter.

several decades and helped to alleviate poverty among them (SSA, 2003a; Haveman et al., 2003).

The official name of Social Security is the Old-Age, Survivors, and Disability Insurance (OASDI) program. It is intended to provide monthly benefits to replace the loss of earnings due to retirement, death (with benefits going to a spouse), or disability. The majority (70 percent) of OASDI funds go to retirees, while the remaining portion is split between survivor benefits and disability benefits (Population Reference Bureau, 2002).

Social Security benefits vary and are based on a variety of factors, including a person's earnings history and the age at which the initial benefit is claimed. For example, a person with relatively low past earnings who begins to collect

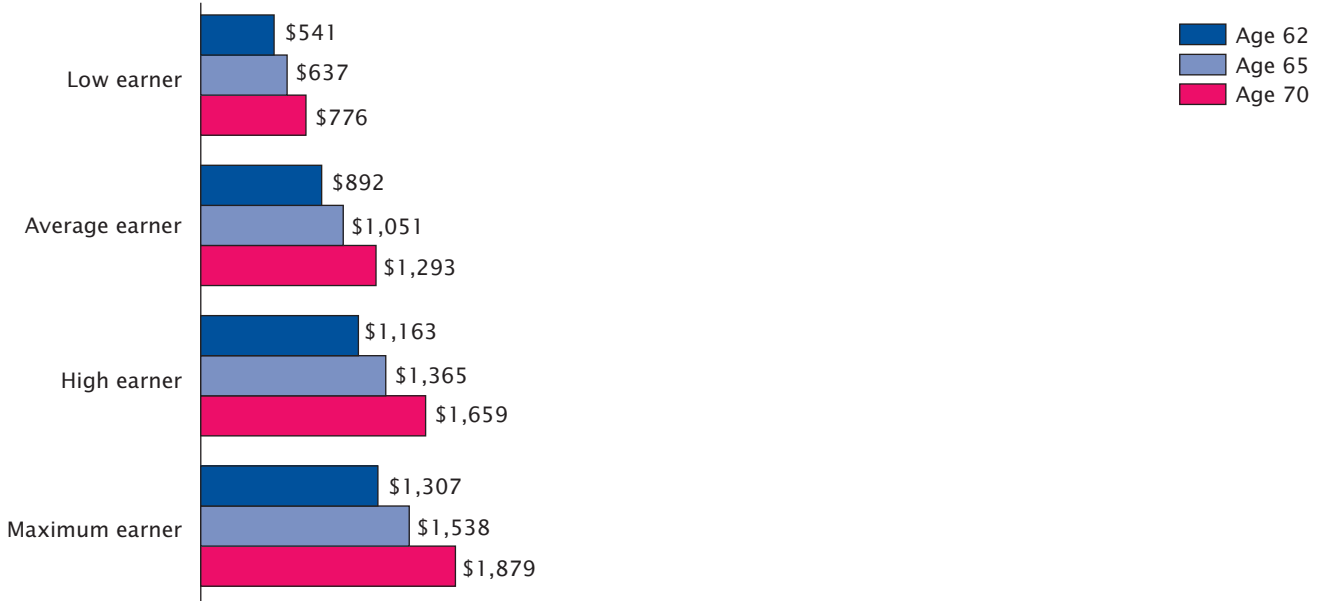
Social Security at the earliest eligibility age of 62 could expect to receive about \$541 per month in 2001 (Figure 4-9).¹¹ An individual with relatively high past earnings would receive more than double this amount (\$1,163) beginning at the early collection age of 62. If the low earner waited until age 70 to begin collecting benefits, the monthly payment would increase to approximately \$776. In comparison, average-earner benefits would be \$892, \$1,051, and \$1,293 at initial claim ages of 62, 65, and 70, respectively.

¹¹ In 2001, low earnings were defined as 45 percent of the national average wage index (\$32,921.92 in 2001). Average earnings are equal to the index, high earnings are 160 percent of the index, and maximum earnings are equal to the OASDI contribution and benefits base (\$80,400 in 2001). For a more comprehensive explanation of Social Security calculations, see <<http://www.ssa.gov/OACT/COLA/AWI.html>>.

Figure 4-9.

Hypothetical Monthly Social Security Benefits by Earning Level and Age at Initial Benefit Claim: 2001

(In dollars)



Note: The reference population for these data is the civilian noninstitutionalized population. Low earnings are defined as 45 percent of the national average wage index (\$32,921.92 in 2001), average earnings are equal to the index, high earnings are 160 percent of the index, and maximum earnings are equal to the OASDI contribution and benefits base (\$80,400 in 2001). For a more comprehensive explanation of these calculations, see <<http://www.ssa.gov/OACT/COLA/AWI.html>>.

Source: Social Security Administration, 2001, p. 15. For full citation, see references at end of chapter.

The role of Social Security benefits in relation to a person's total retirement income varies according to the level of other assets. As seen in Figure 4-10, 20 percent of recipients who received Social Security in 2001 were reliant on these benefits as their sole source of income.¹² For an additional 13 percent of the population, Social Security benefits constituted between 90 and 99 percent of total income, and 35 percent received less than half of

their total income in the form of Social Security.

The importance of Social Security income is also demonstrated by comparing the percentage of the older population living in poverty under the current system and the percentage who would live in poverty if Social Security did not exist. Research shows that in 1997, without Social Security, nearly half (47.6 percent) of people aged 65 and older would have been below the poverty line; with Social Security, the poverty rate was 11.9 percent, reducing the poverty rate of older people by nearly three-quarters due to Social Security alone (Porter et al., 1999). A more recent study examined the economic well-being of Social Security recipients

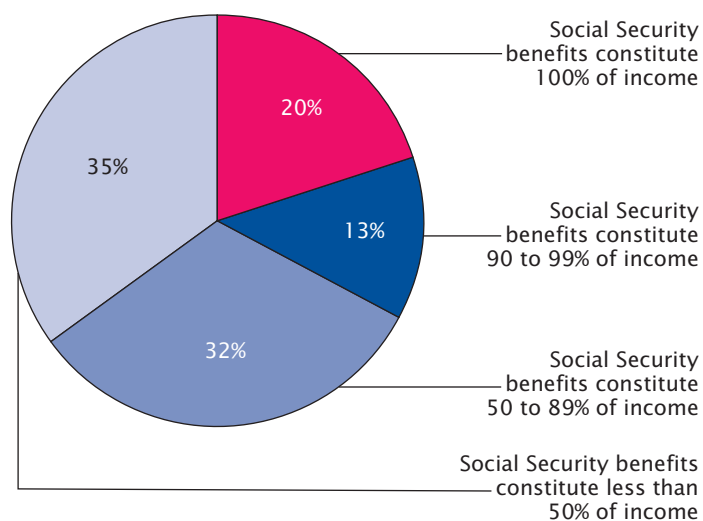
when they first received benefits and examined them again 10 years later. It concluded that Social Security "had a large and sustained effect in reducing poverty for all the racial, sex, and age-at-retirement subgroups, both shortly after they first received benefits (1982) and over the subsequent decade" (Haveman et al., 2003, p. 392). Social Security's sustaining power in helping to alleviate poverty among older people is partly due to the fact that average Social Security benefits increased faster than the poverty threshold in the 1980s and 1990s (AARP, 2001).

¹² The Social Security Administration does not use individual recipients for some of its analysis of Social Security and income. Instead, it refers to "aged units," defined as a married couple with husband or wife aged 65 or over, or a person 65 or older who does not live with a spouse. This distinction provides a closer estimate of income levels for married couples, who typically pool their income within one household.

Figure 4-10.

Social Security Recipients Aged 65 and Over by Relative Importance of Social Security to Total Money Income: 2001¹

(Percent distribution)



¹ The term "Social Security recipient" does not refer to individuals but refers to an "aged unit," which is defined by the Social Security Administration as a married couple with a husband or a wife aged 65 or over, or a person aged 65 or over who does not live with a spouse.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: Social Security Administration, 2003a. For full citation, see references at end of chapter.

Social Security Funding

According to an AARP study, in the late 1970s and early 1980s, "high inflation accompanied by high unemployment (stagflation) combined to create a financing crisis for Social Security," which was alleviated by the 1983 Amendments to the Social Security Act (AARP, 2001, p. 26). The 2003 OASDI Trustees Report projected that, under intermediate assumptions, the annual cost for Social Security funds "will exceed tax income starting in 2018" and "are projected to become exhausted by 2042" (Social Security Administration, 2003b, II. Overview, A. Highlights).¹³

¹³ See <http://www.ssa.gov/OACT/TR/TR03/II_highlights.html>.

One reason for this predicted shortfall is that the number of beneficiaries is projected to increase more rapidly than the number of covered workers. In a "pay-as-you-go" program such as the OASDI, current workers pay a share of their income to a fund that is then distributed to current retirees. The ratio of covered workers per OASDI beneficiary was 41.9 in 1945 and fell to 16.5 in 1950. By 2002, there were 3.3 covered workers per OASDI beneficiary. This worker-beneficiary ratio is projected to continue to fall to 2.2 by 2030, when the entire Baby Boomer cohort will be aged 65 and over (Social Security Administration, 2003b, IV. Actuarial Estimates,

B. Long-Range Estimates, Table IV.B2).¹⁴

The OASDI Board of Trustees estimated that—if Social Security continues to be financed by Social Security tax revenues alone—to maintain the system's solvency throughout the 75-year projection period of 2003 to 2077, "the payroll tax would be increased to 16.94 percent at the point of trust fund exhaustion in 2042 and continue rising to 18.9 percent in 2077" (Social Security Administration, 2003b, II. Overview, E. Conclusion).¹⁵

Some researchers have stated that mortality may decline faster than foreseen by the Social Security Administration's forecasts, requiring an increase in the payroll tax rate or a reduction in benefits beyond the Social Security Administration's estimate (Lee and Tuljapurkar, 1997).¹⁶ They pointed out that "longer life is costly because incremental years lived come largely at ages that are traditionally spent in leisure; so the life cycle value of consumption needs and Social Security benefits automatically rises considerably, while the life cycle value of earnings and tax contributions rises much less" (Lee and Tuljapurkar, 1997, p. 78). They predicted that "if life expectancy rose to 90 or 100 years by 2070, the balanced budget tax rate would have to rise to 27% or 32% of taxable payroll" (Lee and Tuljapurkar, 1997, p. 79).

¹⁴ See <http://www.ssa.gov/OACT/TR/TR03/IV_Lrest.html>.

¹⁵ See <http://www.ssa.gov/OACT/TR/TR03/II_conclu.html>.

¹⁶ For an evaluation of the performance of the Lee-Carter method for forecasting mortality, see Lee and Miller, 2001.

Table 4-6.
Social Security Schedule for Full Retirement and Reductions by Age: 2003

Year of birth	Minimum retirement age for full benefit ¹	Reduction months at age 62	Monthly percent reduction ²	Total percent reduction ²
1937 or earlier . . .	65	36	0.556	20.00
1938	65 and 2 months	38	0.548	20.83
1939	65 and 4 months	40	0.541	21.67
1940	65 and 6 months	42	0.535	22.50
1941	65 and 8 months	44	0.530	23.33
1942	65 and 10 months	46	0.525	24.17
1943 to 1954 . . .	66	48	0.520	25.00
1955	66 and 2 months	50	0.516	25.84
1956	66 and 4 months	52	0.512	26.66
1957	66 and 6 months	54	0.509	27.50
1958	66 and 8 months	56	0.505	28.33
1959	66 and 10 months	58	0.502	29.17
1960 or later . . .	67	60	0.500	30.00

¹ Retirement with benefits can occur at any age between 62 and the full retirement age; however, Social Security benefits are reduced a fraction of a percent (see monthly percent reduction column) for each month before the full retirement age is reached.

² Monthly and total percentage reductions are approximate due to rounding. The actual reductions are .556 (or 5/9 of 1 percent) per month for the first 36 months and .417 (or 5/12 of 1 percent) for subsequent months.

Source: Social Security Administration, 2003c. For full citation, see references at end of chapter.

Retirement Age and Social Security

Another issue that researchers identify as affecting the solvency of Social Security is that the average duration spent collecting Social Security has been increasing due to both the declining average age of retirement and increasing longevity. The average retirement age had been declining until the 1980s, when it leveled off, but it resumed its decline in the 1990s. Gendell (2001) found that the median age at retirement for men in the late 1990s was 5 years younger than it was in the early 1950s (62.0 in 1995–2000 compared with 66.9 in 1950–55) and 6 years younger for women (61.8 in 1995–2000 compared with 67.6 in 1950–55).

Concerns over the feasibility of providing Social Security payments to the Baby Boom cohort for potentially more than two decades of retirement life have sparked policy changes. Two changes enacted

in 2000 are increasing the age of eligibility for fully retired-worker benefits, and reducing benefits for early-retirement (age 62) beneficiaries. The full-benefit retirement age will increase from the current age of 65 for those born in 1937 or earlier by two months per year until it reaches 66 for those born in 1943 through 1954. Then it will begin another gradual increase to age 67 for those born in 1960 or later (Table 4-6).

The Social Security Administration's New Beneficiary Survey (NBS), which surveyed 9,065 recipients of Social Security benefits in 1982 and reinterviewed 69 percent of the surviving respondents in 1991, examined Social Security recipients' economic status and changes in their well-being over this 9-year period. The NBS showed that recipients who first received benefits at younger ages had lower economic status in later years than those who became beneficiaries at older ages. Those who accepted

benefits before age 65 had their monthly payments permanently reduced (Haveman et al., 2003).

Some economists contend that increased labor force participation of older workers and raising the age for receipt of full benefits could lead to larger Social Security tax revenues and a decreased number of years of payments, which would reduce the projected shortfall in overall Social Security benefit payments (Verma and Rix, 2003). They also point out that, while the increase in the Social Security retirement age itself may not induce a large number of older workers to stay in the labor force, "slowing labor force growth and labor shortage" as well as "rising life expectancy and concern about retirement income adequacy" may lead some workers to postpone retirement (Verman and Rix, 2003, p. 3). These researchers believe that public and private sector initiatives can be developed to encourage older workers to do so.

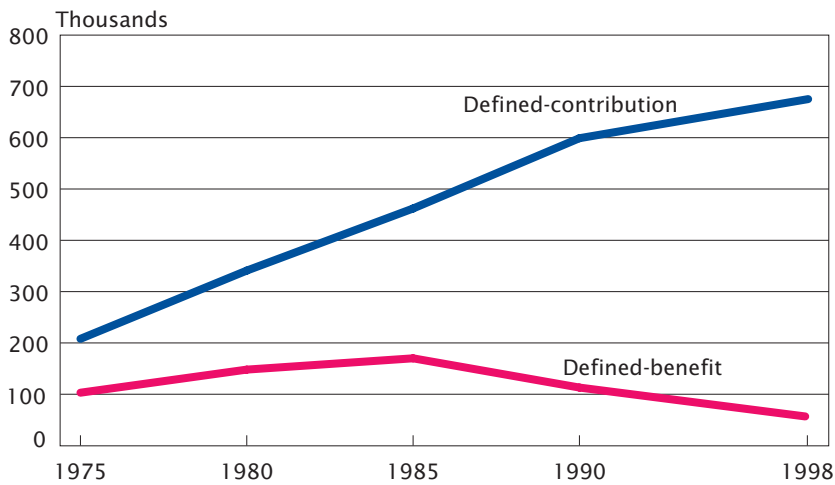
Economists continue to debate whether the decline in the retirement age has reversed and what the future trend will be. (See the earlier section in this chapter on retirement for more discussion.) Because further gains in longevity seem likely, the average length of retirement may continue to increase.

Private Pensions

Private pensions provide retirement income for many people (General Accounting Office, 2002). The share of the private sector workforce that has a pension plan increased in the post-World War II economy and has remained at about 50 percent since the 1970s (Munnell et al., 2002). In 2002, the U.S. General Accounting

Figure 4-11.

Number of Defined-Benefit and Defined-Contribution Pension Plans: 1975 to 1998¹



¹ A defined-benefit pension plan generally provides pensions that are based on a percentage of one's final pay, accounting for years of service. A defined-contribution pension plan involves a specific payment out of each paycheck into an employee-specific account, to which an employer often adds a partially or fully matched contribution.

Note: The reference population for these data is the civilian noninstitutionalized population.

Sources: 1975 to 1990, Employee Benefit Research Institute (EBRI), 2001, Factsheet; 1998, EBRI, 2003, Factsheet. For full citations, see references at end of chapter.

Office reported that “only about 52 percent of retirees receive pension income,” and that the millions of workers who were not covered by private pensions were “at risk of inadequate income during their retirement years” (General Accounting Office, 2002, p. 1).

While the proportion of retirees receiving pension benefits has remained stable since the 1970s, the amount of pension income has increased. From 1980 to 2000, average annual pension amounts (in 1999 dollars) increased from \$11,400 to \$16,800 for retired workers aged 62 to 64, from \$8,300 to \$12,500 for those aged 65 to 74, and from \$6,800 to \$10,100 for retirees aged 75 or older (AARP, 2001).

Most pension plans fall into the category of either a defined-benefit plan or a defined-contribution plan.

In 2004, 21 percent of workers in private industry participated in defined-benefit plans and 42 percent participated in a defined-contribution plan (BLS, 2004b). A defined-benefit pension plan generally provides pensions that are based on a percentage of one's final pay, according to years of service, and they are typically paid as an annuity (Campbell and Munnell, 2002). The number of defined-benefit pension plans in the private sector decreased from 170,000 in 1985 to 56,000 in 1998 (Employee Benefit Research Institute, 2003; Figure 4-11).

In contrast, the number of defined-contribution pension plans has been increasing. In 1975, there were 208,000 such plans, and the number increased to 674,000 in 1998. Defined-contribution pension plans give participants flexibility and portability, and provide gen-

erally lower costs and investment risks for the employers (Campbell and Munnell, 2002). Defined-contribution pension plans involve a specified payment out of each paycheck into an employee-specific account, to which an employer often adds a partially or fully matched contribution. Common types of defined-contribution pension plans include 401(k), profit sharing, 403(b), and 457 plans.¹⁷ The percentage of the paycheck that is contributed to the account is set out in advance. The exact amount of the pension is not predetermined and depends on many factors, including the amount contributed and the rate of return on the investment of the pension funds. The accrued amount is typically available in a lump-sum payment at the time of retirement but may sometimes be taken as an annuity (Campbell and Munnell, 2002).

Researchers note that some policies that encourage additional work may conflict with private pension plans that penalize work beyond a particular age through adjustments to their defined benefit (Quinn and Kozy, 1996). For example, some benefit calculation rules reduce a worker's pension value after a set number of years on the job, encouraging workers to leave career employment and either fully retire, find employment with another employer, or become self-employed (see the discussion earlier in this chapter on bridge jobs and part-time work).

¹⁷ The 401(k) is a tax-deferred retirement plan. The 403(b) is a tax-deferred retirement plan available to employees of educational institutions and certain nonprofit organizations. The 457 plan is a tax-deferred compensation plan for employees of states, subdivisions of states, charitable or religious organizations, labor unions and trade associations, and other eligible employers. For more information on these retirement plans, see Internal Revenue Service, 2005.

Money Income

Official income estimates from the CPS are based solely on money income: earnings, unemployment compensation, workers' compensation, Social Security, Supplemental Security Income, public assistance, veterans' payments, survivor benefits, pension or retirement income, interest, dividends, rents, royalties, estates, trusts, educational assistance, alimony, child support, assistance from outside the household, and other miscellaneous money income. These estimates refer to income before deductions for taxes or other expenses and do not include lump-sum payments or capital gains.¹⁸

Money Income of Older Householders

The 2003 median household money income for households with a householder 65 and older (\$23,787) was nearly twice that of 1967 adjusted for inflation (\$12,882; Figure 4-12). While income increased during most of this period, some declines occurred. The median household money income for older households reached its peak in 1999 (\$25,164).

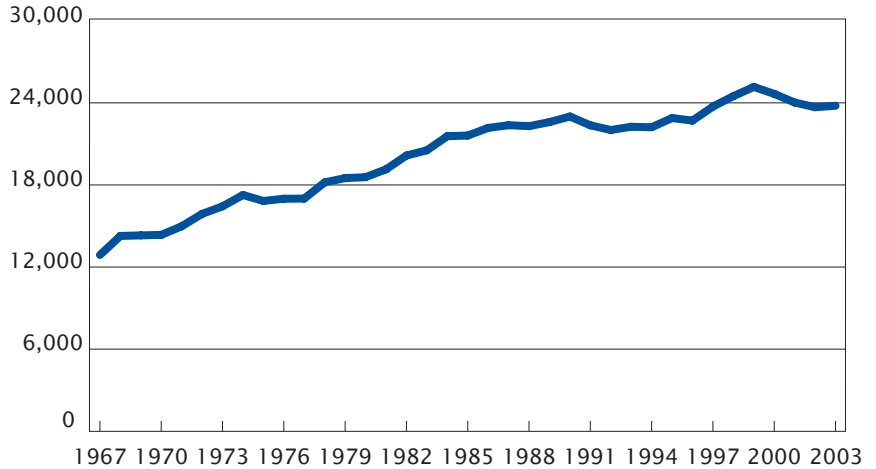
Households with a householder aged 65 and over have lower incomes than younger households (Table 4-7). In 2003, the median money income of older households (\$23,787) was below the median for all households (\$43,318), and was the lowest among all age groups. It was slightly below the median money income of households with a householder under age 25 (\$27,053). Household money income increased with the age

¹⁸ For more information on money income of the total population, see DeNavas-Walt et al., 2001 and DeNavas-Walt and Cleveland, 2002.

Figure 4-12.

Median Household Money Income for Older Households: 1967 to 2003

(In 2003 dollars. Households with householder aged 65 and over)



Note: The reference population for these data is the civilian noninstitutionalized population.

Source: U.S. Census Bureau, 2004, Table H-10. For full citation, see references at end of chapter.

Table 4-7.

Median Household Money Income by Age of Householder: 2003

Age of householder	Number of households (in thousands)	Median money income (dollars)	
		Value	90-percent confidence interval
Total	112,000	43,318	43,009–43,627
15 to 24	6,610	27,053	26,388–27,718
25 to 34	19,159	44,779	44,187–45,371
35 to 44	23,222	55,044	54,383–55,705
45 to 54	23,137	60,242	59,591–60,893
55 to 64	16,824	49,215	48,365–50,065
65 and over	23,048	23,787	23,489–24,085

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: DeNavas-Walt, Proctor, and Mills, 2004. For full citation, see references at end of chapter.

of the householder until ages 45 to 54, where it peaked at \$60,242.

Median Household Money Income by Race

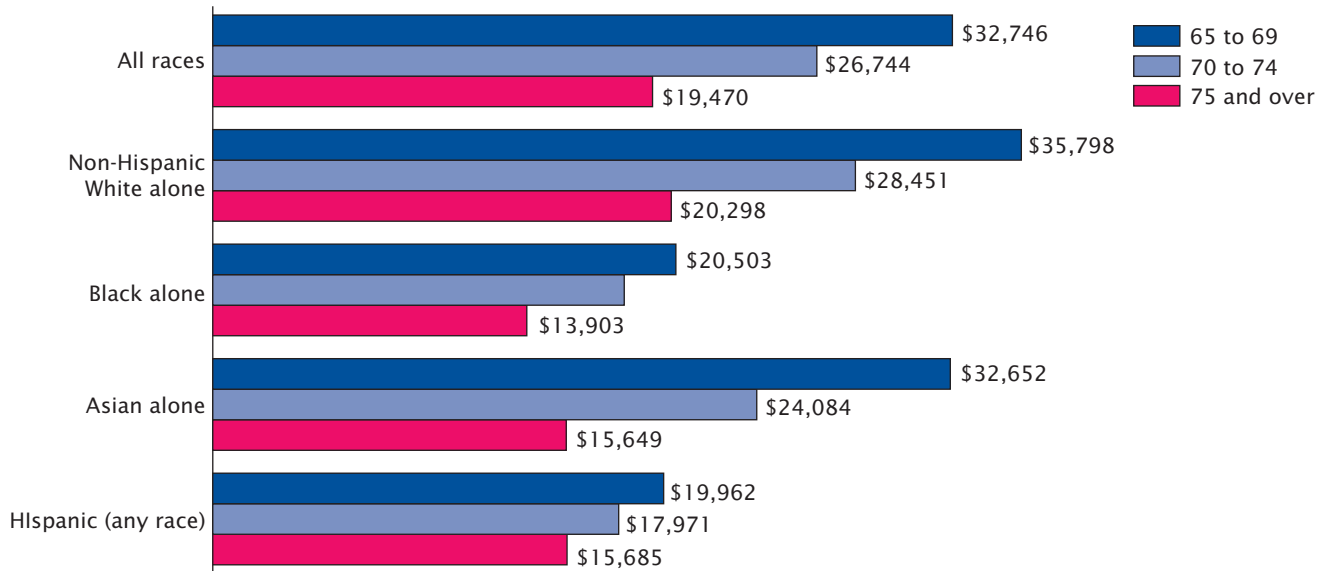
As shown in Figure 4-13, in 2003, older non-Hispanic White households (as defined by the characteristics of the householder) had the

highest median household money income among all race groups and Hispanics for almost every older age group. The exceptions were that for ages 65 to 69 and 70 to 74, there were no statistically significant differences in the median money incomes of non-Hispanic White households and Asian households.

Figure 4-13.

Median Household Money Income for Older Households by Age, Race, and Hispanic Origin of Householder: 2003

(Households with householder aged 65 and over)



Note: The reference population for these data is the civilian noninstitutionalized population.
 Source: U.S. Census Bureau, 2004, Table HINC-02. For full citation, see references at end of chapter.

Median Household Money Income by Living Arrangements

Figure 4-14 shows that in 2003, married-couple households with householders aged 65 to 69 had a median household money income of \$45,305, more than twice that of 65- to 69-year-old male and female householders living alone (\$17,842 and \$16,474, respectively).¹⁹

Income levels were lower at older ages among these three household types. For example, the median household money income for married-couple households ranged from \$45,305 when the householder was aged 65 to 69 to \$29,280

¹⁹ The median household money income of 65- to 69-year-old male (\$17,842) and female (\$16,474) householders living alone is not statistically different.

when the householder was 75 or over. Older women living alone tend to have lower household income than older men living alone. For people aged 75 and over living alone in 2003, median household income was \$13,172 for women and \$16,937 for men.

Poverty

Poverty Rates

According to data from the 2004 CPS Annual Social and Economic Supplement (ASEC), the basis of the official poverty rate in the United States, 10.2 percent of the population 65 and older lived in poverty in 2003 (Table 4-8).²⁰ This proportion was lower than that for people under 18 years of age (17.6 percent) and for people aged 18 to 64 (10.8 percent).

²⁰ The Office of Management and Budget (OMB) determined the official definition of poverty in Statistical Policy Directive 14. For more information on how the Census Bureau uses this definition to measure poverty and the poverty threshold in 2003 by size of family and number of related children under 18 years, see DeNavas-Walt, Proctor, and Mills, 2004.

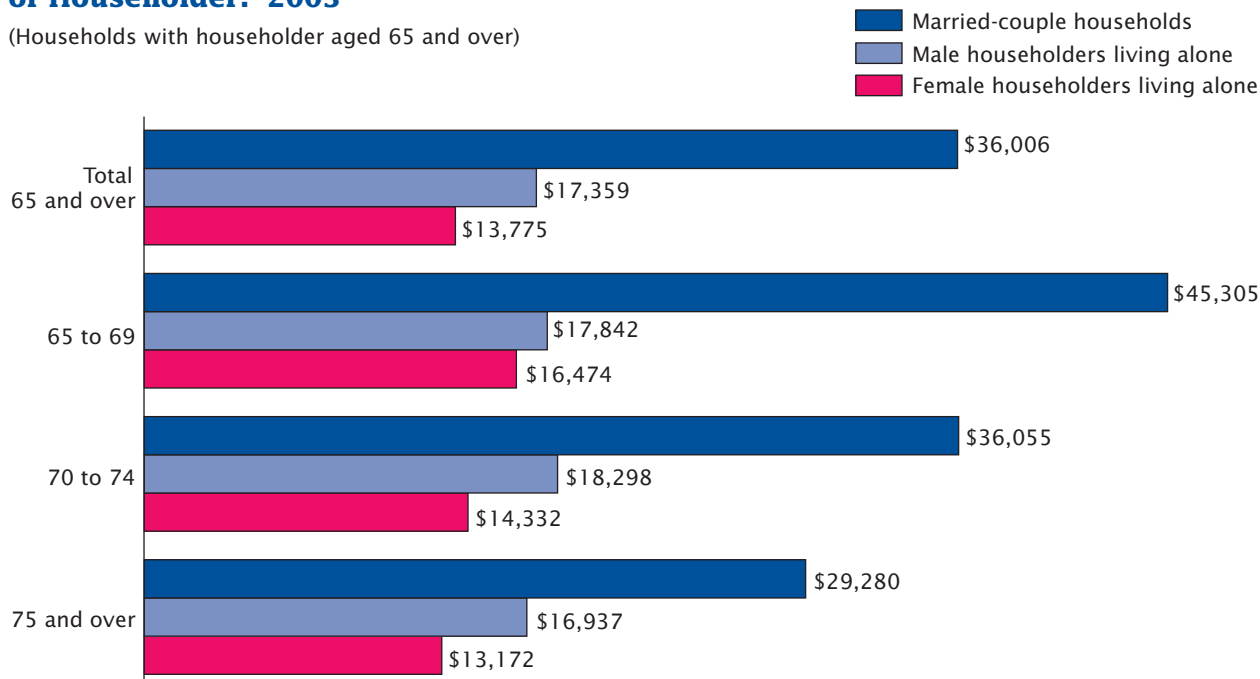
Official poverty levels are based on money income and do not include nonmonetary benefits, such as food stamps, public housing, and Medicaid. A person is considered to be living in poverty if his or her before-tax cash income is below a defined level of need or threshold. Poverty thresholds were originally devised by the Social Security Administration in the 1960s based on a minimum cost to obtain a nutritionally adequate diet, as defined by the Department of Agriculture, taking into account both family size and the number of children in the household.

The thresholds are updated annually for inflation using the consumer price index for urban consumers. They do not vary by geographic locale. In 2003, the poverty threshold was set at \$8,825 for an older (65 and older) householder living alone. For older householders living in a two-person household with no related children under 18 years of age, the threshold was \$11,122.

Figure 4-14.

Median Household Money Income for Older Households by Household Type and Age of Householder: 2003

(Households with householder aged 65 and over)



Note: The reference population for these data is the civilian noninstitutionalized population.

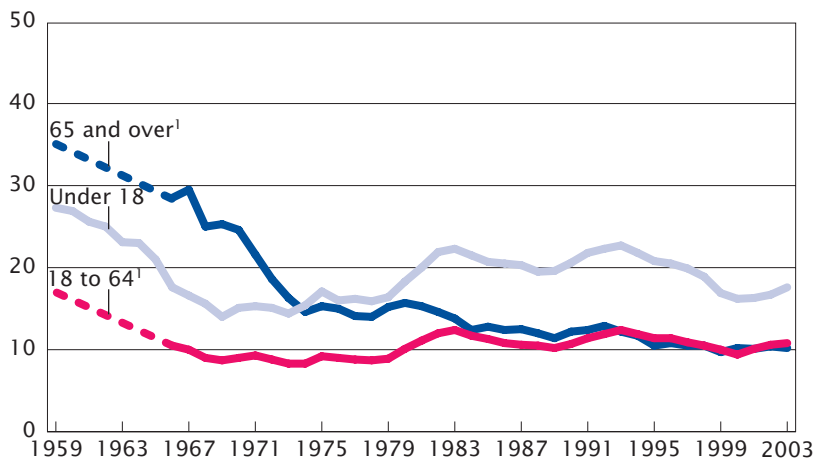
Source: U.S. Census Bureau, 2004, Table HINC-02. For full citation, see references at end of chapter.

During the 1960s and early 1970s, older people experienced the highest poverty rate of these age groups (Figure 4-15). In 1959, 35.2 percent of older people lived in poverty.²¹ In 1966, the poverty rate of the older population had decreased to 28.5 percent, while the rate of people aged 18 to 64 was 10.5 percent and that of children was 17.6 percent. Since the 1960s, various government programs have been designed to alleviate the financial burdens of the older population, and subsequently, the proportion of the older population living in poverty declined steadily during the late 1960s and early

²¹ Poverty rates for people aged 65 and over are available for 1959 and then from 1966 to the present. Data from 1960 to 1965 for age groups 65 and over and 18 to 64 are not available.

Figure 4-15.

Percent of People in Poverty by Age: 1959 to 2003



¹ Data are not available from 1960 to 1965 for the 18-to-64 and 65-and-over age groups.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: DeNavas-Walt, Proctor, and Mills, 2004. For full citation, see references at end of chapter.

Table 4-8.
Poverty Status of People by Age, Race, and Hispanic Origin: 1960 to 2003

(Numbers in thousands)

Year and race	All people			Under 18			18 to 64			65 and over		
	Total	Below poverty level		Total	Below poverty level		Total	Below poverty level		Total	Below poverty level	
		Number	Percent		Number	Percent		Number	Percent		Number	Percent
All Races												
2003	287,699	35,861	12.5	72,999	12,866	17.6	180,041	19,443	10.8	34,569	3,552	10.2
2002	285,317	34,570	12.1	72,696	12,133	16.7	178,388	18,861	10.6	34,234	3,576	10.4
2000 ²	278,944	31,581	11.3	71,741	11,587	16.2	173,638	16,671	9.6	33,566	3,323	9.9
1995	263,733	36,425	13.8	70,566	14,665	20.8	161,508	18,442	11.4	31,658	3,318	10.5
1990	248,644	33,585	13.5	65,049	13,431	20.6	153,502	16,496	10.7	30,093	3,658	12.2
1985	236,594	33,064	14.0	62,876	13,010	20.7	146,396	16,598	11.3	27,322	3,456	12.6
1980	225,027	29,272	13.0	62,914	11,543	18.3	137,428	13,858	10.1	24,686	3,871	15.7
1975	210,864	25,877	12.3	65,079	11,104	17.1	124,122	11,456	9.2	21,662	3,317	15.3
1970	202,183	25,420	12.6	69,159	10,440	15.1	113,554	10,187	9.0	19,470	4,793	24.6
1965	191,413	33,185	17.3	69,986	14,676	21.0	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
1960	179,503	39,851	22.2	65,601	17,634	26.9	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
White Alone¹												
2003	231,866	24,272	10.5	55,779	7,985	14.3	145,783	13,622	9.3	30,303	2,666	8.8
2002	230,376	23,466	10.2	55,703	7,549	13.6	144,694	13,178	9.1	29,980	2,739	9.1
White												
2000 ²	227,846	21,645	9.5	55,980	7,307	13.1	142,164	11,754	8.3	29,703	2,584	8.7
1995	218,028	24,423	11.2	55,444	8,981	16.2	134,149	12,869	9.6	28,436	2,572	9.0
1990	208,611	22,326	10.7	51,929	8,232	15.9	129,784	11,387	8.8	26,898	2,707	10.1
1985	200,918	22,860	11.4	51,031	8,253	16.2	125,258	11,909	9.5	24,629	2,698	11.0
1980	192,912	19,699	10.2	51,653	7,181	13.9	118,935	9,478	8.0	22,325	3,042	13.6
1975	183,164	17,770	9.7	54,405	6,927	12.7	109,105	8,210	7.5	19,654	2,634	13.4
1970	177,376	17,484	9.9	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	22.6
1965	168,732	22,496	13.3	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
1960	158,863	28,309	17.8	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
Non-Hispanic White Alone¹												
2003	194,595	15,902	8.2	43,150	4,233	9.8	123,110	9,391	7.6	28,335	2,277	8.0
2002	194,144	15,567	8.0	43,614	4,090	9.4	122,511	9,157	7.5	28,018	2,321	8.3
Non-Hispanic White³												
2000 ²	193,691	14,366	7.4	44,244	4,018	9.1	121,499	8,130	6.7	27,948	2,218	7.9
1995	190,951	16,267	8.5	45,689	5,115	11.2	118,228	8,908	7.5	27,034	2,243	8.3
1990	188,129	16,622	8.8	44,797	5,532	12.3	117,477	8,619	7.3	25,854	2,471	9.6
1985	183,455	17,839	9.7	44,752	5,745	12.8	114,969	9,608	8.4	23,734	2,486	10.5
1980	179,798	16,365	9.1	46,578	5,510	11.8	111,460	7,990	7.2	21,760	2,865	13.2
1975	172,417	14,883	8.6	49,670	5,342	10.8	103,496	7,039	6.8	19,251	2,503	13.0
Black Alone¹												
2003	35,989	8,781	24.4	11,367	3,877	34.1	21,746	4,224	19.4	2,876	680	23.7
2002	35,678	8,602	24.1	11,275	3,645	32.3	21,547	4,277	19.9	2,856	680	23.8
Black												
2000 ²	35,425	7,982	22.5	11,480	3,581	31.2	21,161	3,794	17.9	2,785	607	21.8
1995	33,740	9,872	29.3	11,369	4,761	41.9	19,892	4,483	22.5	2,478	629	25.4
1990	30,806	9,837	31.9	10,162	4,550	44.8	18,097	4,427	24.5	2,547	860	33.8
1985	28,485	8,926	31.3	9,545	4,157	43.6	16,667	4,052	24.3	2,273	717	31.5
1980	26,408	8,579	32.5	9,368	3,961	42.3	14,987	3,835	25.6	2,054	783	38.1
1975	24,089	7,545	31.3	9,421	3,925	41.7	12,872	2,968	23.1	1,795	652	36.3
1970	22,515	7,548	33.5	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	1,422	683	48.0
1965	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
1960	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)
Hispanic (Any Race)³												
2003	40,300	9,051	22.5	13,730	4,077	29.7	24,490	4,568	18.7	2,080	406	19.5
2002	39,216	8,555	21.8	13,210	3,782	28.6	23,952	4,334	18.1	2,053	439	21.4
2000 ²	35,955	7,747	21.5	12,399	3,522	28.4	21,734	3,844	17.7	1,822	381	20.9
1995	28,344	8,574	30.3	10,213	4,080	40.0	16,673	4,153	24.9	1,458	342	23.5
1990	21,405	6,006	28.1	7,457	2,865	38.4	12,857	2,896	22.5	1,091	245	22.5
1985	18,075	5,236	29.0	6,475	2,606	40.3	10,685	2,411	22.6	915	219	23.9
1980	13,600	3,491	25.7	5,276	1,749	33.2	7,740	1,563	20.2	582	179	30.8
1975	11,117	2,991	26.9	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	(NA)	137	32.6

(NA) Not available.

¹ Data for 2002 and 2003 are for single-race groups; i.e., people who reported only one race, and therefore are not comparable to data shown for previous years.

² Consistent with 2001 data through implementation of Census 2000-based population controls and a 28,000-household sample expansion.

³ Data prior to 1973 for non-Hispanic Whites and Hispanics are not available.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: DeNavas-Walt, Proctor, and Mills, 2004. For full citation, see references at end of chapter.

1970s. In 1975, 15.3 percent of the older population lived in poverty. Since 1975, the older population's poverty rate has continued the general downward trend, with minor fluctuations.

Poverty and Near Poverty

While categorizing people as “in poverty” or “not in poverty” is one approach to classifying their economic situation, examining a measure such as the percent of the population living close to the poverty line, or “near poverty,” provides additional insights into economic well-being.²² In 2003, 10.2 percent of the population 65 and older lived in poverty, and an

²² “Near poverty” in this report describes those with family incomes as great as the poverty threshold but below 125 percent of the threshold. For example, if a family's income was \$22,007 and the poverty threshold was \$20,000 for that size and composition of family, the family would be considered “near poverty,” or living close to the poverty line (Proctor and Dalaker, 2003).

Table 4-9.
Percent in Poverty and Near Poverty by Age and Sex: 2003

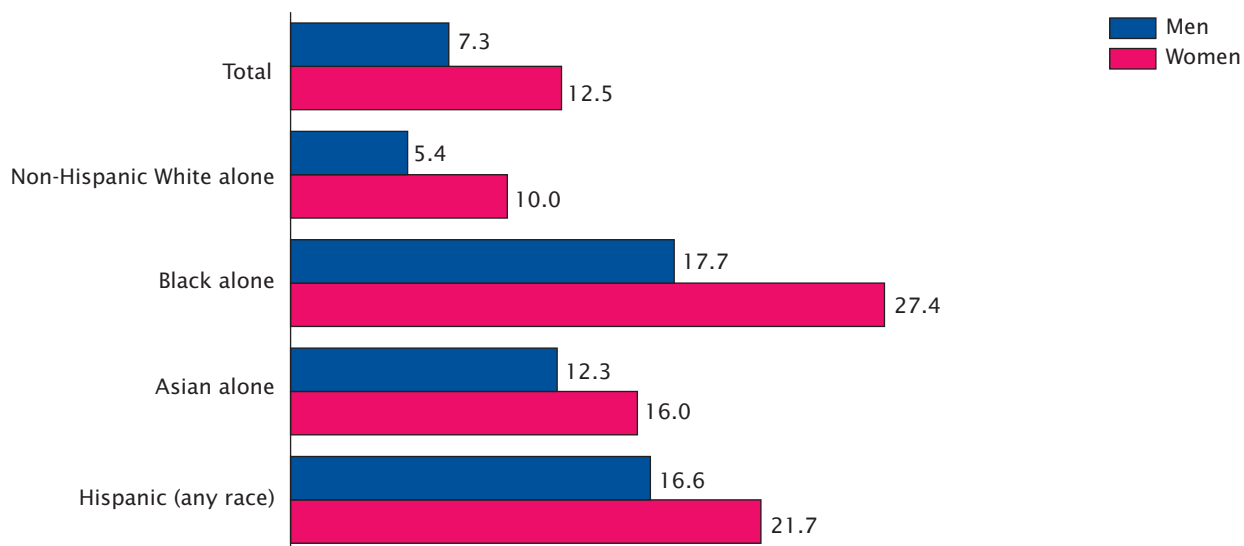
Age	Total		Male		Female	
	Below 100 percent of poverty threshold	Below 125 percent of poverty threshold	Below 100 percent of poverty threshold	Below 125 percent of poverty threshold	Below 100 percent of poverty threshold	Below 125 percent of poverty threshold
Total	12.5	16.9	11.2	15.2	13.7	18.5
Under 65	12.8	16.9	11.7	15.6	13.9	18.2
65 and over	10.2	16.9	7.3	12.3	12.5	20.4
Under 18	17.6	23.0	17.7	23.0	17.6	23.1
18 to 24	16.5	21.5	13.4	18.1	19.7	25.1
25 to 34	12.8	17.0	10.2	13.9	15.5	20.1
35 to 44	9.6	13.1	8.3	11.6	10.8	14.6
45 to 54	7.6	10.3	7.2	9.8	8.0	10.8
55 to 59	8.2	11.0	6.9	9.5	9.4	12.4
60 to 64	9.7	13.4	8.1	11.1	11.1	15.5
65 to 74	9.0	14.5	7.1	11.4	10.6	17.2
75 and over	11.6	19.6	7.5	13.5	14.3	23.6

Note: The reference population for these data is the civilian noninstitutionalized population.
Source: U.S. Census Bureau, 2004. For full citation, see references at end of chapter.

additional 6.7 percent lived “near poverty” (people with incomes at or above their poverty threshold but below 125 percent of their threshold).

Poverty and near-poverty rates differ by age group among the older population. People aged 65 to 74 years had a poverty rate of 9.0 percent in 2003, compared with 11.6 percent of those aged 75 and

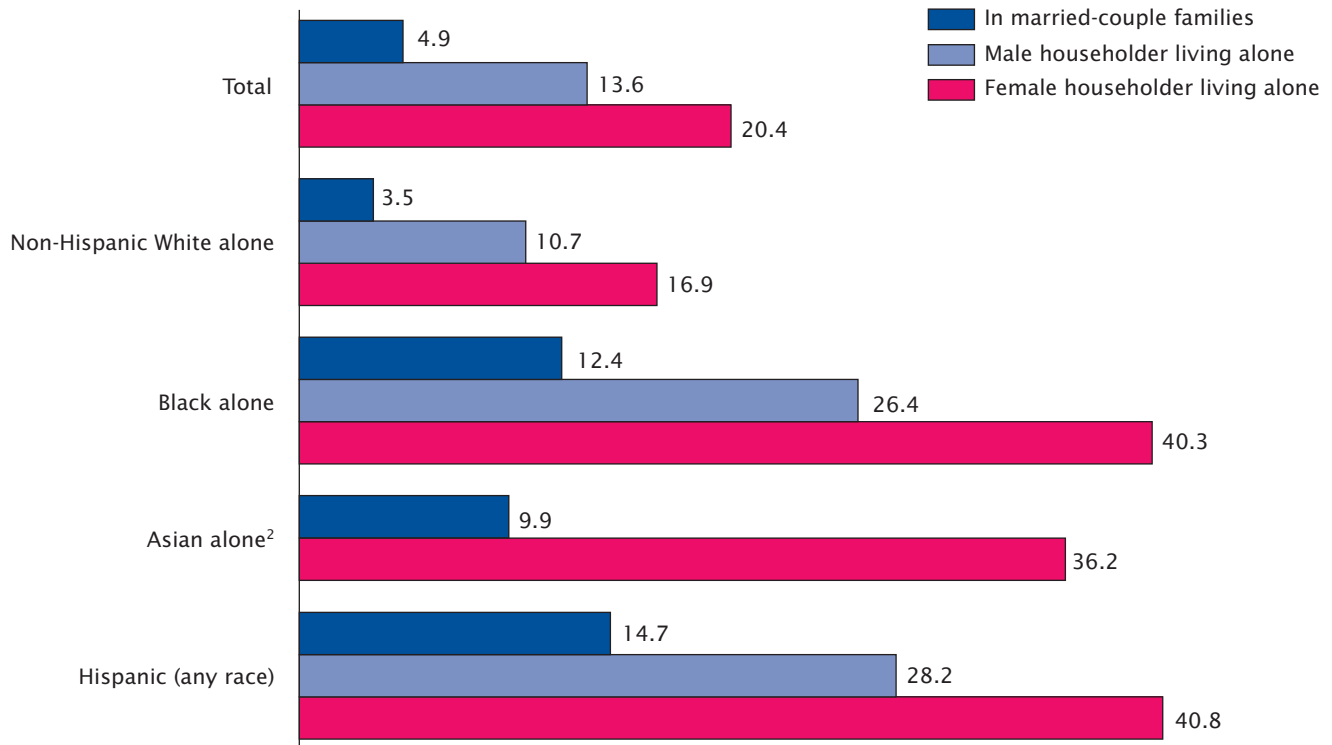
Figure 4-16.
Percent of People Aged 65 and Over in Poverty by Sex, Race, and Hispanic Origin: 2003



Note: The reference population for these data is the civilian noninstitutionalized population.
Source: U.S. Census Bureau, 2004, Table POV01. For full citation, see references at end of chapter.

Figure 4-17.

Percent of People Aged 65 and Over in Poverty by Living Arrangement, Race, and Hispanic Origin: 2003¹



¹ Does not include people living with other relatives and nonrelatives.

² Derived measure is not shown when the base is less than 75,000.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: U.S. Census Bureau, 2004, Tables POV1 and POV2. For full citations, see references at end of chapter.

older (Table 4-9). In addition, 8.0 percent of those aged 75 and older and 5.5 percent of those aged 65 to 74 were classified as “near poverty” in 2003.

Older Women and Men in Poverty

Poverty rates differ by sex. Larger percentages of older women lived in poverty in 2003 than older men. In 2003, women composed 57.3 percent of the population 65 and older but represented 69.6 percent of the older population living in poverty. As Figure 4-16 shows, 12.5 percent of older

women were in poverty, compared with 7.3 percent of older men. In addition, older women were more likely than older men to live in near poverty: 7.9 percent compared with 5.0 percent.

Poverty rates for the older population also varied by race and Hispanic origin. In 2003, older non-Hispanic Whites—with 8.0 percent living in poverty—were less likely than their Black and Hispanic counterparts to be in poverty (23.7 percent and 19.5 percent, respectively). Historically, older non-Hispanic Whites have been less likely to live in poverty than older

Blacks or Hispanics. In 1975 (the earliest year for which data are available for Hispanics), 13.0 percent of older non-Hispanic Whites lived in poverty, compared with 36.3 percent of older Blacks and 32.6 percent of older Hispanics (Table 4-8).²³

The sex difference in poverty rates was found for older non-Hispanic Whites and Blacks. In 2003, non-Hispanic White women aged 65 and over were more likely to be in poverty than their male

²³ The apparent difference in the proportions of older Blacks and older Hispanics living in poverty in 1975 is not statistically significant.

counterparts: 10.0 percent and 5.4 percent, respectively. The poverty rates for older Black women and men were 27.4 percent and 17.7 percent, respectively.

Poverty by Living Arrangements

Older householders living alone are at higher risk of being in poverty than their married counterparts. In 2003, 4.9 percent of older people in married-couple families were in poverty, lower than the 13.6 percent of older men living alone and 20.4 percent of older women living alone (Figure 4-17). Differences in poverty rates by living arrangements can also be found among the different race groups and Hispanics (except Asians, where sufficient data were not available). In 2003, 3.5 percent of people in older non-Hispanic White married-couple families lived in poverty, compared with 10.7 percent of older non-Hispanic White men living alone and 16.9 percent of older non-Hispanic White women living alone. Among older Blacks, 12.4 percent of those in married-couple families lived in poverty, while 26.4 percent of older Black men and 40.3 percent of older Black women who lived alone lived in poverty. Older Hispanic women who lived alone lived in poverty at a rate more than twice that of older Hispanics in married-couple families (40.8 percent and 14.7 percent, respectively).²⁴

²⁴ The apparent difference in the proportions of older Blacks (12.4 percent) and older Hispanics (14.7 percent) in married-couple families in poverty is not statistically significant, and the apparent difference in the proportions of older Black women (40.3 percent) and older Hispanic women (40.8 percent) in poverty is not statistically significant.

Episodes of Poverty

While poverty rates among older people have declined since the 1960s, the annual data discussed in the preceding sections do not reflect details of the poverty conditions found in the United States and the dynamics of change in poverty over time. The Survey of Income and Program Participation (SIPP) provides longitudinal estimates of change in income and poverty levels among individuals over a defined period of time.²⁵ Unlike the CPS, which provides poverty estimates for a given year, the SIPP collects information about monthly income from the same set of people for several years, which allows analysis of change over time.

The poverty data available from the 1996 SIPP, covering January 1996 to December 1999, show that the rate of episodic poverty among those 65 and over during 1999 was 15.4 percent, compared with 26.8 percent for those under 18.²⁶ The chronic poverty rate for those 65 and over was 3.8 percent—higher than among those under age 18 (2.6 percent).²⁷

The median poverty spell for the total population between 1996 and 1999 (i.e., the number of months that people who were not in poverty in the first interview month spent in poverty before leaving

²⁵ For more information on the Survey of Income and Program Participation (SIPP), see Iceland, 2003.

²⁶ The rate of episodic poverty is the percentage of people who were in poverty in 2 or more consecutive months in a given time period.

²⁷ The chronic poverty rate is the percentage of people who were in poverty every month from 1996 through the end of 1999.

poverty) was 4.0 months.²⁸ The older population had a median poverty spell of 4.0 months, compared with 3.9 months for those aged 18 to 64 and 4.4 months for those under age 18.

Entries into poverty were measured as the percentage of people who were not in poverty in 1996 but were in poverty in a subsequent year. Exits out of poverty were measured as the percentage of people who were in poverty in 1996 but were not in poverty in a subsequent year. Both entries into and exits out of poverty were based on an annual poverty measure. The 65-and-over population's entry rate into poverty was 3.3 percent, lower than children under age 18 (4.5 percent). The exit rate from poverty for the older group was 32.4 percent, lower than the 47.9 percent for those under age 18 and 53.9 percent for those 18 to 64. While people aged 65 and over had a lower probability than children of entering or being in poverty, the data show that once older people were in poverty, they were less likely to transition out of poverty. The survey does not provide information on the extent of long-term poverty that persisted for more than 4 years. A number of these transition indicators are shown in Figure 4-18.

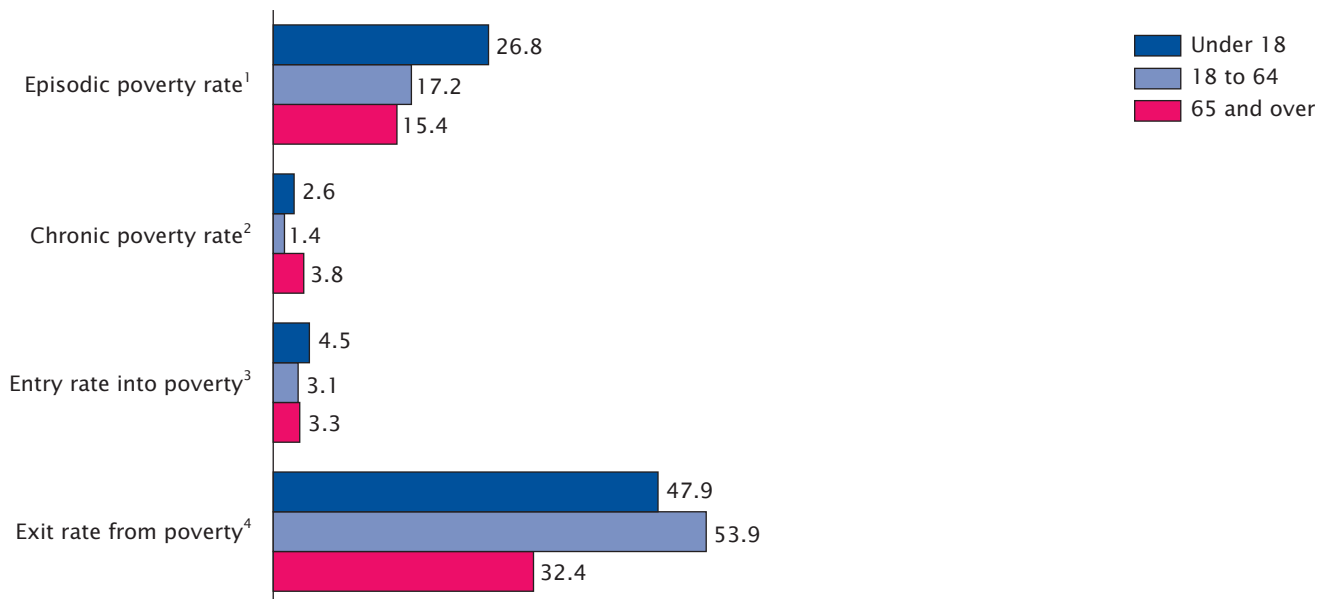
Poverty by Race, Education, and Marital Status

Using the data from the 1988 wave of the Panel Study of Income Dynamics (PSID), Jensen and McLaughlin (1997) evaluated 20

²⁸ The duration of poverty spells can be measured by the number of months in poverty. This analysis required a minimum spell length of 2 months. Spells were required to be separated by 2 or more months of not being in poverty. Individuals could have more than one spell.

Figure 4-18.
Poverty Indicators by Age: 1996 to 1999

(In percent)



¹ Episodic poverty rate is the percent of people who were poor in 2 or more consecutive months in a given time period.

² Chronic poverty rate is the percent of people who were poor every month during 1996 to 1999.

³ Entry rate into poverty is the percent of people who were not poor in 1996 but were in a subsequent year, using an annual poverty measure.

⁴ Exit rate from poverty is the percent of people who were poor in 1996 but not in a subsequent year, using an annual poverty measure.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: U.S. Census Bureau, 2003a. For full citation, see references at end of chapter.

years' worth of data and found that approximately 40 percent of older people living in poverty exited after 1 year, but that many of these people had minimal increases in income. PSID is intended to provide information on a variety of economic and demographic behaviors, one of which is the extent of poverty and changes experienced by individuals related to poverty. The study found that "the rather modest absolute increases in total household income, and income-to-needs ratio, suggest that older people who exit poverty tend not to rise much above the poverty threshold" (p. 466).

Another study that used PSID data (Rank and Hirschl, 1999) examined

the effects of race, education, sex, and marital status on the likelihood of experiencing poverty in the later years. The researchers found that "the effects on the risk of poverty of being not married, having less than 12 years of education, and of being Black are additive" and that "possessing any two of these characteristics increases the cumulative risk four to five times, while possessing all three characteristics results in a six- to seven-fold increase in the risk of poverty by age 85" (p. S190). They concluded that the percentage of older people who are in poverty at some point in their older years is often masked by cross-sectional data analysis that tends to find relatively low poverty rates among older people

because people transition in and out of poverty.

Work History and Poverty

Work history is another important predictor in the transition to poverty (McLaughlin and Jensen, 2000). In a recent study, the researchers examined the effects of work history on the transition to poverty among people aged 55 and over using PSID data (McLaughlin and Jensen, 2000). Work history was captured by using occupation, years of work experience, union coverage, and preretirement wages. The effects of work history, current marital status, metropolitan/nonmetropolitan residence, and past occupation were

Table 4-10.

Median Net Worth and Median Net Worth Excluding Home Equity for Households by Age of Householder and Monthly Household Income Quintile: 2000

Households and net worth income quintile ¹	Total	Under 35	35 to 44	45 to 54	55 to 64	65 and over			
						Total	65 to 69	70 to 74	75 and over
All households (in thousands)	104,644	22,362	24,717	21,347	14,139	22,079	5,634	5,710	10,735
Median net worth	\$55,000	\$7,240	\$44,275	\$83,150	\$112,048	\$108,885	\$114,050	\$120,000	\$100,100
Excluding home equity	\$13,473	\$3,300	\$13,100	\$23,525	\$32,304	\$23,369	\$27,588	\$31,400	\$19,025
Lowest Quintile									
Households (in thousands)	20,937	4,322	3,333	2,827	2,574	7,882	1,497	1,758	4,626
Median net worth	\$7,396	\$500	\$1,510	\$5,896	\$21,000	\$44,346	\$32,000	\$43,230	\$46,266
Excluding home equity	\$1,025	\$0	\$500	\$600	\$1,500	\$3,500	\$2,900	\$2,885	\$4,000
Second Quintile									
Households (in thousands)	20,937	4,944	3,888	2,958	2,648	6,498	1,498	1,721	3,280
Median net worth	\$26,950	\$2,950	\$7,556	\$24,750	\$51,875	\$114,425	\$104,800	\$113,893	\$116,166
Excluding home equity	\$6,349	\$1,500	\$2,500	\$4,750	\$10,150	\$29,532	\$22,332	\$31,513	\$31,269
Third Quintile									
Households (in thousands)	20,913	5,269	5,090	4,030	2,721	3,803	1,174	1,161	1,467
Median net worth	\$44,400	\$8,238	\$30,703	\$56,642	\$100,700	\$192,500	\$155,319	\$201,563	\$226,263
Excluding home equity	\$12,333	\$3,550	\$8,500	\$12,725	\$29,210	\$78,213	\$52,550	\$84,900	\$100,900
Fourth Quintile									
Households (in thousands)	20,935	4,609	6,010	5,096	2,886	2,334	855	640	839
Median net worth	\$78,001	\$19,664	\$64,450	\$101,301	\$157,775	\$284,565	\$222,918	\$312,877	\$322,785
Excluding home equity	\$26,998	\$8,775	\$24,647	\$35,098	\$64,750	\$124,733	\$93,950	\$148,792	\$134,123
Highest Quintile									
Households (in thousands)	20,923	3,219	6,395	6,435	3,311	1,563	610	430	522
Median net worth	\$185,500	\$57,254	\$149,887	\$225,399	\$316,542	\$499,015	\$449,800	\$452,992	\$569,000
Excluding home equity	\$98,510	\$29,850	\$82,235	\$123,621	\$182,430	\$328,432	\$237,925	\$272,681	\$414,369

¹ Quintile upper limits for 2000 were: lowest quintile—\$1,304; second quintile—\$2,426; third quintile—\$3,813; fourth quintile—\$5,988.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: U.S. Census Bureau, 2003a. For full citation, see references at end of chapter.

examined to see which, if any, affected the transition into poverty. Both householders and their spouses were the focus of the research. This study found that work history remained an important predictor of transitions into poverty, even after controlling for preretirement wages and education.

Household Wealth

In the research analyzed for this report, wealth is defined as the level of economic resources within a household (Orzechowski and Sepielli, 2003). It is a different concept from income, which is a household's inflow of monetary resources. Wealth consists of equity in one's home, personal savings, certificates of deposit, stocks

and bonds, and similar resources. One household may have a large income but carry high levels of debt (Davern and Fisher, 2001). Researchers advise that wealth or net worth—the difference between assets and liabilities a person or household has at any given time—should be considered in conjunction with income to get an understanding of economic health and well-being (Orzechowski and Sepielli, 2003).²⁹

Net Worth of Households

The SIPP contains data on household wealth and asset holdings. The net worth concept is based on

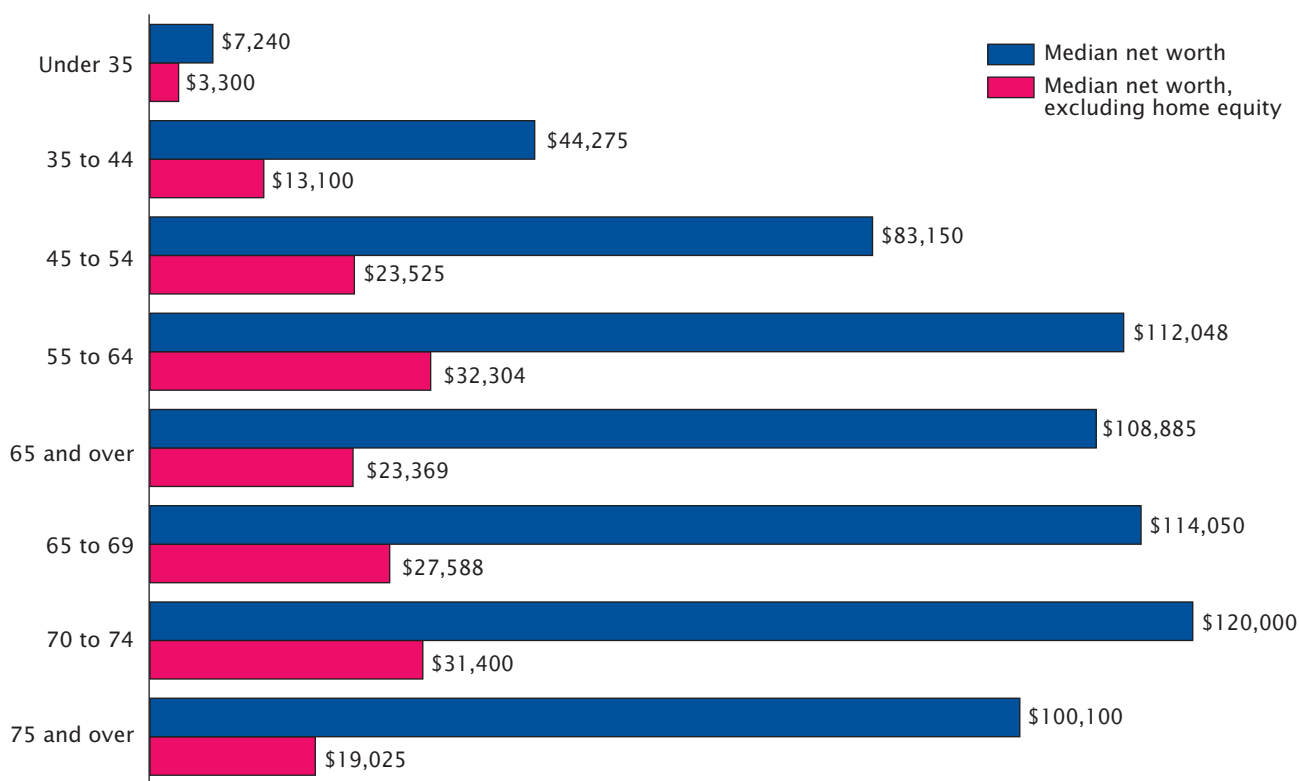
²⁹ For more discussion on the relationship between wealth and income, see Kennickell, 1999.

the value of all assets minus all liabilities.³⁰ In 2000, the median net

³⁰ In the SIPP, assets included in net worth are: interest-earning assets held at financial institutions (passbook savings accounts, money market deposit accounts, certificates of deposit, and interest-earning checking accounts), other interest-earning assets (U.S. government securities and municipal or corporate bonds), stocks and mutual fund shares, rental property, mortgages held for sale of real estate, amount due from sale of business or property, regular checking accounts, U.S. savings bonds, home ownership, vacation homes and other real estate, IRA and Keogh accounts, 401(k) and thrift savings plans, motor vehicles, and other financial assets. Liabilities included in determining net worth are: secured liabilities (margin and broker accounts, mortgages on own home, mortgages on rental property, mortgages on other homes or real estate, debt on business or profession, and vehicle loans) and unsecured liabilities (credit card and store bills, doctor, dentist, hospital, and nursing home bills, loans from individuals, loans from financial institutions, educational loans, and other unsecured liabilities). For more information on net worth, see Orzechowski and Sepielli, 2003.

Figure 4-19.

Median Net Worth of Households by Age of Householder: 2000



Note: The reference population for these data is the civilian noninstitutionalized population.

Source: U.S. Census Bureau, 2003a. For full citation, see references at end of chapter.

worth of households in the United States was \$55,000, and that of households with householders aged 65 and over was \$108,885 (Table 4-10).

Home equity often represented a large portion of the household's wealth. Not including home equity, the median net worth for households maintained by people 65 and older was \$23,369 in 2000. The median net worth minus home equity for the youngest households (householders under the age of 35) was \$3,300 (Figure 4-19).

Among older households, median household net worth by monthly household income quintile differed. The median net worth (including

home equity) for older households in the lowest quintile was \$44,346, and in the second quintile, \$114,425. The median net worth for older households in the highest quintile was \$499,015, more than 10 times that of the lowest quintile. Nearly two-thirds (65.1 percent) of older households were in the two lowest quintiles.

Accumulated Wealth and Dissaving

The relationship between income and wealth is often affected by life cycle effects; overall, older working people have higher asset levels and income than younger people, while retired older people tend to have

higher wealth and lower income than younger people (Kennickell, 1999).

In 2000, the median net worth of households maintained by people 65 and older was higher than that of all other households except for those maintained by householders in the preretirement years of 55 to 64, which were similar. For households maintained by householders under the age of 35, the median net worth in 2000 was \$7,240 (Figure 4-19).

According to the life cycle hypothesis of consumption and saving, net worth decreases when people enter retirement because they “dis-save,” or spend down their assets,

Table 4-11.
Household Net Worth by Asset Type and Age of Householder: 2000

(Percent distribution)

Asset type	Total	Under 35	35 to 44	45 to 54	55 to 64	65 and over
Total net worth¹	100.0	100.0	100.0	100.0	100.0	100.0
Assets	10.6	11.1	7.7	7.8	8.7	15.1
Interest-earning at financial institutions	8.9	10.8	6.8	6.4	7.0	10.9
Other interest-earning	1.7	0.3	0.9	1.4	1.7	4.2
Checking accounts	0.3	0.9	0.4	0.4	0.3	0.4
Stocks and mutual fund shares ..	15.6	13.7	19.1	16.9	17.2	22.1
Own home	32.3	35.6	39.8	37.7	35.1	49.8
Rental property	3.7	2.6	3.2	4.0	5.2	5.1
Other real estate	3.6	3.2	4.1	4.6	6.1	2.9
Vehicles	3.7	9.5	5.8	4.3	3.5	3.0
Business or profession	7.7	14.0	9.8	8.7	6.3	2.4
U.S. savings bonds	0.5	0.6	0.5	0.4	0.7	0.7
IRA or Keogh accounts	8.6	4.1	8.2	7.6	12.5	11.5
401(k) and thrift savings plans ...	9.7	12.6	18.2	16.4	12.4	2.7
Other financial investments ²	1.6	1.7	1.4	1.6	1.5	2.7
Unsecured liabilities ³	-3.1	-15.1	-6.0	-3.6	-1.9	-1.0

¹ Individual outliers that highly influenced the mean value for asset categories were topcoded or excluded. The mean is used to calculate the percent distribution. The outlier adjustments to the individual assets and not the totals led to columns not summing to 100 percent.

² Includes mortgages held for sale of real estate, amount due from sale of business or property, and other financial assets.

³ Because net worth is assets less liabilities, unsecured liabilities are subtracted from the distribution of net worth and are shown as negative.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: U.S. Census Bureau, 2003a. For full citation, see references at end of chapter.

to finance daily living expenses (Browning and Crossley, 2000). According to the standard economic model, individuals smooth consumption over the life span, anticipating a time when resources (assets) will be needed to finance living expenses. The evidence supporting the life cycle hypothesis is mixed. Recently, economists have been able to access data that would allow a rigorous analysis of spending and saving patterns. They are beginning to look at the role that factors such as a bequest motive, risk tolerance, current and perceived future health status, personal tastes, lifetime earnings, and ability to replace lost wage income play in determining net worth at retirement.³¹

³¹ For more information on the life cycle of consumption and saving, see Browning and Crossley, 2000.

Composition of Household Net Worth

Table 4-11 presents the composition of household net worth by age of the householder and asset type. In households maintained by older people, 55.2 percent of household net worth was in financial assets, compared with 44.7 percent for households with householders under the age of 35.³² Conversely, the youngest householders had a higher proportion of their household net worth in nonfinancial assets than older householders, most often in their businesses or

³² Financial assets include interest-earning assets at financial institutions, other interest-earning assets, checking accounts, stocks and mutual fund shares, U.S. savings bonds, IRA or Keogh accounts, and other financial investments. Nonfinancial assets include an owned home, rental property, other real estate, vehicles, and business or professional equity.

professions (14.0 percent and 2.4 percent, respectively). Vehicles represented 9.5 percent of the net household worth for householders under age 35 and 3.0 percent for households with a householder 65 and older.

Housing Homeownership

The older population in the United States is a home-owning population. According to the American Housing Survey (AHS), there were 21.8 million older households in 2001 (i.e., the householder was 65 or older); approximately 80 percent of these households, or 17.5 million, were owned.³³ The other 4.3 million were rented. The majority (74.3 percent) of older households—16.2 million—were single-family homes, and 1.5 million older households (6.7 percent) were manufactured/mobile homes or trailers (Figure 4-20).

The older population's homeownership rate varies by region (Figure 4-21). Data from the CPS/Housing Vacancy Survey (HVS) showed that in 2003, the Northeast had the lowest level of homeownership (71.8 percent), while the South had the highest level (85.4 percent).

Among older households, homeownership rates also varied by family status and living arrangements. Data from the CPS/HVS showed that in 2003, the majority of older married couples owned homes, with rates ranging from 92.8 percent of households with householders 65 to 74 years old to 91.1 percent of those with householders aged 75 and older (Figure

³³ For more information on the American Housing Survey, see <<http://www.census.gov/hhes/www/ahs.html>>.

4-22). Homeownership among older people living alone was lower for all older age groups. Older female householders living alone had higher homeownership rates than their older male counterparts among those aged 65 to 69 and 70 to 74. For the oldest age group,

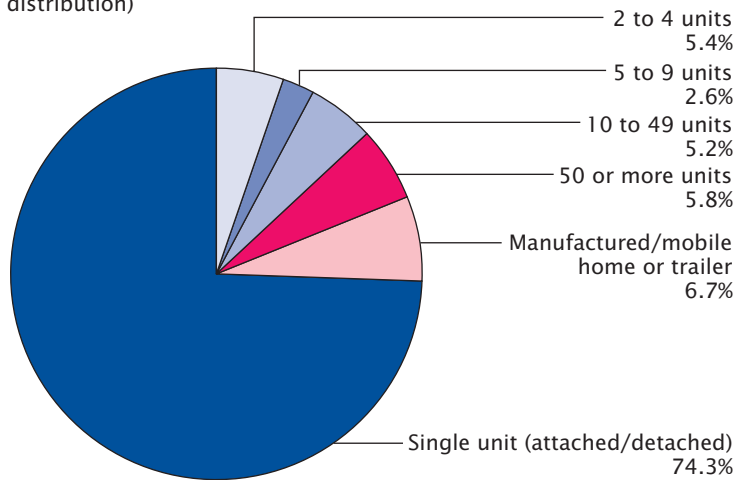
75 and over, a similar percentage of older men living alone and older women living alone owned their homes.

Older non-Hispanic White households were more likely to own their home than their Black, Asian and Pacific Islander, and Hispanic coun-

terparts. As shown in the AHS data for 2001, 83.2 percent of older non-Hispanic White households were owner-occupied, compared with 66.4 percent of Black, 63.3 percent of Asian and Pacific Islander, and 64.5 percent of Hispanic older households (Figure 4-23).³⁴

Figure 4-20.
Occupied Housing Units With a Householder Aged 65 and Over by Units in Structure: 2001

(Percent distribution)



Note: The reference population for these data is the civilian noninstitutionalized population.
Source: U.S. Census Bureau, 2002, Table 7-1. For full citation, see references at end of chapter.

Housing Costs

Thirty percent of household income is considered to be the standard for housing affordability, according to the U.S. Department of Housing and Urban Development (1999). The 2001 AHS revealed that for older homeowners, median monthly housing costs—including mortgage expenses, property taxes, insurance, condominium and association fees, utilities, and maintenance costs—were \$339. Among older renters, the median monthly rent was \$516. The median housing costs for homeowners

³⁴ Homeownership rates among non-Hispanic Whites and American Indians, Eskimos, and Aleuts were not significantly different. Also, the differences in homeownership rates among the groups other than non-Hispanic Whites were not statistically significant.

Figure 4-21.
Homeownership Rate for Households With a Householder Aged 65 and Over for Regions: 2003

(In percent)

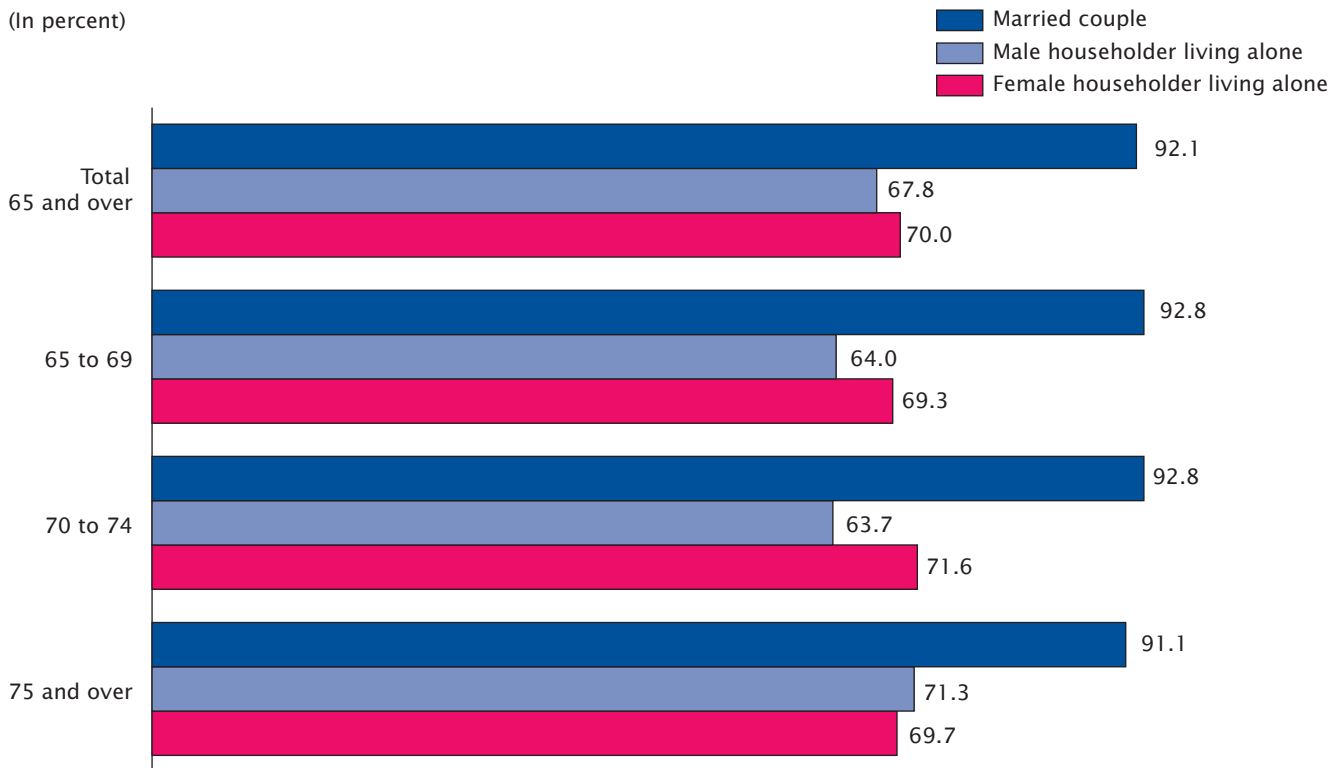


Note: The reference population for these data is the civilian noninstitutionalized population.
Sources: U.S. Census Bureau, 2003b, Tables 15–19. For full citations, see references at end of chapter.

Figure 4-22.

Homeownership Rate for Older Householders by Living Arrangement and Age of Householder: 2003¹

(In percent)



¹ Does not include people living with other relatives and nonrelatives.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: U.S. Census Bureau, 2003b, Table 15. For full citation, see references at end of chapter.

Figure 4-23.

Homeownership Rate for Households With a Householder Aged 65 and Over by Race and Hispanic Origin: 2001

(In percent)



Note: The reference population for these data is the civilian noninstitutionalized population.

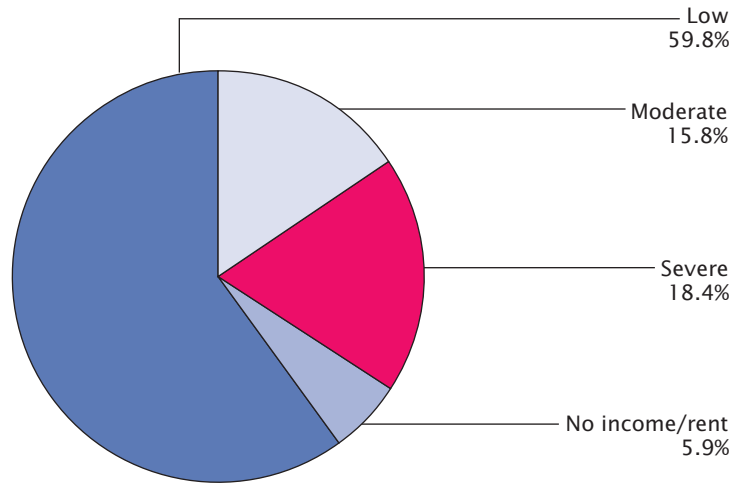
Source: U.S. Census Bureau, 2002, Table 7-1. For full citation, see references at end of chapter.

as a percentage of current income was 27 percent in 2001. Older renters paid about 35 percent of current income in median monthly rent, above what is considered affordable. Analysis of occupied housing units with older householders showed that 34 percent of them spent 30 percent or more of their income on housing, and 18 percent paid at least half of their income for housing (Figure 4-24).

Another measure to examine housing affordability is whether one can afford a median-priced home in the area where one lives. Based on the SIPP data, in 1995, 91.3 percent of people under the age of 25 could not afford a median-priced home in the area in which they lived (Figure 4-25). As age increased, the proportion not able to afford a median-priced home decreased. For those aged 55 to 64, 21.5 percent could not afford a median-priced home. Figure 4-25 shows that 24.4 percent of people 65 and over were not able to afford a

Figure 4-24.
Housing-Cost Burden of Households With a Householder Aged 65 and Over: 2001¹

(Percent distribution)



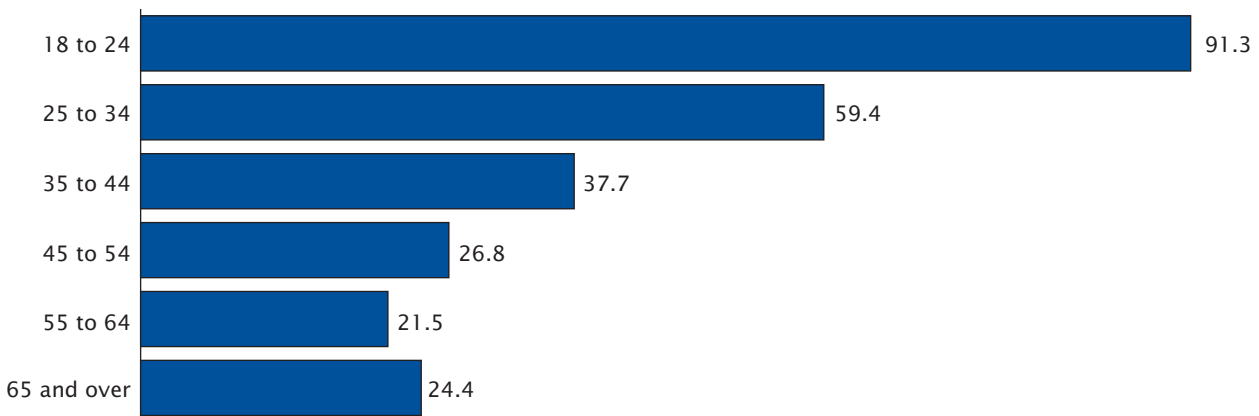
¹ Housing-cost burden is defined as the housing-cost proportion of the household income. Thirty percent of the household income is often considered the standard for housing affordability; less than 30 percent is considered low, 30 to 49 percent is considered moderate, and 50 percent or more is considered severe.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: U.S. Census Bureau, 2002, Table 7-13. For full citation, see references at end of chapter.

Figure 4-25.
Percent of Families and Unrelated Individuals Who Cannot Afford to Purchase a Median-Priced Home in Area by Age of Householder: 1995

(Current owners using conventional, fixed-rate, 30-year financing)



Note: The reference population for these data is the civilian noninstitutionalized population.

Source: Savage, 1999, Detailed Table 2-3. For full citation, see references at end of chapter.

median-priced home. Among renters, 86.2 percent of renters 65 and over responded that they could not afford a median-priced home.

Those 65 and over who owned their homes had annual income almost twice that of renters—\$23,465 compared with \$12,356. Household income below the poverty level was reported by 35.4 percent of older renters. Another 22.1 percent were just above the poverty level.

Housing Conditions

The older population tends to reside in older homes. The 2001 AHS showed that the median year of construction of owner-occupied housing units for older households was 1962, indicating that half of their housing was 39 years old or older. The median construction year for all households was 1970, while 36.5 percent of the owner-occupied housing units with older householders were built after 1970. Older renters lived in newer

housing more often than all renters. Half of older renters lived in units built after 1968; the median year for all renters was 1967.

In general, the older population lives in adequate housing conditions, defined as having a complete kitchen, washing machine, clothes dryer, air conditioning, warm air furnace, and complete plumbing facilities (Figure 4-26). About 4 percent of older households reported moderate physical problems with the structure, including broken flush toilets; the presence of unvented oil, gas, or kerosene heaters as primary heating equipment; and the lack of a kitchen sink, refrigerator, or cooking equipment. Another 1.9 percent of older households reported severe physical problems, including lack of hot and cold water, lack of a flush toilet, persistently broken heating equipment, and subpar electrical systems or complete lack of electricity.

The AHS showed that living conditions varied by race and Hispanic origin. In 2001, almost 5 percent

of older Hispanic households, 3.4 percent of older Black households, and 1.5 percent of older non-Hispanic White households lived in housing with severe physical problems, such as those listed above.

The 1995 AHS included a special supplement on home accessibility needs and modifications, which contained detailed questions on adequacy, appropriateness, affordability, and accessibility of housing for the older population. According to a 1999 HUD report based on the 1995 AHS supplement, whether a home is adequate or not depends upon the physical condition of that housing unit, its age, and its size relative to the needs of the older population.³⁵ The report found that 6 percent of the older population resided in homes that needed repair and/or rehabilitation.³⁶ The

³⁵ For more information, see U.S. Department of Housing and Urban Development, 1999.

³⁶ The older population defined in the 1999 HUD report are people aged 62 and over. HUD uses age 62 as the age eligibility threshold for various forms of housing assistance.

Figure 4-26.

Percent of Occupied Housing Units With a Householder Aged 65 and Over With Selected Equipment and Plumbing: 2001



¹ A complete kitchen includes a sink, refrigerator, and oven or burners.

Note: The reference population for these data is the civilian noninstitutionalized population.

Source: U.S. Census Bureau, 2002, Table 7-4. For full citation, see references at end of chapter.

presence of housing problems varied by race and Hispanic origin. In 1995, 16.6 percent of older Black households lived in inadequate housing, compared with about 11 percent of older Hispanic households and 4.3 percent of older White households. According to HUD, half of older people residing in homes with physical problems did not have the financial means to make repairs to their homes.

The 1995 AHS supplement also found that an increasing number of older people desired to remain in

their own homes rather than move to an assisted living environment as they grew older or their health needs changed. To do this, their housing would likely need modification. The 1995 AHS revealed that 22.8 percent of older households reported at least one physical limitation—such as mobility, sight, or hearing problems, or difficulty performing activities of daily life such as dressing or bathing oneself. These problems became more pronounced with age: 30.4 percent of households with a person 75 and older reported physical

limitations. Among householders reporting physical limitations, 43.1 percent were living alone. About half of all older households reported they had the means to address these limitations by either making modifications to their housing or securing assistive services. Those renting were least likely to be able to do this. Among those reporting physical limitations, 38.3 percent said that they had no need for structural modifications to their housing.

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