Living Longer on Less BRIEF*

The New Economic (In)Security of Seniors

TATJANA MESCHEDE

THOMAS M. SHAPIRO

JENNIFER WHEARY

BY A THREAD REPORT SERIES

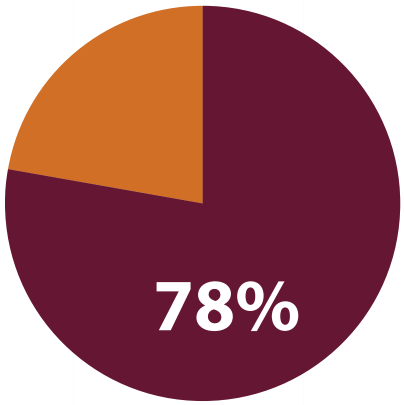
Fundamental changes in the lives of older Americans have made it more difficult for seniors to enter retirement with economic security and to retain that security.

Seventy-eight percent of all senior households are financially vulnerable. That is, more than three out of four senior households do not have sufficient economic security to sustain them through their lives. This is according to the Senior Financial Stability Index (SFSI), new research developed by The Institute on Assets and Social Policy at Brandeis University and Dēmos. Single, African-American and Latino households are the most likely groups of seniors to be financially vulnerable.

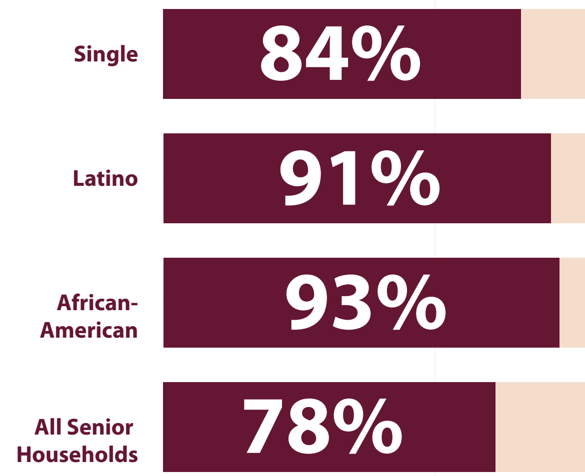
These sobering statistics should serve as a wake-up call for younger and middle-aged Americans.

Though they are financially vulnerable, today's seniors represent a best-case scenario of having reached retirement under stronger Social Security, better employer-based benefits, and greater opportunities to avoid debt and build assets than future generations will experience. Younger generations must take action to strengthen the security of today's seniors and as an important step to ensuring their own..

Percent of Senior Households that are Financially Vulnerable:



Financial Vulnerability Among Seniors, by Household Type



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BACKGROUND ON THE SENIOR FINANCIAL STABILITY INDEX (SFSI)

The economic security of present and future retirees is being challenged by two simultaneously occurring trends: a weakening of the three legs of retirement security income (Social Security, pensions and savings) and dramatically increasing expenses, such as in healthcare and housing.

Using national data for seniors age 65 and above, the Senior Financial Stability Index (SFSI) measures the impact of these changes on today's seniors.

The SFSI measures five components of senior economic security.

» **Housing Costs** and **Healthcare Expenses**—Because they represent the largest living expenses for older Americans.

» **Household Budgets**—Because they show the capacity of senior households to meet annual essential expenses.

» **Home Equity**—Because it is the largest source of wealth for all U.S. citizens and in particular for older Americans.

» **Household Assets**—Because they help establish a family's long-term stability.

For each component, the Senior Financial Stability Index defines what would make a senior household secure and what would make the household financially vulnerable. The SFSI combines these definitions to come up with an overall look at financial security and vulnerability among retirees.

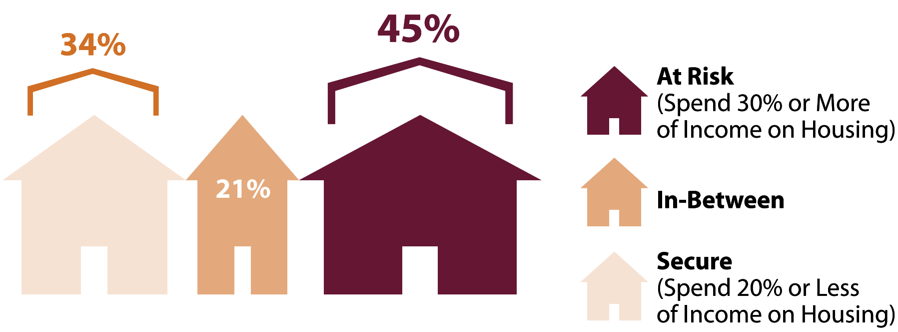
Factor	Financially Secure	Financially At Risk
Housing	Housing consumes 20% or LESS of income.	Housing consumes 30% or MORE of income.
Home Equity	Home equity of $75,000 or above.	Renter/no home equity.
Health	Medical expenses, including supplemental health insurance, LESS THAN 10% of total before tax income.	Medical expenses, including supplemental health insurance, 15% or MORE of total before tax income.
Budget	$10,000 or MORE left after annual essential expenses.	Risk when budget at zero or negative after essential expenses.
Assets	Net financial assets plus Social Security/ pension income MINUS median expenses over life expectancy GREATER or EQUAL to $50,000 for single seniors, $75,000 for senior couples.	Net financial assets plus Social Security/ pension income MINUS median expenses over life expectancy EQUAL to zero or less.
Overall	***Asset secure PLUS security in at least two other factors.***	***Asset fragile PLUS fragility in at least two other factors.***

FINANCIAL STABILITY BY FACTOR

Senior (In)Security at a Glance	
Housing & Home Equity	45% of senior households spend nearly a third of their income on housing. 31% either rent or have no home equity to draw on in tough times.
Healthcare	40% of senior households spend more than 15% of their income on healthcare.
Budget	Nearly 1 in 3 senior households has no money whatsoever left over after meeting essential expenses.
Assets	More than half of all senior households (54%) do not have sufficient financial resources to meet median projected expenses based on their current financial net worth, projected Social Security, and pension incomes.
Only 22% of seniors are secure in the majority of these areas.	

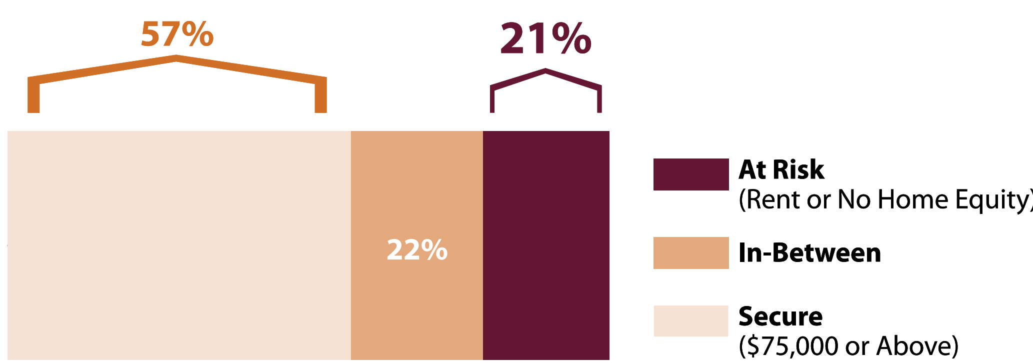
HOUSING

Homeownership can help seniors enjoy relatively fixed housing costs and offer a potential source of equity to drawn on when needed. Homeownership is not the only area that affects senior stability, however. Regardless of whether seniors own or rent, their housing must be affordable. The Department of Housing and Urban Development (HUD) defines affordable housing as housing which costs less than 30% of a family's income. Seniors spending more than 30% of their income on housing may have trouble meeting other essential expenses.



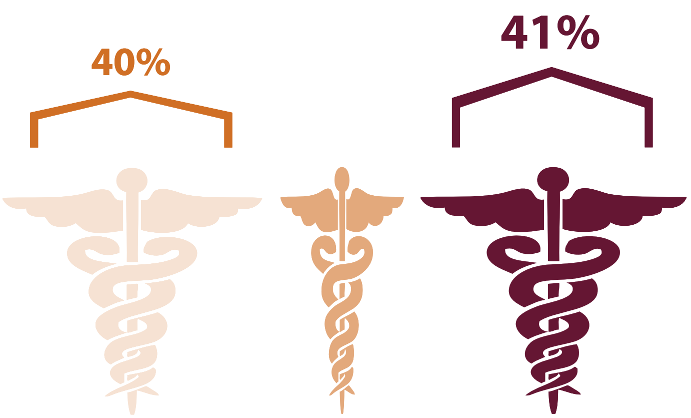
45% of senior households match HUD's definition of housing-burdened.

About 1 in 5 senior households have no home equity to tap into.



HEALTHCARE

Rising medical expenses, chronic conditions that need medical attention, and anxiety regarding unforeseen medical issues are challenges for most senior households. More and more healthcare needs and expenses that used to be insured through Medicare now fall onto private family budgets. These out-of-pocket medical expenses include expenditures for supplemental health insurance, medical services and supplies, and prescription drugs.



More than 2 out of 5 senior households spend 15% or more of income on healthcare costs.

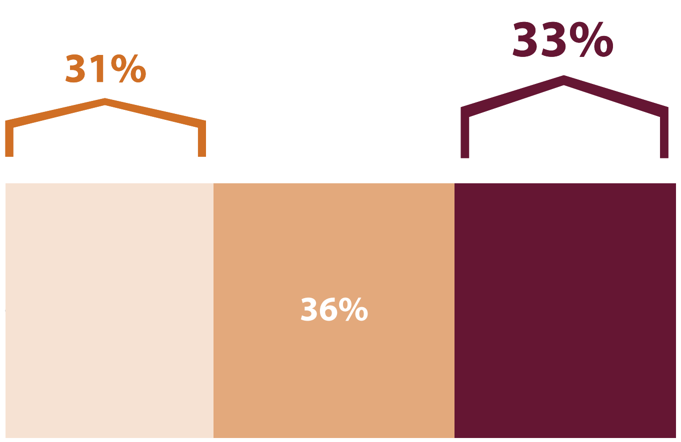
At Risk
(Spend 15% of Income on Healthcare)

In-Between

Secure
(Spend <10% of Income on Healthcare)

BUDGET

Most seniors rely on fixed incomes. As a result, their budgets have a smaller cushion than many younger households. A cushion of $10,000 provides a basis for common but non-essential expenses and savings to meet unexpected expenses. Such unexpected expenses might include home repair, new appliances, car repair, and higher out-of-pocket essential expenses such as medical costs in case of illness or large increases in the price of necessities such as heating fuel, gas or medicine.



At Risk
($0 or Debt After Meeting Essential Expenses)

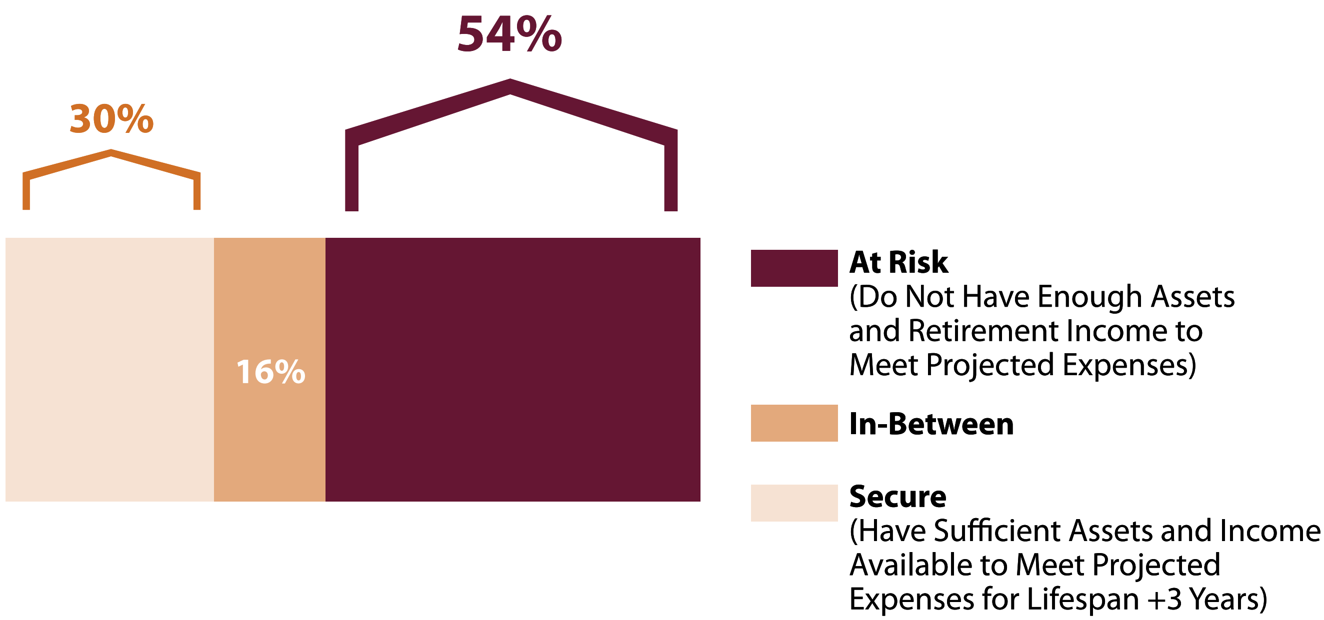
In-Between

Secure
($10K Left Over Annually After Meeting Essential Expenses)

1 in 3 senior households has no money left over or is in debt after meeting essential expenses.

ASSETS

Seniors pay their expenses using funds from several sources—most commonly, assets, Social Security income and pension income. Seniors are financially at risk when they do have enough net financial assets and income to match their projected expenses over the course of their projected actuarial lifetimes. Half of seniors will live beyond average life expectancy, making the need for assets and income to cover expenses throughout the actual lifespan plus several additional years a reasonable yardstick for economic security.



More than 1 out of 2 senior households have NO assets available to meet projected moderate expenses throughout their lifetimes.

POLICY SOLUTIONS

STRENGTHEN BOTH SOCIAL SECURITY AND PENSION PROVISIONS

With fewer and fewer workers having access to pension plans and a marked shift from defined-benefit to defined-contribution plans, the employer-pension leg of retirement security no longer holds its weight. Pension provisions need to be rebuilt by providing incentives for employer-based access to pensions. Policymakers should keep in mind that longer range economic security is better anchored by defined-benefit provisions which provide guaranteed benefits for the rest of the beneficiary's life and do not require that the retiree stretch what has been saved in a 401(k) plan over an unknown period of time. Government interventions are also needed to secure the stability of existing pensions to ensure the stability of employer and employee investments.

Social Security provides at least three-quarters of income for low-income and poor elderly who have few other resources. In fact, 36 percent of senior singles and 17 percent of senior couples rely solely on income from Social Security.

Areas of Policy Intervention Include:

Strengthening Social Security and Pensions.

Increasing Asset Building Opportunities.

Supporting Flexibility to Allow Americans to Work Longer and More Productively.

Curbing Healthcare Costs and Instituting Universal Long-Term Care Insurance.

Social Security is the only widely available income source that is guaranteed and adjusted for inflation. As such, it needs to be strengthened, not further weakened by replacing it with private accounts that favor the more affluent. In addition, Social Security benefit levels need to be adjusted to provide more adequate income for low-earning beneficiaries. One example is strengthening the special minimum benefit instituted in 1972 to ensure (at a minimum) poverty-level Social Security income for low-wage workers.

In addition, benefits could be strengthened by reviewing interactions between programs targeting low-income seniors, and increasing asset limits in means-tested programs to allow for reasonable amounts of savings for unexpected financial costs and emergencies.

ENHANCE ASSET-BUILDING OPPORTUNITIES THROUGHOUT THE LIFESPAN

Policies for seniors are, in essence, family policies. Most of us will be among the older population one day. Therefore, enhancements to asset-building opportunities that support household asset-building and financial management for young, middle age and elderly families are critical. These asset-building opportunities should include: access to and automatic enrollment in defined-contribution pension plans for all; education on financial management throughout the life course as well as specifically for seniors;

adequate income opportunities; matched savings accounts or IDAs that permit long-term savings for low-income populations; and asset protection, mostly as it relates to housing wealth.

FLEXIBLE EMPLOYMENT DURING RETIREMENT

With increased life expectancies and economic insecurity in older age, more and more seniors opt to work during their early retirement years. Institutional and structural gaps interfere with the desire of many older workers to continue working, though not necessarily full-time. When to work, where to work, how to work, and what to receive for working are key to flexible work arrangements providing a better institutional fit for older workers and continued productive employment. Indeed, one study indicates that one in four older workers continues to work because their employer provided flexible work options. Such options include: scheduling flexibility (including flextime and bundled work days), job-sharing options, and career flexibility with various points of entry, exit, and re-entry over a working career.

ADDRESS THE MEDICARE CRISIS

Without attention to healthcare access and affordability, progress in all other areas of retirement security will be negated. Seniors are especially anxious about health risks and the volatility of healthcare costs. The U.S. healthcare system is one of the most expensive healthcare systems in the world, ironically achieving health outcomes that are often no better, and sometimes worse, than those in other countries. Like all healthcare costs, Medicare costs have risen and continue to rise disproportionately to other expenses. As such, Medicare reform needs to be addressed in the context of a reorganization of the overall healthcare system. The system needs to be restructured in order to curb current escalating costs and to provide health services to all citizens.

INSTITUTE LONG-TERM CARE INSURANCE

One of the major economic security threats to each U.S. citizen is the need for long-term care. Current policies require spending down assets in order to qualify for Medicaid, the only public program that provides coverage for such expenses in many cases. Private long-term care insurance programs are unaffordable for most. Federal long-term care insurance would spread the risk of needing long-term care among all U.S. citizens.

Institute for Assets and Social Policy | The Heller School for Social Policy and Management, Brandeis University | 415 South Street, MS-035 | Waltham , MA 02454
www.iasp.brandeis.edu | 781.736.8685

Dēmos | 220 Fifth Avenue, 5th Floor | New York, NY 10001
www.demos.org | 212.633.1405