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Selected indicators of well-being for people aged 55-64: 1984, 1994, and 2004

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Abstract
Dramatic changes in life expectancy, women's roles, the structure of the workforce, and pension systems have occurred in recent history all influencing the well-being of future retirees. This paper uses U.S. data to focus on the retirement resources of persons aged 55-64. By comparing these resources for this age group in 2004 to their counterparts in 1994 and 1984, this paper provides some indication of how preparedness of future aged is changing. Preliminary results indicate that there are marked differences in potential retirement outcomes by educational attainment and race. Notable changes have occurred with women's pathways into retirement due to changes in patterns of market work. Though few 55-64 year olds have purchased long-term care insurance, most near retirees could receive care from family members, so the extent of their exposure to risk is unclear.

Introduction

The Interagency Forum on Aging Related Statistics consists of several Federal Agencies involved in preparing or supporting statistics on the Aged. As part of the Forum's activities, the Forum has produced a chartbook on the health and well-being of the aged in 2000, 2004, and 2006 (see www.agingstats.com). For the most part, the chartbook compiles information on the U.S. population aged 65 and older using selected data from the Forum Agencies. The target audience of the chartbook is the general population, groups focused on the aged, and the policy community. Consequently, the chartbook is descriptive and relies upon charts to display the statistics.

As the leading edge of the baby boom approaches retirement age, an obvious question is how the baby boom will fare in retirement. Dramatic changes occurred in the last half of the Twentieth Century influencing well-being of future retirees. The situation of those aged 55-64 provides a foreshadowing of things to come among the aged in the Twenty-First Century. It is difficult to know how the boomers will fare, but some guidance can come from comparisons to those who came before. The Forum Agencies decided to bring information together on the 55-64 age group, and the extent to which this is changing, because of interest in the extent of change over time in the well-being and insurance against retirement risks for the future population aged 65 and older. This brief focuses upon the economic resources that comprise retirement income, the availability of employer provided insurance against health risks at older ages, and the determinants of the need for long term care for persons aged 55-64. By comparing measures of well being for this age group in 2004 to their counterparts in 1994 and in 1984, the brief explores whether the current cohort is better or worse prepared than their counterparts from earlier birth cohorts at similar stages of the life cycle.

The last half of the Twentieth Century included dramatic and fundamental changes that will influence the coming baby boomers in retirement (Farley 1996; Henretta and O'Rand 1999; Society of Actuaries 2006; Butrica, Iams, and Smith 2003; Goldin 2006). Fundamental shifts occurred in marital patterns and fertility. The Boomers experienced relatively higher ages of first marriage, divorce rates, and multiple marriages, coupled with relatively low fertility compared with their parents generation. Longevity increased over the period as indicated by increasing life expectancy overall and among those aged 65 and over. In order to maintain consumption at older ages, the benefit of increased life expectancy must be paid for through increased saving or a delayed transition to full retirement. Perhaps the greatest changes surround the “quiet revolution” in women’s roles which began in the 1970s and continues today. Goldin (2006) defines this “quiet revolution” as changing horizons among women to include a lifetime of employment, shifting identities from home and family toward economic independence, and increasing job experience and earnings capacity. These changes have fundamentally altered the occupations and lifetime earnings of many women.

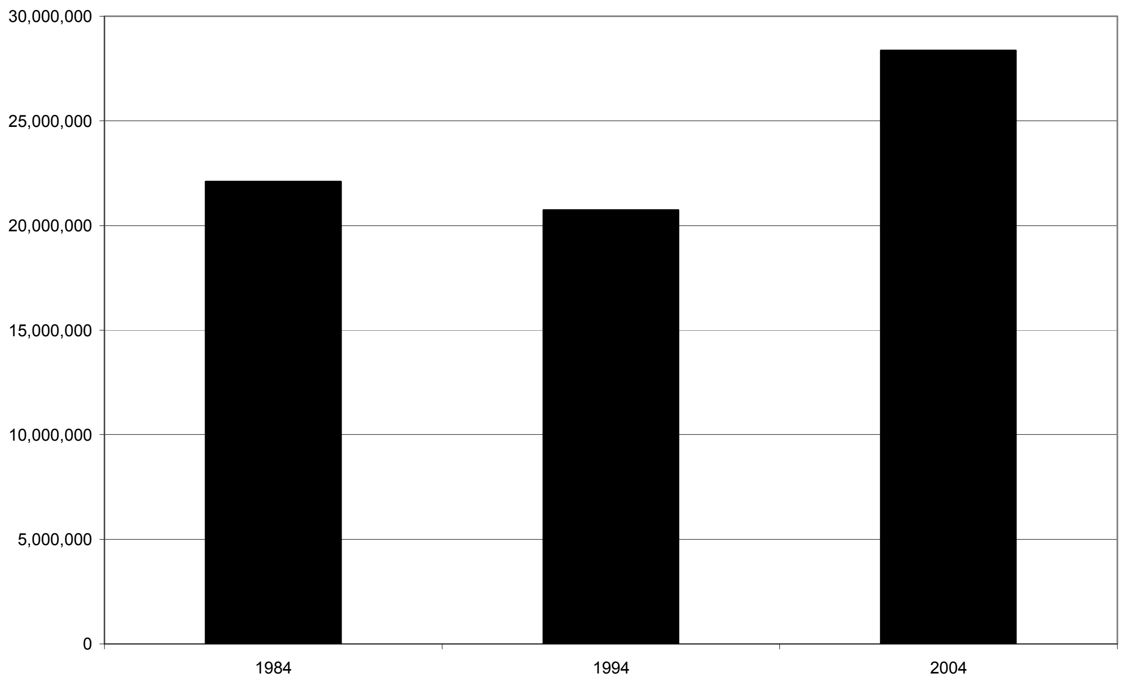
In addition to the changes in women’s roles, the nature of work and the employer-employee relationship has changed greatly during this time period. The economy has shifted from a manufacturing base toward services and there is greater global competition. Employer costs and liabilities from traditional retirement age supports such as defined benefit pensions and retiree health insurance have grown. This has resulted in a shift towards defined contribution pension plans where the worker is more responsible for his/her financial well-being in retirement (Munnell and Sunden 2004). These changes have resulted in shifting circumstances for many of the baby boomers approaching retirement today.

This brief focuses on the preparation for retirement with respect to retirement income and protection against health risks. Retirement income is best based on multiple pillars of income including Social Security benefits, financial wealth and assets, and occupational pension income. Partial retirement with earnings can provide an additional pillar continuing in older age. In addition to government programs and individually purchased private health insurance, insurance against health risk usually includes employer based health insurance that may continue after retirement, long-term care insurance, and informal family care that is often provided by adult children. The brief consists primarily of charts drawn from data on well-being collected by or sponsored by Federal Agencies including the Census Bureau’s Current Population Survey and Survey of Income and Program Participation and the National Institute on Aging-supported Health and Retirement Study. The brief focuses on people aged 55-61, before early eligibility for Social Security retirement benefits, and those aged 62-64, before eligibility for Medicare and full Social Security benefits. The brief compares the circumstances for people born in the 1940s (i.e., people aged 55-64 in 2004) to the circumstances of those born in the 1930s and in the 1920s (i.e., people aged 55-64 in 1994 and 1984, respectively). The charts and tables in this note use weighted statistics.

Number of People Aged 55-64

Over the past twenty years, the number of people aged 55-64 has grown dramatically. This large increase is primarily due to the aging of the baby boomers.

Chart 1a. Number of people aged 55-64, 1984, 1994, and 2004



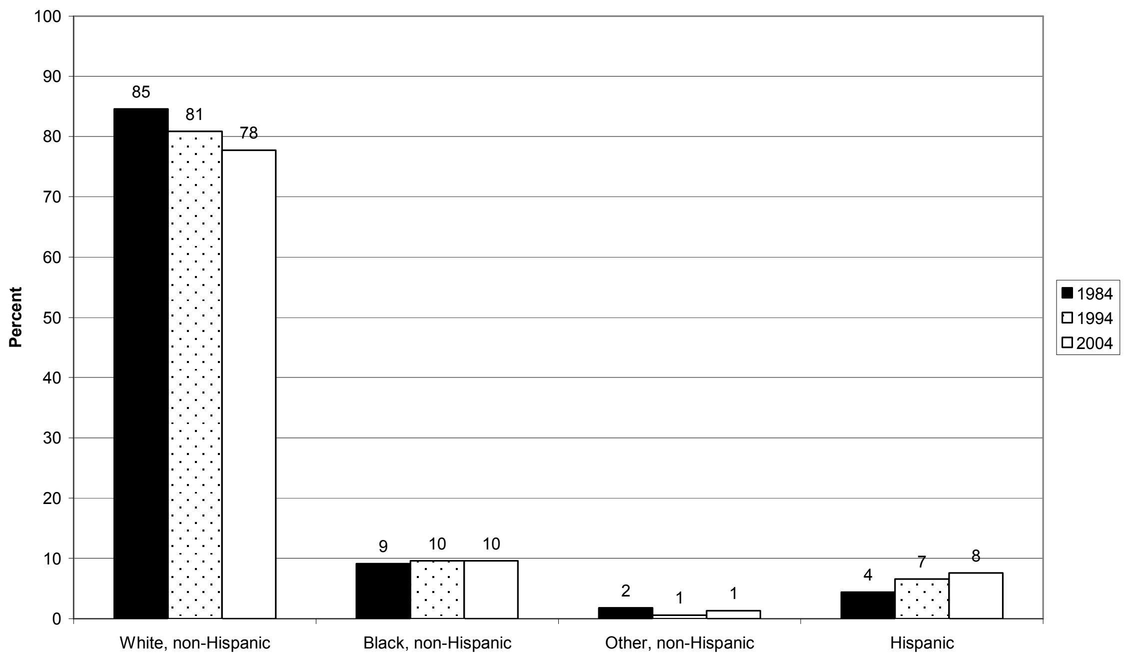
Source: U.S. Census Bureau, Population Estimates and Current Population Survey, Annual Social and Economic Supplement.

- Between 1984 and 2004, the number of people aged 55-64 increased from 22 million people to 28 million. This increase is primarily due to the leading edge of the baby boomers turning 55 beginning in 2001.

Race and Hispanic origin

People aged 55-64 have become somewhat more diverse with respect to race and ethnicity reflecting the demographic changes in the U.S. population as a whole over the last several decades.

Chart 1b. Percentage of people aged 55-64, by race and Hispanic origin, 1984, 1994, and 2004



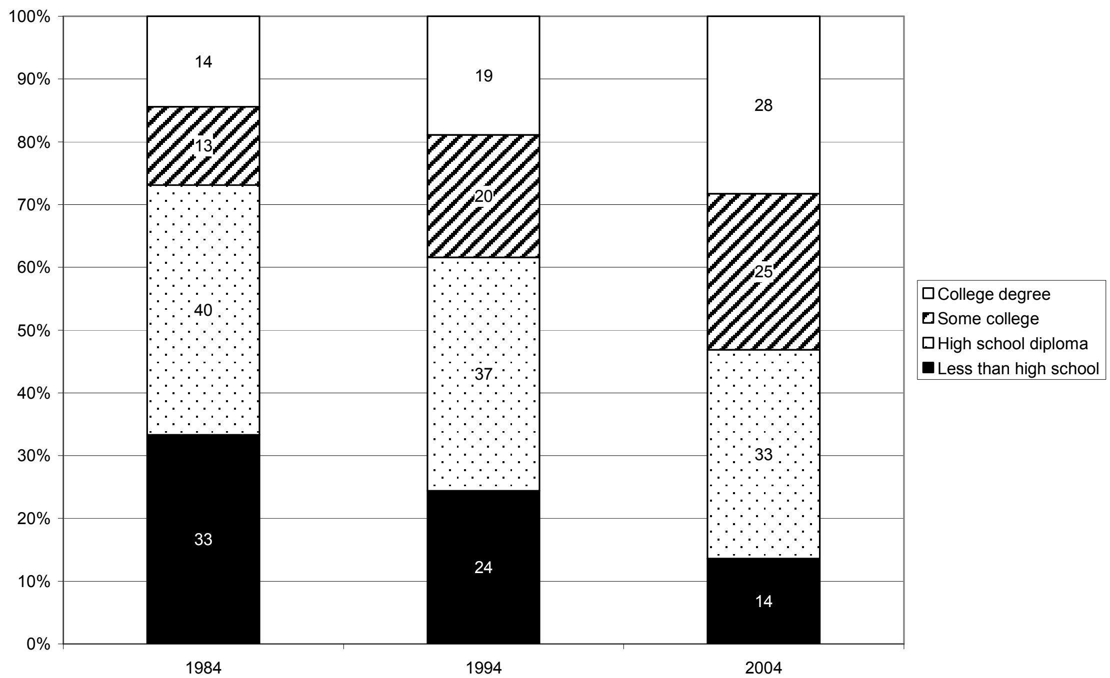
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement.

- In 2004, the percentage of people aged 55-64 in minority group was greater than in 1984. In 1984, 85 percent of people aged 55-64 were non-Hispanic white in contrast to 78 percent in 2004. The percentage of Hispanics increased from 4 to 8 percent while the percentage of non-Hispanic blacks stayed between 9 and 10 percent.

Educational Attainment

Higher levels of education are associated with greater wealth, better health, and longer life (Waite and Gallagher 2000; Farley 1996).

Chart 1c. Educational attainment of people aged 55-64, 1984, 1994, 2004



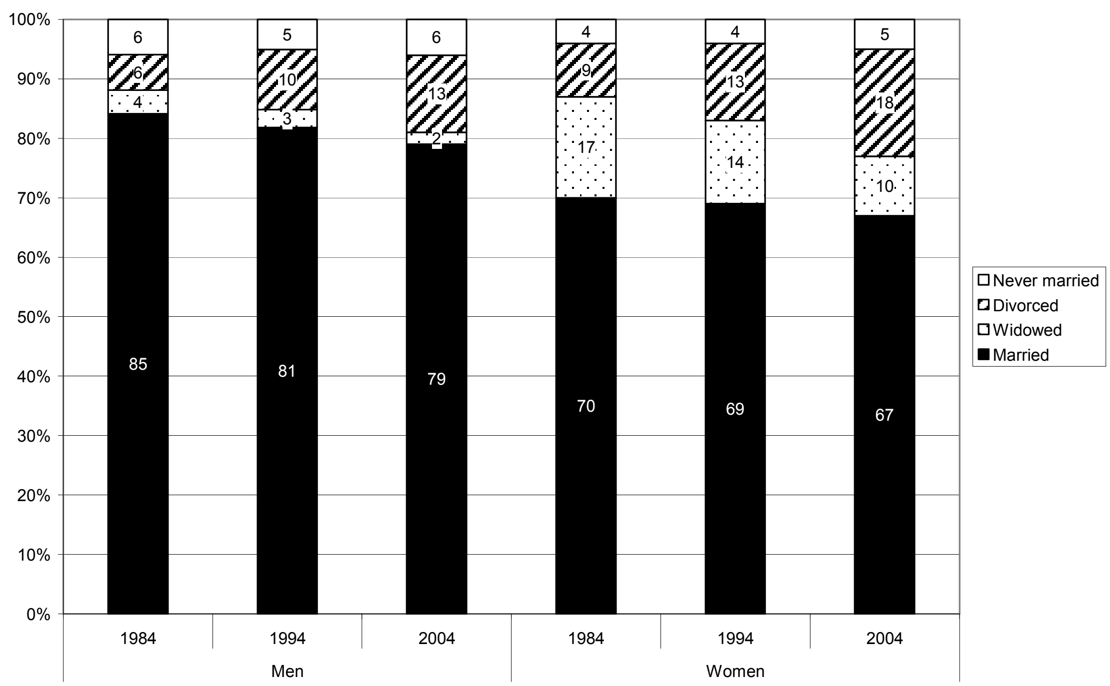
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement.

- In 2004, more than half (53 percent) of people aged 55-64 had at least some college education compared to only slightly more than a quarter (27 percent) in 1984.
- The percentage of people aged 55-64 with a college degree doubled over the past twenty years from 14 percent in 1984 to 28 percent in 2004.
- Less than 15 percent of people aged 55-64 in 2004 had less than a high school education compared to 33 percent in 1984.

Marital Status

Marital status can affect many aspects of people's lives including living arrangements, income, wealth, availability of caregivers, and overall health status. Marital status also affects access to future retirement income from auxiliary spouse and survivor Social Security benefits, survivor pension benefits, and couple income sharing.

Chart 1d. Marital Status of the population aged 55-64, by sex, 1984, 1994, and 2004



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement.

- The proportion of people aged 55-64 who were married declined for men from 85 percent in 1984 to79 percent in 2004 and for women from 70 percent to 67 percent.

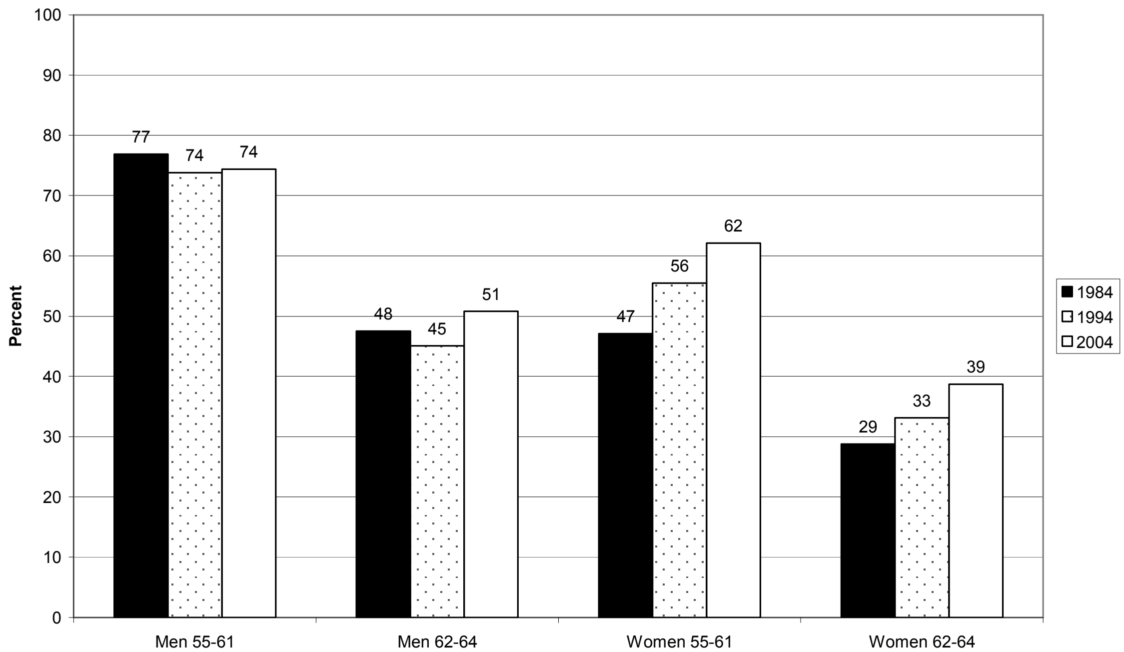
- The proportion of divorced people aged 55-64 has doubled over the past two decades from 6 percent in 1984 to 13 percent in 2004 for men, and from 9 percent to 18 percent for women.

- The proportion of people aged 55-64 who were widowed declined between 1984 and 2004 from 4 percent to 2 percent for men and from 17 percent to 10 percent for women.

Labor force participation rates

People who exit the labor force before qualifying for full Social Security benefits at age 65 do so for a variety of reasons including chronic health problems, loss of a job, and being eligible to collect Social Security benefits.

Chart 2. Labor force participation rates of people aged 55-64, by age group and sex, 1984, 1994, and 2004



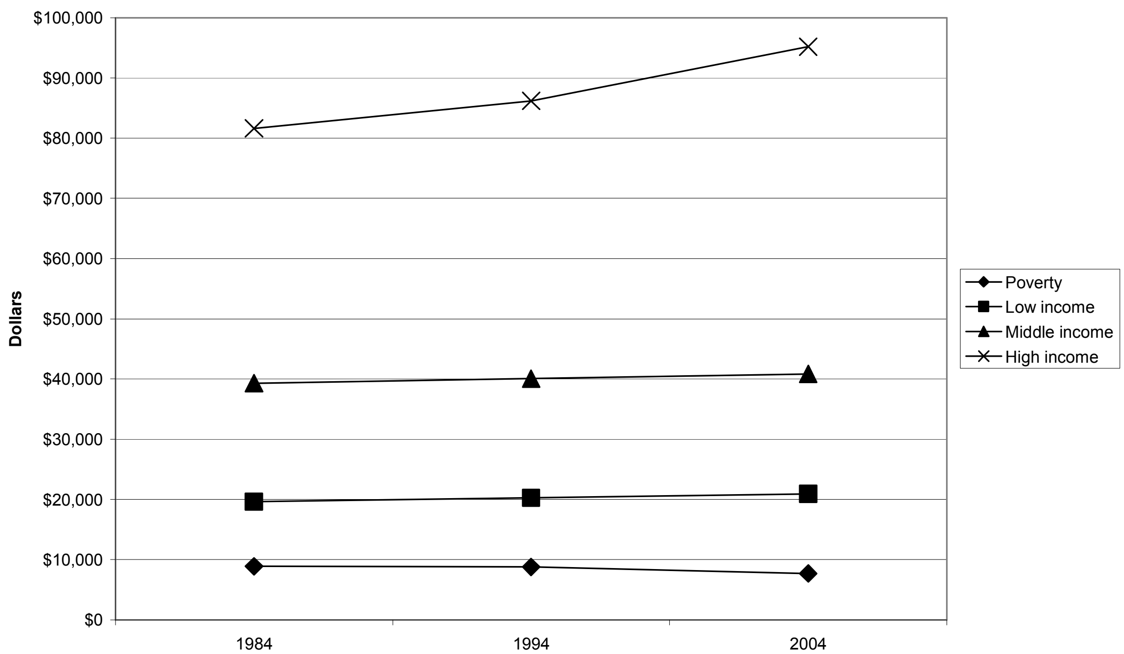
Source: Bureau of Labor Statistics, Current Population Survey.

- About three-quarters of men aged 55-61 are in the labor force compared to only half of men aged 62-64.
- The labor force participation rates for men aged 62-64 increased from 45 percent in 1994 to 51 percent in 2004.
- The labor force participation rates for women both at ages 55-61 and 62-64, have seen dramatic increases. Between 1984 and 2004, the labor force participation rates for women aged 55-61 have increased from 47 percent to 62 percent and for women aged 62-64 the rates have increased from 29 percent to 39 percent over the same period.

Median income

People with lower incomes, especially those in poverty, are at greater risk of having inadequate resources for food, housing, health care, and other needs.

Chart 3a. Median household income of men aged 55-64, by income category, in 2004 dollars, 1984, 1994, and 2004



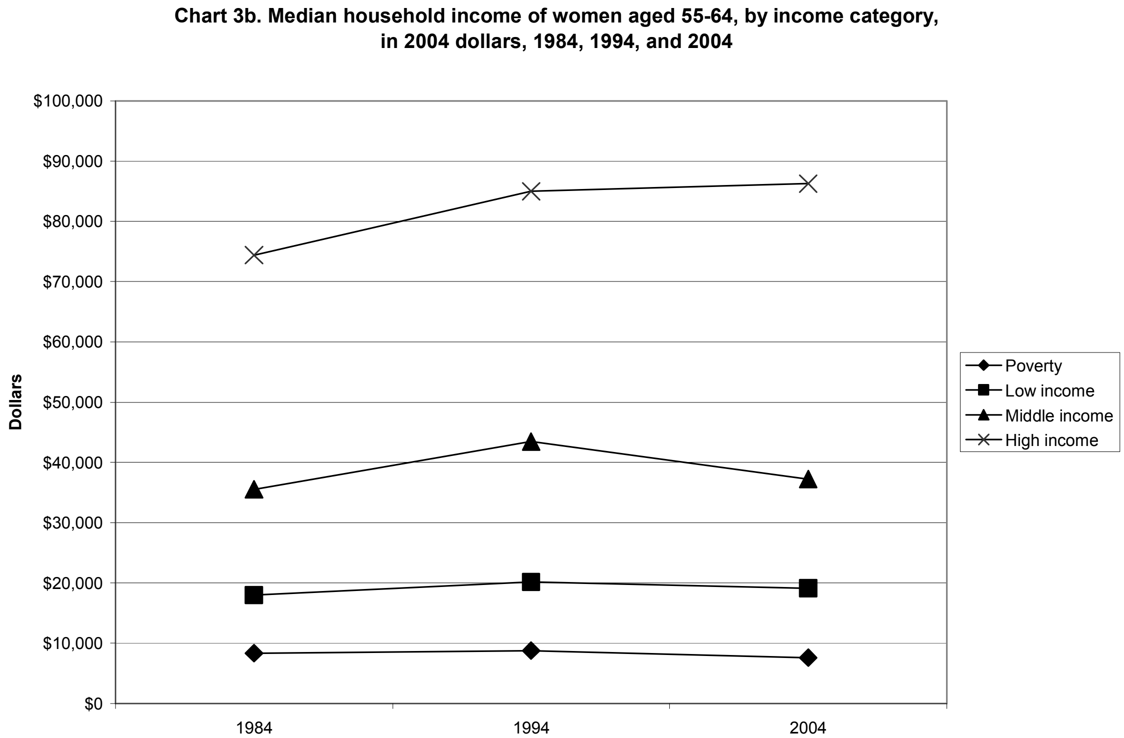
Note: Data for 1984 and 1994 have been inflation adjusted to 2004 Dollars.
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement.[1]

- Over the past 20 years, median household income for men aged 55-64 in the low income and middle income categories increased only slightly. In 1984, men aged 55-64 in the low income category had a median household income of $19,600 and men in the middle income category had a median household income of $39,300. In 2004, their median household incomes increased to only $20,900 and $40,800, respectively.

- Median household income declined for men in poverty from $8,900 in 1984 to $7,700 in 2004.

- Median household income for men aged 55-64 in the high income category experienced a significant increase from $81,600 in 1984 to $95,200 in 2004.

[1] Being in poverty is measured as income less than 100 percent of the poverty threshold. Low income is between 100 percent and 199 percent of the poverty threshold. Middle income is between 200 percent and 399 percent of the poverty threshold. High income is 400 percent or more of the poverty threshold.



Note: Data for 1984 and 1994 have been inflation adjusted to 2004 Dollars.
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement.[2]

- Between 1984 and 1994, median household income increased for women aged 55-64 in all income groups. However, with the exception of women in the high income group, median household income then declined for women aged 55-64 between 1994 and 2004.

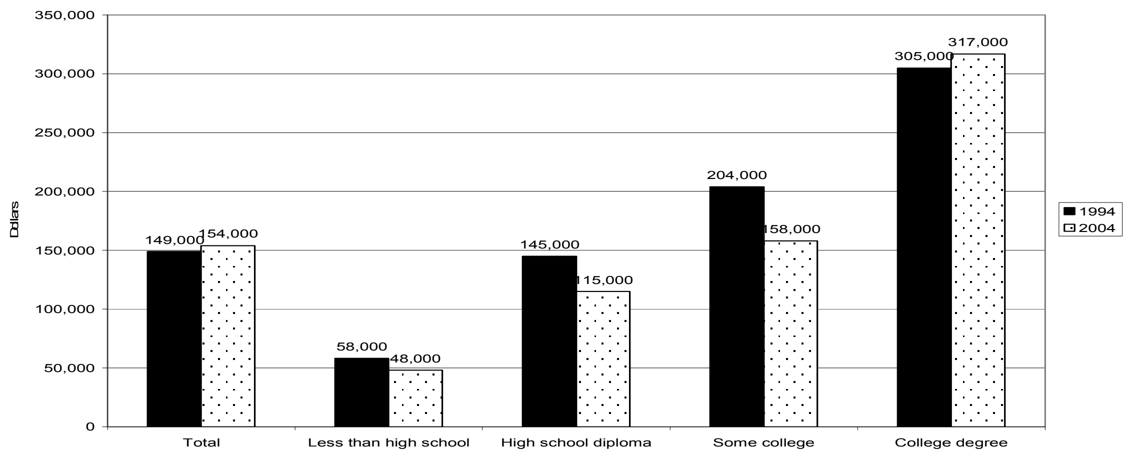
- Median household income for women aged 55-64 in the high income category increased 16 percent between 1984 and 2004, from $74,400 to $86,300. This is the same percentage increase as for men.

[2] Being in poverty is measured as income less than 100 percent of the poverty threshold. Low income is between 100 percent and 199 percent of the poverty threshold. Middle income is between 200 percent and 399 percent of the poverty threshold. High income is 400 percent or more of the poverty threshold.

Median net worth

Net worth, which is accumulated assets from real estate, stocks, bonds, and other assets minus debts, provides one pillar of retirement income. Financial wealth can provide income such as interest and dividends. Wealth holdings also can be sold to provide money for current spending and to smooth consumption patterns in the event of an income shock.

Chart 4a. Median total net worth of people aged 55-64, who report having assets, in 2004 dollars, by educational attainment, 1994 and 2004



Note: Data for 1994 have been inflation adjusted to 2004 Dollars.
Source: Health and Retirement Study.

- Median wealth directly relates to educational level. For example in 2004, people age 55-64 with less than a high school diploma had a median net worth of $48,000, while high school graduates had double that level ($115,000), people with some college had triple that level ($158,000), and college graduates had more than six times that level ($317,000).[3]

- Between 1994 and 2004, median total net worth for people aged 55-64 decreased among high school graduates (from $145,000 to $115,000) and among people with some college education levels (from $204,000 to $158,000).

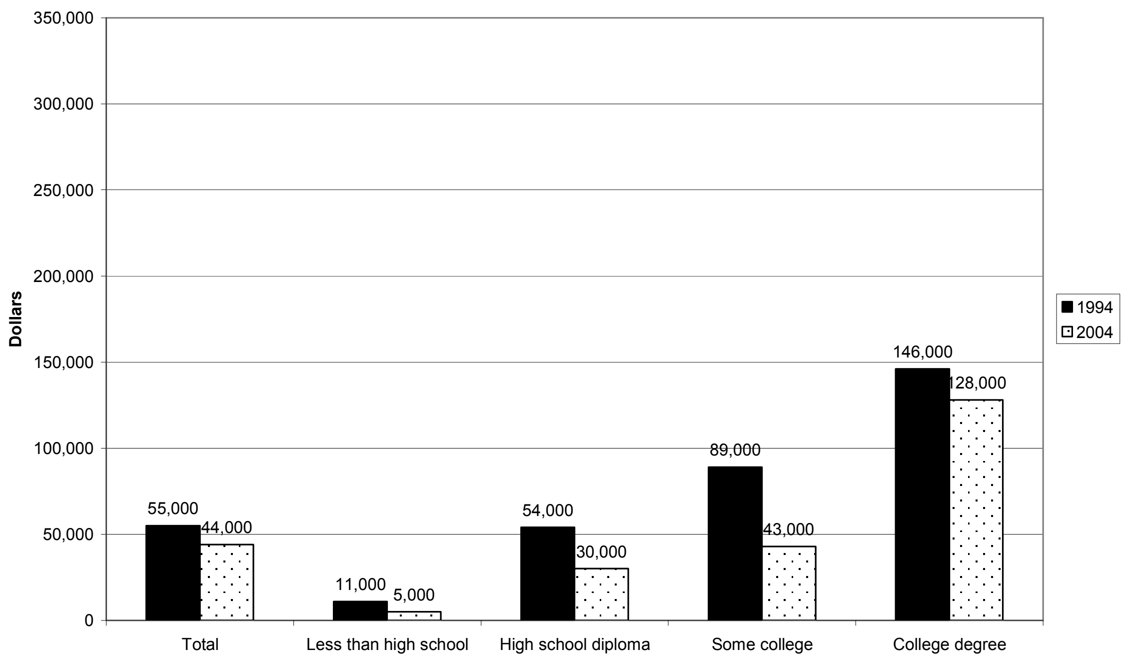
- Substantial differences also exist among racial and ethnicity groups. For example, in 1994 the gap in median net worth between non-Hispanic whites and non-Hispanic blacks aged 55-64 was about $134,000 and between non-Hispanic whites and Hispanics the gap was $131,000. In 2004, the gap increased to $148,000 between non-Hispanic whites and blacks and to $136,000 between non-Hispanic whites and Hispanics.

- Overall, median household net worth for people aged 55-64 remained relatively stable between $149,000 in 1994 and $154,000 in 2004.

[3] The educational distribution changed over time (chart 1c).

Housing equity is a major source of wealth for the aged, but research indicates few aged sell their houses or take reverse mortgages, drawing on housing equity (Venti and Wise 2001; Smeeding et. al. 2006). Thus, net worth other than home equity identifies the assets that are most likely to spend first.

Chart 4b. Median net worth excluding home equity of people aged 55-64, who report having assets, in 2004 dollars, by educational attainment, 1994 and 2004



Note: Data for 1994 have been inflation adjusted to 2004 Dollars.
Source: Health and Retirement Study.

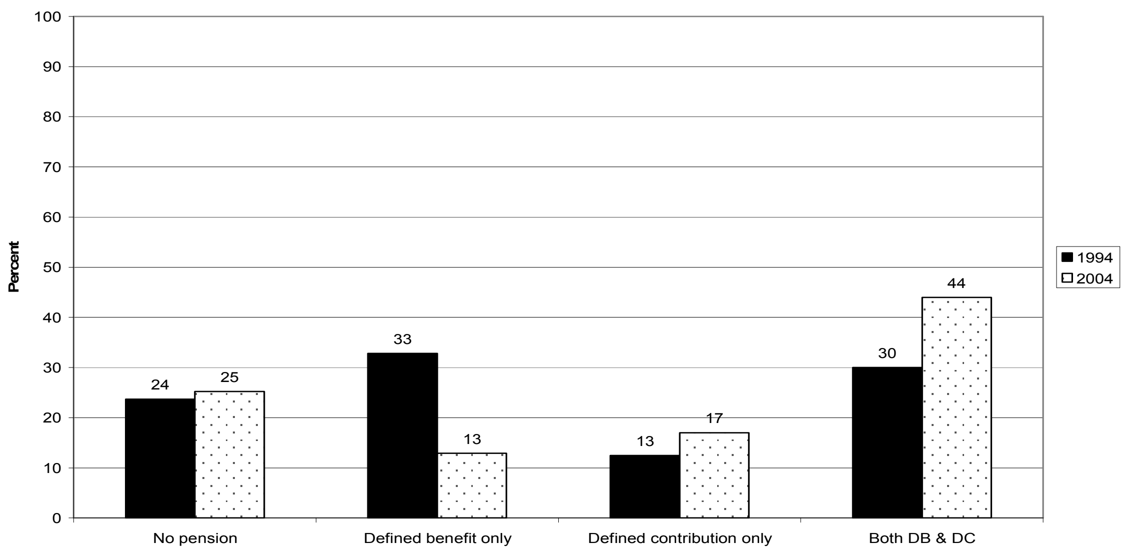
- The median level of net worth excluding home equity is also strongly related to higher levels of education. In 2004, people aged 55-64 with a college degree had a median net worth excluding home equity of $128,000 compared to a net worth of only $5,000 among people without a high school diploma. The same pattern exists between education and home equity.

- Over the past decade, median net worth excluding home equity decreased for all people aged 55-64 from about $55,000 in 1994 to $44,000 in 2004.

Pensions

Over the past few decades, there has been a shift in the types of pensions offered by employers from defined benefit only (in which a specified amount is typically paid as a lifetime annuity) to defined contribution only (in which the amount of future benefit varies depending on contributions and investment earnings). This change can be seen especially pronounced among people aged 55-64[4]

Chart 5a. Percentage of men aged 55-64 who ever had a pension, by pension type, as of 1994 and 2004



Source: Health and Retirement Study.

- Between 1994 and 2004, the lifetime pension coverage of men remained stable while the type of pension changed.

- The percentage of men aged 55-64 who do not have a pension remained relatively stable between 1994 and 2004 at 24 percent and 25 percent, respectively.

- In 1994, 33 percent of men aged 55-64 participated in a defined benefit only plan, 13 percent participated in a defined contribution only plan, and 30 percent participated in a combination of defined benefit and defined contribution plan. A decade later, only about 13 percent of men aged 55-64 participated in a defined benefit only plan, 17 percent participated in a defined contribution only plan, and 44 percent participated in both a defined benefit and a defined contribution plan.

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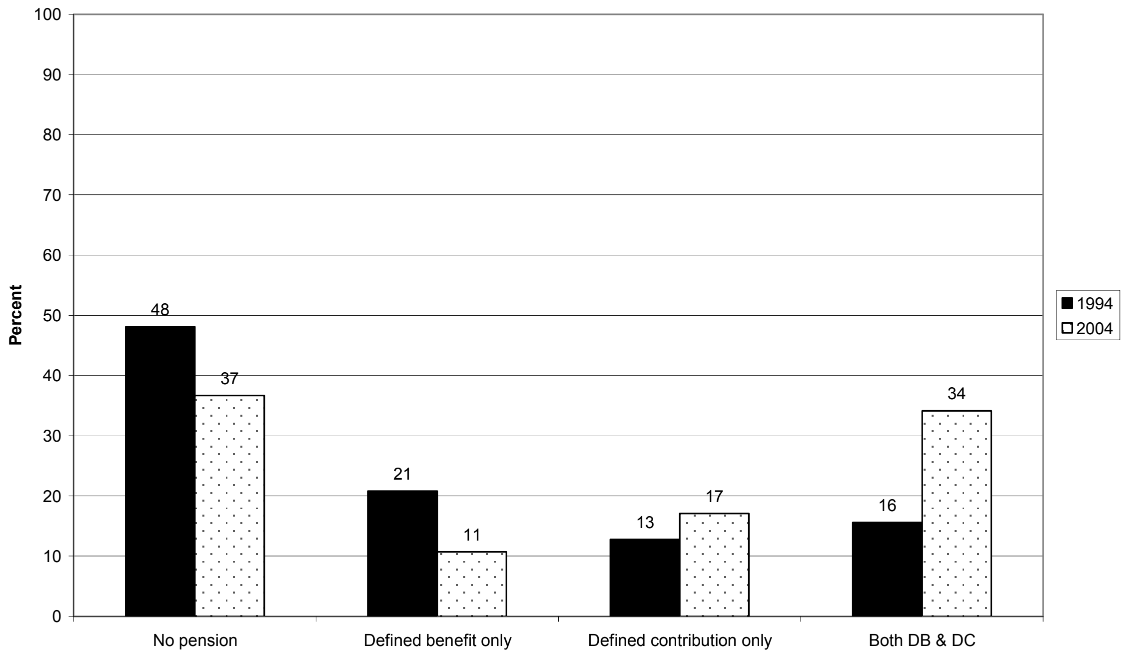
[4] The measurement of pension participation reflects a report that the person participated in a pension in the original interview or in past jobs. It also includes reported participation in subsequent interviews. At the time of the most recent interview at age 55-64, some will have left the job and transferred the pension money out of the pension plan to an Individual Retirement Account, an annuity, or other uses.

Chart 5b. Percentage of women aged 55-64 who ever had a pension, by pension type, as of 1994 and 2004



Source: Health and Retirement Study.

- Between 1994 and 2004, the lifetime pension coverage of women dramatically increased reflecting the increased lifetime labor force participation of more recent birth cohorts.

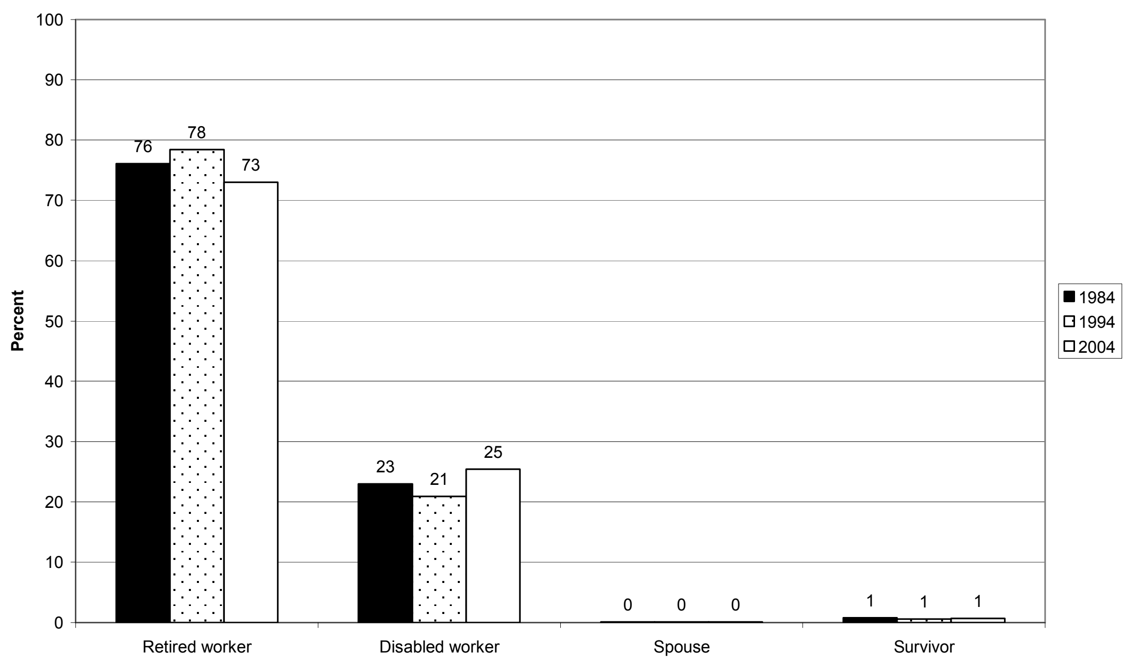
- The percentage of women without a pension decreased from 48 percent in 1994 to 34 percent in 2004.

- Women also experienced a shift in the type of pension they have. Between 1994 and 2004, the percentage with only defined benefit pensions fell by half from 21 percent to 11 percent, the percentage with only defined contribution pensions increased from 13 percent to 17 percent, and those with both defined benefit and defined contribution plans more than doubled from 16 percent to 34 percent.

Social Security benefits

Social Security retirement benefits as a worker or spouse of a worker based on age are first available at age 62 on a reduced basis from the amount available at full retirement age (aged 65-66 depending on birth year). Eligibility for disabled worker benefits at any age requires an inability to work, recent employment (generally half of the last 10 years), and sufficient lifetime employment to be on track for eligibility for retired worker benefits.

Chart 6a. Percentage of current beneficiary men aged 62-64 who draw Social Security benefits, by benefit type, in December 1984, 1994, and 2004



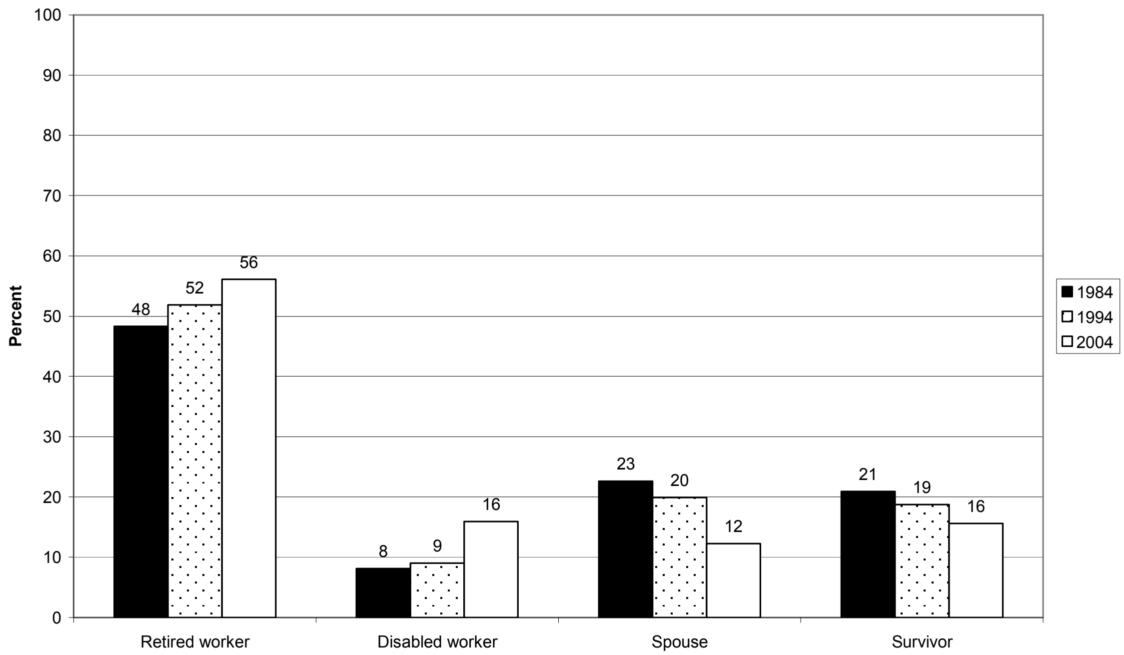
Source: Statistical Supplement to the Social Security Bulletin 1986 Table 84, 1995 Table 5.A.16, and 2005 Table 5.A.16.

- The percentage of men aged 62-64 receiving earned worker benefits remained relatively stable between 1984 and 2004. About three quarters of men aged 62-64 collected retired worker benefits and slightly less than one quarter collected disabled worker benefits.

- The percentage of men aged 62-64 receiving spouse or survivor benefits between 1984 and 2004 was less than 1 percent.

- More than half of men aged 62-64 collected some type of Social Security benefit in both 1994 (58 percent) and 2004 (54 percent) (Social Security Administration analysis of data from the Survey of Income and Program Participation).

Chart 6b. Percentage of current beneficiary women aged 62-64 who draw Social Security benefits, by benefit type, in December 1984, 1994, and 2004



Source: Statistical Supplement to the Social Security Bulletin 1986 Table 84, 1995 Table 5.A.16, and 2005 Tables 5.A.16.

- Over the past two decades, the percentage of women with earned worker benefits increased. Current beneficiary women with retired worker benefits increased from 48 percent in 1984 to 56 percent in 2004, while those with disabled worker benefits doubled from 8 percent to 16 percent.

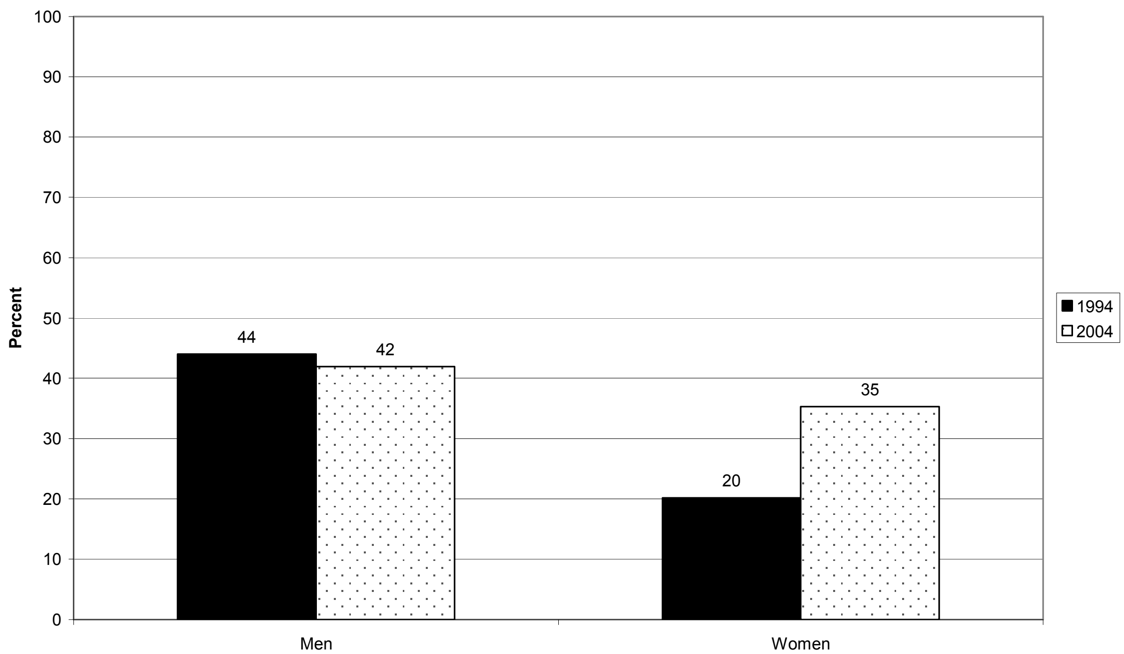
- Between 1984 and 2004, current beneficiary women with spouse benefits decreased from 23 percent to 12 percent, while those with survivor benefits decreased from 21 percent to 16 percent.

- More than 60 percent of women aged 62-64 collected some type of Social Security benefit in both 1994 (64 percent) and 2004 (63 percent) (Social Security Administration analysis of data from the Survey of Income and Program Participation).

Health insurance

In the past, many employers allowed employees to continue their health insurance into retirement, either as the standard group policy or as a supplement to Medicare. Some employers report that this practice has become less common, as health care has become more expensive and accounting standards require promises to employees be recorded as liabilities. [5]

Chart 7. Percentage of people aged 55-64 with employer-based retiree health insurance, by sex, 1994 and 2004



Source: Health and Retirement Study.

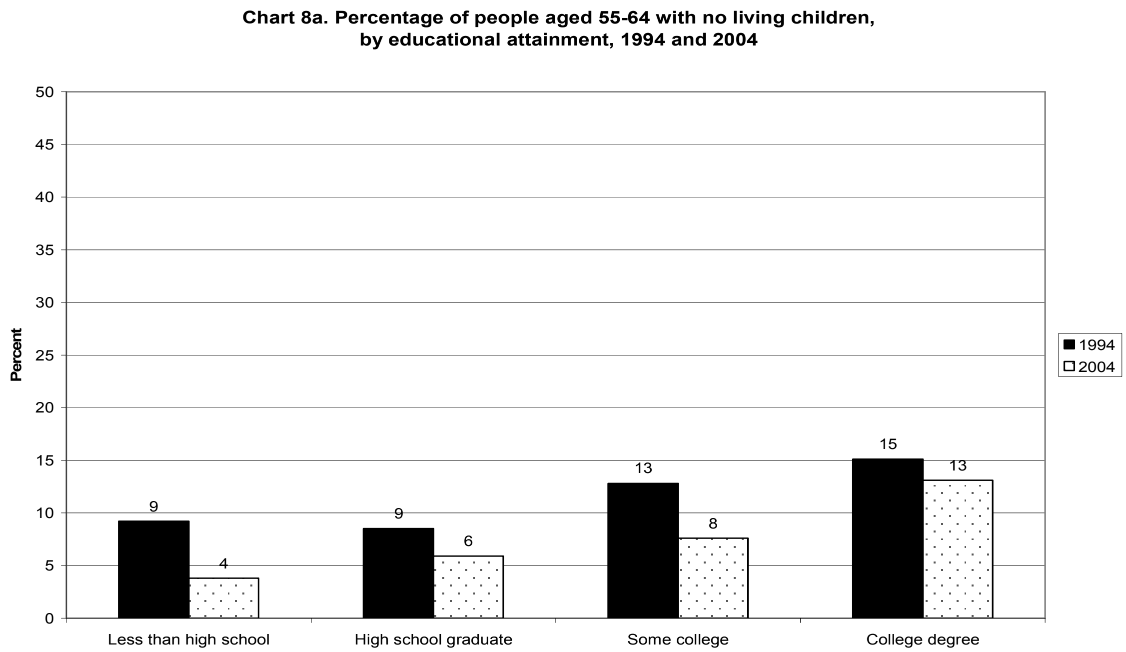
- The percent of people with employer-based retiree health insurance, either through their own or through their spouse's employer, varies by sex. In 2004, 42 percent of men aged 55-64 had employer-based retiree health insurance compared to 35 percent of women.

- While the percentage of men who will have this type of health insurance when they retire has remained relatively stable over the past ten years, the percentage of women with this type of health insurance has increased substantially from 20 percent in 1994 to 35 percent in 2004.

[5] Employer-based retiree health insurance is health insurance that will continue after an employee leaves his/her job. The measure used here includes former employees who have left their job and current employees who expect insurance to continue after leaving. The measure also counts coverage from a spouse's employer based insurance that continues after employment stops.

Informal Long-Term Care

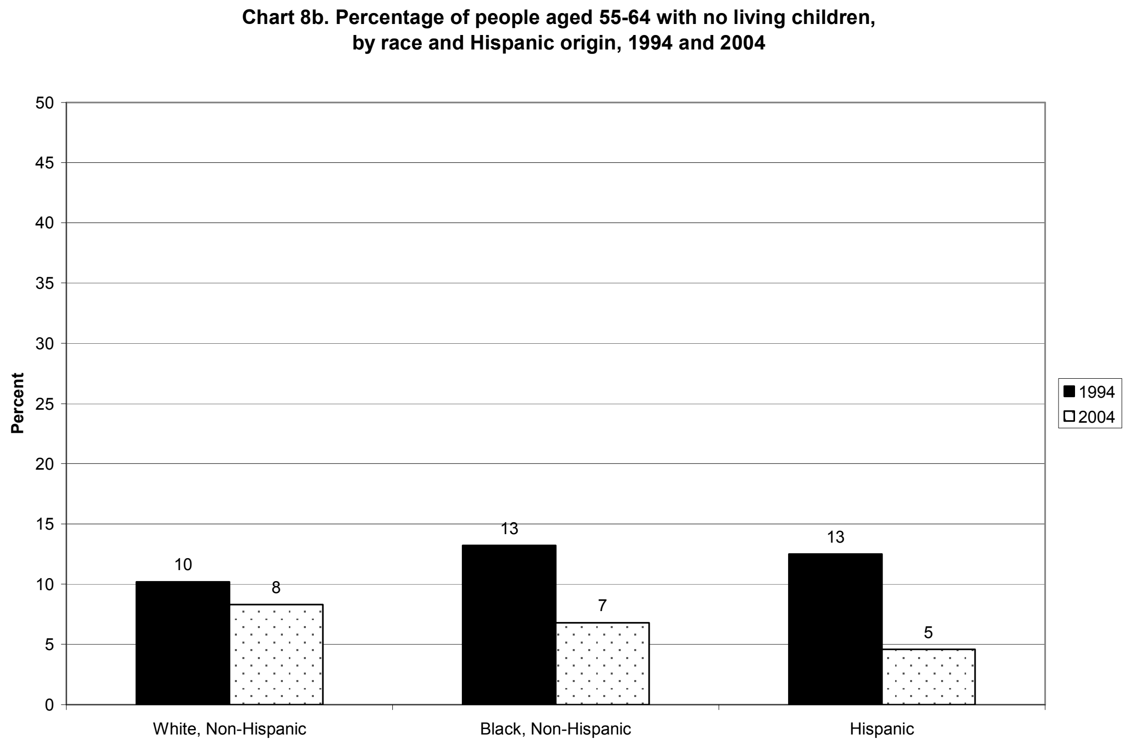
Relatively few people need substantial amounts of long-term care, particularly during the early years of retirement (HPI 2003). However, some people, especially the very old and those with dementia, may require care for several years. Most long-term care is provided by family members, especially by spouses and children. However, with the sharp decline in fertility rates since the baby boom (from 118.0 live births per 1,000 women in 1960 to 66.3 in 2004) (NCHS, 2005; Hamilton et. al. 2005), the number of people who have children that can serve as caregivers has slowly been declining.[6]



Source: Health and Retirement Study.

- The percentage of people with no living children varies by educational attainment. In 1994, the percentage of people without living children varied from 9 percent among people with less than a high school education to 15 percent for people with a college degree.
- The difference is more pronounced in 2004 with 4 percent of people without a high school education reporting that they are childless compared to 13 percent with a college degree.
- With the exception of college graduates, a smaller percentage had no living children in 2004.

[6] Because two of the three cohorts of Americans highlighted in this paper (people born in 1930-1939 and 1940-1949) were at prime child bearing ages during the baby boom (1946-1964), both groups are likely to have children to rely upon for care as they age. In 1994, 11 percent of people age 55-64 had no living children compared to 8 percent in 2004 (Table 8). As the younger cohorts with lower fertility rates age, they are less likely to have children they can count on for care.



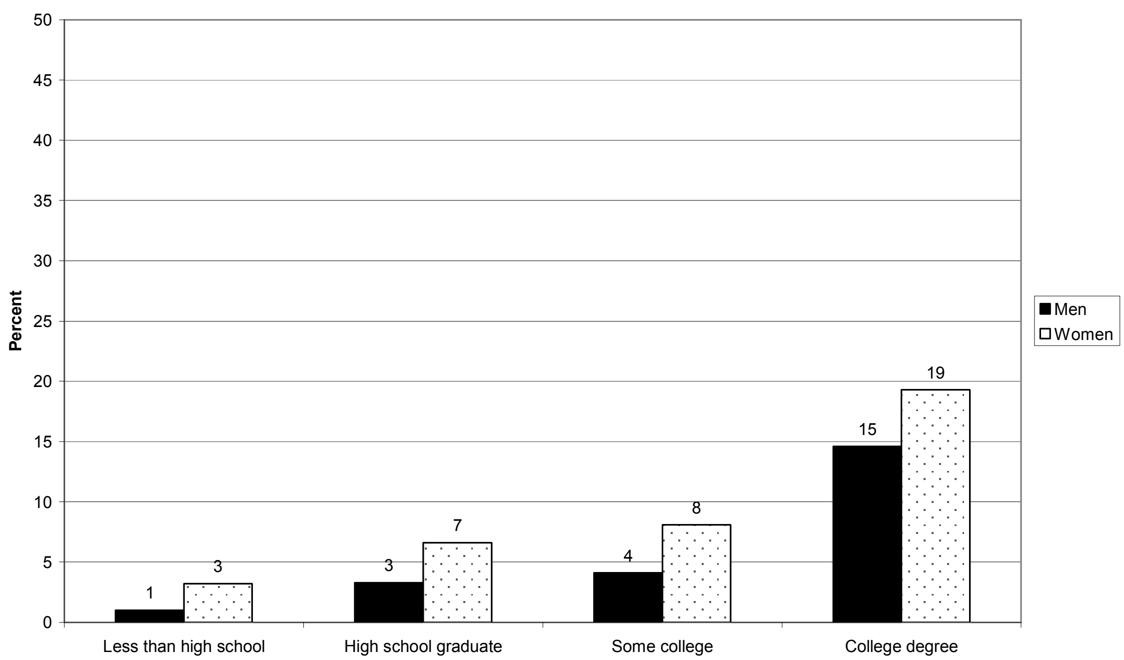
Source: Health and Retirement Study.

- In 2004, the percentage of non-Hispanic whites, non-Hispanic blacks, and Hispanics who had no living children was 8 percent, 7 percent, and 5 percent (respectively). This decline was larger for minorities.

Formal Long-Term Care

Private long-term care insurance is a type of insurance people can purchase to cover some of the costs of formal long-term care services including nursing home care, assisted living facility care, and formal home care. If they meet the underwriting criteria, people can buy a policy that pays for a specified dollar amount of long-term care, provided that they pay the premiums and a deductible (typically three months of nursing home care). Premiums for these policies increase with age, so purchasing insurance at an earlier age locks in lower premiums but extends the duration of payments.

Chart 9. Percentage of people aged 55-64 with long-term care insurance, by educational attainment and sex, 2004



Source: Health and Retirement Study.

- People with higher levels of education are more likely to purchase long term care insurance than people with low levels. In 2004, 15 percent of men and 19 percent of women aged 55-64 with a college degree purchased long-term care insurance compared to only 1 percent of men and 3 percent of women who did not have a high school degree.

- Overall, the percentage of people aged 55-64 who purchase long term care insurance is relatively low, 7 percent of men and 9 percent of women.

Conclusion

While there has been much concern about people entering their retirement years less prepared than those from earlier generations, overall, people who are aged 55-64 today seem better prepared than the same age group 10 or 20 years ago on several indicators. Demographically, they are much more likely to be college educated. They are wealthier. They are no more likely to start Social Security retirement benefits early. The labor force participation at ages 62-64 increased for men and for women. Particularly noticeable are the increased labor force participation rates of women. Over the past four decades, labor force participation rates for all women, but especially those aged 55-61, have risen dramatically. Because more women are working today than ever before, more women are earning their own benefits that are so vital to retirement. That is, more women are now able to contribute to their own pension plans, earn eligibility to Social Security worker benefits, acquire their own health insurance, and build their own net worth. This is a crucial development for the women who are entering retirement without a spouse to provide for them.

Long-term care insurance is a fairly new phenomenon. Thus we were unable to measure whether there has been an increase in the number of people purchasing policies over the past 20 years. However, only 8 percent of persons aged 55-64 had purchased such insurance in 2004.

The other important part of long-term care is the availability of caregivers. Although most of the people in the cohorts represented in this brief have children who potentially could serve as caregivers, the long time trend in declining birth rates suggests that there will be fewer children to care for their older parents as the generations age. This is especially true for non-Hispanic white women who traditionally have lower birth rates than non-Hispanic black women and Hispanic women. Consequently, since more people are entering their retirement years without a spouse, and they are having fewer children, there will be fewer informal caregivers available to take care of their aging family members.

There are some measures that indicate increasing risks for those approaching retirement. There has been a decreasing prevalence of marriage and rising prevalence of divorce. This reduces the social support for the aged from being married. Increasing longevity and life expectancy also increase the risks of need for long term care and the risk of exhausting financial resources. Although median net worth remained fairly stable in the last 10 years, this reflects slightly increased home equity while the value of other financial holdings has slightly declined. While the increase in women's Social Security worker benefits and increase in pension coverage is beneficial, potentially undermining these positive developments are the increasing risks associated with pension income from the reduced coverage by defined pension annuities with legal rights to survivor benefits and the increased reliance on defined contribution pensions that depend on investment success over a lifetime. The Government Accountability Office (2006) recently highlighted risks from increased reliance on investments, the solvency issues connected with Social Security and Medicare, and the increases in health care costs.

This report started with the question of "How will the baby boom fare in retirement?" It is impossible to answer this question definitively because of the dramatic changes that have occurred and the possibility of unknown future changes. Projections of future income adequacy have yielded mixed outcomes. Some have forecasted sharply decreased wealth for pre-retirees (Wolff 2002) or sharply increased risks of not replacing pre-retirement income for more recent birth cohorts (Munnell et. al. 2006b; Moore and Mitchell 1998). Others have generated more optimistic outcomes for future retirees (Scholz, Seshadri, and Kitatrakun; Engen, Gale, and Uccello 1999). Microsimulations designed and supported by the Social Security Administration suggest that the baby boomers will be better off than current retirees with respect to real retirement income (per person) and poverty rates (Butrica, Iams, and Smith 2003/2004; 2003; Butrica et. al. 2001; Toder et. al. 1999; Toder et. al. 2002). These increases are statistically projected for most subgroups defined by marital status, race/ethnicity, education, and lifetime earnings levels. Nevertheless, some baby boomers will be worse off with respect to relative measures of well-being. Economically vulnerable subgroups include divorced women, never married men, Hispanics, high school dropouts, those with the lowest lifetime earnings, and those with limited attachment to the labor force. Estimating the extent that projected retirement income replaces lifetime earnings is one summary measure of how well future retirees can smooth consumption. A somewhat lower proportion of the baby boom (a tenth) will replace 100 percent or 75 percent of their lifetime earnings compared to current retirees born in 1926-1935. About a twentieth fewer baby boomers are projected to replace at least half their lifetime earnings compared to these current retirees. The answer provided by these microsimulation results is that the baby boom generation is expected to be somewhat better off with respect to real living standards but a slightly higher proportion will be challenged in their relative well-being.

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