

Consumption and Income Poverty for Those 65 and Over

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The most noticeable changes in official poverty rates over the past half century are evident for individuals age 65 and over. In 1959, the official poverty rate for this group was 35.2 percent, well above the 22.4 percent rate for the overall population. By 2005, the official poverty rate for the elderly had fallen to 10.1 percent, below the overall rate of 12.6 percent. These statistics, however, are based on just one measure of poverty. The goal of this study is to estimate and evaluate a broader range of poverty measures, including some important differences between income-based measures and consumption-based measures, and to describe in a more comprehensive way trends in the financial well-being of older people in the United States.

The study has four key objectives. First, we construct consumption based measures of poverty that improve upon measures used in previous studies. In particular, we develop better measures of consumption of durables including vehicles and housing and we incorporate the value of health insurance into our measure of consumption. Second, we provide estimates of consumption based poverty for those 65 and over using the most recent data through 2004. Third, we examine the effect on poverty trends of alternative price indices, equivalence scales, and resource sharing units (the family or household). Fourth, in addition to analyzing a single poverty line, we also study extreme poverty, near poverty and poverty gaps in order to examine more fully the trends in well-being of older individuals.

Examining patterns of consumption-based poverty among the elderly, and how they differ from income-based poverty is interesting for a number of reasons. First, income and consumption may diverge more significantly in older households, because they are more likely to have accumulated assets that can be used to maintain consumption even when income is low. Second, recent changes in pensions, financial instruments, and insurance suggest that income based measures of poverty may not accord well with what we hope to capture with a well-being measure. These changes include the diffusion of defined contribution pensions plans, IRAs, long-term care insurance, and reverse mortgages. Finally, ownership rates of durable goods such as housing and cars are particularly high for those aged 65 and over. It is important to account for these resources, as the flow of services from these durables is often large relative to current incomes.

Our results show that consumption based measures of poverty indicate greater improvements in well-being than are evident in alternative income based measures for individuals 65 and over. Between 1980 and 2004, consumption poverty for this group fell by 11.6 percentage points, while poverty based on a comprehensive measure of income fell by 6.4 percentage points. During this period we also find substantial declines in consumption based deep poverty, but increases in income based deep poverty. In addition, income based poverty gaps grew significantly, while consumption based poverty gaps declined, particularly since 1990. We also show that sensible changes from the official price index lead to even larger declines in poverty during this period. Overall, the well-being of those 65 and over has improved more than either official income or alternative income poverty measures indicate.

Results for subgroups indicate that declines in poverty are most noticeable among those 75 and over, among women, and among those not married. Moreover, much of the difference between declines in consumption and income poverty are accounted for by differences across these measures for elderly women or those not married.

The full working paper is available on our website, www.nber.org/programs/ag/rrc/books&papers.html as paper NB07-04.

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