

Consumption and Income Poverty for those 65 and Over

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Policy Abstract

The goal of this study is to estimate and evaluate a broad range of poverty measures for individuals aged 65 and older, focusing on the important differences between income-based measures and consumption-based measures. The distinction is important because income and consumption diverge more significantly at older ages, when accumulated assets can be used to maintain consumption even when income is low. The recent growth of 401(k) plans, IRAs, long-term care insurance, and reverse mortgages; and the higher ownership rates of durable goods at older ages, such as housing and cars – all make the distinction between income and consumption measures more important to poverty measurement in older age groups. 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. 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.