

The Evolution of Late-Life Income and Assets: Measurement in IRS Tax Data and Three Household Surveys

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Key Findings and Policy Implications

This paper evaluates how three widely-used household surveys—the Health and Retirement Study (HRS), the Survey of Income and Program Participation (SIPP), and the Current Population Survey (CPS)—capture the level of and trends in late-life income and assets. The evaluation is conducted by comparing survey responses to comparable measures computed from a 5% random sample of administrative IRS tax records covering households born from 1933 to 1952. The paper finds that:

- Relative to the tax data, survey data underestimate total income levels and overestimate declines in income at the median during the initial transition from working life to retirement. Survey estimates of median income at age 73 are lower than tax data estimates by an average of 4.5% in the HRS, 14.2% in the SIPP, and 25.1% in the CPS. Median total income declined from 58 to 68 by an average of only 11.7% in the tax data, compared with 24.4% in HRS, 16.8% in SIPP, and 29.0% in CPS.
- Survey sources overestimate income growth across birth cohorts at older ages but do a better job of capturing these trends at younger ages.
- Lower-income households have not experienced income growth across birth cohorts outside of the Social Security system. Averaging across ages 68 to 74, the 25th percentile income excluding Social Security fell by 16.5% from the 1933 birth cohort to the 1943 birth cohort in the tax data. These declines are larger in the HRS (26.9%) and SIPP (45.5%) and smaller in the CPS (11.1%).
- The fraction of households in the tax data with no non-Social Security income and no assets at age 72 rose from 18.9% to 20.5% from cohorts born in 1933 to 1945. The fraction of such households is captured well by the HRS and SIPP but overstated by the CPS.

Overall, the tax data show considerable declines in income across the distribution as households age. However, relying on survey data alone will overstate this decline at the median during the initial transition to retirement, leading to overly dire assessments of middle-income household retirement preparedness. By contrast, while the tax data show income growth across birth cohorts, growth at older ages across cohorts is overstated in survey sources. Leaning on survey data will therefore present an excessively optimistic picture of cohort trends in retirement preparedness. All sources indicate declining income outside of the Social Security system across birth cohorts for low-income households, as well as an increasing share of households who are entirely reliant on Social Security to finance their consumption.

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