Poverty and Income Security
Among Older Persons

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		page
	Introduction	
I.	Summaries of the Major Presentations	3
	1. The measurement of economic well-being	4
	2. Specific subtopics	11
	3. Proposals for reform	14
II.	Recurrent Themes of the Conference	20
	1. Life-cycle view of aging	20
	2. The variety of economic circumstances of the elderly	24
	3. The importance of definitions	25
	4. The consumption needs of the elderly	27
	5. Restructuring the social safety net for the elderly	29
	6. The future economic status of the elderly	30
	7. International comparisons	32
	8. Philosophy of income security	33
	9. The political feasibility of change	34
III.	Some Components of a Research Agenda	34
	Bibliography	40

The elderly in America have been the topic of considerable public policy and research interest over the past several decades. There are many reasons for this, several of them demographic - remarkable changes in the number, labor force behavior and economic well-being of older Americans.

At the turn of the century, only 4 percent of the American population was aged 65 and over (U.S. Senate, 1991, table 1-2). This doubled by 1950 (8.1%), and added another 50 percent (to 12.6%) by 1990. Over the next 40 years, the percentage is projected to increase to nearly 22 percent before levelling off. The percentage aged 55 to 64 has also grown, though more modestly; from 5 percent in 1900 to near 9 percent today. This proportion will peak at 14 percent around 2020, before settling back in the 12 percent range.

Combining the two, we will see a growth in the population aged 55 and over from 9 percent in 1900 to 17 percent in 1950 to 21 percent today, with projections of nearly 33 percent in 2030; in absolute terms, from 7 million in 1900 to over 50 million today to 100 million 40 years hence (ibid.). The same story can be seen in the median age forecasts; 30 in 1980, 33 today, 39 by 2010 and 42 by 2030 (ibid., chart 1-2). These are major changes, to say the least, in the age structure of the American population.

Equally dramatic are changes in the retirement behavior of this growing population. Nearly half of all men aged 65 and over worked in 1950, as did 87 percent of the men aged 55 to 64 (ibid., table 3-4). By 1985, these figures had dropped to 16 and 68 percent, and have been steady since then. Older women's labor force participation has been relatively constant (currently about 9 percent), while that of women aged 55 to 64 has risen, from 27 percent in 1950 to 46 percent today, mirroring the changes in work behavior of women in general.

Even while fewer and fewer older Americans were working, their average economic status was on the rise, both absolutely and relative to the rest of the population. According to official poverty statistics, 29 percent of America's elderly were poor in 1966, compared to 13 percent of those under 65 (U.S. Bureau of the Census, 1992a, table 3). By 1991, the 29 percent has dropped to 12 percent, and the 13 risen slightly to 14. (The lines crossed in 1982, and there has been relatively little change since then.) Instead of being several times more likely to be poor, the elderly are now slightly less likely than the rest of the population to be living in poverty. But within this encouraging aggregate picture remain many pockets of severe economic distress, disproportionately elderly minorities and women living alone.

These are all big changes - many more elderly than before (and many more to come), dramatically earlier retirement and, in the aggregate, significantly improved economic well-being for older Americans. Such changes deserve study, to learn for the future from the successes that have occurred, and to understand the impacts of current or proposed policies on those elderly still left behind.

The first Executive Seminar of the National Academy on Aging focused on this third issue - income security and poverty among the elderly. The purpose of this paper is to summarize the presentations and the discussion at the seminar, to elucidate the major issues and unifying themes that emerged, and to speculate on where we should go from here.

I first present brief summaries of the major presentations of the conference (section I), to give an overview of the scope of the discussion, and then describe some common threads interwoven throughout them (section II). I will close by outlining some areas where more research is needed (section III). Promoting aging research and disseminating the findings are primary missions of the National Academy on Aging.

I. Summaries of the Major Presentations

The papers presented fell into three categories: the measurement of economic well-being, specific sub-topics concerning the elderly, and proposals for reform. Under the first, Patricia Ruggles provided several cross-sectional snapshots of the economic status of the elderly over time, highlighting the improvements mentioned above. Richard Burkhauser focused on a dynamic view of economic well-being over the life cycle, and Thomas Juster discussed changes in wealth over time and across cohorts. Finally, Timothy Smeeding provided some international comparisons of poverty, inequality and income security among the elderly in eight industrial nations.

Three specific sub-topics were then addressed: the chronic and acute health care needs of the elderly (Marilyn Moon), issues involving older women (Victoria Blatter) and minority aging concerns (James

Jackson). The seminar concluded with a morning dedicated to proposals for reform, focusing on Supplementary Security Income (Arthur Flemming), Social Security (Stanford Ross) and broader proposals for more fundamental change (Robert Haveman and Carolyn Weaver).

1. The Measurement of Economic Well-Being

Patricia Ruggles opened the conference by documenting the substantial increases in the economic well-being of the elderly (aged 65 and over). Their real per capita income has risen over the past several decades, and their rate of poverty has declined. She argued that public programs have played a major role in this success story; specifically, Social Security, Supplementary Security Income, Medicare and Medicaid. But also important is the cohort effect - the changing composition of the elderly population. Those turning 65 each year have, on average, better economic histories and current circumstances than those who depart, so that the averages would rise over time even if no particular aged individual enjoyed any improvements at all.

Ruggles then discussed a number of shortcomings of the standard measures of economic well-being. The official poverty rate, for instance, ignores in-kind benefits. When estimates of the value of these are added to the definition of income, poverty declines, and dramatically so when the insurance value of Medicare and Medicaid are included. Some analysts have attempted to adjust the poverty thresholds (to which family incomes are compared) to account for out-of-pocket medical expenses, which, despite Medicare and Medicaid, are substantial for older Americans.

Ruggles also pointed out that the poverty threshold for a two person family with a head aged 65 and over is about 10 percent lower than for a similarly sized household with a younger head. Use of the higher threshold would raise the elderly poverty rate by 3 points, and put it above that of the rest of the population. A similar result would occur if the poverty thresholds increased over time to reflect changes in the standard of living, rather than just adjusting for the cost-of-living, as they do now. Since a disproportionately large number of elderly are clustered just above the poverty line, increases in the threshold have a larger effect on the elderly poverty population that they do for younger groups.

Ruggles sees continued improvement in economic well-being for those retiring over the next decade, but cautions against too much optimism for the future. The rate of growth of Social Security and pension income is leveling off, and increased longevity means that a higher proportion of those over 65 will be over 75 or over 85. This last group is the fastest growing segment of the population, and they tend to be less well-off than the "younger old". In addition, the last decade has seen an increase in the dispersion of elderly incomes - the gains firing the 1980s were greater for the higher income groups - in contrast to the experience of the 1970s. Many elderly who are above the poverty line are barely so. Future retirement trends are an important unknown, since those still working tend to have higher incomes than those who have retired.

<u>Richard Burkhauser's</u> presentation emphasized the importance of a dynamic view of the life cycle - of trying to understand how people reached their current circumstances. He began with some historical data on poverty rates, focusing on the ratio of female to male poverty. Among the population younger than 65, the ratio has changed little since 1959 -

women were and still are about 25 percent more likely than men to live in poor households (Table 1, col. 4). Among the elderly, however, while the poverty rates for men and women have fallen, the ratio of female to male poverty has increased steadily - from 1.2 (in 1959) to over 2.0 by 1990 (Table 1, col. 8). Older women are now twice as likely as older men to be poor.

The risk of poverty is strongly related to marital status. The poverty rate for married couples over 65 is low - about 5 percent in 1990 (Table 2). Among those elderly not in a married couple, who are disproportionately women, the poverty rate is higher for men (14%) and higher still for women (22%) (Table 2). Life events can have profound implications for economic well-being.

Using the Panel Study of Income Dynamics, Burkhauser and Greg Duncan have studied the impact on the income-to-needs ratio of three specific life events - divorce, the death of a spouse and the retirement of a husband. The impacts of the first two are very different for men and women. Among those aged 50 and older, divorce drops the median income-to-needs ratio in their sample of women by nearly 40 percent; for men, the average drop is only 14 percent (Table 3). (For those younger than 50, the women's decline is about the same (-36%); divorced men, on average, enjoy a small gain (4%).) When a spouse dies, a woman's income-to-needs ratio declines by 10 to 12 percent; when the man is the survivor, the median ratio is either unchanged (if he is aged 50 or more) or increases by about 10 percent (if aged 49 or less) (Table 3).

For intact couples, the husband's retirement results in an average decline of income-to-needs of about 30 percent (Table 3). Retirement is much less likely than divorce or the death of a spouse to result in poverty.

This is partly because retirement is often a voluntary decision, at least among those in good health, and those who would decline into poverty are less likely to retire.

Women suffering adverse life events are slower than men to recover to their prior economic status (measured by the income-to-needs ratio), and many never do. This is not surprising since their initial drop is, on average, larger than it is for men. Four years after the event, only about half of the women aged 50 and over who suffered a divorce or the death of a spouse had regained their prior economic status (Table 4).

The point of the Burkhauser/Duncan research is that, for many older Americans, the decline into financial distress is not slow and gradual; rather, it follows a specific event. The data suggest that our income support systems are more successful at cushioning the financial blows from some events (e.g., retirement) than from others (divorce and death). Knowing more about the reasons for economic decline with age enables us to design programs to meet the needs of the populations at risk.

Thomas Juster turned the discussion from incomes to wealth, by presenting some comparisons of asset holdings during the 1980s, based on the Panel Study of Income Dynamics (PSID) and two waves of the Survey of Consumer Finances (SCF). As was true in the previous discussion, much of the interest was in the variance - how the experiences of different groups varied - rather than in the means.

During this period, for households in the PSID with the same head in 1984 and in 1989, the change in wealth was a direct function of initial status, measured by average income over the 1984-89 period, a proxy for permanent income. The lowest 22 percent (those with average 1984-89 incomes less than $12,000, in 1989 dollars) suffered actual declines in real net worth (see Table 5). According to Juster, this is a unique experience for a period of significant economic growth. The middle 50 percent had virtually no change, and the richest 30 percent (with average incomes over $36,000) enjoyed wealth increases of 40 to 80 percent.

As with income, the dispersion of wealth and the proportion of wealth held by the top groups increased. The share of total net worth held by households with annual incomes over $60,000 (9% of these households) increased from 37 to 46 percent during the 5 years between 1984 and 1989, while the share of those with incomes under $12,000 (22% of this sample) dropped from 7 to 4 percent (Table 5).

(A recent study by Paul Ryscavage (1992) analyzes trends in income and wealth for the elderly between 1984 and 1988. Using data from the Survey of Income and Program Participation, Ryscavage concludes that "while the net worth position of the elderly did increase "on average" during the heart of the 1980's, it was not a uniform increase across all income groups. In general, the improvement was found among those in the middle and upper monthly income brackets of society (p. 68)." He also found significant increases in the net worth of older married couples, and none among older men and women living alone.)

Timothy Smeeding rounded out the discussion of poverty and income inequality among the elderly with some comparisons among eight modern nations - Australia, Canada, France, West Germany, the Netherlands, Sweden, the United States and the United Kingdom. The data (from 1984 through 1987, depending on the country) are all from the Luxembourg Income Study.

Smeeding's tables confirm the point emphasized above - that much of the action is in the variance. In many ways concerned with averages, the United States looks great; in others, related to variance, we do not.

Smeeding first compared the ratio of median elderly household disposable income to median national household disposable income, both adjusted for family size, in each of the nations (Table 6). The U.S. ratio (.85) is above the overall average (.83) - higher than Australia (.66), the U.K. (.77), Canada (.80) and Sweden (.82), and lower than the Netherlands (.88), West Germany (.91) and France (.93). But these averages conceal significant and important differences.

For example, the U.S. ratio is the highest of all the nations for married couples (1.09), but next to lowest for single females living alone (.62) (Table 6). Our elderly poverty statistics, which reflect the distribution of income, are completely off the charts. Smeeding's poverty thresholds are all defined as a percentage of the country's median income, with 40% of the median coming very close to the official U.S. threshold. In the U.S. in 1986, 12.4 percent of the elderly had incomes (adjusted for family size) below 40 percent of the national median (Table 6). (The official poverty rate was also 12.4% in 1986.) No other nation came close; the next highest was Australia at 4.0 percent, and three nations had rates under 1.0 percent. Using 50 percent of the median, the story was the same - the U.S. poverty rate (22%), was many times the next highest (Germany, at 8.3%). Only at 60 percent of the median do we have company. Both the U.S. and Australia have about a third of their elderly under this threshold, compared to half of this or less in the other six countries.

A similar conclusion comes from an analysis of Gini coefficients, a direct measure of income inequality (Table 7). Calculating Gini coefficients for four age groups (25-54, 55-64, 65-74 and 75+) for two years (around 1980 and around 1986), Smeeding finds that only in the U.S. and West Germany does the Gini rise monotonically with age and only in the U.S., Australia and Sweden was the degree of inequality, in all four age groups, higher in the latter year (1986 for the U.S.) than in the earlier (1979). The U.S. was therefore the only one of the eight in which both were true - income inequality rose steadily with age and increased during the early 1980s.

The reason for these dramatic differences is that our safety net philosophy differs from that in these other nations. We tend to have a lower guaranteed benefit (according to Smeeding, by far the lowest among these eight nations), and a larger earnings-related component. Also, most Social Security income in the U.S. is not taxed, in contrast to all the other countries except France, where it is not taxed at all. Because of these differences, our elderly income distribution more closely reflects the distribution before retirement than is true in these other countries. We tolerate more inequality to begin with, and then do less to change it through our age-related tax and transfer system. The final result should not be surprising.

2. Specific Subtopics

Marilyn Moon discussed the relationship between health care and economic well-being. Older Americans appear to be well covered. All those aged 65 and over enjoy Medicare's hospital insurance, and those who choose to pay premiums are also covered by the highly subsidized supplementary medical insurance. Together, these cover many of the costs associated with hospitalization, inpatient and outpatient medical care, and doctors' fees. Medicaid, while much less important overall, provides substantial benefits to the elderly poor, especially for long-term custodial care. In addition, about a third of older Americans have supplementary insurance policies at least partially subsidized by former employers.

Despite all this, however, out-of-pocket health care expenditures are a substantial burden for older Americans. They are greater than they are for younger families, and have grown substantially in recent years. There are several reasons for this - increased cost sharing, medical cost inflation, and increases in the services purchased. Moon estimates that older Americans spent about 21 percent of their income on health care in 1987 (Table 8; row labelled All/Median), and suggests that that might be as high as 25 percent by now. The percentage is now about what it was prior to the introduction of Medicare and Medicaid (ibid.). These burdens tend to be distributed unequally and in inverse relation to the ability to pay. The very old tend to be the poorest, utilize the most services and be the least likely to have retiree health insurance.

Moon concludes that, despite the expensive public medical programs already in place, the affordability of health case for older Americans is a serious policy concern. As cost sharing increases, it eventually becomes a barrier to access, at which point a program that is nominally universal ceases to be so. Adequate health care is already unaffordable for many Americans, and current trends suggest that this proportion will continue to rise. Since these problems occur in all age groups, Moon suggests that appropriate solutions should not focus solely on the elderly, but rather be part of comprehensive health care reform.

Victoria Blatter discussed one of the groups with the highest incidence of financial distress in America - older women. Throughout their adult lives, women have a 50 percent greater risk than men of being poor; during old age, the difference rises to 70 percent. Part of this is due to age differences. Women live longer than men and poverty rates rise with age, from 8 percent for those 65 to 69 to about 13 percent for those 75 to 79 and to over18 percent among Americans aged 85 and over (Table 9). Over half of elderly women living alone have incomes below 150 percent of the poverty threshold. Half of the widows who are poor were not so before the deaths of their husbands.

As Richard Burkhauser had pointed out, the ratio of female to male poverty among the elderly has been rising over time. According to Timothy Smeeding, none of the other seven countries he studied has anywhere near the discrepancy that we do between the poverty incidence among single elderly women and that of elderly couples.

Blatter argued that the structure of Social Security was based on demographic assumptions that are much less valid today than they were when the program was designed; that marriages lasted forever, and that men worked in the labor force while women worked at home. The linkage between earnings history and Social Security benefits means that women will continue to have lower retirement benefits than men, both because their careers are more likely to be interrupted and because of wage differences among the full-time work force. Traditional female labor force patterns guarantee the same with respect to pensions - women are more likely to be employed in low wage, service, part-time, nonunion and small firm jobs where pension coverage is rare.

The bottom line is that our income security system is working much better for some older Americans than for others. Two of the three legs of the stool (Social Security and employer pensions) are directly related to labor force experience, so retirement incomes tend to mirror pre-retirement incomes. The Social Security program embodies goals of social adequacy (income redistribution) and individual equity (benefits should reflect contributions), which often conflict. The system has not adapted well to changing demographics, and some sustained thought about systemic changes is overdue.

James Jackson discussed productive aging among ethnic and racial minorities. He emphasized the fact that one's economic and health status late in life reflects one's life experiences in youth and middle age, and that, for racial and ethnic minorities, these experiences are likely to be very different from those of the majority population. Again, a retirement program designed for one group under one set of assumptions may not meet the needs of another group, for whom these assumptions do not hold.

Jackson emphasized the importance of three interrelated economic networks - the regular economy (above board, for pay), the underground, illegal or irregular economy (again for pay, but removed from governmental oversight and ignored by official accounting systems) and the social economy network (barter exchanges of goods and time, mostly among family and friends). The degree of participation in these three segments differs among ethnic groups, for both socioeconomic and cultural reasons. Since only the first of these feeds into our retirement income security systems, these different work patterns can have severe financial implications late in life.

Jackson pointed out the vast difference between the poverty rates of African-Americans and Hispanics and those of whites. This is true at all ages. The problems associated with aged minorities will only grow over time, as their numbers do. Currently, about 14 percent of the 65 and over population is minority. In 2 decades this is projected to be 20 percent, in 2 more decades, 25 percent, and by the year 2050, about a third (U.S. Senate, 1991, chart 1-8).

Jackson stressed the importance of looking at life cycle experiences in order to understand economic status late in life. His presentation underscored the point that our current retirement system does not work well for some. Nearly everyone in attendance would propose some changes in retirement policy. But the appropriate extent of change was a subject of significant disagreement.

3. Proposals for reform

Arthur Flemming and Stanford Ross favored working within the current framework of income support systems. Robert Haveman and Carolyn Weaver proposed more drastic change.

Arthur Flemming discussed his work as head of the SSI Modernization Project, a panel appointed by the Social Security commissioner to study the Supplementary Security Income system. A final report has since been released, and Flemming's presentation was a preview of the findings. A major goal of the recommendations is to strengthen the current SSI program by increasing its funding and by decreasing some of the work and savings disincentives that currently exist.

The primary and most expensive recommendation is to increase minimum benefits, over a 5-year period, to 120 percent of the poverty line. Although the goal of this program has been to remove the aged, blind and disabled from poverty, the statutory benefit levels have never been adequate to do so. The commission also proposed the repeal of the "one-third provision" - the rule that a beneficiary who moves in with family or friend automatically loses 1/3 of his or her SSI benefits. SSI staff spend an inordinate amount of time enforcing this provision, and it penalizes a move that in many cases should be encouraged. The commission also proposed an increase in the asset threshold for SSI eligibility from the current levels of $2000 and $3000 (for an individual and a couple) to more realistic levels of $7,000 and $10,500, thereby encouraging a modest amount of savings and asset accumulation.

Finally, the commission proposed increases in SSI staffing, primarily to handle the large disability backlogs, currently nearing 1 million cases. They also proposed that no one be declared ineligible on the basis of the paper record alone; that is, without the opportunity to meet in person the official making the decision.

Flemming estimated that these proposals require an addition to the current $20 billion budget of $38 billion, two-thirds of which would cover the cost of the benefit increases. He proposed funding this from a $250 billion fund generated over a 5-year period by comparatively small increases in the top individual and corporate marginal tax brackets, by defense budget cuts and by tax increases on alcohol and tobacco.

On the Social Security side, Stanford Ross argued that the OASDI programs are working reasonably well, and that the problems that do exist can be handled by the institutional mechanisms already in place . He favors continued reliance on a dedicated payroll tax, and points out that our total FICA tax burden and average income replacement rate (post- to pre-retirement) are modest by international standards.

Among the serious Social Security problems that do exist is a major shortfall in the disability component of OASDI, one that will leave the DI fund depleted by 1997. More people are becoming disabled at earlier ages than previously, and fewer DI recipients are coming off the rolls. Since we do not fully understand why these changes are occurring, Ross, as a Public Trustee of the Social Security Trust Funds, opposed at this time a reallocation of some of the current OASI contribution to DI, and instead favored a study by the Social Security Administration to establish the nature and extent of the problem. This SSA report is expected by the by the end of 1992, leaving adequate time before 1997 for Congress to act. Ross used this example to illustrate the problem solving capabilities of the Social Security system, and to argue that the existence of problems, which he believes will always accompany a system of this size, does not imply that drastic systemic changes are needed. But he did urge changes to address current issues in a timely fashion.

Even larger problems exist in health care. HI and SMI costs are increasing at unsustainable levels. The cost containment measures of the 1980s, which lowered Medicare reimbursement rates, were really just cost-shifting measures that increased the burden of private insurance providers. These problems are much larger than Social Security, and should be addressed in the context of overall health care reform.

Both Flemming and Ross acknowledged that the current system is imperfect, and that attention should be focused on the deficiencies. But they both urged us not to lose sight of what we do have - a middle-of-the road system (in terms of contributions and benefits) that has remained popular for over half a century, and which, with help from a government subsidized private pension system, provides income security for the vast majority of older Americans

Robert Haveman took the opposite approach, and argued that society would best be served by a major restructuring of our income support system. His thoughts concerning the elderly are taken from a much larger proposal outlined in his recent book, Starting Even, a package with an overall goal of redistributing public resources away from the the nation's elderly toward children and youth. His suggestions would reduce retirement benefits for some and increase them for others. It would expand coverage, and encourage individual responsibility for economic well-being during retirement.

Haveman began by acknowledging the contributions of Social Security in reducing the poverty rate of older Americans below that of the rest of the population, but then listed a number of features of the system that he judged undesirable. It is financed by a regressive payroll tax, and pays benefits that are wage-related and work time-related. As a result, it mirrors work histories and has increased income inequality among older Americans. The system discourages work (after an income disregard), careful retirement planning (since many people do not know what their benefits will be) and perhaps aggregate national savings as well. It pays additional benefits to dependents regardless of economic need, and redistributes considerable resources to those with substantial income from other sources.

Haveman's proposal is designed to meet several objectives: to guarantee all working citizens a retirement income above the poverty threshold, to encourage individuals to provide for their own retirement, to diminish incentives for early retirement and to stimulate private savings.

The proposal flattens the Social Security benefit structure. Workers contribute payroll taxes while working, and then receive a flat benefit (at or above the poverty line) at normal retirement age, regardless of past or current earnings or income. This benefit would be indexed and taxable. Non-workers, including the dependents of retirees, would receive a refundable income tax credit (financed from general revenues) set at two-thirds of the poverty line. (Working increases an individual's benefit from two-thirds of the poverty line to something at or above it.) Survivors would be entitled to the larger benefit from Social Security.

In addition, workers would be encouraged to save for their own retirement by receiving information (regular statements, as Stanford Ross also suggested) and financial counseling, and tax deferments on approved individual annuity investments.

In essence, the program puts a higher safety net under the elderly than they currently enjoy, and relies on them, with government encouragement, to provide income above that floor. It represents a significant change from the current Social Security philosophy.

<u>Carolyn Weaver</u> agreed with Haveman's goals - more adequate support for the poor, more reliance on individual responsibility, and program simplification - but would rely more than he would on the private sector. She emphasized how much economic, social and political realities

have changed since the 1930s, and how much easier it is for individuals today to take responsibility for their own economic future. Americans are healthier, wealthier and live longer. Private pensions have grown dramatically, as have salary deferment plans and IRAs. Many new financial institutions have developed, like money market and mutual funds, allowing individuals to own pieces of broadly diversified portfolios. Finally, the government now insures many of these programs, making the private system not only larger but also safer.

Weaver voiced several criticisms of Haveman's proposal. The first is that, by providing the same benefit to all workers, the plan offers no marginal reward to work. It is a pure tax, unlike the current system, in which benefits are at least loosely tied to prior contributions. She also wondered if the income guarantee might decrease savings for retirement, at least for those at the low end of the income spectrum. Weaver also pointed out that the pay-as-you-go nature of the proposal would impose very large costs of those working when the baby-boomers retire, and she preferred to smooth out that liability over time. Finally, she questioned the lack of means-testing.

Weaver strongly supported Haveman's idea of encouraging people to save and invest through tax-subsidized instruments outside the traditional employer pension, partly because the competition might permit the deregulation the pension industry.

Weaver suggested an alternative system, one in which SSI is expanded to provide a higher floor for the elderly poor, and responsibility for the earnings-related component is shifted to workers. Social Security could be replaced by the opportunity (or the requirement) to save a certain proportion of earnings in government-subsidized instruments and institutions.

We heard a full range of proposals, from marginal improvements of the current Social Security and SSI programs, to a major restructuring of Social Security, to its replacement by private sector instruments.

II. Recurrent Themes of the Conference

Throughout the presentations and during the ensuing discussion, several themes appeared again and again, sometimes in different contexts, and often in the form of questions. I will discuss nine of them, although since many of them are interrelated, the categorization is somewhat arbitrary.

1) One of the most important themes was that understanding the issues of aging requires a life cycle, dynamic view of the process. Gordon Streib and Robert Binstock (1990) mentioned this in their introduction to the new Handbook of Aging and the Social Sciences.

> One of the dramatic changes that took place in the field during the 1980s...has been the tremendous increase in attention paid to the adult life-course (and sometimes the full life-course) context in which persons age...(A)n understanding of the life course has become integral to social scientific studies of aging, whether that understanding is incorporated prospectively through longitudinal design or is obtained retrospectively through analyses of successive cohorts and the historical periods and social conditions through which they have lived.

For example, there was great interest at the conference in the paths that the elderly poor have taken to poverty. Were the old poor also poor when they were young, or did they become poor as they aged? If the former, what was responsible for their initial poverty and what might we have done to alleviate it at the outset? If the latter, did they slide gradually into poverty, or were particular individual events responsible, like the death of a spouse, divorce, retirement, or the illness of the individual or another family member? To what extent are our income security programs successful in cushioning the financial impact of these varous life events?

Richard Burkhauser and others pointed out that we are much better at cushioning some blows than others. The Social Security system, for example, does a very good job at keeping non-poor couples above the poverty line when one or both of them retire. It does much less well at raising poor workers above the poverty threshold as they age, and at protecting single women and widows late in life. James Jackson, however, pointed out that for some minorities with sporadic work histories, the regularity and dependability of the Social Security checks might make recipients better off in retirement than they had ever been before.

Once in poverty, how likely is it and how long does it take for people to get out? Richard Burkhauser showed that the answer differs depending on the age and sex of the individual, and the event that caused the decline.

To what extent are these determinants of poverty exogenous events, over which people have little control, and to what extent are they voluntary choices that people have made? Some are clearly exogenous, like lower wages for full-time women and minorities with similar educational backgrounds as white males, a lay-off from a firm that has gone out of business or the death of a spouse. Others are choices, like the market/non-market labor supply decisions that families make. Many retirements are voluntary, as are the decisions about how much to save, what to do with a lump-sum pension cash-out, how much to contribute to a defined contribution plan, or whether to choose a survivor option in an employer pension plan.

Others factors are not so clear. Current wages are, to some extent, a function of educational choices made earlier in life. Current health status depends, among other things, on lifestyle and health care choices. A divorce may be voluntary for one spouse and involuntary for the other. The longer the life cycle view one takes, the more these factors become endogenous and the less they are exogenous.

Life cycle analyses can give very different answers from static ones. For example, the replacement rate (the ratio of post- to pre-retirement income) is a popular static concept that appears to describe an important financial dimension of the retirement decision. But two people with identical replacement rates the year after retirement can be facing very different lifetime income streams if they do choose to retire. One pension may be indexed for inflation, while the other is not. One may be integrated with Social Security, so that increase in Social Security benefits are offset be declines in the employer benefit, while the other is not. One pension may continue benefits to the spouse after the death of the worker, while the other does not.

As Stanford Ross and Robert Haveman made clear, the progressivity of the Social Security system can look very different depending on the time span over which one measures it. At the point of taxation, it looks very regressive, with no deductions or exemptions, a flat tax from the first dollar to $55,500 (in 1992), and no tax at all beyond that (except for the

Medicare component, which went up to incomes of $130,200 in 1992). But on the benefit side, Social Security is progressive, with higher replacement rates for lower income recipients than for those higher up. On the other hand, this benefit progressivity may disappear if we look further and notice that low income workers (and minorities) are likely to die earlier, and therefore receive benefits for fewer years than those who earned more.

A truly life-cycle perspective can include more than one generation. The impact of the Social Security system on the financial well-being of current workers depends not only on the taxes they pay and the retirement benefits they will receive, but also on what happens to the money their parents receive. What looks like an inter-generational transfer (today's workers subsidizing today's retirees) may look very different if the windfall gains enjoyed by the elderly end up being bequeathed back to their children. As Janice Gregory suggested, there are few thoughts that dampen opposition to the FICA payroll tax among workers more quickly than the prospect of indigent parents moving in with them!

One interesting implication of a life cycle perspective is that, in the long run, the well-being of the elderly may be more efficiently served by concentrating on programs whose impact occurs long before old age - programs like education, training or health. To the extent that these interventions augment human capital, they can have great impact on the income, assets, and health status of the elderly-to-be.

Life cycle questions are harder to answer because they are more complicated and require more sophisticated data sets, but they are the correct ones to ask.

2) A second major point mentioned by nearly everyone in attendence is the wide variation in the circumstances of American elderly. As I once wrote,

> Never begin a sentence with "The elderly are..." or "The elderly do..." No matter what you are discussing, some are, and some are not; some do, and some do not. The most important characteristic of the aged is their diversity. The average can be very deceptive, because it ignores the tremendous dispersion around it. Beware of the mean. (Quinn,1985)

As Patricia Ruggles and Richard Burkhauser demonstrated, the economic well-being of the elderly, measured by median income or the rate of poverty over time, has improved dramatically. By official measures, an elderly household is now less likely to be poor than a younger household. However, though less likely to be under the threshold, the elderly are much more likely to be just above it. For example, if the same poverty line were used for those over 65 as under (which would add about 10% to the elderly threshold), their poverty rate would increase by about three points, and exceed that of the rest of the population.

If the poverty threshold is increased by 25 percent, the number of elderly poor increases by nearly 60 percent. When the 150 percent line is used, elderly poverty more than doubles (U.S. Bureau of the Census, 1992a, table 6). As Patricia Ruggles remarked, although many of the elderly have escaped poverty, they haven't escaped by much. Our elderly income variance is larger than that of other western nations, and continues to grow.

The likelihood of economic distress is highly correlated to observable demographic factors, like race, sex, age and marital status. Cynthia Taeuber provided some interesting statistics from recent testimony before the House Select Committee on Aging. Among the elderly, Hispanics are twice as likely as whites to be poor, and blacks have more than three times the white rate (see U.S. Bureau of the Census, 1992a, table 3 for 1991 statistics). The rate for elderly women is twice that for elderly men (ibid., table 5). The percentage poor rises from 10 to 15 to 20 percent as we consider Americans aged 65-74, 75-84 and 85 and over. Elderly not living with relatives (most of these live alone) have poverty rates 4 times that of elderly family householders. Unfortunate combinations of these demographic characteristics leads to astronomical poverty rates. For example, 62 percent of all female, black, unrelated individuals aged 75 and older were poor in 1991, as were 56 percent of similar Hispanic women (ibid., table 5).

Even within the ethnic groups discussed is great diversity. James Jackson reminded us that the economic experiences of Puerto Ricans, Mexican-Americans and Cuban-Americans are very different, yet they are usually aggregated under the term Hispanic. A University of Michigan project differentiates among 33 separate Asian groups. There are boat people from Cambodia and yacht people from Hong Kong.

Diversity is key to understanding the elderly, and more so in America than in other Western industrialized countries.

3) At many points in the discussion, participants commented on the tremendous importance of definitions. This is particularly true when societal goals are couched in specific terms. We are quite good, Richard

Burkhauser argued, at meeting goals that we set: putting an astronaut on the moon, strengthening the defense establishment, reducing poverty among the elderly, cushioning the shock of retirement, balancing the budget - well, four out of five isn't bad. The definition of the problem helps set the agenda, which then determines what policies are enacted.

If a goal is to remove the elderly from poverty, then the definition of poverty is key. If 150 percent of the current thresholds were used, then few would argue that we have succeeded, since over 27 percent of the elderly are in households with cash incomes below this amount (ibid., table 6). If we adopt the traditional threshold, but add the value of in-kind benefits and an imputed value of home equity to the concept of income, then only 6 percent of the elderly are poor (U.S. Bureau of the Census, 1992b, Table 2, p. 100). There are many interesting issues in the definitions of income and poverty. Should in-kind benefits be included in income? If so, how should they be valued?

How does one adjust income for family size? Ignoring it is inaccurate, yet using per capita data probably over-adjusts, since there are economies of scale in family consumption. What is the appropriate time unit for measuring income and poverty? No one would argue that the typical American family is poor every Saturday and Sunday, when their income drops to zero. But why a year? The longer the time period, the fewer people appear to be poor. What is the appropriate definition of the consumption unit - the family, the household? Should the existence of wealthy relatives (like parents or children) living elsewhere affect the poverty status of individuals whose own incomes leave them below the line?

Poverty thresholds are adjusted each year for changes in the cost-of-living. Should regional differences be considered? Patricia Ruggles and others have argued that a better index of change would be the standard of living, which rises faster than prices. This is another way of asking whether poverty is best viewed as an absolute or a relative concept. When viewed as relative, poverty declines more slowly over time.

The are no right answers to these questions. The point is that different reasonable answers can yield poverty rates among the elderly that differ by a factor of 10, and which change dramatically the measured economic status of older Americans.

4) There was general agreement that the <u>consumption needs of the elderly</u> have gotten considerably less attention than have their incomes, despite the fact that well-being depends upon the relationship between the two. Current poverty thresholds are based on a definition developed in 1964, which has been modified very little since. For families of three and more, the poverty threshold is basically three times the dollar value of the Agriculture Department's economy food plan; for smaller families and persons living alone, the multiplication factor is slightly larger than three. The value of three is derived from the results of a 1955 survey that indicated that families of three or more spent about one-third of their income on food (U.S. Bureau of the Census, 1992a, Appendix A).

As mentioned above, the poverty threshold for one and two person elderly households is about 10 percent lower than for younger families. As Timothy Smeeding said, this estimate (0.9 x 3 x food) is not a very sophisticated view of consumption needs, especially when the key multiple is based on a survey nearly 40 years old. Marilyn Moon concentrated on the health expenditures of the elderly, often assumed to be trivial because of Medicare and Medicaid. As she explained, this is far from true. She estimated that by 1990, the median elderly family spent about one-quarter of its income on health care; the mean value was 17 percent. These percentages have been growing steadily, and now are about the same as they were in the mid-1960s, prior to the introduction of Medicare and Medicaid.

Many elderly own their own homes. Although they do not pay rent or payments on a mortgage, they do pay taxes and utility bills, and occasionally replace roofs and hot water heaters. How much do we know about out-of-pockets costs for the general maintenance and upkeep of these homes? Very little.

What about the extra costs imposed by chronic health conditions? Specialized equipment and medicines may be necessary and transportation may be more complicated and expensive. Again, it is unlikely that the simple metric (0.9 x 3 x food) will capture this.

Thomas Juster expressed some reservations about the very concept of consumption needs, and was very skeptical about being able to devise a satisfactory operational definition. Conceptually, consumption needs refer to the resources required by people in different circumstances to maintain some common level of well-being or happiness. People of different ages have very different tastes and interests, especially since some are burdened by health limitations. People in their 80s may be less likely to go skiing than those in their 20s, and more likely to spend money on taxicabs or public transportation. Is this due to preferences or constraints? What market baskets should be compared across ages, or, equally difficult, across countries?

These conceptual problems may explain why so little research has been conducted on consumption needs. Nevertheless, there was general agreement that the imbalance between the amounts of work done on needs and incomes is excessive, and a general suspicion that the consumption needs of the elderly are being understated.

5) Nearly all participants favored at least some restructuring of the social safety net for the elderly. There were two main reasons for this. The first is that the primary component, the Social Security system, was designed in a very different world than the one we now inhabit - a world in which dad worked in the labor market, mom worked at home, and marriages lasted forever. Regardless of whether this world ever existed, it certainly does not exist now.

In 1948, the ratio of male to female labor force participation rates was 2.6 (86.6/32.7). In 1966, this dropped under 2.00 (80.4/40.3), and by 1980, it had declined to 1.50 (77.4/51.5). In 1992, it was near 1.3 (75.6/57.8), exactly half what it was in 1948 (U.S. President, 1993, table B-34). Nonetheless, according to Victoria Blatter, the proportion of women drawing Social Security benefits based on their own earnings records (as opposed to receiving dependent's benefits on their husbands' records) has remained almost unchanged at about 38 percent since 1960. The remainder earn no return at all on their FICA contributions.

During the 1950s and through the early 1960s, about 2.5 out of every 1000 Americans was getting divorced each year. By the mid-1970s, this had doubled to 5 per 1000, and it has been relatively steady since. When only married women aged 15 and up are considered, the rate of divorce has more than doubled over the last three decades, from 9.2 per 1000 in

1960 to 20.3 in 1975 and about the same today (U.S. Department of Commerce, 1991, tables 82 and 128).

The Social Security system has made some concessions to these changing demographics. Benefits for divorced wives who had been married at least 20 years were introduced in 1965. In 1977, the same was added for divorced husbands, and the duration requirement of the marriage was decreased to 10 years. But more fundamental change has not occurred, despite considerable interest and research on alternatives such as earnings sharing, homemaker credits and flat rate demogrants. (For a thorough discussion of these issues, see Burkhauser and Holden, 1982.)

The second reason for change is related to the first - the system does a much better job cushioning the financial blow of some life events than it does for others. Social Security generally does keep non-poor workers out of poverty when they retire, especially when it is accompanied by the other two legs of the stool, pension income and private savings. But it often leaves the working poor in poverty when they retire, and often does not meet the needs of older women living alone, like divorcees or widows.

The point made is that since the demographic environment has changed so much over the past half century, and may continue to do so, some reconsideration of the basic assumptions and structure of the Social Security program is in order.

6) The next theme is related to two discussed above; namely, the importance of life-cycle dynamics and the changing environment. <u>To what extent do the experiences of today's elderly portend the status of the elderly in the future?</u> What is the nature of the steady state?

Today's elderly have been the subject of considerable research, much of it based on two outstanding microeconomic datasets - the Social Security Administration's Retirement History Study (RHS) and the the Labor Department's National Longitudinal Survey of Mature Men (NLS). These have charted the retirement process of a specific cohort of Americans with unique experiences. The RHS respondents, for example, were all born during the years 1906 through 1911. They started out with some bad breaks. They were in their 20s, a typical time for early labor market experiences and human capital development, during the Great Depression, and they then suffered through World War II. After that, things picked up. They enjoyed the boom economy of the 1960s, dramatic increases in real estate prices, and a Social Security system that expanded and returned vast multiples of what they and their employers had contributed.

The elderly of the future will have had very different histories and experiences. They should not anticipate the real Social Security benefit increases that their parent enjoyed. In fact, future benefits have already been cut by the 1983 Amendments, which legislated delays in the age of entitlement for "full benefits". The demographic pyramid is looking more and more like a rectangle, with fewer workers supporting more retirees. Henry Aaron, Barry Bosworth and Gary Burtless (1989) have estimated that the ratio of Social Security contributors to Social Security beneficiaries will drop from about 3.3 to 1 today to only 2 to 1 in 2030.

Other important factors are changing as well. Minorities are becoming a larger percentage of the population. Among the elderly, the proportion minority is projected to double over the next half century, from 14 percent now to 28 percent in 2040 (U.S. Senate, 1991, chart 1-8).

The labor force participation of women continues to rise. Employer pension coverage has stagnated and may decline, and more covered workers will have defined contribution plans. Future Social Security benefits are likely to be subject to more taxation. Life expectancies will increase and divorce patterns may change again.

Some of these changes suggest improved well-being for the elderly; some suggest decline. The current experiences of today's youth and middle-aged are helping to determine what their elderly years will hold.

7) The presentation by Timothy Smeeding illustrated that Americans can learn from experiences abroad. The changes in the age structure of many Western European countries are decades ahead of ours. In the U.S., the percentage of the population aged 65 and over will remain steady in the 12 to 13 percent range for 20 years, then rise to 16 percent by 2020 and to near 20 percent by 2030, where it will level off again. The percentage 65+ already exceeds 15 percent in Germany, the U.K. and Scandinavia, and will be in the 18-20 percent range in many European countries and in Japan by 2010 (OECD, 1988, table 6).

In addition, the Europeans have developed social programs that do a better job at meeting some of our goals than our programs do. The costs are higher taxes and larger government sectors. Their programs tend to have larger guarantees (minimum benefits) and less important earnings-related components. They are tax more of the benefits, except for the French.

Europeans have adopted a more universal approach to health care, although the details differ considerably by country. They have very different approaches to long-term care than we do. The result is that they have much less poverty among their elderly and among their children. With respect to elderly, they do this not by raising the average -- in fact, our average is above average (to ignore my own bewrare-of-the-mean warning twice in one sentence). They do it by reducing the variance.

The United States is an outlier in approach and therefore in outcome. We have the option of learning from others who are ahead of us on the demographic curve, and who have been much more successful than we have at reducing poverty.

8) An important central issue in the discussion of reform was whether we should continue with our categorical approach or develop a more universal program. Should we try to improve the programs we have, like Social Security, SSI, Medicare, Medicaid, food stamps, housing allowances, and tax inducements for pensions? Should we focus policy initiatives for those specific subgroups in need, like widows, divorcees, minorities, children, the blind and the disabled? Or, should we focus more on people in need, regardless of their demographic characteristics?

For example, should we be fine-tuning Medicare, for old people, and Medicaid, for poor people, or should we be considering much broader health care reform, not for the old, not for children, not for widows, but for all Americans? Should we be contemplating serious income redistribution through broad tax and transfer policies rather than through categorical programs designed to alleviate the problems of specific subsets of the population? Alternatively, as some suggested, should we scaling back the public sector and relying more on private initiative?

This is an old question, but an essential one, since it concerns the philosophical underpinnings of the social safety net. We heard eloquent proponents for all three approaches at the seminar.

9) A final theme was related to the one just mentioned. How do we choose among these different philosophies of income security - the European universal approach, the American categorical approach or one further along the spectrum, with an even smaller government presence and a larger reliance on individual initiative. One set of criteria concerns our goals and which approach we think is more likely to achieve them. There is legitimate disagreement on both the goals and how we can best get there.

Another criterion is political feasibility. To what extent should current political constraints -- what we actually could do in the near future -- guide and temper our discussion on these issues? In the short run, it is foolish to ignore political feasibility. But in the long run, as Robert Binstock pointed out, the political constraints themselves will change. Political will and political power shift, and those who set the agenda can speed this process along.

III. Some Components of a Research Agenda

Participants at the Executive Seminar highlighted a number of areas of disagreement or inadequate knowledge, and implicitly outlined some elements of a research agenda on poverty and income security among the elderly.

Foremost in my mind is the need to understand the pathways to financial distress. Some elderly poor have always been poor or close to it; others have tumbled into poverty as a result of one or more significant events late in life, such as divorce, the death of a spouse, a medical problem or retirement. Many of the former are not helped much by a system whose primary component is earnings related and many of whose other components are categorical; that is, they have eligibility conditions in addition to economic need. Future generations of elderly may be better served by programs that reduce the probability that they will be poor before old age, rather than waiting for them to cross an arbitrary age threshold and then attempting to bail them out. The dismal American record on poverty in general and child poverty in particular does not bode well for future generations of older Americans.

For those who suffer economic hardships only as they age, we need fresh thought on how to cushion economic blows from events other than retirement, many of which affect women living alone. The changing demographics of employment and marriage suggest consideration of some radical restructuring of a system whose basic design has been relatively stable for 50 years. There have been occasional flurries of interest in how Social Security should treat working and non-working spouses, but little policy change.

A life cycle view should look forward as well as back. It is important to understand how today's elderly poor got there, but also to acknowledge that tomorrow's elderly will differ, having grown up in a different economic environment. Education levels have risen, as have the labor force participation rates of women. Pension coverage has grown, then leveled off, and may now be in decline. Life expectancies continue to rise, although there is no clear consensus that this is associated with improved health for the elderly. We need models that focus on the determinants of the outcomes we observe so that we can anticipate the implications as we see these determinants change.

The two most important datasets for economic research on aging have become outdated, and is important to study and compare the retirement patterns of later generations. Fortunately, the ambitious Health and Retirement Survey (HRS) will soon be available. Replicating the many studies based on the Retirement History Study and the National Longitudinal Surveys will be an important first step, to see how what we have learned about retirement has changed over the last two decades. Because of improvements in survey design and research methodology, we should be able to go far beyond this as well.

A second major question is the extent to which the economic problems of the elderly should be addressed in a broader framework. Should move toward a more universal approach to income security? What are the trade-offs? Many of the economic problems of the elderly are related to medical issues; hospitals, doctors and drugs, followed by the even more frightening prospects of long term care. Although the latter is primarily an elderly issue (except for the younger generations involved in these painful decisions), the former are not. A significant minority of Americans have no medical insurance - 35 million according to the latest Census Bureau estimates (Wall Street Journal, 9/4/92, p. A2). Medicaid covers some, and others have what care they do receive paid for by uncompensated care pools. These are funds used to compensate hospitals for the "free" care they give, often partially gathered from premium surcharges on those with insurance. Since much of this is nominally paid for my employers (ignoring the difficult issue of the true incidence of fringe benefit costs), it strikes me that we already do have a form of 'socialized medicine" - and an irrational one at that. Businesses already pay for some of the medical care of people who have no connection to the firm. A fundamental restructuring of medical care delivery in the U.S. would do much to alleviate the concerns of the elderly and improve their economic well-being. Since the problems affect many more than the elderly, this seems to me to be a more reasonable approach than an improved patchwork quilt to protect just those over some age.

The same questions can be asked of income security in general. One in every seven Americans is now poor - nearly 36 million people in 1991. Should our tax and transfer system focus resources on these poor, or on just those poor who also meet some other criterion? These broad issues of income maintenance philosophy may be beyond the scope of the National Academy on Aging charter, and they certainly do raise serious questions of political viability in the current fiscal climate, but it is important to keep in mind that none of the economic problems faced by older Americans is unique to that age group. A group like the National Academy should try, among other things, to describe the system that we think best, even if the road from here to there is strewn with many significant obstacles.

Cross-national comparison of different income security systems can be enlightening. Although there are many legitimate reservations about applying the experiences of one country to another, of a different size and degree of heterogeneity, and with different history and politics, there is still much to be learned. Many industrialized countries are a several decades ahead of us on the aging curve, and have very different approaches to income security, health and long term care. They also have much less poverty, and this is no coincidence. The ongoing Luxembourg Income Study provides unique research opportunities not available only a few years ago.

Given all the emphasis on the diversity of the aged, it is important that the experiences of subgroups of the elderly not be lost in the aggregation process. Older women, on average, fare much more poorly than older men, as nearly everyone in attendance pointed out. Older blacks and Hispanics are disproportionately poor. Much of this is related to different experiences throughout the life cycle. These groups have not had the same research attention as have white men, and this imbalance should be addressed in future research.

A final research issue that generated both considerable enthusiasm and significant reservations concerned the consumption needs of the elderly. Should their poverty thresholds differ from those of younger families of the same size? If so, how and why? Everyone agreed that the present index of needs - a food budget multiplied by a factor determined decades ago - is relatively unsophisticated. It is simple and easily understood, and therefore can be a powerful policy instrument. Some fear that complicating it will relegate it to political irrelevance. Others raised important philosophical reservations about the concept of 'need', especially when comparing people across large chronological or geographical distances, so that underlying preferences differ substantially. Nonetheless, there was widespread concern that research comparing the income and needs of the elderly has focused disproportionately on the former, and a suspicion that the resource needs of the elderly are being understated and therefore their level of economic well-being exaggerated.

This is a large agenda, and even this understates the wide range of interests and concerns expressed by the individuals at the Executive Seminar. These issues are important today, and will be even more so in the future, both because there will be so many more older Americans and because I will be one of them! Research on the elderly has been a spectacular and successful growth industry, and should continue to be one.

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