



# Income of Americans Aged 65 and Older, 1968 to 2008

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November 4, 2009

**Congressional Research Service**

7-5700

[www.crs.gov](http://www.crs.gov)

RL33387

## Summary

This CRS report presents data collected by the Census Bureau in the Current Population Survey from 1969 through 2009 about the employment status and the sources and amounts of income received by people aged 65 and older. The report focuses on the sources and amounts of income received by individuals aged 65 and older and by households in which either the household head or the household head's spouse (if present) was 65 or older in the year of the survey.

Since the 1960s, birth rates have fallen and average life expectancy has increased. Consequently, the number of workers relative to the number of retirees is projected to decline, and retirees will have to stretch their savings and other assets over longer periods of retirement than their parents and grandparents experienced. The aging of the American population and the retirement of the baby boom generation will place financial strains on Social Security, public and private pensions, and on retirees' personal savings. The increasing number of Americans living to age 80 and older is of particular significance because it is the very old who are most likely to need medical, social, and long-term care services, and who are at the greatest risk of depleting their financial resources and falling into poverty.

Rates of employment among older persons have been rising in recent years. Employment rates fell among men 55 and older from the late 1960s until about 1990. Since then, employment rates have risen for older men, but they remain below the employment rates of the 1960s and 1970s. Among older women, employment rates have steadily increased since the 1960s, but older women's employment rates today remain lower than those of men the same age.

Earnings, Social Security, pensions, and income from assets – mainly interest and dividends – comprise the majority of income among people 65 and older. Information on pension income has been reported separately on the CPS only since the 1970s. In 1975, Social Security comprised 42% of all income received by people aged 65 and older. Earnings and income from assets each accounted for 20% of the income of the elderly, while pensions made up 14% of their income. Public assistance and other sources each contributed just 2% to the total income of Americans aged 65 and older in 1975. By 2008, Social Security comprised 39% of the income received by people aged 65 and older. Earnings had increased to 26% of the income of the elderly, while income from assets had fallen to 13% of the total. Pensions, including withdrawals from retirement accounts, comprised 20% of the income of the elderly in 2008. Public assistance provided less than 1% of the income of the elderly, and other sources accounted for just 2%.

Although 97% of persons 65 and older had income from at least one source in 2008, in most cases household income is a better measure of available resources than individual income. Median household income rose faster among elderly households than among nonelderly households from 1968 through 2008, but in 2008 the median annual income of households in which the householder or spouse was 65 or older (\$30,774) was just 54% of the median income of younger households (\$56,604). In 2008, households in which either the household head or the household head's spouse (if present) was 65 or older had an average of 1.7 residents, compared to an average of 2.7 residents in households in which neither the head nor spouse was 65 or older.

The poverty rate among people aged 65 and older fell from 25.0% in 1968 to 9.7% in 2008. Growth in real wages—and in the Social Security and pensions based on wages—contributed to the decline in the percentage of older Americans living in poverty; however, because the poverty threshold is indexed to rising prices, the poverty line has fallen relative to median income.

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## Introduction: Demographics and Budget Issues

### Background: America's Aging Population

Americans are living longer than ever before. The average life expectancy of Americans born in 1968 was 70.5 years. It has been estimated that those born in 2010 will live for an average of 78.3 years.<sup>1</sup> Women continue to have a longer average life expectancy than men, but both men and women have experienced gains in average life expectancy since the 1960s. A man who reached age 65 in 1968 could expect to live another 13.0 years, whereas a woman who turned 65 in 1968 had a remaining life expectancy of 16.5 years. A man who reached age 65 in 2005 could expect to live another 16.8 years, whereas a woman who turned 65 in 2005 had a remaining life expectancy of 19.8 years. As more people live into old age, the age-profile of the population will shift. In 1968, 18.6 million people in the United States—9.4% of the population—were 65 or older. In 2010, there will be 40.2 million Americans aged 65 and older, representing 13.0% of the population. By 2030, according to projections made by the Census Bureau, there will be 71.5 million people aged 65 and older, comprising 19.7% of the U.S. population. (See **Table 1.**)

The aging of the population will strain the components of the traditional “three-legged stool” of retirement income: Social Security, pensions, and personal saving. Social Security is the largest source of income among the elderly. The Social Security Board of Trustees has estimated that the Social Security trust fund will be exhausted by 2039 unless actions are taken to preserve it.<sup>2</sup> Earnings are the second largest source of income among people aged 65 and older, but much of this income is earned by people under 70 years of age. Pensions are the third largest source of income among the elderly, but only about half of all workers in the United States have pension coverage through their jobs, and more employers offer 401(k) plans than traditional pension plans. In a typical 401(k) plan, the worker must elect to participate, decide how much to contribute to the plan, how to invest the funds, and what to do with the account when he or she changes jobs or retires. Workers who do not choose to save, save too little, or make poor investment choices may face difficult financial circumstances in retirement.

**Table 1. Projections of the Resident U.S. Population, by Age**  
(in thousands, as of July 1 each year)

| Age                 | 2010           | 2020           | 2030           | 2040           | 2050           |
|---------------------|----------------|----------------|----------------|----------------|----------------|
| Under 20            | 83,236         | 88,887         | 95,104         | 101,625        | 109,147        |
| 20 to 64            | 185,456        | 192,285        | 197,027        | 210,270        | 224,001        |
| 65 to 84            | 34,120         | 47,363         | 61,850         | 64,640         | 65,844         |
| 85 and older        | 6,123          | 7,269          | 9,603          | 15,409         | 20,861         |
| <b>Total</b>        | <b>308,935</b> | <b>335,804</b> | <b>363,584</b> | <b>391,944</b> | <b>419,853</b> |
| <b>65 and older</b> | <b>40,243</b>  | <b>54,632</b>  | <b>71,453</b>  | <b>80,049</b>  | <b>86,705</b>  |
| <b>% of Total</b>   | <b>13.0%</b>   | <b>16.3%</b>   | <b>19.7%</b>   | <b>20.4%</b>   | <b>20.7%</b>   |

**Source:** U.S. Census Bureau <http://www.census.gov/ipc/www/usinterimproj/>.

<sup>1</sup> National Center for Health Statistics, *Vital Statistics of the United States* and Bureau of the Census, *2008 National Population Projections*.

<sup>2</sup> Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs: A Summary of the 2009 Annual Reports*, <http://www.ssa.gov/OACT/TRSUM/tr09summary.pdf>.

As the proportion of the population who are 65 or older has risen, the number of people over age 80 has increased as well. In 1970, 18.9 million Americans were aged 65 and older and 17% of all elderly persons (3.2 million) were 80 or older. In 2009, 37.8 million Americans are 65 or older, and of this number 26.6% (10.1 million) are 80 years of age or older. (See **Table 2.**) The increasing number of Americans living to age 80 and older is of particular significance because it is the very old who are most likely to need medical, social, and long-term care services, and who are at the greatest risk of depleting their financial resources and falling into poverty.

**Table 2. Age Distribution of People Aged 65 and Older, 1970-2009**

|      | Number<br>(thousands) | 65-69 | 70-79 | 80 and<br>older | Total | Percentage<br>of U.S.<br>population <sup>a</sup> |
|------|-----------------------|-------|-------|-----------------|-------|--|
| 1970 | 18,899                | 35.7% | 47.3% | 17.0%           | 100%  | 9.4%   |
| 1980 | 23,743                | 36.1  | 46.3  | 17.6            | 100   | 10.9   |
| 1990 | 29,566                | 34.3  | 46.1  | 19.6            | 100   | 12.0   |
| 2000 | 32,621                | 28.7  | 47.9  | 23.4            | 100   | 11.9   |
| 2008 | 36,790                | 30.3  | 42.9  | 26.8            | 100   | 12.3   |
| 2009 | 37,788                | 31.3  | 42.1  | 26.6            | 100   | 12.5   |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

a. People age 65 and older as a percentage of the civilian, non-institutionalized resident U.S. population.

## The Income of Older Americans and the Federal Budget

Congress is interested in the sources and amounts of income among older Americans not only because they represent a large and growing proportion of the U.S. population, but also because much of the income of older Americans is provided through government-sponsored income transfers or is subsidized through income tax deductions and deferrals. In FY2010, for example, federal expenditures for Social Security will exceed \$690 billion, representing more than 19% of total federal spending and more than 34% of federal spending on entitlement programs.<sup>3</sup> The federal government also provides income directly to low-income older Americans through the Supplemental Security Income (SSI) program and to retired federal employees through the Civil Service Retirement System and the Federal Employees' Retirement System. Of the estimated \$47 billion federal expenditure for SSI benefits in FY2010, approximately one-sixth, or \$7.7 billion, will be paid to recipients aged 65 and older.<sup>4</sup> Federal outlays for retirement and disability pensions for former federal employees will reach nearly \$70 billion in FY2010, with most of this amount being paid to individuals aged 55 and older.

The public also subsidizes the income of older Americans through several deferrals and deductions that Congress has included in the Internal Revenue Code. These tax incentives promote sponsorship of pension plans by employers and encourage workers to save for retirement. The tax deductions and deferrals granted to qualified retirement plans are the second largest tax expenditure in the federal budget, and will reduce federal tax revenues by an estimated

<sup>3</sup> *Budget of the United States Government, Fiscal Year 2010*. Census Bureau data indicate that 76% of adult Social Security recipients in 2008 were 65 or older. Individuals aged 65 and older received 78% of Social Security benefits.

<sup>4</sup> *Budget of the United States Government, Fiscal Year 2010*, and Census Bureau data.

\$126 billion in FY2010.<sup>5</sup> Congress also allows taxpayers aged 65 and older to claim an additional standard deduction on their income tax returns. This deduction will reduce federal tax revenues by an estimated \$1.9 billion in FY2010.

## **Income of Americans Aged 65 and Older: Outline of the Report**

This CRS report presents data collected by the Census Bureau from 1969 through 2009 that describe the employment status of older Americans and the sources and amounts of income received by people aged 65 and older. The report begins by describing trends in employment among people aged 55 and older, including differences in rates of employment among men and women. The next section of the report provides detailed information on the sources and amounts of income received by people aged 65 and older, and how the proportion of total income from each source has changed over time. The third section examines trends in the distribution of income among households and compares the household income of older Americans with the household income of people under 65 years old. This is followed by a section that describes the decline in the proportion of older Americans living in poverty since the 1960s. The final section of the report explains how individual and household incomes fall as people age and gradually reduce their attachment to the paid labor force.

## **The Data**

The data presented in this report were collected by the Census Bureau through the Current Population Survey (CPS), a monthly survey of the civilian, noninstitutional population of the United States. The CPS was begun in the 1940s as a way to measure unemployment each month on the basis of a random sample of U.S. households. It is still the source of the official rate of unemployment reported each month by the Bureau of Labor Statistics. The CPS also collects annual income data. Each year in March the survey includes a detailed set of questions on the amounts and sources of income people received during the previous calendar year. Over the years, the number of income questions has expanded, and today information is gathered on more than 50 different sources of income and noncash benefits, such as food stamps, employer-provided pension plans, employer-sponsored health insurance plans, Medicaid, Medicare, and home energy assistance. The survey also collects detailed information on the employment status, work experience, occupation, and industry of employment of people 15 years old and over. The number of households surveyed has increased over the years. In March 1969, the earliest survey CRS analyzed for this report, the CPS sample included 47,000 households and contained records for 152,000 individuals. The March 2009 CPS, the most recent survey studied for this report, included records for 76,000 households and 216,000 individuals.

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<sup>5</sup> *Budget of the United States Government, Fiscal Year 2010: Analytical Perspectives*. The largest tax expenditure is the exclusion for employer contributions for employee health insurance, which will reduce federal tax revenues by an estimated \$155 billion in FY2010. The deduction for mortgage interest will reduce revenue by \$108 billion in 2010.

### People 65 and Older in Nursing Homes and Long-term Care Facilities

The data presented in this report were collected by the Census Bureau through the Current Population Survey (CPS). The CPS is conducted among the civilian, noninstitutional population of the United States. It does not include residents of prisons, nursing homes, or military personnel living on base. According to the Census Bureau's American Community Survey, an estimated 1.84 million persons resided in nursing homes in 2006. Of this number, 1.59 million (86%) were aged 65 or older, comprising 4.8% of the total number of persons aged 65 and older. Elderly residents of nursing homes differ demographically from older persons who live in the community. Nursing home residents are older, more likely to be female, and are less likely to be married than community residents. In 2006, among people 65 and older living in the community, 53% were 65 to 74 years old, 36% were 75 to 84 years old and 11% were 85 or older. The age distribution among nursing home residents aged 65 and older in 2006 was a mirror image of the community population: 14% were 65 to 74 years old, 36% were 75 to 84 years old, and 50% were 85 or older. Among people 65 and older living in the community in 2006, 57% were women. Among nursing home residents aged 65 and older, 74% were women. Among community residents aged 65 and older in 2006, 55% were married. Among nursing home residents, just 20% were married. The remainder were widowed, divorced, or never married.

## Employment Among People Aged 65 and Older

Patterns of employment among older Americans have changed since the 1960s, and the trends in employment among older persons have differed between men and women. From the late 1960s to the early 1990s, employment rates fell steadily among men 55 and older. Since then, employment rates have risen for older men, but they remain below the employment rates that prevailed among men 55 and older as recently as the late 1970s. Among older women, the trend in employment since the late 1960s has been one of steady increase, as the large numbers of women who entered the labor force in the 1960s and 1970s have begun to pass age 55. Despite this steady increase, however, older women's employment rates today remain lower than those of men the same age.

Two possible reasons for the increased rate of employment among older individuals are the long-term trend away from defined benefit pensions to 401(k) plans and the decline in the proportion of retirees with access to employer-sponsored group health insurance. Over the past 25 years, the number of workers whose employers maintain traditional defined-benefit pensions that pay a guaranteed annuity for life has fallen while the number who participate in defined contribution plans – of which 401(k) plans are the most numerous – has risen sharply. In 2009, about 20 million workers in the private sector were covered by defined benefit pensions, while almost 50 million participate in 401(k)-type plans. Researchers have found that workers whose only retirement plan is a defined contribution plan tend to work to later ages than those who are covered by defined benefit plans so that they can build up their account balances before retiring. In the area of health insurance, rising health care costs have discouraged employers from beginning or continuing to offer health insurance to retirees. In the absence of this coverage, workers may choose to continue working until age 65, when they become eligible for Medicare.

## Rates of Employment by Age

As people grow older, they are less likely to work, and those who work are less likely to work full-time. In 2008, 89.3% of men between the ages of 25 and 54 worked for pay at some time during the year.<sup>6</sup> Among men aged 55 to 64, 73.4% worked at some time in 2008, and of men

<sup>6</sup> Employment rates were tabulated from the March 2009 CPS. For more about labor force participation rates among older persons, see CRS Report RL30629, *Older Workers: Employment and Retirement Trends*, by Patrick Purcell.

aged 65 and older 25.7% were employed at some time during the year. Similarly, 77.1% of women between the ages of 25 and 54 were employed at some time in 2008. The employment rate among women 55 to 64 years old was 63.2%. Among women aged 65 and older, just 16.0% were employed at some time in 2008.

Older workers tend to work fewer hours than younger workers. Among all workers between the ages of 25 and 54, 86.5% worked full-time in calendar year 2008 and 13.5% worked part-time. Even among workers aged 55 to 59, 85.4% worked full-time in 2008. However, among workers aged 60 to 64, only 78.5% were employed full-time in 2008. Beginning at age 62, individuals are eligible for Social Security retired worker benefits, and this appears to have some effect on rates of full-time employment. Among people who were 60 or 61 years old and who worked in 2008, 82.9% were employed full-time. Among those who were 62 to 64 years old and who worked in 2008, 74.1% worked full time. Rates of full-time employment fall further after age 65. Of those aged 65 to 69 who were employed in 2008, only 61.8% worked full-time, and among workers aged 70 and older, just 46.2% worked full-time.<sup>7</sup>

The employment rate among people 55 and older declined from the 1960s until about 1990. During the past 15 to 20 years, employment rates among older persons have risen. In 1968, 70.4% of people 55 to 59 years old were employed at some time during the year, as were 60.3% of people 60 to 64 years of age, 34.7% of those aged 65 to 69, and 14.6% of those aged 70 and older. (See **Table 3.**) By 1990, employment rates for all four of these age groups had fallen. In 1990, the employment rate among people 55 to 59 years old was 68.1%. Among those 60 to 64 years old, the employment rate in 1990 was 49.3%, or 11 percentage points lower than in 1968. Among people aged 65 to 69, the employment rate of 24.8% in 1990 was 9.9 percentage points lower than it had been in 1968. Among people aged 70 and older, the 1990 employment rate of 8.3% was 6.3 percentage points lower than it had been in 1968.

Since 1990, employment rates among older persons have risen, although among people aged 60 and older they remain lower than they were in the late 1960s. Among people 55 to 59 years old, 74.6% were employed at some time in 2008, an increase of 6.5 percentage points since 1990. The employment rate among individuals aged 60 to 64 was 60.3% in 2008, an increase of 11 percentage points since 1990. The employment rate among those 65 to 69 years old also rose by 10.2 percentage points between 1990 and 2008, rising from 24.8% to 35%. The employment rate among persons aged 70 and older rose from 8.3% to 13.5% during this time.

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<sup>7</sup> Although Social Security retired worker benefits are first available at age 62, beneficiaries who are under the full retirement age (66 in 2009) are subject to an earnings test that reduces the monthly benefit if their earnings exceed a threshold amount. In 2009, Social Security beneficiaries who are under the full retirement age have their benefit reduced by \$1 for every \$2 of annual earnings over \$14,160.

**Table 3. Employment Rates, by Age, 1968 to 2008**  
(persons employed full-time or part-time in any month of the year)

|      | Age<br>55-59 | Age<br>60-64 | Age<br>65-69 | Age 70<br>and Older |
|------|--------------|--------------|--------------|---------------------|
| 1968 | 70.4%        | 60.3%        | 34.7%        | 14.6%               |
| 1970 | 69.7         | 60.0         | 32.6         | 13.3                |
| 1975 | 68.2         | 56.1         | 30.2         | 11.4                |
| 1980 | 68.7         | 52.7         | 28.1         | 10.7                |
| 1985 | 68.5         | 50.8         | 26.0         | 9.3                 |
| 1990 | 68.1         | 49.3         | 24.8         | 8.3                 |
| 1995 | 69.3         | 50.0         | 24.2         | 8.3                 |
| 2000 | 71.1         | 52.1         | 27.5         | 9.8                 |
| 2005 | 74.4         | 58.2         | 32.0         | 12.1                |
| 2008 | 74.6         | 60.3         | 35.0         | 13.5                |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

## Employment Rates among Men and Women

Employment rates differ between men and women at all ages. Recent trends in employment rates among older Americans also differ between men and women. Although women have lower labor force participation rates than men, most of the increase in employment among older Americans since the mid-1980s has been the result of increasing labor force participation among women. Employment rates among older men have begun to rise over the past 15 to 20 years, but they remain lower than the employment rates that prevailed among men up until about 1970. Employment rates among older women, on the other hand, were higher in 2008 than at any point in the past 40 years.

In 1968, 90.4% of men between the ages of 55 and 59 were employed at some time during the year. (See **Table 4**) The employment rate among men in this age group had declined to 78.8% by 1995. Between 1995 and 2008, the employment rate of men aged 55 to 59 remained relatively steady at about 79%. Among men aged 60 to 64, the employment rate fell from 82.0% in 1968 to 59.2% in 1995 and then began to rise steadily. In 2008, 66.0% of men aged 60 to 64 were employed at some time during the year. Similar patterns can be seen in the employment rates of men aged 65 to 69 and those aged 70 and older. Among men aged 65 to 69, the employment rate fell from 51.0% in 1968 to 30.7% in 1995. By 2008, the employment rate among men aged 65 to 69 had risen to 40.3%. Among men aged 70 and older, the employment rate fell from 22.4% in 1968 to 11.5% in 1990. By 2008, the employment rate among men aged 70 and older had risen to 17.9%.

Employment rates among women aged 55 to 59 did not follow the pattern of falling and then rising that was evident in the employment rate of men between 1968 and 2008. Employment rates among women aged 55 to 59 rose fairly steadily throughout the period, increasing from 52.1% in 1968 to 70.1% in 2008. Among women 60 and older, the trend in employment rates was similar to that among men. Their employment rates fell slightly until about 1990 when they began to increase. Since 1990, the employment rate among women aged 60 to 64 has risen from 38.8% to 55.0%. The employment rate among women aged 65 to 69 rose from 19.3% in 1990 to 30.1% in

2008. Over the same period, the employment rate among women aged 70 and older rose from 6.2% to 10.3%

**Table 4. Employment Rates of Men and Women, by Age**

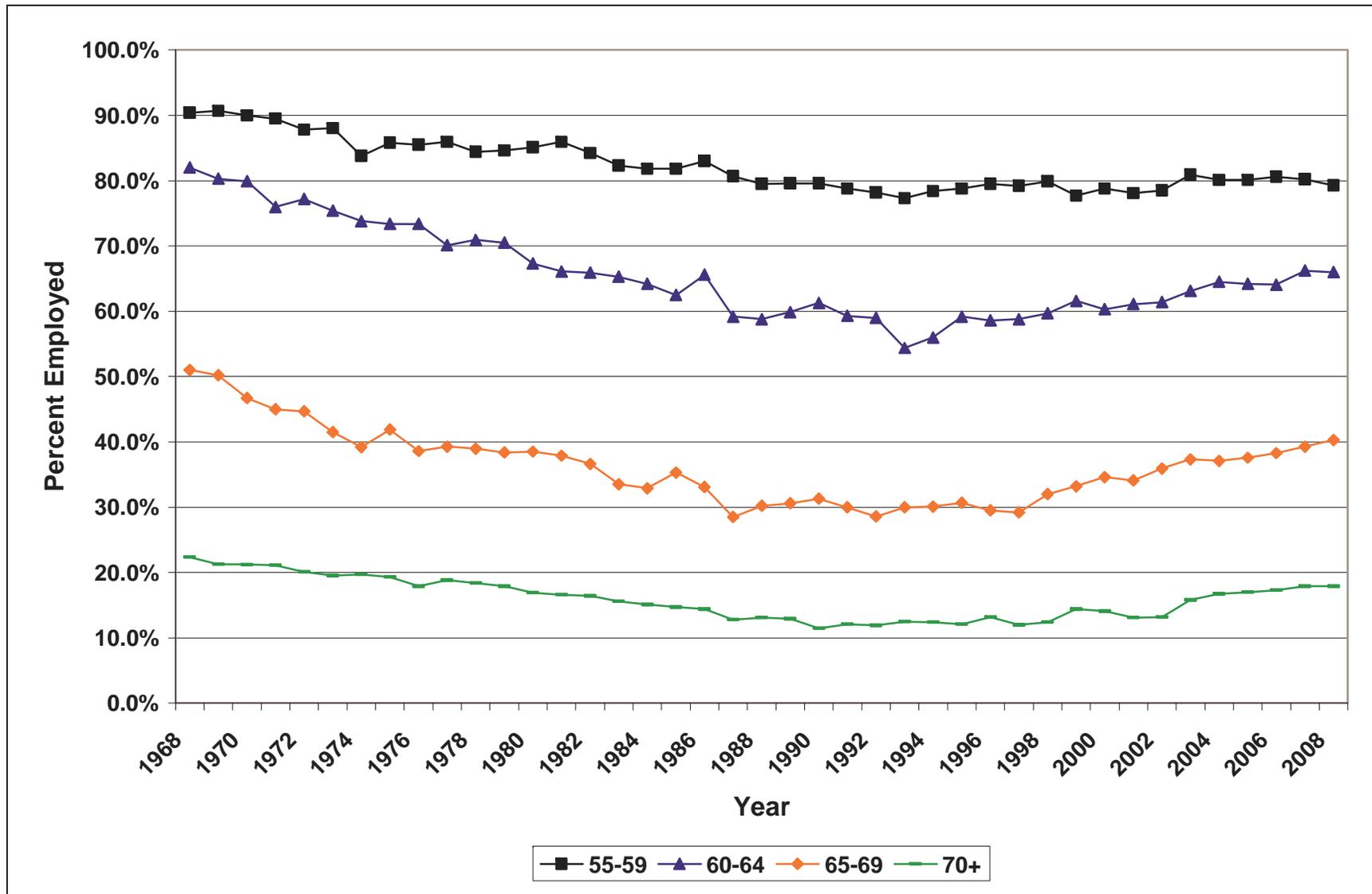
(persons employed full-time or part-time in any month of the year)

|      | Age 55-59 |       | Age 60-64 |       | Age 65-69 |       | Age 70 and older |       |
|------|-----------|-------|-----------|-------|-----------|-------|------------------|-------|
|      | Men       | Women | Men       | Women | Men       | Women | Men              | Women |
| 1968 | 90.4%     | 52.1% | 82.0%     | 41.3% | 51.0%     | 21.2% | 22.4%            | 9.0%  |
| 1970 | 90.0      | 51.3  | 79.9      | 42.7  | 46.7      | 21.0  | 21.2             | 7.8   |
| 1975 | 85.8      | 52.3  | 73.4      | 40.8  | 41.9      | 21.0  | 19.3             | 6.3   |
| 1980 | 85.1      | 54.0  | 67.3      | 40.2  | 38.5      | 19.9  | 16.9             | 6.7   |
| 1985 | 81.8      | 56.4  | 62.5      | 40.7  | 35.3      | 18.4  | 14.7             | 5.9   |
| 1990 | 79.6      | 57.2  | 61.3      | 38.8  | 31.3      | 19.3  | 11.5             | 6.2   |
| 1995 | 78.8      | 60.2  | 59.2      | 41.9  | 30.7      | 18.7  | 12.1             | 5.7   |
| 2000 | 78.8      | 63.9  | 60.3      | 45.0  | 34.6      | 21.2  | 14.1             | 6.8   |
| 2005 | 80.1      | 68.9  | 64.2      | 52.7  | 37.6      | 27.1  | 17.0             | 8.7   |
| 2008 | 79.3      | 70.1  | 66.0      | 55.0  | 40.3      | 30.1  | 17.9             | 10.3  |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

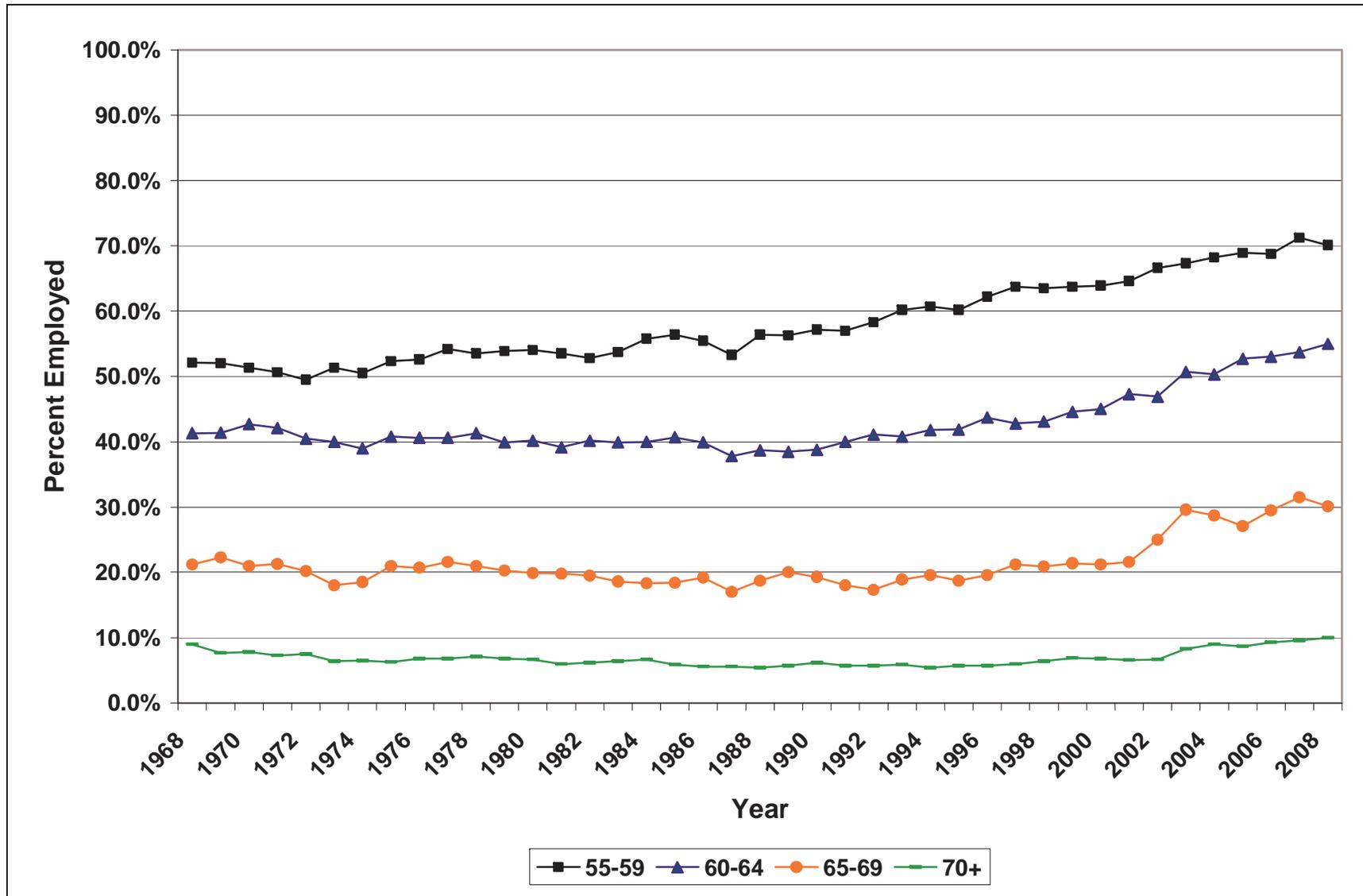
**Figures 1 and 2** show the percentage of men and women, respectively, aged 55 and older who were employed each year from 1968 to 2008.

Figure I. Percentage of Men Employed by Age, 1968 to 2008



Source: Congressional Research Service analysis of the annual March supplements to the Current Population Survey.

Figure 2. Percentage of Women Employed by Age, 1968 to 2008



Source: Congressional Research Service analysis of the annual March supplements to the Current Population Survey.

## Full-Time vs. Part-Time Employment among Older Workers

As noted earlier, individuals who continue to work past age 55 remain almost as likely to work full-time as their younger counterparts until about age 62, the first age of eligibility for Social Security retired worker benefits. For workers 55 to 59 years old, the distribution between full-time and part-time employment fell slightly from 1968 to 1975, and has since remained relatively stable at about 85%. Among workers aged 60 to 64, the proportion of workers employed full-time fell from 86.2% in 1968 to 78.5% in 1985 and has remained nearly the same since then. Among workers 65 to 69 years old and those aged 70 and older, the percentage who worked full-time fell between 1968 and 1985, but has since increased. (See Table 5.)

**Table 5. Full-Time and Part-Time Employment, by Age of Worker**

|      | Age<br>55-59 |           | Age<br>60-64 |           | Age<br>65-69 |           | Age 70<br>and older |           |
|------|--------------|-----------|--------------|-----------|--------------|-----------|---------------------|-----------|
|      | Full-time    | Part-time | Full-time    | Part-time | Full-time    | Part-time | Full-time           | Part-time |
| 1968 | 89.6%        | 10.4%     | 86.2%        | 13.8%     | 68.8%        | 31.2%     | 49.5%               | 50.5%     |
| 1970 | 89.4         | 10.6      | 84.5         | 15.5      | 64.2         | 35.8      | 42.6                | 57.4      |
| 1975 | 85.7         | 14.3      | 82.8         | 17.2      | 57.4         | 42.6      | 42.6                | 57.4      |
| 1980 | 85.5         | 14.5      | 81.3         | 18.7      | 55.7         | 44.3      | 37.5                | 62.5      |
| 1985 | 83.9         | 16.1      | 78.5         | 21.5      | 51.9         | 48.1      | 34.5                | 65.5      |
| 1990 | 84.9         | 15.1      | 77.6         | 22.4      | 51.2         | 48.8      | 42.5                | 57.5      |
| 1995 | 86.3         | 13.7      | 76.5         | 23.5      | 54.8         | 45.2      | 40.5                | 59.5      |
| 2000 | 86.8         | 13.2      | 78.2         | 21.8      | 58.3         | 41.7      | 43.8                | 56.2      |
| 2005 | 85.8         | 14.2      | 77.8         | 22.2      | 61.3         | 38.7      | 43.6                | 56.4      |
| 2008 | 85.4         | 14.6      | 78.5         | 21.5      | 61.8         | 38.2      | 46.2                | 53.8      |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

## Sources and Amounts of Income Among Persons Aged 65 and Older

Americans aged 65 and older receive most of their income from four sources: earnings, Social Security, pensions, and income from assets.<sup>8</sup> In 2008, these four income sources provided 97% of all income received by persons aged 65 and older. This was a slight increase from 1975 (the first year for which separate data on pension income were reported on the CPS) when these four sources provided 95% of income received by persons aged 65 and older.

Wages and salaries today constitute a greater proportion of the aggregate income of the elderly than at any time since the late 1970s, and while this is due in part to increasing rates of employment, it is also partly the result of a decline over the past 15 years in the proportion of income received as interest and dividends. Since the early 1990s, interest rates and dividend yields have fallen, and both the share of aggregate income received from assets and the percentage of older individuals who receive income from this source have fallen. Social Security

<sup>8</sup> As defined on the CPS, pension income includes employer-sponsored pensions (including military retired pay), veterans' pensions, and periodic payments from annuities, insurance policies, individual retirement accounts, 401(k) accounts, and Keogh plans. The CPS does not collect information on income received from capital gains.

has remained a fairly stable share (about 40%) of the income of people 65 and older for most of the past 40 years.

The share of total income the elderly receive from pensions has fallen since the early 1990s. Over this period of time, the proportion of men with pension income has fallen and the proportion of women with pension income has increased; however, the rise in the proportion of women with pension income has been offset by the smaller pensions they typically receive. Because the proportion of the total workforce who participate in employer-sponsored pensions has remained stable at about half the workforce since the 1970s, it is unlikely that the proportion of their total income that the elderly received from pensions will rise substantially in the next 10 to 20 years.

Few individuals aged 65 and older do not receive any income. Between 1968 and 2008, the percentage of people 65 and older receiving income from at least one source increased from 90% to 97%.<sup>9</sup> Among people who had income from at least one source, the mean annual amount (in 2008 dollars) rose from \$14,541 in 1968 to \$29,248 in 2008, an increase of 101% or 1.8% per year. Median personal income in constant 2008 dollars rose from \$8,962 in 1968 to \$18,208 in 2008, an increase of 103%, which is also a 1.8% average annual rate. (See **Tables 9** through **12**.)<sup>10</sup>

## Earnings

In 1968, 25.4% of all people 65 and older worked, and earnings provided 31.0% of the aggregate income received by persons aged 65 and older. Both of these percentages declined sharply over the next decade, and by 1980, the proportion of people 65 and older with earned income had fallen to 16.6% and earnings had fallen to 15.9% of the aggregate income of the elderly. The proportion of Americans aged 65 and older with earnings has increased in recent years, rising from 16.3% in 1990 to 20.1% in 2008. As a share of aggregate income, earnings rose from 15.3% of the total income of the elderly in 1990 to 26.0% in 2008. The increase in the proportion of income from earnings is the result mainly of four factors: (1) growth in real wages; (2) increased employment among people 65 and older; (3) an increase in the percentage of working elderly who are employed full-time; and (4) a drop in interest and dividend income that resulted from falling interest rates, falling dividend yields, and a decline in the percentage of people receiving interest and dividend income.<sup>11</sup> Among people who had earned income, the mean total amount in 2008 dollars rose from \$15,991 in 1968 to \$36,499 in 2008, an increase of 128% or 2.1% per year. Median earned income, also in 2008 dollars, rose from \$7,975 in 1968 to \$20,000 in 2008, an increase of 151% or 2.3% per year.

## Social Security

In 1968, 74.1% of people aged 65 and older received Social Security income, either as retired workers, spouses, or as survivors of deceased workers. By 1990, the proportion of elderly persons receiving Social Security benefits had risen to 91.0%. Since 2000, the proportion of people aged 65 and older who receive Social Security has fallen from 90% to 86%. Social Security provided

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<sup>9</sup> The majority of older persons with no income are women. In 1969, 16% of women and 1% of men received no income. By 2008, the share of men who received no income had risen slightly (to 2%) and the share of women who received no income had fallen to 4%.

<sup>10</sup> The median lies at the middle of the income distribution. Half of the population have higher incomes, and half have lower incomes. Mean income is generally higher than median income because a relatively small percentage of people have very high incomes. The median is therefore widely considered to be a more accurate measure of average income.

<sup>11</sup> Between 1984 and 1994, the yield on 10-year Treasury notes fell from 12.4% to 7.1%. By 2008, the yield had fallen to 3.8%. Dividend yields declined from 4.6% in 1984 to 2.8% in 1994 and to 2.3% in 2008. (Source: *Economic Report of the President, 2009*, Tables B-73 and B-96).

33.5% of all income received by people 65 and older in 1968. By 1980, Social Security benefits accounted for 42.8% of all income received by persons aged 65 and older. Since 1980, Social Security has consistently comprised between 38% and 40% of the aggregate income of the elderly population. Among people 65 and older who received Social Security income, the mean annual amount, in 2008 dollars, rose from \$5,918 in 1968 to \$12,859 in 2008, an increase of 117% or 2.0% per year. Median Social Security income, also in 2008 dollars, rose from \$5,483 in 1968 to \$12,437 in 2008, an increase of 127% or 2.1% per year.

## Asset Income

Income from assets—primarily interest and dividends, but also including rents and royalties—was received by 36.1% of people aged 65 and older in 1968. The proportion of older persons receiving asset income rose steadily over the next decade, and by 1980 two-thirds of the elderly received income from assets. This proportion remained relatively stable until the late 1990s when it began to decline. By 2008, the proportion of people aged 65 and older who received income from assets had fallen to 54.0%. The decline in the proportion of people receiving income from assets coincided with a long period of falling interest rates and dividend yields. As the rate of return on these assets fell, fewer people chose to hold such assets.

In 1968, interest, dividends, rent, and royalties provided 18.2% of the aggregate income of persons aged 65 and older. This proportion steadily increased over the next two decades, and by 1990 income from assets comprised 24% of the aggregate income of persons aged 65 and older. The share of the income of the elderly provided by income from assets has progressively fallen since the early 1990s, and in 2008 only 12.8% of all income received by people 65 and older came from interest, dividends, rents, and royalties. Measured in 2008 dollars, mean income from assets rose from \$6,605 in 1968 to \$7,729 in 1990 and fell to \$6,697 in 2008. Median income from assets has consistently been substantially lower than mean asset income because a relatively small proportion of individuals receive a very large share of the total income from assets. Expressed in 2008 dollars, median income from assets rose from \$2,243 in 1968 to \$2,710 in 1990 and fell to \$1,054 in 2008.

## Pension Income

The CPS has collected data on pension income as a separate category only since the March 1976 survey, which collected information on income received in 1975. Before that, income from pensions was included in a broad category of “other income.” In 1975, 22% of persons aged 65 and older received income from pensions earned through previous employment or as the surviving beneficiaries of workers who were receiving pensions. (See **Appendix Table A-1**.) The percentage of people 65 and older receiving income from pensions rose until the early 1990s, peaking at 38% in 1992. The proportion of the elderly population receiving pension income has fallen slightly since 1992. In 2008, 34.2% of people 65 and older received pension income.<sup>12</sup>

In 1975, income from pensions made up 14% of the total income of persons aged 65 and older. This proportion increased over the next 15 years, along with the percentage of older persons receiving income from pensions, reaching a peak of 22% in 1993. Since then, pension income has comprised roughly 20% of the total income of people 65 and older each year. In 2008, income from pensions comprised 19.5% of the aggregate income of the elderly. Among people 65 and

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<sup>12</sup> This category includes pensions from previous employers or unions, and other retirement income, excluding Social Security and Veterans’ Administration payments. It includes company or union pensions and profit sharing plans; annuities; military retirement; federal government pensions; state or local government pensions; Railroad Retirement; payments from annuities or paid-up insurance policies; and regular payments from 401(k), IRA, and Keogh accounts.

older who received pension income, the mean annual amount in 2008 dollars rose from \$9,641 in 1975 to \$16,079 in 2008, an increase of 67% or 1.6% per year. Median pension income rose from \$6,627 in 1975 to \$10,800 in 2008, an increase of 63% or 1.5% per year.

**Table 6. Percentage of Persons Aged 65 and Older with Income from Each Source**

| Source of Income      | 1968  | 1970  | 1980  | 1990  | 2000  | 2005  | 2008  |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|
| Any income            | 90.0% | 90.4% | 98.7% | 98.8% | 97.8% | 96.9% | 96.6% |
| Earnings              | 25.4  | 23.4  | 16.6  | 16.3  | 16.9  | 17.8  | 20.1  |
| Social Security       | 74.1  | 75.9  | 90.5  | 91.0  | 89.8  | 87.8  | 85.8  |
| Asset income          | 36.1  | 39.5  | 67.1  | 69.9  | 59.2  | 54.9  | 54.0  |
| Pension income        | n/a   | n/a   | 26.6  | 37.0  | 34.9  | 35.0  | 34.2  |
| SSI/Public Assistance | 8.9   | 9.2   | 8.5   | 5.5   | 3.8   | 3.4   | 3.2   |
| Other income          | 23.6  | 24.2  | 6.9   | 7.7   | 6.0   | 5.9   | 6.1   |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

n/a = not available

**Table 7. Income from Each Source as a Percentage of Aggregate Income of Persons Aged 65 and Older**

| Source of Income      | 1968  | 1970  | 1980  | 1990  | 2000  | 2005  | 2008  |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|
| Earnings              | 31.0% | 27.1% | 15.9% | 15.3% | 20.0% | 24.8% | 26.0% |
| Social Security       | 33.5  | 35.3  | 42.8  | 37.9  | 40.3  | 39.3  | 39.0  |
| Asset income          | 18.2  | 19.5  | 22.4  | 24.0  | 17.2  | 13.2  | 12.8  |
| Pension income        | n/a   | n/a   | 15.3  | 19.8  | 19.7  | 19.7  | 19.5  |
| SSI/Public Assistance | 2.7   | 2.6   | 1.6   | 0.8   | 0.7   | 0.7   | 0.6   |
| Other income          | 14.5  | 15.5  | 2.0   | 2.2   | 2.1   | 2.3   | 2.1   |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

n/a = not available

**Table 8. Mean Annual Income of Persons Aged 65 and Older from Each Source**  
(Mean income by source of persons with income from that source in 2008 dollars)

| Source of Income | 1968     | 1970     | 1980     | 1990     | 2000     | 2005     | 2008     |
|------------------|----------|----------|----------|----------|----------|----------|----------|
| All sources      | \$14,541 | \$14,857 | \$17,379 | \$22,805 | \$26,790 | \$27,943 | \$29,248 |
| Earnings         | 15,991   | 15,532   | 16,410   | 21,135   | 31,103   | 37,777   | 36,499   |
| Social Security  | 5,918    | 6,258    | 8,106    | 9,377    | 11,765   | 12,122   | 12,859   |
| Asset income     | 6,605    | 6,623    | 5,727    | 7,729    | 7,628    | 6,498    | 6,697    |
| Pension income   | n/a      | n/a      | 9,902    | 12,063   | 14,756   | 15,271   | 16,079   |
| SSI/Public Asst. | 3,957    | 3,770    | 3,127    | 3,448    | 4,779    | 5,211    | 5,188    |
| Other income     | 8,079    | 8,616    | 4,932    | 6,524    | 9,113    | 10,656   | 9,741    |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

n/a = not available

**Table 9. Median Annual Income of Persons Aged 65 and Older from Each Source**  
(Median income by source of persons with income from that source in 2008 dollars )

| Source of Income | 1968    | 1970    | 1980     | 1990     | 2000     | 2005     | 2008     |
|------------------|---------|---------|----------|----------|----------|----------|----------|
| All sources      | \$8,962 | \$9,150 | \$11,899 | \$15,364 | \$16,964 | \$17,062 | \$18,208 |
| Earnings         | 7,975   | 7,351   | 9,189    | 9,891    | 14,903   | 17,996   | 20,000   |
| Social Security  | 5,483   | 5,827   | 8,003    | 9,130    | 11,408   | 11,933   | 12,437   |
| Asset income     | 2,243   | 2,255   | 1,838    | 2,710    | 1,701    | 1,194    | 1,054    |
| Pension income   | n/a     | n/a     | 6,653    | 7,943    | 9,935    | 10,547   | 10,800   |
| SSI/Public Asst. | 3,648   | 3,518   | 2,635    | 2,629    | 3,741    | 4,614    | 4,488    |
| Other income     | 5,732   | 5,741   | 2,729    | 3,287    | 4,470    | 5,273    | 6,000    |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

n/a = not available

## Welfare Income

In 1968, 8.9% of the elderly population in the United States received some form of cash welfare assistance from the federal or state governments.<sup>13</sup> Currently, the largest source of cash welfare assistance for people 65 and older is the Supplemental Security Income (SSI) program, which was authorized by Congress in 1972 and began making payments to eligible low-income aged and disabled persons in 1974. The proportion of the elderly population receiving cash welfare payments has steadily fallen since the mid-1970s, mainly because the percentage of people 65 and older who receive Social Security benefits has increased and the value of Social Security benefits has risen due to the growth in real wages. The maximum eligible income limit for SSI benefits, in contrast, grows at the annual rate of price inflation.<sup>14</sup> As a share of the aggregate income of persons aged 65 and older, cash welfare payments fell from 2.7% in 1968 to less than 1% in the late 1980s. Welfare income has been less than 1% of the total income of Americans aged 65 and older for the past 20 years. During the period from 1968 to 2008, the mean and median amounts of welfare income received by older individuals fluctuated within relatively narrow ranges. Measured in 2008 dollars, mean welfare income fell from \$3,957 in 1968 to \$3,448 in 1998 and then slowly rose to about \$5,200 in 2008. Median welfare income fell from \$3,648 in 1968 to \$2,629 in 1990, rose to \$4,614 in 2005 and fell to \$4,488 in 2008.

## Other Income

Other sources of income recorded on the CPS include workers' compensation, unemployment compensation, alimony, child support, and financial assistance from friends or relatives not living in the same household. Since 1975, the proportion of persons aged 65 and older receiving income from any of these sources has consistently remained in a narrow range of 6% to 8% of the elderly population. As a share of the aggregate income of the elderly, all of these sources combined have accounted for just 2% to 3% of the total income of older Americans since 1975. Among people 65 and older who received income from one or more of these sources in 2008, the mean amount received was \$9,741 and the median amount was \$6,000. Thus, for the relatively small

<sup>13</sup> This category includes only cash welfare payments. It does not include the value of food stamps, medical assistance, rental subsidies, heating assistance, or other in-kind transfers.

<sup>14</sup> In any given year the rate of price inflation may exceed the rate of growth of average wages, but over long periods of time wages grow faster than prices because average wages grow at the average rate of inflation *plus* the rate of growth of labor productivity. Prices will grow faster than wages in the long run only if labor productivity fails to increase.

percentage of people aged 65 and older who received income from other sources, it represented a substantial share of their total income.

## Sources of Income, by Quartile

The sources of income received by persons aged 65 and older whose incomes are at the lower end of the income distribution differ from the sources of income of people at the upper end of the income distribution. Individuals aged 65 and older whose income is in the top quartile (the top 25%) receive substantially more income from earnings, pensions, and assets than those in the bottom three quartiles. Between 1975 and 2008, the proportion of total income received from earnings, pensions, and assets changed more among persons aged 65 and older in the top income quartile than among those in the bottom three quartiles.<sup>15</sup> Among persons aged 65 and older in the bottom three income quartiles, Social Security proved more than half of all income received in both 1975 and 2008.

In 1975, individuals aged 65 and older whose incomes in 2008 dollars exceeded \$19,383 were in the top income quartile among people in this age group. In the aggregate, persons aged 65 and older in the top income quartile received 30% of total income from earnings, 27% from assets, 22% from Social Security, 19% from pensions, less than 1% from welfare, and 2% from other sources. (See **Figure 3**.) That same year, individuals whose incomes were less than \$7,006 in 2008 dollars were in the bottom income quartile among persons aged 65 and older. Individuals aged 65 and older in the bottom income quartile in 1975 received 80% of total income from Social Security, 13% from public assistance, 3% from assets, 1% from pensions, less than 1% from earnings, and 2% from other sources. (See **Figure 6**.)

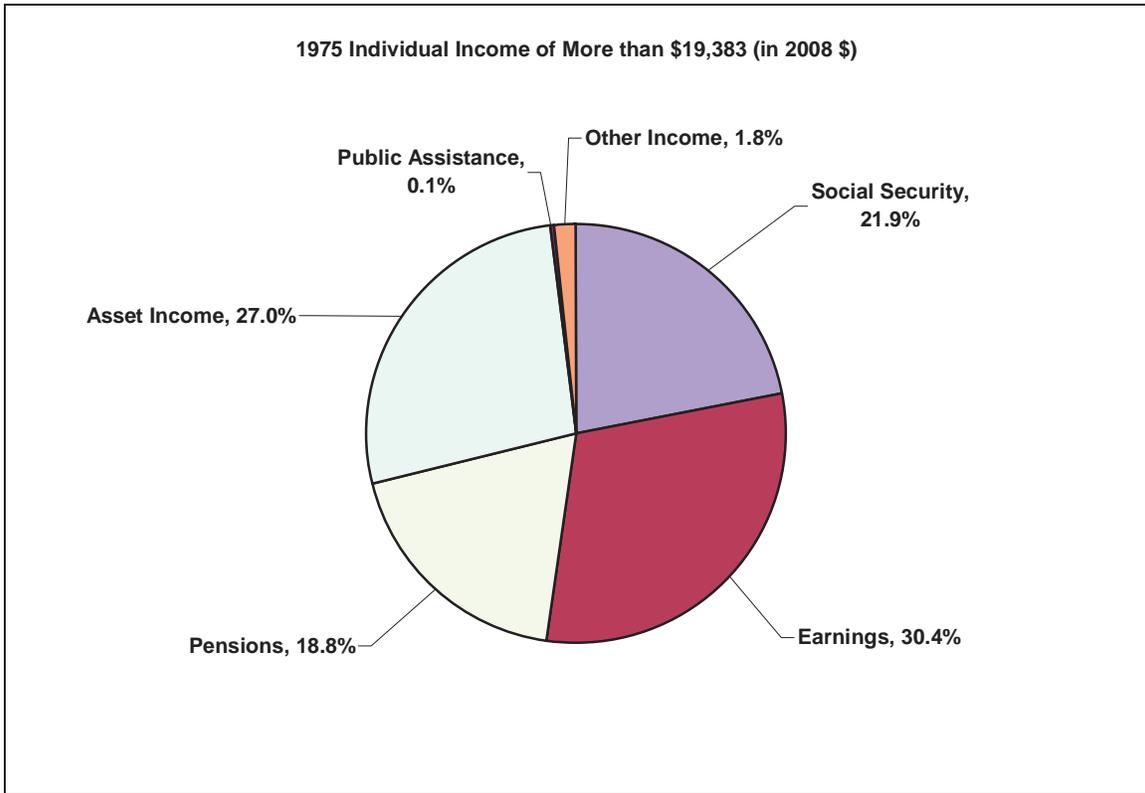
Between 1975 and 2008, the biggest changes in the sources of income among persons aged 65 and older who were in the top income quartile were the decline in the share of total income received from assets and the increase in the share of total income received from earnings. Among persons aged 65 and older who were in the top quartile in 2008 (those with income of \$33,677 or more) earnings accounted for 38% of total income and pensions provided 23% of total income. Social Security comprised 20% of aggregate income among persons aged 65 and older in the top income quartile in 2008. Interest, dividends, rent, and royalties accounted for 17% of the total income of older persons in the top income quartile in 2008. Other sources accounted for 2% of income among persons aged 65 and older who were in the top income quartile in 2008. (See **Figure 7**.)

In the bottom income quartile—people with income of less than \$11,139—Social Security accounted for 84% of total income in 2008, up from 80% in 1975. Pensions provided 3% of the total income of elderly persons in the bottom income quartile in 2008, while assets and earnings comprised 4% and 2%, respectively, of total income in the bottom income quartile. Public assistance provided just 6% of the total income of Americans aged 65 and older in the bottom income quartile in 2008, down from 13% in 1975. This was due both to the increase in the proportion of people 65 and older who received Social Security benefits and to growth in the real value of Social Security benefits. Other sources provided 2% of the total income received by persons aged 65 and older who were in the bottom income quartile in 2008. (See **Figure 10**.)

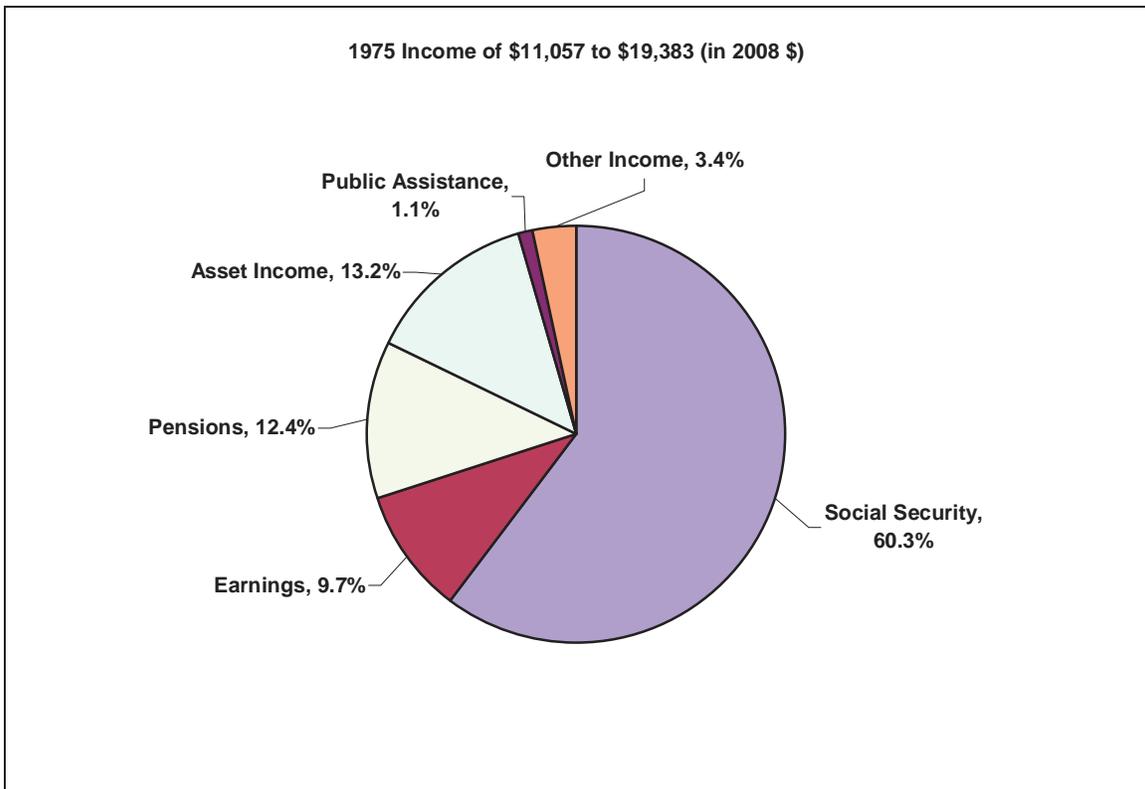
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<sup>15</sup> The March 1976 CPS, which collected income data for calendar year 1975, was the first in which pension income was reported separately in the public-use data files. Previously, pension income had been grouped with other income.

**Figure 3. Total Income by Source of Persons Aged 65+, Top Quartile, 1975**

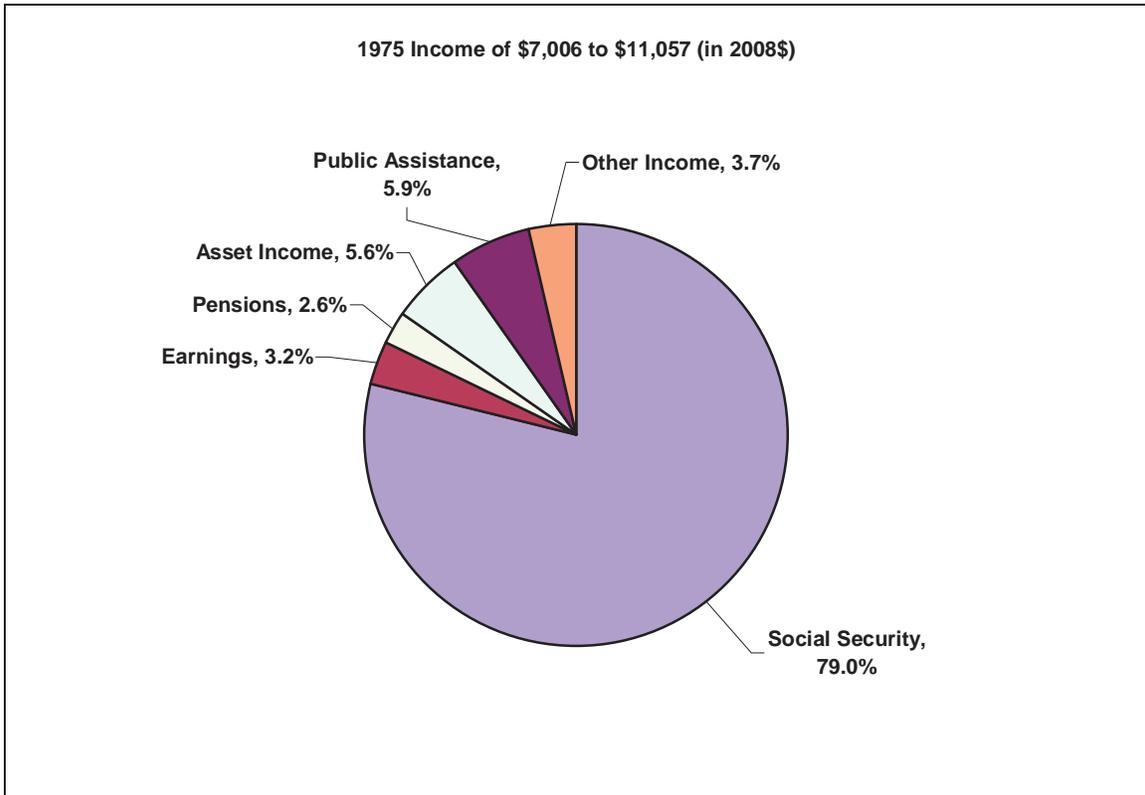


**Figure 4. Total Income by Source of Persons Aged 65+, Second Quartile, 1975**

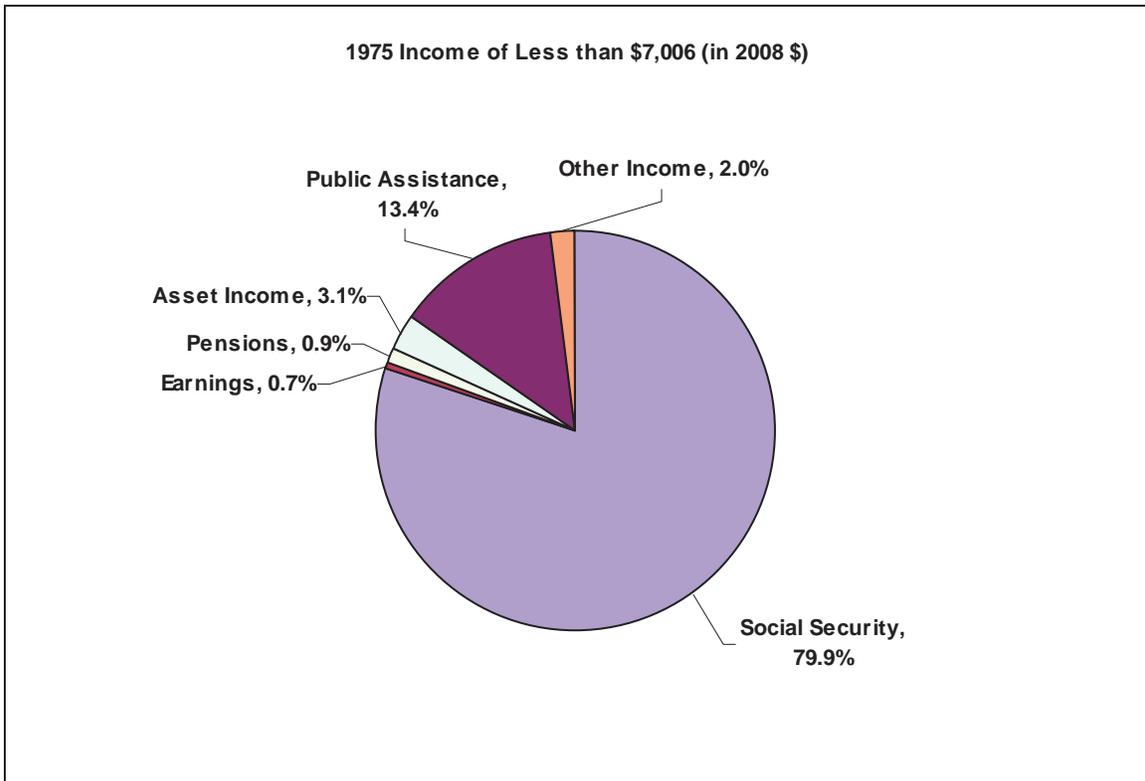


**Source:** Both figures from CRS analysis of the March 1976 Current Population Survey.

**Figure 5. Total Income by Source of Persons Aged 65+, Third Quartile, 1975**



**Figure 6. Total Income by Source of Persons Aged 65+, Bottom Quartile, 1975**



Source: Both figures from CRS analysis of the March 1976 Current Population Survey.

Figure 7. Total Income by Source of Persons Aged 65+, Top Quartile, 2008

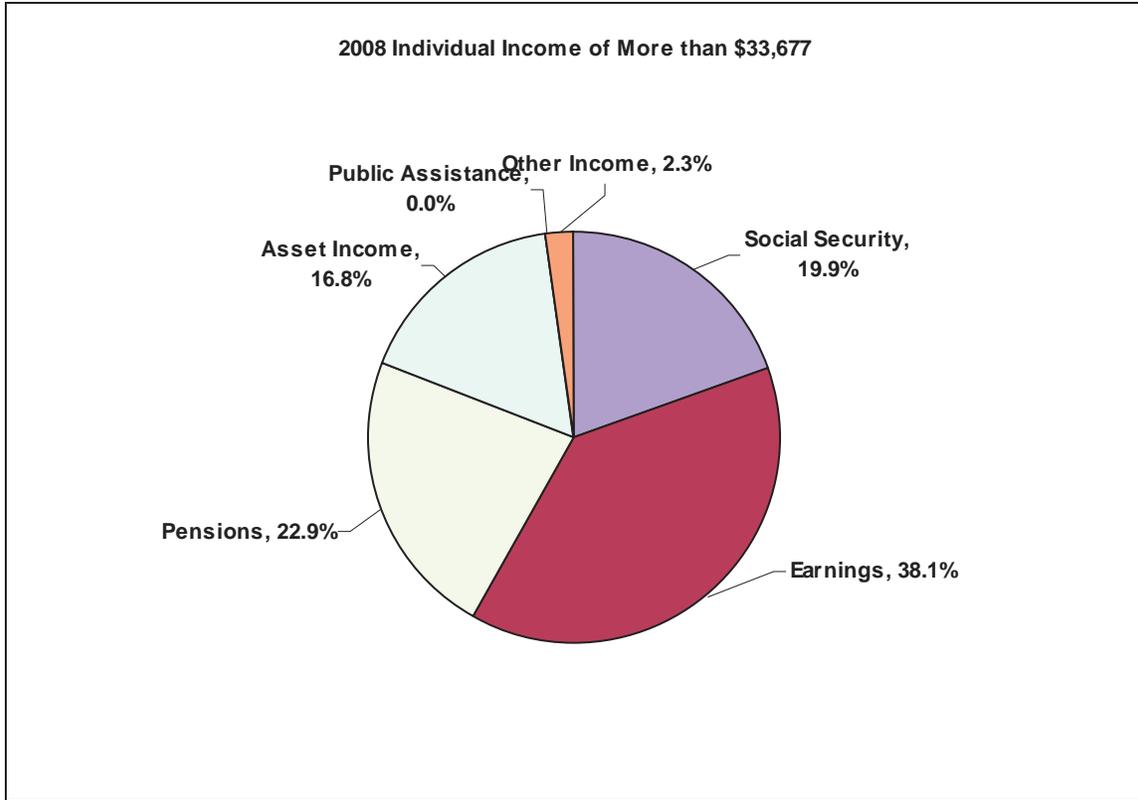
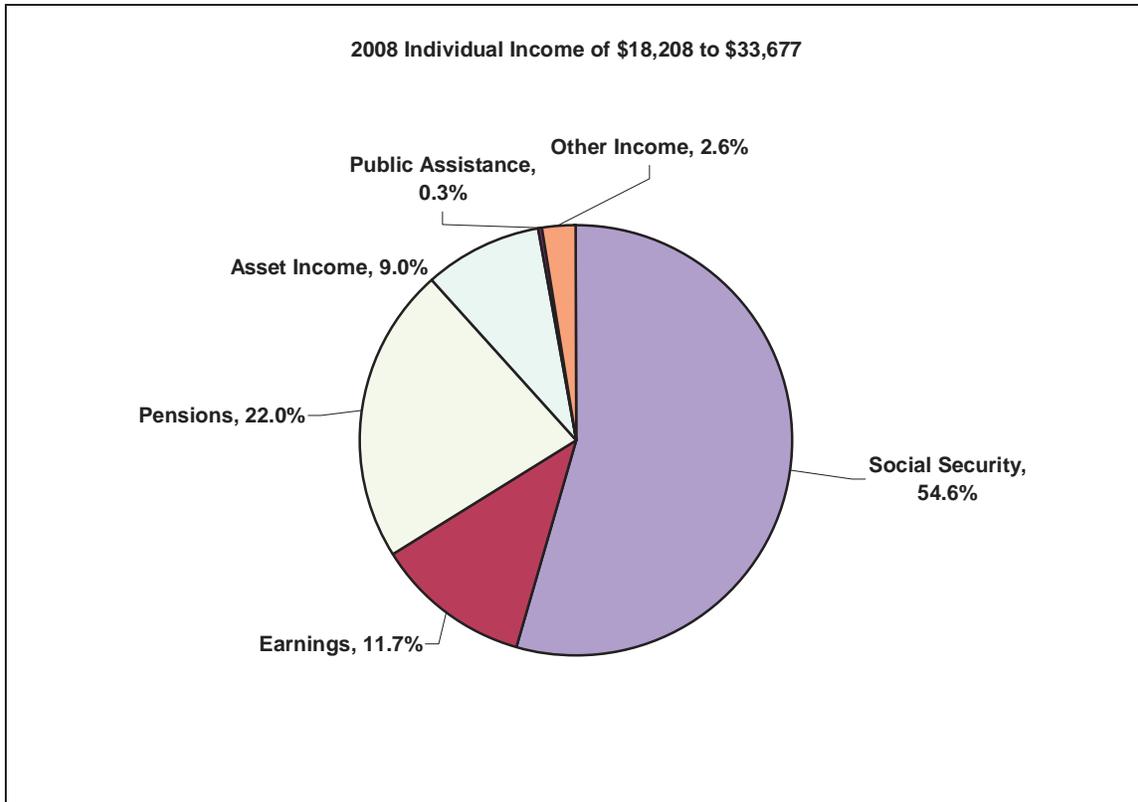
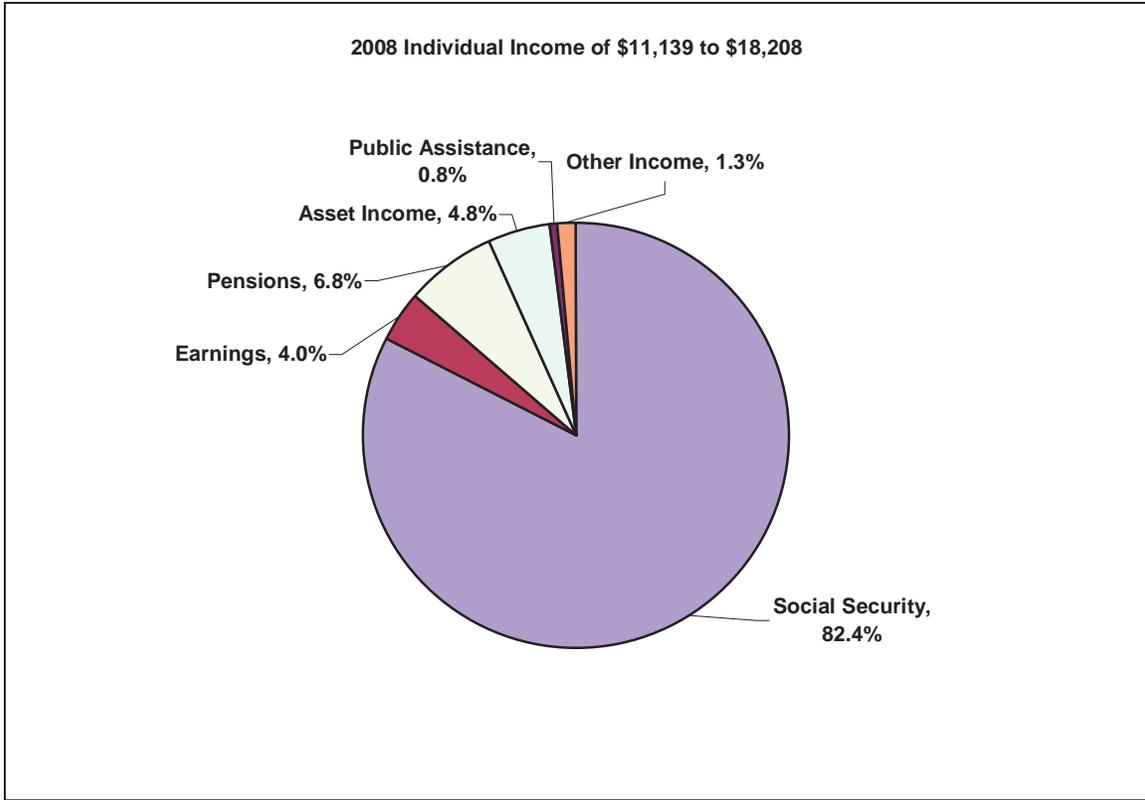


Figure 8. Total Income by Source of Persons Aged 65+, Second Quartile, 2008

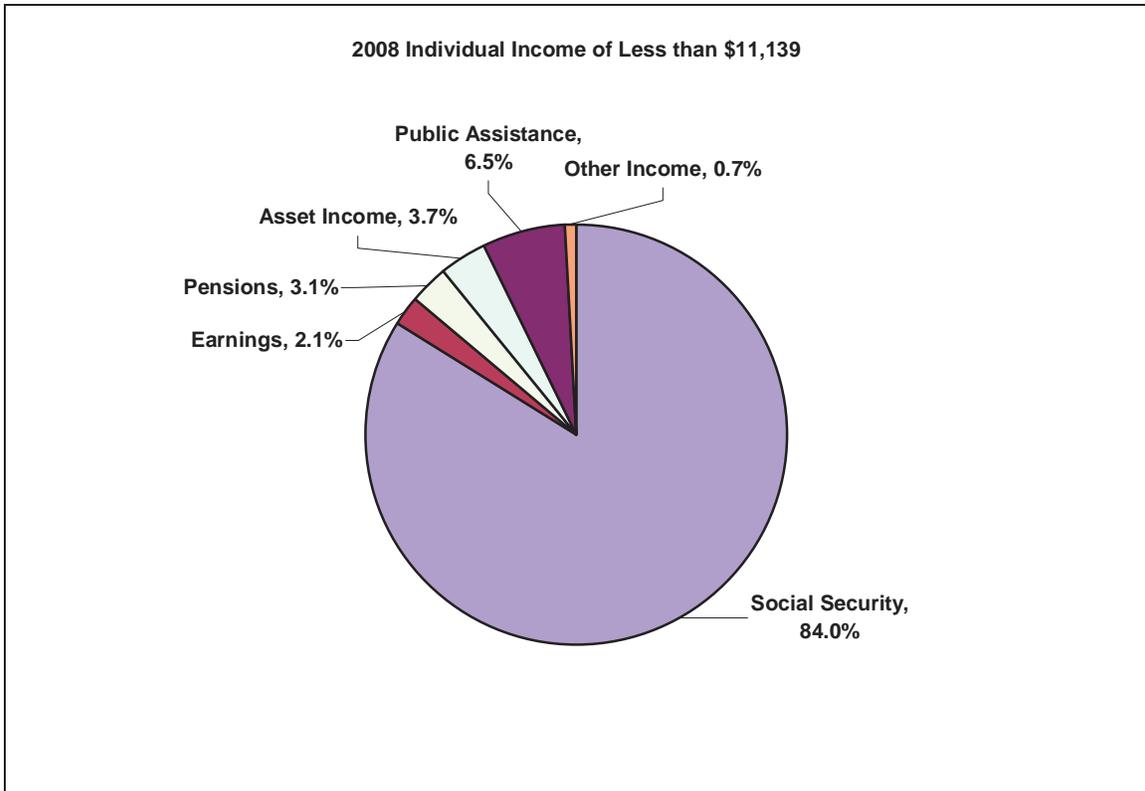


Source: Both figures from CRS analysis of the March 2009 Current Population Survey.

**Figure 9. Total Income by Source of Persons Aged 65+, Third Quartile, 2008**



**Figure 10. Total Income by Source of Persons Aged 65+, Bottom Quartile, 2008**



**Source:** Both figures from CRS analysis of the March 2009 Current Population Survey.

## Household Income of Persons Aged 65 and Older

The previous section of this report described the sources and amounts of income received by individuals aged 65 and older. Although a substantial—and growing—proportion of Americans live in single-person households, a majority live with a spouse, other relatives, a roommate, or others with whom they share household expenses.<sup>16</sup> Consequently, a complete picture of the income of older Americans, how it has changed over time, and how it compares with the income of the non-elderly population, must include household income as well as individual income. This section of the report describes income among three groups: (1) all U.S. households, (2) elderly households—defined here as those in which either the household head or the household head's spouse (if present) is 65 or older, and (3) nonelderly households, defined here as those in which neither the householder nor spouse is 65 or older.<sup>17</sup>

During the period from 1968 through 2008, median household income rose faster among households in which the householder or spouse was 65 or older than among households headed by persons under age 65. Nevertheless, in 2008, the median income of households in which the household head or the household head's spouse (if present) was 65 or older (\$30,774) was just 54% of the median income of households in which both the household head and the household head's spouse were under age 65 (\$56,604).

Although the median income of households in which the head or spouse is 65 or older is less than that of households headed by younger persons, there are some factors that tend to ameliorate the effects of lower average income on the standard of living of older persons. First, elderly households tend to be smaller than nonelderly households. In 2008, households in which the head or spouse was 65 or older had an average of 1.7 residents, compared to an average of 2.7 residents in households in which both the head and spouse were under 65. Second, because of the lower labor-force participation rates of people 65 and older, most elderly households have fewer work-related expenses, such as commuting expenses, than many nonelderly households. Finally, elderly households are less likely to incur child-rearing expenses than non-elderly households. On the other hand, elderly households have higher average out-of-pocket costs for health care than non-elderly households, and health care expenses have historically grown more rapidly than other categories of household expenditures.

### Median Household Income, by Age

Measured in 2008 dollars, median income among all U.S. households rose from \$38,254 in 1968 to \$50,000 in 2008, an increase of 31% or 0.7% per year in real terms. (See **Tables 15** and **16**.) Real median household income reached a peak of \$52,189 in 2000 and fell by \$2,189 or 4.2% between 2000 and 2008. Among households in which both the household head and the household head's spouse (if present) were under 65, median income rose from \$42,865 in 1968 to \$56,604 in 2008, an increase of 32% or 0.7% annually on average. Among households in which both the householder and spouse were under 65, median income reached a peak of \$60,688 in 2000 and fell by \$4,084 or 6.7% between 2000 and 2008. Among households in which either the household head or the household head's spouse (if present) was 65 or older, real median income

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<sup>16</sup> In March 1969, 16.6% of all U.S. households were one-person households, as were 38.9% of households in which the householder was 65 or older. In March 2009, 27.0% of all households were one-person households, as were 45.8% in which the householder was 65 or older.

<sup>17</sup> The Census Bureau defines the household head as the person in whose name the housing unit is owned or rented. In a married couple, either spouse may be designated as the household head.

rose from \$16,089 in 1968 to \$30,774 in 2008, an increase of 91.3%, or 1.6% annually on average. Between 2000 and 2008, the real median income of households in which either the household head or the household head's spouse was 65 or older rose from \$29,457 to 30,774, an increase of 4.5%.

In summary, between 1968 and 2008, the real median income of households in which the householder or the householder's spouse (if present) was 65 or older grew by 91.3%, compared to 32.1% for households in which both the householder and the householder's spouse (if present) were under 65. The median income of elderly households grew at an average annual rate of 1.6% from 1968 to 2008, while the median income of non-elderly households grew at an average annual rate of just 0.7%. Between 1990 and 2008, the median income of elderly households grew 18.2%, or 0.9% per year on average, while the median income of non-elderly households grew by just 9.5%, or 0.5% per year on average. While the median income of elderly households grew by 4.5% between 2000 and 2008, the median income of non-elderly households fell by 6.7% during this period.

**Table 10. Mean and Median Household Income, by Age of Householder**

(in 2008 dollars)

| Income Year | All Households |          | Householder and Spouse Under Age 65 |          | Householder or Spouse 65 or Older |          |
|-------------|----------------|----------|-------------------------------------|----------|-----------------------------------|----------|
|             | Mean           | Median   | Mean                                | Median   | Mean                              | Median   |
| 1968        | \$43,208       | \$38,254 | \$47,879                            | \$42,865 | \$24,336                          | \$16,089 |
| 1970        | 44,724         | 39,234   | 49,773                              | 44,583   | 24,676                            | 16,199   |
| 1980        | 47,549         | 40,659   | 52,423                              | 46,446   | 29,323                            | 20,447   |
| 1990        | 55,745         | 45,497   | 60,933                              | 51,680   | 37,698                            | 26,036   |
| 2000        | 70,803         | 52,189   | 78,040                              | 60,668   | 44,314                            | 29,457   |
| 2005        | 69,595         | 50,558   | 76,104                              | 57,295   | 45,883                            | 29,286   |
| 2008        | 68,426         | 50,000   | 74,447                              | 56,604   | 47,608                            | 30,774   |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

**Table 11. Percentage Change in Median Real Household Income, 1968 to 2008, by Age of Householder**

(in 2008 dollars)

| Income Years | All Households |                | Householder and Spouse Under Age 65 |                | Householder or Spouse 65 or Older |                |
|--------------|----------------|----------------|-------------------------------------|----------------|-----------------------------------|----------------|
|              | Total Change   | Annual Average | Total Change                        | Annual Average | Total Change                      | Annual Average |
| 1968-2008    | 30.7%          | 0.7%           | 32.1%                               | 0.7%           | 91.3%                             | 1.6%           |
| 1970-2008    | 27.4           | 0.6            | 27.0                                | 0.6            | 90.0                              | 1.7            |
| 1980-2008    | 23.0           | 0.7            | 21.9                                | 0.7            | 50.5                              | 1.5            |
| 1990-2008    | 9.9            | 0.5            | 9.5                                 | 0.5            | 18.2                              | 0.9            |
| 2000-2008    | -4.2           | -0.5           | -6.7                                | -0.9           | 4.5                               | 0.5            |
| 2005-2008    | -1.1           | -0.4           | -1.2                                | -0.4           | 5.1                               | 1.7            |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

## Median Household Income, Adjusted for Household Size

When comparing the median incomes of elderly households and nonelderly households, it is important to keep in mind that the households in which people aged 65 and older live tend to be smaller than the households of younger adults. During the past 40 years, average household size has shrunk among both elderly and nonelderly households, and although the decline has been greater among nonelderly households, they remain larger on average than elderly households. In 1968, there were 3.6 persons in the average nonelderly household: 2.1 adults and 1.5 children. (See **Table 12.**) The average elderly household had 1.9 people in 1968. By 2009, the average nonelderly household had just 2.7 residents: 2.0 adults and 0.7 children. By 2009, the average size of an elderly household had fallen to 1.7 residents. Because the average elderly household has one less resident than the average nonelderly household, it requires – other things being equal – less income to maintain a comparable standard of living.

**Table 12. Average Household Size by Year and Age of Householder**

| Year | Householder under 65 |                       | Householder Age 65+ |                       |
|------|----------------------|-----------------------|---------------------|-----------------------|
|      | Mean household size  | Mean number of adults | Mean household size | Mean number of adults |
| 1968 | 3.6                  | 2.1                   | 1.9                 | 1.8                   |
| 1970 | 3.5                  | 2.1                   | 1.9                 | 1.8                   |
| 1980 | 3.0                  | 2.0                   | 1.7                 | 1.7                   |
| 1990 | 2.9                  | 2.0                   | 1.7                 | 1.7                   |
| 2000 | 2.8                  | 1.9                   | 1.7                 | 1.7                   |
| 2005 | 2.8                  | 1.9                   | 1.7                 | 1.7                   |
| 2008 | 2.7                  | 1.9                   | 1.7                 | 1.6                   |
| 2009 | 2.7                  | 2.0                   | 1.7                 | 1.7                   |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

The income of households can be measured in a way that takes into account differences in the number of persons per household. Household income can be adjusted – or “scaled” – to the number of adults and children in the household. These adjustments typically take into account economies of scale – i.e., that household consumption does not rise in direct proportion to the increase in the number of household residents – and lower average household consumption expenditures per child compared to average consumption expenditures per adult. Economists have developed several methods for scaling household income to household size, but in virtually all of these methods the household’s nominal income is multiplied by factors that take into account economies of scale and the ratio of adults to children in the household.

**Table 13** shows scaled and unscaled median household income in 2008 dollars for elderly and nonelderly households in selected years from 1968 to 2008.<sup>18</sup> Scaled median household income is lower than unscaled median household income because of the adjustments for economies of scale and the number of children in the household, as discussed above. The two right-most columns show (1) the ratio of the unscaled real median income of elderly households to the median income of nonelderly households and (2) the ratio of the scaled median income of elderly

<sup>18</sup> CRS scaled household incomes according to the following formula:

$$\text{Scaled household income} = \left( \text{Household income} / \sqrt{(\text{Number of adults} + .5 * \text{Number of children under 18})} \right)$$

households to the scaled median income of nonelderly households. Three facts are notable in these two columns.

- The ratio of the real median income of elderly households to the real median income of non-elderly households has risen over the past 40 years, whether or not median household income is scaled to household size and number of children present.
- Due to the smaller average size of elderly households, the ratio of the scaled median household income of the elderly to the scaled median household income of the nonelderly is consistently higher than the ratio of the unscaled median household income of the elderly to the unscaled median household income of the nonelderly.
- Even when scaled to account for the smaller average number of residents in elderly households, in 2008 the median income of households in which the household head or the household head's spouse (if present) was 65 or older was less than two-thirds of the median income of households in which both the household head and spouse (if present) were under age 65.

**Table 13. Median Household Income and Median Household Income Scaled to Size of Household, by Age of Householder**  
(in 2008 dollars)

| Income Year | Householder and Spouse Under Age 65 |          | Householder or Spouse 65 or Older |          | Ratio of Elderly to Nonelderly Household Income |        |
|-------------|-------------------------------------|----------|-----------------------------------|----------|---|--------|
|             | Unscaled                            | Scaled   | Unscaled                          | Scaled   | Unscaled  | Scaled |
| 1968        | \$42,865                            | \$26,164 | \$16,089                          | \$12,293 | .375  | .470   |
| 1970        | 44,583                              | 27,208   | 16,199                            | 12,474   | .363  | .458   |
| 1980        | 46,446                              | 30,630   | 20,447                            | 16,107   | .440  | .526   |
| 1990        | 51,680                              | 34,599   | 26,036                            | 20,566   | .504  | .594   |
| 2000        | 60,688                              | 40,982   | 29,457                            | 23,257   | .485  | .567   |
| 2005        | 57,295                              | 39,551   | 29,286                            | 23,443   | .511  | .593   |
| 2008        | 56,604                              | 38,891   | 30,774                            | 24,511   | .544  | .630   |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey

## Household Income at the 75<sup>th</sup> and 25<sup>th</sup> Percentiles

Over the period from 1968 to 2008, the incomes of nonelderly households rose more rapidly above the median (at the 75<sup>th</sup> percentile) than below the median (at the 25<sup>th</sup> percentile). Among elderly households – those in which either the household head or the household head's spouse (if present) was 65 or older – income grew by roughly the same percentage at the 75<sup>th</sup> and 25<sup>th</sup> percentiles between 1968 to 2008. Over the more recent periods from 1980 to 2008, 1990 to 2008, and 2000 to 2008, income among elderly households grew more rapidly at the 75<sup>th</sup> percentile than at the 25<sup>th</sup> percentile, as was also the case for nonelderly households.

Measured in 2008 dollars, household income at the 75<sup>th</sup> percentile—the point that separates households with income in the highest quarter from households with income in the lowest three-quarters—real income among all households grew from \$57,818 in 1968 to \$89,140 in 2008, an increase of 54.2%. (See **Table 14** and **Table 15**.) Among households in which the householder and the householder's spouse (if present) were under age 65, real income at the 75<sup>th</sup> percentile grew from \$61,307 in 1968 to \$96,002 in 2008, an increase of 56.6%. Among households in which either the householder or the householder's spouse (if present) was 65 or older, real income at the 75<sup>th</sup> percentile grew from \$31,102 in 1968 to \$58,985 in 2008, an increase of 89.7%.

At the lower end of the income distribution, rates of growth in household income differed dramatically between elderly and nonelderly households over the period from 1968 to 2008. At the 25<sup>th</sup> percentile—marking the point that separates the lowest quarter of household incomes from the highest three-quarters of household incomes—real income among all households grew from \$20,321 in 1968 to \$25,000 in 2008, an increase of just 23% over 40 years. Among households in which the householder and the householder’s spouse (if present) were under age 65, real income at the 25<sup>th</sup> percentile grew from \$27,095 in 1968 to \$30,000 in 2008, an increase of only 10.7% in 40 years. Among households in which either the householder or the householder’s spouse (if present) was 65 or older, real income at the 25<sup>th</sup> percentile grew from \$8,613 in 1968 to \$16,836 in 2008, an increase of 95.5%.

**Table 14. Household Income at 75<sup>th</sup> and 25<sup>th</sup> Percentiles, by Age of Householder**  
(in 2008 dollars)

| Income Year | All Households              |                             | Householder and Spouse Under Age 65 |                             | Householder or Spouse 65 or Older |                             |
|-------------|-----------------------------|-----------------------------|-------------------------------------|-----------------------------|-----------------------------------|-----------------------------|
|             | 75 <sup>th</sup> percentile | 25 <sup>th</sup> percentile | 75 <sup>th</sup> percentile         | 25 <sup>th</sup> percentile | 75 <sup>th</sup> percentile       | 25 <sup>th</sup> percentile |
| 1968        | \$57,818                    | \$20,321                    | \$61,307                            | \$27,095                    | \$31,102                          | \$8,613                     |
| 1970        | 59,645                      | 20,632                      | 64,105                              | 27,509                      | 31,117                            | 8,663                       |
| 1980        | 65,432                      | 20,906                      | 70,408                              | 26,803                      | 36,543                            | 11,392                      |
| 1990        | 75,366                      | 23,070                      | 81,332                              | 28,911                      | 46,837                            | 14,164                      |
| 2000        | 90,657                      | 26,718                      | 98,265                              | 32,444                      | 52,816                            | 16,028                      |
| 2005        | 88,991                      | 25,323                      | 96,913                              | 30,762                      | 54,932                            | 16,216                      |
| 2008        | 89,140                      | 25,000                      | 96,002                              | 30,000                      | 58,985                            | 16,836                      |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

**Table 15. Cumulative Percentage Change in Household Income at 75<sup>th</sup> and 25<sup>th</sup> Percentiles, by Age of Householder**  
(in 2008 dollars)

| Income Years | All Households              |                             | Householder and Spouse under Age 65 |                             | Householder or Spouse 65 or Older |                             |
|--------------|-----------------------------|-----------------------------|-------------------------------------|-----------------------------|-----------------------------------|-----------------------------|
|              | 75 <sup>th</sup> percentile | 25 <sup>th</sup> percentile | 75 <sup>th</sup> percentile         | 25 <sup>th</sup> percentile | 75 <sup>th</sup> percentile       | 25 <sup>th</sup> percentile |
| 1968-2008    | 54.2%                       | 23.0%                       | 56.6%                               | 10.7%                       | 89.7%                             | 95.5%                       |
| 1970-2008    | 49.4                        | 21.2                        | 49.8                                | 9.1                         | 89.6                              | 94.3                        |
| 1980-2008    | 36.2                        | 19.6                        | 36.4                                | 11.9                        | 61.4                              | 47.8                        |
| 1990-2008    | 18.3                        | 8.4                         | 18.0                                | 3.8                         | 25.9                              | 18.9                        |
| 2000-2008    | -1.7                        | -6.4                        | -2.3                                | -7.5                        | 11.7                              | 5.0                         |
| 2005-2008    | 0.2                         | -1.3                        | -0.9                                | -2.5                        | 7.4                               | 3.8                         |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

The steady growth in income among elderly households in the lowest quartile of the income distribution since the late 1960s is largely due to the fact that the great preponderance of their income comes from Social Security. Initial Social Security benefits are based on the real value of average lifetime wages, and the benefit formula is designed to replace a higher percentage of average lifetime earnings for low-wage workers than for high-wage workers. Adjusted for inflation, the national average annual wage rose from \$27,771 in 1968 to \$41,335 in 2008, an

increase of 48.8%, or 1.0% per year on average.<sup>19</sup> Because initial Social Security benefits awarded to new retirees are based on their lifetime earnings indexed to age 60 based on the growth in the national average wage, the real value of Social Security benefits awarded to new retirees grows over time at approximately the rate of growth of real wages. Once Social Security benefits begin, they are adjusted each year by the rate of growth in the Consumer Price Index, thus preventing the real value of the benefit from being eroded by inflation.<sup>20</sup>

## Poverty Status of the Elderly

The steady rise in the median income of elderly households over the past 40 years coincided with a dramatic decline in the proportion of older Americans living in poverty. In 1968, 25.0% of Americans aged 65 and older had family incomes below the federal poverty threshold. In the late 1960s, the poverty rate among persons aged 65 and older was more than double the poverty rate among adults 18 to 64 years old. By the early 1990s, the poverty rate among people 65 and older had fallen below the poverty rate among adults aged 18 to 64. The elderly poverty rate has remained lower than the nonelderly adult poverty rate since that time. The poverty rate of 9.7% among Americans aged 65 and older in 2008 was two percentage points lower than the poverty rate among adults aged 18 to 64, and it was just half the 19% poverty rate among children under 18 years old. However, while the *proportion* of persons aged 65 and older in poverty has fallen over the past 40 years, the *number* of poor elderly has remained relatively constant since the mid-1970s due to the growth in the total number of elderly persons. In 2008, 3.6 million people aged 65 and older had income below the federal poverty thresholds of \$10,326 for single elderly persons and \$13,014 for elderly couples. (See **Table 16.**)

**Table 16. Poverty Status of Individuals Age 18 and Older, by Year**

| Year | People 18 to 64 Years Old |                   |                    | People 65 and Older |                   |                    |
|------|---------------------------|-------------------|--------------------|---------------------|-------------------|--------------------|
|      | Number (000s)             | Number in poverty | Percent in poverty | Number (000s)       | Number in poverty | Percent in poverty |
| 1968 | 108,684                   | 9,803             | 9.0                | 18,559              | 4,632             | 25.0               |
| 1970 | 113,554                   | 10,187            | 9.0                | 19,470              | 4,793             | 24.6               |
| 1975 | 124,122                   | 11,456            | 9.2                | 21,662              | 3,317             | 15.3               |
| 1980 | 137,428                   | 13,858            | 10.1               | 24,686              | 3,871             | 15.7               |
| 1985 | 146,396                   | 16,598            | 11.3               | 27,322              | 3,456             | 12.6               |
| 1990 | 153,502                   | 16,496            | 10.7               | 30,093              | 3,658             | 12.2               |
| 1995 | 161,508                   | 18,442            | 11.4               | 31,658              | 3,318             | 10.5               |
| 2000 | 173,638                   | 16,671            | 9.6                | 33,566              | 3,323             | 9.9                |
| 2005 | 184,345                   | 20,450            | 11.1               | 35,505              | 3,603             | 10.1               |
| 2008 | 189,185                   | 22,105            | 11.7               | 37,788              | 3,656             | 9.7                |

**Source:** See <http://www.census.gov/hhes/www/poverty/histpov/hstpov3.html> and March 2009 CPS.

<sup>19</sup> The national average wage was \$5,572 in 1968. From 1968 to 2008, the price level as measured by the Personal Consumption Expenditure Index rose from 24.916 to 124.188, an increase of 398.4%. (Sources: *Economic Report of the President*, January 2009, Table B-7, page 292 and <http://www.ssa.gov/OACT/COLA/AWI.html>)

<sup>20</sup> The annual cost-of-living adjustment applied to Social Security benefits in January is equal to the percentage change in the Consumer Price Index for Urban Wage Earners (CPI-W), as determined by the ratio of the average monthly level of the CPI-W in the most recent third calendar quarter to the average monthly level of the CPI-W in the third calendar quarter one year earlier. If this ratio is less than one, there is no COLA, but Social Security benefits are not reduced.

## **The Decline in Poverty Among the Elderly**

The reduction in the proportion of older Americans living in poverty from 25% in 1968 to 10% in 2008 is one of the most significant economic developments to occur in the last four decades. Without the decline in elderly poverty, the economic burden of supporting those who can no longer work in old age would weigh that much more heavily on their adult children, and many millions of older Americans would likely have to apply for public assistance or give up their homes to live with their children.

## **Absolute vs. Relative Measures of Poverty**

The amount of annual family income below which persons are considered to be in poverty by the federal government is adjusted each year by the rate of inflation as measured by the percentage change in the Consumer Price Index (CPI). The growth in wages from year to year reflects both the rising general level of prices and gains in labor productivity. Most income received by persons under age 65 consists of wages and salaries, and over long periods of time wages and salaries grow faster than prices because labor becomes more productive as a result of better education and training, improved methods of production and distribution, and new technologies. During the period from 1968 through 2008, the ratio of the poverty threshold to the median income of the population fell because incomes rose faster than prices. As a consequence, the gap between the official poverty threshold and the median household income has grown, and persons with incomes at or below the poverty threshold have become relatively poorer compared to households with incomes at the median.

The federal poverty threshold was developed by government economists in the 1950s to designate the amount of income necessary to maintain a minimally adequate standard of living.<sup>21</sup> The poverty threshold is adjusted annually by the rate of inflation as measured by the consumer price index, which means that the real (inflation-adjusted) value of income at the poverty threshold remains constant over time. Because the real value of the poverty threshold has remained constant while the real median income of the elderly has been rising, the poverty threshold has fallen as a percentage of median income.

In 1968 the poverty threshold for an individual 65 or older (\$8,308 in 2008 dollars) was equal to 93% of the median individual income (\$8,962 in 2008 dollars) of all persons aged 65 and older. In 2008, the poverty threshold for a single person 65 or older (\$10,326) was only 57% the real median income of individuals aged 65 and older (\$18,208). In the future, other things being equal, the disparity between rising real incomes and a fixed real poverty threshold will lead to a decreasing proportion of the elderly having incomes below the federal poverty threshold. This means that the income gap between those with incomes below the poverty threshold and those with incomes at the median will grow larger. As a result, the proportion of the elderly who are in poverty will shrink, but those who are in poverty will be poorer compared to those who have average incomes.

## **Changes in Income as People Age**

As workers pass age 60, they begin—gradually, in many cases—to withdraw from the labor force and to rely on pensions, Social Security, and personal savings as their main sources of income.

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<sup>21</sup> The poverty threshold has changed slightly over time. For a history of the poverty threshold see Gordon M. Fisher “The Development and History of the Poverty Threshold” *Social Security Bulletin*, vol. 55 no. 4, 1992 at <http://www.ssa.gov/history/fisheronpoverty.html>.

Since the late 1960s, the rate of decline in median personal and household income (measured in constant dollars) that occurs as individuals age from their late 50s to their late 60s appears to have slowed. This has occurred despite the fact that a smaller proportion of people over age 60 work today than was the case 40 years ago.

As was noted earlier in **Table 3**, employment rates are lower among people 60 to 64 years old than among those under age 60, and they fall even further after age 65. Among people 65 to 69 years old, for example, just 35% were employed at any time during 2008. Rates of full-time employment also decline as workers age because many older persons who remain in the workforce choose to work part-time. In 2008, 86% of 55 to 59 year-old workers worked full-time, compared to 78% of workers who were 60 to 64 years old and 59% of workers who were 65 to 69 years old. As older workers reduce their hours of work and gradually withdraw from the labor force, their earnings fall and they begin to rely to a greater extent on income from pensions, savings, and Social Security.<sup>22</sup>

### **Changes in Individual Income from Ages 55-59 to 65-69**

The income data collected in the CPS allow us to see how the median individual and household incomes differ by age, and also how incomes fall as people age. For example, the top row of **Table 17** shows that the median individual income of people who were 55 to 59 years old in 1968 was \$24,991 in 2008 dollars. Everyone who was 55 to 59 years old in 1968 was born between 1909 and 1913. People born in the same year or group of years are called a “birth cohort.”

Following this same birth cohort forward five years to 1973, **Table 17** shows that individuals who were 60 to 64 years old in 1973 had a median individual income of \$19,883, or \$5,108 lower than the median income of this same birth cohort five years earlier. Five years later in 1978, people in the 1909-1913 birth cohort were 65 to 69 years old, and they had median individual income of \$12,994, or \$11,997 less than the median income of individuals in this birth cohort 10 years earlier. Following each of the pairs of diagonal arrows in this table allows one to see how the median individual incomes of successive cohorts changed as they aged. The most recent birth cohort for which income data are available over a 10-year period comprises people who were 55 to 59 in 1998. In 2008 dollars, the median income of individuals in this birth cohort declined from \$32,216 in 1998 to \$28,095 in 2003 (at ages 60-64) and to \$22,057 in 2008 (at ages 65 to 69).

The right panel of **Table 17** shows median individual income at ages 60 to 64 and ages 65 to 69 as a percentage of the median income of the same birth cohort at ages 55 to 59. For example, the median income of individuals who were 60 to 64 years old in 1973 was 79.6% of the median income of this same cohort in 1968, when they were 55 to 59 years old. Their median income in 1978, at ages 65 to 69, was 52.0% of their income in 1968 at ages 55 to 59. Looking at the most recent cohort for which income data are available for a 10-year period, the reader can see that the median individual income of people who were 60 to 64 years old in 2003 was 87.2% of the median income of the same birth cohort in 1998 at ages 55 to 59. In 2008, when the people in this cohort had reached ages 65 to 69, their median income was 68.5% of the median income of people who were ages 55 to 59 ten years earlier in 1998.

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<sup>22</sup> Social Security retired worker benefits are available at age 62, but they are reduced for those under age 66 whose earnings are above certain thresholds. Disabled workers are eligible for Social Security Disability Insurance at any age.

## Changes in Household Income from Ages 55-59 to 65-69

**Table 18** the median household income of people in these same three age cohorts: 55 to 59, 60 to 64, and 65 to 69. As with individual income, median household income falls as people age. Among those who were 55 to 59 years old in 1968, median household income was \$41,036 in 2008 dollars. Five years later in 1973, the median household income of individuals in this age group, who were then 60 to 64 years old, was \$36,897, or \$4,139 lower than the household income of this cohort in 1968. By 1978, at ages 65 to 69, the median household income of this cohort was \$27,008, or \$14,028 lower than the median household income of this cohort 10 years earlier. For the most recent available 10-year period, the median household income in 1998 of individuals who were 55 to 59 years old was \$66,551 in 2008 dollars. Five years later in 2003 when they were 60 to 64 years old, the median household income of this cohort was \$54,888. By 2008, at ages 65 to 69, the median household income of individuals in this cohort was \$47,000.<sup>23</sup>

The right panel of **Table 18** shows median household incomes at ages 60 to 64 and ages 65 to 69 as a percentage of the median household income of the same birth cohort at ages 55 to 59. The median household income of people aged 60 to 64 in 1973 was 89.9% of the median household income of this same cohort five years earlier when they were 55 to 59 years old. By 1978, the median household income of people aged 65 to 69 was 65.8% of the median household income of this same cohort ten years earlier when they were 55 to 59 years old. For the most recent ten-year period for which income data are available, the median household income of people who were 60 to 64 years old in 2003 was 82.5% of the median household income of the same cohort five years earlier at ages 55 to 59. By 2008, when they had reached ages 65 to 69, the median household income of this cohort was 70.6% of the median household income of the same cohort ten years earlier when they were 55 to 59 years old.

The income data displayed in **Tables 17** and **18** show that real median incomes have risen at both the individual and household levels among all three age groups since 1968. Real median individual income was more variable than median household income, but the trend was upward for both. Some of the increase in real median incomes in the three age categories was due to increased employment among older persons, particularly women. Since the mid-1990s, employment among men 60 and older also has risen. Over time, the ratio of median individual and household incomes at ages 65 to 69 to median income at age 55 to 59 also has risen, although the changes in the household income ratios were variable rather than increasing steadily.

Although the trend in median incomes shown in **Tables 11** and **18** is upward, it is important to keep in mind that by definition half of all individuals and households have incomes below the median. For some people, their income in old age may be less than the amount they need to maintain their desired standard of living. Many financial analysts recommend that workers aim for an income replacement rate of 70% to 80% in their first year of retirement if they want to maintain the standard of living they enjoyed while working.<sup>24</sup> The median household income of people who were 65 to 69 years old in 2008 was 70.6% of the household income of people in this age cohort 10 years earlier when they were 55 to 59 years old. Thus, a household that was at the

<sup>23</sup> The decline in median household income appears to be due more to the declining income of the people in households rather than to a decline in the number of people in the household. Among households of fixed sizes, median household income also fell between ages 55 to 59 and 65 to 69. The median household income in 1979 of persons 65 to 69 years old in two-person households was 73% of the median household income in 1969 of persons 55 to 59 years old in two-person households. The equivalent ratio for one-person households was 67%. Likewise, the median household income in 2008 of persons 65 to 69 years old in two-person households was 74% of the median household income in 1998 of persons 55 to 59 years old in two-person households. The equivalent ratio for one-person households was 71%.

<sup>24</sup> The ratios in Table 17 and 18 are not replacement rates, i.e., the ratio of income in the first year of retirement to income in the last year of employment. These tables show the median income of *everyone* in an age cohort, whether working or retired. They do, however, show the effect on median income of the retirement of members of the cohort.

median income for its birth cohort in both 1998 and 2003, and that had retired in the interim, would probably find itself able to maintain a standard of living in retirement that was comparable to the lifestyle they had enjoyed while working. Those whose income from pensions, savings, and Social Security do not reach this threshold may have to make difficult adjustments in order to keep their spending in retirement within their more limited incomes.

**Table 17. Median Individual Income at Five-Year Intervals**  
(in 2008 dollars)

| Income Year | Median Personal Income |           |           | Percentage of Age 55-59 Income |           |           |
|-------------|------------------------|-----------|-----------|--------------------------------|-----------|-----------|
|             | Age 55-59              | Age 60-64 | Age 65-69 | Age 55-59                      | Age 60-64 | Age 65-69 |
| 1968        | \$24,991               |           |           | 100%                           |           |           |
| 1973        | \$28,686               | \$19,883  |           | 100%                           | 79.6%     |           |
| 1978        | \$26,427               | \$19,545  | \$12,994  | 100%                           | 68.1%     | 52.0%     |
| 1983        | \$23,292               | \$19,234  | \$15,684  | 100%                           | 72.8%     | 54.7%     |
| 1988        | \$26,018               | \$20,679  | \$17,011  | 100%                           | 88.8%     | 64.4%     |
| 1993        | \$26,629               | \$21,033  | \$17,231  | 100%                           | 80.8%     | 74.0%     |
| 1998        | \$32,216               | \$24,458  | \$18,871  | 100%                           | 91.8%     | 72.5%     |
| 2003        | \$35,771               | \$28,095  | \$20,249  | 100%                           | 87.2%     | 76.0%     |
| 2008        |                        | \$30,000  | \$22,057  |                                | 83.9%     | 68.5%     |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

**Note:** Income has been adjusted to 2008 dollars based on the Personal Consumption Expenditure Index of the National Income and Product Accounts.

**Table 18. Median Household Income at Five-Year Intervals**  
(in 2008 dollars)

| Income Year | Median Household Income |           |          | Percentage of Age 55-59 Income |           |       |
|-------------|-------------------------|-----------|----------|--------------------------------|-----------|-------|
|             | 55-59                   | Age 60-64 | 65-69    | 55-59                          | Age 60-64 | 65-69 |
| 1968        | \$41,036                |           |          | 100%                           |           |       |
| 1973        | \$48,733                | \$36,897  |          | 100%                           | 89.9%     |       |
| 1978        | \$50,846                | \$38,102  | \$27,008 | 100%                           | 78.2%     | 65.8% |
| 1983        | \$50,998                | \$40,410  | \$32,158 | 100%                           | 79.5%     | 66.0% |
| 1988        | \$55,780                | \$43,799  | \$34,448 | 100%                           | 85.9%     | 67.8% |
| 1993        | \$56,200                | \$43,932  | \$36,413 | 100%                           | 78.8%     | 71.4% |
| 1998        | \$66,551                | \$53,120  | \$41,204 | 100%                           | 94.5%     | 73.9% |
| 2003        | \$72,110                | \$54,888  | \$43,381 | 100%                           | 82.5%     | 77.2% |
| 2008        |                         | \$60,412  | \$47,000 |                                | 83.8%     | 70.6% |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey.

**Note:** Income has been adjusted to 2008 dollars based on the Personal Consumption Expenditure Index of the National Income and Product Accounts.

## Conclusion

Over the past 40 years, the real median income of Americans aged 65 and older has more than doubled, and the proportion of older persons living in poverty has fallen by 60%. These developments can be attributed mainly to increases in real earnings, higher Social Security benefits and pension income – both of which reflect increases in earnings – and to an increase over the past 20 years in the proportion of Americans who continue working beyond age 65. Nevertheless, while the gains in the real income of older Americans have been substantial, the decline in the poverty rate among the elderly is partly the result of measuring poverty relative to a standard that maintains the same constant-dollar value from year to year while the median income of the population continues to increase over time. Although the percentage of older persons who are defined as being in poverty has declined over time, the incomes of those in poverty have fallen relative to the median income of all persons aged 65 and older.

Perhaps the single greatest contributor to the rising real income of the elderly in the United States has been the growth in real wages that they experienced during their working lives. Measured in 2008 dollars, the median annual earnings of workers between the ages of 18 and 64 rose from \$24,501 in 1968 to \$30,950 in 2008. Among households in both the householder and his or her spouse (if present) were under age 65, real median income rose from \$42,865 in 1968 to \$56,604 in 2008. The incomes of retired persons have grown because the Social Security benefits and pensions of each successive cohort of retirees have reflected their higher real lifetime earnings.

Actions taken by Congress over the past 40 years also have affected the incomes of older Americans. In 1974, Congress passed the Employee Retirement Income Security Act (ERISA), which set funding standards and vesting requirements for pension plans sponsored by employers in the private sector. This law also authorized individual retirement accounts (IRAs) which encourage workers to save for retirement by deferring income taxes on some contributions and on investment earnings. In the Revenue Act of 1978, Congress added section 401(k) to the Internal Revenue Code, which authorized employers to establish retirement savings plans for employees in which contributions and investment earnings grow on a tax-deferred basis until retirement.

Legislation affecting Social Security has also contributed to increasing the income of older Americans. The Social Security Amendments of 1972 provided for automatic cost-of-living adjustments (COLAs), which prevent the real value of Social Security benefits from being eroded by inflation. The 1977 Social Security amendments established the current benefit formula, in which initial benefits are based on each worker's career-average wages, indexed to current values based on a national average wage index. This assures that each successive cohort of workers receives a Social Security benefit that reflects the growth in real wages that occurred during their working lives. In 2000, Congress repealed the "earnings test" for workers who have reached the Social Security full retirement age. This test reduces benefits for Social Security beneficiaries whose earnings exceed a threshold set in law. The earnings test now applies only to beneficiaries who are under the full retirement age (66 in 2009).

As the 78 million members of the "baby boom"—people born between 1946 and 1964—approach retirement, Congress is likely to continue to debate changes to the federal laws affecting pensions, retirement savings, and Social Security. Future retirees are likely to live longer and will need to accumulate relatively greater retirement assets than past retirees if they are to maintain their standard of living through these longer periods of retirement. With Social Security facing a financial shortfall and the number of private-sector pensions continuing to decline, it is likely that a relatively greater share of current workers' future retirement income will have to be financed from their own personal savings.

## **Appendix. Historical Tables of Individual and Household Income**

Table A-I. Percentage of People Age 65 and Older with Income from Each Source, by Year

| Income Year | Number of People 65+ (thousands) | Number with Any Income (thousands) | Percentage with Any Income | Percentage With Earnings | Percentage Receiving Social Security | Percentage Receiving Asset Income | Percentage Receiving Pension Income | Percentage Receiving Welfare | Percentage Receiving Other Income <sup>a</sup> |
|-------------|----------------------------------|------------------------------------|----------------------------|--------------------------|--------------------------------------|-----------------------------------|-------------------------------------|------------------------------|--|
| 1968        | 18,550                           | 16,691                             | 90.0%                      | 25.4%                    | 74.1%                                | 36.1%                             | a                                   | 8.9%                         | 23.6%  |
| 1970        | 19,231                           | 17,393                             | 90.4                       | 23.4                     | 75.9                                 | 39.5                              | a                                   | 9.2                          | 24.2   |
| 1975        | 21,662                           | 20,311                             | 93.8                       | 19.5                     | 83.5                                 | 45.4                              | 22.3%                               | 10.0                         | 8.2  |
| 1980        | 24,686                           | 24,353                             | 98.7                       | 16.6                     | 90.5                                 | 67.1                              | 26.6                                | 8.5                          | 6.9  |
| 1985        | 27,322                           | 26,976                             | 98.7                       | 15.0                     | 92.0                                 | 67.6                              | 30.3                                | 6.6                          | 6.2  |
| 1990        | 30,093                           | 29,734                             | 98.8                       | 16.3                     | 91.0                                 | 69.9                              | 37.0                                | 5.5                          | 7.7  |
| 1991        | 30,590                           | 30,256                             | 98.9                       | 15.5                     | 90.2                                 | 69.2                              | 37.7                                | 5.9                          | 7.9  |
| 1992        | 30,870                           | 30,538                             | 98.9                       | 14.7                     | 91.7                                 | 68.0                              | 38.0                                | 5.9                          | 7.5  |
| 1993        | 30,779                           | 30,223                             | 98.2                       | 15.8                     | 90.5                                 | 67.8                              | 37.5                                | 5.0                          | 8.1  |
| 1994        | 31,267                           | 30,676                             | 98.1                       | 15.4                     | 90.8                                 | 68.0                              | 36.2                                | 4.9                          | 7.4  |
| 1995        | 31,658                           | 31,081                             | 98.2                       | 15.7                     | 90.8                                 | 67.2                              | 35.4                                | 4.3                          | 7.1  |
| 1996        | 31,877                           | 31,199                             | 97.9                       | 15.6                     | 90.1                                 | 64.1                              | 35.2                                | 4.7                          | 6.9  |
| 1997        | 32,082                           | 31,401                             | 97.9                       | 15.3                     | 89.9                                 | 62.9                              | 35.5                                | 4.4                          | 6.8  |
| 1998        | 32,394                           | 31,694                             | 97.8                       | 15.9                     | 89.4                                 | 63.8                              | 35.9                                | 3.9                          | 6.7  |
| 1999        | 32,621                           | 31,978                             | 98.0                       | 16.9                     | 89.5                                 | 62.7                              | 36.3                                | 4.1                          | 6.2  |
| 2000        | 32,979                           | 32,258                             | 97.8                       | 16.9                     | 89.8                                 | 59.2                              | 34.9                                | 3.8                          | 6.0  |
| 2001        | 33,770                           | 32,911                             | 97.5                       | 16.2                     | 90.1                                 | 58.4                              | 34.5                                | 3.7                          | 6.3  |
| 2002        | 34,234                           | 33,334                             | 97.4                       | 16.6                     | 88.8                                 | 55.8                              | 34.4                                | 3.6                          | 6.1  |
| 2003        | 34,659                           | 33,779                             | 97.5                       | 17.5                     | 89.1                                 | 56.4                              | 35.3                                | 3.7                          | 5.6  |
| 2004        | 35,213                           | 34,184                             | 97.1                       | 18.1                     | 88.1                                 | 55.5                              | 35.1                                | 3.5                          | 5.5  |
| 2005        | 35,505                           | 34,418                             | 96.9                       | 17.8                     | 87.8                                 | 54.9                              | 35.0                                | 3.4                          | 5.9  |
| 2006        | 36,035                           | 34,821                             | 96.6                       | 18.7                     | 86.4                                 | 53.4                              | 34.7                                | 3.0                          | 4.9  |
| 2007        | 36,790                           | 35,485                             | 96.5                       | 19.7                     | 85.8                                 | 51.0                              | 33.7                                | 3.2                          | 5.4  |
| 2008        | 37,787                           | 36,506                             | 96.6                       | 20.1                     | 85.8                                 | 54.0                              | 34.2                                | 3.2                          | 6.1  |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey. Data represent the civilian, noninstitutional population.

a. Prior to the March 1976 survey, the CPS included income from pensions with "other income."

**Table A-2. Median Annual Income of Individuals Age 65 and Older, by Income Source**  
(in 2008 dollars)

| Income Year | Number With Income | Median Total Income | Median Earnings | Median Social Security | Median Asset Income | Median Pension Income | Median Welfare Income | Median All Other Income <sup>a</sup> |
|-------------|--------------------|---------------------|-----------------|------------------------|---------------------|-----------------------|-----------------------|--------------------------------------|
| 1968        | 16,691             | \$8,962             | \$7,975         | \$5,483                | \$2,243             | a                     | \$3,648               | \$5,732                              |
| 1970        | 17,393             | 9,150               | 7,351           | 5,827                  | 2,255               | a                     | 3,518                 | 5,741                                |
| 1975        | 20,311             | 11,057              | 7,515           | 7,809                  | 2,353               | 6,627                 | 2,777                 | 3,398                                |
| 1980        | 24,353             | 11,899              | 9,189           | 8,003                  | 1,838               | 6,653                 | 2,635                 | 2,729                                |
| 1985        | 26,976             | 13,962              | 8,824           | 8,849                  | 2,823               | 6,512                 | 2,779                 | 2,672                                |
| 1990        | 29,734             | 15,364              | 9,891           | 9,130                  | 2,710               | 7,943                 | 2,629                 | 3,287                                |
| 1991        | 30,256             | 15,066              | 10,249          | 9,315                  | 2,206               | 7,923                 | 3,053                 | 3,529                                |
| 1992        | 30,538             | 14,802              | 10,756          | 9,190                  | 1,725               | 7,762                 | 2,587                 | 3,622                                |
| 1993        | 30,223             | 15,018              | 10,959          | 9,695                  | 1,405               | 8,413                 | 3,232                 | 3,122                                |
| 1994        | 30,676             | 15,354              | 11,007          | 10,254                 | 1,376               | 8,255                 | 3,285                 | 2,889                                |
| 1995        | 31,081             | 15,921              | 12,269          | 10,447                 | 1,730               | 8,219                 | 3,074                 | 4,173                                |
| 1996        | 31,199             | 16,089              | 11,974          | 10,582                 | 1,682               | 8,837                 | 3,271                 | 4,222                                |
| 1997        | 31,401             | 16,415              | 12,646          | 10,930                 | 1,952               | 9,215                 | 3,327                 | 4,608                                |
| 1998        | 31,694             | 16,895              | 12,873          | 11,072                 | 1,931               | 9,268                 | 3,537                 | 4,634                                |
| 1999        | 31,978             | 17,431              | 13,197          | 11,352                 | 1,903               | 9,542                 | 3,852                 | 4,369                                |
| 2000        | 32,258             | 16,964              | 14,903          | 11,408                 | 1,701               | 9,935                 | 3,741                 | 4,470                                |
| 2001        | 32,911             | 16,900              | 15,034          | 11,642                 | 1,819               | 10,100                | 3,638                 | 4,365                                |
| 2002        | 33,334             | 16,792              | 17,879          | 11,757                 | 1,225               | 10,012                | 4,048                 | 4,576                                |
| 2003        | 33,779             | 16,899              | 18,673          | 12,026                 | 1,024               | 10,504                | 4,145                 | 5,475                                |
| 2004        | 34,184             | 17,243              | 17,018          | 11,798                 | 925                 | 10,892                | 4,084                 | 5,431                                |
| 2005        | 34,418             | 17,062              | 17,996          | 11,933                 | 1,194               | 10,547                | 4,614                 | 5,273                                |
| 2006        | 34,821             | 17,977              | 20,223          | 12,434                 | 1,799               | 10,474                | 4,649                 | 5,328                                |
| 2007        | 35,485             | 18,016              | 20,729          | 12,357                 | 1,655               | 10,572                | 4,975                 | 5,182                                |
| 2008        | 36,506             | 18,208              | 20,000          | 12,437                 | 1,054               | 10,800                | 4,488                 | 6,000                                |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey. Data represent the civilian, noninstitutional population.

**Note:** Incomes have been adjusted to 2008 dollars based in the Personal Consumption Expenditure Index of the National Income and Product Accounts.

a. Prior to the March 1976 survey, the CPS included income from pensions with "other income."

Table A-3. Mean and Median Annual Household Income in 2008 Dollars

| Income Year | All Households                   |                       |                         | Householder and Spouse Under Age 65 <sup>a</sup> |                       |                         | Householder or Spouse 65 or Older <sup>b</sup> |                       |                         |
|-------------|----------------------------------|-----------------------|-------------------------|--|-----------------------|-------------------------|--|-----------------------|-------------------------|
|             | Number of Households (thousands) | Mean Household Income | Median Household Income | Number of Households (thousands)                 | Mean Household Income | Median Household Income | Number of Households (thousands)               | Mean Household Income | Median Household Income |
| 1968        | 62,164                           | \$43,208              | \$38,254                | 49,833   | \$47,879              | \$42,865                | 12,331   | \$24,336              | \$16,089                |
| 1970        | 64,648                           | 44,724                | 39,234                  | 51,644   | 49,773                | 44,583                  | 13,005   | 24,676                | 16,199                  |
| 1975        | 72,867                           | 44,626                | 38,364                  | 57,715   | 49,359                | 43,942                  | 15,152   | 26,601                | 18,488                  |
| 1980        | 82,368                           | 47,549                | 40,659                  | 64,988   | 52,423                | 46,446                  | 17,380   | 29,323                | 20,447                  |
| 1985        | 88,458                           | 51,308                | 42,035                  | 69,319   | 56,101                | 47,735                  | 19,138   | 33,950                | 23,814                  |
| 1990        | 94,312                           | 55,745                | 45,497                  | 73,251   | 60,933                | 51,680                  | 21,061   | 37,698                | 26,036                  |
| 1991        | 95,669                           | 54,806                | 44,113                  | 74,268   | 60,161                | 51,289                  | 21,401   | 36,223                | 25,262                  |
| 1992        | 96,391                           | 54,849                | 43,839                  | 75,011   | 60,210                | 50,882                  | 21,380   | 36,039                | 25,030                  |
| 1993        | 97,262                           | 55,205                | 43,555                  | 75,823   | 60,475                | 50,243                  | 21,439   | 36,568                | 25,290                  |
| 1994        | 99,087                           | 56,197                | 44,219                  | 77,054   | 61,773                | 51,112                  | 22,033   | 36,698                | 25,296                  |
| 1995        | 99,683                           | 60,560                | 45,838                  | 77,546   | 66,697                | 52,721                  | 22,137   | 39,060                | 26,093                  |
| 1996        | 101,081                          | 62,332                | 46,537                  | 78,979   | 68,738                | 53,894                  | 22,102   | 39,444                | 26,198                  |
| 1997        | 102,584                          | 64,663                | 48,064                  | 80,234   | 70,952                | 55,087                  | 22,350   | 42,085                | 27,476                  |
| 1998        | 103,991                          | 66,698                | 49,966                  | 81,600   | 73,068                | 57,580                  | 22,391   | 43,482                | 28,439                  |
| 1999        | 104,780                          | 68,266                | 51,462                  | 82,201   | 74,717                | 59,513                  | 22,579   | 44,779                | 29,389                  |
| 2000        | 106,509                          | 70,803                | 52,189                  | 83,653   | 78,040                | 60,688                  | 22,856   | 44,314                | 29,457                  |
| 2001        | 109,387                          | 70,552                | 51,087                  | 85,839   | 77,878                | 59,723                  | 23,548   | 43,845                | 28,726                  |
| 2002        | 111,381                          | 68,915                | 50,514                  | 87,694   | 76,066                | 58,880                  | 23,687   | 42,442                | 28,309                  |
| 2003        | 112,015                          | 68,953                | 50,418                  | 87,860   | 75,801                | 58,354                  | 24,154   | 44,043                | 28,584                  |
| 2004        | 113,352                          | 68,615                | 50,112                  | 89,022   | 75,270                | 57,118                  | 24,330   | 44,267                | 28,620                  |
| 2005        | 114,401                          | 69,595                | 50,558                  | 89,758   | 76,104                | 57,295                  | 24,642   | 45,883                | 29,286                  |
| 2006        | 116,041                          | 70,854                | 51,135                  | 91,110   | 77,496                | 58,222                  | 24,931   | 46,583                | 30,380                  |
| 2007        | 116,819                          | 70,104                | 51,823                  | 91,336   | 76,314                | 58,249                  | 25,483   | 47,846                | 30,334                  |
| 2008        | 117,205                          | 68,426                | 50,000                  | 90,913   | 74,447                | 56,604                  | 26,292   | 47,608                | 30,774                  |

**Source:** CRS analysis of the annual social and economic (March) supplements to Current Population Survey. Data represent the civilian, noninstitutional population.

**Note:** Incomes have been adjusted to 2008 dollars based in the Personal Consumption Expenditure Index of the National Income and Product Accounts.

- a. Neither the householder nor the householder's spouse were 65 or older.
- b. Either the householder or householder's spouse was 65 or older.

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## **Acknowledgments**

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