The relative well-being of the elderly and children: Domestic and international comparisons

One measure of social welfare in a society is the economic health of dependent populations, such as the elderly and children. The well-being of these two groups relative to the working-aged population indicates a distribution of income that promotes security at all stages of life. But what of a society that protects its aged much better than it protects its children? This anomalous situation occurs in the United States, alone among a number of Western industrial nations.

The economic status of the elderly

Many studies have documented the rising economic status of the elderly relative to the nonelderly in the United States. It has been found that the elderly have a high level of economic well-being both absolutely and relative to the nonelderly population,[1] that the elderly are less likely than the nonelderly to fall below the official U.S. poverty line,[2] that the elderly are neither more nor less vulnerable to inflation than other demographic groups (they do not live on fixed incomes because social security benefits are indexed to the cost of living and most assets appreciate with inflation),[3] and that of all population groups, they experienced the largest increase in real income between 1979 and 1984.[4] Many of these studies, however, have relied entirely on comparisons of cash income or have examined the period of the early 1970s, before the massive change in the value of noncash incomes took place. A recent study by Timothy Smeeding, who did the pioneering work in evaluating noncash income for the Census Bureau,[5] has expanded and updated this work. In his "Full Income Estimates of the Relative Well-Being of the Elderly and the Nonelderly" (see box, p.11) Smeeding provides the most thorough comparison to date of the well-being of the elderly and nonelderly populations.

Measuring income

Starting with Census money income (defined below), Smeeding adjusts for most of the factors that extend or reduce its purchasing power for the different age groups. These factors include taxes, in-kind transfers, employment-related fringe benefits, and housing income in kind. The adjustments are briefly described as follows:

1. *Census income*, measured by the Census Bureau, includes private and public cash transfers in addition to earnings, property income, and all forms of pensions received by ex-employees or their survivors. Table 1, column 1, shows that the elderly were about half as well off as the nonelderly by this measure in 1979.

2. *Disposable income* is obtained by subtracting federal and state income and payroll taxes from Census income. The effect of this adjustment is to raise the relative incomes of the elderly, who face a lower tax burden than the nonelderly with the same income. They are allowed a double personal exemption,[6] have a one-time exclusion from paying capital-gains taxes upon selling their homes, and until recently did not pay any taxes on social security income. This raises the relative income of the elderly to about 60 percent.

3. *Public income* adjusts disposable income for the value of in-kind benefits. The valuation of in-kind benefits is somewhat complex because, whereas some are almost as good as

Table 1

The Ratio of Incomes of the Elderly to the Nonelderly, 1979

Income Measure	Unadjusted Household Income (1)	Equivalent Income Adjustments		Household Income per Capita (4)
		Poverty Line[a] (2)	Half-Way[b] (3)	
1. Census income	.518	.640	.762	.903
2. Disposable income	.601	.742	.884	1.036
3. Public income	.672	.830	1.002	1.189
4. Public and private insurance income	.619	.775	.920	1.107
5. Total income	.647	.804	.951	1.142

Source: Smeeding, "Full Income Estimates of the Relative Well-Being of the Elderly and the Nonelderly," IRP Discussion Paper no. 779-85, Table 5 (data from March 1980 Current Population Survey).

Note: Elderly households are those headed by a person aged 65 or over.

[a] Adjusted according to equivalence scales derived from official U.S. poverty thresholds.

[b] Based on equivalence scales halfway between no adjustment and per capita adjustment.

cash (food stamps, for example), others restrict consumption to a great extent, and are therefore worth less than their market value to recipients. Smeeding, in this particular study, values all public in-kind benefits at their cost to the government. Those he includes are Medicare, Medicaid, veterans' health benefits, food stamps, school lunches, and public housing subsidies.[7] This adjustment greatly augments the relative income of the elderly, about 11 percent of the population, who receive approximately half of the market value of in-kind transfers. Their relative income, increased by the government's cost in providing the in-kind benefits, rises to 67 percent of that of the nonelderly.

4. *Public and private insurance income* adds employment-related benefits of a discretionary nature (fringe benefits) to the equation, valued at their cost to the employer. To the extent that employers contribute to health and other insurance and pensions of the working-aged population, this increases the incomes of the working-aged population in relation to the elderly. It reduces the relative income of the elderly to 62 percent that of the nonelderly.

5. *Total income* adds the cost of private housing in kind—both rent-free (or reduced-rent) public housing and the value of implicit rent in owner-occupied dwellings. Both of these housing incomes are estimated at market value—the difference between the market rent that the unit could command and the tenant's after-tax cost of his dwelling. These adjustments increase the relative well-being of the elderly, since three-quarters of households headed by persons over 65 own their own homes. Furthermore, a large majority of the elderly homeowners have fully amortized mortgages, whereas few of the nonelderly are so situated. When housing subsidies are included, over 70 percent of the elderly receive some form of housing income, compared to 35 percent of the nonelderly. The resulting income of the elderly is 65 percent that of the nonelderly.

Work by Timothy Smeeding on the Relative Well-Being of the Aged

"Nonmoney Income and the Elderly: The Case of the 'Tweeners," *Journal of Policy Analysis and Management, 5* (Summer 1986), 707–724. Also available as IRP Discussion Paper no. 759–84.

"Full Income Estimates of the Relative Well-Being of the Elderly and the Nonelderly." IRP Discussion Paper no. 779–85.

with Barbara Boyle Torrey and Martin Rein, "The Economic Status of the Young and the Old in Six Countries." Luxembourg Income Study–Center for the Study of Population (LIS–CEPS) Working Paper no. 8, Luxembourg, August 1986.

Other adjustments

Income is only one of several factors that must be taken into account in comparing the well-being of the elderly with that of the nonelderly. Family size determines how much money is available for individual needs. The average size of a household headed by a person 65 or older is 1.71 persons, whereas nonelderly households average 3.01 persons. One way of adjusting for size is to use per capita income, but this overstates the well-being of the elderly by not reflecting the economies of scale available to larger nonelderly households. To deal with this problem, Smeeding uses equivalence scales as well as unadjusted and per capita income. One is a "halfway" equivalence scale, which is the midpoint (harmonic mean) between the unadjusted and per capita figures; a second is the equivalence scale implicit in the poverty lines established by the Census Bureau for families of different size and composition.

An additional adjustment could be made for underreporting of income, since there is a large discrepancy between the elderly and nonelderly in the matter of underreporting. It has been pointed out that elderly households would experience a 37 percent increase in Census money income if adjustments were made for the underreporting of money income, mainly property income accruing to upper-income elderly households, whereas the average increase for the nonelderly is only 7 percent.[8]

Results

Taking family size adjustments into account and using an expanded definition of income (total income), Smeeding finds that in 1979 the elderly were between 80 and 95 percent as well off as the nonelderly population (depending on the equivalence scale used; see Table 1). If adjustments for underreporting (not shown in Table 1) were also made, these ratios would increase by about 15 percentage points. And, according to Smeeding, the elderly as a whole are even better off today than they were in 1979.[9] In fact, given that the ratio of Census cash incomes of the elderly to the nonelderly have risen from 52 percent in 1979 to 60 percent in 1984,[10] Smeeding estimates that the adjusted total income of elderly today is at least 20 percent higher than it was in the year (1979) on which this study is based.

The 'Tweeners

Having demonstrated the well-being of the elderly as a group, Smeeding goes on to point out that, nevertheless, many of them are still financially insecure and at risk of poverty. In his paper "Nonmoney Income and the Elderly: The Case of the 'Tweeners" (see box), he establishes that there is greater inequality among members of the elderly population than among the nonelderly. He divides the elderly into three groups—those who are poor; a middle group, with Census money incomes between the poverty line and double the poverty line; and the well-to-do. (In 1979 the poverty line for a single elderly person was $3500; for an elderly couple, it was $4350.)

Those elderly who are neither well-to-do (with sufficient resources to cope with economic emergencies) nor officially poor (who have access to several means-tested programs) numbered approximately 5.68 million households (about one-third of the elderly) in 1979. Smeeding labels as 'tweeners the 3.49 million in this income range who are vulnerable to two or more of the three major sources of economic insecurity: (1) reliance on Medicare as their only health insurance subsidy; (2) failure to receive any housing income in kind; and (3) dependence on Old Age and Survivors Insurance (OASI) as their primary source of money income. They constitute one-fifth of all the elderly.

Health care

Because health care costs have risen so fast, the economic burden of health care financing now takes a larger share of the budgets of the elderly than it did in 1962, before Medicare was enacted. The poor elderly, with either Medicaid or VA health coverage, have much broader coverage than those dependent on Medicare alone. Their coverage includes nursing home care, should that be necessary. Many well-to-do elderly retirees are still enjoying health insurance benefits subsidized by their former employer. It has been found that the elderly with only Medicare (or with largely substandard supplementary insurance purchased on their own) tend to have fewer visits to doctors, fewer days spent in the hospital, and buy fewer drugs than do the rest of the elderly.[11] Major medical needs—an inevitable concomitant of old age for some—will spell economic disaster for these persons.

In-kind housing

As mentioned earlier, most of the elderly (almost 90 percent of elderly couples) receive some sort of housing income in kind, which shields them from rental housing costs and unexpected changes in the cost of living. Those who own their own homes have the added security of equity in that home. Those without this sort of subsidy face higher and more volatile rental costs as well as greater vulnerability to rising utility costs.

Reliance on OASI

The elderly who rely on OASI as a primary source of money income (i.e., for 50 percent or more of their income) are especially vulnerable to political decisions affecting social security benefits. The 1983 amendments to the Social Security Act led to a one-time postponement in the annual cost-of-living escalator, which resulted in a decline in real income to all OASI recipients. The large and growing share of total federal outlays for OASI, coupled with awareness that the elderly as a whole are better off than the rest of the nation, makes further reductions possible.

The number of 'tweeners

Table 2 shows the proportion of the elderly who face these three conditions of economic insecurity. It is clear that a greater percentage of the middle group than either the rich or the poor faces two or more of these conditions. 'Tweeners make up 21.5 percent of all elderly households. Over 60 percent of those with incomes between the poverty line and twice the poverty line are in this category. Unable by and large to increase their incomes through earnings, the 'tweeners have only one option available to them in the event of a major crisis: to spend their income and divest their assets to qualify for such programs as Medicaid and SSI.

Table 2

Proportion of 'Tweeners in the Elderly Population, 1979

Conditions of Economic Insecurity	Types of Units			
	Poor	Middle	Well-to-Do	Total
Two or more (million)	1.58	3.49	1.71	6.78
(Percentage of total)	(54.1)	(61.4)	(22.5)	(41.9)
One or none (million)	1.34	2.19	5.88	9.41
(Percentage of total)	(45.9)	(38.6)	(77.5)	(58.1)
Total (million)	2.82	5.68	7.59	16.19

Source: Smeeding, "Nonmoney Income and the Elderly: The Case of the 'Tweeners," IRP Discussion Paper no. 759-84 (data from March 1980 Current Population Survey).

Note: The poor are those with Census money incomes below the poverty line. The middle are those whose incomes are between the poverty line and twice the poverty line. The well-to-do have incomes over twice the poverty line.

The well-being of children

In 1984 the Census Bureau reported that if all food, housing, and medical benefits (excluding institutional care expenditures) were counted at market value, only 3.0 percent of the elderly were in poverty, compared to 17.7 percent of preschool children.[12] Sheldon Danziger and Peter Gottschalk, in their study, "How Have Families with Children Been Faring?"[13] attribute the poverty of children to three causes: the greater number of families headed by women; the fact that more and more government transfers, most of them indexed for inflation, have gone to the elderly while the real value of transfers (such as Aid to Families with Dependent Children) to poor nonelderly families has declined; and the fact that the earnings of those heading families with children have been gradually declining. While the United States provides increasingly generous income to the aged, who are not expected to work, a growing number of the nonaged cannot earn enough, even working full time, to raise their incomes

above the poverty line for a family of four: The proportion of families with children headed by such a "low earner" rose from about 20 to 30 percent over the period from 1967 to 1984.

International comparisons

In a recent paper based on the Luxembourg Income Study (LIS) database, described in a box on this page, Smeeding, Barbara Boyle Torrey, and Martin Rein compared the U.S. elderly to the elderly in five other Western countries: Canada, Norway, Sweden, the United Kingdom, and West Germany (see box, p.11). Three types of comparisons were made: poverty rates (percentage of persons with incomes below the U.S. poverty line translated into other currencies using the purchasing-power parities established by the Organisation for Economic Co-operation and Development—OECD); relative incomes of the elderly to the national average income (where the income is adjusted for differences in family size by means of equivalence scales); and overall income inequality among the elderly (as measured by the Gini coefficient). In this study the elderly (persons aged 65 or over or families in which the reference person was 65 or over) were divided into two groups: those aged 65-74 and those 75 and over. Finally, poverty rates were compared between the elderly and children (persons aged 18 and younger) in each country and across countries.

Smeeding and his associates found that in relation to these other countries, the U.S. elderly had the highest ratios of incomes relative to the national mean income and also the highest degree of income inequality among the elderly of all the countries studied. Yet their poverty rates were about average—below those of the elderly in the United Kingdom, above those in Sweden and Canada, and nearly the same as those in Norway and West Germany. Most striking, however, were the poverty rates among U.S. children, which were not only higher than those of the U.S. elderly, but were higher by at least 60 percent than those in any other country studied (see Table 3).

Table 3

Comparative Rates of Poverty Using the LIS Equivalence Scales and the U.S. Poverty Line, 1979 or 1981

	LIS[a]		U.S. Poverty-Line Scales	
Country	Elderly	Children	Elderly	Children
United States[b]	11.7%	17.4%	16.1%	17.1%
United Kingdom[b]	23.5	11.0	37.0	10.7
Sweden[c]	0.0	4.9	2.0	5.1
Norway[b]	5.5	7.7	18.7	7.6
Canada[c]	3.0	9.5	4.8	9.6
West Germany[c]	12.3	7.7	15.4	8.2

Source: Smeeding, Barbara Boyle Torrey, and Martin Rein, "The Economic Status of the Young and the Old in Six Countries," Luxembourg Income Study-Center for the Study of Population (LIS-CEPS) Working Paper no. 8 (August 1986).

Notes: Percentage of persons of each type with disposable incomes below the official U.S. government poverty line, converted to other currencies using OECD purchasing-power parities and adjusted for family size using either the LIS or the U.S. poverty-line equivalence scale. It should be pointed out that were the concept of total incomes to be used rather than merely disposable income (total cash income minus taxes), the discrepancy between the poverty rates of the elderly and children in the United States would be much greater than the discrepancy in other countries.

[a] The LIS equivalence scale is a measure halfway between per capita income, which counts each person in a three-person family as .33 equivalent adults, and household income unadjusted for the number. It is identical to the halfway measure used in Table 1. An implicit equivalence scale is embedded in the U.S. poverty line, which differs for families of different size and composition. It is also the same scale used in Table 1.

[b] 1979.

[c] 1981.

Luxembourg Income Study

The Luxembourg Income Study (LIS) has gathered in one central location (the Center for Population, Poverty and Policy Studies in Walferdange, Luxembourg) and made comparable several recent large microdata sets which contain comprehensive measures of income and economic well-being for a group of modern industrialized welfare states. The dataset is accessible to researchers at low cost. Because of the breadth and flexibility afforded by microdata, researchers are free to make several choices of perspective (definition of unit: family, household, etc.; measure of income; or population to be studied: e.g., men, women, urban families, elderly households) within the same research paper. This truly comparable microdata collection creates a potentially rich resource for applied comparative and policy research in economics, sociology, and public policy. The LIS databank covers several countries—the United Kingdom, Canada, Germany, Israel, Norway, Sweden, and the United States; France and Australia will soon be added. A copy of the User Guide and further information can be obtained by writing either Professor Timothy Smeeding (Economics and DSSR, 1141 Annex, University of Utah, Salt Lake City, Utah 84112, USA) or Professor Lee Rainwater (Sociology, 530 William James Hall, Harvard University, Cambridge, Mass. 02138, USA).

While the authors indicated that they plan to extend their work further to more completely compare the economic well-being of children and the elderly within and across countries, they conclude that the high absolute and relative poverty rates among U.S. children when compared to the U.S. elderly or to children of other countries are cause for concern. Yet Smeeding warns that policy changes to reduce the share of government spending going to the elderly should be designed to fall on the well-to-do, not upon those whose incomes only just enable them to get along. Indeed, the principal lesson to be learned from comparative studies of this sort is that within population groups (such as the young and old), economic circumstances vary widely. The goal of antipoverty policy should not be to play one demographic group off against another but to reach all those in need.■

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[1] See Sheldon Danziger, Jacques van der Gaag, Eugene Smolensky, and Michael Taussig, "Implications of the Relative Economic Status of the Elderly for Transfer Policy," in Henry J. Aaron and Gary Burtless, eds., *Retirement and Economic Behavior* (Washington, D.C.: The Brookings Institution, 1984). Available as IRP Reprint no. 491. See also Christine Ross, Sheldon Danziger, and Eugene Smolensky, "Interpreting Changes in the Economic Status of the Elderly, 1949-1979," paper prepared for the Western Economic Association, May 1986. Revised July 1986. The exceptions to relative well-being among the elderly are widows, who face higher poverty rates than the rest of this group—see, e.g., Jennifer Warlick, "Why Is Poverty after 65 a Woman's Problem?" IRP Reprint no. 547, 1986; and the article by Richard Burkhauser, Karen Holden, and Daniel Myers in this issue.

[2] U.S. Bureau of the Census, "Estimates of Poverty Including the Value of Noncash Benefits: 1979 to 1982," Technical Paper no. 51 (Washington, D.C.: GPO, 1984).

[3] Michael Hurd and John Shoven, "Inflation Vulnerability, Income and Wealth of the Elderly, 1969-1979," in Martin David and Timothy Smeeding, eds., *Horizontal Equity, Uncertainty, and Economic Well-Being*, National Bureau of Economic Research-Research on Income and Wealth, Conference Vol. 50 (Chicago: University of Chicago Press, 1985).

[4] John L. Palmer and Isabel V. Sawhill, eds., *The Reagan Record: An Assessment of America's Changing Domestic Priorities* (Cambridge: Ballinger, 1984), Table 10.6, pp. 332-333.

[5] U.S. Bureau of the Census, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effects on Poverty," Technical Paper no. 50 (Washington, D.C.: GPO, 1982).

[6] Eliminated, effective in 1987, by the tax reform bill that passed in September 1986.

[7] Smeeding does not include institutional care under Medicaid and veterans' coverage, because a large portion of such benefits consists of food and housing, which are received in lieu of other forms of cash and noncash income, such as Supplemental Security Income (SSI).

[8] Smeeding, "Full Income Estimates," p. 21, reporting Daniel Radner, "Adjusted Estimates of the Size Distribution of Family Money Income," *Journal of Business and Economic Statistics, 1* (April 1983), 135-146.

[9] Smeeding, "Full Income Estimates," pp. 51-52, reporting Palmer and Sawhill, *The Reagan Record*, and Council of Economic Advisers, *Economic Report of the President, 1985* (Washington, D.C.: GPO, 1985).

[10] U.S. Bureau of the Census, "Money Income and Poverty Status of Families and Persons in the U.S.: 1984," Series P-60, no. 149, August 1985.

[11] Smeeding, "Nonmoney Income," pp. 10-11, reporting Mark Berk and Gail Wilensky, "Health Care of the Poor Elderly: Supplementary Medical Care" (Washington, D.C.: National Center for Health Services Research, December 1983).

[12] U.S. Bureau of the Census, "Estimates of Poverty Including the Value of Noncash Benefits: 1984," Technical Paper no. 55 (Washington, D.C.: GPO, 1985), pp. 13-14.

[13] IRP Discussion Paper no. 801-86. The results of this study are reported in *Focus* 9:1 (Spring 1986), pp. 6-10.

Seminars and workshops

The Institute and the Office of the Assistant Secretary for Planning and Evaluation at the U.S. Department of Health and Human Services jointly sponsored a workshop at Madison, May 1-2, 1986. The following research projects were described.

J. S. Butler, Vanderbilt University, "The Effect of the Food Stamp Program on Nutrient Intake," IRP Discussion Paper, forthcoming.

Howard Chernick, Hunter College, and Andrew Reschovsky, Tufts University, "The Taxation of the Poor: Impacts of Federal Tax Reform Proposals," IRP Discussion Paper no. 819-86.

Peter Mattila and Peter Orazem, Iowa State University, "A Study of the Impact of the Minimum Wage Laws on the Employment, Occupational Choice, and School Enrollment Decisions of Graduating High School Seniors," IRP Discussion Paper no. 812-86.

Jerald Schiff, Tulane University, "Government Social Welfare Spending and the Private Nonprofit Sector: Crowding Out, and More," IRP Discussion Paper no. 811-86.

Daniel Weinberg, ASPE, "Filling the 'Poverty Gap': Multiple Transfer Program Participation."

William Julius Wilson, University of Chicago, "The Importance of Ethnographic Research in the Study of Poverty."

Michael Wiseman, University of California, Berkeley, "Welfare Turnover and Welfare Policy," IRP Discussion Paper, forthcoming.

"The Efficiency and Equity Effects of Social Welfare Policies" was the title of a conference held in Paris, June 2-3, 1986. Sponsors of the conference were the French Centre d'Étude et de Recherche sur l'Épargne, les Patrimoines et les Inégalités of the Centre National de la Recherche Scientifique; the National Science Foundation; and the Institute. The papers, listed below, are available from the Institute.

Karen C. Holden, University of Wisconsin-Madison, Richard V. Burkhauser, Vanderbilt University, and Daniel A. Myers, Western Kentucky University, "Pensioners' Annuity Choice: Is the Well-Being of Their Widows Considered?" IRP Discussion Paper no. 802-86.