



The Economic Recovery Package Will Help Poor Older Adults, but More Could Be Done

February 2009

Sheila R. Zedlewski

The needs of older adults are often left out of policy conversations on poverty and economic hardship. Many policymakers, perhaps believing that seniors are less vulnerable, have concentrated their efforts on reducing poverty for children. However, an updated poverty measure finds that adults age 65 and older are much more likely to be poor than official estimates say, and, in fact, have a poverty rate that rivals the rate for children.

Legislators could use the Economic Recovery Package to do more for older adults. Some poor older adults will benefit from one-time cash payments for Supplemental Security Income (SSI) beneficiaries and the increases in food assistance currently included in the economic recovery package. New investments in the skills and job placement of older adults able to work would reduce future poverty rates among this group.

Measuring Poverty

The Census Bureau reported that the official 2007 poverty rate for the “elderly” (adults age 65 and older) was 9.7 percent; the rate for dependent children under age 18 was 17.6 percent. Also, Census reports that poverty among the elderly has declined dramatically over the past four decades. About a quarter of adults ages 65 and older was poor in the late 1960s.

However, a 1995 National Academy of Sciences (NAS) panel and a substantial body of subsequent research have concluded that these official poverty rates are seriously flawed. The official rate uses woefully out-of-date income thresholds to define poverty, fails to measure all resources available to families, and fails to take into account nondiscretionary expenses that limit a family’s ability to pay for the basics of life. A new definition of poverty that addresses these flaws would substantially change the relative poverty rates for different groups.

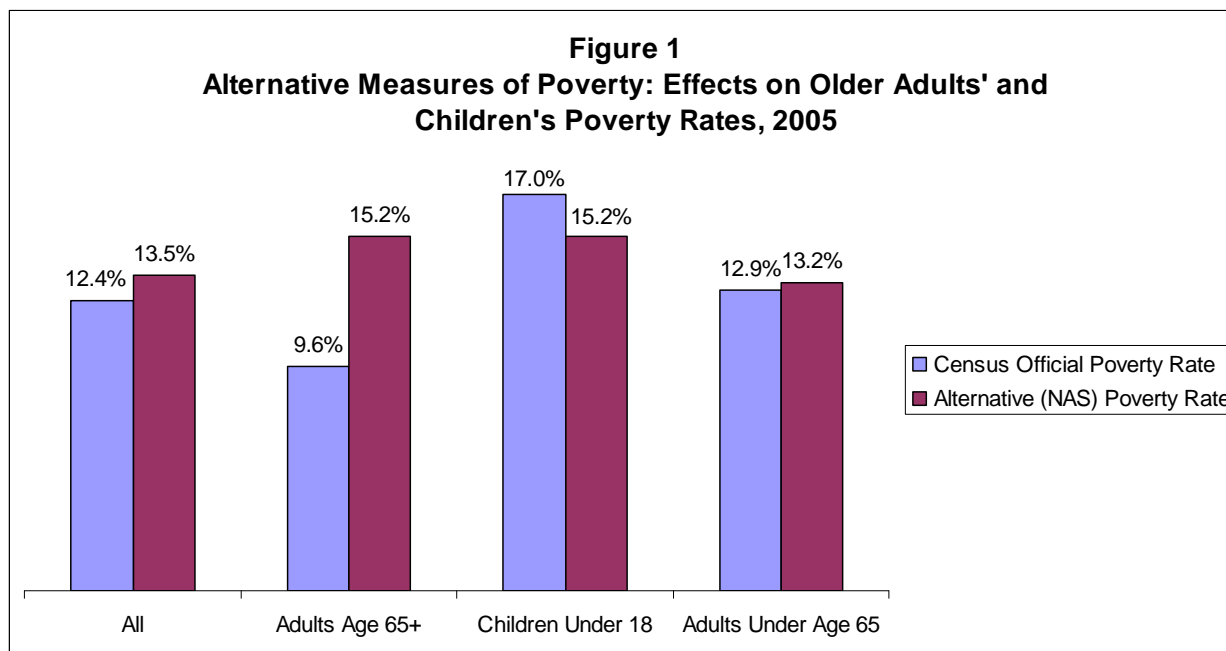
The original poverty thresholds, developed more than 45 years ago, were based on the cost of an Economy Food Plan multiplied by a factor of three, the share of income an average family spent on food in the mid-1950s. Since the elderly spent less on food than the nonelderly, the thresholds for older adults were set lower than those for younger adults. The thresholds are adjusted annually for the change in the Consumer Price Index (CPI). (The 2007 thresholds were \$13,884 for a two-person family of younger adults and \$12,533 for a two-person older adult family.) These ratios are seriously out of date. Recent consumption data show that food now only represents about an eighth of a typical family’s budget, and older adult families spend about as much on food as younger families of the same size.¹

The official poverty rate also does not account for all of a family’s resources. It does not include benefits received from “near cash” programs such as food stamps and housing assistance. It does not deduct taxes from a family’s income to reflect net disposable income, nor does it add refundable tax

¹ Rebecca Blank and Mark Greenberg provide a discussion of poverty measurement in “Improving the Measurement of Poverty,” The Hamilton Project Discussion Paper 2008-17, Washington, DC: The Brookings Institution, 2008.

credits that can make a significant difference in a family's resources. The official rate also does not recognize that families face necessary expenses, such as child care and transportation, and out-of-pocket medical costs that limit what they can spend on other basic needs.

A better measure of poverty that represents a more current and accurate picture of family resources and needs changes the calculus of poverty for older adults relative to other groups. A measure modeled after the NAS recommendations shows that poverty among older adults in 2005 matched the rate among children (figure 1). The NAS measure is 4.6 percentage points higher than the official measure for adults age 65 and older (15.2 percent compared with 9.6 percent) and about 1.8 percentage points lower for children (15.2 percent compared with 17 percent).



Source: The Transfer Income Model, Version 3 (TRIM3), a comprehensive microsimulation model developed and maintained by the Urban Institute under primary funding from the federal Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (HHS/ASPE). Calculations use the 2006 Current Population Survey.

Note: The Census official poverty measure is based on cash income and income thresholds developed in 1963, adjusted to reflect changes in the Consumer Price Index. The alternative is based on the recommendations of the National Academy of Sciences (NAS) (see text).

The alternative NAS poverty measure adds near-cash income (food, housing and energy assistance) to cash income, deducts federal payroll and income taxes and state income taxes, adds refundable tax credits and subtracts work expenses (child care and transportation). The NAS thresholds used in the analysis include expected out-of-pocket medical expenses and reflect recent consumption data. The NAS thresholds were supplied by the U.S. Census Bureau.

The NAS poverty rate for older adults is higher than the official poverty rate primarily because seniors spend more on out-of-pocket medical costs than younger people, and the NAS thresholds do not differ for families that include members age 65 and older. Also, children are the primary beneficiaries of many of our social safety net programs, and the official poverty measure excludes many of these benefits

from income. Low-income working families with children, for example, qualify for a significant refundable earned income tax credit (EITC), which adds to their resources. In contrast, most of the elderly do not work and even those who do can only qualify for a very small EITC.

Implications for an Economic Stimulus Package

The economic recovery package under consideration includes several items that would quickly get money into the hands of poor older adults and into the economy. One-time payments for those receiving Supplemental Security Income (SSI) will provide a helpful boost in income for some of the lowest-income elderly. (Melissa Favreault discusses this feature of the stimulus package below.) Funds to help the Social Security Administration clear up the Disability Insurance claims backlog will allow disabled older adults to obtain benefits more quickly (the wait-time often is as long as two years). The 13 percent increase in food assistance will help many poor older adults pay for groceries. (Sheila Zedlewski discusses this proposal below.)

But older adults also would benefit from investments that enhance their job prospects. As Richard Johnson points out below, the economic recovery package includes only a small investment in job training and development for older workers even though we need to keep older adults in the labor market longer. In the short run, increased earnings will boost their cash incomes. In the longer term, they will qualify for a higher Social Security benefit. Such investments provide the best way to reduce future poverty rates among adults age 65 and older.

Some Stimulus Components Would Benefit Poor Older Adults

Melissa Favreault: Supplemental Security Income Benefit Payments

Often called the forgotten safety net, the Supplemental Security Income (SSI) program provides cash payments to the aged (ages 65 and older), blind, and disabled. Arguably, SSI has a much lower-profile than Temporary Aid for Need Families (TANF), but its reach is much broader. In December 2007, 7.1 million Americans received federal SSI benefits, compared with 3.9 million for TANF.

The American Economic Recovery and Reinvestment Plans under debate would authorize a one-time emergency payment to SSI beneficiaries (and to beneficiaries cut off in the prior two months because their incomes exceeded program limits). In the House version of the proposal, payments would average about \$450 for individuals and \$630 for couples. Payments would be made within 90 days of enactment and cost, the Congressional Budget Office estimates, about \$4.1 billion in 2009. In the Senate bill, one-time payments to SSI beneficiaries are set at \$300. Also, the Senate proposes one-time payments to all Social Security beneficiaries, raising the cost of this component of the stimulus package to \$16.7 billion

Boosting payments to SSI beneficiaries would stimulate the economy. All SSI beneficiaries have low incomes and few assets. Close to half live in poverty and slightly more than half receive no other income so are likely to spend their payments quickly. These modest one-time supplements, amounting to about two-thirds of the base federal benefit (set at \$674 per

month for an individual and \$1,011 for a couple in 2009), would ease immediate pressures on these households.

Payments to Social Security beneficiaries, in contrast, would be less well-targeted. While substantial fractions of Social Security recipients are economically vulnerable, many are not. Providing payments to higher-income beneficiaries will likely provide a less effective stimulus than targeting poorer families more likely to spend the additional benefit.

While the spotlight is on SSI, Congress should consider modernizing this neglected program. The federal monthly benefit grows annually with inflation, but other features of SSI have not changed in decades. For example, the program's asset limits have remained at \$2,000 for individuals and \$3,000 for couples since 1989. (Eligibility criteria do permit a home, one car, personal effects, and modest burial funds/insurance.) Recipients would need almost twice that much today just to maintain the same purchasing power. Increasing these limits could efficiently reduce poverty among older women, an especially vulnerable group.

Likewise, SSI's income exclusions have not changed since 1981. Beneficiaries can receive full SSI benefits if they have earned or unearned income of up to \$20 and (further) earnings of up to \$65 per month. Earnings beyond those meager sums reduce benefits by fifty cents for every additional dollar earned, and other excess unearned income (for example, from Social Security, Veteran's benefits, Worker's Compensation, or an employer pension) reduces benefits on a dollar-for-dollar basis. These outdated asset and income limits deter SSI beneficiaries from working and saving.

Other needed SSI reforms to consider in the longer term include further reducing the program's work disincentives, simplifying rules covering living arrangements, and addressing the difficulties child beneficiaries-now numbering over a million-face transitioning to adulthood when benefits may stop abruptly. Also in dire need of fixing is a tortuous benefit-application process, which is especially long and complicated for those with disabilities. Additional recovery funds are targeted toward modernizing Social Security Administration computers and helping to eliminate Social Security and SSI processing backlogs. Along with modernization of asset limits and income disregards, this funding could help increase the program's low participation rate.

Sheila Zedlewski: Nutrition Assistance / SNAP

The Supplemental Nutrition Assistance Program (SNAP, formerly the Food Stamp Program), provides the only near-universal assistance to low-income households. Most benefits go to America's neediest. About nine in ten SNAP recipients live in poverty; more than one in ten has no other source of income. In 2007, this program served about 5.9 million households with children and over 2 million older households with people ages 60 and older, representing 51 percent and 18 percent of all beneficiary households respectively.

The recovery proposals under consideration in the House and Senate would spend \$16 to \$20 billion to temporarily increase SNAP benefits and drop the benefit time limit for able-bodied

adults without dependents.² The proposed SNAP benefit increase, potentially 13.6 percent, will provide an effective stimulus. By U.S. Department of Agriculture estimates, each additional food stamp dollar should generate \$1.84 dollars in total economic activity. The increased benefits will also help low-income families pay for groceries. The average benefit today provides only \$7 a day to feed an entire household. SNAP benefits are adjusted annually as the cost of the items in the Thrifty Food Plan change. Still, many recipients report running out of grocery money every month.

The benefit increase, along with recent state efforts to simplify the application process, could encourage more eligible families to apply for benefits. In 2006, only 67 percent of people eligible for SNAP received benefits. The participation rate for adults age 60 and older, however, is only 34 percent. An extra \$300 million in the proposal would help states administer increased caseloads.

Dropping the time limit on SNAP benefits for able-bodied workers, itself a stimulus, will help unemployed adults without children get by in this job-jettisoning recession. The current time limit aims to encourage work among this group by requiring at least 20 hours of work a week to stay eligible after the first three months.³

But expect trouble when the provisions expire at the end of fiscal year 2010. Since households still on the food stamp rolls will feel what amounts to a benefit cut then, lawmakers instead should consider a one-time permanent benefit increase. This move would recognize the near impossibility of feeding a household on \$7 per day. As the economy recovers and fewer need this help, the impact on the federal budget will diminish.

To make long-term dependence on SNAP less likely, the recovery package might also include money for states to offer more adult beneficiaries workforce-development services. Today, SNAP's small employment and training service component covers relatively few recipients. As more low-wage adults turn to SNAP for help, adding employment services to the benefit package makes good economic sense for them and policy-makers concerned about the program's size over time.

Richard Johnson: Employment of Older Adults

The proposed American Recovery and Reinvestment Act includes \$120 million to train low-income older Americans and help them find jobs. This is a laudable goal that could stimulate the economy and bolster retirement security, but the proposal is underfunded so can't have much impact.

As the population ages, older workers are taking center stage and hold the key to our future prosperity. The pool of 25- to 54-year-olds—traditional mainstays of the workforce—will

² The stimulus proposals also include as much as \$200 million for formula grants to states for elderly nutrition services such as Meals on Wheels.

³ States with unemployment rates in excess of 10 percent already can apply for waivers from the time limit.

grow by only 2 percent through 2020. And workforce stagnation can choke off economic growth, reduce tax revenues, and strain the government's ability to finance essential services.

The good news is that older workers are beginning to step in and fill the gap. Over the past decade, the labor force participation rate at ages 55 to 69 jumped eight points to 56 percent. Workers ages 55 and older now account for one fifth of the labor force ages 25 and older, up from 14 percent 15 years ago. Only if these trends continue can the economy expand.

Even though they are no longer bit players, older workers are not used to their full potential. Back in 1950, when jobs were more physically demanding and health problems at older ages were more common, nearly 7 in 10 men ages 55 and older worked. Today, fewer than half do. Labor-force participation rates especially lag for older adults with little education and limited skills. Only one in six adults ages 55 and older who didn't finish high school have jobs. For college grads, it's more than two of every five.

The recession makes it even more difficult for older workers to find jobs. In December 2008, the unemployment rate for adults ages 65 and older reached 5.1 percent, the highest level for seniors since March 1977. In past recessions, many older workers retired when they lost their jobs. But few laid-off seniors can afford that route when stock market losses deplete retirement accounts. Helping older Americans find and keep jobs would bolster their current incomes and improve their future retirement security, increase consumer spending, and stimulate the economy.

The stimulus proposal aims to help low-skilled older Americans find work by adding \$120 million to the Senior Community Service Employment program (SCSEP), the nation's only workforce development initiative targeted to older adults. This program helps workers ages 55 and older with incomes below 125 percent of the federal poverty level acquire job skills, provides training and other supportive services, and places participants in subsidized, part-time community services assignments.

SCSEP helps only a small share of the older adults who could use it, and that number won't increase much under the stimulus proposal. The program now serves only about 80,000 adults, and the requested recovery funds would cover 24,000 more participants. For perspective, 1.4 million adults ages 55 and older were unemployed in December 2008 and more were underemployed. And that's excluding the untold numbers who have given up looking for work. In sum, the sound workforce-development idea embodied in the stimulus proposal needs to be backed up by more funds for job training and employment services for older workers or few jobless seniors will find work.