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Introduction

As the post-war Baby Boom generation enters retirement amid concerns about the long-term financing of Social Security, it is critical for Congress, policymakers, and the general public to recognize the central role of Social Security as a source of retirement income. Social Security remains the only universal source of retirement income for the vast majority of Americans. And, for most of us, it is the most relevant source of retirement income after a lifetime of hard work.

Yet Social Security was never meant to be the sole or even primary source of retirement income. To address apparent shortfalls in retirement income, Congress has tried to address retirement income security with changes in the tax code to encourage the growth of private pensions such as traditional defined-benefit pension plans, 401(k) type defined-contribution savings plans, and Individual Retirement Accounts, among a slew of other savings vehicles. For 2007, the government expects to lose tax revenue to the tune of $109 billion to support retirement savings in these plans.[1]

Policymakers have also made several changes to help the elderly seek additional earnings as a supplemental source of income after reaching retirement age, which can be as early as 62. In 1983, for instance, the so-called earnings test, which set limits for the earnings of Social Security beneficiaries (before their benefits were reduced) was liberalized. This reform allowed for withholding $1 in Social Security benefits for every $3 in earnings over the exempt amount after 1990, and gradually increased the delayed retirement credit from 3 percent to 8 percent annually for those at full retirement age between 1990 and 2008. In addition, the annual earnings test exempt amount for recipients who have attained the full retirement age was raised in 1996, reaching $30,000 in 2002. Most recently, in 2000 Congress eliminated the earnings test for recipients who have attained the full retirement age.[2]

Yet a secure retirement remains an elusive goal for many families. A study by the Center for Retirement Research at Boston College found that 43 percent of individuals nearing retirement were "at risk," or unable to maintain their current standard of living once they stop working. Of those in the bottom third of the income scale, 53 percent were at risk, an increase from 47 percent in 1983. Further, this increase in the at-risk population among low-income families was principally caused by the reduction in Social Security benefits, a change enacted in 1983, but which affects only people turning 62 or younger in 2000, suggesting that additional savings and more earnings were not enough to offset the cuts in the nation's premier retirement program.[3]

It is difficult, however, to make predictions about the total retirement income of all the Baby Boomers or their possible earnings potential, given questions about how to finance the Social Security System in the coming decades alongside the inherent volatility of private pensions based largely on stock market returns. But another way to look at some of these trends is to consider the population that is already in retirement and their sources of retirement income. Based on publicly available data from the Social Security Administration, this report finds the following income trends among those who were 65 and older in any given year between 1980 and 2004[4]:

- **Retirement income declined after 2000.** The typical annual, inflation-adjusted retirement income for those 65 years of age and older declined annually by 0.1 percent between 2000 and 2004, the last year for which complete data are available.

- **Social Security remains the most important retirement income source.** In 2004 Social Security benefits accounted for 38.6 percent of aggregate retirement income, a far larger share than any other income source.

- **Low-income and moderate-income workers depend heavily on Social Security.** Among those in the bottom 60 percent of the income distribution, Social Security accounted on average for at least two-thirds of their retirement income.

- **More Social Security benefit payouts are flowing to the middle class.** Since 1990, the share of retirement income coming from Social Security has grown for whites and middle-income earners but also for single women and single men.

- **Income from pensions has increased.** Today's retirees get a larger share, 10.2 percent of their income, from private pensions than retirees did in past decades.

- **People over 65 receive less and less income from their assets.** In 1990, income from assets such as dividends, interest payments, trust disbursements, amounted to 24.5 percent of retirement income, but by 2004 this percentage had declined to 12.6 percent of income.

- **Earnings have gained in importance as retirement income source.** Earnings accounted for 17.7 percent of income of the population 65 and older in 1990, but by 2004 accounted for 26.3 percent of total income.

These trends in retirement income over the past few decades highlight a number of important developments that should give pause to policymakers as the Baby Boomer generation enters retirement. Broadly speaking, retirement incomes have not kept pace with inflation in recent years, while Social Security has gained in relative importance. Yet these two top-line observations mask a mixed bag of conclusions about how those 65 years of age and older are coping with the financing of their retirements.

Understanding the larger complexities of retirees' sources of income and earnings today may help policymakers make some key decisions about helping Baby Boomers and subsequent generations cope with retirement in the coming decades. As our analysis will show, Social Security's benefits must be protected and strengthened because low-income workers and minorities rely especially on this source of retirement income. Efforts should also be made to allow workers to save more outside of the equity in their homes and Social Security income, which will require vastly improved 401(k) type retirement savings plans as well as strengthened traditional defined-benefit plans. Finally, opportunities for those who reach the age of retirement to work longer, if they so desire, should be enhanced.

As the Baby Boom generation turns 65 between 2011 and 2029, the time has come to vastly improve all forms of retirement savings so that the vast majority of workers can enjoy a decent standard of living in retirement as a reward for a lifetime of hard work.

An Oldie But Goodie

How People 65 and Older Pay for Retirement

According to the Social Security Administration's biannual report titled "Income of the Population 55 and Older," based on data from the U.S. Census Bureau's Current Population Survey, median income for people 65 and older has shown strong growth since 1980. As shown in Table 1, real median income among those aged 65 and older was $15,212 in 1980, increasing to $18,912 in 1990. This rising growth in income was prevalent among all racial and gender groups over age 65 between 1980 and 1990, presumably due to the strong labor market growth in the 1950s and 1960s.

This trend continued between 1990 and 2000, with total median income rising from $18,912 in 1990 to $20,597 in 2000. After 2000, however, income began to decrease for some segment of society and rose at a decreasing rate for others, causing the overall median income to decrease, to $20,481 in 2004 from $20,597 in 2000 in 2004 (see Table 1). During this period African Americans 65 and older experienced the biggest decrease in real median income, which dropped to $12,503 from $13,528, a 1.89 annual percent decrease.

TABLE 1: REAL MEDIAN INCOME OF AMERICANS AGED 65 AND OLDER BY RACE/ETHNICITY, GENDER/MARITAL STATUS, AND INCOME

					ANNUAL PERCENTAGE CHANGES*		
	1980	1990	2000	2004	1980–1990	1990–2000	2000–2004
Total	15,212.26	18,912.24	20,597.14	20,481.00	2.43	0.89	-0.14
White	16,194.40	20,373.49	21,707.18	21,699.00	2.58	0.65	-0.01
African-American	8,861.09	9,788.86	13,527.77	12,503.00	1.05	3.82	-1.89
Hispanic	—	11,038.56	11,565.46	12,133.00	—	0.48	1.23
Married Couples	26,234.05	32,716.39	34,209.38	34,900.00	2.47	0.46	0.50
Single Men	12,156.71	15,261.20	17,201.21	17,611.00	2.55	1.27	0.60
Single Women	10,105.13	12,253.23	13,200.91	13,151.00	2.13	0.77	-0.09
Quintile 1	—	8,523.75	8,724.55	8,910.00	—	0.24	0.53
Quintile 2	—	10,728.94	12,199.46	12,131.00	—	1.37	-0.14
Quintile 3	—	16,779.90	17,969.03	17,691.00	—	0.71	-0.39
Quintile 4	—	23,808.77	26,604.73	26,224.00	—	1.17	-0.36
Quintile 5	—	37,443.40	40,645.85	39,814.00	—	0.86	-0.51

Source: Authors' computations based on Income of the Population 55 and Older 1980, 1990, 2000, and 2004 and the 2006 CPI-U-RS.

This slowdown in the growth of real median income among the population 65 and older highlights the necessity of Social Security income to nearly all beneficiaries. Relative to other sources of income, in fact, Social Security remains the most important source of retirement income, and this importance has only increased since the 1990s. Indeed, "Social Security provided a larger addition to wealth than any other form of wealth between 1989 and 2001 for the average person near retirement."[5]

The basis for this increased significance is twofold. First, the labor force participation rate has been rising since the 1960s.[6] This increase in employment and wages directly translates into increased Social Security benefits—the more individuals work, the higher the Social Security benefit they receive in retirement.

A second reason for an increased Social Security benefit is the drastic decline in personal saving in recent years. Since the 1980s, the personal saving rate among Americans across the board has declined rapidly, at least in part due to the wealth effect of the sharp rise in housing equity during this time,[7] and this trend continued through the early 2000s. Because home values were skyrocketing, many homeowners decided not to save for retirement in other forms of wealth, such as savings accounts, stocks, or bonds. This is the so-called wealth effect, which says that as people see unexpected gains in their wealth (in this case their home equity) they reduce their personal saving. As a result, this meant that families ultimately held smaller shares of their assets outside of their homes.[8] From a retirement income perspective, this meant that families retiring more recently may have had fewer liquid financial assets available than their earlier counterparts.

Increased labor force participation and declining saving suggest that Social Security benefits are becoming a much more important source of income to a much wider range of Americans than it has been previously. One would therefore expect Social Security's share of income to have increased over the last several years—despite legislative changes that reduced the benefit for many recipients, among them a higher normal retirement age, which has been affecting anybody who turned 62 in 2000 or later.

Unlike Social Security benefits, which are guaranteed, pension income has become less and less secure in recent years. Defined-benefit retirement plans (traditional employer-provided pensions) have been drastically reduced in size and number, while defined contribution plans, such as 401(k) and 403(b) plans, are becoming the norm. Yet these new types of retirement savings vehicles leave much to be desired in their current form. According to data from the Census Bureau's 2006 Current Population Survey, in 2005 only 54.9 percent of the private sector U.S. workforce had an employer who offered either a defined-benefit plan or a defined-contribution plan and only 45.0 percent chose to participate in such plans.[9]

Moreover, fewer and fewer workers are covered under traditional defined-benefit pensions. According to figures from the Department of Labor, the share of private sector workers who were covered was 20.0 percent in 2006, down from 39.0 percent in 1980.[10] These figures suggest that, as a source of retirement income, the share of income from pensions may be declining.

Asset wealth, too, may have declined in recent years because of low savings rates. A report using data from the RAND Health and Retirement Study found that 58.5 percent of retirees experienced a decline in income or total wealth between 1992 and 2004.[11] This is especially apparent among low-income and minority groups. Asset income for African Americans, Hispanics, and the least educated were much lower than for whites and the highly educated, and this trend has remained stable over time.[12] Similarly, those who were in poor health, less educated, widowed, African American, or Hispanic were more likely to have had a decline in wealth by 2004, relative to the early and mid-1990s.[13]

Furthermore, while saving has been on the decline, housing equity has been on the rise—meaning that an increasing number of retirees have little or no wealth outside of equity in their homes.[14] For those between the ages 51 and 56 and in the 50th percentile of income, for example, nearly half (44.7 percent) of their total wealth in 2004 was in the form of housing equity.[15]

This presents a potentially major problem for several reasons. First of all, 60 percent of homeowners do not desire to sell their homes, and 70 percent saw only a minimal chance that they would actually sell their homes to pay for retirement.[16] The implication is clear—even though retirees would like to stay in their homes it is very likely they will be forced to sell their homes to pay for retirement given their dwindling assets outside of home equity.

Secondly, those forced to sell their homes in retirement are generally the same people who have less to gain from that sale. Furthermore, families with lower incomes and more housing equity are more likely than those with higher incomes and less housing equity to have reduced home equity when they sell their homes and move.[17]

This increased reliance on housing equity, already problematic, may be worse than it currently seems. The housing boom in the early 2000s artificially inflated home equity and therefore the total assets of homeowners. Yet, even with inflated housing prices, this period also saw a run-down of total asset wealth. Thus, had the housing boom not occurred, the observed run-down of assets during this period could have been even larger.[18]

Given these trends of waning saving rates and reduced asset wealth outside of the home, income from assets as a share of total income would be expected to either remain unchanged or decline in recent years. This may explain the flat or declining incomes of the population 65 and older that we have already observed.

With a decline in pension and asset income, one would expect increasing financial pressure for many elderly to work longer to increase their share of income from earnings. Although the economic literature on this issue does show that the labor force participation rate is increasing among retirees, a large number of elderly persons still do not work.

Indeed, the most educated, wealthiest, and healthiest individuals are most likely to work in old age.[19] By far the most significant predictor of whether an individual remains in the labor force after age 70 was his or her health status.[20] Also, the probability of employment among the elderly tends to be positively related to education level and negatively related to age and income level.[21]

Race also plays a role for people's ability to work in retirement. While 77 percent and 69 percent of African American and Hispanic women, respectively, have jobs requiring physical labor, only 29 percent of white women work these jobs. Among men, 84 percent of African Americans and 83 percent of Hispanics worked in occupations requiring physical labor, compared to 53 percent of whites. Evidently, elderly African Americans and Hispanics work more physically demanding jobs than do whites. In contrast, 60 percent of white women and 39 percent of white men work in professional, technical, or clerical jobs, compared to 18 percent of African American women and 15 percent of African American men. Among Hispanics, 25 percent of women and 16 percent of men work in professional, technical, or clerical jobs.

The upshot: whites are less likely to see deteriorating health and thus have possibly a greater chance to work longer than their minority counterparts.[22] This is confirmed by the fact that roughly half as many African Americans as whites—and only slightly more Hispanics of retirement age—report being in excellent health. This finding dovetails with a large body of economic literature that suggests race is one determinant of health status.[23]

Taken together, the implication of these studies is clear: most of those working in retirement are in better health and have higher income and education levels than those not working in retirement. Because those elderly who are working generally work less physically demanding jobs (and are probably in better shape than those elderly not in the workforce), it is considerably easier for these elderly to continue to work into old age.

Conversely, lower-income workers generally have more physically demanding jobs and poorer health, thus making them largely unable to work into retirement. The result: Those most in need of the extra income to be gained from earnings after the age of retirement in many cases cannot continue to work physically demanding jobs while experiencing failing health.

These labor force participation trends imply a mixed bag for earnings income. On the one hand, labor demand increased in the 1990s, enticing more of the elderly to return to work. Employers were cutting back on retiree health benefits, incentivizing many elderly to continue working to pay for health care.[24] Thus, in 2003, 18.6 percent of men and 10.8 percent of women over age 65 were employed, compared to 15.6 percent of men and 8.2 percent of women in 1993.[25]

On the other hand, wages for retirees are significantly lower than those under 65 years of age, which is an obvious disincentive for many elderly to continue working.[26] These findings indicate that more elderly are working into retirement, possibly increasing the aggregate share of income from earnings, while at the same time the existence of many retirees who are unable to work is at least partially slowing that trend.

For low-income retirees, fewer pensions, declining assets, and increasing inability to work spell financial trouble. Of course, these are the same people for whom Social Security was meant to protect against poverty. Moreover, the lack of financial resources outside of Social Security may also increase the importance of this particular retirement benefit beyond just low-income families and extend to many middle-income families as well.

Recent Trends in Income of Retirees

Social Security

The Social Security Administration's "Income of the Population 55 and Older" survey shows that Social Security benefits accounted for 38.6 percent of aggregate income among those 65 years of age and older in 2004, the last year for which full data is available, an increase from 36.4 percent in 1990 (see Table 2). Among ethnic groups, whites have the smallest percentage of income from Social Security, at 38.6 percent in 2004, compared with 42.4 percent for African Americans and 47.2 percent for Hispanics.

Among women, the same survey shows that single women and those in the first three quintiles of income rely on Social Security for more than half of total income. Social Security benefits account for 53.4 percent of income for single women and 82.6 percent, 83.4 percent, and 66.6 percent of income for the first three income quintiles, respectively.

Over time, Social Security benefits have fluctuated substantially. For all segments of society for whom data is available, Social Security benefits decreased as a percentage of income between 1980 and 1990, with the entire elderly population displaying a 0.26 annual percentage point decline in that time period. Between 1990 and 2000, the benefit's share increased for all segments of society (at an annual rate of 0.20 percentage points overall) except for African Americans, who showed an annual decrease of 0.15 percentage points, and non-married men (with a decrease of 0.03 percentage points annually), according to Table 2.

Between 2000 and 2004, the share of income for people 65 and older from Social Security increased at an annual rate of 0.05 percentage points, yet even with the considerable rise in the benefit as a percentage of income (among nearly all demographics since 1990) Social Security as a share of income was still not at 1980 levels by 2004 except among single women. Between 1980 and 2004, the overall population of adults aged 65 and older displayed an annual 0.03 percentage point decrease in their share of income from Social Security (see Table 2).

This decrease in income share from Social Security was most likely due to the reforms implemented in the Social Security Amendments of 1983[27]—and, due to a time lag, the effect of these reforms has only begun to be seen in the last few years.

Overall, however, Social Security seems to be a growing middle-class benefit. As shown in Table 2, those in the third and fourth quintiles of income show a growing share of income from Social Security benefits. Between 1990 and 2000, the share of Social Security benefits for these middle-income earners rose annually by 0.56 and 0.46 percentage points, respectively, and between 2000 and 2004 by 0.63 and 0.38 percentage points, respectively.

Also, between 1990 and 2000, and then again between 2000 and 2004, the share of income from Social Security for whites increased (by 0.23 annual percentage points and 0.08 annual percentage points, respectively, as shown in Table 2), while for African Americans it decreased (by 0.15 annual percentage points and 0.38 annual percentage points, respectively). Indeed, by 2004, the disparity between whites and African Americans' share of income from Social Security was substantially smaller than in 1990. In 1990 the difference was 9.4 percentage points, while in 2004 this difference shrank to just 4.4 percentage points).

The robust economy of the 1990s was responsible for much of the middle class' growing reliance on Social Security. A strong labor market generally translates into higher wages and more

TABLE 2: SHARES OF AGGREGATE INCOME FROM THE SOCIAL SECURITY BENEFIT AMONG AMERICANS AGED 65 AND OLDER BY RACE/ETHNICITY, GENDER/MARITAL STATUS, AND INCOME

					ANNUAL PERCENTAGE POINT CHANGES*		
	1980	1990	2000	2004	1980–1990	1990–2000	2000–2004
Total	39.0	36.4	38.4	38.6	-0.26	0.20	0.05
White	—	36.0	38.3	38.6	—	0.23	0.08
African-American	—	45.4	43.9	42.4	—	-0.15	-0.38
Hispanic	—	46.2	47.3	47.2	—	0.11	-0.02
Married Couples	34.0	32.0	33.8	33.1	-0.20	0.18	-0.17
Single Men	41.0	37.3	37.0	38.3	-0.37	-0.03	0.32
Single Women	49.0	45.6	50.7	53.4	-0.34	0.51	0.67
Quintile 1	—	79.3	82.3	82.6	—	0.30	0.07
Quintile 2	—	75.7	81.6	83.4	—	0.59	0.45
Quintile 3	—	58.5	64.1	66.6	—	0.56	0.63
Quintile 4	—	41.4	46.0	47.5	—	0.46	0.38
Quintile 5	—	18.2	19.4	18.9	—	0.12	-0.13

Source: Income of the Population 55 and Older 1980, 1990, 2000, and 2004.

employment and thus larger Social Security benefits,[28] and the 1990s were no exception. The decade's strong labor market growth translated quickly into increased Social Security benefits for the majority of the population.

Interestingly, the late 1990s, which saw a strong economy coupled with strong employment and wage gains, were also the years during which the Social Security program's overall financial outlook improved. Social Security's trust funds, which Social Security has been building up since the mid-1980s to pay for the retirement of the Baby Boomer generation, was expected to be depleted in 2029, according to estimates in 1997. By 2003, the expected depletion date had been pushed to 2043. In the wake of a weakening labor market, among other factors, the depletion date has now been reduced again to 2040.[29]

The data confirm our initial expectation that Social Security is an increasingly significant source of income among retirees. Surprisingly, Social Security has gained in importance especially among middle-income people 65 and older.

Private Pensions and Annuities

Private employer pensions are, traditionally, the source of income that many retirees would heavily rely on. Private pensions and annuities among those aged 65 and older accounted for 10.2 percent of total income among those aged 65 and older in 2004, a rise from 7.0 percent in 1980 (see Table 3). Those in the fourth quintile for earnings showed the largest share of income from private pensions in 2004, at 14.6 percent, while those in the first quintile showed the smallest, at just 2.5 percent of income coming from private pensions or annuities.

Somewhat surprisingly, the three demographic groups with the largest increases in private pensions as a share of aggregate income were African Americans, non-married women, and non-married men. As shown in Table 3, non-married women's share more than doubled between 1980 and 1990—an increase of 0.22 percentage points annually—and continued to rise between 1990 and 2000, increasing another 0.20 annual percentage points in that time. The share of private pensions for African Americans showed a 0.27 annual percentage point increase between 1990 and 2000, which may possibly be a reflection of the decline of the manufacturing sector, where many African American men have traditionally been employed.

Table 3 shows that private pensions show mixed trends among economic groups. Between 1990 and 2000, the largest increase in the share of pension income came for retirees in the fourth quintile, although all income groups saw gains at a time when workers were losing pension coverage.

The overall increase in pension share is presumably due to two factors in particular. The Employee Retirement Income Security Act of 1974 made employer-based defined-pension plans better funded and more tightly regulated. In addition, the stock market bull run, which began in 1983 and lasted through the end of the 1990s, caused asset values to rise and increased the value of many defined-benefit plans, which could afford to offer better benefits as a consequence.

Due to a time lag that is typical during periods of rising stock prices, this trend did not abate even after the stock market weakened significantly in the recession of 2001. But this lag may not continue for much longer. With defined-contribution plans overtaking defined-benefit plans as the retirement account of choice for more and more employers and with many defined-benefit plans encountering financial troubles in the years after the stock market crash of 2001, this trend towards relatively more retirement income from pensions may not continue in the future.

TABLE 3: SHARES OF AGGREGATE INCOME FROM PRIVATE PENSIONS/ANNUITIES AMONG AMERICANS AGED 65 AND OLDER BY RACE/ETHNICITY, GENDER/MARITAL STATUS, AND INCOME

					ANNUAL PERCENTAGE POINT CHANGES*		
	1980	1990	2000	2004	1980-1990	1990-2000	2000-2004
Total	7.0	8.9	9.2	10.2	0.19	0.03	0.25
White	—	9.1	9.4	10.3	—	0.03	0.23
African-American	—	6.6	9.3	9.7	—	0.27	0.10
Hispanic	—	6.9	7.5	7.9	—	0.06	0.10
Married Couples	8.0	9.9	9.5	10.3	0.19	-0.04	0.20
Single Men	8.0	10.6	9.8	12.3	0.26	-0.08	0.63
Single Women	4.0	6.2	8.2	8.6	0.22	0.20	0.10
Quintile 1	—	1.5	1.7	2.5	—	0.02	0.20
Quintile 2	—	4.0	4.3	4.4	—	0.03	0.03
Quintile 3	—	8.2	9.5	10.0	—	0.13	0.13
Quintile 4	—	11.2	13.0	14.6	—	0.18	0.40
Quintile 5	—	9.6	9.1	10.0	—	-0.05	0.23

Source: Income of the Population 55 and Older 1980, 1990, 2000, and 2004.

Income from Assets

While income from private pensions remains somewhat stable—at least in the immediate term—asset wealth has already shown a rapid decline in recent years. *Income of the Population 55 and Older* reports only include the following as income from assets: interest, dividends, rent or royalties, and estates or trusts.[30] According to Table 4, assets as a share of income of the total population aged 65 years and older declined from 22.0 percent in 1980 to 12.6 percent in 2004. Those with the smallest share of income from assets in 2004 include African Americans (5.5 percent), Hispanics (4.8 percent), and those in the first and second income quintiles (2.3 percent and 3.8 percent, respectively). Those with the largest share were those in the fifth quintile, whites, and married couples, at 17.8 percent, 13.2 percent, and 13.2 percent, respectively.

Perhaps unexpectedly, in 1980 non-married women had a higher share of income from assets, at 24 percent, than both non-married men and married couples (20 percent and 22 percent, respectively). As shown in Table 4, this trend peaked in 1990, when 27.1 percent of non-married women's income came from assets. After 1990, however, single women's income from assets declined much more rapidly than that of both single men and married couples. By 2004 non-married women had the lowest percentage of income from assets, at 11.1 percent. Since these trends reflect relative share, the decline in the relative importance of asset income for single women likely reflects their greater labor force attachment, which went along with a growing importance of Social Security and earnings as sources of income in old age.

Between 1980 and 1990, all segments of society for which data are available saw an increase in percentage of asset income, with an overall 0.25 annual percentage point increase. This trend reversed in the 1990s, with all groups experiencing a decline in percentage of income from assets. Between 2000 and 2004, with the overall economic slowdown, the total population of retirees saw assets as a share of income decline by 1.23 percentage points annually.

During this period the percentage of income from assets dropped much more dramatically for both unmarried men and unmarried

TABLE 4: SHARES OF AGGREGATE INCOME FROM ASSETS AMONG AMERICANS AGED 65 AND OLDER BY RACE/ETHNICITY, GENDER/MARITAL STATUS, AND INCOME

					ANNUAL PERCENTAGE POINT CHANGES*		
	1980	1990	2000	2004	1980–1990	1990–2000	2000–2004
Total	22.0	24.5	17.5	12.6	0.25	-0.70	-1.23
White	—	25.5	18.3	13.2	—	-0.72	-1.28
African-American	—	6.7	5.5	5.5	—	-0.12	0.00
Hispanic	—	7.5	7.5	4.8	—	0.00	-0.68
Married Couples	22.0	23.5	16.9	13.2	0.15	-0.66	-0.93
Single Men	20.0	23.6	19.3	12.9	0.36	-0.43	-1.60
Single Women	24.0	27.1	18.1	11.1	0.31	-0.90	-1.75
Quintile 1	—	4.0	3.3	2.3	—	-0.07	-0.25
Quintile 2	—	8.5	5.1	3.8	—	-0.34	-0.33
Quintile 3	—	14.8	9.4	6.0	—	-0.54	-0.85
Quintile 4	—	21.0	12.8	8.4	—	-0.82	-1.10
Quintile 5	—	33.0	24.2	17.8	—	-0.88	-1.60

Source: Income of the Population 55 and Older 1980, 1990, 2000, and 2004.

women than during previous time periods—by 1.60 percentage points for unmarried men and 1.75 percentage points for unmarried women (see Table 4). Declining income from assets indicates a troubling decline in wealth among nearly all demographic groups in recent years—in general, people are receiving less and less income.

Earnings

According to *Income of the Population 55 and Older* reports, 26.3 percent of income among those aged 65 and older came from earnings in 2004, an increase from 19.0 percent in 1980. As shown in Table 5, those segments of society with the largest share of income from earnings in 2004 were those in the fifth quintile (40.1 percent), married couples (31.7 percent), and Hispanics (30.9 percent).

Not surprisingly, when broken down by income quintiles, Table 5 data shows that, for all time periods studied, those in the first quintile had the lowest percentage of income from earnings (1.2 percent in 2004) and those in the second quintile had the second-lowest (2.8 percent). This pattern persists throughout the income spectrum, with those in the fifth quintile earning far more of their income than any other group.

Between 1980 and 1990, income from earnings decreased across all gender groups, with a total decrease of 0.13 percentage points annually for the population aged 65 and older. After 1990, however, this development at least partially reversed, with the overall population of elderly increasing their share of income from earnings by 0.54 annual percentage points between 1990 and 2000, and 0.80 annual percentage points between 2000 and 2004 (see Table 5).

This trend, however, varied greatly among different demographic groups. Non-married women, though displaying the lowest share of income from earnings overall, had a large percentage increase in share of income from earnings between 2000 and 2004, with an annual increase of 1.08 percentage points, compared to 0.30 percentage points for non-married men and 0.73 percentage points for married couples (see Table 5). And even though the percentage of income from earnings declined for non-married women between 1980 and 1990 (as it did for all

TABLE 5: SHARES OF AGGREGATE INCOME FROM EARNINGS AMONG AMERICANS AGED 65 AND OLDER BY RACE/ETHNICITY, GENDER/MARITAL STATUS, AND INCOME

					ANNUAL PERCENTAGE POINT CHANGES*		
	1980	1990	2000	2004	1980–1990	1990–2000	2000–2004
Total	19.0	17.7	23.1	26.3	-0.13	0.54	0.80
White	—	17.4	22.8	25.8	—	0.54	0.75
African-American	—	21.8	23.3	28.1	—	0.15	1.20
Hispanic	—	22.2	24.1	30.9	—	0.19	1.70
Married Couples	24.0	22.6	28.8	31.7	-0.14	0.62	0.73
Single Men	16.0	13.3	20.3	21.5	-0.27	0.70	0.30
Single Women	9.0	8.5	10.2	14.5	-0.05	0.17	1.08
Quintile 1	—	0.8	1.3	1.2	—	0.05	-0.03
Quintile 2	—	2.9	2.6	2.8	—	-0.03	0.05
Quintile 3	—	7.1	6.7	7.1	—	-0.04	0.10
Quintile 4	—	12.4	14.2	15.7	—	0.18	0.38
Quintile 5	—	26.7	35.2	40.1	—	0.85	1.23

Source: Income of the Population 55 and Older 1980, 1990, 2000, and 2004.

demographics during this time period), non-married women saw only a 0.05 annual percentage point decrease—less than that of the total elderly population at 0.13 percentage points, and far less than that of non-married men, at 0.27 percentage points annually.

As Table 5 shows, those in the first income quintile increased their share of income from earnings by 0.05 percentage points annually between 1990 and 2000, only to see a decrease of 0.03 annual percentage points between 2000 and 2004. Second and third quintile individuals saw the opposite trend—a decrease between 1990 and 2000 (of 0.03 percentage points and 0.04 percentage points, respectively) and an increase between 2000 and 2004 (of 0.05 percentage points and 0.10 percentage points, respectively). Those in the fourth and fifth quintiles of income show a steadily increasing share of income from earnings.

The data overall show that even though earnings income has increased overall since 1980, it has increased substantially for some segments of the population, such as single women and Hispanics, while remaining stable or declining for others, such as low-income and moderate-income retirees. The general increase in earnings was assisted by Congress first raising the annual earnings test exempt amount to $30,000 by 2002 and ultimately completely eliminating it. That is, Social Security beneficiaries could ultimately earn unlimited additional income without seeing a reduction in their Social Security benefits.[31]

Conclusion

In the past few decades, the provision of retirement income for the elderly has changed rapidly. Fewer and fewer workers are covered by employer-provided, defined-benefit pension plans. Families have less wealth outside of their homes. And many retirees who are able to supplement their retirement income with earnings from work do so.

Still, Social Security remains the primary source of retirement income at a time when (at least for the past few years) the typical income for people over 65 has declined. This decline may reflect low wage growth for previous decades, coupled with inadequate private financial wealth among many families. Consequently, Social Security has maintained and, especially among middle-income retirees, expanded its role as the primary retirement income source.

The findings in this report lead to several clear policy solutions. First and foremost, Social Security's benefits must be protected and strengthened because low-income workers and minorities rely especially on this source of retirement income. Second, efforts should be made to allow workers to build private wealth outside of the equity in their homes. This will require vastly improved 401(k) type defined-contribution retirement savings plans as well as strengthened traditional defined-benefit plans. Finally, opportunities for those who reach the age of retirement to work longer, if they so desire, should be enhanced.

With more and more of the Baby Boom generation retiring, the time has come to vastly improve all forms of retirement savings, so that the vast majority of workers can enjoy a decent standard of living in retirement as a reward for a lifetime of hard work.

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Appendix

Income of the Population 55 and Older is a biannual report published by the U.S. Social Security Administration. Based on data from the March Current Population Survey of the U.S. Census Bureau, it "presents detailed statistical information on the major sources and amounts of income for people aged 55 or older. The tabulations focus on the major sources of total income by age, sex, marital status, race, and Hispanic origin."[32]

The report defines total money income as "the sum of all income received by the aged unit before any deductions, such as those for taxes, union dues, or Medicare premiums. Income may come from any source that was regularly received. The sources include wages and salaries, self-employment income (including losses), Social Security, Supplemental Security Income, public assistance, interest, dividends, rent, royalties, estates or trusts, veterans' payments, unemployment compensation, workers' compensation, regular payments from private and government retirement and disability pensions, alimony, and child support."[33]

Shares of aggregate income are calculated by dividing the total population's aggregate income from each source by the total money income of the population. Sources of aggregate income include earnings, income from assets, public assistance, and retirement pensions (including Social Security, railroad retirement, government employee pensions, and private pensions).

Finally, it should be noted that *Income of the Population 55 and Older* measures as income only those private pension accounts that are annuitized. This includes most traditional DB plans and annuities, but does not include most DC plans, for the simple reason that the vast majority of elderly choose not to annuitize 401(k) and other DC plans.[34] This does not present a major problem when measuring the income of the elderly population, however, as most current retirees do not have DC plans. According to the Federal Reserve's *First Survey of Consumer Finances*, approximately two-thirds of American families had some form of retirement income in 2004, with median holdings of $83,000 for those aged 55 to 64 (those close to retirement)—quite a low figure, as this income is meant to sustain a 20-to-30 year retirement period.[35] Additionally, for the median 20 percent of married couples, 94 percent of those without a pension, 86 percent of those with a defined-benefit plan, and 85 percent of those with a DC plan have entirely pre-annuitized wealth, while single women are even more highly pre-annuitized.[36]

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