Identifying the Poorest Older Americans

Jonathan D. Fisher,1 David S. Johnson,2 Joseph T. Marchand,3 Timothy M. Smeeding,4 and Barbara B. Torrey5

1Litigation Analytics, Inc., New York, New York.
2U.S. Census Bureau, Housing and Household Economic Statistics Division, Washington, DC.
3Department of Economics, University of Alberta, Edmonton, Canada.
4La Follette School of Public Affairs, Institute for Research on Poverty, University of Wisconsin, Madison.
5U.S. Population Reference Bureau, Washington, DC.

Objectives. Public policies target a subset of the population defined as poor or needy, but rarely are people poor or needy in the same way. This is particularly true among older adults. This study investigates poverty among older adults in order to identify who among them is financially worst off.

Methods. We use 20 years of data from the Consumer Expenditure Survey to examine the income and consumption of older Americans.

Results. The poverty rate is cut in fourth if both income and consumption are used to define poverty. Those most likely to be poor defined by only income but not poor defined by income and consumption together are married, White, and homeowners and have a high school diploma or higher. The income poor alone display sufficient assets to raise consumption above poverty thresholds, whereas the consumption poor are shown to have income just above the poverty threshold and few assets.

Discussion. The poorest among the older population are those who are income and consumption poor. Understanding the nature of this double poverty population is important in measuring the success of future public policies to reduce poverty among this group.

Key Words: Poverty—Income—Consumption—Wealth.

Defining poverty among the older population is particularly difficult. A number of those with insufficient incomes have adequate consumption because they have other resources at hand, such as assets or access to credit markets. The potential consumption of individuals is generated through their income as well as any savings or assets. If poverty were defined based solely on consumption, however, a different group of individuals would be considered poor. Some of the consumption poor may have the resources available to increase consumption above the poverty threshold but are choosing not to, possibly due to a bequest motive or precautionary saving because of future possible consumption requirements such as long-term care. Consequently, poverty status depends on how it is measured. Individuals who are considered poor using income may not be considered poor using consumption, and vice versa. These differences are likely to be larger for older adults. In the United States, antipoverty programs targeted toward older adults, such as Medicaid and Supplemental Security Income (SSI), recognize this and rely on income and nonhousing assets in determining eligibility.

Carefully identifying the poorest older Americans is important because they are the most vulnerable financially among adults. We explore how to define those who are poor at older ages using income and consumption. We show how the incidence of poverty changes as individuals age and how the picture of the poor depends heavily on the way poverty is defined. We present different measures of poverty using income and consumption and show how these definitions overlap. Then, we present demographic characteristics of those who are defined as poor using income alone, consumption alone, and both income and consumption. Finally, we explore the older individuals who transition out of poverty when using both income and consumption to define poverty status. Those who are defined as only income poor appear to have significant assets to draw upon to finance consumption, suggesting that it may be incorrect to view them as poor. Those who are defined as only consumption poor have few assets and may be saving for an unexpected income or expense shock, in which case they too may not be poor in the conventional sense.

Poverty among the older population is especially poignant because they have fewer options to compensate for financial decisions made earlier in life. By focusing on the older population who are both income and consumption poor, we can more clearly see the dynamics of poverty and the unmet needs at the end of the life cycle. We find that the older Americans who are both income and consumption poor are a much smaller percentage of the older population than those who are either income or consumption poor alone and that the percentage of those defined as poor declines with age. This percentage, although small and declining with age, consists of the individuals most deserving of public programs that attempt to meet the needs of the poor.
Measuring Well-being and Poverty at Older Ages

Patterns of income and consumption are predicted by the life cycle hypothesis, which posits that people will save during their working lives and use the savings to smooth consumption in retirement. Considerable research has been done to determine whether individuals are prepared when they reach retirement (e.g., Engen, Gale, & Uccello, 2004; Haveman, Holden, Wolfe, & Sherlund, 2006; Hurd & Rohwedder, 2006; Smeeding, Gornick, & Sierminska, in press; and Zick & Holden, 2000). Much of this research focuses on income and net worth because most surveys do not have a measure of consumption.

Income is the resource most used to measure poverty in the United States. Historically, income data have been more accessible, more readily understood, and more internationally comparable than other types of data. However, the disadvantages of using income to measure poverty have been well documented. Meyer and Sullivan (2003) and Hurd and Rohwedder (2006) argue that income is badly measured for the poor and that consumption provides a more appropriate measure of well-being. Alternatively, Charles, Danziger, Pounder, and Schoeni (2006) find that income is more correlated with other measures of well-being for older adults.

Although income and assets might indicate whether individuals are likely to maintain their standard of living in retirement or after the passing of a spouse, consumption is the fundamental measure of well-being, especially for retired individuals. Hamermesh (1984) was the first to look at consumption patterns among older adults and found that individuals in the 1970s could not maintain consumption in retirement. Fisher, Johnson, Marchand, Smeeding, and Torrey (2008) find that among more recent retirees, consumption appears to decline only minimally in retirement. But consumption also has disadvantages because it does not measure many aspects of well-being, such as leisure or household production. In addition, measuring the consumption of durable goods such as housing is difficult.

Consequently, there are arguments for using both income and consumption together to define poverty, because both provide useful information (Johnson, Smeeding, & Torrey, 2005). Consumption would be the better measure of the standard of living and income the better measure of the level of resources available (see also Citro & Michael, 1995). Using both resource measures in defining poverty among the older population provides a more complete understanding of their welfare and how the aged population in poverty differs when only one measure is used independently.

Some recent research has examined consumption poverty along with income poverty, with agreement throughout that the latter is higher than the former. Meyer and Sullivan (2008) use the 1972–2005 Consumer Expenditure Surveys to follow poverty over time. Although they do find that the poverty rate is decreasing over time, they do not look at the two measures together or how the incidence of poverty changes with age. Hurd and Rohwedder (2006) use the Health and Retirement Study (HRS) and find that, for single persons living alone or couples living alone, the incidence of poverty decreases with age, using income and consumption. Hurd and Rohwedder show that among these groups, only 1.48% of households have income and consumption below the poverty threshold. Charles and colleagues (2006) also use the HRS to compare income and consumption poverty, finding that 4.2% of their sample are income and consumption poor. These latter two papers use different definitions of consumption, and Charles and colleagues cover all households, not just singles and couples living alone, which may explain their differing results.

This literature on income and consumption poverty has identified the joint distribution but then has not investigated who the income and consumption poor are and how they differ from the rest of the population. We compare the demographic characteristics of those who are income and consumption poor with the demographics of those who are only income poor, only consumption poor, and are not poor using either measure. Finally, we compare the income, consumption, and assets of these different groups.

Methods

To study the income and consumption of older Americans, we use the Consumer Expenditure Survey (CEX). It has the advantage of being a long, consistent data series with both income and consumption. There are concerns regarding the relative quality of the income data in the CEX. Meyer and Sullivan (2007), however, show that CEX income does a good job of matching income from the Current Population Survey, especially at the lower end of the income distribution.

Data in the CEX are collected from consumer units and the individuals in these consumer units five times over a 13-month period. A consumer unit consists of members of a household who are related or share at least two out of three major expenditures: housing, food, and other living expenses. The survey also collects an inventory of certain durable goods. In this study, the data are analyzed for every 5 years from 1983/1984 to 2003. The data are pooled, which allows for larger sample sizes and for averaging across different economic climates. Although surveys such as the Panel Study of Income Dynamics (PSID) and the HRS have recently added more complete consumption data since 2001, the data are over only a short period of time. The CEX, however, has the advantage of having continuous surveys since 1980 through multiple recessions and booms.

One downside of the cross-sectional data that we use is that we cannot follow the same individuals over time. For example, Rank and Hirschl (1999) use numerous waves of the PSID and find that up to 40% of older adults will experience poverty between the ages of 60 and 90 years. Whereas only a relatively small number of older adults experience poverty at any one point in time, many will experience it at
some point toward the end of their life cycles. Our use of the CEX limits us to looking at only cross-sectional poverty rates.

Using a household or consumer unit requires that we take into account differences in household size because of potential economies of scale in multiperson households. Therefore, we disaggregate household information by age of each individual within the household so that we can examine the income and consumption of individuals by age group. We adjust the resources of a consumer unit by an equivalence scale and use the consumer unit size (multiplied by the unit's sample weight) as a weight. Adjusting in this manner yields "equivalent resources per person" and provides us with a sample of individuals whose resources are given by the equivalent resources of their consumer unit. This scale is given by the square root of family size. It indicates that the resources of a two-person family must be 41% more than that of a single-person household for the two units to have an equivalent standard of living.

We develop two resource measures. First is before-tax income. Second are consumption flows, reflecting current outlays for nonhousing items and the flow of services from housing. Consumption flows equal outlays for housing, food, transportation, apparel, medical care, entertainment, and gifts, plus the rental equivalence of the owned home. For renters, we use actual rent paid. Although data for other durables exist, the service flows are much smaller than they are for housing and do not affect the conclusions in this study.

Fisher, Johnson, Marchand, Smeeding, and Torrey (2007) show the importance of the owned home among older Americans. More than 80% own their home. By age 70, fewer than 25% of these have an outstanding mortgage. For those without a mortgage, the yearly outlays for housing may be fairly small, which would underestimate the housing consumption and overstate the percentage of those considered poor using consumption. Rental equivalence captures the consumption value of the home, but it may lead to an understatement of those who are consumption poor. Recognizing these trade-offs, rental equivalence more accurately reflects the consumption of homeowners and would therefore be more appropriate to use when measuring consumption poverty.

Poverty status is defined in two ways. First, we take the official U.S. Census 2003 threshold for a family of four and adjust it for different family sizes by using the square root of family size. Thus, we start with the official poverty threshold but use the same equivalent scale to adjust the poverty threshold as we use to adjust income and consumption in the CEX. We will refer to this as the official poverty threshold even though it has been modified using a different equivalence scale. Our income poverty rate will differ from the official poverty rate for this reason. An individual is defined as income poor if her income is less than this fixed threshold. An individual is defined as consumption poor if her consumption is less than this threshold. Second, we use a relative measure of poverty: half of the median for each resource measure. An individual is income poor (consumption poor) if her income is less than half of the median income (consumption). The poverty threshold for income and consumption differs for this relative measure of poverty. We also create a category of near poor, or those who are above the poverty threshold but have income or consumption less than 150% of the threshold. All data are reported in real 2003 dollars, using the item indexes from the Consumer Price Index research series.

RESULTS

Changes in Income and Consumption at Older Ages

Before examining poverty among older adults explicitly, we first take a closer look at the relationship between economic well-being and age to find out whether we should expect the poverty rate to be increasing with age. Table 1 presents income and consumption at the median and 10th percentiles by 5-year age groups. Median income and consumption described here are calculated as the mean over the middle 10% of the respective distribution, which covers the individuals between the 45th and 55th percentiles. We use the mean value over those between the 45th and 55th percentiles as a better approximation than the median itself because the median value provides the information for only a single observation, and this may not be as representative of those in the middle of the distribution. It is also better than the overall mean because it is less sensitive to extreme values, which is likely to be an issue for income more than for consumption.

For those at the median, income exceeds consumption before age 65, whereas consumption exceeds income after age 65 for those at the median. For those at the 10th percentile, consumption always exceeds income. Table 1 shows that between ages 60–64 and 70–74 years, median income fell by 1.8% per year, whereas median consumption increased by 0.4% per year. At the 10th percentile, both income and consumption increased between these age ranges.

Examining the change in our resource measures when most individuals have already retired, between ages 65–69 and 75–79 years both income and consumption fell by approximately 0.5% per year at the median. At the 10th percentile, income basically stayed constant between ages 65–69 and 75–79, whereas consumption fell by 0.19% per year. These results suggest that we should not expect increases in poverty when individuals are in their 70s.

Slesnick and Ulker (2005) find similar results, showing that their measure of per capita consumption flows decreases moderately after age 65, and conclude that age profiles of consumption are relatively flat after age 55. Using the 2001 HRS, Butrica, Goldwyn, and Johnson (2005) show larger cross-sectional decreases in per capita expenditures and
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It was found that before-tax income between ages 65–74 and 75+ years, but there is still no large decline. In part, the difference is due to different equivalence scales. Both Slesnick and Ulker (2005) and Butrica and colleagues (2005) assume no economies of scale, whereas we include an intermediate level of economies of scale. One concern regarding the use of an equivalence scale along with consumption flows is how this measure changes as household size changes. A couple that owns a home with rental equivalence of $1,000 has approximately $700 of equivalent housing consumption. If one dies, the living spouse is assigned rental equivalence of $1,000. Thus, housing consumption increases for a widow even though the individual lives in the same home. This may artificially increase the perceived well-being using consumption at older ages, but it does not have the same effect on income. This is a concern no matter what is assumed for an equivalence scale. As seen below, though, nonmarried individuals and widows specifically still are overrepresented among the poor, using either income or consumption.

**Poverty Status Using Income and Consumption**

Moving to poverty status explicitly, Table 2 shows the percentage of older adults in poverty using the U.S. Census poverty income thresholds for both income flows and consumption flows. The poverty rates are over three resource definitions: before-tax income, consumption flows, and the combination of the two.

For the fixed poverty threshold, 15% of both 65–74 and 75+ year olds are below the threshold using before-tax income, whereas approximately 6% of the same age groups are below the threshold using consumption flows. Using the HRS, Hurd and Rohwedder (2006) also show that the income poverty rate exceeds the consumption poverty rate in 2001 across all ages. At older ages, a smaller percentage is

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Before-tax income</th>
<th>Consumption flows</th>
<th>Consumption flows and before-tax income</th>
</tr>
</thead>
<tbody>
<tr>
<td>65–69</td>
<td>16.2</td>
<td>7.9</td>
<td>5.3</td>
</tr>
<tr>
<td>70–74</td>
<td>15.0</td>
<td>5.9</td>
<td>4.1</td>
</tr>
<tr>
<td>75+</td>
<td>15.0</td>
<td>6.1</td>
<td>3.6</td>
</tr>
</tbody>
</table>


**Note:** Sample size equals 21,667. Data are in real $2003 using the Consumer Price Index Research Series Using Current Methods for urban consumers (CPI-U-RS) item indexes. We weight all data to be representative of the U.S. older adult population. Our unit of observation is the individual. The official U.S. Census poverty threshold for a 2-adult, 2-child household from 2003 is used and then adjusted using the square root of family size as an equivalence scale.

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**Table 1. Income and Consumption by Age**

<table>
<thead>
<tr>
<th>Age Group (Years)</th>
<th>55–59</th>
<th>60–64</th>
<th>65–69</th>
<th>70–74</th>
<th>75–79</th>
<th>80+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median before-tax income</td>
<td>27,789</td>
<td>26,809</td>
<td>20,135</td>
<td>19,238</td>
<td>18,593</td>
<td>18,193</td>
</tr>
<tr>
<td>10th percentile before-tax income</td>
<td>8,525</td>
<td>8,724</td>
<td>8,766</td>
<td>10,746</td>
<td>10,464</td>
<td>10,284</td>
</tr>
<tr>
<td>Consumption flows</td>
<td>20,193</td>
<td>20,284</td>
<td>19,128</td>
<td>19,979</td>
<td>18,514</td>
<td>18,929</td>
</tr>
<tr>
<td>10th percentile consumption flows</td>
<td>10,684</td>
<td>10,746</td>
<td>10,758</td>
<td>11,595</td>
<td>11,345</td>
<td>11,381</td>
</tr>
</tbody>
</table>


**Notes:** Sample size equals 21,667. Data are in real $2003 using the Consumer Price Index Research Series Using Current Methods for urban consumers (CPI-U-RS) item indexes. We weight all data to be representative of the U.S. older adult population. Our unit of observation is the individual. Median income and consumption described here are calculated as the mean over the middle 10% of the respective distribution, which covers the individuals between the 45th and 55th percentiles. The 10th percentile for income and consumption described here is calculated as the mean over the 5th to 15th percentiles. Indicates percent change is significantly different from zero at the 5% level.
both income poor and consumption poor using the official measures, decreasing from 5.3% for ages 55–64 years to 3.6% for those aged 75+ (Table 2). This indicates that a relatively small portion of the older population is at risk for poverty using both income and consumption, but the 4% of those aged 65–74 years who are poor using both income and consumption would be very poor indeed. Charles and colleagues (2006) find that 4.2% of those aged 53 years and older in the HRS are poor using income and consumption. Hurd and Rohwedder (2006) find an even smaller percentage that are income and consumption poor, but they present results for only singles and couples living alone. Among those excluded, they find that the consumption and income poverty rates are both higher, but they do not provide a joint poverty rate for this sample.

Similar patterns, but not similar magnitudes, are seen using half the median as the poverty threshold. Approximately 16.2% are income poor for ages 75+ years using half the median, whereas 9.2% are consumption poor. The percentage of both income poor and consumption poor using half the median decreases with age, as it did with the official measures, but the absolute percentage of individuals defined as poor is higher.

Thus, poverty decreases with age using either threshold and using any resource measure. This result matches what is expected given the results in Table 1, showing that income and consumption at the 10th percentile stay relatively flat at older ages. This also matches the finding of Hurd and Rohwedder (2006) that poverty incidence falls with age for older Americans. Although relatively few individuals are income and consumption poor, these individuals are the worst off, as they appear to have neither the current income nor the assets to raise their consumption above poverty levels.

The Joint Distribution of Income and Consumption Poverty

Table 3 provides greater detail by comparing the distribution between income and consumption for our poverty status measures using the following categories: below the threshold, between 100% and 150% of the threshold, and above 150%. These groupings represent the “poor,” “near poor,” and those not in poverty. Each 3 × 3 matrix representing an age group sums to 100%. For example, 5.3% of the 55- to 64-year-olds are both income and consumption poor using the official poverty thresholds, whereas 66% have both income and consumption above 150% of the respective poverty threshold.

The two different poverty thresholds tell some dissimilar stories in Table 3. For example, using the official U.S. Census pretax income measure at older ages, a greater percentage of individuals are income poor but have consumption above 150% of the threshold, from 5.9% at ages 55–65 up to 6.5% at ages 75+. Also, a smaller percentage of individuals are consumption poor but have income above 150% of the threshold, from 0.9% down to 0.4%. The opposite is seen using half the median. The percentage with income below the threshold but consumption above 150% decreases from 7.6% to 5.9% at older ages, whereas the percentage with consumption below the threshold but income above 150% increases from 0.8% to 1.1%. These differences are due to the official poverty thresholds being fixed in real dollar terms, whereas half the median is a relative measure that is affected by changes in inequality. This pattern is consistent with changes in inequality if the distribution of consumption is shrinking, although the distribution of income is increasing.

Another way to analyze the data in Table 3 is to focus on those individuals who are in poverty or near poverty using both income and consumption. For example, at ages 55–64 and 65–74 years, approximately 15.5% of individuals have income and consumption below 150% of the official poverty thresholds (as shown by adding up the top left four cells). This percentage increases to 16.8% at ages 75+ years, suggesting that an increasing percentage is in poverty or at risk of entering poverty for both income and consumption.

Although fewer individuals are actually in poverty at ages 75+ than at ages 55–64, more individuals are near poor using income or consumption. This comes from not only those moving out of poverty but also those moving from having income and consumption exceeding 150% of the threshold. This can be seen by comparing the bottom-right cells in each of the matrices in Table 3.

Rendall (1996) also focuses on older adults who are in poverty and just above the poverty threshold using various income definitions. Including noncash transfers to the definition of income is found to lift a quarter of the “poor” out of poverty and into the “near poor” category. The inclusion of noncash transfers is comparable to our measure of consumption poverty. As shown in Tables 2 and 3, the poverty rate falls using consumption.

Who Are the Income and Consumption Poor?

If between 3.6% and 6.5% of older Americans are both income and consumption poor, then the next logical question to ask is, “Who are they?” Table 4 explores the demographic composition of those deemed income and consumption poor using the official poverty threshold, in order to better understand who these individuals are that appear to be the worst off. The four columns under each age band compare the demographic characteristics for the income poor, consumption poor, and income and consumption poor with those that have income and consumption above the poverty threshold. Across most demographic characteristics, Table 4 paints two contrasting pictures of what types of individuals are poor and what types are not poor.

It is shown that women are more likely than men to be income and consumption poor across all ages. This finding
is consistent with earlier results that indicate that older women fare worse than older men (e.g., Johnson, Smeeding, & Torrey, 2005).

The largest marital status group to be income and consumption poor after age 65 is the widowed. Even at younger ages, widows are disproportionately likely to be income and consumption poor, indicating that across all ages, widows are more likely to be poor than nonwidows. This again matches the findings from earlier research, such as Dodge (1995). One interesting difference across poverty definitions is that married individuals make up a greater portion of those who are income poor than those who are consumption poor. At ages 65–74 years, 52.9% of income poor are married, whereas only 38.7% are consumption poor and 36.5% are income and consumption poor. This difference is statistically significant at the 5% level, and all further comparisons made subsequently are of proportions that also are statistically significantly different at the 5% level. Thus, the picture of who is poor by marital status changes dramatically when using consumption in addition to income.

### Table 3. Joint Distribution of Income and Consumption Relative to a Poverty Threshold

<table>
<thead>
<tr>
<th></th>
<th>Consumption Flows Relative to Census Thresholds</th>
<th>Consumption Flows Relative to Half the Median</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;100%</td>
<td>100%–150%</td>
</tr>
<tr>
<td>Income relative to Census thresholds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ages 55–64 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;100%</td>
<td>5.3</td>
<td>5.0</td>
</tr>
<tr>
<td>100%–150%</td>
<td>1.7</td>
<td>3.6</td>
</tr>
<tr>
<td>&gt;150%</td>
<td>0.9</td>
<td>6.7</td>
</tr>
<tr>
<td>Ages 65–74 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;100%</td>
<td>4.1a</td>
<td>4.8</td>
</tr>
<tr>
<td>100%–150%</td>
<td>1.1a</td>
<td>5.5a</td>
</tr>
<tr>
<td>&gt;150%</td>
<td>0.7</td>
<td>5.5a</td>
</tr>
<tr>
<td>Ages 75+ years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;100%</td>
<td>3.6a</td>
<td>4.9</td>
</tr>
<tr>
<td>100%–150%</td>
<td>2.0</td>
<td>6.3a</td>
</tr>
<tr>
<td>&gt;150%</td>
<td>0.4a</td>
<td>5.4a</td>
</tr>
</tbody>
</table>

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*Indicates that the proportion is statistically significantly different from the same cell at ages 55–64 years, at the 5% level.

### Table 4. Income and Consumption Poverty Status by Demographic Characteristics

<table>
<thead>
<tr>
<th></th>
<th>Ages 55–64 Years</th>
<th>Ages 65–74 Years</th>
<th>Age 75+ Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Y Poor</td>
<td>C Poor</td>
<td>Y and C Poor</td>
</tr>
<tr>
<td>Sex</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female (%)</td>
<td>56.7</td>
<td>54.3</td>
<td>58.7</td>
</tr>
<tr>
<td>Marital status</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>64.4</td>
<td>53.2</td>
<td>51.0</td>
</tr>
<tr>
<td>Widowed</td>
<td>16.0</td>
<td>19.2</td>
<td>22.3</td>
</tr>
<tr>
<td>Divorced</td>
<td>15.0</td>
<td>20.8</td>
<td>22.7</td>
</tr>
<tr>
<td>Single</td>
<td>4.5</td>
<td>6.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High school dropout</td>
<td>60.3</td>
<td>81.2</td>
<td>83.9</td>
</tr>
<tr>
<td>High school graduate</td>
<td>26.1</td>
<td>14.6</td>
<td>11.4</td>
</tr>
<tr>
<td>Some college</td>
<td>7.6</td>
<td>3.0</td>
<td>3.2</td>
</tr>
<tr>
<td>College graduate</td>
<td>6.0</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Race</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>White</td>
<td>69.8</td>
<td>50.0</td>
<td>49.4</td>
</tr>
<tr>
<td>Black</td>
<td>28.8</td>
<td>47.5</td>
<td>48.6</td>
</tr>
<tr>
<td>Other race</td>
<td>1.4</td>
<td>2.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Housing status</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homeowner</td>
<td>83.9</td>
<td>62.5</td>
<td>65.6</td>
</tr>
</tbody>
</table>

Notes: Sample size equals 21,667. We weight all data to be representative of the U.S. older adult population. Our unit of observation is the individual. The official U.S. Census poverty threshold for a 2-adult, 2-child household from 2003 is used and then adjusted using the square root of family size as an equivalence scale.

Y = Income; C = Consumption.
By education group, those without a high school diploma are disproportionately poor, comprising 75%–85% of those who are income and consumption poor, whereas only 60%–65% of the income poor are high school dropouts. The reverse is seen for all other education levels, where a considerably lower percentage are consumption and income poor than are just income poor. This shows that the effect of education on income and well-being lasts over the entire lifetime when using both income and consumption.

A stark difference is also shown in the percent of individuals who are Black. Up to age 74, approximately only 29% of Blacks are income poor, whereas more than 47% of Blacks are income and consumption poor. After age 75, the differential decreases, but this may be due to the lower life expectancy for Black Americans. Blacks make up 10% of the sample at ages 55–59 years and about 8% percent of those 65+.

Finally, homeowners are more likely to be income poor, especially at the oldest ages. At ages 75+ years, only 34% of the income and consumption poor are homeowners, whereas more than twice that percentage, 74%, of homeowners are considered income poor. This again shows the importance of the owned home among older Americans.

This section has shown how the picture of who is poor changes when using income alone, consumption alone, or income and consumption together. Those who are married, have at least a high school education, and are White and homeowners appear to be poor using just income but are much less likely to appear poor when using income and consumption together. The opposite is true for widows and divorcees, high school dropouts, Blacks, and renters.

### Transitions Into and Out of Poverty

Another issue that has not been addressed in existing literature is what might explain why some are poor using one resource measure but not both measures. Table 5 presents income, consumption, assets, and net worth by poverty status and age. This table focuses on those who are poor using both income and consumption versus those who are poor using only one of the resource measures.

The median individual aged 65+ years who is both income and consumption poor consumes more than her income and has few assets but no debt. The same holds for those who are older than 75 years. These individuals have low income and low consumption and have no assets to access in order to raise consumption. Consumption for this group appears tied to income. Any negative income or expense shock could greatly affect well-being for these individuals.

Those who are consumption poor but not income poor in Table 5, of course, have income that exceeds consumption. Between ages 55 and 64 years, the median individual saves 40% of income, compared with 33% and 25% at ages 65–74 and 75+ years, respectively. Why might these individuals be saving when their consumption is below the poverty threshold? The bottom rows of Table 5 show that those who are consumption poor but not income poor have very few assets, especially at the younger ages. At ages 65–74 years, median assets equal $9,100, but this individual also has almost $6,000 in debt, such that net worth is only $3,140. This individual might be engaged in precautionary saving. This could mean that he is saving for an emergency expense or is worried that it may be necessary to increase consumption in order to finance health care expenditures.

These results may also help explain why, in Table 4, we see a larger percentage of Blacks and a larger percentage of individuals with low education among the consumption poor but not the income poor. Blacks and those with lower education have lower net worth on average. Thus, they are more likely to be among the group that has low consumption and income just above the poverty threshold. These individuals have low assets and thus are saving for future needs.

McGarry and Schoeni (2005) find that out-of-pocket medical expenditures in the final 2 years of life are equal to 30% of the household’s annual income. Table 5 shows that those who are consumption poor but not income poor save about 25%–40% of their income, depending on their age. These individuals, especially at younger ages, may be saving for future medical expenditures because they have few assets on hand. Thus, those who are consumption poor but not income poor may be worried that an income or expense shock in the future may drive them into both income and consumption poverty.

### Table 5. Median Income, Consumption, and Assets by Age and Poverty Status

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Y &amp; C Poor</th>
<th>C Poor But Not Y Poor</th>
<th>Y Poor But Not C Poor</th>
<th>Y Poor But Not C Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ages 55–64 Years</td>
<td>6,311 (209)</td>
<td>12,766 (676)</td>
<td>5,598 (405)</td>
<td>14,604 (8,860)</td>
</tr>
<tr>
<td>Ages 65–74 Years</td>
<td>12,265 (464)</td>
<td>7,081 (141)</td>
<td>6,541 (145)</td>
<td>12,766 (676)</td>
</tr>
<tr>
<td>Ages 75+ Years</td>
<td>7,081 (141)</td>
<td>7,053 (243)</td>
<td>7,053 (243)</td>
<td>14,604 (8,860)</td>
</tr>
</tbody>
</table>


Notes: Sample size equals 21,667. Bootstrapped standard errors are in parentheses. We weight all data to be representative of the U.S. older adult population. Our unit of observation is the individual.

Y = Income; C = Consumption.
Finally, those who are income poor but not consumption poor look much different than the other two groups in Table 5. This group spends more than twice their income at the median. Those who are only income poor have a substantial amount of money saved. Presumably, this group uses their assets to finance current consumption. At ages 65–74 years, the median individual has around $80,000 in assets and net worth. At younger ages, assets and net worth are above $85,000 at the median. At ages 75+ years, median assets are around $70,000. These individuals have the assets to draw upon to finance consumption, even though they appear to be poor using only income. These individuals are well positioned to deal with negative income or expense shocks because they have savings to draw upon if necessary.

Table 5 displays why using income alone to define poverty may be misleading. There is a sizable majority of older individuals who are income poor but who have a substantial amount of assets. These assets are used to finance current consumption such that consumption exceeds the poverty thresholds. These individuals may not be leading the lives of those who are considered to be poor because of their consumption financed with current income and assets. At ages 65–74 years, they represent 10.8% of individuals within that age group (Table 3) and lower the observed poverty rate from 15% to approximately 4.1%.

Alternatively, income may be a poor indicator of poverty status for those who have income just above the poverty threshold but low consumption and low assets. Using just income, these individuals appear to be above the poverty line, but their consumption is low and they have few assets to draw upon in case of an income or expense shock. These individuals are poverty poor but not income poor and have so few assets and income to place them just above the poverty threshold. This is a group that may be overlooked in a traditional poverty framework.

To fully understand the well-being of older individuals, these results suggest that it is better to examine income and consumption together. Considering income alone overlooks a large percentage of older Americans who have significant assets available to finance consumption. And looking solely at consumption misses those who have low income and a low amount of assets.

**DISCUSSION**

This study has examined the well-being of older Americans by focusing on poverty rates using income and consumption flows drawn from the CEX data over the 1984–2003 period. Charles and colleagues (2006) and Hurd and Rohwedder (2006) also examine the joint distribution of income and consumption and find that few individuals are below the poverty threshold using both measures. We further this research by investigating who the income and consumption poor are and how they differ from the rest of the population.

Between 3% and 7% of older adults are both income and consumption poor. These income and consumption poor are shown to be disproportionately women, widowed, high school dropouts, Black, and renters. Very few older Americans are poor for both measures simultaneously. Results suggest that only 25% of older Americans who are considered poor using income would be considered poor if their consumption were simultaneously considered. This implies that the economic preparations of older Americans, combined with public programs, have almost eliminated poverty if defined jointly by income and consumption. Those who remain poor, although small in number, deserve special attention because they have so few options to help themselves. Adding consumption flows to the income poverty measure helps to focus on this small but very poor group. This procedure would also help target any improvements in poverty programs for the very poor among older Americans and would give an indicator of how well any program improvements would be for this population.

Examining those who transition out of poverty when a more inclusive definition of poverty is used is an equally interesting topic. Those who are income poor but not consumption poor appear to have significant assets to draw upon. Thus, programs such as SSI and Medicaid that use income and assets to determine eligibility may be effective in screening out those who are not necessarily in need. Considering income alone understates the well-being of these individuals because of their significant net worth.

Other individuals, such as those who are consumption poor but not income poor, appear to be engaged in precautionary savings behavior because they have few assets to draw upon. They are very susceptible to a negative income or expense shock and are thereby vulnerable to being trapped in a poverty situation. The consumption poor but not income poor are not considered in traditional poverty measures, but the median individual barely has income above the poverty threshold and has the assets and other demographic characteristics of those who are in poverty. Ignoring the consumption poor but not income poor understates the incidence of poverty among older adults.

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CORRESPONDENCE

Address correspondence to Jonathan D. Fisher, PhD, Litigation Analytics Inc., 370 Lexington Avenue, Suite 1802, New York, NY 10017. Email: jfisher@litigationanalytics.com

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