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Chapter 3 Executive Summary: Increasing inequality in old age and its connection to later retirement

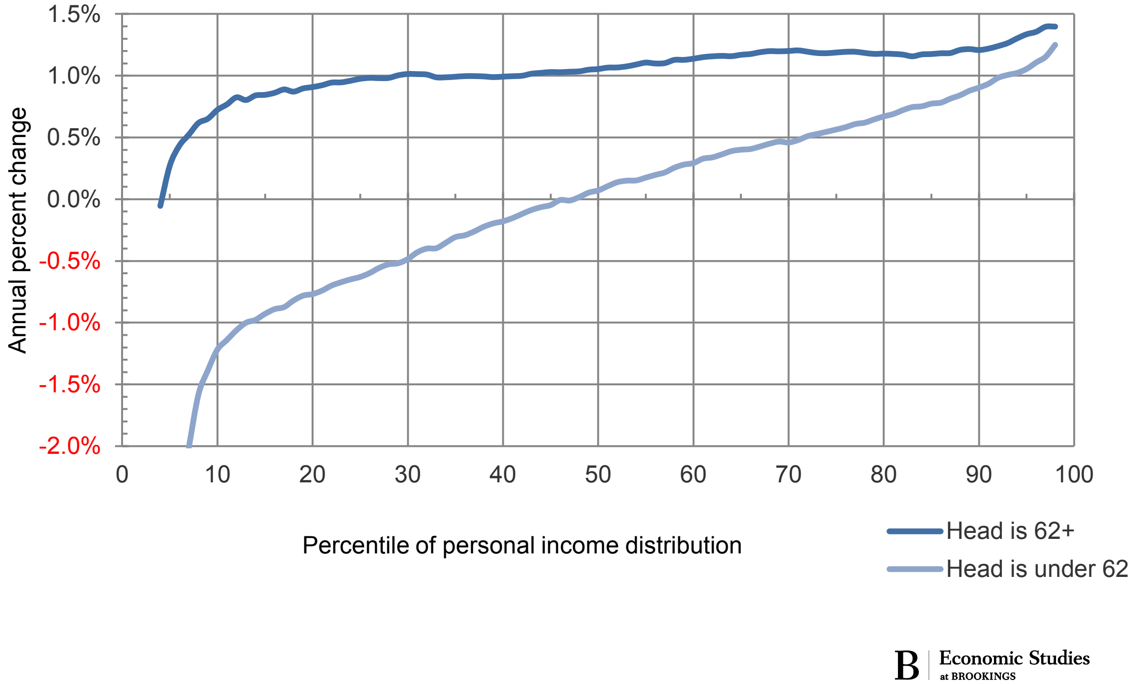
This document summarizes the main findings from Chapter 3 of “Later retirement, inequality in old age, and the growing gap in longevity between rich and poor” by Barry Bosworth, Gary Burtless, and Kan Zhang. To read Chapter 3 in full, download the PDF of the full paper.

INCOME INEQUALITY HAS INCREASED since the late 1970s, and the increase has affected both the elderly and nonelderly. Bosworth, Burtless, and Zhang examined trends in the distribution of income among aged and nonaged families in order to determine whether higher inequality among the elderly was linked to later retirement. There is a connection, but the researchers’ new study shows that income disparities among the aged would have increased, even if retirement patterns had remained unchanged during the past two decades. It is worth emphasizing, however, that inequality has increased by much less among the elderly than among the nonelderly.

The most common way to estimate U.S. income disparities is to use data gathered in the Census Bureau’s Annual Social and Economic Supplement (ASEC), a yearly survey of approximately 60,000 households. The income data collected in this survey suggest that money income inequality has been increasing since the late 1970s. Incomes adjusted to reflect differences in family size and changes in the cost of living have been increasing faster for families at the top of the income scale and more slowly for families in the middle and at the bottom. The three researchers show that this pattern is the same for Americans in families headed by an elderly and a nonelderly person, with one notable difference: Between 1979 and 2012 the percentage gains in money income were much larger for aged families compared with nonaged ones.

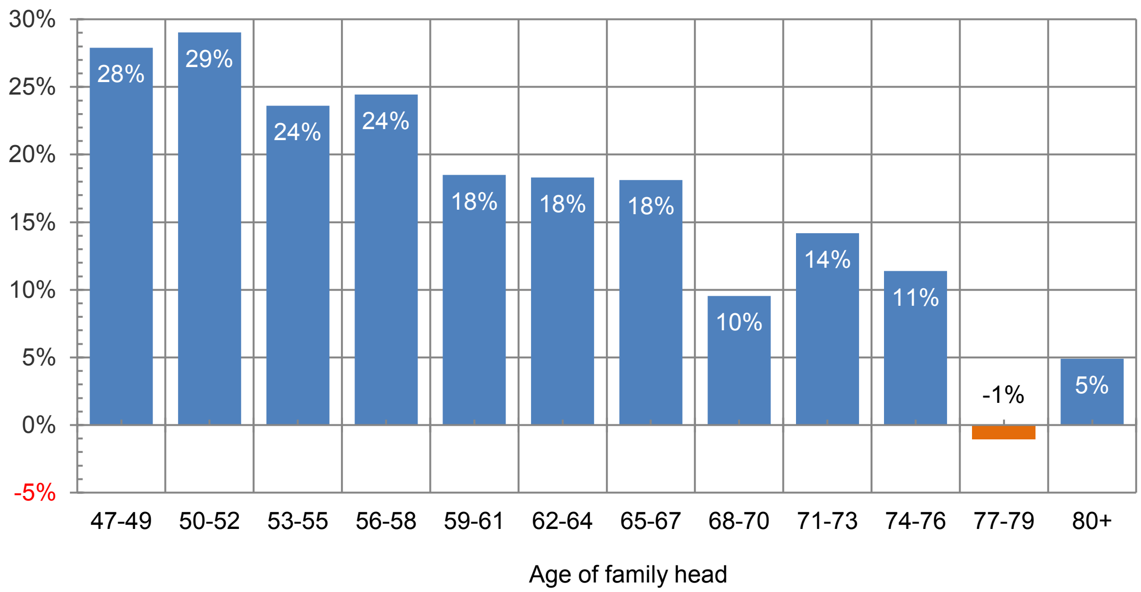
The chart below shows the annual rate of improvement of real incomes at each percentile of the personal income distribution, where people are ranked from the bottom of the distribution (on the left) to the top (on the right). The broken line at the bottom shows annual rates of income gains for Americans in families headed by someone under 62. Real incomes fell for people in the bottom 47 percent, and reported real income fell more than 2 percent a year for people in the bottom 7 percent. At the top end of the income distribution, real incomes in nonaged families increased 1.3 percent a year. Income trends were much more favorable for people in families headed by someone who is 62 or older. The median income in this group increased slightly faster than 1.0 percent a year, and even the person at the 10th income percentile saw real income grow 0.7 percent a year. Inequality increased in elderly families as it did among the nonelderly. It simply increased more slowly among the elderly than the nonelderly.

Annual Percent Change in Real Equivalent Money Income by Centile of Income Distribution for Persons in Aged and Nonaged Families, 1979-2012



The three Brookings analysts also examined inequality trends in more fine-grained groups of families, classified by the age of the person who heads the family. They measured inequality using the Gini coefficient. The chart on page 3 shows the percent change in inequality within narrow age groups between 1979-1982, on the one hand, and 2009-2012, on the other. In the youngest age group, family heads are between 47 and 49 years old. In the oldest group, heads are 80 and older. The results show that inequality rose much faster among families headed by prime-age workers and rose more slowly in age groups where the family head was least likely to be employed.This is consistent with research by a number of previous analysts showing that the single biggest factor pushing up inequality has been the growth in earned income disparities.

Percent Change in Gini Coefficient between 1979-82 and 2009-12, by Age of Family Head



Source: Authors' tabulations of the Census Bureau's Annual Social and Economic Supplement files covering annual incomes for 1979, 1982, 2009, and 2012.

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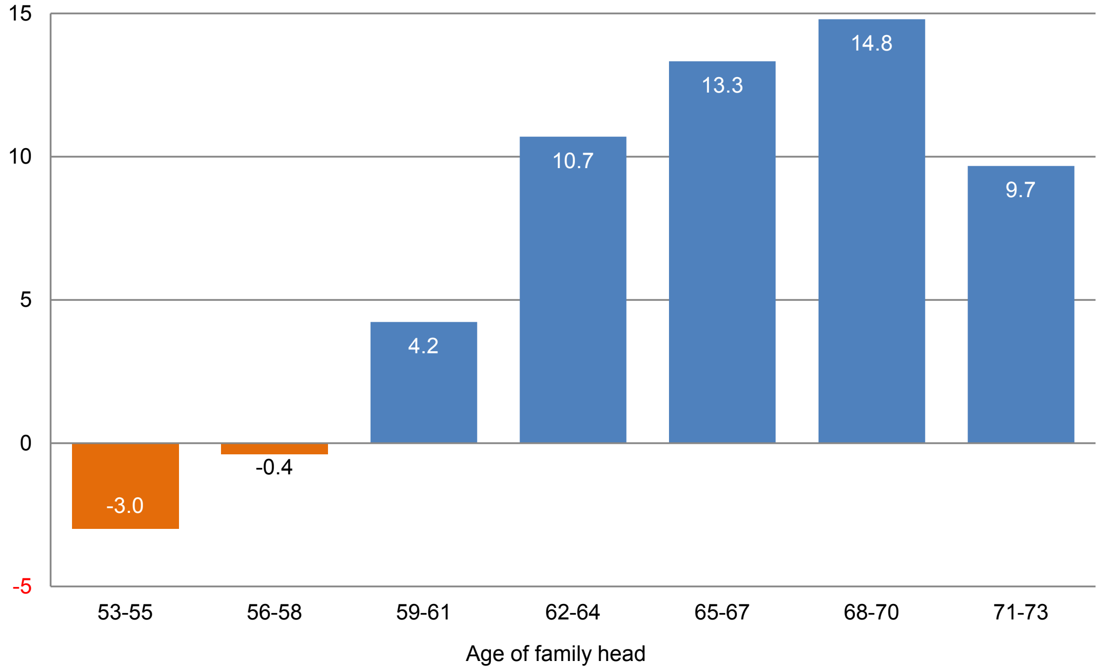
The Brookings researchers also demonstrate that the pattern of inequality growth differs for families headed by a person 62 or older compared with families headed by someone under 62. Social Security and other government benefits offer decent protection to low-income Americans past 62. They offer much weaker protection to people under 62 who have low market incomes.Tabulations by Bosworth, Burtless, and Zhang show that the income gap between people at the 10th income percentile and the 50th percentile has been growing over time, but it has increased much more slowly among families headed by someone 62 or older. On the other hand, the income gap between people at the 50th income percentile and the 90th percentile has been growing over time, both for people in aged and in nonaged families.Thus, the income protection available to the aged, but not to the nonaged, has reduced the growth of inequality at the bottom end of the old-age income distribution.Government income protection is less important in determining the size of the gap between top and middle income recipients in the elderly population.

How has later retirement affected the trend toward greater inequality? The trend has increased the percentage of people in aged families who live with a working breadwinner. The chart below shows the change in the percent of people who live with a working family head, when people are classified by the age of the person who heads their family. Americans in families headed by someone between 53 and 58 are now less likely to live with a working head than was the case in the early 1990s. In contrast, among people who live in families headed by a person between 68 and 70, the fraction which lives with a working family head has increased nearly 15 percentage points.

Percent Change in Fraction of People Who Are Members of Families with a Working Head, by Age of Family Head, 1991-2012



Source: Authors' tabulations of the Census Bureau's Annual Social and Economic Supplement files covering annual work experience for 1991 and 2012. Note: A working family head is one who is employed at least 26 weeks on a full-time work schedule. Family heads who are employed less than 26 weeks a year or in a part-time position are classified as "retired."

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Because earnings inequality has increased, both among aged and nonaged workers, the increase in earned income disparities would have pushed up old-age income disparities among the aged, whether or not ages at retirement had increased. However, the trend toward later retirement has boosted the importance of earned income among families headed by an older person, so delays in retirement have increased the importance of earnings disparities in determining the distribution of old-age incomes. Since a disproportionate share of later retirees is drawn from the highly educated and well paid, the trend toward later retirement has magnified the effects of rising earnings disparities.Overall inequality among the aged has risen far less than it has among the nonaged, however, because public benefits targeted on the aged have sheltered the incomes of the low-income elderly.